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# Company Update



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Analyst

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## AT A GLANCE

SELL HOLD **BUY**

**Target price** KRW110,000 (21.8%)

**Current price** KRW90,300

Market cap KRW6.7/USD5.8b  
Shares (float) 73,799,619 (72.7%)  
52-week high/low KRW97,000/KRW63,000  
Avg daily trading value (60-day) KRW16.1b/USD13.8m

## ONE-YEAR PERFORMANCE

	1M	6M	12M
WJ Coway (%)	7.9	2.8	43.3
Vs Kospi (%pts)	5.7	8.9	36.7

## KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	110,000	90,000	22.2%
2019E EPS	5,261	5,121	2.7%
2020E EPS	5,978	5,935	0.7%

## SAMSUNG vs THE STREET

No of estimates	5
Target price	104,000
Recommendation	4.0

BUY★★★: 5 / BUY: 4 / HOLD: 3 / SELL: 2 / SELL★★★: 1

## WJ Coway (021240)

### Easing concerns provide opportunity

- Woongjin Coway reported an in-line 3Q operating profit of KRW140.3b.
- Key to its share performance will be the capabilities of its new largest shareholder.
- We raise our 12-month target price by 22% to KRW110,000 and maintain BUY.

### WHAT'S THE STORY?

**3Q operating profit of KRW140.3b meets consensus:** Woongjin Coway reported consolidated 3Q sales and operating profit of KRW759.6b (up 13.4% y-y) and KRW140.3b (up 7.6% y-y), respectively, with both figures meeting consensus and both making new quarterly highs. The strength is attributable to: 1) record-high rental sales (520,000 units); and 2) a moderate churn rate of 0.97% (down 0.05%pts y-y and 0.04%pts q-q); which resulted in a decline in rental asset disposal losses). The number of rental accounts reached 7.63m, breaking down as 6.24m domestic (up 6.7% y-y) and 1.39m overseas (up 35.3% y-y). Even when excluding the rental account figure from Woongjin Rental (74,000; Woongjin Coway started reflecting the subsidiary in its earnings from August), the number is still sound. In the overseas markets: 1) the number of rental accounts at the Malaysian and US subsidiaries grew again y-y; and 2) ODM/dealer sales rose 13.5% y-y, led by client diversification. The only disappointment in 3Q was a 16.6% fall in operating profit at the Malaysian subsidiary, though this stemmed from reclassification of accounting items—ie, lump-sum booking of provisioning for rental assets (KRW9b; previously booked as non-operating costs) under SG&A costs. Meanwhile, overall net profit grew 17.4% y-y to beat consensus thanks mainly to forex-related gains of KRW13b.

**Largest shareholder change positive, but capabilities unknown:** Shares in Woongjin Coway have been volatile over the past year, as uncertainties over its future business strategy and earnings outlook mounted prior to a change in its largest shareholder. Netmarble's decision to take over Woongjin Coway is a positive in that it dissipates uncertainty surrounding the largest shareholder switch.

(Continued on the next page)

### SUMMARY OF 3Q RESULTS

(KRWb)	3Q19	Chg		Diff (%)	
		(% y-y)	(% q-q)	Samsung	Consensus
Sales	759.6	13.4	0.5	0.4	2.0
Operating profit	140.3	7.6	1.5	(1.3)	(1.0)
Pre-tax profit	152.3	28.9	11.3	15.0	13.6
Net profit	110.7	17.5	8.7	10.0	7.7
<b>Margins (%)</b>					
Operating profit	18.5				
Pre-tax profit	20.1				
Net profit	14.6				

Source: Company data, Samsung Securities estimates

### VALUATION SUMMARY

	2018	2019E	2020E
<b>Multiples (x)</b>			
P/E	19.1	17.2	15.1
P/B	6.0	5.2	4.5
EV/EBITDA	9.3	8.8	7.9
Div yield (%)	4.0	4.0	4.4
EPS growth (% y-y)	9.4	11.1	13.6
ROE (%)	33.8	34.4	32.9
<b>Per-share data (KRW)</b>			
EPS	4,735	5,261	5,978
BVPS	15,074	17,479	19,961
DPS	3,600	3,600	4,000

Unlike existing largest shareholder Woongjin Group and other promising preliminary bidders, Netmarble boasts strong capital power, and thus is unlikely to carry out restructuring. As such, we believe that Woongjin Coway's earnings will stabilize further. However, Netmarble's lack of understanding of the rental industry is a risk factor. As we said in our August report (Household Goods: Whatever you want, rent it!), growth of the domestic rental market is likely to be driven by portfolio diversification. How successfully the new largest shareholder will be able to handle this should be key to Woongjin Coway's performance.

**Raising target price by 22%:** To reflect the dissipation of uncertainties surrounding the largest shareholder change, business strategy, and earnings outlook, we remove the 20% discount we applied to our fair value estimate, leading us to raise our 12-month target price by 22% to KRW110,000 (based on a DCF valuation, which assumes a WACC of 5.6%, and is derived by applying a perpetual growth rate of 1%, risk-free rate of 1.2%, market premium of 8.4%, and beta of 0.5x). The shares are trading at a 2020 P/E of 15x, a discount of more than 30% to the 2013-2017 average (of 22x; a high-growth period). For the shares to re-rate, the firm needs to: 1) boost the number of domestic rental accounts (which it could do by diversifying its portfolio); 2) expand its overseas product range; and 3) enter new overseas markets.

### DCF valuation

(KRWb)	2018	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
EBIT	520	548	604	666	735	806	814	822	830	838	847
- Tax on EBIT	132	142	157	174	191	210	212	214	216	218	220
- Capex	400	429	464	498	503	508	513	518	523	529	534
- Net working capital increase (decrease)	-41	12	36	28	28	29	29	29	30	30	30
+ Depreciation expenses	247	268	306	346	349	353	356	360	363	367	371
+ Amortization expenses	9	8	8	9	8	7	7	7	8	8	8
Free cash flow	285	241	262	321	369	419	424	428	432	436	441
Terminal value	9,742										
Terminal growth (%)	1%										
NPV of FCFF	2,756										
PV of terminal value	5,666										
Enterprise value	8,422										
Estimated value per share (KRW)	112,578										
Discount (%)*	0										
Target price (KRW)	110,000										
Current price (KRW)	90,300										
Upside (%)	23.3										

Source: Company data, Samsung Securities estimates

### Key assumptions

	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	2018	2019E	2020E
<b>Accounts ('000)</b>											
Total	5,784	5,842	5,848	5,900	5,995	6,087	6,241	6,330	5,900	6,330	6,510
Chg (% y-y)	1.3	1.7	1.8	2.6	3.6	4.2	6.7	7.3	2.6	7.3	2.8
Rental	5,032	5,106	5,154	5,230	5,350	5,458	5,636	5,727	5,230	5,727	5,967
Chg (% y-y)	3.2	3.7	4.4	5.2	6.3	6.9	9.3	9.5	5.2	9.5	4.2
Membership	752	736	694	670	645	628	605	603	670	603	543
Chg (% y-y)	(10.2)	(10.6)	(14.3)	(13.9)	(14.3)	(14.6)	(12.8)	(10.0)	(13.9)	(10.0)	(10.0)
Rental cancellations	152	167	156	169	159	163	160	163	644	645	669
Monthly churn (%)	1.02	1.11	1.02	1.10	1.02	1.01	0.98	0.97	1.08	1.03	0.97
Rental ARPU (KRW)	25,088	24,984	24,717	24,477	23,971	23,919	23,463	23,253	24,343	22,884	22,173
Chg (% y-y)	(0.7)	(2.8)	(3.3)	(3.6)	(4.5)	(4.3)	(5.1)	(5.0)	(3.6)	(6.0)	(3.1)

Source: Company data, Samsung Securities estimates

## Results and forecasts

(KRWb)	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19E	2018	2019E	2020E
<b>Consolidated sales</b>	<b>648</b>	<b>678</b>	<b>670</b>	<b>712</b>	<b>709</b>	<b>755</b>	<b>760</b>	<b>817</b>	<b>2,707</b>	<b>3,042</b>	<b>3,353</b>
<b>Parent sales</b>	<b>572</b>	<b>596</b>	<b>595</b>	<b>633</b>	<b>607</b>	<b>635</b>	<b>651</b>	<b>678</b>	<b>2,395</b>	<b>2,571</b>	<b>2,691</b>
Household electronics	493	502	495	514	515	530	532	539	2,005	2,115	2,177
Rental	379	383	382	384	385	392	397	399	1,528	1,573	1,588
Financial lease	39	41	45	60	56	68	73	77	185	274	350
Membership	32	31	29	28	28	27	27	25	121	106	93
Outright sales	44	47	38	41	46	44	35	37	171	162	146
Exports	54	72	80	96	70	84	98	118	302	370	431
Cosmetics	21	19	18	19	19	19	19	18	75	75	74
Others	3	3	3	3	3	3	3	3	13	11	10
<b>Overseas</b>	<b>76</b>	<b>82</b>	<b>74</b>	<b>79</b>	<b>103</b>	<b>120</b>	<b>109</b>	<b>139</b>	<b>312</b>	<b>471</b>	<b>662</b>
<b>Sales growth (% y-y)</b>											
<b>Consolidated sales</b>	<b>6.2</b>	<b>8.8</b>	<b>6.4</b>	<b>8.9</b>	<b>9.5</b>	<b>11.4</b>	<b>13.4</b>	<b>14.8</b>	<b>7.6</b>	<b>12.3</b>	<b>10.2</b>
<b>Parent sales</b>	<b>(0.1)</b>	<b>3.6</b>	<b>1.1</b>	<b>8.2</b>	<b>6.1</b>	<b>6.6</b>	<b>9.3</b>	<b>7.2</b>	<b>3.2</b>	<b>7.3</b>	<b>4.7</b>
Household electronics	3.0	1.0	(0.4)	4.3	4.3	5.5	7.4	4.7	2.0	5.5	2.9
Rental	2.5	0.9	1.0	1.5	1.6	2.3	3.8	4.0	1.4	2.9	1.0
Financial lease	49.3	35.3	28.7	91.1	45.9	65.5	61.4	27.1	50.7	47.9	27.8
Membership	(14.9)	(15.4)	(18.1)	(17.0)	(13.5)	(13.3)	(9.1)	(12.7)	(16.3)	(12.2)	(12.7)
Outright sales	(4.5)	(6.2)	(19.3)	(14.8)	4.0	(7.9)	(7.2)	(9.8)	(11.2)	(5.1)	(9.7)
Exports	(20.1)	29.3	16.5	42.7	29.1	16.6	22.5	22.7	16.5	22.3	16.5
Cosmetics	(1.6)	(0.7)	(9.7)	(9.2)	(8.1)	1.0	5.7	(2.1)	(5.3)	(1.1)	(0.8)
Others	(17.5)	(12.8)	(26.1)	(6.3)	(6.0)	(14.8)	(8.9)	(13.6)	(16.1)	(10.9)	(14.8)
<b>Overseas</b>	<b>99.2</b>	<b>70.2</b>	<b>82.8</b>	<b>14.4</b>	<b>34.7</b>	<b>46.1</b>	<b>46.1</b>	<b>76.4</b>	<b>58.9</b>	<b>51.0</b>	<b>40.6</b>
Operating profit	131	129	130	129	135	138	140	135	520	548	604
Parent	123	120	121	114	122	111	137	120	477	489	514
Overseas	8	9	10	15	13	27	4	15	43	59	90
Operating margin (%)	20.3	19.1	19.5	18.1	19.1	18.3	18.5	16.5	19.2	18.0	18.0
Parent	21.5	20.1	20.3	18.0	20.2	17.4	21.0	17.6	19.9	19.0	19.1
Overseas	10.8	11.5	13.2	19.2	12.4	22.9	3.3	10.9	13.7	12.5	13.6
Growth (% y-y)	8.6	7.2	5.0	20.3	2.9	6.9	7.6	4.5	10.0	5.5	10.2
Parent	0.1	(4.3)	(5.0)	10.1	(0.6)	(7.6)	13.3	5.2	(0.2)	2.5	5.1
Overseas	n/a	n/a	n/a	n/a	55.7	190.9	(63.2)	(0.1)	n/a	38.5	52.3
Pre-tax profit	128	123	118	100	136	137	152	121	469	546	585
Tax	33	32	24	30	35	35	42	29	119	141	141
Net profit	95	91	94	70	100	102	111	92	350	405	445
Net margin (%)	14.7	13.4	14.1	9.8	14.2	13.5	14.6	11.3	12.9	13.3	13.3

Source: Company data, Samsung Securities estimates

## Income statement

Year-end Dec 31 (KRWb)	2017	2018	2019E	2020E	2021E
<b>Sales</b>	<b>2,517</b>	<b>2,707</b>	<b>3,042</b>	<b>3,353</b>	<b>3,612</b>
Cost of goods sold	798	878	1,017	1,112	1,192
<b>Gross profit</b>	<b>1,718</b>	<b>1,829</b>	<b>2,025</b>	<b>2,241</b>	<b>2,421</b>
Gross margin (%)	68.3	67.6	66.6	66.8	67.0
SG&A expenses	1,246	1,309	1,476	1,636	1,754
<b>Operating profit</b>	<b>473</b>	<b>520</b>	<b>548</b>	<b>604</b>	<b>666</b>
Operating margin (%)	18.8	19.2	18.0	18.0	18.4
<b>Non-operating gains (losses)</b>	<b>(33)</b>	<b>(51)</b>	<b>(2)</b>	<b>(19)</b>	<b>(19)</b>
Financial profit	1	1	8	9	10
Financial costs	12	18	26	25	25
Equity-method gains (losses)	0	0	0	0	0
Other	(22)	(35)	15	(2)	(4)
<b>Pre-tax profit</b>	<b>440</b>	<b>469</b>	<b>546</b>	<b>585</b>	<b>647</b>
Taxes	114	119	141	141	155
Effective tax rate (%)	26.0	25.3	25.8	24.0	24.0
Profit from continuing operations	326	350	405	445	492
Profit from discontinued operations	0	0	0	0	0
<b>Net profit</b>	<b>326</b>	<b>350</b>	<b>405</b>	<b>445</b>	<b>492</b>
Net margin (%)	12.9	12.9	13.3	13.3	13.6
Net profit (controlling interests)	326	350	405	445	493
Net profit (non-controlling interests)	(0)	(0)	1	(0)	(1)
EBITDA	708	775	825	919	1,021
EBITDA margin (%)	28.1	28.6	27.1	27.4	28.3
EPS (parent-based) (KRW)	4,328	4,735	5,482	6,030	6,676
EPS (consolidated) (KRW)	4,321	4,730	5,490	6,029	6,663
Adjusted EPS (KRW)*	4,328	4,735	5,261	5,978	6,595

## Cash flow statement

Year-end Dec 31 (KRWb)	2017	2018	2019E	2020E	2021E
<b>Cash flow from operations</b>	<b>554</b>	<b>539</b>	<b>666</b>	<b>726</b>	<b>802</b>
Net profit	326	350	405	445	492
Non-cash profit and expenses	476	541	426	481	517
Depreciation	227	247	268	306	346
Amortization	8	9	8	8	9
Other	241	286	150	167	163
Changes in A/L from operating activities	(148)	(237)	2	(48)	(40)
<b>Cash flow from investments</b>	<b>(290)</b>	<b>(394)</b>	<b>(432)</b>	<b>(465)</b>	<b>(499)</b>
Change in tangible assets	(323)	(388)	(429)	(464)	(498)
Change in financial assets	17	(49)	(1)	(1)	(1)
Other	17	43	(1)	(0)	0
<b>Cash flow from financing</b>	<b>(218)</b>	<b>(187)</b>	<b>(233)</b>	<b>(261)</b>	<b>(292)</b>
Change in debt	332	59	37	38	40
Change in equity	2	1	0	0	0
Dividends	(409)	(231)	(266)	(295)	(325)
Other	(143)	(16)	(4)	(4)	(8)
Change in cash	44	(41)	1	0	11
Cash at beginning of year	66	110	69	70	70
Cash at end of year	110	69	70	70	81
<b>Gross cash flow</b>	<b>802</b>	<b>891</b>	<b>831</b>	<b>926</b>	<b>1,009</b>
<b>Free cash flow</b>	<b>217</b>	<b>139</b>	<b>236</b>	<b>262</b>	<b>304</b>

Note: \* Excluding one off items, \*\* Fully diluted, excluding one-off items

\*\*\* From companies subject to equity-method valuation

Source: Company data, Samsung Securities estimates

## Balance sheet

Year-end Dec 31 (KRWb)	2017	2018	2019E	2020E	2021E
<b>Current assets</b>	<b>791</b>	<b>844</b>	<b>853</b>	<b>914</b>	<b>977</b>
Cash & equivalents	110	69	70	70	81
Accounts receivable	315	302	334	370	400
Inventories	75	103	99	112	125
Other current assets	292	370	350	361	372
<b>Fixed assets</b>	<b>1,367</b>	<b>1,535</b>	<b>1,752</b>	<b>1,927</b>	<b>2,112</b>
Investment assets	56	58	57	57	58
Tangible assets	712	781	933	1,082	1,226
Intangible assets	184	160	162	162	162
Other long-term assets	415	536	601	626	667
<b>Total assets</b>	<b>2,159</b>	<b>2,379</b>	<b>2,605</b>	<b>2,841</b>	<b>3,089</b>
<b>Current liabilities</b>	<b>1,125</b>	<b>1,234</b>	<b>1,282</b>	<b>1,340</b>	<b>1,392</b>
Accounts payable	54	62	72	78	84
Short-term debt	670	731	768	806	846
Other current liabilities	401	441	443	456	462
<b>Long-term liabilities</b>	<b>52</b>	<b>57</b>	<b>61</b>	<b>60</b>	<b>59</b>
Bonds & long-term debt	12	10	10	10	10
Other long-term liabilities	40	47	51	50	49
<b>Total liabilities</b>	<b>1,177</b>	<b>1,291</b>	<b>1,343</b>	<b>1,400</b>	<b>1,451</b>
<b>Owners of parent equity</b>	<b>982</b>	<b>1,088</b>	<b>1,262</b>	<b>1,442</b>	<b>1,638</b>
Capital stock	41	41	41	41	41
Capital surplus	129	130	130	130	130
Retained earnings	963	967	1,141	1,320	1,517
Other	(151)	(49)	(49)	(49)	(49)
<b>Non-controlling interests' equity</b>	<b>0</b>	<b>(0)</b>	<b>(0)</b>	<b>(0)</b>	<b>(0)</b>
<b>Total equity</b>	<b>982</b>	<b>1,088</b>	<b>1,262</b>	<b>1,441</b>	<b>1,638</b>
Net debt	513	567	597	630	654

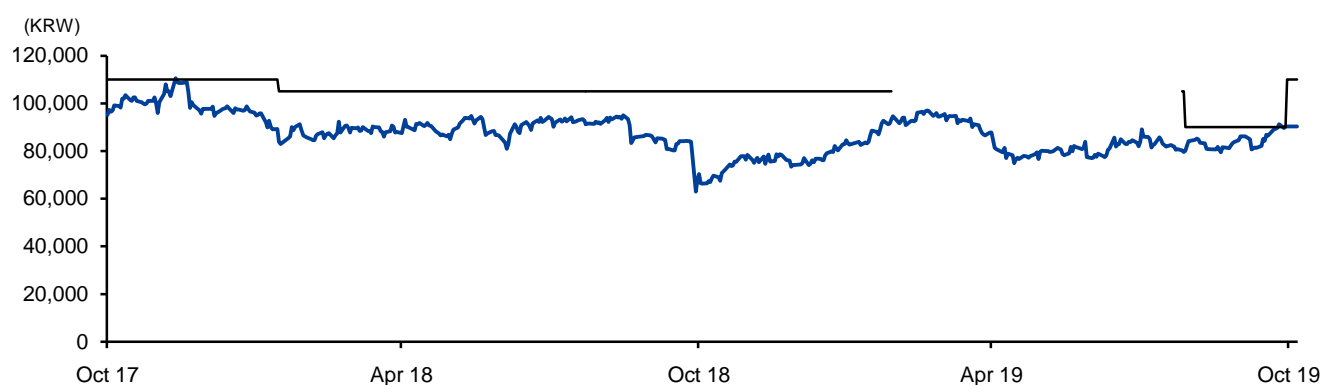
## Financial ratios

Year-end Dec 31	2017	2018	2019E	2020E	2021E
<b>Growth (%)</b>					
Sales	5.9	7.6	12.3	10.2	7.7
Operating profit	39.5	10.0	5.5	10.2	10.2
Net profit	33.8	7.4	15.8	9.8	10.5
Adjusted EPS**	36.6	9.4	11.1	13.6	10.3
<b>Per-share data (KRW)</b>					
EPS (parent-based)	4,328	4,735	5,482	6,030	6,676
EPS (consolidated)	4,321	4,730	5,490	6,029	6,663
Adjusted EPS**	4,328	4,735	5,261	5,978	6,595
BVPS	13,619	15,074	17,479	19,961	22,683
DPS (common)	3,200	3,600	3,600	4,000	4,400
<b>Valuations (x)</b>					
P/E***	20.9	19.1	17.2	15.1	13.7
P/B***	6.6	6.0	5.2	4.5	4.0
EV/EBITDA	10.1	9.3	8.8	7.9	7.2
<b>Ratios (%)</b>					
ROE	30.1	33.8	34.4	32.9	32.0
ROA	15.8	15.4	16.3	16.3	16.6
ROIC	24.6	25.1	23.7	23.5	23.4
Payout ratio	71.2	74.2	64.3	64.9	64.5
Dividend yield (common)	3.5	4.0	4.0	4.4	4.9
Net debt to equity	52.2	52.1	47.3	43.7	39.9
Interest coverage (x)	38.3	29.2	31.2	38.0	39.0

## Compliance notice

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- As of Oct 29, 2019, Samsung Securities' holdings of shares and debt instruments convertible into shares of each company covered in this report would not, if such debt instruments were converted, exceed 1% of each company's outstanding shares.
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## Target price changes in past two years



## Rating changes over past two years (adjusted share prices)

Date	2017/8/1	2018/2/13	2019/2/13	8/28	10/30
Recommendation	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	110,000	105,000	105,000	90,000	110,000
Gap* (average)	(10.52)	(18.92)	(14.67)	(6.26)	
(max or min)**	0.45	(9.52)	(11.71)	1.44	

Note: \* [(average, maximum, or minimum share price over duration of target price minus target price) / target price] x 100%

\*\* Maximum/minimum share price if new target is higher/lower than market close on the business day prior to target price change

Samsung Securities uses the following investment ratings.

### Company

<b>BUY</b>	Expected to increase in value by 10% or more within 12 months and is highly attractive within sector
<b>HOLD</b>	Expected to increase/decrease in value by less than 10% within 12 months
<b>SELL</b>	Expected to decrease in value by 10% or more within 12 months

### Industry

<b>OVERWEIGHT</b>	Expected to outperform market by 5% or more within 12 months
<b>NEUTRAL</b>	Expected to outperform/underperform market by less than 5% within 12 months
<b>UNDERWEIGHT</b>	Expected to underperform market by 5% or more within 12 months

## Percentage of ratings in 12 months prior to Sep 30, 2019

BUY (76.6%) | HOLD (23.4%) | SELL (0%)

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