

## Fundamentals set to improve

While Coway's operating profit is likely to shrink in 4Q16 (on promotion expenses), its fundamentals should get back on track in 2017 as: 1) its booking of recall-related expenses has almost been completed; and 2) operational activities have normalized at the rental division. Also, evidencing its commitment to enhancing shareholder value, Coway recently announced that it will engage in a second round of treasury shares cancellations. Given its strong pro-shareholder stance, Coway is highly likely to maintain a high-dividend policy.

### Focus on restored earnings power and valuation merit

Coway's operating profit has been significantly harmed YTD by: 1) the recall of its water purifiers with built-in ice makers; and 2) lofty promotion expenses. But, with the booking of recall-related expenses now almost done, and with rental promotion events (aimed at retaining existing clients and stabilizing the firm's sales force) bearing fruit, the rental division appears to have restored its operations to pre-recall levels. Given these positives, Coway's fundamentals should soon to get back on track.

On a non-consolidated basis, we anticipate 4Q16 sales of W624.9bn (up 7.4% y-y) and operating profit of W114.3bn (down 9.8% y-y). Although sales should rebound to normal levels, operating profit will likely shrink y-y on large-scale costs relating to rental promotion activities. With costs likely to return to normal levels, the company should book full-year 2017 sales of W2,556.1bn (up 12.3% y-y) and operating profit of W528bn (up 50.2% y-y).

### Sticking to shareholder-friendly policy stance

On Dec 2, Coway announced that it would cancel 770,000 repurchased treasury shares. This move follows an earlier-announced (Sep 20) program to cancel 740,000 shares. When combining the two rounds of cancellations, the total number of treasury shares to be cancelled should be equivalent to roughly 2% of the company's total outstanding shares.

Although its operating profit is to fall y-y in 2016, we believe that Coway's dividend payout will stay at the 2015 level (DPS of W2,800). If so, its dividend payout ratio for 2016 should come to around 80% (higher than the past two-year average of roughly 60%). In our view, such a dividend payout ratio is not demanding in light of the company's healthy cash flow and financial conditions.

### Valuations attractive

We reiterate our Buy rating with a target price of W125,000. Reflecting the firm's treasury stock cancellation plans, we upwardly revise our 2017 EPS estimate by 3.2%. Of note, Coway's shares are currently trading at a 2017F P/E of around 17x (close to its historical average). Given anticipation that the firm's operating profit will recover from next year, we find this valuation multiple appealing.

## Buy (maintain)

**TP** W125,000 (maintain)  
**CP ('16/12/09)** W89,000

Sector	Other consumer goods
Kospi/Kosdaq	2024.69 / 594.35
Market cap (common)	US\$5,815.14mn
Outstanding shares (common)	76.4mn
52W high ('16/06/08)	W113,000
low('16/08/24)	W81,300
Average trading value (60D)	US\$14.34mn
Dividend yield (2016E)	3.15%
Foreign ownership	53.3%

Major shareholders	
Coway Holdings & 9 others	31.3%
GIC Private Limited	7.1%

Share perf	3M	6M	12M
Absolute (%)	3.9	-18.3	6.3
Relative (%)	4.5	-18.4	2.3

	2015	2016E	2017F	2018F
<b>Sales</b>	2,161	2,276	2,556	2,711
<b>Chg</b>	7.3	5.3	12.3	6.0
<b>OP</b>	463	352	528	547
<b>OPM</b>	21.4	15.4	20.7	20.2
<b>NP to parent</b>	349	258	393	418
<b>EPS</b>	4,531	3,358	5,181	5,523
<b>Chg</b>	43.8	-25.9	54.3	6.6
<b>P/E</b>	18.6	26.5	17.2	16.1
<b>P/B</b>	5.1	5.1	4.6	4.1
<b>EV/EBITDA</b>	9.6	13.3	9.6	9.3
<b>ROE</b>	30.0	19.9	28.0	26.7
<b>Debt/equity</b>	37.3	37.1	35.4	31.7
<b>Net debt</b>	-16	35	-40	-170

Units: Wbn, %, won, x  
Note: EPS, P/E, P/B, and ROE based on net profit (excl minority interests)



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## 4Q16 preview

(Units: Wbn, %)

	4Q15	1Q16	2Q16	3Q16	4Q16E					1Q17F
					Revised	y-y	q-q	Previous	Consen	
Sales	582.1	577.6	523.0	550.6	624.9	7.4	13.5	624.9	596.6	626.9
Operating profit	126.8	126.9	21.4	116.6	114.3	-9.8	2.5	102.9	119.9	159.3
Operating margin	21.8	22.0	4.1	21.2	18.3			16.5	20.1	25.4
Pre-tax profit	119.4	121.8	18.0	104.0	123.7	3.6	19.0	155.3	115.9	155.3
Net profit (excl minority interests)	88.9	92.2	12.3	78.8	102.6	15.4	30.3	118.8	97.8	123.4

Note: IFRS non-consolidated. Source: FnGuide, NH I&amp;S Research Center estimates

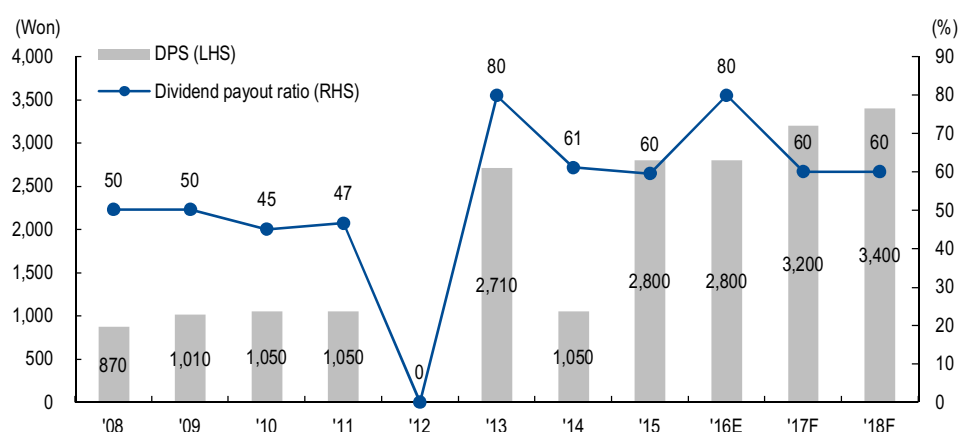
## Earnings forecasts (IFRS non-consolidated)

(Units: Wbn, won, x, %)

		2015	2016E	2017F	2018F
Sales	- Revised	2,161.3	2,276.1	2,556.1	2,710.6
	- Previous	-	2,317.2	2,575.4	2,729.0
	- Change	-	-1.8	-0.7	-0.7
Operating profit	- Revised	463.0	351.5	528.0	547.0
	- Previous	-	337.2	519.2	570.9
	- Change	-	4.3	1.7	-4.2
Operating margin	- Revised	21.4	15.4	20.7	20.2
EBITDA		674.7	514.5	701.0	714.3
Net profit (excl minority interests)		349.4	258.3	392.6	417.6
EPS	- Revised	4,531	3,358	5,181	5,523
	- Previous	-	3,242	5,022	5,505
	- Change	-	3.6	3.2	0.3
P/E		18.6	26.5	17.2	16.1
P/B		5.1	5.1	4.6	4.1
EV/EBITDA		9.6	13.3	9.6	9.3
ROE		30.0	19.9	28.0	26.7

Source: NH I&amp;S Research Center estimates

## Annual DPS and dividend payout ratio

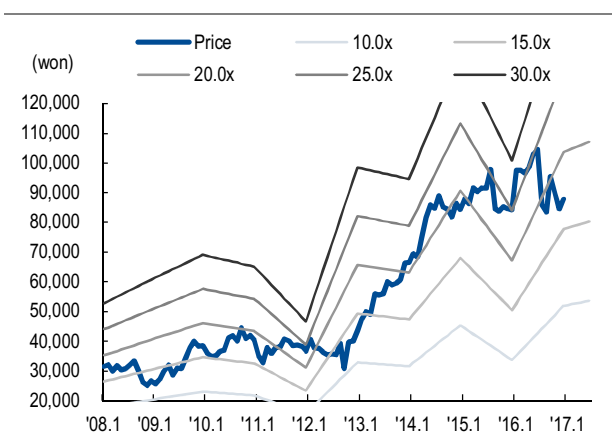
Note: Due to the court ruling on the disposal of Coway in 2012, its 2012 year-end dividend paid out as 2013 interim dividend (W1,050)  
Source: Coway, NH I&S Research Center estimates

**Cancellation of repurchased treasury shares**

Disclosure date	Type of stock	Details
Sep 20, 2016	Common stock	No. of shares cancelled: 744,283 shares (book value of W32.7bn) 0.97% of total outstanding shares Average acquisition price per share: W43,921 Date of cancellation: Sep 26, 2016
Dec 2, 2016	Common stock	No. of shares to be cancelled: 774,749 shares (book value of W70bn) 1.01% of total outstanding shares Average acquisition price per share: W90,615 Date of cancellation: Mar 27, 2017

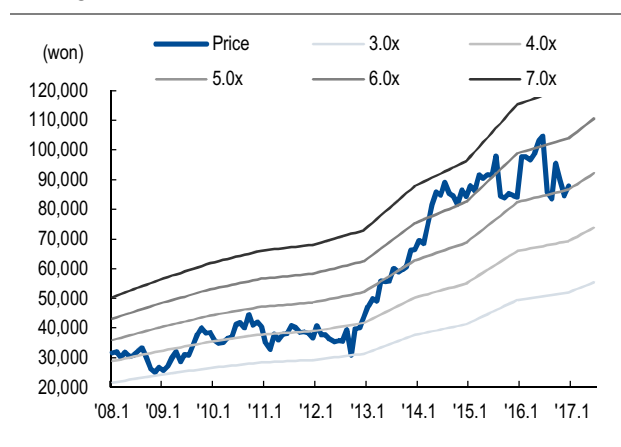
Source: DART, NH I&S Research Center

**Forward P/E band**



Source: DataGuide Pro

**Trailing P/B band**



Source: DataGuide Pro

**STATEMENT OF COMPREHENSIVE INCOME**

(Wbn)	2015/12A	2016/12E	2017/12F	2018/12F
<b>Sales</b>	2,161	2,276	2,556	2,711
<i>Growth (%)</i>	7.3	5.3	12.3	6.0
<b>COGS</b>	679	834	978	1,044
<b>Gross Profit</b>	1,482	1,442	1,579	1,666
<i>Gross margin (%)</i>	68.6	63.3	61.8	61.5
SG&A	1,019	1,090	1,051	1,119
<b>Operating Income</b>	463	352	528	547
<i>Growth (%)</i>	22.6	-24.1	50.2	3.6
<i>Operating margin (%)</i>	21.4	15.4	20.7	20.2
<b>EBITDA</b>	675	514	701	714
<b>Non-Operating Profits</b>	-2	-12	-9	5
Financial Income(Costs)	-3	-2	-2	-1
Other Non-Operating Profits	1	-20	-15	0
Gains(Losses) in Associates, Subsidiaries and JVs	0	10	8	6
<b>Pre-tax Profit from Cont. Op.</b>	461	340	519	552
<b>Income Taxes</b>	111	82	127	135
Profit from Continuing Op.	349	258	393	418
<b>Net Profit</b>	349	258	393	418
<i>Growth (%)</i>	43.8	-26.1	52.0	6.4
<i>Net margin (%)</i>	16.2	11.3	15.4	15.4
Net Profit of Parent	349	258	393	418
Net Profit to Non-Controlling	0	0	0	0
Other Comprehensive Income	-4	0	0	0
Total Comprehensive Income	346	258	393	418

**Valuation / Profitability / Stability**

	2015/12A	2016/12E	2017/12F	2018/12F
Price/ Earning (X)	18.6	26.5	17.2	16.1
Price/ Book Value (X)	5.1	5.1	4.6	4.1
Price/ Gross Cash Flow (X)	8.4	13.6	9.7	9.3
Price/ Sales (X)	3.0	3.0	2.6	2.5
EV/ EBITDA (X)	9.6	13.3	9.6	9.3
EV/ EBIT (X)	14.0	19.4	12.8	12.1
Fully diluted EPS (W)	4,531	3,358	5,181	5,523
BVPS (W)	16,459	17,303	19,557	21,769
Sales PS (W)	28,023	29,588	33,732	35,850
ROE (%)	30.0	19.9	28.0	26.7
ROA (%)	21.1	14.5	20.6	20.0
ROIC (%)	32.5	22.4	31.2	30.9
Dividend Yield (%)	3.3	3.1	3.6	3.8
Payout Ratio (%)	59.5	79.8	60.0	59.9
Total Cash Dividend (Wbn)	208	206	236	250
Cash DPS (W)	2,800	2,800	3,200	3,400
Net debt(cash)/ equity (%)	-1.2	2.7	-2.7	-10.3
Debt/ equity (%)	37.3	37.1	35.4	31.7
Interest-Bearing Debts (Wbn)	90	87	93	100
Current Ratio (%)	156.1	137.8	160.8	202.1
Total shares (mn)	77	76	76	76
Par value (W)	500	500	500	500
Share price (W)	84,100	89,000	89,000	89,000
Market Cap (Wbn)	6,486	6,798	6,798	6,798

**STATEMENT OF FINANCIAL POSITION**

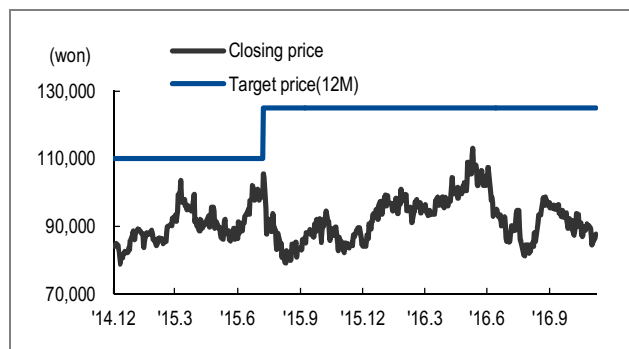
(Wbn)	2015/12A	2016/12E	2017/12F	2018/12F
Cash and Cash Equivalents	87	41	121	257
Accounts Receivables	354	330	371	393
<b>Total Current Assets</b>	658	613	763	947
Tangible Assets	625	636	675	654
Investment Assets	122	126	130	134
<b>Non-Current Assets</b>	1,084	1,199	1,239	1,220
<b>Assets</b>	1,742	1,812	2,002	2,167
Short-Term Debt	80	86	92	99
Account Payables	48	50	53	52
<b>Current Liabilities</b>	422	445	474	469
Long-Term Debt	10	1	1	1
Long-Term Allowance	13	14	15	16
<b>Non-Current Liabilities</b>	51	45	49	52
<b>Liabilities</b>	473	490	523	521
Capital Stock	41	41	41	41
Capital Surplus	132	132	132	132
Retained Earnings	1,199	1,219	1,306	1,473
Non-Controlling Interests Equity	0	0	0	0
<b>Shareholders' Equity</b>	1,269	1,322	1,479	1,646

**CASH FLOW STATEMENT**

(Wbn)	2015/12A	2016/12E	2017/12F	2018/12F
<b>Operating Cash Flow</b>	475	445	495	514
Net Profit	349	258	393	418
Depreciation&Amortization	212	163	173	167
+ Loss(Gains) from Subs	0	0	0	0
+ FC translation loss(profit)	-6	0	0	0
Gross Cash Flow	771	504	694	720
- Incr. (Decr.) in WC	-214	22	-72	-71
<b>Investing Cash Flow</b>	-264	-277	-213	-147
+ Decr. In Tangible Assets	9	0	0	0
- Incr. In Tangible Assets(CAPEX)	-271	-171	-209	-144
+ Disp.(Acq.) of Inv. Assets	1	-4	-4	-4
Free Cash Flow	205	274	287	371
Net Cash Flow	211	168	283	368
<b>Financing Cash Flow</b>	-230	-214	-202	-232
Equity Financing	1	0	0	0
Debt Financing	-231	-214	-202	-232
Incr.(Decr.) in Cash	-19	-46	80	136
Ending Cash and Cash Equivalents	87	41	121	257
Net Debt (Cash)	-16	35	-40	-170

## Rating and target price update

Company	Code	Date	Rating	Target price
Coway	021240.KS	2015.08.05	Buy	W125,000(12M)
		2015.05.07	Buy	W110,000(12M)
		2014.04.22	Buy	W100,000(12M)



## NH Investment &amp; Securities stock ratings

1. Rating based on a stock's forecasted absolute return over a period of 12 months from the date of publication.

- Buy: Greater than +15%
- Hold: -15% to +15%
- Sell: Less than -15%

2. Regarding listed companies under NH I&S' coverage, our stock ratings break down as follows (as of Dec 9, 2016).

- NH I&S' stock rating distribution

Buy	Hold	Sell
78.3%	21.7%	0.0%

- The stock rating on an individual company can change at irregular intervals. Our stock rating distribution is calculated on a weekly basis.

## Compliance notice

- NH I&S does not have a stake greater than or equal to 1% in Coway as of the preparation date.
- NH I&S has not provided this material to any institutional investor or other third party in advance.
- The analyst and his/her spouse do not own any securities of Coway as of the preparation date.
- This report correctly reflects the analyst's opinion and was written without any external influence or intervention.

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