

Coway (021240)

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Rating

BUY

maintain

6M TP (₩)

110,000

maintain

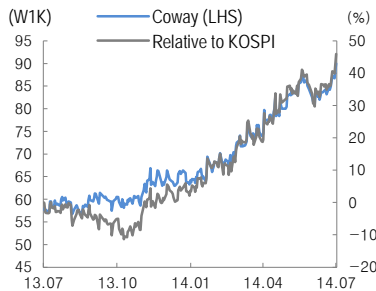
CP (₩)
(14.07.09)

90,000

Service

KOSPI	2000.5
Market cap (Wbn)	6,941
Market cap portion (%)	0.58
Paid-in capital (common; Wbn)	41
52w high/low (₩)	90,000 / 56,800
120d avg. trading volume (Wbn)	15.8
Foreign ownership (%)	53.76
Major shareholders	Coway Holdings+12: 30.99%

(%)	1M	3M	6M	12M
Abs. return	9.1	20.6	41.3	55.2
Rel. return	8.5	20.5	37.4	42.0



Coway looks well positioned to meet forecast

2Q14 preview

- Coway is expected to report sales of ₩528.3bn (+6.3% YoY) and an OP of ₩92.9bn (+17% YoY) in line with meet our forecast.
- The number of expiring rental accounts will increase 26% in 2014 with 58% of expiring rental accounts concentrated in 1H14, especially 2Q14. Nevertheless, Coway added 31,000 new rental accounts in 2Q14, more than it did in 1Q14. The increased retention rate and brisk mattress sales helped.
- Membership showed net growth as an increasing number of customers with expiring rental contracts turned to the membership program.
- Exports are expected to have expanded 18% despite the high yoy comparison base, helped by robust ODM sales.
- Defying sluggish domestic economic conditions, cosmetics sales are expected to have grown 8% thanks to robust sales through home shopping channels.

The business environment will be better in 2H14; strong growth continues overseas

- In 2H14, Coway is expected to focus on attracting new customers as a departure from its existing customer retention strategy.
- The company is expected to deepen its high-end product line in 2H14 with a water purifier that doubles as a coffee maker. The new product will hit the market following the launch of a carbonated water dispenser in July.
- The company is also diversifying its mattress product line.
- Coway's home-care service is getting growing recognition among customers.
- Lump-sum payment contracts have been declining since the suspension of free membership in 2Q13. Growth will return with the rollout of an interest-free installment program in partnership with a consumer finance company.
- Coway will produce dehumidifiers internally to cut the cost ratio.
- ODM sales centered in China look poised for strong growth. The business is still in its early stages. Growing environmental awareness in China will drive growth. The rental business in Malaysia and the US will grow profits with startup costs recouped through existing accounts.
- Coway is spending more money on its home care business but margins will improve with inventory and cost kept under control and marketing expenses being reined in.

Maintain BUY with a TP of ₩110,000

- The target price implies a 12-month forward P/E of 28.5x, which looks reasonable in light of the company's stable performance defying weak economic conditions, and its sustained profit improvement and high dividend payout.
- Consolidated EPS growth will get a boost from subsidiary earnings growth. Earnings will be reported on a consolidated basis from 3Q14.
- The year-end dividend is forecast at ₩1,7600. The company is expected to swing to a positive cash flow in 2016.

	2Q13	1Q14	2Q14(F)	YoY	QoQ	2Q14F Consensus	Difference (%)
Sales	497	495	528	6.3	6.8	530	-0.4
OP	79	90	93	17.0	3.4	93	-0.5
NP	61	66	67	10.3	1.1	68	-1.5

	2012	2013	2014(F)	Growth		2014(F) Consensus	Difference (%)
				2013	2014		
Sales	1,807	1,934	2,055	7.0	6.3	2,072	-0.8
OP	228	333	374	46.3	12.2	375	-0.2
NP	120	253	267	111.4	5.6	290	-7.8

Source: Coway, WISEin, Daishin Securities Research Center

Tab 1. Quarterly and yearly earnings forecasts

(Wbn, %)

	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14F	3Q14F	4Q14F	2013	2014F	2015F	2016F
Rental orders (1K units)	318.0	298.4	257.4	292.1	316.8	343.2	283.1	296.5	1,166	1,240	1,270	1,276
Monthly avg. cancellation rate (%)	1.01%	0.90%	0.82%	0.80%	0.96%	0.98%	0.98%	0.98%	0.9%	0.98%	0.99%	0.99%
Rental accounts (1K)	4,657.8	4,716.8	4,746.4	4,799.9	4,526	4,557	4,596	4,628	4,502	4,628	4,803	4,968
Membership accounts	1,135.3	1,099.6	1,087.7	1,066.4	1,058	1,095	1,104	1,115	1,066	1,115	1,175	1,232
Total	5,793.1	5,816.4	5,834.1	5,866.4	5,584	5,652	5,700	5,744	5,569	5,744	5,978	6,201
Change	52.6	23.3	17.7	32.3	15.1	67.7	48.5	43.7	-172	175	234	223
Sales												
Total	465.2	496.9	489.2	482.4	494.8	528.3	519.5	512.3	1,933.7	2,054.9	2,195.5	2,321.7
Rental	327.4	331.9	334.9	339.1	342.4	348.2	351.4	356.1	1,333.4	1,398.1	1,475.2	1,538.2
Membership	42.8	42.8	43.2	43.6	43.9	44.6	45.6	46.2	172.3	180.2	192.0	204.3
Lump-sum payment	36.6	47.8	35.4	29.4	27.6	44.3	39.4	30.8	149.3	142.1	152.7	161.1
Cosmetics	17.9	22.1	16.6	19.8	21.0	23.9	18.2	22.8	76.4	85.9	92.8	100.2
Overseas sales	31.5	44.6	38.0	30.6	45.2	52.6	43.6	36.7	144.6	178.2	208.9	240.3
Others	9.1	7.8	21.1	19.8	14.8	14.7	21.1	19.8	57.7	70.4	74.0	77.6
YoY (%)												
Total	5.2	11.3	6.8	4.9	6.4	6.3	6.2	6.2	7.0	6.3	6.8	5.8
Rental	3.5	4.1	3.6	3.6	4.6	4.9	4.9	5.0	3.7	4.8	5.5	4.3
Membership	10.4	9.1	5.1	3.2	2.6	4.2	5.7	5.8	6.8	4.6	6.5	6.4
Lump-sum payment	11.9	18.1	-9.3	-9.3	-24.7	-7.3	11.2	4.5	3.2	-4.8	7.5	5.5
Cosmetics	6.3	35.5	-4.2	18.1	17.4	8.0	10.0	15.0	13.6	12.4	8.0	8.0
Overseas sales	5.0	111.4	35.6	0.2	43.6	18.0	15.0	20.0	32.0	23.2	17.3	15.0
Others	-23.3	-45.0	125.6	85.0	63.4	90.0	0.0	0.0	50.7	22.0	5.0	5.0
GP	310.5	329.0	319.4	323.1	325.5	346.1	341.2	343.6	1,282.1	1,356.5	1,455.4	1,544.5
OP	69.2	79.4	97.0	87.6	89.8	92.9	97.8	93.6	333.2	374.0	418.9	460.8
Pre-tax profit	115.0	80.7	83.0	71.8	87.8	88.1	91.7	89.1	350.5	356.8	404.6	447.1
NP	80.2	60.6	62.3	50.2	66.1	66.8	69.5	65.1	253.2	267.4	303.9	335.8
YoY (%)												
GP	4.6	8.1	4.2	10.0	4.8	5.2	6.8	6.3	6.7	5.8	7.3	6.1
OP	7.9	21.9	54.2	145.7	29.7	17.0	0.8	6.8	46.3	12.2	12.0	10.0
Pre-tax profit	106.7	43.1	369.2	126.3	-23.6	9.2	10.4	24.1	117.1	1.8	13.4	10.5
NP	94.5	37.6	382.2	132.5	-17.6	10.3	11.6	29.6	111.4	5.6	13.6	10.5
GP margin (%)	66.8	66.2	65.3	67.0	65.8	65.5	65.7	67.1	66.3	66.0	66.3	66.5
OP margin (%)	14.9	16.0	19.8	18.2	18.1	17.6	18.8	18.3	17.2	18.2	19.1	19.8
Pretax profit margin (%)	24.7	16.2	17.0	14.9	17.8	16.7	17.6	17.4	18.1	17.4	18.4	19.3
NP margin (%)	17.2	12.2	12.7	10.4	13.4	12.6	13.4	12.7	13.1	13.0	13.8	14.5

Source: Coway, Daishin Securities Research Center

Operating results and major financial data

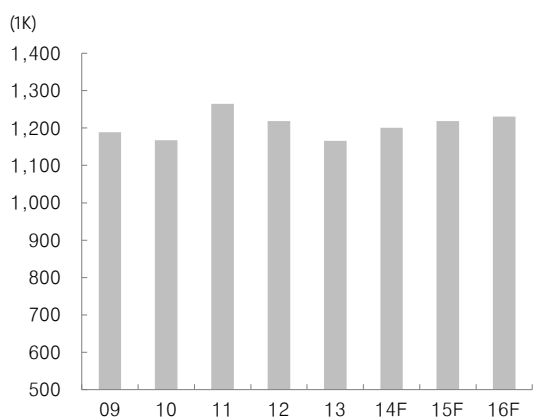
(Wbn, W, x, %)

	2012A	2013A	2014F	2015F	2016F
Sales	1,807	1,934	2,055	2,195	2,322
OP	228	333	374	419	461
Pretax profit	161	351	357	405	447
NP	120	253	267	304	336
NP (controlling int.)	120	253	267	304	336
EPS	1,553	3,283	3,468	3,940	4,354
PER	28.0	20.2	26.0	22.8	20.7
BPS	10,408	12,543	12,744	15,046	17,715
PBR	4.2	5.3	7.1	6.0	5.1
ROE	15.4	28.6	27.4	28.4	26.6

Note: EPS, BPS, and ROE are based only on the controlling interests.

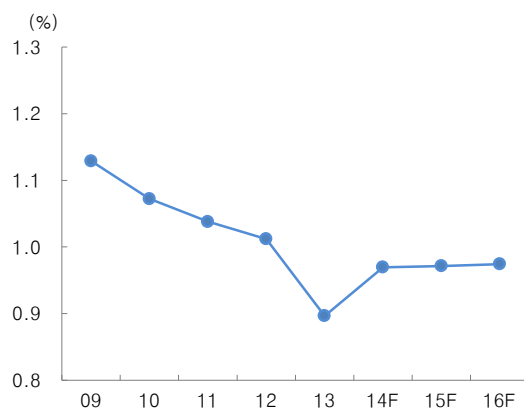
Source: Coway, Daishin Securities Research Center

Fig 1. Net rental order growth



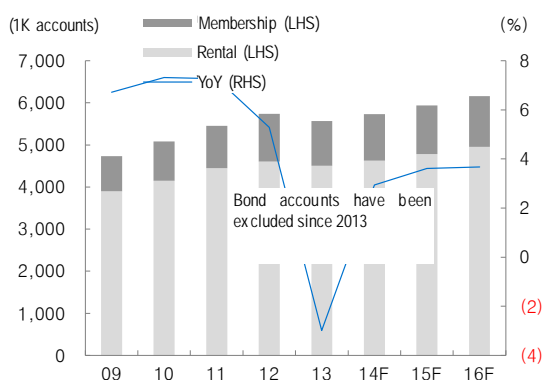
Source: Coway, Daishin Securities Research Center

Fig 2. Monthly rental cancellation trend and forecast



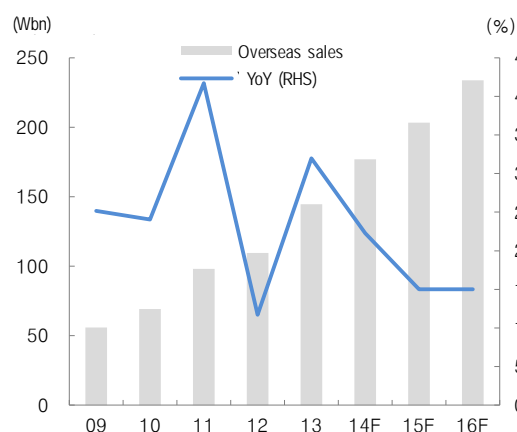
Source: Coway, Daishin Securities Research Center

Fig 3. Rental account trend and forecast



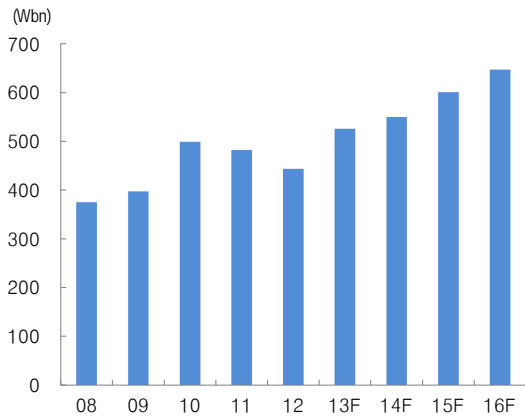
Source: Coway, Daishin Securities Research Center

Fig 4. Overseas sales trend and forecast



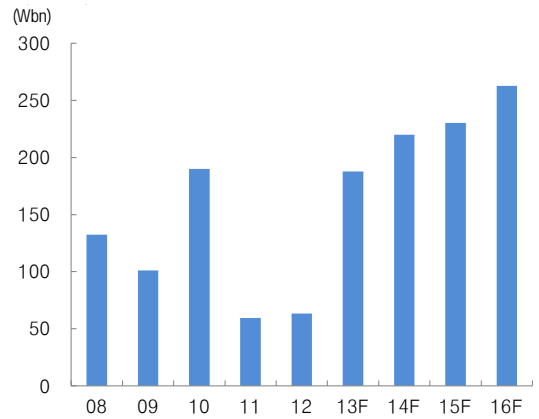
Source: Coway, Daishin Securities Research Center

Fig 5. EBITDA trend and forecast



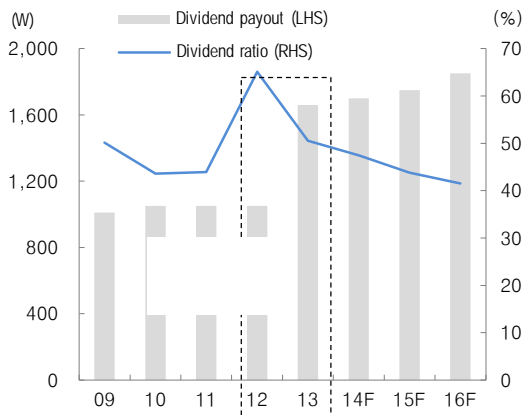
Note: EBITDA=OP+ tangible and intangible asset depreciation cost +rental equipment impairment cost.
Source: Coway, Daishin Securities Research Center

Fig 6. FCFF trend and forecast



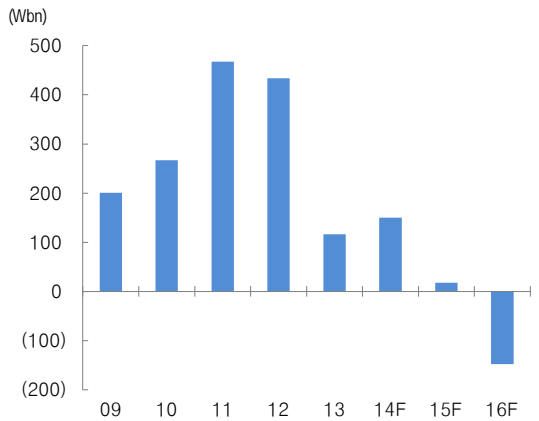
Source: Coway, Daishin Securities Research Center

Fig 7. DPS trend and forecast



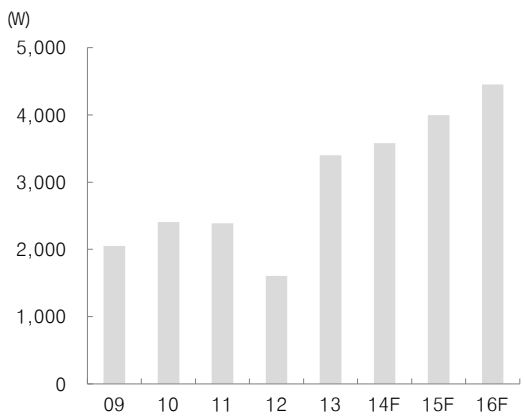
Source: Coway, Daishin Securities Research Center

Fig 8. Net borrowings trend and forecast



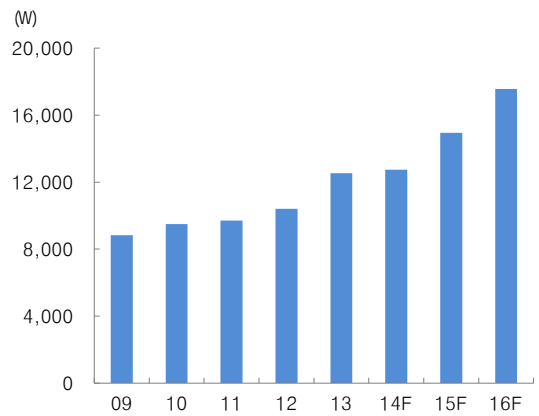
Source: Coway, Daishin Securities Research Center

Fig 9. EPS trend and forecast (excl. treasury shares)



Source: Coway, Daishin Securities Research Center

Fig 10. BPS trend and forecast



Source: Coway, Daishin Securities Research Center

Yearly earnings forecast revision

(Wbn, W, %, %p)

	Previous		Revised		Chg	
	2014F	2015F	2014F	2015F	2014F	2015F
Sales	2,054	2,178	2,055	2,195	0.0	0.8
Selling and adm. expense	984	1,034	983	1,036	-0.1	0.3
OP	373	410	374	419	0.3	2.1
OP margin	18.1	18.8	18.2	19.1	0.3	1.3
Non-OP	-18	-16	-17	-14	CL	CL
Pretax profit	355	394	357	405	0.6	2.6
NP for contr. int.	268	299	267	304	-0.3	1.6
NP margin	13.1	13.7	13.0	13.8	-0.4	0.8
EPS for contr. int.	3,479	3,877	3,468	3,940	-0.3	1.6

Source: Coway, Daishin Securities Research Center

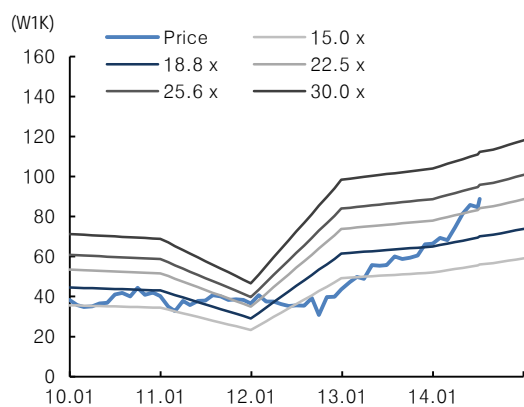
Tab 2. Valuation

(Wbn, W, x, %)

Target EV (Wbn)	8,199.1	A=a*b	
2014E EBITDA	586	a	
Target EV/EBITDA Multiple	14.0	b	Near the average of 14F EV/EBITDA of domestic peers
Per-share value (W)	110,000	B=(A-C)/E	
Total borrowings	242.0	C	Based on end-2014
Cash assets+short-term financial assets	45.9	D	Based on end-2014
Net borrowings (net cash)	196.1	C=c-d	Based on end-2014
No. of shares issued	77,124,796	E	
Treasury shares (common)	3,208,333	F	Share buyback is reflected
Adjusted number of shares issued	73,916,463	E=e-f	
CP (W)	90,000	2014.07.09	
Upside potential (%)	22.2		
12M Fwd Implied PER (x)	28.5		
12M Fwd Implied PBR (x)	7.9		

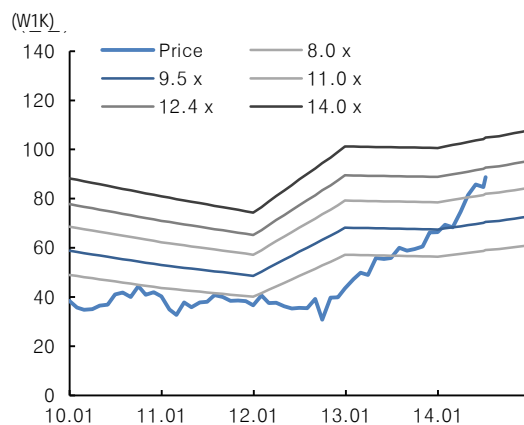
Source: Daishin Securities Research Center

Fig 11. 12M FWD P/E band



Source: WSEfn, Daishin Securities Research Center

Fig 12. 12M FWD EV/EBITDA band



Source: WSEfn, Daishin Securities Research Center

Tab 3. Peer group comparison

(X, %)

Code		021240	090430	051900	012750	035420	008770	035760
Company		Coway	AmorePacific	LG Household & Healthcare	S1	NAVER	Hotel Shilla	CJ O Shopping
Stock price (W) (2014.04.28)		90,000	1,642,000	424,000	78,800	805,000	101,000	352,300
Market cap. (Wbn)		6,941.2	9,598.9	6,622.1	2,994.3	26,535.0	3,964.1	2,186.6
Sales (Wbn)	2013	1,933.7	3,100.4	4,326.3	1,274.1	2,312.0	2,275.1	1,260.7
	2014E	2,054.9	3,560.9	4,618.2	1,724.9	2,769.9	2,767.3	1,389.0
	2015E	2,195.5	4,002.6	4,969.8	1,866.7	3,300.2	3,437.0	1,514.9
OP (Wbn)	2013	333.2	369.8	496.4	129.1	524.1	88.5	157.2
	2014E	374.0	448.2	521.9	195.4	795.0	164.9	167.1
	2015E	418.9	516.7	586.6	219.9	1,085.0	225.7	182.5
EBITDA (Wbn)	2013	560.7	478.2	618.0	226.7	573.4	75.2	158.7
	2014E	547.8	588.9	639.5	327.7	941.6	221.9	178.3
	2015E	603.7	682.0	710.6	379.4	1,243.9	283.4	194.2
EPS (W)	2013	3,400	45,867	24,373	2,343	63,681	280	22,387
	2014E	3,598	48,062	20,753	3,429	17,458	2,669	20,449
	2015E	4,089	56,302	23,550	3,891	24,012	3,967	22,205
BPS (W)	2013	12,543	370,326	84,081	24,163	49,379	17,286	94,233
	2014E	12,744	410,921	101,486	26,603	63,908	19,754	112,095
	2015E	15,046	461,083	121,562	29,773	88,832	23,184	132,342
OP margin (%)	2013	17.2	11.9	11.5	10.1	22.7	3.9	12.5
	2014E	18.2	12.6	11.3	11.3	28.7	6.0	12.0
	2015E	19.1	12.9	11.8	11.8	32.9	6.6	12.0
EBITDA margin (%)	2013	29.0	15.4	14.3	17.8	24.8	3.3	12.6
	2014E	26.7	16.5	13.8	19.0	34.0	8.0	12.8
	2015E	27.5	17.0	14.3	20.3	37.7	8.2	12.8
ROE (%)	2013	28.6	11.0	27.4	10.0	112.7	2.1	20.9
	2014E	27.4	12.3	23.7	15.2	34.1	14.7	20.4
	2015E	28.4	12.9	22.3	15.5	34.8	18.8	18.7
P/E (x)	2013	26.5	35.8	17.4	33.6	12.6	360.8	15.7
	2014E	25.0	34.2	20.4	23.0	46.1	37.8	17.2
	2015E	22.0	29.2	18.0	20.3	33.5	25.5	15.9
P/B (x)	2013	7.2	4.4	5.0	3.3	16.3	5.8	3.7
	2014E	7.1	4.0	4.2	3.0	12.6	5.1	3.1
	2015E	6.0	3.6	3.5	2.6	9.1	4.4	2.7
EV/EBITDA (x)	2013	12.6	12.6	16.2	12.1	40.5	39.9	16.6
	2014E	13.0	15.6	11.8	9.6	28.1	19.6	12.2
	2015E	11.7	13.3	10.2	8.0	20.7	15.3	10.8
13-16 EPS CAGR (%)		9.9	12.7	3.1	24.0	(21.1)	163.4	3.5

Note: Coway's figures are based on our estimates. Figures of other companies are based on consensus figures. EPS figures don't include treasury shares.

Source: Daishin Securities Research Center

Financial statements

Income statement	(Wbn)				
	2012A	2013A	2014F	2015F	2016F
Sales	1,807	1,934	2,055	2,195	2,322
Cost of goods sold	605	652	698	740	777
Gross profit	1,201	1,282	1,356	1,455	1,545
SG&A expenses	974	949	983	1,036	1,084
OP	228	333	374	419	461
OP margin	12.6	17.2	18.2	19.1	19.8
EBITDA	441	566	568	602	646
Non-OP	-66	17	-17	-14	-14
Income from affiliates	-3	40	0	-1	-1
Financial revenue	4	4	3	0	0
FX related gains	11	8	0	0	0
Financial expense	-62	-18	-11	-10	-10
FX related losses	0	0	0	0	0
Others	-5	-9	-9	-4	-4
Income before taxes	161	351	357	405	447
Income tax expense	-42	-97	-89	-101	-111
Income from cont. op.	120	253	267	304	336
Income from discont. op.	0	0	0	0	0
NP	120	253	267	304	336
NP margin	6.6	13.1	13.0	13.8	14.5
NP for non-contr. interest	0	0	0	0	0
NP for contr. interest	120	253	267	304	336
Valuation of AFS fin. assets	0	0	0	0	0
Other compreh. income	0	0	0	0	0
Comprehensive income	118	253	263	304	336
Comp. income for non-contr. int.	0	0	0	0	0
Comp. income for contr. int.	118	253	0	0	0

Valuation metrics	(W, x, %)				
	2012A	2013A	2014F	2015F	2016F
EPS	1,553	3,283	3,468	3,940	4,354
PER	28.0	20.2	26.0	22.8	20.7
BPS	10,408	12,543	12,744	15,046	17,715
PBR	4.2	5.3	7.1	6.0	5.1
EBITDAPS	5,712	7,338	7,370	7,802	8,374
EV/EBITDA	8.6	9.3	12.6	11.7	10.7
SPS	23,427	25,073	26,643	28,467	30,104
PSR	1.9	2.6	3.1	2.9	2.8
CFPS	6,503	7,789	6,989	7,763	8,331
DPS	0	2,710	1,700	1,750	1,800

Financial ratios	(W, x, %)				
	2012A	2013A	2014F	2015F	2016F
Growth potential					
Sales growth	5.7	7.0	6.3	6.8	5.8
OP growth	-6.0	46.3	12.2	12.0	10.0
NP growth	-32.4	111.4	5.6	13.6	10.5
Profitability					
ROIC	15.2	21.6	26.3	27.4	28.2
ROA	13.9	19.9	23.2	25.1	24.7
ROE	15.4	28.6	27.4	28.4	26.6
Stability					
Debt ratio	112.0	69.6	60.9	51.8	44.2
Net borrowings ratio	54.1	12.0	19.9	9.1	-1.3
Interest coverage ratio	7.9	19.0	33.4	43.5	48.5

Source: Coway, Daishin Securities Research Center

Balance sheet	(Wbn)				
	2012A	2013A	2014F	2015F	2016F
Current assets	691	642	497	607	751
Cash & cash equiv.	119	201	46	133	253
Trade & other receive.	292	290	292	308	326
Inventories	41	41	46	49	52
Other current assets	239	110	114	117	121
Long-term assets	1,010	999	1,084	1,154	1,219
Tangible assets	594	597	680	751	819
Investments in affiliates	102	101	101	101	101
Other long-term assets	314	301	303	302	299
Total assets	1,702	1,641	1,581	1,761	1,971
Current liabilities	720	637	480	482	564
Payables & other liab.	205	202	203	206	208
Borrowings	296	172	162	159	156
Current portion of LT debts	110	146	0	0	80
Other current liabilities	109	117	115	117	120
Long-term liabilities	179	37	118	119	40
Borrowings	148	0	80	80	0
Convertible securities	0	0	0	0	0
Other long-term liab.	31	37	38	39	40
Total liabilities	899	674	598	601	604
Controlling interest	803	967	983	1,160	1,366
Capital stock	41	41	41	41	41
Capital surplus	131	131	131	131	131
Retained earnings	717	890	956	1,133	1,339
Other capital changes	-85	-95	-144	-144	-144
Non-controlling interest	0	0	0	0	0
Total shareholder's equity	803	967	983	1,160	1,366
Total borrowings	434	116	196	105	-18

Cash flow statement	(Wbn)				
	2012A	2013A	2014F	2015F	2016F
Operating cash flows	429	518	392	428	460
Net income	120	253	267	304	336
Non-cash items	382	348	272	295	307
Depreciation	172	189	135	144	145
FX gains	0	0	0	0	0
Equity method gain	0	0	0	0	0
Others	210	159	137	151	161
Chg in assets & liab.	-38	-42	-49	-60	-62
Other cash flows	-35	-41	-98	-110	-120
Investing cash flow	-301	-58	-242	-242	-241
Investment assets	-3	179	3	3	3
Tangible assets	-292	-240	-250	-250	-250
Others	-7	2	5	5	7
Financing cash flows	-74	-377	-163	-142	-146
Short-term borrowings	21	-156	-10	-3	-3
Bonds payable	0	0	50	0	-50
Long-term borrowings	0	0	30	0	-30
Rights offering	0	0	0	0	0
Cash dividends	-78	-78	-124	-126	-130
Others	-17	-142	-109	-13	67
Net chg in cash	54	82	-156	88	120
Beginning cash balance	65	119	201	46	133
Ending cash balance	119	201	46	133	253
NOPLAT	169	241	280	315	346
FCF	38	179	153	197	232

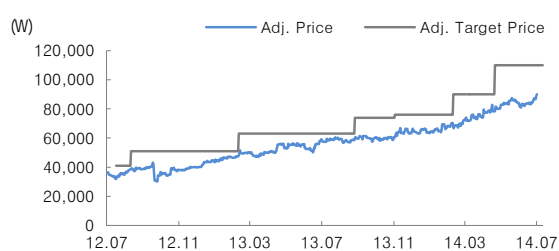
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[Investment rating & Target price history]

Coway (021240)



Date	14.07.10	14.04.29	14.02.17	14.01.15	13.12.09	13.11.10
Rating	Buy	Buy	Buy	Buy	Buy	Buy
TP	110,000	110,000	90,000	76,000	76,000	76,000
Date	13.10.08	13.09.22	13.09.03	13.08.06	13.07.08	13.06.30
Rating	Buy	Buy	Buy	Buy	Buy	Buy
TP	74,000	74,000	74,000	63,000	63,000	63,000
Date	13.06.03	13.05.13	13.05.06	13.04.02	13.02.18	12.12.26
Rating	Buy	Buy	Buy	Buy	Buy	Buy
TP	63,000	63,000	63,000	63,000	63,000	51,000
Date	12.10.26	12.10.07	12.08.19	12.08.09	12.07.25	
Rating	Buy	Buy	Buy	Buy	Buy	
TP	51,000	51,000	51,000	41,000	41,000	

Investment ratings framework

Sector ratings breakdown

- Overweight: industry indicators are expected to outperform the market over the next six months.
- Neutral: industry indicators are expected to be in line with the market over the next six months.
- Underweight: industry indicators are expected to underperform the market over the next six months.

Company ratings breakdown

- Buy: the stock is expected to outperform the market by at least 10%p over the next six months.
- Marketperform: the stock is expected to either outperform or underperform the market by less than 10%p over the next six months.
- Underperform: the stock is expected to underperform the market by at least 10%p over the next six months.