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▶ AT A GLANCE

Recommend	BUY
Target price	KRW120,000 46.7%
Current price	KRW81,800
Market cap	KRW1.5/USD1.2b
Shares (float)	18,808,775 (52.1%)
52-week high/low	KRW115,500/KRW72,500
Avg daily trading value (60-day)	KRW9.1b/ USD7.1m

▶ ONE-YEAR PERFORMANCE

	1M	6M	12M
ST Pharm Co., Ltd. (%)	-5.7	-25.5	-16.2
Vs Kosdaq (%pts)	-13.8	-20.8	-6.2

▶ KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	120,000	120,000	0.0%
2022 EPS	1,002	1,300	-22.9%
2023E EPS	1,582	1,572	0.6%

▶ SAMSUNG vs THE STREET

No of estimates	9
Target price	112,000
Recommendation	4.0
BUY★★★: 5 / BUY: 4 / HOLD: 3 / SELL: 2 / SELL★★★: 1	

ST Pharm (237690)

4Q review: Oligo-driven strength

- **4Q22 review:** ST Pharm reported 4Q22 results that beat market consensus thanks to increasing oligonucleotide exports. The firm's COGS ratio rose in 4Q22, but should fall gradually on yield improvements going forward.
- **Maintain BUY and KRW120,000 target price:** The firm should continue to enjoy stable growth, but its lofty valuation should remain as a burden. We still expect a valuation re-rating as commercial production should increase in 2024.

WHAT'S THE STORY?

4Q22 review: ST Pharm posted consolidated 4Q22 sales of KRW100.4b (up 94.1% and 65.1% q-q), a y-y turn to an operating profit of KRW10.2b (up 125% q-q), and a y-y turn to a net profit of KRW3.1b (down 69.3% q-q). Sales and operating profit beat consensus by 28.2% and 13.1%, respectively. Oligonucleotide CDMO sales increased 111.2% y-y and 61.1% q-q to KRW63.3b, consisting of KRW42.3b in hyperlipidemia treatment (probably Leqvio), KRW12.4b in arteriosclerosis treatment, and KRW11.4b in cardiovascular disease treatment. Despite rising oligonucleotide sales, the firm's 4Q22 results revealed an increase in COGS ratio due to the low ASPs of mass-produced products. We expect the firm's COGS ratio to improve gradually on yield improvements.

Maintaining BUY and KRW120,000 target price: We expect the firm's 2023 sales and operating profit to rise a respective 8.1% and 45.1% y-y to KRW269.6b and KRW27.3b. We estimate oligonucleotide sales at KRW168.8b (up 15.3% y-y), mRNA CDMO sales at KRW12.9b (up 106% y-y), and CRO sales at KRW37.4b (up 5.1% y-y). We believe the firm's utilization rates will rise gradually as mass production volume should increase given rising Leqvio prescriptions, commercialization of Imetelstat (Geron) and a cardiovascular disease treatment in 2024, and commercialization of a hepatitis-B treatment in 2025.

(Continued on the next page)

ST Pharm 4Q22 review

(KRWb)	4Q22	3Q22	Chg (% q-q)	4Q21	Chg (% y-y)	Consensus	Diff (%)	Samsung	Diff (%)
Sales	100.4	60.8	65.1	51.7	94.1	78.3	28.2	84.1	19.4
Operating profit	10.2	4.5	125.0	-0.6	nm	9.0	13.1	9.5	7.6
Pre-tax profit	3.9	11.9	-67.2	-6.7	nm	n/a	n/a	11.2	-65.0
Net profit	3.1	9.9	-69.3	-5.0	nm	7.1	-53.5	9.0	-66.1
Margins (%)									
Operating profit	10.2	7.4		-1.2		11.5		11.3	
Pre-tax profit	3.9	19.6		-13.0		0.0		13.3	
Net profit	3.3	16.3		-9.6		9.1		10.7	

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 (%)
2020	124	-19	-17	-13	-651	nm	n/a	4	n/a	6.6	-4.1
2021	166	6	1	3	177	nm	784.2	24	131.3	8.1	1.1
2022	249	19	28	19	1,002	464.6	87.4	80	50.0	4.9	5.7
2023E	270	27	34	27	1,582	57.8	51.7	91	37.6	4.3	8.6
2024E	327	57	64	51	2,959	87.1	27.6	79	21.9	3.8	14.7

Source: Company data, Samsung Securities estimates

With demand for products used in clinical studies expected to rise, the firm should launch construction of the second production line to manufacture oligonucleotide therapeutics in 1H23. The firm is scheduled to release the outcome of Phase I clinical trials for COVID-19 mRNA vaccine STP2104 in mid-2023. We find it somewhat disappointing that the firm's growth has not lived up to its lofty valuation. Still, we maintain our BUY rating on the stock, expecting a valuation re-rating to accelerate on the back of continued growth (commercial production should increase in 2024).

Income statement

Year-end Dec 31 (KRWb)	2020	2021	2022	2023E	2024E
Sales	124	166	249	270	327
Cost of goods sold	104	108	160	176	201
Gross profit	20	58	89	94	126
Gross margin (%)	16.1	34.9	35.7	34.9	38.6
SG&A expenses	39	52	70	67	69
Operating profit	-19	6	19	27	57
Operating margin (%)	-15.2	3.4	7.6	10.1	17.4
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	28	34	64
Taxes	-4	-2	2	7	13
Effective tax rate (%)	21.8	-168.0	6.1	20.0	20.0
Profit from continuing operations	-13	3	19	27	51
Profit from discontinued operations	0	0	0	0	0
Net profit	-13	3	19	27	51
Net margin (%)	-10.6	2.0	7.4	10.1	15.5
Net profit (controlling interests)	-12	3	19	30	56
Net profit (non-controlling interests)	-1	0	-0	-3	-5
EBITDA	-5	20	35	43	74
EBITDA margin (%)	-3.8	12.1	13.9	16.1	22.5
EPS (parent-based) (KRW)	-651	177	1,002	1,582	2,959
EPS (consolidated) (KRW)	-705	181	984	1,444	2,701
Adjusted EPS (KRW)*	-651	177	1,002	1,582	2,959

Cash flow statement

Year-end Dec 31 (KRWb)	2020	2021	2022	2023E	2024E
Cash flow from operations	-21	7	4	26	48
Net profit	-13	3	19	27	51
Non-cash profit and expenses	13	25	23	23	29
Depreciation	14	14	15	15	16
Amortization	0	0	1	1	1
Other	-1	10	7	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	-23	-15	7
Cash at beginning of year	13	39	39	16	1
Cash at end of year	39	39	16	1	8
Gross cash flow	-0	28	41	50	80
Free cash flow	-38	-45	-37	-1	21

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

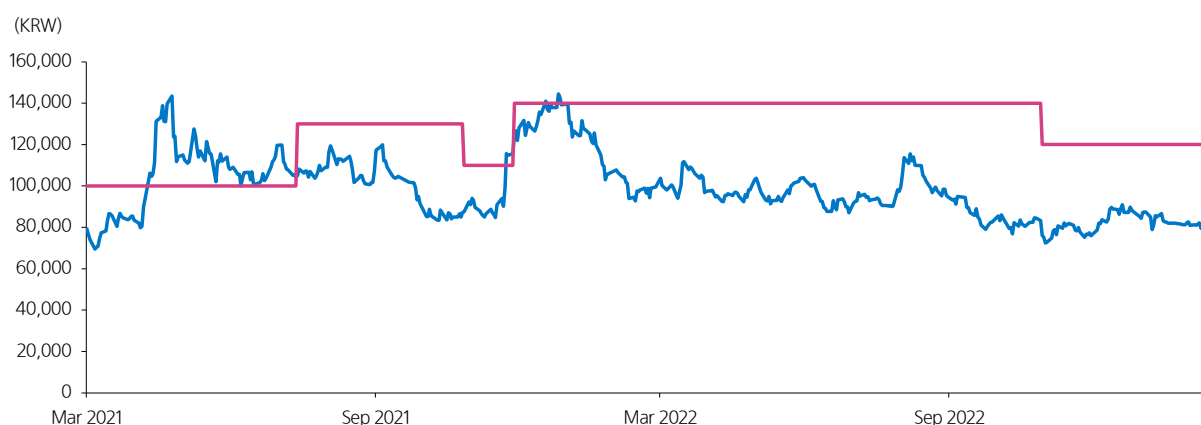
Year-end Dec 31 (KRWb)	2020	2021	2022	2023E	2024E
Current assets	236	244	260	276	317
Cash & equivalents	39	39	16	1	8
Accounts receivable	45	63	0	0	0
Inventories	45	81	122	137	155
Other current assets	106	61	122	137	154
Fixed assets	210	254	284	295	306
Investment assets	10	15	15	15	16
Tangible assets	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	544	571	623
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	336	357	403
Capital stock	9	9	9	9	9
Capital surplus	175	196	196	196	196
Retained earnings	112	116	125	145	192
Other	-1	2	6	6	6
Non-controlling interests' equity	1	3	3	1	-4
Total equity	297	326	340	357	399
Net debt	4	24	80	91	79

Financial ratios

Year-end Dec 31	2020	2021	2022	2023E	2024E
Growth (%)					
Sales	33.1	33.5	50.5	8.1	21.4
Operating profit	nm	nm	237.7	45.1	108.2
Net profit	nm	nm	447.9	46.8	87.1
Adjusted EPS**	nm	nm	464.6	57.8	87.1
Per-share data (KRW)					
EPS (parent-based)	-651	177	1,002	1,582	2,959
EPS (consolidated)	-705	181	984	1,444	2,701
Adjusted EPS**	-651	177	1,002	1,582	2,959
BVPS	15,830	17,171	17,884	18,966	21,424
DPS (common)	0	500	500	500	500
Valuations (x)					
P/E***	n/a	784.2	87.4	51.7	27.6
P/B***	6.6	8.1	4.9	4.3	3.8
EV/EBITDA	n/a	131.3	50.0	37.6	21.9
Ratios (%)					
ROE	-4.1	1.1	5.7	8.6	14.7
ROA	-3.3	0.7	3.5	4.9	8.5
ROIC	-5.8	5.2	5.0	5.4	10.4
Payout ratio	0.0	283.9	49.9	31.6	16.9
Dividend yield (common)	0.0	0.4	0.6	0.6	0.6
Net debt to equity	1.4	7.5	23.7	25.4	19.8
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	2021/1/26	7/15	10/29	11/30	2022/11/1
Recommendation	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	100,000	130,000	110,000	140,000	120,000
Gap* (average)	0.36	-21.70	-15.23	-27.62	
(max or min)**	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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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 2022.12.31

BUY(80.6%)·HOLD(19.4%)·SELL(0%)

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