

Platform Business Team

Sanghoon Cho

Analyst

sanghoonpure.cho@samsung.com

Jaehyeon Ahn

Research Associate

jaehyeon.ahn@samsung.com

▶ AT A GLANCE

Recommend	BUY	
Target price	KRW90,000	(26.8%)
Current price	KRW71,000	
Market cap	KRW5.2t/USD4.7b	
Shares (float)	73,799,619 (73.2%)	
52-week high/low	KRW88,700/KRW48,250	
Avg daily trading value (60-day)	KRW18.9b/USD17.1m	

▶ ONE-YEAR PERFORMANCE

	1M	6M	12M
Coway (%)	-3.8	-13.8	-4.1
Vs Kospi (%pts)	-5.3	-33.8	-31.4

▶ KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	90,000	95,000	-5.3%
2020E EPS	5,599	5,892	-5.0%
2021E EPS	6,013	6,391	-5.9%

▶ SAMSUNG vs THE STREET

No of estimates	4
Target price	94,667
Recommendation	4.0

BUY★★★★: 5 / BUY: 4 / HOLD: 3 / SELL: 2 / SELL★★★★: 1

Coway (021240)

Is it a step back for a step forward?

- **4Q results vs consensus:** Coway reported an in-line 4Q OP of KRW129.8b (up 190.9% y-y). The firm's overseas operations posted record-high results, and its domestic operations passed the worst operating conditions.
- **Lowering target:** Reflecting the hike in labor cost stemming from the transition of its irregular (installation and repair) workers into regular ones and increases in marketing and IT costs, we cut our 2021 EPS forecast for the firm by 6% and cut our target price by 5% to KRW90,000—a 10% discount (to reflect its majority shareholder's still-vague business strategy) to the fair value calculated based on a DCF valuation (assuming a terminal growth of 1% and WACC of 6.1% [the latter derived from a risk-free rate of 1.9%, a risk premium of 5.1% and a beta of 0.9]).

WHAT'S THE STORY?

Coway reported in-line 4Q results showing sales of KRW862.6b (up 8.6% y-y) and OP of KRW129.8b (up 190.9% y-y or up 7% when factoring out a one-off cost in 4Q19 [ie, KRW77b in provisioning for service managers]). The operating environment at home turned around from the weakness in 3Q (caused by the impact of a labor strike). The Malaysia subsidiary kept putting in solid performance led by expansion of finance lease products—eg, sales jumped 44% y-y and OP soared 156% y-y (or 48% y-y when excluding accounting rule change-related effects). The US subsidiary saw sales rise 37% y-y on a hike in finance lease sales and solid sales of products at diverse retail channels, but OP plunge 82% y-y on a hike in promotional costs. The promotional cost hike, however, should translate into stronger sales volume growth this year.

(Continued on the next page)

4Q20 review

(KRWb)	4Q20	3Q20	Chg (% q-q)	4Q19	Chg (% y-y)	Consensus	Diff (%)	Samsung	Diff (%)
Sales	862.6	800.4	7.8	794.6	8.6	845.5	2.0	862.0	0.1
Operating profit	129.8	168.6	-23.0	44.6	190.9	136.1	-4.6	135.9	-4.5
Pre-tax profit	93.3	149.2	-37.5	26.8	247.9	132.0	-29.3	129.3	-27.8
Net profit	67.7	116.8	-42.0	19.7	243.7	95.9	-29.4	98.3	-31.4
Margins (%)									
Operating profit	15.0	21.1		5.6		16.1		14.4	
Pre-tax profit	10.8	18.6		3.4		15.6		13.7	
Net profit	7.8	14.6		2.5		11.3		10.4	

Source: Company data, Samsung Securities estimates

Valuations

(KRWb)	Sales	Operating profit	Pre-tax profit	Net profit	EPS (KRW)	EPS growth (% y-y)	P/E (x)	Net debt	EV/EBITDA (x)	P/B (x)	ROE (%)
2018	2,707	520	469	350	4,735	9.4	15.6	567	7.8	4.9	33.8
2019	3,019	458	451	332	4,511	-4.7	20.6	628	10.1	6.2	30.7
2020E	3,237	606	540	405	5,599	24.1	13.0	606	6.4	4.3	35.2
2021E	3,542	627	586	445	6,013	7.4	12.0	579	6.0	3.3	31.9
2022E	3,827	687	638	485	6,525	8.5	11.1	552	5.4	2.7	27.4

Source: Company data, Samsung Securities estimates

We see the firm's business model of generating a stable cash flow regardless of economic conditions as attractive. Going forward, key to the firm's earnings should be whether: 1) its overseas earnings strength will continue; and 2) its newly-launched self-managed products (eg, water purifiers; suitable to the post-COVID-19 non-contact trend) will succeed. We expect the firm's overseas operations to keep enjoying a high growth, given: 1) the rapid hike in the number of new rental accounts and expansion of product range (beyond water purifier into air purifier and mattress) [Malaysia]; and 2) a hike in rental sales volume (especially in online retail channels) [US]. We also see it as positive that the firm launched self-managed, new water purifiers (in Oct 2020) to capitalize on the non-contact trend.

Income statement

Year-end Dec 31 (KRWb)	2018	2019	2020E	2021E	2022E
Sales	2,707	3,019	3,237	3,542	3,827
Cost of goods sold	878	1,010	1,044	1,128	1,211
Gross profit	1,829	2,009	2,193	2,414	2,616
Gross margin (%)	67.6	66.5	67.8	68.2	68.3
SG&A expenses	1,309	1,550	1,587	1,787	1,928
Operating profit	520	458	606	627	687
Operating margin (%)	19.2	15.2	18.7	17.7	18.0
Non-operating gains (losses)	-51	-7	-66	-41	-50
Financial profit	1	1	27	23	25
Financial costs	18	22	55	39	42
Equity-method gains (losses)	0	0	0	0	0
Other	-35	14	-39	-25	-33
Pre-tax profit	469	451	540	586	638
Taxes	119	119	136	141	153
Effective tax rate (%)	25.3	26.4	25.1	24.0	24.0
Profit from continuing operations	350	332	405	445	485
Profit from discontinued operations	0	0	0	0	0
Net profit	350	332	405	445	485
Net margin (%)	12.9	11.0	12.5	12.6	12.7
Net profit (controlling interests)	350	333	405	447	487
Net profit (non-controlling interests)	-0	-1	-0	-2	-2
EBITDA	775	739	928	984	1,080
EBITDA margin (%)	28.6	24.5	28.7	27.8	28.2
EPS (parent-based) (KRW)	4,735	4,511	5,489	6,056	6,593
EPS (consolidated) (KRW)	4,730	4,501	5,484	6,035	6,567
Adjusted EPS (KRW)*	4,735	4,511	5,599	6,013	6,525

Cash flow statement

Year-end Dec 31 (KRWb)	2018	2019	2020E	2021E	2022E
Cash flow from operations	539	539	671	722	770
Net profit	350	332	405	445	485
Non-cash profit and expenses	541	663	548	566	605
Depreciation	247	271	312	347	383
Amortization	9	10	9	9	10
Other	286	382	226	209	212
Changes in A/L from operating activities	-237	-308	-121	-130	-140
Cash flow from investments	-394	-383	-506	-549	-590
Change in tangible assets	-388	-366	-434	-472	-507
Change in financial assets	-45	-73	-76	-80	-86
Other	39	56	3	3	3
Cash flow from financing	-187	-165	-110	-112	-118
Change in debt	59	160	43	45	47
Change in equity	1	3	0	0	0
Dividends	-231	-260	-89	-89	-89
Other	-16	-68	-65	-69	-77
Change in cash	-41	-9	55	61	62
Cash at beginning of year	110	69	61	115	176
Cash at end of year	69	61	115	176	238
Gross cash flow	891	996	952	1,011	1,089
Free cash flow	139	149	238	250	262

Note: * Excluding one off items

** Fully diluted, excluding one-off items

*** From companies subject to equity-method valuation

Source: Company data, Samsung Securities estimates

Balance sheet

Year-end Dec 31 (KRWb)	2018	2019	2020E	2021E	2022E
Current assets	844	767	854	965	1,084
Cash & equivalents	69	61	115	176	238
Accounts receivable	302	310	317	333	357
Inventories	103	113	113	120	128
Other current assets	370	283	308	336	361
Fixed assets	1,535	2,088	2,220	2,556	2,906
Investment assets	53	19	17	17	18
Tangible assets	781	1,271	1,386	1,504	1,622
Intangible assets	160	168	166	163	159
Other long-term assets	540	630	651	872	1,108
Total assets	2,379	2,855	3,074	3,521	3,991
Current liabilities	1,234	1,587	1,663	1,754	1,826
Accounts payable	62	58	58	64	68
Short-term debt	731	861	904	949	996
Other current liabilities	441	668	701	741	762
Long-term liabilities	57	191	189	189	190
Bonds & long-term debt	10	9	9	9	9
Other long-term liabilities	47	181	180	179	180
Total liabilities	1,291	1,778	1,852	1,942	2,016
Owners of parent equity	1,088	1,078	1,223	1,580	1,976
Capital stock	41	41	41	41	41
Capital surplus	130	132	132	132	132
Retained earnings	967	954	1,099	1,456	1,852
Other	-49	-49	-49	-49	-49
Non-controlling interests' equity	-0	-1	-1	-1	-1
Total equity	1,088	1,077	1,222	1,579	1,975
Net debt	567	628	606	579	552

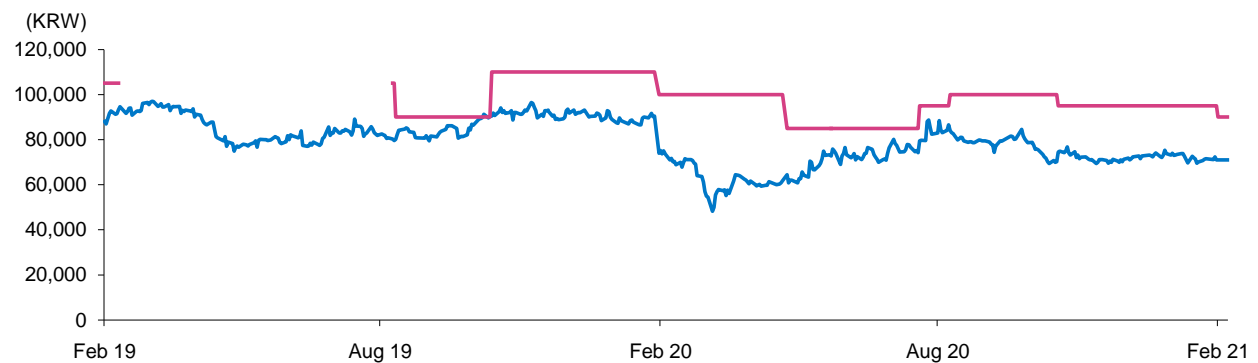
Financial ratios

Year-end Dec 31	2018	2019	2020E	2021E	2022E
Growth (%)					
Sales	7.6	11.5	7.2	9.4	8.1
Operating profit	10.0	-11.8	32.3	3.4	9.6
Net profit	7.4	-5.0	21.8	10.1	8.8
Adjusted EPS**	9.4	-4.7	24.1	7.4	8.5
Per-share data (KRW)					
EPS (parent-based)	4,735	4,511	5,489	6,056	6,593
EPS (consolidated)	4,730	4,501	5,484	6,035	6,567
Adjusted EPS**	4,735	4,511	5,599	6,013	6,525
BVPS	15,074	14,931	16,857	21,776	27,235
DPS (common)	3,600	2,400	1,200	1,200	1,200
Valuations (x)					
P/E***	15.6	20.6	13.0	11.8	10.9
P/B***	4.9	6.2	4.3	3.3	2.6
EV/EBITDA	7.8	10.1	6.4	5.9	5.4
Ratios (%)					
ROE	33.8	30.7	35.2	31.9	27.4
ROA	15.4	12.7	13.7	13.5	12.9
ROIC	25.0	20.0	24.1	22.3	21.1
Payout ratio	74.2	52.1	21.5	19.5	17.9
Dividend yield (common)	4.9	2.6	1.7	1.7	1.7
Net debt to equity	52.1	58.3	49.6	36.7	28.0
Interest coverage (x)	29.2	20.9	28.7	30.9	32.5

Compliance notice

- As of Feb 17, 2021, the covering analyst(s) did not own any shares, or debt instruments convertible into shares, of any company covered in this report.
- As of Feb 17, 2021, Samsung Securities' holdings of shares and debt instruments convertible into shares of each company covered in this report would not, if such debt instruments were converted, exceed 1% of each company's outstanding shares.
- This report has been prepared without any undue external influence or interference, and accurately reflects the views of the analyst(s) covering the company or companies herein.
- All material presented in this report, unless specifically indicated otherwise, is under copyright to Samsung Securities.
- Neither the material nor its content (including copies) may be altered in any form, or by any means transmitted, copied, or distributed to another party, without prior express written permission from Samsung Securities.
- This memorandum is based upon information available to the public. While we have taken all reasonable care to ensure its reliability, we do not guarantee its accuracy or completeness. This memorandum is not intended to be an offer, or a solicitation of any offer, to buy or sell the securities mentioned herein. Samsung Securities shall not be liable whatsoever for any loss, direct or consequential, arising from the use of this memorandum or its contents. Statements made regarding affiliates of Samsung Securities are also based upon publicly available information and do not necessarily represent the views of management at such affiliates.
- This material has not been distributed to institutional investors or other third parties prior to its publication.

Target price changes in past two years



Rating changes over past two years (adjusted share prices)

Date	2019/8/28	10/30	2020/2/17	5/11	8/6	8/26	11/5	2021/2/18
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	90,000	110,000	100,000	85,000	95,000	100,000	95,000	90,000
Gap* (average)	-6.26	-17.37	-36.78	-15.70	-11.13	-22.08	-24.10	
(max or min)**	1.44	-12.27	-24.80	-5.76	-6.63	-15.50	-19.16	

Note: * [(average, maximum, or minimum share price over duration of target price minus target price) / target price] x 100%

** Maximum/minimum share price if new target is higher/lower than market close on the business day prior to target price change

Samsung Securities uses the following investment ratings.

Company

BUY	Expected to increase in value by 10% or more within 12 months and is highly attractive within sector
HOLD	Expected to increase/decrease in value by less than 10% within 12 months
SELL	Expected to decrease in value by 10% or more within 12 months

Industry

OVERWEIGHT	Expected to outperform market by 5% or more within 12 months
NEUTRAL	Expected to outperform/underperform market by less than 5% within 12 months
UNDERWEIGHT	Expected to underperform market by 5% or more within 12 months

Percentage of ratings in 12 months prior to Dec 31, 2020

BUY (86.1%) | HOLD (13.9%) | SELL (0%)

Global Disclosures & Disclaimers

General

This research report is for information purposes only. It is not and should not be construed as an offer or solicitation of an offer to purchase or sell any securities or other financial instruments or to participate in any trading strategy. This report does not provide individually tailored investment advice. This report does not take into account individual client circumstances, objectives, or needs and is not intended as recommendations of particular securities, financial instruments or strategies to any particular client. The securities and other financial instruments discussed in this report may not be suitable for all investors. The recipient of this report must make its own independent decisions regarding any securities or financial instruments mentioned herein and investors should seek the advice of a financial adviser.

This report may not be altered, reproduced, distributed, transmitted or published in whole or in part for any purpose. References to "Samsung Securities" are references to any company in the Samsung Securities Co., Ltd. group of companies.

Samsung Securities and/or other affiliated companies, its and their directors, officers, representatives, or employees may have long or short positions in any of the securities or other financial instruments mentioned in this report or of issuers described herein and may purchase and/or sell, or offer to purchase and/or sell, at any time, such securities or other financial instruments in the open market or otherwise, as either a principal or agent. Any pricing of securities or other financial instrument contained herein is as of the close of market for such day, unless otherwise stated. Opinions and estimates contained herein constitute our judgment as of the date of this report and are subject to change without notice.

The information provided in this report is provided "AS IS". Although the information contained herein has been obtained from sources believed to be reliable, no representation or warranty, either expressed or implied, is provided by Samsung Securities in relation to the accuracy, completeness or reliability of such information or that such information was provided for any particular purpose and Samsung Securities expressly disclaims any warranties of merchantability or fitness for a particular purpose. Furthermore, this report is not intended to be a complete statement or summary of the securities, markets or developments referred to herein.

Samsung Securities does not undertake that investors will obtain any profits, nor will it share with investors any investment profits. Samsung Securities, its affiliates, or any of its and their affiliates, directors, officers, employees or agents disclaim any and all responsibility or liability whatsoever for any loss (direct or consequential) or damage arising out of the use of all or any part of this report or its contents or otherwise arising in connection therewith. Information and opinions contained herein are subject to change without notice. Past performance is not indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or financial instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of Samsung Securities. Any analysis contained herein is based on numerous assumptions. Different assumptions may result in materially different results. Samsung Securities is under no obligation to update or keep current the information contained herein. Samsung Securities relies on information barriers to control the flow of information contained in one or more areas or groups within Samsung Securities into other areas or groups of Samsung Securities. Any prices stated in this report are for information purposes only and do not represent valuations for individual securities or other financial instruments. Samsung Securities makes no representation that any transaction can or could have been effected at those prices and any prices contained herein may not reflect Samsung Securities' internal books and records or theoretical model-based valuations and may be based on certain assumptions. Different assumptions by Samsung Securities or any other source may yield substantially different results. Additional information is available upon request.

For reports to be distributed to US:

Securities research is prepared, issued and exclusively distributed by Samsung Securities Co., Ltd., an organization licensed with the Financial Supervisory Service of South Korea. This research may be distributed in the United States only to major institutional investors as defined in Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended, and may not be circulated to any other person otherwise. All transactions by U.S. investors involving securities discussed in this report must be effected through Samsung Securities (America) Inc., a broker-dealer registered with the U.S. Securities & Exchange Commission and a member of the Financial Industry Regulatory Authority/SIPC, and not through any non-U.S. affiliate thereof. The analysts listed [on the front of this report] are employees of Samsung Securities Co., Ltd., or a non-U.S. affiliate thereof, and are not registered/qualified as research analysts under applicable U.S. rules and regulations and may not be subject to U.S. restrictions on communications with covered companies, public appearances, and trading securities held by a research analyst account.

For reports to be distributed to UK:

This report is not an invitation nor is it intended to be an inducement to engage in investment activity for the purpose of section 21 of the Financial Services and Markets Act 2000 of the United Kingdom ("FSMA"). To the extent that this report does constitute such an invitation or inducement, it is directed only at (i) persons who are investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (as amended) of the United Kingdom (the "Financial Promotion Order"); (ii) persons who fall within Articles 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc.") of the Financial Promotion Order; and (iii) any other persons to whom this report can, for the purposes of section 21 of FSMA, otherwise lawfully be made (all such persons together being referred to as "relevant persons").

Any investment or investment activity to which this report relates is available only to relevant persons and will be engaged in only with relevant persons. Persons who are not relevant persons must not act or rely on this report.

For reports to be distributed to Korea:

This report is for private circulation only, not for sale, and is issued and distributed only to persons permitted under the laws and regulations of Korea.

For reports to be distributed to Singapore:

This report is provided pursuant to the financial advisory licensing exemption under Regulation 27(1)(e) of the Financial Advisers Regulation of Singapore and accordingly may only be provided to persons in Singapore who are "institutional investors" as defined in Section 4A of the Securities and Futures Act, Chapter 289 of Singapore. This report is intended only for the person to whom Samsung Securities has provided this report and such person may not send, forward or transmit in any way this report or any copy of this report to any other person.

Analyst certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of such analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research report. The analyst(s) principally responsible for the preparation of this research report receives compensation based on determination by research management and senior management (not including investment banking), based on the overall revenues, including investment banking revenues of Samsung Securities Co., Ltd. and its related entities and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Copyright © 2010 Samsung Securities Co., Ltd.. All rights reserved. This report or any portion hereof may not be reprinted, sold or redistributed without the prior written consent of Samsung Securities America Inc



SAMSUNG SECURITIES

Samsung Electronics Bldg., 11, 74-gil,
Seochodaero, Seocho-gu, Seoul, Korea 06620
Tel: 02 2020 8000 / www.samsungpop.com

Family Center: 1588 2323 / 1544 1544

Voice Of Customer: 080 911 0900

For more information,
please call our sales representatives:

LONDON

Samsung Securities Europe Limited

1st Floor, 30 Gresham Street, London EC2V 7PG UK
Tel. 44-207-776-4311
Fax. 44-203-837-9219

NEW YORK

Samsung Securities America Limited

1330 Avenue of the Americas, 10th Floor, New York,
NY 10019
Tel: 1-212-972-2454
Fax: 1-212-972-2704

HONG KONG

Samsung Securities Europe Limited

Suite 4511, Two International Finance Center,
8 Finance Street, Central, Hong Kong
Tel: 852-3411-3608
Fax: 852-2114-0290

BEIJING

Samsung Securities Beijing Representative Office

Rm. 910, The Exchange Building No 118 JianGuo Lu, Chao
Yang District, Beijing, China
Tel: 86-10-6522-1855 (extension 7891)
Fax: 86-10-6522-1855 (extension 7889)

TOKYO

Samsung Securities Tokyo Representative Office

#106-8532 19F, Roppongi T-Cube 3-1-1,
Roppongi Minato-ku Tokyo, Japan
Tel: 81-3-6333-2952
Fax: 81-3-6333-2953



MEMBER OF
**Dow Jones
Sustainability Indices**
In Collaboration with RobecoSAM