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Company Update



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Coway (021240)

Stable and growing

- Coway's 1Q sales and operating profit rose a respective 14% and 23% y-y, the latter growing in the double-digits for a fifth straight quarter. Solid growth in overseas and outright sales garnered attention, but flagship rental sales slightly missed our forecast. The results should stabilize shares in the near term. On a long-term view, we advise accumulating Coway for its stability and growth even in an uncertain macro environment. We maintain BUY on the firm with a KRW135,000 target.

WHAT'S THE STORY?

1Q review: Coway's sales and operating profit in 1Q grew a respective 14% and 23% y-y to KRW623.7b and KRW123.6b, with a margin of 19.8% (up 1.5%pts y-y), the results somewhere between our forecasts and consensus. That outright sales growth remained robust and overseas sales improved sharply is positive. Rental sales missed our estimate, but the slight shortfall is not worrisome. A 3Q15 accounting rule change (for mattresses) has inflated the firm's sales and operating profit, but we believe the latter would have seen double-digit growth even under the previous standard.

- Overseas sales jumped for a second straight quarter, rising 72% y-y and 37% q-q. Some worry such growth is temporary, but since the company's lead time has shortened to three weeks (*nb*, inventory adjustments were a major culprit in weakness of 2014-2015), we believe real demand is driving results and see inventory adjustment risk as low.
- Coway's outright sales growth seems sustainable—they grew 68% y-y in 1Q16, with a year of efforts to diversify products and distribution channels paying off, evidencing the firm's extensible business model. Flagship rental service sales grew steadily at 5% y-y as ARPU and the number of rental accounts rose 0.4% and 4% y-y, respectively. Both figures came in just below our estimates.
- **Maintaining BUY:** We fine-tune our 2016 forecasts, raising estimates for overseas and outright sales while lowering figures for non-core businesses. We keep our 12-month target price at KRW135,000 (based on a DCF valuation assuming 5.9% WACC and 0.5% terminal growth), which equates to 27x 2016 P/E. We reiterate BUY on Coway for its stability and growth in an uncertain macro environment. Shares offer a dividend yield of 3.2% assuming a 60% payout ratio and DPS of KRW3,100.

AT A GLANCE

SELL HOLD **BUY**

Target price KRW135,000 (40.6%)

Current price KRW96,000

Market cap KRW7.4/USD6.5b
 Shares (float) 77,124,796 (65.4%)
 52-week high/low KRW105,500/KRW79,200
 Avg daily trading value (60-day) KRW14.3b/USD12.6m

ONE-YEAR PERFORMANCE

	1M	6M	12M
Coway (%)	1.8	6.7	6.3
Vs Kospi (%pts)	1.1	10.0	13.8

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	135,000	135,000	0.0%
2016E EPS	5,025	4,994	0.6%
2017E EPS	5,503	5,326	3.3%

SAMSUNG vs THE STREET

No of estimates	13
Target price	125,231
Recommendation	4.0

BUY★★: 5/BUY: 4/HOLD: 3/SELL: 2/SELL★★: 1

SUMMARY OF 1Q RESULTS

(KRWb)	1Q16	Chg		Diff (%)	
		(% y-y)	(% q-q)	Samsung	Consensus
Sales	623.7	13.8	(1.2)	(1.4)	3.2
Operating profit	123.6	23.2	(3.9)	(6.1)	4.6
Pre-tax profit	125.3	23.9	2.1	(3.9)	8.9
Net profit	95.2	22.7	5.2	(2.6)	0.9
Margins (%)					
Operating profit	19.8				
Pre-tax profit	20.1				
Net profit	15.3				

Source: Company data, Samsung Securities estimates

VALUATION SUMMARY

	2015	2016E	2017E
Multiples (x)			
P/E	21.4	19.1	17.4
P/B	6.2	5.4	4.7
EV/EBITDA	10.6	9.7	8.7
Div yield (%)	2.9	3.2	3.5
EPS growth (% y-y)	39.3	11.9	9.5
ROE (%)	30.1	29.0	27.9
EPS	4,492	5,025	5,503
BVPS	15,465	17,756	20,235
DPS	2,800	3,100	3,400

Results and forecasts

	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16E	3Q16E	4Q16E	2015P	2016E	2017E	2018E
Earnings summary												
(KRWb)	548.2	555.3	580.4	631.3	623.7	630.2	622.4	661.7	2,315.2	2,537.9	2,738.9	2,957.8
Sales	373.0	384.7	402.3	426.4	416.6	429.6	431.5	448.0	1,586.4	1,725.8	1,876.2	2,026.1
Gross profit	100.3	110.5	123.9	128.6	123.6	128.1	130.0	138.1	463.3	519.8	568.1	615.3
Operating profit	101.1	108.9	121.7	122.7	125.3	125.2	127.2	135.2	454.5	512.9	562.0	610.2
Pre-tax profit	77.6	82.7	92.4	90.5	95.2	93.5	95.0	101.0	343.1	384.7	421.5	457.7
Net profit												
Margins (%)	68.0	69.3	69.3	67.5	66.8	68.2	69.3	67.7	68.5	68.0	68.5	68.5
Gross profit	18.3	19.9	21.4	20.4	19.8	20.3	20.9	20.9	20.0	20.5	20.7	20.8
Operating profit	18.4	19.6	21.0	19.4	20.1	19.9	20.4	20.4	19.6	20.2	20.5	20.6
Pre-tax profit	14.1	14.9	15.9	14.3	15.3	14.8	15.3	15.3	14.8	15.2	15.4	15.5
Net profit												
Chg (% y-y)	2.5	(0.3)	10.4	16.3	13.8	13.5	7.2	4.8	7.2	9.6	7.9	8.0
Sales	5.8	4.3	12.6	20.2	11.7	11.7	7.3	5.1	10.6	8.8	8.7	8.0
Gross profit	11.1	13.7	30.1	57.4	23.2	15.9	4.9	7.3	27.1	12.2	9.3	8.3
Operating profit	14.3	25.9	41.6	71.5	23.9	15.0	4.5	10.2	36.7	12.9	9.6	8.6
Pre-tax profit	17.4	24.8	44.5	69.6	22.7	13.0	2.8	11.6	37.4	12.1	9.6	8.6
Net profit												
Chg (% q-q)	1.0	1.3	4.5	8.8	(1.2)	1.0	(1.2)	6.3				
Sales	5.2	3.1	4.6	6.0	(2.3)	3.1	0.5	3.8				
Gross profit	22.8	10.1	12.2	3.8	(3.9)	3.6	1.5	6.2				
Operating profit	41.3	7.8	11.7	0.8	2.1	(0.0)	1.6	6.3				
Pre-tax profit	45.4	6.6	11.7	(2.0)	5.2	(1.8)	1.6	6.3				
Net profit												
Sales breakdown												
Household electronics	439.3	457.9	481.3	504.3	495.0	510.7	517.3	532.8	1,882.9	2,055.8	2,187.2	2,322.5
Outright sales	30.0	41.4	45.6	54.2	50.5	53.8	55.6	57.3	171.2	217.2	247.9	281.9
Rental	363.3	371.2	376.4	380.2	380.1	387.9	393.3	406.6	1,491.1	1,567.9	1,639.2	1,715.0
Membership	46.0	45.4	44.5	43.7	42.9	44.0	43.2	42.3	179.6	172.4	172.4	172.4
Financial lease			14.8	26.1	21.5	25.0	25.2	26.5	40.9	98.2	127.7	153.2
Exports	33.0	39.0	35.8	41.4	56.7	54.6	41.2	41.5	149.3	194.1	232.9	279.4
Cosmetics	23.1	21.1	18.6	20.2	20.1	21.1	19.5	18.2	83.1	78.9	86.8	95.5
Other (water treatment)	10.6	9.4	10.0	16.1	5.8	7.6	8.0	15.5	46.1	36.9	36.9	36.9
Consolidated other	42.1	27.9	34.7	49.3	46.1	36.2	36.4	53.6	194.9	172.3	195.2	223.5
Chg (% y-y)												
Household electronics	6.2	6.5	11.6	16.6	12.7	11.5	7.5	5.7	10.3	9.2	6.4	6.2
Outright sales	8.8	10.7	43.5	102.9	68.2	30.0	22.0	5.7	38.6	26.9	14.1	13.7
Rental	6.1	7.0	6.7	6.0	4.6	4.5	4.5	6.9	6.5	5.2	4.5	4.6
Membership	4.9	(0.8)	(5.0)	(6.7)	(6.8)	(3.0)	(3.0)	(3.1)	(2.0)	(4.0)	0.0	0.0
Financial lease							70.0	1.7			30.0	20.0
Exports	(27.0)	(30.0)	8.5	23.9	71.8	40.0	15.0	0.2	(10.8)	30.0	20.0	20.0
Cosmetics	10.5	(5.3)	8.3	1.1	(13.1)	0.0	5.0	(10.2)	3.3	(5.0)	10.0	10.0
Other (water treatment)	(28.2)	(38.6)	(31.7)	18.1	(45.3)	(20.0)	(20.0)	(3.3)	(21.0)	(20.0)	0.0	0.0
Consolidated other	4.7	(17.1)	17.7	13.6	9.4	30.0	5.0	8.8	32.9	(11.6)	13.3	14.5
Portion of total sales (%)												
Household electronics	80.1	82.5	82.9	79.9	79.4	81.0	83.1	80.5	79.9	81.0	79.9	78.5
Outright sales	5.5	7.5	7.9	8.6	8.1	8.5	8.9	8.7	7.3	8.6	9.0	9.5
Rental	66.3	66.8	64.9	60.2	60.9	61.5	63.2	61.4	63.3	61.8	59.8	58.0
Membership	8.4	8.2	7.7	6.9	6.9	7.0	6.9	6.4	7.6	6.8	6.3	5.8
Financial lease			2.6	4.1	3.4	4.0	4.0	4.0	1.7	3.9	4.7	5.2
Exports	6.0	7.0	6.2	6.6	9.1	8.7	6.6	6.3	6.3	7.6	8.5	9.4
Cosmetics	4.2	3.8	3.2	3.2	3.2	3.3	3.1	2.7	3.5	3.1	3.2	3.2
Other (water treatment)	1.9	1.7	1.7	2.5	0.9	1.2	1.3	2.3	2.0	1.5	1.3	1.2
Consolidated other	7.7	5.0	6.0	7.8	7.4	5.8	5.8	8.1	8.3	6.8	7.1	7.6

Source: Company data, Samsung Securities estimates

Accounts overview

('000)	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	4Q15
Number of accounts									
Total	5,469	5,539	5,571	5,617	5,661	5,714	5,730	5,771	5,794
Chg (% y-y)	3.5	3.2	2.8	2.8	3.5	3.2	2.8	2.8	2.4
Rental account	4,455	4,487	4,538	4,601	4,666	4,747	4,780	4,832	4,861
Chg (% y-y)	(2.0)	(8.1)	(8.1)	(7.6)	4.7	5.8	5.3	5.0	4.2
Membership	1,014	1,052	1,034	1,016	994	967	950	939	933
Chg (% y-y)	7.5	(0.1)	8.7	8.4	(2.0)	(8.1)	(8.1)	(7.6)	(6.2)
Rental cancellations	129	139	130	130	134	143	151	138	146
Monthly churn (%)	0.1	1.3	21.5	95.9	3.2	2.7	16.2	6.9	9.1
Rental account additions	317	371	311	332	341	371	338	359	351
Chg (% y-y)	1.0	1.0	1.1	1.0	7.5	(0.1)	8.7	8.4	2.9
Outright sales account additions	40	60	52	32	40	60	63	63	66
Chg (% y-y)	4.7	5.8	5.3	5.0	0.1	1.3	21.5	95.9	67.2

Source: Company data, Samsung Securities estimates

Full-year forecast revisions

(KRWb)	2015	New		Old		Chg (%)	
		2016E	2017E	2016E	2017E	2016E	2017E
Sales	2,315	2,538	2,739	2,527	2,714	0.4	0.9
Operating profit	463	520	568	521	554	(0.2)	2.5
Pre-tax profit	454	513	562	515	550	(0.5)	2.3
Net profit	343	385	422	387	412	(0.5)	2.3
EBITDA	691	755	825	775	827	(2.6)	(0.2)
EPS (KRW)	4,492	5,025	5,503	4,994	5,326	0.6	3.3

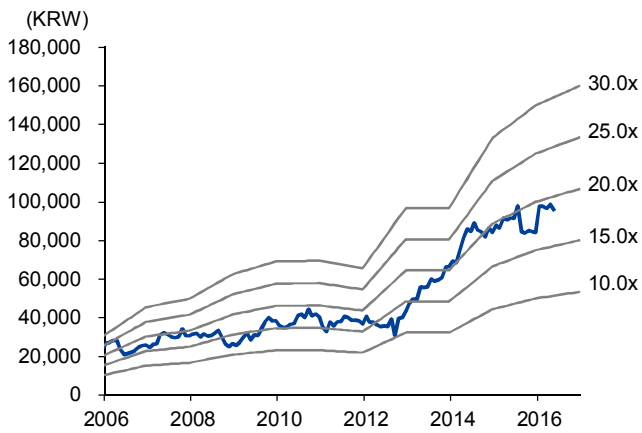
Source: Company data, Samsung Securities estimates

Valuation summary

Year-end	Sales	Op prof	Pre-tax prof	Net prof	EPS	Chg	P/E	P/B	ROE	EV/EBITDA	Net debt
Dec 31	(KRWb)	(KRWb)	(KRWb)	(KRWb)	(KRW)	(% y-y)	(x)	(x)	(%)	(x)	(KRWb)
2013	2,118	339	327	245	3,222	47.5	29.8	8.5	28.4	13.6	83
2014	2,160	364	332	250	3,225	0.1	29.8	7.4	25.2	12.6	12
2015	2,315	463	454	343	4,492	39.3	21.4	6.2	30.1	10.6	(38)
2016E	2,538	520	513	385	5,025	11.9	19.1	5.4	29.0	9.7	(106)
2017E	2,739	568	562	422	5,503	9.5	17.4	4.7	27.9	8.7	(202)
2018E	2,958	615	610	458	5,972	8.5	16.1	4.2	26.8	7.9	(336)

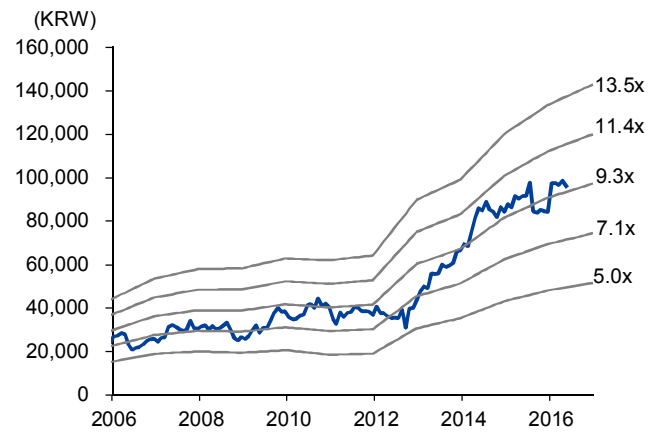
Source: Company data, Samsung Securities estimates

Forward P/E



Source: Company data, Samsung Securities estimates

Forward EV/EBITDA



Source: Company data, Samsung Securities estimates

DCF valuation

(KRWb)	2015	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
EBIT	463	520	568	615	670	520	546	573	601	632	663
Tax	114	129	141	153	166	129	136	142	150	157	165
Capex	329	342	356	356	356	0	0	0	0	0	0
Change in working capital	54	23	19	20	22	(84)	(84)	(84)	(85)	(85)	(86)
Depreciation	220	227	249	275	304	49	49	49	50	50	50
Amortization	8	8	8	8	8	3	3	3	3	3	3
Free cash flow	195	261	308	369	436	526	546	567	590	613	637
Terminal value	11,528										
Terminal growth (%)	0.5%										
NPV of FCF	3,409										
Present value of terminal value	6,403										
Enterprise value	10,328										
Equity value (adjusted)**	10,540										
Shares outstanding	77,125										
Fair value per share (KRW)	136,667										
Current share price (KRW)*	96,000										
Upside (%)	42.4%										

Note: * As of May 3 close; ** reflects a one-month adjustment to end-2016 discount rate

Source: Company data, Samsung Securities estimates

Income statement

Year-end Dec 31 (KRWb)	2014	2015	2016E	2017E	2018E
Sales	2,160	2,315	2,538	2,739	2,958
Cost of goods sold	727	729	812	863	932
Gross profit	1,434	1,586	1,726	1,876	2,026
Gross margin (%)	66.4	68.5	68.0	68.5	68.5
SG&A expenses	1,069	1,123	1,206	1,308	1,411
Operating profit	364	463	520	568	615
Operating margin (%)	16.9	20.0	20.5	20.7	20.8
Non-operating gains (losses)	(32)	(9)	(7)	(6)	(5)
Financial profit	3	1	2	2	4
Financial costs	12	4	3	3	3
Equity-method gains (losses)	0	0	0	0	0
Other	(23)	(6)	(5)	(5)	(5)
Pre-tax profit	332	454	513	562	610
Taxes	83	111	128	141	153
Effective tax rate (%)	24.9	24.5	25.0	25.0	25.0
Profit from continuing operations	250	343	385	422	458
Profit from discontinued operations	0	0	0	0	0
Net profit	250	343	385	422	458
Net margin (%)	11.6	14.8	15.2	15.4	15.5
Net profit (controlling interests)	250	343	385	422	458
Net profit (non-controlling interests)	(0)	(0)	(0)	(0)	(0)
EBITDA	578	691	755	825	898
EBITDA margin (%)	26.8	29.8	29.7	30.1	30.4
EPS (parent-based) (KRW)	3,237	4,449	4,988	5,466	5,935
EPS (consolidated) (KRW)	3,237	4,449	4,988	5,465	5,934
Adjusted EPS (KRW)*	3,225	4,492	5,025	5,503	5,972

Cash flow statement

Year-end Dec 31 (KRWb)	2014	2015	2016E	2017E	2018E
Cash flow from operations	537	513	619	682	743
Net profit	250	343	385	422	458
Non-cash profit and expenses	240	231	263	286	313
Depreciation	206	220	227	249	275
Amortization	8	8	8	8	8
Other	27	3	28	29	30
Changes in A/L from operating activities	47	(61)	(28)	(25)	(28)
Cash flow from investments	(299)	(329)	(342)	(356)	(356)
Change in tangible assets	(296)	(317)	(342)	(356)	(356)
Change in financial assets	0	1	0	0	0
Other	(3)	(13)	0	0	0
Cash flow from financing	(328)	(213)	(207)	(226)	(252)
Change in debt	(163)	(77)	1	5	1
Change in equity	0	0	0	0	0
Dividends	(124)	(148)	(208)	(230)	(253)
Other	(42)	12	0	0	0
Change in cash	(91)	(31)	70	100	135
Cash at beginning of year	239	147	116	186	286
Cash at end of year	147	116	186	286	421
Gross cash flow	490	574	648	707	771
Free cash flow	211	182	250	297	356

Note: * Excluding one off items, ** Fully diluted, excluding one-off items

*** From companies subject to equity-method valuation

Source: Company data, Samsung Securities estimates

Balance sheet

Year-end Dec 31 (KRWb)	2014	2015	2016E	2017E	2018E
Current assets	597	653	752	876	1,036
Cash & equivalents	147	116	186	286	421
Accounts receivable	229	283	311	335	362
Inventories	62	70	77	83	89
Other current assets	158	184	178	171	164
Fixed assets	1,025	1,122	1,207	1,284	1,335
Investment assets	81	78	78	78	78
Tangible assets	675	700	785	862	913
Intangible assets	171	169	169	169	169
Other long-term assets	98	176	176	176	176
Total assets	1,622	1,775	1,959	2,160	2,371
Current liabilities	526	473	480	490	496
Accounts payable	59	60	66	71	76
Short-term debt	16	8	8	9	9
Other current liabilities	451	405	406	410	411
Long-term liabilities	56	64	64	64	64
Bonds & long-term debt	1	8	8	8	8
Other long-term liabilities	55	56	56	56	56
Total liabilities	582	537	544	554	560
Owners of parent equity	1,039	1,237	1,414	1,605	1,810
Capital stock	41	41	41	41	41
Capital surplus	126	127	127	127	127
Retained earnings	986	1,177	1,354	1,545	1,750
Other	(114)	(108)	(108)	(108)	(108)
Non-controlling interests' equity	1	1	1	1	1
Total equity	1,039	1,238	1,415	1,606	1,811
Net debt	12	(38)	(106)	(202)	(336)

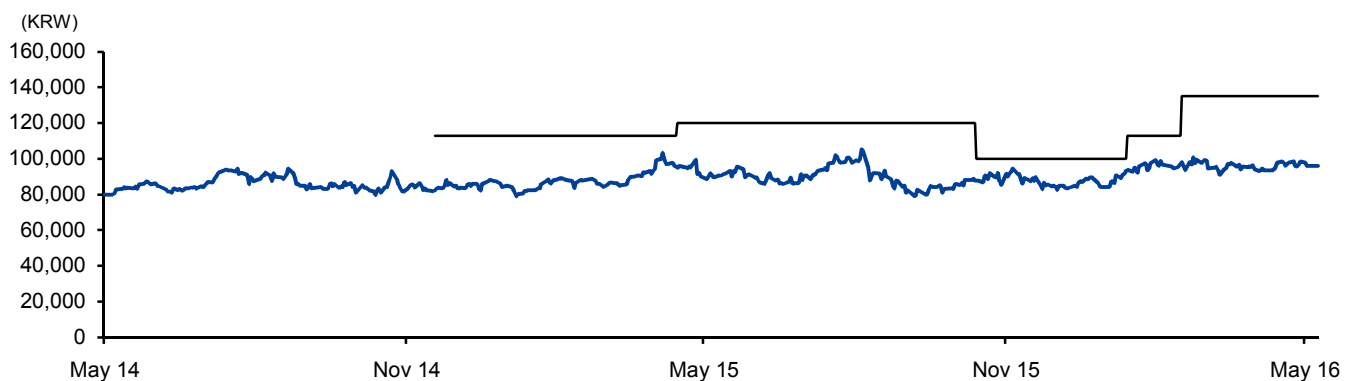
Financial ratios

Year-end Dec 31	2014	2015	2016E	2017E	2018E
Growth (%)					
Sales	2.0	7.2	9.6	7.9	8.0
Operating profit	7.5	27.1	12.2	9.3	8.3
Net profit	11.6	14.8	15.2	15.4	15.5
Adjusted EPS**	0.1	39.3	11.9	9.5	8.5
Per-share data (KRW)					
EPS (parent-based)	3,237	4,449	4,988	5,466	5,935
EPS (consolidated)	3,237	4,449	4,988	5,465	5,934
Adjusted EPS**	3,225	4,492	5,025	5,503	5,972
BVPS	12,934	15,465	17,756	20,235	22,894
DPS (common)	2,000	2,800	3,100	3,400	3,700
Valuations (x)					
P/E***	29.8	21.4	19.1	17.4	16.1
P/B***	7.4	6.2	5.4	4.7	4.2
EV/EBITDA	12.6	10.6	9.7	8.7	7.9
Ratios (%)					
ROE	25.2	30.1	29.0	27.9	26.8
ROA	15.2	20.2	20.6	20.5	20.2
ROIC	22.8	31.1	31.0	31.4	32.0
Payout ratio	59.4	60.6	59.9	59.9	60.1
Dividend yield (common)	2.1	2.9	3.2	3.5	3.9
Net debt to equity	1.1	(3.0)	(7.5)	(12.6)	(18.5)
Interest coverage (x)	31.6	106.8	171.4	181.3	190.6

Compliance notice

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Target price changes in past two years



Rating changes in past two years

Date	2014/5/4	11/19	2015/4/16	10/15	2016/1/15	2/17
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	46,000	113,000	120,000	100,000	113,000	135,000

Samsung Securities uses the following investment ratings.

Company

BUY★★★	Expected to increase in value by 30% or more within 12 months and is highly attractive within sector
BUY	Expected to increase in value by 10% or more within 12 months
HOLD	Expected to increase/decrease in value by less than 10% within 12 months
SELL	Expected to decrease in value by 10% or more within 12 months
SELL★★★	Expected to decrease in value by 30% or more within 12 months

Industry

OVERWEIGHT	Expected to outperform market by 5% or more within 12 months
NEUTRAL	Expected to outperform/underperform market by less than 5% within 12 months
UNDERWEIGHT	Expected to underperform market by 5% or more within 12 months

Percentage of ratings in 12 months prior to Mar 31, 2016

BUY (69.8%) | HOLD (30.2%) | SELL (0%)

Global Disclosures & Disclaimers

General

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