

Company Update



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■ AT A GLANCE

SELL | HOLD | **BUY**

Target price	KRW120,000(29.0%)
Current price	KRW93,000
Bloomberg code	021240 KS
Market cap	KRW7.2t/USD6.3b
Shares (float)	77,124,796 (96.3%)
52-week high/low	KRW103,500/KRW78,900
Average daily trading value (60-day)	KRW 14.70b/ USD 13.01m
One-year performance	1M 6M 12M
Coway (%)	+2.0 +15.7 +1.0
Vs Kospi (%pts)	+3.0 +10.1 -0.4

■ KEY CHANGES

(KRW)	New	Old	Diff (%)
Recommendation	BUY	BUY	
Target price	120,000	120,000	0.0
2014E EPS	4,088	3,932	4.0
2015E EPS	4,450	4,205	5.8
2016E EPS	4,814	4,709	2.2

■ SAMSUNG vs THE STREET

No of I/B/E/S estimates	10
Target price vs I/B/E/S mean	1.8%
Estimates up/down (4 weeks)	1/0
1-year-fwd EPS vs I/B/E/S mean	8.2%
Estimates up/down (4 weeks)	0/0
I/B/E/S recommendation	Buy

Coway (021240)

A safe bet amid rising uncertainty

WHAT'S THE STORY?

Event: We believe 2Q sales and operating profit at Coway rose 5% and 12% y-y, respectively, to KRW582.3b and KRW108.7b for a margin of 18.7% (up 1.3%pts y-y), meeting consensus.

Impact: Despite concerns over a likely rise in competition, we believe Coway's core domestic rental business saw sales grow 8% y-y, showcasing its market dominance. Accordingly, profitability likely hit a post-2010 high for a second consecutive quarter. Still, the firm's overseas business has been weak since 3Q14, as likely put in another poor performance in 2Q—suggesting it is premature to expect shares to rerate. That said, amid growing macroeconomic uncertainty, Coway should draw more attention, as its domestic rental business (largely immune to external factors) has been growing steadily.

Action: As the overseas ODM business has yet to recover, we shave our 2015 sales estimate. However, we raise our 2015 operating profit and EPS forecasts by 3% and 4%, respectively, as profitability has been improving thanks to growth at its green home-appliance rental business centering on high-value-added products. Despite raising our earnings forecasts, our DCF-based target price remains unchanged at KRW120,000 (equivalent to 27x 2016 P/E), as a recent rise in beta has boosted the WACC. Given concerns over rising competition in Korea's green home-appliance rental market, we believe the struggling overseas business needs to reveal its growth potential if shares are going to break out of the narrow range in which they have traded since 2H14. That said, we maintain BUY on the stock from a longer-term perspective as: 1) rental sales growth has remained steady—despite constant fears of competition heating up—keeping anticipation of improving cash flows intact; and 2) the firm is still striving to improve overseas sales.

THE QUICK VIEW

Stable growth draws attention amid increasing uncertainty: We believe 2Q sales and operating profit at Coway rose 5% and 12% y-y, respectively, to KRW582.3b and KRW108.7b for a margin of 18.7% (up 1.3%pts y-y), meeting market expectations. Earnings momentum likely improved slightly q-q, but earnings quality remained similar q-q. Domestic rental sales likely rose 8% y-y, beating our aggressive forecast. Though the market remains worried that competition will heat up, Coway's rental accounts have been growing quickly thanks to improving door-to-door marketing, and sales gains have centered on high-value-added products, boosting ARPU. These have enabled both qualitative and quantitative growth. Still, overseas sales (exports) likely fell 25% y-y in 2Q (following a 27% y-y decline in 1Q), as Chinese sales likely remained weak amid stronger competition in China's air purifier market.

Two investment points in 2H: We see two investment points for Coway in 2H. First, the firm could rerate if it could boost overseas sales. The firm is seeking to bring new life to its lackluster ODM business by market diversification (based on existing ODM partnerships) developing new business opportunities (based on new ODM partnerships). Second, investment sentiment has been hit by: 1) concerns over competition; and 2) anticipation of a change in major shareholders, which prompted investors to re-evaluate the firm's free cash flow growth. It should improve, however, if Coway's rental sales growth remains solid. Notably, sales through Himart and home shopping channels are set to improve in 2H.

■ SUMMARY FINANCIAL DATA

	2013	2014E	2015E	2016E
Revenue (KRWb)	2,160	2,294	2,449	2,574
Net profit (adj) (KRWb)	250	314	345	373
EPS (adj) (KRW)	3,223	4,088	4,450	4,814
EPS (adj) growth (%)	0.0	26.8	8.8	8.2
EBITDA margin (%)	26.8	28.8	29.3	29.9
ROE (%)	25.2	27.7	26.3	25.3
P/E (adj) (x)	29.7	23.4	21.5	19.9
P/B (x)	7.4	6.2	5.5	4.9
EV/EBITDA (x)	12.6	11.1	10.1	9.3
Dividend yield (%)	1.7	2.6	2.8	3.2

Source: Company data, Samsung Securities estimates

Coway

Results and forecasts, by segment

	1Q14	2Q14	3Q14	4Q14	1Q15E	2Q15E	3Q15E	4Q1E	2014	2015E	2016E	2017E
Sales												
(KRWb)												
Household electronics	413.8	429.9	431.3	432.4	439.3	463.6	463.1	458.3	1,707.4	1,824.3	1,933.8	2,016.2
Outright sales	27.6	37.4	31.8	26.7	30.0	41.1	36.5	32.0	123.5	139.7	151.7	152.7
Rental	342.4	346.7	352.7	358.8	363.3	374.5	377.4	377.0	1,400.6	1,492.1	1,589.6	1,670.9
Membership	43.9	45.7	46.9	46.9	46.0	48.0	49.2	49.3	183.4	192.5	192.5	192.5
Exports	45.2	55.7	33.0	33.5	33.0	41.8	41.3	51.3	167.4	167.4	184.2	202.6
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	14.9	58.4	55.5	55.5	55.5
Consolidated other	40.2	33.6	29.5	43.4	42.1	37.0	35.3	43.4	146.7	157.9	178.6	197.4
Chg (% y-y)												
Household electronics	1.7	1.7	4.3	4.9	6.2	7.9	7.4	6.0	3.2	6.8	6.0	4.3
Outright sales	(24.7)	(21.8)	(10.4)	(9.1)	8.8	10.0	15.0	19.9	(17.3)	13.1	8.6	0.7
Rental	4.6	4.5	5.3	5.8	6.1	8.0	7.0	5.1	5.0	6.5	6.5	5.1
Membership	2.6	7.0	8.6	7.4	4.9	5.0	5.0	5.1	6.4	5.0	0.0	0.0
Exports	43.6	25.1	(13.0)	9.3	(27.0)	(25.0)	25.0	53.4	15.8	0.0	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	9.3	1.1	(5.0)	0.0	0.0
Consolidated other	(4.7)	(43.5)	(28.7)	4.3	4.7	10.0	20.0	0.1	(20.6)	7.6	13.1	10.5
Portion of total sales (%)												
Household electronics	77.4	77.2	82.1	79.7	80.1	79.6	80.8	77.7	79.0	79.5	79.0	78.3
Outright sales	5.2	6.7	6.0	4.9	5.5	7.1	6.4	5.4	5.7	6.1	6.2	5.9
Rental	64.0	62.3	67.1	66.1	66.3	64.3	65.8	63.9	64.8	65.1	64.9	64.9
Membership	8.2	8.2	8.9	8.6	8.4	8.2	8.6	8.4	8.5	8.4	7.9	7.5
Exports	8.5	10.0	6.3	6.2	6.0	7.2	7.2	8.7	7.7	7.3	7.5	7.9
Cosmetics	3.9	4.0	3.3	3.7	4.2	4.2	3.3	3.7	3.7	3.9	4.0	4.0
Other (water treatment)	2.8	2.8	2.8	2.5	1.9	2.6	2.5	2.5	2.7	2.4	2.3	2.2
Consolidated other	7.5	6.0	5.6	8.0	7.7	6.4	6.2	7.4	6.8	6.9	7.3	7.7
Sales, by product												
(KRWb)												
Water purifiers	231.6	235.6	239.7	242.2	243.5	247.5	253.9	260.2	949.2	1,005.1	1,067.8	1,110.7
Bidets	68.5	69.0	69.1	70.3	71.1	71.3	71.7	72.2	276.9	286.4	296.9	308.5
Air purifiers	63.6	64.3	63.8	65.5	66.7	69.8	70.1	72.5	257.3	279.1	292.4	306.4
Water softeners	21.4	20.9	20.5	20.3	20.0	20.3	19.9	20.4	83.1	80.7	78.3	76.0
Mattresses	11.1	13.1	15.3	16.7	17.8	17.5	19.2	18.5	56.3	73.0	89.1	105.2
Other (FWTS, outsourcing, etc)	17.6	26.9	22.8	17.4	20.1	37.2	28.3	14.5	84.7	100.1	109.3	109.3
Chg (% y-y)												
Water purifiers	2.5	1.9	4.6	4.6	5.1	5.1	5.9	7.4	3.4	5.9	6.2	4.0
Bidets	2.7	3.2	3.8	3.8	3.8	3.4	3.8	2.8	3.4	3.4	3.7	3.9
Air purifiers	4.8	7.7	7.3	7.0	5.0	8.5	9.8	10.6	6.7	8.5	4.8	4.8
Water softeners	(10.2)	(8.0)	(6.4)	(6.9)	(6.3)	(2.9)	(2.9)	0.6	(7.9)	(2.9)	(2.9)	(2.9)
Mattresses	38.1	46.0	59.1	55.4	60.1	33.0	25.4	10.5	50.4	29.6	22.0	18.1
Other (FWTS, outsourcing, etc)	(18.1)	(18.6)	(14.9)	(8.6)	13.7	38.4	24.4	(16.8)	(15.6)	18.2	9.2	0.0
Portion of total sales (%)												
Water purifiers	43.3	42.3	45.6	44.6	44.4	42.5	44.3	44.1	43.9	43.8	43.6	43.2
Bidets	12.8	12.4	13.2	12.9	13.0	12.3	12.5	12.2	12.8	12.5	12.1	12.0
Air purifiers	11.9	11.6	12.1	12.1	12.2	12.0	12.2	12.3	11.9	12.2	11.9	11.9
Water softeners	4.0	3.8	3.9	3.7	3.7	3.5	3.5	3.5	3.8	3.5	3.2	3.0
Mattresses	2.1	2.4	2.9	3.1	3.3	3.0	3.3	3.1	2.6	3.2	3.6	4.1
Other (FWTS, outsourcing, etc)	3.3	4.8	4.3	3.2	3.7	6.4	4.9	2.5	3.9	4.4	4.5	4.2

Source: Company data, Samsung Securities estimates

Coway

Full-year forecast revisions

(KRWb)	2014	New		Old		Chg (%)	
		2015E	2016E	2015E	2016E	2015E	2016E
Sales	2,160	2,294	2,449	2,303	2,454	(0.4)	(0.2)
Operating profit	364	428	470	413	447	3.4	5.1
Pre-tax profit	332	419	459	403	434	4.0	5.8
Net profit	250	314	345	302	326	4.0	5.8
EBITDA	578	659	717	645	694	2.2	3.3
EPS (KRW)	3,223	4,088	4,450	3,932	4,205	4.0	

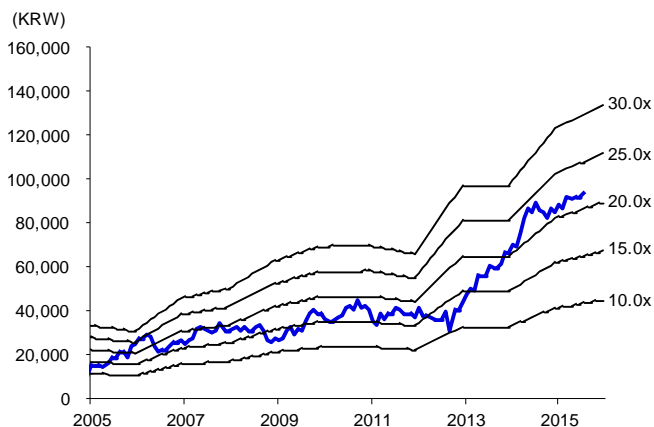
Source: Company data, Samsung Securities estimates

DCF valuation

(KRWb)	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
FCF	138.5	215.2	244.6	277.2	329.4	387.5	409.5	432.5	456.7	482.2	508.9	536.9
NOPLAT	256	316	345	372	405	439	461	484	508	534	561	589
Chg (% y-y)	0.1	23.2	9.2	7.8	8.8	8.5	5.0	5.0	5.0	5.0	5.0	5.0
EBIT	341	421	460	496	540	586	615	646	678	712	747	785
Chg (% y-y)	(0.1)	23.4	9.2	7.8	8.8	8.5	5.0	5.0	5.0	5.0	5.0	5.0
Taxes on EBIT	85	105	115	124	135	146	154	161	169	178	187	196
Tax rate (%)	24.9	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0
Depreciation and amortization	213.6	231.8	247.0	262.5	282.6	306.6	306.6	306.6	306.6	306.6	306.6	306.6
Capex	302	318	331	344	344	344	344	344	344	344	344	344
Net working capital change	29	14	17	13	14	14	14	14	14	14	14	14
PV of FCF		210	226	242	272	303	303	303	302	302	301	301
Terminal value	10,354											
Sum of PV	3,019											
PV of TV	5,802											
Total enterprise value	8,821											
Value of debt	(99)											
Value of equity	8,997											
Equity value/share (KRW)	116,661											
Current price (KRW)	93,000											
Potential (%)	25.4											
										FCF (terminal year)		536.9
										WACC (%)		5.7
										Growth (%)		0.5

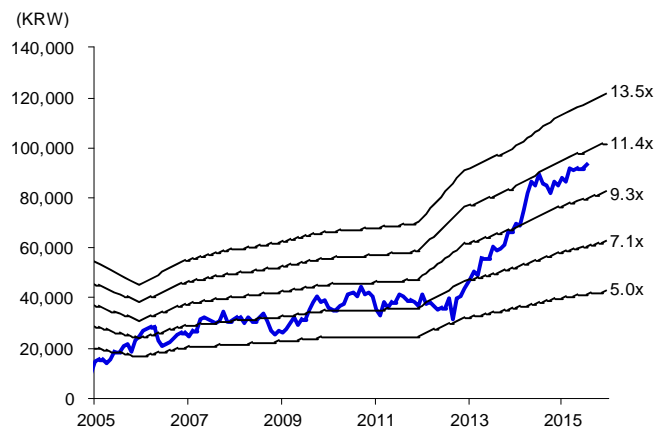
Source: Samsung Securities estimates

Forward P/E band



Source: Company data, Samsung Securities estimates

Forward EV/EBITDA band



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)	43.9	11.2	22.5	18.5	446
2013	2,118	339	327	245	3,222	47.5	29.7	8.5	28.4	13.6	83
2014	2,160	364	332	250	3,223	0.0	29.7	7.4	25.2	12.6	12
2015E	2,294	428	419	314	4,088	26.8	23.4	6.2	27.7	11.1	(99)
2016E	2,449	470	459	345	4,450	8.8	21.5	5.5	26.3	10.1	(179)
2017E	2,574	506	497	373	4,814	8.2	19.9	4.9	25.3	9.3	(279)

Source: Company data, Samsung Securities estimates

Income statement

Year-end Dec 31 (KRWb)	2013	2014	2015E	2016E	2017E
Sales	2,118	2,160	2,294	2,449	2,574
Household electronics	1,655	1,707	1,824	1,934	2,016
Exports	145	167	167	184	203
Cosmetics	76	80	88	97	102
Others	58	58	55	55	55
Consolidated others	185	147	158	179	197
Cost of goods sold	721	727	737	792	837
Gross profit	1,397	1,434	1,557	1,657	1,736
Gross margin (%)	66.0	66.4	67.9	67.7	67.5
SG&A expenses	1,058	1,069	1,129	1,187	1,230
Operating profit	339	364	428	470	506
Operating margin (%)	16.0	16.9	18.6	19.2	19.7
Net interest income	(14)	(9)	(2)	(1)	1
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	419	459	497
Taxes	82	83	105	115	124
Effective tax rate (%)	25.1	24.9	25.0	25.0	25.0
Net profit	245	250	314	345	373
Net margin (%)	11.6	11.6	13.7	14.1	14.5
Operating net profit*	245	250	314	345	373
Operating net margin (%)	248	249	315	343	371
EBITDA	537	578	659	717	768
EBITDA margin (%)	25.4	26.8	28.8	29.3	29.9
Reported EPS (KRW)	3,178	3,237	4,075	4,468	4,832
Adjusted EPS (KRW)**	3,222	3,223	4,088	4,450	4,814
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	59.0	58.1	60.7

Cash flow statement

Year-end Dec 31 (KRWb)	2013	2014	2015E	2016E	2017E
Cash flow from operations	537	537	552	596	644
Net profit	245	250	314	345	373
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	566	613	657
(-) Change in working capital	9	47	(14)	(17)	(13)
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	215	245	277
Change in investment assets	(1)	0	0	0	0
Other	183	(3)	0	0	0
Cash flow from financing	(373)	(328)	(134)	(205)	(210)
Change in debt	(260)	(163)	(11)	(20)	(10)
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: Coway, Samsung Securities estimates

Balance sheet

Year-end Dec 31 (KRWb)	2013	2014	2015E	2016E	2017E
Current assets	691	597	716	798	905
Cash & equivalents	245	154	254	314	404
Accounts receivable	250	229	243	260	273
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	1,805	1,949	2,115
Current liabilities	677	526	519	503	496
Accounts payable	37	59	63	67	70
Short-term debt	182	164	153	133	124
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	575	559	553
Controlling interests' equity	941	1,039	1,230	1,389	1,561
Capital stock	41	41	41	41	41
Capital surplus	126	126	126	126	126
Retained earnings	868	986	1,177	1,336	1,509
Other	(94)	(114)	(114)	(114)	(114)
Non-controlling interests' equity	0	1	1	1	1
Total equity	941	1,039	1,230	1,390	1,562
Net debt	83	12	(99)	(179)	(279)
Book value per share (KRW)	11,242	12,934	15,411	17,475	19,710

Financial ratios

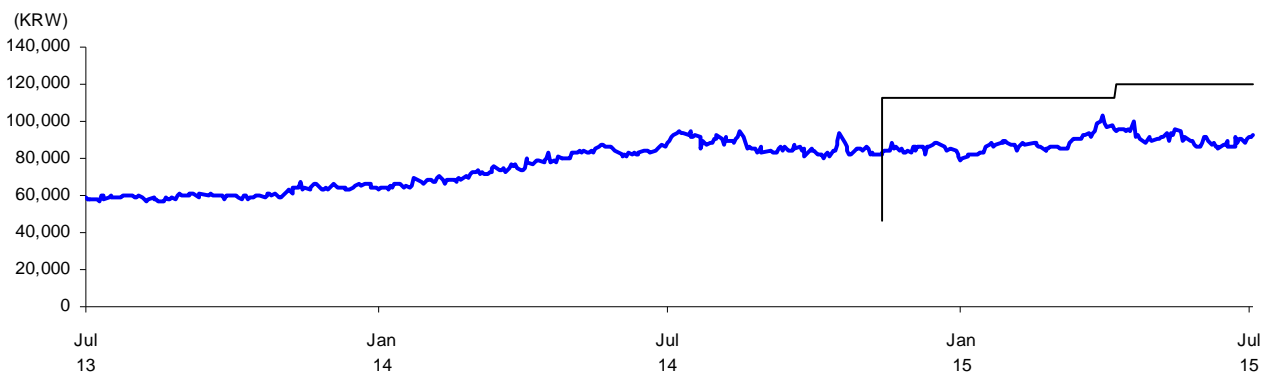
Year-end Dec 31	2013	2014	2015E	2016E	2017E
Growth (%)					
Sales	6.3	2.0	6.2	6.8	5.1
Operating profit	49.9	7.5	17.4	9.9	7.7
Pre-tax profit	124.4	1.6	26.0	9.7	8.2
Net profit	160.6	1.9	25.9	9.7	8.2
EBITDA	31.1	7.6	14.1	8.7	7.2
Adjusted EPS**	169.1	0.0	26.8	8.8	8.2
Ratios					
ROE (%)	28.4	25.2	27.7	26.3	25.3
ROA (%)	14.3	15.2	18.3	18.4	18.3
ROIC (%)	23.2	22.8	29.4	29.9	30.2
Net debt to equity (%)	8.8	1.1	(8.1)	(12.9)	(17.9)
Interest coverage (x)	18.3	29.6	87.8	106.2	127.8
Receivables turnover (days)	44.1	40.4	37.6	37.5	37.8
Payables turnover (days)	7.1	8.1	9.7	9.7	9.7
Inventory turnover (days)	11.8	10.8	10.2	10.1	10.2
Valuations (x)					
P/E	29.7	29.7	23.4	21.5	19.9
P/B	8.5	7.4	6.2	5.5	4.9
EV/EBITDA	13.6	12.6	11.1	10.1	9.3
EV/EBIT	21.3	21.4	17.3	15.7	14.3
Dividend yield (common, %)	1.7	1.7	2.6	2.8	3.2

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
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General

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