

# Coway (021240 KS)

## The beginning of change, high expectations for 2H

**BUY** (Maintain)

Price (Aug. 8)	₩58,800
Target Price	₩75,000
% variance	27.6%

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- ◆ 2Q13 sales ₩496.9bn (+11.3% YoY), OP of ₩79.4bn (+21.9% YoY)
- ◆ 2Q earnings surprise, qualitative growth to continue in 2H
- ◆ Retain BUY, raise target price to ₩75,000

### 2Q13 sales ₩496.9bn (+11.3% YoY), OP of ₩79.4bn (+21.9% YoY)

K-IFRS standalone 2Q13 sales came in at ₩496.9bn (+11.3% YoY) and operating profit came in at ₩79.4bn (+21.9% YoY). Net growth in rental subscribers was 58,955 (+56.7% YoY) and rental sales came in at ₩328.8bn (+5.0% YoY). Lump-sum sales (₩47.8bn, +18.1% YoY), exports (₩44.6bn, +111.4% YoY), and cosmetics sales (₩22.1bn, +35.5% YoY) all posted high growth. Operating profit margin improved from 14.9% in 1Q13 to 16.0% in 2Q13. Operating profit beat market consensus by far.

### 2Q earnings surprise, qualitative growth to continue in 2H

We expect earnings improvement to continue in 2H13 on: 1) steady growth in both rental subscriptions and ARPU, 2) lump-sum sales growth on the expansion of outsourcing product mix, 3) the cosmetics business which reached BEP in 1H13, and 4) expected growth in ODM exports.

Enhanced service is leading to a decline in cancellations. Hence, rental asset scrapping losses are also decreasing. We expect SG&A ratio to continue dropping as sales increase. Margins are expected to improve over the mid-to-long term. We forecast 2013 sales of ₩1,979.9bn (+9.6% YoY) and operating profit of ₩312.3bn (+46.8% YoY).

### Retain BUY, raise target price to ₩75,000

Coway is changing through qualitative growth. In addition to top-line growth, profits are on the rise. We raise our target price from ₩66,000 to ₩75,000 to reflect our earnings estimate upgrade. Our target price is derived by applying a target PER of 22x to K-IFRS consolidated 12-month forward EPS of ₩3,401. The year-end dividend yield is 2.3% at the current share price.

KOSPI	1,883.97p
KOSDAQ	555.30p
Market Cap.	₩4,534.9bn/ US\$3,978.0mn
Par Value	₩500
Outstanding Shares	77.1mn
Free Floating Shares	50.7mn(65.8%)
52-Week High/Low	₩60,500/₩30,150
60-Day Avg. Trading Volume	152,787shrs
60-Day. Avg. Trading T/O	₩8,544mn
Foreign Ownership	51.97%
Major Shareholders	
Coway Holdings, Inc. and 16 others	31.05%
Lazard Asset Management LLC and 32 others	11.71%
Absolute Performance	3M 9.7%
	6M 26.3%
	12M 69.2%
Relative performance	3M 13.9%
to KOSPI	6M 30.8%
	12M 70.9%

Year to Dec.	Sales (₩ bn)	OP (₩ bn)	Pre-tax (₩ bn)	NP (₩ bn)	EPS (₩)	Growth (%)	BPS (₩)	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	1,979.9	312.3	349.9	266.8	3,459	122.8	11,543	17.0	9.7	5.1	31.5	27.4
2014F	2,169.6	369.3	361.1	274.5	3,559	2.9	13,553	16.5	8.4	4.3	28.4	12.8
2015F	2,392.9	427.1	426.0	323.7	4,198	18.0	15,911	14.0	7.3	3.7	28.5	0.3

Note: K-IFRS Separate based

**2Q13 earnings**

(bn KRW)	2Q13P	1Q13	%QoQ	2Q12	%YoY	SHIC	Consensus
Sales	496.9	465.2	6.8	446.4	11.3	487.8	482.0
OP	79.4	69.2	14.6	65.1	22.0	73.2	72.8
NP	60.8	80.2	(24.2)	44.0	38.1	50.7	50.0
OPM (%)	16.0	14.9		14.6		15.0	15.1
NPM (%)	12.2	17.2		9.9		10.4	10.4

Source: Company data, Shinhan Investment Corp.

Note: K-IFRS standalone

**Earnings forecast revision**

(bn KRW)	2013F			2014F		
	Before	After	Change (%)	Before	After	Change (%)
Sales	1,959.9	1,979.9	1.0	2,154.7	2,169.6	0.7
OP	300.9	312.3	3.8	357.5	369.3	3.3
Consolidated NP	211.4	240.0	13.6	251.5	273.1	8.6

Source: Shinhan Investment Corp.

Note: K-IFRS standalone

**Target price**

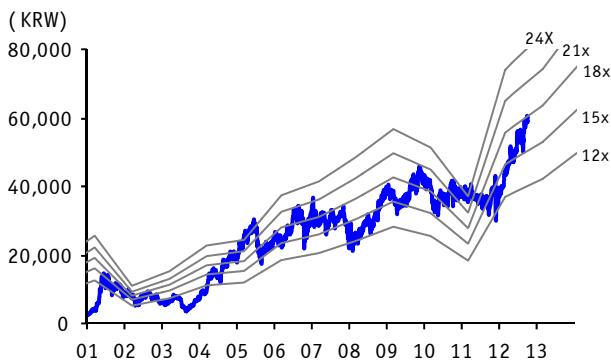
(bn KRW)	Value	(bn KRW)	Value	(bn KRW)	Value
2013 NP	240.0	12-month-forward NP	262.3	2014 NP	273.1
EPS (KRW)	3,112	EPS (KRW))	3,401	EPS (KRW)	3,542
PER (x)	24	Target PER (x)	22	PER (x)	21
Target price (KRW)	75,000	Target price (KRW)	<b>75,000</b>	Target price (KRW)	75,000
Current price (KRW)	58,800	Current price (KRW)	58,800	Current price (KRW)	58,800
Current PER (x)	18.9	Current PER (x)	17.3	Current PER (x)	16.6

Source: Shinhan Investment Corp.

Note: K-IFRS consolidated

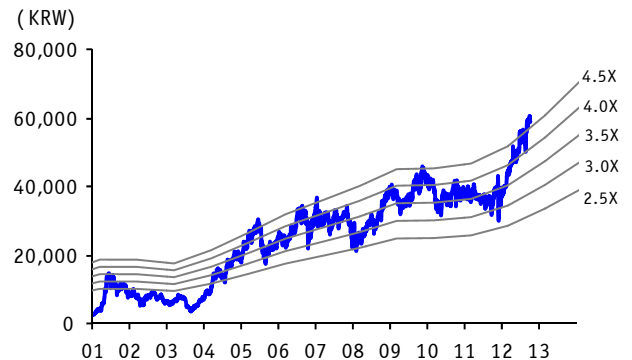
Target PER is the average of 5-year upper PER band

**PER band**



Source: Shinhan Investment Corp.

**PBR band**



Source: Shinhan Investment Corp.

Earnings estimates					
(bn KRW)	11	12	13F	14F	15F
<b>Sales</b>	<b>1,709.9</b>	<b>1,806.8</b>	<b>1,979.9</b>	<b>2,169.6</b>	<b>2,392.9</b>
Growth (% YoY)	13.9	5.7	9.6	9.6	10.3
No. of rental subscribers	4,450,003	4,607,420	4,843,503	5,095,952	5,445,292
Growth (% YoY)	7.4	3.5	5.1	5.2	6.9
Rental ARPU (KRW)	22,008	22,824	22,904	23,537	23,963
Rental sales	1,175.2	1,261.9	1,331.3	1,439.3	1,565.8
Water purifier	689.0	733.8	770.7	838.2	916.6
Air purifier	182.3	196.7	206.5	225.9	248.8
Bidet	217.2	233.9	243.8	251.4	261.1
Water softener	78.8	79.6	77.7	76.5	76.0
Others (food disposal, etc.)	7.8	8.2	9.3	10.5	11.6
Mattress		6.9	23.2	36.8	51.7
Rental registration sales	31.1	23.8	14.5	1.0	
Membership sales	160.8	161.3	170.6	174.5	175.8
Lump-sum sales	138.2	144.7	173.0	191.3	202.5
Exports	98.0	109.6	171.7	221.4	278.7
Cosmetics sales	68.2	67.2	85.9	109.0	136.9
Others	38.4	38.3	33.0	33.1	33.3
<b>Growth (% YoY)</b>					
Rental sales	11.0	7.4	5.5	8.1	8.8
Rental registration sales	(34.5)	(23.4)	(39.1)	(92.8)	(100.0)
Membership sales	8.8	0.3	5.8	2.3	0.8
Lump-sum sales	28.7	4.7	19.5	10.6	5.9
Exports	41.6	11.8	56.7	29.0	25.9
Cosmetics sales	191.9	(1.4)	27.8	26.8	25.6
Others (living + water treatment)	(19.8)	(0.3)	(13.8)	0.4	0.4
<b>COGS</b>	<b>552.0</b>	<b>605.3</b>	<b>676.3</b>	<b>759.4</b>	<b>850.5</b>
COGS ratio (%)	32.3	33.5	34.2	35.0	35.5
<b>Gross profit</b>	<b>1,157.9</b>	<b>1,201.5</b>	<b>1,303.6</b>	<b>1,410.2</b>	<b>1,542.5</b>
Gross margin (%)	67.7	66.5	65.8	65.0	64.5
<b>SG&amp;A costs</b>	<b>913.1</b>	<b>988.0</b>	<b>991.3</b>	<b>1,040.9</b>	<b>1,115.3</b>
SG&A costs to sales ratio (%)	53.4	54.7	50.1	48.0	46.6
Other operating income	0.6	1.4	1.5	1.5	1.6
Other operating expense	46.8	70.8	51.7	51.9	65.1
<b>OP</b>	<b>244.8</b>	<b>213.5</b>	<b>312.3</b>	<b>369.3</b>	<b>427.1</b>
OPM (%)	14.3	11.8	15.8	17.0	17.8
Growth (% YoY)	(8.0)	(12.8)	46.3	18.2	15.7
Financial income	2.2	3.7	3.3	4.1	6.1
Financial expense	25.8	67.5	19.4	12.5	9.8
Other non-operating income	6.4	4.6	54.7	7.3	10.3
Pre-tax profit	226.4	145.5	349.9	361.1	426.0
Corporate tax	48.2	41.7	83.1	86.7	102.2
Corporate tax rate (%)	21.3	28.6	23.8	24.0	24.0
<b>NP</b>	<b>178.2</b>	<b>103.8</b>	<b>266.8</b>	<b>274.5</b>	<b>323.7</b>
NPM (%)	10.4	5.7	13.5	12.7	13.5
Growth (% YoY)	(5.3)	(41.7)	157.0	2.9	18.0
Consolidated NP	<b>167.1</b>	<b>95.4</b>	<b>240.0</b>	<b>273.1</b>	<b>326.1</b>
Growth (% YoY)	<b>(13.8)</b>	<b>(42.9)</b>	<b>151.6</b>	<b>13.8</b>	<b>19.4</b>
Standalone EPS (KRW)	2,296	1,553	3,459	3,559	4,198
Consolidated EPS (KRW)	2,149	1,237	3,112	3,542	4,228

Source: Company data, Shinhan Investment Corp.

Note: K-IFRS standalone

Quarterly earnings forecast															
(bn KRW)	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13P	3Q13F	4Q13F	1Q14F	2Q14F	3Q14F	4Q14F	12	13F	14F
<b>Sales</b>	<b>442.4</b>	<b>446.4</b>	<b>458.0</b>	<b>460.1</b>	<b>465.2</b>	<b>496.9</b>	<b>504.9</b>	<b>512.9</b>	<b>523.5</b>	<b>538.5</b>	<b>546.9</b>	<b>560.7</b>	<b>1,806.8</b>	<b>1,979.9</b>	<b>2,169.6</b>
Growth (% YoY)	10.6	2.4	6.5	3.6	5.2	11.3	10.2	11.5	12.5	8.4	8.3	9.3	5.7	9.6	9.6
Rental sales	<b>309.7</b>	<b>313.1</b>	<b>317.7</b>	<b>321.4</b>	<b>323.8</b>	<b>328.8</b>	<b>335.4</b>	<b>343.3</b>	<b>349.4</b>	<b>356.6</b>	<b>362.9</b>	<b>370.4</b>	<b>1,261.9</b>	<b>1,331.3</b>	<b>1,439.3</b>
Rental registration sales	6.6	5.8	5.5	5.9	3.6	4.6	3.7	2.6	1.0	0.0	0.0	0.0	23.8	14.5	1.0
Membership sales	<b>38.8</b>	<b>39.2</b>	<b>41.1</b>	<b>42.3</b>	<b>42.8</b>	<b>42.8</b>	<b>42.5</b>	<b>42.5</b>	<b>42.9</b>	<b>44.0</b>	<b>43.8</b>	<b>43.7</b>	<b>161.3</b>	<b>170.6</b>	<b>174.5</b>
Lump-sum sales	<b>32.7</b>	<b>40.5</b>	<b>39.1</b>	<b>32.4</b>	<b>36.6</b>	<b>47.8</b>	<b>44.6</b>	<b>44.0</b>	<b>47.8</b>	<b>48.7</b>	<b>46.3</b>	<b>48.5</b>	<b>144.7</b>	<b>173.0</b>	<b>191.3</b>
Exports	30.0	21.1	28.0	30.5	31.5	44.6	47.5	48.2	49.4	54.5	57.4	60.2	109.6	171.7	221.4
Cosmetics sales	16.8	16.3	17.3	16.8	17.9	22.1	22.2	23.7	24.7	26.7	28.0	29.6	67.2	85.9	109.0
Others	5.2	16.7	5.7	10.8	7.8	10.4	9.3	10.7					38.3	33.0	33.1
<b>COGS</b>	<b>145.4</b>	<b>142.1</b>	<b>151.5</b>	<b>166.3</b>	<b>154.6</b>	<b>167.9</b>	<b>175.6</b>	<b>178.2</b>	<b>181.3</b>	<b>188.2</b>	<b>192.4</b>	<b>197.6</b>	<b>605.3</b>	<b>676.3</b>	<b>759.4</b>
COGS ratio (%)	32.9	31.8	33.1	36.1	33.2	33.8	34.8	34.7	34.6	34.9	35.2	35.2	33.5	34.2	35.0
<b>SG&amp;A costs</b>	<b>248.1</b>	<b>239.2</b>	<b>243.6</b>	<b>257.1</b>	<b>241.3</b>	<b>249.6</b>	<b>248.1</b>	<b>252.3</b>	<b>257.0</b>	<b>260.0</b>	<b>262.2</b>	<b>261.7</b>	<b>988.0</b>	<b>991.3</b>	<b>1,040.9</b>
SG&A ratio (%)	56.1	53.6	53.2	55.9	51.9	50.2	49.1	49.2	49.1	48.3	47.9	46.7	54.7	50.1	48.0
<b>OP</b>	<b>48.8</b>	<b>65.1</b>	<b>62.9</b>	<b>36.7</b>	<b>69.2</b>	<b>79.4</b>	<b>81.2</b>	<b>82.4</b>	<b>85.1</b>	<b>90.3</b>	<b>92.3</b>	<b>101.5</b>	<b>213.5</b>	<b>312.3</b>	<b>369.3</b>
OPM (%)	11.0	14.6	13.7	8.0	14.9	16.0	16.1	16.1	16.3	16.8	16.9	18.1	11.8	15.8	17.0
Growth (% YoY)	(16.5)	5.4	2.3	(41.8)	41.9	22.0	29.1	124.5	22.9	13.8	13.7	23.1	(12.8)	46.3	18.2
Financial income	0.5	2.4	0.3	0.6	0.4	1.4	0.7	0.8	0.9	1.0	1.1	1.1	3.7	3.3	4.1
Financial expense	8.3	9.3	42.6	7.3	6.5	4.3	4.5	4.1	3.5	3.2	3.0	2.9	67.5	19.4	12.5
Other non-operating income	(2.0)	1.8	(3.3)	2.5	51.1	4.4	(1.0)	(0.7)	0.0	0.1	(0.1)	0.3	4.6	54.7	7.3
Pre-tax profit	39.0	56.4	17.7	32.4	114.3	80.9	76.4	78.3	82.5	88.3	90.3	100.0	145.5	349.9	361.1
<b>NP</b>	<b>25.9</b>	<b>44.0</b>	<b>12.9</b>	<b>22.3</b>	<b>80.2</b>	<b>60.8</b>	<b>62.6</b>	<b>63.8</b>	<b>62.7</b>	<b>67.1</b>	<b>68.6</b>	<b>76.0</b>	<b>103.8</b>	<b>266.8</b>	<b>274.5</b>
NPM (%)	5.9	9.9	2.8	4.9	17.2	12.2	12.4	12.4	12.0	12.5	12.5	13.6	5.7	13.5	12.7
Growth (% YoY)	(33.2)	4.6	(73.8)	(53.6)	209.9	38.1	386.8	186.1	(21.8)	10.4	9.6	19.1	(41.7)	157.0	2.9

Source: Company data, Shinhan Investment Corp.

Note: K-IFRS standalone basis

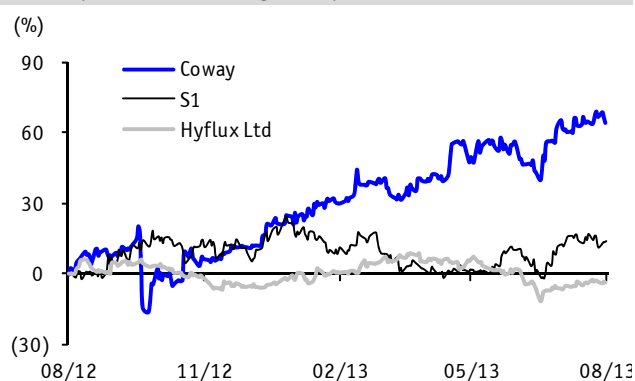
Rental subscribers and ARPU by year										
(no.)	07	08	09	10	11	12	13F	14F	15F	
ARPU (KRW)	21,369	21,970	21,575	21,285	22,008	22,824	22,904	23,537	23,963	
Total subscribers	3,612,491	3,639,197	3,898,647	4,145,102	4,450,003	4,607,420	4,843,503	5,095,952	5,445,292	
Net subscriber increase	134,456	26,706	259,450	246,455	304,901	157,417	236,083	252,448	349,340	
New subscribers	1,173,707	1,045,248	1,188,939	1,167,378	1,272,538	1,218,911	1,241,530	1,310,181	1,393,378	
Cancellation rate (%)	11.5	13.9	13.5	12.9	12.5	12.1	11.6	10.9	10.2	
<b>Growth (%)</b>										
ARPU	(0.3)	2.8	(1.8)	(1.3)	3.4	3.7	0.4	2.8	1.8	
Total subscribers	3.9	0.7	7.1	6.3	7.4	3.5	5.1	5.2	6.9	
Net subscriber increase	(48.5)	(80.1)	871.5	(5.0)	23.7	(48.4)	50.0	6.9	38.4	
New subscribers	13.9	(10.9)	13.7	(1.8)	9.0	(4.2)	1.9	5.5	6.3	

Source: Company data, Shinhan Investment Corp.

Global peers			Coway	Kurita water Industries	S1	Fujian Longking	OSIM International	Hyflux Ltd
Company			021240 KS	6370 JP	012750 KS	600388 CH	OSIM SP	HYF SP
Market cap. (bn KRW)			4,534.9	2,762.2	2,591.5	2,145.4	1,303.1	944.3
Sales	2011		1,806.8	2,729.3	1,096.5	750.0	542.5	607.5
(bn KRW)	2012F		1,927.1	2,119.1	1,204.0	959.5	578.4	601.3
	2013F		2,086.8	2,120.0	1,303.0	1,116.3	631.2	648.7
OP	2011		227.8	413.8	134.6	61.9	101.5	71.2
(bn KRW)	2012F		289.8	254.8	147.9	75.1	109.6	88.9
	2013F		337.7	250.5	165.6	89.4	122.0	98.4
OP margin	2011		12.6	15.2	12.3	8.3	18.7	11.7
(%)	2012F		15.0	12.0	12.3	7.8	18.9	14.8
	2013F		16.2	11.8	12.7	8.0	19.3	15.2
NP	2011		119.7	233.0	100.9	52.0	78.4	55.0
(bn KRW)	2012F		238.6	141.1	114.5	66.0	87.7	47.4
	2013F		252.8	153.5	131.3	76.6	99.3	60.6
NP margin	2011		6.6	8.5	9.2	6.9	14.4	9.1
(%)	2012F		12.4	6.7	9.5	6.9	15.2	7.9
	2013F		12.1	7.2	10.1	6.9	15.7	9.3
EPS Growth	2011		T/B	2.0	(20.2)	19.0	N/A	5.4
(% YoY)	2012F		94.0	T/B	5.4	31.8	10.2	30.7
	2013F		6.5	13.1	14.2	13.0	11.9	21.8
P/E	2011		27.0	15.5	23.4	16.1	14.5	28.9
(x)	2012F		18.8	19.7	20.6	31.6	15.1	21.9
	2013F		17.6	17.6	18.1	27.9	13.5	18.0
P/B	2011		4.0	1.2	3.1	1.8	6.4	3.3
(x)	2012F		4.7	1.2	2.8	4.2	6.4	1.8
	2013F		4.1	1.1	2.6	3.7	5.1	1.7
EV/EBITDA	2011		9.2	4.3	9.1	11.7	9.5	7.6
(x)	2012F		9.5	4.4	9.0	22.4	9.6	13.8
	2013F		8.7	4.7	8.3	19.3	8.6	12.0
ROE	2011		15.4	8.1	13.4	12.0	48.1	12.2
(%)	2012F		27.6	6.1	14.2	12.9	44.9	6.8
	2013F		24.7	6.5	15.0	13.4	40.4	7.7

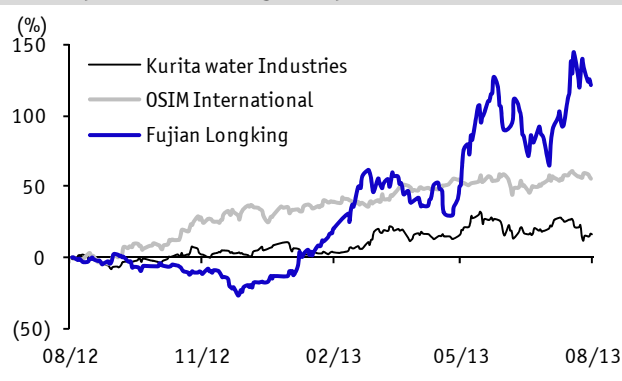
Source: Bloomberg consensus, Shinhan Investment Corp.

Share performance of global peers



Source: Bloomberg consensus, Shinhan Investment Corp.

Share performance of global peers



Source: Bloomberg consensus, Shinhan Investment Corp.

## Balance Sheet

Year to Dec. (W bn)	2011	2012	2013F	2014F	2015F
<b>Assets</b>	<b>1,576.5</b>	<b>1,701.5</b>	<b>1,614.9</b>	<b>1,758.8</b>	<b>1,934.4</b>
Total Current Assets	511.5	691.3	546.2	623.6	723.7
Cash and Cash Equivalents	64.9	118.9	85.9	138.9	204.0
Accounts Receivables	240.1	278.4	280.0	285.0	290.0
Inventories	73.0	41.3	45.3	49.6	54.8
Non-Current Assets	1,065.0	1,010.2	1,068.7	1,135.2	1,210.7
Tangible Assets	534.7	594.2	628.6	681.4	742.1
Intangible Assets	156.0	157.5	150.2	144.0	138.7
Investment Assets	285.1	155.3	186.7	206.7	226.7
Other Financial Institutions Assets	0.0	0.0	0.0	0.0	0.0
<b>Liabilities</b>	<b>828.1</b>	<b>898.8</b>	<b>724.7</b>	<b>713.5</b>	<b>707.3</b>
Current Liabilities	534.3	719.6	583.0	579.2	579.8
ST Borrowings	164.8	295.7	180.0	170.0	130.0
Account Payables	28.7	28.9	40.5	52.6	68.4
Current Portion of LT Debt	110.0	109.9	30.0	0.0	0.0
Non-Current Liabilities	293.8	179.2	141.6	134.3	127.5
Bonds	176.7	117.8	107.8	97.8	87.8
LT Borrowings(incl. LT Fin. Liab.)	90.3	35.9	5.9	5.9	5.9
Other Financial Institutions Liab.	0.0	0.0	0.0	0.0	0.0
<b>Shareholders' Equity</b>	<b>748.4</b>	<b>802.7</b>	<b>890.3</b>	<b>1,045.3</b>	<b>1,227.1</b>
Capital Stock	40.7	40.7	40.7	40.7	40.7
Capital Surplus	130.9	130.6	130.6	130.6	130.6
Other Reserves	(98.8)	(84.6)	(84.6)	(84.6)	(84.6)
Accu. Other Comp. Income	(2.0)	(0.8)	(0.8)	(0.8)	(0.8)
Retained Earnings	677.7	716.8	804.4	959.3	1,141.2
Owners of Parent Equity	748.4	802.7	890.3	1,045.3	1,227.1
Non-Controlling Interests Equity	0.0	0.0	0.0	0.0	0.0
*Total Debt	542.0	592.2	359.7	313.1	267.2
*Net Debts(Cash)	468.3	472.7	243.8	134.2	3.2

## Cash Flow

Year to Dec. (W bn)	2011	2012	2013F	2014F	2015F
<b>Operating Cash Flow</b>	<b>317.6</b>	<b>429.1</b>	<b>494.4</b>	<b>561.8</b>	<b>535.9</b>
Net Profit	177.1	119.7	266.8	274.5	323.7
Depreciation	144.9	164.8	173.0	181.7	190.8
Amortization	7.5	7.1	7.3	6.2	5.3
Losses(Gains) on F/X Translation	1.4	0.3	0.0	0.0	0.0
Losses(Gains) on Disp. of Assets	44.1	59.8	0.0	0.0	0.0
Losses(Gains) in Asso., Subs., JVs	0.0	3.2	0.0	0.0	0.0
Chg. in A/L from Op. Activities	(111.5)	(37.7)	30.1	90.3	11.6
(Payments of Income Taxes)	(42.0)	(34.7)	(83.1)	(86.7)	(102.2)
Others	96.1	146.6	100.3	95.8	106.7
<b>Investing Cash Flow</b>	<b>(344.2)</b>	<b>(300.9)</b>	<b>(266.6)</b>	<b>(261.6)</b>	<b>(286.7)</b>
Incr. in Tangible Assets(CAPEX)	(299.4)	(295.0)	(287.5)	(324.5)	(351.5)
Decr. in Tangible Assets	8.9	3.4	80.0	90.0	100.0
Decr.(Incr.) in Intangible Assets	(6.7)	(7.7)	0.0	0.0	0.0
Decr.(Incr.) in Investment Assets	(21.4)	4.3	(31.4)	(20.0)	(20.0)
Others	(25.6)	(5.9)	(27.7)	(7.1)	(15.2)
<b>Free Cash Flow</b>	<b>(35.6)</b>	<b>(77.1)</b>	<b>327.9</b>	<b>161.9</b>	<b>189.9</b>
<b>Financing Cash Flow</b>	<b>35.6</b>	<b>(73.6)</b>	<b>(251.4)</b>	<b>(237.8)</b>	<b>(174.8)</b>
Incr.(Decr.) in Borrowing	213.0	20.9	(232.5)	(46.6)	(45.9)
Decr.(Incr.) of Treasury Stock	73.5	0.0	0.0	0.0	0.0
Dividend	(79.9)	(77.8)	0.0	(179.2)	(119.5)
Others	(171.0)	(16.7)	(18.9)	(12.0)	(9.4)
Other Cash Flows	0.0	0.0	(9.4)	(9.4)	(9.4)
Change of Consolidated Scope	0.0	0.0	0.0	0.0	0.0
Difference by Chg. in F/X Rates	(0.5)	(0.6)	0.0	0.0	0.0
<b>Incr.(Decr.) in Cash</b>	<b>8.5</b>	<b>54.0</b>	<b>(33.0)</b>	<b>53.0</b>	<b>65.0</b>
Beginning Cash	56.4	64.9	118.9	85.9	138.9
Ending Cash	64.9	118.9	85.9	138.9	204.0

Source: Company data, Shinhan Investment Corp.

## Profit and Loss

Year to Dec. (W bn)	2011	2012	2013F	2014F	2015F
<b>Sales</b>	<b>1,709.9</b>	<b>1,806.8</b>	<b>1,979.9</b>	<b>2,169.6</b>	<b>2,392.9</b>
Growth (%)	13.9	5.7	9.6	9.6	10.3
<b>COGS</b>	<b>552.0</b>	<b>605.4</b>	<b>676.3</b>	<b>759.4</b>	<b>850.5</b>
<b>Gross Profit</b>	<b>1,157.9</b>	<b>1,201.4</b>	<b>1,303.6</b>	<b>1,410.2</b>	<b>1,542.5</b>
Gross margin (%)	67.7	66.5	65.8	65.0	64.5
<b>SG&amp;A</b>	<b>914.5</b>	<b>989.0</b>	<b>991.3</b>	<b>1,040.9</b>	<b>1,115.3</b>
<b>Operating Income</b>	<b>243.3</b>	<b>212.5</b>	<b>312.3</b>	<b>369.3</b>	<b>427.1</b>
Growth (%)	(20.7)	(12.7)	47.0	18.2	15.7
Operating margin (%)	14.2	11.8	15.8	17.0	17.8
<b>Other Net Non-Operating Profits</b>	<b>(18.0)</b>	<b>(51.0)</b>	<b>37.6</b>	<b>(8.1)</b>	<b>(1.2)</b>
Financial Income(Expenses)	(23.5)	(58.1)	(16.1)	(8.4)	(3.8)
Net Other Non-Operating Profits	5.5	10.3	53.7	0.3	2.6
Net Gains in Asso., Subs., and JVs	0.0	(3.2)	0.0	0.0	0.0
<b>Pre-tax Profit from Cont. Op.</b>	<b>225.4</b>	<b>161.5</b>	<b>349.9</b>	<b>361.1</b>	<b>426.0</b>
Income Taxes	48.2	41.7	83.1	86.7	102.2
Profit from Continuing Op.	177.1	119.7	266.8	274.5	323.7
Profit from Discontinued Op.	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>177.1</b>	<b>119.7</b>	<b>266.8</b>	<b>274.5</b>	<b>323.7</b>
Growth (%)	(3.4)	(32.4)	122.8	2.9	18.0
Net Profit margin (%)	10.4	6.6	13.5	12.7	13.5
Net Profit of Parent	177.1	119.7	266.8	274.5	323.7
Net Profit to Non-Controlling	0.0	0.0	0.0	0.0	0.0
<b>Total Comprehensive Income</b>	<b>172.7</b>	<b>118.2</b>	<b>266.8</b>	<b>274.5</b>	<b>323.7</b>
Total Comp. Income of Parent	172.7	118.2	266.8	274.5	323.7
Total Comp. Income to Non-Cont.	0.0	0.0	0.0	0.0	0.0
<b>EBITDA</b>	<b>395.8</b>	<b>384.3</b>	<b>492.6</b>	<b>557.2</b>	<b>623.2</b>
Growth (%)	(11.1)	(2.9)	28.2	13.1	11.9
EBITDA Margin (%)	23.1	21.3	24.9	25.7	26.0

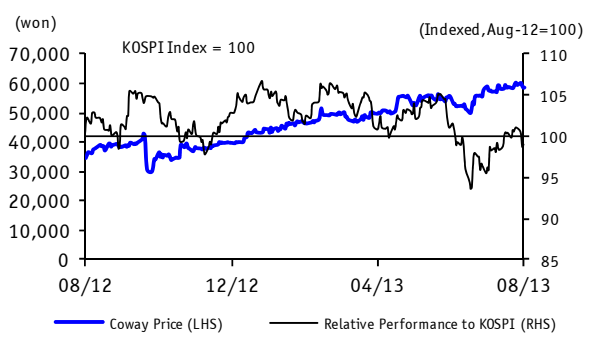
Note: Operating profit is based on 2012 K-IFRS (gross profit - SG&amp;A costs)

## Key Ratios

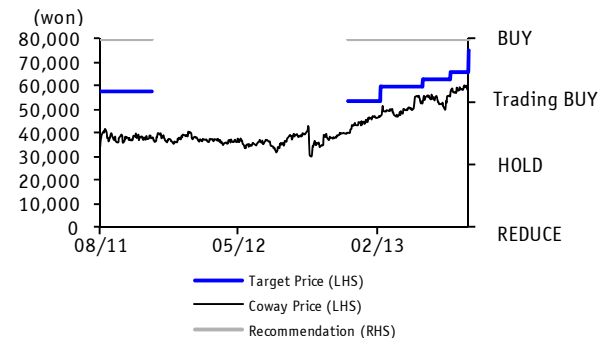
Year to Dec.	2011	2012	2013F	2014F	2015F
EPS_C (won)	2,296	1,553	3,459	3,559	4,198
EPS_P (won)	2,296	1,553	3,459	3,559	4,198
BPS_C (won)	9,704	10,408	11,543	13,553	15,911
BPS_P (won)	9,704	10,408	11,543	13,553	15,911
DPS (won)	1,050	0	2,400	1,600	1,900
PER_C (x)	15.9	28.0	17.0	16.5	14.0
PER_P (x)	15.9	28.0	17.0	16.5	14.0
PBR_C (x)	3.8	4.2	5.1	4.3	3.7
PBR_P (x)	3.8	4.2	5.1	4.3	3.7
EV/EBITDA (x)	8.3	10.0	9.7	8.4	7.3
EV/EBIT (x)	13.5	18.0	15.3	12.6	10.6
Dividend Yield (%)	2.9	0.0	4.1	2.7	3.2
<b>Profitability</b>					
EBITDA Margin (%)	23.1	21.3	24.9	25.7	26.0
OP Margin (%)	14.2	11.8	15.8	17.0	17.8
NP Margin (%)	10.4	6.6	13.5	12.7	13.5
ROA (%)	12.1	7.3	16.1	16.3	17.5
ROE (%)	24.0	15.4	31.5	28.4	28.5
ROIC (%)	25.8	16.8	24.7	31.5	35.1
<b>Stability</b>					
D/E Ratio (%)	110.6	112.0	81.4	68.3	57.6
Net Debt to Equity (%)	62.6	58.9	27.4	12.8	0.3
Cash Ratio (%)	12.1	16.5	14.7	24.0	35.2
Interest Coverage (x)	9.7	7.4	16.5	30.6	45.7
<b>Activity (%)</b>					
Working Capital Turnover (t)	11.8	7.5	10.0	23.9	33.4
Inventory Turnover (d)	15.6	11.5	8.0	8.0	8.0
Receivable Turnover (d)	47.4	52.4	51.5	47.5	43.9

Source: Company data, 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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