

# Coway (021240 KS)

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## Top-line growth continues, margin gains expected

### BUY (Maintain)

Price (May 10)	W52,800
Target Price	W63,000
% variance	19.3%

- ◆ Net increase in rental subscribers up 68.2% YoY to 50,412, operating profit up 7.9% YoY to W69.2bn
- ◆ Stable top-line growth to continue in 2013, margin gains expected
- ◆ Retain BUY rating, target price raised to W63,000

KOSPI	1,944.75p
KOSDAQ	569.70p
Market Cap.	W4,072.2bn/ US3,572.1mn
Par Value	W500
Outstanding Shares	77.1mn
Free Floating Shares	50.8mn(65.9%)
52-Week High/Low	W56,000/W30,150
60-Day Avg. Trading Volume	209,057shrs
60-Day. Avg. Trading T/O	W10,490mn
Foreign Ownership	50.76%
Major Shareholders	
Coway Holdings	30.90%
Lazard Asset Management LLC and 33 others	12.82%
Absolute Performance	
3M	13.4%
6M	38.6%
12M	42.3%
Relative performance to KOSPI	
3M	13.8%
6M	35.7%
12M	42.3%

### Net increase in rental subscribers up 68.2% YoY to 50,412, operating profit up 7.9% YoY to W69.2bn

Coway posted 1Q13 K-IFRS standalone sales of W465.2bn (+5.2% YoY) and operating profit of W69.2bn (+7.9% YoY). Operating profit met our estimate, but missed the market consensus. Net increase in rental subscribers jumped 68.2% YoY to 50,412. ARPU came to W23,171 (+0.56% YoY). Standalone net profit amounted to W80.2bn (+94.5% YoY) and consolidated net profit W57.4bn (+25.0% YoY) as proceeds from the sale of Woongjin Chemical were reflected in 1Q13.

### Stable top-line growth to continue in 2013, margin gains expected

ARPU is expected to rise from 2Q13 on unit price hike. Rental accounts should also continue growing. Helped by growing rental subscribers and higher ARPU, Coway's top-line should grow steadily going forward. Margin gains are expected given that the water treatment division has been sold and the cosmetics division's losses are decreasing. The company is expected to turn in 2013 sales of W1.96tr (+8.5% YoY) and operating profit of W303.8bn (+33.6% YoY) on K-IFRS standalone basis. Consolidated net profit is estimated at W217.3bn (+96.8% YoY).

### Retain BUY rating, upgrading target price to W63,000

We revise up our target price for Coway from W60,000 to W63,000. Heading into 2H13, the company is expected to show stable top-line growth and margin gains. Steady earnings improvement may boost enterprise value. The year-end dividend yield of 2.8% remains attractive (based on the current share price).

The target price is derived by applying a target PER of 22x to 2013 consolidated EPS of W2,818. The target PER is the average of five-year upper PER band. The target PER may be adjusted as a PER of 20x is applied to S1 Corp., which has a similar subscriber-based business model. The current share price represents 2013 consolidated PER of 18.7x.

Year to Dec.	Sales (W bn)	OP (W bn)	Pre-tax (W bn)	NP (W bn)	EPS (Won)	Growth (%)	BPS (Won)	PER (X)	EV/EBITDA (X)	PBR (X)	ROE (%)	Net Debt Ratio (%)
2011	1,709.9	243.3	225.4	177.1	2,296	(3.4)	9,704	15.9	8.3	3.8	24.0	62.6
2012	1,806.8	227.8	161.5	119.7	1,553	(32.4)	10,408	28.0	9.6	4.2	15.4	58.9
2013F	1,961.3	303.8	331.3	242.9	3,150	102.9	11,137	16.8	9.0	4.7	29.2	32.9
2014F	2,131.5	354.5	341.1	255.0	3,306	4.9	12,894	16.0	7.9	4.1	27.5	19.6
2015F	2,295.0	405.2	396.5	292.8	3,797	14.8	14,948	13.9	6.9	3.5	27.3	7.9

Note: K-IFRS standalone basis

## 1Q13 results

(bn KRW)	1Q13P	4Q12	%QoQ	1Q12	%YoY	SHIC	Consensus
Sales	465.2	460.1	1.1	442.4	5.2	476.6	477.9
OP	69.2	35.6	94.2	64.1	7.9	69.7	76.7
NP	80.2	21.6	271.4	41.2	94.5	82.6	81.2
OPM (%)	14.9	7.7		14.5		14.6	16.0
NPM (%)	17.2	4.7		9.3		17.3	17.0

Source: Company data, Shinhan Investment Corp.

## Earnings forecast revision

(bn KRW)	2013F			2014F		
	Before	After	Change (%)	Before	After	Change (%)
Sales	1,983.1	1,961.3	(1.1)	2,149.0	2,131.5	(0.8)
OP	300.4	303.8	1.1	346.0	354.5	2.5
Consolidated NP	240.0	217.9	(9.2)	255.8	258.1	0.9

Source: Shinhan Investment Corp.

## Historical valuation

	08	09	10	11	12	Average
PER (High)	19.8	22.2	21.9	18.6	27.7	22.0
PER (Low)	11.3	12.4	14.9	13.5	17.9	14.0
PER (Avg)	16.5	17.4	18.7	16.2	23.3	18.4

Source: Shinhan Investment Corp.

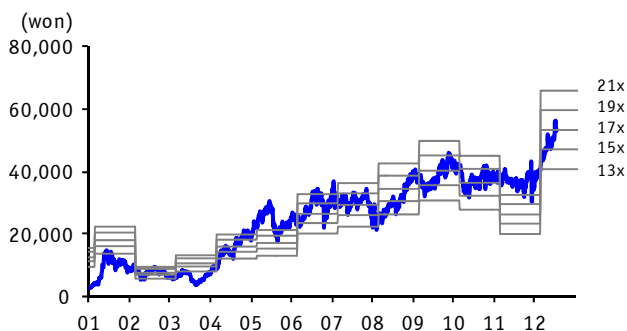
## Target price based on EPS

(bn KRW)	Value	(bn KRW)	Value
2013 NP	217.3	2014 NP	257.7
EPS (KRW)	2,818	EPS (KRW)	3,341
Target PER (x)	22	Target PER (x)	19
Target price (KRW)	63,000	Target price (KRW)	63,000
Current price (KRW)	52,800	Current price (KRW)	52,800
Current PER (x)	18.7	Current PER (x)	15.8

Source: Shinhan Investment Corp.

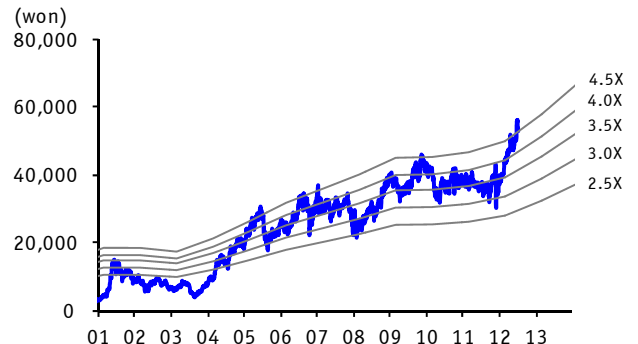
Note: Based on K-IFRS consolidated NP (controlling interests), target PER is the average of 5-year upper PER band

## PER band



Source: Shinhan Investment Corp.

## PBR band



Source: Shinhan Investment Corp.

<b>Earnings estimates</b>					
<b>(bn KRW)</b>	<b>11</b>	<b>12F</b>	<b>13F</b>	<b>14F</b>	<b>15F</b>
<b>Sales</b>	<b>1,709.9</b>	<b>1,806.8</b>	<b>1,961.3</b>	<b>2,131.5</b>	<b>2,295.0</b>
Growth (% YoY)	13.9	5.7	8.5	8.7	7.7
Rental subscribers (no. of contracts)	4,450,003	4,607,420	4,859,513	5,088,644	5,394,654
Growth (% YoY)	7.4	3.5	5.5	4.7	6.0
Rental ARPU (KRW)	22,008	22,824	23,693	24,651	25,104
Rental sales	1,175.2	1,261.9	1,381.7	1,505.3	1,625.1
Water purifier	689.0	733.8	802.8	878.9	951.0
Air purifier	182.3	196.7	225.0	236.9	257.0
Bidet	217.2	233.9	239.8	259.0	268.9
Water softener	78.8	79.6	78.6	77.6	77.0
Others (food disposal, etc.)	7.8	8.2	9.7	11.3	12.7
Mattress		6.9	24.2	39.5	56.2
Rental registration sales	31.1	23.8	9.8	1.0	
Membership sales	160.8	161.3	174.9	182.8	186.6
Lump-sum sales	138.2	144.7	156.7	172.3	184.2
Exports	98.0	109.6	124.1	139.4	157.6
Cosmetics sales	68.2	67.2	75.5	91.9	102.4
Others	38.4	38.3	38.6	39.0	39.0
<b>Growth (% YoY)</b>					
Rental	11.0	7.4	9.5	8.9	8.0
Rental registration sales	(34.5)	(23.4)	(58.9)	(90.1)	(100.0)
Membership sales	8.8	0.3	8.4	4.5	2.1
Lump-sum sales	28.7	4.7	8.3	9.9	6.9
Exports	41.6	11.8	13.2	12.3	13.1
Cosmetics sales	191.9	(1.4)	12.3	21.7	11.5
Others (living, water treatment)	(19.8)	(0.3)	0.8	1.0	0.1
<b>COGS</b>	<b>552.0</b>	<b>605.3</b>	<b>662.0</b>	<b>722.5</b>	<b>774.9</b>
COGS ratio (%)	32.3	33.5	33.8	33.9	33.8
<b>Gross profit</b>	<b>1,157.9</b>	<b>1,201.5</b>	<b>1,299.2</b>	<b>1,409.1</b>	<b>1,520.1</b>
Gross margin (%)	67.7	66.5	66.2	66.1	66.2
<b>SG&amp;A costs</b>	<b>913.1</b>	<b>974.1</b>	<b>995.4</b>	<b>1,054.6</b>	<b>1,115.0</b>
SG&A costs to sales ratio (%)	53.4	53.9	50.8	49.5	48.6
Other operating income	0.6	1.4	1.5	1.5	1.6
Other operating expense	46.8	70.8	57.6	61.9	65.6
<b>OP</b>	<b>244.8</b>	<b>227.4</b>	<b>303.8</b>	<b>354.5</b>	<b>405.2</b>
OPM (%)	14.3	12.6	15.5	16.6	17.7
Growth (% YoY)	(8.0)	(7.1)	33.6	16.7	14.3
Financial income	2.2	3.7	2.1	3.1	4.4
Financial expense	25.8	67.5	22.6	15.1	12.0
Other non-operating income	6.4	4.6	54.3	5.6	6.6
Pre-tax profit	226.4	160.5	331.3	341.1	396.5
Corporate tax	48.2	41.7	88.9	86.6	104.2
Corporate tax rate (%)	21.3	26.0	26.8	25.4	26.3
<b>NP</b>	<b>178.2</b>	<b>118.8</b>	<b>242.4</b>	<b>254.5</b>	<b>292.3</b>
NPM (%)	10.4	6.6	12.4	11.9	12.7
Growth (% YoY)	(5.3)	(33.3)	103.9	5.0	14.8
Consolidated NP	<b>167.1</b>	<b>110.4</b>	<b>217.3</b>	<b>257.7</b>	<b>302.0</b>
Growth (% YoY)	<b>(13.8)</b>	<b>(33.9)</b>	<b>96.8</b>	<b>18.6</b>	<b>17.2</b>
Standalone EPS (KRW)	1,553	3,142	3,300	3,790	4,359
Consolidated EPS (KRW)	2,149	1,432	2,818	3,341	3,916

Source: Company data, Shinhan Investment Corp.

Note: K-IFRS standalone basis

## Quarterly earnings estimates

(bn KRW)	1Q12	2Q12	3Q12	4Q12	1Q13P	2Q13F	3Q13F	4Q13F	1Q14F	2Q14F	3Q14F	4Q14F	12P	13F	14F
<b>Sales</b>	<b>442.4</b>	<b>446.4</b>	<b>458.0</b>	<b>460.1</b>	<b>465.2</b>	<b>491.1</b>	<b>494.9</b>	<b>510.1</b>	<b>519.3</b>	<b>529.9</b>	<b>535.0</b>	<b>547.4</b>	<b>1,806.8</b>	<b>1,961.3</b>	<b>2,131.5</b>
Growth (% YoY)	10.6	2.4	6.5	3.6	5.2	10.0	8.0	10.9	11.6	7.9	8.1	7.3	5.7	8.5	8.7
Rental sales	<b>309.7</b>	<b>313.1</b>	<b>317.7</b>	<b>321.4</b>	<b>323.8</b>	<b>345.8</b>	<b>352.2</b>	<b>359.9</b>	<b>366.0</b>	<b>373.6</b>	<b>379.5</b>	<b>386.2</b>	<b>1,261.9</b>	<b>1,381.7</b>	<b>1,505.3</b>
Rental registration sales	6.6	5.8	5.5	5.9	3.6	2.8	2.0	1.3	1.0	0.0	0.0	0.0	23.8	9.8	1.0
Membership sales	<b>38.8</b>	<b>39.2</b>	<b>41.1</b>	<b>42.3</b>	<b>42.8</b>	<b>43.8</b>	<b>44.1</b>	<b>44.3</b>	<b>44.8</b>	<b>46.0</b>	<b>46.0</b>	<b>46.0</b>	<b>161.3</b>	<b>174.9</b>	<b>182.8</b>
Lump-sum sales	<b>32.7</b>	<b>40.5</b>	<b>39.1</b>	<b>32.4</b>	<b>36.6</b>	<b>41.3</b>	<b>36.7</b>	<b>42.0</b>	<b>42.7</b>	<b>44.6</b>	<b>41.2</b>	<b>43.8</b>	<b>144.7</b>	<b>156.7</b>	<b>172.3</b>
Exports	30.0	21.1	28.0	30.5	31.5	29.2	31.3	32.1	33.5	34.0	35.4	36.5	109.6	124.1	139.4
Cosmetics sales	16.8	16.3	17.3	16.8	17.9	18.3	18.8	20.6	21.7	21.8	23.2	25.1	67.2	75.5	91.9
Others	5.2	16.7	5.7	10.8	7.8	10.4	9.3	10.7					38.3	38.6	39.0
<b>COGS</b>	<b>145.4</b>	<b>142.1</b>	<b>151.5</b>	<b>166.3</b>	<b>154.6</b>	<b>164.7</b>	<b>166.3</b>	<b>176.3</b>	<b>176.0</b>	<b>180.7</b>	<b>179.7</b>	<b>186.0</b>	<b>605.3</b>	<b>662.0</b>	<b>722.5</b>
COGS ratio (%)	32.9	31.8	33.1	36.1	33.2	33.5	33.6	34.6	33.9	34.1	33.6	34.0	33.5	33.8	33.9
<b>SG&amp;A costs</b>	<b>232.8</b>	<b>239.9</b>	<b>243.6</b>	<b>257.8</b>	<b>241.3</b>	<b>251.3</b>	<b>250.8</b>	<b>251.9</b>	<b>260.4</b>	<b>264.1</b>	<b>265.0</b>	<b>265.1</b>	<b>974.1</b>	<b>995.4</b>	<b>1,054.6</b>
SG&A costs/sales ratio (%)	52.6	53.7	53.2	56.0	51.9	51.2	50.7	49.4	50.1	49.8	49.5	48.4	53.9	50.8	49.5
<b>OP</b>	<b>64.1</b>	<b>64.4</b>	<b>62.9</b>	<b>36.0</b>	<b>69.2</b>	<b>75.0</b>	<b>77.7</b>	<b>81.9</b>	<b>82.9</b>	<b>85.0</b>	<b>90.3</b>	<b>96.3</b>	<b>227.4</b>	<b>303.8</b>	<b>354.5</b>
OPM (%)	14.5	14.4	13.7	7.8	14.9	15.3	15.7	16.1	16.0	16.0	16.9	17.6	12.6	15.5	16.6
Growth (% YoY)	9.7	4.3	2.3	(43.0)	7.9	16.5	23.5	127.8	19.7	13.4	16.3	17.5	(7.1)	33.6	16.7
Financial income	0.5	2.4	0.3	0.6	0.3	0.6	0.6	0.6	0.7	0.8	0.8	0.8	3.7	2.1	3.1
Financial expense	8.3	9.3	42.6	7.3	6.5	5.7	5.5	4.9	4.2	3.9	3.6	3.5	67.5	22.6	15.1
Other non-operating income	(2.0)	3.0	(3.3)	2.5	51.1	(1.0)	(1.2)	(1.0)	(0.3)	(0.3)	(0.6)	(0.2)	4.6	54.3	5.6
Pre-tax profit	54.4	56.8	17.7	31.7	114.2	68.9	71.5	76.6	79.1	81.6	87.0	93.4	160.5	331.3	341.1
<b>NP</b>	<b>41.2</b>	<b>44.4</b>	<b>12.9</b>	<b>21.6</b>	<b>80.2</b>	<b>52.0</b>	<b>53.3</b>	<b>57.6</b>	<b>59.3</b>	<b>61.1</b>	<b>65.1</b>	<b>69.0</b>	<b>118.8</b>	<b>242.4</b>	<b>254.5</b>
NPM (%)	9.3	10.0	2.8	4.7	17.2	10.6	10.8	11.3	11.4	11.5	12.2	12.6	6.6	12.4	11.9
Growth (% YoY)	6.4	5.6	(73.8)	(55.2)	94.5	17.1	313.9	167.0	(26.0)	17.5	22.2	19.8	(33.3)	103.9	5.0

Source: Company data, Shinhan Investment Corp.

Note: K-IFRS standalone basis

## Rental subscribers and ARPU by year

(no.)	07	08	09	10	11	12F	13F	14F	15F
ARPU (KRW)	21,369	21,970	21,575	21,285	22,008	22,824	23,693	24,651	25,104
Total subscribers	3,612,491	3,639,197	3,898,647	4,145,102	4,450,003	4,607,420	4,859,513	5,088,644	5,394,654
Net subscriber increase	134,456	26,706	259,450	246,455	304,901	157,417	252,093	229,130	306,010
New subscribers	1,173,707	1,045,248	1,188,939	1,167,378	1,272,538	1,218,911	1,277,692	1,321,798	1,406,759
Cancellation rate (%)	11.5	13.9	13.5	12.9	12.5	12.1	12.0	11.6	11.3
<b>Growth (%)</b>									
ARPU	(0.3)	2.8	(1.8)	(1.3)	3.4	3.7	3.8	4.0	1.8
Total subscribers	3.9	0.7	7.1	6.3	7.4	3.5	5.5	4.7	6.0
Net subscriber increase	(48.5)	(80.1)	871.5	(5.0)	23.7	(48.4)	60.1	(9.1)	33.6
New subscribers	13.9	(10.9)	13.7	(1.8)	9.0	(4.2)	4.8	3.5	6.4

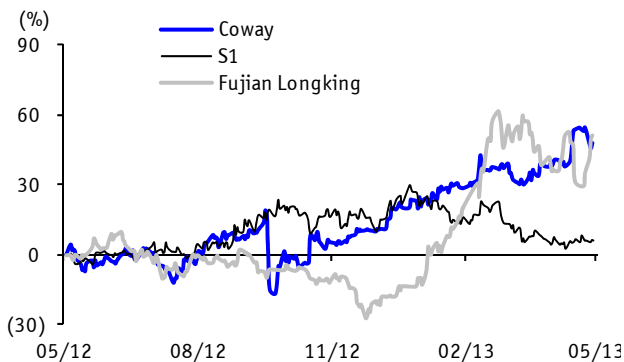
Source: Company data, Shinhan Investment Corp.

## Global peers

Company		Coway	Kurita Water Industries	S1 Corp.	Fujian Longking	OSIM International	Hyflux
Ticker		021240 KS	6370 JP	012750 KS	600388 CH	OSIM SP	HYF SP
Market cap. (bn KRW)		4,072.2	3,052.0	2,299.0	1,695.2	1,296.5	1,063.4
Sales (bn KRW)	2011	1,806.8	2,729.3	1,006.6	750.0	542.5	615.3
	2012F	1,965.3	2,119.1	1,208.6	920.5	593.2	647.3
	2013F	2,115.4	2,110.8	1,313.6	1,039.4	661.5	681.2
OP (bn KRW)	2011	227.8	413.8	112.6	61.9	101.5	71.2
	2012F	296.8	254.8	163.7	71.0	116.4	94.6
	2013F	329.3	257.5	181.2	83.2	130.2	106.9
OP margin (%)	2011	12.6	15.2	11.2	8.3	18.7	11.6
	2012F	15.1	12.0	13.5	7.7	19.6	14.6
	2013F	15.6	12.2	13.8	8.0	19.7	15.7
NP (bn KRW)	2011	119.7	233.0	92.2	52.0	78.4	55.0
	2012F	234.3	141.1	120.8	62.3	88.1	46.3
	2013F	246.5	158.2	138.2	71.4	99.1	60.7
NP margin (%)	2011	6.6	8.5	9.2	6.9	14.4	8.9
	2012F	11.9	6.7	10.0	6.8	14.8	7.2
	2013F	11.7	7.5	10.5	6.9	15.0	8.9
EPS growth (% YoY)	2011	T/B	2.0	(21.6)	19.0	20.2	5.4
	2012F	90.1	(38.0)	10.4	24.5	9.1	24.5
	2013F	5.2	15.5	14.5	12.3	13.5	27.0
P/E (x)	2011	27.0	15.5	25.6	16.1	14.5	28.9
	2012F	17.2	20.7	18.4	25.7	15.0	25.7
	2013F	16.4	17.6	16.1	22.9	13.2	20.3
P/B (x)	2011	4.0	1.2	3.2	1.8	6.4	3.3
	2012F	4.3	1.3	2.6	3.4	5.9	1.6
	2013F	3.8	1.2	2.4	3.1	4.7	1.5
EV/EBITDA (x)	2011	9.2	4.3	10.3	11.7	9.5	7.6
	2012F	9.3	5.5	8.0	18.2	9.3	16.1
	2013F	8.5	5.6	7.2	16.1	8.3	14.1
ROE (%)	2011	15.4	8.1	12.6	12.0	48.1	12.2
	2012F	26.9	6.1	15.0	12.8	42.9	7.8
	2013F	24.3	6.6	15.7	13.3	38.1	8.5

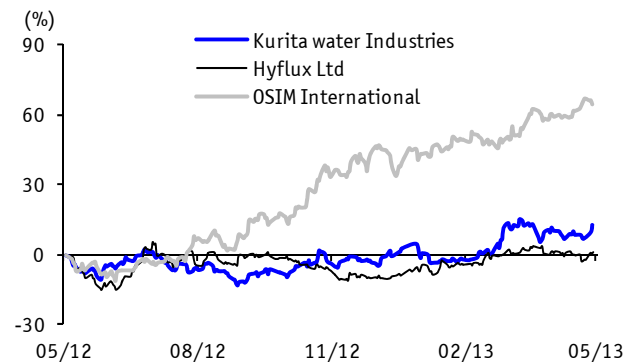
Source: Bloomberg consensus, Shinhan Investment Corp.

## Share performance of global peers



Source: Bloomberg, Shinhan Investment Corp.

## Share performance of global peers



Source: Bloomberg, Shinhan Investment Corp.

## Balance Sheet

Year to Dec. (W bn)	2011	2012	2013F	2014F	2015F
<b>Assets</b>	<b>1,576.5</b>	<b>1,701.5</b>	<b>1,583.0</b>	<b>1,706.7</b>	<b>1,856.7</b>
Total Current Assets	511.5	691.3	506.4	560.9	632.4
Cash and Cash Equivalents	64.9	118.9	46.5	77.1	114.9
Accounts Receivables	240.1	278.4	280.0	285.0	290.0
Inventories	73.0	41.3	44.9	48.8	52.5
Non-Current Assets	1,065.0	1,010.2	1,076.6	1,145.8	1,224.3
Tangible Assets	534.7	594.2	636.5	691.9	755.8
Intangible Assets	156.0	157.5	150.2	144.0	138.7
Investment Assets	285.1	155.3	186.7	206.7	226.7
Other Financial Institutions Assets	0.0	0.0	0.0	0.0	0.0
<b>Liabilities</b>	<b>828.1</b>	<b>898.8</b>	<b>724.0</b>	<b>712.2</b>	<b>703.8</b>
Current Liabilities	534.3	719.6	582.6	578.4	577.7
ST Borrowings	164.8	295.7	180.0	170.0	130.0
Account Payables	28.7	28.9	40.5	52.6	68.4
Current Portion of LT Debt	110.0	109.9	30.0	0.0	0.0
Non-Current Liabilities	293.8	179.2	141.4	133.8	126.1
Bonds	176.7	117.8	107.8	97.8	87.8
LT Borrowings(incl. LT Fin. Liab.)	90.3	35.9	5.9	5.9	5.9
Other Financial Institutions Liab.	0.0	0.0	0.0	0.0	0.0
<b>Shareholders' Equity</b>	<b>748.4</b>	<b>802.7</b>	<b>859.0</b>	<b>994.5</b>	<b>1,152.9</b>
Capital Stock	40.7	40.7	40.7	40.7	40.7
Capital Surplus	130.9	130.6	130.6	130.6	130.6
Other Reserves	(98.8)	(84.6)	(84.6)	(84.6)	(84.6)
Accu. Other Comp. Income	(2.0)	(0.8)	(0.8)	(0.8)	(0.8)
Retained Earnings	677.7	716.8	773.0	908.5	1,066.9
<b>Owners of Parent Equity</b>	<b>748.4</b>	<b>802.7</b>	<b>859.0</b>	<b>994.5</b>	<b>1,152.9</b>
Non-Controlling Interests Equity	0.0	0.0	0.0	0.0	0.0
*Total Debt	542.0	592.2	359.4	312.4	265.4
*Net Debts(Cash)	468.3	472.7	282.8	195.3	90.5

## Cash Flow

Year to Dec. (W bn)	2011	2012	2013F	2014F	2015F
<b>Operating Cash Flow</b>	<b>317.6</b>	<b>429.1</b>	<b>457.1</b>	<b>543.6</b>	<b>506.7</b>
Net Profit	177.1	119.7	242.9	255.0	292.8
Depreciation	144.9	164.8	173.0	181.7	190.8
Amortization	7.5	7.1	7.3	6.2	5.3
Losses(Gains) on F/X Translation	1.4	0.3	0.0	0.0	0.0
Losses(Gains) on Disp. of Assets	44.1	59.8	0.0	0.0	0.0
Losses(Gains) in Asso., Subs., JVs	0.0	3.2	0.0	0.0	0.0
Chg. in A/L from Op. Activities	(111.5)	(37.7)	13.3	88.4	10.0
(Payments of Income Taxes)	(42.0)	(34.7)	(88.4)	(86.1)	(103.6)
Others	96.1	146.6	109.0	98.4	111.4
<b>Investing Cash Flow</b>	<b>(344.2)</b>	<b>(300.9)</b>	<b>(274.9)</b>	<b>(265.2)</b>	<b>(291.5)</b>
Incr. in Tangible Assets(CAPEX)	(299.4)	(295.0)	(295.3)	(327.1)	(354.7)
Decr. in Tangible Assets	8.9	3.4	80.0	90.0	100.0
Decr.(Incr.) in Intangible Assets	(6.7)	(7.7)	0.0	0.0	0.0
Decr.(Incr.) in Investment Assets	(21.4)	4.3	(31.4)	(20.0)	(20.0)
Others	(25.6)	(5.9)	(28.2)	(8.1)	(16.8)
<b>Free Cash Flow</b>	<b>(35.6)</b>	<b>(65.7)</b>	<b>305.1</b>	<b>144.0</b>	<b>162.7</b>
<b>Financing Cash Flow</b>	<b>35.6</b>	<b>(73.6)</b>	<b>(254.6)</b>	<b>(247.8)</b>	<b>(177.5)</b>
Incr.(Decr.) in Borrowing	213.0	20.9	(232.8)	(46.9)	(47.0)
Decr.(Incr.) of Treasury Stock	73.5	0.0	0.0	0.0	0.0
Dividend	(79.9)	(77.8)	0.0	(186.7)	(119.5)
Others	(171.0)	(16.7)	(21.8)	(14.2)	(11.0)
Other Cash Flows	0.0	0.0	0.0	0.0	0.0
Change of Consolidated Scope	0.0	0.0	0.0	0.0	0.0
Difference by Chg. in F/X Rates	(0.5)	(0.6)	0.0	0.0	0.0
<b>Incr.(Decr.) in Cash</b>	<b>8.5</b>	<b>54.0</b>	<b>(72.4)</b>	<b>30.6</b>	<b>37.7</b>
Beginning Cash	56.4	64.9	118.9	46.5	77.1
Ending Cash	64.9	118.9	46.5	77.1	114.8

Source: Company data, Shinhan Investment Corp, K-IFRS Separate based

## Profit and Loss

Year to Dec. (W bn)	2011	2012	2013F	2014F	2015F
<b>Sales</b>	<b>1,709.9</b>	<b>1,806.8</b>	<b>1,961.3</b>	<b>2,131.5</b>	<b>2,295.0</b>
Growth (%)	13.9	5.7	8.5	8.7	7.7
<b>COGS</b>	<b>552.0</b>	<b>605.4</b>	<b>662.0</b>	<b>722.5</b>	<b>774.9</b>
<b>Gross Profit</b>	<b>1,157.9</b>	<b>1,201.4</b>	<b>1,299.2</b>	<b>1,409.1</b>	<b>1,520.1</b>
Gross margin (%)	67.7	66.5	66.2	66.1	66.2
<b>SG&amp;A</b>	<b>914.5</b>	<b>973.6</b>	<b>995.4</b>	<b>1,054.6</b>	<b>1,115.0</b>
<b>Operating Income</b>	<b>243.3</b>	<b>227.8</b>	<b>303.8</b>	<b>354.5</b>	<b>405.2</b>
Growth (%)	(20.7)	(6.4)	33.4	16.7	14.3
Operating margin (%)	14.2	12.6	15.5	16.6	17.7
<b>Other Net Non-Operating Profits</b>	<b>(18.0)</b>	<b>(66.3)</b>	<b>27.5</b>	<b>(13.4)</b>	<b>(8.7)</b>
Financial Income(Expenses)	(23.5)	(58.1)	(20.5)	(12.0)	(7.6)
Net Other Non-Operating Profits	5.5	(5.0)	47.9	(1.4)	(1.1)
Net Gains in Asso., Subs., and JVs	0.0	(3.2)	0.0	0.0	0.0
<b>Pre-tax Profit from Cont. Op.</b>	<b>225.4</b>	<b>161.5</b>	<b>331.3</b>	<b>341.1</b>	<b>396.5</b>
Income Taxes	48.2	41.7	88.4	86.1	103.6
Profit from Continuing Op.	177.1	119.7	242.9	255.0	292.8
Profit from Discontinued Op.	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>177.1</b>	<b>119.7</b>	<b>242.9</b>	<b>255.0</b>	<b>292.8</b>
Growth (%)	(3.4)	(32.4)	102.9	4.9	14.8
Net Profit margin (%)	10.4	6.6	12.4	12.0	12.8
Net Profit of Parent	177.1	119.7	242.9	255.0	292.8
Net Profit to Non-Controlling	0.0	0.0	0.0	0.0	0.0
<b>Total Comprehensive Income</b>	<b>172.7</b>	<b>118.2</b>	<b>242.9</b>	<b>255.0</b>	<b>292.8</b>
Total Comp. Income of Parent	172.7	118.2	242.9	255.0	292.8
Total Comp. Income to Non-Cont.	0.0	0.0	0.0	0.0	0.0
<b>EBITDA</b>	<b>395.8</b>	<b>399.7</b>	<b>484.2</b>	<b>542.4</b>	<b>601.3</b>
Growth (%)	(11.1)	1.0	21.1	12.0	10.8
EBITDA Margin (%)	23.1	22.1	24.7	25.4	26.2

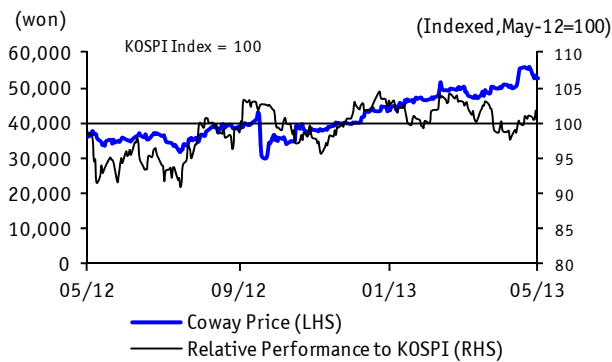
Note: Operating profit is based on 2012 K-IFRS (gross profit - SG&A costs)

## Key Ratios

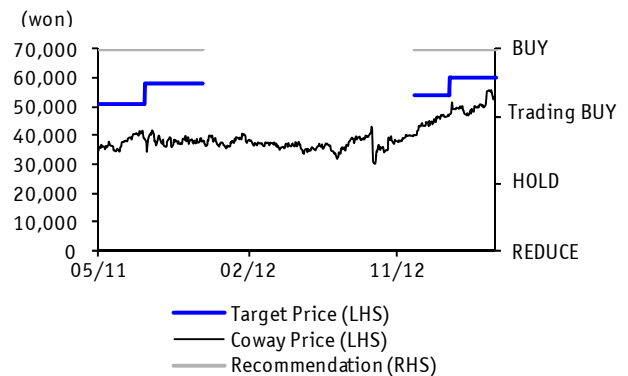
Year to Dec.	2011	2012	2013F	2014F	2015F
EPS_C (won)	2,296	1,553	3,150	3,306	3,797
EPS_P (won)	2,296	1,553	3,150	3,306	3,797
BPS_C (won)	9,704	10,408	11,137	12,894	14,948
BPS_P (won)	9,704	10,408	11,137	12,894	14,948
DPS (won)	1,050	0	2,500	1,600	1,800
PER_C (x)	15.9	28.0	16.8	16.0	13.9
PER_P (x)	15.9	28.0	16.8	16.0	13.9
PBR_C (x)	3.8	4.2	4.7	4.1	3.5
PBR_P (x)	3.8	4.2	4.7	4.1	3.5
EV/EBITDA (x)	8.3	9.6	9.0	7.9	6.9
EV/EBIT (x)	13.5	16.8	14.3	12.0	10.3
Dividend Yield (%)	2.9	0.0	4.7	3.0	3.4
<b>Profitability</b>					
EBITDA Margin (%)	23.1	22.1	24.7	25.4	26.2
OP Margin (%)	14.2	12.6	15.5	16.6	17.7
NP Margin (%)	10.4	6.6	12.4	12.0	12.8
ROA (%)	12.1	7.3	14.8	15.5	16.4
ROE (%)	24.0	15.4	29.2	27.5	27.3
ROIC (%)	25.8	18.0	23.1	29.4	32.0
<b>Stability</b>					
D/E Ratio (%)	110.6	112.0	84.3	71.6	61.0
Net Debt to Equity (%)	62.6	58.9	32.9	19.6	7.9
Cash Ratio (%)	12.1	16.5	8.0	13.3	19.9
Interest Coverage (x)	9.7	7.9	14.0	24.9	36.8
<b>Activity (%)</b>					
Working Capital Turnover (t)	11.8	7.5	9.9	23.6	32.7
Inventory Turnover (d)	15.6	11.5	8.0	8.0	8.1
Receivable Turnover (d)	47.4	52.4	52.0	48.4	45.7

Source: Company data, Shinhan Investment Corp, K-IFRS Separate based

Share Price Performance



Target Price & Recommendation History



**SHIC Rating Classifications:** BUY; Over +15%, Trading BUY; 0 to 15%, HOLD; -15% to 0, REDUCE; -15% or More (As of 25 Jul. 2011)

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