

Coway (021240 KS)

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Rating **BUY**
maintain

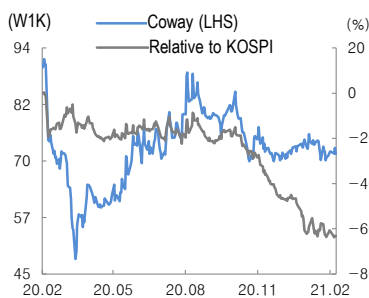
6M TP (W) **94,000**
maintain

CP (W)
(21.02.17) **71,000**

Retail

KOSPI	3133.73
Market cap (Wbn)	5,240
Market cap portion (%)	0.27
Paid-in capital (common; Wbn)	41
52w high/low (W)	88,700 / 48,250
120d avg. trading volume (Wbn)	16.7
Foreign ownership (%)	61.09hh
Major shareholders	Netmarble+7: 25.11% NPS: 7.27%

(%)	1M	3M	6M	12M
Abs. return	-3.8	-1.5	-13.8	-4.1
Rel. return	-5.3	-20.2	-33.8	-31.4



Becoming a golden goose

BUY; 6M TP kept at W94,000

- We continue to rate the home appliance rental company BUY and keep our target price unchanged at W94,000.
- Coway is guiding for a 8.1% increase in revenue but only a 0.6% rise in OP for 2021, reflecting the burden of 1) higher payroll costs due to the promotion of a group of service workers to permanent employment status; 2) higher marketing costs, and 3) stepped-up investment in technology.
- The stock doesn't look too pricey as it trades at a P/E ratio of 17 (based on earnings estimated for fiscal 2021), which is lower than the average of 18 it fetched between 2018 and 2019. That said, we expect the stock to drift sideways for some time as higher costs eat into the company's profitability.

Domestic weakness countered by flourishing overseas business

- For 4Q20, Coway posted revenue of W862.6bn (up 8.6% yoy) and OP of W129.8bn (up 190.9%).
- Despite higher-than-anticipated sales, OP margin was capped at 15.0%, weighed down by higher advertising and personnel expenses. NP came in at W67.4bn, below our estimate of W94.8bn due to currency-related losses. Net of W77bn one-off gains booked last year, OP jumped 7%, while NP fell 30%.
- The domestic operation did poorly in 4Q20, reporting W537.5bn in revenue (up 2.1% yoy), 47,000 net new customer accounts, and 336,000 unit sales (up 17.6% qoq; down 6.3% yoy). While the uncertainty related to a strike among its repair workers was gone, it appears that tighter social distancing rules had some impact on its sales agents' activity.
- The Malaysia operation saw revenue increase 44.5% yoy to W220.4bn in 4Q20, defying the coronavirus fallout. The unit added 115,000 new accounts on a net basis, according to our estimates, as it continued to benefit from the diversified product mix. OP margin also rose 10.3%p to 23.6% on reduced allowance against product returns.
- In the US, sales jumped 36.5%, bolstered by an introduction of longer-term lease contracts and strong performance in retail channels. OP margin came in at a marginal 1.3% as the company ramped up marketing there.
- In 2020, the company paid W1,200 per share, representing a 1.7% yield.

Acquisition of mattress maker to boost margins

- Coway said Tuesday that it will buy mattress maker iOBED for W43bn, a move that will allow the company to bring in-house the mattress manufacturing it contracted out to third parties and help boost margins. Its mattress business earned a total of W184.2bn in the first three quarters of 2020, making up roughly one-tenth of domestic sales during that period.

Operating results and major financial data

(Wbn, W, %)

	2018A	2019A	2020F	2021F	2022F
Revenue	2,707	3,019	3,237	3,501	3,836
OP	520	458	606	610	680
Pretax profit	469	451	543	588	663
NP	350	332	407	440	497
NP (contr. int.)	350	333	407	440	497
EPS	4,735	4,511	5,515	5,967	6,735
PER	15.6	20.6	12.9	11.9	10.5
BPS	14,711	14,611	20,226	25,020	30,573
PBR	5.0	6.4	3.5	2.8	2.3
ROE	33.8	30.7	31.7	26.4	24.2

Note: EPS, BPS, and ROE are based only on the controlling interest.

Source: Daishin Securities Research Center

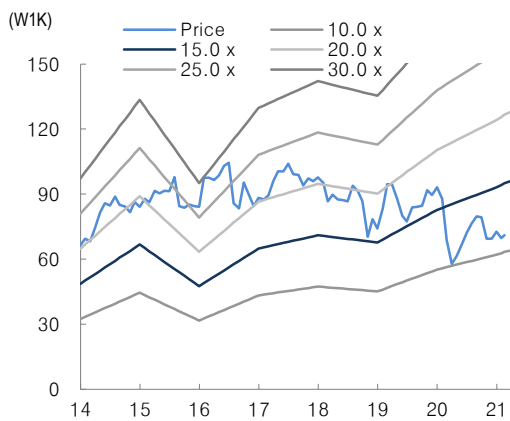
Earnings forecast revision

(Wbn, W, %, %p)

	Previous		Revised		Change	
	2020F	2021F	2020P	2021F	2020F	2021F
Revenue	3,187	3,490	3,237	3,501	1.6	0.3
OP	613	643	606	610	-1.0	-5.2
OP margin	19.2	18.4	18.7	17.4		
NP (contr. int.)	433	462	407	440	-5.9	-4.8
NP margin	13.6	13.2	12.6	12.6		
EPS (contr. int.)	5,861	6,265	5,515	5,967	-5.9	-4.8

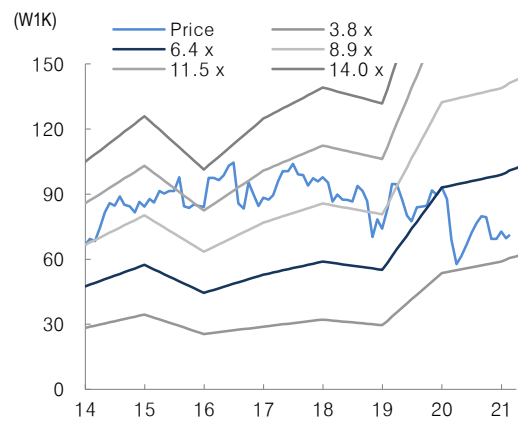
Source: Daishin Securities Research Center

Fig. 1. 12M Forward P/E band



Source: Daishin Securities Research Center

Fig. 2. 12M Forward EV/EBITDA band



Source: Daishin Securities Research Center

Tab 1. Earnings projections

(Wbn, %)

	1Q20	2Q20	3Q20	4Q20P	1Q21F	2Q21F	3Q21F	4Q21F	2019	2020P	2021F	2022F
Revenue	769	806	800	863	846	866	876	913	3,019	3,237	3,501	3,836
Korea	629	655	641	667	667	664	687	696	2,531	2,593	2,714	2,869
Malaysia	153	156	179	220	208	221	235	248	526	709	912	1,135
US	27	32	52	41	33	35	38	47	97	152	154	176
Others	23	17	16	24	20	19	21	23	105	79	84	84
YoY												
Revenue	8.4	6.6	5.4	8.6	10.0	7.5	9.5	5.9	11.5	7.2	8.2	9.5
Korea	3.6	3.2	-1.5	4.5	6.1	1.4	7.1	4.3	5.7	2.4	4.7	5.7
Malaysia	36.3	22.2	33.8	44.5	35.8	41.8	31.2	12.6	48.9	34.6	28.8	24.4
US	29.9	35.8	130.7	36.5	22.7	10.0	-26.7	14.3	20.9	56.6	1.0	14.2
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	77.4	78.8	76.7	78.4	76.2	83.8	80.1	77.5	74.8
Malaysia	19.9	19.4	22.3	25.6	24.6	25.5	26.8	27.2	17.4	21.9	26.1	29.6
US	3.5	4.0	6.5	4.8	3.9	4.1	4.3	5.2	3.2	4.7	4.4	4.6
OP	139	169	169	130	147	163	165	135	458	606	610	680
Korea	25	23	30	52	34	33	39	40	76	130	147	184
Malaysia	3	5	12	1	2	2	2	2	3	20	8	9
US												
Others	2.7	22.4	20.2	190.9	6.1	-3.5	-2.2	3.6	-11.8	32.3	0.6	11.5
YoY	32.0	5.5	108.8	156.0	36.7	42.8	32.0	-23.2	21.5	72.2	12.7	25.2
OP	238.5	1,126.1	TTB	-82.3	-35.8	-64.0	-83.9	373.1	1.4	503.2	-61.1	14.2
Korea												
Malaysia	18.1	21.0	21.1	15.1	17.4	18.9	18.8	14.7	15.2	18.7	17.4	17.7
US	16.4	14.9	16.6	23.6	16.5	15.0	16.7	16.1	14.4	18.4	16.1	16.2
OPM	9.5	15.4	22.7	1.3	5.0	5.0	5.0	5.0	3.4	13.0	5.0	5.0
OP	522	555	536	581	571	588	587	604	2,009	2,193	2,351	2,587
Korea	9.5	9.6	5.4	12.4	9.5	6.1	9.5	4.1	9.8	9.2	7.2	10.0
Malaysia	67.8	68.9	67.0	67.3	67.5	68.0	67.0	66.2	66.5	67.8	67.1	67.4
US	0.7	1.8	0.0	2.3	-0.3	-0.9	0.0	-1.1	-1.0	1.2	-0.6	0.3
Share	383	386	368	451	424	425	422	470	1,550	1,587	1,741	1,907
OP	12.2	4.7	-0.3	-4.5	10.7	10.2	14.8	4.2	18.4	2.4	9.7	9.5
Korea	49.8	47.9	45.9	52.3	50.1	49.1	48.2	51.4	51.4	49.0	49.7	49.7
Malaysia	1.7	-0.9	-2.6	-7.1	0.3	1.2	2.2	-0.8	3.0	-2.3	0.7	0.0
US	23.6	20.7	17.0	16.3	19.4	18.3	17.7	17.9	51.2	77.6	73.4	72.6
GP	276	303	305	256	284	300	301	271	739	1,140	1,155	1,233
yoy	33.7	43.0	39.8	148.3	2.9	-1.3	-1.1	5.8	-4.6	54.1	1.3	6.7
GPM	35.9	37.7	38.1	29.7	33.5	34.6	34.4	29.7	24.5	35.2	33.0	32.1
yoy(%p)	102	119	117	70	106	118	120	96	333	407	440	497
SG&A expense	1.1	16.7	5.5	252.8	4.8	-0.4	2.5	37.5	-4.9	22.3	8.2	12.9
yoy	13.2	14.8	14.6	8.1	12.6	13.7	13.7	10.5	11.0	12.6	12.6	13.0

Source: Daishin Securities Research Center

Tab 2. Earnings projections (standalone)

(Wbn, %)

	1Q20	2Q20	3Q20	4Q20P	1Q21F	2Q21F	3Q21F	4Q21F	2019	2020P	2021F	2022F
Revenue	629	655	641	667	667	664	687	696	2,531	2,593	2,714	2,869
Korea	529	553	507	538	540	545	537	550	2,111	2,127	2,173	2,252
Rental	402	405	400	390	388	390	389	394	1,573	1,596	1,562	1,614
Lease	69	87	57	91	93	97	100	104	258	304	394	426
Membership	25	26	25	24	23	23	22	21	107	99	88	77
Lump sum	31	32	24	28	32	33	25	29	161	114	119	125
Other	3	3	2	5	3	2	2	2	12	14	10	10
Exports	82	85	120	117	112	104	134	131	343	405	482	558
Cosmetics	17	17	14	12	15	15	16	14	76	61	59	59
YoY												
Revenue	3.6	3.2	-1.5	4.5	6.1	1.4	7.1	4.3	5.7	2.4	4.7	5.7
Korea	2.3	3.8	-5.1	2.1	2.0	-1.3	5.9	2.4	4.6	0.8	2.1	3.6
Rental	4.5	3.5	0.9	-2.6	-3.4	-3.7	-2.6	1.1	2.9	1.5	-2.2	3.3
Lease	22.4	28.8	-21.4	47.6	35.6	11.3	74.2	14.7	39.6	17.7	29.7	8.1
Membership	-11.5	-4.0	-8.0	-6.6	-6.4	-12.9	-12.3	-12.7	-11.5	-7.6	-11.1	-12.6
Lump sum	-32.3	-26.7	-33.4	-24.7	4.0	4.0	4.0	4.0	-5.6	-29.3	4.0	5.0
Other	1.7	-9.2	-10.9	77.5	-13.4	-7.3	-8.4	-54.1	-8.6	15.8	-27.5	5.0
Exports	16.7	1.7	22.9	28.0	37.1	22.2	11.3	12.0	13.6	17.8	19.0	15.9
Cosmetics	-8.6	-7.8	-26.3	-38.6	-15.0	-15.0	15.0	15.0	1.1	-20.6	-2.1	0.0
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	80.6	81.0	82.1	78.2	79.1	83.4	82.1	80.1	78.5
Rental	63.9	61.8	62.3	58.4	58.3	58.8	56.7	56.6	74.5	75.0	71.9	71.7
Lease	11.0	13.3	8.9	13.6	14.0	14.6	14.5	15.0	12.2	14.3	18.1	18.9
Membership	3.9	4.0	3.8	3.6	3.5	3.4	3.1	3.0	5.1	4.7	4.1	3.4
Lump sum	4.9	4.9	3.7	4.1	4.8	5.0	3.6	4.1	7.6	5.4	5.5	5.5
Other	0.5	0.4	0.4	0.8	0.4	0.4	0.3	0.4	0.6	0.6	0.5	0.5
Exports	13.0	13.0	18.8	17.6	16.8	15.7	19.5	18.9	13.6	15.6	17.7	19.5
Cosmetics	2.8	2.6	2.1	1.8	2.2	2.2	2.3	2.0	3.0	2.3	2.2	2.1
OP	116	136	125	113	117	125	129	118	395	490	490	521
yoy	-5.5	22.8	-10.2	407.0	1.3	-8.1	3.4	4.3	-17.3	24.2	-0.1	6.3
OPM	18.4	20.7	19.5	17.0	17.6	18.8	18.8	17.0	15.6	18.9	18.0	18.1

Source: Daishin Securities Research Center

Tab 3. Domestic customer accounts

(10K, %, Wbn)

	1Q20	2Q20	3Q20	4Q20P	1Q21F	2Q21F	3Q21F	4Q21F	2019	2020P	2021F	2022F
Total	631	633	631	634	637	642	648	653	628	634	653	672
Rental												
Accounts	574	577	576	581	587	594	601	607	569	581	607	632
Net growth	5.3	3.3	-1.1	4.7	5.8	6.9	7.6	5.4	45.8	12.1	25.7	25.7
Sales	37.8	35.5	28.5	33.6	37.1	38.5	39.5	37.7	157.2	135.3	152.8	158.3
YoY	-7.5	-14.7	-26.6	-6.3	-1.8	8.4	38.3	12.5	8.4	-13.9	12.9	3.6
Average count	571	576	577	579	584	590	597	604	546	575	594	619
ARPU(month)	27,464	28,511	26,399	27,684	27,514	27,527	27,281	27,502	27,952	27,552	27,458	27,445
Membership												
Accounts	57	56	53	53	51	49	47	46	59	53	46	40
Net growth	-2.2	-1.7	-2.5	-0.4	-2.1	-1.6	-2.4	-0.3	-7.6	-6.8	-6.4	-6.0
Average count	58	56	54	53	52	50	48	46	63	56	49	43
ARPU(month)	14,100	15,316	15,119	15,149	14,921	15,126	15,079	15,069	14,135	14,754	14,870	14,864
Lump-sum payment												
Unit sales (10K)	3.5	3.1	2.4	2.5	3.5	3.1	2.4	2.5	19.4	11.5	11.5	11.5
ARPU (W1K)	885	1,043	972	1,108	921	1,084	1,011	1,152	831	994	1,034	1,085

Source: Daishin Securities Research Center

Tab 4. Malaysia earnings

(Wbn, %, 10 K, W)

	1Q20	2Q20	3Q20	4Q20P	1Q21F	2Q21F	3Q21F	4Q21F	2019	2020P	2021F	2022F
Revenue	153	156	179	220	208	221	235	248	526	709	912	1,135
yoy	36.3	22.2	33.8	44.5	35.8	41.8	31.2	12.6	48.9	34.6	28.8	24.4
OP	25	23	30	52	34	33	39	40	76	130	147	184
YoY	32.0	5.5	108.8	156.0	36.7	42.8	32.0	-23.2	21.5	72.2	12.7	25.2
OPM	16.4	14.9	16.6	23.6	16.5	15.0	16.7	16.1	14.4	18.4	16.1	16.2
Accounts	143	152	164	176	186	198	210	222	135	176	222	267
YoY(10K)	37	37	40	40	43	46	46	46	38	40	46	46
YoY(%)	35.1	32.2	31.9	29.7	30.3	30.2	28.0	26.1	38.8	29.7	26.1	20.7
Net growth	7.7	8.9	12.1	11.5	10.8	11.5	12.1	11.5	36.9	40.2	45.9	45.9

Source: Daishin Securities Research Center

Tab 5. US earnings

(Wbn, %, 10K)

	1Q20	2Q20	3Q20	4Q20P	1Q21F	2Q21F	3Q21F	4Q21F	2019	2020P	2021F	2022F
Revenue	27	32	52	41	33	35	38	47	97	152	154	176
yoy	29.9	35.8	130.7	36.5	22.7	10.0	-26.7	14.3	20.9	56.6	1.0	14.2
OP	3	5	12	1	2	2	2	2	3	20	8	9
YoY	238.5	1126.1	TTB	-82.3	-35.8	-64.0	-83.9	373.1	1.4	503.2	-61.1	14.2
OPM	9.5	15.4	22.7	1.3	5.0	5.0	5.0	5.0	3.4	13.0	5.0	5.0
Accounts	12.1	12.0	12.2	12.4	12.5	12.6	12.8	13.0	12.0	12.4	13.0	13.6
YoY(10K)	0.6	0.3	0.4	0.4	0.4	0.6	0.6	0.6	0.6	0.4	0.6	0.6
YoY(%)	5.2	2.4	3.2	3.3	3.3	5.0	4.9	4.8	4.7	3.3	4.8	4.6

Source: Daishin Securities Research Center

1. Company profile

Overview

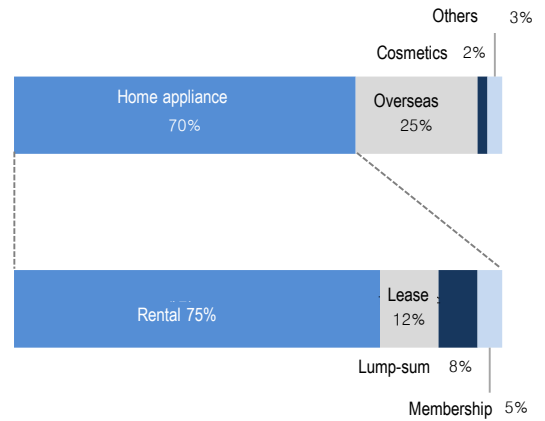
- A leading home appliance rental company with 8.12 million customer accounts
- Has Net marble as its biggest shareholder (a 25.08% stake)
- 60% owned by foreign investors
- Owns six overseas operations (Malaysia, the US, etc.)
- Assets ₩3.03tn, liabilities ₩1.54tn, equity capital ₩1.49tn (as of end-2020)

Share price catalysts

- Growth in customer accounts
- Foreign ownership

Source: Daishin Securities Research Center

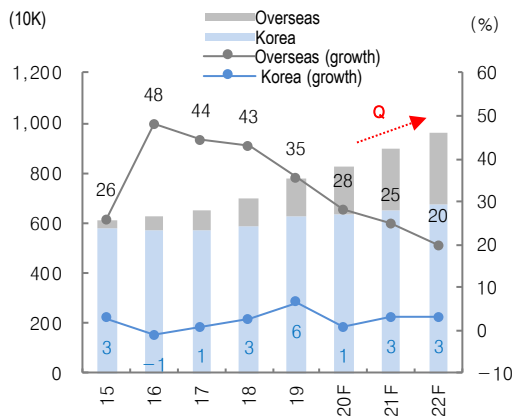
Revenue breakdown (2019)



Source: Daishin Securities Research Center

2. Earnings drivers

Customer accounts



Source: Daishin Securities Research Center

Foreign ownership



Source: Daishin Securities Research Center

Financial statements

Income statement	(Wbn)				
	2018A	2019A	2020F	2021F	2022F
Revenue	2,707	3,019	3,237	3,501	3,836
Cost of goods sold	878	1,010	1,044	1,150	1,249
Gross profit	1,829	2,009	2,193	2,351	2,587
SG&A expenses	1,309	1,550	1,587	1,741	1,907
OP	520	458	606	610	680
OP margin	19.2	15.2	18.7	17.4	17.7
EBITDA	775	739	1,140	1,155	1,233
Non-OP	-51	-7	-63	-22	-17
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	-19	-14	-8
FX related losses	0	0	0	0	0
Others	-35	14	-46	-10	-10
Income before taxes	469	451	543	588	663
Income tax expense	-119	-119	-136	-148	-167
Income from cont. op.	350	332	407	440	497
Income from discount op.	0	0	0	0	0
NP	350	332	407	440	497
NP margin	12.9	11.0	12.6	12.6	12.9
NP for non-contr. interest	0	-1	0	0	0
NP for contr. interest	350	333	407	440	497
Valuation of AFS fin. assets	0	0	0	0	0
Other compreh. income	-1	0	0	0	0
Comprehensive income	344	330	406	440	496
Comp. income (non-contr. Int)	0	-1	0	0	0
Comp. income for contr. int.	344	331	406	440	497

Valuation metrics	(W, x, %)				
	2018A	2019A	2020F	2021F	2022F
EPS	4,735	4,511	5,515	5,967	6,735
PER	15.6	20.6	12.9	11.9	10.5
BPS	14,711	14,611	20,226	25,020	30,573
PBR	5.0	6.4	3.5	2.8	2.3
EBITDAPS	10,483	10,020	15,445	15,654	16,701
EV/EBITDA	7.8	10.1	4.9	4.6	4.0
SPS	36,604	40,907	43,868	47,446	51,973
PSR	2.0	2.3	1.6	1.5	1.4
CFPS	12,050	13,491	15,534	16,162	16,532
DPS	3,600	2,400	1,200	1,200	1,300

Financial ratios	(W, x, %)				
	2018A	2019A	2020F	2021F	2022F
Growth potential					
Revenue growth	7.6	11.5	7.2	8.2	9.5
OP growth	10.0	-11.8	32.3	0.6	11.5
NP growth	7.4	-5.0	22.4	8.2	12.9
Profitability					
ROIC	30.5	24.8	32.0	31.9	34.6
ROA	22.9	17.5	20.6	19.6	20.7
ROE	33.8	30.7	31.7	26.4	24.2
Stability					
Debt ratio	118.7	165.0	103.0	72.5	50.5
Net borrowings ratio	52.1	58.3	25.2	3.0	-13.9
Interest coverage ratio	29.2	20.9	32.5	44.7	80.4

Source: Daishin Securities Research Center

Balance sheet	(Wbn)				
	2018A	2019A	2020F	2021F	2022F
Current assets	844	767	864	1,000	1,160
Cash & cash equiv.	69	61	105	226	394
Trade & other receive.	326	345	329	353	355
Inventories	103	113	134	125	116
Other current assets	346	248	295	295	295
Long-term assets	1,535	2,088	2,163	2,182	2,232
Tangible assets	781	1,271	1,273	1,296	1,342
Investments in affiliates	0	0	0	0	0
Other long-term assets	754	817	890	886	890
Total assets	2,379	2,855	3,027	3,182	3,392
Current liabilities	1,234	1,587	1,414	1,216	1,016
Payables & other liab.	273	295	299	301	301
Borrowings	731	861	700	500	300
Current portion of LT debts	1	1	0	0	0
Other current liabilities	229	430	415	415	415
Long-term liabilities	57	191	122	122	122
Borrowings	10	9	9	9	9
Convertible securities	0	0	0	0	0
Other long-term liab.	47	181	113	113	113
Total liabilities	1,291	1,778	1,536	1,338	1,138
Controlling interest	1,088	1,078	1,493	1,846	2,256
Capital stock	41	41	41	41	41
Capital surplus	130	132	132	132	132
Retained earnings	967	954	1,370	1,723	2,133
Other capital changes	-49	-49	-50	-50	-50
Non-controlling interest	0	-1	-2	-2	-2
Total shareholder's equity	1,088	1,077	1,491	1,845	2,254
Net borrowings	567	628	376	55	-312

Cash flow	(Wbn)				
	2018A	2019A	2020F	2021F	2022F
Operating cash flows	539	539	820	843	872
NP	350	332	407	440	497
Non-cash items	541	663	740	753	724
Depreciation	256	281	533	545	552
FX gains	3	-11	3	-2	-2
Equity method gain	0	0	0	0	0
Others	283	393	204	210	174
Chg in assets & liab.	-237	-308	-191	-204	-182
Other cash flows	-116	-148	-135	-146	-165
Investing cash flow	-394	-383	-540	-563	-601
Investment assets	-1	-5	11	4	1
Tangible assets	-388	-366	-525	-558	-588
Others	-5	-12	-27	-9	-14
Financing cash flows	-187	-165	-354	-306	-306
Short-term borrowings	60	129	-161	-200	-200
Bonds payable	0	0	0	0	0
Long-term borrowings	-1	-1	0	0	0
Rights offering	0	0	0	0	0
Cash dividends	-231	-260	-173	-87	-87
Others	-15	-34	-19	-19	-19
Net chg in cash	-41	-9	45	121	167
Beginning cash balance	110	69	61	105	226
Ending cash balance	69	61	105	226	394
NOPLAT	388	337	454	457	509
FCF	237	225	456	409	434

[Compliance Notice]

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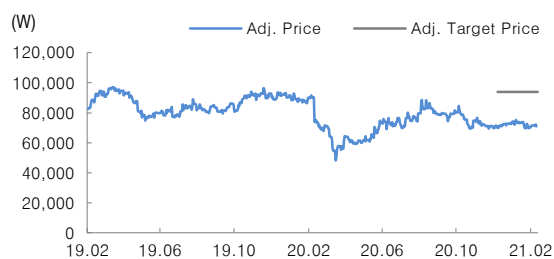
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[Investment rating and target price history]

Coway (021240 KS)



Date	21.02.18	21.01.15	20.12.15
Rating	Buy	Buy	Buy
6M TP	94,000	94,000	94,000
Diff.(avg.,%)		(23.18)	(22.91)
Diff.(max/min,%)		(19.89)	(19.89)
Date			
Rating			
6M TP			
Diff.(avg.,%)			
Diff.(max/min,%)			
Date			
Rating			
6M TP			
Diff.(avg.,%)			
Diff.(max/min,%)			
Date			
Rating			
6M TP			
Diff.(avg.,%)			
Diff.(max/min,%)			

Investment rating breakdown and framework (Feb. 16,2021)

	Buy	Marketperform	Underperform
Ratio	89.9%	9.1%	1.0%

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.