

Company Update



Eunkyung Park
Analyst
eunkyung44.park@samsung.com
822 2020 7850

Youngho Kim
Research Associate
youngho52.kim@samsung.com
822 2020 7853

■ AT A GLANCE

SELL HOLD **BUY**

Target price	KRW120,000 (30.4%)
Current price	KRW92,000
Bloomberg code	021240 KS
Market cap	KRW7.1t/USD6.6b
Shares (float)	77,124,796 (65.3%)
52-week high/low	KRW103,500/KRW78,900
Average daily trading value (60-day)	KRW18.27b/ USD16.92m
One-year performance	1M 6M 12M
Coway (%)	-8.0 +7.6 +15.0
Vs Kospi (%pts)	-10.8 -1.1 +7.6

■ KEY CHANGES

(KRW)	New	Old	Diff (%)
Recommendation	BUY	BUY	
Target price	120,000	120,000	0.0
2015E EPS	3,932	3,864	1.8
2016E EPS	4,205	4,229	-0.6
2017E EPS	4,709	4,785	-1.6

■ SUMMARY OF 1Q RESULTS

(KRWb)	1Q15	Chg		Diff (%)	
		(% y-y)	(% q-q)	Samsung	Consensus
Sales	548.2	2.5	1.0	(3.6)	(4.3)
Operating profit	100.3	11.1	22.8	0.7	(6.2)
Pre-tax profit	101.1	14.3	41.3	5.5	(2.3)
Net profit	77.6	17.4	45.4	7.9	(1.7)
Margins (%)					
Operating profit	18.3				
Pre-tax profit	18.4				
Net profit	14.2				

Source: Company data, Samsung Securities estimates

Coway (021240 KS)

In-line 1Q, except overseas sales

WHAT'S THE STORY?

Event: Coway yesterday reported that its sales and operating profit rose a respective 2.5% and 11.1% y-y to KRW548.2b and KRW100.3b in 1Q—with the former missing forecasts by 4%, while the latter met our expectation and just missed the consensus—as its margin improved 1.4%pts y-y to 18.3%. The net profit figure bettered our forecast, but it would have been in line without one-off gains from liquidating its cosmetics operation in China.

Impact: Despite concerns over stiffer competition, the core domestic rental business of Coway saw sales rise 6.2% y-y as its profitability (after stagnating in 2H14) unexpectedly improved to set a post-2010 high. The firm's overseas sales—which should dictate reevaluation of its enterprise value—disappointed, however, thus limiting overall sales growth to just 2.5%. We nevertheless do not view the 1Q results as solid enough to stem a share-price decline caused by rumors of an ownership change.

Action: We only adjust our full-year forecasts on Coway since its 1Q results largely met our expectations, and thus maintain our 12-month target price of KRW120,000 (based on a DCF valuation, which translates to 30.5x 2015 P/E). The stock also remains at BUY from a medium-to-long-term perspective, as: 1) anticipation of cash-flow improvements are intact—since its rental sales remain solid, despite competition concerns; and 2) the 1Q overseas disappointment does warrant pessimism—as the firm strives to improve such sales.

THE QUICK VIEW

Core business sees stable earnings growth in 1Q: Coway yesterday reported that its sales rose just 2.5% y-y to KRW548.2b, which missed our forecast and the consensus by 4%, but rental sales growth of 6% y-y met our aggressive expectations, thanks to: 1) rental accounts rising 5% y-y amid door-to-door marketing improvements—*nb*, mattress rentals surged 64% y-y; and 2) new sales from high-value-added products boosting its ARPU. Product diversification also lifted the company's outright sales (which suffered in 2014), but its overseas sales fell an unexpected 27% y-y as stiffer competition in China's air purifier market hit sales in that nation—although significant quarterly fluctuations there are normal. Meanwhile, the firm's operating profit grew an as-forecast 11% y-y to KRW100.3b in 1Q as robust rental business sales lifted its operating margin by 1.4%pts y-y to a post-2010 high.

Investment points: If Coway maintains solid rental sales growth, we would expect investment sentiment to improve after being hit by stiffening competition concerns and anticipation of a change in major shareholders, which prompted investors to re-evaluate its FCF growth. Notably, sales from Himart and home shopping channels are set to improve in 2H, while the stock could rerate if the firm successfully boosts overseas sales, which it seeks via market diversification based on existing ODM partnerships and the addition of new ones.

■ VALUATION SUMMARY

	2014	2015E	2016E
Multiples (x)			
P/E	28.5	23.4	21.9
P/B	7.1	6.0	5.4
EV/EBITDA	12.1	10.9	10.0
Div yield (%)	1.8	2.7	2.9
EPS growth (%)	0.0	22.0	6.9
ROE (%)	25.2	26.8	25.3
Per-share data (KRW)			
EPS	3,223	3,932	4,205
BVPS	12,934	15,255	17,074
DPS	1,661	2,500	2,700

Results and forecasts, by segment

	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15E	3Q15E	4Q1E	2014	2015E	2016E	2017E
Earnings summary												
(KRWb)												
Sales	535.0	556.9	525.5	542.9	548.2	607.1	564.5	583.7	2,160.3	2,303.5	2,454.2	2,580.8
Gross profit	352.7	369.0	357.3	354.7	373.0	400.5	369.7	381.0	1,433.7	1,524.2	1,607.5	1,690.4
Operating profit	90.3	97.2	95.3	81.7	100.3	106.2	108.7	98.3	364.4	413.5	447.1	497.9
Pre-tax profit	88.4	86.5	85.9	71.5	101.1	102.4	104.9	94.5	332.4	402.9	434.3	486.1
Net profit	66.1	66.3	63.9	53.4	77.6	76.2	78.1	70.3	249.7	302.2	325.7	364.6
Margins (%)												
Gross profit	65.9	66.3	68.0	65.3	68.0	66.0	65.5	65.3	66.4	66.2	65.5	65.5
Operating profit	16.9	17.4	18.1	15.1	18.3	17.5	19.2	16.8	16.9	17.9	18.2	19.3
Pre-tax profit	16.5	15.5	16.4	13.2	18.4	16.9	18.6	16.2	15.4	17.5	17.7	18.8
Net profit	12.4	11.9	12.2	9.8	14.2	12.6	13.8	12.0	11.6	13.1	13.3	14.1
Chg (% y-y)												
Sales	5.4	0.1	(0.9)	3.6	2.5	9.0	7.4	7.5	2.0	6.6	6.5	5.2
Gross profit	3.8	1.5	3.2	2.1	5.8	8.5	3.5	7.4	2.6	6.3	5.5	5.2
Operating profit	29.5	18.6	(1.0)	(10.3)	11.1	9.3	14.0	20.3	7.5	13.5	8.1	11.4
Pre-tax profit	17.5	6.8	6.9	(20.9)	14.3	18.4	22.0	32.1	1.6	21.2	7.8	11.9
Net profit	15.2	11.0	6.4	(21.4)	17.4	15.0	22.1	31.8	1.9	21.0	7.8	11.9
Chg (% q-q)												
Sales	2.1	4.1	(5.6)	3.3	1.0	10.7	(7.0)	3.4				
Gross profit	1.5	4.6	(3.2)	(0.7)	5.2	7.4	(7.7)	3.1				
Operating profit	(0.9)	7.6	(1.9)	(14.3)	22.8	5.9	2.3	(9.5)				
Pre-tax profit	(2.2)	(2.2)	(0.6)	(16.8)	41.3	1.3	2.4	(9.9)				
Net profit	(2.7)	0.3	(3.5)	(16.6)	45.4	(1.7)	2.4	(9.9)				
Sales												
Household electronics	413.8	429.9	431.3	432.4	439.3	457.7	459.0	460.6	1,707.4	1,816.7	1,920.0	2,001.3
Outright sales	27.6	37.4	31.8	26.7	30.0	41.0	33.0	28.1	123.5	132.1	137.8	137.8
Rental	342.4	346.7	352.7	358.8	363.3	371.0	379.1	387.9	1,400.6	1,501.2	1,598.8	1,680.1
Membership	43.9	45.7	46.9	46.9	46.0	45.7	46.9	44.7	183.4	183.4	183.4	183.4
Exports	45.2	55.7	33.0	33.5	33.0	72.5	39.6	39.1	167.4	184.2	202.6	222.8
Cosmetics	21.0	22.3	17.2	20.0	23.1	24.5	18.9	21.9	80.4	88.5	97.3	102.2
Other (water treatment)	14.8	15.4	14.6	13.6	10.6	15.4	14.6	17.8	58.4	58.4	58.4	58.4
Consolidated other	40.2	33.6	29.5	43.4	42.1	37.0	32.4	44.3	146.7	155.8	176.0	196.1
Chg (% y-y)												
Household electronics	1.7	1.7	4.3	4.9	6.2	6.5	6.4	6.5	3.2	6.4	5.7	4.2
Outright sales	(24.7)	(21.8)	(10.4)	(9.1)	8.8	9.6	4.0	5.0	(17.3)	7.0	4.3	0.0
Rental	4.6	4.5	5.3	5.8	6.1	7.0	7.5	8.1	5.0	7.2	6.5	5.1
Membership	2.6	7.0	8.6	7.4	4.9	0.0	0.0	(4.6)	6.4	0.0	0.0	0.0
Exports	43.6	25.1	(13.0)	9.3	(27.0)	30.0	20.0	16.8	15.8	10.0	10.0	10.0
Cosmetics	17.4	0.5	3.6	1.1	10.5	10.0	10.0	9.5	5.3	10.0	10.0	5.0
Other (water treatment)	63.4	98.4	(31.1)	(31.1)	(28.2)	0.0	0.0	30.7	1.1	0.0	0.0	0.0
Consolidated other	(4.7)	(43.5)	(28.7)	4.3	4.7	10.0	10.0	2.1	(20.6)	6.2	12.9	11.5
Portion of total sales (%)												
Household electronics	77.4	77.2	82.1	79.7	80.1	75.4	81.3	78.9	79.0	78.9	78.2	77.5
Outright sales	5.2	6.7	6.0	4.9	5.5	6.8	5.9	4.8	5.7	5.7	5.6	5.3
Rental	64.0	62.3	67.1	66.1	66.3	61.1	67.2	66.4	64.8	65.2	65.1	65.1
Membership	8.2	8.2	8.9	8.6	8.4	7.5	8.3	7.7	8.5	8.0	7.5	7.1
Exports	8.5	10.0	6.3	6.2	6.0	11.9	7.0	6.7	7.7	8.0	8.3	8.6
Cosmetics	3.9	4.0	3.3	3.7	4.2	4.0	3.3	3.8	3.7	3.8	4.0	4.0
Other (water treatment)	2.8	2.8	2.8	2.5	1.9	2.5	2.6	3.0	2.7	2.5	2.4	2.3
Consolidated other	7.5	6.0	5.6	8.0	7.7	6.1	5.7	7.6	6.8	6.8	7.2	7.6

Source: Company data, Samsung Securities estimates

Coway

Number of accounts, by type

	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15E	3Q15E	4Q1E	2014	2015E	2016E	2017E
Accounts ('000 units)												
Total	5,469	5,539	5,571	5,617	5,661				5,617	5,801	5,992	6,191
Chg (% y-y)	0.0	1.2	1.8	2.1	3.5				2.1	3.3	3.3	3.3
Outright sales additions	4,455	4,487	4,538	4,601	4,666				4,601	4,785	4,976	5,175
Chg (% y-y)	2.8	2.6	3.4	3.7	4.7				3.7	4.0	4.0	4.0
Rental accounts	1,014	1,052	1,034	1,016	994				1,016	1,016	1,016	1,016
Chg (% y-y)	(10.7)	(4.3)	(5.0)	(4.7)	(2.0)				(4.7)	0.0	0.0	0.0
Rental additions	129	139	130	130	134				528	552	574	597
Chg (% y-y)	0.90	1.04	0.97	0.95	0.97				0.92	1.00	1.00	1.00
Memberships	317	371	311	332	341				1,330	1,330	1,330	1,330
Chg (% y-y)	(0.4)	24.4	20.7	13.5	7.5				14.1	0.0	0.0	0.0
Rental cancellations	40	60	52	32	40				183	150	135	129
Monthly churn (%)	(35.3)	(26.9)	(16.2)	(19.6)	0.1				(25.1)	(18.0)	(10.0)	(5.0)

Source: Company data, Samsung Securities estimates

Annual-forecast revisions

(KRWb)	2014	New		Old		Chg (%)	
		2015E	2016E	2015E	2016E	2015E	2016E
Sales	2,160	2,303	2,454	2,308	2,474	(0.2)	(0.8)
Operating profit	364	413	447	414	451	(0.2)	(0.8)
Pre-tax profit	332	403	434	399	437	0.9	(0.6)
Net profit	250	302	326	299	328	0.9	(0.6)
EBITDA	578	645	694	646	698	(0.1)	(0.5)
EPS (KRW)	3,223	3,932	4,205	3,864	4,229	1.8	(0.6)

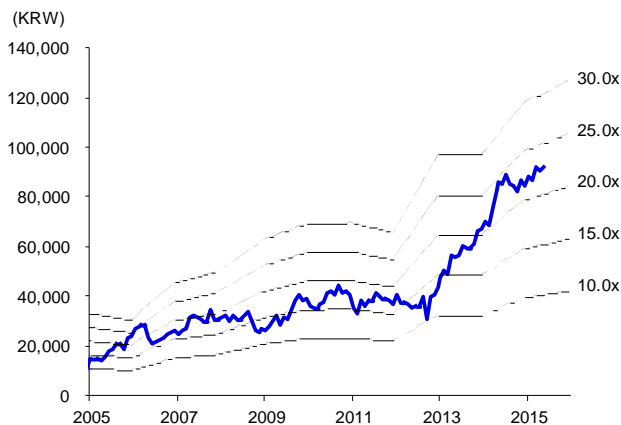
Source: Company data, Samsung Securities estimates

Valuation summary

Year-end Dec 31	Sales (KRWb)	Op prof (KRWb)	Pre-tax prof (KRWb)	Net prof (KRWb)	EPS (KRW)	Chg (% y-y)	P/E (x)	P/B (x)	ROE (%)	EV/EBITDA (x)	Net debt (KRWb)
2012	1,824	235	218	167	2,184	(5.6)	42.1	10.7	22.5	17.8	446
2013	2,118	339	327	245	3,222	47.5	28.6	8.2	28.4	13.0	83
2014	2,160	364	332	250	3,223	0.0	28.5	7.1	25.2	12.1	12
2015E	2,303	413	403	302	3,932	22.0	23.4	6.0	26.8	10.9	(86)
2016E	2,454	447	434	326	4,205	6.9	21.9	5.4	25.3	10.0	(148)
2017E	2,581	498	486	365	4,709	12.0	19.5	4.8	25.3	9.0	(240)

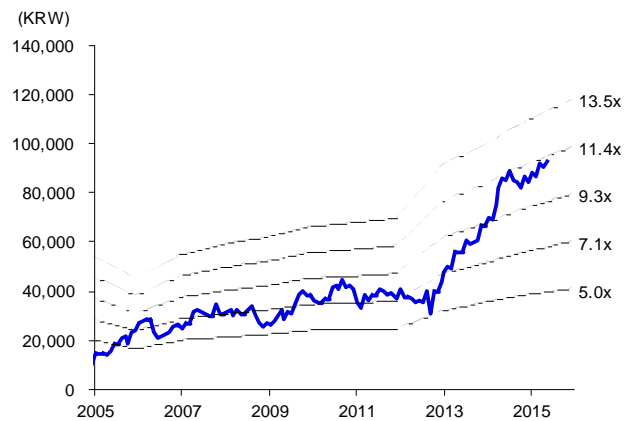
Source: Company data, Samsung Securities estimates

Forward P/E band



Source: Company data, Samsung Securities estimates

Forward EV/EBITDA band



Source: Company data, Samsung Securities estimates

Income statement

Year-end Dec 31 (KRWb)	2013	2014	2015E	2016E	2017E
Sales	2,118	2,160	2,303	2,454	2,581
Household electronics	1,655	1,707	1,817	1,920	2,001
Exports	145	167	184	203	223
Cosmetics	76	80	88	97	102
Others	58	58	58	58	58
Consolidated others	185	147	156	176	196
Cost of goods sold	721	727	779	847	890
Gross profit	1,397	1,434	1,524	1,607	1,690
Gross margin (%)	66.0	66.4	66.2	65.5	65.5
SG&A expenses	1,058	1,069	1,111	1,160	1,193
Operating profit	339	364	413	447	498
Operating margin (%)	16.0	16.9	17.9	18.2	19.3
Net interest income	(14)	(9)	(4)	(3)	(2)
Net forex-related gains	(4)	(0)	(0)	(0)	(0)
Net equity-method gains	0	0	0	0	0
Other	6	(23)	(6)	(10)	(10)
Pre-tax profit	327	332	403	434	486
Taxes	82	83	101	109	122
Effective tax rate (%)	25.1	24.9	25.0	25.0	25.0
Net profit	245	250	302	326	365
Net margin (%)	11.6	11.6	13.1	13.3	14.1
Operating net profit*	245	250	302	326	365
Operating net margin (%)	248	249	303	324	363
EBITDA	537	578	645	694	760
EBITDA margin (%)	25.4	26.8	28.0	28.3	29.5
Reported EPS (KRW)	3,178	3,237	3,918	4,224	4,727
Adjusted EPS (KRW)**	3,222	3,223	3,932	4,205	4,709
DPS (common, KRW)	1,660	1,661	2,500	2,700	3,050
DPS (preferred, KRW)	0	0	0	0	0
Dividend payout ratio (%)	50.4	49.3	61.4	61.5	62.0

Cash flow statement

Year-end Dec 31 (KRWb)	2013	2014	2015E	2016E	2017E
Cash flow from operations	537	537	539	578	636
Net profit	245	250	302	326	365
Depreciation & amortization	198	214	232	247	262
Net forex-translation income	0	0	(2)	(2)	(2)
Net equity-method income	0	0	0	0	0
Gross cash flow	528	490	554	594	649
(-) Change in working capital	9	47	(15)	(16)	(14)
Other	(0)	0	0	(0)	0
Cash flow from investments	(76)	(299)	(318)	(331)	(344)
Capex	(258)	(296)	(318)	(331)	(344)
Free cash flow	195	211	204	228	271
Change in investment assets	(1)	0	0	0	0
Other	183	(3)	0	0	0
Cash flow from financing	(373)	(328)	(121)	(187)	(202)
Change in debt	(260)	(163)	2	(2)	(2)
Change in equity	0	0	0	0	0
Dividends	(78)	(124)	(123)	(185)	(200)
Other	(34)	(42)	0	0	0
Change in cash	86	(91)	100	60	90
Cash at beginning of year	152	239	147	247	307
Cash at end of year	239	147	247	307	397

Note: * Excluding one-off items

** Fully diluted, excluding one-off items

*** From companies subject to equity-method valuation

Source: Company data, Samsung Securities estimates

Balance sheet

Year-end Dec 31 (KRWb)	2013	2014	2015E	2016E	2017E
Current assets	691	597	718	799	906
Cash & equivalents	245	154	254	314	404
Accounts receivable	250	229	244	260	274
Inventories	66	62	66	70	74
Other current assets	131	152	154	154	154
Fixed assets	976	1,025	1,089	1,151	1,210
Investment assets	82	81	81	81	81
Equity in affiliated companies	0	0	0	0	0
Tangible assets	638	675	739	801	860
Intangible assets	177	171	171	171	171
Other long-term assets	80	98	98	98	98
Total assets	1,668	1,622	1,807	1,949	2,116
Current liabilities	677	526	532	534	536
Accounts payable	37	59	63	67	71
Short-term debt	182	164	167	165	163
Other current liabilities	458	303	303	303	303
Long-term liabilities	50	56	56	56	56
Bond & long-term debt	0	1	1	1	1
Other long-term liabilities	50	55	55	55	55
Total liabilities	727	582	588	591	593
Controlling interests' equity	941	1,039	1,218	1,358	1,522
Capital stock	41	41	41	41	41
Capital surplus	126	126	126	126	126
Retained earnings	868	986	1,165	1,305	1,470
Other	(94)	(114)	(114)	(114)	(114)
Non-controlling interests' equity	0	1	1	1	1
Total equity	941	1,039	1,218	1,359	1,523
Net debt	83	12	(86)	(148)	(240)
Book value per share (KRW)	11,242	12,934	15,255	17,074	19,205

Financial ratios

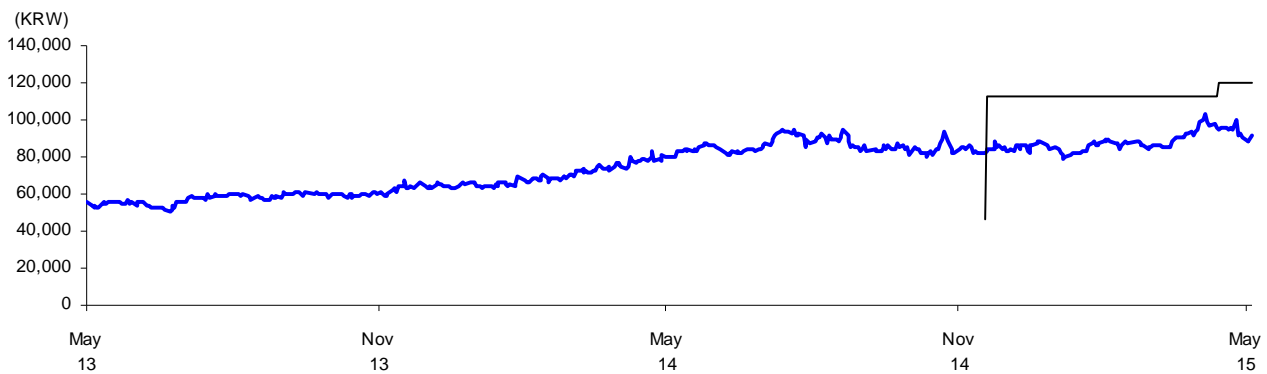
Year-end Dec 31	2013	2014	2015E	2016E	2017E
Growth (%)					
Sales	6.3	2.0	6.6	6.5	5.2
Operating profit	49.9	7.5	13.5	8.1	11.4
Pre-tax profit	124.4	1.6	21.2	7.8	11.9
Net profit	160.6	1.9	21.0	7.8	11.9
EBITDA	31.1	7.6	11.6	7.6	9.5
Adjusted EPS**	169.1	0.0	22.0	6.9	12.0
Ratios					
ROE (%)	28.4	25.2	26.8	25.3	25.3
ROA (%)	14.3	15.2	17.6	17.3	17.9
ROIC (%)	23.2	22.8	28.4	28.4	29.7
Net debt to equity (%)	8.8	1.1	(7.1)	(10.9)	(15.7)
Interest coverage (x)	18.3	29.6	61.1	65.6	73.9
Receivables turnover (days)	44.1	40.4	37.5	37.5	37.8
Payables turnover (days)	7.1	8.1	9.7	9.7	9.7
Inventory turnover (days)	11.8	10.8	10.1	10.1	10.2
Valuations (x)					
P/E	28.6	28.5	23.4	21.9	19.5
P/B	8.2	7.1	6.0	5.4	4.8
EV/EBITDA	13.0	12.1	10.9	10.0	9.0
EV/EBIT	20.5	20.5	17.2	15.9	14.0
Dividend yield (common, %)	1.8	1.8	2.7	2.9	3.3

Coway

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■ Target price changes in past two years



■ Rating changes in past two years

Date	2014/11/19	2015/4/16
Recommendation	BUY	BUY
Target price (KRW)	113,000	120,000

Samsung Securities uses the following investment ratings.

Company

- BUY★★★** Expected to increase in value by 30% or more within 12 months and is highly attractive within sector
- BUY** Expected to increase in value by 10% or more within 12 months
- HOLD** Expected to increase/decrease in value by less than 10% within 12 months
- SELL** Expected to decrease in value by 10% or more within 12 months
- SELL★★★** Expected to decrease in value by 30% or more within 12 months

Industry

- OVERWEIGHT** Expected to outperform market by 5% or more within 12 months
- NEUTRAL** Expected to outperform/underperform market by less than 5% within 12 months
- UNDERWEIGHT** Expected to underperform market by 5% or more within 12 months

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