

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

Earnings preview

Korea / Consumer

18 March 2016

**BUY**

Target price **KRW121,000**

Last price (16 Mar. 2016) **KRW97,200**

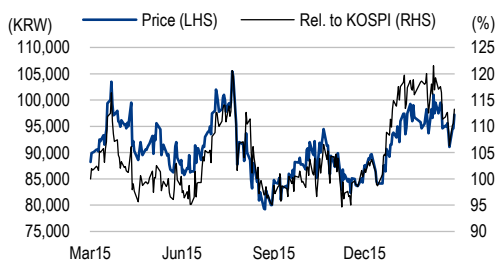
Upside/downside (%)	24.5
KOSPI	1,974.90
Mkt. cap (KRW bn/USD bn)	7,497/6.3
52-week range (KRW)	79,200 - 105,500
Avg. trading value daily (KRW bn)	13.91
Foreign ownership (%)	53.1

Source: Bloomberg

**Forecast earnings & valuation**

Fiscal year ending	Dec-14	Dec-15	Dec-16 E	Dec-17 E
Revenue (KRW bn)	2,160	2,315	2,486	2,595
EBIT (KRW bn)	364.4	463.3	508.7	555.1
Net profit (KRW bn)	249.7	343.1	377.0	412.1
Net profit (underlying)	249.7	343.1	377.0	412.1
EPS (KRW)	3,237	4,449	4,888	5,344
EPS growth (%)	1.9	37.4	9.9	9.3
P/E (x)	26.0	19.3	19.9	18.2
EV/EBITDA (x)	11.3	9.6	10.0	9.1
Dividend yield (%)	2.4	3.3	3.4	4.0
P/B (x)	6.2	5.4	5.3	4.8
ROE (%)	25.2	30.2	28.6	27.7
Net debt/equity (%)	2.5	(9.7)	(16.6)	(22.8)

**Performance**



Performance	1M	3M	12M
Absolute (%)	0.2	12.5	13.7
Absolute (USD, %)	2.0	11.9	7.6
Relative to KOSPI (%)	(4.4)	12.2	14.3

Source: Bloomberg

**Woochang Chung**, Analyst  
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# Coway (021240 KS)

## Good defensive play

We have reviewed our 2016 earnings and dividend outlook for Coway. Despite uncertainties over changes in major shareholders, we believe its stable 2016 earnings outlook and 3.4% dividend yield for 2016 should provide solid downside support. We maintain our BUY rating for Coway.

### Stable earnings growth outlook for 2016

Following 37% YoY growth in 2015, we expect the company's net profit to grow by 9.9% in 2016. Our net profit growth forecasts are based on 9.8% YoY growth in operating profit, thanks to: 1) growth in domestic rental business sales of 3.7% YoY; and 2) operating profit margin improvement of 0.5ppt YoY, thanks to higher ARPU and launches of new rental products. Our 2016 operating profit estimate of KRW508.7bn is roughly in line with management's guidance of KRW499bn.

### Firm dividend for 2016

We expect stable earnings growth and limited increase in capex to result in a 14% free cash flow (FCF) in 2016. With Coway's net cash position, we think the positive free cash growth should lead to a continued increase in dividend payouts to improve shareholder value. We expect Coway's dividend per share to rise to KRW3,300 in 2016 (versus 2015's KRW2,800), which translates into a running dividend yield of 3.4%.

### Expect inline healthy 1Q16 earnings

We expect Coway's consolidated operating profit to reach KRW115.6bn (+15.2% YoY) in 1Q16, which is roughly in line with consensus estimate. We attribute the healthy operating profit growth to: 1) continued growth in ARPU and subscribers for the domestic health-appliance rental business (62% of total sales); and 2) a low base of exports (+15% YoY) in 1Q15. With continued ARPU increases (+1.2% YoY) and stable rental subscriber growth (+2.5% YoY), we expect domestic health-appliance rental service sales to grow 3.7% YoY to KRW376.8bn. In addition, we expect a gradual recovery in exports (7% of total sales), along with new product launches and a low base of 1Q15 (-27% YoY).

### BUY rating and target price of KRW121,000 maintained

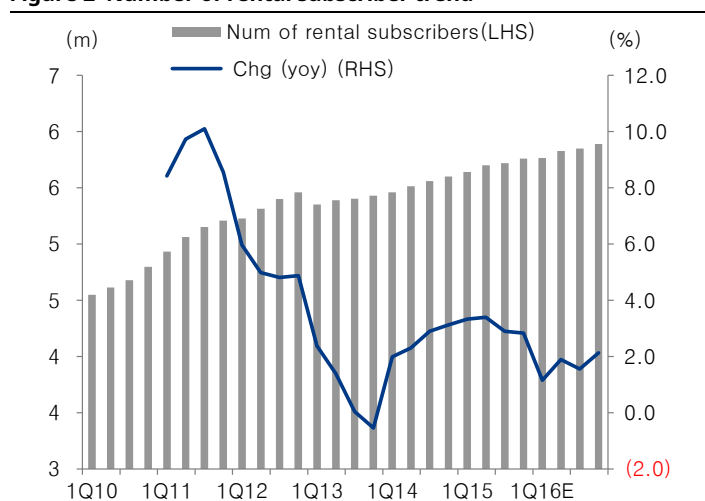
Coway's share price has outperformed the KOSPI by 12.2% over the past three months, thanks to stronger-than-expected 4Q15 earnings results and a solid dividend yield. We believe its stable 2016 earnings outlook and 3.4% dividend yield for 2016 should provide solid downside support. The stock is currently trading at 2016E P/E of 19.9x, which is the 5-year historical average.

Figure 1 1Q16 results preview (K-IFRS consolidated)

(KRWbn, %, ppt)	1Q15	2Q15	3Q15	4Q15	1Q16E	YoY (%)	QoQ (%)	4Q15 (Cons.)	Diff. (%)	4Q15 (Mirae)	Diff. (%)
Sales	548.2	555.3	580.4	631.3	602.7	9.9	(4.5)	593.8	1.5	602.7	0.0
Operating profit	100.3	110.5	123.9	128.6	115.6	15.2	(10.1)	117.3	(1.5)	121.2	(4.6)
Recurring profit	101.1	108.9	121.7	122.7	114.1	12.8	(7.0)	118.6	(3.8)	119.7	(4.7)
Net profit (for controlling stake)	77.6	82.7	92.4	90.5	85.6	10.3	(5.4)	89.7	(4.6)	89.8	(4.7)
Operating profit margin (%)	18.3	19.9	21.4	20.4	19.2	0.9	(1.2)	19.8	(0.6)	20.1	(0.9)
Recurring profit margin (%)	18.4	19.6	21.0	19.4	18.9	0.5	(0.5)	20.0	(1.0)	19.9	(0.9)
Net profit margin (%)	14.2	14.9	15.9	14.3	14.2	0.0	(0.1)	15.1	(0.9)	14.9	(0.7)

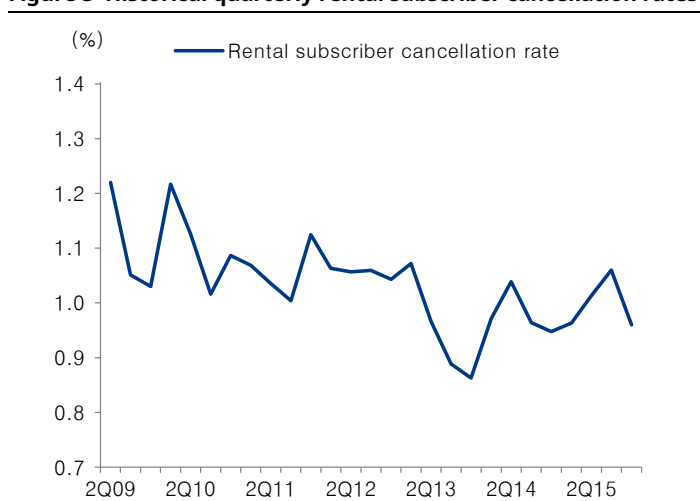
Source: Company data, Bloomberg, Mirae Asset Research

Figure 2 Number of rental subscriber trend



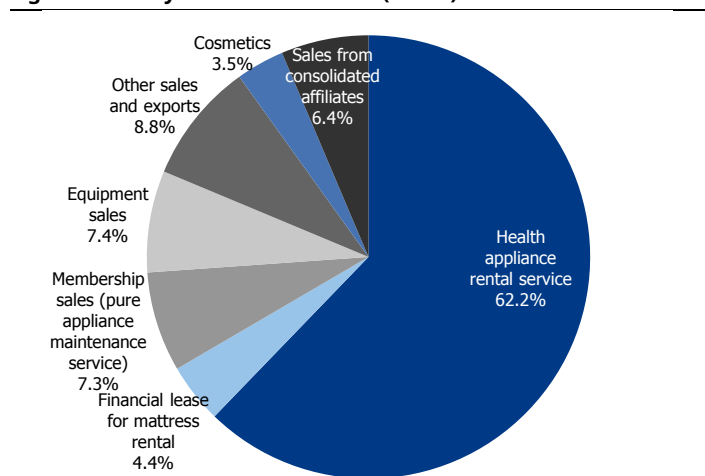
Source: Company data, Mirae Asset Research

Figure 3 Historical quarterly rental subscriber cancellation rates



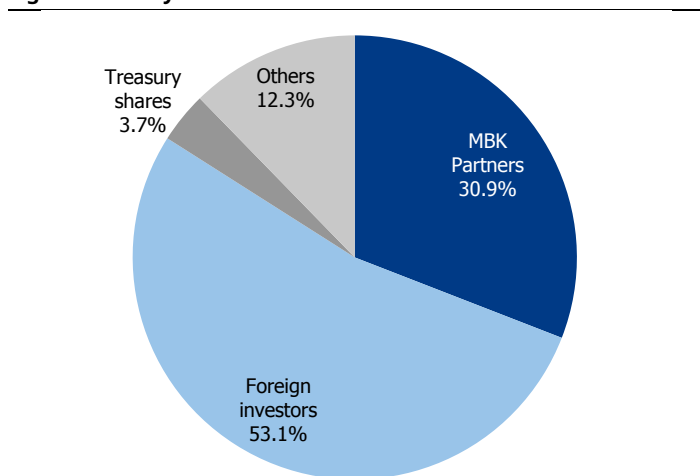
Source: Company data

Figure 4 Coway's sales breakdown (2016E)



Source: Mirae Asset Research

Figure 5 Coway's shareholder structure



Source: Company data

**Figure 6 12M forward P/E band**



Source: Quantiwise, Mirae Asset Research

**Figure 7 12M forward EV/EBITDA band**



Source: Quantiwise, Mirae Asset Research

Figure 8 Quarterly earnings estimates

(KRW bn)	1Q14	2Q14	3Q14	4Q14	2014	1Q15	2Q15	3Q15	4Q15	2015	1Q16	2Q16E	3Q16E	4Q16E	2016E
Sales	535.0	556.9	525.5	542.9	2,160.3	548.2	555.3	580.4	631.3	2,315.2	602.7	612.4	617.2	653.5	2,485.8
Operating profit	90.3	97.2	95.3	81.7	364.4	100.3	110.5	123.9	128.6	463.3	115.6	126.8	132.1	134.2	508.7
Recurring profit	88.4	86.5	85.9	71.5	332.4	101.1	108.9	121.7	122.7	454.5	114.1	125.3	130.6	132.7	502.7
Income tax	22.4	20.2	22.0	18.2	82.8	23.5	26.2	29.4	32.3	111.3	28.5	31.3	32.7	33.2	125.7
Tax rate (%)	25.3	23.4	25.6	25.4	24.9	23.3	24.1	24.1	26.3	24.5	25.0	25.0	25.0	25.0	100.0
Net profit (for controlling stake)	66.1	66.3	63.9	53.4	249.7	77.6	82.7	92.4	90.5	343.1	85.6	94.0	98.0	99.5	377.0
<b>Chg. (% YoY)</b>															
Sales	5.4	0.1	(0.9)	3.6	2.0	2.5	(0.3)	10.4	16.3	7.2	9.9	10.3	6.4	3.5	7.4
Operating profit	29.5	18.6	(1.0)	(10.3)	7.5	11.1	13.7	30.1	57.4	27.1	15.2	14.8	6.6	4.3	9.8
Recurring profit	17.4	6.8	6.9	(20.9)	1.6	14.3	25.9	41.6	71.5	36.7	12.8	15.0	7.3	8.1	10.6
Net profit (for controlling stake)	15.2	11.1	6.4	(21.4)	1.9	17.4	24.8	44.4	69.5	37.4	10.3	13.6	6.1	10.0	9.9
<b>Margins (%)</b>															
Operating margin	16.9	17.4	18.1	15.0	16.9	18.3	19.9	21.4	20.4	20.0	19.2	20.7	21.4	20.5	20.5
Recurring margin	16.5	15.5	16.4	13.2	15.4	18.4	19.6	21.0	19.4	19.6	18.9	20.5	21.2	20.3	20.2
Net margin (for controlling stake)	12.4	11.9	12.2	9.8	11.6	14.2	14.9	15.9	14.3	14.8	14.2	15.3	15.9	15.2	15.2

Source: Coway, Mirae Asset Research

## Summary financial statements

### Profit & loss

Year end Dec 31 (KRW bn)	2014	2015	2016E	2017E
<b>Revenue</b>	<b>2,160</b>	<b>2,315</b>	<b>2,486</b>	<b>2,595</b>
Cost of goods sold	727	729	779	812
<b>Gross profit</b>	<b>1,434</b>	<b>1,586</b>	<b>1,707</b>	<b>1,783</b>
SG&A	1,069	1,123	1,198	1,227
<b>EBIT (Adj.)</b>	<b>364</b>	<b>463</b>	<b>509</b>	<b>555</b>
<b>EBIT</b>	<b>364</b>	<b>463</b>	<b>509</b>	<b>555</b>
Net interest income (loss)	(9)	(3)	3	6
Income (loss) from associates	0	0	0	0
Others	(23)	(6)	(9)	(11)
<b>Recurring profit</b>	<b>332</b>	<b>454</b>	<b>503</b>	<b>549</b>
Income tax	83	111	126	137
<b>Net profit</b>	<b>250</b>	<b>343</b>	<b>377</b>	<b>412</b>
<b>Net profit (Controlling Interests)</b>	<b>250</b>	<b>343</b>	<b>377</b>	<b>412</b>
EPS (Controlling Interests, KRW)	3,237	4,449	4,888	5,344

Growth & margins (%)	2014	2015	2016E	2017E
Revenue growth	2.0	7.2	7.4	4.4
Gross profit growth	2.6	10.6	7.6	4.4
EBIT growth	7.5	27.1	9.8	9.1
Net profit growth	1.9	37.4	9.9	9.3
EPS growth	1.9	37.4	9.9	9.3
Gross margin	66.4	68.5	68.7	68.7
EBIT margin	16.9	20.0	20.5	21.4
Net profit margin	11.6	14.8	15.2	15.9

Source: Coway, Mirae Asset Research estimates

### Cash flow

Year end Dec 31 (KRW bn)	2014	2015	2016E	2017E
<b>Cash flow from operations</b>	<b>524</b>	<b>551</b>	<b>590</b>	<b>640</b>
Net profit	250	343	377	412
Depr. & amortization	214	210	216	230
Others	103	46	47	46
Change in working capital	(42)	(49)	(50)	(48)
<b>Cash flow from investing</b>	<b>(287)</b>	<b>(271)</b>	<b>(271)</b>	<b>(271)</b>
Capital expenditures	(296)	(270)	(270)	(270)
Others	9	(1)	(1)	(1)
<b>Cash flow from financing</b>	<b>(328)</b>	<b>(313)</b>	<b>(206)</b>	<b>(245)</b>
Dividends	(124)	(149)	(206)	(245)
Increase in equity	0	0	0	0
Increase in debt	(162)	(164)	0	0
Beginning cash	239	154	121	234
Ending cash	147	121	234	359

Source: Coway, Mirae Asset Research estimates  
Note: \*Including short-term financial asset

### Balance sheet

Year end Dec 31 (KRW bn)	2014	2015	2016E	2017E
<b>Current assets</b>	<b>597</b>	<b>595</b>	<b>744</b>	<b>891</b>
Cash & equivalents	147	93	124	130
Short-term financial asset	0	28	110	229
Accounts receivable	229	224	240	251
Inventory	62	66	71	74
Other current assets	158	185	198	207
<b>Non-current assets</b>	<b>1,025</b>	<b>1,084</b>	<b>1,138</b>	<b>1,179</b>
Net fixed assets	675	743	804	853
Investments	2	2	2	2
Other long-term assets	347	339	331	323
<b>Total assets</b>	<b>1,622</b>	<b>1,680</b>	<b>1,882</b>	<b>2,069</b>
<b>Current liabilities</b>	<b>526</b>	<b>388</b>	<b>416</b>	<b>434</b>
Accounts payable	220	63	68	71
Short-term debt	164	0	0	0
Other current liabilities	142	324	348	363
<b>Non-current liabilities</b>	<b>56</b>	<b>59</b>	<b>61</b>	<b>63</b>
Long-term debt	9	1	1	1
Other long-term liabilities	47	58	61	62
<b>Total liabilities</b>	<b>582</b>	<b>446</b>	<b>478</b>	<b>498</b>
Controlling Interests	1,039	1,234	1,405	1,572
Non-Controlling Interests	1	0	0	0
<b>Shareholder's equity</b>	<b>1,039</b>	<b>1,234</b>	<b>1,405</b>	<b>1,572</b>
BVPS(KRW)	13,477	15,995	18,214	20,380

Source: Coway, Mirae Asset Research estimates

### Ratio analysis

Year end Dec 31	2014	2015	2016E	2017E
ROE (%)	25.2	30.2	28.6	27.7
ROA (%)	15.2	20.8	21.2	20.9
Inventory days	10.8	10.1	10.1	10.2
Receivables days	40.4	35.7	34.1	34.5
Payable days	34.9	22.3	9.6	9.8
Net debt/equity (%)	2.5	(9.7)	(16.6)	(22.8)
Interest cover (x)	41.3	158.9	(149.5)	(96.0)

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: 85.9%  
HOLD: 12.9%  
REDUCE: 1.2%  
TOTAL: 100%  
(All data are current as of 29 Feb. 2016)

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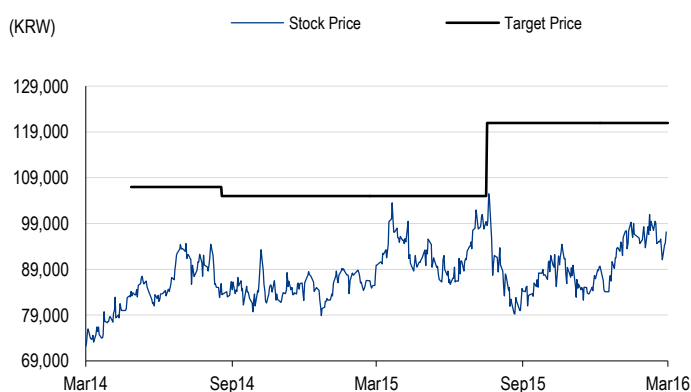
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Securities Held by the Analyst						Holdings of share of over 1%	Participation in Issuance of Securities	Involvement with Affiliates	Treasury Stock Held
Stock	Analyst	Type	Number of Shares	Purchase Price	Purchase Date				

**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
2016-03-18	BUY	121,000

Source: Bloomberg, Mirae Asset Research

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