

Coway (021240)

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Rating **BUY**
maintain

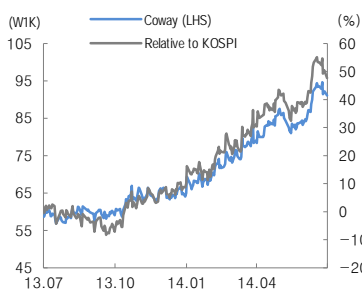
6M TP (₩) **110,000**
maintain

CP
(14.07.28) **91,100**

Service

KOSPI	2048.81
Market cap (Wbn)	7,026
Market cap portion (%)	0.58
Paid-in capital (common; Wbn)	41
52w high/low (₩)	94,600 / 56,800
120d avg. trading volume (Wbn)	16.6
Foreign ownership (%)	54.33
Major shareholders	Coway Holdings+12: 30.99%

(%)	1M	3M	6M	12M
Abs. return	9.5	15.3	40.2	54.4
Rel. return	6.3	10.8	31.1	44.0



2Q14 OP outperformed

OP increased 23% yoy in 2Q14 and came in better than expected

- Coway's OP increased 23% yoy to ₩97.6bn in 2Q14 and topped the market's consensus and our expectations. Sales amounted to ₩523.3bn (+5.3% yoy). The OP outperformance is largely attributable to marketing and commission expense reductions. However, NP missed expectations by 2.4% due to ₩7.1bn currency translation losses.
- Rental accounts increased 4.5% yoy, while membership and overseas sales rose 7% and 25.1% yoy, respectively. Lump-sum payment accounts declined 21.8% yoy due to the high comparison base and sluggish sales of dehumidifiers on less humid summer weather. Cosmetics sales rose 0.5% yoy despite the high comparison base of 2013.
- Rental accounts increased by 29,000 in 2Q14 and reversed the downturn that lasted four quarters. The retention rate of rental accounts that matured in 2Q14 was 79.9%, up 3.2%p from 1Q14. Mattress sales volume including lump-sum payment and rental accounts increased by 10,000 units a month, beating our forecast.
- Consolidated sales grew only 0.1% in 2Q14 due to business restructuring in Chinese and Thai operations. The Japanese unit's sales are not included. Consolidated OP amounted to ₩97.2bn, ₩440mn below non-consolidated OP.

Sales and OP are estimated to grow 6% and 14% yoy in 2014

- Order intake will rise in 2H14 on a net basis as the number of maturing accounts will decline. Coway's sales will grow 4% on high-end product line-up upgrades and price hikes. Mattress product diversification and home-care service expansion will add fuel to Coway's sales upturn in 2H14.
- Lump-sum payment accounts are expected to rise in 3Q14 on the low comparison base and the roll-out of interest-free installment plans. However, double-digit growth in lump-sum payment accounts will not be repeated as momentum shifts from lump-sum payment sales to rental sales.
- Membership accounts are expected to grow 8-9% in 2H14. ODM sales growth will reach 20% in China. Double-digit rental sales growth is also expected in Malaysia and the US.
- Sales will rise 6% yoy in 2014 and OP growth is estimated at 13.9%. OP is expected to rise 11.2% in 2015.

Maintain BUY and a 6M TP of ₩110,000

- We reiterate our BUY rating to Coway. Our target price of ₩110,000 is based on a 12M Fwd P/E of 28.2x, which looks justifiable in light of Coway's strong fundamentals despite weak economic conditions as well as its solid margins and strong cash flow and shareholder friendly policy.
- Catalysts for 2H14 include mattress sales and overseas market growth (ODM sales).
- The year-end dividend is estimated at ₩1,700. Dividends will likely grow. Coway is expected to swing to a positive cash flow in 2016.

(Wbn, %)

	2Q13	1Q14	2Q14			3Q14				
			Consensus	Previous estimates	Results	YoY	QoQ	Daishin estimates	YoY	QoQ
Sales	497	495	531	528	523	5.3	5.8	518	5.9	-1.0
OP	79	90	94	93	98	23.0	8.7	99	2.0	1.4
NP	61	66	68	67	65	7.7	-1.3	70	13.0	7.9

	2012	2013	2014(F)			Growth		
			Consensus	Previous estimates	Daishin estimates	Change	2013	2014(F)
Sales	1,807	1,934	2,073	2,055	2,049	-0.3	7.0	6.0
OP	228	333	376	374	380	1.5	46.3	13.9
NP	120	253	283	267	267	0.0	111.4	5.6

Source: Coway, WISEIn, Daishin Securities Research Center

Tab 1. Quarterly and yearly earnings forecasts

(Wbn, %)

		1Q13	2Q13	3Q13	4Q13	1Q14	2Q14P	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%	1.02%	1.02%	1.02%	0.9%	1.02%	1.04%	1.04%
Rental accounts (1K)		4,657.8	4,716.8	4,746.4	4,799.9	4,526	4,550.1	4,583.6	4,609.4	4,502	4,609	4,761	4,904
Membership accounts		1,135.3	1,099.6	1,087.7	1,066.4	1,058	1,087.3	1,100.2	1,110.2	1,066	1,110	1,167	1,225
Total		5,793.1	5,816.4	5,834.1	5,866.4	5,584	5,637.4	5,683.8	5,719.6	5,569	5,720	5,927	6,130
Change		52.6	23.3	17.7	32.3	15.1	53.5	46.4	35.8	-172	151	208	202
Sales	Total	465.2	496.9	489.2	482.4	494.8	523.3	518.0	513.2	1,933.7	2,049.3	2,182.7	2,302.2
	Rental	327.4	331.9	334.9	339.1	342.4	346.7	350.6	354.8	1,333.4	1,394.6	1,465.5	1,521.4
	Membership	42.8	42.8	43.2	43.6	43.9	45.7	46.8	47.4	172.3	183.7	196.4	209.1
	Lump-sum payment	36.6	47.8	35.4	29.4	27.6	37.4	37.6	30.2	149.3	132.8	140.7	148.5
	Cosmetics	17.9	22.1	16.6	19.8	21.0	22.3	18.2	22.8	76.4	84.2	91.0	98.3
	Overseas sales	31.5	44.6	38.0	30.6	45.2	55.7	43.6	38.3	144.6	182.9	214.4	246.5
	Others	9.1	7.8	21.1	19.8	14.8	15.4	21.1	19.8	57.7	71.1	74.6	78.4
	YoY (%) Total	5.2	11.3	6.8	4.9	6.4	5.3	5.9	6.4	7.0	6.0	6.5	5.5
Rental	3.5	4.1	3.6	3.6	4.6	4.5	4.7	4.6	3.7	4.6	5.1	3.8	
Membership	10.4	9.1	5.1	3.2	2.6	7.0	8.3	8.6	6.8	6.6	6.9	6.5	
Lump-sum payment	11.9	18.1	-9.3	-9.3	-24.7	-21.8	6.1	2.6	3.2	-11.1	6.0	5.5	
Cosmetics	6.3	35.5	-4.2	18.1	17.4	0.5	10.0	15.0	13.6	10.3	8.0	8.0	
Overseas sales	5.0	111.4	35.6	0.2	43.6	25.1	15.0	25.0	32.0	26.5	17.2	15.0	
Others	-23.3	-45.0	125.6	85.0	63.4	98.4	0.0	0.0	50.7	23.2	5.0	5.0	
GP		310.5	329.0	319.4	323.1	325.5	342.8	341.7	344.1	1,282.1	1,354.2	1,448.3	1,532.5
OP		69.2	79.4	97.0	87.6	89.8	97.6	98.9	93.3	333.2	379.6	422.0	461.1
Pre-tax profit		115.0	80.7	83.0	71.8	87.8	86.7	92.8	88.8	350.5	356.2	406.5	446.1
NP		80.2	60.6	62.3	50.2	66.1	65.2	70.4	65.7	253.2	267.4	306.3	336.2
YoY (%)	GP	4.6	8.1	4.2	10.0	4.8	4.2	7.0	6.5	6.7	5.6	6.9	5.8
	OP	7.9	21.9	54.2	145.7	29.7	23.0	2.0	6.5	46.3	13.9	11.2	9.3
	Pre-tax profit	106.7	43.1	369.2	126.3	-23.6	7.4	11.8	23.7	117.1	1.6	14.1	9.7
	NP	94.5	37.6	382.2	132.5	-17.6	7.7	13.0	31.0	111.4	5.6	14.6	9.8
GP margin (%)		66.8	66.2	65.3	67.0	65.8	65.5	66.0	67.1	66.3	66.1	66.4	66.6
OP margin (%)		14.9	16.0	19.8	18.2	18.1	18.7	19.1	18.2	17.2	18.5	19.3	20.0
Pretax profit margin (%)		24.7	16.2	17.0	14.9	17.8	16.6	17.9	17.3	18.1	17.4	18.6	19.4
NP margin (%)		17.2	12.2	12.7	10.4	13.4	12.5	13.6	12.8	13.1	13.0	14.0	14.6

Source: Coway, Daishin Securities Research Center

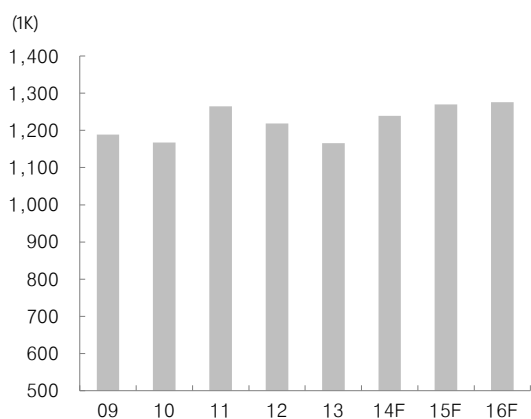
Operating results and major financial data

(Wbn, W, %)

	2012A	2013A	2014F	2015F	2016F
Sales	1,807	1,934	2,049	2,183	2,302
OP	228	333	380	422	461
Pretax profit	161	351	356	407	446
NP	120	253	267	306	336
NP (controlling int.)	120	253	267	306	336
EPS	1,553	3,283	3,467	3,972	4,359
PER	28.0	20.2	26.3	22.9	20.9
BPS	10,408	12,543	12,744	15,078	17,751
PBR	4.2	5.3	7.1	6.0	5.1
ROE	15.4	28.6	27.4	28.6	26.6

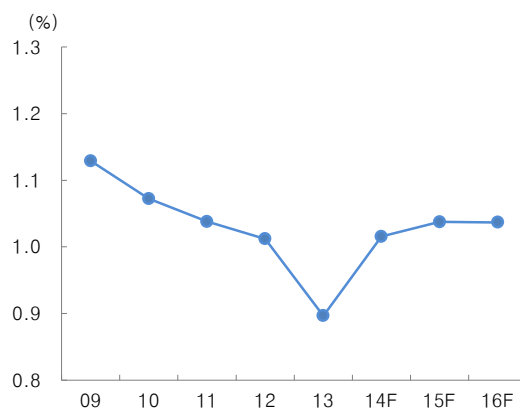
Note: EPS, BPS, and ROE are based only on the controlling interests.
Source: Coway, Daishin Securities Research Center

Fig 1. Net rental order growth



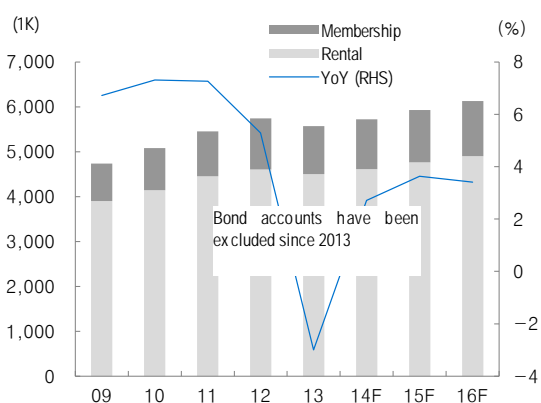
Source: Coway, Daishin Securities Research Center

Fig 2. Monthly rental cancellation trend and forecast



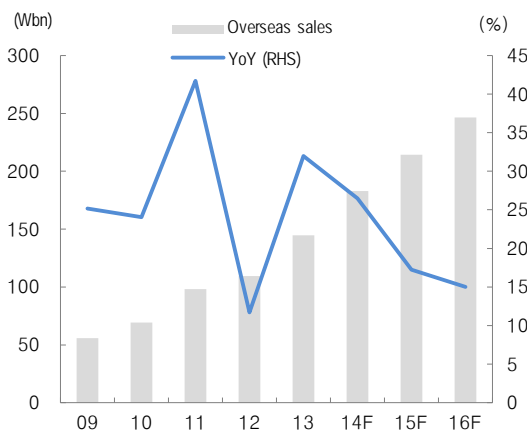
Source: Coway, Daishin Securities Research Center

Fig 3. Rental account trend and forecast



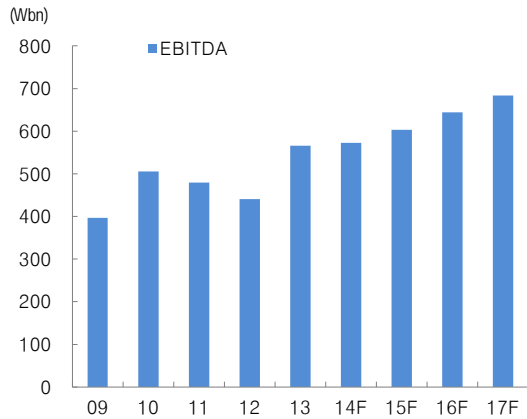
Source: Coway, Daishin Securities Research Center

Fig 4. Overseas sales trend and forecast



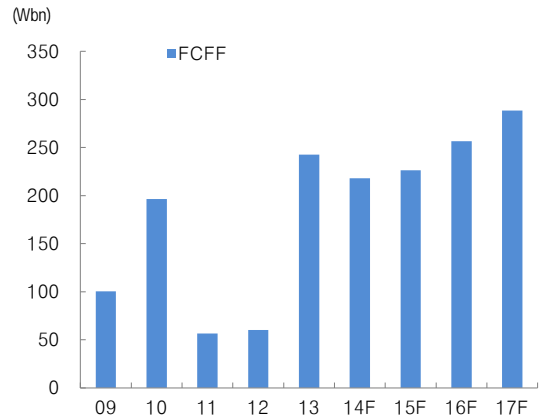
Source: Coway, Daishin Securities Research Center

Fig 5. EBITDA trend and forecast



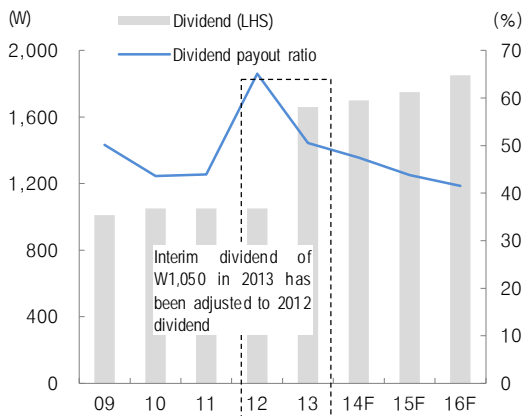
Note: EBITDA= OP + tangible and intangible asset depreciation cost + rental equipment impairment cost.
Source: Coway, Daishin Securities Research Center

Fig 6. FCFF trend and forecast



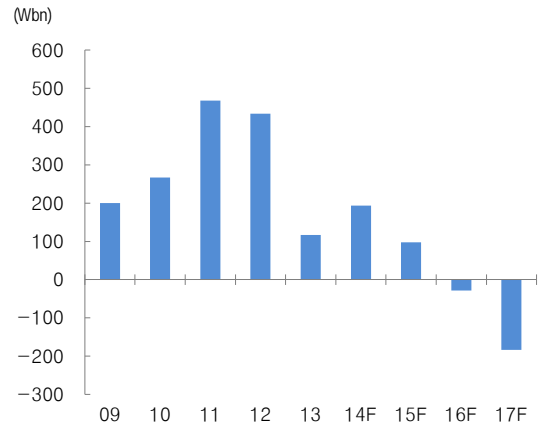
Source: Coway, Daishin Securities Research Center

Fig 7. DPS trend and forecast



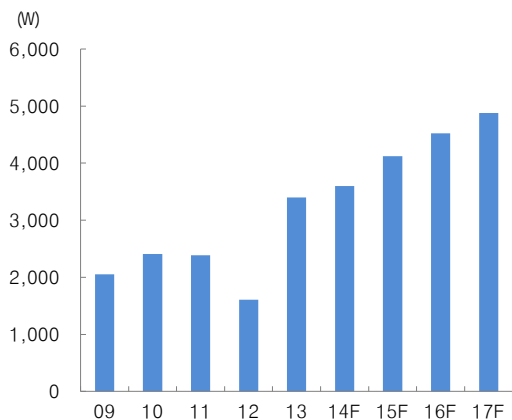
Source: Coway, Daishin Securities Research Center

Fig 8. Net borrowings (net cash) trend and forecast



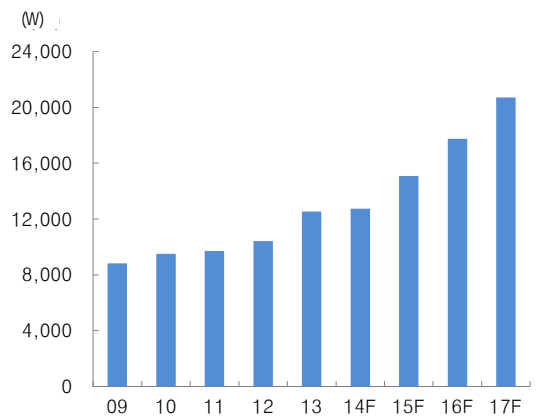
Source: Coway, Daishin Securities Research Center

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		Change	
	2014F	2015F	2014F	2015F	2014F	2015F
Sales	2,055	2,195	2,049	2,183	-0.3	-0.6
SG&A	983	1,036	975	1,026	-0.8	-1.0
OP	374	419	380	422	1.5	0.7
OP margin	18.2	19.1	18.5	19.3	1.8	1.3
Non-operating profit	-17	-14	-23	-16	CL	CL
Pretax profit	357	405	356	407	-0.2	0.5
NP (controlling int.)	267	304	267	306	0.0	0.8
NP margin	13.0	13.8	13.0	14.0	0.3	1.4
EPS(controlling int.)	3,468	3,940	3,467	3,972	0.0	0.8

Source: Coway, Daishin Securities Research Center

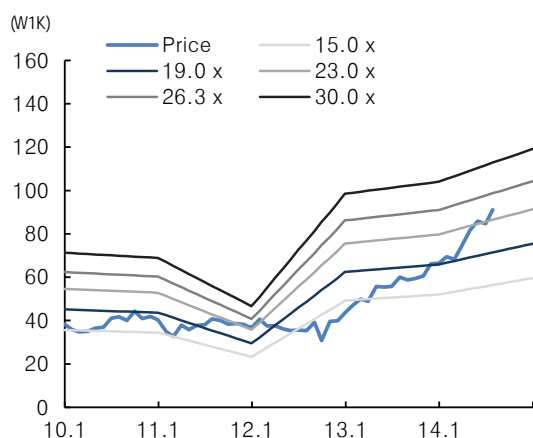
Tab 2. Valuation

(Wbn, W, x, %)

Target EV (Wbn)	8,264.5	A=a*b	
12M Fwd EBITDA	590	a	
Target EV/EBITDA Multiple	14.0	b	Average 14F EV/EBITDA of three 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	48.8	D	Based on end-2014
Net borrowings (net cash)	193.2	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)	91,100	2014.07.28	
Upside potential (%)	20.7		
12M Fwd Implied PER (x)	28.2		
12M Fwd Implied PBR (x)	7.8		

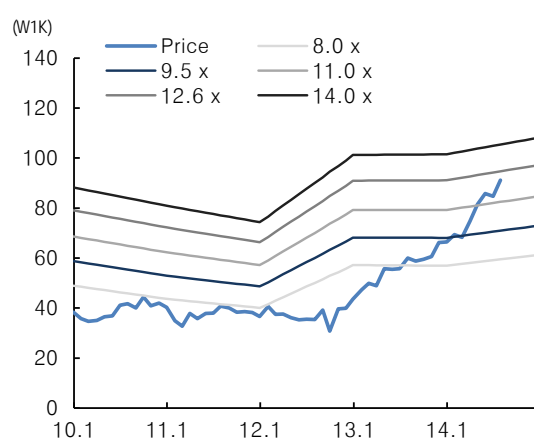
Source: Daishin Securities Research Center

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
CP (W, 2014.07.28)		91,100	1,693,000	486,000	78,200	764,000	108,500	394,300
Market cap. (Wbn)		7,026.1	9,897.0	7,590.4	2,971.5	25,183.5	4,258.4	2,447.3
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	3,575.4	4,609.9	1,746.2	2,775.9	2,780.0	1,388.0
	2015E	2,195.5	4,024.6	4,965.7	1,887.1	3,306.8	3,517.8	1,515.0
OP (Wbn)	2013	333.2	369.8	496.4	129.1	524.1	88.5	157.2
	2014E	374.0	450.1	514.2	188.1	810.0	149.0	166.4
	2015E	418.9	519.6	577.1	218.3	1,097.2	238.0	181.9
EBITDA (Wbn)	2013	560.7	478.2	618.0	226.7	573.4	75.2	158.7
	2014E	547.8	595.0	632.1	313.7	957.8	206.0	177.3
	2015E	603.7	696.2	703.0	387.2	1,256.4	295.8	193.6
EPS (W)	2013	3,400	45,867	24,373	2,343	63,681	280	22,387
	2014E	3,598	48,053	20,341	3,385	17,816	2,419	20,303
	2015E	4,089	56,671	23,061	3,890	24,358	4,219	22,069
BPS (W)	2013	12,543	370,326	84,081	24,163	49,379	17,286	94,233
	2014E	12,744	412,111	100,863	26,302	64,294	19,605	112,100
	2015E	15,046	462,426	120,408	29,441	89,773	23,062	132,400
OP margin (%)	2013	17.2	11.9	11.5	10.1	22.7	3.9	12.5
	2014E	18.2	12.6	11.2	10.8	29.2	5.4	12.0
	2015E	19.1	12.9	11.6	11.6	33.2	6.8	12.0
EBITDA margin (%)	2013	29.0	15.4	14.3	17.8	24.8	3.3	12.6
	2014E	26.7	16.6	13.7	18.0	34.5	7.4	12.8
	2015E	27.5	17.3	14.2	20.5	38.0	8.4	12.8
ROE (%)	2013	28.6	11.0	27.4	10.0	112.7	2.1	20.9
	2014E	27.4	12.3	23.3	15.1	34.7	13.3	20.3
	2015E	28.4	13.0	22.0	15.7	35.0	20.1	18.6
PER (X)	2013	26.8	36.9	19.9	33.4	12.0	387.6	17.6
	2014E	25.3	35.2	23.9	23.1	42.9	44.9	19.4
	2015E	22.3	29.9	21.1	20.1	31.4	25.7	17.9
PBR (X)	2013	7.3	4.6	5.8	3.2	15.5	6.3	4.2
	2014E	7.1	4.1	4.8	3.0	11.9	5.5	3.5
	2015E	6.1	3.7	4.0	2.7	8.5	4.7	3.0
EV/EBITDA (X)	2013	12.7	12.6	16.2	12.1	40.5	39.9	16.6
	2014E	13.2	15.5	13.1	9.7	25.0	22.0	13.5
	2015E	11.8	13.1	11.4	7.6	18.6	15.3	11.9
13-16 EPS CAGR (%)		9.9	13.2	2.3	24.1	(21.2)	165.5	3.6

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	2,049	2,183	2,302
Cost of goods sold	605	652	695	734	770
Gross profit	1,201	1,282	1,354	1,448	1,532
SG&A expenses	974	949	975	1,026	1,071
OP	228	333	380	422	461
OP margin	12.6	17.2	18.5	19.3	20.0
EBITDA	441	566	573	603	644
Non-OP	-66	17	-23	-16	-15
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	-15	-5	-5
Income before taxes	161	351	356	407	446
Income tax expense	-42	-97	-89	-100	-110
Income from cont. op.	120	253	267	306	336
Income from discount. op.	0	0	0	0	0
NP	120	253	267	306	336
NP margin	6.6	13.1	13.0	14.0	14.6
NP for non-contr. interest	0	0	0	0	0
NP for contr. interest	120	253	267	306	336
Valuation of AFS fin. assets	0	0	0	0	0
Other compreh. income	0	0	0	0	0
Comprehensive income	118	253	263	306	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	3,467	3,972	4,359
PER	28.0	20.2	26.3	22.9	20.9
BPS	10,408	12,543	12,744	15,078	17,751
PBR	4.2	5.3	7.1	6.0	5.1
EBITDAPS	5,712	7,338	7,429	7,822	8,355
EV/EBITDA	8.6	9.3	12.6	11.8	10.9
SPS	23,427	25,073	26,571	28,301	29,850
PSR	1.9	2.6	3.1	2.9	2.8
CFPS	6,503	7,789	7,004	7,807	8,335
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	6.0	6.5	5.5
OP growth	-6.0	46.3	13.9	11.2	9.3
NP growth	-32.4	111.4	5.6	14.6	9.8
Profitability					
ROIC	15.2	21.6	26.8	27.8	28.4
ROA	13.9	19.9	23.6	25.2	24.7
ROE	15.4	28.6	27.4	28.6	26.6
Stability					
Debt ratio	112.0	69.6	60.9	51.7	44.1
Net borrowings ratio	54.1	12.0	19.7	8.4	-2.1
Interest coverage ratio	7.9	19.0	33.9	43.9	48.5

Source: Coway, Daishin Securities Research Center

Balance sheet	(Wbn)				
	2012A	2013A	2014F	2015F	2016F
Current assets	691	642	499	613	759
Cash & cash equiv.	119	201	48	141	264
Trade & other receive.	292	290	292	306	323
Inventories	41	41	46	49	51
Other current assets	239	110	114	117	121
Long-term assets	1,010	999	1,082	1,150	1,214
Tangible assets	594	597	678	748	815
Investments in affiliates	102	101	101	101	101
Other long-term assets	314	301	303	301	298
Total assets	1,702	1,641	1,581	1,764	1,973
Current liabilities	720	637	480	482	564
Payables & other liab.	205	202	203	205	207
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	1,163	1,369
Capital stock	41	41	41	41	41
Capital surplus	131	131	131	131	131
Retained earnings	717	890	956	1,136	1,342
Other capital changes	-85	-95	-144	-144	-144
Non-controlling interest	0	0	0	0	0
Total shareholder's equity	803	967	983	1,163	1,369
Total borrowings	434	116	193	97	-29

Cash flow statement	(Wbn)				
	2012A	2013A	2014F	2015F	2016F
Operating cash flows	429	518	395	433	463
Net income	120	253	267	306	336
Non-cash items	382	348	273	296	307
Depreciation	172	189	134	142	144
FX gains	0	0	0	0	0
Equity method gain	0	0	0	0	0
Others	210	159	139	153	163
Chg in assets & liab.	-38	-42	-48	-60	-61
Other cash flows	-35	-41	-97	-109	-119
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	-153	93	123
Beginning cash balance	65	119	201	49	141
Ending cash balance	119	201	49	141	264
NOPLAT	169	241	285	318	348
FCF	38	179	157	198	231

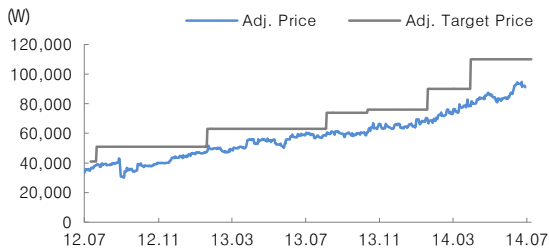
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[Investment rating & Target price history]

Coway (021240)



Date	14.07.29	14.07.10	14.04.29	14.02.17	14.01.15	13.12.09
Rating	Buy	Buy	Buy	Buy	Buy	Buy
TP	110,000	110,000	110,000	90,000	76,000	76,000
Date	13.11.10	13.10.08	13.09.22	13.09.03	13.08.06	13.07.08
Rating	Buy	Buy	Buy	Buy	Buy	Buy
TP	76,000	74,000	74,000	74,000	63,000	63,000
Date	13.06.30	13.06.03	13.05.13	13.05.06	13.04.02	13.02.18
Rating	Buy	Buy	Buy	Buy	Buy	Buy
TP	63,000	63,000	63,000	63,000	63,000	63,000
Date	12.12.26	12.10.26	12.10.07	12.08.19	12.08.09	
Rating	Buy	Buy	Buy	Buy	Buy	
TP	51,000	51,000	51,000	51,000	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.