

Coway (021240)

BUY

TP W56,000

Stock (Mar 27) W47,800

Rental prices to be raised, effects to be visible from 2014

Rental and membership prices to be raised from Apr

Coway announced it will raise rental prices on home appliances, e.g., water purifiers and bidets, by an average 5.5%. Specifically, prices will be lifted 5-6% for new renters, 4% for renewed subscriptions and 7% for memberships. And, prices for current rentals will remain under the ongoing terms. Of note, this is the first price hike in seven years since 2006.

Earnings growth to be gradual; 1Q13 outlook solid

Given the nature of the rental business, higher prices should only be applied to new subscribers this year. Assuming an average 5% ARPU increase, sales should increase W13bn in 2013 and W37bn in 2014. And assuming commissions and sales promotions expenses are equivalent to 50% of sales (conservative outlook), OP should grow W7bn and W18bn, respectively, compared to previous prices. To facilitate the higher prices and prevent subscriber losses, Coway should ramp up marketing efforts this year, which should limit earnings growth. But, earnings should begin picking up rapidly in 2014 and 2015, and we revise up our OP estimates by 5% and 10%, respectively, for these years. Given the cumulative effects of rentals and the average rental lifespan of four years, we believe OP will trend up until 2016. Meanwhile, 1Q13 results should also be solid. We believe sales will grow 6% YoY and OP 13% YoY to W72.6bn (consensus W71.2bn) on sustained growth at the rental business and narrowing losses at the cosmetics unit. In addition, efforts to bolster margins, such as disposing the unprofitable water treatment business, are underway.

Valuation

Coway trades at 15.3x 2013 PE and 14.4x 2014 PE. We maintain TP of W56,000, 17x 12MF PE, the five-year trailing average (historic PE band 12-20x). While we revised up our 2014 OP estimate, it remains within the range of our current TP.

Table 1. 2014 OP to rise 5% and 2015 10% on higher prices

	2013	2014	2015	2016
Net no. of rental (000')	1,265	1,313	1,364	1,418
Current ARPU estimate (KRW)	23,493	23,692	23,657	23,764
5% ARPU hike (KRW)	24,667	24,876	24,839	24,953
Price increase (KRW)	1,175	1,185	1,183	1,188
Sales increase on price hike (W bn)	13	37	56	76
Related commissions and costs (W bn)	7	18	28	38
Net OP growth (W bn)	7	18	28	38

Source: Korea Investment & Securities

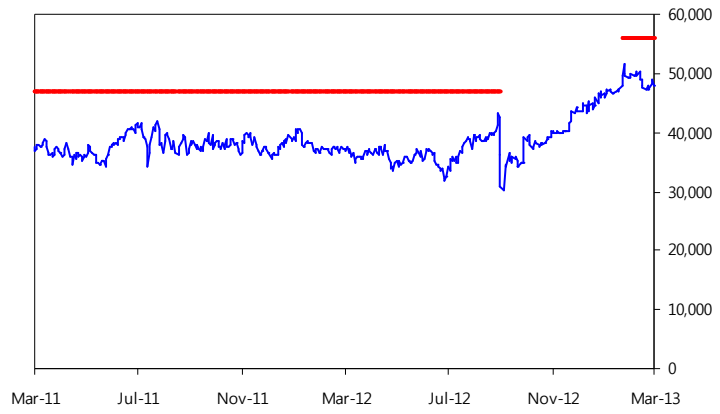
Note: Related commissions and costs account 50% of sales growth

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Changes to recommendation and price target

Company (Code)	Date	Recommendation	Price target
Coway (021240)	02-23-12	BUY	W47,000
	09-28-12	Hold	-
	02-18-13	BUY	W56,000



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