

Coway (021240.KS)

2018 to mark return to concentration on core business growth

Company Comment | Mar 9, 2018

In 2018, we believe that Coway will focus on boosting its rental business growth, drawing attention to its plans to launch a clothes purifier rental business in 1H18. Noting its introduction of a mattress rental service in 2012, we positively view Coway's ongoing active efforts to widen its product categories. Also positive, the company is continuing to engage in overseas expansion, including China. Following the discovery of mechanical defects in its three ice-making water purifier models, Coway's margins were hit hard in 2016. With the firm having spent 2017 struggling to normalize its margins and restore its reputation, 2018 should mark the return of a focus on core business growth. We reiterate a Buy rating.

Positively view new product category and overseas expansion efforts

In 2018, Coway should see non-consolidated sales of W2,443.7bn (+5.3% y-y) and OP of W517.9bn (+8.2% y-y). Following the discovery of mechanical defects in its three ice making-water purifier models, the firm's margins were hit hard in 2016 and then normalized in 2017 (OP growth slipped 20.4% y-y in 2016, but rose 29.8% y-y in 2017).

We expect the growth potential of Coway's core business to return to a normal trajectory from this year, with margin improvement rebounding to the previous pace. We draw particular attention to: 1) broadening product categories at Coway's domestic business; and 2) strong overseas sales growth.

As for its domestic business, Coway has announced that it will launch a clothes purifier rental business in 1H18. In addition to clothes dryers and the air purifiers, Korean consumers have been showing a strong interest in clothes purifiers as of late. Coway's ongoing ambitious efforts to widen its product categories should clear away fears towards the structural growth potential of its rental business. Of note, back in 2012, Coway secured a growth catalyst when it successfully introduced a mattress rental business. In 2018, overall sales growth at its rental business should improve to nearly 4.0% y-y (vs 0.9% y-y in 2017).

We forecast that 2018 overseas sales will leap 15.7% y-y. Coway continues to boast Philips (the top air purifier manufacturer in the Chinese market) as a captive buyer. Coway's original design manufacturing for Philips should provide stable sales growth momentum. Over the long run, Coway is aiming to stand as the home healthcare appliance market leader in Asia.

Solid cash flow to translate into high dividend payouts

We maintain Buy and a TP of W125,000. Of note, the company issues dividends on a quarterly basis. In 2017, it delivered an annualized DPS of 3,200 (dividend payout ratio of around 72%). For 2018, we estimate an annualized DPS of W3,600 (dividend payout ratio of 66%; dividend yield of roughly 4.2%).

With financial investor MBK Partners standing as the firm's de-factor majority shareholder, Coway's solid cash flow translates into solid shareholder value for minority shareholders. Despite heightened competition, we view the home healthcare appliance market's growth potential as remaining intact. Of note, Coway's shares are currently trading at a 2018E P/E of 17.0x.

Buy (maintain)

TP **W125,000 (maintain)**
CP (18/03/08) **W86,400**

Sector	Other consumer goods
Kospi/Kosdaq	2,433.08 / 853.94
Market cap (common)	US\$6,038.5mn
Outstanding shares (common)	73.8mn
52W high ('17/05/08)	W111,000
low ('18/02/14)	W83,000
Average trading value (60D)	US\$15.5mn
Dividend yield (2018E)	4.17%
Foreign ownership	59.1%

Major shareholders	
Coway Holdings & 7 others	27.0%
GIC Private Limited	7.3%

Share perf	3M	6M	12M
Absolute (%)	-16.1	-11.7	-3.1
Relative (%)	-15.1	-15.0	-16.6

	2016	2017P	2018E	2019F
Sales	2,205	2,321	2,444	2,539
Chg	2.0	5.3	5.3	3.9
OP	369	478	518	559
OPM	16.7	20.6	21.2	22.0
NP	276	322	385	417
EPS	3,581	4,277	5,211	5,651
Chg	-21.0	19.4	21.8	8.4
P/E	24.7	22.8	16.6	15.3
P/B	5.4	5.5	4.3	4.0
EV/EBITDA	12.1	11.7	9.6	9.0
ROE	21.9	24.9	27.5	27.2
Debt/equity	58.0	55.1	51.6	48.2
Net debt	224	202	149	41

Units: Wbn, %, won, x

Note 1. NP excludes minority interests

2. EPS, P/E, P/B, and ROE based on (excl minority interests)

Source: NH I&S Research Center estimates



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Earnings forecasts (IFRS non-consolidated)

(Units: Wbn, won, x, %)

		2016	2017P	2018E	2019F
Sales	- Revised	2,205	2,321	2,444	2,539
	- Previous	-	-	2,445	2,546
	- Change	-	-	-0.1	-0.3
OP	- Revised	368.7	478.4	517.9	558.7
	- Previous	-	-	547.3	621.2
	- Change	-	-	-5.4	-10.1
OPM	- Revised	16.7	20.6	21.2	22.0
EBITDA		576.5	640.6	690.2	723.3
NP (excl minority interests)		275.5	322.3	385.4	417.1
EPS	- Revised	3,581	4,277	5,211	5,651
	- Previous	-	-	5,401	6,154
	- Change	-	-	-3.5	-8.2
P/E		24.7	22.8	16.6	15.3
P/B		5.4	5.5	4.3	4.0
EV/EBITDA		12.1	11.7	9.6	9.0
ROE		21.9	24.9	27.5	27.2

Note: EPS, P/E, P/B and ROE based on NP (excl minority interests)

Source: NH I&S Research Center estimates

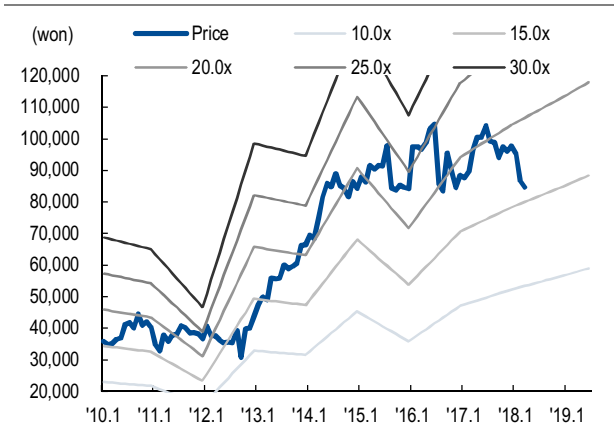
Quarterly earnings forecasts

(Units: Wbn, %)

	1Q17	2Q17	3Q17	4Q17	1Q18E	2Q18F	3Q18F	4Q18F	2017P	2018E	2019F
Sales	572	575	589	585	605	602	621	615	2,321	2,444	2,539
Rental	370	379	378	379	387	392	393	394	1,506	1,566	1,601
Membership fees	38	37	36	34	41	39	38	37	145	156	158
Lump-sum revenue	46	50	47	49	47	51	48	50	192	196	204
Exports	68	56	69	68	78	65	81	76	260	300	349
Cosmetics	21	19	19	21	21	19	20	21	80	81	84
Financial leases (mattresses)	30	34	39	35	31	36	41	36	138	144	145
Other	-1.0	10.0	7.0	5.7	5.8	4.8	5.4	5.3	5.3	5.3	3.9
Sales growth (y-y, %)	-2.8	20.0	3.1	4.9	4.7	3.3	3.8	4.2	0.9	4.0	2.2
Rental	-17.0	-32.0	-14.6	-14.3	7.2	7.4	6.7	9.0	-13.6	7.6	1.5
Membership fees	-9.0	-6.7	11.1	-0.2	2.0	2.0	2.0	2.0	-1.8	2.0	4.0
Lump-sum revenue	19.8	-7.1	42.6	29.1	15.0	17.0	18.0	13.0	19.7	15.7	16.0
Exports	4.0	8.3	7.0	10.8	1.3	1.2	1.1	3.0	7.4	1.7	3.0
Cosmetics	9.0	2.9	20.1	6.5	4.6	4.4	4.2	4.2	11.2	4.3	0.4
Financial leases (mattresses)	123	125	127	103	125	132	130	131	478	518	559
Other	-3.1	486.0	4.9	-0.6	1.7	5.1	2.7	26.6	29.8	8.2	7.9
OP	21.5	21.8	21.6	17.7	20.7	21.8	21.0	21.2	20.6	21.2	22.0

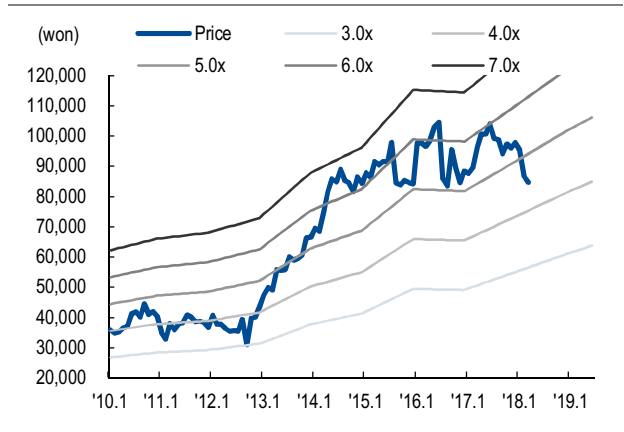
Source: Coway, NH I&S Research Center estimates

Forward P/E band



Source: NH I&S Research Center

Trailing P/B band



Source: NH I&S Research Center

STATEMENT OF COMPREHENSIVE INCOME

(Wbn)	2016/12A	2017/12P	2018/12E	2019/12F
Sales	2,205	2,321	2,444	2,539
<i>Growth (%)</i>	2.0	5.3	5.3	3.9
COGS	753	869	898	1,022
GP	1,452	1,452	1,546	1,518
<i>GPM (%)</i>	65.9	62.6	63.3	59.8
SG&A	1,083	1,067	1,127	1,138
Operating Income	369	478	518	559
<i>Growth (%)</i>	-20.3	29.5	8.4	7.9
<i>OPM (%)</i>	16.7	20.6	21.2	22.0
EBITDA	577	641	690	723
Non-OP	-4	-44	-8	-7
Financial Income(Costs)	-5	-9	-8	-7
Other Non-OP	1	-35	0	0
Gains(Losses) in Associates, Subsidiaries and JVs	0	0	0	0
Pre-tax Profit from Cont. Op.	366	435	510	552
Income Taxes	90	113	124	135
Profit from Continuing Op.	276	322	385	417
NP	276	322	385	417
<i>Growth (%)</i>	-20.9	16.7	19.6	8.3
<i>Net margin (%)</i>	12.5	13.9	15.8	16.4
NP of Parent	276	322	385	417
NP to Non-Controlling	0	0	0	0
Other Comprehensive Income	0	0	0	0
Total Comprehensive Income	275	322	385	417

Valuation / Profitability / Stability

	2016/12A	2017/12P	2018/12E	2019/12F
Price/Earnings (x)	24.7	22.8	16.6	15.3
Price/Book Value (x)	5.4	5.5	4.3	4.0
Price/Gross Cash Flow (x)	9.5	12.2	9.3	8.8
Price/Sales (x)	3.1	3.2	2.6	2.5
EV/EBITDA (x)	12.1	11.7	9.6	9.0
EV/EBIT (x)	18.9	15.7	12.8	11.6
Fully diluted EPS (won)	3,581	4,277	5,211	5,651
BVPS (won)	16,341	17,879	19,879	21,676
Sales PS (won)	28,657	30,797	33,040	34,409
ROE (%)	21.9	24.9	27.5	27.2
ROA (%)	14.8	15.9	17.9	18.2
ROIC (%)	21.6	25.4	26.7	27.9
Dividend Yield (%)	3.6	3.3	4.2	4.6
Payout Ratio (%)	85.2	71.6	66.4	68.2
Total Cash Dividend (Wbn)	235	231	256	284
Cash DPS (won)	3,200	3,200	3,600	4,000
Net debt(cash)/ equity (%)	17.9	15.1	10.2	2.5
Debt/ equity (%)	58.0	55.1	51.6	48.2
Interest-Bearing Debts (Wbn)	340	340	340	340
Current Ratio (%)	114.0	111.5	123.8	141.4
Total shares (mn)	76	75	74	74
Par value (won)	500	500	500	500
Share price (won)	88,300	97,700	86,400	86,400
Market Cap (Wbn)	6,744	7,310	6,464	6,464

STATEMENT OF FINANCIAL POSITION

(Wbn)	2016/12A	2017/12P	2018/12E	2019/12F
Cash and Cash Equivalents	41	62	116	224
Accounts Receivables	445	400	444	462
Total Current Assets	778	773	881	1,026
Tangible Assets	591	635	673	674
Investment Assets	136	140	143	147
Non-Current Assets	1,195	1,302	1,342	1,345
Assets	1,973	2,075	2,223	2,371
Short-Term Debt	340	340	340	340
Account Payables	51	54	57	59
Current Liabilities	682	694	712	726
Long-Term Debt	13	14	14	14
Long-Term Allowance	0	0	0	0
Non-Current Liabilities	42	44	45	45
Liabilities	725	738	756	771
Capital Stock	41	41	41	41
Capital Surplus	133	133	133	133
Retained Earnings	1,234	1,293	1,352	1,485
Non-Controlling Interests Equity	0	0	0	0
Shareholders' Equity	1,248	1,338	1,467	1,600

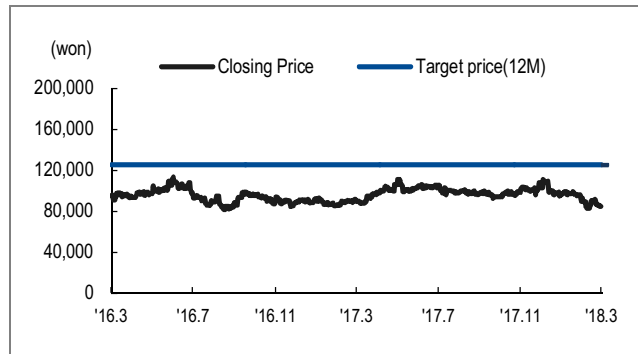
CASH FLOW STATEMENT

(Wbn)	2016/12A	2017/12P	2018/12E	2019/12F
Operating Cash Flow	327	534	505	538
Net Profit	276	322	385	417
Depreciation & Amortization	208	162	172	165
+ Loss(Gains) from Subs	0	0	0	0
+ FC translation loss(profit)	-9	0	0	0
Gross Cash Flow	715	606	690	723
- Incr. (Decr.) in WC	-269	42	-61	-51
Investing Cash Flow	-325	-268	-210	-164
+ Decr. In Tangible Assets	15	0	0	0
- Incr. In Tangible Assets (capex)	-286	-203	-209	-163
+ Disp.(Acq.) of Inv. Assets	-14	-4	-4	-4
Free Cash Flow	41	331	296	375
Net Cash Flow	3	267	294	375
Financing Cash Flow	-48	-246	-241	-266
Equity Financing	0	0	0	0
Debt Financing	-48	-246	-241	-266
Incr.(Decr.) in Cash	-46	21	53	108
Ending Cash and Cash Equivalents	41	62	116	224
Net Debt (Cash)	224	202	149	41

Rating and TP update

Date	Rating	TP	Disparity ratio (%)	
			Avg	Max/Min
2015.08.05	Buy	W125,000 (12M)	-	-

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NH Investment & Securities stock ratings

1. Rating based on a stock's forecasted absolute return over a period of 12 months from the date of publication.

- Buy : Greater than +15%
- Hold : -15% to +15%
- Sell : Less than -15%

2. Regarding listed companies under NH I&S' coverage, our stock ratings break down as follows (as of Mar 2, 2018).

- NH I&S' stock rating distribution

Buy	Hold	Sell
78.5%	21.5%	0.0%

- The stock rating on an individual company can change at irregular intervals. Our stock rating distribution is calculated on a weekly basis.

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- NH I&S has not provided this material to any institutional investor or other third party in advance.
- The analyst and his/her spouse do not own any securities of Coway as of the preparation date.
- This report correctly reflects the analyst's opinion and was written without any external influence or intervention.

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