

Platform Business Team

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▶ AT A GLANCE

Recommend	BUY	
Target price	KRW90,000	28.8%
Current price	KRW69,900	
Market cap	KRW5.2/USD4.6b	
Shares (float)	73,799,619 (73.2%)	
52-week high/low	KRW88,700/KRW60,800	
Avg daily trading value (60-day)	KRW19.9b/ USD17.7m	

▶ ONE-YEAR PERFORMANCE

	1M	6M	12M
Coway (%)	2.8	-5.7	14.8
Vs Kospi (%pts)	1.9	-26.1	-30.2

▶ KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	90,000	90,000	0.0%
2021E EPS	6,054	6,013	0.7%
2022E EPS	6,709	6,525	2.8%

▶ SAMSUNG vs THE STREET

No of estimates	6
Target price	93,200
Recommendation	4.0
BUY★★★: 5 / BUY: 4 / HOLD: 3 / SELL: 2 / SELL★★★: 1	

Coway (021240)

K-rentals expanding overseas

- Coway posted an operating profit of KRW170.7b in 1Q, up 23% y-y and beating consensus by 14%. The firm's overseas operations posted record-high results, while its domestic operations passed the worst operating conditions.
- The firm offers a conservative 2021 earnings guidance (ie, sales and operating profit up 8.1% and 0.6% y-y, respectively) to reflect hikes in various costs. If such cost hikes lead to the firm's enterprise value rising down the road, the stock should enjoy a valuation rerating.
- We maintain our BUY rating on the stock with an unchanged target price of KRW90,000 (based on a DCF valuation).

WHAT'S THE STORY?

Coway reported solid 1Q results showing sales of KRW879b (up 14.3% y-y) and an operating profit of KRW170.7b (up 23% y-y), the latter beating consensus by 14%. While the domestic operations saw household appliances sales edge up just 1.7% y-y and rental sales volume decline 15% y-y, the overseas operations posted record-high results, thus driving the firm's overall earnings growth for the quarter. The Malaysia subsidiary kept putting in solid performance, with sales up 57% y-y (thanks to a hike in rental account number) and an operating profit up 123% y-y (due to a decline in rental asset disposal loss, curtailing of promotional activities, and expansion of finance lease products). The US subsidiary also saw its sales and operating profit rise 58% and 121% y-y, respectively, led by solid performance at diverse retail channels (including door-to-door).

(Continued on the next page)

Coway 1Q21 review

(KRWb)	1Q21	4Q20	Chg (% q-q)	1Q20	Chg (% y-y)	Consensus	Diff (%)	Samsung	Diff (%)
Sales	879.0	862.6	1.9	768.9	14.3	846.9	3.8	830.9	5.8
Operating profit	170.7	129.8	31.5	138.9	23.0	150.0	13.8	151.1	13.0
Pre-tax profit	174.7	93.3	87.2	138.3	26.3	142.3	22.8	146.2	19.5
Net profit	125.8	67.4	86.5	101.6	23.8	103.0	22.1	111.1	13.2
Margins (%)									
Operating profit	19.4	15.0		18.1		17.7		18.2	
Pre-tax profit	19.9	10.8		18.0		16.8		17.6	
Net profit	14.3	7.8		13.2		12.2		13.4	

Source: Company data, Samsung Securities estimates

Valuations

(KRWb)	Sales	Operating profit	Pre-tax profit	Net profit (KRW)	EPS	EPS growth (% y-y)	P/E (x)	Net debt	EV/EBITDA (x)	P/B (x)	ROE (%)
2019	3,019	458	451	332	4,511	-4.7	20.6	639	7.7	6.2	30.7
2020	3,237	606	540	405	5,486	21.6	13.3	330	5.0	3.5	31.5
2021E	3,566	630	596	446	6,054	10.4	11.5	213	4.7	2.7	26.8
2022E	3,925	694	651	495	6,709	10.8	10.4	129	4.3	2.2	24.2
2023E	4,272	762	720	547	7,506	11.9	9.3	56	4.0	1.9	22.1

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-contract 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]. Meanwhile, the firm is executing investments with focus given to development/management of products fitting consumer needs in the rapidly-changing rental market. Such investment can weigh on earnings growth in the near term, but could boost its enterprise value over the long term.

Income statement

Year-end Dec 31 (KRWb)	2019	2020	2021E	2022E	2023E
Sales	3,019	3,237	3,566	3,925	4,272
Cost of goods sold	1,010	1,044	1,170	1,273	1,381
Gross profit	2,009	2,193	2,395	2,652	2,891
Gross margin (%)	66.5	67.8	67.2	67.6	67.7
SG&A expenses	1,550	1,587	1,765	1,958	2,129
Operating profit	458	606	630	694	762
Operating margin (%)	15.2	18.7	17.7	17.7	17.8
Non-operating gains (losses)	-7	-66	-34	-43	-43
Financial profit	1	1	27	31	33
Financial costs	22	21	48	54	61
Equity-method gains (losses)	0	0	0	0	0
Other	14	-46	-14	-20	-15
Pre-tax profit	451	540	596	651	720
Taxes	119	136	150	156	173
Effective tax rate (%)	26.4	25.1	25.2	24.0	24.0
Profit from continuing operations	332	405	446	495	547
Profit from discontinued operations	0	0	0	0	0
Net profit	332	405	446	495	547
Net margin (%)	11.0	12.5	12.5	12.6	12.8
Net profit (controlling interests)	333	405	447	496	549
Net profit (non-controlling interests)	-1	-0	-1	-2	-2
EBITDA	973	1,150	1,151	1,224	1,300
EBITDA margin (%)	32.2	35.5	32.3	31.2	30.4
EPS (parent-based) (KRW)	4,511	5,486	6,060	6,727	7,440
EPS (consolidated) (KRW)	4,501	5,484	6,041	6,703	7,411
Adjusted EPS (KRW)*	4,511	5,486	6,054	6,709	7,506

Cash flow statement

Year-end Dec 31 (KRWb)	2019	2020	2021E	2022E	2023E
Cash flow from operations	539	563	761	795	837
Net profit	332	405	446	495	547
Non-cash profit and expenses	927	916	715	722	727
Depreciation	505	534	511	520	528
Amortization	10	9	9	10	9
Other	412	373	194	192	189
Changes in A/L from operating activities	-571	-567	-245	-244	-233
Cash flow from investments	-383	-323	-520	-576	-621
Change in tangible assets	-366	-325	-454	-510	-554
Change in financial assets	-73	-79	-69	-71	-71
Other	56	81	4	5	4
Cash flow from financing	-165	-182	-146	-158	-166
Change in debt	171	-170	-7	-7	-7
Change in equity	3	15	0	0	0
Dividends	-260	0	-89	-89	-89
Other	-78	-27	-51	-62	-71
Change in cash	-9	55	95	61	50
Cash at beginning of year	69	61	116	211	272
Cash at end of year	61	116	211	272	322
Gross cash flow	1,259	1,321	1,161	1,216	1,274
Free cash flow	149	238	307	285	283

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

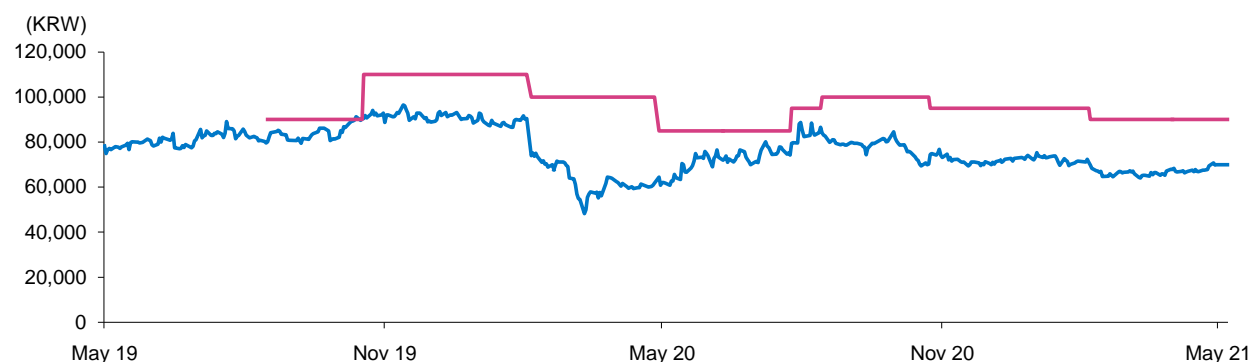
Year-end Dec 31 (KRWb)	2019	2020	2021E	2022E	2023E
Current assets	767	897	1,067	1,191	1,300
Cash & equivalents	61	116	211	272	322
Accounts receivable	310	317	335	366	385
Inventories	113	134	139	146	159
Other current assets	283	330	381	407	435
Fixed assets	2,088	2,132	2,381	2,680	3,051
Investment assets	19	15	13	13	13
Tangible assets	1,271	1,225	1,163	1,147	1,167
Intangible assets	168	140	136	132	128
Other long-term assets	630	752	1,068	1,388	1,743
Total assets	2,855	3,029	3,447	3,872	4,351
Current liabilities	1,587	1,417	1,479	1,497	1,518
Accounts payable	58	69	76	80	89
Short-term debt	861	700	693	686	679
Other current liabilities	668	648	710	732	750
Long-term liabilities	191	122	120	119	120
Bonds & long-term debt	9	9	9	9	9
Other long-term liabilities	181	112	111	110	111
Total liabilities	1,778	1,539	1,599	1,617	1,638
Owners of parent equity	1,078	1,491	1,850	2,256	2,714
Capital stock	41	41	41	41	41
Capital surplus	132	148	148	148	148
Retained earnings	954	1,365	1,724	2,130	2,588
Other	-49	-62	-62	-62	-62
Non-controlling interests' equity	-1	-1	-1	-1	-1
Total equity	1,077	1,490	1,849	2,255	2,713
Net debt	639	330	213	129	56

Financial ratios

Year-end Dec 31	2019	2020	2021E	2022E	2023E
Growth (%)					
Sales	11.5	7.2	10.1	10.1	8.9
Operating profit	-11.8	32.3	3.9	10.1	9.9
Net profit	-5.0	21.8	10.2	11.0	10.6
Adjusted EPS**	-4.7	21.6	10.4	10.8	11.9
Per-share data (KRW)					
EPS (parent-based)	4,511	5,486	6,060	6,727	7,440
EPS (consolidated)	4,501	5,484	6,041	6,703	7,411
Adjusted EPS**	4,511	5,486	6,054	6,709	7,506
BVPS	14,931	20,554	25,498	31,095	37,412
DPS (common)	2,400	1,200	1,200	1,200	1,200
Valuations (x)					
P/E***	20.6	13.3	11.5	10.4	9.3
P/B***	6.2	3.5	2.7	2.2	1.9
EV/EBITDA	7.7	5.0	4.7	4.3	4.0
Ratios (%)					
ROE	30.7	31.5	26.8	24.2	22.1
ROA	12.7	13.8	13.8	13.5	13.3
ROIC	20.0	25.5	24.4	23.6	22.5
Payout ratio	52.1	21.5	19.5	17.5	15.9
Dividend yield (common)	2.6	1.7	1.7	1.7	1.7
Net debt to equity	59.3	22.1	11.5	5.7	2.1
Interest coverage (x)	20.9	28.6	31.0	32.8	36.5

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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

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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
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UNDERWEIGHT	Expected to underperform market by 5% or more within 12 months

Percentage of ratings in 12 months prior to Mar 31, 2021

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