

Coway (021240 KS)

Durable goods

Jin-hyeob Lee

+822 3770 5659

jinhyeob.lee@yuantakorea.com

Rating	BUY (M)
Target price	W110,000 (M)
Current price (4/15)	W66,000
Upside potential	67%

Market cap (Wbn)	4,871
Shares outstanding	73,799,619
Avg daily T/O (2M, Wbn)	10
Avg daily volume (2M, shrs)	145,366
52-week high (won)	87,600
52-week low (won)	65,100
Foreign ownership (%)	61.2
Major shareholders (%)	Netmarble & others 25.1

Stock performance

(%)	1M	3M	12M
Absolute	(1.0)	(10.0)	(1.5)
Relative	(3.8)	(2.4)	16.7
Abs (US\$)	0.0	(13.1)	(10.5)

1Q22E preview: focus on Thailand

1Q22E likely meet consensus

Coway's 1Q22E sales likely came to W996.3bn (+13.3% YoY) and OP W173.7bn (+1.8% YoY), with OP meeting consensus of W171.3bn. Despite a partial strike of service managers (CS Doctor) in 1Q22, we believe rental sales and retention rate were managed stably. Rental account net additions came to 50,000 in Korea and 130,000 in Malaysia.

Recently sluggishness due to interest rate hike

Coway shares have declined 11% YTD, underperforming the KOSPI by 2%p, which was hard to explain as Coway is a defensive stock. Earnings uncertainties were not high and the strong growth of the Malaysia business had boosted the company's growth potential.

We attribute the recent sluggishness to the forex rate. The rental business can be thought as a business that has a long position in bonds, and the company's market cap is the sum of the relevant rental bond value. In this case, an interest rate upcycle should be negative for shares. Indeed, Coway's share price and the market interest rate have a correlation of -0.7, about twice more sensitive than the KOSPI (-0.38). FYI, Shinhan Financial Group, a beneficiary of interest rate hikes, has a correlation of +0.43.

Our Investment Strategy Team expects one more benchmark rate hike in July and market interest rates to stabilize afterwards. Thus, the time to focus on Coway is nearing.

Thailand, next big market for Coway

Recently, the Thai subsidiary has seen outstanding growth. In 2021, its sales came to W48.7bn (+68% YoY) and operating loss W11.6bn (remaining in red YoY). As of 4Q21, the number of accounts in Thailand is estimated at 80,000~90,000. Given recent net additions (10,000~20,000 per quarter), the Thai subsidiary will likely hit breakeven point (100,000 accounts). Given Thailand's number of households and per-capita GDP, the rental market will likely be about 70% of Malaysia's. Investors need to pay attention to Thailand as the next growth market.

Quarterly earnings

(Wbn)	1Q22E	% YoY	% QoQ	Consens	vs consens (%)
Sales	996	13.3	5.3	979	1.8
OP	174	1.8	24.8	171	1.4
EBT, continuing ops	170	-2.6	23.1	170	0.3
Net profit, CI	124	-1.3	42.0	120	3.4
OPM (%)	17.4	-2.0 %pt	+2.7 %pt	17.5	-0.1 %pt
NPM (%)	12.5	-1.8 %pt	+3.3 %pt	12.3	+0.2 %pt

Note: CI = controlling interest

Forecasts and valuations (K-IFRS, consolidated)

	FY ends Dec	2020A	2021A	2022F	2023F
Sales		3,237	3,664	4,130	4,517
OP		606	640	719	800
Net profit, CI		405	466	516	578
P/E (x)		13.5	11.9	9.4	8.4
P/B (x)		3.6	2.9	2.1	1.7
EV/EBITDA		5.0	5.0	3.9	3.4
ROE (%)		31.5	27.4	24.3	22.5

Source: Yuanta Securities

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

Statement of comprehensive income

FY ends Dec (Wbn)	2020A	2021A	2022F	2023F	2024F
Sales	3,237	3,664	4,130	4,517	4,877
Cost of sales	1,044	1,275	1,445	1,582	1,708
Gross profit	2,193	2,389	2,685	2,935	3,168
SG&A	1,587	1,749	1,966	2,135	2,314
Operating profit	606	640	719	800	854
EBITDA	1,150	1,163	1,200	1,277	1,342
Non-op profit/loss	-66	18	-12	-9	-5
Forex gain/loss	-21	28	0	0	0
Net interest inc	-20	-17	-16	-13	-9
Equity-meth gain/loss	0	-5	0	0	0
Other	-25	12	4	4	4
Net prof before income tax	540	659	706	792	849
Income tax	136	193	191	214	221
Net profit from cont op	405	465	516	578	628
Net profit from discont op	0	0	0	0	0
Net profit	405	465	516	578	628
NP for controlling int	405	466	516	578	628
Total comprehensive inc	396	501	516	578	628
TCI for controlling int	396	502	516	578	629

Statement of financial position

FY ends Dec (Wbn)	2020A	2021A	2022F	2023F	2024F
Current assets	897	1,106	1,435	1,781	2,094
Cash & cash equiv	116	73	172	227	237
Accts rec & other	327	259	312	359	409
Inventory	134	235	212	256	309
Non-current assets	2,132	2,694	2,653	2,657	2,689
Tangible assets	1,225	1,160	1,126	1,135	1,172
Investment in affiliate	0	40	40	40	40
Other non-current	15	19	19	19	19
Total assets	3,029	3,801	4,088	4,438	4,783
Current liabilities	1,417	1,293	1,206	1,123	1,038
Accts payable & other	312	382	387	395	403
ST financial liabilities	700	387	287	187	87
Liquid LT liabilities	1	2	2	2	2
Non-current liabilities	122	603	553	503	403
LT financial liabilities	9	37	37	37	37
Debentures	0	419	369	319	219
Total liabilities	1,539	1,896	1,759	1,626	1,441
Equity, controlling int	1,491	1,906	2,331	2,814	3,345
Paid-in capital	41	41	41	41	41
Capital surplus	148	148	148	148	148
Retained earnings	1,365	1,757	2,182	2,666	3,196
Equity, non-control int	-1	-1	-2	-2	-3
Total equity	1,490	1,904	2,329	2,812	3,342
Net debt	316	301	-148	-553	-963
Total debt	730	884	734	584	384

Cash flow statement

FY ends Dec (Wbn)	2020A	2021A	2022F	2023F	2024F
Operating cash flow	563	331	972	964	1,011
Net profit	405	465	516	578	628
Depreciation & amort	534	514	474	471	483
Forex gain/loss	22	-11	0	0	0
Affiliate invest gain/loss	0	0	0	0	0
Inc(dec) net working cap	-567	-829	-145	-203	-216
Other	169	192	128	118	115
Investing cash flow	-323	-368	-640	-680	-720
Investment	0	-53	0	0	0
Inc in tangible assets	-325	-276	-440	-480	-520
Dec in tangible assets	0	0	0	0	0
Other	2	-39	-200	-200	-200
Financing cash flow	-182	-9	-232	-233	-286
Inc(dec) in ST fin liab	-160	-318	-100	-100	-100
Inc(dec) in LT fin liab	-21	413	-50	-50	-100
Inc(dec) in equity	0	0	0	0	0
Cash dividend	0	-87	-91	-94	-98
Other	0	-16	9	12	12
Other cash flow	-3	2	-2	4	5
Inc (dec) in cash & eq	55	-43	99	55	10
Beginning cash & equiv	61	116	73	172	227
Ending cash & equiv	116	73	172	227	237
NOPLAT	606	640	719	800	854
FCF	238	56	532	484	491

Valuation

FY ends Dec (Wbn)	2020A	2021A	2022F	2023F	2024F
EPS (won)	5,486	6,310	6,988	7,830	8,514
BPS (won)	20,554	26,268	32,126	38,790	46,100
EBITDA/shr (won)	15,579	15,756	16,255	17,305	18,183
SPS (won)	43,868	49,651	55,965	61,212	66,079
DPS (won)	1,200	1,250	1,300	1,350	1,400
P/E (x)	13.5	11.9	9.4	8.4	7.8
P/B (x)	3.6	2.9	2.1	1.7	1.4
EV/EBITDA (x)	5.0	5.0	3.9	3.4	2.9
PSR (x)	1.7	1.5	1.2	1.1	1.0

Key financial data

FY ends Dec (Wbn)	2020	2021	2022E	2023E	2024E
Sales (% y-y)	7.2	13.2	12.7	9.4	8.0
Operating profit (% y-y)	32.3	5.6	12.3	11.3	6.7
NP, CI (% y-y)	21.6	15.0	10.8	12.0	8.7
Gross margin (%)	67.8	65.2	65.0	65.0	65.0
Operating margin (%)	18.7	17.5	17.4	17.7	17.5
NP, CI margin (%)	12.5	12.7	12.5	12.8	12.9
EBITDA margin (%)	35.5	31.7	29.0	28.3	27.5
ROIC (%)	38.4	42.6	54.0	58.0	56.7
ROA (%)	13.8	13.6	13.1	13.6	13.6
ROE (%)	31.5	27.4	24.3	22.5	20.4
Debt-to-equity (%)	103.3	99.6	75.5	57.8	43.1
Net debt-to-equity (%)	21.2	15.8	-6.3	-19.6	-28.8
OP/financing cost (x)	28.6	35.8	40.5	55.0	76.8

Note: CI = controlling interest

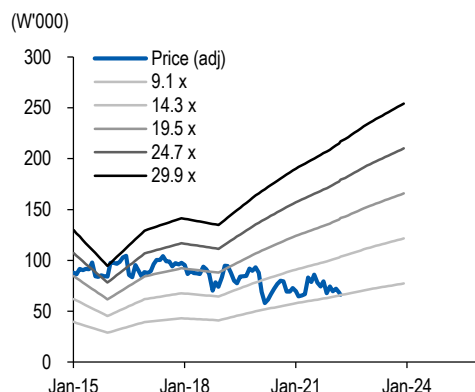
Operating profit calculation same as K-GAAP (sales - COGS - SG&A exp)

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

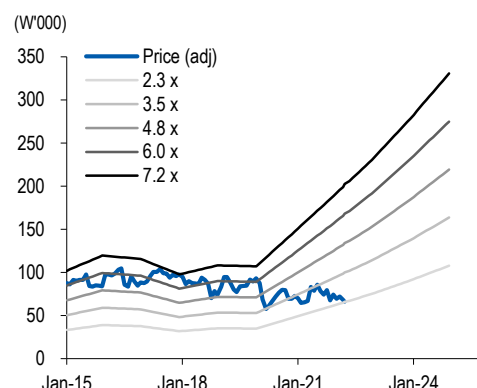
For valuation metrics such as P/E, historical figures are based on annual average prices and estimates, on current price

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

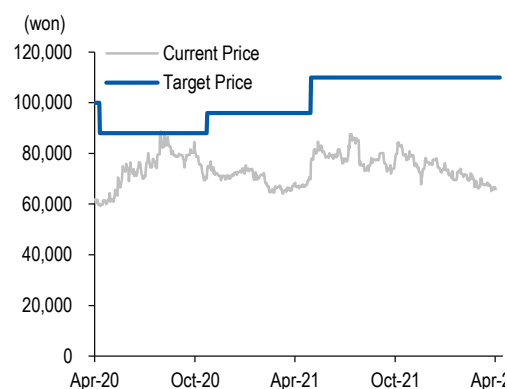
P/E band chart



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)
2022/04/18	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	0.6
BUY	92.2
HOLD	7.3
SELL	0.0
Total	100.0

Note: As of Apr 16, 2022

Excluding reports written or published by overseas affiliates

Disclosures & disclaimers

This research report has been prepared for informational purposes only; it does not constitute an offer or a solicitation of an offer to buy or sell any securities or other financial instruments. The information and data contained in this report have been obtained from sources we consider reliable; however, we make no representation that the information provided in this report is accurate or complete, and it should not be relied on as such. The recipient of this report should use his/her independent judgment regarding the sale or purchase of any securities or financial instruments mentioned herein. We disclaim any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report is for our clients only. It is copyrighted material and may not be reproduced, transmitted, quoted, or distributed in any manner without the prior written consent of Yuanta Securities Korea Co., Ltd.

As of the date of publication of this report, Yuanta Securities Korea Co., Ltd. does not own 1% or more of the subject company's shares outstanding. As of the date of publication of this report, Yuanta Securities Korea Co., Ltd. does not have any special interests in the subject company. The material contained herein was not disclosed by Yuanta Securities Korea Co., Ltd. to any institutional investors or third parties prior to its publication. The analyst (s) of this report or the analyst (s)' spouse does not have any financial interest in the securities of the subject company (ies) mentioned herein, nor financial interest of any nature related to the subject company (ies) (including without limitation, whether it consists of any option, right, warrant, future, long or short position), as of the publication date of this report.

Analyst certification

I/We, as the research analyst/analysts who prepared this research report, do hereby certify that the views expressed in this report accurately reflect my/our personal views about the subject securities discussed in this report.

Stock and sector ratings

- **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
- - Underweight: Investment weighting is lower than the market capitalization weighting

Yuanta Securities (Korea) International Network

Seoul

Head Office

Yuanta Securities Korea Bldg.
76 Uljiro, Jung-gu, Seoul (Euljiro 2)
Tel: +822 3770 2000

Research Center

Yuanta Securities Korea Bldg.
76 Uljiro, Jung-gu, Seoul (Euljiro 2)
Tel: +822 3770 2000

Hong Kong

Yuanta Financial (Hong Kong) Limited
Suite 22D, 24/F Block D, Mai Luen Industrial Bldg,
23-31 Kung Yip Street, Kwai Chung, N.T. Hong Kong
Tel: +852 6388 1870

Cambodia

Yuanta Securities (Cambodia) Plc.
#138, 2nd Floor, Paragon Bldg, Norodom Blvd,
Phnom Penh, Cambodia
Tel: +855 23 860 800

