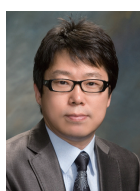


May 8, 2012 Company Analysis



Woongjin Coway (021240)

BUY (maintain)



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Sound Earnings to Boost Enterprise Value

- Uncertainties over sale issue to dissipate
- 1Q12 OP to rise 14%YoY
- Stable profit growth to continue in 2Q12 as well
- Preferred bidders for the sale to be selected after May 14

Uncertainties over sale to dissipate

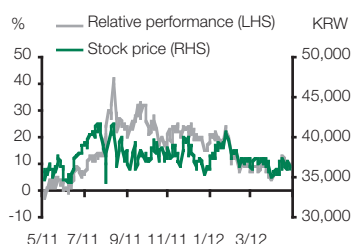
Woongjin Coway's share price has long drifted in a boxed range. This is because, despite the company's solid fundamentals, Woongjin Group's decision to sell Woongjin Coway spawned concerns over a possible management vacuum in the company. But the selection of a preferred bidder will likely dissipate uncertainties after mid-May, which could spur share price momentum for the company.

Over the short term, the share price could fluctuate according to bidding prices. However, it should be high time to accumulate the shares in view of: 1) expected efforts of new shareholders to improve enterprise value; and 2) an attractive valuation (2012 PER of 13x).

1Q12 OP to rise 14%YoY

1Q12 gross sales and OP increased 11%YoY and 14%YoY, respectively, matching market consensus. Improved profitability of well-being home appliances and brisk exports to China (Philips bound) offset losses incurred by the cosmetics division (KRW2.7bn). The OP margin improved 0.4%pYoY to 14.6%. Meanwhile, NP climbed only 6%YoY, due to expenses associated with the acquisition of a water treatment company in 4Q11 and a temporary rise in the effective income tax rate.

Current price (May 7)	KRW36,250
Fair value	KRW50,000
Reuters code	021240.KS
Bloomberg code	021240 KS
Industry/Sector	Other Consumer Services
Rating	Overweight
Market cap	USD2.5bn
Ordinary shares issued	77,124,796shrs
Free float	61.2%
KOSPI	1956.44
KOSDAQ	487.01
Avg T/O Vol (60d)	154,089shrs
Avg T/O Val (60d)	USD5.0mn
Foreign ownership	52.3%
3yr CAGR of adj EPS (11-13)	13.1%
Market's 3yr CAGR of adj. EPS	9.7%
52wk high/low	KRW41,800 / KRW34,300
Beta (12M, daily return)	0.5
Major shareholders	WoongJin Holdings etc. 31.0%
Price performance	1M 3M 6M
Absolute	-0.4% -4.6% -2.7%
Relative	3.3% -3.4% -4.5%



FY-end	12/10A	12/11A	12/12F	12/13F	12/14F
(Reporting standard)	(GAAP-P)	(IFRS-C)	(IFRS-P)	(IFRS-P)	(IFRS-P)
OR (KRWbn)	1,519.1	1,824.4	1,890.3	2,067.0	2,247.5
OP (KRWbn)	228.8	233.2	276.1	302.7	344.5
NP (KRWbn)	177.0	167.1	209.7	231.4	238.6
Parent NP (KRWbn)	177.0	167.1	209.7	231.4	238.6
EPS (KRW)	2,294	2,192	2,789	3,077	3,174
Adj. EPS (KRW)	2,294	2,192	2,789	3,077	3,174
PER* (x)	20.0 - 13.6	19.5 - 14.2	13.0	11.8	11.4
PBR (x)	4.1	3.7	3.1	2.7	2.4
EV/EBITDA (x)	8.8	7.3	6.6	6.2	5.6
Div. Yield (%)	2.6	2.9	3.3	3.4	NA
ROE (%)	24.5	22.6	24.1	24.6	22.0
ROIC (%)	22.1	19.7	19.5	21.1	22.0

Source: Company data, Hyundai Securities

For explanations of equity research ratings and disclosures, please refer to the compliance section at the end of this report.

The number of appliances sold (water purifiers, etc.) declined 8%YoY, and new account acquisitions reached only 32,000. However, the sluggish results stemmed from one-off factors: new product launches were pushed off to 2Q12, and marketing priority was placed on shifting long-term rental subscribers into membership subscribers. In fact, new account acquisitions in Apr alone reached 36,000, past the 1Q12 level.

Fig 1: 1Q12 OP increased 14%YoY, matching expectations

(KRWbn)	1Q12P	%YoY	%QoQ	1Q11	4Q11	1Q earnings est.		Diff. (%)	
						HRC	Consensus	HRC	Consensus
OR	442.4	10.6	(0.4)	399.8	444.0	456.2	448.1	(3.0)	(1.3)
OP	64.4	14.0	2.5	56.5	62.8	65.0	65.0	(1.0)	(0.9)
EBT	55.6	10.3	0.7	50.4	55.2	64.7	61.1	(14.0)	(9.0)
NP	41.2	6.4	(12.5)	38.8	47.1	49.0	46.7	(15.9)	(11.7)

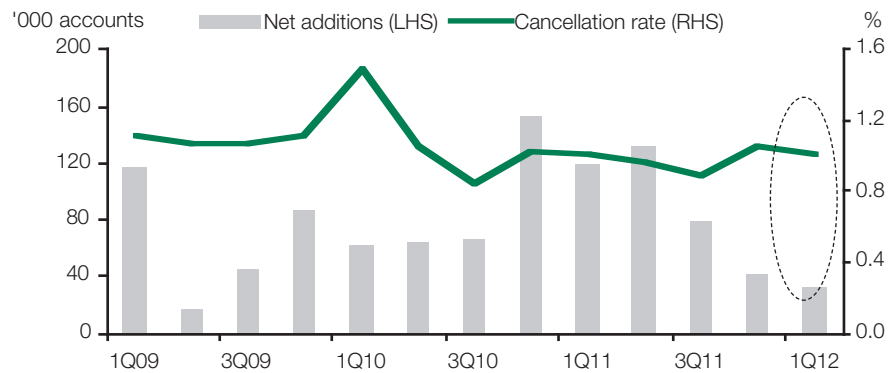
Source: Company data, FnGuide, Hyundai Securities

Fig 2: Robust overseas exports to China (Philips)

(KRWbn)	1Q12	1Q11	4Q11	%YoY	%QoQ
Rental income + lump-sum sales	388	359	386	8.1	0.6
Cosmetics	17	17	15	(3.3)	9.7
Exports	30	18	32	63.5	(7.3)
Others	8	5	11	51.8	(27.8)
Total sales	442	400	444	10.6	(0.4)

Source: Company data

Fig 3: Lackluster 1Q12 sales due to new product carry-over; Apr net additions at 36,000



Source: Company data

Stable profit growth to continue in 2Q12 as well

Sound profit growth seen in 1Q12 is expected to continue in 2Q12 as well, driven by well-being home appliances. Water purifiers will fare well amid new product launches, and a new dehumidifier will also contribute to account expansion. For the new mattress business, the company plans to expand offline stores, following brisk sales in the door-to-door sales channel. The business is expected to contribute to earnings. For the unprofitable cosmetics business, the company intends to enhance earnings via cost control. However, the business will remain a variable to the company's earnings over the short term.

Preferred bidders to be selected after May 14 as expected

Preferred bidders will be selected after Mon, May 14, with the deal reaching its final stage. The bidding for the deal will be completed on Wed, May 9, and three to four preferred bidders will be selected in the following week. After undergoing due diligence, the deal will likely be completed in late Jun or early Jul.

Around 30 strategic and financial investors at home and overseas appear to have expressed interest in the deal, and 30% of them seem to be strategic investors. There will be no barriers for large conglomerates to acquire the water purifier business, since the business is not viewed as encroaching upon the business opportunities and market shares of small/mid-sized companies. Meanwhile, the deal to sell stakes in Woongjin Chemical (008000) is expected to take shape after its 1Q12 results come out.

Profit & Loss					
(KRWbn)	12/10A	12/11A	12/12F	12/13F	12/14F
(Reporting standard)	(GAAP-P)	(IFRS-C)	(IFRS-P)	(IFRS-P)	(IFRS-P)
Operating revenue	1,519.1	1,824.4	1,890.3	2,067.0	2,247.5
Cost of sales	494.1	580.8	615.5	678.9	753.7
Gross profit	1,025.1	1,243.5	1,274.9	1,388.1	1,493.8
SG&A expenses	796.3	955.0	945.8	1,033.4	1,092.3
Other operating income	0.0	(55.3)	(53.0)	(52.0)	(57.0)
Operating profit	228.8	233.2	276.1	302.7	344.5
EBITDA	382.6	448.0	500.3	531.1	571.7
Non-operating accounts	7.7	(15.7)	0.6	2.5	(29.7)
Net financing income	(14.1)	(24.3)	(29.4)	(29.5)	(29.7)
Profit on equity method	22.1	3.4	30.0	32.0	0.0
Net other non-operating income	(0.3)	5.3	0.0	0.0	0.0
Profit before tax	236.5	217.5	276.7	305.2	314.8
Income tax expense	59.5	50.5	67.0	73.9	76.2
Net profit	177.0	167.1	209.7	231.4	238.6
Profit attributable to owners of parent	177.0	167.1	209.7	231.4	238.6
Total comprehensive income	174.3	161.2	209.7	231.4	238.6
TCI, attributable to owners of parent	174.3	161.2	209.7	231.4	238.6
Net exceptional gains	0.0	0.0	0.0	0.0	0.0
Adj. net profit	177.0	167.1	209.7	231.4	238.6

Cash Flow					
(KRWbn)	12/10A	12/11A	12/12F	12/13F	12/14F
Net profit	177.0	167.1	209.7	231.4	238.6
Depreciation & amortization	153.8	159.5	171.2	176.4	170.2
Other non-cash adjustments	53.5	151.8	51.7	58.4	76.2
Investments in working capital	(70.6)	(120.8)	(41.8)	(20.6)	(12.5)
Other operating cash flow	0.0	(43.1)	(74.9)	(73.9)	(76.2)
Cash flow from operating activities	313.8	314.5	315.9	371.7	396.3
Capital expenditure	(211.9)	(302.8)	(230.0)	(230.0)	(230.0)
Investments in intangibles	(14.7)	(6.8)	(15.0)	(15.0)	(15.0)
Changes in current financial assets	(3.3)	(0.5)	(10.0)	(3.6)	(3.6)
Changes in investment assets	(65.1)	(7.8)	0.0	0.0	0.0
Other investment cash flow	(1.3)	(6.4)	7.0	0.0	0.0
Cash flow from investing activities	(296.4)	(324.2)	(248.0)	(248.6)	(248.6)
Proceeds from (repayments of) debt	54.5	208.7	0.0	55.0	0.0
Changes in equity	0.0	(73.5)	0.0	0.0	0.0
Dividends paid	(76.8)	(79.9)	(77.8)	(90.2)	(94.0)
Other financing cash flow	1.9	(24.8)	33.2	(69.5)	(69.7)
Cash flow from financing activities	(20.4)	30.5	(44.6)	(104.7)	(163.7)
Other cash flow	(4.3)	2.8	0.0	0.0	0.0
Increase/decrease in cash	(7.4)	23.6	23.3	18.4	(16.0)
Cash and cash equivalents at FYB	63.7	74.6	98.2	121.5	139.9
Cash and cash equivalents at FYE	56.3	98.2	121.5	139.9	123.9
Gross operating cash flow	328.2	351.7	372.5	405.8	431.3
Free cash flow	30.7	(74.9)	82.0	140.3	173.7
Net cash flow	(63.5)	(181.8)	(55.9)	30.5	44.0
Net cash (net debt)	(264.0)	(445.8)	(501.7)	(471.1)	(427.1)

Operating Statistics & Ratios					
(%)	12/10A	12/11A	12/12F	12/13F	12/14F
OR growth	7.6	NA	NA	9.3	8.7
OP growth	12.0	NA	NA	9.6	13.8
EBITDA growth	8.6	NA	NA	6.2	7.6
NP growth of parent	15.5	(5.6)	25.6	10.3	3.1
Adj. NP growth	15.5	(5.6)	25.6	10.3	3.1
OP margin	15.1	12.8	14.6	14.6	15.3
EBITDA margin	25.2	24.6	26.5	25.7	25.4
NP margin	11.7	9.2	11.1	11.2	10.6
Adj. NP margin	11.7	9.2	11.1	11.2	10.6

Note: Adj. EPS = [(Adjusted NP - preferred share dividends) + (after-tax dilution adjustment)] / (diluted avg. number of total ordinary shares outstanding)
 Adjusted 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

Statement of financial position					
(KRWbn)	12/10A	12/11A	12/12F	12/13F	12/14F
(Reporting standard)	(GAAP-P)	(IFRS-C)	(IFRS-P)	(IFRS-P)	(IFRS-P)
Cash and cash equivalents	56.3	98.2	121.5	139.9	123.9
Current financial assets	3.9	2.2	6.8	9.0	9.0
Trade receivables	207.3	205.3	220.0	230.0	240.0
Inventories	73.2	103.7	82.2	87.0	92.0
Other current assets	238.1	163.2	267.6	282.0	300.0
Current assets	578.8	572.6	698.1	747.9	764.9
Investment assets	204.3	229.0	350.0	350.0	350.0
Property, plant and equipment	454.2	568.9	626.8	716.8	794.8
Intangible assets	133.6	183.2	134.0	134.0	134.0
Deferred tax assets	5.2	0.7	0.0	0.0	0.0
Other non-current assets	63.4	70.4	63.4	63.4	63.4
Non-current assets	860.7	1,052.1	1,174.2	1,264.2	1,342.3
Total assets	1,439.5	1,624.7	1,872.4	2,012.1	2,107.1
Trade payables	38.3	51.9	43.1	45.5	50.0
Short-term financial liabilities	104.5	278.8	330.0	320.0	290.0
Current provisions	4.2	6.9	4.3	4.4	4.4
Other current liabilities	294.0	240.7	308.0	314.0	330.0
Current liabilities	441.0	578.3	685.3	683.9	674.4
Non-current financial liabilities	219.8	267.3	300.0	300.0	270.0
Non-current provisions	0.1	0.7	0.1	0.1	0.0
Provisions for employee benefits	6.7	14.6	10.0	10.0	0.0
Deferred tax liabilities	0.0	8.6	0.0	0.0	0.0
Other non-current liabilities	7.2	17.2	7.2	7.2	7.2
Non-current liabilities	233.8	308.5	317.3	317.3	277.2
Total liabilities	674.7	886.8	1,002.6	1,001.2	951.6
Issued capital	40.7	40.7	40.7	40.7	40.7
Share premium	140.0	126.3	126.3	126.3	126.3
Other equity interest	(43.0)	(98.8)	(98.8)	(98.8)	(98.8)
Accumulated other comprehensive income	(2.7)	(5.9)	(5.9)	(5.9)	(5.9)
Retained earnings	629.8	675.7	807.6	948.7	1,093.3
Equity attributable to owners of parent	764.8	737.9	869.8	1,010.9	1,155.6
Non-controlling interests	0.0	0.0	0.0	0.0	0.0
Total equity	764.8	737.9	869.8	1,010.9	1,155.6
Total Liab. and equity	1,439.5	1,624.7	1,872.4	2,012.1	2,107.1

Per-share Performance					
(KRW)	12/10A	12/11A	12/12F	12/13F	12/14F
EPS	2,294	2,192	2,789	3,077	3,174
Adj. EPS	2,294	2,192	2,789	3,077	3,174
BPS	9,907	9,813	11,567	13,444	15,368
SPS	19,688	23,943	25,139	27,489	29,889
GCFPS	4,253	4,615	4,953	5,397	5,736
DPS	1,050	1,050	1,200	1,250	0
3yr CAGR of adj. EPS	11.3	10.3	13.1	7.1	NA

Shareholder Value & Financial Structure					
(%)	12/10A	12/11A	12/12F	12/13F	12/14F
ROE	24.5	22.6	24.1	24.6	22.0
ROA	14.1	11.5	12.4	13.1	12.7
ROIC	22.1	19.7	19.5	21.1	22.0
WACC	8.6	9.8	9.1	8.7	8.5
ROIC/WACC (x)	2.6	2.0	2.1	2.4	2.6
Economic profit (KRWbn)	109.9	111.4	112.6	139.8	163.7
Total liab./equity	88.2	120.2	115.3	99.0	82.3
Net debt/equity	34.5	60.4	57.7	46.6	37.0
Interest coverage (x)	21.7	17.0	16.8	17.8	19.1

- Woongjin Coway: The author of this report made visits to Woongjin Coway's China subsidiary with expenses covered by the company. Hyundai Securities has not disclosed the material contained in this report to any institutional investor or third party prior to its publication. The author(s) confirms that the material contained herein correctly represents his/her/their opinion and that it has been prepared without any undue influences or interventions. Hyundai Securities Co., Ltd. or any of its affiliates has not taken part in public offerings of the company(ies) covered in this report for the past 12 months. The author(s) of this report does not have any interest in the company(ies) covered herein.
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 Company: Strong BUY (+30% or more), BUY (+10 - +30%), Marketperform (-10 - +10%), Underperform (-10% or more)
 Strong BUY = 4, BUY = 3, Marketperform = 2, Underperform = 1, Blackout/Universe Exclusion = 0 (Share price --, Fair value ▲, Rating --)
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