May 11, 2016 Company Earnings Review



KOREA

Coway (021240)



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1Q16 Earnings Revie	W
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- 1Q16 OR and OP grew 13.8%YoY an 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

KRW96.000

KRW110,000

KRWbn	1Q16P	Grow	th(%)	HRC	
	IQIOP	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

Current price (May 3)

Target Price

Source: Company data, Hyundai Securities

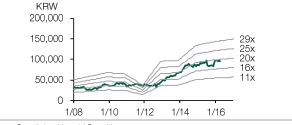
Fig 2: Wellness home appliance growth continues, overseas business recovers

KRWbn	1Q16P	Growt	:h(%)	4Q14	3Q15
	TQTOP	YoY	QoQ	4014	3015
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('0th)	35.1	3.0	(2.4)	34.1	35.9
Total account('0th)	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: Quantiwise, Hyundai Securities

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

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 $8.3 \rightarrow 1Q16 \ 8.7$), 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%YoYdespite 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.



Fig 4: Stable rental account growth

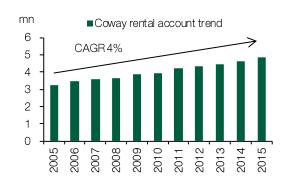
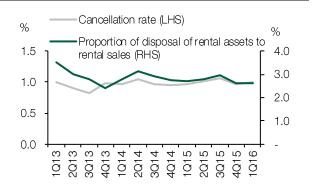


Fig 5: Cancellation rate and rental asset disposal efficiently managed



Source: Company data, Hyundai Securities

Source: Company data, Hyundai Securities

Fig	6: (Coway's	earnings	forecast
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Pental account 4,666,185 4,772,555 4,832,434 4,832,434 4,832,434 4,832,434 4,939,3774 4,800,552 4,832,434 4,939,3774 5,135,070 Membership account 994,392 967,025 950,400 938,872 932,928 927,022 921,153 915,321 1,016,086 938,72 92,320 Consolidated OR 548.2 555.3 560.5 601.3 607.0 618.1 623.6 666.5 2,160.3 2,315.2 2,521.9 2,522.5 2,618.8 Enviromental appliances OR 444.6 463.3 445.5 500.5 609.2 1,725.2 1,900.8 2,011.4 2,094.1 Lump-sum OR 30.0 41.4 56.5 46.8 42.3 43.4 123.5 171.2 180.0 172.0 Cosmetics 33.0 39.0 35.8 41.4 56.7 40.3 40.1 48.6 167.4 149.2 185.7 217.2 180.0 172.0 102.5 112.8 0.2 112.8 0	(KRWbn)	1Q15	2Q15	3Q15	4Q15	1Q16P	Consen	2Q16F	3Q16F	4Q16F	2014	2015	2016F	Consen	2017F
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Source: Company data, FnGuide, Hyundai Securities

A HYUNDAI SECURITIES

>> Coway

Statement of financial position

Profit & Loss					
(KRWbn)	12/14A	12/15A	12/16F	12/17F	12/18F
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
Operating revenue	2,160.3	2,315.2	2,521.9	2,618.8	2,736.5
Cost of sales	726.6	728.8	827.9	846.8	885.7
Gross profit	1,433.7	1,586.4	1,694.1	1,771.9	1,850.8
SG&A expenses	1,069.3	1,123.1	1,201.9	1,258.4	1,313.7
Other operating income	0.0	0.0	0.0	0.0	0.0
Operating profit	364.4	463.3	492.1	513.5	537.0
EBITDA	578.0	691.0	722.4	742.7	765.3
Non-operating accounts	(32.0)	(8.9)	(6.7)	(6.0)	(5.1)
Net financing income	(8.9)	(2.9)	(2.2)	(2.2)	(2.2)
Profit on equity method	0.0	0.0	0.0	0.0	0.0
Net other non-operating income	(23.1)	(6.0)	(4.6)	(3.7)	(2.9)
Profit before tax	332.4	454.5	485.4	507.6	531.9
Income tax expense	82.8	111.3	119.2	125.3	131.4
Net profit	249.7	343.1	366.2	382.2	400.5
Profit attributable to owners of parent	249.7	343.1	366.2	382.3	400.5
Total comprehensive income	241.1	334.3	366.2	382.2	400.5
TCI, attributable to owners of parent	241.1	334.3	366.2	382.3	400.5
Net exceptionals	0.0	0.0	0.0	0.0	0.0
Adj. net profit	249.7	343.1	366.2	382.3	400.5
Cash Flow					
(KRWbn)	12/14A	12/15A	12/16F	12/17F	12/18F
Net profit	249.7	343.1	366.2	382.2	400.5
Depreciation & amortization	243.7	227.7	230.3	229.2	228.3
Other non-cash adjustments	210.0	220.8	119.2	125.3	131.4
Investments in working capital	(29.1)	(195.3)	(14.6)	8.2	0.0
Other operating cash flow	(20.1)	(133.3)	(120.8)	(124.6)	(131.4)
Cash flow from operating activities	536.7	(00.4) 512.8	580.4	620.4	628.8
Capital expenditure	(296.2)	(320.4)	(300.0)	(320.0)	0.0
Investments in intangibles	(6.0)	(5.4)	(5.0)	(5.0)	0.0
Changes in current financial assets	(0.0)	0.0	6.7	0.5	0.0
Changes in investment assets	0.1	3.3	(1.9)	0.9	(0.5)
Other investment cash flow	2.7	(7.0)	(37.8)	(45.9)	(0.0)
Cash flow from investing activities	(299.2)	(329.5)	(337.9)	(369.5)	(0.5)
Proceeds from (repayments of) debt	(169.1)	(77.3)	(0.8)	(0.8)	0.0
Changes in equity	(27.6)	5.2	0.0	0.0	0.0
Dividends paid	(123.6)	(148.3)	(208.0)	(223.2)	(238.0)
Other financing cash flow	(7.6)	7.0	1.7	(0.8)	0.0
Cash flow from financing activities	(327.9)	(213.4)	(207.1)	(224.8)	(238.0)
Other cash flow	(0.9)	(1.0)	0.0	0.0	0.0
Increase/decrease in cash	(91.3)	(31.1)	35.3	26.1	390.3
Cash and cash equivalents at FYB	238.7	147.4	116.3	151.6	177.7
Cash and cash equivalents at FYE	147.4	116.3	151.6	177.7	568.C
·	0.0	0.0	0.0	0.0	0.0
Gross operating cash flow	485.6	580.6	600.0	616.7	632.6
Free cash flow	142.5	(17.4)	242.6	254.0	632.6
Net cash flow	78.2	49.2	29.4	26.4	390.3
Net cash (net debt)	(13.0)	36.3	65.6	92.0	482.3
Operating Statistics & Ratios					
(%)	12/14A	12/15A	12/16F	12/17F	12/18F
OR growth	2.0	7.2	8.9	3.8	4.5
/ NJ growth	7.5	07.1	<u>60</u>	10	1 6

7.5

7.6

1.9

1.9

16.9

26.8

11.6

11.6

27.1

19.6

37.4

37.4

20.0

29.8

14.8

14.8

Statement of financial position					
(KRWbn)	12/14A	12/15A	12/16F	12/17F	12/18F
Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C
Cash and cash equivalents	147.4	116.3	151.6	177.7	568.0
Current financial assets	6.4	9.2	2.5	2.0	2.0
Trade receivables	208.8	256.0	256.0	256.0	256.0
Inventories	61.9	69.8	69.8	69.8	69.8
Other current assets	172.4	202.0	202.0	202.0	202.0
Current assets	596.8	653.3	681.9	707.5	1,097.8
Investment assets	81.4	77.7	79.5	78.6	79.
Property, plant and equipment	675.2	699.5	775.8	872.1	648.4
Intangible assets	170.6	168.8	167.2	166.7	162.1
Deferred tax assets	0.9	0.9	0.9	0.9	0.9
Other non-current assets	96.7	175.2	213.0	258.9	258.9
Non-current assets	1,024.8	1,122.1	1,236.4	1,377.2	1,149.4
Total assets	1,621.6	1,775.4	1,918.3	2,084.7	2,247.1
Trade payables	59.0	59.8	60.4	61.0	61.0
Short-term financial liabilities	164.5	80.1	79.3	78.5	78.
Current provisions	1.4	1.6	1.6	1.6	1.6
Other current liabilities	301.1	331.4	316.3	323.8	323.8
Current liabilities	526.0	472.9	457.5	464.9	464.9
Non-current financial liabilities	2.2	9.2	9.2	9.2	9.2
Non-current provisions	0.7	2.1	2.1	2.1	2.1
Provisions for employee benefits	16.0	12.4	14.2	13.3	13.0
Deferred tax liabilities	20.1	23.1	21.6	22.4	22.4
Other non-current liabilities	17.2	17.4	17.3	17.4	17.4
Non-current liabilities	56.2	64.3	64.5	64.4	64.4
Total liabilities	582.2	537.2	522.0	529.3	529.3
Issued capital	40.7	40.7	40.7	40.7	40.
Share premium	126.5	127.5	127.5	127.5	127.8
Other equity interest	(114.5)	(102.6)	(102.6)	(102.6)	(102.6
Accumulated other comprehensive income	(0.0)	(5.2)	(5.2)	(5.2)	(5.2
Retained earnings	985.9	1,177.0	1,335.2	1,494.4	1,656.9
Equity attributable to owners of parent	1,038.5	1,237.4	1,395.5	1,554.7	1,717.2
Non-controlling Interests	0.9	0.9	0.8	0.8	0.3
Total equity	1,039.4	1,238.2	1,396.4	1,555.4	1,717.9
Total Liab. and equity	1,621.6	1,775.4	1,918.4	2,084.7	2,247.2
Per-share Performance					
(KRW)	12/14A	12/15A	12/16F	12/17F	12/18
EPS	3,360	4,622	4,926	5,139	5,384
Adj. EPS	3,360	4,622	4,926	5,139	5,384
BPS	14,001	16,654	18,761	20,900	23,084
SPS	29,068	31,188	33,923	35,204	36,78
GCFPS	6,534	7,821	8,071	8,291	8,50
DPS	2,000	2,800	3,000	3,200	3,200
3yr CAGR of adj. EPS	14.4	15.2	5.2	4.8	4.8
Shareholder Value & Financial Structure					
(%)	12/14A	12/15A	12/16F	12/17F	12/18
ROE	25.2	30.2	27.8	25.9	24.
ROA	15.7	20.4	20.0	19.2	18.0
ROIC	27.4	32.6	30.2	28.6	31.
WACC	3.9	8.0	7.3	8.0	8.0
ROIC/WACC (x)	7.0	4.1	4.2	3.6	3.9
Economic profit (KRWbn)	233.9	272.4	285.5	284.6	290.8
Total liab./equity	56.0	43.4	37.4	34.0	30.
Net debt/equity Interest coverage (x)	1.3 50.1	Net cash 159.3	Net cash 210.3	Net cash 212.8	Net casl 219.3

14.5 Note: Adj. EPS = [(Adjusted NP - preferred share NP) + (after-tax dilution adjustment)] / (diluted avg. number of ordinary shares outstanding), Adjusted NP = (Parent NP) - (net exceptional gains)

6.2

4.5

6.7

6.7

19.5

28.6

14.5

4.6

3.0

4.8

4.8

19.6

28.0

14.6

14.6

4.3

2.8

4.4

4.4

19.6

28.4

14.6

14.6

Reporting standard: IFRS-C = Consolidated financial statements, IFRS-1 = Individual financial statements, IFRS-S = Separate financial statements

Source: Coway, HyundaiSecurities

OP growth

EBITDA growth

Adj. NP growth

EBITDA margin

Adj. NP margin

OP margin

NP margin

NP growth of parent

A HYUNDAI SECURITIES

>> Coway

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

