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**Raise target price 8% to KRW70,000; significantly undervalued despite consistent growth**

We maintain BUY and raise our TP by 8% to KRW70,000 on Coway (2024E/2025E OP increased 4%/4%). Despite the company's consistent growth and record annual revenue and OP, the stock remains at 7.0x 12m P/E, indicating significant undervaluation.

**2024E: Revenue/OP to grow 6% YoY/6% YoY; balanced expansion in domestic/overseas operations**

We forecast 2024 consolidated revenue at KRW4.25tn (+6% YoY) and OP at KRW779.3bn (+6% YoY). Domestic (standalone): Both revenue and OP should grow 6% YoY. Health Appliance revenue should rise 4% YoY and export revenue should surge 14% YoY, marking the first increase in two years. Account expirations should grow to 910,000 in 2024 from 870,000 this year, however, assuming 4% growth in new rental sales and low cancellation rates, annual accounts should increase 254,000 (net). More investments in the Berex brand are expected. Malaysia: Revenue/OP should grow 7% YoY/12% YoY. Coway plans to expand its customer base by targeting high-income earners with ice-water purifiers while boosting sales of mid-/low-priced products. Revenue contribution from new products, such as mattresses, air conditioners and massage chairs, should increase.

**3Q23 review: In line with market consensus; KRW11.0bn in costs due to accounting changes**

Coway reported 3Q23 consolidated revenue of KRW1.77tn (+4% YoY) and OP of KRW195.3bn (+18% YoY), in line with the market consensus. Domestic (standalone): Revenue/OP came in at KRW710.4bn (-2% YoY)/KRW144.9bn (+7% YoY). OPM improved 1.6pp YoY, attributable to price increases and SG&A efficiency for logistics and advertising. This was facilitated by: 1) 4% YoY growth in new rental sales,

### Buy Maintain

<b>Target Price (Raised)</b>	<b>KRW70,000</b>
Dividend yield*	2.7%
Total return	40.0%
Current price (Nov 20)	KRW51,000
Consensus target price	KRW69,000
Market capitalization	USD2.9bn
* 12-month forward	

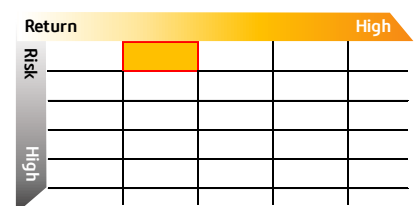
#### Trading Data

Free float	73.2%
Avg. T/O val. (3m, KRWbn)	8.0
Foreign ownership	61.0%
Major shareholders	Netmarble and 7 others 25.1%
	National Pension Service 6.5%

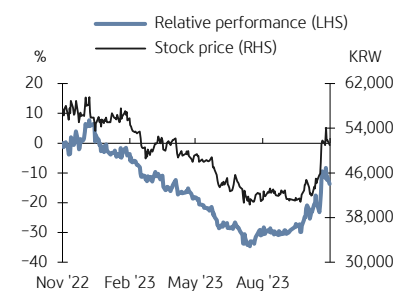
#### Stock Price Performance (total return)

(%)	1M	3M	6M	12M
Absolute	14.5	24.5	3.9	-9.8
Relative	9.1	24.9	5.3	-13.5

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



#### Stock Price & Relative Performance



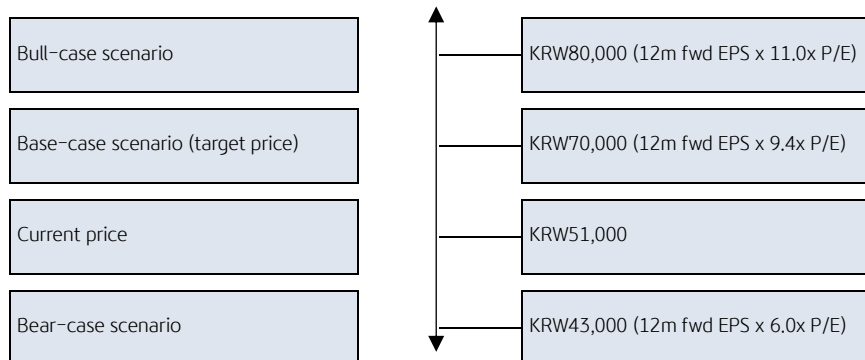
Source(s): Company data, KB Securities

#### Earnings Forecast & Valuation

Fiscal year-end	2022A	2023E	2024E	2025E
Revenue (KRWbn)	3,856	3,991	4,246	4,490
OP (KRWbn)	677	739	779	827
NP to control. int. (KRWbn)	458	485	530	568
EPS (KRW)	6,208	6,566	7,185	7,691
EPS growth (%)	-1.6	5.8	9.4	7.0
P/E (x)	9.0	7.8	7.1	6.6
EV/EBITDA (x)	3.9	3.5	3.3	3.1
P/B (x)	1.8	1.4	1.2	1.1
ROE (%)	21.7	19.4	18.3	17.0
Div. yield (%)	2.3	2.7	2.8	2.9

2) a lower avg. monthly cancellation rate at 0.5% (despite a high level of 204,000 account expirations) and 3) a 44,000 net QoQ increase in rental accounts (+70% YoY).  
Malaysia: Revenue fell 2% YoY (or 3% YoY growth based on localization) on weakening consumer sentiment, causing OP to fall 29% YoY. However, excluding the impact of accounting changes (KRW11.0bn cost incurred due to change in bad debt ratio for financial lease accounts receivables), OP decreased 7% YoY.  
United States: Revenue rose 5% YoY, driven by robust sales of air/water purifiers, leading to a turn to black YoY with OP at KRW1.7bn (+KRW1.8bn YoY) and 3.2% OPM.  
Thailand: Revenue rose QoQ for the first time, reaching KRW29.9bn (+57% YoY) with OP of KRW100mn.

## 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	4,045.4	4,244.0	3,991.0	4,246.3	-1.3	0.1
OP	724.8	747.1	738.9	779.3	2.0	4.3
NP (to control. int.)	474.6	517.7	484.6	530.2	2.1	2.4

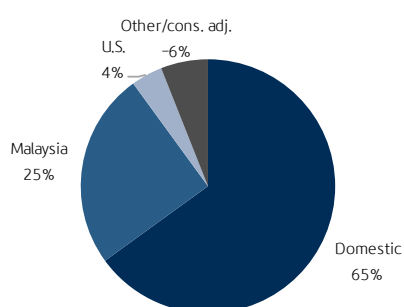
Source(s): KB Securities estimates

## KB Estimates vs. Consensus

(KRWbn, %)	KB Estimates		Consensus		Difference	
	2023E	2024E	2023E	2024E	2023E	2024E
Revenue	3,991.0	4,246.3	3,992.8	4,169.9	-0.0	1.8
OP	738.9	779.3	744.2	810.0	-0.7	-3.8
NP (to control. int.)	484.6	530.2	492.4	566.1	-1.6	-6.3

Source(s): FnGuide, KB Securities estimates

## Revenue Composition (2022)



Source(s): Company data, KB Securities

## 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	3,763.8	7.2	7.6	1.23	17.1	3.5	0.4
Amorepacific	7,937.5	33.8	47.3	1.82	5.4	11.9	12.5
LG H&H	5,372.7	15.1	32.7	1.04	6.9	5.9	-4.7

Source(s): KB Securities estimates

## Valuation & Target Price Calculation

- 1) Valuation method:  
Discounted cash flow model
- 2) Target price calculation:  
7.70% WACC; 1.50% TGR
- 3) Target price range:  
KRW43,000 – KRW80,000
- 4) Valuation at target price:  
9.7x 12m fwd implied P/E, 1.69x P/B

## Earnings Sensitivity Analysis

(%)	EPS change	
	2023E	2024E
+1pp in interest rate	-0.6	-0.5
+1% in FX rate	+0.3	+0.3

**Table 1. 3Q23 Earnings Review (consolidated)**

(KRWbn)	3Q23	3Q22	YoY (%)	2Q23	QoQ (%)	Consensus	Diff. (%)	KB Est.	Diff. (%)
Revenue	1,007.7	969.8	3.9	1,006.2	0.1	1,033.9	-2.5	1,047.4	-3.8
OP	195.3	165.1	18.3	194.2	0.6	189.0	3.4	181.8	7.4
EBT	187.2	193.8	-3.4	153.5	22.0	172.1	8.8	172.1	8.8
NP	137.0	114.0	20.2	107.2	27.8	122.1	12.3	122.3	12.0
OPM (%)	19.4	17.0		19.3		18.3		17.4	
EBT margin (%)	18.6	20.0		15.3		16.6		16.4	
NPM (%)	13.6	11.8		10.7		11.8		11.7	

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	4,045.4	4,244.0	4,445.7	3,991.0	4,246.3	4,489.9	-1.3	0.1	1.0
OP	724.8	747.1	792.4	738.9	779.3	826.8	2.0	4.3	4.3
EBT	668.3	728.4	776.0	676.8	746.1	798.6	1.3	2.4	2.9
NP (to control. int.)	474.6	517.7	551.5	484.6	530.2	567.6	2.1	2.4	2.9
EPS (KRW)	6,540	7,134	7,601	6,678	7,307	7,822	2.1	2.4	2.9
YoY (%)									
Revenue	4.9	4.9	4.8	3.5	6.4	5.7			
OP	7.0	3.1	6.1	9.1	5.5	6.1			
EBT	-2.2	9.0	6.5	-1.0	10.2	7.0			
NP (to control. int.)	3.6	9.1	6.5	5.8	9.4	7.0			
EPS	3.6	9.1	6.5	5.8	9.4	7.0			
OPM (%)	17.9	17.6	17.8	18.5	18.4	18.4			
EBT margin (%)	16.5	17.2	17.5	17.0	17.6	17.8			
NPM (to control. int.) (%)	11.7	12.2	12.4	12.1	12.5	12.6			

Source(s): Company data, KB Securities estimates

Note: Previous estimates based on data as of Sep 7, 2023

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

(KRWbn)	1Q23	2Q23	3Q23	4Q23E	1Q24E	2Q24E	3Q24E	4Q24E	2021	2022	2023E	2024E	2025E
Revenue	948.3	1,006.2	1,007.7	1,028.9	1,030.8	1,065.9	1,067.8	1,081.7	3,664.3	3,856.1	3,991.0	4,246.3	4,489.9
Standalone	653.8	678.8	710.4	699.5	706.7	720.4	731.5	733.4	2,814.6	2,813.5	2,742.4	2,892.1	3,045.9
Malaysia	268.2	285.6	269.8	288.6	289.7	302.7	291.4	305.9	980.1	1,091.5	1,112.2	1,189.7	1,261.1
U.S.	38.8	61.1	53.2	54.6	54.3	61.1	58.5	57.3	169.7	199.8	207.7	231.2	256.7
Other subsidiaries	59.5	65.4	76.9	75.7	75.9	80.7	85.6	85.7	169.8	244.4	277.5	327.8	370.4
Cons. adj.	-72.0	-84.7	-102.6	-89.5	-95.8	-99.0	-99.2	-100.5	-470.0	-493.1	-348.7	-394.5	-444.1
YoY (%)													
Revenue	2.2	2.9	3.9	5.0	8.7	5.9	6.0	5.1	13.2	5.2	3.5	6.4	5.7
Standalone	-7.9	-3.0	-1.5	2.6	8.1	6.1	3.0	4.8	8.6	-0.0	-2.5	5.5	5.3
Malaysia	2.1	4.0	-2.4	4.0	8.0	6.0	8.0	6.0	38.4	11.4	1.9	7.0	6.0
U.S.	-15.3	13.8	4.9	10.0	40.0	0.0	10.0	5.0	11.3	17.7	3.9	11.3	11.0
Other subsidiaries	18.8	0.2	28.2	9.7	27.6	23.3	11.3	13.2	113.9	43.9	13.5	18.1	13.0
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	68.9	67.5	70.5	68.0	68.6	67.6	68.5	67.8	76.8	73.0	68.7	68.1	67.8
Malaysia	28.3	28.4	26.8	28.0	28.1	28.4	27.3	28.3	26.7	28.3	27.9	28.0	28.1
U.S.	4.1	6.1	5.3	5.3	5.3	5.7	5.5	5.3	4.6	5.2	5.2	5.4	5.7
Other subsidiaries	6.3	6.5	7.6	7.4	7.4	7.6	8.0	7.9	4.6	6.3	7.0	7.7	8.2
Cons. adj.	-7.6	-8.4	-10.2	-8.7	-9.3	-9.3	-9.3	-9.3	-12.8	-12.8	-8.7	-9.3	-9.9
Operating profit	175.6	194.2	195.3	173.8	191.7	197.2	197.5	192.9	640.2	677.4	738.9	779.3	826.8
Standalone	115.6	143.4	144.9	132.9	141.3	144.1	146.3	139.3	451.7	514.7	536.8	571.1	601.4
Malaysia	45.1	46.7	35.0	49.1	47.8	50.0	48.1	50.5	199.4	202.0	175.9	196.3	208.1
U.S.	-2.8	10.2	1.7	1.1	2.7	3.1	2.9	2.9	7.8	6.6	10.2	11.6	12.8
Other subsidiaries	-6.3	-2.3	-1.7	-2.0	-1.1	-0.9	-0.8	-0.7	-24.6	-25.9	-12.3	-3.5	0.4
Cons. adj.	24.0	-3.8	15.4	-7.2	1.0	1.0	1.0	1.0	5.9	-20.1	28.3	3.9	4.1
YoY (%)													
OP	1.7	10.3	18.3	6.2	9.2	1.5	1.1	11.0	5.6	5.8	9.1	5.5	6.1
Standalone	-19.2	16.2	7.0	17.8	22.3	0.5	0.9	4.8	-0.8	14.0	4.3	6.4	5.3
Malaysia	-16.0	-7.3	-29.3	1.4	6.0	7.0	37.4	2.9	53.3	1.3	-12.9	11.6	6.0
U.S.	TTR	22.9	TTB	TTB	TTB	-70.0	72.1	162.5	-60.6	-15.4	54.4	13.4	11.0
Other subsidiaries	RR	RR	RR	RR	RR	RR	RR	RR	RR	RR	RR	RR	TTB
Cons. adj.	TTB	TTR	TTB	TTR	-96.0	TTB	-93.6	TTB	-50.8	TTR	TTB	-86.3	6.1
OPM (%)													
OP	18.5	19.3	19.4	16.9	18.6	18.5	18.5	17.8	17.5	17.6	18.5	18.4	18.4
Standalone	17.7	21.1	20.4	19.0	20.0	20.0	20.0	19.0	16.0	18.3	19.6	19.7	19.7
Malaysia	16.8	16.4	13.0	17.0	16.5	16.5	16.5	16.5	20.3	18.5	15.8	16.5	16.5
U.S.	-7.2	16.7	3.2	2.0	5.0	5.0	5.0	5.0	4.6	3.3	4.9	5.0	5.0
Other subsidiaries	-10.6	-3.5	-2.2	-2.6	-1.4	-1.1	-0.9	-0.8	-14.5	-10.6	-4.4	-1.1	0.1
Cons. adj.	-33.3	4.5	-15.0	8.1	-1.0	-1.0	-1.0	-1.0	-1.3	4.1	-8.1	-1.0	-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	65.8	73.8	74.2	76.5	73.7	73.1	74.1	72.2	70.6	76.0	72.7	73.3	72.7
Malaysia	25.7	24.1	17.9	28.2	24.9	25.3	24.3	26.2	31.1	29.8	23.8	25.2	25.2
U.S.	-1.6	5.3	0.9	0.6	1.4	1.5	1.5	1.5	1.2	1.0	1.4	1.5	1.6
Other subsidiaries	-3.6	-1.2	-0.9	-1.1	-0.6	-0.5	-0.4	-0.4	-3.8	-3.8	-1.7	-0.4	0.0
Gross profit	612.1	645.9	658.7	675.6	664.4	683.2	697.0	709.2	2,388.9	2,486.5	2,592.4	2,753.8	2,907.4
EBT	174.3	153.4	187.2	161.8	183.4	188.9	189.2	184.6	658.6	683.3	676.8	746.1	798.6
NP (to control. int.)	125.3	107.2	137.0	115.0	130.3	134.2	134.4	131.2	465.7	458.2	484.6	530.2	567.6
EBITDA	288.6	305.3	302.4	279.7	289.1	294.5	294.8	290.3	1,162.8	1,160.3	1,175.9	1,168.7	1,182.6
YoY (%)													
Gross profit	2.1	3.1	7.5	4.3	8.5	5.8	5.8	5.0	8.9	4.1	4.3	6.2	5.6
EBT	-9.1	-21.0	-3.4	56.4	5.2	23.1	1.0	14.1	21.9	3.8	-1.0	10.2	7.0
NP (to control. int.)	-7.2	-19.2	20.2	50.4	4.0	25.2	-1.9	14.1	15.0	-1.6	5.8	9.4	7.0
EBITDA	-3.2	2.6	6.2	-0.1	0.2	-3.5	-2.5	3.8	1.1	-0.2	1.4	-0.6	1.2
GPM (%)	64.5	64.2	65.4	65.7	64.4	64.1	65.3	65.6	65.2	64.5	65.0	64.9	64.8
EBT margin (%)	18.4	15.3	18.6	15.7	17.8	17.7	17.7	17.1	18.0	17.7	17.0	17.6	17.8
NPM (to control. int.) (%)	13.2	10.7	13.6	11.2	12.6	12.6	12.6	12.1	12.7	11.9	12.1	12.5	12.6
EBITDA margin (%)	30.4	30.3	30.0	27.2	28.0	27.6	27.6	26.8	31.7	30.1	29.5	27.5	26.3

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)	1Q23	2Q23	3Q23	4Q23E	1Q24E	2Q24E	3Q24E	4Q24E	2021	2022	2023E	2024E	2025E
Revenue	653.8	678.8	710.4	699.5	706.7	720.4	731.5	733.4	2,814.6	2,813.5	2,742.4	2,892.1	3,045.9
Domestic home appliance	580.4	590.4	601.1	603.0	603.5	615.9	627.7	629.8	2,245.3	2,277.0	2,374.9	2,477.0	2,607.7
Rental	333.4	329.7	340.6	324.9	332.4	329.2	341.0	323.5	1,542.4	1,418.9	1,328.6	1,326.0	1,357.5
Home care	215.6	230.0	229.8	247.6	241.5	257.7	257.4	277.3	542.8	727.5	923.1	1,033.8	1,137.2
Membership	22.8	22.3	22.2	22.4	21.9	21.6	21.5	21.8	93.5	89.3	89.7	86.8	84.3
Lump-sum payment	5.0	5.0	4.4	4.4	4.1	4.1	3.5	3.6	53.8	27.2	18.9	15.2	13.3
Other	3.6	3.3	4.2	3.7	3.6	3.4	4.2	3.7	12.8	14.0	14.7	15.0	15.3
Exports	67.1	82.2	103.4	90.8	97.3	98.7	98.3	98.0	526.1	501.5	343.6	392.3	415.8
Cosmetics	6.2	6.1	5.8	5.8	5.9	5.8	5.5	5.5	45.2	35.0	24.0	22.8	22.3
YoY (%)													
Revenue	-7.9	-3.0	-1.5	2.6	8.1	6.1	3.0	4.8	8.6	-0.0	-2.5	5.5	5.3
Domestic HA	3.7	2.9	5.2	5.3	4.0	4.3	4.4	4.5	5.6	1.4	4.3	4.3	5.3
Rental	-8.7	-8.8	-2.5	-5.3	-0.3	-0.2	0.1	-0.4	-3.4	-8.0	-6.4	-0.2	2.4
Home care	34.8	27.6	21.4	25.0	12.0	12.0	12.0	12.0	78.5	34.0	26.9	12.0	10.0
Membership	0.5	0.5	-0.7	1.1	-3.9	-2.9	-2.9	-2.9	-5.8	-4.4	0.4	-3.2	-2.9
Lump-sum	-41.2	-20.4	-35.2	-20.8	-19.3	-19.3	-19.3	-19.3	-52.8	-49.4	-30.7	-19.3	-12.7
Other	13.9	-7.4	10.7	4.0	2.0	2.0	2.0	2.0	-5.2	9.4	5.1	2.0	2.0
Exports	-52.6	-29.7	-27.0	-10.4	45.0	20.0	-5.0	8.0	30.0	-4.7	-31.5	14.2	6.0
Cosmetics	-31.6	-34.6	-29.3	-30.0	-5.0	-5.0	-5.0	-5.0	-28.7	-19.0	-31.5	-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	88.8	87.0	84.6	86.2	85.4	85.5	85.8	85.9	79.8	80.9	86.6	85.6	85.6
Rental	51.0	48.6	47.9	46.4	47.0	45.7	46.6	44.1	54.8	50.4	48.4	45.9	44.6
Home care	33.0	33.9	32.4	35.4	34.2	35.8	35.2	37.8	19.3	25.9	33.7	35.7	37.3
Membership	3.5	3.3	3.1	3.2	3.1	3.0	2.9	3.0	3.3	3.2	3.3	3.0	2.8
Lump-sum	0.8	0.7	0.6	0.6	0.6	0.6	0.5	0.5	1.9	1.0	0.7	0.5	0.4
Other	0.5	0.5	0.6	0.5	0.5	0.5	0.6	0.5	0.5	0.5	0.5	0.5	0.5
Export	10.3	12.1	14.6	13.0	13.8	13.7	13.4	13.4	18.7	17.8	12.5	13.6	13.7
Cosmetics	1.0	0.9	0.8	0.8	0.8	0.8	0.8	0.8	1.5	1.2	0.9	0.8	0.7
OP	115.6	143.4	144.9	132.9	141.3	144.1	146.3	139.3	451.7	514.7	536.8	571.1	601.4
YoY (%)	-19.2	16.2	7.0	17.8	22.3	0.5	0.9	4.8	-0.8	14.0	4.3	6.4	5.3
OPM (%)	17.7	21.1	20.4	19.0	20.0	20.0	20.0	19.0	16.0	18.3	19.6	19.7	19.7
Key rental assumptions													
Total accounts ('000)	6,206.8	6,258.5	6,302.1	6,360.1	6,434.7	6,504.5	6,542.3	6,613.9	6,018.4	6,155.8	6,360.1	6,613.9	7,035.1
New ('000)	393.4	394.6	353.2	376.1	409.1	410.4	367.3	391.2	1,326.3	1,381.5	1,517.3	1,578.0	1,625.3
Churn ('000)	125.4	110.9	105.6	100.8	101.8	103.0	104.1	104.7	506.5	498.1	442.7	413.5	433.7
Expiries ('000)	217.0	232.0	204.0	217.3	232.7	237.6	225.5	214.9	610.3	746.0	870.3	910.7	770.5
Monthly ARPU (KRW)	29,605	29,936	30,276	30,141	29,901	30,235	30,578	30,443	29,384	29,385	29,984	30,316	30,463
Monthly avg. churn (%)	0.68	0.60	0.56	0.53	0.53	0.53	0.53	0.53	0.73	0.69	0.60	0.54	0.55
Expiries (%)	57.5	59.7	63.4	60.0	57.0	57.0	58.0	60.0	43.6	54.0	60.0	57.9	56.9
Key membership assumptions													
Total accounts ('000)	446.6	441.8	440.7	433.3	433.2	428.5	427.5	420.3	485.1	456.1	433.3	420.3	407.7
Monthly ARPU ('000 KRW)	16.8	16.7	16.7	17.1	16.8	16.7	16.8	17.1	15.4	15.8	16.8	17.0	17.0
Key lump-sum assumptions													
New sales ('000)	8.6	9.9	7.7	6.8	7.3	8.4	6.5	5.8	54.0	40.8	33.0	28.0	25.2
ARPU ('000 KRW)	590.0	507.1	571.0	646.9	560.5	481.7	542.5	614.6	996.9	666.7	572.4	543.7	527.4
Obsolescence (cons.; KRWbn)	11.8	11.4	11.3	11.4	11.4	11.9	11.9	12.1	53.7	53.1	45.9	47.3	50.5

Source(s): Company data, KB Securities estimates

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

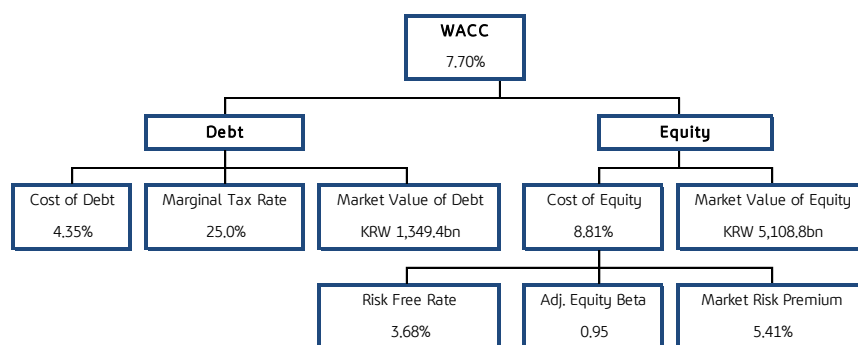
**Table 5. Target Price Calculation: Discounted Cash Flow Model**

(KRWbn)		2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E
<b>Cash flow estimates</b>									
OP	a	677.4	738.9	779.3	826.8	863.3	893.0	919.8	942.2
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>554.2</b>	<b>584.5</b>	<b>620.1</b>	<b>647.5</b>	<b>669.7</b>	<b>689.8</b>	<b>706.6</b>
D&A	d	482.9	437.0	389.3	355.8	338.2	321.3	305.4	290.2
<b>Total cash flow</b>	$E=C+d$	<b>990.9</b>	<b>991.2</b>	<b>973.8</b>	<b>975.9</b>	<b>985.6</b>	<b>991.1</b>	<b>995.2</b>	<b>996.8</b>
<b>Total investment</b>	$F=g+h$	<b>-1,057.2</b>	<b>-866.7</b>	<b>-574.2</b>	<b>-606.8</b>	<b>-660.0</b>	<b>-660.0</b>	<b>-660.0</b>	<b>-660.0</b>
Change in working capital	g	-787.6	-611.7	-314.2	-346.8	-400.0	-400.0	-400.0	-400.0
Capex	h	-269.7	-255.0	-260.0	-260.0	-260.0	-260.0	-260.0	-260.0
FCFF	$I=E+F$	-66.3	124.5	399.7	369.1	325.6	331.1	335.2	336.8
<b>PV of cash flows</b>									
Discount rate				0.9%	8.7%	17.0%	26.0%	35.8%	
PV of FCFF				45.6	339.7	278.3	262.7	246.9	
Total PV of FCFF (2024E-28E)	j		1,173.1						
Terminal growth rate (%)			1.50%		30y KTB yield				
Terminal value (2029E)			5,429.7		2029E FCFF / (WACC - TGR)				
PV of terminal value	k		3,999.7		7.70% WACC (3.68% risk-free rate; 5.41% market risk premium)				
<b>Valuation</b>									
Total cash flow (PV)	$L=j+k$		5,172.8						
Net cash	m		-99.3		12m fwd				
Investments in non-consolidated affiliates	n		33.3		End-3Q23				
Non-controlling interests	o		-2.1		End-3Q23				
<b>Fair value</b>	$P=L+(m+n+o)$		<b>5,108.8</b>						
No. of shares ('000)	q		72,564						
<b>Target price (KRW)</b>	$R=P/q$		<b>70,000</b>						
Current price (KRW)			51,000		Nov 20, 2023				
Upside (%)			37.3						
12m fwd implied P/E (x)			9.7						
12m fwd implied P/B (x)			1.69						

Source(s): Company data, KB Securities estimates

**Fig 1. WACC Calculation**

- (1) Cost of debt is 4.35% (YTD return of Coway's 1y KRW-based bonds); market value of debt based on total financial liabilities as of end-3Q23
- (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 (Sep 7, 2023)	Revised (Nov 20, 2023)	Notes
<b>Cost of equity</b>	A = B + C x D	<b>8.72</b>	<b>8.81</b>	
Risk-free rate	B	3.59	3.68	Avg. 1y MSB yield (last three months)
Adj. beta	C	0.95	0.95	52w adj. beta
Raw beta		0.46	0.47	
R <sup>2</sup>		0.10	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>4.16</b>	<b>4.35</b>	YTD yield of KRW-based 1y bonds
Fair shareholder value (KRWbn)		4,690.9	5,108.8	Value of outstanding shares based on TP
Debt (KRWbn)		1,359.5	1,349.4	Total financial liabilities as of end-3Q23
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>7.70</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	6.70%	76,881	79,066	81,413	83,941	86,671	89,628	92,842
	6.90%	74,311	76,335	78,504	80,833	83,341	86,050	88,984
	7.10%	71,907	73,787	75,795	77,947	80,258	82,747	85,435
	7.30%	69,654	71,402	73,267	75,260	77,395	79,689	82,159
	7.50%	67,536	69,166	70,901	72,751	74,729	76,849	79,125
	7.70%	65,544	67,066	68,683	70,000	72,241	74,204	76,307
	7.90%	63,664	65,089	66,599	68,204	69,913	71,735	73,683
	8.10%	61,890	63,225	64,638	66,137	67,730	69,426	71,234
	8.30%	60,211	61,464	62,789	64,192	65,679	67,260	68,943
	8.50%	58,620	59,798	61,042	62,357	63,749	65,226	66,794
8.70%	57,111	58,220	59,390	60,624	61,929	63,311	64,776	

Source(s): Company data, KB Securities estimates



**Income Statement**

(KRWbn)	2021A	2022A	2023E	2024E	2025E
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
Revenue	3,664	3,856	3,991	4,246	4,490
Cost of revenue	1,275	1,370	1,399	1,493	1,583
Gross profit	2,389	2,486	2,592	2,754	2,907
SG&A expenses	1,749	1,809	1,853	1,974	2,081
Operating profit	640	677	739	779	827
EBITDA	1,163	1,160	1,176	1,169	1,183
Non-operating accounts	18	6	-62	-33	-28
Interest income	1	3	5	5	6
Interest expenses	18	33	53	52	48
Profit on equity method	-5	-6	-10	-6	-6
Net other non-operating income	40	42	-4	20	20
Profit before tax	659	683	677	746	799
Income tax expense	193	226	193	216	232
Net profit	465	458	484	530	567
NP attributable to controlling interests	466	458	485	530	568
Adj. net profit	466	458	485	530	568

**Operating Statistics & Ratios**

(%)	2021A	2022A	2023E	2024E	2025E
Revenue growth	13.2	5.2	3.5	6.4	5.7
OP growth	5.6	5.8	9.1	5.5	6.1
EBITDA growth	1.1	-0.2	1.4	-0.6	1.2
NP growth of parent	15.0	-1.6	5.8	9.4	7.1
GP margin	65.2	64.5	65.0	64.9	64.8
OP margin	17.5	17.6	18.5	18.4	18.4
EBITDA margin	31.7	30.1	29.5	27.5	26.3
EBT margin	18.0	17.7	17.0	17.6	17.8
NP margin of parent	12.7	11.9	12.1	12.5	12.6

**Statement of Cash Flows**

(KRWbn)	2021A	2022A	2023E	2024E	2025E
Cash flow from operating activities	331	164	388	611	582
Net profit	465	458	484	530	567
Depreciation & amortization	523	483	437	389	356
Other non-cash adjustments	340	304	281	222	238
Investments in working capital	-829	-788	-612	-314	-347
Decrease(Increase) in receivables	109	25	-7	-55	-99
Decrease(Increase) in inventory	-91	-18	11	-72	-94
Increase(Decrease) in payables	-30	-35	-42	-11	-9
Investments in other working capital	-818	-759	-574	-176	-145
Other operating cash flow	-168	-293	-202	-216	-232
Cash flow from investing activities	-368	-282	-265	-348	-356
Capital expenditure	-275	-269	-255	-260	-260
Investments in intangibles	-10	-16	-10	-10	-10
Changes in investment assets	-53	-8	-13	0	0
Other investment cash flow	-29	10	12	-78	-86
Cash flow from financing activities	-9	161	-66	-187	-184
Proceeds from (repayment of) debt	95	272	50	-79	-74
Changes in equity	0	0	0	0	0
Dividends paid	-87	-91	-94	-102	-105
Other financing cash flow	-16	-21	-22	-6	-6
Other cash flow	2	0	0	0	0
Increase/decrease in cash	-43	43	57	76	42
Cash and cash equivalents at FYE	73	116	173	250	292
Free cash flow	56	-104	134	351	322
Net cash flow	15	-49	44	234	201
Net cash (net debt)	-301	-350	-306	-72	129

**Statement of Financial Position**

(KRWbn)	2021A	2022A	2023E	2024E	2025E
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
Total assets	3,801	4,365	4,557	4,747	5,023
Current assets	1,106	1,375	1,524	1,833	2,195
Cash and cash equivalents	73	116	173	250	292
Current financial assets	510	709	780	858	944
Trade receivables	249	250	276	331	430
Inventory	235	254	241	313	407
Other current assets	39	45	55	82	123
Non-current assets	2,694	2,991	3,033	2,913	2,828
Investment assets	63	64	67	67	67
Property, plant and equipment	1,160	1,051	938	818	732
Intangible assets	183	195	190	190	190
Other non-current assets	1,288	1,680	1,838	1,838	1,838
Total liabilities	1,896	2,053	1,875	1,637	1,451
Current liabilities	1,293	1,130	1,159	940	774
Trade payables	88	77	54	43	35
Short-term financial liabilities	388	307	595	535	482
Other current liabilities	817	747	510	362	257
Non-current liabilities	603	923	716	696	677
Non-current financial liabilities	496	869	665	645	625
Other non-current liabilities	107	54	51	52	52
Total equity	1,904	2,312	2,682	3,110	3,572
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	0	0	0
Retained earnings	1,757	2,161	2,543	2,972	3,434
Controlling interests	1,906	2,314	2,684	3,113	3,575
Non-controlling interests	-1	-2	-2	-3	-3

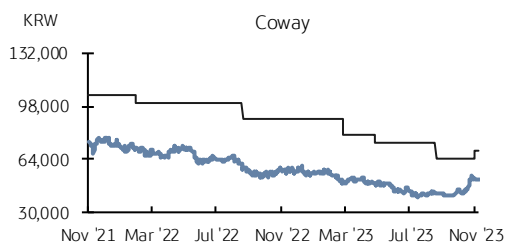
**Key Ratios**

(x, %, KRW)	2021A	2022A	2023E	2024E	2025E
<b>Multiples</b>					
P/E	11.8	9.0	7.9	7.2	6.7
P/B	2.9	1.8	1.4	1.2	1.1
P/S	1.5	1.1	1.0	0.9	0.9
EV/EBITDA	5.0	3.9	3.5	3.3	3.1
EV/EBIT	9.0	6.6	5.6	5.0	4.5
Dividend yield, ordinary (%)	1.7	2.3	2.7	2.8	2.9
EPS	6,310	6,208	6,566	7,185	7,691
BVPS	25,825	31,353	36,371	42,179	48,444
SPS	49,651	52,251	54,079	57,539	60,840
DPS (annual, ordinary)	1,250	1,300	1,400	1,450	1,500
Cash dividends payout ratio (%)	19.5	20.6	21.0	19.8	19.2
<b>Operating performance</b>					
ROE	27.4	21.7	19.4	18.3	17.0
ROA	13.6	11.2	10.9	11.4	11.6
ROIC	17.3	14.1	13.6	13.6	13.1
<b>Financial structure (%)</b>					
Total liab./equity	99.6	88.8	69.9	52.6	40.6
Net debt/equity	15.8	15.1	11.4	2.3	Net Cash
Current ratio	0.9	1.2	1.3	2.0	2.8
Interest coverage (x)	35.8	20.5	13.9	14.9	17.2
<b>Activity ratios</b>					
Asset turnover (x)	1.1	0.9	0.9	0.9	0.9
Receivables turnover (x)	13.0	15.4	15.2	14.0	11.8
Payables turnover (x)	46.9	46.9	60.9	87.5	115.6
Inventory turnover (x)	19.9	15.8	16.1	15.3	12.5

Source(s): Company data, KB Securities estimates

## Disclosures

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



#### Coway (021240)

Date	Rating	Analyst	TP Differential (%)		
			(KRW)	Avg.	Max/Min
Nov-08-2021	Buy	Shinay Park	105,000	-29.10	
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	-32.03	-16.77
Nov-20-2023	Buy	Shinay Park	70,000		

### 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 September 30, 2023)

Buy	Hold	Sell
89.0	11.0	-

Note: Based on recommendations in the last 12 months

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