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Company Update



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Coway (021240)

Maintains market dominance

- Coway on Apr 30 reported in-line 1Q results, with its sales and operating profit up a respective 6% and 9% y-y.
- Despite concerns over increased domestic competition, the company saw rental account growth of 3.2% y-y, led by new sales and a still-low cancellation rate. Overseas subsidiaries account for 17% of consolidated sales, with their sales up 39% y-y in 1Q as total rental accounts jumped 40% y-y. Such momentum should continue as the firm adds new products and categories.
- To reflect its in-line 1Q results, we maintain our 2018 forecasts on Coway and leave it at BUY with an unchanged 12-month target price of KRW105,000 as the stock appears undervalued, given its: 1) steadfast market dominance, despite increased competition; and 2) growth potential from ongoing product diversification and overseas expansion.

WHAT'S THE STORY?

1Q review: Coway on Apr 30 reported in-line 1Q results, with its sales and operating profit up a respective 6% and 9% y-y to KRW647.8b and KRW131.3b for a margin of 20.3%. Despite concerns, the firm's domestic rental operation avoided fallout from intensifying competition, while its overseas operation also enjoyed decent growth.

- Coway's domestic household electronics rental and financial lease sales rose 6% y-y in 1Q, with its number of rental accounts up 3.2% y-y amid new rental sales growth of 8% y-y and rental cancellation rates staying low at 1.02%. The solid performance owes to sales of new water purifier products (in response to competition) and structural growth for air purifiers. The company's earnings had been hit by increasing rental competition at home since 2014, but its response has become more proactive this year, with the fruits of such efforts bearing out in the 1Q results. Solid top-line growth should continue for some time as Coway adds products in established and newer categories (eg, standalone closets with clothes freshening systems).

(Continued on the next page)

AT A GLANCE

SELL HOLD **BUY**

Target price KRW105,000 (20%)

Current price KRW87,500

Market cap	KRW6.5t/USD6.1b
Shares (float)	73,799,619 (70.4%)
52-week high/low	KRW111,000/KRW83,000
Avg daily trading value (60-day)	KRW13.1b/ USD12.3m

ONE-YEAR PERFORMANCE

	1M	6M	12M
Coway (%)	-2.6	-8.1	-12.9
Vs Kospi (%pts)	-5.3	-8.6	-23.7

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	105,000	105,000	0.0%
2018E EPS	4,883	4,911	-0.6%
2019E EPS	5,552	5,591	-0.7%

SAMSUNG vs THE STREET

No of estimates	12
Target price	111,667
Recommendation	3.8

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

SUMMARY OF 1Q RESULTS

(KRWb)	1Q18	Chg		Diff (%)	
		(% y-y)	(% q-q)	Samsung	Consensus
Sales	647.8	6.2	(0.9)	(1.5)	(0.3)
Operating profit	131.3	8.6	22.6	(1.5)	(0.3)
Pre-tax profit	127.8	27.0	43.5	2.9	2.5
Net profit	95.2	26.2	54.5	3.6	(0.2)
Margins (%)					
Operating profit	20.3				
Pre-tax profit	19.7				
Net profit	14.7				

Source: Company data, Samsung Securities estimates

VALUATION SUMMARY

	2017	2018E	2019E
Multiples (x)			
P/E	20.1	17.9	15.8
P/B	6.8	5.9	5.2
EV/EBITDA	10.0	9.4	8.2
Div yield (%)	3.7	4.1	4.7
EPS growth (% y-y)	39.2	12.0	13.7
ROE (%)	30.1	34.8	34.8
Per-share data (KRW)			
EPS	4,361	4,883	5,552
BVPS	12,938	14,715	16,794
DPS	3,200	3,600	4,100

- The overseas sales of Coway rose 15% y-y in 1Q—even though its ODM exports dropped 29% y-y amid inventory adjustments in China—thanks to those at overseas subsidiaries jumping 39% y-y. Sales at its core overseas subsidiary in Malaysia surged 51% y-y, while those at its US subsidiary rose 15%, with the: 1) former’s healthy top-line growth bound to continue given that nation’s favorable business conditions—*nb*, company guidance has its sales up 37% this year; and 2) latter to maintain solid growth, thanks to product distribution via Amazon.

Still a BUY: We still foresee Coway’s full-year sales and operating profit each rising 9% to a respective KRW2.73t and KRW516.4b, with its growth momentum to accelerate over time. We also leave our target price unchanged at KRW105,000, which is derived using a DCF valuation method that assumes a WACC of 6.7% and terminal growth of 2% and equates to 22x 2018 P/E, the average since its current major shareholder took the helm in 2013. We advise a buy-and-hold approach to the stock since overseas business expansion and domestic product diversification should help it maintain market dominance. Before worrying about a change to the firm’s major shareholder, investors would do well to enjoy the current one’s strategy of maximizing enterprise value.

Results and forecasts

	1Q17	2Q17	3Q17	4Q17	1Q18P	2Q18E	3Q18E	4Q18E	2016	2017E	2018E	2019E
Summary (KRWb)												
Sales	610.2	623.4	629.6	653.6	647.8	668.8	682.8	732.1	2,376.3	2,516.8	2,731.5	2,930.0
Gross profit	417.1	428.5	434.6	438.1	446.0	461.2	471.8	491.3	1,564.2	1,718.3	1,870.3	2,006.3
Operating profit	120.9	120.6	124.2	107.1	131.3	132.2	134.7	118.2	338.8	472.7	516.4	583.6
Pre-tax profit	100.6	126.0	124.2	89.1	127.8	125.6	128.0	111.5	323.8	439.9	492.9	560.9
Net profit	75.4	95.2	93.4	61.6	95.2	93.0	94.8	81.9	243.3	325.6	364.9	415.2
Margins (%)												
Gross profit	68.4	68.7	69.0	67.0	68.8	69.0	69.1	67.1	65.8	68.3	68.5	68.5
Operating profit	19.8	19.3	19.7	16.4	20.3	19.8	19.7	16.1	14.3	18.8	18.9	19.9
Pre-tax profit	16.5	20.2	19.7	13.6	19.7	18.8	18.7	15.2	13.6	17.5	18.0	19.1
Net profit	12.4	15.3	14.8	9.4	14.7	13.9	13.9	11.2	10.2	12.9	13.4	14.2
Chg (% y-y)												
Sales	(2.2)	12.3	7.9	6.4	6.2	7.3	8.5	12.0	2.6	5.9	8.5	7.3
Gross profit	0.1	20.4	11.1	9.3	6.9	7.6	8.6	12.2	(1.4)	9.9	8.8	7.3
Operating profit	(2.2)	919.4	16.1	11.1	8.6	9.6	8.5	10.4	(26.9)	39.5	9.2	13.0
Pre-tax profit	(19.7)	2,308.1	37.9	(13.7)	27.0	(0.4)	3.1	25.2	(28.8)	35.9	12.1	13.8
Net profit	(20.8)	3,331.5	38.0	(20.6)	26.2	(2.4)	1.5	33.0	(29.1)	33.8	12.1	13.8
Chg (% q-q)												
Sales	(0.6)	2.2	1.0	3.8	(0.9)	3.2	2.1	7.2				
Gross profit	4.1	2.7	1.4	0.8	1.8	3.4	2.3	4.1				
Operating profit	25.4	(0.3)	3.0	(13.8)	22.6	0.7	1.9	(12.2)				
Pre-tax profit	(2.5)	25.3	(1.5)	(28.3)	43.5	(1.7)	1.9	(12.9)				
Net profit	(2.9)	26.2	(1.9)	(34.0)	54.5	(2.4)	1.9	(13.5)				
Sales breakdown												
Household electronics	479.1	496.9	496.8	493.0	493.4	516.5	524.2	527.1	1,961.3	1,965.8	2,061.2	2,167.3
Outright sales	45.9	50.4	47.3	48.6	43.9	54.5	51.1	56.9	195.7	192.2	206.3	221.5
Rental	369.5	379.5	378.5	378.5	378.7	398.5	405.0	418.2	1,492.6	1,506.0	1,600.4	1,697.1
Membership	37.8	36.7	35.9	34.3	32.2	31.2	30.5	29.1	167.5	144.7	123.0	110.7
Financial lease	25.9	30.2	35.1	31.6	38.6	32.3	37.6	22.9	105.4	122.8	131.4	138.0
Exports	68.0	55.5	68.6	67.6	54.3	72.2	82.3	119.6	217.0	259.7	328.5	377.8
Cosmetics	20.9	18.7	19.4	20.7	20.6	20.6	21.3	25.2	74.2	79.7	87.7	92.1
Other (water treatment)	3.9	3.9	4.0	3.4	3.2	3.9	4.0	4.1	(48.0)	15.2	15.2	15.2
Consolidated other	38.3	48.3	40.8	69.0	76.2	55.6	51.0	56.2	171.8	196.4	239.0	277.7
Chg (% y-y)												
Household electronics	(3.2)	(2.4)	3.7	3.2	3.0	3.9	5.5	6.9	4.2	0.2	4.9	5.2
Outright sales	(8.9)	(6.7)	11.0	(0.2)	(4.5)	8.0	8.0	17.2	14.3	(1.8)	7.3	7.4
Rental	(2.8)	(1.2)	3.0	4.9	2.5	5.0	7.0	10.5	0.1	0.9	6.3	6.0
Membership	(11.9)	(13.5)	(14.7)	(14.3)	(14.9)	(15.0)	(15.0)	(15.1)	(6.8)	(13.6)	(15.0)	(10.0)
Financial lease	20.5	5.5	30.2	11.5	49.3	7.0	7.0	(27.5)	157.7	16.5	7.0	5.0
Exports	19.8	(7.1)	42.6	29.1	(20.1)	30.0	20.0	77.1	45.4	19.7	26.5	15.0
Cosmetics	4.0	8.3	6.9	10.8	(1.6)	10.0	10.0	21.8	(10.7)	7.4	10.0	5.0
Other (water treatment)	(33.2)	(106.1)	(22.2)	(24.7)	(17.5)	0.0	0.0	20.0	(204.0)	(131.6)	0.0	0.0
Consolidated other	(16.9)	50.7	23.7	13.7	99.2	15.0	25.0	(18.6)	11.6	14.3	21.7	16.2
Portion of total sales (%)												
Household electronics	78.5	79.7	78.9	75.4	76.2	77.2	76.8	72.0	82.5	78.1	75.5	74.0
Outright sales	7.5	8.1	7.5	7.4	6.8	8.1	7.5	7.8	8.2	7.6	7.6	7.6
Rental	60.6	60.9	60.1	57.9	58.5	59.6	59.3	57.1	62.8	59.8	58.6	57.9
Membership	6.2	5.9	5.7	5.2	5.0	4.7	4.5	4.0	7.0	5.8	4.5	3.8
Financial lease	4.2	4.8	5.6	4.8	6.0	4.8	5.5	3.1	4.4	4.9	4.8	4.7
Exports	11.1	8.9	10.9	10.3	8.4	10.8	12.1	16.3	9.1	10.3	12.0	12.9
Cosmetics	3.4	3.0	3.1	3.2	3.2	3.1	3.1	3.4	3.1	3.2	3.2	3.1
Other (water treatment)	0.6	0.6	0.6	0.5	0.5	0.6	0.6	0.6	(2.0)	0.6	0.6	0.5
Consolidated other	6.3	7.8	6.5	10.6	11.8	8.3	7.5	7.7	7.2	7.8	8.7	9.5

Source: Company data, Samsung Securities estimates

Accounts overview

Accounts ('000)	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18
Total	5,661	5,714	5,730	5,771	5,794	5,846	5,732	5,704	5,713	5,746	5,745	5,748	5,784
Chg (% y-y)	3.5	3.2	2.8	2.8	2.4	2.3	0.0	(1.2)	(1.4)	(1.7)	0.2	0.8	1.3
Rental	4,666	4,747	4,780	4,832	4,861	4,921	4,823	4,849	4,875	4,923	4,935	4,970	5,032
Chg (% y-y)	4.7	5.8	5.3	5.0	4.2	3.7	0.9	0.4	0.3	0.0	2.3	2.5	3.2
Membership	994	967	950	939	933	924	908	854	838	823	810	778	752
Chg (% y-y)	(2.0)	(8.1)	(8.1)	(7.6)	(6.2)	(4.4)	(4.5)	(9.0)	(10.2)	(11.0)	(10.8)	(8.9)	(10.2)
Rental cancellations	134	143	151	138	146	148	224	183	174	175	148	128	152
Monthly chum (%)	0.97	1.02	1.06	0.97	1.01	1.02	1.52	1.26	1.20	1.20	1.00	0.87	1.02
Rental account additions	341	371	338	359	351	385	285	381	350	397	318	317	377
Chg (% y-y)	7.5	(0.1)	8.7	8.4	2.9	3.7	(15.6)	5.8	(0.3)	3.2	11.5	(16.6)	7.9
Outright sales account additions	40	60	63	63	66	68	54	57	55	78	62	56	49
Chg (% y-y)	0.1	1.3	21.5	95.9	67.2	12.2	(14.8)	(8.9)	(17.6)	14.5	14.8	(1.6)	(10.1)

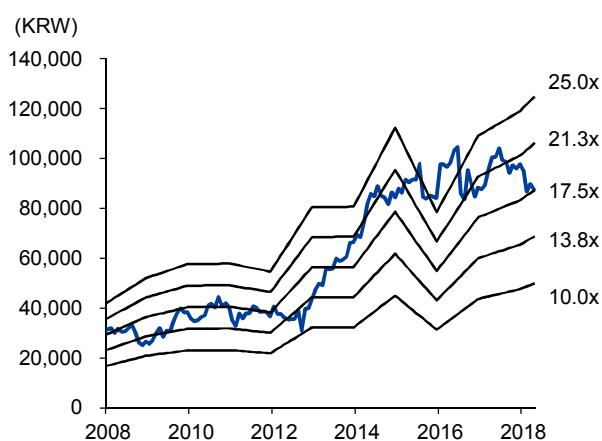
Source: Company data, Samsung Securities estimates

Forecasts and valuations

Year-end Dec 31	Sales (KRWb)	Operating profit (KRWb)	Pre-tax profit (KRWb)	Net profit (KRWb)	EPS (KRW)	Chg (% y-y)	P/E (x)	P/B (x)	ROE (%)	EV/EBITDA (x)	Net debt (KRWb)
2015	2,315	463	454	343	4,492	39.3	19.5	5.7	30.1	10.0	(38)
2016	2,376	339	324	243	3,134	(30.2)	27.9	5.6	20.1	12.1	210
2017	2,517	473	440	326	4,361	39.2	20.1	6.8	30.1	10.0	512
2018E	2,731	516	493	365	4,883	12.0	17.9	5.9	34.8	9.4	502
2019E	2,930	584	561	415	5,552	13.7	15.8	5.2	34.8	8.2	447
2020E	3,150	633	611	453	6,048	8.9	14.5	4.6	33.5	7.4	377

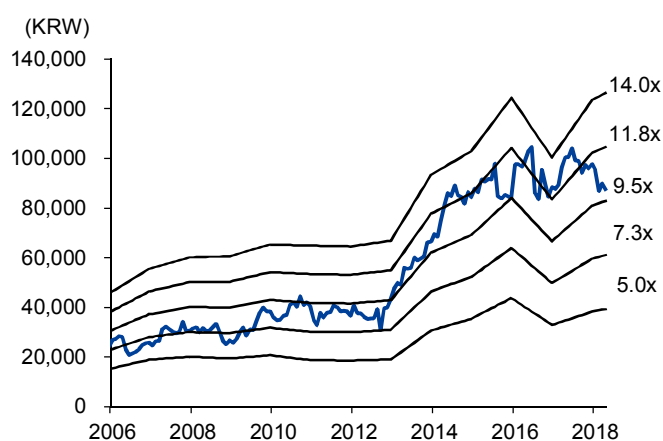
Source: Company data, Samsung Securities estimates

Forward P/E



Source: Company data, Samsung Securities estimates

Forward EV/EBITDA



Source: Company data, Samsung Securities estimates

Income statement

Year-end Dec 31(KRWb)	2016	2017	2018E	2019E	2020E
Sales	2,376	2,517	2,731	2,930	3,150
Cost of goods sold	812	798	861	924	993
Gross profit	1,564	1,718	1,870	2,006	2,157
Gross margin (%)	65.8	68.3	68.5	68.5	68.5
SG&A expenses	1,225	1,246	1,354	1,423	1,524
Operating profit	339	473	516	584	633
Operating margin (%)	14.3	18.8	18.9	19.9	20.1
Non-operating gains (losses)	(15)	(33)	(24)	(23)	(21)
Financial profit	1	1	1	1	1
Financial costs	6	12	16	15	14
Equity-method gains (losses)	0	0	0	0	0
Other	(10)	(22)	(8)	(8)	(8)
Pre-tax profit	324	440	493	561	611
Taxes	80	114	128	146	159
Effective tax rate (%)	24.8	26.0	26.0	26.0	26.0
Profit from continuing operations	243	326	365	415	453
Profit from discontinued operations	0	0	0	0	0
Net profit	243	326	365	415	453
Net margin (%)	10.2	12.9	13.4	14.2	14.4
Net profit (controlling interests)	244	326	365	416	453
Net profit (non-controlling interests)	(0)	(0)	(1)	(1)	(1)
EBITDA	572	708	752	853	933
EBITDA margin (%)	24.1	28.1	27.5	29.1	29.6
EPS (parent-based) (KRW)	3,167	4,328	4,849	5,518	6,014
EPS (consolidated) (KRW)	3,163	4,321	4,842	5,510	6,006
Adjusted EPS (KRW)*	3,134	4,361	4,883	5,552	6,048

Cash flow statement

Year-end Dec 31(KRWb)	2016	2017	2018E	2019E	2020E
Cash flow from operations	358	554	599	686	752
Net profit	243	326	365	415	453
Non-cash profit and expenses	155	254	265	299	331
Depreciation	225	227	228	261	292
Amortization	8	8	8	8	8
Other	(78)	19	29	30	31
Changes in A/L from operating activities	(41)	(26)	(31)	(28)	(32)
Cash flow from investments	(367)	(290)	(357)	(371)	(386)
Change in tangible assets	(313)	(323)	(357)	(371)	(386)
Change in financial assets	(39)	(27)	0	0	0
Other	(16)	61	0	0	0
Cash flow from financing	(40)	(218)	(242)	(314)	(366)
Change in debt	264	330	(10)	(55)	(71)
Change in equity	0	0	(1)	0	0
Dividends	(208)	(409)	(231)	(260)	(296)
Other	(96)	(140)	(0)	0	(0)
Change in cash	(50)	44	0	0	0
Cash at beginning of year	116	66	110	110	110
Cash at end of year	66	110	110	110	110
Gross cash flow	399	580	630	714	784
Free cash flow	111	206	224	295	345

Note: * Excluding one off items, ** Fully diluted, excluding one-off items

*** From companies subject to equity-method valuation

Source: Company data, Samsung Securities estimates

Balance sheet

Year-end Dec 31(KRWb)	2016	2017	2018E	2019E	2020E
Current assets	733	791	820	844	871
Cash & equivalents	66	110	110	110	110
Accounts receivable	323	340	369	396	426
Inventories	70	75	81	87	94
Other current assets	274	266	259	251	242
Fixed assets	1,235	1,367	1,467	1,547	1,611
Investment assets	89	89	89	89	89
Tangible assets	669	712	812	892	956
Intangible assets	183	184	184	184	184
Other long-term assets	293	382	382	382	382
Total assets	1,968	2,159	2,286	2,391	2,482
Current liabilities	735	1,125	1,119	1,069	1,003
Accounts payable	59	54	59	63	68
Short-term debt	34	66	65	60	53
Other current liabilities	643	1,004	995	946	882
Long-term liabilities	49	52	52	52	52
Bonds & long-term debt	12	12	12	12	12
Other long-term liabilities	37	40	40	40	40
Total liabilities	784	1,177	1,171	1,121	1,055
Owners of parent equity	1,183	982	1,115	1,271	1,428
Capital stock	41	41	40	40	40
Capital surplus	127	129	129	129	129
Retained earnings	1,180	963	1,097	1,253	1,409
Other	(165)	(151)	(151)	(151)	(151)
Non-controlling interests' equity	1	0	0	0	0
Total equity	1,183	982	1,115	1,271	1,428
Net debt	210	512	502	447	377

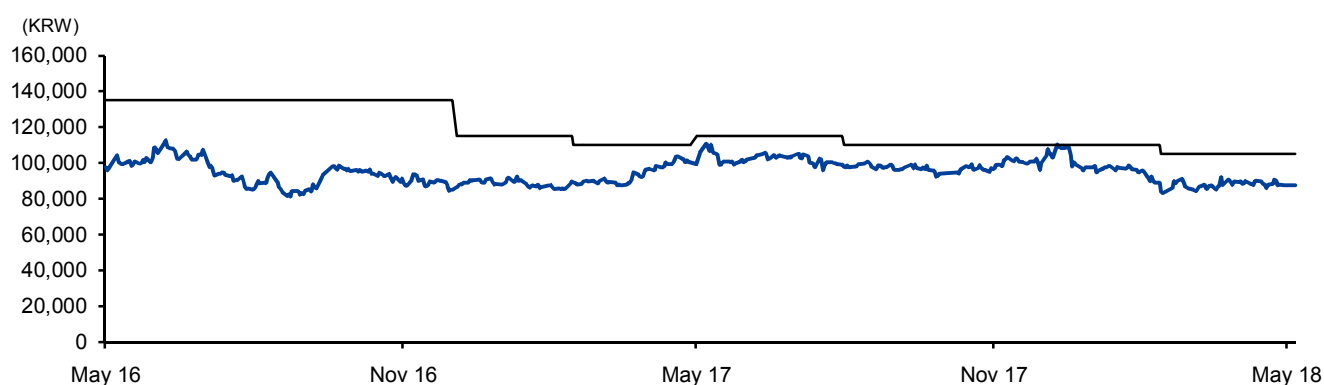
Financial ratios

Year-end Dec 31	2016	2017	2018E	2019E	2020E
Growth (%)					
Sales	2.6	5.9	8.5	7.3	7.5
Operating profit	(26.9)	39.5	9.2	13.0	8.4
Net profit	10.2	12.9	13.4	14.2	14.4
Adjusted EPS**	(30.2)	39.2	12.0	13.7	8.9
Per-share data (KRW)					
EPS (parent-based)	3,167	4,328	4,849	5,518	6,014
EPS (consolidated)	3,163	4,321	4,842	5,510	6,006
Adjusted EPS**	3,134	4,361	4,883	5,552	6,048
BVPS	15,496	12,938	14,715	16,794	18,890
DPS (common)	3,200	3,200	3,600	4,100	4,500
Valuations (x)					
P/E***	27.9	20.1	17.9	15.8	14.5
P/B***	5.6	6.8	5.9	5.2	4.6
EV/EBITDA	12.1	10.0	9.4	8.2	7.4
Ratios (%)					
ROE	20.1	30.1	34.8	34.8	33.5
ROA	13.0	15.8	16.4	17.8	18.6
ROIC	19.1	23.2	24.2	25.6	26.3
Payout ratio	96.4	70.9	71.2	71.2	71.7
Dividend yield (common)	3.7	3.7	4.1	4.7	5.1
Net debt to equity	17.8	52.1	45.0	35.2	26.4
Interest coverage (x)	55.5	38.3	32.0	37.9	45.5

Compliance notice

- As of Apr 30, 2018, the covering analyst(s) did not own any shares, or debt instruments convertible into shares, of any company covered in this report.
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Target price changes in past two years



Rating changes over past two years (adjusted share prices)

Date	2016/2/17	12/4	2017/2/15	4/29	8/1	2018/2/13
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	135,000	115,000	110,000	115,000	110,000	105,000
Gap* (average)	(29.81)	(22.99)	(14.66)	(10.98)	(10.52)	
(max or min)**	(16.30)	(19.48)	(5.45)	(3.48)	0.45	

Note: * [(average, maximum, or minimum share price over duration of target price minus target price) / target price] x 100%
 ** Maximum/minimum share price if new target is higher/lower than market close on the business day prior to target price change

Samsung Securities uses the following investment ratings.

Company

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

Industry

OVERWEIGHT	Expected to outperform market by 5% or more within 12 months
NEUTRAL	Expected to outperform/underperform market by less than 5% within 12 months
UNDERWEIGHT	Expected to underperform market by 5% or more within 12 months

Percentage of ratings in 12 months prior to Mar 31, 2018

BUY (86.6%) | HOLD (13.4%) | SELL (0%)

Global Disclosures & Disclaimers

General

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