

Flashnote

Korea / Consumer

14 April 2015

**BUY**

Target price **KRW105,000**

Last price (13 Apr 2015) **KRW98,000**

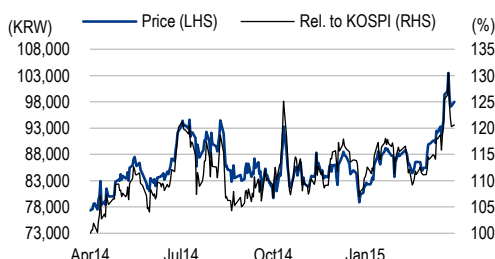
Upside/downside (%)	7.1
KOSPI	2,098.92
Mkt. cap (KRW bn/USD bn)	7,558/6.9
52-week range (KRW)	77,300 - 103,500
Avg. trading value daily (KRW bn)	16.12
Foreign ownership (%)	54.7

Source: Bloomberg

Forecast earnings & valuation

Fiscal year ending	Dec-13	Dec-14	Dec-15 E	Dec-16 E
<b>Revenue (KRW bn)</b>	<b>2,118</b>	<b>2,176</b>	<b>2,330</b>	<b>2,460</b>
EBIT (KRW bn)	339.0	382.6	446.0	503.9
<b>Net profit (KRW bn)</b>	<b>245.1</b>	<b>280.6</b>	<b>334.5</b>	<b>379.9</b>
Net profit (underlying)	245.1	280.5	334.4	379.9
EPS (KRW)	3,178	3,637	4,336	4,926
EPS growth (%)	160.6	14.5	19.2	13.6
<b>P/E (x)</b>	<b>20.9</b>	<b>23.1</b>	<b>22.6</b>	<b>19.9</b>
EV/EBITDA (x)	9.7	11.0	11.1	9.8
Dividend yield (%)	4.1	2.5	2.8	3.4
P/B (x)	5.4	5.9	5.9	5.2
<b>ROE (%)</b>	<b>28.4</b>	<b>27.5</b>	<b>28.2</b>	<b>27.8</b>
Net debt/equity (%)	11.0	(2.1)	(12.0)	(20.3)

Performance



Performance	1M	3M	12M
Absolute (%)	14.8	19.5	26.1
Absolute (USD, %)	18.6	18.2	19.4
Relative to KOSPI (%)	9.1	10.0	21.0

Source: Bloomberg

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# COWAY (021240 KS)

## Competition to grow in rental market

### Event

On 14 April, Hyundai Home Shopping (HHS, 057050 KS, CP: KRW136,000, TP: KRW130,000) announced that it had decided to invest KRW60bn to establish Hyundai Rental Care (HRC) as a health-appliance rental service company.

### Impact

#### Hyundai Department Group focusing on rental business

According to local press reports, HHS' parent, Hyundai Department Group (HDG), is strengthening its efforts in the domestic health-appliance rental market. So far, HDG has operated its health-appliance rental service business via Hyundai Weguard (unlisted), which is currently owned by one of HDG's affiliates, Hyundai H&S (unlisted). In 2014, Hyundai Weguard, which focuses on low-priced water purifier rentals, reported sales of KRW17bn (-22% YoY) and net profit of KRW2.4bn (-9% YoY).

We think HDG's efforts to strengthen its presence in the health-appliance rental market should result in stiffer competition in the market, which could weigh on share price sentiment for Coway in the short term. However, considering Coway's strong brand equity and well-established 17,000 door-to-door service representatives, we think the overall negative impact of HDG's entry into the health-appliance market should be short-lived.

#### Expect inline 1Q15 earnings

Coway's 1Q15 earnings are scheduled for release in early May. We expect 1Q15 consolidated operating profit to reach KRW113bn (+25% YoY), which is roughly in line with the consensus estimate. We attribute the healthy growth in 1Q15 to: 1) a solid core rental business; and 2) controlled SG&A expenses.

#### Firm dividend yield

Coway announced a KRW2,000/share dividend for 2014, which translated into 57% of normalized net profit (versus 2013's 50.4%). We expect strong earnings growth and stable capex to result in free cash flow (FCF) with a CAGR of 25% in 2015-16. With Coway's net cash position, we think the healthy FCF growth should lead to a decent increase in dividend payouts to maximize shareholder value. We expect Coway's dividend per share to rise to KRW3,500 by 2016.

#### Action and recommendation

#### Maintain BUY and target price of KRW105,000

Coway's share price has been strong for the past three months, thanks to a healthy earnings growth outlook and solid cash management. The stock is currently trading at 2015 P/E of 22.6x, which is close to its 5-year historical average valuation.

**Figure 1 Market shares of Coway and its competitors**

<b>Product type</b>	<b>Coway's market share</b>	<b>Competitors</b>
Water purifier	43%	C company (11%), T company (8%)
Bidet	29%	N company (27%), T company (8%)
Air purifier	34%	L company (14%), S company (9%)

Source: Mirae Asset Research

## Summary financial statements

### Profit & loss

Year end Dec 31 (KRW bn)	2013	2014	2015E	2016E
<b>Revenue</b>	<b>2,118</b>	<b>2,176</b>	<b>2,330</b>	<b>2,460</b>
Cost of goods sold	721	717	763	809
<b>Gross profit</b>	<b>1,397</b>	<b>1,459</b>	<b>1,568</b>	<b>1,651</b>
SG&A	1,058	1,076	1,122	1,147
<b>EBIT (Adj.)</b>	<b>339</b>	<b>383</b>	<b>446</b>	<b>504</b>
<b>EBIT</b>	<b>339</b>	<b>383</b>	<b>446</b>	<b>504</b>
Net interest income (loss)	(14)	(3)	(2)	1
Income (loss) from associates	18	0	0	0
Others	(15)	(6)	2	2
<b>Recurring profit</b>	<b>327</b>	<b>374</b>	<b>446</b>	<b>507</b>
Income tax	82	94	111	127
<b>Net profit</b>	<b>245</b>	<b>281</b>	<b>334</b>	<b>380</b>
<b>Net profit (Controlling Interests)</b>	<b>245</b>	<b>281</b>	<b>334</b>	<b>380</b>
EPS (Controlling Interests, KRW)	3,178	3,637	4,336	4,926

Growth & margins (%)	2013	2014	2015E	2016E
Revenue growth	6.3	2.7	7.1	5.5
Gross profit growth	6.3	4.4	7.5	5.3
EBIT growth	49.9	12.9	16.6	13.0
Net profit growth	160.6	14.5	19.2	13.6
EPS growth	160.6	14.5	19.2	13.6
Gross margin	66.0	67.0	67.3	67.1
EBIT margin	16.0	17.6	19.1	20.5
Net profit margin	11.6	12.9	14.4	15.4

Source: Coway, Mirae Asset Research estimates

### Cash flow

Year end Dec 31 (KRW bn)	2013	2014	2015E	2016E
<b>Cash flow from operations</b>	<b>548</b>	<b>531</b>	<b>557</b>	<b>615</b>
Net profit	245	281	334	380
Depr. & amortization	198	207	223	235
Others	135	52	48	47
Change in working capital	(30)	(9)	(48)	(48)
<b>Cash flow from investing</b>	<b>(87)</b>	<b>(301)</b>	<b>(271)</b>	<b>(271)</b>
Capital expenditures	(258)	(300)	(270)	(270)
Others	171	(1)	(1)	(1)
<b>Cash flow from financing</b>	<b>(374)</b>	<b>(332)</b>	<b>(154)</b>	<b>(201)</b>
Dividends	(78)	(124)	(154)	(201)
Increase in equity	0	0	0	0
Increase in debt	(262)	(208)	0	0
Beginning cash	152	245	143	274
Ending cash	239	143	274	416

Source: Coway, Mirae Asset Research estimates

### Balance sheet

Year end Dec 31 (KRW bn)	2013	2014	2015E	2016E
<b>Current assets</b>	<b>691</b>	<b>558</b>	<b>718</b>	<b>885</b>
Cash & equivalents	239	109	117	123
Short-term financial asset	0	34	157	294
Accounts receivable	250	208	222	235
Inventory	66	57	61	64
Other current assets	137	151	161	170
<b>Non-current assets</b>	<b>976</b>	<b>1,069</b>	<b>1,117</b>	<b>1,152</b>
Net fixed assets	638	739	794	836
Investments	2	2	2	2
Other long-term assets	336	328	320	313
<b>Total assets</b>	<b>1,668</b>	<b>1,627</b>	<b>1,835</b>	<b>2,037</b>
<b>Current liabilities</b>	<b>677</b>	<b>358</b>	<b>384</b>	<b>405</b>
Accounts payable	194	38	40	43
Short-term debt	335	0	0	0
Other current liabilities	148	321	343	362
<b>Non-current liabilities</b>	<b>50</b>	<b>171</b>	<b>173</b>	<b>175</b>
Long-term debt	7	120	120	120
Other long-term liabilities	43	51	53	55
<b>Total liabilities</b>	<b>727</b>	<b>529</b>	<b>557</b>	<b>580</b>
Controlling Interests	941	1,098	1,278	1,457
Non-Controlling Interests	0	0	0	0
<b>Shareholder's equity</b>	<b>941</b>	<b>1,098</b>	<b>1,278</b>	<b>1,457</b>
BVPS(KRW)	12,200	14,234	16,570	18,894

Source: Coway, Mirae Asset Research estimates

### Ratio analysis

Year end Dec 31	2013	2014	2015E	2016E
ROE (%)	28.4	27.5	28.2	27.8
ROA (%)	14.3	17.0	19.3	19.6
Inventory days	11.8	10.3	9.2	9.3
Receivables days	44.1	38.3	33.7	33.9
Payable days	33.3	19.4	6.1	6.2
Net debt/equity (%)	11.0	(2.1)	(12.0)	(20.3)
Interest cover (x)	23.4	133.5	232.9	(613.9)

Source: Coway, Mirae Asset Research estimates

## Recommendations

### By stock (12 months)

BUY: A target price + 10% or more above the current price,  
HOLD: Target price within - 10% to +10% of the current price  
REDUCE: A target price of -10% or less below the current price

### By industry

OVERWEIGHT: over +10% of the current industry index  
NEUTRAL: -10% to +10% of the current industry index  
UNDERWEIGHT: -10% or less than the current industry index

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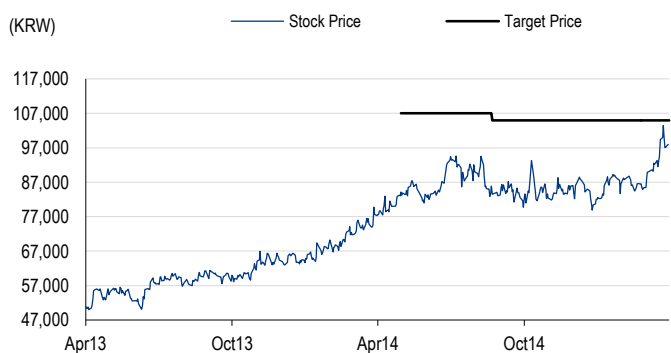
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Stock	Securities Held by the Analyst				Purchase Date	Holdings of share of over 1%	Participation in Issuance of Securities	Involvement with Affiliates	Treasury Stock Held
	Analyst	Type	Number of Shares	Purchase Price					

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## Target Price and Recommendation Chart



### COWAY (021240 KS)

Date	Recommendation	12M target price (KRW)
2014-05-14	BUY (Initiate)	107,000
2014-06-19	BUY	107,000
2014-09-05	BUY	105,000 (Down)
2014-10-24	BUY	105,000
2014-12-10	BUY	105,000
2015-02-13	BUY	105,000
2015-04-10	BUY	105,000
2015-04-14	BUY	105,000

Source: Bloomberg, Mirae Asset Research

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