

# Coupang Inc (CPNG US)

**Initiate at Buy: Ready to become the market leader**

- ◆ Coupang, a leading e-commerce company in Korea, is on course to become the market leader and turn profitable
- ◆ It is growing its gross merchandise value (GMV) much faster than the market average and margins are set to rise
- ◆ Initiate at Buy with a target price of USD27.80

**Taking the lead.** Coupang, a leading e-commerce company, has seen its share price slump due to a fall in the growth of gross merchandise value (GMV) in Korea as the country emerges from the pandemic and concerns grow about operating losses – investors want to know when the fast-growing company will turn profitable. We have a positive view on both these factors. First, we believe Coupang is in the process of overtaking Naver (035420 KS, KRW176,500, Buy) as the market leader in GMV. Second, in our view, Coupang will turn profitable for the first time in 2023e.

**GMV and profits.** Coupang's GMV is now growing faster than the market average, mainly because of its superior fulfilment and logistics services, which guarantee on-time delivery. We forecast KRW-based GMV growth of 33% y-o-y in 2022e (up 15% y-o-y in USD to reflect the FX rate) vs. 7% (down 7% y-o-y in USD) for the overall Korean online shopping market. This should increase Coupang's market share, putting it ahead of Naver. We believe the dip in GMV growth is temporary, the result of Korea emerging from the pandemic and higher inflation, which is hitting consumers. At the same time, expansion into higher margin categories, increased operating leverage, cost efficiencies, and the potential to raise prices can increase margins. As a result, we expect Coupang to turn profitable next year.

**Our growth estimates.** We estimate Coupang will achieve its first operating profit (OP) in 2023e and expand its OP margin to 3% in 2024e. Our 2023-24e estimates are significantly above consensus as we are more bullish on the gross profit (GP) margin and cost efficiency. We think the GP margin will improve thanks to the rapid growth of high-margin third-party merchant services. The main risk to our OP estimates is higher-than-expected costs related to the expansion in Taiwan and Japan.

**Valuation and risks.** We use a target EV/GMV multiple of 1.26x, which is the 2021 average of peers like Amazon (AMZN US, USD121.09, Not Rated) and JD.com (JD US, USD52, Buy), which both have similar GMV-to-revenue conversion ratios. Applying this multiple to our 2023e GMV estimate of USD39bn, we get a rounded target price of USD27.80. The stock is now trading at a 2023e EV/GMV of 0.76x. **Key downside risks:** 1) SoftBank (9984 JP, JPY5,235, Hold) stock overhang; 2) an economic downturn; 3) a fall in user numbers; and 4) FX exchange rate changes can affect USD-based reported earnings as most revenues are in KRW.

## Equities Internet Software & Services

Korea



**INITIATE AT BUY**

TARGET PRICE (USD)

**27.80**

PREVIOUS TARGET (USD)

—

SHARE PRICE (USD)

**19.56**

(as of 04 Oct 2022)

UPSIDE/DOWNSIDE

**+42.1%**

### MARKET DATA

Market cap (USDm)	34,526	Free float	52%
Market cap (USDm)	34,526	BBG	CPNG US
3m ADTV (USDm)	118	RIC	CPNG.N

### FINANCIALS AND RATIOS (USD)

Year to	12/2021a	12/2022e	12/2023e	12/2024e
HSBC EPS	-0.87	-0.43	0.01	0.34
HSBC EPS (prev)	NA	NA	NA	NA
Change (%)	NA	NA	NA	NA
Consensus EPS	-0.85	-0.22	-0.10	0.23
PE (x)	NM	NM	2179.9	57.4
Dividend yield (%)	0.0	0.0	0.0	0.0
EV/EBITDA (x)	NM	NM	83.5	24.7
ROE (%)	-141.8	-38.6	0.8	24.6

### 52-WEEK PRICE (USD)



Source: Refinitiv IBES, HSBC estimates

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**Seeking a catalyst**

The 9<sup>th</sup> edition of the EM Sentiment Survey

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## Disclosures & Disclaimer

This report must be read with the disclosures and the analyst certifications in the Disclosure appendix, and with the Disclaimer, which forms part of it.

**Issuer of report:** The Hongkong and Shanghai Banking Corporation Limited, Seoul Securities Branch

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## Financials & valuation: Coupang Inc

Buy

### Financial statements

Year to	12/2021a	12/2022e	12/2023e	12/2024e
<b>Profit &amp; loss summary (USDm)</b>				
Revenue	18,406	19,789	23,775	29,178
EBITDA	-1,292	-458	373	1,194
Depreciation & amortisation	201	265	330	375
Operating profit/EBIT	-1,494	-723	44	819
Net interest	-37	-11	0	8
PBT	-1,542	-751	16	791
HSBC PBT	0	0	0	0
Taxation	1	3	0	190
Net profit	-1,543	-753	16	601
HSBC net profit	-1,543	-753	16	601
<b>Cash flow summary (USDm)</b>				
Cash flow from operations	-411	-124	1,545	2,380
Capex	-672	-761	-891	-1,108
Cash flow from investment	-676	-799	-936	-1,162
Dividends	0	0	0	0
Change in net debt	-2,101	784	-815	-1,395
FCF equity	-1,082	-886	653	1,272
<b>Balance sheet summary (USDm)</b>				
Intangible fixed assets	1,384	1,338	1,673	2,118
Tangible fixed assets	1,348	1,857	2,225	2,469
Current assets	5,637	5,515	6,532	8,442
Cash & others	3,488	3,101	3,747	5,141
Total assets	8,642	9,094	10,894	13,549
Operating liabilities	5,546	6,050	7,744	9,521
Gross debt	920	1,318	1,148	1,148
Net debt	-2,568	-1,783	-2,599	-3,993
Shareholders' funds	2,176	1,726	2,002	2,880
Invested capital	-665	-442	-1,060	-1,633

### Ratio, growth and per share analysis

Year to	12/2021a	12/2022e	12/2023e	12/2024e
<b>y-o-y % change</b>				
Revenue	53.8	7.5	20.1	22.7
EBITDA	-	-	-	219.8
Operating profit	-	-	-	1775.9
PBT	-	-	-	4917.6
HSBC EPS	-	-	-	3696.2
<b>Ratios (%)</b>				
Revenue/IC (x)	-19.1	-35.7	-31.6	-21.7
ROIC	113.1	34.6	-93.2	-144.5
ROE	-141.8	-38.6	0.8	24.6
ROA	-22.5	-8.5	0.2	4.9
EBITDA margin	-7.0	-2.3	1.6	4.1
Operating profit margin	-8.1	-3.7	0.2	2.8
Net debt/equity	-118.0	-103.3	-129.8	-138.7
Net debt/EBITDA (x)	2.0	3.9	-7.0	-3.3
<b>Per share data (USD)</b>				
EPS Rep (diluted)	-0.87	-0.43	0.01	0.34
HSBC EPS (diluted)	-0.87	-0.43	0.01	0.34
DPS	0.00	0.00	0.00	0.00
Book value	1.23	0.98	1.13	1.63

### Valuation data

Year to	12/2021a	12/2022e	12/2023e	12/2024e
EV/sales	1.5	1.7	1.3	1.0
EV/EBITDA	NM	NM	83.5	24.7
PE*	NM	NM	2179.9	57.4
PB	14.2	20.0	17.2	12.0
FCF yield (%)	-3.5	-2.9	2.1	4.1
Dividend yield (%)	0.0	0.0	0.0	0.0

\* Based on HSBC EPS (diluted)

### ESG metrics

Environmental Indicators	12/2021a	Governance Indicators	12/2021a
GHG emission intensity*	NA	No. of board members	7
Energy intensity*	NA	Average board tenure (years)	NA
CO <sub>2</sub> reduction policy	Yes	Female board members (%)	0
<b>Social Indicators</b>		Board members independence (%)	42.9
12/2021a			
Employee costs as % of revenues	NA		
Employee turnover (%)	NA		
Diversity policy	Yes		

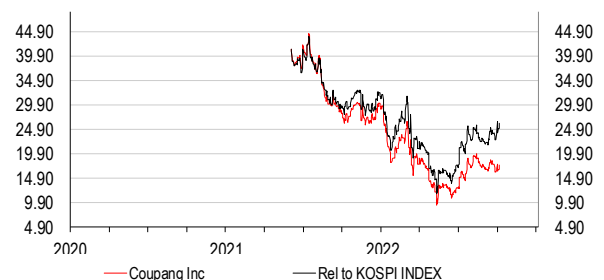
Source: Company data, HSBC

\* GHG intensity and energy intensity are measured in kg and kWh respectively against revenue in USD '000s

### Issuer information

Share price (USD)	19.56	Free float	52%
Target price (USD)	27.80	Sector	Internet Software & Services
RIC (Equity)	CPNG.N	Country/Region	Korea
Bloomberg (Equity)	CPNG US	Analyst	Junhyun Kim
Market cap (USDm)	34,526	Contact	+82 2 3706 8763

### Price relative

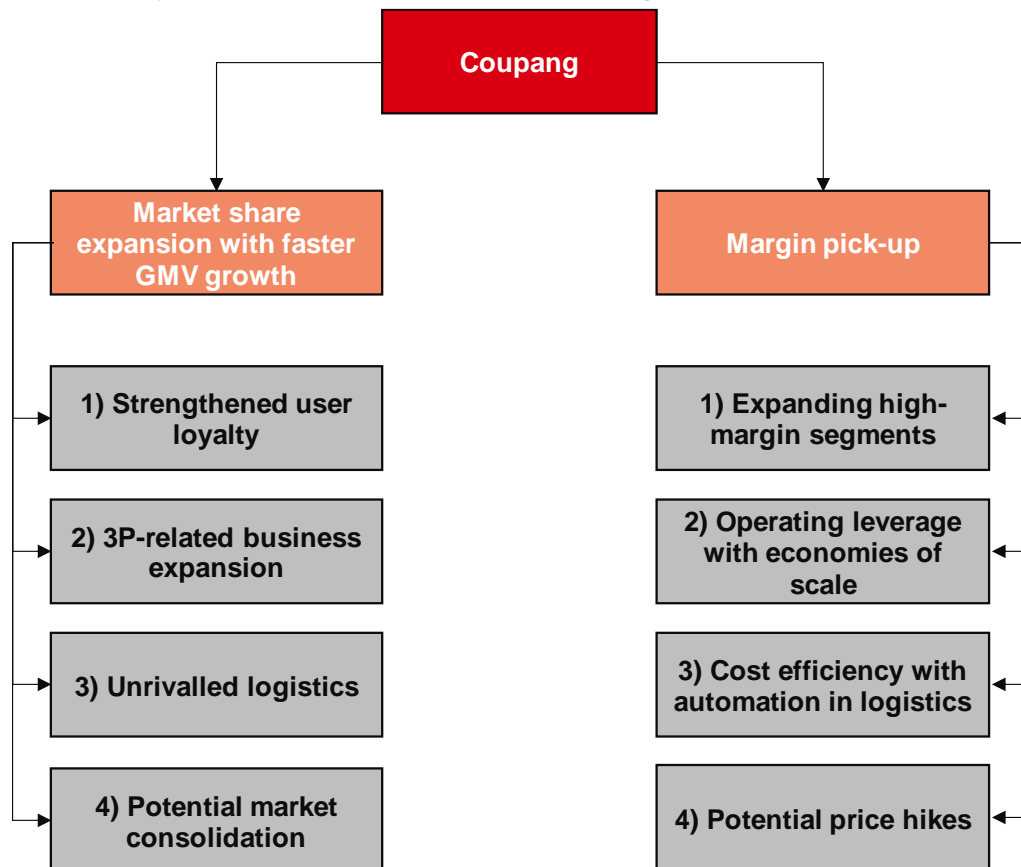


Source: HSBC

Note: Priced at close of 04 Oct 2022

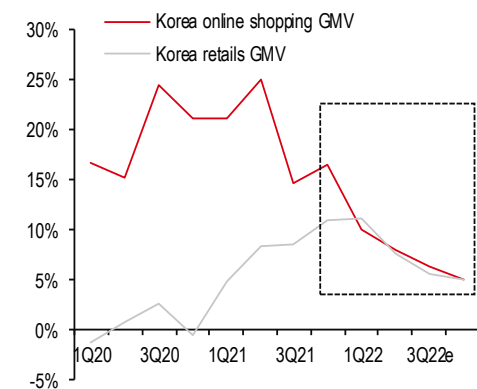
## Key charts

**Exhibit 1: Key reasons for our positive view on Coupang**



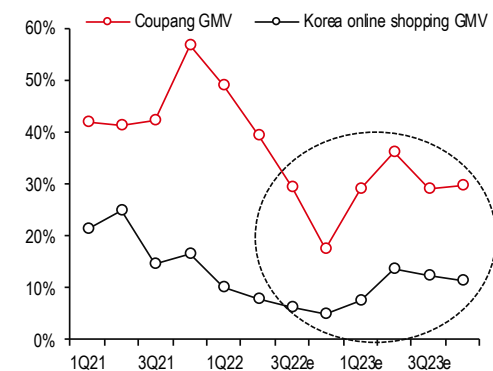
Source: HSBC estimates

**Exhibit 2: Despite slowing Korea online shopping GMV...**



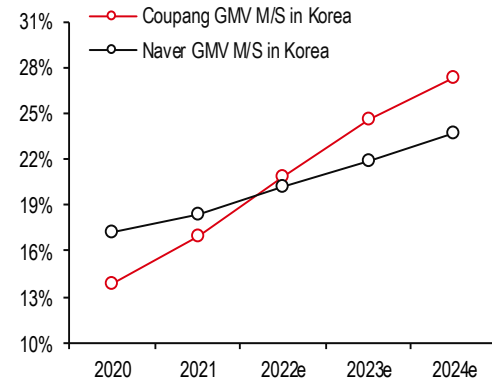
Note: GMV numbers are based on KRW.  
 Source: Statistics Korea, HSBC estimates

**Exhibit 3: ...we expect Coupang to record much higher GMV growth than the market**



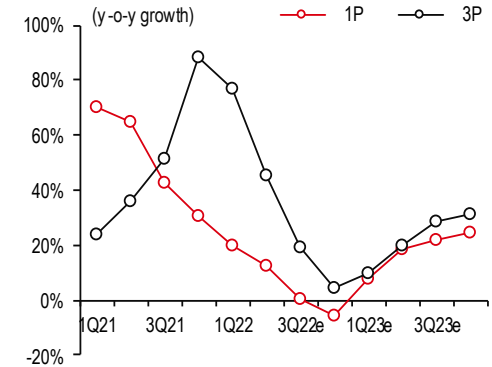
Note: GMV numbers are based on KRW.  
 Source: Company data, Statistics Korea, HSBC estimates

**Exhibit 4: We believe Coupang will be the No. 1 in 2023e in terms of GMV market share...**



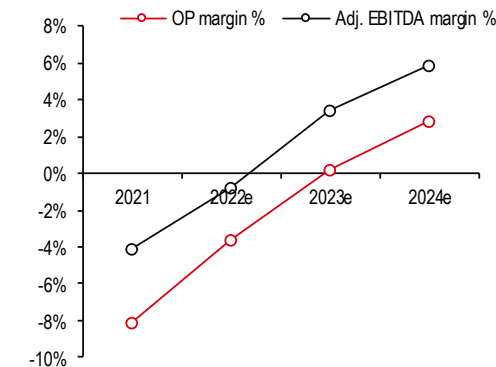
Source: Company data, HSBC estimates

**Exhibit 5: ...thanks to fast-growing third-party merchant services**



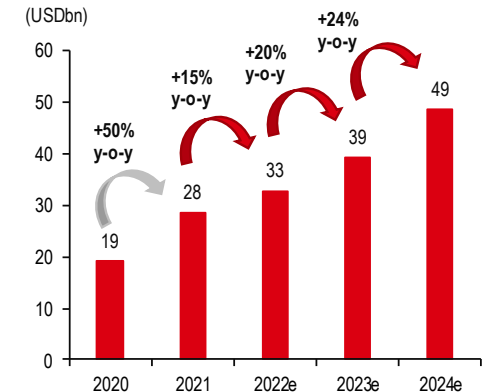
Note: GMV data are based on USD.  
Source: Company data, HSBC estimates

**Exhibit 6: Coupang's annual margin trend**



Source: Company data, HSBC estimates

**Exhibit 7: Coupang's annual GMV trend**



Source: Company data, HSBC estimates

## Exhibit 8: Terminology

Term	Meaning and details
1P	1P e-commerce operators recognise the transaction value as gross revenue as they buy products, manage inventories and sell products like what retailers do. For Coupang, over 80% of total revenue came from retail as of 2Q22.
3P	3P means third-party merchant services. Coupang takes on the role of an open market and provides a market place and charges transaction fees.
FLC	FLC is the abbreviation for "Fulfilment and Logistics by Coupang". This is a service for external sellers. Coupang supports these sellers by collecting fee income (transaction fees, fulfilment centre usage fees, etc.) similar to Amazon's FBA (Fulfillment by Amazon).
Fulfilment Centre (FC)	Coupang uses fulfilment centres to provide storage, packaging, delivery, inventory management, and exchange and refund services. Based on its fulfilment centres, it now provides FLC services to external sellers. Sellers can store goods at Coupang's fulfilment centres and use its delivery system for a fee.
Logistics Centre (LC)	With numerous logistics centres, Coupang can provide fast delivery services, such as next-day delivery, same-day delivery and "dawn" delivery.

Source: HSBC

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# Tough going – an opportunity for market leaders

- ◆ Korea has great infrastructure for e-commerce
- ◆ After rapid growth during the pandemic, the overall growth in online shopping GMV is starting to slow down
- ◆ However, top-tier companies can expand their market share as smaller competitors exit the market due to rising losses

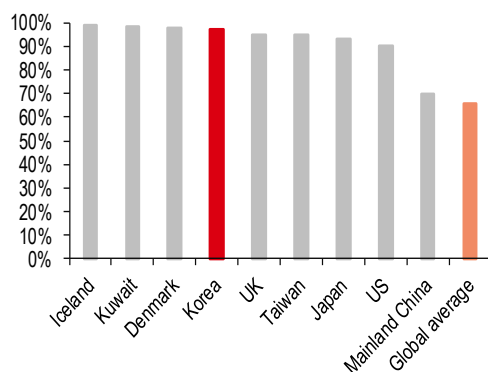
## GMV deceleration in the near-term is likely to continue

### Well-developed infrastructure has led to strong e-commerce growth

Korea is an ideal market for e-commerce: super-fast internet speeds, almost 100% smartphone penetration, a tech-savvy population, and efficient delivery networks have all contributed to a long-running online shopping boom that only increased during the pandemic.

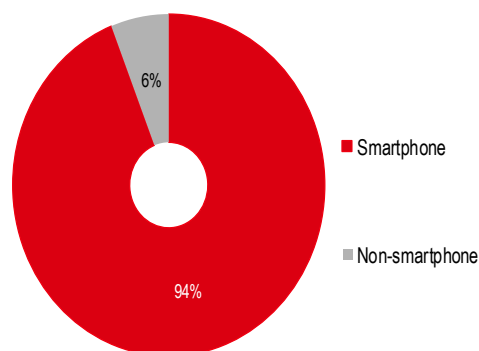
According to Euromonitor, Korea's online shopping penetration rate was 41% in 2021, much higher than the global average of 18%. And the pace of e-commerce growth is also much faster than overall retail growth. Based on data from Statistics Korea, in 2018-19, online shopping KRW-based GMV grew 20% y-o-y and 19% y-o-y vs. 6% y-o-y and 2% y-o-y for overall retail GMV, respectively.

**Exhibit 9: Korea: one of highest internet penetration rates**

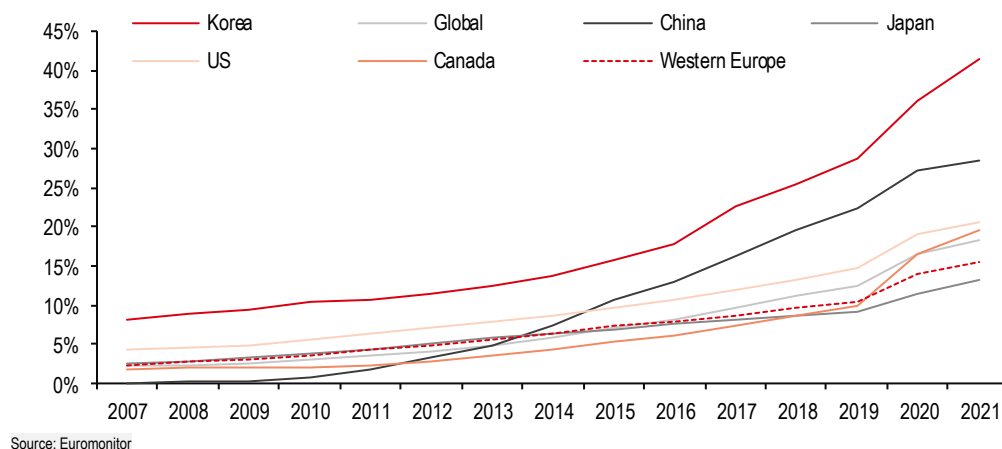
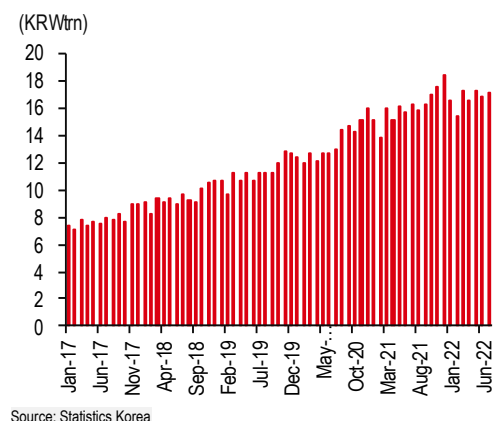
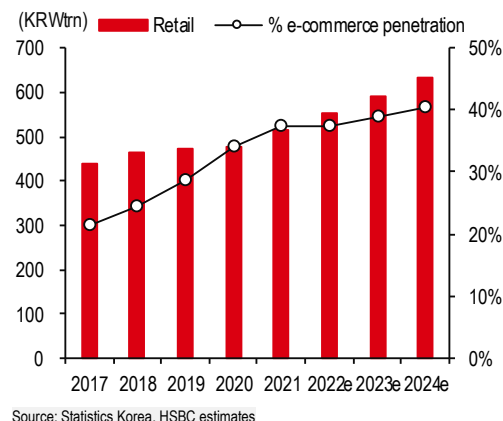


Note: Based on July 2022 data.  
 Source: News reports (e.g., Yonhap, 19 August 2022), Internetworldstats

**Exhibit 10: Smartphone penetration was above 90% in 2018**



Note: Based on June 2018 data.  
 Source: Pew Research Center, HSBC

**Exhibit 11: Korea online shopping: fast-growing penetration rate**

**Exhibit 12: Korea online shopping GMV: rapid growth**

**Exhibit 13: Annual total retail GMV in Korea and e-commerce penetration rate**


**In 2014, Coupang launched its next-day delivery service, Rocket Delivery**

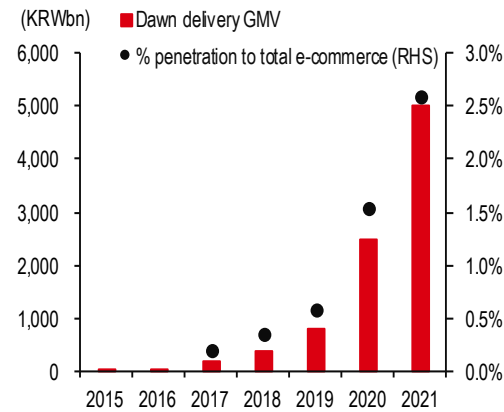
### GMV growth accelerated during the pandemic, as did competition over deliveries

Success in online shopping depends on fast and reliable delivery. In the past, delivery could take 3-4 days. This changed in 2014 when Coupang launched its next-day delivery service, Rocket Delivery, which led to intense competition as rivals increased their investments in fulfilment and logistics centres to speed up delivery.

Then the pandemic arrived. As social distancing restrictions changed spending habits, e-commerce companies upgraded their services to provide same-day and “dawn” delivery as demand for essentials, such as fresh food, increased. For example, Market Kurly (Unlisted) started a “dawn” delivery service and, if customers ordered no later than 2100, delivery would be made by 0700 on the next day. This attracted many customers who moved from offline to online.

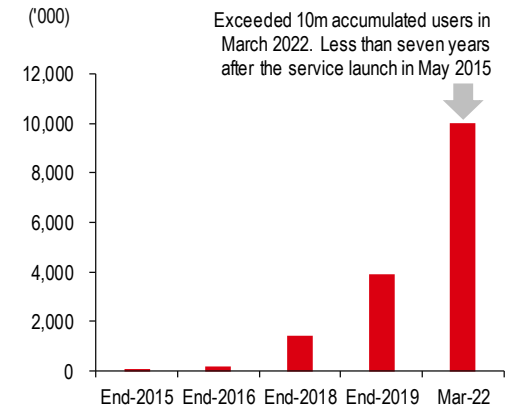
According to Statistics Korea, the online shopping penetration rate reached 40% in February 2021, up from 28% in early 2019. In addition, product line-ups increased during the pandemic, especially in areas like food delivery services. All this boosted GMV.

**Exhibit 14: The “dawn” delivery market grew rapidly due to social distancing**



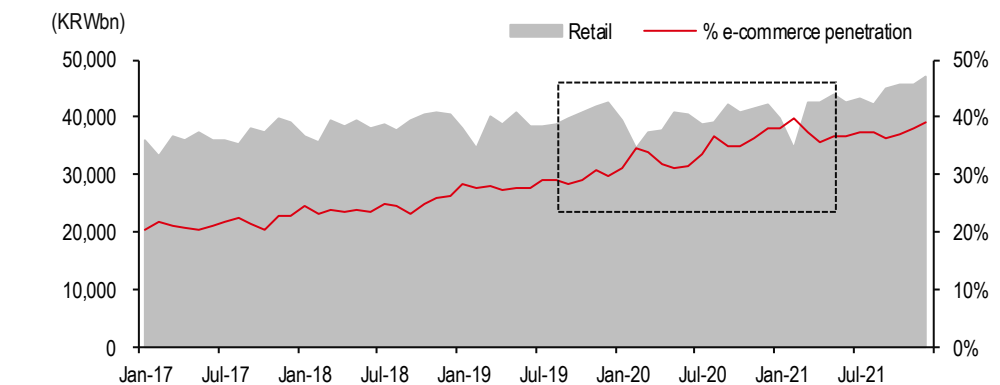
Source: Various news reports (e.g. Chosun Biz, 8 March 2022), HSBC

**Exhibit 15: Market Kurly: a fast-growing user base**



Source: Company data, HSBC

**Exhibit 16: Korea online shopping GMV increased during the pandemic, with e-commerce penetration reaching 40% in February 2021**



Source: Statistics Korea, HSBC

### Decelerating GMV growth due to the high base effect and inflation

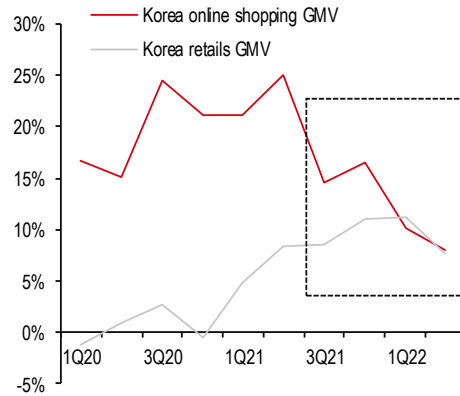
To analyse the domestic online shopping market, we track monthly GMV data and the Consumer Price Index (CPI) supplied by Statistics Korea. As offline activity resumes after the pandemic, online shopping GMV growth has slowed down. Not surprisingly, this has coincided with an acceleration in overall retail GMV as retail establishments return to normal.

However, this is not just about the end of social distancing – ongoing macro uncertainties are also interrupting the growth in online shopping GMV. Inflation, geopolitical tensions and interest rate hikes are hitting customers hard. As a result, y-o-y growth in online shopping slipped to 5% in July 2022 from over 20% in 2021. Despite this, the overall direction of traffic is clear, and we expect growth in e-commerce GMV to accelerate again in 2023e (Exhibit 21).

**This is not just about the end of social distancing**

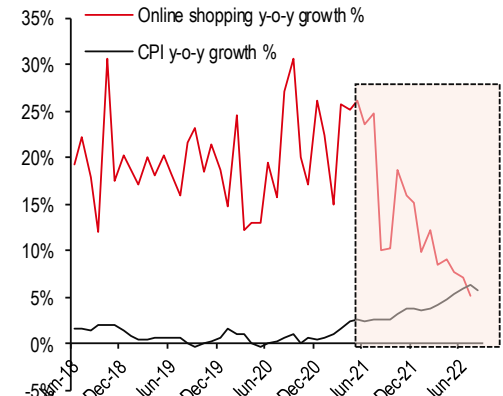


**Exhibit 17: The y-o-y GMV growth gap between online shopping and retail has narrowed**



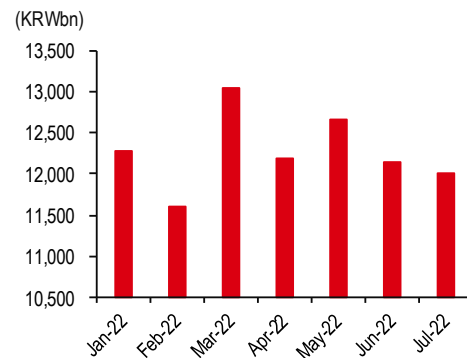
Source: Statistics Korea

**Exhibit 18: Online shopping y-o-y growth fell to 5% in July 2022**



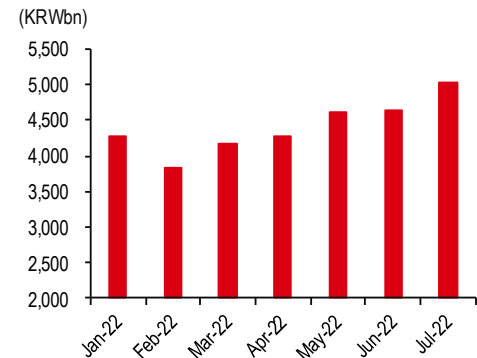
Source: Statistics Korea

**Exhibit 19: Online product GMV in Korea**



Source: Statistics Korea

**Exhibit 20: Online services GMV (including travel) trend in Korea**



Source: Statistics Korea

**Exhibit 21: Korea retail and online shopping GMV estimates: decelerating online shopping GMV growth in 2022e but recovering in 2023e**

(KRWbn)	2020a	2021a	2022e	2023e	2024e	2025e	2026e	2027e
<b>Korea retail GMV (KRWbn)</b>	<b>475,180</b>	<b>514,487</b>	<b>551,526</b>	<b>590,127</b>	<b>635,061</b>	<b>683,417</b>	<b>735,454</b>	<b>791,454</b>
% q-o-q	-	-	-	-	-	-	-	-
% y-o-y	0%	8%	7%	7%	8%	8%	8%	8%
<b>Korea online shopping GMV (KRWbn)</b>	<b>161,670</b>	<b>192,472</b>	<b>206,311</b>	<b>229,487</b>	<b>257,271</b>	<b>287,798</b>	<b>321,443</b>	<b>358,550</b>
% q-o-q	-	-	-	-	-	-	-	-
% y-o-y	20%	19%	7%	11%	12%	12%	12%	12%
% e-commerce penetration rate	34%	37%	37%	39%	41%	42%	44%	45%
<b>Korea offline GMV (KRWbn)</b>	<b>313,510</b>	<b>322,015</b>	<b>345,215</b>	<b>360,640</b>	<b>377,791</b>	<b>395,619</b>	<b>414,011</b>	<b>432,904</b>
% q-o-q	-	-	-	-	-	-	-	-
% y-o-y	-7%	3%	7%	4%	5%	5%	5%	5%

Source: Statistics Korea, HSBC estimates

**We expect to see more industry consolidation**

### Industry consolidation is positive for major companies

We expect to see more industry consolidation in Korea's e-commerce market. In our view, this will clearly benefit top-tier companies, which will be able to increase their already impressive market shares. Recently, the focus has been on fresh goods. This requires a high level of investment to manage inventories so the food doesn't spoil, not to mention efficient delivery systems at a time of intense competition.

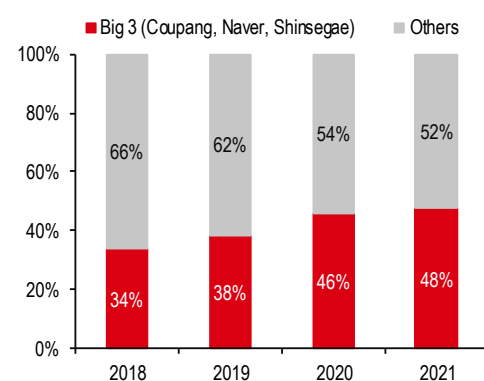
Given the high level of fixed costs, "dawn" delivery services have put pressure on the whole market, from small start-ups to established companies. High levels of investment are required to create economies of scale and fresh goods are important for growing user traffic. If successful, companies can diversify their product range, which will help grow their margins in the future.

**Those that want to become market leaders can't give up on fresh food delivery**

That is why those that want to become market leaders can't give up on the fresh food delivery business. Some large operators have already "thrown in the towel" – the increase in the top line being far outweighed by the mounting operating losses. According to news reports (Korea Herald, 24 August 2022), Lotte Shopping (023530 KS, KRW91,100, Hold) halted its "dawn" delivery service through Lotte On in April, BGF Retail (282330 KS, KRW164,000, Buy) stopped in May, and Fresheasy (Unlisted) and GS Retail (007070 KS, KRW25,400, Buy) followed in July. Meanwhile, Lotte Shopping also reduced the number of delivery vehicles to 547 from 718.

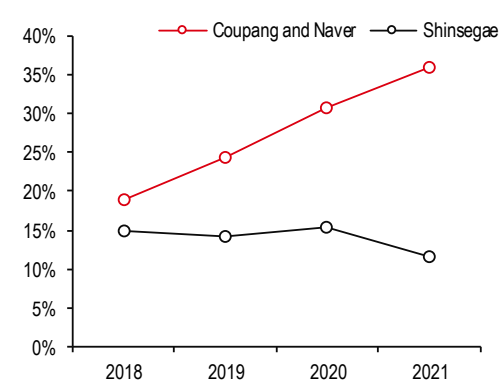
We expect this trend to spread to other parts of the e-commerce market. For example, Onul-hoi, a popular platform providing fresh sushi, suspended its service due to cost increases. We believe this is an opportunity for top-tier companies to diversify their product categories by acquiring smaller companies that can't compete any more. It is already happening. The combined market share of the top three companies expanded to 48% in 2021 from 34% in 2018, led by Coupang and Naver.

**Exhibit 22: The market share of the Top 3 is on the rise...**



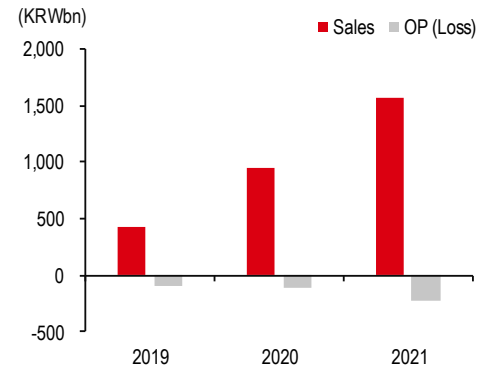
Source: Various news reports, Company data

**Exhibit 23: ...especially Coupang and Naver**



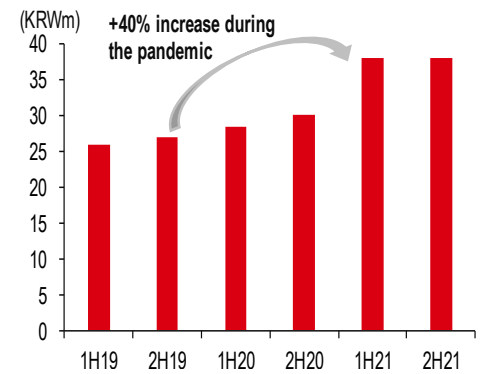
Note: The numbers show market share.  
 Source: Various news reports, Company data

**Exhibit 24: Market Kurly: despite a fast-growing top line, operating losses have expanded**



Source: Company data, News reports (e.g. Money S, 24 August 2022)

**Exhibit 25: Licence plate prices of 1t delivery trucks rose c40% during the pandemic**



Source: News reports (e.g. Chosun Biz, 30 May 2022)

# Reasons to be positive

- ◆ Coupang's share price has declined due to a slowdown in GMV growth; we believe there are two reasons why it will bounce back
- ◆ Market share expansion with above-market GMV growth and...
- ◆ Margins are set to pick up

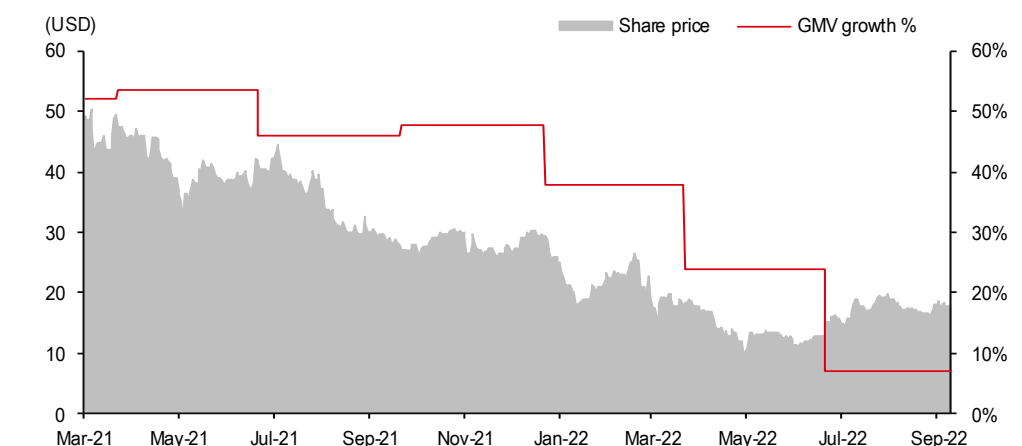
## Looking beyond the gloom

Since Coupang went public in March 2021, the company's share price had declined to as low as USD9.35 per share in May 2022. There are two main reasons for this:

- ◆ Concerns about decelerating growth in the domestic online shopping market after the pandemic as social distancing came to an end.
- ◆ Questions about when Coupang will turn profitable. The unfavourable macro environment (e.g. higher interest rates and inflation) that has made many people reluctant to spend on non-essentials has led to a deterioration in investor sentiment, especially about loss-making growth stocks, such as Coupang.

However, we argue that it is time to take a positive stance on Coupang. We think the company can enter a full-fledged re-rating period for two reasons: 1) market share expansion with above-market GMV growth and 2) margins are set to pick up.

**Exhibit 26: Coupang's share price performance vs. GMV growth rate**



## 1. Why we think Coupang can beat the market growth rate in GMV

Although Coupang doesn't disclose details, we can calculate its GMV by using information available in the media, revenue data and the number of active customers. In 2021, we estimate GMV was cUSD28bn (up 50% y-o-y), second in the Korean market behind Naver (cUSD31bn).

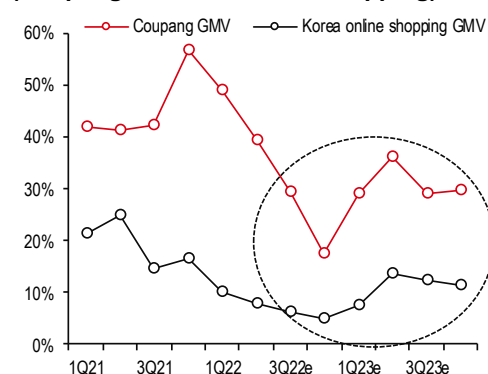
We think Coupang overtook Naver in terms of GMV in early 2022, and we expect it will likely be the No. 1 in 2022e on an annual basis for the first time by recording 2022e GMV of USD32.7bn (vs. Naver's USD31.6bn). Key reasons include strengthened user loyalty, 3P merchant-related business growth through market-leading logistics, and potential market consolidation.

**Exhibit 27: Coupang and Naver Shopping annual GMV trend**

(USDm)	2020a	2021a	2022e	2023e	2024e
<b>Korea online shopping GMV (KRWbn)</b>	<b>161,670</b>	<b>192,472</b>	<b>206,311</b>	<b>229,487</b>	<b>257,271</b>
y-o-y growth %		19%	7%	11%	12%
<b>FX</b>	<b>1,180</b>	<b>1,144</b>	<b>1,322</b>	<b>1,443</b>	<b>1,450</b>
<b>Korea online shopping GMV (USDm)</b>	<b>137,522</b>	<b>168,061</b>	<b>156,460</b>	<b>159,053</b>	<b>177,428</b>
y-o-y growth %		22%	-7%	2%	12%
<b>Coupang GMV (USDm)</b>	<b>18,999</b>	<b>28,417</b>	<b>32,715</b>	<b>39,171</b>	<b>48,501</b>
y-o-y growth %		50%	15%	20%	24%
<b>Coupang GMV (KRWbn)</b>	<b>22,416</b>	<b>32,518</b>	<b>43,236</b>	<b>56,504</b>	<b>70,327</b>
y-o-y growth %		45%	33%	31%	24%
<b>Market shares % (USD-based)</b>	<b>14%</b>	<b>17%</b>	<b>21%</b>	<b>25%</b>	<b>27%</b>
<b>Naver Shopping GMV (USDm)</b>	<b>23,656</b>	<b>30,848</b>	<b>31,592</b>	<b>34,733</b>	<b>42,155</b>
y-o-y growth %		30%	2%	10%	21%
<b>Naver Shopping GMV (KRWbn)</b>	<b>27,910</b>	<b>35,300</b>	<b>41,752</b>	<b>50,102</b>	<b>61,125</b>
y-o-y growth %		26%	18%	20%	22%
<b>Market shares % (USD-based)</b>	<b>17%</b>	<b>18%</b>	<b>20%</b>	<b>22%</b>	<b>24%</b>

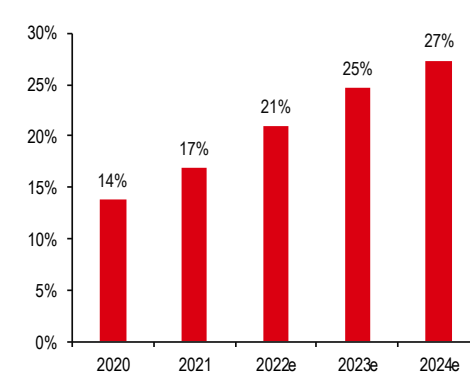
Source: Statistics Korea, Company data, HSBC estimates

**Exhibit 28: GMV y-o-y growth comparison (Coupang vs. Korea online shopping)**



Note: GMV numbers are based on KRW (FX rates are not reflected).  
Source: Company data, Statistics Korea, HSBC estimates

**Exhibit 29: Coupang's market share trend in Korea**



Source: Company data, Statistics Korea, HSBC estimates

### Strengthened user loyalty

In the domestic e-commerce market, we think there is an upper limit to the total number of online shopping users, given the size of the population and the already high rate of internet and smartphone penetration. To generate growth, e-commerce companies need to acquire loyal customers and raise GMV per customer.

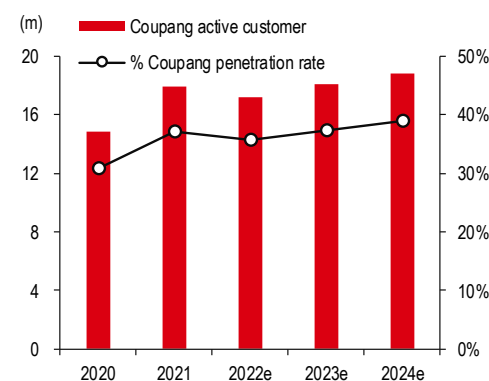
According to the company, Coupang had 17.9m active customers in 2Q22, slightly lower than the 18.1m active customers in 1Q22. The fall was due to the decline in users in Coupang Eats as social distancing eased after the pandemic, as well as intensifying competition in the food delivery market. We estimate the average number of active customers in 2H22e will be c17.2m, lower than the number in 2Q22, given the recent drop in Coupang Eats users. However, this is not a pure “numbers exercise”. We want to stress the importance of increasing user loyalty, led by the lock-in effect from the rise in Coupang Wow membership user numbers.

**Data show how much money new customers spend on Coupang each year**

Cohort data show how much money new customers spend on Coupang each year and how much this increases over time. For example, Exhibit 32 shows that new customers in 2020 spent 1.94x more on Coupang than new customers in 2021. This led to an increase of both revenue per active customer and GMV per active customer. To us, the fact that the data show that spending by new customers starts at a higher level and grows faster is encouraging (Exhibit 33).

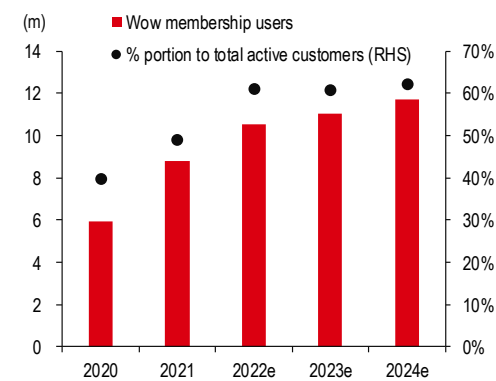
In terms of Wow membership, we assume the number of members will rise to 10.5m at the end of 2022e (Exhibit 31). In our view, customers like the reliable and fast delivery, access to other delivery services, and the fact they don't have to pay a delivery fee for Rocket Delivery. The per order delivery fee is usually between KRW2,500 and KRW4,000, which makes subscribing to Wow membership (KRW4,990 per month) attractive. We assume the proportion of Wow members as a percentage of total users in 2022-24e will remain steady at just above 60%. However, if the number of new users is higher than expected, we see upside risks to our estimates for both membership numbers and GMV.

**Exhibit 30: Coupang's annual active customers trend: penetration rate at mid/high 30% level**



Source: Company data, HSBC estimates

**Exhibit 31: Wow membership users' proportion of total active customers to reach 60% at end-2022e**

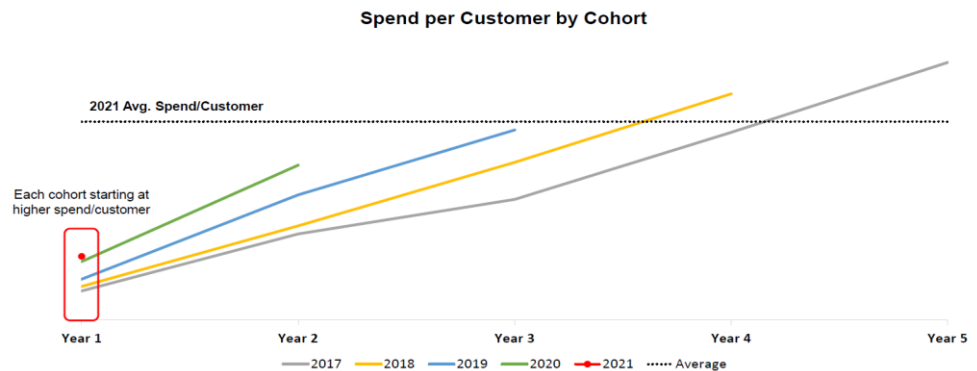


Source: Company data, HSBC estimates

**Exhibit 32: Cohort analysis: as time passes, customers spend more money on Coupang due to strengthened loyalty**

	Year 1	Year 2	Year 3	Year 4	Year 5
2017 Cohort	1.00x	1.80x	2.35x	3.46x	4.55x
2018 Cohort	1.00x	1.98x	3.06x	4.17x	
2019 Cohort	1.00x	2.19x	3.11x		
2020 Cohort	1.00x	1.94x			
2021 Cohort	1.00x				

Source: Company data

**Exhibit 33: Newer cohorts spend: starting higher, growing faster**


Note: Spend per customer equates to total gross spending per customer. The numbers are in local currency and are before cancellations and returns.  
 Source: Company data

**Exhibit 34: Delivery service comparison between Coupang's Wow members and non-members**

	No membership	Wow Membership
<b>Rocket Delivery</b>	Need to purchase more than KRW19,800 per order	Free delivery regardless of price
<b>Rocket Wow</b>		"Dawn" delivery, if members purchase before 2100 Same-day delivery, if members purchase before 1000
<b>Rocket Fresh</b>		Members can use "dawn" delivery for fresh goods, if they purchase more than KRW15,000 at once
<b>Rocket Overseas Purchase</b>	Need to purchase more than KRW29,800 per order	Free delivery regardless of price

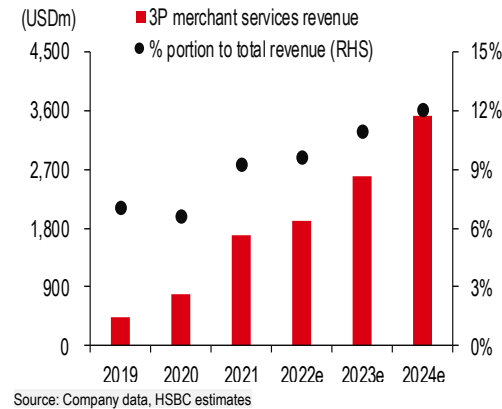
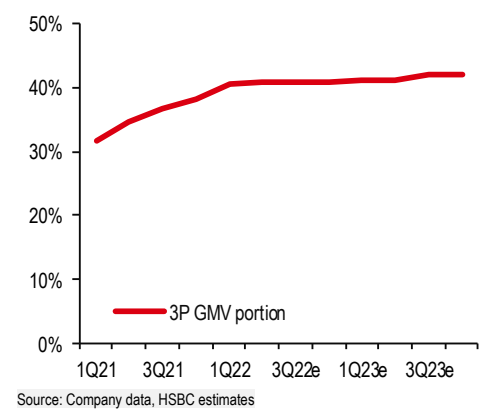
Source: Company data

**Expansion of 3P GMV**

In the past Coupang has expanded its GMV mainly through the 1P business, which involves directly purchasing goods, managing inventory and selling goods to customers. The key weakness of the 1P business is the difficulty of managing inventory, unlike the 3P online services, such as advertising, provided to merchants.

This makes it difficult for Coupang to diversify product line-ups and it is trying to expand its 3P business. Without the burden of inventory management, we believe it will be able to further expand its product range and the number of external merchants, boosting traffic and profitability in the process.

As of 2Q22, the proportion of GMV from 3P was about 40%. The company is now strengthening the advertising business, which has a high operating margin, from 3P merchants. Although still small, we believe this will help boost the 3P contribution to overall revenue. In addition, Coupang Eats' earnings are included in the 3P merchant services segment. If there is a rebound in food delivery services and market share gains, 3P GMV growth will likely accelerate.

**Exhibit 35: 3P retail portion is still low – in high single digits ...**

**Exhibit 36: ... but for GMV, the 3P portion was about 40% for total GMV in 2Q22**


### FLC business growth based on superior infrastructure

When Coupang was first established in 2010 it had no major competitive advantage over other first-generation e-commerce companies in Korea, such as T-Mon (Unlisted) and WeMakePrice (Unlisted). This changed with the introduction of Rocket Delivery, which involves Coupang purchasing items directly and then delivering them quickly to customers.

This change involved significant investment in fulfilment and logistics centres across the country. Despite the financial burden, Coupang is now the leader in this area. According to the company, the size of this infrastructure is now 42m square feet in 2021, up 7x from 2017. This means over 70% of the population lives within 10km of some part of Coupang's logistics infrastructure.

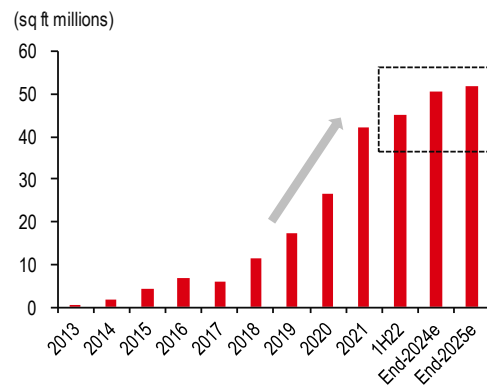
The impact on GMV is clear. It totalled USD28bn in 2021, 5-6 times higher than it was in 2018. According to news reports (Yonhap, 17 February 2022), Coupang is adding additional fulfilment centres in Icheon (Gyeong-gi province), Daejeon, and Busan. We expect this to further boost growth in GMV.

The company is also strengthening its FLC business with external sellers, which is similar to Amazon's FBA (Fulfillment by Amazon). We expect Coupang to keep beating the average market GMV growth, which should also boost margins.

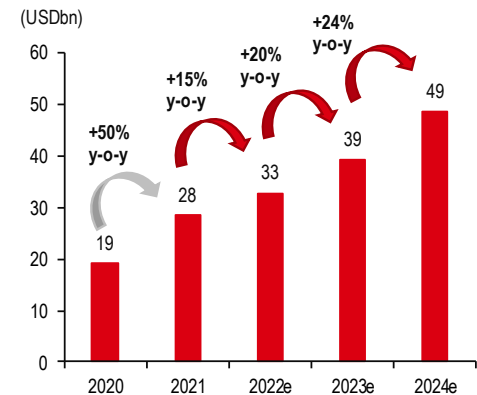
From Coupang's perspective, the growth of the FLC business should boost margins more than the growth from non-FLC 3P merchants due to additional fee income (e.g. management fees for managing the inventory of sellers at fulfilment centres). By using FLC, sellers can improve their competitiveness through Coupang's Zet delivery service – similar to Rocket Delivery but for external sellers. According to the company, external sellers that use FLC have shown strong GMV growth. We expect the increase in the number of new external merchants at Coupang to be positive for the company's overall GMV.

**This change involved investment in fulfilment and logistics centres**



**Exhibit 37: Coupang's infrastructure will likely continue to increase rapidly ...**


Note: Infrastructure includes fulfilment and logistics centres in Korea.  
 Source: Company data, HSBC estimates

**Exhibit 38: ... as a result, Coupang's GMV will likely be cUSD39bn in 2023e**


Source: Company data, HSBC estimates

### Potential market consolidation

Although consolidation is a familiar theme in the domestic e-commerce market, new companies continue to enter the market. However, we believe top-tier companies will keep expanding their market share, eventually creating an oligopoly.

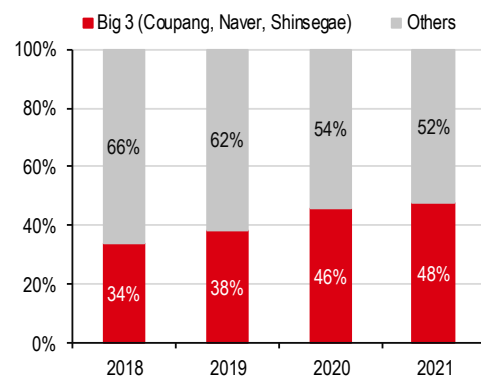
**Smaller companies will likely be squeezed out of the market**

In particular, we think Coupang will lead the domestic e-commerce market by expanding its market share at a much faster pace than its peers. As competition intensifies, operating costs will likely rise due to aggressive marketing budgets and investment in delivery infrastructure. This means smaller companies will be squeezed out of the market or acquired by the industry leaders.

For example, although many companies started their own “dawn” delivery service for fresh goods during the pandemic, some have to exit the market as operating losses rose. According to news reports (Korea Herald, 24 August 2022), Lotte Shopping (023530 KS, KRW91,100, Hold) halted its “dawn” delivery service through Lotte On in April 2022, BGF Retail (282330 KS, KRW164,000, Buy) stopped in May, and Fresheasy (Unlisted) and GS Retail (007070 KS, KRW25,400, Buy) in July. Lotte Shopping also reduced the number of delivery vehicles to 547 from 718.

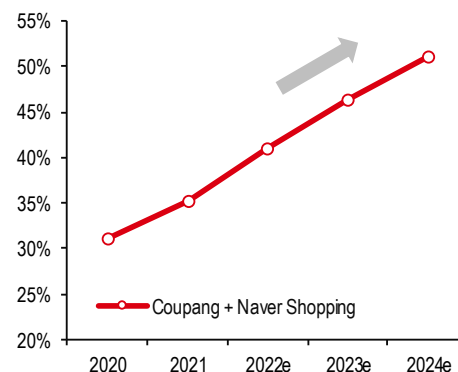
We expect this trend to spread to other parts of the e-commerce market. As a result, we think the combined market share of Coupang and Naver, the top two companies in Korea, will expand to 46% in 2023e from 36% in 2021. Much faster-than-expected market consolidation is the key upside risk to our GMV estimates.

**Exhibit 39: Top 3 e-commerce companies' market share continued to increase**



Source: Statistics Korea, Company data, Various news reports

**Exhibit 40: The combined market share of Coupang and Naver will likely jump to 46% in 2023e from 36% in 2021**



Note: The numbers are the combined market share.  
Source: Statistics Korea, Company data, Various news reports, HSBC estimates

**Exhibit 41: Recent M&A transactions in the domestic e-commerce market**

Company	Details
T-Mon	Acquired by 'Qoo10', an e-commerce company in Singapore specialised in overseas direct purchases
Danawa	Merged with 'Korea Center', an operator of an overseas direct purchase and price comparison services platform
Interpark	Acquired by 'Yanolja', an accommodation and leisure platform
G-market	Acquired by E-Mart (139480 KS, KRW83,900, Buy) in the Shinsegae Group (004170 KS, KRW230,000, Buy)

Source: Various news reports (e.g. Munhwa, 5 September 2022), HSBC. Note: Closing price as of 4 October 2022.

## 2. Margin improvement

As mentioned above, Coupang has built what we believe is a superior logistics service. This has come at the cost of continuous operating losses, but things are starting to change. In 2Q22, the adjusted EBITDA (EBITDA + equity-based compensation) margin moved into the black for the first time. At the 2Q22 results conference call, Coupang raised its 2022 guidance for the annual adjusted EBITDA margin to positive from a loss of USD400m.

We believe this trend has just started and estimate that the operating margin will turn positive in 2Q23e and the operating profit will be in the black on an annual basis in 2023e. Our view is based on four reasons: the expansion of the high-margin business (3P merchant services and FLC), operating leverage, cost efficiency from automation in logistics, and potential price increases for memberships.

### 1. The expansion of the high-margin business

The 3P business has a higher margin than the 1P retail business because Coupang doesn't need to manage inventory and just recognises the fee income from sellers. As no inventory management is required, Coupang can diversify the categories to high-margin products. In particular, FLC, the service for external sellers, will accelerate the margin improvement through better monetisation than the original business, in our view.

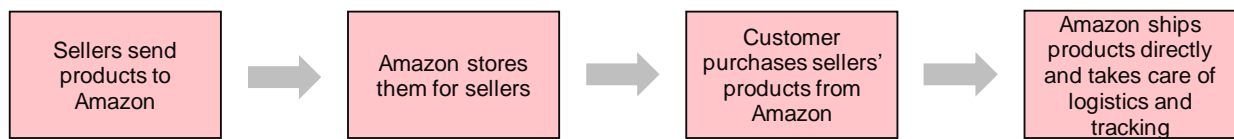
We believe this FLC business will be the key for future profitability, as it has been for Amazon (AMZN US, USD121.09, Not Rated) through its FBA service. Coupang provides fulfilment services to sellers through its large logistics network, which generates transaction and inventory management fees.

**We expect the operating margin to turn positive in 2Q23e**

To understand what FLC is, we look at Amazon's FBA. It is a service that helps Amazon's sellers outsource shipping to Amazon. The company stores, picks, packs, ships, and delivers the sellers' products to customers. Amazon also handles customer service and returns for these orders and handles advertising for 3P merchants. This is all good for margins.

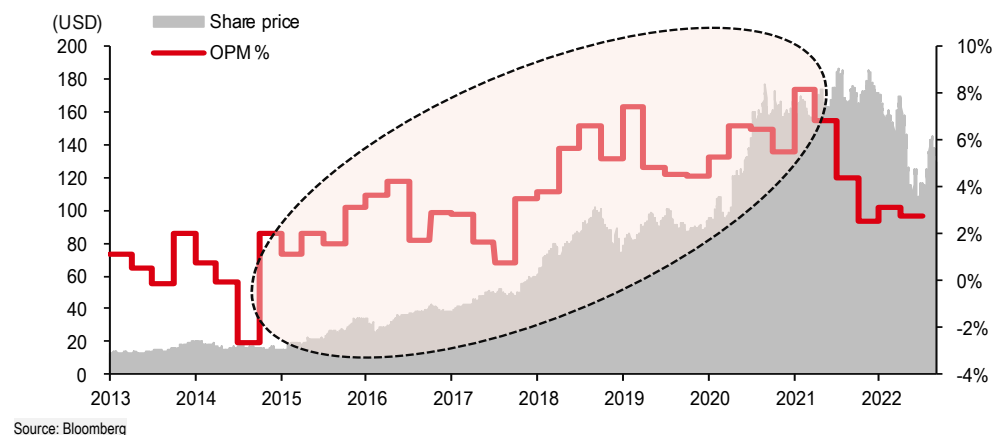
The reason why we focus on margin is that it is one of the main share price drivers for e-commerce companies. As shown in Exhibit 43, Amazon's share price rallied in 2015-21 as its OP margin continuously improved. Although Coupang is still recording operating losses, they have narrowed to USD67m in 2Q22 from USD515m in 1Q21, and we expect operating profit to move into the black in 2Q23e. That is why we have a positive view on Coupang.

**Exhibit 42: Amazon's FBA (Fulfillment by Amazon) service**



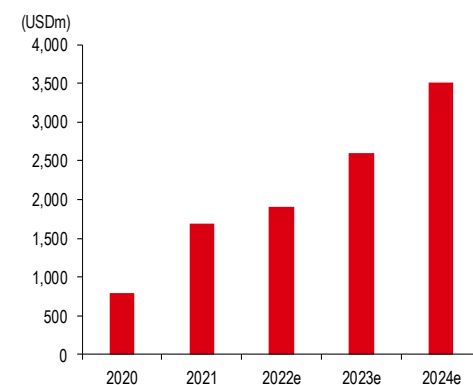
Source: HSBC

**Exhibit 43: Amazon's share price rallied when its OP margin picked up**



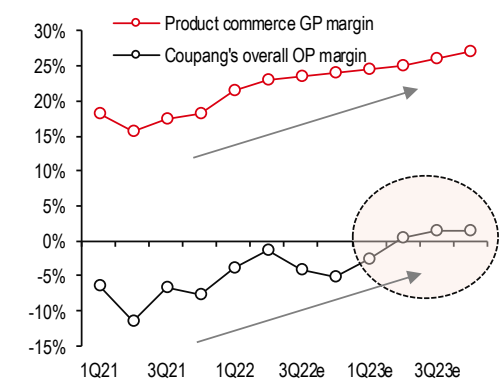
Source: Bloomberg

**Exhibit 44: Fast-growing third-party merchant services revenue**



Source: Company data, HSBC estimates

**Exhibit 45: Coupang's margin quarterly margin trend: we expect the OP to turn profitable in 2H23e**



Source: Company data, HSBC estimates

## 2. Operating leverage

Although Coupang doesn't disclose a detailed breakdown of costs, according to the annual report labour costs were equivalent to 23% of total revenue in 2021. Given the high proportion of fixed costs, if there is strong top-line growth, led by higher GMV growth, we think margins will improve because of operating leverage. The three factors that we believe will drive GMV growth are stronger user loyalty, superior fulfilment and logistics, and potential market consolidation.

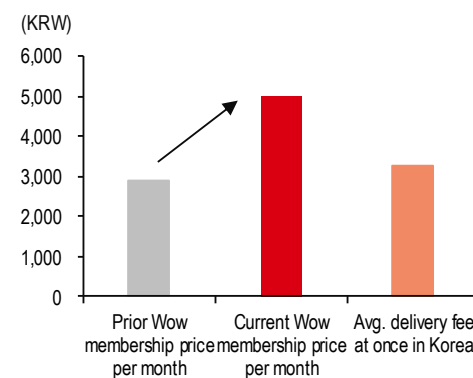
## 3. Cost efficiency through automation in logistics

According to news reports (Digital Today, 22 March 2022), Coupang invested more than KRW500bn in 2020 to automate its logistics and fulfilment centres. Coupang is now using various types of robots and personal digital assistants. Given the new focus on profitability, we believe efforts to improve cost efficiency will continue.

## 4. Potential price hikes

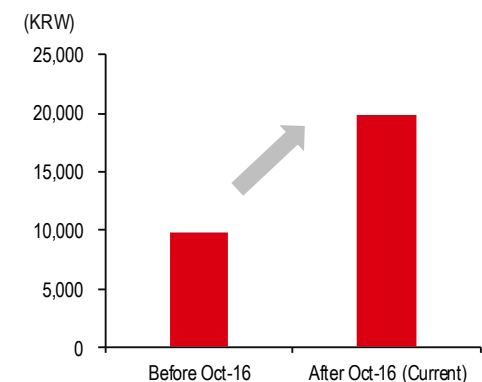
Although the company has not announced any plans to raise prices, we think there are two potential options: membership price hike and changes to the terms of use of Rocket Delivery for non-members. For Wow members, Coupang raised the membership fee to KRW4,990 per month from KRW2,900 per month at the end of 2021 for new joiners (June 2022 for existing members). As the normal delivery fee is about KRW2,500-4,000 per order, we think there is room to raise the membership fee in the future. Although there could be some complaints, we think the benefits of speedy delivery and access to video content through Coupang Play will keep members happy. Non-members can also use Rocket Delivery, but they need to make purchases of more than KRW19,800 per order. Coupang raised this minimum from KRW9,800 per order in October 2016.

**Exhibit 46: Despite the increase in the Wow membership subscription fee, it is still attractive vs. the average delivery fee**



Source: Company data, HSBC

**Exhibit 47: Coupang last raised the per purchase payment for using Rocket Delivery in 2016**



Source: Company data

# Estimates

- ◆ We expect Coupang's GMV per active customer to continue to increase ...
- ◆ ... thanks to strengthened user loyalty and a diversified product line-up
- ◆ With strong growth in better margin businesses like 3P commerce, we expect the OP to turn around in 2Q23e

## How we estimate earnings

First, we estimate Coupang's GMV based on the number of active users and GMV per active customer. Then, we calculate the retail and 3P merchant services revenue by multiplying GMV by the net revenue conversion rate. We also estimate other revenue by using our assumptions about Wow membership. The details of our calculation are.

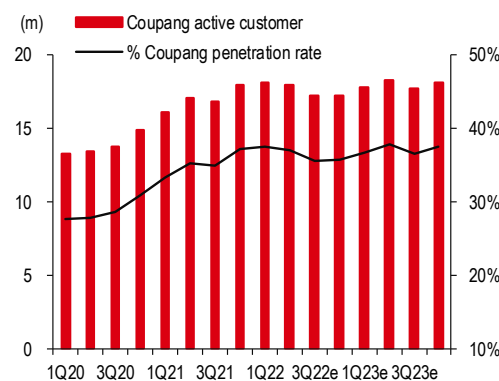
### Calculating GMV

Coupang discloses the number of active customers on a quarterly basis. The number grew rapidly to 18.1m in 1Q22 from 13.3m in 1Q20 and dropped slightly to 17.9m in 2Q22. This was due to: 1) the traffic decline at Coupang Eats after the pandemic; 2) the economic downturn; and 3) a y-o-y slowdown due to the high base effect during the pandemic.

Although we estimate the number of active customers will fall further to 17.2m in 2H22e amid the ongoing economy downturn, we expect it to rebound to 18.1m in 2023e. This in line with the expected recovery in growth in online shopping (HSBC's economic team forecasts CPI growth will slow in 2023e). If our 18.1m estimate is accurate, this will mean a penetration rate of 37% of the total number of smartphone users in Korea. While 18.1m is similar to the current number of active users, our point is that we expect GMV per active customer to increase.

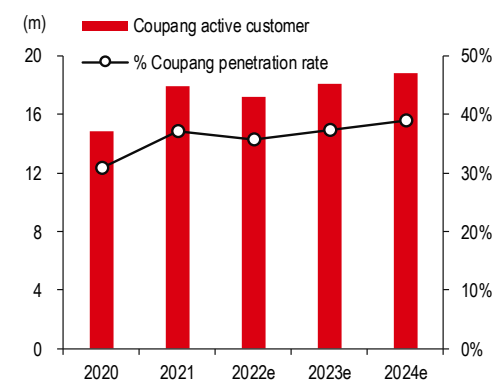
Coupang discloses the number of active customers on a quarterly basis

**Exhibit 48: Quarterly Coupang active customer and penetration rate trend**



Note: Penetration rate = Coupang active customers / smartphone users  
 Source: Company data, HSBC estimates

**Exhibit 49: Annual Coupang active customer and penetration rate trend**



Note: Penetration rate = Coupang active customers / smartphone users  
 Source: Company data, HSBC estimates

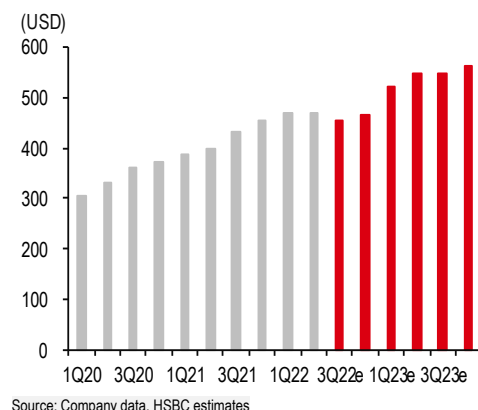
Although domestic e-commerce GMV y-o-y growth dropped to 8% (based on KRW) in 2Q22 due to macro uncertainties, Coupang's GMV per active customer continued to outperform the market by rising 39% y-o-y (based on KRW). We expect GMV per active customer to jump to USD563 in 4Q23e from USD469 in 2Q22 thanks to strengthened user loyalty and Coupang's diversified product line-up.

**Our estimates could be conservative**

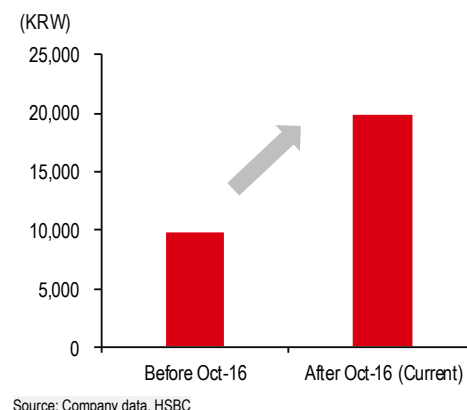
Our estimates could be conservative, especially if the company raises the amount spent per purchase that is required to get access to Coupang's delivery service. For example, Rocket Fresh, a "dawn" delivery service, is only available to Wow members, who need to make a single purchase of more than KRW15,000 to avoid a delivery fee. For Rocket Delivery, although delivery is free for Wow members regardless of the amount purchased, non-members need to buy more than KRW19,800 per order to use the service, up from KRW9,800 per order in 2016.

If Coupang were to raise the spending hurdles again, some investors fear that the higher cost may lead to a fall in customer numbers. We disagree. Given the average delivery fee in Korea is KRW3,000, we think more customers will sign up for Wow membership to enjoy free delivery.

**Exhibit 50: Quarterly trend of GMV per active customer**



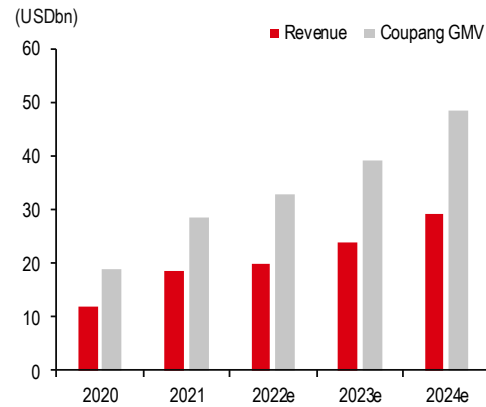
**Exhibit 51: Coupang raised the payment amount per purchase to use Rocket Delivery in 2016**



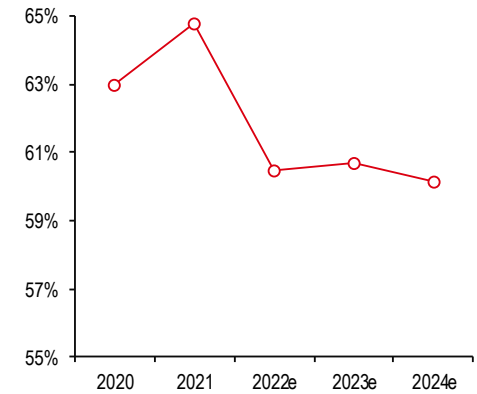
### Calculating the revenue conversion from GMV

To calculate revenue, we use the GMV-to-revenue conversion rate. Although the company doesn't disclose details of the conversion rate, we think it is about 60% based on news reports (such as Hankyung, 8 July 2022) about Coupang's annual GMV, as well as the company's historical revenue record.

Given the expected future expansion of revenue from 3P, we believe there is a risk that this rate could decline. However, we think it will remain around 60% for the next two years, supported by strong 1P retail GMV – Coupang's direct retail sales – which accounted for over 80% of total revenue in 2Q22. Based on this logic, we estimate 2022-24e sales of USD20bn, USD24bn and USD29bn, respectively.

**Exhibit 52: Coupang's annual revenue and GMV trend**


Source: Company data, HSBC estimates

**Exhibit 53: Coupang's blended revenue-to-GMV conversion rate to fall slightly to c60% in 2022-24e**


Source: Company data, HSBC estimates

## Revenue breakdown

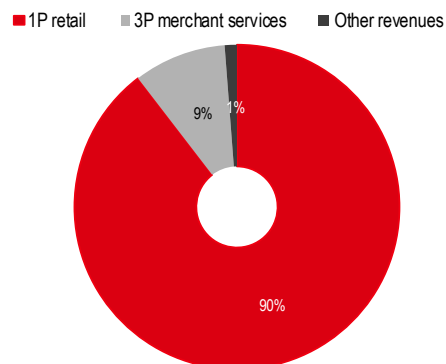
Coupang breaks down revenue into two categories: 1) retail, third-party merchant services and others; and 2) product commerce and developing offers.

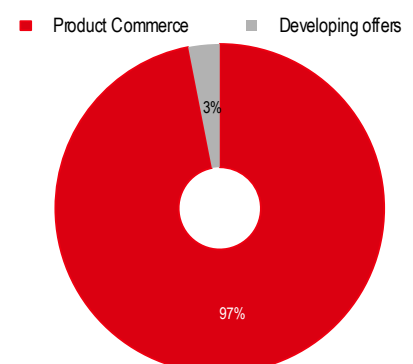
### Retail, third-party merchant services and others

- ◆ **Retail** includes 1P retail: Coupang directly purchases products, manages inventory, and sells and delivers products to customers, just as retailers do.
- ◆ **Third-party merchant services** include 3P, advertising, and Coupang Eats-related sales.
- ◆ Most of **others** is membership revenue.

### Product commerce and developing offers

- ◆ **Product commerce** includes 1P, 3P, FLC, as well as advertising and membership.
- ◆ **Developing offers** includes Coupang Eats, Coupang Play, Coupang Pay and overseas expansion-related sales. Most comes from Coupang Eats.

**Exhibit 54: Coupang's sales breakdown 1**

 Note: As of 2021.  
 Source: Company data

**Exhibit 55: Coupang's sales breakdown 2**

 Note: As of 2021.  
 Source: Company data

## Estimates

We expect Coupang's operating profit to reach breakeven in 2Q23e, when it becomes the domestic market leader in GMV. As mentioned above, our positive view on Coupang is based on: 1) the expansion of the high-margin businesses – FLC and advertising; 2) operating leverage from economies of scale; 3) cost efficiency from automating logistics; and 4) potential price hikes for membership or minimum order size to use Rocket Delivery for non-members.

**Exhibit 56: Coupang's annual KPIs**

(USDm)	2020	2021	2022e	2023e	2024e
<b>Sales</b>	<b>11,967</b>	<b>18,406</b>	<b>19,789</b>	<b>23,775</b>	<b>29,178</b>
% y-o-y	91%	54%	8%	20%	23%
<b>Breakdown 1)</b>					
Retail	11,045	16,488	17,465	20,621	25,089
3P Merchant Service	790	1,695	1,899	2,601	3,506
Others	133	223	425	553	583
<b>% portion</b>					
Retail	92%	90%	88%	87%	86%
3P Merchant Service	7%	9%	10%	11%	12%
Others	1%	1%	2%	2%	2%
<b>Breakdown 2)</b>					
Produce Commerce	11,722	17,839	18,885	22,376	27,358
Developing Offers	246	567	905	1,399	1,820
<b>% portion</b>					
Produce Commerce	98%	97%	95%	94%	94%
Developing Offers	2%	3%	5%	6%	6%
<b>OP</b>	<b>-516</b>	<b>-1,494</b>	<b>-723</b>	<b>44</b>	<b>819</b>
% y-o-y	RIR	RIR	RIR	TTB	1776%
OPM	-4%	-8%	-4%	0%	3%
<b>GMV</b>	<b>18,999</b>	<b>28,417</b>	<b>32,715</b>	<b>39,171</b>	<b>48,501</b>
Market share in Korea	14%	17%	21%	25%	27%
Active customers (m, year-end)	15	18	17	18	19
GMV per active customers (USD)	1,371	1,672	1,859	2,183	2,611
FX exchange rate (KRW/USD)	1,180	1,144	1,322	1,443	1,450

Note: RIR = Red-in-Red / TTB = Turn-to-Black  
Source: Company data, HSBC estimates

**Exhibit 57: Coupang's quarterly earnings trend**

(USDm)	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22e	4Q22e	1Q23e	2Q23e	3Q23e	4Q23e
<b>Revenue</b>	<b>4,207</b>	<b>4,478</b>	<b>4,645</b>	<b>5,077</b>	<b>5,117</b>	<b>5,038</b>	<b>4,731</b>	<b>4,904</b>	<b>5,669</b>	<b>6,116</b>	<b>5,847</b>	<b>6,143</b>
COGS	3,474	3,820	3,890	4,271	4,073	3,884	3,633	3,741	4,299	4,608	4,351	4,512
<b>GP</b>	<b>733</b>	<b>658</b>	<b>755</b>	<b>806</b>	<b>1,043</b>	<b>1,154</b>	<b>1,098</b>	<b>1,163</b>	<b>1,370</b>	<b>1,508</b>	<b>1,496</b>	<b>1,631</b>
GPM	17%	15%	16%	16%	20%	23%	23%	24%	24%	25%	26%	27%
Opex	1,000	1,173	1,070	1,202	1,249	1,221	1,298	1,413	1,517	1,483	1,419	1,543
<b>OP</b>	<b>-267</b>	<b>-515</b>	<b>-315</b>	<b>-397</b>	<b>-206</b>	<b>-67</b>	<b>-200</b>	<b>-250</b>	<b>-146</b>	<b>25</b>	<b>77</b>	<b>88</b>
OPM	-6%	-11%	-7%	-8%	-4%	-1%	-4%	-5%	-3%	0%	1%	1%
<b>Adj. EBITDA</b>	<b>-133</b>	<b>-122</b>	<b>-207</b>	<b>-285</b>	<b>-91</b>	<b>66</b>	<b>-52</b>	<b>-76</b>	<b>32</b>	<b>208</b>	<b>271</b>	<b>298</b>
Adj. EBITDA margin	-3%	-3%	-4%	-6%	-2%	1%	-1%	-2%	1%	3%	5%	5%
Non-OP	-28	-4	-9	-8	-3	-8	-8	-8	-6	-7	-8	-8
Pre-tax profit	-295	-519	-324	-404	-209	-75	-208	-258	-152	18	70	80
Tax expense	0	0	0	1	0	0	1	1	1	0	0	0
Effective tax rate	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
<b>NP</b>	<b>-295</b>	<b>-519</b>	<b>-324</b>	<b>-405</b>	<b>-209</b>	<b>-75</b>	<b>-209</b>	<b>-259</b>	<b>-153</b>	<b>18</b>	<b>70</b>	<b>80</b>
NPM	-7%	-12%	-7%	-8%	-4%	-1%	-4%	-5%	-3%	0%	1%	1%
<b>NP (Controlling)</b>	<b>-295</b>	<b>-519</b>	<b>-324</b>	<b>-405</b>	<b>-209</b>	<b>-75</b>	<b>-209</b>	<b>-259</b>	<b>-153</b>	<b>18</b>	<b>70</b>	<b>80</b>
NPM (Controlling)	-7%	-12%	-7%	-8%	-4%	-1%	-4%	-5%	-3%	0%	1%	1%

Source: Company data, HSBC estimates



**Exhibit 58: Coupang's annual earnings trend**

(USDm)	2020	2021	2022e	2023e	2024e
Revenue	11,967	18,406	19,789	23,775	29,178
COGS	9,981	15,455	15,331	17,769	21,648
GP	1,986	2,951	4,458	6,006	7,530
GPM	17%	16%	23%	25%	26%
Opex	2,502	4,445	5,181	5,962	6,710
OP	-516	-1,494	-723	44	819
OPM	-4%	-8%	-4%	0%	3%
Adj. EBITDA	-357	-748	-153	809	1,724
Adj. EBITDA margin	-3%	-4%	-1%	3%	6%
Non-OP	53	-48	-28	-28	-28
Pre-tax profit	-463	-1,542	-751	16	791
Tax expense	0	1	3	0	190
Effective tax rate	0%	0%	0%	0%	24%
NP	-463	-1,543	-753	16	601
NPM	-4%	-8%	-4%	0%	2%
NP (Controlling)	-556	-1,543	-753	16	601
NPM (Controlling)	-5%	-8%	-4%	0%	2%

Source: Company data, HSBC estimates

Due to the high level of fixed costs, operating profit estimates tend to be volatile due to changes in top-line numbers. Although both HSBC estimates and Bloomberg consensus forecast an operating profit in 2023e, our 2023-24e estimates are significantly above consensus. Our gross profit estimates are more bullish as we think the gross profit margin will improve faster thanks to the rapid growth of 3P merchant services, which have a higher margin than 1P retail.

**Exhibit 59: HSBC estimates vs. Bloomberg consensus**

(USDm)	HSBC estimates			Consensus			Difference		
	2022e	2023e	2024e	2022e	2023e	2024e	2022e	2023e	2024e
Sales	19,789	23,775	29,178	20,965	24,486	28,570	-6%	-3%	2%
COGS	15,331	17,769	21,648	16,259	18,617	21,460	-6%	-5%	1%
GP	4,458	6,006	7,530	4,706	5,869	7,110	-5%	2%	6%
GPM	23%	25%	26%	22%	24%	25%	0%p	1%p	1%p
OP	-723	44	819	-385	22	510	-88%	98%	61%
OPM	-4%	0%	3%	-2%	0%	2%	-2%p	0%p	1%p
NP	-753	16	601	-402	5	504	87%	231%	19%
NPM	-4%	0%	2%	-2%	0%	2%	-2%p	0%p	0%p

Source: Bloomberg, HSBC estimates

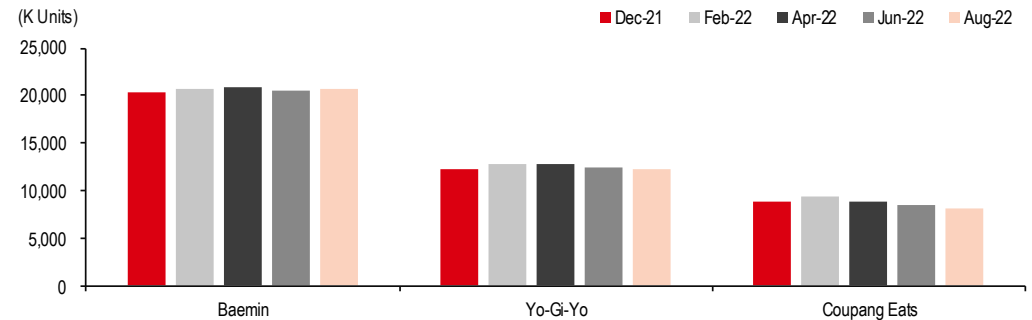
## What could go wrong?

**We highlight the following risks**

- ◆ **Overhang issue:** Coupang's largest shareholder is SoftBank (9984 JP, JPY5,235, Hold), with a stake of more than 25%. As of 2Q22, SoftBank recorded a net loss of KRW36.8trn, following a 1Q22 net loss of KRW20.3trn. It is the first time the company has recorded a net loss for two consecutive quarters since 2005. According to news reports (Business Post, 10 August 2022), SoftBank recently started to sell stakes in companies it has invested in (e.g. Uber, Opendoor, and KE Holdings). There are concerns that SoftBank could reduce its stake in Coupang, which could weigh on Coupang's share price.
- ◆ **Economic downturn:** Although we believe growth in the e-commerce market will start to recover in 1H23e, if the economy continues to deteriorate, this can be a downside risk to our estimates. In particular, Coupang's operating profit turnaround could be delayed as sales of high-margin products may weaken.

- ◆ **User outflows:** We use the number of active customers to estimate Coupang's GMV. Given Coupang has built strong relationships with its customers, we don't anticipate a fall in user numbers. However, any significant drop would affect our GMV growth estimates.

**Exhibit 60: Food delivery app comparison: number of devices that installed the app**



Source: TDI, Various news reports (Segye, 19 September 2022)

- ◆ **Cost pressure from overseas business expansion:** The market's key concern since Coupang began operations in 2010 has always been how long it would take to become profitable. For the domestic business, the company said it broke even in terms of adjusted EBITDA in 2Q22 and we expect the operating profit to move into the black in 2H23e. The risk to our view is cost pressure from its overseas business expansion. The company is now expanding in Japan and Taiwan, two markets that are highly competitive. If Coupang invests faster and more than we expect, overall profitability may suffer.
- ◆ **FX distortion:** Although most of Coupang's sales come from the domestic market, it discloses earnings in USD as the company is listed on the New York Stock Exchange (NYSE). Recent USD strength could weaken GMV and top-line growth when converted from KRW. For example, if Coupang records GMV of KRW1,000, USD-based GMV changes to USD0.71 from USD0.83 based on a change in the KRW-USD exchange rate to KRW1,400 from KRW1,200. Although it does not affect the fundamentals of the business, USD strength could lead to a deterioration in investor sentiment.

## Scenario analysis

The most important factor for Coupang's future growth is how fast GMV can increase. We calculate GMV based on the number of active customers and GMV per active customer. We have analysed how the enterprise value can change in accordance to changes in these two factors.

- ◆ For y-o-y growth of GMV per active customer, we use 21% as our bull case. The growth rate was 22% y-o-y in 2021 when the domestic online shopping market showed strong growth during the pandemic.
- ◆ Given our base case of 17%, we set our bear case at 13%, 4ppt below our base case.
- ◆ For the number of active customers, our base case is 18m for 2023 and we set our bear and bull cases at 16m and 20m, respectively. We use 20m as a bull case because this is the level at which the penetration rate for the total number of smartphone users in Korea exceeds 40%. The bear case means a penetration rate of about 35% (it was 37% in 2021).

**Exhibit 61: EV changes in accordance with the changes in GMV per active customer y-o-y growth and the changes in the number of average active customers**

		GMV per active customer in	# of average active customers in 2023e (m)								Current	
		2023e (USD)	16	17	18	19	20	Target			market cap	
y-o-y growth			2023e GMV (USDm)					EV/GMV (x)	EV (USDm)	Difference	(USDm)	Upside
Bear	12%	2,091	33,322	35,413	37,503	39,594	41,684	0.94	31,373	-36%	34,526	-9%
	15%	2,137	34,063	36,200	38,337	40,474	42,611					
Base	17%	2,183	34,804	36,987	39,171	41,354	43,537	1.26	49,173	0%	34,526	42%
	20%	2,230	35,544	37,774	40,004	42,234	44,464					
Bull	22%	2,276	36,285	38,562	40,838	43,114	45,391	1.57	71,227	45%	34,526	106%

Source: HSBC estimates

**Exhibit 62: Scenario analysis: target EV based on our bull and bear cases**



Source: Bloomberg, HSBC estimates

## Other financial statements

**Exhibit 62: Coupang's balance sheet**

(USDm)	2020	2021	2022e	2023e	2024e
<b>Assets</b>	<b>5,067</b>	<b>8,642</b>	<b>9,094</b>	<b>10,894</b>	<b>13,549</b>
<b>Current assets</b>	<b>2,841</b>	<b>5,637</b>	<b>5,515</b>	<b>6,532</b>	<b>8,442</b>
Cash and cash equivalents	1,251	3,488	3,101	3,747	5,141
ST restricted cash	145	320	321	388	533
Accounts receivable, net	71	175	227	332	486
Inventories	1,161	1,422	1,611	1,806	2,022
<i>y-o-y growth</i>		<i>22%</i>	<i>13%</i>	<i>12%</i>	<i>12%</i>
Other current assets	212	232	254	259	259
<b>Non-current assets</b>	<b>2,227</b>	<b>3,005</b>	<b>3,579</b>	<b>4,363</b>	<b>5,107</b>
LT restricted cash	5	3	7	9	12
PPE	1,018	1,348	1,857	2,225	2,469
<i>y-o-y growth</i>		<i>32%</i>	<i>38%</i>	<i>20%</i>	<i>11%</i>
Operating lease right-of-use assets	1,011	1,375	1,328	1,663	2,108
<i>y-o-y growth</i>		<i>36%</i>	<i>-3%</i>	<i>25%</i>	<i>27%</i>
Goodwill	4	10	10	10	10
LT lease deposits and other	188	270	377	455	508
<b>Liabilities and Equity</b>	<b>5,067</b>	<b>8,642</b>	<b>9,094</b>	<b>10,894</b>	<b>13,549</b>
<b>Total liabilities</b>	<b>5,671</b>	<b>6,466</b>	<b>7,368</b>	<b>8,892</b>	<b>10,669</b>
<b>Current liabilities</b>	<b>3,733</b>	<b>4,744</b>	<b>5,123</b>	<b>6,281</b>	<b>7,634</b>
Account payable	2,908	3,443	3,384	4,239	5,373
<i>y-o-y growth</i>		<i>18%</i>	<i>-2%</i>	<i>25%</i>	<i>27%</i>
Accrued expenses	116	304	434	469	475
<i>y-o-y growth</i>		<i>163%</i>	<i>43%</i>	<i>8%</i>	<i>1%</i>
Deferred revenue	65	94	140	177	203
<i>y-o-y growth</i>		<i>44%</i>	<i>49%</i>	<i>26%</i>	<i>15%</i>
ST borrowings	157	8	139	77	55
Current portion of LT debt	68	342	312	186	204
Current portion of LT operating lease obligations	207	287	267	285	289
Other current liabilities	212	267	446	849	1,036
<b>Non-current liabilities</b>	<b>1,938</b>	<b>1,722</b>	<b>2,245</b>	<b>2,611</b>	<b>3,035</b>
LT debt	353	283	599	601	601
LT operating lease obligations	859	1,201	1,463	1,798	2,210
<i>y-o-y growth</i>		<i>40%</i>	<i>22%</i>	<i>23%</i>	<i>23%</i>
Defined severance benefits and other	725	237	182	213	224
<b>Stockholders' equity</b>	<b>-4,069</b>	<b>2,176</b>	<b>1,726</b>	<b>2,002</b>	<b>2,880</b>
Paid-in capital (capital stock)	45	0	0	0	0
Common stock	45	0	0	0	0
Preferred equity and hybrid capital	0	0	0	0	0
Additional paid-in capital	25	7,874	8,139	8,411	8,692
<i>y-o-y growth</i>		<i>31351%</i>	<i>3%</i>	<i>3%</i>	<i>3%</i>
Retained earnings	-4,108	-5,651	-6,404	-6,388	-5,787
AOCI	-31	-48	-9	-21	-26

Source: Company data, HSBC estimates

**Exhibit 63: Coupang's cash flow statement**

(USDm)	2020	2021	2022e	2023e	2024e
Net income (loss)	-463	-1,543	-753	16	601
D&A	128	201	265	330	375
Stock compensation	31	249	177	239	264
Severance	71	128	141	155	171
CN interest & discount accretion	91	20	56	38	47
Change in value of derivative instrument	-150	0	-150	-150	-150
Inventory & fixed asset losses due to fulfilment centre fire	0	285	0	0	0
Non-cash operating lease expense	155	259	207	233	220
Other non-cash items	55	58	57	57	57
Change in operating assets & liabilities	383	-69	-124	626	796
<b>Cash flows from operating activities</b>	<b>302</b>	<b>-411</b>	<b>-124</b>	<b>1,545</b>	<b>2,380</b>
Investment in P&E, net of disposals	-484	-672	-761	-891	-1,108
Other investing activities	-37	-4	-37	-45	-54
<b>Cash flows from investing activities</b>	<b>-521</b>	<b>-676</b>	<b>-799</b>	<b>-936</b>	<b>-1,162</b>
Debt issuance	287	434	528	132	330
Debt repayment	-38	-336	0	0	0
Equity issuance	29	3,494	29	29	29
Equity repurchase	-97	0	0	0	0
Other financing activity	-2	-15	-8	-12	-10
<b>Cash flows from financing activities</b>	<b>179</b>	<b>3,577</b>	<b>548</b>	<b>149</b>	<b>349</b>
Currency translation	70	-82	-6	-44	-25
<b>Change in cash &amp; cash equivalents</b>	<b>30</b>	<b>2,409</b>	<b>-381</b>	<b>714</b>	<b>1,542</b>
Ending cash & cash equivalents and restricted cash	1,401	3,810	3,430	4,144	5,686
Opening cash & cash equivalents and restricted cash	1,372	1,401	3,810	3,430	4,144
<b>Change in cash &amp; cash equivalents</b>	<b>30</b>	<b>2,409</b>	<b>-381</b>	<b>714</b>	<b>1,542</b>

Source: Company data, HSBC estimates

# Valuation and risks

- ◆ We use an EV/GMV multiple as a valuation method to derive our target price of USD27.80
- ◆ For reference, we use a DCF valuation, which also supports our view
- ◆ Key downside risks include an overhang issue from the major shareholder, user outflow and cost pressures

## EV/GMV valuation methodology

Market share expansion in terms of GMV is the most important factor

### Why we use an EV/GMV multiple to derive our target price?

For e-commerce companies, market share expansion in terms of GMV is the most important factor for future growth. They spend a lot of money on marketing to attract customers and invest heavily to strengthen infrastructure like logistics and fulfilment centres. As a result, many e-commerce companies, including Coupang, are recording operating losses. As the market is likely to consolidate further, the “winners” will gain market share. We believe calculating the fair value using an EV/GMV multiple is reasonable, given the growing importance of GMV.

### How to calculate the target EV/GMV multiple?

First, we use selected global e-commerce companies with a wide range of EV/GMV multiples as a peer group. The peer group includes Alibaba (BABA US, USD84.11, Buy), JD.com (JD US, USD52.00, Buy), Pinduoduo (PDD US, USD66.47, Buy), Vipshop (VIPS US, USD9.06, Hold), Baozun (BZUN US, USD6.46, Hold), Amazon (AMZN US, USD121.09, Not Rated), Shopify (SHOP US, USD31.53, Not Rated) and eBay (EBAY US, USD38.67, Not Rated).

For us, the key is to focus on peers that have a high GMV-to-revenue conversion rate. Amazon is a good example. Coupang has a similar business model, especially in terms of its FLC operations. This generates a high GMV-to-revenue conversion rate on the back of Coupang's superior fulfilment centres and logistics centres. This is because 1P retail has a higher conversion rate than 3P as it generates a wider range of fees.

Coupang's GMV-to-revenue conversion rate was about 0.65 in 2021. For Coupang's closest peer group, we select three companies with a rate over 0.2: JD.com, Vipshop and Amazon. Given the wide range in EV/GMV multiples, we use Coupang's historical multiple to derive what we consider to be a more reasonable multiple, given that Coupang is now rapidly expanding its market share in Korea. If we calculate the average 2021 EV/GMV multiple of the four companies, we arrive at 1.26x (Exhibit 65).

If we apply our target EV/GMV multiple of 1.26x to our 2023e Coupang GMV estimates of USD39bn, this gives us our target price of USD27.80. The reason why we use 2023e as the valuation base period is that we expect 2023e to be the year when Coupang becomes the No. 1 e-commerce company in Korea in GMV terms and when it first turns profitable at the operating profit level.

#### Exhibit 64: Calculation for the target EV/GMV multiple

Company	Market value/GMV (based on 2021)
Coupang	1.81
JD.com	0.21
Vipshop	0.18
Amazon	2.82
	<b>1.26</b>

Source: Bloomberg, Company data

#### Exhibit 65: Calculation for Coupang's target price

Target EV/GMV (x)	1.26
2023e GMV (USDm)	39,171
Target EV (USDm)	49,173
Fair Value (USD)	27.83
Target price (USD)	<b>27.80</b>
Share price (USD)	19.56
Upside	<b>42.1%</b>

Source: Bloomberg, HSBC estimates. Note: Priced as of 4 October 2022.

#### Exhibit 66: Global peer comparison

Country	Company	Ticker	Rating	Price (USD)	Mkt Cap (USDbn, end-2021)	Mkt Cap (USDbn, current)	2021 GMV (USDbn)	(End-2021) Market Value/GMV	(Current) Market Value/GMV	(Based on 2021) GMV-to-Revenue Conversion Ratio	PS 2022e	PS 2023e
Korea	Coupang	CPNG US	Buy	19.56	51	35	28	1.81	1.22	0.65	1.4x	1.2x
China	Alibaba	BABA US	Buy	84.11	322	223	1,209	0.27	0.18	0.11	1.9x	1.7x
	JD.com	JD US	Buy	52.04	109	81	517	0.21	0.16	0.29	0.6x	0.5x
	Pinduoduo	PDD US	Buy	66.47	73	84	383	0.19	0.22	0.04	4.9x	4.0x
	Vipshop	VIPS US	Hold	9.06	6	6	31	0.18	0.18	0.58	0.5x	0.4x
	Baozun	BZUN US	Hold	6.46	1	0	9	0.11	0.04	0.16	0.3x	0.2x
<b>China average</b>								<b>0.19</b>	<b>0.16</b>	<b>0.23</b>	<b>1.6x</b>	<b>1.4x</b>
US	Amazon	AMZN US	NR	121.09	1,691	1,234	600	2.82	2.06	0.78	2.5x	2.2x
	Shopify	SHOP US	NR	31.53	172	34	175	0.98	0.19	0.03	7.2x	5.8x
	eBay	EBAY US	NR	38.67	42	21	87	0.48	0.24	0.12	2.5x	2.4x
<b>US average</b>								<b>1.43</b>	<b>0.83</b>	<b>0.31</b>	<b>4.1x</b>	<b>3.5x</b>
Global average (ex Shopify)								<b>0.78</b>	<b>0.50</b>	<b>0.30</b>	<b>1.8x</b>	<b>1.6x</b>
Avg (ex AMZN)								<b>0.46</b>	<b>0.32</b>	<b>0.28</b>	<b>1.7x</b>	<b>1.5x</b>
Avg of SHOP and EBAY								<b>0.73</b>	<b>0.22</b>	<b>0.07</b>	<b>4.9x</b>	<b>4.1x</b>

Source: Bloomberg, Company data, HSBC estimates (for covered stocks only). Note: Priced as of 4 October 2022. NR – Not Rated. PS – Price-to-sales multiple.

#### Exhibit 67: Coupang's 12-month forward EV/GMV trend



Source: Bloomberg, HSBC estimates

## DCF valuation for reference

For reference, we also derive a fair value for Coupang by using a DCF model, given the typically high valuations assigned to fast-growing companies by the market. We use the following assumptions: a country risk-free rate of 2.0% and an equity risk premium of 5.5%, reflecting our strategists' latest assumptions (see [Cost of equity 2022](#), 9 December 2021), and a beta of 0.8 (according to Bloomberg). This gives us a cost of equity of 6.9%. Based on a cost of debt of 6.0% and a target debt-to-equity ratio of 60:40, we arrive at a cost of capital of 5.5%. This gives us an enterprise value of USD49bn, which means a fair value per share of USD27.76, which is similar to our EV/GMV-based target price of USD27.80.

### Exhibit 68: Coupang's DCF valuation to derive a fair value for reference

(USDm)	2020	2021	2022e	2023e	2024e	2025e	2026e	2027e
Revenue	11,967	18,406	19,789	23,775	29,178	35,832	43,649	52,737
GP	1,986	2,951	4,458	6,006	7,530	8,819	10,739	12,969
OP	-516	-1,494	-723	44	819	1,312	2,249	3,644
NP	-463	-1,543	-753	16	601	937	1,621	2,639
<b>Adjustments:</b>								
D&A	128	201	265	330	375	419	467	503
Stock compensation	31	249	177	239	264	265	268	324
Severance	71	128	141	155	171	188	206	227
CN interest & discount accretion	91	20	56	38	47	42	45	43
Change in value of derivative instrument	-150	0	-150	-150	-150	-150	-150	-150
Non-cash operating lease expense	155	259	207	233	220	226	223	225
Other non-cash items	55	343	57	57	57	57	57	57
Change in operating assets & liabilities	383	-69	-124	626	796	814	858	904
<b>Cash flows from operating activities</b>	<b>302</b>	<b>-411</b>	<b>-124</b>	<b>1,545</b>	<b>2,380</b>	<b>2,798</b>	<b>3,595</b>	<b>4,773</b>
<b>Subtract:</b>								
Capex	484	672	761	891	1,108	1,352	1,652	1,993
<b>Free cash flow (FCF)</b>	<b>-183</b>	<b>-1,082</b>	<b>-886</b>	<b>653</b>	<b>1,272</b>	<b>1,446</b>	<b>1,943</b>	<b>2,780</b>
<b>PV of 5-year FCF</b>	<b>5,497</b>							
<b>PV of terminal value</b>	<b>40,669</b>							
<b>Net debt</b>	<b>-2,883</b>							
<b>Enterprise value</b>	<b>49,049</b>							

#### Assumptions

Tax rate	24.0%	Rf	2.0%
Terminal growth rate	0.0%	Rm	5.5%
Cost of equity	6.9%	Beta*	1.41
Cost of debt	6.0%		
Target leverage (D/E+D)	60.0%		
Cost of Capital (WACC)	5.5%		

Note: For beta, we use the average beta of Coupang after it went public in March 2021.  
Source: Company data, Bloomberg, HSBC estimates

We also did a scenario analysis on WACC sensitivity (Exhibit 70). If we change the WACC by 0.2ppt, the fair value changes by USD2bn.

### Exhibit 69: WACC sensitivity on equity value (USDm)

WACC	PV of 5-year FCF	PV of terminal value	Cash (2023e)	Debt (2023e)	Equity value
4.9%	5,657	46,687	3,747	863	55,228
5.2%	5,576	43,501	3,747	863	51,961
5.5%	5,497	40,669	3,747	863	49,049
5.8%	5,418	38,135	3,747	863	46,437
6.1%	5,341	35,855	3,747	863	44,080

Source: Bloomberg, HSBC estimates



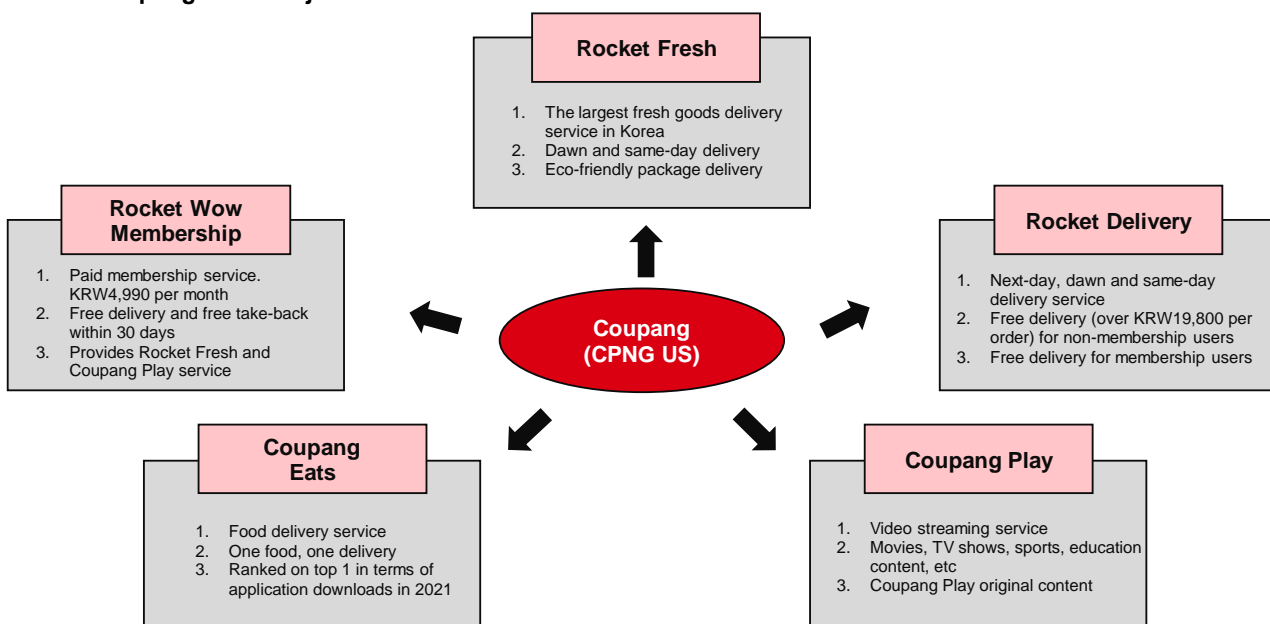
# Company profile and ESG

- ◆ Established in 2010, Coupang provides five key services ...
- ◆ ... which have strengthened its competitiveness as an e-commerce leader in Korea
- ◆ Coupang listed on the NYSE in 2021

## Coupang's major services and history

Coupang provides five services: 1) Rocket Delivery, 2) Rocket Fresh, 3) Rocket Wow Membership, 4) Coupang Eats, and 5) Coupang Play.

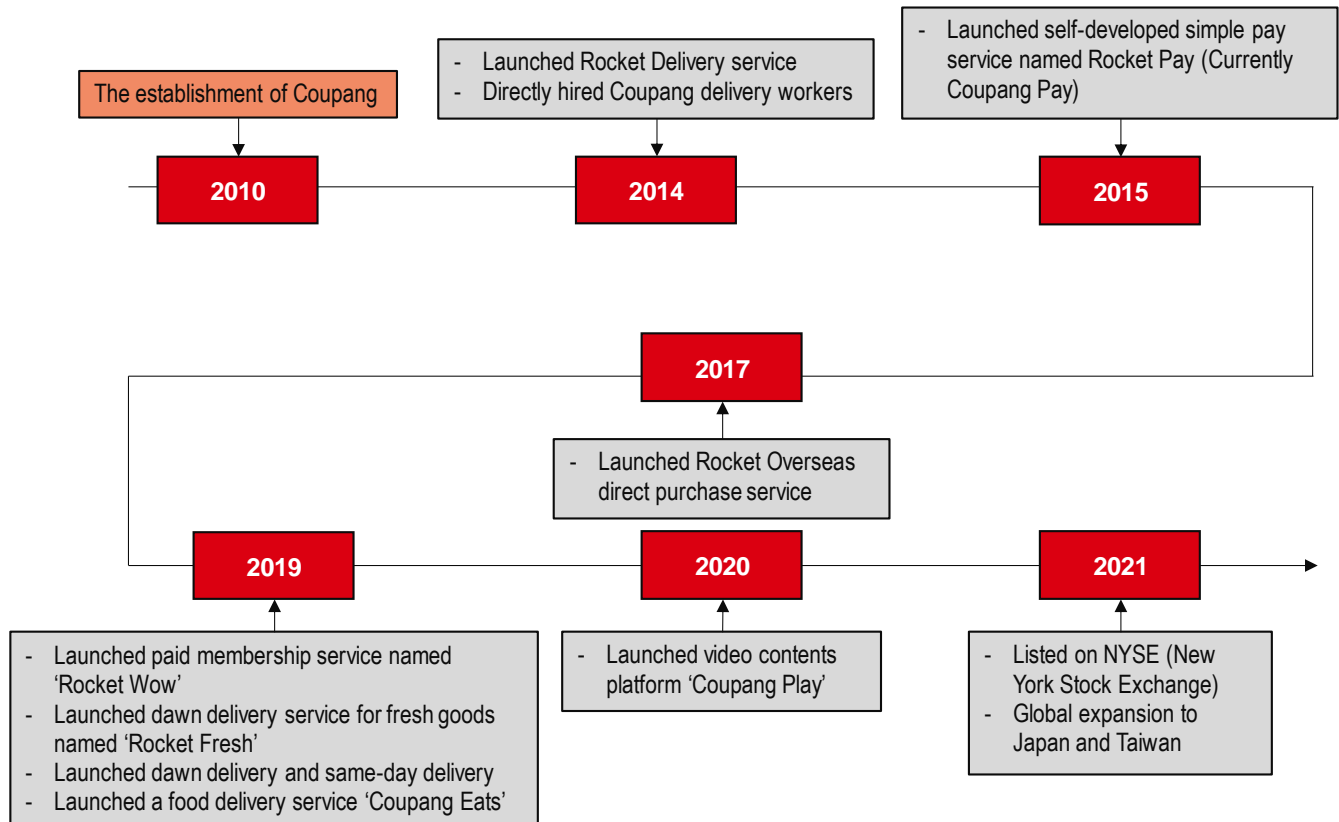
**Exhibit 70: Coupang's five major services**



Source: Company data, HSBC

Coupang was established in 2010 and its next-day Rocket Delivery service started in 2014. It hired its own specialised delivery workers – known as ‘Coupang Man’ – unlike other e-commerce companies, which use external delivery staff. The evolution of Coupang's services is shown in Exhibit 72.

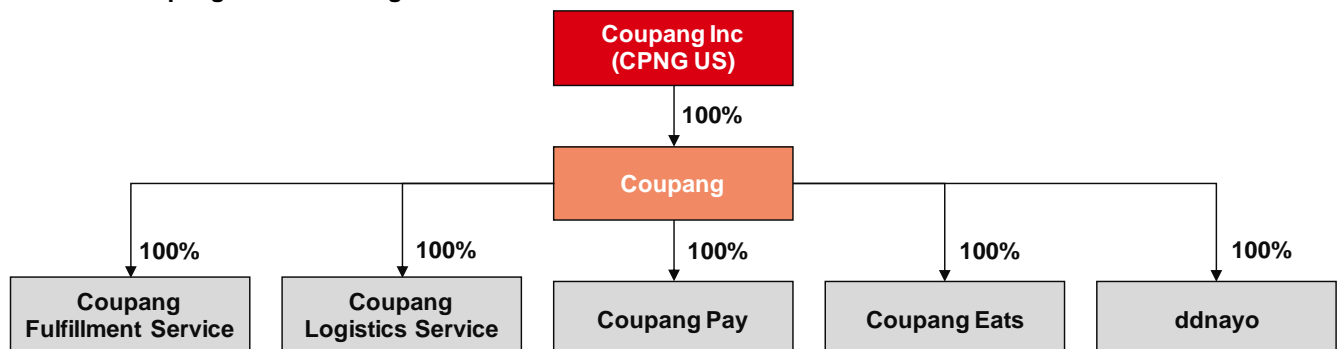
As competition to acquire loyal customers increased, Coupang launched a paid membership scheme – ‘Rocket Wow’ – in 2019. As rivals launched similar schemes, more and more benefits were offered to customers by different e-commerce companies. In response, in 2020, Coupang launched a video service, ‘Coupang Play’, available to paying members for free. Coupang listed on the NYSE in 2021 and has since started to expand in Japan and Taiwan.

**Exhibit 71: Coupang's history and summary of major events**


Source: Company data, HSBC

## Shareholding structure

Coupang Inc. owns a 100% stake in Coupang Korea, which operates the e-commerce business. The relationship is that of a holding company and an operating company. Coupang Korea owns Coupang Fulfillment Service, Coupang Logistics Service, Coupang Pay and Coupang Eats as wholly-owned subsidiaries.

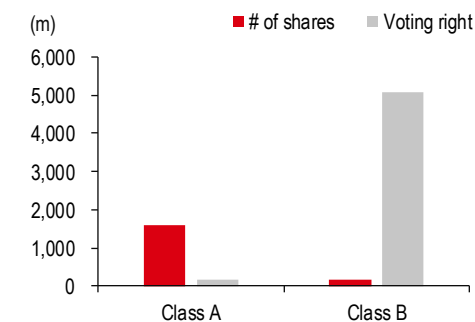
**Exhibit 72: Coupang's shareholding structure**


Source: Company data, DART

## ESG

**Governance:** Coupang has a dual class shareholding structure. Although this is unusual for Korean companies, this structure helps to protect fast-growing companies like Coupang from hostile M&A transactions, especially when the stake held by the CEO or founder is relatively low. The shares are split between Class A and Class B. For Class B, the voting rights are 29 votes per share, while for Class A shares it is one vote per share. Of the total of 1,767m shares, there are 1,592m Class A shares (90% of the total) and 175m Class B shares.

**Exhibit 73: Coupang has a dual class shareholding structure**

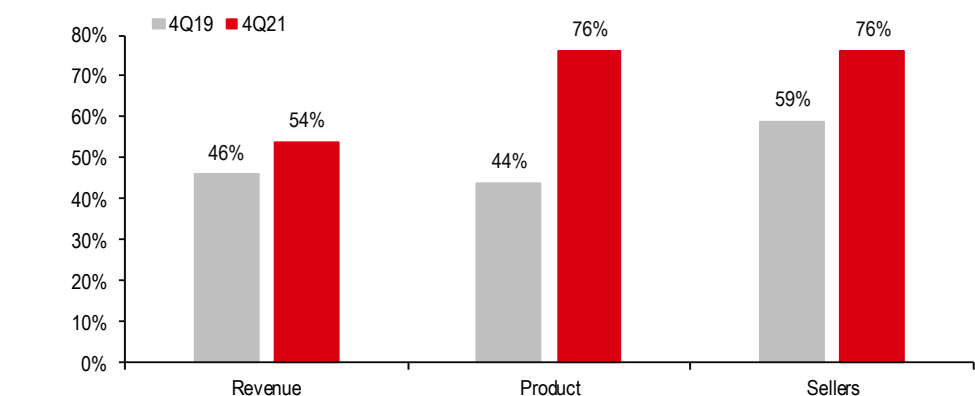


Source: Company data

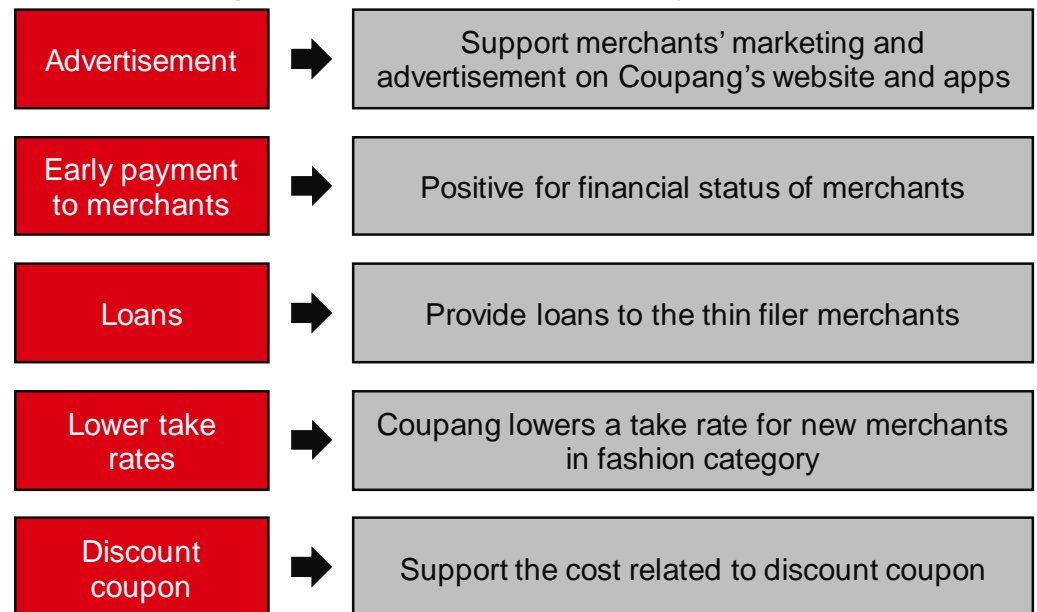
**Environment:** Packaging is a key issue. Coupang uses a reusable delivery box for fresh goods. However, for other goods it packages each product individually. We don't think this will change in the near future. In our view, it will cause delays in the Rocket Delivery service to adjust the current approach and there may also be cost hikes related to eco-friendly packaging in the future.

**Social:** Coupang's key strength is its superior fulfilment and logistics centres, so the welfare and safety of the workforce is important. In addition, the company continues to strengthen co-operation with smaller merchants that have less than five employees. According to the company, the portion of these small merchants continues to increase in areas like sales and products.

**Exhibit 74: The portion of small merchants has increased**



Source: Company data

**Exhibit 75: Coupang supports its merchants in various ways**


Note: A thin filer merchant is defined as a merchant without a sufficient enough credit history to access credit in the formal banking sector.  
 Source: Company data

# Disclosure appendix

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COUPANG INC	CPNG.N	19.56	04 Oct 2022	7

Source: HSBC

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