

Woongjin Coway (021240)

The odds are low for the worst-case scenario; the sale is only a matter of time



Sunny Lee
822.769.3162
sunny_lee@daishin.com

BUY

[maintain]

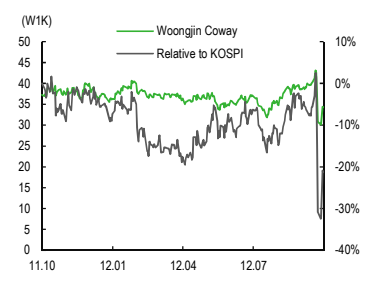
Service

CP W34,300

TP
(maintain) **W51,000**

KOSPI	1995.17
Market cap	W2,645bn
Market cap %	0.2%
Capital stocks	W41bn
52W high/low	W43,100 / W30,150
120d daily turnover	W16.3bn
Foreign ownership	52.7%
Major shareholders	
Woongjin Holdings + 29	31.0%
Coway Holdings	30.9%

(%)	1W	1M	3M	12M
Abs. return	11.5	-10.9	-7.7	-7.7
Rel. return	11.6	-16.3	-13.2	-22.9



Investment point

- Fears of a breakdown in the sale of Woongjin Coway have been lifted.
- The sale will move forward, given Woongjin Holdings' need for a quick sale.
- Woongjin Coway's share price correction looks excessive even with uncertainty taken into account.

Comment

The worst-case scenario looks unlikely

Woongjin Coway shares are down sharply due to fears of a breakdown in its M&A following Woongjin Holdings' court receivership filing two days before MBK Partners' scheduled payment. The DIP (Debtor in Possession) rule of the court receivership program raises the possibility that the sale of Woongjin Coway may be derailed if Chairman Yoon Seok-keum and CEO Shin Kwang-su stay in control of Woongjin Holdings management. Chairman Yoon Seok-keum has announced his resignation, paving the way for caretaker management to take over. The sale of Woongjin Coway is reaffirmed as part of Woongjin Holdings' restructuring, clearing up worries of a sale cancellation.

Woongjin Coway's sale could move forward fast

Woongjin Coway's sale could be concluded sooner than expected because due diligence is pretty much complete and there are several potential buyers other than MBK Partners in the market. Woongjin Holdings also wants to move quickly on the sale process in the face of legal disputes with MBK Partners and creditor banks lending money on the condition that Woongjin Holdings sells Woongjin Coway. We expect the sale of Woongjin Coway will likely move forward rather quickly, compared with similar asset sales by financially troubled companies, as court proceedings loom.

BUY rating and TP in place; TP may change, depending on court decisions

Although uncertainty still lingers, Woongjin Coway's intrinsic value should remain unscathed as the company has virtually zero exposure to other Woongjin affiliates in terms of payment guarantees, loans and business operations. Thus, we reiterate our BUY rating and TP of W51,000 on Woongjin Coway. The TP may be revised down, depending on court decisions. Meanwhile, we expect high dividend payouts to continue this year (W1,150 per share). Apart from the Woongjin group's plight, Woongjin Coway is expected to pay a W1,050 dividend at least, given a W30bn reversal of payment guarantees for Woongjin Coway Japan and the proceeds from the sale of Woongjin Chemical shares. Woongjin Coway has never reduced dividend payouts before.

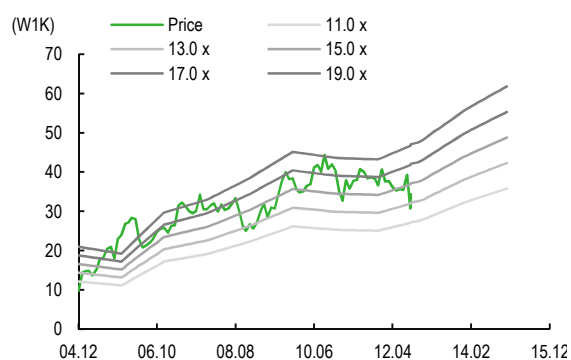
Tab 1. Quarterly earnings forecast

(Wbn, %)

	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12P	3Q12F	4Q12F	2011	2012F	2013F	2014F
Rental orders (1K units)	329.6	341.9	287.7	313.3	284.7	331.1	324.2	320.0	1,272.5	1,260.0	1,287.7	1,318.4
Monthly avg cancellation rate (%)	1.02%	0.99%	0.95%	1.07%	1.01%	1.01%	0.95%	0.96%	1.04%	0.99%	0.95%	0.95%
# of rental customer accounts (1K)	4,234.0	4,321.2	4,376.6	4,442.8	4,462.9	4,488.9	4,556.6	4,609.0	4,450.0	4,661.7	4,896.9	5,137.7
# of membership accounts	967.0	1,011.5	1,034.4	1,002.0	1,003.6	1,082.1	1,156.6	1,231.6	1,002.0	1,231.6	1,467.2	1,656.6
Total # of managed accounts	5,201.0	5,332.6	5,411.0	5,444.8	5,466.6	5,571.0	5,713.2	5,840.6	5,452.0	5,893.3	6,364.0	6,794.3
Chg in total # of managed accounts	118.2	131.7	78.4	33.8	21.8	104.4	142.2	127.4	369.3	441.3	470.7	430.2
Sales												
Total	400.9	435.9	430.1	444.0	442.4	446.4	447.1	463.3	1,709.9	1,799.2	1,914.3	2,061.0
Rental	288.0	299.7	305.7	312.9	316.3	318.9	323.0	328.0	1,206.3	1,286.2	1,346.8	1,421.0
Membership	39.1	39.9	41.0	40.8	38.8	39.2	41.0	42.9	160.8	161.8	189.0	209.1
Bullet payment	31.8	38.8	35.7	31.9	32.7	40.5	37.6	34.3	138.2	145.1	156.3	170.9
Others	24.6	39.6	30.2	43.1	37.8	31.5	33.6	43.1	137.5	146.1	162.1	190.8
Cosmetics	17.4	17.9	17.6	15.3	16.8	16.3	12.0	15.0	68.2	60.1	60.1	69.2
YoY (%)												
Total	8.0	18.9	13.8	11.3	10.3	2.4	4.0	4.3	13.9	5.2	6.4	7.7
Rental	6.0	9.5	10.5	10.0	9.8	6.4	5.7	4.8	9.0	6.6	4.7	5.5
Membership	9.8	9.0	9.3	7.3	(0.8)	(1.9)	0.0	5.2	8.8	0.7	16.8	10.7
Bullet payment	19.1	56.8	45.8	1.6	2.8	4.4	5.3	7.4	28.7	4.9	7.7	9.3
Others	(34.0)	24.9	(19.7)	83.8	53.6	(20.4)	11.3	0.0	5.8	6.2	11.0	17.7
Cosmetics			897.4	(29.0)	(3.3)	(8.8)	(31.8)	(2.1)	191.9	(11.8)	0.0	15.0
Gross profit	274.3	294.6	295.3	293.6	296.9	304.3	304.6	312.0	1,157.9	1,217.7	1,294.0	1,391.7
OP	56.5	61.8	61.4	62.8	64.4	63.0	63.7	66.6	242.5	257.7	278.2	314.0
Pre-tax profit	50.4	55.1	64.6	55.2	55.6	56.4	58.0	61.0	225.4	231.1	256.3	298.0
NP	38.8	42.1	49.2	47.1	41.2	44.0	44.0	46.2	177.1	175.5	194.3	225.9
EBITDA	104.6	110.4	111.5	113.4	119.5	119.4	119.3	121.4	439.9	479.6	502.6	540.0
YoY (%)												
Gross profit	13.4	19.8	18.8	6.8	8.2	3.3	3.1	6.3	14.5	5.2	6.3	7.6
OP	(18.4)	(15.4)	2.7	18.1	14.0	2.0	3.6	6.1	(4.4)	6.3	7.9	12.9
Pre-tax profit	(22.1)	(27.5)	22.4	11.0	10.3	2.5	(10.2)	10.5	(7.4)	2.5	10.9	16.3
NP	(24.7)	(28.9)	36.6	28.8	6.4	4.6	(10.6)	(1.8)	(3.3)	(0.9)	10.7	16.3
EBITDA	(7.1)	(6.6)	8.3	12.5	14.3	8.1	7.0	7.0	1.6	9.0	4.8	7.4
GP margin (%)	68.4	67.6	68.7	66.1	67.1	68.2	68.1	67.3	67.7	67.7	67.6	67.5
OP margin (%)	14.1	14.2	14.3	14.1	14.6	14.1	14.2	14.4	14.2	14.3	14.5	15.2
Pre-tax profit margin (%)	12.6	12.6	15.0	12.4	12.6	12.6	13.0	13.2	13.2	12.8	13.4	14.5
NP margin (%)	9.7	9.7	11.4	10.6	9.3	9.9	9.8	10.0	10.4	9.8	10.1	11.0

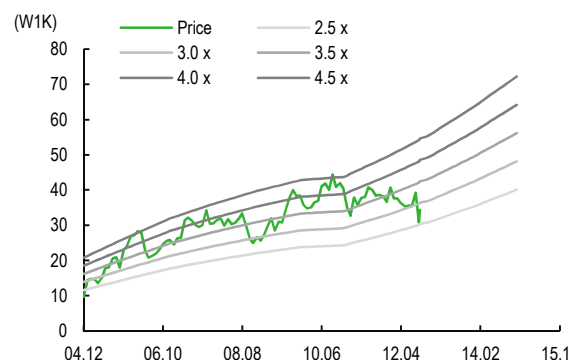
Source: Daishin Securities Research Center

Fig 1. PER (12M Fwd) band



Source: WISEfn, Daishin Securities Research Center

Fig 2. PBR (12M Fwd) band



Source: WISEfn, Daishin Securities Research Center

[Financial statements]

Income statement	(Wbn)				
	2010A	2011A	2012F	2013F	2014F
Sales	1,502	1,710	1,799	1,914	2,061
Cost of goods sold	491	552	581	620	669
Gross profit	1,011	1,158	1,218	1,294	1,392
Other operating income	651	823	852	906	963
SG&A expenses	704	869	906	961	1,020
FX transaction income	0	0	0	0	0
Interest income	0	0	0	0	0
Other one-off income	-53	-46	-54	-55	-57
Operating profit	254	242	258	278	314
Adjusted OP	307	289	312	333	371
EBITDA	461	441	478	502	539
Non-OP	11	-17	-27	-22	-16
Income from affiliates	22	0	-4	0	0
Financial revenue	7	2	4	3	3
Financial expenses	-18	-26	-33	-31	-26
Others	0	6	6	7	7
Income before taxes	243	225	231	256	298
Income tax expense	-60	-48	-56	-62	-72
Income from cont. op.	177	177	175	194	226
Income from discount. op.	0	0	0	0	0
Net income	183	177	175	194	226
NP for non-contr. interest	0	0	0	0	0
NP for contr. interest	177	177	175	194	226
Valuation of AFS fin. Assets	0	0	0	0	0
Other compreh. income	0	0	0	0	0
Comprehensive income	147	173	175	194	226
Comp. income for non-contr. Int.	0	0	0	0	0
Comp. income for contr. int.	0	173	0	0	0

Note: Adjusted OP is GP less SG&A expense.

Valuation metrics	(W, x, %)				
	2010A	2011A	2012F	2013F	2014F
EPS	2,376	2,296	2,275	2,519	2,929
PER	17.0	15.9	15.1	13.6	11.7
BPS	9,504	9,704	10,970	12,382	14,107
PBR	4.2	3.8	3.1	2.8	2.4
EBITDAPS	5,973	5,720	6,201	6,503	6,986
EV/EBITDA	7.3	7.5	6.5	6.2	5.7
SPS	19,472	22,170	23,328	24,821	26,723
PSR	2.1	1.7	1.5	1.4	1.3
CFPS	5,065	6,108	5,830	6,209	6,667
DPS	1,050	1,050	1,150	1,250	1,375

Financial ratios	(W, x, %)				
	2010A	2011A	2012F	2013F	2014F
Growth potential					
Sales growth	6.4	13.9	5.2	6.4	7.7
OP growth	24.1	-4.4	6.3	7.9	12.9
NP growth	19.6	-3.4	-0.9	10.7	16.3
Profitability					
ROIC	20.7	18.7	18.5	18.2	19.1
ROA	19.2	16.5	15.8	15.9	17.0
ROE	25.9	23.9	22.0	21.6	22.1
Stability					
Debt ratio	86.1	110.6	98.2	91.4	72.1
Net borrowings ratio	36.4	62.5	56.4	49.1	38.9
Interest coverage ratio	14.4	9.6	8.5	8.8	11.9

Balance sheet	(Wbn)				
	2010A	2011A	2012F	2013F	2014F
Current assets	439	511	512	569	532
Cash & cash equiv.	56	65	60	98	44
Trade & other receive.	223	257	260	276	287
Inventories	73	73	72	75	79
Other current assets	86	117	119	120	122
Long-term assets	925	1,065	1,165	1,259	1,340
Tangible assets	442	535	636	729	807
Investments in affiliates	192	237	237	237	237
Other financial assets	3	48	47	47	47
Other long-term assets	288	245	245	246	249
Total assets	1,364	1,576	1,677	1,827	1,872
Current liabilities	384	534	516	595	465
Payables & other liab.	182	187	181	186	188
Borrowings	74	165	160	150	140
Debt liquidity	30	110	100	179	50
Other current liabilities	98	72	76	81	87
Long-term liabilities	247	294	315	277	320
Borrowings	220	267	287	248	288
Convertible securities	0	0	0	0	0
Other long-term liab.	27	27	28	30	32
Total liabilities	631	828	831	872	784
Controlling interest	733	748	846	955	1,088
Capital stock (Com.)	41	41	41	41	41
Capital surplus	136	131	131	131	131
Retained earnings	591	678	775	884	1,017
Other capital changes	-34	-101	-101	-101	-101
Non-controlling interest	0	0	0	0	0
Total shareholder's equity	733	748	846	955	1,088
Total borrowings	324	542	547	577	478

Cash flow statement	(Wbn)				
	2010A	2011A	2012F	2013F	2014F
Operating cash flows	314	318	369	374	399
Net income	177	177	175	194	226
Non-cash items	207	294	274	285	288
Depreciation	154	152	167	169	167
FX gains	0	1	0	0	0
Equity method gain	-22	0	0	0	0
Others	76	140	108	116	121
Chg in assets & liab.	-71	-112	-58	-75	-70
Other cash flows	0	-42	-23	-30	-45
Investing cash flow	-296	-344	-265	-260	-245
Investments	-65	-37	1	0	0
Others				-212	-290
Others	-19	-16	-5	-5	-5
Financing cash flows	-20	36	-97	-79	-216
Short-term borrowings	-45	90	-5	-10	-10
Bonds payable	50	123	30	-39	30
Long-term borrowings	100	30	-10	0	10
Rights offering	0	0	0	0	0
Cash dividends	-77	-80	-78	-85	-93
Others	-48	-127	-34	55	-153
Net chg in cash	-7	8	-4	37	-54
Beginning cash balance	64	56	65	60	98
Ending cash balance	56	65	60	98	44
NOPLAT	191	191	196	211	238
FCF	107	37	92	115	155

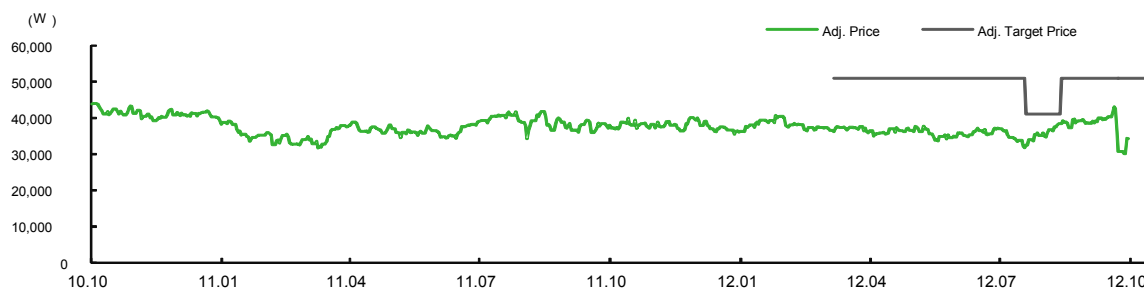
Source: Woongjin Coway, Daishin Securities Research Center

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► Ratings and target price history



Date	12.10.08	12.08.19	12.08.09	12.07.25	12.06.22	12.03.12			
Rating	Buy	Buy	Buy	Buy	Buy	Buy			
TP	51,000	51,000	41,000	41,000	51,000	51,000			
Date									
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► Ratings breakdown

► Company ratings breakdown

- Buy: the stock is expected to outperform the market by at least 10%p over the next six months.
- Marketperform: the stock is expected to either outperform or underperform the market by less than 10%p over the next six months.
- Underperform: the stock is expected to underperform the market by at least 10%p over the next six months.

► Sector ratings breakdown

- Overweight : industry indicators are expected to outperform the market over the next 6m
- Neutral : industry indicators are expected to be in line with the market over the next 6m
- Underweight: industry indicators are expected to underperform the market over the next 6ms.