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Shinay Park  
Retail / Cosmetics  
+82-2-6114-2930  
shinay.park@kbfq.com

**Attractive on longer-term basis  
(currently trading at 7.0x P/E)**

We maintain BUY but cut our TP by 6% to KRW75,000 on Coway, as we revise down 2023E/2024E/2025E OP by 8%/5%/5%. We see steady performance (2022E-25E revenue/OP CAGR at +5%/+6%) with forays into new markets and diversification of product categories. Revenue contribution from overseas operations should reach over 40% by 2025. Coway lacks short-term earnings momentum but looks attractive in the longer term (currently trading at 7.0x P/E).

**2023 forecast: Revenue/OP growth at +3.4% YoY/+0.4% YoY; somewhat weak near-term earnings momentum**

We forecast 2023 consolidated revenue/OP growth at +3.4% YoY/+0.4% YoY.  
▲ Domestic (standalone) revenue should inch down 0.1% YoY while OP retreats 4% YoY. Rental revenue (operating/financial leases) should grow 5% YoY thanks to 1) an added product category (i.e., massage chairs), 2) eased market competition for water purifier rentals and 3) price hikes, but exports (incl. shipments to overseas subsidiaries) should retreat 16% YoY.

▲ Despite hype over new products (e.g., air conditioners, massage chairs), we revise down Malaysia revenue growth from +15% to +7% amid growing competition.

▲ U.S. revenue should remain flat YoY, with solid growth in door-to-door sales coupled by uncertain cloud market sales.

**1Q23 review: Revenue/OP growth at +2% YoY/+2% YoY, falling short of market consensus by 4-5%**

Coway posted 1Q23 consolidated revenue of KRW948.3bn (+2% YoY) and OP of KRW175.6bn (+2% YoY), falling 4-5% short of the market consensus.

▲ Domestic (standalone) revenue/OP stopped at KRW653.8bn (-8% YoY)/KRW115.6bn (-19% YoY).

1) New rental sales grew 11% YoY on brisk water purifier/mattress sales.

### Buy Maintain

<b>Target Price (Lowered)</b>	<b>KRW75,000</b>
Dividend yield*	2.9%
Total return	58.2%
Current price (May 16)	KRW48,300
Consensus target price	KRW75,000
Market capitalization	USD2.7bn
* 12-month forward	

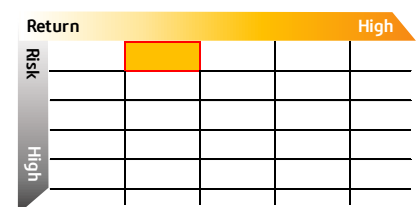
#### Trading Data

Free float	73.2%
Avg. T/O val. (3m, KRWbn)	8.9
Foreign ownership	61.4%
Major shareholders	
Netmarble and 7 others	25.1%
National Pension Service	6.5%

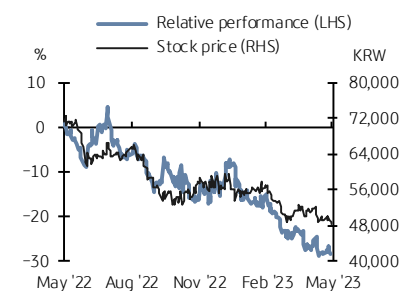
#### Stock Price Performance (total return)

(%)	1M	3M	6M	12M
Absolute	-6.6	-15.1	-13.6	-30.5
Relative	-3.1	-15.3	-15.2	-28.9

#### Risk & Total Return (annualized over three years)



#### Stock Price & Relative Performance



#### Earnings Forecast & Valuation

Fiscal year-end	2022A	2023E	2024E	2025E
Revenue (KRWbn)	3,856	3,988	4,241	4,496
OP (KRWbn)	677	680	757	803
NP to control. int. (KRWbn)	458	495	555	589
EPS (KRW)	6,208	6,701	7,514	7,986
EPS growth (%)	-1.6	7.9	12.1	6.3
P/E (x)	9.0	7.2	6.4	6.0
EV/EBITDA (x)	3.9	3.2	2.7	2.4
P/B (x)	1.8	1.3	1.1	1.0
ROE (%)	21.7	19.7	18.9	17.3
Div. yield (%)	2.3	2.9	3.0	3.1

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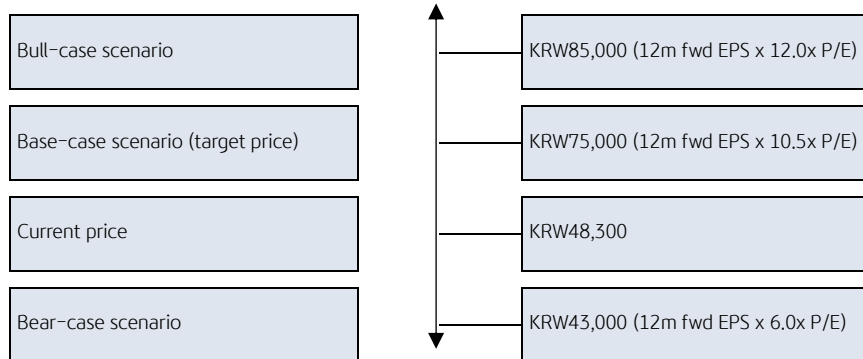
Source(s): Company data, KB Securities

- 2) Monthly avg. cancellation rate remained at a low 0.7%.
- 3) Account expirations rose by over 50,000 YoY.
- 4) Rental accounts increased by a net 51,000 YoY (-23% YoY).

▲ Malaysia revenue inched up 2% YoY amid competitors' promotional efforts to push low-priced products; OP dived 16% YoY on slowing revenue growth and accelerating COGS (use of better air purifier filters).

▲ U.S. revenue fell 15% YoY amid a turn to red with operating loss of -KRW2.8bn (-KRW5.2bn YoY). Earnings were hurt by falling shipments amid inventory adjustments at e-commerce distributors.

## Investment Opinion & Risks



### Base-case scenario: Catalysts

- 1) 2022-25 domestic revenue CAGR at +3%
- 2) 2022-25 overseas revenue CAGR at +10%

### Bull-case scenario: Upside risks

- 1) 2022-25 domestic revenue CAGR above 3%
- 2) 2022-25 overseas revenue CAGR above 10%

### Bear-case scenario: Downside risks

- 1) 2022-25 domestic revenue CAGR below 3%
- 2) 2022-25 overseas revenue CAGR below 10%

## Revised Earnings Estimates

(KRWbn, %)	Previous		Revised		Change	
	2023E	2024E	2023E	2024E	2023E	2024E
Revenue	4,117.6	4,377.0	3,988.3	4,240.7	-3.1	-3.1
OP	739.7	792.8	680.2	757.0	-8.0	-4.5
NP (to control. int.)	525.0	565.7	494.6	554.5	-5.8	-2.0

Source(s): KB Securities estimates

## KB Estimates vs. Consensus

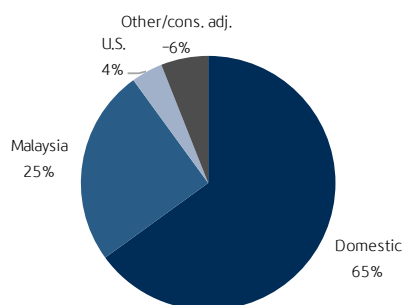
(KRWbn, %)	KB Estimates		Consensus		Difference	
	2023E	2024E	2023E	2024E	2023E	2024E
Revenue	3,988.3	4,240.7	4,092.0	4,295.1	-2.5	-1.3
OP	680.2	757.0	734.7	783.3	-7.4	-3.4
NP (to control. int.)	494.6	554.5	529.2	569.4	-6.5	-2.6

Source(s): FnGuide, KB Securities estimates

## Valuation & Target Price Calculation

- 1) Valuation method:  
Discounted cash flow model
- 2) Target price calculation:  
7.42% WACC; 1.50% TGR
- 3) Target price range:  
KRW43,000 – KRW85,000
- 4) Valuation at target price:  
10.5x 12m fwd implied P/E, 1.92x P/B

## Revenue Composition (2022)



Source(s): Company data, KB Securities

## Earnings Sensitivity Analysis

(%)	EPS change	
	2023E	2024E
+1pp in interest rate	-0.6	-0.5
+1% 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	3,564.5	6.9	10.0	1.24	17.9	3.1	0.2
Amorepacific	6,785.2	32.8	50.3	1.58	4.8	10.9	13.2
LG H&H	8,808.7	19.5	62.9	1.69	8.7	8.3	10.2

Source(s): KB Securities estimates

**Table 1. 1Q23 Review (consolidated)**

(KRWbn)	1Q23	1Q22	YoY (%)	4Q22	QoQ (%)	Consensus	Difference (%)	KB Estimate	Difference (%)
Revenue	948.3	928.0	2.2	980.2	-3.3	988.6	-4.1	1,015.4	-6.6
OP	175.6	172.7	1.7	163.7	7.3	184.3	-4.7	186.0	-5.6
EBT	174.3	191.9	-9.1	103.5	68.5	183.6	-5.0	183.2	-4.8
NP (to control. int.)	125.3	135.1	-7.2	76.5	63.9	132.1	-5.1	132.0	-5.1
OPM (%)	18.5	18.6		16.7		18.6		18.3	
EBT margin (%)	18.4	20.7		10.6		18.6		18.0	
NPM to control. int. (%)	13.2	14.6		7.8		13.4		13.0	

Source(s): Company data, FnGuide, KB Securities estimates

**Table 2. Earnings Estimate Revisions**

(KRWbn)	Previous			Revised			Change (%)		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Revenue	4,117.6	4,377.0	4,665.7	3,988.3	4,240.7	4,496.5	-3.1	-3.1	-3.6
OP	739.7	792.8	845.8	680.2	757.0	802.8	-8.0	-4.5	-5.1
EBT	728.5	784.9	841.0	652.5	769.4	817.7	-10.4	-2.0	-2.8
NP (to control. int.)	525.0	565.7	606.1	494.6	554.5	589.4	-5.8	-2.0	-2.8
EPS (KRW)	7,236	7,796	8,353	6,816	7,642	8,122	-5.8	-2.0	-2.8
YoY (%)									
Revenue	6.8	6.5	6.6	3.4	6.5	6.0			
OP	9.2	7.2	6.7	0.4	11.3	6.1			
EBT	6.6	7.7	7.1	-4.5	17.9	6.3			
NP (to control. int.)	14.6	7.7	7.1	7.9	12.1	6.3			
EPS	14.6	7.7	7.1	7.9	12.1	6.3			
OPM (%)	18.0	18.1	18.1	17.1	17.8	17.9			
EBT margin (%)	17.7	17.9	18.0	16.4	18.1	18.2			
NPM (to control. int.) (%)	12.8	12.9	13.0	12.4	13.1	13.1			

Note: Previous estimates based on data as of Mar 16, 2023

Source(s): Company data, KB Securities estimates

**Table 3. Earnings & Estimates (consolidated)**

(KRWbn)		1Q22	2Q22	3Q22	4Q22	1Q23	2Q23E	3Q23E	4Q23E	2021	2022	2023E	2024E	2025E
Revenue		928.0	978.2	969.8	980.2	948.3	982.4	1,021.3	1,036.2	3,664.3	3,856.1	3,988.3	4,240.7	4,496.5
Standalone		710.1	700.1	721.2	682.1	653.8	694.9	727.5	734.0	2,814.6	2,813.5	2,810.2	2,938.5	3,060.3
Malaysia		262.8	274.7	276.5	277.5	268.2	291.2	301.4	305.3	980.1	1,091.5	1,166.0	1,301.4	1,405.5
U.S.		45.8	53.7	50.7	49.6	38.8	50.5	54.2	55.6	169.7	199.8	199.1	228.7	253.9
Other subsidiaries		50.1	65.3	60.0	69.0	59.5	73.6	70.9	76.1	169.8	244.4	280.0	323.1	361.1
Cons. adj.		-140.8	-115.6	-138.7	-98.0	-72.0	-127.7	-132.7	-134.7	-470.0	-493.1	-467.0	-551.0	-584.3
YoY (%)	Revenue	5.6	8.0	3.8	3.6	2.2	0.4	5.3	5.7	13.2	5.2	3.4	6.3	6.0
	Standalone	5.2	-1.5	5.1	-8.2	-7.9	-0.7	0.9	7.6	8.6	-0.0	-0.1	4.6	4.1
	Malaysia	9.3	16.1	7.9	12.4	2.1	6.0	9.0	10.0	38.4	11.4	6.8	11.6	8.0
	U.S.	6.8	50.0	-12.6	50.3	-15.3	-6.0	7.0	12.0	11.3	17.7	-0.4	14.9	11.0
	Other subsidiaries	142.0	49.8	15.2	29.2	18.8	12.6	18.2	10.3	113.9	43.9	14.6	15.4	11.8
	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	76.5	71.6	74.4	69.6	68.9	70.7	71.2	70.8	76.8	73.0	70.5	69.3	68.1
	Malaysia	28.3	28.1	28.5	28.3	28.3	29.6	29.5	29.5	26.7	28.3	29.2	30.7	31.3
	U.S.	4.9	5.5	5.2	5.1	4.1	5.1	5.3	5.4	4.6	5.2	5.0	5.4	5.6
	Other subsidiaries	5.4	6.7	6.2	7.0	6.3	7.5	6.9	7.3	4.6	6.3	7.0	7.6	8.0
	Cons. adj.	-15.2	-11.8	-14.3	-10.0	-7.6	-13.0	-13.0	-13.0	-12.8	-12.8	-11.7	-13.0	-13.0
Operating profit		172.7	176.0	165.1	163.7	175.6	163.1	172.7	168.9	640.2	677.4	680.2	757.0	802.8
Standalone		143.1	123.4	135.5	112.8	115.6	125.1	131.0	124.8	451.7	514.7	496.4	528.9	550.8
Malaysia		53.7	50.4	49.5	48.4	45.1	49.5	51.8	52.8	199.4	202.0	199.2	227.7	246.0
U.S.		2.4	8.3	-0.1	-4.0	-2.8	-0.3	0.8	1.4	7.8	6.6	-0.8	6.9	7.6
Other subsidiaries		-4.7	-6.3	-8.7	-6.2	-6.3	-4.5	-3.7	-3.1	-24.6	-25.9	-17.6	-10.3	-5.6
Cons. adj.		-21.9	0.2	-11.1	12.6	24.0	-6.8	-7.2	-7.0	5.9	-20.1	3.0	3.8	4.0
YoY (%)	OP	1.1	5.7	0.8	17.5	1.7	-7.3	4.6	3.2	5.6	5.8	0.4	11.3	6.1
	Standalone	27.8	0.7	29.6	0.1	-19.2	1.4	-3.3	10.6	-0.8	14.0	-3.6	6.6	4.1
	Malaysia	-4.3	-15.4	-9.7	67.5	-16.0	-1.8	4.7	9.1	53.3	1.3	-1.4	14.3	8.0
	U.S.	-57.9	822.2	TTR	RR	TTR	TTR	TTB	TTB	-60.6	-15.4	TTR	TTB	11.0
	Other subsidiaries	RR	RR	RR	RR	RR	RR	RR	RR	RR	RR	RR	RR	RR
	Cons. adj.	TTR	TTB	TTR	89.4	TTB	TTR	RR	TTR	-50.8	TTR	TTB	26.7	6.1
OPM (%)	OP	18.6	18.0	17.0	16.7	18.5	16.6	16.9	16.3	17.5	17.6	17.1	17.8	17.9
	Standalone	20.2	17.6	18.8	16.5	17.7	18.0	18.0	17.0	16.0	18.3	17.7	18.0	18.0
	Malaysia	20.4	18.3	17.9	17.4	16.8	17.0	17.2	17.3	20.3	18.5	17.1	17.5	17.5
	U.S.	5.2	15.5	-0.2	-8.1	-7.2	-0.5	1.5	2.5	4.6	3.3	-0.4	3.0	3.0
	Other subsidiaries	-9.4	-9.6	-14.5	-9.0	-10.6	-6.1	-5.3	-4.0	-14.5	-10.6	-6.3	-3.2	-1.5
	Cons. adj.	15.5	-0.2	8.0	-12.9	-33.3	5.3	5.4	5.2	-1.3	4.1	-0.6	-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	82.9	70.1	82.1	68.9	65.8	76.7	75.8	73.9	70.6	76.0	73.0	69.9	68.6
	Malaysia	31.1	28.6	30.0	29.6	25.7	30.4	30.0	31.3	31.1	29.8	29.3	30.1	30.6
	U.S.	1.4	4.7	-0.1	-2.4	-1.6	-0.2	0.5	0.8	1.2	1.0	-0.1	0.9	0.9
	Other subsidiaries	-2.7	-3.6	-5.3	-3.8	-3.6	-2.7	-2.2	-1.8	-3.8	-3.8	-2.6	-1.4	-0.7
Gross profit		599.7	626.3	612.9	647.6	612.1	625.1	641.5	680.4	2,388.9	2,486.5	2,559.1	2,716.7	2,876.1
EBT		191.9	194.1	193.8	103.5	174.3	165.6	175.2	171.4	658.6	683.3	652.5	769.4	817.7
NP (to control. int.)		135.1	132.6	114.0	76.5	125.3	119.4	126.3	123.5	465.7	458.2	494.6	554.5	589.4
EBITDA		298.1	297.6	284.7	279.9	288.6	273.7	283.3	286.4	1,162.8	1,160.3	1,122.7	1,164.5	1,195.6
YoY (%)	Gross profit	3.4	5.4	1.6	5.9	2.1	-0.2	4.7	5.1	8.9	4.1	2.9	6.2	5.9
	EBT	9.8	21.4	4.3	-25.1	-9.1	-14.7	-9.6	65.7	21.9	3.8	-4.5	17.9	6.3
	NP (to control. int.)	7.3	14.5	-16.5	-12.6	-7.2	-10.0	10.8	61.6	15.0	-1.6	7.9	12.1	6.3
	EBITDA	-2.1	-0.0	-3.1	4.8	-3.2	-8.0	-0.5	2.4	1.1	-0.2	-3.2	3.7	2.7
GPM (%)		64.6	64.0	63.2	66.1	64.5	63.6	62.8	65.7	65.2	64.5	64.2	64.1	64.0
EBT margin (%)		20.7	19.8	20.0	10.6	18.4	16.9	17.2	16.5	18.0	17.7	16.4	18.1	18.2
NPM (to control. int.) (%)		14.6	13.6	11.8	7.8	13.2	12.2	12.4	11.9	12.7	11.9	12.4	13.1	13.1
EBITDA margin (%)		32.1	30.4	29.4	28.6	30.4	27.9	27.7	27.6	31.7	30.1	28.2	27.5	26.6

Note: RR=remain in red, TTB=turn to black, TTR=turn to red

Source(s): Company data, KB Securities estimates

**Table 4. Earnings & Estimates (standalone)**

(KRWbn)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23E	3Q23E	4Q24E	2021	2022	2023E	2024E	2025E
Revenue	710.1	700.1	721.2	682.1	653.8	694.9	727.5	734.0	2,814.6	2,813.5	2,810.2	2,938.5	3,060.3
Domestic home appliance	559.5	573.7	571.3	572.5	580.4	594.7	593.4	596.3	2,245.3	2,277.0	2,364.9	2,425.6	2,518.6
Rental	365.1	361.3	349.2	343.2	333.4	339.0	326.4	319.2	1,542.4	1,418.9	1,318.0	1,273.8	1,267.3
Home care	159.9	180.3	189.3	198.1	215.6	225.3	236.6	247.6	542.8	727.5	925.1	1,036.1	1,139.7
Membership	22.7	22.2	22.3	22.2	22.8	22.3	22.5	22.3	93.5	89.3	89.9	86.9	84.2
Lump-sum payment	8.6	6.3	6.8	5.6	5.0	4.4	4.3	3.5	53.8	27.2	17.2	13.9	12.1
Other	3.1	3.6	3.8	3.5	3.6	3.7	3.7	3.7	12.8	14.0	14.6	14.9	15.2
Exports	141.5	117.0	141.7	101.3	67.1	93.6	127.5	131.1	526.1	501.5	419.3	488.2	517.5
Cosmetics	9.1	9.4	8.2	8.5	6.2	6.5	6.6	6.6	45.2	35.0	26.0	24.7	24.2
YoY (%)													
Revenue	5.2	-1.5	5.1	-8.2	-7.9	-0.7	0.9	7.6	8.6	-0.0	-0.1	4.6	4.1
Domestic HA	3.9	2.7	2.7	-3.2	3.7	3.7	3.9	4.2	5.6	1.4	3.9	2.6	3.8
Rental	-7.4	-7.1	-8.2	-9.4	-8.7	-6.2	-6.5	-7.0	-3.4	-8.0	-7.1	-3.4	-0.5
Home care	63.2	41.5	38.3	9.7	34.8	25.0	25.0	25.0	78.5	34.0	27.2	12.0	10.0
Membership	-6.1	-6.4	-3.4	-1.5	0.5	0.6	0.7	0.7	-5.8	-4.4	0.6	-3.4	-3.1
Lump-sum	-54.4	-60.0	-45.8	-16.9	-41.2	-30.0	-37.0	-37.0	-52.8	-49.4	-36.7	-19.3	-12.7
Other	0.2	11.0	13.3	12.8	13.9	2.0	-2.0	4.0	-5.2	9.4	4.1	2.0	2.0
Exports	13.5	-16.4	18.1	-28.5	-52.6	-20.0	-10.0	29.4	30.0	-4.7	-16.4	16.4	6.0
Cosmetics	-21.4	-22.5	-19.4	-11.1	-31.6	-30.0	-20.0	-20.0	-28.7	-19.0	-25.7	-5.0	-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	78.8	81.9	79.2	83.9	88.8	85.6	81.6	81.2	79.8	80.9	84.2	82.5	82.3
Rental	51.4	51.6	48.4	50.3	51.0	48.8	44.9	43.5	54.8	50.4	46.9	43.3	41.4
Home care	22.5	25.8	26.2	29.0	33.0	32.4	32.5	33.7	19.3	25.9	32.9	35.3	37.2
Membership	3.2	3.2	3.1	3.3	3.5	3.2	3.1	3.0	3.3	3.2	3.2	3.0	2.8
Lump-sum	1.2	0.9	0.9	0.8	0.8	0.6	0.6	0.5	1.9	1.0	0.6	0.5	0.4
Other	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Export	19.9	16.7	19.6	14.9	10.3	13.5	17.5	17.9	18.7	17.8	14.9	16.6	16.9
Cosmetics	1.3	1.3	1.1	1.2	1.0	0.9	0.9	0.9	1.5	1.2	0.9	0.8	0.8
OP	143.1	123.4	135.5	112.8	115.6	125.1	131.0	124.8	451.7	514.7	496.4	528.9	550.8
YoY (%)	27.8	0.7	29.6	0.1	-19.2	1.4	-3.3	10.6	-0.8	14.0	-3.6	6.6	4.1
OPM (%)	20.2	17.6	18.8	16.5	17.7	18.0	18.0	17.0	16.0	18.3	17.7	18.0	18.0
Key rental assumptions													
Total accounts ('000)	6,085.0	6,090.0	6,115.6	6,155.8	6,206.8	6,230.3	6,281.2	6,316.9	6,018.4	6,155.8	6,316.9	6,476.1	6,787.5
New ('000)	353.2	347.6	338.7	341.9	393.4	382.4	372.6	376.1	1,326.3	1,381.5	1,524.4	1,554.9	1,586.0
Churn ('000)	126.4	127.8	121.8	122.1	120.7	121.7	122.1	123.1	506.5	498.1	487.5	499.6	516.6
Expiries ('000)	160.3	214.8	191.3	179.6	221.8	237.1	199.6	217.3	610.3	746.0	875.8	896.1	758.1
Monthly ARPU (KRW)	28,922	29,655	29,411	29,406	29,605	30,248	30,000	29,994	29,384	29,385	29,974	30,093	30,246
Monthly avg. churn (%)	0.70	0.70	0.67	0.67	0.65	0.65	0.65	0.65	0.73	0.69	0.66	0.66	0.66
Expiries (%)	45.8	54.1	60.2	56.6	58.8	61.0	62.0	60.0	43.6	54.0	60.4	57.0	56.0
Key membership assumptions													
Total accounts ('000)	470.6	468.4	460.0	456.1	446.6	444.9	437.0	433.3	485.1	456.1	433.3	420.3	407.7
Monthly ARPU ('000 KRW)	15.8	15.8	16.0	16.1	16.8	16.7	17.0	17.1	15.4	15.8	16.9	17.0	17.0
Key lump-sum assumptions													
New sales ('000)	12.5	10.9	10.0	7.6	8.6	7.6	7.0	5.3	54.0	40.8	28.4	24.1	21.7
ARPU ('000 KRW)	688.1	581.9	680.5	735.2	590.0	581.9	612.4	661.7	996.9	666.7	606.7	576.3	559.0
Obsolescence (cons.; KRWbn)	14.1	12.7	14.5	11.9	11.8	12.2	12.3	12.5	53.7	53.1	48.9	51.8	55.1

Note: "Churn" and "Expiries" based on KB Securities estimates

Source(s): Company data, KB Securities estimates

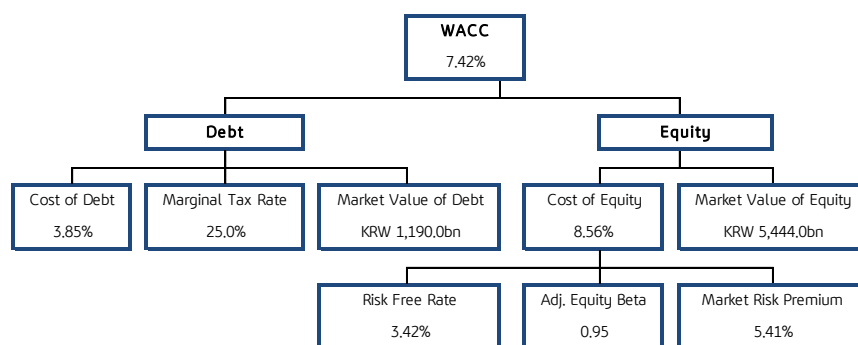
**Table 5. Target Price Calculation: Discounted Cash Flow Model**

(KRWbn)		2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E
<b>Cash flow estimates</b>									
OP	a	677.4	680.2	757.0	802.8	818.4	847.0	847.5	864.4
Effective tax rate (%)	b	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0
<b>NOPLAT</b>	$C=a*(1-b)$	<b>508.0</b>	<b>510.2</b>	<b>567.7</b>	<b>602.1</b>	<b>613.8</b>	<b>635.3</b>	<b>635.6</b>	<b>648.3</b>
D&A	d	482.9	442.5	407.5	392.7	368.9	346.5	325.5	302.7
<b>Total cash flow</b>	$E=C+d$	<b>990.9</b>	<b>952.7</b>	<b>975.2</b>	<b>994.8</b>	<b>982.7</b>	<b>981.8</b>	<b>961.1</b>	<b>951.0</b>
<b>Total investment</b>	$F=g+h$	<b>-1,057.2</b>	<b>-440.2</b>	<b>-484.3</b>	<b>-535.2</b>	<b>-630.0</b>	<b>-630.0</b>	<b>-640.0</b>	<b>-640.0</b>
Change in working capital	g	-787.6	-170.2	-184.3	-205.2	-300.0	-300.0	-300.0	-300.0
Capex	h	-269.7	-270.0	-300.0	-330.0	-330.0	-330.0	-340.0	-340.0
FCFF	$I=E+F$	-66.3	512.4	491.0	459.7	352.7	351.8	321.1	311.0
<b>PV of cash flows</b>									
Discount rate				4.7%	12.4%	20.8%	29.7%	39.4%	
PV of FCFF				294.3	408.9	292.0	271.2	230.4	
Total PV of FCFF (2024E-28E)	j		1,496.8						
Terminal growth rate (%)			1.50%		30y KTB yield				
Terminal value (2029E)			5,250.6		2029E FCFF / (WACC - TGR)				
PV of terminal value	k		3,767.5		7.42% WACC (3.42% risk-free rate; 5.41% market risk premium)				
<b>Valuation</b>									
Total cash flow (PV)	$L=j+k$		5,264.3						
Net cash	m		145.1		12m fwd				
Investments in non-consolidated affiliates	n		32.6		End-1Q23				
Non-controlling interests	o		-2.0		End-1Q23				
<b>Fair value</b>	$P=L+(m+n+o)$		<b>5,444.0</b>						
No. of shares ('000)	q		72,564						
<b>Target price (KRW)</b>	$R=P/q$		<b>75,000</b>						
Current price (KRW)			48,300		May 16, 2023				
Upside (%)			55.3						
12m fwd implied P/E (x)			10.5						
12m fwd implied P/B (x)			1.92						

Source(s): Company data, KB Securities estimates

**Fig 1. WACC Calculation**

- (1) Cost of debt is 3.85% (YTD return of Coway's 1y KRW-based bonds); market value of debt based on total financial liabilities as of end-4Q22
- (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 WMIS00 and 1y market stabilization bonds
- (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 (Mar 16, 2022)	Revised (May 16, 2023)	Notes
<b>Cost of equity</b>	A = B + C x D	<b>8.74</b>	<b>8.56</b>	
Risk-free rate	B	3.61	3.42	Avg. 1y MSB yield (last three months)
Adj. beta	C	0.95	0.95	52w adj. beta
Raw beta		0.41	0.35	
R <sup>2</sup>		0.09	0.08	
Risk premium	D = E - F	5.41	5.41	
Market return	E	8.72	8.72	2001-22 annual avg. WMI500 total return
Risk-free rate	F	3.32	3.32	2001-22 annual avg. 1y MSB total return
<b>Cost of debt</b>	G	<b>4.03</b>	<b>3.85</b>	YTD yield of KRW-based 1y bonds
Fair shareholder value (KRWbn)		5,807.9	5,444.0	Value of outstanding shares based on TP
Debt (KRWbn)		1,290.2	1,199.0	Total financial liabilities as of end-4Q22
Weight of equity	H	80.0	80.0	
Weight of debt	I	20.0	20.0	
<b>WACC</b>	J = (A x H) + (G x I)	<b>7.60</b>	<b>7.42</b>	

Source(s): Company data, KB Securities estimates

**Table 7. Target Price Sensitivity to WACC & TGR**

(KRW)		TGR						
		0.9%	1.1%	1.3%	1.5%	1.7%	1.9%	2.1%
WACC	6.42%	81,737	83,922	86,278	88,825	91,588	94,595	97,880
	6.62%	79,120	81,135	83,301	85,636	88,161	90,900	93,881
	6.82%	76,679	78,541	80,538	82,685	85,000	87,503	90,219
	7.02%	74,396	76,121	77,967	79,947	82,076	84,371	86,852
	7.22%	72,256	73,859	75,569	77,400	79,363	81,473	83,748
	7.42%	70,247	71,738	73,327	<b>75,000</b>	76,838	78,784	80,876
	7.62%	68,357	69,747	71,226	72,801	74,482	76,281	78,210
	7.82%	66,575	67,874	69,252	70,718	72,280	73,947	75,730
	8.02%	64,892	66,108	67,396	68,762	70,215	71,764	73,416
	8.22%	63,301	64,440	65,645	66,922	68,277	69,718	71,253
8.42%	61,794	62,863	63,992	65,187	66,453	67,796	69,225	

Source(s): Company data, KB Securities estimates







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