

# Coway (021240 KS)

## Margin gains expected entering rental growth cycle

### BUY (MAINTAIN)

Price (Jul. 28)	W91,100
Target Price	W115,000
% variance	26.2%

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KOSPI	2,048.81p
KOSDAQ	552.98p
Market Cap.	W7,026.1bn/US6,163.2mn
Par Value	W500
Outstanding Shares	77.1mn
Free Floating Shares	50.4mn(65.3%)
52-Week High/Low	W94,600/W56,800
60-Day Avg. Trading Volume	204,068shrs
60-Day. Avg. Trading T/O	W17,404mn
Foreign Ownership	54.33%
Major Shareholders	
	Coway Holdings and 12 others 30.99%
Absolute Performance	3M 15.3%
	6M 40.2%
	12M 54.4%
Relative performance	3M 10.8%
to KOSPI	6M 31.1%
	12M 44.0%

- ◆ New rental subscriptions hit a record high in 2Q14; operating profit beats market expectation for 5 straight quarters
- ◆ Rental net adds to surge 105% YoY to 170,000 in 2H14; on track for steady profit margin gains
- ◆ Retain BUY and raise target price to W115,000

### New rental subscriptions hit a record high in 2Q14; operating profit beats market expectation for 5 straight quarters

Coway posted K-IFRS standalone sales of W523.3bn (+5.3% YoY) and operating profit of W97.6bn (+23.0% YoY). Domestic new rental accounts rose to a record high of 370,000 (+24.4% YoY), driven by a 32% YoY growth in water purifier rental accounts. Rental and lump-sum sales came to W344bn (+4.6% YoY) and W37.4bn (-21.8% YoY), respectively. Exports rose 25.1% YoY to W55.7bn. Operating profit exceeded market expectation for five straight quarters.

### Rental net adds expected at 170,000 (+105% YoY) in 2H14; on track for steady profit margin gains

Domestic new rental accounts stood at 690,000 (+11.6% YoY) in 1H14 with net adds of 53,000 (-52.0% YoY). Among the contracts that are set to expire in 2014, 60 percent are concentrated in 1H14. Rental net adds should increase sharply in 2H14. We forecast new rental subscriptions of 710,000 (+28.4% YoY) with net adds of 170,000 (+104% YoY) in the second half of the year.

The COGS ratio of the domestic rental business is about 72%, which means that sales growth will lead to significant margin improvement. ARPU rose 1.2% YoY in 1H14, while rental sales increased 4.7% YoY to W683.4bn. In 2H14, ARPU and the number of rental accounts are likely to climb. Rental sales are projected to rise 6.7% YoY to W721.7bn. For 2014, Coway is expected to register W2.1tr (+7.4% YoY) in sales and W391.4bn (+17.5% YoY) in operating profit.

### Retain BUY and raise target price to W115,000

We retain our BUY rating on Coway, while raising our target price from W112,000 to W115,000. We applied a target PER of 26x to a 12-month forward EPS of W4,371. The domestic rental business has entered a fast-growth phase. Profit margins will continue improving in 2H14. The year-end dividend yield is around 2% based on the current share price. We recommend a long-term buying strategy.

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	2,075.9	391.4	377.8	283.8	3,680	12.1	14,489	24.8	12.0	6.3	27.2	0.9
2015F	2,298.5	461.5	470.7	353.0	4,577	24.4	16,947	19.9	10.4	5.4	29.1	(8.3)
2016F	2,532.9	536.4	557.5	399.8	5,421	18.4	19,724	16.8	9.2	4.6	29.6	(16.2)

Note: K-IFRS standalone

**2Q14 results**

(bn KRW)	2Q14P	1Q14	% QoQ	2Q13	% YoY	SHIC	Consensus
Sales	523.3	494.8	5.8	496.9	5.3	523.1	530.6
OP	97.6	89.9	8.6	79.4	23.0	97.0	93.6
NP	65.2	66.1	(1.4)	60.3	8.2	72.6	67.3
OPM (%)	18.7	18.2		16.0		18.5	17.6
NPM (%)	12.5	13.4		12.1		13.9	12.7

Source: Company data, Shinhan Investment Corp.

**Earnings forecast revision**

(bn KRW)	2014F			2015F		
	Before	After	Change (%)	Before	After	Change (%)
Sales	2,073.5	2,075.9	0.1	2,289.1	2,298.5	0.4
OP	393.4	391.4	(0.5)	456.4	461.5	1.1
Consolidated NP	294.0	283.3	(3.7)	361.3	363.5	0.6

Source: Company data, Shinhan Investment Corp.

Note: K-IFRS standalone

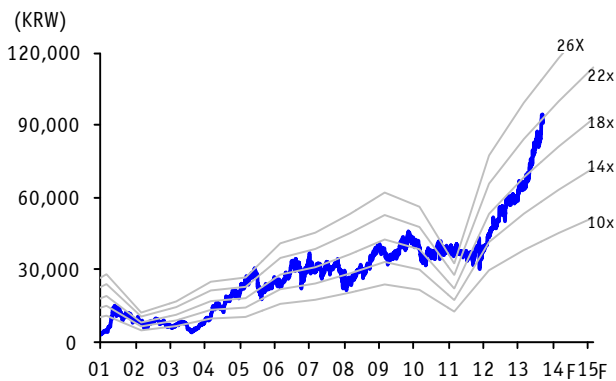
**Target price calculation**

(bn KRW)	Value	(bn KRW)	Value	(bn KRW)	Value
2014F NP	283.3	12-month forward NP	337	2015F NP	363.5
EPS (KRW)	3,673	EPS (KRW)	4,371	EPS (KRW)	4,714
PER (x)	31	PER (x)	26	PER (x)	24
Target price (KRW)	115,000	Target price (KRW)	<b>115,000</b>	Target price (KRW)	115,000
Current price (KRW)	91,100	Current price (KRW)	91,100	Current price (KRW)	91,100
Current PER (x)	24.8	Current PER (x)	20.8	Current PER (x)	19.3

Source: Company data, Shinhan Investment Corp.

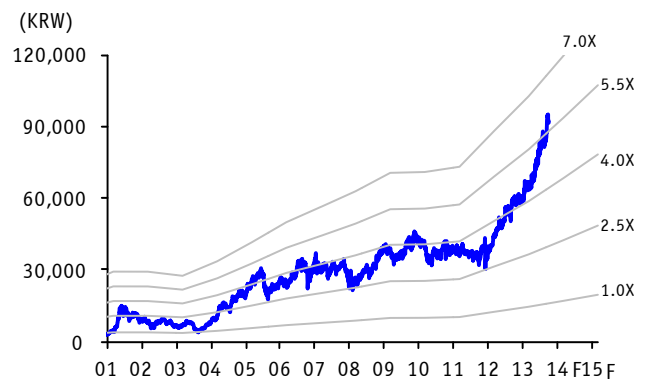
Note: K-IFRS standalone; target PER is a 30% premium to past two-year average PER of 20x

**12-month forward PER band**



Source: QuantiWise, Shinhan Investment Corp.

**12-month forward PBR band**



Source: QuantiWise, Shinhan Investment Corp.

Earnings forecasts					
(bn KRW)	2012	2013	2014F	2015F	2016F
<b>Sales</b>	<b>1,806.8</b>	<b>1,933.7</b>	<b>2,075.9</b>	<b>2,298.5</b>	<b>2,532.9</b>
Growth (% YoY)	5.7	7.0	7.4	10.7	10.2
Rental subscribers (no. of contracts)	4,607,420	4,434,632	4,657,508	5,033,043	5,423,113
Growth (% YoY)	3.5	(3.8)	5.0	8.1	7.8
Rental ARPU (KRW)	25,258	25,359	25,593	26,322	26,585
Rental sales	1,261.9	1,320.2	1,396.2	1,530.5	1,667.9
Rental registration	23.8	13.2	10.2	6.7	4.4
Membership	161.3	172.3	181.5	185.4	187.7
Lump-sum	144.7	149.3	133.9	152.4	159.7
Exports	109.6	144.6	201.6	258.3	334.8
ODM		112.7	152.4	204.0	273.0
Overseas subsidiaries		31.9	49.2	54.3	61.8
Cosmetics	67.2	76.4	87.5	98.8	111.7
Others	38.3	57.7	64.9	66.4	66.6
<b>Growth (% YoY)</b>					
Rental	7.4	4.6	5.8	9.6	9.0
Rental registration	(23.4)	(44.6)	(22.4)	(34.4)	(34.4)
Membership	0.3	6.8	5.3	2.2	1.2
Lump-sum	4.7	3.2	(10.3)	13.8	4.8
Exports	11.8	32.0	39.4	28.1	29.6
Cosmetics	(1.4)	13.6	14.6	12.8	13.1
Others (living + water treatment)	(0.2)	50.7	12.5	2.2	0.4
<b>COGS</b>	<b>605.4</b>	<b>651.7</b>	<b>713.3</b>	<b>804.7</b>	<b>906.1</b>
COGS ratio (%)	33.5	33.7	34.4	35.0	35.8
<b>Gross profit</b>	<b>1,201.4</b>	<b>1,282.1</b>	<b>1,362.6</b>	<b>1,493.8</b>	<b>1,626.8</b>
Gross margin (%)	66.5	66.3	65.6	65.0	64.2
<b>SG&amp;A costs</b>	<b>973.6</b>	<b>948.9</b>	<b>971.2</b>	<b>1,032.3</b>	<b>1,090.4</b>
SG&A costs/sales ratio (%)	53.9	49.1	46.8	44.9	43.0
<b>OP</b>	<b>227.8</b>	<b>333.2</b>	<b>391.4</b>	<b>461.5</b>	<b>536.4</b>
OPM (%)	12.6	17.2	18.9	20.1	21.2
Growth (% YoY)	(6.4)	46.3	17.5	17.9	16.2
Financial income	3.6	3.9	3.9	6.2	7.3
Financial expense	61.7	17.6	11.3	8.8	6.1
Other non-operating income	(5.0)	(9.1)	(6.2)	11.8	19.8
Pre-tax profit	161.5	350.5	377.8	470.7	557.5
Corporate tax	41.7	97.9	94.0	117.7	139.4
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>283.8</b>	<b>353.0</b>	<b>418.1</b>
NPM (%)	6.6	13.1	13.7	15.4	16.5
Growth (% YoY)	(32.4)	111.0	12.3	24.4	18.4
Subsidiary income	(21.0)	(30.2)	(0.5)	10.5	18.3
Consolidated NP	<b>98.7</b>	<b>222.4</b>	<b>283.3</b>	<b>363.5</b>	<b>436.4</b>
Growth (% YoY)	<b>(40.9)</b>	<b>125.2</b>	<b>27.4</b>	<b>28.3</b>	<b>20.1</b>
Standalone EPS (KRW)	1,553	3,283	3,680	4,577	5,421
Consolidated EPS (KRW)	1,280	2,883	3,673	4,714	5,659

Source: Company data, Shinhan Investment Corp.

Source: Rental subscribers in 2013 exclude 365,316 uncollected bond accounts

Quarterly earnings															
(bn KRW)	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14P	3Q14F	4Q14F	1Q15F	2Q15F	3Q15F	4Q15F	2013	2014F	2015F
<b>Sales</b>	<b>465.2</b>	<b>496.9</b>	<b>489.2</b>	<b>482.4</b>	<b>494.8</b>	<b>523.3</b>	<b>525.6</b>	<b>532.3</b>	<b>552.1</b>	<b>580.2</b>	<b>577.7</b>	<b>588.4</b>	<b>1,933.7</b>	<b>2,075.9</b>	<b>2,298.5</b>
Growth (% YoY)	5.2	11.3	6.8	4.9	6.4	5.3	7.4	10.3	11.6	10.9	9.9	10.6	7.0	7.4	10.7
<b>Rental</b>	<b>323.8</b>	<b>328.8</b>	<b>331.8</b>	<b>335.8</b>	<b>339.4</b>	<b>344.0</b>	<b>351.7</b>	<b>361.0</b>	<b>369.5</b>	<b>379.4</b>	<b>386.7</b>	<b>394.9</b>	<b>1,320.2</b>	<b>1,396.2</b>	<b>1,530.5</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>45.7</b>	<b>45.9</b>	<b>46.0</b>	<b>46.2</b>	<b>46.3</b>	<b>46.4</b>	<b>46.6</b>	<b>172.3</b>	<b>181.5</b>	<b>185.4</b>
Lump-sum	<b>36.6</b>	<b>47.8</b>	<b>35.4</b>	<b>29.4</b>	<b>27.6</b>	<b>37.4</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>133.9</b>	<b>152.4</b>
Exports	31.5	44.6	38.0	30.6	45.2	55.7	51.5	49.2	57.0	71.1	65.1	65.1	144.6	201.6	258.3
Cosmetics	17.9	22.1	16.6	19.8	21.0	22.3	21.5	22.8	23.6	24.4	24.9	25.8	76.4	87.5	98.8
Others	9.1	7.8	21.1	19.8	14.8	15.4	17.8	16.9	16.2	16.6	16.9	16.7	57.7	64.9	66.4
<b>COGS</b>	<b>154.7</b>	<b>167.9</b>	<b>169.9</b>	<b>159.2</b>	<b>169.3</b>	<b>180.5</b>	<b>181.6</b>	<b>182.0</b>	<b>191.2</b>	<b>206.2</b>	<b>202.2</b>	<b>205.1</b>	<b>651.7</b>	<b>713.3</b>	<b>804.7</b>
COGS ratio (%)	33.2	33.8	34.7	33.0	34.2	34.5	34.5	34.2	34.6	35.5	35.0	34.9	33.7	34.4	35.0
<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>245.2</b>	<b>243.4</b>	<b>247.0</b>	<b>254.6</b>	<b>257.0</b>	<b>258.1</b>	<b>262.6</b>	<b>948.9</b>	<b>971.2</b>	<b>1,032.3</b>
SG&A costs/sales ratio (%)	51.9	50.2	45.4	48.8	47.6	46.9	46.3	46.4	46.1	44.3	44.7	44.6	49.1	46.8	44.9
<b>OP</b>	<b>69.2</b>	<b>79.4</b>	<b>97.0</b>	<b>87.6</b>	<b>89.9</b>	<b>97.6</b>	<b>100.6</b>	<b>103.4</b>	<b>106.4</b>	<b>116.9</b>	<b>117.5</b>	<b>120.8</b>	<b>333.2</b>	<b>391.4</b>	<b>461.5</b>
OPM (%)	14.9	16.0	19.8	18.2	18.2	18.7	19.1	19.4	19.3	20.2	20.3	20.5	17.2	18.9	20.1
Growth (% YoY)	7.9	21.9	54.2	145.7	29.8	23.0	3.7	18.0	18.4	19.8	16.8	16.9	46.3	17.5	17.9
Financial income	0.6	1.3	0.6	1.4	0.7	0.4	1.3	1.5	1.4	1.5	1.6	1.7	3.9	3.9	6.2
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	11.3	8.8
Other non-operating income	6.0	4.4	(9.6)	(9.9)	0.2	(8.3)	0.5	1.5	2.2	2.7	3.2	3.7	(9.1)	(6.2)	11.8
Pre-tax profit	115.0	80.7	83.0	71.8	87.8	86.7	99.6	103.7	107.6	118.8	120.1	124.3	350.5	377.8	470.7
<b>NP</b>	<b>80.2</b>	<b>60.3</b>	<b>62.2</b>	<b>50.0</b>	<b>66.1</b>	<b>65.2</b>	<b>74.7</b>	<b>77.7</b>	<b>80.7</b>	<b>89.1</b>	<b>90.1</b>	<b>93.2</b>	<b>252.6</b>	<b>283.8</b>	<b>353.0</b>
NPM (%)	17.2	12.1	12.7	10.4	13.4	12.5	14.2	14.6	14.6	15.4	15.6	15.8	13.1	13.7	15.4
Growth (% YoY)	195.6	77.3	(660.7)	(29.6)	(17.5)	8.2	20.1	55.6	22.0	36.5	20.7	19.9	111.0	12.3	24.4

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)	24,522	24,713	24,129	24,905	25,258	25,359	25,593	26,322	26,585
Total subscriptions	3,639,197	3,898,647	4,145,102	4,450,003	4,607,420	4,434,632	4,657,508	5,033,043	5,423,113
Net adds	26,706	259,450	246,455	304,901	157,417	(172,788)	222,876	375,535	390,070
New subscriptions	1,045,248	1,188,939	1,167,378	1,272,538	1,218,911	1,165,966	1,393,463	1,536,181	1,569,193
Cancellation rate (%)	13.9	13.5	12.9	12.5	12.1	10.8	11.5	11.1	10.4
<b>Growth (%)</b>									
ARPU	1.0	0.8	(2.4)	3.2	1.4	0.4	0.9	2.9	1.0
Total subscriptions	0.7	7.1	6.3	7.4	3.5	(3.8)	5.0	8.1	7.8
Net adds	(80.1)	871.5	(5.0)	23.7	(48.4)	(209.8)	(229.0)	68.5	3.9
New subscriptions	(10.9)	13.7	(1.8)	9.0	(4.2)	(4.3)	19.5	10.2	2.1

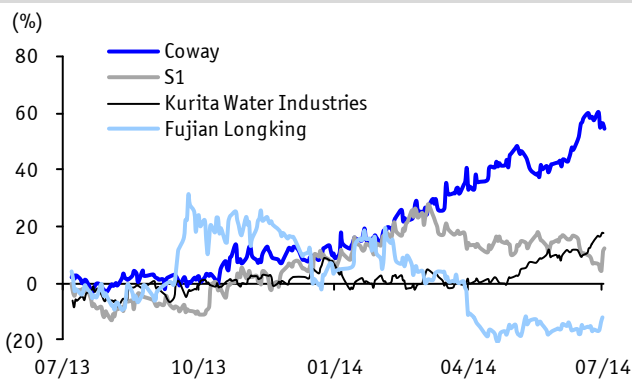
Source: Company data, Shinhan Investment Corp.

Source: Rental subscribers in 2013 exclude 365,316 uncollected bond accounts

Global peers							
Company		Coway	Kurita Water Industries	S1	OSIM International	Fujian Longking	Hyflux
Ticker		021240 KS	6370 JP	012750 KS	OSIM SP	600388 CH	HYF SP
Market cap. (bn KRW)		7,026.1	3,025.4	2,971.5	1,815.4	1,796.2	810.5
Sales (bn KRW)	2013	2,118.3	2,434.1	1,274.1	566.7	971.6	465.9
	2014F	2,281.4	1,773.7	1,732.3	628.4	1,110.7	397.9
	2015F	2,449.5	1,871.3	1,887.6	712.2	1,205.2	535.8
OP (bn KRW)	2013	339.0	283.6	129.1	116.1	76.9	73.6
	2014F	385.7	150.3	190.8	128.1	83.0	58.4
	2015F	436.9	180.6	221.0	149.4	93.2	78.2
OP margin (%)	2013	16.0	11.7	10.1	20.5	7.9	15.8
	2014F	16.9	8.5	11.0	20.4	7.5	14.7
	2015F	17.8	9.6	11.7	21.0	7.7	14.6
NP (bn KRW)	2013	245.1	155.1	79.2	88.9	81.3	38.5
	2014F	290.7	95.4	126.4	99.9	77.5	11.5
	2015F	336.5	117.9	147.3	116.4	84.1	30.8
NP margin (%)	2013	11.6	6.4	6.2	15.7	8.4	8.3
	2014F	12.7	5.4	7.3	15.9	7.0	2.9
	2015F	13.7	6.3	7.8	16.3	7.0	5.8
EPS growth (% YoY)	2013	159.1	T/B	T/B	13.8	57.0	T/B
	2014F	16.5	T/B	48.4	5.5	T/B	T/B
	2015F	15.4	23.6	16.3	14.5	12.6	522.1
P/E (x)	2013	20.2	22.3	31.9	16.4	31.3	48.3
	2014F	23.8	32.0	22.5	18.1	24.0	197.5
	2015F	20.6	25.9	19.3	15.8	21.3	30.4
P/B (x)	2013	5.3	1.2	3.1	6.1	5.2	2.0
	2014F	6.1	1.4	3.6	5.0	3.4	1.1
	2015F	5.1	1.3	3.1	4.2	3.0	1.1
EV/EBITDA (x)	2013	9.4	4.9	9.6	10.9	28.5	18.7
	2014F	12.2	7.2	9.9	11.9	15.8	23.0
	2015F	11.5	6.5	8.6	10.3	14.5	18.1
ROE (%)	2013	28.4	5.5	10.0	43.5	17.1	4.2
	2014F	28.7	4.5	14.8	32.9	15.2	9.5
	2015F	28.1			28.5	14.5	3.9

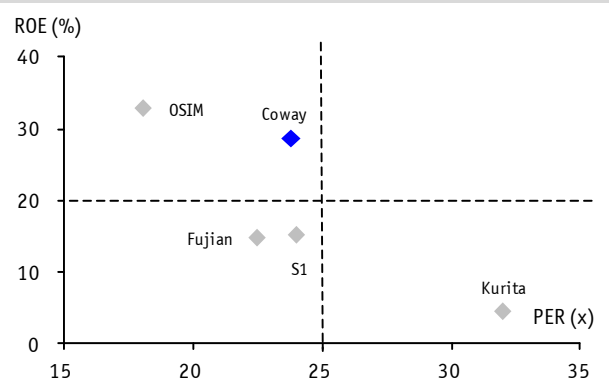
Source: Bloomberg consensus, Shinhan Investment Corp.

Share performance of global peers



Source: Bloomberg, Shinhan Investment Corp.

Valuation 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>1,788.8</b>	<b>1,962.6</b>	<b>2,174.9</b>
Total Current Assets	691.3	642.5	751.4	857.2	987.0
Cash and Cash Equivalents	118.9	201.3	278.1	333.2	409.6
Accounts Receivables	278.4	265.9	285.4	316.0	348.2
Inventories	41.3	40.9	43.9	48.6	53.5
Non-Current Assets	1,010.2	998.6	1,037.4	1,105.4	1,187.9
Tangible Assets	594.2	596.8	630.7	686.6	755.0
Intangible Assets	157.5	150.9	144.4	138.9	134.2
Investment Assets	158.3	154.0	165.3	183.1	201.7
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>671.3</b>	<b>655.6</b>	<b>635.4</b>
Current Liabilities	719.6	636.8	631.8	611.8	587.1
ST Borrowings	295.7	172.0	150.0	100.0	50.0
Account Payables	28.9	29.5	38.4	49.9	55.0
Current Portion of LT Debt	109.9	146.1	131.1	116.1	101.1
Non-Current Liabilities	179.2	36.9	39.6	43.8	48.3
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>1,117.4</b>	<b>1,307.0</b>	<b>1,539.5</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	1,040.5	1,230.1	1,444.3
Owners of Parent Equity	802.7	967.3	1,117.4	1,307.0	1,521.2
Non-Controlling Interests Equity	0.0	0.0	0.0	0.0	18.3
*Total Debt	592.2	325.1	288.6	224.4	160.2
*Net Debts(Cash)	472.7	123.4	10.4	(108.8)	(249.4)

## 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>480.4</b>	<b>530.5</b>	<b>591.1</b>
Net Profit	119.7	253.2	283.8	353.0	418.1
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)	(8.4)	(32.0)	(31.7)
(Payments of Income Taxes)	(34.7)	(41.4)	(94.0)	(117.7)	(139.4)
Others	146.6	160.3	102.2	121.9	139.6
<b>Investing Cash Flow</b>	<b>(300.9)</b>	<b>(58.4)</b>	<b>(232.1)</b>	<b>(268.8)</b>	<b>(281.2)</b>
Incr. in Tangible Assets(CAPEX)	(295.0)	(245.7)	(314.2)	(345.7)	(358.2)
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	(11.3)	(17.7)	(18.7)
Others	(5.9)	(10.6)	3.4	4.6	5.7
<b>Free Cash Flow</b>	<b>(65.7)</b>	<b>348.0</b>	<b>175.3</b>	<b>198.9</b>	<b>234.2</b>
<b>Financing Cash Flow</b>	<b>(73.6)</b>	<b>(376.8)</b>	<b>(171.4)</b>	<b>(206.7)</b>	<b>(233.5)</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)	(133.7)	(163.4)
Others	(16.7)	(50.7)	(11.3)	(8.8)	(5.9)
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>76.9</b>	<b>55.0</b>	<b>76.4</b>
Beginning Cash	64.9	118.9	201.3	278.2	333.2
Ending Cash	118.9	201.3	278.2	333.2	409.6

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>2,075.9</b>	<b>2,298.5</b>	<b>2,532.9</b>
Growth (%)	5.7	7.0	7.4	10.7	10.2
<b>COGS</b>	<b>605.4</b>	<b>651.7</b>	<b>713.3</b>	<b>804.7</b>	<b>906.1</b>
<b>Gross Profit</b>	<b>1,201.4</b>	<b>1,282.1</b>	<b>1,362.6</b>	<b>1,493.8</b>	<b>1,626.8</b>
Gross margin (%)	66.5	66.3	65.6	65.0	64.2
<b>SG&amp;A</b>	<b>973.6</b>	<b>948.9</b>	<b>971.2</b>	<b>1,032.3</b>	<b>1,090.4</b>
<b>Operating Income</b>	<b>227.8</b>	<b>333.2</b>	<b>391.4</b>	<b>461.5</b>	<b>536.4</b>
Growth (%)	(6.4)	46.3	17.5	17.9	16.2
Operating margin (%)	12.6	17.2	18.9	20.1	21.2
<b>Other Net Non-Operating Profits</b>	<b>(66.3)</b>	<b>17.3</b>	<b>(13.6)</b>	<b>9.2</b>	<b>21.1</b>
Financial Income(Expenses)	(58.1)	(13.7)	(7.5)	(2.6)	1.3
Net Other Non-Operating Profits	(5.0)	(9.1)	(6.2)	11.8	19.8
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>377.8</b>	<b>470.7</b>	<b>557.5</b>
Income Taxes	41.7	97.4	94.0	117.7	139.4
Profit from Continuing Op.	119.7	253.2	283.8	353.0	418.1
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>283.8</b>	<b>353.0</b>	<b>418.1</b>
Growth (%)	(32.4)	111.4	12.1	24.4	18.4
Net Profit margin (%)	6.6	13.1	13.7	15.4	16.5
Net Profit of Parent	119.7	253.2	283.8	353.0	399.8
Net Profit to Non-Controlling	0.0	0.0	0.0	0.0	18.3
<b>Total Comprehensive Income</b>	<b>118.2</b>	<b>252.6</b>	<b>283.8</b>	<b>353.0</b>	<b>418.1</b>
Total Comp. Income of Parent	118.2	252.6	283.8	353.0	418.1
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>588.2</b>	<b>666.8</b>	<b>740.9</b>
Growth (%)	1.0	30.6	12.7	13.4	11.1
EBITDA Margin (%)	22.1	27.0	28.3	29.0	29.3

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

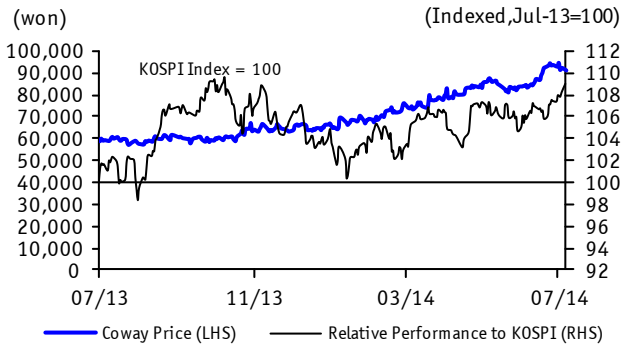
## Key Ratios

Year to Dec.	2012	2013	2014F	2015F	2016F
EPS_C (won)	1,553	3,283	3,680	4,577	5,421
EPS_P (won)	1,553	3,283	3,680	4,577	5,421
BPS_C (won)	10,408	12,543	14,489	16,947	19,961
BPS_P (won)	10,408	12,543	14,489	16,947	19,724
DPS (won)	0	2,710	1,800	2,200	2,500
PER_C (x)	28.0	20.2	24.8	19.9	16.8
PER_P (x)	28.0	20.2	24.8	19.9	16.8
PBR_C (x)	4.2	5.3	6.3	5.4	4.6
PBR_P (x)	4.2	5.3	6.3	5.4	4.6
EV/EBITDA (x)	9.6	10.0	12.0	10.4	9.2
Payout Ratio (%)	0.0	79.8	47.1	46.3	46.4
Dividend Yield (%)	0.0	4.1	2.0	2.4	2.7
<b>Profitability</b>					
EBITDA Margin (%)	22.1	27.0	28.3	29.0	29.3
OP Margin (%)	12.6	17.2	18.9	20.1	21.2
NP Margin (%)	6.6	13.1	13.7	15.4	16.5
ROA (%)	7.3	15.1	16.5	18.8	20.2
ROE (%)	15.4	28.6	27.2	29.1	29.6
ROIC (%)	18.0	26.3	33.0	37.1	40.2
<b>Stability</b>					
D/E Ratio (%)	112.0	69.6	60.1	50.2	41.3
Net Debt to Equity (%)	58.9	12.8	0.9	(8.3)	(16.2)
Cash Ratio (%)	16.5	31.6	44.0	54.5	69.8
Interest Coverage (x)	7.9	19.0	34.7	52.8	89.9
<b>Activity (%)</b>					
Working Capital Turnover (t)	7.5	9.0	15.6	16.8	17.2
Inventory Turnover (d)	11.5	7.8	7.5	7.3	7.4
Receivable Turnover (d)	52.4	51.4	48.5	47.8	47.9

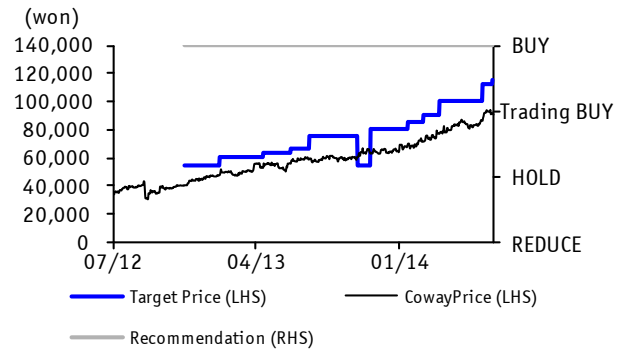
Source: Company data, Shinhan Investment Corp.

## 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.
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	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
2014. 07. 09	BUY	112,000
2014. 07. 28	BUY	115,000

### 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>