

Consumer Services

Company Update

April 4, 2018

(Maintain) **Buy**

Target Price (12M, W) **125,000**

Share Price (04/03/18, W) **89,900**

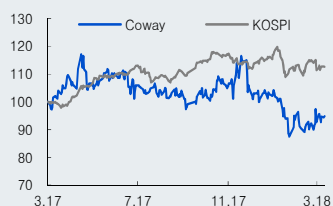
Expected Return **39%**

OP (18F, Wbn) 524
Consensus OP (18F, Wbn) 519

EPS Growth (18F, %) 13.2
Market EPS Growth (18F, %) 16.0
P/E (18F, x) 18.3
Market P/E (18F, x) 9.3
KOSPI 2,442.43

Market Cap (Wbn) 6,635
Shares Outstanding (mn) 74
Free Float (%) 70.4
Foreign Ownership (%) 59.9
Beta (12M) 0.48
52-Week Low 83,000
52-Week High 111,000

(%)	1M	6M	12M
Absolute	4.8	-4.4	-7.1
Relative	3.1	-6.2	-17.6



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[Cosmetics/Household Goods/Duty Free]

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Coway

(021240 KS)

An advanced consumer play

Long-term growth reflects level of consumer sophistication

Coway's business portfolio consists of health appliances combined with a rental system. Unlike general home appliances like refrigerators and washers, health appliances are not considered essential items. As such, demand tends to grow as consumers become more sophisticated and more conscious of their quality of life.

In Korea, the growing focus on the health impact of pollution is being driven not only by actual changes in the environment, but also by changes in consumers' sensitivity. This is partly because of the more advanced air quality monitoring systems—and, hence, headline-grabbing data—now available. But fundamentally, we believe consumers' keen interest has been the primary driver behind the increased awareness of environmental issues.

Amid this underlying change, Coway's high-end product-oriented portfolio has seen a steady increase in demand, mainly because of the cost distribution benefits of the rental system and the detailed customer service provided by the company's maintenance personnel, known as "CODYs." (The number of rental accounts rose 2.5% YoY in 2017.) Customer care is an essential part of the appeal of health appliances, and no other company has a customer support organization as robust as Coway's. In 2018, we expect rental volume to expand 11.8% YoY to 1.545mn units.

New rental products and overseas expansion to diversify growth momentum

Since the rollout of the mattress rental business in 2H11, there has been a prolonged lull in new product category launches. This year, Coway plans to roll out a new steam-based clothing refreshing system in 3Q18, its first new rental product type in eight years. Building on its experience in pioneering new markets with the launch of innovative products in areas like water and air purification, the company is targeting more diversified demand with its new clothing care product by incorporating purifying functions. We think integration with the rental model will effectively lift the cap on consumption imposed by the burden of lump-sum payments and increase the potential size of the market.

We also see plenty of momentum overseas. In Malaysia (where the Korean-style water purifier rental model has been most widely embraced), we expect meaningful margin expansion, supported by system stabilization. (OP margin improved to 11.7% in 4Q17, up 6.5%p from 5.2% in 4Q16.) Elsewhere, we look for positive momentum from the company's strengthened partnership with Amazon (AMZN US/US\$1,392.05; launch of new water purifiers) in the US and a more aggressive strategy for bidets in China, given the country's growing interest in the product.

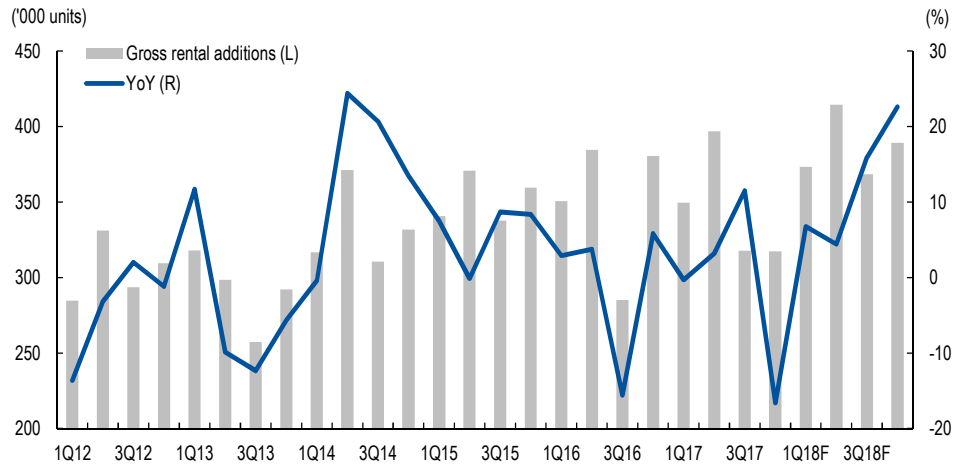
For 2018, we forecast Coway to deliver consolidated revenue of W2.73tr (+8.5% YoY), operating profit of W524.4bn (+10.8% YoY), and OP margin of 19.2%. While the reliance on domestic demand suggests revenue growth in the double digits is unlikely, we believe the company has a relatively favorable growth profile, considering the ongoing weakness in overall consumer spending. We maintain our Buy rating on Coway with a target price of W125,000.

FY (Dec.)	12/15	12/16	12/17	12/18F	12/19F	12/20F
Revenue (Wbn)	2,315	2,376	2,517	2,732	2,855	3,026
OP (Wbn)	463	339	473	524	553	578
OP margin (%)	20.0	14.3	18.8	19.2	19.4	19.1
NP (Wbn)	343	244	326	362	377	392
EPS (W)	4,449	3,167	4,328	4,900	5,106	5,318
ROE (%)	30.2	20.1	30.1	35.6	34.8	34.1
P/E (x)	18.9	27.9	22.6	18.3	17.6	16.9
P/B (x)	4.8	4.9	6.3	5.4	5.2	4.9
Dividend yield (%)	3.3	3.6	3.3	4.6	4.9	4.9

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

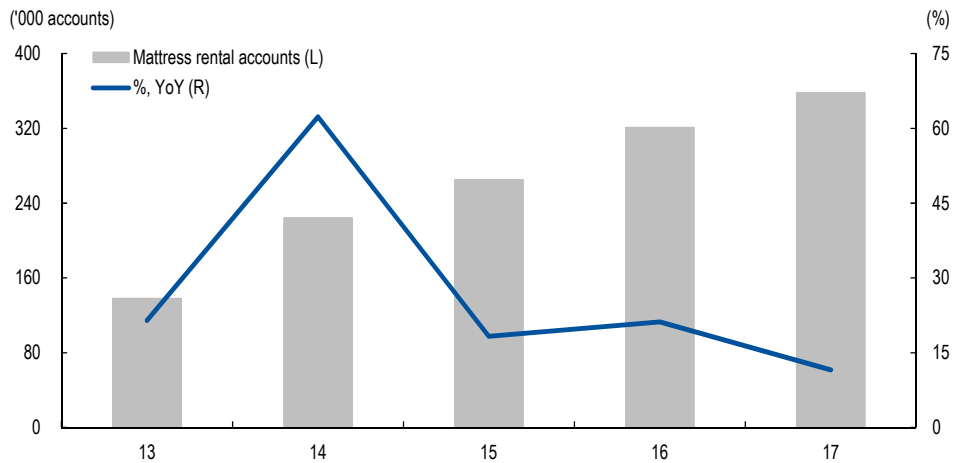
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Figure 1. Quarterly gross rental addition trend and outlook



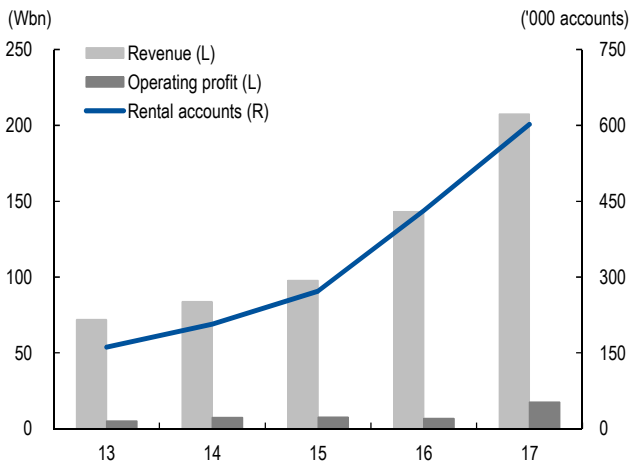
Source: Company data, Mirae Asset Daewoo Research

Figure 2. Annual mattress rental account trend



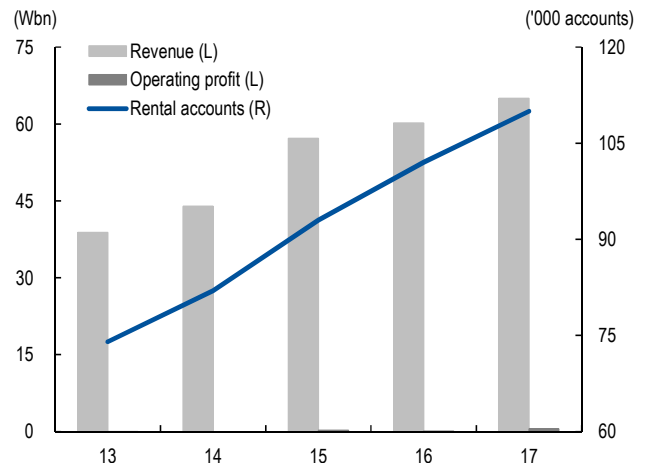
Source: Company data, Mirae Asset Daewoo Research

Figure 3. Malaysian subsidiary: Earnings and no. of accounts



Source: Company data, Mirae Asset Daewoo Research

Figure 4. US subsidiary: Earnings and no. of accounts



Source: Company data, Mirae Asset Daewoo Research

Coway (021240 KS/Buy/TP: W125,000)

Comprehensive Income Statement (Summarized)

(Wbn)	12/17	12/18F	12/19F	12/20F
Revenue	2,517	2,732	2,855	3,026
Cost of Sales	798	837	877	900
Gross Profit	1,719	1,895	1,978	2,126
SG&A Expenses	1,246	1,370	1,425	1,548
Operating Profit (Adj)	473	524	553	578
Operating Profit	473	524	553	578
Non-Operating Profit	-33	-30	-37	-41
Net Financial Income	-11	-13	-12	-11
Net Gain from Inv in Associates	0	0	0	0
Pretax Profit	440	494	516	537
Income Tax	114	133	140	146
Profit from Continuing Operations	326	361	376	391
Profit from Discontinued Operations	0	0	0	0
Net Profit	326	361	376	391
Controlling Interests	326	362	377	392
Non-Controlling Interests	0	-1	-1	-1
Total Comprehensive Profit	333	361	376	391
Controlling Interests	333	362	377	392
Non-Controlling Interests	0	-1	-1	-1
EBITDA	708	761	797	831
FCF (Free Cash Flow)	217	302	341	320
EBITDA Margin (%)	28.1	27.9	27.9	27.5
Operating Profit Margin (%)	18.8	19.2	19.4	19.1
Net Profit Margin (%)	13.0	13.3	13.2	13.0

Cash Flows (Summarized)

(Wbn)	12/17	12/18F	12/19F	12/20F
Cash Flows from Op Activities	554	628	667	646
Net Profit	326	361	376	391
Non-Cash Income and Expense	476	378	400	414
Depreciation	227	229	237	245
Amortization	8	8	8	8
Others	241	141	155	161
Chg in Working Capital	-148	21	31	-14
Chg in AR & Other Receivables	-59	30	36	-15
Chg in Inventories	-6	-2	-6	-5
Chg in AP & Other Payables	21	7	3	4
Income Tax Paid	-100	-133	-140	-146
Cash Flows from Inv Activities	-290	-251	-258	-259
Chg in PP&E	-323	-245	-245	-245
Chg in Intangible Assets	-8	-8	-8	-8
Chg in Financial Assets	14	-5	-3	-4
Others	27	7	-2	-2
Cash Flows from Fin Activities	-218	-368	-378	-330
Chg in Financial Liabilities	330	-60	-50	0
Chg in Equity	2	0	0	0
Dividends Paid	-409	-293	-314	-317
Others	-141	-15	-14	-13
Increase (Decrease) in Cash	44	9	31	56
Beginning Balance	66	110	119	150
Ending Balance	110	119	150	206

Source: Company data, Mirae Asset Daewoo Research estimates

Statement of Financial Condition (Summarized)

(Wbn)	12/17	12/18F	12/19F	12/20F
Current Assets	791	787	800	877
Cash and Cash Equivalents	110	119	150	206
AR & Other Receivables	331	305	270	286
Inventories	75	77	83	88
Other Current Assets	275	286	297	297
Non-Current Assets	1,367	1,388	1,400	1,403
Investments in Associates	0	0	0	0
Property, Plant and Equipment	712	729	737	736
Intangible Assets	184	184	184	184
Total Assets	2,159	2,175	2,200	2,281
Current Liabilities	1,125	1,073	1,035	1,042
AP & Other Payables	220	225	235	240
Short-Term Financial Liabilities	670	610	560	560
Other Current Liabilities	235	238	240	242
Non-Current Liabilities	52	52	52	52
Long-Term Financial Liabilities	12	12	12	12
Other Non-Current Liabilities	40	40	40	40
Total Liabilities	1,177	1,125	1,087	1,094
Controlling Interests	982	1,052	1,115	1,190
Capital Stock	41	41	41	41
Capital Surplus	129	129	129	129
Retained Earnings	963	1,032	1,095	1,170
Non-Controlling Interests	0	-1	-2	-3
Stockholders' Equity	982	1,051	1,113	1,187

Forecasts/Valuations (Summarized)

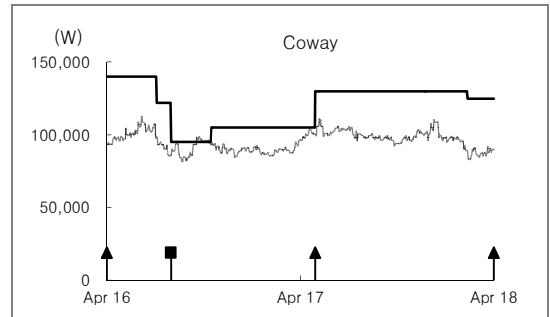
	12/17	12/18F	12/19F	12/20F
P/E (x)	22.6	18.3	17.6	16.9
P/CF (x)	9.2	9.0	8.5	8.2
P/B (x)	6.3	5.4	5.2	4.9
EV/EBITDA (x)	11.0	9.3	8.8	8.4
EPS (W)	4,328	4,900	5,106	5,318
CFPS (W)	10,640	9,995	10,519	10,918
BPS (W)	15,397	16,548	17,402	18,419
DPS (W)	3,200	4,100	4,400	4,400
Payout ratio (%)	71.3	81.8	84.5	81.1
Dividend Yield (%)	3.3	4.6	4.9	4.9
Revenue Growth (%)	5.9	8.5	4.5	6.0
EBITDA Growth (%)	23.8	7.5	4.7	4.3
Operating Profit Growth (%)	39.5	10.8	5.5	4.5
EPS Growth (%)	36.7	13.2	4.2	4.2
Accounts Receivable Turnover (x)	8.3	9.1	10.7	11.8
Inventory Turnover (x)	34.7	36.0	35.7	35.5
Accounts Payable Turnover (x)	14.1	14.5	14.0	13.7
ROA (%)	15.8	16.7	17.2	17.5
ROE (%)	30.1	35.6	34.8	34.1
ROIC (%)	24.6	25.9	27.4	28.6
Liability to Equity Ratio (%)	119.8	107.0	97.7	92.2
Current Ratio (%)	70.4	73.3	77.3	84.2
Net Debt to Equity Ratio (%)	52.1	42.2	32.5	25.8
Interest Coverage Ratio (x)	38.3	36.2	40.0	44.9

APPENDIX 1

Important Disclosures & Disclaimers

2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
Coway (021240)	02/12/2018	Buy	125,000
	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



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 & Investment Banking Services

	Buy	Trading Buy	Hold	Sell
Equity Ratings Distribution	75.50%	16.00%	8.50%	0.00%
Investment Banking Services	62.50%	33.33%	4.17%	0.00%

* Based on recommendations in the last 12-months (as of December 31, 2017)

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