

October 14, 2021

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BUY rating based on solid earnings, valuation merit

Overseas contribution to 2021E consolidated revenue to reach 34%; Malaysia/U.S. revenue growth of 43% YoY/20% YoY expected

3Q21 preview: Overseas revenue to reach all-time high despite concerns over Malaysia lockdown

We maintain BUY and our TP of KRW105,000 on Coway. Brisk top-line growth at overseas subsidiaries and valuation merit (stock currently at 10.4x 12m fwd P/E) herald a rally.

After acquired by Netmarble, Coway has been focused on spurring growth with development of innovative products (e.g., Icon water purifier, Noble air purifier) and investment in overseas operations (e.g., expansion, digitalization, marketing). With brisk revenue growth at subsidiaries in Malaysia (+43% YoY) and the U.S. (+20% YoY), overseas operations this year should represent 34% of consolidated revenue and 33% of OP. In Malaysia, the COVID-19 vaccination rate (% vaccinated at least once) has shot up, from 18% in June to 72% in September, allowing the government to ease lockdown measures; we expect Malaysia revenue to hit a record high in 3Q21.

We forecast 3Q21 consolidated revenue at KRW921.4bn (+15% YoY), which is in line with the market consensus, and OP at KRW175.9bn (+4% YoY; +13% YoY excl. KRW12.8bn one-off gain in 3Q20), which is 6% above.

Domestic: Revenue (standalone) is forecast at KRW682.3bn (+6% YoY) and OP at KRW112.6bn (-10% YoY; +0.4% YoY excl. one-off gains in 3Q20).

- (1) New rental sales should grow 13% YoY on the back of a low base (business hampered by service manager strike in 3Q20), marking growth for the first time in eight quarters.
- (2) The contract cancellation rate is expected to remain below 1.0%.
- (3) We expect a net QoQ increase in no. of rental subscriptions of 43k accounts.

Buy Maintain

| | |
|--------------------------------|-------------------|
| Target Price (Maintain) | KRW105,000 |
| Dividend yield* | 1.6% |
| Total return | 38.5% |
| Current price (Oct 13) | KRW76,700 |
| Consensus target price | KRW98,600 |
| Market capitalization | USD4.8bn |
| * 12-month forward | |

Earnings Forecast & Valuation

| Fiscal year-end | 2020A | 2021E | 2022E | 2023E |
|-----------------------------|-------|-------|-------|-------|
| Revenue (KRWbn) | 3,237 | 3,647 | 4,008 | 4,389 |
| OP (KRWbn) | 606 | 682 | 772 | 839 |
| NP to control. int. (KRWbn) | 405 | 483 | 550 | 600 |
| EPS (KRW) | 5,486 | 6,545 | 7,446 | 8,135 |
| EPS growth (%) | 21.6 | 19.3 | 13.8 | 9.3 |
| P/E (x) | 13.3 | 11.7 | 10.3 | 9.4 |
| EV/EBITDA (x) | 5.0 | 4.9 | 4.3 | 3.8 |
| P/B (x) | 3.6 | 3.0 | 2.4 | 2.0 |
| ROE (%) | 31.5 | 28.6 | 26.0 | 23.1 |
| Div. yield (%) | 1.7 | 1.6 | 1.7 | 1.8 |

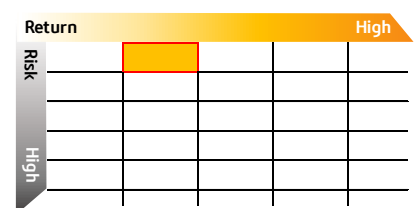
Trading Data

| | |
|---------------------------|-------------------------------|
| Free float | 73.2% |
| Avg. T/O val. (3m, KRWbn) | 16.7 |
| Foreign ownership | 59.7% |
| Major shareholders | Netmarble and 6 others 25.1% |
| | National Pension Service 8.5% |

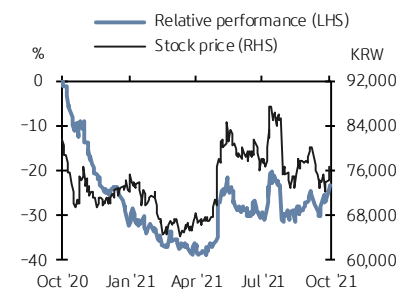
Stock Price Performance

| (%) | 1M | 3M | 6M | 12M |
|----------|------|------|------|-------|
| Absolute | -0.8 | -1.7 | 13.1 | -6.1 |
| Relative | 5.4 | 9.3 | 21.8 | -23.4 |

Risk & Total Return (annualized over three years)



Stock Price & Relative Performance

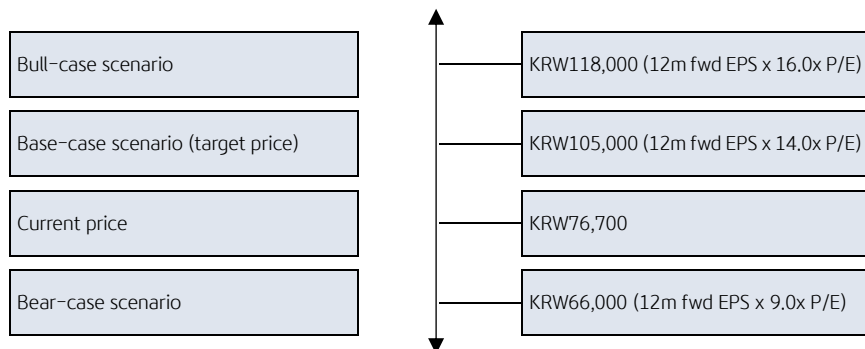


Source(s): Company data, KB Securities

(4) OPM should drop 1.0pp YoY to 16.5% (excl. one-off gains) on increases in labor and marketing expenses.

Overseas: The Malaysia subsidiary should see revenue/OP grow 40% YoY/103% YoY (24% OPM; +7pp YoY), defying concerns over the lockdown enforced in June. The U.S. subsidiary should see revenue grow 5% YoY despite a high base (+130% YoY in 3Q20). However, OP should retreat 63% YoY as OPM drops to 8% from an exceptionally high 23% recorded in 3Q20.

Investment Opinion & Risks



Base-case scenario: Catalysts

- 1) 2020-23 domestic revenue CAGR at 4%
- 2) 2020-23 overseas revenue CAGR 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 | 3,607.2 | 4,001.7 | 3,647.2 | 4,008.2 | 1.1 | 0.2 |
| OP | 667.8 | 771.2 | 681.9 | 772.1 | 2.1 | 0.1 |
| NP (to control. int.) | 475.1 | 549.6 | 483.4 | 550.5 | 1.8 | 0.2 |

Source(s): KB Securities estimates

KB Estimates vs. Consensus

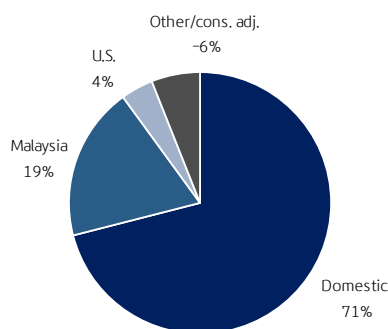
| (KRWbn, %) | KB Estimates | | Consensus | | Difference | |
|-----------------------|--------------|---------|-----------|---------|------------|-------|
| | 2021E | 2022E | 2021E | 2022E | 2021E | 2022E |
| Revenue | 3,647.2 | 4,008.2 | 3,635.6 | 3,982.1 | 0.3 | 0.7 |
| OP | 681.9 | 772.1 | 655.3 | 724.5 | 4.1 | 6.6 |
| NP (to control. int.) | 483.4 | 550.5 | 465.2 | 518.3 | 3.9 | 6.2 |

Source(s): FnGuide, KB Securities estimates

Valuation & Target Price Calculation

- 1) Valuation method:
Discounted cash flow model
- 2) Target price calculation:
6.54% WACC; 1.6% TGR
- 3) Target price range:
KRW66,000 – KRW118,000
- 4) Valuation at target price:
14.2x 12m fwd implied P/E, 3.45x 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 | 5,660.4 | 10.6 | 16.5 | 2.52 | 23.8 | 4.7 | 5.2 |
| Amorepacific | 10,265.5 | 32.6 | 236.7 | 2.45 | 7.5 | 9.5 | 29.6 |
| LG H&H | 20,928.4 | 24.7 | 10.9 | 3.91 | 15.8 | 12.5 | 6.8 |

Source(s): KB Securities estimates

Table 1. 3Q21 KB Estimates vs. Consensus (consolidated)

| (KRWbn) | 3Q21E KB | 3Q20 | YoY (%) | 2Q21 | QoQ (%) | 3Q21E Cons. | Diff. (%) | 2021E KB | YoY (%) | 2021E Cons. | Diff. (%) |
|-----------------------|-------------|-------|---------|-------|---------|----------------|--------------|-------------|---------|----------------|-----------|
| Revenue | 921.4 | 800.4 | 15.1 | 905.4 | 1.8 | 904.7 | 1.9 | 3,647.2 | 12.7 | 3,635.6 | 0.3 |
| OP | 175.9 | 168.6 | 4.3 | 166.4 | 5.7 | 165.4 | 6.4 | 681.9 | 12.5 | 655.3 | 4.1 |
| EBT | 167.2 | 149.2 | 12.0 | 159.9 | 4.5 | 163.5 | 2.2 | 660.7 | 22.3 | 633.9 | 4.2 |
| NP (to control. int.) | 124.0 | 116.8 | 6.1 | 115.9 | 7.0 | 111.3 | 11.4 | 483.4 | 19.4 | 465.2 | 3.9 |
| OPM (%) | 19.1 | 21.1 | | 18.4 | | 18.3 | | 18.7 | | 18.0 | |
| EBT margin (%) | 18.1 | 18.6 | | 17.7 | | 18.1 | | 18.1 | | 17.4 | |
| NPM (%) | 13.5 | 14.6 | | 12.8 | | 12.3 | | 13.3 | | 12.8 | |

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

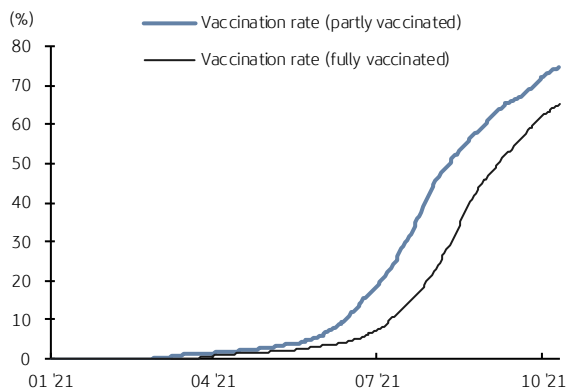
Table 2. Earnings Estimate Revisions

| (KRWbn) | | Previous | | | Revised | | | Change (%) | | |
|----------------------------|-----------------------|----------|---------|---------|---------|---------|---------|------------|-------|-------|
| | | 2021E | 2022E | 2023E | 2021E | 2022E | 2023E | 2021E | 2022E | 2023E |
| Revenue | | 3,607.2 | 4,001.7 | 4,386.8 | 3,647.2 | 4,008.2 | 4,389.3 | 1.1 | 0.2 | 0.1 |
| OP | | 667.8 | 771.2 | 824.2 | 681.9 | 772.1 | 839.0 | 2.1 | 0.1 | 1.8 |
| EBT | | 649.4 | 741.2 | 796.4 | 660.7 | 742.4 | 811.1 | 1.7 | 0.2 | 1.8 |
| NP (to control. int.) | | 475.1 | 549.6 | 590.5 | 483.4 | 550.5 | 601.4 | 1.8 | 0.2 | 1.8 |
| EPS (KRW) | | 6,548 | 7,575 | 8,139 | 6,663 | 7,587 | 8,289 | 1.8 | 0.2 | 1.8 |
| YoY (%) | Revenue | 11.4 | 10.9 | 9.6 | 12.7 | 9.9 | 9.5 | | | |
| | OP | 10.1 | 15.5 | 6.9 | 12.5 | 13.2 | 8.7 | | | |
| | EBT | 20.2 | 14.1 | 7.4 | 22.3 | 12.4 | 9.3 | | | |
| | NP (to control. int.) | 17.3 | 15.7 | 7.4 | 19.4 | 13.9 | 9.3 | | | |
| | EPS | 19.4 | 15.7 | 7.4 | 21.4 | 13.9 | 9.3 | | | |
| OPM (%) | | 18.5 | 19.3 | 18.8 | 18.7 | 19.3 | 19.1 | | | |
| EBT margin (%) | | 18.0 | 18.5 | 18.2 | 18.1 | 18.5 | 18.5 | | | |
| NPM (to control. int.) (%) | | 13.2 | 13.7 | 13.5 | 13.3 | 13.7 | 13.7 | | | |

Source(s): Company data, KB Securities estimates

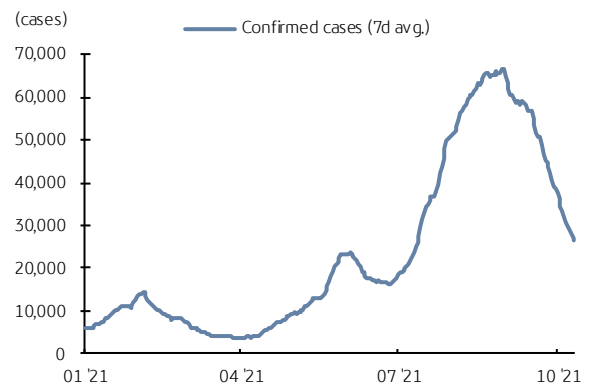
Note: Previous estimates based on data as of Aug 9, 2021

Fig 1. Malaysia: COVID-19 Vaccination Rate



Source(s): Our World in Data, KB Securities

Fig 2. Malaysia: Confirmed COVID-19 Cases



Source(s): Our World in Data, KB Securities

Table 3. Earnings & Estimates (consolidated)

| (KRWbn) | | 1Q20 | 2Q20 | 3Q20 | 4Q20 | 1Q21 | 2Q21 | 3Q21E | 4Q21E | 2019 | 2020 | 2021E | 2022E | 2023E |
|----------------------------|-----------------------|-------|---------|-------|-------|-------|--------|--------|--------|---------|---------|---------|---------|---------|
| Revenue | | 768.9 | 805.5 | 800.4 | 862.6 | 879.0 | 905.4 | 921.4 | 941.4 | 3,018.9 | 3,237.4 | 3,647.2 | 4,008.2 | 4,389.3 |
| Standalone | | 628.5 | 655.4 | 641.5 | 667.2 | 674.8 | 710.9 | 682.3 | 676.1 | 2,531.0 | 2,592.5 | 2,744.0 | 2,815.9 | 2,945.7 |
| Malaysia | | 153.3 | 155.9 | 178.8 | 220.4 | 240.4 | 236.7 | 250.3 | 282.1 | 526.3 | 708.4 | 1,009.5 | 1,261.9 | 1,514.3 |
| U.S. | | 27.2 | 32.1 | 51.8 | 41.4 | 42.9 | 35.8 | 54.4 | 49.7 | 97.3 | 152.5 | 182.8 | 209.8 | 234.0 |
| 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 | -102.4 | -104.6 | -241.0 | -295.4 | -428.3 | -445.4 | -487.7 |
| YoY (%) | Revenue | 8.4 | 6.6 | 5.4 | 8.6 | 14.3 | 12.4 | 15.1 | 9.1 | 11.5 | 7.2 | 12.7 | 9.9 | 9.5 |
| | Standalone | 3.6 | 3.2 | -1.5 | 4.5 | 7.4 | 8.5 | 6.4 | 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 | 40.0 | 28.0 | 48.9 | 34.6 | 42.5 | 25.0 | 20.0 |
| | U.S. | 30.1 | 36.0 | 130.2 | 36.6 | 57.7 | 11.5 | 5.0 | 20.0 | 20.9 | 56.7 | 19.8 | 14.8 | 11.5 |
| | 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. | RR | RR | RR | RR | RR | RR | RR | RR | RR | RR | RR | RR | RR |
| 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 | 74.0 | 71.8 | 83.8 | 80.1 | 75.2 | 70.3 | 67.1 |
| | Malaysia | 19.9 | 19.4 | 22.3 | 25.6 | 27.3 | 26.1 | 27.2 | 30.0 | 17.4 | 21.9 | 27.7 | 31.5 | 34.5 |
| | U.S. | 3.5 | 4.0 | 6.5 | 4.8 | 4.9 | 4.0 | 5.9 | 5.3 | 3.2 | 4.7 | 5.0 | 5.2 | 5.3 |
| | Other subsidiaries | 2.9 | 2.1 | 2.0 | 2.8 | 2.4 | 4.8 | 4.0 | 4.0 | 3.5 | 2.5 | 3.8 | 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 | -11.7 | -11.1 | -11.1 |
| Operating profit | | 138.9 | 169.2 | 168.6 | 129.8 | 170.7 | 166.4 | 175.9 | 168.8 | 458.3 | 606.4 | 681.9 | 772.1 | 839.0 |
| Standalone | | 115.7 | 136.0 | 124.9 | 78.9 | 112.0 | 122.5 | 112.6 | 106.1 | 394.7 | 455.5 | 453.3 | 492.7 | 515.4 |
| Malaysia | | 25.2 | 23.3 | 29.6 | 52.0 | 56.1 | 59.6 | 60.1 | 59.2 | 75.6 | 130.1 | 235.0 | 265.0 | 302.9 |
| U.S. | | 2.6 | 4.9 | 11.8 | 0.5 | 5.7 | 0.9 | 4.4 | 4.0 | 3.3 | 19.8 | 14.9 | 17.8 | 18.7 |
| 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 | -8.2 | 3.4 | 3.3 | -12.4 | 12.0 | 1.3 | 7.6 | 8.3 |
| YoY (%) | OP | 2.7 | 22.4 | 20.2 | 190.9 | 23.0 | -1.6 | 4.3 | 30.1 | -11.8 | 32.3 | 12.5 | 13.2 | 8.7 |
| | Standalone | -5.5 | 22.8 | -10.2 | 252.7 | -3.2 | -9.9 | -9.9 | 34.5 | -17.3 | 15.4 | -0.5 | 8.7 | 4.6 |
| | Malaysia | 31.9 | 5.4 | 108.5 | 157.4 | 122.6 | 155.8 | 103.0 | 13.9 | 21.3 | 72.1 | 80.6 | 12.8 | 14.3 |
| | U.S. | 225.0 | 1,125.0 | TTB | -83.3 | 119.2 | -81.6 | -63.1 | 694.9 | 6.5 | 500.0 | -24.6 | 19.5 | 5.0 |
| | Other subsidiaries | RR | TTR | TTR | RR | RR | RR | RR | RR | RR | RR | RR | RR | RR |
| | Cons. adj. | RR | 100.5 | TTB | 161.4 | TTB | TTR | -43.2 | 94.6 | RR | TTB | -89.2 | 490.7 | 8.7 |
| OPM (%) | OP | 18.1 | 21.0 | 21.1 | 15.0 | 19.4 | 18.4 | 19.1 | 17.9 | 15.2 | 18.7 | 18.7 | 19.3 | 19.1 |
| | Standalone | 18.4 | 20.7 | 19.5 | 11.8 | 16.6 | 17.2 | 16.5 | 15.7 | 15.6 | 17.6 | 16.5 | 17.5 | 17.5 |
| | Malaysia | 16.4 | 14.9 | 16.6 | 23.6 | 23.3 | 25.2 | 24.0 | 21.0 | 14.4 | 18.4 | 23.3 | 21.0 | 20.0 |
| | U.S. | 9.6 | 15.3 | 22.8 | 1.2 | 13.3 | 2.5 | 8.0 | 8.0 | 3.4 | 13.0 | 8.2 | 8.5 | 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 | 6.7 | -3.4 | -3.2 | 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 | 73.6 | 64.0 | 62.9 | 86.1 | 75.1 | 66.5 | 63.8 | 61.4 |
| | Malaysia | 18.1 | 13.8 | 17.6 | 40.1 | 32.9 | 35.8 | 34.1 | 35.1 | 16.5 | 21.5 | 34.5 | 34.3 | 36.1 |
| | U.S. | 1.9 | 2.9 | 7.0 | 0.4 | 3.3 | 0.5 | 2.5 | 2.4 | 0.7 | 3.3 | 2.2 | 2.3 | 2.2 |
| | Other subsidiaries | -1.1 | -1.4 | -2.3 | -2.5 | -3.4 | -5.0 | -2.6 | -2.3 | -0.6 | -1.8 | -3.3 | -1.4 | -0.8 |
| Gross profit | | 521.7 | 554.8 | 536.3 | 580.7 | 579.8 | 594.2 | 613.7 | 629.9 | 2,008.5 | 2,193.5 | 2,417.6 | 2,641.0 | 2,874.5 |
| EBT | | 138.3 | 159.5 | 149.2 | 93.3 | 174.7 | 159.9 | 167.2 | 158.9 | 451.4 | 540.4 | 660.7 | 742.4 | 811.1 |
| NP (to control. int.) | | 101.6 | 119.0 | 116.8 | 67.5 | 125.8 | 115.9 | 124.0 | 117.8 | 332.9 | 404.9 | 483.4 | 550.5 | 601.4 |
| EBITDA | | 275.7 | 303.4 | 304.6 | 265.9 | 304.4 | 297.6 | 300.7 | 278.3 | 973.4 | 1,149.7 | 1,181.2 | 1,272.6 | 1,340.4 |
| YoY (%) | Gross profit | 9.5 | 9.6 | 5.4 | 12.4 | 11.1 | 7.1 | 14.4 | 8.5 | 9.8 | 9.2 | 10.2 | 9.2 | 8.8 |
| | EBT | 2.1 | 16.6 | -2.0 | 247.9 | 26.3 | 0.2 | 12.0 | 70.3 | -3.7 | 19.7 | 22.3 | 12.4 | 9.3 |
| | NP (to control. int.) | 1.1 | 16.7 | 5.5 | 242.0 | 23.8 | -2.6 | 6.1 | 74.6 | -4.9 | 21.6 | 19.4 | 13.9 | 9.3 |
| | EBITDA | 33.7 | 43.0 | 39.8 | -21.1 | 10.4 | -1.9 | -1.3 | 4.7 | 25.5 | 18.1 | 2.7 | 7.7 | 5.3 |
| 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 | 18.1 | 16.9 | 15.0 | 16.7 | 18.1 | 18.5 | 18.5 |
| NPM (to control. Int.) (%) | | 13.2 | 14.8 | 14.6 | 7.8 | 14.3 | 12.8 | 13.5 | 12.5 | 11.0 | 12.5 | 13.3 | 13.7 | 13.7 |
| EBITDA margin (%) | | 35.9 | 37.7 | 38.1 | 30.8 | 34.6 | 32.9 | 32.6 | 29.6 | 32.2 | 35.5 | 32.4 | 31.8 | 30.5 |

Source(s): Company data, KB Securities estimates

Note: RR=remain in red, TTB=turn to black, TTR=turn to red

Table 4. Earnings & Estimates (standalone)

| (KRWbn) | 1Q20 | 2Q20 | 3Q20 | 4Q20 | 1Q21 | 2Q21 | 3Q21E | 4Q21E | 2019 | 2020 | 2021E | 2022E | 2023E | |
|-----------------------------------|-------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|-------|
| Revenue | 628.5 | 655.4 | 641.5 | 667.2 | 674.8 | 710.9 | 682.3 | 676.1 | 2,531.0 | 2,592.5 | 2,744.0 | 2,815.9 | 2,945.7 | |
| Domestic home appliance | 529.4 | 552.9 | 507.4 | 537.5 | 538.5 | 558.9 | 547.4 | 543.4 | 2,111.2 | 2,127.2 | 2,188.2 | 2,266.8 | 2,345.8 | |
| Rental | 401.9 | 405.3 | 399.5 | 389.7 | 394.4 | 388.7 | 403.7 | 396.6 | 1,572.6 | 1,596.4 | 1,583.4 | 1,624.6 | 1,671.0 | |
| Home care | 68.9 | 87.1 | 57.3 | 90.8 | 98.0 | 127.4 | 103.1 | 104.4 | 258.4 | 304.1 | 432.9 | 476.2 | 514.2 | |
| 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 | 2.9 | 3.8 | 11.7 | 13.5 | 13.0 | 12.8 | 12.5 | |
| 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 | 6.4 | 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 | 7.9 | 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 | 1.0 | 1.8 | 2.9 | 1.5 | -0.8 | 2.6 | 2.9 |
| | Home care | 22.4 | 28.8 | -21.4 | 47.6 | 42.2 | 46.2 | 80.0 | 15.0 | 39.6 | 17.7 | 42.4 | 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 | 20.0 | -30.0 | -8.6 | 15.6 | -3.4 | -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 | 59.2 | 58.7 | 62.1 | 61.6 | 57.7 | 57.7 | 56.7 |
| | Home care | 11.0 | 13.3 | 8.9 | 13.6 | 14.5 | 17.9 | 15.1 | 15.4 | 10.2 | 11.7 | 15.8 | 16.9 | 17.5 |
| | 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 | 0.5 | 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 | 122.5 | 112.6 | 106.1 | 394.7 | 455.5 | 453.3 | 492.7 | 515.4 |
| YoY (%) | | -5.5 | 22.8 | -10.2 | 252.7 | -3.2 | -9.9 | -9.9 | 34.5 | -17.3 | 15.4 | -0.5 | 8.7 | 4.6 |
| OPM (%) | | 18.4 | 20.7 | 19.5 | 11.8 | 16.6 | 17.2 | 16.5 | 15.7 | 15.6 | 17.6 | 16.5 | 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 | 14.8 | 14.7 | 51.2 | 77.6 | 58.2 | 63.0 | 67.2 | |

Source(s): Company data, KB Securities estimates

Note: Churns and expiries are based on KB Securities estimates

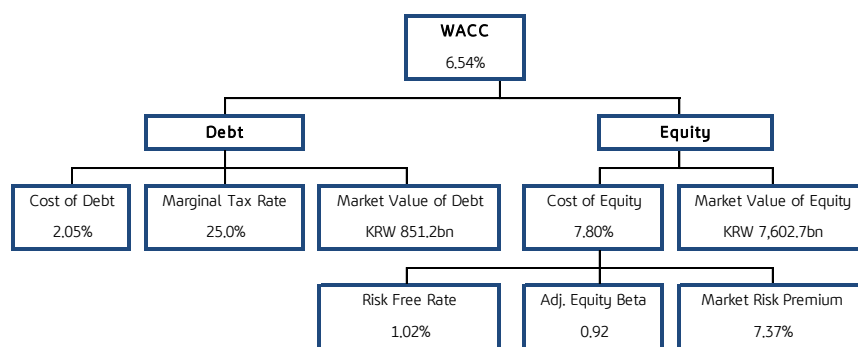
Table 5. Target Price Calculation: Discounted Cash Flow Model

| (KRWbn) | | 2020 | 2021E | 2022E | 2023E | 2024E | 2025E | 2026E | 2027E |
|--|---------------|---------------|----------------|----------------|--|----------------|----------------|----------------|----------------|
| Cash flow estimates | | | | | | | | | |
| OP | a | 606.4 | 681.9 | 772.1 | 839.0 | 878.3 | 906.1 | 914.8 | 924.2 |
| 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 | 511.5 | 579.1 | 629.2 | 658.7 | 679.5 | 686.1 | 693.1 |
| 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 | 1,010.7 | 1,079.6 | 1,130.7 | 1,160.1 | 1,181.0 | 1,187.5 | 1,194.5 |
| Total investment | $F=g+h$ | -892.2 | -860.1 | -619.5 | -616.9 | -700.0 | -700.0 | -800.0 | -800.0 |
| Change in working capital | g | -567.0 | -460.1 | -119.5 | -116.9 | -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 | 150.5 | 460.2 | 513.8 | 460.1 | 481.0 | 387.5 | 394.5 |
| PV of cash flows | | | | | | | | | |
| Discount rate | | | | 1.4% | 8.0% | 15.1% | 22.6% | 30.7% | |
| PV of FCFF | | | | 97.0 | 475.6 | 399.7 | 392.2 | 296.6 | |
| Total PV of FCFF (2022E-26E) | j | | 1,661.0 | | | | | | |
| Terminal growth rate (%) | | | 1.6% | | 30y KTB yield | | | | |
| Terminal value (2027E) | | | 7,979.2 | | 2027E FCFF / (WACC - TGR) | | | | |
| PV of terminal value | k | | 6,106.7 | | 6.41% WACC (0.83% risk-free rate; 7.37% market risk premium) | | | | |
| Valuation | | | | | | | | | |
| Total cash flow (PV) | $L=j+k$ | | 7,767.7 | | | | | | |
| Net cash | m | | -186.2 | | 12m fwd | | | | |
| Investments in non-consolidated affiliates | n | | 4.1 | | end-2Q21 | | | | |
| Non-controlling interests | o | | -1.4 | | end-2Q21 | | | | |
| Fair value | $P=L+(m+n+o)$ | | 7,586.9 | | | | | | |
| No. of shares ('000) | q | | 72,556 | | | | | | |
| Target price (KRW) | $R=P/q$ | | 105,000 | | | | | | |
| Current price (KRW) | | | 76,700 | | Oct 13, 2021 | | | | |
| Upside (%) | | | 36.9 | | | | | | |
| 12m fwd implied P/E (x) | | | 14.2 | | | | | | |
| 12m fwd implied P/B (x) | | | 3.45 | | | | | | |

Source(s): Company data, KB Securities estimates

Fig 3. WACC Calculation

- (1) Cost of debt is 2.05% (YTD yield of Coway's 1y KRW-based bonds); market value of debt based on total financial liabilities as of end-2Q21
- (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 (Aug 9, 2021) | Adjusted (Oct 14, 2021) | Notes |
|--------------------------------|-----------------------|---------------------------|----------------------------|--|
| Cost of equity | A = B + C x D | 7.69 | 7.80 | |
| Risk-free rate | B | 0.83 | 1.02 | Avg. 1y MSB yield (last three months) |
| Adj. beta | C | 0.93 | 0.92 | 52w adj. beta |
| Raw beta | | 0.62 | 0.58 | |
| R ² | | 0.19 | 0.18 | |
| 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 | 1.73 | 2.05 | YTD yield of KRW-based 1y bonds |
| Fair shareholder value (KRWbn) | | 7,602.7 | 7,586.9 | Value of outstanding shares based on TP |
| Debt (KRWbn) | | 899.3 | 851.2 | Total financial liabilities as of end-2Q21 |
| Weight of equity | H | 80.0 | 80.0 | |
| Weight of debt | I | 20.0 | 20.0 | |
| WACC | J = (A x H) + (G x I) | 6.41 | 6.54 | |
| Terminal growth rate | | 1.60% | 1.60% | |

Source(s): Company data, KB Securities estimates

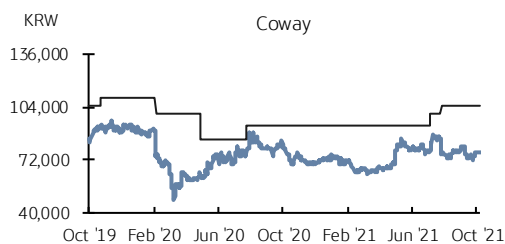
Table 7. Target Price Sensitivity to WACC & TGR

| (KRW) | | Terminal Growth Rate | | | | | | |
|-------------|--------|----------------------|---------|---------|---------|---------|---------|---------|
| | | 1.0% | 1.2% | 1.4% | 1.6% | 1.8% | 2.0% | 2.2% |
| WACC | 5.54% | 116,224 | 120,611 | 125,421 | 130,719 | 136,583 | 143,109 | 150,415 |
| | 5.74% | 111,373 | 115,358 | 119,710 | 124,482 | 129,738 | 135,555 | 142,028 |
| | 5.94% | 106,914 | 110,547 | 114,500 | 118,818 | 123,552 | 128,766 | 134,536 |
| | 6.14% | 102,800 | 106,124 | 109,729 | 113,651 | 117,934 | 122,630 | 127,803 |
| | 6.34% | 98,993 | 102,044 | 105,342 | 108,918 | 112,809 | 117,058 | 121,717 |
| | 6.54% | 95,459 | 98,268 | 101,295 | 105,000 | 108,115 | 111,975 | 116,190 |
| | 6.74% | 92,171 | 94,764 | 97,550 | 100,553 | 103,799 | 107,319 | 111,149 |
| | 6.94% | 89,103 | 91,502 | 94,074 | 96,839 | 99,818 | 103,039 | 106,531 |
| | 7.14% | 86,234 | 88,459 | 90,840 | 93,391 | 96,134 | 99,090 | 102,286 |
| | 7.34% | 83,545 | 85,614 | 87,822 | 90,183 | 92,715 | 95,436 | 98,369 |
| 7.54% | 81,020 | 82,947 | 84,999 | 87,190 | 89,533 | 92,045 | 94,745 | |

Source(s): Company data, KB Securities estimates

Disclosures

Rating & Target Price Changes (Share price —, Target Price —)



Coway (021240)

| Date | Rating | Analyst | TP Differential (%) | | |
|-------------|--------|-------------|---------------------|--------|---------|
| | | | (KRW) | Avg. | Max/Min |
| Sep-30-2019 | Buy | Shinay Park | 105,000 | -20.15 | |
| Oct-14-2019 | Buy | Shinay Park | 105,000 | -14.86 | |
| 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 | | |

Classification of Investment Ratings

Stock Ratings (based on expected 12m performance)

Buy: +15% or beyond Hold: Between 15% and -15% Sell: -15% or beyond

Note: Classification revised from four ratings (Strong BUY, BUY, Marketperform, Underperform) to three (Buy, Hold, Sell) as of Feb 23, 2017; Basis for ratings revised from expected 6m return to expected 12m return as of Feb 10, 2020

Ratings Distribution (as of September 30, 2021)

| Buy | Hold | Sell |
|------|------|------|
| 82.9 | 17.1 | - |

Note: Based on recommendations in the last 12 months

Sector Ratings (based on expected 12m performance)

Positive: Neutral: Negative:

To outperform market To perform in line with market To underperform market

Note: Classification revised from Overweight/Neutral/Underweight to Positive/Neutral/Negative as of Jun 28, 2017; Basis for ratings revised from expected 6m return to expected 12m return as of Feb 10, 2020

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