

May 11, 2016 Company Earnings Review

SMART
ON

Coway (021240)

BUY (maintain)

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1Q16 Earnings Review

Current price (May 3) KRW96,000
Target Price KRW110,000

- 1Q16 OR and OP grew 13.8%YoY and 23.2%YoY, respectively
- Earnings met market consensus
- Wellness home appliance growth continues + overseas business recovers
- Maintain BUY with target price of KRW110,000

Fig 1: Earnings met consensus after all divisions achieved sound growth

KRWbn	1Q16P	Growth(%)		HRC	
		YoY	QoQ	Est.	Consen
OR	623.7	13.8	(1.2)	605.0	607.0
OP	123.6	23.2	(3.9)	118.2	120.9
EBT	125.3	23.9	2.1	118.3	123.2
NP	95.2	22.7	5.2	89.4	93.1

Note: Consolidated basis

Source: Company data, Hyundai Securities

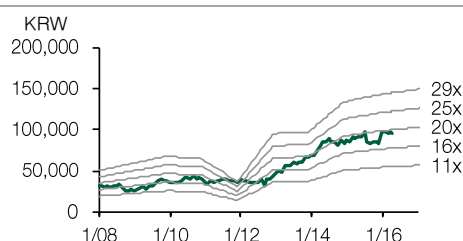
Fig 2: Wellness home appliance growth continues, overseas business recovers

KRWbn	1Q16P	Growth(%)		4Q14	3Q15
		YoY	QoQ		
OR	623.7	13.8	(1.2)	548.2	631.3
Wellness	499.3	12.3	(2.0)	444.6	509.3
Cosmetic	20.1	(13.0)	(0.7)	23.1	20.2
Export	56.7	71.8	37.0	33.0	41.4
Others	47.6	0.3	(21.2)	47.5	60.4
Rental sales unit('Oth)	35.1	3.0	(2.4)	34.1	35.9
Total account('Oth)	579.4	2.4	0.4	566.1	577.1

Note: Consolidated basis

Source: Company data, Hyundai Securities

Fig 3: Shares continue trading in boxed range on M&A issue



Source: Quantwise, Hyundai Securities

Earnings met consensus

1Q16 OR and OP grew 13.8%YoY and 23.2%YoY, respectively, satisfying consensus. Sound sales were achieved in all product areas including rental/lump-sum sales (total account 5.8mn, up 2.4%YoY). Cancellation rate was controlled (2015 1%→1Q16 1%) and disposal of rental assets was managed (ratio to rental sales 4Q15 2.6%→1Q16 2.6%), which led to profitability being maintained (2015 OP margin of 20%→1Q16 OP margin of 19.8%).

Wellness home appliance growth continues + overseas business recovers

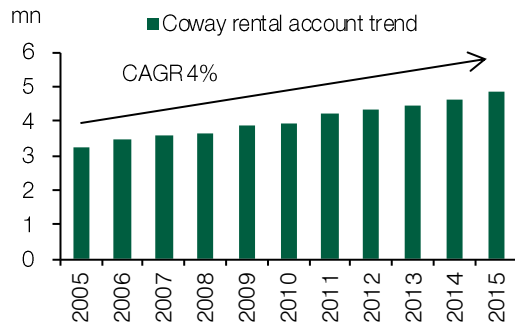
Operating conditions in 1Q16 remained sound. The wellness home appliance segment grew 12.3%YoY due to stable rental and lump-sum sales. Despite the effects of slow season, sound premium products and increased productivity (monthly unit sales per Cody 2015 8.3→1Q16 8.7), and increased sales staff (increased by 200 compared to 2015) led to historically high 1Q rental sales volume. Lump-sum/other sales grew 68.2%YoY despite a low base effect due to stable air purifier (air pollution effect) sales and non-core item sales, including electric cookers and massage chairs. The overseas business grew 71.8%YoY as air pollution issues led to sound air purifier ODM exports to China(up 46.1%YoY) and stable growth in Malaysia rental and US lump-sum sales (overseas subsidiary up 149.1%YoY).

Maintain BUY with target price of KRW110,000

The company's stock remains in a boxed range despite continued sound earnings. A stake sale by the majority shareholder is under way and we do not anticipate the stock price to rise markedly based on earnings until the stake sale is finalized. The company's high profitability and dividend payout ratio may be difficult to maintain when the stake sale is completed and uncertainties over the acquiring entity also need to be resolved. However we maintain BUY with the target price of KRW110,000 considering the company's continued growth in all areas.

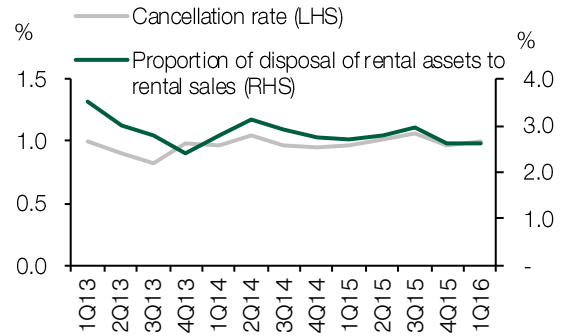
For explanations of equity research ratings and disclosures, please refer to the compliance section at the end of this report.

Fig 4: Stable rental account growth



Source: Company data, Hyundai Securities

Fig 5: Cancellation rate and rental asset disposal efficiently managed



Source: Company data, Hyundai Securities

Fig 6: Coway's earnings forecast

(KRWbn)	1Q15	2Q15	3Q15	4Q15	1Q16F	Consen	2Q16F	3Q16F	4Q16F	2014	2015	2016F	Consen	2017F
Rental account	4,666,185	4,747,355	4,779,581	4,832,434	4,861,338		4,909,951	4,949,231	4,993,774	4,600,582	4,832,434	4,993,774		5,135,070
Membership account	994,392	967,025	950,400	938,872	932,928		927,022	921,153	915,321	1,016,086	938,872	915,321		892,380
Consolidated OR	548.2	555.3	580.5	631.3	623.7	607.0	618.1	623.6	656.5	2,160.3	2,315.2	2,521.9	2,522.5	2,618.8
Environmental appliances OR	444.6	463.5	486.5	509.3	499.4		502.3	500.5	509.2	1,725.2	1,903.8	2,011.4		2,094.1
Rental OR	363.3	371.2	376.4	380.2	380.1		381.9	385.4	393.0	1,400.6	1,491.1	1,540.4		1,628.5
Membership OR	46.0	45.3	44.5	43.7	42.9		46.3	45.7	45.9	183.4	179.5	180.8		184.4
Lump-sum OR	30.0	41.4	45.6	54.2	50.5		46.8	42.3	43.4	123.5	171.2	183.0		172.0
Cosmetics	23.1	21.1	18.6	20.2	20.1		20.0	20.5	21.3	80.5	83.0	81.9		84.4
Exports	33.0	39.0	35.8	41.4	56.7		40.3	40.1	48.6	167.4	149.2	185.7		217.2
ODM/Dealers	24.8	18.8	15.9	22.7	36.2		18.0	20.0	28.3	120.3	82.2	102.5		112.8
Overseas affiliates	8.2	20.2	19.9	18.7	20.5		22.2	20.1	20.4	47.1	67.0	83.2		104.4
Others	47.5	31.7	39.6	60.4	47.5		55.4	62.5	77.4	187.2	179.2	242.9		223.1
COGS	175.2	170.6	178.1	204.9	207.0		200.1	204.5	216.2	726.6	728.8	827.9	801.7	846.8
COGS-to-OR ratio	32.0	30.7	30.7	32.5	33.2		32.4	32.8	32.9	33.6	31.5	32.8	31.8	32.3
Gross profit	373.0	384.7	402.4	426.4	416.6		418.0	419.1	440.4	1,433.7	1,586.4	1,694.1	1,720.8	1,771.9
Gross profit margin	68.0	69.3	69.3	67.5	66.8		67.6	67.2	67.1	66.4	68.5	67.2	68.2	67.7
SG&A	272.7	274.2	278.4	297.8	293.0		296.2	300.1	312.7	1,069.3	1,123.1	1,201.9	1,209.6	1,258.4
SG&A ratio	49.7	49.4	48.0	47.2	47.0		47.9	48.1	47.6	49.5	48.5	47.7	48.0	48.1
OP	100.3	110.4	124.0	128.6	123.6	120.9	121.8	119.0	127.7	364.4	463.3	492.1	507.1	513.5
OP margin (%)	18.3	19.9	21.4	20.4	19.8	19.9	19.7	19.1	19.5	16.9	20.0	19.5	20.1	19.6
EBT	101.1	108.9	121.7	122.7	125.3	123.2	120.9	116.9	122.3	332.4	454.5	485.4	502.7	507.6
NP	77.6	82.7	92.4	90.5	95.2	93.1	91.1	88.0	91.9	249.7	343.1	366.2	377.7	382.2
(%YoY)	2.5	(0.3)	10.5	16.3	13.8		11.3	7.4	4.0	2.0	7.2	8.9	9.0	3.8
Consolidated OR	6.1	6.2	12.8	16.2	12.3		8.4	2.9	(0.0)	4.2	10.4	5.7		4.1
Environmental appliances OR	6.1	7.1	6.7	6.0	4.6		2.9	2.4	3.4	5.1	6.5	3.3		5.7
Rental OR	4.8	(1.0)	(5.0)	(6.8)	(6.7)		2.2	2.8	5.0	5.6	(2.1)	0.8		1.9
Membership OR	8.8	10.7	43.5	102.9	68.2		13.1	(7.1)	(19.9)	(17.4)	38.6	6.9		(6.0)
Lump-sum OR	10.0	(5.4)	8.1	1.2	(12.9)		(5.0)	10.0	5.0	5.4	3.2	(1.4)		3.1
Cosmetics	(27.0)	(30.0)	8.5	23.6	71.8		3.3	12.1	17.5	15.8	(10.9)	24.5		16.9
Exports	(27.5)	(54.8)	(20.5)	(7.3)	46.0		(4.0)	25.8	24.5	6.7	(31.7)	24.7		10.0
Membership OR	(25.5)	43.3	53.1	107.8	150.0		10.0	1.2	8.9	47.6	42.3	24.2		25.5
Overseas affiliates	(4.5)	(25.2)	(10.0)	18.2	0.0		74.9	57.9	28.2	(22.7)	(4.3)	35.6		(8.1)
Others	(3.9)	(9.2)	5.9	8.9	18.2		17.3	14.8	5.5	0.8	0.3	13.6	10.0	2.3
COGS	5.7	4.2	12.6	20.2	11.7		8.7	4.2	3.3	2.6	10.6	6.8	8.5	4.6
Gross profit	3.9	0.9	6.2	9.1	7.5		8.0	7.8	5.0	1.0	5.0	7.0	7.7	4.7
SG&A	11.1	13.7	30.1	57.4	23.3	20.6	10.3	(4.0)	(0.7)	7.5	27.1	6.2	9.5	4.3
OP	14.3	25.9	41.6	71.5	23.9	21.9	11.0	(4.0)	(0.3)	1.6	36.7	6.8	10.6	4.6
EBT	17.4	24.8	44.5	69.6	22.7	21.9	10.2	(4.8)	1.5	1.9	37.4	6.7	10.1	4.4
NP														

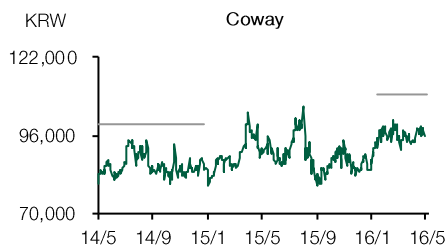
Source: Company data, FnGuide, Hyundai Securities

FY-end	12/14A	12/15A	12/16F	12/17F	12/18F
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
OR (KRWbn)	2,160.3	2,315.2	2,521.9	2,618.8	2,736.5
OP (KRWbn)	364.4	463.3	492.1	513.5	537.0
NP (KRWbn)	249.7	343.1	366.2	382.2	400.5
Parent NP (KRWbn)	249.7	343.1	366.2	382.3	400.5
EPS (KRW)	3,360	4,622	4,926	5,139	5,384
Adj. EPS (KRW)	3,360	4,622	4,926	5,139	5,384
PER* (x)	28.2-18.7	23.1-16.2	19.5	18.7	17.8
PBR (x)	6.0	5.0	5.1	4.6	4.2
EV/EBITDA (x)	11.3	9.3	10.2	9.8	9.0
Div. Yield (%)	2.4	3.3	3.1	3.3	3.3
ROE (%)	25.2	30.2	27.8	25.9	24.5
ROIC (%)	27.4	32.6	30.2	28.6	31.0

Note: IFRS-C = Consolidated financial statements; IFRS-P = Individual financial statements
 Source: Company data, Hyundai Securities

Disclosures

■ Rating and Target Price Changes



Company	Date	Rating	Target Price (KRW)
Coway	15/12/03	BUY	110,000

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Rating: Sector: Overweight (+10% or more), Neutral (-10 - +10%), Underweight (-10% or more)
 Company: Strong BUY (+30% or more), BUY (+10 - +30%), Marketperform (-10 - +10%), Underperform (-10% or more) (Share price -, Target Price -)

Proportion of investment rating (As of March 31, 2016)

BUY	Neutral	Sell
88.0	11.7	0.3

* Based on reports presented with investment ratings over the past one year

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