

Coway (021240 KS)

Consumer durables

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Rating	BUY (U)
Target price	W 96,000 (U)
Current price (Nov 4)	W 70,200
Upside potential	37%

Market cap (Wbn)	5,181
Shares outstanding	73,799,619
Avg daily T/O (2M, Wbn)	16
Avg daily volume (2M, shrs)	205,869
52-week high (won)	96,500
52-week low (won)	48,250
Foreign ownership (%)	61.0
Major shareholders (%)	
Netmarble & others	25.1

Stock performance

(%)	1M	3M	12M
Absolute	(11.5)	(6.6)	(24.0)
Relative	(12.6)	(9.7)	(31.3)
Abs (US\$)	(9.0)	(2.0)	(22.6)

3Q20 review: time for normalization

3Q20 review: overseas subsidiary earnings decent

- Coway reported 3Q20 sales of W800.4bn (+5.4% YoY) and OP of W168.6bn (+20.2% YoY), beating consensus of W148.4bn. Earnings beat consensus thanks to the reversal of W12.8bn in reserves for converting Customer Satisfaction Doctors (CS Doctors, product installation and service personnel) to permanent employees and decent earnings at major overseas subsidiaries including in Malaysia and the US.
- Net rental accounts dropped 11,000 QoQ, as a labor strike by CS Doctors hurt rental sales and the re-emergence of COVID-19 affected door-to-door sales. However, it is positive that churn rate stood at 0.94% despite the strike.
- Sales at the Malaysia subsidiary increased 33.8% YoY to W178.8bn and OP 108.8% (W29.6bn) thanks to net rental account additions of 120,000. The US subsidiary posted surprising earnings, with sales surging 130.7% YoY to W51.8bn and OP turning to profit (YoY) of W11.8bn, as demand for air purifiers rose sharply on wildfires in the western US.

Now able to focus on value of operations

- The company suffered from continuous internal and external issues from 2019 to 3Q20, such as stake disposals by major shareholders, reduced dividends, the transfer of CS Doctors to permanent employee status, a labor strike, and the COVID-19 outbreak. Thus, we recommended a conservative approach to Coway until these issues are resolved.
- We believe most of the uncertainties were dispelled by 3Q20 and now is time to focus on the company's value of operations. Stake disposals by major shareholders have finished and more investors are now aware of reduced dividends, which seems to have dispelled the stock supply-demand issue. Details of the expense increase caused by the transfer of its CS Doctors to permanent employee status (estimated at W30bn annually) were disclosed during its 3Q20 earnings call.
- While the permanent employee transfer of CS Doctors will lead to a decline in separate OP, the growth potential of the Malaysia subsidiary has strengthened. The awareness of the company in western areas of the US is increasing after wildfires, which will likely boost its growth potential in the US.
- We lift our rating to BUY and revise up our target price to W96,000 to reflect our upward revision to earnings estimates for overseas subsidiaries.

Quarterly earnings

(Wbn)	3Q20E	% YoY	% QoQ	Consens	vs consens (%)
Sales	806	6.0	0.0	820	-1.8
OP	169	20.2	-0.3	148	13.6
EBT, continuing ops	149	-2.1	-6.6	140	6.5
Net profit, CI	117	5.3	-1.9	103	13.0
OPM (%)	20.9	+2.4 %pt	-0.1 %pt	18.1	+2.8 %pt
NPM (%)	14.5	-0.1 %pt	-0.3 %pt	12.6	+1.9 %pt

Note: CI = controlling interest
Source: Yuanta Securities

Forecasts and valuations (K-IFRS, consolidated)

	(Wbn)			
FY ends Dec	2018A	2019A	2020E	2021E
Sales	2,707	3,019	3,252	3,582
OP	520	458	608	604
Net profit, CI	350	333	431	432
P/E (x)	18.4	19.0	12.0	12.0
P/B (x)	5.8	5.7	3.4	3.1
EV/EBITDA (x)	9.0	9.4	4.8	4.7
ROE (%)	33.8	30.7	33.2	27.4

Source: Yuanta Securities

Coway (021240 KS) pro forma financial statements (K-IFRS, consolidated)

Statement of comprehensive income

FY ends Dec (Wbn)	2018A	2019A	2020E	2021E	2022E
Sales	2,707	3,019	3,252	3,582	3,855
Cost of sales	878	1,010	1,052	1,182	1,272
Gross profit	1,829	2,009	2,201	2,400	2,583
SG&A	1,309	1,550	1,592	1,796	1,948
Operating profit	520	458	608	604	635
EBITDA	775	739	1,149	1,166	1,225
Non-op profit/loss	-51	-7	-33	-13	-10
Forex gain/loss	4	13	3	7	7
Net interest income	-17	-21	-19	-16	-14
Equity-meth gain/loss	0	0	0	0	0
Other	-38	1	-18	-4	-4
Net prof before income tax	469	451	575	591	625
Income tax	119	119	144	160	169
Net profit from continuing ops	350	332	431	432	456
Net profit from discontinued ops	0	0	0	0	0
Net profit	350	332	431	432	456
NP for controlling interest	350	333	431	432	456
Total comprehensive income	344	330	424	425	449
Total comprehensive income, CI	344	331	424	425	449

Note: Operating profit calculation same as K-GAAP (sales - COGS - SG&A exp)

Statement of financial position

FY ends Dec (Wbn)	2018A	2019A	2020E	2021E	2022E
Current assets	844	767	876	884	1,093
Cash & cash equivalents	69	61	132	120	278
Accts rec & other	326	345	356	382	424
Inventory	103	113	125	117	126
Non-current assets	1,535	2,088	2,165	2,234	2,294
Tangible assets	781	1,271	1,334	1,411	1,480
Investment in affiliates	0	0	0	0	0
Other non-current	53	19	20	20	20
Total assets	2,379	2,855	3,042	3,117	3,387
Current liabilities	1,234	1,587	1,313	1,270	1,178
Accts payable & other	273	295	324	331	339
ST financial liabilities	731	861	690	640	540
Liquid LT liabilities	1	1	1	1	1
Non-current liabilities	57	191	210	209	209
LT financial liabilities	10	9	9	9	8
Debentures	0	0	0	0	0
Total liabilities	1,291	1,778	1,523	1,480	1,387
Equity, controlling interest	1,088	1,078	1,520	1,639	2,001
Paid-in capital	41	41	41	41	41
Capital surplus	130	132	148	148	148
Retained earnings	967	954	1,385	1,511	1,880
Equity, non-controlling interest	0	-1	-1	-2	-2
Total equity	1,088	1,077	1,519	1,638	2,000
Net debt	567	613	337	298	40
Total debt	743	888	716	665	565

Cash flow statement

FY ends Dec (Wbn)	2018A	2019A	2020E	2021E	2022E
Operating cash flow	539	539	1,015	1,039	984
Net profit	350	332	431	432	456
Depreciation & amortization	247	271	531	553	582
Forex gain/loss	3	-11	0	-7	-7
Affiliate invest gain/loss	0	0	0	0	0
Inc (dec) in net working cap	-237	-308	-153	-131	-243
Other	176	255	205	193	197
Investing cash flow	-394	-383	-561	-511	-531
Investment	-1	-5	-1	0	0
Inc in tangible assets	-400	-391	-611	-631	-651
Dec in tangible assets	13	25	8	0	0
Other	-5	-12	42	120	120
Financing cash flow	-187	-165	-164	-117	-175
Inc (dec) in ST fin liab	60	129	-170	-50	-100
Inc (dec) in LT fin liab	-1	-15	0	0	0
Inc (dec) in equity	0	0	0	0	0
Cash dividend	-231	-260	0	-80	-87
Other	-15	-19	7	13	13
Other cash flow	0	0	-219	-422	-120
Inc (dec) in cash & equivalents	-41	-9	71	-11	158
Beginning cash & equivalents	110	69	61	132	120
Ending cash & equivalents	69	61	132	120	278
NOPLAT	520	458	608	604	635
FCF	7	-80	233	241	160

Note: CI = controlling interest

EPS, BPS, P/E and P/B are based on controlling interest

For valuation metrics such as P/E, historical figures are based on annual average prices and estimates, on current price

For ROA or ROE, assets and equity are averages of end-of-year figures for the given year and the year prior

Source: Yuenta Securities

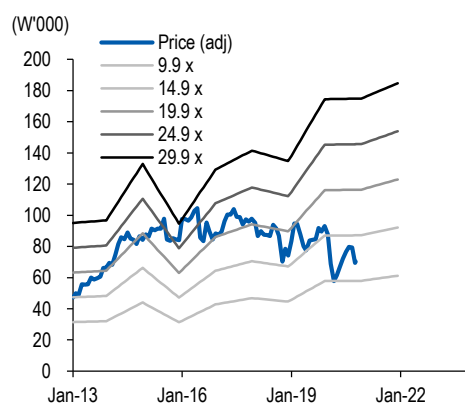
Valuation

FY ends Dec	2018A	2019A	2020E	2021E	2022E
EPS (won)	4,735	4,511	5,840	5,854	6,186
BPS (won)	15,074	14,931	20,952	22,591	27,585
EBITDA/shr (won)	10,483	10,020	15,563	15,802	16,599
SPS (won)	36,604	40,907	44,069	48,541	52,237
DPS (won)	3,600	2,400	1,100	1,200	1,300
P/E (x)	18.4	19.0	12.0	12.0	11.3
P/B (x)	5.8	5.7	3.4	3.1	2.5
EV/EBITDA (x)	9.0	9.4	4.8	4.7	4.3
P/S (x)	2.4	2.1	1.6	1.4	1.3

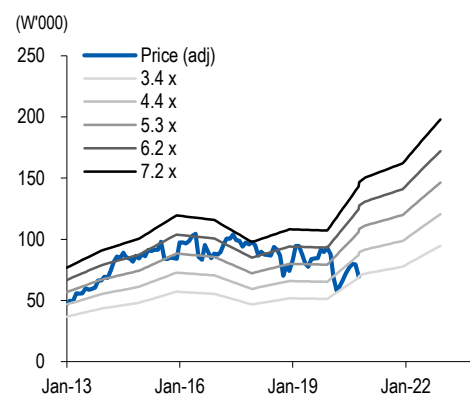
Key financial data

FY ends Dec	2018A	2019A	2020E	2021E	2022E
Sales (% YoY)	7.6	11.5	7.7	10.1	7.6
Operating profit (%YoY)	10.0	-11.8	32.7	-0.7	5.1
Net profit, CI (%YoY)	7.4	-4.9	29.5	0.2	5.7
Gross margin (%)	67.6	66.5	67.7	67.0	67.0
Operating margin (%)	19.2	15.2	18.7	16.9	16.5
Net margin, CI (%)	12.9	11.0	13.3	12.1	11.8
EBITDA margin (%)	28.6	24.5	35.3	32.6	31.8
ROIC (%)	35.8	29.0	35.2	31.3	30.8
ROA (%)	15.4	12.7	14.6	14.0	14.0
ROE (%)	33.8	30.7	33.2	27.4	25.1
Debt-to-equity (%)	118.7	165.0	100.3	90.4	69.4
Net debt-to-equity (%)	52.1	56.9	22.2	18.2	2.0
OP/financing cost (x)	29.2	20.9	29.8	33.7	38.8

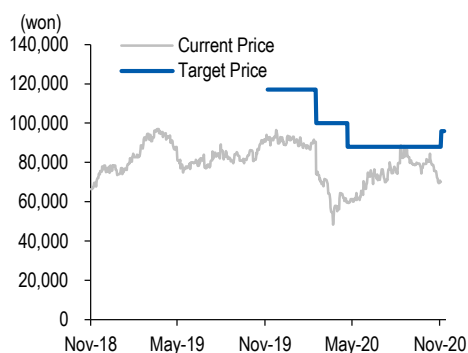
P/E band chart



P/B band chart



Coway (021240 KS) ratings and target price history



Date	Rating	TP (won)	TP time frame	Difference (%)	
				vs avg price	vs high (low)
2020/11/05	BUY	96,000	1 yr		
2020/04/23	HOLD	88,000	1 yr	-15.41	-
2020/02/17	HOLD	100,000	1 yr	-36.23	-
2019/11/07	BUY	117,000	1 yr	-22.42	-17.52

Note: Difference = (actual price* - target price) / target price x 100

* 1) The average price until the day target price was suggested

2) The highest (lowest) price until the day target price was suggested

Source: Yuanta Securities

Current distribution of Yuanta Securities Korea ratings

Rating	Share (%)
STRONG BUY	0.6
BUY	88.5
HOLD	10.9
SELL	0.0
Total	100.0

Note: As of Nov 2

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- **Stock ratings** include an Investment Rating (Strong Buy, Buy, Hold, Sell) based on the expected absolute return of a stock over the next 6 -12 months.
 - Strong Buy: Expected to return 30% or more
 - Buy: Expected to return between 10% and 30%
 - Hold: Expected to return between -10 and +10%
 - Sell: Expected to return -10% or less
- **Sector ratings** suggest 6 to 12 - month forward investment weighting of a given sector compared to its market capitalization weighting.
 - Overweight: Investment weighting is higher than the market capitalization weighting
 - Neutral: Investment weighting is equal to the market capitalization weighting
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