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**Lower target price to KRW65,000;  
trading at a bargain of 6.0x P/E**

We maintain BUY but lower our TP by 13% to KRW65,000 on Coway. Our earnings estimates were revised slightly, but WACC was increased from 7.42% to 7.60%. Despite stable earnings on the back of forays into new markets and diversification of product categories, the stock has slid to 6.0x 12m fwd P/E amid unfavorable supply/demand dynamics. Thus, we believe Coway is trading at a bargain.

**2023 forecast: Revenue/OP growth at  
5% YoY/7% YoY; domestic new rental  
sales to jump**

We forecast 2023 consolidated revenue/OP to rise 5% YoY/7% YoY.  
▲ Domestic (standalone) revenue should fall 1%, but OP is expected to rise 4% (rental revenue +5%; export revenue -24%). Account expirations should reach 890,000 this year, but we see a net increase in accounts of 210,000 YoY on robust new rental sales (i.e., eased competition for water purifier rentals; price hikes) and control of cancellation rate.  
▲ Malaysia revenue should rise 4%, but OP is expected to fall 6%. Growth for the water purifier and air purifier categories has slowed, weighed down by tough competition and an increase in penetration rates. That said, new products (e.g., air conditioners, massage chairs) are anticipated to pick up the slack to an extent.

**3Q23 forecast: Revenue/OP to  
increase 8% YoY/10% YoY, in line with  
market consensus**

We forecast 3Q23 consolidated revenue/OP at KRW1.05tn (+8% YoY)/KRW181.8bn (+10% YoY), in line with the market consensus.

▲ Domestic (standalone) revenue/OP should come in at KRW724.1bn (+0.4% YoY)/KRW141.2bn (+4% YoY). OPM is expected to improve 0.7pp YoY based on price hikes and effective execution of logistics/ad expenses. We see a net increase in rental accounts of 57,000 QoQ:

- 1) Account expirations are estimated at 212,000.

### Buy Maintain

<b>Target Price (Lowered)</b>	<b>KRW65,000</b>
Dividend yield*	3.3%
Total return	55.5%
Current price (Sep 6)	KRW42,700
Consensus target price	KRW69,000
Market capitalization	USD2.4bn

\* 12-month forward

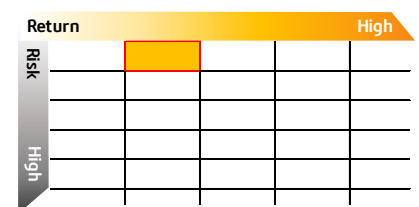
#### Trading Data

Free float	73.2%
Avg. T/O val. (3m, KRWbn)	8.0
Foreign ownership	60.6%
Major shareholders	Netmarble and 7 others 25.1%
	National Pension Service 6.5%

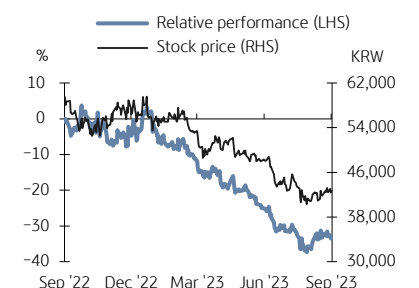
#### Stock Price Performance (total return)

(%)	1M	3M	6M	12M
Absolute	3.4	-11.6	-20.0	-26.6
Relative	5.0	-10.0	-23.5	-32.5

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



#### Stock Price & Relative Performance



Source(s): Company data, KB Securities

#### Earnings Forecast & Valuation

Fiscal year-end	2022A	2023E	2024E	2025E
Revenue (KRWbn)	3,856	4,045	4,244	4,446
OP (KRWbn)	677	725	747	792
NP to control. int. (KRWbn)	458	475	518	552
EPS (KRW)	6,208	6,431	7,014	7,473
EPS growth (%)	-1.6	3.6	9.1	6.5
P/E (x)	9.0	6.6	6.1	5.7
EV/EBITDA (x)	3.9	3.0	2.9	2.8
P/B (x)	1.8	1.2	1.0	0.9
ROE (%)	21.7	18.9	17.7	16.5
Div. yield (%)	2.3	3.3	3.4	3.5

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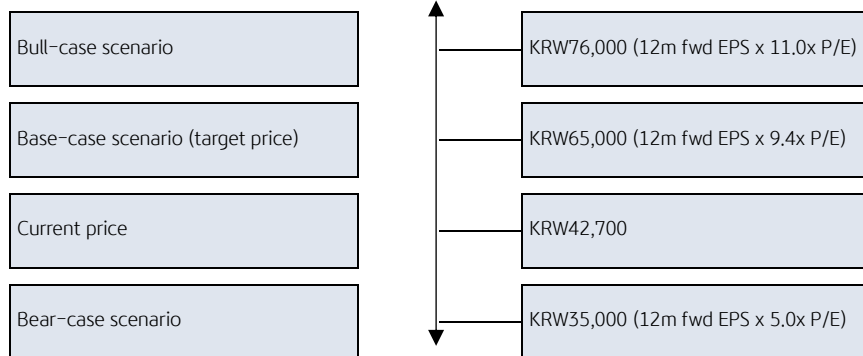
2) New rental sales should jump 11%.

3) Monthly avg. cancellation rate should remain at a low 0.6%.

▲ Malaysia revenue should edge up 5% because of a high base, with OP inching down 0.3%, still burdened by costs.

▲ U.S. revenue should grow 15%, fueling a turn to black to KRW2.3bn (+KRW2.4bn YoY; 4.0% OPM). Sales to Amazon should remain solid through 3Q23, boosting profits.

## Investment Opinion & Risks



### Base-case scenario: Catalysts

- 1) 2022–25 domestic revenue CAGR at +3%
- 2) 2022–25 overseas revenue CAGR at +7%

### Bull-case scenario: Upside risks

- 1) 2022–25 domestic revenue CAGR above 3%
- 2) 2022–25 overseas revenue CAGR above 7%

### Bear-case scenario: Downside risks

- 1) 2022–25 domestic revenue CAGR below 3%
- 2) 2022–25 overseas revenue CAGR below 7%

## Revised Earnings Estimates

(KRWbn, %)	Previous		Revised		Change	
	2023E	2024E	2023E	2024E	2023E	2024E
Revenue	3,988.3	4,240.7	4,045.4	4,244.0	1.4	0.1
OP	680.2	758.6	724.8	747.1	6.6	-1.5
NP (to control. int.)	494.6	555.7	474.6	517.7	-4.0	-6.8

Source(s): KB Securities estimates

## KB Estimates vs. Consensus

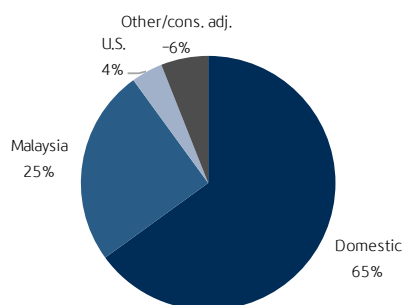
(KRWbn, %)	KB Estimates		Consensus		Difference	
	2023E	2024E	2023E	2024E	2023E	2024E
Revenue	4,045.4	4,244.0	4,005.7	4,215.7	1.0	0.7
OP	724.8	747.1	744.3	786.5	-2.6	-5.0
NP (to control. int.)	474.6	517.7	495.0	554.1	-4.1	-6.6

Source(s): FnGuide, KB Securities estimates

## Valuation & Target Price Calculation

- 1) Valuation method:  
Discounted cash flow model
- 2) Target price calculation:  
7.60% WACC; 1.50% TGR
- 3) Target price range:  
KRW35,000 – KRW76,000
- 4) Valuation at target price:  
9.4x 12m fwd implied P/E, 1.60x 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	3,151.2	6.3	6.3	1.05	16.8	3.0	-0.9
Amorepacific	7,691.8	40.0	38.2	1.79	4.5	14.2	2.8
LG H&H	7,395.2	17.7	48.8	1.41	8.0	7.4	3.3

Source(s): KB Securities estimates

**Table 1. 3Q23 Estimates vs. Consensus (consolidated)**

(KRWbn)	3Q23E KB	3Q22	YoY (%)	2Q23	QoQ (%)	3Q23E Cons.	Diff. (%)	2023E KB	YoY (%)	2023E Cons.	Diff. (%)
Revenue	1,047.4	969.8	8.0	1,006.2	4.1	1,038.9	0.8	4,045.4	4.9	4,005.7	1.0
OP	181.8	165.1	10.1	194.2	-6.4	193.9	-6.2	724.8	7.0	744.3	-2.6
EBT	172.1	193.8	-11.2	153.4	12.2	172.0	0.1	668.3	-2.2	684.7	-2.4
NP (to control. int.)	122.2	114.0	7.2	107.1	14.1	N/A	N/A	474.1	3.6	495.0	-4.2
OPM (%)	17.4	17.0		19.3		18.7		17.9		18.6	
EBT margin (%)	16.4	20.0		15.3		16.6		16.5		17.1	
NPM (%)	11.7	11.8		10.6		N/A		11.7		12.4	

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	3,988.3	4,240.7	4,496.5	4,045.4	4,244.0	4,445.7	1.4	0.1	-1.1
OP	680.2	758.6	804.3	724.8	747.1	792.4	6.6	-1.5	-1.5
EBT	652.5	771.0	819.2	668.3	728.4	776.0	2.4	-5.5	-5.3
NP (to control. int.)	494.6	555.7	590.4	474.6	517.7	551.5	-4.0	-6.8	-6.6
EPS (KRW)	6,816	7,658	8,137	6,540	7,134	7,601	-4.0	-6.8	-6.6
YoY (%)									
Revenue	3.4	6.3	6.0	4.9	4.9	4.8			
OP	0.4	11.5	6.0	7.0	3.1	6.1			
EBT	-4.5	18.2	6.3	-2.2	9.0	6.5			
NP (to control. int.)	7.9	12.4	6.3	3.6	9.1	6.5			
EPS	7.9	12.4	6.3	3.6	9.1	6.5			
OPM (%)	17.1	17.9	17.9	17.9	17.6	17.8			
EBT margin (%)	16.4	18.2	18.2	16.5	17.2	17.5			
NPM (to control. int.) (%)	12.4	13.1	13.1	11.7	12.2	12.4			

Source(s): Company data, KB Securities estimates

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

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

(KRWbn)		1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23E	4Q23E	2021	2022	2023E	2024E	2025E
Revenue		928.0	978.2	969.8	980.2	948.3	1,006.2	1,047.4	1,043.6	3,664.3	3,856.1	4,045.4	4,244.0	4,445.7
Standalone		710.1	700.1	721.2	682.1	653.8	678.8	724.1	718.8	2,814.6	2,813.5	2,775.4	2,898.9	3,036.2
Malaysia		262.8	274.7	276.5	277.5	268.2	285.6	290.3	291.4	980.1	1,091.5	1,135.5	1,200.3	1,248.3
U.S.		45.8	53.7	50.7	49.6	38.8	61.1	58.3	55.6	169.7	199.8	213.8	238.6	264.8
Other subsidiaries		50.1	65.3	60.0	69.0	59.5	65.4	65.7	68.6	169.8	244.4	259.2	300.5	336.1
Cons. adj.		-140.8	-115.6	-138.7	-98.0	-72.0	-84.7	-91.1	-90.7	-470.0	-493.1	-338.5	-394.3	-439.7
YoY (%)	Revenue	5.6	8.0	3.8	3.6	2.2	2.9	8.0	6.5	13.2	5.2	4.9	4.9	4.8
	Standalone	5.2	-1.5	5.1	-8.2	-7.9	-3.0	0.4	5.4	8.6	-0.0	-1.4	4.4	4.7
	Malaysia	9.3	16.1	7.9	12.4	2.1	4.0	5.0	5.0	38.4	11.4	4.0	5.7	4.0
	U.S.	6.8	50.0	-12.6	50.3	-15.3	13.8	15.0	12.0	11.3	17.7	7.0	11.6	11.0
	Other subsidiaries	142.0	49.8	15.2	29.2	18.8	0.2	9.5	-0.6	113.9	43.9	6.1	15.9	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	67.5	69.1	68.9	76.8	73.0	68.6	68.3	68.3
	Malaysia	28.3	28.1	28.5	28.3	28.3	28.4	27.7	27.9	26.7	28.3	28.1	28.3	28.1
	U.S.	4.9	5.5	5.2	5.1	4.1	6.1	5.6	5.3	4.6	5.2	5.3	5.6	6.0
	Other subsidiaries	5.4	6.7	6.2	7.0	6.3	6.5	6.3	6.6	4.6	6.3	6.4	7.1	7.6
	Cons. adj.	-15.2	-11.8	-14.3	-10.0	-7.6	-8.4	-8.7	-8.7	-12.8	-12.8	-8.4	-9.3	-9.9
Operating profit		172.7	176.0	165.1	163.7	175.6	194.2	181.8	173.2	640.2	677.4	724.8	747.1	792.4
Standalone		143.1	123.4	135.5	112.8	115.6	143.4	141.2	133.0	451.7	514.7	533.2	536.3	561.7
Malaysia		53.7	50.4	49.5	48.4	45.1	46.7	49.4	49.5	199.4	202.0	190.7	204.1	218.5
U.S.		2.4	8.3	-0.1	-4.0	-2.8	10.2	2.3	1.1	7.8	6.6	10.8	11.9	13.2
Other subsidiaries		-4.7	-6.3	-8.7	-6.2	-6.3	-2.3	-3.5	-3.2	-24.6	-25.9	-15.3	-8.9	-4.9
Cons. adj.		-21.9	0.2	-11.1	12.6	24.0	-3.8	-7.6	-7.2	5.9	-20.1	5.4	3.7	3.9
YoY (%)	OP	1.1	5.7	0.8	17.5	1.7	10.3	10.1	5.8	5.6	5.8	7.0	3.1	6.1
	Standalone	27.8	0.7	29.6	0.1	-19.2	16.2	4.2	17.9	-0.8	14.0	3.6	0.6	4.7
	Malaysia	-4.3	-15.4	-9.7	67.5	-16.0	-7.3	-0.3	2.3	53.3	1.3	-5.6	7.0	7.1
	U.S.	-57.9	822.2	TTR	RR	TTR	22.9	TTB	TTB	-60.6	-15.4	64.3	10.0	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	-31.0	6.1
OPM (%)	OP	18.6	18.0	17.0	16.7	18.5	19.3	17.4	16.6	17.5	17.6	17.9	17.6	17.8
	Standalone	20.2	17.6	18.8	16.5	17.7	21.1	19.5	18.5	16.0	18.3	19.2	18.5	18.5
	Malaysia	20.4	18.3	17.9	17.4	16.8	16.4	17.0	17.0	20.3	18.5	16.8	17.0	17.5
	U.S.	5.2	15.5	-0.2	-8.1	-7.2	16.7	4.0	2.0	4.6	3.3	5.1	5.0	5.0
	Other subsidiaries	-9.4	-9.6	-14.5	-9.0	-10.6	-3.5	-5.3	-4.6	-14.5	-10.6	-5.9	-3.0	-1.5
	Cons. adj.	15.5	-0.2	8.0	-12.9	-33.3	4.5	8.3	8.0	-1.3	4.1	-1.6	-0.9	-0.9
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	73.8	77.7	76.8	70.6	76.0	73.6	71.8	70.9
	Malaysia	31.1	28.6	30.0	29.6	25.7	24.1	27.1	28.6	31.1	29.8	26.3	27.3	27.6
	U.S.	1.4	4.7	-0.1	-2.4	-1.6	5.3	1.3	0.6	1.2	1.0	1.5	1.6	1.7
	Other subsidiaries	-2.7	-3.6	-5.3	-3.8	-3.6	-1.2	-1.9	-1.8	-3.8	-3.8	-2.1	-1.2	-0.6
Gross profit		599.7	626.3	612.9	647.6	612.1	645.9	657.8	685.3	2,388.9	2,486.5	2,601.1	2,724.7	2,849.8
EBT		191.9	194.1	193.8	103.5	174.3	153.4	172.1	168.4	658.6	683.3	668.3	728.4	776.0
NP (to control. int.)		135.1	132.6	114.0	76.5	125.3	107.2	122.3	119.7	465.7	458.2	474.6	517.7	551.5
EBITDA		298.1	297.6	284.7	279.9	288.6	305.3	291.5	278.2	1,162.8	1,160.3	1,163.6	1,138.4	1,150.6
YoY (%)	Gross profit	3.4	5.4	1.6	5.9	2.1	3.1	7.3	5.8	8.9	4.1	4.6	4.8	4.6
	EBT	9.8	21.4	4.3	-25.1	-9.1	-21.0	-11.2	62.8	21.9	3.8	-2.2	9.0	6.5
	NP (to control. int.)	7.3	14.5	-16.5	-12.6	-7.2	-19.2	7.3	56.5	15.0	-1.6	3.6	9.1	6.5
	EBITDA	-2.1	-0.0	-3.1	4.8	-3.2	2.6	2.4	-0.6	1.1	-0.2	0.3	-2.2	1.1
GPM (%)		64.6	64.0	63.2	66.1	64.5	64.2	62.8	65.7	65.2	64.5	64.3	64.2	64.1
EBT margin (%)		20.7	19.8	20.0	10.6	18.4	15.3	16.4	16.1	18.0	17.7	16.5	17.2	17.5
NPM (to control. int.) (%)		14.6	13.6	11.8	7.8	13.2	10.7	11.7	11.5	12.7	11.9	11.7	12.2	12.4
EBITDA margin (%)		32.1	30.4	29.4	28.6	30.4	30.3	27.8	26.7	31.7	30.1	28.8	26.8	25.9

Source(s): Company data, KB Securities estimates

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

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

(KRWbn)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23E	4Q24E	2021	2022	2023E	2024E	2025E
Revenue	710.1	700.1	721.2	682.1	653.8	678.8	724.1	718.8	2,814.6	2,813.5	2,775.4	2,898.9	3,036.2
Domestic home appliance	559.5	573.7	571.3	572.5	580.4	590.4	597.1	601.3	2,245.3	2,277.0	2,369.1	2,453.2	2,565.7
Rental	365.1	361.3	349.2	343.2	333.4	329.7	329.2	323.2	1,542.4	1,418.9	1,315.5	1,294.5	1,307.3
Home care	159.9	180.3	189.3	198.1	215.6	230.0	236.6	247.6	542.8	727.5	929.8	1,041.4	1,145.5
Membership	22.7	22.2	22.3	22.2	22.8	22.3	22.4	22.3	93.5	89.3	89.8	86.8	84.1
Lump-sum payment	8.6	6.3	6.8	5.6	5.0	5.0	5.2	4.5	53.8	27.2	19.8	16.0	13.9
Other	3.1	3.6	3.8	3.5	3.6	3.3	3.7	3.7	12.8	14.0	14.2	14.5	14.8
Exports	141.5	117.0	141.7	101.3	67.1	82.2	120.4	110.9	526.1	501.5	380.7	421.4	446.6
Cosmetics	9.1	9.4	8.2	8.5	6.2	6.1	6.6	6.6	45.2	35.0	25.6	24.3	23.8
YoY (%)													
Revenue	5.2	-1.5	5.1	-8.2	-7.9	-3.0	0.4	5.4	8.6	-0.0	-1.4	4.4	4.7
Domestic HA	3.9	2.7	2.7	-3.2	3.7	2.9	4.5	5.0	5.6	1.4	4.0	3.5	4.6
Rental	-7.4	-7.1	-8.2	-9.4	-8.7	-8.8	-5.7	-5.8	-3.4	-8.0	-7.3	-1.6	1.0
Home care	63.2	41.5	38.3	9.7	34.8	27.6	25.0	25.0	78.5	34.0	27.8	12.0	10.0
Membership	-6.1	-6.4	-3.4	-1.5	0.5	0.5	0.3	0.7	-5.8	-4.4	0.5	-3.4	-3.1
Lump-sum	-54.4	-60.0	-45.8	-16.9	-41.2	-20.4	-23.5	-19.0	-52.8	-49.4	-27.4	-19.3	-12.7
Other	0.2	11.0	13.3	12.8	13.9	-7.4	-2.0	4.0	-5.2	9.4	1.7	2.0	2.0
Exports	13.5	-16.4	18.1	-28.5	-52.6	-29.7	-15.0	9.5	30.0	-4.7	-24.1	10.7	6.0
Cosmetics	-21.4	-22.5	-19.4	-11.1	-31.6	-34.6	-20.0	-20.0	-28.7	-19.0	-26.9	-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	87.0	82.5	83.6	79.8	80.9	85.4	84.6	84.5
Rental	51.4	51.6	48.4	50.3	51.0	48.6	45.5	45.0	54.8	50.4	47.4	44.7	43.1
Home care	22.5	25.8	26.2	29.0	33.0	33.9	32.7	34.4	19.3	25.9	33.5	35.9	37.7
Membership	3.2	3.2	3.1	3.3	3.5	3.3	3.1	3.1	3.3	3.2	3.2	3.0	2.8
Lump-sum	1.2	0.9	0.9	0.8	0.8	0.7	0.7	0.6	1.9	1.0	0.7	0.6	0.5
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	12.1	16.6	15.4	18.7	17.8	13.7	14.5	14.7
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	143.4	141.2	133.0	451.7	514.7	533.2	536.3	561.7
YoY (%)	27.8	0.7	29.6	0.1	-19.2	16.2	4.2	17.9	-0.8	14.0	3.6	0.6	4.7
OPM (%)	20.2	17.6	18.8	16.5	17.7	21.1	19.5	18.5	16.0	18.3	19.2	18.5	18.5
Key rental assumptions													
Total accounts ('000)	6,085.0	6,090.0	6,115.6	6,155.8	6,206.8	6,258.5	6,315.6	6,370.5	6,018.4	6,155.8	6,370.5	6,599.6	6,951.7
New ('000)	353.2	347.6	338.7	341.9	393.4	394.6	376.0	379.5	1,326.3	1,381.5	1,543.5	1,589.8	1,621.6
Churn ('000)	126.4	127.8	121.8	122.1	120.7	102.4	106.4	107.4	506.5	498.1	436.8	464.6	497.8
Expiries ('000)	160.3	214.8	191.3	179.6	221.8	240.5	212.5	217.3	610.3	746.0	892.0	896.1	771.7
Monthly ARPU (KRW)	28,922	29,655	29,411	29,406	29,605	29,936	30,000	29,994	29,384	29,385	29,875	30,017	30,168
Monthly avg. churn (%)	0.70	0.70	0.67	0.67	0.65	0.55	0.57	0.57	0.73	0.69	0.59	0.61	0.63
Expiries (%)	45.8	54.1	60.2	56.6	58.8	61.9	66.0	60.0	43.6	54.0	61.5	57.0	57.0
Key membership assumptions													
Total accounts ('000)	470.6	468.4	460.0	456.1	446.6	441.8	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	16.8	16.9	16.9
Key lump-sum assumptions													
New sales ('000)	12.5	10.9	10.0	7.6	8.6	9.9	8.5	6.8	54.0	40.8	33.7	28.7	25.8
ARPU ('000 KRW)	688.1	581.9	680.5	735.2	590.0	507.1	612.4	661.7	996.9	666.7	585.7	556.4	539.7
Obsolescence (cons.; KRWbn)	14.1	12.7	14.5	11.9	11.8	11.4	12.3	12.4	53.7	53.1	47.9	51.0	53.7

Source(s): Company data, KB Securities estimates

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

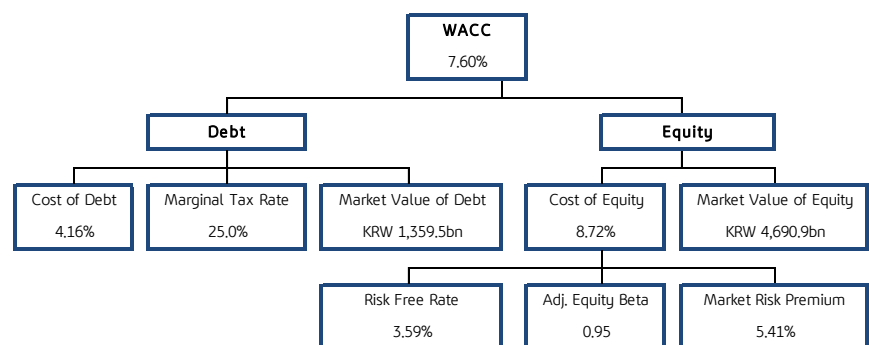
**Table 5. Target Price Calculation: Discounted Cash Flow Model**

(KRWbn)		2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E
<b>Cash flow estimates</b>									
OP	a	677.4	724.8	747.1	792.4	840.2	887.1	936.6	988.9
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>543.6</b>	<b>560.3</b>	<b>594.3</b>	<b>630.2</b>	<b>665.4</b>	<b>702.5</b>	<b>741.7</b>
D&A	d	482.9	438.9	391.4	358.2	344.0	330.3	317.2	304.6
<b>Total cash flow</b>	$E=C+d$	<b>990.9</b>	<b>982.4</b>	<b>951.7</b>	<b>952.5</b>	<b>974.1</b>	<b>995.7</b>	<b>1,019.7</b>	<b>1,046.3</b>
<b>Total investment</b>	$F=g+h$	<b>-1,057.2</b>	<b>-892.6</b>	<b>-650.2</b>	<b>-679.4</b>	<b>-700.0</b>	<b>-740.0</b>	<b>-730.0</b>	<b>-720.0</b>
Change in working capital	g	-787.6	-632.6	-390.2	-419.4	-450.0	-500.0	-500.0	-500.0
Capex	h	-269.7	-260.0	-260.0	-260.0	-250.0	-240.0	-230.0	-220.0
FCFF	$I=E+F$	-66.3	89.9	301.5	273.1	274.1	255.7	289.7	326.3
<b>PV of cash flows</b>									
Discount rate				2.4%	10.2%	18.6%	27.6%	37.3%	
PV of FCFF				92.8	247.8	231.2	200.4	211.0	
Total PV of FCFF (2024E-28E)	j		983.3						
Terminal growth rate (%)			1.50%		30y KTB yield				
Terminal value (2029E)			5,346.7		2029E FCFF / (WACC - TGR)				
PV of terminal value	k		3,895.0		7.60% WACC (3.59% risk-free rate; 5.41% market risk premium)				
<b>Valuation</b>									
Total cash flow (PV)	$L=j+k$		4,878.3						
Net cash	m		-222.5		12m fwd				
Investments in non-consolidated affiliates	n		33.0		End-2Q23				
Non-controlling interests	o		-2.0		End-2Q23				
<b>Fair value</b>	$P=L+(m+n+o)$		<b>4,690.9</b>						
No. of shares ('000)	q		72,564						
<b>Target price (KRW)</b>	$R=P/q$		<b>65,000</b>						
Current price (KRW)			42,700		Sept 6, 2023				
Upside (%)			52.2						
12m fwd implied P/E (x)			9.4						
12m fwd implied P/B (x)			1.60						

Source(s): Company data, KB Securities estimates

**Fig 1. WACC Calculation**

- (1) Cost of debt is 4.16% (YTD return of Coway's 1y KRW-based bonds); market value of debt based on total financial liabilities as of end-1Q23
- (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, 2023)	Revised (Sept 7, 2023)	Notes
<b>Cost of equity</b>	A = B + C x D	<b>8.56</b>	<b>8.72</b>	
Risk-free rate	B	3.42	3.59	Avg. 1y MSB yield (last three months)
Adj. beta	C	0.95	0.95	52w adj. beta
Raw beta		0.35	0.46	
R <sup>2</sup>		0.08	0.10	
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>3.85</b>	<b>4.16</b>	YTD yield of KRW-based 1y bonds
Fair shareholder value (KRWbn)		5,444.0	4,690.9	Value of outstanding shares based on TP
Debt (KRWbn)		1,199.0	1,359.5	Total financial liabilities as of end-1Q23
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>7.42</b>	<b>7.60</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	6.60%	71,104	73,277	75,615	78,136	80,863	83,822	87,044
	6.80%	68,544	70,554	72,711	75,030	77,530	80,235	83,170
	7.00%	66,153	68,017	70,011	72,149	74,450	76,930	79,613
	7.20%	63,915	65,646	67,494	69,472	71,594	73,875	76,336
	7.40%	61,814	63,426	65,143	66,976	68,938	71,043	73,306
	7.60%	59,840	61,343	62,942	<b>65,000</b>	66,463	68,410	70,497
	7.80%	57,980	59,385	60,876	62,462	64,151	65,956	67,886
	8.00%	56,226	57,541	58,935	60,414	61,987	63,663	65,453
	8.20%	54,568	55,801	57,106	58,488	59,956	61,516	63,179
	8.40%	53,000	54,158	55,381	56,675	58,046	59,502	61,050
8.60%	51,513	52,602	53,751	54,964	56,248	57,608	59,052	

Source(s): Company data, KB Securities estimates

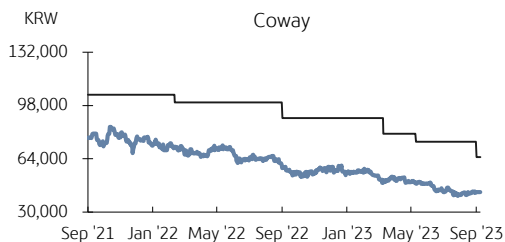


Income Statement						Statement of Financial Position					
(KRWbn)	2021A	2022A	2023E	2024E	2025E	(KRWbn)	2021A	2022A	2023E	2024E	2025E
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
Revenue	3,664	3,856	4,045	4,244	4,446	Total assets	3,801	4,365	4,607	4,784	5,044
Cost of revenue	1,275	1,370	1,444	1,519	1,596	Current assets	1,106	1,375	1,686	1,980	2,323
Gross profit	2,389	2,486	2,601	2,725	2,850	Cash and cash equivalents	73	116	112	90	33
SG&A expenses	1,749	1,809	1,876	1,978	2,057	Current financial assets	510	709	851	936	1,029
Operating profit	640	677	725	747	792	Trade receivables	249	250	326	423	550
EBITDA	1,163	1,160	1,164	1,138	1,151	Inventory	235	254	330	429	557
Non-operating accounts	18	6	-56	-19	-16	Other current assets	39	45	68	102	153
Interest income	1	3	4	5	5	Non-current assets	2,694	2,991	2,921	2,805	2,721
Interest expenses	18	33	43	37	35	Investment assets	63	64	72	72	72
Profit on equity method	-5	-6	-10	-6	-6	Property, plant and equipment	1,160	1,051	915	794	707
Net other non-operating income	40	42	-8	20	20	Intangible assets	183	195	195	199	202
Profit before tax	659	683	668	728	776	Other non-current assets	1,288	1,680	1,739	1,739	1,739
Income tax expense	193	226	194	211	225	Total liabilities	1,896	2,053	1,899	1,661	1,475
Net profit	465	458	474	517	551	Current liabilities	1,293	1,130	1,159	940	774
NP attributable to controlling interests	466	458	475	518	552	Trade payables	88	77	54	43	35
Adj. net profit	466	458	475	518	552	Short-term financial liabilities	388	307	595	535	482
						Other current liabilities	817	747	510	362	257
						Non-current liabilities	603	923	740	721	701
						Non-current financial liabilities	496	869	688	668	648
						Other non-current liabilities	107	54	52	53	53
						Total equity	1,904	2,312	2,708	3,124	3,569
						Issued capital	41	41	41	41	41
						Share premium	148	148	148	148	148
						Other equity interest	-48	-48	-48	-48	-48
						Accumulated other comprehensive income	8	11	29	29	29
						Retained earnings	1,757	2,161	2,541	2,957	3,403
						Controlling interests	1,906	2,314	2,710	3,126	3,573
						Non-controlling interests	-1	-2	-2	-3	-3
Operating Statistics & Ratios						Key Ratios					
(%)	2021A	2022A	2023E	2024E	2025E	(x, %, KRW)	2021A	2022A	2023E	2024E	2025E
Revenue growth	13.2	5.2	4.9	4.9	4.8	Multiples					
OP growth	5.6	5.8	7.0	3.1	6.1	P/E	11.8	9.0	6.6	6.1	5.7
EBITDA growth	1.1	-0.2	0.3	-2.2	1.1	P/B	2.9	1.8	1.2	1.0	0.9
NP growth of parent	15.0	-1.6	3.6	9.1	6.5	P/S	1.5	1.1	0.8	0.7	0.7
GP margin	65.2	64.5	64.3	64.2	64.1	EV/EBITDA	5.0	3.9	3.0	2.9	2.8
OP margin	17.5	17.6	17.9	17.6	17.8	EV/EBIT	9.0	6.6	4.8	4.5	4.1
EBITDA margin	31.7	30.1	28.8	26.8	25.9	Dividend yield, ordinary (%)	1.7	2.3	3.3	3.4	3.5
EBT margin	18.0	17.7	16.5	17.2	17.5	EPS	6,310	6,208	6,431	7,014	7,473
NP margin of parent	12.7	11.9	11.7	12.2	12.4	BVPS	25,825	31,353	36,725	42,363	48,410
						SPS	49,651	52,251	54,816	57,507	60,240
						DPS (annual, ordinary)	1,250	1,300	1,400	1,450	1,500
						Cash dividends payout ratio (%)	19.5	20.6	21.4	20.3	19.7
Statement of Cash Flows						Operating performance					
(KRWbn)	2021A	2022A	2023E	2024E	2025E	ROE	27.4	21.7	18.9	17.7	16.5
Cash flow from operating activities	331	164	312	524	496	ROA	13.6	11.2	10.6	11.0	11.2
Net profit	465	458	474	517	551	ROIC	19.3	15.7	13.8	13.3	13.0
Depreciation & amortization	523	483	439	391	358	Financial structure (%)					
Other non-cash adjustments	340	304	222	217	231	Total liab./equity	99.6	88.8	70.1	53.2	41.3
Investments in working capital	-829	-788	-633	-390	-419	Net debt/equity	15.8	15.1	11.8	5.7	1.9
Decrease(Increase) in receivables	109	25	-69	-98	-127	Current ratio	0.9	1.2	1.5	2.1	3.0
Decrease(Increase) in inventory	-91	-18	-53	-99	-129	Interest coverage (x)	35.8	20.5	17.0	20.0	22.7
Increase(Decrease) in payables	-30	-35	-29	-11	-9	Activity ratios					
Investments in other working capital	-818	-759	-482	-183	-155	Asset turnover (x)	1.1	0.9	0.9	0.9	0.9
Other operating cash flow	-168	-293	-190	-211	-225	Receivables turnover (x)	13.0	15.4	14.0	11.3	9.1
Cash flow from investing activities	-368	-282	-369	-360	-369	Payables turnover (x)	46.9	46.9	61.8	87.4	114.5
Capital expenditure	-275	-269	-260	-260	-260	Inventory turnover (x)	19.9	15.8	13.9	11.2	9.0
Investments in intangibles	-10	-16	-15	-15	-15						
Changes in investment assets	-53	-8	-12	0	0						
Other investment cash flow	-29	10	-82	-85	-94						
Cash flow from financing activities	-9	161	47	-187	-184						
Proceeds from (repayment of) debt	95	272	61	-79	-74						
Changes in equity	0	0	0	0	0						
Dividends paid	-87	-91	-94	-102	-105						
Other financing cash flow	-16	-21	80	-6	-6						
Other cash flow	2	0	5	0	0						
Increase/decrease in cash	-43	43	-4	-22	-57						
Cash and cash equivalents at FYE	73	116	112	90	33						
Free cash flow	56	-104	53	264	236						
Net cash flow	15	-49	30	142	110						
Net cash (net debt)	-301	-350	-320	-178	-68						

Source(s): Company data, KB Securities estimates

## Disclosures

### Rating & Target Price Changes (Share price —, Target price —)



#### Coway (021240)

Date	Rating	Analyst	TP (KRW)	TP Differential (%)	
				Avg.	Max/Min
Aug-09-2021	Buy	Shinay Park	105,000	-27.81	
Feb-17-2022	Buy	Shinay Park	100,000	-33.47	-27.50
Sep-07-2022	Buy	Shinay Park	90,000	-38.36	-33.78
Mar-16-2023	Buy	Shinay Park	80,000	-36.80	-34.38
May-16-2023	Buy	Shinay Park	75,000	-40.95	-34.20
Sep-07-2023	Buy	Shinay Park	65,000		

### Classification of Investment Ratings

#### Stock Ratings (based on expected 12m performance)

Buy: +15% or beyond    Hold: Between 15% and -15%    Sell: -15% or beyond

Note: Classification revised from four ratings (Strong BUY, BUY, Marketperform, Underperform) to three (Buy, Hold, Sell) as of Feb 23, 2017; Basis for ratings revised from expected 6m return to expected 12m return as of Feb 10, 2020

#### Sector Ratings (based on expected 12m performance)

Positive:                      Neutral:                      Negative:

To outperform market    To perform in line with market    To underperform market

Note: Classification revised from Overweight/Neutral/Underweight to Positive/Neutral/Negative as of Jun 28, 2017; Basis for ratings revised from expected 6m return to expected 12m return as of Feb 10, 2020

#### Ratings Distribution (as of June 30, 2023)

Buy	Hold	Sell
88.7	11.3	-

Note: Based on recommendations in the last 12 months

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