

ST Pharm (237690 KQ)

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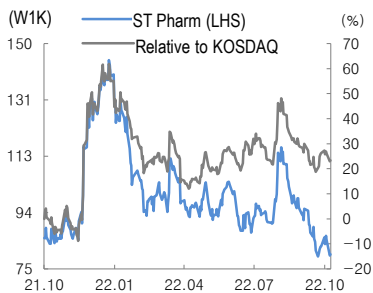
Rating **BUY**
maintain

6M TP (W) **120,000**
reduce

CP (W)
(22.10.12) **79,900**

Pharmaceuticals

KOSDAQ	671.67
Market cap (Wbn)	1,503
Market cap portion (%)	0.45
Paid-in capital (common; Wbn)	9
52w high/low (W)	144,500 / 79,100
120d avg. trading volume (Wbn)	8.4
Foreign ownership (%)	0.00
Major shareholders	Dong-A Socio Holdings+5: 46.49% NPS: 8.17%
(%)	1M 3M 6M 12M
Abs. return	-15.9 -15.4 -13.4 -4.2
Rel. return	-2.6 -5.4 17.8 34.1



Forward path clear

BUY maintained; 6M TP bumped down 17.2% to W120,000

- Our new target price for the pharmaceutical ingredient supplier, which reflects our reduced 2023 earnings outlook and a higher discount rate resulting from rising interest rates, is based on a sum-of-the-parts model that combines its discounted cash flow-derived operating value and net borrowings.

3Q22 OP to meet expectation, even with sales deferred from 2Q22

- ST Pharm is poised to post revenue of W59.2bn (up 27.8% yoy), 9% below the market's view of W65.4bn, and in-line OP of W7.9bn (up 1.6% yoy; 13.4% margin) for 3Q22. That includes the recognition of oligonucleotide sales carried over from 2Q22. (Likely booked in full, the key product's sales jumped an estimated 30.1% to W40.1bn.)

- The September delivery of oligonucleotide for a new arteriosclerosis drug (likely pelacarsen) has been pushed back to November, deferring some W11bn in sales to 4Q22. That'll push up the product's sales in the year-end quarter to W48.3bn (up 82.3%) for a full-year total of W132.1bn (up 52.7%).

- Both R&D and payroll costs will likely keep rising this year. Still, full-year OP is forecast to soar 202.4% to W16.9bn (7.5% margin) on the dollar's rally.

2023 to see stronger oligonucleotide sales, fresh orders for mRNA technology

- The company is expected to see an uptick in orders for oligonucleotide in 2023 as more RNA-based drugs make clinical progress. Results of phase 3 trials on investigative myelodysplasia drug imetelstat (Geron) and cardiovascular drug candidate olezarsen (Ionis Pharmaceuticals) are set to be made public in January 2023 and 2H23, respectively.

- It is in talks with a global drug company for a partnership deal regarding its proprietary mRNA 5-capping reagent SmartCap. Equipped with in-house production capabilities and price edge, we believe ST Pharm is better positioned than rival TriLink Bio Technologies (CleanCap) to win new orders.

	3Q21	2Q22	Previous estimate	Daishin estimate	3Q22(F)			4Q22		
					YoY	QoQ	Consensus	Daishin estimate	YoY	QoQ
Revenue	46	51	69	59	27.8	15.8	65	77	48.5	29.9
OP	8	4	10	8	1.6	123.5	8	5	TTB	-38.1
NP	8	3	8	6	-25.2	64.8	6	3	TTB	-39.9

Source: ST Pharm, FnGuide, Daishin Securities Research Center

Operating results and major financial data

	2020A	2021A	2022F	2023F	2024F
Revenue	124	166	224	283	353
OP	-19	6	17	41	60
Pretax profit	-17	1	19	43	61
NP	-13	3	14	33	47
NP (controlling int.)	-12	3	14	33	47
EPS	-651	177	760	1,750	2,495
PER	NA	784.2	108.5	47.1	33.0
BPS	15,830	17,308	17,431	19,182	21,676
PBR	6.6	8.0	4.6	4.2	3.7
ROE	-4.1	1.1	4.4	9.6	12.2

Note: EPS, BPS, and ROE are based only on the controlling interest.
Source: ST Pharm, Daishin Securities Research Center

Yearly earnings forecast revision (Wbn, W, %, %p)

	Previous		Revised		Chg	
	2022F	2023F	2022F	2023F	2022F	2023F
Revenue	224	301	224	283	-0.1	-6.0
SG&A expense	74	90	75	85	1.4	-6.1
OP	16	45	17	41	5.0	-8.8
OP margin	7.2	15.0	7.5	14.5	0.4	-0.4
Non-operating profit	2	2	2	2	0.0	0.0
Pretax profit	18	47	19	43	4.5	-8.4
NP (controlling int.)	14	36	14	33	4.5	-8.4
NP margin	6.1	11.9	6.4	11.6	0.3	-0.3
EPS (controlling int.)	727	1,912	760	1,750	4.5	-8.4

Source: ST Pharm, Daishin Securities Research Center

Tab 1. Earnings projections (Wbn, %)

	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22E	4Q22E	2021	2022E	2023E
Revenue	27.3	40.4	46.3	51.7	38.2	51.1	59.2	76.8	165.6	225.3	283.4
YoY	35.2%	19.5%	106.8%	8.3%	40.1%	26.7%	27.8%	48.5%	33.5%	36.0%	25.8%
APIs for new drugs	11.4	25.3	31.4	36.3	19.9	30.6	42.9	60.9	104.4	154.3	210.6
Small molecule	2.9	4.6	0.6	9.8	1.9	0.1	0.7	7.9	17.9	10.6	12.8
Oligonucleotide	8.5	20.7	30.8	26.5	16.8	27.0	40.1	48.3	86.5	132.1	182.7
mRNA	0.0	0.0	0.0	0.0	1.2	3.5	2.2	4.7	0.0	11.6	15.1
APIs for generics	9.0	8.0	6.9	9.5	6.0	11.8	7.4	9.6	33.4	34.8	35.3
Others	6.9	7.1	8.0	5.9	12.3	8.7	8.9	6.4	27.7	36.3	37.4
GP	4.3	17.0	21.7	14.7	16.6	20.2	25.3	29.5	57.7	91.6	126.1
YoY	3262.7%	229.8%	2128.1%	6.9%	283.7%	18.7%	16.7%	101.0%	188.9%	58.7%	37.6%
GP margin	15.9%	42.2%	46.9%	28.4%	43.4%	39.5%	42.8%	38.4%	34.9%	40.7%	44.5%
OP	(6.5)	4.9	7.8	(0.6)	0.5	3.5	7.9	4.9	5.6	16.9	41.2
YoY	CL	TTB	TTB	TTR	TTB	-27.5%	1.6%	TTB	-129.6%	202.4%	144.4%
OP margin	-23.9%	12.1%	16.8%	-1.1%	1.4%	6.9%	13.4%	6.4%	3.4%	7.5%	14.5%
NP	(5.1)	5.7	7.7	(5.0)	2.1	3.4	5.6	3.1	3.4	14.3	32.9
YoY	CL	124.1%	TTB	CL	TTB	-40.2%	-27.5%	TTB	-125.7%	323.1%	130.4%
NP margin	-18.6%	14.0%	16.7%	-9.6%	5.6%	6.6%	9.5%	4.1%	2.0%	6.3%	11.6%

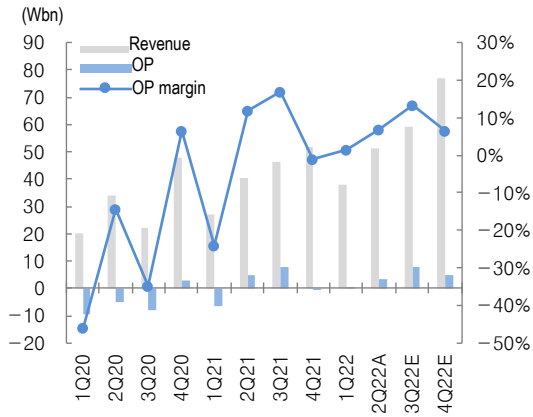
Source: Daishin Securities Research Center

Tab 2. Valuation (Wbn, 1K shares, W, %)

	가치	Detail
Operating value (A)	2,325	DCF valuation
Sum of NPV of FCFF	680	
NPV of TV	1,881	
Net borrowings (B)	34	end-2022E
Enterprise value (A-B)	2,291	
# of common shares (thousands)	18,809	
Target price (W)	120,000	

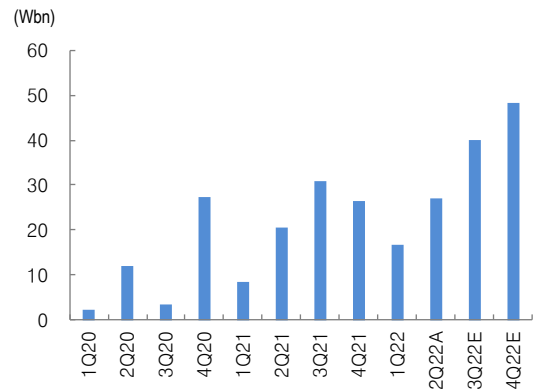
Source: Daishin Securities Research center

Fig 1. Revenue and OP



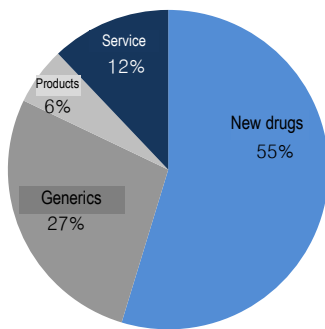
Source: ST Pharm, Daishin Securities Research Center

Fig 2. Oligonucleotide sales



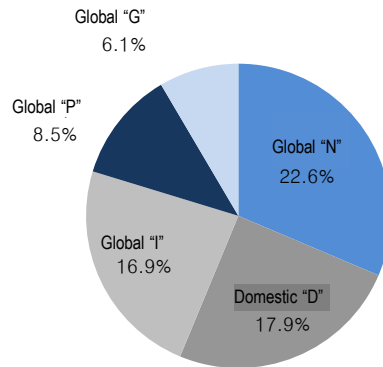
Source: ST Pharm, Daishin Securities Research Center

Fig 3. Revenue mix



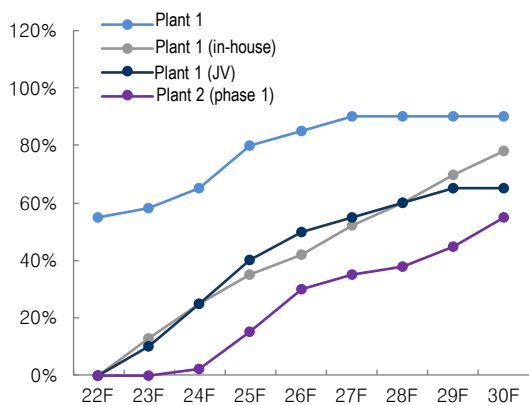
Note: As of 2Q22 (consolidated)
Source: ST Pharm, Daishin Securities Research Center

Fig 4. Customer mix



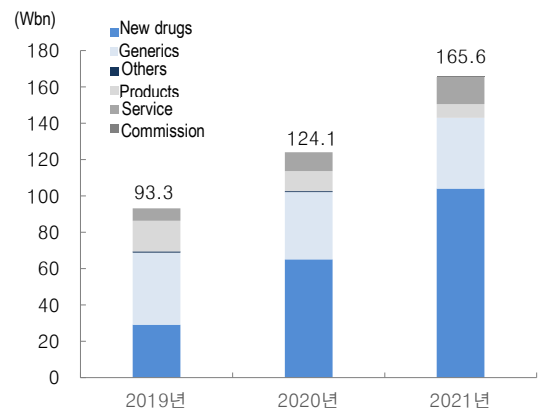
Note: As of 2Q22 (consolidated)
Source: ST Pharm, Daishin Securities Research Center

Fig 5. Plant utilization



Source: ST Pharm, Daishin Securities Research Center

Fig 6. Revenue forecasts



Source: ST Pharm, Daishin Securities Research Center

Financial statements

Income statement	(Wbn)				
	2020A	2021A	2022F	2023F	2024F
Revenue	124	166	224	283	353
Cost of goods sold	104	108	132	157	193
Gross profit	20	58	92	126	159
SG&A expenses	39	52	75	85	100
OP	-19	6	17	41	60
OP margin	-15.2	3.4	7.5	14.5	16.9
EBITDA	-5	20	32	59	82
Non-OP	2	-4	2	2	2
Income from affiliates	0	0	0	0	0
Financial revenue	6	6	3	3	3
FX related gains	0	0	0	0	0
Financial expense	-4	-6	-1	-1	-1
FX related losses	4	1	1	1	1
Others	0	-4	0	0	0
Income before taxes	-17	1	19	43	61
Income tax expense	4	2	-4	-10	-14
Income from cont. op.	-13	3	14	33	47
Income from discount. op.	0	0	0	0	0
NP	-13	3	14	33	47
NP margin	-10.6	2.0	6.4	11.6	13.3
NP for non-contr. interest	-1	0	0	0	0
NP for contr. interest	-12	3	14	33	47
Valuation of AFS fin. assets	0	0	0	0	0
Other compreh. income	0	0	0	0	0
Comprehensive income	-13	5	16	35	49
Comp. income for non-contr. int.	-1	0	0	0	0
Comp. income for contr. int.	-12	5	16	35	49

Valuation metrics	(W, x, %)				
	2020A	2021A	2022F	2023F	2024F
EPS	-651	177	760	1,750	2,495
PER	NA	784.2	108.5	47.1	33.0
BPS	15,830	17,308	17,431	19,182	21,676
PBR	6.6	8.0	4.6	4.2	3.7
EBITDAPS	-255	1,071	1,684	3,152	4,373
EV/EBITDA	NA	130.8	48.6	25.5	17.9
SPS	6,652	8,877	11,916	15,067	18,765
PSR	15.6	15.7	6.7	5.3	4.3
CFPS	-8	1,495	2,084	3,552	4,773
DPS	0	500	0	0	0

Financial ratios	(W, x, %)				
	2020A	2021A	2022F	2023F	2024F
Growth potential					
Revenue growth	33.1	33.5	35.3	26.4	24.5
OP growth	CL	TTB	202.4	144.4	44.4
NP growth	CL	TTB	323.1	130.4	42.5
Profitability					
ROIC	-5.7	5.1	3.8	9.0	12.8
ROA	-4.8	1.2	3.2	7.0	8.3
ROE	-4.1	1.1	4.4	9.6	12.2
Stability					
Debt ratio	50.1	52.9	63.8	74.0	97.1
Net borrowings ratio	-4.6	4.4	10.3	1.7	-9.1
Interest coverage ratio	-29.2	1.1	0.0	0.0	0.0

Source: ST Pharm, Daishin Securities Research Center

Balance sheet	(Wbn)				
	2020A	2021A	2022F	2023F	2024F
Current assets	236	244	282	356	521
Cash & cash equiv.	39	39	29	102	265
Trade & other receive.	47	64	73	87	90
Inventories	45	81	117	99	92
Other current assets	105	60	64	69	74
Long-term assets	210	254	260	277	289
Tangible assets	174	209	214	231	244
Investments in affiliates	0	0	0	0	0
Other long-term assets	36	45	45	46	46
Total assets	446	499	542	633	810
Current liabilities	19	75	85	93	123
Payables & other liab.	10	26	25	32	37
Borrowings	0	0	0	0	0
Current portion of LT debts	0	15	0	0	25
Other current liabilities	9	34	61	61	61
Long-term liabilities	130	97	126	176	276
Borrowings	24	9	25	75	175
Convertible securities	102	83	95	95	95
Other long-term liab.	5	6	6	6	6
Total liabilities	149	173	211	269	399
Controlling interest	295	323	328	361	408
Capital stock	9	9	9	9	9
Capital surplus	175	196	196	196	196
Retained earnings	112	116	120	153	200
Other capital changes	-1	2	2	2	2
Non-controlling interest	1	3	3	3	3
Total shareholder's equity	297	326	331	364	411
Net borrowings	-14	14	34	6	-37

Cash flow statement	(Wbn)				
	2020A	2021A	2022F	2023F	2024F
Operating cash flows	-21	7	3	68	114
NP	-13	3	14	33	47
Non-cash items	13	25	25	34	43
Depreciation	14	14	15	18	23
FX gains	0	-2	-2	-2	-2
Equity method gain	0	0	0	0	0
Others	-1	12	12	17	22
Chg in assets & liab.	-21	-21	-32	12	39
Other cash flows	0	1	-4	-10	-14
Investing cash flow	-69	-8	-24	-39	-40
Investment assets	-5	-11	0	0	0
Tangible assets	-17	-51	-20	-35	-35
Others	-47	54	-4	-4	-5
Financing cash flows	116	0	-8	50	125
Short-term borrowings	0	0	0	0	0
Bonds payable	110	0	0	0	0
Long-term borrowings	8	0	17	50	100
Rights offering	6	21	0	0	0
Cash dividends	0	0	-9	0	0
Others	-9	-21	-15	0	25
Net chg in cash	26	1	-11	73	163
Beginning cash balance	13	39	39	29	102
Ending cash balance	39	39	29	102	265
NOPLAT	-15	15	13	32	46
FCF	-18	-23	8	15	33

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[Investment rating & Target price history]

ST Pharm (237690 KQ)



Date	22.10.13	22.08.23	22.08.09	22.07.08	22.06.02	22.05.24
Rating	Buy	Buy	Buy	Buy	Buy	Buy
Target price	120,000	145,000	145,000	135,000	135,000	135,000
Diff. (avr. %)		(36.18)	(26.94)	(29.16)	(29.73)	(24.43)
Diff. (max/min, %)		(21.38)	(21.38)	(14.44)	(22.96)	(22.96)
Date						
Rating						
Target price						
Diff. (avr. %)						
Diff. (max/min, %)						
Date						
Rating						
Target price						
Diff. (avr. %)						
Diff. (max/min, %)						

Investment rating breakdown and framework (Oct 10, 2022)

	Buy	Marketperform	Underperform
Ratio	92.8%	7.2%	0.0%

Sector ratings breakdown

- Overweight: industry indicators are expected to outperform the market over the next six months.
- Neutral: industry indicators are expected to be in line with the market over the next six months.
- Underweight: industry indicators are expected to underperform the market over the next six months.

Company ratings breakdown

- Buy: the stock is expected to outperform the market by at least 10%p over the next six months.
- Marketperform: the stock is expected to either outperform or underperform the market by less than 10%p over the next six months.
- Underperform: the stock is expected to underperform the market by at least 10%p over the next six months.