

Beneficiary of aging population

We maintain our BUY rating and target price of KRW45,000 for Woongjin Coway. The stock is now trading at FY12E P/E of 13.7x; not a low level, when compared to other Korean demand-oriented stocks. Moreover, its short-term earnings growth should not sharply outpace that of its peers. Nevertheless, in the long term, its business model is likely to benefit from the surge in the number of retirees, the aging of the population and the increase in the portion of single-person households. In other words, the upcoming changes in Korea's population structure should work favorably for Woongjin Coway, in that (1) its product portfolio is centered on products related to health and wellness; and (2) the company will have an easier time hiring workers for door-to-door sales (its main distribution channel), in line with retirees' increasing desire to return to work.

» FY12E earnings to show stable growth

» Business model to benefit from changes in population structure over the long term

» BUY and target price of KRW45,000 maintained

FY12E earnings to show a stable growth

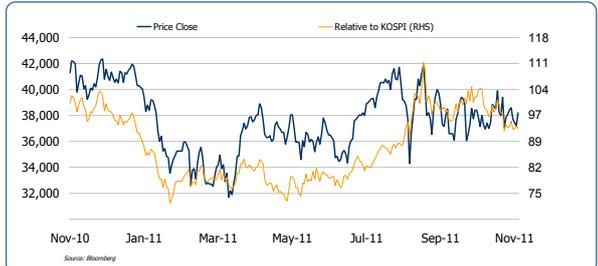
In 2012, Woongjin Coway is expected to post a 7.0% y-y increase in sales and a 12.7% y-y gain in operating profit. The steady increase in the number of rental accounts for environmental home appliances should enable the company to enjoy stable top-line growth. Moreover, operating profit should grow at a faster pace than sales, as the Korean cosmetics business should return to the black, after incurring operating losses of roughly KRW16bn in 2011. The number of accounts that will fully recognize sales commissions should also gradually increase from 2012; this should lessen the burden on sales commissions and work positively for operating profit growth.

Target price	KRW45,000
Current price (4 November 2011)	KRW38,200
Upside/downside	17.8%
Consensus target price	KRW50,000
Difference from consensus	-10.0%

Forecast earnings & valuation

Fiscal year ending	Dec-10A	Dec-11E	Dec-12E	Dec-13E
Revenue (KRWb)	1,519	1,664	1,780	1,842
Op EBIT (KRWb)	228.8	231.7	261.0	279.7
Net income (KRWb)	177.0	183.6	215.5	245.0
Norm profit (KRWb)	177.0	183.6	215.5	245.0
EPS (KRW)	2,296	2,381	2,794	3,176
EPS growth	13.3%	3.7%	17.4%	13.7%
P/E (x)	16.6	16.0	13.7	12.0
EV/EBITDA (x)	6.0	5.6	4.9	4.5
Dividend yield	0.0%	2.9%	3.4%	3.8%
P/B (x)	3.9	3.4	2.9	2.6
ROE	24.5%	22.5%	23.1%	22.8%
Net debt/equity	34.9%	31.4%	25.2%	17.7%
Cons EPS (KRW)	2,296	3,125	3,833	3,176
Prev EPS (adj) (KRW)	2,309	2,622	3,127	3,421

Performance



Trading data

Market cap (KRWbn/US\$m)	2,946/2,607		
Shares outstanding	77.1m		
Free float	67.6%		
52-week price high/low	KRW31,700 -42,350		
Daily average turnover (3M)	US\$7.47m		
Performance	1M	3M	12M
Absolute	1.1%	-2.3%	-11.6%
Relative to KOSPI	-11.9%	2.2%	-10.9%
Absolute (US\$)	6.9%	-8.4%	-13.7%
Major shareholders			
Woongjin Holding and others	31%		
Lazard Asset Management and others	14.5%		

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Business model to benefit from the changes in population structure over the long term

Woongjin Coway generates 90% of its profits from the environmental home appliance and rental businesses. Given the characteristics of its products and main distribution channel, we believe the company's business model is inclined to benefit from the upcoming changes in Korea's population structure. In other words, the demand for environmental home appliances is likely to rise as health awareness increases, in line with the aging of the population. Moreover, the participation of retirees as prospective door-to-door sales reps should rev up the company's door-to-door sales. The growing number of single-person households should also provide opportunities for securing new growth engines; by altering existing products and developing new ones, in order to meet the needs of single-person households.

BUY and target price of KRW45,000 maintained

We maintain our BUY rating and target price of KRW45,000 for Woongjin Coway. In deriving our target price, we (1) calculated the company's Korean operating value at roughly KRW3.2tn by using the DCF method ($g=3\%$, $WACC=8.2\%$); and (2) calculated the value of its Chinese subsidiary by summing up the value of 13x FY12E net profit (KRW140bn) and the value of its equity stake in Woongjin Chemical (70% of market price; KRW140bn). The target price implies a FY12E P/E of 16x.

Figure 1. Valuation of Woongjin Coway's TP

(KRWbn, KRW, %)	Value	Per share	Contribution to TP	Valuation method
Operating value	3,196	41,445	92	DCF ($g=3\%$, $WACC=8.2\%$)
Investment assets	283	3,666	8	
Chinese subsidiary	142	1,844	4	13x FY12E net profit
Woongjin Chemical	141	1,823	4	MV*0.7
Total	3,479	45,112	100	

Source: Mirae Asset Research

Summary financial statements

Profit & Loss

(KRWb)	Dec-09A	Dec-10A	Dec-11E	Dec-12E	Dec-13E
Revenue	1,412	1,519	1,664	1,780	1,842
Cost of goods sold	(460)	(494)	(457)	(499)	(499)
Gross profit	952	1,025	1,207	1,281	1,343
SG and A	(747)	(796)	(976)	(1,020)	(1,063)
Op profit	204	229	232	261	280
Op EBITDA	352	383	420	473	513
Depreciation	(128)	(132)	(166)	(188)	(205)
Amortisation	(20)	(22)	(23)	(24)	(28)
Op EBIT	204	229	232	261	280
Net interest	(9)	(14)	(14)	(13)	(12)
Associates and JCEs	14	22	15	32	48
Other income	(6)	(0)	5	3	3
Net exceptional income	-	-	-	-	-
Profit before tax	203	237	237	283	318
Tax	(49)	(59)	(54)	(67)	(73)
Post-tax profit	153	177	184	215	245
Minorities	-	-	-	-	-
Preferred dividends	-	-	-	-	-
Net income	153	177	184	215	245
Norm profit	153	177	184	215	245
Dividends	(77)	(80)	(83)	(98)	(111)
Retained earnings	76	97	101	118	134

Source: Company data, Mirae Asset Research estimates

Cashflow

(KRWb)	Dec-09A	Dec-10A	Dec-11E	Dec-12E	Dec-13E
Op EBITDA	352	383	420	473	513
Decrease in working capital	(35)	(41)	(20)	(13)	(12)
Other operating cashflow	57	93	7	(24)	(38)
Operating cashflow	374	435	407	436	462
Tax paid	(49)	(59)	(54)	(67)	(73)
Net interest	(9)	(14)	(14)	(13)	(12)
Dividends received	(4)	(47)	(5)	17	40
Cashflow	312	314	335	373	417
Capital expenditure	(210)	(227)	(256)	(286)	(309)
Net acquisitions	-	-	-	-	-
Net investments	-	1	(0)	0	0
Other investing cashflow	(66)	(70)	(4)	17	40
Investing cashflow	(276)	(295)	(261)	(269)	(269)
Dividends paid	(65)	(77)	(80)	(83)	(98)
Increase in equity	-	-	-	-	-
Increase in debt	(19)	105	-	(30)	-
Other financing cashflow	31	(48)	-	-	-
Financing cash flow	(52)	(20)	(80)	(113)	(98)
Beginning cash	76	64	57	51	42
Total cash generated	(17)	(2)	(6)	(10)	50
Forex effects	-	-	-	-	-
Ending cash	59	62	51	42	91

Source: Company data, Mirae Asset Research estimates

Balance Sheet

(KRWb)	Dec-09A	Dec-10A	Dec-11E	Dec-12E	Dec-13E
Current assets	509	579	606	625	703
Cash and equivalents	64	57	51	42	91
Receivables	195	207	230	242	256
Inventories	55	73	73	81	84
Other current assets	197	241	251	261	272
Non current assets	761	861	953	1,048	1,136
Net operating fixed assets	418	454	521	584	632
Interest in associates	131	200	219	235	243
Other non-current assets	212	206	213	229	262
Total assets	1,271	1,440	1,559	1,673	1,839
Current liabilities	542	441	453	470	485
Payables	29	38	39	43	45
ST debt	240	104	104	104	104
Other current liabilities	273	298	310	323	336
Total non-current liabilities	48	234	235	206	208
LT debt	30	220	220	190	190
Other non-current liabilities	18	14	15	16	18
Total liabilities	590	675	688	676	693
Issued capital	41	41	41	41	41
Share premium reserve	142	140	140	140	140
Reserves/Adjustments	(31)	(46)	(46)	(46)	(46)
Retained earnings	530	630	733	866	1,013
Minorities	-	-	-	-	-
Other equity	-	-	-	-	-
Total equity	681	765	868	1,001	1,148

Source: Company data, Mirae Asset Research estimates

Key Ratios

	Dec-09A	Dec-10A	Dec-11E	Dec-12E	Dec-13E
Turnover growth	7.42%	7.59%	9.56%	6.97%	3.49%
Gross profit growth	4.9%	7.7%	17.8%	6.1%	4.8%
Operating profit growth	7.4%	12.0%	1.2%	12.7%	7.1%
EBITDA growth	7.9%	12.3%	8.7%	15.5%	11.0%
EPS growth	16.8%	13.3%	3.7%	17.4%	13.7%
Norm BPS growth	12.2%	10.2%	13.6%	15.2%	14.7%
Gross margin	67.4%	67.5%	72.5%	71.9%	72.9%
Operating margin	14.5%	15.1%	13.9%	14.7%	15.2%
EBITDA margin	25.5%	26.6%	26.4%	28.5%	30.6%
EBIT margin	15.0%	16.5%	15.1%	16.6%	17.9%
Net income margin	10.9%	11.7%	11.0%	12.1%	13.3%
ROE	24.0%	24.5%	22.5%	23.1%	22.8%
ROA	13.1%	13.1%	12.2%	13.3%	14.0%
Net debt/equity	30.3%	34.9%	31.4%	25.2%	17.7%
Interest cover ratio	16.3	13.0	13.5	15.3	17.1
Dividend payout ratio	50.1%	45.2%	45.3%	45.3%	45.1%
Inventory days	43.3	54.1	58.5	59.3	61.1
Account receivable days	50.3	49.8	50.5	49.7	50.7
Account payable days	23.2	28.3	30.9	31.2	32.7
Reported EPS (KRW)	2,025	2,296	2,381	2,794	3,176
EPS (KRW)	2,025	2,296	2,381	2,794	3,176
Reported BPS (KRW)	8,994	9,916	11,261	12,977	14,888
Norm BPS (KRW)	8,994	9,916	11,261	12,977	14,888
DPS (KRW)	1,010	0	1,090	1,280	1,450
Cashflow per share (KRW)	4,118	4,069	4,342	4,833	5,400
Reported P/E (x)	18.9	16.6	16.0	13.7	12.0
P/E (x)	18.9	16.6	16.0	13.7	12.0
P/B (x)	4.25	3.85	3.39	2.94	2.57
P/CF (x)	9.28	9.39	8.80	7.90	7.07
EV/EBITDA (x)	7.06	6.04	5.63	4.94	4.48
EV/Operating Cashflow (x)	6.79	5.62	6.08	5.75	5.46
EV/Sales (x)	1.80	1.61	1.49	1.41	1.37
Dividend yield	2.64%	0.00%	2.85%	3.35%	3.80%

Source: Company data, Mirae Asset Research estimates

Recommendations

By stock (12 months)

Buy: A target price + 10% or more above the current price,
 Hold: Target price within - 10% to +10% of the current price
 Reduce: A target price of -10% or less below the current price

By industry

Overweight: over +10% of the current industry index
 Neutral: -10% to +10% of the current industry index
 Underweight: -10% or less than the current industry index

Earnings quality score

Earnings Quality Score = $0.70 \times (\text{Historical Earnings Stability}) + 0.15 \times (\text{Consensus Forecast Certainty}) + 0.15 \times (\text{Consensus Forecast Accuracy})$

1. Historical Earnings Stability

- The variability of the net profit growth rate (YOY) over the last 20 quarters was translated into percentage terms.
- Earnings growth variability was calculated based on MAD (Median Absolute Deviation), rather than SD (Standard Deviation) in order to minimize distortion from outliers.
- The lower the earnings growth variability, the higher this indicator.

2. Consensus Forecast Certainty

- The gap between analysts' views on 12-month forward EPS was translated into percentage terms.
- The gap is calculated by dividing the SD of 12-month forward EPS with the average value.
- The narrower the gap, the higher this indicator.

3. Consensus Forecast Accuracy

- The median value of absolute EPS surprise over the last 3-year was translated into percentage terms.
- EPS surprise was calculated based on 'the actual figure at the end of the year / the consensus estimate at the beginning of the year - 1'.
- The lower the absolute EPS surprise, the higher this indicator.

* Reference

- 1) Consensus Forecast Certainty and Consensus Forecast Accuracy were applied only to companies with more than 5 years of EPS estimates.
- 2) We gave the average score of 50 to cases in which the aforementioned indicators could not be produced.

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[Analyst: Kook-Hee Han]

Securities Held by the Analyst

Stock	Analyst	Type	Number of Shares	Purchase Price	Purchase Date	Holdings of share of over 1%	Participation in Issuance of Securities	Involvement with Affiliates	Treasury Stock Held
N/A									

REMARK: Korean analyst is only responsible for Korean securities and relevant sectors only

Stock Price & Target Price Trend		Stock Price	Target Price Price	Woongjin Coway (021240 KS)																																																																																													
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