

Flashnote / Earnings review

Korea / Consumer

7 May 2015

**BUY**

Target price **KRW105,000**

Last price (6 May 2015) **KRW92,000**

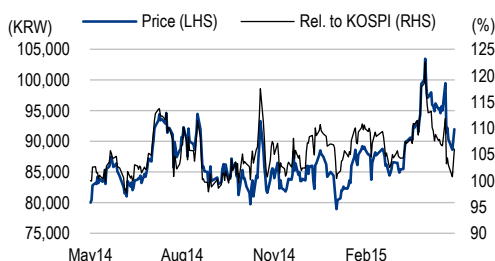
Upside/downside (%)	14.1
KOSPI	2,104.58
Mkt. cap (KRW bn/USD bn)	7,095/6.6
52-week range (KRW)	78,900 - 103,500
Avg. trading value daily (KRW bn)	18.29
Foreign ownership (%)	54.6

Source: Bloomberg

**Forecast earnings & valuation**

Fiscal year ending	Dec-14	Dec-15 E	Dec-16 E	Dec-17 E
<b>Revenue (KRW bn)</b>	<b>2,176</b>	<b>2,330</b>	<b>2,460</b>	<b>2,600</b>
EBIT (KRW bn)	382.6	446.0	503.9	553.2
<b>Net profit (KRW bn)</b>	<b>280.6</b>	<b>334.5</b>	<b>379.9</b>	<b>419.1</b>
Net profit (underlying)	280.5	334.4	379.9	419.0
EPS (KRW)	3,637	4,336	4,926	5,433
EPS growth (%)	14.5	19.2	13.6	10.3
<b>P/E (x)</b>	<b>23.1</b>	<b>21.2</b>	<b>18.7</b>	<b>16.9</b>
EV/EBITDA (x)	11.0	10.4	9.2	8.3
Dividend yield (%)	2.5	2.9	3.6	4.2
P/B (x)	5.9	5.6	4.9	4.4
<b>ROE (%)</b>	<b>27.5</b>	<b>28.2</b>	<b>27.8</b>	<b>27.2</b>
Net debt/equity (%)	(2.1)	(12.0)	(20.3)	(27.1)

**Performance**



Performance	1M	3M	12M
Absolute (%)	(8.0)	3.8	15.0
Absolute (USD, %)	(5.8)	5.8	11.0
Relative to KOSPI (%)	(10.8)	(3.8)	7.6

Source: Bloomberg

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# COWAY (021240 KS)

## 1Q15 results review

### Event

Coway reported slightly weaker-than-expected 1Q15 results. However, we maintain a positive view on Coway, considering its earnings recovery from 2Q15 and higher cash returns to shareholders in 2015.

### Impact

#### Weaker-than-expected 1Q15 results

After market close on 6 May, Coway reported weaker-than-expected 1Q15 consolidated results. Sales, operating profit, and net profit came in at KRW548.2bn (+2.5% YoY), KRW100.3bn (+11.1% YoY), and KRW77.6bn (+17.4% YoY), respectively, with operating profit slightly below our and consensus estimates of KRW112.6bn and KRW106.4bn, respectively.

We attribute the weaker operating profit partly to weaker exports. 1Q15 exports, including air purifier ODM sales to China, fell 27% YoY, due to: 1) stiffer competition in the Chinese air purifier market and; 2) a high base of 1Q14. In 1Q14, the company's exports grew 44% YoY. Despite the weaker exports, its domestic health appliance rental operations remained firm. Domestic health-appliance rental revenues grew 6.1% YoY to KRW363.3bn, on: 1) ARPU hikes; and 2) stable rental subscriber growth (+4.7% YoY). In addition, rental accounts grew 7.5% YoY to 340K in 1Q15.

For 2Q15, we expect its 2Q15 operating profit to grow 15% YoY to KRW112bn, on: 1) a continued solid growth in the domestic health-appliance rental business; and 2) a recovery in exports, along with implementation of co-promotion with local Chinese partners and new product launches.

#### Growing dividend yield

The company 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 free cash 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

We maintain a positive view on Coway, as we think its stable earnings growth and higher cash returns to shareholders in 2015 should provide positive share price sentiment. We maintain our BUY rating for Coway. The stock is currently trading at 18.7x 2015E PER, which is at par with its five-year historical average valuation.

Figure 1 1Q15 results review (K-IFRS consolidated)

(KRWbn, %, ppt)	1Q14	2Q14	4Q14	4Q14	1Q15P	YoY (%)	QoQ (%)	1Q15E (Mirae)	Diff (%)	1Q15E (Cons.)	Diff (%)
Sales	535.0	556.9	525.5	542.9	548.2	2.5	1.0	572.4	(4.2)	573.6	(4.4)
Operating profit	90.3	97.2	95.3	81.7	100.3	11.1	22.8	112.6	(10.9)	106.4	(5.7)
Recurring profit	88.4	86.5	85.9	71.5	101.1	14.3	41.3	112.6	(10.2)	102.5	(1.4)
Net profit (for controlling stake)	66.1	66.3	63.9	53.4	77.6	17.4	45.4	84.4	(8.1)	78.4	(1.1)
Operating profit margin (%)	16.9	17.4	18.1	15.0	18.3	1.4	3.3	19.7	(1.4)	18.5	(0.2)
Recurring profit margin (%)	16.5	15.5	16.4	13.2	18.4	1.9	5.3	19.7	(1.2)	17.9	0.6
Net profit margin (%)	12.4	11.9	12.2	9.8	14.2	1.8	4.3	14.8	(0.6)	13.7	0.5

Source: Company data, Bloomberg, Mirae Asset Research

## Summary financial statements

### Profit & loss

Year end Dec 31 (KRW bn)	2014	2015E	2016E	2017E
<b>Revenue</b>	<b>2,176</b>	<b>2,330</b>	<b>2,460</b>	<b>2,600</b>
Cost of goods sold	717	763	809	858
<b>Gross profit</b>	<b>1,459</b>	<b>1,568</b>	<b>1,651</b>	<b>1,742</b>
SG&A	1,076	1,122	1,147	1,189
<b>EBIT (Adj.)</b>	<b>383</b>	<b>446</b>	<b>504</b>	<b>553</b>
<b>EBIT</b>	<b>383</b>	<b>446</b>	<b>504</b>	<b>553</b>
Net interest income (loss)	(3)	(2)	1	4
Income (loss) from associates	0	0	0	0
Others	(6)	2	2	2
<b>Recurring profit</b>	<b>374</b>	<b>446</b>	<b>507</b>	<b>559</b>
Income tax	94	111	127	140
<b>Net profit</b>	<b>281</b>	<b>334</b>	<b>380</b>	<b>419</b>
<b>Net profit (Controlling Interests)</b>	<b>281</b>	<b>334</b>	<b>380</b>	<b>419</b>
EPS (Controlling Interests, KRW)	3,637	4,336	4,926	5,433

Growth & margins (%)	2014	2015E	2016E	2017E
Revenue growth	2.7	7.1	5.5	5.7
Gross profit growth	4.4	7.5	5.3	5.5
EBIT growth	12.9	16.6	13.0	9.8
Net profit growth	14.5	19.2	13.6	10.3
EPS growth	14.5	19.2	13.6	10.3
Gross margin	67.0	67.3	67.1	67.0
EBIT margin	17.6	19.1	20.5	21.3
Net profit margin	12.9	14.4	15.4	16.1

Source: Coway, Mirae Asset Research estimates

### Cash flow

Year end Dec 31 (KRW bn)	2014	2015E	2016E	2017E
<b>Cash flow from operations</b>	<b>531</b>	<b>557</b>	<b>615</b>	<b>663</b>
Net profit	281	334	380	419
Depr. & amortization	207	223	235	244
Others	52	48	47	47
Change in working capital	(9)	(48)	(48)	(48)
<b>Cash flow from investing</b>	<b>(301)</b>	<b>(271)</b>	<b>(271)</b>	<b>(271)</b>
Capital expenditures	(300)	(270)	(270)	(270)
Others	(1)	(1)	(1)	(1)
<b>Cash flow from financing</b>	<b>(332)</b>	<b>(154)</b>	<b>(201)</b>	<b>(247)</b>
Dividends	(124)	(154)	(201)	(247)
Increase in equity	0	0	0	0
Increase in debt	(208)	0	0	0
Beginning cash*	245	143	274	416
Ending cash*	143	274	416	561

Source: Coway, Mirae Asset Research estimates

Note: \*Including short-term financial asset

### Balance sheet

Year end Dec 31 (KRW bn)	2014	2015E	2016E	2017E
<b>Current assets</b>	<b>558</b>	<b>718</b>	<b>885</b>	<b>1,057</b>
Cash & equivalents	109	117	123	130
Short-term financial asset	34	157	294	431
Accounts receivable	208	222	235	248
Inventory	57	61	64	68
Other current assets	151	161	170	180
<b>Non-current assets</b>	<b>1,069</b>	<b>1,117</b>	<b>1,152</b>	<b>1,177</b>
Net fixed assets	739	794	836	869
Investments	2	2	2	2
Other long-term assets	328	320	313	305
<b>Total assets</b>	<b>1,627</b>	<b>1,835</b>	<b>2,037</b>	<b>2,234</b>
<b>Current liabilities</b>	<b>358</b>	<b>384</b>	<b>405</b>	<b>428</b>
Accounts payable	38	40	43	45
Short-term debt	0	0	0	0
Other current liabilities	321	343	362	383
<b>Non-current liabilities</b>	<b>171</b>	<b>173</b>	<b>175</b>	<b>177</b>
Long-term debt	120	120	120	120
Other long-term liabilities	51	53	55	57
<b>Total liabilities</b>	<b>529</b>	<b>557</b>	<b>580</b>	<b>605</b>
Controlling Interests	1,098	1,278	1,457	1,629
Non-Controlling Interests	0	0	0	0
<b>Shareholder's equity</b>	<b>1,098</b>	<b>1,278</b>	<b>1,457</b>	<b>1,629</b>
BVPS(KRW)	14,234	16,570	18,894	21,126

Source: Coway, Mirae Asset Research estimates

### Ratio analysis

Year end Dec 31	2014	2015E	2016E	2017E
ROE (%)	27.5	28.2	27.8	27.2
ROA (%)	17.0	19.3	19.6	19.6
Inventory days	10.3	9.2	9.3	9.3
Receivables days	38.3	33.7	33.9	33.9
Payable days	19.4	6.1	6.2	6.1
Net debt/equity (%)	(2.1)	(12.0)	(20.3)	(27.1)
Interest cover (x)	133.5	232.9	(613.9)	(149.7)

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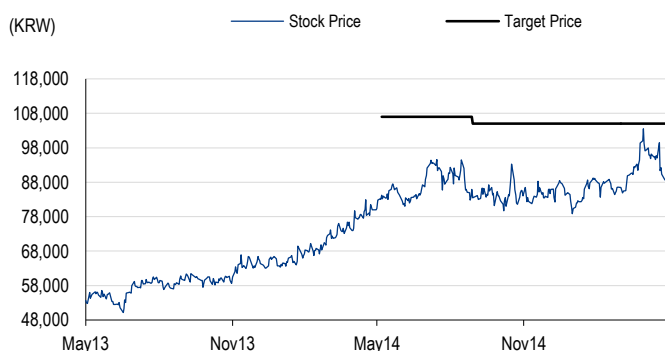
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Stock	Securities Held by the Analyst				Purchase Date	Holdings of share of over 1%	Participation in Issuance of Securities	Involvement with Affiliates	Treasury Stock Held
	Analyst	Type	Number of Shares	Purchase Price					

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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
2015-05-07	BUY	105,000

Source: Bloomberg, Mirae Asset Research

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