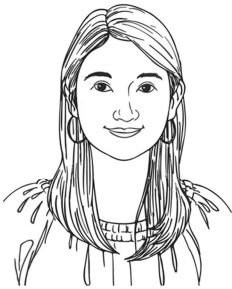


Company Update



Eunkyung Park
Analyst
eunkyung44.park@samsung.com
02-2020-7850

Youngho Kim
Research Associate
youngho52.kim@samsung.com
02-2020-7853

Coway (021240)

Stability of core operations stands out

- * Coway said yesterday its 2Q operating profit grew 14% y-y to a record KRW110.5b, in line with our expectation, while sales fell 0.3% y-y to KRW555.3b, missing by 5%.
- * We believe operating profit will continue growing at a double-digit rate.
- * We reiterate BUY on Coway with a KRW120,000 target price.

WHAT'S THE STORY

2Q review: Coway said yesterday that 2Q sales fell 0.3% y-y to KRW555.3b, missing our forecast by 5%, while operating profit rose 14% y-y to an in-line KRW110.5b, with margin up 2.5%pts y-y to 19.9%. Domestic rental service sales rose 6% y-y—easing concerns over stiffening competition—as accounts increased by 6% y-y on improving D2D marketing (mattress rentals surged 43% y-y). Outright sales rose 11% y-y on product diversification, but overseas sales fell 30% y-y as competition increased and growth slowed in China's air purifier market. Cosmetics and water treatment sales also fell a respective 5% and 39% y-y. That said, Coway set records for operating profit and margin on robust core rental-service and outright sales—businesses in which sales declined contribute minimal profits.

Stability the biggest asset: Despite concerns over competition, domestic rental service sales continue to grow steadily—and remain highly profitable. While we trim our 2015 and 2016 sales forecasts for non-core overseas, cosmetics, and water treatment sales by 2%, we maintain our estimates for rental services and outright sales. Reflecting this, we raise our operating profit forecasts by 1% and 3%, respectively. Our 12-month target price remains at KRW120,000 (based on a DCF valuation and equivalent to 30x 2015 P/E), and we reiterate BUY on Coway, expecting top-line growth to remain solid on the back of strong rental-service and outright sales, ARPU gains following a 2H launch of premium green home-appliance rentals, and expansion into duty-free and Himart distribution. Amid growing macroeconomic uncertainty, Coway should draw attention for the steady growth of its domestic rental business, which is largely immune to external factors.

Market wants growth: All of the businesses Coway has entered since the 2000s in the pursuit of growth have been struggling, and there are increasing calls for the company to do something to boost enterprise value. The market is eyeing moves to boost overseas sales—Coway is looking to diversify by working with existing ODM partners and adding new ones, and is searching for a partner to help it distribute water purifiers in China.

AT A GLANCE

SELL HOLD BUY

Target price **KRW120,000** (21.7%)

Current price **KRW 98,600**

Market cap	KRW 7.6t / USD 6.5b
Shares (float)	77,124,796 (65.3%)
52-week high/low	KRW 103,500/78,900
Average daily trading value (60-day)	KRW13.5b / USD11.6m

ONE-YEAR PERFORMANCE

	1M	6M	12M
Coway (%)	+8.6	+11.0	+11.4
Vs Kospi (%pts)	+12.7	+7.5	+14.3

KEY CHANGES

(KRW)	New	Old	Diff
Recommendation	BUY	BUY	
Target price	120,000	120,000	0.0%
2015E EPS	4,007	3,932	1.9
2016E EPS	4,425	4,205	5.2

SAMSUNG vs THE STREET

No of estimates	11
Target price	118,091
Recommendation	4.0

BUY★★★: 5 / BUY: 4 / HOLD: 3 / SELL: 2 / SELL★★★: 1

SUMMARY OF 2Q RESULTS

(KRWb)	2Q15	Chg		Diff (%)	
		(% y-y)	(% q-q)	Samsung	Consensus
Sales	555.3	(0.3)	1.3	(4.6)	(5.9)
Operating profit	110.5	13.7	10.1	1.6	2.4
Pre-tax profit	108.9	25.9	7.8	3.2	2.8
Net profit	82.7	24.8	6.6	5.3	3.8
Margins (%)					
Operating profit	19.9				
Pre-tax profit	19.6				
Net profit	14.9				

Source: Company data, Samsung Securities estimates

VALUATION SUMMARY

	2014	2015E	2016E
Multiples (x)			
P/E	30.6	24.6	22.3
P/B	7.6	6.4	5.7
EV/EBITDA	13.0	11.6	10.5
Div yield (%)	1.7	2.5	2.7
EPS growth (% y-y)	0.0	24.3	10.4
ROE (%)	25.2	27.3	26.2
Per-share data (KRW)			
EPS	3,223	4,007	4,425
BVPS	12,934	15,343	17,363
DPS	1,661	2,500	2,700

Results and forecasts, by segments

	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15E	4Q1E	2014	2015E	2016E	2017E
Earnings summary												
(KRWb)												
Sales	535.0	556.9	525.5	542.9	548.2	555.3	576.3	582.7	2,160.3	2,262.6	2,416.4	2,538.7
Gross profit	352.7	369.0	357.3	354.7	373.0	384.7	397.7	386.9	1,433.7	1,542.3	1,642.3	1,720.4
Operating profit	90.3	97.2	95.3	81.7	100.3	110.5	107.4	99.0	364.4	417.2	458.6	493.8
Pre-tax profit	88.4	86.5	85.9	71.5	101.1	108.9	105.2	96.8	332.4	412.0	455.0	491.7
Net profit	66.1	66.3	63.9	53.4	77.6	82.7	77.6	71.1	249.7	309.0	341.2	368.7
Margins (%)												
Gross profit	65.9	66.3	68.0	65.3	68.0	69.3	69.0	66.4	66.4	68.2	68.0	67.8
Operating profit	16.9	17.4	18.1	15.1	18.3	19.9	18.6	17.0	16.9	18.4	19.0	19.5
Pre-tax profit	16.5	15.5	16.4	13.2	18.4	19.6	18.3	16.6	15.4	18.2	18.8	19.4
Net profit	12.4	11.9	12.2	9.8	14.1	14.9	13.5	12.2	11.6	13.7	14.1	14.5
Chg (% y-y)												
Sales	5.4	0.1	(0.9)	3.6	2.5	(0.3)	9.7	7.3	2.0	4.7	6.8	5.1
Gross profit	3.8	1.5	3.2	2.1	5.8	4.3	11.3	9.1	2.6	7.6	6.5	4.8
Operating profit	29.5	18.6	(1.0)	(10.3)	11.1	13.7	12.7	21.2	7.5	14.5	9.9	7.7
Pre-tax profit	17.5	6.8	6.9	(20.9)	14.3	25.9	22.4	35.3	1.6	23.9	10.4	8.1
Net profit	15.2	11.0	6.4	(21.4)	17.4	24.8	21.4	33.3	1.9	23.8	10.4	8.1
Chg (% q-q)												
Sales	2.1	4.1	(5.6)	3.3	1.0	1.3	3.8	1.1				
Gross profit	1.5	4.6	(3.2)	(0.7)	5.2	3.1	3.4	(2.7)				
Operating profit	(0.9)	7.6	(1.9)	(14.3)	22.8	10.1	(2.8)	(7.8)				
Pre-tax profit	(2.2)	(2.2)	(0.6)	(16.8)	41.3	7.8	(3.4)	(8.0)				
Net profit	(2.7)	0.3	(3.5)	(16.6)	45.4	6.6	(6.2)	(8.3)				
Sales												
Household electronics	413.8	429.9	431.3	432.4	439.3	457.9	461.3	465.7	1,707.4	1,824.3	1,933.8	2,016.2
Outright sales	27.6	37.4	31.8	26.7	30.0	41.4	36.5	31.8	123.5	139.7	151.7	152.7
Rental	342.4	346.7	352.7	358.8	363.3	371.2	375.6	383.9	1,400.6	1,493.9	1,591.4	1,672.7
Membership	43.9	45.7	46.9	46.9	46.0	45.4	49.2	50.1	183.4	190.7	190.7	190.7
Exports	45.2	55.7	33.0	33.5	33.0	39.0	42.9	37.4	167.4	152.3	167.6	184.3
Cosmetics	21.0	22.3	17.2	20.0	23.1	21.1	20.6	21.2	80.4	86.0	94.6	99.4
Other (water treatment)	14.8	15.4	14.6	13.6	10.6	9.4	10.2	10.6	58.4	40.9	40.9	40.9
Consolidated other	40.2	33.6	29.5	43.4	42.1	27.9	41.2	47.8	146.7	159.0	179.4	198.0
Chg (% y-y)												
Household electronics	1.7	1.7	4.3	4.9	6.2	6.5	7.0	7.7	3.2	6.8	6.0	4.3
Outright sales	(24.7)	(21.8)	(10.4)	(9.1)	8.8	10.7	15.0	18.9	(17.3)	13.1	8.6	0.7
Rental	4.6	4.5	5.3	5.8	6.1	7.0	6.5	7.0	5.0	6.7	6.5	5.1
Membership	2.6	7.0	8.6	7.4	4.9	(0.8)	5.0	6.8	6.4	4.0	0.0	0.0
Exports	43.6	25.1	(13.0)	9.3	(27.0)	(30.0)	30.0	11.8	15.8	(9.0)	10.0	10.0
Cosmetics	17.4	0.5	3.6	1.1	10.5	(5.3)	20.0	6.0	5.3	7.0	10.0	5.0
Other (water treatment)	63.4	98.4	(31.1)	(31.1)	(28.2)	(38.6)	(30.0)	(22.2)	1.1	(30.0)	0.0	0.0
Consolidated other	(4.7)	(43.5)	(28.7)	4.3	4.7	(17.1)	40.0	10.1	(20.6)	8.4	12.9	10.3
Portion of total sales (%)												
Household electronics	77.4	77.2	82.1	79.7	80.1	82.5	80.1	79.9	79.0	80.6	80.0	79.4
Outright sales	5.2	6.7	6.0	4.9	5.5	7.5	6.3	5.5	5.7	6.2	6.3	6.0
Rental	64.0	62.3	67.1	66.1	66.3	66.8	65.2	65.9	64.8	66.0	65.9	65.9
Membership	8.2	8.2	8.9	8.6	8.4	8.2	8.5	8.6	8.5	8.4	7.9	7.5
Exports	8.5	10.0	6.3	6.2	6.0	7.0	7.4	6.4	7.7	6.7	6.9	7.3
Cosmetics	3.9	4.0	3.3	3.7	4.2	3.8	3.6	3.6	3.7	3.8	3.9	3.9
Other (water treatment)	2.8	2.8	2.8	2.5	1.9	1.7	1.8	1.8	2.7	1.8	1.7	1.6
Consolidated other	7.5	6.0	5.6	8.0	7.7	5.0	7.2	8.2	6.8	7.0	7.4	7.8

Source: Company data, Samsung Securities estimates

Accounts overview

('000)	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15E	3Q15E	4Q1E	2014	2015E	2016E	2017E
Account numbers												
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
Rental account	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
Membership	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 cancellations	129	139	130	130	134				528	552	574	597
Monthly churn (%)	0.90	1.04	0.97	0.95	0.97				0.92	1.00	1.00	1.00
Rental account additions	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
Outright sales account additions	40	60	52	32	40				183	150	135	129
Chg (% y-y)	(35.3)	(26.9)	(16.2)	(19.6)	0.1				(25.1)	(18.0)	(10.0)	(5.0)

Source: Company data, Samsung Securities estimates

Full-year forecast revisions

(KRWb)	2014	New		Old		Chg (%)	
		2015E	2016E	2015E	2016E	2015E	2016E
Sales	2,160	2,263	2,416	2,303	2,454	(1.8)	(1.5)
Operating profit	364	417	459	413	447	0.9	2.6
Pre-tax profit	332	412	455	403	434	2.3	4.8
Net profit	250	309	341	302	326	2.3	4.8
EBITDA	578	649	706	645	694	0.6	1.6
EPS (KRW)	3,223	4,007	4,425	3,932	4,205	1.9	5.2

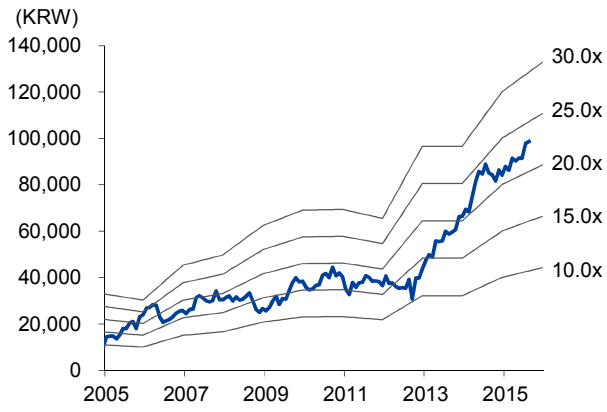
Source: Company data, Samsung Securities estimates

Valuation summary

Year-end	Sales	Op prof	Pre-tax prof	Net prof	EPS	Chg	P/E	P/B	ROE	EV/EBITDA	Net debt
31-Dec	(KRWb)	(KRWb)	(KRWb)	(KRWb)	(KRW)	(% y-y)	(x)	(x)	(%)	(x)	(KRWb)
2012	1,824	235	218	167	2,184	(5.6)	45.1	11.5	22.5	19.0	446
2013	2,118	339	327	245	3,222	47.5	30.6	8.8	28.4	14.0	83
2014	2,160	364	332	250	3,223	0.0	30.6	7.6	25.2	13.0	12
2015E	2,263	417	412	309	4,007	24.3	24.6	6.4	27.3	11.6	(99)
2016E	2,416	459	455	341	4,425	10.4	22.3	5.7	26.2	10.5	(178)
2017E	2,539	494	492	369	4,782	8.1	20.6	5.0	25.2	9.7	(276)

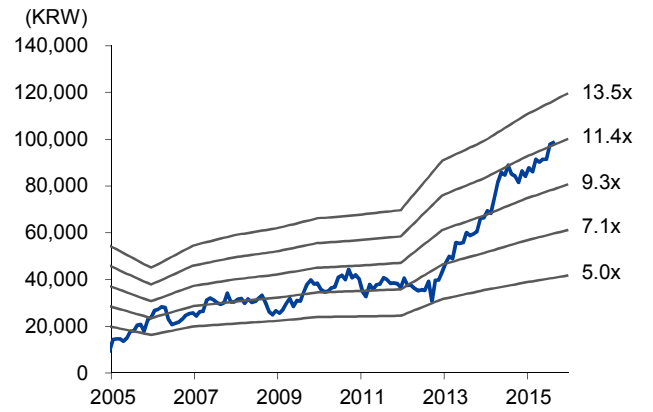
Source: Company data, Samsung Securities estimates

Forward P/E



Source: Company data, Samsung Securities estimates

Forward EV/EBITDA



Source: Company data, Samsung Securities estimates

Income statement

Year-end Dec 31 (KRWb)	2013	2014	2015E	2016E	2017E
Sales	2,118	2,160	2,263	2,416	2,539
Cost of goods sold	721	727	720	774	818
Gross profit	1,397	1,434	1,542	1,642	1,720
Gross margin (%)	66.0	66.4	68.2	68.0	67.8
SG&A expenses	1,058	1,069	1,125	1,184	1,227
Operating profit	339	364	417	459	494
Operating margin (%)	16.0	16.9	18.4	19.0	19.5
Non-operating gains (losses)	(12)	(32)	(5)	(4)	(2)
Financial profit	4	3	3	4	5
Financial costs	19	12	6	5	5
Equity-method gains (losses)	18	0	0	0	0
Other	(15)	(23)	(2)	(2)	(2)
Pre-tax profit	327	332	412	455	492
Taxes	82	83	103	114	123
Effective tax rate (%)	25.1	24.9	25.0	25.0	25.0
Profit from continuing operations	245	250	412	455	492
Profit from discontinued operations	0	0	0	0	0
Net profit	245	250	309	341	369
Net margin (%)	11.6	11.6	13.7	14.1	14.5
Net profit (controlling interests)	245	250	309	341	369
Net profit (non-controlling interests)	0	(0)	(0)	(0)	(0)
EBITDA	540	555	647	703	754
EBITDA margin (%)	25.5	25.7	28.6	29.1	29.7
EPS (parent-based) (KRW)	3,178	3,237	4,007	4,425	4,782
EPS (consolidated) (KRW)	3,178	3,237	4,007	4,425	4,782
Adjusted EPS (KRW)*	3,222	3,223	4,007	4,425	4,782

Cash flow statement

Year-end Dec 31 (KRWb)	2013	2014	2015E	2016E	2017E
Cash flow from operations	537	537	552	595	642
Net profit	245	250	309	341	369
Non-cash profit and expenses	n/a	n/a	n/a	n/a	n/a
Depreciation	191	206	224	239	255
Amortization	8	8	8	8	8
Other	n/a	n/a	n/a	n/a	n/a
Changes in A/L from operating activities	(41)	(29)	(11)	(17)	(13)
Cash flow from investments	(76)	(299)	(318)	(331)	(344)
Change in tangible assets	(258)	(296)	(318)	(331)	(344)
Change in financial assets	(1)	(0)	(26)	0	0
Other	183	(3)	26	0	0
Cash flow from financing	(373)	(328)	(134)	(204)	(208)
Change in debt	(262)	(162)	(11)	(19)	(8)
Change in equity	0	0	0	0	0
Dividends	(78)	(124)	0	0	0
Other	(33)	(42)	(123)	(185)	(200)
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
Gross cash flow	619	665	563	612	655
Free cash flow	278	241	214	242	274

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	710	790	894
Cash & equivalents	239	147	247	307	397
Accounts receivable	213	209	240	256	269
Inventories	66	62	65	69	73
Other current assets	174	179	158	157	155
Fixed assets	976	1,025	1,089	1,151	1,210
Investment assets	55	55	81	81	81
Tangible assets	638	675	739	801	860
Intangible assets	177	171	171	171	171
Other long-term assets	106	124	98	98	98
Total assets	1,668	1,622	1,799	1,940	2,104
Current liabilities	677	526	518	503	499
Accounts payable	37	59	62	66	69
Short-term debt	182	164	153	135	127
Other current liabilities	458	303	303	303	303
Long-term liabilities	50	56	56	56	56
Bonds & long-term debt	0	1	1	1	1
Other long-term liabilities	50	55	55	55	55
Total liabilities	727	582	574	559	555
Owners of parent equity	941	1,039	1,224	1,380	1,549
Capital stock	41	41	41	41	41
Capital surplus	126	126	126	126	126
Retained earnings	868	986	1,172	1,327	1,496
Other	(94)	(114)	(114)	(114)	(114)
Non-controlling interests' equity	0	1	1	1	1
Total equity	941	1,039	1,225	1,381	1,550
Net debt	89	18	(99)	(178)	(276)

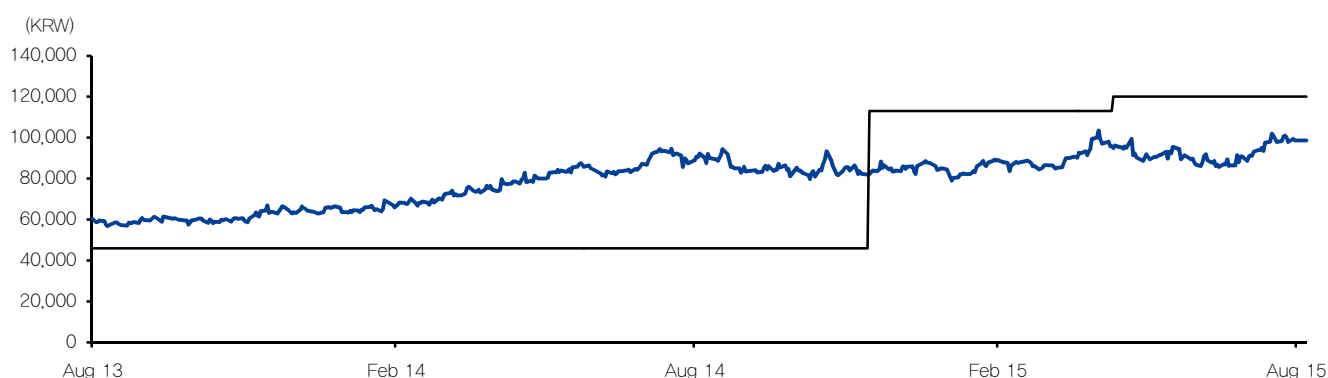
Financial ratios

Year-end Dec 31	2013	2014	2015E	2016E	2017E
Growth (%)					
Sales	6.3	2.0	4.7	6.8	5.1
Operating profit	49.9	7.5	14.5	9.9	7.7
Net profit	160.6	1.9	23.8	10.4	8.1
Adjusted EPS**	10.7	0.5	(5.6)	47.5	0.0
Per-share data (KRW)					
EPS (parent-based)	3,178	3,237	4,007	4,425	4,782
EPS (consolidated)	3,178	3,237	4,007	4,425	4,782
Adjusted EPS**	3,222	3,223	4,007	4,425	4,782
BVPS	11,242	12,934	15,343	17,363	19,548
DPS (common)	1,660	1,661	2,500	2,700	3,050
Valuations (x)					
P/E***	30.6	30.6	24.6	22.3	20.6
P/B***	8.8	7.6	6.4	5.7	5.0
EV/EBITDA	14.0	13.0	11.6	10.5	9.7
Ratios (%)					
ROE	28.4	25.2	27.3	26.2	25.2
ROA	14.3	15.2	18.1	18.2	18.2
ROIC	23.2	22.8	29.0	29.8	30.2
Payout ratio	50.4	49.3	60.0	58.7	61.4
Dividend yield (common)	2.7	2.0	2.0	2.0	2.0
Net debt to equity	1.7	1.7	2.5	2.7	3.1
Interest coverage (x)	18.3	29.6	74.2	89.9	106.8

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- As of Aug 4, 2015, the covering analyst(s) did not own any shares, or debt instruments convertible into shares, of any company covered in this report.
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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

Percentage of ratings in 12 months prior to Jun 30, 2015

BUY (68.9%) | HOLD (31.1%) | SELL (0%)

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General

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