

2022. 4. 29

Healthcare Team

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▶ AT A GLANCE

Recommend	BUY
Target price	KRW140,000 42.7%
Current price	KRW98,100
Market cap	KRW1.8t/USD1.4b
Shares (float)	18,808,775 (52.1%)
52-week high/low	KRW144,500/KRW83,400
Avg daily trading value (60-day)	KRW9.6b/USD7.6m

▶ ONE-YEAR PERFORMANCE

	1M	6M	12M
ST Pharm (%)	-5.5	12.5	-21.0
Vs Kosdaq (%pts)	-1.8	26.1	-11.6

▶ KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	140,000	140,000	0.0%
2022E EPS	1,007	1,539	-34.6%
2023E EPS	2,468	2,762	-10.6%

▶ SAMSUNG vs THE STREET

No of estimates	6
Target price	143,333
Recommendation	4.0
BUY★★★: 5 / BUY: 4 / HOLD: 3 / SELL: 2 / SELL★★★: 1	

ST Pharm (237690)

Focus on where it is headed, not where it is now

- **1Q review:** ST Pharm posted disappointing 1Q results, as some of oligonucleotide sales were deferred to 2Q. Contract manufacturing of major oligonucleotide therapeutics is likely to be concentrated in 3Q.
- **Maintain BUY and target of KRW140,000:** ST Pharm is steadily winning oligonucleotide CMO orders and expanding its mRNA CDMO business to lift growth.

WHAT'S THE STORY?

1Q review: ST Pharm posted consolidated 1Q sales of KRW37b (up 35.7% y-y; down 28.5% q-q), an operating profit of KRW0.5b (turn positive y-y and q-q), and a net profit of KRW1.9b (turns positive y-y and q-q). Sales from: 1) oligonucleotide CMO rose 97.2% y-y but fell 44% q-q to KRW16.8b, which include KRW10.6b in hyperlipidemia medicine; 2) generic CMO dropped 33.7% y-y and 36.4% q-q to KRW6b, on the streamlining of low-margin products; and 3) CRO and others increased 79.7% y-y and 45.2% q-q to KRW12.3b. The company's sales and operating profit fell short of our estimates by a respective 32.1% and 78.5%, as some of oligonucleotide sales were deferred to 2Q. Awarded with six new oligonucleotide projects ytd (spinal muscular atrophy, chronic hepatitis B, NASH, thrombosis, macular degeneration, and hereditary angioedema), it should be able to raise capacity utilization.

Maintaining BUY and target price: Expecting the new orders to keep utilization rising steadily, we leave our DCF-based target price at KRW140,000. Whereas antibody drugs are 30% manufactured by CMOs and 70% in-house by developers, oligonucleotide therapeutics are 100% manufactured by CMOs.

(Continued on the next page)

ST Pharm 1Q22 review

(KRWb)	1Q22	4Q21	Chg (% q-q)	1Q21	Chg (% y-y)	Consensus	Diff (%)	Samsung	Diff (%)
Sales	37.0	51.7	-28.5	27.3	35.7	39.9	-7.2	54.5	(32.1)
Operating profit	0.5	-0.6	nm	-6.5	nm	-0.4	nm	2.5	(78.5)
Pre-tax profit	2.4	-6.7	nm	-6.6	nm	1.3	84.6	5.0	(52.0)
Net profit	1.9	-4.5	nm	-5.0	nm	1.0	90.0	4.3	(50.4)
Margins (%)									
Operating profit	1.4	-1.2		-23.8		-1.0		4.6	
Pre-tax profit	6.5	-13.0		-24.2		3.3		9.2	
Net profit	5.1	-8.7		-18.3		2.5		7.9	

Source: Company data, Samsung Securities estimates

Valuations

(KRWb)	Sales	Operating profit	Pre-tax profit	Net profit (KRW)	EPS	EPS growth (% y-y)	P/E (x)	Net debt	EV/EBITDA (x)	P/B (x)	ROE (%)
2020	124	-19	-17	-13	-651	nm	n/a	4	n/a	6.6	-4.1
2021	166	6	1	3	177	nm	784.2	24	131.3	8.1	1.1
2022E	232	19	26	21	1,007	467.1	97.5	26	55.6	5.5	5.8
2023E	341	49	64	51	2,468	145.2	39.7	-6	28.5	5.0	13.2
2024E	410	89	91	131	6,337	156.7	15.5	-123	16.9	3.9	28.1

Source: Company data, Samsung Securities estimates

Global drug developers will probably seek in-house manufacture of oligonucleotide therapies with blockbuster sales potential. Nonetheless, they will likely continue to work with CMOs with track record in large-scale production, given the time needed to implement reliable production at scale. Beginning 2Q, Alnylam will release results from Phase I study of ALN-HDS (NASH), Phase II study of Zilebesiran (hypertension), and Phase I study of ALN-APP (Alzheimer's). The clinical outcome on oligonucleotide therapies for chronic diseases can serve as important catalyst driving oligonucleotide CMO demand.

Income statement

Year-end Dec 31 (KRWb)	2020	2021	2022E	2023E	2024E
Sales	124	166	232	341	410
Cost of goods sold	104	108	157	228	251
Gross profit	20	58	76	114	160
Gross margin (%)	16.1	34.9	32.5	33.3	38.9
SG&A expenses	39	52	56	65	71
Operating profit	-19	6	19	49	89
Operating margin (%)	-15.2	3.4	8.3	14.3	21.7
Non-operating gains (losses)	2	-4	6	15	3
Financial profit	6	6	14	19	7
Financial costs	4	6	8	4	4
Equity-method gains (losses)	0	0	0	0	0
Other	0	-4	-0	0	-0
Pre-tax profit	-17	1	26	64	91
Taxes	-4	-2	5	13	-39
Effective tax rate (%)	21.8	-168.0	19.2	20.0	-42.9
Profit from continuing operations	-13	3	21	51	131
Profit from discontinued operations	0	0	0	0	0
Net profit	-13	3	21	51	131
Net margin (%)	-10.6	2.0	8.9	14.9	31.8
Net profit (controlling interests)	-12	3	19	46	119
Net profit (non-controlling interests)	-1	0	2	4	12
EBITDA	-5	20	34	65	103
EBITDA margin (%)	-3.8	12.1	14.5	19.0	25.1
EPS (parent-based) (KRW)	-651	177	1,007	2,468	6,337
EPS (consolidated) (KRW)	-705	181	1,104	2,707	6,950
Adjusted EPS (KRW)*	-651	177	1,007	2,468	6,337

Cash flow statement

Year-end Dec 31 (KRWb)	2020	2021	2022E	2023E	2024E
Cash flow from operations	-21	7	39	69	125
Net profit	-13	3	21	51	131
Non-cash profit and expenses	13	25	24	29	-28
Depreciation	14	14	14	15	14
Amortization	0	0	1	0	0
Other	-1	10	9	13	-42
Changes in A/L from operating activities	-21	-21	-1	2	-17
Cash flow from investments	-69	-8	-29	-29	-5
Change in tangible assets	-17	-51	-27	-27	0
Change in financial assets	-47	40	-6	-6	-12
Other	-5	3	3	4	7
Cash flow from financing	116	-0	-17	-13	-28
Change in debt	111	-19	0	0	-15
Change in equity	6	21	0	0	0
Dividends	0	0	-9	-9	-9
Other	-1	-2	-8	-4	-4
Change in cash	26	1	-7	27	91
Cash at beginning of year	13	39	39	32	59
Cash at end of year	39	39	32	59	150
Gross cash flow	-0	28	44	80	103
Free cash flow	-38	-45	12	42	125

Note: * Excluding one-off items

** Fully diluted, excluding one-off items

*** From companies subject to equity-method valuation

Source: Company data, Samsung Securities estimates

Balance sheet

Year-end Dec 31 (KRWb)	2020	2021	2022E	2023E	2024E
Current assets	236	244	262	316	457
Cash & equivalents	39	39	32	59	150
Accounts receivable	45	63	71	80	96
Inventories	45	81	91	102	123
Other current assets	106	61	68	76	89
Fixed assets	210	254	267	278	264
Investment assets	10	15	15	16	16
Tangible assets	174	209	222	233	219
Intangible assets	10	13	12	12	11
Other long-term assets	16	18	18	18	18
Total assets	446	499	529	594	722
Current liabilities	19	75	93	117	122
Accounts payable	5	13	14	16	20
Short-term debt	0	0	0	0	0
Other current liabilities	14	63	79	101	103
Long-term liabilities	130	97	98	99	100
Bonds & long-term debt	126	91	91	91	91
Other long-term liabilities	5	6	6	7	8
Total liabilities	149	173	191	215	222
Owners of parent equity	295	323	333	370	478
Capital stock	9	9	9	9	9
Capital surplus	175	196	196	196	196
Retained earnings	112	116	125	162	272
Other	-1	2	2	2	1
Non-controlling interests' equity	1	3	5	9	21
Total equity	297	326	337	379	499
Net debt	4	24	26	-6	-123

Financial ratios

Year-end Dec 31	2020	2021	2022E	2023E	2024E
Growth (%)					
Sales	33.1	33.5	40.2	46.9	20.2
Operating profit	nm	nm	245.3	154.2	81.5
Net profit	nm	nm	514.7	145.2	156.7
Adjusted EPS**	nm	nm	467.1	145.2	156.7
Per-share data (KRW)					
EPS (parent-based)	-651	177	1,007	2,468	6,337
EPS (consolidated)	-705	181	1,104	2,707	6,950
Adjusted EPS**	-651	177	1,007	2,468	6,337
BVPS	15,830	17,171	17,678	19,646	25,430
DPS (common)	0	500	500	500	500
Valuations (x)					
P/E***	n/a	784.2	97.5	39.7	15.5
P/B***	6.6	8.1	5.5	5.0	3.9
EV/EBITDA	n/a	131.3	55.6	28.5	16.9
Ratios (%)					
ROE	-4.1	1.1	5.8	13.2	28.1
ROA	-3.3	0.7	4.0	9.1	19.9
ROIC	-5.8	5.2	4.8	11.8	37.4
Payout ratio	0.0	283.9	49.7	20.3	7.9
Dividend yield (common)	0.0	0.4	0.5	0.5	0.5
Net debt to equity	1.4	7.5	7.8	-1.7	-24.7
Interest coverage (x)	-29.2	1.1	2.6	11.3	22.1

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Target price changes in past two years



Rating changes over past two years (adjusted share prices)

Date	2020/3/17	5/4	7/17	8/28	9/17	2021/1/26	7/15	10/29	11/30
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	37000	43000	64000	80000	88000	100000	130000	110000	140000
Gap* (average)	-11.60	-7.16	-6.41	-19.79	-7.73	0.36	-21.70	-15.23	
(max or min)**	10.27	19.53	3.44	-6.75	26.70	43.50	-7.77	5.18	

Note: * [(average, maximum, or minimum share price over duration of target price minus target price) / target price] x 100%
 ** Maximum/minimum share price if new target is higher/lower than market close on the business day prior to target price change

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Industry

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Percentage of ratings in 12 months prior to 2022.03.31

BUY(85.4%)-HOLD(14.6%)-SELL(0%)

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