



Coway

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

30 December 2020

[Small cap]

Overseas growth starting to pick up pace

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BUY
(Maintain)



CP (Dec. 29)

KRW71,600



TP (6 months)

KRW100,000



Upside

39.7%

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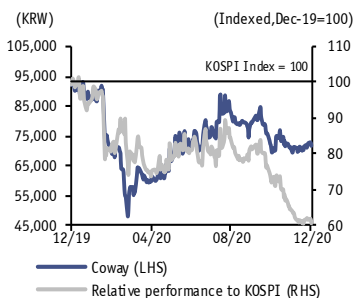


Shinhan Investment Corp.

Rating	BUY (Maintain)
TP (6 months)	KRW100,000
Upside	39.7%

KOSPI	2,820.51p
KOSDAQ	957.41p
Market cap	KRW5,284.1bn/USD4,635.1mn
Par value	KRW500
Outstanding shares	73.8mn
Free float	54.0mn(73.2%)
52-week high/low	KRW93,100/KRW48,250
60-day avg. trading volume	219,066shrs
60-day avg. turnover	KRW16,062mn
Foreign ownership	60.37%
Major shareholders	
Netmarble and 5 others	25.11%
NPS	7.27%
Absolute performance	
3M	-9.7%
6M	0.7%
12M	-22.1%
Relative performance to KOSPI	
3M	-25.5%
6M	-25.3%
12M	-39.1%

Share performance



4Q20 OP forecast at KRW132.7bn (+197% YoY)

Coway is expected to post operating profit of KRW132.7bn (+197.3% YoY) on sales of KRW848.3bn (+6.8% YoY) for 4Q20, as a result of the low base created by one-off provisioning for retirement (KRW77bn) in 4Q19. The number of customer accounts likely reached 6.34mn (+1.0% YoY) at home and 1.93mn (+31.1% YoY) overseas. Combined sales from overseas subsidiaries are projected at KRW246.2bn (+29.8% YoY), contributing to 29% of total sales.

2021 outlook: 1) Domestic earnings back to normal, 2) growth in overseas sales

Coway's domestic operations should normalize in earnest as its customer service workers (CS Doctor) are granted regular employment status. Domestic earnings have been sluggish with the CS Doctor union's strike disrupting sales activities. An added boost is expected from new product releases, including Icon (water purifier) and Dual Clean (air purifier and humidifier combo). For full-year 2021, we forecast standalone sales to grow 2.3% YoY to KRW262.8bn.

Overseas subsidiaries are expected to expand at a rapid pace. Combined sales from overseas subsidiaries should amount to KRW1.12tr (+29.2% YoY) in 2021. The Malaysian subsidiary is likely to earn KRW889bn (+30.1% YoY) in sales and drive overall growth. In the US, two of Coway's air purifiers were named the best and second-best air purifiers by Wirecutter, a product review website owned by The New York Times. Sales should continue to grow with strengthening brand image. 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.

Retain BUY for a target price of KRW100,000

Our target price of KRW100,000 is based on 2021F EPS of KRW6,397 and a target PER of 16.0x (PER average of 2018-2019). We see further upside for the shares given forecasts for: 1) stable earnings growth based on normalization of domestic operations and market dominance; and 2) robust growth at overseas subsidiaries. We retain our BUY rating on Coway.

Year to December	Sales (bn KRW)	OP (bn KRW)	Pre-tax (bn KRW)	NP (bn KRW)	EPS (KRW)	Growth (%)	BPS (KRW)	PER 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	52.1
2019	3,018.9	458.3	451.4	332.9	4,511	(4.7)	14,611	20.6	10.1	6.4	58.3
2020F	3,223.2	609.3	575.6	433.2	5,870	30.1	18,860	12.2	4.8	3.8	24.4
2021F	3,493.0	638.5	624.9	472.1	6,397	9.0	23,289	11.2	4.2	3.1	0.8
2022F	3,842.3	677.7	667.3	504.3	6,834	6.8	28,020	10.5	3.8	2.6	(14.8)

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	471.9	(A) 2021F NP of controlling interest
	No. of shares	1,000 shares	73,800	(B)
	EPS	KRW	6,397	(C) = (A) / (B)
Target PER		x	16.0	(D) 2018-2019 PER average
Value per share		KRW	102,288	(E) = (C) * (D)
Target price		KRW	100,000	
Current price		KRW	71,600	
Upside		%	39.7	

Source: Shinhan Investment Corp.

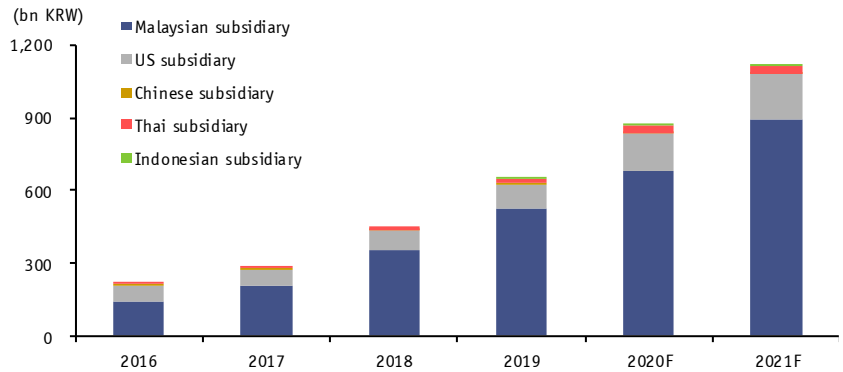
Earnings trend and outlook (consolidated)

(bn KRW)	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20F	1Q21F	2Q21F	3Q21F	4Q21F	2019	2020F	2021F
Sales	709.3	755.5	759.6	794.6	768.9	805.5	800.4	848.3	831.9	871.8	863.3	926.0	3,018.9	3,223.1	3,493.0
Rental	384.7	391.7	396.7	399.5	401.9	405.3	399.5	399.6	401.9	401.9	403.1	404.2	1,572.6	1,606.3	1,611.1
Membership	27.9	27.0	26.7	25.7	24.7	25.9	24.6	23.2	24.7	23.5	22.2	20.8	107.3	98.4	91.2
Finance lease	56.3	67.6	72.9	61.5	68.9	87.1	57.3	66.4	75.7	97.4	64.7	75.6	258.4	279.7	313.4
Lump sum	45.6	43.5	35.5	36.6	30.9	31.9	23.6	27.1	29.2	26.8	18.1	21.2	161.3	113.5	95.3
Cosmetics	18.9	18.8	18.5	20.1	17.3	17.3	13.7	19.1	16.3	16.0	12.3	17.1	76.3	67.4	61.7
Exports	70.1	83.8	97.9	91.7	81.8	85.2	120.3	104.6	89.3	98.9	135.0	121.8	343.5	391.9	445.1
Others	3.0	2.9	2.7	3.0	3.1	2.6	2.4	2.8	2.9	2.4	2.2	2.6	11.7	10.9	10.1
Subsidiaries	152.3	178.2	181.6	216.9	203.4	205.7	247.7	274.8	264.4	266.8	308.3	342.0	729.0	931.6	1,181.5
Excl. internal transactions	(49.6)	(58.0)	(73.0)	(60.5)	(63.1)	(55.5)	(88.7)	(69.4)	(72.4)	(62.0)	(102.7)	(79.3)	(241.1)	(276.7)	(316.4)
OP	135.2	138.2	140.3	44.6	138.9	169.2	168.6	132.7	156.2	164.3	169.1	148.9	458.3	609.3	638.5
NP	100.5	101.9	110.8	19.7	101.6	119.0	116.8	95.8	114.6	121.7	126.0	109.8	332.9	433.2	472.1
Sales growth (% YoY)	9.5	11.4	13.4	11.7	8.4	6.6	5.4	6.8	8.2	8.2	7.9	9.2	11.5	6.8	8.4
OP growth (% YoY)	2.9	6.9	7.6	(65.4)	2.7	22.4	20.2	197.3	12.5	(2.9)	0.3	12.2	(11.8)	33.0	4.8
NP growth (% YoY)	5.4	12.3	17.4	(71.7)	1.1	16.7	5.5	385.6	12.7	2.3	7.8	14.6	(4.9)	30.1	9.0
OPM (%)	19.1	18.3	18.5	5.6	18.1	21.0	21.1	15.6	18.8	18.8	19.6	16.1	15.2	18.9	18.3
NPM (%)	14.2	13.5	14.6	2.5	13.2	14.8	14.6	11.3	13.8	14.0	14.6	11.9	11.0	13.4	13.5

Source: Company data, Shinhan Investment Corp.

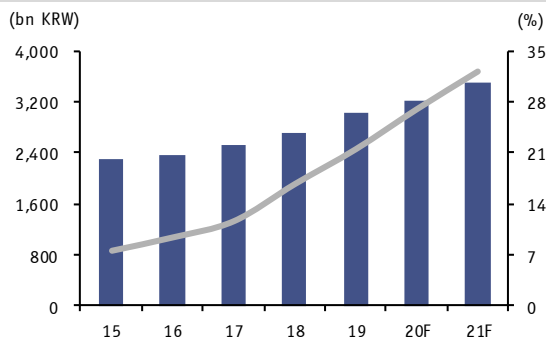
Key charts

Overseas sales trend and outlook



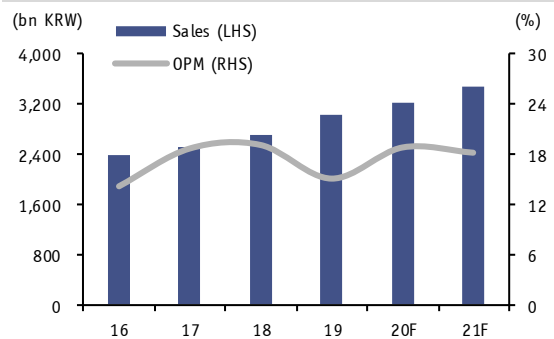
Source: Company data, Shinhan Investment Corp.

Total sales and share of overseas sales



Source: Company data, Shinhan Investment Corp.

Sales and operating profit margin



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	3,131.9	3,425.5	3,758.2
Current assets	843.7	766.9	994.1	1,248.5	1,507.8
Cash and equivalents	69.4	60.5	240.0	425.3	602.3
Accounts receivable	301.8	310.2	331.2	361.5	397.6
Inventories	102.9	112.8	120.5	131.5	144.7
Non-current assets	1,535.2	2,088.0	2,137.7	2,177.0	2,250.3
Tangible assets	781.0	1,270.8	1,271.4	1,317.9	1,397.6
Intangible assets	160.3	168.4	146.5	137.6	129.3
Investment assets	53.4	18.6	19.8	21.5	23.5
Other financial assets	0.0	0.0	0.0	0.0	0.0
Total liabilities	1,291.2	1,777.8	1,741.3	1,708.3	1,692.0
Current liabilities	1,234.3	1,586.8	1,545.7	1,496.7	1,461.3
Short-term borrowings	731.1	860.6	770.3	650.3	530.3
Accounts payable	62.5	58.0	61.9	67.6	74.3
Current portion of long-term debt	0.5	0.5	0.7	0.7	0.7
Non-current liabilities	56.9	190.9	195.6	211.6	230.7
Bonds	0.0	0.0	0.0	0.0	0.0
Long-term borrowings	11.2	27.0	20.5	20.5	20.5
Other financial liabilities	0.0	0.0	0.0	0.0	0.0
Total shareholders' equity	1,087.7	1,077.2	1,390.5	1,717.2	2,066.2
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)	(47.6)	(47.6)	(47.6)
Accumulated other comprehensive income	(4.2)	1.3	(1.2)	(1.2)	(1.2)
Retained earnings	966.8	954.0	1,252.2	1,579.0	1,928.2
Controlling interest equity	1,088.1	1,078.3	1,391.8	1,718.7	2,067.9
Non-controlling interest equity	(0.4)	(1.1)	(1.3)	(1.5)	(1.7)
*Total debt	742.9	903.1	807.5	689.0	570.7
*Net debt (cash)	566.7	628.1	338.6	13.8	(306.4)

Statement of cash flow

Year to December (bn KRW)	2018	2019	2020F	2021F	2022F
Cash flow from operations	539.1	539.3	830.1	1,303.0	1,237.6
Net profit	349.8	332.2	433.0	471.9	504.1
Depreciation expense	246.8	271.0	547.2	602.6	634.2
Amortization expense	8.7	10.2	9.4	8.9	8.4
FX translation loss (gain)	2.9	(10.6)	4.6	0.0	0.0
Asset disposal loss (gain)	48.8	35.5	61.4	31.5	32.2
Equity method loss (gain)	0.0	0.0	0.0	0.0	0.0
Change in working capital	(236.5)	(308.0)	(199.9)	170.7	44.6
(Payment of income tax)	(115.6)	(148.4)	(197.8)	(153.0)	(163.2)
Others	234.2	357.4	172.2	170.4	177.3
Cash flow from investments	(393.5)	(383.1)	(544.2)	(670.5)	(739.3)
Increase in tangible assets	(400.3)	(390.6)	(583.8)	(649.1)	(714.0)
Decrease in tangible assets	12.7	24.7	0.1	0.0	0.0
Change in intangible assets	(6.4)	(2.7)	(0.2)	0.0	0.0
Change in investment assets	7.3	0.5	0.3	(1.7)	(2.0)
Others	(6.8)	(15.0)	39.4	(19.7)	(23.3)
Free cash flow	284.5	608.8	445.8	465.7	465.7
Cash flow from financing	(186.8)	(164.9)	(106.1)	(415.7)	(289.1)
Change in borrowings	59.3	114.0	(89.9)	(118.5)	(118.3)
Change in treasury stock	0.0	0.0	0.0	0.0	0.0
Dividends	(230.9)	(259.9)	0.0	(278.5)	(155.2)
Others	(15.2)	(19.0)	(16.2)	(18.7)	(15.6)
Other cash flow	0.0	0.0	0.0	(31.5)	(32.2)
Change in consolidated scope	0.0	0.0	0.0	0.0	0.0
Change in FX rates	0.2	(0.1)	(0.4)	0.0	0.0
Change in total cash	(40.9)	(8.8)	179.4	185.3	177.0
Beginning cash	110.3	69.4	60.5	240.0	425.3
Ending cash	69.4	60.5	240.0	425.3	602.3

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	3,223.2	3,493.0	3,842.3
Growth (%)	7.6	11.5	6.8	8.4	10.0
COGS	878.3	1,010.4	1,052.6	1,138.0	1,251.8
Gross profit	1,829.1	2,008.5	2,170.5	2,355.0	2,590.5
GPM (%)	67.6	66.5	67.3	67.4	67.4
SG&A	1,309.2	1,550.2	1,561.2	1,716.6	1,912.9
Operating profit	519.8	458.3	609.3	638.5	677.7
Growth (%)	10.0	(11.8)	33.0	4.8	6.1
OPM (%)	19.2	15.2	18.9	18.3	17.6
Non-operating profit	(51.3)	(6.9)	(33.7)	(13.6)	(10.3)
Financial profit	(16.5)	(20.6)	(20.1)	(17.4)	(14.0)
Other non-operating profit	(34.7)	13.8	(13.6)	3.8	3.7
Equity method gain (loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	468.6	451.4	575.6	624.9	667.3
Income tax	118.8	119.2	142.5	153.0	163.2
Continuing operations	349.8	332.2	433.0	471.9	504.1
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	349.8	332.2	433.0	471.9	504.1
Growth (%)	7.4	(5.0)	30.3	9.0	6.8
NPM (%)	12.9	11.0	13.4	13.5	13.1
Controlling interest	350.2	332.9	433.2	472.1	504.3
Non-controlling interest	(0.4)	(0.7)	(0.2)	(0.2)	(0.2)
Comprehensive income	343.9	329.9	428.8	471.9	504.1
Controlling interest	344.4	330.6	429.0	472.1	504.3
Non-controlling interest	(0.4)	(0.7)	(0.2)	(0.2)	(0.2)
EBITDA	775.4	739.5	1,165.9	1,250.0	1,320.3
Growth (%)	9.5	(4.6)	57.7	7.2	5.6
EBITDA margin (%)	28.6	24.5	36.2	35.8	34.4

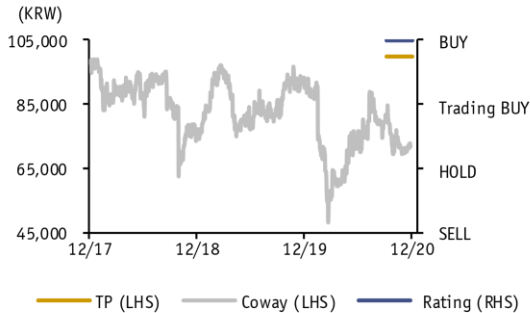
Key ratios

Year to December	2018	2019	2020F	2021F	2022F
EPS (KRW)	4,730	4,501	5,868	6,394	6,831
EPS of controlling interest (KRW)	4,735	4,511	5,870	6,397	6,834
BPS (KRW)	14,739	14,596	18,842	23,268	27,997
BPS of controlling interest (KRW)	14,744	14,611	18,860	23,289	28,020
DPS (KRW)	3,600	2,400	1,837	2,002	2,138
PER (x)	15.7	20.7	12.2	11.2	10.5
PER of controlling interest (x)	15.6	20.6	12.2	11.2	10.5
PBR (x)	5.0	6.4	3.8	3.1	2.6
PBR of controlling interest (x)	5.0	6.4	3.8	3.1	2.6
EV/EBITDA (x)	7.8	10.1	4.8	4.2	3.8
Dividend payout ratio (%)	74.2	52.1	30.8	30.8	30.8
Dividend yield (%)	4.9	2.6	2.6	2.8	3.0
Profitability					
EBITDA margin (%)	28.6	24.5	36.2	35.8	34.4
OPM (%)	19.2	15.2	18.9	18.3	17.6
NPM (%)	12.9	11.0	13.4	13.5	13.1
ROA (%)	15.4	12.7	14.5	14.4	14.0
ROE (%)	33.8	30.7	35.1	30.4	26.6
ROIC (%)	33.8	23.3	38.9	40.3	41.7
Stability					
Debt to equity ratio (%)	118.7	165.0	125.2	99.5	81.9
Net debt ratio (%)	52.1	58.3	24.4	0.8	(14.8)
Cash ratio (%)	5.6	3.8	15.5	28.4	41.2
Interest coverage ratio (x)	29.2	20.9	28.5	34.3	43.2
Activity (%)					
Working capital turnover (times)	14.6	(118.2)	(14.4)	(14.5)	(14.5)
Inventory turnover (days)	12.0	13.0	13.2	13.2	13.1
Receivable turnover (days)	41.5	37.0	36.3	36.2	36.1

Source: Company data, Shinhan Investment Corp.

Target price & rating history

Coway (021240 KS)



Date	Rating	Target price (KRW)	Target price gap (%)	
			Average	Max/Min
2020.10.07	BUY	100,000		

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

Rating Distribution - SHIC Universe (as of 28 December 2020)

BUY (BUY)	91.59%	Trading BUY (HOLD)	3.27%	HOLD (HOLD)	5.14%	SELL (SELL)	0.00%
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Rating Distribution - SHIC Investment Banking Clients (as of 28 December 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

- ◆ 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

Sector

- ◆ 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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