

February 24, 2016 Company Earnings Review



Coway (021240)

BUY (maintain)

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Current price (Feb 17) KRW98,300
Target Price KRW110,000

4Q15 Earnings Review

- Favorable 4Q15 consolidated earnings exceeded market consensus
- High growth of wellness home appliance business to continue given sound rental business earnings
- Maintain BUY with target price of KRW110,000

Fig 1: 4Q15 earnings surpassed market expectations due to robust growth rate of wellness home appliance business

KRWbn	4Q15P	Growth(%)		HRC	
		YoY	QoQ	Est.	Consen
OR	631.3	16.3	8.8	583.8	582.3
OP	128.5	57.3	3.6	105.3	99.2
EBT	122.7	71.5	0.8	101.9	91.5
NP	90.5	69.6	(2.0)	77.2	72.3

Source: Company data, FnGuide, Hyundai Securities

Fig 2: Rental and other businesses continued robust growth in 4Q15

KRWbn	4Q15P	Growth(%)		4Q14	3Q15
		YoY	QoQ		
OR	631.3	16.3	8.8	542.9	580.5
Living appliance	509.2	16.2	4.7	438.3	486.5
Cosmetic	20.2	1.2	8.9	20.0	18.6
Export	41.4	23.6	15.6	33.5	35.8
Others	60.4	18.2	52.5	51.1	39.6
Rental sales unit('Oth)	35.9	8.4	6.5	33.2	33.8
Total account('Oth)	577.1	2.8	0.8	561.7	572.3

Source: Company data, Hyundai Securities

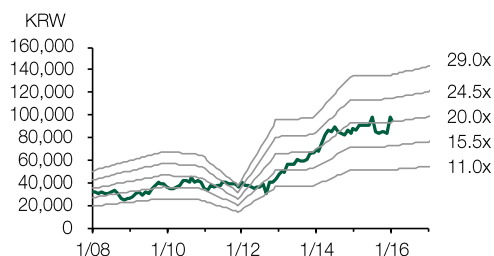
Favorable 4Q15 consolidated earnings exceeded market consensus

4Q15 consolidated OR and OP increased 16.3%YoY and 57.3%YoY, respectively, greatly exceeding market consensus. Robust growth continued at the wellness home appliance division due to the high growth rate of the rental business (net increase of 530,000 rental accounts and 2.1%YoY increase in ARPU) and improved lump-sum payment sales (robust new item sales and rising proportion of high margin product sales). Also, efficient profitability management continued (2014 OP margin of 16.9% -> 2015 OP margin of 20%) due to the leverage effect stemming from increased ASP, management of cancellation rates (fell from 1.06% in 3Q15 to 0.96% in 4Q15) and decreased obsolescence losses on rental appliances (fell from KRW10.8bn in 3Q15 to KRW9.8bn in 4Q15).

High growth of wellness home appliance business to continue given sound rental business earnings

Business conditions remained robust in 4Q15. Rental sales volume stood at 3.59mn and net increase in rental accounts came in at 0.53mn units, respectively, in 4Q15 (compared to 0.32mn units in 3Q15). This is mainly due to 1) the expansion of female marketing staff referred to as "Codi" and 2) enhanced competitiveness through premium line-up expansion. The high growth of the wellness home appliance division was led by a 21.1%YoY increase in homecare (mattress) accounts under management. Tepid earnings at the ODM business were offset by robust growth at overseas subsidiaries (4Q15 OR at Malaysian and U.S subsidiaries increased 19.5%YoY and 29.9%YoY, respectively). Also, Green EnTech's consolidated earnings increased 135.7%YoY due to an increase in overseas orders.

Fig 3: Share price rebounding on sound 2016 earnings expectations



Source: Quantivise, Hyundai Securities

Maintain BUY with target price of KRW110,000

Coway's share price is rebounding as earnings are expected to improve in 2016. Domestic rental market growth trend is expected to continue, but we recommend a conservative stance on Coway until issues involving the majority shareholder are resolved (with the stake disposal, maintaining sound profitability is uncertain). Given a 2016 PER of 21x, the current share price seems burdensome. However, we recommend a trading approach before the majority shareholder issue is resolved. We maintain BUY with a target price of KRW110,000.

FY-end	12/13A	12/14A	12/15P	12/16F	12/17F
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
OR (KRWbn)	2,118.3	2,160.3	2,315.2	2,425.3	2,553.4
OP (KRWbn)	339.0	364.4	463.2	467.5	492.2
NP (KRWbn)	245.1	249.7	343.1	345.5	364.1
Parent NP (KRWbn)	245.1	249.7	343.2	345.6	364.1
EPS (KRW)	3,288	3,360	4,622	4,651	4,901
Adj. EPS (KRW)	3,288	3,360	4,622	4,651	4,901
PER* (x)	20.5-13.1	28.2-18.7	23.1-16.2	21.1	20.1
PBR (x)	5.3	6.0	5.0	5.3	4.8
EV/EBITDA (x)	9.7	11.3	9.2	10.7	10.3
Div. Yield (%)	4.1	2.4	3.3	3.1	3.3
ROE (%)	28.4	25.2	30.2	26.4	25.2
ROIC (%)	25.1	27.3	33.4	31.1	29.5

Note: IFRS-C = Consolidated financial statements; IFRS-P = Individual financial statements

Source: Company data, Hyundai Securities

Profit & Loss					
(KRWbn)	12/13A	12/14A	12/15P	12/16F	12/17F
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
Operating revenue	2,118.3	2,160.3	2,315.2	2,425.3	2,553.4
Cost of sales	721.0	726.6	728.9	776.3	819.3
Gross profit	1,397.4	1,433.7	1,586.3	1,649.0	1,734.1
SG&A expenses	1,058.3	1,069.3	1,123.1	1,181.5	1,241.8
Other operating income	0.0	0.0	0.0	0.0	0.0
Operating profit	339.0	364.4	463.2	467.5	492.2
EBITDA	537.2	578.0	690.8	698.0	722.4
Non-operating accounts	(11.9)	(32.0)	(8.8)	(8.2)	(7.7)
Net financing income	(14.5)	(8.9)	(3.0)	(2.6)	(2.6)
Profit on equity method	17.6	0.0	0.0	0.0	0.0
Net other non-operating income	(15.0)	(23.1)	(5.8)	(5.6)	(5.0)
Profit before tax	327.1	332.4	454.4	459.3	484.6
Income tax expense	82.1	82.8	111.3	113.8	120.4
Net profit	245.1	249.7	343.1	345.5	364.1
Profit attributable to owners of parent	245.1	249.7	343.2	345.6	364.1
Total comprehensive income	243.8	241.1	337.3	345.5	364.1
TCI, attributable to owners of parent	243.8	241.1	337.3	345.6	364.1
Net exceptionals	0.0	0.0	0.0	0.0	0.0
Adj. net profit	245.1	249.7	343.2	345.6	364.1

Cash Flow					
(KRWbn)	12/13A	12/14A	12/15P	12/16F	12/17F
Net profit	245.1	249.7	343.1	345.5	364.1
Depreciation & amortization	198.2	213.6	227.6	230.5	230.2
Other non-cash adjustments	176.0	201.7	187.1	113.8	120.4
Investments in working capital	(41.1)	(29.1)	(76.2)	(0.9)	1.4
Other operating cash flow	(41.5)	(99.1)	(118.2)	(114.0)	(120.3)
Cash flow from operating activities	536.8	536.7	563.3	575.0	595.8
Capital expenditure	(258.3)	(296.2)	(244.7)	(300.0)	(320.0)
Investments in intangibles	(2.4)	(6.0)	(5.0)	(5.0)	(5.0)
Changes in current financial assets	(3.1)	0.2	(0.6)	1.0	0.5
Changes in investment assets	183.0	0.1	3.1	(1.7)	0.9
Other investment cash flow	4.6	2.7	(15.5)	(36.1)	(43.9)
Cash flow from investing activities	(76.3)	(299.2)	(262.7)	(341.8)	(367.5)
Proceeds from (repayments of) debt	(261.6)	(169.1)	(11.6)	(1.5)	(1.5)
Changes in equity	(13.9)	(27.6)	5.2	0.0	0.0
Dividends paid	(78.4)	(123.6)	(148.3)	(208.0)	(222.9)
Other financing cash flow	(19.0)	(7.6)	(12.6)	(0.2)	0.1
Cash flow from financing activities	(372.9)	(327.9)	(167.3)	(209.8)	(224.2)
Other cash flow	(1.3)	(0.9)	(0.5)	0.0	0.0
Increase/decrease in cash	86.3	(91.3)	132.8	23.4	4.0
Cash and cash equivalents at FYB	152.4	238.7	147.4	280.2	303.5
Cash and cash equivalents at FYE	238.7	147.4	280.2	303.5	307.6
	0.0	0.0	0.0	0.0	0.0
Gross operating cash flow	448.0	485.6	576.3	582.1	600.2
Free cash flow	135.3	134.3	179.6	240.0	232.8
Net cash flow	341.7	70.0	140.9	23.9	5.0
Net cash (net debt)	(91.2)	(21.2)	119.7	143.5	148.5

Operating Statistics & Ratios					
(%)	12/13A	12/14A	12/15P	12/16F	12/17F
OR growth	6.3	2.0	7.2	4.8	5.3
OP growth	49.9	7.5	27.1	0.9	5.3
EBITDA growth	31.1	7.6	19.5	1.0	3.5
NP growth of parent	160.7	1.9	37.4	0.7	5.4
Adj. NP growth	160.7	1.9	37.4	0.7	5.4
OP margin	16.0	16.9	20.0	19.3	19.3
EBITDA margin	25.4	26.8	29.8	28.8	28.3
NP margin	11.6	11.6	14.8	14.2	14.3
Adj. NP margin	11.6	11.6	14.8	14.2	14.3

Statement of financial position					
(KRWbn)	12/13A	12/14A	12/15P	12/16F	12/17F
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
Cash and cash equivalents	238.7	147.4	280.2	303.5	307.6
Current financial assets	6.5	6.4	3.5	2.5	2.0
Trade receivables	212.6	208.8	227.9	227.9	227.9
Inventories	65.8	61.9	65.5	65.5	65.5
Other current assets	167.9	172.4	189.3	189.3	189.3
Current assets	691.4	596.8	766.3	788.7	792.2
Investment assets	81.8	81.4	78.0	79.7	78.9
Property, plant and equipment	638.3	675.2	633.4	710.0	806.7
Intangible assets	176.8	170.6	167.2	165.0	163.2
Deferred tax assets	0.3	0.9	2.4	2.4	2.4
Other non-current assets	79.3	96.7	167.5	203.7	247.5
Non-current assets	976.4	1,024.8	1,048.5	1,160.8	1,298.6
Total assets	1,667.9	1,621.6	1,814.9	1,949.5	2,090.9

Trade payables	36.7	59.0	60.2	60.8	61.4
Short-term financial liabilities	328.0	164.5	148.0	146.5	145.1
Current provisions	4.2	1.4	1.4	1.4	1.4
Other current liabilities	307.8	301.1	304.1	302.6	303.3
Current liabilities	676.7	526.0	513.8	511.4	511.3
Non-current financial liabilities	8.3	10.4	16.0	16.0	16.0
Non-current provisions	0.6	0.7	0.6	0.6	0.6
Provisions for employee benefits	8.4	16.0	16.3	16.1	16.2
Deferred tax liabilities	21.4	20.1	20.5	20.3	20.4
Other non-current liabilities	11.5	9.0	9.2	9.1	9.2
Non-current liabilities	50.2	56.2	62.5	62.1	62.3
Total liabilities	727.0	582.2	576.3	573.5	573.6

Issued capital	40.7	40.7	40.7	40.7	40.7
Share premium	126.2	126.5	126.5	126.5	126.5
Other equity interest	(94.4)	(114.5)	(104.2)	(104.2)	(104.2)
Accumulated other comprehensive income	0.4	(0.0)	(5.4)	(5.4)	(5.4)
Retained earnings	868.0	985.9	1,180.2	1,317.7	1,458.9
Equity attributable to owners of parent	940.9	1,038.5	1,237.7	1,375.2	1,516.5
Non-controlling interests	0.0	0.9	0.9	0.9	0.8
Total equity	940.9	1,039.4	1,238.6	1,376.1	1,517.3
Total Liab. and equity	1,667.9	1,621.6	1,814.9	1,949.6	2,090.9

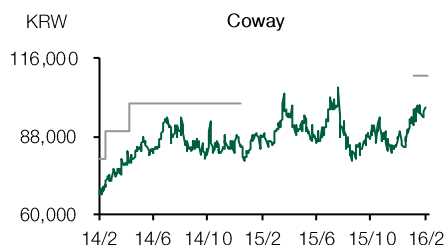
Per-share Performance					
(KRW)	12/13A	12/14A	12/15P	12/16F	12/17F
EPS	3,288	3,360	4,622	4,651	4,901
Adj. EPS	3,288	3,360	4,622	4,651	4,901
BPS	12,635	14,001	16,659	18,510	20,411
SPS	28,421	29,068	31,187	32,643	34,367
GCFPS	6,011	6,534	7,763	7,834	8,079
DPS	2,710	2,000	2,800	3,000	3,200
3yr CAGR of adj. EPS	54.0	12.3	13.4	4.2	5.7

Shareholder Value & Financial Structure					
(%)	12/13A	12/14A	12/15P	12/16F	12/17F
ROE	28.4	25.2	30.2	26.4	25.2
ROA	15.1	15.7	20.2	18.5	18.2
ROIC	25.1	27.3	33.4	31.1	29.5
WACC	7.2	3.9	7.2	7.9	7.9
ROIC/WACC (x)	3.5	7.0	4.6	3.9	3.7
Economic profit (KRWbn)	176.7	233.9	275.7	266.3	275.9
Total liab./equity	77.3	56.0	46.5	41.7	37.8
Net debt/equity	9.7	2.0	Net cash	Net cash	Net cash
Interest coverage (x)	28.9	50.1	158.3	165.3	173.6

Note: Adj. EPS = [(Adjusted NP - preferred share NP) + (after-tax dilution adjustment)] / (diluted avg. number of ordinary shares outstanding). Adjusted NP = (Parent NP) - (net exceptional gains)
Net exceptional gains: After-tax exceptional gains (exceptional gains attributable to parent including FX gains, derivatives gains, valuation gains, one-off gains and discontinued operation gains)
Reporting standard: IFRS-C = Consolidated financial statements, IFRS-I = Individual financial statements, IFRS-S = Separate financial statements
Source: Coway, HyundaiSecurities

Disclosures

■ Rating and Target Price Changes



Company	Date	Rating	Target Price (KRW)
Coway	14/03/04	BUY	90,000
	14/04/28	BUY	100,000
	15/12/03	BUY	110,000

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■ Rating: Sector: Overweight (+10% or more), Neutral (-10 - +10%), Underweight (-10% or more)
Company: Strong BUY (+30% or more), BUY (+10 - +30%), Marketperform (-10 - +10%), Underperform (-10% or more) (Share price —, Target Price —)

■ Proportion of investment rating (As of December 31, 2015)

BUY	Neutral	Sell
86.4	13.2	0.3

* Based on reports presented with investment ratings over the past one year

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