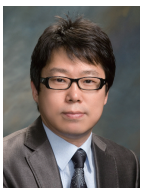


August 13, 2012 Company Analysis

Woongjin Coway (021240)

BUY (maintain)

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Sales Promotion Burden to Dissipate in 2H12

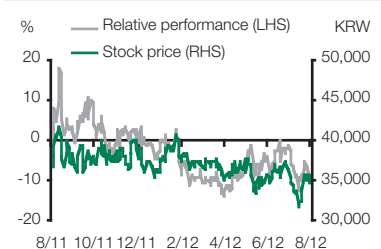
- Share price in 2H12 to reflect earnings improvement momentum
- 2Q12 OP grew 2%YoY on one-off advertising expense burden
- 2H12 OP to increase 10%YoY, fueled by account growth and expense reduction

Share price in 2H12 to reflect earnings improvement momentum

Share price has stalled in a boxed range for a long time on lowered market expectations stemming from possibilities of Woongjin Group continuing to exercise management control over the company despite stake disposal and corporate governance change expectations. However, share price momentum in 2H12 may increase a little, supported by expense structure improvements and enhanced dividend yield (about 3%).

Meanwhile, with the final agreement on the stake disposal with KTB PE to conclude in Oct, uncertainties related to stake disposal of subsidiary Woongjin Chemical will likely subside.

Current price (Aug 9)	KRW35,800		
Fair value	KRW50,000		
Reuters code	021240.KS		
Bloomberg code	021240 KS		
Industry/Sector	Other Consumer Services		
Rating	Overweight		
Market cap	USD2.4bn		
Ordinary shares issued	77,124,796shrs		
Free float	61.2%		
KOSPI	1940.59		
KOSDAQ	474.05		
Avg T/O Vol (60d)	156,534shrs		
Avg T/O Val (60d)	USD4.9mn		
Foreign ownership	51.6%		
3yr CAGR of adj EPS (12-14)	12.1%		
Market's 3yr CAGR of adj. EPS	16.9%		
52wk high/low	KRW41,800 / KRW31,800		
Beta (12M, daily return)	0.5		
Major shareholders	WoongJin Holdings etc. 31.0%		
Price performance	1M	3M	6M
Absolute	-6.1%	-7.7%	-7.6%
Relative	-8.3%	-4.6%	-2.7%

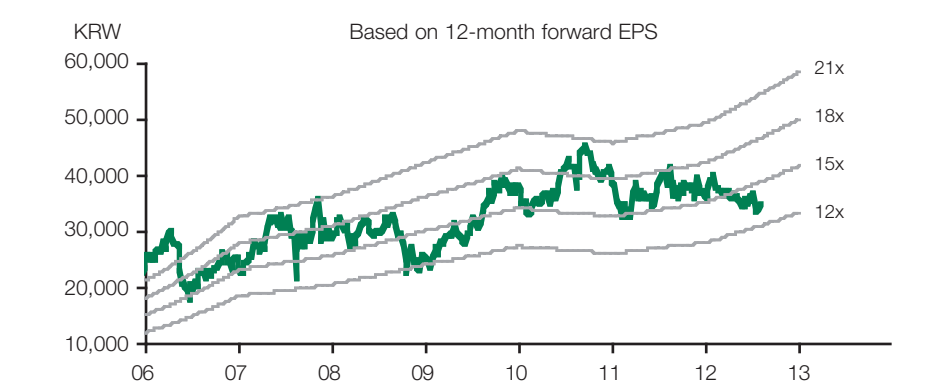


FY-end	12/10A	12/11A	12/12F	12/13F	12/14F
(Reporting standard)	(GAAP-P)	(IFRS-C)	(IFRS-P)	(IFRS-P)	(IFRS-P)
OR (KRWbn)	1,519.1	1,824.4	1,932.6	2,089.0	2,247.0
OP (KRWbn)	228.8	233.2	264.4	297.5	326.9
NP (KRWbn)	177.0	167.1	177.4	210.0	232.1
Parent NP (KRWbn)	177.0	167.1	177.4	210.0	232.1
EPS (KRW)	2,294	2,192	2,359	2,792	3,087
Adj. EPS (KRW)	2,294	2,192	2,359	2,792	3,087
PER* (x)	20.0 - 13.6	19.5 - 14.2	15.2	12.8	11.6
PBR (x)	4.1	3.7	3.2	2.8	2.5
EV/EBITDA (x)	8.8	7.3	6.5	6.1	5.7
Div. Yield (%)	2.6	2.9	3.4	3.5	NA
ROE (%)	24.5	22.6	21.2	23.4	22.6
ROIC (%)	22.1	19.7	18.7	20.7	20.9

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: Share price at low end of historical band



Source: Hyundai Securities

2Q12 OP grew 2%YoY on one-off advertising expense burden

Woongjin Coway’s 2Q12 gross sales and OP grew 2.4%YoY and 2.0%YoY, respectively, in line with consensus. Accounts (rental and lump-sum payment) were solid, growing 19%YoY and 21%QoQ to 407,000. On the other hand, profit improvement was small on one-off advertising expense burdens (KRW5.1bn for new water purifier) and continued losses at the cosmetics division (KRW3.7bn).

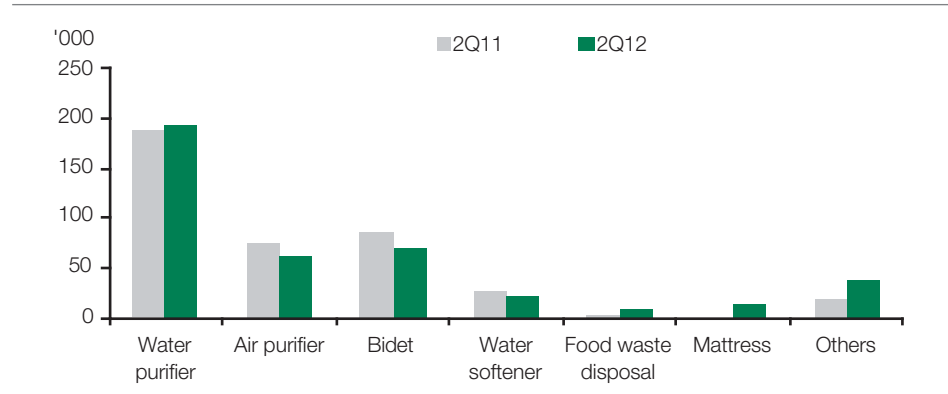
By account, sales of the main product water purifier were robust, rising 42%YoY. On the other hand, air purifier and bidet sales worsened YoY due to base effect and the weather. Meanwhile, the mattress business, which was newly launched in 4Q11, sold 4,500 units per month (up 13%QoQ), keeping up the solid trend.

Fig 2: 2Q12 OP improved as expected, up 2%YoY

(KRWbn)	2Q12P	%YoY	%QoQ	2Q11	1Q12	2Q estimates		Diff. (%)	
						HRC	Consensus	HRC	Consensus
OR	446.4	2.4	0.9	435.9	442.4	455.0	459.8	(1.9)	(2.9)
OP	63.0	2.0	(2.1)	61.8	64.4	64.1	65.6	(1.7)	(4.0)
EBT	56.4	2.5	1.4	55.1	55.6	63.8	61.5	(11.6)	(8.3)
NP	44.0	4.6	6.8	42.1	41.2	48.4	45.8	(9.0)	(3.9)

Source: Company data, FnGuide, Hyundai Securities

Fig 3: water purifier sales brisk in 2Q12



Source: Company data

Fig 4: Strong sales of wellness home appliances contributed to growth

(KRWbn)	2Q12	2Q11	1Q12	%YoY	%QoQ
Rental income + lump-sum sales	399	378	388	5.3	2.8
Cosmetics	16	18	17	(8.9)	(3.0)
Exports	21	23	30	(7.9)	(29.7)
Others	10	17	8	(37.7)	33.3
Total sales	446	436	442	2.4	0.9

Source: Company data

2H12 OP to increase 10%YoY, fueled by account growth and expense reduction

2H12 OP is expected to increase on average 10%YoY. If the export does not markedly increase, sales growth is forecast to stop around 5%. However, the one-off advertising expense looks to shrink after 3Q12 and profit contribution from increased accounts should bolster OP. Key points in the near term are the loss-making domestic cosmetics business and the extent of improvement at the Chinese cosmetics business (in 2Q12, sales up 1%QoQ, OP margin 11.5% (-7.2%pQoQ)), which showed significantly worse-than-expected operations.

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	1,932.6	2,089.0	2,247.0
Cost of sales	494.1	580.8	620.5	678.9	753.7
Gross profit	1,025.1	1,243.5	1,312.1	1,410.1	1,493.3
SG&A expenses	796.3	955.0	991.7	1,060.6	1,109.4
Other operating income	0.0	(55.3)	(56.0)	(52.0)	(57.0)
Operating profit	228.8	233.2	264.4	297.5	326.9
EBITDA	382.6	448.0	491.6	525.9	554.1
Non-operating accounts	7.7	(15.7)	(30.4)	(20.5)	(20.7)
Net financing income	(14.1)	(24.3)	(29.4)	(29.5)	(29.7)
Profit on equity method	22.1	3.4	10.0	15.0	15.0
Net other non-operating income	(0.3)	5.3	(11.0)	(6.0)	(6.0)
Profit before tax	236.5	217.5	234.1	277.0	306.2
Income tax expense	59.5	50.5	56.6	67.0	74.1
Net profit	177.0	167.1	177.4	210.0	232.1
Profit attributable to owners of parent	177.0	167.1	177.4	210.0	232.1
Total comprehensive income	174.3	161.2	177.4	210.0	232.1
TCI, attributable to owners of parent	174.3	161.2	177.4	210.0	232.1
Net exceptional gains	0.0	0.0	0.0	0.0	0.0
Adj. net profit	177.0	167.1	177.4	210.0	232.1

Cash Flow

(KRWbn)	12/10A	12/11A	12/12F	12/13F	12/14F
Net profit	177.0	167.1	177.4	210.0	232.1
Depreciation & amortization	153.8	159.5	171.2	176.4	170.2
Other non-cash adjustments	53.5	151.8	61.4	68.7	59.1
Investments in working capital	(70.6)	(120.8)	(41.8)	(20.6)	(12.5)
Other operating cash flow	0.0	(43.1)	(64.6)	(67.0)	(74.1)
Cash flow from operating activities	313.8	314.5	303.6	367.5	374.8
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)	23.2	(56.7)	(34.7)
Cash flow from financing activities	(20.4)	30.5	(54.6)	(91.9)	(128.7)
Other cash flow	(4.3)	2.8	0.0	0.0	0.0
Increase/decrease in cash	(7.4)	23.6	1.0	27.0	(2.5)
Cash and cash equivalents at FYB	63.7	74.6	98.2	99.2	126.1
Cash and cash equivalents at FYE	56.3	98.2	99.2	126.1	123.6
Gross operating cash flow	328.2	351.7	363.6	401.9	418.0
Free cash flow	30.7	(74.9)	73.1	136.3	160.4
Net cash flow	(63.5)	(181.8)	(88.2)	9.1	37.5
Net cash (net debt)	(264.0)	(445.8)	(534.0)	(524.9)	(487.4)

Operating Statistics & Ratios

(%)	12/10A	12/11A	12/12F	12/13F	12/14F
OR growth	7.6	NA	NA	8.1	7.6
OP growth	12.0	NA	NA	12.5	9.9
EBITDA growth	8.6	NA	NA	7.0	5.4
NP growth of parent	15.5	(5.6)	6.2	18.3	10.6
Adj. NP growth	15.5	(5.6)	6.2	18.3	10.6
OP margin	15.1	12.8	13.7	14.2	14.5
EBITDA margin	25.2	24.6	25.4	25.2	24.7
NP margin	11.7	9.2	9.2	10.1	10.3
Adj. NP margin	11.7	9.2	9.2	10.1	10.3

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	99.2	126.1	123.6
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	675.8	734.1	764.6
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	1,850.1	1,998.4	2,106.9
Trade payables	38.3	51.9	43.1	45.5	50.0
Short-term financial liabilities	104.5	278.8	340.0	360.0	350.0
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	695.3	723.9	734.4
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	1,012.6	1,041.2	1,011.6
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	775.2	895.0	1,033.1
Equity attributable to owners of parent	764.8	737.9	837.5	957.2	1,095.3
Non-controlling interests	0.0	0.0	0.0	0.0	0.0
Total equity	764.8	737.9	837.5	957.2	1,095.3
Total Liab. and equity	1,439.5	1,624.7	1,850.1	1,998.4	2,106.9

Per-share Performance

(KRW)	12/10A	12/11A	12/12F	12/13F	12/14F
EPS	2,294	2,192	2,359	2,792	3,087
Adj. EPS	2,294	2,192	2,359	2,792	3,087
BPS	9,907	9,813	11,137	12,730	14,567
SPS	19,688	23,943	25,701	27,781	29,882
GCFPS	4,253	4,615	4,836	5,345	5,559
DPS	1,050	1,050	1,200	1,250	0
3yr CAGR of adj. EPS	5.3	6.8	12.1	11.6	NA

Shareholder Value & Financial Structure

(%)	12/10A	12/11A	12/12F	12/13F	12/14F
ROE	24.5	22.6	21.2	23.4	22.6
ROA	14.1	11.5	10.8	12.1	12.4
ROIC	22.1	19.7	18.7	20.7	20.9
WACC	9.7	9.0	8.0	7.7	7.6
ROIC/WACC (x)	2.3	2.2	2.3	2.7	2.8
Economic profit (KRWbn)	101.3	118.1	114.5	146.1	161.4
Total liab./equity	88.2	120.2	120.9	108.8	92.4
Net debt/equity	34.5	60.4	63.8	54.8	44.5
Interest coverage (x)	21.7	17.0	16.6	17.6	18.5

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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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