

Woongjin Coway (021240 KS)

Durable consumer goods



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Rating	BUY (I)
Target price	W117,000 (I)
Current price (Nov 6)	W92,000
Upside potential	27%

Market cap (Wbn)	6,790
Shares outstanding	73,799,619
Avg daily T/O (2M, Wbn)	15
Avg daily volume (2M, shrs)	180,784
52-week high (won)	97,000
52-week low (won)	67,000
Foreign ownership (%)	59.3
Major shareholders (%)	
Woongjin Thinkbig & others	25.2

Stock performance

(%)	1M	3M	12M
Absolute	6.9	8.2	36.5
Relative	0.7	(3.2)	33.0
Abs (US\$)	10.5	13.6	32.5

Time to focus on fundamentals

Initiate at BUY and target price of W117,000

- We initiate coverage on Woongjin Coway at BUY and a target price of W117,000. Our target price is based on a target P/E of 20x and 12-month-forward net profit attributable to controlling interest of W421.4bn.
- In addition to stable growth of the main business in Korea, Malaysian and other overseas subsidiaries have continued to generate strong earnings, and Woongjin Coway pays dividends every quarter, with a dividend payout ratio of more than 70%. However, valuations have been de-rated for the past two years due to uncertainties regarding the major shareholders' stake disposals.
- Now is time to return to normal. With Netmarble designated as the preferred bidder for Woongjin Coway on Oct 13, the long-delayed disposal of major shareholders' stakes is coming to an end. Investors can now focus solely on the company's fundamentals.

2020E sales likely to grow 10.0% YoY, OP 7.7% YoY

- We estimate 2020 parent sales at W2,724bn (+6.0% YoY) and OP at W511.6bn (+6.1% YoY). Given the emergence of new product categories in line with the growth of one- or two-person households and the firm's expansion into maintenance services for existing home appliances/furniture, rental product categories should continue expanding. As a result, the company's rental accounts in Korea will likely rise to 6.07mn (+6.8% YoY) in 2020.
- We estimate the Malaysian subsidiary's 2020 sales at W647.8bn (+26.0% YoY) and OP at W99.1bn (+30.0% YoY). As the rental market in Malaysia is relatively young, consumer rental demand for home appliances is likely to continue expanding via viral marketing. Currently, the penetration rate of water purifiers in Malaysia stands at 25%, about half that of Korea, and that of air purifiers at less than 10%.
- In 4Q19, the company started its rental business in Indonesia. Viral marketing, a strategy the firm adopted in Korea and Malaysia, will also likely to expand to Indonesia. In addition, as Cuckoo Homesys has been operating its rental business in Indonesia since 2018, the growth of the rental business in Indonesia is likely to pick up speed. If the Indonesian subsidiary sees meaningful results, Woongjin Coway's valuation will likely be re-rated.
- Although there are concerns that Malaysian and other overseas subsidiaries' growth could undermine company-wide margin, it is more important to focus on each subsidiary's growth potential and profit generation than margin squeeze.

Quarterly earnings

(Wbn)	4Q19E	% YoY	% QoQ	Consens	vs consens (%)
Sales	805	13.1	5.9	789	2.0
OP	136	5.6	-3.0	139	-2.0
Pre-tax net profit	131	30.7	-14.3	132	-1.1
Net profit, CI	97	38.6	-12.7	95	1.8
OPM (%)	16.9	-1.2 %pt	-1.6 %pt	17.6	-0.7 %pt
NPM (%)	12.0	+2.2 %pt	-2.6 %pt	12.0	0

Forecasts and valuations (K-IFRS, consolidated)

	(Wbn)			
FY ends Dec	2017A	2018A	2019E	2020E
Sales	2,517	2,707	3,029	3,333
OP	473	520	550	592
Net profit, CI	326	350	410	422
P/E (x)	22.5	18.4	16.3	15.8
P/B (x)	7.2	5.8	5.8	5.2
EV/EBITDA (x)	11.1	9.0	8.8	8.1
ROE (%)	30.1	33.8	36.7	34.7

Source: Yuanta Securities

Woongjin Coway (021240 KS) pro forma financial statements (K-IFRS, consolidated)

Statement of comprehensive income					
FY ends Dec (Wbn)	2017A	2018A	2019E	2020E	2021E
Sales	2,517	2,707	3,029	3,333	3,594
Cost of sales	798	878	998	1,100	1,186
Gross profit	1,718	1,829	2,031	2,233	2,408
SG&A	1,246	1,309	1,481	1,641	1,782
Operating profit	473	520	550	592	626
EBITDA	708	775	841	898	949
Non-op profit/loss	-33	-51	6	-22	-23
Forex gain/loss	-14	4	11	0	0
Net interest income	-11	-17	-21	-22	-23
Equity-meth gain/loss	0	0	0	0	0
Other	-7	-38	16	0	0
Net prof before income tax	440	469	555	570	603
Income tax	114	119	146	148	157
Net profit from continuing ops	326	350	410	422	447
Net profit from discontinued ops	0	0	0	0	0
Net profit	326	350	410	422	447
NP for controlling interest	326	350	410	422	447
Total comprehensive income	333	344	399	405	429
Total comprehensive income, CI	333	344	399	405	429

Note: Operating profit calculation same as K-GAAP (sales - COGS - SG&A exp)

Statement of financial position					
FY ends Dec (Wbn)	2017A	2018A	2019E	2020E	2021E
Current assets	791	844	956	1,100	1,050
Cash & cash equivalents	110	69	84	189	122
Accts rec & other	340	326	332	359	385
Inventory	75	103	115	125	118
Non-current assets	1,367	1,535	1,681	1,735	1,773
Tangible assets	712	781	851	914	959
Investment in affiliates	0	0	0	0	0
Other non-current	56	58	18	18	18
Total assets	2,159	2,379	2,638	2,835	2,823
Current liabilities	1,125	1,234	1,373	1,431	1,488
Accts payable & other	268	273	289	297	304
ST financial liabilities	670	731	811	861	911
Liquid LT liabilities	0	1	1	1	1
Non-current liabilities	52	57	117	117	117
LT financial liabilities	12	10	10	10	10
Debentures	0	0	0	0	0
Total liabilities	1,177	1,291	1,490	1,548	1,605
Equity, controlling interest	982	1,088	1,148	1,288	1,218
Paid-in capital	41	41	41	41	41
Capital surplus	129	130	132	132	132
Retained earnings	963	967	1,034	1,191	1,139
Equity, non-controlling interest	0	0	0	-1	-1
Total equity	982	1,088	1,148	1,287	1,218
Net debt	513	567	569	513	631
Total debt	683	743	836	886	936

Cash flow statement					
FY ends Dec (Wbn)	2017A	2018A	2019E	2020E	2021E
Operating cash flow	554	539	651	753	813
Net profit	326	350	410	422	447
Depreciation & amortization	227	247	282	297	314
Forex gain/loss	3	3	-11	0	0
Affiliate invest gain/loss	0	0	0	0	0
Inc (dec) in net working cap	-148	-237	-209	-150	-131
Other	146	176	179	183	183
Investing cash flow	-290	-394	-288	-280	-240
Investment	-1	-1	-1	0	0
Inc in tangible assets	-337	-400	-357	-360	-360
Dec in tangible assets	14	13	7	0	0
Other	35	-5	64	80	120
Financing cash flow	-218	-187	-194	-212	-212
Inc (dec) in ST fin liab	330	60	80	50	50
Inc (dec) in LT fin liab	0	-1	-6	0	0
Inc (dec) in equity	0	0	0	0	0
Cash dividend	-409	-231	-261	-266	-266
Other	-140	-15	-6	4	4
Other cash flow	-2	0	-155	-155	-429
Inc (dec) in cash & equivalents	44	-41	15	106	-68
Beginning cash & equivalents	66	110	69	84	189
Ending cash & equivalents	110	69	84	189	122
NOPLAT	473	520	550	592	626
FCF	100	7	130	234	295

Note: CI = controlling interest

EPS, BPS, P/E and P/B are based on controlling interest

For valuation metrics such as P/E, historical figures are based on annual average prices and estimates, on current price

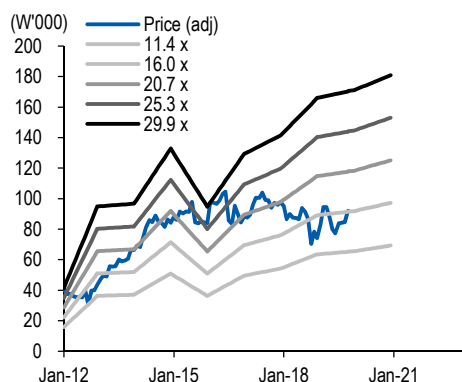
For ROA or ROE, assets and equity are averages of end-of-year figures for the given year and the year prior

Source: Yuanta Securities

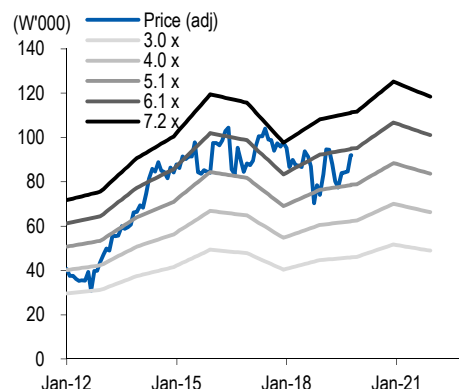
Valuation					
FY ends Dec	2017A	2018A	2019E	2020E	2021E
EPS (won)	4,328	4,735	5,555	5,724	6,057
BPS (won)	13,619	15,074	15,560	17,450	16,507
EBITDA/shr (won)	9,400	10,483	11,393	12,165	12,860
SPS (won)	33,402	36,604	41,044	45,158	48,704
DPS (won)	3,200	3,600	3,600	3,600	3,600
P/E (x)	22.5	18.4	16.3	15.8	15.0
P/B (x)	7.2	5.8	5.8	5.2	5.5
EV/EBITDA (x)	11.1	9.0	8.8	8.1	7.8
P/S (x)	2.9	2.4	2.2	2.0	1.9

Key financial data					
FY ends Dec	2017A	2018A	2019E	2020E	2021E
Sales (% YoY)	5.9	7.6	11.9	10.0	7.9
Operating profit (%YoY)	39.5	10.0	5.8	7.7	5.8
Net profit, CI (%YoY)	33.8	7.4	17.1	3.0	5.8
Gross margin (%)	68.3	67.6	67.0	67.0	67.0
Operating margin (%)	18.8	19.2	18.1	17.8	17.4
Net margin, CI (%)	13.0	12.9	13.5	12.7	12.4
EBITDA margin (%)	28.1	28.6	27.8	26.9	26.4
ROIC (%)	33.2	35.8	36.1	37.0	37.1
ROA (%)	15.8	15.4	16.3	15.4	15.8
ROE (%)	30.1	33.8	36.7	34.7	35.7
Debt-to-equity (%)	119.8	118.7	129.8	120.2	131.8
Net debt-to-equity (%)	52.2	52.1	49.6	39.9	51.8
OP/financing cost (x)	38.3	29.2	24.5	25.0	25.0

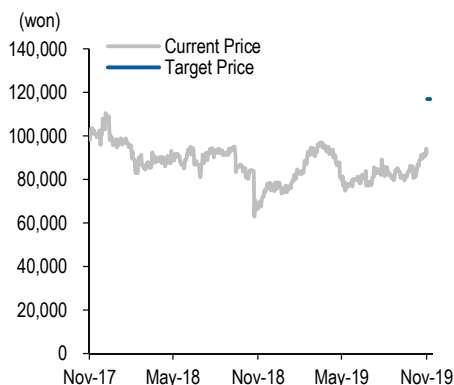
P/E band chart



P/B band chart



Woongjin Coway (021240 KS) ratings and target price history



Date	Rating	TP (won)	TP time frame	Difference (%)	
				vs avg price	vs high (low)
2019/11/07	BUY	117,000	1 yr		

Note: Difference = (actual price* - target price) / target price x 100

* 1) The average price until the day target price was suggested

2) The highest (lowest) price until the day target price was suggested

Source: Yuanta Securities

Current distribution of Yuanta Securities Korea ratings

Rating	Share (%)
STRONG BUY	0.6
BUY	84.8
HOLD	14.6
SELL	0.0
Total	100.0

Note: As of Nov 4

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Stock and sector ratings

- **Stock ratings** include an Investment Rating (Strong Buy, Buy, Hold, Sell) based on the expected absolute return of a stock over the next 6 -12 months.
 - Strong Buy: Expected to return 30% or more
 - Buy: Expected to return between 10% and 30%
 - Hold: Expected to return between -10 and +10%
 - Sell: Expected to return -10% or less
- **Sector ratings** suggest 6 to 12 - month forward investment weighting of a given sector compared to its market capitalization weighting.
 - Overweight: Investment weighting is higher than the market capitalization weighting
 - Neutral: Investment weighting is equal to the market capitalization weighting
 - Underweight: Investment weighting is lower than the market capitalization weighting

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