

May 23, 2018

Coway (021240)

NDR takeaways: Domestic competition concerns fade, solid overseas operations

Easing concerns about domestic competition; Huge interest in overseas business

- We held an overseas NDR with Coway.
- Investors were mostly interested in overseas operations, the level of competition domestically, a potential stake disposal by the largest shareholder and dividends.
- Coway received positive feedback from investors for offering an aggressive guidance for its domestic business in 2018 and adding more accounts. The overseas operations attracted considerable interest. A high dividend payout ratio was confirmed while the potential stake sale remains uncertain.
- We are upbeat about better operating conditions. We maintain BUY and a TP of W110,000.

Overseas operations: Greater expandability led by Asia

- Overseas operations (overseas local + exports) accounted for 18% of sales in 2017 with rentals and non-rentals (i.e., lump-sum purchase) achieving meaningful results in major overseas markets.
- Malaysia's rental operations are the most upbeat. Sales in Malaysia in 1Q18 grew 50% YoY and accounted for 10% of consolidated revenue. The target is to lift OPM from 8% in 2017 to 11% in 2018. Of note, the 1Q18 OPM reached 14%.
- Malaysia accounts numbered 650,000 in 2017 and management presented guidance of reaching 1mn in 2018 (KIS est. 910,000). We expect a 30% CAGR for the next three to four years.

12M rating **BUY (Maintain)**

12M TP **W110,000** from W110,000

Up/downside **+25%**

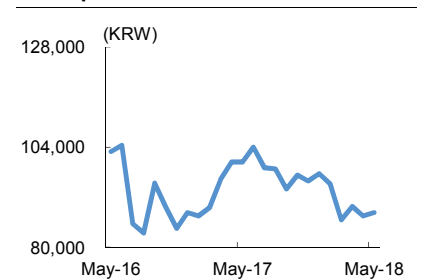
Stock data

KOSPI (May 21, pt)	2,466
Stock price (May 21, KRW)	88,300
Market cap (USD mn)	6,004
Shares outstanding (mn)	74
52-Week high/low (KRW)	110,500/83,000
6M avg. daily turnover (USD mn)	13.1
Free float / Foreign ownership (%)	70.4/60.0
Major shareholders (%)	
Coway Holdings Inc. and 6 others	27.3
GIC Private Ltd.	7.4

Performance

	1M	6M	12M
Absolute (%)	0.5	(11.7)	(12.6)
Relative to KOSPI (%p)	0.9	(9.1)	(20.3)

Stock price



Source: WISEfn

	2016A	2017A	2018F	2019F	2020F
Sales (W bn)	2,376	2,517	2,697	2,908	3,130
chg. (% YoY)	2.6	5.9	7.1	7.9	7.6
Operating profit (W bn)	339	473	516	554	605
Net profit (W bn)	244	326	375	403	442
EPS (KRW)	3,280	4,484	5,205	5,588	6,130
chg. (% YoY)	(29.0)	36.7	16.1	7.4	9.7
EBITDA (W bn)	572	708	767	819	885
PE (x)	26.9	21.8	17.0	15.8	14.4
EV/EBITDA (x)	11.8	10.8	9.0	8.4	7.7
PB (x)	4.9	6.3	5.1	4.6	4.1
ROE (%)	20.1	30.1	35.8	34.1	32.8
Dividend yield (%)	3.6	3.3	3.9	4.1	4.1

Note: Net profit and EPS attributed to controlling interest

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- Malaysia's water purifier penetration rate should go up in addition to a broader rental category lineup. Water purifier penetration in the country stands at 25% with Coway commanding the largest market share with ~30%. We expect its penetration to fast rise to 45-50%, a level similar to Korea. Water purifiers currently make up 85% of sales and the firm is working to scale up the weighting of bidets and air purifiers.
- China: Sales mainly come from air purifier ODM for Philips. We expect a weak 1H18 and brisk 2H18 in tandem with Phillips depleting its inventory. Coway brand air purifiers are also offered on Tmall.com as of 2Q18 in addition to the Phillips ODM. It is seeking new business opportunities in water purifiers.
- US: Coway is increasing lump-sum sales via Amazon in addition to its existing rental operation. After starting with air purifiers, Coway began offering water purifiers from end-1Q18. Amazon-bound sales recorded W8bn in 2017 and W5bn in 1Q18.

Domestic operations: Efforts to regain market share

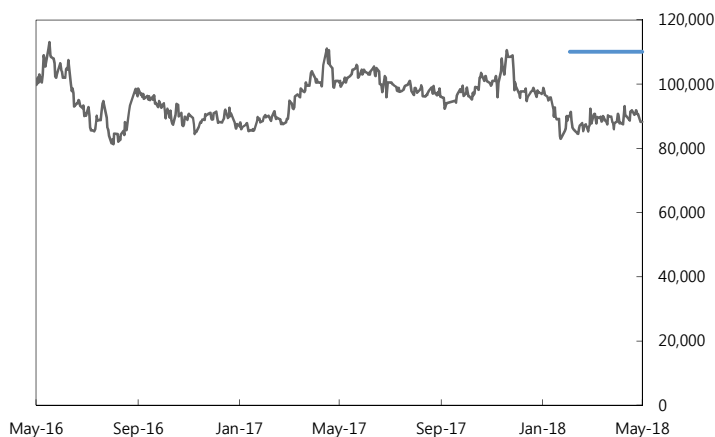
- Management offered 2018 net account additions guidance of 370,000 and forecast solid sales to drive growth.
- Coway should win a greater presence in the water purifier market while delivering solid sales of air purifiers and mattresses. Specifically, the air purifier market should achieve brisk growth and Coway gain greater mattress market share mainly by seizing replacement demand.
- The water purifier business had been a major cause for stagnant earnings in 2016-2017. But Coway will likely build up its market share thanks to a favorable comparison base and new product releases. The firm rolled out direct water purifiers (without tank) in 2H17 to meet growing demand. Direct water purifiers recently account for 40-50% of the water purifier market. Accordingly, Coway has stepped up efforts to release new products to win the competition for market leadership.
- Coway will maintain its margin-focused strategy. But the firm also plans to offer new products to compete with rivals and increase product categories covered by the Cody channel (maintenance and technician managers who provide onsite services).
- Six clothing care product models will be offered for rental starting from end-May. The products are similar to LG Electronics' Styler, a steam clothing care chamber, but would be distinguished by a built-in air purification system. Lump-sum purchase will also be available, which are hoped to amount to 15,000-20,000 units in 2018.

Dividend and potential sale of largest shareholder's stake

- The company's guidance is that a 70% dividend payout ratio will stay flat YoY in 2018. We estimate the 2018 dividend at W3,400 with a 3.8% yield.
- Concerns are raised about the potential sale of shares held by largest shareholder MBK Partners, which could place the company back under Woongjin Group. Uncertainty lingers about the stake sale as it has been six years since the acquisition by MBK Partners. But the company sees little likelihood of being reacquired by Woongjin Group.

Changes to recommendation and price target

Company (Code)	Date	Recommendation	Price target	% vs. avg. price	% vs. high (low)
Coway(021240)	04-05-16	Hold	-	-	-
	04-05-17	1YR later		-	-
	25-02-18	BUY	W110,000	-	-



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BUY	Hold	Underweight (Sell)
80.3%	19.2%	0.5%

Note: % of companies under coverage with this rating

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