



Coway (021240)

2Q20 Review: Health-focused Home Appliances Support Differentiated Earnings Stability

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Removal of earnings uncertainty will translate into stock rebound

We maintain BUY and raise our TP by 9% to KRW93,000 because our 2020 OP forecast was raised by 7% (marginal revisions were made for 2021 and beyond) and WACC was lowered (5.44%→5.03%). Our new TP represents a 15.7x 12m fwd implied P/E. Shrugging off COVID-19, businesses at home and abroad are faring quite well. With people spending more time at home and paying greater attention to health and hygiene, health-focused home appliances are in high demand, adding to differentiated earnings stability. But the resumption of strikes by CS doctors is a weak spot that has dampened the net increase in new rental contracts in 3Q20. Added to this are the costs to be incurred if the employees are given regular employment status. However, we think the related risks have already been priced in. Coway will push harder to boost its top line once the pandemic subsides, translating into a stock rebound.

2Q20 review: Solid earnings despite COVID-19

Coway delivered 2Q20 consolidated revenue of KRW805.5bn (+7% YoY) and OP of KRW169.2bn (+22% YoY). Revenue was in line but OP beat the market consensus by 20%. Excluding one-offs, **consolidated revenue/OP** rose 3%/1%. Including the one-offs, which are associated with changes in accounting involving customer churn (vs. 2Q19's one-offs of KRW3.0bn in royalty income and KRW15.4bn in costs incurred for CS doctors), revenue/OP increased KRW24.5bn/KRW11.0bn.

Standalone revenue/OP reached KRW655.4bn (+3% YoY)/KRW138.9bn (+26% YoY). Excluding one-offs, revenue/OP fell 1% each:

Buy Maintain

Target Price (raised)	KRW93,000
Dividend yield*	1.3%
Total return	26.6%
Current price (Aug 5)	KRW74,200
Consensus target price	KRW88,143
Market capitalization	USD4.6bn

* 12-month forward

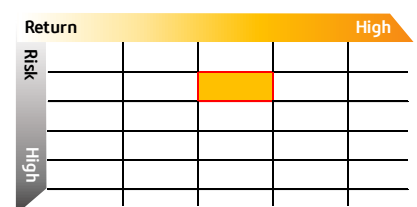
Trading Data

Free float	73.2%
Avg. T/O vol. (3m, KRWbn)	19.4
Foreign ownership	60.0%
Major shareholders	Netmarble and 5 others 25.1%
	National Pension Service 8.3%

Stock Price Performance

(%)	1M	3M	6M	12M
Absolute	-3.0	23.7	-14.2	-13.6
Relative	-9.7	1.4	-19.6	-27.3

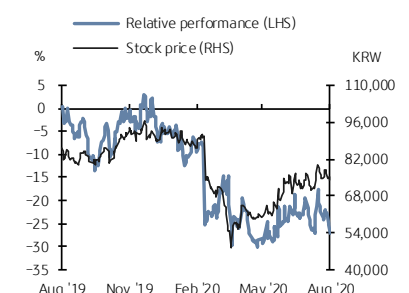
Risk & Total Return (annualized over three years)



Earnings Forecast & Valuation

Fiscal year-end	2019A	2020E	2021E	2022E
Revenue (KRWbn)	3,019	3,241	3,550	3,851
OP (KRWbn)	458	591	621	657
NP to control. int. (KRWbn)	333	415	439	467
EPS (KRW)	4,511	5,619	5,944	6,334
EPS growth (%)	-4.7	24.6	5.8	6.6
P/E (x)	20.6	13.2	12.5	11.7
EV/EBITDA (x)	10.1	6.5	6.0	5.5
P/B (x)	6.4	3.6	2.9	2.4
ROE (%)	30.7	32.1	26.0	22.6
Div. yield (%)	2.6	1.3	1.4	1.5

Stock Price & Relative Performance

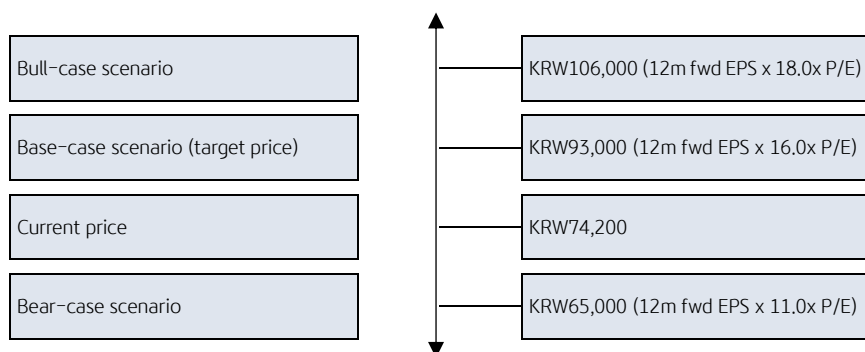


Source(s): Company data, KB Securities

- (1) New rental sales and lump-sum payment sales declined 15% and 38%, respectively. Sales volume for air purifiers was curbed amid improvements in air quality, with the COVID-19 pandemic dampening sales overall.
- (2) The churn rate recovered to 1.04% (-0.07pp QoQ).
- (3) The net increase in new rental sales was at only 33,000 accounts (-70% YoY).
- (4) OPM was 21%; excluding one-offs, this metric held steady YoY at 20%, with limited marketing activity despite weakened rental sales.

The Malaysian subsidiary saw revenue/OP up 22%YoY/5% YoY, defying lockdown measures, and the U.S. subsidiary posted a revenue increase of 36% YoY, with OP at KRW4.9bn (15% OPM) amid brisk offline sales.

Investment Opinion & Risks



Base-case scenario: Catalysts

- 1) 3y domestic sales CAGR at 4%
- 2) 3y overseas sales CAGR at 20%

Bull-case scenario: Upside risk

- 1) 3y domestic sales CAGR above 4%
- 2) 3y overseas sales CAGR above 20%

Bear-case scenario: Downside risk

- 1) 3y domestic sales CAGR below 4%
- 2) 3y overseas sales CAGR below 20%

Revised Earnings Estimates

(KRWbn, %)	Previous		Revised		Change	
	2020E	2021E	2020E	2021E	2020E	2021E
Revenue	3,213.2	3,555.2	3,241.1	3,550.2	0.9	-0.1
OP	554.0	609.2	590.9	620.9	6.7	1.9
NP (to control. int.)	386.4	429.9	414.7	438.7	7.3	2.1

Source(s): KB Securities estimates

KB Estimates vs. Consensus

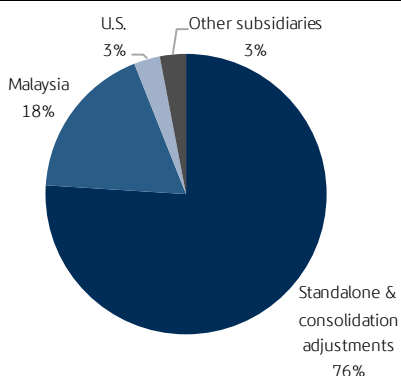
(KRWbn, %)	KB Estimates		Consensus		Difference	
	2020E	2021E	2020E	2021E	2020E	2021E
Revenue	3,241.1	3,550.2	3,240.4	3,509.8	0.0	1.2
OP	590.9	620.9	560.2	601.5	5.5	3.2
NP (to control. int.)	414.7	438.7	401.8	434.7	3.2	0.9

Source(s): FnGuide, KB Securities estimates

Valuation & Target Price Calculation

- 1) Valuation method:
Discounted cash flow model
- 2) Target price calculation:
5.03% WACC; 1.6% TGR
- 3) Target price range:
KRW65,000 - KRW106,000
- 4) Valuation at target price:
15.7x 12m fwd implied P/E, 3.98x P/B

Revenue Composition (2019)



Source(s): Company data, KB Securities

Earnings Sensitivity Analysis

(%)	EPS change	
	2020E	2021E
+1pp in interest rate	-0.8	-0.6
+1% in FX rate	+0.3	+0.2

Peer Group Comparison

(KRWbn, x, %)	Market Cap	12m fwd P/E	3y EPS CAGR	12m fwd P/B	12m fwd ROE	12m fwd EV/EBITDA	3y EBITDA CAGR
Coway	5,475.9	12.8	6.2	3.2	24.9	6.3	5.3
Amorepacific	9,645.7	42.8	92.8	2.4	5.6	10.9	26.8
LG H&H	21,303.2	27.8	11.6	4.6	16.5	14.0	9.7

Source(s): KB Securities

Table 1. 2Q20 Consolidated Earnings

(KRWbn)	2Q20	2Q19	YoY (%)	1Q20	QoQ (%)	Consensus	Var. (%)	KB	Var. (%)
Revenue	805.5	755.5	6.6	768.9	4.8	792.3	1.7	785.6	2.5
OP	169.2	138.2	22.4	138.9	21.8	141.2	19.8	133.1	27.1
EBT	159.5	136.8	16.6	138.3	15.3	136.9	16.5	122.7	30.0
NP (to parent)	119.0	101.9	16.7	101.6	17.1	95.2	25.0	91.0	30.7
OPM (%)	21.0	18.3		18.1		17.8		16.9	
EBT margin (%)	19.8	18.1		18.0		17.3		15.6	
NPM (to parent) (%)	14.8	13.5		13.2		12.0		11.6	

Sources: Company data, FnGuide, KB Securities

Table 2. 2Q20 Earnings (excl. one-offs)

(KRWbn)	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20P
One-offs (all domestic)						
1) One-off operating income						
Royalties		-3.0	-3.0	-3.0	-3.0	
CS Doctor-related costs		-15.4		-77.0		
2) Churn accounting change						
One-off revenue						24.5
One-off operating income						11.0
Earnings excl. one-offs (consolidated)						
Revenue	709.3	755.5	759.6	794.6	768.9	781.0
YoY (%)					8.4	3.4
OP	135.2	156.6	143.3	124.6	141.9	158.2
YoY (%)					5.0	1.0
OPM (%)	19.1	20.7	18.9	15.7	18.4	20.2
Earnings excl. one-offs (standalone)						
Revenue (standalone)	606.6	635.2	651.0	638.2	628.5	630.9
YoY (%)					3.6	-0.7
OP	122.4	129.2	142.2	102.4	118.7	127.9
YoY (%)					-3.0	-0.9
OPM (%)	20.2	20.3	21.8	16.0	18.9	20.3

Source(s): Company data, KB Securities

Table 3. Earnings Estimate Revisions

(KRWbn)	Previous			Revised			Change (%)		
	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
Revenue	3,213.2	3,555.2	3,858.9	3,241.1	3,550.2	3,851.1	0.9	-0.1	-0.2
OP	554.0	609.2	659.3	590.9	620.9	657.1	6.7	1.9	-0.3
EBT	522.4	579.7	632.5	559.6	591.7	630.4	7.1	2.1	-0.3
NP (to control. int.)	386.4	429.9	469.0	414.7	438.7	467.5	7.3	2.1	-0.3
EPS (KRW)	5,247	5,952	6,494	5,619	6,046	6,443	7.1	1.6	-0.8
YoY (%)									
Revenue	6.4	10.6	8.5	7.4	9.5	8.5			
OP	20.9	10.0	8.2	28.9	5.1	5.8			
EBT	15.7	11.0	9.1	24.0	5.7	6.6			
NP (to control. int.)	16.1	11.2	9.1	24.5	5.8	6.6			
EPS	16.3	13.4	9.1	24.5	7.6	6.6			
OPM (%)	17.2	17.1	17.1	18.2	17.5	17.1			
EBT margin (%)	16.3	16.3	16.4	17.3	16.7	16.4			
NPM (to control. int.) (%)	12.0	12.1	12.2	12.8	12.4	12.1			

Source(s): Company data, KB Securities estimates

Note: Previous estimates made on May 11, 2020

Table 4. Earnings Forecast (consolidated)

(KRWbn)		1Q19	2Q19	3Q19	4Q19	1Q20	2Q20P	3Q20E	4Q20E	2018	2019	2020E	2021E	2022E
Revenue		709.3	755.5	759.6	794.6	768.9	805.5	821.1	845.5	2,707.3	3,018.9	3,241.1	3,550.2	3,851.1
Standalone		606.6	635.2	651.0	638.2	628.5	655.4	661.5	651.0	2,395.5	2,531.0	2,596.4	2,745.1	2,875.9
Malaysia		112.5	127.6	133.6	152.6	153.3	155.9	173.7	198.4	353.4	526.3	681.3	825.4	990.5
U.S.		20.9	23.6	22.5	30.3	27.2	32.1	28.1	35.5	80.5	97.3	122.9	142.0	159.1
Other subsidiaries		16.7	27.4	24.4	34.2	20.8	16.9	19.6	24.3	88.5	102.7	81.6	104.8	115.5
Cons. adj.		-47.4	-58.4	-71.9	-60.7	-60.9	-54.8	-61.8	-63.6	-210.8	-238.4	-241.1	-267.2	-289.9
YoY (%)	Revenue	9.5	11.4	13.4	11.7	8.4	6.6	8.1	6.4	7.6	11.5	7.4	9.5	8.5
	Standalone	6.1	6.6	9.3	0.9	3.6	3.2	1.6	2.0	3.2	5.7	2.6	5.7	4.8
	Malaysia	71.1	39.3	44.7	47.0	36.3	22.2	30.0	30.0	70.4	48.9	29.4	21.2	20.0
	U.S.	19.1	35.6	6.6	24.2	30.1	36.0	25.0	17.0	23.7	20.9	26.3	15.6	12.0
	Other subsidiaries	-26.5	9.2	18.4	70.1	24.6	-38.3	-19.5	-29.0	37.3	16.0	-20.5	28.4	10.2
	Cons. adj.	RR	RR	RR	RR	RR	RR	RR	RR	RR	RR	RR	RR	RR
Proportion (%)	Revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	Standalone	85.5	84.1	85.7	80.3	81.7	81.4	80.6	77.0	88.5	83.8	80.1	77.3	74.7
	Malaysia	15.9	16.9	17.6	19.2	19.9	19.4	21.2	23.5	13.1	17.4	21.0	23.3	25.7
	U.S.	2.9	3.1	3.0	3.8	3.5	4.0	3.4	4.2	3.0	3.2	3.8	4.0	4.1
	Other subsidiaries	2.4	3.6	3.2	4.3	2.7	2.1	2.4	2.9	3.3	3.4	2.5	3.0	3.0
	Cons. adj.	-6.7	-7.7	-9.5	-7.6	-7.9	-6.8	-7.5	-7.5	-7.8	-7.9	-7.4	-7.5	-7.5
Operating profit		135.2	138.2	140.3	44.6	138.9	169.2	145.1	137.8	519.8	458.3	590.9	620.9	657.1
Standalone		122.4	110.8	139.2	22.4	115.7	138.9	122.4	110.7	477.2	394.7	487.7	507.7	517.6
Malaysia		19.1	22.1	14.2	20.2	25.2	23.3	26.1	29.8	62.3	75.6	104.3	123.8	148.6
U.S.		0.8	0.4	-0.9	3.0	2.6	4.9	2.0	2.1	3.1	3.3	11.6	8.5	11.1
Other subsidiaries		-2.8	1.3	0.0	-0.2	-0.6	-1.4	-0.8	-0.5	-8.6	-1.7	-3.3	0.1	0.2
Cons. adj.		-4.3	3.7	-12.2	-0.7	-4.0	3.4	-4.5	-4.3	-14.2	-13.6	-9.4	-19.2	-20.3
YoY (%)	OP	2.9	6.9	7.6	-65.4	2.7	22.4	3.4	208.8	10.0	-11.8	28.9	5.1	5.8
	Standalone	-0.6	-7.6	15.4	-80.3	-5.5	25.5	-12.1	394.7	-0.2	-17.3	23.6	4.1	1.9
	Malaysia	107.6	39.0	-16.5	0.0	31.9	5.4	83.5	47.3	256.0	21.3	38.0	18.7	20.0
	U.S.	33.3	TTB	TTR	130.8	225.0	1,125.0	TTB	-29.1	520.0	6.5	251.4	-26.5	30.7
	Other subsidiaries	RR	TTB	TTB	RR	RR	TTR	TTR	RR	RR	RR	RR	TTB	224.9
	Cons. adj.	TTR	TTB	RR	RR	RR	-7.4	RR	RR	RR	RR	RR	RR	RR
OPM (%)	OP	19.1	18.3	18.5	5.6	18.1	21.0	17.7	16.3	19.2	15.2	18.2	17.5	17.1
	Standalone	20.2	17.4	21.4	3.5	18.4	21.2	18.5	17.0	19.9	15.6	18.8	18.5	18.0
	Malaysia	17.0	17.3	10.6	13.2	16.4	14.9	15.0	15.0	17.6	14.4	15.3	15.0	15.0
	U.S.	3.8	1.7	-4.0	9.9	9.6	15.3	7.0	6.0	3.9	3.4	9.4	6.0	7.0
	Other subsidiaries	-16.8	4.7	0.0	-0.6	-2.8	-8.3	-4.3	-2.0	-9.7	-1.6	-4.1	0.1	0.2
	Cons. adj.	9.1	-6.3	17.0	1.2	6.6	-6.2	7.3	6.7	6.7	5.7	3.9	7.2	7.0
Proportion (%)	OP	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	Standalone	90.5	80.1	99.2	50.1	83.3	82.1	84.4	80.3	91.8	86.1	82.5	81.8	78.8
	Malaysia	14.1	16.0	10.1	45.3	18.1	13.8	18.0	21.6	12.0	16.5	17.7	19.9	22.6
	U.S.	0.6	0.3	-0.6	6.7	1.9	2.9	1.4	1.5	0.6	0.7	2.0	1.4	1.7
	Other subsidiaries	-2.1	0.9	0.0	-0.4	-0.4	-0.8	-0.6	-0.4	-1.7	-0.4	-0.6	0.0	0.0
Gross profit		476.4	506.4	509.0	516.7	521.7	554.8	546.9	546.4	1,829.1	2,008.5	2,169.8	2,362.6	2,547.3
EBT		135.5	136.8	152.3	26.8	138.3	159.5	134.7	127.0	468.6	451.4	559.6	591.7	630.4
NP (to control. int.)		100.5	101.9	110.8	19.7	101.6	119.0	99.9	94.2	350.2	332.9	414.7	438.7	467.5
EBITDA		206.3	212.2	217.9	103.1	275.7	245.4	221.3	153.5	775.4	739.5	896.0	942.3	993.6
YoY (%)	GP	6.8	10.1	11.7	10.6	9.5	9.6	7.5	5.7	6.4	9.8	8.0	8.9	7.8
	EBT	6.1	11.5	28.8	-73.2	2.1	16.6	-11.5	373.7	6.5	-3.7	24.0	5.7	6.6
	NP (to control. int.)	5.4	12.3	17.4	-71.7	1.1	16.7	-9.8	377.5	7.4	-4.9	24.5	5.8	6.6
	EBITDA	7.0	10.4	11.8	-47.3	33.7	15.7	1.6	48.8	9.5	-4.6	21.2	5.2	5.4
GPM (%)		67.2	67.0	67.0	65.0	67.8	68.9	66.6	64.6	67.6	66.5	66.9	66.5	66.1
EBT margin (%)		19.1	18.1	20.0	3.4	18.0	19.8	16.4	15.0	17.3	15.0	17.3	16.7	16.4
NPM (to control. int.) (%)		14.2	13.5	14.6	2.5	13.2	14.8	12.2	11.1	12.9	11.0	12.8	12.4	12.1
EBITDA margin (%)		29.1	28.1	28.7	13.0	35.9	30.5	27.0	18.2	28.6	24.5	27.6	26.5	25.8

Source(s): Company data, KB Securities estimates

Table 5. Earnings Forecast (standalone)

(KRWbn)	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20P	3Q20E	4Q20E	2018	2019	2020E	2021E	2022E
Revenue	606.6	635.2	651.0	638.2	628.5	655.4	661.5	651.0	2,395.5	2,531.0	2,596.4	2,745.1	2,875.9
Domestic home appliance	517.6	532.7	534.5	526.4	529.4	552.9	542.1	534.2	2,017.5	2,111.2	2,158.6	2,268.0	2,356.8
Rental	384.7	391.7	396.7	399.5	401.9	405.3	397.5	401.1	1,527.7	1,572.6	1,605.8	1,649.1	1,709.0
Home care	56.3	67.6	72.9	61.5	68.9	87.1	89.7	75.7	185.1	258.4	321.4	363.1	392.2
Membership	27.9	27.0	26.7	25.7	24.7	25.9	23.8	23.1	121.2	107.3	97.4	91.5	86.9
Lump-sum	45.6	43.5	35.5	36.6	30.9	31.9	28.5	31.5	170.8	161.3	122.7	153.2	157.9
Other	3.0	2.9	2.7	3.0	3.1	2.6	2.7	2.9	12.8	11.7	11.3	11.0	10.8
Export	70.1	83.8	97.9	91.7	81.8	85.2	102.4	98.4	302.5	343.5	367.7	405.4	445.9
Cosmetics	18.9	18.8	18.5	20.1	17.3	17.3	17.1	18.5	75.5	76.3	70.1	71.7	73.1
YoY (%)													
Revenue	6.1	6.6	9.3	0.9	3.6	3.2	1.6	2.0	3.2	5.7	2.6	5.7	4.8
Domestic HA	4.2	5.4	7.3	1.7	2.3	3.8	1.4	1.5	1.8	4.6	2.2	5.1	3.9
Rental	1.6	2.3	3.8	4.0	4.5	3.5	0.2	0.4	1.4	2.9	2.1	2.7	3.6
Home care	45.9	65.5	61.4	1.7	22.4	28.8	23.0	23.0	50.7	39.6	24.4	13.0	8.0
Membership	-13.5	-13.3	-9.1	-9.6	-11.5	-4.0	-11.0	-10.2	-16.3	-11.5	-9.2	-6.1	-5.0
Lump-sum	4.0	-7.9	-7.2	-11.5	-32.3	-26.7	-19.8	-14.2	-11.2	-5.6	-23.9	24.9	3.0
Other	-6.0	-14.8	-8.9	-4.1	1.7	-9.2	-2.0	-5.0	-15.8	-8.6	-3.6	-2.0	-2.0
Export	29.1	16.6	22.5	-4.9	16.7	1.7	4.5	7.3	16.5	13.6	7.1	10.2	10.0
Cosmetics	-8.1	1.0	5.7	6.9	-8.6	-7.8	-8.0	-8.0	-5.3	1.1	-8.1	2.2	2.0
Proportion (%)													
Revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Domestic HA	85.3	83.9	82.1	82.5	84.2	84.4	81.9	82.1	84.2	83.4	83.1	82.6	82.0
Rental	63.4	61.7	60.9	62.6	63.9	61.8	60.1	61.6	63.8	62.1	61.8	60.1	59.4
Home care	9.3	10.6	11.2	9.6	11.0	13.3	13.6	11.6	7.7	10.2	12.4	13.2	13.6
Membership	4.6	4.2	4.1	4.0	3.9	4.0	3.6	3.5	5.1	4.2	3.8	3.3	3.0
Lump-sum	7.5	6.9	5.5	5.7	4.9	4.9	4.3	4.8	7.1	6.4	4.7	5.6	5.5
Other	0.5	0.5	0.4	0.5	0.5	0.4	0.4	0.4	0.5	0.5	0.4	0.4	0.4
Export	11.6	13.2	15.0	14.4	13.0	13.0	15.5	15.1	12.6	13.6	14.2	14.8	15.5
Cosmetics	3.1	3.0	2.8	3.1	2.8	2.6	2.6	2.8	3.2	3.0	2.7	2.6	2.5
OP	122.4	110.8	139.2	22.4	115.7	138.9	122.4	110.7	477.2	394.7	487.7	507.7	517.6
YoY (%)	-0.6	-7.6	15.4	-80.3	-5.5	25.5	-12.1	394.7	-0.2	-17.3	23.6	4.1	1.9
OPM (%)	20.2	17.4	21.4	3.5	18.4	21.2	18.5	17.0	19.9	15.6	18.8	18.5	18.0
Key rental assumptions													
Total accounts ('000)	5,349.8	5,458.3	5,635.8	5,687.7	5,740.4	5,773.4	5,793.7	5,868.8	5,229.8	5,687.7	5,868.8	6,124.5	6,406.1
New ('000)	408.3	416.9	388.7	358.1	377.5	355.5	334.3	393.9	1,450.0	1,572.1	1,461.2	1,605.2	1,653.3
Churns ('000)	159.5	162.7	160.0	177.0	189.2	179.0	179.0	175.0	644.5	659.1	722.2	719.1	749.9
Expiries ('000)	128.8	145.7	51.2	129.3	135.6	143.5	135.1	143.8	545.7	455.0	557.9	630.4	621.8
Monthly ARPU (KRW)	27,792	28,331	28,218	27,145	27,465	28,513	28,077	27,253	27,988	27,952	27,793	27,964	27,948
Monthly avg. churn rate (%)	1.02	1.01	0.98	1.05	1.11	1.04	1.03	1.01	1.08	1.05	1.06	1.02	1.02
Expiries (%)	40.7	39.3	16.5	39.0	39.8	38.7	40.0	40.0	46.8	34.2	39.6	45.0	45.0
Key membership assumptions													
Total accounts ('000)	644.9	628.4	604.8	593.8	572.4	555.3	544.3	534.4	670.3	593.8	534.4	513.0	487.4
Monthly ARPU (KRW)	14,130	14,116	14,458	14,297	14,098	15,307	14,429	14,268	13,941	14,145	14,394	14,556	14,482
Key lump-sum assumptions													
New sales ('000)	58.8	49.3	43.6	42.5	34.9	30.6	32.7	36.1	197.2	194.2	134.3	165.6	168.9
ARPU (KRW)	776,074	882,868	814,307	861,815	885,102	1,042,563	871,308	870,433	866,032	830,542	913,677	925,485	934,740
Disposal loss (cons.) (KRWbn)	10.4	11.1	21.2	8.5	23.6	20.7	16.9	17.0	48.8	51.2	78.3	63.7	63.7

Source(s): Company data, KB Securities estimates

Table 6. TP Calculation: Discounted Cash Flow Model

(KRWbn)		2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Cash flow estimates									
OP	a	458.3	590.9	620.9	657.1	673.5	685.8	690.9	718.6
Effective tax rate (%)	b	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0
NOPLAT	$C=a*(1-b)$	343.7	443.2	465.7	492.8	505.2	514.3	518.2	538.9
D&A	d	281.2	305.1	321.4	336.5	346.2	352.9	359.7	366.7
Total cash flow	$E=C+d$	624.9	748.3	787.1	829.3	851.4	867.2	877.9	905.6
Total investment	$F=g+h$	-698.6	-637.5	-595.2	-601.2	-610.0	-620.0	-630.0	-640.0
Working capital change	g	-308.0	-237.5	-185.2	-181.2	-190.0	-200.0	-210.0	-220.0
Capex	h	-390.6	-400.0	-410.0	-420.0	-420.0	-420.0	-420.0	-420.0
FCFF	$I=E+F$	-73.7	110.8	191.8	228.2	241.4	247.2	247.9	265.6
PV of cash flows									
Discount rate				2.0%	7.2%	12.6%	18.2%	24.2%	
PV of FCFF				75.7	212.9	214.5	209.1	199.7	
Total PV of FCFF (2021E-25E)	j			911.9					
Terminal growth rate (%)				1.6%			30y treasury bond yield		
Terminal value (2026E)				7,738.3			2026E FCFF / (WACC - TGR)		
PV of terminal value	k			6,232.3	5.03% WACC (0.68% risk-free rate; 5.93% market risk premium)				
Valuation									
Total cash flow (PV)	$L=j+k$			7,144.2					
Cash & cash equivalents	m			196.8					
Short-term financial assets	n			225.1					
Debt	o			810.4					
Fair value of company	$P=L+(m+n+o)$			6,755.7					
No. of shares ('000)	q			72,556					
Target price (KRW)	$R=P/q$			93,000					
Current price (KRW)				74,200			Aug. 5, 2020		
Upside (%)				25.3					
12m fwd implied P/E (x)				15.7					
12m fwd implied P/B (x)				3.98					

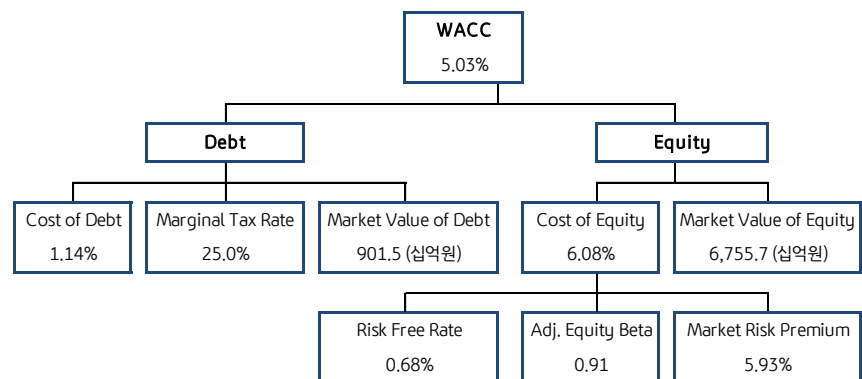
Source(s): Company data, KB Securities estimates

Fig 1. WACC Calculation

1) Cost of debt is YTD yield on Coway's 1y maturity KRW-based bonds; value of outstanding liabilities is total debt as of end-1Q20

2) Cost of equity uses CAPM; risk-free rate is 1y monetary stabilization bond yield; equity beta is Coway's 52-week adj. beta; market risk premium is the difference in historical average yields between WMI500 and 1-year market stabilization bond

3) Shareholders' equity represents current target price multiplied by total no. of outstanding shares



Source(s): KB Securities estimates

Table 7. TP Sensitivity to WACC & TGR

(KRW)		Terminal Growth Rate						
		1.0%	1.2%	1.4%	1.6%	1.8%	2.0%	2.2%
WACC	4.03%	108,963	116,126	124,377	133,985	145,315	158,875	175,395
	4.23%	101,818	108,041	115,143	123,324	132,851	144,085	157,531
	4.43%	95,506	100,957	107,128	114,170	122,282	131,729	142,869
	4.63%	89,889	94,700	100,105	106,224	113,207	121,251	130,618
	4.83%	84,859	89,131	93,901	99,262	105,329	112,253	120,230
	5.03%	80,329	84,145	88,381	93,000	98,426	104,443	111,309
	5.23%	76,227	79,654	83,438	87,638	92,329	97,600	103,566
	5.43%	72,496	75,587	78,985	82,737	86,903	91,554	96,781
	5.63%	69,087	71,888	74,953	78,323	82,044	86,175	90,787
	5.83%	65,961	68,509	71,286	74,326	77,667	81,358	85,454
6.03%	63,084	65,409	67,936	70,690	73,705	77,018	80,678	

Source(s): Company data, KB Securities estimates

Table 8. WACC Changes

(KRWbn, %)		Before (06/11/20)	After (08/06/2020)	Notes
Cost of equity	$A = B + C \times D$	6.50	6.08	
Risk free rate	B	1.02	0.68	Avg. 1y MSB yield (last 3 months)
Adj. beta	C	0.93	0.91	52w adj. beta
Raw beta		0.48	0.50	
R ²		0.14	0.18	
Risk premium	$D = E - F$	5.93	5.93	
Market return	E	9.65	9.65	2001-19 annual avg. WMI500 total return
Risk-free rate	F	3.72	3.72	2001-19 avg. 1y MSB yield
Cost of debt	G	1.60	1.14	YTD yield KRW-based 1y bonds
Fair shareholder value (KRWbn)		6,148.9	6,755.7	Value of outstanding shares based on TP
Debt (KRWbn)		903.1	901.5	Total financial liabilities as of end-1Q20
Weight of stock value	H	80.0	80.0	
Weight of debt	I	20.0	20.0	
WACC	$J = (A \times H) + (G \times I)$	5.44	5.03	
Terminal growth rate		1.60%	1.60%	

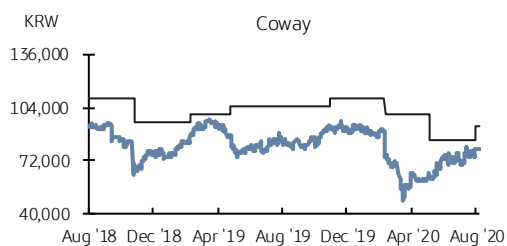
Source(s): Company data, KB Securities estimates

Income Statement						Statement of Financial Position					
(KRWbn)	2018A	2019A	2020E	2021E	2022E	(KRWbn)	2018A	2019A	2020E	2021E	2022E
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
Revenue	2,707	3,019	3,241	3,550	3,851	Total assets	2,379	2,855	3,135	3,361	3,626
Cost of revenue	878	1,010	1,071	1,188	1,304	Current assets	844	767	939	1,066	1,238
Gross profit	1,829	2,009	2,170	2,363	2,547	Cash and cash equivalents	69	61	197	281	407
SG&A expenses	1,309	1,550	1,579	1,742	1,890	Current financial assets	107	214	225	236	248
Operating profit	520	458	591	621	657	Trade receivables	302	310	326	342	359
EBITDA	775	740	896	942	994	Inventory	103	113	118	130	143
Non-operating accounts	-51	-7	-31	-29	-27	Other current assets	263	69	72	76	80
Interest income	1	1	2	1	2	Non-current assets	1,535	2,088	2,196	2,295	2,388
Interest expenses	18	22	23	21	18	Investment assets	78	43	28	28	28
Profit on equity method	0	0	0	0	0	Property, plant and equipment	781	1,271	1,386	1,487	1,583
Net other non-operating income	-35	14	-10	-10	-10	Intangible assets	160	168	152	149	147
Profit before tax	469	451	560	592	630	Other non-current assets	516	606	631	631	631
Income tax expense	119	119	145	154	164	Total liabilities	1,291	1,778	1,630	1,490	1,365
Net profit	350	332	414	438	467	Current liabilities	1,234	1,587	1,439	1,307	1,188
NP attributable to controlling interests	350	333	415	439	467	Trade payables	62	58	63	68	73
Adj. net profit	350	333	415	439	467	Short-term financial liabilities	732	876	788	710	639
						Other current liabilities	440	653	588	529	477
						Non-current liabilities	57	191	191	184	177
						Non-current financial liabilities	11	27	22	14	6
						Other non-current liabilities	46	164	169	170	171
						Total equity	1,088	1,077	1,505	1,870	2,261
						Issued capital	41	41	41	41	41
						Share premium	130	132	132	132	132
						Other equity interest	-45	-50	-36	-36	-36
						Accumulated other comprehensive income	-4	1	2	2	2
						Retained earnings	967	954	1,368	1,734	2,126
						Controlling interests	1,088	1,078	1,507	1,873	2,264
						Non-controlling interests	0	-1	-2	-2	-3
Operating Statistics & Ratios						Key Ratios					
(%)	2018A	2019A	2020E	2021E	2022E	(x, %, KRW)	2018A	2019A	2020E	2021E	2022E
Revenue growth	7.6	11.5	7.4	9.5	8.5	Multiples					
OP growth	10.0	-11.8	28.9	5.1	5.8	P/E	15.6	20.6	13.2	12.5	11.7
EBITDA growth	9.5	-4.6	21.2	5.2	5.5	P/B	5.0	6.4	3.6	2.9	2.4
NP growth of parent	7.4	-4.9	24.5	5.8	6.6	P/S	2.0	2.3	1.7	1.5	1.4
GP margin	67.6	66.5	67.0	66.6	66.2	EV/EBITDA	7.8	10.1	6.5	6.0	5.5
OP margin	19.2	15.2	18.2	17.5	17.1	EV/EBIT	11.6	16.4	9.9	9.1	8.3
EBITDA margin	28.6	24.5	27.7	26.5	25.8	Dividend yield, ordinary (%)	4.9	2.6	1.3	1.4	1.5
EBT margin	17.3	15.0	17.3	16.7	16.4	EPS	4,735	4,511	5,619	5,944	6,334
NP margin of parent	12.9	11.0	12.8	12.4	12.1	BVPS	14,744	14,611	20,415	25,377	30,678
						SPS	36,604	40,907	43,917	48,105	52,183
						DPS (annual, ordinary)	3,600	2,400	1,000	1,050	1,100
						Cash dividends payout ratio (%)	74.2	52.1	17.5	17.4	17.1
Statement of Cash Flows						Operating performance					
(KRWbn)	2018A	2019A	2020E	2021E	2022E	ROE	33.8	30.7	32.1	26.0	22.6
Cash flow from operating activities	539	539	527	574	622	ROA	15.4	12.7	13.8	13.5	13.4
Net profit	350	332	414	438	467	ROIC	25.9	21.2	25.5	24.1	23.5
Depreciation & amortization	256	281	305	321	336	Financial structure (%)					
Other non-cash adjustments	286	382	195	154	164	Total liab./equity	118.7	165.0	108.3	79.7	60.4
Investments in working capital	-237	-308	-237	-185	-181	Net debt/equity	52.1	58.3	25.8	11.0	Net Cash
Decrease(Increase) in receivables	20	-4	-5	-16	-17	Current ratio	0.7	0.5	0.7	0.8	1.0
Decrease(Increase) in inventory	-26	-5	-2	-12	-13	Interest coverage (x)	29.2	20.9	25.6	30.0	35.6
Increase(Decrease) in payables	-3	-9	-16	5	5	Activity ratios					
Investments in other working capital	-228	-290	-214	-162	-156	Asset turnover (x)	1.2	1.2	1.1	1.1	1.1
Other operating cash flow	-116	-148	-150	-154	-164	Receivables turnover (x)	8.8	9.9	10.2	10.6	11.0
Cash flow from investing activities	-394	-383	-399	-431	-442	Payables turnover (x)	46.4	50.1	53.8	54.5	54.8
Capital expenditure	-388	-366	-395	-410	-420	Inventory turnover (x)	30.5	28.0	28.0	28.5	28.1
Investments in intangibles	-6	-3	-10	-10	-10						
Changes in investment assets	-1	-5	0	0	0						
Other investment cash flow	1	-9	6	-11	-12						
Cash flow from financing activities	-187	-165	8	-58	-54						
Proceeds from (repayment of) debt	59	114	-97	-87	-79						
Changes in equity	3	2	18	0	0						
Dividends paid	-231	-260	0	-73	-76						
Other financing cash flow	-18	-21	87	101	101						
Other cash flow	0	0	0	0	0						
Increase/decrease in cash	-41	-9	136	84	126						
Cash and cash equivalents at FYE	69	61	197	281	407						
Free cash flow	152	173	132	164	202						
Net cash flow	-54	-61	240	183	217						
Net cash (net debt)	-567	-628	-388	-206	11						

Source(s): Company data, KB Securities estimates

Disclosures

Rating and Target Price Changes (Share price —, Target Price —)



Coway (021240)

Date	Rating	Target Price (KRW)	Differential (%)	
			Avg.	Max/Min
Oct-31-2018	Buy	95,000	-19.55	-8.95
Feb-15-2019	Buy	100,000	-7.45	-3.00
May-02-2019	Buy	105,000	-21.59	-10.38
Nov-06-2019	Buy	110,000	-17.46	-12.27
Feb-17-2020	Buy	100,000	-36.78	-24.80
May-11-2020	Buy	85,000	-15.70	-5.76
Aug-06-2020	Buy	93,000		

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Proportion of investment rating (as of June 30, 2020)

Buy	Hold	Sell
74.9	25.1	-

* Note: Based on reports presented with investment ratings over the past one year

Classification and Standards for Investment Rating

Investment Rating for Company

(based on estimation of 12-month absolute returns)

Buy: +15% or beyond	Hold: Between 15% and -15%	Sell: -15% or beyond
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Note: KB Securities's classification of investment ratings has shifted from four stages (Strong BUY, BUY, Marketperform, Underperform) to three stages (Buy, Hold, Sell) based on Korean reports since February 23, 2017.

KB Securities's standards for stock rating shifted starting on Feb 10, 2020 from an estimation of six-month absolute returns to an estimation of 12-month absolute returns.

Investment Rating for Industry

(based on estimation of 12-month absolute returns)

Positive:	Neutral:	Negative:
To outperform market	To match market performance	To underperform market

Notes: The industry rating system of KB Securities has shifted from (Overweight, Neutral, Underweight) to (Positive, Neutral, Negative) as of Jun 28, 2017.

KB Securities's standards for industry rating shifted starting on Feb 10, 2020 from an estimation of six-month absolute returns to an estimation of 12-month absolute returns.

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