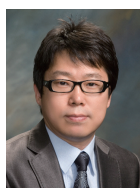




Woongjin Coway (021240)

BUY (maintain)



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Group Risk Easing

- Takeover to enter final stages
- Final sale dependent on MBK's intentions
- Operation slowed in 1H12 due to sale-related issue

Takeover to enter final stages

Woongjin Coway's share price has moved sideways in a boxed range hindered by uncertainties over the takeover buyer and slower-than-expected earnings improvement. With the increased likelihood of either GS Retail or MBK private equity becoming the takeover buyer, however, share price momentum will be raised by eased group risk and normalized operations in 2H12.

Final sale dependent on MBK's intentions

It has been reported GS Retail (007070, BUY) was selected as the final bidder for Woongjin Coway (021240, BUY). However, given that price negotiations are possible due to the nature of the deal, further intentions by MBK private equity fund to takeover Woongjin Coway will be the main variable. GS's takeover is not written in stone as well. In consideration of MBK giving up its bid for Himart and turning its attention to Woongjin Coway, the takeover price is likely to go up.

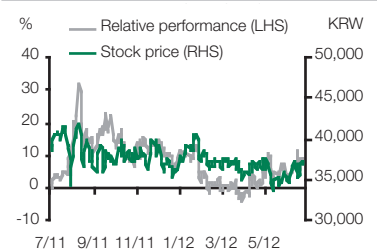
Operation slowed in 1H12 due to sale-related issue

Woongjin Coway's earnings improvement in 2Q12 looks to be lower than expected burdened by sluggishness in water treatment and cosmetics along with ads for new small-sized water purifiers. However, 2H12 earnings should improve over 1H12 as small-sized water purifiers are showing brisk sales. With a faltering growth trend in cosmetics stemming from a downturn in the economy and sale-related issues, we advise investors to monitor the trend in 2H12.

Current price (Jul 6)	KRW37,000
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	1858.2
KOSDAQ	497.21
Avg T/O Vol (60d)	150,573shrs
Avg T/O Val (60d)	USD4.7mn
Foreign ownership	51.4%

3yr CAGR of adj EPS (11-13)	13.1%
Market's 3yr CAGR of adj. EPS	17.4%
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	6.6%	1.6%	1.9%
Relative	3.4%	11.0%	1.1%



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	272.1	302.7	344.5
NP (KRWbn)	177.0	167.1	206.7	231.4	238.6
Parent NP (KRWbn)	177.0	167.1	206.7	231.4	238.6
EPS (KRW)	2,294	2,192	2,749	3,077	3,174
Adj. EPS (KRW)	2,294	2,192	2,749	3,077	3,174
PER* (x)	20.0 - 13.6	19.5 - 14.2	13.5	12.0	11.7
PBR (x)	4.1	3.7	3.2	2.8	2.4
EV/EBITDA (x)	8.8	7.3	6.7	6.3	5.7
Div. Yield (%)	2.6	2.9	3.2	3.4	NA
ROE (%)	24.5	22.6	23.8	24.7	22.1
ROIC (%)	22.1	19.7	19.2	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.

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	946.8	1,033.4	1,092.3
Other operating income	0.0	(55.3)	(56.0)	(52.0)	(57.0)
Operating profit	228.8	233.2	272.1	302.7	344.5
EBITDA	382.6	448.0	499.3	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	272.7	305.2	314.8
Income tax expense	59.5	50.5	66.0	73.9	76.2
Net profit	177.0	167.1	206.7	231.4	238.6
Profit attributable to owners of parent	177.0	167.1	206.7	231.4	238.6
Total comprehensive income	174.3	161.2	206.7	231.4	238.6
TCI, attributable to owners of parent	174.3	161.2	206.7	231.4	238.6
Net exceptional gains	0.0	0.0	0.0	0.0	0.0
Adj. net profit	177.0	167.1	206.7	231.4	238.6

Cash Flow					
(KRWbn)	12/10A	12/11A	12/12F	12/13F	12/14F
Net profit	177.0	167.1	206.7	231.4	238.6
Depreciation & amortization	153.8	159.5	171.2	176.4	170.2
Other non-cash adjustments	53.5	151.8	50.8	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)	(74.0)	(73.9)	(76.2)
Cash flow from operating activities	313.8	314.5	312.9	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	20.2	18.4	(16.0)
Cash and cash equivalents at FYB	63.7	74.6	98.2	118.5	136.8
Cash and cash equivalents at FYE	56.3	98.2	118.5	136.8	120.9
Gross operating cash flow	328.2	351.7	369.4	405.8	431.3
Free cash flow	30.7	(74.9)	78.9	140.3	173.7
Net cash flow	(63.5)	(181.8)	(58.9)	30.5	44.0
Net cash (net debt)	(264.0)	(445.8)	(504.7)	(474.2)	(430.1)

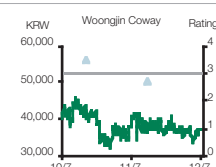
Operating Statistics & Ratios					
(%)	12/10A	12/11A	12/12F	12/13F	12/14F
OR growth	7.6	NA	NA	9.3	8.7
OP growth	12.0	NA	NA	11.2	13.8
EBITDA growth	8.6	NA	NA	6.4	7.6
NP growth of parent	15.5	(5.6)	23.7	11.9	3.1
Adj. NP growth	15.5	(5.6)	23.7	11.9	3.1
OP margin	15.1	12.8	14.4	14.6	15.3
EBITDA margin	25.2	24.6	26.4	25.7	25.4
NP margin	11.7	9.2	10.9	11.2	10.6
Adj. NP margin	11.7	9.2	10.9	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	118.5	136.8	120.9
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	695.1	744.8	761.9
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	1,869.4	2,009.1	2,104.1
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	804.5	945.6	1,090.3
Equity attributable to owners of parent	764.8	737.9	866.8	1,007.9	1,152.5
Non-controlling interests	0.0	0.0	0.0	0.0	0.0
Total equity	764.8	737.9	866.8	1,007.9	1,152.5
Total Liab. and equity	1,439.5	1,624.7	1,869.4	2,009.1	2,104.1

Per-share Performance					
(KRW)	12/10A	12/11A	12/12F	12/13F	12/14F
EPS	2,294	2,192	2,749	3,077	3,174
Adj. EPS	2,294	2,192	2,749	3,077	3,174
BPS	9,907	9,813	11,527	13,404	15,327
SPS	19,688	23,943	25,139	27,489	29,889
GCFPS	4,253	4,615	4,913	5,397	5,736
DPS	1,050	1,050	1,200	1,250	0
3yr CAGR of adj. EPS	10.8	10.3	13.1	7.6	NA

Shareholder Value & Financial Structure					
(%)	12/10A	12/11A	12/12F	12/13F	12/14F
ROE	24.5	22.6	23.8	24.7	22.1
ROA	14.1	11.5	12.3	13.1	12.7
ROIC	22.1	19.7	19.2	21.1	22.0
WACC	9.7	9.0	7.7	7.4	7.4
ROIC/WACC (x)	2.3	2.2	2.5	2.8	3.0
Economic profit (KRWbn)	101.3	118.1	123.5	152.9	177.0
Total liab./equity	88.2	120.2	115.7	99.3	82.6
Net debt/equity	34.5	60.4	58.2	47.0	37.3
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)
 Strong BUY = 4, BUY = 3, Marketperform = 2, Underperform = 1, Blackout/Universe Exclusion = 0 (Share price --, Fair value ▲, Rating --)
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