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**Lower target price 5% to KRW100,000; stock remains grossly undervalued**

We maintain BUY on Coway but lower our TP by 5% to KRW100,000 to reflect downward revisions to 2022E/2023E OP by 6%/4%. Trading at only 10.5x 12m fwd P/E, the stock remains grossly undervalued considering the company's robust revenue growth at overseas subsidiaries and stable cash inflow.

**2022 forecast: Overseas subsidiaries' revenue contribution to rise to 37%; Malaysia/U.S. revenue +26% YoY/+15% YoY**

We forecast 2022 revenue at KRW4.04tn (+10% YoY) and OP at KRW701.5bn (+10% YoY) (vs. guidance: revenue at +9% YoY, OP at +6% YoY). For Malaysia and the U.S., sustained revenue growth should lift overseas subsidiaries revenue/OP contribution to 37%/33% this year (revenue: +26% for Malaysia, +15% for U.S.). We expect 2022 consolidated OPM to slip 0.1pp YoY to 17.4% on ongoing marketing spending in domestic/overseas markets and investments in R&D and IT.

**4Q21 review: Excluding Malaysia accounting changes, OP surpassed consensus by 6%**

Coway reported 4Q21 consolidated revenue of KRW945.9bn (+10% YoY) and OP of KRW139.2bn (+7% YoY). Revenue was in line with the market consensus but OP missed by 9%. Stripping away the impact of accounting changes at the Malaysia subsidiary (revenue/OP down KRW20.0bn/KRW24.0bn), OP would surpass the consensus by 6%.

► Domestic (standalone) revenue/OP came in at KRW742.7bn (+11% YoY)/KRW112.9bn (+43% YoY).

(1) New rental contract sales declined 0.3% YoY amid the protracted pandemic.

### Buy Maintain

<b>Target Price (Lowered)</b>	<b>KRW100,000</b>
Dividend yield*	1.8%
Total return	41.5%
Current price (Feb 16)	KRW71,600
Consensus target price	KRW101,000
Market capitalization	USD4.4bn
* 12-month forward	

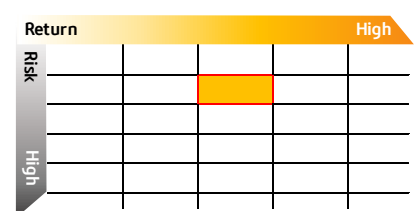
#### Trading Data

Free float	73.2%
Avg. T/O val. (3m, KRWbn)	10.3
Foreign ownership	60.8%
Major shareholders	
Netmarble and 6 others	25.1%
National Pension Service	8.5%

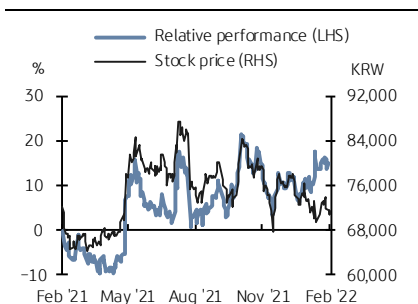
#### Stock Price Performance (total return)

(%)	1M	3M	6M	12M
Absolute	-2.3	-7.8	-3.3	0.6
Relative	4.6	0.1	11.0	14.1

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



#### Stock Price & Relative Performance



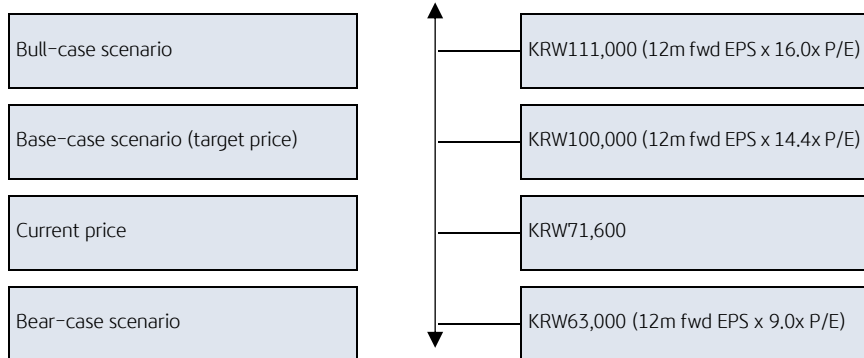
Source(s): Company data, KB Securities

#### Earnings Forecast & Valuation

Fiscal year-end	2021E	2022E	2023E	2024E
Revenue (KRWbn)	3,664	4,041	4,433	4,810
OP (KRWbn)	640	702	776	847
NP to control, int. (KRWbn)	466	498	555	614
EPS (KRW)	6,310	6,752	7,517	8,322
EPS growth (%)	N/A	7.0	11.3	10.7
P/E (x)	11.8	10.6	9.5	8.6
EV/EBITDA (x)	4.9	4.4	3.9	3.4
P/B (x)	2.9	2.3	1.9	1.6
ROE (%)	27.5	23.7	21.9	20.3
Div. yield (%)	1.7	1.8	1.9	2.0

- (2) Monthly average churn remained low, below 1%.
  - (3) No. of expired accounts increased 67k QoQ.
  - (4) Net increase in no. of accounts was only 31k QoQ.
  - (5) OPM improved 3.4pp YoY to 15.2% thanks to a low base.
- ▶ The Malaysia subsidiary reported revenue growth of 12% YoY but OP declined 44% YoY because of accounting changes (revenue, OP improved by ~30% YoY excl. accounting changes).
- ▶ The U.S. subsidiary saw revenue contract 20% YoY (largely due to lower store sales), resulting in operating loss of KRW3.4bn (due to higher import duties, logistics costs).

## Investment Opinion & Risks



### Base-case scenario: Catalysts

- 1) 2021-24 domestic revenue CAGR at 4%
- 2) 2021-24 overseas revenue CAGR at 20%

### Bull-case scenario: Upside risks

- 1) 2021-24 domestic revenue CAGR above 4%
- 2) 2021-24 overseas revenue CAGR above 20%

### Bear-case scenario: Downside risks

- 1) 2021-24 domestic revenue CAGR below 4%
- 2) 2021-24 overseas revenue CAGR below 20%

## Revised Earnings Estimates

(KRWbn, %)	Previous		Revised		Change	
	2022E	2023E	2022E	2023E	2022E	2023E
Revenue	4,060.7	4,431.4	4,040.5	4,433.3	-0.5	0.0
OP	742.5	811.5	701.5	776.2	-5.5	-4.3
NP (to control. int.)	529.7	582.1	498.3	554.7	-5.9	-4.7

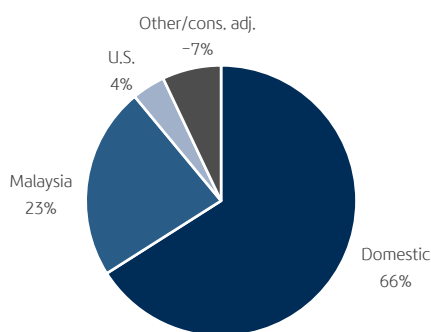
Source(s): KB Securities estimates

## KB Estimates vs. Consensus

(KRWbn, %)	KB Estimates		Consensus		Difference	
	2022E	2023E	2022E	2023E	2022E	2023E
Revenue	4,040.5	4,433.3	4,021.7	4,400.3	0.5	0.8
OP	701.5	776.2	714.0	779.9	-1.7	-0.5
NP (to control. int.)	498.3	554.7	514.1	562.0	-3.1	-1.3

Source(s): FnGuide, KB Securities estimates

## Revenue Composition (2021)



Source(s): Company data, KB Securities

## 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	5,284.1	10.5	9.1	2.24	21.4	4.4	3.6
Amorepacific	10,587.2	39.9	43.3	2.46	6.2	13.0	42.3
LG H&H	15,227.7	19.1	5.7	2.81	14.8	9.4	3.3

Source(s): KB Securities estimates

## Valuation & Target Price Calculation

- 1) Valuation method:  
Discounted cash flow model
- 2) Target price calculation:  
7.01% WACC; 2.4% TGR
- 3) Target price range:  
KRW63,000 – KRW111,000
- 4) Valuation at target price:  
14.4x 12m fwd implied P/E, 3.12x P/B

## Earnings Sensitivity Analysis

(%)	EPS change	
	2022E	2023E
+1pp in interest rate	-0.5	-0.4
+1% in FX rate	+0.3	+0.3

**Table 1. 4Q21 Results (consolidated)**

(KRWbn)	4Q21P	4Q20	YoY (%)	3Q21	QoQ (%)	Consensus	Diff. (%)	KB Estimate	Diff. (%)
Revenue	945.9	862.6	9.7	934.0	1.3	973.1	-2.8	941.7	0.4
OP	139.2	129.8	7.3	163.8	-15.0	153.5	-9.3	161.5	-13.8
EBT	138.2	93.3	48.1	185.8	-25.6	137.0	0.9	152.7	-9.5
NP	87.5	67.5	29.6	136.5	-35.9	N/A	N/A	113.2	-22.8
OPM (%)	14.7	15.0		17.5		15.8		17.1	
EBT margin (%)	14.6	10.8		19.9		14.1		16.2	
NPM (%)	9.2	7.8		14.6		N/A		12.0	

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

**Table 2. Earnings Estimate Revisions**

(KRWbn)	Previous			Revised			Change (%)		
	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
Revenue	4,060.7	4,431.4	N/A	4,040.5	4,433.3	4,810.2	-0.5	0.0	N/A
OP	742.5	811.5	N/A	701.5	776.2	846.5	-5.5	-4.3	N/A
EBT	714.4	785.1	N/A	673.1	749.4	821.4	-5.8	-4.5	N/A
NP (to control. int.)	529.7	582.1	N/A	498.3	554.7	614.2	-5.9	-4.7	N/A
EPS (KRW)	7,300	8,023	N/A	6,867	7,646	8,465	-5.9	-4.7	N/A
YoY (%)									
Revenue	10.8	9.1	N/A	10.3	9.7	8.5			
OP	16.0	9.3	N/A	9.6	10.6	9.1			
EBT	8.5	9.9	N/A	2.2	11.3	9.6			
NP (to control. int.)	13.7	9.9	N/A	7.0	11.3	10.7			
EPS	13.7	9.9	N/A	7.0	11.3	10.7			
OPM (%)	18.3	18.3	N/A	17.4	17.5	17.6			
EBT margin (%)	17.6	17.7	N/A	16.7	16.9	17.1			
NPM (to control. int.) (%)	13.0	13.1	N/A	12.3	12.5	12.8			

Source(s): Company data, KB Securities estimates

Note: Previous estimates based on data as of Nov 8, 2021

**Table 3. Earnings & Estimates (consolidated)**

(KRWbn)		1Q21	2Q21	3Q21	4Q21P	1Q22E	2Q22E	3Q22E	4Q22E	2020	2021P	2022E	2023E	2024E
Revenue		879.0	905.4	934.0	945.9	961.1	996.8	1,010.5	1,072.2	3,237.4	3,664.3	4,040.5	4,433.3	4,810.2
Standalone		674.8	710.9	686.4	742.7	691.6	735.8	713.8	778.1	2,592.5	2,814.6	2,919.3	3,060.3	3,197.9
Malaysia		240.4	236.7	256.2	246.8	295.7	291.1	315.1	328.2	708.4	980.1	1,230.2	1,476.2	1,712.4
U.S.		42.9	35.8	58.0	33.0	47.2	46.5	55.1	46.2	152.5	169.7	195.0	218.4	240.3
Other subsidiaries		20.7	36.1	35.1	42.3	39.3	40.3	45.0	45.4	79.4	134.2	170.0	198.5	224.0
Cons. adj.		-99.8	-114.1	-101.7	-118.9	-112.8	-116.9	-118.6	-125.8	-295.4	-434.4	-474.0	-520.1	-564.3
YoY (%)	Revenue	14.3	12.4	16.7	9.7	9.3	10.1	8.2	13.3	7.2	13.2	10.3	9.7	8.5
	Standalone	7.4	8.5	7.0	11.3	2.5	3.5	4.0	4.8	2.4	8.6	3.7	4.8	4.5
	Malaysia	56.8	51.8	43.3	12.0	23.0	23.0	23.0	33.0	34.6	38.4	25.5	20.0	16.0
	U.S.	57.7	11.5	12.0	-20.3	10.0	30.0	-5.0	40.0	56.7	11.3	14.9	12.0	10.0
	Other subsidiaries	-8.0	114.9	115.3	77.7	90.0	11.6	28.3	7.2	-24.6	69.0	26.7	16.7	12.8
	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	76.8	78.5	73.5	78.5	72.0	73.8	70.6	72.6	80.1	76.8	72.3	69.0	66.5
	Malaysia	27.3	26.1	27.4	26.1	30.8	29.2	31.2	30.6	21.9	26.7	30.4	33.3	35.6
	U.S.	4.9	4.0	6.2	3.5	4.9	4.7	5.5	4.3	4.7	4.6	4.8	4.9	5.0
	Other subsidiaries	2.4	4.0	3.8	4.5	4.1	4.0	4.5	4.2	2.5	3.7	4.2	4.5	4.7
	Cons. adj.	-11.4	-12.6	-10.9	-12.6	-11.7	-11.7	-11.7	-11.7	-9.1	-11.9	-11.7	-11.7	-11.7
Operating profit		170.7	166.4	163.8	139.2	168.9	175.4	177.2	180.1	606.4	640.2	701.5	776.2	846.5
Standalone		112.0	122.5	104.5	112.9	112.7	119.9	116.3	116.7	455.5	451.9	465.7	491.3	516.6
Malaysia		56.1	59.6	54.8	28.9	57.7	56.8	61.4	64.0	130.1	199.4	239.9	280.5	316.8
U.S.		5.7	0.9	4.6	-3.4	1.9	1.9	2.2	1.8	19.8	7.8	7.8	10.9	14.4
Other subsidiaries		-5.8	-8.7	-4.2	-6.0	-4.3	-4.0	-3.7	-3.4	-11.0	-24.7	-15.4	-10.3	-5.5
Cons. adj.		2.7	-7.9	4.1	6.9	0.8	0.9	0.9	0.9	12.0	5.8	3.5	3.9	4.2
YoY (%)	OP	23.0	-1.6	-2.9	7.3	-1.1	5.4	8.2	29.3	32.3	5.6	9.6	10.6	9.1
	Standalone	-3.2	-9.9	-16.4	43.1	0.6	-2.1	11.3	3.4	15.4	-0.8	3.1	5.5	5.2
	Malaysia	122.6	155.8	85.1	-44.4	2.8	-4.7	12.1	121.5	72.1	53.3	20.3	16.9	12.9
	U.S.	119.2	-81.6	-61.0	TTR	-66.9	106.8	-52.1	TTB	500.0	-60.6	0.0	40.0	32.0
	Other subsidiaries	RR	RR	RR	RR	RR	RR	RR	RR	RR	RR	RR	RR	RR
	Cons. adj.	TTB	TTR	-32.4	303.1	-69.0	TTB	-78.5	-86.9	TTB	-51.8	-39.8	10.6	9.1
OPM (%)	OP	19.4	18.4	17.5	14.7	17.6	17.6	17.5	16.8	18.7	17.5	17.4	17.5	17.6
	Standalone	16.6	17.2	15.2	15.2	16.3	16.3	16.3	15.0	17.6	16.1	16.0	16.1	16.2
	Malaysia	23.3	25.2	21.4	11.7	19.5	19.5	19.5	19.5	18.4	20.3	19.5	19.0	18.5
	U.S.	13.3	2.5	7.9	-10.3	4.0	4.0	4.0	4.0	13.0	4.6	4.0	5.0	6.0
	Other subsidiaries	-28.0	-24.1	-12.0	-14.2	-10.8	-10.0	-8.2	-7.5	-13.8	-18.4	-9.0	-5.2	-2.4
	Cons. adj.	-2.7	6.9	-4.0	-5.8	-0.7	-0.7	-0.7	-0.7	-4.1	-1.3	-0.7	-0.7	-0.7
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	65.6	73.6	63.8	81.1	66.8	68.4	65.7	64.8	75.1	70.6	66.4	63.3	61.0
	Malaysia	32.9	35.8	33.5	20.8	34.1	32.4	34.7	35.5	21.5	31.1	34.2	36.1	37.4
	U.S.	3.3	0.5	2.8	-2.4	1.1	1.1	1.2	1.0	3.3	1.2	1.1	1.4	1.7
	Other subsidiaries	-3.4	-5.2	-2.6	-4.3	-2.5	-2.3	-2.1	-1.9	-1.8	-3.9	-2.2	-1.3	-0.6
Gross profit		579.8	594.2	603.4	611.6	630.1	650.1	648.8	688.9	2,193.5	2,388.9	2,618.0	2,854.7	3,078.2
EBT		174.7	159.9	185.8	138.2	162.2	168.8	170.6	171.5	540.4	658.6	673.1	749.4	821.4
NP (to control. int.)		125.8	115.9	136.5	87.5	120.1	125.0	126.3	126.9	404.9	465.7	498.3	554.7	614.2
EBITDA		304.4	297.6	293.7	275.8	294.7	301.3	303.1	306.0	1,149.7	1,164.8	1,184.9	1,251.0	1,315.8
YoY (%)	Gross profit	11.1	7.1	12.5	5.3	8.7	9.4	7.5	12.6	9.2	8.9	9.6	9.0	7.8
	EBT	26.3	0.2	24.5	48.1	-7.1	5.6	-8.2	24.1	19.7	21.9	2.2	11.3	9.6
	NP (to control. int.)	23.8	-2.6	16.8	29.6	-4.5	7.9	-7.5	45.1	21.6	15.0	7.0	11.3	10.7
	EBITDA	10.4	-1.9	-3.6	3.7	-3.2	1.2	3.2	10.9	18.1	1.3	1.7	5.6	5.2
GPM (%)		66.0	65.6	64.6	64.7	65.6	65.2	64.2	64.3	67.8	65.2	64.8	64.4	64.0
EBT margin (%)		19.9	17.7	19.9	14.6	16.9	16.9	16.9	16.0	16.7	18.0	16.7	16.9	17.1
NPM (to control. Int.) (%)		14.3	12.8	14.6	9.2	12.5	12.5	12.5	11.8	12.5	12.7	12.3	12.5	12.8
EBITDA margin (%)		34.6	32.9	31.5	29.2	30.7	30.2	30.0	28.5	35.5	31.8	29.3	28.2	27.4

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	3Q21	4Q21P	1Q22E	2Q22E	3Q22E	4Q22E	2020	2021P	2022E	2023E	2024E
Revenue	674.8	710.9	686.4	742.7	691.6	735.8	713.8	778.1	2,592.5	2,814.6	2,919.3	3,060.3	3,197.9
Domestic home appliance	538.5	558.9	556.2	591.7	547.5	575.0	576.1	618.4	2,127.2	2,245.3	2,317.1	2,423.7	2,524.9
Rental	394.4	388.7	380.5	378.8	385.5	402.8	398.2	392.0	1,596.4	1,542.4	1,578.6	1,642.3	1,694.7
Home care	98.0	127.4	136.9	180.6	127.4	137.6	143.7	195.0	304.1	542.8	603.7	652.0	704.1
Membership	24.1	23.7	23.1	22.5	22.3	22.0	21.4	20.9	99.2	93.5	86.7	82.1	79.3
Lump-sum payment	18.8	15.8	12.5	6.7	9.2	9.4	9.5	7.4	114.0	53.8	35.5	35.1	34.7
Other	3.1	3.2	3.3	3.1	3.1	3.2	3.2	3.1	13.5	12.8	12.5	12.3	12.0
Exports	124.6	139.9	119.9	141.7	132.1	148.3	127.1	150.2	404.7	526.1	557.7	591.2	626.7
Cosmetics	11.6	12.1	10.2	9.3	12.0	12.4	10.5	9.6	60.6	43.2	44.5	45.4	46.3
YoY (%)													
Revenue	7.4	8.5	7.0	11.3	2.5	3.5	4.0	4.8	2.4	8.6	3.7	4.8	4.5
Domestic HA	1.7	1.1	9.6	10.1	1.7	2.9	3.6	4.5	0.8	5.6	3.2	4.6	4.2
Rental	-1.9	-4.1	-4.8	-2.8	-2.3	3.6	4.7	3.5	1.5	-3.4	2.3	4.0	3.2
Home care	42.2	46.2	139.0	98.9	30.0	8.0	5.0	8.0	17.7	78.5	11.2	8.0	8.0
Membership	-2.1	-8.4	-6.2	-6.2	-7.5	-7.1	-7.1	-7.1	-7.6	-5.8	-7.2	-5.4	-3.4
Lump-sum	-39.0	-50.5	-47.1	-75.8	-51.0	-40.5	-24.0	10.0	-29.3	-52.8	-34.1	-1.1	-1.1
Other	1.9	23.4	36.4	-41.9	-2.0	-2.0	-2.0	-2.0	15.6	-5.2	-2.0	-2.0	-2.0
Exports	52.3	64.2	-0.3	20.8	6.0	6.0	6.0	6.0	17.8	30.0	6.0	6.0	6.0
Cosmetics	-32.9	-30.3	-25.4	-24.4	3.0	3.0	3.0	3.0	-20.6	-28.7	3.0	2.0	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	100.0
Domestic HA	79.8	78.6	81.0	79.7	79.2	78.2	80.7	79.5	82.1	79.8	79.4	79.2	79.0
Rental	58.5	54.7	55.4	51.0	55.7	54.7	55.8	50.4	61.6	54.8	54.1	53.7	53.0
Home care	14.5	17.9	19.9	24.3	18.4	18.7	20.1	25.1	11.7	19.3	20.7	21.3	22.0
Membership	3.6	3.3	3.4	3.0	3.2	3.0	3.0	2.7	3.8	3.3	3.0	2.7	2.5
Lump-sum	2.8	2.2	1.8	0.9	1.3	1.3	1.3	0.9	4.4	1.9	1.2	1.1	1.1
Other	0.5	0.5	0.5	0.4	0.4	0.4	0.5	0.4	0.5	0.5	0.4	0.4	0.4
Export	18.5	19.7	17.5	19.1	19.1	20.2	17.8	19.3	15.6	18.7	19.1	19.3	19.6
Cosmetics	1.7	1.7	1.5	1.3	1.7	1.7	1.5	1.2	2.3	1.5	1.5	1.5	1.4
OP	112.0	122.5	104.5	112.9	112.7	119.9	116.3	116.7	455.5	451.9	465.7	491.3	516.6
YoY (%)	-3.2	-9.9	-16.4	43.1	0.6	-2.1	11.3	3.4	15.4	-0.8	3.1	5.5	5.2
OPM (%)	16.6	17.2	15.2	15.2	16.3	16.3	16.3	15.0	17.6	16.1	16.0	16.1	16.2
<b>Key rental assumptions</b>													
Total accounts ('000)	5,842.4	5,903.2	5,987.4	6,018.4	6,105.7	6,180.2	6,263.9	6,323.8	5,809.0	6,018.4	6,323.8	6,624.5	6,889.6
New ('000)	321.0	340.4	330.3	334.6	359.5	367.6	346.8	324.6	1,353.8	1,326.3	1,398.6	1,426.5	1,455.1
Churn ('000)	145.2	140.2	129.9	131.7	132.4	134.3	136.0	137.8	692.4	547.0	540.5	567.3	592.6
Expiries ('000)	142.3	139.3	125.0	192.0	139.8	158.7	127.2	127.0	540.1	569.8	552.7	558.5	597.4
Monthly ARPU (KRW)	28,176	29,295	29,005	31,060	28,204	29,324	29,034	31,091	27,552	29,384	29,470	29,531	29,584
Monthly avg. churn (%)	0.83	0.80	0.73	0.73	0.73	0.73	0.73	0.73	1.01	0.78	0.75	0.75	0.75
Expiries (%)	40.6	36.2	43.8	50.5	40.0	40.0	40.0	40.0	38.3	40.7	40.0	38.5	38.0
<b>Key membership assumptions</b>													
Total accounts ('000)	515.8	505.3	485.1	485.1	479.7	469.9	451.1	451.2	526.2	485.1	451.2	428.6	415.8
Monthly ARPU ('000 KRW)	15.4	15.5	15.5	15.5	15.4	15.5	15.5	15.5	14.8	15.4	15.4	15.6	15.7
<b>Key lump-sum assumptions</b>													
New sales ('000)	16.7	14.4	12.7	10.2	11.7	12.3	12.0	10.2	114.7	54.0	46.2	44.8	43.4
ARPU ('000 KRW)	1,127.8	1,095.5	985.8	656.5	789.5	766.8	788.6	722.2	993.9	996.9	768.4	783.8	799.4
Obsolescence loss (cons.) (KRWbn)	13.8	14.8	13.2	11.9	14.3	15.1	14.6	13.3	77.6	53.7	57.3	61.4	65.6

Source(s): Company data, KB Securities estimates

Note: Churn and expiries are based on KB Securities estimates

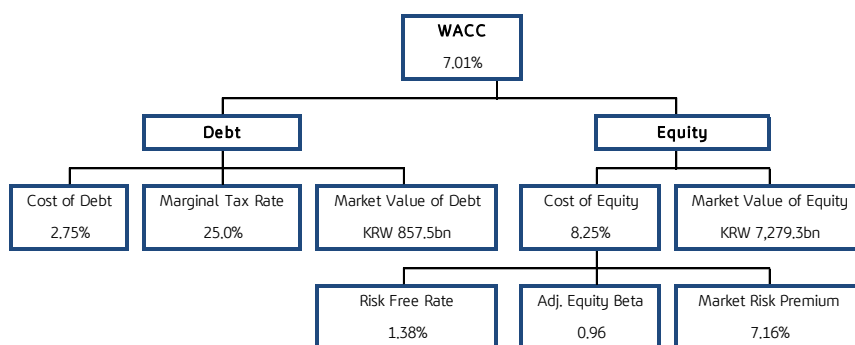
Table 5. Target Price Calculation: Discounted Cash Flow Model

(KRWbn)		2021P	2022E	2023E	2024E	2025E	2026E	2027E	2028E
<b>Cash flow estimates</b>									
OP	a	640.2	701.5	776.2	846.5	892.3	910.1	918.7	949.7
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>480.2</b>	<b>526.2</b>	<b>582.2</b>	<b>634.9</b>	<b>669.2</b>	<b>682.6</b>	<b>689.0</b>	<b>712.2</b>
D&A	d	524.6	483.3	474.8	469.3	464.2	459.2	454.3	449.4
<b>Total cash flow</b>	$E=C+d$	<b>1,004.7</b>	<b>1,009.5</b>	<b>1,056.9</b>	<b>1,104.2</b>	<b>1,133.4</b>	<b>1,141.8</b>	<b>1,143.3</b>	<b>1,161.7</b>
<b>Total investment</b>	$F=g+h$	<b>-1,036.6</b>	<b>-547.6</b>	<b>-606.3</b>	<b>-614.3</b>	<b>-800.0</b>	<b>-800.0</b>	<b>-800.0</b>	<b>-800.0</b>
Change in working capital	g	-766.6	-147.6	-156.3	-164.3	-300.0	-300.0	-300.0	-300.0
Capex	h	-270.0	-400.0	-450.0	-450.0	-500.0	-500.0	-500.0	-500.0
FCFF	$I=E+F$	-31.9	461.9	450.6	489.9	333.4	341.8	343.3	361.7
<b>PV of cash flows</b>									
Discount rate				6.1%	13.6%	21.5%	30.0%	39.2%	
PV of FCFF				369.9	431.4	274.4	262.9	246.7	
Total PV of FCFF (2023E-27E)	j		1,585.3						
Terminal growth rate (%)			2.4%		30y KTB yield				
Terminal value (2028E)			7,755.3		2028E FCFF / (WACC - TGR)				
PV of terminal value	k		5,572.9		7.01% WACC (1.38% risk-free rate; 7.16% market risk premium)				
<b>Valuation</b>									
Total cash flow (PV)	$L=j+k$		7,158.2						
Net cash	m		116.1		12m fwd				
Investments in non-consolidated affiliates	n		3.6		End-3Q21				
Non-controlling interests	o		-1.4		End-3Q21				
<b>Fair value</b>	$P=L+(m+n+o)$		7,279.3						
No. of shares ('000)	q		72,556						
<b>Target price (KRW)</b>	$R=P/q$		<b>100,000</b>						
Current price (KRW)			71,600		Feb 16, 2022				
Upside (%)			39.7						
12m fwd implied P/E (x)			14.4						
12m fwd implied P/B (x)			3.12						

Source(s): Company data, KB Securities estimates

Fig 1. WACC Calculation

- (1) Cost of debt is 2.75% (YTD yield of Coway's 1y KRW-based bonds); market value of debt based on total financial liabilities as of end-3Q21
- (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 (Nov 8, 2021)	Revised (Feb 17, 2022)	Notes
<b>Cost of equity</b>	A = B + C x D	<b>7.97</b>	<b>8.25</b>	
Risk-free rate	B	1.12	1.38	Avg. 1y MSB yield (last three months)
Adj. beta	C	0.93	0.96	52w adj. beta
Raw beta		0.58	0.80	
R <sup>2</sup>		0.17	0.18	
Risk premium	D = E - F	7.37	7.16	
Market return	E	10.97	10.61	2001-21 annual avg. WMI500 total return
Risk-free rate	F	3.61	3.45	2001-21 annual avg. 1y MSB total return
<b>Cost of debt</b>	G	<b>2.28</b>	<b>2.75</b>	YTD yield of KRW-based 1y bonds
Fair shareholder value (KRWbn)		7,599.5	7,279.3	Value of outstanding shares based on TP
Debt (KRWbn)		851.2	857.5	Total financial liabilities as of end-3Q21
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>6.72</b>	<b>7.01</b>	
<b>Terminal growth rate</b>		<b>2.14%</b>	<b>2.36%</b>	Yield on 30-year treasury bond

Source(s): Company data, KB Securities estimates

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

(KRW)		TGR						
		1.8%	2.0%	2.2%	2.4%	2.6%	2.8%	3.0%
WACC	6.01%	112,015	116,344	121,120	126,418	132,328	138,963	146,463
	6.21%	107,195	111,099	115,388	120,121	125,371	131,227	137,800
	6.41%	102,787	106,324	110,193	114,443	119,133	124,335	130,137
	6.61%	98,742	101,958	105,463	109,297	113,508	118,155	123,309
	6.81%	95,015	97,951	101,138	104,611	108,410	112,583	117,187
	7.01%	91,572	94,259	97,168	100,000	103,768	107,532	111,667
	7.21%	88,380	90,848	93,512	96,394	99,524	102,934	106,664
	7.41%	85,413	87,686	90,132	92,771	95,628	98,729	102,109
	7.61%	82,647	84,747	86,999	89,424	92,039	94,870	97,943
	7.81%	80,064	82,007	84,088	86,320	88,722	91,314	94,119
8.01%	77,646	79,448	81,374	83,436	85,648	88,028	90,597	

Source(s): Company data, KB Securities estimates



Income Statement					
(KRWbn)	2020A	2021E	2022E	2023E	2024E
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
Revenue	3,237	3,664	4,041	4,433	4,810
Cost of revenue	1,044	1,275	1,423	1,579	1,732
Gross profit	2,194	2,389	2,618	2,855	3,078
SG&A expenses	1,587	1,749	1,916	2,079	2,232
Operating profit	606	640	702	776	847
EBITDA	1,150	1,165	1,185	1,251	1,316
Non-operating accounts	-66	18	-28	-27	-17
Interest income	1	1	1	1	2
Interest expenses	21	18	19	18	9
Profit on equity method	0	-1	0	0	0
Net other non-operating income	-46	36	-10	-10	-10
Profit before tax	540	659	673	749	830
Income tax expense	136	193	175	195	216
Net profit	405	465	498	555	614
NP attributable to controlling interests	405	466	498	555	614
Adj. net profit	405	466	498	555	614

Operating Statistics & Ratios					
(%)	2020A	2021E	2022E	2023E	2024E
Revenue growth	7.2	13.2	10.3	9.7	8.5
OP growth	32.3	5.6	9.6	10.6	9.1
EBITDA growth	18.1	1.3	1.7	5.6	5.2
NP growth of parent	21.6	15.0	7.0	11.3	10.7
GP margin	67.8	65.2	64.8	64.4	64.0
OP margin	18.7	17.5	17.4	17.5	17.6
EBITDA margin	35.5	31.8	29.3	28.2	27.4
EBT margin	16.7	18.0	16.7	16.9	17.3
NP margin of parent	12.5	12.7	12.3	12.5	12.8

Statement of Cash Flows					
(KRWbn)	2020A	2021E	2022E	2023E	2024E
Cash flow from operating activities	563	400	834	873	919
Net profit	405	465	498	555	614
Depreciation & amortization	543	525	483	475	469
Other non-cash adjustments	373	355	175	195	216
Investments in working capital	-567	-767	-148	-156	-164
Decrease(Increase) in receivables	-22	13	-50	-57	-66
Decrease(Increase) in inventory	-25	-42	-26	-30	-35
Increase(Decrease) in payables	43	-35	3	-2	-2
Investments in other working capital	-563	-702	-75	-67	-62
Other operating cash flow	-191	-179	-175	-195	-216
Cash flow from investing activities	-323	-242	-428	-479	-480
Capital expenditure	-325	-270	-400	-450	-450
Investments in intangibles	-1	-10	-10	-10	-10
Changes in investment assets	0	-11	0	0	0
Other investment cash flow	4	49	-18	-19	-20
Cash flow from financing activities	-182	-58	-145	-145	-145
Proceeds from (repayment of) debt	-182	43	-56	-52	-49
Changes in equity	20	0	0	0	0
Dividends paid	0	-87	-91	-94	-98
Other financing cash flow	-20	-14	2	2	2
Other cash flow	-3	2	0	0	0
Increase/decrease in cash	55	102	261	249	294
Cash and cash equivalents at FYE	116	218	479	728	1,022
Free cash flow	238	130	434	423	469
Net cash flow	309	70	335	320	363
Net cash (net debt)	-330	-260	75	395	758

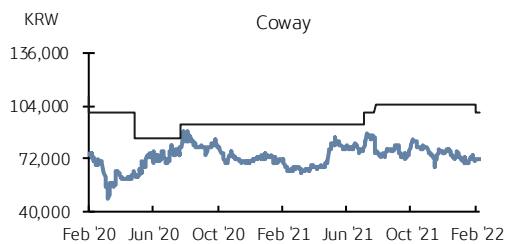
Source(s): Company data, KB Securities estimates

Statement of Financial Position					
(KRWbn)	2020A	2021E	2022E	2023E	2024E
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
Total assets	3,029	3,670	3,953	4,296	4,704
Current assets	897	1,118	1,474	1,832	2,249
Cash and cash equivalents	116	218	479	728	1,022
Current financial assets	298	357	375	394	414
Trade receivables	317	333	383	440	506
Inventory	134	174	200	230	265
Other current assets	32	35	37	39	42
Non-current assets	2,132	2,552	2,479	2,464	2,455
Investment assets	23	26	26	26	26
Property, plant and equipment	1,225	1,121	1,047	1,031	1,021
Intangible assets	140	184	185	187	187
Other non-current assets	744	1,220	1,220	1,220	1,220
Total liabilities	1,539	1,776	1,652	1,534	1,426
Current liabilities	1,417	1,160	1,055	956	866
Trade payables	69	74	77	76	74
Short-term financial liabilities	715	357	322	289	260
Other current liabilities	634	729	656	591	532
Non-current liabilities	122	615	597	578	560
Non-current financial liabilities	29	478	458	438	418
Other non-current liabilities	93	138	139	141	143
Total equity	1,490	1,894	2,301	2,762	3,278
Issued capital	41	41	41	41	41
Share premium	148	148	148	148	148
Other equity interest	-48	-48	-48	-48	-48
Accumulated other comprehensive income	-14	8	8	8	8
Retained earnings	1,365	1,747	2,155	2,615	3,131
Controlling interests	1,491	1,895	2,303	2,765	3,280
Non-controlling interests	-1	-1	-2	-2	-2

Key Ratios					
(x, %, KRW)	2020A	2021E	2022E	2023E	2024E
Multiples					
P/E	N/A	11.8	10.6	9.5	8.6
P/B	N/A	2.9	2.3	1.9	1.6
P/S	N/A	1.5	1.3	1.2	1.1
EV/EBITDA	5.0	4.9	4.4	3.9	3.4
EV/EBIT	9.4	9.0	7.4	6.3	5.3
Dividend yield, ordinary (%)	1.7	1.7	1.8	1.9	2.0
EPS	0	6,310	6,752	7,517	8,322
BVPS	0	25,683	31,205	37,444	44,439
SPS	0	49,651	54,750	60,073	65,179
DPS (annual, ordinary)	1,200	1,250	1,300	1,350	1,400
Cash dividends payout ratio (%)	21.5	19.5	18.9	17.7	16.5
Operating performance					
ROE	31.5	27.5	23.7	21.9	20.3
ROA	13.8	13.9	13.1	13.5	13.6
ROIC	19.1	17.7	16.8	16.4	15.7
Financial structure (%)					
Total liab./equity	103.3	93.8	71.8	55.6	43.5
Net debt/equity	22.2	13.7	Net Cash	Net Cash	Net Cash
Current ratio	0.6	1.0	1.4	1.9	2.6
Interest coverage (x)	28.6	36.3	36.2	43.0	96.0
Activity ratios					
Asset turnover (x)	1.1	1.1	1.1	1.1	1.1
Receivables turnover (x)	10.3	11.3	11.3	10.8	10.2
Payables turnover (x)	51.1	51.3	53.4	58.0	64.3
Inventory turnover (x)	26.2	23.8	21.6	20.6	19.4

## Disclosures

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



#### Coway (021240)

Date	Rating	Analyst	TP (KRW)	TP Differential (%)	
				Avg.	Max/Min
Jan-05-2020	Buy	Shinay Park	110,000	-18.72	
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	-27.81	-19.71
Feb-17-2022	Buy	Shinay Park	100,000		

### 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

#### 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

#### Ratings Distribution (as of December 31, 2021)

Buy	Hold	Sell
82.2	17.8	-

Note: Based on recommendations in the last 12 months

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