

May 16, 2019

Huons (243070)

Prescription drugs and CMO drive growth

- 1Q19 results met the consensus
- Sustainable growth of prescription drugs and CMO
- Trim TP 8% on removal of filler and Dermashine revenue

Facts: Results met the consensus

Huons reported 1Q19 sales of W82.6bn (+11.6% YoY) and OP of W12bn (+5.4% YoY, OPM 14.5%) that satisfied the consensus (sales W85.2bn, OP W12.2bn). The top line was fueled by pharmaceuticals and contract manufacturing organization (CMO) operations. Specifically, pharmaceutical sales jumped 18% YoY thanks to the release of new prescription drugs and brisk local anesthetic exports. CMO sales climbed 13% YoY on greater supply for pharmaceuticals consignment. In contrast, sales at the beauty & healthcare division fell 22% YoY as filler and Dermashine revenue generated from exports on behalf of Humedix and Panace were transferred back to the respective companies to ease concerns about bias toward affiliates.

Pros & cons: Prescription drugs and CMO growth to continue

Without further contribution from dermal filler and Dermashine (digital injector), erosion is inevitable for the aesthetic division's sales in 2019. But prescription drugs and CMO sales should keep growing. The pharmaceutical division's sales should grow 18% YoY to W201.8bn in 2019 thanks to new prescription drugs such as Zepirus (dry powder inhaler for asthma) and a long-lasting single-dose osteoarthritis treatment, and robust US-bound exports of lidocaine injections. CMO sales should rise 11% YoY to W47.5bn thanks to the added eye drop production lines that commenced operating in April. Specifically, continuous blood glucose meters hit the market in earnest in 1Q19 and its in-house developed BTX Liztox should start domestic sales in June.

Action: Trim TP 8% on removal of filler and Dermashine

We maintain BUY but trim our TP from W85,000 to W78,000 to reflect the removal of derma filler and Dermashine sales. We cut our 2019 and 2020 OP estimates by 15% and 18%, respectively. We derived our SotP-based TP by applying net cash of W16bn to the combined operating value of the pharmaceuticals/CMO business and beauty/health unit.

Below	In line	Above
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vs. OP consensus

12M rating **BUY (Maintain)**

12M TP **W78,000** from W85,000

Up/Downside **+24%**

Stock data

KOSPI (May 15, pt)	2,093
Stock price (May 15, KRW)	62,900
Market cap (USD mn)	475
Shares outstanding (mn)	9
52-Week high/low (KRW)	97,356/59,200
6M avg. daily turnover (USD mn)	2.2
Free float / Foreign ownership (%)	54.9/15.1
Major shareholders (%)	
Huons Global and 7 others	45.0

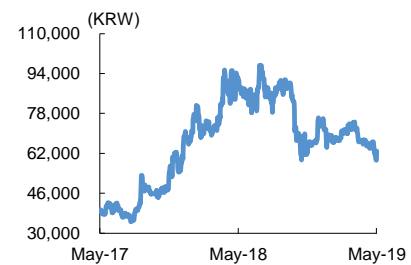
Valuation

	2018A	2019F	2020F
PE (x)	14.2	15.2	13.6
PB (x)	3.9	2.9	2.4
ROE (%)	31.6	20.9	19.4
DY (%)	1.0	1.3	1.3
EV/EBITDA (x)	11.2	10.2	9.1
EPS (KRW)	5,041	4,132	4,632
BPS (KRW)	18,283	21,509	26,441

Performance

	1M	6M	12M
Absolute (%)	(6.7)	(2.8)	(30.9)
Relative to KOSDAQ (%p)	(1.8)	(9.8)	(15.5)

Stock price



Source: FnGuide

Eunice Jung

eunice.jung@truefriend.com

Table 1. 1Q19 earnings

(W bn)

	1Q18	2Q18	3Q18	4Q18	1Q19P	QoQ (%)	YoY (%)	Consensus
Sales	74.0	80.1	86.3	88.2	82.6	(6.3)	11.6	85.2
OP	11.4	12.5	13.4	8.0	12.0	50.6	5.4	12.2
OP margin (%)	15.4	15.6	15.5	9.1	14.5			14.3
EBT	11.4	13.6	16.3	14.6	11.9	(19.0)	3.9	12.2
NP	8.7	10.7	13.4	12.3	9.4	(23.8)	7.6	NM

Source: Korea Investment & Securities

Table 2. Forecast revisions

(W bn, %)

	Previous		Revised		Difference	
	2019F	2020F	2019F	2020F	2019F	2020F
Sales	378.7	432.9	356.8	404.4	(21.9)	(28.5)
OP	61.8	70.4	46.9	52.4	(14.8)	(18.0)
OPM	16.3	16.3	13.2	13.0		
NP	47.9	54.8	37.1	41.6	(10.8)	(13.2)

Source: Korea Investment&Securities

Table 3. SotP valuation

(W bn, x, '000 shares, KRW)

	Notes
Operating value	683
Pharma/CMO value	384
2019F EBITDA	35
EV/EBITDA multiple	11.0 Midsize pharma 2019F avg.
Beauty/Healthcare value	299
2019F EBITDA	19
EV/EBITDA multiple	15.7 Beauty companies' 2019F avg.
Net cash	(16)
Shareholder value	700
Shares	8,972
TP	77,967

Note: As of May 15 close

Source: Korea Investment & Securities

Table 4. Earnings forecast

(W bn)

	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19F	3Q19F	4Q19F	2017	2018	2019F	2020F
Sales	74	80	86	88	83	89	92	93	285	329	357	404
YoY	13.6	11.1	15.8	20.7	11.6	10.8	6.8	5.8	-	15.4	8.6	13.3
Pharmaceuticals	39	42	44	47	46	49	52	54	146	172	202	235
Prescription	34	35	38	38	39	41	44	44	122	145	168	193
Local anesthetics	5	5	5	7	6	7	7	8	17	21	27	35
Eye drops	1	1	1	2	2	2	2	2	7	5	7	7
Beauty/Healthcare	24	26	26	23	20	20	21	20	97	99	80	92
Wellness products	17	17	16	15	16	16	16	14	65	66	63	59
Aesthetics	7	9	9	8	3	3	3	4	32	33	13	18
BTX	3	4	3	3	3	3	3	4	15	13	13	18
Dermal fillers	2	2	4	3	0	0	0	0	11	11	0	0
Others	2	2	2	2	0	0	0	0	6	9	0	0
CGM	0	0	0	0	1	1	2	2	0	0	5	14
CMO	9	11	12	11	10	12	13	12	35	43	48	49
Eye drops	4	4	4	5	4	5	5	5	13	17	18.9	19.3
Others	5	7	8	7	6	8	8	7	21	26	29	30
Adj. consolidated	2	2	6	6	7	7	7	7	7	15	27	29
COGS+SG&A	63	68	73	80	71	77	80	83	249	283	310	352
% of sales	84.6	84.4	84.4	91.0	85.4	86.4	86.6	88.8	87.3	86.2	86.8	87.0
OP	11	12	13	8	12	12	12	10	36	45	47	52
YoY	59.5	42.7	17.2	(10.3)	5.4	(3.0)	(8.2)	31.3	-	24.9	3.7	11.7
OPM	15.4	15.6	15.6	9.0	14.5	13.6	13.4	11.2	12.7	13.8	13.2	13.0
Controlling-int. NP	9	11	13	12	9	10	10	8	35	45	37	42
YoY	(10.8)	52.5	39.2	43.7	7.6	(10.8)	(27.7)	(32.6)	-	29.0	(18.0)	12.1
NPM	11.8	13.4	15.6	14.0	11.5	10.8	10.5	8.9	12.3	13.8	10.4	10.3

Source: Korea Investment & Securities

Company overview

Huons is a comprehensive healthcare firm that manages a broad business portfolio based on specialty drugs and spanning wellness pharmaceuticals and aesthetics products. Huons split into surviving entity Huons Global and new entity Huons in May 2016 and was newly listed on the Kosdaq. Huons' largest shareholder is Huons Global with 41% ownership. Subsidiaries are Huons Natural, Biotopia and Huonland.

Balance sheet

(W bn)

FY-ending Dec.	2017A	2018A	2019F	2020F	2021F
Current assets	152	172	194	222	252
Cash & cash equivalents	39	26	29	32	41
Accounts & other receivables	69	86	93	106	118
Inventory	35	42	46	52	58
Non-current assets	64	79	84	90	95
Investment assets	6	10	11	13	14
Tangible assets	51	63	66	69	72
Intangible assets	2	1	2	2	2
Total assets	216	251	278	311	347
Current liabilities	79	76	77	68	69
Accounts & other payables	40	38	41	46	52
ST debt & bonds	23	13	12	11	9
Current portion of LT debt	1	7	6	5	3
Non-current liabilities	13	8	5	3	2
Debentures	0	0	0	0	0
LT debt & financial liabilities	12	7	5	3	2
Total liabilities	92	84	82	71	71
Controlling interest	123	163	192	237	273
Capital stock	3	4	4	5	5
Capital surplus	75	74	74	74	74
Other reserves	(3)	(3)	(1)	(1)	(1)
Retained earnings	47	88	114	158	194
Minority interest	2	4	4	4	3
Shareholders' equity	124	168	196	240	276

Cash flow

(W bn)

FY-ending Dec.	2017A	2018A	2019F	2020F	2021F
C/F from operations	30	21	28	19	37
Net profit	35	45	37	41	45
Depreciation	5	6	7	7	7
Amortization	0	0	0	0	0
Net incr. in W/C	(11)	(28)	(16)	(29)	(16)
Others	1	(2)	0	0	1
C/F from investing	(12)	(25)	(14)	(14)	(15)
Capex	(9)	(10)	(10)	(10)	(11)
Decr. in fixed assets	0	0	0	0	0
Incr. in investment	(4)	(9)	(2)	(2)	(2)
Net incr. in intangible assets	0	1	(1)	(0)	(0)
Others	1	(7)	(1)	(2)	(2)
C/F from financing	1	(13)	(12)	(1)	(14)
Incr. in equity	0	3	0	0	0
Incr. in debt	5	(8)	(4)	(4)	(5)
Dividends	(4)	(4)	(7)	(8)	(9)
Others	0	(4)	(1)	11	0
C/F from others	(0)	0	0	0	0
Increase in cash	23	(13)	3	4	8

Note: K-IFRS (consolidated)

Income statement

(W bn)

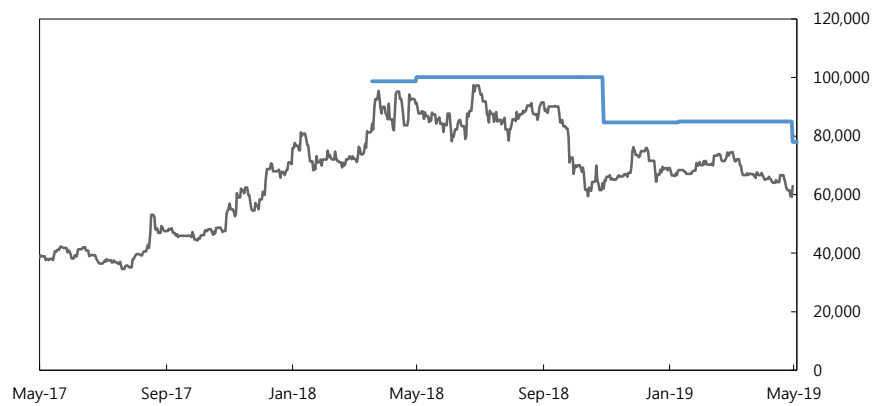
FY-ending Dec.	2017A	2018A	2019F	2020F	2021F
Sales	285	329	357	404	452
COGS	129	147	160	182	203
Gross profit	156	182	197	222	249
SG&A expenses	120	136	150	170	191
Operating profit	36	45	47	52	58
Financial income	3	3	1	1	1
Interest income	0	0	1	1	1
Financial expenses	1	1	0	0	0
Interest expenses	1	1	0	0	0
Other non-operating profit	8	10	0	0	0
Gains (Losses) in associates, subsidiaries and JV	(1)	(1)	(1)	(0)	(0)
Earnings before tax	45	56	47	53	59
Income taxes	10	11	10	12	14
Net profit	35	45	37	41	45
Net profit of controlling interest	35	45	37	42	46
Other comprehensive profit	(0)	(0)	(0)	(0)	(0)
Total comprehensive profit	35	45	37	41	45
Total comprehensive profit of controlling interest	35	45	37	42	46
EBITDA	41	52	54	60	66

Key financial data

FY-ending Dec.	2017A	2018A	2019F	2020F	2021F
Per-share data (KRW)					
EPS	2,961	5,041	4,132	4,632	5,075
BPS	13,724	18,283	21,509	26,441	30,467
DPS	413	727	800	800	800
Growth (%)					
Sales growth	68.6	15.4	8.6	13.3	11.7
OP growth	68.2	24.9	3.7	11.7	11.2
NP growth	128.7	29.0	(18.0)	12.1	9.6
EPS growth	82.1	70.2	(18.0)	12.1	9.6
EBITDA growth	61.3	24.6	4.4	10.8	10.3
Profitability (%)					
OP margin	12.7	13.8	13.2	13.0	12.9
NP margin	12.3	13.8	10.4	10.3	10.1
EBITDA margin	14.6	15.7	15.1	14.8	14.6
ROA	17.6	19.1	13.9	14.0	13.7
ROE	32.4	31.6	20.9	19.4	17.9
Dividend yield	0.6	1.0	1.3	1.3	1.3
Dividend payout ratio	10.6	14.4	21.1	20.6	20.5
Stability					
Net debt (W bn)	(9)	(8)	(16)	(26)	(41)
Int.-bearing debt/equity (%)	31.3	17.5	12.9	8.9	5.9
Valuation (x)					
PE	23.0	14.2	15.2	13.6	12.4
PB	5.0	3.9	2.9	2.4	2.1
EV/EBITDA	13.2	11.2	10.2	9.1	8.0

Changes to recommendation and price target

Company (Code)	Date	Recommendation	Price target	% vs. avg. price	% vs. high (low)
Huons (243070)	03-04-18	BUY	W98,666	-9.4	-3.3
	16-05-18	BUY	W100,085	-17.2	-2.7
	13-11-18	BUY	W84,618	-18.6	-9.9
	25-01-19	BUY	W85,000	-19.5	-12.2
	15-05-19	BUY	W78,000	-	-



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79.7%	20.3%	0%

Note: % of companies under coverage with this rating

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