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Conservative 2021 guidance disappointing but stock remains undervalued

We maintain BUY and our TP of KRW93,000 for Coway. The company set a slightly conservative OP guidance for 2021 (+0.6% YoY), seemingly attributable to its strategy to cement market dominance via ramped up marketing and more IT-related investments. Still, we believe the stock is undervalued (11.0x 2021E P/E) given that (1) overseas revenue is growing rapidly and (2) the company has stable cash-generating capabilities.

2021E outlook: Revenue/OP at +11%/+2% YoY

For 2021, we estimate consolidated revenue/OP to increase 11% YoY/2% YoY:

- (1) Domestic revenue should jump 6% YoY upon improvements in trading conditions, with OPM at 17.8% (+0.2pp YoY).
- (2) Overseas revenue should soar 19% YoY, with consolidated revenue contribution expanding to 30%. However, overseas OP should grow only 2% YoY, hindered by an unfavorable comparison base for operations in Malaysia and the U.S., both of which fared well in 2020.

4Q20 review: Earnings in line with market consensus; sluggish domestic performance offset by Malaysia subsidiary

Coway delivered 4Q20 consolidated revenue/OP of KRW862.6bn (+9% YoY)/KRW129.8bn (+191% YoY), in line with the market consensus:

-Stripping away one-offs for the comparable period before (4Q19 had KRW77.0bn in provisions for shifting service managers onto regular employee status and KRW3.0bn in royalty payments), consolidated OP rose 4%.

-Domestic (standalone) revenue/OP came in at KRW667.2bn (+5% YoY)/KRW78.7bn (+252% YoY); stripping away one-offs, OP slid 23%.

- (1) New rental sales and lump-sum payment sales slumped 6% and 41%, respectively, with trading impacted by stricter lockdown measures, though strikes by service managers ended in August.

Buy Maintain

Target Price (Maintain)	KRW93,000
Dividend yield*	1.8%
Total return	38.0%
Current price (Feb 19)	KRW68,300
Consensus target price	KRW94,000
Market capitalization	USD4.5bn

* 12-month forward

Earnings Forecast & Valuation

Fiscal year-end	2020P	2021E	2022E	2023E
Revenue (KRWbn)	3,237	3,587	3,892	4,230
OP (KRWbn)	606	617	664	712
NP to control. int. (KRWbn)	405	436	472	509
EPS (KRW)	5,486	5,905	6,399	6,899
EPS growth (%)	21.6	7.6	8.4	7.8
P/E (x)	13.3	11.6	10.7	9.9
EV/EBITDA (x)	5.1	4.5	4.1	3.7
P/B (x)	3.6	2.7	2.3	1.9
ROE (%)	31.5	26.1	23.2	20.9
Div. yield (%)	1.7	1.8	1.9	2.0

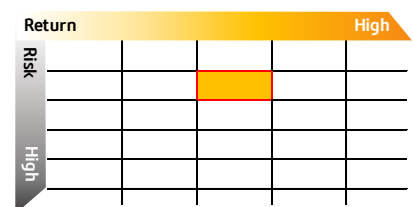
Trading Data

Free float	73.2%
Avg. T/O val. (3m, KRWbn)	19.3
Foreign ownership	60.6%
Major shareholders	Netmarble and 7 others 25.1%
	National Pension Service 7.3%

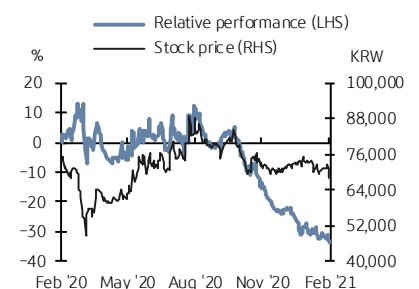
Stock Price Performance

(%)	1M	3M	6M	12M
Absolute	-7.7	-4.5	-22.7	-7.3
Relative	-8.1	-21.7	-41.3	-34.1

Risk & Total Return (annualized over three years)



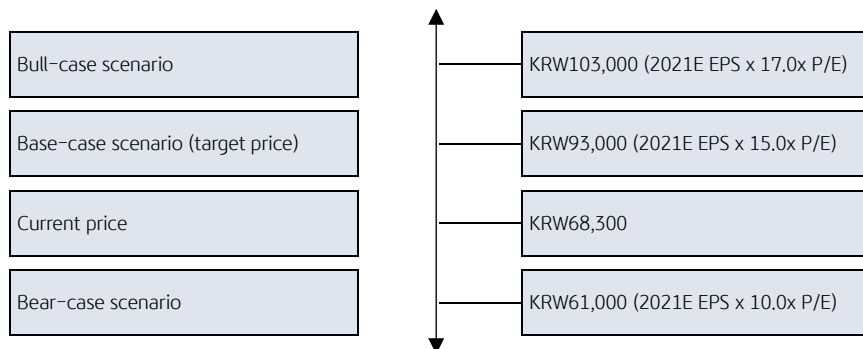
Stock Price & Relative Performance



Source(s): Company data, KB Securities

- (2) The net increase in accounts dropped 10% YoY to 47,000 with a hit to new rental sales—albeit this was an improvement compared to 2Q20/3Q20, wherein the strikes by service managers dealt the heaviest blows.
- (3) OPM came in at 11.8%—below the 4Q average of about 18%—because of increases in labor/marketing costs and write-offs of accounts receivable.
 - The Malaysia subsidiary saw revenue soar 44%, with one-off profits boosting OP by 157% (SG&A dropped with accounting changes involving allowances for sales returns; reduction in 1Q20–3Q20 retroactively reflected in 4Q20).
 - The U.S. subsidiary saw revenue advance 37%, but a boost in marketing efforts capped OPM at 1.2%; OP has high quarterly fluctuations because of its low revenue.

Investment Opinion & Risks



Base-case scenario: Catalysts

- 1) 2020-23 domestic CAGR revenue at 5%
- 2) 2020-23 overseas CAGR revenue at 19%

Bull-case scenario: Upside risks

- 1) 2020-23 domestic CAGR revenue above 5%
- 2) 2020-23 overseas CAGR revenue above 19%

Bear-case scenario: Downside risks

- 1) 2020-23 domestic CAGR revenue below 5%
- 2) 2020-23 overseas CAGR revenue below 19%

Revised Earnings Estimates

(KRWbn, %)	Previous		Revised		Change	
	2021E	2022E	2021E	2022E	2021E	2022E
Revenue	3,552.9	3,848.2	3,586.9	3,891.8	1.0	1.1
OP	627.4	658.7	617.3	664.4	-1.6	0.9
NP (to control. int.)	444.0	469.0	436.4	473.0	-1.7	0.9

Source(s): KB Securities estimates

KB Estimates vs. Consensus

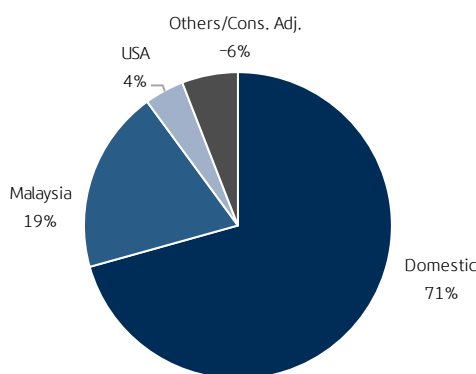
(KRWbn, %)	KB Estimates		Consensus		Difference	
	2021E	2022E	2021E	2022E	2021E	2022E
Revenue	3,586.9	3,891.8	3,530.8	3,846.0	1.6	1.2
OP	617.3	664.4	624.2	676.2	-1.1	-1.7
NP (to control. int.)	436.4	473.0	449.0	488.7	-2.8	-3.2

Source(s): FnGuide, KB Securities estimates

Valuation & Target Price Calculation

- 1) Valuation method:
Discounted cash flow model
- 2) Target price calculation:
5.94% WACC; 1.6% TGR
- 3) Target price range:
KRW61,000 – KRW103,000
- 4) Valuation at target price:
15.3x 12m fwd implied P/E, 3.61x P/B

Revenue Composition (2020)



Source(s): Company data, KB Securities

Earnings Sensitivity Analysis

(%)	EPS change	
	2021E	2022E
+1pp in interest rate	-0.6	-0.5
+1pp in FX rate	+0.3	+0.3

Peer Group Comparison

(KRWbn, x, %)	Market Cap	12m fwd P/E	3y EPS CAGR	12m fwd P/B	12m fwd ROE	12m fwd EV/EBITDA	3y EBITDA CAGR
Coway	5,040.5	11.4	8.0	2.7	23.2	4.5	3.3
Amorepacific	13,942.4	46.8	253.6	3.4	7.3	13.3	31.0
LG H&H	24,989.1	28.8	14.7	5.0	17.2	14.8	10.0

Source(s): KB Securities estimates

Table 1. 4Q20 Consolidated Earnings

(KRWbn)	4Q20P	4Q19	YoY (%)	3Q20	QoQ (%)	Consensus	Diff. (%)	KB Est.	Diff. (%)
Revenue	862.6	794.6	8.6	800.4	7.8	845.5	2.0	848.1	1.7
OP	129.8	44.6	190.9	168.6	-23.0	136.1	-4.6	135.0	-3.9
EBT	93.3	26.8	247.9	149.2	-37.5	132.0	-29.3	124.6	-25.1
NP	67.5	19.7	242.0	116.8	-42.3	95.9	-29.7	92.4	-27.0
OPM (%)	15.0	5.6		21.1		16.1		15.9	
EBT margin (%)	10.8	3.4		18.6		15.6		14.7	
NPM (%)	7.8	2.5		14.6		11.3		10.9	

Source(s): Company data, FnGuide, KB Securities

Table 2. Earnings Estimate Revisions

(KRWbn)	Previous			Revised			Change (%)			
	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E	
Revenue	3,552.9	3,848.2	4,178.8	3,586.9	3,891.8	4,230.3	1.0	1.1	-0.1	
OP	627.4	658.7	702.3	617.3	664.4	712.1	-1.6	0.9	0.2	
EBT	598.8	632.5	678.3	588.6	637.9	687.8	-1.7	0.9	0.3	
NP (to control. int.)	444.0	469.0	503.0	436.4	473.0	510.0	-1.7	0.9	1.4	
EPS (KRW)	6,119	6,464	6,932	6,015	6,519	7,029	-1.7	0.9	0.3	
YoY (%)	Revenue	9.7	8.3	8.6	10.8	8.5	8.7			
	OP	3.5	5.0	6.6	1.8	7.6	7.2			
	EBT	10.8	5.6	7.2	8.9	8.4	7.8			
	NP (to control. int.)	9.7	5.6	7.2	7.8	8.4	7.8			
	EPS	11.5	5.6	7.2	9.6	8.4	7.8			
OPM (%)		17.7	17.1	16.8	17.2	17.1	16.8			
EBT margin (%)		16.9	16.4	16.2	16.4	16.4	16.3			
NPM (to control. int.) (%)		12.5	12.2	12.0	12.2	12.2	12.1			

Source(s): Company data, KB Securities estimates

Note: Previous estimates made on Nov 5, 2020

Table 3. Earnings & Estimates (consolidated)

(KRWbn)	1Q20	2Q20	3Q20	4Q20P	1Q21E	2Q21E	3Q21E	4Q21E	2019	2020P	2021E	2022E	2023E
Revenue	768.9	805.5	800.4	862.6	847.9	890.5	906.5	942.0	3,018.9	3,237.4	3,586.9	3,891.8	4,230.3
Standalone	628.5	655.4	641.5	667.2	672.2	691.5	696.5	687.4	2,531.0	2,592.6	2,747.6	2,862.6	2,984.7
Malaysia	153.3	155.9	178.8	220.4	179.4	202.7	212.8	253.5	526.3	708.4	848.3	1,017.9	1,221.5
U.S.	27.2	32.1	51.8	41.4	38.1	41.1	44.0	47.6	97.3	152.5	170.8	201.6	227.8
Other subsidiaries	22.5	16.8	16.3	23.8	27.0	27.4	26.8	29.9	105.3	79.4	111.1	125.4	139.3
Cons. adj.	-62.6	-54.7	-88.0	-90.2	-68.8	-72.2	-73.5	-76.4	-241.0	-295.4	-290.8	-315.6	-343.0
YoY (%)													
Revenue	8.4	6.6	5.4	8.6	10.3	10.5	13.3	9.2	11.5	7.2	10.8	8.5	8.7
Standalone	3.6	3.2	-1.5	4.5	6.9	5.5	8.6	3.0	5.7	2.4	6.0	4.2	4.3
Malaysia	36.3	22.2	33.8	44.4	17.0	30.0	19.0	15.0	48.9	34.6	19.7	20.0	20.0
U.S.	30.1	36.0	130.2	36.6	40.0	28.0	-15.0	15.0	20.9	56.7	12.0	18.0	13.0
Other subsidiaries	19.0	-37.8	-35.1	-30.6	20.2	63.0	64.2	25.5	19.5	-24.6	39.9	12.9	11.1
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	81.7	81.4	80.1	77.4	79.3	77.7	76.8	73.0	83.8	80.1	76.6	73.6	70.6
Malaysia	19.9	19.4	22.3	25.6	21.2	22.8	23.5	26.9	17.4	21.9	23.6	26.2	28.9
U.S.	3.5	4.0	6.5	4.8	4.5	4.6	4.9	5.1	3.2	4.7	4.8	5.2	5.4
Other subsidiaries	2.9	2.1	2.0	2.8	3.2	3.1	3.0	3.2	3.5	2.5	3.1	3.2	3.3
Cons. adj.	-8.1	-6.8	-11.0	-10.5	-8.1	-8.1	-8.1	-8.1	-8.0	-9.1	-8.1	-8.1	-8.1
Operating profit	158.9	169.2	168.6	130.0	149.0	156.4	159.1	152.8	458.3	606.6	617.3	664.4	712.1
Standalone	115.7	136.0	124.9	78.7	122.3	125.9	126.8	113.4	394.7	455.3	488.4	508.8	521.6
Malaysia	25.2	23.3	29.6	52.0	29.6	33.4	35.1	41.8	75.6	130.1	140.0	162.9	195.4
U.S.	2.6	4.9	11.8	0.5	2.7	2.9	3.1	3.3	3.3	19.8	12.0	14.1	15.9
Other subsidiaries	-1.5	-2.4	-3.8	-3.3	-1.8	-1.8	-1.8	-1.8	-2.9	-11.0	-7.1	-4.4	-2.5
Cons. adj.	-3.1	7.4	6.1	1.9	-3.8	-4.0	-4.1	-3.9	-12.4	12.2	-15.8	-17.0	-18.3
YoY (%)													
OP	2.7	22.4	20.2	191.4	7.3	-7.5	-5.6	17.5	-11.8	32.4	1.8	7.6	7.2
Standalone	-5.5	22.8	-10.2	251.9	5.7	-7.4	1.5	44.1	-17.3	15.4	7.3	4.2	2.5
Malaysia	31.9	5.4	108.5	157.4	17.4	43.5	18.6	-19.6	21.3	72.1	7.6	16.4	20.0
U.S.	225.0	1,125.0	TTB	-83.3	2.5	-41.3	-73.9	566.5	6.5	500.0	-39.6	18.0	13.0
Other subsidiaries	RR	TTR	TTR	RR	RR	RR	RR	RR	RR	RR	RR	RR	RR
Cons. adj.	RR	100.5	TTB	189.3	RR	TTR	TTR	TTR	RR	TTB	TTR	RR	RR
OPM (%)													
OP	18.1	21.0	21.1	15.1	17.6	17.6	17.6	16.2	15.2	18.7	17.2	17.1	16.8
Standalone	18.4	20.7	19.5	11.8	18.2	18.2	18.2	16.5	15.6	17.6	17.8	17.8	17.5
Malaysia	16.4	14.9	16.6	23.6	16.5	16.5	16.5	16.5	14.4	18.4	16.5	16.0	16.0
U.S.	9.6	15.3	22.8	1.2	7.0	7.0	7.0	7.0	3.4	13.0	7.0	7.0	7.0
Other subsidiaries	-6.6	-14.3	-23.3	-13.9	-6.6	-6.4	-6.6	-6.2	-2.8	-13.8	-6.4	-3.5	-1.8
Cons. adj.	5.0	-13.5	-6.9	-2.1	5.6	5.6	5.6	5.1	5.1	-4.1	5.4	5.4	5.3
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	83.3	80.4	74.1	60.6	82.1	80.5	79.7	74.2	86.1	75.1	79.1	76.6	73.2
Malaysia	18.1	13.8	17.6	40.0	19.9	21.4	22.1	27.4	16.5	21.4	22.7	24.5	27.4
U.S.	1.9	2.9	7.0	0.4	1.8	1.8	1.9	2.2	0.7	3.3	1.9	2.1	2.2
Other subsidiaries	-1.1	-1.4	-2.3	-2.5	-1.2	-1.1	-1.1	-1.2	-0.6	-1.8	-1.2	-0.7	-0.4
Gross profit	521.7	554.8	536.3	580.7	571.9	609.8	603.8	630.4	2,008.5	2,193.5	2,415.8	2,605.6	2,815.3
EBT	138.3	159.5	149.2	93.3	142.3	149.7	152.4	144.1	451.4	540.4	588.6	637.9	687.8
NP (to control. int.)	101.6	119.0	116.8	67.5	105.5	111.0	113.0	106.9	332.9	404.9	436.4	473.0	510.0
EBITDA	275.7	303.4	304.6	256.6	285.2	292.6	295.3	289.1	739.5	1,140.4	1,162.3	1,217.6	1,271.7
YoY (%)													
Gross profit	9.5	9.6	5.4	12.4	9.6	9.9	12.6	8.6	9.8	9.2	10.1	7.9	8.0
EBT	2.1	16.6	-2.0	247.9	2.9	-6.1	2.1	54.5	-3.7	19.7	8.9	8.4	7.8
NP (to control. int.)	1.1	16.7	5.5	242.0	3.8	-6.7	-3.3	58.4	-4.9	21.6	7.8	8.4	7.8
EBITDA	33.7	43.0	39.8	148.8	3.4	-3.6	-3.1	12.7	-4.6	54.2	1.9	4.8	4.4
GPM (%)	67.8	68.9	67.0	67.3	67.4	68.5	66.6	66.9	66.5	67.8	67.4	67.0	66.6
EBT margin (%)	18.0	19.8	18.6	10.8	16.8	16.8	16.8	15.3	15.0	16.7	16.4	16.4	16.3
NPM (to control. Int.) (%)	13.2	14.8	14.6	7.8	12.4	12.5	12.5	11.3	11.0	12.5	12.2	12.2	12.1
EBITDA margin (%)	35.9	37.7	38.1	29.7	33.6	32.9	32.6	30.7	24.5	35.2	32.4	31.3	30.1

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)		1Q20	2Q20	3Q20	4Q20P	1Q21E	2Q21E	3Q21E	4Q21E	2019	2020P	2021E	2022E	2023E
Revenue		628.5	655.4	641.5	667.2	672.2	691.5	696.5	687.4	2,531.0	2,592.6	2,747.6	2,862.6	2,984.7
Domestic home appliance		529.4	552.9	507.4	537.5	547.7	564.7	557.4	551.0	2,111.2	2,127.2	2,220.9	2,293.6	2,364.4
Rental		401.9	405.3	399.5	389.7	402.4	402.8	409.5	399.9	1,572.6	1,596.4	1,614.6	1,658.8	1,705.2
Home care		68.9	87.1	57.3	90.8	77.9	95.8	88.8	86.3	258.4	304.1	348.7	383.6	414.3
Membership		24.7	25.9	24.6	24.0	22.7	22.9	22.9	23.0	107.3	99.2	91.5	87.0	82.5
Lump-sum payment		30.9	31.9	23.6	27.6	41.9	40.7	33.7	36.6	161.3	114.0	152.9	151.3	149.7
Other		3.1	2.6	2.4	5.4	2.8	2.6	2.6	5.3	11.7	13.5	13.2	12.9	12.6
Exports		81.8	85.2	120.3	117.3	106.4	108.6	122.0	119.1	343.5	404.7	456.1	495.5	545.4
Cosmetics		17.3	17.3	13.7	12.3	18.2	18.2	17.1	17.3	76.3	60.6	70.7	73.5	75.0
YoY (%)	Revenue	3.6	3.2	-1.5	4.5	6.9	5.5	8.6	3.0	5.7	2.4	6.0	4.2	4.3
	Domestic HA	2.3	3.8	-5.1	2.1	3.4	2.1	9.8	2.5	4.6	0.8	4.4	3.3	3.1
	Rental	4.5	3.5	0.7	-2.5	0.1	-0.6	2.5	2.6	2.9	1.5	1.1	2.7	2.8
	Home care	22.4	28.8	-21.4	47.6	13.0	10.0	55.0	-5.0	39.6	17.7	14.7	10.0	8.0
	Membership	-11.5	-4.0	-8.0	-6.6	-7.9	-11.7	-6.9	-4.1	-11.5	-7.6	-7.7	-5.0	-5.1
	Lump-sum	-32.3	-26.7	-33.4	-24.7	35.7	27.5	42.8	32.6	-5.6	-29.3	34.1	-1.1	-1.1
	Other	1.7	-9.2	-10.9	76.8	-10.0	-2.0	5.0	-2.0	-8.6	15.6	-2.6	-2.0	-2.0
	Exports	16.7	1.7	22.9	28.0	30.0	27.5	1.3	1.6	13.6	17.8	12.7	8.6	10.1
	Cosmetics	-8.6	-7.8	-26.3	-38.6	5.0	5.0	25.0	40.0	1.1	-20.6	16.6	4.0	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	84.2	84.4	79.1	80.6	81.5	81.7	80.0	80.2	83.4	82.1	80.8	80.1	79.2
	Rental	63.9	61.8	62.3	58.4	59.9	58.2	58.8	58.2	62.1	61.6	58.8	57.9	57.1
	Home care	11.0	13.3	8.9	13.6	11.6	13.9	12.7	12.5	10.2	11.7	12.7	13.4	13.9
	Membership	3.9	4.0	3.8	3.6	3.4	3.3	3.3	3.3	4.2	3.8	3.3	3.0	2.8
	Lump-sum	4.9	4.9	3.7	4.1	6.2	5.9	4.8	5.3	6.4	4.4	5.6	5.3	5.0
	Other	0.5	0.4	0.4	0.8	0.4	0.4	0.4	0.8	0.5	0.5	0.5	0.5	0.4
	Export	13.0	13.0	18.8	17.6	15.8	15.7	17.5	17.3	13.6	15.6	16.6	17.3	18.3
	Cosmetics	2.8	2.6	2.1	1.8	2.7	2.6	2.5	2.5	3.0	2.3	2.6	2.6	2.5
OP	115.7	136.0	124.9	78.7	122.3	125.9	126.8	113.4	394.7	455.3	488.4	508.8	521.6	
YoY (%)	-5.5	22.8	-10.2	251.9	5.7	-7.4	1.5	44.1	-17.3	15.4	7.3	4.2	2.5	
OPM (%)	18.4	20.7	19.5	11.8	18.2	18.2	18.2	16.5	15.6	17.6	17.8	17.8	17.5	
Key rental assumptions														
Total accounts ('000)		5,740.4	5,773.4	5,762.3	5,809.0	5,884.6	5,950.9	6,032.1	6,037.2	5,687.7	5,809.0	6,037.2	6,293.5	6,521.5
New ('000)		377.5	355.5	285.3	335.5	407.7	415.9	388.0	357.3	1,572.1	1,353.8	1,568.9	1,616.0	1,648.3
Churns ('000)		189.2	179.0	162.9	172.9	174.3	176.5	178.5	181.0	659.1	703.9	710.3	737.9	767.9
Expiries ('000)		135.6	143.5	133.6	115.9	157.8	173.1	128.3	171.2	455.0	528.6	630.4	621.8	652.5
Monthly ARPU (KRW)		27,465	28,513	26,398	27,684	27,382	28,085	27,718	26,853	27,952	27,552	27,622	27,606	27,565
Monthly avg. churn rate (%)		1.11	1.04	0.94	1.00	1.00	1.00	1.00	1.00	1.05	1.03	1.02	1.02	1.02
Expiries (%)		39.8	38.7	39.6	32.3	45.0	45.0	45.0	45.0	34.2	37.5	45.0	45.0	45.0
Key membership assumptions														
Total accounts ('000)		572.4	555.3	544.2	526.2	549.5	533.1	522.4	505.1	593.8	526.2	505.1	479.8	455.9
Monthly ARPU (KRW'000)		14.1	15.3	14.9	14.9	14.1	14.1	14.5	14.9	14.1	14.8	14.8	14.7	14.7
Key lump-sum assumptions														
New sales ('000)		34.9	30.6	24.3	24.9	46.4	38.3	34.0	32.4	194.2	114.7	151.1	146.5	142.1
ARPU (KRW'000)		885.1	1,042.6	971.9	1,107.9	902.8	1,063.4	991.4	1,130.0	830.5	993.9	1,012.1	1,032.4	1,053.0
Obsolescence loss (cons.) (KRWbn)		23.6	20.7	17.0	16.3	17.8	17.9	18.0	15.4	51.2	77.6	69.1	68.9	72.2

Source(s): Company data, KB Securities estimates

Note: Churns and expiries are based on KB Securities estimates

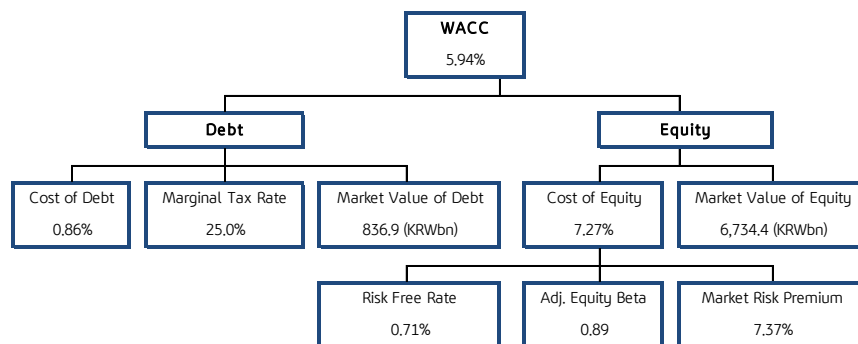
Table 5. TP Calculation: Discounted Cash Flow Model

(KRWbn)		2020P	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Cash flow estimates									
OP	a	606.4	617.3	664.4	712.1	721.9	732.2	737.3	742.3
Effective tax rate (%)	b	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0
NOPLAT	$C=a*(1-b)$	454.8	463.0	498.3	534.1	541.5	549.1	553.0	556.8
D&A	d	533.9	544.9	553.3	559.6	559.6	559.5	559.5	559.5
Total cash flow	$E=C+d$	988.7	1,007.9	1,051.6	1,093.7	1,101.0	1,108.7	1,112.5	1,116.3
Total investment	$F=g+h$	-772.7	-713.4	-701.1	-700.6	-750.0	-750.0	-800.0	-800.0
Change in working capital	g	-202.7	-113.4	-101.1	-100.6	-150.0	-150.0	-200.0	-200.0
Capex	h	-570.0	-600.0	-600.0	-600.0	-600.0	-600.0	-600.0	-600.0
FCFF	$I=E+F$	216.0	294.6	350.5	393.1	351.0	358.7	312.5	316.3
PV of cash flows									
Discount rate				5.1%	11.3%	18.0%	25.0%	32.4%	
PV of FCFF				286.0	353.1	297.6	287.0	236.0	
Total PV of FCFF (2022E-26E)	j		1,459.7						
Terminal growth rate (%)			1.6%				30y KTB yield		
Terminal value (2027E)			7,283.9				2027E FCFF / (WACC - TGR)		
PV of terminal value	k		5,501.8				5.94% WACC (0.71% risk-free rate; 7.37% market risk premium)		
Valuation									
Total cash flow (PV)	$L=j+k$		6,961.5						
Cash & cash equivalents	m		211.6						
Short-term financial assets	n		281.4						
Debt	o		720.1						
Fair enterprise value	$P=L+(m+n+o)$		6,734.4						
No. of shares ('000)	q		72,556						
Target price (KRW)	$R=P/q$		93,000						
Current price (KRW)			68,300				Feb 19, 2021		
Upside (%)			36.2						
12m fwd implied P/E (x)			15.3						
12m fwd implied P/B (x)			3.61						

Source(s): Company data, KB Securities estimates

Fig 1. WACC Calculation

- 1) Cost of debt is YTD yield of 0.86% on Coway's 1y maturity KRW-based bonds; value of outstanding liabilities is total debt as of end-3Q20
- 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 the difference in historical avg. between yields of WM1500 and 1y market stabilization bond
- 3) Shareholders' equity represents current target price multiplied by total no. of outstanding shares



Source(s): KB Securities estimates

Table 6. TP Sensitivity to WACC & Terminal Growth Rate

(KRW)		Terminal Growth Rate						
		1.0%	1.2%	1.4%	1.6%	1.8%	2.0%	2.2%
WACC	4.94%	104,987	109,662	114,865	120,690	127,257	134,717	143,265
	5.14%	99,888	104,073	108,704	113,859	119,631	126,137	133,528
	5.34%	95,258	99,022	103,168	107,757	112,864	118,583	125,029
	5.54%	91,034	94,435	98,165	102,273	106,820	111,880	117,546
	5.74%	87,166	90,252	93,622	97,317	101,387	105,892	110,906
	5.94%	83,610	86,420	89,477	93,000	96,478	100,511	104,975
	6.14%	80,330	82,898	85,682	88,711	92,020	95,648	99,644
	6.34%	77,295	79,649	82,193	84,952	87,953	91,232	94,827
	6.54%	74,478	76,642	78,974	81,495	84,229	87,203	90,452
	6.74%	71,856	73,851	75,996	78,307	80,805	83,514	86,461
6.94%	69,411	71,255	73,231	75,356	77,646	80,122	82,806	

Source(s): Company data, KB Securities estimates

Table 7. Changes to WACC

(KRWbn, %)		Previous (11/5/2020)	Adjusted (02/22/2020)	Notes
Cost of equity	$A = B + C \times D$	6.01	7.27	
Risk-free rate	B	0.68	0.71	Avg. 1y MSB yield (last three months)
Adj. beta	C	0.90	0.89	52w adj. beta
Raw beta		0.49	0.52	
R ²		0.19	0.23	
Risk premium	$D = E - F$	5.93	7.37	
Market return	E	9.65	10.97	2001-20 annual avg. WMI500 total return
Risk-free rate	F	3.72	3.61	2001-20 annual avg. 1y MSB total return
Cost of debt	G	0.94	0.86	YTD yield of KRW-based 1y bonds
Fair shareholder value (KRWbn)		6,764.9	6,734.4	Value of outstanding shares based on TP
Debt (KRWbn)		840.1	836.9	Total financial liabilities as of end-3Q20
Weight of stock value	H	80.0	80.0	
Weight of debt	I	20.0	20.0	
WACC	$J = (A \times H) + (G \times I)$	4.95	5.94	
Terminal growth rate		1.60%	1.60%	

Source(s): Company data, KB Securities estimates

Income Statement					
(KRWbn)	2019A	2020P	2021E	2022E	2023E
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
Revenue	3,019	3,237	3,587	3,892	4,230
Cost of revenue	1,010	1,044	1,171	1,286	1,415
Gross profit	2,009	2,194	2,416	2,606	2,815
SG&A expenses	1,550	1,587	1,799	1,941	2,103
Operating profit	458	606	617	664	712
EBITDA	740	1,140	1,162	1,218	1,272
Non-operating accounts	-7	-66	-29	-26	-24
Interest income	1	1	1	1	2
Interest expenses	22	22	20	18	16
Profit on equity method	0	0	0	0	0
Net other non-operating income	14	-45	-10	-10	-10
Profit before tax	451	540	589	638	688
Income tax expense	119	136	153	166	179
Net profit	332	405	436	472	509
NP attributable to controlling interests	333	405	436	472	509
Adj. net profit	333	405	436	472	509

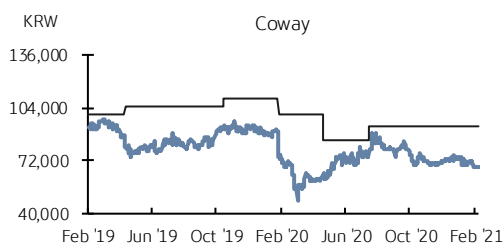
Operating Statistics & Ratios					
(%)	2019A	2020P	2021E	2022E	2023E
Revenue growth	11.5	7.2	10.8	8.5	8.7
OP growth	-11.8	32.3	1.8	7.6	7.2
EBITDA growth	-4.6	54.2	1.9	4.8	4.4
NP growth of parent	-4.9	21.6	7.6	8.4	7.8
GP margin	66.5	67.8	67.4	67.0	66.6
OP margin	15.2	18.7	17.2	17.1	16.8
EBITDA margin	24.5	35.2	32.4	31.3	30.1
EBT margin	15.0	16.7	16.4	16.4	16.3
NP margin of parent	11.0	12.5	12.2	12.1	12.0

Statement of Cash Flows					
(KRWbn)	2019A	2020P	2021E	2022E	2023E
Cash flow from operating activities	539	771	867	924	968
Net profit	332	405	436	472	509
Depreciation & amortization	281	534	545	553	560
Other non-cash adjustments	382	226	153	166	179
Investments in working capital	-308	-203	-113	-101	-101
Decrease(Increase) in receivables	-4	-14	-33	-36	-39
Decrease(Increase) in inventory	-5	-9	-24	-14	-16
Increase(Decrease) in payables	-9	5	5	5	6
Investments in other working capital	-290	-184	-62	-56	-51
Other operating cash flow	-148	-191	-153	-166	-179
Cash flow from investing activities	-383	-570	-617	-618	-618
Capital expenditure	-366	-570	-600	-600	-600
Investments in intangibles	-3	-2	-4	-4	-4
Changes in investment assets	-5	-1	0	0	0
Other investment cash flow	-9	2	-13	-14	-15
Cash flow from financing activities	-165	-127	-173	-160	-157
Proceeds from (repayment of) debt	114	-106	-87	-71	-64
Changes in equity	2	20	0	0	0
Dividends paid	-260	0	-87	-91	-94
Other financing cash flow	-21	-41	1	1	1
Other cash flow	0	0	0	0	0
Increase/decrease in cash	-9	74	77	146	193
Cash and cash equivalents at FYE	61	134	212	358	551
Free cash flow	173	202	267	324	368
Net cash flow	-61	223	178	231	271
Net cash (net debt)	-628	-405	-227	4	275

Statement of Financial Position					
(KRWbn)	2019A	2020P	2021E	2022E	2023E
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
Total assets	2,855	3,066	3,275	3,539	3,850
Current assets	767	919	1,070	1,284	1,550
Cash and cash equivalents	61	134	212	358	551
Current financial assets	214	268	281	295	310
Trade receivables	310	326	358	394	434
Inventory	113	118	142	156	172
Other current assets	69	72	76	80	84
Non-current assets	2,088	2,147	2,206	2,256	2,300
Investment assets	43	27	27	27	27
Property, plant and equipment	1,271	1,280	1,343	1,397	1,444
Intangible assets	168	148	144	140	137
Other non-current assets	606	692	692	692	692
Total liabilities	1,778	1,570	1,431	1,314	1,210
Current liabilities	1,587	1,439	1,307	1,188	1,083
Trade payables	58	63	68	73	79
Short-term financial liabilities	876	788	710	639	575
Other current liabilities	653	588	529	477	429
Non-current liabilities	191	131	125	126	127
Non-current financial liabilities	27	19	11	11	11
Other non-current liabilities	164	113	114	115	117
Total equity	1,077	1,496	1,844	2,225	2,640
Issued capital	41	41	41	41	41
Share premium	132	148	148	148	148
Other equity interest	-50	-48	-48	-48	-48
Accumulated other comprehensive income	1	-1	-1	-1	-1
Retained earnings	954	1,357	1,706	2,087	2,502
Controlling interests	1,078	1,497	1,846	2,227	2,642
Non-controlling interests	-1	-1	-1	-2	-2

Key Ratios					
(x, %, KRW)	2019A	2020P	2021E	2022E	2023E
Multiples					
P/E	20.6	13.3	11.6	10.7	9.9
P/B	6.4	3.6	2.7	2.3	1.9
P/S	2.3	1.7	1.4	1.3	1.2
EV/EBITDA	10.1	5.1	4.5	4.1	3.7
EV/EBIT	16.4	9.5	8.5	7.6	6.7
Dividend yield, ordinary (%)	2.6	1.7	1.8	1.9	2.0
EPS	4,511	5,486	5,905	6,399	6,899
BVPS	14,611	20,282	25,007	30,177	35,798
SPS	40,907	43,868	48,603	52,735	57,321
DPS (annual, ordinary)	2,400	1,200	1,250	1,300	1,350
Cash dividends payout ratio (%)	52.1	21.5	20.8	20.0	19.2
Operating performance					
ROE	30.7	31.5	26.1	23.2	20.9
ROA	12.7	13.7	13.7	13.9	13.8
ROIC	21.2	26.4	23.8	23.6	23.7
Financial structure (%)					
Total liab./equity	165.0	105.0	77.6	59.1	45.8
Net debt/equity	58.3	27.1	12.3	Net Cash	Net Cash
Current ratio	0.5	0.6	0.8	1.1	1.4
Interest coverage (x)	20.9	27.3	31.1	37.3	44.4
Activity ratios					
Asset turnover (x)	1.2	1.1	1.1	1.1	1.1
Receivables turnover (x)	9.9	10.2	10.5	10.4	10.2
Payables turnover (x)	50.1	53.7	55.1	55.4	55.7
Inventory turnover (x)	28.0	28.0	27.5	26.1	25.8

Source(s): Company data, KB Securities estimates



Coway (021240)

Date	Rating	Target Price (KRW)	Differential (%)	
			Avg.	Max/Min
Feb-15-2019	Buy	100,000	-7.45	
May-02-2019	Buy	105,000	-21.59	-10.38
Nov-06-2019	Buy	110,000	-17.46	-12.27
Feb-17-2020	Buy	100,000	-36.78	-24.80
May-11-2020	Buy	85,000	-15.70	-5.76
Aug-06-2020	Buy	93,000		

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Proportion of investment rating (as of December 31, 2020)

Buy	Hold	Sell
77.9	22.1	-

* Note: Based on reports presented with investment ratings over the past one year

Classification and Standards for Investment Rating

Investment Rating for Company

(based on estimation of 12-month absolute returns)

Buy: +15% or beyond	Hold: Between 15% and -15%	Sell: -15% or beyond
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Note: KB Securities' classification of investment ratings has shifted from four stages (Strong BUY, BUY, Marketperform, Underperform) to three stages (Buy, Hold, Sell) based on Korean reports since February 23, 2017.

KB Securities' standards for stock rating shifted starting on Feb 10, 2020 from an estimation of six-month absolute returns to an estimation of 12-month absolute returns.

Investment Rating for Industry

(based on estimation of 12-month absolute returns)

Positive:	Neutral:	Negative:
To outperform market	To match market performance	To underperform market

Notes: The industry rating system of KB Securities has shifted from (Overweight, Neutral, Underweight) to (Positive, Neutral, Negative) as of Jun 28, 2017.

KB Securities' standards for industry rating shifted starting on Feb 10, 2020 from an estimation of six-month absolute returns to an estimation of 12-month absolute returns.

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