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Flashnote / Earnings review

Korea / Consumer

4 May 2016

BUY

Target price **KRW121,000**

Last price (3 May 2016) **KRW96,000**

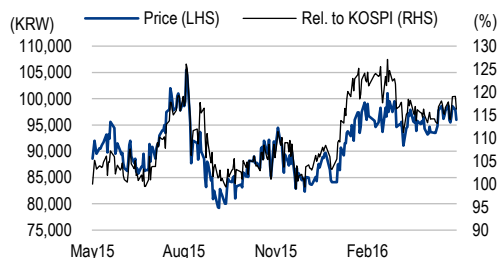
Upside/downside (%) 26.0
 KOSPI 1,986.41
 Mkt. cap (KRW bn/USD bn) 7,404/6.5
 52-week range (KRW) 79,200 - 105,500
 Avg. trading value daily (KRW bn) 14.40
 Foreign ownership (%) 53.6

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	18.9	19.6	18.0
EV/EBITDA (x)	11.3	9.4	9.9	9.0
Dividend yield (%)	2.4	3.3	3.4	4.1
P/B (x)	6.2	5.3	5.3	4.7
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 (%)	1.8	0.0	6.3
Absolute (USD, %)	2.4	5.7	(0.2)
Relative to KOSPI (%)	1.2	(5.1)	12.9

Source: Bloomberg

Woochang Chung, Analyst

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Coway (021240 KS)

Healthy operations in 1Q16

Event

Coway reported healthy 1Q16 earnings results, on solid domestic rental service operations and export recovery. We maintain our BUY rating for Coway, on its: 1) solid 2016 earnings outlook; and 2) 3.4% dividend yield for 2016.

Impact

Solid 1Q16 earnings

After market close on 3 May, Coway reported healthy 1Q16 consolidated earnings results. The company reported sales of KRW623.7bn (+13.8% YoY), operating profit of KRW123.6bn (+23.2% YoY), and net profit of KRW95.2bn (+22.7% YoY), with operating profit slightly ahead of our and the consensus estimates by 6.9% and 5.4%, respectively.

The healthy operating profit in 1Q16 is largely due to: 1) stable growth in the domestic health-appliance rental business (62% of consolidated sales); 2) solid YoY growth in health-appliance equipment sales (8% of sales, +68% YoY) and 3) a recovery in overseas sales (9% of sales). With stable rental subscriber growth (+4.4% YoY), domestic rental service sales grew 4.6% YoY to KRW380.1bn (versus our estimate of KRW377bn). Overseas sales grew 72% YoY, on: 1) healthy rental operations in Malaysia and the USA; and 2) recovery in Chinese ODM sales (+46% YoY), on a low base and improved Chinese air purifier market.

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. We based our net profit growth forecasts on 9.8% YoY growth in operating profit, thanks to: 1) 3.7% YoY growth in domestic rental-business sales; 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.

Action and recommendation

BUY rating and target price of KRW121,000 maintained

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 19.6x, which is its 5-year historical average.

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

(KRW bn, %, ppt)	1Q15	2Q15	3Q15	4Q15	1Q16P	YoY (%)	QoQ (%)	1Q16 (Cons.)	Diff. (%)	1Q16 (Mirae)	Diff. (%)
Sales	548.2	555.3	580.4	631.3	623.7	13.8	(1.2)	593.8	5.0	602.7	3.5
Operating profit	100.3	110.5	123.9	128.6	123.6	23.2	(3.9)	117.3	5.4	115.6	6.9
Recurring profit	101.1	108.9	121.7	122.7	125.3	23.9	2.1	118.6	5.7	114.1	9.8
Net profit (for controlling stake)	77.6	82.7	92.4	90.5	95.2	22.7	5.2	89.7	6.2	85.6	11.3
Operating profit margin (%)	18.3	19.9	21.4	20.4	19.8	1.5	(0.6)	19.8	0.1	19.2	0.6
Recurring profit margin (%)	18.4	19.6	21.0	19.4	20.1	1.6	0.7	20.0	0.1	18.9	1.2
Net profit margin (%)	14.2	14.9	15.9	14.3	15.3	1.1	0.9	15.1	0.2	14.2	1.1

Source: Coway, Bloomberg, Mirae Asset Research

Figure 2 12M forward P/E band



Source: Quantiwise, Mirae Asset Research

Figure 3 12M forward EV/EBITDA band



Source: Quantiwise, Mirae Asset Research

Summary financial statements

Profit & loss

Year end Dec 31 (KRW bn)	2014	2015	2016E	2017E
Revenue	2,160	2,315	2,486	2,595
Cost of goods sold	727	729	779	812
Gross profit	1,434	1,586	1,707	1,783
SG&A	1,069	1,123	1,198	1,227
EBIT (Adj.)	364	463	509	555
EBIT	364	463	509	555
Net interest income (loss)	(9)	(3)	3	6
Income (loss) from associates	0	0	0	0
Others	(23)	(6)	(9)	(11)
Recurring profit	332	454	503	549
Income tax	83	111	126	137
Net profit	250	343	377	412
Net profit (Controlling Interests)	250	343	377	412
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
Cash flow from operations	524	551	590	640
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)
Cash flow from investing	(287)	(271)	(271)	(271)
Capital expenditures	(296)	(270)	(270)	(270)
Others	9	(1)	(1)	(1)
Cash flow from financing	(328)	(313)	(206)	(245)
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
Current assets	597	595	744	891
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
Non-current assets	1,025	1,084	1,138	1,179
Net fixed assets	675	743	804	853
Investments	2	2	2	2
Other long-term assets	347	339	331	323
Total assets	1,622	1,680	1,882	2,069
Current liabilities	526	388	416	434
Accounts payable	220	63	68	71
Short-term debt	164	0	0	0
Other current liabilities	142	324	348	363
Non-current liabilities	56	59	61	63
Long-term debt	9	1	1	1
Other long-term liabilities	47	58	61	62
Total liabilities	582	446	478	498
Controlling Interests	1,039	1,234	1,405	1,572
Non-Controlling Interests	1	0	0	0
Shareholder's equity	1,039	1,234	1,405	1,572
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: 83.2%

HOLD: 15.5%

REDUCE: 1.3%

TOTAL: 100%

(All data are current as of 29 Apr. 2016)

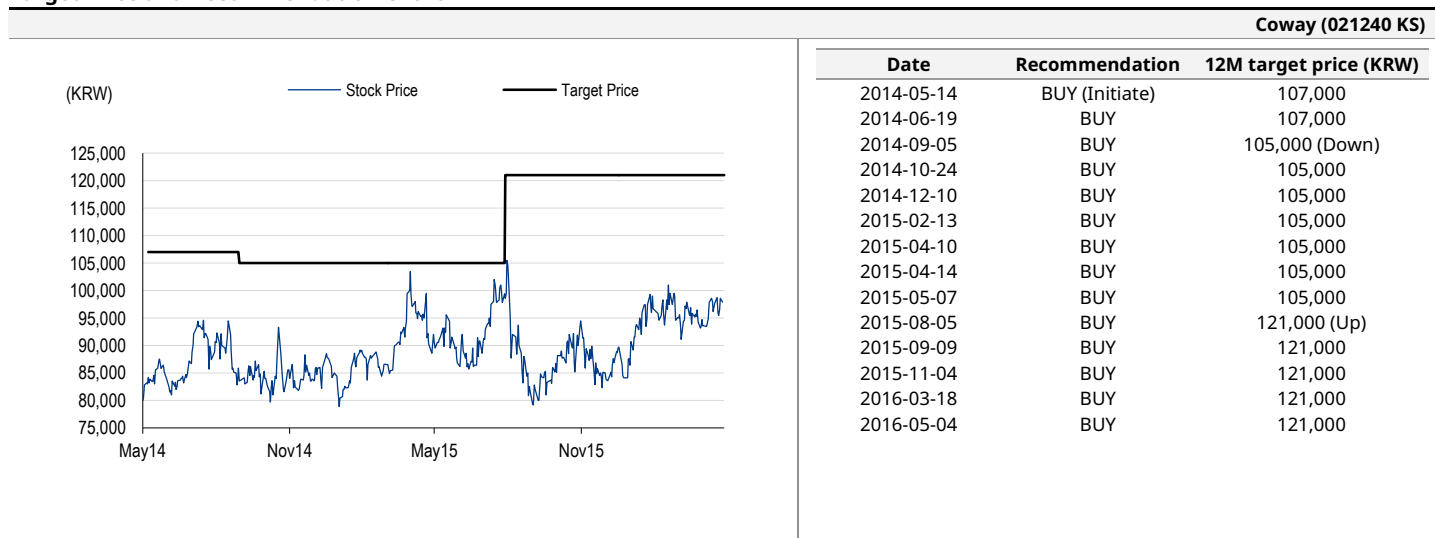
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Stock	Analyst	Type	Number of Shares	Purchase Price	Purchase Date	share of over 1%	in Issuance of Securities	with Affiliates	Stock Held

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Target Price and Recommendation Chart

Source: Bloomberg, Mirae Asset Research

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