

Jul 7, 2014  
Company Comment

# Coway (021240.KS)

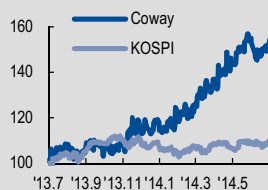
## Buy (maintain)

TP W100,000 (maintain)  
CP ('14/07/04) W87,200

Sector Consumer staples

Kospi 2,009.66  
Kosdaq 552.90  
Market cap (common) US\$6,665.97mn  
Outstanding shares (common) 77.1mn  
52W high ('14/05/28) W87,500  
low ('13/07/04) W55,800  
Average trading value (60D) US\$17.44mn  
Dividend yield (2013) 2.50%  
Foreign ownership 53.5%

### Price trend



**Cookie Han, Analyst**  
822)768-7480, cookie@wooriwm.com

## Focus on sales growth to bear sustainable fruit

While Coway's operating profit growth likely slipped q-q, we expect the firm to post robust 2Q14 earnings, believing that its sales growth improved significantly y-y. We positively view the company's strategic focus on sales growth, including the strengthening of sales channels and the offering of new multifunctional products. Going forward, these efforts should bear sustainable fruit.

### To post robust 2Q14 earnings on sound sales growth improvement (y-y)

- Observing notable y-y sales growth, we expect Coway to register non-consolidated 2Q14 sales of W53.8bn (up 8.3% y-y) and operating profit of W9.0bn (up 13.3% y-y). However, with the firm concentrating on achieving high sales growth, its operating profit growth likely slipped q-q due to greater related costs.
- Meanwhile, thanks both to the beefing up of its sales network (CODY) and the expansion of its sales channels, Coway's new rental accounts should display improvement. The company's sales growth likely also benefited from the new products it released in 2Q14 and the ASP hikes it has been enacting since 2013—we expect this sales growth uptrend to sustain throughout 2014.

### Maintain Buy and target price of W100,000

- We stick to our Buy rating and target price of W100,000. Currently trading at 12-month forward P/E of 23x, we believe that Coway's share price will continue to uptrend on: 1) earnings stability thanks to its long-term rental subscriber base; 2) the attractiveness of its unique business model, which allows investors to be considerably free from the impact of cyclical factors and other external variables; and 3) anticipation towards increased dividend payouts.
- While Coway has yet to outline its future dividend policy in detail, considering its sound financial health (conservative booking of expenses), we forecast that its dividend payout ratio will enhance from the current level (pays out 49% of net profit) going forward.

### 2Q14 preview

(Units: Wbn, %)

	2Q13	3Q13	4Q13	1Q14	2Q14E				3Q14F
					Estimate	y-y	q-q	Consen	
Sales	497	489	482	495	538	8.3	8.8	531	537
Operating profit	79	97	88	90	90	13.3	2.5	93	98
Operating margin	16.0	19.8	18.2	18.1	16.7			17.6	18.2
Pre-tax profit	81	83	72	88	89	10.1	1.1	92	96
Net profit	61	62	50	66	66	43.1	31.7	68	72

Note: K-IFRS non-consolidated basis

Source: FnGuide, Woori I&S Research Center estimates

## STATEMENT OF COMPREHENSIVE INCOME

(Wbn)	2013/12A	2014/12E	2015/12F	2016/12F
<b>Sales</b>	<b>1,934</b>	<b>2,108</b>	<b>2,346</b>	<b>2,584</b>
Growth (%)	7.0	9.0	11.3	10.2
<b>COGS</b>	<b>652</b>	<b>720</b>	<b>801</b>	<b>883</b>
<b>Gross Profit</b>	<b>1,282</b>	<b>1,388</b>	<b>1,544</b>	<b>1,701</b>
Gross margin (%)	66.3	65.9	65.8	65.8
SG&A	949	1,025	1,135	1,243
<b>Operating Income</b>	<b>333</b>	<b>364</b>	<b>409</b>	<b>458</b>
Growth (%)	46.3	9.1	12.5	11.9
Operating margin (%)	17.2	17.2	17.4	17.7
<b>EBITDA</b>	<b>522</b>	<b>533</b>	<b>597</b>	<b>664</b>
<b>Non-Operating Profit</b>	<b>17</b>	<b>23</b>	<b>20</b>	<b>19</b>
Financial Income(Costs)	-14	13	12	13
Other Non-Operating Profit	-9	0	0	0
Gains(Losses) in Associates, Subsidiaries and JVs	40	10	8	6
<b>Pre-tax Profit from Cont. Op.</b>	<b>351</b>	<b>386</b>	<b>429</b>	<b>477</b>
<b>Income Taxes</b>	<b>97</b>	<b>99</b>	<b>109</b>	<b>122</b>
Profit from Continuing Op.	253	288	320	355
<b>Net Profit</b>	<b>253</b>	<b>288</b>	<b>320</b>	<b>355</b>
Growth (%)	111.4	13.7	11.1	11.1
Net margin (%)	13.1	13.6	13.6	13.7
Net Profit of Parent	253	288	320	355
Net Profit to Non-Controlling	0	0	0	0
Other Comprehensive Income	-1	0	0	0
Total Comprehensive Income	253	288	320	355

## VALUATION INDEX

	2013/12A	2014/12E	2015/12F	2016/12F
Price/Earnings (x)	20.2	23.4	21.0	18.9
P/E (High, x)	20.6	23.6	21.2	19.1
P/E (Low, x)	13.1	16.8	15.2	13.6
Price/ Book Value (x)	5.3	6.0	5.3	4.6
P/B (High, x)	5.4	6.1	5.3	4.6
P/B (Low, x)	3.4	4.3	3.8	3.3
Price/ Gross Cash Flow (x)	8.5	11.9	10.8	9.8
Price/ Sales (x)	2.6	3.2	2.9	2.6
P/E / EPS growth (x)	1.7	2.1	1.9	1.9
P/E / EBITPS growth (x)	1.8	1.9	1.8	1.9
P/E / EBITDAPS growth (x)	2.4	2.0	2.0	2.1
EV/ EBITDA (x)	10.0	12.7	11.2	9.9
EV/ EBIT (x)	15.7	18.7	16.4	14.4
Enterprise Value (Wbn)	5,238	6,784	6,701	6,603
EPS CAGR (3-Yr) (%)	11.9	11.3	10.9	9.7
EBITPS CAGR (3-Yr) (%)	11.2	12.3	11.4	9.8
EBITDAPS CAGR (3-Yr) (%)	8.4	11.5	10.5	8.9
EBITPS (won)	4,320	4,715	5,303	5,936
EBITDAPS (won)	6,767	6,914	7,743	8,608
Fully diluted EPS (won)	3,283	3,732	4,145	4,606
BVPS (won)	12,543	14,452	16,572	18,929
CFPS (won)	7,789	7,303	8,081	8,906
Sales PS (won)	25,073	27,338	30,413	33,502
DPS (won)	1,660	1,891	2,101	2,334

## CASH FLOW STATEMENT

(Wbn)	2013/12A	2014/12E	2015/12F	2016/12F
<b>Operating Cash Flow</b>	<b>518</b>	<b>428</b>	<b>486</b>	<b>532</b>
Net Profit	253	288	320	355
Depreciation & Amortization	189	170	188	206
+ Loss(Gains) from Subs	-40	0	0	0
+ FC translation loss(profit)	0	0	0	0
+ Losses(Gains) on Disposal of Assets	39	0	0	0
Gross Cash Flow	601	563	623	687
- Incr. (Decr.) in WC	-42	-37	-28	-34
<b>Investing Cash Flow</b>	<b>-58</b>	<b>-241</b>	<b>-252</b>	<b>-265</b>
+ Decr. In Tangible Assets	6	0	0	0
- Incr. In Tangible Assets (capex)	-246	-229	-256	-271
+ Disp.(Acq.) of Inv. Assets	4	-4	-4	-4
Free Cash Flow	272	199	230	261
Net Cash Flow	459	187	234	266
<b>Financing Cash Flow</b>	<b>-377</b>	<b>-117</b>	<b>-141</b>	<b>-156</b>
Equity Financing	0	0	0	0
Debt Financing	-377	-117	-141	-156
Incr.(Decr.) in Cash	82	70	93	111
Ending Cash and Cash Equivalents	201	271	364	475
Net Debt (Cash)	116	59	-24	-122

## RIM &amp; EVA

	2013/12A	2014/12E	2015/12F	2016/12F
<b>RIM</b>				
Spread (FROE-COE) (%)	20.8	18.8	18.4	17.7
Residual Income	184.2	208.7	228.7	251.2
12M RIM Target Price (won)	97,704			
<b>EVA</b>				
Invested Capital	952.2	1,048.2	1,131.1	1,215.5
NOPAT	253.7	272.0	305.9	342.3
ROIC (%)	24.5	27.2	28.1	29.2
ROIC - WACC (%)	18.7	20.7	21.8	22.8
EVA	177.9	216.9	246.5	277.7
<b>DCF</b>				
EBIT	333.2	363.7	409.0	457.8
+ Depreciation/Amortization	189	170	188	206
- Capex	-245.7	-228.9	-255.9	-271.0
- Incr. (Decr.) in Working Capital	164.4	-22.4	-15.3	-19.5
Free Cash Flow for Firm	19.2	234.0	252.4	295.7
<b>WACC</b>				
Cost of Debt (Tax Adj.)	2.9	3.0	3.0	3.0
Cost of Equity (COE)	7.8	8.8	8.3	8.3
WACC (%)	5.8	6.5	6.3	6.3

## STATEMENT OF FINANCIAL POSITION

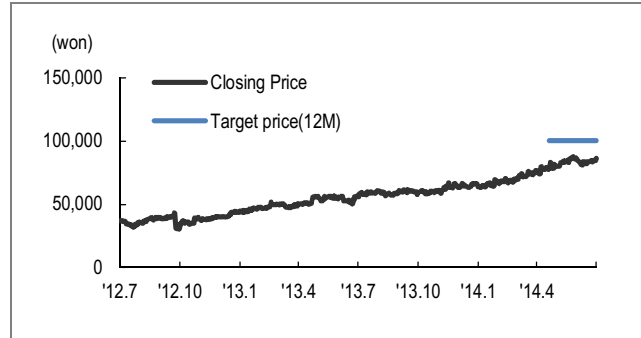
(Wbn)	2013/12A	2014/12E	2015/12F	2016/12F
Cash and Cash Equivalents	201	271	367	479
Accounts Receivables	266	297	330	364
<b>Total Current Assets</b>	<b>642</b>	<b>763</b>	<b>913</b>	<b>1,081</b>
Tangible Assets	597	660	731	799
Investment Assets	154	158	162	166
<b>Non-Current Assets</b>	<b>999</b>	<b>1,076</b>	<b>1,147</b>	<b>1,217</b>
<b>Assets</b>	<b>1,641</b>	<b>1,839</b>	<b>2,060</b>	<b>2,297</b>
Short-Term Debt	325	338	351	365
Account Payables	30	32	36	39
<b>Current Liabilities</b>	<b>637</b>	<b>678</b>	<b>730</b>	<b>781</b>
Long-Term Debt	0	7	7	7
Long-Term Allowance	7	8	8	9
<b>Non-Current Liabilities</b>	<b>37</b>	<b>47</b>	<b>49</b>	<b>52</b>
<b>Liabilities</b>	<b>674</b>	<b>725</b>	<b>779</b>	<b>834</b>
Capital Stock	41	41	41	41
Capital Surplus	131	131	131	131
Retained Earnings	890	1,038	1,201	1,383
Non-Controlling Interests Equity	0	0	0	0
<b>Shareholders' Equity</b>	<b>967</b>	<b>1,115</b>	<b>1,278</b>	<b>1,460</b>

## PROFITABILITY &amp; STABILITY

	2013/12A	2014/12E	2015/12F	2016/12F
ROE (%)	28.6	27.6	26.7	25.9
ROA (%)	15.1	16.5	16.4	16.3
ROIC (%)	24.5	27.2	28.1	29.2
EBITDA/equity (%)	54.0	47.8	46.7	45.5
EBITDA/assets (%)	31.8	29.0	29.0	28.9
Dividend Yield (%)	2.5	2.2	2.4	2.7
Payout Ratio (%)	79.8	48.8	48.8	48.8
Total Cash Dividend (Wbn)	202	141	156	173
Cash DPS (won)	1,660	1,891	2,101	2,334
Net debt(cash)/equity (%)	12.0	5.3	-1.9	-8.4
Debt/ equity (%)	69.6	65.0	61.0	57.1
Net interest exp/ sales (%)	0.9	0.6	0.6	0.5
Interest coverage (x)	19.0	28.0	30.4	32.7
Current Ratio (%)	100.9	112.5	125.0	138.3
Quick Ratio (%)	94.5	105.0	116.5	128.9
Total shares (mn)	77	77	77	77
Par value (won)	500	500	500	500
Share price (won)	66,400	87,200	87,200	87,200
Market Cap (Wbn)	5,121	6,725	6,725	6,725

## Rating and target price update

Company	Code	Date	Rating	Target price
Coway	021240.KS	2014.04.21	Buy	W100,000(12M)



## Woori Investment &amp; Securities stock ratings

1. Period: Uniform 12-month
2. Rating System: Based on a stock's absolute return from the date of publication
  - Strong Buy: high conviction Buy rated stocks
  - Buy: greater than +15%
  - Hold: 0% and +15%
  - Reduce: less than 0%

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- This report correctly reflects the analyst's opinion and was written without any external influence or intervention.

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