

Coway (021240 KS)

Consumer durables

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Rating	BUY (M)
Target price	W110,000 (M)
Current price (Feb 16)	W71,600
Upside potential	54%

Market cap (Wbn)	5,284
Shares outstanding	73,799,619
Avg daily T/O (2M, Wbn)	10
Avg daily volume (2M, shrs)	140,774
52-week high (won)	87,600
52-week low (won)	64,100
Foreign ownership (%)	60.8
Major shareholders (%)	Netmarble & others 25.1

Stock performance

(%)	1M	3M	12M
Absolute	(2.3)	(9.3)	(1.0)
Relative	4.6	(0.4)	14.8
Abs (US\$)	(3.2)	(10.6)	(9.0)

4Q21 review: fundamentals remain solid

4Q21 review: sluggish on changes in accounting method in Malaysia

In 4Q21, Coway posted sales of W945.9bn (+9.7% YoY), missing consensus by 3%, and OP of W139.2bn (+7.3% YoY), missing consensus by 9%. This was due to a change in financial lease accounting of the Malaysian subsidiary, which affected sales by W24bn and OP by W21bn. Excluding this, we believe earnings met consensus.

Domestic business sales rose 11.3% YoY to W742.7bn. Net rental account additions decreased 34% YoY to 31,000, which was somewhat disappointing. Although the company's core earnings indicators stabilized, with rental sales coming to 330,000 accounts and termination rate 0.7%, an increase in the number of accounts coming to maturity affected earnings.

Earnings in Malaysia were sluggish, with sales of W246.8bn (+12.0% YoY) and OP of W28.9bn (-44.5% YoY) due to the above-mentioned accounting method change. Excluding this, sales and OP both rose by over 30%. Net rental account additions increased by 160,000 QoQ, maintaining the quarterly addition of 130,000~160,000 accounts, with total accounts likely rising by 33% YoY.

Growth stable in Korea, strong in Malaysia

In terms of rental accounts, the domestic business is maintaining stable low-single digit growth, while overseas businesses including Malaysia post strong growth of over 30%. Malaysia now accounts for 27% of total sales, up from 22% in 2020, with the company's overall sales growth expanding from 7% to 13%. As the Malaysia sales portion is likely to reach 30% in 2022, overall sales growth will likely reach 15% as well.

According to the firm's guidance, 2022 sales will grow 8.7% YoY and OP 6.3% YoY, conservative compared to market expectations. However, given that Coway's 2021 earnings beat guidance by 5%, we believe there is no need to worry about the low guidance. The company's fundamentals remain firm. With shares trading at a 2022E P/E of around 10x, we advise investors to buy. We maintain BUY and our target price of W110,000.

Quarterly earnings

(Wbn)	4Q21P	% YoY	% QoQ	Consens	vs consens (%)
Sales	946	9.7	1.3	973	-2.8
OP	139	7.2	-15.0	153	-9.3
EBT, continuing ops	139	48.6	-25.4	137	1.2
Net profit, CI	88	30.1	-35.7		
OPM (%)	14.7	-0.3 %pt	-2.8 %pt	15.8	-1.1 %pt
NPM (%)	9.3	+1.5 %pt	-5.3 %pt		

Note: CI = controlling interest

Forecasts and valuations (K-IFRS, consolidated)

	FY ends Dec	2019A	2020A	2021F	2022F
Sales		3,019	3,237	3,664	4,221
OP		458	606	640	709
Net profit, CI		333	405	466	505
P/E (x)		19.0	13.5	11.8	10.5
P/B (x)		5.7	3.6	2.8	2.2
EV/EBITDA		7.1	5.0	4.9	4.2
ROE (%)		30.7	31.5	27.5	24.0

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	3,664	4,221	4,656
Cost of sales	1,010	1,044	1,253	1,441	1,588
Gross profit	2,009	2,193	2,411	2,780	3,068
SG&A	1,550	1,587	1,771	2,071	2,274
Operating profit	458	606	640	709	793
EBITDA	973	1,150	1,167	1,227	1,300
Non-op profit/loss	-7	-66	19	-18	-14
Forex gain/loss	13	-21	28	0	0
Net interest inc	-21	-20	-17	-15	-12
Equity-meth gain/loss	0	0	-1	-2	-2
Other	1	-25	8	0	0
Net prof before income tax	451	540	659	692	779
Income tax	119	136	193	187	210
Net profit from cont op	332	405	466	505	569
Net profit from discont op	0	0	0	0	0
Net profit	332	405	466	505	569
NP for controlling int	333	405	466	505	569
Total comprehensive inc	330	396	491	505	569
TCI for controlling int	331	396	491	505	569

Statement of financial position

FY ends Dec (Wbn)	2019A	2020A	2021F	2022F	2023F
Current assets	767	897	1,139	1,454	1,815
Cash & cash equiv	61	116	78	98	140
Accts rec & other	345	327	328	397	468
Inventory	113	134	189	215	263
Non-current assets	2,088	2,132	2,596	2,558	2,531
Tangible assets	1,271	1,225	1,168	1,138	1,118
Investment in affiliate	0	0	4	4	4
Other non-current	19	15	19	19	19
Total assets	2,855	3,029	3,735	4,012	4,346
Current liabilities	1,587	1,417	1,018	981	941
Accts payable & other	295	312	346	359	369
ST financial liabilities	861	700	307	257	207
Liquid LT liabilities	1	1	1	1	1
Non-current liabilities	191	122	623	523	423
LT financial liabilities	9	9	33	33	33
Debentures	0	0	420	320	220
Total liabilities	1,778	1,539	1,841	1,704	1,564
Equity, controlling int	1,078	1,491	1,896	2,310	2,784
Paid-in capital	41	41	41	41	41
Capital surplus	132	148	148	148	148
Retained earnings	954	1,365	1,747	2,162	2,636
Equity, non-control int	-1	-1	-2	-2	-2
Total equity	1,077	1,490	1,894	2,308	2,782
Net debt	624	316	224	-146	-538
Total debt	899	730	790	640	490

Cash flow statement

FY ends Dec (Wbn)	2019A	2020A	2021F	2022F	2023F
Operating cash flow	539	563	515	1,077	1,107
Net profit	332	405	466	505	569
Depreciation & amort	505	534	519	510	500
Forex gain/loss	-11	22	-17	0	0
Affiliate invest gain/loss	0	0	0	0	0
Inc(dec) net working cap	-571	-567	-727	-202	-229
Other	284	169	275	264	267
Investing cash flow	-383	-323	-419	-680	-680
Investment	-5	0	-11	0	0
Inc in tangible assets	-391	-325	-319	-480	-480
Dec in tangible assets	25	0	0	0	0
Other	-12	2	-89	-200	-200
Financing cash flow	-165	-182	-83	-254	-257
Inc(dec) in ST fin liab	129	-160	-398	-50	-50
Inc(dec) in LT fin liab	-15	-21	429	-100	-100
Inc(dec) in equity	0	0	0	0	0
Cash dividend	-260	0	-87	-91	-94
Other	-19	0	-27	-13	-13
Other cash flow	0	-3	-51	-123	-128
Inc (dec) in cash & eq	-9	55	-37	19	42
Beginning cash & equiv	69	61	116	78	98
Ending cash & equiv	61	116	78	98	140
NOPLAT	458	606	640	709	793
FCF	149	238	197	597	627

Valuation

FY ends Dec (Wbn)	2019A	2020A	2021F	2022F	2023F
EPS (won)	4,511	5,486	6,314	6,842	7,706
BPS (won)	14,931	20,554	26,127	31,837	38,376
EBITDA/shr (won)	13,189	15,579	15,810	16,629	17,621
SPS (won)	40,907	43,868	49,652	57,197	63,085
DPS (won)	2,400	1,200	1,250	1,300	1,350
P/E (x)	19.0	13.5	11.8	10.5	9.3
P/B (x)	5.7	3.6	2.8	2.2	1.9
EV/EBITDA (x)	7.1	5.0	4.9	4.2	3.6
PSR (x)	2.1	1.7	1.5	1.3	1.1

Key financial data

FY ends Dec (Wbn)	2019	2020	2021E	2022E	2023E
Sales (% y-y)	11.5	7.2	13.2	15.2	10.3
Operating profit (% y-y)	-11.8	32.3	5.6	10.8	11.8
NP, CI (% y-y)	-4.9	21.6	15.1	8.4	12.6
Gross margin (%)	66.5	67.8	65.8	65.9	65.9
Operating margin (%)	15.2	18.7	17.5	16.8	17.0
NP, CI margin (%)	11.0	12.5	12.7	12.0	12.2
EBITDA margin (%)	32.2	35.5	31.8	29.1	27.9
ROIC (%)	29.0	38.4	38.1	41.4	44.1
ROA (%)	12.7	13.8	13.8	13.0	13.6
ROE (%)	30.7	31.5	27.5	24.0	22.3
Debt-to-equity (%)	165.0	103.3	97.2	73.8	56.2
Net debt-to-equity (%)	57.8	21.2	11.8	-6.3	-19.3
OP/financing cost (x)	20.9	28.6	36.3	44.0	61.5

Note: CI = controlling interest

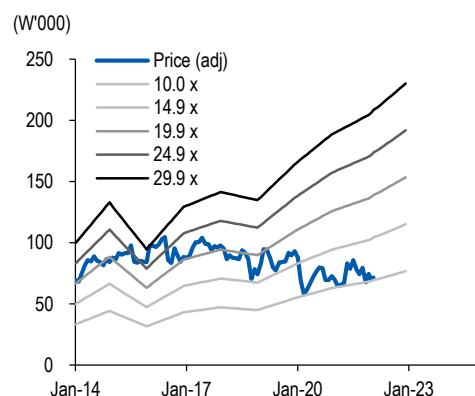
Operating profit calculation same as K-GAAP (sales - COGS - SG&A exp)

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

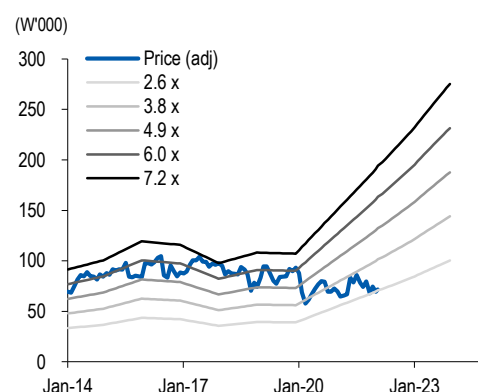
For valuation metrics such as P/E, historical figures are based on annual average prices and estimates, on current price

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

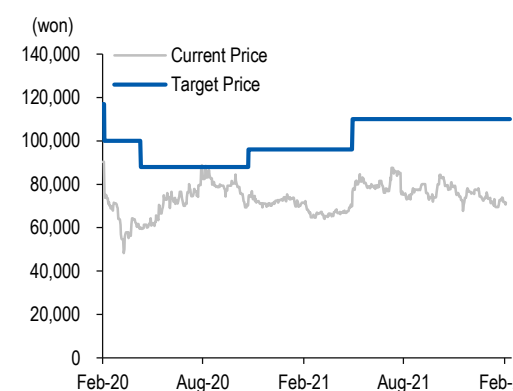
P/E band chart



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)
2022/02/17	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	-

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	92.6
HOLD	7.4
SELL	0.0
Total	100.0

Note: As of Feb 15, 2022

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- **Stock ratings** include an Investment Rating (Strong Buy, Buy, Hold, Sell) based on the expected absolute return of a stock over the next 6 -12 months.
- - Strong Buy: Expected to return 30% or more
- - Buy: Expected to return between 10% and 30%
- - Hold: Expected to return between -10 and +10%
- - Sell: Expected to return -10% or less
- **Sector ratings** suggest 6 to 12 - month forward investment weighting of a given sector compared to its market capitalization weighting.
- - Overweight: Investment weighting is higher than the market capitalization weighting
- - Neutral: Investment weighting is equal to the market capitalization weighting
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