

## Coway (021240)

12M rating **BUY (Maintain)**  
 12M TP **W73,000** from W73,000  
 Up/downside **+15%**

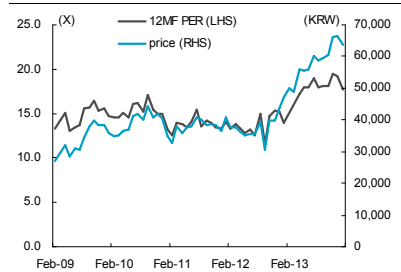
### Stock Data

KOSPI (Jan 14, pt)	1,946
Stock price (Jan 14, KRW)	63,600
Market cap (USD mn)	4,631
Shares outstanding (mn)	77
52-Week high/low (KRW)	66,900/44,000
6M avg. daily turnover (USD mn)	10.2
Free float / Foreign ownership (%)	66.0/53.4
Major shareholders (%)	
Coway Holdings, Inc. and 12 others	0.0
Lazard Asset Management LLC and 33 others	0.0

### Performance

	1M	6M	12M
Absolute (%)	(1.2)	10.8	41.5
Relative to KOSPI (%p)	(0.4)	6.7	44.5

### 12MF PE trend



Source: WISEfn consensus

## 4Q13 preview: Solid results to continue, focus on air purifiers and dehumidifiers

### Solid results continue in 4Q13, notable margin growth

We estimate 4Q13 separate sales at W482.9bn, up 5% YoY, and OP at W79.6bn, up 124% YoY. Stripping out one-off costs in 4Q12, OP should increase 26% on a 16.5% OPM, in line with our estimate and the consensus. Sales should miss expectations slightly amid slower outsourcing lump-sum payment sales growth and export division growth. Subscriber net growth should reach only 11,000, down both YoY and QoQ. However, quality should improve as real rental subscribers (excluding membership accounts) should grow a net 21,000, as most of the subscriber losses were low-margin memberships. Furthermore, new rental sales should reach 0.3mn, after bottoming out in 3Q13. Overall margins are recovering thanks to reduced cancellation rates and tight SG&A cost control.

### 2014 keyword: Concentrate on growing environmental appliances market and ASP hikes

2014 sales should grow 8% YoY to W2.1tn and OP 14% YoY to W370.2bn. Coway focused mainly on improving margins in 2013, including preventing rental account cancellations along with decreasing low-margin rental membership accounts. In addition, losses should narrow at non-core businesses, including cosmetics. Going forward, Coway should focus on home environmental appliances in the domestic and abroad markets by strengthening its new product lineup, including micro water purifiers, air purifiers and in-house production of humidifier. Mattress and home-care also offer additional growth potential. Net account growth in 2014 should reach 0.27mn accounts led by water purifiers, air purifiers and mattresses, after subscribers bottomed out in 2013. Exports, comprised mainly of air purifier ODM sales to China, should grow sharply given low penetration, heavy air pollution and the leading market share of Philips, the major client in China. Meanwhile margins should continue to grow as OPM edges up to 17.7% in 2014 from 16.8% in 2013. Price hike should be reflected into earnings moderately and losses on non-core businesses should continue to narrow.

### Conclusion: Maintain BUY on improving shareholders value

We maintain BUY with a TP of W73,000 (20x 2014 PE, peak PE). Shares currently trade at 17.4x 2014 PE, which is relatively expensive. However, Coway deserves a premium on steady subscriber growth led by environmental home appliances, a dominant domestic market share and stable subscriber-driven earnings. Subscribers should grow steadily as demand firms for environmental appliances. Dividend yield should be about 2%, and it is also positive that Coway has shareholder-friendly policies as it is buying back shares of W50bn recently.

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Yr to Dec	Sales (W bn)	OP (W bn)	EBT (W bn)	NP (W bn)	EPS (won)	% chg (YoY)	EBITDA (W bn)	PE (x)	EV/EBITDA (x)	PB (x)	ROE (%)
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	1,934	325	355	269	3,602	184.2	508	18.4	10.5	4.8	30.6
2014F	2,090	370	364	277	3,698	2.7	566	17.4	9.0	4.0	26.0
2015F	2,261	414	412	313	4,192	13.4	623	15.4	8.0	3.4	25.0

Table 1. 4Q13 earnings to meet consensus

(W bn, %)

	4Q13F		Growth	
	KIS estimate	Consensus	QoQ	YoY
Sales	483	492	(1.3)	5.0
OP	80	81	(17.9)	NM
OPM(%)	16.5	16.5	(3.3)	NM
EBT	76	77	(8.1)	140.3
NP	66	60	6.1	206.1

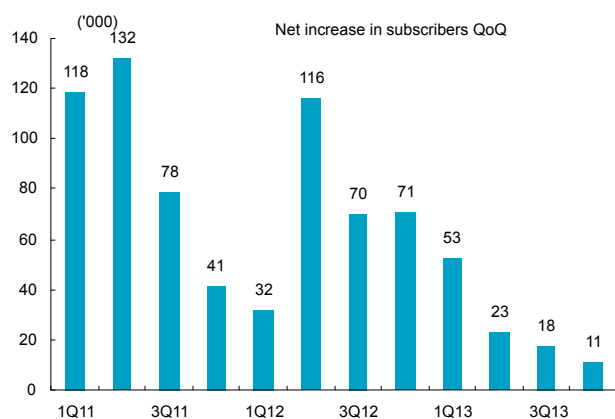
Source: Fnguide, Korea Investment securities &amp; Investment

Table 2. Earnings forecast

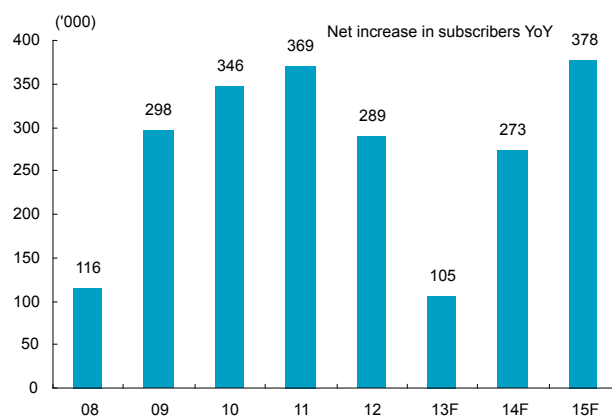
(W bn, KRW, '000 subs, %YoY, %)

	08	09	10	11	12	13F	14F	15F
Increase in total account (QoQ)	4,439	4,736	5,083	5,452	5,741	5,846	6,118	6,496
Rental ARPU (%YoY)	116	298	346	369	289	105	273	378
Membership ARPU (%YoY)	2.7	6.7	7.3	7.3	5.3	1.8	4.7	6.2
No. of rental account ('000, end of Q)	3,640	3,899	4,145	4,450	4,607	4,767	4,995	5,328
Increase in rental account (QoQ)	27	259	246	305	157	160	228	333
Rental ARPU (Won)	799	838	938	1,002	1,133	1,079	1,124	1,169
No. of new rental sales ('000 units)	88	39	100	64	131	(55)	45	45
No. of new rental sales (%YoY)	1,045	1,190	1,168	1,273	1,219	1,174	1,291	1,421
No. of membership account ('000, end of Q)	(6.2)	13.8	(1.9)	9.0	(4.2)	(3.7)	10.0	10.1
Increase in membership accounts (QoQ)	13.9	13.5	12.9	12.5	12.1	10.4	10.9	10.8
Membership ARPU (KRW)	22,086	22,341	22,458	23,362	23,093	23,279	23,608	23,800
Increase in total account (QoQ)	1.8	1.2	0.5	4.0	(1.1)	0.8	1.4	0.8
Rental ARPU (%YoY)	15,054	13,914	13,738	13,723	12,427	12,022	12,286	12,455
Membership ARPU (%YoY)	6.6	(7.6)	(1.3)	(0.1)	(9.4)	(3.3)	2.2	1.4
Sales	1,314	1,412	1,502	1,710	1,807	1,934	2,090	2,261
%YoY	8.4	7.4	6.4	13.9	5.7	7.1	8.0	8.2
Rental	1,158	1,196	1,272	1,394	1,437	1,489	1,564	1,663
%YoY	5.8	3.3	6.4	9.6	3.1	3.6	5.0	6.4
Rental	72	76	93	102	145	170	195	202
%YoY	32.7	6.3	22.4	9.8	41.4	17.7	14.4	3.4
Membership			23	68	67	74	85	98
%YoY				191.4	(1.5)	10.0	15.0	15.0
Lump sum payment	45	56	69	98	110	146	182	228
%YoY	132.3	24.9	24.2	41.6	11.8	33.0	25.0	25.0
Cosmetics	40	84	44	47	48	56	64	70
%YoY	(10.5)	109.2	(48.0)	6.9	2.1	16.0	15.0	10.0
Export	407	460	491	552	605	655	694	746
%YoY	31.0	32.6	32.7	32.3	33.5	33.9	33.2	33.0
Others	323	337	348	386	416	413	431	458
%YoY	27.9	28.2	27.4	27.7	29.0	27.7	27.6	27.5
Gross profit	907	952	1,011	1,158	1,201	1,280	1,396	1,515
GP margin (%)	69.0	67.4	67.3	67.7	66.5	66.2	66.8	67.0
OP	190	204	254	243	228	325	370	414
%YoY	17.9	7.4	24.1	(4.0)	(6.4)	42.8	13.8	11.7
OP margin (%)	14.5	14.5	16.9	14.2	12.6	16.8	17.7	18.3
EBT	185	203	243	225	161	355	364	412
%YoY	18.7	9.7	20.0	(7.4)	(28.3)	119.9	2.4	13.3
NP	129	153	183	177	120	269	276	312
%YoY	11.0	18.8	19.6	(3.4)	(32.4)	124.7	2.4	13.3

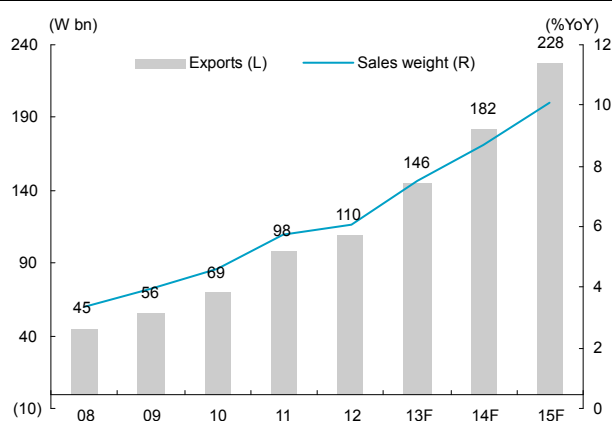
Source: Coway, Korea Investment securities &amp; Investment

**Figure 1. Net spill mainly with low-priced membership**

Source: Coway, Korea Investment securities &amp; Investment

**Figure 2. Net account growth should expand in 2014 bottoming out in 2013 thanks to efforts of improving margins**

Source: Coway, Korea Investment securities &amp; Investment

**Figure 3. Rapid export growth**

Source: Coway, Korea Investment securities &amp; Investment

**Figure 4. Strengthened line-up including air purifier and micro water purifier in 2014**

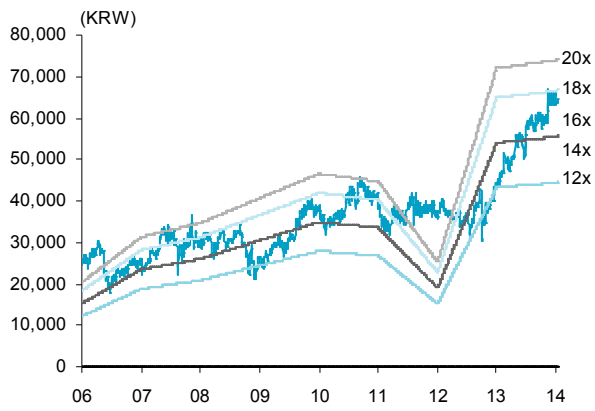
Source: Coway, Korea Investment securities &amp; Investment

**Table 3. Effect on increasing rental ASP**

	2013F	2014F	2015F	2016F	2017F
Net rental net orders ('000)	1,219	1,174	1,291	1,421	1,421
Net subscriber growth ('000 person)	105	273	302	325	325
Cancellation	1,114	901	990	1,096	1,096
Assumption of existing ARPU (KRW)	23,493	23,692	23,657	23,764	23,764
Increasing 5% ARPU (KRW)	24,667	24,876	24,839	24,953	24,953
Effect on sales expansion (KRW)	13	34	52	73	93
Related commission and cost (KRW)	6	15	24	33	42
Effect on accumulated OP expansion (W bn)	7	19	29	40	51

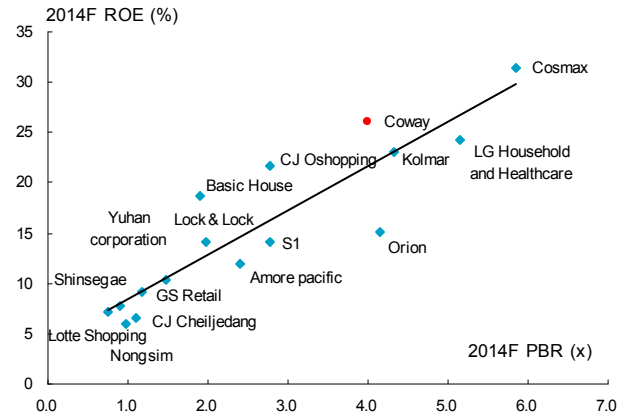
Source: Korea Investment securities &amp; Investment

**Figure 5. Moderate valuation increase**



Source: Datastream, Korea Investment securities & Investment

**Figure 6. Appealing valuation compared to major domestic consumer staples**



Source: Quantiwise, Korea Investment securities & Investment

**Balance sheet**

FY-ending Dec. (W bn)	2011A	2012A	2013F	2014F	2015F
Current assets	511	691	521	615	688
Cash & cash equivalent	65	119	58	104	136
Accounts & other receivables	257	292	312	338	365
Inventory	73	41	44	47	51
Non-current assets	1,065	1,010	1,053	1,107	1,163
Investment assets	285	155	164	177	185
Tangible assets	535	594	624	654	685
Intangible assets	156	158	155	157	165
Total assets	1,576	1,702	1,574	1,723	1,851
Current liabilities	534	720	523	506	490
Accounts & other payables	187	205	220	237	257
ST debt & bond	165	296	96	56	26
Current portion of LT debt	110	110	110	110	110
Non-current liabilities	294	179	151	153	106
Debentures	177	118	118	118	68
LT debt & financial liabilities	90	36	6	6	6
Total liabilities	828	899	674	659	596
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	976	1,153	1,358

**Cash flow**

FY-ending Dec. (W bn)	2011A	2012A	2013F	2014F	2015F
C/F from operating	318	429	394	510	482
Net profit	177	120	269	276	312
Depreciation	145	165	176	189	202
Amortization	8	7	7	7	7
Net incr. in W/C	(112)	(38)	(58)	39	(39)
Others	100	175	0	(1)	0
C/F from investing	(344)	(301)	(225)	(248)	(262)
CAPEX	(299)	(295)	(209)	(222)	(235)
Decr. in fixed assets	9	3	3	3	3
Incr. in investment	(42)	(3)	(8)	(12)	(6)
Net incr. in intangible assets	(7)	(8)	(4)	(9)	(16)
Others	(5)	2	(7)	(8)	(8)
C/F from financing	36	(74)	(230)	(212)	(188)
Incr. in equity	0	12	0	0	0
Incr. in debts	213	21	(230)	(40)	(80)
Dividends	(80)	(78)	0	(172)	(108)
Others	(97)	(29)	0	0	0
C/F from others	(0)	(1)	0	0	0
Increase in cash	8	54	(61)	50	31

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**

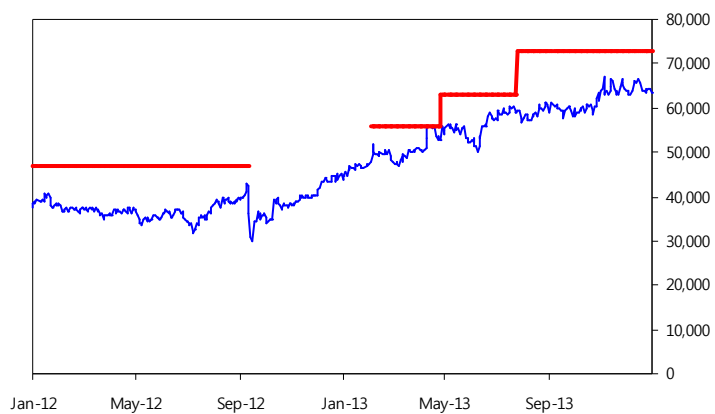
FY-ending Dec. (W bn)	2011A	2012A	2013F	2014F	2015F
Sales	1,710	1,807	1,934	2,090	2,261
COGS	552	605	655	694	746
Gross profit	1,158	1,201	1,280	1,396	1,515
SG&A expense	915	974	954	1,026	1,101
Operating profit	243	228	325	370	414
Financial income	2	4	4	4	5
Interest income	2	1	2	2	3
Financial expense	26	62	17	12	8
Interest expense	25	29	17	12	8
Other non-operating profit	6	(5)	43	0	0
Gains (Losses) in associates, subsidiaries and JV	0	(3)	0	1	2
Earnings before tax	225	161	355	364	412
Income taxes	48	42	86	88	100
Net profit	177	120	269	276	312
Other comprehensive profit	(4)	(2)	0	0	0
Total comprehensive profit	173	118	269	276	312
EBITDA	396	400	508	566	623
Adj. net profit	167	94	269	277	313

**Key financial data**

FY-ending Dec.	2011A	2012A	2013F	2014F	2015F
per share data (KRW)					
EPS	2,235	1,268	3,602	3,698	4,192
BPS	10,962	11,354	13,825	16,121	18,786
DPS	1,050	0	2,300	1,450	1,600
Growth (%)					
Sales growth	13.9	5.7	7.1	8.0	8.2
OP growth	(20.7)	(6.4)	42.8	13.8	11.7
NP growth	(5.6)	(43.7)	186.1	2.8	13.4
EPS growth	(3.9)	(43.3)	184.2	2.7	13.4
EBITDA growth	(11.1)	1.0	27.1	11.4	10.0
Profitability (%)					
OP margin	14.2	12.6	16.8	17.7	18.3
NP margin	9.8	5.2	13.9	13.2	13.9
EBITDA margin	23.1	22.1	26.3	27.1	27.5
ROA	12.1	7.3	16.4	16.7	17.5
ROE	22.2	12.3	30.6	26.0	25.0
Dividend yield	2.9	0.0	3.5	2.2	2.5
Stability					
Net debt (W bn)	468	473	304	217	106
Debt/equity ratio (%)	72.4	73.8	40.2	30.2	19.2
Valuation (X)					
PE	16.4	34.3	18.4	17.4	15.4
PB	3.3	3.8	4.8	4.0	3.4
PS	1.7	1.9	2.6	2.4	2.2
EV/EBITDA	8.0	9.4	10.5	9.0	8.0

**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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