

# Coway (021240 KS)

## Durable goods

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Rating	<b>BUY (M)</b>
Target price	<b>W110,000 (M)</b>
Current price (May 13)	<b>W70,400</b>
Upside potential	<b>56%</b>

Market cap (Wbn)	5,195
Shares outstanding	73,799,619
Avg daily T/O (2M, Wbn)	10
Avg daily volume (2M, shrs)	149,499
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	5.5	(2.1)	(8.1)
Relative	10.1	3.3	10.2
Abs (US\$)	0.9	(8.6)	(19.2)

## 1Q22 review: growth steady

### 1Q22 review: in line with consensus

Coway reported 1Q22 sales of W928bn (+5.6% YoY) and OP of W172.7bn (+1.1% YoY). OP met consensus.

Separate sales rose 5.2% YoY to W710.1bn. With the strong sales of new products launched since end-2021, rental sales came to 350,000 accounts (9.8% YoY) and rental account net additions came to 65,000 accounts. Separate operating margin came to 20.2%.

Sales at the Malaysian subsidiary came to W262.8bn (+9.3% YoY) and OP W53.4bn (-4.2% YoY, OPM 20.4%). Growth seemed to have slowed but this was due to the change in accounting regarding financial lease accounts in 4Q21. According to the same accounting standard, sales would have risen 15.6% YoY and OP 26.1% YoY. In 1Q22, we estimate account net additions at 120,000 and total accounts at 246,000 (+28% YoY).

The US subsidiary saw sell-in sales on Amazon weaken temporarily, but continued stable growth of 6.8% YoY on door-to-door sales expansion, while sales at the Thai subsidiary rose 123.5% YoY, continuing the recently strong growth.

### Time to pay attention to Coway

The domestic entity has grown stably and the Malaysian subsidiary has continued strong growth, and the US and Thai subsidiaries are also growing, albeit still small sales contribution. Fundamentals are strengthening further.

However, Coway shares had weakened recently. In our 1Q22 preview report, we attributed the weak share price to interest rate increases, as market participants likely believed the value of rental bonds fell on interest rate hikes. While macroeconomic conditions are still changing fast, we expect Coway shares to trend up in earnest, when interest rates stabilize.

We maintain BUY and target price of W110,000.

## Quarterly earnings

(Wbn)	1Q22P	% YoY	% QoQ	Consens	vs consens (%)
Sales	928	5.6	-1.9	972	-4.5
OP	173	1.2	24.0	172	0.6
EBT, continuing ops	192	9.9	38.9	170	13.0
Net profit, CI	135	7.4	54.5	122	10.6
OPM (%)	18.6	-0.8 %pt	+3.9 %pt	17.7	+0.9 %pt
NPM (%)	14.6	+0.3 %pt	+5.4 %pt	12.6	+2.0 %pt

Note: CI = controlling interest

## Forecasts and valuations (K-IFRS, consolidated)

	FY ends Dec	2020A	2021A	2022F	2023F
Sales		3,237	3,664	4,009	4,375
OP		606	640	718	769
Net profit, CI		405	466	527	555
P/E (x)		13.5	11.9	9.9	9.4
P/B (x)		3.6	2.9	2.2	1.8
EV/EBITDA		5.0	5.0	4.2	3.7
ROE (%)		31.5	27.4	24.8	21.6

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
<b>Sales</b>	<b>3,237</b>	<b>3,664</b>	<b>4,009</b>	<b>4,375</b>	<b>4,724</b>
Cost of sales	1,044	1,275	1,403	1,533	1,655
Gross profit	2,193	2,389	2,606	2,843	3,069
SG&A	1,587	1,749	1,888	2,074	2,245
<b>Operating profit</b>	<b>606</b>	<b>640</b>	<b>718</b>	<b>769</b>	<b>824</b>
EBITDA	1,150	1,163	1,199	1,246	1,312
Non-op profit/loss	-66	18	11	-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	27	4	4
Net prof before income tax	540	659	729	760	819
Income tax	136	193	202	205	213
Net profit from cont op	405	465	527	555	606
Net profit from discont op	0	0	0	0	0
Net profit	405	465	527	555	606
<b>NP for controlling int</b>	<b>405</b>	<b>466</b>	<b>527</b>	<b>555</b>	<b>606</b>
Total comprehensive inc	396	501	527	555	606
TCI for controlling int	396	502	527	555	606

## Statement of financial position

FY ends Dec (Wbn)	2020A	2021A	2022F	2023F	2024F
<b>Current assets</b>	<b>897</b>	<b>1,106</b>	<b>1,445</b>	<b>1,768</b>	<b>2,059</b>
Cash & cash equiv	116	73	190	224	212
Accts rec & other	327	259	307	353	403
Inventory	134	235	208	252	304
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
<b>Total assets</b>	<b>3,029</b>	<b>3,801</b>	<b>4,098</b>	<b>4,424</b>	<b>4,747</b>
Current liabilities	1,417	1,293	1,205	1,121	1,036
Accts payable & other	312	382	386	394	401
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
<b>Total liabilities</b>	<b>1,539</b>	<b>1,896</b>	<b>1,758</b>	<b>1,624</b>	<b>1,439</b>
Equity, controlling int	1,491	1,906	2,342	2,803	3,311
Paid-in capital	41	41	41	41	41
Capital surplus	148	148	148	148	148
Retained earnings	1,365	1,757	2,194	2,654	3,162
Equity, non-control int	-1	-1	-2	-2	-3
<b>Total equity</b>	<b>1,490</b>	<b>1,904</b>	<b>2,340</b>	<b>2,801</b>	<b>3,308</b>
<b>Net debt</b>	<b>316</b>	<b>301</b>	<b>-167</b>	<b>-550</b>	<b>-938</b>
Total debt	730	884	734	584	384

## Cash flow statement

FY ends Dec (Wbn)	2020A	2021A	2022F	2023F	2024F
<b>Operating cash flow</b>	<b>563</b>	<b>331</b>	<b>991</b>	<b>942</b>	<b>989</b>
Net profit	405	465	527	555	606
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	-137	-202	-215
Other	169	192	128	118	115
<b>Investing cash flow</b>	<b>-323</b>	<b>-368</b>	<b>-640</b>	<b>-680</b>	<b>-720</b>
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
<b>Financing cash flow</b>	<b>-182</b>	<b>-9</b>	<b>-232</b>	<b>-233</b>	<b>-286</b>
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
<b>Inc (dec) in cash &amp; eq</b>	<b>55</b>	<b>-43</b>	<b>117</b>	<b>33</b>	<b>-11</b>
Beginning cash & equiv	61	116	73	190	224
Ending cash & equiv	116	73	190	224	212
<b>NOPLAT</b>	<b>606</b>	<b>640</b>	<b>718</b>	<b>769</b>	<b>824</b>
<b>FCF</b>	<b>238</b>	<b>56</b>	<b>551</b>	<b>462</b>	<b>469</b>

## Valuation

FY ends Dec (Wbn)	2020A	2021A	2022F	2023F	2024F
EPS (won)	5,486	6,310	7,141	7,519	8,211
BPS (won)	20,554	26,268	32,282	38,629	45,631
EBITDA/shr (won)	15,579	15,756	16,247	16,878	17,774
SPS (won)	43,868	49,651	54,316	59,286	64,015
DPS (won)	1,200	1,250	1,300	1,350	1,400
<b>P/E (x)</b>	<b>13.5</b>	<b>11.9</b>	<b>9.9</b>	<b>9.4</b>	<b>8.6</b>
<b>P/B (x)</b>	<b>3.6</b>	<b>2.9</b>	<b>2.2</b>	<b>1.8</b>	<b>1.5</b>
<b>EV/EBITDA (x)</b>	<b>5.0</b>	<b>5.0</b>	<b>4.2</b>	<b>3.7</b>	<b>3.2</b>
<b>PSR (x)</b>	<b>1.7</b>	<b>1.5</b>	<b>1.3</b>	<b>1.2</b>	<b>1.1</b>

## Key financial data

FY ends Dec (Wbn)	2020	2021	2022E	2023E	2024E
<b>Sales (% y-y)</b>	<b>7.2</b>	<b>13.2</b>	<b>9.4</b>	<b>9.1</b>	<b>8.0</b>
<b>Operating profit (% y-y)</b>	<b>32.3</b>	<b>5.6</b>	<b>12.2</b>	<b>7.0</b>	<b>7.2</b>
<b>NP, CI (% y-y)</b>	<b>21.6</b>	<b>15.0</b>	<b>13.2</b>	<b>5.3</b>	<b>9.2</b>
Gross margin (%)	67.8	65.2	65.0	65.0	65.0
<b>Operating margin (%)</b>	<b>18.7</b>	<b>17.5</b>	<b>17.9</b>	<b>17.6</b>	<b>17.4</b>
NP, CI margin (%)	12.5	12.7	13.1	12.7	12.8
EBITDA margin (%)	35.5	31.7	29.9	28.5	27.8
ROIC (%)	38.4	42.6	53.7	56.2	55.2
ROA (%)	13.8	13.6	13.3	13.0	13.2
<b>ROE (%)</b>	<b>31.5</b>	<b>27.4</b>	<b>24.8</b>	<b>21.6</b>	<b>19.8</b>
Debt-to-equity (%)	103.3	99.6	75.1	58.0	43.5
Net debt-to-equity (%)	21.2	15.8	-7.1	-19.6	-28.3
OP/financing cost (x)	28.6	35.8	40.5	52.8	74.1

Note: CI = controlling interest

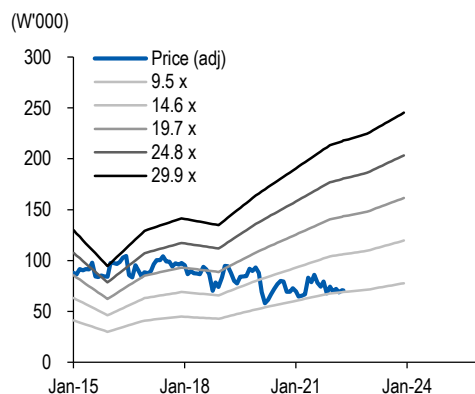
Operating profit calculation same as K-GAAP (sales - COGS - SG&A exp)

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

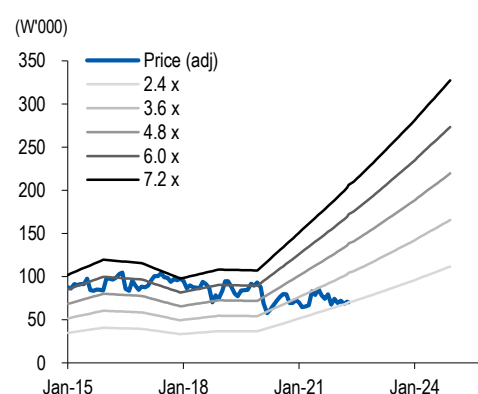
For valuation metrics such as P/E, historical figures are based on annual average prices and estimates, on current price

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

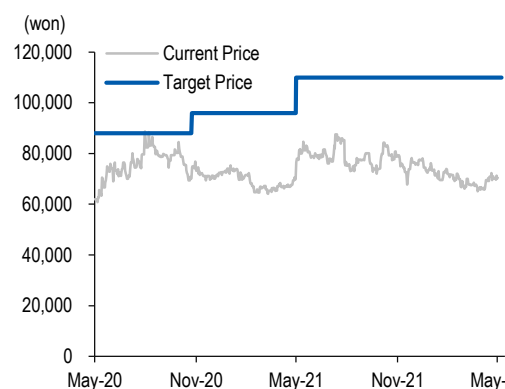
**P/E band chart**



**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)
2022/05/16	BUY	110,000	1 yr		
2022/05/13	After 1yr		1 yr		-100.00
2021/05/13	BUY	110,000	1 yr	-31.54	-20.36
2020/11/05	BUY	96,000	1 yr	-22.67	-8.75
2020/04/23	HOLD	88,000	1 yr	-15.41	-

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 May 14, 2022

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- - Buy: Expected to return between 10% and 30%
- - Hold: Expected to return between -10 and +10%
- - Sell: Expected to return -10% or less
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- - Underweight: Investment weighting is lower than the market capitalization weighting

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