

Coway (021240)

12M rating **BUY (Maintain)**

12M TP **W117,000** from W117,000

Up/downside **+40%**

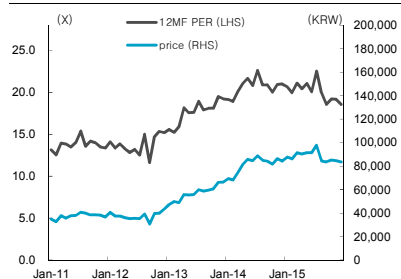
Stock Data

KOSPI (Dec 10, pt)	1,952
Stock price (Dec 10, KRW)	83,600
Market cap (USD mn)	5,458
Shares outstanding (mn)	77
52-Week high/low (KRW)	105,500/78,900
6M avg. daily turnover (USD mn)	15.1
Free float / Foreign ownership (%)	65.4/52.6
Major shareholders (%)	
Coway Holdings Inc. and 9 others	31.0
NPS	6.0

Performance

	1M	6M	12M
Absolute (%)	(8.5)	(8.3)	(2.8)
Relative to Kospi (p.p)	(6.3)	(3.5)	(3.1)

12MF PE trend



Source: WISEfn consensus

Announces W&E split-off; Still some uncertainty

Discloses separation of W&E business

On December 10, Coway said in a regulatory filing that the company would split off the water & environment (W&E, water treatment) business. The new company, tentatively named Coway Entech, would operate W&E while the remaining entity would run the environmental home appliances (EHA) and cosmetics businesses. In 2014, W&E had sales of W33.9bn with profitability hovered around the break-even point.

No impact on earnings; Still some uncertainty

The W&E division was a non-core business that accounted for only 1.6% of sales in 2014. As the business will be separated in a simple split-off, there would be no impact on the consolidated statement. But while the largest shareholder MBK Partners has been trying to sell its 30.9% stake in Coway, it made a separate attempt to dispose of subsidiary GreenEnTech and its non-core W&E business that was part of other operations. While the Coway sale has been progressing slowly due to a recent delay to the binding bid schedule, the largest shareholder is definitely committed to sell. We believe the latest decision is part of an effort to make the disposal more feasible.

Our focus is not on the split-off but on potential uncertainty stemming from the stake sale by the largest shareholder and continuing vagueness about earnings and dividend if the largest shareholder changes. In 2013-2014, Coway's shares were pushed up by better profitability and a generous shareholders' return. But in 2015, the stock came under pressure due to a possible stake sale by the largest shareholder. If a sale goes ahead, the ensuing changes would cause uncertainties about future business strategy and the shareholders' return, such as dividend.

Valuation

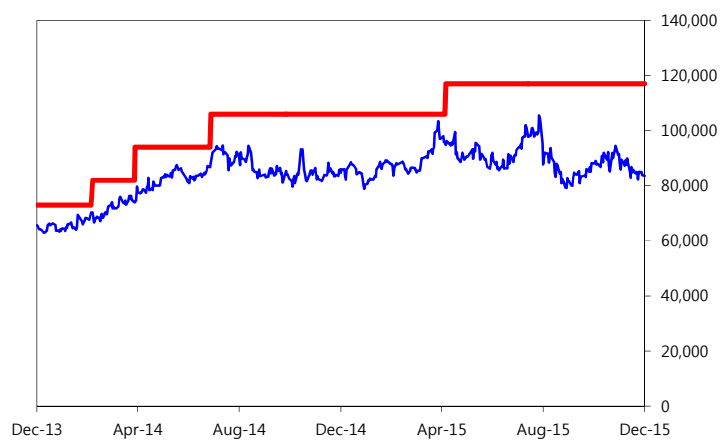
Coway trades at 19x 2015F PE and 18x 2016F PE. We maintain BUY and a TP of W117,000 (25x 12MF PE, historical peak). While it appears the company's fundamentals remain intact, such as the growing EHA division, good earnings visibility bolstered by the nature of the rental business and the shareholder-friendly policy, the key lies in removing uncertainties stemming from a possible stake sale.

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Yr to	Sales	OP	NP	EPS	% chg	EBITDA	PE	EV/EBITDA	PB	ROE	DY
Dec	(W bn)	(W bn)	(W bn)	(KRW)	(YoY)	(W bn)	(x)	(x)	(x)	(%)	(%)
2013A	2,118	339	245	3,283	159.1	537	20.2	9.5	4.9	28.4	4.1
2014A	2,160	364	250	3,361	2.4	578	25.1	11.0	5.6	25.2	2.4
2015F	2,263	431	325	4,375	30.2	654	19.1	9.6	4.9	29.1	2.8
2016F	2,436	447	339	4,561	4.3	680	18.3	9.1	4.4	26.7	3.0
2017F	2,629	480	365	4,910	7.7	723	17.0	8.5	3.9	25.5	3.1

Changes to recommendation and price target

Company (Code)	Date	Recommendation	Price target
Coway (021240)	01-14-14	BUY	W73,000
	02-16-14	BUY	W82,000
	04-08-14	BUY	W94,000
	07-08-14	BUY	W106,000
	04-16-15	BUY	W117,000



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■ **Guide to Korea Investment & Securities Co., Ltd. stock rating allocation (as of Sep 30, 2015)**

BUY	Hold	Underweight (Sell)
76.7%	19.9%	3.4%

Note: % of companies under coverage with this rating

■ **Guide to Korea Investment & Securities Co., Ltd. sector ratings for the next 12 months**

- Overweight: Recommend increasing the sector's weighting in the portfolio compared to its respective weighting in the Kospi (Kosdaq) based on market capitalization.
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Prepared by: Eun-cha Na

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