

Korea Company Focus

Woongjin Coway

16 Feb 2011

Bloomberg: 021240 KS | Reuters: 021240.KS

BUY KRW 38,100

Price Target : 12-Month KRW 46,000

Reason for Report : Reinstate coverage

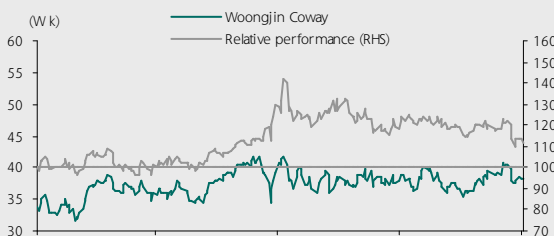
Potential Catalyst: net increase in customer accounts

Analyst

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Price Relative



Forecasts and Valuation

FY Mar (KRW bn)	2010	2011	2012F	2013F	2014F
Turnover	1,519.1	1,709.9	1,892.8	2,080.9	2,260.3
EBITDA	404.4	419.9	468.8	521.2	567.9
Pre-tax Profit	236.5	225.4	252.5	286.9	316.8
Net Profit	177.0	177.1	197.0	223.8	247.1
EPS (Won)	2,296	2,296	2,554	2,902	3,204
EPS Gth (%)	13.4	0.0	11.2	13.6	10.4
Net DPS (Won)	1,050	1,050	1,050	1,050	1,050
BV Per Share	9,946	11,205	12,750	14,643	16,837
PE (X)	15.9	16.6	14.9	13.1	11.9
P/Cash Flow (X)	10.6	10.9	12.6	14.6	16.4
EV/EBITDA (X)	7.6	7.6	6.8	6.0	5.4
Net Div Yield (%)	2.9	2.8	2.8	2.8	2.8
P/Book Value (X)	3.7	3.4	3.0	2.6	2.3
Net Debt/Equity	36.0	29.9	23.5	16.3	8.2
ROAE (%)	23.9	21.7	21.3	21.2	20.4

Consensus Data

Turnover (Wbn)	1,864.7	2,021.5	--
Operating Profit	275.8	307.6	--
Net Profit (Wbn)	218.8	249.3	--
EPS (W)	2,869	3,268	--

Industry: Retail

Sector: Retail

Principal Business: Rental services for water purifiers and air purifiers

Source: Hana Daetoo Securities, MSCI I/B/E/S Aggregates

Performance	1M	6M	12M
Absolute	0.0	(2.9)	12.4
Relative	(8.0)	(15.9)	11.7

Sell-off to set off earnings turnaround

- **4Q11 sales of W444.0bn and OP of W62.8bn**
- **For 1Q12, strong earnings growth of at least 20% y-o-y expected**
- **Woongjin Holdings to sell its 31% stake in Woongjin Coway**

4Q11 results better than expected On a K-IFRS unconsolidated basis, Woongjin Coway announced slightly higher-than-expected 4Q sales of W444.0bn, up 11.3% y-o-y, and OP of W62.8bn, up 18.1% y-o-y (vs. consensus of W439.0bn sales and W60.0bn OP). Net customer accounts rose in 2011, with rental sales for environmental home appliance division and number of memberships increasing 10% y-o-y and 7% y-o-y, respectively. Following an increase in OEM supply at Philips (China), exports grew remarkably by 67%, offsetting sluggish cosmetics sales. Shrinking operating losses for the cosmetics division and increase in rental sales allowed OPM to rise to 14.1% y-o-y (+0.8 ppt).

Better earnings momentum expected in 1Q12 Earnings momentum is expected to accelerate in 1Q12 because of the following: 1) the net increase in customer accounts, which marked the highest growth since 2007, should improve earnings for the rental business; 2) the cosmetics business is continuing to normalize, lowering operating losses; 3) cost burdens from early reflection of rental sales commissions to conform with new IFRS accounting standards are gradually lightening. Thus, we expect strong earnings growth of at least 20% y-o-y in 1Q12. Considering that most domestic companies should see lagging earnings momentum until 1Q, Woongjin Coway's high earnings stability, visibility of rental business growth and differentiated competitiveness should allow it to rise above its peers in 1Q.

Overbearing anxiety over stake sale

On February 6, Woongjin Holdings announced that it will sell its 31% stake in Woongjin Coway so as to secure its financial soundness. Woongjin Coway's cosmetics business, water treatment business and subsidiaries, including Woongjin Chemical, may be excluded from the sale. Woongjin Holdings will select potential acquirers in March and finish its sale in June. Woongjin Coway's core value lies in its 13,000-employee strong sales network that services 3.4mn households. The stake sale should allow Woongjin Coway to lower its risk, which, alongside uncertainty in new businesses (i.e., those included in the stake sale), has been a limiting factor for stock price momentum. The company's profits are expected to improve with the sale, improving OPM by 2ppt (14% to 16%).

Key Data

KOSPI	2,025.32
52-Week High/Low(W)	41,800 / 31,700
Market Cap (W bn/ US\$ mn)	2,938 / 2,615
Issued Cap ('000)	77,124.8
60-D avg. Daily Vol. ('000)	173.0
60-D avg. Daily Value (W bn)	6.6
Foreign Ownership (%)	51.85

Reinstate with BUY recommendation and W46,000 TP

We reinstate coverage with a BUY recommendation and TP of W46,000. Our TP is based on 12-m fwd PE 15.8x. Sales drivers include 1) a continual rise in demand for environmental home appliances both domestic and overseas, 2) stable growth and high cash flow due to over 50% market share in domestic environment home appliance rental business, 3) the continual development of various environmental-home-appliance and houseware items coupled with strong sales power covering 3.4mn households and 4) expansion into overseas markets. We forecast 2012 sales of W1,893bn (+10.7% y-o-y) and OP of W275bn (+13.5% y-o-y). The stock is trading at a historical low of 12-m fwd PE 13.0x. Considering accelerating earnings momentum and premiums derived from the upcoming stake sale, there is sufficient upside potential for Woongjin Coway's stock. We believe the stake is worth W3.8tn (W50,000 per share), assuming the sell off only involves the environmental home appliance arm (including water and air purifier rental businesses). This number is based on 12-m fwd PE 18.0x (3.0x added to current PE 15.0x for environmental home appliance division).

Table 1. 4Q earnings results

							(Wbn)
	4Q11P		3Q11	4Q10		Market consensus	
	Results	Results	Growth (q-o-q)	Results	Growth (y-o-y)	Results	Difference
Results(Wbn)							
Sales	444	430	3.2	399	11.3	439	1.1
OP	63	61	2.2	53	18.1	60	4.2
PTP	55	65	-14.5	50	10.9	60	-7.9
NP	47	49	-4.2	37	28.6	49	-4.6
Ratio (%)							
OPM	14.1	14.3		13.3		13.7	
PTPM	12.4	15.0		12.5		13.7	
NPM	10.6	11.4		9.2		11.2	

Note: K-IFRS unconsolidated

Source: company data, FnGuide, Hana Daetoo Securities

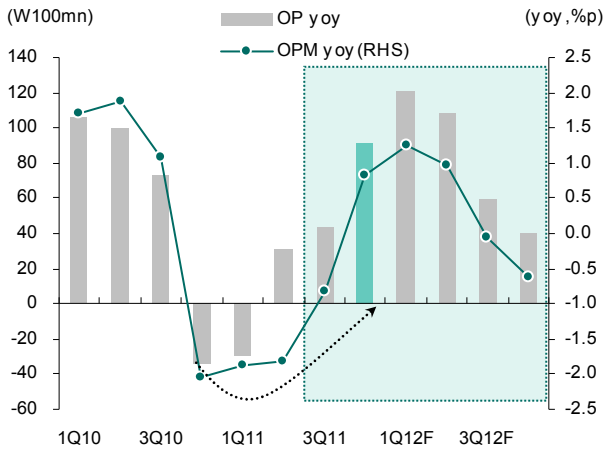
Table 2. Quarterly earnings forecast

										(Wbn)
	1Q11	2Q11	3Q11	4Q11	2011	1Q12F	2Q12F	3Q12F	4Q12F	2012
Sales	400	436	430	444	1,710	446	480	473	494	1,893
Rental	288	300	306	313	1,206	317	324	331	343	1,315
Membership	39	40	41	41	161	42	42	43	44	171
Lump-sum	32	39	36	32	138	38	46	43	38	165
Cosmetics	17	18	18	15	68	21	21	21	18	82
Exports	18	23	25	32	98	22	27	29	39	118
Water treatment and others	5	17	6	11	38	6	18	6	12	41
OP	56	62	61	63	242	68	73	67	67	275
PTP	50	55	65	55	225	63	67	62	61	253
NP	39	42	49	47	177	49	52	49	47	197
OPM(%)	14.1	14.2	14.3	14.1	14.2	15.4	15.1	14.2	13.5	14.5
PTPM(%)	12.6	12.6	15.0	12.4	13.2	14.1	14.0	13.1	12.3	13.3
NPM(%)	9.7	9.7	11.4	10.6	10.4	11.0	10.9	10.2	9.6	10.4

Note: K-IFRS unconsolidated

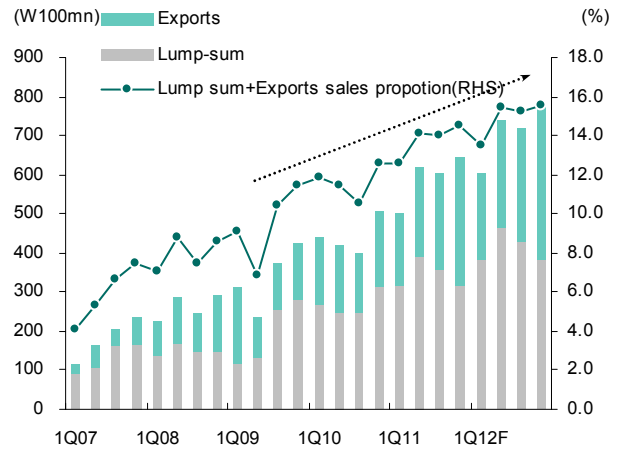
Source: company data, Hana Daetoo Securities

Figure 1. Continual earnings turnaround since 4Q10



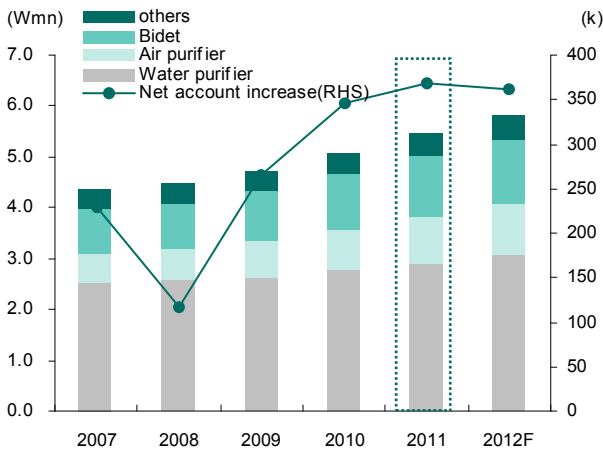
Source: company data, Hana Daetoo Securities

Figure 2. Expected sales drivers: OEM exports to China/Southeast Asia and lump-sum sales



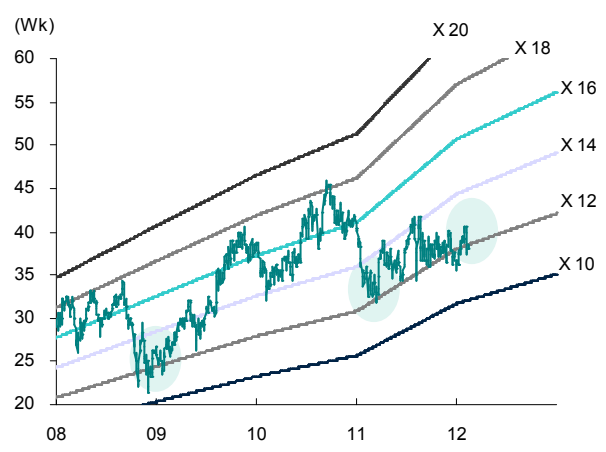
Source: company data, Hana Daetoo Securities

Figure 3. Earnings momentum led by net increase in customer accounts



Source: company data, Hana Daetoo Securities

Figure 4. PE band; sufficient upside potential



Source: Bloomberg, Hana Daetoo Securities

Table 3. Earnings forecast and valuation

(Wbn)

	2010	2011F	2012F	2013F	2014F	2015F
Sales	1,519	1,710	1,893	2,081	2,260	2,440
Rental	1,106	1,206	1,315	1,426	1,534	1,642
Membership	148	161	171	183	193	204
Lump-sum	107	138	165	194	221	246
Cosmetics	23	68	82	94	101	106
Exports	69	98	118	140	165	193
Water treatment and others	22	38	41	44	47	49
OP	229	242	275	305	331	354
PTP	237	225	253	287	317	344
NP	177	177	197	224	247	268
NP of controlling interest (consolidated)	177	185	220	251	279	303
Fair market cap	28,327	29,532	35,171	37,672	39,054	39,355
No of shares out (k)	77,125	77,125	77,125	77,125	77,125	77,125
Fair price (Wk)	36,729	38,291	45,602	48,845	50,638	51,027
Fair PER(x)	16.0	16.0	16.0	15.0	14.0	13.0
EPS(W)	2,296	2,393	2,850	3,256	3,617	3,925
OPM(%)	15.1	14.2	14.5	14.7	14.6	14.5
Sales (YoY,%)	7.6	12.6	10.7	9.9	8.6	7.9
OP (YoY,%)	12.0	6.0	13.5	10.9	8.4	6.9
NP (YoY,%)	15.5	0.0	11.2	13.6	10.4	8.5

Note: K-IFRS unconsolidated, NP of controlling interest includes the results of subsidiaries

Source: company data, Hana Daetoo Securities

Table 4. Woongjin Coway's business premium computation

(Wbn)

Category	2012F	2013F	Note	Shareholding (%)
Environmental home appliances (A)	3,548	3,994		
PTP	260	293	Whole business- (cosmetics + water treatment)	
Tax	24.2%	24.2%		
NP of controlling interest	197	222		
Fair PE	18.0	18.0	Fair PE 18.0x (PE 15.0 plus 3.0x premium)	
Subsidiaries (B)	199	199		
Chinese operations	27	27	Net asset value excluding operating value	100
Woongjin Chemical	172	172	Reflects 80% of market cap	45.24
Current market cap	475	475		
Fair market cap (A+B)	3,748	4,193		
No. of shares outstanding (k)	77,125	77,125		
Fair price I (W)	48,590	54,370		
Fair price II (W)	49,553		Weighted average	

Note: K-IFRS unconsolidated; assumes exclusion of cosmetics/water treatment/Woongjin Chemical

Source: company data, Hana Daetoo Securities

Summary financials

Income Statement	(W bn)				
	2010	2011	2012F	2013F	2014F
Turnover	1,519.1	1,709.9	1,892.8	2,080.9	2,260.3
Cost of goods sold	494.1	549.5	618.7	687.7	756.4
Gross profit	1,025.1	1,160.4	1,274.1	1,393.2	1,503.9
SG&A expense	796.3	883.2	961.8	1,047.2	1,128.7
Adj. Operating profit	228.8	277.2	312.3	346.0	375.2
Other operating P/L	0.0	(34.7)	(37.0)	(40.8)	(44.3)
Operating profit	228.8	242.5	275.2	305.3	330.9
Financial income	(14.1)	(24.3)	(24.3)	(19.3)	(14.9)
P/L in associates, subsidiaries and etc	22.1	0.0	0.0	0.0	0.0
Others non-operating P/L	(0.3)	7.2	1.6	1.0	0.8
Pretax profit	236.5	225.4	252.5	286.9	316.8
Tax	59.5	48.2	55.6	63.1	69.7
Profit from continued operations	177.0	177.1	197.0	223.8	247.1
Profit from discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	177.0	177.1	197.0	223.8	247.1
Net profit of non controlling interest	0.0	0.0	0.0	0.0	0.0
Net profit of controlling interest	177.0	177.1	197.0	223.8	247.1
NOPAT	192.0	200.6	221.0	244.7	265.5
EBITDA	404.4	419.9	468.8	521.2	567.9
Growth (%)					
Sales	7.6	12.6	10.7	9.9	8.6
EBITDA	11.9	3.8	11.6	11.2	9.0
Operating profit	12.0	21.1	12.7	10.8	8.5
NP of controlling interest	15.5	0.0	11.2	13.6	10.4
EPS	13.4	0.0	11.2	13.6	10.4
Profitability (%)					
Gross profit margin	67.5	67.9	67.3	67.0	66.5
EBITDA margin	26.6	24.6	24.8	25.0	25.1
OP margin	15.1	16.2	16.5	16.6	16.6
Margin of continued operations					

Financial Indicators

Financial Indicators	2010	2011	2012F	2013F	2014F
	Per share value (W)				
EPS	2,296	2,296	2,554	2,902	3,204
BPS	9,946	11,205	12,750	14,643	16,837
CFPS	3,875	4,140	4,818	5,553	6,249
EBITDAPS	5,243	5,444	6,078	6,757	7,363
SPS	19,697	22,170	24,542	26,981	29,307
DPS	1,050	1,050	1,050	1,050	1,050
Indicators (x)					
PER	15.9	16.6	14.9	13.1	11.9
PBR	3.7	3.4	3.0	2.6	2.3
PCFR	9.4	9.2	7.9	6.9	6.1
EV/EBITDA	7.6	7.6	6.8	6.0	5.4
PSR	1.9	1.7	1.6	1.4	1.3
Ratios (%)					
ROE	23.9	21.7	21.3	21.2	20.4
ROA	13.4	12.2	12.0	12.0	11.6
ROIC	20.5	19.3	19.6	20.0	20.1
Liabilities/equity	86.1	84.6	83.7	81.7	80.0
Net debt/equity	36.0	29.9	23.5	16.3	8.2
Interest coverage (x)	13.0	11.9	11.9	11.5	10.7

Source: Woongjin Coway, Hana Daetoo Securities

Country Aggregates

Country Aggregates	PER(x)			EPS growth (%)	
	2011	2012	12M Fwd	2011	2012
Korea	9.9	8.7	8.6	14.1	13.1
Emerging Market	10.7	9.7	9.6	10.0	9.6
World	12.5	11.3	11.2	9.1	10.3

Source: MSCI I/B/E/S Aggregates

Balance Sheet	(W bn)				
	2010	2011	2012F	2013F	2014F
Current assets	438.8	541.1	667.8	822.4	1,021.7
Financial assets	57.4	112.8	192.1	298.3	451.1
Cash & cash equivalent	56.4	63.5	70.3	77.3	84.0
Accounts receivable	222.8	250.8	277.6	305.2	331.5
Inventories	73.2	81.4	91.7	101.9	112.1
Others	85.4	96.1	106.4	117.0	127.1
Fixed assets	925.3	991.3	1,076.6	1,168.3	1,254.8
Investment assets	195.4	195.4	195.4	195.4	195.4
Financial assets	3.1	3.1	3.1	3.1	3.1
Tangible assets	441.6	516.3	592.5	670.8	741.9
Intangible assets	154.0	145.2	142.2	143.2	146.8
Others	134.4	134.4	146.4	158.8	170.7
Total assets	1,364.1	1,532.3	1,744.4	1,990.7	2,276.5
Current liabilities	384.3	460.0	492.0	533.0	586.9
Financial liabilities	104.5	151.3	147.5	152.7	171.0
Accounts payable	182.1	202.5	228.0	253.4	278.7
Others	97.8	106.2	116.6	126.9	137.2
Long-term liabilities	246.8	242.2	303.0	362.4	425.1
Financial LT liabilities	219.8	212.8	270.7	327.2	386.9
Others	27.0	29.4	32.3	35.2	38.2
Total liabilities	631.1	702.1	795.0	895.4	1,012.0
Controlling interest	733.0	830.2	949.3	1,095.3	1,264.6
Capital stock	40.7	40.7	40.7	40.7	40.7
Capital surplus	135.6	135.6	135.6	135.6	135.6
Capital adjustment	(34.0)	(34.0)	(34.0)	(34.0)	(34.0)
Other comprehensive income	0.0	0.0	0.0	0.0	0.0
Retained earnings	590.8	688.0	807.1	953.1	1,122.3
Non controlling interest	0.0	0.0	0.0	0.0	0.0
Total equity	733.0	830.2	949.3	1,095.3	1,264.6
Net financial liabilities					

Cash Flow (W bn)

Cash Flow	2010	2011	2012F	2013F	2014F
	Operating cash flow	313.8	342.8	395.6	449.2
Net profit	177.0	177.1	197.0	223.8	247.1
Chg in non-cash items	207.3	272.8	307.7	343.9	376.1
Depreciation	153.8	170.2	192.0	214.9	236.1
Forex gains (losses)	(0.2)	0.0	0.0	0.0	0.0
Equity method gains (losses)	(22.1)	0.0	0.0	0.0	0.0
Others	75.9	102.6	115.7	129.0	139.9
Chg in working capital	(70.6)	(43.1)	(38.6)	(42.1)	(42.6)
Investment cash flow	(296.4)	(297.4)	(367.5)	(428.4)	(496.3)
Chg in invt assets	(68.5)	(48.3)	(72.5)	(99.2)	(146.1)
Chg in tangible assets	(211.9)	(223.9)	(247.7)	(272.6)	(286.0)
Others	(16.1)	(25.2)	(47.3)	(56.6)	(64.2)
Financing cash flow	(20.4)	(38.2)	(21.3)	(13.8)	2.6
Chg in bonds	54.5	39.8	54.1	61.6	78.1
Recapitalization	0.0	0.0	0.0	0.0	0.0
Cash dividends	1.9	1.9	2.4	2.4	2.4
Others	(76.8)	(79.9)	(77.8)	(77.8)	(77.8)
Chg in cash	(7.4)	7.2	6.8	7.0	6.7
Unlevered CFO	298.8	319.3	371.6	428.3	482.0
Free Cash Flow	74.3	119.0	127.1	143.3	171.0

Sector Aggregates

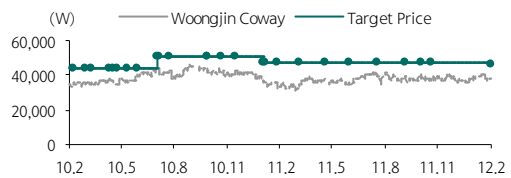
Sector Aggregates	PER(x)			EPS growth (%)	
	2011	2012	12M Fwd	2011	2012
Korea	11.6	9.9	9.8	(47.3)	17.1
Emerging Market	17.3	14.8	13.1	2.5	17.0
World	17.9	15.7	15.4	8.3	14.2

* MSCI Retailing Industry Group

Rating & target price changes

Company	Date	Rating	Target Price (W)
Woongjin Coway	12.2.16	BUY	46,000
Analyst changed			
	11.11.4	BUY	47,000
	11.10.17	BUY	47,000
	11.9.21	BUY	47,000
	11.8.4	BUY	47,000
	11.6.14	BUY	47,000
	11.5.4	BUY	47,000
	11.3.22	BUY	47,000
	11.2.10	BUY	47,000
	11.1.20	BUY	47,000
	11.1.19	BUY	47,000
	10.11.30	BUY	51,000
	10.11.5	BUY	51,000
	10.10.13	BUY	51,000
	10.10.12	BUY	51,000
	10.8.9	BUY	51,000
	10.7.20	BUY	51,000
	10.7.19	BUY	51,000
	10.6.14	BUY	44,000
	10.5.27	BUY	44,000
	10.5.9	BUY	44,000
	10.5.3	BUY	44,000
	10.4.25	BUY	44,000
	10.3.27	BUY	44,000
	10.3.16	BUY	44,000
	10.2.21	BUY	44,000

Share price performance vs. target price



Hana Research Center Rating Definitions

Stock ratings for the next twelve months

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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