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**Rally to continue; stock compelling at 10.8x 12m fwd P/E**

We maintain BUY and TP of KRW105,000 on Coway. We expect the stock to continue rallying on the back of improving business conditions after the adoption of Korea's "Living With COVID-19" plan as well as brisk top-line growth at overseas subsidiaries. The stock continues to be compelling at 10.8x 12m fwd P/E.

**Overseas subsidiaries' revenue proportion to jump to 38% in 2022; Malaysia and U.S. revenue to grow 25% YoY and 16% YoY, respectively**

We expect Coway to continue on its trajectory in 2022, posting consolidated revenue of KRW4.06tn (+11% YoY) and OP of KRW742.5bn (+12% YoY). Overseas subsidiaries' revenue and OP proportions should jump to 38% and 36%, respectively, backed by brisk top-line growth in Malaysia (+25% YoY) and the U.S. (+16% YoY). Standalone OPM should take an upturn, improving 0.4pp YoY in 2022 after a 1.2pp decline in 2021 caused by increases in labor, R&D and marketing costs.

**3Q21 review: In line with market consensus; Malaysia revenue jumps 43%**

Coway posted 3Q21 consolidated revenue of KRW934.0bn (+17% YoY) and OP of KRW163.8bn (-3% YoY; +5% YoY when excl. KRW12.8bn one-off gain in 3Q20), meeting the market consensus.

On a standalone basis, the company reported revenue of KRW686.4bn (+7% YoY) and OP of KRW109.8bn (-12% YoY; -2% YoY when excl. one-off gain in 3Q20):

- (1) New rental contract sales registered positive growth for the first time in eight quarters, advancing 16% YoY thanks to a low base (sales efforts hindered by service manager strike in 3Q20).
- (2) The monthly avg. cancellation rate seems to still be below 1.0%.

### Buy Maintain

<b>Target Price (Maintain)</b>	<b>KRW105,000</b>
Dividend yield*	1.7%
Total return	36.8%
Current price (Nov 5)	KRW77,700
Consensus target price	KRW102,250
Market capitalization	USD4.8bn

\* 12-month forward

#### Earnings Forecast & Valuation

Fiscal year-end	2020A	2021E	2022E	2023E
Revenue (KRWbn)	3,237	3,660	4,061	4,431
OP (KRWbn)	606	662	742	811
NP to control. int. (KRWbn)	405	491	529	581
EPS (KRW)	5,486	6,656	7,165	7,874
EPS growth (%)	21.6	21.3	7.6	9.9
P/E (x)	13.3	11.7	10.8	9.9
EV/EBITDA (x)	5.0	5.1	4.5	4.0
P/B (x)	3.6	3.0	2.5	2.0
ROE (%)	31.5	29.0	25.0	22.6
Div. yield (%)	1.7	1.7	1.8	1.9

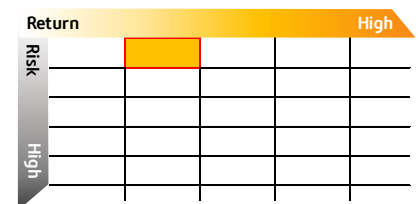
#### Trading Data

Free float	73.2%
Avg. T/O val. (3m, KRWbn)	15.4
Foreign ownership	59.8%
Major shareholders	Netmarble and 6 others 25.1%
	National Pension Service 8.5%

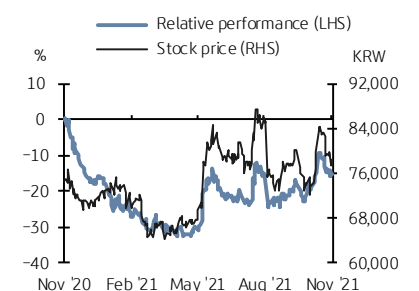
#### Stock Price Performance

(%)	1M	3M	6M	12M
Absolute	3.2	-8.6	15.1	4.3
Relative	2.9	0.9	22.0	-15.2

#### Risk & Total Return (annualized over three years)



#### Stock Price & Relative Performance



Source(s): Company data, KB Securities

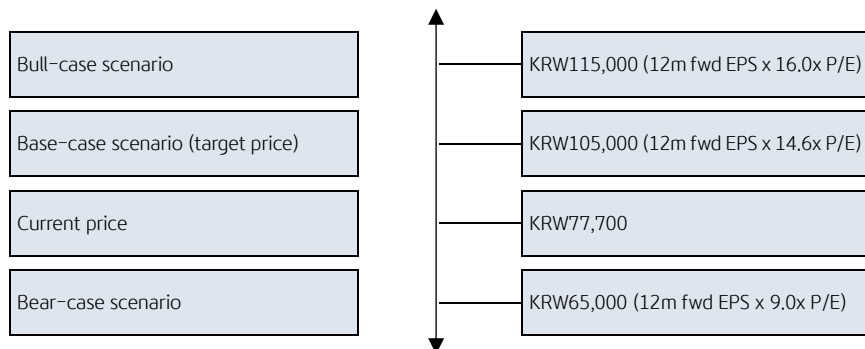
(3) There was a net increase of 84k in no. of rental accounts.

(4) OPM fell 1.5pp YoY (excl. one-off gains) to 16.0% because of increases in labor and marketing costs and IT investments.

The Malaysia subsidiary, despite its weak top-line performance in July caused by a lockdown, saw revenue and OP grow 43% YoY and 85% YoY, respectively, with OPM improving 5pp YoY to 21%.

The U.S. subsidiary saw revenue climb 12% YoY despite a high base (3Q20 growth: +130% YoY). OP contracted 61%, while OPM normalized to 8% from an exceptionally high 23% in 3Q20.

## Investment Opinion & Risks



### Base-case scenario: Catalysts

- 1) 2020-23 domestic revenue CAGR at 5%
- 2) 2020-23 overseas revenue CAGR at 27%

### Bull-case scenario: Upside risks

- 1) 2020-23 domestic revenue CAGR above 5%
- 2) 2020-23 overseas revenue CAGR above 27%

### Bear-case scenario: Downside risks

- 1) 2020-23 domestic revenue CAGR below 5%
- 2) 2020-23 overseas revenue CAGR below 27%

## Revised Earnings Estimates

(KRWbn, %)	Previous		Revised		Change	
	2021E	2022E	2021E	2022E	2021E	2022E
Revenue	3,647.2	4,008.2	3,660.0	4,060.7	0.4	1.3
OP	681.9	772.1	662.5	742.5	-2.9	-3.8
NP (to control. int.)	483.4	550.5	491.4	529.7	1.7	-3.8

Source(s): KB Securities estimates

## KB Estimates vs. Consensus

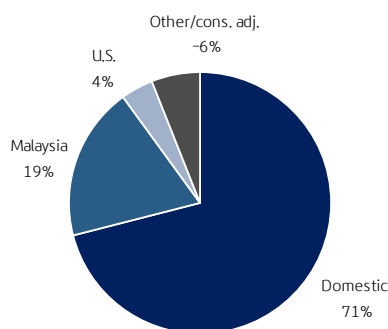
(KRWbn, %)	KB Estimates		Consensus		Difference	
	2021E	2022E	2021E	2022E	2021E	2022E
Revenue	3,660.0	4,060.7	3,630.7	4,009.2	0.8	1.3
OP	662.5	742.5	651.9	727.9	1.6	2.0
NP (to control. int.)	491.4	529.7	468.4	525.5	4.9	0.8

Source(s): FnGuide, KB Securities estimates

## Valuation & Target Price Calculation

- 1) Valuation method:  
Discounted cash flow model
- 2) Target price calculation:  
6.72% WACC; 2.1% TGR
- 3) Target price range:  
KRW65,000 – KRW115,000
- 4) Valuation at target price:  
14.6x 12m fwd implied P/E, 3.42x 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	5,734.2	11.0	14.3	2.53	23.1	4.8	4.0
Amorepacific	10,996.6	37.4	221.0	2.63	7.0	12.3	19.9
LG H&H	19,194.8	23.1	9.2	3.57	15.4	11.5	5.2

Source(s): KB Securities estimates

**Table 1. 3Q21 Results (consolidated)**

(KRWbn)	3Q21P	3Q20	YoY (%)	2Q21	QoQ (%)	Consensus	Diff. (%)	KB Estimate	Diff. (%)
Revenue	934.0	800.4	16.7	905.4	3.2	915.6	2.0	921.4	1.4
OP	163.8	168.6	-2.9	166.4	-1.6	170.2	-3.7	175.9	-6.9
EBT	185.8	149.2	24.5	159.9	16.2	164.1	13.2	167.2	11.1
NP	136.5	116.8	16.8	115.9	17.8	120.7	13.1	123.7	10.3
OPM (%)	17.5	21.1		18.4		18.6		19.1	
EBT margin (%)	19.9	18.6		17.7		17.9		18.1	
NPM (%)	14.6	14.6		12.8		13.2		13.4	

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

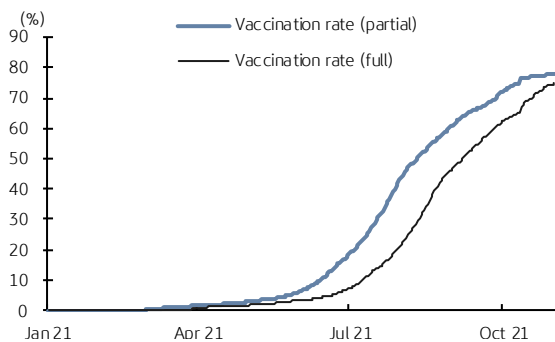
**Table 2. Earnings Estimate Revisions**

(KRWbn)	Previous			Revised			Change (%)		
	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
Revenue	3,647.2	4,008.2	4,389.3	3,660.0	4,060.7	4,431.4	0.4	1.3	1.0
OP	681.9	772.1	839.0	662.5	742.5	811.5	-2.9	-3.8	-3.3
EBT	660.7	742.4	811.1	675.1	714.4	785.1	1.9	-3.8	-3.2
NP (to control, int.)	483.4	550.5	601.4	491.4	529.7	582.1	1.7	-3.8	-3.2
EPS (KRW)	6,663	7,587	8,289	6,773	7,300	8,023	1.7	-3.8	-3.2
YoY (%)	Revenue	12.7	9.9	9.5	13.1	10.9	9.1		
	OP	12.5	13.2	8.7	9.2	12.1	9.3		
	EBT	22.3	12.4	9.3	24.6	6.1	9.9		
	NP (to control, int.)	19.4	13.9	9.3	21.4	7.8	9.9		
	EPS	21.4	13.9	9.3	23.5	7.8	9.9		
OPM (%)		18.7	19.3	19.1	18.1	18.3	18.3		
EBT margin (%)		18.1	18.5	18.5	18.4	17.6	17.7		
NPM (to control, int.) (%)		13.3	13.7	13.7	13.4	13.0	13.1		

Source(s): Company data, KB Securities estimates

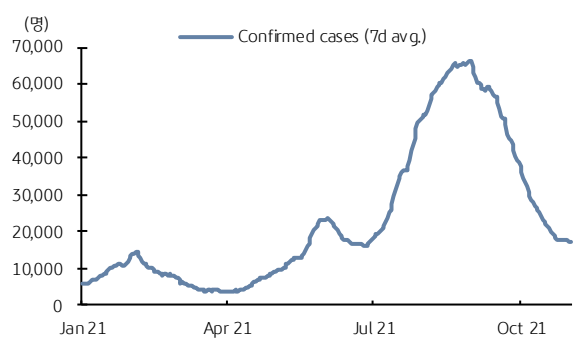
Note: Previous estimates based on data as of Oct 14, 2021

**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)		1Q21	2Q21	3Q21P	4Q21E	1Q22E	2Q22E	3Q22E	4Q22E	2019	2020	2021E	2022E	2023E
Revenue		879.0	905.4	934.0	941.7	979.9	1,014.1	1,024.9	1,041.7	3,018.9	3,237.4	3,660.0	4,060.7	4,431.4
Standalone		674.8	710.9	686.4	680.3	702.5	743.1	716.8	709.8	2,531.0	2,592.5	2,752.3	2,872.2	2,983.8
Malaysia		240.4	236.7	256.2	282.1	300.5	295.9	320.3	352.6	526.3	708.4	1,015.4	1,269.3	1,523.1
U.S.		42.9	35.8	58.0	49.7	49.3	48.3	60.9	57.1	97.3	152.5	186.4	215.7	242.9
Other subsidiaries		20.7	43.6	51.3	46.0	48.7	52.1	53.7	50.9	105.3	79.4	161.6	205.5	229.3
Cons. adj.		-99.8	-121.6	-117.9	-116.4	-121.1	-125.3	-126.7	-128.8	-241.0	-295.4	-455.6	-501.9	-547.7
YoY (%)	Revenue	14.3	12.4	16.7	9.2	11.5	12.0	9.7	10.6	11.5	7.2	13.1	10.9	9.1
	Standalone	7.4	8.5	7.0	2.0	4.1	4.5	4.4	4.3	5.7	2.4	6.2	4.4	3.9
	Malaysia	56.8	51.8	43.3	28.0	25.0	25.0	25.0	25.0	48.9	34.6	43.3	25.0	20.0
	U.S.	57.7	11.5	12.0	20.0	15.0	35.0	5.0	15.0	20.9	56.7	22.2	15.7	12.6
	Other subsidiaries	-8.0	159.5	214.7	93.1	135.4	19.6	4.7	10.8	19.5	-24.6	103.5	27.2	11.6
	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	76.8	78.5	73.5	72.2	71.7	73.3	69.9	68.1	83.8	80.1	75.2	70.7	67.3
	Malaysia	27.3	26.1	27.4	30.0	30.7	29.2	31.2	33.9	17.4	21.9	27.7	31.3	34.4
	U.S.	4.9	4.0	6.2	5.3	5.0	4.8	5.9	5.5	3.2	4.7	5.1	5.3	5.5
	Other subsidiaries	2.4	4.8	5.5	4.9	5.0	5.1	5.2	4.9	3.5	2.5	4.4	5.1	5.2
	Cons. adj.	-11.4	-13.4	-12.6	-12.4	-12.4	-12.4	-12.4	-12.4	-8.0	-9.1	-12.4	-12.4	-12.4
Operating profit		170.7	166.4	163.8	161.5	182.0	188.0	189.4	183.1	458.3	606.4	662.5	742.5	811.5
Standalone		112.0	122.5	109.8	105.4	120.8	127.8	123.3	110.0	394.7	455.5	449.8	482.0	507.5
Malaysia		56.1	59.6	54.8	59.2	63.1	62.1	67.3	74.1	75.6	130.1	229.7	266.5	304.6
U.S.		5.7	0.9	4.6	4.0	4.2	4.1	5.2	4.9	3.3	19.8	15.2	18.3	19.4
Other subsidiaries		-5.8	-8.4	-3.6	-3.9	-2.4	-2.2	-2.4	-2.1	-2.9	-11.0	-21.7	-9.2	-3.5
Cons. adj.		2.7	-8.2	-1.8	-3.3	-3.7	-3.8	-3.9	-3.7	-12.4	12.0	-10.6	-15.2	-16.6
YoY (%)	OP	23.0	-1.6	-2.9	24.4	6.6	12.9	15.6	13.4	-11.8	32.3	9.2	12.1	9.3
	Standalone	-3.2	-9.9	-12.1	33.6	7.9	4.3	12.3	4.3	-17.3	15.4	-1.2	7.1	5.3
	Malaysia	122.6	155.8	85.1	13.9	12.5	4.3	22.7	25.0	21.3	72.1	76.6	16.0	14.3
	U.S.	119.2	-81.6	-61.0	694.9	-26.4	356.5	12.5	22.2	6.5	500.0	-23.4	20.8	6.0
	Other subsidiaries	RR	RR	RR	RR	RR	RR	RR	RR	RR	RR	RR	RR	RR
	Cons. adj.	TTR	TTR	TTR	TTR	TTR	RR	RR	RR	RR	TTR	TTR	RR	RR
OPM (%)	OP	19.4	18.4	17.5	17.1	18.6	18.5	18.5	17.6	15.2	18.7	18.1	18.3	18.3
	Standalone	16.6	17.2	16.0	15.5	17.2	17.2	17.2	15.5	15.6	17.6	16.3	16.8	17.0
	Malaysia	23.3	25.2	21.4	21.0	21.0	21.0	21.0	21.0	14.4	18.4	22.6	21.0	20.0
	U.S.	13.3	2.5	7.9	8.0	8.5	8.5	8.5	8.5	3.4	13.0	8.1	8.5	8.0
	Other subsidiaries	-28.0	-19.3	-7.0	-8.5	-5.0	-4.3	-4.5	-4.2	-2.8	-13.8	-13.4	-4.5	-1.5
	Cons. adj.	-2.7	6.7	1.5	2.8	3.1	3.1	3.1	2.9	5.1	-4.1	2.3	3.0	3.0
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	65.6	73.6	67.0	65.3	66.4	68.0	65.1	60.1	86.1	75.1	67.9	64.9	62.5
	Malaysia	32.9	35.8	33.5	36.7	34.7	33.1	35.5	40.5	16.5	21.5	34.7	35.9	37.5
	U.S.	3.3	0.5	2.8	2.5	2.3	2.2	2.7	2.7	0.7	3.3	2.3	2.5	2.4
	Other subsidiaries	-3.4	-5.0	-2.2	-2.4	-1.3	-1.2	-1.3	-1.2	-0.6	-1.8	-3.3	-1.2	-0.4
Gross profit		579.8	594.2	603.4	630.1	642.5	661.5	658.1	692.9	2,008.5	2,193.5	2,407.5	2,654.9	2,879.6
EBT		174.7	159.9	185.8	152.7	175.5	181.5	182.9	174.5	451.4	540.4	673.1	714.4	785.1
NP (to control. int.)		125.8	115.9	136.5	113.2	130.1	134.6	135.6	129.4	332.9	404.9	491.4	529.7	582.1
EBITDA		304.4	297.6	288.6	271.0	307.1	313.1	314.6	308.2	973.4	1,149.7	1,161.7	1,243.0	1,312.9
YoY (%)	Gross profit	11.1	7.1	12.5	8.5	10.8	11.3	9.1	10.0	9.8	9.2	9.8	10.3	8.5
	EBT	26.3	0.2	24.5	63.7	0.4	13.5	-1.5	14.3	-3.7	19.7	24.6	6.1	9.9
	NP (to control. int.)	23.8	-2.6	16.8	67.8	3.4	16.1	-0.7	14.3	-4.9	21.6	21.4	7.8	9.9
	EBITDA	10.4	-1.9	-5.3	1.9	0.9	5.2	9.0	13.7	25.5	18.1	1.0	7.0	5.6
GPM (%)		66.0	65.6	64.6	66.9	65.6	65.2	64.2	66.5	66.5	67.8	65.8	65.4	65.0
EBT margin (%)		19.9	17.7	19.9	16.2	17.9	17.9	17.8	16.8	15.0	16.7	18.4	17.6	17.7
NPM (to control. int.) (%)		14.3	12.8	14.6	12.0	13.3	13.3	13.2	12.4	11.0	12.5	13.4	13.0	13.1
EBITDA margin (%)		34.6	32.9	30.9	28.8	31.3	30.9	30.7	29.6	32.2	35.5	31.7	30.6	29.6

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)	1Q21	2Q21	3Q21P	4Q21E	1Q22E	2Q22E	3Q22E	4Q22E	2019	2020	2021E	2022E	2023E	
Revenue	674.8	710.9	686.4	680.3	702.5	743.1	716.8	709.8	2,531.0	2,592.5	2,752.3	2,872.2	2,983.8	
Domestic home appliance	538.5	558.9	556.2	546.0	558.4	582.4	579.1	567.8	2,111.2	2,127.2	2,199.7	2,287.8	2,366.2	
Rental	394.4	388.7	380.5	377.3	386.6	403.5	397.9	390.2	1,572.6	1,596.4	1,540.9	1,578.2	1,618.5	
Home care	98.0	127.4	136.9	127.1	127.4	137.6	143.7	137.3	258.4	304.1	489.4	546.0	589.7	
Membership	24.1	23.7	23.1	21.8	22.2	22.0	21.4	20.3	107.3	99.2	92.8	85.9	81.3	
Lump-sum payment	18.8	15.8	12.5	16.6	19.2	16.1	12.7	16.9	161.3	114.0	65.7	65.0	64.3	
Other	3.1	3.2	3.3	3.2	3.1	3.2	3.2	3.2	11.7	13.5	12.9	12.6	12.4	
Exports	124.6	139.9	119.9	123.2	132.1	148.3	127.1	130.6	343.5	404.7	507.7	538.1	570.4	
Cosmetics	11.6	12.1	10.2	11.1	12.0	12.4	10.5	11.4	76.3	60.6	45.0	46.3	47.3	
YoY (%)	Revenue	7.4	8.5	7.0	2.0	4.1	4.5	4.4	4.3	5.7	2.4	6.2	4.4	3.9
	Domestic HA	1.7	1.1	9.6	1.6	3.7	4.2	4.1	4.0	4.6	0.8	3.4	4.0	3.4
	Rental	-1.9	-4.1	-4.8	-3.2	-2.0	3.8	4.6	3.4	2.9	1.5	-3.5	2.4	2.6
	Home care	42.2	46.2	139.0	40.0	30.0	8.0	5.0	8.0	39.6	17.7	60.9	11.6	8.0
	Membership	-2.1	-8.4	-6.2	-9.0	-8.1	-7.1	-7.1	-7.1	-11.5	-7.6	-6.4	-7.4	-5.4
	Lump-sum	-39.0	-50.5	-47.1	-40.0	2.0	2.0	2.0	2.0	-5.6	-29.3	-44.1	2.0	-1.1
	Other	1.9	23.4	36.4	-40.0	-2.0	-2.0	-2.0	-2.0	-8.6	15.6	-4.4	-2.0	-2.0
	Exports	52.3	64.2	-0.3	5.0	6.0	6.0	6.0	6.0	13.6	17.8	25.4	6.0	6.0
	Cosmetics	-32.9	-30.3	-25.4	-10.0	3.0	3.0	3.0	3.0	1.1	-20.6	-25.8	3.0	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	79.8	78.6	81.0	80.3	79.5	78.4	80.8	80.0	83.4	82.1	79.9	79.7	79.3
	Rental	58.5	54.7	55.4	55.5	55.0	54.3	55.5	55.0	62.1	61.6	56.0	54.9	54.2
	Home care	14.5	17.9	19.9	18.7	18.1	18.5	20.1	19.3	10.2	11.7	17.8	19.0	19.8
	Membership	3.6	3.3	3.4	3.2	3.2	3.0	3.0	2.9	4.2	3.8	3.4	3.0	2.7
	Lump-sum	2.8	2.2	1.8	2.4	2.7	2.2	1.8	2.4	6.4	4.4	2.3	2.3	2.2
	Other	0.5	0.5	0.5	0.5	0.4	0.4	0.5	0.4	0.5	0.5	0.5	0.4	0.4
	Export	18.5	19.7	17.5	18.1	18.8	20.0	17.7	18.4	13.6	15.6	18.4	18.7	19.1
	Cosmetics	1.7	1.7	1.5	1.6	1.7	1.7	1.5	1.6	3.0	2.3	1.6	1.6	1.6
OP		112.0	122.5	109.8	105.4	120.8	127.8	123.3	110.0	394.7	455.5	449.8	482.0	507.5
YoY (%)		-3.2	-9.9	-12.1	33.6	7.9	4.3	12.3	4.3	-17.3	15.4	-1.2	7.1	5.3
OPM (%)		16.6	17.2	16.0	15.5	17.2	17.2	17.2	15.5	15.6	17.6	16.3	16.8	17.0
Key rental assumptions														
Total accounts ('000)		5,842.4	5,903.2	5,987.4	6,039.8	6,109.2	6,192.3	6,245.2	6,318.9	5,687.7	5,809.0	6,039.8	6,318.9	6,554.1
New ('000)		321.0	340.4	330.3	335.5	359.5	374.4	346.8	369.1	1,572.1	1,353.8	1,327.2	1,449.8	1,493.3
Churns ('000)		172.5	172.4	174.1	176.6	178.2	180.2	182.7	184.2	659.1	703.9	695.7	725.3	756.3
Expiries ('000)		115.0	107.2	72.0	106.5	111.9	111.1	111.3	111.1	455.0	528.6	400.7	445.3	501.8
Monthly ARPU (KRW)		28,176	29,295	29,005	27,960	28,204	29,324	29,034	27,988	27,952	27,552	28,559	28,647	28,589
Monthly avg. churn (%)		0.99	0.98	0.98	0.98	0.98	0.98	0.98	0.98	1.05	1.03	1.00	1.00	1.00
Expiries (%)		32.8	27.9	25.2	28.0	32.0	28.0	35.0	35.0	34.2	37.5	28.6	32.2	34.6
Key membership assumptions														
Total accounts ('000)		515.8	505.3	485.1	478.8	479.7	469.9	451.1	445.3	593.8	526.2	478.8	445.3	423.0
Monthly ARPU ('000 KRW)		15.4	15.5	15.5	15.1	15.4	15.5	15.5	15.1	14.1	14.8	15.4	15.5	15.6
Key lump-sum assumptions														
New sales ('000)		16.7	14.4	12.7	14.9	16.7	14.4	12.7	14.9	194.2	114.7	58.7	58.7	57.0
ARPU ('000 KRW)		1,127.8	1,095.5	985.8	1,107.9	1,150.4	1,117.4	1,005.5	1,130.0	830.5	993.9	1,084.2	1,105.8	1,128.0
Obsolescence loss (cons.) (KRWbn)		13.8	14.8	13.2	14.2	15.1	15.8	15.6	15.4	51.2	77.6	56.0	61.9	65.9

Source(s): Company data, KB Securities estimates

Note: Churns and expiries are based on KB Securities estimates

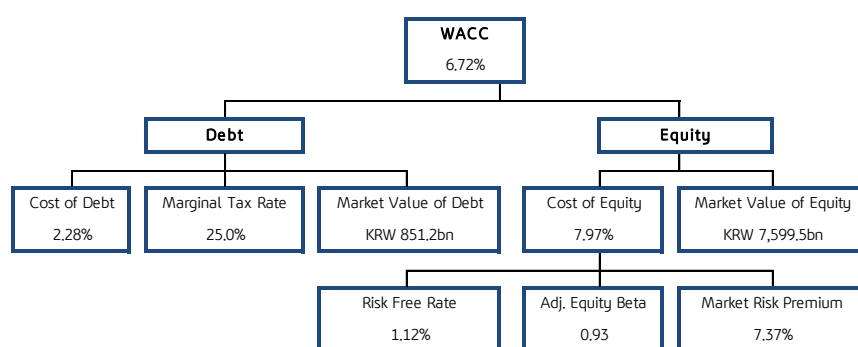
**Table 5. Target Price Calculation: Discounted Cash Flow Model**

(KRWbn)		2020	2021E	2022E	2023E	2024E	2025E	2026E	2027E
<b>Cash flow estimates</b>									
OP	a	606.4	662.5	742.5	811.5	844.0	879.6	897.2	905.6
Effective tax rate (%)	b	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0
<b>NOPLAT</b>	$C=a*(1-b)$	<b>454.8</b>	<b>496.8</b>	<b>556.8</b>	<b>608.6</b>	<b>633.0</b>	<b>659.7</b>	<b>672.9</b>	<b>679.2</b>
D&A	d	543.3	499.2	500.6	501.5	496.2	491.1	486.0	480.9
<b>Total cash flow</b>	$E=C+d$	<b>998.1</b>	<b>996.1</b>	<b>1,057.4</b>	<b>1,110.1</b>	<b>1,129.2</b>	<b>1,150.8</b>	<b>1,158.9</b>	<b>1,160.2</b>
<b>Total investment</b>	$F=g+h$	<b>-892.2</b>	<b>-859.3</b>	<b>-619.3</b>	<b>-616.7</b>	<b>-750.0</b>	<b>-750.0</b>	<b>-800.0</b>	<b>-800.0</b>
Change in working capital	g	-567.0	-459.3	-119.3	-116.7	-200.0	-200.0	-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	136.8	438.1	493.4	379.2	400.8	358.9	360.2
<b>PV of cash flows</b>									
Discount rate				1.0%	7.8%	15.0%	22.7%	31.0%	
PV of FCFF				64.2	457.8	329.7	326.5	273.9	
Total PV of FCFF (2022E-26E)	j		1,452.1						
Terminal growth rate (%)			2.1%		30y KTB yield				
Terminal value (2027E)			7,866.8		2027E FCFF / (WACC - TGR)				
PV of terminal value	k		6,005.6		6.72% WACC (1.12% risk-free rate; 7.37% market risk premium)				
<b>Valuation</b>									
Total cash flow (PV)	$L=j+k$		7,457.6						
Net cash	m		136.4		12m fwd				
Investments in non-consolidated affiliates	n		4.1		end-2Q21				
Non-controlling interests	o		-1.4		end-2Q21				
<b>Fair value</b>	$P=L+(m+n+o)$		<b>7,599.5</b>						
No. of shares ('000)	q		72,556						
<b>Target price (KRW)</b>	$R=P/q$		<b>105,000</b>						
Current price (KRW)			77,700		Nov 5, 2021				
Upside (%)			35.1						
12m fwd implied P/E (x)			14.6						
12m fwd implied P/B (x)			3.42						

Source(s): Company data, KB Securities estimates

**Fig 3. WACC Calculation**

- (1) Cost of debt is 2.28% (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. total return of WMI500 and 1y market stabilization bond
- (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 (Oct 14, 2021)	Adjusted (Nov 8, 2021)	Notes
<b>Cost of equity</b>	A = B + C x D	<b>7.80</b>	<b>7.97</b>	
Risk-free rate	B	1.02	1.12	Avg. 1y MSB yield (last three months)
Adj. beta	C	0.92	0.93	52w adj. beta
Raw beta		0.58	0.58	
R <sup>2</sup>		0.18	0.17	
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
<b>Cost of debt</b>	G	<b>2.05</b>	<b>2.28</b>	YTD yield of KRW-based 1y bonds
Fair shareholder value (KRWbn)		7,586.9	7,599.5	Value of outstanding shares based on TP
Debt (KRWbn)		851.2	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	
<b>WACC</b>	J = (A x H) + (G x I)	<b>6.54</b>	<b>6.72</b>	
<b>Terminal growth rate</b>		<b>1.60%</b>	<b>2.14%</b>	

Source(s): Company data, KB Securities estimates

**Table 7. Target Price Sensitivity to WACC & TGR**

(KRW)		Terminal Growth Rate						
		1.5%	1.7%	1.9%	2.1%	2.3%	2.5%	2.7%
<b>WACC</b>	5.72%	116,734	121,475	126,719	132,549	139,069	146,410	154,737
	5.92%	111,630	115,904	120,609	125,812	131,596	138,066	145,349
	6.12%	106,971	110,842	115,083	119,751	124,913	130,652	137,071
	6.32%	102,701	106,220	110,061	114,270	118,901	124,023	129,717
	6.52%	98,774	101,985	105,477	109,288	113,463	118,059	123,141
	6.72%	95,150	98,090	101,276	105,000	108,522	112,665	117,225
	6.92%	91,794	94,494	97,412	100,573	104,011	107,763	111,874
	7.12%	88,678	91,166	93,845	96,740	99,877	103,288	107,011
	7.32%	85,778	88,075	90,543	93,202	96,074	99,187	102,572
	7.52%	83,071	85,198	87,477	89,926	92,564	95,415	98,503
7.72%	80,538	82,512	84,623	86,885	89,315	91,933	94,761	

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	3,660	4,061	4,431
Cost of revenue	1,010	1,044	1,253	1,406	1,552
Gross profit	2,009	2,194	2,407	2,655	2,880
SG&A expenses	1,550	1,587	1,745	1,912	2,068
Operating profit	458	606	662	742	811
EBITDA	973	1,150	1,162	1,243	1,313
Non-operating accounts	-7	-66	11	-28	-26
Interest income	1	1	1	1	1
Interest expenses	22	21	19	19	18
Profit on equity method	0	0	0	0	0
Net other non-operating income	14	-46	28	-10	-10
Profit before tax	451	540	673	714	785
Income tax expense	119	136	182	186	204
Net profit	332	405	491	529	581
NP attributable to controlling interests	333	405	491	529	581
Adj. net profit	333	405	491	529	581

**Operating Statistics & Ratios**

(%)	2019A	2020A	2021E	2022E	2023E
Revenue growth	11.5	7.2	13.1	11.0	9.1
OP growth	-11.8	32.3	9.2	12.1	9.3
EBITDA growth	25.5	18.1	1.0	7.0	5.6
NP growth of parent	-4.9	21.6	21.3	7.6	9.9
GP margin	66.5	67.8	65.8	65.4	65.0
OP margin	15.2	18.7	18.1	18.3	18.3
EBITDA margin	32.2	35.5	31.7	30.6	29.6
EBT margin	15.0	16.7	18.4	17.6	17.7
NP margin of parent	11.0	12.5	13.4	13.0	13.1

**Statement of Cash Flows**

(KRWbn)	2019A	2020A	2021E	2022E	2023E
Cash flow from operating activities	539	563	668	910	966
Net profit	332	405	491	529	581
Depreciation & amortization	515	543	499	501	501
Other non-cash adjustments	412	373	288	186	204
Investments in working capital	-571	-567	-459	-119	-117
Decrease(Increase) in receivables	-4	-22	1	-33	-37
Decrease(Increase) in inventory	-5	-25	-37	-17	-19
Increase(Decrease) in payables	-9	43	-17	6	6
Investments in other working capital	-553	-563	-405	-75	-67
Other operating cash flow	-148	-191	-151	-186	-204
Cash flow from investing activities	-383	-323	-430	-521	-522
Capital expenditure	-366	-325	-400	-500	-500
Investments in intangibles	-3	-1	-4	-4	-4
Changes in investment assets	-5	0	-10	0	0
Other investment cash flow	-9	4	-17	-18	-19
Cash flow from financing activities	-165	-182	-66	-149	-152
Proceeds from (repayment of) debt	114	-182	31	-56	-52
Changes in equity	2	20	0	0	0
Dividends paid	-260	0	-87	-94	-102
Other financing cash flow	-21	-20	-10	2	2
Other cash flow	0	-3	1	0	0
Increase/decrease in cash	-9	55	174	240	291
Cash and cash equivalents at FYE	61	116	289	530	821
Free cash flow	173	238	268	410	466
Net cash flow	-72	309	153	314	362
Net cash (net debt)	-639	-330	-177	136	499

**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	3,647	3,960	4,330
Current assets	767	897	1,189	1,500	1,867
Cash and cash equivalents	61	116	289	530	821
Current financial assets	214	298	357	375	394
Trade receivables	310	317	333	366	403
Inventory	113	134	174	192	211
Other current assets	69	32	35	37	39
Non-current assets	2,088	2,132	2,457	2,460	2,462
Investment assets	43	23	25	25	25
Property, plant and equipment	1,271	1,225	1,238	1,243	1,246
Intangible assets	168	140	179	177	176
Other non-current assets	606	744	1,015	1,015	1,015
Total liabilities	1,778	1,539	1,752	1,631	1,521
Current liabilities	1,587	1,417	1,160	1,058	967
Trade payables	58	69	74	80	87
Short-term financial liabilities	876	715	357	322	289
Other current liabilities	653	634	729	656	591
Non-current liabilities	191	122	591	573	554
Non-current financial liabilities	38	29	467	447	427
Other non-current liabilities	153	93	124	126	128
Total equity	1,077	1,490	1,895	2,330	2,809
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	-10	-10	-10
Retained earnings	954	1,365	1,766	2,201	2,680
Controlling interests	1,078	1,491	1,897	2,331	2,811
Non-controlling interests	-1	-1	-1	-2	-2

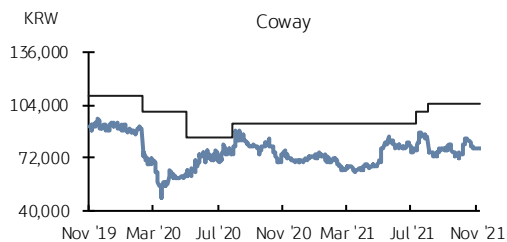
**Key Ratios**

(x, %, KRW)	2019A	2020A	2021E	2022E	2023E
<b>Multiples</b>					
P/E	20.6	13.3	11.7	10.8	9.9
P/B	6.4	3.6	3.0	2.5	2.0
P/S	2.3	1.7	1.6	1.4	1.3
EV/EBITDA	7.7	5.0	5.1	4.5	4.0
EV/EBIT	16.4	9.4	8.9	7.5	6.4
Dividend yield, ordinary (%)	2.6	1.7	1.7	1.8	1.9
EPS	4,511	5,486	6,656	7,165	7,874
BVPS	14,611	20,207	25,700	31,587	38,085
SPS	40,907	43,868	49,594	55,024	60,046
DPS (annual, ordinary)	2,400	1,200	1,300	1,400	1,500
Cash dividends payout ratio (%)	52.1	21.5	19.2	19.2	18.7
<b>Operating performance</b>					
ROE	30.7	31.5	29.0	25.0	22.6
ROA	12.7	13.8	14.7	13.9	14.0
ROIC	21.1	27.2	26.2	27.1	28.0
<b>Financial structure (%)</b>					
Total liab./equity	165.0	103.3	92.4	70.0	54.2
Net debt/equity	59.3	22.2	9.4	Net Cash	Net Cash
Current ratio	0.5	0.6	1.0	1.4	1.9
Interest coverage (x)	20.9	28.6	35.5	38.9	45.6
<b>Activity ratios</b>					
Asset turnover (x)	1.2	1.1	1.1	1.1	1.1
Receivables turnover (x)	9.9	10.3	11.3	11.6	11.5
Payables turnover (x)	50.1	51.1	51.2	52.6	53.2
Inventory turnover (x)	28.0	26.2	23.8	22.2	22.0

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
Nov-06-2019	Buy	Shinay Park	110,000	-16.52	
Jan-03-2020	Buy	Shinay Park	110,000	-18.72	-15.64
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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