

Coway (021240 KS)

Consumer durables

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| | |
|------------------------|---------------------|
| Rating | BUY (M) |
| Target price | W110,000 (M) |
| Current price (Oct 14) | W78,700 |
| Upside potential | 40% |

| | |
|-----------------------------|-------------------------|
| Market cap (Wbn) | 5,808 |
| Shares outstanding | 73,799,619 |
| Avg daily T/O (2M, Wbn) | 17 |
| Avg daily volume (2M, shrs) | 214,337 |
| 52-week high (won) | 87,600 |
| 52-week low (won) | 64,100 |
| Foreign ownership (%) | 59.7 |
| Major shareholders (%) | Netmarble & others 25.1 |

Stock performance

| (%) | 1M | 3M | 12M |
|------------|-------|-------|--------|
| Absolute | 0.4 | 1.5 | (2.1) |
| Relative | 5.8 | 10.9 | (22.0) |
| Abs (US\$) | (1.0) | (1.7) | (5.4) |

Malaysia decent despite lockdown

3Q21 preview: Malaysia decent despite lockdown measures

Coway's 3Q21 sales likely came to W940.5bn (+17.5% YoY) and OP W168.6bn (flat YoY). Earnings were decent, with OP likely meeting consensus of W165.4bn. Business conditions were unfavorable, as Malaysia has been under lockdown since June. Although Coway sold products, installation was unavailable due to travel restrictions. However, conditions started to ease gradually from mid-August as the COVID-19 vaccination rate increased. Fortunately, the impact of the lockdown was minimized, as the company rapidly caught up in selling and installing products after the lockdown was lifted. Net rental account additions in Malaysia in 3Q21 likely came to over 100,000.

Higher growth momentum in Malaysia

Growth potential in Malaysia is expanding again in 2021. Net rental account additions increased from 70,000~90,000 per quarter to 130,000~170,000 in 2021. In 1Q21, we estimate that 170,000 rental accounts were added in net terms. If there had been no lockdown in June, net growth in rental accounts would likely have remained flat QoQ in 2Q21, as Coway entered the mid-end market, which it did not target before, and expanded sales of new categories such as air purifiers and mattresses. Despite lockdown concerns, business conditions should normalize gradually given rising vaccinations. Thus, growth momentum in the country will likely gain attention again.

Maintain BUY and target price of W110,000

In addition to growth momentum in Malaysia, normalization of the domestic business, which was weak due to the service managers' strike, and an increase in brand awareness in the US are also positive. We recommend investors buy shares at a 2022E P/E of 11x. We maintain BUY and our target price of W110,000.

Quarterly earnings

| (Wbn) | 3Q21E | % YoY | % QoQ | Consens | vs consens (%) |
|---------------------|-------|----------|----------|---------|----------------|
| Sales | 940 | 17.5 | 3.9 | 905 | 4.0 |
| OP | 169 | 0.0 | 1.3 | 165 | 1.9 |
| EBT, continuing ops | 165 | 10.6 | 3.2 | 164 | 0.9 |
| Net profit, CI | 122 | 4.6 | 5.5 | 111 | 9.8 |
| OPM (%) | 17.9 | -3.2 %pt | -0.5 %pt | 18.3 | -0.4 %pt |
| NPM (%) | 13.0 | -1.6 %pt | +0.2 %pt | 12.3 | +0.7 %pt |

Note: CI = controlling interest

Forecasts and valuations (K-IFRS, consolidated)

| | (Wbn) | | | |
|----------------|-------|-------|-------|-------|
| FY ends Dec | 2019A | 2020A | 2021F | 2022F |
| Sales | 3,019 | 3,237 | 3,679 | 4,112 |
| OP | 458 | 606 | 661 | 712 |
| Net profit, CI | 333 | 405 | 476 | 519 |
| P/E (x) | 19.0 | 13.5 | 12.2 | 11.2 |
| P/B (x) | 5.7 | 3.6 | 3.2 | 2.6 |
| EV/EBITDA | 7.1 | 5.0 | 5.0 | 4.5 |
| ROE (%) | 30.7 | 31.5 | 29.3 | 26.4 |

Source: Yuanta Securities

Coway (021240 KS) pro forma financial statements (K-IFRS, consolidated)

Statement of comprehensive income

| FY ends Dec (Wbn) | 2019A | 2020A | 2021F | 2022F | 2023F |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|
| Sales | 3,019 | 3,237 | 3,679 | 4,112 | 4,601 |
| Cost of sales | 1,010 | 1,044 | 1,236 | 1,375 | 1,536 |
| Gross profit | 2,009 | 2,193 | 2,443 | 2,738 | 3,065 |
| SG&A | 1,550 | 1,587 | 1,782 | 2,025 | 2,278 |
| Operating profit | 458 | 606 | 661 | 712 | 787 |
| EBITDA | 973 | 1,150 | 1,198 | 1,267 | 1,357 |
| Non-op profit/loss | -7 | -66 | -9 | -11 | -8 |
| Forex gain/loss | 13 | -21 | 7 | 5 | 5 |
| Net interest inc | -21 | -20 | -18 | -16 | -13 |
| Equity-meth gain/loss | 0 | 0 | 0 | 0 | 0 |
| Other | 1 | -25 | 1 | 0 | 0 |
| Net prof before income tax | 451 | 540 | 651 | 701 | 779 |
| Income tax | 119 | 136 | 175 | 182 | 202 |
| Net profit from cont op | 332 | 405 | 476 | 519 | 576 |
| Net profit from discont op | 0 | 0 | 0 | 0 | 0 |
| Net profit | 332 | 405 | 476 | 519 | 576 |
| NP for controlling int | 333 | 405 | 476 | 519 | 577 |
| Total comprehensive inc | 330 | 396 | 475 | 515 | 573 |
| TCI for controlling int | 331 | 396 | 475 | 515 | 573 |

Statement of financial position

| FY ends Dec (Wbn) | 2019A | 2020A | 2021F | 2022F | 2023F |
|--------------------------|--------------|--------------|--------------|--------------|--------------|
| Current assets | 767 | 897 | 1,110 | 1,359 | 1,654 |
| Cash & cash equiv | 61 | 116 | 108 | 110 | 116 |
| Accts rec & other | 345 | 327 | 330 | 394 | 471 |
| Inventory | 113 | 134 | 191 | 214 | 265 |
| Non-current assets | 2,088 | 2,132 | 2,429 | 2,454 | 2,484 |
| Tangible assets | 1,271 | 1,225 | 1,210 | 1,243 | 1,280 |
| Investment in affiliate | 0 | 0 | 4 | 4 | 4 |
| Other non-current | 19 | 15 | 17 | 17 | 17 |
| Total assets | 2,855 | 3,029 | 3,539 | 3,813 | 4,137 |
| Current liabilities | 1,587 | 1,417 | 1,030 | 990 | 951 |
| Accts payable & other | 295 | 312 | 319 | 330 | 340 |
| ST financial liabilities | 861 | 700 | 358 | 308 | 258 |
| Liquid LT liabilities | 1 | 1 | 1 | 1 | 1 |
| Non-current liabilities | 191 | 122 | 553 | 453 | 353 |
| LT financial liabilities | 9 | 9 | 19 | 19 | 19 |
| Debentures | 0 | 0 | 370 | 270 | 170 |
| Total liabilities | 1,778 | 1,539 | 1,783 | 1,643 | 1,504 |
| Equity, controlling int | 1,078 | 1,491 | 1,758 | 2,172 | 2,636 |
| Paid-in capital | 41 | 41 | 41 | 41 | 41 |
| Capital surplus | 132 | 148 | 148 | 148 | 148 |
| Retained earnings | 954 | 1,365 | 1,629 | 2,047 | 2,515 |
| Equity, non-control int | -1 | -1 | -2 | -2 | -2 |
| Total equity | 1,077 | 1,490 | 1,756 | 2,170 | 2,634 |
| Net debt | 624 | 316 | 220 | -92 | -408 |
| Total debt | 899 | 730 | 785 | 635 | 485 |

Cash flow statement

| FY ends Dec (Wbn) | 2019A | 2020A | 2021F | 2022F | 2023F |
|-----------------------------------|-------------|-------------|-------------|--------------|--------------|
| Operating cash flow | 539 | 563 | 773 | 1,092 | 1,126 |
| Net profit | 332 | 405 | 476 | 519 | 576 |
| Depreciation & amort | 505 | 534 | 529 | 547 | 563 |
| Forex gain/loss | -11 | 22 | -2 | -5 | -5 |
| Affiliate invest gain/loss | 0 | 0 | 0 | 0 | 0 |
| Inc(dec) net working cap | -571 | -567 | -491 | -196 | -238 |
| Other | 284 | 169 | 260 | 227 | 230 |
| Investing cash flow | -383 | -323 | -539 | -740 | -760 |
| Investment | -5 | 0 | -10 | 0 | 0 |
| Inc in tangible assets | -391 | -325 | -409 | -580 | -600 |
| Dec in tangible assets | 25 | 0 | 0 | 0 | 0 |
| Other | -12 | 2 | -121 | -160 | -160 |
| Financing cash flow | -165 | -182 | -85 | -256 | -262 |
| Inc(dec) in ST fin liab | 129 | -160 | -347 | -50 | -50 |
| Inc(dec) in LT fin liab | -15 | -21 | 366 | -100 | -100 |
| Inc(dec) in equity | 0 | 0 | 0 | 0 | 0 |
| Cash dividend | -260 | 0 | -87 | -102 | -109 |
| Other | -19 | 0 | -16 | -4 | -4 |
| Other cash flow | 0 | -3 | -157 | -94 | -97 |
| Inc (dec) in cash & eq | -9 | 55 | -8 | 2 | 6 |
| Beginning cash & equiv | 69 | 61 | 116 | 108 | 110 |
| Ending cash & equiv | 61 | 116 | 108 | 110 | 116 |
| NOPLAT | 458 | 606 | 661 | 712 | 787 |
| FCF | 149 | 238 | 364 | 512 | 526 |

Valuation

| FY ends Dec (Wbn) | 2019A | 2020A | 2021F | 2022F | 2023F |
|----------------------|-------------|-------------|-------------|-------------|-------------|
| EPS (won) | 4,511 | 5,486 | 6,454 | 7,035 | 7,813 |
| BPS (won) | 14,931 | 20,554 | 24,226 | 29,932 | 36,330 |
| EBITDA/shr (won) | 13,189 | 15,579 | 16,230 | 17,171 | 18,386 |
| SPS (won) | 40,907 | 43,868 | 49,849 | 55,724 | 62,346 |
| DPS (won) | 2,400 | 1,200 | 1,400 | 1,500 | 1,600 |
| P/E (x) | 19.0 | 13.5 | 12.2 | 11.2 | 10.1 |
| P/B (x) | 5.7 | 3.6 | 3.2 | 2.6 | 2.2 |
| EV/EBITDA (x) | 7.1 | 5.0 | 5.0 | 4.5 | 4.0 |
| PSR (x) | 2.1 | 1.7 | 1.6 | 1.4 | 1.3 |

Key financial data

| FY ends Dec (Wbn) | 2019 | 2020 | 2021E | 2022E | 2023E |
|---------------------------------|--------------|-------------|-------------|-------------|-------------|
| Sales (% y-y) | 11.5 | 7.2 | 13.6 | 11.8 | 11.9 |
| Operating profit (% y-y) | -11.8 | 32.3 | 9.0 | 7.8 | 10.4 |
| NP, CI (% y-y) | -4.9 | 21.6 | 17.6 | 9.0 | 11.1 |
| Gross margin (%) | 66.5 | 67.8 | 66.4 | 66.6 | 66.6 |
| Operating margin (%) | 15.2 | 18.7 | 18.0 | 17.3 | 17.1 |
| NP, CI margin (%) | 11.0 | 12.5 | 12.9 | 12.6 | 12.5 |
| EBITDA margin (%) | 32.2 | 35.5 | 32.6 | 30.8 | 29.5 |
| ROIC (%) | 29.0 | 38.4 | 39.8 | 39.7 | 40.1 |
| ROA (%) | 12.7 | 13.8 | 14.5 | 14.1 | 14.5 |
| ROE (%) | 30.7 | 31.5 | 29.3 | 26.4 | 24.0 |
| Debt-to-equity (%) | 165.0 | 103.3 | 101.5 | 75.7 | 57.1 |
| Net debt-to-equity (%) | 57.8 | 21.2 | 12.5 | -4.3 | -15.5 |
| OP/financing cost (x) | 20.9 | 28.6 | 36.0 | 42.5 | 58.9 |

Note: CI = controlling interest

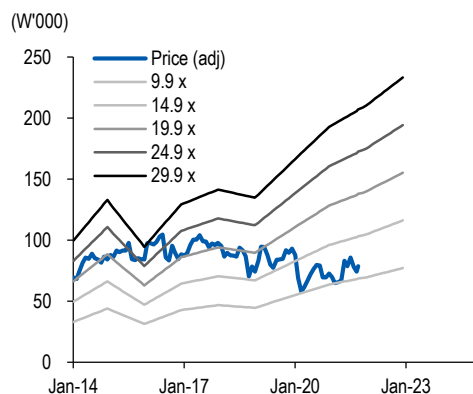
Operating profit calculation same as K-GAAP (sales - COGS - SG&A exp)

EPS, BPS, P/E and P/B are based on controlling interest

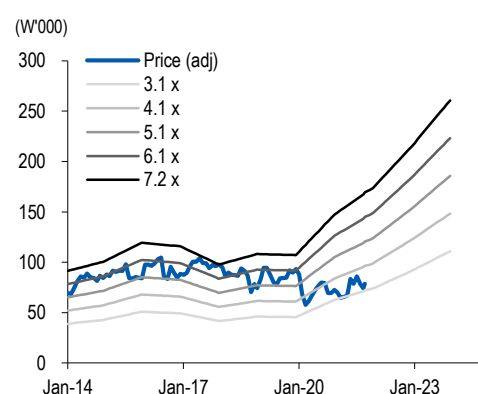
For valuation metrics such as P/E, historical figures are based on annual average prices and estimates, on current price

For ROA or ROE, assets and equity are averages of end-of-year figures for the given year and the year prior

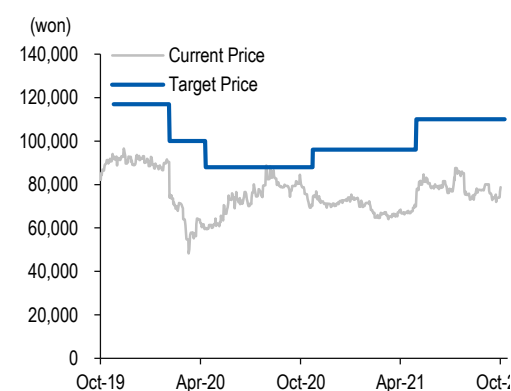
P/E band chart



P/B band chart



Coway (021240 KS) ratings and target price history



| Date | Rating | TP (won) | TP time frame | Difference (%) | |
|------------|--------|----------|---------------|----------------|---------------|
| | | | | vs avg price | vs high (low) |
| 2021/10/15 | BUY | 110,000 | 1 yr | | |
| 2021/05/13 | BUY | 110,000 | 1 yr | | |
| 2020/11/05 | BUY | 96,000 | 1 yr | -27.42 | -20.00 |
| 2020/04/23 | HOLD | 88,000 | 1 yr | -15.41 | - |
| 2020/02/17 | HOLD | 100,000 | 1 yr | -36.23 | - |
| 2019/11/07 | BUY | 117,000 | 1 yr | -22.42 | -17.52 |

Note: Difference = (actual price* - target price) / target price x 100

* 1) The average price until the day target price was suggested

2) The highest (lowest) price until the day target price was suggested

Source: Yuanta Securities

| Rating | Share (%) |
|------------|-----------|
| STRONG BUY | 0.0 |
| BUY | 91.0 |
| HOLD | 9.0 |
| SELL | 0.0 |
| Total | 100.0 |

Note: As of Oct 13, 2021

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