

Coway
(021240)

Hopes are growing for 2013



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BUY

[maintain]

Service

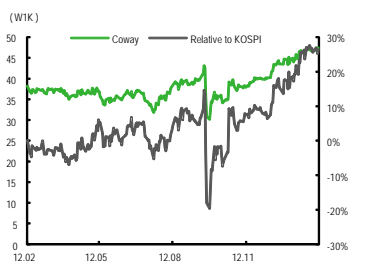
CP W47,400

TP
(raise)

W63,000

KOSPI	1981.18
Market cap (Wbn)	3,656
Market cap portion (%)	0.3%
Paid-in capital (common; Wbn)	41
52W high/low (W)	47,400 / 30,150
120d avg. trading volume (Wbn)	7.2
Foreign ownership (%)	51.4%
Major shareholders	
Coway Holdings +1	30.9%
Lazard Asset Management LLC +36	14.5%

(%)	1W	1M	3M	12M
Abs. return	1.8	7.7	23.9	24.4
Rel. return	0.3	7.9	17.0	27.2



Investment points

- 4Q12 earnings before one-time charges meet expectations.
- Margin gains + balance sheet improvements + robust cash flows.
- BUY; TP raised to W63,000, 2013E dividend yield 4.6%.

Comment

4Q12 earnings before one-time expenses meet expectations

Coway reported 4Q12 sales of W460bn (+3.6% YoY) and OP of W35.6bn (-43.6% YoY), well below the market's view and our expectations. If one-off expenses such as compensation payouts (W15.6bn) and inventory losses (W11.8bn) are excluded, OP comes to W63bn in line with expectations. On a positive note, rental revenue expanded 6.6% during the transition of company ownership. No extra expenses will be incurred in 2013. Earnings prospects are positive.

2013 OP forecast to rise 26%, NP 98%

Sales are forecast to expand 5.8% in 2013 on solid net order growth, low churn rate, healthy rental growth, strong demand for membership services and robust exports. OP will jump 26% to W287bn in the absence of one-time expenses. Lower rental asset disposal losses, narrowing losses from cosmetics, Woongjin subsidiary payment adjustments (W200bn) and other cost reductions will also contribute. NP will surge 98% to W237bn in 2013. Gains on the sale of Woongjin Chemical shares (W45bn) and reduced interest expenses will be contributing factors. Net debt will drop significantly to W110bn by end-2013 on margin expansion, divestitures of unprofitable assets, and strengthening cash flows. We expect the company will be able to repay all of its debt by 2015. The sale of its water treatment business (W55bn) will help expedite the debt resolution process.

BUY; TP raised to W63,000, 2013E dividend yield 4.6%

We reiterate our BUY rating and raise TP 24% to W63,000 on Coway. The TP is based on a target 2013 EV/EBITDA of 9.37x, derived by applying a 15% discount to the average 2013E EV/EBITDA of four peer companies (Amore Pacific, LG Household & Healthcare, Lock & Lock and S1). This implies a 2013E P/E of 19.8x. We expect Coway shares will show a steady advance throughout 2013, driven by margin gains, balance sheet improvements and stronger cash flows with a view to a 2013 dividend yield of 4.6% (W1,050 in March and W1,150 in December).

Tab 1. 4Q12 earnings

(Wbn, %)

	4Q12P	4Q11	YoY(%)	3Q12	QoQ(%)	Daishin	Var.(%)	Cons.	Var.(%)
Sales	460.1	444.0	3.6	458.0	0.5	469.1	(1.9)	484.7	(5.1)
OP	35.6	63.2	(43.7)	62.9	(43.4)	63.2	(43.7)	63.4	(43.8)
NP	21.6	47.1	(54.1)	12.9	67.4	41.5	(48.0)	45.9	(52.9)
OP margin (%)	7.7	14.2		13.7		13.5		13.1	
NP margin (%)	4.7	10.6		2.8		8.9		9.5	

Source: Coway, Daishin Securities Research Center

Note: OP = gross profit – SG&A expenses (disposition loss on rental assets has been reclassified as SG&A expenses)

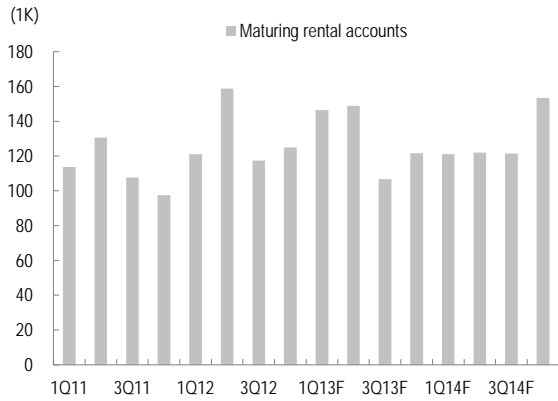
Tab 2. Quarterly earnings forecast

(Wbn, %)

		1Q12	2Q12	3Q12	4Q12P	1Q13F	2Q13F	3Q13F	4Q13F	2011	2012P	2013F	2014F
Rental orders ('000)		284.7	331.1	293.5	309.6	301.5	339.8	334.9	333.1	1,265.2	1,218.9	1,309.3	1,333.9
Monthly cancellation rate (%)		1.01%	1.01%	1.01%	1.00%	0.96%	0.93%	0.95%	0.95%	1.04%	1.01%	0.95%	0.95%
Rental accounts ('000)		4,462.9	4,488.9	4,512.1	4,558.3	4,572.6	4,626.3	4,712.5	4,780.3	4,450.0	4,607.4	4,829.4	5,054.0
Membership accounts		1,003.6	1,082.1	1,118.5	1,133.1	1,176.6	1,224.0	1,252.6	1,286.7	1,002.0	1,133.1	1,286.7	1,445.7
Total customer accounts		5,466.6	5,571.0	5,630.6	5,691.4	5,749.2	5,850.4	5,965.1	6,067.0	5,452.0	5,740.5	6,116.1	6,499.8
Chg in total customer accts.		21.8	104.4	59.6	60.8	57.8	101.1	114.8	101.9	369.3	288.5	375.5	383.7
Sales	Total	442.4	446.4	458.0	460.1	466.0	474.8	479.8	490.9	1,709.9	1,806.8	1,911.6	2,055.4
	Rental	316.3	318.9	323.2	327.3	331.6	335.9	342.9	350.3	1,206.3	1,285.7	1,360.7	1,450.1
	Membership	38.8	39.2	41.1	42.3	43.1	44.7	45.9	46.9	160.8	161.3	180.6	198.8
	Bullet payment	32.7	40.5	39.1	32.4	35.6	42.6	34.8	35.2	138.2	144.7	148.3	159.2
	Others	37.8	31.5	37.4	41.2	38.0	34.5	37.2	40.1	137.5	147.9	149.8	169.3
	Cosmetics	16.8	16.3	17.3	16.8	17.6	17.2	19.0	18.5	68.2	67.2	72.3	78.1
YoY (%)	Total	10.3	2.4	6.5	3.6	5.3	6.4	4.8	6.7	13.9	5.7	5.8	7.5
	Rental	9.8	6.4	5.7	4.6	4.8	5.3	6.1	7.0	9.0	6.6	5.8	6.6
	Membership	(0.8)	(1.9)	0.3	3.7	11.3	13.9	11.7	11.0	8.8	0.3	12.0	10.1
	Bullet payment	2.8	4.4	9.5	1.7	8.9	5.3	(11.0)	8.5	28.7	4.7	2.4	7.4
	Others	53.6	(20.4)	23.9	(4.4)	0.5	9.5	(0.5)	(2.7)	5.8	7.6	1.3	13.0
	Cosmetics	(3.3)	(8.8)	(1.7)	9.5	5.0	5.0	10.0	10.0	191.9	(1.4)	7.5	8.0
GP		296.9	304.3	306.5	293.7	314.0	322.6	325.8	333.1	1,157.9	1,201.4	1,295.5	1,398.0
OP		65.4	63.9	62.9	35.6	69.1	69.8	73.1	74.9	243.8	227.8	286.8	331.0
Pretax profit		55.6	56.4	17.7	31.7	106.9	66.7	69.2	70.5	225.4	161.5	313.3	317.9
NP		41.2	44.0	12.9	21.6	81.0	50.5	52.4	53.5	177.1	119.7	237.5	241.0
YoY (%)	GP	8.2	3.3	3.8	0.0	5.8	6.0	6.3	13.4	14.5	3.8	7.8	7.9
	OP	13.0	3.6	2.3	(43.2)	5.6	9.1	16.1	110.3	(8.4)	(6.5)	25.9	15.4
	Pretax profit	10.3	2.5	(72.6)	(42.5)	92.2	18.2	290.8	122.2	(7.4)	(28.3)	94.0	1.5
	NP	6.4	4.6	(73.7)	(54.2)	96.6	14.8	306.1	147.6	(3.4)	(32.4)	98.3	1.5
GP margin (%)		67.1	68.2	66.9	63.8	67.4	67.9	67.9	67.8	67.7	66.5	67.8	68.0
OP margin (%)		14.8	14.3	13.7	7.7	14.8	14.7	15.2	15.3	14.3	12.6	15.0	16.1
Pretax margin (%)		12.6	12.6	3.9	6.9	22.9	14.0	14.4	14.4	13.2	8.9	16.4	15.5
NP margin (%)		9.3	9.9	2.8	4.7	17.4	10.6	10.9	10.9	10.4	6.6	12.4	11.7

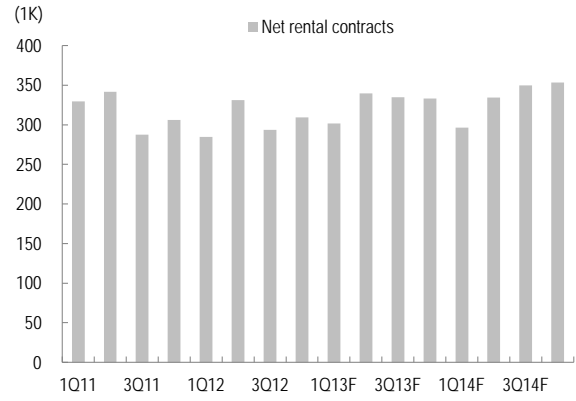
Source: Daishin Securities Research Center

Fig 1. Quarterly trends of maturing rental accounts



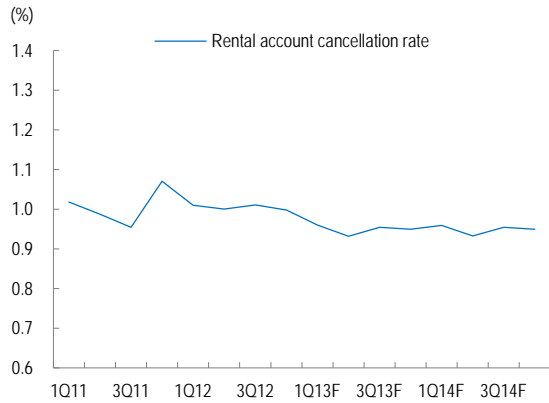
Source: Coway, Daishin Securities Research Center

Fig 2. Quarterly net rental contract growth trends



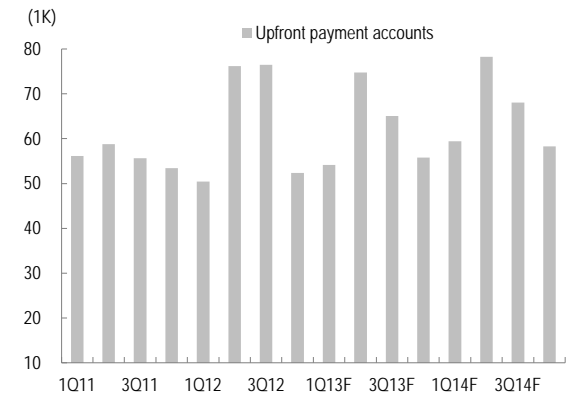
Source: Coway, Daishin Securities Research Center

Fig 3. Monthly average rental account cancellation rate



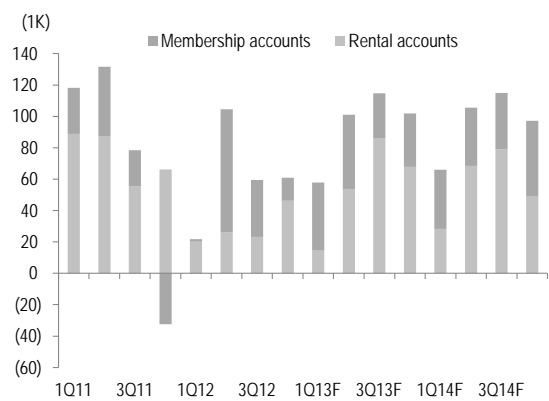
Source: Coway, Daishin Securities Research Center

Fig 4. Quarterly growth in upfront payment accounts



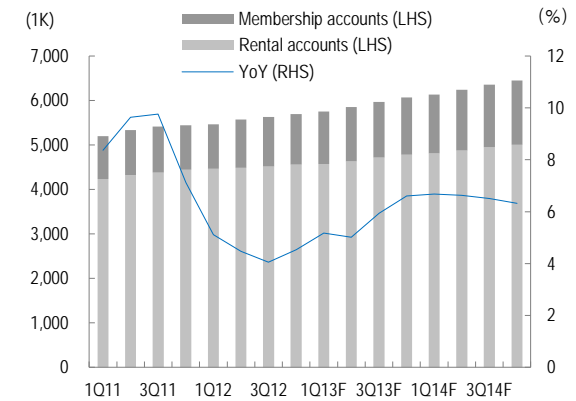
Source: Coway, Daishin Securities Research Center

Fig 5. Quarterly changes in the number of accounts



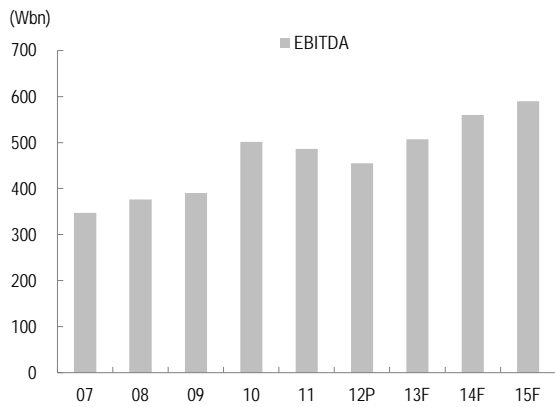
Source: Coway, Daishin Securities Research Center

Fig 6. Quarterly account trend



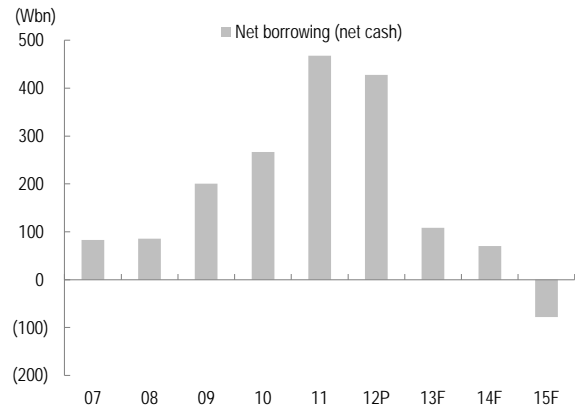
Source: Coway, Daishin Securities Research Center

Fig 7. EBITDA



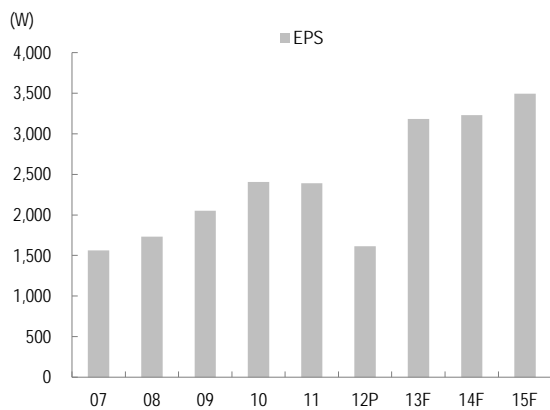
Note: EBITDA=OP+depreciation & amortization+loss on disposition of rental assets
Source: Coway, Daishin Securities Research Center

Fig 8. Net borrowings



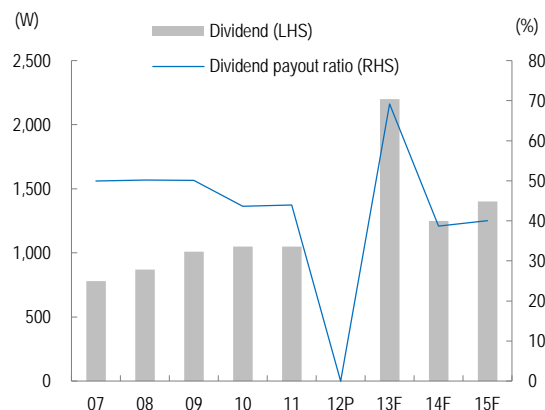
Note: Net borrowings=total borrowings-cash asset-short-term financial assets
Source: Coway, Daishin Securities Research Center

Fig 9. EPS (excluding treasury shares)



Source: Coway, Daishin Securities Research Center

Fig 10. Per-share dividend & dividend payout ratio



Source: Coway, Daishin Securities Research Center

Tab 3. TP analysis

(Wbn, %)

Target EV (Wbn)	4,752.0		A=a*b
2013E EBITDA	507.2	a	
Target EV/EBITDA Multiple	9.37	b	15% discount to the average of four domestic peers' 2013E EV/EBITDA
Per-share value (W)	63,000		B=(A-C)/E
Total borrowings	399.5	c	
Cash assets + short-term financial assets	291.5	d	
Net borrowings (net cash)	108.1	C=c-d	
No. of shares issued	77,124,796	e	
No. of common shares	2,490,000	f	
Adj. no. of common shares	74,634,796	E=e-f	
CP (W)	47,400		2013-02-15
Upside (%)	32.9		
2013E Implied P/E (x)	19.8		
2012E Implied P/B (x)	4.73		

Source: Coway, Daishin Securities Research Center

Tab 4. Peer comparison

	Amore Pacific	LG H&H	Lock & Lock	S1	AVG.	15% discount to AVG.
13E P/E (x)	21.2	29.0	19.2	21.2	22.7	19.3
13E EV/EBITDA (x)	9.9	14.5	11.4	8.4	11.0	9.4

Source: Quantwise, Daishin Securities Research Center

[Financial statements]

Income statement						(Wbn)	Balance sheet						(Wbn)					
	2010A	2011A	2012F	2013F	2014F		2010A	2011A	2012F	2013F	2014F		2010A	2011A	2012F	2013F	2014F	
Sales	1,502	1,710	1,807	1,912	2,055	Current assets	439	511	543	725	622	Cash & cash equiv.	56	65	123	282	162	
Cost of goods sold	491	552	605	616	657	Cash & cash equiv.	56	65	123	282	162	Trade & other receive.	223	257	261	276	286	
Gross profit	1,011	1,158	1,201	1,296	1,398	Trade & other receive.	223	257	261	276	286	Inventories	73	73	40	48	51	
SG&A expenses	704	869	974	1,009	1,067	Inventories	73	73	40	48	51	Other current assets	86	117	119	120	122	
Operating profit	254	242	228	287	331	Other current assets	86	117	119	120	122	Long-term assets	925	1,065	1,117	1,025	1,055	
OP margin	16.9	14.2	12.6	15.0	16.1	Long-term assets	925	1,065	1,117	1,025	1,055	Tangible assets	442	535	586	627	654	
EBITDA	502	486	455	507	560	Tangible assets	442	535	586	627	654	Investments in affiliates	192	237	237	104	104	
Non-OP	11	-17	-66	27	-13	Investments in affiliates	192	237	237	104	104	Other long-term assets	291	293	294	294	297	
Income from affiliates	22	0	-3	0	0	Other long-term assets	291	293	294	294	297	Total assets	1,364	1,576	1,661	1,750	1,677	
Financial revenue	7	2	3	3	3	Total assets	1,364	1,576	1,661	1,750	1,677	Current liabilities	384	534	685	633	492	
Forex gains	3	9	11	0	0	Current liabilities	384	534	685	633	492	Payables & other liab.	182	187	196	202	205	
Financial expenses	-18	-26	-72	-19	-15	Payables & other liab.	182	187	196	202	205	Borrowings	74	165	293	193	183	
Forex losses	0	0	0	0	0	Borrowings	74	165	293	193	183	Debt liquidity	30	110	110	147	10	
Others	0	6	5	43	-1	Debt liquidity	30	110	110	147	10	Other current liabilities	98	72	86	91	94	
Income before taxes	243	225	161	313	318	Other current liabilities	98	72	86	91	94	Long-term liabilities	247	294	185	90	81	
Income tax expense	-60	-48	-42	-76	-77	Long-term liabilities	247	294	185	90	81	Borrowings	220	267	157	60	50	
Income from cont. op.	177	177	120	237	241	Borrowings	220	267	157	60	50	Convertible securities	0	0	0	0	0	
Income from discount. op.	0	0	0	0	0	Convertible securities	0	0	0	0	0	Other long-term liab.	27	27	28	30	31	
Net income	183	177	120	237	241	Other long-term liab.	27	27	28	30	31	Total liabilities	631	828	870	723	573	
Net income margin	12.2	10.4	6.6	12.4	11.7	Total liabilities	631	828	870	723	573	Controlling interest	733	748	790	1,028	1,105	
NP for non-contr. interest	0	0	0	0	0	Controlling interest	733	748	790	1,028	1,105	Capital stock (Com.)	41	41	41	41	41	
NP for contr. interest	177	177	120	237	241	Capital stock (Com.)	41	41	41	41	41	Capital surplus	136	131	131	131	131	
Valuation of AFS fin. assets	0	0	0	0	0	Capital surplus	136	131	131	131	131	Retained earnings	591	678	720	957	1,034	
Other compreh. income	0	0	0	0	0	Retained earnings	591	678	720	957	1,034	Other capital changes	-34	-101	-101	-101	-101	
Comprehensive income	147	173	118	237	241	Other capital changes	-34	-101	-101	-101	-101	Non-controlling interest	0	0	0	0	0	
Comp. income for non-contr. Int.	0	0	0	0	0	Non-controlling interest	0	0	0	0	0	Total shareholder's equity	733	748	790	1,028	1,105	
Comp. income for contr. int.	0	173	0	0	0	Total shareholder's equity	733	748	790	1,028	1,105	Total borrowings	267	468	427	108	70	
Note: Adjusted OP is GP less SG&A expense.																		
Valuation metrics						(W, x, %)	Cash flow statement						(Wbn)					
	2010A	2011A	2012F	2013F	2014F		2010A	2011A	2012F	2013F	2014F		2010A	2011A	2012F	2013F	2014F	
EPS	2,376	2,296	1,553	3,079	3,125	Operating cash flows	314	318	393	375	433	Net income	177	177	120	237	241	
PER	17.0	15.9	30.5	15.4	15.2	Net income	177	177	120	237	241	Non-cash items	207	294	296	271	321	
BPS	9,504	9,704	10,247	13,326	14,322	Non-cash items	207	294	296	271	321	Depreciation	154	152	167	173	179	
PBR	4.2	3.8	4.6	3.6	3.3	Depreciation	154	152	167	173	179	FX gains	0	1	-5	2	0	
EBITDAPS	6,503	6,302	5,899	6,576	7,258	FX gains	0	1	-5	2	0	Equity method gain	-22	0	0	0	0	
EV/EBITDA	6.7	6.8	9.0	7.4	6.7	Equity method gain	-22	0	0	0	0	Others	76	140	134	96	142	
SPS	19,472	22,170	23,427	24,786	26,650	Others	76	140	134	96	142	Chg in assets & liab.	-71	-112	-12	-77	-68	
PSR	2.1	1.7	1.9	1.9	1.8	Chg in assets & liab.	-71	-112	-12	-77	-68	Other cash flows	0	-42	-11	-56	-61	
CFPS	5,065	6,108	5,392	6,589	7,281	Other cash flows	0	-42	-11	-56	-61	Investing cash flow	-296	-344	-275	-127	-255	
DPS	1,050	1,050	0	2,200	1,250	Investing cash flow	-296	-344	-275	-127	-255	Investments	-65	-37	1	133	0	
Financial ratios						(W, x, %)	Financing cash flows											
	2010A	2011A	2012F	2013F	2014F		2010A	2011A	2012F	2013F	2014F		2010A	2011A	2012F	2013F	2014F	
Growth potential							Investments	-65	-37	1	133	0	Financing cash flows	-20	36	-84	-262	-267
Sales growth	6.4	13.9	5.7	5.8	7.5	Tangible assets	-212	-290	-271	-255	-250	Short-term borrowings	-45	90	128	-100	-10	
OP growth	24.1	-4.4	-6.0	25.9	15.4	Others	-19	-16	-5	-5	-5	Bonds payable	50	123	-50	-77	0	
NP growth	19.6	-3.4	-32.4	98.3	1.5	Financing cash flows	-20	36	-84	-262	-267	Long-term borrowings	100	30	-60	-20	-10	
Profitability							Rights offering	0	0	0	0	0	Rights offering	0	0	0	0	0
ROIC	20.7	18.7	16.8	21.2	23.5	Cash dividends	-77	-80	-78	-78	-86	Cash dividends	-77	-80	-78	-78	-86	
ROA	19.2	16.5	14.1	16.8	19.3	Others	-48	-127	-24	13	-161	Others	-48	-127	-24	13	-161	
ROE	25.9	23.9	15.6	26.1	22.6	Net chg in cash	-7	8	58	159	-119	Net chg in cash	-7	8	58	159	-119	
Stability							Beginning cash balance	64	56	65	123	282	Beginning cash balance	64	56	65	123	282
Debt ratio	86.1	110.6	110.1	70.3	51.9	Ending cash balance	56	65	123	282	162	Ending cash balance	56	65	123	282	162	
Net borrowings ratio	36.4	62.5	54.1	10.5	6.4	NOPLAT	191	191	169	217	251	NOPLAT	191	191	169	217	251	
Interest coverage ratio	14.4	9.6	7.9	14.9	21.5	FCF	107	37	56	125	170	FCF	107	37	56	125	170	

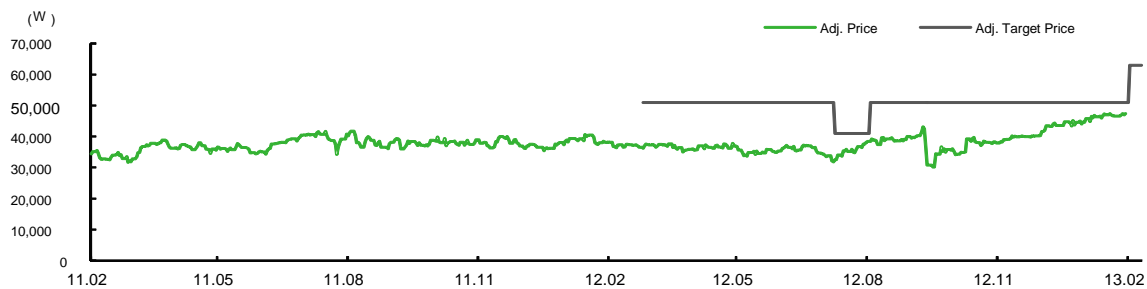
Source: Coway, Daishin Securities Research Center

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► Rating and target price history



Date	13.02.18	12.12.26	12.10.26	12.10.07	12.08.19	12.08.09	12.07.25	12.06.22	12.03.12
Rating	Buy	Buy	Buy	Buy	Buy	Buy	Buy	Buy	Buy
TP	63,000	51,000	51,000	51,000	51,000	41,000	41,000	51,000	51,000
Date									
Rating									
TP									
Date									
Rating									
TP									

► Investment ratings framework

► Company ratings breakdown

- Buy: the stock is expected to outperform the market by at least 10%p over the next six months.
- Marketperform: the stock is expected to either outperform or underperform the market by less than 10%p over the next six months.
- Underperform: the stock is expected to underperform the market by at least 10%p over the next six months.

► Sector ratings breakdown

- Overweight : industry indicators are expected to outperform the market over the next 6m
- Neutral : industry indicators are expected to be in line with the market over the next 6m
- Underweight: industry indicators are expected to underperform the market over the next 6ms.