

Coway (021240)

Positive
Neutral
Negative

12M rating **BUY (Maintain)**

12M TP **W82,000** from W82,000

Up/downside **+14%**

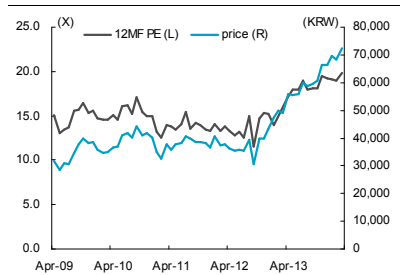
Stock Data

KOSPI (Mar 18, pt)	1,940
Stock price (Mar 18, KRW)	72,200
Market cap (USD mn)	5,208
Shares outstanding (mn)	77
52-Week high/low (KRW)	74,100/47,150
6M avg. daily turnover (USD mn)	10.5
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

Performance

	1M	6M	12M
Absolute (%)	8.2	17.6	52.5
Relative to KOSPI (%p)	8.6	20.8	53.9

12MF PE trend



Source: WISEfn consensus

Home environmental appliance peak season approaching; 1Q14 operating results to be solid

- 1Q14 sales should grow 6% YoY to W493.1bn and OP 28% YoY to W88.6bn on an OPM of 18%, up 3.1%p YoY, beating the consensus of W85.1bn
- Net subscriber growth should accelerate to 40,000-50,000 from 32,000 in 4Q13, and total subscribers should reach 6.13mn by yearend, up 266,000. Of note, the 1Q13 base is relatively high due to early subscriptions before a price hike in April 2013. Rental sales are growing after bottoming at 257,000 units in 3Q13 due to high prices. Sales should top 300,000 in 1Q14, as the cancellation rate remains around 0.88% from 4Q13
- Sales of home environmental appliances (78% of total sales) should grow 4% backed by rebounding sales of water purifiers and air purifiers and rapid mattress growth. Net subscriber growth should reach about 15,000 in 1Q14, and grow 50% YoY to 180,000 for the year, accounting for 3% of total accounts
- 1Q14 exports (9% of total sales) should grow 30% led by a sharp growth in air purifier demand from China. Of note, the Chinese air purifier market surged 90% YoY, and ODM sales to Philips more than doubled, growing 120% YoY in 2013. Philips is the market leader in China, and Coway supplies more than 90% of air purifiers via ODM. We expect exports to grow 25% YoY to W181bn in 2014, and China should account for more than 40%
- Cosmetics sales should grow 8% YoY (4% of total sales) on increasing sales of Re:NK via home shopping. Lump-sum payment sales (7% of total sales) should decline at a single-digit pace as Coway pushes subscribers to convert to water and air purifier rentals and as competition with low- and mid-priced peers picked up
- 2Q is peak season for air purifiers and dehumidifiers. In 2013, Coway booked dehumidifier sales as an OEM, but began selling dehumidifiers as Coway-branded products this year. And, sales should grow more than 30% YoY from W38bn in 2013. We believe sales will pick up in 2Q14, and full-year lump-sum payments should grow 13% YoY as dehumidifiers comprise a large portion of lump-sum payments

Cost controls continue, rental margins pick up substantially

- Margins should improve on higher rental profitability, backed by: 1) decreased inventory disposals, 2) a shift from low-margin memberships to rentals, and 3) higher ARPU on rental and membership markups
- Tight cost controls should continue, including marketing and sales commissions; of note, comparison base is relatively low due to retirement payments in 1Q13

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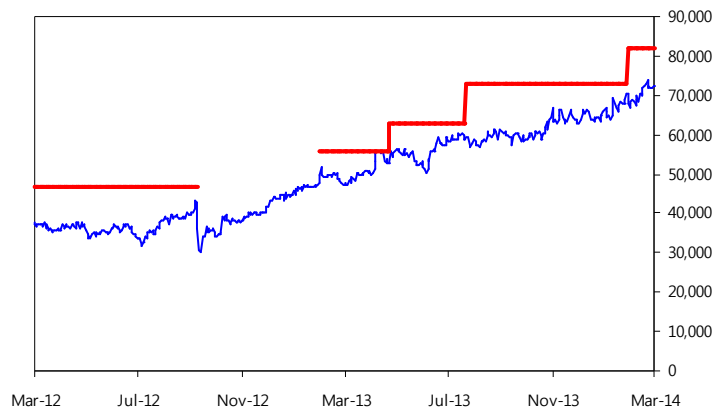
Yr to	Sales	OP	EBT	NP	EPS	% chg	EBITDA	PE	EV/EBITDA	PB	ROE
Dec	(W bn)	(W bn)	(W bn)	(W bn)	(won)	(YoY)	(W bn)	(x)	(x)	(x)	(%)
2011A	1,710	243	225	167	2,235	(3.9)	396	16.4	8.0	3.3	22.2
2012A	1,807	228	161	94	1,268	(43.3)	400	34.3	9.4	3.8	12.3
2013F	1,934	334	350	249	3,334	163.0	489	19.9	10.6	4.9	28.5
2014F	2,089	375	372	283	3,802	14.0	535	19.0	10.2	4.6	27.1
2015F	2,258	418	420	319	4,285	12.7	580	16.8	9.3	4.0	26.2

Implication & Valuation

- Subscriber base expanding amid growing home environmental appliance market, indicating solid earnings model and firmer margins; exports and overseas markets can further fuel growth
- Shares trade at 18.2x 12MF PE; maintain BUY and W82,000 TP (21x 12MF PE, historically high PE)
- DPS should reach W1,800 at yearend (2.5% yield based on current price)

Changes to recommendation and price target

Company (Code)	Date	Recommendation	Price target
Coway (021240)	03-26-12	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



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- 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.
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