



# Coway

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[Household goods]

## NDR takeaways: Focus on overseas growth

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**BUY**  
(Maintain)



CP (Aug. 28)  
**KRW42,600**



TP (6 months)  
**KRW68,000**

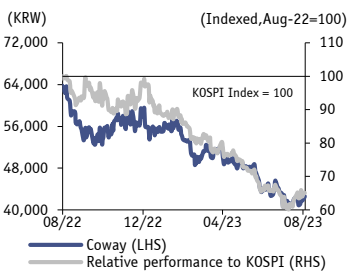


Upside  
**59.6%**

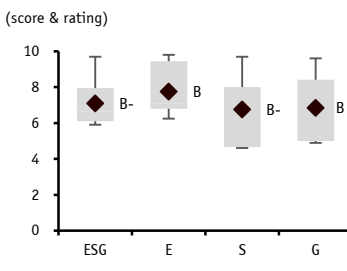
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Market cap	KRW3,143.9bn/USD2,757.8mn
Outstanding shares	73.8mn
Free float	54.0mn(73.2%)
52-week high/low	KRW63,700/KRW40,300
60-day avg. trading volume	183,681shrs
60-day avg. turnover	KRW8,006mn
Foreign ownership	60.43%
<b>Major shareholders</b>	
Netmarble and 7 others	25.10%
NPS	6.46%
<b>Absolute performance</b>	
3M	-11.3%
6M	-20.2%
12M	-32.8%
<b>Relative performance to KOSPI</b>	
3M	-10.7%
6M	-24.3%
12M	-34.5%

### Share performance



### ESG consensus



### Three investor focus points

In Korea, Coway saw double digit growth continue for another quarter in rental contract sales volume to 395,000 units in 2Q23. The total number of rental accounts recorded a net increase of 52,000 accounts (+935% YoY, +1.5% QoQ). The impact of ownership transfers from the expiration of five-year rental contracts was offset by new customer additions through the launch of innovative products.

In Malaysia, sales inched up by just 3.9% YoY and operating profit dropped by 7.4% YoY. The company is facing increasing competition from cheap water purifiers launched to meet rising demand in the country. Operating margin fell by 2%p YoY, with half of the decline due to filter upgrades and the remaining half caused by SG&A issues (logistics costs, etc.).

In Thailand, we expect Coway to replicate the initial success seen 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 155,000 (+47% YoY) in 2Q23, but Coway plans to concentrate first on driving further sales growth through the improvement in brand power.

### Removal of valuation discount to hinge on overseas growth

After ten strong years of expansion, the pace of growth in Malaysia has now slowed down. The market penetration rate of water purifiers in the country is estimated at roughly 50%, with main customers in income brackets between the top 20% and median 30% levels. For future growth, Coway will need to either expand the client base for its water purifiers, or add new home care products (air conditioners, massage chairs, etc.). The company's market share, currently on an uptrend since April from the launch of lower-end models, should see a boost from new home care product releases.

### Focus on solid earnings than largest shareholder's stake sale plans

Given the rise in uncertainties from the largest shareholder's planned stake sale, we revised down our target price for Coway by 17% with the valuation discount raised from previous 10% to 20%. However, we retain our BUY rating in view of the company's attractive business model that guarantees steady cash flows regardless of external market conditions and the change in largest shareholder. Overseas subsidiaries, a key driver behind the company's enterprise value, are forecast to account for 31% of company-wide sales and 29% of operating profit in 2023.

Year to	Sales	OP	NP	EPS	BPS	PER	EV/EBITDA	PBR	ROE	Net debt
December	(bn KRW)	(bn KRW)	(bn KRW)	(KRW)	(KRW)	(x)	(x)	(x)	(%)	ratio (%)
2020	3,237.4	606.4	404.9	5,486	20,207	13.3	5.0	3.6	31.5	22.1
2021	3,664.3	640.2	465.7	6,310	25,825	11.8	5.0	2.9	27.4	16.8
2022F	3,856.1	677.4	458.2	6,208	31,353	9.0	3.9	1.8	21.7	16.2
2023F	4,031.7	726.0	485.0	6,572	36,741	6.4	2.9	1.1	19.3	11.2
2024F	4,277.8	762.5	546.1	7,400	42,824	5.7	2.9	1.0	18.6	8.3

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

### Earnings forecast revision

(bn KRW, %)	2023			2023F			2024F		
	Estimate	Result	Gap (%)	Previous	Revised	Change (%)	Previous	Revised	Change (%)
Sales	1,038	1,006	(3.1)	4,012	4,032	0.5	4,201	4,278	1.8
OP	187	194	3.6	709	726	2.4	742	762	2.7
NP	144	107	(25.5)	541	485	(10.4)	587	545	(7.2)
OPM	18.1	19.3		17.7	18.0		17.7	17.8	
NPM	13.9	10.6		13.5	12.0		14.0	12.7	

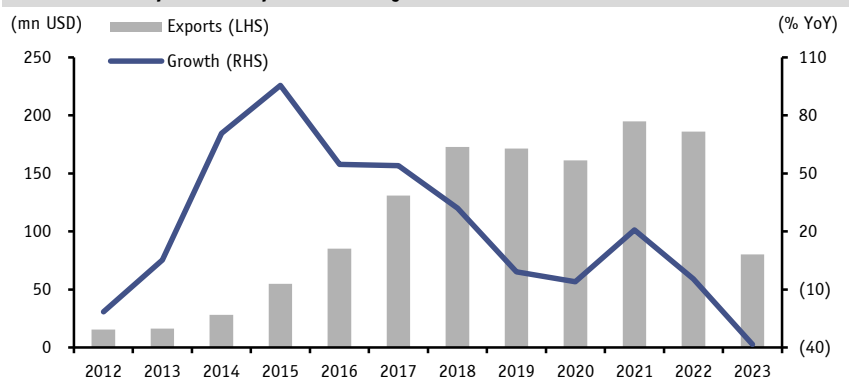
Source: Shinhan Securities

### Target price calculation

(bn KRW)	Value	Remarks
2023F NP of controlling interest	485	
2024F NP of controlling interest	545	
Outstanding shares (1,000 shares)	73,800	
2023-2024F adjusted EPS (KRW)	7,111	
Target PER (x)	12.0	30% discount to past 10-year PER average
Fair value (KRW)	85,620	
Discount (%)	20	Discount due to largest shareholder's unspecified stake sale plans
<b>Target price (KRW)</b>	<b>68,000</b>	
Current price (KRW)	42,600	
Upside (%)	59.6	

Source: Shinhan Securities

### Korean water purifier exports to Malaysia



Source: KITA, Shinhan Securities

Note: YTD figures for 2023

<b>Earnings trend and outlook</b>											
<b>(bn KRW)</b>	<b>1Q22</b>	<b>2Q22</b>	<b>3Q22</b>	<b>4Q22</b>	<b>1Q23</b>	<b>2Q23</b>	<b>3Q23F</b>	<b>4Q23F</b>	<b>2022</b>	<b>2023F</b>	<b>2024F</b>
<b>Consolidated sales</b>	<b>928</b>	<b>978</b>	<b>970</b>	<b>980</b>	<b>948</b>	<b>1,006</b>	<b>1,048</b>	<b>1,029</b>	<b>3,856</b>	<b>4,032</b>	<b>4,278</b>
Standalone sales	710	700	721	682	654	679	742	718	2,813	2,793	2,871
Home appliances	556	570	568	569	577	587	606	610	2,263	2,381	2,483
Rental	365	361	349	343	333	330	350	344	1,419	1,358	1,375
Finance lease	160	180	189	198	216	230	231	242	728	918	1,010
Membership	23	22	22	22	23	22	21	21	89	88	84
Lump-sum payment	9	6	7	6	5	5	4	3	27	17	13
Exports	141	117	142	101	67	82	125	97	501	372	353
Cosmetics	9	9	8	8	6	6	6	6	35	25	19
Other standalone sales	3	4	4	4	4	3	4	4	14	15	16
Other sales	218	278	249	298	295	327	305	311	1,043	1,239	1,407
<b>Sales growth (% YoY)</b>											
<b>Consolidated sales</b>	<b>5.6</b>	<b>8.0</b>	<b>3.8</b>	<b>3.6</b>	<b>2.2</b>	<b>2.9</b>	<b>8.1</b>	<b>5.0</b>	<b>5.2</b>	<b>4.6</b>	<b>6.1</b>
Standalone sales	5.2	(1.5)	5.1	(8.2)	(7.9)	(3.0)	2.9	5.3	(0.0)	(0.7)	2.8
Home appliances	3.9	2.6	2.6	(3.3)	3.7	3.0	6.8	7.3	1.4	5.2	4.3
Rental	(7.4)	(7.1)	(8.2)	(9.4)	(8.7)	(8.8)	0.4	0.4	(8.0)	(4.3)	1.3
Finance lease	63.2	41.5	38.3	9.7	34.8	27.6	22.0	22.0	34.0	26.2	10.0
Membership	(6.0)	(6.4)	(3.4)	(1.5)	0.5	0.5	(4.1)	(4.0)	(4.3)	(1.8)	(4.1)
Lump-sum payment	(54.3)	(60.0)	(45.8)	(16.9)	(41.2)	(20.4)	(45.0)	(45.0)	(49.4)	(38.1)	(23.0)
Exports	13.6	(16.4)	18.1	(28.8)	(52.6)	(29.7)	(11.4)	(3.4)	(4.8)	(25.7)	(5.1)
Cosmetics	(21.3)	(22.5)	(19.4)	(11.1)	(31.6)	(34.6)	(23.7)	(24.7)	(19.0)	(28.9)	(25.1)
Other standalone sales	1.0	11.0	13.3	12.8	13.9	(7.4)	13.0	10.9	9.6	7.4	8.7
Other sales	6.7	43.0	0.4	46.7	35.2	17.7	22.9	4.5	22.7	18.8	13.6
<b>OP</b>	<b>173</b>	<b>176</b>	<b>165</b>	<b>164</b>	<b>176</b>	<b>194</b>	<b>185</b>	<b>172</b>	<b>677</b>	<b>726</b>	<b>762</b>
Standalone OP	143	123	135	113	116	143	140	119	515	517	541
Other OP	30	53	30	51	60	51	45	53	163	209	221
<b>OPM (%)</b>	<b>18.6</b>	<b>18.0</b>	<b>17.0</b>	<b>16.7</b>	<b>18.5</b>	<b>19.3</b>	<b>17.6</b>	<b>16.7</b>	<b>17.6</b>	<b>18.0</b>	<b>17.8</b>
Standalone OPM	20.2	17.6	18.8	16.5	17.7	21.1	18.8	16.5	18.3	18.5	18.9
Other OPM	13.6	18.9	11.9	17.1	20.4	15.5	14.7	17.1	15.6	16.8	15.7
<b>OP growth (% YoY)</b>	<b>1.1</b>	<b>5.7</b>	<b>0.8</b>	<b>17.5</b>	<b>1.7</b>	<b>10.3</b>	<b>11.8</b>	<b>4.9</b>	<b>5.8</b>	<b>7.2</b>	<b>5.0</b>
Standalone OP growth	27.8	0.7	29.6	0.1	(19.2)	16.2	3.2	5.1	14.0	0.5	4.6
Other OP growth	(49.7)	19.8	(50.1)	91.3	103.1	(3.5)	51.2	4.5	(13.7)	28.3	6.0
<b>Pretax profit</b>	<b>192</b>	<b>194</b>	<b>194</b>	<b>192</b>	<b>174</b>	<b>153</b>	<b>172</b>	<b>165</b>	<b>772</b>	<b>664</b>	<b>726</b>
Corporate income tax	57	62	80	27	49	46	43	41	226	180	182
<b>NP</b>	<b>135</b>	<b>133</b>	<b>114</b>	<b>165</b>	<b>125</b>	<b>107</b>	<b>129</b>	<b>124</b>	<b>547</b>	<b>485</b>	<b>545</b>
NPM (%)	14.5	13.5	11.8	16.9	13.2	10.6	12.3	12.0	14.2	12.0	12.7

Source: Shinhan Securities

## Statement of financial position

Year to December (bn KRW)	2020	2021	2022F	2023F	2024F
<b>Total assets</b>	<b>3,029.0</b>	<b>3,800.6</b>	<b>4,365.1</b>	<b>4,848.8</b>	<b>5,350.9</b>
Current assets	896.9	1,106.5	1,374.5	1,490.0	1,581.0
Cash and equivalents	115.8	73.1	115.9	157.1	170.4
Accounts receivable	317.0	249.1	250.5	280.2	295.3
Inventories	134.0	235.0	253.7	270.5	289.5
Non-current assets	2,132.2	2,694.2	2,990.6	3,358.8	3,769.9
Tangible assets	1,225.1	1,159.9	1,051.2	945.6	912.8
Intangible assets	140.4	182.9	195.4	197.3	201.8
Investment assets	14.7	59.4	60.1	53.4	54.0
Other financial assets	0.0	0.0	0.0	0.0	0.0
<b>Total liabilities</b>	<b>1,539.0</b>	<b>1,896.2</b>	<b>2,053.1</b>	<b>2,139.2</b>	<b>2,192.3</b>
Current liabilities	1,417.3	1,293.2	1,130.2	1,218.0	1,268.2
Short-term borrowings	700.1	386.8	305.3	311.4	317.6
Accounts payable	68.7	87.6	77.1	90.9	95.1
Current portion of long-term debt	0.5	1.5	1.2	1.2	1.2
Non-current liabilities	121.7	603.0	922.9	921.2	924.1
Bonds	0.0	419.0	728.8	730.0	730.0
Long-term borrowings	29.0	76.8	139.8	139.8	139.8
Other financial liabilities	0.0	0.0	0.0	0.0	0.0
<b>Total shareholders' equity</b>	<b>1,490.0</b>	<b>1,904.4</b>	<b>2,312.0</b>	<b>2,709.6</b>	<b>3,158.6</b>
Capital stock	40.7	40.7	40.7	40.7	40.7
Capital surplus	147.8	147.8	147.9	147.9	147.9
Other capital	(48.1)	(48.0)	(47.7)	(47.7)	(47.7)
Accumulated other comprehensive income	(14.2)	8.1	11.4	11.4	11.4
Retained earnings	1,365.2	1,757.3	2,161.5	2,559.2	3,008.1
<b>Controlling interest equity</b>	<b>1,491.3</b>	<b>1,905.9</b>	<b>2,313.8</b>	<b>2,711.4</b>	<b>3,160.4</b>
Non-controlling interest equity	(1.3)	(1.5)	(1.8)	(1.8)	(1.8)
*Total debt	743.6	902.7	1,199.0	1,206.4	1,212.6
*Net debt (cash)	330.0	319.4	374.1	304.8	260.6

## Statement of cash flow

Year to December (bn KRW)	2020	2021	2022F	2023F	2024F
<b>Cash flow from operations</b>	<b>562.8</b>	<b>331.3</b>	<b>164.5</b>	<b>561.1</b>	<b>566.2</b>
Net profit	404.7	465.5	457.8	484.7	544.9
Depreciation expense	534.3	514.3	473.6	435.7	399.3
Amortization expense	9.0	8.2	9.2	8.8	8.8
FX translation loss (gain)	21.7	(11.1)	9.9	23.0	7.3
Asset disposal loss (gain)	77.6	53.7	53.1	(0.0)	(0.0)
Equity method loss (gain)	0.0	4.7	6.4	0.0	0.0
Change in working capital	(567.0)	(829.0)	(787.6)	(370.2)	(384.9)
(Payment of income tax)	(190.9)	(168.1)	(294.3)	(166.6)	(170.9)
Others	273.4	293.1	236.4	145.7	161.7
<b>Cash flow from investments</b>	<b>(323.1)</b>	<b>(367.8)</b>	<b>(282.1)</b>	<b>(363.4)</b>	<b>(397.4)</b>
Increase in tangible assets	(325.2)	(275.6)	(269.7)	(340.8)	(379.7)
Decrease in tangible assets	0.2	0.2	1.1	0.0	0.0
Change in intangible assets	(1.3)	(9.8)	(15.8)	(1.9)	(4.5)
Change in investment assets	1.7	(44.9)	(4.0)	(20.8)	(13.2)
Others	1.5	(37.7)	6.3	0.1	0.0
<b>Free cash flow</b>	<b>674.3</b>	<b>843.3</b>	<b>540.8</b>	<b>685.1</b>	<b>602.1</b>
<b>Cash flow from financing</b>	<b>(181.6)</b>	<b>(8.5)</b>	<b>160.7</b>	<b>(156.5)</b>	<b>(155.5)</b>
Change in borrowings	(181.5)	94.6	271.6	6.1	6.2
Change in treasury stock	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	(87.1)	(90.7)	(95.9)	(95.9)
Others	(0.1)	(16.0)	(20.2)	(66.7)	(65.8)
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	(0.3)	0.0	0.0
<b>Change in total cash</b>	<b>55.3</b>	<b>(42.7)</b>	<b>42.8</b>	<b>41.2</b>	<b>13.2</b>
Beginning cash	60.5	115.8	73.1	115.9	157.1
Ending cash	115.8	73.1	115.9	157.1	170.4

Source: Company data, Shinhan Securities

## Statement of comprehensive income

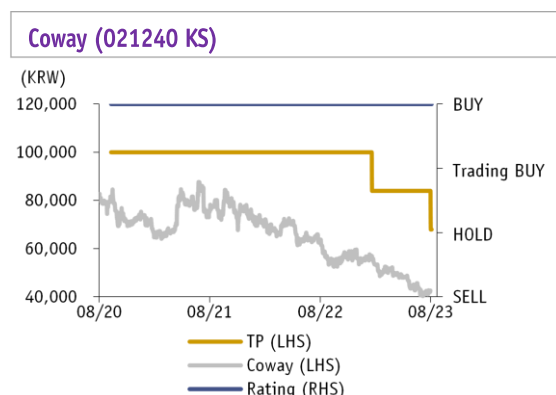
Year to December (bn KRW)	2020	2021	2022F	2023F	2024F
<b>Sales</b>	<b>3,237.4</b>	<b>3,664.3</b>	<b>3,856.1</b>	<b>4,031.7</b>	<b>4,277.8</b>
Growth (%)	7.2	13.2	5.2	4.6	6.1
<b>COGS</b>	<b>1,043.9</b>	<b>1,275.3</b>	<b>1,369.6</b>	<b>1,429.6</b>	<b>1,513.3</b>
<b>Gross profit</b>	<b>2,193.5</b>	<b>2,389.0</b>	<b>2,486.5</b>	<b>2,602.1</b>	<b>2,764.5</b>
GPM (%)	67.8	65.2	64.5	64.5	64.6
<b>SG&amp;A</b>	<b>1,587.1</b>	<b>1,748.7</b>	<b>1,809.1</b>	<b>1,876.1</b>	<b>2,002.0</b>
<b>Operating profit</b>	<b>606.4</b>	<b>640.2</b>	<b>677.4</b>	<b>726.0</b>	<b>762.5</b>
Operating (%)	32.3	5.6	5.8	7.2	5.0
OPM (%)	18.7	17.5	17.6	18.0	17.8
Non-operating profit	(66.1)	18.3	5.9	(67.0)	(49.8)
Financial profit	(20.0)	(16.9)	(28.8)	(49.2)	(49.8)
Other non-operating profit	(46.1)	39.9	41.1	(8.2)	0.0
Equity method gain (loss)	0.0	(4.7)	(6.4)	(9.6)	0.0
<b>Pre-tax profit</b>	<b>540.4</b>	<b>658.6</b>	<b>683.3</b>	<b>664.3</b>	<b>726.5</b>
Income tax	135.7	193.1	225.5	179.5	181.6
Continuing operations	404.7	465.5	457.8	484.7	544.9
Discontinued operations	0.0	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>404.7</b>	<b>465.5</b>	<b>457.8</b>	<b>484.7</b>	<b>544.9</b>
Growth (%)	21.8	15.0	(1.7)	5.9	12.4
NPM (%)	12.5	12.7	11.9	12.0	12.7
Controlling interest	404.9	465.7	458.2	485.0	546.1
Non-controlling interest	(0.2)	(0.2)	(0.4)	(0.3)	(1.3)
Comprehensive income	395.5	501.3	497.8	496.4	560.1
Controlling interest	395.7	501.5	498.2	496.9	560.8
Non-controlling interest	(0.2)	(0.2)	(0.4)	(0.5)	(0.7)
<b>EBITDA</b>	<b>1,149.7</b>	<b>1,162.8</b>	<b>1,160.3</b>	<b>1,170.5</b>	<b>1,170.5</b>
Growth (%)	18.1	1.1	(0.2)	0.9	0.0
EBITDA margin (%)	35.5	31.7	30.1	29.0	27.4

## Key ratios

Year to December	2020	2021	2022F	2023F	2024F
EPS (KRW)	5,484	6,307	6,203	6,568	7,383
EPS of controlling interest (KRW)	5,486	6,310	6,208	6,572	7,400
BPS (KRW)	20,190	25,806	31,328	36,716	42,799
BPS of controlling interest (KRW)	20,207	25,825	31,353	36,741	42,824
DPS (KRW)	1,200	1,250	1,300	1,300	1,300
PER (x)	13.3	11.8	9.0	6.4	5.7
PER of controlling interest (x)	13.3	11.8	9.0	6.4	5.7
PBR (x)	3.6	2.9	1.8	1.1	1.0
PBR of controlling interest (x)	3.6	2.9	1.8	1.1	1.0
EV/EBITDA (x)	5.0	5.0	3.9	2.9	2.9
Dividend payout ratio (%)	21.5	19.5	20.6	19.4	17.3
Dividend yield (%)	1.7	1.7	2.3	3.1	3.1
<b>Profitability</b>					
EBITDA margin (%)	35.5	31.7	30.1	29.0	27.4
OPM (%)	18.7	17.5	17.6	18.0	17.8
NPM (%)	12.5	12.7	11.9	12.0	12.7
ROA (%)	13.8	13.6	11.2	10.5	10.7
ROE (%)	31.5	27.4	21.7	19.3	18.6
ROIC (%)	37.1	39.9	45.2	56.4	67.8
<b>Stability</b>					
Debt to equity ratio (%)	103.3	99.6	88.8	78.9	69.4
Net debt ratio (%)	22.1	16.8	16.2	11.2	8.3
Cash ratio (%)	8.2	5.7	10.3	12.9	13.4
Interest coverage ratio (x)	28.6	35.8	20.5	13.6	14.1
<b>Activity (%)</b>					
Working capital turnover (times)	(14.9)	(12.6)	(12.9)	(15.4)	(14.8)
Inventory turnover (days)	13.9	18.4	23.1	23.7	23.9
Receivable turnover (days)	35.4	28.2	23.6	24.0	24.6

Source: Company data, Shinhan Securities

## 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	(35.7)	(27.5)
2022.10.11		6M later	(44.0)	(40.4)
2023.02.16	BUY	84,000	(43.0)	(33.6)
2023.08.17		6M later	(50.1)	(49.2)
2023.08.29	BUY	68,000	-	-

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

### Rating Distribution - Shinhan Securities Universe (as of 25 August 2023)

BUY (BUY)	93.09%	Trading BUY (HOLD)	4.47%	HOLD (HOLD)	2.44%	SELL (SELL)	0.00%
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### Rating Distribution - Shinhan Securities Investment Banking Clients (as of 25 August 2023)

BUY (BUY)	100.00%	Trading BUY (HOLD)	0.00%	HOLD (HOLD)	0.00%	SELL (SELL)	0.00%
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### Shinhan Securities Ratings (as of 1 April 2017)

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



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