

# Coway (021240 KS)

## Growth potential and margin gains intact

**BUY** (MAINTAIN)

Price (Jun. 12)	W81,000
Target Price	W100,000
% variance	23.5%

Joshua Kong ☎ (82-2) 3772-1527  
✉ jxlove1983@shinhan.com

KOSPI	2,011.65p
KOSDAQ	536.14p
Market Cap.	W6,247.1bn/ US5,479.9mn
Par Value	W500
Outstanding Shares	77.1mn
Free Floating Shares	50.4mn(65.4%)
52-Week High/Low	W87,500/W50,100
60-Day Avg. Trading Volume	242,767shrs
60-Day. Avg. Trading T/O	W19,129mn
Foreign Ownership	53.59%
Major Shareholders	
Coway Holdings and 12 others	31.00%
Absolute Performance	
3M	13.0%
6M	24.2%
12M	54.3%
Relative performance to KOSPI	
3M	8.5%
6M	21.5%
12M	46.5%

- ◆ Sales of W522.3bn and operating profit of W95.6bn expected in 2Q14
- ◆ Solid domestic rental business, overseas sales to grow further
- ◆ Retain BUY for a target price of W100,000

### Sales of W522.3bn (+5.1% YoY) and operating profit of W95.6bn (+20.4% YoY) expected in 2Q14

Coway is expected to turn in standalone sales of W522.3bn (+5.1% YoY) and operating profit of W95.6bn (+20.4% YoY) in 2Q14. Domestic new rental business is forecast to grow 14.7% YoY to 340,000. Air purifier exports to China should increase steadily. Domestic rental sales and exports are estimated at W344bn (+4.6% YoY) and W54.2bn (+21.7% YoY), respectively. Operating profit is projected to top the market estimate for five consecutive quarters.

### Solid domestic rental business, overseas sales to grow further

Domestic new rental business should expand at a rapid pace thanks to strong sales of air purifiers and water purifiers, accounting for 60% of total rental accounts. New rental accounts have higher prices, so they will help raise ARPU (average revenue per user). We project rental sales to reach W1.4tr (+5.7% YoY) in 2014.

Exports of air purifiers to China should remain strong. The company is expected to add new export destinations in the near future. Exports should continue to grow at a CAGR of over 30%. We estimate W201.8bn (+39.6% YoY) in 2014.

Strong domestic rental sales will help lift earnings given over 50% contribution to margins. Operating leverage should continue to expand in 2014. Operating profit margin is projected to improve 1.6%p YoY to 18.8% in 2014. We expect top- and bottom-growth in the long term.

### Retain BUY for a target price of W100,000

We retain our BUY rating on Coway for a target price of W100,000, derived by applying a target PER of 24x to 12-month forward EPS of W4,161. The share price has dropped about 10% from its peak on the profit-taking of foreign investors. Earnings momentum will likely be sustained. Long-term growth potential remains intact. The dividend yield surpasses 2% at the current share price. We recommend investors to buy shares during corrections.

Year to Dec.	Sales (W bn)	OP (W bn)	Pre-tax (W bn)	NP (W bn)	EPS (Won)	Growth (%)	BPS (Won)	PER (X)	EV/EBITDA (X)	PBR (X)	ROE (%)	Net Debt Ratio (%)
2012	1,806.8	227.8	161.5	119.7	1,553	(32.4)	10,408	28.0	9.6	4.2	15.4	58.9
2013	1,933.7	333.2	350.5	253.2	3,283	111.4	12,543	20.2	10.0	5.3	28.6	12.8
2014F	2,067.3	387.0	385.1	289.1	3,748	14.2	14,556	21.8	10.8	5.6	27.7	(2.6)
2015F	2,278.1	446.2	452.6	339.5	4,401	17.4	16,837	18.6	9.4	4.9	28.0	(14.4)
2016F	2,489.1	502.8	516.1	370.8	5,019	14.0	19,236	16.3	8.4	4.3	27.8	(23.8)

Note: K-IFRS consolidated

## 2Q14 earnings estimates

(bn KRW)	2Q14F	1Q14	% QoQ	2Q13	% YoY	Consensus
Sales	524.0	494.8	5.9	496.9	5.4	532.3
OP	96.4	89.9	7.2	79.4	21.5	93.6
NP	72.1	66.1	9.0	60.3	19.5	69.6
OPM (%)	18.4	18.2		16.0		17.6
NPM (%)	13.8	13.4		12.1		13.1

Source: Company data, Shinhan Investment Corp.

## Earnings forecast revision

(bn KRW)	2014F			2015F		
	Before	After	Change (%)	Before	After	Change (%)
Sales	2,067.3	2,072.6	0.3	2,278.1	2,285.6	0.3
OP	386.1	389.5	0.9	445.3	449.8	1.0
Consolidated NP	288.4	291.0	0.9	338.7	351.6	3.8

Source: Shinhan Investment Corp.

Note: K-IFRS standalone

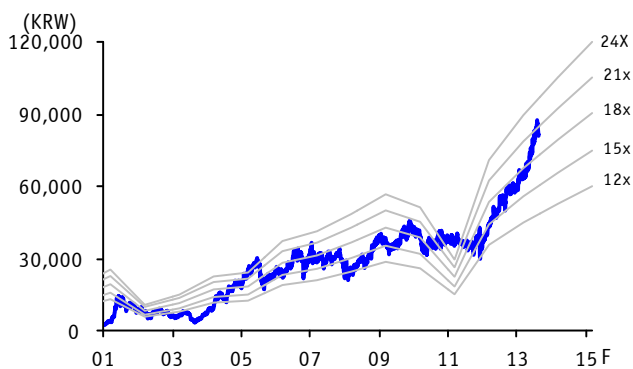
## Target price calculation

(bn KRW)	Value	(bn KRW)	Value	(bn KRW)	Value
2014 NP	291.0	12-month forward NP	320.9	2015 NP	351.6
EPS (KRW)	3,774	EPS (KRW)	4,161	EPS (KRW)	4,559
PER (x)	26	Target PER (x)	24	PER (x)	22
Target price (KRW)	100,000	<b>Target price (KRW)</b>	<b>100,000</b>	Target price (KRW)	100,000
Current price (KRW)	81,000	Current price (KRW)	81,000	Current price (KRW)	81,000
Current PER (x)	21.5	Current PER (x)	19.5	Current PER (x)	17.8

Source: Shinhan Investment Corp.

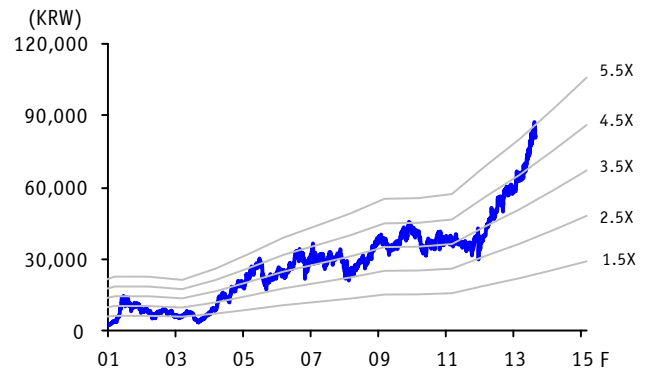
Note: K-IFRS standalone; target PER is a 20% premium to 2-year average PER of 20x

## 12-month forward PER



Source: QuantiWise, Shinhan Investment Corp.

## 12-month forward PBR



Source: QuantiWise, Shinhan Investment Corp.

Annual earnings					
(bn KRW)	2012	2013	2014F	2015F	2016F
<b>Revenue</b>	<b>1,806.8</b>	<b>1,933.7</b>	<b>2,072.6</b>	<b>2,285.6</b>	<b>2,497.1</b>
Growth (% YoY)	5.7	7.0	7.2	10.3	9.3
Rental subscribers	4,607,420	4,502,314	4,721,049	5,005,009	5,258,594
Growth (% YoY)	3.5	(2.3)	4.9	6.0	5.1
Rental ARPU (KRW)	22,824	24,436	24,637	25,111	25,532
Rental	1,261.9	1,320.2	1,395.8	1,508.2	1,611.2
Rental registration	23.8	13.2	10.2	6.7	4.4
Membership	161.3	172.3	176.4	178.5	180.6
Lump-sum	144.7	149.3	136.5	152.4	159.7
Exports	109.6	144.6	201.8	275.5	363.8
ODM		112.7	160.8	230.0	312.0
Overseas subsidiaries		31.9	41.0	45.5	51.8
Cosmetics	67.2	76.4	86.2	97.2	110.0
Others	38.3	57.7	65.6	67.1	67.4
<b>Growth (% YoY)</b>					
Rental	7.4	4.6	5.7	8.1	6.8
Rental registration	(23.4)	(44.6)	(22.4)	(34.4)	(34.4)
Membership	0.3	6.8	2.3	1.2	1.2
Lump-sum	4.7	3.2	(8.6)	11.7	4.8
Exports	11.8	32.0	39.6	36.5	32.1
Cosmetics	(1.4)	13.6	12.9	12.8	13.1
Others (living + water treatment)	(0.2)	50.7	13.7	2.2	0.4
<b>COGS</b>	<b>605.4</b>	<b>651.7</b>	<b>719.7</b>	<b>817.8</b>	<b>921.0</b>
COGS ratio (%)	33.5	33.7	34.7	35.8	36.9
<b>Gross profit</b>	<b>1,201.4</b>	<b>1,282.1</b>	<b>1,352.9</b>	<b>1,467.8</b>	<b>1,576.2</b>
Gross margin (%)	66.5	66.3	65.3	64.2	63.1
<b>SG&amp;A costs</b>	<b>973.6</b>	<b>948.9</b>	<b>963.3</b>	<b>1,018.0</b>	<b>1,069.5</b>
SG&A costs/sales ratio (%)	53.9	49.1	46.5	44.5	42.8
<b>OP</b>	<b>227.8</b>	<b>333.2</b>	<b>389.5</b>	<b>449.8</b>	<b>506.7</b>
OPM (%)	12.6	17.2	18.8	19.7	20.3
Growth (% YoY)	(6.4)	46.3	16.9	15.5	12.6
Financial income	3.6	3.9	6.3	9.2	11.3
Financial expense	61.7	17.6	11.4	8.8	6.0
Other non-operating income	(5.0)	(9.1)	3.2	6.0	8.0
Pre-tax profit	161.5	350.5	387.6	456.2	520.0
Corporate tax expense	41.7	97.9	96.6	114.1	130.0
Corporate tax rate (%)	25.8	27.9	24.9	25.0	25.0
<b>NP</b>	<b>119.7</b>	<b>252.6</b>	<b>290.9</b>	<b>342.2</b>	<b>390.0</b>
NPM (%)	6.6	13.1	14.0	15.0	15.6
Growth (% YoY)	(32.4)	111.0	15.2	17.6	14.0
Earnings contribution from subsidiaries	(21.0)	(30.2)	0.1	9.5	16.3
Consolidated NP	<b>98.7</b>	<b>222.4</b>	<b>291.0</b>	<b>351.6</b>	<b>406.3</b>
Growth (% YoY)	<b>(40.9)</b>	<b>125.2</b>	<b>30.9</b>	<b>20.8</b>	<b>15.5</b>
Standalone EPS (KRW)	1,553	3,283	3,772	4,436	5,057
Consolidated EPS (KRW)	1,280	2,883	3,774	4,559	5,268

Source: Company data, Shinhan Investment Corp.

Note: 2014 rental subscriber numbers do not include 297,634 accounts receivable

Quarterly earnings															
(bn KRW)	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14F	3Q14F	4Q14F	1Q15F	2Q15F	3Q15F	4Q15F	13	14F	15F
<b>Revenue</b>	<b>465.2</b>	<b>496.9</b>	<b>489.2</b>	<b>482.4</b>	<b>494.8</b>	<b>524.0</b>	<b>524.3</b>	<b>529.5</b>	<b>552.3</b>	<b>578.2</b>	<b>579.7</b>	<b>575.5</b>	<b>1,933.7</b>	<b>2,072.6</b>	<b>2,285.6</b>
Growth (% YoY)	5.2	11.3	6.8	4.9	6.4	5.4	7.2	9.8	11.6	10.3	10.6	8.7	7.0	7.2	10.3
Rental	<b>323.8</b>	<b>328.8</b>	<b>331.8</b>	<b>335.8</b>	<b>339.4</b>	<b>345.8</b>	<b>351.6</b>	<b>359.0</b>	<b>366.8</b>	<b>375.1</b>	<b>380.3</b>	<b>386.1</b>	<b>1,320.2</b>	<b>1,395.8</b>	<b>1,508.2</b>
Rental registration	3.6	3.2	3.1	3.3	3.0	2.7	2.4	2.2	2.0	1.8	1.6	1.4	13.2	10.2	6.7
Membership	<b>42.8</b>	<b>42.8</b>	<b>43.2</b>	<b>43.6</b>	<b>43.9</b>	<b>44.0</b>	<b>44.2</b>	<b>44.3</b>	<b>44.4</b>	<b>44.6</b>	<b>44.7</b>	<b>44.8</b>	<b>172.3</b>	<b>176.4</b>	<b>178.5</b>
Lump-sum	<b>36.6</b>	<b>47.8</b>	<b>35.4</b>	<b>29.4</b>	<b>27.6</b>	<b>39.9</b>	<b>34.9</b>	<b>34.1</b>	<b>37.7</b>	<b>40.7</b>	<b>36.1</b>	<b>37.9</b>	<b>149.3</b>	<b>136.5</b>	<b>152.4</b>
Exports	31.5	44.6	38.0	30.6	45.2	54.2	52.0	50.3	61.7	75.4	75.5	62.9	144.6	201.8	275.5
Cosmetics	17.9	22.1	16.6	19.8	21.0	21.5	21.3	22.5	23.3	23.9	24.6	25.5	76.4	86.2	97.2
Others	9.1	7.8	21.1	19.8	14.8	15.9	17.9	17.1	16.4	16.8	17.1	16.8	57.7	65.6	67.1
<b>COGS</b>	<b>154.7</b>	<b>167.9</b>	<b>169.9</b>	<b>159.2</b>	<b>169.3</b>	<b>183.8</b>	<b>183.4</b>	<b>183.2</b>	<b>195.3</b>	<b>210.1</b>	<b>210.2</b>	<b>202.2</b>	<b>651.7</b>	<b>719.7</b>	<b>817.8</b>
COGS ratio (%)	33.2	33.8	34.7	33.0	34.2	35.1	35.0	34.6	35.4	36.3	36.3	35.1	33.7	34.7	35.8
<b>SG&amp;A costs</b>	<b>241.3</b>	<b>249.7</b>	<b>222.3</b>	<b>235.5</b>	<b>235.7</b>	<b>243.8</b>	<b>240.9</b>	<b>243.0</b>	<b>252.0</b>	<b>254.3</b>	<b>254.2</b>	<b>257.5</b>	<b>948.9</b>	<b>963.3</b>	<b>1,018.0</b>
SG&A costs/sales ratio (%)	51.9	50.2	45.4	48.8	47.6	46.5	45.9	45.9	45.6	44.0	43.9	44.7	49.1	46.5	44.5
<b>OP</b>	<b>69.2</b>	<b>79.4</b>	<b>97.0</b>	<b>87.6</b>	<b>89.9</b>	<b>96.4</b>	<b>100.1</b>	<b>103.2</b>	<b>105.0</b>	<b>113.7</b>	<b>115.3</b>	<b>115.8</b>	<b>333.2</b>	<b>389.5</b>	<b>449.8</b>
OPM (%)	14.9	16.0	19.8	18.2	18.2	18.4	19.1	19.5	19.0	19.7	19.9	20.1	17.2	18.8	19.7
Growth (% YoY)	7.9	21.9	54.2	145.7	29.8	21.5	3.1	17.8	16.8	18.0	15.2	12.2	46.3	16.9	15.5
Financial income	0.6	1.3	0.6	1.4	0.7	1.7	1.8	2.1	2.1	2.2	2.4	2.6	3.9	6.3	9.2
Financial expense	5.7	4.3	4.1	3.5	2.9	3.0	2.8	2.7	2.5	2.3	2.1	1.9	17.6	11.4	8.8
Other non-operating income	6.0	4.4	(9.6)	(9.9)	0.2	1.0	1.0	1.0	1.5	1.5	1.5	1.5	(9.1)	3.2	6.0
Pre-tax profit	115.0	80.7	83.0	71.8	87.8	96.1	100.0	103.6	106.1	115.1	117.0	117.9	350.5	387.6	456.2
<b>NP</b>	<b>80.2</b>	<b>60.3</b>	<b>62.2</b>	<b>50.0</b>	<b>66.1</b>	<b>72.1</b>	<b>75.0</b>	<b>77.7</b>	<b>79.6</b>	<b>86.4</b>	<b>87.8</b>	<b>88.4</b>	<b>252.6</b>	<b>290.9</b>	<b>342.2</b>
NPM (%)	17.2	12.1	12.7	10.4	13.4	13.8	14.3	14.7	14.4	14.9	15.1	15.4	13.1	14.0	15.0
Growth (% YoY)	195.6	77.3	(660.7)	(29.6)	(17.5)	19.5	20.6	55.5	20.3	19.8	17.0	13.8	111.0	15.2	17.6

Source: Company data, Shinhan Investment Corp.

Note: K-IFRS standalone

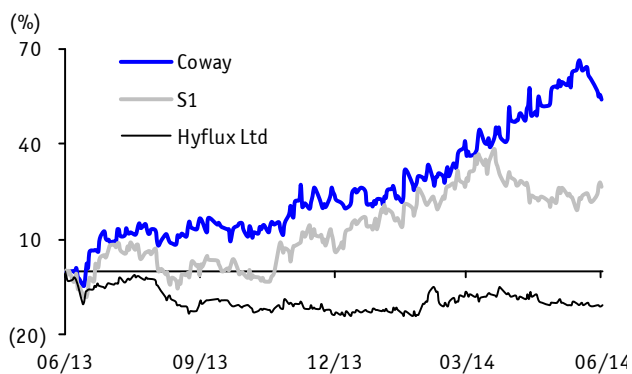
Rental subscriptions and ARPU									
(subscriptions)	2008	2009	2010	2011	2012	2013	2014F	2015F	2016F
ARPU (KRW)	21,970	21,575	21,285	22,008	22,824	24,436	24,637	25,111	25,532
Total subscriptions	3,639,197	3,898,647	4,145,102	4,450,003	4,607,420	4,502,314	4,721,049	5,005,009	5,258,594
Net adds	26,706	259,450	246,455	304,901	157,417	(105,106)	218,735	283,960	253,585
New subscriptions	1,045,248	1,188,939	1,167,378	1,272,538	1,218,911	1,165,966	1,248,028	1,304,083	1,327,967
Cancellation rate (%)	13.9	13.5	12.9	12.5	12.1	10.8	10.6	10.4	9.9
<b>Growth (%)</b>									
ARPU	2.8	(1.8)	(1.3)	3.4	3.7	7.1	0.8	1.9	1.7
Total subscriptions	0.7	7.1	6.3	7.4	3.5	(2.3)	4.9	6.0	5.1
Net adds	(80.1)	871.5	(5.0)	23.7	(48.4)	(166.8)	(308.1)	29.8	(10.7)
New subscriptions	(10.9)	13.7	(1.8)	9.0	(4.2)	(4.3)	7.0	4.5	1.8

Source: Company data, Shinhan Investment Corp.

Global peers			Coway	Kurita Water Industries	S1	Fujian Longking	OSIM International	Hyflux
Company			021240 KS	6370 JP	012750 KS	600388 CH	OSIM SP	HYF SP
Market cap. (bn KRW)			6,247.1	2,747.1	3,089.3	1,720.9	798.7	1,655.1
Sales (bn KRW)	2013		2,118.3	2,434.1	1,274.1	971.6	465.9	566.7
	2014F		2,284.1	1,773.7	1,724.5	1,122.8	401.6	618.2
	2015F		2,455.4	1,850.3	1,864.7	1,218.3	573.6	699.1
OP (bn KRW)	2013		339.0	283.6	129.1	76.9	73.6	116.1
	2014F		386.0	150.3	195.4	83.0	57.7	125.5
	2015F		438.6	178.6	220.6	93.2	77.3	146.7
OPM (%)	2013		16.0	11.7	10.1	7.9	15.8	20.5
	2014F		16.9	8.5	11.3	7.4	14.4	20.3
	2015F		17.9	9.7	11.8	7.6	13.5	21.0
NP (bn KRW)	2013		245.1	155.1	79.2	81.3	38.5	88.9
	2014F		290.3	95.4	129.6	78.4	31.9	97.9
	2015F		336.3	117.3	147.1	85.1	35.3	114.0
NPM (%)	2013		11.6	6.4	6.2	8.4	8.3	15.7
	2014F		12.7	5.4	7.5	7.0	7.9	15.8
	2015F		13.7	6.3	7.9	7.0	6.2	16.3
EPS growth (% YoY)	2013		159.1	T/B	T/B	57.0	T/B	13.8
	2014F		16.0	T/B	53.2	T/B	9.1	2.9
	2015F		15.8	22.2	13.4	12.5	58.8	16.1
P/E (x)	2013		20.2	22.3	31.9	31.3	48.3	16.4
	2014F		21.3	29.4	22.7	23.3	42.3	17.0
	2015F		18.4	23.6	20.0	20.6	26.3	14.7
P/B (x)	2013		5.3	1.2	3.1	5.2	2.0	6.1
	2014F		5.4	1.3	3.8	3.3	1.4	4.7
	2015F		4.6	1.2	3.3	2.9	1.3	3.9
EV/EBITDA (x)	2013		9.4	4.9	9.6	28.5	18.7	10.9
	2014F		10.7	6.3	10.0	15.4	21.8	11.2
	2015F		9.7	5.8	9.0	14.1	17.4	9.8
ROE (%)	2013		28.4	5.5	10.0	17.1	4.2	43.5
	2014F		28.5	4.5	15.2	15.2	5.3	32.3
	2015F		28.0	5.3	15.4	14.5	5.3	28.4

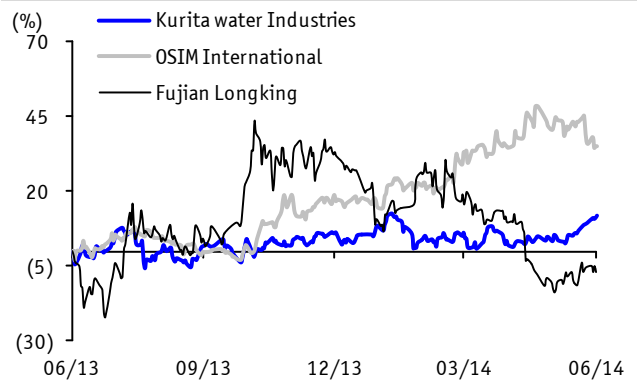
Source: Bloomberg consensus, Shinhan Investment Corp.

### Share performance of global peers



Source: Bloomberg, Shinhan Investment Corp.

### Share performance of global peers



Source: Bloomberg, Shinhan Investment Corp.

## Balance Sheet

Year to Dec. (W bn)	2012	2013	2014F	2015F	2016F
<b>Assets</b>	<b>1,701.5</b>	<b>1,641.1</b>	<b>1,793.8</b>	<b>1,952.1</b>	<b>2,128.9</b>
Total Current Assets	691.3	642.5	789.4	930.1	1,084.8
Cash and Cash Equivalents	118.9	201.3	318.1	410.7	517.3
Accounts Receivables	278.4	265.9	284.2	313.2	342.2
Inventories	41.3	40.9	43.7	48.2	52.6
Non-Current Assets	1,010.2	998.6	1,004.4	1,022.0	1,044.1
Tangible Assets	594.2	596.8	598.4	604.8	614.7
Intangible Assets	157.5	150.9	144.4	138.9	134.2
Investment Assets	158.3	154.0	164.6	181.4	198.2
Other Financial Institutions Assets	0.0	0.0	0.0	0.0	0.0
<b>Liabilities</b>	<b>898.8</b>	<b>673.7</b>	<b>671.1</b>	<b>653.5</b>	<b>629.0</b>
Current Liabilities	719.6	636.8	631.7	610.1	581.6
ST Borrowings	295.7	172.0	150.0	100.0	50.0
Account Payables	28.9	29.5	38.4	49.9	54.5
Current Portion of LT Debt	109.9	146.1	131.1	116.1	101.1
Non-Current Liabilities	179.2	36.9	39.4	43.4	47.5
Bonds	117.8	0.0	0.0	0.0	0.0
LT Borrowings(incl. LT Fin. Liab.)	35.9	0.0	0.0	0.0	0.0
Other Financial Institutions Liab.	0.0	0.0	0.0	0.0	0.0
<b>Shareholders' Equity</b>	<b>802.7</b>	<b>967.3</b>	<b>1,122.6</b>	<b>1,298.6</b>	<b>1,499.9</b>
Capital Stock	40.7	40.7	40.7	40.7	40.7
Capital Surplus	130.6	130.8	130.8	130.8	130.8
Other Reserves	(84.6)	(94.4)	(94.4)	(94.4)	(94.4)
Accu. Other Comp. Income	(0.8)	(0.2)	(0.2)	(0.2)	(0.2)
Retained Earnings	716.8	890.4	1,045.7	1,221.7	1,406.7
Owners of Parent Equity	802.7	967.3	1,122.6	1,298.6	1,483.6
Non-Controlling Interests Equity	0.0	0.0	0.0	0.0	16.3
*Total Debt	592.2	325.1	288.5	224.3	160.1
*Net Debts(Cash)	472.7	123.4	(29.5)	(186.4)	(357.3)

## Cash Flow

Year to Dec. (W bn)	2012	2013	2014F	2015F	2016F
<b>Operating Cash Flow</b>	<b>429.1</b>	<b>517.6</b>	<b>485.4</b>	<b>514.7</b>	<b>557.2</b>
Net Profit	119.7	253.2	289.1	339.5	387.1
Depreciation	164.8	181.2	190.3	199.8	199.8
Amortization	7.1	7.5	6.5	5.5	4.7
Losses(Gains) on F/X Translation	0.3	(0.1)	0.0	0.0	0.0
Losses(Gains) on Disp. of Assets	59.8	38.8	0.0	0.0	0.0
Losses(Gains) in Asso., Subs., JVs	3.2	(40.1)	0.0	0.0	0.0
Chg. in A/L from Op. Activities	(37.7)	(41.8)	(6.7)	(31.2)	(30.6)
(Payments of Income Taxes)	(34.7)	(41.4)	(96.0)	(113.2)	(129.0)
Others	146.6	160.3	102.2	114.3	125.2
<b>Investing Cash Flow</b>	<b>(300.9)</b>	<b>(58.4)</b>	<b>(197.1)</b>	<b>(215.3)</b>	<b>(216.8)</b>
Incr. in Tangible Assets(CAPEX)	(295.0)	(245.7)	(281.9)	(296.1)	(299.8)
Decr. in Tangible Assets	3.4	6.1	90.0	90.0	90.0
Decr.(Incr.) in Intangible Assets	(7.7)	(2.1)	0.0	0.0	0.0
Decr.(Incr.) in Investment Assets	4.3	193.9	(10.6)	(16.8)	(16.8)
Others	(5.9)	(10.6)	5.4	7.6	9.8
<b>Free Cash Flow</b>	<b>(65.7)</b>	<b>348.0</b>	<b>206.1</b>	<b>238.0</b>	<b>269.1</b>
<b>Financing Cash Flow</b>	<b>(73.6)</b>	<b>(376.8)</b>	<b>(171.4)</b>	<b>(206.8)</b>	<b>(233.7)</b>
Incr.(Decr.) in Borrowing	20.9	(266.5)	(36.5)	(64.2)	(64.2)
Decr.(Incr.) of Treasury Stock	0.0	18.8	0.0	0.0	0.0
Dividend	(77.8)	(78.4)	(123.6)	(133.8)	(163.5)
Others	(16.7)	(50.7)	(11.3)	(8.8)	(6.0)
Other Cash Flows	0.0	0.0	(0.0)	0.0	0.0
Change of Consolidated Scope	0.0	0.0	0.0	0.0	0.0
Difference by Chg. in F/X Rates	(0.6)	(0.0)	0.0	0.0	0.0
<b>Incr.(Decr.) in Cash</b>	<b>54.0</b>	<b>82.4</b>	<b>116.8</b>	<b>92.6</b>	<b>106.6</b>
Beginning Cash	64.9	118.9	201.3	318.1	410.7
Ending Cash	118.9	201.3	318.1	410.7	517.4

Source: Company data, Shinhan Investment Corp.

## Profit and Loss

Year to Dec. (W bn)	2012	2013	2014F	2015F	2016F
<b>Sales</b>	<b>1,806.8</b>	<b>1,933.7</b>	<b>2,067.3</b>	<b>2,278.1</b>	<b>2,489.1</b>
Growth (%)	5.7	7.0	6.9	10.2	9.3
<b>COGS</b>	<b>605.4</b>	<b>651.7</b>	<b>718.2</b>	<b>815.6</b>	<b>918.7</b>
<b>Gross Profit</b>	<b>1,201.4</b>	<b>1,282.1</b>	<b>1,349.1</b>	<b>1,462.5</b>	<b>1,570.5</b>
Gross margin (%)	66.5	66.3	65.3	64.2	63.1
<b>SG&amp;A</b>	<b>973.6</b>	<b>948.9</b>	<b>962.1</b>	<b>1,016.3</b>	<b>1,067.6</b>
<b>Operating Income</b>	<b>227.8</b>	<b>333.2</b>	<b>387.0</b>	<b>446.2</b>	<b>502.8</b>
Growth (%)	(6.4)	46.3	16.1	15.3	12.7
Operating margin (%)	12.6	17.2	18.7	19.6	20.2
<b>Other Net Non-Operating Profits</b>	<b>(66.3)</b>	<b>17.3</b>	<b>(1.9)</b>	<b>6.4</b>	<b>13.3</b>
Financial Income(Expenses)	(58.1)	(13.7)	(5.1)	0.4	5.3
Net Other Non-Operating Profits	(5.0)	(9.1)	3.2	6.0	8.0
Net Gains in Asso., Subs., and JVs	(3.2)	40.1	0.0	0.0	0.0
<b>Pre-tax Profit from Cont. Op.</b>	<b>161.5</b>	<b>350.5</b>	<b>385.1</b>	<b>452.6</b>	<b>516.1</b>
Income Taxes	41.7	97.4	96.0	113.2	129.0
Profit from Continuing Op.	119.7	253.2	289.1	339.5	387.1
Profit from Discontinued Op.	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>119.7</b>	<b>253.2</b>	<b>289.1</b>	<b>339.5</b>	<b>387.1</b>
Growth (%)	(32.4)	111.4	14.2	17.4	14.0
Net Profit margin (%)	6.6	13.1	14.0	14.9	15.6
Net Profit of Parent	119.7	253.2	289.1	339.5	370.8
Net Profit to Non-Controlling	0.0	0.0	0.0	0.0	16.3
<b>Total Comprehensive Income</b>	<b>118.2</b>	<b>252.6</b>	<b>289.1</b>	<b>339.5</b>	<b>387.1</b>
Total Comp. Income of Parent	118.2	252.6	289.1	339.5	387.1
Total Comp. Income to Non-Cont.	0.0	0.0	0.0	0.0	0.0
<b>EBITDA</b>	<b>399.7</b>	<b>521.9</b>	<b>583.8</b>	<b>651.5</b>	<b>707.3</b>
Growth (%)	1.0	30.6	11.9	11.6	8.6
EBITDA Margin (%)	22.1	27.0	28.2	28.6	28.4

Note: Operating profit is based on 2012 K-IFRS (gross profit - SG&amp;A costs)

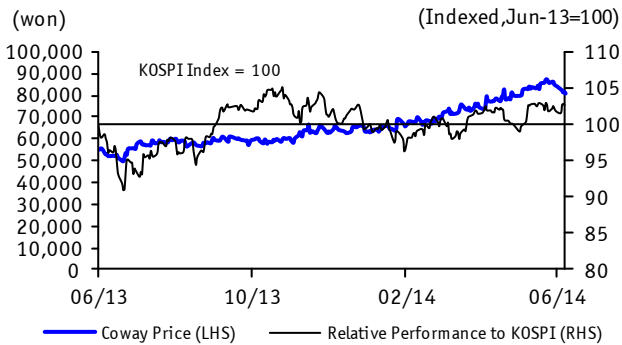
## Key Ratios

Year to Dec.	2012	2013	2014F	2015F	2016F
EPS_C (won)	1,553	3,283	3,748	4,401	5,019
EPS_P (won)	1,553	3,283	3,748	4,401	5,019
BPS_C (won)	10,408	12,543	14,556	16,837	19,447
BPS_P (won)	10,408	12,543	14,556	16,837	19,236
DPS (won)	0	2,710	1,800	2,200	2,500
PER_C (x)	28.0	20.2	21.8	18.6	16.3
PER_P (x)	28.0	20.2	21.8	18.6	16.3
PBR_C (x)	4.2	5.3	5.6	4.9	4.2
PBR_P (x)	4.2	5.3	5.6	4.9	4.3
EV/EBITDA (x)	9.6	10.0	10.8	9.4	8.4
EV/EBIT (x)	16.8	15.7	16.2	13.7	11.9
Dividend Yield (%)	0.0	4.1	2.2	2.7	3.1
<b>Profitability</b>					
EBITDA Margin (%)	22.1	27.0	28.2	28.6	28.4
OP Margin (%)	12.6	17.2	18.7	19.6	20.2
NP Margin (%)	6.6	13.1	14.0	14.9	15.6
ROA (%)	7.3	15.1	16.8	18.1	19.0
ROE (%)	15.4	28.6	27.7	28.0	27.8
ROIC (%)	18.0	26.3	33.2	38.3	42.6
<b>Stability</b>					
D/E Ratio (%)	112.0	69.6	59.8	50.3	41.9
Net Debt to Equity (%)	58.9	12.8	(2.6)	(14.4)	(23.8)
Cash Ratio (%)	16.5	31.6	50.4	67.3	89.0
Interest Coverage (x)	7.9	19.0	34.3	51.0	84.3
<b>Activity (%)</b>					
Working Capital Turnover (t)	7.5	9.0	15.7	16.9	17.3
Inventory Turnover (d)	11.5	7.8	7.5	7.4	7.4
Receivable Turnover (d)	52.4	51.4	48.6	47.9	48.1

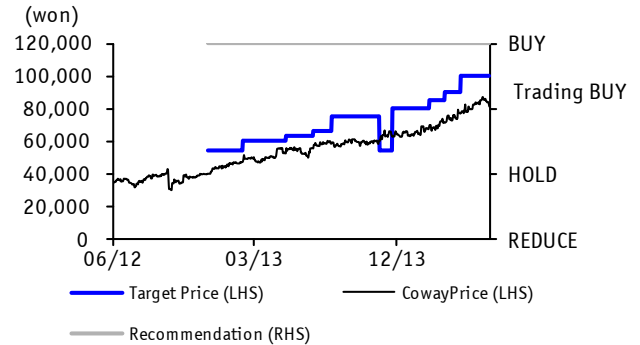
Source: Company data, Shinhan Investment Corp.

## Coway (021240 KS)

### Share Price Performance



### Target Price & Recommendation History



### Compliance Notice

- ◆ Analyst Certification: The following analysts hereby certify the information and material presented in this report are accurate expressions of their views, and that they have not received wrongful pressure to express such views: Joshua Kong.
- ◆ As of the date of this report's publication, Shinhan Investment Corp.'s shareholdings in the company mentioned in this report (Coway) do not exceed 1% of outstanding shares of the company.
- ◆ As of this date, Shinhan Investment Corp. has not participated as the lead underwriter or advisor in issuance of the securities of the company during the past 1 year.
- ◆ As of this date, the covering analyst does not possess any financial interest in the securities or debt instruments convertible into such shares of the company, which is required to be disclosed by law, and has not and will not receive any compensation of any kind whatsoever in exchange for expressing specific recommendations.
- ◆ All opinions and estimates regarding the company and its securities are accurate representations of the covering analyst's judgments as of this date, and may differ from actual results.
- ◆ This report is intended to provide information to assist investment decisions only and should not be used or considered an offer or the solicitation of an offer to sell or to buy any securities. Stock selection and final investment decisions should be made at the client's own discretion.
- ◆ This report is distributed to our clients only, and any unauthorized use, duplication, or redistribution of this report is strictly prohibited.

	Recommendation	Target Price (won)
2011. 10. 10	BUY	58,000
2012. 12. 11	BUY	54,000
2013. 02. 17	BUY	60,000
2013. 05. 12	BUY	63,000
2013. 07. 04	BUY	66,000
2013. 08. 09	BUY	75,000
2013. 11. 10	BUY	54,000
2013. 11. 10	BUY	80,000
2014. 02. 15	BUY	85,000
2014. 03. 17	BUY	90,000
2014. 04. 17	BUY	100,000

### SHIC Rating Classifications (As of 25 Jul. 2011)

Stock	Sector
<ul style="list-style-type: none"> <li>◆ <b>BUY:</b> Expected return of over +15% in the next 6 months</li> <li>◆ <b>Trading BUY:</b> Expected return of 0% ~ +15% in the next 6 months</li> <li>◆ <b>HOLD:</b> Expected return of -15% ~ 0% in the next 6 months</li> <li>◆ <b>REDUCE:</b> Expected return of below -15% in the next 6 months</li> </ul>	<ul style="list-style-type: none"> <li>◆ <b>OVERWEIGHT:</b> Prevalence of BUY rating for stocks in our sector coverage universe based on market cap</li> <li>◆ <b>NEUTRAL:</b> Prevalence of HOLD rating for stocks in our sector coverage universe based on market cap</li> <li>◆ <b>UNDERWEIGHT:</b> Prevalence of REDUCE rating for stocks in our sector coverage universe based on market cap</li> </ul>