

January 7, 2019

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### Maintain Hold and cut target price 8.6% to KRW74,000

We maintain our Hold rating on Celltrion Healthcare and cut our target price 8.6% from KRW81,000 to KRW74,000. This is based on the following reasons. First, Celltrion Healthcare is expected to post sluggish earnings through 1H19 as it prepares to establish a direct-sales network worldwide. Second, the company's biosimilar, Truxima, is expected to be launched in 2H19 under an agreement with Roche, the manufacturer of the original pharmaceutical. We derived our target price using the discounted cash flow (DCF) method. Our major assumptions are a COE of 10.79%, a market risk premium of 8.88% and a terminal growth rate of 4.14%.

### Announces plans to establish direct global distribution network

Celltrion Group Chairman Seo Jung-jin announced at an analysts' conference on Jan 4 that the group plans to establish a direct global-sales network. The aim is to reduce costs (40% distribution margins for partner companies) and strengthen price competitiveness. Celltrion Healthcare will be responsible for the global sales of Remsima SC, which is expected to be highly effective in curing patients with inflammatory bowel disease (IBD). The ultimate goal is to bolster the drug's market dominance.

### 4Q18 results to miss consensus

We project 4Q18 OR at KRW381.4bn (-8.2% YoY, +79.3% QoQ) and OP at KRW38bn (-22.8% YoY, +89.6% QoQ), missing consensus. We attribute the weaker-than-expected earnings to the following reasons. First, the company is lowering inventory levels at European partner companies from six months to less than four months to set up the direct-sales network. Second, this push will incur related costs (e.g., the set-up of European offices, additional hiring).

## Hold maintain

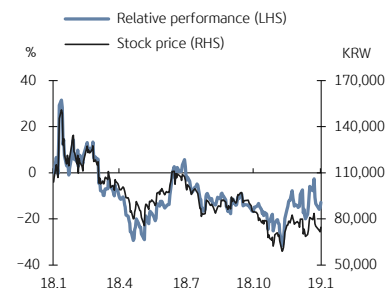
<b>Target Price (lowered)</b>	<b>KRW74,000</b>
Upside/Downside	-0.8%
Current price (Jan 4)	KRW74,600
Consensus Target Price	KRW87,607
Market cap	USD9.3bn

<b>Trading Data</b>	
Free float	35.7%
Avg T/O Val (3M, KRWbn)	107.7
Foreign ownership	31.0%
Major shareholders	Jeong-Jin Suh and 12 others 37.9%
	One Equity Partners IV, L.P. 15.0%

<b>Share price performance</b>					
(%)	<b>1M</b>	<b>3M</b>	<b>6M</b>	<b>12M</b>	
Absolute	-3.8	-11.7	-25.6	-28.3	
Relative	2.6	4.8	-10.5	-12.8	

### Forecast earnings & valuation

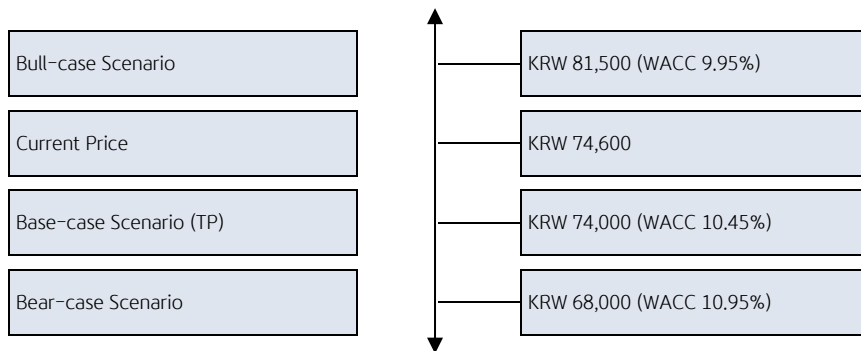
FY-end	2018E	2019E	2020E	2021E
OR (KRWbn)	906	1,532	2,637	3,908
OP (KRWbn)	82	193	357	588
NP to parent (KRWbn)	115	152	271	431
EPS (KRW)	821	1,060	1,892	3,011
EPS Growth (%)	-33.3	29.1	78.5	59.1
PER (x)	91.8	70.4	39.4	24.8
EV/EBITDA (x)	120.4	48.7	26.1	14.8
PBR (x)	5.8	5.4	4.8	4.0
ROE (%)	6.5	8.0	12.8	17.5
Div. Yield (%)	0.0	0.0	0.0	0.0



Source: Celltrion Healthcare, KB Securities estimates

Third, Inflectra price reductions aimed at boosting US sales are estimated to be reflected in advance in 4Q18 earnings. Weak earnings are expected until 1H19 before improving gradually in 2H19, when Remsima SC, which boasts strong competitive edges, is scheduled to be rolled out. We estimate Celltrion Healthcare to turn in 2019 OR of KRW1.53tr (+69.0% YoY) and OP of KRW192.6bn (+135.7% YoY).

## Investment opinion and risks



## Base-case Scenario: Catalysts

- 1) US launches of Truxima and Herxuma
- 2) Growing US sales of Remsima

## Bull-case Scenario: Upside risks

- 1) Announcement of biosimilar expansion policy
- 2) Rapid increase in US Truxima market share

## Bear-case Scenario: Downside risks

- 1) Difficulty in establishing direct sales network
- 2) Higher-than-expected direct sales marketing costs

## Revised earnings estimates

(KRWbn, %)	Previous		Revised		Change	
	2018E	2019E	2018E	2019E	2018E	2019E
OR	1,181	1,619	906	1,532	-23.3	-5.4
OP	115	245	82	193	-28.9	-21.4
NP to parent	143	187	115	152	-19.1	-19.0

Source: KB Securities estimates

## Difference vs. Consensus

(KRWbn, %)	KB est.		Consensus		Difference	
	2018E	2019E	2018E	2019E	2018E	2019E
OR	906	1,532	1,048	1,422	-13.5	7.7
OP	82	193	123	201	-33.5	-4.2
NP to parent	115	152	145	170	-20.4	-10.4

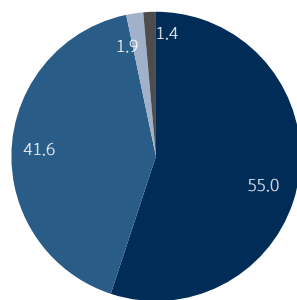
Source: WiseFn, KB Securities estimates

## Valuation and target price calculation

- 1) Valuation Method  
: DCF Valuation
- 2) Per-share value:  
COE 10.79%, WACC 10.45%, terminal growth rate 4.14%
- 3) Target price range:  
KRW81,500~ KRW 68,000
- 4) Target price valuation:  
2019E PER 69.8x based on 2019E EPS

## OR composition (2017, %)

■ Remsima ■ Truxima ■ Herxuma ■ Others



Source: Company data, KB Securities

## Earnings sensitivity analysis

(%)	EPS change	
	2018E	2019E
1% rise in FX rate	+2.8	+1.6
1%p rise in interest rate	+7.4	+6.5

## Peer group comparison

(USDmn, X, %)	Market cap	PER		PBR		ROA		ROE		Dividend yield	
		2019E	2020E	2019E	2020E	2019E	2020E	2019E	2020E	2019E	2020E
Amgen	124,538	13.7	13.4	6.5	5.6	9.7	10.0	43.8	46.2	2.7	2.9
Celltrion	25,214	96.5	69.1	10.3	9.0	55.6	43.4	11.1	13.3	0.0	0.0
Mylan	14,871	6.1	5.5	1.1	1.0	7.7	7.1	17.7	20.2	0.0	0.0
Coherus	590	N/A	N/A	N/A	19.3	N/A	N/A	N/A	N/A	0.0	0.0

Source: Bloomberg, KB Securities

Table 1. DCF valuation

(USDbn)	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
OP	81.7	192.6	357.0	588.5	807.6	936.8	1,086.7	1,270.3	1,454.5	1,600.0
Effective income tax rate (%)	27.1	28.1	28.2	28.2	28.2	26.1	28.2	28.2	28.2	28.2
NOPLAT	59.6	138.5	256.4	422.6	580.0	692.3	780.4	912.3	1,044.6	1,149.1
Depreciation	0.3	0.3	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Cash Flow	59.9	138.8	256.7	422.8	580.1	692.4	780.6	912.5	1,044.7	1,149.2
Capex	0.2	5.1	2.4	0.3	0.6	1.0	1.2	1.8	2.1	3.0
Total Investment	0.2	5.1	2.4	0.3	0.6	1.0	1.2	1.8	2.1	3.0
FCF	59.7	133.7	254.3	422.5	579.5	691.4	779.4	910.7	1,042.6	1,146.2
WACC	10.45%									
Permanent Growth	4.14%									
Terminal Value										19,653.2
Discount factor	1.0	0.8	0.7	0.7	0.6	0.6	0.5	0.5	0.4	0.4
Present Value	59.7	109.6	188.7	283.9	352.5	380.8	388.6	411.1	426.1	7,138.9
Total Present Value	9,740.0									
Cash and cash equivalents	465.9									
Short-term financial instruments	312.0									
Total financial liabilities	77.6									
Fair Market Capital	10,440.3									
Adjusted number of shares (k)	140,510.7									
Shareholder Value (KRW)	74,302.2									
<b>TP (KRW)</b>	<b>74,000</b>									

Source: Company data, KB Securities estimates

Note: Market-required-rate of return=11.11% (KB Securities estimate), risk-free-rate of return=2.23% (3-year KTB yield), beta=0.96 (52-week average of MSCI World Healthcare Index), COE=10.79%, COD=3.40%, WACC=10.45%, Permanent growth=4.14% (2014-2024 global generic market's average growth and forecast, Evaluate Pharma), Treasury stocks are excluded from adjusted number of shares

Table 2. 4Q18 Celltrion Healthcare's earnings preview

(KRWbn, %)	4Q18E	YoY		QoQ		Consensus	
		4Q17	YoY %	3Q18	QoQ %	Consensus	Diff. %
OR	381.4	415.4	-8.2	212.7	79.3	515.8	-26.1
OP	38.0	49.3	-22.8	20.0	89.6	77.8	-51.1
NP to parent	37.4	51.0	-26.6	6.4	486.7	64.8	-42.2
OP Margin	10.0	11.9		9.4		15.1	
NP to parent Margin	9.8	12.3		3.0		12.6	

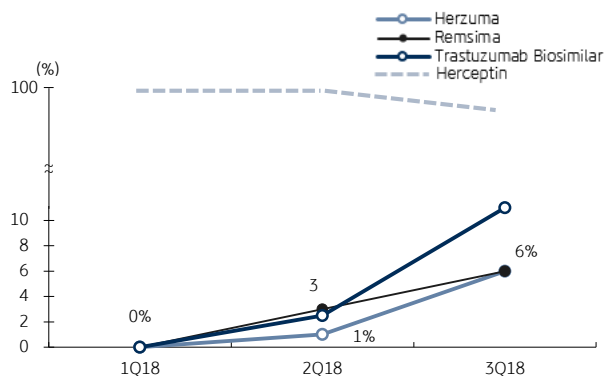
Source: Company data, KB Securities estimates

Table 3. Celltrion Healthcare's estimated earnings and forecast

(USDbn, %)	1Q18	2Q18	3Q18	4Q18E	1Q19E	2Q19E	3Q19E	4Q19E	2017	2018E	2019E
<b>OR</b>	<b>128.4</b>	<b>183.8</b>	<b>212.7</b>	<b>381.4</b>	<b>160.6</b>	<b>276.3</b>	<b>447.4</b>	<b>647.3</b>	<b>920.9</b>	<b>907.0</b>	<b>1,531.7</b>
Remsima/Inflectra	104.6	32.9	111.8	145.5	93.5	118.2	248.8	347.8	507.0	394.8	808.3
Truxima	21.5	84.8	23.0	184.4	54.3	132.5	162.9	238.7	383.2	313.6	588.4
Herzuma	1.5	43.4	77.9	49.1	12.0	25.2	34.9	58.2	17.7	171.9	130.3
Others	0.8	22.6	0.8	2.5	0.8	0.5	0.8	2.5	13.0	26.7	4.6
<b>OR (% YoY)</b>	<b>83.5</b>	<b>-22.6</b>	<b>7.4</b>	<b>-8.2</b>	<b>25.1</b>	<b>50.4</b>	<b>110.4</b>	<b>69.7</b>	<b>25.6</b>	<b>-1.6</b>	<b>69.0</b>
Remsima/Inflectra	59.9	-84.3	-16.8	48.8	-10.6	259.1	122.5	139.2	-29.9	-22.1	104.8
Truxima	490.4	260.6	-60.8	-38.0	54.3	132.5	162.9	238.7	3,804.8	-18.2	87.6
Herzuma				176.7	696.4	-41.9	-55.2	18.6	-	869.6	-24.2
<b>OR (% QoQ)</b>	<b>-69.1</b>	<b>43.1</b>	<b>15.7</b>	<b>79.3</b>	<b>-57.9</b>	<b>72.0</b>	<b>61.9</b>	<b>44.7</b>			
Remsima/Inflectra	7.0	-68.5	239.8	30.1	-35.7	26.4	110.6	39.8			
Truxima	-92.8	294.5	-72.9	703.0	-70.5	143.9	23.0	46.5			
Herzuma	-91.5	2,775.0	79.3	-37.0	-75.5	109.8	38.2	66.8			
<b>OR (% Sales)</b>											
Remsima/Inflectra	81.5	17.9	52.6	38.1	58.2	42.8	55.6	53.7	55.0	43.6	52.8
Truxima	16.7	46.1	10.8	48.3	33.8	47.9	36.4	36.9	41.6	34.6	38.4
Herzuma	1.2	23.6	36.6	12.9	7.5	9.1	7.8	9.0	1.9	19.0	8.5
<b>GP</b>	<b>25.6</b>	<b>38.8</b>	<b>43.9</b>	<b>75.3</b>	<b>32.4</b>	<b>52.6</b>	<b>102.8</b>	<b>144.1</b>	<b>224.1</b>	<b>183.6</b>	<b>332.0</b>
(% YoY)	8.2	-41.9	-25.0	0.1	26.7	35.6	134.4	91.3	38.3	35.7	35.3
(GPM)	19.9	21.1	20.6	19.7	20.2	19.0	23.0	22.3	24.3	20.3	21.7
<b>OP</b>	<b>8.4</b>	<b>15.2</b>	<b>20.0</b>	<b>38.0</b>	<b>10.9</b>	<b>24.1</b>	<b>67.0</b>	<b>90.7</b>	<b>153.7</b>	<b>81.7</b>	<b>192.6</b>
(% YoY)	-20.8	-71.5	-50.2	-22.8	29.3	57.9	234.2	138.5	-14.0	-46.8	135.7
(OPM)	6.6	8.3	9.4	10.0	6.8	8.7	15.0	14.0	16.7	9.0	12.6
<b>NP to parent</b>	<b>60.5</b>	<b>11.0</b>	<b>6.4</b>	<b>37.4</b>	<b>10.0</b>	<b>20.1</b>	<b>51.1</b>	<b>70.6</b>	<b>157.4</b>	<b>115.3</b>	<b>151.9</b>
(NPM)	47.1	6.0	3.0	9.8	6.2	7.3	11.4	10.9	17.1	12.7	9.9

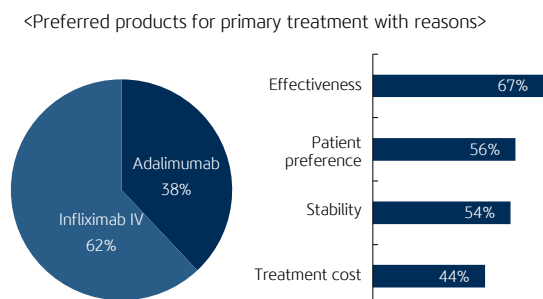
Source: Company data, KB Securities estimates

Fig 1. Herzuma's EU market share



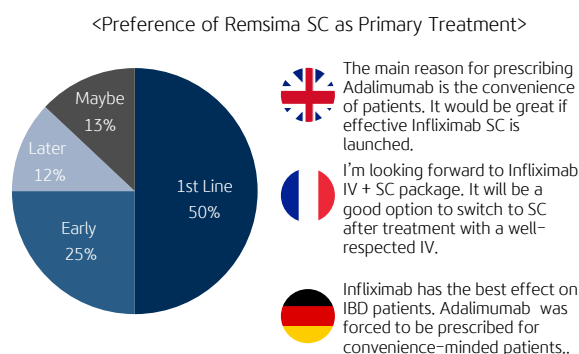
Source: IQVIA 8 Europe countries (Austria, Germany, Netherlands, UK, Spain, Ireland, Italy, Portugal), KB Securities

Note: Herzuma, Ontruzant and Kanzanti market share

Fig 2. Survey results – Preferred products for TNF- $\alpha$  primary treatment

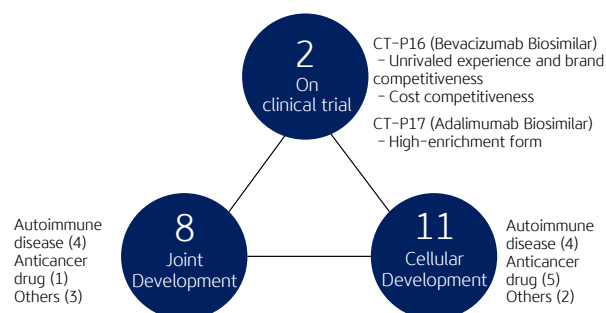
Source: Internal Market Research, KB Securities

Fig 3. Interview results – Preference for Remsima SC



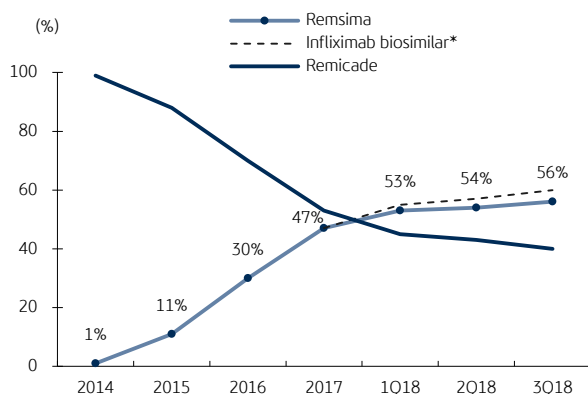
Source: Interviews conducted by CTHC during UEGW 2018, KB Securities

Fig 4. Celltrion Group's Pipeline



Source: Company data, KB Securities

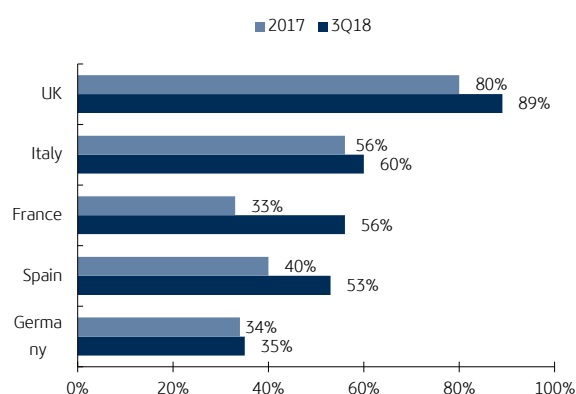
Fig 5. Remsima's EU market share



Source: IQVIA 28 European countries, KB Securities

Note: Remsima and Flixabi market share

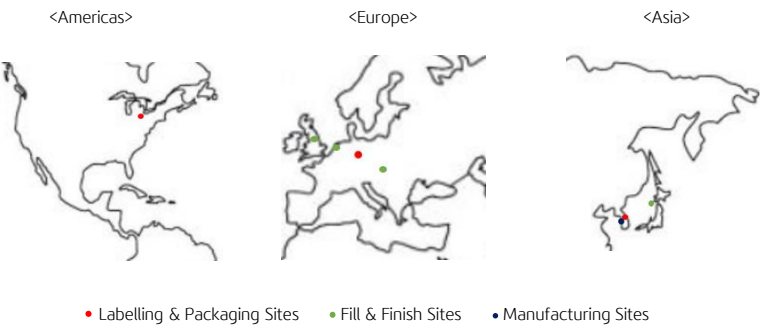
Fig 6. Remsima's market share in major European countries



Source: IQVIA, KB Securities

Value chain optimization to secure market accessibility and enhance competitiveness

Fig 7. Celltrion Group’s global production base



Source: Company data, KB Securities

Profit & Loss					
(KRWbn)	2017A	2018E	2019E	2020E	2021E
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
Operating revenue	921	906	1,532	2,637	3,908
Cost of sales	697	723	1,200	2,073	3,046
Gross profit	224	184	332	564	861
SG&A expenses	70	102	139	207	273
Operating profit	154	82	193	357	588
EBITDA	154	82	193	357	589
Non-operating accounts	52	76	19	21	12
Interest income	7	20	28	29	20
Interest expenses	24	2	2	2	2
Profit on equity method	0	0	0	0	0
Net other non-operating income	-15	-6	-7	-7	-6
Profit before tax	206	158	211	378	601
Income tax expense	49	43	59	106	169
Net profit	157	115	152	271	431
NP to parent	157	115	152	271	431
Adj. net profit	157	115	152	271	431

Operating Statistics & Ratios					
(%)	2017A	2018E	2019E	2020E	2021E
OR growth	21.5	-1.6	69.0	72.2	48.2
OP growth	-14.0	-46.8	135.7	85.3	64.9
EBITDA growth	-13.9	-46.7	135.1	85.2	64.8
NP growth of parent	28.1	-26.8	31.7	78.5	59.1
GP margin	24.3	20.3	21.7	21.4	22.0
OP margin	16.7	9.0	12.6	13.5	15.1
EBITDA margin	16.7	9.1	12.6	13.6	15.1
EBT margin	22.4	17.4	13.8	14.3	15.4
NP margin	17.1	12.7	9.9	10.3	11.0

Cash Flow					
(KRWbn)	2017A	2018E	2019E	2020E	2021E
Cash flow from operating activities	-194	-37	397	57	597
Net profit	157	115	152	271	431
Depreciation & amortization	0	0	0	0	0
Other non-cash adjustments	-38	-13	59	106	169
Investments in working capital	-267	-98	245	-214	166
Decrease(Increase) in Receivables	-143	-38	-35	-94	-230
Decrease(Increase) in Inventories	-114	-71	247	-188	93
Increase(Decrease) in Payables	18	99	114	174	426
Other operating cash flow	-47	-42	-59	-106	-169
Cash flow from investing activities	-521	253	57	48	-82
Capital expenditure	0	0	-5	-2	0
Investments in intangibles	-1	-1	0	0	0
Changes in investment assets	1	-3	0	0	0
Other investment cash flow	0	44	0	0	0
Cash flow from financing activities	865	5	-14	-12	0
Proceeds from (repayments of) debt	-129	0	-14	-12	0
Changes in equity	1,006	6	0	0	0
Dividends paid	0	0	0	0	0
Other financing cash flow	-12	-1	0	0	0
Other cash flow	5	-6	0	0	0
Increase/decrease in cash	156	215	441	93	516
Cash and cash equivalents at FYE	251	466	907	999	1,515
Free cash flow	-195	-38	392	55	597
Net cash flow	956	4	392	55	597
Net cash (net debt)	696	700	1,092	1,147	1,744

Source: Celltrion Healthcare, KB Securities estimates

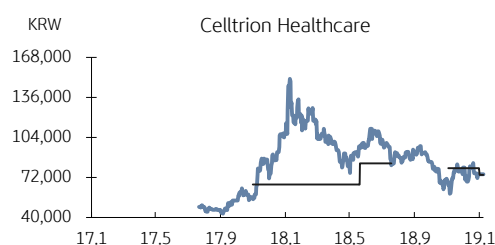
Statement of financial position					
(KRWbn)	2017A	2018E	2019E	2020E	2021E
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
Total assets	2,875	3,059	3,311	3,745	4,602
Current assets	2,800	2,974	3,221	3,652	4,510
Cash and cash equivalents	251	466	907	999	1,515
Current financial assets	520	312	250	200	281
Trade receivables	415	435	470	564	794
Inventories	1,575	1,645	1,398	1,586	1,493
Other current assets	40	116	197	303	427
Non-current assets	75	86	91	93	93
Investment assets	50	61	61	61	61
Property, plant and equipment	0	0	5	8	8
Intangible assets	2	3	3	2	2
Other non-current assets	5	2	2	2	2
Total liabilities	1,167	1,235	1,335	1,497	1,923
Current liabilities	993	1,200	1,300	1,463	1,889
Trade payables	659	758	872	1,046	1,472
Short-term financial liabilities	75	78	64	52	52
Other current liabilities	259	365	365	365	365
Non-current liabilities	174	35	35	35	35
Non-current financial liabilities	0	0	0	0	0
Other non-current liabilities	174	35	35	35	35
Total equity	1,707	1,825	1,976	2,248	2,679
Issued capital	137	141	141	141	141
Share premium	1,366	1,377	1,377	1,377	1,377
Other equity interest	-46	-50	-50	-50	-50
Accumulated other comprehensive income	-14	-20	-20	-20	-20
Retained earnings	265	377	529	800	1,232
Equity attributable to owners of parent	1,707	1,825	1,976	2,248	2,679
Non-controlling Interests	0	0	0	0	0

Key Ratio					
(X, %, KRW)	2017A	2018E	2019E	2020E	2021E
Multiples					
PER	86.6	91.8	70.4	39.4	24.8
PBR	8.9	5.8	5.4	4.8	4.0
PSR	14.8	11.7	7.0	4.1	2.7
EV/EBITDA	92.4	120.4	48.7	26.1	14.8
EV/EBIT	92.5	120.9	48.8	26.2	14.9
Dividend yield, ordinary (%)	NA	0.0	0.0	0.0	0.0
EPS	1,230	821	1,060	1,892	3,011
BPS	11,952	12,983	13,791	15,683	18,694
SPS	7,194	6,449	10,688	18,402	27,266
DPS (Annual, Ordnry.)	0	0	0	0	0
Cash dividends payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Operating performance					
ROE	13.4	6.5	8.0	12.8	17.5
ROA	6.5	3.9	4.8	7.7	10.3
ROIC	13.0	5.8	14.9	28.0	45.1
Financial structure (%)					
Total liab./equity	68.4	67.7	67.6	66.6	71.8
Net debt/equity	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Current Ratio	2.8	2.5	2.5	2.5	2.4
Interest coverage (x)	6.4	54.5	96.3	223.1	367.8
Activity ratios					
Asset turnover (x)	0.4	0.3	0.5	0.8	0.9
Receivables turnover (x)	2.4	2.1	3.4	5.1	5.8
Inventory turnover (x)	0.6	0.6	1.0	1.8	2.5



## Disclosures

## Rating and Target Price Changes (Share price —, Target Price —)



KB Securities is the issuer of ELW that has [Celltrion Healthcare] as an underlying asset as of this date of publication. KB Securities is the issuer and liquidity provider of ELW that has [Celltrion Healthcare] as an underlying asset as of this date of publication.

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## Classification and Standards for Investment Rating

## Investment Rating for Company

(based on estimation of six-month absolute returns)

Buy: +15% or beyond	Hold: Between 15% and -15%	Sell: -15% or beyond
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Note: KB Securities's classification of investment ratings has shifted from four stages (Strong BUY, BUY, Marketperform, Underperform) to three stages (Buy, Hold, Sell) based on Korean reports since February 23, 2017.

## Investment Rating for Industry

(based on estimation of six-month absolute returns)

Positive: To outperform market	Neutral: To match market performance	Negative: To underperform market
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Notes: The industry rating system of KB Securities has shifted from (Overweight, Neutral, Underweight) to (Positive, Neutral, Negative) as of Jun 28, 2017

## Celltrion Healthcare (091990)

Date	Rating	Target Price (KRW)	Differential (%)	
			Avg.	Max/Min
17-10-30	Buy	66,418	49.44	127.21
18-04-30	6 month later	66,418	32.82	13.75
18-05-27	Hold	83,402	20.40	-2.12
18-11-09	Hold	79,477	-5.92	5.06
19-01-07	Hold	74,000		

## Proportion of investment rating (as of December 31, 2018)

Buy	Hold	Sell
70.6	29.4	-

\* Note: Based on reports presented with investment ratings over the past one year

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