



Coway (021240)

Malaysia Subsidiary to Be Key Earnings Driver Once Again

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Maintain BUY, raise target price 8% to KRW100,000; overseas business to continue double-digit OP growth

2021 forecast: Revenue/OP up 12%/12% YoY; OP contribution from overseas business to grow to 30%

2Q21 preview: Earnings roughly in line with market consensus; performance in Korea and U.S. lower but Malaysia growth to accelerate

We maintain BUY and raise our TP by 8% to KRW100,000 for Coway to reflect an increase in WACC (5.94%→6.24%) and upward revisions to 2021E/2022E/2023E OP of 10%/11%/11%. We believe domestic business serves as a stable cash cow and expect overseas business to continue double-digit OP growth, particularly in Malaysia and the U.S., where sales are jumping. We believe the stock is undervalued, trading at 11.0x 12m fwd P/E.

We forecast 2021 consolidated revenue/OP to climb 12%/12%. Domestic business should see OP inch up 2% while overseas business should see OP jump 45%; overseas revenue/OP contributions should increase 33%/30%. Growth in Malaysia seems to have accelerated since 2020, which is when the company began selling air purifiers and mattresses on a financial lease program; financial lease-based sales account for around half of total Malaysian sales.

We forecast 2Q21 consolidated revenue/OP at KRW900.0bn (+12% YoY)/KRW168.9bn (-0.2% YoY), both of which would meet the market consensus. Excluding a KRW11.0bn one-off gain recorded in 2Q20, OP would climb 7% YoY. In terms of domestic business (standalone), we estimate revenue/OP of KRW678.1bn (+4% YoY)/KRW120.0bn (-12% YoY); stripping away one-off gains in 2Q20, OP should decline 7% YoY. Specifically, we expect the following:

- (1) New rental sales and lump-sum sales should decline 2% and 23%, respectively.

Buy Maintain

Target Price (Raised)	KRW100,000
Dividend yield*	1.6%
Total return	30.1%
Current price (Jul 19)	KRW77,800
Consensus target price	KRW99,625
Market capitalization	USD5.0bn

* 12-month forward

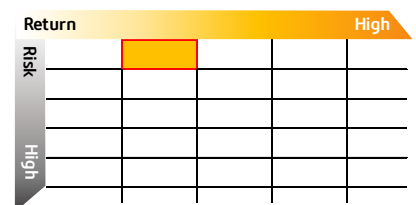
Trading Data

Free float	73.2%
Avg. T/O val. (3m, KRWbn)	22.0
Foreign ownership	59.4%
Major shareholders	Netmarble and 6 others 25.1%
	National Pension Service 8.5%

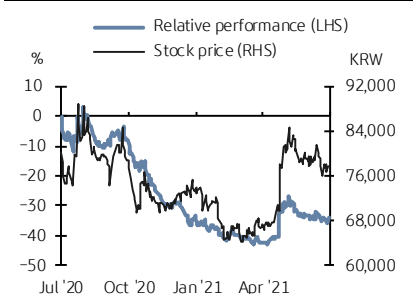
Stock Price Performance

(%)	1M	3M	6M	12M
Absolute	-1.8	16.1	5.1	1.8
Relative	-1.0	14.5	0.2	-30.9

Risk & Total Return (annualized over three years)



Stock Price & Relative Performance



Source(s): Company data, KB Securities

Earnings Forecast & Valuation

Fiscal year-end	2020A	2021E	2022E	2023E
Revenue (KRWbn)	3,237	3,633	3,991	4,344
OP (KRWbn)	606	678	736	790
NP to control, int. (KRWbn)	405	485	523	564
EPS (KRW)	5,486	6,566	7,085	7,643
EPS growth (%)	21.6	19.7	7.9	7.9
P/E (x)	13.3	11.8	11.0	10.2
EV/EBITDA (x)	5.0	4.9	4.4	3.9
P/B (x)	3.6	3.0	2.5	2.1
ROE (%)	31.5	28.7	24.8	22.1
Div. yield (%)	1.7	1.6	1.7	1.7

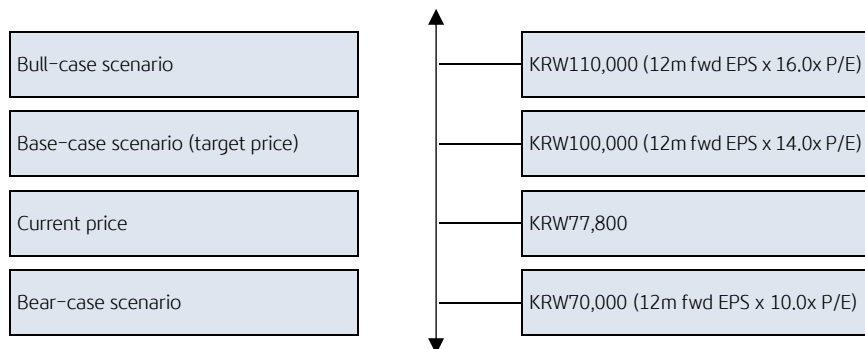
Sales for air purifiers and clothing care systems should decline, as trading activity was under pressure amid the prolonged pandemic.

(2) The monthly churn rate should be stable, at around 1.0%, but the net increase in accounts should be only 19,000 (-42% YoY) amid sluggish new sales.

(3) OPM should sit at 17.7% (-1.8pp YoY excl. one-offs).

The Malaysia subsidiary should see revenue/OP soar 45%/94% YoY, with OPM increasing 5pp to 20% on brisk financial lease-based sales for air purifiers and mattresses. The U.S. subsidiary should see revenue up 30% but OP down 15% (OPM estimated at 10%) thanks to a high base associated with curbed marketing costs in the initial phase of the pandemic last year.

Investment Opinion & Risks



Base-case scenario: Catalysts

- 1) 2020-23 domestic CAGR revenue at 4%
- 2) 2020-23 overseas CAGR revenue at 25%

Bull-case scenario: Upside risks

- 1) 2020-23 domestic CAGR revenue above 4%
- 2) 2020-23 overseas CAGR revenue above 25%

Bear-case scenario: Downside risks

- 1) 2020-23 domestic CAGR revenue below 4%
- 2) 2020-23 overseas CAGR revenue below 25%

Revised Earnings Estimates

(KRWbn, %)	Previous		Revised		Change	
	2021E	2022E	2021E	2022E	2021E	2022E
Revenue	3,586.9	3,891.8	3,633.2	3,991.1	1.3	2.6
OP	617.3	664.4	677.9	736.2	9.8	10.8
NP (to control. int.)	436.4	473.0	485.1	523.7	11.2	10.7

Source(s): KB Securities estimates

KB Estimates vs. Consensus

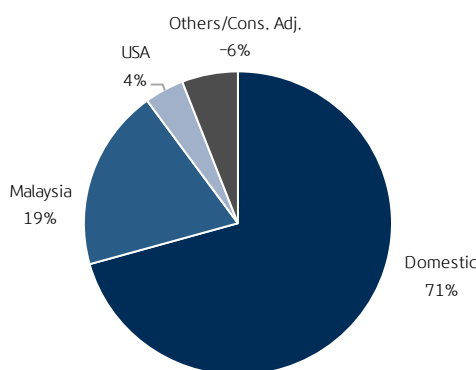
(KRWbn, %)	KB Estimates		Consensus		Difference	
	2021E	2022E	2021E	2022E	2021E	2022E
Revenue	3,633.2	3,991.1	3,608.6	3,962.1	0.7	0.7
OP	677.9	736.2	652.6	724.5	3.9	1.6
NP (to control. int.)	485.1	523.7	470.5	525.7	3.1	-0.4

Source(s): FnGuide, KB Securities estimates

Valuation & Target Price Calculation

- 1) Valuation method:
Discounted cash flow model
- 2) Target price calculation:
6.24% WACC; 1.6% TGR
- 3) Target price range:
KRW70,000 – KRW110,000
- 4) Valuation at target price:
14.4x 12m fwd implied P/E, 3.47x P/B

Revenue Composition (2020)



Source(s): Company data, KB Securities

Earnings Sensitivity Analysis

(%)	EPS Change	
	2021E	2022E
+1pp in interest rate	-0.6	-0.5
+1pp in FX rate	+0.3	+0.3

Peer Group Comparison

(KRWbn, x, %)	Market Cap	12m fwd P/E	2y EPS CAGR	12m fwd P/B	12m fwd ROE	12m fwd EV/EBITDA	2y EBITDA CAGR
Coway	5,741.6	11.4	13.6	2.70	23.8	4.7	3.7
Amorepacific	14,059.3	39.7	267.1	3.33	8.4	12.6	36.0
LG H&H	26,722.7	30.6	13.9	5.07	16.6	15.5	9.7

Source(s): KB Securities estimates

Table 1. 2Q21E KB Estimates vs. Consensus (consolidated)

(KRWbn)	2Q21E KB	2Q20	YoY (%)	1Q21	QoQ (%)	2Q21E Cons.	Diff. (%)	2021E KB	YoY (%)	2021E Cons.	Diff. (%)
Revenue	900.0	805.5	11.7	879.0	2.4	895.0	0.6	3,633.2	12.2	3,608.6	0.7
OP	168.9	169.2	-0.2	170.7	-1.1	163.1	3.6	677.9	11.8	652.6	3.9
EBT	162.1	159.5	1.6	174.7	7.2	152.7	6.2	659.3	22.0	635.1	3.8
NP (to control. int.)	120.2	119.0	1.1	125.8	4.4	109.5	9.8	485.1	19.8	470.5	3.1
OPM (%)	18.8	21.0		19.4		18.2		18.7		18.1	
EBT margin (%)	18.0	19.8		19.9		17.1		18.1		17.6	
NPM (%)	13.4	14.8		14.3		12.2		13.4		13.0	

Source(s): Company data, FnGuide, KB Securities estimates

Table 2. Earnings Estimate Revisions

(KRWbn)	Previous			Revised			Change (%)		
	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
Revenue	3,586.9	3,891.8	4,230.3	3,633.2	3,991.1	4,343.8	1.3	2.6	2.7
OP	617.3	664.4	712.1	677.9	736.2	789.7	9.8	10.8	10.9
EBT	588.6	637.9	687.8	659.3	706.3	761.9	12.0	10.7	10.8
NP (to control. int.)	436.4	473.0	510.0	485.1	523.7	564.9	11.2	10.7	10.8
EPS (KRW)	6,015	6,519	7,029	6,686	7,218	7,786	11.2	10.7	10.8
YoY (%)									
Revenue	10.8	8.5	8.7	12.2	9.9	8.8			
OP	1.8	7.6	7.2	11.8	8.6	7.3			
EBT	8.9	8.4	7.8	22.0	7.1	7.9			
NP (to control. int.)	7.8	8.4	7.8	19.8	7.9	7.9			
EPS	9.6	8.4	7.8	21.9	7.9	7.9			
OPM (%)	17.2	17.1	16.8	18.7	18.4	18.2			
EBT margin (%)	16.4	16.4	16.3	18.1	17.7	17.5			
NPM (to control. int.) (%)	12.2	12.2	12.1	13.4	13.1	13.0			

Source(s): Company data, KB Securities estimates

Note: Previous estimates based on data as of Feb 22, 2021

Table 3. Earnings & Estimates (consolidated)

(KRWbn)		1Q20	2Q20	3Q20	4Q20	1Q21	2Q21E	3Q21E	4Q21E	2019	2020P	2021E	2022E	2023E
Revenue		768.9	805.5	800.4	862.6	879.0	900.0	909.4	944.7	3,018.9	3,237.4	3,633.2	3,991.1	4,343.8
Standalone		628.5	655.4	641.5	667.2	674.8	678.1	682.8	677.6	2,531.0	2,592.5	2,713.2	2,791.6	2,892.6
Malaysia		153.3	155.9	178.8	220.4	240.4	226.1	232.4	264.5	526.3	708.4	963.4	1,204.2	1,445.1
U.S.		27.2	32.1	51.8	41.4	42.9	41.7	41.4	49.7	97.3	152.5	175.8	202.1	228.4
Other subsidiaries		22.5	16.8	16.3	23.8	20.7	27.2	26.5	29.6	105.3	79.4	104.0	116.8	130.0
Cons. adj.		-62.6	-54.7	-88.0	-90.2	-99.8	-73.0	-73.7	-76.6	-241.0	-295.4	-323.1	-323.6	-352.2
YoY (%)	Revenue	8.4	6.6	5.4	8.6	14.3	11.7	13.6	9.5	11.5	7.2	12.2	9.9	8.8
	Standalone	3.6	3.2	-1.5	4.5	7.4	3.5	6.4	1.6	5.7	2.4	4.7	2.9	3.6
	Malaysia	36.3	22.2	33.8	44.4	56.8	45.0	30.0	20.0	48.9	34.6	36.0	25.0	20.0
	U.S.	30.1	36.0	130.2	36.6	57.7	30.0	-20.0	20.0	20.9	56.7	15.2	15.0	13.0
	Other subsidiaries	19.0	-37.8	-35.1	-30.6	-8.0	61.7	62.8	24.2	19.5	-24.6	30.9	12.4	11.3
	Cons. adj.	LTL	LTL	LTL	LTL	LTL	LTL	LTL	LTL	LTL	LTL	LTL	LTL	LTL
Proportion (%)	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	100.0
	Standalone	81.7	81.4	80.1	77.3	76.8	75.3	75.1	71.7	83.8	80.1	74.7	69.9	66.6
	Malaysia	19.9	19.4	22.3	25.6	27.3	25.1	25.6	28.0	17.4	21.9	26.5	30.2	33.3
	U.S.	3.5	4.0	6.5	4.8	4.9	4.6	4.6	5.3	3.2	4.7	4.8	5.1	5.3
	Other subsidiaries	2.9	2.1	2.0	2.8	2.4	3.0	2.9	3.1	3.5	2.5	2.9	2.9	3.0
	Cons. adj.	-8.1	-6.8	-11.0	-10.5	-11.4	-8.1	-8.1	-8.1	-8.0	-9.1	-8.9	-8.1	-8.1
Operating profit		138.9	169.2	168.6	129.8	170.7	168.9	173.9	164.3	458.3	606.4	677.9	736.2	789.7
Standalone		115.7	136.0	124.9	78.9	112.0	120.0	124.9	108.4	394.7	455.5	465.4	488.4	506.1
Malaysia		25.2	23.3	29.6	52.0	56.1	45.2	46.5	52.9	75.6	130.1	200.7	228.8	260.1
U.S.		2.6	4.9	11.8	0.5	5.7	4.2	2.5	3.0	3.3	19.8	15.3	16.2	18.3
Other subsidiaries		-1.5	-2.4	-3.8	-3.3	-5.8	-2.2	-1.7	-1.6	-2.9	-11.0	-11.3	-4.4	-2.6
Cons. adj.		-3.1	7.4	6.1	1.7	2.7	1.7	1.7	1.6	-12.4	12.0	7.7	7.3	7.8
YoY (%)	OP	2.7	22.4	20.2	190.9	23.0	-0.2	3.2	26.6	-11.8	32.3	11.8	8.6	7.3
	Standalone	-5.5	22.8	-10.2	252.7	-3.2	-11.7	0.0	37.4	-17.3	15.4	2.2	4.9	3.6
	Malaysia	31.9	5.4	108.5	157.4	122.6	94.0	57.1	1.7	21.3	72.1	54.3	14.0	13.7
	U.S.	225.0	1,125.0	TTP	-83.3	119.2	-14.8	-78.9	496.2	6.5	500.0	-22.5	5.4	13.0
	Other subsidiaries	LTL	TTL	TTL	LTL	LTL	LTL	LTL	LTL	LTL	LTL	LTL	LTL	LTL
	Cons. adj.	LTL	100.5	TTP	161.4	TTP	-77.4	-71.7	-4.4	LTL	TTP	-35.7	-5.7	7.3
OPM (%)	OP	18.1	21.0	21.1	15.0	19.4	18.8	19.1	17.4	15.2	18.7	18.7	18.4	18.2
	Standalone	18.4	20.7	19.5	11.8	16.6	17.7	18.3	16.0	15.6	17.6	17.2	17.5	17.5
	Malaysia	16.4	14.9	16.6	23.6	23.3	20.0	20.0	20.0	14.4	18.4	20.8	19.0	18.0
	U.S.	9.6	15.3	22.8	1.2	13.3	10.0	6.0	6.0	3.4	13.0	8.7	8.0	8.0
	Other subsidiaries	-6.6	-14.3	-23.3	-13.9	-28.0	-8.1	-6.5	-5.4	-2.8	-13.8	-10.9	-3.8	-2.0
	Cons. adj.	5.0	-13.5	-6.9	-1.9	-2.7	-2.3	-2.3	-2.1	5.1	-4.1	-2.4	-2.3	-2.2
Proportion (%)	OP	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	Standalone	83.3	80.4	74.1	60.8	65.6	71.1	71.8	66.0	86.1	75.1	68.7	66.3	64.1
	Malaysia	18.1	13.8	17.6	40.1	32.9	26.8	26.7	32.2	16.5	21.5	29.6	31.1	32.9
	U.S.	1.9	2.9	7.0	0.4	3.3	2.5	1.4	1.8	0.7	3.3	2.3	2.2	2.3
	Other subsidiaries	-1.1	-1.4	-2.3	-2.5	-3.4	-1.3	-1.0	-1.0	-0.6	-1.8	-1.7	-0.6	-0.3
Gross profit		521.7	554.8	536.3	580.7	579.8	616.3	605.8	632.2	2,008.5	2,193.5	2,434.1	2,657.8	2,875.2
EBT		138.3	159.5	149.2	93.3	174.7	162.1	167.2	155.3	451.4	540.4	659.3	706.3	761.9
NP (to control. int.)		101.6	119.0	116.8	67.5	125.8	120.2	124.0	115.1	332.9	404.9	485.1	523.7	564.9
EBITDA		275.7	303.4	304.6	265.9	304.4	293.7	298.7	280.2	973.4	1,149.7	1,177.1	1,236.8	1,291.2
YoY (%)	Gross profit	9.5	9.6	5.4	12.4	11.1	11.1	12.9	8.9	9.8	9.2	11.0	9.2	8.2
	EBT	2.1	16.6	-2.0	247.9	26.3	1.6	12.0	66.4	-3.7	19.7	22.0	7.1	7.9
	NP (to control. int.)	1.1	16.7	5.5	242.0	23.8	1.1	6.1	70.7	-4.9	21.6	19.8	7.9	7.9
	EBITDA	33.7	43.0	39.8	-21.1	10.4	-3.2	-1.9	5.4	25.5	18.1	2.4	5.1	4.4
GPM (%)		67.8	68.9	67.0	67.3	66.0	68.5	66.6	66.9	66.5	67.8	67.0	66.6	66.2
EBT margin (%)		18.0	19.8	18.6	10.8	19.9	18.0	18.4	16.4	15.0	16.7	18.1	17.7	17.5
NPM (to control. Int.) (%)		13.2	14.8	14.6	7.8	14.3	13.4	13.6	12.2	11.0	12.5	13.4	13.1	13.0
EBITDA margin (%)		35.9	37.7	38.1	30.8	34.6	32.6	32.8	29.7	32.2	35.5	32.4	31.0	29.7

Source(s): Company data, KB Securities estimates

Note: TTP = turn to profit, TTL = turn to loss, LTL = loss to loss

Table 4. Earnings & Estimates (standalone)

(KRWbn)		1Q20	2Q20	3Q20	4Q20	1Q21	2Q21E	3Q21E	4Q21E	2019	2020	2021E	2022E	2023E
Revenue		628.5	655.4	641.5	667.2	674.8	678.1	682.8	677.6	2,531.0	2,592.5	2,713.2	2,791.6	2,892.6
Domestic home appliance		529.4	552.9	507.4	537.5	538.5	556.5	547.8	544.9	2,111.2	2,127.2	2,187.8	2,241.6	2,291.6
Rental		401.9	405.3	399.5	389.7	394.4	396.7	406.3	397.2	1,572.6	1,596.4	1,594.5	1,611.1	1,631.3
Home care		68.9	87.1	57.3	90.8	98.0	108.9	97.3	99.9	258.4	304.1	404.1	444.5	480.1
Membership		24.7	25.9	24.6	24.0	24.1	23.4	22.8	21.8	107.3	99.2	92.2	85.5	80.9
Lump-sum payment		30.9	31.9	23.6	27.6	18.8	24.6	18.6	22.3	161.3	114.0	84.3	88.2	87.3
Other		3.1	2.6	2.4	5.4	3.1	2.9	2.8	3.8	11.7	13.5	12.6	12.3	12.1
Exports		81.8	85.2	120.3	117.3	124.6	108.6	122.0	119.1	343.5	404.7	474.3	495.5	545.4
Cosmetics		17.3	17.3	13.7	12.3	11.6	13.0	13.0	13.6	76.3	60.6	51.1	54.5	55.6
YoY (%)	Revenue	3.6	3.2	-1.5	4.5	7.4	3.5	6.4	1.6	5.7	2.4	4.7	2.9	3.6
	Domestic HA	2.3	3.8	-5.1	2.1	1.7	0.7	8.0	1.4	4.6	0.8	2.8	2.5	2.2
	Rental	4.5	3.5	0.7	-2.5	-1.9	-2.1	1.7	1.9	2.9	1.5	-0.1	1.0	1.3
	Home care	22.4	28.8	-21.4	47.6	42.2	25.0	70.0	10.0	39.6	17.7	32.9	10.0	8.0
	Membership	-11.5	-4.0	-8.0	-6.6	-2.1	-9.4	-7.2	-9.1	-11.5	-7.6	-7.0	-7.4	-5.4
	Lump-sum	-32.3	-26.7	-33.4	-24.7	-39.0	-23.0	-21.3	-19.2	-5.6	-29.3	-26.1	4.6	-1.1
	Other	1.7	-9.2	-10.9	76.8	1.9	10.0	15.0	-30.0	-8.6	15.6	-6.9	-2.0	-2.0
	Exports	16.7	1.7	22.9	28.0	52.3	27.5	1.3	1.6	13.6	17.8	17.2	4.5	10.1
	Cosmetics	-8.6	-7.8	-26.3	-38.6	-32.9	-25.0	-5.0	10.0	1.1	-20.6	-15.6	6.5	2.0
Proportion (%)	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	100.0
	Domestic HA	84.2	84.4	79.1	80.6	79.8	82.1	80.2	80.4	83.4	82.1	80.6	80.3	79.2
	Rental	63.9	61.8	62.3	58.4	58.5	58.5	59.5	58.6	62.1	61.6	58.8	57.7	56.4
	Home care	11.0	13.3	8.9	13.6	14.5	16.1	14.3	14.7	10.2	11.7	14.9	15.9	16.6
	Membership	3.9	4.0	3.8	3.6	3.6	3.5	3.3	3.2	4.2	3.8	3.4	3.1	2.8
	Lump-sum	4.9	4.9	3.7	4.1	2.8	3.6	2.7	3.3	6.4	4.4	3.1	3.2	3.0
	Other	0.5	0.4	0.4	0.8	0.5	0.4	0.4	0.6	0.5	0.5	0.5	0.4	0.4
	Export	13.0	13.0	18.8	17.6	18.5	16.0	17.9	17.6	13.6	15.6	17.5	17.7	18.9
	Cosmetics	2.8	2.6	2.1	1.8	1.7	1.9	1.9	2.0	3.0	2.3	1.9	2.0	1.9
OP	115.7	136.0	124.9	78.9	112.0	120.0	124.9	108.4	394.7	455.5	465.4	488.4	506.1	
YoY (%)	-5.5	22.8	-10.2	252.7	-3.2	-11.7	0.0	37.4	-17.3	15.4	2.2	4.9	3.6	
OPM (%)	18.4	20.7	19.5	11.8	16.6	17.7	18.3	16.0	15.6	17.6	17.2	17.5	17.5	
Key rental assumptions														
Total accounts ('000)		5,740.4	5,773.4	5,762.3	5,809.0	5,842.4	5,861.6	5,914.1	5,936.7	5,687.7	5,809.0	5,936.7	6,126.9	6,282.7
New ('000)		377.5	355.5	285.3	335.5	321.0	348.4	342.3	352.3	1,572.1	1,353.8	1,364.0	1,464.1	1,478.7
Churns ('000)		189.2	179.0	162.9	172.9	174.3	175.3	175.8	177.4	659.1	703.9	702.8	721.2	742.9
Expiries ('000)		135.6	143.5	133.6	115.9	113.3	153.8	114.0	152.2	455.0	528.6	533.4	552.7	580.0
Monthly ARPU (KRW)		27,465	28,513	26,398	27,684	28,176	28,798	28,510	27,960	27,952	27,552	28,360	28,400	28,357
Monthly avg. churn (%)		1.11	1.04	0.94	1.00	1.00	1.00	1.00	1.00	1.05	1.03	1.01	1.01	1.01
Expiries (%)		39.8	38.7	39.6	32.3	32.3	40.0	40.0	40.0	34.2	37.5	38.1	40.0	40.0
Key membership assumptions														
Total accounts ('000)		572.4	555.3	544.2	526.2	515.8	505.3	495.2	478.8	593.8	526.2	478.8	445.3	423.0
Monthly ARPU ('000 KRW)		14.1	15.3	14.9	14.9	15.4	15.3	15.2	14.9	14.1	14.8	15.3	15.4	15.5
Key lump-sum assumptions														
New sales ('000)		34.9	30.6	24.3	24.9	16.7	21.4	18.2	19.9	194.2	114.7	76.3	78.2	75.8
ARPU ('000 KRW)		885.1	1,042.6	971.9	1,107.9	1,127.8	1,146.8	1,020.5	1,118.9	830.5	993.9	1,105.2	1,128.1	1,150.7
Obsolescence loss (cons.) (KRWbn)		23.6	20.7	17.0	16.3	13.8	14.5	15.1	14.0	51.2	77.6	57.4	62.8	65.3

Source(s): Company data, KB Securities estimates

Note: Churns and expiries are based on KB Securities estimates

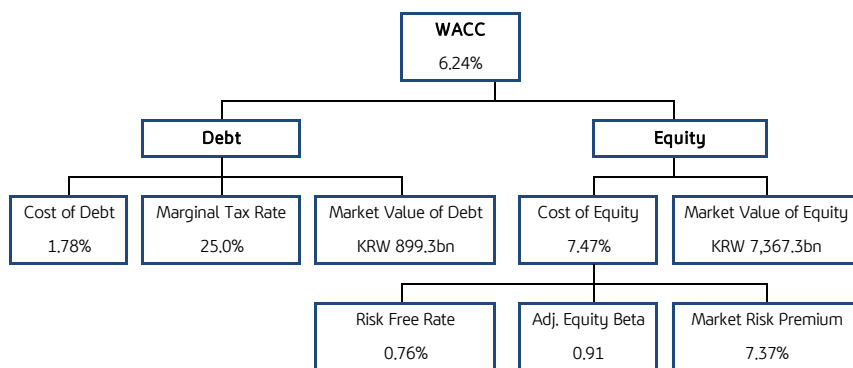
Table 5. TP Calculation: Discounted Cash Flow Model

(KRWbn)		2020	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Cash flow estimates									
OP	a	606.4	677.9	736.2	789.7	828.8	861.9	863.1	863.6
Effective tax rate (%)	b	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0
NOPLAT	$C=a*(1-b)$	454.8	508.4	552.2	592.3	621.6	646.5	647.4	647.7
D&A	d	543.3	499.2	500.6	501.5	501.4	501.4	501.4	501.4
Total cash flow	$E=C+d$	998.1	1,007.6	1,052.7	1,093.7	1,123.0	1,147.9	1,148.8	1,149.1
Total investment	$F=g+h$	-892.2	-716.3	-616.3	-614.0	-700.0	-700.0	-800.0	-800.0
Change in working capital	g	-567.0	-316.3	-116.3	-114.0	-150.0	-150.0	-200.0	-200.0
Capex	h	-325.2	-400.0	-500.0	-500.0	-550.0	-550.0	-600.0	-600.0
FCFF	$I=E+F$	106.0	291.4	436.4	479.7	423.0	447.9	348.8	349.1
PV of cash flows									
Discount rate				2.8%	9.2%	16.1%	23.3%	31.0%	
PV of FCFF				191.9	439.1	364.5	363.2	266.2	
Total PV of FCFF (2022E-26E)	j		1,625.0						
Terminal growth rate (%)			1.6%				30y KTB yield		
Terminal value (2027E)			7,520.1				2027E FCFF / (WACC - TGR)		
PV of terminal value	k		5,740.4				6.24% WACC (0.76% risk-free rate; 7.37% market risk premium)		
Valuation									
Total cash flow (PV)	$L=j+k$		7,365.4						
Cash & cash equivalents	m		550.1						
Short-term financial assets	n		327.6						
Debt	o		875.8						
Fair enterprise value	$P=L+(m+n+o)$		7,367.3						
No. of shares ('000)	q		72,556						
Target price (KRW)	$R=P/q$		100,000						
Current price (KRW)			77,800				Jul 19, 2021		
Upside (%)			28.5						
12m fwd implied P/E (x)			14.4						
12m fwd implied P/B (x)			3.47						

Source(s): Company data, KB Securities estimates

Fig 1. WACC Calculation

- (1) Cost of debt is 1.78% (YTD yield of Coway's 1y KRW-based bonds; market value of debt based on total financial liabilities as of end-1Q21
- (2) Cost of equity derived using CAPM; risk-free rate is 1y monetary stabilization bond yield; equity beta is Coway's 52w adj. beta; market risk premium is difference between historical avg. of WMI500 return and 1y market stabilization bond yield
- (3) Shareholders' equity derived by multiplying total no. of outstanding shares by target price



Source(s): KB Securities estimates

Table 6. TP Sensitivity to WACC & TGR

(KRW)		Terminal Growth Rate						
		1.0%	1.2%	1.4%	1.6%	1.8%	2.0%	2.2%
WACC	5.24%	113,274	117,741	122,674	128,149	134,259	141,124	148,890
	5.44%	108,370	112,402	116,832	121,723	127,151	133,210	140,017
	5.64%	103,888	107,541	111,538	115,931	120,781	126,164	132,172
	5.84%	99,775	103,098	106,720	110,684	115,039	119,849	125,186
	6.04%	95,986	99,020	102,315	105,907	109,837	114,156	118,925
	6.24%	92,486	95,264	98,273	100,000	105,102	108,999	113,282
	6.44%	89,241	91,794	94,549	97,532	100,773	104,304	108,169
	6.64%	86,225	88,577	91,109	93,841	96,800	100,013	103,515
	6.84%	83,415	85,587	87,920	90,431	93,140	96,074	99,260
	7.04%	80,789	82,801	84,956	87,269	89,759	92,446	95,355
7.24%	78,331	80,198	82,194	84,331	86,625	89,094	91,759	

Source(s): Company data, KB Securities estimates

Table 7. WACC Revision

(KRWbn, %)		Previous (2/22/2021)	Adjusted (7/19/2021)	Notes
Cost of equity	A = B + C x D	7.27	7.47	
Risk-free rate	B	0.71	0.76	Avg. 1y MSB yield (last three months)
Adj. beta	C	0.89	0.91	52w adj. beta
Raw beta		0.52	0.67	
R ²		0.23	0.27	
Risk premium	D = E - F	7.37	7.37	
Market return	E	10.97	10.97	2001-20 annual avg. WMI500 total return
Risk-free rate	F	3.61	3.61	2001-20 annual avg. 1y MSB total return
Cost of debt	G	0.86	1.78	YTD yield of KRW-based 1y bonds
Fair shareholder value (KRWbn)		6,734.4	7,367.3	Value of outstanding shares based on TP
Debt (KRWbn)		836.9	899.3	Total financial liabilities as of end-1Q21
Weight of equity	H	80.0	80.0	
Weight of debt	I	20.0	20.0	
WACC	J = (A x H) + (G x I)	5.94	6.24	
Terminal growth rate		1.60%	1.60%	

Source(s): Company data, KB Securities estimates

Income Statement					
(KRWbn)	2019A	2020A	2021E	2022E	2023E
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
Revenue	3,019	3,237	3,633	3,991	4,344
Cost of revenue	1,010	1,044	1,199	1,333	1,469
Gross profit	2,009	2,194	2,434	2,658	2,875
SG&A expenses	1,550	1,587	1,756	1,922	2,085
Operating profit	458	606	678	736	790
EBITDA	973	1,150	1,177	1,237	1,291
Non-operating accounts	-7	-66	-19	-30	-28
Interest income	1	1	2	2	3
Interest expenses	22	21	21	22	20
Profit on equity method	0	0	0	0	0
Net other non-operating income	14	-46	0	-10	-10
Profit before tax	451	540	659	706	762
Income tax expense	119	136	175	184	198
Net profit	332	405	484	523	564
NP attributable to controlling interests	333	405	485	523	564
Adj. net profit	333	405	485	523	564

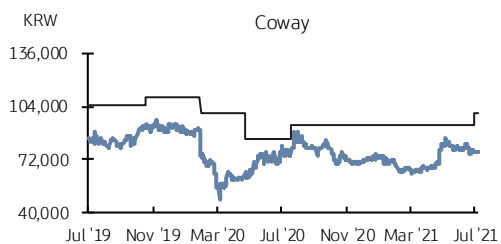
Operating Statistics & Ratios					
(%)	2019A	2020A	2021E	2022E	2023E
Revenue growth	11.5	7.2	12.2	9.9	8.8
OP growth	-11.8	32.3	11.8	8.6	7.3
EBITDA growth	25.5	18.1	2.4	5.1	4.4
NP growth of parent	-4.9	21.6	19.7	7.9	7.9
GP margin	66.5	67.8	67.0	66.6	66.2
OP margin	15.2	18.7	18.7	18.5	18.2
EBITDA margin	32.2	35.5	32.4	31.0	29.7
EBT margin	15.0	16.7	18.2	17.7	17.5
NP margin of parent	11.0	12.5	13.3	13.1	13.0

Statement of Cash Flows					
(KRWbn)	2019A	2020A	2021E	2022E	2023E
Cash flow from operating activities	539	563	738	907	951
Net profit	332	405	484	523	564
Depreciation & amortization	515	543	499	501	501
Other non-cash adjustments	412	373	224	184	198
Investments in working capital	-571	-567	-316	-116	-114
Decrease(Increase) in receivables	-4	-22	-12	-35	-38
Decrease(Increase) in inventory	-5	-25	-25	-16	-18
Increase(Decrease) in payables	-9	43	-15	6	6
Investments in other working capital	-553	-563	-265	-71	-64
Other operating cash flow	-148	-191	-153	-184	-198
Cash flow from investing activities	-383	-323	-398	-520	-521
Capital expenditure	-366	-325	-400	-500	-500
Investments in intangibles	-3	-1	-4	-4	-4
Changes in investment assets	-5	0	-6	0	0
Other investment cash flow	-9	4	12	-16	-17
Cash flow from financing activities	-165	-182	93	-153	-152
Proceeds from (repayment of) debt	114	-182	110	-63	-59
Changes in equity	2	20	0	0	0
Dividends paid	-260	0	-87	-91	-94
Other financing cash flow	-21	-20	70	1	1
Other cash flow	0	-3	1	0	0
Increase/decrease in cash	-9	55	434	234	278
Cash and cash equivalents at FYE	61	116	550	784	1,062
Free cash flow	173	238	338	407	451
Net cash flow	-72	309	332	313	354
Net cash (net debt)	-639	-330	2	315	669

Source(s): Company data, KB Securities estimates

Statement of Financial Position					
(KRWbn)	2019A	2020A	2021E	2022E	2023E
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
Total assets	2,855	3,029	3,637	3,942	4,298
Current assets	767	897	1,421	1,724	2,077
Cash and cash equivalents	61	116	550	784	1,062
Current financial assets	214	298	328	344	361
Trade receivables	310	317	349	384	422
Inventory	113	134	161	177	195
Other current assets	69	32	34	36	37
Non-current assets	2,088	2,132	2,215	2,218	2,220
Investment assets	43	23	21	21	21
Property, plant and equipment	1,271	1,225	1,187	1,192	1,196
Intangible assets	168	140	137	134	133
Other non-current assets	606	744	871	871	871
Total liabilities	1,778	1,539	1,747	1,621	1,507
Current liabilities	1,587	1,417	1,200	1,094	999
Trade payables	58	69	74	80	87
Short-term financial liabilities	876	715	429	386	347
Other current liabilities	653	634	697	628	565
Non-current liabilities	191	122	547	528	508
Non-current financial liabilities	38	29	447	427	407
Other non-current liabilities	153	93	100	101	101
Total equity	1,077	1,490	1,889	2,321	2,791
Issued capital	41	41	41	41	41
Share premium	132	148	148	148	148
Other equity interest	-50	-48	-48	-48	-48
Accumulated other comprehensive income	1	-14	-9	-9	-9
Retained earnings	954	1,365	1,760	2,192	2,662
Controlling interests	1,078	1,491	1,891	2,323	2,793
Non-controlling interests	-1	-1	-2	-2	-2

Key Ratios					
(x, %, KRW)	2019A	2020A	2021E	2022E	2023E
Multiples					
P/E	20.6	13.3	11.8	11.0	10.2
P/B	6.4	3.6	3.0	2.5	2.1
P/S	2.3	1.7	1.6	1.4	1.3
EV/EBITDA	7.7	5.0	4.9	4.4	3.9
EV/EBIT	16.4	9.4	8.5	7.4	6.4
Dividend yield, ordinary (%)	2.6	1.7	1.6	1.7	1.7
EPS	4,511	5,486	6,566	7,085	7,643
BVPS	14,611	20,207	25,622	31,478	37,843
SPS	40,907	43,868	49,231	54,080	58,859
DPS (annual, ordinary)	2,400	1,200	1,250	1,300	1,350
Cash dividends payout ratio (%)	52.1	21.5	18.7	18.0	17.4
Operating performance					
ROE	30.7	31.5	28.7	24.8	22.1
ROA	12.7	13.8	14.5	13.8	13.7
ROIC	21.1	27.2	28.4	29.5	29.8
Financial structure (%)					
Total liab./equity	165.0	103.3	92.5	69.8	54.0
Net debt/equity	59.3	22.2	Net Cash	Net Cash	Net Cash
Current ratio	0.5	0.6	1.2	1.6	2.1
Interest coverage (x)	20.9	28.6	32.4	33.5	38.8
Activity ratios					
Asset turnover (x)	1.2	1.1	1.1	1.1	1.1
Receivables turnover (x)	9.9	10.3	10.9	10.9	10.8
Payables turnover (x)	50.1	51.1	50.9	51.7	52.1
Inventory turnover (x)	28.0	26.2	24.7	23.6	23.4



Coway (021240)

Date	Rating	Target Price (KRW)	Differential (%)	
			Avg.	Max/Min
May-17-2019	Buy	105,000	-21.25	
Nov-06-2019	Buy	110,000	-17.46	-12.27
Feb-17-2020	Buy	100,000	-36.78	-24.80
May-11-2020	Buy	85,000	-15.70	-5.76
Aug-06-2020	Buy	93,000	-20.33	-4.62
Jul-19-2021	Buy	100,000		

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Classification and Standards for Investment Rating

Investment Rating for Company

(based on estimation of 12-month absolute returns)

Buy: +15% or beyond	Hold: Between 15% and -15%	Sell: -15% or beyond
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Note: KB Securities' classification of investment ratings has shifted from four stages (Strong BUY, BUY, Marketperform, Underperform) to three stages (Buy, Hold, Sell) based on Korean reports since February 23, 2017.

KB Securities' standards for stock rating shifted starting on Feb 10, 2020 from an estimation of six-month absolute returns to an estimation of 12-month absolute returns.

Investment Rating for Industry

(based on estimation of 12-month absolute returns)

Positive: To outperform market	Neutral: To match market performance	Negative: To underperform market
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Notes: The industry rating system of KB Securities has shifted from (Overweight, Neutral, Underweight) to (Positive, Neutral, Negative) as of Jun 28, 2017.

KB Securities' standards for industry rating shifted starting on Feb 10, 2020 from an estimation of six-month absolute returns to an estimation of 12-month absolute returns.

Proportion of investment rating (as of June 30, 2021)

Buy	Hold	Sell
81.1	18.9	-

* Note: Based on reports presented with investment ratings over the past one year

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