

Consumer Services

Results Comment
February 13, 2018

(Maintain) **Buy**

Target Price (12M, W) ▼ **125,000**

Share Price (02/12/18, W) **89,200**

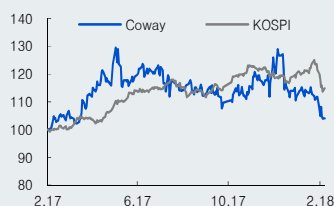
Expected Return **40%**

OP (17P, Wbn) 473
Consensus OP (17F, Wbn) 487

EPS Growth (17P, %) 36.6
Market EPS Growth (17F, %) 45.4
P/E (17P, x) 22.6
Market P/E (17F, x) 9.8
KOSPI 2,385.38

Market Cap (Wbn) 6,674
Shares Outstanding (mn) 75
Free Float (%) 69.4
Foreign Ownership (%) 59.0
Beta (12M) 0.43
52-Week Low 85,900
52-Week High 111,000

(%)	1M	6M	12M
Absolute	-9.7	-10.4	3.8
Relative	-5.5	-12.8	-9.7



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[Cosmetics/Household Goods/Duty Free]

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Coway

(021240 KS)

Relative growth remains healthy

4Q17 review: Weaker-than-expected OP of W107.1bn (+11.1% YoY)

For 4Q17, Coway announced preliminary consolidated revenue of W653.6bn (+6.4% YoY), operating profit of W107.1bn (+11.1% YoY), and OP margin of 16.4%. Revenue was broadly in line with the consensus, but operating profit missed our projection and the consensus by 14.3% and 9.2%, respectively.

Revenue: The differential between revenue and our estimate was primarily due to weaker-than-projected rental revenue growth. While this was partly due to fewer business days caused by the long Chuseok holiday, we believe that the company's strategic focus on managing the churn rate, rather than on driving new sales, was a bigger factor. 4Q17 rental sales volume was 317,000 units, down 16.6% from 4Q16 (when aggressive promotions were carried out).

Costs: We believe the operating profit miss stemmed from multiple factors related to COGS and SG&A expenses. The profit contribution of the rental segment (the company's most profitable business) declined, as a result of slower growth, while component-related costs were also concentrated in the quarter, due to replacements in air purifier filters (replacements have been made all at once since 4Q16). In addition, the company spent somewhat aggressively on marketing (advertising expenses climbed 46.8% YoY to W14.8bn), unlike its stance in previous quarters, when it prioritized customer management over marketing.

Key indicators: On a positive note, the quality of key indicators improved noticeably, with average monthly churn falling to a record-low 0.87%, and rental asset disposal losses as a share of revenue also declining materially, to 2.3% (-1.4%p YoY, -0.6%p QoQ). While the weakness in new rental sales was somewhat disappointing, the improvements in key indicators show the company's strategy for managing churn is proving effective.

2018 guidance: Consolidated revenue growth of 10.1% and OP growth of 11.1%

For 2018, Coway guided revenue growth of 10.1% and operating profit growth of 11.1% on a consolidated basis. While non-consolidated (domestic) guidance for revenue and operating profit growth was moderately lower, at 6.4% and 7.6%, respectively, we would hardly view this as conservative, considering the overall softness in consumer spending.

We are confident in Coway's ability to achieve its guidance, as we believe the company will continue to: 1) attract demand in the domestic market through the introduction of new products and categories (clothing refreshing systems); and 2) see high growth on the back of the overseas rental business and a strengthened sales network in the US.

Maintain Buy, but lower TP by 3.9% to W125,000

We remain Buy on Coway, but lower our target price by 3.9% to W125,000 (from W130,000). We continue to base our target price on a DCF methodology, but revised our earnings estimates to reflect adjustments to the rental COGS ratio and SG&A expenses. At a time when a number of external uncertainties exist, we believe Coway continues to deserve a premium for its unique stability.

FY (Dec.)	12/14	12/15	12/16	12/17P	12/18F	12/19F
Revenue (Wbn)	2,160	2,315	2,376	2,517	2,736	2,866
OP (Wbn)	364	463	339	473	527	566
OP margin (%)	16.9	20.0	14.3	18.8	19.3	19.7
NP (Wbn)	250	343	244	326	364	387
EPS (W)	3,237	4,449	3,167	4,326	4,867	5,175
ROE (%)	25.2	30.2	20.1	29.4	34.1	33.1
P/E (x)	26.0	18.9	27.9	22.6	18.3	17.2
P/B (x)	5.6	4.8	4.9	6.1	5.2	4.8
Dividend yield (%)	2.4	3.3	3.6	3.3	3.7	4.0

Note: All figures are based on consolidated K-IFRS; NP refers to net profit attributable to controlling interests
Source: Company data, Mirae Asset Daewoo Research estimates

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4Q17 review

Table 1. 4Q17 review

(Wbn, %)

	4Q16	3Q17	4Q17P			Growth	
			Preliminary	Mirae Asset Daewoo	Consensus	YoY	QoQ
Revenue	614	630	654	674	651	6.4	3.8
Operating profit	96	124	107	125	118	11.1	-13.8
OP margin (%)	15.7	19.7	16.4	18.5	18.1		
Pretax profit	103	124	89	111	115	-13.7	-28.3
Net profit	78	93	62	83	86	-20.6	-33.9

Source: Company data, Mirae Asset Daewoo Research estimates

Table 2. Earnings forecast revisions

(Wbn, %)

	Previous		Revised		% chg.		Notes
	17F	18F	17P	18F	17P	18F	
Revenue	2,537	2,736	2,517	2,736	-0.8	0.0	
Operating profit	492	534	473	527	-3.9	-1.2	- Revised rental COGS and SG&A expenses
Pretax profit	463	510	440	498	-4.9	-2.4	
Net profit	349	384	326	364	-6.6	-5.2	- Revised F/X estimates

Source: Company data, Mirae Asset Daewoo Research estimates

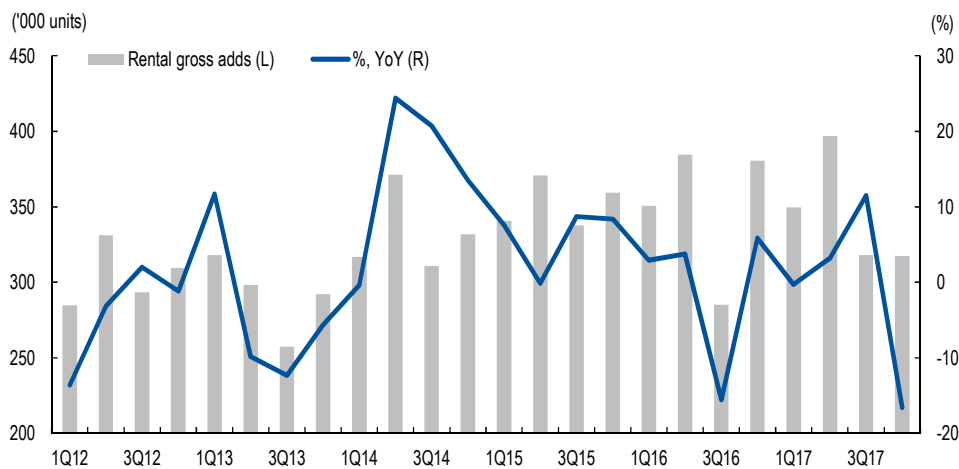
Table 3. Valuation

(Wbn, '000 shares)

	18F	19F	20F	21F	22F
EBIT	527	566	580	594	608
- Tax on EBIT	142	154	157	161	165
- Capex	326	326	334	342	350
- Increase (decrease) in net working capital	22	-30	20	20	21
+ Depreciation	229	238	243	249	255
+ Amortization	8	8	8	8	8
+ Losses on disposal of rental assets	44	45	46	47	48
FCFF	318	407	366	374	383
Final year FCFF	383				
Terminal value	10,524				
Terminal growth (%)	2				
NPV of FCFF		1,769			
PV of terminal value		7,357			
Enterprise value		9,126			
Cash & equivalents		66			
Other investment		75			
Interest-bearing debt		352			
Minority interest		1			
Preferred stock		0			
Current equity value		9,528			
Shares outstanding		76,381			
Estimated value per share (W)		125,000			
Current share price (W)		89,200			
Upside (%)		40.1			

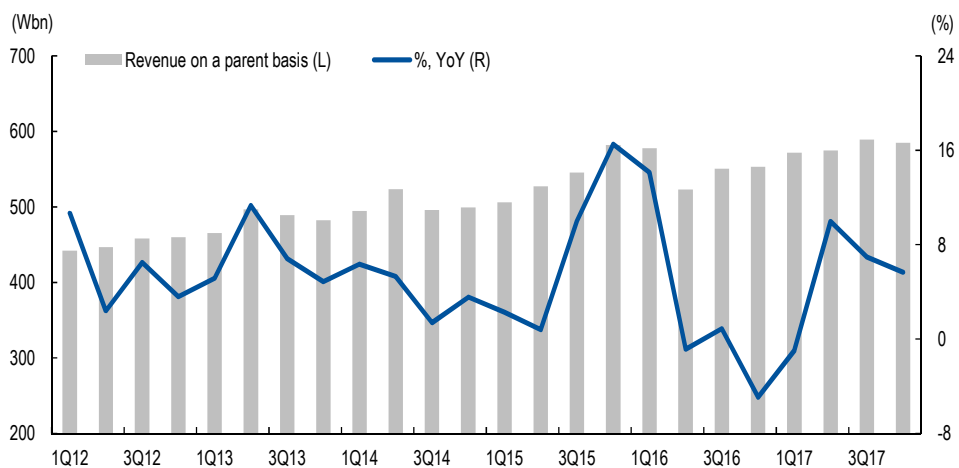
Source: Mirae Asset Daewoo Research estimates

Figure 1. Rental gross adds trend



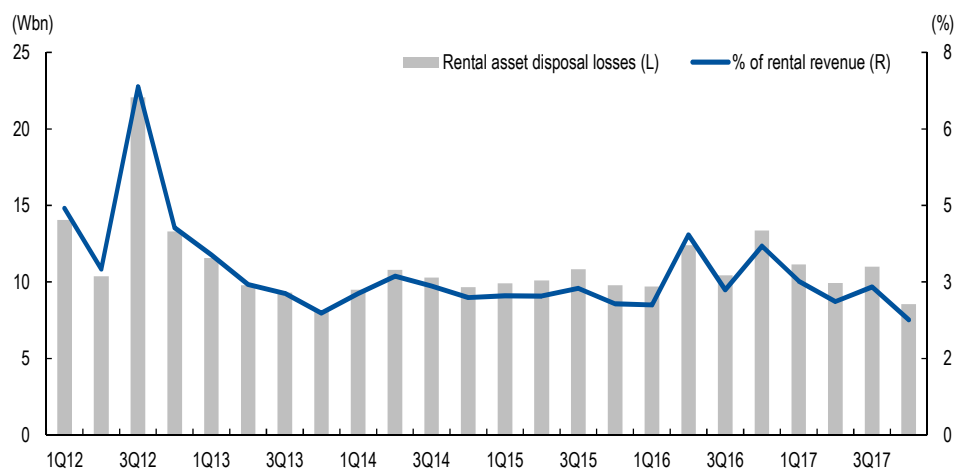
Source: Company data, Mirae Asset Daewoo Research estimates

Figure 2. Quarterly revenue on a parent basis



Source: Company data, Mirae Asset Daewoo Research estimates

Figure 3. Rental asset disposal losses as % of rental revenue



Source: Company data, Mirae Asset Daewoo Research estimates

Coway (021240 KS/Buy/TP: W125,000)

Comprehensive Income Statement (Summarized)

(Wbn)	12/16	12/17F	12/18F	12/19F
Revenue	2,376	2,517	2,736	2,866
Cost of Sales	812	799	865	909
Gross Profit	1,564	1,718	1,871	1,957
SG&A Expenses	1,225	1,246	1,343	1,392
Operating Profit (Adj)	339	473	527	566
Operating Profit	339	473	527	566
Non-Operating Profit	-15	-33	-29	-35
Net Financial Income	-5	-11	-11	-10
Net Gain from Inv in Associates	0	0	0	0
Pretax Profit	324	440	498	531
Income Tax	80	114	134	144
Profit from Continuing Operations	243	326	364	387
Profit from Discontinued Operations	0	0	0	0
Net Profit	243	326	364	387
Controlling Interests	244	326	364	387
Non-Controlling Interests	0	0	0	0
Total Comprehensive Profit	243	326	364	387
Controlling Interests	243	326	364	387
Non-Controlling Interests	0	0	0	0
EBITDA	572	704	765	811
FCF (Free Cash Flow)	29	242	262	352
EBITDA Margin (%)	24.1	28.0	28.0	28.3
Operating Profit Margin (%)	14.3	18.8	19.3	19.7
Net Profit Margin (%)	10.3	13.0	13.3	13.5

Cash Flows (Summarized)

(Wbn)	12/16	12/17F	12/18F	12/19F
Cash Flows from Op Activities	358	578	588	678
Net Profit	243	326	364	387
Non-Cash Income and Expense	467	433	379	404
Depreciation	225	223	229	238
Amortization	8	8	8	8
Others	234	202	142	158
Chg in Working Capital	-232	-63	-20	31
Chg in AR & Other Receivables	-62	17	-24	36
Chg in Inventories	-4	-3	-6	-6
Chg in AP & Other Payables	-4	18	6	3
Income Tax Paid	-120	-118	-134	-144
Cash Flows from Inv Activities	-367	-267	-253	-278
Chg in PP&E	-313	-314	-245	-245
Chg in Intangible Assets	-13	-14	-8	-8
Chg in Financial Assets	-67	19	-5	-3
Others	26	42	5	-22
Cash Flows from Fin Activities	-40	-168	-366	-318
Chg in Financial Liabilities	264	321	-60	-50
Chg in Equity	0	2	0	0
Dividends Paid	-208	-352	-293	-256
Others	-96	-139	-13	-12
Increase (Decrease) in Cash	-50	142	-31	81
Beginning Balance	116	66	208	178
Ending Balance	66	208	178	259

Source: Company data, Mirae Asset Daewoo Research estimates

Statement of Financial Condition (Summarized)

(Wbn)	12/16	12/17F	12/18F	12/19F
Current Assets	733	803	814	877
Cash and Cash Equivalents	66	208	178	259
AR & Other Receivables	313	283	308	274
Inventories	70	71	77	83
Other Current Assets	284	241	251	261
Non-Current Assets	1,235	1,336	1,357	1,388
Investments in Associates	0	0	0	0
Property, Plant and Equipment	669	717	733	740
Intangible Assets	183	188	188	188
Total Assets	1,968	2,139	2,171	2,264
Current Liabilities	735	1,053	1,014	977
AP & Other Payables	215	211	230	241
Short-Term Financial Liabilities	340	660	600	550
Other Current Liabilities	180	182	184	186
Non-Current Liabilities	49	54	54	54
Long-Term Financial Liabilities	12	12	12	12
Other Non-Current Liabilities	37	42	42	42
Total Liabilities	784	1,106	1,067	1,030
Controlling Interests	1,182	1,033	1,103	1,235
Capital Stock	41	41	41	41
Capital Surplus	127	129	129	129
Retained Earnings	1,180	1,014	1,085	1,216
Non-Controlling Interests	1	0	0	-1
Stockholders' Equity	1,183	1,033	1,103	1,234

Forecasts/Valuations (Summarized)

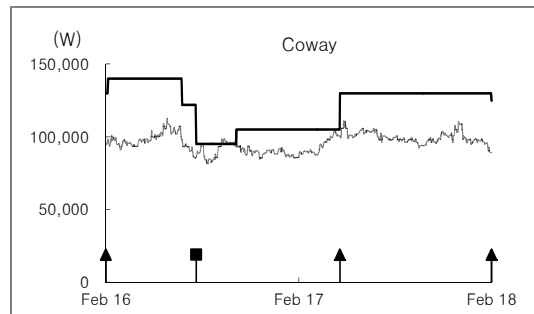
	12/16	12/17F	12/18F	12/19F
P/E (x)	27.9	22.6	18.3	17.2
P/CF (x)	9.6	9.7	9.0	8.4
P/B (x)	4.9	6.1	5.2	4.8
EV/EBITDA (x)	12.2	11.0	9.2	8.5
EPS (W)	3,167	4,326	4,867	5,175
CFPS (W)	9,227	10,073	9,930	10,568
BPS (W)	17,891	16,069	17,019	18,772
DPS (W)	3,200	3,200	3,300	3,600
Payout ratio (%)	96.5	71.3	65.4	67.1
Dividend Yield (%)	3.6	3.3	3.7	4.0
Revenue Growth (%)	2.6	5.9	8.7	4.8
EBITDA Growth (%)	-17.2	23.1	8.7	6.0
Operating Profit Growth (%)	-26.8	39.5	11.4	7.4
EPS Growth (%)	-28.8	36.6	12.5	6.3
Accounts Receivable Turnover (x)	8.7	9.1	10.0	10.7
Inventory Turnover (x)	33.9	35.7	37.0	35.8
Accounts Payable Turnover (x)	13.7	13.0	12.9	12.7
ROA (%)	13.0	15.9	16.9	17.4
ROE (%)	20.1	29.4	34.1	33.1
ROIC (%)	20.0	25.2	26.8	28.4
Liability to Equity Ratio (%)	66.3	107.1	96.7	83.5
Current Ratio (%)	99.7	76.3	80.3	89.8
Net Debt to Equity Ratio (%)	17.8	39.8	34.6	20.2
Interest Coverage Ratio (x)	55.5	39.6	41.0	46.1

APPENDIX 1

Important Disclosures & Disclaimers

2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
Coway (021240)	02/12/2018	Buy	125,000
	05/01/2017	Buy	130,000
	10/17/2016	Trading Buy	105,000
	08/02/2016	Trading Buy	95,000
	07/06/2016	Buy	122,000
	02/17/2016	Buy	140,000
	2016.02.12	AFTER 1YR	
	02/12/2015	Buy	130,000



Stock Ratings

- Buy : Relative performance of 20% or greater
- Trading Buy : Relative performance of 10% or greater, but with volatility
- Hold : Relative performance of -10% and 10%
- Sell : Relative performance of -10%

Industry Ratings

- Overweight : Fundamentals are favorable or improving
- Neutral : Fundamentals are steady without any material changes
- Underweight : Fundamentals are unfavorable or worsening

Ratings and Target Price History (Share price (—), Target price (—), Not covered (≡), Buy (▲), Trading Buy (■), Hold (●), Sell (◆))

- * Our investment rating is a guide to the relative return of the stock versus the market over the next 12 months.
- * Although it is not part of the official ratings at Mirae Asset Daewoo Co., Ltd., we may call a trading opportunity in case there is a technical or short-term material development.
- * The target price was determined by the research analyst through valuation methods discussed in this report, in part based on the analyst's estimate of future earnings.
- * The achievement of the target price may be impeded by risks related to the subject securities and companies, as well as general market and economic conditions.

Equity Ratings Distribution & Investment Banking Services

	Buy	Trading Buy	Hold	Sell
Equity Ratings Distribution	75.50%	16.00%	8.50%	0.00%
Investment Banking Services	62.50%	33.33%	4.17%	0.00%

* Based on recommendations in the last 12-months (as of December 31, 2017)

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