



# Woongjin Coway (021240)

## BUY (maintain)



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## What's Next after Woongjin Coway Sale Halted?

- Share price corrections to be eased
- Future course of events?
- Pre-conditions for disposal; Why court receivership?

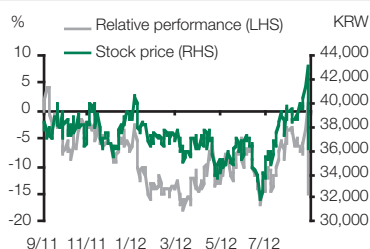
### Share price corrections to be eased

After Woongjin Holdings (016880), a holding company, filed for a court receivership with its subsidiary Kukdong E&C (unlisted), the sale of Woongjin Coway to MBK Partners was halted. Such an event was unexpected, occurring just ahead of the final contract. Due to a loss of confidence in the Group and increased uncertainties regarding the sale, Woongjin Coway shares fell 15% on Sep 27.

Over the short term, Woongjin Coway's intrinsic value should remain intact given the low earnings volatility of its wellness home appliance business. Amid commotion surrounding the sale, the stock will likely hit a trough at KRW30,000, which corresponds to a PER of 10-12x at the low end of the historical band. Additional rallies will only come about if the sale resumes and stable operations are maintained.

We leave our rating unchanged in view of no earnings-related issues and the company's superb cash flow. If the sale does not proceed going forward, however, we may downgrade our rating.

Current price (Sep 27)	KRW36,150
<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	USD2.5bn
Ordinary shares issued	77,124,796shrs
Free float	61.5%
KOSPI	1988.7
KOSDAQ	518.29
Avg T/O Vol (60d)	142,045shrs
Avg T/O Val (60d)	USD4.7mn
Foreign ownership	52.8%
3yr CAGR of adj EPS (12~14)	12.8%
Market's 3yr CAGR of adj. EPS	15.7%
52wk high/low	KRW43,100 / KRW31,800
Beta (12M, daily return)	0.3
Major shareholders	WoongJin Holdings etc. 31.0%
Price performance	1M 3M 6M
Absolute	-8.7% 1.8% -3.2%
Relative	-12.0% -6.9% -0.7%



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	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	14.6	12.7	11.5
PBR (x)	4.1	3.7	3.2	2.8	2.4
EV/EBITDA (x)	8.8	7.3	6.7	6.3	5.9
Div. Yield (%)	2.6	2.9	3.3	3.5	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.

**Future course of events?**

If the court receivership is granted, the presiding judge and creditors will set about recovering funds via restructuring of the Woongjin Group.

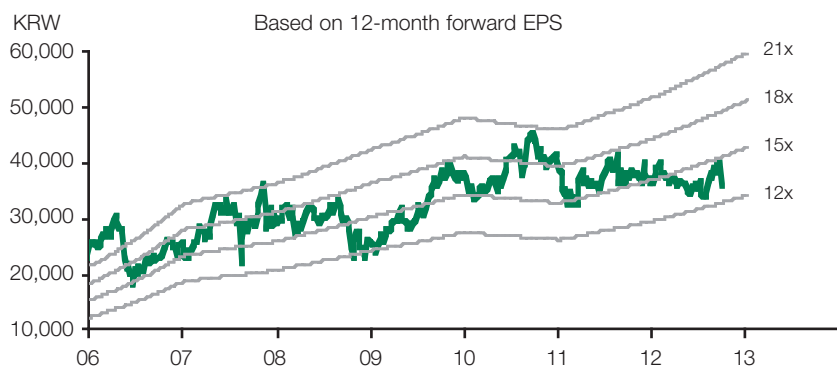
Considering about KRW1.1tr in debt (loans, PF loan payment guarantees, etc.) at Kukdong E&C alone, there is no other way of securing sufficient liquidity than through the disposal of Woongjin Coway.

**Preconditions for disposal; Why court receivership?**

If Woongjin Coway is sold for KRW1.2tr to MBK as planned, the creditors will have to shoulder a portion of the losses. As for how the burden will be divided among them, an agreement must be made beforehand.

Meanwhile, market participants are wondering why Chairman Seok-keum Yoon of the Woongjin Group (appointed as CEO of Woongjin Holdings on Sep 26) applied for a court receivership one day before an extraordinary meeting session was to be held by Woongjin Coway shareholders to complete the ownership transition process. It remains to be seen whether the move was intended to minimize ramifications stemming from Woongjin Holdings’s default or preserve Chairman Yoon’s management control.

**Valuation nearing bottom**



Source: Company data, 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	9.2	8.8	8.6
ROIC/WACC (x)	2.3	2.2	2.0	2.4	2.4
Economic profit (KRWbn)	101.3	118.1	102.4	134.7	150.1
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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 Strong BUY = 4, BUY = 3, Marketperform = 2, Underperform = 1, Blackout/Universe Exclusion = 0 (Share price —, Fair value ▲, Rating —)
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