

Coway (021240)

| |
|---------|
| Above |
| In line |
| Below |

12M rating **BUY (Maintain)**
 12M TP **W73,000** from W73,000
 Up/downside **+21%**

Stock Data

| | |
|---|---------------|
| KOSPI (Nov 8, pt) | 1,985 |
| Stock price (Nov 8, KRW) | 60,500 |
| Market cap (USD mn) | 4,382 |
| Shares outstanding (mn) | 77 |
| 52-Week high/low (KRW) | 61,400/37,700 |
| 6M avg. daily turnover (USD mn) | 9.0 |
| Free float / Foreign ownership (%) | 65.9/53.3 |
| Major shareholders (%) | |
| Coway Holdings, Inc. and 16 others | 31.1 |
| Lazard Asset Management LLC and 33 others | 9.9 |

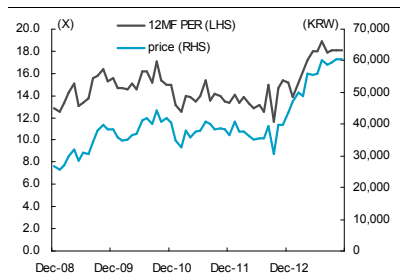
Valuation

| | 2012A | 2013F | 2014F |
|---------------|--------|--------|--------|
| PE (x) | 34.3 | 16.8 | 16.6 |
| PB (x) | 3.8 | 4.4 | 3.8 |
| ROE (%) | 12.3 | 30.5 | 25.6 |
| EV/EBITDA (x) | 9.4 | 9.7 | 8.8 |
| EPS (KRW) | 1,268 | 3,598 | 3,640 |
| BPS (KRW) | 11,354 | 13,822 | 16,080 |

Performance

| | 1M | 6M | 12M |
|------------------------|-----|------|------|
| Absolute (%) | 0.0 | 12.9 | 58.6 |
| Relative to KOSPI (%p) | 0.9 | 11.4 | 54.9 |

12MF PE trend



Source: WISEfn consensus

Focus on substantial earnings growth

What's new: Earnings beat consensus

3Q13 separate sales grew 7% YoY to W489.2bn, and OP surged 54% YoY to W97bn. Consolidated sales increased 4.7% YoY and OP 53% YoY. Separate OP beat the consensus by 26%, as OPM climbed 6.1%p to 19.8%. EBT jumped 369% YoY and NP 382% YoY. Net subscribers increased 17,700 QoQ as the average cancellation rate was only 0.82%, while rental sales slipped 12% YoY. Rental sales grew 3.6% YoY and membership sales 5.1% YoY, while exports nearly doubled, growing 90% YoY. However, lump sum payments eroded 9.3% YoY and cosmetics sales 4% YoY.

Pros: Rapid growth, sales trends improve in October

We attribute the OP surprise to: 1) narrowing rental asset losses (W21.2bn in 3Q12 to W9.3bn in 3Q13) on the back of base effect and low cancellation rate, 2) declining sales commissions (W80.2bn in 3Q12 to W73.8bn in 3Q13) and 3) falling SG&A costs, including ad spending. OP growth still reached almost 20%, even excluding positive one-off factors, such as losses on rental assets in 3Q12 and lower commissions in 3Q13. And, OPM would have still reached 81%. Earnings momentum should continue in 4Q13, with OP surging 132% YoY to W82.5bn, despite higher sales commissions and ad costs.

Cons: Subscriber growth needs to pick up, but high potential for overseas sales and new products

Net subscriber growth has been slow due to weak sales. In addition, market share expansion has slowed due to aggressive sales by competitors as Coway increased prices. However, sales trends recovered in October, and Coway is reinforcing mid-priced products and channels. Meanwhile, growth potential is high for exports and new businesses. Exports, comprised mainly of air purifier ODM sales to China, are growing sharply, accounting for 8% of total sales in 3Q13. Philips accounts for 50% of total exports, and Sharp is also a major client. Rapid export growth should continue, as: 1) Philips has the leading market share in China's air purifier market, and 2) China's air purifier market should grow at a CAGR of over 30% given low penetration and substantial air pollution. Meanwhile, mattress and healthcare lump sum payment product lineups are being reinforced, and the rental business is growing moderately in Malaysia and the US.

Conclusion: Maintain TP of W73,000 on improved fundamentals and dividend merit

We maintain BUY with a TP of W73,000 (20x 2014 PE, peak PE). Shares currently

(W bn, %, %p)

| | 3Q13P | | | | Change | | 2013F | |
|-----------|----------|--------|-------|-----------|--------|-------|-------|-----------|
| | KIS est. | Actual | Diff. | Consensus | QoQ | YoY | KIS | Consensus |
| Sales | 495 | 489 | (1) | 495 | (1.6) | 6.8 | 1,961 | 1,958 |
| OP | 77 | 97 | 26 | 77 | 22.3 | 54.2 | 328 | 303 |
| OP margin | 15.6 | 19.8 | 4 | 16 | 3.9 | 6.1 | 16.7 | 15.5 |
| EBT | 73 | 83 | 14 | 75 | 2.9 | 369.2 | 355 | 344 |
| NP | 55 | 62 | 13 | 57 | 2.8 | 382.2 | 269 | 256 |

Eun-cha Na
 822-3276-6160
 ec.na@truefriend.com

Jinah Na
 822-3276-6171
 jinah.na@truefriend.com

trade at 16.6x 2014 PE, which is relatively expensive. However, the yearend dividend yield should be about 2%, and valuations are still attractive compared to major domestic peers. Coway has a dominant domestic market share, and stable subscriber-driven earnings model. Subscribers should grow steadily as demand firms for environmental appliances.

Table 1. Earnings breakdown

(W bn, KRW, '000, %YoY, %)

| | 1Q11 | 2Q11 | 3Q11 | 4Q11 | 1Q12 | 2Q12 | 3Q12 | 4Q12 | 1Q13 | 2Q13 | 3Q13 |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total no. of accounts | 5,201 | 5,333 | 5,411 | 5,452 | 5,484 | 5,600 | 5,670 | 5,741 | 5,793 | 5,816 | 5,834 |
| Increase in total no. of accounts | 118 | 132 | 78 | 41 | 32 | 116 | 70 | 71 | 53 | 23 | 18 |
| %YoY | 8.4 | 9.6 | 9.7 | 7.3 | 5.4 | 5.0 | 4.8 | 5.3 | 5.6 | 3.9 | 2.9 |
| no. of rental account ('000, year-end) | 4,234 | 4,321 | 4,377 | 4,450 | 4,480 | 4,518 | 4,551 | 4,607 | 4,658 | 4,717 | 4,746 |
| Rental account growth rate (YoY) | 89 | 87 | 55 | 73 | 30 | 38 | 34 | 56 | 50 | 59 | 30 |
| no. of membership account ('000, year-end) | 967 | 1,011 | 1,034 | 1,002 | 1,004 | 1,082 | 1,118 | 1,133 | 1,135 | 1,100 | 1,088 |
| Membership account growth rate (YoY) | 29 | 44 | 23 | (32) | 2 | 78 | 36 | 15 | 2 | (36) | (12) |
| No. of new rental sales ('000 units) | 330 | 342 | 288 | 313 | 285 | 331 | 294 | 310 | 318 | 298 | 258 |
| No. of new rental sales (%YoY) | 21.3 | 24.8 | 4.2 | (9.4) | (13.6) | (3.2) | 2.0 | (1.2) | 11.7 | (9.9) | (12.3) |
| Cancel rate (%) | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Rental ARPU (Won) | 22,218 | 22,586 | 22,845 | 22,993 | 23,164 | 23,319 | 23,325 | 23,357 | 23,347 | 23,468 | 23,496 |
| Rental ARPU (%YoY) | 1.0 | 2.4 | 3.4 | 3.6 | 4.3 | 3.2 | 2.1 | 1.6 | 0.8 | 0.6 | 0.7 |
| Membership ARPU (KRW) | 13,686 | 13,457 | 13,347 | 13,348 | 12,948 | 12,594 | 12,446 | 12,467 | 12,573 | 12,753 | 13,159 |
| Membership ARPU (%YoY) | (1.9) | (3.0) | (3.8) | (3.0) | (5.4) | (6.4) | (6.8) | (6.6) | (2.9) | 1.3 | 5.7 |
| Sales | 400 | 436 | 430 | 444 | 442 | 446 | 458 | 460 | 465 | 497 | 489 |
| Growth rate (%YoY) | 9.4 | 19.3 | 15.6 | 11.3 | 10.6 | 2.4 | 6.5 | 3.6 | 5.2 | 11.3 | 6.8 |
| Rental | 327 | 340 | 347 | 354 | 356 | 360 | 364 | 370 | 370 | 375 | 378 |
| Growth rate (%YoY) | 6.5 | 9.5 | 10.2 | 9.7 | 8.9 | 6.1 | 5.1 | 4.5 | 3.9 | 4.0 | 3.8 |
| Rental | 288 | 300 | 306 | 313 | 317 | 321 | 323 | 327 | 327 | 332 | 335 |
| Growth rate (%YoY) | 6.0 | 9.5 | 10.3 | 10.0 | 10.1 | 7.1 | 5.7 | 4.6 | 3.2 | 3.5 | 3.6 |
| Membership | 39 | 40 | 41 | 41 | 39 | 39 | 41 | 42 | 43 | 43 | 43 |
| Growth rate (%YoY) | 9.8 | 9.0 | 9.3 | 7.3 | (0.4) | (1.3) | 0.3 | 3.6 | 9.8 | 8.5 | 5.1 |
| Lump sum payment | 32 | 39 | 41 | 32 | 33 | 41 | 39 | 32 | 37 | 48 | 35 |
| Growth rate (%YoY) | 19.2 | 57.0 | 67.3 | 1.6 | 2.7 | 4.5 | (4.6) | 1.6 | 11.9 | 18.0 | (9.4) |
| Cosmetics | 17 | 18 | 18 | 15 | 17 | 16 | 17 | 17 | 18 | 22 | 17 |
| Growth rate (%YoY) | NA | NA | 878.4 | (29.1) | (3.3) | (8.8) | (1.8) | 9.7 | 6.6 | 35.3 | (4.2) |
| Export | 18 | 23 | 25 | 32 | 30 | 21 | 20 | 31 | 32 | 45 | 38 |
| Growth rate (%YoY) | 5.8 | 33.1 | 60.1 | 66.5 | 63.9 | (8.0) | (18.8) | (5.6) | 5.0 | 111.1 | 90.7 |
| Others | 5 | 17 | 0 | 11 | 7 | 8 | 17 | 11 | 9 | 8 | 21 |
| Growth rate (%YoY) | (63.5) | 26.2 | (97.7) | 167.0 | 28.9 | (50.6) | 4711.7 | (0.9) | 36.7 | (5.0) | 21.1 |
| COGS | 125 | 141 | 135 | 150 | 145 | 142 | 152 | 166 | 155 | 168 | 170 |
| COGS-to-rate (%) | 31.4 | 32.4 | 31.3 | 33.9 | 32.9 | 31.8 | 33.1 | 36.1 | 33.2 | 33.8 | 34.7 |
| Rental COGS | 95 | 95 | 96 | 100 | 101 | 102 | 104 | 109 | 107 | 108 | 108 |
| Compared to sales (%) | 29.0 | 27.9 | 27.6 | 28.3 | 28.5 | 28.2 | 28.7 | 29.5 | 28.9 | 28.9 | 28.6 |
| Rental | 83 | 82 | 83 | 88 | 89 | 89 | 91 | 95 | 93 | 94 | 95 |
| Compared to sales (%) | 28.7 | 27.4 | 27.2 | 28.0 | 28.1 | 27.7 | 28.3 | 29.2 | 28.4 | 28.4 | 28.4 |
| Membership | 12 | 13 | 12 | 13 | 12 | 13 | 13 | 13 | 14 | 14 | 13 |
| Compared to sales (%) | 31.9 | 31.7 | 30.4 | 30.8 | 31.7 | 32.3 | 31.6 | 31.8 | 32.9 | 32.9 | 29.9 |
| Gross profit | 274 | 295 | 295 | 294 | 297 | 304 | 306 | 294 | 311 | 329 | 319 |
| Gross profit rate | 68.6 | 67.6 | 68.7 | 66.1 | 67.1 | 68.2 | 66.9 | 63.9 | 66.8 | 66.2 | 65.3 |
| OP | 70 | 62 | 73 | 28 | 64 | 65 | 62 | 36 | 69 | 79 | 97 |
| Growth rate (%YoY) | (12.9) | (27.7) | 1.3 | (59.6) | (7.8) | 5.3 | (15.2) | 27.1 | 7.9 | 21.9 | 56.5 |
| OPM (%) | 17.4 | 14.2 | 17.0 | 6.3 | 14.5 | 14.6 | 13.5 | 7.7 | 14.9 | 16.0 | 19.8 |
| EBT | 50 | 55 | 65 | 55 | 56 | 56 | 18 | 32 | 115 | 81 | 83 |
| %YoY | (22.1) | (27.5) | 22.4 | 10.9 | 10.3 | 2.5 | (72.6) | (42.5) | 106.7 | 43.1 | 369.2 |
| NP | 39 | 42 | 49 | 47 | 41 | 44 | 13 | 22 | 80 | 61 | 62 |
| %YoY | (25) | (29) | 37 | 29 | 6 | 5 | (74) | (54) | 95 | 38 | 382 |

Source: Coway, Korea Investment securities & Investment

Table 2. Subsidiaries of Coway

(% W bn)

| Subsidiaries | Stake | 2012 Sales | 2012 OP | 2Q13 Sales | 3Q13 OP |
|--------------|-------|------------|---------|------------|---------|
| Malaysia | 100 | 54 | 1.9 | 18 | 1.4 |
| USA | 100 | 30 | (1.6) | 9 | (0.3) |
| China | 100 | 55 | 0.0 | 8 | (1.2) |
| Thailand | 100 | 12 | (2.0) | 3 | 0.1 |
| Green Entech | 100 | 53 | 0.6 | 13 | 0.1 |

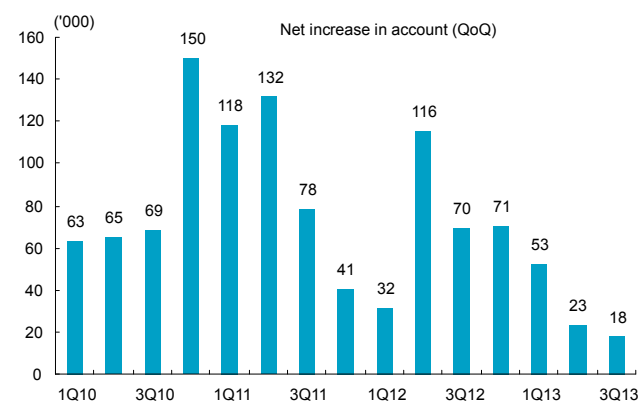
Source: Coway, Korea Investment securities & Investment

Table 3. Earnings revisions

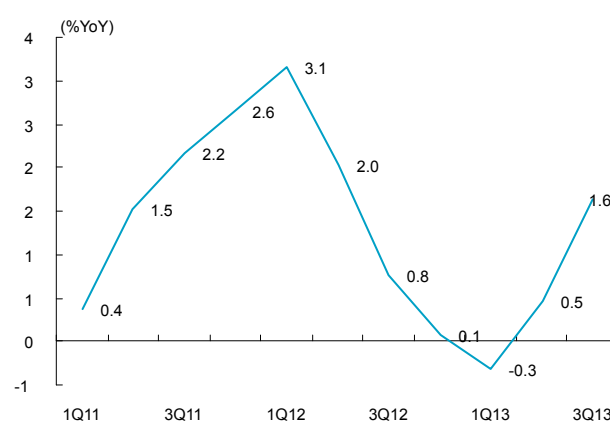
(W bn, %)

| | Revised | | Previous | | Change (%) | |
|-------|---------|-------|----------|-------|------------|-----|
| | 13F | 14F | 13F | 14F | 13F | 14F |
| Sales | 1,961 | 2,133 | 1,985 | 2,118 | (1.2) | 0.7 |
| OP | 328 | 361 | 304 | 350 | 7.9 | 3.0 |
| EBT | 355 | 359 | 339 | 345 | 4.6 | 4.0 |
| NP | 269 | 272 | 260 | 265 | 3.4 | 2.7 |

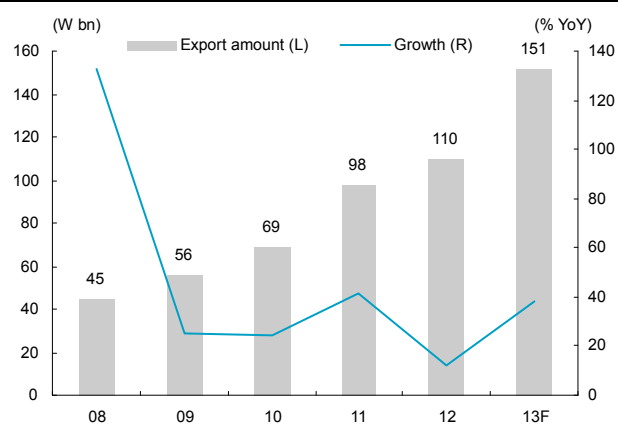
Source: Korea Investment securities & Investment

Figure 1. Net subscriber growth slows

Source: Coway, Korea Investment securities & Investment

Figure 2. ARPU rebounds

Source: Coway, Korea Investment securities & Investment

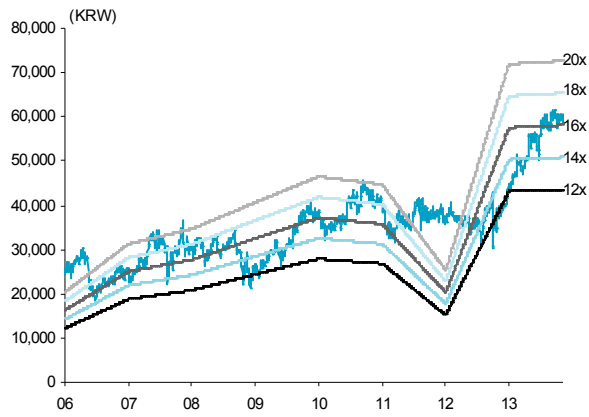
Figure 3. Rapid export growth

Source: Coway, Korea Investment securities & Investment

Figure 4. Philips' Chinese air purifiers

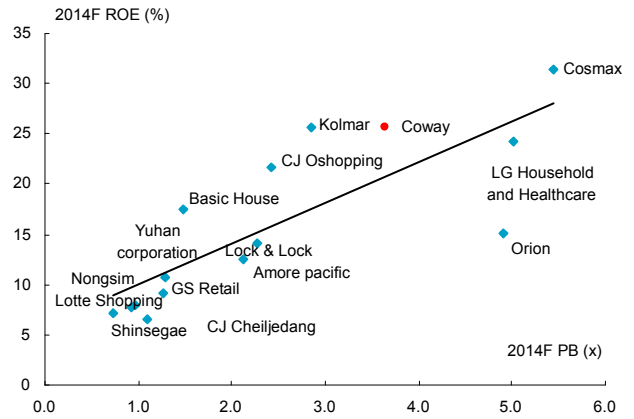
Source: Coway, Korea Investment securities & Investment

Figure 5. Lift target PE to peak 21x



Source: Datastream, Korea Investment securities & Investment

Figure 6. Valuation upside compared to major consumer staples



Source: Datastream, Korea Investment securities & Investment

Table 4. Earnings breakdown annual basis

(W bn, KRW, '000, %YoY, %)

| | 08 | 09 | 10 | 11 | 12 | 13F | 14F |
|--|--------|--------|--------|--------|--------|--------|--------|
| Total no. of accounts | 4,439 | 4,736 | 5,083 | 5,452 | 5,741 | 5,897 | 6,187 |
| Increase in total no. of accounts | 116 | 298 | 346 | 369 | 289 | 157 | 290 |
| %YoY | 2.7 | 6.7 | 7.3 | 7.3 | 5.3 | 2.7 | 4.9 |
| no. of rental account ('000, year-end) | 3,640 | 3,899 | 4,145 | 4,450 | 4,607 | 4,779 | 5,014 |
| Rental account growth rate (YoY) | 27 | 259 | 246 | 305 | 157 | 171 | 235 |
| no. of membership account ('000, year-end) | 799 | 838 | 938 | 1,002 | 1,133 | 1,119 | 1,174 |
| Membership account growth rate (YoY) | 88 | 39 | 100 | 64 | 131 | (15) | 55 |
| No. of new rental sales ('000 units) | 1,045 | 1,190 | 1,168 | 1,273 | 1,219 | 1,193 | 1,275 |
| No. of new rental sales (%YoY) | (6.2) | 13.8 | (1.9) | 9.0 | (4.2) | (2.1) | 6.9 |
| Cancel rate (%) | 14 | 14 | 13 | 12 | 12 | 10 | 10 |
| Rental ARPU (Won) | 22,086 | 22,341 | 22,458 | 23,362 | 23,093 | 23,246 | 23,743 |
| Rental ARPU (%YoY) | 1.8 | 1.2 | 0.5 | 4.0 | (1.1) | 0.7 | 2.1 |
| Membership ARPU (KRW) | 15,054 | 13,914 | 13,738 | 13,723 | 12,427 | 12,616 | 12,852 |
| Membership ARPU (%YoY) | 6.6 | (7.6) | (1.3) | (0.1) | (9.4) | 1.5 | 1.9 |
| Sales | 1,314 | 1,412 | 1,502 | 1,710 | 1,807 | 1,961 | 2,133 |
| Growth rate (%YoY) | 8.4 | 7.4 | 6.4 | 13.9 | 5.7 | 8.5 | 8.7 |
| Rental | 1,158 | 1,196 | 1,272 | 1,394 | 1,437 | 1,500 | 1,590 |
| Growth rate (%YoY) | 5.8 | 3.3 | 6.4 | 9.6 | 3.1 | 4.3 | 6.0 |
| Rental | 1,022 | 1,059 | 1,126 | 1,235 | 1,278 | 1,329 | 1,413 |
| Growth rate (%YoY) | 4.3 | 3.7 | 6.3 | 9.7 | 3.5 | 4.0 | 6.3 |
| Membership | 136 | 137 | 146 | 160 | 159 | 170 | 177 |
| Growth rate (%YoY) | 17.7 | 0.2 | 7.1 | 9.1 | (0.3) | 7.1 | 3.7 |
| Lump sum payment | 72 | 76 | 93 | 102 | 145 | 180 | 188 |
| Growth rate (%YoY) | 32.7 | 6.3 | 22.4 | 9.8 | 41.4 | 24.4 | 4.7 |
| Cosmetics | | | 23 | 68 | 67 | 75 | 87 |
| Growth rate (%YoY) | | | | 191.4 | (1.5) | 12.0 | 15.0 |
| Export | 45 | 56 | 69 | 98 | 110 | 151 | 204 |
| Growth rate (%YoY) | 132.3 | 24.9 | 24.2 | 41.6 | 11.8 | 38.0 | 35.0 |
| Others | 40 | 84 | 44 | 47 | 48 | 55 | 63 |
| Growth rate (%YoY) | (10.5) | 109.2 | (48.0) | 6.9 | 2.1 | 15.0 | 15.0 |
| COGS | 407 | 460 | 491 | 552 | 605 | 663 | 719 |
| COGS-to-rate (%) | 31.0 | 32.6 | 32.7 | 32.3 | 33.5 | 33.8 | 33.7 |
| Rental COGS | 323 | 337 | 348 | 386 | 416 | 419 | 440 |
| Compared to sales (%) | 27.9 | 28.2 | 27.4 | 27.7 | 29.0 | 27.9 | 27.7 |
| Rental | 283 | 294 | 302 | 335 | 365 | 364 | 383 |
| Compared to sales (%) | 27.7 | 27.8 | 26.9 | 27.2 | 28.5 | 27.4 | 27.1 |
| Membership | 40 | 42 | 46 | 50 | 51 | 55 | 57 |
| Compared to sales (%) | 29.5 | 31.0 | 31.4 | 31.4 | 32.3 | 32.3 | 32.3 |
| Gross profit | 907 | 952 | 1,011 | 1,158 | 1,201 | 1,298 | 1,414 |
| Gross profit rate | 69.0 | 67.4 | 67.3 | 67.7 | 66.5 | 66.2 | 66.3 |
| OP | 190 | 204 | 254 | 243 | 228 | 328 | 361 |
| Growth rate (%YoY) | 17.9 | 7.4 | 24.1 | (4.0) | (6.4) | 44.0 | 9.9 |
| OPM (%) | 14.5 | 14.5 | 16.9 | 14.2 | 12.6 | 16.7 | 16.9 |
| EBT | 185 | 203 | 243 | 225 | 161 | 355 | 359 |
| %YoY | 18.7 | 9.7 | 20.0 | (7.4) | (28.3) | 119.6 | 1.3 |
| NP | 129 | 153 | 183 | 177 | 120 | 269 | 272 |
| %YoY | 11.0 | 18.8 | 19.6 | (3.4) | (32.4) | 124.4 | 1.3 |

Source: Coway, Korea Investment securities & Investment

Balance sheet

| FY-ending Dec. (W bn) | 2011A | 2012A | 2013F | 2014F | 2015F |
|---------------------------------|-------|-------|-------|-------|-------|
| Current assets | 511 | 691 | 616 | 713 | 806 |
| Cash & cash equivalent | 65 | 119 | 59 | 107 | 138 |
| Accounts & other receivables | 257 | 292 | 317 | 344 | 373 |
| Inventory | 73 | 41 | 44 | 48 | 52 |
| Non-current assets | 1,065 | 1,010 | 1,059 | 1,117 | 1,173 |
| Investment assets | 285 | 155 | 166 | 181 | 189 |
| Tangible assets | 535 | 594 | 624 | 654 | 685 |
| Intangible assets | 156 | 158 | 157 | 160 | 168 |
| Total assets | 1,576 | 1,702 | 1,676 | 1,830 | 1,980 |
| Current liabilities | 534 | 720 | 625 | 609 | 564 |
| Accounts & other payables | 187 | 205 | 223 | 242 | 262 |
| ST debt & bond | 165 | 296 | 196 | 156 | 106 |
| Current portion of LT debt | 110 | 110 | 110 | 110 | 110 |
| Non-current liabilities | 294 | 179 | 151 | 154 | 156 |
| Debentures | 177 | 118 | 118 | 118 | 118 |
| LT debt & financial liabilities | 90 | 36 | 6 | 6 | 6 |
| Total liabilities | 828 | 899 | 776 | 763 | 720 |
| Paid-in capital | 41 | 41 | 41 | 41 | 41 |
| Capital surplus | 131 | 131 | 131 | 131 | 131 |
| Capital adjustments | (99) | (85) | (85) | (85) | (85) |
| Retained earnings | 678 | 717 | 814 | 981 | 1,174 |
| Shareholders' equity | 748 | 803 | 900 | 1,067 | 1,260 |
| Adj. shareholders' equity | 738 | 785 | 975 | 1,150 | 1,350 |

Cash flow

| FY-ending Dec. (W bn) | 2011A | 2012A | 2013F | 2014F | 2015F |
|--------------------------------|-------|-------|-------|-------|-------|
| C/F from operating | 318 | 429 | 379 | 432 | 449 |
| Net profit | 177 | 120 | 269 | 272 | 305 |
| Depreciation | 145 | 165 | 176 | 189 | 202 |
| Amortization | 8 | 7 | 7 | 7 | 8 |
| Net incr. in W/C | (112) | (38) | (73) | (36) | (64) |
| Others | 100 | 175 | 0 | 0 | (2) |
| C/F from investing | (344) | (301) | (231) | (251) | (263) |
| CAPEX | (299) | (295) | (209) | (222) | (235) |
| Decr. in fixed assets | 9 | 3 | 3 | 3 | 3 |
| Incr. in investment | (42) | (3) | (11) | (13) | (6) |
| Net incr. in intangible assets | (7) | (8) | (6) | (10) | (16) |
| Others | (5) | 2 | (8) | (9) | (9) |
| C/F from financing | 36 | (74) | (209) | (133) | (155) |
| Incr. in equity | 0 | 12 | 0 | 0 | 0 |
| Incr. in debts | 213 | 21 | (130) | (40) | (50) |
| Dividends | (80) | (78) | (78) | (93) | (105) |
| Others | (97) | (29) | (1) | 0 | 0 |
| C/F from others | (0) | (1) | 0 | 0 | 0 |
| Increase in cash | 8 | 54 | (60) | 48 | 32 |

Note: 1. Based on K-IFRS (non-consolidated)
2. EPS and BPS are calculated using adjusted net profit and shareholders' equity that includes equity-method gains/losses

Income statement

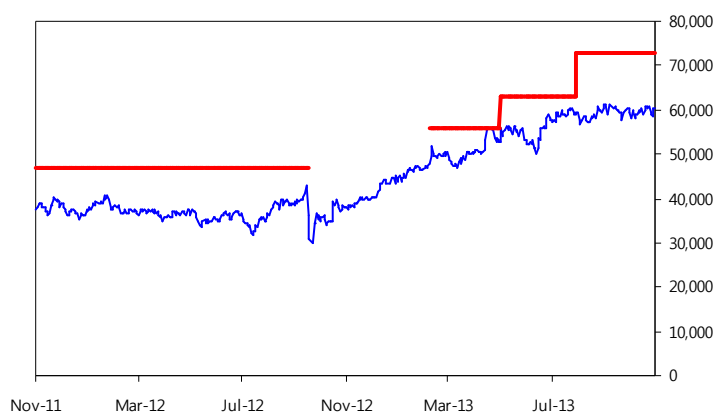
| FY-ending Dec. (W bn) | 2011A | 2012A | 2013F | 2014F | 2015F |
|---|-------|-------|-------|-------|-------|
| Sales | 1,710 | 1,807 | 1,961 | 2,133 | 2,308 |
| COGS | 552 | 605 | 663 | 719 | 773 |
| Gross profit | 1,158 | 1,201 | 1,298 | 1,414 | 1,535 |
| SG&A expense | 915 | 974 | 970 | 1,053 | 1,135 |
| Operating profit | 243 | 228 | 328 | 361 | 400 |
| Financial income | 2 | 4 | 4 | 4 | 5 |
| Interest income | 2 | 1 | 2 | 2 | 3 |
| Financial expense | 26 | 62 | 21 | 18 | 16 |
| Interest expense | 25 | 29 | 21 | 18 | 16 |
| Other non-operating profit | 6 | (5) | 43 | 11 | 12 |
| Gains (Losses) in associates, subsidiaries and JV | 0 | (3) | 0 | 1 | 2 |
| Earnings before tax | 225 | 161 | 355 | 359 | 402 |
| Income taxes | 48 | 42 | 86 | 87 | 97 |
| Net profit | 177 | 120 | 269 | 272 | 305 |
| Other comprehensive profit | (4) | (2) | 0 | 0 | 0 |
| Total comprehensive profit | 173 | 118 | 269 | 272 | 305 |
| EBITDA | 396 | 400 | 511 | 556 | 609 |
| Adj. net profit | 167 | 94 | 269 | 272 | 305 |

Key financial data

| FY-ending Dec. | 2011A | 2012A | 2013F | 2014F | 2015F |
|-----------------------|--------|--------|--------|--------|--------|
| per share data (KRW) | | | | | |
| EPS | 2,235 | 1,268 | 3,598 | 3,640 | 4,078 |
| BPS | 10,962 | 11,354 | 13,822 | 16,080 | 18,683 |
| DPS | 1,050 | 0 | 2,300 | 1,400 | 1,500 |
| Growth (%) | | | | | |
| Sales growth | 13.9 | 5.7 | 8.5 | 8.7 | 8.2 |
| OP growth | (20.7) | (6.4) | 44.0 | 9.9 | 10.8 |
| NP growth | (5.6) | (43.7) | 185.7 | 1.3 | 12.0 |
| EPS growth | (3.9) | (43.3) | 183.8 | 1.2 | 12.0 |
| EBITDA growth | (11.1) | 1.0 | 27.8 | 8.9 | 9.4 |
| Profitability (%) | | | | | |
| OP margin | 14.2 | 12.6 | 16.7 | 16.9 | 17.3 |
| NP margin | 9.8 | 5.2 | 13.7 | 12.8 | 13.2 |
| EBITDA margin | 23.1 | 22.1 | 26.0 | 26.1 | 26.4 |
| ROA | 12.1 | 7.3 | 15.9 | 15.5 | 16.0 |
| ROE | 22.2 | 12.3 | 30.5 | 25.6 | 24.4 |
| Dividend yield | 2.9 | 0.0 | 3.9 | 2.4 | 2.6 |
| Stability | | | | | |
| Net debt (W bn) | 468 | 473 | 403 | 315 | 233 |
| Debt/equity ratio (%) | 72.4 | 73.8 | 51.4 | 39.6 | 29.5 |
| Valuation (X) | | | | | |
| PER | 16.4 | 34.3 | 16.8 | 16.6 | 14.8 |
| PBR | 3.3 | 3.8 | 4.4 | 3.8 | 3.2 |
| PSR | 1.7 | 1.9 | 2.4 | 2.2 | 2.0 |
| EV/EBITDA | 8.0 | 9.4 | 9.7 | 8.8 | 7.9 |

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 |



■ **Guide to Korea Investment & Securities Co., Ltd. stock ratings based on absolute 12-month forward share price performance**

- BUY: Expected to give a return of +15% or more
- Hold: Expected to give a return between -15% and 15%
- Underweight: Expected to give a return of -15% or less
- Korea Investment & Securities does not offer target prices for stocks with Hold or Underweight ratings.

■ **Guide to Korea Investment & Securities Co., Ltd. sector ratings for the next 12 months**

- Overweight: Recommend increasing the sector's weighting in the portfolio compared to its respective weighting in the Kospi (Kosdaq) based on market capitalization.
- Neutral: Recommend maintaining the sector's weighting in the portfolio in line with its respective weighting in the Kospi (Kosdaq) based on market capitalization.
- Underweight: Recommend reducing the sector's weighting in the portfolio compared to its respective weighting in the Kospi (Kosdaq) based on market capitalization.

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Prepared by: Eun-chaе Na

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