

January 17, 2012 Company Analysis

# Woongjin Coway (021240)

BUY (maintain)



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Current price (Jan 13 Fair value	3)		3W38,100 3W50,000
Reuters code Bloomberg code			21240.KS 21240 KS
Industry/Sector Rating	Othe	er Consume O	r Services verweight
Market cap Ordinary shares issue Free float KOSPI KOSDAQ Avg T/O Vol (60d) Avg T/O Val (60d) Foreign ownership	ed	77,12	USD2.6bn 4,796shrs 65.0% 1875.68 523.13 9,257shrs ISD4.6mn 50.7%
3yr CAGR of adj EPS Market's 3yr CAGR o 52wk high/low Beta (12M, daily retu Major shareholders	of adj. EPS KRW	41,800 / KF	0.5
Price performance Absolute Relative	1M -2.6% -3.2%	3M 1.7% -1.1%	6M -3.4% 9.7%
% Relative 40 30 20 10		ice (LHS)	KRW 50,000 45,000 40,000

1/11 3/11 5/11 7/11 9/11 11/11

# **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 Woongin 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.

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

35,000 30,000



# 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.

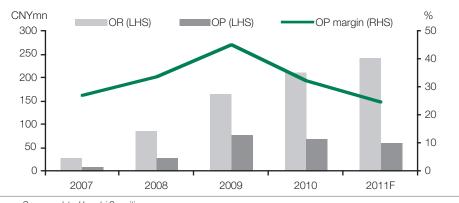


Fig 1: 2011 cosmetics sales up 16%YoY, OP margin at 24%

Source: Company data, Hyundai Securities

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



Source: Company data, Hyundai Securities

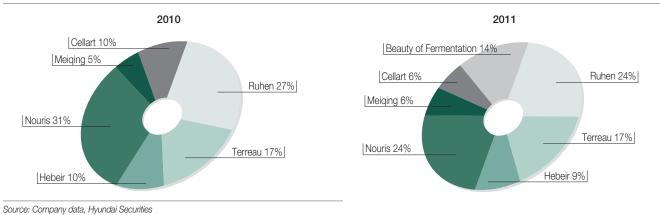
# Cosmetics OP margin to be maintained at over 24% after 2012

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



HYUNDAI Research 3

### A HYUNDAI SECURITIES

#### >> Woongjin Coway

12/09A

(GAAP-P)

12/10A

(GAAP-P)

12/11F

(IFRS-P)

12/12F

(IFRS-P)

12/13F

(IFRS-P)

Profit & Loss					
(KRWbn)	12/09A	12/10A	12/11F	12/12F	12/13F
(Reporting standard)	(GAAP-P)	(GAAP-P)	(IFRS-P)	(IFRS-P)	(IFRS-P)
Operating revenue	1,411.9	1,519.1	1,705.1	1,868.0	2,124.1
Cost of sales	460.2	494.1	547.5	599.0	773.5
Gross profit	951.8	1,025.1	1,157.7	1,269.0	1,350.7
SG&A expenses	747.5	796.3	870.8	934.1	986.4
Other operating income	0.0	0.0	(46.3)	(60.0)	(56.0)
Operating profit	204.3	228.8	240.6	274.9	308.3
EBITDA	352.4	382.6	453.0	506.1	540.7
Non-operating accounts	(1.5)	7.7	3.8	3.3	5.2
Net financing income	(9.4)	(14.1)	(29.2)	(29.4)	(29.5)
Profit on equity method	13.9	22.1	28.0	30.0	32.0
Net other non-operating income	(6.0)	(0.3)	5.0	2.7	2.7
Profit before tax	202.7	236.5	244.4	278.2	313.5
Income tax expense	49.4	59.5	59.1	67.3	75.9
Net profit	153.3	177.0	185.2	210.9	237.6
Profit attributable to owners of parent	153.3	177.0	185.2	210.9	237.6
Total comprehensive income	151.9	174.3	185.2	210.9	237.6
TCI, attributable to owners of parent	151.9	174.3	185.2	210.9	237.6
Net exceptionals	0.0	0.0	0.0	0.0	0.0
Adj. net profit	153.3	177.0	185.2	210.9	237.6
Cash Flow					
Cash FIUW					
(KRWbn)	12/09A	12/10A	12/11F	12/12F	12/13F
Net profit	153.3	177.0	185.2	210.9	237.6
Depreciation & amortization	148.1	153.8	166.2	171.2	176.4
Other non-cash adjustments	59.2	53.5	45.1	52.1	60.9
Investments in working capital	(48.9)	(70.6)	(11.2)	(21.2)	(20.6)
Other operating cash flow	0.0	0.0	(53.9)	(67.3)	(75.9)

311.7

(204.1)

(6.2)

(0.1)

2.8

(68.6)

(276.1)

514

(38.9)

(64.8)

(52.3)

(12.4)

76.1

63.7

297.6

32.4

(114.7)

(200.5)

12/09A

7.4

7.4

6.3

18.8

18.8

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(1.3)

54.5

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(76.8)

(20.4)

(4.3)

(7.4)

63.7

56.3

328.2

30.7

(63.5)

(264.0)

12/10A

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86

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25.2

11.7

117

(296.4)

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Cash and cash equivalents	63.7	56.3	53.1	86.8	91.4
Current financial assets	5.5	3.9	4.3	6.8	9.0
Trade receivables	194.6	207.3	210.0	220.0	230.0
Inventories	54.6	73.2	77.6	82.2	87.0
Other current assets	191.1	238.1	252.4	267.6	282.0
Current assets	509.5	578.8	597.4	663.4	699.
Investment assets	130.7	204.3	230.4	259.3	279.3
Property, plant and equipment	418.2	454.2	543.2	626.8	716.
Intangible assets	141.1	133.6	134.0	134.0	134.0
Deferred tax assets	8.5	5.2	0.0	0.0	0.0
Other non-current assets	62.8	63.4	63.4	63.4	63.4
Non-current assets	761.2	860.7	971.0	1,083.5	1,193.
Total assets	1,270.7	1,439.5	1,568.4	1,746.9	1,892.9
Trade payables	29.2	38.3	40.6	43.1	45.8
Short-term financial liabilities	239.7	104.5	115.0	160.0	150.
Current provisions	2.4	4.2	4.2	4.3	4.
Other current liabilities	270.4	294.0	301.9	308.0	314.
Current liabilities	541.8	441.0	461.7	515.3	513.
Non-current financial liabilities	30.0	219.8	219.8	219.8	219.
Non-current provisions	0.1	0.1	0.1	0.1	0.
Provisions for employee benefits	11.3	6.7	9.5	10.0	10.
Deferred tax liabilities	0.0	0.0	0.0	0.0	0.0
Other non-current liabilities	6.8	7.2	7.2	7.2	7.
Non-current liabilities	48.2	233.8	236.6	237.1	237.
Total liabilities	590.0	674.7	698.3	752.4	751.0
Issued capital	40.7	40.7	40.7	40.7	40.
Share premium	141.9	140.0	140.0	140.0	140.
Other equity interest	(31.5)	(43.0)	(43.0)	(43.0)	(43.0
Accumulated other comprehensive income	0.0	(2.7)	(2.7)	(2.7)	(2.7
Retained earnings	529.6	629.8	735.1	859.5	1,006.
Equity attributable to owners of parent	680.7	764.8	870.1	994.5	1,141.
Non-controlling Interests	0.0	0.0	0.0	0.0	0.0
Total equity	680.7	764.8	870.1	994.5	1,141.9
Total Liab. and equity	1,270.7	1,439.5	1,568.4	1,746.9	1,892.

Per-share Performance					
(KRW)	12/09A	12/10A	12/11F	12/12F	12/13F
EPS	2,023	2,294	2,431	2,805	3,160
Adj. EPS	2,023	2,294	2,431	2,805	3,160
BPS	8,826	9,907	11,571	13,226	15,186
SPS	18,639	19,688	22,379	24,842	28,249
GCFPS	3,928	4,253	4,643	5,048	5,454
DPS	1,010	1,050	1,150	1,200	1,250
3yr CAGR of adj. EPS	11.9	11.5	11.3	10.9	7.7

			Shareholder Value & Finance	cial Structure	
12/11F	12/12F	12/13F	(%)	12/09A	12/10A
NA	9.6	13.7	ROE	24.0	24.5
NA	14.3	12.1	ROA	13.9	14.1
NA	11.7	6.8	ROIC	22.5	22.1
4.6	13.9	12.7	WACC	5.7	8.6
4.6	13.9	12.7	ROIC/WACC (x)	4.0	2.6
14.1	14.7	14.5	Economic profit (KRWbn)	116.8	109.9
26.6	27.1	25.5	Total liab./equity	86.7	88.2
10.9	11.3	11.2	Net debt/equity	29.5	34.5
10.9	11.3	11.2	Interest coverage (x)	28.1	21.7

Statement of financial position

(KRWbn)

378.4

(230.0)

(15.0)

(3.6)

(80.0)

0.0

55.0

0.0

(90.2)

(10.0)

(45.2)

0.0

4.6

86.8

91.4

410.1

144.5

16.8

(269.4)

(328.6)

331.4

(230.0)

(15.0)

(3.4)

0.0

(80.0)

(328.4)

55 0

0.0

(79.9)

18.7

(6.3)

0.0

(3.3)

56.3

53.1

353.8

97.6

(13.4)

(277.4)

345.6

(230.0)

(15.0)

(3.5)

0.Ó

(80.0)

(328.5)

55.0

0.0

(86.5)

48.Ó

16.6

0.0

33.7

53.1

86.8

379.6

113.3

(8.8)

(286.2)

(Reporting standard)

Note: Acji. EPS = [(Acjiusted NP - preferred share dividends) + (after-tax dilution adjustment)] / (diluted avg. number of total ordinary shares outstanding) Acjiusted NP = (Parent NP) - (discontinued operation gains + (net exceptional gains) × (1 - marginal tax rate)]

Net exceptional gains: Pre-tax exceptional gains (exceptional gains attributable to parent including FX gains, derivatives gains, valuation gains, and one-off gains) Source: Company data, Hyundai Securities

Cash flow from operating activities

Changes in current financial assets

Cash flow from investing activities

Proceeds from (repayments of) debt

Cash flow from financing activities

Cash and cash equivalents at FYB

Cash and cash equivalents at FYE

**Operating Statistics & Ratios** 

Changes in investment assets

Other investment cash flow

Other financing cash flow

Increase/decrease in cash

Gross operating cash flow

Capital expenditure

Changes in equity

Dividends paid

Other cash flow

Free cash flow

Net cash (net debt)

Net cash flow

OP growth EBITDA growth

Adj. NP growth

EBITDA margin

Adi. NP margin

OP margin

NP margin

NP growth of parent

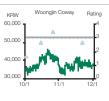
(%) OR growth

Investments in intangibles

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Strong BUY = 4, BUY = 3, Marketperform = 2, Underperform = 1, Blackout/Universe Exclusion = 0 (Share price —, Fair value A, Rating —)

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12/12F

22.6

14.1

21.3

10.5

2.0

110.8

75.7

28.8

17.0

12/13F

22.2

14.3

21.5

10.4

2.1

126.5

65.8

23.6

181