

Retail

# Woongjin Coway (021240)

BUY

## Earnings to Miss Expectations But Set to Improve

### Maintain BUY and W47,000 TP; earnings to improve

We maintain BUY and our W47,000 TP. 3Q earnings should miss market expectations because of a declining OPM coming from promotion costs. We believe, however, that this development is but a temporary effect attributable to changes in operating policy and is unrelated to underlying fundamentals. As a result, we continue to believe that earnings will improve on solid growth from the environmental appliance division (9.5% yoy increase in rental sales vs. three-year average growth of 4.4%) and a significant drop in initiation costs for the cosmetics division.

### 3Q preview: OP lower than expected

3Q sales should increase 13% yoy to W427.9bn. Sales for the environmental appliance business should rise 11% yoy. The domestic cosmetics division should post sales of W18bn. The number of net accounts increased by only 60-70K as the company sought to control the pace of membership growth in order to keep initial costs for new members at a particular level. That said, the company should still exceed its 2011 target of 350K (+250K in 1H). The churn rate should be maintained at about 1%.

Woongjin Coway should post lower-than-expected OP of W58.5bn because of a reduction in OPM. We expect OPM to drop 1.4pp to 13.7% because of the company's CRP (Customer Reward Program: discounted rental fees and registration fee exemptions for loyalty customers with additional orders) and operating losses in the domestic cosmetics division due to rising marketing costs. For the cosmetics business in China, sales should rise 20% yoy, while OPM should drop 7pp to 25%.

## Earnings preview

**TP (12M): W47,000**
**CP (Sep. 21): W39,400**
**September 21, 2011**
**Analyst  
Sunjae Song**

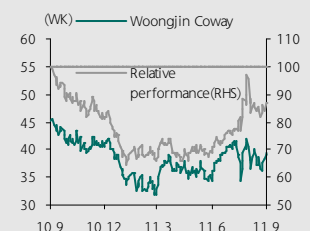
### Key Data

KOSPI	1,837.97		
52 week High/Low(W)	45,400/31,700		
Market cap (W bn/ US\$ mn)	3,038.7/ 2645.93		
Shares out ('000)	77,124.8		
60-D avg. daily volume ('000)	217.0		
60-D avg. daily value (W bn)	8.4		
DPS (W, 10)	1.050		
DPS Est. (W, 11)	1.070		
Foreign ownership (%)	51.00		
Performance	1M	6M	12M
Absolute	(5.7)	20.1	(13.0)
Relative	(11.1)	27.3	(13.3)

### Consensus Data

	2011	2012
Revenue (Wbn)	1,702.4	1,878.8
OP (Wbn)	244.9	283.8
NP (Wbn)	191.4	228.4
EPS (W)	2,485	2,939
BPS (W)	10,595	12,265

### Stock Price



### Financial Data

		2009	2010	2011F	2012F	2013F
Revenue	Wbn	1,411.9	1,519.1	1,704.0	1,856.6	2,009.1
OP	Wbn	204.3	228.8	238.6	265.4	295.9
PTP	Wbn	202.7	236.5	217.7	244.6	276.7
NP	Wbn	142.8	160.5	165.4	185.9	210.3
EPS	W	1,885	2,081	2,145	2,410	2,727
Chg	%	7.9	10.4	3.1	12.4	13.1
P/E	X	20.4	19.4	18.2	16.2	14.3
P/B	X	4.1	4.1	3.5	3.1	2.8
EV/EBITDA	X	8.7	8.3	8.8	7.9	7.1
ROE	%	23.3	23.9	20.4	20.5	20.6
BPS	W	9,298	9,946	11,070	12,452	14,015
Net DER	%	29.1	36.0	33.7	28.1	21.2

Note: based on K-GAAP until 2010 and unconsolidated K-IFRS from 2011F

Source: company data, Hana Daetoo Securities

**Table 1. 3Q preview**

(Wbn, %)

	3Q11F	3Q10	YoY	2Q11	QoQ
Sales	427.9	378.0	13.2	435.9	-1.8
Lump-sum	28.8	24.5	17.8	38.8	-25.7
Rental	304.8	276.7	10.2	299.7	1.7
Membership	42.9	37.5	14.6	39.9	7.5
Cosmetics	18.0	1.8	n/a	17.9	0.6
Others	33.3	37.6	-11.4	39.6	-16.0
OP	58.5	57.1	2.5	61.2	-4.4
PTP	53.3	n/a	n/a	55.1	-3.3
NP	40.5	n/a	n/a	42.1	-3.8
Margin					
OPM	13.7	15.1	-1.4P	14.0	-0.4P
PTPM	12.4			12.6	-0.2P
NPM	9.5			9.7	-0.2P

Note: Direct comparison between 3Q10 (K-GAAP) and 3Q11F (K-IFRS) is not available

Source: company data, Hana Daetoo Securities

**Table 2. Annual earnings forecast**

(Wbn, %)

	06	07	08	09	10	11F	12F
Sales	1,118	1,213	1,314	1,412	1,519	1,704	1,857
Lump-sum	41	53	60	79	107	139	149
Rental	935	986	1,020	1,059	1,106	1,202	1,307
Membership	85	116	136	138	148	165	184
Cosmetics	0	0	0	0	23	73	88
Others	56	58	98	136	134	125	128
OP	112	161	190	204	229	239	265
PTP	102	156	185	203	237	218	245
NP	75	116	129	153	177	165	186
Portion of Sales							
Lump-sum	3.7	4.4	4.6	5.6	7.1	8.1	8.0
Rental	83.7	81.3	77.6	75.0	72.8	70.6	70.4
Membership	7.6	9.6	10.4	9.8	9.7	9.7	9.9
Others	5.0	4.8	7.4	9.7	8.8	7.3	6.9
YoY							
Sales		8.5	8.4	7.4	7.6	12.2	9.0
OP		43.7	17.9	7.4	12.0	4.3	11.2
PTP		52.0	18.7	9.7	16.7	-8.0	12.4
NP		55.2	11.0	18.8	15.5	-6.6	12.4
Margin							
OPM	10.0	13.3	14.5	14.5	15.1	14.0	14.3
PTPM	9.2	12.8	14.1	14.4	15.6	12.8	13.2
NPM	6.7	9.6	9.8	10.9	11.7	9.7	10.0

Note: Direct comparison between 3Q10 (K-GAAP) and 3Q11F (K-IFRS) is not available

Source: company data, Hana Daetoo Securities

**Table 3. Quarterly earnings forecast**

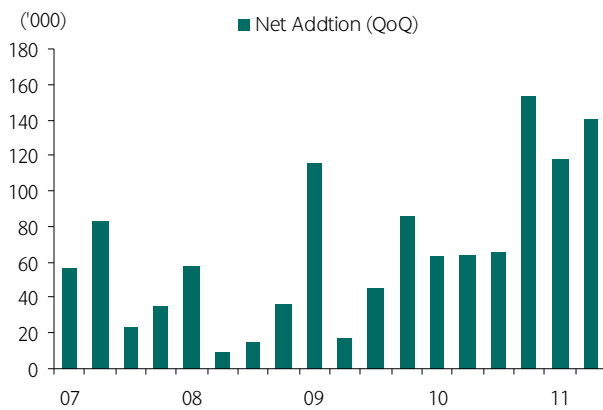
(Wbn, %)

	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11F	4Q11F
Sales	365	365	378	403	400	436	428	440
OP	68	73	57	54	57	61	58	62
PTP	65	76	60	55	50	55	53	59
NP	51	59	45	43	39	42	40	44
Margin								
OPM	18.5	20.0	15.1	13.3	14.3	14.0	13.6	14.0
PTPM	17.7	20.8	15.7	13.6	12.6	12.6	12.4	13.3
NPM	14.1	16.2	12.0	10.7	9.7	9.7	9.4	10.0

Note: Direct comparison between 3Q10 (K-GAAP) and 3Q11F (K-IFRS) is not available

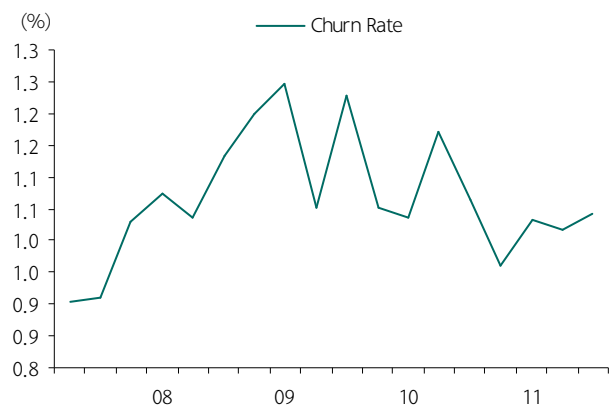
Source: company data, Hana Daetoo Securities

Chart 1. Quarterly net addition in accounts



Source: company data

Chart 2. Churn rate



Source: company data

Table 2. Earnings forecast for Chinese operations

(Wbn, %)

	06	07	08	09	10	11F	12F	13F
No. of stores	3.0	7.6	21.0	43.6	45.6	53.3	59.3	65.0
Sales	2.6	4.5	13.7	32.5	35.2	42.3	47.7	52.9
Cosmetics	0.4	3.1	7.2	11.1	10.5	11.0	11.5	12.1
Appliance	-1.0	0.2	1.9	14.1	9.9	9.7	12.2	14.3
OP	-0.4	0.9	4.9	14.7	11.4	10.6	12.9	14.8
Cosmetics	-0.7	-0.8	-3.0	-0.6	-1.5	-0.9	-0.7	-0.5
Appliance	-1.0	0.2	1.9	14.1	5.1	9.7	12.2	14.3
PTP	-1.0	0.2	1.9	14.1	4.5	8.5	10.7	12.6
NP	3.0	7.6	21.0	43.6	45.6	53.3	59.3	65.0
Margin								
OPM	-33.9	2.4	9.1	32.3	21.7	18.2	20.6	22.0
Cosmetics	-13.9	20.9	36.1	45.2	32.5	25.0	27.0	28.0
Appliance	-172.8	-24.9	-42.4	-5.4	-14.7	-8.0	-6.0	-4.0
PTPM	-33.9	2.4	9.1	32.3	11.2	18.2	20.6	22.0
NPM	-33.9	2.4	9.1	32.3	9.9	16.0	18.1	19.4
YoY								
Sales		151.4	176.7	107.8	4.6	16.8	11.2	9.7
Cosmetics		71.4	203.1	137.5	8.1	20.3	12.9	10.9
Appliance		705.8	134.5	54.2	-5.6	5.0	5.0	5.0
OP		TP	936.9	642.4	-29.8	-2.0	25.8	17.5
Cosmetics		TP	422.8	197.4	-22.3	-7.5	21.9	15.0
Appliance		N	N	N	N	N	N	N
PTP		TP	936.9	642.4	-63.7	89.6	25.8	17.5
NP		TP	936.9	642.4	-68.1	89.6	25.8	17.5

Note: W1.5bn of 2008 profit reflected in 2009 data  
Source: company data, Hana Daetoo Securities

Summary Financials

Income Statement

(Wbn)

	2009	2010	2011F	2012F	2013F
<b>Sales</b>	1,411.9	1,519.1	1,704.0	1,856.6	2,009.1
Cost of goods sold	460.2	494.1	545.3	600.6	653.8
Gross profit	951.8	1,025.1	1,158.7	1,255.9	1,355.3
SG&A expense	747.5	796.3	874.4	947.2	1,016.1
Adj. Operating profit	204.3	228.8	284.3	308.7	339.2
Other operating P/L	0.0	0.0	(45.7)	(43.3)	(43.3)
<b>Operating profit</b>	204.3	228.8	238.6	265.4	295.9
Financial income	(10.5)	(14.1)	(17.8)	(17.7)	(16.1)
P/L in associates, subsidiaries and etc	13.9	22.1	0.0	0.0	0.0
Other non-operating P/L	(4.9)	(0.3)	(3.1)	(3.1)	(3.1)
<b>Pretax profit</b>	202.7	236.5	217.7	244.6	276.7
Tax	49.4	59.5	52.2	58.7	66.4
Profit from continued operations	153.3	177.0	165.4	185.9	210.3
Profit from discontinued operations	0.0	0.0	0.0	0.0	0.0
<b>Net profit</b>	153.3	177.0	165.4	185.9	210.3
Comprehensive income	153.3	177.0	165.4	185.9	210.3
<b>(Ex. equity method) Net profit</b>	142.8	160.5	165.4	185.9	210.3
NOPAT	164.3	192.0	184.1	204.5	227.3
EBITDA	361.3	404.4	373.7	413.0	455.6
<b>Growth (%)</b>					
Sales	7.4	7.6	12.2	9.0	8.2
EBITDA	8.2	11.9	(7.6)	10.5	10.3
(Adj) Operating profit	7.4	12.0	24.2	8.6	9.9
(Ex. equity method) Net profit	9.8	12.4	3.1	12.4	13.1
(Ex. equity method) EPS	7.9	10.4	3.1	12.4	13.1
<b>Profitability (%)</b>					
Gross profit margin	67.4	67.5	68.0	67.6	67.5
EBITDA margin	25.6	26.6	21.9	22.2	22.7
(Adj)OP margin	14.5	15.1	16.7	16.6	16.9
Margin of continued operations	10.9	11.7	9.7	10.0	10.5

Key Financial Data

	2009	2010	2011F	2012F	2013F
<b>Per share value (W)</b>					
EPS	1,885	2,081	2,145	2,410	2,727
BPS	9,298	9,946	11,070	12,452	14,015
CFPS	3,969	3,875	3,932	4,251	4,795
EBITDAPS	4,770	5,243	4,846	5,354	5,907
SPS	18,639	19,697	22,094	24,072	26,050
DPS	1,010	1,050	1,070	1,210	1,360
<b>Valuation (x)</b>					
PER	20.4	19.4	18.2	16.2	14.3
PBR	4.1	4.1	3.5	3.1	2.8
PCFR	9.7	10.4	9.9	9.2	8.1
EV/EBITDA	8.7	8.3	8.8	7.9	7.1
PSR	2.1	2.0	1.8	1.6	1.5
<b>Financial ratio (%)</b>					
ROE	23.3	23.9	20.4	20.5	20.6
ROA	13.1	13.4	11.4	11.9	12.5
ROIC	21.1	20.5	17.8	18.3	18.8
Liabilities/equity	86.7	86.1	90.2	76.4	70.2
Net debt/equity	29.1	36.0	33.7	28.1	21.2
Interest coverage (x)	16.3	13.0	11.1	12.3	15.0

Source: Hana Daetoo Securities

Country Aggregates

	PER(x)			EPS growth(%)	
	2011	2012	12M Fwd	2011	2012
Korea	8.9	8.0	8.2	17.8	11.7
Emerging Market	9.9	8.8	9.1	12.7	12.4
World	11.1	9.8	10.1	13.3	13.2

Source: MSCI I/B/E/S Aggregates

Balance Sheet

(Wbn)

	2009	2010	2011F	2012F	2013F
<b>Current assets</b>	509.5	438.8	519.5	511.9	585.7
Financial assets	69.2	57.4	115.7	71.0	108.0
Cash & cash equivalent	63.7	56.4	63.3	69.0	74.6
Accounts receivable	198.6	222.8	227.2	247.5	267.9
Inventories	54.6	73.2	80.8	89.0	96.9
Others	187.1	85.4	95.8	104.4	113.0
<b>Fixed assets</b>	761.2	925.3	1,008.1	1,092.5	1,168.2
Investment assets	130.7	195.4	195.4	195.4	195.4
Financial assets	2.1	3.1	3.1	3.1	3.1
Tangible assets	418.2	441.6	526.5	602.4	669.6
Intangible assets	141.1	154.0	152.2	150.6	149.1
Others	71.2	134.4	134.0	144.0	154.1
<b>Total assets</b>	1,270.7	1,364.1	1,527.6	1,604.3	1,753.9
<b>Current liabilities</b>	541.8	384.3	416.0	384.3	516.2
Financial liabilities	239.7	104.5	110.0	50.0	154.7
Accounts payable	154.8	182.1	201.0	221.3	240.9
Others	147.3	97.8	105.1	113.0	120.5
Long-term liabilities	48.2	246.8	308.5	310.4	207.5
Financial LT liabilities	30.0	219.8	279.8	279.8	175.0
Others	18.2	27.0	28.8	30.7	32.5
<b>Total liabilities</b>	590.0	631.1	724.6	694.7	723.7
<b>Controlling interest</b>	680.7	733.0	803.1	909.6	1,030.2
Capital stock	40.7	40.7	40.7	40.7	40.7
Capital surplus	141.9	135.6	95.7	95.7	95.7
Other comprehensive income	(31.5)	(34.0)	(9.7)	(9.7)	(9.7)
Retained earnings	0.0	0.0	0.0	0.0	0.0
Non controlling interest	529.6	590.8	676.3	782.9	903.5
<b>Total equity</b>	680.7	733.0	803.1	909.6	1,030.2
Net financial liabilities	198.4	263.8	271.0	255.7	218.6

Cash Flow

(Wbn)

	2009	2010	2011F	2012F	2013F
<b>Operating cash flow</b>	311.7	313.8	322.0	346.5	386.8
Net profit	142.8	160.5	165.4	185.9	210.3
Adjustment	207.3	207.3	246.1	271.1	295.6
Depreciation	148.1	153.8	138.2	150.7	162.8
Forex P/L	3.8	(0.2)	0.4	0.4	0.4
Equity method P/L	(13.9)	(22.1)	0.0	0.0	0.0
Others	69.3	75.9	107.5	120.0	132.5
Chg in assets/liabilities	(48.9)	(70.6)	(19.5)	(34.1)	(36.7)
<b>Investment cash flow</b>	(276.1)	(296.4)	(302.4)	(203.4)	(293.2)
Chg in invest. assets	2.7	(68.5)	(51.4)	50.4	(31.4)
Chg in tangible assets	(204.1)	(211.9)	(215.5)	(219.0)	(222.5)
Others	(74.8)	(16.1)	(35.5)	(34.8)	(39.4)
<b>Financing cash flow</b>	(52.3)	(20.4)	(12.6)	(137.4)	(87.9)
Chg in financial debts	51.4	54.5	65.5	(60.0)	0.0
Chg in equity	0.0	0.0	0.0	0.0	0.0
Others	(39.0)	1.9	1.8	1.9	1.8
Dividends	(64.8)	(76.8)	(79.9)	(79.3)	(89.7)
<b>Chg in cash</b>	(12.4)	(7.4)	6.9	5.7	5.7
Unlevered CFO	300.7	298.8	303.3	327.8	369.8
Free Cash Flow	(36.6)	74.3	106.9	113.3	143.7

Sector Aggregates

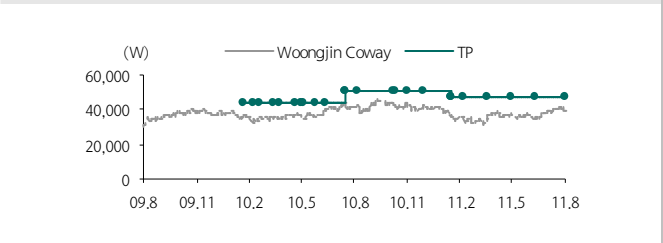
	PER(x)			EPS growth(%)	
	2011	2012	12M Fwd	2011	2012
Korea	12.1	10.6	10.9	(44.0)	14.6
Emerging Market	17.5	15.0	15.3	2.3	16.4
World	16.5	14.2	14.8	8.4	16.1

Emerging Market

**Rating & Target Price Changes**

Company	Date	Rating	Target Price (W)
Woongjin	11.1.19	BUY	47,000
Coway	10.7.19	BUY	51,000
	10.1.25	BUY	44,000

**Share Price Performance vs. Target Price**



**Hana Research Center Rating Definitions**

**Stock ratings for the next twelve months**

Rating	Definition
BUY	Target Price implies at least 15% upside potential
Neutral	Target Price implies less than 15% upside or downside potential
Reduce	Target Price implies at least 15% downside potential

**Sector ratings for the next twelve months**

Rating	Definition
Overweight	Sector index implies at least 15% upside potential
Neutral	Sector index implies less than 15% upside or downside potential
Underweight	Sector index implies at least 15% downside potential

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