

Coway (021240.KS)

Company Comment | Jun 25, 2015

To post strong operating profit growth; dividend yield attractiveness to enhance

Despite the effects of the MERS virus outbreak, we expect Coway to post robust consensus-meeting 2Q15 results. Once the firm lays out a specific blueprint for launching its planned water purifier business in China, we believe that its long-term growth momentum will further bolster. We positively view the company's: 1) unique earnings structure (relatively free of economic cycle effects); and 2) dividend merit (2015E dividend yield: 3%).

To book strong 2Q15 operating profit growth on solid earnings at core domain

- Coway should post (non-consolidated) 2Q15 sales of W530.8bn (up 1.4% y-y) and operating profit of W109.0bn (up 11.7% y-y), with both figures meeting consensus.
- In detail, the firm's 2Q15 earnings should show a similar trend to that seen in its 1Q15 figures. Affected by likely sluggish sales at its ODM air purifier arm in China, the play's overall 2Q15 sales should remain flat q-q. However, thanks to observed strong sales growth at the health appliance division (the firm's core business), we forecast that Coway's overall 2Q15 operating profit will come in healthy.

2H15: Growth catalyst expectations in play

- The firm is planning to launch a water-purifier business (featuring its flagship 'Coway' brand) in China. We believe that Coway will present a detailed strategic blueprint for this new venture in 3Q15. Considering the strong potential of China's health-related appliance market, we anticipate that this new business will further spur the company's long-term growth momentum.
- Also, Coway is engaged in expanding the sales channels for its domestic business arm. The firm should have a fully-located presence in electronics chain player Hi-mart by end-2015 and have its products available in duty-free stores (DFSs) from July.
- Despite the currently slow sales at its ODM air purifier arm in China, we believe that earnings at Coway's overseas business operations will rebound in response to likely greater sales in the Chinese market thanks to the introduction of its flagship Coway water purifier brand.

Offers dividend merit (2015E dividend yield: 3%)

- We maintain a Buy rating and our target price of W110,000. Of note, Coway's shares are currently trading at a 2016F P/E of 19.5x, offering a discount versus the domestic consumer staples sector average (2016F P/E of 24.5x).
- Our upbeat outlook is based upon: 1) Coway's unique business model (sustainability subscriber-based rental business); 2) the firm's unique earnings structure (relatively free from economic cycle effects); and 3) anticipation towards an increased dividend payout going forward—we expect the company's dividend ratio to rise to 60% this year (2015E: dividend yield of 3%) and to 70% in 2016.

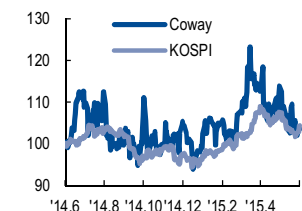
Buy (maintain)

TP W110,000 (maintain)
CP ('15/06/24) W89,500

Sector Other consumer goods

Kospi	2,085.53
Kosdaq	746.62
Market cap (common)	US\$6,219.8mn
Outstanding shares (common)	77.1mn
52W high ('15/04/07)	W103,500
low ('15/01/08)	W78,900
Average trading value (60D)	US\$13.5mn
Dividend yield (2014)	2.4%
Foreign ownership	54.4%

Price trend



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2Q15 preview

(Units: Wbn, %)

	2Q14	3Q14	4Q14	1Q15	2Q15E				3Q15F
					Estimate	y-y	q-q	Consen	
Sales	523	496	500	506	531	1.4	4.9	539	513
Operating profit	98	97	93	99	109	11.7	10.2	106	106
Operating margin	18.7	19.5	18.7	19.5	20.5			19.7	20.8
Pre-tax profit	87	88	67	98	108	24.2	9.5	104	125
Net profit	65	66	45	75	78	19.7	4.0	79	95

Note: K-IFRS non-consolidated basis

Source: FnGuide, NH I&S Research Center estimates

Earnings forecasts (IFRS non-consolidated)

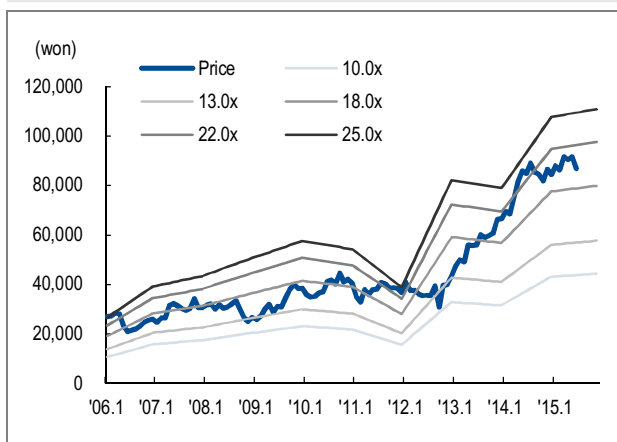
(Units: Wbn, won, x, %)

		2014	2015E	2016F	2017F
Sales	- Revised	2,013.6	2,065.4	2,090.1	2,172.5
	- Previous		2,065.4	2,090.1	2,172.5
	- Change		0.0	0.0	0.0
Operating profit	- Revised	377.5	425.6	442.5	470.6
	- Previous		425.6	432.0	453.2
	- Change		0.0	2.4	3.8
Operating margin	- Revised	18.7	20.6	21.2	21.7
EBITDA		577.0	588.6	613.0	642.0
Net profit (excl minority interests)		242.9	331.4	341.6	360.7
EPS	- Revised	3,150	4,298	4,429	4,677
	- Previous		4,303	4,342	4,526
	- Change		-0.1	2.0	3.3
P/E		26.7	20.8	20.2	19.1
P/B		6.1	5.8	5.3	4.9
EV/EBITDA		11.4	11.7	11.1	10.5
ROE		24.0	29.4	27.4	26.7

Note: Operating profit = sales - (COGS + SG&A expenses)

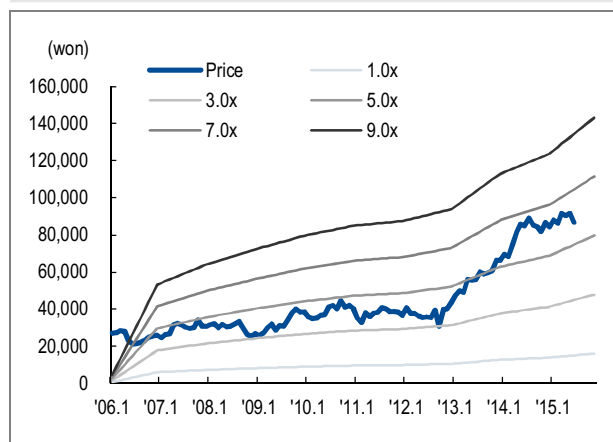
Source: NH I&S Research Center estimates

Forward P/E band



Source: Dataguide Pro

Trailing P/B band



Source: Dataguide Pro

Quarterly earnings forecasts

(Units: Wbn, %)

	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15E	3Q15F	4Q15F	2013	2014	2015E	2016F
Sales	495	523	496	500	506	531	513	516	1,934	2,014	2,065	2,090
Growth (y-y)	6.4	5.3	1.4	3.6	2.3	1.4	3.4	3.2	7.0	4.1	2.6	1.2
Gross profit	326	343	334	338	347	355	344	346	1,282	1,340	1,392	1,404
Gross margin	65.8	65.5	67.2	67.7	68.5	66.9	67.2	67.0	66.3	66.6	67.4	67.2
Operating profit	90	98	97	93	99	109	106	111	333	377	426	442
Growth (y-y)	29.7	23.0	-0.1	6.4	10.2	11.7	9.8	19.3	236.9	13.3	12.7	4.0
Operating margin	18.1	18.7	19.5	18.7	19.5	20.5	20.8	21.6	17.2	18.7	20.6	21.2

Source: Coway, NH I&S Research Center estimates

STATEMENT OF COMPREHENSIVE INCOME

(Wbn)	2014/12A	2015/12E	2016/12F	2017/12F
Sales	2,014	2,065	2,090	2,172
Growth (%)	4.1	2.6	1.2	3.9
COGS	673	673	686	709
Gross Profit	1,340	1,392	1,404	1,463
Gross margin (%)	66.6	67.4	67.2	67.4
SG&A	963	967	961	993
Operating Income	377	426	442.5	471
Growth (%)	13.3	12.7	4.0	6.4
Operating margin (%)	18.7	20.6	21.2	21.7
EBITDA	577	589	613	642
Non-Operating Profit	-48	25	22	20
Financial Income(Costs)	-9	15	14	14
Other Non-Operating Profit	-9	0	0	0
Gains(Losses) in Associates, Subsidiaries and JVs	-31	10	8	6
Pre-tax Profit from Cont. Op.	330	451	465	491
Income Taxes	87	120	123	130
Profit from Continuing Op.	243	331	342	361
Net Profit	243	331	342	361
Growth (%)	-4.1	36.4	3.1	5.6
Net margin (%)	12.1	16.0	16.3	16.6
Net Profit of Parent	243	331	342	361
Net Profit to Non-Controlling	0	0	0	0
Other Comprehensive Income	-8	0	0	0
Total Comprehensive Income	235	331	342	361

VALUATION INDEX

	2014/12A	2015/12E	2016/12F	2017/12F
Price/Earnings (x)	26.7	20.8	20.2	19.1
P/E (High, x)	30.1	24.7	23.9	22.7
P/E (Low, x)	19.9	17.5	16.9	16.0
Price/ Book Value (x)	6.1	5.8	5.3	4.9
P/B (High, x)	6.9	6.8	6.3	5.8
P/B (Low, x)	4.6	4.8	4.5	4.1
Price/ Gross Cash Flow (x)	10.0	11.2	10.8	10.4
Price/ Sales (x)	3.2	3.3	3.3	3.2
P/E / EPS growth (x)	1.9	3.7	3.1	-68.0
P/E / EBITPS growth (x)	3.5	3.2	2.9	-124.2
P/E / EBITDAPS growth (x)	7.4	3.7	3.3	15.2
EV/ EBITDA (x)	11.4	11.7	11.1	10.5
EV/ EBIT (x)	17.4	16.2	15.4	14.3
Enterprise Value (Wbn)	6,551	6,881	6,802	6,725
EPS CAGR (3-Yr) (%)	14.1	5.6	6.4	-0.3
EBITPS CAGR (3-Yr) (%)	7.6	6.5	7.0	-0.2
EBITDAPS CAGR (3-Yr) (%)	3.6	5.6	6.1	1.3
EBITPS (won)	4,895	5,518	5,737	6,102
EBITDAPS (won)	7,482	7,632	7,948	8,324
Fully diluted EPS (won)	3,150	4,298	4,429	4,677
BVPS (won)	13,732	15,480	16,838	18,136
CFPS (won)	8,462	8,021	8,285	8,622
Sales PS (won)	26,109	26,780	27,100	28,168
DPS (won)	2,000	2,647	3,189	3,508

CASH FLOW STATEMENT

(Wbn)	2014/12A	2015/12E	2016/12F	2017/12F
Operating Cash Flow	498	452	478	491
Net Profit	243	331	342	361
Depreciation & Amortization	200	163	171	171
+ Loss(Gains) from Subs	31	0	0	0
+ FC translation loss(profit)	-4	0	0	0
+ Losses(Gains) on Disposal of Assets	40	0	0	0
Gross Cash Flow	653	619	639	665
- Incr. (Decr.) in WC	-57	-47	-38	-44
Investing Cash Flow	-269	-220	-195	-170
+ Decr. In Tangible Assets	8	0	0	0
- Incr. In Tangible Assets (capex)	-276	-178	-196	-172
+ Disp.(Acq.) of Inv. Assets	31	-2	-2	-2
Free Cash Flow	223	274	282	319
Net Cash Flow	230	232	283	321
Financing Cash Flow	-325	-147	-197	-237
Equity Financing	0	0	0	0
Debt Financing	-325	-147	-197	-237
Incr.(Decr.) in Cash	-96	85	86	84
Ending Cash and Cash Equivalents	106	191	277	361
Net Debt (Cash)	57	-21	-101	-177

RIM & EVA

	2014/12A	2015/12E	2016/12F	2017/12F
RIM				
Spread (FROE-COE) (%)	16.4	23.2	20.8	20.1
Residual Income	166.5	261.6	264.3	277.1
12M RIM Target Price (won)	108,008			
EVA				
Invested Capital	1,018.6	1,075.8	1,100.8	1,123.9
NOPAT	280.9	313.6	326.0	346.7
ROIC (%)	28.5	29.9	30.0	31.2
ROIC - WACC (%)	22.3	24.8	24.5	25.6
EVA	227.6	266.4	269.3	287.8
DCF				
EBIT	377.5	425.6	442.5	470.6
+ Depreciation/Amortization	200	163	171	171
- Capex	-275.7	-178.4	-196.4	-172.4
- Incr. (Decr.) in Working Capital	-31.1	-0.3	0.9	-22.0
Free Cash Flow for Firm	233.1	297.8	298.5	366.8
WACC				
Cost of Debt (Tax Adj.)	3.3	2.9	2.9	2.9
Cost of Equity (COE)	7.5	6.2	6.6	6.7
WACC (%)	6.2	5.2	5.5	5.6

STATEMENT OF FINANCIAL POSITION

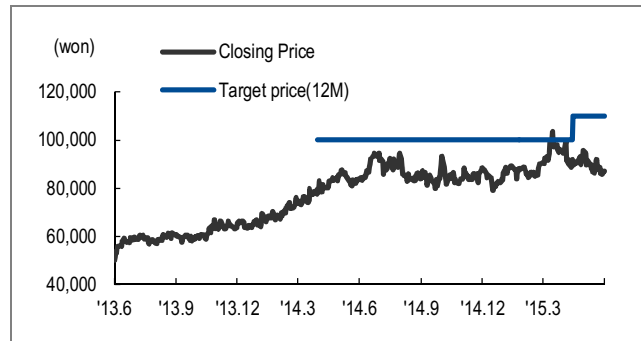
(Wbn)	2014/12A	2015/12E	2016/12F	2017/12F
Cash and Cash Equivalents	106	191	277	361
Accounts Receivables	274	277	280	291
Total Current Assets	573	674	775	883
Tangible Assets	618	636	665	669
Investment Assets	123	125	128	130
Non-Current Assets	1,003	1,062	1,090	1,093
Assets	1,576	1,736	1,865	1,976
Short-Term Debt	163	170	177	184
Account Payables	47	49	51	52
Current Liabilities	468	490	513	522
Long-Term Debt	8	9	9	9
Long-Term Allowance	14	15	16	16
Non-Current Liabilities	49	52	54	55
Liabilities	517	542	566	578
Capital Stock	41	41	41	41
Capital Surplus	131	131	131	131
Retained Earnings	1,002	1,137	1,241	1,342
Non-Controlling Interests Equity	0	0	0	0
Shareholders' Equity	1,059	1,194	1,299	1,399

PROFITABILITY & STABILITY

	2014/12A	2015/12E	2016/12F	2017/12F
ROE (%)	24.0	29.4	27.4	26.7
ROA (%)	15.1	20.0	19.0	18.8
ROIC (%)	28.5	29.9	30.0	31.2
EBITDA/equity (%)	54.5	49.3	47.2	45.9
EBITDA/assets (%)	36.6	33.9	32.9	32.5
Dividend Yield (%)	2.4	3.0	3.6	3.9
Payout Ratio (%)	61.1	59.3	69.3	72.2
Total Cash Dividend (Wbn)	148	197	237	261
Cash DPS (won)	2,000	2,647	3,189	3,508
Net debt(cash)/ equity (%)	5.4	-1.8	-7.8	-12.7
Debt/ equity (%)	48.8	45.4	43.6	41.3
Net interest exp/ sales (%)	171	179	186	193
Interest coverage (x)	0.5	0.3	0.3	0.3
Current Ratio (%)	34.8	64.0	63.9	65.3
Quick Ratio (%)	122.5	137.5	151.1	169.1
Total shares (mn)	77	77	77	77
Par value (won)	500	500	500	500
Share price (won)	84,200	89,500	89,500	89,500
Market Cap (Wbn)	6,494	6,903	6,903	6,903

Rating and target price update

Company	Code	Date	Rating	Target price
Coway	021240.KS	2015.05.07	Buy	W110,000(12M)
		2014.04.22	Buy	W100,000(12M)



NH Investment & Securities stock ratings

1. Rating based on a stock's forecasted absolute return over a period of 12 months from the date of publication.

- Buy: Greater than +15%
- Hold: -15% to +15%
- Sell: Less than -15%

2. Regarding listed companies under NH I&S' coverage, our stock ratings break down as follows (as of Jun 19, 2015).

• NH I&S' stock rating distribution

Buy	Hold	Sell
71.0%	27.4%	1.6%

- The stock rating on an individual company can change at irregular intervals. Our stock rating distribution is calculated on a weekly basis.

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- This report correctly reflects the analyst's opinion and was written without any external influence or intervention.

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