

# Coway (021240 KS)

## Consumer durables



Jin-hyeob Lee

+822 3770 5659

jinhyeob.lee@yuantakorea.com

Rating	<b>HOLD (M)</b>
Target price	<b>88,000 (D)</b>
Current price (Apr 22)	<b>W59,900</b>
Upside potential	<b>47%</b>

Market cap (Wbn)	4,421
Shares outstanding	73,799,619
Avg daily T/O (2M, Wbn)	52
Avg daily volume (2M, shrs)	643,395
52-week high (won)	96,500
52-week low (won)	48,250
Foreign ownership (%)	60.5
Major shareholders (%)	
Netmarble & others	25.2

## Stock performance

(%)	1M	3M	12M
Absolute	9.7	(33.1)	(34.0)
Relative	(9.4)	(20.1)	(22.9)
Abs (US\$)	11.0	(36.8)	(38.9)

## 1Q20 preview: relatively stable

### 1Q20 preview: earnings likely decent despite coronavirus

- Coway likely posted 1Q20 sales of W769.9bn (+8.6% YoY) and OP of W129bn (-4.6% YoY), missing consensus of W134.6bn slightly.
- Despite the coronavirus outbreak, the rental business in Korea did not come under much pressure. However, due to a labor strike of Customer Satisfaction Doctors (CS Doctors, the company's product installation and service personnel), aftersales services and installation were delayed. This pushed up churn rate (0.97% in 3Q19 → 1.04% in 4Q19 → 1.1% in 1Q20E), while net rental account additions likely came to only 80,000 (-33% YoY) due to base effect from strong sales of air purifiers in 1Q19.
- The Malaysia subsidiary's sales likely came to W149.5bn (+32.9% YoY) and OP W19.8bn (+3.9% YoY). Although sales grew, YoY profit growth is unlikely to be as strong, as reserves for churn (W3bn per quarter) have been booked since 3Q19. Net rental account additions in Malaysia likely slowed to 70,000 (-16% YoY), as rental business operations were hampered by the travel ban imposed by the government from Mar 18 to stop the spread of coronavirus. Malaysia's travel restrictions are slated to end on Apr 28, but given that they have already been extended twice, a further extension is possible. In this sense, we expect the impact of the coronavirus on its Malaysia subsidiary to be felt fully in 2Q20.

### Uncertainties lingering

- The company's announcement of its changed dividend policy dispelled uncertainties regarding its dividend policy. Under the new policy, the company will pay out 40% of its annual free cash flow as dividends once at the end of the year, with dividend payout ratio kept at 20% or below. We estimate 2020 DPS at W1,100.
- While uncertainties regarding dividends have disappeared, it remains unclear where the company is headed and how it will utilize funds from reduced dividends after its change of ownership. Thus, the company needs to share its plans with shareholders. In addition, the transfer of its CS Doctors to permanent employee status is also set to increase expenses. We recommend investors to maintain a conservative approach. We maintain BUY and revise down our target price from W100,000 to W88,000 to reflect lower earnings estimates.

## Quarterly earnings

(Wbn)	1Q20E	% YoY	% QoQ	Consens	vs consens (%)
Sales	770	8.6	-3.1	770	-0.1
OP	129	-4.6	189.1	135	-4.2
Pre-tax net profit	122	-10.2	353.5	132	-7.6
Net profit, CI	88	-12.8	344.4	98	-10.8
OPM (%)	16.8	-2.3 %pt	+11.2 %pt	17.5	-0.7 %pt
NPM (%)	11.4	-2.8 %pt	+8.9 %pt	12.8	-1.4 %pt

Source: Yuanta Securities

## Forecasts and valuations (K-IFRS, consolidated)

	(Wbn)			
FY ends Dec	2018A	2019A	2020E	2021E
Sales	2,707	3,019	3,315	3,605
OP	520	458	565	611
Net profit, CI	350	333	387	421
P/E (x)	18.4	19.0	11.4	10.5
P/B (x)	5.8	5.7	3.0	2.9
EV/EBITDA (x)	9.0	9.4	5.8	5.2
ROE (%)	33.8	30.7	30.8	28.5

Source: Yuanta Securities

## Coway (021240 KS) pro forma financial statements (K-IFRS, consolidated)

## Statement of comprehensive income

FY ends Dec (Wbn)	2018A	2019A	2020E	2021E	2022E
<b>Sales</b>	<b>2,707</b>	<b>3,019</b>	<b>3,315</b>	<b>3,605</b>	<b>3,877</b>
Cost of sales	878	1,010	1,094	1,190	1,279
Gross profit	1,829	2,009	2,221	2,415	2,598
SG&A	1,309	1,550	1,657	1,804	1,953
<b>Operating profit</b>	<b>520</b>	<b>458</b>	<b>565</b>	<b>611</b>	<b>645</b>
EBITDA	775	739	845	956	1,039
Non-op profit/loss	-51	-7	-28	-27	-24
Forex gain/loss	4	13	4	4	4
Net interest income	-17	-21	-22	-21	-18
Equity-meth gain/loss	0	0	0	0	0
Other	-38	1	-10	-10	-10
Net prof before income tax	469	451	537	584	620
Income tax	119	119	150	164	161
Net profit from continuing ops	350	332	386	421	459
Net profit from discontinued ops	0	0	0	0	0
Net profit	350	332	386	421	459
<b>NP for controlling interest</b>	<b>350</b>	<b>333</b>	<b>387</b>	<b>421</b>	<b>460</b>
Total comprehensive income	344	330	357	392	430
Total comprehensive income, CI	344	331	357	392	430

Note: Operating profit calculation same as K-GAAP (sales - COGS - SG&A exp)

## Statement of financial position

FY ends Dec (Wbn)	2018A	2019A	2020E	2021E	2022E
<b>Current assets</b>	<b>844</b>	<b>767</b>	<b>852</b>	<b>800</b>	<b>985</b>
Cash & cash equivalents	69	61	111	37	171
Accts rec & other	326	345	369	397	440
Inventory	103	113	124	118	126
Non-current assets	1,535	2,088	2,228	2,323	2,388
Tangible assets	781	1,271	1,422	1,525	1,597
Investment in affiliates	0	0	0	0	0
Other non-current	53	19	19	19	19
<b>Total assets</b>	<b>2,379</b>	<b>2,855</b>	<b>3,080</b>	<b>3,123</b>	<b>3,374</b>
Current liabilities	1,234	1,587	1,454	1,412	1,320
Accts payable & other	273	295	333	341	349
ST financial liabilities	731	861	811	761	661
Liquid LT liabilities	1	1	1	1	1
Non-current liabilities	57	191	191	191	191
LT financial liabilities	10	9	9	9	9
Debentures	0	0	0	0	0
<b>Total liabilities</b>	<b>1,291</b>	<b>1,778</b>	<b>1,645</b>	<b>1,603</b>	<b>1,511</b>
Equity, controlling interest	1,088	1,078	1,436	1,521	1,864
Paid-in capital	41	41	41	41	41
Capital surplus	130	132	132	132	132
Retained earnings	967	954	1,341	1,454	1,827
Equity, non-controlling interest	0	-1	-1	-1	-1
<b>Total equity</b>	<b>1,088</b>	<b>1,077</b>	<b>1,435</b>	<b>1,519</b>	<b>1,863</b>
<b>Net debt</b>	<b>567</b>	<b>613</b>	<b>513</b>	<b>537</b>	<b>303</b>
Total debt	743	888	838	788	688

## Cash flow statement

FY ends Dec (Wbn)	2018A	2019A	2020E	2021E	2022E
<b>Operating cash flow</b>	<b>539</b>	<b>539</b>	<b>818</b>	<b>912</b>	<b>892</b>
Net profit	350	332	386	421	459
Depreciation & amortization	247	271	269	337	388
Forex gain/loss	3	-11	-4	-4	-4
Affiliate invest gain/loss	0	0	0	0	0
Inc (dec) in net working cap	-237	-308	-117	-134	-244
Other	176	255	284	292	293
<b>Investing cash flow</b>	<b>-394</b>	<b>-383</b>	<b>-340</b>	<b>-320</b>	<b>-340</b>
Investment	-1	-5	0	0	0
Inc in tangible assets	-400	-391	-420	-440	-460
Dec in tangible assets	13	25	0	0	0
Other	-5	-12	80	120	120
<b>Financing cash flow</b>	<b>-187</b>	<b>-165</b>	<b>-103</b>	<b>-124</b>	<b>-181</b>
Inc (dec) in ST fin liab	60	129	-50	-50	-100
Inc (dec) in LT fin liab	-1	-15	0	0	0
Inc (dec) in equity	0	0	0	0	0
Cash dividend	-231	-260	-58	-80	-87
Other	-15	-19	4	5	6
Other cash flow	0	0	-324	-541	-236
<b>Inc (dec) in cash &amp; equivalents</b>	<b>-41</b>	<b>-9</b>	<b>51</b>	<b>-74</b>	<b>134</b>
Beginning cash & equivalents	110	69	61	111	37
Ending cash & equivalents	69	61	111	37	171
<b>NOPLAT</b>	<b>520</b>	<b>458</b>	<b>565</b>	<b>611</b>	<b>645</b>
<b>FCF</b>	<b>7</b>	<b>-80</b>	<b>149</b>	<b>212</b>	<b>168</b>

Note: CI = controlling interest

EPS, BPS, P/E and P/B are based on controlling interest

For valuation metrics such as P/E, historical figures are based on annual average prices and estimates, on current price

For ROA or ROE, assets and equity are averages of end-of-year figures for the given year and the year prior

Source: Yuanta Securities

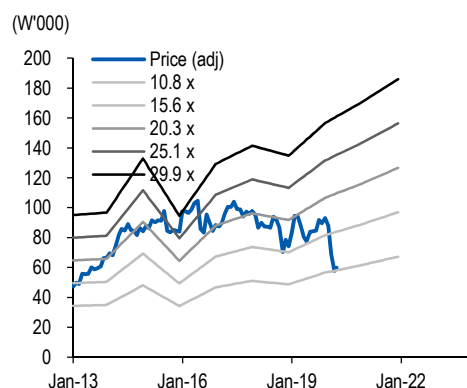
## Valuation

FY ends Dec	2018A	2019A	2020E	2021E	2022E
EPS (won)	4,735	4,511	5,241	5,707	6,227
BPS (won)	15,074	14,931	19,822	20,987	25,730
EBITDA/shr (won)	10,483	10,020	11,448	12,960	14,077
SPS (won)	36,604	40,907	44,922	48,846	52,532
DPS (won)	3,600	2,400	1,100	1,200	1,300
<b>P/E (x)</b>	<b>18.4</b>	<b>19.0</b>	<b>11.4</b>	<b>10.5</b>	<b>9.6</b>
<b>P/B (x)</b>	<b>5.8</b>	<b>5.7</b>	<b>3.0</b>	<b>2.9</b>	<b>2.3</b>
<b>EV/EBITDA (x)</b>	<b>9.0</b>	<b>9.4</b>	<b>5.8</b>	<b>5.2</b>	<b>4.5</b>
<b>P/S (x)</b>	<b>2.4</b>	<b>2.1</b>	<b>1.3</b>	<b>1.2</b>	<b>1.1</b>

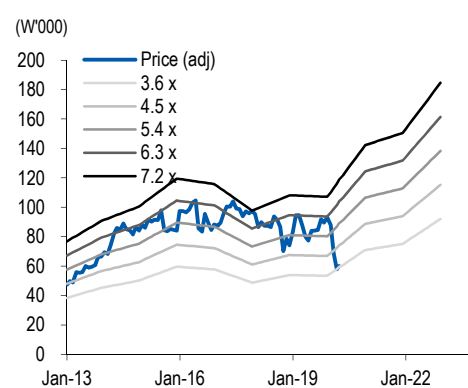
## Key financial data

FY ends Dec	2018A	2019A	2020E	2021E	2022E
<b>Sales (% YoY)</b>	<b>7.6</b>	<b>11.5</b>	<b>9.8</b>	<b>8.7</b>	<b>7.5</b>
<b>Operating profit (%YoY)</b>	<b>10.0</b>	<b>-11.8</b>	<b>23.2</b>	<b>8.2</b>	<b>5.5</b>
<b>Net profit, CI (%YoY)</b>	<b>7.4</b>	<b>-4.9</b>	<b>16.2</b>	<b>8.9</b>	<b>9.1</b>
Gross margin (%)	67.6	66.5	67.0	67.0	67.0
<b>Operating margin (%)</b>	<b>19.2</b>	<b>15.2</b>	<b>17.0</b>	<b>17.0</b>	<b>16.6</b>
Net margin, CI (%)	12.9	11.0	11.7	11.7	11.9
EBITDA margin (%)	28.6	24.5	25.5	26.5	26.8
ROIC (%)	35.8	29.0	30.1	28.7	29.1
ROA (%)	15.4	12.7	13.0	13.6	14.1
<b>ROE (%)</b>	<b>33.8</b>	<b>30.7</b>	<b>30.8</b>	<b>28.5</b>	<b>27.2</b>
Debt-to-equity (%)	118.7	165.0	114.6	105.5	81.1
Net debt-to-equity (%)	52.1	56.9	35.7	35.3	16.2
OP/financing cost (x)	29.2	20.9	24.3	28.0	32.0

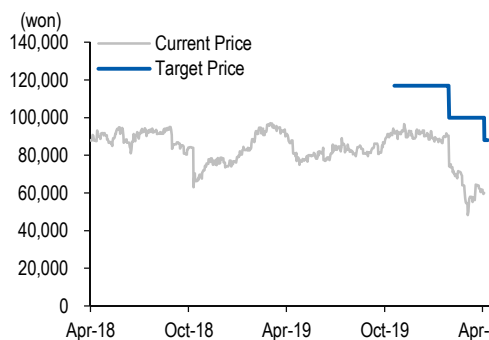
**P/E band chart**



**P/B band chart**



**Coway (021240 KS) ratings and target price history**



Date	Rating	TP (won)	TP time frame	Difference (%)	
				vs avg price	vs high (low)
2020/04/23	HOLD	88,000	1 yr		
2020/02/17	HOLD	100,000	1 yr	-36.23	-
2019/11/07	BUY	117,000	1 yr	-22.42	-17.52

Note: Difference = (actual price\* - target price) / target price x 100

\* 1) The average price until the day target price was suggested

2) The highest (lowest) price until the day target price was suggested

Source: Yuanta Securities

**Current distribution of Yuanta Securities Korea ratings**

Rating	Share (%)
STRONG BUY	1.2
BUY	83.2
HOLD	15.6
SELL	0.0
Total	100.0

Note: As of Apr 21

Excluding reports written or published by overseas affiliates

### Disclosures & disclaimers

This research report has been prepared for informational purposes only; it does not constitute an offer or a solicitation of an offer to buy or sell any securities or other financial instruments. The information and data contained in this report have been obtained from sources we consider reliable; however, we make no representation that the information provided in this report is accurate or complete, and it should not be relied on as such. The recipient of this report should use his/her independent judgment regarding the sale or purchase of any securities or financial instruments mentioned herein. We disclaim any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report is for our clients only. It is copyrighted material and may not be reproduced, transmitted, quoted, or distributed in any manner without the prior written consent of Yuanta Securities Korea Co., Ltd.

As of the publication date of this report, Yuanta Securities Korea Co., Ltd. does not own a stake in excess of 1%, nor does it have any interest whatsoever, in the subject company (ies). The material contained herein was not disclosed by Yuanta Securities Korea Co., Ltd. to any institutional investors or third parties prior to its publication. The analyst (s) of this report or the analyst (s)' spouse does not have any financial interest in the securities of the subject company (ies) mentioned herein, nor financial interest of any nature related to the subject company (ies) (including without limitation, whether it consists of any option, right, warrant, future, long or short position), as of the publication date of this report.

### Analyst certification

I/We, as the research analyst/analysts who prepared this research report, do hereby certify that the views expressed in this report accurately reflect my/our personal views about the subject securities discussed in this report.

### Stock and sector ratings

- **Stock ratings** include an Investment Rating (Strong Buy, Buy, Hold, Sell) based on the expected absolute return of a stock over the next 6 -12 months.
  - Strong Buy: Expected to return 30% or more
  - Buy: Expected to return between 10% and 30%
  - Hold: Expected to return between -10 and +10%
  - Sell: Expected to return -10% or less
- **Sector ratings** suggest 6 to 12 - month forward investment weighting of a given sector compared to its market capitalization weighting.
  - Overweight: Investment weighting is higher than the market capitalization weighting
  - Neutral: Investment weighting is equal to the market capitalization weighting
  - Underweight: Investment weighting is lower than the market capitalization weighting

# Yuanta Securities (Korea) International Network

## Seoul

---

### Head Office

Yuanta Securities Korea Bldg.  
76 Uljiro, Jung-gu, Seoul (Euljiro 2)  
Tel: +822 3770 2000

### Research Center

Yuanta Securities Korea Bldg.  
76 Uljiro, Jung-gu, Seoul (Euljiro 2)  
Tel: +822 3770 2000

## Hong Kong

---

Yuanta Financial (Hong Kong) Limited  
Unit 1010, 10/F, Corporation Park, 11 On Lai Street,  
Shatin, Hong Kong  
Tel: +852 6388 1870

## Cambodia

---

Yuanta Securities (Cambodia) Plc.  
Emerald Building 4F, No 64, Preah Norodom Blvd.,  
Corner Street 178, Sangkat Chey Chumneah,  
Khan Daun Penh, Phnom Penh, Cambodia  
Tel: +855 23 224 125



**Yuanta Securities (Korea)**