

Woongjin Coway
(021240)

Now is a time to focus on Woongjin Coways' intrinsic value



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BUY

[maintain]

Service

CP W35,000

TP (maintain) W51,000

Investment points

- A bankruptcy court ruling revives Woongjin Coway sale to MBK Partners.
- Catalysts: Elimination of Woongjin Group risks, cost efficiency maximization, and new business opportunities.
- Maintain BUY, TP W51,000.

Comment

A bankruptcy court ruling revives Woongjin Coway sale to MBK Partners, eliminating Woongjin Group risks

At a closed court hearing on Woongjin Coway on October 25, a bankruptcy court ruled that the Woongjin Coway share transfer contract should be executed as originally planned, giving the green light for the Woongjin Coway sale to MBK Partners. The court's ruling is based on its view that Woongjin Holdings is unviable without the sale of Woongjin Coway and cannot expect to sell Woongjin Coway for a higher price if the sale to MBK Partners falls apart. Woongjin Holdings is scheduled to submit a written request for court approval of the Woongjin Coway sale early next week. Once it obtains court approval, all Woongjin Coway sale-related issues will be resolved.

Transfer of managerial right to MBK Partners will gain pace once the sale process resumes

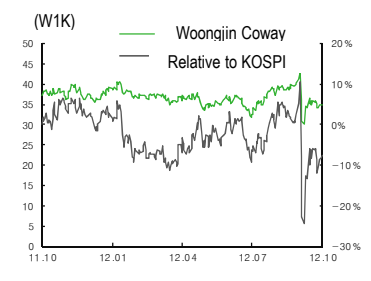
If the Woongjin Coway sale is completed within this year, Woongjin Holdings will face a tax levy on its gains. If the sale is closed next year, the tax burden disappears with losses on the Kuk Dong E&C write-down far surpassing gains on the sale of Woongjin Coway. Accordingly, the sale of Woongjin Coway may be pushed back until January 2013 or later to help relieve Woongjin Holdings' tax burden. But MBK Partners is expected to make all the management decisions, following the quick replacement of the board, and the timing of the sale conclusion does not mean much to shareholders of Woongjin Coway. Under the original contract, Woongjin Coway will also sell Woongjin Coway's stakes in Woongjin Chemical for W178bn to pay down Woongjin Coway's debt.

Maintain BUY, TP W51,000

We maintain our BUY rating and TP of W51,000 on Woongjin Coway. With the elimination of Woongjin Group-related uncertainty, Woongjin Coway's stock price, grossly undervalued relative to its intrinsic value, is set to rise quickly. To maximize capital gains, MBK Partners is expected to work hard to boost the efficiency of Woongjin Coway's existing businesses and expand into new businesses. MBK Partners will hold a 30.9%

KOSPI	1924.5
Market cap	W2.699tn
Market cap %	0.2%
Capital stocks	W41bn
52W high/low	W43,100 / W30,150
120d daily turnover	W19.7bn
Foreign ownership	51.9%
Major shareholders	Woongjin Holdings + 29.31.0% Coway Holdings 30.9%

(%)	1W	1M	3M	12M
Abs. return	26	-18.8	7.7	-5.7
Rel. return	4.5	-16.0	-1.0	-7.4



stake in Woongjin Coway and need to meet interest payments on its borrowings related to the acquisition. MBK Partners' stake is too low to aggressively increase dividend payouts, but cutting dividend payouts too much will cause strain on its capacity to meet interest payments. Therefore, the money allocation between dividend payouts and new business expansion will be handled carefully to maximize ROIC and boost Woongjin Coway's shareholder value.

[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	15.4	13.9	11.9
BPS	9,504	9,704	10,970	12,382	14,107
PBR	4.2	3.8	3.2	2.8	2.5
EBITDAPS	5,973	5,720	6,201	6,503	6,986
EV/EBITDA	7.3	7.5	6.6	6.3	5.8
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

Source: Woongjin Coway, Daishin Securities Research Center estimates

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

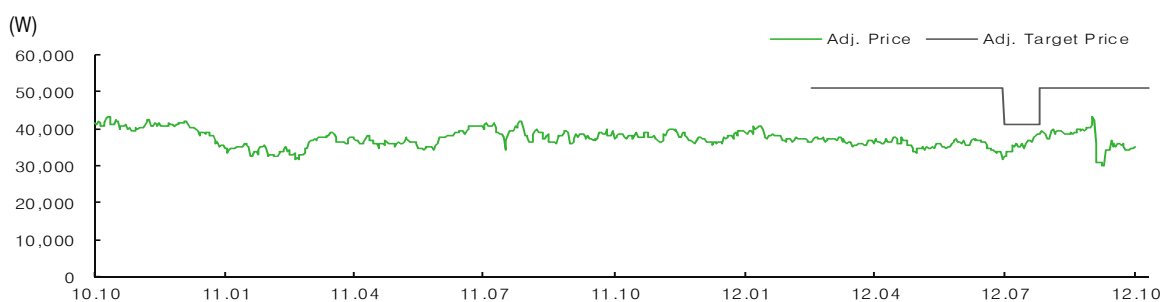
Cash flow statement	(Wbn)				
	2010A	2011A	2012F	2013F	2014F
Operating cash flows	314	318	369	374	399
Net income	177	177	175	194	226
Non-cash items	207	294	274	285	288
Depreciation	154	152	167	169	167
FX gains	0	1	0	0	0
Equity method gain	-22	0	0	0	0
Others	76	140	108	116	121
Chg in assets & liab.	-71	-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

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► Rating and target price history



Date	12.10.26	12.10.07	12.08.19	12.08.09	12.07.25	12.06.22	12.03.12			
Rating	Buy	Buy	Buy	Buy	Buy	Buy	Buy			
TP	51,000	51,000	51,000	41,000	41,000	51,000	51,000			
Date										
Rating										
TP										
Date										
Rating										
TP										

► Investment ratings framework

Sector ratings breakdown

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

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.