

# Coway (021240.KS)

## Solid earnings fundamentals remain intact

Company Comment | May 4, 2016

Coway posted solid results for 1Q16 on: 1) a greater sales portion for premium products; 2) greater lump-sum sales; and 3) the expansion of its overseas ODM business. Anticipating that its robust earnings growth will continue going forward, we view Coway's shares (currently trading at a 2016E P/E of 18x) as offering an attractive investment vehicle.

### 1Q16 review: Earnings trump consensus

On a non-consolidated basis, Coway announced 1Q16 sales of W577.6bn (up 14%y-y) and operating profit of W126.9bn (up 28% y-y), with both figures surpassing our estimates and market projections. Of note, if stripping out the effects of an accounting method change for recording lease contracts (from 3Q15), Coway's 1Q16 sales expanded 9% y-y.

In specific, the healthcare appliance division (the company's core business) recorded sales growth of 2.9% y-y on a large 55.3% y-y rise in its lump-sum sales thanks to new product offerings. Meanwhile, benefiting from stricter regulations on air purifier quality (a factor which narrowed the firm's sales portion for low-end products), Coway's overseas original design manufacturer (ODM) arm registered 1Q16 sales growth of 72% y-y.

Elsewhere, the company's operating margin improved 250bps y-y in 1Q16 thanks to: 1) strong gross margin improvement of 147bps y-y; and 2) enhanced cost efficiency. Also positive, Coway's rental cancellation ratio (1%) and rental asset-related loss ratio (2.6%) for the quarter both remained stable.

### Healthy earnings growth momentum to remain intact in 2016

Looking at full-year 2016, we forecast non-consolidated sales of almost W2.4tn (up 10.9 y-y) and operating profit of W541.5bn (up 17.0% y-y). Regarding Coway's unique business model (sustainable subscriber-based rental business), we view the firm's earnings as being relatively free from macro environment changes. In addition, we believe that both the current trends towards a 'sharing economy' (in which consumers become more accustomed to renting certain goods or services) and anticipated greater demand for healthcare-related products bode well for 2016 sales of the firm's healthcare appliance products, its rental business offerings, and its healthcare-related items (high ASP). The company's earnings growth momentum should also be supported by its ongoing channel expansion and overseas business expansion efforts. Given these positives, we maintain a Buy rating and our target price of W125,000.

## Buy (maintain)

**TP** W125,000 (maintain)  
**CP ('16/05/03)** W96,000

Sector	Other consumer goods
Kospi/Kosdaq	1986.41 / 698.66
Market cap (common)	US\$6,434.34mn
Outstanding shares (common)	77.1mn
52W high ('15/08/06)	W105,500
low ('15/09/08)	W79,200
Average trading value (60D)	12.45mn
Dividend yield (2016E)	2.95%
Foreign ownership	53.6%

Major shareholders	
Coway Holdings and others	31.1%
NPS	6.0%

Share perf	3M	6M	12M
Absolute (%)	12.6	7.3	12.1
Relative (%p)	17.4	12.1	16.7

	2015	2016E	2017F	2018F
<b>Sales</b>	2,161	2,397	2,558	2,710
<b>Chg</b>	7.3	10.9	6.7	6.0
<b>OP</b>	463	542	569	638
<b>OPM</b>	21.4	22.6	22.2	23.5
<b>NP to parent</b>	349	405	425	474
<b>EPS</b>	4,531	5,252	5,506	6,145
<b>Chg</b>	43.8	15.9	4.8	11.6
<b>P/E</b>	18.6	18.3	17.4	15.6
<b>P/B</b>	5.1	5.2	4.7	4.4
<b>EV/EBITDA</b>	9.6	10.3	9.7	8.6
<b>ROE</b>	30.0	30.0	28.3	29.1
<b>Debt/equity</b>	37.3	34.8	34.0	33.8
<b>Net debt</b>	-16	-167	-241	-309

Units: Wbn, %, won, x

Note: EPS, P/E, P/B, and ROE based on net profit (excl minority interests)

Source: NH I&S Research Center estimates



**Cookie Han, Analyst**

822)768-7480, cookie@nhwm.com

**Hyojin Lee, RA**

822)768-7684, hyojin.lee@nhwm.com

## 1Q16 review

(Units: Wbn, %)

	1Q15	2Q15	3Q15	4Q15	1Q16P					2Q16E
					Actual	y-y	q-q	Estimate	Consensus	
Sales	506.1	527.5	545.7	582.1	577.6	14.1	-0.8	571.6	572.5	590.1
Operating profit	98.9	111.7	125.6	126.8	126.9	28.3	2.5	98.8	110.0	130.9
Operating margin	19.5	21.2	23.0	21.8	22.0			17.3	19.2	22.2
Pretax profit	98.3	111.4	131.6	119.4	136.8	39.1	14.5	98.4	109.0	132.9
Net profit (excl minority interests)	75.1	85.0	100.4	88.9	99.2	32.1	11.5	72.9	81.5	100.8

Note: IFRS non-consolidated basis; Source: Coway, FnGuide, NH I&amp;S research center estimates

## Earnings forecasts (IFRS non-consolidated)

(Units: Wbn, won, x, %)

		2015	2016E	2017F	2018F
Sales	- Revised	2,161.3	2,397.3	2,557.8	2,710.1
	- Previous		2,319.3	2,456.4	2,601.1
	- Change		3.4	4.1	4.2
Operating profit	- Revised	463.0	541.5	569.1	637.6
	- Previous		512.4	549.8	636.5
	- Change		5.7	3.5	0.2
Operating margin	- Revised	21.4	22.6	22.2	23.5
EBITDA		674.7	704.4	742.1	824.0
Net profit (excl minority interests)		349.4	405.0	424.6	473.9
EPS	- Revised	4,531	5,251	5,505	6,145
	- Previous		4,957	5,283	6,057
	- Change		5.9	4.2	1.5
P/E		18.6	18.3	17.4	15.6
P/B		5.1	5.2	4.7	4.4
EV/EBITDA		9.6	10.3	9.7	8.6
ROE		30.0	30.0	28.3	29.1

Source: NH I&amp;S Research Center estimates

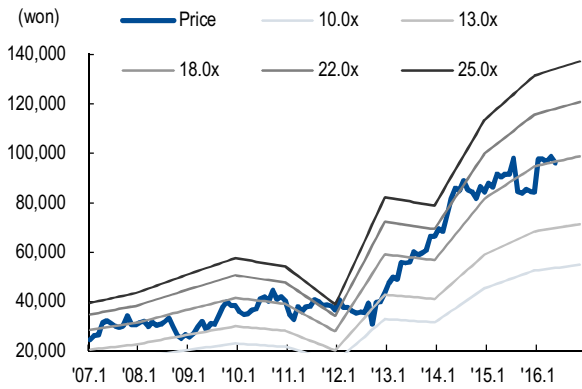
## Quarterly earnings forecasts

(Units: Wbn, %)

	1Q15	2Q15	3Q15	4Q15	1Q16P	2Q16E	3Q16F	4Q16F	2015	2016E	2017F
<b>Sales</b>	<b>506</b>	<b>527</b>	<b>546</b>	<b>582</b>	<b>578</b>	<b>590</b>	<b>596</b>	<b>634</b>	<b>2,397</b>	<b>2,558</b>	<b>2,710</b>
Rental	363	371	376	380	380	406	410	414	1,491	1,611	1,716
Membership fees	30	41	49	50	46	54	51	52	171	203	218
Lump-sum revenue	30	41	46	54	50	43	48	57	171	199	205
Exports	33	29	36	41	57	30	37	43	139	166	166
Cosmetics	23	21	19	20	20	22	19	21	83	82	83
Other	11	9	10	16	6	9	10	16	46	41	41
<b>Sales growth (y-y, %)</b>	<b>2.7</b>	<b>0.8</b>	<b>10.0</b>	<b>16.5</b>	<b>14.1</b>	<b>11.9</b>	<b>9.2</b>	<b>8.9</b>	<b>10.9</b>	<b>6.7</b>	<b>6.0</b>
Rental	6.1	7.0	6.7	6.0	4.6	9.5	9.0	8.9	6.5	8.0	6.6
Membership fees	-31.7	-9.5	4.5	7.0	52.0	31.0	4.2	3.6	-7.0	18.9	7.5
Lump-sum revenue	16.4	10.7	43.5	102.9	68.2	5.0	5.0	5.0	40.7	16.1	3.0
Exports	-27.0	-48.0	8.5	23.9	71.8	3.0	3.0	3.0	-16.8	19.3	0.0
Cosmetics	10.5	-5.3	8.3	1.1	-13.1	3.0	3.0	3.0	3.3	-1.5	1.5
Other	-28.2	-38.6	-31.7	18.1	-45.3	0.0	0.0	0.0	-21.0	-10.4	0.0
<b>Gross profit</b>	<b>347</b>	<b>361</b>	<b>377</b>	<b>397</b>	<b>387</b>	<b>411</b>	<b>410</b>	<b>434</b>	<b>1,482</b>	<b>1,643</b>	<b>1,771</b>
Gross profit margin	68.5	68.4	69.1	68.3	67.0	69.7	68.9	68.5	61.8	64.2	65.4
<b>Operating profit</b>	<b>99</b>	<b>112</b>	<b>126</b>	<b>127</b>	<b>127</b>	<b>131</b>	<b>141</b>	<b>142</b>	<b>463</b>	<b>542</b>	<b>569</b>
Growth (y-y, %)	10.2	14.4	29.5	36.1	28.3	17.2	12.7	12.2	22.6	17.0	5.1
Operating margin	19.5	21.2	23.0	21.8	22.0	22.2	23.7	22.4	19.3	21.2	21.0

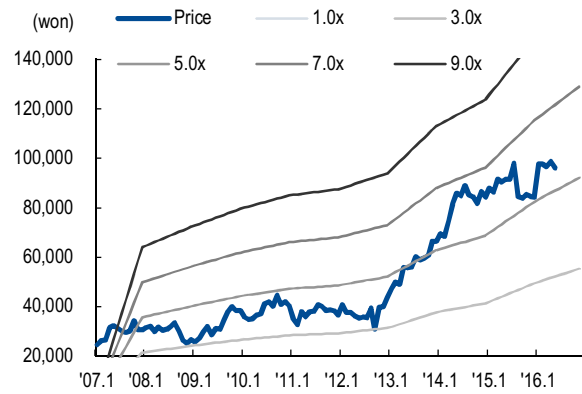
Source: Coway, NH I&amp;S Research Center estimates

Forward P/E band



Source: DataGuide Pro

Trailing P/B band



Source: DataGuide Pro

**STATEMENT OF COMPREHENSIVE INCOME**

(Wbn)	2015/12A	2016/12E	2017/12F	2018/12F
<b>Sales</b>	2,161	2,397	2,558	2,710
<i>Growth (%)</i>	7.3	10.9	6.7	6.0
<b>COGS</b>	679	754	787	826
<b>Gross Profit</b>	1,482	1,643	1,771	1,884
<i>Gross margin (%)</i>	68.6	68.5	69.2	69.5
SG&A	1,019	1,102	1,202	1,247
<b>Operating Income</b>	463	542	569	638
<i>Growth (%)</i>	22.6	17.0	5.1	12.0
<i>Operating margin (%)</i>	21.4	22.6	22.2	23.5
<b>EBITDA</b>	675	704	742	824
<b>Non-Operating Profit</b>	-2	9	9	7
Financial Income(Costs)	-3	-1	1	1
Other Non-Operating Profit	1	0	0	0
Gains(Losses) in Associates, Subsidiaries and JVs	0	10	8	6
<b>Pre-tax Profit from Cont. Op.</b>	461	551	578	645
<b>Income Taxes</b>	111	146	153	171
Profit from Continuing Op.	349	405	425	474
<b>Net Profit</b>	349	405	425	474
<i>Growth (%)</i>	43.8	15.9	4.8	11.6
<i>Net margin (%)</i>	16.2	16.9	16.6	17.5
Net Profit of Parent	349	405	425	474
Net Profit to Non-Controlling	0	0	0	0
Other Comprehensive Income	-4	0	0	0
Total Comprehensive Income	346	405	425	474

**Valuation / Profitability / Stability**

	2015/12A	2016/12E	2017/12F	2018/12F
Price/ Earnings (x)	18.6	18.3	17.4	15.6
Price/ Book Value (x)	5.1	5.2	4.7	4.4
Price/ Gross Cash Flow (x)	8.4	10.4	9.9	8.9
Price/ Sales (x)	3.0	3.1	2.9	2.7
EV/ EBITDA (x)	9.6	10.3	9.7	8.6
EV/ EBIT (x)	14.0	13.4	12.6	11.1
Fully diluted EPS (won)	4,531	5,251	5,505	6,145
BVPS (won)	16,459	18,590	20,272	21,972
Sales PS (won)	28,023	31,083	33,164	35,140
ROE (%)	30.0	30.0	28.3	29.1
ROA (%)	21.1	22.0	21.1	21.7
ROIC (%)	32.5	34.3	35.0	37.4
Dividend Yield (%)	3.3	3.4	4.1	4.8
Payout Ratio (%)	59.5	59.4	69.4	72.3
Total Cash Dividend (Wbn)	208	241	295	343
Cash DPS (won)	2,800	3,234	3,963	4,609
Net debt(cash)/ equity (%)	-1.2	-11.6	-15.4	-18.3
Debt/ equity (%)	37.3	34.8	34.0	33.8
Interest-Bearing Debts (Wbn)	90	96	102	109
Current Ratio (%)	156.1	185.9	200.2	208.9
Total shares (mn)	77	77	77	77
Par value (won)	500	500	500	500
Share price (won)	84,100	96,000	96,000	96,000
Market Cap (Wbn)	6,486	7,404	7,404	7,404

**STATEMENT OF FINANCIAL POSITION**

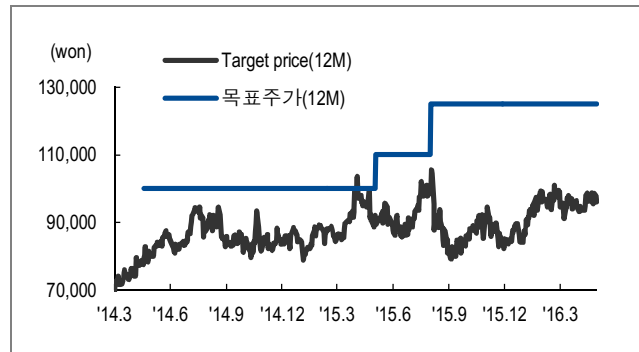
(Wbn)	2015/12A	2016/12E	2017/12F	2018/12F
Cash and Cash Equivalents	87	243	322	397
Accounts Receivables	354	348	371	393
<b>Total Current Assets</b>	658	827	950	1,069
Tangible Assets	625	636	675	726
Investment Assets	122	126	130	134
<b>Non-Current Assets</b>	1,084	1,106	1,146	1,199
<b>Assets</b>	1,742	1,933	2,095	2,267
Short-Term Debt	80	86	92	99
Account Payables	48	50	53	58
<b>Current Liabilities</b>	422	445	474	512
Long-Term Debt	10	10	10	10
Long-Term Allowance	13	14	15	16
<b>Non-Current Liabilities</b>	51	54	58	61
<b>Liabilities</b>	473	499	532	573
Capital Stock	41	41	41	41
Capital Surplus	132	132	132	132
Retained Earnings	1,199	1,364	1,493	1,624
Non-Controlling Interests Equity	0	0	0	0
<b>Shareholders' Equity</b>	1,269	1,434	1,564	1,695

**CASH FLOW STATEMENT**

(Wbn)	2015/12A	2016/12E	2017/12F	2018/12F
<b>Operating Cash Flow</b>	475	544	527	601
Net Profit	349	405	425	474
Depreciation & Amortization	212	163	173	186
+ Loss(Gains) from Subs	0	0	0	0
+ FC translation loss(profit)	-6	0	0	0
Gross Cash Flow	771	714	750	830
- Incr. (Decr.) in WC	-214	-24	-70	-58
<b>Investing Cash Flow</b>	-264	-183	-210	-236
+ Decr. In Tangible Assets	9	0	0	0
- Incr. In Tangible Assets (capex)	-271	-171	-209	-235
+ Disp.(Acq.) of Inv. Assets	1	-4	-4	-4
Free Cash Flow	205	374	318	366
Net Cash Flow	211	361	316	365
<b>Financing Cash Flow</b>	-230	-205	-237	-291
Equity Financing	1	0	0	0
Debt Financing	-231	-205	-237	-291
Incr.(Decr.) in Cash	-19	157	79	74
Ending Cash and Cash Equivalents	87	243	322	397
Net Debt (Cash)	-16	-167	-241	-309

## Rating and target price update

Company	Code	Date	Rating	Target price
Coway	021240.KS	2015.08.05	Buy	W125,000(12M)
		2015.05.07	Buy	W110,000(12M)
		2014.04.22	Buy	W100,000(12M)



## NH Investment &amp; Securities stock ratings

1. Rating based on a stock's forecasted absolute return over a period of 12 months from the date of publication.

- Buy : Greater than +15%
- Hold : -15% to +15%
- Sell : Less than -15%

2. Regarding listed companies under NH I&S' coverage, our stock ratings break down as follows (as of Apr 29, 2016).

● NH I&S' stock rating distribution

Buy	Hold	Sell
76.2%	23.3%	0.5%

- The stock rating on an individual company can change at irregular intervals. Our stock rating distribution is calculated on a weekly basis.

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- This report correctly reflects the analyst's opinion and was written without any external influence or intervention.

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