January 16, 2013 Company Analysis



Coway (021240)

BUY (maintain)



SK Lee Analyst / Retail 82-2-2003-2915 sk.lee@hdsrc.com

Current price (Jan 1 Fair value	5)		RW44,000 RW50,000
Preference level w	ithin sect	or	***
Reuters code		(021240.KS
Bloomberg code		(021240 KS
Industry/Sector	Oth	ner Consum	er Services
Rating		(Overweight
Market cap			USD3.2bn
Ordinary shares issu	ued	77,12	24,796shrs
Free float			62.5%
KOSPI			1983.74
KOSDAQ			508.02
Avg T/O Vol (60d)			31,253shrs
Avg T/O Val (60d)		1	USD6.8mn
Foreign ownership			51.1%
3yr CAGR of adj EP	S (12~14)		11.0%
Market's 3yr CAGR	of adj. EP	S	17.5%
52wk high/low	KRV	V45,150 / K	RW30,150
Beta (12M, daily reti	um)		0.2
Major shareholders	Coway H	oldings, Inc.	etc. 30.9%
Price performance	1M	3M	6M
Absolute	9.5%	23.8%	27.0%
Relative	10.1%	20.1%	16.0%
**			



Action Plans to become Concrete

- Shares revaluated; Waiting for policy changes
- Earnings to start to improve meaningfully from 2013
- 4Q12 results to miss expectations due to one-off expenses, but...

Shares revaluated; Waiting for policy changes

The shares have rallied strongly for the past three months. Since MBK Partners and financial investors took over management control, expectations for policies aimed at improving governance structure and enterprise value have served as a catalyst.

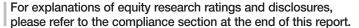
After a period of revaluation, the shares are now trading at a 2013 PER of 16x, off from the bottom level, but they still hold upside potential. We advise investors to refrain from profit-taking and keep the stock as our top pick. With its restructuring plans taking shape, Coway's price rallies will be justified going forward.

The key points to watch are margin improvement and the timing of policy changes. If prices are raised for rental and membership services, enterprise value per share is expected to rise by KRW10,000.

FY-end	12/10A	12/11A	12/12F	12/13F	12/14F
(Reporting standard)	(GAAP-P)	(IFRS-C)	(IFRS-P)	(IFRS-P)	(IFRS-P)
OR (KRWbn)	1,519.1	1,824.4	1,862.6	1,994.0	2,147.0
OP (KRWbn)	228.8	233.2	225.1	282.8	310.0
NP (KRWbn)	177.0	167.1	128.4	239.6	226.9
Parent NP (KRWbn)	177.0	167.1	128.4	239.6	226.9
EPS (KRW)	2,294	2,192	1,703	3,167	2,999
Adj. EPS (KRW)	2,294	2,192	2,071	2,721	2,999
PER* (x)	20.0 - 13.6	19.5 - 14.2	21.4 - 13.8	16.2	14.7
PBR (x)	4.1	3.7	4.2	3.5	3.0
EV/EBITDA (x)	8.8	7.3	8.8	7.4	6.9
Div. Yield (%)	2.6	2.9	0.0	4.8	2.4
ROE (%)	24.5	22.6	16.3	27.6	22.2
ROIC (%)	22.1	19.7	15.8	19.7	19.8

Note: IFRS-C = Consolidated financial statements; IFRS-P = Individual financial statements

Source: Company data, Hyundai Securities



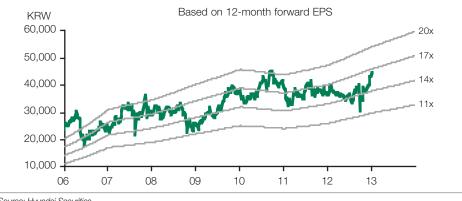


■3-month relative performance 40 30 20 10 0 -10 -20 GS Home Shopping Coway Shinsegae E-Mart GS Retail Lotte Shopping

Fig 1: Coway showed strong short-term rally

Source: Hyundai Securities

Fig 2: PER not demanding in absolute terms



Source: Hyundai Securities

Earnings to start to improve meaningfully from 2013

The company is setting up its 2013 earnings guidance. Thanks to one-off expenses booked in 2012 (assumed at KRW30bn, including inventory disposals), OP is projected to grow over 20%YoY. OP margin is estimated at 14.8%, on a par with the level of 2012 excluding one-off items.

We project that Coway's 2013 OR and OP will ascend 7%YoY and 25%YoY, respectively, based on the following assumptions: 1) its flagship rental and membership revenues will expand 7%YoY and 2) an operating loss from the other business, domestic cosmetics, will shrink YoY from KRW13bn to KRW8bn in 2013.

EBT is projected to surge 86%YoY, fueled by the disposal of its Woongjin Chemical stake (e.g., one-off gains, a reduction in debt).

4Q12 results to miss expectations due to oneoff expenses, but...

4Q12 results are subject to change according to a one-off expense. OR is expected to grow 6%YoY, but OP could decline at least 10%YoY and by as much as 50%YoY. In terms of one-off expenses, there is about KRW10bn in losses from the disposal of inventory assets and another KRW20bn in losses which have not been finalized. Considering this one-off expense, OP should meet our estimate and consensus.

Increased expenses in 4Q12 appear to have been due to preemptive steps to deal with financial weaknesses ahead of the launch of the new management (MBK and financial investors).

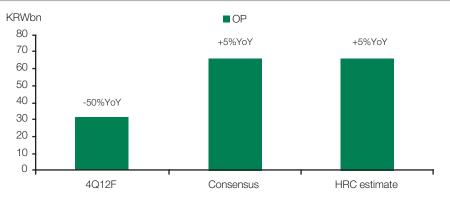


Fig 3: One-off expense seen in 4Q12 earnings

Source: FnGuide, Hyundai Securities

Statement of financial position

Profit & Loss					
(KRWbn)	12/10A	12/11A	12/12F	12/13F	12/14F
(Reporting standard)	(GAAP-P)	(IFRS-C)	(IFRS-P)	(IFRS-P)	(IFRS-P)
Operating revenue	1,519.1	1,824.4	1,862.6	1,994.0	2,147.0
Cost of sales	494.1	580.8	620.5	660.2	727.0
Gross profit	1,025.1	1,243.5	1,242.1	1,333.8	1,420.0
SG&A expenses	796.3	955.0	963.0	999.0	1,050.0
Other operating income	0.0	(55.3)	(54.0)	(52.0)	(60.0)
Operating profit	228.8	233.2	225.1	282.8	310.0
EBITDA	382.6	448.0	450.3	511.2	540.2
Non-operating accounts	7.7	(15.7)	(55.7)	33.3	(10.7)
Net financing income	(14.1)	(24.3)	(29.4)	(21.7)	(20.7)
Profit on equity method	22.1	3.4	10.0	10.0	10.0
Net other non-operating income	(0.3)	5.3	(36.3)	45.0	0.0
Profit before tax	236.5	217.5	169.4	316.1	299.3
Income tax expense	59.5	50.5	41.0	76.5	72.4
Net profit	177.0	167.1	128.4	239.6	226.9
Profit attributable to owners of parent	177.0	167.1	128.4	239.6	226.9
Total comprehensive income	174.3	161.2	128.4	239.6	226.9
TCI, attributable to owners of parent	174.3	161.2	128.4	239.6	226.9
Net exceptionals	0.0	0.0	(27.8)	33.8	0.0
Adj. net profit	177.0	167.1	156.2	205.9	226.9

Cash Flow					
(KRWbn)	12/10A	12/11A	12/12F	12/13F	12/14F
Net profit	177.0	167.1	128.4	239.6	226.9
Depreciation & amortization	153.8	159.5	171.2	176.4	170.2
Other non-cash adjustments	53.5	151.8	45.8	82.5	62.4
Investments in working capital	(70.6)	(120.8)	(41.8)	(20.6)	(12.5)
Other operating cash flow	0.0	(43.1)	(49.0)	(76.5)	(72.4)
Cash flow from operating activities	313.8	314.5	254.6	401.4	374.6
Capital expenditure	(211.9)	(302.8)	(230.0)	(230.0)	(230.0)
Investments in intangibles	(14.7)	(6.8)	(15.0)	(15.0)	(15.0)
Changes in current financial assets	(3.3)	(0.5)	(10.0)	(3.6)	(3.6)
Changes in investment assets	(65.1)	(7.8)	0.0	0.0	0.0
Other investment cash flow	(1.3)	(6.4)	7.0	0.0	0.0
Cash flow from investing activities	(296.4)	(324.2)	(248.0)	(248.6)	(248.6)
Proceeds from (repayments of) debt	54.5	208.7	0.0	55.0	0.0
Changes in equity	0.0	(73.5)	0.0	0.0	0.0
Dividends paid	(76.8)	(79.9)	(77.8)	0.0	(79.4)
Other financing cash flow	1.9	(24.8)	23.2	(142.4)	119.3
Cash flow from financing activities	(20.4)	30.5	(54.6)	(87.4)	39.8
Other cash flow	(4.3)	2.8	0.0	0.0	0.0
Increase/decrease in cash	(7.4)	23.6	(48.0)	65.4	165.8
Cash and cash equivalents at FYB	63.7	74.6	98.2	50.2	115.6
Cash and cash equivalents at FYE	56.3	98.2	50.2	115.6	281.4
Gross operating cash flow	328.2	351.7	333.8	390.8	405.2
Free cash flow	30.7	(74.9)	43.4	125.2	147.6
Net cash flow	(63.5)	(181.8)	(137.2)	179.6	46.8
Net cash (net debt)	(264.0)	(445.8)	(583.0)	(403.4)	(356.6)

Statement of financial position					
(KRWbn)	12/10A	12/11A	12/12F	12/13F	12/14F
(Reporting standard)	(GAAP-P)	(IFRS-C)	(IFRS-P)	(IFRS-P)	(IFRS-P)
Cash and cash equivalents	56.3	98.2	50.2	115.6	281.4
Current financial assets	3.9	2.2	6.8	9.0	9.0
Trade receivables	207.3	205.3	220.0	230.0	240.0
Inventories	73.2	103.7	82.2	87.0	92.0
Other current assets	238.1	163.2	267.6	282.0	300.0
Current assets	578.8	572.6	626.8	723.6	922.4
Investment assets	204.3	229.0	350.0	220.0	220.0
Property, plant and equipment	454.2	568.9	626.8	716.8	794.8
Intangible assets	133.6	183.2	134.0	134.0	134.0
Deferred tax assets	5.2	0.7	0.0	0.0	0.0
Other non-current assets	63.4	70.4	63.4	63.4	63.4
Non-current assets	860.7	1,052.1	1,174.2	1,134.2	1,212.3
Total assets	1,439.5	1,624.7	1,801.1	1,857.9	2,134.7
Trade payables	38.3	51.9	43.1	45.5	50.0
Short-term financial liabilities	104.5	278.8	340.0	210.0	350.0
Current provisions	4.2	6.9	4.3	4.4	4.4
Other current liabilities	294.0	240.7	308.0	314.0	330.0
Current liabilities	441.0	578.3	695.3	573.9	734.4
Non-current financial liabilities	219.8	267.3	300.0	318.0	297.0
Non-current provisions	0.1	0.7	0.1	0.1	0.0
Provisions for employee benefits	6.7	14.6	10.0	10.0	0.0
Deferred tax liabilities	0.0	8.6	0.0	0.0	0.0
Other non-current liabilities	7.2	17.2	7.2	7.2	7.2
Non-current liabilities	233.8	308.5	317.3	335.3	304.2
Total liabilities	674.7	886.8	1,012.6	909.2	1,038.6
Issued capital	40.7	40.7	40.7	40.7	40.7
Share premium	140.0	126.3	126.3	126.3	126.3
Other equity interest	(43.0)	(98.8)	(98.8)	(98.8)	(98.8)
Accumulated other comprehensive income	(2.7)	(5.9)	(5.9)	(5.9)	(5.9)
Retained earnings	629.8	675.7	726.2	886.4	1,033.9
Equity attributable to owners of parent	764.8	737.9	788.5	948.7	1,096.1
Non-controlling Interests	0.0	0.0	0.0	0.0	0.0
Total equity	764.8	737.9	788.5	948.7	1,096.1
Total Liab. and equity	1,439.5	1,624.7	1,801.1	1,857.9	2,134.7

Per-share Performance					
(KRW)	12/10A	12/11A	12/12F	12/13F	12/14F
EPS	2,294	2,192	1,703	3,167	2,999
Adj. EPS	2,294	2,192	2,071	2,721	2,999
BPS	9,907	9,813	10,421	12,538	14,487
SPS	19,688	23,943	24,693	26,353	28,375
GCFPS	4,253	4,615	4,426	5,165	5,355
DPS	1,050	1,050	0	2,100	1,050
3yr CAGR of adj. EPS	0.8	5.8	11.0	16.4	NA

Operating Statistics & Ratios					Shareholder Value & Financial Structure						
(%)	12/10A	12/11A	12/12F	12/13F	12/14F	(%)	12/10A	12/11A	12/12F	12/13F	12/14F
OR growth	7.6	NA	NA	7.1	7.7	ROE	24.5	22.6	16.3	27.6	22.2
OP growth	12.0	NA	NA	25.6	9.6	ROA	14.1	11.5	8.4	14.0	12.2
EBITDA growth	8.6	NA	NA	13.5	5.7	ROIC	22.1	19.7	15.8	19.7	19.8
NP growth of parent	15.5	(5.6)	(23.1)	86.6	(5.3)	WACC	9.7	9.0	4.2	4.3	4.2
Adj. NP growth	15.5	(5.6)	(6.5)	31.8	10.2	ROIC/WACC (x)	2.3	2.2	3.8	4.6	4.8
OP margin	15.1	12.8	12.1	14.2	14.4	Economic profit (KRWbn)	101.3	118.1	121.8	170.0	187.6
EBITDA margin	25.2	24.6	24.2	25.6	25.2	Total liab./equity	88.2	120.2	128.4	95.8	94.7
NP margin	11.7	9.2	6.9	12.0	10.6	Net debt/equity	34.5	60.4	73.9	42.5	32.5
Adj. NP margin	11.7	9.2	8.4	10.3	10.6	Interest coverage (x)	21.7	17.0	15.2	23.2	25.7

Note: IFRS-C = Consolidated financial statements; IFRS-P = Individual financial statements

Adj. EPS = (|Adjusted NP - preferred share dividends) + (after-tax dilution adjustment)] / (diluted avg. number of total ordinary shares outstanding)

Adjusted NP = (Parent NP) - [discontinued operation gains + (net exceptional gains) × (1 - marginal tax rate)]

Net exceptional gains: Pre-tax exceptional gains (exceptional gains attributable to parent including FX gains, derivatives gains, valuation gains, and one-off gains) Source: Company data, Hyundai Securities

- Hyundai Securities has not disclosed the material contained in this report to any institutional investor or third party prior to its publication. The author(s) confirms that the material contained herein correctly represents his/her/their opinion and that it has been prepared without any undue influences or interventions. Hyundai Securities Co., Ltd. or any of its affiliates has not taken part in public offerings of the company(ies) covered in this report for the past 12 months. The author(s) of this report does not have any interest in the company(ies) covered herein.
- Rating: Sector: Overweight (+10% or more), Neutral (-10 +10%), Underweight (-10% or more) Company: Strong BUY (+30% or more), BUY (+10 - 430%), Marketperform (-10 - 410%), Underperform (-10% or more) Strong BUY = 4, BUY = 3, Marketperform = 2, Underperform = 1, Blackout/Universe Exclusion = 0 (Share price —, Fair value 🛦 , Rating —)
- All Hyundai Securities Research is available via the following electronic databases: Bloomberg, Thomson Reuters, FactSet. Contact your Hyundai Securities sales representative for access.
- This report has been prepared for informational purposes only, and does not constitute an offer or solicitation of a contract for trading. Opinions in this report reflect professional judgment at this date based on information and data obtained from sources we consider reliable. However, we do not guarantee that the information and data are accurate or complete, and, therefore, this report is subject to change without prior notice. Individual investment should be made based on each client's own judgment, and we expressly disclaim all liability for any investment decisions and any results thereof. This report is a copyrighted material of Hyundai Securities Co. and, thus, it may not be reproduced, distributed, or modified without the prior consent of Hyundai Securities Co. This report is not prepared for academic purposes, and any third party wishing to quote from it for academic publications should receive the prior consent of Hyundai Securities Co.

