

Coway

(021240 KS)

Buy
(Maintain)TP: W98,000
Upside: 27.9%

Overseas growth to help ease valuation discount

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1Q21 review

Record-high quarterly results, supported by overseas growth

- For 1Q21, Coway delivered revenue of W879bn (+14.3% YoY) and operating profit of W170.7bn (+23% YoY).
- The key driver of the record performance was revenue expansion at overseas subsidiaries (+56.4% YoY to W294.2bn) amid robust account growth (+32.7% YoY to 2.1mn). In particular, the Malaysian subsidiary delivered a strong sales performance.
- The domestic business continued to display stable top-line growth, reporting revenue of W538.5bn (+1.7% YoY) and 6.36mn accounts (+0.7% YoY).

Outlook

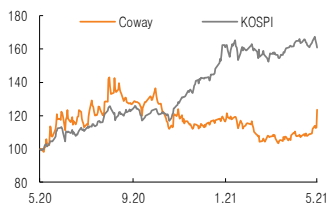
Low/mid-end water purifiers (overseas) and mattress rentals (domestic) to display sharp revenue growth

- Overseas: We expect overseas revenue to continue to grow rapidly, boosted by increasing sales of low/mid-priced water purifier models. (Sales have thus far been mostly concentrated in high-end models.)
- Domestic: We expect strong top/bottom-line growth at the mattress business. In 2020, mattress revenue soared 24.4% YoY to W227bn, with Coway continuing to catch up to market leaders Ace Bed (W289bn) and Simmons (W272bn).
- We also project mattress margins to improve, as the firm has vertically integrated its business by acquiring iOBED.

Valuation and recommendation Retain Buy with TP of W98,000

- The company has not revised its guidance (revenue of W3.5tr and OP of W0.6tr) despite the record results and strong overseas growth, likely due to low visibility on the domestic recovery.
- Our target price of W98,000 (based on the residual income model) corresponds to a 2021F P/E of 17x. We retain our Buy recommendation in light of the stock's upside.

Key data



Current price (5/13/21, W)	76,600	Market cap (Wbn)	5,653
OP (21F, Wbn)	608	Shares outstanding (mn)	74
Consensus OP (21F, Wbn)	637	Free float (%)	73.2
EPS growth (21F, %)	8.3	Foreign ownership (%)	58.3
P/E (21F, x)	12.9	Beta (12M)	0.62
Market P/E (21F, x)	11.8	52-week low (W)	60,800
KOSPI	3,122.11	52-week high (W)	88,700

Share performance

(%)	1M	6M	12M
Absolute	13.0	4.6	23.5
Relative	14.7	-16.4	-23.2

Earnings and valuation metrics

(Dec.)	2018	2019	2020	2021F	2022F	2023F
Revenue (Wbn)	2,707	3,019	3,237	3,480	3,752	3,993
OP (Wbn)	520	458	606	608	678	720
OP margin (%)	19.2	15.2	18.7	17.5	18.1	18.0
NP (Wbn)	350	333	405	439	488	519
EPS (W)	4,735	4,511	5,486	5,944	6,607	7,034
ROE (%)	33.8	30.7	31.5	26.3	23.9	21.1
P/E (x)	15.6	20.6	13.3	12.9	11.6	10.9
P/B (x)	4.7	6.0	3.5	3.0	2.5	2.1
Div. yield (%)	4.9	2.6	1.7	1.6	1.6	1.6

Notes: Under consolidated K-IFRS; NP is attributable to owners of the parent

Source: Company data, Mirae Asset Securities Research estimates

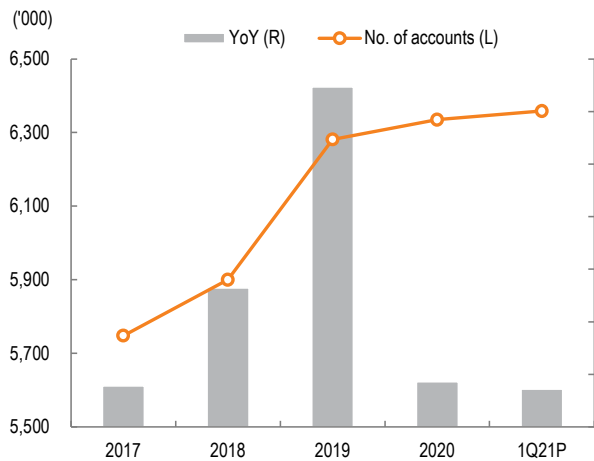
Table 1. Quarterly/annual earnings and forecasts

(Wbn, %)

	1Q20	2Q20	3Q20	4Q20	1Q21P	2Q21F	3Q21F	4Q21F	2020	2021F	2022F
Revenue	769	806	800	863	879	865	867	870	3,237	3,480	3,752
Domestic	529	553	507	538	539	537	540	542	2,127	2,157	2,206
Overseas	188	195	239	274	294	278	278	278	896	1,127	1,346
Other	51	58	54	51	46	50	50	50	214	196	200
OP	139	169	169	130	171	145	146	146	606	608	678
Domestic	113	143	130	80	114	97	97	98	465	405	441
Overseas	26	26	39	50	57	49	49	49	141	202	237
OP margin	18.1	21.0	21.1	15.0	19.4	16.8	16.8	16.8	18.7	17.5	18.1
Domestic	21.3	25.8	25.6	14.8	21.2	18.0	18.0	18.0	21.9	18.8	20.0
Overseas	14.0	13.5	16.2	18.3	19.3	17.5	17.5	17.5	15.8	18.0	17.6
Pretax profit	138	160	149	93	175	140	141	141	540	597	659
NP (attributable to owners)	102	119	117	67	126	104	104	105	405	439	488

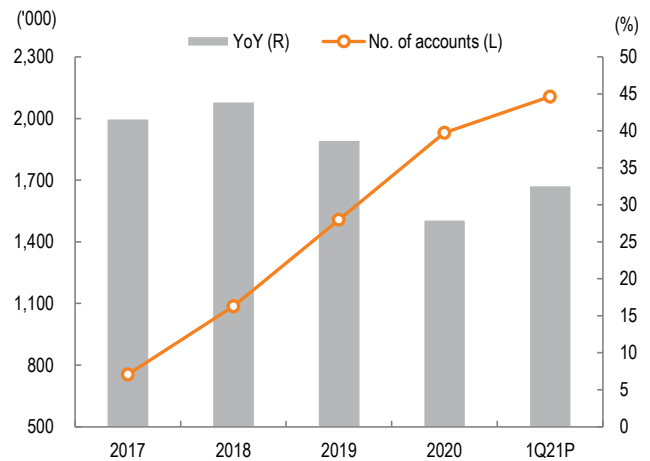
Source: Company data, Mirae Asset Securities Research

Figure 1. Domestic accounts



Source: Company data, Mirae Asset Securities Research

Figure 2. Overseas accounts



Source: Company data, Mirae Asset Securities Research

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Income statement (summarized)

(Wbn)	2020	2021F	2022F	2023F
Revenue	3,237	3,480	3,752	3,993
Cost of revenue	1,044	1,163	1,198	1,276
GP	2,193	2,317	2,554	2,717
SG&A expenses	1,587	1,710	1,876	1,996
OP (adj.)	606	608	678	720
OP	606	608	678	720
Non-operating profit	-66	-10	-19	-18
Net financial income	-20	-19	-19	-19
Net income from associates	0	9	0	0
Pretax profit	540	598	659	702
Income tax	136	159	171	182
Profit from continuing operations	405	439	488	519
Profit from discontinued operations	0	0	0	0
NP	405	439	488	519
Attributable to owners	405	439	488	519
Attributable to minority interests	0	0	0	0
Total comprehensive income	396	439	488	519
Attributable to owners	396	439	488	519
Attributable to minority interests	0	0	0	0
EBITDA	1,150	1,120	1,155	1,173
FCF	238	570	600	606
EBITDA margin (%)	35.5	32.2	30.8	29.4
OP margin (%)	18.7	17.5	18.1	18.0
Net margin (%)	12.5	12.6	13.0	13.0

Cash flow statement (summarized)

(Wbn)	2020	2021F	2022F	2023F
Operating cash flow	563	970	1,000	1,006
NP	405	439	488	519
Non-cash income/expenses	916	690	667	654
Depreciation	534	505	472	449
Amortization	9	7	5	4
Other	373	178	190	201
Chg. in working capital	-567	1	17	15
Chg. in AR & other receivables	-22	-2	-24	-22
Chg. in inventory	-25	1	-11	-9
Chg. in AP & other payables	43	-2	6	5
Income tax	-191	-159	-171	-182
Cash flow from investing activities	-323	-399	-422	-420
Chg. in PP&E	-325	-400	-400	-400
Chg. in intangible assets	-1	0	0	0
Chg. in financial assets	-79	0	-23	-21
Other	82	1	1	1
Cash flow from financing activities	-182	-107	-107	-107
Chg. in financial liabilities	-170	0	0	0
Chg. in equity	15	0	0	0
Dividends	0	-87	-87	-87
Other	-27	-20	-20	-20
Chg. in cash	55	462	471	480
Beginning balance	61	116	578	1,049
Ending balance	116	578	1,049	1,529

Source: Company data, Mirae Asset Securities Research estimates

Balance sheet (summarized)

(Wbn)	2020	2021F	2022F	2023F
Current assets	897	1,362	1,893	2,426
Cash & equivalents	116	578	1,049	1,529
AR & other receivables	324	328	351	374
Inventory	134	133	144	153
Other current assets	323	323	349	370
Non-current assets	2,132	2,020	1,943	1,890
Investments in associates	0	0	0	0
PP&E	1,225	1,120	1,048	999
Intangible assets	140	134	128	124
Total assets	3,029	3,382	3,836	4,316
Current liabilities	1,417	1,421	1,474	1,522
AP & other payables	255	259	277	295
Short-term financial liabilities	715	715	715	715
Other current liabilities	447	447	482	512
Non-current liabilities	122	122	122	122
Long-term financial liabilities	29	29	29	29
Other non-current liabilities	93	93	93	93
Total liabilities	1,539	1,542	1,596	1,644
Equity attributable to owners	1,491	1,841	2,241	2,673
Capital stock	41	41	41	41
Capital surplus	148	148	148	148
Retained earnings	1,365	1,717	2,117	2,549
Minority interests	-1	-1	-1	-1
Shareholders' equity	1,490	1,840	2,240	2,672

Key valuation metrics/ratios

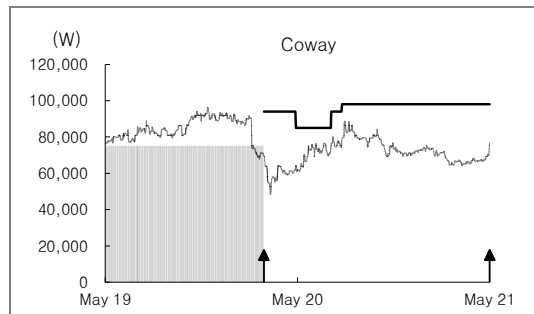
	2020	2021F	2022F	2023F
P/E (x)	13.3	12.9	11.6	10.9
P/CF (x)	4.1	5.0	4.9	4.8
P/B (x)	3.5	3.0	2.5	2.1
EV/EBITDA (x)	5.0	4.9	4.4	3.9
EPS (W)	5,486	5,944	6,607	7,034
CFPS (W)	17,896	15,290	15,648	15,900
BPS (W)	20,905	25,643	31,071	36,925
DPS (W)	1,200	1,200	1,200	1,200
Dividend payout ratio (%)	21.5	19.8	17.9	16.8
Dividend yield (%)	1.7	1.6	1.6	1.6
Revenue growth (%)	7.2	7.5	7.8	6.4
EBITDA growth (%)	18.2	-2.6	3.1	1.6
OP growth (%)	32.3	0.3	11.5	6.2
EPS growth (%)	21.6	8.3	11.2	6.5
AR turnover (x)	10.3	10.9	11.3	11.3
Inventory turnover (x)	26.2	26.1	27.1	26.9
AP turnover (x)	16.5	17.2	17.2	17.0
ROA (%)	13.8	13.7	13.5	12.7
ROE (%)	31.5	26.3	23.9	21.1
ROIC (%)	25.5	25.5	30.5	34.1
Debt-to-equity ratio (%)	103.3	83.8	71.2	61.5
Current ratio (%)	63.3	95.9	128.4	159.4
Net debt-to-equity ratio (%)	22.1	-7.2	-28.0	-42.2
Interest coverage ratio (x)	28.6	30.7	34.2	36.4

Appendix 1

Important disclosures and disclaimers

Two-year rating and TP history

Company	Date	Rating	TP (₩)
Coway (021240)	08/06/20	Buy	98,000
	07/17/20	Buy	94,000
	05/11/20	Buy	85,000
	03/11/20	Buy	94,000



Stock ratings

Buy	Expected 12-month performance: +20% or greater
Trading Buy	Expected 12-month performance: +10% to +20%
Hold	Expected 12-month performance: -10% to +10%
Sell	Expected 12-month performance: -10% or worse

Sector ratings

Overweight	Expected to outperform the market over 12 months
Neutral	Expected to perform in line with the market over 12 months
Underweight	Expected to underperform the market over 12 months

Rating and TP history: Share price (—), TP (—), Not Rated (■), Buy (▲), Trading Buy (■), Hold (●), Sell (◆)

* Our investment rating is a guide to the expected return of the stock over the next 12 months.

* Outside of the official ratings of Mirae Asset Securities Co., Ltd., analysts may call trading opportunities should technical or short-term material developments arise.

* The TP was determined by the research analyst through valuation methods discussed in this report, in part based on estimates of future earnings.

* TP achievement may be impeded by risks related to the subject securities and companies, as well as general market and economic conditions.

Ratings distribution and investment banking services

	Buy	Trading Buy	Hold	Sell
Ratings distribution	79.00%	13.00%	7.00%	1.00%
Investment banking services	63.16%	31.58%	5.26%	0.00%

* Based on recommendations in the last 12 months (as of March 31, 2021)

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