

Osstem Implant (048260 KQ)

Lee Min-young

minyong.lee01@daishin.com

Rating **MARKETPERFORM**
downgrade

6M TP (₩) **57,700**
maintain

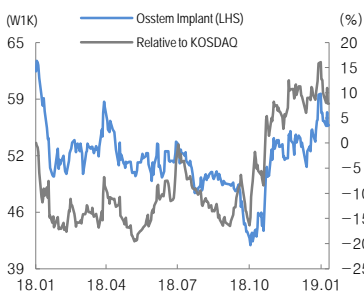
CP (₩)
(19.01.31) **55,500**

Small caps

Industry 4.0 safety rating ■ Sky Blue

KOSDAQ	716.86
Market cap (Wbn)	793
Market cap portion (%)	0.33
Paid-in capital (common; Wbn)	7
52w high/low (₩)	59,100 / 41,700
120d avg. trading volume (Wbn)	3.1
Foreign ownership (%)	47.09
Major shareholders	Cho Gyu-ok+5: 20.76% The Capital Group Companies, Inc.+2: 10.85%

(%)	1M	3M	6M	12M
Abs. return	3.7	30.0	6.7	-3.8
Rel. return	-2.2	17.6	15.5	22.6



4Q18 revenue to grow, but OP to come in low

Downgraded to MARKETPERFORM; 6M TP of W57,700 maintained

- Our target price for Osstem Implant of W57,700 is derived by applying a target P/B of 5.9x (average P/B for 2012-2015 when annual BPS showed double-digit growth) to the 2019E BPS.
- We have changed our valuation method from P/E to P/B considering the large-scale investments in tangible assets scheduled for this year that will highlight the company's asset value.
- But we downgrade our rating to MARKETPERFORM from BUY as the gap between the share price and the target price has narrowed to only about 4%.

4Q18 revenue likely up yoy both at home and abroad, but OP likely down

- For 4Q18, revenue likely grew 12% yoy and 2% qoq to W116.4bn, while OP likely reached W6.8bn, dropping 45% qoq but turning to the black yoy. Both revenue and OP are expected to fall short of the market consensus (W118.9bn and W10.0bn) by 2% and 32%, respectively.
- Domestic revenue is forecast at W52.6bn (up 9% yoy), led by seasonally high demand and reduced out-of-pocket costs for dental implants under the revised national health insurance program.
- Overseas revenue is estimated at W63.8bn (up 15% yoy), showing faster growth than domestic revenue, as a result of large investments the company made over the past two years (to set up new subsidiaries and hire sales staff) and continued top-line expansion in the US and Chinese markets.
- For 4Q18, revenue from the US and Chinese operations is forecast at W16.2bn (up 22% yoy) and W22.5bn (up 16% yoy), respectively, accounting for 14% and 19% of the companywide revenue, respectively.
- Meanwhile, OP is estimated to have come in low on losses on valuation of inventory assets and bad debt expenses incurred by overseas subsidiaries.

(Wbn, %)										
	4Q17	3Q18	Previous estimate	Daishin estimate	4Q18(F)			1Q19(F)		
					YoY	QoQ	Consensus	Daishin estimate	YoY	QoQ
Revenue	104	114	117	116	12.3	2.1	119	120	10.5	2.9
OP	-0	12	12	7	TTB	-44.5	10	9	27.2	29.8
NP	-3	-1	7	3	TTB	TTB	6	5	1.5	59.2

	2016	2017	Previous estimate	Daishin estimate	2018(F)		Growth	
					Chg	Consensus	2017	2018(F)
Revenue	345	398	452	452	-0.1	455	15.4	13.5
OP	34	22	38	33	-12.8	36	-36.6	52.4
NP	24	10	16	12	-22.9	17	-57.0	20.6

Source: Osstem Implant, FnGuide, Daishin Securities Research Center

Operating results and major financial data (Wbn, W, x, %)

	2016A	2017A	2018F	2019F	2020F
Revenue	345	398	452	512	563
OP	34	22	33	38	42
Pretax profit	32	19	19	30	30
NP	20	6	8	24	24
NP (controlling int.)	24	10	12	22	29
EPS	1,689	726	874	1,602	2,072
PER	35.9	81.4	63.5	34.6	26.8
BPS	7,305	7,909	8,329	9,836	11,815
PBR	8.3	7.5	6.7	5.6	4.7
ROE	22.1	9.3	10.4	17.1	18.5

Note: EPS, BPS, and ROE are based only on the controlling interest.
Source: Osstem Implant, Daishin Securities Research Center

Yearly earnings forecast revision (Wbn, W, %, %p)

	Previous		Revised		Chg	
	2018F	2019F	2018F	2019F	2018F	2019F
Revenue	452	513	452	512	-0.1	-0.2
SG&A expense	219	241	224	254	2.1	5.4
OP	38	52	33	38	-12.8	-26.1
OP margin	8.4	10.1	7.3	7.5	-1.1	-2.6
Non-operating profit	-14	-6	-14	-8	CL	CL
Pretax profit	24	45	19	30	-20.7	-33.8
NP (controlling int.)	16	33	12	22	-22.9	-33.5
NP margin	2.7	7.0	1.9	4.7	-0.9	-2.3
EPS (controlling int.)	1,133	2,408	874	1,602	-22.9	-33.5

Source: Osstem Implant, Daishin Securities Research Center

Tab 1. Osstem Implant earnings forecast (revised)

(Wbn, %)

	2017				2018				2016	2017	2018F	2019F
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QF				
Revenue	93.5	101.0	99.6	103.7	108.5	112.7	114.0	116.4	344.6	397.8	451.6	512.4
Dental implant	72.9	79.6	78.7	81.5	86.8	88.8	87.9	93.3	269.7	312.8	356.9	416.4
Dental materials	17.1	17.9	17.0	16.9	18.0	19.0	19.8	18.4	61.6	68.9	75.2	75.6
Training & after-sales service	2.1	1.8	2.4	-1.3	1.9	3.1	4.4	3.0	6.6	5.0	12.4	13.2
IT & others	1.3	1.6	1.5	6.6	1.8	1.8	1.8	1.7	6.7	11.1	7.2	7.2
Growth (%YoY)												
Revenue	20.2	32.2	13.8	0.8	16.0	11.6	14.5	12.3	24.1	15.4	13.5	13.5
Dental implant	18.0	39.5	15.2	-1.1	19.1	11.5	11.7	14.5	28.9	16.0	14.1	16.7
Dental materials	29.7	14.3	8.1	-0.8	4.8	5.8	16.8	8.8	9.0	11.8	9.0	0.6
Training & after-sales service	58.8	-5.2	33.8	-185.3	-10.5	69.7	86.3	320.0	8.7	-24.6	148.6	6.5
IT & others	-6.3	-5.3	-12.4	267.7	34.7	12.5	22.1	-73.6	14.3	66.3	-34.9	-0.3
OP	7.9	9.6	4.4	-0.3	6.9	7.2	12.2	6.8	34.2	21.7	33.1	38.2
OP margin (%)	8.4	9.6	4.5	-0.3	6.4	6.4	10.7	5.8	9.9	5.5	7.3	7.5
Chg (%YoY)	-27.8	82.6	-62.4	TTR	-12.6	-24.8	173.8	TTB	2.8	-36.6	52.4	15.6
NP (contr. int.)	0.0	8.0	5.3	-3.2	5.4	4.3	-0.9	3.4	23.5	10.1	12.2	22.0
NP margin (%)	0.0	7.9	5.3	-3.1	4.9	3.8	-0.8	2.9	6.8	2.5	2.7	4.3
NP growth (%YoY)	TTR	156.9	33.1	TTR	TTB	-61.9	TTR	TTB	30.9	-57.0	20.6	80.3

Source: Osstem Implant, Daishin Securities Research Center

Tab 2. Osstem Implant revenue forecast by region (revised)

(Wbn, %)

	2017				2018				2016	2017	2018F	2019F
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QF				
Revenue	93.5	101.0	99.6	103.7	108.5	112.7	114.0	116.4	344.6	397.8	451.6	512.4
Growth (%YoY)	20.2	32.2	13.8	0.8	16.0	11.6	14.5	12.3	24.1	15.4	13.5	13.5
Domestic	45.4	47.7	45.3	48.1	54.8	49.3	51.0	52.6	172.8	186.5	207.6	218.6
US	12.6	13.2	13.7	13.3	13.5	16.3	16.3	16.2	47.1	52.8	62.3	73.3
China	13.5	17.2	19.0	19.4	13.9	21.4	21.2	22.5	54.3	69.1	79.0	118.3
Others	22.0	22.9	21.6	22.9	26.3	25.7	25.5	25.1	70.4	89.4	102.7	102.2
Growth (%YoY)												
Domestic	15.9	19.9	-0.9	-0.2	20.8	3.3	12.5	9.4	23.9	7.9	11.4	5.3
US	22.9	29.8	10.6	-6.8	7.2	23.6	19.1	21.5	34.7	12.1	18.0	17.7
China	15.7	98.4	59.7	-12.1	3.0	24.6	11.4	15.8	12.5	27.2	14.3	49.8
Others	32.1	28.8	23.2	25.0	19.5	12.2	18.1	-1.6	27.8	27.1	14.9	-0.5

Source: Osstem Implant, Daishin Securities Research Center

Tab 3. Osstem Implant earnings forecast (previous) (Wbn, %)

	2017				2018				2016	2017	2018F	2019F
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QF				
Revenue	93.5	101.0	99.6	103.7	108.5	112.7	114.0	117.0	344.6	397.8	452.2	513.2
Dental implant	72.9	79.6	78.7	81.5	86.8	88.8	90.0	92.3	269.7	312.8	357.9	410.3
Dental materials	17.1	17.9	17.0	16.9	18.0	19.0	18.1	18.6	61.6	68.9	73.6	80.9
Training & after-sales service	2.1	1.8	2.4	-1.3	1.9	3.1	4.6	3.2	6.6	5.0	12.8	13.7
IT & others	1.3	1.6	1.5	6.6	1.8	1.8	1.4	2.9	6.7	11.1	7.9	8.3
Growth (%YoY)												
Revenue	20.2	32.2	13.8	0.8	16.0	11.6	14.5	12.8	24.1	15.4	13.7	13.5
Dental implant	18.0	39.5	15.2	-1.1	19.1	11.5	14.3	13.2	28.9	16.0	14.4	14.6
Dental materials	29.7	14.3	8.1	-0.8	4.8	5.8	6.4	10.0	9.0	11.8	6.7	10.0
Training & after-sales service	58.8	-5.2	33.8	-185.3	-10.5	69.7	93.1	338.1	8.7	-24.6	156.7	7.4
IT & others	-6.3	-5.3	-12.4	267.7	34.7	12.5	-8.5	-56.0	14.3	66.3	-28.6	5.1
OP	7.9	9.6	4.4	-0.3	6.9	7.2	12.2	12.6	34.2	21.7	38.9	53.3
OP margin (%)	8.4	9.6	4.5	-0.3	6.4	6.4	10.7	10.8	9.9	5.5	8.6	10.4
Chg (%YoY)	-27.8	82.6	-62.4	TTR	-12.6	-24.8	173.8	TTB	2.8	-36.6	79.4	36.8
NP (contr. int.)	0.0	8.0	5.3	-3.2	5.4	4.3	-0.9	7.7	23.5	10.1	16.5	33.2
NP margin (%)	0.0	7.9	5.3	-3.1	4.9	3.8	-0.8	6.6	6.8	2.5	3.7	6.5
NP growth (%YoY)	TTR	156.9	33.1	TTR	TTB	-61.9	TTR	TTB	30.9	-57.0	63.5	100.9

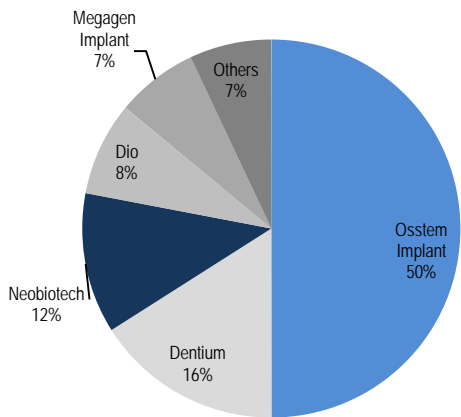
Source: Osstem Implant, Daishin Securities Research Center

Tab 4. Osstem Implant revenue forecast by region (previous) (Wbn, %)

	2017				2018				2016	2017	2018F	2019F
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QF				
Revenue	93.5	101.0	99.6	103.7	108.5	112.7	114.0	117.0	344.6	397.8	452.2	513.2
Growth (%YoY)	20.2	32.2	13.8	0.8	16.0	11.6	14.5	12.8	24.1	15.4	13.7	13.5
Domestic	45.4	47.7	45.3	48.1	54.8	49.3	51.0	52.1	172.8	186.5	207.2	234.4
US	12.6	13.2	13.7	13.3	13.5	16.3	16.3	17.2	47.1	52.8	63.3	77.6
China	13.5	17.2	19.0	19.4	13.9	21.4	21.2	22.5	54.3	69.1	79.0	99.1
Others	22.0	22.9	21.6	22.9	26.3	25.7	25.5	25.2	70.4	89.4	102.7	102.1
Growth (%YoY)												
Domestic	15.9	19.9	-0.9	-0.2	20.8	3.3	12.5	8.4	23.9	7.9	11.1	13.1
US	22.9	29.8	10.6	-6.8	7.2	23.6	19.1	29.2	34.7	12.1	20.0	22.5
China	15.7	98.4	59.7	-12.1	3.0	24.6	11.4	15.8	12.5	27.2	14.3	25.5
Others	32.1	28.8	23.2	25.0	19.5	12.2	18.1	10.0	27.8	27.1	14.9	-0.6

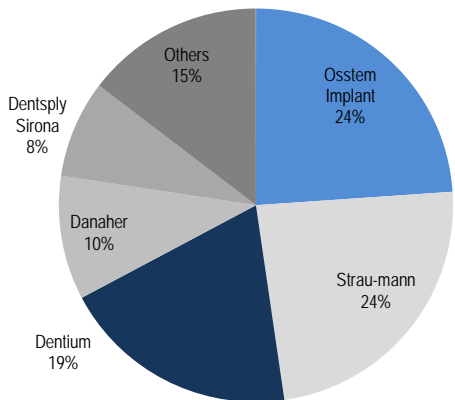
Source: Osstem Implant, Daishin Securities Research Center

Fig 1. Korea's dental implant market



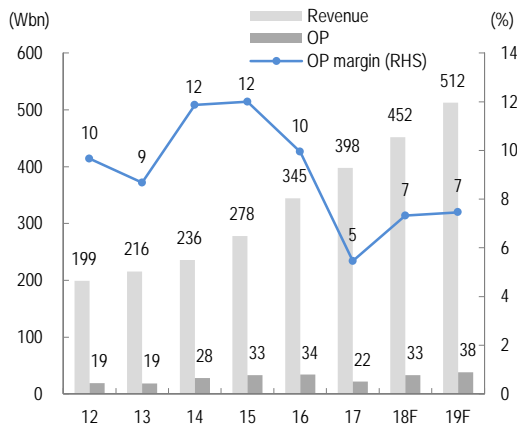
Source: Osstem Implant, Daishin Securities Research Center

Fig 2. China's dental implant market



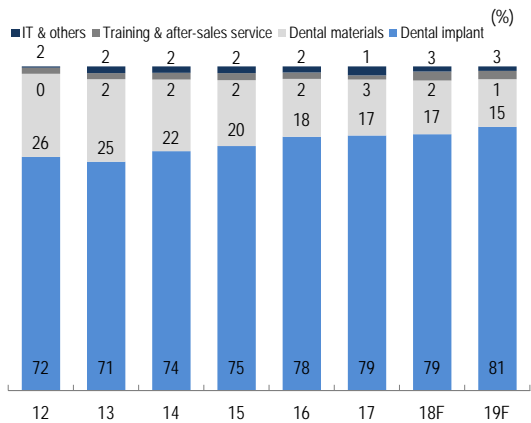
Source: Osstem Implant, Daishin Securities Research Center

Fig 3. Yearly results



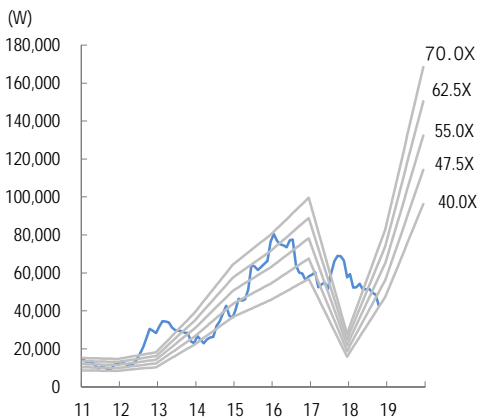
Source: Osstem Implant, Daishin Securities Research Center

Fig 4. Revenue breakdown by business



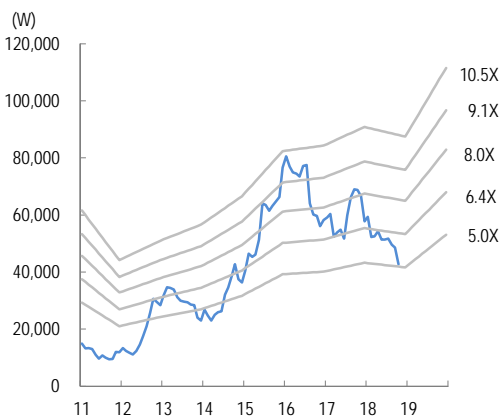
Source: Osstem Implant, Daishin Securities Research Center

Fig 5. Osstem Implant P/E band



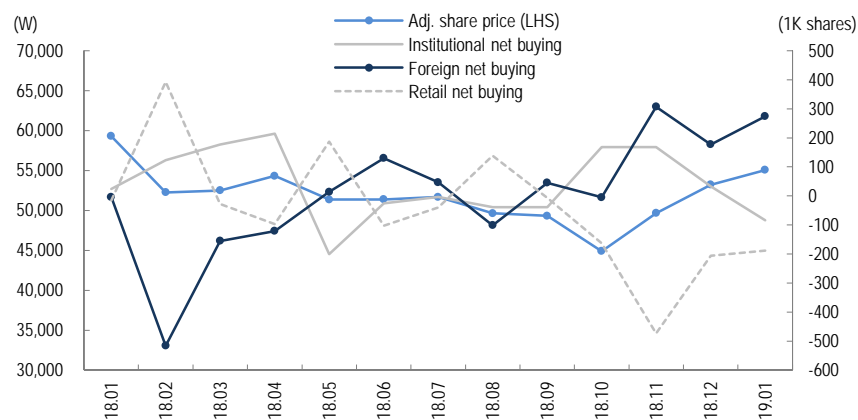
Source: Osstem Implant, Daishin Securities Research Center

Fig 6. Osstem Implant P/B band



Source: Osstem Implant, Daishin Securities Research Center

Fig 7. Monthly net purchases by investor group



Source: Osstem Implant, Daishin Securities Research Center

Tab 5. Osstem Implant global peer group

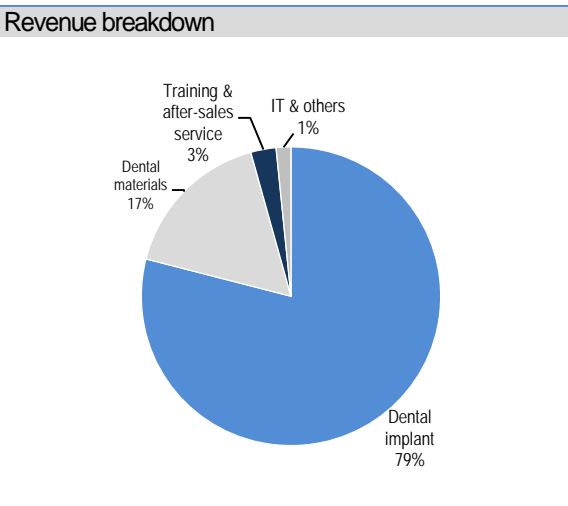
Company		Straumann Holding	Zimmer Biomet	Dentsply Sirona	Danaher	Dentium
Country		Switzerland	US	US	US	Korea
Share price (Jan 31)	(\$)	727	108	42	109	66
Market cap	(\$mn)	11,540	22,123	9,251	75,936	727
Revenue (\$mn)	2017A	1,130	7,824	3,993	18,330	133
	2018F	1,352	7,924	3,949	20,488	164
	2019F	1,552	7,950	4,009	21,368	199
OP (\$mn)	2017A	288	808	-1,562	3,021	36
	2018F	350	2,210	599	4,383	41
	2019F	411	2,148	669	4,715	51
OP margin (%)	2017A	25.5	10.3	-39.1	16.5	27.3
	2018F	25.9	27.9	15.2	21.4	25.0
	2019F	26.5	27.0	16.7	22.1	25.7
NP (\$mn)	2017A	277	1,814	-1,550	2,490	27
	2018F	283	1,564	445	3,350	33
	2019F	345	1,611	495	3,596	40
NP margin (%)	2017A	24.5	23.2	-38.8	13.6	20.0
	2018F	20.9	19.7	11.3	16.4	20.2
	2019F	22.2	20.3	12.4	16.8	20.0
PER (x)	2017A	39.1	21.6	NA	28.2	16.9
	2018F	39.6	14.2	21.1	22.6	22.0
	2019F	32.7	13.9	19.0	21.0	18.2
PBR (x)	2017A	10.2	2.1	2.3	2.5	3.3
	2018F	9.0	1.7	1.7	2.5	3.9
	2019F	7.5	1.4	1.7	2.2	3.3
EV/EBITDA (x)	2017A	33.4	12.1	17.7	17.2	12.6
	2018F	28.7	11.2	14.1	16.8	17.7
	2019F	24.6	11.0	12.9	15.8	14.5
ROE (%)	2017A	32.0	16.9	-21.0	10.1	26.0
	2018F	24.5	12.7	7.8	11.0	20.8
	2019F	25.1	11.9	9.7	10.7	20.9
EPS (\$)	2017A	14.4	5.6	2.2	3.3	3.3
	2018F	18.2	7.6	2.0	4.8	3.0
	2019F	22.1	7.8	2.2	5.2	3.6
FY.M		12	12	12	12	12

Source: Bloomberg, Daishin Securities Research Center

Company profile

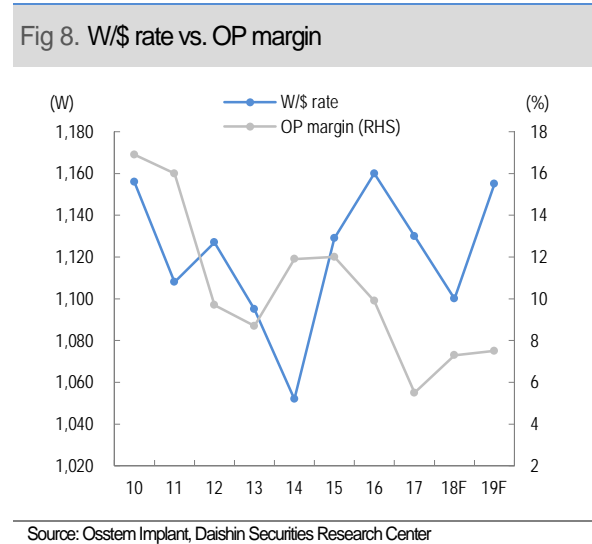
Overview
<ul style="list-style-type: none">- Established in 1997; listed on the KOSDAQ market in 2007- Revenue breakdown: Dental implants 79%, dental materials 17%, training & after-sales service 3%, IT & others 2% (as of 2018E)- Assets W625.3bn, liabilities W496.0bn, equities W129.3bn (as of 3Q18).- # of outstanding shares: 14,285,717 / # of treasury shares 369,461
Share price catalysts
<ul style="list-style-type: none">- Increased coverage of dental implants by the national health insurance program that will help expand the domestic market- Robust performance in the US and Chinese markets that will lift earnings- Won-dollar and won-yuan exchange rates

Source: Osstem Implant, Daishin Securities Research Center

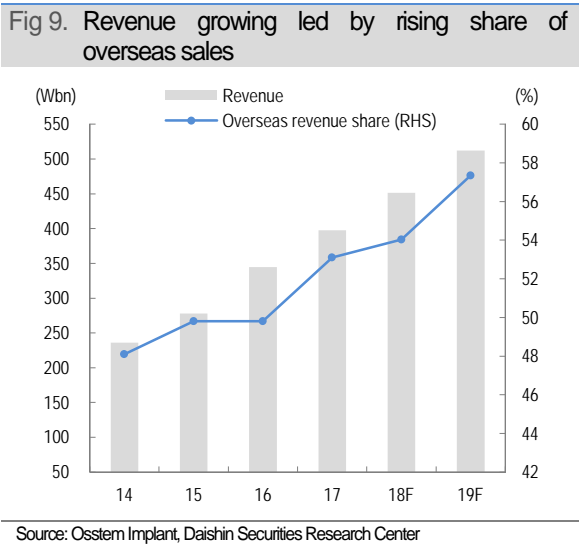


Note: Based on 2018E results.
Source: Osstem Implant, Daishin Securities Research Center

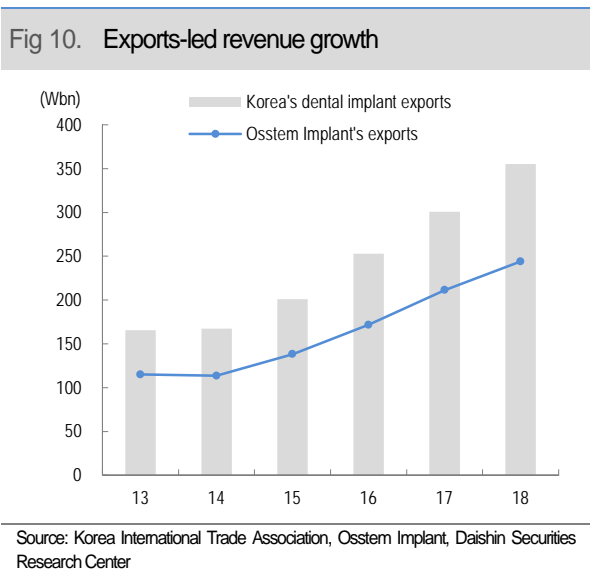
Earnings drivers



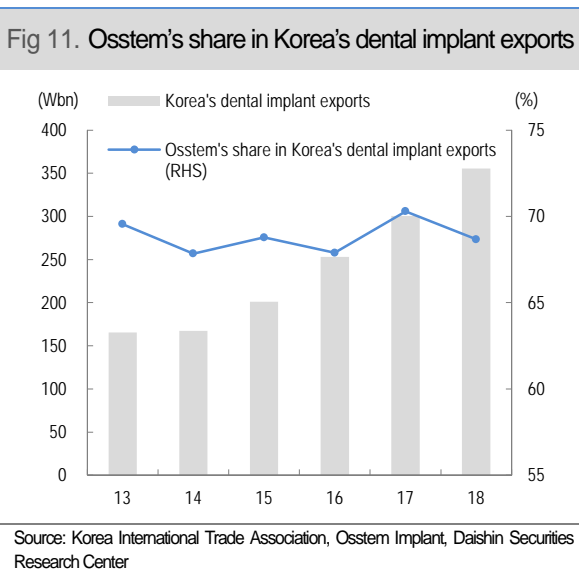
Source: Osstem Implant, Daishin Securities Research Center



Source: Osstem Implant, Daishin Securities Research Center



Source: Korea International Trade Association, Osstem Implant, Daishin Securities Research Center



Source: Korea International Trade Association, Osstem Implant, Daishin Securities Research Center

Financial statements

Income statement (Wbn)					
	2016A	2017A	2018F	2019F	2020F
Revenue	345	398	452	512	563
Cost of goods sold	141	166	195	220	242
Gross profit	203	232	257	292	321
SG&A expenses	169	210	224	254	279
OP	34	22	33	38	42
OP margin	9.9	5.5	7.3	7.5	7.4
EBITDA	41	31	44	53	60
Non-OP	-2	-2	-14	-8	-11
Income from affiliates	0	0	0	0	0
Financial revenue	12	9	10	6	8
FX related gains	0	0	0	0	0
Financial expense	-14	-21	-25	-23	-24
FX related losses	10	15	15	15	15
Others	0	9	1	9	5
Income before taxes	32	19	19	30	30
Income tax expense	-12	-14	-10	-6	-6
Income from cont. op.	20	6	8	24	24
Income from discount. op.	0	0	0	0	0
NP	20	6	8	24	24
NP margin	5.9	1.4	1.9	4.7	4.3
NP for non-contr. interest	-3	-4	-4	2	-4
NP for contr. interest	24	10	12	22	29
Valuation of AFS fin. assets	0	0	0	0	0
Other compreh. income	0	0	0	0	0
Comprehensive income	18	6	9	24	25
Comp. income for non-contr. int.	-3	-4	-4	2	-4
Comp. income for contr. int.	22	10	12	22	29

Valuation metrics (W, x, %)					
	2016A	2017A	2018F	2019F	2020F
EPS	1,689	726	874	1,602	2,072
PER	35.9	81.4	63.5	34.6	26.8
BPS	7,305	7,909	8,329	9,836	11,815
PBR	8.3	7.5	6.7	5.6	4.7
EBITDAPS	2,877	2,163	3,088	3,715	4,197
EV/EBITDA	22.1	28.5	18.4	15.8	14.5
SPS	24,121	27,845	31,613	35,866	39,426
PSR	2.5	2.1	1.7	1.5	1.4
CFPS	3,858	2,979	4,452	5,618	5,831
DPS	0	0	0	0	0

Financial ratios (W, x, %)					
	2016A	2017A	2018F	2019F	2020F
Growth potential					
Revenue growth	24.1	15.4	13.5	13.5	9.9
OP growth	2.8	-36.6	52.4	15.6	8.9
NP growth	24.5	-72.2	48.7	184.7	1.3
Profitability					
ROIC	25.3	4.8	10.4	18.5	15.2
ROA	7.9	4.2	5.6	6.0	6.3
ROE	22.1	9.3	10.4	17.1	18.5
Stability					
Debt ratio	325.4	361.6	391.0	332.3	277.5
Net borrowings ratio	28.4	24.6	8.1	25.4	35.4
Interest coverage ratio	8.5	4.4	3.1	4.5	4.4

Source: Osslem Implant, Daishin Securities Research Center

Balance sheet (Wbn)					
	2016A	2017A	2018F	2019F	2020F
Current assets	278	318	364	349	344
Cash & cash equiv.	76	111	117	89	64
Trade & other receive.	89	83	102	102	113
Inventories	80	90	91	103	114
Other current assets	34	35	54	54	54
Long-term assets	198	237	259	298	335
Tangible assets	123	190	210	251	288
Investments in affiliates	4	3	3	3	3
Other long-term assets	71	45	45	43	43
Total assets	475	556	623	647	679
Current liabilities	325	352	446	448	449
Payables & other liab.	35	38	40	42	43
Borrowings	75	82	96	96	96
Current portion of LT debts	28	8	44	44	44
Other current liabilities	187	224	266	266	266
Long-term liabilities	39	83	50	50	50
Borrowings	29	78	39	39	39
Convertible securities	0	0	0	0	0
Other long-term liab.	9	5	11	11	11
Total liabilities	364	435	496	498	499
Controlling interest	104	113	119	141	169
Capital stock	7	7	7	7	7
Capital surplus	56	56	56	56	56
Retained earnings	75	85	92	114	143
Other capital changes	-34	-35	-36	-37	-37
Non-controlling interest	7	7	8	9	11
Total shareholder's equity	112	120	127	150	180
Net borrowings	32	30	10	38	64

Cash flow statement (Wbn)					
	2016A	2017A	2018F	2019F	2020F
Operating cash flows	40	47	56	87	83
NP	20	6	8	24	24
Non-cash items	35	37	55	56	59
Depreciation	7	9	11	15	18
FX gains	-2	4	9	13	13
Equity method gain	0	0	0	0	0
Others	31	24	35	28	28
Chg in assets & liab.	3	14	9	16	9
Other cash flows	-18	-10	-16	-10	-9
Investing cash flow	-74	-47	-49	-47	-48
Investment assets	-15	-2	-1	1	0
Tangible assets	-66	-75	-30	-54	-54
Others	7	31	-18	7	7
Financing cash flows	22	36	11	0	0
Short-term borrowings	23	7	14	0	0
Bonds payable	-2	-6	1	0	0
Long-term borrowings	29	41	-40	0	0
Rights offering	0	0	0	0	0
Cash dividends	0	0	0	0	0
Others	-28	-6	36	0	0
Net chg in cash	-12	35	6	-28	-26
Beginning cash balance	87	76	111	117	89
Ending cash balance	76	111	117	89	64
NOPLAT	21	6	15	31	33
FCF	-41	-75	-16	-21	-14

[Daishin House View: Industry 4.0 safety rating]

- Daishin Securities assigns safety ratings to individual sectors and companies based on analyses and discussions by our analysts.
- Depending on whether Industry 4.0 will have a positive, neutral, or negative impact, each industry and company is assigned one of three safety ratings:

Dark Gray (negative)	Neutral Green (neutral)	Sky Blue (positive)
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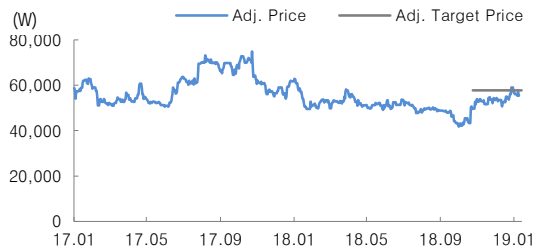
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[Investment rating & Target price history]

Osstem Implant (048260 KQ)



Date	19.02.01	18.11.15
Rating	MKTPERF.	BUY
Target price	57,700	57,700
Diff. (avr. %)		(6.55)
Diff. (max/min., %)		2.43
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 (Jan 29, 2019)

	BUY	MARKETPERFORM	UNDERPERFORM
Ratio	85.7%	13.2%	1.1%

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.