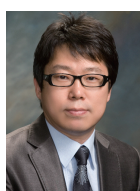




# Woongjin Coway (021240)

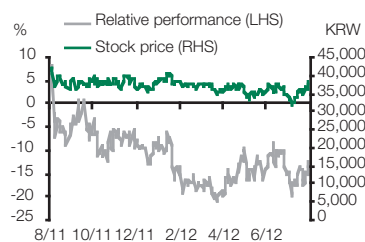
## BUY (maintain)



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Current price (Aug 16)	KRW38,100		
<b>Fair value</b>	<b>KRW50,000</b>		
Reuters code	021240.KS		
Bloomberg code	021240 KS		
Industry/Sector	Other Consumer Services		
Rating	Overweight		
Market cap	USD2.6bn		
Ordinary shares issued	77,124,796shrs		
Free float	61.2%		
KOSPI	1957.91		
KOSDAQ	485.32		
Avg T/O Vol (60d)	154,328shrs		
Avg T/O Val (60d)	USD4.8mn		
Foreign ownership	51.9%		
3yr CAGR of adj EPS (12-14)	12.8%		
Market's 3yr CAGR of adj. EPS	16.3%		
52wk high/low	KRW41,800 / KRW31,800		
Beta (12M, daily return)	0.4		
Major shareholders	WoongJin Holdings etc. 31.0%		
Price performance	1M	3M	6M
Absolute	10.6%	3.0%	-0.4%
Relative	2.7%	-3.2%	1.6%



## Revaluation Possible in Future

- New catalyst adds to upside potential of shares
- MBK Partners becomes new owner
- Very positive for existing shareholders

### New catalyst adds to upside potential of shares

Woongjin Coway shares are rebounding after being depressed by acquisition-related uncertainties. Since MBK Partners signed the final contract to acquire Woongjin Coway, share price momentum should increase. Given the propensity of the acquirer, Woongjin Coway could be restructured with an aim to lift the enterprise value going forward. As a result, the shares could be revaluated going forward.

We advise investors to buy whenever Woongjin Coway undergoes correction in 2H12, since the shares look to level up due to earnings improvement (stemming from account growth and SG&A expense controls) and the resolution of ownership structure-related risks (after completion of disposal process at end-Sep).

### MBK Partners becomes new owner

Woongjin Holdings (016880), the holding company of the Woongjin Group, has signed the contract to sell Woongjin Coway to private equity fund MBK Partners instead of KTB PE. A 30.9% stake in Woongjin Coway (including shares held by related parties) will be sold for KRW1.2tr (KRW50,000 per share) by end-Sep.

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	185.8	214.5	236.7
Parent NP (KRWbn)	177.0	167.1	185.8	214.5	236.7
EPS (KRW)	2,294	2,192	2,470	2,853	3,147
Adj. EPS (KRW)	2,294	2,192	2,470	2,853	3,147
PER* (x)	20.0 - 13.6	19.5 - 14.2	15.4	13.4	12.1
PBR (x)	4.1	3.7	3.4	3.0	2.6
EV/EBITDA (x)	8.8	7.3	7.0	6.6	6.2
Div. Yield (%)	2.6	2.9	3.1	3.3	NA
ROE (%)	24.5	22.6	22.0	23.6	22.7
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.

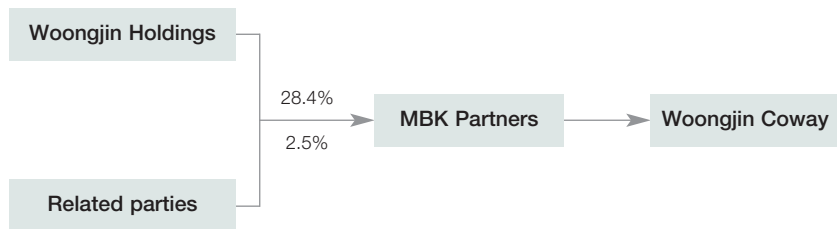
The takeover deal is expected to spawn: 1) the disposal of shares of Woongjin Chemical (008000); 2) the acquisition of a stake in Woongjin Coway’s Japanese subsidiary; and subsequent one-off losses (about KRW40bn) associated with debt guarantee. Enterprise value is expected to pick up on consequent cash flow improvements and income tax adjustments.

**Boon to existing shareholders**

MBK Partners’s acquisition of Woongjin Coway is expected to benefit existing shareholders, in view of: 1) the dissipation of corporate governance risks; and 2) expectations for restructuring aimed at enhancing enterprise value. The intensity of MBK’s restructuring aimed at re-sale after five years seems to be the key.

Meanwhile, Woongjin Group seems to have right of first refusal (ROFR) regarding its stake that it sold to MBK Partners five years after the original stake sale. The re-sale price is forecast to surpass the original takeover price, considering a guaranteed yield and other factors. In addition, if there is disagreement over the price, Woongjin Coway could be sold to a third party. Hence, Woongjin Coway’s operations are expected to be revitalized in order to enhance its enterprise value.

**Fig 1: MBK Partners Selected as New Owner**



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	1,932.6	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)	(19.4)	(14.5)	(14.7)
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	0.0	0.0	0.0
Profit before tax	236.5	217.5	245.1	283.0	312.2
Income tax expense	59.5	50.5	59.3	68.5	75.6
Net profit	177.0	167.1	185.8	214.5	236.7
Profit attributable to owners of parent	177.0	167.1	185.8	214.5	236.7
Total comprehensive income	174.3	161.2	185.8	214.5	236.7
TCI, attributable to owners of parent	174.3	161.2	185.8	214.5	236.7
Net exceptional gains	0.0	0.0	0.0	0.0	0.0
Adj. net profit	177.0	167.1	185.8	214.5	236.7

Cash Flow					
(KRWbn)	12/10A	12/11A	12/12F	12/13F	12/14F
Net profit	177.0	167.1	185.8	214.5	236.7
Depreciation & amortization	153.8	159.5	171.2	176.4	170.2
Other non-cash adjustments	53.5	151.8	64.1	70.2	60.6
Investments in working capital	(70.6)	(120.8)	(41.8)	(20.6)	(12.5)
Other operating cash flow	0.0	(43.1)	(67.3)	(68.5)	(75.6)
Cash flow from operating activities	313.8	314.5	311.9	372.0	379.4
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	9.3	31.5	2.1
Cash and cash equivalents at FYB	63.7	74.6	98.2	107.5	139.0
Cash and cash equivalents at FYE	56.3	98.2	107.5	139.0	141.1
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)	(79.9)	13.7	42.1
Net cash (net debt)	(264.0)	(445.8)	(525.7)	(512.0)	(469.9)

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)	11.2	15.5	10.3
Adj. NP growth	15.5	(5.6)	11.2	15.5	10.3
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	9.6	10.3	10.5
Adj. NP margin	11.7	9.2	9.6	10.3	10.5

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	107.5	139.0	141.1
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	684.2	747.0	782.1
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	1,858.4	2,011.3	2,124.3
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	783.6	907.8	1,050.5
Equity attributable to owners of parent	764.8	737.9	845.8	970.1	1,112.8
Non-controlling interests	0.0	0.0	0.0	0.0	0.0
Total equity	764.8	737.9	845.8	970.1	1,112.8
Total Liab. and equity	1,439.5	1,624.7	1,858.4	2,011.3	2,124.3

Per-share Performance					
(KRW)	12/10A	12/11A	12/12F	12/13F	12/14F
EPS	2,294	2,192	2,470	2,853	3,147
Adj. EPS	2,294	2,192	2,470	2,853	3,147
BPS	9,907	9,813	11,248	12,901	14,798
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	6.9	7.5	12.8	10.6	NA

Shareholder Value & Financial Structure					
(%)	12/10A	12/11A	12/12F	12/13F	12/14F
ROE	24.5	22.6	22.0	23.6	22.7
ROA	14.1	11.5	11.2	12.3	12.5
ROIC	22.1	19.7	18.7	20.7	20.9
WACC	9.7	9.0	9.0	8.6	8.4
ROIC/WACC (x)	2.3	2.2	2.1	2.4	2.5
Economic profit (KRWbn)	101.3	118.1	104.3	136.3	151.5
Total liab./equity	88.2	120.2	119.7	107.3	90.9
Net debt/equity	34.5	60.4	62.1	52.8	42.2
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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