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Flashnote

Korea / Consumer

11 December 2015

**BUY**

Target price **KRW121,000**

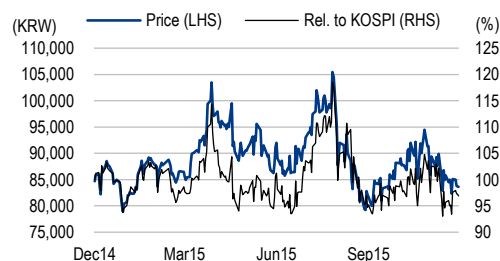
Last price (10 Dec. 2015) **KRW83,600**

Upside/downside (%) 44.7  
 KOSPI 1,952.07  
 Mkt. cap (KRW bn/USD bn) 6,448/5.5  
 52-week range (KRW) 78,900 - 105,500  
 Avg. trading value daily (KRW bn) 15.73  
 Foreign ownership (%) 52.6  
 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	19.9	17.6	16.0
EV/EBITDA (x)	11.3	9.9	8.7	7.9
Dividend yield (%)	2.4	3.1	4.1	5.1
P/B (x)	6.2	5.3	4.7	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 (%)	(8.5)	1.8	(2.8)
Absolute (USD, %)	(10.2)	3.2	(8.1)
Relative to KOSPI (%)	(6.3)	2.3	(3.1)

Source: Bloomberg

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## Coway (021240 KS)

### Spin-off of water treatment division

#### Event

After market close on 10 December, Coway announced that it decided to: 1) spin off its water treatment division; and 2) establish a new affiliate, called Coway Entech. The water treatment division posted sales of KRW33.9bn (1.6% of Coway's consolidated sales) and broke even in operating profit levels in 2014. With the division's minimal sales and earnings contribution, we think the spin-off should have limited impact on Coway's share price. We maintain our BUY rating for Coway.

#### Impact

##### Spin-off of water treatment division

According to local press reports, Coway had until recently been in negotiations with Huvis (079980 KS, not rated) to sell off its water treatment division. However, the negotiations recently broke off, mainly due to differences between the two parties over the asking and bid prices. We believe that Coway likely resume its disposal efforts, after the restructuring of its newly established water treatment affiliate, Coway Entech.

#### Solid 4Q15 earnings outlook

We expect Coway's consolidated operating profit to reach KRW95.9bn (+17% YoY) in 4Q15, on: 1) continued healthy growth in the domestic health-appliance rental business; and 2) a gradual recovery in exports, along with new product launches. With continued ARPU increases and stable rental subscriber growth, we expect domestic rental service sales (69% of total sales) to grow 5% YoY to KRW372bn.

#### Action and recommendation

##### Maintain BUY

The share price has fallen by 8.5% (-6.3% versus KOSPI) over the past one month, largely due to lingering concerns over stake disposals by major shareholders. We believe that the concerns are largely reflected in the current valuation of 2016 P/E of 16.7x (which is below its 5-year historical average P/E of 20x). We maintain our BUY rating for Coway, considering its: 1) solid 4Q15 earnings outlook; and 2) 3.1% dividend yield for 2015.

## 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
<b>Gross profit</b>	<b>1,434</b>	<b>1,539</b>	<b>1,618</b>	<b>1,706</b>
SG&A	1,069	1,108	1,132	1,173
<b>EBIT (Adj.)</b>	<b>364</b>	<b>431</b>	<b>486</b>	<b>533</b>
<b>EBIT</b>	<b>364</b>	<b>431</b>	<b>486</b>	<b>533</b>
Net interest income (loss)	(9)	2	3	5
Income (loss) from associates	0	0	0	0
Others	(23)	(1)	(1)	(1)
<b>Recurring profit</b>	<b>332</b>	<b>432</b>	<b>488</b>	<b>538</b>
Income tax	83	108	122	134
<b>Net profit</b>	<b>250</b>	<b>324</b>	<b>366</b>	<b>403</b>
<b>Net profit (Controlling Interests)</b>	<b>250</b>	<b>324</b>	<b>366</b>	<b>403</b>
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
<b>Current assets</b>	<b>597</b>	<b>576</b>	<b>726</b>	<b>866</b>
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
<b>Non-current assets</b>	<b>1,025</b>	<b>1,084</b>	<b>1,129</b>	<b>1,161</b>
Net fixed assets	675	743	795	835
Investments	2	2	2	2
Other long-term assets	347	339	331	323
<b>Total assets</b>	<b>1,622</b>	<b>1,660</b>	<b>1,855</b>	<b>2,027</b>
<b>Current liabilities</b>	<b>526</b>	<b>387</b>	<b>408</b>	<b>431</b>
Accounts payable	59	63	67	70
Short-term debt	164	0	0	0
Other current liabilities	303	324	341	361
<b>Non-current liabilities</b>	<b>56</b>	<b>59</b>	<b>61</b>	<b>63</b>
Long-term debt	1	1	1	1
Other long-term liabilities	55	58	60	62
<b>Total liabilities</b>	<b>582</b>	<b>446</b>	<b>469</b>	<b>494</b>
Controlling Interests	1,039	1,215	1,386	1,533
Non-Controlling Interests	0	0	0	0
<b>Shareholder's equity</b>	<b>1,039</b>	<b>1,215</b>	<b>1,386</b>	<b>1,533</b>
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
<b>Cash flow from operations</b>	<b>537</b>	<b>532</b>	<b>590</b>	<b>638</b>
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)
<b>Cash flow from investing</b>	<b>(300)</b>	<b>(270)</b>	<b>(270)</b>	<b>(270)</b>
Capital expenditures	(306)	(270)	(270)	(270)
Others	6	(0)	(0)	(0)
<b>Cash flow from financing</b>	<b>(328)</b>	<b>(313)</b>	<b>(194)</b>	<b>(256)</b>
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: 82.5%  
HOLD: 16.3%  
REDUCE: 1.3%  
TOTAL: 100%  
(All data are current as of 30 Nov. 2015)

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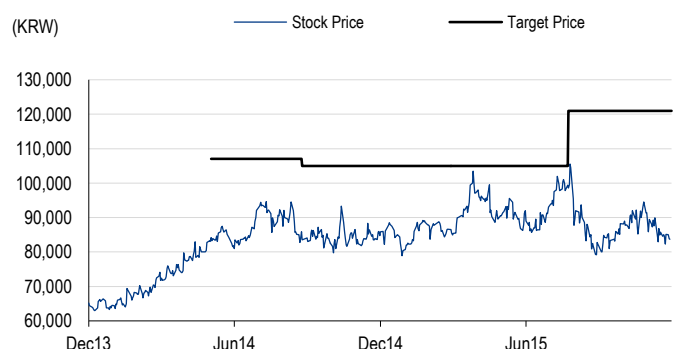
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Securities Held by the Analyst						Holdings of share of over 1%	Participation in Issuance of Securities	Involvement with Affiliates	Treasury Stock Held
Stock	Analyst	Type	Number of Shares	Purchase Price	Purchase Date				

**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
2015-12-11	BUY	121,000

Source: Bloomberg, Mirae Asset Research

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