



October 7, 2013

# Coway (021240)

Equity Research

Reinstate

## Solid Earnings Momentum to Continue

### 3Q13 OP expected to increase 21.3% to W76.0bn

We expect 3Q13 sales of W494.0bn (+7.9% YoY) and OP of W76.0bn (+21.3% YoY). Top-line growth should be lower than in 2Q13 because of slowing sales in dehumidifiers (lump-sum payments) and cosmetics via the home-shopping channel; their contributions were significant in 2Q13. As for the rental division, net account additions have been limited amid negative seasonality (109K in 1H13 vs. annual target of 155K). Rental sales should rise 3.5% YoY on increased ARPU from price hikes. ODM supply of air purifiers to Phillips China should sustain rapid growth (50% YoY expected), boosting the top line. OPM should increase 1.7ppt YoY on 1) steady cost streamlining, 2) price hikes and 3) a low base from rental-asset-disposal losses last year (W10.4bn). NP should soar 370% YoY on the absence of one-offs last year related to provisions for the Japanese subsidiary (W35.5bn).

### Benefits to come from increase in no. of small households

Backed by its dominant market share of ~50% in home-appliance rentals, Coway has engaged itself in a wide variety of new categories and businesses. Its 13K-strong Cody agents, who cover 3.4mn households, serve as a high entry barrier and strong business base. The company's Hanbyeom water purifier, a small water purifier targeting small households, has recently led rental growth. Lump-sum-payment sales for dehumidifiers have also grown substantially. Health supplement brand Healthygru has boosted cosmetics earnings. In addition, the home-care total service, which provides total hygiene services for bedding, carpets and air conditioners, enjoys favorable business conditions on the back of rising hygiene standards and a growing number of dual-income households.

### Most stable earnings improvement in sector; attractive over mid to long term

We reinstate our coverage with BUY and TP W71,000. Our TP is based on 12-m fwd P/E 19.0x (10% discount to upper end of 21.0x). The top line should grow considering 1) high earnings visibility (growing home-appliance market; ~50% market share), 2) the addition of new categories in response to changing consumer patterns and 3) overseas momentum from China/Malaysia. Also, given improvements in margin structure (17% mid-/long-term target) via cost streamlining after M&A and ARPU increases, the stock should receive premiums. Among consumer stocks under coverage, Coway should present the most stable earnings improvement, making the stock attractive on a mid- to long-term basis.

**BUY**

| TP(12M): **W71,000** (Reinstate) | CP(Oct. 4): **W59,600**

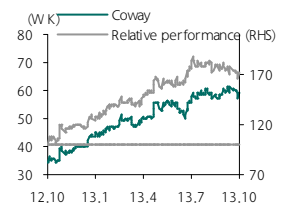
#### Key Data

|                               |                     |
|-------------------------------|---------------------|
| KOSPI (pt)                    | 1,996.98            |
| 52 week High/Low(W)           | 61,400/34,100       |
| Market cap(W bn)              | 4,596.6             |
| Market cap weight(%)          | 0.39                |
| Shares out ('000)             | 77,124.8            |
| 60-D avg. daily volume('000)  | 170.7               |
| 60-D avg. daily value(W bn)   | 10.1                |
| DPS (W, 2012)                 | 0                   |
| DPS Est. (W, 2013)            | 0                   |
| Foreign ownership (%)         | 53.17               |
| Major shareholders' stake (%) |                     |
| Coway Holdings and 16 others  | 31.05%              |
| Lazard AM LLC and 32 others   | 11.36%              |
| Performance                   | 1M    6M    12M     |
| Absolute                      | (2.0)   18.5   73.3 |
| Relative                      | (5.3)   16.6   73.0 |

#### Consensus Data

|             | 2013    | 2014    |
|-------------|---------|---------|
| Sales (Wbn) | 1,958.9 | 2,111.6 |
| OP (Wbn)    | 303.9   | 345.5   |
| NP (Wbn)    | 256.0   | 264.5   |
| EPS (W)     | 3,198   | 3,390   |
| BPS (W)     | 12,963  | 15,197  |

#### Stock Price



#### Financial Data

|           |     | 2011    | 2012    | 2013F   | 2014F   | 2015F   |
|-----------|-----|---------|---------|---------|---------|---------|
| Sales     | Wbn | 1,709.9 | 1,806.8 | 1,952.4 | 2,116.4 | 2,278.4 |
| OP        | Wbn | 243.3   | 227.8   | 302.8   | 339.5   | 376.1   |
| PTP       | Wbn | 225.4   | 161.5   | 345.7   | 336.3   | 380.3   |
| NP        | Wbn | 177.1   | 122.1   | 220.4   | 252.2   | 285.2   |
| EPS       | W   | 2,296   | 1,583   | 2,858   | 3,270   | 3,698   |
| Chg       | %   | 10.4    | (31.1)  | 80.5    | 14.4    | 13.1    |
| PER       | X   | 15.9    | 27.5    | 20.9    | 18.2    | 16.1    |
| PBR       | X   | 3.3     | 3.8     | 4.0     | 3.3     | 2.7     |
| EV/EBITDA | X   | 8.1     | 9.7     | 8.6     | 8.2     | 7.1     |
| ROE       | %   | 21.4    | 13.7    | 24.8    | 19.8    | 18.5    |
| BPS       | W   | 11,098  | 11,583  | 14,867  | 18,138  | 21,836  |
| Net DER   | %   | 56.1    | 52.2    | 25.9    | 10.9    | (2.0)   |



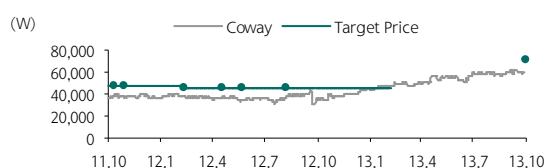
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## Rating & Target Price Changes

### Coway

| Date     | Rating | Target Price (W) |
|----------|--------|------------------|
| 13.10.7  | BUY    | 71,000           |
| 12.8.13  | BUY    | 46,000           |
| 12.5.29  | BUY    | 46,000           |
| 12.4.23  | BUY    | 46,000           |
| 12.2.16  | BUY    | 46,000           |
| 11.11.4  | BUY    | 47,000           |
| 11.10.17 | BUY    | 47,000           |



## Hana Daetoo Securities Rating Definitions

### Stock ratings for the next twelve months

- BUY\_ Target Price implies at least 15% upside potential
- Neutral\_ Target Price implies less than 15% upside or downside potential
- Reduce\_ Target Price implies at least 15% downside potential

### Sector ratings for the next twelve months

- Overweight\_ Sector index implies at least 15% upside potential
- Neutral\_ Sector index implies less than 15% upside or downside potential
- Underweight\_ Sector index implies at least 15% downside potential

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