KB Securities

COWAY (021240)

Valuation Recovering

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Target price derived through DCF valuation method possess 27% upside relative to current price

We initiate our coverage of Coway with a Buy rating and a target price of KRW110,000. We derived our target price through the DCF valuation method and applied a WACC of 5.6% (COE 8.3%, COD 2.2%, Beta 0.8) and a terminal growth rate of 0.5% (after 2024). The implied PER of the target price based on 2018 EPS stands at 22x. The share price remained tediously range bound since 2015, while the current price, which reached the low end of the boxed range and corresponds to a 2018 dividend yield of 3.9%, possesses strong downward rigidity. We recommend Buy, because the share price is anticipated to climb to the high end of the boxed range, buoyed by a stable earnings uptrend in 2018.

Domestic wellness home appliance: Growth continues through differentiated product capabilities, robust door-to-door sales network and new product launches

The domestic wellness home appliance business is expected to continue yielding steady revenues. As rational consumption patterns gain traction and consumer attitudes shift to a focus on usage rather than possession, the domestic individual/household goods rental market has been exhibiting a strong five-year (2012-17) CAGR of 10%. Concerns over intensifying competition among companies exist, but differentiated product capabilities, a robust door-to-door sales network and new product launches should spur the company's growth ahead. We estimate rental OR to grow at a three-year (2017-2020) CAGR of 5%.

Overseas wellness home appliance: Resilient top-line growth anticipated centering on Malaysia

We expect OR of overseas wellness home appliances, a mid/long-term growth engine, to climb at a three-year (2017-2020) CAGR of 19%. The Malaysian subsidiary, which is engaged in the rental business centering on management services like Korea, exhibited excellent OR growth (a four-year (2013-17) CAGR of 30%). Elsewhere, the US subsidiary conducted the rental business targeting Korean communities before recently starting the retail business through Amazon.

Buy initiation

Target Price (initiation)	KRW110,000
Upside/Downside	26.9%
Current price (Mar 20)	KRW86,700
Consensus Target Price	KRW110,000
Market cap	USD6.1bn

Trading Data

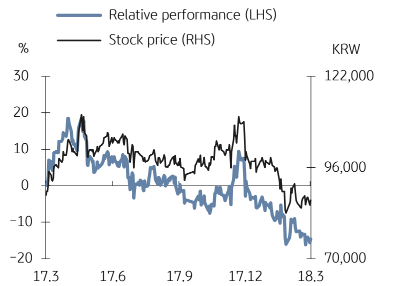
Free float	69.4%
Avg T/O Val (3M, KRWbn)	16.2
Foreign ownership	59.1%
Major shareholders	Coway Holdings, Inc. and 7 others 27.0%
	GIC Private Limited 7.3%

Performance

(%)	1M	3M	6M	12M
Absolute	0.6	-11.6	-10.3	-1.6
Relative	-2.3	-12.1	-13.0	-14.6

Forecast earnings & valuation

FY-end	2016A	2017E	2018E	2019E
OR (KRWbn)	2,376	2,517	2,743	2,966
OP (KRWbn)	339	473	516	561
NP to parent (KRWbn)	244	326	360	395
EPS (KRW)	3,167	4,358	4,883	5,348
EPS Growth (%)	-28.8	37.6	12.0	9.5
PER (x)	27.9	22.4	17.8	16.2
EV/EBITDA (x)	12.2	10.7	8.8	8.2
PBR (x)	5.7	7.5	5.8	5.2
ROE (%)	20.1	30.2	34.8	33.8
Div. Yield (%)	3.6	3.3	3.9	4.2



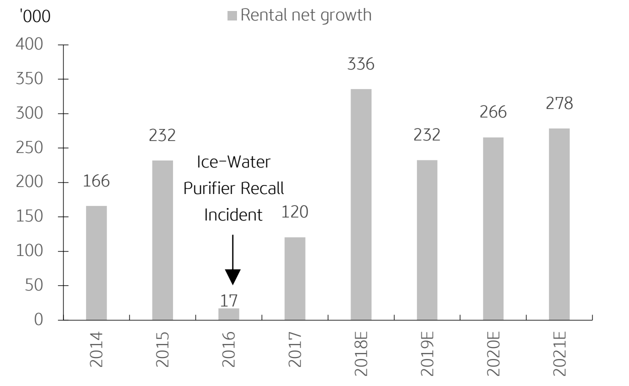
Source: COWAY, KB Securities estimates

Improving shareholder value: High payout ratio to continue backed by ample cash flow

We expect Coway to maintain an aggressive shareholder return policy that has been in place for a long period of time, backed by ample cash flow (2017 payout ratio of 72%, dividend yield of 3.3%). Coway has been generating a free cash flow of more than KRW200bn–300bn annually. The rental business requires massive capital investments in the initial phase of the business, but with time, rental fees are collected, thus contributing to stable cash flow.

I. Focus Charts

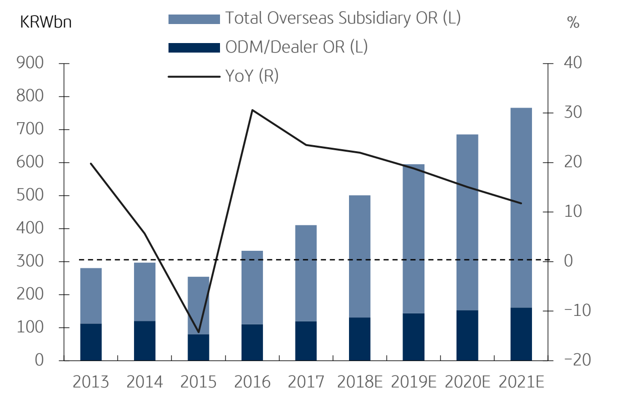
Coway: Rental net growth trend and estimate



Source: Company data, KB Securities estimates

- 1) Total number of rental accounts dropped 1% YoY in 2016 due to recalls of ice-making water purifiers, Company suffered difficult year that saw stand-alone OP drop 20% YoY due to one-off recall-related expenses, 2) In 2017, company strove to minimize client outflows and stabilize its sales network, focusing more on retaining existing clients rather than adding new ones; 3) company to double down on new rental sales in 2018
- We project 2018 domestic rental OR to reach KRW1.71tr (up 5% YoY); Continued new product launches, expansions of new categories, strengthened door-to-door sales network and quality improvements through R&D to spur growth, with domestic rental OR projected to increase at three-year (2017-20) CAGR of 5%
- We estimate total number of rental accounts to jump 7% YoY to 53.06mn accounts; We assume new sales accounts will rise 10%; monthly average churn rate is kept within 1%; number of accounts meeting maturity will drop by 6%, resulting in 336,000 net increases in accounts (up 179% YoY)

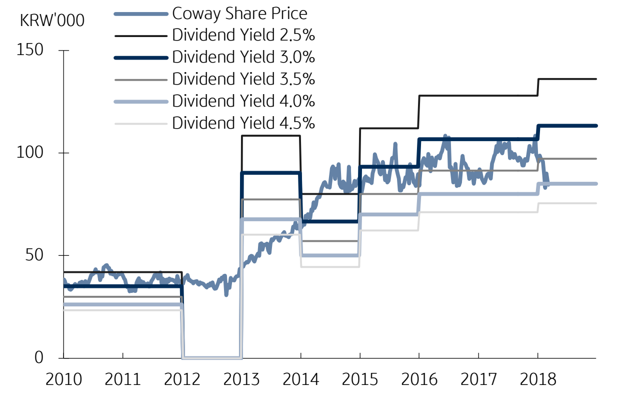
Coway: Overseas wellness appliance OR trend and estimate



Source: Company data, KB Securities estimates

- Overseas OR increased at four-year (2013-17) CAGR of 10% and projected to grow at four-year (2017-21) CAGR of 17%
- Earnings of air purifier ODM business in China that began in 2009 fell slightly short of expectations, but Malaysian subsidiary (launched in 2006) has been exhibiting strong OR growth (four-year (2013-17) CAGR of 30%), spearheading entire overseas OR uptrend
- Overseas revenues break down into: 1) Overseas ODM/dealer business (exports after production in Korea; exposure to Chinese partner companies stands at 60%) and 2) four overseas subsidiaries (Malaysia, US, China, Thailand) engaged in wellness home appliance business; overseas ODM/dealer OR accounts for 5% proportion of 2017 consolidated OR, while proportion of combined OR of four overseas subsidiaries grew to 12%

Coway: Dividend ratio band chart



Source: Company data, KB Securities estimates

- Coway projected to generate free cash flow of more than KRW200-300bn annually; Coway's rental business requires massive capital investments involving inventory-related costs and sales commissions in initial phase of business, but rental fees are recouped over five-year contract period, so cash flow tends to remain in minus territory; With time, however, economies of scale effects take place and rental fees are collected, thus contributing to stable cash flow
- Company to keep raising shareholder value through dividend pay backed by ample cash flow; 2017 DPS stood at KRW3,200; Based on consolidated earnings, payout ratio and dividend yield stood at 72% and 3.3%, respectively; DPS projected to increase by KRW200 by year to reach KRW4,000 in 2021

II. Investment Rating and Valuation

Target price calculated at KRW110,000 through DCF valuation

We present Buy on Coway with a target price of KRW110,000. We derived our target price through the DCF valuation method and applied a WACC of 5.6% (COE 8.3%, COD 2.2%, Beta 0.8) and a terminal growth rate of 0.5% (after 2024). We calculated the total cash flow by adding losses from the obsolescence of rental assets, a cost item without entailing a cash outflow, as well as amortization/depreciation costs. Considering that the DCF valuation method allows for a high chance of predicting long-term cash flow, we thought the valuation method would be appropriate.

The implied PER of the target price based on 2018 EPS stands at 22x. Since the target price harbors a 27% upside potential compared to the current price, we recommend Buy.

Table 1.Coway: DCF (discounted cash flow) Valuation

(KRWbn)		2016	2017	2018E	2019E	2020E	2021E	2022E	2023E
OP	a	338.8	472.7	516.4	561.0	606.2	654.2	686.9	714.4
Corporate tax rate (%)	b	24.2	24.2	27.5	27.5	27.5	27.5	27.5	27.5
NOPLAT	**C=a*(1-b)**	**256.8**	**358.3**	**374.4**	**406.7**	**439.5**	**474.3**	**498.0**	**517.9**
Depreciation costs (tangible + intangible)	d	233.1	254.3	270.1	276.5	281.2	284.7	283.8	282.9
Rental asset obsolescence cost	e	47.4	43.5	42.5	46.4	48.9	51.7	53.8	56.0
Total cash flow	**F=C+d+e**	**537.3**	**656.1**	**686.9**	**729.6**	**769.7**	**810.8**	**835.6**	**856.8**
Total investments	**G=h+i**	**-560.5**	**-461.4**	**-438.6**	**-449.0**	**-453.4**	**-463.3**	**-440.0**	**-370.0**
Change in assets and liabilities	h	-232.3	-106.4	-118.6	-149.0	-153.4	-163.3	-150.0	-90.0
Rise in tangible and intangible assets (Capex)	i	-328.2	-355.0	-320.0	-300.0	-300.0	-300.0	-290.0	-280.0
FCFF	J=F+G	-23.2	194.7	248.3	280.6	316.3	347.4	395.6	486.8
Discount Factor				0.95	0.90	0.85	0.80	0.76	0.72
PV of FCFF				235.1	251.6	268.6	279.4	301.3	351.1
Total PV of FCFF (2018E~23E)	k			1,687.1					
Terminal Value (2023)				9,596.5	2023 FCFF*permanent growth rate 0.5%				
PV of terminal value	l			6,921.1	WACC 5.6% (risk-free interest rate 2.41%, market-risk premium 7.39%)				
Operating value of FCFF	M=k+l			8,608.3					
Cash and equivalent assets	n			50.5					
Short-term financial assets	o			40.7					
Investment assets and real estate	p			89.4					
Debt	q			527.3					
Estimated value of equity	R=M+(n+o+p-q)			8,261.7					
No. of shares ('000)	s			74,818		Excl. treasury stocks			
Target price (KRW)	**T=R/s**			**110,000**					
Current price (KRW)				86,700		2018.03.20			
Upside potential (%)				26.9					
2018E Implied PER of target price(X)				21.7					
2018E Implied PBR of target price (X)				7.1					

Source: Company data, KB Securities estimates

Note 1: Required rate of return = 9.80% = Inverse of 2017 PER of 9.4x and 10.2x, which is avg. of 2018 KB Securities target PER of 11.0x

Note 2: COE = 8.28% = Risk-free interest rate (Avg. yield of 5-year treasury bond 2.41%) + market-risk premium (7.39% = required rate of return of 9.80% - risk-free interest rate of 2.41%) X 2015~2016 avg. beta (0.79)

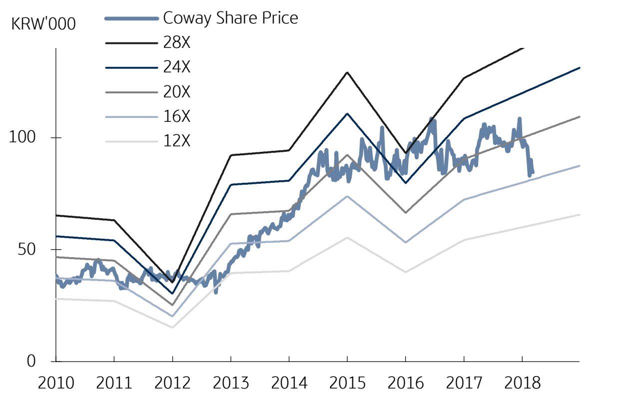
Note 3: COD = 2.15%

Current price corresponds to 2018 PER of 17x, lowest level since 2014

The current price corresponds to a 2018 PER of 17x, having tumbled to an historic-low since 2014, given the past PER trend as seen in <Fig 1>. The share price has been moving within a boxed-range for three years, while the EPS is rising every year (excluding recalls of ice-making water purifiers in 2016) and thus, the multiple has been on a downtrend. The current price is situated in the low-end of the boxed-range and reaches a four-year-low in terms of the PER trend (previous three-year and five-year average PERs stand at 22x, respectively), providing investors with bargain-hunting opportunities.

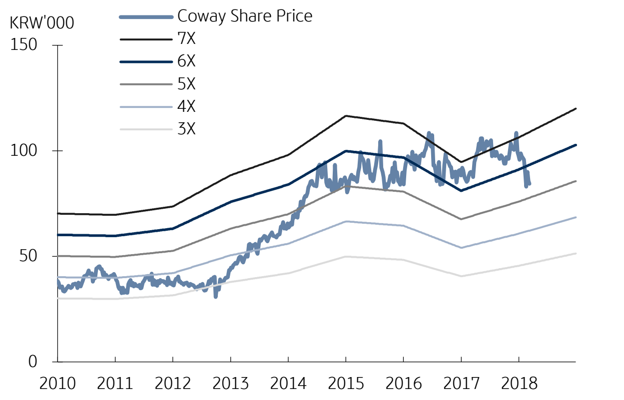
There is no peer whose business model runs parallel with that of Coway, but we believe Cuckoo Homesys and Lock & Lock are the most similar among listed companies. Cuckoo Homesys (engaged in rental business of water purifiers and air purifiers, with the number of accounts standing at one fifth of Coway) is trading at a 2018 PER of 19x, while Lock & Lock (production and retailing of kitchen products) is trading at a 2018 PER of 21x (based on Fnguide consensus).

Fig 1. Coway: 12M Fwd PER band



Source: Quantiwise, KB Securities estimates

Fig 2. Coway: 12M Fwd PBR band



Source: Quantiwise, KB Securities estimates

Coway saw marked profitability improvements after being acquired by MBK Partners; Share price shot up by 96% during 2013-14

Coway displayed a weakness to some degree amid uncertainties involving the largest stakeholder's (Woongjin Holdings) equity disposal in 2012. After the company was acquired by MBK Partners in Jan 2013, however, Coway demonstrated a remarkable OR and OP uptrend, while in the meantime, the share price skyrocketed 96% over two years (2013-14) on EPS growth and a valuation re-rating, outperforming the KOSPI by 99%. When it was a subsidiary of Woongjin Holdings, Coway embarked on various new businesses, but with no tangible achievements. However, after the company was acquired by MBK Partners, Coway saw a marked improvement in profitability and cash flow, helped by the company's focus on the mainstay rental business and cost reduction efforts. Momentum involving the exports of air purifiers to China also prompted a rise in the share price at that time. Stand-alone OP margin, which hovered at around 13-15% until 2012, improved steeply to 17% in 2013, 19% in 2014 and 21% in 2015 with MBK Partners's takeover of Coway.

For more than three years afterward, however, share price remains range-bound; Doubts raised over slowing growth potential and additional margin pickup

For more than three years afterwards, however, the share price remained tediously range bound (low-end of KRW83,000, high-end of KRW110,000), starting with weaker-than-expected 3Q14 earnings. Concerns were raised over intensifying domestic market competition and slowing OR growth potential and doubts were also raised over additional profitability growth. And to make matters worse, the company's Aug 2015 announcement of the largest stakeholder, MBK Partners, considering disposing of its equity in Coway dealt a further blow to the share price. The share price managed to hit an all-time high in Jun 2016, but it tanked by 27% in two months after the recalls of ice-making water purifiers struck the company in Jul.

Share price looks to stage modest uptrend from low-end of boxed-range to high-end this year; Additional share price momentum to be required in order to emerge out of boxed-range

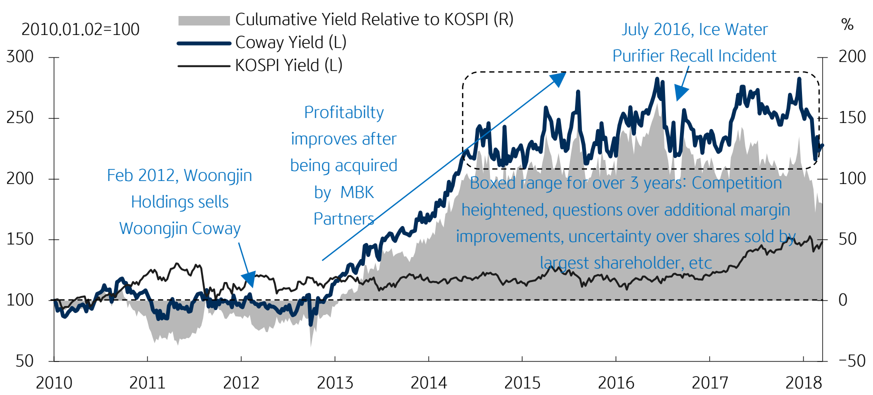
The share price climbed 11% on a low base and anticipation over normalizing operations in 2017, but the stock underperformed the KOSPI (2017 annual return stood at 22%) by 11%. The share price downturn so far in 2018 is attributed to: 1) disappointment over 4Q17 earnings, 2) 2017 dividend missing expectations (DPS same as 2016 DPS) and 3) uncertainties over the disposal.

The current price, which is in the low-end of the boxed-range, corresponds to a 2018 dividend yield of 3.9% and therefore, downward risks seem to be limited. The share price looks to stage a modest uptrend from the low end of the boxed range to the high end (KRW110,000) this year. This is because we expect the company's consolidated OR and OP to advance 9% YoY, respectively, aided by stable earnings growth at domestic and overseas subsidiaries.

In order for the share price to break out of the high end of the boxed range from a mid/long-term perspective, the stock should have additional momentum. We expect growth momentum to be highlighted if: 1) the company succeeds in expanding product categories, while new rental items (e.g., apparel purifiers) display brisk sales or 2) overseas subsidiaries post higher-than-expected results.

Coway exhibited remarkable OR and OP uptrend after MBK Partners's takeover in 2013, sending share price up by 96% over two years; For more than three years since 2015, however, stock sustained tedious boxed-range movement

Fig 3. Coway: Share price and earnings trend relative to KOSPI (since 2010)



Source: Quantiwise, KB Securities estimates

III. Investment Points

1. Domestic Wellness Home Appliances: Stable Growth Buoyed by Differentiated Product Capabilities

2018 domestic wellness home appliance OR projected to increase 5% YoY; Company to focus on new rental sales

Coway is expected to step up efforts at new rental sales in 2018. The total number of rental accounts dropped 1% YoY in 2016 due to recalls of ice-making water purifiers. The company went through difficult times in 2016 that saw stand-alone OP drop 20% YoY due to one-off recall-related expenses. In 2017, it strove to minimize client outflows and stabilize its sales network, focusing more on retaining existing clients rather than adding new ones. Coway saw the total number of accounts in 2017 reach 5.75mn, coming in slightly lower than that of 2015 (5.77mn accounts), but succeeded in lowering the monthly average churn rate to 0.86% in 4Q17. In 2018, it plans to focus on new rental sales through continued new product launches, expansion of new categories, strengthening its door-to-door sales network and implementing quality improvements backed by R&D. We project 2018 domestic wellness home appliance OR to reach KRW2.08tr (up 5% YoY).

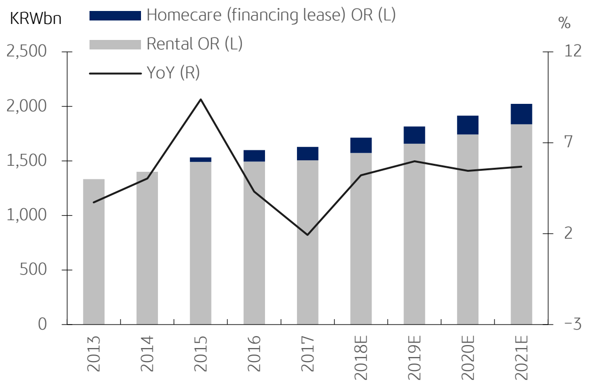
2018 total number of rentals projected to climb 7% YoY; Net increase in accounts projected at 336,000 units

We project 2018 domestic rental OR to reach KRW1.71tr (up 5% YoY) and to post a three-year (2017-20) CAGR of 5%. We estimate the total number of rental accounts to jump 7% YoY to 53.06mn. We assume new sales accounts will rise 10%; the monthly average churn rate is kept within 1%; and the number of accounts meeting maturity will drop by 6%, resulting in 336,000 net increases in accounts (up 179% YoY). We expect rental ARPU to rise around 1% YoY. This is because price markups are unlikely, but ARPU looks to ascend on product mix improvements (replacement with new products with higher ASP).

Aims to overcome intensifying competition and sustain growth by adding new product category and launching new products in existing category

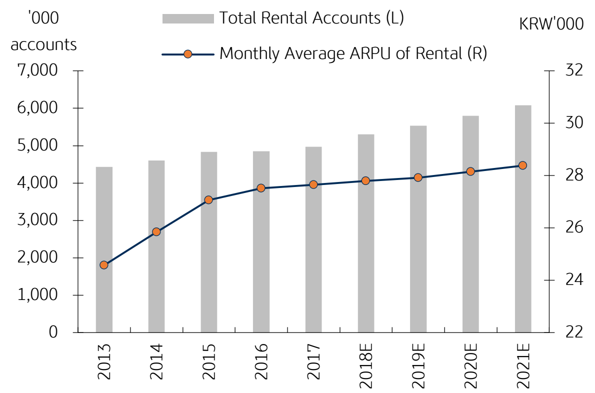
Market jitters are mounting over intensifying competition in the domestic rental market, but Coway plans to defend its growth rate by adding a new category and releasing new products in existing categories. Coway is scheduled to launch a new water purifier with a direct-flow RO (Reverse Osmosis) filter and a new active-action air purifier featuring auto swing functions (air inlet/outlet bobbing and weaving). Furthermore, Coway aims to add a new rental category, a clothing care unit called FWSS (Fresh Wear Styling System: management of clothes + air purifier) in May, launching a new rental category for the first time in five years after the mattress rental segment. Coway could consider expanding not only categories, but also services. That is, Coway may expand its services to include the cleaning services of washing machines or vacuum cleaners and the replacement of hood filters of gas stoves.

Fig 4. Coway: Rental OR trend and estimate



Source: Company data, KB Securities estimates

Fig 5. Coway: Total rental contract trend and estimate



Source: Company data, KB Securities estimates

2. Overseas Wellness Home Appliance: Overseas Business is Mid/Long-Term Growth Engine

Overseas OR projected to rise at four-year CAGR of 17%

Coway harbors possibility of growth by entering overseas markets. Overseas OR increased at a CAGR of 10% from 2013-17 and is projected to grow at a CAGR of 17% during 2017-21. The air purifier ODM business in China that began in 2009 has been displaying weaker-than-expected earnings in the initial phase of the business, but the Malaysian subsidiary (launched in 2006) has been exhibiting strong OR growth (four-year (2013-17) CAGR of 30%), spearheading the entire overseas OR uptrend.

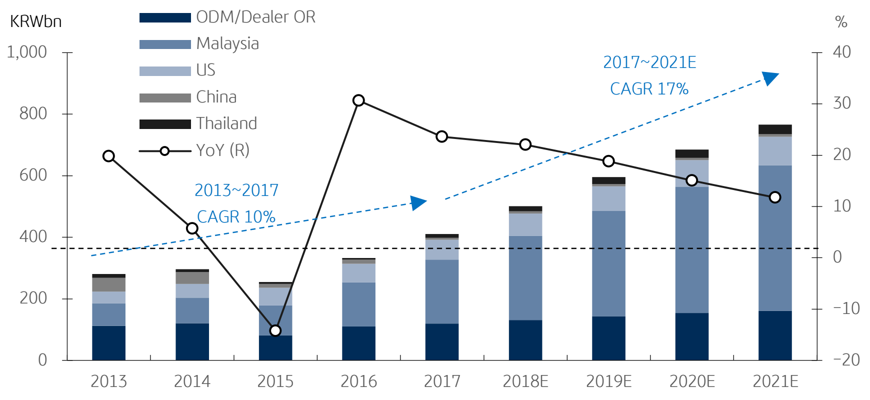
Overseas OR breaks down to ODM/dealer business and four overseas subsidiaries

Overseas revenues break down to: 1) Overseas ODM/dealer business (exports after production in Korea; exposure to Chinese partner companies stands at 60%) and 2) four overseas subsidiaries (Malaysia, US, China, Thailand) engaged in the wellness home appliance business. Overseas ODM/dealer OR accounts for a 5% proportion of 2017 consolidated OR, while the proportion of combined OR of four overseas subsidiaries grew to 12%.

Coway entered the US market in 2007 and operated the rental business mainly in Korean communities, but recently started the retailer channel business (e.g., Amazon) in earnest by selling new products armed with AI/IoT technologies. In Malaysia, Coway is running the rental business with a focus on management services just like in Korea, aided by low labor costs in the local market. Meanwhile, Coway is selling air purifiers based on an ODM partnership with a local partner in China. Coway's share of the Chinese air purifier market reaches about 30%, but its sales growth has slightly slowed due to fiercer competition in the local market.

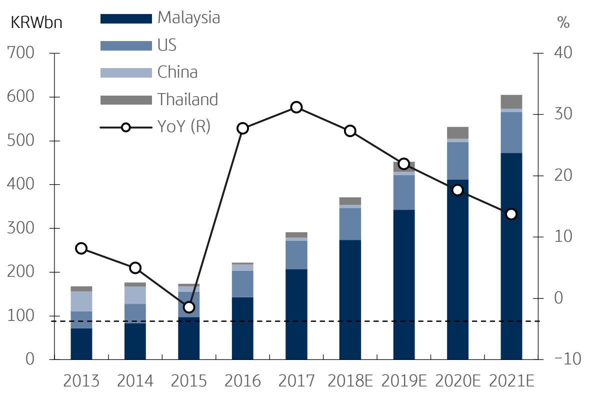
Coway's overseas revenues grew at CAGR of 10% during last four years (2013–17) and projected to see CAGR of 17% over next four years (2017–21)

Fig 6. Coway: Overseas wellness appliance OR trend and estimate



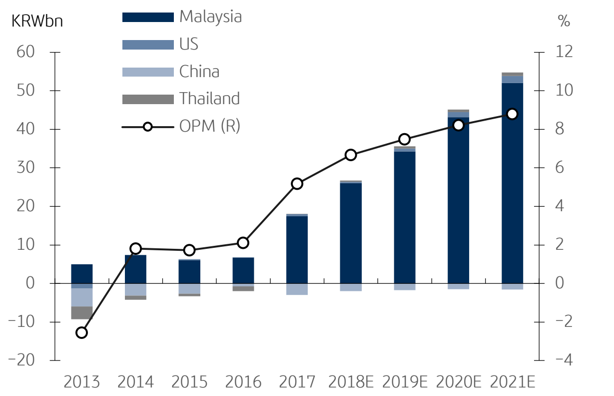
Source: Company data, KB Securities estimates

Fig 7. Coway: Combined OR trend of overseas branches and estimate



Source: Company data, KB Securities estimates

Fig 8. Coway: Combined OP trend of overseas branches and estimate



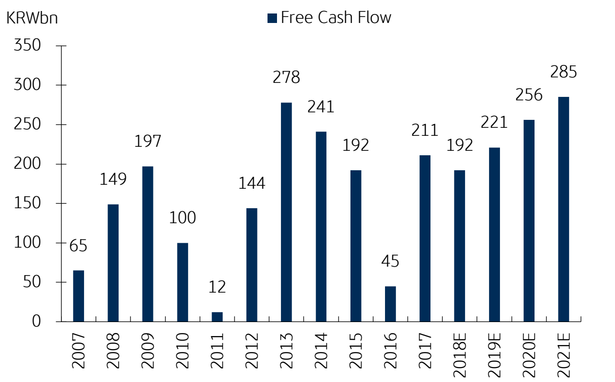
Source: Company data, KB Securities estimates

3. Shareholder Return Policy Backed by Stable Cash-Generating Capabilities

Capable of generating ample free cash flow of KRW200-300bn annually

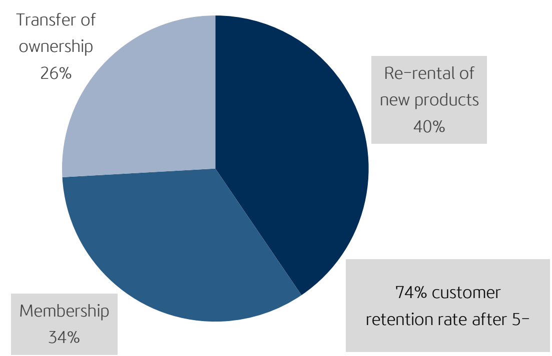
Coway is estimated to generate a free cash flow of more than KRW200-300bn annually. Coway has to make massive capital investments involving inventory-related costs and sales commissions in the initial phase of the rental business, while rental fees are recouped over a five-year contract period, so cash flow tends to remain in the minus territory. With time, however, the economies of scale effects take place and rental fees are collected, thus leading to a stable cash flow. Out of an annual capex of KRW300bn, fixed costs stand only at KRW30-40bn, while variable costs tend to be high (e.g., production costs linked with sales volume, fees for door-to-door service agents called "Codys"). The company sees around 74% of clients being retained through the signing of memberships or new product re-rentals even after contracts (five-year) expire, suggesting a steady rise in rental accounts.

Fig 9. Coway: Free cash flow trend and estimate



Source: Company data, KB Securities

Fig 10. Coway: Retention ratio (2017 basis)

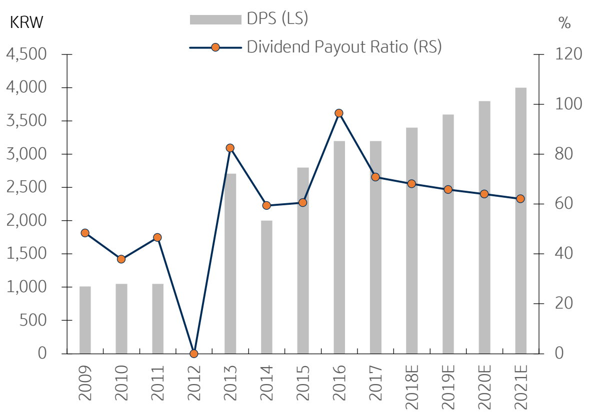


Source: Company data, KB Securities

Shareholder value maximized through dividend payouts and share buyback/cancellation

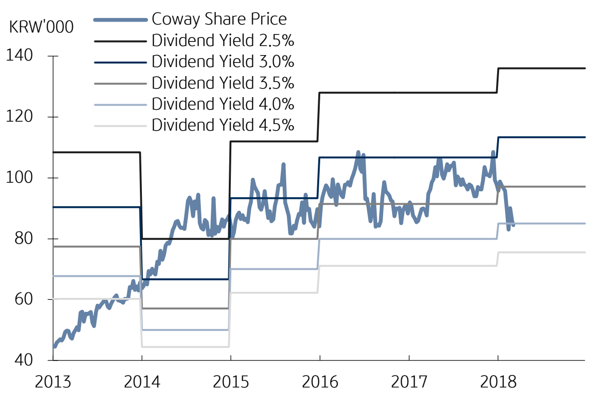
Coway is expected to keep enhancing shareholder value through dividend payouts backed by ample cash flow. 2017 DPS stood at KRW3,200, while the payout ratio and dividend yield stood at 72% and 3.3%, respectively, based on consolidated earnings. We project DPS to increase by KRW200 by year to reach KRW4,000 in 2021. The company has been cancelling treasury stocks after buying them over several times in a bid to return profits to shareholders (720,000 treasury stocks cancelled in 2013-14, 740,000 shares cancelled and KRW140bn worth of treasury stocks bought in 2016, 1.56mn treasury stocks cancelled and KRW100bn worth of treasury stocks bought in 2017, 26,000 treasury stocks cancelled in 2018).

Fig 11. Coway: DPS and dividend payout trend and estimate



Source: Company data, KB Securities estimates

Fig 12. Coway: Dividend payout ratio band



Source: Company data, KB Securities estimates

V. Earnings Trends and Projections

2018 consolidated OR and OP estimated to advance 9% YoY, respectively

We estimate 2018 consolidated OR and OP to reach KRW2.74tr (up 9% YoY) and KRW516.4bn (up 9% YoY), respectively. We estimate stand-alone (domestic wellness home appliance, exports, cosmetics) OR and OP at KRW2.47tr (up 7% YoY) and KRW513.8bn (up 7% YoY) and combined OR and OP of five subsidiaries (four overseas subsidiaries + Coway Entech) at KRW416.4bn (up 23% YoY) and KRW24.1bn (up 69% YoY), respectively.

1) We project Coway's domestic wellness home appliance sales at KRW2.08tr (up 7% YoY) in 2018. The number of total rental accounts is expected to climb 7% YoY to 5.31mn accounts. New rental sales (net orders) are estimated at 1.52 units, cancelled accounts at 589,000 units (annual average cancellation rate at 0.99%), and expiring accounts at 595,000 units. Accordingly, annual net account additions are estimated at 336,000 units. Coway's new clothing care product FWSS (slated for launch in May) is forecast to create new demand, but more importantly, robust net product orders in existing categories are expected to lead Coway's sales growth.

2) Overseas wellness home appliance earnings forecasts are as follows. We estimate ODM/dealer sales at KRW130.5bn (up 9% YoY), the combined OR of four overseas subsidiaries at KRW370.7bn (up 27% YoY), and their combined OP at KRW24.7bn (up 64% YoY) with the combined OP margin rising to 6.7% (up 1.5%p YoY). The Malaysian subsidiary's OR is projected to surge 32% YoY to KRW273.9bn (74% of four overseas subsidiaries' combined OR), leading Coway's overseas sales growth. Meanwhile, the US subsidiary's OR is expected to climb 12% YoY to KRW72.8bn.

3) Cosmetics sales are expected to pick up 7% YoY to KRW85.3bn, driven by the continued growth of door-to-door sales (door-to-door sales accounted for 65% of 2017 OR and retailer channel sales 35%). The cosmetics business is estimated to have reached BEP in 2H17 and will likely post a small positive OP in 2018.

Table 2. Coway: Consolidated earnings trend and estimate

(KRWbn)		1Q17	2Q17	3Q17	4Q17	1Q18E	2Q18E	3Q18E	4Q18E	2016	2017	2018E	2019E
Consol. OR		610.2	623.4	629.6	653.6	665.6	667.0	699.5	710.4	2,376.3	2,516.8	2,742.5	2,966.0
Stand-alone subsidiary		571.9	575.0	588.9	584.6	604.1	606.2	625.4	634.6	2,204.5	2,320.5	2,470.4	2,622.1
Malaysia		43.7	49.0	55.0	59.8	57.7	64.7	72.6	78.9	143.0	207.5	273.9	342.4
US		15.2	15.6	15.6	18.6	17.0	17.5	17.5	20.8	60.2	65.0	72.8	80.1
Other units		12.6	19.7	11.3	20.9	21.8	13.8	20.8	13.4	55.9	64.5	69.7	77.5
Adj. consol.		-33.3	-36.2	-41.5	-30.3	-35.0	-35.1	-36.8	-37.4	-108.1	-141.2	-144.3	-156.1
YoY (%)	Consol. OR	-2.2	12.3	7.9	6.4	9.1	7.0	11.1	8.7	2.6	5.9	9.0	8.1
	Stand-alone subsidiary	-1.0	10.0	7.0	5.7	5.6	5.4	6.2	8.6	2.0	5.3	6.5	6.1
	Malaysia	48.5	42.6	49.6	41.0	32.1	31.9	31.9	32.0	46.3	45.1	32.0	25.0
	US	-8.0	6.0	13.2	22.7	11.9	11.8	12.1	12.0	5.2	8.0	12.0	10.0
	Other units	23.8	223.9	6.6	-28.0	73.1	-30.1	83.9	-36.0	195.0	15.4	8.1	11.2
	Adj. consol.	Loss cont'd	Loss cont'd	Loss cont'd	Loss cont'd	Loss cont'd	Loss cont'd	Loss cont'd	Loss cont'd	Loss cont'd	Loss cont'd	Loss cont'd	Loss cont'd
Proportion (%)	Consol. OR	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	Stand-alone subsidiary	93.7	92.2	93.5	89.4	90.8	90.9	89.4	89.3	92.8	92.2	90.1	88.4
	Malaysia	7.2	7.9	8.7	9.1	8.7	9.7	10.4	11.1	6.0	8.2	10.0	11.5
	US	2.5	2.5	2.5	2.8	2.6	2.6	2.5	2.9	2.5	2.6	2.7	2.7
	Other units	2.1	3.2	1.8	3.2	3.3	2.1	3.0	1.9	2.4	2.6	2.5	2.6
	Adj. consol.	-5.5	-5.8	-6.6	-4.6	-5.3	-5.3	-5.3	-5.3	-4.5	-5.6	-5.3	-5.3
Consol. OR		120.9	120.6	124.2	107.1	129.8	133.7	135.5	117.4	338.8	472.7	516.4	561.0
Stand-alone subsidiary		123.0	125.2	127.0	103.2	131.1	133.2	136.1	113.3	368.7	478.4	513.8	551.0
Malaysia		2.3	3.2	5.0	7.0	5.5	6.1	6.9	7.5	6.7	17.5	26.0	34.2
US		0.2	0.0	0.4	-0.1	0.1	0.1	0.1	0.1	0.0	0.5	0.4	0.8
Other units		-1.7	-0.4	-2.3	0.7	-1.5	-0.2	-1.9	1.4	-0.9	-3.7	-2.3	-1.6
Adj. consol.		-2.9	-7.4	-5.9	-3.8	-5.4	-5.6	-5.6	-4.9	-36.6	-20.0	-21.5	-23.4
YoY (%)	Consol. OP	-2.2	919.4	16.1	11.1	7.3	10.8	9.2	9.7	-26.9	39.5	9.2	8.6
	Stand-alone subsidiary	-3.1	486.0	8.9	-0.6	6.6	6.4	7.2	9.8	-20.4	29.8	7.4	7.2
	Malaysia	91.7	113.3	177.8	218.2	138.3	92.0	37.9	7.1	9.8	161.2	48.7	31.6
	US	100.0	-100.0	TB	N/A	-57.4	N/A	-78.2	TB	-100.0	N/A	-27.2	120.0
	Other units	TR	Loss cont'd	Loss cont'd	TB	Loss cont'd	Loss cont'd	Loss cont'd	93.2	Loss cont'd	Loss cont'd	Loss cont'd	Loss cont'd
	Adj. consol.	Loss cont'd	Loss cont'd	Loss cont'd	Loss cont'd	Loss cont'd	Loss cont'd	Loss cont'd	Loss cont'd	Loss cont'd	Loss cont'd	Loss cont'd	Loss cont'd
OPM (%)	Consol. OP	19.8	19.3	19.7	16.4	19.5	20.0	19.4	16.5	14.3	18.8	18.8	18.9
	Stand-alone subsidiary	21.5	21.8	21.6	17.7	21.7	22.0	21.8	17.9	16.7	20.6	20.8	21.0
	Malaysia	5.3	6.5	9.1	11.7	9.5	9.5	9.5	9.5	4.7	8.4	9.5	10.0
	US	1.3	0.0	2.6	-0.5	0.5	0.5	0.5	0.5	0.0	0.8	0.5	1.0
	Other units	-13.5	-2.0	-20.3	3.3	-6.9	-1.7	-9.1	10.1	-1.6	-5.7	-3.2	-2.1
	Adj. consol.	8.6	20.5	14.2	12.5	15.4	15.9	15.3	13.1	33.9	14.1	14.9	15.0
Proportion (%)	Consol. OP	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	Stand-alone subsidiary	101.7	103.8	102.3	96.4	101.0	99.7	100.4	96.5	108.8	101.2	99.5	98.2
	Malaysia	1.9	2.7	4.0	6.5	4.2	4.6	5.1	6.4	2.0	3.7	5.0	6.1
	US	0.2	0.0	0.3	-0.1	0.1	0.1	0.1	0.1	0.0	0.1	0.1	0.1
	Other units	-1.4	-0.3	-1.9	0.7	-1.2	-0.2	-1.4	1.2	-0.3	-0.8	-0.4	-0.3
	Adj. consol.	-2.4	-6.2	-4.7	-3.5	-4.2	-4.2	-4.2	-4.2	-10.8	-4.2	-4.2	-4.2
GP		417.1	428.5	434.6	438.1	458.3	461.8	486.4	479.6	1,564.2	1,718.3	1,886.2	2,045.9
EBT		100.6	126.0	124.2	89.1	124.0	127.9	129.7	111.6	323.8	439.9	493.1	540.1
NP		75.4	95.2	93.4	61.6	90.5	93.3	94.7	81.5	243.3	325.6	360.0	394.3
NP (to parent)		75.5	95.3	93.5	61.8	90.6	93.4	94.8	81.5	243.6	326.1	360.4	394.7
EBITDA		178.9	178.9	183.3	185.8	197.3	201.2	203.1	184.9	571.9	727.0	786.5	837.5
YoY (%)	GP	0.1	20.4	11.1	9.3	9.9	7.8	11.9	9.5	-1.4	9.9	9.8	8.5
	EBT	-19.7	2,308.1	37.9	-13.7	23.2	1.4	4.5	25.3	-28.8	35.9	12.1	9.5
	NP	-20.8	3,331.5	38.0	-20.6	20.0	-2.0	1.4	32.2	-29.1	33.8	10.6	9.5
	NP (to parent)	-20.7	3,310.7	37.8	-20.6	20.0	-2.0	1.4	32.0	-29.0	33.8	10.5	9.5
	EBITDA	-1.4	154.8	10.8	20.1	10.3	12.4	10.8	-0.5	-17.2	27.1	8.2	6.5
GP margin (%)		68.4	68.7	69.0	67.0	68.9	69.2	69.5	67.5	65.8	68.3	68.8	69.0
EBT margin (%)		16.5	20.2	19.7	13.6	18.6	19.2	18.5	15.7	13.6	17.5	18.0	18.2
NP margin (%)		12.4	15.3	14.8	9.4	13.6	14.0	13.5	11.5	10.2	12.9	13.1	13.3
NP margin (to parent) (%)		12.4	15.3	14.8	9.5	13.6	14.0	13.6	11.5	10.3	13.0	13.1	13.3
EBITDA margin (%)		29.3	28.7	29.1	28.4	29.6	30.2	29.0	26.0	24.1	28.9	28.7	28.2

Source: Company data, KB Securities estimates

Table 3. Coway: Stand-alone earnings trend and estimate

(KRWbn)		1Q17	2Q17	3Q17	4Q17	1Q18E	2Q18E	3Q18E	4Q18E	2016	2017	2018E	2019E
Stand-alone OR		571.9	575.0	588.9	584.6	604.1	606.2	625.4	634.6	2,204.5	2,320.5	2,470.4	2,622.1
Domestic wellness appliance		483.0	500.8	500.8	496.4	503.7	517.6	523.6	533.3	1,912.0	1,981.0	2,078.2	2,175.6
Rental		369.5	379.5	378.5	378.5	386.4	388.6	392.0	405.4	1,492.6	1,506.0	1,572.3	1,657.9
Home care		25.9	30.2	35.1	31.6	29.7	34.7	40.4	36.4	105.4	122.8	141.2	158.2
Membership		37.8	36.7	35.9	34.3	33.7	32.8	31.9	31.0	167.5	144.7	129.4	118.7
Lump-sum payment		45.9	50.4	47.3	48.6	50.1	57.8	55.6	57.4	195.7	192.2	220.9	226.8
Other		3.9	3.9	4.0	3.4	3.7	3.7	3.8	3.2	18.6	15.2	14.4	14.0
Exports		68.0	55.5	68.6	67.6	78.0	68.6	81.1	79.2	217.0	259.7	306.9	355.2
Cosmetics		20.9	18.7	19.4	20.7	22.4	20.0	20.8	22.1	74.2	79.7	85.3	91.3
YoY (%)	Stand-alone OR	-1.0	10.0	7.0	5.7	5.6	5.4	6.2	8.6	2.0	5.3	6.5	6.1
	Domestic wellness appliance	-3.3	12.3	3.4	2.9	4.3	3.4	4.6	7.4	0.4	3.6	4.9	4.7
	Rental	-2.8	-1.2	3.0	4.9	4.6	2.4	3.6	7.1	0.1	0.9	4.4	5.4
	Home care	20.5	5.5	30.2	11.5	15.0	15.0	15.0	15.0	157.7	16.5	15.0	12.0
	Membership	-11.9	-13.5	-14.7	-14.3	-10.8	-10.7	-11.2	-9.6	-6.8	-13.6	-10.6	-8.3
	Lump-sum payment	-8.9	-6.7	11.0	-0.2	9.2	14.6	17.5	18.1	14.3	-1.8	14.9	2.7
	Other	-13.8	-13.4	-22.2	-24.7	-5.0	-5.0	-5.0	-5.0	-11.4	-18.6	-5.0	-3.0
	Exports	19.8	-7.1	42.6	29.1	14.8	23.5	18.2	17.2	45.4	19.7	18.2	15.7
	Cosmetics	4.0	8.3	6.9	10.8	7.0	7.0	7.0	7.0	-10.7	7.4	7.0	7.0
Proportion (%)	Stand-alone OR	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	Domestic wellness appliance	84.5	87.1	85.0	84.9	83.4	85.4	83.7	84.0	86.7	85.4	84.1	83.0
	Rental	64.6	66.0	64.3	64.7	64.0	64.1	62.7	63.9	67.7	64.9	63.6	63.2
	Home care	4.5	5.3	6.0	5.4	4.9	5.7	6.5	5.7	4.8	5.3	5.7	6.0
	Membership	6.6	6.4	6.1	5.9	5.6	5.4	5.1	4.9	7.6	6.2	5.2	4.5
	Lump-sum payment	8.0	8.8	8.0	8.3	8.3	9.5	8.9	9.0	8.9	8.3	8.9	8.7
	Other	0.7	0.7	0.7	0.6	0.6	0.6	0.6	0.5	0.8	0.7	0.6	0.5
	Exports	11.9	9.7	11.6	11.6	12.9	11.3	13.0	12.5	9.8	11.2	12.4	13.5
	Cosmetics	3.7	3.3	3.3	3.5	3.7	3.3	3.3	3.5	3.4	3.4	3.5	3.5
Stand-alone OP		123.0	125.2	127.0	103.2	131.1	133.2	136.1	113.3	368.7	478.4	513.8	551.0
YoY (%)		-3.1	486.0	8.9	-0.6	6.6	6.4	7.2	9.8	-20.4	29.8	7.4	7.2
OPM (%)		21.5	21.8	21.6	17.7	21.7	22.0	21.8	17.9	16.7	20.6	20.8	21.0
Rental key assumptions													
Total contracts ('000)		4,875.2	4,922.7	4,935.2	4,969.9	5,019.1	5,112.3	5,204.3	5,305.6	4,849.5	4,969.9	5,305.6	5,537.7
New sales ('000)		349.6	396.9	317.9	317.4	355.5	391.0	371.5	401.2	1,400.9	1,381.7	1,519.1	1,565.8
Cancellations ('000)		174.1	175.2	147.7	128.4	144.1	145.6	148.3	150.9	700.6	625.4	588.9	635.2
Due to mature ('000)		149.8	174.1	157.7	154.3	162.2	152.2	131.3	149.0	683.2	635.9	594.6	698.4
ARPU (avg. month) (KRW)		27,105	27,876	27,971	27,606	27,772	27,855	27,939	28,023	27,509	27,646	27,794	27,914
Cancellation (avg. month) (%)		1.2	1.2	1.0	0.9	1.0	1.0	1.0	1.0	1.2	1.1	1.0	1.0
Prop. Of maturing contracts (%)		52.6	52.6	53.7	49.8	51.0	51.0	51.0	51.0	53.7	52.2	51.0	52.5
Membership key assumptions													
Total contracts ('000)		837.6	823.0	809.9	778.4	755.0	732.4	710.4	689.1	854.3	778.4	689.1	648.7
ARPU (avg. month) (KRW)		14,912	14,749	14,657	14,383	14,670	14,700	14,729	14,758	15,568	14,776	14,696	14,791
Lump-sum key assumptions													
New sales ('000)		54.6	77.5	62.1	56.3	58.0	66.7	64.1	66.0	245.2	250.6	254.8	259.6
ARPU (KRW)		840,615	650,443	762,141	862,396	864,121	865,849	867,581	869,316	798,124	767,223	866,788	873,674
Rental asset obsolescence osses (consol.) (KRWbn)		11.4	10.6	11.7	9.8	10.7	9.7	12.6	11.6	47.4	43.5	44.5	50.0

Source: Company data, KB Securities estimates

Profit & Loss

(KRWbn)	2015A	2016A	2017E	2018E	2019E
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
Operating revenue	2,315	2,376	2,517	2,743	2,966
Cost of sales	729	812	799	856	920
Gross profit	1,586	1,564	1,718	1,886	2,046
SG&A expenses	1,123	1,225	1,246	1,370	1,485
Operating profit	463	339	473	516	561
EBITDA	691	572	727	787	838
Non-operating accounts	-9	-15	-33	-23	-21
Interest income	1	1	1	1	1
Interest expenses	4	6	14	17	14
Profit on equity method	0	0	0	0	0
Net other non-operating income	-6	-10	-22	-8	-8
Profit before tax	455	324	440	493	540
Income tax expense	111	80	114	133	146
Net profit	343	243	326	360	394
NP to parent	343	244	326	360	395
Adj. net profit	343	244	326	360	395

Operating Statistics & Ratios

(%)	2015A	2016A	2017E	2018E	2019E
OR growth	7.2	2.6	5.9	9.0	8.1
OP growth	27.1	-26.9	39.5	9.2	8.6
EBITDA growth	19.6	-17.2	27.1	8.2	6.5
NP growth of parent	37.4	-29.0	33.9	10.5	9.5
GP margin	68.5	65.8	68.3	68.8	69.0
OP margin	20.0	14.3	18.8	18.8	18.9
EBITDA margin	29.8	24.1	28.9	28.7	28.2
EBT margin	19.6	13.6	17.5	18.0	18.2
NP margin	14.8	10.2	12.9	13.1	13.3

Statement of financial position

(KRWbn)	2015A	2016A	2017E	2018E	2019E
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
Total assets	1,775	1,968	2,113	2,134	2,226
Current assets	653	733	821	782	840
Cash and cash equivalents	116	66	134	51	58
Current financial assets	9	76	45	41	39
Trade receivables	256	293	316	348	383
Inventories	70	70	74	79	84
Other current assets	202	228	251	264	277
Non-current assets	1,122	1,235	1,293	1,353	1,386
Investment assets	75	86	89	89	89
Property, plant and equipment	700	669	726	785	818
Intangible assets	169	183	183	183	184
Other non-current assets	178	295	295	295	295
Total liabilities	537	784	1,138	1,038	989
Current liabilities	473	735	1,084	985	938
Trade payables	60	59	59	61	63
Short-term financial liabilities	80	340	646	517	465
Other current liabilities	331	317	349	383	387
Non-current liabilities	64	49	55	53	51
Non-current financial liabilities	8	12	12	10	8
Other non-current liabilities	19	27	28	28	28
Total equity	1,238	1,183	975	1,096	1,238
Issued capital	41	41	41	41	41
Share premium	128	127	129	129	129
Other equity interest	-103	-159	-146	-146	-146
Accumulated other comprehensive income	-5	-6	-6	-6	-6
Retained earnings	1,177	1,180	957	1,078	1,220
Equity attributable to owners of parent	1,237	1,183	975	1,096	1,239
Non-controlling Interests	1	1	0	0	-1

Cash Flow

(KRWbn)	2015A	2016A	2017E	2018E	2019E
Cash flow from operating activities	513	358	556	512	521
Net profit	343	243	326	360	394
Depreciation & amortization	228	233	254	270	277
Other non-cash adjustments	221	233	199	133	146
Investments in working capital	-195	-232	-106	-119	-149
Decrease(Increase) in Receivables	-58	-62	-38	-32	-35
Decrease(Increase) in Inventories	-5	-4	-6	-5	-6
Increase(Decrease) in Payables	6	-4	14	2	2
Other operating cash flow	-83	-120	-117	-133	-147
Cash flow from investing activities	-330	-368	-239	-326	-308
Capital expenditure	-320	-313	-345	-320	-300
Investments in intangibles	-5	-13	-10	-10	-10
Changes in investment assets	3	-1	-1	0	0
Other investment cash flow	-7	1	68	0	0
Cash flow from financing activities	-213	-40	-249	-270	-206
Proceeds from (repayments of) debt	-77	264	308	-131	-54
Changes in equity	5	-93	-127	0	0
Dividends paid	-148	-208	-409	-179	-188
Other financing cash flow	7	-3	-21	40	36
Other cash flow	-1	0	0	0	0
Increase/decrease in cash	-31	-50	68	-84	7
Cash and cash equivalents at FYE	116	66	134	51	58
Free cash flow	193	45	211	192	221
Net cash flow	51	-248	-269	43	59
Net cash (net debt)	38	-210	-479	-436	-377

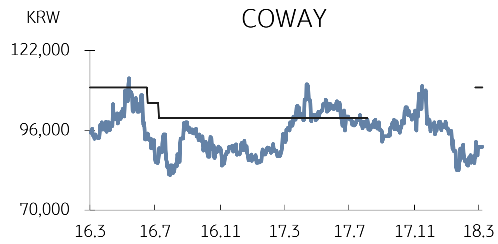
Main Ratio

(X, %, KRW)	2015A	2016A	2017E	2018E	2019E
Multiples					
PER	18.9	27.9	22.4	17.8	16.2
PBR	5.2	5.7	7.5	5.8	5.2
PSR	2.8	2.9	2.9	2.3	2.2
EV/EBITDA	9.3	12.2	10.7	8.8	8.2
EV/EBIT	13.9	20.5	16.5	13.4	12.2
Dividend yield, ordinary (%)	3.3	3.6	3.3	3.9	4.2
EPS	4,449	3,167	4,358	4,883	5,348
BPS	16,044	15,486	13,031	14,855	16,782
SPS	30,019	30,890	33,639	37,161	40,190
DPS (Annual, Ordnry.)	2,800	3,200	3,200	3,400	3,600
Cash dividends payout ratio (%)	60.6	96.3	71.2	67.1	64.9
Operating performance					
ROE	30.2	20.1	30.2	34.8	33.8
ROA	20.2	13.0	16.0	17.0	18.1
ROIC	32.3	20.6	26.1	26.7	27.4
Financial structure (%)					
Total liab./equity	43.4	66.3	116.7	94.7	79.9
Net debt/equity	Net Cash	17.8	49.1	39.8	30.5
Current Ratio	1.4	1.0	0.8	0.8	0.9
Interest coverage (x)	106.8	55.5	33.4	31.1	40.0
Activity ratios	0	0	0	0	0
Asset turnover (x)	1.4	1.3	1.2	1.3	1.4
Receivables turnover (x)	10.0	8.7	8.3	8.3	8.1
Inventory turnover (x)	35.2	33.9	35.0	36.0	36.3

Source: COWAY, KB Securities estimates

Disclosures

Rating and Target Price Changes (Share price —, Target Price —)



COWAY (021240)

Date	Rating	Target Price (KRW)	Differential (%) Avg.	Max/Min
16-07-13	Buy	105,000	-14.50	-9.90
16-08-03	Buy	100,000	-10.10	-1.40
17-02-03	6 month later	100,000	-5.16	11.00
17-05-24	Hold	100,000	-0.38	-7.70
17-11-24	6 month later	100,000	1.17	0.00
18-03-21	Buy	110,000		

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Classification and Standards for Investment Rating

Investment Rating for Company
(based on estimation of six-month absolute returns)

Buy: +15% or beyond	Hold: Between 15% and -15%	Sell: -15% or beyond

Note: KB Securities's classification of investment ratings has shifted from four stages (Strong BUY, BUY, Marketperform, Underperform) to three stages (Buy, Hold, Sell) based on Korean reports since February 23, 2017.

Investment Rating for Industry
(based on estimation of six-month absolute returns)

Positive:	Neutral:	Negative:
To outperform market	To match market performance	To underperform market

Notes: The industry rating system of KB Securities has shifted from (Overweight, Neutral, Underweight) to (Positive, Neutral, Negative) as of Jun 28, 2017

Proportion of investment rating (as of December 31, 2017)

Buy	Hold	Sell
71.8	28.2	-

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

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