

# Coway

(021240 KS)

## Temporary earnings weakness to present buying opportunity

**Buy**  
(Maintain)

TP: W98,000  
Upside: 27.9%

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### 2Q21 review

#### Another quarterly revenue record

- For 2Q21, Coway delivered historic-high quarterly revenue of W905.4bn (+12.4% YoY).
- Domestic health appliances generated record revenue of W558.9bn (+1.1% YoY), aided by steady account growth (6.41mn; +1.3% YoY) following the launches of innovative products such as the Icon series.
- Overseas revenue surged 46.7% YoY to W286bn, led by robust account growth (+33.8% YoY to 2.25mn) and solid revenue in Malaysia and other markets.
- Operating profit slipped 1.6% YoY to W166.4bn. However, stripping away the effects of increased provisioning, we estimate that operating profit actually expanded 5% YoY.

### Outlook

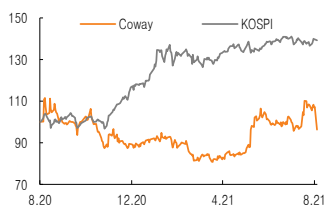
#### Shares pull back on concerns over impact of Malaysia lockdown on 3Q results

- Shares of Coway have tumbled despite the release of strong 2Q results, as the firm's earnings outlook has deteriorated due to the lockdowns in Malaysia.
- Since June, the company has been focusing on sales of air purifiers, which can be delivered to homes and do not require special installation.
- While earnings are very likely to slow in 3Q, we believe that the setback will be only temporary, and that the company's long-term competitiveness remains intact.

### Valuation and recommendation Retain Buy with TP of W98,000

- In our view, Coway's key earnings variable will be normalization of economic activities in Malaysia, which is only a matter of time.
- With its core competitiveness remaining strong in Southeast Asia, Coway should be able to continue growth by pushing into new markets.
- We maintain our Buy call with a target price of W98,000.

### Key data



Current price (8/9/21, W)	76,600	Market cap (Wbn)	5,653
OP (21F, Wbn)	608	Shares outstanding (mn)	74
Consensus OP (21F, Wbn)	656	Free float (%)	73.2
EPS growth (21F, %)	8.3	Foreign ownership (%)	59.0
P/E (21F, x)	12.9	Beta (12M)	0.44
Market P/E (21F, x)	11.4	52-week low (W)	64,100
KOSPI	3,260.42	52-week high (W)	88,700

### Share performance

(%)	1M	6M	12M
Absolute	0.7	7.4	-3.9
Relative	-0.7	1.6	-30.7

### 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

## Coway (021240 KS)

## Income statement (summarized)

(Wbn)	2020	2021F	2022F	2023F
<b>Revenue</b>	<b>3,237</b>	<b>3,480</b>	<b>3,752</b>	<b>3,993</b>
<b>Cost of revenue</b>	<b>1,044</b>	<b>1,163</b>	<b>1,198</b>	<b>1,276</b>
<b>GP</b>	<b>2,193</b>	<b>2,317</b>	<b>2,554</b>	<b>2,717</b>
<b>SG&amp;A expenses</b>	<b>1,587</b>	<b>1,710</b>	<b>1,876</b>	<b>1,996</b>
<b>OP (adj.)</b>	<b>606</b>	<b>608</b>	<b>678</b>	<b>720</b>
<b>OP</b>	<b>606</b>	<b>608</b>	<b>678</b>	<b>720</b>
<b>Non-operating profit</b>	<b>-66</b>	<b>-10</b>	<b>-19</b>	<b>-18</b>
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
<b>NP</b>	<b>405</b>	<b>439</b>	<b>488</b>	<b>519</b>
Attributable to owners	405	439	488	519
Attributable to minority interests	0	0	0	0
<b>Total comprehensive income</b>	<b>396</b>	<b>439</b>	<b>488</b>	<b>519</b>
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
<b>Operating cash flow</b>	<b>563</b>	<b>970</b>	<b>1,000</b>	<b>1,006</b>
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
<b>Cash flow from investing activities</b>	<b>-323</b>	<b>-399</b>	<b>-422</b>	<b>-420</b>
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
<b>Cash flow from financing activities</b>	<b>-182</b>	<b>-107</b>	<b>-107</b>	<b>-107</b>
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
<b>Chg. in cash</b>	<b>55</b>	<b>462</b>	<b>471</b>	<b>480</b>
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
<b>Current assets</b>	<b>897</b>	<b>1,362</b>	<b>1,893</b>	<b>2,426</b>
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
<b>Non-current assets</b>	<b>2,132</b>	<b>2,020</b>	<b>1,943</b>	<b>1,890</b>
Investments in associates	0	0	0	0
PP&E	1,225	1,120	1,048	999
Intangible assets	140	134	128	124
<b>Total assets</b>	<b>3,029</b>	<b>3,382</b>	<b>3,836</b>	<b>4,316</b>
<b>Current liabilities</b>	<b>1,417</b>	<b>1,421</b>	<b>1,474</b>	<b>1,522</b>
AP & other payables	255	259	277	295
Short-term financial liabilities	715	715	715	715
Other current liabilities	447	447	482	512
<b>Non-current liabilities</b>	<b>122</b>	<b>122</b>	<b>122</b>	<b>122</b>
Long-term financial liabilities	29	29	29	29
Other non-current liabilities	93	93	93	93
<b>Total liabilities</b>	<b>1,539</b>	<b>1,542</b>	<b>1,596</b>	<b>1,644</b>
<b>Equity attributable to owners</b>	<b>1,491</b>	<b>1,841</b>	<b>2,241</b>	<b>2,673</b>
Capital stock	41	41	41	41
Capital surplus	148	148	148	148
Retained earnings	1,365	1,717	2,117	2,549
<b>Minority interests</b>	<b>-1</b>	<b>-1</b>	<b>-1</b>	<b>-1</b>
<b>Shareholders' equity</b>	<b>1,490</b>	<b>1,840</b>	<b>2,240</b>	<b>2,672</b>

## Key valuation metrics/ratios

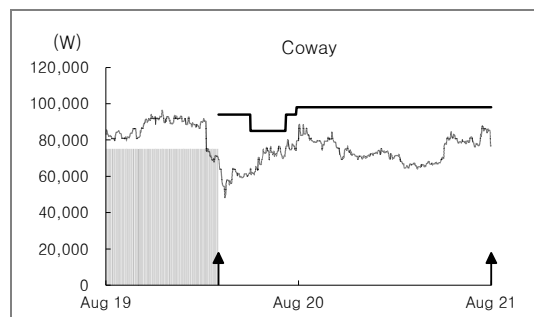
	2020	2021F	2022F	2023F
P/E (x)	13.3	12.9	11.6	10.9
P/CF (x)	4.1	5.0	4.9	4.8
P/B (x)	3.5	3.0	2.5	2.1
EV/EBITDA (x)	5.0	4.9	4.4	3.9
EPS (W)	5,486	5,944	6,607	7,034
CFPS (W)	17,896	15,290	15,648	15,900
BPS (W)	20,905	25,643	31,071	36,925
DPS (W)	1,200	1,200	1,200	1,200
Dividend payout ratio (%)	21.5	19.8	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

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### Two-year rating and TP history

Company	Date	Rating	TP (W)
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	80.00%	10.67%	8.00%	1.33%
Investment banking services	83.33%	16.67%	0.00%	0.00%

\* Based on recommendations in the last 12-months (as of June 30, 2021)

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