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▶ AT A GLANCE

Recommend	<b>BUY</b>	
Target price	KRW95,000	(28%)
Current price	<b>KRW74,200</b>	
Market cap	KRW5.5t/USD4.6b	
Shares (float)	73,799,619 (73.2%)	
52-week high/low	KRW96,500/KRW48,250	
Avg daily trading value (60-day)	KRW19.4b/USD16.4m	

▶ ONE-YEAR PERFORMANCE

	1M	6M	12M
Coway (%)	-3.0	-14.2	-13.6
Vs Kospi (%pts)	-9.7	-19.6	-27.3

▶ KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	95,000	85,000	11.8%
2020E EPS	5,722	5,438	5.2%
2021E EPS	6,417	6,094	5.3%

▶ SAMSUNG vs THE STREET

No of estimates	7
Target price	88,143
Recommendation	3.9

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

## Coway (021240)

### Turning crisis into opportunity

- **2Q results vs consensus:** Coway reported 2Q consolidated OP of KRW169.2b (up 22.4% y-y) to beat consensus by 20%. The earnings surprise owes to: 1) sizable SG&A cost-saving; and 2) unexpected solid performance in Malaysia.
- **Raising target:** Reflecting the recent hike in demand for household appliances at home and the rapid normalization of overseas operations, we raise our 2020 EPS forecast by 5% and raise our target price by 12% to KRW95,000—a 10% discount to the fair value calculated based on a DCF valuation (assuming a perpetual growth of 1% and WACC of 6.3% [the latter derived from a risk-free rate of 1.3%, a risk premium of 6.3% and a beta of 0.8]) to reflect its majority shareholder's still-vague business strategy.

#### WHAT'S THE STORY?

Coway reported solid 2Q results showing consolidated sales of KRW805.5b (up 8.4% y-y) and OP of KRW169.2b (up 22.4% y-y), the latter beating consensus by 20% or 11% when excluding the impact of recent accounting rule change. Weighed on by COVID-19, a high base of solid air purifier sales in 2Q19, and the ongoing labor strike (since June) of its irregular installation and repair workers [i.e. customer satisfaction doctors], the parent saw its: 1) household appliances sales rise just 3.8% y-y; 2) rental sales volume fall 14.7% y-y; 3) churn rate edge up 0.03%pts y-y; and 4) rental asset disposal losses hit KRW13.9b (or KRW10.8b when excluding the impact of accounting rule change). Still, all of these operating weaknesses were fully offset by SG&A cost saving. Also noteworthy is that contrary to concerns, the firm's overseas operations put in solid performance. In Malaysia, operation and aftersales service offering was all suspended until mid-May due to COVID-19 lockdowns, but thanks to robust post-reopening operational normalization, the subsidiary saw the number of rental accounts rise 32% y-y and OP improve 5% y-y.

(Continued on the next page)

#### Coway 2Q20 review

(KRWb)	2Q20	1Q20	Chg (% q-q)	2Q19	Chg (% y-y)	Consensus	Diff (%)	Samsung	Diff (%)
Sales	805.5	768.9	4.8	755.5	6.6	792.3	1.7	823.7	(2.2)
Operating profit	169.2	138.9	21.8	138.2	22.4	141.2	19.8	142.2	18.9
Pre-tax profit	159.5	138.3	15.3	136.8	16.6	136.9	16.5	141.4	12.8
Net profit	118.9	101.6	17.1	101.9	16.7	109.0	9.1	107.4	10.7
<b>Margins (%)</b>									
Operating profit	21.0	18.1		18.3		17.8		17.3	
Pre-tax profit	19.8	18.0		18.1		17.3		17.2	
Net profit	14.8	13.2		13.5		13.8		13.0	

Source: Company data, Samsung Securities estimates

#### Valuations

(KRWb)	Sales	Operating profit	Pre-tax profit	Net profit	EPS (KRW)	EPS growth (% y-y)	P/E (x)	Net debt	EV/EBITDA (x)	P/B (x)	ROE (%)
2017	2,707	520	469	350	4,735	9.4	15.7	567	7.8	4.9	33.8
2018	3,019	458	451	332	4,511	-4.7	16.4	628	8.3	5.0	30.7
2019E	3,284	596	574	430	5,722	26.8	13.0	617	6.6	4.3	37.0
2020E	3,609	654	633	481	6,417	12.2	11.6	580	6.0	3.3	33.4
2021E	3,946	720	709	539	7,155	11.5	10.4	542	5.4	2.6	29.0

Source: Company data, Samsung Securities estimates

We expect the firm's overseas earnings strength to continue, as: 1) the Malaysia subsidiary posts a rapid hike in the number of new rental accounts and seeks expansion of product range (beyond water purifier into air purifier and mattress); and 2) the US operation enjoys a hike in rental sales volume (especially in online retail channels). Earnings may take a hit from the labor strike in 3Q as well. But we note that: 1) such a possibility is already reflected in our earnings model; and 2) the firm's business model of generating a stable cash flow regardless of external business environments remains attractive.

## Income statement

Year-end Dec 31(KRWb)	2018	2019	2020E	2021E	2022E
<b>Sales</b>	<b>2,707</b>	<b>3,019</b>	<b>3,284</b>	<b>3,609</b>	<b>3,946</b>
Cost of goods sold	878	1,010	1,079	1,185	1,291
<b>Gross profit</b>	<b>1,829</b>	<b>2,009</b>	<b>2,205</b>	<b>2,424</b>	<b>2,655</b>
Gross margin (%)	67.6	66.5	67.1	67.2	67.3
SG&A expenses	1,309	1,550	1,609	1,770	1,935
<b>Operating profit</b>	<b>520</b>	<b>458</b>	<b>596</b>	<b>654</b>	<b>720</b>
Operating margin (%)	19.2	15.2	18.1	18.1	18.2
<b>Non-operating gains (losses)</b>	<b>-51</b>	<b>-7</b>	<b>-22</b>	<b>-21</b>	<b>-11</b>
Financial profit	1	1	39	27	30
Financial costs	18	22	49	37	39
Equity-method gains (losses)	0	0	0	0	0
Other	-35	14	-12	-11	-2
<b>Pre-tax profit</b>	<b>469</b>	<b>451</b>	<b>574</b>	<b>633</b>	<b>709</b>
Taxes	119	119	144	152	170
Effective tax rate (%)	25.3	26.4	25.0	24.0	24.0
Profit from continuing operations	350	332	430	481	539
Profit from discontinued operations	0	0	0	0	0
<b>Net profit</b>	<b>350</b>	<b>332</b>	<b>430</b>	<b>481</b>	<b>539</b>
Net margin (%)	12.9	11.0	13.1	13.3	13.6
Net profit (controlling interests)	350	333	430	482	540
Net profit (non-controlling interests)	-0	-1	-0	-1	-2
EBITDA	775	739	917	1,012	1,117
EBITDA margin (%)	28.6	24.5	27.9	28.0	28.3
EPS (parent-based) (KRW)	4,735	4,511	5,831	6,534	7,321
EPS (consolidated) (KRW)	4,730	4,501	5,831	6,516	7,298
Adjusted EPS (KRW)*	4,735	4,511	5,722	6,417	7,155

## Cash flow statement

Year-end Dec 31(KRWb)	2018	2019	2020E	2021E	2022E
<b>Cash flow from operations</b>	<b>539</b>	<b>539</b>	<b>666</b>	<b>741</b>	<b>797</b>
Net profit	350	332	430	481	539
Non-cash profit and expenses	541	663	527	561	599
Depreciation	247	271	312	349	387
Amortization	9	10	9	9	10
Other	286	382	206	202	202
Changes in A/L from operating activities	-237	-308	-125	-131	-145
<b>Cash flow from investments</b>	<b>-394</b>	<b>-383</b>	<b>-512</b>	<b>-558</b>	<b>-605</b>
Change in tangible assets	-388	-366	-440	-481	-523
Change in financial assets	-45	-73	-76	-80	-86
Other	39	56	3	3	3
<b>Cash flow from financing</b>	<b>-187</b>	<b>-165</b>	<b>-110</b>	<b>-112</b>	<b>-118</b>
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	-65	-69	-77
Change in cash	-41	-9	43	70	74
Cash at beginning of year	110	69	61	104	174
Cash at end of year	69	61	104	174	248
<b>Gross cash flow</b>	<b>891</b>	<b>996</b>	<b>958</b>	<b>1,041</b>	<b>1,138</b>
<b>Free cash flow</b>	<b>139</b>	<b>149</b>	<b>226</b>	<b>260</b>	<b>274</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)	2018	2019	2020E	2021E	2022E
<b>Current assets</b>	<b>844</b>	<b>767</b>	<b>849</b>	<b>972</b>	<b>1,109</b>
Cash & equivalents	69	61	104	174	248
Accounts receivable	302	310	322	340	368
Inventories	103	113	115	122	132
Other current assets	370	283	308	336	361
<b>Fixed assets</b>	<b>1,535</b>	<b>2,088</b>	<b>2,252</b>	<b>2,613</b>	<b>3,001</b>
Investment assets	53	19	17	17	18
Tangible assets	781	1,271	1,392	1,517	1,647
Intangible assets	160	168	166	163	159
Other long-term assets	540	630	677	916	1,177
<b>Total assets</b>	<b>2,379</b>	<b>2,855</b>	<b>3,102</b>	<b>3,585</b>	<b>4,110</b>
<b>Current liabilities</b>	<b>1,234</b>	<b>1,587</b>	<b>1,665</b>	<b>1,757</b>	<b>1,831</b>
Accounts payable	62	58	60	67	73
Short-term debt	731	861	904	949	996
Other current liabilities	441	668	701	741	762
<b>Long-term liabilities</b>	<b>57</b>	<b>191</b>	<b>189</b>	<b>189</b>	<b>190</b>
Bonds & long-term debt	10	9	9	9	9
Other long-term liabilities	47	181	180	179	180
<b>Total liabilities</b>	<b>1,291</b>	<b>1,778</b>	<b>1,854</b>	<b>1,945</b>	<b>2,020</b>
<b>Owners of parent equity</b>	<b>1,088</b>	<b>1,078</b>	<b>1,249</b>	<b>1,641</b>	<b>2,091</b>
Capital stock	41	41	41	41	41
Capital surplus	130	132	132	132	132
Retained earnings	967	954	1,124	1,517	1,967
Other	-49	-49	-49	-49	-49
<b>Non-controlling interests' equity</b>	<b>-0</b>	<b>-1</b>	<b>-1</b>	<b>-1</b>	<b>-1</b>
<b>Total equity</b>	<b>1,088</b>	<b>1,077</b>	<b>1,248</b>	<b>1,640</b>	<b>2,090</b>
Net debt	567	628	617	580	542

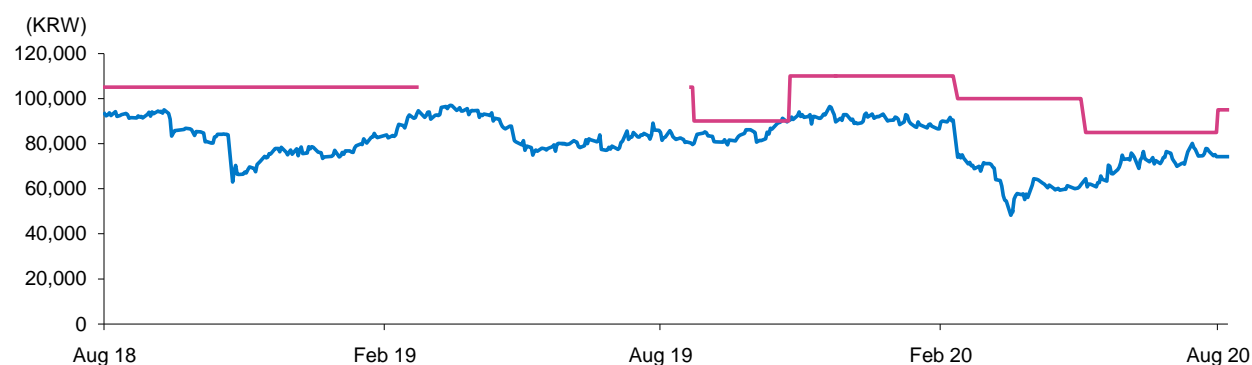
## Financial ratios

Year-end Dec 31	2018	2019	2020E	2021E	2022E
<b>Growth (%)</b>					
Sales	7.6	11.5	8.8	9.9	9.3
Operating profit	10.0	-11.8	30.0	9.8	10.1
Net profit	7.4	-5.0	29.5	11.7	12.0
Adjusted EPS**	9.4	-4.7	26.8	12.2	11.5
<b>Per-share data (KRW)</b>					
EPS (parent-based)	4,735	4,511	5,831	6,534	7,321
EPS (consolidated)	4,730	4,501	5,831	6,516	7,298
Adjusted EPS**	4,735	4,511	5,722	6,417	7,155
BVPS	15,074	14,931	17,210	22,617	28,819
DPS (common)	3,600	2,400	1,200	1,200	1,200
<b>Valuations (x)</b>					
P/E***	15.7	16.4	13.0	11.6	10.4
P/B***	4.9	5.0	4.3	3.3	2.6
EV/EBITDA	7.8	8.3	6.6	6.0	5.4
<b>Ratios (%)</b>					
ROE	33.8	30.7	37.0	33.4	29.0
ROA	15.4	12.7	14.4	14.4	14.0
ROIC	25.0	20.0	23.5	22.7	21.3
Payout ratio	74.2	52.1	20.2	18.1	16.1
Dividend yield (common)	4.9	3.2	1.6	1.6	1.6
Net debt to equity	52.1	58.3	49.5	35.4	25.9
Interest coverage (x)	29.2	20.9	31.2	33.3	35.6

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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	8/6
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	105,000	105,000	90,000	110,000	100,000	85,000	95,000
Gap* (average)	-18.92	-14.67	-6.26	-17.37	-36.78	-15.70	
(max or min)**	-9.52	-11.71	1.44	-12.27	-24.80	-5.76	

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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