

## Korea Equity Research

## Retail/Cosmetics

Analyst

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**Buy (maintain)**

Target price	<b>KRW 90,000</b>
Current price	<b>KRW 71,200</b>

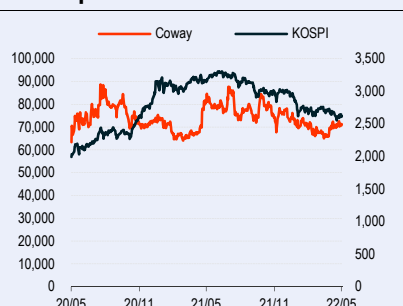
## Relative to consensus

Beat	Match	Miss

## Stock data

KOSPI (May 25)	2,617.22	
Market cap (KRW bn)	5,255	
Shares outstanding ('000)	73,800	
52-week high/low (KRW)	87,600 / 65,100	
90-day avg daily T/O (KRW bn)	10.4	
Foreign ownership	61.2%	
Dividend yield (22.12E)	1.8%	
BPS (22.12E) (KRW)	30,628	
Performance relative to KOSPI	1M	4.4%
	6M	7.9%
	12M	4.3%
Shareholders	Netmarble (& 7 others)	25.1%
	National Pension Service (& 1 other)	7.5%
	Impax Asset Management (& 19 others)	6.3%

## Stock price



# Coway (021240.KS)

## Quiet but steady

### Quiet but steady

Coway's domestic rental business has been growing steadily and the recent easing of COVID restrictions is expected to fuel door-to-door sales and provide a boon to new businesses such as product customization and sleep care services. The company reported KRW928bn in consolidated revenue (+5.6% YoY) and KRW172.7bn in operating profit (+1.1% YoY) for 1Q22. Net profit increased 7.3% YoY to KRW134.9bn helped in part by the release of provisions set aside for litigation costs. Domestic rental and financial lease sales rose 6.6% YoY to KRW555.1bn and the total number of accounts increased 4.2% YoY to 6.56mn. Rental gross adds continued to rise to 353,000, propelled by the launch of innovative products and strong marketing campaign. Monthly cancellation rates remained below 1%.

In Malaysia, revenue advanced 9.3% YoY to KRW262.8bn while operating profit dipped 4.3% YoY to KRW53.7bn. The decline in operating profit has to do with a change of accounting method for financial lease. Otherwise, revenue and operating profit would have climbed 16% and 26% YoY, respectively. The US arm saw a 58% YoY fall in operating profit at KRW2.4bn due to higher warehouse and promotion costs. The portion of products sold on the market was approximately 40%, and sales appear to have recovered in March-April as the inventory on Amazon thinned out.

### Maintain Buy and KRW90,000 price target

We maintain Buy and our target price of KRW90,000 on Coway. The stock is attractively valued, trading at 9.9x 12-month-forward P/E. The domestic operation is stable and overseas expansion strategies are effective. The relaxation of social distancing measures also bodes well for sales activities.

### Financial data

(KRW bn)	2020	2021	2022E	2023E	2024E
Sales	3,237	3,664	3,927	4,423	4,787
Operating profit	606	640	696	768	823
Pretax income from cont ops	540	659	708	766	821
Net profit	405	465	501	541	580
EPS (KRW)	5,580	6,418	6,865	7,460	7,996
Change (%)	21.0	15.0	7.0	8.7	7.2
P/E (x)	13.0	11.6	10.4	9.5	8.9
P/B (x)	3.6	2.9	2.3	1.9	1.6
EV/EBITDA (x)	5.0	5.0	4.3	3.9	3.4
Operating margin (%)	18.7	17.5	17.7	17.4	17.2
EBITDA margin (%)	35.5	31.7	30.5	27.5	25.9
ROE (%)	31.5	27.4	23.9	21.8	19.7
Debt to equity (%)	103.3	99.6	104.6	90.5	79.0

Note: K-IFRS consolidated earnings basis

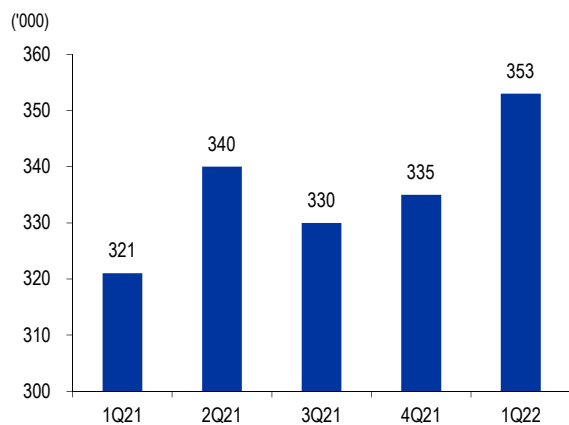
Source: Company data, eBEST Investment &amp; Securities Research

Fig 1 Quarterly/yearly earnings trend and forecasts

(KRW bn)	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22E	3Q22E	4Q22E	2021	2022E	2023E
<b>Estimates</b>											
Consolidated revenue	879	905	934	946	928	979	1,011	1,009	3,664	3,927	4,423
Rental	394	389	381	379	365	395	385	382	1,542	1,526	1,506
Financial lease	98	127	137	181	160	139	155	195	543	649	698
Membership	24.1	23.7	23.1	22.5	22.7	21.7	21.3	20	93.5	85.6	75
Lump-sum	18.8	15.8	12.5	6.7	8.6	14.8	11.9	6.7	53.8	42	34.1
Export	125	140	120	142	142	151	131	156	526	579	667
Cosmetics	11.6	12.1	10.2	9.3	9.1	9.5	10.9	10	43.2	39.5	42.3
Subsidiary	304	316	366	322	359	363	417	388	1,308	1,527	1,885
Malaysia	240	237	256	247	263	267	290	285	980	1,104	1,381
OP (consolidated)	171	166	164	139	173	172	173	178	640	696	768
Operating margin	19.4%	18.4%	17.5%	14.7%	18.6%	17.6%	17.1%	17.7%	17.5%	17.7%	17.4%
<b>Growth</b>											
Consolidated revenue	14.3%	12.4%	16.7%	9.7%	5.6%	8.1%	8.2%	6.7%	13.2%	7.2%	12.6%
Rental	-1.9%	-4.1%	-4.8%	-2.8%	-7.4%	1.5%	1.1%	0.9%	-3.4%	-1.0%	-1.3%
Financial lease	42.2%	46.2%	139.0%	98.9%	63.2%	9.2%	13.1%	8.2%	78.5%	19.6%	7.5%
Membership	-2.1%	-25.7%	-6.2%	-6.2%	-6.1%	-8.6%	-7.9%	-11.1%	-5.8%	-8.4%	-12.4%
Lump-sum	-39.0%	-50.5%	-47.1%	-75.8%	-54.4%	-6.0%	-4.9%	-0.4%	-52.8%	-22.0%	-18.8%
Export	52.3%	64.2%	-0.3%	20.8%	13.5%	8.2%	8.8%	10.1%	30.0%	10.1%	15.2%
Cosmetics	-32.9%	-30.3%	-25.4%	-24.4%	-21.4%	-21.0%	6.7%	7.3%	-28.7%	-8.5%	7.0%
Subsidiary	50.1%	55.0%	48.8%	13.5%	18.0%	14.8%	14.0%	20.6%	39.7%	16.7%	23.5%
Malaysia	56.8%	51.8%	43.3%	12.0%	9.3%	12.8%	13.1%	15.4%	38.4%	12.7%	25.0%
OP (consolidated)	23.0%	-1.6%	-2.9%	7.3%	1.1%	3.4%	5.6%	28.0%	5.6%	8.7%	10.3%
<b>Accounts ('000)</b>											
Total accounts	6,358	6,409	6,473	6,504	6,556	6,601	6,636	6,671	6,431	6,613	6,718
Rental accounts	5,842	5,903	5,987	6,018	6,084	6,144	6,194	6,244	5,930	6,164	6,329
Rental ARPU/month	22,569	22,064	21,331	21,033	20,114	21,402	20,691	20,402	21,674	20,634	19,826
Membership accounts	516	505	485	485	472	457	442	427	500	449	389
Membership ARPU/month	15,604	15,639	15,864	15,471	16,015	15,811	16,039	15,641	15,561	15,880	16,055

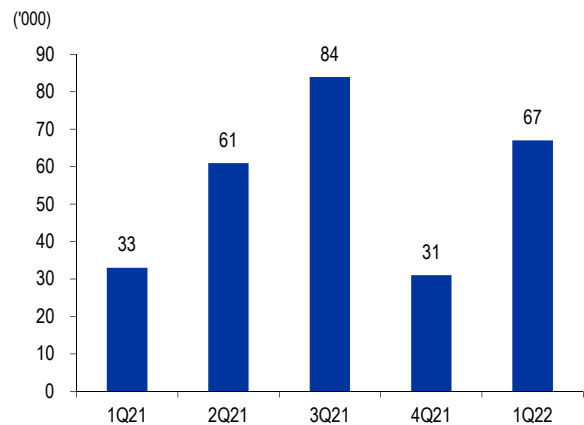
Source: Company data, eBEST Investment &amp; Securities Research

Fig 2 Rental gross adds



Source: Company data, eBEST Investment &amp; Securities Research

Fig 3 Rental net adds



Source: Company data, eBEST Investment &amp; Securities Research

## Coway (021240.KS) financial statements

## Balance sheet

(KRW bn)	2020	2021	2022E	2023E	2024E
<b>Current assets</b>	897	1,106	1,932	2,494	3,013
Cash & cash equivalents	116	73	765	1,226	1,666
Accounts receivable	327	259	279	317	344
Inventory assets	134	235	270	307	333
Other current assets	320	539	619	644	670
<b>Non-current assets</b>	2,132	2,694	2,690	2,661	2,693
Investments in affiliates	2	42	40	42	44
Tangible assets	1,225	1,160	978	873	827
Intangible assets	140	183	198	212	227
<b>Total assets</b>	<b>3,029</b>	<b>3,801</b>	<b>4,622</b>	<b>5,154</b>	<b>5,705</b>
<b>Current liabilities</b>	1,417	1,293	1,457	1,539	1,604
Accounts payable	312	382	431	490	532
Short-term financial liabilities	715	407	471	471	471
Other current liabilities	391	504	555	578	601
<b>Non-current liabilities</b>	122	603	906	910	914
Long-term financial liabilities	29	496	808	808	808
Other non-current liabilities	93	107	98	102	106
<b>Total liabilities</b>	<b>1,539</b>	<b>1,896</b>	<b>2,363</b>	<b>2,449</b>	<b>2,518</b>
<b>Owners of parent equity</b>	1,491	1,906	2,260	2,707	3,189
Paid-in capital	41	41	41	41	41
Capital surplus	148	148	148	148	148
Retained earnings	1,365	1,757	2,163	2,609	3,092
<b>Non-controlling interest</b>	-1	-1	-2	-2	-2
<b>Total equity</b>	<b>1,490</b>	<b>1,904</b>	<b>2,259</b>	<b>2,706</b>	<b>3,188</b>

## Cash flow

(KRW bn)	2020	2021	2022E	2023E	2024E
<b>Operating cash flow</b>	<b>563</b>	<b>331</b>	<b>706</b>	<b>998</b>	<b>1,011</b>
Net profit	405	465	498	541	580
Non-cash income and expenses	916	863	522	451	420
Depreciation of tangible assets	534	514	494	438	406
Amortization of intangible assets	9	8	9	9	10
Others	319	244	-14	4	4
Changes in assets/liab from operating	-567	-829	-240	5	11
Changes in accounts receivable	-22	109	-4	-38	-27
Changes in inventory assets	-25	-91	-33	-37	-26
Changes in accounts payable	43	-30	4	59	41
Changes in other assets/liabilities	-562	-818	-206	21	22
<b>Investing cash flow</b>	<b>-323</b>	<b>-368</b>	<b>-376</b>	<b>-442</b>	<b>-473</b>
Disposal/acquisition of tangible assets	-325	-275	-293	-333	-360
Changes in intangible assets	-1	-10	-24	-24	-24
Changes in investment assets	3	-36	-16	-25	-26
Other investments	0	-47	-43	-60	-62
<b>Financing cash flow</b>	<b>-182</b>	<b>-9</b>	<b>362</b>	<b>-94</b>	<b>-98</b>
Changes in financial liabilities	-181	95	365	0	0
Changes in equity	20	-87	-90	-94	-98
Dividends paid	0	87	91	94	98
Others	-20	-16	87	0	0
<b>Increase in cash</b>	<b>55</b>	<b>-43</b>	<b>692</b>	<b>461</b>	<b>440</b>
Beginning cash	61	116	73	765	1,226
Ending cash	116	73	765	1,226	1,666

Source: Company data, eBEST Investment &amp; Securities Research

## Income statement

(KRW bn)	2020	2021	2022E	2023E	2024E
<b>Sales</b>	<b>3,237</b>	<b>3,664</b>	<b>3,927</b>	<b>4,423</b>	<b>4,787</b>
Cost of goods sold	1,044	1,275	1,367	1,537	1,663
<b>Gross profit</b>	<b>2,193</b>	<b>2,389</b>	<b>2,560</b>	<b>2,886</b>	<b>3,124</b>
SG&A expenses	1,587	1,749	1,864	2,118	2,302
<b>Operating profit</b>	<b>606</b>	<b>640</b>	<b>696</b>	<b>768</b>	<b>823</b>
EBITDA	1,150	1,163	1,199	1,215	1,238
Financial income	-41	12	-13	-27	-27
Interest expenses	21	18	27	29	29
Gain/loss on equity	0	0	0	0	0
Other non-operating profit	-25	7	25	25	25
Pretax profit from continuing ops	<b>540</b>	<b>659</b>	<b>708</b>	<b>766</b>	<b>821</b>
Income tax	136	193	207	224	241
Profit from continuing ops	405	465	501	541	580
Profit from discontinuing ops	0	0	0	0	0
<b>Net profit</b>	<b>405</b>	<b>465</b>	<b>501</b>	<b>541</b>	<b>580</b>
Controlling interest	405	466	498	541	580
Total comprehensive profit	<b>389</b>	<b>488</b>	<b>501</b>	<b>541</b>	<b>580</b>
Gross margin (%)	67.8	65.2	65.2	65.2	65.3
Operating margin (%)	18.7	17.5	17.7	17.4	17.2
EBITDA margin (%)	35.5	31.7	30.5	27.5	25.9
Net margin (%)	12.5	12.7	12.7	12.2	12.1
ROA (%)	13.8	13.6	11.8	11.1	10.7
ROE (%)	31.5	27.4	23.9	21.8	19.7
ROIC (%)	25.7	22.6	22.7	25.5	27.5

## Key financial data

	2020	2021	2022E	2023E	2024E
<b>Valuation (x)</b>					
P/E	13.0	11.6	10.4	9.5	8.9
P/B	3.6	2.9	2.3	1.9	1.6
EV/EBITDA	5.0	5.0	4.3	3.9	3.4
P/CF	4.1	4.1	5.2	5.3	5.3
Dividend yield (%)	1.7	1.7	1.8	1.9	2.0
<b>Growth (%)</b>					
Sales	7.2	13.2	7.2	12.6	8.2
Operating profit	32.3	5.6	8.7	10.3	7.1
Pretax profit	19.7	21.9	7.5	8.1	7.2
Net profit	21.8	15.0	7.6	8.1	7.2
EPS	21.0	15.0	7.0	8.7	7.2
<b>Stability (%)</b>					
Total liabilities to equity	103.3	99.6	104.6	90.5	79.0
Current ratio	63.3	85.6	132.6	162.0	187.8
Net debt to equity (x)	22.1	16.8	-3.1	-20.5	-32.0
OP/financial expenses (x)	28.6	35.8	25.3	26.9	28.9
Total debt (KRW bn)	744	903	1,279	1,279	1,279
Net debt (KRW bn)	330	319	-70	-555	-1,020
<b>Per share data (KRW)</b>					
EPS	5,580	6,418	6,865	7,460	7,996
BPS	20,207	25,825	30,628	36,684	43,218
CFPS	17,896	18,000	13,819	13,449	13,552
DPS	1,200	1,250	1,300	1,350	1,400



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**Industry:** Three industry investment ratings based on 12-month investment weighting of a given industry compared to its market capitalization weighting

Overweight: Investment weighting is higher than the market capitalization weighting

Neutral: Underweight: Investment weighting is equal to the market capitalization weighting

Underweight: Investment weighting is lower than the market capitalization weighting

**Company:** Three company investment ratings based on the absolute return expected in the following 12 months (total return potential revised from ±20% to ±15% on Oct 25, 2018)

BUY: A stock is expected to return 15% or more

Hold: A stock is expected to return between -15% and +15%

Sell: A stock is expected to decline by 15% or more

**Stock ratings distribution**

Investment rating	% of ratings category	Note
Buy	90.8%	Based on the investment ratings of the companies within our coverage from Apr 1, 2021 to Mar 31, 2022 (renewed every quarter)
Hold	9.2%	
Sell	-	
Total	100.0%	