MIRAE ASSET
Building on principles

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

Flashnote/ Earnings review

Korea / Consumer

4 November 2015 BUY

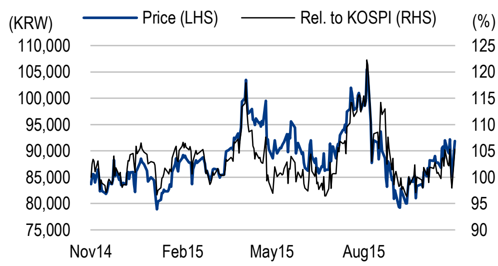
Target price	**KRW121,000**
Last price (3 Nov 2015)	**KRW90,000**
Upside/downside (%)	34.4
KOSPI	2,048.40
Mkt. cap (KRW bn/USD bn)	6,941/6.1
52-week range (KRW)	78,900 - 105,500
Avg. trading value daily (KRW bn)	19.98
Foreign ownership (%)	52.1

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**	**21.4**	**19.0**	**17.2**
EV/EBITDA (x)	11.3	10.7	9.4	8.6
Dividend yield (%)	2.4	2.9	3.8	4.8
P/B (x)	6.2	5.7	5.0	4.5
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 (%)	4.7	(9.5)	7.5
Absolute (USD, %)	8.4	(7.0)	(0.0)
Relative to KOSPI (%)	0.7	(11.4)	2.6

Source: Bloomberg

Woochang Chung, Analyst
82 2 3774 6753 wcchung@miraeasset.com

Coway (021240 KS)

3Q15 results review

Event

Coway reported healthy 3Q15 earnings results. We maintain our BUY rating for Coway, considering its: 1) solid 4Q15 earnings outlook; 2) 2.9% dividend yield for 2015; and 3) easing concerns over changes in major shareholders.

Impact

Stronger 3Q15 earnings

After market close on 3 November, Coway reported stronger-than-expected 3Q15 consolidated results. The company reported sales of KRW580.4bn (+10.4% YoY), operating profit of KRW123.9bn (+30.1% YoY), and net profit of KRW92.4bn (+44.5% YoY), with operating profit ahead of our and the consensus estimates by 13.5% and 15.3%, respectively.

The robust operating profit in 3Q15 is largely due to: 1) stronger growth in the domestic health-appliance rental business (65% of consolidated sales); and 2) solid YoY growth in health-appliance equipment sales (9% of sales, +32% YoY). With continued ARPU increases and stable rental subscriber growth, domestic rental service sales grew 6.7% YoY to KRW376.4bn (versus our estimate of KRW366.2bn). Overseas affiliates' sales (3.4% of total sales) grew 53% YoY to KRW19.9bn, on healthy rental operations in Malaysia and the USA. Meanwhile, the company's ODM/dealer total exports (3% of sales), including air purifier ODM sales to China, remained weak, at KRW15.9bn (-21% YoY), due to weak Chinese domestic consumption and stiffer competition. For 4Q15, we expect operating profit to continue to post healthy YoY growth at 17%, on continued solid growth in the domestic health-appliance rental business.

Concerns eased over cash-management deterioration

Since August, the company's largest shareholder, Coway Holdings (unlisted), has been considering various options for selling its stake, and has hired an investment banker as its advisor. On 19 October, the CJ Group-Haier consortium, Carlyle (PEF), and a Chinese company were shortlisted for a preliminary bidding for a 30.9% stake acquisition of Coway. The three potential buyers have each been undertaking due diligence before participation in the final bidding this month. 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.

Action and recommendation

Maintain BUY rating

We maintain our BUY rating for Coway. The stock is currently trading at 2016E P/E of 19x, which is the 5-year historical average.

MIRAE ASSET SECURITIES FLASH NOTE

Figure 1 3Q15 results review (K-IFRS consolidated)

(KRWbn, %, ppt)	3Q14	4Q14	1Q15	2Q15	3Q15P	YoY (%)	QoQ (%)	3Q15 (Cons.)	Diff (%)	3Q15 (Mirae)	Diff (%)
Sales	525.5	542.9	572.4	597.6	580.4	10.4	(2.9)	564.2	2.9	560.4	3.6
Operating profit	95.3	81.7	113.7	112.1	123.9	30.1	10.6	107.5	15.3	109.2	13.5
Recurring profit	85.9	71.5	114.0	112.4	121.7	41.6	8.3	104.4	16.6	109.6	11.1
Net profit (for controlling stake)	63.9	53.3	85.5	84.3	92.4	44.5	9.6	77.9	18.6	82.2	12.4
Operating profit margin (%)	18.1	15.0	19.9	18.8	21.4	3.2	2.6	19.1	2.3	19.5	1.9
Recurring profit margin (%)	16.4	13.2	19.9	18.8	21.0	4.6	2.2	18.5	2.5	19.6	1.4
Net profit margin (%)	12.2	9.8	14.9	14.1	15.9	3.7	1.8	13.8	2.1	14.7	1.3

Source: Company data, Bloomberg, 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

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

Woochang Chung, Analyst, 82 2 3774 6753, wcchung@miraeasset.com

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: 78.9%
HOLD: 19.7%
REDUCE: 1.4%
TOTAL: 100%
(All data are current as of 30 Oct. 2015)

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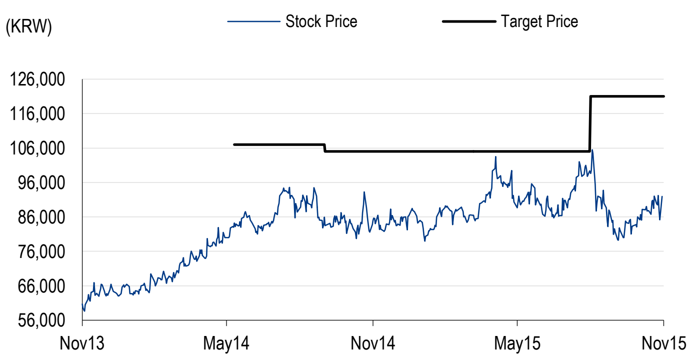
Stock	Analyst	Type	Number of Shares	Purchase Price	Purchase Date	Holdings of share of over 1%	Participation in Issuance of Securities	Involvement with Affiliates	Treasury Stock Held

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
2015-11-04	BUY	121,000

Source: Bloomberg, Mirae Asset Research

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