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Healthcare Team

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▶ AT A GLANCE

Recommend	BUY	
Target price	KRW120,000	44.1%
Current price	KRW83,300	
Market cap	KRW1.6/USD1.1b	
Shares (float)	18,808,775 (52.1%)	
52-week high/low	KRW144,500/KRW76,900	
Avg daily trading value (60-day)	KRW8.9b/USD6.3m	

▶ ONE-YEAR PERFORMANCE

	1M	6M	12M
ST Pharm (%)	1.0	-15.1	-4.8
Vs Kosdaq (%pts)	-2.3	10.5	35.9

▶ KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	120,000	140,000	-14.3%
2022E EPS	1,246	769	62.0%
2023E EPS	1,553	2,118	-26.7%

▶ SAMSUNG vs THE STREET

No of estimates	13
Target price	134,231
Recommendation	4.0
BUY★★★: 5 / BUY: 4 / HOLD: 3 / SELL: 2 / SELL★★★: 1	

ST Pharm (237690)

3Q disappoints as clients adjust production volume

- **3Q review:** ST Pharm partially deferred oligonucleotide CDMO sales to 4Q. Operating profit missed consensus, due to increases in the costs of capacity expansion and R&D at subsidiaries.
- **Maintain BUY and cut target price to KRW120,000:** We revise our target price, as we lower our assumption for ST Pharm's capacity utilization in light of the pace of CMO contract implementation.

WHAT'S THE STORY?

3Q review: ST Pharm posted consolidated 3Q sales of KRW60.8b (up 31.4% y-y; up 19% q-q), an operating profit of KRW4.5b (down 41.6% y-y; up 28.5% q-q), and a net profit of KRW9.9b (up 28.3% y-y; up 193.1% q-q). Sales met consensus while operating profit fell short by 39.4%. Oligonucleotide CDMO sales increased 27.7% y-y and 45.6% q-q to KRW39.3b, consisting of KRW27.1b in hyperlipidemia treatment (probably Leqvio), KRW5.7b in macular degeneration treatment, and KRW3.3b in monomers. The company prioritized commercial drug manufacturing at clients' request, deferring KRW15b worth of arteriosclerosis treatment sales to 4Q. Operating profit disappointed on: 1) a fall in ASP driven by commercial drug manufacturing; 2) costs of capacity expansions at its European CRO subsidiaries; and 3) a KRW2b q-q rise in R&D costs at its US drug development subsidiary. Net profit grew as forex gains swelled to KRW7.1b.

Maintain BUY and cut target price to KRW120,000: We cut our DCF-based target price to KRW120,000, as we lower our assumption for ST Pharm's contract manufacturing capacity utilization in light of: 1) an extended contract period for existing oligonucleotide-related orders; and 2) major developers' clinical results and portfolio changes.

(Continued on the next page)

ST Pharm 3Q22 review

(KRWb)	3Q22	2Q22	Chg (% q-q)	3Q21	Chg (% y-y)	Consensus	Diff (%)	Samsung	Diff (%)
Sales	60.8	51.1	19.0	46.3	31.4	60.9	(0.1)	78.6	(22.6)
Operating profit	4.5	3.5	28.5	7.8	(41.6)	7.5	(39.4)	8.2	(44.6)
Pre-tax profit	11.9	4.6	156.1	9.5	25.3	10.4	14.0	8.5	39.8
Net profit	9.9	3.4	193.1	7.7	28.3	5.5	79.1	6.1	62.7
Margins (%)									
Operating profit	7.5	6.9		16.8		12.3		10.4	
Pre-tax profit	19.5	9.1		20.5		17.1		10.8	
Net profit	16.3	6.6		16.7		9.1		7.8	

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	225	18	27	24	1,246	602.2	66.8	52	47.9	4.6	7.1
2023E	270	30	41	33	1,553	24.6	53.6	54	34.7	4.4	8.4
2024E	327	61	86	69	3,266	110.3	25.5	-6	20.4	3.8	16.0

Source: Company data, Samsung Securities estimates

CMOs fetch higher valuations when: 1) they receive sizeable orders that can quickly fill their production capacity; and 2) they actually raise their capacity utilizations to achieve stronger profit growth. As ST Pharm's major products will start to be manufactured in 2024, earnings growth expectations should be priced in from 2H23. ST Pharm also has the possibility of winning mRNA platform-related deals. Such deals are possible based on non-clinical data, but are more likely after an ongoing COVID-19 vaccine clinical trial demonstrates safety in 2Q23.

Income statement

Year-end Dec 31 (KRWb)	2020	2021	2022E	2023E	2024E
Sales	124	166	225	270	327
Cost of goods sold	104	108	139	176	201
Gross profit	20	58	86	93	126
Gross margin (%)	16.1	34.9	38.3	34.7	38.6
SG&A expenses	39	52	68	63	66
Operating profit	-19	6	18	30	61
Operating margin (%)	-15.2	3.4	8.2	11.3	18.5
Non-operating gains (losses)	2	-4	9	11	26
Financial profit	6	6	14	11	26
Financial costs	4	6	4	0	0
Equity-method gains (losses)	0	0	0	0	0
Other	0	-4	-1	0	-0
Pre-tax profit	-17	1	27	41	86
Taxes	-4	-2	3	8	17
Effective tax rate (%)	21.8	-168.0	11.2	20.0	20.0
Profit from continuing operations	-13	3	24	33	69
Profit from discontinued operations	0	0	0	0	0
Net profit	-13	3	24	33	69
Net margin (%)	-10.6	2.0	10.9	12.2	21.1
Net profit (controlling interests)	-12	3	23	29	61
Net profit (non-controlling interests)	-1	0	1	4	8
EBITDA	-5	20	34	47	77
EBITDA margin (%)	-3.8	12.1	15.1	17.4	23.6
EPS (parent-based) (KRW)	-651	177	1,246	1,553	3,266
EPS (consolidated) (KRW)	-705	181	1,296	1,747	3,674
Adjusted EPS (KRW)*	-651	177	1,246	1,553	3,266

Cash flow statement

Year-end Dec 31 (KRWb)	2020	2021	2022E	2023E	2024E
Cash flow from operations	-21	7	26	35	69
Net profit	-13	3	24	33	69
Non-cash profit and expenses	13	25	24	25	34
Depreciation	14	14	15	16	16
Amortization	0	0	1	1	1
Other	-1	10	8	8	17
Changes in A/L from operating activities	-21	-21	-16	-15	-16
Cash flow from investments	-69	-8	-58	-35	-9
Change in tangible assets	-17	-51	-53	-27	0
Change in financial assets	-47	40	-18	-8	-9
Other	-5	3	13	0	0
Cash flow from financing	116	-0	6	-9	-9
Change in debt	111	-19	21	0	0
Change in equity	6	21	0	0	0
Dividends	0	0	-9	-9	-9
Other	-1	-2	-6	0	0
Change in cash	26	1	-24	-9	51
Cash at beginning of year	13	39	39	15	6
Cash at end of year	39	39	15	6	58
Gross cash flow	-0	28	48	58	103
Free cash flow	-38	-45	-28	8	69

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	254	275	359
Cash & equivalents	39	39	15	6	58
Accounts receivable	45	63	0	0	0
Inventories	45	81	120	135	152
Other current assets	106	61	118	133	150
Fixed assets	210	254	298	308	292
Investment assets	10	15	14	15	15
Tangible assets	174	209	249	260	243
Intangible assets	10	13	12	11	11
Other long-term assets	16	18	22	22	22
Total assets	446	499	551	583	651
Current liabilities	19	75	93	101	109
Accounts payable	5	13	0	0	0
Short-term debt	0	0	0	0	0
Other current liabilities	14	63	93	101	109
Long-term liabilities	130	97	116	116	117
Bonds & long-term debt	126	91	105	105	105
Other long-term liabilities	5	6	11	11	12
Total liabilities	149	173	209	217	226
Owners of parent equity	295	323	338	358	410
Capital stock	9	9	9	9	9
Capital surplus	175	196	196	196	196
Retained earnings	112	116	130	149	201
Other	-1	2	4	4	4
Non-controlling interests' equity	1	3	4	8	15
Total equity	297	326	342	366	426
Net debt	4	24	52	54	-6

Financial ratios

Year-end Dec 31	2020	2021	2022E	2023E	2024E
Growth (%)					
Sales	33.1	33.5	35.5	20.1	21.4
Operating profit	nm	nm	228.2	66.6	98.5
Net profit	nm	nm	621.9	34.8	110.3
Adjusted EPS**	nm	nm	602.2	24.6	110.3
Per-share data (KRW)					
EPS (parent-based)	-651	177	1,246	1,553	3,266
EPS (consolidated)	-705	181	1,296	1,747	3,674
Adjusted EPS**	-651	177	1,246	1,553	3,266
BVPS	15,830	17,171	17,993	19,046	21,812
DPS (common)	0	500	500	500	500
Valuations (x)					
P/E***	n/a	784.2	66.8	53.6	25.5
P/B***	6.6	8.1	4.6	4.4	3.8
EV/EBITDA	n/a	131.3	47.9	34.7	20.4
Ratios (%)					
ROE	-4.1	1.1	7.1	8.4	16.0
ROA	-3.3	0.7	4.6	5.8	11.2
ROIC	-5.8	5.2	4.6	6.1	11.8
Payout ratio	0.0	283.9	40.1	32.2	15.3
Dividend yield (common)	0.0	0.4	0.6	0.6	0.6
Net debt to equity	1.4	7.5	15.3	14.8	-1.3
Interest coverage (x)	-29.2	1.1	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	2020/9/17	2021/1/26	7/15	10/29	11/30	2022/11/1
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	88000	100000	130000	110000	140000	120000
Gap* (average)	-7.73	0.36	-21.70	-15.23	-27.62	
(max or min)**	26.70	43.50	-7.77	5.18	3.21	

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 2022.09.30

BUY(84%)-HOLD(16%)-SELL(0%)

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