

# Woongjin Coway (021240 KS)

SunKyung Lee \_ (82-2) 3772-1568 sunny.lee@shinhan.com

## NDR takeaway: Appealing option in an unstable market



### BUY (Maintain)

Price (Oct. 7)	W37,250
Target Price	W58,000
% variance	55.7%

KOSPI		1,759.77p
KOSDAQ		442.64p
Market Cap.	W2,872.9bn/ US\$2,611.7mn	
Par Value		W500
Outstanding Shares		77.1mn
Free Floating Shares		3.4mn (4.4%)
52-Week High/Low		W44,000/ W31,700
60-Day Avg. Trading Volume		224,888shrs
60-Day. Avg. Trading T/O		W8,659mn
Foreign Ownership		50.98%
Major Shareholders	Woongjin	31.0%
	LF EM EQ	7.0%
Absolute Performance	3M	-2.0%
	6M	-1.6%
	12M	-15.1%
Relative Performance	3M	17.0%
to KOSPI	6M	17.8%
	12M	-8.3%

- ◆ Woongjin Coway holds NDRs in the U.S, with foreign investors showing great interest
- ◆ The company's rental business continues to offer opportunities, while attention is focused on the company's plans for introducing new products
- ◆ Focus on synergy between the company's domestic cosmetics operation and existing sales network
- ◆ Retain BUY for a target price of W58,000

### Woongjin Coway holds NDRs in the U.S, with foreign investors showing great interest

Woongjin Coway held NDRs with SHIC for 15 institutional investors in the U.S. (long funds in New York, Boston, Chicago, and San Francisco) from September 28 to October 7. Investors were positive about the company's stable business structure, which stands out during the economic downturn, and solid share price performance.

Domestic demand-oriented stocks cannot be immune to overseas negative factors, but Woongjin has built its business portfolio in a way that is less vulnerable to economic variables and this is viewed as a premium for the company. Investors were also highly interested in Woongjin's expanding domestic cosmetics business and export markets.

### The company's rental business continues to offer opportunities, while attention is focused on the company's plans for introducing new products

Foreign investors were impressed by Woongjin's higher-than-expected increase in rental account sales in 1H11 and agreed with the company's view that there is still room for growth in the rental market on environmental issues and new product releases.

Year to Dec.	Sales (W bn)	OP (W bn)	Pre-tax (W bn)	NP (W bn)	EPS (won)	Growth (%)	PER (x)	EV/EBITDA (x)	PBR (x)	ROE (%)	Net Debt Ratio (%)	Div. Yield (%)
2009	1,411.9	204.3	202.7	153.3	2,023	16.7	15.9	7.5	3.6	24.0	29.5	3.1
2010	1,519.1	228.8	236.5	177.0	2,296	13.4	17.0	8.6	3.9	24.5	34.6	2.7
2011F	1,702.5	240.2	210.3	160.7	2,084	(9.2)	17.9	8.2	3.6	20.7	45.3	2.9
2012F	1,866.4	291.6	271.1	207.1	2,685	28.9	13.9	6.9	3.1	24.3	32.2	3.2
2013F	2,006.9	327.9	311.3	237.8	3,083	14.8	12.1	6.1	2.7	24.0	18.8	3.8

Some raised questions whether strong sales growth in 1H11 was attributable to Japan's earthquake. Concerns caused by such environmental disasters tend to linger, and the earthquake ended up stimulating consumers' interest in eco-friendly home appliances.

Investors did not see LG Electronics' advance into the rental business and smaller companies' expanding rental operations as a threat. Rather, they were interested in the growth potential of the food waste disposer market and the company's plan to add more new products.

Woongjin said that it is focusing on improving technology of food waste disposers to meet consumers' expectations rather than expanding its presence in the market but explained that food waste disposers have promising long-term growth potential. Through product upgrades and trial and error, the company is committed to increasing market share. It is also confident that it will be able to set itself apart from its rivals in the process.

The company is also considering new product launches. One new product could be added before the end of the year.

#### **Focus on synergy between the company's domestic cosmetics operation and existing sales network**

Besides the flagship businesses, domestic cosmetics operations also drew attention among investors. They were interested in possible synergies between rental sales and cosmetics door-to-door sales, and domestic door-to-door market conditions.

Woongjin has yet to market cosmetics to its existing rental clients and is not using its CODY sales network for cosmetics. That is because the company views that building its cosmetics brand image should come first before expanding its CODY network.

Following the whitening line and home line launches, the company is strengthening its product lineup with the release of herbal cosmetics brand Olbit. Along with expanding sales channels including department stores and duty free shops, public awareness of Woongjin's cosmetics lines is growing rapidly. Based on its strengthening brand recognition, the company also plans to enhance its CODY beauty consultant network from 2H11 at the earliest while seeking harmony with its existing rental sales network.

When it comes to domestic door-to-door sales, many companies, besides Amore and LG Household & Health Care, look to be able to post sales of W100bn. Foreign investors appeared to be positive about prospects for Woongjin to secure a No. 3 spot in the market by absorbing the market share of smaller-size firms.

#### **Retain BUY for a target price of W58,000**

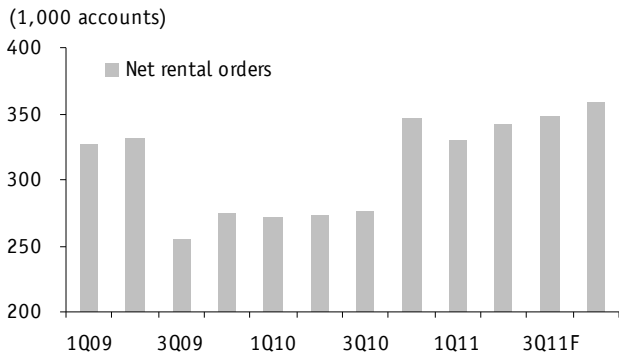
Foreign investors have shown keen interest in expected export growth, including progress of the cosmetics business in China and the water treatment business. The company's 1H11 results were viewed favorably. Hoping for solid 2H11 earnings, investors appeared to look to the company as an alternative bet in times of economic uncertainty.

We retain a BUY rating on Woongjin Coway for a target price of W58,000. Despite double-digit sales growth in 2011, the company's profit margins are being undermined by new businesses and change in accounting standards. However, the top and bottom-lines should both show major improvement in 2012. The cosmetics business is expected to swing positive in 2012 from a W16~17bn deficit in 2011. The increase of accounts recognized in sales will ease pressure on sales commission rates, boosting 2012 operating profit margin to an estimated 15.6%.

The target price is derived by adding the DCF-based operating value (terminal growth of 2%, WACC of 8.3%) to the values of Woongjin Chemical and the Chinese subsidiary.

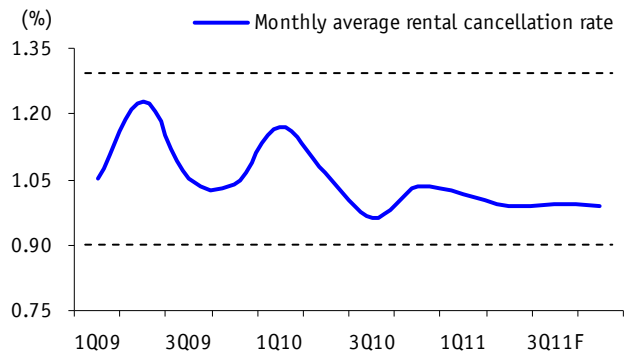
Because the company's earnings reports are based on IFRS standards, equity method earnings are not included. Based on our calculations, the target price with equity method gains (Chinese subsidiary, Woongjin Chemical) included represents a 12-month forward PER of 20.7x.

**Quarterly rental orders**



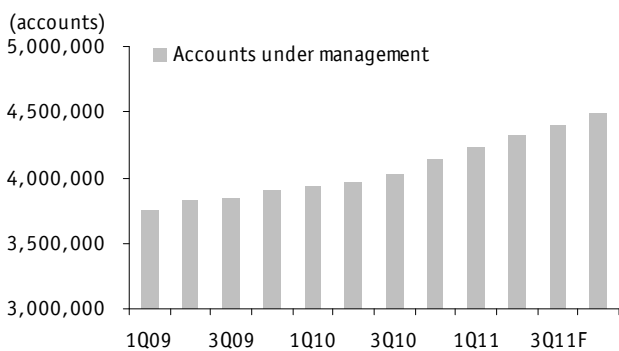
Source: Company Data, Shinhan Investment Corp.

**Rental cancellations**



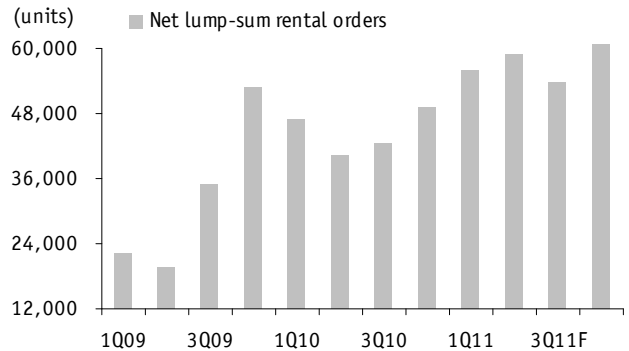
Source: Company Data, Shinhan Investment Corp.

**Total accounts under management**



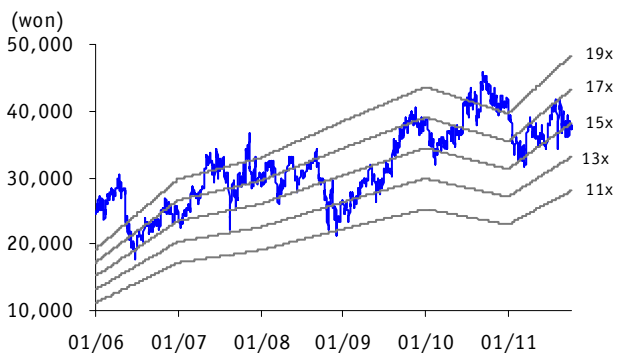
Source: Company Data, Shinhan Investment Corp.

**Lump-sum account orders**



Source: Company Data, Shinhan Investment Corp.

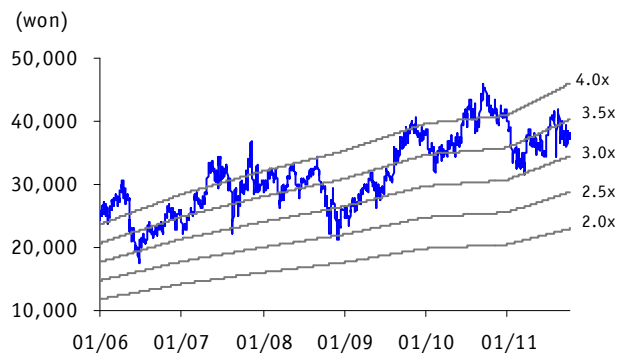
**Woongjin Coway PER band**



Source: QuantiWise, Shinhan Investment Corp.

Note: Equity method gains excluded from 2011 figures

**Woongjin Coway PBR band**



Source: QuantiWise, Shinhan Investment Corp.

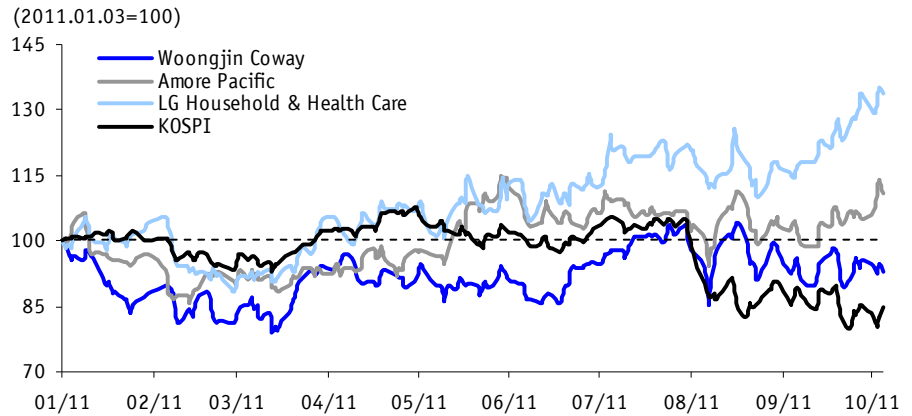
Note: Equity method gains excluded from 2011 figures

**Woongjin Coway's quarterly and annual earnings estimates**

(W bn, %)	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11F	4Q11F	2010	2011F	2012F	2013F
Sales	365.4	365.3	378.0	403.2	399.8	435.9	426.3	440.6	1,519.1	1,702.5	1,866.4	2,006.9
Gross profit	241.8	245.9	253.3	278.7	274.3	294.6	291.2	299.6	1,025.1	1,159.7	1,285.3	1,388.0
OP	69.2	71.3	57.1	53.7	56.5	61.8	59.6	62.4	228.8	240.2	291.6	327.9
NP	51.5	59.2	45.2	43.0	38.8	42.1	38.2	41.7	177.0	160.7	207.1	237.8
(% YoY)	7.0	6.2	6.4	8.6	9.4	19.3	12.8	9.3	7.6	12.1	9.6	7.5
	5.5	6.2	4.7	11.9	13.4	19.8	15.0	7.5	7.7	13.1	10.8	8.0
	41.9	46.7	14.7	(5.9)	(18.4)	(13.3)	4.4	16.1	12.0	5.0	21.4	12.4
	38.8	52.5	22.1	6.6	(24.7)	(28.9)	(15.5)	(3.0)	15.5	(9.2)	28.9	14.8
Gross margin	66.2	67.3	67.0	69.1	68.6	67.6	68.3	68.0	67.5	68.1	68.9	69.2
OPM	18.9	19.5	15.1	13.3	14.1	14.2	14.0	14.2	15.1	14.1	15.6	16.3
NPM	14.1	16.2	12.0	10.7	9.7	9.7	9.0	9.5	11.7	9.4	11.1	11.8

Source: Company Data, Shinhan Investment Corp.

**Relative share price of Woongjin Coway and its peer group**



Source: QuantiWise, Shinhan Investment Corp.

## Woongjin Coway's target price calculation

		2011F	2012F	2013F	2014F	2015F	2016F
<b>Total firm value</b>	<b>E=d+e</b>	<b>4,347</b>					
OP	a	240	292	328	360	388	419
Tangible/intangible asset depreciation cost + rental disposal cost	b	197	213	223	231	238	246
EBITDA	a+b	438	504	551	591	626	665
Tax rate (%)		24	24	24	24	24	24
EBITDA*(1-t)	A	334	385	421	452	479	508
(Tangible/intangible asset depreciation cost)*t	B	47	50	53	55	56	58
Net working capital increase (decrease)	C	34	22	20	17	14	12
CAPEX	D	245	217	217	215	216	216
FCFF	A+B-C-D	103	196	237	274	304	338
Discount factor		0.98	0.84	0.77	0.71	0.66	0.61
PV of FCFF		101	164	183	195	200	205
Total PV of FCFF (until 2016)	d	1,048					
Terminal value of end of 2016		5,436	Terminal growth	2.0%			
NPV of terminal value	e	3,299	WACC	8.3%			
<b>Investment asset value</b>	<b>F=h+i</b>	<b>300</b>					
Woongjin Chemical	h	183	Market price				
Chinese subsidiary	i	117	Applied PER of 15.0x to 2011F net profit				
Total value of equity	G=E+F-j+k+l	4,290					
Net debt	j	420					
Cash and cash equivalents	k	59					
Securities available for sale + securities held to maturity	l	4					
Total issued shares (1,000 shares)	m	77,125					
Treasury shares (1,000 shares)	n	2,990					
Value per share (won)	H=G/(m-n)	57,874					
<b>Target price (won)</b>		<b>58,000</b>					
Current share price (won)		37,250	2011-10-07				
Upside potential (%)		55.7					
12-month forward EPS (won)		2,545		Equity method gains excluded			
Implied PER (x)		22.8					
12-month forward EPS (won)		2,802		Estimated equity method gains included			
Implied PER (x)		20.7					

Source: Shinhan Investment Corp.

### Statement of Financial Position

Year to Dec. (W bn)	2009	2010	2011F	2012F	2013F
<b>Assets</b>	<b>1,270.7</b>	<b>1,439.5</b>	<b>1,572.4</b>	<b>1,655.7</b>	<b>1,798.1</b>
Current Assets	509.5	578.8	627.8	666.7	775.3
Cash and Cash Equivalents	63.7	56.3	58.7	54.1	122.9
Trade Receivables	194.6	207.3	232.3	254.6	273.8
Inventories	54.6	73.2	82.0	89.9	96.7
Others	196.6	242.0	254.8	268.1	281.8
Non-Current Assets	761.2	860.7	944.6	989.0	1,022.8
Property, Plant and Equipment	418.2	454.2	537.0	582.5	617.3
Intangible Assets	141.1	133.6	129.4	127.0	124.6
Investments in Associates, Subsidiaries, etc.	128.6	197.1	197.1	197.1	197.1
Others	73.4	75.9	81.2	82.4	83.8
<b>Liabilities</b>	<b>590.0</b>	<b>674.7</b>	<b>783.6</b>	<b>739.4</b>	<b>733.0</b>
Current Liabilities	541.8	441.0	517.6	502.6	598.2
Trade Payables	29.2	38.3	42.1	45.1	48.0
Short-term debts	239.7	104.5	168.2	132.1	207.7
Others	272.8	298.2	307.3	325.5	342.5
Non-Current Liabilities	48.2	233.8	266.0	236.8	134.8
Long-term debts	30.0	220.0	251.5	221.5	120.0
Provisions for Emp Benefits	11.3	6.7	7.1	7.4	7.8
Others	6.9	7.0	7.4	7.9	7.0
<b>Stockholders' Equity</b>	<b>680.7</b>	<b>764.8</b>	<b>788.9</b>	<b>916.3</b>	<b>1,065.1</b>
Capital Stock	40.7	40.7	40.7	40.7	40.7
Retained Earnings	529.6	579.8	660.6	788.0	936.8
Others	110.4	144.3	87.6	87.6	87.6
Owners of Parent Equity	680.7	764.8	788.9	916.3	1,065.1
Non-Controlling Interests Equity	0.0	0.0	0.0	0.0	0.0
<b>Total Debt</b>	<b>269.7</b>	<b>324.5</b>	<b>419.7</b>	<b>353.6</b>	<b>327.7</b>
<b>Net Debt(Cash)</b>	<b>200.5</b>	<b>264.3</b>	<b>357.0</b>	<b>295.3</b>	<b>200.3</b>

### Statement of Cash Flow

Year to Dec. (W bn)	2009	2010	2011F	2012F	2013F
<b>Cash Flows from Operating</b>	<b>311.7</b>	<b>313.8</b>	<b>439.8</b>	<b>249.5</b>	<b>388.2</b>
Net Profit	153.3	177.0	160.7	207.1	237.8
Depreciation	128.2	131.6	144.0	157.4	167.6
Amortization	19.9	22.2	8.2	7.1	6.6
FC Translation Loss(Gain)	3.8	(0.2)	0.0	0.0	0.0
Disp PP&E Loss(Gain)	0.4	0.3	0.1	0.0	0.0
(Recovery)Imp Losses on Assets	(0.5)	(0.3)	0.0	0.0	0.0
Losses(Gains) in Equity Method	(13.9)	(22.1)	0.0	0.0	0.0
Change in Working Capital	(48.9)	(70.6)	1.0	(86.4)	(47.2)
Payments of Income Taxes	0.0	0.0	(49.6)	(64.0)	(73.5)
Others	69.4	75.9	175.4	28.3	96.8
<b>Cash Flows from Investing</b>	<b>(276.1)</b>	<b>(296.4)</b>	<b>(239.8)</b>	<b>(222.5)</b>	<b>(225.3)</b>
Dec(Inc) in Financial Assets	0.0	(0.4)	0.0	0.0	0.0
Dec(Inc) in Associates, ETC.	(1.0)	(63.7)	0.0	0.0	0.0
Dec(Inc) in Property and Equipment	(204.1)	(211.9)	(226.8)	(202.8)	(202.4)
Dec(Inc) in Intangible Assets	(6.2)	(9.8)	(4.0)	(4.6)	(4.3)
Others	(64.8)	(10.6)	(9.0)	(15.0)	(18.6)
<b>FCF</b>	<b>35.5</b>	<b>17.4</b>	<b>200.0</b>	<b>27.0</b>	<b>162.9</b>
<b>Cash Flows from Financing</b>	<b>(52.3)</b>	<b>(20.4)</b>	<b>(197.7)</b>	<b>(22.9)</b>	<b>(94.0)</b>
inc(Dec) in Total Debt	(18.6)	104.5	(95.3)	66.1	25.9
Dividends Paid	(64.8)	(76.8)	(79.7)	(89.0)	(103.8)
Sale(Purchase) of Treasury Stock	(38.9)	0.0	0.0	0.0	0.0
Others	70.0	(48.1)	(22.7)	0.0	(16.1)
Change of Consolidated Scope	0.0	0.0	0.0	0.0	0.0
Difference by FX rates	0.0	0.0	0.0	0.0	0.0
<b>Change in Cash</b>	<b>(12.4)</b>	<b>(7.4)</b>	<b>2.3</b>	<b>(4.6)</b>	<b>68.9</b>
Beginning Cash	76.1	63.7	56.3	58.7	54.1
Ending Cash	63.7	56.3	58.7	54.1	122.9

Source: Company data, Shinhan Investment Corp.

Note: K-GAAP to 2010, K-IFRS-based from 2011

### Statement of Comprehensive Income

Year to Dec. (W bn)	2009	2010	2011F	2012F	2013F
<b>Net Sales</b>	<b>1,411.9</b>	<b>1,519.1</b>	<b>1,702.5</b>	<b>1,866.4</b>	<b>2,006.9</b>
Growth (%)	7.4	7.6	12.1	9.6	7.5
Cost of Sales	460.2	494.1	542.9	581.0	618.9
Gross Profit on Sales	951.8	1,025.1	1,159.7	1,285.3	1,388.0
Gross Margin (%)	67.4	67.5	68.1	68.9	69.2
<b>Operating Expenses</b>	<b>747.5</b>	<b>796.3</b>	<b>919.4</b>	<b>993.7</b>	<b>1,060.2</b>
Research & Development	7.4	6.3	8.2	8.8	10.0
Dist Costs and Adm Expenses	747.5	796.3	873.0	945.7	1,011.6
Other Income	0.0	0.0	0.2	0.2	0.2
Other Expenses	0.0	0.0	46.7	48.2	48.8
<b>Operating Income</b>	<b>204.3</b>	<b>228.8</b>	<b>240.2</b>	<b>291.6</b>	<b>327.9</b>
Growth (%)	7.4	12.0	5.0	21.4	12.4
Operating Margin (%)	14.5	15.1	14.1	15.6	16.3
Interest Income	3.1	3.5	3.4	2.6	3.9
Interest Expenses	12.5	17.6	26.1	22.7	20.0
Gains(Losses) in Equity Method	13.9	22.1	0.0	0.0	0.0
Others	(6.0)	(0.3)	(7.2)	(0.4)	(0.5)
<b>Income Before Income Taxes Expenses</b>	<b>202.7</b>	<b>236.5</b>	<b>210.3</b>	<b>271.1</b>	<b>311.3</b>
Income Taxes Expenses	49.4	59.5	49.6	64.0	73.5
Tax Rate (%)	24.4	25.1	23.6	23.6	23.6
Net Profit((Non-controlling Int Equity)	0.0	0.0	0.0	0.0	0.0
Net Profit(Owners of Parent Equity)	153.3	177.0	160.7	207.1	237.8
Growth (%)	18.8	15.5	(9.2)	28.9	14.8
EBITDA	352.4	382.6	392.4	456.0	502.1
Growth (%)	6.3	8.6	2.6	16.2	10.1
Adj. Operating Income	204.3	228.8	286.7	339.6	376.4
Adj. Pre-tax Net Income	203.8	236.5	214.9	271.1	311.3
Adj. Net Income(Owners of Parent Equity)	154.1	177.0	164.2	207.1	237.8

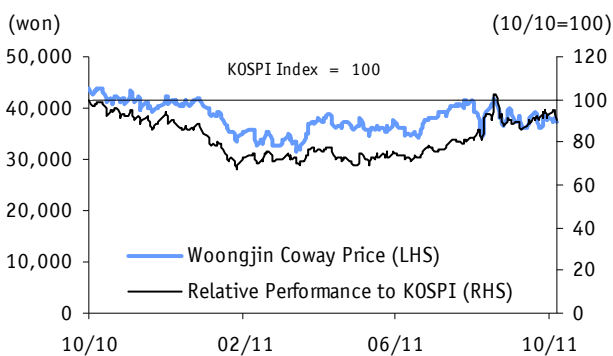
### Key Ratios

Year to Dec.	2009	2010	2011F	2012F	2013F
EPS (won)	2,023	2,296	2,084	2,685	3,083
Adj. EPS (won)	2,034	2,296	2,129	2,685	3,083
BPS (won)	8,826	9,916	10,228	11,880	13,810
CFPS (won)	4,760	4,984	6,332	5,184	6,597
DPS (won)	1,010	1,050	1,075	1,200	1,400
PER (x)	15.9	17.0	17.9	13.9	12.1
Adj. PER (x)	15.8	17.0	17.5	13.9	12.1
PBR (x)	3.6	3.9	3.6	3.1	2.7
PCR (x)	11.2	13.6	13.0	13.0	13.0
EV/ EBITDA (x)	7.5	8.6	8.2	6.9	6.1
EV/ EBIT (x)	12.9	14.3	13.4	10.9	9.4
Dividend Yield (%)	3.1	2.7	2.9	3.2	3.8
<b>Profitability</b>					
EBITDA Margin (%)	25.0	25.2	23.0	24.4	25.0
Operating Margin (%)	14.5	15.1	14.1	15.6	16.3
Net Margin (%)	10.9	11.7	9.4	11.1	11.8
ROA (%)	13.1	13.1	10.7	12.8	13.8
ROE (%)	24.0	24.5	20.7	24.3	24.0
ROIC (%)	23.0	21.5	20.6	22.6	24.0
<b>Stability</b>					
Debt Ratio (%)	86.7	88.2	99.3	80.7	68.8
Net Debt Ratio (%)	29.5	34.6	45.3	32.2	18.8
Cash Ratio (%)	11.8	12.8	11.3	10.8	20.6
Interest Coverage (x)	16.3	13.0	9.2	12.8	16.4
<b>Activity</b>					
Working Capital Turnover (x)	11.7	9.5	8.6	8.2	8.1
Inventory Turnover (days)	14.6	15.4	16.6	16.8	17.0
Receivables Turnover (days)	44.5	48.3	47.1	47.6	48.1

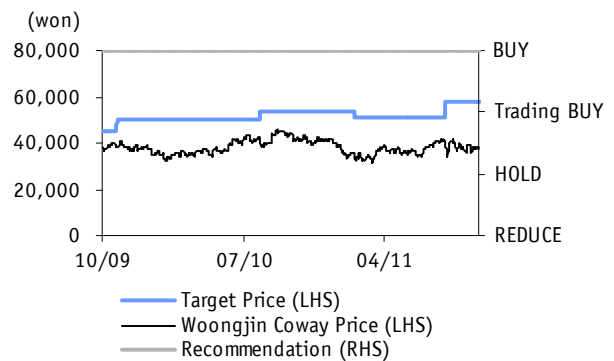
Source: Company data, Shinhan Investment Corp.

Note: K-GAAP to 2010, K-IFRS-based from 2011

Share Price Performance



Target Price & Recommendation History



**SHIC Rating Classifications:** BUY; Over +15%, Trading BUY; 0 to 15%, HOLD; -15% to 0, REDUCE; -15% or More (As of 25 Jul. 2011)

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