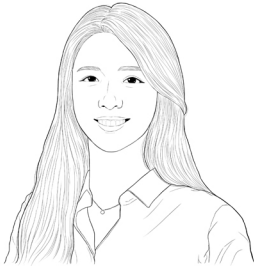


2019. 6. 17

# Company Visit Note



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## AT A GLANCE

NOT RATED

Target price n/a

Current price KRW57,200

Market cap	KRW513.87b/USD434.34m
Shares (float)	8,983,757 (54.9%)
52-week high/low	KRW97,356/KRW54,600
Avg daily trading value (60-day)	KRW2.2b/ USD1.8m

## ONE-YEAR PERFORMANCE

	1M	6M	12M
Huons (%)	-7.0	-25.0	-32.0
Vs Kosdaq (%pts)	-7.2	-29.9	-17.8

## KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	Not Rated	Not Rated	
Target price	n/a	n/a	n/a
2019E EPS	n/a	n/a	n/a
2020E EPS	n/a	n/a	n/a

## SAMSUNG vs THE STREET

No of estimates	4
Target price	91,250
Recommendation	4.0

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

## Huons (243070)

### Liztox to energize growth momentum

- Huons should enjoy solid top-line growth this year, supported by increasing sales of prescription drugs and at the eye-drop CMO business.
- With rivals locked in botulinum toxin (BTX) strain controversies, the company looks set to secure new growth momentum via Liztox (a BTX; to be released in Korea later this month). We believe that the company's export momentum will build—it is likely to sign an MOU with a US firm for the BTX in 2H.
- Consensus has net profit attributable to the parent reaching KRW41.6b this year. The shares are trading at a 12-month forward P/E of just 11.5x, below its Kosdaq-listed peer average of 28.6x.

## WHAT'S THE STORY?

**Pharma division—sales steadily growing on portfolio expansion:** Huons has seen its pharma division maintain steady earnings momentum—despite possessing no blockbusters—thanks to: 1) a broad product mix that spans more than 300 medicines; and 2) the release of the first incrementally modified drug (IMD) in the world and changes in the way generic drugs are administered.

**Beauty/healthcare division—Liztox to add growth momentum:** The transfer of esthetics product exports to Humedix and Panace this year should reduce Huons' beauty/healthcare sales by around KRW20b. But the firm should secure new growth drivers by launching new products. First of all, Liztox is set to debut in Korea this month. Some worry that the late-starter may have a hard time gaining market share due to intense competition in the domestic BTX market. Nevertheless, we believe that the product will give a strong boost to its bottom line—BTXs tend to generate strong margins. Furthermore, sales of continuous glucose monitoring systems (Huons distributes the Dexcom G5) are poised to grow thanks to the inclusion of coverage by the National Health Insurance Service for type-1 diabetes patients. The distribution of the Dexcom G5 should also create synergies with wearable insulin patch pump EO Patch, an item that is poised to hit domestic shelves next year.

(Continued on the next page)

## SUMMARY FINANCIAL DATA

	2015	2016	2017	2018
Revenue (KRWb)	n/a	169	285	329
Operating profit (KRWb)	n/a	22	36	45
Net profit (adj) (KRWb)	n/a	15	35	45
EPS (adj) (KRW)	n/a	2,571	3,904	5,035
EPS (adj) growth (% y-y)	n/a	n/a	51.8	29.0
EBITDA margin (%)	n/a	15.2	14.6	15.7
ROE (%)	n/a	16.3	32.4	31.6
P/E (adj) (x)	n/a	22.6	14.9	11.5
P/B (x)	n/a	5.5	4.2	3.2
EV/EBITDA (x)	n/a	20.8	12.4	10.0
Dividend yield (%)	n/a	0.0	0.7	1.3

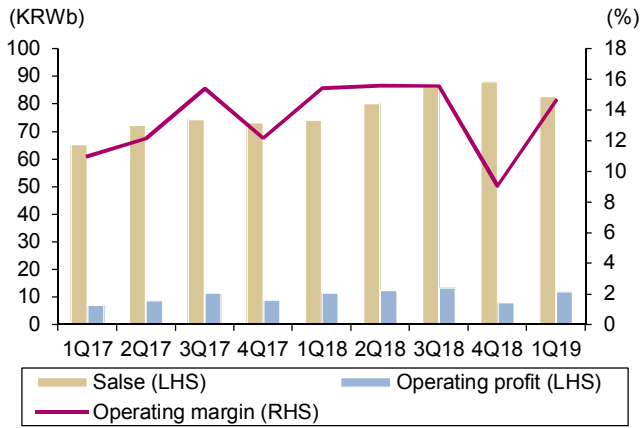
Source: Company data, Samsung Securities estimates

**Liztox—profit-sharing ratio needs to be unveiled:** Having obtained an export license in Jan 2016 from Korea’s Ministry of Food and Drug Safety, Huons subsequently inked distribution contracts with companies in Europe, China, and Russia. It is likely to conclude one with a US firm this year. Liztox—its export brand name is Hutox—was approved domestically in April for glabella lines. It is currently in Phase I/II clinical trials for the indication of eye wrinkles and is likely to be approved for this indication next year. Meanwhile, Huons Global, Huons, and Humedix are discussing whether to adjust their profit-sharing ratio, and related negotiations are likely to be finalized prior to Liztox’s release. Company-specific share performance (among Huons Global, Huons, and Humedix) should hinge on projected earnings contributions from Liztox—specifically, forecasts for near-term domestic sales and for long-term exports. Huons Global is engaged in manufacturing and paying non-clinical trial costs. Huons and Humedix should be responsible for domestic marketing activities, with the former paying for costs associated with clinical trials.

**CMO division—sales to rise on capacity expansion:** Huons’ production capacity for mono-dose eye drops doubled from 150m units to 300m units in April.

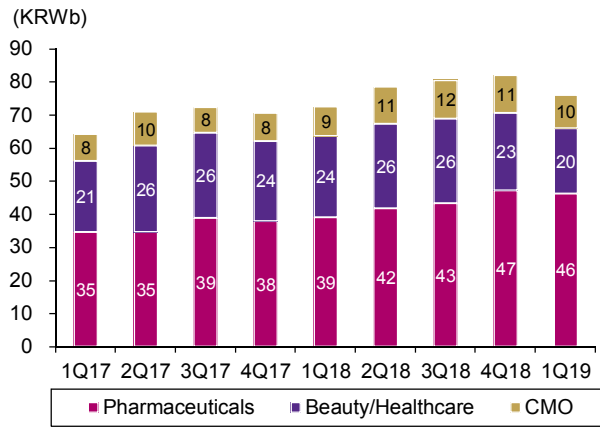
**R&D and new businesses—developing IMDs & original drugs for dry eye syndrome:** The company’s IMD for dry eye syndrome is in Phase III clinical trials in Korea, and Phase I trials are set to begin for the IMD in Europe before year-end. Clinical data shows that the thymosin beta 4-based drug has the same effect as Allergan’s Restasis but at a lower cyclosporine concentration. The company is also preparing its thymosin beta 4-based drug for Phase I clinical trials this year.

Quarterly results



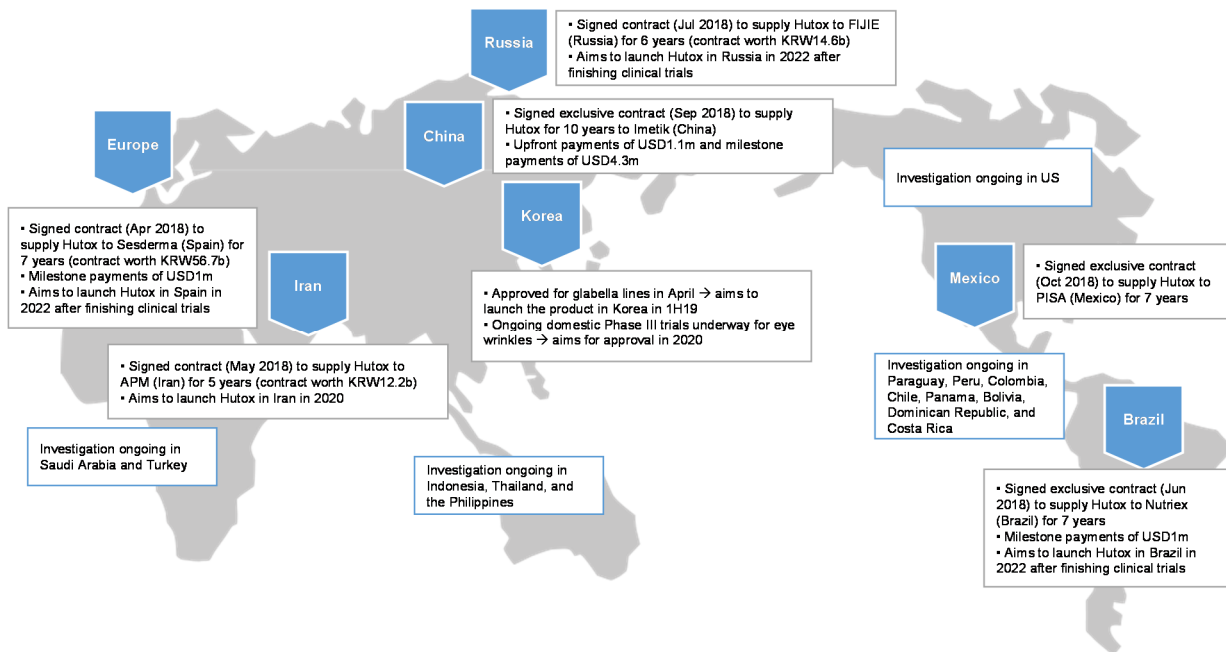
Source: Quantiwise, Samsung Securities

Quarterly sales, by division



Source: Company data, Samsung Securities

Hutox overseas businesses



Source: Company data, Samsung Securities

**Income statement**

Year-end Dec 31 (KRWb)	2014	2015	2016	2017	2018
<b>Sales</b>	n/a	n/a	169	285	329
Cost of goods sold	n/a	n/a	80	129	147
<b>Gross profit</b>	n/a	n/a	89	156	182
Gross margin (%)	n/a	n/a	52.8	54.7	55.3
SG&A expenses	n/a	n/a	68	120	136
<b>Operating profit</b>	n/a	n/a	22	36	45
Operating margin (%)	n/a	n/a	12.7	12.7	13.8
<b>Non-operating gains (losses)</b>	n/a	n/a	(2)	9	11
Financial profit	0	0	0	3	3
Financial costs	0	0	1	1	1
Equity-method gains (losses)	0	0	(0)	(1)	(1)
Other	n/a	n/a	(1)	8	10
<b>Pre-tax profit</b>	n/a	n/a	20	45	56
Taxes	n/a	n/a	5	10	11
Effective tax rate (%)	n/a	n/a	25.4	22.4	20.3
Profit from continuing operations	0	0	15	35	45
Profit from discontinued operations	0	0	0	0	0
<b>Net profit</b>	n/a	n/a	15	35	45
Net margin (%)	n/a	n/a	8.8	12.2	13.6
Net profit (controlling interests)	n/a	n/a	15	35	45
Net profit (non-controlling interests)	n/a	n/a	(1)	(0)	(1)
EBITDA	n/a	n/a	26	41	52
EBITDA margin (%)	n/a	n/a	15.2	14.6	15.7
EPS (parent-based) (KRW)	n/a	n/a	2,571	3,904	5,035
EPS (consolidated) (KRW)	n/a	n/a	2,484	3,869	4,964
Adjusted EPS (KRW)*	n/a	n/a	2,571	3,904	5,035

**Cash flow statement**

Year-end Dec 31 (KRWb)	2014	2015	2016	2017	2018
<b>Cash flow from operations</b>	0	0	29	30	21
Net profit	0	0	15	35	45
Non-cash profit and expenses	0	0	12	15	14
Depreciation	0	0	4	5	6
Amortization	0	0	0	0	0
Other	0	0	7	10	8
Changes in A/L from operating activities	0	0	3	(11)	(28)
<b>Cash flow from investments</b>	0	0	(17)	(12)	(25)
Change in tangible assets	0	0	(5)	(9)	(10)
Change in financial assets	0	0	(8)	(2)	(4)
Other	0	0	(4)	(2)	(11)
<b>Cash flow from financing</b>	0	0	2	5	(9)
Change in debt	0	0	36	3	(9)
Change in equity	0	0	78	0	(1)
Dividends	n/a	n/a	0	0	(4)
Other	n/a	n/a	(111)	2	5
Change in cash	0	0	14	23	(13)
Cash at beginning of year	0	0	2	16	39
Cash at end of year	0	0	16	39	26
<b>Gross cash flow</b>	0	0	26	50	59
<b>Free cash flow</b>	0	0	23	22	11

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)	2014	2015	2016	2017	2018
<b>Current assets</b>	n/a	n/a	121	152	172
Cash & equivalents	n/a	n/a	16	39	26
Accounts receivable	n/a	n/a	64	67	83
Inventories	n/a	n/a	30	35	42
Other current assets	n/a	n/a	10	11	21
<b>Fixed assets</b>	n/a	n/a	59	64	79
Investment assets	n/a	n/a	7	6	10
Tangible assets	n/a	n/a	45	51	63
Intangible assets	n/a	n/a	3	2	1
Other long-term assets	n/a	n/a	4	5	5
<b>Total assets</b>	n/a	n/a	179	216	251
<b>Current liabilities</b>	n/a	n/a	82	79	76
Accounts payable	n/a	n/a	20	18	16
Short-term debt	n/a	n/a	32	23	13
Other current liabilities	n/a	n/a	30	37	47
<b>Long-term liabilities</b>	n/a	n/a	1	13	8
Bonds & long-term debt	0	0	0	10	3
Other long-term liabilities	n/a	n/a	1	3	5
<b>Total liabilities</b>	n/a	n/a	84	92	84
<b>Owners of parent equity</b>	n/a	n/a	94	123	163
Capital stock	n/a	n/a	3	3	4
Capital surplus	n/a	n/a	75	75	74
Retained earnings	n/a	n/a	16	47	88
Other	n/a	n/a	1	(2)	(2)
<b>Non-controlling interests' equity</b>	n/a	n/a	2	2	4
<b>Total equity</b>	n/a	n/a	96	124	168
Net debt	n/a	n/a	13	(9)	(8)

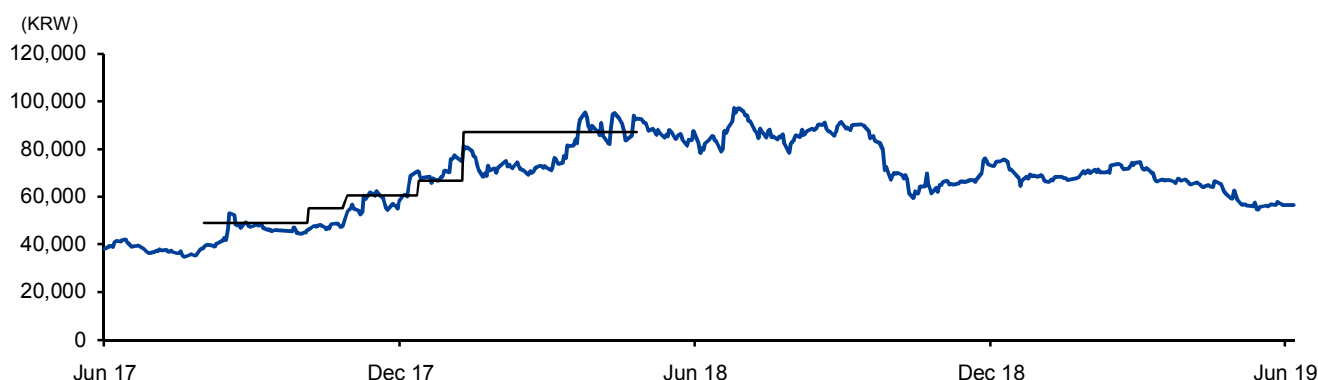
**Financial ratios**

Year-end Dec 31	2014	2015	2016	2017	2018
<b>Growth (%)</b>					
Sales	nm	nm	nm	68.6	15.4
Operating profit	nm	nm	nm	68.2	24.9
Net profit	nm	nm	nm	134.6	28.3
Adjusted EPS**	nm	nm	nm	51.8	29.0
<b>Per-share data (KRW)</b>					
EPS (parent-based)	n/a	n/a	2,571	3,904	5,035
EPS (consolidated)	n/a	n/a	2,484	3,869	4,964
Adjusted EPS**	n/a	n/a	2,571	3,904	5,035
BVPS	n/a	n/a	10,458	13,673	18,199
DPS (common)	0	0	0	413	727
<b>Valuations (x)</b>					
P/E***	n/a	n/a	22.2	14.6	11.3
P/B***	n/a	n/a	5.5	4.2	3.1
EV/EBITDA	n/a	n/a	20.5	12.2	9.8
<b>Ratios (%)</b>					
ROE	n/a	n/a	16.3	32.4	31.6
ROA	n/a	n/a	8.3	17.6	19.1
ROIC	n/a	n/a	15.1	25.8	27.5
Payout ratio	n/a	n/a	0.0	10.6	14.4
Dividend yield (common)	0.0	0.0	0.0	0.7	1.3
Net debt to equity	n/a	n/a	13.5	(6.9)	(5.0)
Interest coverage (x)	n/a	n/a	36.5	33.4	47.2

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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	2018/1/24	2019/6/17
Recommendation	BUY	BUY	BUY	BUY	Not Rated
Target price (KRW)	48,998	55,209	60,729	87,281	n/a
Gap* (average)	(6.98)	(13.53)	4.38	(8.96)	-
(max or min)**	8.45	(11.75)	27.85	9.30	-

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

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<b>HOLD</b>	Expected to increase/decrease in value by less than 10% within 12 months
<b>SELL</b>	Expected to decrease in value by 10% or more within 12 months

### Industry

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

## Percentage of ratings in 12 months prior to Mar 31, 2019

BUY (76.4%) | HOLD (23.6%) | SELL (0%)

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