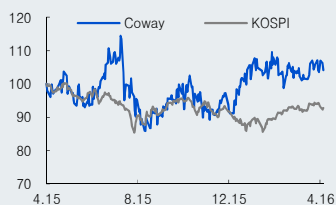


Consumer Services

Results Comment
May 4, 2016

(Maintain)	Buy
Target Price (12M, W)	140,000
Share Price (5/3/16, W)	96,000
Expected Return	46%

OP (16F, Wbn)	527		
Consensus OP (16F, Wbn)	505		
<hr/>			
EPS Growth (16F, %)	12.5		
Market EPS Growth (16F, %)	15.8		
P/E (16F, x)	19.2		
Market P/E (16F, x)	10.8		
KOSPI	1,986.41		
<hr/>			
Market Cap (Wbn)	7,404		
Shares Outstanding (mn)	77		
Free Float (%)	65.4		
Foreign Ownership (%)	53.6		
Beta (12M)	0.58		
52-Week Low	79,200		
52-Week High	105,500		
<hr/>			
(%)	1M	6M	12M
Absolute	1.8	6.7	6.3
Relative	1.1	10.0	13.8



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Coway

(021240 KS)

Uniquely positioned

1Q16 review: OP expands 23% YoY to W123.6bn, above the consensus

For 1Q16, Coway announced preliminary consolidated revenue of W623.7bn (+13.8% YoY), operating profit of W123.6bn (+23.2% YoY), and OP margin of 19.8%. The company delivered another strong performance, with revenue and operating profit topping the consensus by 3.2% and 4.7%, respectively. Compared to our estimates, revenue was just 0.9% shy, while operating profit was 11.6% higher. We believe the main driver was high SG&A efficiency (SG&A expense ratio was down 3.9%p YoY), which, coupled with top-line growth, had a stronger-than-expected impact. That said, the lower SG&A expense ratio was partly due to a decline in sales commissions resulting from seasonally weak rental sales.

Health appliance revenue grew 12.3% YoY, or 6.2% YoY adjusting for the accounting changes applied to mattress sales since 3Q15 (recognized as financial leases). Despite 1Q typically being a weak season, rental sales remained solid, which we believe underscores domestic consumers' increasing demand for health appliances in general and for Coway's high-spec products in particular.

Exports to ODMs, which had remained stagnant since 2Q14, resumed growth in 1Q16, with revenue rising 46% YoY to W36.2bn, helped by China's air purifier market restructuring and the company's product portfolio revamp. Exports to overseas subsidiaries soared 150% YoY, boosted by strong rental sales in Malaysia and lump-sum sales in the US.

Product strength and unique rental system

Even in the current low growth environment, we believe consumers are trading up when it comes to certain goods that are perceived to provide distinct benefits. Within semi-durables and non-durables, health appliances and cosmetics have continued to attract exceptionally strong consumer demand. Both categories are characterized by their relatively low average price, and consumers' perception of brands and product strength (rather than necessity) play important roles in purchasing decisions.

In the two decades since it launched the water purifier rental business, Coway has continuously attracted demand for new products, driving up ARPU. We believe the company has been able to achieve this because of its ability to develop innovative products as well as its robust rental system. The company's ongoing efforts to expand its lineup of IoT-based products should further serve as a strong demand catalyst over the medium- and long-term.

We reaffirm our Buy call on Coway with a target price of W140,000. We continue to recommend the stock from a medium- to long-term view, as it boasts one of the strongest business portfolios in the consumer sector.

FY(Dec.)	12/13	12/14	12/15	12/16F	12/17F	12/18F
Revenue (Wbn)	2,118	2,160	2,315	2,614	2,861	3,137
OP (Wbn)	339	364	463	527	564	609
OP margin (%)	16.0	16.9	20.0	20.2	19.7	19.4
NP (Wbn)	245	250	343	386	405	438
EPS (W)	3,178	3,237	4,449	5,004	5,257	5,685
ROE (%)	28.4	25.2	30.2	29.1	27.5	27.7
P/E (x)	20.9	26.0	18.9	19.2	18.3	16.9
P/B (x)	4.9	5.6	4.8	4.8	4.5	4.2

Notes: All figures are based on consolidated K-IFRS; NP refers to net profit attributable to controlling interests
Source: Company data, Mirae Asset Daewoo Research estimates

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Table 1. 1Q16P review

(Wbn, %)

	1Q15	4Q15	1Q16P			Growth	
			Preliminary	Mirae Asset Daewoo	Consensus	YoY	QoQ
Revenue	548	631	624	618	605	13.8	-1.2
Operating profit	100	129	124	111	118	23.2	-3.9
OP margin (%)	18.3	20.4	19.8	17.9	19.5		
Pretax profit	101	123	125	107	115	23.9	2.1
Net profit	78	90	95	79	79	22.7	5.2

Note: Based on consolidated K-IFRS

Source: Company data, Mirae Asset Daewoo Research

Table 2. Earnings forecast revisions

(Wbn, %)

	Previous		Revised		% chg.		Notes
	16F	17F	16F	17F	16F	17F	
Revenue	2,536	2,748	2,614	2,861	3.1	4.1	- Reflects higher lump-sum revenue
Operating profit	502	540	527	564	5.0	4.4	- Reflects lower SG&A
Pretax profit	488	526	519	548	6.4	4.2	- Reflect higher non-operating profit
Net profit	361	389	386	405	6.9	4.2	

Source: Company data, Mirae Asset Daewoo Research

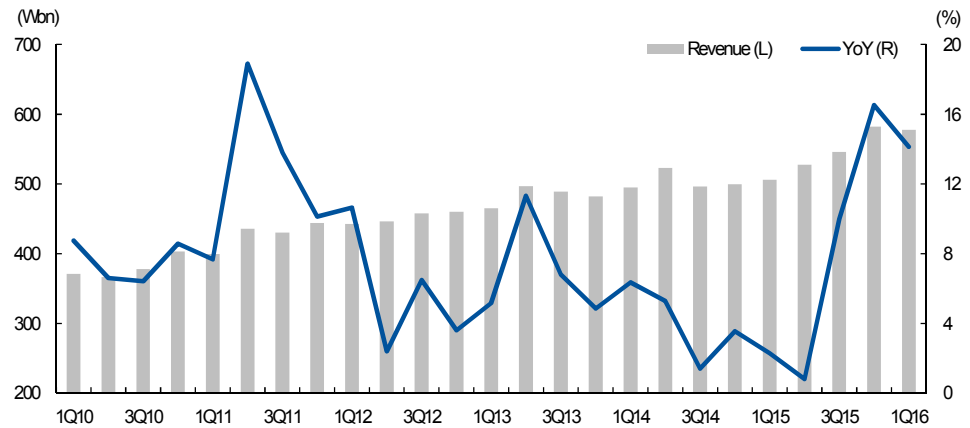
Table 3. Quarterly earnings

(Wbn, %)

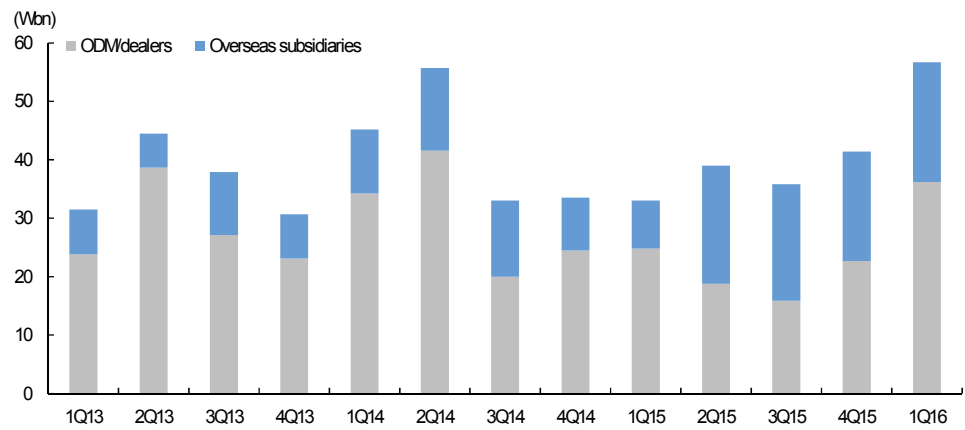
	1Q15	2Q15	3Q15	4Q15	1Q16P	2Q16F	3Q16F	4Q16F
Revenue	506	527	546	582	578	585	588	619
Rental	363	371	376	380	380	403	410	419
YoY								
Revenue	2.3	0.8	10.0	16.5	14.1	11.0	7.8	6.3
Rental	6.1	7.0	6.7	6.0	4.6	8.5	8.9	10.1
SG&A	248	249	251	271	260	285	276	283
% of revenue	49.0	47.2	46.1	46.5	45.1	46.3	45.5	45.9
Rental disposal rate	10	10	10	10	10	11	11	11
% of revenue	2.7	2.7	2.9	2.6	2.6	2.8	2.8	2.8
Operating profit	99	112	126	127	127	127	135	137
OP margin	19.5	21.2	23.0	21.8	22.0	20.5	22.3	22.2
YoY	10.1	14.4	29.6	34.7	28.4	13.4	7.7	7.8
[Key indicators]								
Rental net adds ('000 units)	341	371	338	359	351	397	361	385
Total rental accounts ('000 units)	4,666	4,747	4,780	4,832	4,861	4,957	5,007	5,092
Cancellation rate (%)	1.0	1.0	1.1	1.0	1.0	0.9	1.0	0.9

Notes: Based on non-consolidated K-IFRS

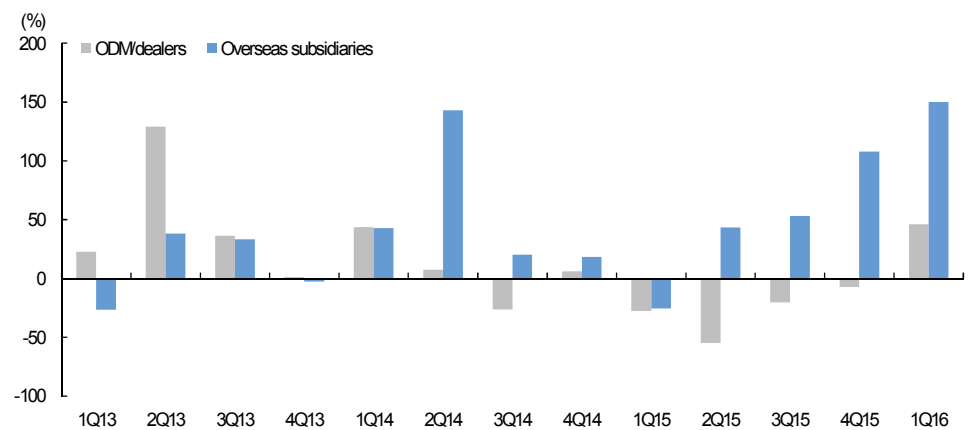
Source: Company data, Mirae Asset Daewoo Research

Figure 1. Health appliance quarterly revenue

Source: Company data, Mirae Asset Daewoo Research

Figure 2. Overseas business quarterly revenue

Source: Company data, Mirae Asset Daewoo Research

Figure 3. Overseas business quarterly revenue growth

Source: Company data, Mirae Asset Daewoo Research

Coway (021240 KS/Buy/TP: W140,000)

Comprehensive Income Statement (Summarized)

(Wbn)	12/15	12/16F	12/17F	12/18F
Revenue	2,315	2,614	2,861	3,137
Cost of Sales	729	841	924	1,012
Gross Profit	1,586	1,773	1,937	2,125
SG&A Expenses	1,123	1,246	1,373	1,517
Operating Profit (Adj)	463	527	564	609
Operating Profit	463	527	564	609
Non-Operating Profit	-9	-8	-16	-17
Net Financial Income	-3	-1	-1	0
Net Gain from Inv in Associates	0	0	0	0
Pretax Profit	454	519	548	592
Income Tax	111	133	142	154
Profit from Continuing Operations	343	386	405	438
Profit from Discontinued Operations	0	0	0	0
Net Profit	343	386	405	438
Controlling Interests	343	386	405	438
Non-Controlling Interests	0	0	0	0
Total Comprehensive Profit	334	386	405	438
Controlling Interests	334	386	405	438
Non-Controlling Interests	0	0	0	0
EBITDA	691	718	770	830
FCF (Free Cash Flow)	184	249	281	327
EBITDA Margin (%)	29.8	27.5	26.9	26.5
Operating Profit Margin (%)	20.0	20.2	19.7	19.4
Net Profit Margin (%)	14.8	14.8	14.2	14.0

Statement of Financial Condition (Summarized)

(Wbn)	12/15	12/16F	12/17F	12/18F
Current Assets	653	761	835	896
Cash and Cash Equivalents	116	211	252	275
AR & Other Receivables	271	273	299	329
Inventories	70	72	79	87
Other Current Assets	196	205	205	205
Non-Current Assets	1,122	1,177	1,237	1,281
Investments in Associates	0	0	0	0
Property, Plant and Equipment	700	783	844	887
Intangible Assets	169	162	156	149
Total Assets	1,775	1,937	2,072	2,177
Current Liabilities	473	449	462	478
AP & Other Payables	219	214	235	258
Short-Term Financial Liabilities	80	70	70	70
Other Current Liabilities	174	165	157	220
Non-Current Liabilities	64	72	72	72
Long-Term Financial Liabilities	9	9	9	9
Other Non-Current Liabilities	55	63	63	72
Total Liabilities	537	521	534	549
Controlling Interests	1,237	1,415	1,538	1,627
Capital Stock	41	41	41	41
Capital Surplus	127	127	127	127
Retained Earnings	1,177	1,355	1,478	1,567
Non-Controlling Interests	1	1	1	1
Stockholders' Equity	1,238	1,416	1,539	1,628

Cash Flows (Summarized)

(Wbn)	12/15	12/16F	12/17F	12/18F
Cash Flows from Op Activities	513	559	591	637
Net Profit	343	386	405	438
Non-Cash Income and Expense	448	325	349	375
Depreciation	220	184	199	215
Amortization	8	7	6	6
Others	220	134	144	154
Chg in Working Capital	-195	-19	-21	-22
Chg in AR & Other Receivables	-58	-1	-25	-28
Chg in Inventories	-5	-2	-7	-8
Chg in AP & Other Payables	6	-2	6	6
Income Tax Paid	-83	-133	-142	-154
Cash Flows from Inv Activities	-329	-244	-265	-262
Chg in PP&E	-320	-267	-261	-257
Chg in Intangible Assets	-5	0	0	0
Chg in Financial Assets	-2	-3	-6	-6
Others	-2	26	2	1
Cash Flows from Fin Activities	-213	-220	-285	-352
Chg in Financial Liabilities	-77	-10	0	0
Chg in Equity	1	0	0	0
Dividends Paid	-148	-208	-283	-350
Others	11	-2	-2	-2
Increase (Decrease) in Cash	-31	94	41	24
Beginning Balance	147	116	211	252
Ending Balance	116	211	252	275

Source: Company data, Mirae Asset Daewoo Research estimates

Forecasts/Valuations (Summarized)

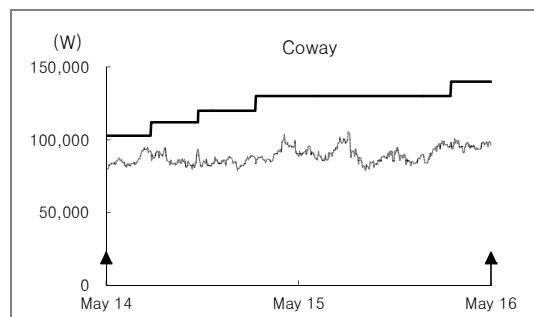
	12/15	12/16F	12/17F	12/18F
P/E (x)	18.9	19.2	18.3	16.9
P/CF (x)	8.2	10.4	9.8	9.1
P/B (x)	4.8	4.8	4.5	4.2
EV/EBITDA (x)	9.3	10.1	9.4	8.7
EPS (W)	4,449	5,004	5,257	5,685
CFPS (W)	10,263	9,215	9,780	10,549
BPS (W)	17,654	19,960	21,552	22,704
DPS (W)	2,800	3,800	4,700	5,800
Payout ratio (%)	60.6	73.3	86.2	98.4
Dividend Yield (%)	3.3	4.0	4.9	6.0
Revenue Growth (%)	7.2	12.9	9.4	9.6
EBITDA Growth (%)	19.6	3.9	7.2	7.8
Operating Profit Growth (%)	27.2	13.8	7.0	8.0
EPS Growth (%)	37.4	12.5	5.1	8.1
Accounts Receivable Turnover (x)	10.0	10.2	10.6	10.6
Inventory Turnover (x)	35.2	36.9	38.0	37.9
Accounts Payable Turnover (x)	12.3	14.3	15.3	15.2
ROA (%)	20.2	20.8	20.2	20.6
ROE (%)	30.2	29.1	27.5	27.7
ROIC (%)	31.7	32.1	32.2	33.1
Liability to Equity Ratio (%)	43.4	36.8	34.7	33.8
Current Ratio (%)	138.2	169.3	180.8	187.7
Net Debt to Equity Ratio (%)	-2.9	-9.9	-11.8	-12.6
Interest Coverage Ratio (x)	106.8	239.0	284.3	306.8

APPENDIX 1

Important Disclosures & Disclaimers

2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
Coway (021240)	02/17/2016	Buy	140,000
	02/12/2015	Buy	130,000
	10/26/2014	Buy	120,000
	07/28/2014	Buy	112,000
	04/29/2014	Buy	103,000



Stock Ratings

Buy	: Relative performance of 20% or greater
Trading Buy	: Relative performance of 10% or greater, but with volatility
Hold	: Relative performance of -10% and 10%
Sell	: Relative performance of -10%

Industry Ratings

Overweight	: Fundamentals are favorable or improving
Neutral	: Fundamentals are steady without any material changes
Underweight	: Fundamentals are unfavorable or worsening

Ratings and Target Price History (Share price (—), Target price (—), Not covered (■), Buy (▲), Trading Buy (■), Hold (●), Sell (◆))

* Our investment rating is a guide to the relative return of the stock versus the market over the next 12 months.

* Although it is not part of the official ratings at Daewoo Securities, we may call a trading opportunity in case there is a technical or short-term material development.

* The target price was determined by the research analyst through valuation methods discussed in this report, in part based on the analyst's estimate of future earnings.

* The achievement of the target price may be impeded by risks related to the subject securities and companies, as well as general market and economic conditions.

Equity Ratings Distribution

Buy	Trading Buy	Hold	Sell
68.29%	17.56%	14.15%	0.00%

* Based on recommendations in the last 12-months (as of March 31, 2016)

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