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Healthcare Team

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▶ AT A GLANCE

| | | |
|----------------------------------|-----------------------|--------------|
| Recommend | BUY | |
| Target price | KRW140,000 | 10.6% |
| Current price | KRW126,600 | |
| Market cap | KRW2.4t/USD2.0b | |
| Shares (float) | 18,656,000 (51.7%) | |
| 52-week high/low | KRW143,500/KRW69,500 | |
| Avg daily trading value (60-day) | KRW19.8b/ USD16.8m | |

▶ ONE-YEAR PERFORMANCE

| | 1M | 6M | 12M |
|---------------------|-------------|-------------|-------------|
| ST Pharm (%) | 37.3 | 16.0 | 62.5 |
| Vs Kosdaq (%pts) | 40.3 | 16.9 | 48.2 |

▶ KEY CHANGES

| (KRW) | New | Old | Diff |
|--------------|---------|---------|-------|
| Recommend. | BUY | BUY | |
| Target price | 140,000 | 140,000 | 0.0% |
| 2021E EPS | 953 | 917 | 3.9% |
| 2022E EPS | 1,527 | 1,561 | -2.2% |

▶ SAMSUNG vs THE STREET

| | |
|---|---------|
| No of estimates | 4 |
| Target price | 125,000 |
| Recommendation | 4.0 |
| BUY★★★: 5 / BUY: 4 / HOLD: 3 / SELL: 2 / SELL★★★: 1 | |

ST Pharm (237690)

Aggressive capex to cement position as global CMO

- ST Pharm on Nov 24 announced its new capacity expansion plans. Its oligonucleotide (oligo) CMO capacity is set to rise from 1.8 mol (as of Nov 2021) to 6.4 mol in 2022 and to 14 mol in 2025.
- Rumors are circulating that the firm produces Novartis' Leqvio. FDA approval of the oligo drug in 2022 would lead to ST Pharm's cGMP production facilities gaining a track record, likely leading to more oligo CMO orders.
- As the CMO is expanding capacity to keep up with growing oligo manufacturing demand, and further as its utilization should rise with time, we raise our 12-month target price to KRW140,000 and reiterate BUY.

WHAT'S THE STORY?

Aggressively investing in capacity to cement position as global CMO: ST Pharm on Nov 24 announced its new capacity expansion plans (after its expansion announcements in May and Aug 2020). Its oligonucleotide (oligo) CMO capacity is set to rise from 1.8 mol (as of Nov 2021) to 6.4 mol in 2022 and to 14 mol in 2025. ST Pharm is not the only player betting big on this space. Since 2020, oligo CMOs Avecia and Agilent have been adding capacity, while peptide manufacturer Bachem and new drug CMO firm Wuxi AppTec have announced that they will enter the oligo CMO arena. Yields, however, vary widely by oligo synthesis technology. ST Pharm boasts competitive yields, is set to secure the world's largest capacity, and has secured global pharma/biotech firms as clients. It is rumored to be producing Novartis' dyslipidemia treatment Leqvio. FDA approval of the oligo drug in 2022 would give ST Pharm's cGMP production facilities a track record, likely leading to more oligo CMO orders.

Leqvio—first oligo drug requiring significant volume production: Leqvio targets 1.6m patients and will need 1 tonne of production *pa* (based on estimated peak sales). With four hepatitis B virus treatments (requiring 1-2 tonnes of production *pa* each) and five cardiovascular treatments (at least 2 tonnes *pa* each) scheduled to be released over 2023-2028, the prospects are bright for CMO demand.

(Continued on the next page)

SUMMARY OF FINANCIAL DATA

| | 2020 | 2021E | 2022E | 2023E |
|--------------------------|------|-------|-------|-------|
| Revenue (KRWb) | 124 | 179 | 206 | 336 |
| Operating profit (KRWb) | -19 | 15 | 19 | 49 |
| Net profit (adj) (KRWb) | -13 | 19 | 29 | 49 |
| EPS (adj) (KRW) | -651 | 953 | 1,527 | 2,524 |
| EPS (adj) growth (% y-y) | nm | nm | 60.3 | 65.3 |
| EBITDA margin (%) | -3.8 | 16.8 | 16.6 | 18.6 |
| ROE (%) | -4.1 | 5.8 | 8.7 | 12.9 |
| P/E (adj) (x) | n/a | 132.9 | 82.9 | 50.2 |
| P/B (x) | 6.6 | 7.5 | 6.9 | 6.1 |
| EV/EBITDA (x) | n/a | 79.3 | 69.0 | 38.0 |
| Dividend yield (%) | 0.0 | 0.0 | 0.0 | 0.0 |

Source: Company data, Samsung Securities estimates

Maintaining BUY and raising target to KRW140,000: We raise our DCF-based target price to KRW140,000, as the CMO: 1) is expanding capacity to keep up with growing oligo manufacturing demand; and 2) should see its utilization rise with time. Its current capacity of 1.8 mol can produce 300-800 kg of oligos *pa*, likely rising to 6.4 mol in 2022 and 14 mol (2.3-7 tonnes) in 2025, with the new capacity set to reach full utilization in 2028 and 2030, respectively (considering the clinical stage of clients' oligo drugs, the number of target patients, the probability of clinical success, and the time from launch to peak sales (four years)). Yield per batch is likely to be kept at 50-70% given clinical and commercial batch schedules.

ST Pharm: Target price calculation

| (KRWb, KRW) | 2022E | | | Case | Major assumptions (reflecting oligonucleotide market growth) |
|-------------------------------|---------|---------|---------|------|--|
| | Base | Bull | Bear | | |
| ST Pharm (A=B+C+D) | 2,507 | 3,328 | 1,532 | | |
| Present value (B) | 323 | 454 | 190 | Base | • Oligo: Full utilization at 1.8 mol, utilization at 20-50% with additional capacity of 4.6 mol • Production efficiency: 70% at 6.4 mol, 50% at 7.6 mol |
| PV of terminal value (C) | 2,208 | 2,897 | 1,365 | | |
| Net cash (D) | -23 | -23 | -23 | | |
| Outstanding shares ('000) (E) | 18,656 | 18,656 | 18,656 | Bull | • Oligo: Full utilization at 1.8 mol, utilization at 30-60% with additional capacity of 4.6 mol • Production efficiency: 70% at full capacity (14 mol) |
| Fair price per share (A/E) | 134,397 | 178,388 | 82,101 | | |
| Target price | 140,000 | 180,000 | 80,000 | | |
| Current price | 115,500 | 115,500 | 115,500 | Bear | • Oligo: Full utilization at 1.8 mol, utilization at 15-40% with additional capacity of 4.6 mol • Production efficiency: 70% at 1.8 mol, 50% within 7.6 mol |
| Upside | 21.2 | 55.8 | -30.7 | | |

Note: Major assumptions are for oligonucleotide CMOs;

Downstream demand—i.e, from oligonucleotide therapies—affects: 1) timing of full utilization; and 2) potential increase in competitors' capacity

Source: Samsung Securities estimates

ST Pharm: DCF valuation

| (KRWb) | 2022E | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E |
|-----------------------------|-------|-------|-------|-------|-------|-------|-------|
| New drug API | 142 | 250 | 320 | 392 | 467 | 531 | 596 |
| Chg (y-y) | 21.4 | 76.1 | 27.8 | 22.6 | 18.9 | 13.8 | 12.1 |
| Chemical API | 15 | 15 | 17 | 19 | 22 | 26 | 31 |
| Chg (y-y) | 4.5 | 6.7 | 10.1 | 12.2 | 14.6 | 17.5 | 21.0 |
| Oligonucleotide API | 128 | 235 | 303 | 373 | 445 | 506 | 565 |
| Chg (y-y) | 23.7 | 84.0 | 28.9 | 23.2 | 19.2 | 13.7 | 11.7 |
| Generic API | 32 | 33 | 33 | 34 | 34 | 34 | 35 |
| Chg (y-y) | 2.4 | 2.1 | 1.8 | 1.5 | 1.2 | 0.9 | 0.7 |
| Fine chemical API | 32 | 33 | 34 | 35 | 36 | 37 | 38 |
| Chg (y-y) | 3.9 | 3.7 | 3.5 | 3.4 | 3.2 | 3.0 | 2.9 |
| mRNA | 0 | 20 | 20 | 20 | 20 | 20 | 20 |
| Sales | 206 | 336 | 407 | 481 | 557 | 623 | 689 |
| Chg (y-y) | 15.1 | 63.2 | 21.2 | 18.2 | 15.8 | 11.9 | 10.5 |
| EBIT | 19 | 49 | 92 | 138 | 179 | 216 | 252 |
| TAX | 4 | 11 | 20 | 30 | 39 | 47 | 55 |
| NOPAT | 15 | 38 | 72 | 108 | 140 | 168 | 197 |
| Depreciation | 15 | 14 | 13 | 12 | 11 | 11 | 10 |
| Capex | 0 | 0 | 0 | 7 | 7 | 7 | 7 |
| Increase in working capital | 13 | 75 | 41 | 7 | 7 | 7 | 8 |
| FCF | -13 | -51 | 18 | 96 | 128 | 157 | 186 |
| WACC (%) | 8.0 | | | | | | |
| Terminal growth rate (%) | 3.0 | | | | | | |
| Terminal value at 2028 | | | | | | | 3,794 |
| Discount (%) | 7.4 | 14.3 | 20.7 | 26.6 | 32.1 | 37.1 | 41.8 |
| PV (A) | -12 | -44 | 14 | 70 | 87 | 99 | 108 |
| PV of terminal value (B) | | | | | | | 2,208 |
| EV (A+B) | 2,546 | | | | | | |

Note: COE=8.4%, risk-free rate (1.2%; 3-year KTB yield) + market risk premium 9.1% x beta of 0.8, COD = 7.2%, terminal growth=3%

Source: Samsung Securities estimates

Income statement

| Year-end Dec 31 (KRWb) | 2019 | 2020 | 2021E | 2022E | 2023E |
|--|------------|------------|------------|------------|------------|
| Sales | 93 | 124 | 179 | 206 | 336 |
| Cost of goods sold | 95 | 104 | 113 | 145 | 228 |
| Gross profit | -2 | 20 | 66 | 61 | 108 |
| Gross margin (%) | -1.7 | 16.1 | 36.7 | 29.5 | 32.1 |
| SG&A expenses | 25 | 39 | 50 | 41 | 59 |
| Operating profit | -27 | -19 | 15 | 19 | 49 |
| Operating margin (%) | -28.6 | -15.2 | 8.7 | 9.4 | 14.4 |
| Non-operating gains (losses) | 2 | 2 | 5 | 15 | 12 |
| Financial profit | 3 | 6 | 8 | 15 | 12 |
| 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 | 21 | 34 | 61 |
| Taxes | -6 | -4 | 2 | 5 | 12 |
| Effective tax rate (%) | 25.8 | 21.8 | 9.5 | 13.3 | 20.0 |
| Profit from continuing operations | -19 | -13 | 19 | 29 | 49 |
| Profit from discontinued operations | 0 | 0 | 0 | 0 | 0 |
| Net profit | -19 | -13 | 19 | 29 | 49 |
| Net margin (%) | -19.9 | -10.6 | 10.4 | 14.3 | 14.5 |
| Net profit (controlling interests) | -19 | -12 | 18 | 28 | 47 |
| Net profit (non-controlling interests) | 0 | -1 | 1 | 1 | 1 |
| EBITDA | -16 | -5 | 30 | 34 | 62 |
| EBITDA margin (%) | -16.6 | -3.8 | 16.8 | 16.6 | 18.6 |
| EPS (parent-based) (KRW) | -993 | -651 | 953 | 1,527 | 2,524 |
| EPS (consolidated) (KRW) | -993 | -705 | 997 | 1,575 | 2,604 |
| Adjusted EPS (KRW)* | -993 | -651 | 953 | 1,527 | 2,524 |

Cash flow statement

| Year-end Dec 31 (KRWb) | 2019 | 2020 | 2021E | 2022E | 2023E |
|--|------------|------------|------------|-----------|------------|
| Cash flow from operations | -31 | -21 | 15 | 22 | -22 |
| Net profit | -19 | -13 | 19 | 29 | 49 |
| Non-cash profit and expenses | 8 | 13 | 18 | 10 | 14 |
| Depreciation | 11 | 14 | 15 | 15 | 14 |
| Amortization | 0 | 0 | 0 | 0 | 0 |
| Other | -3 | -1 | 4 | -5 | -0 |
| Changes in A/L from operating activities | -20 | -21 | -20 | -13 | -72 |
| Cash flow from investments | -10 | -69 | -20 | 1 | -38 |
| Change in tangible assets | -6 | -17 | -46 | 0 | 0 |
| Change in financial assets | 22 | -47 | 16 | -9 | -50 |
| Other | -26 | -5 | 10 | 9 | 12 |
| Cash flow from financing | 5 | 116 | 0 | 0 | 50 |
| Change in debt | 16 | 111 | 1 | 0 | 50 |
| 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 | -2 | 23 | -10 |
| Cash at beginning of year | 48 | 13 | 39 | 36 | 59 |
| Cash at end of year | 13 | 39 | 36 | 59 | 49 |
| Gross cash flow | -11 | -0 | 37 | 39 | 62 |
| Free cash flow | -37 | -38 | -31 | 22 | -22 |

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 | 247 | 296 | 434 |
| Cash & equivalents | 13 | 39 | 36 | 59 | 49 |
| Accounts receivable | 35 | 45 | 0 | 0 | 0 |
| Inventories | 41 | 45 | 83 | 93 | 152 |
| Other current assets | 55 | 106 | 127 | 143 | 232 |
| Fixed assets | 196 | 210 | 252 | 237 | 223 |
| Investment assets | 4 | 10 | 14 | 14 | 14 |
| Tangible assets | 170 | 174 | 212 | 198 | 184 |
| Intangible assets | 9 | 10 | 10 | 10 | 10 |
| Other long-term assets | 14 | 16 | 15 | 15 | 15 |
| Total assets | 341 | 446 | 499 | 533 | 657 |
| Current liabilities | 16 | 19 | 47 | 51 | 74 |
| Accounts payable | 7 | 5 | 0 | 0 | 0 |
| Short-term debt | 0 | 0 | 0 | 0 | 0 |
| Other current liabilities | 9 | 14 | 47 | 51 | 74 |
| Long-term liabilities | 21 | 130 | 134 | 134 | 187 |
| Bonds & long-term debt | 15 | 126 | 127 | 127 | 177 |
| Other long-term liabilities | 6 | 5 | 7 | 7 | 11 |
| Total liabilities | 37 | 149 | 181 | 185 | 262 |
| Owners of parent equity | 301 | 295 | 315 | 343 | 389 |
| Capital stock | 9 | 9 | 9 | 9 | 9 |
| Capital surplus | 169 | 175 | 175 | 175 | 175 |
| Retained earnings | 124 | 112 | 129 | 158 | 205 |
| Other | -1 | -1 | 1 | 1 | 0 |
| Non-controlling interests' equity | 2 | 1 | 3 | 4 | 6 |
| Total equity | 303 | 297 | 318 | 347 | 395 |
| Net debt | -35 | 4 | 21 | -10 | 0 |

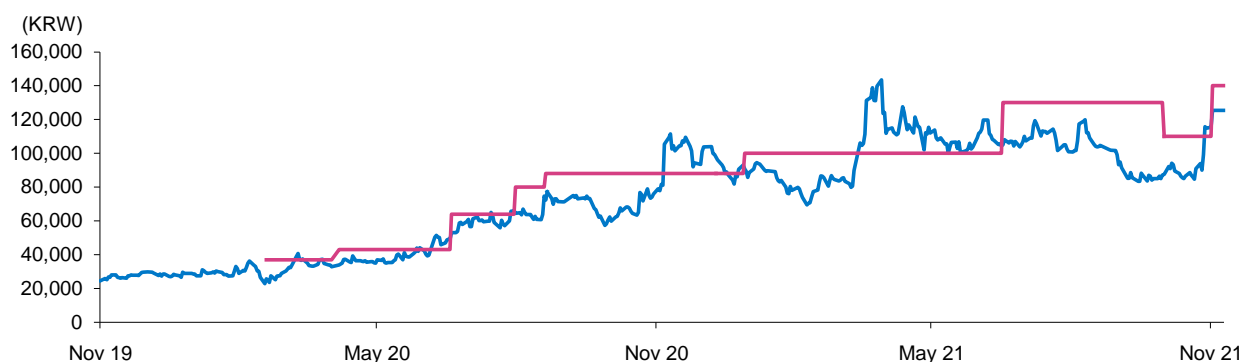
Financial ratios

| Year-end Dec 31 | 2019 | 2020 | 2021E | 2022E | 2023E |
|-----------------------------|--------|--------|--------|--------|--------|
| Growth (%) | | | | | |
| Sales | -4.6 | 33.1 | 44.0 | 15.1 | 63.2 |
| Operating profit | nm | nm | nm | 24.6 | 151.1 |
| Net profit | nm | nm | nm | 58.1 | 65.3 |
| Adjusted EPS** | nm | nm | nm | 60.3 | 65.3 |
| Per-share data (KRW) | | | | | |
| EPS (parent-based) | -993 | -651 | 953 | 1,527 | 2,524 |
| EPS (consolidated) | -993 | -705 | 997 | 1,575 | 2,604 |
| Adjusted EPS** | -993 | -651 | 953 | 1,527 | 2,524 |
| BVPS | 16,125 | 15,830 | 16,863 | 18,390 | 20,865 |
| DPS (common) | 0 | 0 | 0 | 0 | 0 |
| Valuations (x) | | | | | |
| P/E*** | n/a | n/a | 132.9 | 82.9 | 50.2 |
| P/B*** | 1.8 | 6.6 | 7.5 | 6.9 | 6.1 |
| EV/EBITDA | n/a | n/a | 79.3 | 69.0 | 38.0 |
| Ratios (%) | | | | | |
| ROE | -5.9 | -4.1 | 5.8 | 8.7 | 12.9 |
| ROA | -5.4 | -3.3 | 3.9 | 5.7 | 8.2 |
| ROIC | -8.5 | -5.8 | 4.7 | 5.1 | 10.8 |
| 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 | 6.7 | -2.9 | 0.0 |
| 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) | 37,000 | 43,000 | 64,000 | 80,000 | 88,000 | 100,000 | 130,000 | 110,000 | 140,000 |
| 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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| | |
|-------------|--|
| BUY | Expected to increase in value by 10% or more within 12 months and is highly attractive within sector |
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Industry

| | |
|--------------------|---|
| OVERWEIGHT | Expected to outperform market by 5% or more within 12 months |
| NEUTRAL | Expected to outperform/underperform market by less than 5% within 12 months |
| UNDERWEIGHT | Expected to underperform market by 5% or more within 12 months |

Percentage of ratings in 12 months prior to Sep 30, 2021

BUY (87.1%) | HOLD (12.9%) | SELL (0%)

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