

Coway (021240 KS)

Consumer durables

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Rating	BUY (M)
Target price	W96,000 (M)
Current price (Feb 17)	W71,000
Upside potential	35%

Market cap (Wbn)	5,240
Shares outstanding	73,799,619
Avg daily T/O (2M, Wbn)	19
Avg daily volume (2M, shrs)	262,893
52-week high (won)	88,700
52-week low (won)	48,250
Foreign ownership (%)	61.1
Major shareholders (%)	
Netmarble & others	25.1

Stock performance

(%)	1M	3M	12M
Absolute	(3.8)	(1.5)	(4.1)
Relative	(5.3)	(20.2)	(31.4)
Abs (US\$)	(4.5)	(1.6)	2.6

4Q20 review: business returns to normal

4Q20 review: domestic business normalizes

- Coway reported 4Q20 sales of W862.6bn (+8.6% YoY) and OP of W129.8bn (+190.9% YoY). OP largely met consensus of W136.1bn. It is encouraging that net growth of rental accounts normalized thanks to the resolution of the service managers' strike issue.
- Domestic sales increased 4.5% YoY to W667.2bn, as net domestic rental accounts rose by 47,000 thanks to the end of the service managers' strike and sales of new products were strong. Operating margin was weak at 11.8%, dragged down by one-off expenses such as costs for the transfer of service managers to permanent employee status and write-off of account receivables, as well as an increase in marketing expense.
- The Malaysian subsidiary generated sales of W220.4bn (+44.5% YoY) and OP of W52.0bn (+157.5% YoY). The stellar earnings are attributable to changes in accounting standards for financial leases. Assuming that most overseas net rental account additions are from Malaysia, its net rental account additions came to over 120,000.

Earnings likely to remain stable

- With internal issues that undermine operations resolved, domestic sales growth will likely recover to 4% in 2021. Sales growth in Malaysia should accelerate to 48% YoY.
- For the domestic entity, costs regarding service managers will be reflected for the entire year and the base of comparison will be high due to one-off profit in 2Q20~3Q20. Thus, domestic OP will likely fall by about W25bn YoY. However, thanks to strong growth of the Malaysian subsidiary, company-wide OP should expand by 0.9% YoY to W612.2bn. OP at the Malaysian entity will likely come to W163.9bn (+26% YoY) and the subsidiary's contribution to company-wide OP is also likely to reach 27%. As the Malaysia subsidiary's contribution increases going forward, the company's growth will likely strengthen. Its entry into Indonesia and Vietnam will also serve as a future growth driver
- We maintain BUY and our target price of W96,000. With shares trading at a P/E of about 12x, we believe a bottom-fishing strategy is valid.

Quarterly earnings

(Wbn)	4Q20P	% YoY	% QoQ	Consens	vs consens (%)
Sales	863	8.6	7.8	846	2.0
OP	130	190.9	-23.0	136	-4.6
EBT, continuing ops	93	247.4	-37.6	132	-29.4
Net profit, CI	67	241.5	-42.3	96	-29.8
OPM (%)	15.0	+9.4 %pt	-6.1 %pt	16.1	-1.1 %pt
NPM (%)	7.8	+5.3 %pt	-6.8 %pt	11.3	-3.5 %pt

Note: CI = controlling interest, Source: Yuanta Securities

Forecasts and valuations (K-IFRS, consolidated)

	(Wbn)			
FY ends Dec	2018A	2019A	2020E	2021E
Sales	2,707	3,019	3,237	3,618
OP	520	458	606	612
Net profit, CI	350	333	405	435
P/E (x)	18.4	19.0	13.3	12.1
P/B (x)	5.8	5.7	3.5	3.2
EV/EBITDA (x)	9.0	9.4	5.1	4.9
ROE (%)	33.8	30.7	31.5	27.9

Source: Yuanta Securities

Coway (021240 KS) pro forma financial statements (K-IFRS, consolidated)

Statement of comprehensive income

FY ends Dec (Wbn)	2018A	2019A	2020E	2021E	2022E
Sales	2,707	3,019	3,237	3,618	3,969
Cost of sales	878	1,010	1,047	1,194	1,310
Gross profit	1,829	2,009	2,191	2,424	2,659
SG&A	1,309	1,550	1,584	1,812	1,998
Operating profit	520	458	606	612	661
EBITDA	775	739	1,145	1,158	1,234
Non-op profit/loss	-51	-7	-66	-17	-15
Forex gain/loss	4	13	-2	-2	-2
Net interest income	-17	-21	-20	-19	-16
Equity-meth gain/loss	0	0	0	0	0
Other	-38	1	-45	3	3
Net prof before income tax	469	451	540	595	646
Income tax	119	119	136	161	175
Net profit from continuing ops	350	332	405	434	472
Net profit from discontinued ops	0	0	0	0	0
Net profit	350	332	405	434	472
NP for controlling interest	350	333	405	435	472
Total comprehensive income	344	330	399	430	468
Total comprehensive income, CI	344	331	400	430	468

Note: Operating profit calculation same as K-GAAP (sales - COGS - SG&A exp)

Statement of financial position

FY ends Dec (Wbn)	2018A	2019A	2020E	2021E	2022E
Current assets	844	767	835	852	1,086
Cash & cash equivalents	69	61	76	59	231
Accts rec & other	326	345	351	389	439
Inventory	103	113	123	120	131
Non-current assets	1,535	2,088	2,160	2,224	2,281
Tangible assets	781	1,271	1,295	1,368	1,433
Investment in affiliates	0	0	0	0	0
Other non-current	53	19	19	19	19
Total assets	2,379	2,855	2,995	3,076	3,367
Current liabilities	1,234	1,587	1,342	1,303	1,212
Accts payable & other	273	295	342	353	363
ST financial liabilities	731	861	750	700	600
Liquid LT liabilities	1	1	1	1	1
Non-current liabilities	57	191	159	159	159
LT financial liabilities	10	9	9	9	9
Debentures	0	0	0	0	0
Total liabilities	1,291	1,778	1,501	1,462	1,372
Equity, controlling interest	1,088	1,078	1,496	1,615	1,997
Paid-in capital	41	41	41	41	41
Capital surplus	130	132	148	148	148
Retained earnings	967	954	1,357	1,480	1,866
Equity, non-controlling interest	0	-1	-1	-2	-2
Total equity	1,088	1,077	1,494	1,614	1,995
Net debt	567	613	428	395	123
Total debt	743	888	771	721	621

Cash flow statement

FY ends Dec (Wbn)	2018A	2019A	2020E	2021E	2022E
Operating cash flow	539	539	870	898	854
Net profit	350	332	405	434	472
Depreciation & amortization	247	271	530	537	565
Forex gain/loss	3	-11	5	2	2
Affiliate invest gain/loss	0	0	0	0	0
Inc (dec) in net working cap	-237	-308	-149	-143	-252
Other	176	255	80	68	68
Investing cash flow	-394	-383	-568	-490	-510
Investment	-1	-5	-1	0	0
Inc in tangible assets	-400	-391	-590	-610	-630
Dec in tangible assets	13	25	0	0	0
Other	-5	-12	22	120	120
Financing cash flow	-187	-165	-118	-136	-187
Inc (dec) in ST fin liab	60	129	-110	-50	-100
Inc (dec) in LT fin liab	-1	-15	0	0	0
Inc (dec) in equity	0	0	0	0	0
Cash dividend	-231	-260	0	-87	-87
Other	-15	-19	-7	1	0
Other cash flow	0	0	-168	-289	15
Inc (dec) in cash & equivalents	-41	-9	16	-17	172
Beginning cash & equivalents	110	69	61	76	59
Ending cash & equivalents	69	61	76	59	231
NOPLAT	520	458	606	612	661
FCF	7	-80	254	240	174

Note: CI = controlling interest

EPS, BPS, P/E and P/B are based on controlling interest

For valuation metrics such as P/E, historical figures are based on annual average prices and estimates, on current price

For ROA or ROE, assets and equity are averages of end-of-year figures for the given year and the year prior

Source: Yuenta Securities

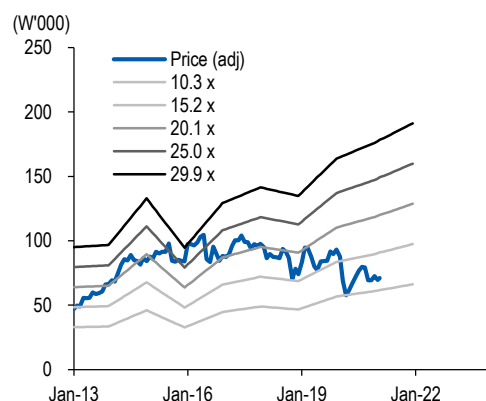
Valuation

FY ends Dec	2018A	2019A	2020E	2021E	2022E
EPS (won)	4,735	4,511	5,485	5,890	6,399
BPS (won)	15,074	14,931	20,616	22,265	27,522
EBITDA/shr (won)	10,483	10,020	15,520	15,698	16,721
SPS (won)	36,604	40,907	43,868	49,021	53,779
DPS (won)	3,600	2,400	1,200	1,200	1,300
P/E (x)	18.4	19.0	13.3	12.1	11.1
P/B (x)	5.8	5.7	3.5	3.2	2.6
EV/EBITDA (x)	9.0	9.4	5.1	4.9	4.3
P/S (x)	2.4	2.1	1.7	1.4	1.3

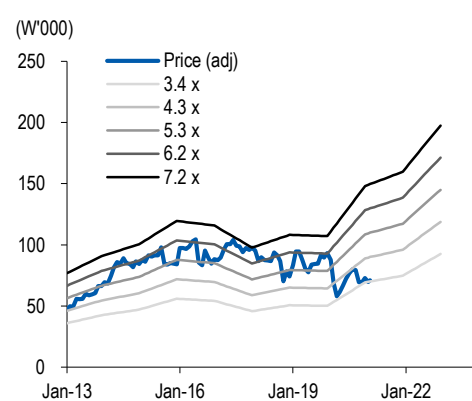
Key financial data

FY ends Dec	2018A	2019A	2020E	2021E	2022E
Sales (% YoY)	7.6	11.5	7.2	11.7	9.7
Operating profit (%YoY)	10.0	-11.8	32.3	1.0	8.0
Net profit, CI (%YoY)	7.4	-4.9	21.6	7.4	8.7
Gross margin (%)	67.6	66.5	67.7	67.0	67.0
Operating margin (%)	19.2	15.2	18.7	16.9	16.7
Net margin, CI (%)	12.9	11.0	12.5	12.0	11.9
EBITDA margin (%)	28.6	24.5	35.4	32.0	31.1
ROIC (%)	35.8	29.0	35.2	31.9	32.2
ROA (%)	15.4	12.7	13.8	14.3	14.7
ROE (%)	33.8	30.7	31.5	27.9	26.1
Debt-to-equity (%)	118.7	165.0	100.5	90.6	68.8
Net debt-to-equity (%)	52.1	56.9	28.6	24.4	6.1
OP/financing cost (x)	29.2	20.9	28.7	31.6	37.2

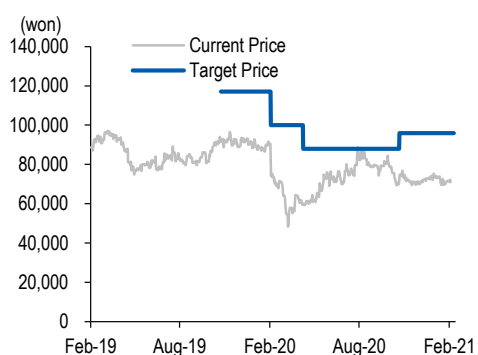
P/E band chart



P/B band chart



Coway (021240 KS) ratings and target price history



Date	Rating	TP (won)	TP time frame	Difference (%)	
				vs avg price	vs high (low)
2021/02/18	BUY	96,000	1 yr		
2020/11/05	BUY	96,000	1 yr		
2020/04/23	HOLD	88,000	1 yr	-15.41	-
2020/02/17	HOLD	100,000	1 yr	-36.23	-
2019/11/07	BUY	117,000	1 yr	-22.42	-17.52

Note: Difference = (actual price* - target price) / target price x 100

* 1) The average price until the day target price was suggested

2) The highest (lowest) price until the day target price was suggested

Source: Yuanta Securities

Current distribution of Yuanta Securities Korea ratings

Rating	Share (%)
STRONG BUY	1.2
BUY	91.9
HOLD	6.9
SELL	0.0
Total	100.0

Note: As of Feb 15

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- **Stock ratings** include an Investment Rating (Strong Buy, Buy, Hold, Sell) based on the expected absolute return of a stock over the next 6 -12 months.
 - Strong Buy: Expected to return 30% or more
 - Buy: Expected to return between 10% and 30%
 - Hold: Expected to return between -10 and +10%
 - Sell: Expected to return -10% or less
- **Sector ratings** suggest 6 to 12 - month forward investment weighting of a given sector compared to its market capitalization weighting.
 - Overweight: Investment weighting is higher than the market capitalization weighting
 - Neutral: Investment weighting is equal to the market capitalization weighting
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