

Coway (021240 KS)

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Rating **BUY**
maintain

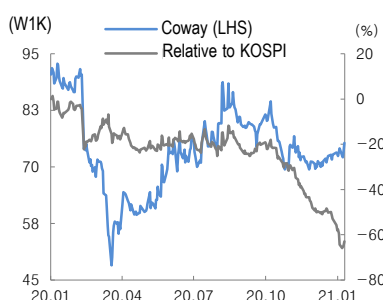
6M TP (₩) **94,000**
maintain

CP (₩)
(21.01.14) **75,300**

Service

KOSPI	3149.93
Market cap (Wbn)	5,557
Market cap portion (%)	0.29
Paid-in capital (common; Wbn)	41
52w high/low (₩)	92,800 / 48,250
120d avg. trading volume (Wbn)	17.1
Foreign ownership (%)	60.91
Major shareholders	Netmarble+7: 25.11% NPS: 7.27%

(%)	1M	3M	6M	12M
Abs. return	6.8	-6.3	5.5	-18.9
Rel. return	-6.3	-29.2	-26.9	-42.3



Doing well in Korea and overseas

BUY; 6M TP maintained at ₩94,000

- Our target price of ₩94,000 (14.8x 2021F EPS) for the rental company is based on the DCF valuation (risk-free income ratio 1.3%, market risk premium 10.4%, beta 0.96).
- Currently, the stock is trading at a 2021F P/E ratio of 11.2, compared to the 2018-19 average of 17. For it to receive a multiple of 17 or higher, Coway will need to see continued benefits from the product category expansion in Malaysia and achieve meaningful results in new markets such as Vietnam.
 - Sales in Malaysia are on the rise, in line with the operation's expanding product categories there. The number of accounts for its air purifier solutions launched in 2018 has increased from roughly 50,000 a quarter to more than 80,000 on a net basis. As for its mattress offerings launched last year, it has been adding 10,000 accounts a quarter. Those strong numbers are yet to be reflected in the company's share price, however.
 - It is difficult to predict how the company will fare in new markets now as it is uncertain when the pandemic will end.

Doing great both at home and overseas

- For 4Q20, the company is expected to report revenue of ₩812bn (up 2.2% yoy) and OP of ₩136.2bn (up 205.3% yoy). The consensus is calling for revenue of ₩848.2bn and OP of ₩132.3bn for the quarter.
- Net of one-off items, we expect the company to report a 2.2% rise in revenue and a 9.1% increase in OP for all of 2020.

	4Q19	3Q20	4Q20(F)		1Q21					
			Previous	Daishin	YoY	QoQ	Consensus	Daishin	YoY	QoQ
Revenue	795	800	821	812	2.2	1.4	848	849	10.4	4.6
OP	45	169	138	136	205.3	-19.2	132	161	16.3	18.5
NP	20	117	95	95	382.2	-18.6	94	116	14.4	22.3

Source: Coway, FnGuide, Daishin Securities Research Center

	2018A	2019A	2020F	2021F	2022F
Revenue	2,707	3,019	3,187	3,490	3,812
OP	520	458	613	643	704
Pretax profit	469	451	576	616	682
NP	350	332	432	462	511
NP (contr. int.)	350	333	433	462	512
EPS	4,735	4,511	5,861	6,265	6,937
PER	15.6	20.6	12.8	12.0	10.9
BPS	14,711	14,611	18,102	23,243	29,047
PBR	5.0	6.4	4.2	3.2	2.6
ROE	33.8	30.7	35.8	30.3	26.5

Note: EPS, BPS, and ROE are based only on the controlling interest.
Source: Coway, Daishin Securities Research Center

Tab 1. Earnings projections

(Wbn, %)

	1Q20	2Q20	3Q20	4Q20F	1Q21F	2Q21F	3Q21F	4Q21F	2019	2020F	2021F	2022F
Revenue	769	806	800	812	849	865	872	903	3,019	3,187	3,490	3,812
Korea	629	655	641	660	670	665	685	704	2,531	2,585	2,724	2,890
Malaysia	153	156	179	190	199	210	221	232	526	677.8	860.2	1,047
US	27	32	52	33	33	35	38	47	97	143.6	152.7	180
Others	23	17	16	15	26	26	27	26	105	71	106	106
YoY												
Revenue	8.4	6.6	5.4	2.2	10.4	7.4	9.0	11.2	11.5	5.6	9.5	9.2
Korea	3.6	3.2	-1.5	3.3	6.5	1.5	6.8	6.7	5.7	2.1	5.4	6.1
Malaysia	36.3	22.2	33.8	24.3	29.5	34.4	23.4	22.0	48.9	28.8	26.9	21.7
US	29.9	35.8	130.7	7.4	21.7	9.1	-27.3	44.3	20.9	47.6	6.3	17.7
Share												
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
Korea	81.7	81.4	80.1	81.2	78.9	76.9	78.5	78.0	83.8	81.1	78.1	75.8
Malaysia	19.9	19.4	22.3	23.4	23.4	24.2	25.3	25.7	17.4	21.3	24.7	27.5
US	3.5	4.0	6.5	4.0	3.9	4.0	4.3	5.2	3.2	4.5	4.4	4.7
OP	139	169	169	136	161	164	171	147	458	612.9	643.4	704.2
Korea	116	136	125	112	129	133	134	116	395	489	512	535
Malaysia	25	23	30	25	34	32	38	32	76	103.3	135.6	170
US	3	5	12	2	2	2	2	3	3	21.3	9.2	13
Others	-1	-2	-4	-2	-2	-2	-2	-2	-3	-9	-7	-7
YoY												
OP	2.7	22.4	20.2	205.3	16.3	-3.0	1.2	8.0	-11.8	33.7	5.0	9.5
Korea	-5.5	22.8	-10.2	401.7	11.6	-2.2	7.4	3.1	-17.3	23.9	4.7	4.4
Malaysia	32.0	5.5	108.8	24.9	33.4	38.9	27.1	26.6	21.3	36.7	31.2	25.6
US	238.5	1,126.1	TTB	-34.9	-23.6	-57.1	-80.8	44.3	1.4	544.0	-56.9	37.3
OPM												
OP	18.1	21.0	21.1	16.8	19.0	19.0	19.6	16.3	15.2	19.2	18.4	18.5
Korea	18.4	20.7	19.5	17.0	19.3	20.0	19.6	16.4	15.6	18.9	18.8	18.5
Malaysia	16.4	14.9	16.6	13.3	16.9	15.4	17.1	13.8	14.4	15.2	15.8	16.3
US	9.5	15.4	22.7	6.0	6.0	6.0	6.0	6.0	3.4	14.8	6.0	7.0
Share												
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
Korea	83.3	80.4	74.1	82.4	79.9	81.0	78.6	78.6	86.1	79.8	79.6	75.9
Malaysia	18.1	13.8	17.6	18.5	20.8	19.7	22.0	21.7	16.5	16.9	21.1	24.2
US	1.9	2.9	7.0	1.4	1.2	1.3	1.3	1.9	0.7	3.5	1.4	1.8
GP	522	555	536	531	573	588	584	588	2,009	2,143	2,334	2,557
yoy	9.5	9.6	5.4	2.7	9.9	6.0	9.0	10.9	9.8	6.7	8.9	9.5
GPM	67.8	68.9	67.0	65.3	67.5	68.0	67.0	65.2	66.5	67.3	66.9	67.1
yoy(%p)	0.7	1.8	0.0	0.3	-0.3	-0.9	0.0	-0.2	-1.0	0.7	-0.4	0.2
SG&A expense	383	386	368	394	412	424	414	441	1,550	1,531	1,691	1,852
yoy	12.2	4.7	-0.3	-16.5	7.6	10.0	12.5	11.9	18.4	-1.3	10.5	9.5
AS % of revenue	49.8	47.9	45.9	48.6	48.5	49.0	47.4	48.9	51.4	48.0	48.5	48.6
Impairment cost	23.6	20.7	17.0	20.4	20.4	19.6	19.4	20.0	51.2	81.7	79.4	79.1
EBITDA	276	303	305	268	295	298	304	281	739	1,151	1,178	1,246
yoy	33.7	43.0	39.8	159.4	7.0	-1.9	-0.1	5.0	-4.6	55.7	2.3	5.8
%EBITDA	35.9	37.7	38.1	32.9	34.8	34.4	34.9	31.1	24.5	36.1	33.8	32.7
NP (cont. int.)	102	119	117	95	116	118	123	105	333	433	462	512
yoy	1.1	16.7	5.5	382.2	14.4	-0.6	5.4	10.0	-4.9	29.9	6.9	10.7
NIM	13.2	14.8	14.6	11.7	13.7	13.7	14.1	11.6	11.0	13.6	13.3	13.4

Source: Daishin Securities Research Center

Tab 2. Earnings projections (standalone)

(Wbn, %)

	1Q20	2Q20	3Q20	4Q20F	1Q21F	2Q21F	3Q21F	4Q21F	2019	2020F	2021F	2022F
Revenue	629	655	641	660	670	665	685	704	2,531	2,585	2,724	2,890
Korea	529	553	507	530	545	548	540	549	2,111	2,119	2,182	2,274
Rental	402	405	400	406	408	410	409	414	1,573	1,613	1,642	1,702
Lease	69	87	57	70	73	76	79	83	258	283	310	340
Membership	25	26	25	23	23	22	21	20	107	98	86	74
Lump sum	31	32	24	28	38	37	28	29	161	115	132	145
Other	3	3	2	2	4	3	3	3	12	11	12	13
Exports	82	85	120	115	109	101	129	137	343	403	476	545
Cosmetics	17	17	14	15	15	16	16	18	76	63	65	71
YoY												
Revenue	3.6	3.2	-1.5	3.3	6.5	1.5	6.8	6.7	5.7	2.1	5.4	6.1
Korea	2.3	3.8	-5.1	0.6	3.0	-0.8	6.3	3.7	4.6	0.4	3.0	4.2
Rental	4.5	3.5	0.9	1.4	1.6	1.3	2.4	2.1	2.9	2.5	1.8	3.6
Lease	22.4	28.8	-21.4	13.1	5.7	-12.7	37.5	18.8	39.6	9.5	9.7	9.4
Membership	-11.5	-4.0	-8.0	-9.9	-8.2	-14.7	-14.4	-12.6	-11.5	-8.4	-12.5	-14.1
Lump sum	-32.3	-26.7	-33.4	-22.5	22.5	14.9	17.4	3.7	-5.6	-28.8	14.7	10.0
Other	1.7	-9.2	-10.9	-19.4	24.4	13.3	19.8	3.7	-8.6	-9.4	15.8	10.0
Exports	16.7	1.7	22.9	25.6	33.4	19.0	7.2	18.6	13.6	17.2	18.3	14.5
Cosmetics	-8.6	-7.8	-26.3	-26.3	-12.0	-10.0	20.0	20.0	1.1	-17.3	3.0	9.4
Share												
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
Korea	84.2	84.4	79.1	80.3	81.4	82.4	78.8	78.1	83.4	82.0	80.1	78.7
Rental	63.9	61.8	62.3	61.5	61.0	61.7	59.7	58.9	74.5	76.1	75.2	74.8
Lease	11.0	13.3	8.9	10.6	10.9	11.4	11.5	11.8	12.2	13.3	14.2	14.9
Membership	3.9	4.0	3.8	3.5	3.4	3.3	3.1	2.9	5.1	4.6	3.9	3.3
Lump sum	4.9	4.9	3.7	4.3	5.6	5.5	4.0	4.2	7.6	5.4	6.0	6.4
Other	0.5	0.4	0.4	0.4	0.6	0.4	0.4	0.4	0.6	0.5	0.6	0.6
Exports	13.0	13.0	18.8	17.5	16.3	15.2	18.8	19.4	13.6	15.6	17.5	18.9
Cosmetics	2.8	2.6	2.1	2.2	2.3	2.3	2.4	2.5	3.0	2.4	2.4	2.5
OP	116	136	125	112	129	133	134	116	395	489	512	535
yoy	-5.5	22.8	-10.2	401.7	11.6	-2.2	7.4	3.1	-17.3	23.9	4.7	4.4
OPM	18.4	20.7	19.5	17.0	19.3	20.0	19.6	16.4	15.6	18.9	18.8	18.5

Source: Daishin Securities Research Center

Tab 3. Domestic customer accounts

(10K, %, Wbn)

	1Q20	2Q20	3Q20	4Q20F	1Q21F	2Q21F	3Q21F	4Q21F	2019	2020F	2021F	2022F
Total	631	633	630.6	633	637	643	648	654	628	633	654	675
Rental												
accounts	574	577	576	581	587	595	602	609	569	581	609	636
Net increase (A-B-C)	5.3	3.3	-1.1	5.0	6.2	7.4	7.6	6.4	45.8	12.5	27.6	27.6
Sales (A)	37.8	35.5	28.5	35.9	37.5	39.1	39.5	38.8	157.2	137.8	155.0	160.8
YoY	-7.5	-14.7	-26.6	0.4	-0.6	10.0	38.5	8.0	8.4	-12.4	12.5	3.8
Maturity (B)	13.5	14.3	13.4	13.7	13.9	14.1	14.1	14.3	45.5	54.9	56	59.0
Share	2.4	2.5	2.3	2.4	2.4	2.4	2.4	2.4	8.7	9.7	9.7	9.7
Cancelled (C)	18.9	17.9	16.3	17.3	17.4	17.6	17.8	18.1	65.9	70.4	71	74.3
Ratio (month)	1.11	1.04	0.94	1.00	1.00	1.00	1.00	1.00	1.01	1.00	1.00	1.00
Average accounts	571	576	577	579	584	591	599	606	546	575	595	623
ARPU(W)	27,464	28,511	26,399	27,389	27,441	27,435	27,166	27,358	27,952	27,471	27,345	27,323
Impairment loss	18	14	14	14	14	14	14	14	39	59	56	58
As % of revenue	4.3	3.4	3.5	3.4	3.4	3.4	3.4	3.4	2.5	3.7	3.4	3.4
Membership												
Accounts	57	56	53	52	50	48	46	45	59	52	45	38
Net increase	-2.2	-1.7	-2.5	-1.0	-2.1	-1.6	-2.4	-9	-7.6	-7.4	-7.0	-6.6
Average accounts	58	56	54	53	51	49	47	45	63	56	49	42
ARPU(W)	14,100	15,316	15,119	14,707	14,810	14,988	14,906	14,853	14,135	14,710	14,782	14,768
Lump sum												
Volume	3.5	3.1	2.4	3.0	3.9	3.2	2.6	2.8	19.4	12.0	12.5	12.5
ARPU	885	1,043	972	948	974	1,147	1,069	1,043	831	959	1,053	1,159

Source: Daishin Securities Research Center

Tab 4. Malaysia earnings

(Wbn, %, 10 K, W)

	1Q20	2Q20	3Q20	4Q20F	1Q21F	2Q21F	3Q21F	4Q21F	2019	2020F	2021F
Revenue	153	156	179	190	199	210	221	232	526	678	860
yoy	36.3	22.2	33.8	24.3	29.5	34.4	23.4	22.0	48.9	28.8	26.9
OP	25	23	30	25	34	32	38	32	76	103	136
Yoy	32.0	5.5	108.8	24.9	33.4	38.9	27.1	26.6	21.3	36.7	31.2
OPM	16.4	14.9	16.6	13.3	16.9	15.4	17.1	13.8	14.4	15.2	15.8
Accounts	143	152	164	175	185	195	205	215	135	175	215
YoY(10K)	37	37	40	40	42	43	41	40	38	40	40
YoY(%)	35.1	32.2	31.9	29.3	29.4	28.4	25.0	22.8	38.8	29.3	22.8
Accounts (avrt.)	139	148	158	170	180	190	200	210	117	155	195
ARPU(month)	36,697	35,220	37,710	37,295	36,744	36,744	36,744	36,744	37,644	36,380	36,744

Source: Daishin Securities Research Center

Tab 5. US earnings

(Wbn, %, 10K)

	1Q20	2Q20	3Q20	4Q20F	1Q21F	2Q21F	3Q21F	4Q21F	2019	2020F	2021F
Revenue	27	32	52	33	33	35	38	47	97	144	153
yoy	29.9	35.8	130.7	7.4	21.7	9.1	-27.3	44.3	20.9	47.6	6.3
OP	2.6	4.9	11.8	2.0	2.0	2.1	2.3	2.8	3.3	21.3	9.2
YoY	238.5	1126.1	TTB	-34.9	-23.6	-57.1	-80.8	44.3	1.4	544.0	-56.9
OPM	9.5	15.4	22.7	6.0	6.0	6.0	6.0	6.0	3.4	14.8	6.0
Accounts	12.1	12.0	12.2	12.4	12.5	12.6	12.7	12.9	12.0	12.4	12.9
YoY(10K)	0.6	0.3	0.4	0.4	0.4	0.5	0.4	0.5	0.6	0.4	0.5
YoY(%)	5.2	2.4	3.2	2.9	2.9	4.6	3.7	4.0	4.7	2.9	4.0

Source: Daishin Securities Research Center

Financial statements

Income statement	(Wbn)				
	2018A	2019A	2020F	2021F	2022F
Revenue	2,707	3,019	3,187	3,490	3,812
Cost of goods sold	878	1,010	1,043	1,155	1,255
Gross profit	1,829	2,009	2,143	2,334	2,557
SG&A expenses	1,309	1,550	1,531	1,691	1,852
OP	520	458	613	643	704
OP margin	19.2	15.2	19.2	18.4	18.5
EBITDA	775	739	1,151	1,178	1,246
Non-OP	-51	-7	-37	-28	-22
Income from affiliates	0	0	0	0	0
Financial revenue	1	1	1	1	1
FX related gains	17	23	26	11	11
Financial expense	-18	-22	-20	-16	-11
FX related losses	0	0	0	0	0
Others	-35	14	-18	-13	-13
Income before taxes	469	451	576	616	682
Income tax expense	-119	-119	-144	-154	-170
Income from cont. op.	350	332	432	462	511
Income from discount op.	0	0	0	0	0
NP	350	332	432	462	511
NP margin	12.9	11.0	13.6	13.2	13.4
NP for non-contr. interest	0	-1	0	0	-1
NP for contr. interest	350	333	433	462	512
Valuation of AFS fin. assets	0	0	0	0	0
Other compreh. income	-1	0	0	0	0
Comprehensive income	344	330	431	462	511
Comp. income (non-contr. Int)	0	-1	0	0	-1
Comp. income for contr. int.	344	331	432	462	512

Valuation metrics	(W, x, %)				
	2018A	2019A	2020F	2021F	2022F
EPS	4,735	4,511	5,861	6,265	6,937
PER	15.6	20.6	12.8	12.0	10.9
BPS	14,711	14,611	18,102	23,243	29,047
PBR	5.0	6.4	4.2	3.2	2.6
EBITDAPS	10,483	10,020	15,600	15,963	16,884
EV/EBITDA	7.8	10.1	5.2	4.8	4.1
SPS	36,604	40,907	43,182	47,284	51,649
PSR	2.0	2.3	1.7	1.6	1.5
CFPS	12,050	13,491	16,074	16,437	16,680
DPS	3,600	2,400	1,150	1,150	1,250

Financial ratios	(W, x, %)				
	2018A	2019A	2020F	2021F	2022F
Growth potential					
Revenue growth	7.6	11.5	5.6	9.5	9.2
OP growth	10.0	-11.8	33.7	5.0	9.5
NP growth	7.4	-5.0	30.1	6.9	10.7
Profitability					
ROIC	30.5	24.8	32.3	34.1	38.1
ROA	22.9	17.5	20.7	20.5	21.0
ROE	33.8	30.7	35.8	30.3	26.5
Stability					
Debit ratio	118.7	165.0	128.9	88.8	61.7
Net borrowings ratio	52.1	58.3	35.6	4.1	-18.5
Interest coverage ratio	29.2	20.9	29.9	39.5	63.7

Source: Coway, Daishin Securities Research Center

Balance sheet	(Wbn)				
	2018A	2019A	2020F	2021F	2022F
Current assets	844	767	874	1,082	1,339
Cash & cash equiv.	69	61	153	357	622
Trade & other receive.	326	345	354	352	353
Inventories	103	113	119	125	116
Other current assets	346	248	248	248	248
Long-term assets	1,535	2,088	2,181	2,154	2,125
Tangible assets	781	1,271	1,268	1,245	1,212
Investments in affiliates	0	0	0	0	0
Other long-term assets	754	817	913	909	913
Total assets	2,379	2,855	3,055	3,236	3,463
Current liabilities	1,234	1,587	1,530	1,332	1,132
Payables & other liab.	273	295	298	301	301
Borrowings	731	861	801	601	401
Current portion of LT debts	1	1	1	1	1
Other current liabilities	229	430	430	430	430
Long-term liabilities	57	191	190	190	189
Borrowings	10	9	9	8	8
Convertible securities	0	0	0	0	0
Other long-term liab.	47	181	181	181	181
Total liabilities	1,291	1,778	1,720	1,522	1,322
Controlling interest	1,088	1,078	1,336	1,715	2,144
Capital stock	41	41	41	41	41
Capital surplus	130	132	132	132	132
Retained earnings	967	954	1,213	1,592	2,021
Other capital changes	-49	-49	-50	-50	-50
Non-controlling interest	0	-1	-1	-2	-2
Total shareholder's equity	1,088	1,077	1,335	1,714	2,141
Net borrowings	567	628	475	71	-395

Cash flow	(Wbn)				
	2018A	2019A	2020F	2021F	2022F
Operating cash flows	539	539	842	869	881
NP	350	332	432	462	511
Non-cash items	541	663	754	751	720
Depreciation	256	281	538	535	542
FX gains	3	-11	3	-2	-2
Equity method gain	0	0	0	0	0
Others	283	393	213	219	180
Chg in assets & liab.	-237	-308	-202	-192	-181
Other cash flows	-116	-148	-143	-153	-169
Investing cash flow	-394	-383	-518	-506	-511
Investment assets	-1	-5	11	4	1
Tangible assets	-388	-366	-525	-501	-499
Others	-5	-12	-4	-9	-14
Financing cash flows	-187	-165	-253	-303	-303
Short-term borrowings	60	129	-60	-200	-200
Bonds payable	0	0	0	0	0
Long-term borrowings	-1	-1	-1	-1	-1
Rights offering	0	0	0	0	0
Cash dividends	-231	-260	-173	-83	-83
Others	-15	-34	-19	-19	-19
Net chg in cash	-41	-9	92	204	265
Beginning cash balance	110	69	61	153	357
Ending cash balance	69	61	153	357	622
NOPLAT	388	337	460	483	528
FCF	237	225	443	481	532

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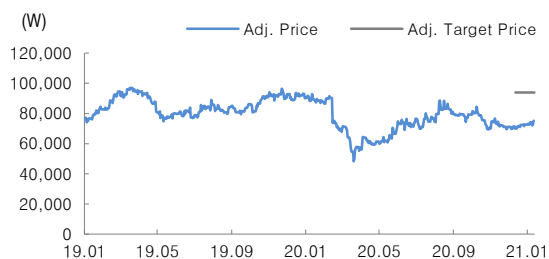
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[Investment rating and target price history]

Coway (021240 KS)



Date	21.01.15	20.12.15
Rating	Buy	Buy
6M TP	94,000	94,000
Diff.(avg.,%)		(22.99)
Diff.(max./min.,%)		(19.89)
Date		
Rating		
6M TP		
Diff.(avg.,%)		
Diff.(max./min.,%)		
Date		
Rating		
6M TP		
Diff.(avg.,%)		
Diff.(max./min.,%)		

Investment rating breakdown and framework (Jan 12,2021)

	Buy	Marketperform	Underperform
Ratio	89.7%	9.4%	0.9%

Sector ratings breakdown

- Overweight: industry indicators are expected to outperform the market over the next six months.
- Neutral: industry indicators are expected to be in line with the market over the next six months.
- Underweight: industry indicators are expected to underperform the market over the next six months.

Company ratings breakdown

- Buy: the stock is expected to outperform the market by at least 10%p over the next six months.
- Marketperform: the stock is expected to either outperform or underperform the market by less than 10%p over the next six months.
- Underperform: the stock is expected to underperform the market by at least 10%p over the next six month