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Maintain BUY, target price of KRW100,000; expect market outperformance to continue

We maintain BUY and TP of KRW100,000 for Coway as changes to revenue/OP forecast were marginal (less than 3%). The stock's appeal stands out more than ever, with stable earnings and valuation (10.0x 12m fwd P/E) amid stock market volatility having strengthened substantially. The phasing-out of social distancing measures should give way to better door-to-door operating conditions. The stock's market outperformance should continue.

2022 forecast: Ratio of overseas subsidiaries to consolidated revenue to reach 36%; Malaysia/U.S. revenue to advance 18%/14%

We forecast 2022 revenue/OP at KRW4.01tn (+9% YoY)/KRW699.8bn (+9% YoY). Overseas subsidiaries' shares of consolidated revenue/OP to grow to 36%/32%. Malaysia/U.S. revenue is likely to advance 18%/20% (based on same accounting standards for 2021 and 2022). Hindered by an unfavorable comparison base, top-line growth should slow slightly from past 30-40% levels.

1Q22 earnings in line with market consensus; solid domestic revenue but overseas earnings slightly miss expectations

Coway reported 1Q22 consolidated revenue/OP of KRW928.0bn (+6% YoY)/KRW172.7bn (+1% YoY), with revenue falling 5% short of the market consensus and OP in line.

Domestic (standalone) revenue/OP came in at KRW710.1bn (+5% YoY)/KRW143.1bn (+28% YoY):

- (1) No. of new rental sales rose 10% YoY with the launch of novel products (e.g., Noble series) and stronger marketing.
- (2) Monthly avg. churn stayed low at less than 1%.
- (3) No. of rental accounts saw a 65,000 net increase.
- (4) OPM improved 3.6pp YoY to 20.2% because of delayed booking for marketing costs and a reversal of impairment losses.

Buy Maintain

Target Price (Maintain)	KRW100,000
Dividend yield*	1.9%
Total return	44.4%
Current price (May 19)	KRW70,200
Consensus target price	KRW99,000
Market capitalization	USD4.1bn

* 12-month forward

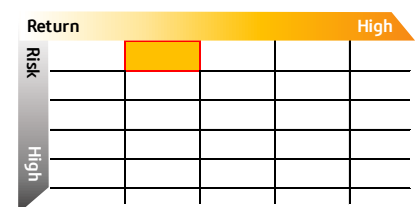
Trading Data

Free float	73.2%
Avg. T/O val. (3m, KRWbn)	10.5
Foreign ownership	61.3%
Major shareholders	Netmarble and 6 others 25.1%
	National Pension Service 7.5%

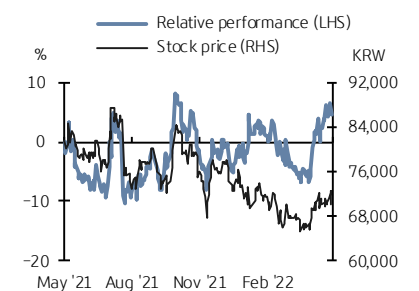
Stock Price Performance (total return)

(%)	1M	3M	6M	12M
Absolute	6.8	-1.8	-6.1	-12.2
Relative	12.0	3.4	5.9	5.5

Risk & Total Return (annualized over three years)



Stock Price & Relative Performance



Earnings Forecast & Valuation

Fiscal year-end	2021A	2022E	2023E	2024E
Revenue (KRWbn)	3,664	4,008	4,352	4,676
OP (KRWbn)	640	700	761	821
NP to control. int. (KRWbn)	466	512	543	596
EPS (KRW)	6,310	6,934	7,362	8,070
EPS growth (%)	15.0	9.9	6.2	9.6
P/E (x)	11.8	10.1	9.5	8.7
EV/EBITDA (x)	5.0	4.4	3.9	3.5
P/B (x)	2.9	2.2	1.9	1.6
ROE (%)	27.4	24.2	21.3	19.7
Div. yield (%)	1.7	1.9	1.9	2.0

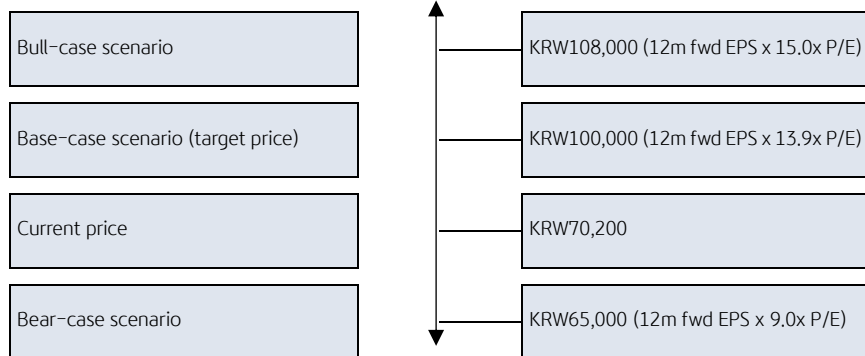
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Source(s): Company data, KB Securities

Malaysia revenue increased 9% while OP fell 4% on changes in accounting standards (revenue/OP up 16%/26% based on same accounting standards). Revenue growth slowed on an unfavorable comparison base (e.g., new water purifier launched in March 2021).

U.S. revenue increased 7% (slower growth in store sales) but OP tumbled 58% YoY to KRW2.4bn (5.2% OPM) on an unusually high margin in 1Q21 and higher logistics costs & tariffs.

Investment Opinion & Risks



Base-case scenario: Catalysts

- 1) 2021-24 domestic revenue CAGR at 4%
- 2) 2021-24 overseas revenue CAGR at 16%

Bull-case scenario: Upside risks

- 1) 2021-24 domestic revenue CAGR above 4%
- 2) 2021-24 overseas revenue CAGR above 16%

Bear-case scenario: Downside risks

- 1) 2021-24 domestic revenue CAGR below 4%
- 2) 2021-24 overseas revenue CAGR below 16%

Revised Earnings Estimates

(KRWbn, %)	Previous		Revised		Change	
	2022E	2023E	2022E	2023E	2022E	2023E
Revenue	4,040.5	4,433.3	4,007.8	4,351.5	-0.8	-1.8
OP	701.5	776.2	699.8	760.6	-0.3	-2.0
NP (to control. int.)	498.3	554.7	509.8	543.3	2.3	-2.1

Source(s): KB Securities estimates

KB Estimates vs. Consensus

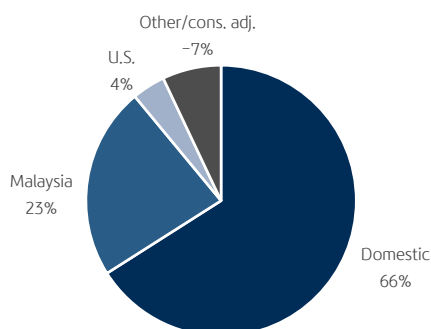
(KRWbn, %)	KB Estimates		Consensus		Difference	
	2022E	2023E	2022E	2023E	2022E	2023E
Revenue	4,007.8	4,351.5	4,021.7	4,400.3	-0.3	-1.1
OP	699.8	760.6	714.0	779.9	-2.0	-2.5
NP (to control. int.)	509.8	543.3	514.1	562.0	-0.8	-3.3

Source(s): FnGuide, KB Securities estimates

Valuation & Target Price Calculation

- 1) Valuation method:
Discounted cash flow model
- 2) Target price calculation:
7.55% WACC; 2.9% TGR
- 3) Target price range:
KRW65,000 – KRW108,000
- 4) Valuation at target price:
13.9x 12m fwd implied P/E, 2.95x P/B

Revenue Composition (2021)



Source(s): Company data, KB Securities

Earnings Sensitivity Analysis

(%)	EPS change	
	2022E	2023E
+1pp in interest rate	-0.5	-0.4
+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	5,180.7	9.9	8.0	2.07	21.0	4.3	2.0
Amorepacific	8,949.4	31.9	43.4	2.07	6.5	10.6	8.9
LG H&H	10,433.0	17.4	-0.7	1.97	11.3	7.8	-1.1

Source(s): KB Securities estimates

Table 1. 1Q22 Results (consolidated)

(KRWbn)	1Q22P	1Q21	YoY (%)	4Q21	QoQ (%)	Consensus	Difference (%)	KB Estimate	Difference (%)
Revenue	928.0	879.0	5.6	945.9	-1.9	971.6	-4.5	961.1	-3.4
OP	172.7	170.7	1.1	139.2	24.0	171.7	0.6	168.9	2.3
EBT	191.9	174.7	9.8	138.2	38.8	169.8	13.0	162.2	18.3
NP (to control. int.)	135.1	125.8	7.3	87.5	54.4	122.2	10.6	120.1	12.5
OPM (%)	18.6	19.4		14.7		17.7		17.6	
EBT margin (%)	20.7	19.9		14.6		17.5		16.9	
NPM to control. int. (%)	14.6	14.3		9.2		12.6		12.5	

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	4,040.5	4,433.3	4,810.2	4,007.8	4,351.5	4,675.7	-0.8	-1.8	-2.8
OP	701.5	776.2	846.5	699.8	760.6	821.3	-0.5	-2.0	-3.0
EBT	673.1	749.4	821.4	700.9	734.0	796.5	4.1	-2.1	-3.0
NP (to control. int.)	498.3	554.7	614.2	509.8	543.3	595.5	2.3	-2.1	-3.0
EPS (KRW)	6,867	7,646	8,465	7,027	7,489	8,208	2.3	-2.1	-3.0
YoY (%)	Revenue	10.3	9.7	8.5	9.4	8.6	7.5		
	OP	9.6	10.6	9.1	9.3	8.7	8.0		
	EBT	2.2	11.3	9.6	6.4	4.7	8.5		
	NP (to control. int.)	7.0	11.3	10.7	9.5	6.6	9.6		
	EPS	7.0	11.3	10.7	9.5	6.6	9.6		
OPM (%)		17.4	17.5	17.6	17.5	17.5	17.6		
EBT margin (%)		16.7	16.9	17.1	17.5	16.9	17.0		
NPM (to control. int.) (%)		12.3	12.5	12.8	12.7	12.5	12.7		

Source(s): Company data, KB Securities estimates

Note: Revisions vs. estimates made as of Feb 17, 2022

Table 3. Earnings & Estimates (consolidated)

(KRWbn)		1Q21	2Q21	3Q21	4Q21	1Q22P	2Q22E	3Q22E	4Q22E	2020	2021	2022E	2023E	2024E
Revenue		879.0	905.4	934.0	945.9	928.0	997.2	1,008.4	1,074.2	3,237.4	3,664.3	4,007.8	4,351.5	4,675.7
Standalone		674.8	710.9	686.4	742.7	710.1	729.8	708.3	773.9	2,592.5	2,814.6	2,922.0	3,063.2	3,203.9
Malaysia		240.4	236.7	256.2	246.8	262.8	276.9	299.8	315.9	708.4	980.1	1,155.4	1,328.7	1,501.4
U.S.		42.9	35.8	58.0	33.0	45.8	46.5	55.1	46.2	152.5	169.7	193.6	216.9	238.6
Other subsidiaries		20.7	36.1	35.1	42.3	50.1	54.7	57.3	57.6	79.4	134.2	219.8	253.3	280.4
Cons. adj.		-99.8	-114.1	-101.7	-118.9	-140.8	-110.8	-112.0	-119.4	-295.4	-434.4	-483.0	-510.5	-548.6
YoY (%)	Revenue	14.3	12.4	16.7	9.7	5.6	10.1	8.0	13.6	7.2	13.2	9.4	8.6	7.5
	Standalone	7.4	8.5	7.0	11.3	5.2	2.7	3.2	4.2	2.4	8.6	3.8	4.8	4.6
	Malaysia	56.8	51.8	43.3	12.0	9.3	17.0	17.0	28.0	34.6	38.4	17.9	15.0	13.0
	U.S.	57.7	11.5	12.0	-20.3	6.8	30.0	-5.0	40.0	56.7	11.3	14.1	12.0	10.0
	Other subsidiaries	-8.0	114.9	115.3	77.7	142.0	51.6	63.4	36.3	-24.6	69.0	63.8	15.2	10.7
	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	78.5	76.5	73.2	70.2	72.0	80.1	76.8	72.9	70.4	68.5
	Malaysia	27.3	26.1	27.4	26.1	28.3	27.8	29.7	29.4	21.9	26.7	28.8	30.5	32.1
	U.S.	4.9	4.0	6.2	3.5	4.9	4.7	5.5	4.3	4.7	4.6	4.8	5.0	5.1
	Other subsidiaries	2.4	4.0	3.8	4.5	5.4	5.5	5.7	5.4	2.5	3.7	5.5	5.8	6.0
	Cons. adj.	-11.4	-12.6	-10.9	-12.6	-15.2	-11.1	-11.1	-11.1	-9.1	-11.9	-12.1	-11.7	-11.7
Operating profit		170.7	166.4	163.8	139.2	172.7	171.2	176.0	179.9	606.4	640.2	699.8	760.6	821.3
Standalone		112.0	122.5	104.5	112.7	143.1	116.8	116.2	116.9	455.5	451.7	492.9	497.9	524.0
Malaysia		56.1	59.6	54.8	28.9	53.7	55.4	60.0	63.2	130.1	199.4	232.2	259.1	285.3
U.S.		5.7	0.9	4.6	-3.4	2.4	2.3	2.8	2.3	19.8	7.8	9.8	10.8	14.3
Other subsidiaries		-5.8	-8.7	-4.2	-6.0	-4.7	-4.1	-3.7	-3.4	-11.0	-24.7	-15.9	-11.0	-6.4
Cons. adj.		2.7	-7.9	4.1	7.1	-21.9	0.9	0.9	0.9	12.0	6.0	-19.2	3.8	4.1
YoY (%)	OP	23.0	-1.6	-2.9	7.3	1.1	2.9	7.5	29.2	32.3	5.6	9.3	8.7	8.0
	Standalone	-3.2	-9.9	-16.4	42.8	27.8	-4.7	11.2	3.7	15.4	-0.8	9.1	1.0	5.2
	Malaysia	122.6	155.8	85.1	-44.4	-4.3	-7.1	9.4	118.6	72.1	53.3	16.5	11.6	10.1
	U.S.	119.2	-81.6	-61.0	TTR	-57.9	158.6	-40.1	TTB	500.0	-60.6	25.5	10.7	32.0
	Other subsidiaries	RR	RR	RR	RR	RR	RR	RR	RR	RR	RR	RR	RR	RR
	Cons. adj.	TTB	TTR	-32.4	316.0	TTR	TTB	-78.7	-87.4	TTB	-50.0	TTR	TTB	8.0
OPM (%)	OP	19.4	18.4	17.5	14.7	18.6	17.2	17.5	16.7	18.7	17.5	17.5	17.5	17.6
	Standalone	16.6	17.2	15.2	15.2	20.2	16.0	16.4	15.1	17.6	16.0	16.9	16.3	16.4
	Malaysia	23.3	25.2	21.4	11.7	20.4	20.0	20.0	20.0	18.4	20.3	20.1	19.5	19.0
	U.S.	13.3	2.5	7.9	-10.3	5.2	5.0	5.0	5.0	13.0	4.6	5.1	5.0	6.0
	Other subsidiaries	-28.0	-24.1	-12.0	-14.2	-9.4	-7.5	-6.5	-5.9	-13.8	-18.4	-7.2	-4.4	-2.3
	Cons. adj.	-2.7	6.9	-4.0	-6.0	15.5	-0.8	-0.8	-0.7	-4.1	-1.4	4.0	-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	80.9	82.9	68.2	66.0	65.0	75.1	70.6	70.4	65.5	63.8
	Malaysia	32.9	35.8	33.5	20.8	31.1	32.4	34.1	35.1	21.5	31.1	33.2	34.1	34.7
	U.S.	3.3	0.5	2.8	-2.4	1.4	1.4	1.6	1.3	3.3	1.2	1.4	1.4	1.7
	Other subsidiaries	-3.4	-5.2	-2.6	-4.3	-2.7	-2.4	-2.1	-1.9	-1.8	-3.9	-2.3	-1.4	-0.8
Gross profit		579.8	594.2	603.4	611.6	599.7	650.4	647.4	690.3	2,193.5	2,388.9	2,587.8	2,792.3	2,981.7
EBT		174.7	159.9	185.8	138.2	191.9	164.7	169.5	172.1	540.4	658.6	700.9	734.0	796.5
NP (to control. int.)		125.8	115.9	136.5	87.5	135.1	121.9	125.5	127.4	404.9	465.7	509.8	543.3	595.5
EBITDA		304.4	297.6	293.7	266.9	298.1	293.5	298.4	302.2	1,149.7	1,162.8	1,169.4	1,210.8	1,258.2
YoY (%)	Gross profit	11.1	7.1	12.5	5.3	3.4	9.5	7.3	12.9	9.2	8.9	8.3	7.9	6.8
	EBT	26.3	0.2	24.5	48.1	9.8	3.0	-8.8	24.5	19.7	21.9	6.4	4.7	8.5
	NP (to control. int.)	23.8	-2.6	16.8	29.6	7.3	5.2	-8.1	45.7	21.6	15.0	9.5	6.6	9.6
	EBITDA	10.4	-1.9	-3.6	0.4	-2.1	-1.4	1.6	13.2	18.1	1.1	0.6	3.5	3.9
GPM (%)		66.0	65.6	64.6	64.7	64.6	65.2	64.2	64.3	67.8	65.2	64.6	64.2	63.8
EBT margin (%)		19.9	17.7	19.9	14.6	20.7	16.5	16.8	16.0	16.7	18.0	17.5	16.9	17.0
NPM (to control. int.) (%)		14.3	12.8	14.6	9.2	14.6	12.2	12.4	11.9	12.5	12.7	12.7	12.5	12.7
EBITDA margin (%)		34.6	32.9	31.5	28.2	32.1	29.4	29.6	28.1	35.5	31.7	29.2	27.8	26.9

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	4Q21	1Q22P	2Q22E	3Q22E	4Q22E	2020	2021	2022E	2023E	2024E
Revenue	674.8	710.9	686.4	742.7	710.1	729.8	708.3	773.9	2,592.5	2,814.6	2,922.0	3,063.2	3,203.9
Domestic home appliance	538.5	558.9	556.2	591.7	559.5	569.1	570.6	614.1	2,127.2	2,245.3	2,313.2	2,419.5	2,523.3
Rental	394.4	388.7	380.5	378.8	365.1	400.9	396.4	390.0	1,596.4	1,542.4	1,552.4	1,613.0	1,665.1
Home care	98.0	127.4	136.9	180.6	159.9	137.6	143.7	195.0	304.1	542.8	636.3	687.2	742.1
Membership	24.1	23.7	23.1	22.5	22.7	21.8	21.4	20.9	99.2	93.5	86.9	82.2	79.5
Lump-sum payment	18.8	15.8	12.5	6.7	8.6	5.5	5.8	5.1	114.0	53.8	25.1	24.8	24.5
Other	3.1	3.2	3.3	3.1	3.1	3.2	3.2	3.1	13.5	12.8	12.6	12.4	12.1
Exports	124.6	139.9	119.9	141.7	141.5	148.3	127.1	150.2	404.7	526.1	567.1	601.1	637.2
Cosmetics	11.6	12.1	10.2	9.3	9.1	12.4	10.5	9.6	60.6	43.2	41.7	42.5	43.3
YoY (%)													
Revenue	7.4	8.5	7.0	11.3	5.2	2.7	3.2	4.2	2.4	8.6	3.8	4.8	4.6
Domestic HA	1.7	1.1	9.6	10.1	3.9	1.8	2.6	3.8	0.8	5.6	3.0	4.6	4.3
Rental	-1.9	-4.1	-4.8	-2.8	-7.4	3.1	4.2	2.9	1.5	-3.4	0.6	3.9	3.2
Home care	42.2	46.2	139.0	98.9	63.2	8.0	5.0	8.0	17.7	78.5	17.2	8.0	8.0
Membership	-2.1	-8.4	-6.2	-6.2	-6.1	-7.9	-7.1	-7.1	-7.6	-5.8	-7.0	-5.4	-3.4
Lump-sum	-39.0	-50.5	-47.1	-75.8	-54.4	-65.0	-53.6	-23.0	-29.3	-52.8	-53.4	-1.1	-1.1
Other	1.9	23.4	36.4	-41.9	0.2	-2.0	-2.0	-2.0	15.6	-5.2	-1.5	-2.0	-2.0
Exports	52.3	64.2	-0.3	20.8	13.5	6.0	6.0	6.0	17.8	30.0	7.8	6.0	6.0
Cosmetics	-32.9	-30.3	-25.4	-24.4	-21.4	3.0	3.0	3.0	-20.6	-28.7	-3.5	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	78.8	78.0	80.6	79.4	82.1	79.8	79.2	79.0	78.8
Rental	58.5	54.7	55.4	51.0	51.4	54.9	56.0	50.4	61.6	54.8	53.1	52.7	52.0
Home care	14.5	17.9	19.9	24.3	22.5	18.9	20.3	25.2	11.7	19.3	21.8	22.4	23.2
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	1.2	0.8	0.8	0.7	4.4	1.9	0.9	0.8	0.8
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	19.9	20.3	18.0	19.4	15.6	18.7	19.4	19.6	19.9
Cosmetics	1.7	1.7	1.5	1.3	1.3	1.7	1.5	1.2	2.3	1.5	1.4	1.4	1.4
OP	112.0	122.5	104.5	112.7	143.1	116.8	116.2	116.9	455.5	451.7	492.9	497.9	524.0
YoY (%)	-3.2	-9.9	-16.4	42.8	27.8	-4.7	11.2	3.7	15.4	-0.8	9.1	1.0	5.2
OPM (%)	16.6	17.2	15.2	15.2	20.2	16.0	16.4	15.1	17.6	16.0	16.9	16.3	16.4
Key rental assumptions													
Total accounts ('000)	5,842.4	5,903.2	5,987.4	6,018.4	6,083.9	6,158.9	6,243.1	6,300.1	5,809.0	6,018.4	6,300.1	6,606.1	6,876.2
New ('000)	321.0	340.4	330.3	334.6	352.5	367.6	346.8	321.3	1,353.8	1,326.3	1,388.3	1,429.9	1,458.5
Churn ('000)	145.2	140.2	129.9	131.7	132.4	133.8	135.5	137.3	692.4	547.0	539.1	565.3	591.0
Expiries ('000)	142.3	139.3	125.0	192.0	154.7	158.7	127.2	127.0	540.1	569.8	567.5	558.5	597.4
Monthly ARPU (KRW)	28,176	29,295	29,005	31,060	28,924	29,324	29,034	31,091	27,552	29,384	29,612	29,703	29,757
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	44.2	40.0	40.0	40.0	38.3	40.7	41.1	38.5	38.0
Key membership assumptions													
Total accounts ('000)	515.8	505.3	485.1	485.1	471.7	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	15.8	15.5	15.5	15.5	14.8	15.4	15.5	15.6	15.7
Key lump-sum assumptions													
New sales ('000)	16.7	14.4	12.7	10.2	7.0	7.2	7.4	7.1	114.7	54.0	28.7	27.8	27.0
ARPU ('000 KRW)	1,127.8	1,095.5	985.8	656.5	1,230.7	766.8	788.6	722.2	993.9	996.9	874.2	891.7	909.6
Obsolescence loss (cons.) (KRWbn)	13.8	14.8	13.2	11.9	14.1	15.1	14.5	13.7	77.6	53.7	57.3	61.5	65.8

Source(s): Company data, KB Securities estimates

Note: Churn and expiries are based on KB Securities estimates

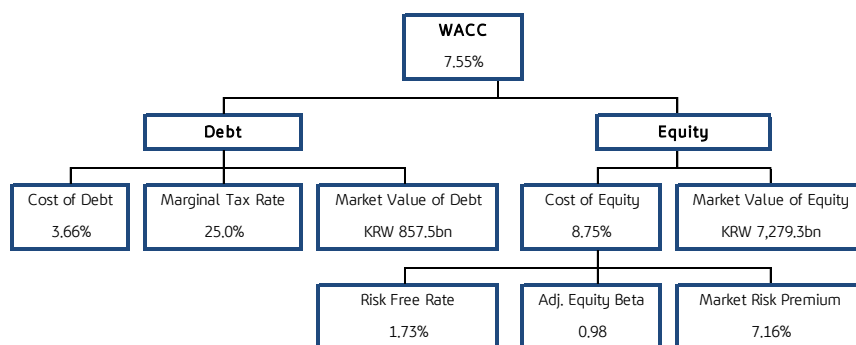
Table 5. Target Price Calculation: Discounted Cash Flow Model

(KRWbn)		2021	2022E	2023E	2024E	2025E	2026E	2027E	2028E
Cash flow estimates									
OP	a	640.2	699.8	760.6	821.3	867.4	884.7	893.0	914.2
Effective tax rate (%)	b	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0
NOPLAT	$C=a*(1-b)$	480.2	524.8	570.5	616.0	650.5	663.5	669.8	685.7
D&A	d	522.5	469.7	450.1	436.9	427.9	419.1	410.5	402.1
Total cash flow	$E=C+d$	1,002.7	994.5	1,020.6	1,052.9	1,078.5	1,082.6	1,080.3	1,087.7
Total investment	$F=g+h$	-1,104.6	-500.8	-553.7	-560.0	-730.0	-730.0	-730.0	-730.0
Change in working capital	g	-829.0	-150.8	-153.7	-160.0	-300.0	-300.0	-300.0	-300.0
Capex	h	-275.6	-350.0	-400.0	-400.0	-430.0	-430.0	-430.0	-430.0
FCFF	$I=E+F$	-101.9	493.7	466.9	492.9	348.5	352.6	350.3	357.7
PV of cash flows									
Discount rate				4.7%	12.6%	21.1%	30.2%	40.0%	
PV of FCFF				276.2	437.9	287.8	270.8	250.1	
Total PV of FCFF (2023E-27E)	j		1,522.8						
Terminal growth rate (%)			2.90%		30y KTB yield				
Terminal value (2028E)			7,697.2		2028E FCFF / (WACC - TGR)				
PV of terminal value	k		5,496.1		7.55% WACC (1.73% risk-free rate; 7.16% market risk premium)				
Valuation									
Total cash flow (PV)	$L=j+k$		7,018.9						
Net cash	m		188.7		12m fwd				
Investments in non-consolidated affiliates	n		37.5		End-1Q22				
Non-controlling interests	o		-1.6		End-1Q22				
Fair value	$P=L+(m+n+o)$		7,246.7						
No. of shares ('000)	q		72,556						
Target price (KRW)	$R=P/q$		100,000						
Current price (KRW)			70,200		May 19, 2022				
Upside (%)			42.5						
12m fwd implied P/E (x)			13.9						
12m fwd implied P/B (x)			2.95						

Source(s): Company data, KB Securities estimates

Fig 1. WACC Calculation

- (1) Cost of debt is 3.66% (YTD yield of Coway's 1y KRW-based bonds); market value of debt based on total financial liabilities as of end-4Q21
- (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 (Feb 17, 2022)	Revised (May 20, 2022)	Notes
Cost of equity	A = B + C x D	8.25	8.75	
Risk-free rate	B	1.38	1.73	Avg. 1y MSB yield (last three months)
Adj. beta	C	0.96	0.98	52w adj. beta
Raw beta		0.80	0.86	
R ²		0.18	0.17	
Risk premium	D = E - F	7.16	7.16	
Market return	E	10.61	10.61	2001-21 annual avg. WMI500 total return
Risk-free rate	F	3.45	3.45	2001-21 annual avg. 1y MSB total return
Cost of debt	G	2.75	3.66	YTD yield of KRW-based 1y bonds
Fair shareholder value (KRWbn)		7,279.3	7,246.7	Value of outstanding shares based on TP
Debt (KRWbn)		857.5	902.7	Total financial liabilities as of end-4Q21
Weight of equity	H	80.0	80.0	
Weight of debt	I	20.0	20.0	
WACC	J = (A x H) + (G x I)	7.01	7.55	
Terminal growth rate		2.36%	2.90%	Yield on 30-year treasury bond

Source(s): Company data, KB Securities estimates

Table 7. Target Price Sensitivity to WACC & TGR

(KRW)		TGR						
		2.3%	2.5%	2.7%	2.9%	3.1%	3.3%	3.5%
WACC	6.55%	111,174	115,451	120,172	125,411	131,258	137,825	145,253
	6.75%	106,466	110,325	114,564	119,244	124,438	130,234	136,744
	6.95%	102,163	105,658	109,483	113,686	118,326	123,475	129,221
	7.15%	98,214	101,393	104,859	108,651	112,818	117,418	122,522
	7.35%	94,577	97,479	100,631	104,067	107,827	111,958	116,518
	7.55%	91,216	93,875	96,752	100,000	103,284	107,011	111,106
	7.75%	88,102	90,544	93,179	96,032	99,131	102,508	106,203
	7.95%	85,208	87,457	89,878	92,491	95,320	98,392	101,740
	8.15%	82,511	84,589	86,819	89,219	91,810	94,614	97,660
	8.35%	79,992	81,916	83,976	86,187	88,567	91,135	93,916
8.55%	77,634	79,419	81,326	83,369	85,561	87,921	90,467	

Source(s): Company data, KB Securities estimates

Income Statement

(KRWbn)	2020A	2021A	2022E	2023E	2024E
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
Revenue	3,237	3,664	4,008	4,352	4,676
Cost of revenue	1,044	1,275	1,420	1,559	1,694
Gross profit	2,194	2,389	2,588	2,792	2,982
SG&A expenses	1,587	1,749	1,888	2,052	2,160
Operating profit	606	640	700	761	821
EBITDA	1,150	1,163	1,169	1,211	1,258
Non-operating accounts	-66	18	1	-27	-17
Interest income	1	1	1	2	3
Interest expenses	21	18	20	19	10
Profit on equity method	0	-5	0	0	0
Net other non-operating income	-46	40	19	-10	-10
Profit before tax	540	659	701	734	805
Income tax expense	136	193	189	191	209
Net profit	405	465	512	543	595
NP attributable to controlling interests	405	466	512	543	596
Adj. net profit	405	466	512	543	596

Operating Statistics & Ratios

(%)	2020A	2021A	2022E	2023E	2024E
Revenue growth	7.2	13.2	9.4	8.6	7.5
OP growth	32.3	5.6	9.3	8.7	8.0
EBITDA growth	18.1	1.1	0.6	3.5	3.9
NP growth of parent	21.6	15.0	9.9	6.2	9.6
GP margin	67.8	65.2	64.6	64.2	63.8
OP margin	18.7	17.5	17.5	17.5	17.6
EBITDA margin	35.5	31.7	29.2	27.8	26.9
EBT margin	16.7	18.0	17.5	16.9	17.2
NP margin of parent	12.5	12.7	12.8	12.5	12.7

Statement of Cash Flows

(KRWbn)	2020A	2021A	2022E	2023E	2024E
Cash flow from operating activities	563	531	830	840	872
Net profit	405	465	512	543	595
Depreciation & amortization	543	523	470	450	437
Other non-cash adjustments	373	340	189	191	209
Investments in working capital	-567	-829	-151	-154	-160
Decrease(Increase) in receivables	-22	109	-37	-43	-49
Decrease(Increase) in inventory	-25	-91	-35	-41	-47
Increase(Decrease) in payables	43	-50	4	4	4
Investments in other working capital	-563	-818	-82	-74	-68
Other operating cash flow	-191	-168	-189	-191	-209
Cash flow from investing activities	-323	-368	-386	-437	-438
Capital expenditure	-325	-275	-350	-400	-400
Investments in intangibles	-1	-10	-10	-10	-10
Changes in investment assets	0	-53	0	0	0
Other investment cash flow	4	-29	-26	-27	-28
Cash flow from financing activities	-182	-9	-151	-150	-150
Proceeds from (repayment of) debt	-181	95	-61	-57	-53
Changes in equity	20	0	0	0	0
Dividends paid	0	-87	-91	-94	-98
Other financing cash flow	-20	-16	1	1	1
Other cash flow	-3	2	0	0	0
Increase/decrease in cash	55	-43	294	252	284
Cash and cash equivalents at FYE	116	73	367	620	903
Free cash flow	238	56	480	440	472
Net cash flow	308	15	362	336	365
Net cash (net debt)	-316	-301	61	397	762

Statement of Financial Position

(KRWbn)	2020A	2021A	2022E	2023E	2024E
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
Total assets	3,029	3,801	4,085	4,410	4,794
Current assets	897	1,106	1,501	1,865	2,277
Cash and cash equivalents	116	73	367	620	903
Current financial assets	298	510	536	562	591
Trade receivables	317	249	286	329	379
Inventory	134	255	270	311	357
Other current assets	32	39	41	43	46
Non-current assets	2,132	2,694	2,585	2,544	2,517
Investment assets	23	63	63	63	63
Property, plant and equipment	1,225	1,160	1,049	1,007	979
Intangible assets	140	183	184	186	187
Other non-current assets	744	1,288	1,288	1,288	1,288
Total liabilities	1,539	1,896	1,760	1,636	1,522
Current liabilities	1,417	1,293	1,176	1,072	978
Trade payables	69	88	91	95	98
Short-term financial liabilities	701	388	366	330	297
Other current liabilities	648	817	719	647	583
Non-current liabilities	122	603	584	564	545
Non-current financial liabilities	29	496	476	456	436
Other non-current liabilities	93	107	108	108	109
Total equity	1,490	1,904	2,325	2,774	3,272
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	1,757	2,178	2,627	3,125
Controlling interests	1,491	1,906	2,327	2,776	3,274
Non-controlling interests	-1	-1	-2	-2	-2

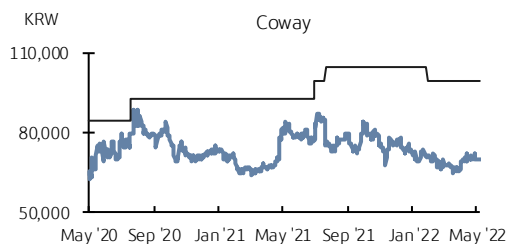
Key Ratios

(x, %, KRW)	2020A	2021A	2022E	2023E	2024E
Multiples					
P/E	13.3	11.8	10.1	9.5	8.7
P/B	3.6	2.9	2.2	1.9	1.6
P/S	1.7	1.5	1.3	1.2	1.1
EV/EBITDA	4.9	5.0	4.4	3.9	3.5
EV/EBIT	9.4	9.0	7.3	6.3	5.4
Dividend yield, ordinary (%)	1.7	1.7	1.9	1.9	2.0
EPS	5,486	6,310	6,934	7,362	8,070
BVPS	20,207	25,825	31,531	37,615	44,357
SPS	43,868	49,651	54,307	58,964	63,357
DPS (annual, ordinary)	1,200	1,250	1,300	1,350	1,400
Cash dividends payout ratio (%)	21.5	19.5	18.4	18.0	17.1
Operating performance					
ROE	31.5	27.4	24.2	21.3	19.7
ROA	13.8	13.6	13.0	12.8	12.9
ROIC	20.3	19.3	17.8	16.7	16.0
Financial structure (%)					
Total liab./equity	103.3	99.6	75.7	59.0	46.5
Net debt/equity	21.2	15.8	Net Cash	Net Cash	Net Cash
Current ratio	0.6	0.9	1.3	1.7	2.3
Interest coverage (x)	28.6	35.8	35.7	40.6	86.3
Activity ratios					
Asset turnover (x)	1.1	1.1	1.0	1.0	1.0
Receivables turnover (x)	10.3	13.0	15.0	14.1	13.2
Payables turnover (x)	51.1	46.9	44.9	46.9	48.4
Inventory turnover (x)	26.2	19.9	15.9	15.0	14.0

Source(s): Company data, KB Securities estimates

Disclosures

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



Coway (021240)

Date	Rating	Analyst	TP (KRW)	TP Differential (%)	
				Avg.	Max/Min
May-19-2020	Buy	Shinay Park	85,000	-16.57	
Jun-29-2020	Buy	Shinay Park	85,000	-12.17	-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 March 31, 2022)

Buy	Hold	Sell
83.3	16.7	-

Note: Based on recommendations in the last 12 months

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