



Woongjin Coway (021240)

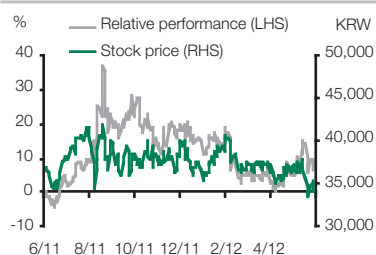
BUY (maintain)



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Current price (May 31)	KRW35,300		
Fair value	KRW50,000		
Reuters code	021240.KS		
Bloomberg code	021240 KS		
Industry/Sector	Other Consumer Services		
Rating	Overweight		
Market cap	USD2.2bn		
Ordinary shares issued	77,124,796shrs		
Free float	61.2%		
KOSPI	1843.47		
KOSDAQ	471.94		
Avg T/O Vol (60d)	141,325shrs		
Avg T/O Val (60d)	USD4.4mn		
Foreign ownership	51.8%		
3yr CAGR of adj EPS (11-13)	13.1%		
Market's 3yr CAGR of adj. EPS	17.5%		
52wk high/low	KRW41,800 / KRW33,600		
Beta (12M, daily return)	0.5		
Major shareholders	WoongJin Holdings etc. 31.0%		
Price performance	1M	3M	6M
Absolute	-5.5%	-8.9%	-10.6%
Relative	1.5%	0.2%	-10.5%



Disposal of Woongjin Chemical Shares to Boost Enterprise Value

- Share price to return to fundamentals
- Disposal of 46% stake worth KRW178.1bn (25% of equity) in Woongjin Chemical to enhance financial structure

Share price to return to fundamentals

The stock price has been bearish after preferred bidders were selected, because only one financial investor expressed interest in the sale of Woongjin Coway, and expectations were lowered that strategic investors may propose a high acquisition price.

Once the company's entire 46.2% stake in Woongjin Chemical (008000) is sold, an after-tax cash inflow of KRW160bn (40% of net debt) is anticipated, and interest expenses are projected to diminish by around KRW8bn (3% of EBT) a year. The stock will display stable price performance given its earnings model that can generate earnings despite a slump in the domestic economy.

Disposal of 46% stake worth KRW178.1bn (25% of equity) in Woongjin Chemical to enhance financial structure

Woongjin Coway decided on May 30 to sell its entire 46.3% stake in Woongjin Chemical to its parent company Woongjin Holdings (016880). The decision was anticipated since it is related to Woongjin Group's intention to sell Woongjin Coway. The selling price, derived at KRW830/share based on a discounted cash flow method, corresponds to a 3% premium to Woongjin Chemical's May 30 close of KRW807 and a 2012 PER of 13x, which looks cheap given Woongjin Chemical's technological prowess in filters and its growth potential.

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	12.7	11.5	11.1
PBR (x)	4.1	3.7	3.1	2.6	2.3
EV/EBITDA (x)	8.8	7.3	6.3	5.9	5.4
Div. Yield (%)	2.6	2.9	3.4	3.5	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 remaining payment for the deal is expected to be completed in Jul and thus KRW45bn of gains from the sale will likely be booked in 3Q12. Given net debt of KRW410bn (total debts of KRW530bn) as of end-1Q12, the company's debt position is expected to improve by around 37%. Given funding costs (about 5%), interest expenses are projected to decrease by around KRW8bn, leading to a rise of KRW100 a share (3% of adjusted EPS for 2012).

Financial structure and EPS to improve thanks to disposal of Woongjin Chemical

(KRWbn)			
Stake disposal (%)	46.3	Funding cost (%)	5.0
Selling price per share (KRW)	830	Annual interest decrease to EBT (% , FY12F)	8.2
Selling price	178.2	Increase in EPS (KRW)	107
Book value	133.3		
Disposal gain	44.9		

Source: Hyundai Securities

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	8.5	8.2	8.1
ROIC/WACC (x)	2.6	2.0	2.3	2.6	2.7
Economic profit (KRWbn)	109.9	111.4	118.3	145.2	169.1
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.
- Rating: Sector: Overweight (+10% or more), Neutral (-10 - +10%), Underweight (-10% or more)
 Company: Strong BUY (+30% or more), BUY (+10 - +30%), Marketperform (-10 - +10%), Underperform (-10% or more)
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