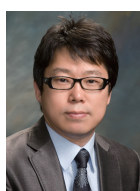




Coway (021240)

BUY (maintain)



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

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...

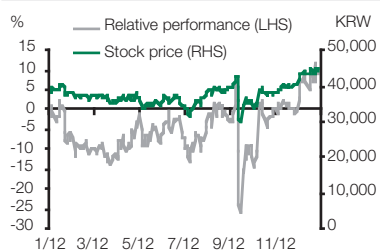
Shares revaluated; Waiting for policy changes

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.

Current price (Jan 15)	KRW44,000
Fair value	KRW50,000
Preference level within sector	★★★
Reuters code	021240.KS
Bloomberg code	021240 KS
Industry/Sector	Other Consumer Services
Rating	Overweight
Market cap	USD3.2bn
Ordinary shares issued	77,124,796shrs
Free float	62.5%
KOSPI	1983.74
KOSDAQ	508.02
Avg T/O Vol (60d)	181,253shrs
Avg T/O Val (60d)	USD6.8mn
Foreign ownership	51.1%
3yr CAGR of adj EPS (12~14)	11.0%
Market's 3yr CAGR of adj. EPS	17.5%
52wk high/low	KRW45,150 / KRW30,150
Beta (12M, daily return)	0.2
Major shareholders	Coway Holdings, Inc. etc. 30.9%
Price performance	1M 3M 6M
Absolute	9.5% 23.8% 27.0%
Relative	10.1% 20.1% 16.0%



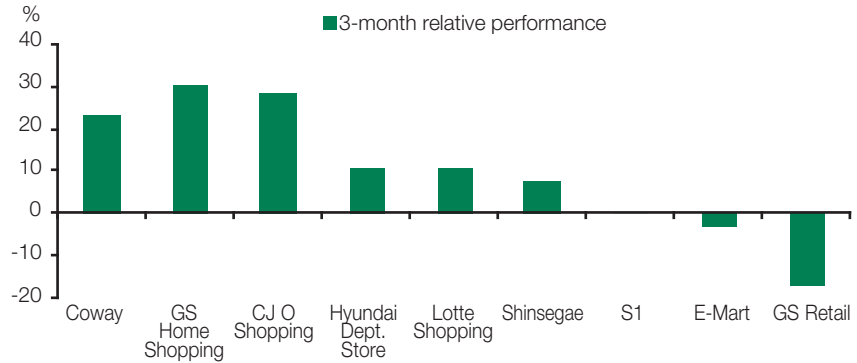
FY-end	12/10A	12/11A	12/12F	12/13F	12/14F
(Reporting standard)	(GAAP-P)	(IFRS-C)	(IFRS-P)	(IFRS-P)	(IFRS-P)
OR (KRWbn)	1,519.1	1,824.4	1,862.6	1,994.0	2,147.0
OP (KRWbn)	228.8	233.2	225.1	282.8	310.0
NP (KRWbn)	177.0	167.1	128.4	239.6	226.9
Parent NP (KRWbn)	177.0	167.1	128.4	239.6	226.9
EPS (KRW)	2,294	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

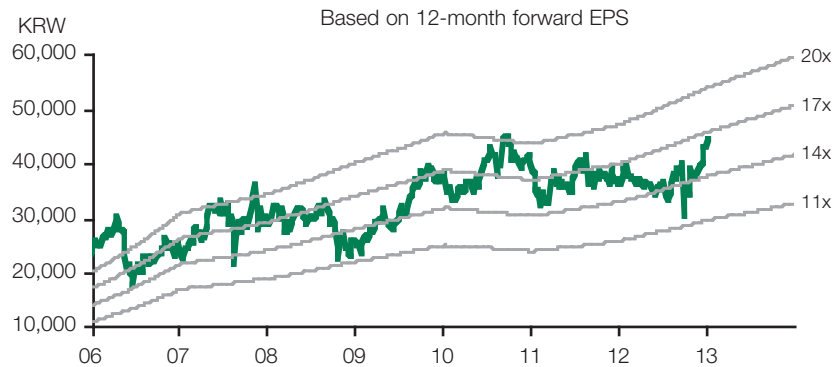
For explanations of equity research ratings and disclosures, please refer to the compliance section at the end of this report.

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.

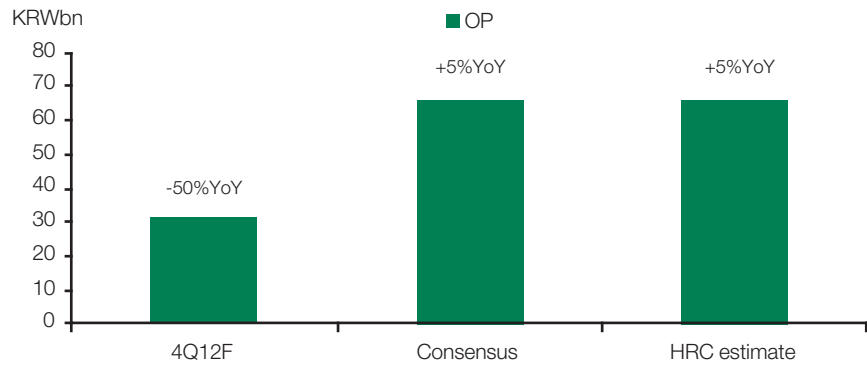
EBT is projected to surge 86%YoY, fueled by the disposal of its Woongjin Chemical stake (e.g., one-off gains, a reduction in debt).

4Q12 results to miss expectations due to one-off 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

