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Flashnote

Korea / Consumer

10 September 2015

BUY

Target price **KRW121,000**

Last price (9 Sep 2015) **KRW82,800**

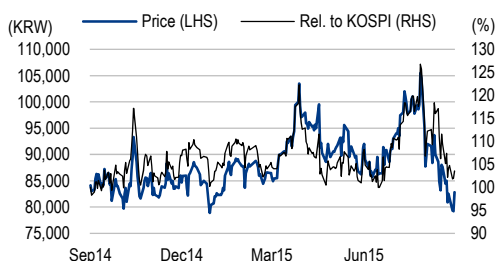
Upside/downside (%)	46.1
KOSPI	1,934.20
Mkt. cap (KRW bn/USD bn)	6,386/5.3
52 week range (KRW)	78,900 - 105,500
Avg. trading value daily (KRW bn)	19.70
Foreign ownership (%)	52.7

Source: Bloomberg

Forecast earnings & valuation

Fiscal year ending	Dec-14	Dec-15 E	Dec-16 E	Dec-17 E
Revenue (KRW bn)	2,160	2,311	2,437	2,574
EBIT (KRW bn)	364.4	430.8	486.3	533.1
Net profit (KRW bn)	249.7	324.2	366.3	403.1
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
P/E (x)	26.0	19.7	17.4	15.8
EV/EBITDA (x)	11.3	9.8	8.7	7.8
Dividend yield (%)	2.4	3.1	4.1	5.2
P/B (x)	6.2	5.3	4.6	4.2
ROE (%)	25.2	28.8	28.2	27.6
Net debt/equity (%)	1.1	(8.3)	(16.3)	(22.0)

Performance



Performance	1M	3M	12M
Absolute (%)	(20.8)	(5.9)	(0.8)
Absolute (USD, %)	(22.9)	(12.3)	(16.1)
Relative to KOSPI (%)	(17.0)	0.4	4.8

Source: Bloomberg

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Coway (021240 KS)

Solid 2H15

Event

We believe the recent concerns over a stake disposal by a major shareholder are largely priced in the current 2016 P/E of 17.4x (below its 5-year historical average of 20x). We reiterate our BUY rating for Coway, as healthy 2H earnings outlook should provide positive share price sentiment.

Impact

Major shareholder's stake disposal already priced in

On 10 August, Coway's major shareholder, Coway Holdings (unlisted), announced that it was considering various options to sell its 31% stake in Coway. Coway Holdings is a special-purpose company (SPC), set up by MBK Partners (an independent private equity firm). According to local press reports, several local conglomerates and Chinese companies have shown interest in the stake acquisition. Since the announcement of the stake sale, Coway's share price has fallen by 25% (versus -6% for the KOSPI).

The announcement of a change in major shareholder from Coway Holdings has raised market concerns over a possible deterioration of Coway's solid cash return policy to shareholders, which has been implemented by Coway Holdings. However, we believe that the uncertainties related to a change in the major shareholder are mostly reflected in the current valuation. After the recent share price correction, the stock is currently trading at a 2016E P/E of 17.4x, which has yet to reflect healthy earnings recovery in 2H15, in our view. We note that during 2007-2012, Coway traded at an average P/E of 18x, even under the previous major shareholder, Woongjin Group.

Healthy 3Q15 earnings outlook

Our recent contacts to the company reaffirm our positive view on Coway's 2H operational outlook. We expect Coway's consolidated operating profit to reach KRW109.2bn (+15% YoY) in 3Q15, on: 1) continued robust growth in the domestic health-appliance rental business; and 2) a gradual recovery in exports, along with new product launches and a low base of 3Q14 (-13% YoY). With continued ARPU increases and stable rental subscriber growth, we expect domestic rental service sales (69% of total sales) to grow 5% YoY to KRW366.2bn.

Action and recommendation

Maintain BUY rating

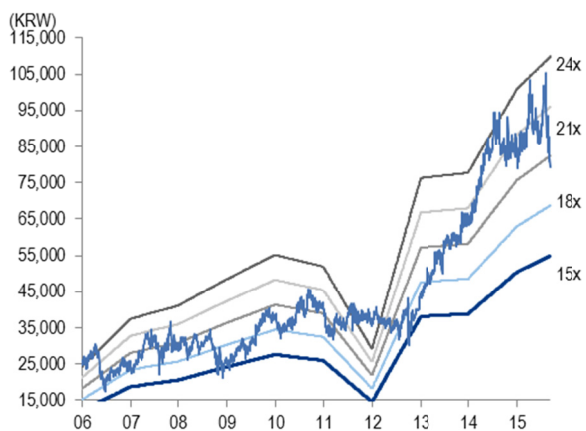
We believe the recent concerns over a change in major shareholders are mostly priced in. We maintain our BUY rating for Coway, considering its: 1) solid 2H15 earnings outlook; and 2) 3.1% dividend yield for 2015.

Figure 1 3Q15 preview (K-IFRS consolidated)

(KRW bn, %, ppt)	3Q14	4Q14	1Q15	2Q15	3Q15E	YoY (%)	QoQ (%)	3Q15 (Con)	Diff (%)
Sales	525.5	542.9	572.4	597.6	560.4	6.6	(6.2)	564.2	(0.7)
Operating profit	95.3	81.7	113.7	112.1	109.2	14.6	(2.5)	107.5	1.6
Net profit (for controlling stake)	63.9	53.3	85.5	84.3	82.2	28.5	(2.5)	77.9	5.5
Operating profit margin (%)	18.1	15.0	19.9	18.8	19.5	1.4	0.7	19.1	0.4
Net profit margin (%)	12.2	9.8	14.9	14.1	14.7	2.5	0.6	13.8	0.9

Source: Company data, Bloomberg, Mirae Asset Research

Figure 2 12M forward P/E band



Source: Quantwise, Mirae Asset Research

Figure 3 12M forward EV/EBITDA band



Source: Quantwise, Mirae Asset Research

Summary financial statements

Profit & loss

Year end Dec 31 (KRW bn)	2014	2015E	2016E	2017E
Revenue	2,160	2,311	2,437	2,574
Cost of goods sold	727	772	818	868
Gross profit	1,434	1,539	1,618	1,706
SG&A	1,069	1,108	1,132	1,173
EBIT (Adj.)	364	431	486	533
EBIT	364	431	486	533
Net interest income (loss)	(9)	2	3	5
Income (loss) from associates	0	0	0	0
Others	(23)	(1)	(1)	(1)
Recurring profit	332	432	488	538
Income tax	83	108	122	134
Net profit	250	324	366	403
Net profit (Controlling Interests)	250	324	366	403
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
Cash flow from operations	537	532	590	638
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)
Cash flow from investing	(300)	(270)	(270)	(270)
Capital expenditures	(306)	(270)	(270)	(270)
Others	6	(0)	(0)	(0)
Cash flow from financing	(328)	(313)	(194)	(256)
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

Note: * Including short-term financial assets

Source: Coway, Mirae Asset Research estimates

Balance sheet

Year end Dec 31 (KRW bn)	2014	2015E	2016E	2017E
Current assets	597	576	726	866
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
Non-current assets	1,025	1,084	1,129	1,161
Net fixed assets	675	743	795	835
Investments	2	2	2	2
Other long-term assets	347	339	331	323
Total assets	1,622	1,660	1,855	2,027
Current liabilities	526	387	408	431
Accounts payable	59	63	67	70
Short-term debt	164	0	0	0
Other current liabilities	303	324	341	361
Non-current liabilities	56	59	61	63
Long-term debt	1	1	1	1
Other long-term liabilities	55	58	60	62
Total liabilities	582	446	469	494
Controlling Interests	1,039	1,215	1,386	1,533
Non-Controlling Interests	0	0	0	0
Shareholder's equity	1,039	1,215	1,386	1,533
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%
HOLD: 20.3%
REDUCE: 0.7%
TOTAL: 100%
(All data are current as of 31 Aug 2015)

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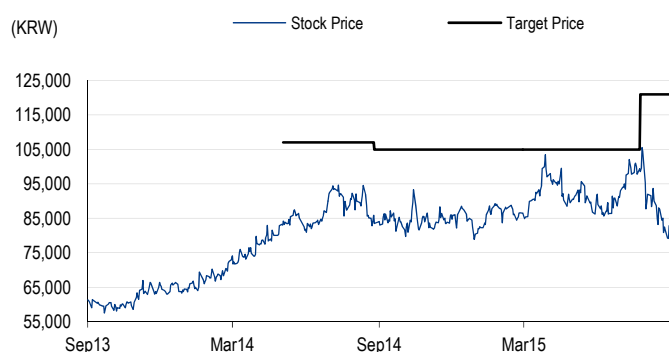
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Stock	Securities Held by the Analyst				Purchase Date	Holdings of share of over 1%	Participation in Issuance of Securities	Involvement with Affiliates	Treasury Stock Held
	Analyst	Type	Number of Shares	Purchase Price					

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)
2015-09-09	BUY	121,000
2015-09-10	BUY	121,000

Source: Bloomberg, Mirae Asset Research

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