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# Company Update



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## Coway (021240)

### Another nickel scandal?

- Nickel has reportedly been found in the ice tank of a Coway water purifier. While large one-off costs are unlikely, the longer-term value of the company's brand could be damaged, as this news comes on the heels of another nickel scandal last year. That said, Coway has no strong rivals and thus is unlikely to lose significant market share in the near term. We maintain our forecasts, target price, and BUY rating on the stock and will review them after gauging consumer responses.

#### WHAT'S THE STORY?

**Nickel found again:** New reports yesterday said nickel compounds have been found in the ice tank of a Coway ice-making water purifier. The model in question, the CHPI-280L, was sold over 2015-2016, was the last with nickel-coated parts, and is used by approximately 65,000 rental accounts (1.3% of the firm's total). When the Jul 2016 nickel scandal broke, Coway recalled three of its four ice-making water purifiers (CHPCI-430N, CHPI-380N, and CPSI-370N), affecting about 106,000 accounts. The CHPI-280L was not included as it was not found to have structural defects, and a consumer agency/government inspection confirmed this.

**Short-term costs likely limited:** We do not expect Coway to incur substantial one-off costs because of this news. The company is saying the issue is related only to a few individual purifiers and it will only replace faulty products. The firm sold the CHPI-280L to 100,000 accounts over 2015-2016, but only 36 accounts have thus far registered a complaint. Health-related compensation costs also should not be a factor, as a government fact-finding committee last year concluded that Coway was not responsible for any health problems of individuals who had drunk nickel-tainted water, and the highest nickel concentrations were safe for children as young as seven drinking the water daily for seven years (the purifiers were sold for only two). This should be the last such scandal—since 2H16, Coway has used only stainless steel parts in ice-making purifiers.

**Too early to measure impact:** We are not worried about one-off costs but rather issues of brand value and market share. While the news could be the result of false claims or an overzealous media, the fact that the scandal is the second in a year could hurt the longer-term value of Coway's brand. The market for ice-making water purifier markets could also shrink, as there are only two players in the segment (*ie*, Coway and Chungho, which also used nickel parts in products made before 2016). Such purifiers are used by less than 10% of Coway's water purifier rental accounts. Still, after the Jul 2016 scandal, 80% of accounts affected applied for purifier replacements—rather than terminating accounts—and most wanted ice-making ones. We maintain our forecasts, target price, and BUY rating on the stock and will review them after gauging consumer responses.

#### SUMMARY FINANCIAL DATA

|                          | 2016   | 2017E | 2018E | 2019E |
|--------------------------|--------|-------|-------|-------|
| Revenue (KRWb)           | 2,376  | 2,587 | 2,802 | 3,021 |
| Net profit (adj) (KRWb)  | 243    | 385   | 427   | 465   |
| EPS (adj) (KRW)          | 3,167  | 5,010 | 5,571 | 6,080 |
| EPS (adj) growth (% y-y) | (28.8) | 58.2  | 11.2  | 9.1   |
| EBITDA margin (%)        | 24.1   | 29.5  | 29.4  | 29.7  |
| ROE (%)                  | 20.1   | 30.6  | 30.1  | 29.2  |
| P/E (adj) (x)            | 32.2   | 20.4  | 18.3  | 16.8  |
| P/B (x)                  | 6.3    | 5.6   | 4.9   | 4.4   |
| EV/EBITDA (x)            | 13.7   | 10.2  | 9.4   | 8.5   |
| Dividend yield (%)       | 3.1    | 3.4   | 3.9   | 4.2   |

Source: Company data, Samsung Securities estimates

#### AT A GLANCE

SELL HOLD BUY

Target price **KRW115,000** (19.9%)

Current price **KRW95,900**

|                                  |                       |
|----------------------------------|-----------------------|
| Market cap                       | KRW7.6t/USD6.8b       |
| Shares (float)                   | 74,818,121 (70.7%)    |
| 52-week high/low                 | KRW111,000/KRW81,300  |
| Avg daily trading value (60-day) | KRW24.7b/<br>USD22.0m |

#### ONE-YEAR PERFORMANCE

|                 | 1M   | 6M   | 12M  |
|-----------------|------|------|------|
| Coway (%)       | -0.5 | 17.2 | 10.3 |
| Vs Kospi (%pts) | -3.1 | 0.1  | -8.1 |

#### KEY CHANGES

| (KRW)        | New     | Old     | Diff |
|--------------|---------|---------|------|
| Recommend.   | BUY     | BUY     |      |
| Target price | 115,000 | 115,000 | 0.0% |
| 2017E EPS    | 5,010   | 4,887   | 2.5% |
| 2018E EPS    | 5,571   | 5,414   | 2.9% |

#### SAMSUNG vs THE STREET

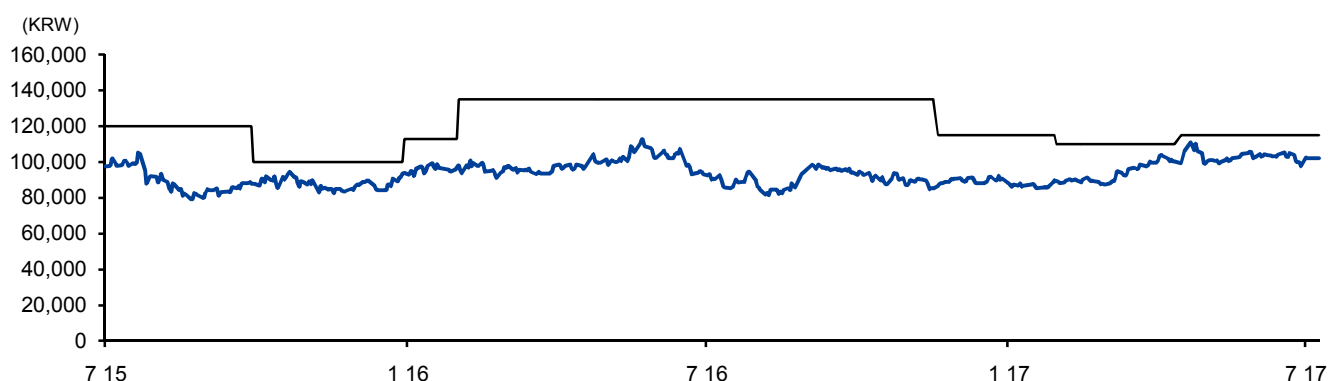
|                 |         |
|-----------------|---------|
| No of estimates | 9       |
| Target price    | 115,250 |
| Recommendation  | 3.4     |

BUY★★★: 5 / BUY: 4 / HOLD: 3 / SELL: 2 / SELL★★★: 1

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## Target price changes in past two years



## Rating changes in past two years

| Date               | 2015/7/19 | 10/15   | 2016/1/15 | 2/17    | 12/4    | 2017/2/15 | 4/29    |
|--------------------|-----------|---------|-----------|---------|---------|-----------|---------|
| Recommendation     | BUY       | BUY     | BUY       | BUY     | BUY     | BUY       | BUY     |
| Target price (KRW) | 120,000   | 100,000 | 113,000   | 135,000 | 115,000 | 110,000   | 115,000 |

Samsung Securities uses the following investment ratings.

### Company

|             |  |
|-------------|--|
| <b>BUY</b>  | Expected to increase in value by 10% or more within 12 months and is highly attractive within sector |
| <b>HOLD</b> | Expected to increase/decrease in value by less than 10% within 12 months                             |
| <b>SELL</b> | Expected to decrease in value by 10% or more within 12 months  |

### Industry

|                    |   |
|--------------------|---|
| <b>OVERWEIGHT</b>  | Expected to outperform market by 5% or more within 12 months                |
| <b>NEUTRAL</b>     | Expected to outperform/underperform market by less than 5% within 12 months |
| <b>UNDERWEIGHT</b> | Expected to underperform market by 5% or more within 12 months              |

## Percentage of ratings in 12 months prior to Jun 30, 2017

BUY (81.5%) | HOLD (18.5%) | SELL (0%)

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