

November 5, 2020

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**Normalizing trading environment; recommend buy-on-dip approach**

We maintain BUY and our TP of KRW93,000 for Coway because only marginal revisions were made to our earnings projections. In 3Q20, domestic operations struggled in the face of the CS doctors (technicians) strike and the resurgence of COVID-19, but uncertainty has been reduced considerably; labor and management agreed to grant CS doctors regular employment status, with related annual costs estimated to rise KRW30.0bn (booking to start in 4Q20). The positive development benefited trading starting in September, with domestic rental sales forecast to recover with the new addition of the Icon Air Purifier (launched in October). For 2021, we expect domestic operations to continue stable revenue growth. Overseas operations should maintain double-digit revenue growth, with consolidated revenue contribution increasing to 31%. In particular, Coway's growing brand recognition in the U.S. is encouraging. Coway stock pulled back to 12.0x 2021E P/E amid recent price corrections. We recommend buying on the dip in anticipation of a gradual rebound.

**3Q20 revenue/OP up 5% YoY/20% YoY; sluggish domestic operations offset by strong overseas operations**

Coway reported **3Q20 consolidated revenue/OP** of KRW800.4bn (+5% YoY)/KRW168.6bn (+20% YoY). Revenue was in line with the market consensus, while OP was 14% higher. Excluding one-offs, consolidated OP grew 9% YoY; there was a KRW12.8bn reversal of provisions set against the CS doctors strike (vs. royalty expenses of KRW3.0bn in 3Q19).

### Buy Maintain

<b>Target Price (Maintain)</b>	<b>KRW93,000</b>
Dividend yield*	1.4%
Total return	33.9%
Current price (Nov 4)	KRW70,200
Consensus target price	KRW94,875
Market capitalization	USD4.6bn

\* 12-month forward

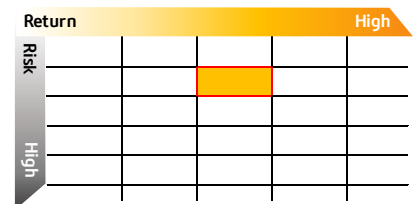
#### Trading Data

Free float	73.2%
Avg. T/O val. (3m, KRWbn)	16.4
Foreign ownership	61.0%
Major shareholders	Netmarble and 5 others 25.1%
	National Pension Service 8.3%

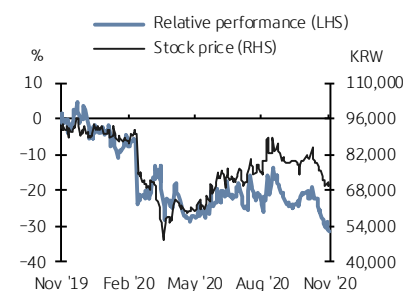
#### Stock Price Performance

(%)	1M	3M	6M	12M
Absolute	-11.5	-6.6	17.0	-24.0
Relative	-12.6	-9.7	-5.9	-31.3

#### Risk & Total Return (annualized over three years)



#### Stock Price & Relative Performance



Source(s): Company data, KB Securities

#### Earnings Forecast & Valuation

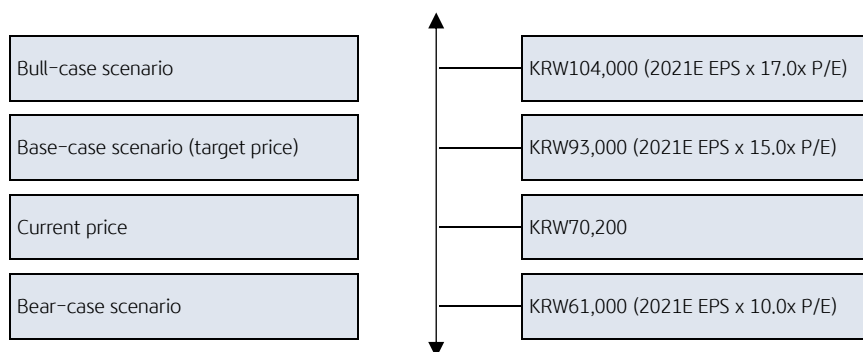
Fiscal year-end	2019A	2020E	2021E	2022E
Revenue (KRWbn)	3,019	3,223	3,553	3,848
OP (KRWbn)	458	612	627	659
NP to control. int. (KRWbn)	333	430	444	469
EPS (KRW)	4,511	5,824	6,016	6,355
EPS growth (%)	-4.7	29.1	3.3	5.6
P/E (x)	20.6	12.1	11.7	11.0
EV/EBITDA (x)	10.1	5.0	4.7	4.3
P/B (x)	6.4	3.4	2.7	2.3
ROE (%)	30.7	33.1	26.0	22.4
Div. yield (%)	2.6	1.4	1.5	1.6

**3Q20 standalone revenue/OP** came in at KRW641.5bn (-2% YoY)/KRW124.4bn (-11% YoY); excluding one-offs, OP plunged 22%:

- (1) New rental sales and lump-sum payment sales slid substantially by 27% and 44%, respectively, with the prolongation of the strike (early July to mid-August) hurting sales activity.
- (2) The churn rate recovered to a stable level of 0.94% (-0.10pp QoQ).
- (3) The no. of rental accounts dropped by 11,000 net QoQ, marking the first net decline since ice makers & water dispensers were recalled in 3Q16.
- (4) OPM was 19.4% (-2.0pp YoY); excluding one-offs, OPM was 17.4% (-4.4pp YoY).

In **Malaysia**, revenue grew 34% while a low base allowed OP to surge 109%. In the **United States**, revenue grew handsomely by 130%, with OP reaching KRW11.8bn (23% OPM).; massive wildfires in the western United States boosted air purifier sales.

## Investment Opinion & Risks



### Base-case scenario: Catalysts

- 1) 2020–22 domestic CAGR revenue at 4%
- 2) 2020–22 overseas CAGR revenue at 21%

### Bull-case scenario: Upside risk

- 1) 2020–22 domestic CAGR revenue above 4%
- 2) 2020–22 overseas CAGR revenue above 21%

### Bear-case scenario: Downside risk

- 1) 2020–22 domestic CAGR revenue below 4%
- 2) 2020–22 overseas CAGR revenue below 21%

## Revised Earnings Estimates

(KRWbn, %)	Previous		Revised		Change	
	2020E	2021E	2020E	2021E	2020E	2021E
Revenue	3,241.1	3,550.2	3,222.9	3,552.9	-0.6	0.1
OP	590.9	620.9	611.6	627.4	3.5	1.0
NP (to control. int.)	414.7	438.7	429.8	444.0	3.7	1.2

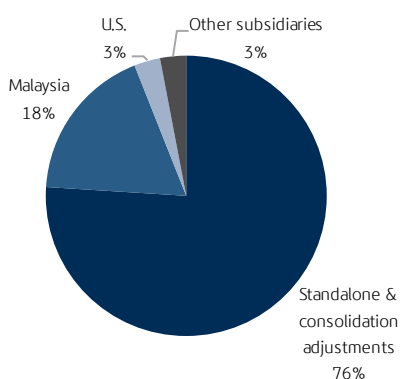
Source(s): KB Securities estimates

## KB Estimates vs. Consensus

(KRWbn, %)	KB Estimates		Consensus		Difference	
	2020E	2021E	2020E	2021E	2020E	2021E
Revenue	3,222.9	3,552.9	3,246.2	3,520.5	-0.7	0.9
OP	611.6	627.4	588.1	620.4	4.0	1.1
NP (to control. int.)	429.8	444.0	420.3	449.9	2.3	-1.3

Source(s): FnGuide, KB Securities estimates

## Revenue Composition (2019)



Source(s): Company data, KB Securities

## 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	5,180.7	11.7	4.5	2.8	24.1	5.0	1.3
Amorepacific	9,587.2	43.1	95.7	2.4	5.5	10.6	21.3
LG H&H	23,505.4	28.1	11.4	4.8	17.2	14.5	9.4

Source(s): KB Securities estimates

## Valuation & Target Price Calculation

- 1) Valuation method:  
Discounted cash flow model
- 2) Target price calculation:  
4.97% WACC; 1.6% TGR
- 3) Target price range:  
KRW61,000 – KRW104,000
- 4) Valuation at target price:  
15.2x 2021E implied P/E, 3.62x P/B

## Earnings Sensitivity Analysis

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

Table 1. 3Q20 Consolidated Earnings

(KRWbn)	3Q20	3Q19	YoY (%)	2Q20	QoQ (%)	Consensus	Var. (%)	KB est.	Var. (%)
Revenue	800.4	759.6	5.4	805.5	-0.6	820.1	-2.4	821.1	-2.5
OP	168.6	140.3	20.2	169.2	-0.3	148.4	13.6	145.1	16.2
EBT	149.2	152.3	-2.0	159.5	-6.5	139.9	6.7	134.7	10.7
NP	116.8	110.8	5.5	119.0	-1.8	103.2	13.2	99.9	17.0
OPM (%)	21.1	18.5		21.0		18.1		17.7	
EBT margin (%)	18.6	20.0		19.8		17.1		16.4	
NPM (%)	14.6	14.6		14.8		12.6		12.2	

Source(s): Company data, FnGuide, KB Securities

Table 2. 3Q20 Earnings (excl. one-offs)

(KRWbn)	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20P	4Q20E	2019	2020E	2021E
<b>One-offs (all domestic)</b>											
1) One-off operating income											
Royalty payment		-3.0	-3.0	-3.0	-3.0				-9.0	-3.0	
Strike-related costs		-15.4		-77.0			12.8		-92.4	12.8	
2) Churn accounting change											
One-off revenue						24.5				24.5	
One-off operating income						11.0				11.0	
<b>Earnings excl. one-offs (consolidated)</b>											
Revenue	709.3	755.5	759.6	794.6	768.9	781.0	800.4	848.1	3,018.9	3,198.4	3,552.9
YoY (%)					8.4	3.4	5.4	6.7	11.5	5.9	11.1
OP	135.2	156.6	143.3	124.6	141.9	158.2	155.8	135.0	559.7	590.8	627.4
YoY (%)					5.0	1.0	8.8	8.3	7.7	5.6	6.2
OPM (%)	19.1	20.7	18.9	15.7	18.4	20.2	19.5	15.9	18.5	18.5	17.7
<b>Earnings excl. one-offs (standalone)</b>											
Revenue	606.6	635.2	651.0	638.2	628.5	630.9	641.5	654.1	2,531.0	2,555.0	2,758.4
YoY (%)					3.6	-0.7	-1.5	2.5	5.7	0.9	8.0
OP	122.4	129.2	142.2	102.4	118.7	125.0	111.6	111.2	496.1	466.5	510.3
YoY (%)					-3.0	-3.2	-21.5	8.6	3.9	-6.0	9.4
OPM (%)	20.2	20.3	21.8	16.0	18.9	19.8	17.4	17.0	19.6	18.3	18.5

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	3,241.1	3,550.2	3,851.1	3,222.9	3,552.9	3,848.2	-0.6	0.1	-0.1
OP	590.9	620.9	657.1	611.6	627.4	658.7	3.5	1.0	0.2
EBT	559.6	591.7	630.4	571.7	598.8	632.5	2.2	1.2	0.3
NP (to control. int.)	414.7	438.7	467.5	429.8	444.0	469.0	3.7	1.2	0.3
EPS (KRW)	5,619	6,046	6,443	5,824	6,119	6,464	3.7	1.2	0.3
YoY (%)									
Revenue	7.4	9.5	8.5	6.8	10.2	8.3			
OP	28.9	5.1	5.8	33.5	2.6	5.0			
EBT	24.0	5.7	6.6	26.6	4.7	5.6			
NP (to control. int.)	24.5	5.8	6.6	29.1	3.3	5.6			
EPS	24.5	7.6	6.6	29.1	5.1	5.6			
OPM (%)	18.2	17.5	17.1	19.0	17.7	17.1			
EBT margin (%)	17.3	16.7	16.4	17.7	16.9	16.4			
NPM (to control. int.) (%)	12.8	12.4	12.1	13.3	12.5	12.2			

Source(s): Company data, KB Securities estimates

Note: Previous estimates made on Aug 6, 2020

Table 4. Earnings &amp; Estimates (consolidated)

(KRWbn)	1Q20	2Q20	3Q20P	4Q20E	1Q21E	2Q21E	3Q21E	4Q21E	2018	2019	2020E	2021E	2022E
Revenue	768.9	805.5	800.4	848.1	839.0	890.7	901.2	922.0	2,707.3	3,018.9	3,222.9	3,552.9	3,848.2
Standalone	628.5	655.4	641.5	654.1	673.4	698.5	698.9	687.6	2,395.5	2,531.0	2,579.5	2,758.4	2,874.3
Malaysia	153.3	155.9	178.8	198.4	176.3	202.7	209.2	238.1	353.4	526.3	686.4	826.2	991.5
U.S.	27.2	32.1	51.8	40.9	32.6	36.9	41.4	47.0	80.5	97.3	152.0	158.0	186.5
Other subsidiaries	22.0	16.0	15.1	18.5	24.7	24.8	24.8	24.0	88.1	105.0	71.6	98.3	108.0
Cons. adj.	-62.1	-53.9	-86.8	-63.8	-68.0	-72.2	-73.1	-74.8	-210.4	-240.7	-266.5	-288.1	-312.0
YoY (%)													
Revenue	8.4	6.6	5.4	6.7	9.1	10.6	12.6	8.7	7.6	11.5	6.8	10.2	8.3
Standalone	3.6	3.2	-1.5	2.5	7.1	6.6	9.0	5.1	3.2	5.7	1.9	6.9	4.2
Malaysia	36.3	22.2	33.8	30.0	15.0	30.0	17.0	20.0	70.4	48.9	30.4	20.4	20.0
U.S.	30.1	36.0	130.2	35.0	20.0	15.0	-20.0	15.0	23.7	20.9	56.2	4.0	18.0
Other subsidiaries	16.4	-40.7	-39.8	-45.5	12.3	55.1	64.0	29.6	36.6	19.2	-31.8	37.3	9.8
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	81.7	81.4	80.1	77.1	80.3	78.4	77.5	74.6	88.5	83.8	80.0	77.6	74.7
Malaysia	19.9	19.4	22.3	23.4	21.0	22.8	23.2	25.8	13.1	17.4	21.3	23.3	25.8
U.S.	3.5	4.0	6.5	4.8	3.9	4.1	4.6	5.1	3.0	3.2	4.7	4.4	4.8
Other subsidiaries	2.9	2.0	1.9	2.2	2.9	2.8	2.7	2.6	3.3	3.5	2.2	2.8	2.8
Cons. adj.	-8.1	-6.7	-10.8	-7.5	-8.1	-8.1	-8.1	-8.1	-7.8	-8.0	-8.3	-8.1	-8.1
Operating profit	138.9	169.2	168.6	135.0	152.3	161.1	162.4	151.6	519.8	458.3	611.6	627.4	658.7
Standalone	115.7	136.0	124.4	111.2	127.9	132.7	132.8	116.9	477.2	394.7	487.3	510.3	517.4
Malaysia	25.2	23.3	29.6	31.7	27.3	31.4	32.4	36.9	62.3	75.6	109.8	128.1	148.7
U.S.	2.6	4.9	11.8	5.3	2.0	2.2	2.5	2.8	3.1	3.3	24.6	9.5	13.1
Other subsidiaries	-0.6	-1.4	-2.6	-1.5	-0.3	-0.2	-0.3	-0.3	-8.6	-1.5	-6.1	-1.1	-0.1
Cons. adj.	-4.0	6.4	5.4	-11.7	-4.7	-5.0	-5.0	-4.7	-14.2	-13.8	-4.0	-19.4	-20.4
YoY (%)													
OP	2.7	22.4	20.2	202.5	9.6	-4.7	-3.7	12.3	10.0	-11.8	33.5	2.6	5.0
Standalone	-5.5	22.8	-10.6	397.1	10.6	-2.4	6.7	5.1	-0.2	-17.3	23.5	4.7	1.4
Malaysia	31.9	5.4	108.5	57.1	8.4	34.8	9.5	16.3	256.0	21.3	45.3	16.6	16.1
U.S.	225.0	1,125.0	TTB	77.3	-24.7	-54.8	-78.9	-46.9	520.0	6.5	646.0	-61.5	37.7
Other subsidiaries	RR	TTR	TTR	RR	RR	RR	RR	RR	RR	RR	RR	RR	RR
Cons. adj.	RR	73.4	TTB	RR	RR	TTR	TTR	RR	RR	RR	RR	RR	RR
OPM (%)													
OP	18.1	21.0	21.1	15.9	18.1	18.1	18.0	16.4	19.2	15.2	19.0	17.7	17.1
Standalone	18.4	20.7	19.4	17.0	19.0	19.0	19.0	17.0	19.9	15.6	18.9	18.5	18.0
Malaysia	16.4	14.9	16.6	16.0	15.5	15.5	15.5	15.5	17.6	14.4	16.0	15.5	15.0
U.S.	9.6	15.3	22.8	13.0	6.0	6.0	6.0	6.0	3.9	3.4	16.2	6.0	7.0
Other subsidiaries	-2.7	-8.8	-17.2	-8.3	-1.1	-0.9	-1.1	-1.2	-9.8	-1.4	-8.5	-1.1	-0.1
Cons. adj.	6.5	-11.9	-6.2	18.4	6.9	6.9	6.9	6.3	6.7	5.7	1.5	6.7	6.5
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	83.3	80.4	73.8	82.4	84.0	82.4	81.8	77.1	91.8	86.1	79.7	81.3	78.5
Malaysia	18.1	13.8	17.6	23.5	17.9	19.5	20.0	24.3	12.0	16.5	18.0	20.4	22.6
U.S.	1.9	2.9	7.0	3.9	1.3	1.4	1.5	1.9	0.6	0.7	4.0	1.5	2.0
Other subsidiaries	-0.4	-0.8	-1.5	-1.1	-0.2	-0.1	-0.2	-0.2	-1.7	-0.3	-1.0	-0.2	-0.0
Gross profit	521.7	554.8	536.3	548.1	565.9	609.9	600.2	592.1	1,829.1	2,008.5	2,160.9	2,368.2	2,549.5
EBT	138.3	159.5	149.2	124.6	145.6	154.5	155.7	143.0	468.6	451.4	571.7	598.8	632.5
NP (to control. int.)	101.6	119.0	116.8	92.4	107.9	114.5	115.5	106.0	350.2	332.9	429.8	444.0	469.0
EBITDA	275.7	303.4	289.5	226.4	270.1	279.0	280.3	269.5	775.4	739.5	1,095.0	1,098.9	1,123.1
YoY (%)													
Gross profit	9.5	9.6	5.4	6.1	8.5	9.9	11.9	8.0	6.4	9.8	7.6	9.6	7.7
EBT	2.1	16.6	-2.0	364.6	5.2	-3.2	4.4	14.7	6.5	-3.7	26.6	4.7	5.6
NP (to control. int.)	1.1	16.7	5.5	368.4	6.2	-3.7	-1.2	14.7	7.4	-4.9	29.1	3.3	5.6
EBITDA	33.7	43.0	32.8	119.5	-2.0	-8.0	-3.2	19.1	9.5	-4.6	48.1	0.4	2.2
GPM (%)	67.8	68.9	67.0	64.6	67.4	68.5	66.6	64.2	67.6	66.5	67.0	66.7	66.3
EBT margin (%)	18.0	19.8	18.6	14.7	17.4	17.3	17.3	15.5	17.3	15.0	17.7	16.9	16.4
NPM (to control. Int.) (%)	13.2	14.8	14.6	10.9	12.9	12.9	12.8	11.5	12.9	11.0	13.3	12.5	12.2
EBITDA margin (%)	35.9	37.7	36.2	26.7	32.2	31.3	31.1	29.2	28.6	24.5	34.0	30.9	29.2

Source(s): Company data, KB Securities estimates

Note: RR=remain in red, TTB=turn to black, TTR=turn to red

Table 5. Earnings &amp; Estimates (standalone)

(KRWbn)		1Q20	2Q20	3Q20P	4Q20E	1Q21E	2Q21E	3Q21E	4Q21E	2018	2019	2020E	2021E	2022E
Revenue		628.5	655.4	641.5	654.1	673.4	698.5	698.9	687.6	2,395.5	2,531.0	2,579.5	2,758.4	2,874.3
Domestic home appliance		529.4	552.9	507.4	528.9	548.9	571.7	559.2	550.4	2,017.5	2,111.2	2,118.6	2,230.1	2,305.1
Rental		401.9	405.3	399.5	397.9	402.8	412.5	411.2	401.6	1,527.7	1,572.6	1,604.6	1,628.1	1,681.6
Home care		68.9	87.1	57.3	75.7	77.9	91.5	88.8	90.8	185.1	258.4	289.0	348.9	376.8
Membership		24.7	25.9	24.6	23.1	22.9	22.9	22.9	22.1	121.2	107.3	98.2	90.8	86.3
Lump-sum payment		30.9	31.9	23.6	29.5	42.5	42.3	33.7	33.1	170.8	161.3	115.9	151.7	150.1
Other		3.1	2.6	2.4	2.7	2.8	2.6	2.6	2.7	12.8	11.7	10.9	10.6	10.4
Exports		81.8	85.2	120.3	106.8	106.4	108.6	122.0	119.1	302.5	343.5	394.1	456.1	495.5
Cosmetics		17.3	17.3	13.7	18.5	18.2	18.2	17.8	18.1	75.5	76.3	66.7	72.2	73.7
YoY (%)	Revenue	3.6	3.2	-1.5	2.5	7.1	6.6	9.0	5.1	3.2	5.7	1.9	6.9	4.2
	Domestic HA	2.3	3.8	-5.1	0.5	3.7	3.4	10.2	4.1	1.8	4.6	0.3	5.3	3.4
	Rental	4.5	3.5	0.7	-0.4	0.2	1.8	2.9	0.9	1.4	2.9	2.0	1.5	3.3
	Home care	22.4	28.8	-21.4	23.0	13.0	5.0	55.0	20.0	50.7	39.6	11.8	20.7	8.0
	Membership	-11.5	-4.0	-8.0	-10.2	-7.1	-11.7	-6.9	-4.1	-16.3	-11.5	-8.4	-7.6	-5.0
	Lump-sum	-32.3	-26.7	-33.4	-19.5	37.7	32.6	42.8	12.2	-11.2	-5.6	-28.1	30.8	-1.1
	Other	1.7	-9.2	-10.9	-10.0	-10.0	-2.0	5.0	-2.0	-15.8	-8.6	-7.0	-2.7	-2.0
	Exports	16.7	1.7	22.9	16.5	30.0	27.5	1.3	11.6	16.5	13.6	14.8	15.7	8.6
	Cosmetics	-8.6	-7.8	-26.3	-8.0	5.0	5.0	30.0	-2.0	-5.3	1.1	-12.5	8.2	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	84.2	84.4	79.1	80.9	81.5	81.8	80.0	80.0	84.2	83.4	82.1	80.8	80.2
	Rental	63.9	61.8	62.3	60.8	59.8	59.1	58.8	58.4	63.8	62.1	62.2	59.0	58.5
	Home care	11.0	13.3	8.9	11.6	11.6	13.1	12.7	13.2	7.7	10.2	11.2	12.6	13.1
	Membership	3.9	4.0	3.8	3.5	3.4	3.3	3.3	3.2	5.1	4.2	3.8	3.3	3.0
	Lump-sum	4.9	4.9	3.7	4.5	6.3	6.1	4.8	4.8	7.1	6.4	4.5	5.5	5.2
	Other	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.4	0.4	0.4
	Export	13.0	13.0	18.8	16.3	15.8	15.5	17.4	17.3	12.6	13.6	15.3	16.5	17.2
Cosmetics	2.8	2.6	2.1	2.8	2.7	2.6	2.5	2.6	3.2	3.0	2.6	2.6	2.6	
OP	115.7	136.0	124.4	111.2	127.9	132.7	132.8	116.9	477.2	394.7	487.3	510.3	517.4	
YoY (%)	-5.5	22.8	-10.6	397.1	10.6	-2.4	6.7	5.1	-0.2	-17.3	23.5	4.7	1.4	
OPM (%)	18.4	20.7	19.4	17.0	19.0	19.0	19.0	17.0	19.9	15.6	18.9	18.5	18.0	
Key rental assumptions														
Total accounts ('000)		5,740.4	5,773.4	5,762.3	5,821.6	5,904.5	5,973.7	6,051.3	6,055.8	5,229.8	5,687.7	5,821.6	6,055.8	6,317.6
New ('000)		377.5	355.5	285.3	376.0	415.3	419.4	385.1	357.2	1,450.0	1,572.1	1,394.3	1,577.1	1,624.4
Churns ('000)		189.2	179.0	162.9	172.9	174.6	177.1	179.2	181.5	644.5	659.1	703.9	712.5	740.8
Expiries ('000)		135.6	143.5	133.6	143.8	157.8	173.1	128.3	171.2	545.7	455.0	556.4	630.4	621.8
Monthly ARPU (KRW)		27,465	28,513	26,398	27,253	27,327	28,285	27,718	27,117	27,988	27,952	27,421	27,742	27,726
Monthly avg. churn rate (%)		1.11	1.04	0.94	1.00	1.00	1.00	1.00	1.00	1.08	1.05	1.03	1.02	1.02
Expiries (%)		39.8	38.7	39.6	40.0	45.0	45.0	45.0	45.0	46.8	34.2	39.5	45.0	45.0
Key membership assumptions														
Total accounts ('000)		572.4	555.3	544.2	534.4	549.5	533.1	522.4	513.0	670.3	593.8	534.4	513.0	487.4
Monthly ARPU (KRW)		14,098	15,307	14,919	14,268	14,084	14,082	14,472	14,254	13,941	14,145	14,513	14,451	14,378
Key lump-sum assumptions														
New sales ('000)		34.9	30.6	24.3	29.8	47.1	39.8	34.0	32.7	197.2	194.2	119.6	153.7	149.0
ARPU (KRW)		885,102	1,042,563	971,947	991,087	902,804	1,063,414	991,386	1,010,909	866,032	830,542	969,438	987,035	1,006,776
Obsolescence loss (cons.) (KRWbn)		23.6	20.7	17.0	18.9	17.8	18.2	18.1	17.9	48.8	51.2	80.2	71.9	72.2

Source(s): Company data, KB Securities estimates

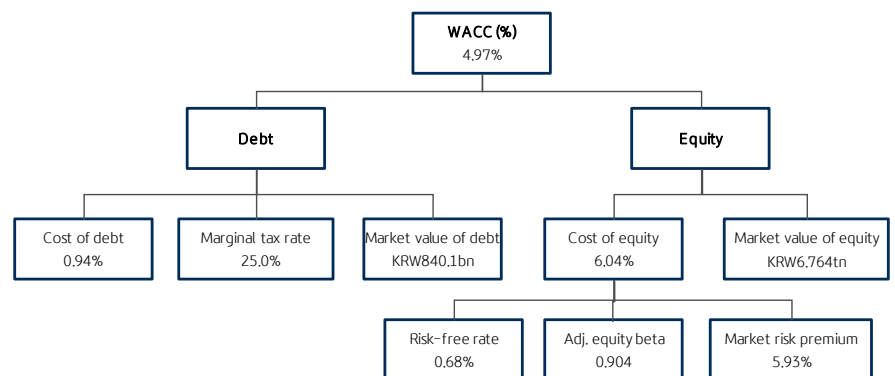
Table 6. TP Calculation: Discounted Cash Flow Model

(KRWbn)		2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E
<b>Cash flow estimates</b>									
OP	a	458.3	611.6	627.4	658.7	702.3	667.2	665.0	655.7
Effective tax rate (%)	b	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0
<b>NOPLAT</b>	$C=a*(1-b)$	<b>343.7</b>	<b>458.7</b>	<b>470.6</b>	<b>494.0</b>	<b>526.7</b>	<b>500.4</b>	<b>498.7</b>	<b>491.8</b>
D&A	d	281.2	483.4	471.5	464.4	461.1	452.0	443.1	434.4
<b>Total cash flow</b>	$E=C+d$	<b>624.9</b>	<b>942.1</b>	<b>942.1</b>	<b>958.4</b>	<b>987.8</b>	<b>952.4</b>	<b>941.9</b>	<b>926.1</b>
<b>Total investment</b>	$F=g+h$	<b>-698.6</b>	<b>-689.6</b>	<b>-551.5</b>	<b>-559.9</b>	<b>-569.3</b>	<b>-650.0</b>	<b>-680.0</b>	<b>-700.0</b>
Change in working capital	g	-308.0	-189.6	-101.5	-99.9	-99.3	-150.0	-180.0	-200.0
Capex	h	-390.6	-500.0	-450.0	-460.0	-470.0	-500.0	-500.0	-500.0
FCFF	$I=E+F$	-73.7	252.4	390.5	398.5	418.5	302.4	261.9	226.1
<b>PV of cash flows</b>									
Discount rate				0.8%	5.8%	11.0%	16.6%	22.4%	
PV of FCFF				59.5	376.8	377.0	259.4	214.0	
Total PV of FCFF (2021E-25E)	j			1,286.6					
Terminal growth rate (%)				1.6%					30y treasury bond yield
Terminal value (2026E)				6,703.5					2026E FCFF / (WACC - TGR)
PV of terminal value	k			5,478.7	4.97% WACC (0.68% risk-free rate; 5.93% market risk premium)				
<b>Valuation</b>									
Total cash flow (PV)	$L=j+k$			6,765.4					
Cash & cash equivalents	m			441.0					
Short-term financial assets	n			281.4					
Debt	o			722.8					
Fair enterprise value	$P=L+(m+n+o)$			6,764.9					
No. of shares ('000)	q			72,556					
<b>Target price (KRW)</b>	$R=P/q$			<b>93,000</b>					
Current price (KRW)				70,200			Nov 4, 2020		
Upside (%)				32.5					
12m fwd implied P/E (x)				15.2					
12m fwd implied P/B (x)				3.62					

Source(s): Company data, KB Securities estimates

Fig 1. WACC Calculation

- 1) Cost of debt is YTD yield of 0.94% on Coway's 1y maturity KRW-based bonds; value of outstanding liabilities is total debt as of end-2Q20
- 2) Cost of equity derived using CAPM; risk-free rate is 1y monetary stabilization bond yield; equity beta is Coway's 52w adj. beta; market risk premium is the historical avg. of the difference between yields of WMI500 and 1y 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 &amp; TGR

(KRW)		Terminal Growth Rate						
		1.0%	1.2%	1.4%	1.6%	1.8%	2.0%	2.2%
WACC	3.97%	107,272	113,700	121,128	129,807	140,083	152,442	167,589
	4.17%	100,908	106,482	112,859	120,227	128,837	139,032	151,293
	4.37%	95,296	100,170	105,699	112,026	119,335	127,877	137,991
	4.57%	90,310	94,604	99,439	104,924	111,200	118,452	126,926
	4.77%	85,850	89,658	93,918	98,714	104,156	110,383	117,577
	4.97%	81,836	85,234	89,012	93,000	97,997	103,395	109,573
	5.17%	78,205	81,253	84,624	88,372	92,565	97,286	102,642
	5.37%	74,904	77,651	80,675	84,019	87,738	91,898	96,582
	5.57%	71,889	74,376	77,102	80,102	83,420	87,110	91,237
	5.77%	69,125	71,386	73,854	76,559	79,535	82,827	86,488
	5.97%	66,582	68,645	70,888	73,337	76,020	78,973	82,240

Source(s): Company data, KB Securities estimates

Table 8. WACC Changes

(KRWbn, %)		Previous (8/6/2020)	Adjusted (11/5/2020)	Notes
<b>Cost of equity</b>	$A = B + C \times D$	<b>6.08</b>	<b>6.01</b>	
Risk-free rate	B	0.68	0.68	Avg. 1y MSB yield (last three months)
Adj. beta	C	0.91	0.90	52w adj. beta
Raw beta		0.50	0.49	
R <sup>2</sup>		0.18	0.19	
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 annual avg. 1y MSB total return
<b>Cost of debt</b>	G	<b>1.14</b>	<b>0.94</b>	YTD yield of KRW-based 1y bonds
Fair shareholder value (KRWbn)		6,755.7	6,764.9	Value of outstanding shares based on TP
Debt (KRWbn)		901.5	840.1	Total financial liabilities as of end-2Q20
Weight of stock value	H	80.0	80.0	
Weight of debt	I	20.0	20.0	
<b>WACC</b>	$J = (A \times H) + (G \times I)$	<b>5.03</b>	<b>4.95</b>	
<b>Terminal growth rate</b>		<b>1.60%</b>	<b>1.60%</b>	

Source(s): Company data, KB Securities estimates

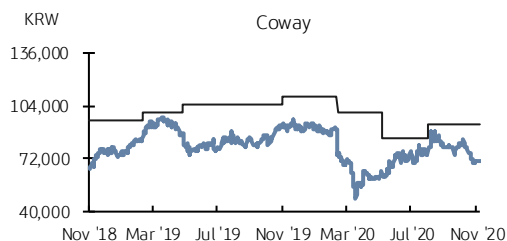


Income Statement						Statement of Financial Position					
(KRWbn)	2018A	2019A	2020E	2021E	2022E	(KRWbn)	2018A	2019A	2020E	2021E	2022E
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
Revenue	2,707	3,019	3,223	3,553	3,848	Total assets	2,379	2,855	3,151	3,383	3,658
Cost of revenue	878	1,010	1,062	1,185	1,299	Current assets	844	767	1,038	1,287	1,563
Gross profit	1,829	2,009	2,161	2,368	2,549	Cash and cash equivalents	69	61	253	441	650
SG&A expenses	1,309	1,550	1,549	1,741	1,891	Current financial assets	107	214	268	281	295
Operating profit	520	458	612	627	659	Trade receivables	302	310	326	358	394
EBITDA	775	740	1,095	1,099	1,123	Inventory	103	113	118	130	143
Non-operating accounts	-51	-7	-40	-29	-26	Other current assets	263	69	72	76	80
Interest income	1	1	1	1	2	Non-current assets	1,535	2,088	2,114	2,096	2,095
Interest expenses	18	22	22	20	18	Investment assets	78	43	28	28	28
Profit on equity method	0	0	0	0	0	Property, plant and equipment	781	1,271	1,280	1,267	1,270
Net other non-operating income	-35	14	-19	-10	-10	Intangible assets	160	168	149	145	141
Profit before tax	469	451	572	599	633	Other non-current assets	516	606	656	656	656
Income tax expense	119	119	142	156	164	Total liabilities	1,291	1,778	1,630	1,491	1,374
Net profit	350	332	429	443	468	Current liabilities	1,234	1,587	1,439	1,307	1,188
NP attributable to controlling interests	350	333	430	444	469	Trade payables	62	58	63	68	73
Adj. net profit	350	333	430	444	469	Short-term financial liabilities	732	876	788	710	639
						Other current liabilities	440	653	588	529	477
						Non-current liabilities	57	191	191	185	186
						Non-current financial liabilities	11	27	21	13	13
						Other non-current liabilities	46	164	170	171	173
						Total equity	1,088	1,077	1,521	1,892	2,283
						Issued capital	41	41	41	41	41
						Share premium	130	132	148	148	148
						Other equity interest	-45	-50	-48	-48	-48
						Accumulated other comprehensive income	-4	1	-2	-2	-2
						Retained earnings	967	954	1,384	1,755	2,148
						Controlling interests	1,088	1,078	1,523	1,894	2,287
						Non-controlling interests	0	-1	-1	-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	6.8	10.2	8.3	Multiples					
OP growth	10.0	-11.8	33.5	2.6	5.0	P/E	15.6	20.6	12.1	11.7	11.0
EBITDA growth	9.5	-4.6	48.1	0.4	2.2	P/B	5.0	6.4	3.4	2.7	2.3
NP growth of parent	7.4	-4.9	29.1	3.3	5.6	P/S	2.0	2.3	1.6	1.5	1.3
GP margin	67.6	66.5	67.1	66.7	66.3	EV/EBITDA	7.8	10.1	5.0	4.7	4.3
OP margin	19.2	15.2	19.0	17.7	17.1	EV/EBIT	11.6	16.4	8.9	8.3	7.4
EBITDA margin	28.6	24.5	34.0	30.9	29.2	Dividend yield, ordinary (%)	4.9	2.6	1.4	1.5	1.6
EBT margin	17.3	15.0	17.7	16.9	16.4	EPS	4,735	4,511	5,824	6,016	6,355
NP margin of parent	12.9	11.0	13.3	12.5	12.2	BVPS	14,744	14,611	20,630	25,663	30,986
						SPS	36,604	40,907	43,671	48,142	52,144
						DPS (annual, ordinary)	3,600	2,400	1,000	1,050	1,100
						Cash dividends payout ratio (%)	74.2	52.1	16.9	17.2	17.0
Statement of Cash Flows						Operating performance					
(KRWbn)	2018A	2019A	2020E	2021E	2022E	ROE	33.8	30.7	33.1	26.0	22.4
Cash flow from operating activities	539	539	813	813	833	ROA	15.4	12.7	14.3	13.6	13.3
Net profit	350	332	429	443	468	ROIC	25.9	21.2	27.5	26.1	26.1
Depreciation & amortization	256	281	483	472	464	Financial structure (%)					
Other non-cash adjustments	286	382	246	156	164	Total liab./equity	118.7	165.0	107.2	78.8	60.2
Investments in working capital	-237	-308	-190	-102	-100	Net debt/equity	52.1	58.3	19.0	0.0	Net Cash
Decrease(Increase) in receivables	20	-4	-5	-33	-36	Current ratio	0.7	0.5	0.7	1.0	1.3
Decrease(Increase) in inventory	-26	-5	-7	-12	-13	Interest coverage (x)	29.2	20.9	27.5	31.5	36.9
Increase(Decrease) in payables	-3	-9	-8	5	5	Activity ratios					
Investments in other working capital	-228	-290	-169	-62	-56	Asset turnover (x)	1.2	1.2	1.1	1.1	1.1
Other operating cash flow	-116	-148	-156	-156	-164	Receivables turnover (x)	8.8	9.9	10.1	10.4	10.2
Cash flow from investing activities	-394	-383	-514	-467	-478	Payables turnover (x)	46.4	50.1	53.5	54.6	54.7
Capital expenditure	-388	-366	-492	-450	-460	Inventory turnover (x)	30.5	28.0	27.9	28.6	28.1
Investments in intangibles	-6	-3	-2	-4	-4						
Changes in investment assets	-1	-5	-1	0	0						
Other investment cash flow	1	-9	-20	-13	-14						
Cash flow from financing activities	-187	-165	-106	-158	-146						
Proceeds from (repayment of) debt	59	114	-102	-87	-71						
Changes in equity	3	2	20	0	0						
Dividends paid	-231	-260	0	-73	-76						
Other financing cash flow	-18	-21	-25	1	1						
Other cash flow	0	0	0	0	0						
Increase/decrease in cash	-41	-9	193	188	209						
Cash and cash equivalents at FYE	69	61	253	441	650						
Free cash flow	152	173	321	363	373						
Net cash flow	-54	-61	340	288	294						
Net cash (net debt)	-567	-628	-289	0	294						

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	
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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## 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' 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' 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' 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.

## Proportion of investment rating (as of September 30, 2020)

Buy	Hold	Sell
76.7	23.3	-

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

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