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Healthcare Team

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Analyst

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▶ AT A GLANCE

Recommend	BUY	
Target price	KRW130,000	21.4%
Current price	KRW107,100	
Market cap	KRW2.0t/USD1.7b	
Shares (float)	18,656,000 (51.7%)	
52-week high/low	KRW143,500/KRW53,700	
Avg daily trading value (60-day)	KRW48.0b/USD41.6m	

▶ ONE-YEAR PERFORMANCE

	1M	6M	12M
ST Pharm (%)	5.3	24.2	99.4
Vs Kosdaq (%pts)	2.2	17.0	51.3

▶ KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	130,000	130,000	0.0%
2021E EPS	699	173	304.0%
2022E EPS	1,709	1,104	54.8%

▶ SAMSUNG vs THE STREET

No of estimates	1
Target price	130,000
Recommendation	4.0
BUY★★★: 5 / BUY: 4 / HOLD: 3 / SELL: 2 / SELL★★★: 1	

ST Pharm (237690)

Developing a COVID-19 mRNA vaccine

- Korea is increasingly seeing the need to localize production of COVID-19 vaccines, as the world's makers are planning to raise their prices.
- We maintain BUY on ST Pharm and raise our target price to KRW130,000 to reflect: 1) an increase in orders at the oligonucleotide division; and 2) possible domestic sales of an in-house developed mRNA-based COVID-19 vaccine from 2022.

WHAT'S THE STORY?

Localization of COVID-19 vaccines urgently needed: ST Pharm shares have remained weak of late because efforts by Pfizer and Moderna to produce their respective COVID-19 vaccines in-house have lowered the chances of the Korean firm being chosen as the US firms' CMO. Another factor that has weighed on ST Pharm shares is that Pfizer's and Moderna's COVID-19 vaccine supply to Korea (170m doses in 2H) will resume in July—which is likely to dampen investor interest in Korean vaccine development. Yet Korea is increasingly seeing the need to localize COVID-19 vaccine production, as Pfizer plans to raise its vaccine ASP from USD20/dose to USD150-175/dose.

Competitiveness of in-house developed mRNA-based COVID-19 vaccine: The Korean government set up the K-mRNA consortium to help Korean firms develop mRNA-based COVID-19 vaccines—such as STP-2104. Amongst consortium members, Hanmi Pharmaceutical should produce plasmid DNA, ST Pharm should develop/manufacture mRNA vaccines, and GC Corp should produce finished products. Of particular note, ST Pharm: 1) uses a unique cap analog (SmartCap), thus making it capable of manufacturing IVT mRNA without a separate enzyme capping process; 2) uses unmodified mRNA, not pseudouridine-modified mRNA; and 3) secures cost competitiveness by directly manufacturing ionizable and PEG lipids, key raw materials of lipid nanoparticle (LNP). Recently, CureVac's COVID-19 vaccine failed clinical trials. Some believe this is because of the use of unmodified mRNA—a factor that may concern ST Pharm investors. We, however, believe ST Pharm will blow away any related concerns by: 1) further facilitating the overexpression of antigens; and 2) removing double-stranded mRNA—and thus lowering immunogenicity—during the purification process. Going forward, investors should pay attention to the ST Pharm vaccine's neutralization antibody titer in the upcoming Phase I clinical trials. (In CureVac's Phase I trials, this figure was lower than those of Pfizer and Moderna.)

SUMMARY OF FINANCIAL DATA

(Continued on the next page)

	2019	2020	2021E	2022E
Revenue (KRWb)	93	124	189	275
Operating profit (KRWb)	-26.7	-18.8	10.5	25.4
Net profit (adj) (KRWb)	(19)	(13)	13	32
EPS (adj) (KRW)	(993)	(651)	699	1,709
EPS (adj) growth (% y-y)	nm	nm	nm	144.6
EBITDA margin (%)	(16.6)	(3.8)	13.0	14.3
ROE (%)	(5.9)	(4.1)	4.3	9.8
P/E (adj) (x)	n/a	n/a	149.3	61.0
P/B (x)	1.8	6.6	6.3	5.7
EV/EBITDA (x)	(33.7)	(409.0)	79.7	48.9
Dividend yield (%)	0.0	0.0	0.0	0.0

Source: Company data, Samsung Securities estimates

Maintaining BUY; raising target price to KRW130,000: We raise our 2021-2022 sales forecasts for ST Pharm and move our target price up to KRW130,000, as we lift our perpetual growth estimate to 3% (from 1.9% previously) to reflect the solid growth outlook of the mRNA operation. Specifically, we raise our 2021 sales forecasts for the firm's oligonucleotide division from KRW73b to KRW107.2b (which comprises CMO sales related to Novartis Pharmaceuticals' Inclisiran, etc.). We also believe ST Pharm's in-house developed mRNA-based COVID-19 vaccine will launch in Korea in 2Q22. We conservatively estimate the firm's 2022 sales of this vaccine at KRW50b. Given that the global supply of COVID-19 vaccines is now going smoothly, the private sector is likely to have but a limited interest in Korea-developed vaccines. We assume, however, that the government will make advance purchases in 2022 given its determination to localize COVID-19 vaccine production.

ST Pharm: Target price calculation

(KRwb, KRW)	2021E			Cas	Major assumptions (reflecting oligonucleotide market growth)
	Base	Bull	Bear		
ST Pharm (A=B+C+D)	2,424	2,609	1,545		• Oligo: Full utilization in Siwha (2025E) and Banwol (2026E)
Present value (B)	386	413	249	Base	• Production efficiency: 70%
PV of terminal value (C)	2,044	2,202	1,302		• mRNA: COVID-19 vaccine passes Phase II/III trials
Net cash (D)	-6	-6	-6		• Oligo: Full utilization in Siwha (2024E) and Banwol (2025E)
Outstanding shares ('000) (E)	18,656	18,656	18,656	Bull	• Production efficiency: 70%
Fare price per share (A/E)	129,917	139,823	82,802		• mRNA: COVID-19 vaccine passes Phase II/III trials
Target price	130,000	140,000	80,000		• Oligo: Full utilization in Siwha (2028E) and Banwol (2028E)
Current price	104,300	104,300	104,300	Bear	• Production efficiency: 70%
Upside	24.6	34.2	-23.3		• mRNA: COVID-19 vaccine fails Phase II/III trials

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	123	144	253	320	379	428	467	505
Chg (y-y)		17.3	75.1	26.7	18.3	13.2	9.1	8.0
Chemical API	16	17	18	20	22	25	29	36
Chg (y-y)		4.5	6.7	10.1	12.2	14.6	17.5	21.0
Oligonucleotide API	107	128	235	301	357	403	438	469
Chg (y-y)		19.1	84.0	28.0	18.6	13.1	8.5	7.1
Generic API	57	60	64	67	71	75	79	84
Chg (y-y)		5.5	5.5	5.5	5.6	5.7	5.8	6.0
Fine chemical API	10	10	11	12	13	13	14	15
Chg (y-y)		7.9	7.5	7.2	6.8	6.5	6.2	5.9
mRNA		60	20	20	20	20	20	20
Sales	190	275	347	419	482	537	581	624
Chg (y-y)		44.9	26.4	20.7	15.0	11.3	8.2	7.4
EBIT	10	25	101	147	140	169	192	215
TAX	2	6	22	32	31	37	42	47
NOPAT	8	20	79	114	109	132	150	167
Depreciation	14	14	13	12	11	10	10	9
Capex	23	0	0	0	7	7	7	7
Increase in working capital	13	11	46	67	6	7	7	7
FCF	4	-5	20	36	99	122	140	158
WACC (%)	7.7							
Terminal growth rate (%)	3.0							
Terminal value at 2028								3,442
Discount (%)	0.0	7.2	13.8	20.0	25.8	31.1	36.0	40.6
PV (A)	4	-5	17	29	73	84	90	94
PV of terminal value (B)								2,044
EV (A+B)	2,430							

Note: COE=8.5%, risk-free rate (1.2%: 3-year KTB yield)+market risk premium 9.1% x beta of 0.8, COD=6.1%, terminal growth=3.0%(Simple average of prospect for 2021 Korean Long term GDP growth)

Source: Samsung Securities estimates

Income statement

Year-end Dec 31 (KRWb)	2018	2019	2020	2021E	2022E
Sales	98	93	124	189	275
Cost of goods sold	95	95	104	134	206
Gross profit	3	-2	20	55	69
Gross margin (%)	2.8	-1.7	16.1	29.2	25.2
SG&A expenses	18	25	39	45	44
Operating profit	-16	-27	-19	10	25
Operating margin (%)	-16.0	-28.6	-15.2	5.5	9.2
Non-operating gains (losses)	2	2	2	7	17
Financial profit	3	3	6	9	17
Financial costs	0	1	4	2	0
Equity-method gains (losses)	0	0	0	0	0
Other	-1	-0	0	-0	0
Pre-tax profit	-13	-25	-17	17	42
Taxes	-4	-6	-4	4	10
Effective tax rate (%)	30.8	25.8	21.8	23.7	23.7
Profit from continuing operations	-9	-19	-13	13	32
Profit from discontinued operations	0	0	0	0	0
Net profit	-9	-19	-13	13	32
Net margin (%)	-9.5	-19.9	-10.6	6.9	11.7
Net profit (controlling interests)	-9	-19	-12	13	32
Net profit (non-controlling interests)	0	0	-1	0	0
EBITDA	-6	-16	-5	25	39
EBITDA margin (%)	-6.6	-16.6	-3.8	13.0	14.3
EPS (parent-based) (KRW)	-497	-993	-651	699	1,709
EPS (consolidated) (KRW)	-497	-993	-705	703	1,720
Adjusted EPS (KRW)*	-497	-993	-651	699	1,709

Cash flow statement

Year-end Dec 31 (KRWb)	2018	2019	2020	2021E	2022E
Cash flow from operations	11	-31	-21	17	23
Net profit	-9	-19	-13	13	32
Non-cash profit and expenses	4	8	13	17	12
Depreciation	9	11	14	14	14
Amortization	0	0	0	0	0
Other	-5	-3	-1	3	-2
Changes in A/L from operating activities	24	-20	-21	-7	-11
Cash flow from investments	-27	-10	-69	-41	-3
Change in tangible assets	-27	-6	-17	-23	0
Change in financial assets	0	22	-47	-32	-15
Other	-0	-26	-5	13	12
Cash flow from financing	-9	5	116	0	1
Change in debt	-0	16	111	10	1
Change in equity	0	-3	6	0	0
Dividends	-9	-9	0	0	0
Other	0	1	-1	-10	0
Change in cash	-25	-35	26	-24	21
Cash at beginning of year	72	48	13	39	15
Cash at end of year	48	13	39	15	36
Gross cash flow	-5	-11	-0	30	44
Free cash flow	-16	-37	-38	-6	23

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)	2018	2019	2020	2021E	2022E
Current assets	167	144	236	246	295
Cash & equivalents	48	13	39	15	36
Accounts receivable	15	35	45	0	0
Inventories	41	41	45	62	70
Other current assets	64	55	106	169	189
Fixed assets	178	196	210	221	207
Investment assets	2	4	10	11	11
Tangible assets	169	170	174	183	169
Intangible assets	1	9	10	9	9
Other long-term assets	6	14	16	18	18
Total assets	346	341	446	467	502
Current liabilities	10	16	19	25	29
Accounts payable	3	7	5	0	0
Short-term debt	0	0	0	0	0
Other current liabilities	7	9	14	25	29
Long-term liabilities	4	21	130	132	132
Bonds & long-term debt	0	15	126	126	126
Other long-term liabilities	4	6	5	6	6
Total liabilities	14	37	149	157	160
Owners of parent equity	332	301	295	308	340
Capital stock	9	9	9	9	9
Capital surplus	171	169	175	175	175
Retained earnings	152	124	112	125	156
Other	-1	-1	-1	-1	-1
Non-controlling interests' equity	0	2	1	2	2
Total equity	332	303	297	310	342
Net debt	-108	-35	4	6	-29

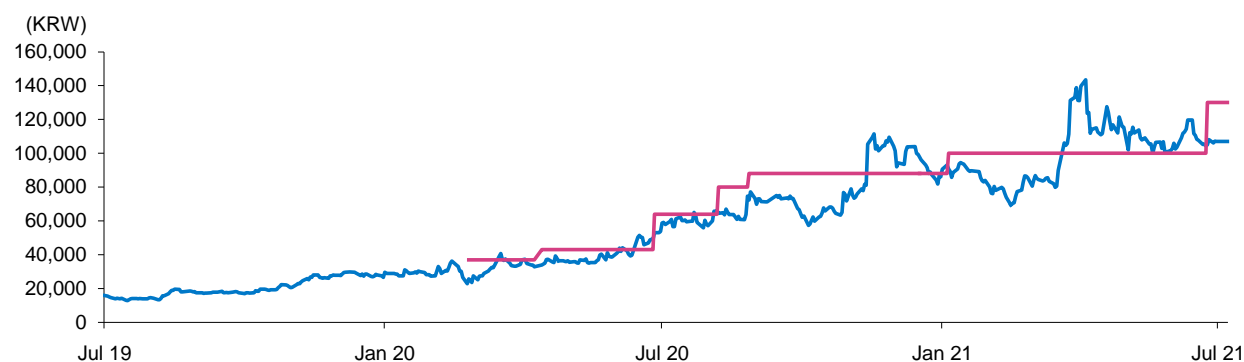
Financial ratios

Year-end Dec 31	2018	2019	2020	2021E	2022E
Growth (%)					
Sales	-51.8	-4.6	33.1	52.3	45.4
Operating profit	nm	nm	nm	nm	142.6
Net profit	nm	nm	nm	nm	144.6
Adjusted EPS**	nm	nm	nm	nm	144.6
Per-share data (KRW)					
EPS (parent-based)	-497	-993	-651	699	1,709
EPS (consolidated)	-497	-993	-705	703	1,720
Adjusted EPS**	-497	-993	-651	699	1,709
BVPS	17,773	16,125	15,830	16,512	18,221
DPS (common)	500	0	0	0	0
Valuations (x)					
P/E***	n/a	n/a	n/a	149.3	61.0
P/B***	1.1	1.8	6.6	6.3	5.7
EV/EBITDA	n/a	n/a	n/a	79.7	48.9
Ratios (%)					
ROE	-2.7	-5.9	-4.1	4.3	9.8
ROA	-2.5	-5.4	-3.3	2.9	6.6
ROIC	-4.9	-8.5	-5.8	2.9	6.9
Payout ratio	-100.6	0.0	0.0	0.0	0.0
Dividend yield (common)	2.5	0.0	0.0	0.0	0.0
Net debt to equity	-32.4	-11.5	1.4	2.0	-8.4
Interest coverage (x)	n/a	-338.6	-29.2	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
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	37,000	43,000	64,000	80,000	88,000	100,000	130,000
Gap* (average)	-11.60	-7.16	-6.41	-19.79	-7.73	0.36	
(max or min)**	10.27	19.53	3.44	-6.75	26.70	43.50	

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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