

Coway

(021240 KS)

Record quarterly earnings

Buy

(Maintain)

TP: W98,000

Upside: 51.7%

Mirae Asset Securities Co., Ltd.
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2Q22 review

Record quarterly earnings

- For 2Q22, Coway delivered record quarterly results, with revenue of W978.2bn (+8% YoY) and operating profit of W176bn (+5.7% YoY).
- The domestic health appliance business continued stable growth, with revenue rising to W573.7bn (+2.7% YoY) and accounts increasing to 6.56mn (+2.3% YoY).
- Overseas subsidiaries continued strong growth, with revenue expanding to W354bn (+23.8% YoY) and accounts climbing to 2.88mn (+28.3% YoY).
- At the Malaysia subsidiary, revenue grew to W274.7bn (+16.1% YoY) on an increase in accounts. Operating profit contracted 15.4% YoY to W50.4bn, but this was largely because of a tough comparison caused by a lower COGS in 2Q21 (stemming from delays in service checks due to COVID-19 lockdowns). Adjusting for this factor, operating profit actually grew 30% YoY.

Outlook

More diverse rental offerings and overseas expansion to support high-single-digit growth

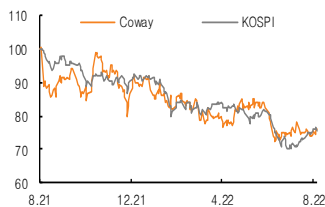
- In response to stagnating demand for water/air purifiers, the domestic health appliance business has launched a new brand (Noble) and is expanding into the mattress market.
- On the overseas front, the US subsidiary is growing rapidly alongside the Malaysia subsidiary, driven by increasing door-to-door channel accounts and growing sales of air purifiers at retail channels.
- While it has yet to turn a profit, the Thailand subsidiary also merits attention for its growth potential.

Recommendation

Record-high earnings vs. record-low valuation

- We maintain our Buy rating and target price of W98,000 on Coway.
- Coway has delivered a 7% revenue CAGR over the past decade. We expect the company to continue record earnings this year and post growth in the high single digits in the coming years. Nevertheless, the stock is trading at record-low valuations.

Key data



Current price (8/10/22, W)	64,600	Market cap (Wbn)	4,767
OP (22F, Wbn)	693	Shares outstanding (mn)	74
Consensus OP (22F, Wbn)	696	Free float (%)	73.2
EPS growth (22F, %)	7.6	Foreign ownership (%)	61.5
P/E (22F, x)	9.5	Beta (12M)	0.78
Market P/E (22F, x)	10.0	52-week low (W)	61,400
KOSPI	2,480.88	52-week high (W)	84,300

Share performance

(%)	1M	6M	12M
Absolute	-0.5	-12.5	-14.2
Relative	-5.7	-2.2	12.2

Earnings and valuation metrics

(Dec.)	2019	2020	2021	2022F	2023F	2024F
Revenue (Wbn)	3,019	3,237	3,664	3,918	4,255	4,597
OP (Wbn)	458	606	640	693	725	779
OP margin (%)	15.2	18.7	17.5	17.7	17.0	16.9
NP (Wbn)	333	405	466	501	493	531
EPS (W)	4,511	5,486	6,310	6,789	6,680	7,192
ROE (%)	30.7	31.5	27.4	23.7	19.6	18.0
P/E (x)	20.6	13.3	11.8	9.5	9.7	9.0
P/B (x)	6.0	3.5	2.8	2.0	1.7	1.5
Div. yield (%)	2.6	1.7	1.7	1.9	1.9	1.9

Notes: Under consolidated K-IFRS; NP is attributable to owners of the parent

Source: Company data, Mirae Asset Securities Research estimates

Table 1. Quarterly/annual earnings and forecasts

(Wbn, %)

	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22P	3Q22F	4Q22F	2021	2022F	2023F
Revenue	879	905	934	946	928	978	992	1,020	3,664	3,918	4,255
Domestic	539	559	556	592	560	574	573	576	2,245	2,282	2,345
Overseas	294	286	333	302	332	354	369	394	1,215	1,449	1,709
Others	46	60	45	53	36	50	50	50	204	187	200
OP	171	166	164	139	173	176	170	174	640	693	725
Domestic	114	116	110	120	122	125	115	115	459	477	469
Overseas	57	51	54	19	51	51	55	59	181	216	256
OP margin	19.4	18.4	17.5	14.7	18.6	18.0	17.1	17.1	17.5	17.7	17.1
Domestic	21.2	20.7	19.7	20.3	21.8	21.9	20.0	20.0	20.5	20.9	20.0
Overseas	19.3	17.8	16.3	6.3	15.3	14.3	15.0	15.0	14.9	14.9	15.0

Source: Company data, Mirae Asset Securities Research

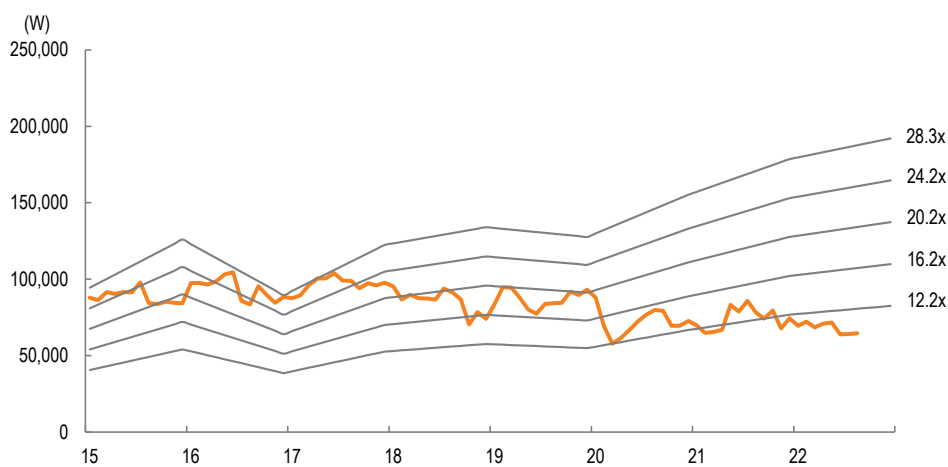
Table 2. Domestic and overseas rental accounts

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	2015	2016	2017	2018	2019	2020	2021	2022F	2023F
Rental accounts									
Domestic	5,771	5,704	5,748	5,900	6,282	6,335	6,504	6,640	6,780
Overseas	365	533	755	1,087	1,508	1,930	2,576	3,200	3,850

Source: Company data, Mirae Asset Securities Research

Figure 1. P/E band chart



Source: WISEfn, Mirae Asset Securities Research

Coway (021240 KS)

Income statement (summarized)

(Wbn)	2021	2022F	2023F	2024F
Revenue	3,664	3,918	4,255	4,597
Cost of revenue	1,275	1,342	1,402	1,519
GP	2,389	2,576	2,853	3,078
SG&A expenses	1,749	1,883	2,127	2,298
OP (adj.)	640	693	725	779
OP	640	693	725	779
Non-operating profit	19	27	-21	-21
Net financial income	-17	-21	-21	-21
Net income from associates	-5	21	0	0
Pretax profit	659	720	704	758
Income tax	193	219	211	227
Profit from continuing operations	465	501	493	531
Profit from discontinued operations	0	0	0	0
NP	465	501	493	531
Attributable to owners	466	501	493	531
Attributable to minority interests	0	0	0	0
Total comprehensive income	501	506	493	531
Attributable to owners	502	506	493	531
Attributable to minority interests	0	0	0	0
EBITDA	1,163	1,182	1,220	1,278
FCF	56	301	516	531
EBITDA margin (%)	31.7	30.2	28.7	27.8
OP margin (%)	17.5	17.7	17.0	16.9
Net margin (%)	12.7	12.8	11.6	11.6

Cash flow statement (summarized)

(Wbn)	2021	2022F	2023F	2024F
Operating cash flow	331	669	1,016	1,031
NP	465	501	493	531
Non-cash income/expenses	863	740	726	746
Depreciation	514	480	486	491
Amortization	8	9	8	8
Other	341	251	232	247
Chg. in working capital	-829	-336	9	-19
Chg. in AR & other receivables	109	-7	-12	-23
Chg. in inventory	-91	-36	-3	-22
Chg. in AP & other payables	-30	-4	6	8
Income tax	-168	-236	-211	-227
Cash flow from investing activities	-368	-590	-996	-996
Chg. in PP&E	-275	-367	-500	-500
Chg. in intangible assets	-10	-6	0	0
Chg. in financial assets	-217	-58	0	0
Other	134	-159	-496	-496
Cash flow from financing activities	-9	344	-115	-115
Chg. in financial liabilities	159	376	0	0
Chg. in equity	0	0	0	0
Dividends	-87	0	-91	-91
Other	-81	-32	-24	-24
Chg. in cash	-43	420	-94	-80
Beginning balance	116	73	494	399
Ending balance	73	494	399	319

Source: Company data, Mirae Asset Securities Research estimates

Balance sheet (summarized)

(Wbn)	2021	2022F	2023F	2024F
Current assets	1,106	1,649	1,569	1,534
Cash & equivalents	73	494	399	319
AR & other receivables	255	277	289	312
Inventory	235	273	276	298
Other current assets	543	605	605	605
Non-current assets	2,694	2,938	3,443	3,945
Investments in associates	40	38	38	38
PP&E	1,160	1,066	1,080	1,089
Intangible assets	183	180	171	163
Total assets	3,801	4,587	5,012	5,479
Current liabilities	1,293	1,366	1,389	1,416
AP & other payables	302	308	331	358
Short-term financial liabilities	407	471	471	471
Other current liabilities	584	587	587	587
Non-current liabilities	603	903	903	903
Long-term financial liabilities	496	808	808	808
Other non-current liabilities	107	95	95	95
Total liabilities	1,896	2,269	2,292	2,319
Equity attributable to owners	1,905	2,320	2,722	3,162
Capital stock	41	41	41	41
Capital surplus	148	148	148	148
Retained earnings	1,757	2,166	2,568	3,008
Minority interests	-1	-2	-2	-2
Shareholders' equity	1,904	2,318	2,720	3,160

Key valuation metrics/ratios

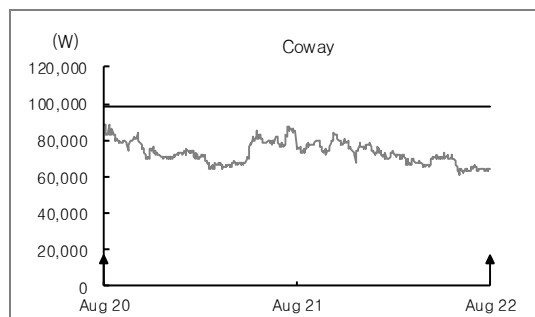
	2021	2022F	2023F	2024F
P/E (x)	11.8	9.5	9.7	9.0
P/CF (x)	4.1	3.8	3.9	3.7
P/B (x)	2.8	2.0	1.7	1.5
EV/EBITDA (x)	5.0	4.2	4.2	4.0
EPS (W)	6,310	6,789	6,680	7,192
CFPS (W)	18,000	16,815	16,518	17,301
BPS (W)	26,523	32,122	37,574	43,536
DPS (W)	1,250	1,250	1,250	1,250
Dividend payout ratio (%)	19.5	18.1	18.4	17.1
Dividend yield (%)	1.7	1.9	1.9	1.9
Revenue growth (%)	13.2	6.9	8.6	8.0
EBITDA growth (%)	1.1	1.6	3.2	4.8
OP growth (%)	5.6	8.3	4.6	7.4
EPS growth (%)	15.0	7.6	-1.6	7.7
AR turnover (x)	12.9	15.1	15.4	15.7
Inventory turnover (x)	19.9	15.4	15.5	16.0
AP turnover (x)	16.3	15.0	14.9	15.0
ROA (%)	13.6	11.9	10.3	10.1
ROE (%)	27.4	23.7	19.6	18.0
ROIC (%)	22.9	20.9	18.7	16.9
Debt-to-equity ratio (%)	99.6	97.9	84.3	73.4
Current ratio (%)	85.6	120.7	113.0	108.4
Net debt-to-equity ratio (%)	16.8	9.4	11.5	12.4
Interest coverage ratio (x)	35.8	28.5	29.8	32.1

Appendix 1

Important disclosures and disclaimers

Two-year rating and TP history

Company	Date	Rating	TP (W)
Coway (021240)	08/06/20	Buy	98,000



Stock ratings

Buy	Expected 12-month performance: +20% or greater
Trading Buy	Expected 12-month performance: +10% to +20%
Hold	Expected 12-month performance: -10% to +10%
Sell	Expected 12-month performance: -10% or worse

Sector ratings

Overweight	Expected to outperform the market over 12 months
Neutral	Expected to perform in line with the market over 12 months
Underweight	Expected to underperform the market over 12 months

Rating and TP history: Share price (—), TP (—), Not Rated (■), Buy (▲), Trading Buy (■), Hold (●), Sell (◆)

* Our investment rating is a guide to the expected return of the stock over the next 12 months.

* Outside of the official ratings of Mirae Asset Securities Co., Ltd., analysts may call trading opportunities should technical or short-term material developments arise.

* The TP was determined by the research analyst through valuation methods discussed in this report, in part based on estimates of future earnings.

* TP achievement may be impeded by risks related to the subject securities and companies, as well as general market and economic conditions.

Ratings distribution and investment banking services

	Buy	Trading Buy	Hold	Sell
Ratings distribution	87.42%	5.96%	5.96%	0.66%
Investment banking services	76.92%	23.08%	0.00%	0.00%

* Based on recommendations in the last 12-months (as of June 30, 2022)

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