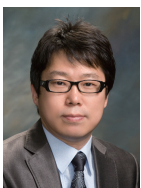


September 25, 2012 Company Analysis

Woongjin Coway (021240)

BUY (maintain)



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Let's Bet on Changes in 2013

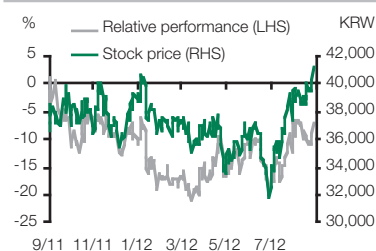
- Share price to enter a re-rating mode
- 3Q12 earnings improvement to be weak as expected
- Profitability-focused business strategy expected from 4Q12
- MBK's takeover to be completed by early-Oct

Share price to enter re-rating mode

Woongjin Coway's share price is showing a strong rebound since its bottom in end-Jul, due to:
1) diminishing uncertainties related to the sale; 2) expectations over the new shareholder; and
3) re-emergence of its share value merits.

Expectation over the new management is expected to raise Woongjin Coway's share price momentum as MBK Partners, the acquirer, finalizes the takeover in early-Oct. We recommend Overweight on the stock as unfolding of the company's profitability-focused business strategy looks to enhance its enterprise value. We present Woongjin Coway as our new non-retail top pick instead of the previous S1 (012750, BUY).

Current price (Sep 24)	KRW41,300		
Fair value	KRW50,000		
Reuters code	021240.KS		
Bloomberg code	021240 KS		
Industry/Sector	Other Consumer Services		
Rating	Overweight		
Market cap	USD2.8bn		
Ordinary shares issued	77,124,796shrs		
Free float	61.5%		
KOSPI	2003.44		
KOSDAQ	532.28		
Avg T/O Vol (60d)	137,117shrs		
Avg T/O Val (60d)	USD4.5mn		
Foreign ownership	52.7%		
3yr CAGR of adj EPS (12-14)	12.8%		
Market's 3yr CAGR of adj. EPS	16.4%		
52wk high/low	KRW40,650 / KRW31,800		
Beta (12M, daily return)	0.4		
Major shareholders	WoongJin Holdings etc. 31.0%		
Price performance	1M	3M	6M
Absolute	10.6%	13.2%	10.3%
Relative	6.0%	4.3%	11.6%



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	16.7	14.5	13.1
PBR (x)	4.1	3.7	3.7	3.2	2.8
EV/EBITDA (x)	8.8	7.3	7.5	7.0	6.6
Div. Yield (%)	2.6	2.9	2.9	3.0	0.0
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

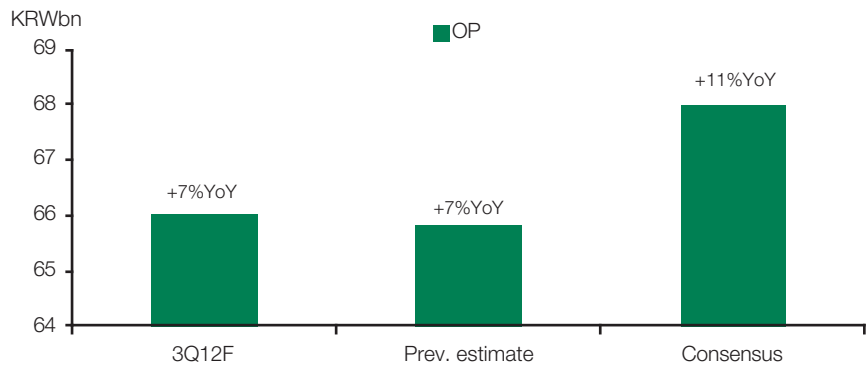
For explanations of equity research ratings and disclosures, please refer to the compliance section at the end of this report.

3Q12 earnings improvement to be weak as expected

3Q12 OR is expected at KRW460bn (up 7%YoY) and OP at KRW66bn (up 7%YoY). OP is lower than the consensus (KRW68bn, up 11%YoY) because ads for new water purifier products are running in 3Q12 following 2Q12.

The new mattress maintenance and sales business seems to be growing to the level of water softener sales as its upswing continues. Product assortment is expected to diversify also, as the company should add in Nov sales of Sealy mattresses imported from the US. On the other hand, domestic and overseas cosmetics business and exports are understood to have weakened due to noise over management control disposal, sluggish economy, and promotion reductions.

Fig 1: 3Q12 earnings to show less improvement due to cost burden



Source: Fnguide, Hyundai Securities

Profitability-focused business strategy expected from 4Q12

4Q12 OP is expected to grow 11%YoY. 4Q is normally when profitability-focused business is achieved as this is the time the cost structure is stabilized, such as promotion reductions, in order to meet full-year guidance.

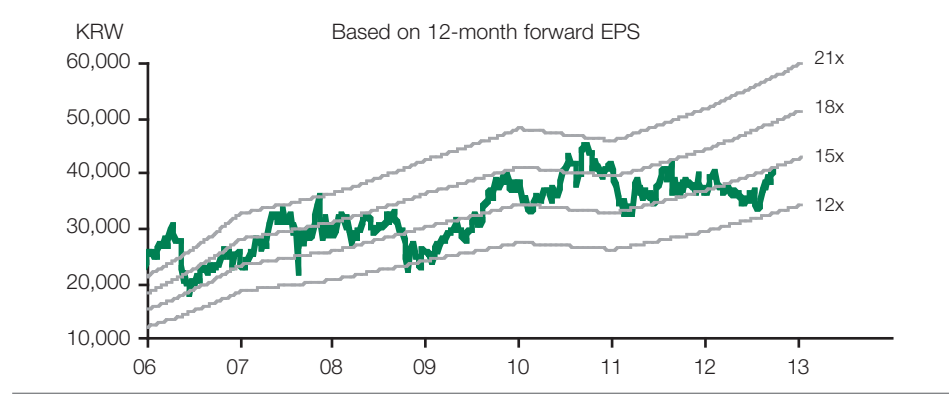
In particular, 4Q12 will be the time when the new shareholder’s business strategy is decided. 2012 guidance OP margin is 14.5%, but a target of 15% is expected to be presented for the longer term. In 2013, rental and membership price hikes targeted at new subscribers are expected, and low profit businesses are projected to undergo restructuring as well.

MBK’s takeover to be completed by early-Oct

MBK Partners is expected to replace six of the seven board of director members via a shareholders’ meeting on Sep 27. National Pension Service (NPS) and Korean Federation of Community Credit Cooperative (KFCC), which are financial investors, plan to participate in the final contract signing on Oct 2.

Proceeds from the Woongjin Chemical (008000) stake disposal worth about KRW180bn (KRW160bn after tax) is expected to be deposited at the time the final contract is signed. Accordingly, the company’s net borrowings of about KRW400bn in end-2Q12 should shrink further. Financial structure improvement looks to continue as the company’s business is expected to emphasize cash flow in order to enhance future enterprise value.

Fig 2: Valuation moving out of the bottom, but not burdensome



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	9.3	8.9	8.7
ROIC/WACC (x)	2.3	2.2	2.0	2.3	2.4
Economic profit (KRWbn)	101.3	118.1	101.1	133.4	148.8
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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