

# Coway

(021240 KS)

## Robust business portfolio

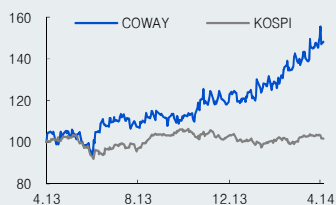
### Consumer Services

Company Report  
April 29, 2014

(Maintain)	<b>Buy</b>
Target Price (12M, W)	<b>103,000</b>
Share Price (04/28/14, W)	<b>79,000</b>
Expected Return	<b>30%</b>

OP (14F, Wbn)	384
Consensus OP (14F, Wbn)	379
EPS Growth (14F, %)	10.7
Market EPS Growth (14F, %)	26.8
P/E (14F, x)	22.5
Market P/E (14F, x)	10.7
KOSPI	1,969.26
Market Cap (Wbn)	6,093
Shares Outstanding (mn)	77
Free Float (%)	65.3
Foreign Ownership (%)	54.0
Beta (12M)	0.64
52-Week Low	50,100
52-Week High	82,900

(%)	1M	6M	12M
Absolute	8.1	33.9	41.8
Relative	8.7	39.3	40.1



Daewoo Securities Co., Ltd.

[Textile/Apparel, Hotel/Leisure]

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### 1Q review: Above-consensus OP of W89.8bn (+29.7% YoY)

Coway posted 1Q14 non-consolidated revenue of W494.8bn (+6.4% YoY) and operating profit of W89.8bn (+29.7% YoY). Revenue was in line with our projection and the consensus, while operating profit once again surprised to the upside, beating the consensus by 5.3%. OP margin came in at 18.1%, above our forecast of 17.3% (which was already higher than the consensus of 16.9%), proving yet again the company's strong cost control abilities.

In 1Q, the company attracted 317,000 new rental accounts, in line with our expectation (315,000 accounts). New rental accounts were down 0.4% YoY due to a high base effect (caused by strong pull-in demand in 1Q13 ahead of price hikes), but increased 8.4% QoQ, suggesting the company's 2014 business plan to restore top-line growth is going smoothly. The rental asset disposal to revenue ratio, a key indicator of product and service quality, remained steady at 2.8%.

Exports, which include sales to overseas subsidiaries and ODM shipments, jumped 43.6% YoY to W45.2bn in 1Q, exceeding our forecast by 19.7%. Exports contributed 9.1% of overall revenue in 1Q14, a sharp increase from 6.8% in 1Q13. After a prolonged period of weakness, cosmetics revenue grew 17.4% YoY to W21bn in 1Q, aided by strong sales from home shopping channels and the launch of new brands.

### Focus on top-line growth in 2Q-3Q

Starting in 2Q14, we expect quarterly revenue growth to top 8% for the first time since 2Q13, on the back of management's growth-oriented strategy. This year, the company has been diversifying its distribution channels for environmental home appliances into large discount stores, electronics retailers, and home shopping channels, which should enable the company to better absorb new demand. That said, during this period of top-line reacceleration, margin improvements will likely be limited, in a reversal of what happened in 2013, when the company compromised growth in favor of profits.

### Maintain Buy and TP of W103,000; Robust business portfolio

We believe Coway has the strongest and most stable earnings power in the domestic consumer services universe. Since the launch of its rental business in 1998, the company has built an unparalleled business portfolio over the years, underpinned by superior R&D strength and high quality products. The significant progress the company has made under its new management since 2013 supports the case for a valuation premium. We reiterate our Buy recommendation on Coway with a target price of W103,000

FY (12)	12/11	12/12	12/13	12/14F	12/15F	12/16F
Revenue (Wbn)	1,824	1,993	2,118	2,285	2,487	2,704
OP (Wbn)	235	226	339	384	438	460
OP Margin (%)	12.9	11.3	16.0	16.8	17.6	17.0
NP (Wbn)	167	94	245	271	313	337
EPS (W)	2,166	1,219	3,178	3,518	4,054	4,372
ROE (%)	22.2	12.3	28.4	26.7	26.6	24.8
P/E (x)	16.9	35.7	20.9	22.5	19.5	18.1
P/B (x)	3.3	3.8	4.9	5.1	4.5	3.9

Note: All figures are based on consolidated K-IFRS; NP refers to net profit attributable to controlling interests  
Source: Company data, KDB Daewoo Securities Research estimates

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## 1Q14 earnings review

**Table 1. 1Q14P non-consolidated earnings results** (Wbn, %)

	1Q13	4Q13	1Q14P			Growth rate	
			Preliminary	KDB Daewoo	Consensus	YoY	QoQ
Revenue	465	482	495	496	504	6.4	2.6
Operating profit	69	88	90	86	85	29.7	2.5
OP margin (%)	14.9	18.2	18.1	17.3	16.9		
Pretax profit	115	72	88	82	90	-23.6	22.2
Net profit	80	50	66	61	68	-17.6	31.7

Notes: Non-consolidated K-IFRS

Source: KDB Daewoo Securities Research estimates

**Table 2. 1Q14P consolidated earnings results** (Wbn, %)

	1Q13	4Q13	1Q14P			Growth rate	
			Preliminary	KDB Daewoo	Consensus	YoY	QoQ
Revenue	507	524	535	539	544	5.4	2.1
Operating profit	70	91	90	85	87	29.5	-0.9
OP margin (%)	13.7	17.4	16.9	15.7	16.0		
Pretax profit	75	90	88	73	86	17.4	-2.2
Net profit	57	68	66	55	65	15.2	-2.6

Notes: Consolidated K-IFRS

Source: Company data, KDB Daewoo Securities Research estimates

**Table 3. Earnings forecast revisions** (Wbn, %)

	Before		After		% chg.		Notes
	14F	15F	14F	15F	14F	15F	
Revenue	2,272	2,495	2,285	2,487	0.6	-0.3	
Operating profit	392	462	384	438	-2.0	-5.2	- Commission expenses revised upward
Pretax profit	343	415	363	418	5.8	0.8	- Reflected decreased interest expenses
Net profit	257	310	271	312	5.6	0.7	

Notes: Consolidated K-IFRS

Source: Company data, KDB Daewoo Securities Research estimates

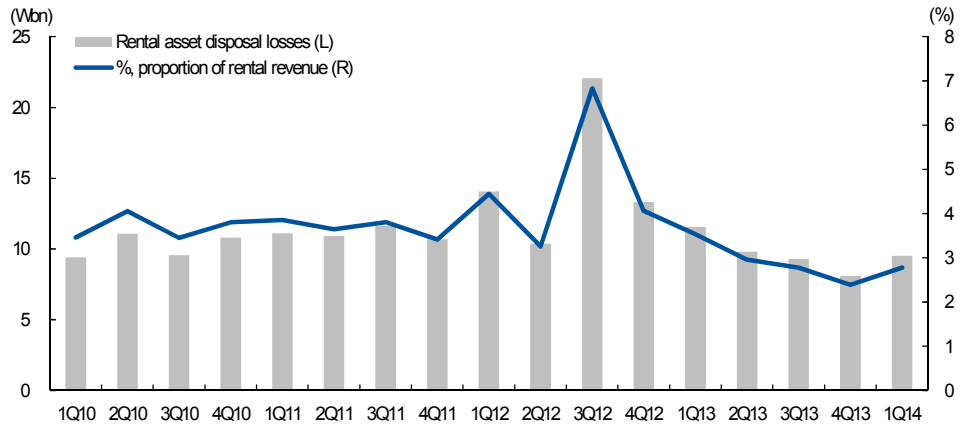
**Table 4. Quarterly earnings forecasts** (Wbn, %)

	1Q13	2Q13	3Q13	4Q13	1Q14P	2Q14F	3Q14F	4Q14F
Revenue	507	556	531	524	535	601	580	569
Operating profit	70	82	96	91	90	103	96	94
OP margin (%)	14	15	18	17	17	17	17	17
Net profit	57	60	60	68	66	71	66	68
NP margin (%)	11	11	11	13	12	12	11	12
Rental asset disposal losses	12	10	9	8	10	10	10	10
(%, rental revenue of parent)	4	3	3	2	3	3	3	3

Notes: Consolidated K-IFRS

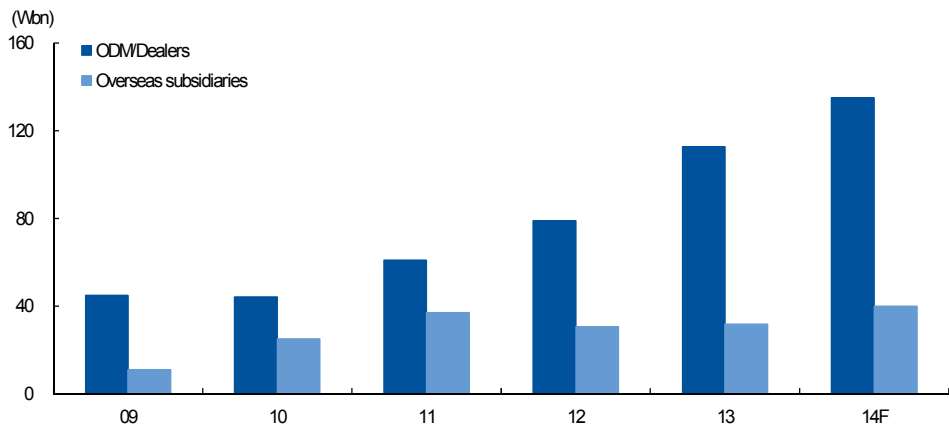
Source: Company data, KDB Daewoo Securities Research estimates

**Figure 1. Quarterly rental asset disposal losses and proportion to rental revenue**



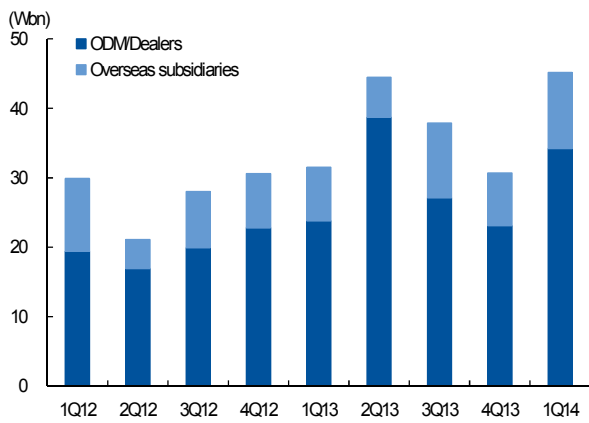
Source: KDB Daewoo Securities Research

**Figure 2. Overseas subsidiaries' 14F revenue growth: 21%**



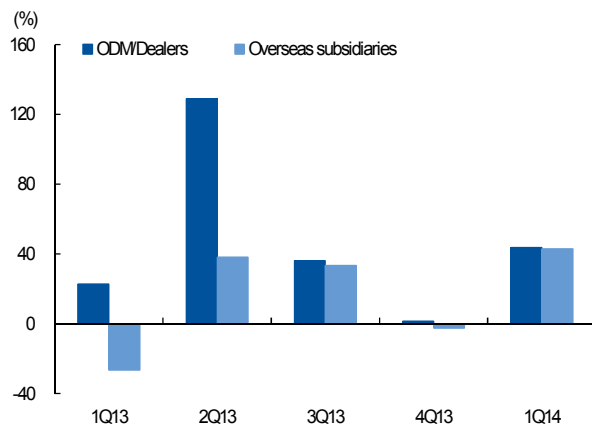
Source: KDB Daewoo Securities Research

**Figure 3. Quarterly export trend**



Source: KDB Daewoo Securities Research

**Figure 4. Quarterly exports growth**



Source: KDB Daewoo Securities Research

## Coway (021240 KS/Buy/TP: W103,000)

## Comprehensive Income Statement (Summarized)

(Wbn)	12/13	12/14F	12/15F	12/16F
<b>Revenue</b>	<b>2,118</b>	<b>2,285</b>	<b>2,487</b>	<b>2,704</b>
<b>Cost of Sales</b>	<b>721</b>	<b>801</b>	<b>883</b>	<b>988</b>
<b>Gross Profit</b>	<b>1,397</b>	<b>1,484</b>	<b>1,604</b>	<b>1,716</b>
<b>SG&amp;A Expenses</b>	<b>1,058</b>	<b>1,100</b>	<b>1,166</b>	<b>1,257</b>
<b>Operating Profit (Adj)</b>	<b>339</b>	<b>384</b>	<b>438</b>	<b>460</b>
<b>Operating Profit</b>	<b>339</b>	<b>384</b>	<b>438</b>	<b>460</b>
<b>Non-Operating Profit</b>	<b>-12</b>	<b>-21</b>	<b>-20</b>	<b>-9</b>
Net Financial Income	-14	-6	-4	-1
Net Gain from Inv in Associates	18	0	0	0
Pretax Profit	327	363	418	451
Income Tax	82	92	106	114
Profit from Continuing Operations	245	271	313	337
Profit from Discontinued Operations	0	0	0	0
<b>Net Profit</b>	<b>245</b>	<b>271</b>	<b>313</b>	<b>337</b>
Controlling Interests	245	271	313	337
Non-Controlling Interests	0	0	0	0
<b>Total Comprehensive Profit</b>	<b>244</b>	<b>271</b>	<b>313</b>	<b>337</b>
Controlling Interests	244	271	313	337
Non-Controlling Interests	0	0	0	0
EBITDA	537	564	633	670
FCF (Free Cash Flow)	269	147	208	235
EBITDA Margin (%)	25.4	24.7	25.5	24.8
Operating Profit Margin (%)	16.0	16.8	17.6	17.0
Net Profit Margin (%)	11.6	11.9	12.6	12.5

## Statement of Financial Condition (Summarized)

(Wbn)	12/13	12/14F	12/15F	12/16F
<b>Current Assets</b>	<b>691</b>	<b>792</b>	<b>937</b>	<b>1,099</b>
Cash and Cash Equivalents	239	287	394	517
AR & Other Receivables	227	262	284	308
Inventories	66	76	82	89
Other Current Assets	159	167	177	185
<b>Non-Current Assets</b>	<b>976</b>	<b>1,019</b>	<b>1,052</b>	<b>1,075</b>
Investments in Associates	0	0	0	0
Property, Plant and Equipment	638	683	716	741
Intangible Assets	177	171	164	158
<b>Total Assets</b>	<b>1,668</b>	<b>1,812</b>	<b>1,989</b>	<b>2,174</b>
<b>Current Liabilities</b>	<b>677</b>	<b>671</b>	<b>669</b>	<b>666</b>
AP & Other Payables	191	191	195	198
Short-Term Financial Liabilities	335	336	338	338
Other Current Liabilities	151	144	136	130
<b>Non-Current Liabilities</b>	<b>50</b>	<b>52</b>	<b>54</b>	<b>57</b>
Long-Term Financial Liabilities	0	0	0	0
Other Non-Current Liabilities	50	52	54	57
<b>Total Liabilities</b>	<b>727</b>	<b>723</b>	<b>723</b>	<b>723</b>
<b>Controlling Interests</b>	<b>941</b>	<b>1,089</b>	<b>1,265</b>	<b>1,451</b>
Capital Stock	41	41	41	41
Capital Surplus	126	126	126	126
Retained Earnings	868	1,016	1,192	1,378
<b>Non-Controlling Interests</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Stockholders' Equity</b>	<b>941</b>	<b>1,089</b>	<b>1,265</b>	<b>1,451</b>

## Cash Flows (Summarized)

(Wbn)	12/13	12/14F	12/15F	12/16F
Cash Flows from Op Activities	537	403	472	509
Net Profit	245	271	313	337
Non-Cash Income and Expense	374	281	304	325
Depreciation	191	173	188	204
Amortization	8	7	7	6
Others	175	101	109	115
Chg in Working Capital	-41	-57	-39	-39
Chg in AR & Other Receivables	67	-33	-21	-22
Chg in Inventories	19	-10	-7	-7
Chg in AP & Other Payables	-82	0	3	3
<b>Income Tax Paid</b>	<b>-41</b>	<b>-92</b>	<b>-106</b>	<b>-114</b>
Cash Flows from Inv Activities	-76	-221	-220	-223
Chg in PP&E	-258	-217	-222	-228
Chg in Intangible Assets	-2	0	0	0
Chg in Financial Assets	-4	-5	-6	-5
<b>Others</b>	<b>188</b>	<b>1</b>	<b>8</b>	<b>10</b>
Cash Flows from Fin Activities	-373	-134	-146	-163
Chg in Financial Liabilities	-260	1	2	0
Chg in Equity	0	0	0	0
Dividends Paid	-78	-124	-136	-151
<b>Others</b>	<b>-35</b>	<b>-11</b>	<b>-12</b>	<b>-12</b>
Increase (Decrease) in Cash	86	48	107	123
Beginning Balance	152	239	287	394
<b>Ending Balance</b>	<b>239</b>	<b>287</b>	<b>394</b>	<b>517</b>

Source: Company data, KDB Daewoo Securities Research estimates

## Forecasts/Valuations (Summarized)

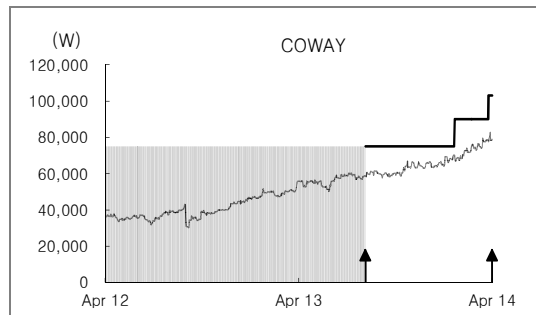
	12/13	12/14F	12/15F	12/16F
P/E (x)	20.9	22.5	19.5	18.1
P/CF (x)	8.3	11.0	9.9	9.2
P/B (x)	4.9	5.1	4.5	3.9
EV/EBITDA (x)	9.7	10.9	9.5	8.8
EPS (W)	3,178	3,518	4,054	4,372
CFPS (W)	8,030	7,162	7,999	8,584
BPS (W)	13,535	15,450	17,741	20,151
DPS (W)	2,710	1,830	2,036	2,240
Payout ratio (%)	82.4	50.1	48.4	49.4
Dividend Yield (%)	4.1	2.3	2.6	2.8
Revenue Growth (%)	6.3	7.9	8.8	8.7
EBITDA Growth (%)	31.0	5.0	12.2	5.8
Operating Profit Growth (%)	50.0	13.3	14.1	5.0
EPS Growth (%)	160.7	10.7	15.2	7.8
Accounts Receivable Turnover (x)	9.5	10.0	9.7	9.7
Inventory Turnover (x)	30.8	32.3	31.4	31.5
Accounts Payable Turnover (x)	17.4	21.7	22.9	23.6
ROA (%)	14.3	15.6	16.5	16.2
ROE (%)	28.4	26.7	26.6	24.8
ROIC (%)	23.0	27.3	28.9	28.7
Liability to Equity Ratio (%)	77.3	66.4	57.2	49.8
Current Ratio (%)	102.2	118.1	140.0	165.0
Net Debt to Equity Ratio (%)	9.5	3.9	-5.0	-12.9
Interest Coverage Ratio (x)	18.2	32.5	37.5	39.3

# APPENDIX 1

## Important Disclosures & Disclaimers

### 2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
COWAY(021240)	04/21/2014	Buy	103,000
	02/16/2014	Buy	90,000
	09/01/2013	Buy	75,000
		No Coverage	



### Stock Ratings

- Buy : Relative performance of 20% or greater
- Trading Buy : Relative performance of 10% or greater, but with volatility
- Hold : Relative performance of -10% and 10%
- Sell : Relative performance of -10%

### Industry Ratings

- Overweight : Fundamentals are favorable or improving
- Neutral : Fundamentals are steady without any material changes
- Underweight : Fundamentals are unfavorable or worsening

Ratings and Target Price History (Share price (—), Target price (—), Not covered (■), Buy (▲), Trading Buy (■), Hold (●), Sell (◆))

\* Our investment rating is a guide to the relative return of the stock versus the market over the next 12 months.

\* Although it is not part of the official ratings at Daewoo Securities, we may call a trading opportunity in case there is a technical or short-term material development.

\* The target price was determined by the research analyst through valuation methods discussed in this report, in part based on the analyst's estimate of future earnings.

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