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## Flashnote

## Korea / Consumer

20 September 2016

**BUY**Target price **KRW121,000**Last price (19 Sep 2016) **KRW98,100**

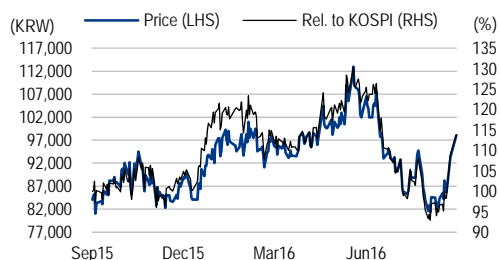
Upside/downside (%)	23.3
KOSPI	2,015.78
Mkt. cap (KRW bn/USD bn)	7,566/6.8
52-week range (KRW)	81,000 - 113,000
Avg. trading value daily (KRW bn)	26.21
Foreign ownership (%)	53.9

Source: Bloomberg

## Forecast earnings &amp; valuation

Fiscal year ending	Dec-15	Dec-16 E	Dec-17 E	Dec-18 E
Revenue (KRW bn)	2,315	2,429	2,594	2,703
EBIT (KRW bn)	463.3	396.7	536.9	587.0
Net profit (KRW bn)	343.1	292.4	397.2	436.8
Net profit (underlying)	343.1	292.4	397.3	436.8
EPS (KRW)	4,449	3,791	5,151	5,664
EPS growth (%)	37.4	(14.8)	35.9	10.0
P/E (x)	18.9	25.9	19.0	17.3
EV/EBITDA (x)	9.6	12.1	9.5	8.7
Dividend yield (%)	3.3	3.0	3.8	4.5
P/B (x)	5.3	5.7	5.1	4.6
ROE (%)	30.2	22.9	28.2	27.7
Net debt/equity (%)	(3.0)	(11.2)	(18.8)	(24.7)

## Performance



Performance	1M	3M	12M
Absolute (%)	16.8	(4.8)	16.4
Absolute (USD, %)	16.2	0.2	22.4
Relative to KOSPI (%)	18.8	(8.0)	15.4

Source: Bloomberg

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# Coway (021240 KS)

## 1% share cancellation

## Event

Coway has announced a 1% share cancellation. In addition, it plans to buy back KRW70bn-worth of shares (713K shares, or 0.9% of outstanding shares) in the market between 20 September 2016 and 20 March 2017, to stabilize the share price. We believe that management's efforts to enhance minority shareholders' value via share cancellations/buybacks should lead to positive share price sentiment. We maintain our BUY rating for Coway.

## Impact

### 1% share cancellation

Before market open on 20 September, Coway announced that it had decided to cancel 1% of its outstanding shares (744K), effective 26 September. Coway currently owns 2.7m treasury shares (3.5% stake), of which it will cancel 744K shares (1% stake). According to management, the remaining 1.95m treasury shares will be distributed to employees for stock options. With the share cancellation, Coway's 2017-2018 EPS estimates should each rise by 1%. Moreover, Coway plans to buy back KRW70bn-worth of shares (713K shares, or 0.9% of outstanding shares) in the market from 20 September 2016 to 20 March 2017, to stabilize the share price.

### Domestic rental operational recovery

Following the nickel powder issue in July, we think Coway's domestic rental operations have been recovering since August. According to our channel checks, the number of new rental subscribers began to trend upwards on a MoM basis from August, whereas rental cancellation rates began to decline in August from July's 1.8% levels (versus 1% levels prior to the nickel powder issue). We maintain our current operating profit estimate of KRW129.3bn (+4.3% YoY) in 3Q16, on: 1) management's efforts at enhancing cost efficiency; 2) a recovery in domestic rental operations; and 3) solid exports.

### Good dividend yield

Despite negative YoY earnings growth in 2016 and the KRW70bn share buyback announced today, we do not expect Coway's dividend/share to decline on a YoY basis, as we believe management understands the impact of dividends on the share price, amid Coway's net cash position. We expect dividend/share to increase by 3.6% YoY to KRW2,900, based on a dividend payout ratio of 75% in 2016 (versus 60.6% in 2015).

### Action and recommendation

#### Maintain BUY

We maintain our BUY rating and target price of KRW121,000 for Coway. The stock is currently trading at 19.0x 2017E PER (at par to its historical average valuation).

## Summary financial statements

### Profit & loss

Year end Dec 31 (KRW bn)	2015	2016E	2017E	2018E
<b>Revenue</b>	<b>2,315</b>	<b>2,429</b>	<b>2,594</b>	<b>2,703</b>
Cost of goods sold	729	802	821	853
<b>Gross profit</b>	<b>1,586</b>	<b>1,627</b>	<b>1,774</b>	<b>1,850</b>
SG&A	1,123	1,230	1,237	1,263
<b>EBIT (Adj.)</b>	<b>463</b>	<b>397</b>	<b>537</b>	<b>587</b>
<b>EBIT</b>	<b>463</b>	<b>397</b>	<b>537</b>	<b>587</b>
Net interest income (loss)	(3)	3	4	7
Income (loss) from associates	0	0	0	0
Others	(6)	(9)	(11)	(11)
<b>Recurring profit</b>	<b>454</b>	<b>390</b>	<b>530</b>	<b>582</b>
Income tax	111	97	132	146
<b>Net profit</b>	<b>343</b>	<b>292</b>	<b>397</b>	<b>437</b>
<b>Net profit (Controlling Interests)</b>	<b>343</b>	<b>292</b>	<b>397</b>	<b>437</b>
EPS (Controlling Interests, KRW)	4,449	3,791	5,151	5,664

Growth & margins (%)	2015	2016E	2017E	2018E
Revenue growth	7.2	4.9	6.8	4.2
Gross profit growth	10.6	2.6	9.0	4.3
EBIT growth	27.1	(14.4)	35.3	9.3
Net profit growth	37.4	(14.8)	35.9	10.0
EPS growth	37.4	(14.8)	35.9	10.0
Gross margin	68.5	67.0	68.4	68.4
EBIT margin	20.0	16.3	20.7	21.7
Net profit margin	14.8	12.0	15.3	16.2

Source: Coway, Mirae Asset Research estimates

### Cash flow

Year end Dec 31 (KRW bn)	2015	2016E	2017E	2018E
<b>Cash flow from operations</b>	<b>545</b>	<b>507</b>	<b>624</b>	<b>675</b>
Net profit	343	292	397	437
Depr. & amortization	228	216	230	240
Others	137	48	49	48
Change in working capital	(163)	(50)	(52)	(50)
<b>Cash flow from investing</b>	<b>(371)</b>	<b>(271)</b>	<b>(271)</b>	<b>(271)</b>
Capital expenditures	(320)	(270)	(270)	(270)
Others	(51)	(1)	(1)	(1)
<b>Cash flow from financing</b>	<b>(204)</b>	<b>(209)</b>	<b>(219)</b>	<b>(278)</b>
Dividends	(148)	(209)	(219)	(278)
Increase in equity	0	0	0	0
Increase in debt	(68)	0	0	0
Beginning cash	147	121	148	282
Ending cash	116	148	282	409

Source: Coway, Mirae Asset Research estimates

Note: \*Including short-term financial asset

### Balance sheet

Year end Dec 31 (KRW bn)	2015	2016E	2017E	2018E
<b>Current assets</b>	<b>653</b>	<b>646</b>	<b>814</b>	<b>963</b>
Cash & equivalents	116	121	130	135
Short-term financial asset	9	27	152	274
Accounts receivable	283	235	251	261
Inventory	70	70	74	77
Other current assets	175	194	207	216
<b>Non-current assets</b>	<b>1,122</b>	<b>1,138</b>	<b>1,179</b>	<b>1,209</b>
Net fixed assets	700	804	853	891
Investments	2	2	2	2
Other long-term assets	420	331	323	316
<b>Total assets</b>	<b>1,775</b>	<b>1,785</b>	<b>1,993</b>	<b>2,172</b>
<b>Current liabilities</b>	<b>473</b>	<b>407</b>	<b>434</b>	<b>453</b>
Accounts payable	224	66	71	74
Short-term debt	80	0	0	0
Other current liabilities	169	340	363	379
<b>Non-current liabilities</b>	<b>64</b>	<b>61</b>	<b>63</b>	<b>65</b>
Long-term debt	8	1	1	1
Other long-term liabilities	56	60	62	64
<b>Total liabilities</b>	<b>537</b>	<b>467</b>	<b>498</b>	<b>518</b>
Controlling Interests	1,237	1,317	1,495	1,654
Non-Controlling Interests	1	0	0	0
<b>Shareholder's equity</b>	<b>1,238</b>	<b>1,317</b>	<b>1,495</b>	<b>1,654</b>
BVPS(KRW)	15,995	17,083	19,390	21,448

Source: Coway, Mirae Asset Research estimates

### Ratio analysis

Year end Dec 31	2015	2016E	2017E	2018E
ROE (%)	30.2	22.9	28.2	27.7
ROA (%)	20.2	16.4	21.0	21.0
Inventory days	10.4	10.5	10.1	10.2
Receivables days	40.4	38.9	34.2	34.6
Payable days	35.0	21.8	9.7	9.8
Net debt/equity (%)	(3.0)	(11.2)	(18.8)	(24.7)
Interest cover (x)	158.9	(156.1)	(129.1)	(86.8)

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: 80.3%  
 HOLD: 18.3%  
 REDUCE: 1.4%  
 TOTAL: 100%  
 (All data are current as of 31 Aug. 2016)

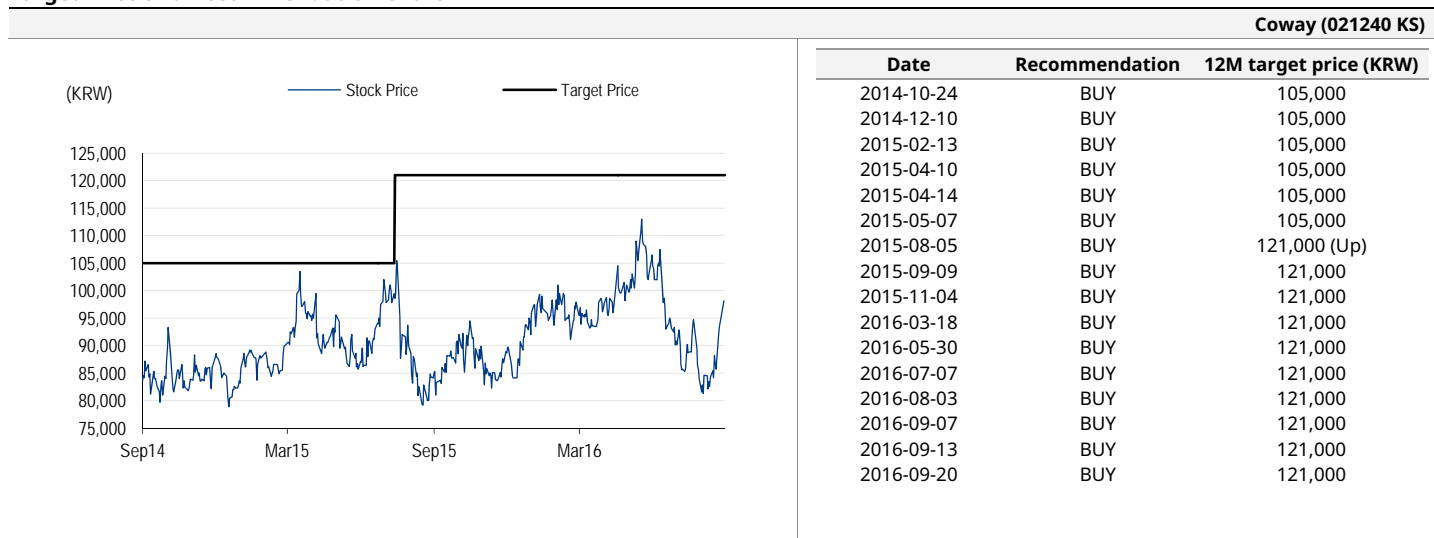
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Securities Held by the Analyst						Holdings of	Participation	Involvement	Treasury
Stock	Analyst	Type	Number of Shares	Purchase Price	Purchase Date	share of over 1%	in Issuance of Securities	with Affiliates	Stock Held
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## Target Price and Recommendation Chart



Source: Bloomberg, Mirae Asset Research

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