KIS Korea Daily

Korea Investment & Securities Co., Ltd.

March 28, 2011

Market Performance

	Mar 28	1D	1M	3M	YTD
KOSPI (pt)	2,056.39	0.11	4.73	1.69	22.20
Turnover (W bn)	6,377				
KOSDAQ (pt)	512.74	-0.36	0.67	3.23	-0.16

Major Indicators

	Mar 25	1-wk ago	1M ago	end-10
10-yr US Treasury Notes	3.44	3.27	3.41	3.29
3-yr gov't bonds (%)	3.71	3.65	3.84	3.38
AA- corporate bonds (%)	4.49	4.48	4.63	4.27
KRW/USD (won)	1,114.20	1,126.65	1,126.45	1,124.80
KRW/100JPY (won)	1,368.65	1,388.21	1,380.55	1,383.56
JPY/USD (yen)	81.41	81.03	81.78	81.16
USD/EUR (USD)	1.41	1.42	1.38	1.34
WTI (USD/bbl)	105.11	102.33	96.97	91.38
Gold (USD/oz)	1,428.55	1,427.68	1,411.48	1,420.78

Domestic Institutions Net Buy / Sell

Net Buy	(W bn)	Net Sell	(W bn)
Hynix	1078.0	Daelim Industrial	519.4
POSCO	883.3	Hyundai E&C	516.7
Hyundai Motor	330.1	DSME	370.4
Hyundai Mobis	235.1	STX Offshore & Shipbuild.	366.1
Samsung Electronics	202.0	Honam Petrochemical	308.3

Foreign Net Buy / Sell

Net Buy	(W bn)	Net Sell	(W bn)
Samsung Electronics	636.1	Hyundai Mobis	121.7
Honam Petrochemical	280.9	NHN	116.9
Glovis	164.8	Shinhan Financial Group	89.5
LG Electronics	148.7	Doosan Infracore	80.3
KB Financial Group	144.9	Hyundai E&C	74.7

Daily performance by sector

Top five sectors	% chg	Bottom five sectors	% chg
Steel	2.32	Construction	-3.36
Warehouse	1.14	Machinery	-2.48
Medical precision	0.82	Banks	-0.76
Electronic/Electric	0.77	Transport equip.	-0.72
Chemicals	0.72	Utilities	-0.62

WHAT'S NEW TODAY

In-depth reports

- **Woongjin Coway** (021240): Excluding financial crisis period, most undervalued
- **Air transportation, Ch. 4** (Overweight): Cargo- Growing demand but short supply

Our market view (for the mid- to long-term)

(%, x)		2009A	2010P	2011F
Corporate Earnings	OP growth	9.0	39.4	21.8
	NP growth	66.6	50.8	17.5
Valuation	PER	14.2	11.8	10.2
	PBR	1.35	1.47	1.32

Economic Forecast

Factors	2010A	1Q11F	2Q11F	3Q11F	4Q11F	2011F
GDP (%)	6.1	3.7	3.4	3.8	4.2	3.8
Private consumption (%)	3.9	3.3	3.0	2.6	3.0	3.0
Facility investment (%)	24.5	14.1	5.9	2.6	5.8	6.8
Current account (USD bn)	28.2	6.3	4.3	4.1	1.7	16.4
CPI (%)	2.9	4.3	4.0	3.6	3.0	3.8
KRW/USD (AVG)	1156	1125	1130	1150	1155	1140
3-yr gov. bond (%, AVG)	3.71	3.75	4.00	3.80	3.70	3.81

Note) All figures' growth rates are on YoY basis.

In-depth reports

Woongjin Coway (021240)

Eun-chae Na
822-3276-6160
ec.na@truefriend.com

Gearing up for further growth

BUY (Initiate), TP: W47,000 (Initiate)

Closing price: W37,400 (+1.49%)

- **Recommend BUY and price target of W47,000:** We initiate coverage of Woongjin Coway (Coway) with BUY and a price target of W47,000. We are upbeat about the company due to: 1) growth momentum at the mainstay and new businesses, 2) profitability improvement gaining pace from 2H11, and 3) a big dividend payout ratio and favorable shareholders' policy. We derived the price by applying the past three-year average PER of 17.0x the 2011F EPS of W2,580. The price has 27.6% upside.
- **Get ready for further growth:** Coway delivered a sales CAGR of 7.8% from 2007 to 2010 rather than the previous double-digit growth. We expect the annual average sales growth to recover to 10.7% over the next three years due to the following. First, net subscriber additions at the environmental home appliances business should drive up the segment's annual average sales growth from 5.6% over the past three years to 7.6% over the next three years. Second, domestic cosmetics sales are stronger than expected. When the company entered the cosmetics arena in September 2010, the business' contribution to annual sales was a mere 1.5% but is expected to rise to 6.4% in 2013F. Third, branching out into water treatment systems and exports should fuel mid to long-term growth with market expansion, buyout opportunities and a wider customer base. Robust growth momentum at core subsidiaries, one in China and Woongjin Chemical, is also noteworthy.
- **Profitability improvement in 2H11; EPS CAGR of 13% over the next three years:** We forecast Coway's operating margin to dip from a high of 15.1% in 2010 to 14.2% in 2011F. Greater marketing costs for the cosmetics business that was launched in 4Q10 and the release of new products in 1H11 should continue to push down operating profit during 1H11. But operating profit should turn upward on economies of scale and lower advertising costs in 2H11 and thus, we estimate operating profit to swell 19% YoY in 2H11. Although we see operating profit gaining a mere 6.5% YoY in 2011F, there will be a roller coaster of weakness in 1H11 and strength in 2H11.
- **Concerns over protecting market share and lingering Woongjin Group risk:** While Coway's forte lies in its unrivalled dominance in water purifiers, it also faces two risk factors: SMEs' low-price strategy and major firms' advance on the water purifier business. But rather than being worried about these risks, we believe it is more important to draw attention to Coway's unrivalled competitive edge stemming from the development of new products and superior service quality offered by 13,000 "codys," its after-sale service agents. The risk associated with Woongjin Group is another issue. Woongjin Holdings' (parent company) debt burden and the possibility of financially supporting an ailing affiliate raised concerns about a divestiture of Coway shares and subsequent capital outflow. But at present, Woongjin Holdings owns only 28.4% of Coway so a further stake reduction is unlikely.

Air transportation, Ch. 4
(Overweight)

Heedo Yun
82-2-3276-6165
heedo@truefriend.com

Cargo: Growing demand but short supply

- **Structural changes in cargo mix – a shift from IT products to machinery:** As the air passenger segment is experiencing a business shift from Korean customers to foreign travelers, the air cargo business is in the midst of structural changes. IT products represent a declining portion of air cargo and the opposite is true for machinery. We believe such changes in the cargo mix bode well for carriers. Growing air cargo demand and a short supply of cargo aircraft should create excess demand for some time. When excluding Korean Air and Cathay Pacific, few carriers have placed orders for cargo carriers.
- **Export and import cargo: Growth in size and improvement in quality:** The Korean air cargo market breaks down to exports and imports (56%) and transshipments (44%). Cargo demand for exports and imports surged to a record high in 2010 and should continue to grow in 2011. We believe the export and import segment posted growth in size and improvement in quality. The cargo mix indicates that Korea relies less on IT products thanks to fast-growing automotive parts and fine chemicals. IT products accounted for 51% of Korean exports and imports in 2005 but this figure tumbled to 40% in 2010. We expect the portion of IT products to continue declining for a while.
- **A boom in a short supplied market:** According to the International Air Transport Association, Asia-Pacific routes' cargo demand should record a CAGR of 10.3% during 2010 and 2014 and this figure is higher than the global

average of 7.6%. We believe Korean Air will benefit from a fast-growing China, especially because the air cargo market is in short supply. Based on nine major Asian carriers, the number of cargo aircraft plunged from 103 in 2007 to 93 in 2009. Korean Air and Cathay Pacific have placed orders for 10 cargo aircraft, respectively, but their rivals remain on the sidelines. Given that the shortage of air freight carriers will continue for the foreseeable future, we believe Korean Air made the right move when it decided to expand its cargo fleet in difficult times.

Please click on the underlined companies and sectors to see the full reports.
The KIS Morning Brief, KIS Korea Daily and other research reports can be viewed at ***eng.truefriend.com***

- **Guide to Korea Investment & Securities Co., Ltd. stock ratings based on 12-month-forward share price performance relative to market index**
  - BUY: Expected to give a return of +15% or more
  - Hold: Expected to give a return between -15% and +15%
  - Underweight: Expected to give a return of -15% or less

- **Guide to Korea Investment & Securities Co., Ltd. sector ratings for the next 12 months**
  - Overweight: Recommend increasing the sector's weighting in the portfolio compared to its respective weighting in the Kospi (Kosdaq) based on market capitalization.
  - Neutral: Recommend maintaining the sector's weighting in the portfolio in line with its respective weighting in the Kospi (Kosdaq) based on market capitalization.
  - Underweight: Recommend reducing the sector's weighting in the portfolio compared to its respective weighting in the Kospi (Kosdaq) based on market capitalization.

- **Disclaimer**