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▶ AT A GLANCE

Recommend	BUY	
Target price	KRW85,000	(37.5%)
Current price	KRW61,800	
Market cap	KRW4.6t/USD3.8b	
Shares (float)	73,799,619 (73.1%)	
52-week high/low	KRW96,500/KRW48,250	
Avg daily trading value (60-day)	KRW22.4b/USD18.4m	

▶ ONE-YEAR PERFORMANCE

	1M	6M	12M
Coway (%)	-3.9	-32.5	-24.0
Vs KOSPI (%pts)	-10.7	-25.9	-15.3

▶ KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	85,000	100,000	-15.0%
2020E EPS	5,438	5,588	-2.7%
2021E EPS	6,094	6,274	-2.9%

▶ SAMSUNG vs THE STREET

No of estimates	7
Target price	94,143
Recommendation	3.7

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

Coway (021240)

From dividend stock to growth stock

- **1Q results vs consensus:** Coway reported an in-line 1Q OP of KRW138.9b (up 2.7% y-y). Domestic slump (caused by the labor strike of its irregular installation and repair workers [ie, customer satisfaction doctors] and resultant delay in aftersales services offering and hike in a churn rate) was offset by the solidness in overseas operations. COVID-19's impact should be felt more in 2Q (especially in overseas operations), than in 1Q.
- **Cutting target price:** Reflecting the likely hike in labor costs (as a result of the switch of the irregular workers to regular ones) and the outlook that COVID-19 will visibly hurt its overseas operations from 2Q, we cut our 2020 EPS forecast by 3% and lower our target price to KRW85,000—a 10% discount to the fair value calculated based on a DCF valuation (assuming a perpetual growth of 1% and WACC of 7.3% [the latter derived from a risk-free rate of 1.5%, a risk premium of 7.4% and a beta of 0.8]) to reflect its majority shareholders' still-vague business strategy.

WHAT'S THE STORY?

Coway reported in-line 1Q results showing sales of KRW768.9b (up 8.4% y-y) and OP of KRW138.9b (up 2.7% y-y). COVID-19 had little impact on the firm's 1Q results, but due to the labor strike by the firm's irregular workers and a resultant delay in aftersales service offering, the firm's parent-based 1) household appliances sales grew just 2.3% y-y; 2) rental sales volume dipped 7.5% y-y; 3) churn rate edged up 0.1%pts y-y; and 4) rental asset disposal losses stood at KRW13.9b. Overseas operations were solid, with the number of rental accounts in Malaysia jumping 35% and OP there soaring 32% y-y.

(Continued on the next page)

Coway 1Q20 review

(KRWb)	1Q20	4Q19	(% q-q)	1Q19	(% y-y)	Consensus	Diff (%)	Samsung	Diff (%)
Sales	768.9	794.6	(3.2)	709.3	8.4	766.6	0.3	776.8	(1.0)
Operating profit	138.9	44.6	211.2	135.2	2.7	132.7	4.6	146.0	(4.9)
Pre-tax profit	138.3	26.8	415.8	135.5	2.1	129.1	7.2	143.2	(3.4)
Net profit	101.6	19.3	427.2	100.4	1.2	89.0	14.1	108.8	(6.7)
Margins (%)									
Operating profit	18.1	5.6		19.1		17.3		18.8	
Pre-tax profit	18.0	3.4		19.1		16.8		18.4	
Net profit	13.2	2.4		14.2		11.6		14.0	

Source: Company data, Samsung Securities estimates

Valuation

(KRWb)	Sales	Operating profit	Pre-tax profit	Net profit	EPS	EPS growth (% y-y)	P/E (x)	Net debt (KRWb)	EV/EBITDA (x)	P/B (x)	ROE (%)
2018	2,707	520	469	350	4,677	9.5	13.2	566.7	6.6	4.2	32.2
2019	3,019	458	451	332	4,239	(9.3)	14.6	628.1	7.0	4.2	30.8
2020E	3,340	552	539	406	5,438	28.3	11.4	574.1	5.2	3.7	33.2
2021E	3,661	618	600	456	6,094	12.1	10.1	537.0	4.9	2.9	28.7
2022E	3,930	665	657	499	6,641	9.0	9.3	512.0	4.6	2.3	24.9

Source: Company data, Samsung Securities estimates

At end-March, the firm offered a new dividend policy-ie, paying out a dividend within 40% of its free cash flow or 20% of its net profit once at year-end. As seen by its reduced dividend merit, the firm's new majority shareholders are focusing on improving financials, expanding new product lineups and securing medium-to long-term growth engine (vs offering dividends via reckless borrowing). With near-term earnings momentum weak and growth strategy still vague, an enterprise value rerating should require: 1) a hike in the number of rental accounts in the highly competitive domestic rental market via portfolio diversification; 2) expansion of overseas product range (beyond water purifier); and 3) expansion into new overseas markets (beyond Malaysia).

Income statement

Year-end Dec 31(KRWb)	2018	2019	2020E	2021E	2022E
Sales	2,707	3,019	3,340	3,661	3,930
Cost of goods sold	878	1,010	1,108	1,214	1,303
Gross profit	1,829	2,009	2,232	2,447	2,628
Gross margin (%)	67.6	66.5	66.8	66.8	66.9
SG&A expenses	1,309	1,550	1,681	1,828	1,963
Operating profit	520	458	552	618	665
Operating margin (%)	19.2	15.2	16.5	16.9	16.9
Non-operating gains (losses)	(51)	(7)	(13)	(19)	(8)
Financial profit	1	1	10	12	11
Financial costs	18	22	27	27	28
Equity-method gains (losses)	0	0	0	0	0
Other	(35)	14	4	(4)	9
Pre-tax profit	469	451	539	600	657
Taxes	119	119	133	144	158
Effective tax rate (%)	25.3	26.4	24.7	24.0	24.0
Profit from continuing operations	350	332	406	456	499
Profit from discontinued operations	0	0	0	0	0
Net profit	350	332	406	456	499
Net margin (%)	12.9	11.0	12.1	12.5	12.7
Net profit (controlling interests)	350	333	406	457	501
Net profit (non-controlling interests)	(0)	(1)	(1)	(2)	(2)
EBITDA	775	739	984	1,044	1,104
EBITDA margin (%)	28.6	24.5	29.5	28.5	28.1
EPS (parent-based) (KRW)	4,735	4,511	5,507	6,198	6,789
EPS (consolidated) (KRW)	4,730	4,501	5,499	6,177	6,763
Adjusted EPS (KRW)*	4,735	4,511	5,438	6,094	6,641

Cash flow statement

Year-end Dec 31(KRWb)	2018	2019	2020E	2021E	2022E
Cash flow from operations	539	539	766	795	824
Net profit	350	332	406	456	499
Non-cash profit and expenses	541	663	645	630	645
Depreciation	247	271	423	416	430
Amortization	9	10	9	9	10
Other	286	382	213	205	206
Changes in A/L from operating activities	(237)	(308)	(131)	(130)	(138)
Cash flow from investments	(394)	(383)	(520)	(565)	(603)
Change in tangible assets	(388)	(366)	(447)	(487)	(521)
Change in financial assets	(45)	(73)	(76)	(80)	(86)
Other	39	56	3	3	3
Cash flow from financing	(187)	(165)	(160)	(159)	(160)
Change in debt	59	160	43	45	47
Change in equity	1	3	0	0	0
Dividends	(231)	(260)	(89)	(89)	(89)
Other	(16)	(68)	(115)	(116)	(119)
Change in cash	(41)	(9)	86	71	61
Cash at beginning of year	110	69	61	147	218
Cash at end of year	69	61	147	218	279
Gross cash flow	891	996	1,051	1,086	1,144
Free cash flow	139	149	319	307	303

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)	2018	2019	2020E	2021E	2022E
Current assets	844	767	900	1,022	1,138
Cash & equivalents	69	61	147	218	279
Accounts receivable	302	310	328	344	367
Inventories	103	113	117	124	131
Other current assets	370	283	308	336	361
Fixed assets	1,535	2,088	2,179	2,516	2,884
Investment assets	53	19	17	17	18
Tangible assets	781	1,271	1,288	1,353	1,438
Intangible assets	160	168	166	163	159
Other long-term assets	540	630	708	983	1,269
Total assets	2,379	2,855	3,079	3,537	4,022
Current liabilities	1,234	1,587	1,666	1,758	1,831
Accounts payable	62	58	61	68	73
Short-term debt	731	861	904	949	996
Other current liabilities	441	668	701	741	762
Long-term liabilities	57	191	189	189	190
Bonds & long-term debt	10	9	9	9	9
Other long-term liabilities	47	181	180	179	180
Total liabilities	1,291	1,778	1,856	1,947	2,021
Owners of parent equity	1,088	1,078	1,224	1,591	2,002
Capital stock	41	41	41	41	41
Capital surplus	130	132	132	132	132
Retained earnings	967	954	1,100	1,467	1,878
Other	(49)	(49)	(49)	(49)	(49)
Non-controlling interests' equity	(0)	(1)	(1)	(1)	(1)
Total equity	1,088	1,077	1,223	1,590	2,001
Net debt	567	628	574	537	512

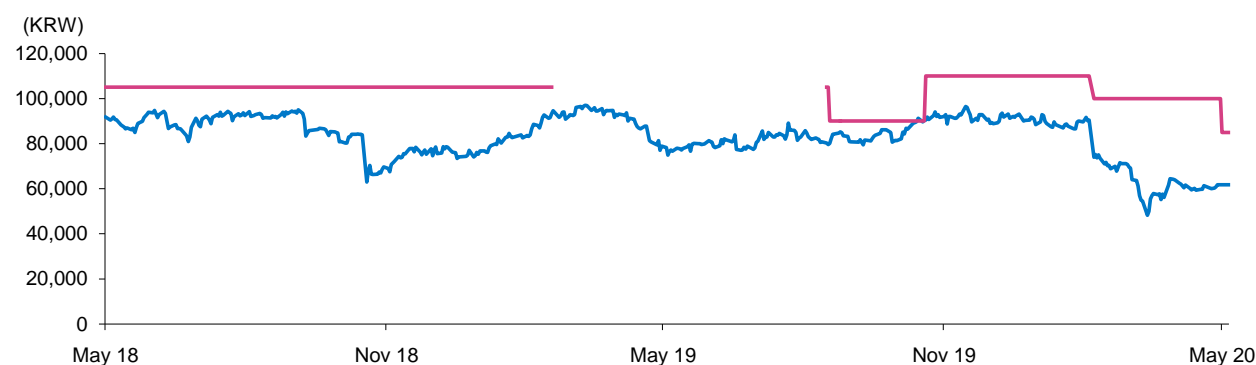
Financial ratios

Year-end Dec 31	2018	2019	2020E	2021E	2022E
Growth (%)					
Sales	7.6	11.5	10.6	9.6	7.4
Operating profit	10.0	(11.8)	20.4	12.1	7.5
Net profit	7.4	(5.0)	22.2	12.3	9.5
Adjusted EPS**	9.4	(4.7)	20.5	12.1	9.0
Per-share data (KRW)					
EPS (parent-based)	4,735	4,511	5,507	6,198	6,789
EPS (consolidated)	4,730	4,501	5,499	6,177	6,763
Adjusted EPS**	4,735	4,511	5,438	6,094	6,641
BVPS	15,074	14,931	16,885	21,951	27,613
DPS (common)	3,600	2,400	1,200	1,200	1,200
Valuations (x)					
P/E***	13.1	13.7	11.4	10.1	9.3
P/B***	4.1	4.1	3.7	2.8	2.2
EV/EBITDA	6.6	7.0	5.2	4.9	4.6
Ratios (%)					
ROE	33.8	30.7	35.3	32.5	27.9
ROA	15.4	12.7	13.7	13.8	13.2
ROIC	25.0	20.0	22.8	23.2	21.2
Payout ratio	74.2	52.1	21.4	19.0	17.4
Dividend yield (common)	5.8	3.9	1.9	1.9	1.9
Net debt to equity	52.1	58.3	46.9	33.8	25.6
Interest coverage (x)	29.2	20.9	31.8	32.5	34.1

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Target price changes in past two years



Rating changes over past two years (adjusted share prices)

Date	2018/2/13	2019/2/13	8/28	10/30	2020/2/17	5/11
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	105,000	105,000	90,000	110,000	100,000	85,000
Gap* (average)	(18.92)	(14.67)	(6.26)	(17.37)	(36.78)	
(max or min)**	(9.52)	(11.71)	1.44	(12.27)	(24.80)	

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

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Industry

OVERWEIGHT	Expected to outperform market by 5% or more within 12 months
NEUTRAL	Expected to outperform/underperform market by less than 5% within 12 months
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Percentage of ratings in 12 months prior to Mar 31, 2020

BUY (75%) | HOLD (25%) | SELL (0%)

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