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Flashnote

Korea / Consumer

10 August 2015

**BUY**

Target price **KRW121,000**

Last price (10 Aug 2015) **KRW95,400**

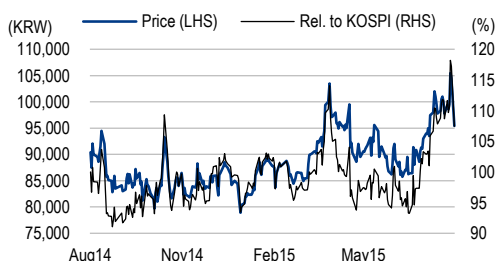
Upside/downside (%)	26.8
KOSPI	2,003.17
Mkt. cap (KRW bn/USD bn)	7,358/6.3
52 week range (KRW)	78,900 - 105,500
Avg. trading value daily (KRW bn)	14.50
Foreign ownership (%)	53.5

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>22.7</b>	<b>20.1</b>	<b>18.3</b>
EV/EBITDA (x)	11.3	11.3	10.0	9.1
Dividend yield (%)	2.4	2.7	3.6	4.5
P/B (x)	6.2	6.1	5.3	4.8
<b>ROE (%)</b>	<b>25.2</b>	<b>28.8</b>	<b>28.2</b>	<b>27.6</b>
Net debt/equity (%)	1.1	(8.3)	(16.3)	(22.0)

**Performance**



Performance	1M	3M	12M
Absolute (%)	2.6	6.6	3.4
Absolute (USD, %)	(0.4)	(1.0)	(8.6)
Relative to KOSPI (%)	4.0	10.5	4.7

Source: Bloomberg

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# Coway (021240 KS)

## Major shareholder considers stake disposal

### Event

On 10 August, following several local news articles claiming that Coway's largest shareholder, Coway Holdings (unlisted), is likely to sell their 30.9% stake in the company, the Financial Supervisory Service (FSS) requested that Coway confirm the reports. In its reply to the FSS, Coway stated that Coway Holdings is considering various options to sell its stake and has hired an investment banker as its advisor, although a final decision has yet to be reached. Coway Holdings is a special-purpose company (SPC), set up by MBK Partners (an independent private equity firm).

### Impact

#### Major shareholder's stake possibly to be sold

The firm cash return policy for shareholders (as implemented by Coway Holdings) has been one of the major share price drivers for Coway. Thus, a possible change in major shareholder from Coway Holdings could weigh on the short-term share price for Coway.

### Firm 2H15 earnings outlook

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 healthy operating profit in 2Q15 is largely due to the 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 air purifier ODM 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 2H15, we expect operating profit to continue to post healthy YoY growth at 16%, on: 1) a continued robust growth in the domestic health-appliance rental business; and 2) a gradual recovery in exports, along with new product launches.

### Action and recommendation

#### Maintain BUY rating

Despite short-term uncertainties over the possible disposal of the major shareholder's stakes, we maintain our BUY rating for Coway, considering: 1) solid 2H15 earnings outlook; and 2) a 2.7% dividend yield for 2015.

## 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

Note: \*Including short-term financial asset

### 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	27.6
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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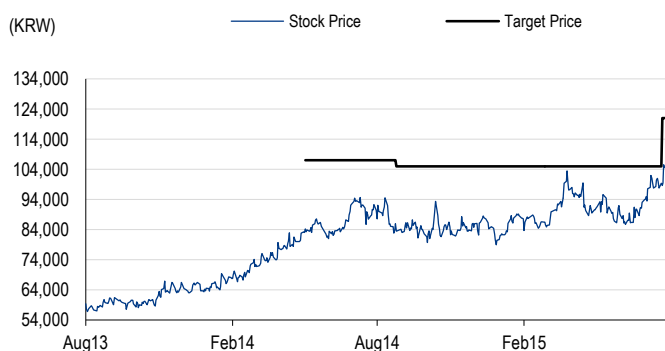
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Stock	Securities Held by the Analyst				Purchase Price	Purchase Date	Holdings of share of over 1%	Participation in Issuance of Securities	Involvement with Affiliates	Treasury Stock Held
	Analyst	Type	Number of Shares							

**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)
2015-08-10	BUY	121,000

Source: Bloomberg, Mirae Asset Research

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