

Coway (021240)

Above

In line

Below

12M rating **BUY (Maintain)**
12M TP **W63,000** from W56,000
Up/downside **+19%**

Stock Data

KOSPI (May 10, pt)	1,945
Stock price (May 10, KRW)	52,800
Market cap (USD mn)	3,682
Shares outstanding (mn)	77
52-Week high/low (KRW)	56,000/30,150
6M avg. daily turnover (USD mn)	7.9
Free float / Foreign ownership (%)	65.9/50.8
Major shareholders (%)	
Coway Holdings, Inc.	30.9
Lazard Asset Management LLC and 33 others	12.8

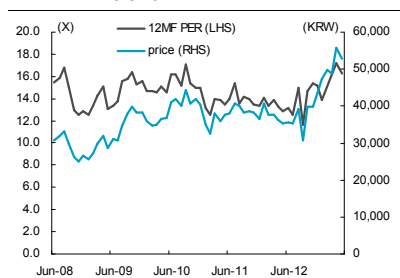
Valuation

	2012A	2013F	2014F
PER (x)	34.3	16.1	15.9
PBR (x)	3.8	3.9	3.2
ROE (%)	12.3	28.1	23.3
EV/EBITDA (x)	9.4	8.9	7.6
EPS (KRW)	1,268	3,282	3,324
BPS (KRW)	11,354	13,605	16,352

Performance

	1M	6M	12M
Absolute (%)	5.6	38.6	42.3
Relative to KOSPI (%p)	5.1	36.5	42.3

12MF PER trend



Source: WISEfn consensus

Solid earnings structure; high profit visibility

What's new: Particularly favorable margin growth

Coway posted 1Q13 separate sales growth of 5.2% YoY and OP growth of 7.9% YoY, in line with consensus. NP also surged 95% YoY on W44.8bn in gains from the sale of Woongjin Chemical. Stripping out the one-offs, NP still improved 12% YoY. OPM also edged up from 14.5% in 1Q12 to 14.9%. But stripping out one-off costs, such as the early booking of yearend bonuses, we estimate OPM growth reached double digits. In fact, OPM reached an estimated 16% in Jan-Feb. SG&A-to-sales ratio declined 0.7%p YoY, despite the yearend bonus allowances, backed by narrowing losses on the disposal of rental assets and tighter marketing cost controls. The cosmetics business also turned to profit.

Pros: Solid outlook on subscriber growth and ASP hikes

Subscriber growth continued led by core products, such as water purifiers, air purifiers and bidets. Specifically, rental subscribers increased 5.6% YoY to 5.8mn at end-1Q13, as quarterly net subscribers growth reached 52,000. Of note, Coway expects full-year net subscriber growth at 270,000. Rental ARPU edged up 0.8% YoY, despite increased rentals of low-margin products, such as mattresses. Margins should pick up, on: 1) peak seasonal factors in 2Q, 2) moderate subscriber growth, and 3) tight SG&A management. In addition, ASP hikes from Apr should add to margins. Meanwhile, improved lump-sum payment sales and overseas subsidiary earnings should help fuel growth. Lump-sum payment sales increased 13% on environmental appliances, such as dehumidifiers, massage chairs and other health-related products. And, the environmental business sales surged 30% at the Malaysian and US subsidiaries.

Cons: New businesses have yet to gain traction

Cosmetics remain poor in the domestic market and China. Domestic sales grew 6.5% on new health food products, but sales of existing cosmetics fell. In addition, sales in China also declined YoY.

Conclusion: Lift TP to W63,000 on solid business model and profit visibility

Shares have steadily traded at a premium to the market at 16x 12MF PE. We lifted our TP from W56,000 to W63,000 as we raised our target PE from 17.3x to 19x and shifted our valuation base year. Despite the unfavorable conditions, Coway has a dominant domestic market share and stable earnings model. Valuations should continue to re-rate upwards on easing governance risk and additional efforts to bolster margins. Our target PE reflects a 10% discount to the historic

(W bn, %, %p)

	1Q13P				Change		2013F	
	KIS est.	Actual	Diff.	Consensus	QoQ	YoY	KIS	Consensus
Sales	466	465	(0)	478	1.1	5.2	1,922	1,971
OP	69	69	0	72	94.2	7.9	295	307
OP margin	14.8	14.9	0	15	7.1	0.4	15.3	15.6
EBT	107	115	8	107	262.2	106.7	319	312
NP	85	80	(6)	81	271.4	94.5	242	236

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peak of 21x and a 15% discount to the 22.2x average PE of the KIS household goods universe.

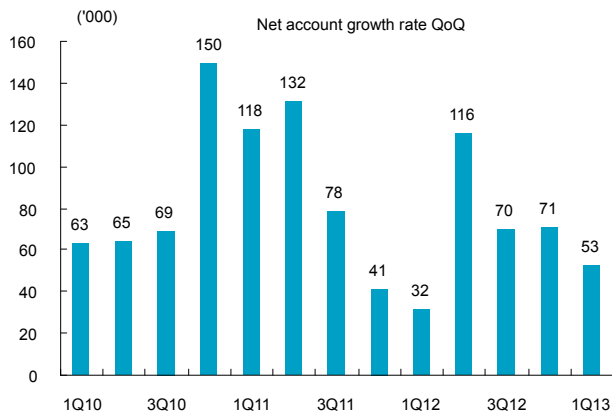
Table 1. Earnings breakdown

(W bn, KRW, '000, %YoY, %)

	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13
Total account growth rate (QoQ)	118.2	131.7	78.4	41.0	31.6	116.1	70.0	70.8	52.6
Rental ARPU (%YoY)	1.0	2.4	3.4	3.6	4.3	3.2	2.1	1.6	0.8
Membership ARPU (%YoY)	-1.9	-3.0	-3.8	-3.0	-5.4	-6.4	-6.8	-6.6	-2.9
no.of rental account ('000, end of Q)	4,234	4,321	4,377	4,450	4,480	4,518	4,551	4,607	4,658
Rental account growth rate (QoQ)	88.9	87.2	55.4	73.4	30.0	37.6	33.7	56.2	50.4
Rental ARPU (Won)	22,218	22,586	22,845	22,993	23,164	23,319	23,325	23,357	23,347
no.of membership account ('000, end of Q)	967	1,011	1,034	1,002	1,004	1,082	1,118	1,133	1,135
Membership account growth rate (QoQ)	29.3	44.5	23.0	(32.4)	1.6	78.5	36.3	14.7	2.1
Membership ARPU (Won)	13,686	13,457	13,347	13,348	12,948	12,594	12,446	12,467	12,573
Cancel rate (%)	3.1	3.0	2.9	3.2	3.0	3.0	3.0	3.0	3.0
Sales	400	436	430	444	442	446	458	460	465
Growth rate (%YoY)	9.4	19.3	15.6	11.3	10.6	2.4	6.5	3.6	5.2
Rental	327	340	347	354	356	360	364	370	370
Growth rate (%YoY)	6.5	9.5	10.2	9.7	8.9	6.1	5.1	4.5	3.9
Rental	288	300	306	313	317	321	323	327	327
Growth rate (%YoY)	6.0	9.5	10.3	10.0	10.1	7.1	5.7	4.6	3.2
Membership	39	40	41	41	39	39	41	42	43
Growth rate (%YoY)	9.8	9.0	9.3	7.3	-0.4	-1.3	0.3	3.6	9.8
Lump sum payment	32	39	41	32	33	41	39	32	37
Growth rate (%YoY)	19.2	57.0	67.3	1.6	2.7	4.5	-4.6	1.6	11.9
Cosmetics	17	18	18	15	17	16	17	17	18
Growth rate (%YoY)	NA	NA	878.4	-29.1	-3.3	-8.8	-1.8	9.7	6.6
Export	18	23	25	32	30	21	28	31	32
Growth rate (%YoY)	5.8	33.1	60.1	66.5	63.9	-8.0	14.2	-5.6	5.0
Others	5	17	0	11	7	8	9	11	9
Growth rate (%YoY)	-63.5	26.2	-97.7	167.0	28.9	-50.6	2482.1	-0.9	36.7
COGS	125	141	135	150	145	142	152	166	155
COGS-to-rate (%)	31.4	32.4	31.3	33.9	32.9	31.8	33.1	36.1	33.3
Rental COGS	95	95	96	100	101	102	104	109	107
Compared to sales (%)	29.0	27.9	27.6	28.3	28.5	28.2	28.7	29.5	28.9
Rental	83	82	83	88	89	89	91	95	93
Compared to sales (%)	28.7	27.4	27.2	28.0	28.1	27.7	28.3	29.2	28.4
Membership	12	13	12	13	12	13	13	13	14
Compared to sales (%)	31.9	31.7	30.4	30.8	31.7	32.3	31.6	31.8	32.9
Lump sum payment COGS	10	13	14	17	13	15	16	23	14
Compared to sales (%)	32.0	34.6	33.2	52.0	39.4	37.0	39.9	71.6	38.3
Cosmetics COGS	3	3	3	3	3	3	3	3	3
Compared to sales (%)	16.7	19.0	17.6	18.3	16.1	15.9	17.3	17.9	15.1
Export COGS	15	18	20	25	24	16	23	26	25
Compared to sales (%)	80.3	77.7	80.0	78.0	78.7	75.0	81.5	83.6	80.3
Others COGS	3	12	3	6	5	7	6	6	6
Compared to sales (%)	50.3	71.7	771.7	52.6	70.6	85.9	61.9	53.0	60.4
Gross profit	274	295	295	294	297	304	306	294	311
Gross profit rate	68.6	67.6	68.7	66.1	67.1	68.2	66.9	63.9	66.7
OP	70	72.6	73.1	28.0	64.1	75.1	86.9	-13.7	69.2
Growth rate (%YoY)	-12.9	-15.0	1.3	-59.6	-7.8	3.5	18.8	NA	8.0
OPM (%)	17.4	16.7	17.0	6.3	14.5	16.8	19.0	-3.0	14.9
EBT	50.4	55.1	64.6	55.2	55.6	56.4	17.7	31.7	115.0
Growth rate (%YoY)	-22.1	-27.5	22.4	10.9	10.3	2.5	-72.6	-42.5	106.8
NP	38.8	42.1	49.2	47.1	41.2	44.0	12.9	21.6	80.2
Growth rate (%YoY)	-24.7	-28.9	36.6	28.6	6.4	4.6	-73.7	-54.2	94.5

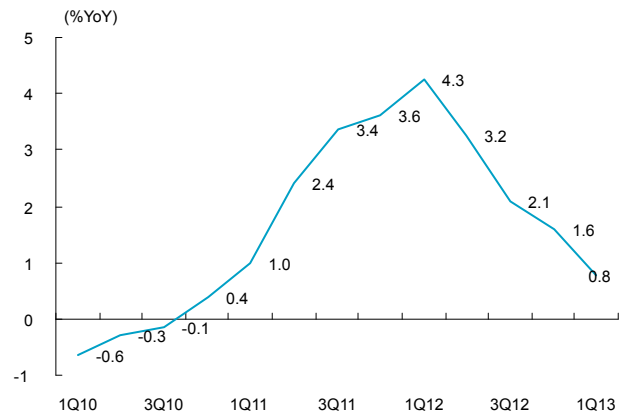
Source: Korea Investment securities & Investment

Figure 1. Robust growth of subscriber net addition, slightly weaker than 2011



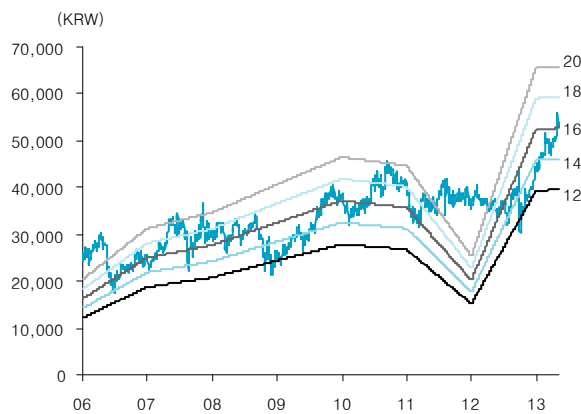
Source: Korea Investment securities & Investment, Coway

Figure 2. Retail ARPU still growing



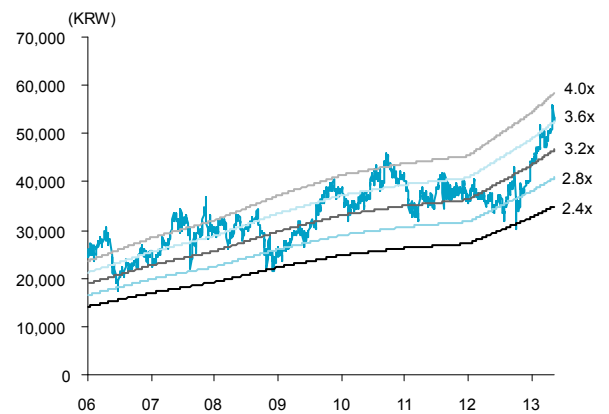
Source: Korea Investment securities & Investment, Coway

Figure 3. Coway PE band chart



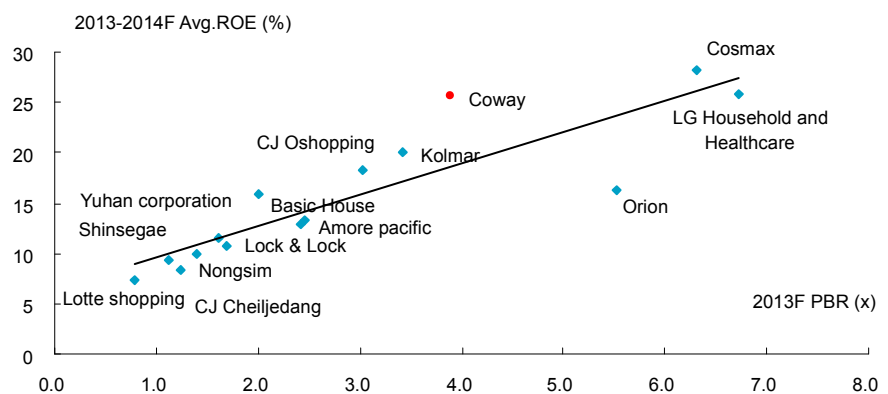
Source: Datastream, Korea Investment securities & Investment

Figure 4. Coway PB band chart



Source: Datastream, Korea Investment securities & Investment

Figure 5. PBR/ROE comparison to consumer peers



Source: Korea Investment securities & Investment

Table 2. Valuation comparison to domestic consumer peers

(x, %)

		KIS Universe	Consumer Discretionary					Consumer Discretionary	Consumer Staple			Consumer Staple
			Apparel	Retail	Hotel/Leisure	Media/Ad	Education		F&B	Pharm./Bio	Household goods	
PE (x)	13F	9.7	11.4	11.6	18.5	18.1	10.0	13.9	16.6	29.1	22.2	22.6
	14F	8.1	9.5	10.5	15.9	15.0	8.8	11.9	14.3	17.4	18.8	16.8
PB (x)	13F	1.1	1.5	1.0	2.8	2.1	1.1	1.7	1.8	2.0	3.6	2.5
	14F	1.0	1.3	0.9	2.5	1.9	1.0	1.5	1.7	1.8	3.0	2.2
EV/EBITDA (x)	13F	5.9	5.7	7.0	10.9	6.7	5.6	7.2	8.8	17.4	12.1	12.8
	14F	5.0	4.7	6.1	9.5	5.7	5.0	6.2	7.8	13.8	10.1	10.5
Sales growth (%)	13F	6.0	6.8	13.6	12.1	18.0	1.2	10.3	8.6	3.0	14.2	8.6
	14F	6.4	10.0	9.6	12.4	14.4	4.8	10.2	9.1	11.6	13.1	11.3
OP growth (%)	13F	24.3	21.8	14.9	21.7	33.8	60.6	30.5	15.7	36.6	19.1	23.8
	14F	17.9	15.7	10.7	14.8	19.9	13.2	14.9	13.2	32.8	17.3	21.1
NP growth (%)	13F	27.7	8.5	10.8	11.5	30.7	629.4	138.2	24.4	0.8	21.0	15.4
	14F	19.9	20.3	10.6	16.4	20.4	14.0	16.3	16.0	67.0	18.1	33.7
ROE (%)	13F	11.2	13.1	8.8	15.7	12.2	11.1	12.2	11.5	7.2	16.3	11.6
	14F	12.0	13.8	9.0	16.4	12.9	11.7	12.8	12.3	10.9	16.4	13.2

Source: Korea Investment securities & Investment

Balance sheet

FY-ending Dec. (W bn)	2011A	2012A	2013F	2014F	2015F
Current assets	511	691	782	887	1,108
Cash & cash equivalent	65	119	173	244	429
Accounts & other receivables	257	292	310	328	346
Inventory	73	41	44	46	49
Non-current assets	1,065	1,010	1,089	1,177	1,266
Investment assets	285	155	165	174	184
Tangible assets	535	594	647	710	772
Intangible assets	156	158	168	177	187
Total assets	1,576	1,702	1,871	2,064	2,374
Current liabilities	534	720	728	729	760
Accounts & other payables	187	205	218	231	244
ST debt & bond	165	296	296	296	296
Current portion of LT debt	110	110	110	110	110
Non-current liabilities	294	179	97	46	53
Debentures	177	118	59	0	0
LT debt & financial liabilities	90	36	11	17	23
Total liabilities	828	899	826	775	813
Paid-in capital	41	41	41	41	41
Capital surplus	131	131	131	131	131
Capital adjustments	(99)	(85)	(85)	(85)	(85)
Retained earnings	678	717	959	1,204	1,475
Shareholders' equity	748	803	1,045	1,290	1,561
Adj. shareholders' equity	738	785	959	1,171	1,446

Cash flow

FY-ending Dec. (W bn)	2011A	2012A	2013F	2014F	2015F
C/F from operating	318	429	405	428	510
Net profit	177	120	242	245	271
Depreciation	145	165	182	208	234
Amortization	8	7	8	8	8
Net incr. in W/C	(112)	(38)	(28)	(34)	(4)
Others	100	175	1	1	1
C/F from investing	(344)	(301)	(267)	(303)	(330)
CAPEX	(299)	(295)	(238)	(274)	(300)
Decr. in fixed assets	9	3	3	3	3
Incr. in investment	(42)	(3)	(9)	(9)	(10)
Net incr. in intangible assets	(7)	(8)	(18)	(18)	(18)
Others	(5)	2	(5)	(5)	(5)
C/F from financing	36	(74)	(83)	(53)	5
Incr. in equity	0	12	0	0	0
Incr. in debts	213	21	(83)	(53)	5
Dividends	(80)	(78)	0	0	0
Others	(97)	(29)	0	0	0
C/F from others	(0)	(1)	0	0	0
Increase in cash	8	54	54	71	185

Note: 1. Based on K-IFRS (non-consolidated)
2. EPS and BPS are calculated using adjusted net profit and shareholders' equity that includes equity-method gains/losses

Income statement

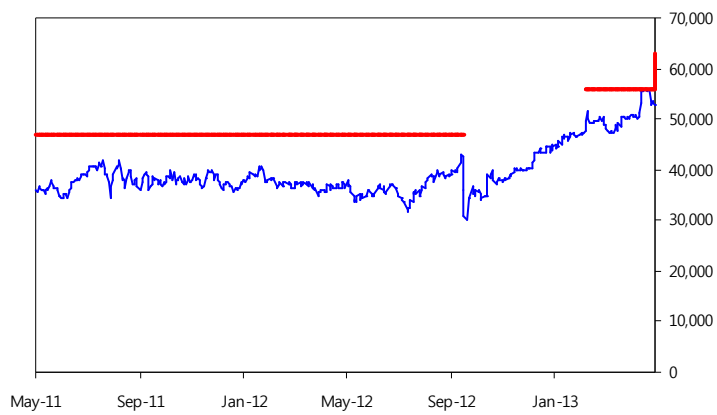
FY-ending Dec. (W bn)	2011A	2012A	2013F	2014F	2015F
Sales	1,710	1,807	1,922	2,032	2,145
COGS	552	605	626	646	669
Gross profit	1,158	1,201	1,295	1,385	1,475
SG&A expense	915	974	1,000	1,049	1,107
Operating profit	243	228	295	337	368
Financial income	2	4	4	5	7
Interest income	2	1	2	3	5
Financial expense	26	62	26	23	22
Interest expense	25	29	26	23	22
Other non-operating profit	6	(5)	46	4	4
Gains (Losses) in associates, subsidiaries and JV	0	(3)	0	0	0
Earnings before tax	225	161	319	323	358
Income taxes	48	42	77	78	87
Net profit	177	120	242	245	271
Other comprehensive profit	(4)	(2)	0	0	0
Total comprehensive profit	173	118	242	245	271
EBITDA	396	400	485	553	611
Adj. net profit	167	94	245	248	275

Key financial data

FY-ending Dec.	2011A	2012A	2013F	2014F	2015F
per share data (KRW)					
EPS	2,235	1,268	3,282	3,324	3,685
BPS	10,962	11,354	13,605	16,352	19,920
DPS	1,050	0	0	0	0
Growth (%)					
Sales growth	13.9	5.7	6.4	5.7	5.6
OP growth	(20.7)	(6.4)	29.7	14.0	9.4
NP growth	(5.6)	(43.7)	160.6	1.3	10.9
EPS growth	(3.9)	(43.3)	158.9	1.3	10.9
EBITDA growth	(11.1)	1.0	21.4	14.0	10.5
Profitability (%)					
OP margin	14.2	12.6	15.4	16.6	17.2
NP margin	9.8	5.2	12.8	12.2	12.8
EBITDA margin	23.1	22.1	25.2	27.2	28.5
ROA	12.1	7.3	13.6	12.4	12.2
ROE	22.2	12.3	28.1	23.3	21.0
Dividend yield					
	2.9	0.0	0.0	0.0	0.0
Stability					
Net debt (W bn)	468	473	335	211	31
Debt/equity ratio (%)	72.4	73.8	48.7	35.3	29.5
Valuation (X)					
PER	16.4	34.3	16.1	15.9	14.3
PBR	3.3	3.8	3.9	3.2	2.7
PSR	1.7	1.9	2.1	2.0	1.9
EV/EBITDA	8.0	9.4	8.9	7.6	6.6

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
	05-11-13	BUY	W63,000



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- BUY: Expected to give a return of +15% or more
- Hold: Expected to give a return between -15% and 15%
- Underweight: Expected to give a return of -15% or less
- Korea Investment & Securities does not offer target prices for stocks with Hold or Underweight ratings.

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- Overweight: Recommend increasing the sector's weighting in the portfolio compared to its respective weighting in the Kospi (Kosdaq) based on market capitalization.
- Neutral: Recommend maintaining the sector's weighting in the portfolio in line with its respective weighting in the Kospi (Kosdaq) based on market capitalization.
- Underweight: Recommend reducing the sector's weighting in the portfolio compared to its respective weighting in the Kospi (Kosdaq) based on market capitalization.

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Prepared by: Eun-chaee Na

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