

October 31, 2018

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Disposal-driven uncertainties exist, but recent share price falls deemed to be overdone

We maintain BUY on Coway, but lower our target price by 14% to KRW95,000. Despite our slight adjustments to earnings projections, we applied the low-end (18x) of the six-year PER band in deriving the target price, reflecting disposal-related uncertainties. After being acquired by MBK Partners in 2012, Coway has been demonstrating steep OR growth and margin uptrend. However, such an uptrend has slowed recently. In addition, Coway is facing fierce competition as latecomers are boosting their market shares. We see uncertainties over the direction management intends to take the company compounded by concerns over possible cost rises (e.g, royalties) after Coway is acquired by Woongjin ThinkBig. Considering the burden involving Woongjin ThinkBig's loans and a stake held by financial investors (FIs), however, there is a limited possibility of changes to mid/long-term dividend policies. The sudden share price falls this week are deemed to be overdone (2018 dividend yield of 5% under current price), but a meaningful share price recovery could be delayed until the aforementioned uncertainties ease.

Woongjin Thinkbig to acquire 22.17% stake in Coway for KRW1.68tr

On Oct 29, Woongjin ThinkBig announced that it would acquire a 22.17% stake in Coway for KRW1.68tr (KRW103,000/share). Woongjin-STIC Investment consortium signed a stock purchase agreement (SPA) with MBK Partners and the transfer is expected on Mar 15, 2019. According to media reports, out of the total acquisition price, STIC Investment will cover KRW500bn. If this is not possible, Korea Investment & Securities will invest equity capital worth KRW400bn. Woongjin ThinkBig will cover KRW400bn. The remaining KRW800bn is expected to be financed through loans.

Buy maintain

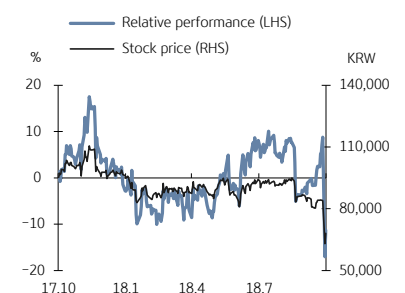
Target Price (lowered)	KRW95,000
Upside/Downside	39.7%
Current price (Oct 30)	KRW68,000
Consensus Target Price	KRW105,667
Market cap	USD4.4bn

Trading Data	
Free float	75.5%
Avg T/O Val (3M, KRWbn)	23.6
Foreign ownership	64.1%
Major shareholders	Coway Holdings, Inc. and 6 others 22.3% GIC Private Limited 7.4%

Performance				
(%)	1M	3M	6M	12M
Absolute	-21.7	-27.9	-22.3	-28.6
Relative	-8.9	-17.9	-3.0	-11.3

Forecast earnings & valuation

FY-end	2017A	2018E	2019E	2020E
OR (KRWbn)	2,517	2,706	2,918	3,107
OP (KRWbn)	473	517	545	576
NP to parent (KRWbn)	326	372	383	407
EPS (KRW)	4,328	5,037	5,196	5,516
EPS Growth (%)	36.7	16.4	3.2	6.2
PER (x)	22.6	13.5	13.1	12.3
EV/EBITDA (x)	11.0	6.8	6.5	6.1
PBR (x)	7.4	4.5	4.1	3.7
ROE (%)	30.1	35.5	32.8	31.4
Div. Yield (%)	3.3	5.0	5.3	5.6

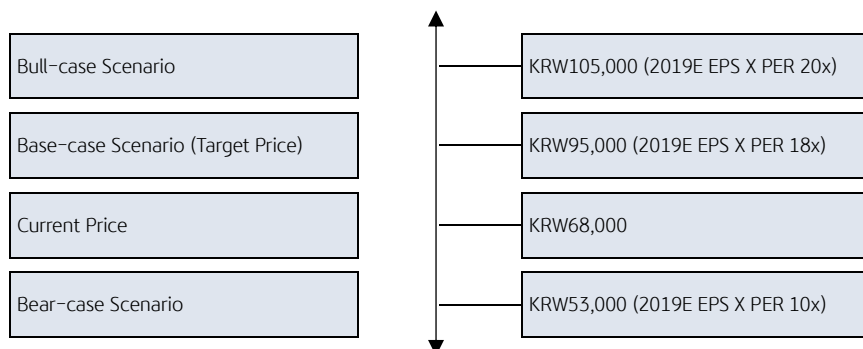


Source: COWAY, KB Securities estimates

**3Q18 OR +6% YoY, OP +5% YoY;
Domestic business slightly lackluster
and overseas business sustains
strong growth**

3Q18 consolidated OR came in at KRW669.8bn (+6% YoY) and OP stood at KRW130.4bn (+5% YoY), meeting consensus. Stand-alone OR reached KRW595.4bn (+1% YoY) and OP reached KRW120.6bn (-5% YoY). 1) Domestic rental OR edged up only 1%. This is because a net rise in rentals stood only at 43,000 accounts (previously estimated at 77,000 accounts), as new rentals grew only 1% YoY due to the impact of off-peak seasonality and a difference in the timing of Chuseok holidays YoY. The churn rate decreased 0.08%p QoQ to 1.02%. 2) Home care OR increased 29%, but OR from membership and lump-sum payments declined 18% and 19% each. 3) Four overseas wellness home appliance subsidiaries achieved combined OR of KRW117.8bn (+56% YoY) and OP of KRW17.4bn (+270% YoY). The Malaysian subsidiary saw OR advance 68% YoY and OP margin improve 9%p YoY.

Investment opinion and risks



Base-case Scenario: Catalysts

- 1) Stable domestic net rental account growth
- 2) High growth at overseas businesses, including Malaysia

Bull-case Scenario: Upside risks

- 1) Strong sales of new rental products, including apparel refreshers
- 2) Higher-than-expected earnings at overseas units

Bear-case Scenario: Downside risks

- 1) Weak domestic net rental account growth due to intensifying competition
- 2) Shift in business and dividend policies following change in major shareholder

Adjusted earnings estimates

(KRWbn, %)	Before		After		Change	
	2018E	2019E	2018E	2019E	2018E	2019E
OR	2,719.2	2,947.4	2,705.8	2,918.4	-0.5	-1.0
OP	519.5	553.1	516.5	544.8	-0.6	-1.5
NP to parent	366.8	389.4	371.7	383.5	1.3	-1.5

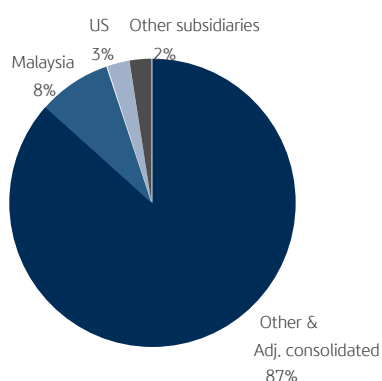
Source: KB Securities estimates

Difference vs. Consensus

(KRWbn, %)	KB est.		Consensus		Contrast	
	2018E	2019E	2018E	2019E	2018E	2019E
OR	2,705.8	2,918.4	2,699.2	2,887.7	0.2	1.1
OP	516.5	544.8	516.9	564.3	-0.1	-3.5
NP to parent	371.7	383.5	368.8	404.6	0.8	-5.2

Source: FnGuide, KB Securities estimates

OR composition (%): 2017 basis



Source: Company data, KB Securities

Peer group comparison

(USDbn, X, %)	Market cap.	PER		PBR		EV/EBITDA		ROE		Dividend Yield	
		2018E	2019E	2018E	2019E	2018E	2019E	2018E	2019E	2018E	2019E
		Cuckoo Homesys	0.9	22.1	17.3	2.4	2.2	10.0	7.5	16.7	19.1
Lock & Lock	1.2	21.2	18.3	1.7	1.7	13.7	11.4	9.9	11.2	1.2	1.7
RINNAI CORP	5.1	23.1	21.8	1.8	1.7	8.9	8.2	8.1	7.9	0.9	0.9
Whirlpool	11.0	10.0	8.8	2.6	2.5	6.8	6.0	23.4	29.2	3.0	3.3

Source: Bloomberg, KB Securities

Valuation and target price calculation

- 1) Valuation method:
PER valuation
- 2) Target price calculation:
Applied 2019E EPS with target PER of multiple 18x (Bottom of 2012~2017 PER)
- 3) Upside ~ downside of target price:
KRW105,000 ~ KRW53,000
- 4) Valuation upon arriving at target price:
2018E Implied PER of 18x, PBR of 6x

Earnings sensitivity analysis

(%)	EPS change	
	2018E	2019E
1%p rise in interest rate	-0.9	-0.7
1% rise in FX rate	+0.3	+0.3

Table 1. Coway: Consolidated 3Q18 earnings

(KRWbn)	3Q18	3Q17	YoY (%)	2Q18	QoQ (%)	Consensus	Var (%)	KB Securities	Var (%)
OR	669.8	629.6	6.4	678.1	-1.2	680.3	-1.5	688.9	-2.8
OP	130.4	124.2	5.0	129.3	0.8	133.4	-2.3	134.0	-2.7
EBT	118.2	124.2	-4.8	122.7	-3.7	128.8	-8.2	128.4	-8.0
NP (to parent)	94.3	93.5	0.9	90.8	3.9	97.2	-2.9	93.8	0.5
OPM (%)	19.5	19.7		19.1		19.6		19.5	
EBT margin (%)	17.6	19.7		18.1		18.9		18.6	
NPM (to parent) (%)	14.1	14.8		13.4		14.3		13.6	

Source: Company, Fnguide, KB Securities

Table 1. Coway: PER Valuation

	2015	2016	2017	2018E	2019E	2020E
Consolidated EPS (KRW)	4,619	3,324	4,521	5,154	5,317	5,644
Applied PER (X)				18.0	18.0	18.0
Value per share (KRW)				93,000	96,000	102,000
Upside (%)				36.4	40.7	49.4
TP (KRW)				95,000		
2019E EPS (KRW)				5,317		
Target PER (X)				18.0		
Current price (KRW)				68,000		(2018.10.30)
Upside (%)				39.7		
Applied PER of TP (X)				18.4	17.9	16.8
PER of current price (X)				13.2	12.8	12.0

Source: KB Securities estimates

Table 3. Coway: Adjusted earnings estimates

(KRWbn)	Before			After			Change (%)		
	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E
OR	2,719.2	2,947.4	3,150.5	2,705.8	2,918.4	3,106.6	-0.5	-1.0	-1.4
OP	519.5	553.1	588.9	516.5	544.8	575.9	-0.6	-1.5	-2.2
EBT	497.8	532.9	569.9	495.2	524.8	557.1	-0.5	-1.5	-2.3
NP (to parent)	366.8	389.4	416.5	371.7	383.5	407.1	1.3	-1.5	-2.3
EPS (KRW)	4,902.7	5,204.6	5,566.5	4,968.4	5,125.2	5,440.7	1.3	-1.5	-2.3
YoY (%)									
OR	8.0	8.4	6.9	7.5	7.9	6.4			
OP	9.9	6.5	6.5	9.3	5.5	5.7			
EBT	13.2	7.1	7.0	12.6	6.0	6.2			
NP (to parent)	12.5	6.2	7.0	14.0	3.2	6.2			
EPS	12.5	6.2	7.0	14.0	3.2	6.2			
OPM (%)	19.1	18.8	18.7	19.1	18.7	18.5			
EBT margin (%)	18.3	18.1	18.1	18.3	18.0	17.9			
NPM (to parent, %)	13.5	13.2	13.2	13.7	13.1	13.1			

Source: Company data, KB Securities estimates

Note: Based on changes relative to 2018 Aug. 1 estimates

Table 4. Coway: DCF Valuation

(KRWbn)		2016	2017	2018E	2019E	2020E	2021E	2022E	2023E
OP	a	338.8	472.7	516.5	544.8	575.9	602.7	620.8	633.2
Tax (%)	b	24.2	24.2	27.0	27.0	27.0	27.0	27.0	27.0
NOPLAT	C=a*(1-b)	256.8	358.3	377.0	397.7	420.4	440.0	453.2	462.2
DA (Tangible+Intangible)	d	233.1	235.5	265.7	273.7	279.6	284.0	283.0	282.1
Obsolescence loss	e	47.4	43.5	47.3	48.3	51.5	55.0	57.8	60.1
Total cash flow	F=C+d+e	537.3	637.3	690.0	719.7	751.5	778.9	793.9	804.4
Total Investment	G=h+i	-560.5	-485.3	-470.9	-448.3	-452.6	-462.0	-430.0	-390.0
Changes to assets and debts due to business activities	h	-232.3	-148.5	-150.9	-148.3	-152.6	-162.0	-150.0	-140.0
Capex	i	-328.2	-336.8	-320.0	-300.0	-300.0	-300.0	-280.0	-250.0
FCFF	J=F+G	-23.2	152.0	219.1	271.4	298.9	316.9	363.9	414.4
Discount Factor				0.95	0.90	0.85	0.81	0.77	0.73
PV of FCFF				207.6	243.8	254.5	255.8	278.5	300.6
Total PV of FCFF (2018E~23E)	k			1,540.8					
Terminal Value (2023)				8,331.6	2023 FCFF*growth rate 0.5%				
PV of terminal value	l			6,042.8	WACC 5.50% (Risk free rate 2.03%, Market risk premium 11.1%)				
Operating value of FCFF	M=k+l			7,583.6					
Cash and Cash equivalents	n			110.3					
Financial asset (Short-term)	o			60.1					
Investment in asset, real estate	p			89.4					
Debt	q			682.4					
Estimated value of equity	R=M+(n+o+p-q)			7,161.0					
# of shares ('000)	s			74,818		Ex. Treasury			
Target price (KRW)	T=R/s			95,712					
Current price (KRW)				68,000		2018.10.30			
Upside potential (%)				40.8					
Target price's 2018E Implied PER (X)				18.0					
Target price's 2018E Implied PBR (X)				5.6					

Source:: Company data, KB Securities estimates

Note: Market risk premium = 11.1%, COE = 8.14%, COD = 2.19%, Risk free rate = 2.03% (avg of 3yr treasury bond return)

Table 5. Coway: Earnings trend and estimates (consolidated)

(KRWbn)		1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18E	2016	2017	2018E	2019E
Consolidated OR		610.2	623.4	629.6	653.6	647.8	678.1	669.8	710.2	2,376.3	2,516.8	2,705.8	2,918.4
Stand-alone		571.9	575.0	588.9	584.6	571.5	595.8	595.4	603.6	2,204.5	2,320.5	2,366.4	2,489.2
Malaysia		43.7	49.0	55.0	59.8	65.7	91.6	92.3	95.7	143.0	207.5	345.3	424.7
U.S.		15.2	15.6	15.6	18.6	17.6	17.4	21.1	21.4	60.2	65.0	77.4	85.2
Other subsidiaries		12.6	19.7	11.3	20.9	22.7	25.1	20.6	26.9	55.9	64.5	95.3	105.6
Adjust.		-33.3	-36.2	-41.5	-30.5	-30.0	-51.8	-59.7	-37.4	-108.1	-141.4	-178.8	-186.3
YoY (%)	Consol. OR	-2.2	12.3	7.9	6.4	6.2	8.8	6.4	8.7	2.6	5.9	7.5	7.9
	Stand-alone	-1.0	10.0	7.0	5.7	-0.1	3.6	1.1	3.2	2.0	5.3	2.0	5.2
	Malaysia	48.5	42.6	49.6	40.9	50.6	86.8	67.7	60.1	46.3	45.1	66.4	23.0
	U.S.	-8.0	6.0	13.2	22.8	15.4	11.4	35.4	14.9	5.2	8.0	19.1	10.1
	Other subsidiaries	23.8	223.9	6.6	-28.0	80.6	27.5	81.9	28.8	195.0	15.4	47.8	10.7
	Adjust.	LC	LC	LC	LC	LC	LC	LC	LC	LC	LC	LC	LC
Consolidated OP		120.9	120.6	124.2	107.1	131.3	129.3	130.4	125.5	338.8	472.7	516.5	544.8
Stand-alone		123.0	125.2	127.0	103.2	123.1	119.9	120.6	111.7	368.7	478.4	475.2	502.5
Malaysia		2.3	3.2	5.0	7.0	9.2	15.9	17.0	17.2	6.7	17.5	59.3	63.7
U.S.		0.2	0.0	0.4	-0.1	0.6	-0.1	1.3	0.1	0.0	0.5	1.9	2.4
Other subsidiaries		-1.7	-0.4	-2.3	0.7	-2.4	-1.2	-1.5	1.7	-0.9	-3.7	-3.4	-1.1
Adjust.		-2.9	-7.4	-5.9	-3.8	0.8	-5.2	-7.0	-5.2	-36.6	-20.0	-16.6	-22.7
YoY (%)	Consol. OR	-2.2	919.4	16.1	11.1	8.6	7.2	5.0	17.2	-26.9	39.5	9.3	5.5
	Stand-alone	-3.1	486.0	8.9	-0.6	0.1	-4.3	-5.0	8.2	-20.4	29.8	-0.7	5.7
	Malaysia	91.7	113.3	177.8	218.2	300.0	396.9	240.0	146.0	9.8	161.2	239.0	7.4
	U.S.	100.0	-100.0	TB	N/A	200.0	N/A	225.0	TB	-100.0	N/A	281.4	25.9
	Other subsidiaries	TR	LC	LC	TB	LC	LC	LC	148.3	LC	LC	LC	LC
	Adjust.	LC	LC	LC	LC	TB	LC	LC	LC	LC	LC	LC	LC
OPM (%)	Consol. OR	19.8	19.3	19.7	16.4	20.3	19.1	19.5	17.7	14.3	18.8	19.1	18.7
	Stand-alone	21.5	21.8	21.6	17.7	21.5	20.1	20.3	18.5	16.7	20.6	20.1	20.2
	Malaysia	5.3	6.5	9.1	11.7	14.0	17.4	18.4	18.0	4.7	8.4	17.2	15.0
	U.S.	1.3	0.0	2.6	-0.5	3.4	-0.6	6.2	0.5	0.0	0.8	2.5	2.8
	Other subsidiaries	-13.5	-2.0	-20.3	3.4	-10.6	-4.8	-7.3	6.5	-1.6	-5.7	-3.5	-1.1
	Adjust.	8.6	20.5	14.2	12.4	-2.7	9.9	11.8	14.0	33.9	14.1	9.3	12.2
GP		417.1	428.5	434.6	438.1	446.0	460.0	455.8	472.4	1,564.2	1,718.3	1,834.2	1,979.4
EBT		100.6	126.0	124.2	89.1	127.8	122.7	118.2	120.0	323.8	439.9	495.2	524.8
NP		75.4	95.2	93.4	61.6	95.2	90.7	94.2	91.2	243.3	325.6	377.9	383.1
NP to parent		75.5	95.3	93.5	61.8	95.3	90.8	94.3	91.3	243.6	326.1	371.7	383.5
EBITDA		178.9	178.9	183.3	167.1	192.8	192.2	196.8	200.4	571.9	708.3	782.2	818.5
YoY (%)	GP	0.1	20.4	11.1	9.3	6.9	7.4	4.9	7.8	-1.4	9.9	6.7	7.9
	EBT	-19.7	2,308.1	37.9	-13.7	27.0	-2.6	-4.8	34.7	-28.8	35.9	12.6	6.0
	NP	-20.8	3,331.5	38.0	-20.6	26.2	-4.7	0.9	48.0	-29.1	33.8	16.1	1.4
	NP to parent	-20.7	3,310.7	37.8	-20.6	26.2	-4.7	0.9	47.7	-29.0	33.8	14.0	3.2
	EBITDA	-1.4	154.8	10.8	8.0	7.7	7.4	7.3	20.0	-17.2	23.8	10.4	4.6
GP Margin (%)		68.4	68.7	69.0	67.0	68.8	67.8	68.0	66.5	65.8	68.3	67.8	67.8
EBT margin (%)		16.5	20.2	19.7	13.6	19.7	18.1	17.6	16.9	13.6	17.5	18.3	18.0
NPM (%)		12.4	15.3	14.8	9.4	14.7	13.4	14.1	12.8	10.2	12.9	14.0	13.1
NPM to parent (%)		12.4	15.3	14.8	9.5	14.7	13.4	14.1	12.9	10.3	13.0	13.7	13.1
EBITDA Margin (%)		29.3	28.7	29.1	25.6	29.8	28.3	29.4	28.2	24.1	28.1	28.9	28.0

Source: Company data, KB Securities estimates

Table 6. Coway: Earnings trend and estimates (Stand-alone)

(KRWbn)		1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18E	2016	2017	2018E	2019E
Stand-alone OR		571.9	575.0	588.9	584.6	571.5	595.8	595.4	603.6	2,204.5	2,320.5	2,366.4	2,489.2
Domestic home appliance		483.0	500.8	500.8	496.4	496.6	505.4	498.0	506.3	1,912.0	1,981.0	2,006.3	2,083.2
Rental		369.5	379.5	378.5	378.5	378.7	382.7	382.2	390.3	1,492.6	1,506.0	1,533.9	1,583.8
Home care		25.9	30.2	35.1	31.6	38.6	40.9	45.2	41.1	105.4	122.8	165.8	190.6
Membership		37.8	36.7	35.9	34.3	32.2	31.1	29.4	29.0	167.5	144.7	121.8	113.3
One-off payment		45.9	50.4	47.3	48.6	43.9	47.3	38.2	42.8	195.7	192.2	172.1	183.1
Etc.		3.9	3.9	4.0	3.4	3.2	3.4	3.0	3.0	18.6	15.2	12.6	12.3
Export		68.0	55.5	68.6	67.6	54.3	71.8	79.9	77.7	217.0	259.7	283.8	328.2
Cosmetics		20.9	18.7	19.4	20.7	20.6	18.6	17.5	19.6	74.2	79.7	76.4	77.9
YoY (%)	Stand-alone OR	-1.0	10.0	7.0	5.7	-0.1	3.6	1.1	3.2	2.0	5.3	2.0	5.2
	Domestic home appliance	-3.3	12.3	3.4	2.9	2.8	0.9	-0.6	2.0	0.4	3.6	1.3	3.8
	Rental	-2.8	-1.2	3.0	4.9	2.5	0.9	1.0	3.1	0.1	0.9	1.9	3.3
	Home care	20.5	5.5	30.2	11.5	49.3	35.3	28.7	30.0	157.7	16.5	35.0	15.0
	Membership	-11.9	-13.5	-14.7	-14.3	-14.9	-15.4	-18.0	-15.3	-6.8	-13.6	-15.9	-6.9
	One-off payment	-8.9	-6.7	11.0	-0.2	-4.5	-6.2	-19.2	-12.0	14.3	-1.8	-10.5	6.4
	Etc.	-13.8	-13.4	-22.2	-24.7	-17.5	-12.8	-25.2	-10.0	-11.4	-18.6	-16.7	-3.0
	Export	19.8	-7.1	42.6	29.1	-20.1	29.3	16.5	15.0	45.4	19.7	9.3	15.6
	Cosmetics	4.0	8.3	6.9	10.8	-1.6	-0.7	-9.6	-5.0	-10.7	7.4	-4.2	2.0
Portion (%)	Stand-alone OR	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	Domestic home appliance	84.5	87.1	85.0	84.9	86.9	84.8	83.6	83.9	86.7	85.4	84.8	83.7
	Rental	64.6	66.0	64.3	64.7	66.3	64.2	64.2	64.7	67.7	64.9	64.8	63.6
	Home care	4.5	5.3	6.0	5.4	6.8	6.9	7.6	6.8	4.8	5.3	7.0	7.7
	Membership	6.6	6.4	6.1	5.9	5.6	5.2	4.9	4.8	7.6	6.2	5.1	4.6
	One-off payment	8.0	8.8	8.0	8.3	7.7	7.9	6.4	7.1	8.9	8.3	7.3	7.4
	Etc.	0.7	0.7	0.7	0.6	0.6	0.6	0.5	0.5	0.8	0.7	0.5	0.5
	Export	11.9	9.7	11.6	11.6	9.5	12.1	13.4	12.9	9.8	11.2	12.0	13.2
	Cosmetics	3.7	3.3	3.3	3.5	3.6	3.1	2.9	3.3	3.4	3.4	3.2	3.1
Stand-alone OP		123.0	125.2	127.0	103.2	123.1	119.9	120.6	111.7	368.7	478.4	475.2	502.5
YoY (%)		-3.1	486.0	8.9	-0.6	0.1	-4.3	-5.0	8.2	-20.4	29.8	-0.7	5.7
OPM (%)		21.5	21.8	21.6	17.7	21.5	20.1	20.3	18.5	16.7	20.6	20.1	20.2
Key assumption of rental													
Total account (thousand)		4,875.2	4,922.7	4,935.2	4,969.9	5,032.3	5,106.3	5,149.7	5,217.1	4,849.5	4,969.9	5,217.1	5,381.4
Newly sales (thousand)		349.6	396.9	317.9	317.4	377.1	388.8	321.9	365.0	1,400.9	1,381.7	1,452.8	1,481.8
Cancellation (thousand)		174.1	175.2	147.7	128.4	152.1	166.9	156.0	154.5	700.6	625.4	629.5	628.9
Arrival of the due date (thousand)		149.8	174.1	157.7	154.3	162.6	147.9	122.4	143.2	683.2	635.9	576.1	688.6
ARPU (Monthly avg.) (KRW)		27,105	27,876	27,971	27,606	27,817	27,854	27,778	27,744	27,509	27,646	27,809	27,904
Cancellation portion (Monthly avg.) (%)		1.2	1.2	1.0	0.9	1.0	1.1	1.0	1.0	1.2	1.1	1.1	1.0
Arrival of the due date portion (%)		52.6	52.6	53.7	49.8	51.1	49.6	47.6	49.0	53.7	52.2	49.4	51.8
Key assumption of membership													
Total account (thousand)		837.6	823.0	809.9	778.4	752.1	735.9	693.8	700.5	854.3	778.4	700.5	658.5
ARPU (Monthly avg.) (KRW)		14,912	14,749	14,657	14,383	14,030	13,927	13,726	13,879	15,568	14,776	13,722	13,899
Key assumption of one-off payment													
Newly sales (thousand)		54.6	77.5	62.1	56.3	49.1	54.4	44.2	45.1	245.2	250.6	192.8	198.6
ARPU (KRW)		840,615	650,443	762,141	862,396	893,867	868,986	863,873	948,635	798,124	767,223	892,764	922,171
Obsolescence loss (Consolidated) (KRWbn)		11.4	10.6	11.7	9.8	10.9	13.0	13.4	12.0	47.4	43.5	49.3	48.3

Source: Company data, KB Securities estimates

Profit & Loss					
(KRWbn)	2016A	2017A	2018E	2019E	2020E
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
Operating revenue	2,376	2,517	2,706	2,918	3,107
Cost of sales	812	798	872	939	993
Gross profit	1,564	1,718	1,834	1,979	2,113
SG&A expenses	1,225	1,246	1,318	1,435	1,537
Operating profit	339	473	517	545	576
EBITDA	572	708	782	818	856
Non-operating accounts	-15	-33	-28	-20	-19
Interest income	1	1	3	3	3
Interest expenses	6	12	17	15	13
Profit on equity method	0	0	0	0	0
Net other non-operating income	-10	-22	-13	-8	-8
Profit before tax	324	440	489	525	557
Income tax expense	80	114	117	142	150
Net profit	243	326	371	383	407
NP to parent	244	326	372	383	407
Adj. net profit	244	326	372	383	407

Operating Statistics & Ratios					
(%)	2016A	2017A	2018E	2019E	2020E
OR growth	2.6	5.9	7.5	7.9	6.5
OP growth	-26.9	39.5	9.3	5.5	5.7
EBITDA growth	-17.2	23.8	10.4	4.6	4.5
NP growth of parent	-29.0	33.8	14.0	3.2	6.2
GP margin	65.8	68.3	67.8	67.8	68.0
OP margin	14.3	18.8	19.1	18.7	18.5
EBITDA margin	24.1	28.1	28.9	28.0	27.5
EBT margin	13.6	17.5	18.1	18.0	17.9
NP margin	10.2	12.9	13.7	13.1	13.1

Cash Flow					
(KRWbn)	2016A	2017A	2018E	2019E	2020E
Cash flow from operating activities	358	554	548	508	533
Net profit	243	326	371	383	407
Depreciation & amortization	233	236	266	274	280
Other non-cash adjustments	233	241	182	142	150
Investments in working capital	-252	-148	-151	-148	-153
Decrease(Increase) in Receivables	-62	-59	-22	-35	-38
Decrease(Increase) in Inventories	-4	-6	-3	-6	-6
Increase(Decrease) in Payables	-4	21	-10	2	2
Other operating cash flow	-120	-100	-121	-142	-151
Cash flow from investing activities	-368	-290	-155	-307	-307
Capital expenditure	-313	-323	-313	-300	-300
Investments in intangibles	-13	-8	-10	-10	-10
Changes in investment assets	-1	-1	-1	0	0
Other investment cash flow	1	1	146	0	0
Cash flow from financing activities	-40	-218	-338	-223	-197
Proceeds from (repayments of) debt	264	330	-136	-56	-26
Changes in equity	-93	-127	2	0	0
Dividends paid	-208	-409	-231	-202	-202
Other financing cash flow	-2	-12	27	35	31
Other cash flow	0	-2	1	0	0
Increase/decrease in cash	-50	44	56	-22	29
Cash and cash equivalents at FYE	66	110	167	145	174
Free cash flow	45	250	255	208	233
Net cash flow	-248	-302	186	31	52
Net cash (net debt)	-210	-512	-326	-295	-242

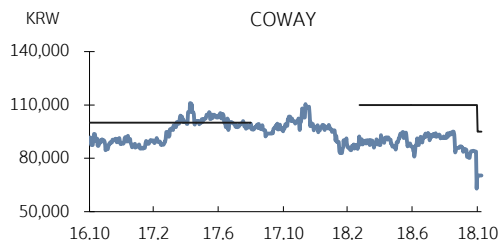
Statement of financial position					
(KRWbn)	2016A	2017A	2018E	2019E	2020E
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
Total assets	1,968	2,159	2,187	2,251	2,365
Current assets	733	791	890	918	1,001
Cash and cash equivalents	66	110	167	145	174
Current financial assets	75	60	54	51	49
Trade receivables	293	315	346	381	419
Inventories	70	75	80	86	92
Other current assets	228	232	243	255	268
Non-current assets	1,235	1,367	1,297	1,334	1,364
Investment assets	89	89	89	89	89
Property, plant and equipment	669	712	730	765	795
Intangible assets	183	184	183	184	184
Other non-current assets	292	381	295	295	295
Total liabilities	784	1,177	1,075	1,023	1,001
Current liabilities	735	1,125	1,020	971	951
Trade payables	59	54	56	57	59
Short-term financial liabilities	340	670	536	482	458
Other current liabilities	317	361	397	401	405
Non-current liabilities	49	52	55	52	50
Non-current financial liabilities	12	12	10	8	6
Other non-current liabilities	25	22	26	26	26
Total equity	1,183	982	1,112	1,228	1,364
Issued capital	41	41	41	41	41
Share premium	127	129	130	130	130
Other equity interest	-159	-146	-48	-48	-48
Accumulated other comprehensive income	-6	-5	1	1	1
Retained earnings	1,180	963	989	1,105	1,242
Equity attributable to owners of parent	1,183	982	1,113	1,229	1,366
Non-controlling Interests	1	0	0	-1	-1

Main Ratio					
(X, %, KRW)	2016A	2017A	2018E	2019E	2020E
Multiples					
PER	27.9	22.6	13.5	13.1	12.3
PBR	5.7	7.4	4.5	4.1	3.7
PSR	2.9	2.9	1.9	1.7	1.6
EV/EBITDA	12.2	11.0	6.8	6.5	6.1
EV/EBIT	20.5	16.5	10.3	9.8	9.1
Dividend yield, ordinary (%)	3.6	3.3	5.0	5.3	5.6
EPS	3,167	4,328	5,037	5,196	5,516
BPS	15,486	13,128	15,078	16,656	18,504
SPS	30,890	33,402	36,665	39,545	42,096
DPS (Annual, Ordnry.)	3,200	3,200	3,400	3,600	3,800
Cash dividends payout ratio (%)	96.3	71.2	66.0	67.8	67.4
Operating performance					
ROE	20.1	30.1	35.5	32.8	31.4
ROA	13.0	15.8	17.1	17.3	17.6
ROIC	20.6	25.6	28.2	28.3	28.2
Financial structure (%)					
Total liab./equity	66.3	119.8	96.6	83.3	73.3
Net debt/equity	17.8	52.1	29.3	24.0	17.8
Current Ratio	1.0	0.7	0.9	1.0	1.1
Interest coverage (x)	55.5	38.3	30.0	37.5	43.1
Activity ratios					
Asset turnover (x)	1.3	1.2	1.3	1.3	1.4
Receivables turnover (x)	8.7	8.3	8.2	8.0	7.8
Inventory turnover (x)	33.9	34.7	34.9	35.2	35.0

Source: COWAY, KB Securities estimates

Disclosures

Rating and Target Price Changes (Share price —, Target Price —)



COWAY (021240)

Date	Rating	Target Price (KRW)	Differential (%)	
			Avg.	Max/Min
17-05-24	Hold	100,000	-0.38	-7.70
17-11-24	6 month later	100,000	1.17	0.00
18-03-21	Buy	110,000	-17.91	-13.64
18-09-21	6 month later	110,000	-25.26	-21.09
18-10-31	Buy	95,000		

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Classification and Standards for Investment Rating

Investment Rating for Company

(based on estimation of six-month absolute returns)

Buy: +15% or beyond Hold: Between 15% and -15% Sell: -15% or beyond

Note: KB Securities's classification of investment ratings has shifted from four stages (Strong BUY, BUY, Marketperform, Underperform) to three stages (Buy, Hold, Sell) based on Korean reports since February 23, 2017.

Investment Rating for Industry

(based on estimation of six-month absolute returns)

Positive: To outperform market Neutral: To match market performance Negative: To underperform market

Notes: The industry rating system of KB Securities has shifted from (Overweight, Neutral, Underweight) to (Positive, Neutral, Negative) as of Jun 28, 2017

Proportion of investment rating (as of September 30, 2018)

Buy	Hold	Sell
75.2	24.8	-

* Note: Based on reports presented with investment ratings over the past one year

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