

Pharmaceuticals/bio

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Rating	BUY (M)
Target price	W470,000 (D)
Current price (Jan 10)	W349,600
Upside potential	34%

Market cap (Wbn)	1,524
Shares outstanding	4,358,205
Avg daily T/O (2M, Wbn)	12
Avg daily volume (2M, shrs)	39,312
52-week high (won)	636,000
52-week low (won)	238,100
Foreign ownership (%)	52.2
Major shareholders (%)	
Leguh Issuer Designated Activity Company & others	41.4

Stock performance

(%)	1M	3M	12M
Absolute	1.5	(9.0)	(38.6)
Relative	(0.4)	(0.4)	(24.9)
Abs (US\$)	2.2	(7.7)	(41.1)

Clear signs of top-line growth

4Q18 preview: recognition of bad debt expense limited

- Hugel's 4Q18 consolidated sales likely came to W52.8bn (+5.4% YoY) and OP W20.1bn (-19.9% YoY), beating consensus by 17.9% and 57.1%, respectively. We estimate botulinum toxin sales at W21.2bn (-22.3% YoY) and filler sales at W12.3bn (-29.8% YoY). In 3Q18, sluggish exports to Thailand and Japan were the main reason for lower toxin exports to Asia, but they are showing signs of recovery. Despite the drop in toxin and filler sales, the company's total sales likely rose overall on continued growth in cosmetics brand "Wellage." The firm booked bad debt expenses of W2.9bn in 2Q18 and W6.0bn in 3Q18 in the process of selecting a quality vendor, but we expect the impact to have been limited from 4Q18.

Wellage sales to grow rapidly and toxin exports to recover in 2019

- The company is likely to submit a biologics license application (BLA) after receiving a clinical study report (CSR) on Phase III clinical trials from Sihuan Pharm, a Chinese firm. We expect significant growth of botulinum toxin sales in Russia and Brazil in 2019, the second year after its approval. The company will also likely see sales growth in Taiwan, where its toxin has been approved, and in China with a BLA to be submitted this year.
- The company is diversifying its toxin portfolio with patent applications on patch-type and liquid-type botulinum toxins. In addition, a patent application for a local anesthetic technology that is applied before botulinum toxin injections to alleviate pain is currently under review. This therapeutic indication will pave the way for the company's botulinum toxin to expand its market from cosmetics to therapeutic use.
- Wellage's duty-free sales are rising significantly. However, unlike other distribution channels, for duty-free sales, commissions are paid after sales recognition. Therefore, commissions paid always rise in proportion to sales, undermining operating margin.

Maintain BUY, revise down target price to W470,000

- We revise down our target price from W540,000 to W470,000. However, given better brand awareness of Wellage in the duty-free channel and the launch of premium filler "The Style" (in Sep 2018), expectations for businesses other than toxin remain valid for 2019.

Quarterly earnings

(Wbn)	4Q18E	% YoY	% QoQ	Consens	vs consens (%)
Sales	53	5.4	51.1	45	17.9
OP	20	-19.9	290.9	13	57.1
Pre-tax net profit	21	-19.5	-29.1	14	48.7
Net profit, CI	15	-18.3	-32.9	9	66.8
OPM (%)	38.0	-12.0 %pt	+23.3 %pt	28.5	+9.5 %pt
NPM (%)	29.0	-8.4 %pt	-36.2 %pt	20.5	+8.5 %pt

Source: Yuanta Securities

Forecasts and valuations (K-IFRS, consolidated)

	FY ends Dec	2016A	2017A	2018E	2019E
Sales		124	182	176	215
OP		63	102	64	86
Net profit, CI		43	73	72	66
P/E (x)		24.5	23.8	23.1	22.9
P/B (x)		4.2	2.9	2.1	1.8
EV/EBITDA		14.3	11.4	14.3	10.3
ROE (%)		18.8	15.4	9.9	8.4

Source: Yuanta Securities

Hugel (145020 KS) pro forma financial statements (K-IFRS, consolidated)

Statement of comprehensive income

FY ends Dec (Wbn)	2016A	2017A	2018E	2019E	2020E
Sales	124	182	176	215	232
Cost of sales	30	40	50	67	72
Gross profit	94	142	127	148	160
SG&A	31	40	63	62	65
Operating profit	63	102	64	86	95
EBITDA	68	109	72	94	103
Non-op profit/loss	1	2	35	5	6
Forex gain/loss	0	0	1	0	0
Net interest income	1	4	5	7	8
Equity-meth gain/loss	-1	-2	0	0	0
Other	1	0	28	-1	-1
Net prof before income tax	64	104	99	92	101
Income tax	13	22	21	20	22
Net profit from continuing ops	51	81	78	71	79
Net profit from discontinued ops	0	0	0	0	0
Net profit	51	81	78	71	79
NP for controlling interest	43	73	72	66	73
Total comprehensive income	51	81	82	71	79
Total comprehensive income, CI	43	73	76	66	74

Note: Operating profit calculation same as K-GAAP (sales - COGS - SG&A exp)

Statement of financial position

FY ends Dec (Wbn)	2016A	2017A	2018E	2019E	2020E
Current assets	151	679	706	774	862
Cash & cash equivalents	65	31	18	78	158
Accts rec & other	32	66	76	82	89
Inventory	14	16	20	23	25
Non-current assets	143	142	188	189	188
Tangible assets	59	59	60	62	62
Investment in affiliates	6	4	1	1	1
Other non-current	11	15	63	63	63
Total assets	294	821	893	963	1,050
Current liabilities	20	23	16	16	30
Accts payable & other	8	11	11	11	25
ST financial liabilities	0	0	0	0	0
Liquid LT liabilities	0	0	0	0	0
Non-current liabilities	0	80	91	91	91
LT financial liabilities	0	0	0	0	0
Debentures	0	80	82	82	82
Total liabilities	20	103	107	107	122
Equity, controlling interest	253	696	760	827	900
Paid-in capital	2	2	2	2	2
Capital surplus	145	507	513	513	513
Retained earnings	106	179	251	318	391
Equity, non-controlling interest	21	22	26	29	29
Total equity	274	718	786	855	929
Net debt	-104	-516	-523	-584	-663
Total debt	0	80	82	82	82

Cash flow statement

FY ends Dec (Wbn)	2016A	2017A	2018E	2019E	2020E
Operating cash flow	45	64	38	39	61
Net profit	51	81	78	71	79
Depreciation & amortization	4	6	6	6	7
Forex gain/loss	0	0	0	0	0
Affiliate invest gain/loss	1	2	0	0	0
Inc (dec) in net working cap	-24	-31	-31	-12	1
Other	12	6	-15	-27	-27
Investing cash flow	-54	-555	-47	-21	-21
Investment	-5	-21	0	0	0
Inc in tangible assets	-16	-6	-8	-8	-8
Dec in tangible assets	0	0	0	0	0
Other	-34	-528	-39	-13	-13
Financing cash flow	3	458	-10	5	5
Inc (dec) in ST fin liab	-1	0	0	0	0
Inc (dec) in LT fin liab	0	100	0	0	0
Inc (dec) in equity	0	355	0	0	0
Cash dividend	0	0	0	0	0
Other	4	3	-10	5	5
Other cash flow	0	0	5	37	34
Inc (dec) in cash & equivalents	-6	-34	-13	60	79
Beginning cash & equivalents	70	65	31	18	78
Ending cash & equivalents	65	31	18	78	158
NOPLAT	63	102	64	86	95
FCF	16	49	18	54	76

Note: CI = controlling interest

EPS, BPS, P/E and P/B are based on controlling interest

For valuation metrics such as P/E, historical figures are based on annual average prices and estimates, on current price

For ROA or ROE, assets and equity are averages of end-of-year figures for the given year and the year prior

Source: Yuenta Securities

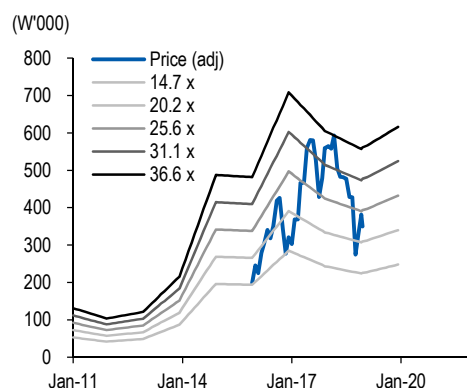
Valuation

FY ends Dec	2016A	2017A	2018E	2019E	2020E
EPS (won)	13,177	19,382	16,548	15,227	16,853
BPS (won)	77,438	161,588	179,752	195,519	212,895
EBITDA/shr (won)	20,727	28,925	16,431	21,537	23,717
SPS (won)	37,816	48,460	40,471	49,264	53,194
DPS (won)	0	0	0	0	0
P/E (x)	24.5	23.8	23.1	22.9	20.7
P/B (x)	4.2	2.9	2.1	1.8	1.6
EV/EBITDA (x)	14.3	11.4	14.3	10.3	8.6
P/S (x)	8.5	9.5	9.4	7.1	6.6

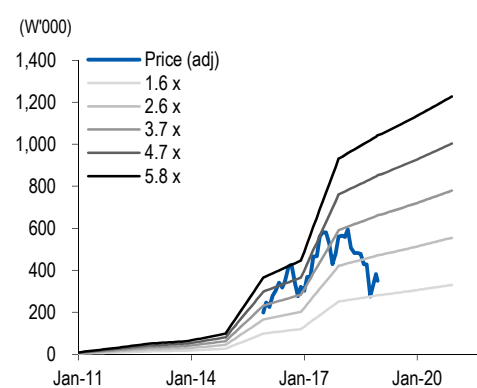
Key financial data

FY ends Dec	2016A	2017A	2018E	2019E	2020E
Sales (% YoY)	90.9	46.6	-3.1	21.7	8.0
Operating profit (%YoY)	256.2	61.1	-37.0	34.6	10.0
Net profit, CI (%YoY)	27.5	68.3	-1.0	-8.0	10.7
Gross margin (%)	76.0	78.0	71.9	69.0	69.0
Operating margin (%)	50.9	56.0	36.4	40.3	41.0
Net margin, CI (%)	34.8	40.0	40.9	30.9	31.7
EBITDA margin (%)	54.8	59.7	40.6	43.7	44.6
ROIC (%)	36.2	48.0	25.7	31.7	34.6
ROA (%)	16.4	13.1	8.4	7.2	7.3
ROE (%)	18.8	15.4	9.9	8.4	8.5
Debt-to-equity (%)	7.4	14.3	13.6	12.6	13.1
Net debt-to-equity (%)	-41.1	-74.2	-68.8	-70.6	-73.7
OP/financing cost (x)	0.0	68.3	19.3	25.5	28.0

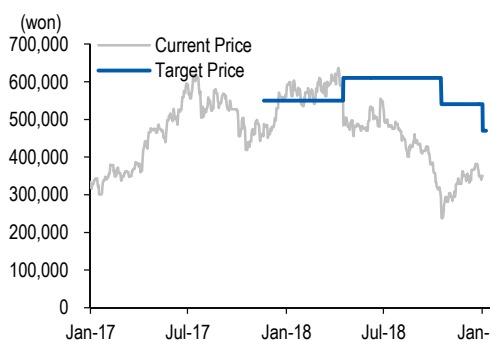
P/E band chart



P/B band chart



Hugel (145020 KS) ratings and target price history



Date	Rating	TP (won)	TP time frame	Difference (%)	
				vs avg price	vs high (low)
2019/01/11	BUY	470,000	1 yr		
2018/10/26	BUY	540,000	1 yr	-39.50	-29.35
2018/04/26	BUY	610,000	1 yr	-25.27	-9.10
2017/11/29	BUY	550,000	1 yr	2.59	15.64

Note: Difference = (actual price* - target price) / target price x 100

* 1) The average price until the day target price was suggested

2) The highest (lowest) price until the day target price was suggested

Source: Yuanta Securities

Current distribution of Yuanta Securities Korea ratings

Rating	Share (%)
STRONG BUY	1.6
BUY	85.3
HOLD	12.6
SELL	0.5
Total	100.0

Note: As of Jan 8

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- **Stock ratings** include an Investment Rating (Strong Buy, Buy, Hold, Sell) based on the expected absolute return of a stock over the next 6 -12 months.
- - Strong Buy: Expected to return 30% or more
- - Buy: Expected to return between 10% and 30%
- - Hold: Expected to return between -10 and +10%
- - Sell: Expected to return -10% or less
- **Sector ratings** suggest 6 to 12 - month forward investment weighting of a given sector compared to its market capitalization weighting.
- - Overweight: Investment weighting is higher than the market capitalization weighting
- - Neutral: Investment weighting is equal to the market capitalization weighting
- - Underweight: Investment weighting is lower than the market capitalization weighting

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