

Hanmi Pharmaceutical (128940)

Above

In line

Below

12M rating **BUY (Maintain)**

12M TP **₩180,000** from ₩180,000

Up/downside **+55%**

Stock Data

KOSPI (Apr 28, pt)	1,969
Stock price (Apr 28, KRW)	116,500
Market cap (USD mn)	1,097
Shares outstanding (mn)	10
52-Week high/low (KRW)	180,000/110,000
6M avg. daily turnover (USD mn)	5.5
Free float / Foreign ownership (%)	59.8/9.7
Major shareholders (%)	
Hanmi Science Co., Ltd and 2 others	40.1
Mirae Asset Global Investments and 8 others	12.7

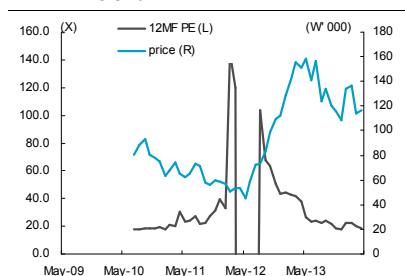
Valuation

	2013A	2014F	2015F
PE (x)	20.4	20.2	14.2
PB (x)	2.2	2.0	1.8
ROE (%)	11.4	11.4	13.1
EV/EBITDA (x)	13.1	11.6	9.3
EPS (KRW)	5,313	5,759	8,182
BPS (KRW)	49,584	58,292	66,463

Performance

	1M	6M	12M
Absolute (%)	(6.0)	(6.4)	(21.6)
Relative to KOSPI (%p)	(5.5)	(14.8)	(33.2)

12MF PE trend



Source: WISEfn consensus

Potential of OP improvement based on exports and Beijing Hanmi still valid

What's new: OP resumes growth

Hanmi Pharm posted consolidated sales of ₩184.1bn (+8.1% YoY) and OP of ₩17.9bn (-0.1% YoY). OP missed the consensus by 4.5%, but exceeded our estimate by 8%. However, this is not significant as expectations for 1Q14 OP were low and the absolute difference was marginal. OP was still sluggish due to higher R&D costs (R&D costs-to-sales ratio +2.4%p YoY) on larger investments in new drugs development and a weak fine chemical business. However, OP ended a downtrend in 3Q-4Q13 backed by sustained SG&A controls. Meanwhile, NP grew 11.8% on deferred tax assets and tax credits on R&D costs.

Pros: Domestic ETC growth favorable on new products, potential export expansion still valid

ETC sales at the parent outperformed, growing 7.2% YoY thanks to new IMD products. Solid growth should continue on larger sales from recently released products (PalPal, Naxozol and Rovelito) and the 10 new products scheduled to launch in 2Q14F. Meanwhile, the export business, which is targeting sales of ₩100bn (+32% YoY) in 2014F, continued to shrink (-5.5% YoY) in 1Q14. But, the contraction eased compared to 4Q13. Also, sales of Esomezol in the US (₩6.5bn in 1Q14) should gradually grow towards 2H14F as insurance coverage from private insurance companies will be expanded.

Cons: Beijing Hanmi growth slows, annual growth solid despite quarterly volatility on regulatory impact

Sales growth at Beijing Hanmi showed signs of recovery in 4Q13 (+29.6% YoY), but slowed again to 10.8% YoY. The slowdown is due to the overall market uncertainty on the aftereffects of rebate regulations rather than Beijing Hanmi-specific issues. OPM (21.4%) was still high due to cost reductions as promotion competition within the market has been discouraged via regulations. Despite quarterly volatility on the regulatory impact, expectations for growth at Beijing Hanmi are still valid. Annual growth of 20% is achievable as the core product, Mami Ai (intestinal drug for kids, 46% of China sales), was registered as a renowned brand by the Chinese government recently, and one or two new products will be released in 2H14.

(₩ bn, %, %p)

	1Q14P				Change		2014F	
	KIS est.	Actual	Diff.	Consensus	QoQ	YoY	KIS	Consensus
Sales	195	184	(3.5)	191	(5.1)	8.1	810	835
OP	17	18	(4.5)	19	4.2	(0.1)	75	79
OP margin	8.5	9.7		9.9			9.2	9.5
EBT	14	17	(3.9)	17	41.9	1.9	67	71
NP	11	14	13.5	13	54.2	15.5	55	55

Jung-In Lee

822-3276-6239

jilee@truefriend.com

Sangeun Lee

822-3276-6196

sangeun.lee@truefriend.com

Conclusion: Mediocre 1Q14 earnings, but maintain BUY on overseas expansion in 2Q-3Q14

1Q14 earnings were unsatisfactory in terms of overseas expansion and annual earnings improvement. However, the long-term growth potential of Beijing Hanmi and export business remain valid, and earnings should gradually improve towards 2Q-3Q14. As such, we maintain BUY. Also, shares should rebound as the valuation burden and slowdown at Beijing Hanmi in 1Q14 have been already priced in. We maintain a TP of W180,000 (target PE 30x).

Table 1. Hanmi Pharm parent earnings

(W bn, %)

	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14P	% QoQ	% YoY	% Diff.	KIS est.
Local	101	143	117	118	115	118	129	125	120	(3.9)	4.3		
ETC	94	133	109	108	108	108	120	114	115	0.9	7.2		
OTC	8	10	8	10	7	10	10	10	4	(56.8)	(39.1)		
Export	17	20	17	18	18	24	19	15	17	13.1	(5.5)		
Others	(4)	(7)	1	3	(2)	(0)	(5)	7	0	NM	NM		
Total sales	114	156	135	139	131	142	143	147	137	(6.9)	4.9	(7.6)	148
GP	56	81	72	74	63	72	74	78	70	(9.9)	11.8		
OP	(6)	6	8	13	8	8	9	10	9	(13.4)	9.9	(10.6)	10
NP	(7)	2	4	4	6	6	10	4	8	112.2	37.6		
COGS %	51.2	48.1	46.7	46.6	52.2	49.6	48.0	47.3	49.0				
SG&A %	54.5	48.2	47.1	43.7	41.8	45.1	45.7	45.9	44.7				
OPM %	(5.7)	3.7	6.2	9.7	6.0	5.3	6.3	6.8	6.3				6.5

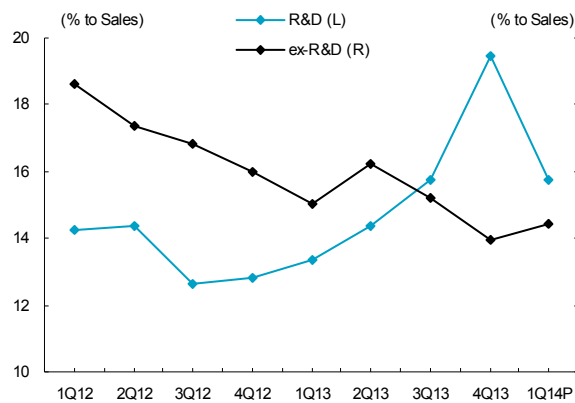
자료: 한미약품, 한국투자증권

Table 2. Consolidated quarterly earnings breakdown

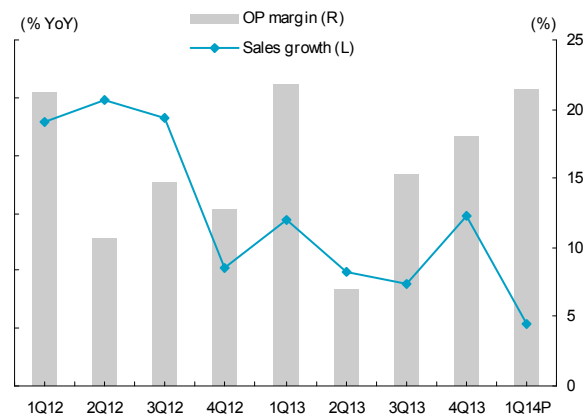
(W bn, %)

		1Q13	2Q13	3Q13	4Q13	1Q14P	% QoQ	% YoY	% Diff.	KIS est.
Hanmi Pharm (Parent)	Sales	131	142	143	147	137	(6.9)	4.9	(7.6)	148
	Operating profit	8	8	9	10	9	(13.4)	9.9	(10.6)	10
	OP margin (%)	6.0	5.3	6.3	6.8	6.3				6.5
	% to total sales	76.7	79.0	76.8	75.9	74.4				
Beijing Hanmi	Sales	42	38	43	47	47	(0.2)	10.8	0.7	46
	Operating profit	9	3	7	8	10	18.8	9.1	44.0	7
	OP margin (%)	21.8	7.0	15.3	18.0	21.4				15.0
	% of total sales	24.8	21.4	23.3	24.2	25.4				
Hanmi Chemical	Sales	20	25	24	17	17	0.3	(15.5)	1.7	17
	Operating profit	0.7	0.9	0.3	(2.0)	0.0	NM	(97.5)	(86.4)	0
	OP margin (%)	3.5	3.8	1.3	NM	0.1				
	% of total sales	11.7	13.8	13.1	8.7	9.2				
Adjustment	Sales	(23)	(26)	(25)	(17)	(17)				(17)
	Operating profit	0	0	0	1	(1)				(0)
Hanmi Pharm (Consolidated)	Sales	170	180	186	194	184	(5.1)	8.1	(5.5)	195
	Operating profit	18	11	16	17	18	4.2	(0.1)	8.0	17
	OP margin (%)	10.5	6.3	8.7	8.9	9.7				8.5

Source: Company data, Korea Investment & Securities

Figure 1. R&D cost-to-sales ratio increasing but other SG&A decreasing

Source: Company data, Korea Investment & Securities

Figure 2. Beijing Hanmi earnings: 1Q14 top line contracted again but bottom line solid

Source: Company data, Korea Investment & Securities

Table 3. Earnings revisions

(W bn, %)

	Previous		Revised		% Difference	
	2014F	2015F	2014F	2015F	2014F	2015F
Sales	826	970	810	922	(1.9)	(4.9)
OP	80	108	75	102	(7.0)	(4.9)
Pre-tax Profit	73	104	67	98	(7.5)	(5.6)
Net Profit	67	95	63	90	(6.0)	(4.8)
NP of controlling interest	58	83	55	80	(4.5)	(4.1)
(OP margin %)	9.7	11.1	9.2	11.1		
EPS	6,081	8,564	5,759	8,182	(5.3)	(4.5)

Source: Korea Investment & Securities

Company overview & Glossary

Founded in 1973, Hanmi Pharm is known as a leader in IMDs and generics development. Hanmi Pharm is the first domestic company to acquire US FDA approval on an IMD with 'Esomezol (reflux esophagitis treatment)' and released in the US market in Dec 2013. Hanmi Chemical and Beijing Hanmi are major subsidiaries. As of Jul 2010, the firm was separated to Hanmi Science, a holding company and Hanmi Pharm, an operating entity.

- IMD, Incrementally modified drugs: Advanced version of the existing original drugs in terms of safety, efficacy and effectiveness by modifying structure, medication or use

Balance sheet

FY-ending Dec. (W bn)	2012A	2013A	2014F	2015F	2016F
Current assets	417	452	579	620	730
Cash & cash equivalent	55	69	146	129	169
Accounts & other receivables	203	221	236	268	307
Inventory	116	106	122	137	156
Non-current assets	419	429	456	474	491
Investment assets	68	75	79	90	103
Tangible assets	257	259	256	246	229
Intangible assets	78	80	96	109	125
Total assets	836	881	1,035	1,093	1,221
Current liabilities	282	234	272	235	249
Accounts & other payables	77	93	92	96	109
ST debt & bond	91	104	104	104	104
Current portion of LT debt	104	24	24	24	24
Non-current liabilities	144	184	135	140	145
Debentures	80	139	89	89	89
LT debt & financial liabilities	39	14	13	13	13
Total liabilities	426	418	407	375	394
Controlling interest	362	409	567	646	742
Capital stock	20	21	24	24	24
Capital surplus	329	328	425	425	425
Capital adjustments	(1)	(1)	1	1	1
Retained earnings	8	50	105	185	280
Minority interest	47	54	61	72	85
Shareholders' equity	409	463	628	718	827

Cash flow

FY-ending Dec. (W bn)	2012A	2013A	2014F	2015F	2016F
C/F from operating	63	86	110	49	109
Net profit	29	51	63	90	108
Depreciation	30	25	26	26	26
Amortization	4	2	4	5	5
Net incr. in W/C	(11)	(2)	9	(87)	(48)
Others	11	10	8	15	18
C/F from investing	(41)	(38)	(77)	(55)	(56)
CAPEX	(14)	(27)	(27)	(20)	(14)
Decr. in fixed assets	1	4	4	4	4
Incr. in investment	(22)	(8)	(4)	(11)	(13)
Net incr. in intangible assets	(6)	(8)	(20)	(18)	(21)
Others	0	1	(30)	(10)	(12)
C/F from financing	12	(32)	44	(11)	(13)
Incr. in equity	0	0	100	0	0
Incr. in debts	12	(32)	(50)	(0)	(0)
Dividends	0	0	0	0	0
Others	0	0	(6)	(11)	(13)
C/F from others	(1)	(1)	0	0	0
Increase in cash	34	14	77	(17)	40

Note: Based on K-IFRS (consolidated)

Income statement

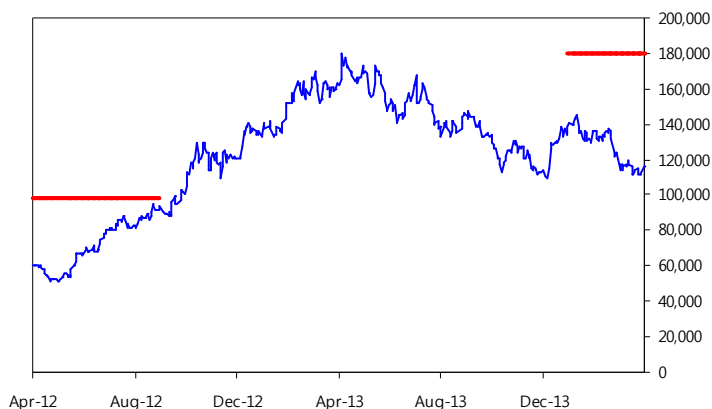
FY-ending Dec. (W bn)	2012A	2013A	2014F	2015F	2016F
Sales	674	730	810	922	1,057
COGS	279	314	344	385	440
Gross profit	395	416	466	537	617
SG&A expense	347	355	391	434	496
Operating profit	48	62	75	102	121
Financial income	3	4	6	8	8
Interest income	2	3	5	6	7
Financial expense	18	15	14	13	13
Interest expense	18	15	14	13	13
Other non-operating profit	(2)	4	1	1	1
Gains (Losses) in associates, subsidiaries and JV	0	0	0	0	0
Earnings before tax	32	55	67	98	118
Income taxes	3	4	5	8	9
Net profit	29	51	63	90	108
Net profit of controlling interest	23	44	55	80	95
Other comprehensive profit	3	3	0	0	0
Total comprehensive profit	31	54	63	90	108
Total comprehensive profit of controlling interest	26	47	55	80	95
EBITDA	82	89	105	133	152

Key financial data

FY-ending Dec.	2012A	2013A	2014F	2015F	2016F
per share data (KRW)					
EPS	2,737	5,313	5,759	8,182	9,801
BPS	46,062	49,584	58,292	66,463	76,251
DPS	0	0	0	0	0
Growth (%)					
Sales growth	11.2	8.3	11.0	13.8	14.6
OP growth	127.2	28.6	20.5	37.3	18.2
NP growth	1,652.7	94.1	26.1	43.7	19.8
EPS growth	1,654.5	94.1	8.4	42.1	19.8
EBITDA growth	43.5	9.0	17.6	27.1	14.5
Profitability (%)					
OP margin	7.1	8.5	9.2	11.1	11.5
NP margin	3.4	6.0	6.8	8.6	9.0
EBITDA margin	12.1	12.2	12.9	14.4	14.4
ROA	3.5	5.9	6.6	8.5	9.4
ROE	6.5	11.4	11.4	13.1	13.7
Dividend yield	0.0	0.0	0.0	0.0	0.0
Stability					
Net debt (W bn)	224	171	20	28	(23)
Debt/equity ratio (%)	76.6	60.7	36.7	32.1	27.8
Valuation (X)					
PE	41.0	20.4	20.2	14.2	11.9
PB	2.4	2.2	2.0	1.8	1.5
PS	1.3	1.2	1.4	1.2	1.1
EV/EBITDA	14.9	13.1	11.6	9.3	7.9

Changes to recommendation and price target

Company (Code)	Date	Recommendation	Price target
Hanmi Pharm. (128940)	08-08-12	Hold	W98,000
	09-28-12	Hold	-
	01-28-14	BUY	W180,000



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- BUY: Expected to give a return of +15% or more
- Hold: Expected to give a return between -15% and 15%
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Prepared by: Jung-In Lee

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