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▶ AT A GLANCE

Recommend	BUY	
Target price	KRW140,000	25.8%
Current price	KRW111,700	
Market cap	KRW2.1t/USD1.7b	
Shares (float)	18,808,775 (52.1%)	
52-week high/low	KRW144,500/KRW79,800	
Avg daily trading value (60-day)	KRW19.0b/ USD15.6m	

▶ ONE-YEAR PERFORMANCE

	1M	6M	12M
ST Pharm (%)	14.4	6.3	28.4
Vs Kosdaq (%pts)	9.4	21.7	32.5

▶ KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	140,000	140,000	0.0%
2021E EPS	235	235	0.0%
2022E EPS	1,539	1,733	-11.2%

▶ SAMSUNG vs THE STREET

No of estimates	5
Target price	164,000
Recommendation	4.0

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

ST Pharm (237690)

Bags major oligonucleotide drug deal

- ST Pharm has inked a deal to supply KRW80.7b worth of raw material for an oligonucleotide drug (rumored to be Novartis' dyslipidemia treatment Leqvio), the firm announced during market hours yesterday. Shares closed the day up more than 10%.
- Before this news, ST Pharm's share-price performance had been lackluster due to the prospect of weak oligo CMO demand—as: 1) Pfizer early this year announced the failure of clinical trials of Vupanorsen (PF-07285557); and 2) Eli Lilly recently revealed plans to construct its own RNA manufacturing facilities.
- With multinational pharmaceutical firms taking aggressive steps to develop new oligo-based drugs, ST Pharm should win more such orders. It needs to take more orders (ie, besides the Leqvio order) to prove the sustainability of its growth momentum.

WHAT'S THE STORY?

Wins KRW80.6b oligo CMO order: ST Pharm has concluded a deal to supply KRW80.7b worth of raw material for an oligonucleotide drug (over Mar 17, 2022-Jan 3, 2023), the firm announced yesterday. Considering the contract period and the drug being in the commercialization stage, it is rumored that the contract is to produce Novartis' dyslipidemia treatment Leqvio (inclisiran). Since the size of the order exceeded market expectations (KRW60b), shares leapt 10.8% at the news. With the contract, we now see the firm's 2022 sales slightly surpassing our previous forecast. We plan to revisit our forecast after the company confirms the timing of its shipments.

1Q22 preview: We estimate that consolidated sales will grow 99.8% y-y and 5.3% q-q to KRW54.5b in 1Q, and that ST Pharm will post an operating profit of KRW2.5b, turning positive q-q and y-y. Meanwhile, the company should book KRW10b in oligo-based hyperlipidemia drug sales (deferred from 4Q21) in 1Q results. We expect operating profit to head north from 2Q, backed by shipments of Novartis' Leqvio.

Maintaining BUY and target price: We maintain our DCF-based target price of KRW140,000. Shares have put in a sluggish performance recently due to: 1) the Phase II clinical trial failure of Pfizer's Vupanorsen (PF-07285557), announced early this year; and 2) Eli Lilly's plans to build its own RNA manufacturing facilities. Both the Pfizer and Eli Lilly news bode ill for oligo CMO demand. However, the world's leading pharmaceutical companies have been aggressively developing new oligo-based drugs, which points to more chances for ST Pharm to win additional orders down the road. The Korean firm needs to take more orders (ie, besides the Leqvio order) to prove the sustainability of its growth momentum.

SUMMARY OF FINANCIAL DATA

	2020	2021E	2022E	2023E
Revenue (KRWb)	124	166	232	338
Operating profit (KRWb)	-19	6	23	47
Net profit (adj) (KRWb)	-13	5	30	54
EPS (adj) (KRW)	-651	235	1,539	2,762
EPS (adj) growth (% y-y)	nm	nm	555.3	79.4
EBITDA margin (%)	-3.8	12.3	16.2	18.4
ROE (%)	-4.1	3.6	9.0	14.3
P/E (adj) (x)	n/a	592.5	72.3	40.3
P/B (x)	6.6	8.5	6.2	5.4
EV/EBITDA (x)	n/a	127.8	55.6	33.1
Dividend yield (%)	0.0	0.0	0.0	0.0

Source: Company data, Samsung Securities estimates

Income statement

Year-end Dec 31 (KRWb)	2019	2020	2021E	2022E	2023E
Sales	93	124	166	232	338
Cost of goods sold	95	104	108	155	229
Gross profit	-2	20	58	77	109
Gross margin (%)	-1.7	16.1	34.9	33.2	32.2
SG&A expenses	25	39	52	54	62
Operating profit	-27	-19	6	23	47
Operating margin (%)	-28.6	-15.2	3.7	10.1	13.9
Non-operating gains (losses)	2	2	4	12	17
Financial profit	3	6	7	12	17
Financial costs	1	4	3	0	0
Equity-method gains (losses)	0	0	0	0	0
Other	-0	0	-0	0	-0
Pre-tax profit	-25	-17	10	36	64
Taxes	-6	-4	-2	6	11
Effective tax rate (%)	25.8	21.8	-17.3	16.2	16.5
Profit from continuing operations	-19	-13	5	30	54
Profit from discontinued operations	0	0	0	0	0
Net profit	-19	-13	5	30	54
Net margin (%)	-19.9	-10.6	2.9	12.9	15.8
Net profit (controlling interests)	-19	-12	11	29	52
Net profit (non-controlling interests)	0	-1	-6	1	2
EBITDA	-16	-5	20	38	62
EBITDA margin (%)	-16.6	-3.8	12.3	16.2	18.4
EPS (parent-based) (KRW)	-993	-651	588	1,539	2,762
EPS (consolidated) (KRW)	-993	-705	256	1,588	2,849
Adjusted EPS (KRW)*	-993	-651	235	1,539	2,762

Cash flow statement

Year-end Dec 31 (KRWb)	2019	2020	2021E	2022E	2023E
Cash flow from operations	-31	-21	5	30	65
Net profit	-19	-13	5	30	54
Non-cash profit and expenses	8	13	15	14	19
Depreciation	11	14	14	14	15
Amortization	0	0	0	0	0
Other	-3	-1	1	-0	4
Changes in A/L from operating activities	-20	-21	-17	-8	3
Cash flow from investments	-10	-69	-6	-30	-30
Change in tangible assets	-6	-17	-31	-27	-27
Change in financial assets	22	-47	16	-9	-10
Other	-26	-5	9	6	7
Cash flow from financing	5	116	110	0	0
Change in debt	16	111	111	0	0
Change in equity	-3	6	0	0	0
Dividends	-9	0	0	0	0
Other	1	-1	-0	0	0
Change in cash	-35	26	111	1	36
Cash at beginning of year	48	13	39	150	150
Cash at end of year	13	39	150	150	186
Gross cash flow	-11	-0	20	44	73
Free cash flow	-37	-38	-26	3	38

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)	2019	2020	2021E	2022E	2023E
Current assets	144	236	360	387	452
Cash & equivalents	13	39	150	150	186
Accounts receivable	35	45	0	0	0
Inventories	41	45	83	93	105
Other current assets	55	106	127	143	161
Fixed assets	196	210	237	250	261
Investment assets	4	10	14	14	14
Tangible assets	170	174	198	210	222
Intangible assets	9	10	10	10	10
Other long-term assets	14	16	15	15	15
Total assets	341	446	598	637	713
Current liabilities	16	19	50	58	80
Accounts payable	7	5	0	0	0
Short-term debt	0	0	0	0	0
Other current liabilities	9	14	50	58	80
Long-term liabilities	21	130	244	244	245
Bonds & long-term debt	15	126	237	237	237
Other long-term liabilities	6	5	7	7	8
Total liabilities	37	149	293	302	325
Owners of parent equity	301	295	308	337	389
Capital stock	9	9	9	9	9
Capital surplus	169	175	175	175	175
Retained earnings	124	112	122	151	203
Other	-1	-1	1	1	1
Non-controlling interests' equity	2	1	-4	-3	-1
Total equity	303	297	304	334	388
Net debt	-35	4	18	9	-36

Financial ratios

Year-end Dec 31	2019	2020	2021E	2022E	2023E
Growth (%)					
Sales	-4.6	33.1	33.5	40.2	45.8
Operating profit	nm	nm	nm	284.7	100.5
Net profit	nm	nm	nm	525.2	79.4
Adjusted EPS**	nm	nm	nm	555.3	79.4
Per-share data (KRW)					
EPS (parent-based)	-993	-651	588	1,539	2,762
EPS (consolidated)	-993	-705	256	1,588	2,849
Adjusted EPS**	-993	-651	235	1,539	2,762
BVPS	16,125	15,830	16,363	17,903	20,665
DPS (common)	0	0	0	0	0
Valuations (x)					
P/E***	n/a	n/a	592.5	72.3	40.3
P/B***	1.8	6.6	8.5	6.2	5.4
EV/EBITDA	n/a	n/a	127.8	55.6	33.1
Ratios (%)					
ROE	-5.9	-4.1	3.6	9.0	14.3
ROA	-5.4	-3.3	0.9	4.8	7.9
ROIC	-8.5	-5.8	2.5	6.1	11.6
Payout ratio	0.0	0.0	0.0	0.0	0.0
Dividend yield (common)	0.0	0.0	0.0	0.0	0.0
Net debt to equity	-11.5	1.4	5.8	2.6	-9.4
Interest coverage (x)	-338.6	-29.2	n/a	n/a	n/a

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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

OVERWEIGHT	Expected to outperform market by 5% or more within 12 months
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Percentage of ratings in 12 months prior to 2021.12.31

BUY(89.3%)-HOLD(10.7%)-SELL(0%)

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