

Coway

BUY

MAINTAIN Not Classified

Price (Dec. 5) W63,700
Target Price W80,000
% Variance 25.6%

Bloomberg Code 021240 KS
Reuters Code 021240.KS

[Analyst]

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KOSPI	1,984.77p
KOSDAQ	506.32p
Market Cap.	W4,912.8bn/ US4,309.5mn
Par Value	W500
Outstanding Shares	77.1mn
Free Floating Shares	50.8mn(65.9%)
52-Week High/Low	W66,900/W39,800
60-Day Avg. Trading Volume	192,960shrs
60-Day. Avg. Trading T/O	W11,844mn
Foreign Ownership	53.58%

Major Shareholders		
Coway Holdings and 16 others	31.05%	
Lazard Asset Management LLC and 33 others	9.91%	
Absolute Performance		
3M	6.3%	
6M	15.0%	
12M	59.1%	
Relative performance		
3M	4.6%	
to KOSPI	6M	13.5%
	12M	56.0%

Biggest beneficiary of China air pollution

Further margin improvement expected in 2014

Coway's margin improvement is expected to continue in 2014. Air purifier exports are increasing rapidly due to worsening air pollution in China. Domestic rental product line-up is also expected to diversify, adding products like dehumidifiers. Amid stable top-line growth, margins will likely continue improving. We forecast 2014 sales of W2.1tr (+6.6% YoY) and operating profit of W375.6bn (+12.9% YoY).

Long-term benefits from worsening air pollution in China

Coway has an air purifier supply deal with Philips until 2015 in the China market. As China's air pollution situation worsens, air purifier export volumes have been increasing rapidly. This year's sales have more than tripled compared to a year earlier. The share of air purifier exports in total sales is expected to increase from 6% in 2013 to 15-20% by 2015.

Retain BUY for a target price of W80,000

We reiterate our BUY rating on Coway for a target price of W80,000, derived by applying a target PER of 22x to 2014F consolidated EPS of W3,587. Changes are on-going at Coway. Margin gains in the domestic business and strong growth of air purifier exports to China will likely lead to higher enterprise value in the future. We believe a mid-to-long term investment strategy is valid.

Year to Dec.	2011	2012	2013F	2014F	2015F
Sales (bn KRW)	1,709.9	1,806.8	1,952.0	2,080.3	2,221.1
OP (bn KRW)	243.3	178.4	332.5	375.6	410.5
Net income (bn KRW)	177.1	119.7	265.0	276.4	308.6
EPS (KRW)	2,296	1,553	3,436	3,584	4,002
BPS (KRW)	9,704	10,408	11,664	13,891	16,342
OP margin (%)	14.2	9.9	17.0	18.1	18.5
NP margin (%)	10.4	6.6	13.6	13.3	13.9
ROE (%)	24.0	15.4	31.1	28.0	26.5
PER (x)	15.9	28.0	18.3	17.6	15.7
PBR (x)	3.8	4.2	5.4	4.5	3.9
EV/EBITDA (x)	8.3	10.9	9.9	8.7	7.8

Note: K-IFRS standalone



I. Retain BUY for a target price of W80,000

Target price of W80,000 based on 2014 target PER of 22x

We reiterate our BUY rating on Coway for a target price of W80,000, derived by applying a target PER of 22x to 2014F consolidated EPS of W3,587. The target PER represents five-year average of the upper end of PER band. The company registered a surprising profit margin improvement after the acquisition by MBK Partners in 2013. Its share price rose almost 50% since the beginning of the year.

Changes are on-going at Coway. The domestic environmental home appliance rental business is expected to see profit margins continue improving in 2014. Margin gains in the domestic business and strong growth of air purifier exports to China will likely lead to higher enterprise value in the future. We believe a mid-to-long term investment strategy is valid.

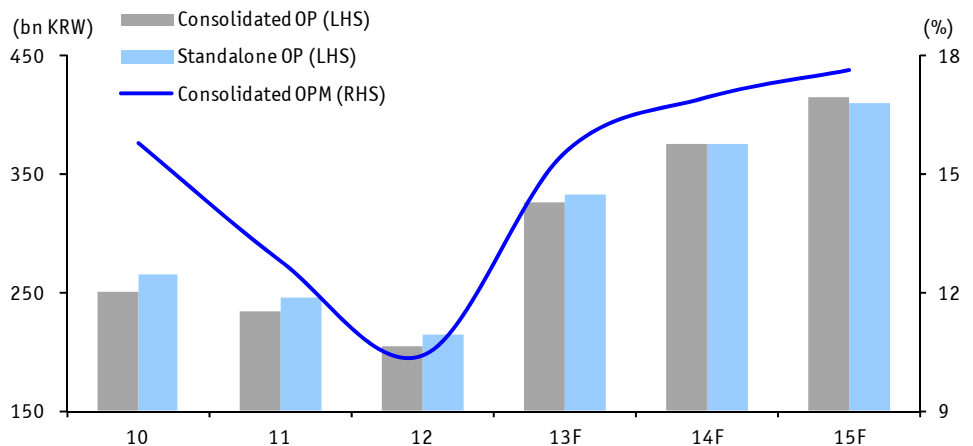
Target price calculation

(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)	80,000	Target price (KRW)	80,000	Target price (KRW)	80,000
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.

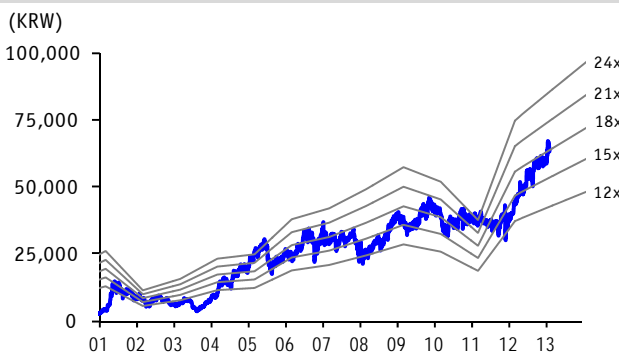
Note: Based on K-IFRS consolidated earnings; target PER represents 5-year average of the upper end of PER band

Operating profit



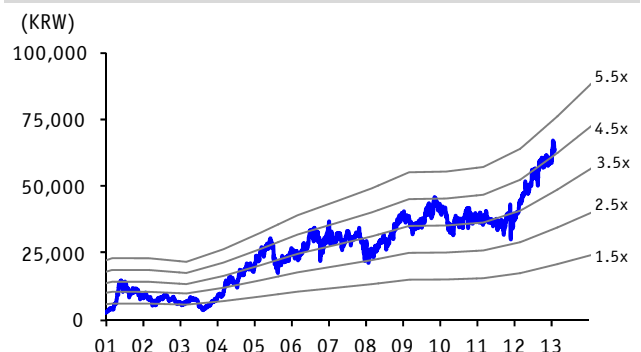
Source: Company data, Shinhan Investment Corp.

12-month forward PER band



Source: QuantiWise, Shinhan Investment Corp.

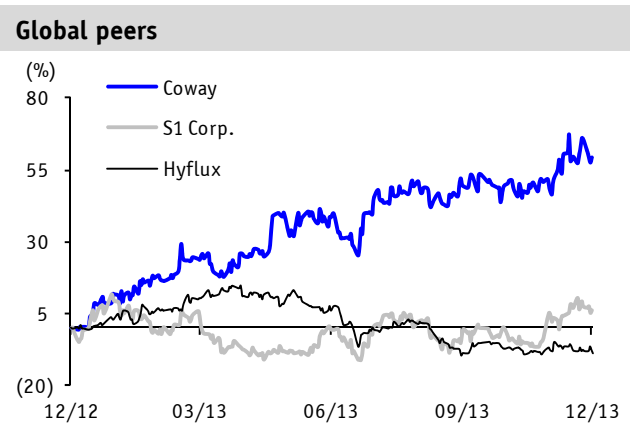
12-month forward PBR band



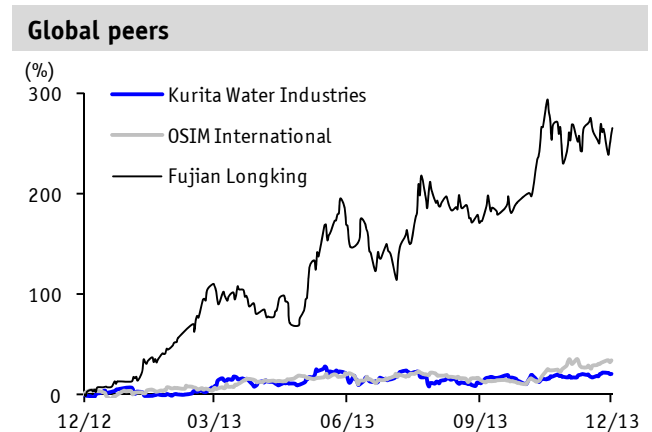
Source: QuantiWise, Shinhan Investment Corp.

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

Source: Bloomberg consensus, Shinhan Investment Corp.



Source: Bloomberg, Shinhan Investment Corp.



Source: Bloomberg, Shinhan Investment Corp.

II. Further margin improvement expected in 2014

Sales of W2.1tr (+6.6% YoY) and operating profit of W375.6bn (+12.9% YoY) expected in 2014

Margin gains attributable to:

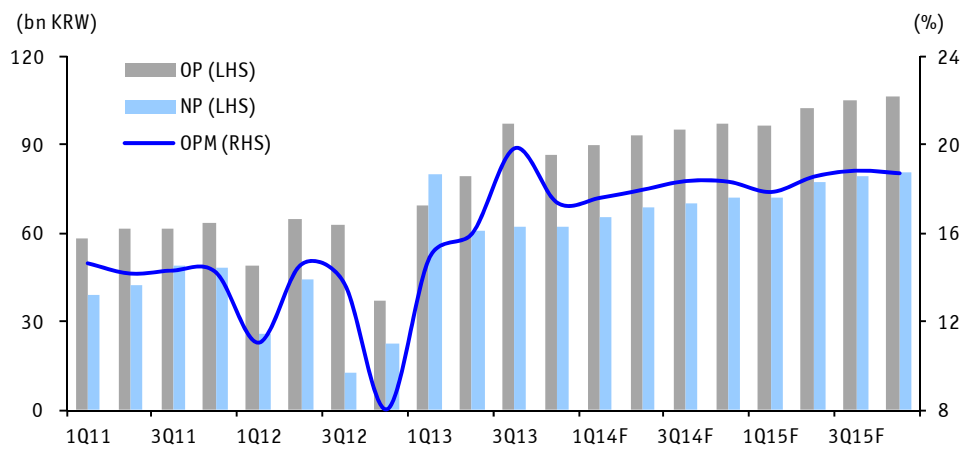
- 1) decrease in losses on rental asset disposal;
- 2) leverage effect from wages;
- 3) reduction of unnecessary MRO

Since the acquisition by MBK Partners, Coway's profit margins have been improving at a surprising pace. Based on standalone K-IFRS earnings, operating profit margin increased from 11.8% in 2012 to 19.8% in 3Q13. In 4Q13, operating profit margin is estimated to be at least 17%, with sales at W500.8bn (+8.8% YoY) and operating profit at W86.9bn (+135.6% YoY).

Improvement of profit margins in 2013 is attributable to: 1) decrease in losses on disposal of rental assets; 2) leverage effect from wages; and 3) reduction of unnecessary MRO transactions. The company is no longer burdened by new investments like in the past, as it has been under strict cost control since the acquisition by MBK Partners.

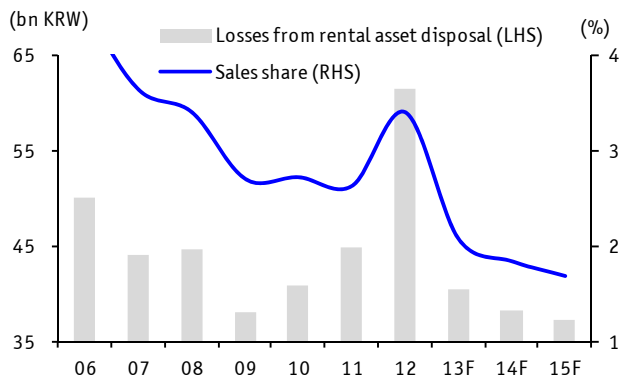
Coway's margin improvement is expected to continue in 2014. Air purifier exports are increasing rapidly due to worsening air pollution in China. Domestic rental product line-up is also expected to diversify, adding products like dehumidifiers. Amid stable top-line growth, margins will likely continue improving. We forecast 2014 sales of W2.1tr (+6.6% YoY) and operating profit of W375.6bn (+12.9% YoY).

Quarterly earnings



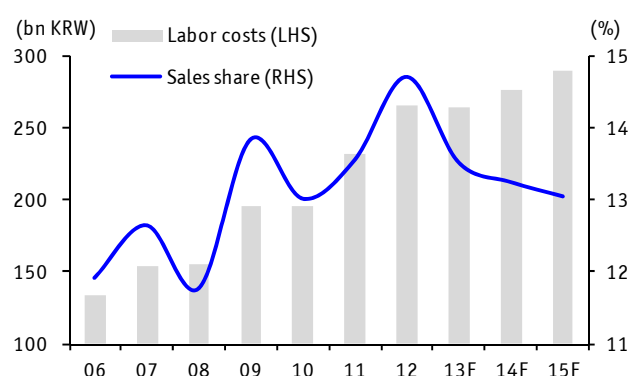
Source: Company data, Shinhan Investment Corp.

Losses from rental asset disposal vs. sales share



Source: Company data, Shinhan Investment Corp.

Labor costs vs. sales share



Source: Company data, Shinhan Investment Corp.

III. Long-term benefits from worsening air pollution in China

Share of air purifier exports to rise from 6% in 2013 to 15-20% in 2015

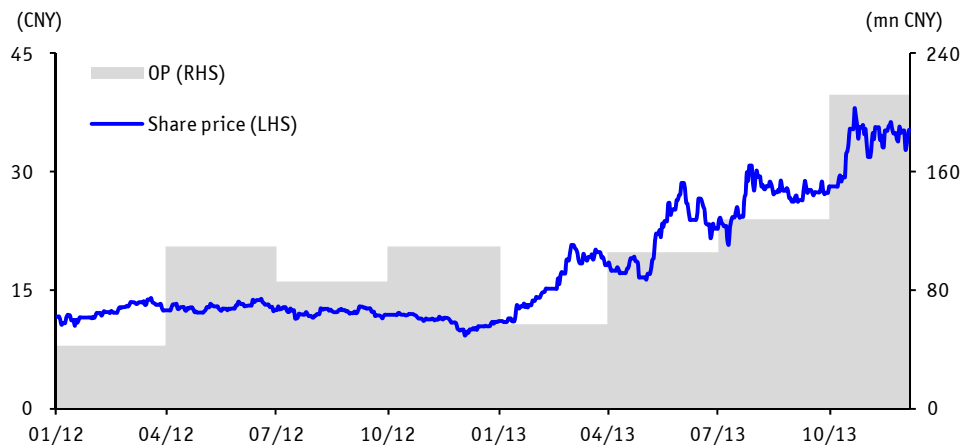
China is suffering from severe air pollution due to the expansion of steel and petrochemical industries and deployment of cars. The Air Quality Index (AQI) has risen sharply from normal levels in the recent three months, according to National Bureau of Statistics of China. Beijing has banned outdoor barbecues to help curb air pollution.

Environmental industries have benefitted from serious air pollution. Fujian Longking, China's leading manufacturer of dust removals and environmental pollution control equipments, has seen its share price more than triple since early this year.

Coway has an air purifier supply deal with Philips until 2015 in the China market. Philips dominates about 50% of the market. As China's air pollution situation worsens, air purifier export volumes have been increasing rapidly, up 59.0% YoY to W89.7bn for the year to 3Q13.

Despite rising low-end product sales, this year's sales have more than tripled compared to a year earlier. Strong sales momentum will likely continue into 2014. Exports to China are projected to increase sharply for years to come as the market is still small. The share of air purifier exports in total sales is expected to increase from 6% in 2013 to 15-20% by 2015.

Fujian Longking's operating profit and share price



Source: Bloomberg, Shinhan Investment Corp.

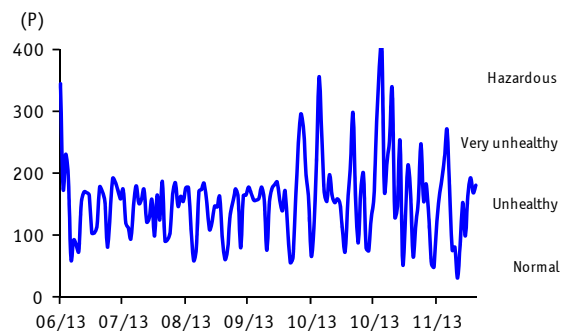
Air pollution in China (as of December 4, 2013)



Source: Real-time air quality index (AQI), Shinhan Investment Corp.

Note: Brown (hazardous), purple (very unhealthy), red (unhealthy), and yellow (unhealthy for sensitive groups)

Air Quality Index in Beijing



Source: National Bureau of Statistics of China, Shinhan Investment Corp.

Earnings estimates					
(bn KRW)	2011	2012	2013F	2014F	2015F
Sales	1,709.9	1,806.8	1,952.0	2,080.3	2,221.1
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
Growth (% YoY)					
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
COGS	552.0	605.3	666.8	731.3	798.7
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
SG&A costs	913.1	987.8	952.7	973.3	1,011.9
SG&A costs/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
NP	178.2	104.0	265.0	276.4	308.6
NPM (%)	10.4	5.8	13.6	13.3	13.9
Growth (% YoY)	(5.3)	(41.6)	154.8	4.3	11.7
Consolidated NP	167.1	95.6	239.3	276.6	312.9
Growth (% YoY)	(13.8)	(42.8)	150.3	15.6	13.1
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	3Q13	4Q13F	1Q14F	2Q14F	3Q14F	4Q14F	2012	2013F	2014F
Sales	442.4	446.4	458.0	460.1	465.2	496.9	489.2	500.8	511.0	519.1	519.9	530.3	1,806.8	1,952.0	2,080.3
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	309.7	313.1	317.7	321.4	323.8	328.8	331.9	336.3	339.4	343.0	345.5	349.5	1,261.9	1,320.7	1,377.5
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	38.8	39.2	41.1	42.3	42.8	42.8	43.2	42.5	42.9	44.0	43.9	43.7	161.3	171.2	174.5
Lump-sum sales	32.7	40.5	39.1	32.4	36.6	47.8	35.4	44.0	49.9	48.6	44.3	47.4	144.7	163.9	190.3
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
COGS	145.4	142.1	151.5	166.3	154.6	167.9	169.7	174.5	177.6	182.0	183.5	188.2	605.3	666.8	731.3
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
SG&A costs	248.1	239.2	243.6	256.9	241.3	249.6	222.4	239.4	243.5	243.9	240.9	245.0	987.8	952.7	973.3
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
OP	48.8	65.1	62.9	36.9	69.2	79.4	97.0	86.9	89.9	93.2	95.4	97.1	213.6	332.5	375.6
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
NP	25.9	44.0	12.9	22.5	80.2	60.9	62.3	62.3	65.6	68.6	70.3	72.0	104.0	265.0	276.4
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

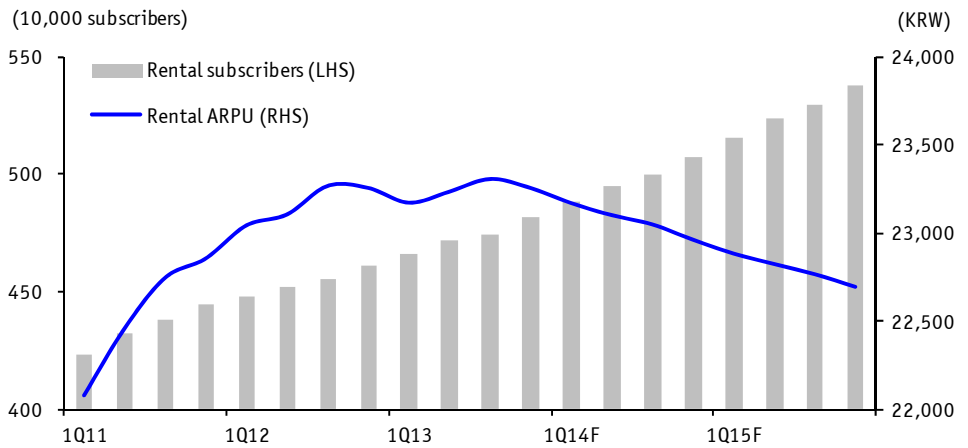
Source: Company data, Shinhan Investment Corp.

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
Growth (%)									
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

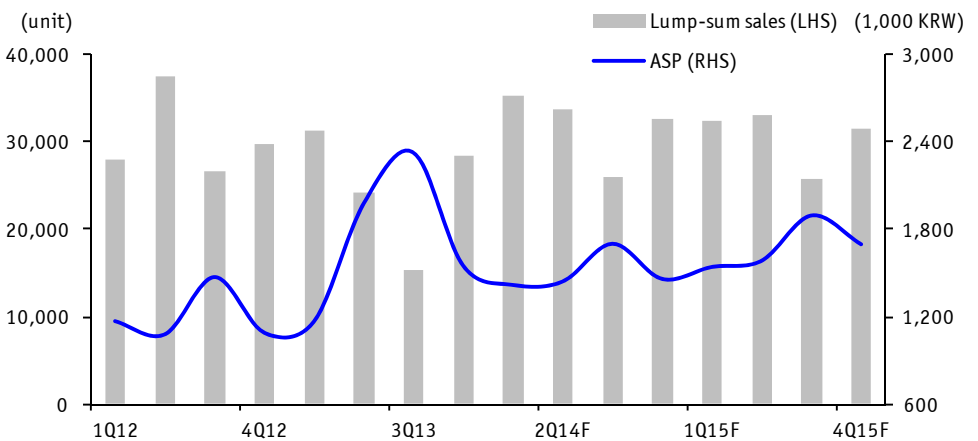
Source: Company data, Shinhan Investment Corp.

Rental subscribers vs. ARPU



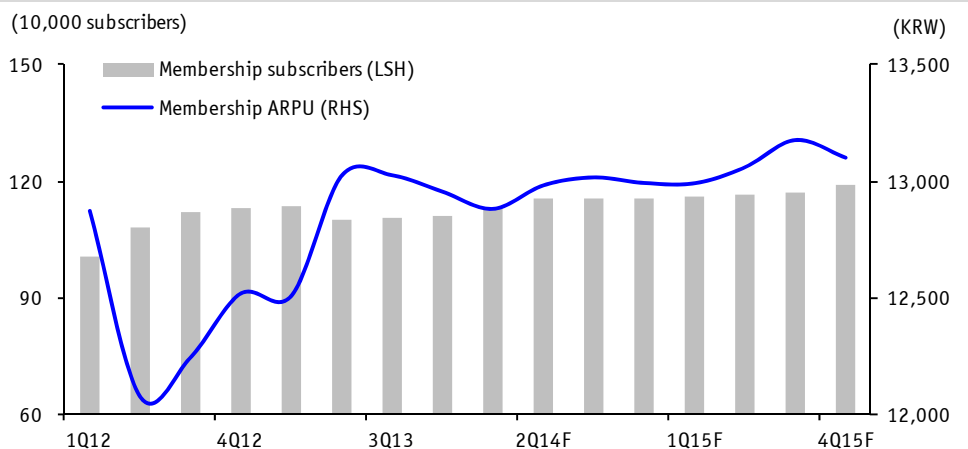
Source: Company data, Shinhan Investment Corp.

Lump-sum sales vs. ASP



Source: Company data, Shinhan Investment Corp.

Membership subscribers vs. ARPU



Source: Company data, Shinhan Investment Corp.

IV. Reasons why enterprise value is expected to rise

Fujian Longking's share price more than triples in 2013 (PER of 16x in 2012 → PER of 32x in 2013)

Institutional investors have been selling Coway shares since 2Q13, while foreign investors have been buying the shares. Lazard Asset Management, the second largest shareholder, has been reducing its exposure. But new long funds are buying the shares. Foreign ownership in Coway currently stands at 54%.

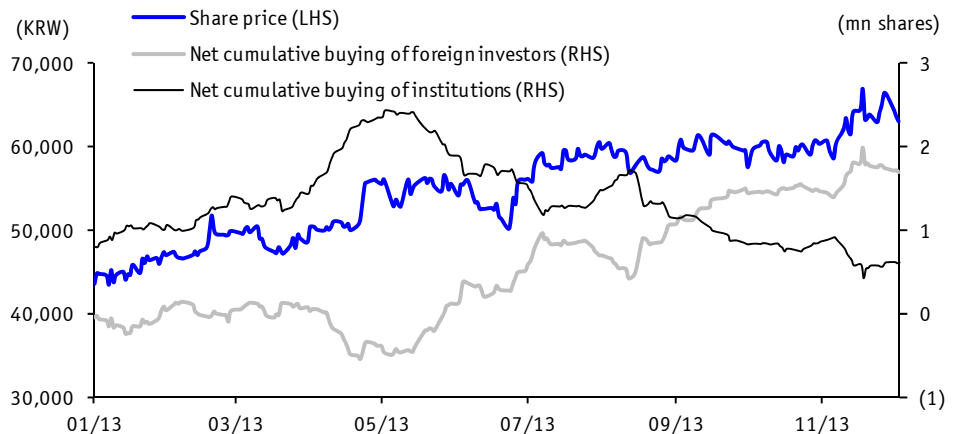
Foreign investors have been buying the shares, as: 1) the rental business has stable margins and low share price volatility; 2) the environmental home appliance market is a growth industry; and 3) profit return to shareholders has been steady with high dividend payout ratio of around 45%. Annual dividend yield is almost 2%.

Coway's 2014F PER of 18x is 4-year average

Fujian Longking's share price has more than tripled in 2013, benefiting from the air pollution issue in China. The PER tops 30x in 2013, up from PER of 16x in 2012, to reflect the growth potential of environmental home appliance market in China.

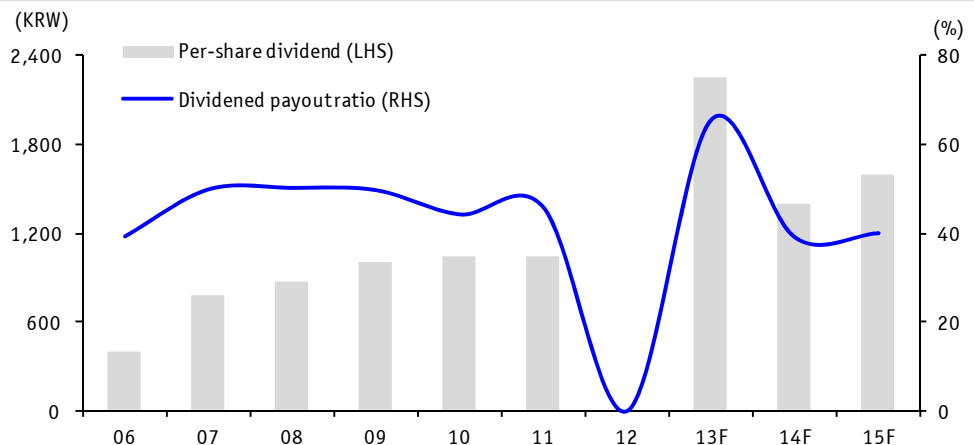
Coway's 2014F PER of 18x represents the past four-year average. The company should post continued top- and bottom-line growth in 2014. Valuation premium is expected, given the strong growth prospect of China's air purifier market.

Trading by institutional and foreign investors



Source: QuantiWise, Shinhan Investment Corp.

Per-share dividend vs. dividend payout ratio



Source: Company data, Shinhan Investment Corp.

Appendix : Financial statements

Statement of financial position

Year to Dec. (W bn)	2011	2012	2013F	2014F	2015F
Assets	1,576.5	1,701.5	1,623.2	1,781.7	1,961.5
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
Liabilities	828.1	898.8	723.7	710.4	701.2
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
Shareholders' Equity	748.4	802.7	899.6	1,071.3	1,260.4
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
Operating Cash Flow	317.6	429.1	467.3	530.5	490.1
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)	6.3	59.4	(15.5)
(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
Investing Cash Flow	(344.2)	(300.9)	(237.6)	(227.4)	(229.9)
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)
Free Cash Flow	(35.6)	(102.3)	362.7	197.2	229.1
Financing Cash Flow	35.6	(73.6)	(250.9)	(226.8)	(160.5)
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	25.6	25.6	25.6
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
Incr.(Decr.) in Cash	8.5	54.0	4.4	101.9	125.3
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.

Statement of Comprehensive Income

Year to Dec. (W bn)	2011	2012	2013F	2014F	2015F
Sales	1,709.9	1,806.8	1,952.0	2,080.3	2,221.1
Growth (%)	13.9	5.7	8.0	6.6	6.8
COGS	552.0	605.4	666.8	731.3	798.7
Gross Profit	1,157.9	1,201.4	1,285.3	1,348.9	1,422.4
Gross margin (%)	67.7	66.5	65.8	64.8	64.0
SG&A	914.5	1,023.0	952.7	973.3	1,011.9
Operating Income	243.3	178.4	332.5	375.6	410.5
Growth (%)	(20.7)	(26.7)	86.3	12.9	9.3
Operating margin (%)	14.2	9.9	17.0	18.1	18.5
Other Net Non-Operating Profits	(18.0)	(17.0)	28.9	(7.0)	1.0
Financial Income(Expenses)	(23.5)	(58.1)	(15.2)	(7.0)	(1.3)
Net Other Non-Operating Profits	5.5	44.3	44.1	(0.0)	2.3
Net Gains in Asso., Subs., and JVs	0.0	(3.2)	0.0	0.0	0.0
Pre-tax Profit from Cont. Op.	225.4	161.5	361.4	368.6	411.5
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
Net Profit	177.1	119.7	265.0	276.4	308.6
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
Total Comprehensive Income	172.7	118.2	265.0	276.4	308.6
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
EBITDA	395.8	350.3	512.9	563.5	606.7
Growth (%)	(11.1)	(11.5)	46.4	9.9	7.7
EBITDA Margin (%)	23.1	19.4	26.3	27.1	27.3

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

Key Ratios

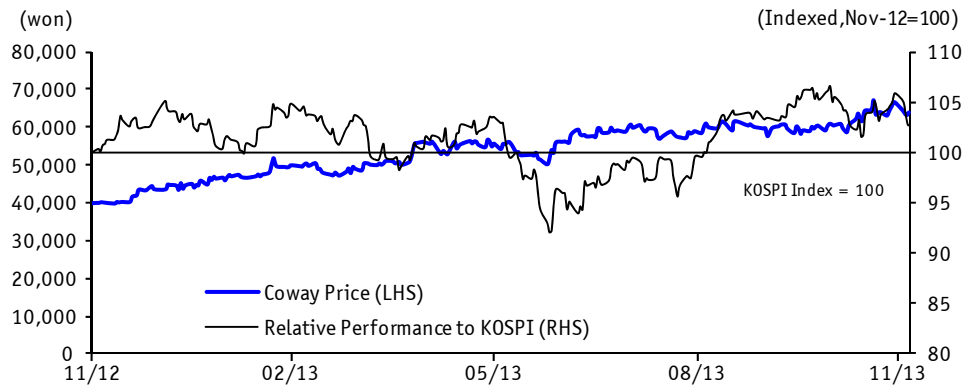
Year to Dec.	2011	2012	2013F	2014F	2015F
EPS_C (won)	2,296	1,553	3,436	3,584	4,002
EPS_P (won)	2,296	1,553	3,436	3,584	4,002
BPS_C (won)	9,704	10,408	11,664	13,891	16,342
BPS_P (won)	9,704	10,408	11,664	13,891	16,342
DPS (won)	1,050	0	2,250	1,400	1,600
PER_C (x)	15.9	28.0	18.3	17.6	15.7
PER_P (x)	15.9	28.0	18.3	17.6	15.7
PBR_C (x)	3.8	4.2	5.4	4.5	3.9
PBR_P (x)	3.8	4.2	5.4	4.5	3.9
EV/EBITDA (x)	8.3	10.9	9.9	8.7	7.8
EV/EBIT (x)	13.5	21.5	15.2	13.1	11.5
Dividend Yield (%)	2.9	0.0	3.6	2.2	2.5
Profitability					
EBITDA Margin (%)	23.1	19.4	26.3	27.1	27.3
OP Margin (%)	14.2	9.9	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	14.2	25.7	33.3	37.0
Stability					
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	6.2	18.6	34.2	48.6
Activity					
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.

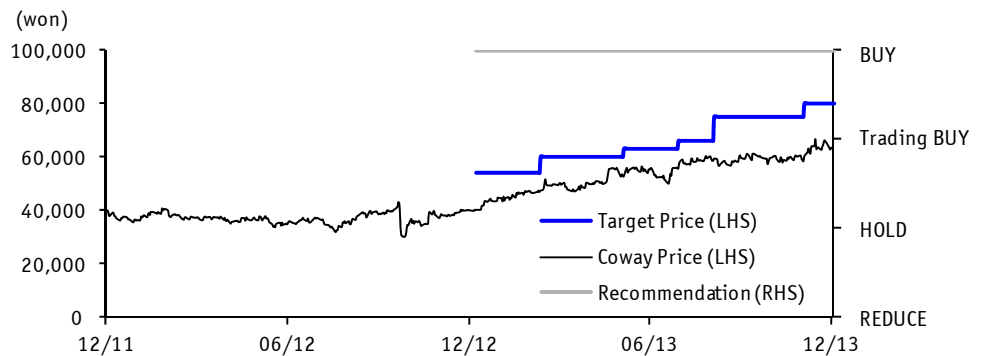


Coway (021240 KS)

... Share Price Performance



... Target Price & Recommendation History





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