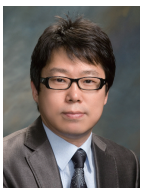


July 25, 2012 Company Analysis



Woongjin Coway (021240)

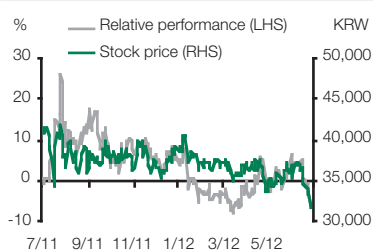
BUY (maintain)



SK Lee Analyst / Retail
82-2-2003-2915 sk.lee@hdsrc.com

Yoonsun Tae RA
82-2-2003-2934 yoonsun.tae@hdsrc.com

Current price (Jul 24)	KRW31,800		
Fair value	KRW50,000		
Reuters code	021240.KS		
Bloomberg code	021240 KS		
Industry/Sector	Other Consumer Services		
Rating	Overweight		
Market cap	USD2.1bn		
Ordinary shares issued	77,124,796shrs		
Free float	61.2%		
KOSPI	1793.93		
KOSDAQ	468.28		
Avg T/O Vol (60d)	151,392shrs		
Avg T/O Val (60d)	USD4.7mn		
Foreign ownership	51.4%		
3yr CAGR of adj EPS (12-14)	13.1%		
Market's 3yr CAGR of adj. EPS	16.8%		
52wk high/low	KRW41,800 / KRW32,100		
Beta (12M, daily return)	0.5		
Major shareholders	WoongJin Holdings etc. 31.0%		
Price performance	1M	3M	6M
Absolute	-12.9%	-11.8%	-19.3%
Relative	-10.3%	-3.5%	-12.3%



KTB PE Selected as Preferred Bidder

- Enhancement of enterprise value to become important
- Woongjin Coway to inject money via SPC establishment with KTB PE
- Ad expenses to erode 2Q12 earnings temporarily; Earnings to grow around 10% in 2H12

Enhancement of enterprise value to become important

Woongjin Coway shares have languished due to the prolonged process of selecting a preferred bidder. With KTB Private Equity (PE) now established as the preferred bidder, disposal-related uncertainties have been cleared. Given that Woongjin Group will retain management control, it is worth noting whether risks stemming from the ownership structure will be resolved and what efforts the current management will make in order to push up the enterprise value.

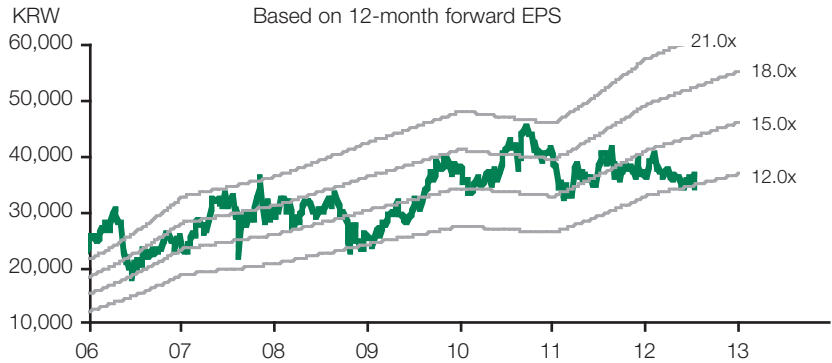
Over the short term, the latest development may come as a disappointment for minority shareholders who have been anticipating a completely different picture. However, compared to a takeover by the Konka Group of China, it is positive that management-related uncertainties will not be an issue and expectations can rise over the payout ratio and shareholder value. The shares are currently trading at a FY2012 PER of 12x, which corresponds to the low end of the historical band. The company's profit model makes the stock defensive to business cycles. As such, additional risks seem limited.

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	268.6	302.7	344.5
NP (KRWbn)	177.0	167.1	204.1	231.4	238.6
Parent NP (KRWbn)	177.0	167.1	204.1	231.4	238.6
EPS (KRW)	2,294	2,192	2,714	3,077	3,174
Adj. EPS (KRW)	2,294	2,192	2,714	3,077	3,174
PER* (x)	20.0 - 13.6	19.5 - 14.2	11.7	10.3	10.0
PBR (x)	4.1	3.7	2.8	2.4	2.1
EV/EBITDA (x)	8.8	7.3	6.0	5.5	5.0
Div. Yield (%)	2.6	2.9	3.8	3.9	NA
ROE (%)	24.5	22.6	23.6	24.8	22.1
ROIC (%)	22.1	19.7	19.0	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.

Fig 1: Shares trading at low-end of historical band



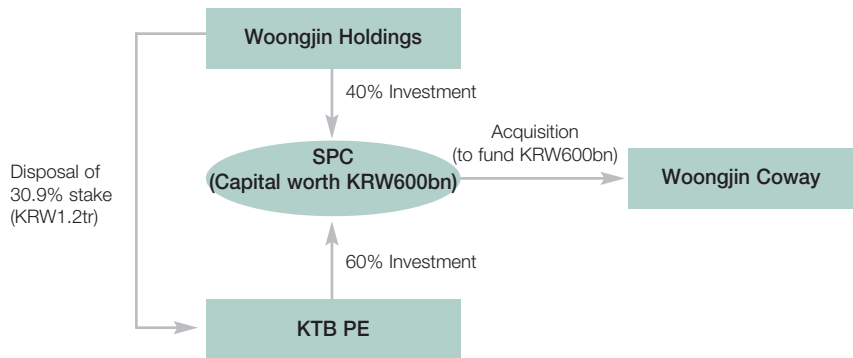
Source: Hyundai Securities

Woongjin Group to inject money via SPC establishment with KTB PE

After much deliberation, Woongjin Group has decided to inject money by establishing an SPC with KTB PE. A 30.9% stake in Woongjin Coway will be sold for KRW1.2tr, of which KRW500bn will be financed by Woongjin Holdings and KTB PE (at a ratio of 40:60) via the SPC. The remaining KRW600bn will be borrowed by the SPC.

Under this structure, Woongjin Group maintains its controlling stake and is able to raise capital as well. As such, before-tax proceeds are projected to be less than KRW1tr, meaning that concerns over Woongjin Group’s financial capacity may continue to linger. For minority shareholders, the company’s management structure will remain intact. However, the dividend payout (48% on average over the past five years) may rise further (dividend yield of more than current 3%), and efforts to boost the enterprise value, such as share buybacks, are likely to follow.

Fig 2: Woongjin Group’s stake disposal and funding plans



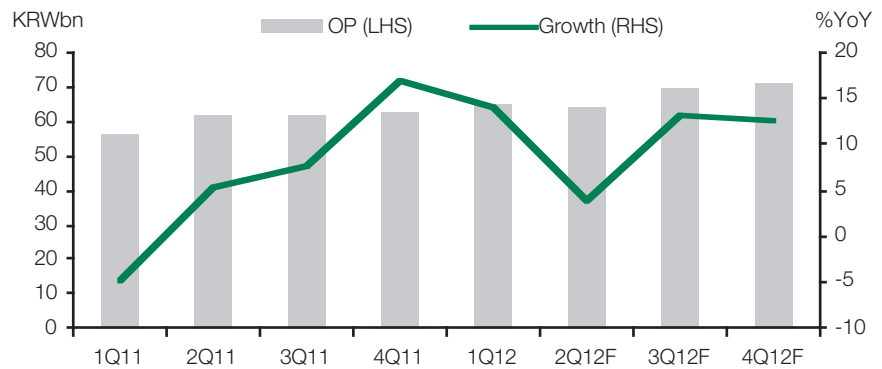
Source: Hyundai Securities

Ad expenses to erode 2Q12 earnings temporarily; Earnings to grow around 10% in 2H12

Account additions appear to reach 130,000 in 2Q12, sharply up from 32,000 in 1Q12, thanks to brisk new product (small water purifier) sales fueled by ads and smooth progress in the mattress business. The cancellation rate also would come in at 1%, slightly down QoQ.

However, the company's OR appears to have grown only 4%YoY due to slower-than-expected improvement in exports and the cosmetics business. OP also seems to have increased just 4%YoY with an OP margin of 14.1% (down 0.1%pYoY) owing to ad expenses and losses in the domestic cosmetics business. OP is projected to jump 13%YoY in 2H12 driven by increasing earnings contributions from newly added accounts and diminishing losses in the domestic cosmetics business.

Fig 3: Profit growth expected to recover by 10% in 2H12



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	950.3	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	268.6	302.7	344.5
EBITDA	382.6	448.0	495.8	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	269.2	305.2	314.8
Income tax expense	59.5	50.5	65.1	73.9	76.2
Net profit	177.0	167.1	204.1	231.4	238.6
Profit attributable to owners of parent	177.0	167.1	204.1	231.4	238.6
Total comprehensive income	174.3	161.2	204.1	231.4	238.6
TCI, attributable to owners of parent	174.3	161.2	204.1	231.4	238.6
Net exceptional gains	0.0	0.0	0.0	0.0	0.0
Adj. net profit	177.0	167.1	204.1	231.4	238.6

Cash Flow					
(KRWbn)	12/10A	12/11A	12/12F	12/13F	12/14F
Net profit	177.0	167.1	204.1	231.4	238.6
Depreciation & amortization	153.8	159.5	171.2	176.4	170.2
Other non-cash adjustments	53.5	151.8	49.9	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)	(73.1)	(73.9)	(76.2)
Cash flow from operating activities	313.8	314.5	310.2	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)	(59.7)
Cash flow from financing activities	(20.4)	30.5	(44.6)	(104.7)	(153.7)
Other cash flow	(4.3)	2.8	0.0	0.0	0.0
Increase/decrease in cash	(7.4)	23.6	17.6	18.4	(6.0)
Cash and cash equivalents at FYB	63.7	74.6	98.2	115.8	134.2
Cash and cash equivalents at FYE	56.3	98.2	115.8	134.2	128.2
Gross operating cash flow	328.2	351.7	366.8	405.8	431.3
Free cash flow	30.7	(74.9)	76.3	140.3	173.7
Net cash flow	(63.5)	(181.8)	(61.6)	30.5	44.0
Net cash (net debt)	(264.0)	(445.8)	(507.4)	(476.8)	(432.8)

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	12.7	13.8
EBITDA growth	8.6	NA	NA	7.1	7.6
NP growth of parent	15.5	(5.6)	22.2	13.4	3.1
Adj. NP growth	15.5	(5.6)	22.2	13.4	3.1
OP margin	15.1	12.8	14.2	14.6	15.3
EBITDA margin	25.2	24.6	26.2	25.7	25.4
NP margin	11.7	9.2	10.8	11.2	10.6
Adj. NP margin	11.7	9.2	10.8	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	115.8	134.2	128.2
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	692.5	742.2	769.2
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	1,866.7	2,006.4	2,111.5
Trade payables	38.3	51.9	43.1	45.5	50.0
Short-term financial liabilities	104.5	278.8	330.0	320.0	300.0
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	684.4
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	961.6
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	801.9	943.0	1,087.6
Equity attributable to owners of parent	764.8	737.9	864.1	1,005.2	1,149.9
Non-controlling interests	0.0	0.0	0.0	0.0	0.0
Total equity	764.8	737.9	864.1	1,005.2	1,149.9
Total Liab. and equity	1,439.5	1,624.7	1,866.7	2,006.4	2,111.5

Per-share Performance					
(KRW)	12/10A	12/11A	12/12F	12/13F	12/14F
EPS	2,294	2,192	2,714	3,077	3,174
Adj. EPS	2,294	2,192	2,714	3,077	3,174
BPS	9,907	9,813	11,492	13,369	15,292
SPS	19,688	23,943	25,139	27,489	29,889
GCFPS	4,253	4,615	4,878	5,397	5,736
DPS	1,050	1,050	1,200	1,250	0
3yr CAGR of adj. EPS	10.3	10.3	13.1	8.1	NA

Shareholder Value & Financial Structure					
(%)	12/10A	12/11A	12/12F	12/13F	12/14F
ROE	24.5	22.6	23.6	24.8	22.1
ROA	14.1	11.5	12.1	13.1	12.7
ROIC	22.1	19.7	19.0	21.1	22.0
WACC	9.7	9.0	7.7	7.5	7.4
ROIC/WACC (x)	2.3	2.2	2.5	2.8	3.0
Economic profit (KRWbn)	101.3	118.1	120.1	152.2	176.3
Total liab./equity	88.2	120.2	116.0	99.6	83.6
Net debt/equity	34.5	60.4	58.7	47.4	37.6
Interest coverage (x)	21.7	17.0	16.7	17.8	19.1

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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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