

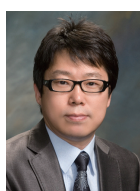
November 28, 2012 Company Analysis



Coway

(021240)

BUY (maintain)



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Rental Company That Shines During Slump

- Entered re-rating phase
- Extraordinary shareholders meeting completed; Agreement becomes effective when first installment payment is done today
- To begin enhancing enterprise value in 2013

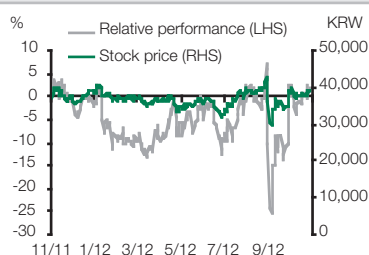
Entered re-rating phase

The company's share price is recovering momentum on expectations of diminished corporate governance risks. Expectations of changes in 2013 should catalyze the share price. We forecast profit growth of 10%YoY in 2013, but there is room for upward revision. Considering its dominant position in the rental business, which is capable of weathering an economic slump, a revaluation of its share value (FY13 PER of 15x) should be possible.

Extraordinary shareholders meeting completed; Agreement becomes effective when first installment payment is done today

Through an extraordinary shareholders meeting on Nov 27, the company changed its name to Coway (formerly Woongjin Coway) and most of its board of directors was replaced by MBK Partners. With the shareholders meeting schedule moved forward three days earlier than expected, the first installment payment (Nov 28, 30% of KRW1.2tr) and the final payment (Jan 2, 2013) remain. Once the first installment payment is completed, the agreement becomes effective. As such, the company is expected to unveil its new management as well as a new business strategy.

Current price (Nov 27)	KRW40,200		
Fair value	KRW50,000		
Reuters code	021240.KS		
Bloomberg code	021240 KS		
Industry/Sector	Other Consumer Services		
Rating	Overweight		
Market cap	USD2.9bn		
Ordinary shares issued	77,124,796shrs		
Free float	61.9%		
KOSPI	1925.2		
KOSDAQ	493.63		
Avg T/O Vol (60d)	317,898shrs		
Avg T/O Val (60d)	USD10.3mn		
Foreign ownership	51.0%		
3yr CAGR of adj EPS (12-14)	11.2%		
Market's 3yr CAGR of adj. EPS	17.6%		
52wk high/low	KRW43,100 / KRW30,150		
Beta (12M, daily return)	0.3		
Major shareholders	WoongJin Holdings etc. 31.2%		
Price performance	1M	3M	6M
Absolute	2.6%	1.5%	15.4%
Relative	0.8%	1.1%	9.3%



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	1,862.6	2,019.0	2,147.0
OP (KRWbn)	228.8	233.2	255.1	282.1	310.0
NP (KRWbn)	177.0	167.1	185.3	205.0	226.9
Parent NP (KRWbn)	177.0	167.1	185.3	205.0	226.9
EPS (KRW)	2,294	2,192	2,464	2,726	3,017
Adj. EPS (KRW)	2,294	2,192	2,464	2,726	3,017
PER* (x)	20.0 - 13.6	19.5 - 14.2	16.3	14.7	13.3
PBR (x)	4.1	3.7	3.6	3.1	2.7
EV/EBITDA (x)	8.8	7.3	7.3	6.8	6.4
Div. Yield (%)	2.6	2.9	2.6	2.6	2.6
ROE (%)	24.5	22.6	21.9	22.6	21.7
ROIC (%)	22.1	19.7	18.0	19.7	19.8

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.

**To begin enhancing
enterprise value in 2013**

The company's management is expected to begin: 1) profitability improvement and 2) increase enterprise value focusing on cash flow. In order to enhance the profitability of its mainstay business of wellness home appliances, new rental targets and membership price hikes are anticipated. There have been price adjustments every three years since 2006, but price adjustments have been delayed in 2012 due to the Woongjin group's financial woes. Furthermore, COGS management and capex burden reduction efforts are expected as well.

Management focusing on cash flow is expected to reduce borrowings and raise expectations for dividends. Low-profit and loss-making businesses look to be targeted for restructuring. Through these efforts, both profitability and cash flow are expected to improve.

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	1,862.6	2,019.0	2,147.0
Cost of sales	494.1	580.8	620.5	678.9	727.0
Gross profit	1,025.1	1,243.5	1,242.1	1,340.1	1,420.0
SG&A expenses	796.3	955.0	933.0	1,006.0	1,050.0
Other operating income	0.0	(55.3)	(54.0)	(52.0)	(60.0)
Operating profit	228.8	233.2	255.1	282.1	310.0
EBITDA	382.6	448.0	480.3	510.5	540.2
Non-operating accounts	7.7	(15.7)	(10.7)	(11.7)	(10.7)
Net financing income	(14.1)	(24.3)	(29.4)	(21.7)	(20.7)
Profit on equity method	22.1	3.4	10.0	10.0	10.0
Net other non-operating income	(0.3)	5.3	8.7	0.0	0.0
Profit before tax	236.5	217.5	244.4	270.4	299.3
Income tax expense	59.5	50.5	59.2	65.4	72.4
Net profit	177.0	167.1	185.3	205.0	226.9
Profit attributable to owners of parent	177.0	167.1	185.3	205.0	226.9
Total comprehensive income	174.3	161.2	185.3	205.0	226.9
TCI, attributable to owners of parent	174.3	161.2	185.3	205.0	226.9
Net exceptional gains	0.0	0.0	0.0	0.0	0.0
Adj. net profit	177.0	167.1	185.3	205.0	226.9

Cash Flow					
(KRWbn)	12/10A	12/11A	12/12F	12/13F	12/14F
Net profit	177.0	167.1	185.3	205.0	226.9
Depreciation & amortization	153.8	159.5	171.2	176.4	170.2
Other non-cash adjustments	53.5	151.8	63.9	71.6	62.4
Investments in working capital	(70.6)	(120.8)	(41.8)	(20.6)	(12.5)
Other operating cash flow	0.0	(43.1)	(67.1)	(65.4)	(72.4)
Cash flow from operating activities	313.8	314.5	311.5	366.9	374.6
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)	(79.0)	(79.0)
Other financing cash flow	1.9	(24.8)	153.2	(193.1)	119.3
Cash flow from financing activities	(20.4)	30.5	75.4	(217.1)	40.3
Other cash flow	(4.3)	2.8	0.0	0.0	0.0
Increase/decrease in cash	(7.4)	23.6	138.8	(98.8)	166.3
Cash and cash equivalents at FYB	63.7	74.6	98.2	237.0	138.3
Cash and cash equivalents at FYE	56.3	98.2	237.0	138.3	304.6
Gross operating cash flow	328.2	351.7	356.6	390.2	405.2
Free cash flow	30.7	(74.9)	66.1	124.6	147.6
Net cash flow	(63.5)	(181.8)	49.7	15.4	47.3
Net cash (net debt)	(264.0)	(445.8)	(396.1)	(380.7)	(333.4)

Operating Statistics & Ratios					
(%)	12/10A	12/11A	12/12F	12/13F	12/14F
OR growth	7.6	NA	NA	8.4	6.3
OP growth	12.0	NA	NA	10.6	9.9
EBITDA growth	8.6	NA	NA	6.3	5.8
NP growth of parent	15.5	(5.6)	10.9	10.6	10.7
Adj. NP growth	15.5	(5.6)	10.9	10.6	10.7
OP margin	15.1	12.8	13.7	14.0	14.4
EBITDA margin	25.2	24.6	25.8	25.3	25.2
NP margin	11.7	9.2	9.9	10.2	10.6
Adj. NP margin	11.7	9.2	9.9	10.2	10.6

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	237.0	138.3	304.6
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	813.7	746.3	945.6
Investment assets	204.3	229.0	220.0	220.0	220.0
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	1,044.2	1,134.2	1,212.3
Total assets	1,439.5	1,624.7	1,857.9	1,880.5	2,157.9
Trade payables	38.3	51.9	43.1	45.5	50.0
Short-term financial liabilities	104.5	278.8	340.0	210.0	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	573.9	734.4
Non-current financial liabilities	219.8	267.3	300.0	318.0	297.0
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	335.3	304.2
Total liabilities	674.7	886.8	1,012.6	909.2	1,038.6
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	783.1	909.1	1,057.0
Equity attributable to owners of parent	764.8	737.9	845.3	971.4	1,119.3
Non-controlling interests	0.0	0.0	0.0	0.0	0.0
Total equity	764.8	737.9	845.3	971.4	1,119.3
Total Liab. and equity	1,439.5	1,624.7	1,857.9	1,880.5	2,157.9

Per-share Performance					
(KRW)	12/10A	12/11A	12/12F	12/13F	12/14F
EPS	2,294	2,192	2,464	2,726	3,017
Adj. EPS	2,294	2,192	2,464	2,726	3,017
BPS	9,907	9,813	11,242	12,918	14,885
SPS	19,688	23,943	24,770	26,850	28,553
GCFPS	4,253	4,615	4,742	5,189	5,388
DPS	1,050	1,050	1,050	1,050	1,050
3yr CAGR of adj. EPS	6.8	5.9	11.2	10.1	NA

Shareholder Value & Financial Structure					
(%)	12/10A	12/11A	12/12F	12/13F	12/14F
ROE	24.5	22.6	21.9	22.6	21.7
ROA	14.1	11.5	11.2	11.9	12.0
ROIC	22.1	19.7	18.0	19.7	19.8
WACC	9.7	9.0	7.0	6.8	6.6
ROIC/WACC (x)	2.3	2.2	2.6	2.9	3.0
Economic profit (KRWbn)	101.3	118.1	116.9	143.3	160.0
Total liab./equity	88.2	120.2	119.8	93.6	92.8
Net debt/equity	34.5	60.4	46.9	39.2	29.8
Interest coverage (x)	21.7	17.0	16.2	23.2	25.7

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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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