

# Coway

(021240 KS)

## 2Q earnings to be better than feared

**Buy**  
(Maintain)

TP: W94,000 ▲  
Upside: 27.0%

Mirae Asset Daewoo Co., Ltd.

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### 2Q preview: Better than feared

#### Concerns over impact of COVID-19 on Malaysian operations to prove overblown

- Revenue of W787bn (+8.4% YoY) and operating profit of W148bn (+6.9% YoY; vs. our previous estimate of W118bn)
- We expect the Malaysian subsidiary to deliver decent earnings, contrary to our previous projection that lockdown measures in the country would drag down 2Q results.
- Following bottled water shortages during the early stages of the COVID-19 outbreak, we believe that water purifier rentals have increased since the lifting of lockdown measures.

### Future growth drivers: Overseas subsidiaries and domestic mattress rentals

#### Overseas revenue and domestic mattress rental business to continue to grow strongly

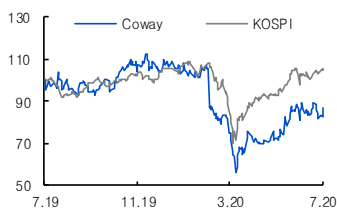
- Going forward, we expect growth to be driven by: 1) overseas subsidiaries, particularly in Malaysia; and 2) the domestic mattress rental business.
- Overseas revenue, which has grown at a CAGR of 35% since 2014, will likely continue to expand markedly thanks to expansion into new markets, including Malaysia, the US, and India.
- Domestic mattress rental revenue has grown at a CAGR of 30.1% since 2014, with revenue surging 55.5% YoY to W54bn in 1Q20. We believe rapid growth is attributable to rising demand for regular maintenance services amid mounting awareness of mattress hygiene.

### Raise TP to reflect easing of concerns over Malaysia earnings

#### Raise TP by 10.6% to W94,000

- We raise our target price on Coway to W94,000 (from W85,000), as worries over a potential earnings slowdown amid COVID-19 have eased. Our RIM-based target price implies a 2020F P/E of 16x.
- We believe that investors should monitor the strike by service technicians, which resumed in late June, as it could eventually lead to increases in churn rate and cost (labor) pressures.

### Key data



Current price (7/16/20, W)	74,000	Market cap (Wbn)	5,461
OP (20F, Wbn)	570	Shares outstanding (mn)	74
Consensus OP (20F, Wbn)	554	Free float (%)	73.2
EPS growth (20F, %)	23.0	Foreign ownership (%)	60.2
P/E (20F, x)	13.3	Beta (12M)	0.90
Market P/E (20F, x)	15.3	52-week low (W)	48,250
KOSPI	2,183.76	52-week high (W)	96,500

### Share performance

(%)	1M	6M	12M
Absolute	1.6	-17.7	-9.6
Relative	-0.5	-15.3	-13.4

### Earnings and valuation metrics

(Dec.)	2017	2018	2019	2020F	2021F	2022F
Revenue (Wbn)	2,517	2,707	3,019	3,185	3,418	3,658
OP (Wbn)	473	520	458	570	575	614
OP margin (%)	18.8	19.2	15.2	17.9	16.8	16.8
NP (Wbn)	326	350	333	410	411	440
EPS (W)	4,328	4,735	4,511	5,551	5,567	5,964
ROE (%)	30.1	33.8	30.7	31.8	24.7	21.9
P/E (x)	22.6	15.6	20.6	13.3	13.3	12.4
P/B (x)	6.3	4.7	6.0	3.5	2.9	2.4
Dividend yield (%)	3.3	4.9	2.6	1.5	1.5	1.5

Notes: Under consolidated K-IFRS; NP is attributable to owners of the parent

Source: Company data, Mirae Asset Daewoo Research estimates

**Table 1. Quarterly and annual earnings**

(Wbn, %)

	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20F	3Q20F	4Q20F	2019	2020F	2021F
Revenue	709	755	760	795	769	787	803	826	3,019	3,185	3,418
Domestic	518	533	535	526	529	533	538	542	2,111	2,143	2,238
Overseas	159	180	185	225	208	214	224	244	749	890	1,030
Other	33	42	40	43	31	40	40	40	158	151	150
OP	135	138	140	45	139	148	140	143	458	570	575
OP margin	19.1	18.3	18.5	5.6	18.1	18.8	17.4	17.3	15.2	17.9	16.8
Pretax profit	136	137	152	27	138	143	135	138	451	555	555
NP (attributable to owners)	101	102	111	20	102	106	100	102	333	410	411

Source: Company data, Mirae Asset Daewoo Research estimates

**Table 2. TP calculation**

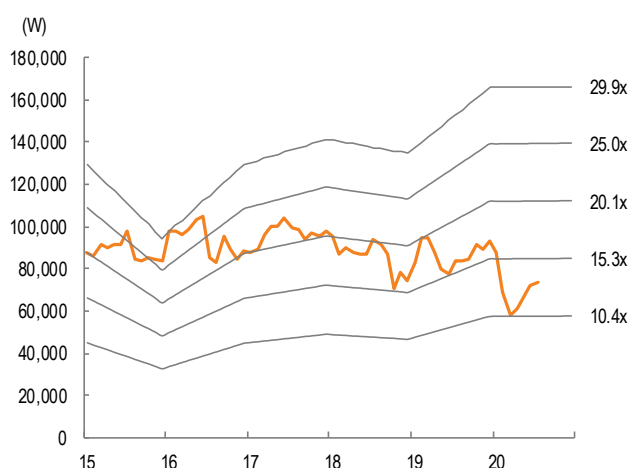
(Wbn, %)

	2019	2020F	2021F	2022F	2023F	2024F
Revenue	3,019	3,185	3,418	3,658	3,905	4,156
Growth	11.5	5.5	7.3	7.0	6.7	6.4
NP	333	410	411	440	470	501
Net margin	11.0	12.9	12.0	12.0	12.0	12.0
Equity	1,078	1,453	1,770	2,108	2,470	2,856
ROE spread	22.9	24.5	17.7	14.9	12.7	11.0
Residual income	247	357	313	314	314	314
NPV of FCFF		1,298				
PV of terminal value		4,599				
Current book value		1,078				
Equity value		6,975				
Shares outstanding (mn)		74				
TP (W)		94,000				

Beta	1.0
Risk-free rate	2.0
Market risk premium	6.0
COE (%)	7.8
Terminal growth rate (%)	3.0

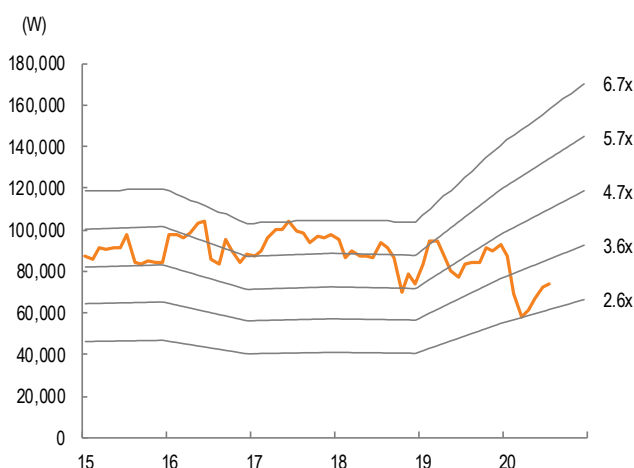
Source: Mirae Asset Daewoo Research estimates

**Figure 1. 12-month forward P/E band chart**



Source: WISEfn, Mirae Asset Daewoo Research

**Figure 2. 12-month forward P/B band chart**



Source: WISEfn, Mirae Asset Daewoo Research

## Coway (021240 KS)

## Income statement (summarized)

(Wbn)	2019	2020F	2021F	2022F
<b>Revenue</b>	<b>3,019</b>	<b>3,185</b>	<b>3,418</b>	<b>3,658</b>
<b>Cost of revenue</b>	<b>1,010</b>	<b>1,029</b>	<b>1,142</b>	<b>1,223</b>
<b>Gross profit</b>	<b>2,009</b>	<b>2,156</b>	<b>2,276</b>	<b>2,435</b>
<b>SG&amp;A expenses</b>	<b>1,550</b>	<b>1,586</b>	<b>1,702</b>	<b>1,821</b>
<b>OP (adj.)</b>	<b>458</b>	<b>570</b>	<b>575</b>	<b>614</b>
<b>OP</b>	<b>458</b>	<b>570</b>	<b>575</b>	<b>614</b>
<b>Non-operating profit</b>	<b>-7</b>	<b>-15</b>	<b>-20</b>	<b>-19</b>
Net financial income	-21	-20	-20	-20
Net income from associates	0	0	0	0
Pretax profit	451	555	555	595
Income tax	119	145	144	155
Profit from continuing operations	332	410	411	440
Profit from discontinued operations	0	0	0	0
<b>NP</b>	<b>332</b>	<b>410</b>	<b>411</b>	<b>440</b>
Attributable to owners	333	410	411	440
Attributable to minority interests	-1	0	0	0
<b>Total comprehensive income</b>	<b>330</b>	<b>408</b>	<b>411</b>	<b>440</b>
Attributable to owners	331	408	411	440
Attributable to minority interests	-1	0	0	0
EBITDA	739	1,088	1,060	1,076
FCF	149	463	452	449
EBITDA margin (%)	24.5	34.2	31.0	29.4
OP margin (%)	15.2	17.9	16.8	16.8
Net margin (%)	11.0	12.9	12.0	12.0

## Cash flow statement (summarized)

(Wbn)	2019	2020F	2021F	2022F
<b>Operating cash flow</b>	<b>539</b>	<b>918</b>	<b>908</b>	<b>905</b>
NP	332	410	411	440
Non-cash income/expenses	663	728	649	636
Depreciation	271	509	476	454
Amortization	10	9	9	8
Other	382	210	164	174
Chg. in working capital	-308	-70	-8	-17
Chg. in AR & other receivables	-4	-3	-17	-24
Chg. in inventory	-5	-14	0	-9
Chg. in AP & other payables	-9	-14	1	5
Income tax	-148	-149	-144	-155
<b>Cash flow from investing activities</b>	<b>-383</b>	<b>-389</b>	<b>-400</b>	<b>-400</b>
Chg. in PP&E	-366	-390	-402	-402
Chg. in intangible assets	-3	0	0	0
Chg. in financial assets	-73	-18	0	0
Other	59	19	2	2
<b>Cash flow from financing activities</b>	<b>-165</b>	<b>-8</b>	<b>-101</b>	<b>-101</b>
Chg. in financial liabilities	160	-2	0	0
Chg. in equity	3	0	0	0
Dividends	-260	0	-80	-80
Other	-68	-6	-21	-21
<b>Chg. in cash</b>	<b>-9</b>	<b>520</b>	<b>407</b>	<b>404</b>
Beginning balance	69	61	580	987
Ending balance	61	580	987	1,391

Source: Company data, Mirae Asset Daewoo Research estimates

## Balance sheet (summarized)

(Wbn)	2019	2020F	2021F	2022F
<b>Current assets</b>	<b>767</b>	<b>1,328</b>	<b>1,756</b>	<b>2,195</b>
Cash & equivalents	61	580	987	1,391
AR & other receivables	337	344	366	391
Inventory	113	130	130	140
Other current assets	256	274	273	273
<b>Non-current assets</b>	<b>2,088</b>	<b>1,969</b>	<b>1,885</b>	<b>1,825</b>
Investments in associates	0	0	0	0
PP&E	1,271	1,163	1,088	1,036
Intangible assets	168	147	138	130
<b>Total assets</b>	<b>2,855</b>	<b>3,297</b>	<b>3,641</b>	<b>4,019</b>
<b>Current liabilities</b>	<b>1,587</b>	<b>1,594</b>	<b>1,607</b>	<b>1,625</b>
AP & other payables	234	242	255	273
Short-term financial liabilities	876	876	876	876
Other current liabilities	477	476	476	476
<b>Non-current liabilities</b>	<b>191</b>	<b>203</b>	<b>203</b>	<b>203</b>
Long-term financial liabilities	27	26	26	26
Other non-current liabilities	164	177	177	177
<b>Total liabilities</b>	<b>1,778</b>	<b>1,797</b>	<b>1,810</b>	<b>1,828</b>
<b>Equity attributable to owners</b>	<b>1,078</b>	<b>1,501</b>	<b>1,832</b>	<b>2,192</b>
Capital stock	41	41	41	41
Capital surplus	132	132	132	132
Retained earnings	954	1,363	1,694	2,055
<b>Minority interests</b>	<b>-1</b>	<b>-1</b>	<b>-1</b>	<b>-1</b>
<b>Shareholders' equity</b>	<b>1,077</b>	<b>1,500</b>	<b>1,831</b>	<b>2,191</b>

## Key valuation metrics/ratios

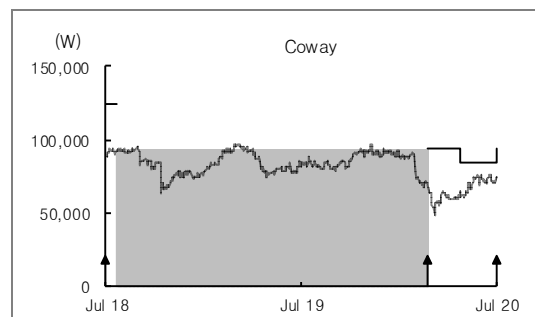
	2019	2020F	2021F	2022F
P/E (x)	20.6	13.3	13.3	12.4
P/CF (x)	6.9	4.8	5.2	5.1
P/B (x)	6.0	3.5	2.9	2.4
EV/EBITDA (x)	10.1	5.3	5.2	4.9
EPS (W)	4,511	5,551	5,567	5,964
CFPS (W)	13,491	15,413	14,363	14,583
BPS (W)	15,498	20,960	25,445	30,328
DPS (W)	2,400	1,100	1,100	1,100
Dividend payout ratio (%)	52.2	19.5	19.4	18.1
Dividend yield (%)	2.6	1.5	1.5	1.5
Revenue growth (%)	11.5	5.5	7.3	7.0
EBITDA growth (%)	-4.6	47.2	-2.6	1.5
OP growth (%)	-11.9	24.5	0.9	6.8
EPS growth (%)	-4.7	23.1	0.3	7.1
AR turnover (x)	9.9	10.1	10.3	10.4
Inventory turnover (x)	28.0	26.2	26.2	27.1
AP turnover (x)	16.8	16.8	17.6	18.0
ROA (%)	12.7	13.3	11.8	11.5
ROE (%)	30.7	31.8	24.7	21.9
ROIC (%)	20.0	24.6	26.1	28.9
Debt-to-equity ratio (%)	165.0	119.8	98.9	83.4
Current ratio (%)	48.3	83.3	109.3	135.1
Net debt-to-equity ratio (%)	58.3	20.5	4.0	-8.9
Interest coverage ratio (x)	20.9	27.3	27.5	29.4

# Appendix 1

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### Two-year rating and TP history

Company	Date	Rating	TP (₩)
Coway (021240)	07/17/2020	Buy	94,000
	05/11/2020	Buy	85,000
	03/11/2020	Buy	94,000
	08/07/2018	No Coverage	
	02/12/2018	Buy	125,000



### Stock ratings

Buy	Expected 12-month performance: +20% or greater
Trading Buy	Expected 12-month performance: +10% to +20%
Hold	Expected 12-month performance: -10% to +10%
Sell	Expected 12-month performance: -10% or worse

### Sector ratings

Overweight	Expected to outperform the market over 12 months
Neutral	Expected to perform in line with the market over 12 months
Underweight	Expected to underperform the market over 12 months

Rating and TP history: Share price (—), TP (—), Not Rated (■), Buy (▲), Trading Buy (■), Hold (●), Sell (◆)

\* Our investment rating is a guide to the expected return of the stock over the next 12 months.

\* Outside of the official ratings of Mirae Asset Daewoo Co., Ltd., analysts may call trading opportunities should technical or short-term material developments arise.

\* The TP was determined by the research analyst through valuation methods discussed in this report, in part based on estimates of future earnings.

\* TP achievement may be impeded by risks related to the subject securities and companies, as well as general market and economic conditions.

### Ratings distribution and investment banking services

	Buy	Trading Buy	Hold	Sell
Ratings distribution	76.22%	11.59%	11.59%	0.60%
Investment banking services	75.00%	10.00%	15.00%	0%

\* Based on recommendations in the last 12 months (as of June 30, 2020)

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