

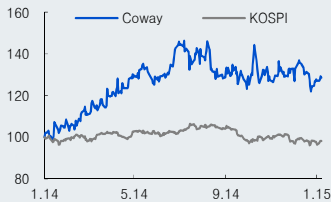
Consumer Services

Earnings Preview
January 23, 2015

(Maintain)	Buy
Target Price (12M, W)	120,000
Share Price (01/22/15, W)	83,200
Expected Return	44%

OP (14F, Wbn)	372
Consensus OP (14F, Wbn)	380
EPS Growth (14F, %)	6.6
Market EPS Growth (14F, %)	-1.5
P/E (14F, x)	24.8
Market P/E (14F, x)	13.2
KOSPI	1,920.82
Market Cap (Wbn)	6,417
Shares Outstanding (mn)	77
Free Float (%)	65.2
Foreign Ownership (%)	54.5
Beta (12M)	-0.21
52-Week Low	64,000
52-Week High	94,600

(%)	1M	6M	12M
Absolute	-5.2	-12.1	26.6
Relative	-4.1	-7.1	29.9



Daewoo Securities Co., Ltd.

[Cosmetics, Hotel/Leisure, Fashion]

Regina Hahm
+822-768-4172
regina.hahm@dwsec.com

Coway

(021240 KS)

Enhanced profitability management

4Q14 preview: Parent OP of W93.5bn (+6.8% YoY), OP margin of 18.5%

For 4Q14, we expect Coway to post non-consolidated revenue of W506.2bn (+4.9% YoY) and operating profit of W93.5bn (+6.8% YoY; OP margin of 18.5%), slightly below the market consensus (revenue of W518.4bn and OP of W100.4bn). Our relatively conservative estimates reflect the impact of the sharp increase in new rental accounts since 2Q14.

For the rental business, revenue is spread out over time, but commission expenses related to new accounts are recorded all at once. Thus, an increase in new accounts can put short-term pressures on earnings. We believe current market expectations do not fully take into account this basic nature of the rental business. Due to the rise in commissions, we do not expect a marked pickup in margins YoY.

Nevertheless, underlying margins to continue to improve

In 2014, we estimate new rental accounts rose 14.1% YoY to 1.33mn, topping the company's guidance (1.25mn) by 6.4%. Coway's strategy of driving top-line growth through new rental accounts appears to be doing better than previously expected.

Despite the sharp rise in new accounts, we believe margins remained steady thanks to cost ratio improvements and continued efforts to reduce other SG&A expenses, such as labor and marketing. We estimate COGS ratio fell 0.7%p YoY, and overall SG&A expense ratio remained flat at 49.3% (+0.4%p) in 4Q14.

In general, it is difficult to aggressively expand sales without sacrificing profits to some degree. Coway's ability to gradually improve margins while outperforming its revenue target once again proves the company's systemic strength.

Retain Buy and TP of W120,000

We maintain our Buy rating and target price of W120,000 on Coway. We believe the company's unique business model of renting environmental home appliances that are internally developed, produced, and distributed makes it well-positioned for sustainable growth over the medium and long term. The company's continued earnings strength supports the case for a valuation premium, especially considering the challenging conditions of the domestic consumer market.

FY (Dec.)	12/11	12/12	12/13	12/14F	12/15F	12/16F
Revenue (Wbn)	1,824	1,993	2,118	2,157	2,326	2,489
OP (Wbn)	235	226	339	372	424	480
OP margin (%)	12.9	11.3	16.0	17.2	18.2	19.3
NP (Wbn)	167	94	245	261	302	349
EPS (W)	2,166	1,219	3,178	3,389	3,921	4,526
ROE (%)	22.2	12.3	28.4	26.2	26.7	26.7
P/E (x)	16.9	35.7	20.9	24.8	21.2	18.4
P/B (x)	3.3	3.8	4.9	5.5	4.8	4.2

Notes: All figures are based on consolidated K-IFRS; NP refers to net profit attributable to controlling interests
Source: Company data, KDB Daewoo Securities Research estimates

Analysts who prepared this report are registered as research analysts in Korea but not in any other jurisdiction, including the U.S. PLEASE SEE ANALYST CERTIFICATIONS AND IMPORTANT DISCLOSURES & DISCLAIMERS IN APPENDIX 1 AT THE END OF REPORT.

Earnings forecasts

Table 1. 4Q14 earnings preview (non-consolidated) (Wbn, %)

	4Q13	3Q14	4Q14F		Growth	
			KDB Daewoo	Consensus	KDB Daewoo	Consensus
Revenue	482	496	506	518	4.9	2.0
Operating profit	88	97	94	100	6.8	-3.5
OP margin	18.2	19.5	18.5	19.4		
Pretax profit	72	88	87	101	20.9	-1.6
Net profit	50	66	65	75	30.2	-1.6

Source: Company data, KDB Daewoo Securities Research

Table 2. 4Q14 earnings preview (consolidated) (Wbn, %)

	4Q13	3Q14	4Q14F		Growth	
			KDB Daewoo	Consensus	KDB Daewoo	Consensus
Revenue	524	526	540	548	3.0	2.7
Operating profit	91	95	89	96	-1.8	-6.1
OP margin	17.4	18.1	16.6	17.6		
Pretax profit	90	86	86	96	-4.4	0.6
Net profit	68	64	65	71	-4.2	1.7

Source: Company data, KDB Daewoo Securities Research

Table 3. Quarterly earnings (Wbn, %)

	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14F
Revenue	507	556	531	524	535	557	526	540
Operating profit	70	82	96	91	90	97	95	89
OP margin	13.7	14.7	18.1	17.4	16.9	17.4	18.1	16.6
Net profit	57	60	60	68	66	66	64	65
Net margin	11	11	11	13	12	12	12	12
Rental asset disposal losses	12	10	9	8	10	11	10	10
(% of rental revenue)	4	3	3	2	3	3	3	3

Notes: Based on consolidated K-IFRS

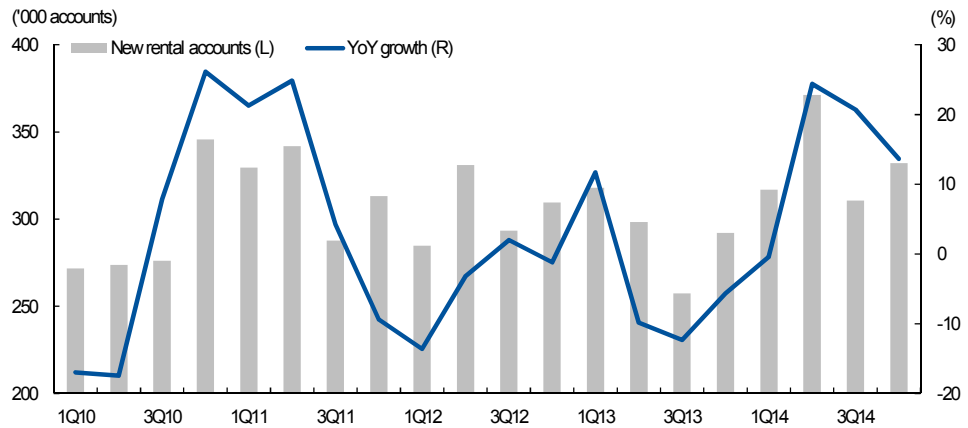
Source: Company data, KDB Daewoo Securities Research

Table 4. Earnings forecast revisions (Wbn, %)

	Previous		Revised		% chg.		Notes
	14F	15F	14F	15F	14F	15F	
Revenue	2,171	2,354	2,157	2,326	-0.6	-1.2	- Revised down lump-sum sales estimate
Operating profit	373	426	372	424	-0.2	-0.7	
Pretax profit	342	391	347	402	1.6	3.0	- Revised non-operating expenses
Net profit	258	295	261	302	1.2	2.5	

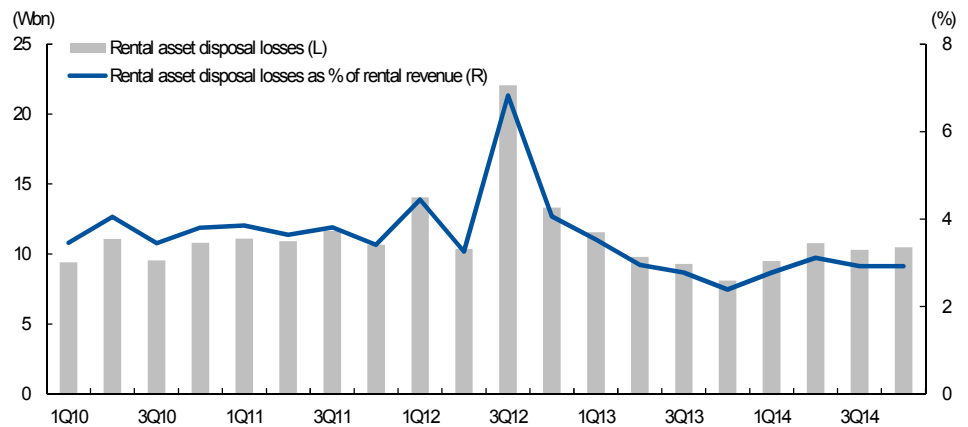
Source: Company data, KDB Daewoo Securities Research

Figure 1. Quarterly new rental accounts and YoY growth: Growth resumed in 2014



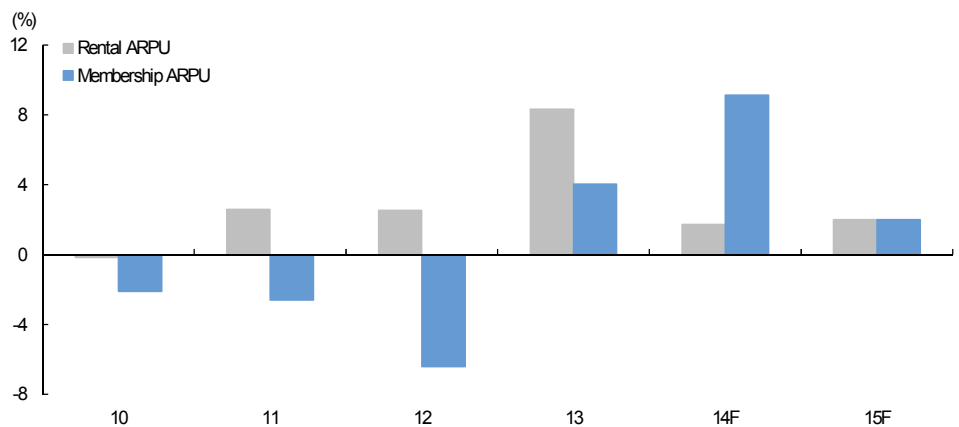
Source: Company data, KDB Daewoo Securities Research

Figure 2. Rental asset disposal losses are well managed, being close to historical low



Source: Company data, KDB Daewoo Securities Research

Figure 3. Structural ARPU growth to be driven by 1) increasing revenue contribution from multi-functional products and 2) new rental accounts



Source: Company data, KDB Daewoo Securities Research

Coway (021240 KS/Buy/TP: W120,000)

Comprehensive Income Statement (Summarized)

(Wbn)	12/13	12/14F	12/15F	12/16F
Revenue	2,118	2,157	2,326	2,489
Cost of Sales	721	712	756	812
Gross Profit	1,397	1,445	1,570	1,677
SG&A Expenses	1,058	1,073	1,147	1,197
Operating Profit (Adj)	339	372	424	480
Operating Profit	339	372	424	480
Non-Operating Profit	-12	-25	-22	-16
Net Financial Income	-14	-9	-9	-8
Net Gain from Inv in Associates	18	0	0	0
Pretax Profit	327	347	402	464
Income Tax	82	86	100	115
Profit from Continuing Operations	245	261	302	349
Profit from Discontinued Operations	0	0	0	0
Net Profit	245	261	302	349
Controlling Interests	245	261	302	349
Non-Controlling Interests	0	0	0	0
Total Comprehensive Profit	244	257	302	349
Controlling Interests	244	257	302	349
Non-Controlling Interests	0	0	0	0
EBITDA	537	575	608	675
FCF (Free Cash Flow)	269	67	178	224
EBITDA Margin (%)	25.4	26.7	26.1	27.1
Operating Profit Margin (%)	16.0	17.2	18.2	19.3
Net Profit Margin (%)	11.6	12.1	13.0	14.0

Statement of Financial Condition (Summarized)

(Wbn)	12/13	12/14F	12/15F	12/16F
Current Assets	691	573	681	802
Cash and Cash Equivalents	239	103	179	269
AR & Other Receivables	227	226	244	260
Inventories	66	77	83	89
Other Current Assets	159	167	175	184
Non-Current Assets	976	1,021	1,088	1,151
Investments in Associates	0	0	0	0
Property, Plant and Equipment	638	671	733	792
Intangible Assets	177	175	175	175
Total Assets	1,668	1,594	1,769	1,953
Current Liabilities	677	465	470	463
AP & Other Payables	191	182	197	210
Short-Term Financial Liabilities	335	279	269	249
Other Current Liabilities	151	4	4	4
Non-Current Liabilities	50	76	83	91
Long-Term Financial Liabilities	0	8	8	8
Other Non-Current Liabilities	50	68	75	83
Total Liabilities	727	542	553	554
Controlling Interests	941	1,052	1,216	1,398
Capital Stock	41	41	41	41
Capital Surplus	126	126	126	126
Retained Earnings	868	1,002	1,166	1,349
Non-Controlling Interests	0	1	1	1
Stockholders' Equity	941	1,053	1,217	1,399

Cash Flows (Summarized)

(Wbn)	12/13	12/14F	12/15F	12/16F
Cash Flows from Op Activities	537	358	468	526
Net Profit	245	261	302	349
Non-Cash Income and Expense	374	362	277	301
Depreciation	191	196	184	195
Amortization	8	6	0	0
Others	175	160	93	106
Chg in Working Capital	-41	-145	-11	-9
Chg in AR & Other Receivables	67	-7	-17	-15
Chg in Inventories	19	-10	-6	-6
Chg in AP & Other Payables	-82	-2	3	3
Income Tax Paid	-41	-120	-100	-115
Cash Flows from Inv Activities	-76	-274	-233	-239
Chg in PP&E	-258	-274	-246	-255
Chg in Intangible Assets	-2	0	0	0
Chg in Financial Assets	-4	-1	-5	-4
Others	188	1	18	20
Cash Flows from Fin Activities	-373	-221	-159	-196
Chg in Financial Liabilities	-260	-48	-10	-20
Chg in Equity	0	0	0	0
Dividends Paid	-78	-124	-138	-166
Others	-35	-49	-11	-10
Increase (Decrease) in Cash	86	-136	76	90
Beginning Balance	152	239	103	179
Ending Balance	239	103	179	269

Source: Company data, KDB Daewoo Securities Research estimates

Forecasts/Valuations (Summarized)

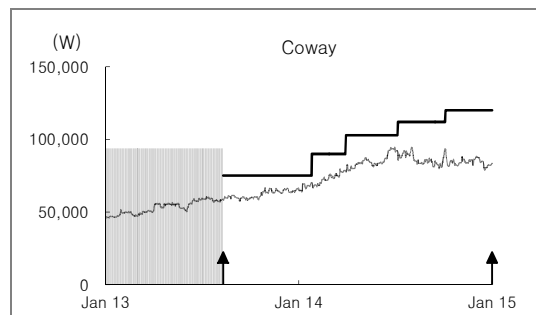
	12/13	12/14F	12/15F	12/16F
P/E (x)	20.9	24.8	21.2	18.4
P/CF (x)	8.3	10.4	11.1	9.9
P/B (x)	4.9	5.5	4.8	4.2
EV/EBITDA (x)	9.7	11.6	10.7	9.5
EPS (W)	3,178	3,389	3,921	4,526
CFPS (W)	8,030	8,077	7,507	8,430
BPS (W)	13,535	15,338	17,464	19,835
DPS (W)	2,710	1,866	2,241	2,587
Payout ratio (%)	82.4	53.0	55.0	55.0
Dividend Yield (%)	4.1	2.2	2.7	3.1
Revenue Growth (%)	6.3	1.8	7.8	7.0
EBITDA Growth (%)	31.0	7.1	5.7	11.0
Operating Profit Growth (%)	50.0	9.7	14.0	13.2
EPS Growth (%)	160.7	6.6	15.7	15.4
Accounts Receivable Turnover (x)	9.5	10.2	10.6	10.6
Inventory Turnover (x)	30.8	30.2	29.1	29.0
Accounts Payable Turnover (x)	17.4	19.8	20.7	20.7
ROA (%)	14.3	16.0	18.0	18.8
ROE (%)	28.4	26.2	26.7	26.7
ROIC (%)	23.0	25.2	25.3	27.0
Liability to Equity Ratio (%)	77.3	51.5	45.4	39.6
Current Ratio (%)	102.2	123.1	145.0	173.1
Net Debt to Equity Ratio (%)	9.5	16.8	7.5	-1.4
Interest Coverage Ratio (x)	18.2	30.7	38.8	46.7

APPENDIX 1

Important Disclosures & Disclaimers

2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
Coway(021240)	10/26/2014	Buy	120,000
	07/28/2014	Buy	112,000
	04/21/2014	Buy	103,000
	02/16/2014	Buy	90,000
	09/01/2013	Buy	75,000
		No Coverage	



Stock Ratings

Buy	: Relative performance of 20% or greater
Trading Buy	: Relative performance of 10% or greater, but with volatility
Hold	: Relative performance of -10% and 10%
Sell	: Relative performance of -10%

Industry Ratings

Overweight	: Fundamentals are favorable or improving
Neutral	: Fundamentals are steady without any material changes
Underweight	: Fundamentals are unfavorable or worsening

Ratings and Target Price History (Share price (—), Target price (—), Not covered (■), Buy (▲), Trading Buy (■), Hold (●), Sell (◆))

* Our investment rating is a guide to the relative return of the stock versus the market over the next 12 months.

* Although it is not part of the official ratings at Daewoo Securities, we may call a trading opportunity in case there is a technical or short-term material development.

* The target price was determined by the research analyst through valuation methods discussed in this report, in part based on the analyst's estimate of future earnings.

* The achievement of the target price may be impeded by risks related to the subject securities and companies, as well as general market and economic conditions.

Disclosures

As of the publication date, Daewoo Securities Co., Ltd and/or its affiliates do not have any special interest with the subject company and do not own 1% or more of the subject company's shares outstanding.

Analyst Certification

The research analysts who prepared this report (the "Analysts") are registered with the Korea Financial Investment Association and are subject to Korean securities regulations. They are neither registered as research analysts in any other jurisdiction nor subject to the laws and regulations thereof. Opinions expressed in this publication about the subject securities and companies accurately reflect the personal views of the Analysts primarily responsible for this report. Daewoo Securities Co., Ltd. policy prohibits its Analysts and members of their households from owning securities of any company in the Analyst's area of coverage, and the Analysts do not serve as an officer, director or advisory board member of the subject companies. Except as otherwise specified herein, the Analysts have not received any compensation or any other benefits from the subject companies in the past 12 months and have not been promised the same in connection with this report. No part of the compensation of the Analysts was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report but, like all employees of Daewoo Securities, the Analysts receive compensation that is impacted by overall firm profitability, which includes revenues from, among other business units, the institutional equities, investment banking, proprietary trading and private client division. At the time of publication of this report, the Analysts do not know or have reason to know of any actual, material conflict of interest of the Analyst or Daewoo Securities Co., Ltd. except as otherwise stated herein.

Disclaimers

This report is published by Daewoo Securities Co., Ltd. ("Daewoo"), a broker-dealer registered in the Republic of Korea and a member of the Korea Exchange. Information and opinions contained herein have been compiled from sources believed to be reliable and in good faith, but such information has not been independently verified and Daewoo makes no guarantee, representation or warranty, express or implied, as to the fairness, accuracy, completeness or correctness of the information and opinions contained herein or of any translation into English from the Korean language. If this report is an English translation of a report prepared in the Korean language, the original Korean language report may have been made available to investors in advance of this report. Daewoo, its affiliates and their directors, officers, employees and agents do not accept any liability for any loss arising from the use hereof. This report is for general information purposes only and it is not and should not be construed as an offer or a solicitation of an offer to effect transactions in any securities or other financial instruments. The intended recipients of this report are sophisticated institutional investors who have substantial knowledge of the local business environment, its common practices, laws and accounting principles and no person whose receipt or use of this report would violate any laws and regulations or subject Daewoo and its affiliates to registration or licensing requirements in any jurisdiction should receive or make any use hereof. Information and opinions contained herein are subject to change without notice and no part of this document may be copied or reproduced in any manner or form or redistributed or published, in whole or in part, without the prior written consent of Daewoo. Daewoo, its affiliates and their directors, officers, employees and agents may have long or short positions in any of the subject securities at any time and may make a purchase or sale, or offer to make a purchase or sale, of any such securities or other financial instruments from time to time in the open market or otherwise, in each case either as principals or agents. Daewoo and its affiliates may have had, or may be expecting to enter into, business relationships with the subject companies to provide investment banking, market-making or other financial services as are permitted under applicable laws and regulations. The price and value of the investments referred to in this report and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide to future performance. Future returns are not guaranteed, and a loss of original capital may occur.

Distribution

United Kingdom: This report is being distributed by Daewoo Securities (Europe) Ltd. in the United Kingdom only to (i) investment professionals falling within

Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order"), and (ii) high net worth companies and other persons to whom it may lawfully be communicated, falling within Article 49(2)(A) to (E) of the Order (all such persons together being referred to as "Relevant Persons"). This report is directed only at Relevant Persons. Any person who is not a Relevant Person should not act or rely on this report or any of its contents.

United States: This report is distributed in the U.S. by Daewoo Securities (America) Inc., a member of FINRA/SIPC, and is only intended for major institutional investors as defined in Rule 15a-6(b)(4) under the U.S. Securities Exchange Act of 1934. All U.S. persons that receive this document by their acceptance thereof represent and warrant that they are a major institutional investor and have not received this report under any express or implied understanding that they will direct commission income to Daewoo or its affiliates. Any U.S. recipient of this document wishing to effect a transaction in any securities discussed herein should contact and place orders with Daewoo Securities (America) Inc., which accepts responsibility for the contents of this report in the U.S. The securities described in this report may not have been registered under the U.S. Securities Act of 1933, as amended, and, in such case, may not be offered or sold in the U.S. or to U.S. persons absent registration or an applicable exemption from the registration requirements.

Hong Kong: This document has been approved for distribution in Hong Kong by Daewoo Securities (Hong Kong) Ltd., which is regulated by the Hong Kong Securities and Futures Commission. The contents of this report have not been reviewed by any regulatory authority in Hong Kong. This report is for distribution only to professional investors within the meaning of Part I of Schedule 1 to the Securities and Futures Ordinance of Hong Kong (Cap. 571, Laws of Hong Kong) and any rules made thereunder and may not be redistributed in whole or in part in Hong Kong to any person.

All Other Jurisdictions: Customers in all other countries who wish to effect a transaction in any securities referenced in this report should contact Daewoo or its affiliates only if distribution to or use by such customer of this report would not violate applicable laws and regulations and not subject Daewoo and its affiliates to any registration or licensing requirement within such jurisdiction.

KDB Daewoo Securities International Network

Daewoo Securities Co. Ltd. (Seoul) Head Office 34-3 Yeouido-dong, Yeongdeungpo-gu Seoul 150-716 Korea Tel: 82-2-768-3026	Daewoo Securities (Hong Kong) Ltd. Two International Finance Centre Suites 2005-2012 8 Finance Street, Central Hong Kong, China Tel: 85-2-2845-6332	Daewoo Securities (America) Inc. 320 Park Avenue 31st Floor New York, NY 10022 United States Tel: 1-212-407-1000
Daewoo Securities (Europe) Ltd. 41st Floor, Tower 42 25 Old Broad St. London EC2N 1HQ United Kingdom Tel: 44-20-7982-8000	Daewoo Securities (Singapore) Pte. Ltd. Six Battery Road #11-01 Singapore, 049909 Tel: 65-6671-9845	Tokyo Branch 7th Floor, Yusen Building 2-3-2 Marunouchi, Chiyoda-ku Tokyo 100-0005 Japan Tel: 81-3- 3211-5511
Beijing Representative Office 2401A, 24th Floor, East Tower, Twin Towers B-12 Jianguomenwai Avenue Chaoyang District, Beijing 100022 China Tel: 86-10-6567-9299	Shanghai Representative Office Room 38T31, 38F SWFC 100 Century Avenue Pudong New Area, Shanghai 200120 China Tel: 86-21-5013-6392	Ho Chi Minh Representative Office Suite 2103, Saigon Trade Center 37 Ton Duc Thang St, Dist. 1, Ho Chi Minh City, Vietnam Tel: 84-8-3910-6000
Daewoo Investment Advisory (Beijing) Co., Ltd. 2401B, 24th Floor, East Tower, Twin Towers B-12 Jianguomenwai Avenue, Chaoyang District, Beijing 100022 China Tel: 86-10-6567-9699	Daewoo Securities (Mongolia) LLC #406, Blue Sky Tower, Peace Avenue 17 1 Khoroo, Sukhbaatar District Ulaanbaatar 14240 Mongolia Tel: 976-7011-0807	PT. Daewoo Securities Indonesia Equity Tower Building Lt.50 Sudirman Central Business District Jl. Jendral Sudirman Kav. 52-53, Jakarta Selatan Indonesia 12190 Tel: 62-21-515-1140