

Coway (021240 KS)

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2Q13 earnings to meet consensus



BUY (Maintain)

Price (Jul. 3)	W55,900
Target Price	W66,000
% variance	18.1%

KOSPI	1,824.66p
KOSDAQ	521.31p
Market Cap.	W4,311.3bn/ US3,781.8mn
Par Value	W500
Outstanding Shares	77.1mn
Free Floating Shares	50.8mn(65.9%)
52-Week High/Low	W56,500/W30,150
60-Day Avg. Trading Volume	174,944shrs
60-Day. Avg. Trading T/O	W9,328mn
Foreign Ownership	51.98%
Major Shareholders	
Coway Holdings	30.90%
Lazard Asset Management LLC and 32 others	11.71%
Absolute Performance	
3M	10.9%
6M	24.9%
12M	50.3%
Relative performance to KOSPI	
3M	20.6%
6M	38.2%
12M	53.8%

- ◆ 2Q13 sales estimated at W487.8bn (+9.3% YoY), operating profit W73.2bn (+13.8% YoY)
- ◆ Steady growth to continue in 2H13, margin gains expected
- ◆ Retain BUY, upgrading target price to W66,000

2Q13 sales estimated at W487.8bn (+9.3% YoY), operating profit W73.2bn (+13.8% YoY)

Coway is expected to have posted 2Q13 sales of W487.8bn (+9.3% YoY) and operating profit of W73.2bn (+13.8% YoY) in line with consensus. Amid steady growth in rental and lump-sum payment, cosmetics sales and exports registered solid growth. Sales and operating profit are expected to have increased on a QoQ basis.

Steady growth to continue in 2H13, margin gains expected

Despite top-line growth in the past two years, profitability had been poor due to investments in new businesses. In 2013, profitability is improving amid sustained top-line growth. The cosmetics business, which had been posting huge losses, should be able to break even in 1H13. Strict cost control and operating leverage effect after the stake sale to MBK Partners are beginning to take effect.

We expect steady growth in new rental contracts and ARPU in 2H13. Cosmetics sales and exports should also continue upward trend. We forecast 2013 sales of W1.96tr (+8.5% YoY) and operating profit of W300.9bn (+41.4% YoY).

Retain BUY, upgrading target price to W66,000

We reiterate our BUY rating on Coway. We raise our target price from W63,000 to W66,000 by applying a target PER of 22x to a 12-month forward EPS of W3,005. Business is back on track with strict margin control in 2013. Quarterly growth in top- and bottom-line looks achievable from now on. Operating profit margin is estimated to improve from 11.8% in 2012 to 15.4% in 2013 and 16.6% in 2014.

The company's stable business stands out as a macro defensive stock when stock market uncertainties escalate. Dividend yield exceeds 2.5%. Shares are currently trading at 2013 PER of 18x.

Year to Dec.	Sales (W bn)	OP (W bn)	Pre-tax (W bn)	NP (W bn)	EPS (Won)	Growth (%)	BPS (Won)	PER (X)	EV/EBITDA (X)	PBR (X)	ROE (%)	Net Debt Ratio (%)
2011	1,709.9	243.3	225.4	177.1	2,296	(3.4)	9,704	15.9	8.3	3.8	24.0	62.6
2012	1,806.8	212.5	161.5	119.7	1,553	(32.4)	10,408	28.0	10.0	4.2	15.4	58.9
2013F	1,959.9	300.9	328.3	238.8	3,096	99.4	11,083	18.1	9.5	5.0	28.8	33.0
2014F	2,154.7	357.5	344.1	252.6	3,275	5.8	12,809	17.1	8.3	4.4	27.4	19.9
2015F	2,370.5	428.4	419.9	306.9	3,979	21.5	15,045	14.0	7.0	3.7	28.6	6.6

Note: K-IFRS standalone basis

Earnings forecast revision

(bn KRW)	2013F			2014F		
	Before	After	Change (%)	Before	After	Change (%)
Sales	1,961.3	1,959.9	(0.1)	2,131.5	2,154.7	1.1
OP	303.8	300.9	(1.0)	354.5	357.5	0.8
Consolidated NP	217.3	211.4	(2.7)	257.7	251.5	(2.4)

Source: Shinhan Investment Corp.

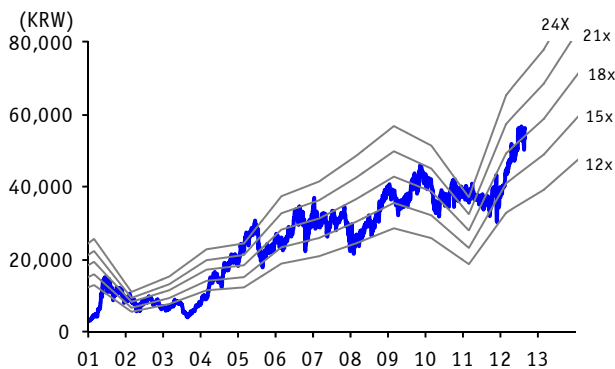
Target price calculation

(bn KRW)	Value	(bn KRW)	Value	(bn KRW)	Value
2013 NP	211.4	12-month forward NP	231.7	2014 NP	251.5
EPS (KRW)	2,741	EPS (KRW)	3,005	EPS (KRW)	3,261
PER (x)	24	Target PER (x)	22	PER (x)	20
Target price (KRW)	66,000	Target price (KRW)	66,000	Target price (KRW)	66,000
Current price (KRW)	56,100	Current price (KRW)	56,100	Current price (KRW)	56,100
Current PER (x)	20.5	Current PER (x)	18.7	Current PER (x)	17.2

Source: Shinhan Investment Corp.

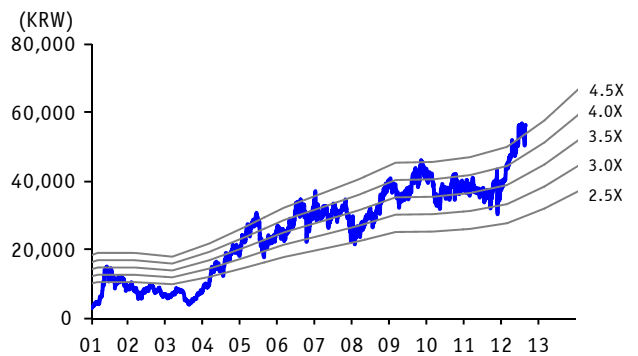
Note: Target PER is the average of 5-year upper PER band

PER band



Source: Shinhan Investment Corp.

PBR band



Source: Shinhan Investment Corp.

Earnings estimates

(bn KRW)	2011	2012	2013F	2014F	2015F
Sales	1,709.9	1,806.8	1,959.9	2,154.7	2,370.5
Growth (% YoY)	13.9	5.7	8.5	9.9	10.0
Rental subscribers (no. of contracts)	4,450,003	4,607,420	4,839,372	5,067,057	5,370,876
Growth (% YoY)	7.4	3.5	5.0	4.7	6.0
Rental ARPU (KRW)	22,008	22,824	23,167	23,930	24,392
Rental sales	1,175.2	1,261.9	1,345.3	1,455.0	1,572.1
Water purifier	689.0	733.8	783.7	851.6	921.3
Air purifier	182.3	196.7	233.2	248.7	269.8
Bidet	217.2	233.9	214.3	224.2	232.8
Water softener	78.8	79.6	78.6	77.6	77.0
Others (food disposal, etc.)	7.8	8.2	9.7	11.3	12.7
Mattress		6.9	24.2	39.5	56.2
Rental registration sales	31.1	23.8	9.8	1.0	
Membership sales	160.8	161.3	174.9	182.8	186.6
Lump-sum sales	138.2	144.7	156.7	172.3	184.2
Exports	98.0	109.6	147.6	188.2	236.8
Cosmetics sales	68.2	67.2	83.1	105.3	132.3
Others	38.4	38.3	42.4	50.1	58.6
Growth (% YoY)					
Rental	11.0	7.4	6.6	8.2	8.0
Rental registration sales	(34.5)	(23.4)	(58.9)	(90.1)	(100.0)
Membership sales	8.8	0.3	8.4	4.5	2.1
Lump-sum sales	28.7	4.7	8.3	9.9	6.9
Exports	41.6	11.8	34.7	27.5	25.8
Cosmetics sales	191.9	(1.4)	23.7	26.7	25.6
Others (living, water treatment)	(19.8)	(0.3)	10.9	18.1	16.8
COGS	552.0	605.3	674.4	757.2	842.3
COGS ratio (%)	32.3	33.5	34.4	35.1	35.5
Gross profit	1,157.9	1,201.5	1,285.5	1,397.5	1,528.3
Gross margin (%)	67.7	66.5	65.6	64.9	64.5
SG&A costs	913.1	988.7	984.6	1,040.0	1,099.9
SG&A costs to sales ratio (%)	53.4	54.7	50.2	48.3	46.4
Other operating income	0.6	1.4	1.5	1.5	1.6
Other operating expense	46.8	70.8	57.4	61.7	65.4
OP	244.8	212.8	300.9	357.5	428.4
OPM (%)	14.3	11.8	15.4	16.6	18.1
Growth (% YoY)	(8.0)	(13.1)	41.4	18.8	19.8
Financial income	2.2	3.7	2.1	3.1	4.7
Financial expense	25.8	67.5	22.6	15.1	12.0
Other non-operating income	6.4	4.6	54.3	5.6	6.6
Pre-tax profit	226.4	145.9	328.3	344.1	419.9
Corporate tax	48.2	41.7	89.6	91.5	113.0
Corporate tax rate (%)	21.3	28.6	27.3	26.6	26.9
NP	178.2	104.2	238.8	252.6	306.9
NPM (%)	10.4	5.8	12.2	11.7	12.9
Growth (% YoY)	(5.3)	(41.5)	129.1	5.8	21.5
Consolidated NP	167.1	95.8	211.4	251.5	310.0
Growth (% YoY)	(13.8)	(42.6)	120.7	19.0	23.3
Standalone EPS (KRW)	1,553	3,096	3,275	3,979	4,576
Consolidated EPS (KRW)	2,149	1,242	2,741	3,261	4,019

Source: Company data, Shinhan Investment Corp.

Note: K-IFRS standalone basis

Quarterly earnings estimates

(bn KRW)	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13F	3Q13F	4Q13F	1Q14F	2Q14F	3Q14F	4Q14F	2012	2013F	2014F
Sales	442.4	446.4	458.0	460.1	465.2	487.8	494.6	512.3	520.2	535.2	542.6	556.8	1,806.8	1,959.9	2,154.7
Growth (% YoY)	10.6	2.4	6.5	3.6	5.2	9.3	8.0	11.3	11.8	9.7	9.7	8.7	5.7	8.5	9.9
Rental sales	309.7	313.1	317.7	321.4	323.8	333.8	340.0	347.7	353.8	361.0	366.8	373.5	1,261.9	1,345.3	1,455.0
Rental registration sales	6.6	5.8	5.5	5.9	3.6	2.8	2.0	1.3	1.0	0.0	0.0	0.0	23.8	9.8	1.0
Membership sales	38.8	39.2	41.1	42.3	42.8	43.8	44.1	44.3	44.8	46.0	46.0	46.0	161.3	174.9	182.8
Lump-sum sales	32.7	40.5	39.1	32.4	36.6	41.3	36.7	42.0	42.7	44.6	41.2	43.8	144.7	156.7	172.3
Exports	30.0	21.1	28.0	30.5	31.5	34.7	39.0	42.4	42.4	45.6	48.7	51.5	109.6	147.6	188.2
Cosmetics sales	16.8	16.3	17.3	16.8	17.9	20.5	21.7	23.1	23.9	25.6	27.1	28.7	67.2	83.1	105.3
Others	5.2	16.7	5.7	10.8	7.8	10.4	9.3	10.7					38.3	42.4	50.1
COGS	145.4	142.1	151.5	166.3	154.6	166.8	170.4	182.6	181.4	188.8	189.5	197.5	605.3	674.4	757.2
COGS ratio (%)	32.9	31.8	33.1	36.1	33.2	34.2	34.5	35.6	34.9	35.3	34.9	35.5	33.5	34.4	35.1
SG&A costs	248.1	239.9	243.6	257.1	241.3	247.8	247.2	248.2	256.9	260.5	261.3	261.4	988.7	984.6	1,040.0
SG&A costs/sales ratio (%)	56.1	53.7	53.2	55.9	51.9	50.8	50.0	48.5	49.4	48.7	48.2	46.9	54.7	50.2	48.3
OP	48.8	64.4	62.9	36.7	69.2	73.2	77.0	81.4	82.0	85.9	91.8	97.8	212.8	300.9	357.5
OPM (%)	11.0	14.4	13.7	8.0	14.9	15.0	15.6	15.9	15.8	16.1	16.9	17.6	11.8	15.4	16.6
Growth (% YoY)	(16.5)	4.3	2.3	(41.8)	41.9	13.8	22.4	121.7	18.4	17.4	19.2	20.2	(13.1)	41.4	18.8
Financial income	0.5	2.4	0.3	0.6	0.3	0.6	0.6	0.6	0.7	0.8	0.8	0.8	3.7	2.1	3.1
Financial expense	8.3	9.3	42.6	7.3	6.5	5.7	5.5	4.9	4.2	3.9	3.6	3.5	67.5	22.6	15.1
Other non-operating income	(2.0)	3.0	(3.3)	2.5	51.1	(1.0)	(1.2)	(1.0)	(0.3)	(0.3)	(0.6)	(0.2)	4.6	54.3	5.6
Pre-tax profit	39.0	56.8	17.7	32.4	114.2	67.2	70.8	76.1	78.1	82.5	88.4	95.0	145.9	328.3	344.1
NP	25.9	44.4	12.9	22.3	80.2	50.7	52.1	56.5	57.8	60.9	65.0	68.9	104.2	238.8	252.6
NPM (%)	5.9	10.0	2.8	4.9	17.2	10.4	10.5	11.0	11.1	11.4	12.0	12.4	5.8	12.2	11.7
Growth (% YoY)	(33.2)	5.6	(73.8)	(53.6)	209.9	14.2	305.0	153.1	(27.9)	20.1	24.8	21.9	(41.5)	129.1	5.8

Source: Company data, Shinhan Investment Corp.

Note: K-IFRS standalone basis

Rental subscribers and ARPU by year

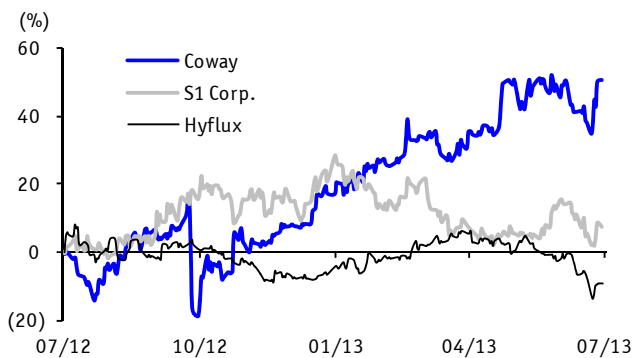
(no.)	2007	2008	2009	2010	2011	2012	2013F	2014F	2015F
ARPU (KRW)	21,369	21,970	21,575	21,285	22,008	22,824	23,167	23,930	24,392
Total subscribers	3,612,491	3,639,197	3,898,647	4,145,102	4,450,003	4,607,420	4,839,372	5,067,057	5,370,876
Net subscriber increase	134,456	26,706	259,450	246,455	304,901	157,417	231,952	227,684	303,819
New subscribers	1,173,707	1,045,248	1,188,939	1,167,378	1,272,538	1,218,911	1,256,355	1,317,957	1,401,976
Cancellation rate (%)	11.5	13.9	13.5	12.9	12.5	12.1	12.0	11.6	11.3
Growth (%)									
ARPU	(0.3)	2.8	(1.8)	(1.3)	3.4	3.7	1.5	3.3	1.9
Total subscribers	3.9	0.7	7.1	6.3	7.4	3.5	5.0	4.7	6.0
Net subscriber increase	(48.5)	(80.1)	871.5	(5.0)	23.7	(48.4)	47.3	(1.8)	33.4
New subscribers	13.9	(10.9)	13.7	(1.8)	9.0	(4.2)	3.1	4.9	6.4

Source: Company data, Shinhan Investment Corp.

Global peers							
Company Ticker		Coway 021240 KS	Kurita Water Industries 6370 JP	S1 Corp. 012750 KS	Fujian Longking 600388 CH	OSIM International OSIM SP	Hyflux HYF SP
Market cap. (bn KRW)		4,311.3	3,134.2	2,469.9	1,866.3	1,284.9	935.0
Sales (bn KRW)	2011	1,992.8	2,729.3	1,096.5	750.0	542.5	615.3
	2012F	2,106.0	2,119.1	1,204.0	978.3	600.6	661.5
	2013F	2,398.5	2,295.9	1,303.0	1,117.6	671.7	696.2
OP (bn KRW)	2011	226.1	413.8	134.6	61.9	101.5	71.2
	2012F	296.2	254.8	147.9	74.7	117.6	96.7
	2013F	339.8	278.5	165.6	88.3	131.5	109.2
OPM (%)	2011	11.3	15.2	12.3	8.3	18.7	11.6
	2012F	14.1	12.0	12.3	7.6	19.6	14.6
	2013F	14.2	12.1	12.7	7.9	19.6	15.7
NP (bn KRW)	2011	94.0	233.0	100.9	52.0	78.4	55.0
	2012F	217.7	141.1	114.5	66.8	89.8	53.2
	2013F	262.9	173.0	131.3	76.8	101.7	65.9
NPM (%)	2011	4.7	8.5	9.2	6.9	14.4	8.9
	2012F	10.3	6.7	9.5	6.8	15.0	8.0
	2013F	11.0	7.5	10.1	6.9	15.1	9.5
EPS growth (% YoY)	2011	T/B	2.0	(20.2)	19.0	N/A	5.4
	2012F	91.8	T/B	5.4	31.9	11.0	44.8
	2013F	41.4	26.7	14.2	10.5	14.2	19.3
P/E (x)	2011	34.4	15.5	23.4	16.1	14.5	28.9
	2012F	23.0	20.2	20.6	27.2	14.7	19.7
	2013F	16.3	17.0	18.1	24.7	12.9	16.6
P/B (x)	2011	4.1	1.2	3.1	1.8	6.4	3.3
	2012F	4.6	1.2	2.8	3.5	5.8	1.7
	2013F	3.9	1.1	2.6	3.2	4.6	1.6
EV/EBITDA (x)	2011	9.0	4.3	9.1	11.7	9.5	7.6
	2012F	9.8	5.3	9.0	18.3	9.0	15.0
	2013F	8.9	5.4	8.3	16.5	8.1	13.1
ROE (%)	2011	12.3	8.1	13.4	12.0	48.1	12.2
	2012F	25.5	6.1	14.2	12.9	43.4	7.7
	2013F	24.4	6.7	15.0	13.3	38.6	8.5

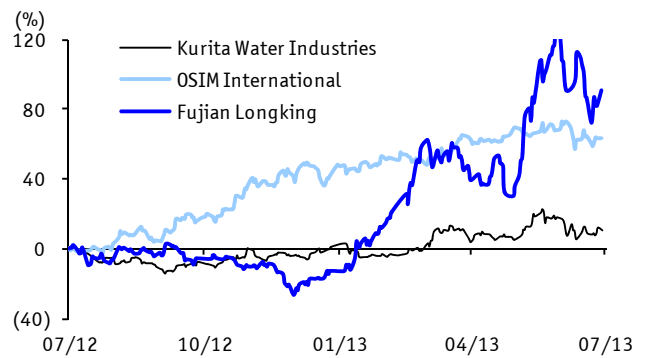
Source: Bloomberg consensus, Shinhan Investment Corp.

Share performance of global peers



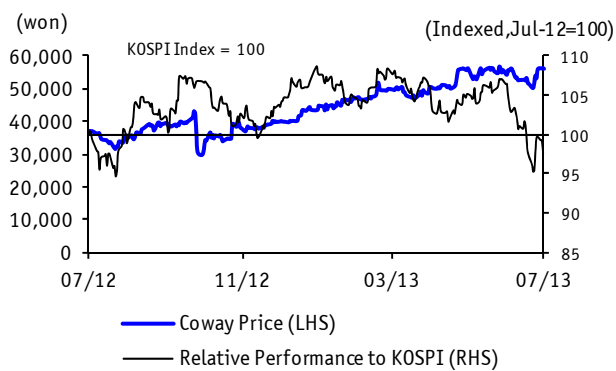
Source: Bloomberg, Shinhan Investment Corp.

Share performance of global peers

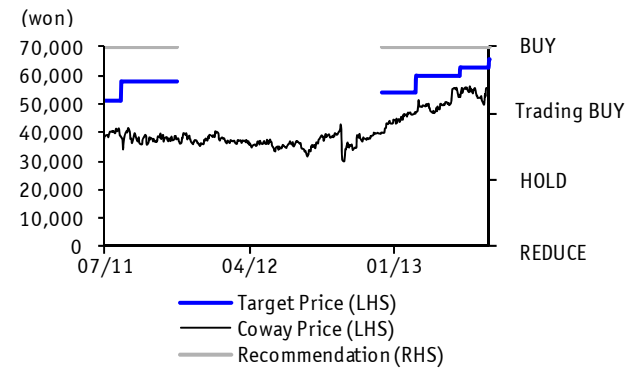


Source: Bloomberg, Shinhan Investment Corp.

Share Price Performance



Target Price & Recommendation History



SHIC Rating Classifications: BUY; Over +15%, Trading BUY; 0 to 15%, HOLD; -15% to 0, REDUCE; -15% or More (As of 25 Jul. 2011)

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