

Coway (021240)

Positive
Neutral
Negative

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

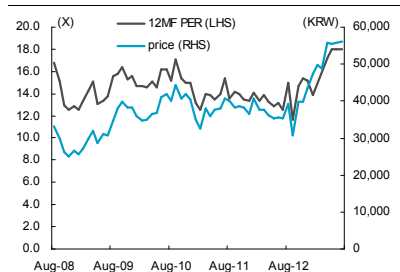
Stock Data

| | |
|---|---------------|
| KOSPI (Jul 2, pt) | 1,855 |
| Stock price (Jul 2, KRW) | 56,100 |
| Market cap (USD mn) | 3,815 |
| Shares outstanding (mn) | 77 |
| 52-Week high/low (KRW) | 56,500/30,150 |
| 6M avg. daily turnover (USD mn) | 8.3 |
| Free float / Foreign ownership (%) | 65.9/52.0 |
| Major shareholders (%) | |
| Coway Holdings, Inc. | 30.9 |
| Lazard Asset Management LLC and 32 others | 11.7 |

Performance

| | 1M | 6M | 12M |
|------------------------|-----|------|------|
| Absolute (%) | 1.1 | 29.0 | 52.4 |
| Relative to KOSPI (%p) | 8.4 | 37.6 | 52.3 |

12MF PER trend



Source: WISEfn consensus

Solid earnings structure; 2Q13 OP to meet consensus

- 2Q13 sales to grow 8% YoY to W480bn, OP 18% YoY to W74.4bn and OPM 1.4%p to 15.5%
- Environmental home appliance sales to grow about 4%, membership sales (9% of total sales) and lump-sum payment sales (8% of total) to grow at double-digit pace, cosmetics sales (4% of total) and exports (7% of total) should also continue growing
- Despite a price hike in April, 2Q13 rental sales should be around 300,000 units, in line QoQ. Sales of new water purifiers favorable, including miniature water purifiers and ice makers. Rental renewals and membership subscribers grow after May price hike for existing customers
- New subscriber growth should fall short of 56,000 in 1Q13, but rental renewals and membership renewals were solid
- Membership sales to grow at double-digit pace as ARPU should grow on fueled by mark ups and expiring contracts for low ASP products. Lump-sum payment sales catalyzed by dehumidifiers
- Cosmetics sales grew, on: 1) expanding home shopping channel presence, and 2) sales of health supplements from 1Q13
- Exports also favorable, backed by Philips ODM sales. Air purifier demand growing rapidly due to air pollution problems in China

Margins to grow on cost efficiency, narrowing cosmetics losses and rental asset disposal losses

- Rental margins improving, on: 1) price markups (ARPU to grow 1% p.a.), and 2) favorable sales of new high-end products; membership margins should also firm on robust ARPU growth
- Strong sales of high-margin humidifiers (OPM over 10%) lifting profitability; cosmetics division to turn to profit after W3.7bn loss in 2Q12, full-year losses should narrow from W16bn in 2012 to W6bn in 2013
- Contract termination rate to remain low in 2Q13 after reaching 1% in 1Q13; rental asset disposal losses from last year to continue narrowing from 1Q13

Implication & Valuation

- Environmental home appliance market growing amid rising household income levels, stable subscriber base ensuring ASP, bolstering earnings visibility; earnings to be defensive, which is favorable given uncertain consumer spending conditions
- Maintain BUY with a TP of W63,000 (19x 12MF PE, upper range of historic PE band)

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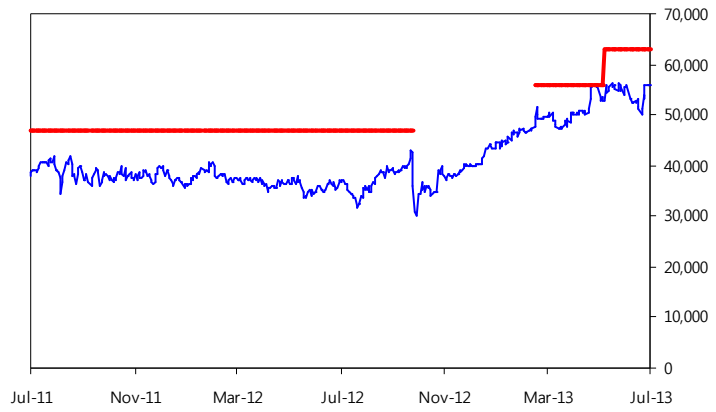
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| Yr to | Sales | OP | EBT | NP | EPS | % chg | EBITDA | PE | EV/EBITDA | PB | ROE |
|-------|--------|--------|--------|--------|-------|--------|--------|------|-----------|-----|------|
| Dec | (W bn) | (W bn) | (W bn) | (W bn) | (won) | (YoY) | (W bn) | (x) | (x) | (x) | (%) |
| 2011A | 1,710 | 243 | 225 | 167 | 2,235 | (3.9) | 396 | 16.4 | 8.0 | 3.3 | 22.2 |
| 2012A | 1,807 | 228 | 161 | 94 | 1,268 | (43.3) | 400 | 34.3 | 9.4 | 3.8 | 12.3 |
| 2013F | 1,922 | 295 | 319 | 244 | 3,274 | 158.3 | 485 | 17.1 | 9.7 | 4.1 | 28.0 |
| 2014F | 2,032 | 337 | 321 | 247 | 3,304 | 0.9 | 553 | 17.0 | 8.3 | 3.6 | 23.9 |
| 2015F | 2,145 | 368 | 354 | 273 | 3,650 | 10.5 | 611 | 15.4 | 7.5 | 3.2 | 22.8 |

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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- Hold: Expected to give a return between -15% and 15%
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