



Coway

| Bloomberg Code (021240 KS) | Reuters Code (021240.KS)

23 January 2024

[Household goods]

A sure option in an era of uncertainty

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BUY
(Maintain)



CP (Jan. 22)
KRW55,500



TP (6 months)
KRW68,000

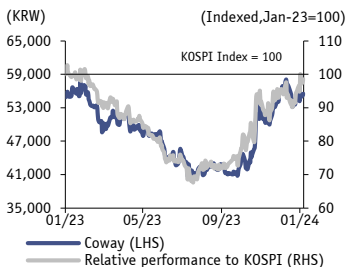


Upside
22.5%

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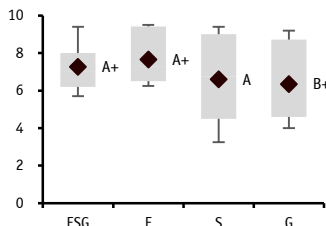
Market cap	KRW4,095.9bn/USD3,592.9mn
Outstanding shares	73.8mn
Free float	54.0mn(73.2%)
52-week high/low	KRW58,100/KRW40,300
60-day avg. trading volume	144,474shrs
60-day avg. turnover	KRW7,531mn
Foreign ownership	61.14%
Major shareholders	
Netmarble and 7 others	25.10%
NPS	6.46%
Absolute performance	
3M	24.6%
6M	27.9%
12M	0.7%
Relative performance to KOSPI	
3M	20.1%
6M	35.4%
12M	-2.1%

Share performance



ESG consensus

(score & rating)



4Q23 OP to fall short of consensus at KRW164.6bn (+0.6% YoY)

We now expect Coway to post operating profit of KRW164.6bn (+0.6% YoY) on sales of KRW1.02tr (+3.7% YoY) for 4Q23, falling short of market consensus by 5% due to stiffening competition in Malaysia and rising costs at home.

Standalone sales should have expanded by 4% YoY on growth in domestic rental contract sales volume and net increase in accounts. Impact of ownership transfers from the expiration of five-year rental contracts was likely offset by new customer additions through the launch of innovative products. Standalone operating profit is expected to have increased by a smaller extent at 3% YoY, due to larger spending on BEREX marketing and R&D efforts. In Malaysia, operating profit likely dipped from the slowdown in consumption, increase in competition, and hike in COGS ratio for air purifier filters. In the US, operating profit should have continued on a steady growth path with sales rising by 7% YoY on brisk demand from retail channels. In Thailand, top-line growth was likely steep at around 25% YoY.

Growth slowing down in Malaysia but accelerating in Thailand

After eight 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 in the low-60% range, with main customers in income brackets between the top 20% and median 40% 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 with the launch of lower-end models, should see a boost from new home care product releases.

In Thailand, we expect Coway to repeat the 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 reached 191,000 (+50.6% YoY) in 3Q23 and likely continued on a solid uptrend in 4Q23.

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

We continue to recommend BUY on Coway. Uncertainties have grown with the largest shareholder considering a stake sale since 2023. However, we point out that the company's attractive business model guarantees steady cash flows regardless of slowing consumption and possible change in largest shareholder. Overseas units, a key driver behind Coway's enterprise value, are forecast to account for 37% of company-wide sales in 2024. Renewed consumer interest in hygiene further adds to the positives for Coway.

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 (%)
2021	3,664.3	640.2	465.7	6,310	25,825	11.8	5.0	2.9	27.4	16.8
2022	3,856.1	677.4	458.2	6,208	31,353	9.0	3.9	1.8	21.7	16.2
2023F	3,978.3	729.7	488.0	6,612	36,781	8.7	3.8	1.6	19.4	10.7
2024F	4,099.2	766.5	550.4	7,458	42,921	7.4	3.6	1.3	18.7	6.7
2025F	4,222.1	793.3	567.5	7,690	49,289	7.2	3.6	1.1	16.7	4.2

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

Earnings forecast revision

(bn KRW, %)	4Q23F			2023F			2024F		
	Previous	Revised	Change (%)	Previous	Revised	Change (%)	Previous	Revised	Change (%)
Sales	1,031	1,016	(1.5)	3,994	3,978	(0.4)	4,215	4,099	(2.7)
OP	182	165	(9.6)	747	730	(2.3)	782	767	(1.9)
NP	131	118	(9.9)	501	488	(2.6)	560	549	(2.0)
OPM	17.6	16.2		18.7	18.3		18.5	18.7	
NPM	12.7	11.6		12.5	12.3		13.3	13.4	

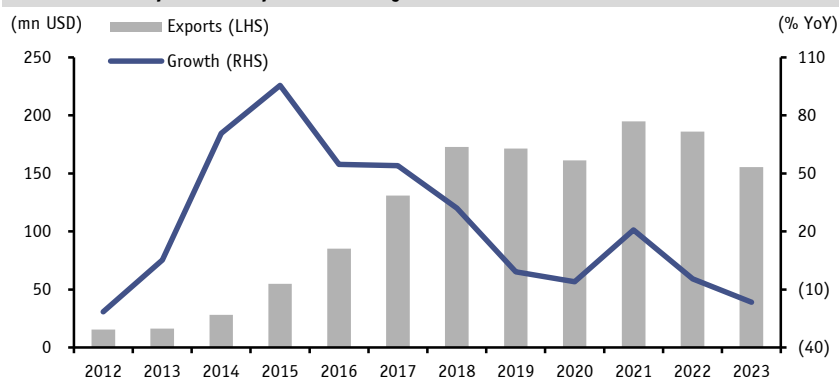
Source: Shinhan Securities

Target price calculation

(bn KRW)	Value	Remarks
2024F NP of controlling interest	549	
2025F NP of controlling interest	566	
Outstanding shares (1,000 shares)	73,800	
2024F-2025F adjusted EPS (KRW)	7,459	
Target PER (x)	11.5	30% discount to past 10-year PER average
Fair value (KRW)	85,631	
Discount (%)	20	Discount due to largest shareholder's unspecified stake sale plans
Target price (KRW)	68,000	
Current price (KRW)	55,500	
Upside (%)	22.5%	

Source: Shinhan Securities

Korean water purifier exports to Malaysia



Source: KITA, Shinhan Securities

Earnings trend and outlook											
(bn KRW)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23F	2022	2023F	2024F
Consolidated sales	928	978	970	980	948	1,006	1,008	1,016	3,856	3,978	4,099
Standalone sales	710	700	721	682	654	679	710	709	2,813	2,752	2,800
Home appliances	556	570	568	569	577	587	597	602	2,263	2,363	2,440
Rental	365	361	349	343	333	330	341	336	1,419	1,339	1,333
Finance lease	160	180	189	198	216	230	230	242	728	917	1,008
Membership	23	22	22	22	23	22	22	21	89	89	85
Lump-sum payment	9	6	7	6	5	5	4	3	27	18	13
Exports	141	117	142	101	67	82	103	97	501	350	326
Cosmetics	9	9	8	8	6	6	6	6	35	24	18
Other standalone sales	3	4	4	4	4	3	4	4	14	15	16
Other sales	218	278	249	298	295	327	297	307	1,043	1,226	1,299
Sales growth (% YoY)											
Consolidated sales	5.6	8.0	3.8	3.6	2.2	2.9	3.9	3.7	5.2	3.2	3.0
Standalone sales	5.2	(1.5)	5.1	(8.2)	(7.9)	(3.0)	(1.5)	4.0	(0.0)	(2.2)	1.7
Home appliances	3.9	2.6	2.6	(3.3)	3.7	3.0	5.2	5.8	1.4	4.4	3.3
Rental	(7.4)	(7.1)	(8.2)	(9.4)	(8.7)	(8.8)	(2.5)	(2.2)	(8.0)	(5.6)	(0.5)
Finance lease	63.2	41.5	38.3	9.7	34.8	27.6	21.4	22.0	34.0	26.1	9.9
Membership	(6.0)	(6.4)	(3.4)	(1.5)	0.5	0.5	(0.7)	(4.0)	(4.3)	(0.9)	(4.1)
Lump-sum payment	(54.3)	(60.0)	(45.8)	(16.9)	(41.2)	(20.4)	(35.2)	(45.0)	(49.4)	(35.6)	(23.0)
Exports	13.6	(16.4)	18.1	(28.8)	(52.6)	(29.7)	(27.0)	(3.4)	(4.8)	(30.1)	(7.1)
Cosmetics	(21.3)	(22.5)	(19.4)	(11.1)	(31.6)	(34.6)	(29.3)	(24.7)	(19.0)	(30.2)	(25.6)
Other standalone sales	1.0	11.0	13.3	12.8	13.9	(7.4)	10.7	10.9	9.6	6.8	8.5
Other sales	6.7	43.0	0.4	46.7	35.2	17.7	19.6	2.9	22.7	17.6	6.0
OP	173	176	165	164	176	194	195	165	677	730	767
Standalone OP	143	123	135	113	116	143	145	117	515	521	570
Other OP	30	53	30	51	60	51	50	47	163	209	196
OPM (%)	18.6	18.0	17.0	16.7	18.5	19.3	19.4	16.2	17.6	18.3	18.7
Standalone OPM	20.2	17.6	18.8	16.5	17.7	21.1	20.4	16.5	18.3	18.9	20.4
Other OPM	13.6	18.9	11.9	17.1	20.4	15.5	16.9	15.5	15.6	17.0	15.1
OP growth (% YoY)	1.1	5.7	0.8	17.5	1.7	10.3	18.3	0.6	5.8	7.7	5.0
Standalone OP growth	27.8	0.7	29.6	0.1	(19.2)	16.2	7.0	3.8	14.0	1.2	9.5
Other OP growth	(49.7)	19.8	(50.1)	91.3	103.1	(3.5)	70.1	(6.6)	(13.7)	28.3	(6.0)
Pretax profit	192	194	194	192	174	153	187	158	772	673	732
Corporate income tax	57	62	80	27	49	46	50	39	226	185	183
NP	135	133	114	165	125	107	137	118	547	488	549
NPM (%)	14.5	13.5	11.8	16.9	13.2	10.6	13.6	11.6	14.2	12.3	13.4

Source: Shinhan Securities

Statement of financial position

Year to December (bn KRW)	2021	2022	2023F	2024F	2025F
Total assets	3,800.6	4,365.1	4,849.3	5,352.4	5,860.8
Current assets	1,106.5	1,374.5	1,497.7	1,604.5	1,693.6
Cash and equivalents	73.1	115.9	171.9	217.8	245.9
Accounts receivable	249.1	250.5	276.6	283.4	289.7
Inventories	235.0	253.7	266.9	277.4	286.5
Non-current assets	2,694.2	2,990.6	3,351.6	3,747.9	4,167.3
Tangible assets	1,159.9	1,051.2	941.3	895.1	870.7
Intangible assets	182.9	195.4	197.3	201.8	207.1
Investment assets	59.4	60.1	53.4	54.0	54.5
Other financial assets	0.0	0.0	0.0	0.0	0.0
Total liabilities	1,896.2	2,053.1	2,136.7	2,186.7	2,225.2
Current liabilities	1,293.2	1,130.2	1,215.5	1,262.6	1,297.5
Short-term borrowings	386.8	305.3	311.4	317.6	323.9
Accounts payable	87.6	77.1	88.4	89.5	89.1
Current portion of long-term debt	1.5	1.2	1.2	1.2	1.2
Non-current liabilities	603.0	922.9	921.2	924.1	927.7
Bonds	419.0	728.8	730.0	730.0	730.0
Long-term borrowings	76.8	139.8	139.8	139.8	139.8
Other financial liabilities	0.0	0.0	0.0	0.0	0.0
Total shareholders' equity	1,904.4	2,312.0	2,712.6	3,165.7	3,635.6
Capital stock	40.7	40.7	40.7	40.7	40.7
Capital surplus	147.8	147.9	147.9	147.9	147.9
Other capital	(48.0)	(47.7)	(47.7)	(47.7)	(47.7)
Accumulated other comprehensive income	8.1	11.4	11.4	11.4	11.4
Retained earnings	1,757.3	2,161.5	2,562.1	3,015.2	3,485.2
Controlling interest equity	1,905.9	2,313.8	2,714.4	3,167.5	3,637.4
Non-controlling interest equity	(1.5)	(1.8)	(1.8)	(1.8)	(1.8)
*Total debt	902.7	1,199.0	1,206.4	1,212.6	1,218.9
*Net debt (cash)	319.4	374.1	290.0	213.1	152.3

Statement of cash flow

Year to December (bn KRW)	2021	2022	2023F	2024F	2025F
Cash flow from operations	331.3	164.5	571.6	583.5	579.4
Net profit	465.5	457.8	487.7	549.1	565.9
Depreciation expense	514.3	473.6	435.7	397.3	379.7
Amortization expense	8.2	9.2	8.8	8.8	8.9
FX translation loss (gain)	(11.1)	9.9	32.9	10.6	17.8
Asset disposal loss (gain)	53.7	53.1	(0.0)	(0.0)	(0.0)
Equity method loss (gain)	4.7	6.4	0.0	0.0	0.0
Change in working capital	(829.0)	(787.6)	(365.6)	(371.3)	(371.8)
(Payment of income tax)	(168.1)	(294.3)	(172.2)	(172.3)	(180.0)
Others	293.1	236.4	144.3	161.3	158.9
Cash flow from investments	(367.8)	(282.1)	(359.0)	(382.1)	(393.1)
Increase in tangible assets	(275.6)	(269.7)	(336.4)	(364.4)	(369.6)
Decrease in tangible assets	0.2	1.1	0.0	0.0	0.0
Change in intangible assets	(9.8)	(15.8)	(1.9)	(4.5)	(5.3)
Change in investment assets	(44.9)	(4.0)	(20.8)	(13.2)	(18.2)
Others	(37.7)	6.3	0.1	(0.0)	0.0
Free cash flow	843.3	540.8	693.3	632.2	618.8
Cash flow from financing	(8.5)	160.7	(156.5)	(155.5)	(158.3)
Change in borrowings	94.6	271.6	6.1	6.2	6.4
Change in treasury stock	0.0	0.0	0.0	0.0	0.0
Dividends	(87.1)	(90.7)	(95.9)	(95.9)	(95.9)
Others	(16.0)	(20.2)	(66.7)	(65.8)	(68.8)
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	2.3	(0.3)	0.0	0.0	0.0
Change in total cash	(42.7)	42.8	56.0	45.9	28.1
Beginning cash	115.8	73.1	115.9	171.9	217.8
Ending cash	73.1	115.9	171.9	217.8	245.9

Source: Company data, Shinhan Securities

Statement of comprehensive income

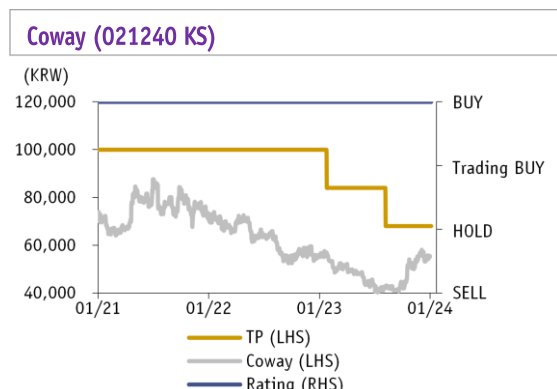
Year to December (bn KRW)	2021	2022	2023F	2024F	2025F
Sales	3,664.3	3,856.1	3,978.3	4,099.2	4,222.1
Growth (%)	13.2	5.2	3.2	3.0	3.0
COGS	1,275.3	1,369.6	1,390.6	1,423.7	1,463.4
Gross profit	2,388.9	2,486.5	2,587.7	2,675.4	2,758.7
GPM (%)	65.2	64.5	65.0	65.3	65.3
SG&A	1,748.7	1,809.1	1,858.0	1,908.9	1,965.4
Operating profit	640.2	677.4	729.7	766.5	793.3
Growth (%)	5.6	5.8	7.7	5.0	3.5
OPM (%)	17.5	17.6	18.3	18.7	18.8
Non-operating profit	18.3	5.9	(62.5)	(50.2)	(50.2)
Financial profit	(16.9)	(28.8)	(48.8)	(50.2)	(50.2)
Other non-operating profit	39.9	41.1	(3.6)	0.0	0.0
Equity method gain (loss)	(4.7)	(6.4)	(10.1)	0.0	0.0
Pre-tax profit	658.6	683.3	672.8	732.1	754.5
Income tax	193.1	225.5	185.1	183.0	188.6
Continuing operations	465.5	457.8	487.7	549.1	591.7
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	465.5	457.8	487.7	549.1	565.9
Growth (%)	15.0	(1.7)	6.5	12.6	3.1
NPM (%)	12.7	11.9	12.3	13.4	13.4
Controlling interest	465.7	458.2	488.0	550.4	567.5
Non-controlling interest	(0.2)	(0.4)	(0.3)	(1.3)	(1.6)
Comprehensive income	501.3	497.8	499.4	564.3	584.6
Controlling interest	501.5	498.2	499.6	564.4	584.7
Non-controlling interest	(0.2)	(0.4)	(0.3)	(0.1)	(0.1)
EBITDA	1,162.8	1,160.3	1,174.2	1,172.6	1,182.0
Growth (%)	1.1	(0.2)	1.2	(0.1)	0.8
EBITDA margin (%)	31.7	30.1	29.5	28.6	28.0

Key ratios

Year to December	2021	2022	2023F	2024F	2025F
EPS (KRW)	6,307	6,203	6,608	7,440	7,668
EPS of controlling interest (KRW)	6,310	6,208	6,612	7,458	7,690
BPS (KRW)	25,806	31,328	36,756	42,896	49,264
BPS of controlling interest (KRW)	25,825	31,353	36,781	42,921	49,289
DPS (KRW)	1,250	1,300	1,300	1,300	1,300
PER (x)	11.8	9.0	8.7	7.4	7.2
PER of controlling interest (x)	11.8	9.0	8.7	7.4	7.2
PBR (x)	2.9	1.8	1.6	1.3	1.1
PBR of controlling interest (x)	2.9	1.8	1.6	1.3	1.1
EV/EBITDA (x)	5.0	3.9	3.8	3.6	3.6
Dividend payout ratio (%)	19.5	20.6	19.3	17.1	16.6
Dividend yield (%)	1.7	2.3	2.3	2.4	2.4
Profitability					
EBITDA margin (%)	31.7	30.1	29.5	28.6	28.0
OPM (%)	17.5	17.6	18.3	18.7	18.8
NPM (%)	12.7	11.9	12.3	13.4	13.4
ROA (%)	13.6	11.2	10.6	10.8	10.1
ROE (%)	27.4	21.7	19.4	18.7	16.7
ROIC (%)	39.9	45.2	56.6	70.1	76.2
Stability					
Debt to equity ratio (%)	99.6	88.8	78.8	69.1	61.2
Net debt ratio (%)	16.8	16.2	10.7	6.7	4.2
Cash ratio (%)	5.7	10.3	14.1	17.3	19.0
Interest coverage ratio (x)	35.8	20.5	13.6	13.9	14.4
Activity (%)					
Working capital turnover (times)	(12.6)	(12.9)	(15.1)	(13.7)	(13.6)
Inventory turnover (days)	18.4	23.1	23.9	24.2	24.4
Receivable turnover (days)	28.2	23.6	24.2	24.9	24.8

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 19 January 2024)

BUY (BUY)	92.62%	Trading BUY (HOLD)	5.33%	HOLD (HOLD)	2.05%	SELL (SELL)	0.00%
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Rating Distribution - Shinhan Securities Investment Banking Clients (as of 19 January 2024)

BUY (BUY)	100%	Trading BUY (HOLD)	0%	HOLD (HOLD)	0%	SELL (SELL)	0%
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Shinhan Securities 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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