



Coway

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23 August 2022

NDR takeaways - Turning into a growth stock

[Household goods]

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BUY
(Maintain)



CP (Aug. 22)
KRW64,600



TP (6 months)
KRW100,000



Upside
54.8%

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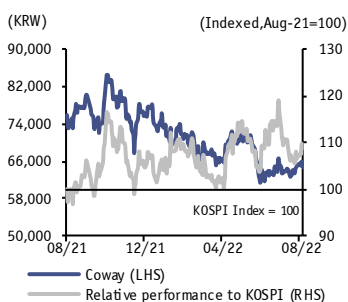
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Rating	BUY (Maintain)
TP (6 months)	KRW100,000
Upside	54.8%

KOSPI	2,462.50p
KOSDAQ	795.87p
Market cap	KRW4,767.5bn/USD4,182.0mn
Par value	KRW500
Outstanding shares	73.8mn
Free float	54.0mn(73.2%)
52-week high/low	KRW84,300/KRW61,400
60-day avg. trading volume	124,474shrs
60-day avg. turnover	KRW8,089mn
Foreign ownership	61.61%
Major shareholders	
Netmarble and 6 others	25.11%
NPS	7.47%
Absolute performance	
3M	-9.3%
6M	-7.4%
12M	-11.9%
Relative performance to KOSPI	
3M	-2.8%
6M	1.7%
12M	9.5%

Share performance



2Q22 earnings in line with consensus

Coway posted operating profit of KRW176bn (+5.7% YoY) on sales of KRW978.2bn (+8.0% YoY) for 2Q22, meeting consensus estimates. In the domestic market, sales from home appliances increased by 2.7% YoY and rental contracts by 2.1% YoY. In Malaysia, sales rose by 22.4% YoY and operating profit by 30.9% YoY when factoring out the impact of accounting changes and lockdown-related issues in 2021. In the US, sales jumped by 50% YoY on strong demand in both door-to-door and retail channels, and operating profit soared by 845% YoY on the reversal of import duties.

Three investor focus points

In Korea, the total number of rental accounts recorded a net increase of just 5,000 accounts (-91.8% YoY, -92.6% QoQ) with ownership transfers from the expiration of five-year rental contracts concentrated in 2Q22. After stabilizing from 3Q22, rental contract expirations and ownership transfers are expected to increase slightly in 2023 vs. 2022. Coway is preparing to address this issue by releasing innovative products to secure new customers.

In Malaysia, operating profit appears to have declined by 15.4% YoY amid top-line growth of just 16.1% YoY in 2Q22. However, we believe sales actually increased by 22.4% YoY and operating profit by 6.5% YoY when adjusting for accounting method changes. In addition, when factoring out the impact of delays in service checks caused by lockdowns in 2Q21, actual operating profit growth is estimated at 30.9% YoY for 2Q22.

In Thailand, we expect Coway to replicate its success in Malaysia. Due to the country's lagging financial infrastructure, the Thai unit had been slow to grow since its foundation in 2003. However, growth has recently picked up following improvements in financial infrastructure and expansion of sales force. The total number of rental accounts in Thailand exceeded the typical breakeven point of 100,000 accounts at 118,000 (+39% YoY) in 2Q22, but Coway plans to concentrate first on driving further sales growth through the improvement in brand power.

Retain BUY and target price of KRW100,000

Coway's business model is seen attractive as it guarantees a steady cash flow regardless of external market conditions. After recording weak earnings over the past three years due to the pandemic and cost hikes, the domestic unit is starting to regain market leadership on strengths in R&D. Overseas subsidiaries are humming along, backed by product category expansion in Malaysia and brand power improvement in the US and Thailand. We expect overseas operations to account for 27% in company-wide sales and 29% in operating profit in 2022.

Year to December	Sales (bn KRW)	OP (bn KRW)	Pre-tax (bn KRW)	NP (bn KRW)	EPS (KRW)	Growth (%)	BPS (KRW)	PER (x)	EV/EBITDA (x)	PBR (x)	ROE (%)	Net debt ratio (%)
2020	3,237.4	606.4	540.4	404.9	5,486	21.6	20,207	13.3	5.0	3.6	31.5	22.1
2021	3,664.3	640.2	658.6	465.7	6,310	15.0	25,825	11.8	5.0	2.9	27.4	16.8
2022F	3,955.9	685.2	717.5	516.5	6,999	10.9	31,639	9.4	4.2	2.1	24.4	9.4
2023F	4,367.4	762.6	765.6	575.5	7,798	11.4	38,170	8.5	4.1	1.7	22.3	3.7
2024F	4,723.3	827.1	840.2	631.8	8,560	9.8	45,458	7.7	4.1	1.4	20.5	6.3

Source: Company data, Shinhan Investment Corp. / Note: TB = turn black, TR = turn red, RR = remain red

Earnings forecast revision

(bn KRW, %)	2022			2022F			2023F		
	Estimate	Result	Gap (%)	Previous	Revised	Change (%)	Previous	Revised	Change (%)
Sales	996	978	(1.8)	3,969	3,956	(0.3)	4,442	4,367	(1.7)
OP	175	176	0.6	690	685	(0.6)	773	763	(1.4)
NP	124	133	7.0	511	516	0.9	575	574	(0.1)
OPM	17.6	18.0		17.4	17.3		17.4	17.5	
NPM	12.4	13.5		12.9	13.0		12.9	13.1	

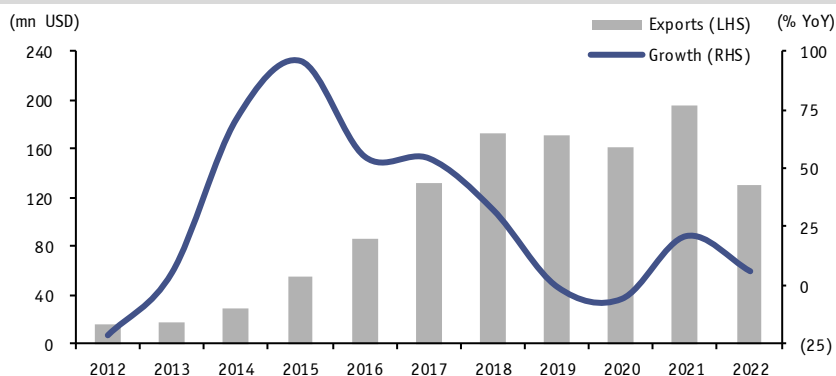
Source: Shinhan Investment Corp.

Target price calculation

(bn KRW)	2021	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F
EBIT	640	685	763	827	831	835	840	844	848	852	857
- Tax on EBIT	188	192	191	207	208	209	210	211	212	213	214
- Capex	276	330	382	415	417	419	421	423	425	427	430
- Change in net working capital	(144)	97	2	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)
+ Depreciation expense	514	505	438	388	390	392	394	396	398	400	402
+ Amortization expense	8	9	9	9	9	9	9	9	9	9	9
FCFF	843	580	634	610	613	616	619	623	626	629	632
Terminal value	7,774										
Terminal growth	0.5%										
NPV of FCFF	4,011										
PV of terminal value	3,385										
Enterprise value	7,396										
Fair value (KRW)	101,241										
Target price (KRW)	100,000										
Current price (KRW)	64,600										
Upside (%)	54.8										

Source: Shinhan Investment Corp.

Korean water purifier exports to Malaysia



Source: KITA / Note: YTD-July figures for 2022

Earnings trend and outlook											
(bn KRW)	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22F	4Q22F	2021	2022F	2023F
Consolidated sales	879	905	934	946	928	978	1,010	1,040	3,664	3,956	4,367
Parent sales	675	711	686	743	710	700	706	765	2,815	2,881	2,987
Home appliances	535	556	553	589	556	570	562	606	2,232	2,294	2,371
Rental	394	389	380	379	365	361	378	376	1,542	1,481	1,484
Finance lease	98	127	137	181	160	180	157	207	543	704	799
Membership	24	24	23	23	23	22	20	20	93	85	74
Lump-sum payment	19	16	12	7	9	6	7	4	54	25	14
Exports	125	140	120	142	141	117	132	148	526	539	576
Cosmetics	12	12	10	9	9	9	9	8	43	35	27
Other parent sales	3	3	3	3	3	4	3	3	13	13	13
Other sales	204	195	248	203	218	278	304	275	850	1,075	1,380
Sales growth (% YoY)											
Consolidated sales	14.3	12.4	16.7	9.7	5.6	8.0	8.1	10.0	13.2	8.0	10.4
Parent sales	7.4	8.5	7.0	11.3	5.2	(1.5)	2.9	3.0	8.6	2.4	3.7
Home appliances	1.7	1.0	9.5	10.6	3.9	2.6	1.6	3.0	5.6	2.8	3.3
Rental	(1.9)	(4.1)	(4.8)	(2.8)	(7.4)	(7.1)	(0.7)	(0.7)	(3.4)	(4.0)	0.2
Finance lease	42.2	46.2	139.0	98.9	63.2	41.5	14.7	14.4	78.5	29.6	13.5
Membership	(2.3)	(8.4)	(6.2)	(6.2)	(6.0)	(6.4)	(12.7)	(12.7)	(5.8)	(9.4)	(12.7)
Lump-sum payment	(39.1)	(50.5)	(47.1)	(75.8)	(54.3)	(60.0)	(45.0)	(45.0)	(52.8)	(52.7)	(45.0)
Exports	52.3	64.2	(0.3)	20.8	13.6	(16.4)	10.0	4.6	30.0	2.4	7.0
Cosmetics	(32.9)	(30.3)	(25.4)	(24.4)	(21.3)	(22.5)	(15.3)	(18.7)	(28.7)	(19.7)	(22.5)
Other parent sales	1.2	23.4	36.4	(41.9)	1.0	11.0	5.5	(9.8)	(5.3)	2.1	2.9
Other sales	45.4	29.6	55.8	4.0	6.7	43.0	22.6	35.5	31.8	26.5	28.4
OP	171	166	164	139	173	176	172	165	640	685	763
Parent OP	112	123	104	113	143	123	111	116	452	493	512
Other OP	59	44	59	27	30	53	61	49	189	192	250
OPM (%)	19.4	18.4	17.5	14.7	18.6	18.0	17.0	15.8	17.5	17.3	17.5
Parent OPM	16.6	17.2	15.2	15.2	20.2	17.6	15.7	15.2	16.0	17.1	17.1
Other OPM	28.7	22.6	24.0	13.1	13.6	18.9	20.2	17.6	22.2	17.9	18.1
OP growth (% YoY)	23.0	(1.6)	(2.9)	7.3	1.1	5.7	5.0	18.2	5.6	7.0	11.3
Parent OP growth	(3.2)	(9.9)	(16.4)	42.8	27.8	0.7	6.0	2.9	(0.8)	9.2	3.9
Other OP growth	153.4	32.3	35.8	(47.8)	(49.7)	19.8	3.2	82.8	24.9	1.8	30.4
Pretax profit	175	160	186	138	192	194	172	159	659	718	766
Corporate income tax	49	44	49	51	57	62	43	40	193	201	191
NP	126	116	136	87	135	133	129	120	465	516	574
NPM (%)	14.3	12.8	14.6	9.2	14.5	13.5	12.8	11.5	12.7	13.0	13.1

Source: Shinhan Investment Corp.

Statement of financial position

Year to December (bn KRW)	2020	2021	2022F	2023F	2024F
Total assets	3,029.0	3,800.6	4,226.4	4,759.2	5,359.0
Current assets	896.9	1,106.5	1,298.1	1,464.1	1,595.0
Cash and equivalents	115.8	73.1	155.8	252.2	311.4
Accounts receivable	317.0	249.1	324.6	345.4	363.1
Inventories	134.0	235.0	247.8	266.6	286.2
Non-current assets	2,132.2	2,694.2	2,928.3	3,295.1	3,764.0
Tangible assets	1,225.1	1,159.9	977.7	914.3	931.9
Intangible assets	140.4	182.9	180.3	179.1	179.6
Investment assets	14.7	59.4	58.4	58.9	59.5
Other financial assets	0.0	0.0	0.0	0.0	0.0
Total liabilities	1,539.0	1,896.2	1,892.9	1,943.7	2,005.7
Current liabilities	1,417.3	1,293.2	1,287.5	1,335.3	1,395.0
Short-term borrowings	700.1	386.8	394.6	402.5	410.5
Accounts payable	68.7	87.6	89.7	100.4	108.4
Current portion of long-term debt	0.5	1.5	1.5	1.5	1.5
Non-current liabilities	121.7	603.0	605.4	608.4	610.6
Bonds	0.0	419.0	420.0	420.0	420.0
Long-term borrowings	29.0	76.8	76.8	76.8	76.8
Other financial liabilities	0.0	0.0	0.0	0.0	0.0
Total shareholders' equity	1,490.0	1,904.4	2,333.5	2,815.4	3,353.3
Capital stock	40.7	40.7	40.7	40.7	40.7
Capital surplus	147.8	147.8	147.8	147.8	147.8
Other capital	(48.1)	(48.0)	(48.0)	(48.0)	(48.0)
Accumulated other comprehensive income	(14.2)	8.1	8.1	8.1	8.1
Retained earnings	1,365.2	1,757.3	2,186.4	2,668.3	3,206.2
Controlling interest equity	1,491.3	1,905.9	2,335.0	2,816.9	3,354.8
Non-controlling interest equity	(1.3)	(1.5)	(1.5)	(1.5)	(1.5)
*Total debt	743.6	902.7	911.4	919.3	927.4
*Net debt (cash)	330.0	319.4	220.0	104.6	210.3

Statement of cash flow

Year to December (bn KRW)	2020	2021	2022F	2023F	2024F
Cash flow from operations	562.8	331.3	606.3	675.4	672.3
Net profit	404.7	465.5	516.1	574.2	630.1
Depreciation expense	534.3	514.3	505.4	438.1	388.1
Amortization expense	9.0	8.2	9.1	8.8	8.7
FX translation loss (gain)	21.7	(11.1)	(8.0)	0.9	(6.1)
Asset disposal loss (gain)	77.6	53.7	(5.3)	(1.8)	(2.3)
Equity method loss (gain)	0.0	4.7	0.0	0.0	0.0
Change in working capital	(567.0)	(829.0)	(379.7)	(331.6)	(333.5)
(Payment of income tax)	(190.9)	(168.1)	(216.8)	(191.8)	(204.6)
Others	273.4	293.1	185.5	178.6	191.9
Cash flow from investments	(323.1)	(367.8)	(374.9)	(421.0)	(453.9)
Increase in tangible assets	(325.2)	(275.6)	(329.7)	(382.3)	(414.9)
Decrease in tangible assets	0.2	0.2	0.0	0.0	0.0
Change in intangible assets	(1.3)	(9.8)	2.6	1.2	(0.5)
Change in investment assets	1.7	(44.9)	(47.8)	(39.9)	(38.6)
Others	1.5	(37.7)	0.0	0.0	0.1
Free cash flow	674.3	843.3	580.3	634.0	610.3
Cash flow from financing	(181.6)	(8.5)	(148.8)	(157.9)	(159.2)
Change in borrowings	(181.5)	94.6	7.7	7.9	8.0
Change in treasury stock	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	(87.1)	(92.3)	(92.3)	(92.3)
Others	(0.1)	(16.0)	(64.2)	(73.5)	(74.9)
Other cash flow	0.0	0.0	0.0	0.0	0.0
Change in consolidated scope	0.0	0.0	0.0	0.0	0.0
Change in FX rates	(2.9)	2.3	0.0	0.0	0.0
Change in total cash	55.3	(42.7)	82.6	96.5	59.1
Beginning cash	60.5	115.8	73.1	155.8	252.2
Ending cash	115.8	73.1	155.8	252.2	311.4

Source: Company data, Shinhan Investment Corp.

Statement of comprehensive income

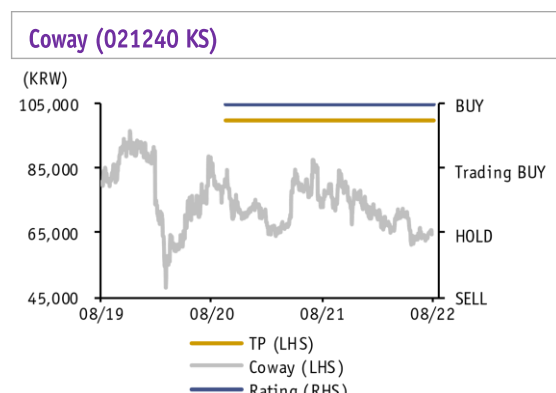
Year to December (bn KRW)	2020	2021	2022F	2023F	2024F
Sales	3,237.4	3,664.3	3,955.9	4,367.4	4,723.3
Growth (%)	7.2	13.2	8.0	10.4	8.1
COGS	1,043.9	1,275.3	1,403.6	1,518.4	1,636.7
Gross profit	2,193.5	2,388.9	2,552.3	2,849.0	3,086.6
GPM (%)	67.8	65.2	64.5	65.2	65.3
SG&A	1,587.1	1,748.7	1,867.0	2,086.4	2,259.5
Operating profit	606.4	640.2	685.2	762.6	827.1
Operating (%)	32.3	5.6	7.0	11.3	8.5
OPM (%)	18.7	17.5	17.3	17.5	17.5
Non-operating profit	(66.1)	18.3	32.3	3.0	13.0
Financial profit	(20.0)	(16.9)	(6.8)	(12.1)	(2.5)
Other non-operating profit	(46.1)	39.9	41.8	15.1	15.5
Equity method gain (loss)	0.0	(4.7)	(2.7)	0.0	0.0
Pre-tax profit	540.4	658.6	717.5	765.6	840.2
Income tax	135.7	193.1	201.4	191.4	210.0
Continuing operations	404.7	465.5	516.1	574.2	630.1
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	404.7	465.5	516.1	574.2	630.1
Growth (%)	21.8	15.0	10.9	11.3	9.7
NPM (%)	12.5	12.7	13.0	13.1	13.3
Controlling interest	404.9	465.7	516.5	575.5	631.8
Non-controlling interest	(0.2)	(0.2)	(0.4)	(1.3)	(1.6)
Comprehensive income	395.5	501.3	521.2	578.9	637.0
Controlling interest	395.7	501.5	521.5	579.2	637.2
Non-controlling interest	(0.2)	(0.2)	(0.3)	(0.3)	(0.3)
EBITDA	1,149.7	1,162.8	1,199.8	1,209.4	1,223.9
Growth (%)	18.1	1.1	3.2	0.8	1.2
EBITDA margin (%)	35.5	31.7	30.3	27.7	25.9

Key ratios

Year to December	2020	2021	2022F	2023F	2024F
EPS (KRW)	5,484	6,307	6,993	7,781	8,538
EPS of controlling interest (KRW)	5,486	6,310	6,999	7,798	8,560
BPS (KRW)	20,190	25,806	31,619	38,150	45,438
BPS of controlling interest (KRW)	20,207	25,825	31,639	38,170	45,458
DPS (KRW)	1,200	1,250	1,250	1,250	1,250
PER (x)	13.3	11.8	9.4	8.5	7.7
PER of controlling interest (x)	13.3	11.8	9.4	8.5	7.7
PBR (x)	3.6	2.9	2.1	1.7	1.5
PBR of controlling interest (x)	3.6	2.9	2.1	1.7	1.4
EV/EBITDA (x)	5.0	5.0	4.2	4.1	4.1
Dividend payout ratio (%)	21.5	19.5	17.6	15.8	14.4
Dividend yield (%)	1.7	1.7	1.9	1.9	1.9
Profitability					
EBITDA margin (%)	35.5	31.7	30.3	27.7	25.9
OPM (%)	18.7	17.5	17.3	17.5	17.5
NPM (%)	12.5	12.7	13.0	13.1	13.3
ROA (%)	13.8	13.6	12.9	12.8	12.5
ROE (%)	31.5	27.4	24.4	22.3	20.5
ROIC (%)	37.1	39.9	54.1	65.8	73.4
Stability					
Debt to equity ratio (%)	103.3	99.6	81.1	69.0	59.8
Net debt ratio (%)	22.1	16.8	9.4	3.7	6.3
Cash ratio (%)	8.2	5.7	12.1	18.9	22.3
Interest coverage ratio (x)	28.6	35.8	32.0	37.8	41.7
Activity (%)					
Working capital turnover (times)	(14.9)	(12.6)	(12.6)	(16.6)	(17.8)
Inventory turnover (days)	13.9	18.4	22.3	21.5	21.4
Receivable turnover (days)	35.4	28.2	26.5	28.0	27.4

Source: Company data, Shinhan Investment Corp.

Target price & rating history



Date	Rating	Target price (KRW)	Target price gap (%)	
			Average	Max/Min
2020.10.07	BUY	100,000	(29.0)	(15.5)
2021.04.08		6M later	(23.3)	(12.4)
2021.10.09		6M later	(26.3)	(15.7)
2022.04.10		6M later	-	-

Note: Calculation of target price gap based on past 6 months

Rating Distribution - SHIC Universe (as of 19 August 2022)

BUY (BUY)	96.22%	Trading BUY (HOLD)	1.26%	HOLD (HOLD)	2.52%	SELL (SELL)	0.00%
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Rating Distribution - SHIC Investment Banking Clients (as of 19 August 2022)

BUY (BUY)	100.00%	Trading BUY (HOLD)	0.00%	HOLD (HOLD)	0.00%	SELL (SELL)	0.00%
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SHIC Ratings (as of 1 April 2017)

Stock	Sector
<ul style="list-style-type: none"> BUY: Expected 6-month gain of 10% or more Trading BUY: Expected 6-month gain of 10% to loss of 10% HOLD: Expected 6-month loss of 10% to 20% SELL: Expected 6-month loss of 20% or more 	<ul style="list-style-type: none"> OVERWEIGHT: Based on market cap, largest share of sector stocks under coverage is rated BUY NEUTRAL: Based on market cap, largest share of sector stocks under coverage is rated Trading BUY or HOLD UNDERWEIGHT: Based on market cap, largest share of sector stocks under coverage is rated SELL

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