

2017. 11. 13

Company Update



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Analyst

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AT A GLANCE

SELL HOLD **BUY**

Target price KRW88,000 (13.1%)

Current price KRW77,800

Market cap KRW427.11b/USD382.34M

Shares (float) 6,190,011 (54.6%)

52-week high/low KRW77,000/KRW47,750

Avg daily trading value (60-day) KRW5.4b/USD4.9m

ONE-YEAR PERFORMANCE

	1M	6M	12M
Huons (%)	18.1	37.9	28.8
Vs Kosdaq (%pts)	7.2	23.0	11.3

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	88,000	80,000	10.0%
2017E EPS	5,111	4,681	9.2%
2018E EPS	4,274	4,171	2.5%

SAMSUNG vs THE STREET

No of estimates	3
Target price	80,667
Recommendation	4.0

BUY★★★: 5 / BUY: 4 / HOLD: 3 / SELL: 2 / SELL★★★: 1

Huons (243070)

Hutox momentum to continue into 2018

- Huons today reported that its sales grew 20% y-y in 3Q, led by the pharmaceuticals and aesthetics businesses, with its operating margin recovering to around 15% as R&D costs fell, while its operating profit beat consensus estimates by 25%. The firm's Hutox capacity should increase to 6m vials in 2018 (double the size of its previous expansion plan) on process improvements.
- We maintain our BUY rating on the firm, with it retaining plenty of export momentum for 2018, and raise our target price by 10%.

WHAT'S THE STORY?

3Q review: Huons today reported that its consolidated sales and operating profit rose a respective 20.1% and 11.4% y-y to KRW74.5b and KRW11.5b in 3Q, which topped the consensus by 5.4% and 25.2%, respectively.

- **Pharmaceuticals:** The firm's pharmaceutical sales grew 26.2% y-y to KRW38.8b, with domestic sales of prescription drugs for chronic diseases increasing ahead of a long holiday in October and as local anesthetics exports rose.
- **Beauty/healthcare:** Its beauty/healthcare sales rose 10.5% y-y to KRW25.8b, which consisted of wellness drugs at KRW17.5b (up 9.5% y-y) that include obesity treatments and immunologic adjuvants, along with KRW4b for botulinum toxin (BTX) exports and KRW2.8b for fillers.
- **CMO:** The company's CMO sales fell 1.2% y-y to KRW7.8b as related eye drop sales were hurt by government moves toward stricter regulations on mono-use eye drop containers.
- **Operating margin improves as R&D expenses fall:** Huons saw its SG&A cost-to-sales ratio rise 2.2%pts y-y to 38.7% in 3Q as labor costs were flat y-y and R&D costs fell temporarily, so its operating margin came in around 15%. We expect R&D costs to rise again in 4Q with the launches of domestic Phase III trials for BTX Hutox and a supergeneric drop for dry eye syndrome (HU007).
- **Hutox capacity to reach 6m vials at end-2018:** Huons has completed capacity expansion for in-house-developed BTX (Hutox) to 1m vials (vs 0.5m previously) at its first factory, thanks to freeze-dry process improvements, so it will increase capacity at the second factory to 5m vials (vs 2.5m previously). Once the latter's construction is completed in 2H18, the firm's overall capacity should increase to 6m vials.

(Continued on the next page)

SUMMARY OF 3Q RESULTS

(KRWb)	3Q17	Chg		Diff (%)	
		(% y-y)	(% q-q)	Samsung	Consensus
Sales	74.5	20.1	5.1	2.9	5.4
Operating profit	11.5	11.4	21.2	34.9	25.2
Pre-tax profit	12.5	11.7	25.4	50.5	29.8
Net profit	9.4	8.9	17.9	44.2	30.9
Margins (%)					
Operating profit	15.4				
Pre-tax profit	16.8				
Net profit	12.6				

Source: Company data, Samsung Securities estimates

VALUATION SUMMARY

	2016	2017E	2018E
Multiples (x)			
P/E	31.2	15.2	18.2
P/B	5.1	3.9	3.3
EV/EBITDA	17.2	10.1	9.2
Div yield (%)	0.0	0.6	0.6
EPS growth (% y-y)	nm	104.7	(16.4)
ROE (%)	16.3	29.1	19.6
Per-share data (KRW)			
EPS	2,498	5,111	4,274
BVPS	15,177	19,940	23,720
DPS	0	500	500

Hutox momentum to gather pace in 2018: Huons signed MOUs at end-August with companies in Spain, Brazil, and Russia to export Hutox, with related contracts set to be finalized in 1H18. Those partners should conduct Phase III trials in 2019 in their respective regions, and once approved for marketing, Huons would commence supplying the product. Additional MOUs with players in the US and China are expected next year, while domestically, the firm recently started Phase III trials for Hutox, with a launch expected in early 2019.

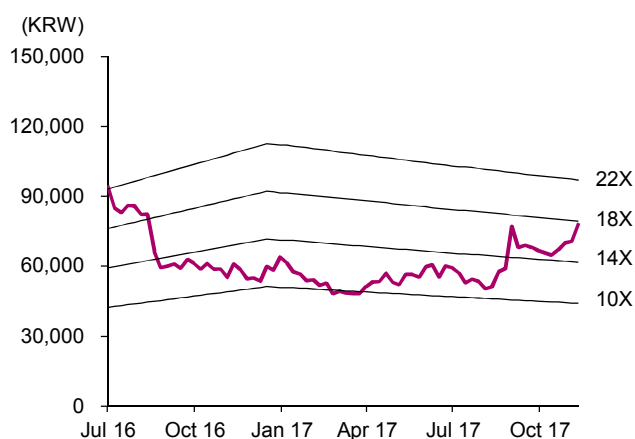
Still a BUY, raising target price by 10%: Shares in Huons are up 55% from an August low, so they might see profit-taking pressure, but we keep the stock at BUY with plenty of catalysts set to materialize for next year, such as Hutox export contracts (including more MOUs), further US approvals of generic injections, and Chinese approval of an artificial tear product. We raise our target price for the firm by 10% to KRW88,000 (sums KRW71,100 for the operating value of its conventional business and KRW16,700 in BTX export value) to reflect a higher average valuation multiple for pharmaceutical small caps (from 13x to 14x) and a change in our BTX valuation base to 2018.

Valuation

(KRW)		Note
Adjusted 2018 EPS	5,079	Non-recurring R&D expenses added back post-tax
Target P/E (x)	14.0	Korean small-cap pharma average
Per share value of main business (A)	71,105	
BTX export value	103.6	Europe, Brazil, and Russia only; 25% success rate
Per share value of BTX (B)	16,734	
Fair value per share (A + B)	87,839	
Target price	88,000	
Current price	77,800	As of Nov 13 close
Upside (%)	13.1	

Source: Samsung Securities

Forward P/E band



Source: WiseFn, Samsung Securities estimates

Forward P/E



Source: WiseFn, Samsung Securities estimates

Summary of quarterly results

(KRWb)	3Q17			Chg (%)		3Q16 results	2Q17 results	Chg	
	Results	Samsung	Consensus	Samsung	Consensus			(% y-y)	(% q-q)
Sales	74.5	72.4	70.7	2.9	5.4	62.0	70.9	20.1	5.1
Operating profit	11.5	8.5	9.2	34.9	25.2	10.3	9.5	11.4	21.2
Pre-tax profit	12.5	8.3	9.7	50.5	29.8	11.2	10.0	11.7	25.4
Net profit	9.4	6.5	7.2	44.2	30.9	8.6	7.9	8.9	17.9
Margins (%)									
Operating profit	15.4	11.7	12.9			16.6	13.3		
Pre-tax profit	16.8	11.5	13.6			18.1	14.1		
Net profit	12.6	9.0	10.1			13.9	11.2		

Note: Based on consolidated K-IFRS

Source: Company data, WiseFn, Samsung Securities

Quarterly and annual results and forecasts

(KRWb)	1Q17	2Q17	3Q17	4Q17E	1Q18E	2Q18E	3Q18E	4Q18E	2016	2017E	2018E	2019E
Sales	65.2	72.1	74.5	71.4	73.9	78.9	82.0	80.6	244.8	283.2	315.4	353.0
Chg (% y-y)	13.0	18.6	20.1	8.7	13.3	9.4	10.0	13.0	13.8	15.7	11.4	11.9
Pharmaceuticals	34.7	34.5	38.8	36.9	38.6	38.5	42.3	42.0	125.9	144.9	161.3	182.1
Prescription	28.8	29.3	31.2	31.1	32.2	32.8	35.0	34.8	104.4	120.3	134.8	151.0
Local anesthetics	4.4	3.7	4.9	4.3	4.8	4.3	5.4	5.2	14.3	17.3	19.7	23.6
Eye drops (Alcon)	1.5	1.5	2.7	1.5	1.5	1.5	1.9	2.0	7.2	7.2	6.9	7.6
Beauty/Healthcare	21.3	26.0	25.8	24.3	24.4	27.0	27.3	26.0	88.8	97.5	104.6	117.5
Wellness products	15.8	16.6	17.5	16.3	16.5	17.9	18.4	17.1	61.9	66.2	70.0	75.2
Aesthetics	5.6	9.4	8.3	8.1	7.8	9.0	8.9	8.9	26.9	31.4	34.6	42.3
Botulinum toxin	2.8	4.4	4.0	3.8	4.0	4.0	4.2	4.2	2.3	14.9	16.4	21.9
Dermal fillers	2.0	3.2	2.8	2.9	2.4	3.0	3.0	3.1	11.3	10.9	11.5	12.6
CMO	8.2	10.2	7.8	7.9	8.6	10.8	9.6	9.9	30.1	34.1	39.0	41.1
Eye drops	4.0	4.6	2.6	2.9	3.8	5.1	4.2	4.7	7.6	14.2	17.8	19.2
Other	4.2	5.6	5.1	5.0	4.8	5.7	5.4	5.3	22.5	19.9	21.2	21.9
Other	1.0	1.4	2.0	2.2	2.3	2.6	2.8	2.8	0.0	6.6	10.5	12.2
Gross profit	35.8	38.4	40.3	38.5	40.0	42.9	44.5	44.0		153.0	171.4	193.6
Chg (% y-y)	n/a	n/a	22.4	13.6	11.7	11.8	10.4	14.5		n/a	12.1	12.9
Gross margin (%)	54.9	53.2	54.1	53.9	54.1	54.4	54.3	54.6		54.0	54.4	54.8
Operating profit	7.1	8.7	11.5	7.1	7.9	9.4	10.3	8.8	37.0	34.4	36.5	44.8
Chg (% y-y)	n/a	n/a	11.4	2.9	10.5	7.9	(9.7)	24.4	7.9	(7.0)	6.0	23.0
Operating margin (%)	11.0	12.1	15.4	9.9	10.7	12.0	12.6	10.9	15.1	12.1	11.6	12.7

Note: Based on consolidated K-IFRS (2016 figures based on pre-split, parent K-IFRS)

Source: Company data, Samsung Securities estimates

BTX business valuation (Europe, Brazil, and Russia only)

(KRWb)	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Schedule		Ph III		BLA	Launch										
Europe					8.0	15.0	45.0	50.0	50.0	48.5	46.1	43.8	41.6	39.5	37.5
Brazil					5.0	10.0	25.0	25.0	30.0	29.1	27.6	26.3	24.9	23.7	22.5
Russia					3.0	8.0	20.0	20.0	24.0	23.3	22.1	21.0	20.0	19.0	18.0
Upfront and milestones	1.0	0.0	3.0	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT*	0.5	0.0	1.5	1.5	8.0	16.5	45.0	47.5	52.0	50.4	47.9	45.5	43.2	41.1	39.0
PV of FCF	0.5	0.0	1.2	1.1	5.3	9.8	24.1	22.9	22.6	19.7	16.9	14.4	12.4	10.6	9.1
NPV	170.4														
Terminal value	243.9														
NPV+TMV	414.3														
Fair value**	103.6														
No of share ('000)	6,190.0														
Per share value (KRW)	16,734														

Note: WACC of 11% and terminal growth rate of -5%; * 50% shared with Huons Global; ** assumes 25% probability of MOU receiving BLA approval
Source: Samsung Securities estimates

Peer valuations

	Market cap (KRWb)	P/E (x)		EPS growth (% y-y)		ROE (%)		Dividend yield (%)		Operating margin (%)	
		2017E	2018E	2017E	2018E	2017E	2018E	2017E	2018E	2017E	2018E
Dongkook Pharm	594.9	14.7	13.4	(0.5)	9.6	15.8	15.1	0.6	0.9	13.0	12.9
Samjin Pharm	478.2	13.3	12.4	19.3	7.2	19.8	18.5	2.1	2.3	18.8	18.7
Ildong Pharm	463.3	21.1	14.9	n/a	40.9	8.0	10.4	1.9	2.0	6.0	7.9
Boryung Pharm	379.2	35.8	17.2	89.0	108.3	20.7	16.9	0.5	0.5	2.8	6.1
Whanin Pharm	435.2	17.0	16.1	56.3	5.1	11.1	10.6	1.1	1.1	20.7	20.3
Daewon Pharm	347.7	25.2	12.8	(30.2)	97.2	8.3	15.1	1.3	1.6	11.6	12.5
Korea United Pharm	460.3	16.6	14.8	42.4	11.7	14.6	14.4	0.9	1.0	17.1	17.7
ST Pharm	649.2	12.6	14.8	(26.1)	(14.5)	15.5	11.9	1.4	1.5	32.5	31.0
Small-cap pharma		19.5	14.6	21.5	33.2	14.2	14.1	1.2	1.4	15.3	15.9
Medytox	2,532.4	32.3	26.2	32.2	23.5	43.7	38.5	0.5	0.5	54.5	55.3
Hugel	1,986.7	23.5	22.7	26.9	3.2	17.6	13.7	0.3	0.3	57.7	57.5
Daewoong Pharm	1,523.6	36.5	29.1	59.9	25.5	7.8	9.1	0.5	0.5	5.8	6.7
Humedix	319.7	34.4	27.1	(11.2)	26.8	8.0	9.6	1.4	1.4	20.5	23.8
Medical aesthetics		31.7	26.3	27.0	19.8	19.3	17.7	0.7	0.7	34.6	35.8

Note: Based on consensus estimates
Source: WiseFn, Samsung Securities

Income statement

Year-end Dec 31(KRWb)	2016	2017E	2018E	2019E
Sales	169	283	315	353
Cost of goods sold	80	130	144	159
Gross profit	89	153	171	194
Gross margin (%)	52.8	54.0	54.4	54.8
SG&A expenses	68	119	135	149
Operating profit	22	34	36	45
Operating margin (%)	12.7	12.1	11.6	12.7
Non-operating gains (losses)	(2)	6	(3)	1
Financial profit	0	1	0	1
Financial costs	1	1	1	1
Equity-method gains (losses)	(0)	(0)	(2)	1
Other	(1)	6	(0)	0
Pre-tax profit	20	40	34	46
Taxes	5	10	9	12
Effective tax rate (%)	25.4	24.9	25.3	25.4
Profit from continuing operations	15	30	25	34
Profit from discontinued operations	0	0	0	0
Net profit	15	30	25	34
Net margin (%)	8.8	10.7	8.0	9.7
Net profit (controlling interests)	15	32	26	36
Net profit (non-controlling interests)	(1)	(1)	(1)	(2)
EBITDA	26	41	44	53
EBITDA margin (%)	15.2	14.6	13.9	14.9
EPS (parent-based) (KRW)	2,498	5,111	4,274	5,797
EPS (consolidated) (KRW)	2,413	4,899	4,071	5,521
Adjusted EPS (KRW)*	2,498	5,111	4,274	5,797

Cash flow statement

Year-end Dec 31(KRWb)	2016	2017E	2018E	2019E
Cash flow from operations	29	34	28	33
Net profit	15	30	25	34
Non-cash profit and expenses	12	19	19	18
Depreciation	4	7	7	8
Amortization	0	0	0	0
Other	7	12	11	11
Changes in A/L from operating activities	3	(5)	(7)	(8)
Cash flow from investments	(17)	(8)	(10)	(10)
Change in tangible assets	(5)	(8)	(9)	(9)
Change in financial assets	(8)	(1)	(1)	(1)
Other	(4)	1	0	0
Cash flow from financing	2	2	(10)	(10)
Change in debt	36	4	(7)	(7)
Change in equity	78	0	0	0
Dividends	0	0	(3)	(3)
Other	(111)	(2)	0	0
Change in cash	14	26	4	13
Cash at beginning of year	2	16	42	47
Cash at end of year	16	42	47	59
Gross cash flow	26	49	44	53
Free cash flow	23	26	19	24

Note: * Excluding one off items, ** Fully diluted, excluding one-off items

*** From companies subject to equity-method valuation

Source: Company data, Samsung Securities estimates

Balance sheet

Year-end Dec 31(KRWb)	2016	2017E	2018E	2019E
Current assets	121	156	175	205
Cash & equivalents	16	42	47	59
Accounts receivable	64	70	79	89
Inventories	30	33	37	42
Other current assets	10	11	13	15
Fixed assets	59	60	62	64
Investment assets	7	7	8	10
Tangible assets	45	47	48	49
Intangible assets	3	2	2	2
Other long-term assets	4	3	3	3
Total assets	179	216	237	269
Current liabilities	82	79	81	84
Accounts payable	20	22	25	28
Short-term debt	32	22	18	14
Other current liabilities	30	34	38	42
Long-term liabilities	1	13	10	8
Bonds & long-term debt	0	10	7	4
Other long-term liabilities	1	3	3	4
Total liabilities	84	92	91	92
Owners of parent equity	94	123	147	179
Capital stock	3	3	3	3
Capital surplus	75	75	75	75
Retained earnings	16	47	70	103
Other	1	(2)	(2)	(2)
Non-controlling interests' equity	2	1	(1)	(2)
Total equity	96	124	146	177
Net debt	13	(10)	(23)	(44)

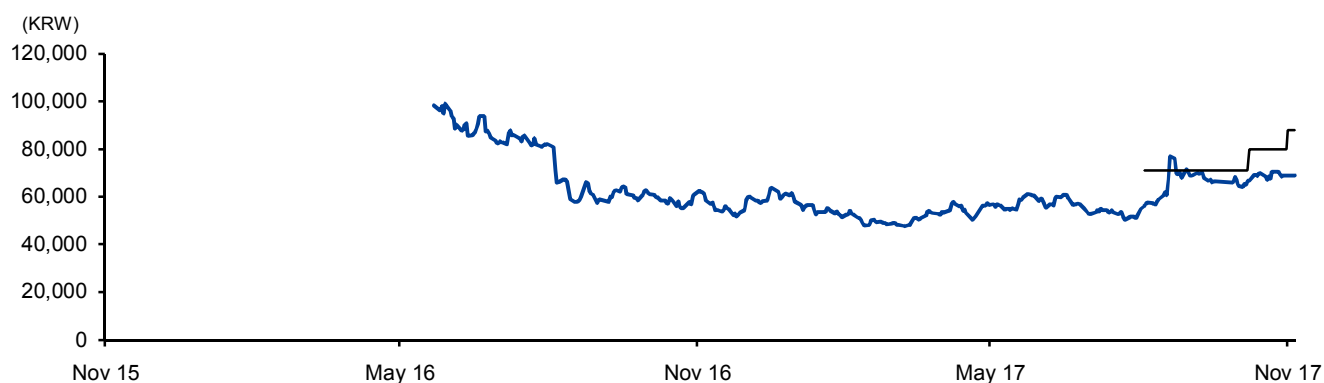
Financial ratios

Year-end Dec 31	2016	2017E	2018E	2019E
Growth (%)				
Sales	nm	67.6	11.4	11.9
Operating profit	nm	59.8	6.0	23.0
Net profit	nm	104.7	(16.9)	35.6
Adjusted EPS**	nm	104.7	(16.4)	35.6
Per-share data (KRW)				
EPS (parent-based)	2,498	5,111	4,274	5,797
EPS (consolidated)	2,413	4,899	4,071	5,521
Adjusted EPS**	2,498	5,111	4,274	5,797
BVPS	15,177	19,940	23,720	29,024
DPS (common)	0	500	500	600
Valuations (x)				
P/E***	31.2	15.2	18.2	13.4
P/B***	5.1	3.9	3.3	2.7
EV/EBITDA	17.2	10.1	9.2	7.3
Ratios (%)				
ROE	16.3	29.1	19.6	22.0
ROA	8.3	15.4	11.1	13.5
ROIC	15.1	23.7	23.5	26.6
Payout ratio	0.0	9.8	11.7	10.3
Dividend yield (common)	0.0	0.6	0.6	0.8
Net debt to equity	13.5	(8.0)	(15.5)	(24.6)
Interest coverage (x)	36.5	31.6	36.0	54.7

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Target price changes in past two years



Rating changes over past two years (adjusted share prices)

Date	2017/8/16	10/20	11/13
Recommendation	BUY	BUY	BUY
Target price (KRW)	71,000	80,000	88,000
Gap* (average)	(6.98)	(13.53)	
(max or min)**	8.45	(11.75)	

Note: * [(average, maximum, or minimum share price over duration of target price minus target price) / target price] x 100%
 ** Maximum/minimum share price if new target is higher/lower than market close on the business day prior to target price change

Samsung Securities uses the following investment ratings.

Company

BUY	Expected to increase in value by 10% or more within 12 months and is highly attractive within sector
HOLD	Expected to increase/decrease in value by less than 10% within 12 months
SELL	Expected to decrease in value by 10% or more within 12 months

Industry

OVERWEIGHT	Expected to outperform market by 5% or more within 12 months
NEUTRAL	Expected to outperform/underperform market by less than 5% within 12 months
UNDERWEIGHT	Expected to underperform market by 5% or more within 12 months

Percentage of ratings in 12 months prior to Sep 30, 2017

BUY (82.2%) | HOLD (17.8%) | SELL (0%)

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