

Healthcare Team

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▶ AT A GLANCE

Recommend	BUY
Target price	KRW140,000
Current price	KRW99,000
Market cap	KRW1.9/USD1.6b
Shares (float)	18,808,775 (52.1%)
52-week high/low	KRW144,500/KRW69,500
Avg daily trading value (60-day)	KRW27.0b/USD22.5m

▶ ONE-YEAR PERFORMANCE

	1M	6M	12M
ST Pharm (%)	-10.2	-5.8	23.1
Vs Kosdaq (%pts)	-8.6	9.8	32.1

▶ KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	140,000	140,000	0.0%
2021E EPS	235	953	-75.3%
2022E EPS	1,733	1,527	13.5%

▶ SAMSUNG vs THE STREET

No of estimates	4
Target price	172,500
Recommendation	4.0
BUY★★★: 5 / BUY: 4 / HOLD: 3 / SELL: 2 / SELL★★★: 1	

ST Pharm (237690)

Slips to operating loss due to costs, deferred oligo sales

- **4Q review:** ST Pharm posted an operating loss in 4Q, as oligonucleotide (or oligo) sales were deferred to 1Q22 and on one-offs (eg, provisioning). The company should perform much stronger in 2022, backed by growing oligo orders.
- **Maintaining BUY and KRW140,000 target price:** The shares have slumped, as: 1) orders were absent following the company's November announcement of new capacity expansion plans; and 2) the oligo space had some unfavorable news. But seeing potentially strong oligo demand, we maintain our BUY rating.

WHAT'S THE STORY?

4Q review: ST Pharm posted consolidated 4Q sales of KRW51.7b (up 8.3% y-y and 11.7% q-q) and a turn y-y and q-q to an operating loss of KRW0.6b vs consensus of KRW48.3b in sales and KRW1.4b in operating profit. It stayed y-y in and turned q-q to a net loss attributable to controlling interests of KRW3.6b. The operating loss owes to: 1) the deferral of KRW10b in oligonucleotide (or oligo)-based hyperlipidemia drug sales to 1Q22; and 2) the establishment of KRW4b in reserves.

2022 outlook: We raise our 2022 sales and operating profit forecasts by 12.9% and 44%, respectively, to KRW232.2b (up 40.2% y-y) and KRW27.5b (up 11.8% y-y). Our estimates have sales from: 1) oligonucleotide (or oligo) CMO leaping 46.6% y-y to KRW132b on greater production of hyperlipidemia drug; 2) generic CMO climbing 2.4% y-y to KRW32b; 3) fine chemicals rising 3.9% y-y to KRW31.5b (up 3.9% y-y); and 4) mRNA CDMO starting at KRW19.7b.

(Continued on the next page)

ST Pharm 4Q21 review

(KRWb)	4Q21	3Q21	(% q-q)	4Q20	(% y-y)	Consensus	Diff (%)	Samsung	Diff (%)
Sales	51.7	46.3	11.7	47.8	8.3	48.3	7.1	51.1	1.2
Operating profit	(0.6)	7.8	Turned to neg	3.1	Turned to neg	1.4	n/a	1.4	n/a
Pre-tax profit	(4.9)	9.5	Turned to neg	(4.2)	Turned to neg	0.1	n/a	2.0	n/a
Net profit	(3.6)	7.7	Turned to neg	(3.9)	Maintained neg	0.0	n/a	1.8	n/a
Margins (%)									
Operating profit	(1.1)	16.8		6.5		2.9		2.7	
Pre-tax profit	(9.5)	20.5		(8.9)		0.2		3.9	
Net profit	(6.9)	16.7		(8.2)		0.0		3.5	

Source: Company data, Samsung Securities estimates

Valuation

(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 (%)
2019	93	-27	-25	-19	-993	nm	n/a	-35	n/a	1.8	-5.9
2020	124	-19	-17	-13	-651	nm	n/a	4	n/a	6.6	-4.1
2021E	166	6	10	5	235	nm	592.5	18	127.8	8.5	3.6
2022E	232	27	40	34	1,733	637.6	57.1	5	44.6	5.5	10.1
2023E	338	48	65	55	2,821	62.8	35.1	-41	28.8	4.7	14.5

Source: Company data, Samsung Securities estimates

Maintaining BUY and KRW140,000 target price: The shares rallied in November after the company said it will further expand capacity to keep up with growing oligo manufacturing demand. But shares have slumped 32.3% ytd due to a short-term absence of orders. Pfizer's recent decision to discontinue the clinical development program for Vupanorsen (PF-07285557) and return the rights to Ionis, unsatisfied with the clinical outcome in cardiovascular risk reduction, temporarily dimmed demand outlook for oligo CMOs, acting as a drag on their share prices. Yet, they still hold bright prospect of winning new orders, as oligo-based drug developments are well underway at Sanofi, GSK, Novo Nordisk, Eli Lilly, and Janssen. On the R&D front, its IND for a Phase I study of STP-2104 (mRNA-based COVID-19 vaccine) will likely be accepted by Korea's Ministry of Food and Drug Safety in 1Q, while Phase I results on STP-0404 (AIDS treatment) should become available in 2Q.

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	152	229
Gross profit	-2	20	58	80	109
Gross margin (%)	-1.7	16.1	34.9	34.5	32.2
SG&A expenses	25	39	52	53	61
Operating profit	-27	-19	6	27	48
Operating margin (%)	-28.6	-15.2	3.7	11.8	14.2
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	40	65
Taxes	-6	-4	-2	6	11
Effective tax rate (%)	25.8	21.8	-17.3	15.5	16.3
Profit from continuing operations	-19	-13	5	34	55
Profit from discontinued operations	0	0	0	0	0
Net profit	-19	-13	5	34	55
Net margin (%)	-19.9	-10.6	2.9	14.5	16.2
Net profit (controlling interests)	-19	-12	11	33	53
Net profit (non-controlling interests)	0	-1	-6	1	2
EBITDA	-16	-5	20	42	63
EBITDA margin (%)	-16.6	-3.8	12.3	18.0	18.7
EPS (parent-based) (KRW)	-993	-651	588	1,733	2,821
EPS (consolidated) (KRW)	-993	-705	256	1,787	2,910
Adjusted EPS (KRW)*	-993	-651	235	1,733	2,821

Cash flow statement

Year-end Dec 31 (KRWb)	2019	2020	2021E	2022E	2023E
Cash flow from operations	-31	-21	5	34	66
Net profit	-19	-13	5	34	55
Non-cash profit and expenses	8	13	15	15	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	4	37
Cash at beginning of year	48	13	39	150	154
Cash at end of year	13	39	150	154	191
Gross cash flow	-11	-0	20	48	74
Free cash flow	-37	-38	-26	7	39

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	391	457
Cash & equivalents	13	39	150	154	191
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	640	718
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	340	393
Capital stock	9	9	9	9	9
Capital surplus	169	175	175	175	175
Retained earnings	124	112	122	155	208
Other	-1	-1	1	1	1
Non-controlling interests' equity	2	1	-4	-2	-1
Total equity	303	297	304	338	393
Net debt	-35	4	18	5	-41

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	351.0	74.8
Net profit	nm	nm	nm	603.7	62.8
Adjusted EPS**	nm	nm	nm	637.6	62.8
Per-share data (KRW)					
EPS (parent-based)	-993	-651	588	1,733	2,821
EPS (consolidated)	-993	-705	256	1,787	2,910
Adjusted EPS**	-993	-651	235	1,733	2,821
BVPS	16,125	15,830	16,363	18,096	20,918
DPS (common)	0	0	0	0	0
Valuations (x)					
P/E***	n/a	n/a	592.5	57.1	35.1
P/B***	1.8	6.6	8.5	5.5	4.7
EV/EBITDA	n/a	n/a	127.8	44.6	28.8
Ratios (%)					
ROE	-5.9	-4.1	3.6	10.1	14.5
ROA	-5.4	-3.3	0.9	5.4	8.1
ROIC	-8.5	-5.8	2.5	7.2	11.9
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	1.4	-10.5
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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