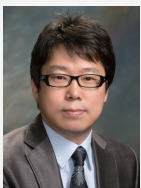




# Woongjin Coway (021240)

## BUY (maintain)



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## Briefing on Visit to China Subsidiary

### Earnings visibility increased after restructuring

Woongjin Coway's wholly owned China subsidiary is engaged in the cosmetics and home appliance businesses. After aggressive investments through 2009, the company was partially restructured (with sales outlets realigned, etc.) in 2010-11. In 2012, the company should exhibit stable top-line growth and a sound profit structure thanks to the benefits of restructuring and economies of scale.

### Cosmetics and home appliances fared well in China in 2011

The China subsidiary's cosmetics and home appliance businesses continued to sustain stable growth in 2011 in line with guidance. It is estimated that cosmetics sales in yuan jumped 16%YoY, and the OP margin rose to over 24%. Home appliance sales are estimated to have jumped 30%YoY due to brisk OEM sales of air purifiers through Philips.

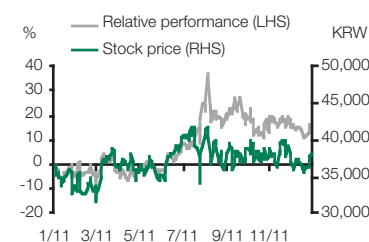
### 2012 OR to jump 17%YoY and OP 23%YoY

2012 OR at the China subsidiary is projected to grow 17%YoY to CNY380mn and OP to swell 23%YoY to CNY60mn (around KRW11bn) fueled by increasing revenue contribution from Beauty of Fermentation (new high-end brand), expansion of distribution channels to include home shopping, and a takeoff in the home appliance segment. The OP margin is also forecast to be maintained at over 24% thanks to completed restructuring over cosmetics brands.

### China subsidiary to account for 4% of company's enterprise value

The China subsidiary is valued at KRW150bn based on our 2012 NP estimate (around KRW9.4bn) and a 20% discount to Chinese retailers' average PER of 20x. The value of the China subsidiary corresponds to around 5% of Woongjin Coway's market cap of KRW2.9tr. The China subsidiary plans to enhance shareholder value by: 1) strengthening its grip over the cosmetics market; and 2) reducing losses in the home appliance segment.

Current price (Jan 13)	KRW38,100
<b>Fair value</b>	<b>KRW50,000</b>
Reuters code	021240.KS
Bloomberg code	021240 KS
Industry/Sector	Other Consumer Services
Rating	Overweight
Market cap	USD2.6bn
Ordinary shares issued	77,124,796shrs
Free float	65.0%
KOSPI	1875.68
KOSDAQ	523.13
Avg T/O Vol (60d)	139,257shrs
Avg T/O Val (60d)	USD4.6mn
Foreign ownership	50.7%
3yr CAGR of adj EPS (11-13)	11.3%
Market's 3yr CAGR of adj. EPS	9.6%
52wk high/low	KRW41,800 / KRW31,700
Beta (12M, daily return)	0.5
Major shareholders	WoongJin Holdings etc. 31.0%
Price performance	1M 3M 6M
Absolute	-2.6% 1.7% -3.4%
Relative	-3.2% -1.1% 9.7%



FY-end	12/09A	12/10A	12/11F	12/12F	12/13F
(Reporting standard)	(GAAP-P)	(GAAP-P)	(IFRS-P)	(IFRS-P)	(IFRS-P)
OR (KRWbn)	1,411.9	1,519.1	1,705.1	1,868.0	2,124.1
OP (KRWbn)	204.3	228.8	240.6	274.9	308.3
NP (KRWbn)	153.3	177.0	185.2	210.9	237.6
Parent NP (KRWbn)	153.3	177.0	185.2	210.9	237.6
EPS (KRW)	2,023	2,294	2,431	2,805	3,160
Adj. EPS (KRW)	2,023	2,294	2,431	2,805	3,160
PER* (x)	20.2 - 11.3	20.0 - 13.6	17.6 - 12.8	13.6	12.1
PBR (x)	4.4	4.1	3.2	2.9	2.5
EV/EBITDA (x)	9.0	8.8	6.8	6.4	5.9
Div. Yield (%)	2.6	2.6	3.1	3.1	3.3
ROE (%)	24.0	24.5	21.3	22.6	22.2
ROIC (%)	22.5	22.1	20.2	21.3	21.5

Source: Company data, Hyundai Securities

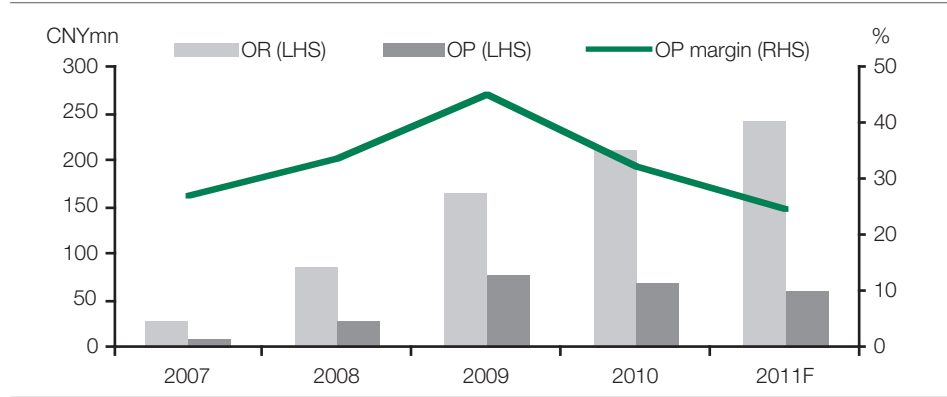
**Cosmetics and home appliances fared well in China in 2011**

It is estimated that flagship cosmetics products recorded sales of CNY240mn (up 16%YoY, equivalent to KRW41bn), OP of CNY59mn (down 12%YoY, KRW10bn), and OP margin of 24% in 2011.

As for home appliances, water purifier sales are still sluggish as fixed costs remain burdensome, resulting in about CNY10mn in losses every year. However, thanks to brisk OEM sales of air purifiers through Philips from 2011, losses should contract from 2012. Air purifier sales are estimated to have grown 30%YoY in 2011.

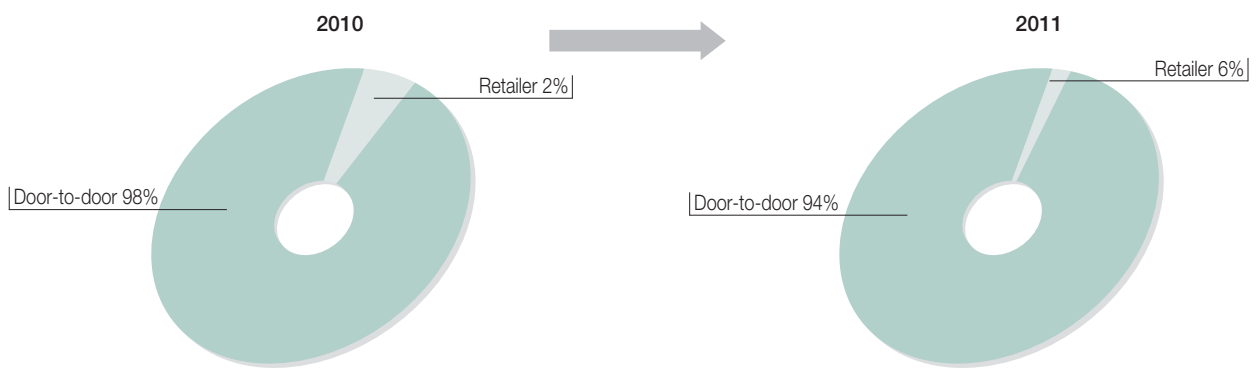
Meanwhile, the cosmetics OP margin is estimated to have fallen 7%pYoY to 24-25% in 2011. Due to a higher proportion of retailer (SASA, etc.) channels (from 1% in 2010 to 6% in 2011), sales promotional expenses increased and margins eroded.

**Fig 1: 2011 cosmetics sales up 16%YoY, OP margin at 24%**



Source: Company data, Hyundai Securities

**Fig 2: Retailer channels expanding for cosmetics business in China**



Source: Company data, Hyundai Securities

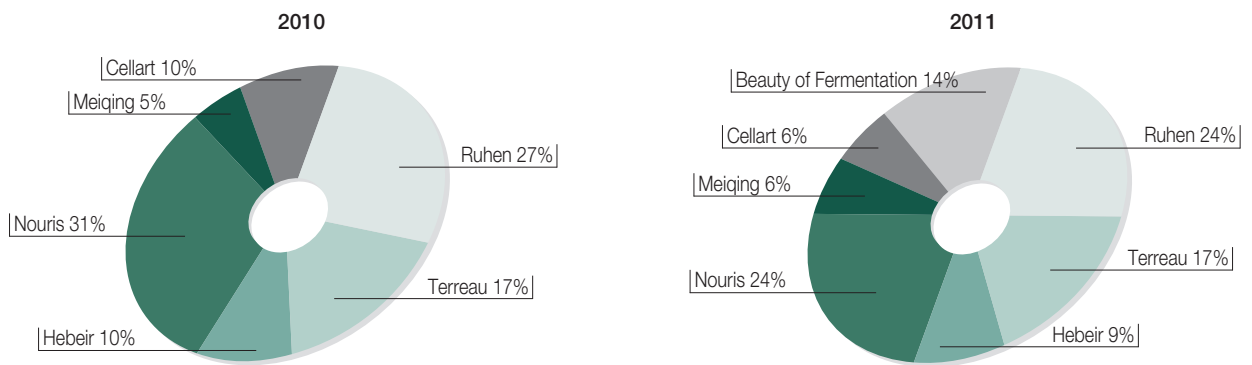
**Cosmetics OP margin to be maintained at over 24% after 2012**

2012 earnings guidance for the China subsidiary will likely be provided in Feb, when the company’s 4Q11 results are scheduled for release. Cosmetics revenues are projected to grow at least 16%YoY in 2012, driven by: 1) increasing contribution from Beauty of Fermentation, a new high-end brand launched in May 2011; 2) additional launches of new products; and 3) the scheduled launch of home shopping-exclusive products and organic products that target the mass market.

Meanwhile, the cosmetics OP margin is forecast to be maintained at over 24%, as the OR proportion of mid/high-end brands, including Cellart, Beauty of Fermentation, and Ruhen, is increasing (44% in 2011 from 37% in 2010), and the planned disposal of two, low-end brands (Hebeir, Meiqing) in 1H12 will enhance profit structure.

Revenues from the home appliance segment are also projected to expand 20%YoY thanks to solid air purifier sales via Philips, a business partner. Therefore, losses will diminish gradually driven by economies of scale and a shift in the operating structure, which previously incurred fixed costs.

**Fig 3: OR proportion of mid/high-end cosmetics brands is increasing**



Source: Company data, Hyundai Securities

