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Flashnote

Korea / Consumer

20 October 2015 **BUY**

Target price	**KRW121,000**
Last price (19 Oct 2015)	**KRW86,800**

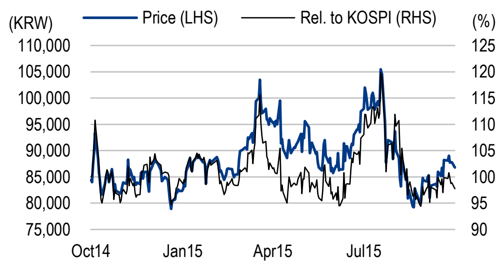
Upside/downside (%)	39.4
KOSPI	2,030.27
Mkt. cap (KRW bn/USD bn)	6,694/5.9
52-week range (KRW)	78,900 - 105,500
Avg. trading value daily (KRW bn)	19.33
Foreign ownership (%)	52.4

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**	**20.7**	**18.3**	**16.6**
EV/EBITDA (x)	11.3	10.3	9.1	8.2
Dividend yield (%)	2.4	3.0	3.9	5.0
P/B (x)	6.2	5.5	4.8	4.4
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 (%)	3.0	(11.0)	7.2
Absolute (USD, %)	6.7	(9.4)	0.6
Relative to KOSPI (%)	1.2	(8.7)	0.3

Source: Bloomberg

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Coway (021240 KS)

Update on major shareholder's stake disposal

Event

According to local press reports, the CJ Group-Haier consortium, Carlyle (PEF), and a Chinese company have been shortlisted for a preliminary bidding for a 30.9% stake acquisition of Coway. We believe that the news is positive for Coway's share price. We maintain our BUY rating for Coway.

Impact

Concerns eased over cash-management deterioration

Since August, the company's largest shareholder, Coway Holdings (unlisted), has been considering various options to sell its stake, and has hired an investment banker as its advisor. The three potential buyers, the CJ Group-Haier consortium, Carlyle (PEF), and a Chinese company, will each undertake due diligence for a month, before participating in the final bidding. We think the news is positive for Coway's share price, as we do not believe any of the three shortlisted candidates would undermine Coway's current firm cash-return policy to shareholders. Moreover, the possible stake acquisitions by either the CJ Group-Haier consortium or the Chinese company should accelerate Coway's Chinese health-appliance market penetration.

Healthy 3Q15 earnings 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 maintain our BUY rating for Coway, considering its: 1) solid 2H15 earnings outlook; and 2) 3% dividend yield for 2015.

See the last page of this report for important disclosures

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

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

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

Source: Coway, Mirae Asset Research estimates
Note: *Including short-term financial asset

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: 79.9%
HOLD: 19.4%
REDUCE: 0.7%
TOTAL: 100%
(All data are current as of 30 Sep 2015)

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

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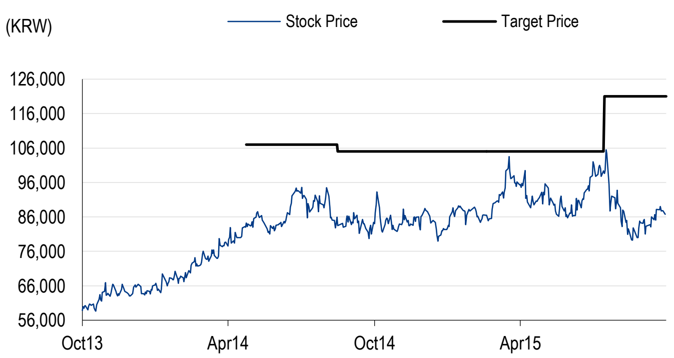
Target Price and Recommendation Chart

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
2015-10-20	BUY	121,000

Source: Bloomberg, Mirae Asset Research

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