



Coway

| Bloomberg Code (021240 KS) | Reuters Code (021240.KS)

7 October 2020

Level-up on overseas growth

[Small cap]

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BUY
(Initiate)



CP (Oct. 6)
KRW81,400



TP (6 months)
KRW100,000



Upside
23.0%

Kangho Oh

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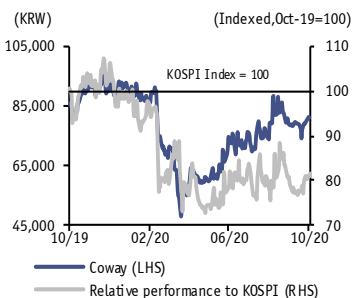
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Rating	BUY (Initiate)
TP (6 months)	KRW100,000
Upside	23.0%

KOSPI	2,365.90p
KOSDAQ	862.58p
Market cap	KRW6,007.3bn/USD5,269.6mn
Par value	KRW500
Outstanding shares	73.8mn
Free float	54.0mn(73.2%)
52-week high/low	KRW96,500/KRW48,250
60-day avg. trading volume	208,978shrs
60-day avg. turnover	KRW16,611mn
Foreign ownership	61.14%
Major shareholders	
Netmarble and 5 others	25.13%
NPS	8.28%
Absolute performance	
3M	7.5%
6M	44.8%
12M	-5.6%
Relative performance to KOSPI	
3M	-0.6%
6M	5.6%
12M	-18.9%

Share performance



Korea's no.1 home appliance rental firm with 6.33mn accounts

Coway is the largest home appliance rental company in Korea. It provides home wellness appliances, including water purifiers, air purifiers, and bidets, through rental, lump sum payment, and membership service. With 6.33mn customer accounts (5.77mn for rental, 0.55mn for membership), the company is expected to report sales of KRW3.27tr (+8.2% YoY) and operating profit of KRW588.1bn (+28.3% YoY) for 2020.

2020 outlook: Stable domestic growth + rise in overseas sales

Coway is forecast to see stable growth in domestic earnings. We are witnessing changes in consumer lifestyles sparked by: 1) increasing number of single-person and dual-income households; and 2) growing interest in at-home wellness and hygiene amid the COVID-19 pandemic. These changes should lead to steady growth of the market for home appliance rental services, which offer greater convenience and hygiene. Coway should benefit from the market growth and record domestic sales of KRW2.17tr (+2.8% YoY) from home wellness appliances this year.

We expect strong growth at overseas subsidiaries. Combined sales from overseas subsidiaries are projected to jump 29% YoY to KRW835.7bn in 2020. The Malaysian subsidiary continues on a growth track alongside the country's economic expansion. The US subsidiary has found new growth momentum from increasing e-commerce sales. Coway's successful forays into overseas markets will likely drive growth in the total number of customer accounts and overall earnings. Rising overseas sales should also lead to a re-rating of valuations.

Initiate coverage with BUY for a target price of KRW100,000

We initiate our coverage of Coway with a BUY rating for a target price of KRW100,000. Our target price is based on 2020F EPS of KRW5,677 and a target PER of 17.6x (PER average of 2017-2019). Coway shares are currently trading at 2020F PER of 14.3x, higher than the domestic peer average. However, we see further upside for the shares given forecasts for: 1) stable growth in domestic sales based on market dominance; and 2) robust growth at overseas subsidiaries.

Year to December	Sales (bn KRW)	OP (bn KRW)	Pre-tax (bn KRW)	NP (bn KRW)	EPS (KRW)	Growth (%)	BPS (KRW)	PER (x)	EV/EBITDA (x)	PBR (x)	ROE (%)	Net debt ratio (%)
2018	2,707.3	519.8	468.6	350.2	4,735	9.4	14,744	15.6	7.8	5.0	33.8	52.1
2019	3,018.9	458.3	451.4	332.9	4,511	(4.7)	14,611	20.6	10.1	6.4	30.7	58.3
2020F	3,265.2	588.1	568.9	419.0	5,677	25.8	18,737	14.3	5.5	4.3	34.0	23.7
2021F	3,569.7	615.8	602.3	442.9	6,001	5.7	22,892	13.6	4.9	3.6	28.8	1.2
2022F	3,926.6	665.4	655.7	481.9	6,530	8.8	27,413	12.5	4.4	3.0	26.0	(14.0)

Source: Company data, Shinhan Investment Corp. / Note: TB = turn black, TR = turn red, RR = remain red

Earnings & valuation

Target price calculation

		Unit	Value	Remarks
EPS	NP	bn KRW	419.0	(A) 2020F NP of controlling interest
	No. of shares	1,000 shares	73,800	(B)
	EPS	KRW	5,677	(C) = (A) / (B)
Target PER		x	17.6	(D) 2017-2019 PER average
Value per share		KRW	100,142	(E) = (C) * (D)
Target price		KRW	100,000	
Current price		KRW	81,400	
Upside		%	23.0	

Source: Shinhan Investment Corp.

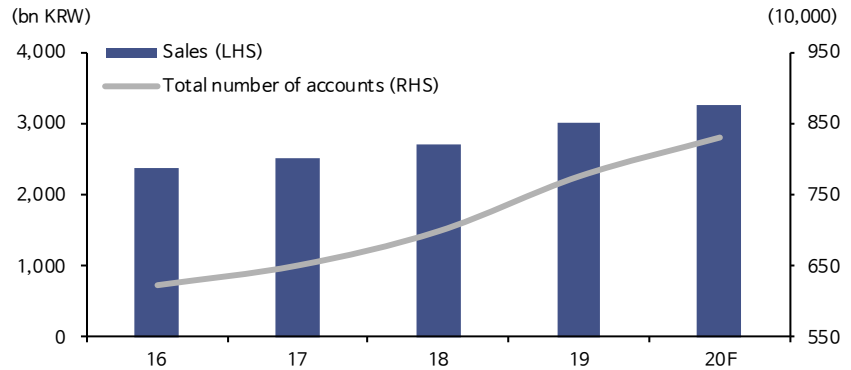
Earnings trend and outlook

(bn KRW)	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20F	4Q20F	1Q21F	2Q21F	3Q21F	4Q21F	2019	2020F	2021F
Sales	709.3	755.5	759.6	794.6	768.9	805.5	826.2	864.5	829.0	884.5	902.9	953.3	3,018.9	3,265.1	3,569.7
Rental	384.7	391.7	396.7	399.5	401.9	405.3	408.1	410.9	401.9	416.5	419.3	422.1	1,572.6	1,626.2	1,659.7
Membership	27.9	27.0	26.7	25.7	24.7	25.9	24.0	23.1	24.7	23.1	21.3	20.4	107.3	97.7	89.4
Finance lease	56.3	67.6	72.9	61.5	68.9	87.1	83.8	71.1	79.8	101.1	97.6	82.9	258.4	310.9	361.4
Lump sum	45.6	43.5	35.5	36.6	30.9	31.9	30.7	30.6	25.3	25.6	24.2	24.7	161.3	124.0	99.8
Cosmetics	18.9	18.8	18.5	20.1	17.3	17.3	18.2	19.9	17.1	16.9	17.5	19.4	76.3	72.7	70.9
Exports	70.1	83.8	97.9	91.7	81.8	85.2	106.1	99.8	85.8	93.5	111.6	108.5	343.5	373.0	399.3
Others	3.0	2.9	2.7	3.0	3.1	2.6	2.5	2.9	2.9	2.5	2.4	2.7	11.7	11.1	10.5
Subsidiaries	152.3	178.2	181.6	216.9	203.4	205.7	231.8	273.0	261.0	264.3	295.0	345.3	729.0	913.8	1,165.6
Excl. internal transactions	(49.6)	(58.0)	(73.0)	(60.5)	(63.1)	(55.5)	(79.0)	(66.7)	(69.6)	(58.9)	(85.9)	(72.7)	(241.1)	(264.3)	(287.0)
OP	135.2	138.2	140.3	44.6	138.9	169.2	147.2	132.8	149.8	156.1	163.6	146.3	458.3	588.1	615.8
NP	100.5	101.9	110.8	19.7	101.6	119.0	104.2	94.2	107.4	112.5	117.8	105.2	332.9	419.0	442.9
Growth (% YoY)															
Sales	9.5	11.4	13.4	11.7	8.4	6.6	8.8	8.8	7.8	9.8	9.3	10.3	11.5	8.2	9.3
OP	2.9	6.9	7.6	(65.4)	2.7	22.4	5.0	197.7	7.8	(7.7)	11.1	10.1	(11.8)	28.3	4.7
NP of controlling interest	5.4	12.3	17.4	(71.7)	1.1	16.7	(5.9)	377.4	5.7	(5.4)	13.0	11.7	(4.9)	25.8	5.7
OPM (%)	19.1	18.3	18.5	5.6	18.1	21.0	17.8	15.4	18.1	17.7	18.1	15.3	15.2	18.0	17.3
NPM (%)	14.2	13.5	14.6	2.5	13.2	14.8	12.6	10.9	13.0	12.7	13.0	11.0	11.0	12.8	12.4

Source: Company data, Shinhan Investment Corp.

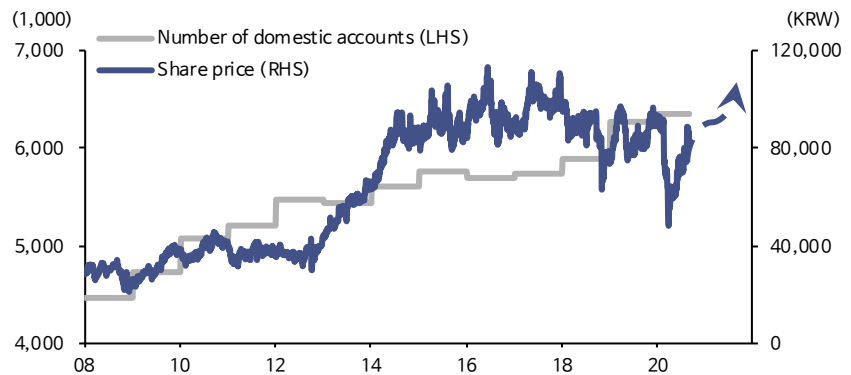
Key charts

Number of customer accounts and sales



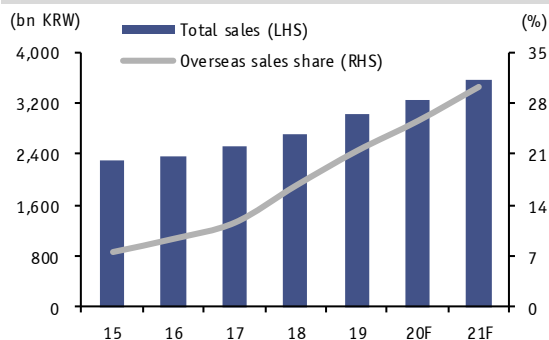
Source: Company data, Shinhan Investment Corp.

Number of customer accounts and share price



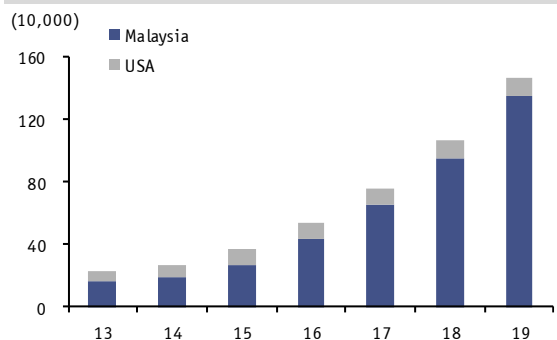
Source: Company data, QuantiWise, Shinhan Investment Corp.

Total sales and share of overseas sales



Source: Company data, Shinhan Investment Corp.

Number of customer accounts in Malaysia and US



Source: Company data, Shinhan Investment Corp.

Statement of financial position

Year to December (bn KRW)	2018	2019	2020F	2021F	2022F
Total assets	2,378.9	2,855.0	3,115.5	3,401.4	3,721.7
Current assets	843.7	766.9	990.1	1,233.9	1,478.6
Cash and equivalents	69.4	60.5	221.5	386.5	546.4
Accounts receivable	301.8	310.2	337.5	372.1	409.3
Inventories	102.9	112.8	122.8	135.4	148.9
Non-current assets	1,535.2	2,088.0	2,125.5	2,167.5	2,243.1
Tangible assets	781.0	1,270.8	1,294.1	1,342.9	1,424.8
Intangible assets	160.3	168.4	146.8	138.1	129.9
Investment assets	53.4	18.6	20.1	22.1	24.1
Other financial assets	0.0	0.0	0.0	0.0	0.0
Total liabilities	1,291.2	1,777.8	1,734.0	1,713.5	1,700.2
Current liabilities	1,234.3	1,586.8	1,530.5	1,491.6	1,458.6
Short-term borrowings	731.1	860.6	740.4	620.4	500.4
Accounts payable	62.5	58.0	63.1	69.5	76.5
Current portion of long-term debt	0.5	0.5	0.5	0.5	0.5
Non-current liabilities	56.9	190.9	203.6	221.9	241.5
Bonds	0.0	0.0	0.0	0.0	0.0
Long-term borrowings	11.2	27.0	25.2	25.2	25.2
Other financial liabilities	0.0	0.0	0.0	0.0	0.0
Total shareholders' equity	1,087.7	1,077.2	1,381.5	1,688.0	2,021.5
Capital stock	40.7	40.7	40.7	40.7	40.7
Capital surplus	129.9	132.5	147.7	147.7	147.7
Other capital	(45.2)	(50.1)	(47.7)	(47.7)	(47.7)
Accumulated other comprehensive income	(4.2)	1.3	(1.8)	(1.8)	(1.8)
Retained earnings	966.8	954.0	1,243.9	1,550.5	1,884.2
Controlling interest equity	1,088.1	1,078.3	1,382.8	1,689.4	2,023.0
Non-controlling interest equity	(0.4)	(1.1)	(1.3)	(1.4)	(1.5)
*Total debt	742.9	903.1	782.4	664.1	545.9
*Net debt (cash)	566.7	628.1	327.6	20.4	(283.4)

Statement of cash flow

Year to December (bn KRW)	2018	2019	2020F	2021F	2022F
Cash flow from operations	539.1	539.3	995.1	1,143.6	1,215.2
Net profit	349.8	332.2	418.8	442.7	481.8
Depreciation expense	246.8	271.0	558.9	600.2	632.2
Amortization expense	8.7	10.2	9.3	8.8	8.2
FX translation loss (gain)	2.9	(10.6)	4.1	0.0	0.0
Asset disposal loss (gain)	48.8	35.5	44.4	31.5	33.2
Equity method loss (gain)	0.0	0.0	0.0	0.0	0.0
Change in working capital	(236.5)	(308.0)	(91.8)	42.8	45.9
(Payment of income tax)	(115.6)	(148.4)	(164.2)	(159.6)	(173.9)
Others	234.2	357.4	215.6	177.2	187.8
Cash flow from investments	(393.5)	(383.1)	(575.2)	(673.3)	(739.5)
Increase in tangible assets	(400.3)	(390.6)	(598.4)	(649.1)	(714.0)
Decrease in tangible assets	12.7	24.7	8.4	0.0	0.0
Change in intangible assets	(6.4)	(2.7)	0.3	0.0	0.0
Change in investment assets	7.3	0.5	0.4	(1.9)	(2.0)
Others	(6.8)	(15.0)	14.1	(22.3)	(23.5)
Free cash flow	284.5	608.8	421.8	436.7	441.3
Cash flow from financing	(186.8)	(164.9)	(258.6)	(273.8)	(282.5)
Change in borrowings	59.3	114.0	(118.1)	(118.3)	(118.2)
Change in treasury stock	0.0	0.0	0.0	0.0	0.0
Dividends	(230.9)	(259.9)	(128.9)	(136.3)	(148.3)
Others	(15.2)	(19.0)	(11.6)	(19.2)	(16.0)
Other cash flow	0.0	0.0	(0.0)	(31.5)	(33.2)
Change in consolidated scope	0.0	0.0	0.0	0.0	0.0
Change in FX rates	0.2	(0.1)	(0.3)	0.0	0.0
Change in total cash	(40.9)	(8.8)	161.0	165.0	159.9
Beginning cash	110.3	69.4	60.5	221.6	386.5
Ending cash	69.4	60.5	221.6	386.5	546.4

Source: Company data, Shinhan Investment Corp.

Statement of comprehensive income

Year to December (bn KRW)	2018	2019	2020F	2021F	2022F
Sales	2,707.3	3,018.9	3,265.2	3,569.7	3,926.6
Growth (%)	7.6	11.5	8.2	9.3	10.0
COGS	878.3	1,010.4	1,060.3	1,161.5	1,277.6
Gross profit	1,829.1	2,008.5	2,204.8	2,408.2	2,649.1
GPM (%)	67.6	66.5	67.5	67.5	67.5
SG&A	1,309.2	1,550.2	1,616.7	1,792.4	1,983.6
Operating profit	519.8	458.3	588.1	615.8	665.4
Growth (%)	10.0	(11.8)	28.3	4.7	8.1
OPM (%)	19.2	15.2	18.0	17.3	16.9
Non-operating profit	(51.3)	(6.9)	(19.1)	(13.5)	(9.7)
Financial profit	(16.5)	(20.6)	(20.5)	(17.6)	(13.9)
Other non-operating profit	(34.7)	13.8	1.4	4.2	4.1
Equity method gain (loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	468.6	451.4	568.9	602.3	655.7
Income tax	118.8	119.2	150.1	159.6	173.9
Continuing operations	349.8	332.2	418.8	442.7	481.8
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	349.8	332.2	418.8	442.7	481.8
Growth (%)	7.4	(5.0)	26.1	5.7	8.8
NPM (%)	12.9	11.0	12.8	12.4	12.3
Controlling interest	350.2	332.9	419.0	442.9	481.9
Non-controlling interest	(0.4)	(0.7)	(0.2)	(0.1)	(0.1)
Comprehensive income	343.9	329.9	415.6	442.7	481.8
Controlling interest	344.4	330.6	415.7	442.9	481.9
Non-controlling interest	(0.4)	(0.7)	(0.2)	(0.1)	(0.1)
EBITDA	775.4	739.5	1,156.4	1,224.8	1,305.8
Growth (%)	9.5	(4.6)	56.4	5.9	6.6
EBITDA margin (%)	28.6	24.5	35.4	34.3	33.3

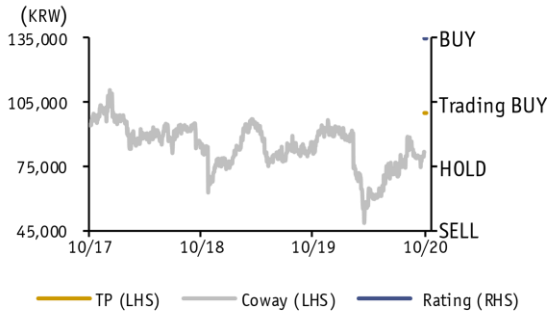
Key ratios

Year to December	2018	2019	2020F	2021F	2022F
EPS (KRW)	4,730	4,501	5,675	5,999	6,529
EPS of controlling interest (KRW)	4,735	4,511	5,677	6,001	6,530
BPS (KRW)	14,739	14,596	18,720	22,873	27,392
BPS of controlling interest (KRW)	14,744	14,611	18,737	22,892	27,413
DPS (KRW)	3,600	2,400	1,777	1,878	2,043
PER (x)	15.7	20.7	14.3	13.6	12.5
PER of controlling interest (x)	15.6	20.6	14.3	13.6	12.5
PBR (x)	5.0	6.4	4.3	3.6	3.0
PBR of controlling interest (x)	5.0	6.4	4.3	3.6	3.0
EV/EBITDA (x)	7.8	10.1	5.5	4.9	4.4
Dividend payout ratio (%)	74.2	52.1	30.8	30.8	30.8
Dividend yield (%)	4.9	2.6	2.2	2.3	2.5
Profitability					
EBITDA margin (%)	28.6	24.5	35.4	34.3	33.3
OPM (%)	19.2	15.2	18.0	17.3	16.9
NPM (%)	12.9	11.0	12.8	12.4	12.3
ROA (%)	15.4	12.7	14.0	13.6	13.5
ROE (%)	33.8	30.7	34.0	28.8	26.0
ROIC (%)	33.8	23.3	36.0	37.3	39.3
Stability					
Debt to equity ratio (%)	118.7	165.0	125.5	101.5	84.1
Net debt ratio (%)	52.1	58.3	23.7	1.2	(14.0)
Cash ratio (%)	5.6	3.8	14.5	25.9	37.5
Interest coverage ratio (x)	29.2	20.9	26.9	32.0	41.4
Activity (%)					
Working capital turnover (times)	14.6	(118.2)	(14.5)	(14.4)	(14.4)
Inventory turnover (days)	12.0	13.0	13.2	13.2	13.2
Receivable turnover (days)	41.5	37.0	36.2	36.3	36.3

Source: Company data, Shinhan Investment Corp.

Target price & rating history

Coway (021240 KS)



Date	Rating	Target price (KRW)	Target price gap (%)	
			Average	Max/Min
2016.12.06		No Coverage	-	-
2020.10.07	BUY	100,000	-	-

Note: Calculation of target price gap based on past 6 months

Rating Distribution - SHIC Universe (as of 5 October 2020)

BUY (BUY)	90.86%	Trading BUY (HOLD)	2.54%	HOLD (HOLD)	6.60%	SELL (SELL)	0.00%
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Rating Distribution - SHIC Investment Banking Clients (as of 5 October 2020)

BUY (BUY)	100.00%	Trading BUY (HOLD)	0.00%	HOLD (HOLD)	0.00%	SELL (SELL)	0.00%
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SHIC Ratings (as of 1 April 2017)

Stock	Sector
<ul style="list-style-type: none"> BUY: Expected 6-month gain of 10% or more Trading BUY: Expected 6-month gain of 10% to loss of 10% HOLD: Expected 6-month loss of 10% to 20% SELL: Expected 6-month loss of 20% or more 	<ul style="list-style-type: none"> OVERWEIGHT: Based on market cap, largest share of sector stocks under coverage is rated BUY NEUTRAL: Based on market cap, largest share of sector stocks under coverage is rated Trading BUY or HOLD UNDERWEIGHT: Based on market cap, largest share of sector stocks under coverage is rated SELL

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