

# Donga ST (170900)

12M rating **Hold (Maintain)**

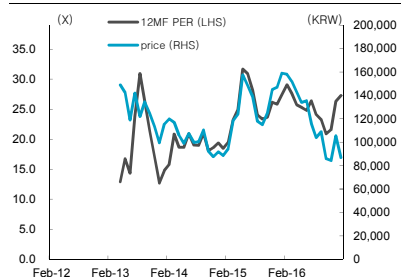
## Stock Data

KOSPI (Jan 25, pt)	2,067
Stock price (Jan 25, KRW)	86,800
Market cap (USD mn)	629
Shares outstanding (mn)	8
52-Week high/low (KRW)	175,000/80,600
6M avg. daily turnover (USD mn)	3.9
Free float / Foreign ownership (%)	58.2/20.8
Major shareholders (%)	
Sin-Ho Kang and 32 others	23.6
NPS	10.4

## Performance

	1M	6M	12M
Absolute (%)	(2.3)	(28.3)	(49.2)
Relative to KOSPI (%p)	(3.8)	(31.0)	(58.4)

## 12MF PER trend



Source: WISEfn consensus

## 4Q16 preview: Robust R&D performance, but earnings yet to recover

### Top-line growth on technology export payment

We estimate Donga ST will post 4Q16 sales of W190bn (+36.3% YoY) and OP of W19.5bn (+89.4% YoY). We attribute the rapid growth to the recognition of an advance payment of W48bn (55% recognized via Donga Socio Holdings) for the MerTK inhibitor licensed out to Abbvie. Stripping out this payment, sales should edge up only 2% given the Styrene price cut and sluggish ETC sales. OP was expected to improve by W21bn, but stripping out the MerTK payment, OP should be sluggish on a higher COGS-to-sales ratio given price cuts for major products and various expenses. We believe an ETC turnaround will be slow as co-promotion contracts are ending for five products from GSK (Zeffix, Hepsera, Seretide, Avamys, Avodart) that should generate annual sales of W20bn in 2017 and as the price cut effects continue. However, we believe earnings will improve in 2H17 led by existing products, such as Suganone and Acelex, and the launch of a modified Viread drug. Furthermore, milestone payments from sales approvals and clinical trial approvals should contribute to the improvements. Overall, we forecast 2017 sales of W607bn (-3.1% YoY) and OP of W49bn (+18.6% YoY).

### R&D capability confirmed

In December, Donga ST proved its R&D capability as it licensed out MerTK inhibitor DA-4501, worth USD526mn, to Abbvie Biotechnology, a subsidiary of Abbvie. Based on the contract Donga ST will receive an upfront payment of USD40mn, and Donga ST will lead the development until preclinical trials while Abbvie will lead the development afterwards. Meanwhile, DA-1229, a NASH treatment licensed out to Tobira, is scheduled to enter Phase II clinical trials in 2017. DA-1241, a GPR-119 agonist diabetes treatment, will start Phase I clinical trials while DA-8010, an irritable bladder treatment, should enter Phase II clinical trials. Long-lasting EPO biosimilar, DA-3880, is scheduled for EU Phase III clinical trials and a partnership appears likely soon. While the R&D burden is growing, a pipeline revaluation is likely as R&D competitiveness has been confirmed.

### Maintain Hold on weak short-term momentum

Shares are trading at 21x 2017F PE, in line with the pharmaceutical average. R&D capabilities have been confirmed by the unexpected licensing out. However, it is still too early to price MerTK inhibitor into the pipeline value as the treatment is still only in the preclinical stage. Earnings momentum should be weak given the expenses to fuel top-line growth. As such, we maintain Hold as investor sentiment is too weak to focus on new drug momentum.

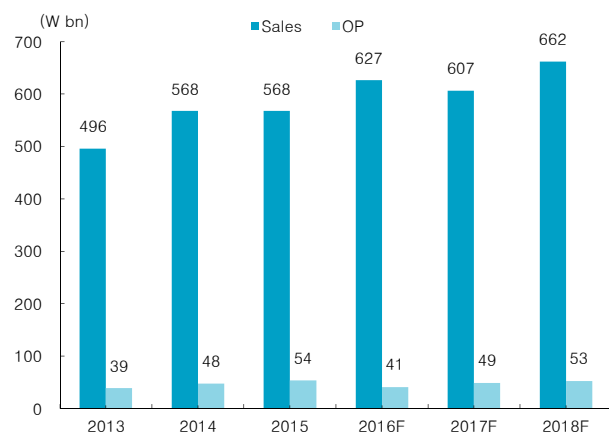
## Bora Chung

822-3276-6196  
bora.chung@truefriend.com

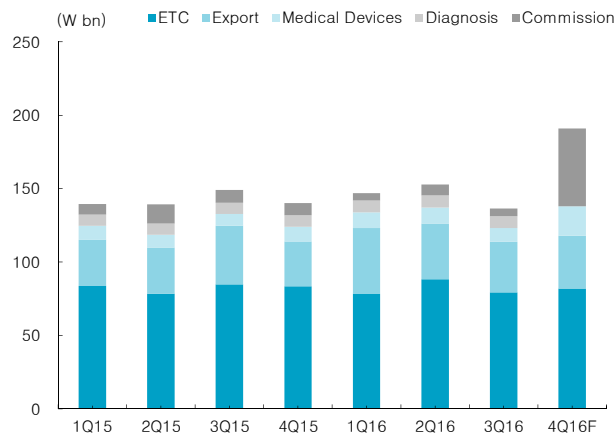
## Eunyoung Jung

822-3276-6239  
eunice.jung@truefriend.com

Yr to	Sales	OP	NP	EPS	% chg	EBITDA	PE	EV/EBITDA	PB	ROE	DY
Dec	(W bn)	(W bn)	(W bn)	(KRW)	(YoY)	(W bn)	(x)	(x)	(x)	(%)	(%)
2014A	568	48	37	4,858	NM	73	18.9	11.7	1.4	8.1	0.8
2015A	568	54	49	6,043	24.4	78	24.3	16.1	2.1	9.3	0.7
2016F	627	41	18	2,177	(64.0)	61	48.5	15.5	1.6	3.3	0.9
2017F	607	49	35	4,182	92.1	66	20.8	12.5	1.3	6.2	1.2
2018F	662	53	39	4,585	9.6	71	18.9	11.4	1.2	6.5	1.2

**Figure 1. Donga ST annual sales and OP**


Source: Donga ST, Korea Investment &amp; Securities

**Figure 2. Donga ST divisional sales**


Source: Donga ST, Korea Investment &amp; Securities

**Balance sheet**

FY-ending Dec. (W bn)	2014A	2015A	2016F	2017F	2018F
Current assets	475	519	495	443	470
Cash & cash equivalent	282	295	307	273	285
Accounts & other receivables	91	126	94	85	93
Inventory	85	93	88	79	86
Non-current assets	603	540	554	551	566
Investment assets	40	32	50	48	53
Tangible assets	457	407	409	411	413
Intangible assets	12	17	19	18	20
Total assets	1,078	1,059	1,048	994	1,036
Current liabilities	222	237	219	145	158
Accounts & other payables	80	73	81	79	86
ST debt & bond	59	49	44	44	44
Current portion of LT debt	69	95	95	95	95
Non-current liabilities	369	271	275	273	277
Debentures	258	228	228	228	228
LT debt & financial liabilities	63	0	0	0	0
Total liabilities	591	508	493	418	435
Paid-in capital	39	40	40	40	40
Capital surplus	227	254	254	254	254
Other Reserves	(1)	(1)	(1)	(1)	(1)
Retained earnings	40	97	107	133	164
Shareholders' equity	487	551	555	576	600
Adj. shareholders' equity	488	554	555	581	609

**Cash flow**

FY-ending Dec. (W bn)	2014A	2015A	2016F	2017F	2018F
C/F from operating	83	44	65	(4)	59
Net profit	34	48	18	35	39
Depreciation	24	22	18	16	16
Amortization	1	1	1	1	2
Net incr. in W/C	12	(41)	26	(57)	0
Others	12	14	2	1	2
C/F from investing	(23)	31	(40)	(21)	(39)
CAPEX	(29)	(27)	(20)	(18)	(19)
Decr. in fixed assets	0	0	0	0	0
Incr. in investment	3	34	(24)	(4)	(10)
Net incr. in intangible assets	(1)	(4)	(3)	(1)	(3)
Others	4	28	7	2	(7)
C/F from financing	101	(70)	(14)	(9)	(8)
Incr. in equity	0	28	0	0	0
Incr. in debts	110	(83)	(5)	(0)	0
Dividends	(2)	(6)	(8)	(8)	(8)
Others	(7)	(9)	(1)	(1)	0
C/F from others	5	10	0	0	0
Increase in cash	166	14	12	(34)	11

Note: 1. Based on K-IFRS (non-consolidated)  
2. EPS and BPS are calculated using adjusted net profit and shareholders' equity that includes equity-method gains/losses

**Income statement**

FY-ending Dec. (W bn)	2014A	2015A	2016F	2017F	2018F
Sales	568	568	627	607	662
COGS	264	274	293	282	304
Gross profit	304	294	333	326	359
SG&A expense	256	240	292	277	305
Operating profit	48	54	41	49	53
Financial income	14	33	16	16	15
Interest income	3	2	4	4	3
Financial expense	19	21	29	17	17
Interest expense	14	15	13	13	13
Other non-operating profit	1	(4)	(3)	(1)	(1)
Gains (Losses) in associates, subsidiaries and JV	0	0	0	0	0
Earnings before tax	44	63	24	46	50
Income taxes	10	15	6	11	12
Net profit	34	48	18	35	39
Other comprehensive profit	(7)	(6)	(6)	(6)	(6)
Total comprehensive profit	27	42	12	29	33
EBITDA	73	78	61	66	71
Adj. net profit	37	49	18	35	39

**Key financial data**

FY-ending Dec.	2014A	2015A	2016F	2017F	2018F
per share data (KRW)					
EPS	4,858	6,043	2,177	4,182	4,585
BPS	63,449	68,973	65,820	68,888	72,143
DPS	750	1,000	1,000	1,000	1,000
Growth (%)					
Sales growth	14.6	(0.0)	10.4	(3.1)	9.0
OP growth	22.3	12.8	(24.5)	18.6	9.6
NP growth	NM	29.8	(62.4)	93.4	9.6
EPS growth	NM	24.4	(64.0)	92.1	9.6
EBITDA growth	21.8	6.9	(21.6)	9.2	7.3
Profitability (%)					
OP margin	8.5	9.6	6.5	8.0	8.0
NP margin	6.6	8.6	2.9	5.8	5.8
EBITDA margin	12.8	13.7	9.7	10.9	10.8
ROA	3.4	4.5	1.7	3.5	3.8
ROE	8.1	9.3	3.3	6.2	6.5
Dividend yield	0.8	0.7	0.9	1.2	1.2
Dividend payout ratio	16.8	16.7	46.2	23.9	21.8
Stability					
Net debt (W bn)	151	74	57	91	79
Int.-bearing debt/equity (%)	92.3	67.6	66.2	63.8	61.2
Valuation (X)					
PE	18.9	24.3	48.5	20.8	18.9
PB	1.4	2.1	1.6	1.3	1.2
EV/EBITDA	11.7	16.1	15.5	12.5	11.4

Changes to recommendation and price target

Company (Code)	Date	Recommendation	Price target
Donga ST (170900)	02-03-15	NR	-
	02-23-16	Hold	-



■ **Guide to Korea Investment & Securities Co., Ltd. stock ratings based on 12-month forward share price performance relative to the market index**

- BUY: Expected to outperform the market index by 15%p or more
- Hold: Expected to underperform or outperform the market index by less than 15%p
- Underweight: Expected to underperform the market index by 15%p or more
- Korea Investment & Securities does not offer target prices for stocks with Hold or Underweight ratings.

■ **Guide to Korea Investment & Securities Co., Ltd. stock rating allocation (as of Dec 31, 2016)**

BUY	Hold	Underweight (Sell)
77.6%	21.1%	1.3%

Note: % of companies under coverage with this rating

■ **Guide to Korea Investment & Securities Co., Ltd. sector ratings for the next 12 months**

- Overweight: Recommend increasing the sector's weighting in the portfolio compared to its respective weighting in the Kospi (Kosdaq) based on market capitalization.
- Neutral: Recommend maintaining the sector's weighting in the portfolio in line with its respective weighting in the Kospi (Kosdaq) based on market capitalization.
- Underweight: Recommend reducing the sector's weighting in the portfolio compared to its respective weighting in the Kospi (Kosdaq) based on market capitalization.

■ **Analyst Certification**

I/We, as the research analyst/analysts who prepared this report, do hereby certify that the views expressed in this research report accurately reflect my/our personal views about the subject securities and issuers discussed in this report. I/We do hereby also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report.

■ **Important compliance notice**

As of the end of the month immediately preceding the date of publication of the research report or the public appearance (or the end of the second most recent month if the publication date is less than 10 calendar days after the end of the most recent month), Korea Investment & Securities Co., Ltd., or its affiliates does not own 1% or more of any class of common equity securities of Donga ST.

There is no actual, material conflict of interest of the research analyst or Korea Investment & Securities Co., Ltd., or its affiliates known at the time of publication of the research report or at the time of the public appearance.

Korea Investment & Securities Co., Ltd., or its affiliates has not managed or co-managed a public offering of securities for Donga ST in the past 12 months;

Korea Investment & Securities Co., Ltd., or its affiliates has not received compensation for investment banking services from Donga ST in the past 12 months; Korea Investment & Securities Co., Ltd., or its affiliates does not expect to receive or intend to seek compensation for investment banking services from Donga ST in the next 3 months.

Korea Investment & Securities Co., Ltd., or its affiliates was not making a market in Donga ST's securities at the time that the research report was published.

Korea Investment & Securities Co., Ltd. does not own over 1% of shares of the companies mentioned in this report as of January 26, 2017.

Korea Investment & Securities Co., Ltd. has not provided this report to various third parties.

Neither the analyst/analysts who prepared this report nor their associates own any shares of the company/companies mentioned in this report as of January 26, 2017.

Prepared by: Bora Chung

## Global Disclaimer

### ■ General

This research report and marketing materials for Korean securities are originally prepared and issued by the Research Center of Korea Investment & Securities Co., Ltd., an organization licensed with the Financial Supervisory Service of South Korea. The analyst(s) who participated in preparing and issuing this research report and marketing materials is/are licensed and regulated by the Korea Financial Investment Association in Korea only. This report and marketing materials are copyrighted and may not be copied, redistributed, forwarded or altered in any way without the consent of Korea Investment & Securities Co., Ltd.

This research report and marketing materials are for information purposes only. They are not and should not be construed as an offer or solicitation of an offer to purchase or sell any securities or other financial instruments or to participate in any trading strategy. This research report and marketing materials do not provide individually tailored investment advice. This research report and marketing materials do not take into account individual investor circumstances, objectives or needs, and are not intended as recommendations of particular securities, financial instruments or strategies to any particular investor. The securities and other financial instruments discussed in this research report and marketing materials may not be suitable for all investors. The recipient of this research report and marketing materials must make their own independent decisions regarding any securities or financial instruments mentioned herein and investors should seek the advice of a financial adviser. Korea Investment & Securities Co., Ltd. does not undertake that investors will obtain any profits, nor will it share with investors any investment profits. Korea Investment & Securities Co., Ltd., its affiliates, or their affiliates and directors, officers, employees or agents of each of them disclaim any and all responsibility or liability whatsoever for any loss (director consequential) or damage arising out of the use of all or any part of this report or its contents or otherwise arising in connection therewith. Information and opinions contained herein are subject to change without notice and may differ or be contrary to opinions expressed by other business areas of Korea Investment & Securities Co., Ltd. The final investment decision is based on the client's judgment, and this research report and marketing materials cannot be used as evidence in any legal dispute related to investment decisions.

### ■ Country-specific disclaimer

**United States:** This report is distributed in the U.S. by Korea Investment & Securities America, Inc., a member of FINRA/SIPC, and is only intended for major U.S. institutional investors as defined in Rule 15a-6(a)(2) under the U.S. Securities Exchange Act of 1934. All U.S. persons that receive this document by their acceptance thereof represent and warrant that they are a major U.S. institutional investor and have not received this report under any express or implied understanding that they will direct commission income to Korea Investment & Securities Co., Ltd. or its affiliates. Pursuant to Rule 15a-6(a)(3), any U.S. recipient of this document wishing to effect a transaction in any securities discussed herein should contact and place orders with Korea Investment & Securities America, Inc., which accepts responsibility for the contents of this report in the U.S. The securities described in this report may not have been registered under the U.S. Securities Act of 1933, as amended, and, in such case, may not be offered or sold in the U.S. or to U.S. person absent registration or an applicable exemption from the registration requirement.

**United Kingdom:** This report is not an invitation nor is it intended to be an inducement to engage in investment activity for the purpose of section 21 of the Financial Services and Markets Act 2000 of the United Kingdom ("FSMA"). To the extent that this report does constitute such an invitation or inducement, it is directed only at (i) persons who are investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) of the United Kingdom (the "Financial Promotion Order"); (ii) persons who fall within Articles 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc.") of the Financial Promotion Order; and (iii) any other persons to whom this report can, for the purposes of section 21 of FSMA, otherwise lawfully be made (all such persons together being referred to as "relevant persons"). Any investment or investment activity to which this report relates is available only to relevant persons and will be engaged in only with relevant persons. Persons who are not relevant persons must not act or rely on this report.

**Hong Kong:** This research report and marketing materials may be distributed in Hong Kong to institutional clients by Korea Investment & Securities Asia Limited (KISA), a Hong Kong representative subsidiary of Korea Investment & Securities Co., Ltd., and may not otherwise be distributed to any other party. KISA provides equity sales service to institutional clients in Hong Kong for Korean securities under its sole discretion, and is thus solely responsible for provision of the aforementioned equity selling activities in Hong Kong. All requests by and correspondence with Hong Kong investors involving securities discussed in this report and marketing materials must be effected through KISA, which is registered with The Securities & Futures Commission (SFC) of Hong Kong. Korea Investment & Securities Co., Ltd. is not a registered financial institution under Hong Kong's SFC.

**Singapore:** This report is provided pursuant to the financial advisory licensing exemption under Regulation 27(1)(e) of the Financial Advisers Regulation of Singapore and accordingly may only be provided to persons in Singapore who are "institutional investors" as defined in Section 4A of the Securities and Futures Act, Chapter 289 of Singapore. This report is intended only for the person to whom Korea Investment & Securities Co., Ltd. has provided this report and such person may not send, forward or transmit in any way this report or any copy of this report to any other person. Please contact Korea Investment & Securities Singapore Pte Ltd in respect of any matters arising from, or in connection with, the analysis or report (Contact Number: 65 6501 5600).

Copyright © 2017 Korea Investment & Securities Co., Ltd. All rights reserved. No part of this report may be reproduced or distributed in any manner without permission of Korea Investment & Securities Co., Ltd.