

# ST Pharm (237690 KQ)

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Rating **BUY**  
maintain

6M TP (W) **145,000**

CP (W)  
(22.08.08) **110,800**

Pharmaceuticals

## OP in line on growing oligonucleotide sales

### BUY; 6M TP raised to W145,000

- Our target price for the pharmaceutical CDMO is based on a sum-of-the-parts valuation that combines its operating value (derived from a DCF method) and net borrowings. The 7.4% price increase reflects our more positive profit picture for ST Pharm in 2022-2024.

### 2Q22 OP in line despite cost growth

- The company posted in-line OP of W3.5bn (down 27.5% yoy; 6.9% margin) on revenue of W51.1bn (up 26.7 % yoy) for 2Q22. Revenue was 12% above the market's view.

- Sales of oligonucleotide jumped 30.4% to W47.0bn, getting a bump from CDMO orders carried over from 1Q22 (some W8.0bn in orders expected to be deferred to 3Q22). Sales of small molecules plunged 98.2% to W0.01bn, affected by the return of W2.0bn worth of clinical reagents were returned (which will be shipped by the company in 2H22). mRNA CDMO revenue reached W3.5bn in 2Q22, amounting to W4.7bn in 1H22.

- The drop in OP was blamed on 1) an increase in payroll costs attributed to new hires to work in the new plant (up 59.4% yoy to W5.9bn) and 2) an uptick in R&D costs related to new clinical projects (up 51.1% yoy to W6.5bn).

### Growth momentum to gain further traction in 2H22

- ST Pharm's new oligonucleotide plant located in Banwol Industrial Complex was rated as No Action Indicated by the US Food & Drug Administration in May, winning a current Good Manufacturing Practice (cGMP) certification following the regulator's pre-approval inspection of the company's commercial production of Leqvio (Inclisiran).

- We believe this is a good harbinger of things to come given the company's plans to complete the pre-approval inspections by 1H23 for a total of four drugs (including the treatments for myelodysplastic syndrome and mitochondrial deficiency syndrome) prior to commercialization.

- With discussions on the development of the mRNA capping technology underway, we may see more partnerships in 2H22.

- ST Pharm is forecast to earn OP of W16.0bn (up 186.4%; 7.1% margin) on revenue of W224.3bn (up 35.4%) in 2022, benefiting from stronger sales of oligonucleotide business (up an estimated 47% to W127.2bn) in 2H22.

	2Q21	1Q22	Previous estimate	Prelim. result	2Q22			3Q22		
					YoY	QoQ	Consensus	Daishin estimate	YoY	QoQ
Revenue	40	37	46	51	26.7	38.3	46	69	49.3	35.2
OP	5	1	4	4	-26.3	569.7	3	9	19.8	159.2
NP	5	2	3	3	-36.9	77.5	2	8	2.8	127.8

Source: ST Pharm, FnGuide, Daishin Securities Research Center

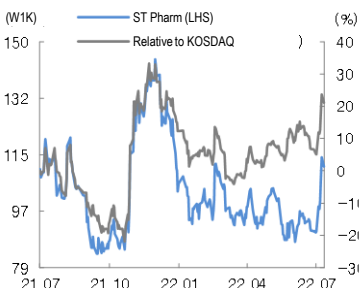
### Operating results and major financial data

	2020A	2021A	2022F	2023F	2024F
Revenue	124	166	224	301	365
OP	-19	6	16	45	63
Pretax profit	-17	1	18	47	64
NP	-13	3	14	36	49
NP (controlling int.)	-12	3	14	36	49
EPS	-651	177	726	1,911	2,617
PER	NA	784.2	120.0	45.6	33.3
BPS	15,830	17,308	17,397	19,309	21,926
PBR	6.6	8.0	6.4	5.7	5.1
ROE	-4.1	1.1	4.2	10.4	12.7

Note: EPS, BPS, and ROE are based only on the controlling interest.

Source: ST Pharm, Daishin Securities Research Center

KOSDAQ	830.86
Market cap (Wbn)	2,084
Market cap portion (%)	0.62
Paid-in capital (common; Wbn)	9.0
52w high/low (W)	144,500 / 83,400
120d avg. trading volume (Wbn)	8.9
Foreign ownership (%)	0.00
Major shareholders	Dong-A Socio Holdings+5: 46.49% NPS: 8.17%
(%)	1W 3M 6M 12M
Abs. return	16.5 14.2 6.1 -5.7
Rel. return	7.5 21.6 14.4 20.3



## Yearly earnings forecast revision

(Wbn, W, %, %p)

	Previous		Revised		Chg	
	2022F	2023F	2022F	2023F	2022F	2023F
Revenue	221	300	224	301	1.6	0.4
SG&A expense	75	93	74	91	-0.6	-1.4
OP	15	41	16	45	8.9	9.3
OP margin	6.7	13.8	7.1	15.0	0.5	1.2
Non-operating profit	2	2	2	2	0.0	0.0
Pretax profit	17	43	18	47	7.9	8.9
NP (controlling int.)	13	33	14	36	7.9	8.9
NP margin	5.7	11.0	6.1	11.9	0.4	0.9
EPS (controlling int.)	673	1,754	726	1,911	7.9	8.9

Source: ST Pharm, Daishin Securities Research Center

Tab 1. Earnings projection

(Wbn, %)

	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22A	3Q22E	4Q22E	2021	2022E	2023E
<b>Revenue</b>	<b>27.3</b>	<b>40.4</b>	<b>46.3</b>	<b>51.7</b>	<b>37.0</b>	<b>51.1</b>	<b>69.1</b>	<b>67.1</b>	<b>165.6</b>	<b>224.3</b>	<b>301.5</b>
YoY	35.2%	19.5%	106.8%	8.3%	35.7%	26.7%	49.3%	29.8%	33.5%	35.4%	33.7%
APIs for new drugs	11.4	25.3	31.4	36.3	19.9	30.6	52.3	50.9	104.4	152.5	227.1
Small molecule	2.9	4.6	0.6	9.8	1.9	0.1	0.7	10.5	17.9	13.2	18.7
Oligonucleotide	8.5	20.7	30.8	26.5	16.8	27.0	47.4	36.0	86.5	127.2	194.8
mRNA					1.2	3.5	4.2	4.4	0.0	13.3	13.7
APIs for generic drugs	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	9.4	6.7	27.7	37.1	39.0
<b>GP</b>	<b>4.3</b>	<b>17.0</b>	<b>21.7</b>	<b>14.7</b>	<b>16.6</b>	<b>20.2</b>	<b>29.1</b>	<b>24.6</b>	<b>57.7</b>	<b>90.5</b>	<b>136.6</b>
YoY	3262.7%	229.8%	2128.1%	6.9%	283.7%	18.6%	33.9%	67.9%	188.9%	56.7%	51.0%
GP margin	15.9%	42.2%	46.9%	28.4%	44.8%	39.5%	42.1%	36.7%	34.9%	40.3%	45.3%
<b>OP</b>	<b>(6.5)</b>	<b>4.9</b>	<b>7.8</b>	<b>(0.6)</b>	<b>0.5</b>	<b>3.5</b>	<b>9.3</b>	<b>2.6</b>	<b>5.6</b>	<b>16.0</b>	<b>45.2</b>
YoY	CL	TTB	TTB	TTR	TTB	-26.3%	19.8%	TTB	-129.6%	186.4%	182.3%
OP margin	-23.9%	12.1%	16.8%	-1.1%	1.5%	6.9%	13.5%	3.9%	3.4%	7.1%	15.0%
<b>NP</b>	<b>(5.1)</b>	<b>5.7</b>	<b>7.7</b>	<b>(5.0)</b>	<b>2.1</b>	<b>3.4</b>	<b>7.7</b>	<b>0.4</b>	<b>3.4</b>	<b>13.7</b>	<b>35.9</b>
YoY	CL	124.1%	TTB	CL	TTB	-40.2%	-0.4%	TTB	-125.7%	304.3%	163.2%
NP margin	-18.6%	14.0%	16.7%	-9.6%	5.8%	6.6%	11.2%	0.6%	2.0%	6.1%	11.9%

Source: Daishin Securities Research Center

Tab 2. Valuation

(Wbn, thousand shares, W, %)

	Value	Detail
<b>Operating value (A)</b>	2,740	DCF valuation
Sum of NPV of FCFF	694	
NPV of TV	2,282	
Net borrowings (B)	15	As of end-2022
<b>Enterprise value (A-B)</b>	<b>2,726</b>	
# of common shares (thousands)	18,809	
<b>Target price (W)</b>	<b>145,000</b>	

Source: Daishin Securities Research center

Tab 3. Operating value estimate

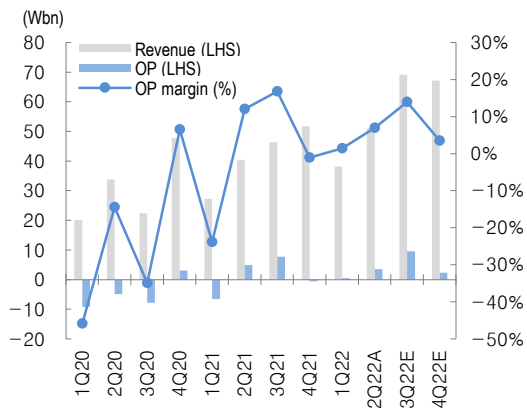
(Wbn, %)

	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
<b>Revenue</b>	<b>224.3</b>	<b>301.5</b>	<b>364.8</b>	<b>436.2</b>	<b>533.8</b>	<b>661.9</b>	<b>767.3</b>	<b>862.8</b>	<b>932.3</b>
YoY	35.4%	34.4%	21.0%	19.5%	22.4%	24.0%	15.9%	12.4%	8.1%
APIs for new drugs	152.5	227.1	288.2	357.2	452.4	563.3	665.8	758.3	824.7
Small molecule	13.2	18.7	19.7	20.8	22.0	25.2	27.1	29.4	32.1
Oligonucleotide	127.2	194.8	254.6	322.2	416.1	538.1	638.7	728.8	792.6
mRNA	13.3	13.7	13.9	14.2	14.4	14.6	14.9	15.1	15.4
APIs for generic drugs	34.8	35.3	36.0	36.6	37.3	38.0	38.7	39.4	40.1
Others (new materials, CRO, etc.)	37.1	39.0	40.6	42.3	44.1	46.0	48.0	50.0	52.1
<b>EBIT</b>	<b>16.0</b>	<b>45.2</b>	<b>62.6</b>	<b>81.8</b>	<b>111.4</b>	<b>140.2</b>	<b>158.0</b>	<b>183.1</b>	<b>201.7</b>
YoY	186.4%	182.8%	38.4%	31.0%	36.3%	25.8%	12.6%	15.9%	10.2%
EBIT margin	7.1%	15.0%	17.1%	18.8%	20.9%	21.2%	20.6%	21.2%	21.6%
Tax	3.8	10.6	14.7	19.2	26.2	33.0	37.1	43.0	47.4
<b>NOPLAT</b>	<b>12.2</b>	<b>34.6</b>	<b>47.9</b>	<b>62.6</b>	<b>85.2</b>	<b>107.3</b>	<b>120.8</b>	<b>140.1</b>	<b>154.3</b>
Depreciation	14.8	18.1	22.7	27.3	34.1	36.6	34.2	31.8	29.5
Change in working capital	-12.0	11.3	32.2	21.8	17.8	7.6	14.9	19.5	27.4
CAPEX	20.0	35.0	35.0	30.0	20.0	10.0	10.0	10.0	10.0
<b>FCF</b>	<b>19</b>	<b>6</b>	<b>3</b>	<b>38</b>	<b>82</b>	<b>126</b>	<b>130</b>	<b>143</b>	<b>147</b>
PV factor	1	0.9	0.9	0.8	0.7	0.7	0.6	0.6	0.6
NPV of FCFF	19	6	3	31	61	88	84	86	82
NPV of terminal value	2,282								
<b>Sum</b>	<b>2,740</b>								

Note: Assuming 7.6% WACC and 4.1% terminal rate.

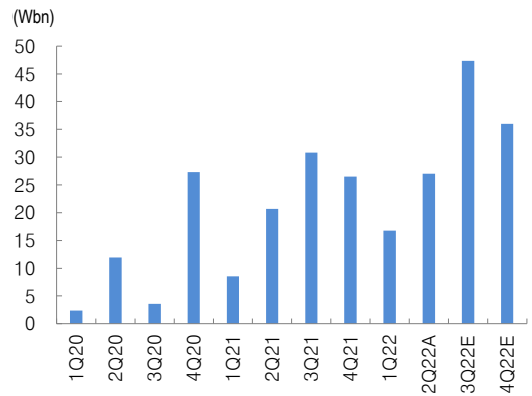
Source: Daishin Securities Research Center

Fig 1. Quarterly revenue and OP



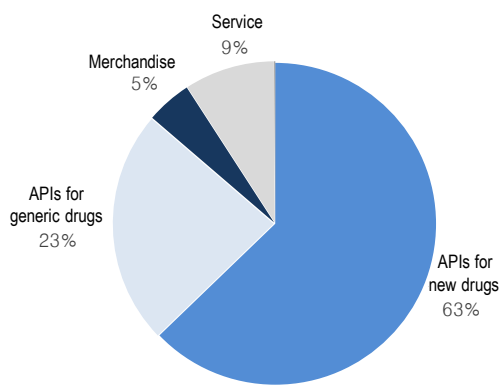
Source: ST Pharm, Daishin Securities Research Center

Fig 2. Quarterly oligonucleotide sales



Source: ST Pharm, Daishin Securities Research Center

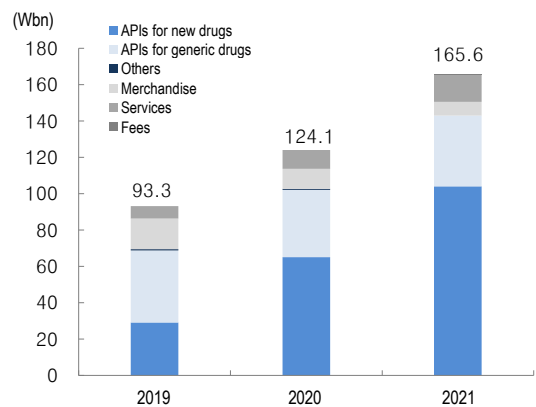
Fig 3. Revenue breakdown by product



Note: As of 2021 (consolidated basis)

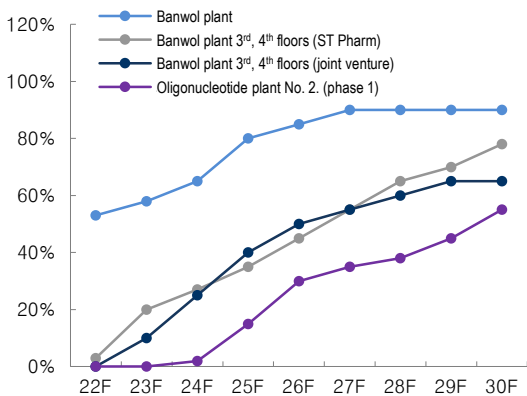
Source: ST Pharm, Daishin Securities Research Center

Fig 4. Revenue by product and year



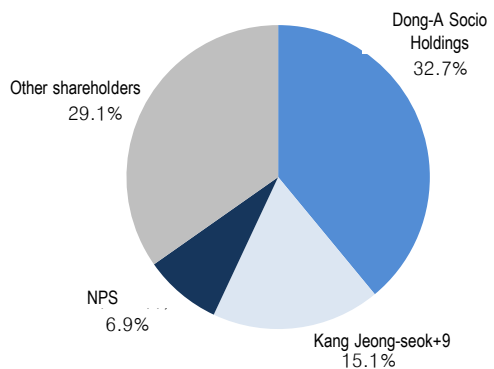
Source: ST Pharm, Daishin Securities Research Center

Fig 5. Factory utilization



Source: ST Pharm, Daishin Securities Research Center

Fig 6. Shareholders



Source: ST Pharm, Daishin Securities Research Center

## Financial statements

Income statement	(Wbn)				
	2020A	2021A	2022F	2023F	2024F
Revenue	124	166	224	301	365
Cost of goods sold	104	108	135	166	199
Gross profit	20	58	90	136	166
SG&A expenses	39	52	74	90	104
OP	-19	6	16	45	63
OP margin	-15.2	3.4	7.2	15.0	17.2
EBITDA	-5	20	31	63	85
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	18	47	64
Income tax expense	4	2	-4	-11	-15
Income from cont. op.	-13	3	14	36	49
Income from discont. op.	0	0	0	0	0
NP	-13	3	14	36	49
NP margin	-10.6	2.0	6.1	11.9	13.5
NP for non-contr. interest	-1	0	0	0	0
NP for contr. interest	-12	3	14	36	49
Valuation of AFS fin. assets	0	0	0	0	0
Other compreh. income	0	0	0	0	0
Comprehensive income	-13	5	15	38	51
Comp. income for non-contr. Int.	-1	0	0	0	0
Comp. income for contr. int.	-12	5	15	38	51

Valuation metrics	(W, x, %)				
	2020A	2021A	2022F	2023F	2024F
EPS	-651	177	727	1,912	2,620
PER	NA	784.2	119.8	45.6	33.2
BPS	15,830	17,308	17,399	19,310	21,930
PBR	6.6	8.0	6.4	5.7	5.1
EBITDAPS	-255	1,071	1,642	3,362	4,536
EV/EBITDA	NA	130.8	68.1	32.8	23.8
SPS	6,652	8,877	11,928	16,029	19,398
PSR	15.6	15.7	9.3	6.9	5.7
CFPS	-8	1,495	2,042	3,763	4,937
DPS	0	500	0	0	0

Financial ratios	(W, x, %)				
	2020A	2021A	2022F	2023F	2024F
Growth potential					
Revenue growth	33.1	33.5	35.4	34.4	21.0
OP growth	CL	TTB	188.0	181.3	38.5
NP growth	CL	TTB	305.0	162.9	37.1
Profitability					
ROIC	-5.7	5.1	3.8	10.4	14.1
ROA	-4.8	1.2	3.0	7.8	9.3
ROE	-4.1	1.1	4.2	10.4	12.7
Stability					
Debt ratio	50.1	52.9	70.5	63.3	78.5
Net borrowings ratio	-4.6	4.4	4.4	-4.3	-13.3
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	303	321	453
Cash & cash equiv.	39	39	69	85	209
Trade & other receive.	47	64	69	62	74
Inventories	45	81	101	106	95
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	563	598	742
Current liabilities	19	75	95	104	109
Payables & other liab.	10	26	25	34	38
Borrowings	0	0	0	0	0
Current portion of LT debts	0	15	10	10	10
Other current liabilities	9	34	61	61	61
Long-term liabilities	130	97	137	127	218
Borrowings	24	9	49	39	129
Convertible securities	102	83	83	83	83
Other long-term liab.	5	6	6	6	6
Total liabilities	149	173	233	232	326
Controlling interest	295	323	327	363	412
Capital stock	9	9	9	9	9
Capital surplus	175	196	196	196	196
Retained earnings	112	116	120	156	205
Other capital changes	-1	2	2	2	2
Non-controlling interest	1	3	3	3	3
Total shareholder's equity	297	326	330	366	416
Net borrowings	-14	14	15	-16	-55

Cash flow statement	(Wbn)				
	2020A	2021A	2022F	2023F	2024F
Operating cash flows	-21	7	22	71	110
NP	-13	3	14	36	49
Non-cash items	13	25	25	35	44
Depreciation	14	14	15	18	23
FX gains	0	-2	-2	-2	-2
Equity method gain	0	0	0	0	0
Others	-1	12	11	18	22
Chg in assets & liab.	-21	-21	-12	11	32
Other cash flows	0	1	-4	-11	-15
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	25	-10	90
Short-term borrowings	0	0	0	0	0
Bonds payable	110	0	0	0	0
Long-term borrowings	8	0	40	-10	90
Rights offering	6	21	0	0	0
Cash dividends	0	0	-9	0	0
Others	-9	-21	-5	0	0
Net chg in cash	26	1	30	16	124
Beginning cash balance	13	39	39	69	85
Ending cash balance	39	39	69	85	209
NOPLAT	-15	15	12	35	48
FCF	-18	-23	7	18	36

## [Compliance Notice]

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[Investment rating & Target price history]

ST Pharm (237690 KQ)



Date	22.08.09	22.07.08	22.06.02	22.05.24
Rating	Buy	Buy	Buy	Buy
Target price	145,000	135,000	135,000	135,000
Diff. (avr. %)		(29.44)	(29.73)	(24.43)
Diff. (max/min, %)		(15.78)	(22.96)	(22.96)
Date				
Rating				
Target price				
Diff. (avr. %)				
Diff. (max/min, %)				
Date				
Rating				
Target price				
Diff. (avr. %)				
Diff. (max/min, %)				
Date				
Rating				
Target price				
Diff. (avr. %)				
Diff. (max/min, %)				

Investment rating breakdown and framework (Aug 6, 2022)

	Buy	Marketperform	Underperform
Ratio	92.4%	7.6%	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.