

Coway (021240)

Above

In line

Below

12M rating **BUY (Maintain)**
12M TP **W82,000** from W73,000
Up/downside **+17%**

Stock Data

| | |
|---|---------------|
| KOSPI (Feb 14, pt) | 1,940 |
| Stock price (Feb 14, KRW) | 70,200 |
| Market cap (USD mn) | 5,090 |
| Shares outstanding (mn) | 77 |
| 52-Week high/low (KRW) | 70,200/46,950 |
| 6M avg. daily turnover (USD mn) | 10.2 |
| Free float / Foreign ownership (%) | 65.6/53.2 |
| Major shareholders (%) | |
| Coway Holdings, Inc. and 12 others | 31.0 |
| Lazard Asset Management LLC and 33 others | 6.2 |

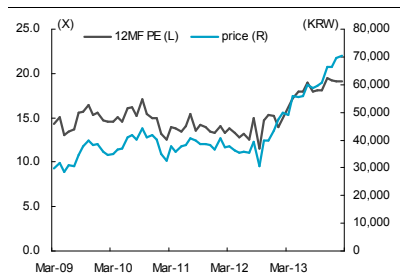
Valuation

| | 2012A | 2013F | 2014F |
|---------------|--------|--------|--------|
| PE (x) | 34.3 | 19.9 | 18.5 |
| PB (x) | 3.8 | 4.9 | 4.4 |
| ROE (%) | 12.3 | 28.5 | 27.1 |
| EV/EBITDA (x) | 9.4 | 10.6 | 9.9 |
| EPS (KRW) | 1,268 | 3,334 | 3,802 |
| BPS (KRW) | 11,354 | 13,639 | 15,796 |

Performance

| | 1M | 6M | 12M |
|------------------------|------|------|------|
| Absolute (%) | 10.4 | 23.6 | 49.5 |
| Relative to KOSPI (%p) | 10.7 | 22.7 | 51.5 |

12MF PE trend



Source: WISEfn consensus

Strength confirmed, growth also possible

What's new: Earnings top expectations

Coway posted 4Q13 separate sales of W482.4bn, up 5% YoY, and OP of W88.5bn, up 148% YoY. Even stripping out W27.4bn in one-off costs (W15.6bn bonus, W118bn inventory loss) last year, OP would have surged 31% YoY. Of note, consolidated sales climbed 1% YoY and OP 163% YoY. Separate OP beat the consensus by 10%, and OPM improved 6.1%p YoY to 18.3%. However, EBT and NP missed expectations, on: 1) FX losses and obsolescence losses on tangible assets (about W11bn), 2) Chinese subsidiary losses (W3.8bn), and 3) higher corporate taxes. But, we believe these factors are not related to fundamentals.

Pros: Solid margins confirmed, sales to grow in 2014

4Q13 net subscribers improved 32,000 QoQ as the cancellation rate fell and rental sales increased 13.5% QoQ (but fell 5.6% YoY). Sales of rentals improved 3.6% and memberships 3.2%. In particular, membership ARPU surged 8% YoY as free trial memberships wound down and de-marketing for low-priced memberships worked, despite the subscriber losses. Meanwhile, cosmetics sales climbed 18% YoY on improved home shopping sales and flat exports. Overall, margins exceeded expectations, as: 1) cost-to-sales of exports and lump-sum payment products fell, 2) rental disposal losses narrowed on a low cancellation rate (W8.1bn, down 49% YoY), and 3) tight SG&A cost controls continued as major components were favorable, including labor, sales commissions and marketing costs. We forecast 2014 sales will grow 8% YoY to W2.09tn and OP 12% YoY to W375.4bn, which is in line with guidance (sales W2.08tn, OP W362bn). Overall, Coway should focus on growth in 2014.

Cons: Confirm growth in 2014 after margins normalize in 2013

Net subscriber growth in 2013 was the lowest level since 2009, mostly due to markups and less low-margin subscribers. But, growth should pick up going forward, backed by: 1) recovering sales of water purifiers, led by micro water purifiers, a rapid growth of complex air purifiers (humidifiers/dehumidifiers), led by the launch of pure dehumidifiers, and a reinforced domestic home appliance division with the improvements in the mattress and home care divisions. 2) Exports should grow more than 20% led by air purifiers in China, and 3) US and Malaysian subsidiaries should post growth over 30% over the mid to long term.

Conclusion: Revise up forecast to reflect favorable earnings, raise TP to W82,000

We maintain BUY as we revise up our TP to W82,000 (21x 12MF PE) from

(W bn, %, %p)

| | 4Q13P | | | | Change | | 2014F | |
|-----------|----------|--------|-------|-----------|--------|-------|-------|-----------|
| | KIS est. | Actual | Diff. | Consensus | QoQ | YoY | KIS | Consensus |
| Sales | 483 | 482 | (0) | 484 | (1.4) | 4.9 | 2,089 | 2,074 |
| OP | 80 | 89 | 11 | 80 | (8.8) | 148.3 | 375 | 362 |
| OP margin | 16.6 | 18.4 | 2 | 16 | (1.5) | 10.6 | 18.0 | 17.4 |
| EBT | 76 | 73 | (4) | 78 | (12.4) | 129.2 | 372 | 344 |
| NP | 66 | 51 | (23) | 61 | (18.3) | 135.7 | 282 | 271 |

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

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

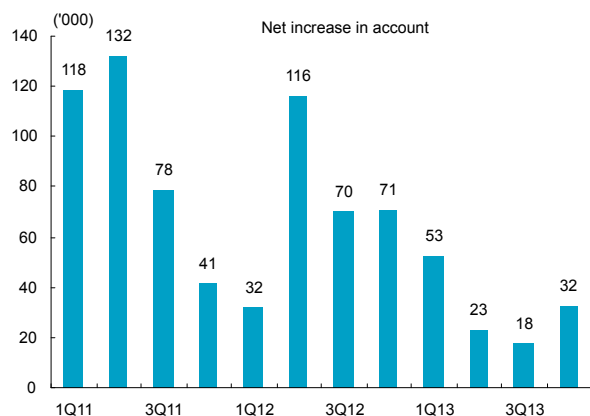
W73,000 (20x 2014 PE). We lifted our EPS by 3% and our target PE to 21x, a 20% premium to the five-year trailing average of 17.3x. We believe Coway merits a premium on steady subscriber growth led by growing demand for environmental appliances, a dominant market share and stable subscriber-led earnings. Meanwhile, Coway announced a DPS of W1,660, suggesting a 49% payout ratio and 2.4% yield. This is a substantial increase from the previous dividend of W1,050, and Coway emphasized it would maintain the current payout ratio and absolute dividend. Share downside should be limited as the current share price reflects a dividend payout of W1,800, assuming a yield of 2.6%.

Table 1. 4Q13 consolidated earnings

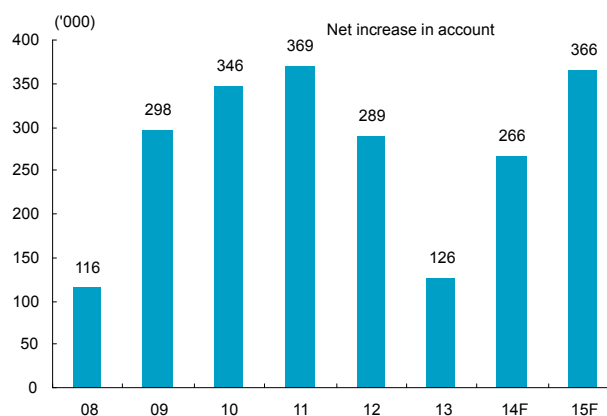
(W bn, %, %p)

| | 4Q13P | | % change | |
|-----------|--------|--|----------|-------|
| | Actual | | QoQ | YoY |
| Sales | 524 | | (1.2) | 0.9 |
| OP | 90 | | (6.0) | 163.1 |
| OP margin | 17.3 | | (0.9) | 10.6 |
| EBT | 91 | | 13.6 | 286.4 |
| NP | 69 | | 14.1 | 407.7 |

Source: Coway, Korea Investment securities & Investment

Figure 1. Net subscriber growth rebounds in 4Q13

Source: Coway, Korea Investment securities & Investment

Figure 2. Net account growth should expand in 2014 following efforts to lift margins in 2013

Source: Coway, Korea Investment securities & Investment

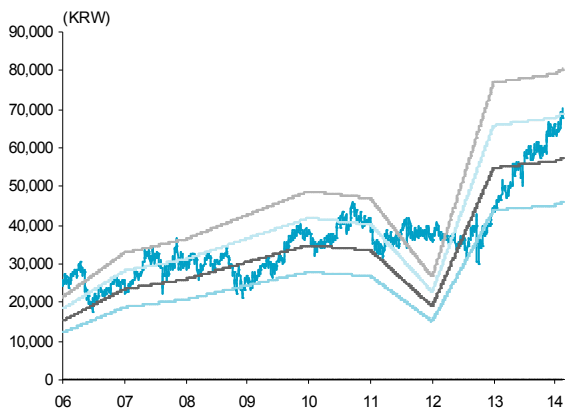
Table 2. 4Q13 earnings in detail

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

| | 1Q11 | 2Q11 | 3Q11 | 4Q11 | 1Q12 | 2Q12 | 3Q12 | 4Q12 | 1Q13 | 2Q13 | 3Q13 | 4Q13 |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| 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 | 5,866 |
| Increase in total account (QoQ) | 118 | 132 | 78 | 41 | 32 | 116 | 70 | 71 | 53 | 23 | 18 | 32 |
| %YoY | 8.4 | 9.6 | 9.7 | 7.3 | 5.4 | 5.0 | 4.8 | 5.3 | 5.6 | 3.9 | 2.9 | 2.2 |
| No. of rental account ('000, end of Q) | 4,234 | 4,321 | 4,377 | 4,450 | 4,480 | 4,518 | 4,551 | 4,607 | 4,658 | 4,717 | 4,746 | 4,800 |
| Increase in rental account (QoQ) | 89 | 87 | 55 | 73 | 30 | 38 | 34 | 56 | 50 | 59 | 30 | 54 |
| No. of membership account ('000, end of Q) | 967 | 1,011 | 1,034 | 1,002 | 1,004 | 1,082 | 1,118 | 1,133 | 1,135 | 1,100 | 1,088 | 1,066 |
| Increase in membership accounts (QoQ) | 29 | 44 | 23 | (32) | 2 | 78 | 36 | 15 | 2 | (36) | (12) | (21) |
| No. of new rental sales ('000 units) | 330 | 342 | 288 | 313 | 285 | 331 | 294 | 310 | 318 | 298 | 257 | 292 |
| 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) | (5.6) |
| Cancel rate (%) | 3.1 | 3.0 | 2.9 | 3.2 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 2.7 | 2.5 | 2.6 |
| Rental ARPU (Won) | 22,218 | 22,586 | 22,845 | 22,993 | 23,164 | 23,319 | 23,325 | 23,357 | 23,347 | 23,468 | 23,495 | 23,547 |
| 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 | 0.8 |
| 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 | 13,498 |
| 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 | 8.3 |
| Sales | 400 | 436 | 430 | 444 | 442 | 446 | 458 | 460 | 465 | 497 | 489 | 482 |
| %YoY | 9.4 | 19.3 | 15.6 | 11.3 | 10.6 | 2.4 | 6.5 | 3.6 | 5.2 | 11.3 | 6.8 | 4.9 |
| Rental | 327 | 340 | 347 | 354 | 356 | 360 | 364 | 370 | 370 | 375 | 378 | 384 |
| %YoY | 6.5 | 9.5 | 10.2 | 9.7 | 8.9 | 6.1 | 5.1 | 4.5 | 3.9 | 4.0 | 3.8 | 4.0 |
| Rental | 288 | 300 | 306 | 313 | 317 | 321 | 323 | 327 | 327 | 332 | 335 | 339 |
| %YoY | 6.0 | 9.5 | 10.3 | 10.0 | 10.1 | 7.1 | 5.7 | 4.6 | 3.2 | 3.5 | 3.6 | 3.6 |
| Membership | 39 | 40 | 41 | 41 | 39 | 39 | 41 | 42 | 43 | 43 | 43 | 44 |
| %YoY | 9.8 | 9.0 | 9.3 | 7.3 | (0.4) | (1.3) | 0.3 | 3.6 | 9.8 | 8.5 | 5.1 | 3.2 |
| Lump sum payment | 32 | 39 | 41 | 32 | 33 | 41 | 39 | 32 | 37 | 48 | 35 | 29 |
| %YoY | 19.2 | 57.0 | 67.3 | 1.6 | 2.7 | 4.5 | (4.6) | 1.6 | 11.9 | 18.0 | (9.4) | (9.1) |
| Cosmetics | 17 | 18 | 18 | 15 | 17 | 16 | 17 | 17 | 18 | 22 | 17 | 20 |
| %YoY | NA | NA | 878.4 | (29.1) | (3.3) | (8.8) | (1.8) | 9.7 | 6.6 | 35.3 | (4.2) | 17.9 |
| Export | 18 | 23 | 25 | 32 | 30 | 21 | 20 | 31 | 32 | 45 | 38 | 31 |
| %YoY | 5.8 | 33.1 | 60.1 | 66.5 | 63.9 | (8.0) | (18.8) | (5.6) | 5.0 | 111.1 | 90.7 | 0.5 |
| Others | 5 | 17 | 0 | 11 | 7 | 8 | 17 | 11 | 9 | 8 | 21 | 18 |
| %YoY | (63.5) | 26.2 | (97.7) | 167.0 | 28.9 | (50.6) | 4711.7 | (0.9) | 36.7 | (5.0) | 21.1 | 67.6 |
| COGS | 125 | 141 | 135 | 150 | 145 | 142 | 152 | 166 | 155 | 168 | 170 | 159 |
| 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 | 32.9 |
| Rental COGS | 95 | 95 | 96 | 100 | 101 | 102 | 104 | 109 | 107 | 108 | 108 | 109 |
| 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 | 28.5 |
| Rental | 83 | 82 | 83 | 88 | 89 | 89 | 91 | 95 | 93 | 94 | 95 | 96 |
| 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 | 28.4 |
| Membership | 12 | 13 | 12 | 13 | 12 | 13 | 13 | 13 | 14 | 14 | 13 | 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 | 29.6 |
| Lump sum payment COGS | 10 | 13 | 14 | 17 | 13 | 15 | 16 | 23 | 14 | 19 | 14 | 9 |
| Compared to sales (%) | 32 | 35 | 33 | 52 | 39 | 37 | 40 | 72 | 38 | 41 | 40 | 32 |
| Cosmetics COGS | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 2 | 3 |
| Compared to sales (%) | 17 | 19 | 18 | 18 | 16 | 16 | 17 | 18 | 15 | 15 | 15 | 18 |
| Export COGS | 15 | 18 | 20 | 25 | 24 | 16 | 23 | 26 | 25 | 33 | 29 | 24 |
| Compared to sales (%) | 80 | 78 | 80 | 78 | 79 | 75 | 115 | 84 | 80 | 74 | 76 | 78 |
| Others COGS | 3 | 12 | 3 | 6 | 5 | 7 | 6 | 6 | 6 | 4 | 16 | 13 |
| Compared to sales (%) | 50 | 72 | 772 | 53 | 71 | 86 | 33 | 53 | 60 | 52 | 78 | 73 |
| Gross profit | 274 | 295 | 295 | 294 | 297 | 304 | 306 | 294 | 311 | 329 | 319 | 323 |
| GP margin (%) | 68.6 | 67.6 | 68.7 | 66.1 | 67.1 | 68.2 | 66.9 | 63.9 | 66.8 | 66.2 | 65.3 | 67.0 |
| OP | 70 | 73 | 73 | 28 | 64 | 65 | 63 | 36 | 69 | 79 | 97 | 89 |
| %YoY | (12.9) | (15.0) | 1.3 | (59.6) | (7.8) | (10.3) | (14.0) | 27.2 | 7.9 | 21.9 | 54.2 | 148.4 |
| OP margin (%) | 17.4 | 16.7 | 17.0 | 6.3 | 14.5 | 14.6 | 13.7 | 7.7 | 14.9 | 16.0 | 19.8 | 18.3 |
| EBT | 50 | 55 | 65 | 55 | 56 | 56 | 18 | 32 | 115 | 81 | 83 | 73 |
| %YoY | (22.1) | (27.5) | 22.4 | 10.9 | 10.3 | 2.5 | (72.6) | (42.5) | 106.7 | 43.1 | 369.2 | 129.4 |
| NP | 39 | 42 | 49 | 47 | 41 | 44 | 13 | 22 | 80 | 61 | 62 | 51 |
| %YoY | (25) | (29) | 37 | 29 | 6 | 5 | (74) | (54) | 95 | 38 | 382 | 136 |

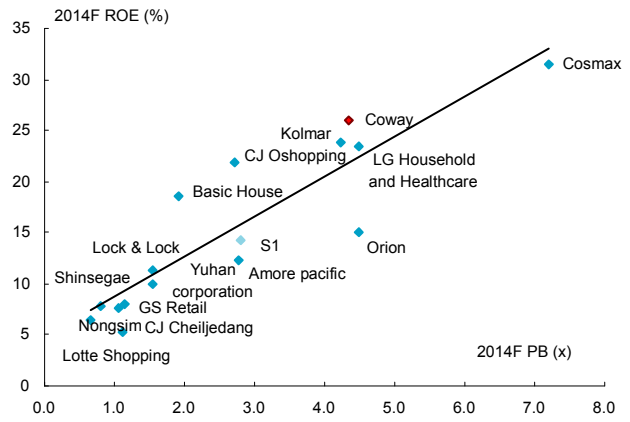
Source: Coway, Korea Investment securities & Investment

Figure 3. Moderate valuation increase



Source: Quantwise, Korea Investment securities & Investment

Figure 4. Appealing valuation compared to major domestic consumer staples



Source: Quantwise, Korea Investment securities & Investment

Balance sheet

| FY-ending Dec. (W bn) | 2011A | 2012A | 2013F | 2014F | 2015F |
|---------------------------------|-------|-------|-------|-------|-------|
| Current assets | 511 | 691 | 621 | 671 | 771 |
| Cash & cash equivalent | 65 | 119 | 174 | 178 | 237 |
| Accounts & other receivables | 257 | 292 | 300 | 324 | 350 |
| Inventory | 73 | 41 | 41 | 44 | 47 |
| Non-current assets | 1,065 | 1,010 | 1,025 | 1,061 | 1,096 |
| Investment assets | 285 | 155 | 158 | 171 | 184 |
| Tangible assets | 535 | 594 | 604 | 614 | 625 |
| Intangible assets | 156 | 158 | 153 | 157 | 158 |
| Total assets | 1,576 | 1,702 | 1,647 | 1,732 | 1,866 |
| Current liabilities | 534 | 720 | 712 | 665 | 620 |
| Accounts & other payables | 187 | 205 | 220 | 237 | 257 |
| ST debt & bond | 165 | 296 | 196 | 96 | 66 |
| Current portion of LT debt | 110 | 110 | 30 | 10 | 10 |
| Non-current liabilities | 294 | 179 | 81 | 65 | 68 |
| Debentures | 177 | 118 | 18 | 0 | 0 |
| LT debt & financial liabilities | 90 | 36 | 36 | 36 | 36 |
| Total liabilities | 828 | 899 | 793 | 731 | 688 |
| 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 | 768 | 916 | 1,093 |
| Shareholders' equity | 748 | 803 | 854 | 1,002 | 1,178 |
| Adj. shareholders' equity | 738 | 785 | 961 | 1,128 | 1,311 |

Cash flow

| FY-ending Dec. (W bn) | 2011A | 2012A | 2013F | 2014F | 2015F |
|--------------------------------|-------|-------|-------|-------|-------|
| C/F from operating | 318 | 429 | 505 | 536 | 418 |
| Net profit | 177 | 120 | 253 | 282 | 318 |
| Depreciation | 145 | 165 | 149 | 153 | 155 |
| Amortization | 8 | 7 | 7 | 7 | 7 |
| Net incr. in W/C | (112) | (38) | 96 | 95 | (62) |
| Others | 100 | 175 | 0 | (1) | 0 |
| C/F from investing | (344) | (301) | (170) | (193) | (194) |
| CAPEX | (299) | (295) | (162) | (166) | (169) |
| Decr. in fixed assets | 9 | 3 | 3 | 3 | 3 |
| Incr. in investment | (42) | (3) | (3) | (12) | (12) |
| Net incr. in intangible assets | (7) | (8) | (2) | (11) | (8) |
| Others | (5) | 2 | (6) | (7) | (8) |
| C/F from financing | 36 | (74) | (280) | (340) | (164) |
| Incr. in equity | 0 | 12 | 0 | 0 | 0 |
| Incr. in debts | 213 | 21 | (280) | (138) | (30) |
| Dividends | (80) | (78) | 0 | (202) | (134) |
| Others | (97) | (29) | 0 | 0 | 0 |
| C/F from others | (0) | (1) | 0 | 0 | 0 |
| Increase in cash | 8 | 54 | 55 | 4 | 59 |

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

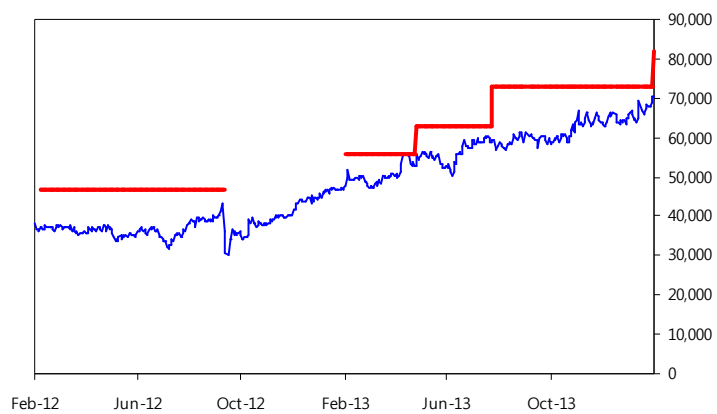
| FY-ending Dec. (W bn) | 2011A | 2012A | 2013F | 2014F | 2015F |
|---|-------|-------|-------|-------|-------|
| Sales | 1,710 | 1,807 | 1,934 | 2,089 | 2,258 |
| COGS | 552 | 605 | 651 | 694 | 745 |
| Gross profit | 1,158 | 1,201 | 1,282 | 1,396 | 1,513 |
| SG&A expense | 915 | 974 | 949 | 1,020 | 1,095 |
| Operating profit | 243 | 228 | 334 | 375 | 418 |
| Financial income | 2 | 4 | 6 | 4 | 5 |
| Interest income | 2 | 1 | 4 | 4 | 5 |
| Financial expense | 26 | 62 | 16 | 9 | 5 |
| Interest expense | 25 | 29 | 16 | 9 | 5 |
| Other non-operating profit | 6 | (5) | 27 | 0 | 0 |
| Gains (Losses) in associates, subsidiaries and JV | 0 | (3) | 0 | 1 | 2 |
| Earnings before tax | 225 | 161 | 350 | 372 | 420 |
| Income taxes | 48 | 42 | 97 | 90 | 102 |
| Net profit | 177 | 120 | 253 | 282 | 318 |
| Other comprehensive profit | (4) | (2) | 0 | 0 | 0 |
| Total comprehensive profit | 173 | 118 | 253 | 282 | 318 |
| EBITDA | 396 | 400 | 489 | 535 | 580 |
| Adj. net profit | 167 | 94 | 249 | 283 | 319 |

Key financial data

| FY-ending Dec. | 2011A | 2012A | 2013F | 2014F | 2015F |
|-----------------------|--------|--------|--------|--------|--------|
| per share data (KRW) | | | | | |
| EPS | 2,235 | 1,268 | 3,334 | 3,802 | 4,285 |
| BPS | 10,962 | 11,354 | 13,639 | 15,796 | 18,179 |
| DPS | 1,050 | 0 | 2,710 | 1,800 | 1,900 |
| Growth (%) | | | | | |
| Sales growth | 13.9 | 5.7 | 7.0 | 8.1 | 8.0 |
| OP growth | (20.7) | (6.4) | 46.4 | 12.5 | 11.2 |
| NP growth | (5.6) | (43.7) | 164.6 | 13.8 | 12.7 |
| EPS growth | (3.9) | (43.3) | 163.0 | 14.0 | 12.7 |
| EBITDA growth | (11.1) | 1.0 | 22.4 | 9.3 | 8.4 |
| Profitability (%) | | | | | |
| OP margin | 14.2 | 12.6 | 17.3 | 18.0 | 18.5 |
| NP margin | 9.8 | 5.2 | 12.9 | 13.6 | 14.1 |
| EBITDA margin | 23.1 | 22.1 | 25.3 | 25.6 | 25.7 |
| ROA | 12.1 | 7.3 | 15.1 | 16.7 | 17.7 |
| ROE | 22.2 | 12.3 | 28.5 | 27.1 | 26.2 |
| Dividend yield | 2.9 | 0.0 | 4.1 | 2.6 | 2.7 |
| Stability | | | | | |
| Net debt (W bn) | 468 | 473 | 138 | (4) | (93) |
| Debt/equity ratio (%) | 72.4 | 73.8 | 36.6 | 17.4 | 12.2 |
| Valuation (X) | | | | | |
| PE | 16.4 | 34.3 | 19.9 | 18.5 | 16.4 |
| PB | 3.3 | 3.8 | 4.9 | 4.4 | 3.9 |
| PS | 1.7 | 1.9 | 2.6 | 2.6 | 2.4 |
| EV/EBITDA | 8.0 | 9.4 | 10.6 | 9.9 | 9.0 |

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 |
| | 02-16-14 | BUY | W82,000 |



■ **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.

■ **Analyst Certification**

I/We, as the research analyst/analysts who prepared this report, do hereby certify that the views expressed in this research report accurately reflect my/our personal views about the subject securities and issuers discussed in this report. I/We do hereby also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report.

■ **Important Disclosures**

As of the end of the month immediately preceding the date of publication of the research report or the public appearance (or the end of the second most recent month if the publication date is less than 10 calendar days after the end of the most recent month), Korea Investment & Securities Co., Ltd., or its affiliates does not own 1% or more of any class of common equity securities of Coway.

There is no actual, material conflict of interest of the research analyst or Korea Investment & Securities Co., Ltd., or its affiliates known at the time of publication of the research report or at the time of the public appearance.

Korea Investment & Securities Co., Ltd., or its affiliates has not managed or co-managed a public offering of securities for Coway in the past 12 months;

Korea Investment & Securities Co., Ltd., or its affiliates has not received compensation for investment banking services from Coway in the past 12 months; Korea Investment & Securities Co., Ltd., or its affiliates does not expect to receive or intends to seek compensation for investment banking services from Coway in the next 3 months.

Korea Investment & Securities Co., Ltd., or its affiliates was not making a market in Coway's securities at the time that the research report was published.

Korea Investment & Securities Co., Ltd. does not own over 1% of Coway shares as of February 17, 2014.

Korea Investment & Securities Co., Ltd. has not provided this report to various third parties.

Neither the analysts covering these companies nor their associates own any shares of as of February 17, 2014.

Prepared by: Eun-chaee Na

This report was written by Korea Investment & Securities Co., Ltd. to help its clients invest in securities. This material is copyrighted and may not be copied, redistributed, forwarded or altered in any way without the consent of Korea Investment & Securities Co., Ltd. This report has been prepared by Korea Investment & Securities Co., Ltd. and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy. We make no representation as to its accuracy or completeness and it should not be relied upon as such. The company accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. The final investment decision is based on the client's judgment, and this report cannot be used as evidence in any legal dispute related to investment decisions.