

Earnings shock continues

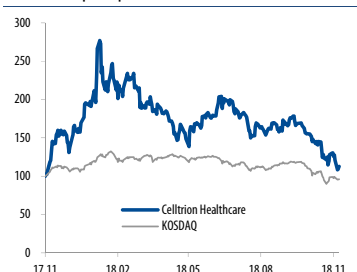
Share price (KRW, Nov 15)	62,600
Upside (%)	37.4
Market cap (KRW bn)	8796.6
Shares outstanding ('000)	140,527
Paid-in capital (KRW bn)/ Face value (KRW)	140.5/1,000
52-week high/low (KRW)	153,800/60,100
60-day avg. daily T/O (KRW bn)	93.7
Foreign ownership (%)	30.41
Major shareholders (%)	Suh, Jung Jin and 8 others 37.89

Price performance	1M	3M	6M
Absolute (%)	-23.8	-27.6	-28.7
Relative (%p)	-16.9	-17.9	-8.8

K-IFRS, consolidated

(KRW)	18F EPS	19F EPS	TP
Previous	1,514	1,415	110,000
Revised	900	803	86,000
Consensus	1,408	1,698	107,875
Difference	-36.1%	-52.7%	-20.3%

12-month price performance



Source: WiseFn, Hyundai Motor Securities

1) Investment highlights

- Sales of Herzuma were higher than expected after its European launch in 3Q18. However, 3Q18 results missed expectations due to a margin squeeze of Remsima (in Europe) and weak sales of Truxima. As the company's efforts to expand market share is putting downside pressure on margins, we reduce our EBIT margin assumption from 18% to 12%, which naturally leads to a downward revision of our target price, from KRW110,000 to KRW86,000.
- We maintain BUY considering: 1) the momentum to come from US approvals over Truxima and Herzuma before the end of this year; and 2) its established sales network, which will help the company to retain its leadership in the biosimilar market in the mid/long term.

2) Major issues and earnings outlook

- Remsima/Inflectra: 1) European market share is anchored at 54% and with the drug selling at the floor price, further price downside is limited; 2) the launch of Remsima SC in 4Q19 is expected to shore up margins; 3) North American market share, currently at the 10% level, is forecast to rise to 15% in 2019. North American sales of Remicade are estimated to be roughly KRW4tn; a 15% market share in this segment means about KRW600bn in sales for Pfizer, its US sales partner. Current monthly sales are USD30mn (or KRW35bn) but are expected to go up as insurers scale up marketing.
- Truxima: 1) European market share has grown sharply to 32%, far higher than rival Sandoz's market share of 7%; 2) North American sales approval is expected to arrive in December, with the release date set for 2019. We expect the sales partner Teva to employ aggressive marketing strategies. Since rival Sandoz abandoned the North American market, Truxima is likely to enjoy an oligopolistic position in the Rituxan biosimilar market for many years to come. We expect margins to improve in 2019. However, there will be a six-month time lag before earnings recognition because, unlike other drugs, sales will be recognized when Teva delivers the drug to hospitals.
- Herzuma: 1) market share has expanded to 7% in just two quarters into launch, displaying a similar pace as Truxima when it was launched last year; we expect Herzuma to make up 30% of 2019 sales; 2) the patent protection in North America is intact until Jun 2019, but the company plans to release the drug in December, taking the risk of a lawsuit to prevent the patent holder from attempting to extend the patent protection period. We expect the first-mover advantage to help accelerate the penetration into the market.

3) Share price outlook and valuation

- We trim our target price based on our forecast of future margin (12%), not based on the 2016-2017 average margin (18%).

Earnings forecasts and valuations

	Sales (KRW100mn)	OP (KRW100mn)	NP (KRW100mn)	EBITDA (KRW100mn)	EPS (KRW)	Growth (%YoY)	P/E (x)	P/B (x)	EV/EBITDA (x)	ROE (%)	Div. yield (%)
2016	7,577	1,786	1,229	1,788	1,081	256.7	0.0	0.0	1.5	21.4	N/A
2017	9,209	1,537	1,574	1,538	1,254	16.0	86.6	8.9	92.4	13.4	0.0
2018F	10,132	1,072	1,264	1,075	900	-28.3	69.6	4.8	71.8	7.1	0.0
2019F	11,958	1,472	1,129	1,474	803	-10.7	78.0	4.5	50.9	5.9	0.0
2020F	13,853	1,756	1,331	1,758	947	17.9	66.1	4.2	41.6	6.6	0.0

Note: K-IFRS, consolidated

COMPANY NOTE

Fig 1. 3Q18 review

(KRW 100mn)	Quarterly results			Change		HMS estimates		Consensus	
	3Q18P	3Q17	2Q18	%YoY	%QoQ	3Q18F	%diff	3Q18F	%diff
Revenue	2,127	1,980	1,838	7.4	15.7	2,755	-22.8	2,912	-27.0
Operating profit	200	403	152	50.2	31.6	476	-57.9	370	-45.8
Pretax profit	91	405	160	77.6	43.2	488	-81.4	449	-79.8
Net profit (CI)	64	307	110	79.2	41.9	370	-82.8	292	-78.1

Source: DataGuide, Hyundai Motor Securities

Fig 2. Valuation table

Item	Present value (KRM 100mn)	NAV (USD mn)	Applied rate (%)	Note
1. Products	110,636			Applied currency rate of KRW 1,130
Remsima	65,804	5,823		12% EBIT margin (vs. 2016- 2017 average of 18% previously)
Truxima	27,876	2,467		12% EBIT margin (vs. 2016- 2017 average of 18% previously)
Herzuma	16,956	1,501		12% EBIT margin (vs. 2016- 2017 average of 18% previously)
2. Non-operating	7,861			
Pipelines		Before discount	Success rate	
CT-P27	7,861	2,319	30.0	Applied success rate of clinical trial phase 2
3. Net debt	-			
4. Shareholder value (1+2-3)	118,498			
5. Shares outstanding ('000)	137,338			
Target price (KRW) (4/5)	86,281			

Source: Hyundai Motor Securities

Fig 3. Earnings forecasts

(KRW100mn)	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18P	4Q18F	2016	2017F	2018F
Sales	699	2,375	1,980	4,154	1,284	1,838	2,127	4,884	9,209	10,132	11,958
Remsima	654	2,094	1,343	1,510	1,053	330	1,127	1,706	5,601	4,216	4,827
Truxima	36	235	570	2,598	218	864	234	1,429	3,439	2,745	3,349
Herzuma & others	9	46	51	46	13	643	766	1,749	153	3,170	3,782
Operating profit	106	534	403	493	84	152	200	635	1,537	1,072	1,472
Pretax profit	19	1,032	405	606	825	160	91	639	2,061	1,715	1,488
Net profit	-18	775	307	510	605	110	64	485	1,574	1,264	1,129
Operating margin (%)	15.2	22.5	20.3	11.9	6.6	8.3	9.4	13.0	16.7	10.6	12.3
Pretax margin (%)	2.7	43.4	20.4	14.6	64.3	8.7	4.3	13.1	22.4	16.9	12.4
Net margin (%)	-2.6	32.6	15.5	12.3	47.1	6.0	3.0	9.9	17.1	12.5	9.4

Note: 2017 quarterly results are pre-IFRS15 figures

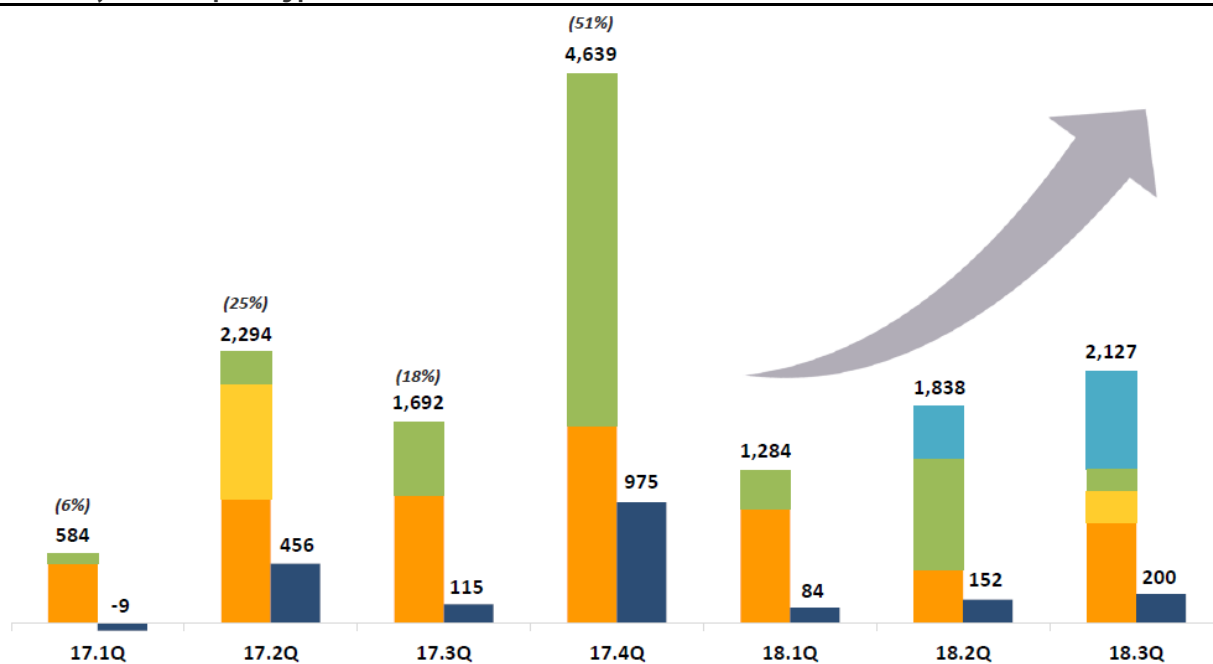
Source: Hyundai Motor Securities

Fig 4. Earnings revisions

(KRW100mn)	Revised		Previous		%change	
	2018F	2019F	2018F	2019F	2018F	2019F
Sales	10,132	11,958	13,085	15,686	-22.6	-23.8
Operating profit	1,072	1,472	2,083	2,575	-48.5	-42.8
Pretax profit	1,715	1,488	2,844	2,620	-39.7	-43.2
Net profit	1,264	1,129	2,126	1,989	-40.6	-43.2

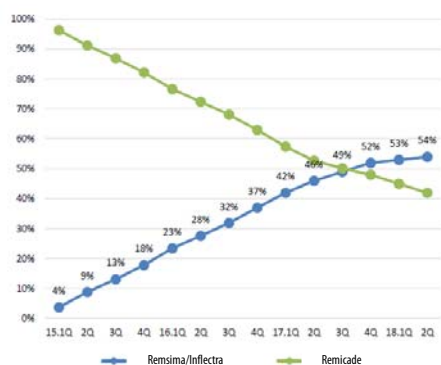
Source: Hyundai Motor Securities

Fig 5. Quarterly sales and operating profit trend



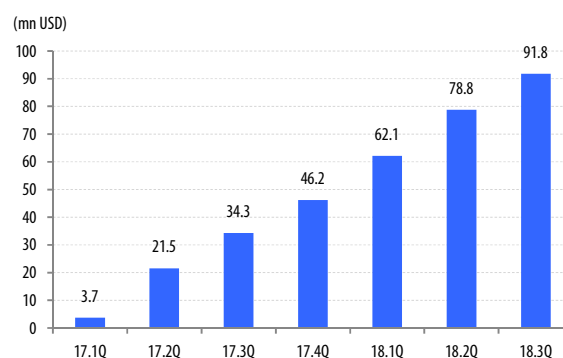
Note: 2017 and 2018 quarterly results are based on IFRS15
Source: Company data, Hyundai Motor Securities

Fig 6. Remsima's European market share



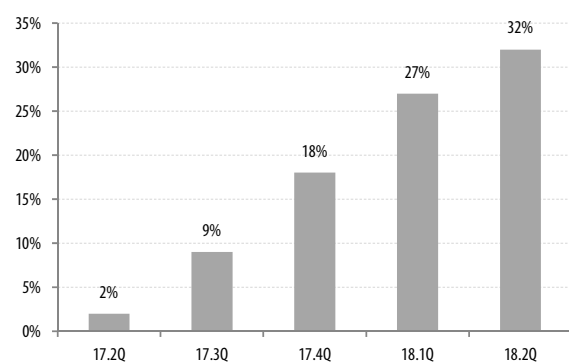
Source: Company data, IQVIA, Symphony Health, Hyundai Motor Securities

Fig 7. US prescription of Inflectra



Source: Company data, IQVIA, Symphony Health, Hyundai Motor Securities

Fig 8. Truxima's European market share



Source: Company data, IQVIA, Symphony Health, Hyundai Motor Securities

Fig 9. Herzuma's European release schedule

Release	Country	Partner
4Q18	Croatia	Oktal
	Slovenia	
	Czech	EGIS
	Hungary	
	Bulgaria	
1H19	Latvia	Orion
	Northern Europe	
	Switzerland	iQone
	Greece, etc	-

Source: Company data, IQVIA, Symphony Health, Hyundai Motor Securities

COMPANY NOTE

Income statement

(KRW100mn)	2016	2017	2018F	2019F	2020F
Sales	7,577	9,209	10,132	11,958	13,853
Change (%)	88.3	21.5	10.0	18.0	15.8
Cost of goods sold	5,378	6,968	8,078	9,194	10,451
% of sales	71.0	75.7	79.7	76.9	75.4
Gross profit	2,199	2,241	2,053	2,764	3,402
Gross margin (%)	29.0	24.3	20.3	23.1	24.6
Change (%)	46.9	1.9	-8.4	34.6	23.1
SG&A expenses	413	705	981	1,292	1,646
% of sales	5.5	7.7	9.7	10.8	11.9
EBITDA	1,788	1,538	1,075	1,474	1,758
EBITDA margin (%)	23.6	16.7	10.6	12.3	12.7
Change (%)	59.5	-14.0	-30.1	37.1	19.3
Operating profit	1,786	1,537	1,072	1,472	1,756
Operating margin (%)	23.6	16.7	10.6	12.3	12.7
Change (%)	59.6	-13.9	-30.3	37.3	19.3
Non-operating profit	-154	525	643	16	-2
Interest income	251	1,146	877	70	60
Interest expenses	467	471	180	56	56
Other non-operating income	62	-150	-54	2	-6
Subsidiaries/affiliate income	0	0	0	0	0
Pretax profit from cont ops	1,631	2,061	1,715	1,488	1,754
Pretax margin (%)	21.5	22.4	16.9	12.4	12.7
Change (%)	19.4	26.4	-16.8	-13.2	17.9
Income tax	402	487	451	359	423
Profit from continuing ops	1,229	1,574	1,264	1,129	1,331
Profit from discontinuing ops	0	0	0	0	0
Net profit	1,229	1,574	1,264	1,129	1,331
Net margin (%)	16.2	17.1	12.5	9.4	9.6
Change (%)	496.6	28.1	-19.7	-10.7	17.9
NP from controlling interest	1,229	1,574	1,264	1,129	1,331
NP from non-controlling interest	0	0	0	0	0
Other comprehensive income	-2	-104	27	0	0
Total comprehensive income	1,227	1,470	1,291	1,129	1,331

Cash flow

(KRW100mn)	2016	2017	2018F	2019F	2020F
Operating cash flow	304	-1,943	3,346	2,326	1,520
Net profit	1,229	1,574	1,264	1,129	1,331
Depreciation on tangible assets	1	1	1	1	1
Amortization on intangible assets	0	1	2	2	1
FX-related profit	-100	-33	-12	0	0
Dec (inc) in working capital	-1,200	-2,669	2,742	1,194	187
Others	374	-817	-651	0	0
Investing cash flow	-2	-5,210	-173	-35	-49
Dec (inc) in investment assets	-42	-272	-251	-27	-48
Decrease in tangible assets	0	0	0	0	0
Increase in tangible assets	0	-3	-1	0	0
Others	40	-4,935	79	-8	-1
Financing cash flow	218	8,653	114	153	184
Increase (decrease) in debt	-584	-328	0	0	0
Increase (decrease) in bond	-1,546	0	0	0	0
Increase in capital	-8,336	10,102	143	0	0
Dividend	0	0	0	0	0
Others	10,684	-1,121	-29	153	184
Other cash flow	69	55	31	0	0
Increase (decrease) in cash	590	1,555	3,318	2,444	1,655
Beginning cash	369	959	2,514	5,832	8,276
Ending cash	959	2,514	5,832	8,276	9,931

Note: K-IFRS, consolidated

Balance sheet

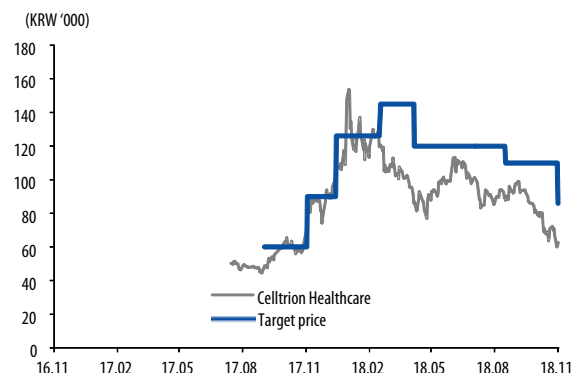
(KRW100mn)	2016	2017	2018F	2019F	2020F
Current assets	19,492	28,002	27,540	28,940	31,698
Cash and cash equivalents	959	2,514	5,832	8,096	10,200
Short-term investment assets	0	5,235	5,811	5,819	5,819
Accounts receivable	3,641	4,145	3,907	4,464	4,029
Inventory assets	14,721	15,748	11,491	9,994	11,035
Other current assets	170	361	499	567	615
Non-current assets	383	747	925	950	996
Tangible assets	1	3	3	2	1
Intangible assets	10	21	28	26	25
Investment assets	231	503	754	781	829
Other non-current assets	141	220	140	141	141
Other financial assets	0	0	0	0	0
Total assets	19,874	28,749	28,465	29,890	32,694
Current liabilities	11,434	9,933	8,274	8,620	9,573
Short-term debt	227	113	109	109	109
Accounts payable	6,413	6,592	3,907	3,858	4,230
Current portion of long-term debt	1,661	0	0	0	0
Other current debt	3,133	3,228	4,258	4,653	5,234
Non-current liabilities	1,954	1,741	1,752	1,882	1,952
Bonds	0	0	0	0	0
Long-term debt	0	0	0	0	0
LT financial debt (incl. lease)	328	0	0	0	0
Other non-current debt	1,626	1,741	1,752	1,882	1,952
Other financial liabilities	0	0	0	0	0
Total liabilities	13,388	11,675	10,026	10,502	11,526
Owners of parent equity	6,487	17,075	18,439	19,568	20,899
Paid-in capital	1,121	1,373	1,405	1,405	1,405
Capital surplus	3,806	13,656	13,768	13,768	13,768
Capital adjustment, etc.	-461	-461	-504	-504	-504
Other accumul earnings and comp income	-36	-141	-113	-113	-113
Retained earnings	2,056	2,647	3,883	5,012	6,344
Non-controlling interest	0	0	0	0	0
Total equity	6,487	17,075	18,439	19,568	20,899

Key financial data

(KRW, x, %)	2016	2017	2018F	2019F	2020F
EPS (based on net profit)	1,081	1,254	900	803	947
EPS (based on parent net profit)	1,081	1,254	900	803	947
BPS (based on total equity)	5,674	12,189	13,121	13,925	14,872
BPS (based on owners of parent equity)	5,674	12,189	13,121	13,925	14,872
DPS	0	0	0	0	0
P/E (based on net profit)	0.0	86.6	69.6	78.0	66.1
P/E (based on parent net profit)	0.0	86.6	69.6	78.0	66.1
P/B (based on total equity)	0.0	8.9	4.8	4.5	4.2
P/B (based on owners of parent equity)	0.0	8.9	4.8	4.5	4.2
EV/EBITDA (reported)	1.5	92.4	71.8	50.9	41.6
Dividend yield	N/A	0.0	0.0	0.0	0.0
Growth (%)					
EPS (based on net profit)	256.7	16.0	-28.3	-10.7	17.9
EPS (based on parent net profit)	256.7	16.0	-28.3	-10.7	17.9
Profitability (%)					
ROE (based on net profit)	21.4	13.4	7.1	5.9	6.6
ROE (based on parent net profit)	21.4	13.4	7.1	5.9	6.6
ROA	6.9	6.5	4.4	3.9	4.3
Stability (%)					
Total liabilities/equity	206.4	68.4	54.4	53.7	55.2
Net debt/equity	40.0	Net cash	Net cash	Net cash	Net cash
Interest coverage	5.5	6.4	N/A	N/A	N/A

Investment rating and target price history

Date	Rating	TP	Difference (%)	
			Average	High/Low
17/09/15	BUY	58,861	-1.9	28.2
17/11/16	BUY	88,292	-1.9	21.9
17/12/28	BUY	126,000	-1.8	22.1
18/03/02	BUY	145,000	-28.5	-17.7
18/04/20	BUY	120,000	-26.2	-21.6
18/05/25	BUY	120,000	-18.1	-5.7
18/07/20	BUY	120,000	-20.3	-5.7
18/08/30	BUY	110,000	-25.2	-10.0
18/11/15	BUY	86,000	-	-

Two-year price chart**Compliance note**

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- **OVERWEIGHT:** Sector-wide fundamentals and share prices are expected to turn up.
- **NEUTRAL:** No meaningful fundamental improvement is expected.
- **UNDERWEIGHT:** Sector-wide fundamentals and share prices are expected to turn down.

Hyundai Motor Securities offers three company investment ratings based on the relative return expected in the following six months, based on the closing price on the date of rating declaration.

- **BUY:** Excess return of +15%p or more
- **MARKETPERFORM (M.PERFORM):** Excess return of between -15%p and +15%p
- **SELL:** Excess return of -15%p or less

Stock ratings distribution (October 1, 2017-September 30, 2018)

Rating	Count	% of rating category
BUY	145	90.06
MARKETPERFORM	16	10.13
SELL	0	0.0

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