

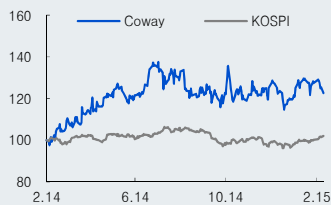
Consumer Services

Company Update
March 3, 2015

(Maintain)	Buy
Target Price (12M, W)	130,000
Share Price (3/2/15, W)	84,400
Expected Return	54%

OP (14, Wbn)	364
Consensus OP (14F, Wbn)	379
EPS Growth (14,, %)	2.0
Market EPS Growth (14F, %)	-2.0
P/E (14, x)	26.0
Market P/E (14F, x)	13.7
KOSPI	1,996.81
Market Cap (Wbn)	6,509
Shares Outstanding (mn)	77
Free Float (%)	65.2
Foreign Ownership (%)	54.2
Beta (12M)	-0.14
52-Week Low	68,300
52-Week High	94,600

(%)	1M	6M	12M
Absolute	-4.7	1.9	23.6
Relative	-6.8	4.7	22.5



Daewoo Securities Co., Ltd.

[Cosmetics, Hotel/Leisure, Fashion]

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

Coway

(021240 KS)

Asia NDR takeaways: 2015 strategy met with positive response

Key takeaways from Asia NDR

We recently accompanied Coway on a non-deal road show (NDR) through Hong Kong and Singapore during the last week of February to share with investors the company's 2014 earnings performance and 2015 guidance.

Recently, the stock suffered a pullback following its 4Q14 earnings release on February 12th, which we believe was partly due to the company's lack of communication regarding the one-off expenses incurred in the quarter. The one-offs were indeed the focus of attention among the foreign investors we met (W30.6bn in impairment losses related to the China cosmetics business, Thai subsidiary, and Green Entech). During the NDR, Coway gave a more detailed explanation, stressing that the non-cash expenses were part of its prudent accounting policy. Investors appeared reassured and responded positively to quarterly and annual earnings results. (2014 OP margin was 18.7%, beating the 17.4% guidance.)

2015 guidance is aggressive; Consensus is too bullish

For 2015, Coway is guiding revenue growth of 8.3%, operating profit growth of 11.3%, and an OP margin of 19.3% (+0.6%p) in non-consolidated terms. More specifically, the company expects home appliance rental revenue to expand 7.2%, rental accounts to increase 6.7%, and exports to rise 10.5%.

Management's guidance may look conservative compared to the market consensus, but we believe the market is being overly aggressive. After the company provided a detailed breakdown of its growth targets, many investors seemed to agree that the guidance figures were sufficiently aggressive.

The growth of the rental business (which accounts for 70% of overall revenue) is comprised of ARPU growth (1-2%) and rental account growth (2-3%). The above-6% guidance numbers are clearly aggressive, given that 6% represents the upper end of the trend growth range. In our view, the aggressive targets demonstrate that Coway's channel expansion strategy (CODY representative network and home shopping/online/offline channels) and efforts to raise ASP through the launch of premium products are going smoother than anticipated.

Best bet in an uncertain consumer environment

We view top-line guidance as an important indicator of the effectiveness of the channel expansion strategy (launched in 2014). Considering the nature of the rental business, we believe above-8% growth is an aggressive target, one that supports our most optimistic scenario.

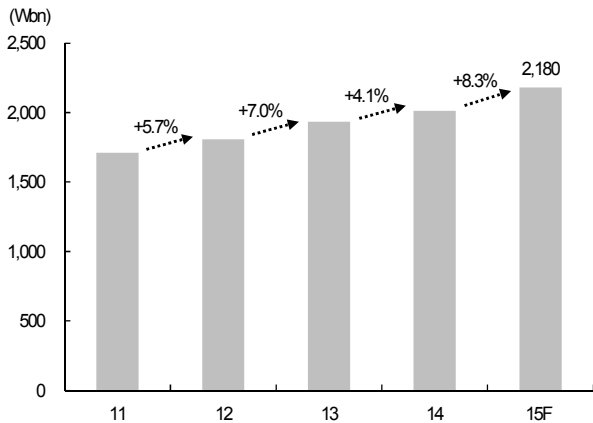
In our view, Coway deserves a premium for its ability to drive both growth and profit, which is a rare quality in today's challenging consumer market. We maintain our Buy call and target price of W130,000, and continue to recommend the stock as one of our top picks in consumer discretionary.

FY (Dec.)	12/11	12/12	12/13	12/14	12/15F	12/16F
Revenue (Wbn)	1,824	1,993	2,118	2,160	2,347	2,514
OP (Wbn)	235	226	339	364	432	485
OP margin (%)	12.9	11.3	16.0	16.9	18.4	19.3
NP (Wbn)	167	94	245	250	310	354
EPS (W)	2,166	1,219	3,178	3,241	4,014	4,588
ROE (%)	22.2	12.3	28.4	25.2	27.6	27.6
P/E (x)	16.9	35.7	20.9	26.0	21.0	18.4
P/B (x)	3.3	3.8	4.9	5.5	4.9	4.4

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

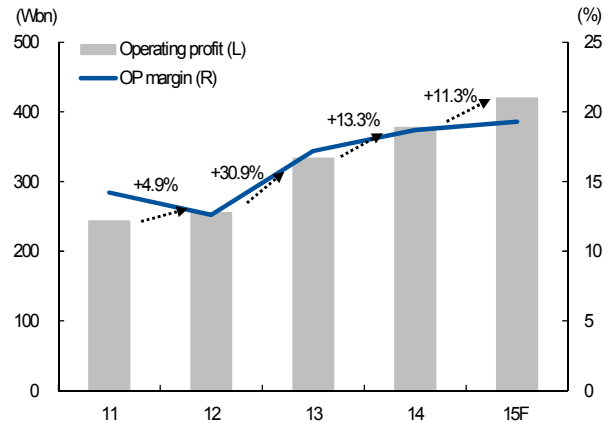
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Figure 1. 2015 non-consolidated revenue guidance



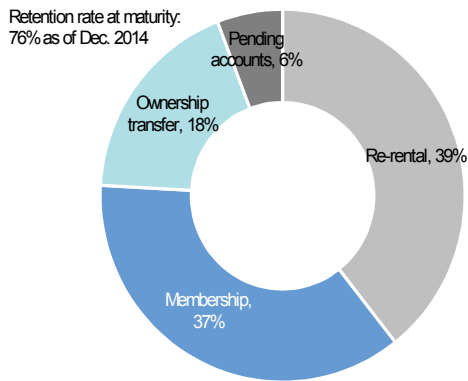
Source: Company data, KDB Daewoo Securities Research

Figure 2. 2015 non-consolidated operating profit guidance



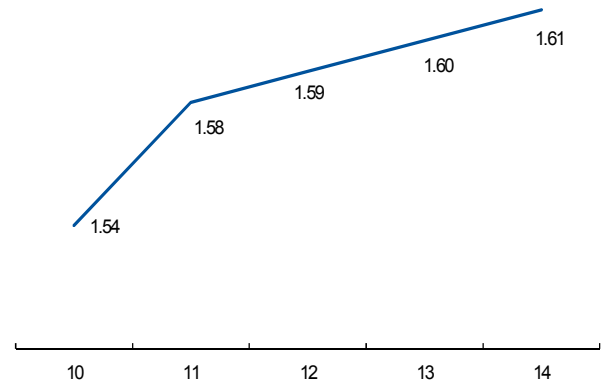
Source: Company data, KDB Daewoo Securities Research

Figure 3. Retention rate still high at 76%



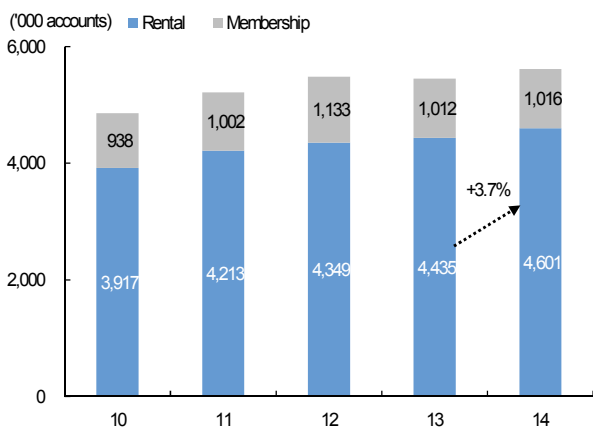
Source: Company data, KDB Daewoo Securities Research

Figure 4. Annual product per consumer trend



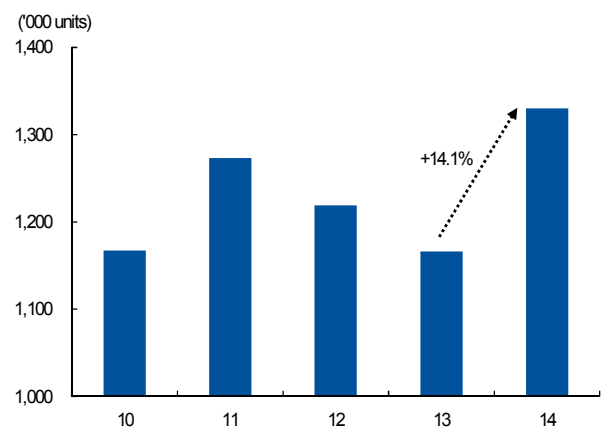
Source: Company data, KDB Daewoo Securities Research

Figure 5. Rental and membership account overview



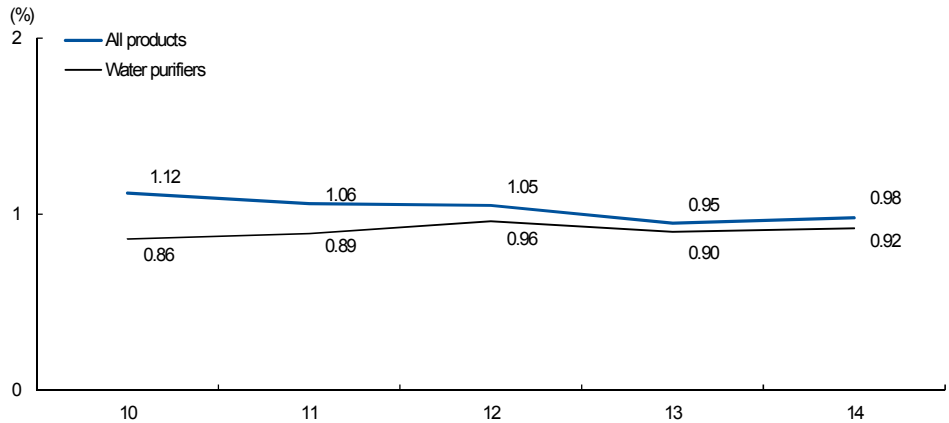
Source: Company data, KDB Daewoo Securities Research

Figure 6. New rental volume



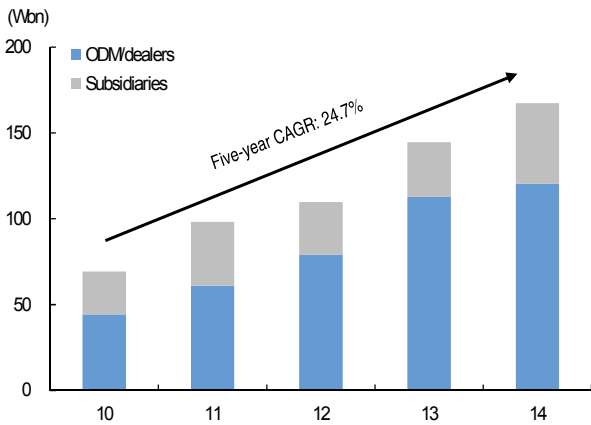
Source: Company data, KDB Daewoo Securities Research

Figure 7. Annual rental cancellation trends



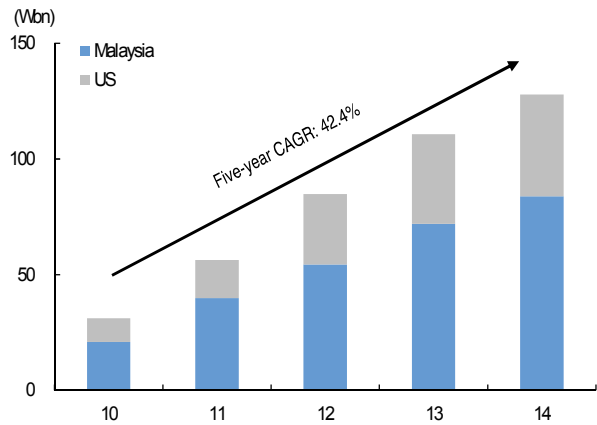
Source: Company data, KDB Daewoo Securities Research

Figure 8. Overseas business revenue



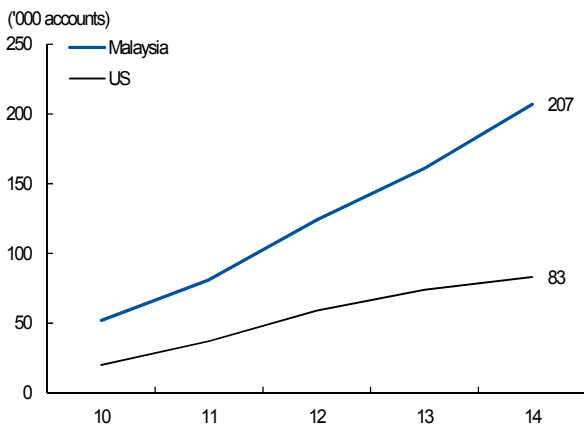
Source: Company data, KDB Daewoo Securities Research

Figure 9. Key overseas subsidiaries' revenue



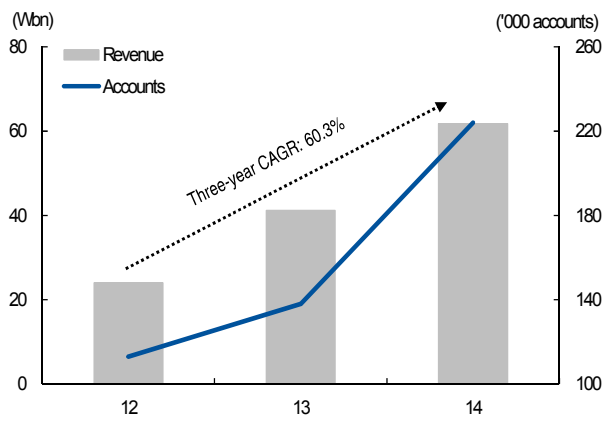
Source: Company data, KDB Daewoo Securities Research

Figure 10. Key overseas subsidiaries' accounts



Source: Company data, KDB Daewoo Securities Research

Figure 11. Home care business revenue



Source: Company data, KDB Daewoo Securities Research

Coway (021240 KS/Buy/TP: W130,000)

Comprehensive Income Statement (Summarized)

(Wbn)	12/13	12/14F	12/15F	12/16F
Revenue	2,118	2,160	2,347	2,514
Cost of Sales	721	727	777	834
Gross Profit	1,397	1,433	1,570	1,680
SG&A Expenses	1,058	1,069	1,138	1,195
Operating Profit (Adj)	339	364	432	485
Operating Profit	339	364	432	485
Non-Operating Profit	-12	-31	-19	-13
Net Financial Income	-14	-9	-7	-5
Net Gain from Inv in Associates	18	0	0	0
Pretax Profit	327	333	413	472
Income Tax	82	83	103	118
Profit from Continuing Operations	245	250	310	354
Profit from Discontinued Operations	0	0	0	0
Net Profit	245	250	310	354
Controlling Interests	245	250	310	354
Non-Controlling Interests	0	0	0	0
Total Comprehensive Profit	244	246	310	354
Controlling Interests	244	246	310	354
Non-Controlling Interests	0	0	0	0
EBITDA	537	569	621	687
FCF (Free Cash Flow)	269	177	162	214
EBITDA Margin (%)	25.4	26.3	26.5	27.3
Operating Profit Margin (%)	16.0	16.9	18.4	19.3
Net Profit Margin (%)	11.6	11.6	13.2	14.1

Statement of Financial Condition (Summarized)

(Wbn)	12/13	12/14F	12/15F	12/16F
Current Assets	691	654	689	786
Cash and Cash Equivalents	239	182	180	243
AR & Other Receivables	227	227	249	267
Inventories	66	77	85	91
Other Current Assets	159	168	175	185
Non-Current Assets	976	1,021	1,086	1,146
Investments in Associates	0	0	0	0
Property, Plant and Equipment	638	672	739	801
Intangible Assets	177	173	166	159
Total Assets	1,668	1,674	1,775	1,932
Current Liabilities	677	557	490	476
AP & Other Payables	191	183	201	216
Short-Term Financial Liabilities	335	249	189	179
Other Current Liabilities	151	125	100	81
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	633	573	566
Controlling Interests	941	1,040	1,201	1,364
Capital Stock	41	41	41	41
Capital Surplus	126	126	126	126
Retained Earnings	868	991	1,152	1,315
Non-Controlling Interests	0	1	1	1
Stockholders' Equity	941	1,041	1,202	1,365

Cash Flows (Summarized)

(Wbn)	12/13	12/14F	12/15F	12/16F
Cash Flows from Op Activities	537	468	452	515
Net Profit	245	250	310	354
Non-Cash Income and Expense	374	360	283	309
Depreciation	191	196	183	196
Amortization	8	8	7	7
Others	175	156	93	106
Chg in Working Capital	-41	-25	-37	-30
Chg in AR & Other Receivables	67	-8	-20	-17
Chg in Inventories	19	-10	-7	-6
Chg in AP & Other Payables	-82	-1	3	3
Income Tax Paid	-41	-117	-103	-118
Cash Flows from Inv Activities	-76	-275	-237	-243
Chg in PP&E	-258	-275	-250	-258
Chg in Intangible Assets	-2	0	0	0
Chg in Financial Assets	-4	-2	-6	-5
Others	188	2	19	20
Cash Flows from Fin Activities	-373	-251	-217	-208
Chg in Financial Liabilities	-260	-78	-60	-10
Chg in Equity	0	0	0	0
Dividends Paid	-78	-124	-148	-191
Others	-35	-49	-9	-7
Increase (Decrease) in Cash	86	-57	-2	64
Beginning Balance	152	239	182	180
Ending Balance	239	182	180	243

Source: Company data, KDB Daewoo Securities Research estimates

Forecasts/Valuations (Summarized)

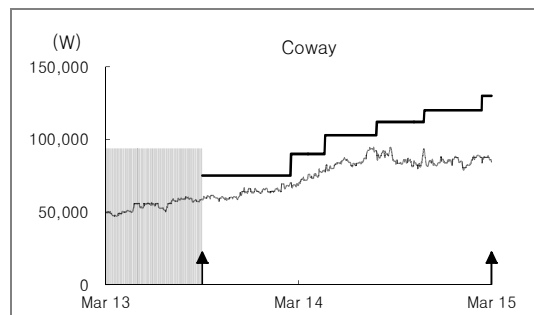
	12/13	12/14F	12/15F	12/16F
P/E (x)	20.9	26.0	21.0	18.4
P/CF (x)	8.3	10.7	11.0	9.8
P/B (x)	4.9	5.5	4.9	4.4
EV/EBITDA (x)	9.7	11.5	10.5	9.4
EPS (W)	3,178	3,241	4,014	4,588
CFPS (W)	8,030	7,906	7,677	8,589
BPS (W)	13,535	15,190	17,280	19,395
DPS (W)	2,710	2,000	2,571	2,939
Payout ratio (%)	82.4	59.4	61.6	61.6
Dividend Yield (%)	4.1	2.4	3.0	3.5
Revenue Growth (%)	6.3	2.0	8.7	7.1
EBITDA Growth (%)	31.0	6.0	9.1	10.6
Operating Profit Growth (%)	50.0	7.4	18.7	12.3
EPS Growth (%)	160.7	2.0	23.9	14.3
Accounts Receivable Turnover (x)	9.5	10.2	10.6	10.5
Inventory Turnover (x)	30.8	30.2	28.9	28.6
Accounts Payable Turnover (x)	17.4	20.2	21.0	20.8
ROA (%)	14.3	15.0	17.9	19.1
ROE (%)	28.4	25.2	27.6	27.6
ROIC (%)	23.0	26.1	28.1	29.1
Liability to Equity Ratio (%)	77.3	60.8	47.7	41.5
Current Ratio (%)	102.2	117.4	140.6	165.1
Net Debt to Equity Ratio (%)	9.5	6.6	0.8	-4.7
Interest Coverage Ratio (x)	18.2	30.4	48.4	63.8

APPENDIX 1

Important Disclosures & Disclaimers

2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
Coway (021240)	02/12/2015	Buy	130,000
	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.

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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