

Retail

Woongjin Coway (021240)

BUY

Earnings Improvement to Begin in 4Q

In 4Q, OP up 13% yoy

We maintain BUY and our W47,000 TP. We believe that earnings will improve on solid growth from the environmental appliance division (+9% yoy in rental sales vs. three-year average growth of 4%) and a gradual reduction in losses for the cosmetics division due to growing sales and falling marketing costs.

In particular, 4Q earnings should start improving because of a drop in initiation costs for the cosmetics division; this was the main reason of falling profitability this year. 4Q OP should rise 13% yoy (OP growth was -14% yoy in 1H and +3% yoy in 3Q). Woongjin Coway is forecast to post a dividend yield of 2.9%.

3Q review: sales up 16% yoy; OP up 3% yoy

3Q sales rose 16% yoy to W430.1bn, with sales for the environmental appliance business and the lump-sum business increasing 12% and 46% yoy, respectively. The number of net accounts fell by 80K (vs. 130K in 2Q). The churn rate was maintained at a low of 0.95%.

The domestic cosmetics division posted sales of W17.6bn (vs. W1.8bn in 2Q10 and W17.9bn in 2Q11). Cumulative sales up to 3Q have already reached W52.9bn and should total W70bn for the year, exceeding the company sales target of W60bn.

Operating losses fell to W3.7bn in 3Q (vs. W5.2bn in 1Q and W5.1bn in 2Q). The company should continue to post losses in 4Q because of rising marketing costs coming from the launch of new brands, though the loss should narrow by W2-3bn.

Woongjin Coway posted better-than-expected OP of W61.4bn with an OPM of 14.3%. Our OPM forecast of 13.7% was exceeded because of a reduction in operating losses at the domestic cosmetics division.

For the cosmetics business in China, sales and OP were RMB60.88mn (+11% yoy) and RMB15.62mn (-11% yoy), respectively. OPM fell 6pp to 25.7% but remained near the company's 2011 target OPM of 25%.

Earnings review

TP (12M): W47,000

CP (Nov. 3): W37,200

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Analyst
Sunjae Song

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	153.3	177.0	165.4	185.9	210.3
EPS	W	2,023	2,296	2,145	2,410	2,727
Chg	%	16.7	13.4	3.1	12.4	13.1
P/E	X	19.0	17.6	17.3	15.4	13.6
P/B	X	4.1	3.9	3.4	3.0	2.7
EV/EBITDA	X	8.8	8.3	8.4	7.6	6.8
ROE	%	24.0	24.5	20.4	20.5	20.6
BPS	W	9,298	10,358	11,070	12,452	14,015
Net DER	%	29.4	34.5	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 review

(Wbn, %)

	3Q11	3Q10	YoY	2Q11	QoQ
Sales	430.1	372.3	15.5	435.7	-1.3
Lump-sum	35.7	24.5	45.7	38.8	-8.0
Rental	305.7	270.9	12.8	299.7	2.0
Membership	41.0	37.5	9.3	39.7	3.2
Cosmetics	17.6	1.8	877.8	17.9	-1.7
Others	30.1	37.6	-19.9	39.6	-24.0
OP	61.4	59.8	2.7	61.8	-0.6
PTP	64.6	52.8	22.4	55.1	17.4
NP	49.2	36.0	36.6	42.1	16.9
Margin					
OPM	14.3	16.1	-1.8P	14.2	0.1P
PTPM	15.0	14.2	0.8P	12.6	2.4P
NPM	11.4	9.7	1.8P	9.7	1.8P

Source: company data, Hana Daetoo Securities

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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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