

## Consumer Services

Issue Comment  
July 20, 2017

*Mirae Asset Daewoo Co., Ltd.*

[Cosmetics/Household  
Goods/Duty Free]

Regina Hahm  
+822-3774-1682  
regina.hahm@miraeasset.com

Minkyung Kim  
+822-3774-1732  
minkyung.kim.a@miraeasset.com

# Coway

(021240 KS/Buy)

## An unfortunate misunderstanding

- On July 18<sup>th</sup>, SBS News aired a report on alleged defects in one of Coway's ice-making water purifier models, citing a number of unsupported claims
- The news set off market jitters, but is based on incorrect information and should thus prove to be a fleeting issue
- Watch for full normalization after 2Q17; Maintain Buy and TP of W130,000

### An unfortunate misunderstanding

On July 18<sup>th</sup>, SBS News aired a report on alleged defects in one of Coway's ice-making water purifier models. Even though the model in question is based on an entirely different design than the purifiers recalled last year, the report described the issues along the same lines.

The model in question does not suffer from any nickel-related defects, so it is inappropriate to suggest that the model itself could pose health risks. Rather, the problem SBS described appears to be an isolated issue affecting some individual products. Reports that Coway was replacing parts for already-sold products have also proven to be untrue. But more importantly, the model was found to have no structural defects or health risks by the government in a separate study.

### Latest event points to lack of information accountability

For consumer goods companies, qualitative strengths—particularly the ability to continuously develop good products and maintain high quality—serve as the foundation of consumer trust. In Korea, only a handful of consumer goods companies have attained such qualitative strengths. Among Interbrand's 2016 list of the top 50 Korean brands, the only consumer goods companies (excluding IT, auto, and alcoholic beverages) were AmorePacific, LG Household & Health Care, and Coway.

Coway began selling water purifiers in 1989 and introduced a rental business model in 1998. In our view, the company's sustained growth over the years is largely attributable to its strong qualitative capabilities.

In particular, because health appliances are not considered essential, consumer choice holds the key to business sustainability. We believe Coway's unique systemic strength across products, services, and brands has been the fundamental driver behind consumers' growing trust in and preference for the company.

Even during last year's recall, the company demonstrated a proactive response rarely witnessed in the industry. Many of the customers eligible for refunds opted to re-rent the company's new products, demonstrating their confidence in the company. Core indicators also quickly recovered, reflecting the inherent strength of the company's products and services.

It takes years to establish qualitative strengths and brand value, as they are directly tied to consumer perceptions. At the same time, negative headlines, even ones that are incorrect, can deal an instant blow. In our view, the latest reports reflect a lack of proper understanding and information accountability.

We maintain our Buy rating and target price of W130,000 on Coway and continue to recommend the stock as one of our top picks in cosmetics/household goods/duty-free for 2H17 (along with Hotel Shilla).

**Table 1. Top 20 brands based on change in brand value between 2014 and 2016** (Wbn, %)

Ranking	Company	2014 Brand value	2016 Brand value	2014-16 Change
1	AmorePacific	1,148	2,440	112.6
2	NAVER	2,295	3,755	63.6
3	LG H&H	616	987	60.2
4	CJ Cheiljedang	541	845	56.3
5	Coway	453	652	44.0
6	LG Uplus	341	472	38.3
7	Hyundai Motor	9,004	12,449	38.3
8	KT&G	747	1,014	35.7
9	Hyundai Mobis	1,410	1,913	35.7
10	Samsung Life	2,476	3,341	34.9
11	Samsung F&M	1,551	2,088	34.6
12	Hotel Shilla	399	536	34.2
13	Kia Motor	4,708	6,247	32.7
14	Kyobo Life	1,065	1,386	30.2
15	Lotte Shopping	1,313	1,697	29.2
16	LG Chem	1,402	1,801	28.4
17	Samsung Electronics	39,610	50,787	28.2
18	KEB Hana Bank	1,607	2,051	27.6
19	Emart	613	751	22.5
20	Samsung Securities	458	556	21.4

Source: Interbrand, Mirae Asset Daewoo Research

**Figure 1. Linkage of brand and corporate value via cohesive systems**



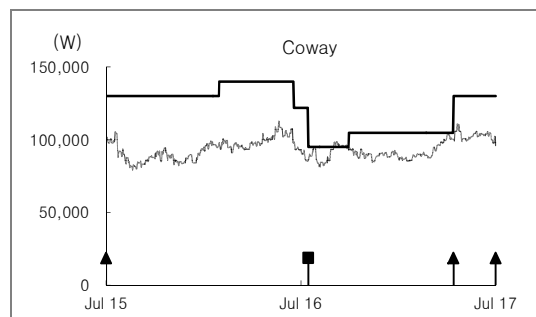
Source: Company materials, Mirae Asset Daewoo Research

## APPENDIX 1

### Important Disclosures & Disclaimers

#### 2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
Coway (021240)	05/01/2017	Buy	130,000
	10/17/2016	Trading Buy	105,000
	08/02/2016	Trading Buy	95,000
	07/06/2016	Buy	122,000
	02/17/2016	Buy	140,000
	05/07/2015	Buy	130,000



#### Stock Ratings

Buy	: Relative performance of 20% or greater
Trading Buy	: Relative performance of 10% or greater, but with volatility
Hold	: Relative performance of -10% and 10%
Sell	: Relative performance of -10%

#### Industry Ratings

Overweight	: Fundamentals are favorable or improving
Neutral	: Fundamentals are steady without any material changes
Underweight	: Fundamentals are unfavorable or worsening

Ratings and Target Price History (Share price (—), Target price (—), Not covered (■), Buy (▲), Trading Buy (■), Hold (●), Sell (◆))

\* Our investment rating is a guide to the relative return of the stock versus the market over the next 12 months.

\* Although it is not part of the official ratings at Mirae Asset Daewoo Co., Ltd., we may call a trading opportunity in case there is a technical or short-term material development.

\* The target price was determined by the research analyst through valuation methods discussed in this report, in part based on the analyst's estimate of future earnings.

\* The achievement of the target price may be impeded by risks related to the subject securities and companies, as well as general market and economic conditions.

#### Equity Ratings Distribution

Buy	Trading Buy	Hold	Sell
69.67%	17.06%	13.27%	0.00%

\* Based on recommendations in the last 12-months (as of June 30, 2017)

#### Disclosures

As of the publication date, Mirae Asset Daewoo Co., Ltd. and/or its affiliates do not have any special interest with the subject company and do not own 1% or more of the subject company's shares outstanding.

#### Analyst Certification

The research analysts who prepared this report (the "Analysts") are registered with the Korea Financial Investment Association and are subject to Korean securities regulations. They are neither registered as research analysts in any other jurisdiction nor subject to the laws and regulations thereof. Opinions expressed in this publication about the subject securities and companies accurately reflect the personal views of the Analysts primarily responsible for this report. Mirae Asset Daewoo Co., Ltd. ("Mirae Asset Daewoo") policy prohibits its Analysts and members of their households from owning securities of any company in the Analyst's area of coverage, and the Analysts do not serve as an officer, director or advisory board member of the subject companies. Except as otherwise specified herein, the Analysts have not received any compensation or any other benefits from the subject companies in the past 12 months and have not been promised the same in connection with this report. No part of the compensation of the Analysts was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report but, like all employees of Mirae Asset Daewoo, the Analysts receive compensation that is determined by overall firm profitability, which includes revenues from, among other business units, the institutional equities, investment banking, proprietary trading and private client division. At the time of publication of this report, the Analysts do not know or have reason to know of any actual, material conflict of interest of the Analyst or Mirae Asset Daewoo except as otherwise stated herein.

#### Disclaimers

This report is published by Mirae Asset Daewoo, a broker-dealer registered in the Republic of Korea and a member of the Korea Exchange. Information and opinions contained herein have been compiled in good faith and from sources believed to be reliable, but such information has not been independently verified and Mirae Asset Daewoo makes no guarantee, representation or warranty, express or implied, as to the fairness, accuracy, completeness or correctness of the information and opinions contained herein or of any translation into English from the Korean language. In case of an English translation of a report prepared in the Korean language, the original Korean language report may have been made available to investors in advance of this report.

The intended recipients of this report are sophisticated institutional investors who have substantial knowledge of the local business environment, its common practices, laws and accounting principles and no person whose receipt or use of this report would violate any laws and regulations or subject Mirae Asset Daewoo and its affiliates to registration or licensing requirements in any jurisdiction shall receive or make any use hereof.

This report is for general information purposes only and it is not and shall not be construed as an offer or a solicitation of an offer to effect transactions in any securities or other financial instruments. The report does not constitute investment advice to any person and such person shall not be treated as a client of Mirae Asset Daewoo by virtue of receiving this report. This report does not take into account the particular investment objectives, financial situations, or needs of individual clients. The report is not to be relied upon in substitution for the exercise of independent judgment. Information and opinions contained herein are as of the date hereof and are subject to change without notice. The price and value of

the investments referred to in this report and the income from them may depreciate or appreciate, and investors may incur losses on investments. Past performance is not a guide to future performance. Future returns are not guaranteed, and a loss of original capital may occur. Mirae Asset Daewoo, its affiliates and their directors, officers, employees and agents do not accept any liability for any loss arising out of the use hereof.

Mirae Asset Daewoo may have issued other reports that are inconsistent with, and reach different conclusions from, the opinions presented in this report. The reports may reflect different assumptions, views and analytical methods of the analysts who prepared them. Mirae Asset Daewoo may make investment decisions that are inconsistent with the opinions and views expressed in this research report. Mirae Asset Daewoo, its affiliates and their directors, officers, employees and agents may have long or short positions in any of the subject securities at any time and may make a purchase or sale, or offer to make a purchase or sale, of any such securities or other financial instruments from time to time in the open market or otherwise, in each case either as principals or agents. Mirae Asset Daewoo and its affiliates may have had, or may be expecting to enter into, business relationships with the subject companies to provide investment banking, market-making or other financial services as are permitted under applicable laws and regulations.

No part of this document may be copied or reproduced in any manner or form or redistributed or published, in whole or in part, without the prior written consent of Mirae Asset Daewoo.

#### **Distribution**

**United Kingdom:** This report is being distributed by Mirae Asset Securities (UK) Ltd. in the United Kingdom only to (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order"), and (ii) high net worth companies and other persons to whom it may lawfully be communicated, falling within Article 49(2)(A) to (E) of the Order (all such persons together being referred to as "Relevant Persons"). This report is directed only at Relevant Persons. Any person who is not a Relevant Person should not act or rely on this report or any of its contents.

**United States:** This report is distributed in the U.S. by Mirae Asset Securities (USA) Inc., a member of FINRA/SIPC, and is only intended for major institutional investors as defined in Rule 15a-6(b)(4) under the U.S. Securities Exchange Act of 1934. All U.S. persons that receive this document by their acceptance thereof represent and warrant that they are a major institutional investor and have not received this report under any express or implied understanding that they will direct commission income to Mirae Asset Daewoo or its affiliates. Any U.S. recipient of this document wishing to effect a transaction in any securities discussed herein should contact and place orders with Mirae Asset Securities (USA) Inc., which accepts responsibility for the contents of this report in the U.S. The securities described in this report may not have been registered under the U.S. Securities Act of 1933, as amended, and, in such case, may not be offered or sold in the U.S. or to U.S. persons absent registration or an applicable exemption from the registration requirements.

**Hong Kong:** This document has been approved for distribution in Hong Kong by Mirae Asset Securities (HK) Ltd., which is regulated by the Hong Kong Securities and Futures Commission. The contents of this report have not been reviewed by any regulatory authority in Hong Kong. This report is for distribution only to professional investors within the meaning of Part I of Schedule 1 to the Securities and Futures Ordinance of Hong Kong (Cap. 571, Laws of Hong Kong) and any rules made thereunder and may not be redistributed in whole or in part in Hong Kong to any person.

**All Other Jurisdictions:** Customers in all other countries who wish to effect a transaction in any securities referenced in this report should contact Mirae Asset Daewoo or its affiliates only if distribution to or use by such customer of this report would not violate applicable laws and regulations and not subject Mirae Asset Daewoo and its affiliates to any registration or licensing requirement within such jurisdiction.

## Mirae Asset Daewoo International Network

---

### Mirae Asset Daewoo Co., Ltd. (Seoul)

Global Equity Sales Team  
Mirae Asset Center 1 Building  
26 Eulji-ro 5-gil, Jung-gu, Seoul 04539  
Korea

Tel: 82-2-3774-2124

---

### Mirae Asset Securities (USA) Inc.

810 Seventh Avenue, 37th Floor  
New York, NY 10019  
USA

Tel: 1-212-407-1000

---

### PT. Mirae Asset Sekuritas Indonesia

Equity Tower Building Lt. 50  
Sudirman Central Business District  
Jl. Jend. Sudirman, Kav. 52-53 Jakarta Selatan  
12190  
Indonesia

Tel: 62-21-515-3281

---

### Mirae Asset Securities Mongolia UTsk LLC

#406, Blue Sky Tower, Peace Avenue 17  
1 Khoroo, Sukhbaatar District  
Ulaanbaatar 14240  
Mongolia

Tel: 976-7011-0806

---

### Shanghai Representative Office

38T31, 38F, Shanghai World Financial Center  
100 Century Avenue, Pudong New Area  
Shanghai 200120  
China

Tel: 86-21-5013-6392

---

### Mirae Asset Securities (HK) Ltd.

Suites 1109-1114, 11th Floor  
Two International Finance Centre  
8 Finance Street, Central  
Hong Kong  
China

Tel: 852-2845-6332

---

### Mirae Asset Wealth Management (USA) Inc.

555 S. Flower Street, Suite 4410,  
Los Angeles, California 90071  
USA

Tel: 1-213-262-3807

---

### Mirae Asset Securities (Singapore) Pte. Ltd.

6 Battery Road, #11-01  
Singapore 049909  
Republic of Singapore

Tel: 65-6671-9845

---

### Mirae Asset Investment Advisory (Beijing) Co., Ltd

2401B, 24th Floor, East Tower, Twin Towers  
B12 Jianguomenwai Avenue, Chaoyang District  
Beijing 100022  
China

Tel: 86-10-6567-9699

---

### Ho Chi Minh Representative Office

7F, Saigon Royal Building  
91 Pasteur St.  
District 1, Ben Nghe Ward, Ho Chi Minh City  
Vietnam

Tel: 84-8-3910-7715

---

### Mirae Asset Securities (UK) Ltd.

41st Floor, Tower 42  
25 Old Broad Street,  
London EC2N 1HQ  
United Kingdom

Tel: 44-20-7982-8000

---

### Mirae Asset Wealth Management (Brazil) CCTVM

Rua Funchal, 418, 18th Floor, E-Tower Building  
Vila Olimpia  
Sao Paulo - SP  
04551-060  
Brasil

Tel: 55-11-2789-2100

---

### Mirae Asset Securities (Vietnam) LLC

7F, Saigon Royal Building  
91 Pasteur St.  
District 1, Ben Nghe Ward, Ho Chi Minh City  
Vietnam

Tel: 84-8-3911-0633 (ext.110)

---

### Beijing Representative Office

2401A, 24th Floor, East Tower, Twin Towers  
B12 Jianguomenwai Avenue, Chaoyang District  
Beijing 100022  
China

Tel: 86-10-6567-9699 (ext. 3300)

---