

# ST Pharm (237690.KQ)

## Operating loss sustains for third consecutive quarter

Company Comment | May 21, 2019

Affected by a lack of new orders from major clients, ST Pharm's capacity utilization rate has declined. With development for imetelstat now discontinued, oligonucleotide API sales growth has slowed. Expecting the firm's earnings to remain sluggish, we recommend a conservative approach prior to earnings improvement driven by customer diversification or new product launches.

### In 2019, new orders from Gilead for HCV API yet to materialize

On a consolidated basis, ST Pharm posted 1Q19 sales of W15.7bn (-44.6% y-y), an operating loss of W7.6bn (TTL y-y), and a net loss of W6.7bn (TTL y-y). Affected by a lack of orders from Gilead, COGS-to-sales rose q-q and operating losses sustained. New drug API sales (excluding to Gilead) came to W3.3bn, falling W16.0bn y-y. We note that it remains unclear whether new orders from Gilead will be secured in 2020. Considering both the firm's acquisition of domestic clients and the launch of new drugs, we estimate new drug API sales at W8.4bn in 2019 and W9.3bn in 2020. Oligonucleotide API sales came to W1.9bn (-38.6% y-y) in 1Q19. However, due to the discontinued development of imetelstat, supply to a major company has halted. Generic API sales climbed to W10.2bn (+46.0% y-y) in 1Q19 in line with rising supply to Dong-A ST, but the impact on ST Pharm's profitability was limited due to the low margins of the products supplied.

### In need of momentum (from securing of new customers, etc)

Preparing to launch a contrast agent API business, we expect ST Pharm to enjoy an uptick in sales upon signing related supply contracts. Via efforts to diversify its oligonucleotide API customers, the firm secured orders (estimated to total W26.0bn by 2020) for two global pharmaceutical players and three products in 1Q19. ST Pharm's new Banwol plant (where oligonucleotide API is produced) started operations in April. Anticipating at least two additional orders in 2020, we believe that a turnaround driven by oligonucleotide API sales growth should be possible from 2021.

### Performance to remain sluggish for some time

For 2019, we expect ST Pharm to record sales of W98.2bn (+0.5% y-y) and an operating loss of W21.0bn (RR y-y). We estimate ST Pharm's operating value at W324.8bn by applying a target P/E of 20.0x to the present value of 2022F NP (W21.6bn, discounted by 10% to calculate the present value). Adhering to a Hold rating in light of likely sluggish future earnings, we lower our TP from W40,000 to W22,000. Of note, ST Pharm is anticipated to launch two global phase I clinical trials (for AIDS and colon cancer treatments) in 4Q19.

## Hold (maintain)

TP **W22,000 (lower)**  
CP ('19/05/20) **W19,950**

Sector	Bio
Kospi/Kosdaq	20,55.71 / 702.08
Market cap (common)	US\$311.46mn
Outstanding shares (common)	18.7mn
52W high ('18/07/16)	W41,600
low ('19/01/08)	W17,550
Average trading value (60D)	US\$1.12mn
Dividend yield (2019E)	2.16%
Foreign ownership	8.3%

Major shareholders	
Dong-A Socio Holdings & 7 others	52.1%
BRV Lotus Growth Fund & 1 other	6.4%

Share perf	3M	6M	12M
Absolute (%)	-9.3	-8.7	-41.2
Relative (%p)	-3.0	-10.2	-27.1

	2018	2019E	2020F	2021F
Sales	97.7	98.2	118.2	134.4
Chg	-51.8	0.5	20.3	13.7
OP	-15.6	-21.0	-8.5	11.4
OPM	TTL	RR	RR	TTP
NP	-16.0	-21.4	-7.2	8.5
EPS	-9.3	-12.8	-4.6	10.9
Chg	-497	-687	-247	586
P/E	TTL	RR	RR	TTP
P/B	N/A	N/A	N/A	35.6
EV/EBITDA	1.1	1.3	1.3	1.3
ROE	N/A	N/A	N/A	14.6
Debt/equity	-2.7	-4.0	-1.5	3.7
Net debt	4.2	8.4	26.9	30.8
Sales	-107.6	-98.4	-121.4	-117.3

Unit: Wbn, %, Won, x

Note 1. NP excludes minority interests

Note 2. EPS, P/E, P/B and ROE based on NP (excl minority interests)

Source: NH I&S Research Center estimates



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## 1Q19 review

(Unit: Wbn, %)

	1Q18	2Q18	3Q18	4Q18	1Q19P					2Q19E
					Actual	y-y	q-q	Previous	Consen	
Sales	28.3	35.8	13.4	20.2	15.7	-44.6	-22.4	42.2	-	17.6
OP	0.2	4.9	-9.3	-11.5	-7.6	TTL	RR	11.9	-	-8.2
OPM	0.6	13.8	-69.3	-56.8	-48.4			28.2	-	-46.5
Pre-tax profit	0.7	6.5	-8.7	-11.9	-7.0	TTL	RR	11.7	-	-6.7
NP	0.8	4.9	-6.7	-8.3	-6.7	TTL	RR	7.8	-	-8.0

Source: ST Pharm, FnGuide, NH I&amp;S Research Center estimates

## Earnings forecasts

(Unit: Wbn, won, x, %)

	2018	2019E	2020F	2021F
Sales	- Revised	97.7	98.2	118.2
	- Previous	-	188.1	209.0
	- Change	-	-47.8	-43.5
OP	- Revised	-15.6	-21.0	-8.5
	- Previous	-	57.1	67.5
	- Change	-	-136.7	-112.6
OPM	- Revised	-16.0	-21.4	-7.2
EBITDA		-6.4	-12.0	-0.5
NP (excl minority interests)		-9.3	-12.8	-4.6
EPS	- Revised	-497	-687	-247
	- Previous	-	2,490	2,930
	- Change	-	-127.6	-108.4
P/E		N/A	N/A	N/A
P/B		1.1	1.3	1.3
EV/EBITDA		N/A	N/A	N/A
ROE		-2.7	-4.0	-1.5

Note: IFRS-consolidated; Source: NH I&amp;S Research Center estimates

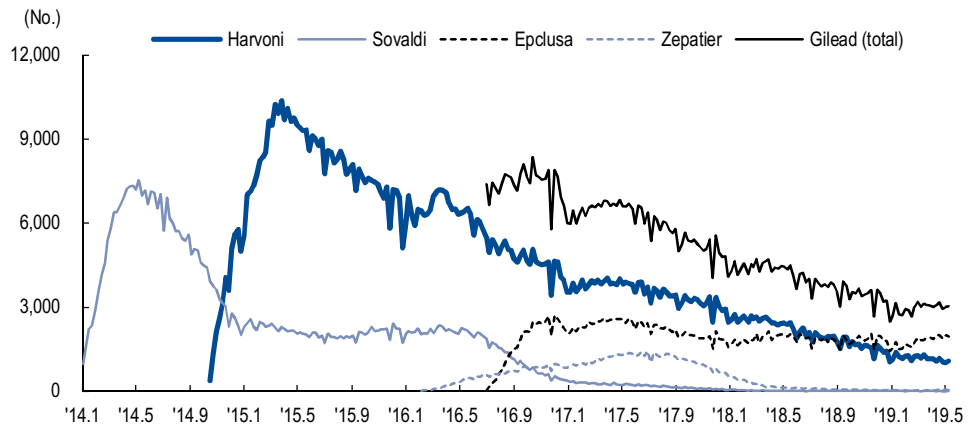
## Quarterly earnings forecasts

(Unit: Wbn, %)

	1Q18	2Q18	3Q18	4Q18	2018	1Q19P	2Q19E	3Q19F	4Q19F	2019E
<b>Sales</b>	<b>28.3</b>	<b>35.8</b>	<b>13.4</b>	<b>20.2</b>	<b>97.7</b>	<b>15.7</b>	<b>17.6</b>	<b>48.0</b>	<b>16.9</b>	<b>98.2</b>
y-y (%)	-40.8	-36.9	-69.1	-63.2	-51.8	-44.6	-50.8	258.9	-16.5	0.5
New drug API	19.3	46.2	5.9	7.8	79.1	3.3	5.4	35.7	3.7	48.2
y-y (%)	-51.2	0.0	-81.3	-81.9	-50.5	-82.8	-88.3	508.5	-52.2	-39.1
Generic drug API	7.0	9.7	7.4	10.6	34.7	10.2	10.2	10.3	11.2	41.9
y-y (%)	-9.6	0.0	-32.3	-5.3	-12.3	46.2	5.0	40.0	5.0	20.7
Others	2.1	0.8	0.2	1.8	4.8	2.2	2.0	2.0	2.0	8.2
y-y (%)	266.1	0.0	-86.7	125.2	44.3	6.2	145.4	1,182.1	10.4	69.2
<b>GP</b>	<b>4.4</b>	<b>8.8</b>	<b>-4.5</b>	<b>-5.9</b>	<b>2.8</b>	<b>-3.3</b>	<b>-4.3</b>	<b>9.8</b>	<b>-4.7</b>	<b>-2.6</b>
y-y (%)	-80.3	-61.9	TTL	TTL	-96.5	TTL	TTL	TTP	RR	TTL
GPM (%)	15.6	24.6	-33.7	-29.3	2.8	-21.2	-24.7	20.4	-28.0	-2.7
<b>OP</b>	<b>0.2</b>	<b>4.9</b>	<b>-9.3</b>	<b>-11.5</b>	<b>-15.6</b>	<b>-7.6</b>	<b>-8.2</b>	<b>5.0</b>	<b>-10.2</b>	<b>-21.0</b>
y-y (%)	-99.1	-74.4	TTL	TTL	TTL	TTL	TTL	TTP	RR	RR
OPM (%)	0.6	13.8	-69.3	-56.8	-16.0	-48.4	-46.5	10.4	-60.2	-21.4
<b>Pre-tax profit</b>	<b>0.7</b>	<b>6.5</b>	<b>-8.7</b>	<b>-11.9</b>	<b>-13.4</b>	<b>-7.0</b>	<b>-6.7</b>	<b>4.8</b>	<b>-7.6</b>	<b>-16.5</b>
y-y (%)	-95.9	-68.7	TTL	TTL	TTL	TTL	TTL	TTP	RR	RR
Pre-tax margin (%)	2.5	18.0	-65.0	-58.7	-13.7	-44.7	-38.0	10.0	-45.2	-16.8
<b>NP</b>	<b>0.8</b>	<b>4.9</b>	<b>-6.7</b>	<b>-8.3</b>	<b>-9.3</b>	<b>-6.7</b>	<b>-8.0</b>	<b>6.6</b>	<b>-4.7</b>	<b>-12.8</b>
y-y (%)	-94.1	-68.9	TTL	TTL	TTL	TTL	TTL	TTP	RR	RR
NPM (%)	2.8	13.8	-49.8	-41.3	-9.5	-42.7	-45.7	13.8	-27.8	-13.0

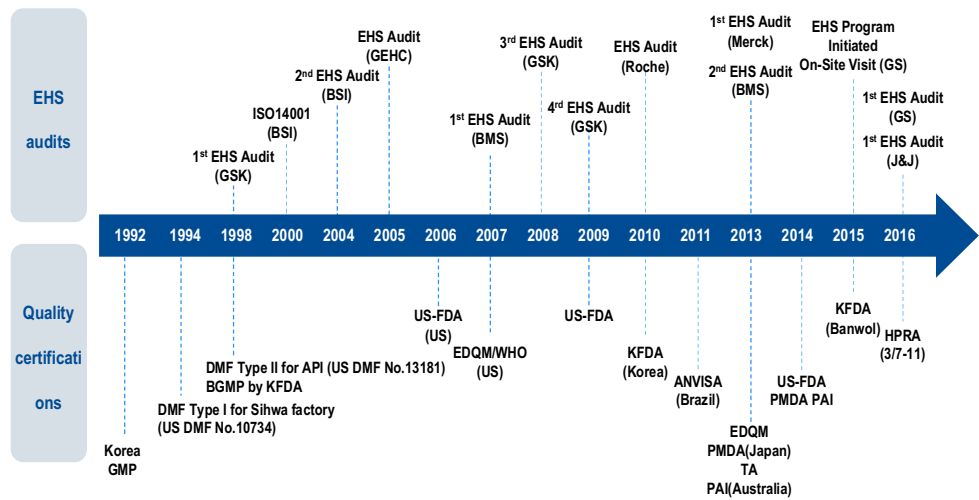
Note: IFRS-consolidated; Source: NH I&amp;S Research Center estimates

### Global HCV treatment prescriptions



Source: Bloomberg, NH I&S Research Center

### ST Pharm has already passed plenty of EHS audits by pharma players



Source: ST Pharm, NH I&S Research Center

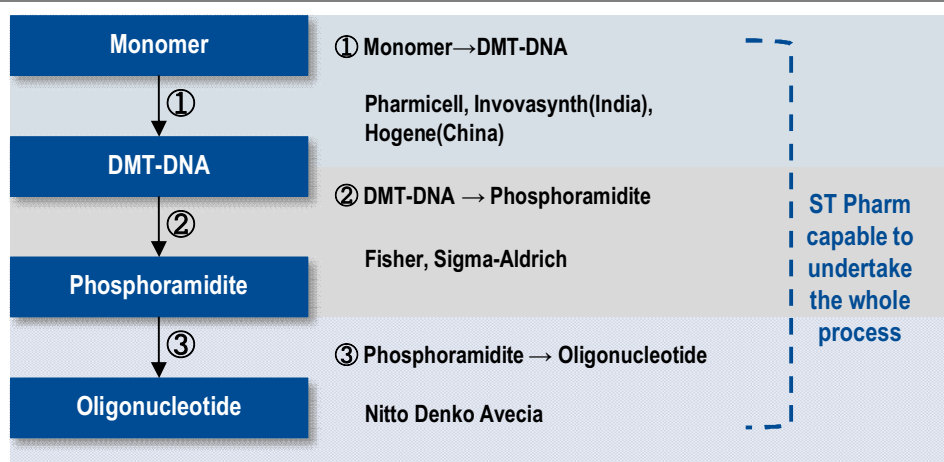
**New orders**

(Unit: US\$)

	Date	End-delivery	Total order value	Delivery completed	Order backlog
Oligonucleotide API	2017.11	2020.12	11,800	5,540	6,260
	2019.03	2019.11	7,838	0	7,838
	2019.04	2020.06	7,355	0	7,355
<b>Total</b>			<b>26,993</b>	<b>5,540</b>	<b>21,453</b>

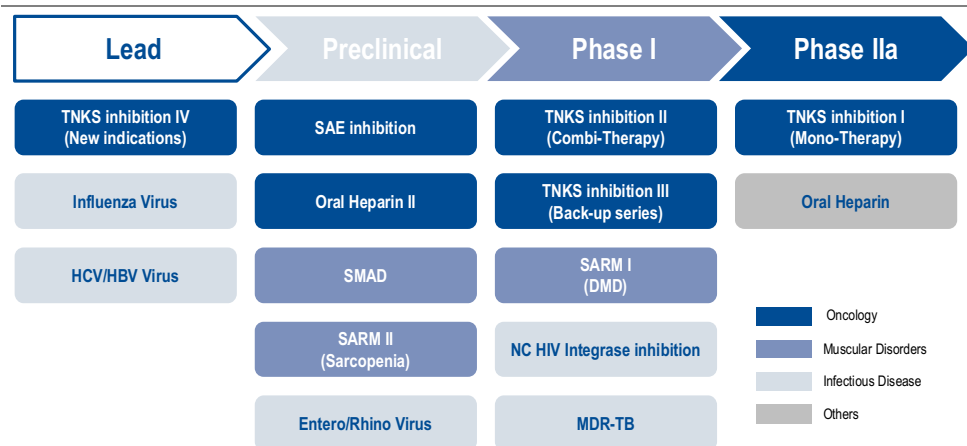
Note: As of end-Mar 2019  
Source: DART, NH I&S Research Center

**Oligonucleotide synthesis value chain**



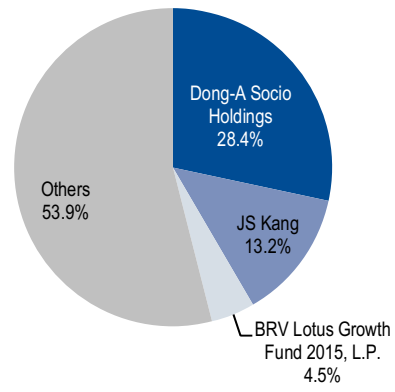
Source: NH I&S Research Center

**ST Pharm's R&D pipelines**



Source: ST Pharm, NH I&S Research Center

Ownership structure



Source: DART, NH I&S Research Center

## Global peer valuations

(Unit: Wbn, US\$mn, %)

Company		ST Pharm	Cambrex	Agilent	Dr. Reddy	Catalent	Recipharm
Shr price (won, US\$)		19,950	43	69	2,745	45	11
Market cap		372.2	1,443.5	21,907.9	6,479.8	6,611.1	854.6
Sales	2018	98	532	4,914	2,203	2,463	734
	2019E	98	648	5,105	2,201	2,509	786
	2020F	118	670	5,428	2,482	2,835	822
OP	2018	-16	101	928	185	271	47
	2019E	-21	102	1,182	299	414	63
	2020F	-9	104	1,295	433	513	74
EBITDA	2018	-6	139	1,138	367	461	115
	2019E	-12	164	1,295	476	607	132
	2020F	-1	158	1,416	557	705	144
NP	2018	-9	92	316	152	84	18
	2019E	-13	50	1,126	269	137	32
	2020F	-5	59	958	311	196	40
EPS (won,\$)	2018	-497	2.8	1.0	0.9	0.6	n/a
	2019E	-687	1.8	3.6	1.6	0.9	0.5
	2020F	-247	1.8	3.1	1.9	1.2	0.6
P/E (x)	2018	n/a	12.7	23.8	35.2	34.3	n/a
	2019E	n/a	20.7	22.6	24.6	25.1	21.6
	2020F	n/a	20.6	20.4	20.9	23.2	18.1
P/B (x)	2018	1.1	1.9	4.5	2.7	5.1	n/a
	2019E	1.3	2.1	4.5	3.3	3.3	1.4
	2020F	1.3	1.9	4.1	2.9	3.1	1.3
EV/EBITDA (x)	2018	n/a	10.6	17.7	15.8	17.1	11.5
	2019E	n/a	11.2	16.7	14.3	14.7	9.1
	2020F	n/a	11.2	15.0	11.7	12.4	8.1
ROE (%)	2018	-2.7	15.4	6.7	7.8	9.2	3.2
	2019E	-4.0	10.6	20.3	14.1	18.0	6.4
	2020F	-1.5	10.4	20.3	14.6	14.7	7.1
Absolute (%)	1 week	-2.0	-5.0	-10.4	-4.6	1.3	2.4
	1 month	-10.1	11.4	-9.3	-1.9	3.2	-9.3
	3 months	-9.3	13.8	-11.7	7.0	7.9	-5.8
	6 months	-8.7	-9.3	6.3	10.8	15.2	-10.6
	1 year	-41.2	-10.3	7.4	38.5	12.8	-10.2
	YTD	0.8	13.6	2.4	4.9	45.5	4.6

Note: 1. Based on May 20 closing prices

2. ST Pharm based on our estimates

3. Foreign companies based on Bloomberg consensus

Source: Bloomberg, NH I&amp;S Research Center

**STATEMENT OF COMPREHENSIVE INCOME**

(Wbn)	2018/12A	2019/12E	2020/12F	2021/12F
<b>Sales</b>	<b>97.7</b>	<b>98.2</b>	<b>118.2</b>	<b>134.4</b>
Growth (%)	-51.8	0.5	20.3	13.7
<b>COGS</b>	<b>95.0</b>	<b>100.9</b>	<b>107.5</b>	<b>102.9</b>
<b>Gross Profit</b>	<b>2.8</b>	<b>-2.6</b>	<b>10.7</b>	<b>31.6</b>
Gross margin (%)	2.8	-2.7	9.1	23.5
SG&A	18.4	18.3	19.2	20.1
<b>Operating Income</b>	<b>-15.6</b>	<b>-21.0</b>	<b>-8.5</b>	<b>11.4</b>
Growth (%)	RR	RR	RR	TTP
Operating margin (%)	-16.0	-21.4	-7.2	8.5
<b>EBITDA</b>	<b>-6.4</b>	<b>-12.0</b>	<b>-0.5</b>	<b>18.6</b>
<b>Non-Operating Profits</b>	<b>2.3</b>	<b>4.5</b>	<b>2.5</b>	<b>2.7</b>
Financial Income(Costs)	3.0	2.4	2.5	2.7
Other Non-Operating Profits	-0.7	2.0	0.0	0.0
Gains(Losses) in Associates, Subsidiaries and JVs	0.0	0.0	0.0	0.0
<b>Pre-tax Profit from Cont. Op.</b>	<b>-13.4</b>	<b>-16.5</b>	<b>-5.9</b>	<b>14.1</b>
<b>Income Taxes</b>	<b>-4.1</b>	<b>-3.7</b>	<b>-1.3</b>	<b>3.2</b>
Profit from Continuing Op.	-9.3	-12.8	-4.6	10.9
<b>Net Profit</b>	<b>-9.3</b>	<b>-12.8</b>	<b>-4.6</b>	<b>10.9</b>
Growth (%)	RR	RR	RR	TTP
Net margin (%)	-9.5	-13.0	-3.9	8.1
Net Profit of Parent	<b>-9.3</b>	<b>-12.8</b>	<b>-4.6</b>	<b>10.9</b>
Net Profit to Non-Controlling	0.0	0.0	0.0	0.0
Other Comprehensive Income	-0.9	0.0	0.0	0.0
Total Comprehensive Income	-10.2	-12.8	-4.6	10.9

**Valuation / Profitability / Stability**

	2018/12A	2019/12E	2020/12F	2021/12F
Price/ Earning (X)	N/A	N/A	N/A	35.6
Price/ Book Value (X)	1.1	1.3	1.3	1.3
Price/ Gross Cash Flow (X)	-70.4	-43.9	572.9	19.7
Price/ Sales (X)	3.8	4.0	3.3	2.9
EV/ EBITDA (X)	N/A	N/A	N/A	14.6
EV/ EBIT (X)	N/A	N/A	N/A	23.7
Fully diluted EPS (W)	-497	-687	-247	586
BVPS (W)	17,773	16,636	15,789	15,675
Sales PS (W)	5,239	5,265	6,336	7,205
ROE (%)	-2.7	-4.0	-1.5	3.7
ROA (%)	-2.5	-3.8	-1.3	2.9
ROIC (%)	-7.7	-9.1	-4.5	7.6
Dividend Yield (%)	2.5	2.2	2.9	3.4
Payout Ratio (%)	-100.6	-65.5	-242.7	119.4
Total Cash Dividend (Wbn)	9.3	8.4	11.2	13.1
Cash DPS (W)	500	450	600	700
Net debt(cash)/ equity (%)	-32.4	-31.7	-41.2	-40.1
Debt/ equity (%)	4.2	8.4	26.9	30.8
Interest-Bearing Debts (Wbn)	0.1	0.0	0.0	0.0
Current Ratio (%)	1,680.7	782.5	267.9	242.6
Total shares (mn)	18.7	18.7	18.7	18.7
Par value (W)	500.0	500.0	500.0	500.0
Share price (W)	19,800	20,850	20,850	20,850
Market Cap (Wbn)	369.4	389.0	389.0	389.0

**STATEMENT OF FINANCIAL POSITION**

(Wbn)	2018/12A	2019/12E	2020/12F	2021/12F
Cash and Cash Equivalents	47.7	23.4	31.2	14.7
Accounts Receivables	15.2	15.3	18.4	20.9
<b>Total Current Assets</b>	<b>167.3</b>	<b>158.3</b>	<b>193.5</b>	<b>199.3</b>
Tangible Assets	169.1	170.2	172.2	175.1
Investment Assets	1.9	0.8	1.0	1.1
<b>Non-Current Assets</b>	<b>178.2</b>	<b>178.2</b>	<b>180.3</b>	<b>183.3</b>
<b>Assets</b>	<b>345.5</b>	<b>336.4</b>	<b>373.8</b>	<b>382.6</b>
Short-Term Debt	0.0	0.0	0.0	0.0
Account Payables	3.1	3.1	3.7	4.2
<b>Current Liabilities</b>	<b>10.0</b>	<b>20.2</b>	<b>72.2</b>	<b>82.1</b>
Long-Term Debt	0.1	0.0	0.0	0.0
Long-Term Allowance	<b>2.2</b>	<b>4.2</b>	<b>5.0</b>	<b>5.7</b>
<b>Non-Current Liabilities</b>	<b>4.0</b>	<b>5.9</b>	<b>7.1</b>	<b>8.0</b>
<b>Liabilities</b>	<b>13.9</b>	<b>26.1</b>	<b>79.3</b>	<b>90.1</b>
Capital Stock	9.3	9.3	9.3	9.3
Capital Surplus	171.3	171.3	171.3	171.3
Retained Earnings	151.6	130.4	114.6	112.5
Non-Controlling Interests Equity	0.0	0.0	0.0	0.0
<b>Shareholders' Equity</b>	<b>331.6</b>	<b>310.4</b>	<b>294.6</b>	<b>292.4</b>

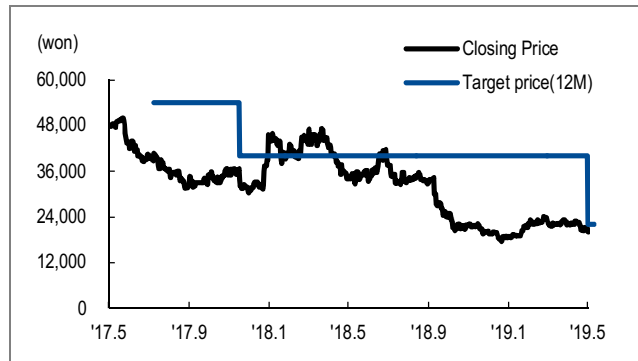
**CASH FLOW STATEMENT**

(Wbn)	2018/12A	2019/12E	2020/12F	2021/12F
<b>Operating Cash Flow</b>	<b>10.8</b>	<b>7.8</b>	<b>40.2</b>	<b>15.7</b>
Net Profit	-9.3	-12.8	-4.6	10.9
Depreciation&Amortization	9.2	9.0	8.0	7.2
+ Loss(Gains) from Subs	0.0	0.0	0.0	0.0
+ FC translation loss(profit)	-0.3	0.0	0.0	0.0
Gross Cash Flow	-5.3	-8.9	0.7	19.8
- Incr. (Decr.) in WC	23.5	12.9	38.2	-0.9
<b>Investing Cash Flow</b>	<b>-26.8</b>	<b>-22.6</b>	<b>-24.0</b>	<b>-21.0</b>
+ Decr. In Tangible Assets	0.1	0.0	0.0	0.0
- Incr. In Tangible Assets(CAPEX)	-27.2	-10.0	-10.0	-10.0
+ Disp.(Acq.) of Inv. Assets	-0.6	1.1	-0.2	-0.1
Free Cash Flow	-16.4	-2.2	30.2	5.7
Net Cash Flow	-16.0	-14.9	16.2	-5.3
<b>Financing Cash Flow</b>	<b>-9.0</b>	<b>-9.4</b>	<b>-8.4</b>	<b>-11.2</b>
Equity Financing	0.0	0.0	0.0	0.0
Debt Financing	-9.0	-9.4	-8.4	-11.2
Incr.(Decr.) in Cash	-24.6	-24.3	7.8	-16.5
Ending Cash and Cash Equivalents	47.7	23.4	31.2	14.7
Net Debt (Cash)	-107.6	-98.4	-121.4	-117.3

## Rating and TP update

Date	Rating	TP	Disparity ratio (%)	
			Avg	Max/Min
2019.05.21	Hold	W22,000(12M)	-	-
2018.12.04		No change for 1 year	-47.3%	-
2017.12.05	Hold	W40,000(12M)	-12.6%	-
2017.07.27	Buy	W54,000(12M)	-35.3%	-25.7%

## ST Pharm (237690.KQ)



## NH Investment &amp; Securities stock ratings

1. Rating based on a stock's forecasted absolute return over a period of 12 months from the date of publication.

- Buy: Greater than +15%
- Hold: -15% to +15%
- Sell: Less than -15%

2. Regarding listed companies under NH I&S' coverage, our stock ratings break down as follows (as of May 17, 2019).

- NH I&S' stock rating distribution

Buy	Hold	Sell
76.8%	23.2%	0.0%

- The stock rating on an individual company can change at irregular intervals. Our stock rating distribution is calculated on a weekly basis.

## Compliance notice

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- This report correctly reflects the analyst's opinion and was written without any external influence or intervention.

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