

Tech Team

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▶ AT A GLANCE

| | |
|----------------------------------|-----------------------|
| Recommend | BUY |
| Target price | KRW120,000 41% |
| Current price | KRW85,100 |
| Market cap | KRW1.6/USD1.3b |
| Shares (float) | 18,808,775 (52.1%) |
| 52-week high/low | KRW127,800/KRW72,500 |
| Avg daily trading value (60-day) | KRW9.4b/ USD7.6m |

▶ ONE-YEAR PERFORMANCE

| | 1M | 6M | 12M |
|---------------------|------------|--------------|--------------|
| ST Pharm (%) | 1.4 | -10.2 | -33.4 |
| Vs Kosdaq (%pts) | 1.9 | -3.8 | -8.0 |

▶ KEY CHANGES

| (KRW) | New | Old | Diff |
|--------------|---------|---------|-------|
| Recommend. | BUY | BUY | |
| Target price | 120,000 | 120,000 | 0.0% |
| 2022E EPS | 1,300 | 1,313 | -1.0% |
| 2023E EPS | 1,572 | 1,600 | -1.8% |

▶ SAMSUNG vs THE STREET

| | |
|---|---------|
| No of estimates | 15 |
| Target price | 121,867 |
| Recommendation | 4.0 |
| BUY★★★: 5 / BUY: 4 / HOLD: 3 / SELL: 2 / SELL★★★: 1 | |

ST Pharm (237690)

Fundamentals intact despite noise

- ST Pharm shares are drifting sideways following news of a rival's capacity expansion and due to sluggish sales of a major manufacturing product.
- We maintain BUY and our target price of KRW120,000, as its longer-term growth prospects are intact. With a proven track record in mass production, it is well positioned to win new orders for oligonucleotide drugs in the early stages of the pipeline.

WHAT'S THE STORY?

Agilent announces capacity expansion: Agilent, a therapeutic oligonucleotide CMO, said on Jan 10 that it will spend USD725m to expand its manufacturing capacity. The new manufacturing lines are expected to be completed in 2026 and commence operations in 2027. Agilent says the expansion addresses a growing demand for siRNA, antisense and CRISPR/Cas9 guide RNA molecules—the raw materials for oligonucleotide therapeutics increasingly being developed. While 15 oligonucleotide drugs have been approved by the US FDA to date, over 246 studies are currently registered for clinical trials, of which 22 are Phase III studies, which should translate to strong manufacturing demand within 2-3 years. ST Pharm shares closed 7.2% lower on the day of Agilent's capacity expansion announcement, on concerns that demand might become dispersed. Oligonucleotide therapeutics are not in short supply, given their current stage of clinical trials. Nonetheless, a preemptive capacity buildup is necessary if a CMO is to secure orders to manufacture drugs in the clinical pipeline, which bring commercial manufacturing orders. Manufacturing-technology prowess (eg, mass-production yield, platform) is important to establishing an oligopolistic position in the CMO market.

Leqvio sales sluggish: Leqvio, which ST Pharm is believed to be mass producing as a CMO, did not sell well in the US, raising concerns about ST Pharm's capacity utilization. We believe Leqvio sales will pick up in 2023 on improved insurance reimbursements. Leqvio sales disappointed, totaling USD70m in the first three quarters of 2022, as it was launched as a physician-administered therapy that financially burdens hospitals before insurance reimbursements kick in.

(Continued on the next page)

SUMMARY OF FINANCIAL DATA

| | 2021 | 2022E | 2023E | 2024E |
|--------------------------|-------|-------|-------|-------|
| Revenue (KRWb) | 166 | 233 | 270 | 327 |
| Operating profit (KRWb) | 6 | 18 | 30 | 60 |
| Net profit (adj) (KRWb) | 3 | 24 | 30 | 53 |
| EPS (adj) (KRW) | 177 | 1,300 | 1,572 | 2,829 |
| EPS (adj) growth (% y-y) | nm | 632.6 | 20.9 | 80.0 |
| EBITDA margin (%) | 12.1 | 14.6 | 17.2 | 23.4 |
| ROE (%) | 1.1 | 7.4 | 8.4 | 13.9 |
| P/E (adj) (x) | 784.2 | 67.4 | 54.1 | 30.1 |
| P/B (x) | 8.1 | 4.8 | 4.4 | 3.9 |
| EV/EBITDA (x) | 131.3 | 50.9 | 36.4 | 21.8 |
| Dividend yield (%) | 0.4 | 0.6 | 0.6 | 0.6 |

Source: Company data, Samsung Securities estimates

Its rival drugs Repatha (Amgen) and Praluent (Regeneron) are self-administered injections covered by Medicare Part D, for which patients are prescribed the drug by their doctors but fill the prescription at the pharmacy. Pharmacies are reimbursed for Part D Drugs by Pharmacy Benefit Managers (PBMs). In contrast, Leqvio is covered by Medicare Part B, which requires healthcare professionals to buy a product and then administer it to the patient in the office before billing Medicare. Because of the associated financial burden, buy-and-bill therapies were avoided by budget-strapped hospitals, especially after Covid-19. Novartis said during 3Q22 conference call that it would drive broad healthcare professional adoption of Leqvio and work out ways to ease the financial burden on the part of hospitals.

Maintaining BUY and target price of KRW120,000: As oligonucleotide CMOs for Leqvio (commercialized in Jan 2022), Agilent and ST Pharm have built track records in mass production, which should give them an edge over other CMOs in winning new orders worldwide. We expect ST Pharm's 2023 sales and operating profit to grow 15.7% and 67.1% y-y, respectively, to KRW269.6b and KRW30.3b. Considering demand from the downstream industry, ST Pharm is likely to enjoy a steady rise in new plant utilizations and earnings growth. We maintain BUY.

ST Pharm: Target price calculation

| (KRWb, KRW) | 2023E | | | Case | Major assumptions (reflecting oligonucleotide market growth) |
|-------------------------------|---------|---------|--------|------|--|
| | Base | Bull | Bear | | |
| ST Pharm (A=B+C+D) | 2,283 | 2,848 | 1,411 | | |
| Present value (B) | 423 | 505 | 325 | Base | • Oligo: Full utilization of Sihwa plant in 2025E, and Banwol plant in 2026E |
| PV of terminal value (C) | 1,943 | 2,425 | 1,168 | | • Production efficiency: 70% in both plants |
| Net cash (D) | 82 | 82 | 82 | | • mRNA: Success of Phase II/III of in-house COVID-19 vaccine |
| Outstanding shares ('000) (E) | 18,809 | 18,809 | 18,809 | Bull | • Oligo: Full utilization of Sihwa plant in 2024E, and Banwol plant in 2025E |
| Fair price per share (A/E) | 121,404 | 151,397 | 75,014 | | • Production efficiency: 70% in both plants |
| Target price | 120,000 | 150,000 | 80,000 | | • mRNA: Success of Phase II/III of in-house COVID-19 vaccine |
| Current price | 85,000 | 85,000 | 85,000 | Bear | • Oligo: Full utilization of Sihwa plant and Banwol plant in 2028E |
| Upside | 41.2 | 76.5 | -5.9 | | • Production efficiency: 70% in both plants |
| | | | | | • mRNA: Failure of Phase II/III of in-house COVID-19 vaccine |

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) | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E |
|-----------------------------|-------|-------|-------|-------|-------|-------|
| New drug API | 187 | 240 | 319 | 390 | 462 | 576 |
| Chg (y-y) | 21.1 | 28.2 | 33.2 | 22.0 | 18.7 | 24.6 |
| Chemical API | 18 | 20 | 22 | 26 | 30 | 36 |
| Chg (y-y) | 30.4 | 9.9 | 11.9 | 14.2 | 17.1 | 20.5 |
| Oligonucleotide API | 169 | 220 | 297 | 364 | 432 | 540 |
| Chg (y-y) | 20.2 | 30.1 | 35.1 | 22.6 | 18.8 | 24.9 |
| Generic API | 32 | 33 | 34 | 35 | 36 | 37 |
| Chg (y-y) | 2.1 | 2.5 | 3.0 | 2.7 | 2.5 | 2.3 |
| mRNA | 13 | 16 | 16 | 16 | 16 | 16 |
| Sales | 232 | 289 | 369 | 440 | 514 | 629 |
| Chg (y-y) | 14.4 | 24.2 | 27.9 | 19.3 | 16.8 | 22.3 |
| EBIT | 30 | 60 | 58 | 96 | 141 | 223 |
| TAX | 7 | 13 | 13 | 21 | 31 | 49 |
| NOPAT | 24 | 47 | 45 | 75 | 110 | 174 |
| Depreciation | 16 | 17 | 20 | 19 | 18 | 17 |
| Capex | 27 | 27 | 70 | 0 | 0 | 0 |
| Increase in working capital | 0 | 0 | 0 | 0 | 0 | 0 |
| FCF | 34 | 57 | 95 | 56 | 93 | 157 |
| WACC (%) | 8.5 | | | | | |
| Terminal growth rate (%) | 3.0 | | | | | |
| Terminal value at 2028 | | | | | | 2,926 |
| Discount (%) | 0.0 | 7.9 | 15.1 | 21.8 | 27.9 | 33.6 |
| PV (A) | 34 | 53 | 81 | 44 | 67 | 104 |
| PV of terminal value (B) | | | | | | 1,943 |
| EV (A+B) | 2,326 | | | | | |

Note: COE=9.4%, risk-free rate (2.0%; 3-year KTB yield) + market risk premium 6.0 % x beta of 1.2, COD = 6.4%, terminal growth=3%

Source: Samsung Securities estimates

Income statement

| Year-end Dec 31 (KRWb) | 2020 | 2021 | 2022E | 2023E | 2024E |
|--|------------|------------|------------|------------|------------|
| Sales | 124 | 166 | 233 | 270 | 327 |
| Cost of goods sold | 104 | 108 | 147 | 176 | 201 |
| Gross profit | 20 | 58 | 86 | 94 | 126 |
| Gross margin (%) | 16.1 | 34.9 | 36.8 | 34.9 | 38.6 |
| SG&A expenses | 39 | 52 | 68 | 64 | 66 |
| Operating profit | -19 | 6 | 18 | 30 | 60 |
| Operating margin (%) | -15.2 | 3.4 | 7.8 | 11.2 | 18.3 |
| Non-operating gains (losses) | 2 | -4 | 9 | 7 | 7 |
| Financial profit | 6 | 6 | 15 | 7 | 7 |
| Financial costs | 4 | 6 | 5 | 0 | 0 |
| Equity-method gains (losses) | 0 | 0 | 0 | 0 | 0 |
| Other | 0 | -4 | -0 | 0 | -0 |
| Pre-tax profit | -17 | 1 | 27 | 37 | 67 |
| Taxes | -4 | -2 | 3 | 7 | 13 |
| Effective tax rate (%) | 21.8 | -168.0 | 11.2 | 20.0 | 20.0 |
| Profit from continuing operations | -13 | 3 | 24 | 30 | 53 |
| Profit from discontinued operations | 0 | 0 | 0 | 0 | 0 |
| Net profit | -13 | 3 | 24 | 30 | 53 |
| Net margin (%) | -10.6 | 2.0 | 10.5 | 11.0 | 16.2 |
| Net profit (controlling interests) | -12 | 3 | 24 | 30 | 53 |
| Net profit (non-controlling interests) | -1 | 0 | -0 | 0 | 0 |
| EBITDA | -5 | 20 | 34 | 46 | 77 |
| EBITDA margin (%) | -3.8 | 12.1 | 14.6 | 17.2 | 23.4 |
| EPS (parent-based) (KRW) | -651 | 177 | 1,300 | 1,572 | 2,829 |
| EPS (consolidated) (KRW) | -705 | 181 | 1,297 | 1,572 | 2,829 |
| Adjusted EPS (KRW)* | -651 | 177 | 1,300 | 1,572 | 2,829 |

Cash flow statement

| Year-end Dec 31 (KRWb) | 2020 | 2021 | 2022E | 2023E | 2024E |
|--|------------|------------|------------|------------|------------|
| Cash flow from operations | -21 | 7 | 10 | 29 | 51 |
| Net profit | -13 | 3 | 24 | 30 | 53 |
| Non-cash profit and expenses | 13 | 25 | 24 | 23 | 30 |
| Depreciation | 14 | 14 | 15 | 15 | 16 |
| Amortization | 0 | 0 | 1 | 1 | 1 |
| Other | -1 | 10 | 8 | 7 | 13 |
| Changes in A/L from operating activities | -21 | -21 | -34 | -17 | -19 |
| Cash flow from investments | -69 | -8 | -35 | -34 | -35 |
| Change in tangible assets | -17 | -51 | -40 | -27 | -27 |
| Change in financial assets | -47 | 40 | -10 | -7 | -8 |
| Other | -5 | 3 | 15 | -0 | 0 |
| Cash flow from financing | 116 | -0 | 6 | -7 | -7 |
| Change in debt | 111 | -19 | 43 | 2 | 3 |
| Change in equity | 6 | 21 | 0 | 0 | 0 |
| Dividends | 0 | 0 | -9 | -9 | -9 |
| Other | -1 | -2 | -27 | 0 | 0 |
| Change in cash | 26 | 1 | -17 | -12 | 9 |
| Cash at beginning of year | 13 | 39 | 39 | 22 | 9 |
| Cash at end of year | 39 | 39 | 22 | 9 | 18 |
| Gross cash flow | -0 | 28 | 48 | 53 | 83 |
| Free cash flow | -38 | -45 | -31 | 2 | 24 |

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 | 266 | 284 | 328 |
| Cash & equivalents | 39 | 39 | 22 | 9 | 18 |
| Accounts receivable | 45 | 63 | 0 | 0 | 0 |
| Inventories | 45 | 81 | 122 | 137 | 155 |
| Other current assets | 106 | 61 | 122 | 137 | 154 |
| Fixed assets | 210 | 254 | 284 | 295 | 306 |
| Investment assets | 10 | 15 | 15 | 15 | 16 |
| Tangible assets | 174 | 209 | 235 | 247 | 258 |
| Intangible assets | 10 | 13 | 13 | 12 | 12 |
| Other long-term assets | 16 | 18 | 21 | 21 | 21 |
| Total assets | 446 | 499 | 550 | 579 | 633 |
| Current liabilities | 19 | 75 | 87 | 96 | 105 |
| Accounts payable | 5 | 13 | 0 | 0 | 0 |
| Short-term debt | 0 | 0 | 0 | 0 | 0 |
| Other current liabilities | 14 | 63 | 87 | 96 | 105 |
| Long-term liabilities | 130 | 97 | 117 | 118 | 118 |
| Bonds & long-term debt | 126 | 91 | 106 | 106 | 106 |
| Other long-term liabilities | 5 | 6 | 11 | 12 | 12 |
| Total liabilities | 149 | 173 | 204 | 214 | 224 |
| Owners of parent equity | 295 | 323 | 342 | 362 | 406 |
| Capital stock | 9 | 9 | 9 | 9 | 9 |
| Capital surplus | 175 | 196 | 196 | 196 | 196 |
| Retained earnings | 112 | 116 | 131 | 151 | 195 |
| Other | -1 | 2 | 6 | 6 | 6 |
| Non-controlling interests' equity | 1 | 3 | 3 | 3 | 3 |
| Total equity | 297 | 326 | 345 | 366 | 409 |
| Net debt | 4 | 24 | 74 | 82 | 68 |

Financial ratios

| Year-end Dec 31 | 2020 | 2021 | 2022E | 2023E | 2024E |
|-----------------------------|--------|--------|--------|--------|--------|
| Growth (%) | | | | | |
| Sales | 33.1 | 33.5 | 40.7 | 15.7 | 21.4 |
| Operating profit | nm | nm | 225.3 | 67.1 | 97.5 |
| Net profit | nm | nm | 622.6 | 21.1 | 80.0 |
| Adjusted EPS** | nm | nm | 632.6 | 20.9 | 80.0 |
| Per-share data (KRW) | | | | | |
| EPS (parent-based) | -651 | 177 | 1,300 | 1,572 | 2,829 |
| EPS (consolidated) | -705 | 181 | 1,297 | 1,572 | 2,829 |
| Adjusted EPS** | -651 | 177 | 1,300 | 1,572 | 2,829 |
| BVPS | 15,830 | 17,171 | 18,182 | 19,254 | 21,582 |
| DPS (common) | 0 | 500 | 500 | 500 | 500 |
| Valuations (x) | | | | | |
| P/E*** | n/a | 784.2 | 67.4 | 54.1 | 30.1 |
| P/B*** | 6.6 | 8.1 | 4.8 | 4.4 | 3.9 |
| EV/EBITDA | n/a | 131.3 | 50.9 | 36.4 | 21.8 |
| Ratios (%) | | | | | |
| ROE | -4.1 | 1.1 | 7.4 | 8.4 | 13.9 |
| ROA | -3.3 | 0.7 | 4.7 | 5.2 | 8.8 |
| ROIC | -5.8 | 5.2 | 4.6 | 6.0 | 11.0 |
| Payout ratio | 0.0 | 283.9 | 38.5 | 31.8 | 17.7 |
| Dividend yield (common) | 0.0 | 0.4 | 0.6 | 0.6 | 0.6 |
| Net debt to equity | 1.4 | 7.5 | 21.6 | 22.5 | 16.7 |
| 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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Company

| | |
|-------------|--|
| BUY | Expected to increase in value by 10% or more within 12 months and is highly attractive within sector |
| HOLD | Expected to increase/decrease in value by less than 10% within 12 months |
| SELL | Expected to decrease in value by 10% or more within 12 months |

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, 2022

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

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