

Coway

(021240 KS)

Resilient performance amid COVID-19

Buy
(Maintain)

TP: W98,000 ▲
Upside: 32.1%

Mirae Asset Daewoo Co., Ltd.

Jaekwang Rhee jkrhee@miraeeasset.com

2Q review

Solid results despite COVID-19, as expected

- Stripping away the effects of accounting standard changes, Coway posted revenue of W781.1bn (+3.4% YoY, +1.6% QoQ) and operating profit of W158.2bn (+14.4% YoY, +13.9% QoQ).
- The Malaysian subsidiary delivered solid 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.

2H20 outlook

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

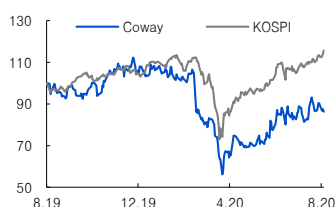
- Overseas revenue, which has grown at a CAGR of 35% since 2014, will likely continue to expand markedly thanks to expansion into new markets, including Malaysia, the US, and Indonesia.
- Domestic mattress rental revenue has grown at a CAGR of 30% since 2014, with revenue surging 55% YoY in 1H20. We believe rapid growth is attributable to rising demand for regular maintenance services amid mounting awareness of mattress hygiene.

Valuation

Raise TP by 4.3% to W98,000

- We raise our target price on Coway to W98,000 (from W94,000), 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 (8/5/20, W)	74,200	Market cap (Wbn)	5,476
OP (20F, Wbn)	591	Shares outstanding (mn)	74
Consensus OP (20F, Wbn)	560	Free float (%)	73.2
EPS growth (20F, %)	27.1	Foreign ownership (%)	60.0
P/E (20F, x)	12.9	Beta (12M)	0.92
Market P/E (20F, x)	16.3	52-week low (W)	48,250
KOSPI	2,311.86	52-week high (W)	96,500

Share performance

(%)	1M	6M	12M
Absolute	-3.0	-14.2	-13.6
Relative	-9.7	-19.6	-27.3

Earnings and valuation metrics

(Dec.)	2017	2018	2019	2020F	2021F	2022F
Revenue (Wbn)	2,517	2,707	3,019	3,221	3,493	3,755
OP (Wbn)	473	520	458	591	582	626
OP margin (%)	18.8	19.2	15.2	18.3	16.7	16.7
NP (Wbn)	326	350	333	423	416	449
EPS (W)	4,328	4,735	4,511	5,732	5,643	6,077
ROE (%)	30.1	33.8	30.7	32.6	24.8	22.0
P/E (x)	22.6	15.6	20.6	12.9	13.1	12.2
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

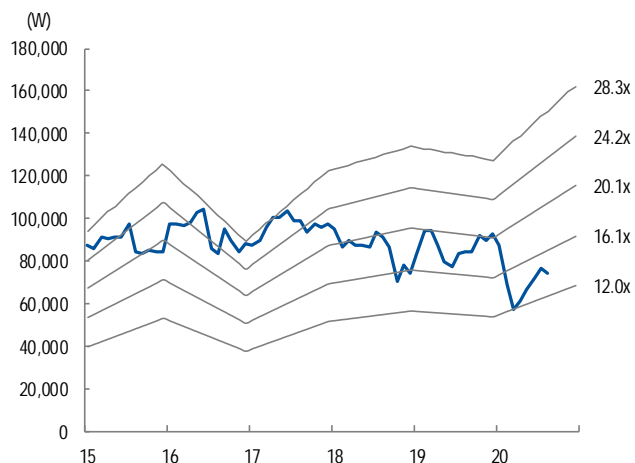
(Wbn, %)

	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20P	3Q20F	4Q20F	2019	2020F	2021F
Revenue	709	755	760	795	769	806	811	835	3,019	3,221	3,493
Domestic	518	533	535	526	529	550	535	538	2,111	2,153	2,244
Overseas	159	180	185	225	208	226	236	257	749	927	1,098
Other	33	42	40	43	31	40	40	40	158	151	150
OP	135	138	140	45	139	169	146	138	458	591	582
OP margin	19.1	18.3	18.5	5.6	18.1	21.0	17.9	16.5	15.2	18.3	16.7
Pretax profit	136	137	152	27	138	160	141	133	451	571	563
NP (attributable to owners)	101	102	111	20	102	119	104	98	333	423	416

Note: Reflecting accounting standard changes

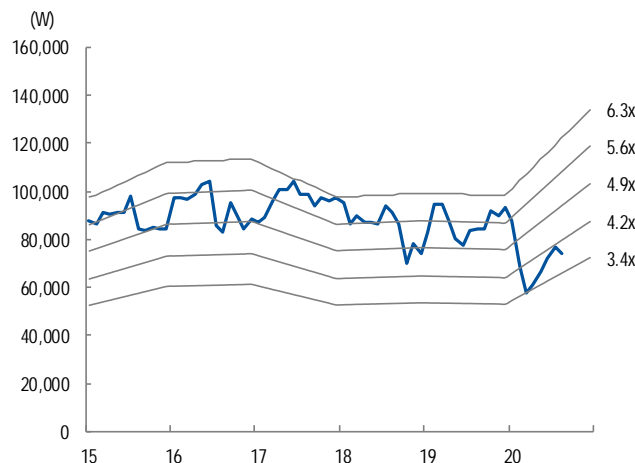
Source: Company data, Mirae Asset Daewoo Research estimates

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
Revenue	3,019	3,221	3,493	3,755
Cost of revenue	1,010	1,026	1,171	1,260
Gross profit	2,009	2,195	2,322	2,495
SG&A expenses	1,550	1,604	1,739	1,870
OP (adj.)	458	591	582	626
OP	458	591	582	626
Non-operating profit	-7	-20	-19	-20
Net financial income	-21	-20	-20	-20
Net income from associates	0	-5	0	0
Pretax profit	451	571	563	606
Income tax	119	149	146	158
Profit from continuing operations	332	423	416	449
Profit from discontinued operations	0	0	0	0
NP	332	423	416	449
Attributable to owners	333	423	416	449
Attributable to minority interests	-1	0	0	0
Total comprehensive income	330	421	416	449
Attributable to owners	331	422	417	449
Attributable to minority interests	-1	0	0	0
EBITDA	739	1,110	1,068	1,088
FCF	149	474	457	456
EBITDA margin (%)	24.5	34.5	30.6	29.0
OP margin (%)	15.2	18.3	16.7	16.7
Net margin (%)	11.0	13.1	11.9	12.0

Cash flow statement (summarized)

(Wbn)	2019	2020F	2021F	2022F
Operating cash flow	539	929	912	912
NP	332	423	416	449
Non-cash income/expenses	663	731	651	639
Depreciation	271	509	476	454
Amortization	10	9	9	8
Other	382	213	166	177
Chg. in working capital	-308	-73	-9	-18
Chg. in AR & other receivables	-4	-6	-19	-26
Chg. in inventory	-5	-15	-1	-10
Chg. in AP & other payables	-9	-13	2	5
Income tax	-148	-153	-146	-158
Cash flow from investing activities	-383	-389	-400	-400
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
Cash flow from financing activities	-165	-8	-101	-101
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
Chg. in cash	-9	530	411	411
Beginning balance	69	61	591	1,002
Ending balance	61	591	1,002	1,412

Source: Company data, Mirae Asset Daewoo Research estimates

Balance sheet (summarized)

(Wbn)	2019	2020F	2021F	2022F
Current assets	767	1,344	1,779	2,227
Cash & equivalents	61	591	1,002	1,412
AR & other receivables	337	348	371	399
Inventory	113	132	133	143
Other current assets	256	273	273	273
Non-current assets	2,088	1,969	1,885	1,825
Investments in associates	0	0	0	0
PP&E	1,271	1,163	1,088	1,036
Intangible assets	168	147	138	130
Total assets	2,855	3,313	3,664	4,052
Current liabilities	1,587	1,596	1,611	1,630
AP & other payables	234	245	259	279
Short-term financial liabilities	876	876	876	876
Other current liabilities	477	475	476	475
Non-current liabilities	191	203	203	203
Long-term financial liabilities	27	26	26	26
Other non-current liabilities	164	177	177	177
Total liabilities	1,778	1,800	1,814	1,834
Equity attributable to owners	1,078	1,514	1,851	2,219
Capital stock	41	41	41	41
Capital surplus	132	132	132	132
Retained earnings	954	1,377	1,713	2,082
Minority interests	-1	-1	-1	-1
Shareholders' equity	1,077	1,513	1,850	2,218

Key valuation metrics/ratios

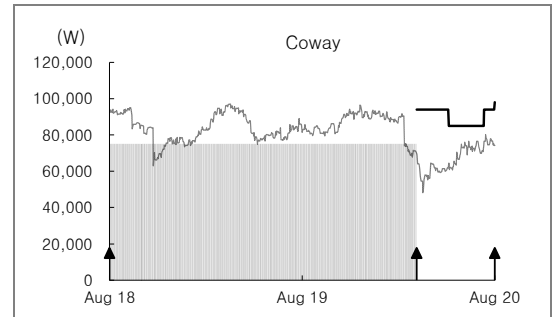
	2019	2020F	2021F	2022F
P/E (x)	20.6	12.9	13.1	12.2
P/CF (x)	6.9	4.7	5.1	5.0
P/B (x)	6.0	3.5	2.9	2.4
EV/EBITDA (x)	10.1	5.0	4.8	4.4
EPS (W)	4,511	5,732	5,643	6,077
CFPS (W)	13,491	15,641	14,466	14,736
BPS (W)	15,498	21,141	25,703	30,698
DPS (W)	2,400	1,100	1,100	1,100
Dividend payout ratio (%)	52.2	18.9	19.2	17.8
Dividend yield (%)	2.6	1.5	1.5	1.5
Revenue growth (%)	11.5	6.7	8.4	7.5
EBITDA growth (%)	-4.6	50.2	-3.8	1.9
OP growth (%)	-11.9	29.0	-1.5	7.6
EPS growth (%)	-4.7	27.1	-1.6	7.7
AR turnover (x)	9.9	10.1	10.4	10.5
Inventory turnover (x)	28.0	26.3	26.4	27.3
AP turnover (x)	16.8	16.7	17.8	18.2
ROA (%)	12.7	13.7	11.9	11.6
ROE (%)	30.7	32.6	24.8	22.0
ROIC (%)	20.0	25.5	26.4	29.4
Debt-to-equity ratio (%)	165.0	118.9	98.1	82.7
Current ratio (%)	48.3	84.2	110.4	136.6
Net debt-to-equity ratio (%)	58.3	6.0	-17.1	-32.5
Interest coverage ratio (x)	20.9	28.3	27.9	29.9

Appendix 1

Important disclosures and disclaimers

Two-year rating and TP history

Company	Date	Rating	TP (₩)
Coway (021240)	08/06/20	Buy	98,000
	07/17/20	Buy	94,000
	05/11/20	Buy	85,000
	03/11/20	Buy	94,000
	08/07/18	No Coverage	
	02/12/18	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)

Disclosures

As of the publication date, Mirae Asset Daewoo Co., Ltd. has acted as a liquidity provider for equity-linked warrants backed by shares of Coway as an underlying asset; other than this, Mirae Asset Daewoo has no other special interests in the covered companies.

Analyst certification

The research analysts who prepared this report (the "Analysts") are registered with the Korea Financial Investment Association and are subject to Korean securities regulations. They are neither registered as research analysts in any other jurisdiction nor subject to the laws or regulations thereof. Each Analyst responsible for the preparation of this report certifies that (i) all views expressed in this report accurately reflect the personal views of the Analyst about any and all of the issuers and securities named in this report and (ii) no part of the compensation of the Analyst was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report. Mirae Asset Daewoo Co., Ltd. ("Mirae Asset Daewoo") policy prohibits its Analysts and members of their households from owning securities of any company in the Analyst's area of coverage, and the Analysts do not serve as an officer, director, or advisory board member of the subject companies. Except as otherwise specified herein, the Analysts have not received any compensation or any other benefits from the subject companies in the past 12 months and have not been promised the same in connection with this report. Like all employees of Mirae Asset Daewoo, the Analysts receive compensation that is determined by overall firm profitability, which includes revenues from, among other business units, the institutional equities, investment banking, proprietary trading, and private client divisions. At the time of publication of this report, the Analysts do not know or have reason to know of any actual, material conflict of interest of the Analyst or Mirae Asset Daewoo except as otherwise stated herein.

Disclaimers

This report was prepared by Mirae Asset Daewoo, a broker-dealer registered in the Republic of Korea and a member of the Korea Exchange. Information and opinions contained herein have been compiled in good faith and from sources believed to be reliable, but such information has not been independently verified and Mirae Asset Daewoo makes no guarantee, representation or warranty, express or implied, as to the fairness, accuracy, completeness, or correctness of the information and opinions contained herein or of any translation into English from the Korean language. In case of an English translation of a report prepared in the Korean language, the original Korean language report may have been made available to investors in advance of this report.

The intended recipients of this report are sophisticated institutional investors who have substantial knowledge of the local business environment, its common practices, laws, and accounting principles, and no person whose receipt or use of this report would violate any laws or regulations or subject Mirae Asset Daewoo or any of its affiliates to registration or licensing requirements in any jurisdiction shall receive or make any use hereof.

This report is for general information purposes only and is not and shall not be construed as an offer or a solicitation of an offer to effect transactions in any securities or other financial instruments. The report does not constitute investment advice to any person, and such person shall not be treated as a client of Mirae Asset Daewoo by virtue of receiving this report. This report does not take into account the particular investment objectives, financial situations, or needs of individual clients. The report is not to be relied upon in substitution for the exercise of independent judgment. Information and opinions contained herein are as of the date hereof and are subject to change without notice. The price and value of the investments referred to in this report and the income from them may depreciate or appreciate, and investors may incur losses on investments. Past performance is not a guide to future performance. Future returns are not guaranteed, and a loss of original capital may occur. Mirae Asset Daewoo, its affiliates, and their directors, officers, employees, and agents

do not accept any liability for any loss arising out of the use hereof.

Mirae Asset Daewoo may have issued other reports that are inconsistent with, and reach different conclusions from, the opinions presented in this report. The reports may reflect different assumptions, views, and analytical methods of the analysts who prepared them. Mirae Asset Daewoo may make investment decisions that are inconsistent with the opinions and views expressed in this research report. Mirae Asset Daewoo, its affiliates, and their directors, officers, employees, and agents may have long or short positions in any of the subject securities at any time and may make a purchase or sale, or offer to make a purchase or sale, of any such securities or other financial instruments from time to time in the open market or otherwise, in each case either as principals or agents. Mirae Asset Daewoo and its affiliates may have had, or may be expecting to enter into, business relationships with the subject companies to provide investment banking, market-making, or other financial services as are permitted under applicable laws and regulations.

No part of this document may be copied or reproduced in any manner or form or redistributed or published, in whole or in part, without the prior written consent of Mirae Asset Daewoo. For further information regarding company-specific information as it pertains to the representations and disclosures in this Appendix 1, please contact compliance@miraeasset.us.com or +1 (212) 407-1000.

Distribution

United Kingdom: This report is being distributed by Mirae Asset Securities (UK) Ltd. in the United Kingdom only to (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order"), and (ii) high net worth companies and other persons to whom it may lawfully be communicated, falling within Article 49(2)(A) to (E) of the Order (all such persons together being referred to as "Relevant Persons"). This report is directed only at Relevant Persons. Any person who is not a Relevant Person should not act or rely on this report or any of its contents.

United States: Mirae Asset Daewoo is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This report is distributed in the U.S. by Mirae Asset Securities (USA) Inc., a member of FINRA/SIPC, to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6(b)(4) under the U.S. Securities Exchange Act of 1934, as amended. All U.S. persons that receive this document by their acceptance hereof represent and warrant that they are a major U.S. institutional investor and have not received this report under any express or implied understanding that they will direct commission income to Mirae Asset Daewoo or its affiliates. Any U.S. recipient of this document wishing to effect a transaction in any securities discussed herein should contact and place orders with Mirae Asset Securities (USA) Inc. Mirae Asset Securities (USA) Inc. accepts responsibility for the contents of this report in the U.S., subject to the terms hereof, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through Mirae Asset Daewoo. The securities described in this report may not have been registered under the U.S. Securities Act of 1933, as amended, and, in such case, may not be offered or sold in the U.S. or to U.S. persons absent registration or an applicable exemption from the registration requirements.

Hong Kong: This report is distributed in Hong Kong by Mirae Asset Securities (HK) Limited, which is regulated by the Hong Kong Securities and Futures Commission. The contents of this report have not been reviewed by any regulatory authority in Hong Kong. This report is for distribution only to professional investors within the meaning of Part I of Schedule 1 to the Securities and Futures Ordinance of Hong Kong (Cap. 571, Laws of Hong Kong) and any rules made thereunder and may not be redistributed in whole or in part in Hong Kong to any person.

All other jurisdictions: Customers in all other countries who wish to effect a transaction in any securities referenced in this report should contact Mirae Asset Daewoo or its affiliates only if distribution to or use by such customer of this report would not violate applicable laws and regulations and not subject Mirae Asset Daewoo and its affiliates to any registration or licensing requirement within such jurisdiction.

Mirae Asset Daewoo International Network

Mirae Asset Daewoo Co., Ltd. (Seoul)

One-Asia Equity Sales Team
Mirae Asset Center 1 Building
26 Eulji-ro 5-gil, Jung-gu, Seoul 04539
Korea

Tel: 82-2-3774-2124

Mirae Asset Securities (USA) Inc.

810 Seventh Avenue, 37th Floor
New York, NY 10019
USA

Tel: 1-212-407-1000

PT. Mirae Asset Sekuritas Indonesia

Equity Tower Building Lt. 50
Sudirman Central Business District
Jl. Jend. Sudirman, Kav. 52-53
Jakarta Selatan 12190
Indonesia

Tel: 62-21-515-3281

Mirae Asset Securities Mongolia UTsK LLC

#406, Blue Sky Tower, Peace Avenue 17
1 Khoroo, Sukhbaatar District
Ulaanbaatar 14240
Mongolia

Tel: 976-7011-0806

Shanghai Representative Office

38T31, 38F, Shanghai World Financial Center
100 Century Avenue, Pudong New Area
Shanghai 200120
China

Tel: 86-21-5013-6392

Mirae Asset Securities (HK) Ltd.

Units 8501, 8507-8508, 85/F
International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

Tel: 852-2845-6332

Mirae Asset Wealth Management (USA) Inc.

555 S. Flower Street, Suite 4410,
Los Angeles, California 90071
USA

Tel: 1-213-262-3807

Mirae Asset Securities (Singapore) Pte. Ltd.

6 Battery Road, #11-01
Singapore 049909
Republic of Singapore

Tel: 65-6671-9845

Mirae Asset Investment Advisory (Beijing) Co., Ltd

2401B, 24th Floor, East Tower, Twin Towers
B12 Jianguomenwai Avenue, Chaoyang District
Beijing 100022
China

Tel: 86-10-6567-9699

Ho Chi Minh Representative Office

7F, Saigon Royal Building
91 Pasteur St.
District 1, Ben Nghe Ward, Ho Chi Minh City
Vietnam

Tel: 84-8-3910-7715

Mirae Asset Securities (UK) Ltd.

41st Floor, Tower 42
25 Old Broad Street,
London EC2N 1HQ
United Kingdom

Tel: 44-20-7982-8000

Mirae Asset Wealth Management (Brazil) CCTVM

Rua Funchal, 418, 18th Floor, E-Tower Building
Vila Olimpia
Sao Paulo - SP
04551-060
Brazil

Tel: 55-11-2789-2100

Mirae Asset Securities (Vietnam) LLC

7F, Saigon Royal Building
91 Pasteur St.
District 1, Ben Nghe Ward, Ho Chi Minh City
Vietnam

Tel: 84-8-3911-0633 (ext.110)

Beijing Representative Office

2401A, 24th Floor, East Tower, Twin Towers
B12 Jianguomenwai Avenue, Chaoyang District
Beijing 100022
China

Tel: 86-10-6567-9699 (ext. 3300)
