

# Coway (021240)

12M rating **BUY (Maintain)**  
12M TP **W94,000** from W94,000  
Up/downside **+10%**

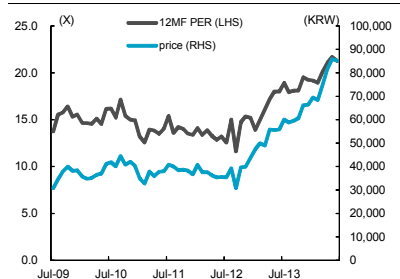
## Stock Data

KOSPI (Jun 3, pt)	2,009
Stock price (Jun 3, KRW)	85,100
Market cap (USD mn)	6,415
Shares outstanding (mn)	77
52-Week high/low (KRW)	87,500/50,100
6M avg. daily turnover (USD mn)	13.9
Free float / Foreign ownership (%)	65.4/53.8
Major shareholders (%)	
Coway Holdings, Inc. and 12 others	31.0

## Performance

	1M	6M	12M
Absolute (%)	6.4	33.8	57.3
Relative to KOSPI (p/p)	3.9	33.8	56.3

## 12MF PE trend



Source: WISEfn consensus

## High growth business regardless of conditions

### Environmental home appliance peak season; favorable sales and stable cancellation rate, subscriber net growth to climb QoQ

2Q is traditionally the peak season for Coway. Earnings should remain favorable with parent sales climbing 7% YoY and OP 19% YoY. Specifically, we anticipate OP at W94bn with an OPM of 17.7%, in line with the consensus. After falling 4% YoY in 2013 due to price hikes in May 2013, sales should rebound 7% YoY this year. In particular, rental sales should finally rebound after bottoming in 3Q13. In fact, 2Q14 rental sales should grow 9% YoY to 327,000 units, up for the first time in five quarters. And, total net subscriber growth should rebound after bottoming in 1Q14 on favorable sales and less membership withdrawals. Of note, net subscriber growth was bolstered by a falling cancellation rate in 2013. The cancellation rate remains below 1%, as air purifiers, bidets and other products are now considered necessities. Meanwhile, ARPU should grow about 2% on the outflow of low-price memberships and an improved product mix.

### New product effects, exports and cosmetics to continue growing

New product effects and the potential of new businesses should come to the fore. Favorable rental sales have been confirmed for every product type. And, new rental sales should be solid on a mini ice water purifier, multi-functional air purifier and an expanded mattress lineup. Specifically, new air purifier sales should grow 30% YoY and new mattress sales more than 80% YoY. And, Coway should be a major beneficiary of the surging dehumidifier market, which is forecast to double in size. Furthermore, the company should gain market share in the mattress market backed by better after-sales services. Mattresses account for only 2% of total sales, but now account for 5% of new rental sales. Meanwhile, the export division should grow more than 20% YoY, despite a high base (111% YoY growth in 2Q13), backed by air purifier sales to China. In addition, the cosmetics division should grow about 15% YoY backed by home shopping sales and hit products.

### Solid market share and new business growth to sustain re-rating

We maintain BUY with a TP of W94,000 (23x 12MF PE, 10% premium to historical peak). After posting stable earnings despite poor conditions in 2013, the company's growth prospects should be highlighted. We remain bullish on the stable cash flows from the growing environmental home appliance market and rental services. Furthermore, Coway should differentiate itself from other consumer plays on a high ROE and steady efforts to grow shareholder value, such as an estimate 2014 dividend yield of 2.3%. Overall, we believe the share re-rating will continue going forward.

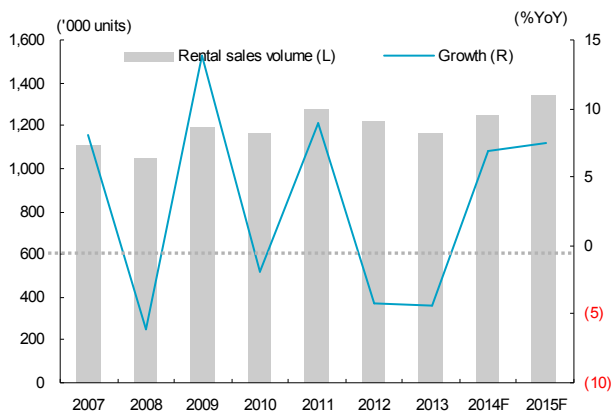
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Yr to	Sales	OP	NP	EPS	% chg	EBITDA	PE	EV/EBITDA	PB	ROE	DY
Dec	(W bn)	(W bn)	(W bn)	(KRW)	(YoY)	(W bn)	(x)	(x)	(x)	(%)	(%)
2012A	1,993	226	94	1,267	(43.3)	410	34.4	9.0	3.8	12.3	0.0
2013A	2,118	339	245	3,283	159.1	537	20.2	9.5	4.9	28.4	4.1
2014F	2,311	384	288	3,875	18.0	576	22.0	11.2	5.5	28.3	2.3
2015F	2,517	429	324	4,361	12.5	621	19.5	10.2	4.8	27.4	2.5
2016F	2,738	471	358	4,820	10.5	664	17.7	9.4	4.2	26.2	2.8

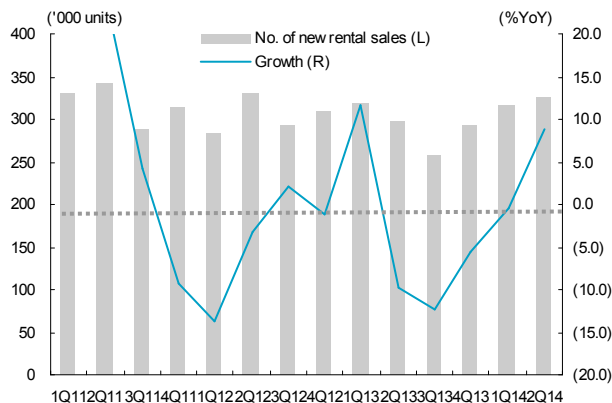
Note: Net profit and EPS are based on figures attributed to controlling interest

**Figure 1. Rental sales to grow after falling in 2012-2013**



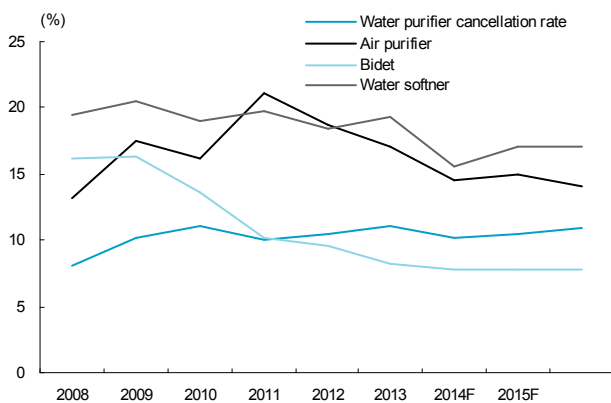
Source: Coway, Korea Investment securities & Investment

**Figure 2. Rental sales to grow for first time in five quarters in 2Q14**



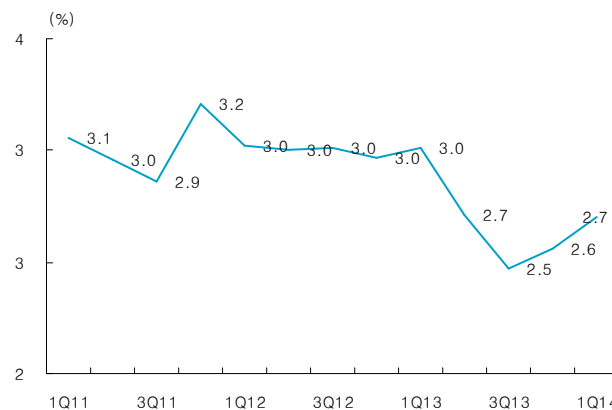
Source: Coway, Korea Investment securities & Investment

**Figure 3. Cancellation rate trending down**



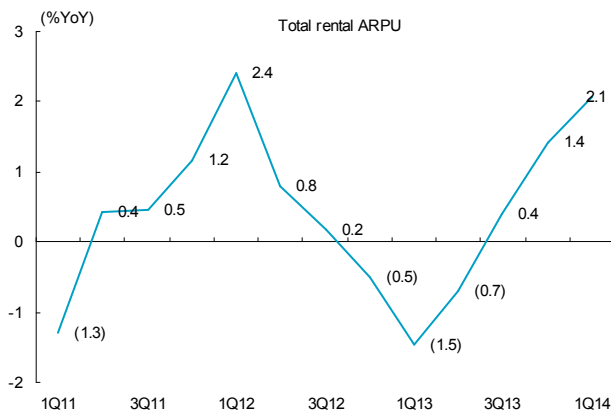
Source: Coway, Korea Investment securities & Investment

**Figure 4. Monthly cancellation rate below 1% in 2Q14, to be flat QoQ**



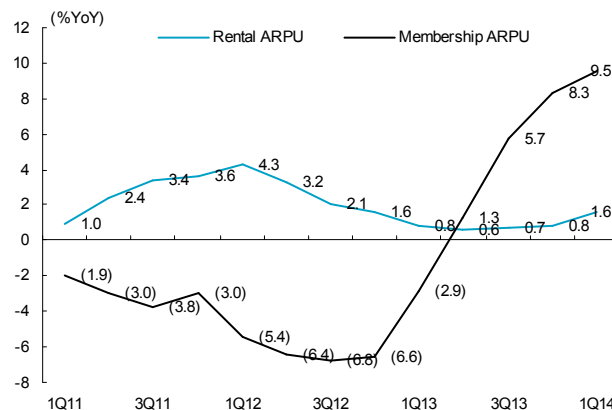
Source: Coway, Korea Investment securities & Investment

**Figure 5. ARPU growth continues**



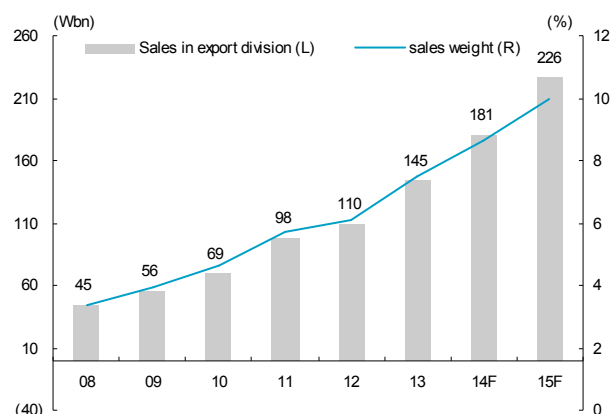
Source: Coway, Korea Investment securities & Investment

**Figure 6. Membership ARPU growing more quickly**



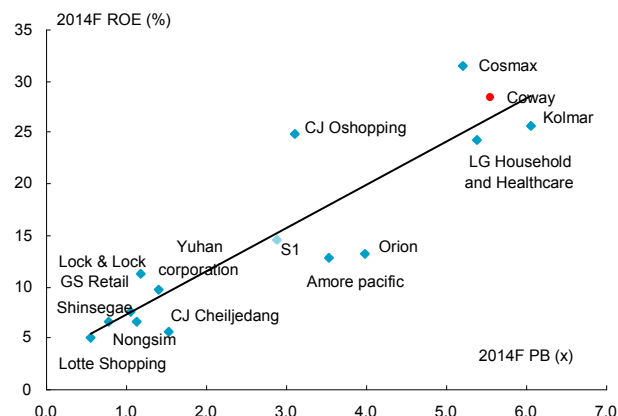
Source: Coway, Korea Investment securities & Investment

Figure 7. Export division growth continues



Source: Coway, Korea Investment securities &amp; Investment

Figure 8. PB/ROE comparison



Source: Coway, Korea Investment securities &amp; Investment

## Company overview

Coway makes and sells environmental home appliances (EHA) such as water/air purifiers, bidets, etc. The company mainly provides products through rentals and outright purchases to customers. Coway is the domestic leader in terms of market share and brand recognition with approximately 5.87mn accounts (rental users + memberships) as of end-2013. The company continues to expand its product lineup, which includes water/air purifiers, bidets, water softeners, food waste treatment systems, mattresses, etc., and is also stepping up overseas operations.

## ■ Glossary

- Rental: Customers gain the right to use a product by paying for registration and monthly rental fees
- Membership: Customers that have purchased a product or gained ownership receive services for product maintenance
- Outright purchase: A lump-sum payment made for a product with no maintenance service offered
- ARPU: Average revenue per user

**Balance sheet**

FY-ending Dec. (W bn)	2012A	2013A	2014F	2015F	2016F
Current assets	779	691	754	865	968
Cash & cash equivalent	152	239	260	327	383
Accounts & other receivables	262	250	272	296	323
Inventory	72	66	72	78	85
Non-current assets	976	976	1,026	1,078	1,132
Investment assets	54	55	60	65	71
Tangible assets	630	638	657	676	695
Intangible assets	184	177	193	210	229
Total assets	1,755	1,668	1,781	1,943	2,101
Current liabilities	759	677	641	622	576
Accounts & other payables	236	224	245	266	290
ST debt & bond	330	182	132	82	32
Current portion of LT debt	110	146	146	146	146
Non-current liabilities	211	50	55	60	65
Debentures	118	0	0	0	0
LT debt & financial liabilities	36	0	0	0	0
Total liabilities	970	727	695	682	641
Controlling interest	785	941	1,095	1,271	1,465
Capital stock	41	41	41	41	41
Capital surplus	126	126	126	126	126
Other Reserves	(85)	(94)	(94)	(94)	(94)
Retained earnings	701	868	1,022	1,198	1,393
Minority interest	0	0	0	0	0
Shareholders' equity	785	941	1,095	1,271	1,465

**Cash flow**

FY-ending Dec. (W bn)	2012A	2013A	2014F	2015F	2016F
C/F from operating	454	537	456	508	512
Net profit	94	245	288	324	358
Depreciation	175	191	183	183	183
Amortization	8	8	8	9	10
Net incr. in W/C	(24)	(41)	(25)	(10)	(40)
Others	201	134	2	2	1
C/F from investing	(319)	(76)	(240)	(243)	(246)
CAPEX	(314)	(268)	(202)	(202)	(202)
Decr. in fixed assets	4	10	0	0	0
Incr. in investment	(3)	180	(5)	(5)	(6)
Net incr. in intangible assets	(8)	(2)	(24)	(26)	(28)
Others	2	4	(9)	(10)	(10)
C/F from financing	(76)	(373)	(184)	(199)	(213)
Incr. in equity	12	5	0	0	0
Incr. in debts	20	(262)	(50)	(50)	(50)
Dividends	(78)	(78)	(202)	(134)	(149)
Others	(30)	(38)	68	(15)	(14)
C/F from others	(5)	(1)	0	0	0
Increase in cash	54	86	32	66	53

Note: Based on K-IFRS (consolidated)

**Income statement**

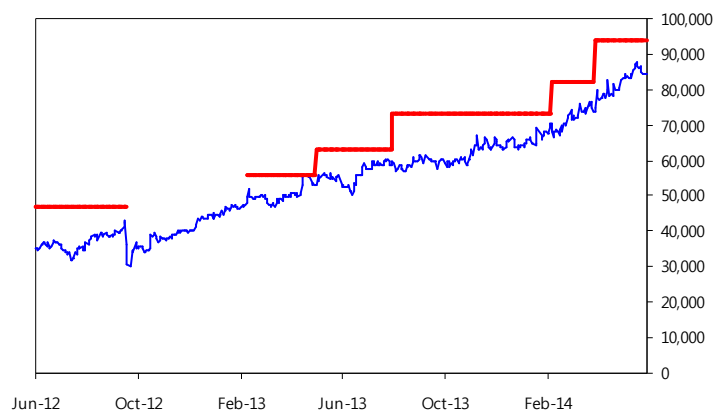
FY-ending Dec. (W bn)	2012A	2013A	2014F	2015F	2016F
Sales	1,993	2,118	2,311	2,517	2,738
COGS	678	721	786	846	920
Gross profit	1,315	1,397	1,525	1,671	1,818
SG&A expense	1,088	1,058	1,141	1,242	1,347
Operating profit	226	339	384	429	471
Financial income	2	4	6	8	9
Interest income	2	4	6	8	9
Financial expense	30	19	9	8	6
Interest expense	30	19	9	8	6
Other non-operating profit	(58)	(15)	(1)	(1)	(1)
Gains (Losses) in associates, subsidiaries and JV	5	18	0	0	0
Earnings before tax	146	327	380	427	472
Income taxes	52	82	92	103	114
Net profit	94	245	288	324	358
Net profit of controlling interest	94	245	288	324	358
Other comprehensive profit	5	(1)	0	0	0
Total comprehensive profit	99	244	288	324	358
Total comprehensive profit of controlling interest	99	244	288	324	358
EBITDA	410	537	576	621	664

**Key financial data**

FY-ending Dec.	2012A	2013A	2014F	2015F	2016F
per share data (KRW)					
EPS	1,267	3,283	3,875	4,361	4,820
BPS	11,354	13,535	15,538	17,812	20,336
DPS	0	2,710	1,800	2,000	2,200
Growth (%)					
Sales growth	9.2	6.3	9.1	8.9	8.8
OP growth	(3.7)	49.9	13.3	11.7	9.8
NP growth	(43.7)	160.6	17.6	12.4	10.5
EPS growth	(43.3)	159.1	18.0	12.5	10.5
EBITDA growth	3.9	31.1	7.2	7.9	6.9
Profitability (%)					
OP margin	11.3	16.0	16.6	17.0	17.2
NP margin	4.7	11.6	12.5	12.9	13.1
EBITDA margin	20.6	25.4	24.9	24.7	24.3
ROA	5.6	14.3	16.7	17.4	17.7
ROE	12.3	28.4	28.3	27.4	26.2
Dividend yield	0.0	4.1	2.3	2.5	2.8
Dividend payout ratio	0.0	82.4	46.5	46.0	45.5
Stability					
Net debt (W bn)	439	90	17	(100)	(207)
Debt/equity ratio (%)	75.7	35.6	26.0	18.5	12.6
Valuation (X)					
PE	34.4	20.2	22.0	19.5	17.7
PB	3.8	4.9	5.5	4.8	4.2
EV/EBITDA	9.0	9.5	11.2	10.2	9.4

**Changes to recommendation and price target**

Company (Code)	Date	Recommendation	Price target
Coway (021240)	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
	04-08-14	BUY	W94,000



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- BUY: Expected to give a return of +15% or more
- Hold: Expected to give a return between -15% and 15%
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Prepared by: Eun-chaе Na

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