

**This research report is a product of Mirae Asset Securities (Korea)**

Earnings review / Target price raised

Korea / Consumer

5 August 2015

**BUY**

Target price **KRW121,000**

Last price (4 Aug 2015) **KRW98,600**

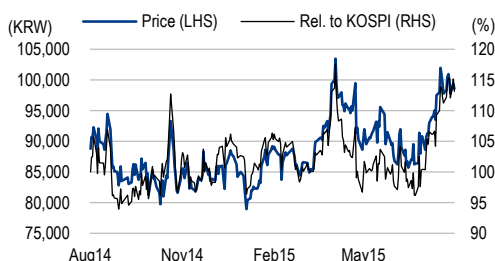
Upside/downside (%)	22.7
KOSPI	2,027.99
Mkt. cap (KRW bn/USD bn)	7,605/6.5
52 week range (KRW)	78,900 - 103,500
Avg. trading value daily (KRW bn)	13.44
Foreign ownership (%)	53.7

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>2,160</b>	<b>2,311</b>	<b>2,437</b>	<b>2,574</b>
EBIT (KRW bn)	364.4	430.8	486.3	533.1
<b>Net profit (KRW bn)</b>	<b>249.7</b>	<b>324.2</b>	<b>366.3</b>	<b>403.1</b>
Net profit (underlying)	249.7	324.2	366.3	403.1
EPS (KRW)	3,237	4,203	4,749	5,227
EPS growth (%)	1.9	29.8	13.0	10.1
<b>P/E (x)</b>	<b>26.0</b>	<b>23.5</b>	<b>20.8</b>	<b>18.9</b>
EV/EBITDA (x)	11.3	11.7	10.4	9.4
Dividend yield (%)	2.4	2.6	3.4	4.4
P/B (x)	6.2	6.3	5.5	5.0
<b>ROE (%)</b>	<b>25.2</b>	<b>28.8</b>	<b>28.2</b>	<b>23.2</b>
Net debt/equity (%)	1.1	(8.3)	(16.3)	(22.0)

**Performance**



Performance	1M	3M	12M
Absolute (%)	8.6	11.3	11.4
Absolute (USD, %)	4.3	1.8	(1.5)
Relative to KOSPI (%)	12.2	16.2	13.9

Source: Bloomberg

**Woosung Chung**, Analyst  
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# Coway (021240 KS)

## High visibility

Coway reported solid inline 2Q15 results. We maintain our BUY rating for Coway on continued healthy growth in earnings and cash returns to shareholders.

### Healthy 2Q15 results

After market close on 4 August, Coway reported solid 2Q15 consolidated results. Sales, operating profit, and net profit came in at KRW555.3bn (-0.3% YoY), KRW110.5bn (+13.7% YoY), and KRW82.7bn (+24.8% YoY), respectively, with operating profit roughly in line with our and consensus estimates. The strong operating profit in 2Q15 was largely due to firm domestic health-appliance rental operations. Domestic health-appliance rental revenues grew 6.2% YoY to KRW463.5bn in 2Q15, on: 1) ARPU hikes; and 2) stable rental subscriber growth (+5.8% YoY). Meanwhile, exports, including ODM air purifier sales to China, continued to remain weak at KRW39bn (-30% YoY) in 2Q15, due to slowing ODM/dealer sales to China, on stiffer competition in the Chinese air purifier market.

For 3Q15, we expect operating profit to continue to post healthy YoY growth at 15%, on: 1) continued growth in the domestic health-appliance rental business; and 2) a gradual recovery in exports, along with new product launches.

### Firm cash management

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. Given 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 grow at a 3-year CAGR of 30% to KRW4,300 by 2017.

### Maintain BUY and higher target price of KRW121,000

We maintain our BUY rating for Coway and raise our target price to KRW121,000 from KRW105,000 to reflect our higher dividend/share assumptions for 2015-2019. We continue to use the dividend discount model (DDM) for Coway's main valuation methodology, which properly captures the company's strong cash flows and fast-rising dividend profile. Our new target price translates into 25.5x 2016 PER and 12.8x 2016 EV/EBITDA, which are premiums to its five-year historical average valuations. We think the premiums are justified, given: 1) Coway's stronger EPS growth prospects; and 2) greater dividend payout ratios.

Figure 1 2Q15 results review (K-IFRS consolidated)

(KRW bn, %, ppt)	2Q14	3Q14	4Q14	1Q15	2Q15P	YoY (%)	QoQ (%)	2Q15 (Cons.)	Diff (%)	2Q15(Mirae)	Diff (%)
Sales	556.9	525.5	542.9	572.4	555.3	(0.3)	(3.0)	593.1	(6.4)	597.6	(7.1)
Operating profit	97.2	95.3	81.7	113.7	110.5	13.7	(2.8)	107.4	2.9	112.1	(1.4)
Recurring profit	86.5	85.9	71.5	114.0	108.9	25.9	(4.5)	104.4	4.3	112.4	(3.1)
Net profit (for controlling stake)	66.3	63.9	53.4	85.5	82.7	24.8	(3.3)	78.6	5.2	84.3	(1.9)
Operating profit margin (%)	17.4	18.1	15.0	19.9	19.9	2.4	0.0	18.1	1.8	18.8	1.1
Recurring profit margin (%)	15.5	16.4	13.2	19.9	19.6	4.1	(0.3)	17.6	2.0	18.8	0.8
Net profit margin (%)	11.9	12.2	9.8	14.9	14.9	3.0	(0.0)	13.3	1.6	14.1	0.8

Source: Company data, Bloomberg, Mirae Asset Research

Figure 2 DDM valuation

(KRW)	FY15E	FY16E	FY17E	FY18E	FY19E
DPS forecast/share (a)	2,600	3,400	4,300	5,100	5,610
Cost of equity (%)	6.1%	6.1%	6.1%	6.1%	6.1%
Discounting Factor (b)	1.06	1.13	1.19	1.27	1.34
NPV of DPS (a/b=c)	2,451	3,021	3,601	4,025	4,174
Terminal Value/share					KRW138,939

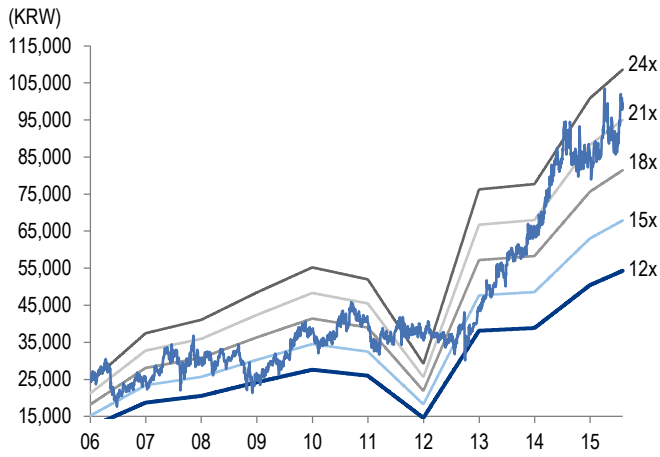
<b>Terminal growth rate</b>	<b>3%</b>
PV of terminal value/share (d)	KRW103,365
<b>Fair value/share (c+d)</b>	<b>KRW121,000</b>
Num of shares (m)	77.1
<b>Fair valuation (KRW bn)</b>	<b>9,332</b>

<b>Cost of equity (%)</b>	<b>6.1</b>
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Sensitivity Analysis					
Cost of equity	Implied dividend growth				
	2.0%	2.5%	3.0%	3.5%	4.0%
5.1%	125,000	146,000	178,000	229,000	327,000
5.6%	108,000	123,000	144,000	175,000	225,000
<b>6.1%</b>	95,000	106,000	<b>121,000</b>	141,000	171,000
6.6%	84,000	93,000	104,000	118,000	139,000
7.1%	76,000	83,000	91,000	102,000	116,000

Source: Mirae Asset Research

**Figure 3 12M forward P/E band**



Source: Quantiwise, Mirae Asset Research

**Figure 4 12M forward EV/EBITDA band**



Source: Quantiwise, Mirae Asset Research

**Figure 5 Quarterly earnings estimates**

<b>(KRW bn)</b>	<b>1Q13</b>	<b>2Q13</b>	<b>3Q13</b>	<b>4Q13</b>	<b>2013</b>	<b>1Q14</b>	<b>2Q14</b>	<b>3Q14</b>	<b>4Q14</b>	<b>2014</b>	<b>1Q15</b>	<b>2Q15E*</b>	<b>3Q15E</b>	<b>4Q15E</b>	<b>2015E</b>
Sales	507.4	556.5	530.5	524.0	2,118.3	535.0	556.9	525.5	542.9	2,160.3	572.4	597.6	560.4	580.7	2,311.1
Operating profit	69.7	81.9	96.3	91.1	339.0	90.3	97.2	95.3	81.7	364.4	113.7	112.1	109.2	95.9	430.8
Recurring profit	75.3	81.0	80.4	90.4	327.1	88.4	86.5	85.9	71.5	332.4	114.0	112.4	109.6	96.2	432.2
Income tax	17.9	21.3	20.3	22.5	82.1	22.4	20.2	22.0	18.2	82.8	28.5	28.1	27.4	24.1	108.1
Tax rate (%)	23.8	26.3	25.3	24.9	25.1	25.3	23.4	25.6	25.4	24.9	25.0	25.0	25.0	25.0	25.0
Net profit	57.4	59.7	60.1	67.9	245.1	66.1	66.3	63.9	53.4	249.7	85.5	84.3	82.2	72.2	324.2
<b>Chg. (% YoY)</b>															
Sales	6.2	13.7	4.7	0.9	6.3	5.4	0.1	(0.9)	3.6	2.0	7.0	7.3	6.6	7.0	7.0
Operating profit	7.7	27.7	53.2	165.0	49.9	29.5	18.6	(1.0)	(10.3)	7.5	25.9	15.4	14.6	17.4	18.2
Recurring profit	21.4	1,724.1	44.5	282.5	124.4	17.4	6.8	6.9	(20.9)	1.6	28.9	29.9	27.5	34.5	30.0
Net profit	25.0	T/N	40.4	402.6	160.6	15.2	11.1	6.4	(21.4)	1.9	29.4	27.2	28.5	35.2	30.5
<b>Margins (%)</b>															
Operating margin	13.7	14.7	18.1	17.4	16.0	16.9	17.4	18.1	15.0	16.9	19.9	18.8	19.5	16.5	18.6
Recurring margin	14.8	14.6	15.2	17.3	15.4	16.5	15.5	16.4	13.2	15.4	19.9	18.8	19.6	16.6	18.7
Net margin	11.3	10.7	11.3	13.0	11.6	12.4	11.9	12.2	9.8	11.6	14.9	14.1	14.7	12.4	14.0

Source: Coway, Mirae Asset Research

Note: \* 2Q15 figures are based on Mirae Asset Research estimates

## Summary financial statements

### Profit & loss

Year end Dec 31 (KRW bn)	2014	2015E	2016E	2017E
<b>Revenue</b>	<b>2,160</b>	<b>2,311</b>	<b>2,437</b>	<b>2,574</b>
Cost of goods sold	727	772	818	868
<b>Gross profit</b>	<b>1,434</b>	<b>1,539</b>	<b>1,618</b>	<b>1,706</b>
SG&A	1,069	1,108	1,132	1,173
<b>EBIT (Adj.)</b>	<b>364</b>	<b>431</b>	<b>486</b>	<b>533</b>
<b>EBIT</b>	<b>364</b>	<b>431</b>	<b>486</b>	<b>533</b>
Net interest income (loss)	(9)	2	3	5
Income (loss) from associates	0	0	0	0
Others	(23)	(1)	(1)	(1)
<b>Recurring profit</b>	<b>332</b>	<b>432</b>	<b>488</b>	<b>538</b>
Income tax	83	108	122	134
<b>Net profit</b>	<b>250</b>	<b>324</b>	<b>366</b>	<b>403</b>
<b>Net profit (Controlling Interests)</b>	<b>250</b>	<b>324</b>	<b>366</b>	<b>403</b>
EPS (Controlling Interests, KRW)	3,237	4,203	4,749	5,227

Growth & margins (%)	2014	2015E	2016E	2017E
Revenue growth	2.0	7.0	5.4	5.6
Gross profit growth	2.6	7.3	5.2	5.4
EBIT growth	7.5	18.2	12.9	9.6
Net profit growth	1.9	29.8	13.0	10.1
EPS growth	1.9	29.8	13.0	10.1
Gross margin	66.4	66.6	66.4	66.3
EBIT margin	16.9	18.6	20.0	20.7
Net profit margin	11.6	14.0	15.0	15.7

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>537</b>	<b>532</b>	<b>590</b>	<b>638</b>
Net profit	250	324	366	403
Depr. & amortization	214	210	226	238
Others	115	43	42	42
Change in working capital	(41)	(45)	(45)	(45)
<b>Cash flow from investing</b>	<b>(300)</b>	<b>(270)</b>	<b>(270)</b>	<b>(270)</b>
Capital expenditures	(306)	(270)	(270)	(270)
Others	6	(0)	(0)	(0)
<b>Cash flow from financing</b>	<b>(328)</b>	<b>(313)</b>	<b>(194)</b>	<b>(256)</b>
Dividends	(124)	(149)	(194)	(256)
Increase in equity	0	0	0	0
Increase in debt	(163)	(164)	0	0
Beginning cash	245	154	102	227
Ending cash	154	102	227	338

Source: Coway, Mirae Asset Research estimates

### Balance sheet

Year end Dec 31 (KRW bn)	2014	2015E	2016E	2017E
<b>Current assets</b>	<b>597</b>	<b>576</b>	<b>726</b>	<b>866</b>
Cash & equivalents	147	92	122	129
Short-term financial asset	6	9	105	209
Accounts receivable	209	223	235	249
Inventory	62	66	70	74
Other current assets	172	184	194	205
<b>Non-current assets</b>	<b>1,025</b>	<b>1,084</b>	<b>1,129</b>	<b>1,161</b>
Net fixed assets	675	743	795	835
Investments	2	2	2	2
Other long-term assets	347	339	331	323
<b>Total assets</b>	<b>1,622</b>	<b>1,660</b>	<b>1,855</b>	<b>2,027</b>
<b>Current liabilities</b>	<b>526</b>	<b>387</b>	<b>408</b>	<b>431</b>
Accounts payable	59	63	67	70
Short-term debt	164	0	0	0
Other current liabilities	303	324	341	361
<b>Non-current liabilities</b>	<b>56</b>	<b>59</b>	<b>61</b>	<b>63</b>
Long-term debt	1	1	1	1
Other long-term liabilities	55	58	60	62
<b>Total liabilities</b>	<b>582</b>	<b>446</b>	<b>469</b>	<b>494</b>
Controlling Interests	1,039	1,215	1,386	1,533
Non-Controlling Interests	0	0	0	0
<b>Shareholder's equity</b>	<b>1,039</b>	<b>1,215</b>	<b>1,386</b>	<b>1,533</b>
BVPS(KRW)	13,477	15,749	17,977	19,879

Source: Coway, Mirae Asset Research estimates

### Ratio analysis

Year end Dec 31	2014	2015E	2016E	2017E
ROE (%)	25.2	28.8	28.2	5.9
ROA (%)	15.2	19.8	20.8	20.8
Inventory days	10.8	10.1	10.2	10.2
Receivables days	38.7	34.1	34.4	34.3
Payable days	21.3	9.7	9.7	9.7
Net debt/equity (%)	1.1	(8.3)	(16.3)	(22.0)
Interest cover (x)	41.3	(178.9)	(155.0)	(96.9)

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

**Distribution of Ratings**

BUY: 79.3%  
HOLD: 20%  
REDUCE: 0.7%  
TOTAL: 100%  
(All data are current as of 31 Jul 2015)

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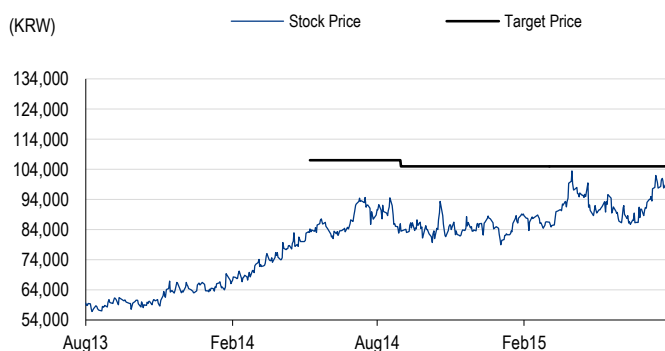
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Securities Held by the Analyst						Holdings of share of over 1%	Participation in Issuance of Securities	Involvement with Affiliates	Treasury Stock Held
Stock	Analyst	Type	Number of Shares	Purchase Price	Purchase Date				

**Note: The Korea securities in this research report are only covered by the analysts of Mirae Asset Securities Co., Ltd.**

**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
2015-08-05	BUY	121,000 (Up)

Source: Bloomberg, Mirae Asset Research

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