

Coway (021240 KS)

Benefits from growth of China's air purifier market

BUY (MAINTAIN)

Price (Dec. 27)	W65,600
Target Price	W80,000
% variance	22.0%

Joshua Kong ☎ (82-2) 3772-1527
✉ jxlove1983@shinhan.com

KOSPI	2,002.28p
KOSDAQ	496.77p
Market Cap.	W5,059.4bn/ US4,438.1mn
Par Value	W500
Outstanding Shares	77.1mn
Free Floating Shares	50.9mn(66.0%)
52-Week High/Low	W66,900/W43,400
60-Day Avg. Trading Volume	187,570shrs
60-Day. Avg. Trading T/O	W11,669mn
Foreign Ownership	53.39%
Major Shareholders	
Coway Holdings, Inc. and 15 others	30.99%
Lazard Asset Management LLC and 33 others	6.17%
Absolute Performance	3M 9.7%
	6M 23.5%
	12M 47.9%
Relative performance	3M 10.2%
to KOSPI	6M 13.2%
	12M 46.8%

- ◆ Sales of W489.0bn (+6% YoY), OP of W83.6bn (+127% YoY) seen in 4Q
- ◆ Strong growth of China's air purifier market through 2017
- ◆ Retain BUY and target price of W80,000

Sales of W489.0bn (+6% YoY), OP of W83.6bn (+127% YoY) seen in 4Q

We forecast 4Q13 standalone sales of W489.0bn (+6.3% YoY) and operating profit of W83.6bn (+126.7% YoY). Air purifier sales increased sharply in the quarter. We expect rental account net growth of 69,921 (+24.5% YoY). Operating profit will likely beat market consensus. For 2014, we expect sales of W2.1tr (+7.4% YoY) and operating profit of W374.8bn (+13.8% YoY).

Strong growth of China's air purifier market through 2017

We estimate total air purifier sales in China this year to reach 1.0~1.5mn units, increasing by 2~3 fold YoY. We expect high growth to continue as air pollution worsens. Based on the number of households, we estimate market penetration of 0.6% in 2013, far lower than the 12% in Korea.

If China's penetration rate rises to even 6%, the market can grow by almost 10-fold. We expect over 10mn units to be sold in 2017. In value, the market is forecast to expand from W400bn in 2013 to about W5tr in 2017

In the Chinese market, Coway has an exclusive air purifier supply contract with Phillips, which has seized about 50% of the market. We project export volume to more than double by 2015 and account for 10~15% of total sales.

Retain BUY and target price of W80,000

We reiterate our BUY rating and target price of W80,000. We applied a target PER of 22x to consolidated 2014F EPS of W3,571. In the mid to long term, Coway stands to benefit from growth of China's air purifier market, which is still in its infancy. Coway is currently trading at 2014F PER of 18x.

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	178.4	161.5	119.7	1,553	(32.4)	10,408	28.0	10.9	4.2	15.4	58.9
2013F	1,940.3	329.2	358.1	262.6	3,404	119.3	11,631	19.3	10.3	5.6	30.9	23.0
2014F	2,083.2	374.8	367.8	275.9	3,577	5.1	13,850	18.3	9.1	4.7	28.1	4.2
2015F	2,234.5	411.0	412.1	309.1	4,008	12.0	16,307	16.4	8.1	4.0	26.6	(12.1)

Note: K-IFRS standalone

Earnings forecast revision

(bn KRW)	2013F			2014F		
	Before	After	Change (%)	Before	After	Change (%)
Sales	1,952.0	1,940.3	(0.6)	2,080.3	2,083.2	0.1
OP	332.5	329.2	(1.0)	375.6	374.8	(0.2)
Consolidated NP	239.3	237.5	(0.8)	276.6	275.4	(0.4)

Source: Shinhan Investment Corp., K-IFRS standalone

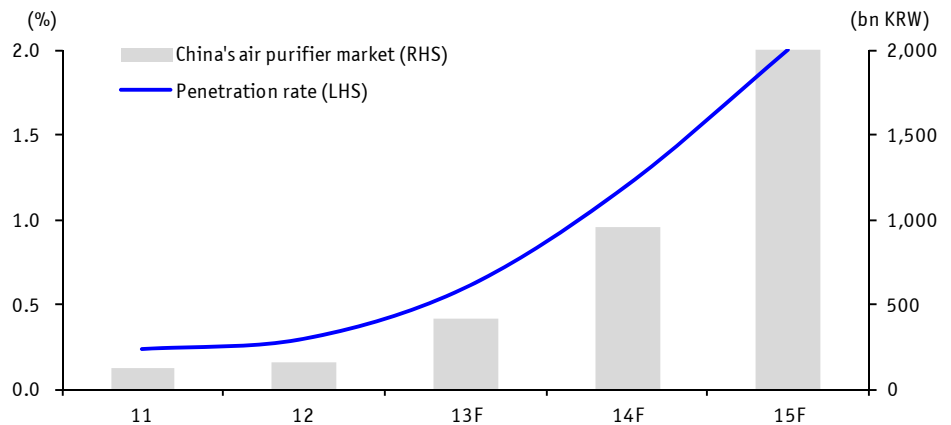
Target price calculation

(bn KRW)	Value	(bn KRW)	Value	(bn KRW)	Value
2013 NP	237.5	2014 NP	275.4	2015 NP	311.7
EPS (KRW)	3,079	EPS (KRW)	3,571	EPS (KRW)	4,041
PER (x)	26	Target PER (x)	22	PER (x)	20
Target price (KRW)	80,000	Target price (KRW)	80,000	Target price (KRW)	80,000
Current price (KRW)	65,600	Current price (KRW)	65,600	Current price (KRW)	65,600
Current PER (x)	21.3	Current PER (x)	18.4	Current PER (x)	16.2

Source: Shinhan Investment Corp., K-IFRS consolidated

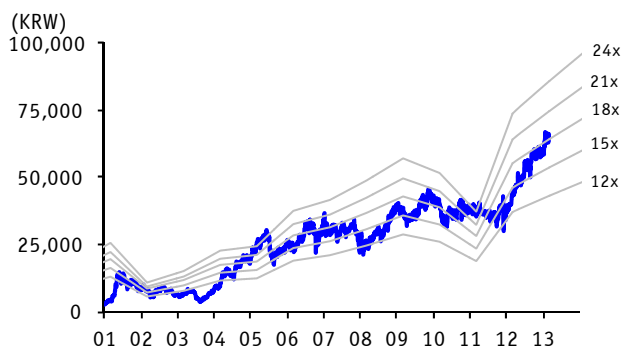
Note: Target PER represents 5-year average of the upper end of PER band

China's air purifier market



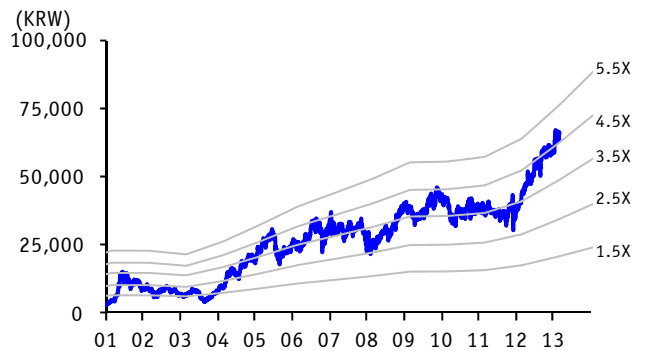
Source: Company data, Shinhan Investment Corp.

12-month forward PER



Source: Shinhan Investment Corp.

12-month forward PBR



Source: Shinhan Investment Corp.

Earnings estimates					
(bn KRW)	11	12	13F	14F	15F
Sales	1,709.9	1,806.8	1,940.3	2,083.2	2,234.5
Growth (% YoY)	13.9	5.7	7.4	7.4	7.3
Rental subscribers (no. of contracts)	4,450,003	4,607,420	4,816,334	5,060,237	5,348,790
Growth (% YoY)	7.4	3.5	4.5	5.1	5.7
Rental ARPU (KRW)	22,008	22,824	22,846	22,637	22,350
Rental sales	1,175.2	1,261.9	1,320.4	1,374.6	1,434.5
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	77.4	74.9	73.1
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	161.5	188.3	202.8
Exports	98.0	109.6	150.1	210.0	275.0
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	4.6	4.1	4.4
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	11.6	16.6	7.7
Exports	41.6	11.8	37.0	39.9	31.0
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
SG&A costs	552.0	605.3	658.4	735.9	813.2
SG&A costs/sales ratio (%)	32.3	33.5	33.9	35.3	36.4
Gross profit	1,157.9	1,201.5	1,281.9	1,347.3	1,421.3
Gross margin (%)	67.7	66.5	66.1	64.7	63.6
SG&A costs	913.1	987.8	952.6	972.5	1,010.3
SG&A costs/sales ratio (%)	53.4	54.7	49.1	46.7	45.2
Other operating income	0.6	1.4	1.5	1.5	1.6
Other operating expense	46.8	70.8	48.6	47.0	46.8
OP	244.8	213.6	329.2	374.8	411.0
OPM (%)	14.3	11.8	17.0	18.0	18.4
Growth (% YoY)	(8.0)	(12.7)	54.1	13.8	9.7
Financial income	2.2	3.7	3.7	5.5	8.8
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	358.1	367.8	412.1
Corporate tax	48.2	41.7	95.6	92.0	103.0
Corporate tax rate (%)	21.3	28.6	26.7	25.0	25.0
NP	178.2	104.0	262.6	275.9	309.1
NPM (%)	10.4	5.8	13.5	13.2	13.8
Growth (% YoY)	(5.3)	(41.6)	152.5	5.1	12.0
Consolidated NP	167.1	95.6	237.5	275.4	311.7
Growth (% YoY)	(13.8)	(42.8)	148.5	16.0	13.2
Standalone EPS (KRW)	2,296	1,553	3,404	3,577	4,008
Consolidated EPS (KRW)	2,149	1,239	3,079	3,571	4,041

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	12	13F	14F
Sales	442.4	446.4	458.0	460.1	465.2	496.9	489.2	489.0	510.2	527.4	519.9	525.7	1,806.8	1,940.3	2,083.2
Growth (% YoY)	10.6	2.4	6.5	3.6	5.2	11.3	6.8	6.3	9.7	6.1	6.3	7.5	5.7	7.4	7.4
Rental sales	309.7	313.1	317.7	321.4	323.8	328.8	331.9	336.0	338.8	342.4	344.8	348.6	1,261.9	1,320.4	1,374.6
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	41.6	49.4	48.4	44.0	46.5	144.7	161.5	188.3
Exports	30.0	21.1	28.0	30.5	31.5	44.6	38.0	36.1	46.0	59.0	52.5	52.5	109.6	150.1	210.0
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	166.1	177.4	189.0	184.1	185.3	605.3	658.4	735.9
COGS ratio (%)	32.9	31.8	33.1	36.1	33.2	33.8	34.7	34.0	34.8	35.8	35.4	35.3	33.5	33.9	35.3
SG&A costs	248.1	239.2	243.6	256.9	241.3	249.6	222.4	239.3	243.3	243.7	240.7	244.7	987.8	952.6	972.5
SG&A costs/sales ratio (%)	56.1	53.6	53.2	55.8	51.9	50.2	45.5	48.9	47.7	46.2	46.3	46.5	54.7	49.1	46.7
OP	48.8	65.1	62.9	36.9	69.2	79.4	97.0	83.6	89.4	94.6	95.1	95.7	213.6	329.2	374.8
OPM (%)	11.0	14.6	13.7	8.0	14.9	16.0	19.8	17.1	17.5	17.9	18.3	18.2	11.8	17.0	18.0
Growth (% YoY)	(16.5)	5.4	2.3	(41.6)	41.9	22.0	54.2	126.7	29.1	19.2	(2.0)	14.5	(12.7)	54.1	13.8
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	79.7	87.0	92.9	93.4	94.5	145.7	358.1	367.8
NP	25.9	44.0	12.9	22.5	80.2	60.9	62.3	59.8	65.2	69.7	70.0	70.9	104.0	262.6	275.9
NPM (%)	5.9	9.9	2.8	4.9	17.2	12.3	12.7	12.2	12.8	13.2	13.5	13.5	5.8	13.5	13.2
Growth (% YoY)	(33.2)	4.6	(73.8)	(53.3)	209.9	38.4	383.8	165.9	(18.7)	14.4	12.4	18.6	(41.6)	152.5	5.1

Source: Company data, Shinhan Investment Corp.

Note: K-IFRS standalone

Rental subscribers and ARPU

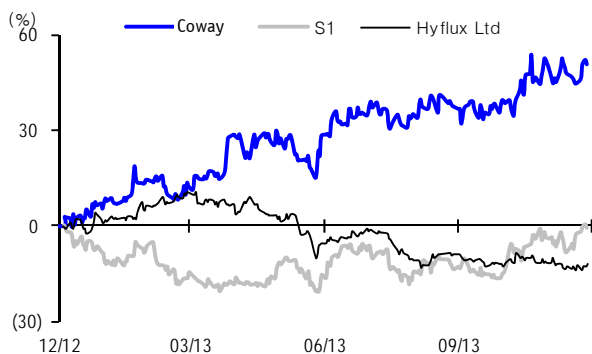
	07	08	09	10	11	12	13F	14F	15F
ARPU (KRW)	21,369	21,970	21,575	21,285	22,008	22,824	22,846	22,637	22,350
Total subscribers	3,612,491	3,639,197	3,898,647	4,145,102	4,450,003	4,607,420	4,816,334	5,060,237	5,348,790
Net subscriber increase	134,456	26,706	259,450	246,455	304,901	157,417	208,914	243,903	288,553
New subscribers	1,173,707	1,045,248	1,188,939	1,167,378	1,272,538	1,218,911	1,180,537	1,248,129	1,273,320
Cancellation rate (%)	11.5	13.9	13.5	12.9	12.5	12.1	10.9	9.9	9.2
Growth (%)									
ARPU	(0.3)	2.8	(1.8)	(1.3)	3.4	3.7	0.1	(0.9)	(1.3)
Total subscribers	3.9	0.7	7.1	6.3	7.4	3.5	4.5	5.1	5.7
Net subscriber increase	(48.5)	(80.1)	871.5	(5.0)	23.7	(48.4)	32.7	16.7	18.3
New subscribers	13.9	(10.9)	13.7	(1.8)	9.0	(4.2)	(3.1)	5.7	2.0

Source: Company data, Shinhan Investment Corp.

Global peers							
Company		Coway	Kurita Water Industries	S1	Fujian Longking	OSIM International	Hyflux Ltd
Ticker		021240 KS	6370 JP	012750 KS	600388 CH	OSIM SP	HYF SP
Market cap. (bn KRW)		5,059.4	2,604.3	2,800.5	2,500.5	802.1	1,365.0
Sales	2011	1,992.8	2,729.3	1,096.5	750.0	607.5	542.5
(bn KRW)	2012F	2,106.0	2,119.1	1,258.8	906.9	475.1	548.4
	2013F	2,237.0	1,792.4	1,455.7	1,080.6	502.2	643.2
OP	2011	226.1	413.8	134.6	61.9	71.2	101.5
(bn KRW)	2012F	296.2	254.8	140.0	85.7	83.9	107.3
	2013F	339.1	160.3	168.7	87.5	84.9	129.7
OPM	2011	11.3	15.2	12.3	8.3	11.7	18.7
(%)	2012F	14.1	12.0	11.1	9.5	17.7	19.6
	2013F	15.2	8.9	11.6	8.1	16.9	20.2
NP	2011	94.0	233.1	100.9	52.0	55.0	78.4
(bn KRW)	2012F	220.0	141.1	93.0	71.9	37.6	84.8
	2013F	254.3	101.3	121.3	75.5	38.4	97.5
NPM	2011	4.7	8.5	9.2	6.9	9.1	14.4
(%)	2012F	10.4	6.7	7.4	7.9	7.9	15.5
	2013F	11.4	5.7	8.3	7.0	7.7	15.2
EPS growth	2011	T/B	2.0	(20.2)	19.0	5.4	N/A
(% YoY)	2012F	129.2	T/B	T/B	33.5	3.2	6.3
	2013F	15.5	T/B	30.2	7.5	7.1	14.6
P/E	2011	34.4	15.5	23.4	16.1	28.9	14.5
(x)	2012F	22.6	21.4	29.1	35.9	23.8	16.6
	2013F	19.6	26.6	22.4	33.4	22.0	14.5
P/B	2011	4.1	1.2	3.1	1.8	3.3	6.4
(x)	2012F	5.3	1.3	3.1	4.0	1.4	7.2
	2013F	4.5	1.2	2.8	4.5	1.3	5.3
EV/EBITDA	2011	9.0	4.3	9.1	11.7	7.6	9.5
(x)	2012F	10.8	5.0	11.3	27.2	13.5	10.9
	2013F	9.9	6.2	9.5	22.5	14.4	9.1
ROE	2011	12.3	8.1	13.4	12.0	12.2	48.1
(%)	2012F	25.6	6.1	11.7	14.5	6.8	45.4
	2013F	24.9	4.6	14.1	13.7	6.4	41.9

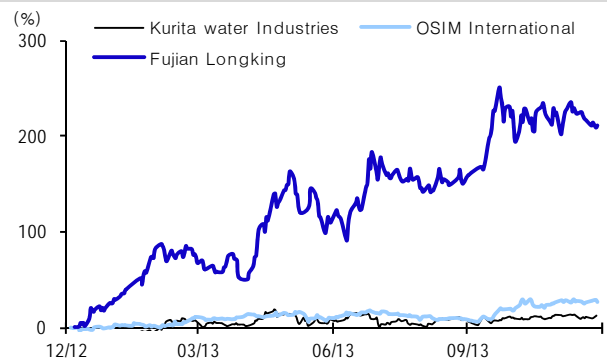
Source: Bloomberg consensus, Shinhan Investment Corp.

Share prices of global peers



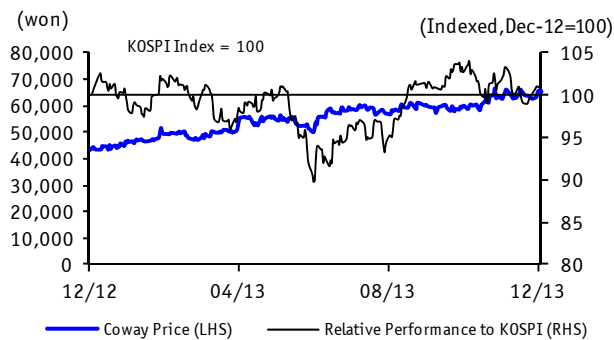
Source: Bloomberg, Shinhan Investment Corp.

Share prices of global peers

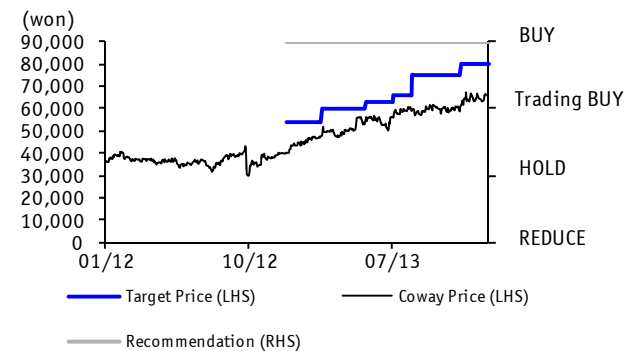


Source: Bloomberg, Shinhan Investment Corp.

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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