

# Coway (021240)

Positive
Neutral
Negative

12M rating **BUY (Maintain)**  
12M TP **W73,000** from W73,000  
Up/downside **+22%**

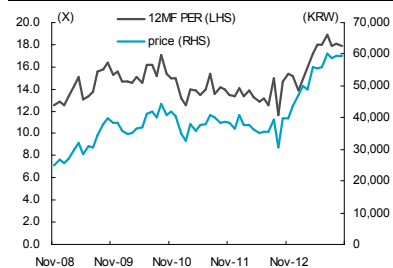
## Stock Data

KOSPI (Oct 4, pt)	1,997
Stock price (Oct 4, KRW)	59,600
Market cap (USD mn)	4,295
Shares outstanding (mn)	77
52-Week high/low (KRW)	61,400/34,100
6M avg. daily turnover (USD mn)	9.1
Free float / Foreign ownership (%)	65.9/53.2
Major shareholders (%)	
Coway Holdings, Inc. and 16 others	31.1
Lazard Asset Management LLC and 32 others	11.4

## Performance

	1M	6M	12M
Absolute (%)	(2.0)	18.5	73.3
Relative to KOSPI (%p)	(5.3)	16.6	73.0

## 12MF PE trend



Source: WISEfn consensus

## Margins steadily improve, operations stable and exports favorable

- 3Q13 sales to grow 8% YoY to W494.7bn, OP 24% YoY to W77bn, in line with recently raised consensus; OPM to reach 15.6%, up 2.1%p YoY
- Environmental home appliance sales to grow 3-4% (70% of sales), membership sales to grow marginally (9% of sales) on de-marketing of low-priced memberships, lower subscribers on termination of free services and transfer to higher priced rental services
- Export division (7% of sales) to grow 30-40% YoY following 110% YoY surge in 2Q13; air purifier ODM sales to Philips are solid backed by sharp demand growth in China (Philips leads air purifier market in China); Coway expects export sales to reach W151bn (+38% YoY) as sales to Philips alone should surge W60-70bn from W38.9bn in 2012
- Sales growth at cosmetics (4% of sales) and lump-sum payments (8% of sales) should slow QoQ; slowing lump-sum payments mostly due to fading demand for dehumidifiers, sales of seasonal environmental home appliances should be key in 4Q13; poor home shopping and door-to-door sales eroded cosmetics
- Total subscriber growth should be slow, net subscriber growth slowed to 23,300 in 2Q13 from 56,000 in 1Q13, and slowdown should continue in 3Q13; rental sales also slowed after markups in April, rental sales per month should reach 90,000, down from 293,000 in 3Q13; we expect resistance to higher prices to last about six months, while long Chuseok holiday cut short operating days
- Coway plans to enter the low-priced rental market via home shopping and online channels; demand should recover after 4Q13 as resistance to higher prices fade, subscriber net growth should be led by channel diversification

## Cost efficiency continues, rental margins improve sharply

- Overall margins have improved led by higher rental margins, as: 1) inventory asset disposals declined on lower rental cancellation rates (0.9% per month), and 2) ARPU increased on the shift from low-margin memberships to rentals
- Margins should continue to improve, on: 1) markups (1% ARPU p.a.), 2) an expanding high-priced product lineup, and 3) higher membership ARPU

## Implication & Valuation

- Subscriber base expands amid growing environmental home appliance market, indicating solid earnings model and margin improvement; exports and overseas markets can further fuel growth
- Shares trade at 17x 12MF PE; maintain BUY and W73,000 TP (21x 12MF PE, historically high PE)
- DPS should reach W1,200 at yearend (2% yield based on current price)

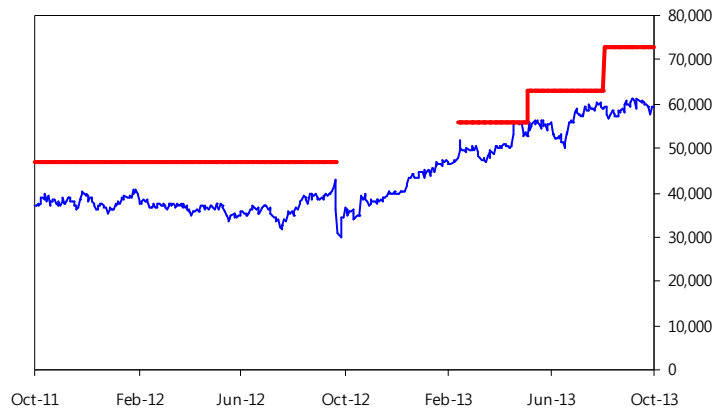
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Yr to	Sales	OP	EBT	NP	EPS	% chg	EBITDA	PE	EV/EBITDA	PB	ROE
Dec	(W bn)	(W bn)	(W bn)	(W bn)	(won)	(YoY)	(W bn)	(x)	(x)	(x)	(%)
2011A	1,710	243	225	167	2,235	(3.9)	396	16.4	8.0	3.3	22.2
2012A	1,807	228	161	94	1,268	(43.3)	400	34.3	9.4	3.8	12.3
2013F	1,985	304	339	260	3,478	174.4	487	16.5	9.7	4.2	29.6
2014F	2,118	350	345	265	3,544	1.9	545	16.2	8.6	3.6	25.2
2015F	2,254	379	377	290	3,881	9.5	588	14.8	7.8	3.1	23.6

**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
	08-09-13	BUY	W73,000



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Prepared by: Eun-chaе Na

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