

2020. 2. 17

## Platform Business Team

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### ▶ AT A GLANCE

Recommend	<b>BUY</b>	
Target price	KRW100,000	(10.6%)
Current price	KRW90,400	
Market cap	KRW6.7t/USD5.7b	
Shares (float)	73,799,619 (73.0%)	
52-week high/low	KRW97,000/KRW74,900	
Avg daily trading value (60-day)	KRW44.3b/USD37.5m	

### ▶ ONE-YEAR PERFORMANCE

	1M	6M	12M
WJ Coway (%)	-2.6	8.8	4.5
Vs Kospi (%pts)	-2.8	-6.0	3.7

### ▶ KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	100,000	110,000	-9.1%
2019E EPS	4,154	5,261	-21.0%
2020E EPS	5,588	5,978	-6.5%

### ▶ SAMSUNG vs THE STREET

No of estimates	n/a
Target price	n/a
Recommendation	n/a

BUY★★★★: 5 / BUY: 4 / HOLD: 3 / SELL: 2 / SELL★★★★: 1

## WJ Coway (021240)

### Must find ways to overcome falling dividend merit

- **Missing consensus:** Woongjin Coway reported a consolidated 4Q OP of KRW44.6b (down 65.4% y-y), missing consensus substantially weighed on by: 1) provisioning related to labor strikes, which spanned over end-October~December (KRW77.0b); 2) royalty payments to Woongjin Group (KRW3.0b); 3) SG&A costs following accounting rule change at the Malaysian subsidiary (KRW3.0b); and 4) a hike in the portion of overseas and financial lease sales, which have high COGS-to-sales ratio.
- **Cutting target price:** With a possible switch of the firm's customer satisfaction doctors (ie, irregular installation and repair workers) to regular ones set to raise labor costs, we lower our 2020 EPS forecast by 8.4% and revise down our target price to KRW100,000 (based on a DCF valuation, assuming a perpetual growth of 1% and WACC of 6.0% [the latter derived from a risk free rate of 1.2%, a risk premium of 6.9% and a beta of 0.7]).

### WHAT'S THE STORY

Woongjin Coway reported consolidated 4Q sales of KRW794.6b (up 11.7% y-y) and OP of KRW44.6b (down 65.4% y-y), the latter missing consensus by 68%. Labor strikes hurt parent-based OP, as: 1) household appliances sales edged up just 1.8% y-y; 2) rental sales fell 1.1% y-y; 3) a churn rate rose 0.05%pts q-q; and 4) rental asset disposal losses stood at KRW11b. Overseas operations were solid, as exemplified by: 1) the number of rental accounts in Malaysia jumping 39% y-y; and 2) OP coming in flat y-y or up 15% y-y if excluding the effect of accounting item reclassification at the Malaysian subsidiary (ie, booking of rental asset provisioning as SG&A costs [vs non-operating costs, previously]); the subsidiary booked SG&A costs of KRW3.0b in 4Q19 and KRW9.0b in 3Q19).

### Quarterly results

(Continued on the next page)

(KRWb)	4Q19	3Q19	(% q-q)	4Q18	(% y-y)	Consensus	Diff (%)	Samsung	Diff (%)
Sales	794.6	759.6	4.6	711.7	11.7	796.3	(0.2)	817.2	(2.8)
Operating profit	44.6	140.3	(68.2)	128.8	(65.4)	139.0	(67.9)	134.7	(66.9)
Pre-tax profit	26.8	152.3	(82.4)	99.9	(73.2)	n/a	n/a	121.3	(77.9)
Net profit	19.3	110.7	(82.6)	69.7	(72.4)	82.0	(76.5)	92.2	(79.1)
<b>Margins (%)</b>									
Operating profit	5.6	18.5		18.1		17.5		16.5	
Pre-tax profit	3.4	20.0		14.0		n/a		14.8	
Net profit	2.4	14.6		9.8		10.3		11.3	

Source: Company data, Samsung Securities estimates

### Valuation

(KRWb)	Sales	Operating profit	Pre-tax profit	Net profit	EPS	EPS growth (% y-y)	P/E (x)	Net debt (KRWb)	EV/EBITDA (x)	P/B (x)	ROE (%)
2017	2,517	473	440	326	4,272	36.7	21.2	513.1	10.1	6.9	33.1
2018	2,707	520	469	350	4,681	9.6	19.3	566.7	9.3	6.1	32.2
2019E	3,019	458	451	332	4,069	(13.1)	22.2	584.5	9.9	5.6	27.9
2020E	3,365	567	552	419	5,473	34.5	16.5	553.1	8.2	4.7	29.3
2021E	3,674	641	621	472	6,145	12.3	14.7	493.9	7.2	3.9	27.4

Source: Company data, Samsung Securities estimates

The largest shareholder change issue, which prompted shares in Coway to be highly volatile, has dissipated, but still, uncertainties remain high, such as the issue of switching customer satisfaction doctors (ie, irregular installation and repair workers) to regular ones. Also worrisome is that the firm's dividend merit, a key factor limiting share-price downside, is falling, as its new largest shareholder will likely take a conservative dividend policy stance for the time being (nb, the firm's 2019 DPS was set at KRW2,400, vs KRW3,600 for 2018, KRW3,200 for 2017, KRW3,200 for 2016, KRW2,800 for 2015 and KRW2,000 for 2014). With near-term earnings momentum and dividend merit weak, an enterprise value rerating should require: 1) a hike in the number of rental accounts in the highly competitive domestic rental market via portfolio diversification; 2) expansion of overseas product range (beyond water purifier); and 3) expansion into new overseas markets (beyond Malaysia).

## Income statement

Year-end Dec 31(KRWb)	2017	2018	2019E	2020E	2021E
<b>Sales</b>	<b>2,517</b>	<b>2,707</b>	<b>3,019</b>	<b>3,365</b>	<b>3,674</b>
Cost of goods sold	798	878	1,010	1,121	1,222
<b>Gross profit</b>	<b>1,718</b>	<b>1,829</b>	<b>2,009</b>	<b>2,244</b>	<b>2,452</b>
Gross margin (%)	68.3	67.6	66.5	66.7	66.7
SG&A expenses	1,246	1,309	1,550	1,678	1,812
<b>Operating profit</b>	<b>473</b>	<b>520</b>	<b>458</b>	<b>567</b>	<b>641</b>
Operating margin (%)	18.8	19.2	15.2	16.8	17.4
<b>Non-operating gains (losses)</b>	<b>(33)</b>	<b>(51)</b>	<b>(7)</b>	<b>(15)</b>	<b>(19)</b>
Financial profit	1	1	11	9	11
Financial costs	12	18	29	26	26
Equity-method gains (losses)	0	0	0	0	0
Other	(22)	(35)	11	1	(5)
<b>Pre-tax profit</b>	<b>440</b>	<b>469</b>	<b>451</b>	<b>552</b>	<b>621</b>
Taxes	114	119	119	132	149
Effective tax rate (%)	26.0	25.3	26.4	24.0	24.0
Profit from continuing operations	326	350	332	419	472
Profit from discontinued operations	0	0	0	0	0
<b>Net profit</b>	<b>326</b>	<b>350</b>	<b>332</b>	<b>419</b>	<b>472</b>
Net margin (%)	12.9	12.9	11.0	12.5	12.9
Net profit (controlling interests)	326	350	332	419	473
Net profit (non-controlling interests)	(0)	(0)	0	(0)	(1)
EBITDA	708	775	735	881	995
EBITDA margin (%)	28.1	28.6	24.3	26.2	27.1
EPS (parent-based) (KRW)	4,328	4,735	4,500	5,684	6,414
EPS (consolidated) (KRW)	4,321	4,730	4,501	5,680	6,398
Adjusted EPS (KRW)*	4,328	4,735	4,154	5,588	6,274

## Cash flow statement

Year-end Dec 31(KRWb)	2017	2018	2019E	2020E	2021E
<b>Cash flow from operations</b>	<b>554</b>	<b>539</b>	<b>617</b>	<b>704</b>	<b>784</b>
Net profit	326	350	332	419	472
Non-cash profit and expenses	476	541	417	482	514
Depreciation	227	247	268	305	346
Amortization	8	9	8	8	9
Other	241	286	140	168	160
Changes in A/L from operating activities	(148)	(237)	17	(53)	(40)
<b>Cash flow from investments</b>	<b>(290)</b>	<b>(394)</b>	<b>(429)</b>	<b>(467)</b>	<b>(525)</b>
Change in tangible assets	(323)	(388)	(426)	(466)	(525)
Change in financial assets	17	(49)	(1)	(1)	(1)
Other	17	43	(1)	(0)	0
<b>Cash flow from financing</b>	<b>(218)</b>	<b>(187)</b>	<b>(175)</b>	<b>(173)</b>	<b>(165)</b>
Change in debt	332	59	37	38	40
Change in equity	2	1	0	0	0
Dividends	(409)	(231)	(177)	(177)	(177)
Other	(143)	(16)	(34)	(34)	(28)
Change in cash	44	(41)	13	64	94
Cash at beginning of year	66	110	69	83	147
Cash at end of year	110	69	83	147	241
<b>Gross cash flow</b>	<b>802</b>	<b>891</b>	<b>749</b>	<b>901</b>	<b>986</b>
<b>Free cash flow</b>	<b>217</b>	<b>139</b>	<b>191</b>	<b>238</b>	<b>259</b>

Note: \* Excluding one off items

\*\* Fully diluted, excluding one-off items

\*\*\* From companies subject to equity-method valuation

Source: Company data, Samsung Securities estimates

## Balance sheet

Year-end Dec 31(KRWb)	2017	2018	2019E	2020E	2021E
<b>Current assets</b>	<b>791</b>	<b>844</b>	<b>851</b>	<b>981</b>	<b>1,130</b>
Cash & equivalents	110	69	83	147	241
Accounts receivable	315	302	320	360	390
Inventories	75	103	98	112	127
Other current assets	292	370	350	361	372
<b>Fixed assets</b>	<b>1,367</b>	<b>1,535</b>	<b>1,681</b>	<b>1,850</b>	<b>2,050</b>
Investment assets	56	58	57	57	58
Tangible assets	712	781	929	1,081	1,252
Intangible assets	184	160	162	162	162
Other long-term assets	415	536	533	550	578
<b>Total assets</b>	<b>2,159</b>	<b>2,379</b>	<b>2,532</b>	<b>2,831</b>	<b>3,179</b>
<b>Current liabilities</b>	<b>1,125</b>	<b>1,234</b>	<b>1,282</b>	<b>1,340</b>	<b>1,394</b>
Accounts payable	54	62	71	78	86
Short-term debt	670	731	768	806	846
Other current liabilities	401	441	443	456	462
<b>Long-term liabilities</b>	<b>52</b>	<b>57</b>	<b>61</b>	<b>60</b>	<b>59</b>
Bonds & long-term debt	12	10	10	10	10
Other long-term liabilities	40	47	51	50	49
<b>Total liabilities</b>	<b>1,177</b>	<b>1,291</b>	<b>1,343</b>	<b>1,400</b>	<b>1,453</b>
<b>Owners of parent equity</b>	<b>982</b>	<b>1,088</b>	<b>1,189</b>	<b>1,431</b>	<b>1,726</b>
Capital stock	41	41	41	41	41
Capital surplus	129	130	130	130	130
Retained earnings	963	967	1,068	1,310	1,605
Other	(151)	(49)	(49)	(49)	(49)
<b>Non-controlling interests' equity</b>	<b>0</b>	<b>(0)</b>	<b>(0)</b>	<b>(0)</b>	<b>(0)</b>
<b>Total equity</b>	<b>982</b>	<b>1,088</b>	<b>1,189</b>	<b>1,431</b>	<b>1,726</b>
Net debt	513	567	584	553	494

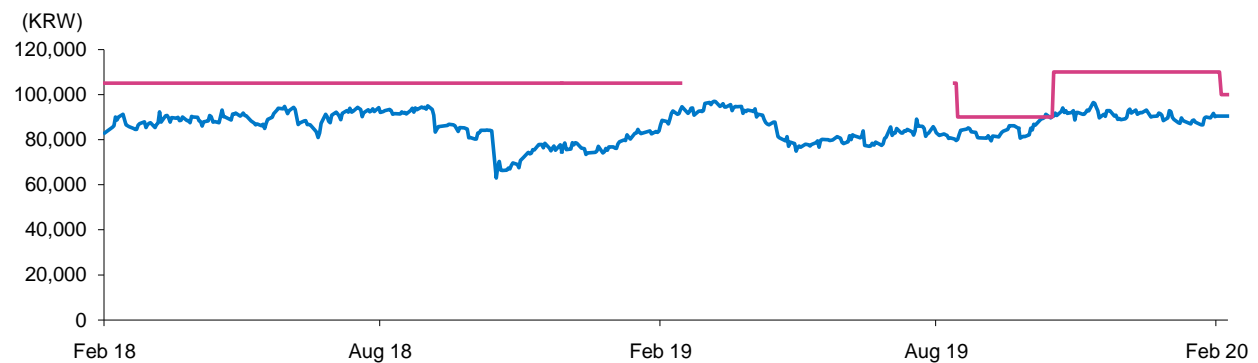
## Financial ratios

Year-end Dec 31	2017	2018	2019E	2020E	2021E
<b>Growth (%)</b>					
Sales	5.9	7.6	11.5	11.5	9.2
Operating profit	39.5	10.0	(11.8)	23.7	13.0
Net profit	33.8	7.4	(5.0)	26.2	12.6
Adjusted EPS**	36.6	9.4	(12.3)	34.5	12.3
<b>Per-share data (KRW)</b>					
EPS (parent-based)	4,328	4,735	4,500	5,684	6,414
EPS (consolidated)	4,321	4,730	4,501	5,680	6,398
Adjusted EPS**	4,328	4,735	4,154	5,588	6,274
BVPS	13,619	15,074	16,469	19,779	23,855
DPS (common)	3,200	3,600	2,400	2,400	2,400
<b>Valuations (x)</b>					
P/E***	20.9	19.1	21.8	16.2	14.4
P/B***	6.6	6.0	5.5	4.6	3.8
EV/EBITDA	10.1	9.3	9.9	8.2	7.2
<b>Ratios (%)</b>					
ROE	30.1	33.8	29.2	32.0	30.0
ROA	15.8	15.4	13.5	15.6	15.7
ROIC	24.6	25.1	20.2	23.1	23.4
Payout ratio	71.2	74.2	52.2	41.4	36.7
Dividend yield (common)	3.5	4.0	2.7	2.7	2.7
Net debt to equity	52.2	52.1	49.2	38.7	28.6
Interest coverage (x)	38.3	29.2	22.8	33.9	35.2

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### Target price changes in past two years



### Rating changes over past two years (adjusted share prices)

Date	2018/2/13	2019/2/13	8/28	10/30	2020/2/17
Recommendation	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	105,000	105,000	90,000	110,000	100,000
Gap* (average)	(18.92)	(14.67)	(6.26)	(17.37)	
(max or min)**	(9.52)	(11.71)	1.44	(12.27)	

Note: \* [(average, maximum, or minimum share price over duration of target price minus target price) / target price] x 100%

\*\* Maximum/minimum share price if new target is higher/lower than market close on the business day prior to target price change

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### Percentage of ratings in 12 months prior to Dec 31, 2019

BUY (77%) | HOLD (23%) | SELL (0%)

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