

July 15, 2016 Company Analysis



Coway (021240)

BUY (maintain)



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Time Needed For Now

Nickel scandal related to Coway's ice-making water purifier pared down Coway's share price by 15%

Coway's share price nosedived some 15% following news on Jul 4 about the detection of nickel in its ice-making water purifiers. Nickel was first detected in 2015 and the replacement of corresponding water purifier models was all completed in Jun 2016 (ultra-slim/sparkling/coffee ice-making water purifiers), but soured consumer sentiment has resulted in Coway's share price pullbacks. Although all related models were replaced, Coway decided to provide full refunds to stave off further deterioration in consumer sentiment and promote consumer rights. Related expenses are estimated at about KRW100bn.

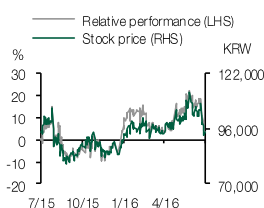
Time required for long-term investment decision

The scandal-related expenses are estimated at approximately KRW100bn (e.g., refunds, parts replacements, losses from obsolescence of unsold product inventories/sold rental assets). The timing of the reflection and the items to be reflected on financial statements have yet to be confirmed, but all corresponding items will likely be reflected this year and thus, earnings adjustments look to be inevitable for 2016. Downward revisions to earnings stemming from expenses seem to have been factored into the share price, but it is still too early to predict when earnings and sentiment will recover. Hence, we recommend investors to make long-term investment decisions after confirming the trend of accounts in 3Q-4Q16.

BUY kept and target price lowered slightly to KRW105,000

We maintain BUY, but slightly lower our target price to KRW105,000. The downward revision to the target price reflects already-confirmed costs of around KRW100bn and the possibility of account outflows (an estimated 35,000 accounts likely to leave). Yet, given the company's standing within the market (40% share of water purifier market), it is too early to confirm a reduction in future accounts following the detection of nickel in ice-making water purifiers. Yet, with the possibility of additional cost burdens (lawsuits, promotional expenses, etc.) and inevitable short-term image deterioration, it would take some time for the share price to recover.

Current price (Jul 12)	KRW94,000		
Target Price	KRW105,000 (prev. KRW110,000)		
Reuters code	021240.KS		
Bloomberg code	021240 KS		
Industry/Sector	Other Consumer Services		
Rating			
Market cap	USD6.3bn		
Ordinary shares issued	77,124,796shrs		
Free float	65.4%		
KOSPI	1,991.23		
KOSDAQ	699.40		
Avg T/O Vol (60d)	174,558shrs		
Avg T/O Val (60d)	15.3mn		
Foreign ownership	54.1%		
3yr CAGR of adj EPS (16~18)	5.8%		
Market's 3yr CAGR of adj. EPS	22.4%		
52wk high/low	KRW113,000 KRW79,200		
Beta (12M, daily return)	0.7		
Major shareholders	Coway Holdings, Inc. and 10 others 31.1%		
Price performance	1M	3M	6M
Absolute	-13.4%	0.5%	2.7%
Relative	-12.2%	0.0%	-2.4%



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	2,497.2	2,621.8	2,750.2
OP (KRWbn)	364.4	463.3	475.6	515.5	546.3
NP (KRWbn)	249.7	343.1	300.6	383.7	407.4
Parent NP (KRWbn)	249.7	343.1	300.6	383.7	407.4
EPS (KRW)	3,360	4,622	4,042	5,155	5,474
Adj. EPS (KRW)	3,360	4,622	4,042	5,155	5,474
PER* (x)	28.2-18.7	23.1-16.2	23.3	18.2	17.2
PBR (x)	6.0	5.0	5.2	4.7	4.2
EV/EBITDA (x)	11.3	9.3	10.4	9.8	9.3
Div. Yield (%)	2.4	3.3	3.2	3.4	3.4
ROE (%)	25.2	30.2	23.4	27.1	25.8
ROIC (%)	27.4	32.6	28.2	26.9	26.2

Note: IFRS-C = Consolidated financial statements; IFRS-P = Individual financial statements

Source: Company data, Hyundai Securities

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

Share price skidded 15% on ice-making water purifier-related scandal

Coway’s share price has slid some 15% since the eruption of the nickel scandal related to three types of the company’s ice-making water purifiers on Jul 4, 2016 (ultra-slim, sparkling, coffee ice; CHPI-380N (CPI-380N), CHPCI-430N, CPSI-370N). The number of customer accounts related to the above models stands at some 110,000.

Nickel first detected in 2015; Corresponding parts all replaced until Jun, 2016, but full refund offered to fend off further deterioration in consumer sentiment and promote consumer rights

According to Coway, nickel was first detected during services rendered by some “Cody” ladies or its door-to-door service agents, in early 2015. The stripped nickel coating was confirmed to be harmless according to Coway’s additional internal research and tests conducted by independent institutions. Nevertheless, Coway completed the replacement of corresponding parts until Jun, 2016 with a view to promoting consumer rights. Some were skeptical that Coway tried to cover up the scandal because it did not reveal the related information right away. However, as the news was leaked to the media after the completion of parts replacements, additional controversies have yet to arise. With the scandal coming to the fore, however, Coway’s share price has skidded. Aiming to stave off further deterioration in consumer sentiment and promote consumer rights, Coway decided to: 1) offer a full refund, 2) destroy related inventories, and 3) ban sales of the above models.

Damage to brand image and consumer confidence seems inevitable over short term

In conclusion, the company should inevitably experience damage to its brand image and consumer confidence. As a B2C company, Coway was the source of a controversy surrounding a product related to consumption, regardless of whether or not the ice-making water purifier at issue is harmful to humans.

Fig 1: Summary of nickel incident and forecast of related costs

Date	Summary
Early 2015	First incident of nickel found during Cody service
06/2016	Change of related parts completed (97%, excluding customers who cannot be reached)
07/04/2016	Media reports on nickel incident
07/06/2016	Coway decides on full refund and removal of related products
Type	Related cost forecast (KRW100mn)
Refund	538
Refund on products sold during Apr-Jun	77
Change of parts	31
Removal of inventory	60
Losses from disposal of rental assets	300
Total	1,006
Potential additional cost	Promotion, law suits, etc

Source: Company data, Hyundai Securities

Related expenses estimated at around KRW100bn, possibility of partial loss of clients and additional expenses (promotional expenses, lawsuits, etc.)

SG&A expenses and one-off expenses are estimated at about KRW100bn, which is broken down into expenses regarding component replacements amounting to KRW3.1bn executed until Jun, refunds (KRW53.8bn announced plus additional refunds estimated at KRW7.7bn for products purchased during Apr-Jun) and losses from rental asset obsolescence of KRW300bn. Losses from rental asset obsolescence look to be reflected as SG&A expenses, but as for the remaining expenses, the timing of the reflection and the recognition method have yet to be confirmed. Separately, there is the chance of additional expenses related to the possibility of a portion of Coway’s 110,000 account holders canceling their contracts, consumers filing lawsuits and the possibility of additional marketing expenses aimed at retaining existing clients. Yet, confirmed expenses should be recognized this year and assuming the confirmed expenses and an estimated client outflow of 35,000 accounts, we revised down 2016 OR, OP and NP projections by 1%, 3.4% and 17.9%, respectively.

2016 OR, OP and NP projections revised down by 1%, 3.4% and 17.9%, respectively

Fig 2: Adjusted earnings estimates

KRWbn	After change		Before change		Change(%)	
	2016F	2017F	2016F	2017F	2016F	2017F
OR	2,497.2	2,621.8	2,521.9	2,621.8	(1.0)	0.0
OP	475.6	515.5	492.1	515.5	(3.4)	0.0
NP	300.6	383.7	366.2	383.7	(17.9)	0.0
OP margin(%)	19.0	19.7	19.5	19.7	(0.5%p)	0.0

Source: Company data, Hyundai Securities

2016 earnings meaningless for now; Potential exit of existing accounts to carry stronger significance

All in all, 2016 earnings do not seem to carry significant implications at the moment. Whether existing customers will leave is forecast to carry more significant implications for Coway, than its current earnings dips caused by the reflection of expenses. Coway, the No. 1 water purifier rental company in Korea, still boasts a premium as a market leader and the strongest funding power and customer-management ability. Hence, Coway is highly likely to minimize the exit of its 110,000 accounts and execute intensive promotional events for existing and prospective customers by spending more money. For now, it is difficult to estimate the size of inevitable expenses and the number of accounts to be lost ahead.

Consumer confidence of utmost importance; Existence of alternative products/services to hint at Coway's outlook

We surmise that it would be difficult for Coway to turn soured consumer sentiment around and recover its tainted image over the short term, because consumer trust is pivotal to F&B and home appliance stocks. However, it still seems possible to predict the size of customer exits or the strength of a recovery by analyzing the market position of Coway and the existence of alternative products or services.

If proportion of households comprised of three to four family members is high among Coway's ice-making water purifier clients and they flee to mineral water market, there is lofty chance for them to return

The company's clients are mostly comprised of three to four family members per household, which are highly dependent on water purifiers. Also, as the ice-making water purifier at issue is a high value-added product (ARPU at KRW40,000 vs. the company's average ARPU at KRW24,600), there is a strong chance of three to four member households having been using the products. If the clients transfer to the mineral water market, we see they are highly likely to revert to the water purifier market due to cost burdens stemming from mineral water purchases and inconveniences involving needs for frequent purchases, difficulties at managing mineral water (stored in refrigerates) and treatment of waste. Yet, the problem is the possibility of the current clients fleeing to competitors. Fortunately, however, confidence in the water purifier market itself is declining rather than a degraded confidence in Coway alone. If the latest scandal leads to a reduction in the company's accounts and a rise in competitors' accounts, this may hamper the company's enterprise value. Yet, we can see how things will unfold after confirming the trends of accounts in 3Q-4Q16 and for now, it is too early to predict the company's earnings changes.

But it is necessary to check whether they flee to competitors; Results to come after confirming trends of accounts in 3Q-4Q16

Coway to minimize exit of existing customers based on its strengths (e.g., customer networks built on Cody services, brand awareness, three-to-four-person household customers, funding power)

Coway boasts the following differentiated competitiveness: customer networks built through long-standing Cody services, solid brand awareness, customer accounts composed mostly of three-to-four-person households, and strong funding power. Therefore, Coway is expected to minimize the exit of existing customers. With the detected foreign substance (nickel coating) confirmed to be not harmful to human bodies, consumers' distrust will likely diminish gradually ahead. Moreover, the 110,000 accounts correspond to only about 2% of Coway's total customer accounts.

At the previous 1Q16 earnings review report, we mentioned uncertainties over Coway's earnings given the likelihood of its sale, adding that Coway's share price is unlikely to rise on earnings growth until the sale is wrapped up. The share price exhibited an uptrend over the short-term on the signing of an MOU with Haier of China, but the detection of nickel sent the share price down again.

Selloff-related noise and issue of detection of nickel are recipe for short-term downtrend; Time needed to make long-term investment decisions

Irrespective of the nickel issue, risk factors such as cost management and the possibility of continuing shareholder-friendly policies in connection to the sale of Coway and uncertainties over the sale should continue. However, assuming that the risks stemming from the nickel issue should be limited, we recommend investors to delay investment decisions until confirming the trends of accounts in 3Q-4Q16. We advise existing investors to hold and prospective buyers to buy after confirming the trends of accounts in 3Q-4Q16.

Fig 3: Coway's earnings forecast

(KRWbn)	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16F	3Q16F	4Q16F	2014	2015	2016F	2017F
Rental account	4,666,185	4,747,355	4,779,581	4,832,434	4,861,338	4,909,951	4,914,861	4,929,606	4,600,582	4,832,434	4,929,606	5,036,433
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	892,360
Consolidated OR	548.2	555.3	580.5	631.3	623.7	626.2	610.1	637.2	2,160.3	2,315.2	2,497.2	2,621.8
Environmental appliances OR	444.6	463.5	486.5	509.3	499.4	508.2	489.0	498.1	1,725.2	1,903.8	1,994.7	2,079.9
Rental OR	363.3	371.2	376.4	380.2	380.1	390.7	379.4	387.4	1,400.6	1,491.1	1,537.7	1,635.5
Membership OR	46.0	45.3	44.5	43.7	42.9	43.4	40.4	40.6	183.4	179.5	167.3	167.2
Lump-sum OR	30.0	41.4	45.6	54.2	50.5	46.7	42.2	43.2	123.5	171.2	182.6	168.0
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	57.8	60.4	69.2	187.2	179.2	234.9	240.4
COGS	175.2	170.6	178.1	204.9	207.0	202.8	200.1	209.8	726.6	728.8	819.7	848.0
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	32.3
Gross profit	373.0	384.7	402.4	426.4	416.6	423.5	410.0	427.4	1,433.7	1,586.4	1,677.5	1,773.9
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	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	1,258.4
SG&A ratio	49.7	49.4	48.0	47.2	47.0	47.3	49.2	49.1	49.5	48.5	48.1	48.0
OP	100.3	110.4	124.0	128.6	123.6	127.3	109.9	114.8	364.4	463.3	475.6	515.5
OP margin (%)	18.3	19.9	21.4	20.4	19.8	20.3	18.0	18.0	16.9	20.0	19.0	19.7
EBT	101.1	108.9	121.7	122.7	125.3	102.8	84.2	85.8	332.4	454.5	398.2	509.4
NP	77.6	82.7	92.4	90.5	95.2	77.5	63.4	64.5	249.7	343.1	300.6	383.7
(%YoY)												
Consolidated OR	2.5	(0.3)	10.5	16.3	13.8	12.8	5.1	0.9	2.0	7.2	7.9	5.0
Environmental appliances OR	6.1	6.2	12.8	16.2	12.3	9.6	0.5	(2.2)	4.2	10.4	4.8	4.3
Rental OR	6.1	7.1	6.7	6.0	4.6	5.3	0.8	1.9	5.1	6.5	3.1	6.4
Membership OR	4.8	(1.0)	(5.0)	(6.8)	(6.7)	(4.2)	(9.2)	(7.2)	5.6	(2.1)	(6.8)	(0.0)
Lump-sum OR	8.8	10.7	43.5	102.9	68.2	12.9	(7.4)	(20.3)	(17.4)	38.6	6.7	(8.0)
Cosmetics	10.0	(5.4)	8.1	1.2	(12.9)	(5.0)	10.0	5.0	5.4	3.2	(1.4)	3.1
Exports	(27.0)	(30.0)	8.5	23.6	71.8	3.3	12.1	17.5	15.8	(10.9)	24.5	16.9
Membership OR	(27.5)	(54.8)	(20.5)	(7.3)	46.0	(4.0)	25.8	24.5	6.7	(31.7)	24.7	10.0
Overseas affiliates	(25.5)	43.3	53.1	107.8	150.0	10.0	1.2	8.9	47.6	42.3	24.2	25.5
Others	(4.5)	(25.2)	(10.0)	18.2	0.0	82.3	52.6	14.6	(22.7)	(4.3)	31.1	2.3
COGS	(3.9)	(9.2)	5.9	8.9	18.2	18.9	12.3	2.4	0.8	0.3	12.5	3.4
Gross profit	5.7	4.2	12.6	20.2	11.7	10.1	1.9	0.2	2.6	10.6	5.7	5.7
SG&A	3.9	0.9	6.2	9.1	7.5	8.0	7.8	5.0	1.0	5.0	7.0	4.7
OP	11.1	13.7	30.1	57.4	23.3	15.3	(11.4)	(10.8)	7.5	27.1	2.7	8.4
EBT	14.3	25.9	41.6	71.5	23.9	(5.6)	(30.8)	(30.0)	1.6	36.7	(12.4)	27.9
NP	17.4	24.8	44.5	69.6	22.7	(6.3)	(31.4)	(28.7)	1.9	37.4	(12.4)	27.6

Source: Company data, Hyundai Securities

Fig 4: Target price calculation

(KRWbn)	2016F	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F
OP	475.6	515.5	546.3	582.6	603.9	646.1	691.4	739.8	791.6	847.0
Income tax rate	24.2%	24.2%	24.2%	24.2%	24.2%	24.2%	24.2%	24.2%	24.2%	24.2%
OP after tax (NOPLAT)	360.5	390.7	414.1	441.6	457.7	489.8	524.1	560.7	600.0	642.0
Depreciation expenses/intangible	227.7	230.3	232.5	233.7	234.8	236.0	237.2	238.4	239.6	240.7
Increase in working capital	35.0	20.0	15.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
CAPEX	(244.7)	(290.0)	(300.0)	(303.0)	(306.0)	(309.1)	(309.1)	(309.1)	(309.1)	(309.1)
FCF	308.5	311.0	331.5	362.3	376.5	406.7	442.1	480.0	520.5	563.7
Discount factor	1.07	1.15	1.24	1.33	1.42	1.53	1.64	1.76	1.89	2.02
FCF (present value)	287.5	270.1	268.4	273.3	264.7	266.5	270.0	273.2	276.1	278.6
WACC	7.3%									
FCF's current value	2,728.4									
Residual value	4,875.9									
Enterprise value	7,604.3									
Net debt	181.8									
Shareholders' equity	7,786									
# of shares (share)	74,297,159									
Target price (KRW)	104,797									

Source: Hyundai Securities

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	2,497.2	2,621.8	2,750.2
Cost of sales	726.6	728.8	819.7	848.0	890.2
Gross profit	1,433.7	1,586.4	1,677.5	1,773.9	1,860.0
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	475.6	515.5	546.3
EBITDA	578.0	691.0	707.2	746.8	777.3
Non-operating accounts	(32.0)	(8.9)	(77.4)	(6.0)	(5.2)
Net financing income	(8.9)	(2.9)	(2.3)	(2.3)	(2.3)
Profit on equity method	0.0	0.0	0.0	0.0	0.0
Net other non-operating income	(23.1)	(6.0)	(75.1)	(3.7)	(2.9)
Profit before tax	332.4	454.5	398.2	509.4	541.1
Income tax expense	82.8	111.3	97.6	125.7	133.7
Net profit	249.7	343.1	300.6	383.7	407.4
Profit attributable to owners of parent	249.7	343.1	300.6	383.7	407.4
Total comprehensive income	241.1	334.3	301.7	383.7	407.4
TCL, attributable to owners of parent	241.1	334.3	301.7	383.7	407.4
Net exceptionals	0.0	0.0	0.0	0.0	0.0
Adj. net profit	249.7	343.1	300.6	383.7	407.4

Cash Flow					
(KRWbn)	12/14A	12/15A	12/16F	12/17F	12/18F
Net profit	249.7	343.1	300.6	383.7	407.4
Depreciation & amortization	213.6	227.7	231.6	231.3	231.1
Other non-cash adjustments	201.7	220.8	118.5	125.7	133.7
Investments in working capital	(29.1)	(195.3)	(273.5)	8.2	(3.8)
Other operating cash flow	(99.1)	(83.4)	(101.6)	(125.0)	(133.7)
Cash flow from operating activities	536.7	512.8	275.7	624.0	634.7
Capital expenditure	(296.2)	(320.4)	(377.2)	(320.0)	(340.0)
Investments in intangibles	(6.0)	(5.4)	(7.3)	(5.0)	0.0
Changes in current financial assets	0.2	0.0	24.5	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)	(31.8)	(50.8)	0.0
Cash flow from investing activities	(299.2)	(329.5)	(393.7)	(374.4)	(340.5)
Proceeds from (repayments of) debt	(169.1)	(77.3)	0.5	(0.8)	0.0
Changes in equity	(27.6)	5.2	2.5	0.0	0.0
Dividends paid	(123.6)	(148.3)	(208.0)	(223.3)	(238.2)
Other financing cash flow	(7.6)	7.0	206.9	(0.8)	0.4
Cash flow from financing activities	(327.9)	(213.4)	1.9	(224.9)	(237.7)
Other cash flow	(0.9)	(1.0)	(0.4)	0.0	0.0
Increase/decrease in cash	(91.3)	(31.1)	(116.5)	24.7	56.5
Cash and cash equivalents at FYB	238.7	147.4	116.3	(0.2)	24.5
Cash and cash equivalents at FYE	147.4	116.3	(0.2)	24.5	81.0
	0.0	0.0	0.0	0.0	0.0
Gross operating cash flow	485.6	580.6	589.9	620.4	642.4
Free cash flow	142.5	(17.4)	(128.7)	252.8	298.6
Net cash flow	78.2	49.2	(123.8)	25.0	56.5
Net cash (net debt)	(13.0)	36.3	(87.6)	(62.6)	(6.1)

Operating Statistics & Ratios					
(%)	12/14A	12/15A	12/16F	12/17F	12/18F
OR growth	2.0	7.2	7.9	5.0	4.9
OP growth	7.5	27.1	2.7	8.4	6.0
EBITDA growth	7.6	19.6	2.3	5.6	4.1
NP growth of parent	1.9	37.4	(12.4)	27.6	6.2
Adj. NP growth	1.9	37.4	(12.4)	27.6	6.2
OP margin	16.9	20.0	19.0	19.7	19.9
EBITDA margin	26.8	29.8	28.3	28.5	28.3
NP margin	11.6	14.8	12.0	14.6	14.8
Adj. NP margin	11.6	14.8	12.0	14.6	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	(0.2)	24.5	81.0
Current financial assets	6.4	9.2	2.5	2.0	2.0
Trade receivables	208.8	256.0	272.0	272.0	272.0
Inventories	61.9	69.8	68.1	68.1	68.1
Other current assets	172.4	202.0	198.8	198.8	198.8
Current assets	596.8	653.3	541.2	565.4	621.9
Investment assets	81.4	77.7	79.5	78.6	79.1
Property, plant and equipment	675.2	699.5	831.4	927.0	1,042.6
Intangible assets	170.6	168.8	174.9	173.0	166.3
Deferred tax assets	0.9	0.9	0.4	0.4	0.4
Other non-current assets	96.7	175.2	235.8	286.6	286.6
Non-current assets	1,024.8	1,122.1	1,322.1	1,465.6	1,575.0
Total assets	1,621.6	1,775.4	1,863.3	2,031.0	2,196.9
Trade payables	59.0	59.8	60.4	61.0	61.0
Short-term financial liabilities	164.5	80.1	79.3	78.5	78.5
Current provisions	1.4	1.6	5.8	5.8	5.8
Other current liabilities	301.1	331.4	316.3	323.8	320.0
Current liabilities	526.0	472.9	461.7	469.1	465.3
Non-current financial liabilities	2.2	9.2	10.6	10.6	10.6
Non-current provisions	0.7	2.1	2.2	2.2	2.2
Provisions for employee benefits	16.0	12.4	14.2	13.3	13.7
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	65.9	65.8	66.3
Total liabilities	582.2	537.2	527.7	535.0	531.6
Issued capital	40.7	40.7	40.7	40.7	40.7
Share premium	126.5	127.5	127.5	127.5	127.5
Other equity interest	(114.5)	(102.6)	(98.9)	(98.9)	(98.9)
Accumulated other comprehensive income	(0.0)	(5.2)	(4.1)	(4.1)	(4.1)
Retained earnings	985.9	1,177.0	1,269.7	1,430.1	1,599.3
Equity attributable to owners of parent	1,038.5	1,237.4	1,334.8	1,495.2	1,664.4
Non-controlling Interests	0.9	0.9	0.9	0.9	0.9
Total equity	1,039.4	1,238.2	1,335.6	1,496.0	1,665.3
Total Liab. and equity	1,621.6	1,775.4	1,863.3	2,031.0	2,196.9

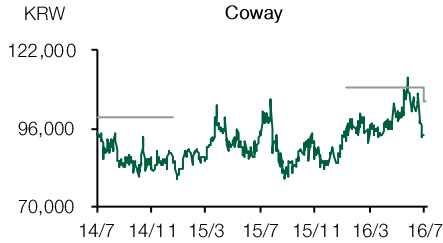
Per-share Performance					
(KRW)	12/14A	12/15A	12/16F	12/17F	12/18F
EPS	3,360	4,622	4,042	5,155	5,474
Adj. EPS	3,360	4,622	4,042	5,155	5,474
BPS	14,001	16,654	17,934	20,089	22,362
SPS	29,068	31,188	33,582	35,226	36,951
GCFPS	6,534	7,821	7,932	8,335	8,631
DPS	2,000	2,800	3,000	3,200	3,200
3yr CAGR of adj. EPS	7.1	15.3	5.8	12.7	5.5

Shareholder Value & Financial Structure					
(%)	12/14A	12/15A	12/16F	12/17F	12/18F
ROE	25.2	30.2	23.4	27.1	25.8
ROA	15.7	20.4	16.7	19.8	19.4
ROIC	27.4	32.6	28.2	26.9	26.2
WACC	3.9	8.0	7.3	8.0	8.0
ROIC/WACC (x)	7.0	4.1	3.9	3.4	3.3
Economic profit (KRWbn)	233.9	272.4	274.0	278.8	290.2
Total liab./equity	56.0	43.4	39.5	35.8	31.9
Net debt/equity	1.3	Net cash	6.6	4.2	0.4
Interest coverage (x)	50.1	159.3	200.8	209.6	218.3

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)
 Net exceptional gains: After-tax exceptional gains (exceptional gains attributable to parent including FX gains, derivatives gains, valuation gains, one-off gains and discontinued operation gains)
 Reporting standard: IFRS-C = Consolidated financial statements, IFRS-I = Individual financial statements, IFRS-S = Separate financial statements
 Source: Coway, HyundaiSecurities

Disclosures

■ Rating and Target Price Changes



Company	Date	Rating	Target Price (KRW)
Coway	15/12/03	BUY	110,000
	16/07/13	BUY	105,000

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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 June 30, 2016)

BUY	Neutral	Sell
85.6	14.0	0.4

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

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