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## Healthcare Team

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## ▶ AT A GLANCE

<b>Recommend</b>	<b>BUY</b>	
<b>Target price</b>	<b>KRW110,000</b>	<b>25.7%</b>
<b>Current price</b>	<b>KRW87,500</b>	
Market cap	KRW1.6t/USD1.4b	
Shares (float)	18,656,000 (51.7%)	
52-week high/low	KRW143,500/KRW59,800	
Avg daily trading value (60-day)	KRW21.5b/USD18.4m	

## ▶ ONE-YEAR PERFORMANCE

	1M	6M	12M
<b>ST Pharm (%)</b>	<b>-6.2</b>	<b>-21.7</b>	<b>40.2</b>
Vs Kosdaq (%pts)	-5.4	-21.9	15.0

## ▶ KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	110,000	130,000	-15.4%
2021E EPS	917	699	31.2%
2022E EPS	1,561	1,709	-8.7%

## ▶ SAMSUNG vs THE STREET

No of estimates	2
Target price	135,000
Recommendation	4.0
BUY★★★: 5 / BUY: 4 / HOLD: 3 / SELL: 2 / SELL★★★: 1	

# ST Pharm (237690)

## Growing oligo sales proven to boost profits

- ST Pharm's 3Q operating profit beat our forecast, despite softer small-molecule CMO sales, as CRO and lucrative oligonucleotide (or oligo) CMO businesses contributed significant sales.
- We maintain BUY but cut our target price to KRW110,000. Our DCF-based target price has been adjusted to reflect lowered expectations for its mRNA-based COVID-19 vaccine, as vaccine latecomers face dimming outlook.

## WHAT'S THE STORY?

**3Q review:** ST Pharm posted consolidated sales of KRW46.3b (up 106.8% y-y and 14.7% q-q) and a turn y-y to an operating profit of KRW7.8b (up 59.5% q-q) vs our forecast of KRW51.6b in sales and KRW3.8b in operating profit. Sales from: 1) oligonucleotide (or oligo) CMO leapt 761.4% y-y and 48.8% q-q to KRW30.8b on production of hyperlipidemia and blood cancer; 2) small-molecule CMO fell 74.7% q-q and 86.1% q-q to KRW640m; 3) generic CMO dropped 25.4% y-y and 13.8% q-q to KRW6.9b; and 4) CRO rose 353.9% y-y and 12.8% q-q to KRW8b. The firm should perform better in 4Q, as oligo CMO sales are expected to rise further to KRW43.2b.

**2022 outlook:** We expect ST Pharm to post consolidated sales of KRW205.7b (up 15.1% y-y) and an operating profit of KRW20.2b (up 28.6% y-y) next year. Oligo sales should grow 23.7% y-y to KRW127.7b, as the firm is scaling up mass production and receiving new orders.

*(Continued on the next page)*

## ST Pharm 3Q21 review

(KRWb)	3Q21	2Q21	Chg (% q-q)	3Q20	Chg (% y-y)	Consensus	Diff (%)	Samsung	Diff (%)
Sales	453.4	433.3	4.6	429.7	5.5	455.9	(0.6)	433.6	4.6
Operating profit	25.5	23.4	8.9	20.4	25.3	22.6	13.1	18.9	35.0
Pre-tax profit	43.2	43.4	(0.4)	33.5	29.1	33.0	31.2	36.9	17.1
Net profit	33.7	33.2	1.5	28.8	17.0	26.0	29.6	28.8	17.0
<b>Margins (%)</b>									
Operating profit	5.6	5.4		4.7		4.9		4.4	
Pre-tax profit	9.5	10.0		7.8		7.2		8.5	
Net profit	7.4	7.7		6.7		5.7		6.6	

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 (%)
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	179	16	21	18	917	nm	95.1	8	54.8	5.2	5.6
2022E	206	20	37	31	1,561	70.3	55.9	-25	47.0	4.8	8.9
2023E	237	71	86	69	3,492	123.7	25.0	-91	18.4	4.0	17.4

Source: Company data, Samsung Securities estimates

**Maintaining BUY, cutting target price:** We cut out DCF-based target price to KRW110,000 to reflect uncertainties over its in-house developed mRNA-based COVID-19 vaccine. The vaccine was originally scheduled to begin clinical trials early next year, but might face delays as Moderna and BioNTech produce more COVID-19 vaccines in 2022. Granted, mRNA platform can be used to develop other viral vaccines, cancer vaccines, and more, but the slow pace of ST Pharm's COVID-19 mRNA vaccine comes as a slight letdown. On a positive note, ST Pharm has proprietary capping technology, licensed in LNP technology, and secured modified uridine that sidesteps Cellscript patent. It will eventually build on the mRNA drug development capabilities to offer a full range of CDMO services related to mRNA.

**Oligo CMO business well on track:** ST Pharm shares have been weak of late, as Novartis' announcement of intent to prepare in-house oligo manufacturing raised concerns that the Swiss firm might scale back oligo CMO orders already placed with the Korean firm. But existing contracts will unlikely be affected, given the technological difficulties to build GMP-certified production facilities. ST Pharm has landed four new CMO contracts in 2021. The upcoming commercialization of new oligo drugs for hyperlipidemia and mitochondrial DNA depletion syndrome in 2022, and for myelodysplastic syndrome and chylomicron hyperlipidemia in 2023 also brighten the CMO order prospects for ST Pharm.

**ST Pharm: Target price calculations**

(KRWb, KRW)	2021E			Case	Major assumptions (reflecting oligonucleotide market growth)
	Base	Bull	Bear		
ST Pharm (A=B+C-D)	2,120	2,285	1,370	<b>Base</b>	Full utilization: Sihwa, 2025E; Banwol 2026E Efficiency: Sihwa/Banwol 70% Success in mRNA COVID-19 vaccine P2/3
Present value (B)	374	398	262		
PV of terminal value (C)	1,754	1,895	1,116		
Net cash (D)	-8	-8	-8	<b>Bull</b>	Full utilization: Sihwa 2024E; Banwol 2025E Efficiency: Sihwa/Banwol 70% Success in mRNA COVID-19 vaccine P2/3
Outstanding shares (000') (E)	18,656	18,656	18,656		
Fare price per share (A/E)	113,612	122,474	73,422	<b>Bear</b>	Full utilization: Sihwa/Banwol, after 2028E Efficiency: Sihwa/Banwol 70% Failure in mRNA COVID-19 vaccine P2/3
Target price	110,000	120,000	70,000		
Current price	87,200	87,200	87,200		
Upside	26.1	37.6	-19.7		

Note: Major assumptions are for oligonucleotide CMOs;

Downstream demand—ie, 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)	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
New drug API	117	142	250	318	376	425	464	500
Chg (y-y)		21.4	76.1	26.9	18.3	13.2	9.0	7.9
Chemical API	14	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	103	128	235	301	357	403	438	469
Chg (y-y)		23.7	84.0	28.0	18.6	13.1	8.5	7.1
Generic API	31	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	30	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	179	206	336	405	465	516	555	593
Chg (y-y)		15.1	63.2	20.6	14.8	11.0	7.7	6.8
EBIT	16	20	71	82	129	155	176	195
TAX	3	4	16	18	28	34	39	43
NOPAT	12	16	55	64	100	121	137	152
Depreciation	14	14	13	12	11	11	10	10
Capex	35	0	0	0	7	7	7	7
Increase in working capital	13	11	15	18	4	4	4	4
FCF	21	-9	27	34	92	113	130	145
WACC (%)	8.0							
Terminal growth rate (%)	3.0							
Terminal value at 2028								3,004
Discount (%)	0.0	7.4	14.2	20.6	26.5	31.9	36.9	41.6
PV (A)	21	-9	23	27	68	77	82	85
PV of terminal value (B)								1,754
EV (A+B)	2,128							

Note: COE=8.5%, risk-free rate (1.2%; 3-year KTB yield)+market risk premium 9.1 % x beta of 0.8, COD=6.9%)

Source: Samsung Securities estimates

**Income statement**

Year-end Dec 31 (KRWb)	2019	2020	2021E	2022E	2023E
<b>Sales</b>	<b>93</b>	<b>124</b>	<b>179</b>	<b>206</b>	<b>237</b>
Cost of goods sold	95	104	113	144	166
<b>Gross profit</b>	<b>-2</b>	<b>20</b>	<b>66</b>	<b>62</b>	<b>71</b>
Gross margin (%)	-1.7	16.1	36.8	29.9	29.9
SG&A expenses	25	39	50	41	0
<b>Operating profit</b>	<b>-27</b>	<b>-19</b>	<b>16</b>	<b>20</b>	<b>71</b>
Operating margin (%)	-28.6	-15.2	8.8	9.8	29.9
<b>Non-operating gains (losses)</b>	<b>2</b>	<b>2</b>	<b>5</b>	<b>16</b>	<b>15</b>
Financial profit	3	6	7	16	15
Financial costs	1	4	2	0	0
Equity-method gains (losses)	0	0	0	0	0
Other	-0	0	0	-0	0
<b>Pre-tax profit</b>	<b>-25</b>	<b>-17</b>	<b>21</b>	<b>37</b>	<b>86</b>
Taxes	-6	-4	3	6	17
Effective tax rate (%)	25.8	21.8	13.5	15.9	20.0
Profit from continuing operations	-19	-13	18	31	69
Profit from discontinued operations	0	0	0	0	0
<b>Net profit</b>	<b>-19</b>	<b>-13</b>	<b>18</b>	<b>31</b>	<b>69</b>
Net margin (%)	-19.9	-10.6	10.2	15.0	29.1
Net profit (controlling interests)	-19	-12	17	29	65
Net profit (non-controlling interests)	0	-1	1	2	4
EBITDA	-16	-5	30	34	84
EBITDA margin (%)	-16.6	-3.8	16.7	16.6	35.4
EPS (parent-based) (KRW)	-993	-651	917	1,561	3,492
EPS (consolidated) (KRW)	-993	-705	981	1,649	3,688
Adjusted EPS (KRW)*	-993	-651	917	1,561	3,492

**Cash flow statement**

Year-end Dec 31 (KRWb)	2019	2020	2021E	2022E	2023E
<b>Cash flow from operations</b>	<b>-31</b>	<b>-21</b>	<b>24</b>	<b>23</b>	<b>52</b>
Net profit	-19	-13	18	31	69
Non-cash profit and expenses	8	13	17	9	15
Depreciation	11	14	14	14	13
Amortization	0	0	0	0	0
Other	-3	-1	3	-5	2
Changes in A/L from operating activities	-20	-21	-8	-11	-15
<b>Cash flow from investments</b>	<b>-10</b>	<b>-69</b>	<b>-37</b>	<b>-2</b>	<b>-3</b>
Change in tangible assets	-6	-17	-35	0	0
Change in financial assets	22	-47	-18	-13	-18
Other	-26	-5	17	11	15
<b>Cash flow from financing</b>	<b>5</b>	<b>116</b>	<b>-0</b>	<b>1</b>	<b>1</b>
Change in debt	16	111	10	1	1
Change in equity	-3	6	0	0	0
Dividends	-9	0	0	0	0
Other	1	-1	-10	0	0
Change in cash	-35	26	-12	22	50
Cash at beginning of year	48	13	39	27	48
Cash at end of year	13	39	27	48	98
<b>Gross cash flow</b>	<b>-11</b>	<b>-0</b>	<b>36</b>	<b>39</b>	<b>84</b>
<b>Free cash flow</b>	<b>-37</b>	<b>-38</b>	<b>-11</b>	<b>23</b>	<b>52</b>

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
<b>Current assets</b>	<b>144</b>	<b>236</b>	<b>252</b>	<b>302</b>	<b>391</b>
Cash & equivalents	13	39	27	48	98
Accounts receivable	35	45	0	0	0
Inventories	41	45	74	83	96
Other current assets	55	106	152	171	197
<b>Fixed assets</b>	<b>196</b>	<b>210</b>	<b>238</b>	<b>224</b>	<b>212</b>
Investment assets	4	10	12	13	13
Tangible assets	170	174	199	185	172
Intangible assets	9	10	10	10	10
Other long-term assets	14	16	17	17	17
<b>Total assets</b>	<b>341</b>	<b>446</b>	<b>490</b>	<b>527</b>	<b>602</b>
<b>Current liabilities</b>	<b>16</b>	<b>19</b>	<b>42</b>	<b>47</b>	<b>54</b>
Accounts payable	7	5	0	0	0
Short-term debt	0	0	0	0	0
Other current liabilities	9	14	42	47	54
<b>Long-term liabilities</b>	<b>21</b>	<b>130</b>	<b>133</b>	<b>133</b>	<b>134</b>
Bonds & long-term debt	15	126	126	126	126
Other long-term liabilities	6	5	6	7	7
<b>Total liabilities</b>	<b>37</b>	<b>149</b>	<b>174</b>	<b>180</b>	<b>188</b>
<b>Owners of parent equity</b>	<b>301</b>	<b>295</b>	<b>313</b>	<b>342</b>	<b>406</b>
Capital stock	9	9	9	9	9
Capital surplus	169	175	175	175	175
Retained earnings	124	112	128	158	223
Other	-1	-1	0	0	-1
<b>Non-controlling interests' equity</b>	<b>2</b>	<b>1</b>	<b>3</b>	<b>4</b>	<b>8</b>
<b>Total equity</b>	<b>303</b>	<b>297</b>	<b>316</b>	<b>346</b>	<b>414</b>
Net debt	-35	4	8	-25	-91

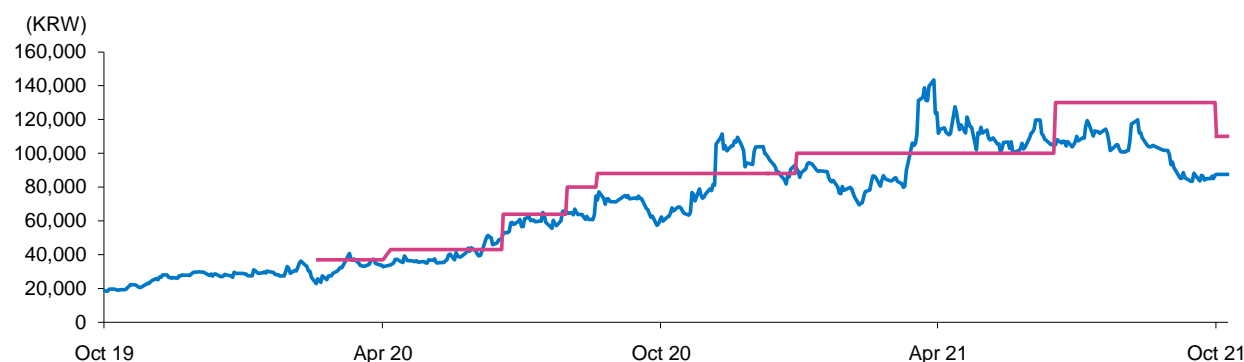
**Financial ratios**

Year-end Dec 31	2019	2020	2021E	2022E	2023E
<b>Growth (%)</b>					
Sales	-4.6	33.1	44.0	15.1	15.1
Operating profit	nm	nm	nm	28.6	250.1
Net profit	nm	nm	nm	68.0	123.7
Adjusted EPS**	nm	nm	nm	70.3	123.7
<b>Per-share data (KRW)</b>					
EPS (parent-based)	-993	-651	917	1,561	3,492
EPS (consolidated)	-993	-705	981	1,649	3,688
Adjusted EPS**	-993	-651	917	1,561	3,492
BVPS	16,125	15,830	16,775	18,336	21,779
DPS (common)	0	0	0	0	0
<b>Valuations (x)</b>					
P/E***	n/a	n/a	95.1	55.9	25.0
P/B***	1.8	6.6	5.2	4.8	4.0
EV/EBITDA	n/a	n/a	54.8	47.0	18.4
<b>Ratios (%)</b>					
ROE	-5.9	-4.1	5.6	8.9	17.4
ROA	-5.4	-3.3	3.9	6.1	12.2
ROIC	-8.5	-5.8	4.8	5.7	19.0
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	2.6	-7.3	-22.0
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
Recommendation	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
Gap* (average)	-11.60	-7.16	-6.41	-19.79	-7.73	0.36	-21.70	
(max or min)**	10.27	19.53	3.44	-6.75	26.70	43.50	-7.77	

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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<b>OVERWEIGHT</b>	Expected to outperform market by 5% or more within 12 months
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### Percentage of ratings in 12 months prior to Sep 30, 2021

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

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