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Raise target price 5% to KRW105,000; valuations still attractive

We maintain BUY on Coway and slightly raise our TP by 5% to KRW105,000 to reflect 4-5% upward revisions to 2022E/2023E OP. Valuations are still attractive, with the stock trading at 12.0x 12m fwd P/E. Since being acquired by Netmarble, Coway has focused on (1) developing innovating products (e.g., Icon water purifier, Noble air purifier), (2) spurring growth by reinforcing its global presence, (3) pushing forward with digitalization and (4) strengthening marketing efforts.

3Q21 earnings uncertainty due to lockdown in Malaysia

While domestic business serves as a stable cash cow, overseas business is expected to continue with double-digit OP growth, particularly for Malaysia and the U.S., where sales are growing rapidly. However, the Delta variant poses short-term risk. Since Malaysia went into nationwide lockdown on Jun 1, sales of water purifiers and mattresses requiring installation services have been plunging. Currently, only air purifiers are being sold (via parcel delivery). As it is uncertain when the lockdown will be lifted, 3Q21 earnings visibility is limited. From a mid- to long-term perspective, however, the lockdown should not significantly erode fundamentals. Coway may even benefit from the release of pent-up demand post-lockdown.

2Q21 review: Earnings meet market consensus; Malaysia earnings surge 156%; Korea and U.S. earnings deteriorate

Coway posted 2Q21 consolidated revenue of KRW905.4bn (+12% YoY) and OP of KRW166.4bn (-2% YoY), both in line with the market consensus. Stripping away a KRW13.5bn one-off gain recorded in 2Q20, OP would have grown 7% YoY. Domestic standalone revenue/OP reached KRW710.9bn (+9% YoY)/KRW122.3bn (-10% YoY).

Buy Maintain

Target Price (Raised)	KRW105,000
Dividend yield*	1.5%
Total return	24.6%
Current price (Aug 6)	KRW85,300
Consensus target price	KRW99,700
Market capitalization	USD5.5bn

* 12-month forward

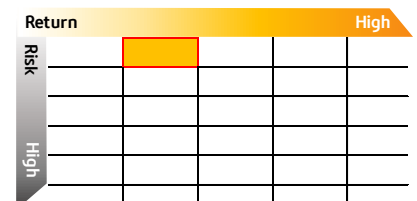
Trading Data

Free float	73.2%
Avg. T/O val. (3m, KRWbn)	20.9
Foreign ownership	59.5%
Major shareholders	Netmarble and 6 others 25.1%
	National Pension Service 8.5%

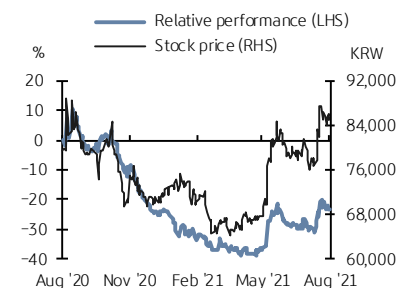
Stock Price Performance

(%)	1M	3M	6M	12M
Absolute	7.3	25.8	21.7	7.3
Relative	8.4	22.3	16.1	-23.1

Risk & Total Return (annualized over three years)



Stock Price & Relative Performance



Source(s): Company data, KB Securities

Earnings Forecast & Valuation

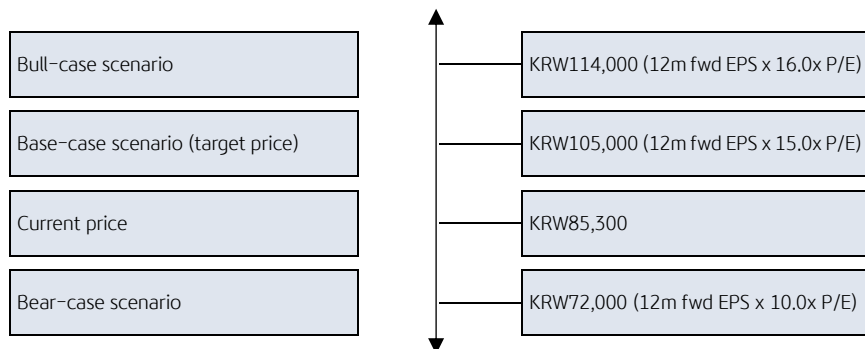
Fiscal year-end	2020A	2021E	2022E	2023E
Revenue (KRWbn)	3,237	3,607	4,002	4,387
OP (KRWbn)	606	668	771	824
NP to control. int. (KRWbn)	405	475	549	590
EPS (KRW)	5,486	6,433	7,436	7,990
EPS growth (%)	21.6	17.3	15.6	7.5
P/E (x)	13.3	13.3	11.5	10.7
EV/EBITDA (x)	5.0	5.4	4.7	4.2
P/B (x)	3.6	3.3	2.7	2.2
ROE (%)	31.5	28.2	26.0	22.8
Div. yield (%)	1.7	1.5	1.5	1.6

Factoring out one-offs from the previous year, revenue would have grown 13% YoY and OP would have slid just 0.2% YoY:

- (1) New rental sales and lump-sum sales contracted 4% YoY and 53% YoY, respectively, as sales activity was limited by the pandemic.
- (2) Monthly churn remained stable at around 1.0%, bolstering the net increase in accounts to an expectation-beating level of 61,000 (+84% YoY).
- (3) OPM reached 17.2%, just missing the consensus of 17.7% because of increased investments in R&D and marketing.

Revenue/OP surged 52% YoY/156% YoY at the Malaysia subsidiary despite the lockdown; OPM jumped 10pp YoY to 25%. Meanwhile, revenue at the U.S. subsidiary climbed 36% YoY, but OP plunged 82% YoY, as participation in Amazon's Prime Day sale (the biggest shopping event for Amazon Prime members), pushed up promotional costs in June.

Investment Opinion & Risks



Base-case scenario: Catalysts

- 1) 2020-23 domestic revenue CAGR at 4%
- 2) 2020-23 overseas CAGR revenue at 27%

Bull-case scenario: Upside risks

- 1) 2020-23 domestic revenue CAGR above 4%
- 2) 2020-23 overseas revenue CAGR above 27%

Bear-case scenario: Downside risks

- 1) 2020-23 domestic revenue CAGR below 4%
- 2) 2020-23 overseas revenue CAGR below 27%

Revised Earnings Estimates

(KRWbn, %)	Previous		Revised		Change	
	2021E	2022E	2021E	2022E	2021E	2022E
Revenue	3,633.2	3,991.1	3,607.2	4,001.7	-0.7	0.3
OP	677.9	736.2	667.8	771.2	-1.5	4.7
NP (to control. int.)	485.1	523.7	475.1	549.6	-2.1	4.9

Source(s): KB Securities estimates

KB Estimates vs. Consensus

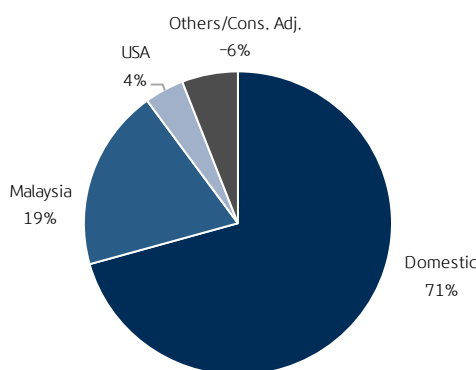
(KRWbn, %)	KB Estimates		Consensus		Difference	
	2021E	2022E	2021E	2022E	2021E	2022E
Revenue	3,607.2	4,001.7	3,609.8	3,964.4	-0.1	0.9
OP	667.8	771.2	657.0	726.4	1.6	6.2
NP (to control. int.)	475.1	549.6	472.6	525.0	0.5	4.7

Source(s): FnGuide, KB Securities estimates

Valuation & Target Price Calculation

- 1) Valuation method:
Discounted cash flow model
- 2) Target price calculation:
6.41% WACC; 1.6% TGR
- 3) Target price range:
KRW72,000 - KRW114,000
- 4) Valuation at target price:
14.7x 12m fwd implied P/E, 3.59x 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	6,295.1	12.1	16.4	2.92	24.1	5.1	5.2
Amorepacific	13,357.8	39.7	257.7	3.18	8.0	12.4	34.1
LG H&H	22,771.3	27.0	11.6	4.34	16.1	13.7	7.2

Source(s): KB Securities estimates

Table 1. 2Q21 Results (Consolidated)

(KRWbn)	2Q21P	2Q20	YoY (%)	1Q21	QoQ (%)	Consensus	Diff. (%)	KB Est.	Diff. (%)
Revenue	905.4	805.5	12.4	879.0	3.0	896.4	1.0	900.0	0.6
OP	166.4	169.2	-1.6	170.7	-2.5	165.0	0.9	168.9	-1.5
EBT	159.9	159.5	0.3	174.7	-8.5	155.0	3.2	162.1	-1.3
NP	115.9	119.0	-2.6	125.8	-7.9	117.2	-1.2	120.2	-3.6
OPM (%)	18.4	21.0		19.4		18.4		18.8	
EBT margin (%)	17.7	19.8		19.9		17.3		18.0	
NPM (%)	12.8	14.8		14.3		13.1		13.4	

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		3,633.2	3,991.1	4,343.8	3,607.2	4,001.7	4,386.8	-0.7	0.3	1.0
OP		677.9	736.2	789.7	667.8	771.2	824.2	-1.5	4.7	4.4
EBT		659.3	706.3	761.9	649.4	741.2	796.4	-1.5	5.0	4.5
NP (to control. int.)		485.1	523.7	564.9	475.1	549.6	590.5	-2.1	4.9	4.5
EPS (KRW)		6,686	7,218	7,786	6,548	7,575	8,139	-2.1	4.9	4.5
YoY (%)	Revenue	12.2	9.9	8.8	11.4	10.9	9.6			
	OP	11.8	8.6	7.3	10.1	15.5	6.9			
	EBT	22.0	7.1	7.9	20.2	14.1	7.4			
	NP (to control. int.)	19.8	7.9	7.9	17.3	15.7	7.4			
	EPS	21.9	7.9	7.9	19.4	15.7	7.4			
OPM (%)		18.7	18.4	18.2	18.5	19.3	18.8			
EBT margin (%)		18.1	17.7	17.5	18.0	18.5	18.2			
NPM (to control. int.) (%)		13.4	13.1	13.0	13.2	13.7	13.5			

Source(s): Company data, KB Securities estimates

Note: Previous estimates based on data as of July 19, 2021

Table 3. Earnings & Estimates (Consolidated)

(KRWbn)		1Q20	2Q20	3Q20	4Q20	1Q21	2Q21P	3Q21E	4Q21E	2019	2020	2021E	2022E	2023E
Revenue		768.9	805.5	800.4	862.6	879.0	905.4	877.5	945.3	3,018.9	3,237.4	3,607.2	4,001.7	4,386.8
Standalone		628.5	655.4	641.5	667.2	674.8	710.9	682.2	676.1	2,531.0	2,592.5	2,743.9	2,815.7	2,945.6
Malaysia		153.3	155.9	178.8	220.4	240.4	236.7	214.6	286.5	526.3	708.4	978.2	1,267.8	1,521.3
U.S.		27.2	32.1	51.8	41.4	42.9	35.8	41.4	49.7	97.3	152.5	169.8	196.7	224.3
Other subsidiaries		22.5	16.8	16.3	23.8	20.7	43.6	36.8	38.1	105.3	79.4	139.2	166.1	183.0
Cons. adj.		-62.6	-54.7	-88.0	-90.2	-99.8	-121.6	-97.5	-105.0	-241.0	-295.4	-423.9	-444.6	-487.4
YoY (%)	Revenue	8.4	6.6	5.4	8.6	14.3	12.4	9.6	9.6	11.5	7.2	11.4	10.9	9.6
	Standalone	3.6	3.2	-1.5	4.5	7.4	8.5	6.3	1.3	5.7	2.4	5.8	2.6	4.6
	Malaysia	36.3	22.2	33.8	44.4	56.8	51.8	20.0	30.0	48.9	34.6	38.1	29.6	20.0
	U.S.	30.1	36.0	130.2	36.6	57.7	11.5	-20.0	20.0	20.9	56.7	11.4	15.8	14.0
	Other subsidiaries	19.0	-37.8	-35.1	-30.6	-8.0	159.5	125.8	60.1	19.5	-24.6	75.3	19.3	10.2
	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	78.5	77.7	71.5	83.8	80.1	76.1	70.4	67.1
	Malaysia	19.9	19.4	22.3	25.6	27.3	26.1	24.5	30.3	17.4	21.9	27.1	31.7	34.7
	U.S.	3.5	4.0	6.5	4.8	4.9	4.0	4.7	5.3	3.2	4.7	4.7	4.9	5.1
	Other subsidiaries	2.9	2.1	2.0	2.8	2.4	4.8	4.2	4.0	3.5	2.5	3.9	4.1	4.2
	Cons. adj.	-8.1	-6.8	-11.0	-10.5	-11.4	-13.4	-11.1	-11.1	-8.0	-9.1	-11.8	-11.1	-11.1
Operating profit		138.9	169.2	168.6	129.8	170.7	166.4	164.8	165.8	458.3	606.4	667.8	771.2	824.2
Standalone		115.7	136.0	124.9	78.9	112.0	122.3	122.8	106.1	394.7	455.5	463.2	492.6	515.4
Malaysia		25.2	23.3	29.6	52.0	56.1	59.6	40.8	57.3	75.6	130.1	213.8	266.2	289.1
U.S.		2.6	4.9	11.8	0.5	5.7	0.9	2.5	3.0	3.3	19.8	12.1	15.7	17.9
Other subsidiaries		-1.5	-2.4	-3.8	-3.3	-5.8	-8.4	-4.5	-3.9	-2.9	-11.0	-22.6	-11.1	-6.3
Cons. adj.		-3.1	7.4	6.1	1.7	2.7	-7.9	3.2	3.3	-12.4	12.0	1.3	7.6	8.2
YoY (%)	OP	2.7	22.4	20.2	190.9	23.0	-1.6	-2.3	27.7	-11.8	32.3	10.1	15.5	6.9
	Standalone	-5.5	22.8	-10.2	252.7	-3.2	-10.1	-1.7	34.5	-17.3	15.4	1.7	6.3	4.6
	Malaysia	31.9	5.4	108.5	157.4	122.6	155.8	37.7	10.2	21.3	72.1	64.3	24.5	8.6
	U.S.	225.0	1,125.0	TTP	-83.3	119.2	-81.6	-78.9	496.2	6.5	500.0	-39.1	30.4	14.0
	Other subsidiaries	LTL	TTL	TTL	LTL	LTL	LTL	LTL	LTL	LTL	LTL	LTL	LTL	LTL
	Cons. adj.	LTL	100.5	TTP	161.4	TTP	TTL	-46.8	91.2	LTL	TTP	-89.5	502.4	6.9
OPM (%)	OP	18.1	21.0	21.1	15.0	19.4	18.4	18.8	17.5	15.2	18.7	18.5	19.3	18.8
	Standalone	18.4	20.7	19.5	11.8	16.6	17.2	18.0	15.7	15.6	17.6	16.9	17.5	17.5
	Malaysia	16.4	14.9	16.6	23.6	23.3	25.2	19.0	20.0	14.4	18.4	21.9	21.0	19.0
	U.S.	9.6	15.3	22.8	1.2	13.3	2.5	6.0	6.0	3.4	13.0	7.1	8.0	8.0
	Other subsidiaries	-6.6	-14.3	-23.3	-13.9	-28.0	-19.3	-12.3	-10.1	-2.8	-13.8	-16.2	-6.7	-3.5
	Cons. adj.	5.0	-13.5	-6.9	-1.9	-2.7	6.5	-3.3	-3.1	5.1	-4.1	-0.3	-1.7	-1.7
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	73.5	74.5	64.0	86.1	75.1	69.4	63.9	62.5
	Malaysia	18.1	13.8	17.6	40.1	32.9	35.8	24.7	34.6	16.5	21.5	32.0	34.5	35.1
	U.S.	1.9	2.9	7.0	0.4	3.3	0.5	1.5	1.8	0.7	3.3	1.8	2.0	2.2
	Other subsidiaries	-1.1	-1.4	-2.3	-2.5	-3.4	-5.0	-2.7	-2.3	-0.6	-1.8	-3.4	-1.4	-0.8
Gross profit		521.7	554.8	536.3	580.7	579.8	594.2	584.5	632.6	2,008.5	2,193.5	2,391.1	2,636.8	2,873.0
EBT		138.3	159.5	149.2	93.3	174.7	159.9	158.0	156.8	451.4	540.4	649.4	741.2	796.4
NP (to control. int.)		101.6	119.0	116.8	67.5	125.8	115.9	117.2	116.3	332.9	404.9	475.1	549.6	590.5
EBITDA		275.7	303.4	304.6	265.9	304.4	291.2	289.6	281.7	973.4	1,149.7	1,167.0	1,271.8	1,325.7
YoY (%)	Gross profit	9.5	9.6	5.4	12.4	11.1	7.1	9.0	8.9	9.8	9.2	9.0	10.3	9.0
	EBT	2.1	16.6	-2.0	247.9	26.3	0.2	5.9	68.0	-3.7	19.7	20.2	14.1	7.4
	NP (to control. int.)	1.1	16.7	5.5	242.0	23.8	-2.6	0.3	72.3	-4.9	21.6	17.3	15.7	7.4
	EBITDA	33.7	43.0	39.8	-21.1	10.4	-4.0	-4.9	5.9	25.5	18.1	1.5	9.0	4.2
GPM (%)		67.8	68.9	67.0	67.3	66.0	65.6	66.6	66.9	66.5	67.8	66.3	65.9	65.5
EBT margin (%)		18.0	19.8	18.6	10.8	19.9	17.7	18.0	16.6	15.0	16.7	18.0	18.5	18.2
NPM (to control. int.) (%)		13.2	14.8	14.6	7.8	14.3	12.8	13.4	12.3	11.0	12.5	13.2	13.7	13.5
EBITDA margin (%)		35.9	37.7	38.1	30.8	34.6	32.2	33.0	29.8	32.2	35.5	32.4	31.8	30.2

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	2Q21P	3Q21E	4Q21E	2019	2020	2021E	2022E	2023E	
Revenue	628.5	655.4	641.5	667.2	674.8	710.9	682.2	676.1	2,531.0	2,592.5	2,743.9	2,815.7	2,945.6	
Domestic home appliance	529.4	552.9	507.4	537.5	538.5	558.9	547.2	543.4	2,111.2	2,127.2	2,188.0	2,266.7	2,345.6	
Rental	401.9	405.3	399.5	389.7	394.4	388.7	409.4	401.1	1,572.6	1,596.4	1,593.7	1,635.9	1,683.2	
Home care	68.9	87.1	57.3	90.8	98.0	127.4	97.3	99.9	258.4	304.1	422.6	464.9	502.1	
Membership	24.7	25.9	24.6	24.0	24.1	23.7	22.8	22.1	107.3	99.2	92.7	85.9	81.3	
Lump-sum payment	30.9	31.9	23.6	27.6	18.8	15.8	14.9	16.6	161.3	114.0	66.1	67.4	66.7	
Other	3.1	2.6	2.4	5.4	3.1	3.2	2.8	3.8	11.7	13.5	12.9	12.7	12.4	
Exports	81.8	85.2	120.3	117.3	124.6	139.9	122.0	119.1	343.5	404.7	505.6	495.5	545.4	
Cosmetics	17.3	17.3	13.7	12.3	11.6	12.1	13.0	13.6	76.3	60.6	50.2	53.5	54.6	
YoY (%)	Revenue	3.6	3.2	-1.5	4.5	7.4	8.5	6.3	1.3	5.7	2.4	5.8	2.6	4.6
	Domestic HA	2.3	3.8	-5.1	2.1	1.7	1.1	7.8	1.1	4.6	0.8	2.9	3.6	3.5
	Rental	4.5	3.5	0.7	-2.5	-1.9	-4.1	2.5	2.9	2.9	1.5	-0.2	2.6	2.9
	Home care	22.4	28.8	-21.4	47.6	42.2	46.2	70.0	10.0	39.6	17.7	39.0	10.0	8.0
	Membership	-11.5	-4.0	-8.0	-6.6	-2.1	-8.4	-7.2	-8.1	-11.5	-7.6	-6.5	-7.4	-5.4
	Lump-sum	-32.3	-26.7	-33.4	-24.7	-39.0	-50.5	-37.0	-40.0	-5.6	-29.3	-42.0	2.0	-1.1
	Other	1.7	-9.2	-10.9	76.8	1.9	23.4	15.0	-30.0	-8.6	15.6	-4.3	-2.0	-2.0
	Exports	16.7	1.7	22.9	28.0	52.3	64.2	1.3	1.6	13.6	17.8	24.9	-2.0	10.1
	Cosmetics	-8.6	-7.8	-26.3	-38.6	-32.9	-30.3	-5.0	10.0	1.1	-20.6	-17.1	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	
	Domestic HA	84.2	84.4	79.1	80.6	79.8	78.6	80.2	80.4	83.4	82.1	79.7	80.5	79.6
	Rental	63.9	61.8	62.3	58.4	58.5	54.7	60.0	59.3	62.1	61.6	58.1	58.1	57.1
	Home care	11.0	13.3	8.9	13.6	14.5	17.9	14.3	14.8	10.2	11.7	15.4	16.5	17.0
	Membership	3.9	4.0	3.8	3.6	3.6	3.3	3.3	3.3	4.2	3.8	3.4	3.1	2.8
	Lump-sum	4.9	4.9	3.7	4.1	2.8	2.2	2.2	2.4	6.4	4.4	2.4	2.4	2.3
	Other	0.5	0.4	0.4	0.8	0.5	0.5	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	19.7	17.9	17.6	13.6	15.6	18.4	17.6	18.5
	Cosmetics	2.8	2.6	2.1	1.8	1.7	1.7	1.9	2.0	3.0	2.3	1.8	1.9	1.9
OP		115.7	136.0	124.9	78.9	112.0	122.3	122.8	106.1	394.7	455.5	463.2	492.6	515.4
YoY (%)		-5.5	22.8	-10.2	252.7	-3.2	-10.1	-1.7	34.5	-17.3	15.4	1.7	6.3	4.6
OPM (%)		18.4	20.7	19.5	11.8	16.6	17.2	18.0	15.7	15.6	17.6	16.9	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	5,903.2	5,946.0	5,999.5	5,687.7	5,809.0	5,999.5	6,278.2	6,516.1	
New ('000)	377.5	355.5	285.3	335.5	321.0	340.4	322.4	335.5	1,572.1	1,353.8	1,319.2	1,447.9	1,491.3	
Churns ('000)	189.2	179.0	162.9	172.9	172.5	172.4	174.1	175.4	659.1	703.9	694.4	720.4	751.6	
Expiries ('000)	135.6	143.5	133.6	115.9	115.0	107.2	105.5	106.5	455.0	528.6	434.2	448.8	501.8	
Monthly ARPU (KRW)	27,465	28,513	26,398	27,684	28,176	29,295	28,510	27,960	27,952	27,552	28,458	28,517	28,466	
Monthly avg. churn (%)	1.11	1.04	0.94	1.00	0.99	0.98	0.98	0.98	1.05	1.03	1.00	1.00	1.00	
Expiries (%)	39.8	38.7	39.6	32.3	32.8	27.9	37.0	28.0	34.2	37.5	31.0	32.5	34.6	
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	15.5	15.2	15.1	14.1	14.8	15.4	15.5	15.6	
Key lump-sum assumptions														
New sales ('000)	34.9	30.6	24.3	24.9	16.7	14.4	14.6	14.9	194.2	114.7	60.7	60.7	58.8	
ARPU ('000 KRW)	885.1	1,042.6	971.9	1,107.9	1,127.8	1,095.5	1,020.5	1,107.9	830.5	993.9	1,089.4	1,111.2	1,133.4	
Obsolescence loss (cons.) (KRWbn)	23.6	20.7	17.0	16.3	13.8	14.8	15.0	14.8	51.2	77.6	58.4	63.3	67.5	

Source(s): Company data, KB Securities estimates

Note: Churns and expiries are based on KB Securities estimates

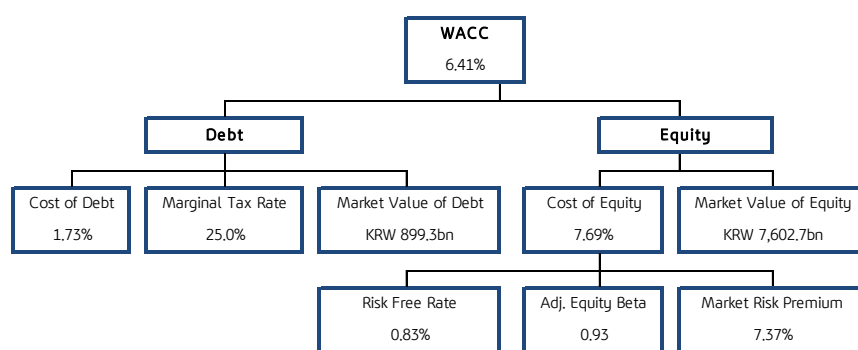
Table 5. TP Calculation: Discounted Cash Flow Model

(KRWbn)		2020	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Cash flow estimates									
OP	a	606.4	667.8	771.2	824.2	854.3	887.1	897.0	897.5
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	500.8	578.4	618.2	640.7	665.4	672.7	673.1
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	1,000.0	1,079.0	1,119.6	1,142.2	1,166.8	1,174.2	1,174.5
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	283.8	462.7	505.6	442.2	466.8	374.2	374.5
PV of cash flows									
Discount rate				2.6%	9.1%	16.1%	23.6%	31.5%	
PV of FCFF				180.4	463.2	380.7	377.7	284.6	
Total PV of FCFF (2022E-26E)	j		1,686.7						
Terminal growth rate (%)			1.6%		30y KTB yield				
Terminal value (2027E)			7,789.3		2027E FCFF / (WACC - TGR)				
PV of terminal value	k		5,923.9		6.41% WACC (0.83% risk-free rate; 7.37% market risk premium)				
Valuation									
Total cash flow (PV)	$L=j+k$		7,610.6						
Cash & cash equivalents	m		540.3						
Short-term financial assets	n		327.6						
Debt	o		875.8						
Fair enterprise value	$P=L+(m+n+o)$		7,602.7						
No. of shares ('000)	q		72,556						
Target price (KRW)	$R=P/q$		105,000						
Current price (KRW)			85,300		Aug 6, 2021				
Upside (%)			23.1						
12m fwd implied P/E (x)			14.7						
12m fwd implied P/B (x)			3.59						

Source(s): Company data, KB Securities estimates

Fig 1. WACC Calculation

- (1) Cost of debt is 1.73% (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. WACC Revision

(KRWbn, %)		Previous (Jul 19, 2021)	Adjusted (Aug 9, 2021)	Notes
Cost of equity	A = B + C x D	7.47	7.69	
Risk-free rate	B	0.76	0.83	Avg. 1y MSB yield (last three months)
Adj. beta	C	0.91	0.93	52w adj. beta
Raw beta		0.67	0.62	
R ²		0.27	0.19	
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	1.78	1.73	YTD yield of KRW-based 1y bonds
Fair shareholder value (KRWbn)		7,367.3	7,602.7	Value of outstanding shares based on TP
Debt (KRWbn)		899.3	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)	6.24	6.41	
Terminal growth rate		1.60%	1.60%	

Source(s): Company data, KB Securities estimates

Table 7. TP Sensitivity to WACC & TGR

(KRW)		Terminal Growth Rate						
		1.0%	1.2%	1.4%	1.6%	1.8%	2.0%	2.2%
WACC	5.41%	116,536	120,949	125,801	131,164	137,120	143,776	151,262
	5.61%	111,655	115,651	120,026	124,838	130,156	136,063	142,663
	5.81%	107,178	110,811	114,773	119,112	123,885	129,158	135,016
	6.01%	103,057	106,372	109,975	113,905	118,208	122,940	128,170
	6.21%	99,252	102,287	105,574	109,147	113,044	117,312	122,005
	6.41%	95,727	98,514	101,524	105,000	108,328	112,193	116,425
	6.61%	92,452	95,019	97,783	100,768	104,002	107,516	111,349
	6.81%	89,401	91,772	94,318	97,060	100,020	103,227	106,712
	7.01%	86,553	88,748	91,099	93,624	96,343	99,279	102,460
	7.21%	83,887	85,924	88,101	90,432	92,937	95,633	98,545
7.41%	81,387	83,281	85,301	87,459	89,772	92,256	94,930	

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	3,607	4,002	4,387
Cost of revenue	1,010	1,044	1,216	1,365	1,514
Gross profit	2,009	2,194	2,391	2,637	2,873
SG&A expenses	1,550	1,587	1,723	1,866	2,049
Operating profit	458	606	668	771	824
EBITDA	973	1,150	1,167	1,272	1,326
Non-operating accounts	-7	-66	-18	-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	1	-10	-10
Profit before tax	451	540	649	741	796
Income tax expense	119	136	175	193	207
Net profit	332	405	475	549	589
NP attributable to controlling interests	333	405	475	549	590
Adj. net profit	333	405	475	549	590

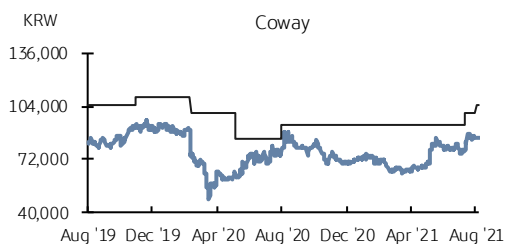
Operating Statistics & Ratios					
(%)	2019A	2020A	2021E	2022E	2023E
Revenue growth	11.5	7.2	11.4	10.9	9.6
OP growth	-11.8	32.3	10.1	15.5	6.9
EBITDA growth	25.5	18.1	1.5	9.0	4.2
NP growth of parent	-4.9	21.6	17.3	15.6	7.5
GP margin	66.5	67.8	66.3	65.9	65.5
OP margin	15.2	18.7	18.5	19.3	18.8
EBITDA margin	32.2	35.5	32.4	31.8	30.2
EBT margin	15.0	16.7	18.0	18.5	18.2
NP margin of parent	11.0	12.5	13.2	13.7	13.4

Statement of Cash Flows					
(KRWbn)	2019A	2020A	2021E	2022E	2023E
Cash flow from operating activities	539	563	728	933	977
Net profit	332	405	475	549	589
Depreciation & amortization	515	543	499	501	501
Other non-cash adjustments	412	373	224	193	207
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	-193	-207
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	425	260	304
Cash and cash equivalents at FYE	61	116	540	800	1,104
Free cash flow	173	238	328	433	477
Net cash flow	-72	309	322	339	380
Net cash (net debt)	-639	-330	-8	331	711

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	3,627	3,959	4,339
Current assets	767	897	1,411	1,740	2,119
Cash and cash equivalents	61	116	540	800	1,104
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	1,880	2,337	2,832
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	1,750	2,208	2,703
Controlling interests	1,078	1,491	1,881	2,339	2,834
Non-controlling interests	-1	-1	-2	-2	-2

Key Ratios					
(x, %, KRW)	2019A	2020A	2021E	2022E	2023E
Multiples					
P/E	20.6	13.3	13.3	11.5	10.7
P/B	6.4	3.6	3.3	2.7	2.2
P/S	2.3	1.7	1.7	1.6	1.4
EV/EBITDA	7.7	5.0	5.4	4.7	4.2
EV/EBIT	16.4	9.4	9.4	7.7	6.8
Dividend yield, ordinary (%)	2.6	1.7	1.5	1.5	1.6
EPS	4,511	5,486	6,433	7,436	7,990
BVPS	14,611	20,207	25,489	31,696	38,407
SPS	40,907	43,868	48,879	54,224	59,442
DPS (annual, ordinary)	2,400	1,200	1,250	1,300	1,350
Cash dividends payout ratio (%)	52.1	21.5	19.1	17.2	16.6
Operating performance					
ROE	30.7	31.5	28.2	26.0	22.8
ROA	12.7	13.8	14.3	14.5	14.2
ROIC	21.1	27.2	27.8	30.9	31.1
Financial structure (%)					
Total liab./equity	165.0	103.3	93.0	69.4	53.2
Net debt/equity	59.3	22.2	0.4	Net Cash	Net Cash
Current ratio	0.5	0.6	1.2	1.6	2.1
Interest coverage (x)	20.9	28.6	31.9	35.1	40.5
Activity ratios					
Asset turnover (x)	1.2	1.1	1.1	1.1	1.1
Receivables turnover (x)	9.9	10.3	10.8	10.9	10.9
Payables turnover (x)	50.1	51.1	50.5	51.9	52.6
Inventory turnover (x)	28.0	26.2	24.5	23.7	23.6



Coway (021240)

Date	Rating	Analyst	TP Differential (%)		
			(KRW)	Avg.	Max/Min
Jul-31-2019	Buy	Shinay Park	105,000	-19.49	
Nov-06-2019	Buy	Shinay Park	110,000	-17.46	-12.27
Feb-17-2020	Buy	Shinay Park	100,000	-36.78	-24.80
May-11-2020	Buy	Shinay Park	85,000	-15.70	-5.76
Aug-06-2020	Buy	Shinay Park	93,000	-20.33	-4.62
Jul-19-2021	Buy	Shinay Park	100,000	-15.09	-12.40
Aug-09-2021	Buy	Shinay Park	105,000		

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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

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:	Neutral:	Negative:
To outperform market	To match market performance	To underperform market

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.

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