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Company Update



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Coway (021240)

Core business keeps growing

- * Coway yesterday reported that in 3Q its sales and operating profit grew 10% and 30%, respectively, both figures beating consensus.
- * Core business growth and faster-than-expected profitability improvements show that market worries over a lack of growth potential are overblown.
- * We recommend accumulating on weakness and monitoring a stake sale by Coway's largest shareholder.

WHAT'S THE STORY?

Core business growth increases operating leverage: Coway yesterday reported that in 3Q its sales rose 10% y-y to KRW580.4b and operating profit jumped 30% y-y to KRW123.9b (with margin improving 1.5%pts y-y to 21.4%), both figures beating our forecasts and consensus. Such results should dissipate worries over the company's growth potential—stemming from seven quarters of sales growth in the 1-2% y-y range—and boding well for profitability to improve. Rental service sales maintained their solid growth, rising 5.3% y-y, and outright sales surged 43% y-y—we attribute the latter to the firm's increasing focus on them since 1Q15 via expanded product lineups and distribution channels (which has paid off at an accelerating pace). Overseas sales and cosmetics sales each grew 8% y-y on base effect and robust home shopping and department store sales. Membership sales fell 5% y-y but we do not find the drop worrisome considering the firm's focus on its rental service business.

Meanwhile, Coway's operating profit growth sharply exceeded that of sales, driven by operating leverage and an improved product mix. Gross profit margin hit 69% (in line with our estimate), while SG&A-to-cost ratio came in 3.2%pts below our figure at 46% as economies of scale helped cover fixed costs. ARPU growth accelerated at a faster than expected pace, reaching 5.3% y-y, thanks to an increasing high-value-added product portion of rental service sales and door-to-door channel productivity improvements.

Coway is even more committed to improving earnings with its largest shareholder looking to sell its stake. We thus find 3Q results all the more positive in that they testify to strength in the core business and they were not driven by increasing marketing spending. We recommend accumulating shares on end-year weakness, predicting news related to the major stake sale will increase share-price volatility. We will adjust our forecasts to reflect robust 3Q results at a later date.

AT A GLANCE

SELL HOLD **BUY**

Target price	KRW100,000	(11.1%)
Current price	KRW90,000	
Market cap	KRW6.9/USD6.1b	
Shares (float)	77,124,796 (65.4%)	
52-week high/low	KRW105,500/KRW78,900	
Avg daily trading value (60-day)	KRW19.8b/ USD17.5m	

ONE-YEAR PERFORMANCE

	1M	6M	12M
Coway (%)	4.7	-0.3	7.5
Vs Kospi (%pts)	0.6	3.5	2.5

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	100,000	100,000	0.0%
2015E EPS	4,161	4,161	0.0%
2016E EPS	4,452	4,452	0.0%

SAMSUNG vs THE STREET

No of estimates	11
Target price	121,091
Recommendation	4.0

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

SUMMARY OF 3Q RESULTS

(KRWb)	3Q15	Chg		Diff (%)	
		(% y-y)	(% q-q)	Samsung	Consensus
Sales	580.4	10.4	4.5	3.2	4.3
Operating profit	123.9	30.1	12.2	11.6	14.0
Pre-tax profit	121.7	41.6	11.7	11.9	15.7
Net profit	92.4	44.5	11.7	15.1	14.2
Margins (%)					
Operating profit	21.4				
Pre-tax profit	21.0				
Net profit	15.9				

Source: Company data, Samsung Securities estimates

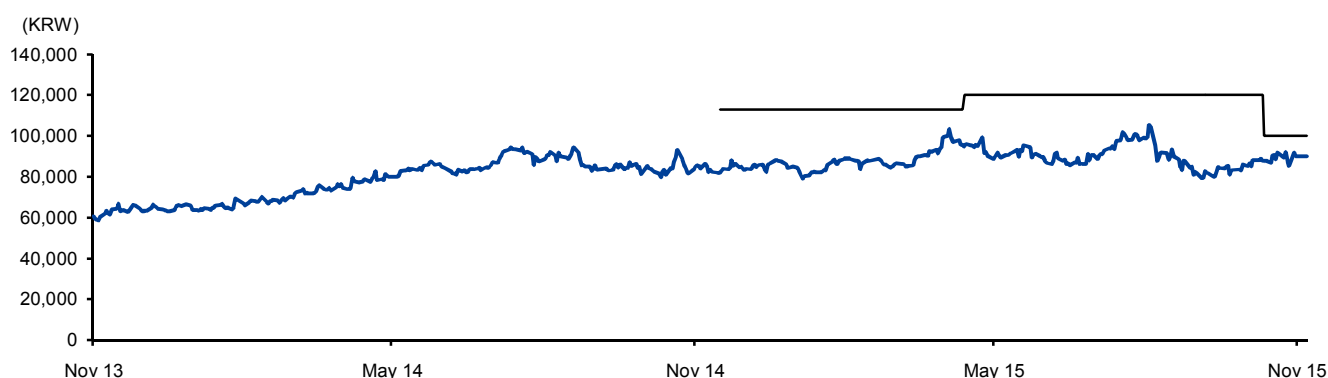
VALUATION SUMMARY

	2014	2015E	2016E
Multiples (x)			
P/E	27.9	21.6	20.2
P/B	7.0	5.8	5.1
EV/EBITDA	11.8	10.2	9.5
Div yield (%)	1.8	2.8	3.0
EPS growth (% y-y)	0.0	29.1	7.0
ROE (%)	25.2	28.3	26.2
Per-share data (KRW)			
EPS	3,223	4,161	4,452
BVPS	12,934	15,516	17,582
DPS	1,661	2,500	2,700

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Target price changes in past two years



Rating changes in past two years

Date	2014/11/19	2015/4/16	10/15
Recommendation	BUY	BUY	BUY
Target price (KRW)	113,000	120,000	100,000

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 Sep 30, 2015

BUY (71.8%) | HOLD (28.2%) | SELL (0%)

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