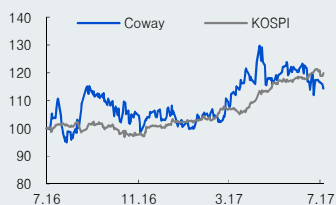


Consumer Services

Results Comment
August 2, 2017

(Maintain)	Buy
Target Price (12M, W)	130,000
Share Price (08/01/17, W)	97,900
Expected Return	33%

OP (17F, Wbn)	495
Consensus OP (17F, Wbn)	496
EPS Growth (17F, %)	47.1
Market EPS Growth (17F, %)	42.8
P/E (17F, x)	21.0
Market P/E (17F, x)	10.1
KOSPI	2,422.96
Market Cap (Wbn)	7,325
Shares Outstanding (mn)	75
Free Float (%)	70.3
Foreign Ownership (%)	59.3
Beta (12M)	0.44
52-Week Low	81,300
52-Week High	111,000
(%)	1M 6M 12M
Absolute	-5.9 11.4 14.8
Relative	-7.1 -4.4 -3.9



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[Cosmetics/Household Goods/Duty Free]

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Coway

(021240 KS)

Long-awaited recovery is here

2Q17 review: In-line OP of W120.6bn (+919% YoY)

For 2Q17, Coway announced preliminary consolidated revenue of W623.4bn (+12.3% YoY), operating profit of W120.6bn (+919.4% YoY), and OP margin of 19.3%. Overall, the results were consistent with our expectations and the consensus, and suggest earnings have returned to normal after three quarters of volatility caused by last year's recall event.

Most of the company's fundamental indicators also recovered to pre-event levels. In particular, rental sales volume reached a quarterly high of 397,000 units, growing 13.5% compared to 1Q17 (during which effects of the 4Q16 sales promotions began to wane). We believe the robust growth was driven by 1) structural demand for air purifiers (2Q17 sales volume grew 28.1% YoY and 45.4% QoQ) due to air quality issues; and 2) the strong appeal of the company's innovative new products.

Churn rate (an indicator of the soundness of the rental business) was higher than normal (1.0% in 2015), and the rate of improvement from 1Q17 to 2Q17 (monthly average churn was 1.19% in 2Q17 vs. 1.20% in 1Q17) was also a bit slower than the improvement from 4Q16 to 1Q17. However, given that rental asset disposal losses (W9.9bn) and their share of rental revenue (2.6%) are back to their pre-event 1Q16 levels (W9.7bn and 2.6%), we do not view the slow churn improvement as a sign of customer defection; rather, we blame it on a temporary spike in expiring contracts.

Focus on investment points

Coway's 1H17 non-consolidated OP margin stood at 21.6%, slightly up from the 2015 full-year figure (21.4%). Given that the 2015 OP margin was the culmination of three consecutive years of margin expansion, we view the current earnings recovery following last year's one-off event as very impressive. While some indicators (including churn) have yet to get fully back on track, we see potential for further stabilization in 2H17.

Looking ahead, we see three key investment points: 1) continued strengthening of core competitiveness in product development and service quality; 2) potential for additional margin expansion driven by premium products; and 3) attractive dividends.

Maintain Buy and TP of W130,000

We maintain our Buy rating and target price of W130,000 on Coway. At a time when a number of political and economic uncertainties are weighing on consumer plays, we believe Coway will come back into focus for its unique business model, which has one of the most defensive profiles in the sector.

FY (Dec.)	12/14	12/15	12/16	12/17F	12/18F	12/19F
Revenue (Wbn)	2,160	2,315	2,376	2,572	2,750	2,879
OP (Wbn)	364	463	339	495	531	571
OP margin (%)	16.9	20.0	14.3	19.2	19.3	19.8
NP (Wbn)	250	343	244	351	385	409
EPS (W)	3,237	4,449	3,167	4,657	5,143	5,471
ROE (%)	25.2	30.2	20.1	31.4	35.0	34.1
P/E (x)	26.0	18.9	27.9	21.0	19.0	17.9
P/B (x)	5.6	4.8	4.9	6.1	5.7	5.2
Dividend yield (%)	2.4	3.3	3.6	3.4	3.8	4.3

Note: All figures are based on consolidated K-IFRS; NP refers to net profit attributable to controlling interests
Source: Company data, Mirae Asset Daewoo Research estimates

2Q17 review

Table 1. 2Q17 review

(Wbn, %)

	2Q16	1Q17	2Q17P			Growth	
			Preliminary	Mirae Asset Daewoo	Consensus	YoY	QoQ
Revenue	555	610	623	633	626	12.3	2.2
Operating profit	12	121	121	121	121	919.4	-0.3
OP margin (%)	2.1	19.8	19.3	19.1	19.4		
Pretax profit	5	101	126	122	118	2,307.6	25.2
Net profit	3	76	95	92	89	3,306.5	26.1

Source: Company data, Mirae Asset Daewoo Research estimates

Table 2. Earnings forecast revisions

(Wbn, %)

	Previous		Revised		% chg.		Notes
	17F	18F	17F	18F	17F	18F	
Revenue	2,577	2,741	2,572	2,750	-0.2	0.3	- Revised membership revenue estimates
Operating profit	485	516	495	531	1.9	3.0	- Revised COGS ratio assumptions
Pretax profit	451	505	465	511	3.1	1.2	- Revised F/X-related gain estimates
Net profit	340	381	351	385	3.3	1.1	

Source: Company data, Mirae Asset Daewoo Research estimates

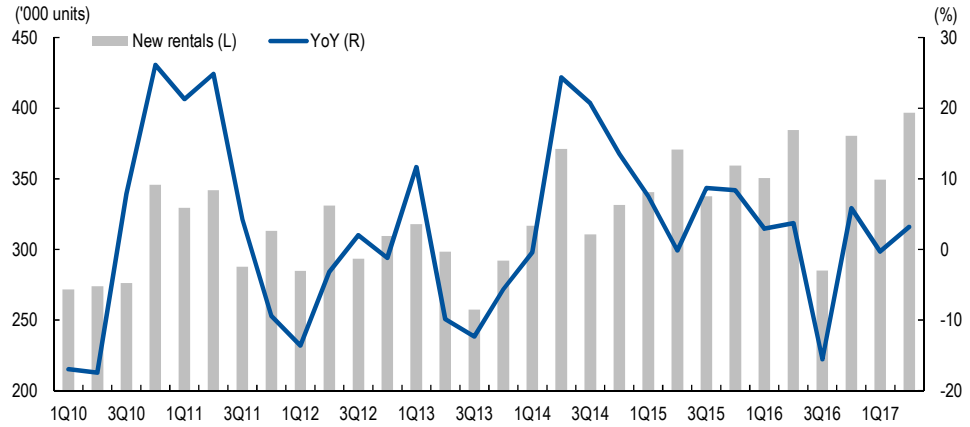
Table 3. Non-consolidated earnings

(Wbn, %, '000 units, '000 accounts)

	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17P	3Q17F	4Q17F
Revenue	578	523	551	553	572	575	602	637
Rental	380	316	367	361	370	379	403	406
% YoY								
Revenue	14.1	-0.9	0.9	-4.9	-1.0	10.0	9.3	15.1
Rental	4.6	-14.8	-2.5	-5.1	-2.8	20.0	9.9	12.6
SG&A	260	309	248	266	258	264	276	297
(% of revenue)	45.1	59.1	45.1	48.0	45.2	46.0	45.9	46.7
Rental asset disposal losses	10	9	10	10	10	10	11	11
(% of rental revenue)	2.6	3.9	2.8	3.7	3.0	2.6	2.7	2.7
Operating profit	127	21	117	104	123	125	131	129
(% of revenue)	22.0	4.1	21.2	18.8	21.5	21.8	21.7	20.3
(%, YoY)	28.4	-80.9	-7.3	-18.1	-3.1	487.1	12.2	24.6
[Key indicators]								
Rental sales volume	351	385	285	381	350	397	345	388
Total rental accounts	4,861	4,921	4,823	4,849	4,875	4,923	4,888	4,901
Churn (%)	1.0	1.0	1.5	1.3	1.2	1.2	1.1	1.1

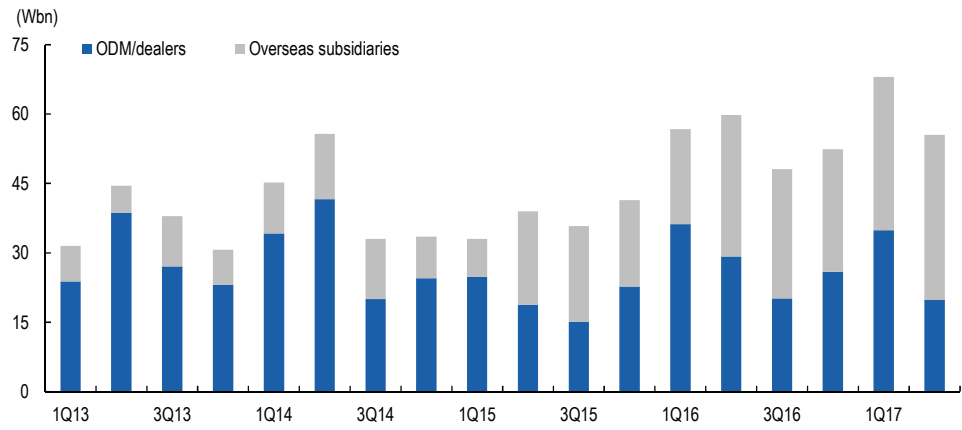
Source: Company data, Mirae Asset Daewoo Research estimates

Figure 1. New rental volume trend



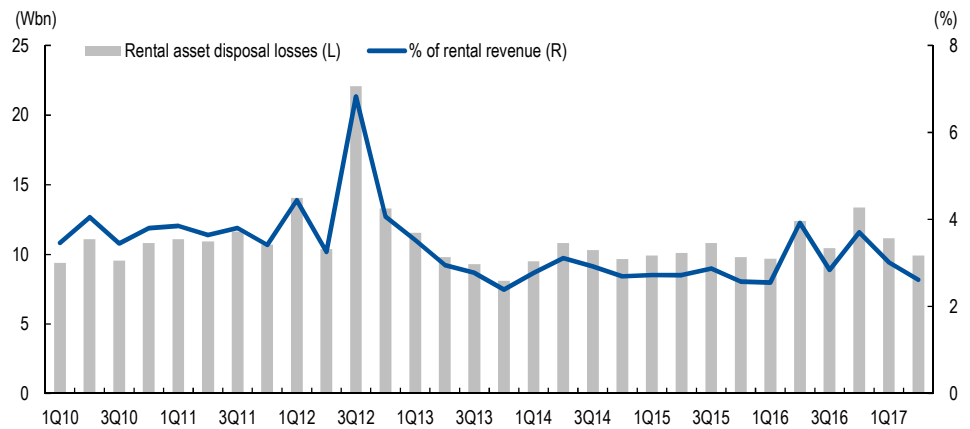
Source: Company data, Mirae Asset Daewoo Research

Figure 2. Overseas revenue breakdown by business



Source: Company data, Mirae Asset Daewoo Research

Figure 3. Rental asset disposal losses



Source: Company data, Mirae Asset Daewoo Research

Coway (021240 KS/Buy/TP: W130,000)

Comprehensive Income Statement (Summarized)

(Wbn)	12/16	12/17F	12/18F	12/19F
Revenue	2,376	2,572	2,750	2,879
Cost of Sales	812	827	883	927
Gross Profit	1,564	1,745	1,867	1,952
SG&A Expenses	1,225	1,250	1,335	1,381
Operating Profit (Adj)	339	495	531	571
Operating Profit	339	495	531	571
Non-Operating Profit	-15	-30	-20	-27
Net Financial Income	-5	-8	-8	-7
Net Gain from Inv in Associates	0	0	0	0
Pretax Profit	324	465	511	544
Income Tax	80	115	127	135
Profit from Continuing Operations	243	350	384	409
Profit from Discontinued Operations	0	0	0	0
Net Profit	243	350	384	409
Controlling Interests	244	351	385	409
Non-Controlling Interests	0	0	-1	-1
Total Comprehensive Profit	243	349	384	409
Controlling Interests	243	350	385	409
Non-Controlling Interests	0	0	-1	-1
EBITDA	572	727	770	818
FCF (Free Cash Flow)	29	94	294	380
EBITDA Margin (%)	24.1	28.3	28.0	28.4
Operating Profit Margin (%)	14.3	19.2	19.3	19.8
Net Profit Margin (%)	10.3	13.6	14.0	14.2

Cash Flows (Summarized)

(Wbn)	12/16	12/17F	12/18F	12/19F
Cash Flows from Op Activities	358	414	620	706
Net Profit	243	350	384	409
Non-Cash Income and Expense	467	400	379	400
Depreciation	225	224	230	239
Amortization	8	8	8	8
Others	234	168	141	153
Chg in Working Capital	-232	-229	-17	32
Chg in AR & Other Receivables	-62	73	-16	36
Chg in Inventories	-4	-9	-4	-6
Chg in AP & Other Payables	-4	-49	4	3
Income Tax Paid	-120	-109	-127	-135
Cash Flows from Inv Activities	-367	-214	-262	-286
Chg in PP&E	-313	-256	-245	-245
Chg in Intangible Assets	-13	-9	-8	-8
Chg in Financial Assets	-67	30	-3	-3
Others	26	21	-6	-30
Cash Flows from Fin Activities	-40	-190	-362	-356
Chg in Financial Liabilities	264	63	-60	-50
Chg in Equity	0	0	0	0
Dividends Paid	-208	-208	-293	-298
Others	-96	-45	-9	-8
Increase (Decrease) in Cash	-50	7	-4	63
Beginning Balance	116	66	73	70
Ending Balance	66	73	70	133

Source: Company data, Mirae Asset Daewoo Research estimates

Statement of Financial Condition (Summarized)

(Wbn)	12/16	12/17F	12/18F	12/19F
Current Assets	733	672	700	743
Cash and Cash Equivalents	66	73	70	133
AR & Other Receivables	313	298	315	280
Inventories	70	74	79	85
Other Current Assets	284	227	236	245
Non-Current Assets	1,235	1,238	1,256	1,286
Investments in Associates	0	0	0	0
Property, Plant and Equipment	669	675	689	695
Intangible Assets	183	183	184	184
Total Assets	1,968	1,911	1,956	2,029
Current Liabilities	735	806	759	722
AP & Other Payables	215	220	232	244
Short-Term Financial Liabilities	340	403	343	293
Other Current Liabilities	180	183	184	185
Non-Current Liabilities	49	51	51	51
Long-Term Financial Liabilities	12	12	12	12
Other Non-Current Liabilities	37	39	39	39
Total Liabilities	784	856	810	773
Controlling Interests	1,182	1,055	1,146	1,257
Capital Stock	41	41	41	41
Capital Surplus	127	127	127	127
Retained Earnings	1,180	1,017	1,108	1,219
Non-Controlling Interests	1	0	0	-1
Stockholders' Equity	1,183	1,055	1,146	1,256

Forecasts/Valuations (Summarized)

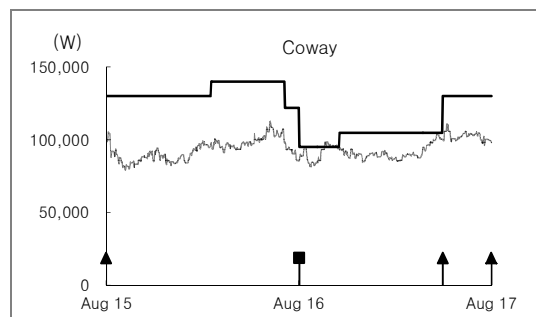
	12/16	12/17F	12/18F	12/19F
P/E (x)	27.9	21.0	19.0	17.9
P/CF (x)	9.6	9.8	9.6	9.1
P/B (x)	4.9	6.1	5.7	5.2
EV/EBITDA (x)	12.2	10.5	9.8	9.1
EPS (W)	3,167	4,657	5,143	5,471
CFPS (W)	9,227	9,963	10,208	10,809
BPS (W)	17,891	16,088	17,314	18,798
DPS (W)	3,200	3,300	3,700	4,200
Payout ratio (%)	96.5	68.6	70.0	74.7
Dividend Yield (%)	3.6	3.4	3.8	4.3
Revenue Growth (%)	2.6	8.2	6.9	4.7
EBITDA Growth (%)	-17.2	27.1	5.9	6.2
Operating Profit Growth (%)	-26.8	46.0	7.3	7.5
EPS Growth (%)	-28.8	47.0	10.4	6.4
Accounts Receivable Turnover (x)	8.7	9.1	9.7	10.6
Inventory Turnover (x)	33.9	35.6	35.9	35.2
Accounts Payable Turnover (x)	13.7	13.4	13.2	13.2
ROA (%)	13.0	18.1	19.9	20.5
ROE (%)	20.1	31.4	35.0	34.1
ROIC (%)	20.0	27.7	29.8	31.7
Liability to Equity Ratio (%)	66.3	81.2	70.7	61.5
Current Ratio (%)	99.7	83.5	92.1	102.9
Net Debt to Equity Ratio (%)	17.8	28.7	21.5	10.6
Interest Coverage Ratio (x)	55.5	55.8	59.5	69.4

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)

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