

# Coway (021240 KS)

## Business expansion expected in 2H

### BUY (MAINTAIN)

Price (May 6)	W92,000
Target Price	W115,000
% variance	25.0%

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KOSPI	2,104.58p
KOSDAQ	665.94p
Market Cap.	W7,095.5bn/ US6,224.1mn
Par Value	W500
Outstanding Shares	77.1mn
Free Floating Shares	50.4mn(65.3%)
52-Week High/Low	W103,500/W78,900
60-Day Avg. Trading Volume	203,000shrs
60-Day. Avg. Trading T/O	W18,288mn
Foreign Ownership	54.56%

Major Shareholders		
Coway Holdings and 9 others	30.97%	
NPS	5.02%	
Absolute Performance		
3M	3.8%	
6M	7.6%	
12M	15.0%	
Relative performance		
3M	-3.5%	
6M	-1.0%	
12M	7.1%	

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Year to Dec.	Sales (W bn)	OP (W bn)	Pre-tax (W bn)	NP (W bn)	EPS (Won)	Growth (%)	BPS (Won)	PER (X)	EV/EBITDA (X)	PBR (X)	ROE (%)	Net Debt Ratio (%)
2013	1,933.7	333.2	350.5	253.2	3,283	111.4	12,543	20.2	10.1	5.3	28.6	13.5
2014	2,013.6	377.5	329.7	242.9	3,150	(4.1)	13,732	26.7	11.4	6.1	24.0	6.2
2015F	2,111.5	414.8	408.1	307.4	3,986	26.5	15,311	23.1	11.3	6.0	27.4	(2.5)
2016F	2,256.9	458.1	457.6	324.6	4,450	11.6	16,728	20.7	10.5	5.5	27.8	(8.1)
2017F	2,408.7	511.3	515.4	365.6	5,012	12.6	18,292	18.4	9.7	5.0	28.6	(13.1)

Source: Company data, Shinhan Investment Corp.

- ◆ 1Q15 operating profit of W98.9bn (+10.1% YoY) in line with consensus
- ◆ High dividend yield (2.7%) to provide downside support to the share price; foray into Chinese water purifier market in 2H15
- ◆ Retain BUY for a target price of W115,000

### 1Q15 operating profit of W98.9bn (+10.1% YoY) in line with consensus

Coway turned in K-IFRS standalone sales of W506.1bn (+2.3% YoY) and operating profit of W98.9bn (+10.1% YoY) in 1Q15. The number of new rental subscriptions came in at 340,672 (+7.6% YoY). Net adds surged 225.1% YoY to 65,603 as the number of expiring subscribers decreased amid strong new subscription numbers.

Exports fell 26.9% YoY to W33bn due to slow air purifier sales in China. The company booked W30bn (+8.7% YoY) in revenue from lump-sum contracts and W23.1bn (+10.5% YoY) in cosmetics sales. Despite sluggish exports, operating profit came in line with the consensus (W100.1bn) as profit margins improved on the brisk performance of domestic rental business.

### High dividend yield (2.7%) to provide downside support to the share price; foray into the Chinese water purifier market in 2H15

Coway is expected to achieve both top- and bottom-line growth in 2015. Rental sales will likely grow 7.2% YoY to W1.49tr. Exports are forecast to decline 10.7% YoY. But operating profit margin should improve 0.8%p YoY to 19.6% on strong rental business.

The year-end dividend yield is estimated at around 2.7% (60% payout) based on the current share price. Dividend merit will provide downside support to the share price. Downward rigidity is expected at 2015 PER of 20x.

Coway is preparing to launch the water purifier business in China. The penetration rate of water purifiers is nearly zero in China. Success in the promising China market should be the catalyst for a share price re-rating.

### Retain BUY for a target price of W115,000

We retain our BUY rating on Coway for a target price of W115,000. Although we revised down our earnings forecasts, we changed the base of EPS from 2015 earnings to 12-month forward. A decline in the share price should provide a buying opportunity.

1Q15 results

(bn KRW)	1Q15P	4Q14	%QoQ	1Q14	%YoY	SHIC	Consensus
Sales	506.1	499.5	1.3	494.8	2.3	528.3	530.1
OP	98.9	93.2	6.2	89.9	10.1	98.9	100.1
NP	75.1	45.3	65.8	66.1	13.6	75.3	78.1
OPM (%)	19.5	18.7		18.2		18.7	18.9
NPM (%)	14.8	9.1		13.4		14.3	14.7

Source: Company data, Shinhan Investment Corp.

Earnings forecast revision

(bn KRW)	2015P			2016F		
	Before	After	Change (%)	Before	After	Change (%)
Sales	2,200.6	2,111.5	(4.0)	2,360.3	2,256.9	(4.4)
OP	432.6	414.8	(4.1)	493.7	458.1	(7.2)
Consolidated NP	338.8	314.9	(7.1)	402.7	361.8	(10.2)

Source: Shinhan Investment Corp.

Note: K-IFRS standalone

Target price calculation

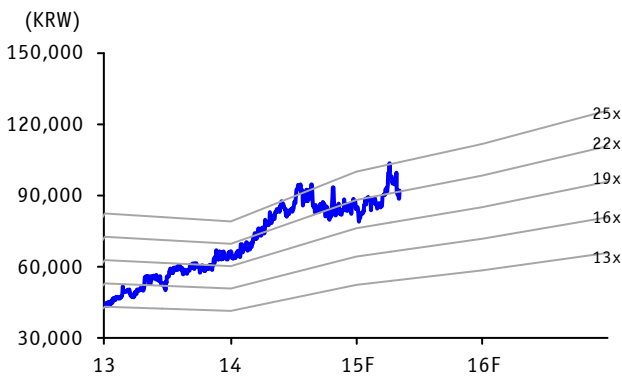
(bn KRW)	Value	(bn KRW)	Value	(bn KRW)	Value
2015F NP	314.9	12-month forward NP	346	2016F NP	361.8
EPS (KRW)	4,083	EPS (KRW)	4,488	EPS (KRW)	4,691
PER (x)	28	Target PER (x)	26	PER (x)	25
Target price (KRW)	115,000	Target price (KRW)	115,000	Target price (KRW)	115,000
Current price (KRW)	92,000	Current price (KRW)	92,000	Current price (KRW)	92,000
Current PER (x)	22.5	Current PER (x)	20.5	Current PER (x)	19.6

Source: Shinhan Investment Corp.

Note: 1) K-IFRS consolidated basis

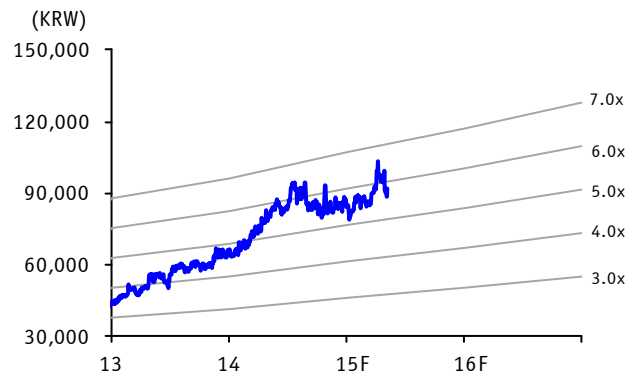
2) Target PER is a 30% premium to 2-year average PER of 20x

12-month forward PER band



Source: QuantiWise, Shinhan Investment Corp.

12-month forward PBR band



Source: QuantiWise, Shinhan Investment Corp.

Earnings forecast					
(bn KRW)	2013	2014	2015F	2016F	2017F
<b>Sales</b>	<b>1,933.7</b>	<b>2,013.7</b>	<b>2,111.5</b>	<b>2,256.9</b>	<b>2,408.7</b>
Growth (% YoY)	7.0	4.1	4.9	6.9	6.7
Rental subscribers (no. of contracts)	4,434,632	4,600,582	4,901,959	5,171,557	5,469,206
Growth (% YoY)	(3.8)	3.7	6.6	5.5	5.8
Rental ARPU (KRW)	25,359	25,647	26,135	26,389	26,733
Rental sales	1,320.2	1,390.3	1,490.1	1,595.0	1,706.8
Rental registration sales	13.2	10.2	6.7	4.4	2.9
Membership sales	172.3	183.4	184.9	187.2	189.4
Lump-sum sales	149.3	123.5	133.7	134.5	136.3
Exports	144.6	167.4	149.5	171.9	190.7
ODM	112.7	120.3	106.3	122.2	133.9
Overseas subsidiaries	31.9	47.1	43.2	49.7	56.8
Cosmetics sales	76.4	80.4	91.5	102.5	115.9
Others	57.7	58.4	55.1	61.4	66.7
<b>Growth (% YoY)</b>					
Rental	4.6	5.3	7.2	7.0	7.0
Rental registration	(44.6)	(22.4)	(34.4)	(34.4)	(34.4)
Membership	6.8	6.4	0.9	1.2	1.2
Lump-sum	3.2	(17.3)	8.3	0.6	1.3
Exports	32.0	15.8	(10.7)	14.9	11.0
Cosmetics	13.6	5.3	13.7	12.1	13.1
Others (living + water treatment)	50.7	1.2	(5.6)	11.5	8.6
<b>COGS</b>	<b>651.7</b>	<b>673.4</b>	<b>683.5</b>	<b>736.9</b>	<b>786.7</b>
COGS ratio (%)	33.7	33.4	32.4	32.7	32.7
<b>Gross profit</b>	<b>1,282.1</b>	<b>1,340.3</b>	<b>1,428.1</b>	<b>1,519.9</b>	<b>1,622.0</b>
Gross margin (%)	66.3	66.6	67.6	67.3	67.3
<b>SG&amp;A costs</b>	<b>948.9</b>	<b>962.7</b>	<b>1,013.3</b>	<b>1,061.8</b>	<b>1,110.7</b>
SG&A costs/sales ratio (%)	49.1	47.8	48.0	47.0	46.1
<b>OP</b>	<b>333.2</b>	<b>377.6</b>	<b>414.8</b>	<b>458.1</b>	<b>511.3</b>
OPM (%)	17.2	18.8	19.6	20.3	21.2
Growth (% YoY)	46.3	13.3	9.9	10.4	11.6
Financial income	3.9	2.3	1.7	2.0	(0.8)
Financial expense	17.6	10.9	6.3	3.9	1.3
Other non-operating income	(9.1)	(8.5)	(2.2)	1.4	6.2
Pre-tax profit	350.5	329.9	408.1	457.6	515.4
Corporate tax	97.9	86.9	100.7	114.4	128.9
Corporate tax rate (%)	27.9	26.4	24.7	25.0	25.0
<b>NP</b>	<b>252.6</b>	<b>242.9</b>	<b>307.4</b>	<b>343.2</b>	<b>386.6</b>
NPM (%)	13.1	12.1	14.6	15.2	16.0
Growth (% YoY)	111.0	(3.8)	26.5	11.6	12.6
Profit/loss of subsidiaries	(7.6)	(4.2)	7.5	18.6	27.9
Consolidated NP	<b>245.1</b>	<b>238.7</b>	<b>314.9</b>	<b>361.8</b>	<b>414.5</b>
Growth (% YoY)	<b>160.6</b>	<b>(2.6)</b>	<b>31.9</b>	<b>14.9</b>	<b>14.6</b>
Standalone EPS (KRW)	3,283	3,150	3,986	4,450	5,012
Consolidated EPS (KRW)	3,178	3,095	4,083	4,691	5,374

Source: Company data, Shinhan Investment Corp.

Note: 1) K-IFRS standalone basis

2) 365,316 non-performing accounts excluded in 2013 rental subscriber numbers

Quarterly earnings															
(bn KRW)	1Q14	2Q14	3Q14	4Q14	1Q15P	2Q15F	3Q15F	4Q15F	1Q16F	2Q16F	3Q16F	4Q16F	2014	2015F	2016F
<b>Sales</b>	<b>494.8</b>	<b>523.3</b>	<b>496.1</b>	<b>499.5</b>	<b>506.1</b>	<b>529.6</b>	<b>533.6</b>	<b>542.3</b>	<b>549.0</b>	<b>564.0</b>	<b>566.6</b>	<b>577.3</b>	<b>2,013.7</b>	<b>2,111.5</b>	<b>2,256.9</b>
Growth (% YoY)	6.4	5.3	1.4	3.6	2.3	1.2	7.6	8.6	8.5	6.5	6.2	6.5	4.1	4.9	6.9
Rental sales	<b>339.4</b>	<b>344.0</b>	<b>350.3</b>	<b>356.7</b>	<b>361.3</b>	<b>370.0</b>	<b>376.1</b>	<b>382.6</b>	<b>388.4</b>	<b>396.2</b>	<b>401.8</b>	<b>408.5</b>	<b>1,390.3</b>	<b>1,490.1</b>	<b>1,595.0</b>
Rental registration sales	3.0	2.7	2.4	2.2	2.0	1.8	1.6	1.4	1.3	1.2	1.0	0.9	10.2	6.7	4.4
Membership sales	<b>43.9</b>	<b>45.7</b>	<b>46.9</b>	<b>46.9</b>	<b>46.0</b>	<b>46.2</b>	<b>46.3</b>	<b>46.4</b>	<b>46.6</b>	<b>46.7</b>	<b>46.9</b>	<b>47.0</b>	<b>183.4</b>	<b>184.9</b>	<b>187.2</b>
Lump-sum sales	<b>27.6</b>	<b>37.4</b>	<b>31.8</b>	<b>26.7</b>	<b>30.0</b>	<b>38.4</b>	<b>32.7</b>	<b>32.6</b>	<b>33.5</b>	<b>36.1</b>	<b>31.3</b>	<b>33.6</b>	<b>123.5</b>	<b>133.7</b>	<b>134.5</b>
Exports	45.2	55.7	33.0	33.5	33.0	36.1	39.8	40.7	40.1	43.2	44.1	44.5	167.4	149.5	171.9
Cosmetics sales	21.0	22.3	17.2	20.0	23.1	22.3	22.3	23.7	24.7	25.1	25.9	26.8	80.4	91.5	102.5
Others	14.8	15.4	14.6	13.6	10.6	14.9	14.8	14.8	14.5	15.5	15.6	15.9	58.4	55.1	61.4
<b>COGS</b>	<b>169.3</b>	<b>180.5</b>	<b>162.5</b>	<b>161.1</b>	<b>159.3</b>	<b>172.3</b>	<b>174.8</b>	<b>177.1</b>	<b>178.5</b>	<b>184.7</b>	<b>185.3</b>	<b>188.4</b>	<b>673.4</b>	<b>683.5</b>	<b>736.9</b>
COGS ratio (%)	34.2	34.5	32.8	32.3	31.5	32.5	32.8	32.7	32.5	32.7	32.7	32.6	33.4	32.4	32.7
<b>SG&amp;A costs</b>	<b>235.7</b>	<b>245.2</b>	<b>236.6</b>	<b>245.2</b>	<b>247.9</b>	<b>253.9</b>	<b>253.2</b>	<b>258.3</b>	<b>264.2</b>	<b>264.3</b>	<b>265.0</b>	<b>268.4</b>	<b>962.7</b>	<b>1,013.3</b>	<b>1,061.8</b>
SG&A costs/sales ratio (%)	47.6	46.9	47.7	49.1	49.0	47.9	47.5	47.6	48.1	46.9	46.8	46.5	47.8	48.0	47.0
<b>OP</b>	<b>89.9</b>	<b>97.6</b>	<b>97.0</b>	<b>93.2</b>	<b>98.9</b>	<b>103.5</b>	<b>105.5</b>	<b>106.9</b>	<b>106.3</b>	<b>115.0</b>	<b>116.2</b>	<b>120.5</b>	<b>377.6</b>	<b>414.8</b>	<b>458.1</b>
OPM (%)	18.2	18.7	19.5	18.7	19.5	19.5	19.8	19.7	19.4	20.4	20.5	20.9	18.8	19.6	20.3
Growth (% YoY)	29.8	23.0	(0.1)	6.4	10.1	6.0	8.9	14.7	7.5	11.2	10.1	12.7	13.3	9.9	10.4
Financial income	0.7	0.4	0.7	0.4	0.3	0.3	0.5	0.6	0.5	0.3	0.5	0.7	2.3	1.7	2.0
Financial expense	2.9	3.1	2.8	2.1	0.9	2.2	1.7	1.5	1.3	1.1	0.9	0.7	10.9	6.3	3.9
Other non-operating income	0.2	(8.3)	(6.6)	6.1	(0.0)	(1.0)	(0.7)	(0.4)	(0.1)	0.2	0.5	0.8	(8.5)	(2.2)	1.4
Pre-tax profit	87.9	86.7	88.2	67.0	98.3	100.6	103.6	105.6	105.4	114.5	116.4	121.3	329.9	408.1	457.6
<b>NP</b>	<b>66.1</b>	<b>65.2</b>	<b>66.4</b>	<b>45.3</b>	<b>75.1</b>	<b>75.4</b>	<b>77.7</b>	<b>79.2</b>	<b>79.0</b>	<b>85.9</b>	<b>87.3</b>	<b>91.0</b>	<b>242.9</b>	<b>307.4</b>	<b>343.2</b>
NPM (%)	13.4	12.5	13.4	9.1	14.8	14.2	14.6	14.6	14.4	15.2	15.4	15.8	12.1	14.6	15.2
Growth (% YoY)	(17.6)	8.1	6.7	(9.4)	13.6	15.7	17.1	74.9	5.3	13.8	12.4	14.9	(3.8)	26.5	11.6

Source: Company data, Shinhan Investment Corp.

Note: K-IFRS standalone

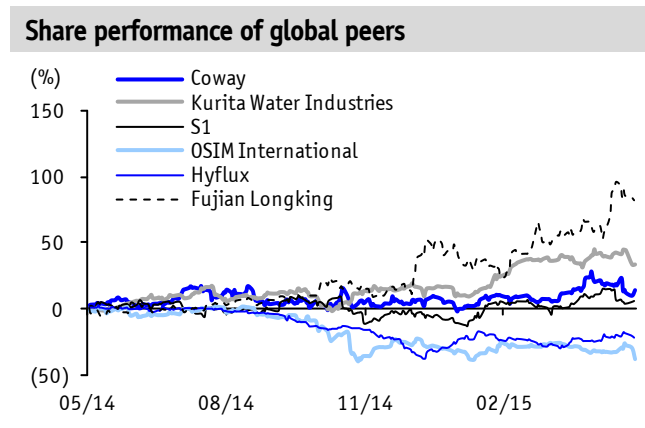
Rental subscribers and ARPU									
(subscribers)	2009	2010	2011	2012F	2013F	2014F	2015F	2016F	2017F
ARPU (KRW)	24,713	24,129	24,905	25,258	25,359	25,647	26,135	26,389	26,733
Total subscribers	3,898,647	4,145,102	4,450,003	4,607,420	4,434,632	4,600,582	4,901,959	5,171,557	5,469,206
Net adds	259,450	246,455	304,901	157,417	(172,788)	165,950	301,377	269,597	297,650
New subscribers	1,188,939	1,167,378	1,272,538	1,218,911	1,165,966	1,330,052	1,472,284	1,515,712	1,537,277
Cancellation rate (%)	13.5	12.9	12.5	12.1	10.8	11.9	11.7	11.0	10.5
<b>Growth (%)</b>									
ARPU	0.8	(2.4)	3.2	1.4	0.4	1.1	1.9	1.0	1.3
Total subscribers	7.1	6.3	7.4	3.5	(3.8)	3.7	6.6	5.5	5.8
Net adds	871.5	(5.0)	23.7	(48.4)	(209.8)	(196.0)	81.6	(10.5)	10.4
New subscribers	13.7	(1.8)	9.0	(4.2)	(4.3)	14.1	10.7	2.9	1.4

Source: Shinhan Investment Corp.

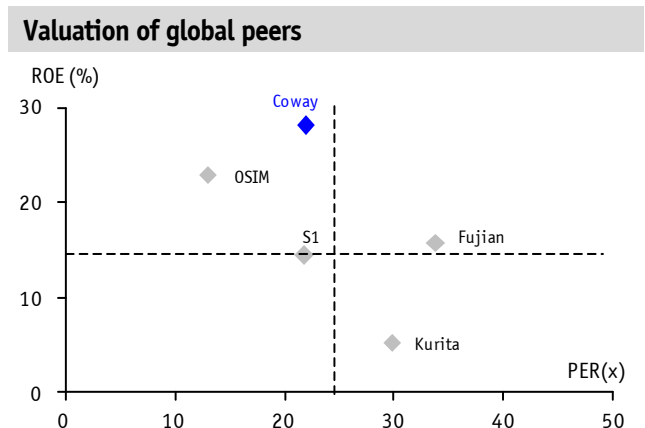
Note: 365,316 non-performing accounts excluded in 2013 rental subscriber numbers

Global peers							
Company		Coway	Kurita Water Industries	S1	OSIM International	Fujian Longking	Hyflux
Ticker		021240 KS	6370 JP	012750 KS	OSIM SP	600388 CH	HYF SP
Market cap. (bn KRW)		7,095.5	3,110.5	3,104.5	1,085.1	3,309.0	608.2
Sales (bn KRW)	2014	2,160.3	1,941.1	1,718.3	574.4	1,017.5	259.7
	2015F	2,326.6	1,704.6	1,881.8	595.0	1,187.9	338.2
	2016F	2,494.7	1,970.6	2,050.6	643.4	1,304.2	587.5
OP (bn KRW)	2014	364.4	162.2	172.3	104.6	88.5	(58.4)
	2015F	427.7	164.1	201.0	107.9	101.8	38.2
	2016F	479.9	177.3	233.8	119.9	120.1	70.4
OPM (%)	2014	16.9	8.4	10.0	18.2	8.7	(22.5)
	2015F	18.4	9.6	10.7	18.1	8.6	11.3
	2016F	19.2	9.0	11.4	18.6	9.2	12.0
NP (bn KRW)	2014	249.7	101.9	111.8	84.9	79.2	47.8
	2015F	321.4	102.7	138.8	86.2	95.2	(3.5)
	2016F	365.1	119.0	164.3	95.7	106.0	30.9
NPM (%)	2014	11.6	5.2	6.5	14.8	7.8	18.4
	2015F	13.8	6.0	7.4	14.5	8.0	(1.0)
	2016F	14.6	6.0	8.0	14.9	8.1	5.3
EPS growth (% YoY)	2014	8.1	T/B	39.7	T/B	5.3	T/B
	2015F	18.4	9.4	14.3	4.6	13.8	T/B
	2016F	13.6	15.9	18.4	11.3	7.3	T/B
P/E (x)	2014	25.1	28.5	21.5	14.8	32.4	50.9
	2015F	21.9	29.9	21.8	13.0	33.8	n/a
	2016F	19.3	25.7	18.4	11.7	31.5	25.7
P/B (x)	2014	6.0	1.2	2.7	3.5	4.8	1.5
	2015F	5.6	1.5	3.0	3.1	5.2	0.9
	2016F	5.0	1.5	2.6	2.7	4.7	0.8
EV/EBITDA (x)	2014	10.8	6.1	8.0	8.9	24.1	n/a
	2015F	11.1	8.6	9.1	6.9	19.8	28.1
	2016F	10.1	8.3	8.1	6.2	19.3	15.5
ROE (%)	2014	25.2	4.4	13.1	28.8	15.6	5.2
	2015F	28.1	5.4	14.4	22.9	15.7	(0.3)
	2016F	27.8	6.0	15.7	22.3	15.5	3.8

Source: Bloomberg consensus, Shinhan Investment Corp.



Source: Bloomberg, Shinhan Investment Corp.



Source: Bloomberg, Shinhan Investment Corp.

## Balance Sheet

Year to Dec. (W bn)	2013	2014	2015F	2016F	2017F
<b>Assets</b>	<b>1,641.1</b>	<b>1,576.0</b>	<b>1,663.5</b>	<b>1,767.2</b>	<b>1,935.7</b>
Total Current Assets	642.5	573.1	627.4	687.9	806.7
Cash and Cash Equivalents	201.3	105.5	137.4	164.1	247.7
Accounts Receivables	265.9	273.6	286.9	306.7	327.3
Inventories	40.9	41.8	43.8	46.8	50.0
Non-Current Assets	998.6	1,002.9	1,036.1	1,079.4	1,129.0
Tangible Assets	596.8	617.6	651.9	692.1	737.4
Intangible Assets	150.9	147.8	140.7	134.8	130.0
Investment Assets	154.0	123.2	129.2	138.1	147.4
Other Financial Institutions Assets	0.0	0.0	0.0	0.0	0.0
<b>Liabilities</b>	<b>673.7</b>	<b>517.0</b>	<b>482.7</b>	<b>458.5</b>	<b>485.4</b>
Current Liabilities	636.8	468.0	431.8	404.6	428.5
ST Borrowings	172.0	162.8	100.0	50.0	50.0
Account Payables	29.5	46.5	60.5	64.7	69.0
Current Portion of LT Debt	146.1	0.0	0.0	0.0	0.0
Non-Current Liabilities	36.9	49.0	50.9	53.9	57.0
Bonds	0.0	0.0	0.0	0.0	0.0
LT Borrowings(incl. LT Fin. Liab.)	7.1	8.2	8.2	8.2	8.2
Other Financial Institutions Liab.	0.0	0.0	0.0	0.0	0.0
<b>Shareholders' Equity</b>	<b>967.3</b>	<b>1,059.0</b>	<b>1,180.8</b>	<b>1,308.7</b>	<b>1,450.3</b>
Capital Stock	40.7	40.7	40.7	40.7	40.7
Capital Surplus	130.8	131.1	131.1	131.1	131.1
Other Reserves	(94.4)	(114.5)	(114.5)	(114.5)	(114.5)
Accu. Other Comp. Income	(0.2)	0.0	0.0	0.0	0.0
Retained Earnings	890.4	1,001.8	1,123.6	1,232.9	1,353.5
Owners of Parent Equity	967.3	1,059.0	1,180.8	1,290.1	1,410.7
Non-Controlling Interests Equity	0.0	0.0	0.0	18.6	39.6
*Total Debt	332.1	171.0	108.2	58.2	58.2
*Net Debts(Cash)	130.5	65.3	(29.1)	(105.9)	(189.5)

## Cash Flow

Year to Dec. (W bn)	2013	2014	2015F	2016F	2017F
<b>Operating Cash Flow</b>	<b>517.6</b>	<b>498.5</b>	<b>489.1</b>	<b>514.7</b>	<b>556.9</b>
Net Profit	253.2	242.9	307.4	343.2	386.6
Depreciation	181.2	191.8	201.4	201.4	201.4
Amortization	7.5	7.7	7.1	5.9	4.8
Losses(Gains) on F/X Translation	(0.1)	(4.2)	0.0	0.0	0.0
Losses(Gains) on Disp. of Assets	38.8	40.4	0.0	0.0	0.0
Losses(Gains) in Asso., Subs., JVs	(40.1)	30.6	0.0	0.0	0.0
Chg. in A/L from Op. Activities	(41.8)	(56.6)	(31.4)	(37.7)	(38.0)
(Payments of Income Taxes)	(41.4)	(97.6)	(100.7)	(114.4)	(128.9)
Others	160.3	143.5	105.3	116.3	131.0
<b>Investing Cash Flow</b>	<b>(58.4)</b>	<b>(268.9)</b>	<b>(239.8)</b>	<b>(248.5)</b>	<b>(256.8)</b>
Incr. in Tangible Assets(CAPEX)	(245.7)	(275.7)	(325.8)	(331.7)	(336.6)
Decr. in Tangible Assets	6.1	8.2	90.0	90.0	90.0
Decr.(Incr.) in Intangible Assets	(2.1)	(5.7)	0.0	0.0	0.0
Decr.(Incr.) in Investment Assets	193.9	8.5	(6.0)	(8.9)	(9.3)
Others	(10.6)	(4.2)	2.0	2.1	(0.9)
<b>Free Cash Flow</b>	<b>348.0</b>	<b>170.8</b>	<b>199.0</b>	<b>208.2</b>	<b>241.6</b>
<b>Financing Cash Flow</b>	<b>(376.8)</b>	<b>(325.3)</b>	<b>(217.4)</b>	<b>(239.5)</b>	<b>(216.6)</b>
Incr.(Decr.) in Borrowing	(266.5)	(155.3)	(62.8)	(50.0)	0.0
Decr.(Incr.) of Treasury Stock	18.8	31.5	0.0	0.0	0.0
Dividend	(78.4)	(123.6)	(148.3)	(185.6)	(215.3)
Others	(50.7)	(77.9)	(6.3)	(3.9)	(1.3)
Other Cash Flows	0.0	0.0	0.0	(0.0)	0.0
Change of Consolidated Scope	0.0	0.0	0.0	0.0	0.0
Difference by Chg. in F/X Rates	(0.0)	(0.0)	0.0	0.0	0.0
<b>Incr.(Decr.) in Cash</b>	<b>82.4</b>	<b>(95.8)</b>	<b>31.8</b>	<b>26.7</b>	<b>83.6</b>
Beginning Cash	118.9	201.3	105.5	137.4	164.1
Ending Cash	201.3	105.5	137.4	164.1	247.7

Source: Company data, Shinhan Investment Corp.

## Profit and Loss

Year to Dec. (W bn)	2013	2014	2015F	2016F	2017F
<b>Sales</b>	<b>1,933.7</b>	<b>2,013.6</b>	<b>2,111.5</b>	<b>2,256.9</b>	<b>2,408.7</b>
Growth (%)	7.0	4.1	4.9	6.9	6.7
<b>COGS</b>	<b>651.7</b>	<b>673.4</b>	<b>683.5</b>	<b>736.9</b>	<b>786.7</b>
<b>Gross Profit</b>	<b>1,282.1</b>	<b>1,340.3</b>	<b>1,428.1</b>	<b>1,519.9</b>	<b>1,622.0</b>
Gross margin (%)	66.3	66.6	67.6	67.3	67.3
<b>SG&amp;A</b>	<b>948.9</b>	<b>962.8</b>	<b>1,013.3</b>	<b>1,061.8</b>	<b>1,110.7</b>
<b>Operating Income</b>	<b>333.2</b>	<b>377.5</b>	<b>414.8</b>	<b>458.1</b>	<b>511.3</b>
Growth (%)	46.3	13.3	9.9	10.4	11.6
Operating margin (%)	17.2	18.7	19.6	20.3	21.2
<b>Other Net Non-Operating Profits</b>	<b>17.3</b>	<b>(47.8)</b>	<b>(6.7)</b>	<b>(0.5)</b>	<b>4.1</b>
Financial Income(Expenses)	(13.7)	(8.6)	(4.6)	(1.9)	(2.1)
Net Other Non-Operating Profits	(9.1)	(8.5)	(2.2)	1.4	6.2
Net Gains in Asso., Subs., and JVs	40.1	(30.6)	0.0	0.0	0.0
<b>Pre-tax Profit from Cont. Op.</b>	<b>350.5</b>	<b>329.7</b>	<b>408.1</b>	<b>457.6</b>	<b>515.4</b>
Income Taxes	97.4	86.8	100.7	114.4	128.9
Profit from Continuing Op.	253.2	242.9	307.4	343.2	386.6
Profit from Discontinued Op.	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>253.2</b>	<b>242.9</b>	<b>307.4</b>	<b>343.2</b>	<b>386.6</b>
Growth (%)	111.4	(4.1)	26.5	11.6	12.6
Net Profit margin (%)	13.1	12.1	14.6	15.2	16.0
Net Profit of Parent	253.2	242.9	307.4	324.6	365.6
Net Profit to Non-Controlling	0.0	0.0	0.0	18.6	21.0
<b>Total Comprehensive Income</b>	<b>252.6</b>	<b>235.2</b>	<b>307.4</b>	<b>343.2</b>	<b>386.6</b>
Total Comp. Income of Parent	252.6	235.2	307.4	343.2	386.6
Total Comp. Income to Non-Cont.	0.0	0.0	0.0	0.0	0.0
<b>EBITDA</b>	<b>521.9</b>	<b>577.0</b>	<b>623.4</b>	<b>665.4</b>	<b>717.6</b>
Growth (%)	30.6	10.6	8.0	6.7	7.8
EBITDA Margin (%)	27.0	28.7	29.5	29.5	29.8

Note: Operating profit is based on 2012 K-IFRS (gross profit - SG&amp;A costs)

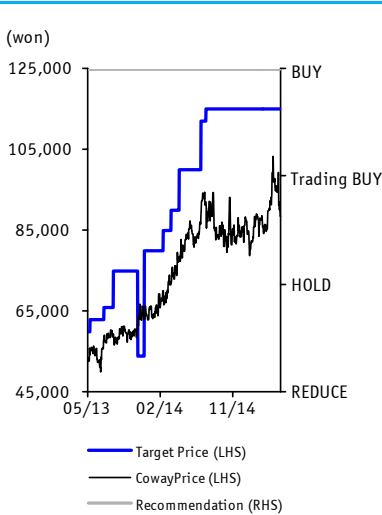
## Key Ratios

Year to Dec.	2013	2014	2015F	2016F	2017F
EPS_C (won)	3,283	3,150	3,986	4,450	5,012
EPS_P (won)	3,283	3,150	3,986	4,450	5,012
BPS_C (won)	12,543	13,732	15,311	16,969	18,805
BPS_P (won)	12,543	13,732	15,311	16,728	18,292
DPS (won)	2,710	2,000	2,500	2,900	3,300
PER_C (x)	20.2	26.7	23.1	20.7	18.4
PER_P (x)	20.2	26.7	23.1	20.7	18.4
PBR_C (x)	5.3	6.1	6.0	5.4	4.9
PBR_P (x)	5.3	6.1	6.0	5.5	5.0
EV/EBITDA (x)	10.1	11.4	11.3	10.5	9.7
Payout Ratio (%)	79.8	61.1	60.4	66.3	67.0
Dividend Yield (%)	4.1	2.4	2.7	3.2	3.6
<b>Profitability</b>					
EBITDA Margin (%)	27.0	28.7	29.5	29.5	29.8
OP Margin (%)	17.2	18.7	19.6	20.3	21.2
NP Margin (%)	13.1	12.1	14.6	15.2	16.0
ROA (%)	15.1	15.1	19.0	20.0	20.9
ROE (%)	28.6	24.0	27.4	27.8	28.6
ROIC (%)	26.3	31.1	33.3	35.4	37.6
<b>Stability</b>					
D/E Ratio (%)	69.6	48.8	40.9	35.0	33.5
Net Debt to Equity (%)	13.5	6.2	(2.5)	(8.1)	(13.1)
Cash Ratio (%)	31.6	22.5	31.8	40.6	57.8
Interest Coverage (x)	19.0	34.8	66.1	116.3	396.8
<b>Activity (%)</b>					
Working Capital Turnover (t)	9.0	13.6	13.1	13.7	13.7
Inventory Turnover (d)	7.8	7.5	7.4	7.3	7.3
Receivable Turnover (d)	51.4	48.9	48.4	48.0	48.0

Source: Company data, Shinhan Investment Corp.

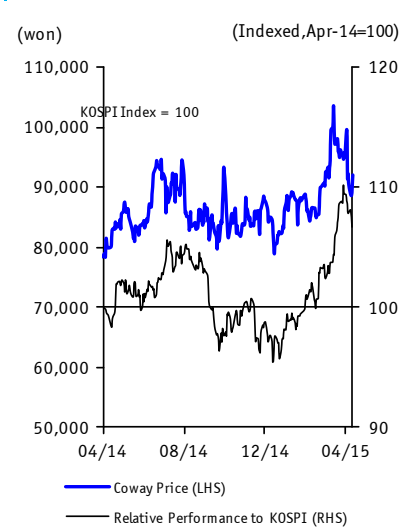
Coway (021240 KS)

Target Price & Recommendation History



Date	Recommendation	Target Price (won)
2013. 05. 06	BUY	60,000
2013. 05. 12	BUY	63,000
2013. 07. 04	BUY	66,000
2013. 08. 09	BUY	75,000
2013. 11. 10	BUY	54,000
2013. 11. 10	BUY	80,000
2014. 02. 15	BUY	85,000
2014. 03. 17	BUY	90,000
2014. 04. 17	BUY	100,000
2014. 07. 09	BUY	112,000
2014. 07. 28	BUY	115,000

Share Price Performance



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Stock	Sector
<ul style="list-style-type: none"> <li><b>BUY:</b> Expected return of over +15% in the next 6 months</li> <li><b>Trading BUY:</b> Expected return of 0% ~ +15% in the next 6 months</li> <li><b>HOLD:</b> Expected return of -15% ~ 0% in the next 6 months</li> <li><b>REDUCE:</b> Expected return of below -15% in the next 6 months</li> </ul>	<ul style="list-style-type: none"> <li><b>OVERWEIGHT:</b> Prevalence of BUY rating for stocks in our sector coverage universe based on market cap</li> <li><b>NEUTRAL:</b> Prevalence of HOLD rating for stocks in our sector coverage universe based on market cap</li> <li><b>UNDERWEIGHT:</b> Prevalence of REDUCE rating for stocks in our sector coverage universe based on market cap</li> </ul>