

# Coway (021240 KS)

## Strong margin gains, changes continue at Coway

**BUY (MAINTAIN)**

Price (Nov. 8)	W60,500
Target Price	W80,000
% variance	32.2%

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KOSPI	1,984.87p
KOSDAQ	515.74p
Market Cap.	W4,666.1bn/ US4,093.0mn
Par Value	W500
Outstanding Shares	77.1mn
Free Floating Shares	50.8mn(65.9%)
52-Week High/Low	W61,400/W37,700
60-Day Avg. Trading Volume	180,446shrs
60-Day. Avg. Trading T/O	W10,700mn
Foreign Ownership	53.25%
Major Shareholders	
Coway Holdings and 16 others	31.05%
Lazard Asset Management LLC and 33 others	9.91%
Absolute Performance	3M 2.9%
	6M 12.9%
	12M 58.6%
Relative performance	3M -2.3%
to KOSPI	6M 11.3%
	12M 53.0%

- ◆ 3Q13 sales of W489.2bn (+6.8% YoY), operating profit of W97.0bn (+54.2% YoY)
- ◆ Margin gains continue in 2014, top-line growth to be led by diversified products and export growth
- ◆ Retain BUY, while raising target price to W80,000

### 3Q13 sales of W489.2bn (+6.8% YoY), operating profit of W97.0bn (+54.2% YoY)

Coway's K-IFRS standalone sales came in at W489.2bn (+6.8% YoY) and operating profit at W97.0bn (+54.2% YoY) in 3Q13. Operating profit margin rose sharply by 6.1%p YoY to 19.8%, beating the market consensus by a wide margin.

The net increase in rental subscribers slowed 12.0% YoY to 29,626, as water purifier sales fell amid heated competition. Meanwhile, mattress rental subscribers grew significantly. The water purifier business will counter competition with new low-end products, and the air purifier business will enjoy seasonal demand in 4Q. We expect rental sales to improve overall.

### Margin gains continue in 2014, top-line growth to be led by diversified products and export growth

Margins improved in 2013 thanks to: 1) reduced loss in rental asset disposal; 2) labor cost leverage; and 3) stabilizing marketing costs. The company has been under strict cost control since the acquisition by MBK Partners. We expect margins to improve in 2014 with an estimated operating profit margin of over 18%.

The water purifier market competition is intensifying with the release of low-end products by competitors. Coway is diversifying its products, such as mattress, and plans to manufacture and sell dehumidifiers in 2014. As China's air pollution worsens, air purifier exports are expected to remain strong. We forecast 2014 sales of W2.1tr (+6.6% YoY) and operating profit of W375.6bn (+12.9% YoY).

### Retain BUY, while raising target price to W80,000

We reiterate our BUY rating on Coway and raise our target price from W75,000 to W80,000. Our target price is derived by applying a target PER of 22x to 2014F EPS of W3,587. The company's earnings beat the market consensus for the second straight quarter. Earnings are expected to continue in 2014. Year-end dividend yield is also attractive at around 2% based on the current share price.

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	202.4	161.5	119.7	1,553	(32.4)	10,408	28.0	10.2	4.2	15.4	58.9
2013F	1,952.0	332.5	361.4	265.0	3,436	121.3	11,664	17.6	9.5	5.2	31.1	22.9
2014F	2,080.3	375.6	368.6	276.4	3,584	4.3	13,891	16.9	8.4	4.4	28.0	4.3
2015F	2,221.1	410.5	411.5	308.6	4,002	11.7	16,342	15.1	7.5	3.7	26.5	(11.6)

Note:

3Q13 results

(bn KRW)	3Q13P	2Q13	% QoQ	3Q12	% YoY	SHIC	Consensus
Sales	489.2	496.9	(1.6)	458.0	6.8	512.9	500.6
OP	97.0	79.4	22.2	62.9	54.2	82.4	76.4
NP	62.3	60.9	2.3	12.9	382.2	63.8	59.0
OPM (%)	19.8	16.0		13.7		16.1	15.3
NPM (%)	12.7	12.3		2.8		12.4	11.8

Source: Company data, Shinhan Investment Corp.

Note: K-IFRS consolidated

Earnings forecast revision

(bn KRW)	2013F			2014F		
	Before	After	Change (%)	Before	After	Change (%)
Sales	1,979.9	1,952.0	(1.4)	2,169.6	2,080.3	(4.1)
OP	312.3	332.5	6.5	369.3	375.6	1.7
Consolidated NP	240.0	239.3	(0.3)	273.1	276.6	1.3

Source: Shinhan Investment Corp.

Note: K-IFRS consolidated

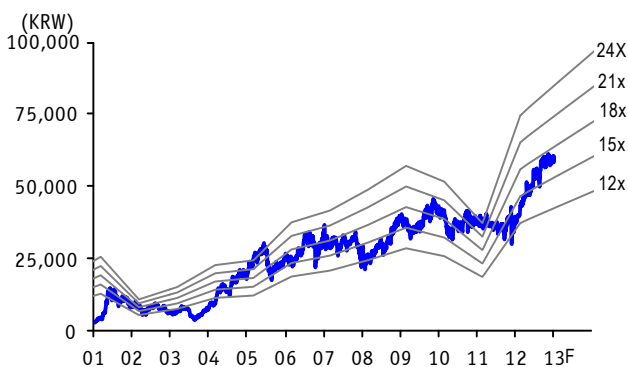
Target price calculation

(bn KRW)	Value	(bn KRW)	Value	(bn KRW)	Value
2013 NP	239.3	2014 NP	276.6	2015 NP	312.9
EPS (KRW)	3,102	EPS (KRW)	3,587	EPS (KRW)	4,057
Target PER (x)	26	Target PER (x)	22	Target PER (x)	20
Target price (KRW)	80,000	<b>Target price (KRW)</b>	<b>80,000</b>	Target price (KRW)	80,000
Current price (KRW)	60,500	Current price (KRW)	60,500	Current price (KRW)	60,500
Current PER (x)	19.5	Current PER (x)	16.9	Current PER (x)	14.9

Source: Shinhan Investment Corp.

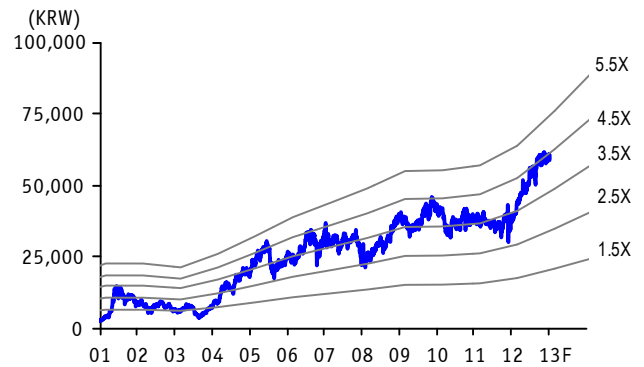
Note: K-IFRS consolidated; target PER is the average of 4-year upper PER band

12-month forward PER band



Source: QuantiWise, Shinhan Investment Corp.

12-month forward PBR band



Source: QuantiWise, Shinhan Investment Corp.

Earnings estimates					
(bn KRW)	2011	2012	2013F	2014F	2015F
<b>Sales</b>	<b>1,709.9</b>	<b>1,806.8</b>	<b>1,952.0</b>	<b>2,080.3</b>	<b>2,221.1</b>
Growth (% YoY)	13.9	5.7	8.0	6.6	6.8
Rental subscribers (no. of contracts)	4,450,003	4,607,420	4,821,212	5,074,667	5,374,990
Growth (% YoY)	7.4	3.5	4.6	5.3	5.9
Rental ARPU (KRW)	22,008	22,824	22,829	22,620	22,326
Rental sales	1,175.2	1,261.9	1,320.7	1,377.5	1,440.0
Water purifier	689.0	733.8	758.4	765.1	770.3
Air purifier	182.3	196.7	208.0	229.2	251.7
Bidet	217.2	233.9	244.0	253.4	265.4
Water softener	78.8	79.6	77.7	77.8	78.6
Others (food disposal, etc.)	7.8	8.2	9.2	10.4	11.5
Mattress		6.9	23.4	41.5	62.5
Rental registration sales	31.1	23.8	14.3	0.9	
Membership sales	160.8	161.3	171.2	174.5	176.0
Lump-sum sales	138.2	144.7	163.9	190.3	204.8
Exports	98.0	109.6	159.1	202.2	254.0
Cosmetics sales	68.2	67.2	75.3	83.8	94.4
Others	38.4	38.3	47.5	51.1	51.7
Rental	11.0	7.4	4.7	4.3	4.5
Rental registration	(34.5)	(23.4)	(39.8)	(93.8)	(100.0)
Membership	8.8	0.3	6.2	1.9	0.9
Lump-sum	28.7	4.7	13.2	16.1	7.6
Exports	41.6	11.8	45.2	27.1	25.6
Cosmetics	191.9	(1.4)	12.0	11.3	12.7
Others (living, water treatment)	(19.8)	(0.3)	24.0	7.7	1.3
<b>COGS</b>	<b>552.0</b>	<b>605.3</b>	<b>666.8</b>	<b>731.3</b>	<b>798.7</b>
COGS ratio (%)	32.3	33.5	34.2	35.2	36.0
Gross profit	1,157.9	1,201.5	1,285.3	1,348.9	1,422.4
Gross margin (%)	67.7	66.5	65.8	64.8	64.0
<b>SG&amp;A costs</b>	<b>913.1</b>	<b>987.8</b>	<b>952.7</b>	<b>973.3</b>	<b>1,011.9</b>
SG&A costs-to-sales ratio (%)	53.4	54.7	48.8	46.8	45.6
Other operating income	0.6	1.4	1.5	1.5	1.6
Other operating expense	46.8	70.8	48.6	47.1	47.0
OP	244.8	213.6	332.5	375.6	410.5
OPM (%)	14.3	11.8	17.0	18.1	18.5
Growth (% YoY)	(8.0)	(12.7)	55.6	12.9	9.3
Financial income	2.2	3.7	3.7	5.5	8.7
Financial expense	25.8	67.5	18.9	12.4	10.0
Other non-operating income	6.4	4.6	54.7	7.3	10.3
Pre-tax profit	226.4	145.7	361.4	368.6	411.5
Corporate tax	48.2	41.7	96.4	92.1	102.9
Corporate tax rate (%)	21.3	28.6	26.7	25.0	25.0
<b>NP</b>	<b>178.2</b>	<b>104.0</b>	<b>265.0</b>	<b>276.4</b>	<b>308.6</b>
NPM (%)	10.4	5.8	13.6	13.3	13.9
Growth (% YoY)	(5.3)	(41.6)	154.8	4.3	11.7
<b>Consolidated NP</b>	<b>167.1</b>	<b>95.6</b>	<b>239.3</b>	<b>276.6</b>	<b>312.9</b>
<b>Growth (% YoY)</b>	<b>(13.8)</b>	<b>(42.8)</b>	<b>150.3</b>	<b>15.6</b>	<b>13.1</b>
Standalone EPS (KRW)	2,296	1,553	3,436	3,584	4,002
Consolidated EPS (KRW)	2,149	1,239	3,102	3,587	4,057

Source: Company data, Shinhan Investment Corp.

Note: K-IFRS standalone

Quarterly earnings estimates															
(bn KRW)	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13P	4Q13F	1Q14F	2Q14F	3Q14F	4Q14F	2012	2013F	2014F
<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>489.2</b>	<b>500.8</b>	<b>511.0</b>	<b>519.1</b>	<b>519.9</b>	<b>530.3</b>	<b>1,806.8</b>	<b>1,952.0</b>	<b>2,080.3</b>
Growth (% YoY)	10.6	2.4	6.5	3.6	5.2	11.3	6.8	8.8	9.8	4.5	6.3	5.9	5.7	8.0	6.6
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>331.9</b>	<b>336.3</b>	<b>339.4</b>	<b>343.0</b>	<b>345.5</b>	<b>349.5</b>	<b>1,261.9</b>	<b>1,320.7</b>	<b>1,377.5</b>
Rental registration sales	6.6	5.8	5.5	5.9	3.6	4.6	3.7	2.4	0.9	0.0	0.0	0.0	23.8	14.3	0.9
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>43.2</b>	<b>42.5</b>	<b>42.9</b>	<b>44.0</b>	<b>43.9</b>	<b>43.7</b>	<b>161.3</b>	<b>171.2</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>35.4</b>	<b>44.0</b>	<b>49.9</b>	<b>48.6</b>	<b>44.3</b>	<b>47.4</b>	<b>144.7</b>	<b>163.9</b>	<b>190.3</b>
Exports	30.0	21.1	28.0	30.5	31.5	44.6	38.0	45.2	45.8	49.9	51.4	55.2	109.6	159.1	202.2
Cosmetics sales	16.8	16.3	17.3	16.8	17.9	22.1	16.6	18.7	20.3	21.0	20.7	21.8	67.2	75.3	83.8
Others	5.2	16.7	5.7	10.8	7.8	10.4	9.3	10.7					38.3	47.5	51.1
<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>169.7</b>	<b>174.5</b>	<b>177.6</b>	<b>182.0</b>	<b>183.5</b>	<b>188.2</b>	<b>605.3</b>	<b>666.8</b>	<b>731.3</b>
COGS ratio (%)	32.9	31.8	33.1	36.1	33.2	33.8	34.7	34.8	34.8	35.1	35.3	35.5	33.5	34.2	35.2
<b>SG&amp;A costs</b>	<b>248.1</b>	<b>239.2</b>	<b>243.6</b>	<b>256.9</b>	<b>241.3</b>	<b>249.6</b>	<b>222.4</b>	<b>239.4</b>	<b>243.5</b>	<b>243.9</b>	<b>240.9</b>	<b>245.0</b>	<b>987.8</b>	<b>952.7</b>	<b>973.3</b>
SG&A costs/sales ratio (%)	56.1	53.6	53.2	55.8	51.9	50.2	45.5	47.8	47.7	47.0	46.3	46.2	54.7	48.8	46.8
<b>OP</b>	<b>48.8</b>	<b>65.1</b>	<b>62.9</b>	<b>36.9</b>	<b>69.2</b>	<b>79.4</b>	<b>97.0</b>	<b>86.9</b>	<b>89.9</b>	<b>93.2</b>	<b>95.4</b>	<b>97.1</b>	<b>213.6</b>	<b>332.5</b>	<b>375.6</b>
OPM (%)	11.0	14.6	13.7	8.0	14.9	16.0	19.8	17.3	17.6	18.0	18.3	18.3	11.8	17.0	18.1
Growth (% YoY)	(16.5)	5.4	2.3	(41.6)	41.9	22.0	54.2	135.6	29.8	17.4	(1.7)	11.8	(12.7)	55.6	12.9
Financial income	0.5	2.4	0.3	0.6	0.5	1.6	0.7	0.9	1.1	1.4	1.4	1.5	3.7	3.7	5.5
Financial expense	8.3	9.3	42.6	7.3	6.5	4.3	4.1	4.0	3.5	3.2	2.9	2.9	67.5	18.9	12.4
Other non-operating income	(2.0)	1.8	(3.3)	2.5	51.1	4.4	(9.6)	(0.8)	(0.1)	0.0	(0.2)	0.2	4.6	54.7	7.3
Pre-tax profit	39.0	56.4	17.7	32.6	114.3	81.0	83.1	83.0	87.5	91.5	93.7	96.0	145.7	361.4	368.6
<b>NP</b>	<b>25.9</b>	<b>44.0</b>	<b>12.9</b>	<b>22.5</b>	<b>80.2</b>	<b>60.9</b>	<b>62.3</b>	<b>62.3</b>	<b>65.6</b>	<b>68.6</b>	<b>70.3</b>	<b>72.0</b>	<b>104.0</b>	<b>265.0</b>	<b>276.4</b>
NPM (%)	5.9	9.9	2.8	4.9	17.2	12.3	12.7	12.4	12.8	13.2	13.5	13.6	5.8	13.6	13.3
Growth (% YoY)	(33.2)	4.6	(73.8)	(53.3)	209.9	38.5	383.8	176.9	(18.2)	12.6	12.7	15.6	(41.6)	154.8	4.3

Source: Company data, Shinhan Investment Corp.

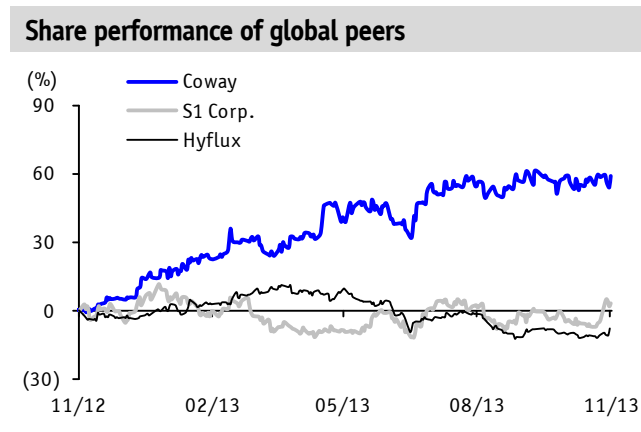
Note: K-IFRS standalone

Rental subscribers and ARPU										
(no.)	2007	2008	2009	2010	2011	2012	2013F	2014F	2015F	
ARPU (KRW)	21,369	21,970	21,575	21,285	22,008	22,824	22,829	22,620	22,326	
Total subscribers	3,612,491	3,639,197	3,898,647	4,145,102	4,450,003	4,607,420	4,821,212	5,074,667	5,374,990	
Net subscriber increase	134,456	26,706	259,450	246,455	304,901	157,417	213,792	253,455	300,323	
New subscribers	1,173,707	1,045,248	1,188,939	1,167,378	1,272,538	1,218,911	1,185,415	1,259,003	1,287,774	
Cancellation rate (%)	11.5	13.9	13.5	12.9	12.5	12.1	10.9	10.0	9.2	
ARPU	(0.3)	2.8	(1.8)	(1.3)	3.4	3.7	0.0	(0.9)	(1.3)	
Total subscribers	3.9	0.7	7.1	6.3	7.4	3.5	4.6	5.3	5.9	
Net subscriber increase	(48.5)	(80.1)	871.5	(5.0)	23.7	(48.4)	35.8	18.6	18.5	
New subscribers	13.9	(10.9)	13.7	(1.8)	9.0	(4.2)	(2.7)	6.2	2.3	

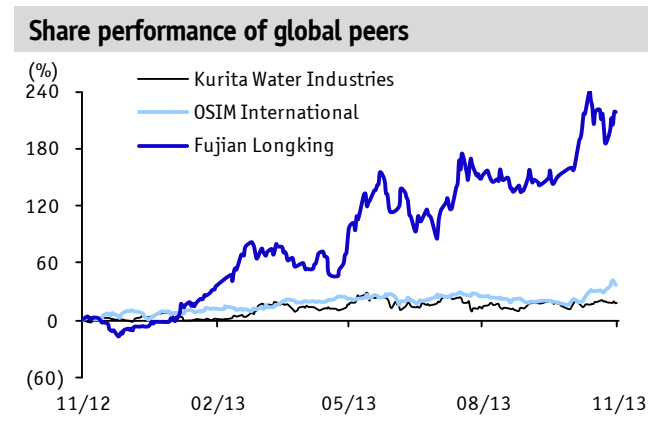
Source: Company data, Shinhan Investment Corp.

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)		4,666.1	2,703.9	2,614.3	2,656.3	856.2	1,384.4
Sales (bn KRW)	2011	1,992.8	2,729.3	1,096.5	750.0	607.5	542.5
	2012F	2,106.0	2,119.1	1,256.1	906.0	524.7	557.6
	2013F	2,237.0	1,950.0	1,415.8	1,085.3	544.8	644.2
OP (bn KRW)	2011	226.1	413.8	134.6	61.9	71.2	101.5
	2012F	296.2	254.8	140.2	83.3	83.7	108.7
	2013F	339.1	195.5	161.5	88.6	84.8	128.2
OPM (%)	2011	11.3	15.2	12.3	8.3	11.7	18.7
	2012F	14.1	12.0	11.2	9.2	16.0	19.5
	2013F	15.2	10.0	11.4	8.2	15.6	19.9
NP (bn KRW)	2011	94.0	233.0	100.9	52.0	55.0	78.4
	2012F	186.2	141.1	96.0	70.6	44.0	86.0
	2013F	254.3	124.1	117.1	76.1	50.1	98.9
NPM (%)	2011	4.7	8.5	9.2	6.9	9.1	14.4
	2012F	8.8	6.7	7.6	7.8	8.4	15.4
	2013F	11.4	6.4	8.3	7.0	9.2	15.4
EPS growth (% YoY)	2011	T/B	2.0	(20.2)	19.0	5.4	N/A
	2012F	129.2	T/B	T/B	33.4	25.6	7.4
	2013F	15.5	T/B	22.7	8.8	10.7	14.8
P/E (x)	2011	34.4	15.5	23.4	16.1	28.9	14.5
	2012F	20.8	20.7	26.4	38.2	20.5	16.5
	2013F	18.0	22.4	21.5	35.1	18.6	14.4
P/B (x)	2011	4.1	1.2	3.1	1.8	3.3	6.4
	2012F	4.9	1.3	2.9	4.2	1.7	7.1
	2013F	4.1	1.2	2.7	4.7	1.6	5.3
EV/EBITDA (x)	2011	9.0	4.3	9.1	11.7	7.6	9.5
	2012F	10.2	4.8	10.3	28.7	12.8	10.7
	2013F	9.3	5.6	8.9	23.7	12.4	9.1
ROE (%)	2011	12.3	8.1	13.4	12.0	12.2	48.1
	2012F	25.6	6.1	12.0	14.2	6.9	45.3
	2013F	24.9	5.6	13.6	13.7	7.3	40.2

Source: Bloomberg consensus, Shinhan Investment Corp.



Source: Bloomberg, Shinhan Investment Corp.



Source: Bloomberg, 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>1,623.2</b>	<b>1,781.7</b>	<b>1,961.5</b>
Total Current Assets	511.5	691.3	583.0	707.8	866.3
Cash and Cash Equivalents	64.9	118.9	123.3	225.2	350.4
Accounts Receivables	240.1	278.4	280.0	285.0	290.0
Inventories	73.0	41.3	44.7	47.6	50.8
Non-Current Assets	1,065.0	1,010.2	1,040.3	1,073.9	1,095.3
Tangible Assets	534.7	594.2	600.2	620.1	626.7
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>723.7</b>	<b>710.4</b>	<b>701.2</b>
Current Liabilities	534.3	719.6	582.4	577.3	576.1
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	141.2	133.1	125.0
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>899.6</b>	<b>1,071.3</b>	<b>1,260.4</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	813.6	985.4	1,174.4
Owners of Parent Equity	748.4	802.7	899.6	1,071.3	1,260.4
Non-Controlling Interests Equity	0.0	0.0	0.0	0.0	0.0
*Total Debt	542.0	592.2	359.2	311.5	264.1
*Net Debts(Cash)	468.3	472.7	205.9	46.3	(146.4)

## 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>495.4</b>	<b>558.6</b>	<b>518.2</b>
Net Profit	177.1	119.7	265.0	276.4	308.6
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)	34.4	87.5	12.6
(Payments of Income Taxes)	(42.0)	(34.7)	(96.4)	(92.1)	(102.9)
Others	96.1	146.6	112.1	98.9	103.8
<b>Investing Cash Flow</b>	<b>(344.2)</b>	<b>(300.9)</b>	<b>(237.6)</b>	<b>(227.4)</b>	<b>(229.9)</b>
Incr. in Tangible Assets(CAPEX)	(299.4)	(295.0)	(259.0)	(291.6)	(297.4)
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)	(27.2)	(5.8)	(12.5)
<b>Free Cash Flow</b>	<b>(35.6)</b>	<b>(84.5)</b>	<b>362.7</b>	<b>197.2</b>	<b>229.1</b>
<b>Financing Cash Flow</b>	<b>35.6</b>	<b>(73.6)</b>	<b>(250.9)</b>	<b>(226.8)</b>	<b>(160.5)</b>
Incr.(Decr.) in Borrowing	213.0	20.9	(233.0)	(47.7)	(47.4)
Decr.(Incr.) of Treasury Stock	73.5	0.0	0.0	0.0	0.0
Dividend	(79.9)	(77.8)	0.0	(168.2)	(104.6)
Others	(171.0)	(16.7)	(17.9)	(10.9)	(8.5)
Other Cash Flows	0.0	0.0	(2.5)	(2.5)	(2.5)
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>4.4</b>	<b>101.9</b>	<b>125.3</b>
Beginning Cash	56.4	64.9	118.9	123.3	225.2
Ending Cash	64.9	118.9	123.3	225.2	350.4

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>1,952.0</b>	<b>2,080.3</b>	<b>2,221.1</b>
Growth (%)	13.9	5.7	8.0	6.6	6.8
<b>COGS</b>	<b>552.0</b>	<b>605.4</b>	<b>666.8</b>	<b>731.3</b>	<b>798.7</b>
<b>Gross Profit</b>	<b>1,157.9</b>	<b>1,201.4</b>	<b>1,285.3</b>	<b>1,348.9</b>	<b>1,422.4</b>
Gross margin (%)	67.7	66.5	65.8	64.8	64.0
<b>SG&amp;A</b>	<b>914.5</b>	<b>999.0</b>	<b>952.7</b>	<b>973.3</b>	<b>1,011.9</b>
<b>Operating Income</b>	<b>243.3</b>	<b>202.4</b>	<b>332.5</b>	<b>375.6</b>	<b>410.5</b>
Growth (%)	(20.7)	(16.8)	64.3	12.9	9.3
Operating margin (%)	14.2	11.2	17.0	18.1	18.5
<b>Other Net Non-Operating Profits</b>	<b>(18.0)</b>	<b>(41.0)</b>	<b>28.9</b>	<b>(7.0)</b>	<b>1.0</b>
Financial Income(Expenses)	(23.5)	(58.1)	(15.2)	(7.0)	(1.3)
Net Other Non-Operating Profits	5.5	20.3	44.1	(0.0)	2.3
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>361.4</b>	<b>368.6</b>	<b>411.5</b>
Income Taxes	48.2	41.7	96.4	92.1	102.9
Profit from Continuing Op.	177.1	119.7	265.0	276.4	308.6
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>265.0</b>	<b>276.4</b>	<b>308.6</b>
Growth (%)	(3.4)	(32.4)	121.3	4.3	11.7
Net Profit margin (%)	10.4	6.6	13.6	13.3	13.9
Net Profit of Parent	177.1	119.7	265.0	276.4	308.6
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>265.0</b>	<b>276.4</b>	<b>308.6</b>
Total Comp. Income of Parent	172.7	118.2	265.0	276.4	308.6
Total Comp. Income to Non-Cont.	0.0	0.0	0.0	0.0	0.0
<b>EBITDA</b>	<b>395.8</b>	<b>374.3</b>	<b>512.9</b>	<b>563.5</b>	<b>606.7</b>
Growth (%)	(11.1)	(5.4)	37.0	9.9	7.7
EBITDA Margin (%)	23.1	20.7	26.3	27.1	27.3

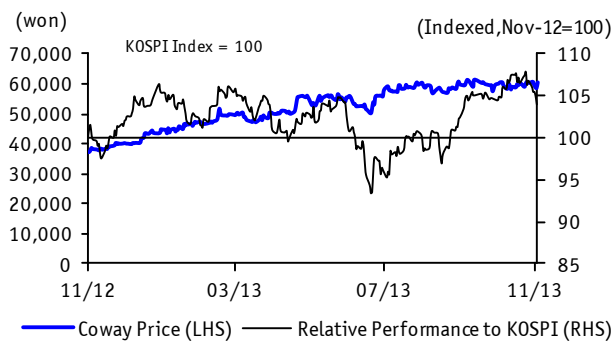
Note: Operating profit is based on 2012 K-IFRS (gross profit - SG&amp;A costs)

## Key Ratios

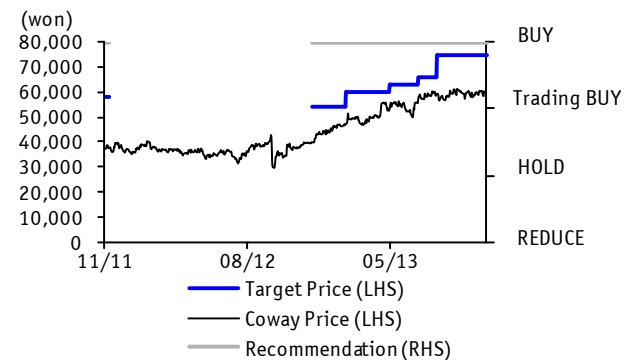
Year to Dec.	2011	2012	2013F	2014F	2015F
EPS_C (won)	2,296	1,553	3,436	3,584	4,002
EPS_P (won)	2,296	1,553	3,436	3,584	4,002
BPS_C (won)	9,704	10,408	11,664	13,891	16,342
BPS_P (won)	9,704	10,408	11,664	13,891	16,342
DPS (won)	1,050	0	2,250	1,400	1,600
PER_C (x)	15.9	28.0	17.6	16.9	15.1
PER_P (x)	15.9	28.0	17.6	16.9	15.1
PBR_C (x)	3.8	4.2	5.2	4.4	3.7
PBR_P (x)	3.8	4.2	5.2	4.4	3.7
EV/EBITDA (x)	8.3	10.2	9.5	8.4	7.5
EV/EBIT (x)	13.5	18.9	14.7	12.5	11.0
Dividend Yield (%)	2.9	0.0	3.7	2.3	2.6
<b>Profitability</b>					
EBITDA Margin (%)	23.1	20.7	26.3	27.1	27.3
OP Margin (%)	14.2	11.2	17.0	18.1	18.5
NP Margin (%)	10.4	6.6	13.6	13.3	13.9
ROA (%)	12.1	7.3	15.9	16.2	16.5
ROE (%)	24.0	15.4	31.1	28.0	26.5
ROIC (%)	25.8	16.0	25.7	33.3	37.0
<b>Stability</b>					
D/E Ratio (%)	110.6	112.0	80.4	66.3	55.6
Net Debt to Equity (%)	62.6	58.9	22.9	4.3	(11.6)
Cash Ratio (%)	12.1	16.5	21.2	39.0	60.8
Interest Coverage (x)	9.7	7.0	18.6	34.2	48.6
<b>Activity (%)</b>					
Working Capital Turnover (t)	11.8	7.5	9.9	23.2	32.3
Inventory Turnover (d)	15.6	11.5	8.0	8.1	8.1
Receivable Turnover (d)	47.4	52.4	52.2	49.6	47.2

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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