Korea Investment & Securities Co., Ltd.

Company In-depth

Household products

February 26, 2018

Coway (021240)

Global presence revs up with water and air

Recommend BUY and TP W110,000

We upgrade Coway to BUY with a TP of W110,000 (21x 12MF PE, three-year-trailing avg.). The company will likely achieve robust growth driven by solid overseas operations starting from 2018 after posting tepid earnings for the past two years. Sales should witness a 7% CAGR with OP at 8% and EPS at 12% for the next two years. With a dividend yield of 3.8%, the company pursues consistent shareholder returns, including the purchase and cancellation of treasury shares, and such standout strengths set Coway apart from other rental firms.

Overseas business to deliver brisk growth with sales contribution reaching 21% in 2018

Coway's overseas operations should generate 21% of total sales in 2018. The business in China is making steady gains as it secured Philips, the top air purifier brand in the country, as a captive buyer, while the rental business in Malaysia has recently been witnessing sharp growth. As environmental problems worsen, there is mounting demand for environmental home appliances (EHAs) in both Korea and Asia. Coway has been bolstering its presence by focusing on products and retail channels tailored to each market and is now transforming into a global player by shifting away from a domestic-oriented business structure.

Efforts to boost domestic M/S, new product releases and more rental categories

Coway's domestic accounts and earnings were at a standstill for the past two years. Competition not only got tougher in the industry but it was also hit by the recall of its ice-water purifiers. However, business is returning to normal with the cancellation rate falling to an all-time low. In 2018, we expect the number of accounts to resume climbing fueled by new products in the water purifier segment where market share has dwindled and growth prospects for the air purifier and bidet segments. Coway's clothing care system should be unveiled in 2Q18, adding a new rental category for the first time in seven years.

	2015A	2016A	2017F	2018F	2019F
Sales (W bn)	2,315	2,376	2,517	2,680	2,878
OP (W bn)	463	339	473	516	554
EBT (W bn)	454	324	439	502	540
NP (W bn)	343	244	327	377	406
EBITDA (W bn)	691	572	710	769	822
Net debt (W bn)	(37)	210	366	356	344
OP margin (%)	20.0	14.3	18.8	19.3	19.3
ROE (%)	30.2	20.1	27.6	30.2	29.2
Dividend yield (%)	3.3	3.6	3.3	3.8	4.0
EPS (KRW)	4,621	3,280	4,496	5,291	5,707
chg. (% YoY)	37.5	(29.0)	37.1	17.7	7.9
BPS (KRW)	17,654	17,891	19,581	21,674	23,693
DPS (KRW)	2,800	3,200	3,200	3,400	3,600
PE (x)	18.2	26.9	21.7	17.0	15.8
PB (x)	4.8	4.9	5.0	4.2	3.8
EV/EBITDA (x)	9.2	11.8	10.4	8.9	8.3

12M rating	BUY (Upgrade)
12M TP	W110,000
Up/downside	+22%

Stock data

KOSPI (Feb 23, pt)	2,452
Stock price (Feb 23, KRW)	90,100
Market cap (USD mn)	6,248
Shares outstanding (mn)	74
52-Week high/low (KRW)	111,000/83,000
6M avg. daily turnover (USD mn)	13.9
Free float / Foreign ownership (%)	69.4/59.0
Major shareholders (%)	
Coway Holdings Inc. and 7 others	27.0
GIC Pte Ltd.	7.3

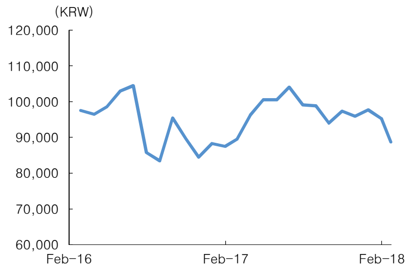
EPS revision (KIS estimates, KRW)

	Previous	Revised	(%)
2017F	4,496	4,496	-
2018F	5,190	5,291	1.9
2019F	5,466	5,707	4.4

Performance

	1M	6M	12M
Absolute (%)	(7.4)	(8.8)	(0.3)
Relative to KOSPI (%p)	(4.0)	(12.4)	(16.6)

Stock price



Source: WISEfn

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What is the report about?

- Upgrade Coway to a BUY rating with a TP of W110,000
- Review overseas business conditions and offer an outlook
- Present domestic market trends and outlook

I. Recommend BUY, TP W110,000

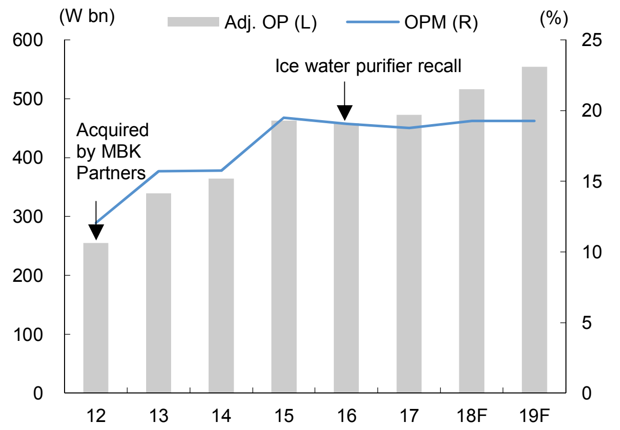
Upgrade Coway to BUY with TP W110,000 for brisk overseas operations

We upgrade Coway to BUY with a TP of W110,000 (21x 12MF PE, three-year-trailing avg.). We previously assigned a Hold rating mainly due to stagnant account additions and ARPU growth amid fierce domestic competition, as well as tepid margins despite efforts to bolster profitability after being purchased by a private equity fund (PEF). In fact, amid intense competition in the domestic rental market for the past two years, nickel was discovered in ice-water purifiers and thus, Coway had to recall its nickel-contaminated models. Accordingly, the number of domestic accounts still falls short of the end-2015 level and earnings have been stuck in the slow lane.

However, the EHA/rental divisions that were previously viewed as domestic demand-driven businesses are growing fast in other Asian countries backed by its competitive products and services. Thus, solid overseas operations should be able to offset tepid domestic growth. China operations are growing steadily by securing Philips, the country's leading air purifier player, as a captive buyer while water purifier rentals are fueling the overall expansion in Malaysia. As Coway offers quality products and standout services for EHAs and rentals, it is gaining ground in each market by implementing tailored product and distribution strategies. EHA demand is growing in Asian countries where severe water pollution problems have arisen due to rapid industrialization. As such, the company is seeking new opportunities in Asian countries such as China and Malaysia where income levels are going up and demand is on the rise.

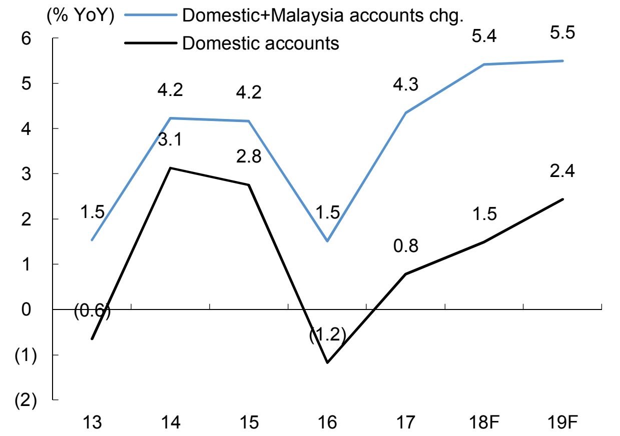
The domestic business is also gaining traction with the 4Q17 cancellation rate touching the lowest in three years. We believe Coway will ramp up efforts to build up its domestic market share in 2018. Accordingly, the company will likely release new models in core categories (water and air purifiers) and add new rental services.

Figure 1. Growth to resume in 2018 after flattening in 2016-2017



Note: Excluding inventory-related one-off costs in 2012 and recall costs for nickel-contaminated ice-water purifiers in 2016
Source: Company data, Korea Investment & Securities

Figure 2. Global accounts picking up since 2017



Note: Global accounts are domestic + Malaysia accounts
Source: Company data, Korea Investment & Securities

Rental sales to grow at ~7% in 2018-2019: Accounts 5.5% and ARPU 2.3%

Backed by robust overseas operations, sales should witness a 7% CAGR with OP at 8% for the next two years. As rentals (domestic + Malaysia) make up 75% of total sales, the number of subscribers and ARPU would be the biggest variables for earnings. Rental sales will likely grow in the 7% range for the next two years after flattening in 2016-2017. Global accounts (domestic + Malaysia) increased 4.3% YoY in 2017 after marking the lowest (1.5% YoY) gain in 2016 and should further rise at the 5% YoY level p.a. during 2018-2019. Combined ARPU should climb in the 2% range during the same period. While domestic ARPU growth is expected at 1.5%, the Malaysia business would feature a nearly 30% loftier ARPU than the domestic market.

Table 1. Earnings breakdown

(W bn, %, % YoY)

	Annual					2017				2018			
	2015	2016	2017	2018F	2019F	1Q	2Q	3Q	4Q	1QF	2QF	3QF	4QF
Sales	**2,315**	**2,376**	**2,517**	**2,680**	**2,878**	**610**	**623**	**630**	**654**	**660**	**656**	**674**	**691**
% YoY	7.2	2.6	5.9	6.5	7.4	(2.2)	12.3	7.9	6.4	8.1	5.2	7.0	5.7
Rental related	1,671	1,592	1,651	1,695	1,755	407	416	414	413	417	421	426	430
% YoY	5.5	(4.7)	3.7	2.7	3.6	(3.7)	16.0	1.3	3.0	2.5	1.2	2.8	4.2
Rentals	1,491	1,424	1,506	1,568	1,640	370	380	379	379	384	389	395	400
% YoY	6.5	(4.5)	5.7	4.1	4.6	(2.8)	20.0	3.1	4.9	4.0	2.4	4.3	5.7
Membership	180	168	145	127	115	38	37	36	34	33	32	31	30
% YoY	(2.1)	(6.7)	(13.6)	(12.3)	(9.1)	(11.9)	(13.6)	(14.7)	(14.3)	(12.0)	(12.1)	(12.8)	(12.4)
Finance lease	41	106	123	124	124	26	30	35	32	28	31	33	32
% YoY		158	16	1	-	20.5	5.6	30.0	11.3	10.0	2.0	(5.0)	0.8
Lump-sum	171	196	192	200	208	46	50	47	49	48	51	50	50
% YoY	38.6	14.4	(1.9)	3.8	4.2	(9.1)	(6.8)	11.0	(0.2)	5.0	2.0	5.0	3.5
Cosmetics	83	74	80	85	91	21	19	19	21	23	20	20	22
% YoY	3.4	(10.7)	7.4	6.6	7.0	4.0	8.1	7.2	10.7	8.0	8.0	5.0	5.4
Exports	149	217	260	296	341	68	56	69	68	73	64	79	80
% YoY	(10.8)	45.1	19.9	14.1	15.0	19.9	(7.2)	42.6	30.0	8.0	15.0	15.0	18.7
Subsidiaries	239.2	273.9	327.2	438.2	551.9	72	84	82	99	101	103	105	128
% YoY	18.0	14.5	19.5	33.9	26.0	11.2	36.4	33.8	14.7	41.7	22.6	28.7	29.1
OP	463	339	473	516	554	121	121	124	107	131	127	131	127
% YoY	27.1	(26.9)	39.5	9.2	7.4	(2.2)	919.4	16.1	11.1	8.1	5.2	5.8	18.9
OPM (%)	20.0	14.3	18.8	19.3	19.3	19.8	19.3	19.7	16.4	19.8	19.3	19.5	18.4

Source: Company data, Korea Investment & Securities

Table 2. Rental business key assumptions

('000 accounts, % YoY, %)

	Annual					2017				2018			
	2015	2016	2017	2018F	2019F	1Q	2Q	3Q	4Q	1QF	2QF	3QF	4QF
Total accounts	5,771	5,704	5,748	5,834	5,976	5,713	5,746	5,745.1	5,748.3	5,753	5,788	5,808	5,834
Net additions	155	(68)	45	85	142	9	33	(1)	3	5	35	20	25
% YoY	2.8	(1.2)	0.8	1.5	2.4	(1.4)	(1.7)	0.2	0.8	0.7	0.7	1.1	1.5
Rental accounts (year-end)	4,832	4,849	4,970	5,151	5,331	4,875	4,923	4,935	4,970	5,005	5,060	5,090	5,151
% YoY	5.0	0.4	2.5	3.6	3.5	0.3	0.0	2.3	2.5	2.7	2.8	3.1	3.6
Net additions	232	17	120	181	180	26	48	13	35	35	55	30	61
Membership accounts (year-end)	939	854	778	683	645	838	823	810	778	748	728	718	683
% YoY	(7.6)	(9.0)	(8.9)	(12.3)	(5.5)	(10.2)	(11.0)	(10.8)	(8.9)	(10.6)	(11.5)	(11.3)	(12.3)
Net additions	(77)	(85)	(76)	(96)	(37)	(17)	(15)	(13)	(32)	(30)	(20)	(10)	(36)
New rental sales	1,409	1,401	1,382	1,447	1,479	350	397	318	317	360	425	334	328
% YoY	5.9	(0.5)	(1.4)	4.7	2.2	(0)	3	11	(17)	3	7	5	3
Churn rate (%)	1.00	1.21	1.06	0.98	1.00	1.19	1.19	1.00	0.86	0.91	0.95	0.96	0.89
Rental ARPU	26,345	24,516	25,562	25,817	26,075	25,331	25,822	25,597	25,475	25,676	25,752	25,920	26,052
% YoY	2.0	(6.9)	4.3	1.0	1.0	(3.1)	19.8	1.9	2.4	1.4	(0.3)	1.3	2.3
Membership ARPU	15,311	15,568	14,771	14,476	14,476	14,895	14,734	14,657	14,397	14,528	14,569	14,425	14,300
% YoY	1.6	1.7	(5.1)	(2.0)	0.0	(2.5)	(3.4)	(4.3)	(4.8)	(2.5)	(1.1)	(1.6)	(0.7)

Source: Company data, Korea Investment & Securities

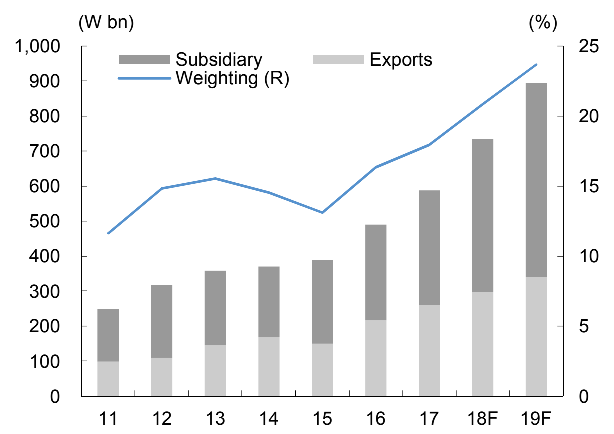
II. Brisk overseas growth: Malaysia and China

1. Malaysia the biggest contributor

From domestic-oriented to global player

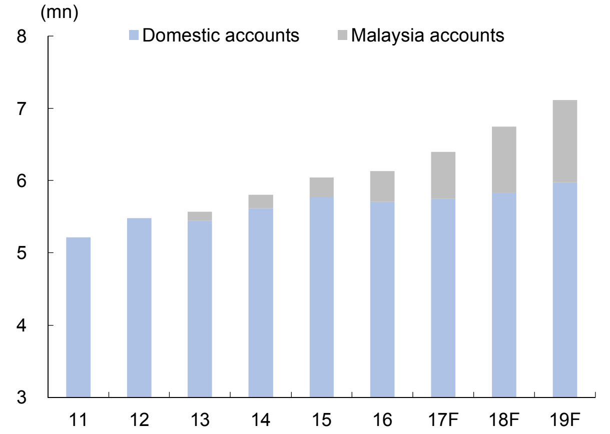
Coway initially achieved growth backed by domestic demand while the overseas division started making big strides from the 2010s. Accordingly, overseas operations are forecast to generate 21% of total sales in 2018. The overseas unit has been driven by rental operations in Malaysia and air purifier exports to China with Malaysia recently delivering the most standout growth. Coway entered Malaysia in 2006 and secured 650,000 rental accounts as of 2017, making up more than 10% of total global customers. Coway is currently the leading player in Malaysia with more than 40% market share based on both subscribers and sales volume. As the Malaysia business has been rapidly attracting customers since 2016, net account additions should reach ~260,000 in 2018 and it is forecast to have ~910,000 subscribers in 2018 and ~1.14mn in 2019. And given that the ARPU in Malaysia is more than 30% greater than in Korea, the business would contribute to the overall ARPU uptick as well.

Figure 3. Overseas-related sales and contribution



Source: Company data, Korea Investment & Securities

Figure 4. Domestic + Malaysia accounts forecast



Source: Company data, Korea Investment & Securities

Malaysia water purifier market to rapidly grow on 1) bigger incomes, 2) water pollution and 3) aggressive entry by importers

Malaysia's water purifier market is estimated at ~700,000 units as of 2017 based on annual sales volume. While the market reached only 400,000-500,000 from 2015-2016, it is gaining considerable ground along with the recent spike in imports. Moreover, Malaysia's water purifier market penetration is still low at 20%. Assuming penetration rises to as much as 35% in 2020, the market is poised for robust growth with sales surpassing 1mn units.

We believe Malaysia's water purifier market will witness brisk growth driven by 1) rising incomes, 2) poor water quality and 3) aggressive market entry by importers. Of note, Coway's domestic water purifier accounts were able to make a sharp rise when GDP per capita breached the USD10,000 mark. Malaysia's income level surpassed USD10,000 in 2011, which suggests demand for water purifiers by the middle class will increase. Malaysia also has huge demand for water purifiers due to poor water quality and it is the world's eighth-largest water purifier importer. While Malaysia emerges as a major water purifier market, importers are springing up at a rapid pace. As such, the market would quickly become entrenched.

Table 3. Water purifier customers in Malaysia to exceed 1mn in 2019

(people, households, USD, %, customers)

	2017F	2018F	2019F	2020F
Population	31,381,000	32,501,000	32,919,000	33,340,000
Households	7,621,900	7,850,557	8,086,074	8,384,090
Per-capita GDP	9,660	10,490	11,442	12,448
Water purifier penetration	20.0	25.0	30.0	35.0
Households w/ water purifier	1,524,380	1,962,639	2,425,822	2,934,432
Annual water purifier sales volume	700,000	805,000	925,750	1,064,613
Coway customers	653,000	914,200	1,142,750	1,257,025
Coway sales volume	300,000	345,000	372,600	417,312
Coway net addition	222,000	261,200	228,550	114,275
Coway sales volume-based M/S	42.9	42.9	40.2	39.2
Coway customer-based M/S	42.8	46.6	47.1	42.8

Source: IMF, company data, Korea Investment & Securities

2. Breaking into China and US with lump-sum sales

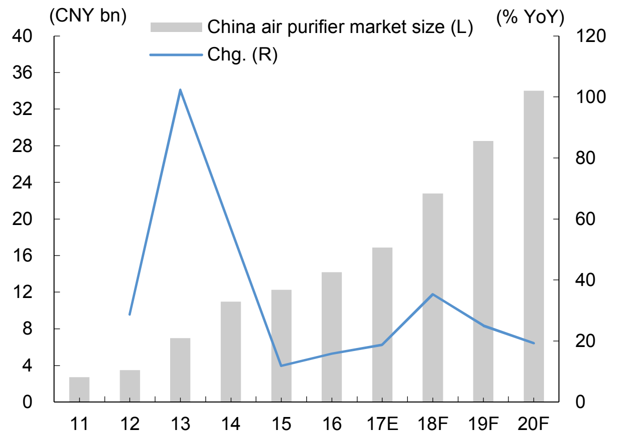
China's air purifier market is growing briskly

Exports should drive growth in China and the US. China's air purifier market was estimated at 6.8mn units worth W2.8tn in 2017. The market size would be more than quadruple that of Korea by sales volume, or double by value, in 2017. While Philips is the top air purifier brand in China, more than 90% of its purifiers are supplied by Coway. Although Coway does not market its own brand in China, it sold 600,000 units to Philips, which nearly doubled the domestic sales volume, in 2017. China's air purifier market has grown 37% p.a. over the past five years but the penetration is still less than 10%, leading to a projection of 25% CAGR through 2020. Double-digits growth should continue for Coway's exports to Philips. Philips sells air purifiers made by Coway in other Asian markets as well, such as India.

Asia's air purifier market has strong growth potential

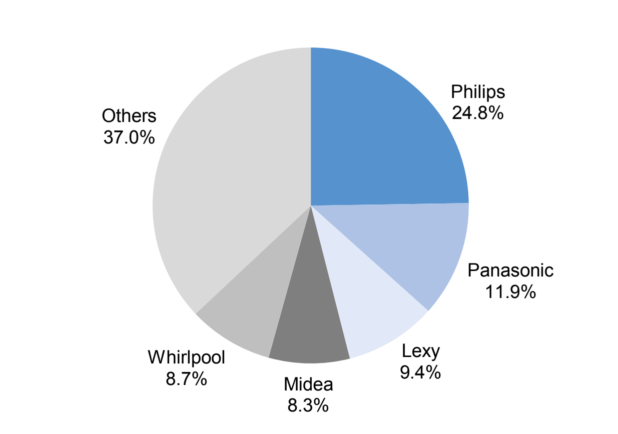
The air purifier market has strong long-term growth potential across the Asian region, including China. According to the World Health Organization, nearly 90% of deaths related to air pollution occur in low and middle-income countries. In particular, the air quality is very bad in countries in Southeast Asia, such as Vietnam and India, and the Asia-Pacific countries.

Figure 5. China air purifier market growth potential



Source: China Information Industry Network (CNII)

Figure 6. China air purifier market breakdown



Note: 2016
Source: Industry data, Korea Investment & Securities

Efforts to secure sales network via US Amazon

The US operations had revenue of W65bn in 2017, yet accounting for only 3% of sales. Last year, in addition to its rental business in the US, Coway began to sell air purifiers via Amazon. It also recently started water purifier sales. While major household appliance makers are unable to aggressively leverage Amazon as it would conflict with their existing sales networks, Coway has been leveraging Amazon from the very start as a major retail channel. In the US market where EHA rentals are not yet widespread, it sold the products in lump-sum, booking ~W2bn in Amazon sales in 3Q17 alone. Coway currently provides services linked to Alexa and plans to offer the dash replenishment system (DRS) in which the customer is sent a refill product at the necessary timing. This is a part of the efforts to enhance user convenience.

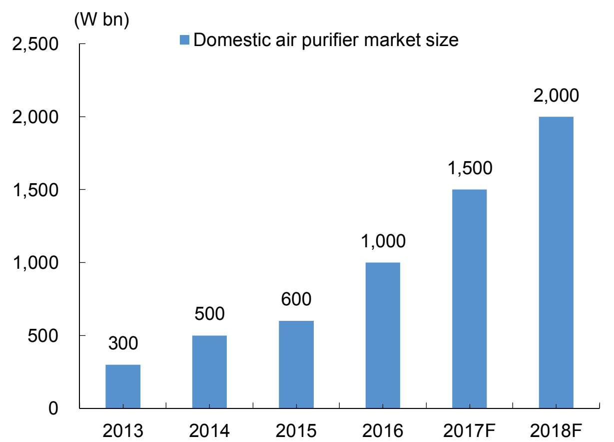
III. Domestic operations: Industry growth and new products

Products diversified; Solid growth of accounts with the exception of water purifiers

Concerns are deepening about the intensifying competition in the domestic market. The competitive landscape has indeed changed. Customers among second-ranking peers Cuckoo Electronics and SK Magic both exceed 1mn. Competition is all the more fierce when considering just the water purifier market. However, we note that Coway's EHAs are on a structural uptrend backed by rising income levels and environmental concerns. In fact, the recent accounts trend shows that with the exception of water purifiers, all accounts are going up. We believe this is attributed to the industry's growth.

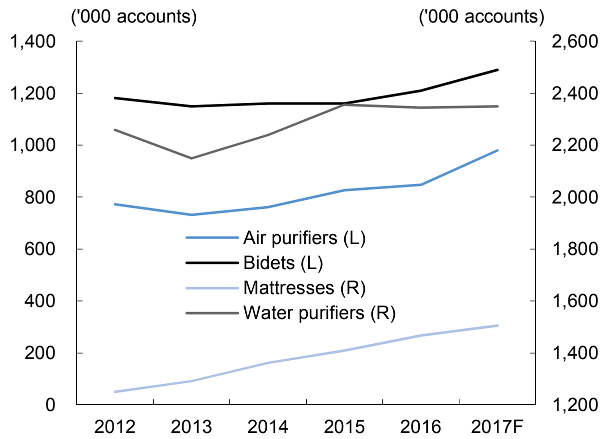
Most notably, we forecast the air purifier market to be worth W2tn in 2018, which is a near seven-fold increase compared to the estimates for a W300bn market in 2013. The sales volume should also reach 2mn units from 2018 with possible demand for two to three purifiers per household. And, given the greater market size, we expect steady market growth with the release of innovative new products. Bidet and mattress accounts are also steadily rising.

Figure 7. Domestic air purifier market's rapid growth



Source: CNII

Figure 8. Domestic accounts by item category



Source: Industry data, Korea Investment & Securities

New products released in mainstay category in 2017

We anticipate efforts to bolster domestic market share in 2018. Our assumption for the net addition of accounts is 80,000, slightly up from 2017. Coway provides a guidance of 270,000 accounts. Stripping out the factor of intensified competition in 2016 and 2017, the company inevitably lost some customers when switching water softeners to lump-sum sales. Moreover, we believe there was a rise in accounts set to expire. Coway appears to have focused efforts on managing the cancellation rate to avoid losing subscribers as the sharp increase in subscribers with net additions of 360,000 in 2011 and 270,000 in 2012, turned into accounts set to expire after a five-year contract, topped off by the ice-water purifier recall in 2016. As a result, the cancellation rate fell from 1.21% in 2016 to 1.01% in 2017, retreating to 0.86% in 4Q17 on a quarterly basis, hitting the lowest level in three years. Concerns have dissipated about losing customers.

In 2018, we expect new products mainly among water purifiers, air purifiers and mattresses. There should be a new product release targeting the direct water purifier (tankless) market where rivals have been brandishing a competitive edge. Coway's air purifiers should shift from the previous premium line-up and release new low-end products. We also expect new product releases such as motion beds and air mattresses in addition to current mattress products.

First new rental category released for first time in seven years

We expect Coway to release its clothing care system in 1H18. This would be its fifth rental category. Customer reviews and subscribers should be factors to monitor. LG's Tromm Styler, a similar product, sells more than 10,000 units monthly and the monthly rental fee is W40,000-50,000. If the rental fee is priced similarly, it would be higher than the domestic ARPU of W24,000.

Company overview

Established in 1989, Coway is specialized in environmental home appliances (EHA) such as water purifiers, air purifiers and bidets, and has brought EHAs into people's daily lives. Coway was the industry's first to introduce the EHA rental business in 1998. Coway also introduced the maintenance and technician managers (called Cody) to offer standout onsite services. Coway is the leader in Korea with 45% market share for water purifiers, 44% air purifiers, 38% bidets and 62% water softeners, and has strong brand awareness. Coway had approximately 57.7mn accounts (rental + membership) as of end-2015. Coway continues to expand its product lineup to water softeners, food waste treatment systems, mattresses and so on and is stepping up its business drive abroad.

Balance sheet

(W bn)

FY-ending Dec.	2015A	2016A	2017F	2018F	2019F
Current assets	653	733	781	831	893
Cash & cash equivalents	116	66	76	80	86
Accounts & other receivables	283	323	327	348	374
Inventory	70	70	88	94	101
Non-current assets	1,122	1,235	1,330	1,430	1,519
Investment assets	51	52	55	59	63
Tangible assets	700	669	731	793	835
Intangible assets	169	183	194	206	222
Total assets	1,775	1,968	2,110	2,262	2,412
Current liabilities	473	735	807	822	820
Accounts & other payables	259	255	284	303	325
ST debt & bonds	80	340	440	440	440
Current portion of LT debt	0	0	0	0	0
Non-current liabilities	64	49	121	124	127
Debentures	0	0	0	0	0
LT debt & financial liabilities	8	12	82	82	82
Total liabilities	537	784	928	945	947
Controlling interest	1,237	1,183	1,182	1,317	1,466
Capital stock	41	41	41	41	41
Capital surplus	127	127	127	127	127
Other reserves	(103)	(159)	(258)	(258)	(258)
Retained earnings	1,177	1,180	1,279	1,414	1,564
Minority interest	1	1	0	(0)	(1)
Shareholders' equity	1,238	1,183	1,182	1,316	1,465

Income statement

(W bn)

FY-ending Dec.	2015A	2016A	2017F	2018F	2019F
Sales	2,315	2,376	2,517	2,680	2,878
COGS	729	812	799	844	912
Gross profit	1,586	1,564	1,718	1,836	1,966
SG&A expenses	1,123	1,225	1,246	1,320	1,411
Operating profit	463	339	473	516	554
Financial income	1	1	1	1	2
Interest income	1	1	1	1	2
Financial expenses	4	6	27	16	16
Interest expenses	4	6	12	16	16
Other non-operating profit	(6)	(10)	(8)	0	0
Gains (Losses) in associates, subsidiaries and JV	0	0	0	0	0
Earnings before tax	454	324	439	502	540
Income taxes	111	80	113	126	135
Net profit	343	243	326	377	405
Net profit of controlling interest	343	244	327	377	406
Other comprehensive profit	(9)	(1)	(1)	(1)	(1)
Total comprehensive profit	334	243	325	376	404
Total comprehensive profit of controlling interest	334	243	326	376	405
EBITDA	691	572	710	769	822

Cash flow

(W bn)

FY-ending Dec.	2015A	2016A	2017F	2018F	2019F
C/F from operations	513	358	500	602	620
Net profit	343	243	326	377	405
Depreciation	220	225	229	243	257
Amortization	8	8	9	10	10
Net incr. in W/C	(195)	(232)	(63)	(27)	(52)
Others	137	114	(1)	(1)	0
C/F from investing	(329)	(367)	(335)	(356)	(359)
Capex	(329)	(328)	(290)	(304)	(299)
Decr. in fixed assets	9	15	0	0	0
Incr. in investment	0	(43)	(4)	(4)	(5)
Net incr. in intangible assets	(5)	(13)	(20)	(22)	(26)
Others	(4)	2	(21)	(26)	(29)
C/F from financing	(213)	(40)	(156)	(241)	(255)
Incr. in equity	5	5	0	0	0
Incr. in debt	(77)	264	170	0	0
Dividends	(148)	(208)	(235)	(227)	(242)
Others	7	(101)	(91)	(14)	(13)
C/F from others	(1)	(0)	0	0	0
Increase in cash	(31)	(50)	9	5	6

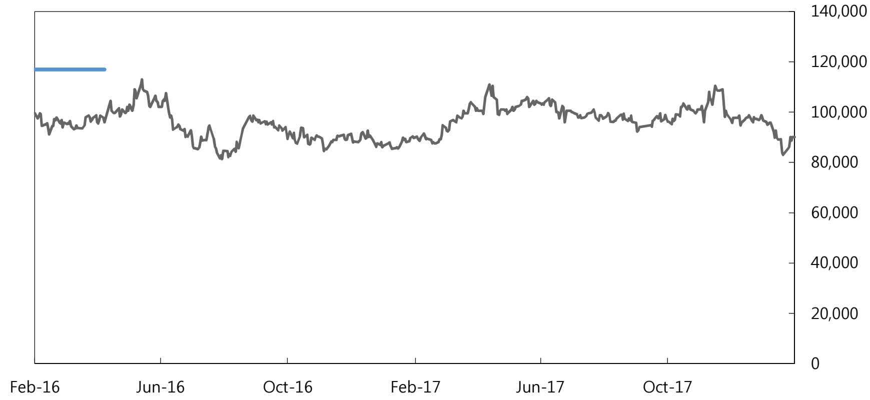
Note: K-IFRS (consolidated)

Key financial data

FY-ending Dec.	2015A	2016A	2017F	2018F	2019F
Per-share data (KRW)					
EPS	4,621	3,280	4,496	5,291	5,707
BPS	17,654	17,891	19,581	21,674	23,693
DPS	2,800	3,200	3,200	3,400	3,600
Growth (%)					
Sales growth	7.2	2.6	5.9	6.5	7.4
OP growth	27.1	(26.9)	39.5	9.2	7.4
NP growth	37.4	(29.0)	34.0	15.5	7.6
EPS growth	37.5	(29.0)	37.1	17.7	7.9
EBITDA growth	19.5	(17.2)	24.2	8.2	6.9
Profitability (%)					
OP margin	20.0	14.3	18.8	19.3	19.3
NP margin	14.8	10.3	13.0	14.1	14.1
EBITDA margin	29.8	24.1	28.2	28.7	28.5
ROA	20.2	13.0	16.0	17.2	17.3
ROE	30.2	20.1	27.6	30.2	29.2
Dividend yield	3.3	3.6	3.3	3.8	4.0
Dividend payout ratio	60.6	96.3	69.6	64.1	63.1
Stability					
Net debt (W bn)	(37)	210	366	356	344
Int.-bearing debt/equity (%)	7.1	29.7	44.1	39.6	35.6
Valuation (x)					
PE	18.2	26.9	21.7	17.0	15.8
PB	4.8	4.9	5.0	4.2	3.8
EV/EBITDA	9.2	11.8	10.4	8.9	8.3

Changes to recommendation and price target

Company (Code)	Date	Recommendation	Price target	% vs. avg. price	% vs. high (low)
Coway(021240)	18-02-16	BUY	W117,000	-17.9	-13.7
	04-05-16	Hold	-	-	-
	04-05-17	1YR later		-	-
	25-02-18	BUY	W110,000	-	-



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- BUY: Expected to outperform the market index by 15%p or more
- Hold: Expected to underperform or outperform the market index by less than 15%p
- Underweight: Expected to underperform the market index by 15%p or more
- Korea Investment & Securities does not offer target prices for stocks with Hold or Underweight ratings.

■ **Guide to Korea Investment & Securities Co., Ltd. stock rating allocation (as of Dec 31, 2017)**

BUY	Hold	Underweight (Sell)
79.6%	19.9%	0.5%

Note: % of companies under coverage with this rating

■ **Guide to Korea Investment & Securities Co., Ltd. sector ratings for the next 12 months**

- Overweight: Recommend increasing the sector's weighting in the portfolio compared to its respective weighting in the Kospi (Kosdaq) based on market capitalization.
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