

MedTech

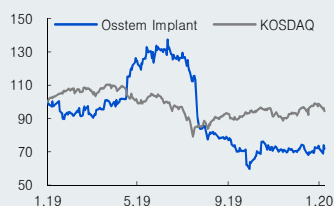
Results Comment
January 31, 2020

(Maintain)	Buy
Target Price (12M, W)	60,000
Share Price (01/30/20, W)	41,050
Expected Return	46%

OP (19P, Wbn)	43
Consensus OP (19F, Wbn)	41
EPS Growth (19P, %)	-
Market EPS Growth (19F, %)	-34.6
P/E (19P, x)	-
Market P/E (19F, x)	15.3
KOSDAQ	656.39

Market Cap (Wbn)	586
Shares Outstanding (mn)	14
Free Float (%)	74.5
Foreign Ownership (%)	34.7
Beta (12M)	0.15
52-Week Low	34,000
52-Week High	78,200

(%)	1M	6M	12M
Absolute	-3.0	-42.3	-25.9
Relative	-1.0	-45.0	-19.3



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[MedTech/Healthcare Solutions]

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Osstem Implant

(048260 KQ)

A ray of hope

4Q19 review: OP surprises to the upside for the second straight quarter

For 4Q19, Osstem Implant reported revenue of W147.4bn (+17.9% YoY), in line with the consensus. By region, Asia (+37.3% YoY) and Europe (+48.9% YoY) were strong, while China also continued solid growth (+17.1% YoY). Operating profit came in above expectations at W11.8bn (+152.3% YoY; OP margin of 8.0%), as allowances for bad debt, inventory, and returns fell significantly to W0.7bn.

Asia's no. 1 dental implant supplier

1) Tighter grip on Asia: Since 2006, Osstem Implant has generated 1.1 to 2.5 times the revenue of global leader Straumann (STMN SW/CP: CHF964.40) in Asia. In 2020, we expect Osstem Implant's Asia revenue to grow 10% YoY (or +16.7% YoY excluding Korea). In the maturing domestic market, the company remains the biggest beneficiary of the dental implant copayment rate cut. Overall, we see robust top-line growth continuing in 2020, led by overseas markets (+14.8% YoY), especially in Asia.

2) Poised to become a total dental solutions provider: Providing total dental solutions has become a dominant trend in the global dental equipment market. Osstem Implant already generates 28-30% of its revenue from products other than dental implants. The company currently sells oral scanners through a partnership with 3Shape, and is also moving into the digital imaging equipment market with its own products.

Reaffirm Buy and TP of W60,000

We reaffirm our Buy call and target price of W60,000 on Osstem Implant. In 2019, the company's stock tumbled 52.8% (vs. -5.29% for the KOSDAQ) from its previous high due to a series of negative events, including the 2Q19 earnings shock, imposition of tax penalties, and the departure of its second largest shareholder. In particular, the possibility of unpredictable allowances leading to quarterly earnings shocks caused many investors to shy away from the stock. Due to the nature of the dental implant business (which relies on long-term contracts and credit transactions), allowances are unavoidable in order to manage risks. The key is to keep allowances to within predictable levels and communicate effectively with the market.

Osstem Implant's 4Q19 results suggest that the risk of massive allowances has declined considerably. Since 2017, the company has improved its OP margin every year. Given its business strategy, the company should find it hard to improve its OP margin by more than 3-4%p. That said, we would view the stock as significantly underpriced at current levels if 1) the level of allowances needed continues to drop, and 2) the divergence in allowances taken per quarter narrows. At a 12-month forward P/E of 15.1x (vs. global peer average of 20.5x), valuation looks cheap in historical, relative, and absolute terms. Lastly, while the recent Wuhan coronavirus outbreak is negative to China earnings, we think demand is likely to be merely pushed back; we therefore caution against getting overly concerned.

FY (Dec.)	12/16	12/17	12/18	12/19P	12/20F	12/21F
Revenue (Wbn)	345	398	460	565	629	732
OP (Wbn)	34	22	31	43	52	66
OP margin (%)	9.9	5.5	6.7	7.6	8.3	9.0
NP (Wbn)	24	10	13	-15	38	50
EPS (W)	1,645	708	888	-1,040	2,646	3,487
ROE (%)	22.1	9.3	11.5	-15.7	37.8	34.6
P/E (x)	36.9	83.5	60.2	-	15.5	11.8
P/B (x)	6.7	6.1	5.5	5.0	3.7	2.8
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	0.0

Note: All figures are based on consolidated K-IFRS; NP refers to net profit attributable to controlling interests
Source: Company data, Mirae Asset Daewoo Research estimates

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Table 1. 4Q19 review

(Wbn, %, %p)

	4Q18	3Q19	4Q19P			Growth	
			Preliminary	Mirae Asset Daewoo	Consensus	YoY	QoQ
Revenue	125.0	147.8	147.4	147.9	148.4	17.9	-0.3
Operating profit	4.7	10.9	11.8	11.0	9.3	152.3	8.4
OP margin (%)	3.7	7.3	8.0	7.4	6.2	4.3	0.6
Pretax profit	3.8	0.9	11.3	8.8	7.4	197.6	1,199.9
Net profit	3.9	-35.2	4.8	6.8	5.2	23.4	TTB

Notes: Based on K-IFRS

Source: Company data, Quantiwise, Mirae Asset Daewoo Research estimates

Table 2. Earnings forecast revisions

(Wbn, W, %)

	Previous		Revised		% chg.		Notes
	20F	21F	20F	21F	20F	21F	
Revenue	627.2	733.3	629.4	732.0	0.4	-0.2	
Operating profit	50.1	65.5	51.7	66.5	3.3	1.5	
Pretax profit	46.0	61.7	49.1	64.7	6.8	4.8	
Net profit	35.4	47.5	37.8	49.8	6.8	4.8	
EPS (W)	2,476.8	3,326.4	2,646.0	3,487.0	6.8	4.8	

Notes: Based on K-IFRS

Source: Mirae Asset Daewoo Research estimates

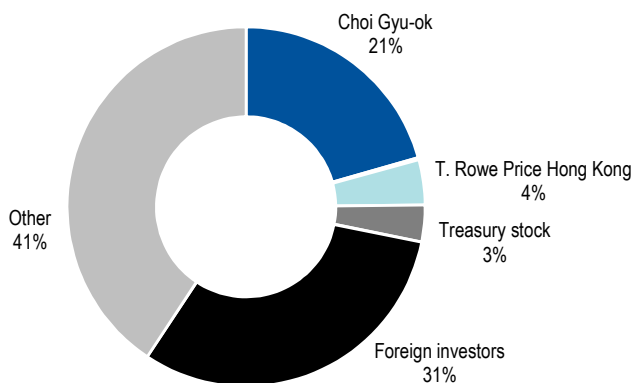
Table 3. Quarterly and annual earnings

(Wbn, %)

	1Q19	2Q19	3Q19	4Q19P	1Q20F	2Q20F	3Q20F	4Q20F	2019P	2020F	2021F
Revenue	129.0	140.9	147.8	147.4	147.0	151.9	167.7	162.9	565.0	629.4	732.0
Domestic	55.1	60.3	63.1	62.9	57.0	57.3	70.6	67.0	241.4	251.9	267.1
China	26.7	31.6	33.8	33.9	33.1	38.8	40.0	39.6	126.0	151.5	189.9
North America	23.5	22.5	22.9	22.7	28.0	26.0	25.7	25.7	91.6	105.4	126.0
Other	23.6	26.5	28.0	27.9	28.8	29.8	31.4	30.6	106.1	120.6	149.1
Operating profit	12.6	7.7	10.9	11.8	11.7	12.7	13.9	13.4	42.9	51.7	66.5
Domestic	7.1	8.9	11.5	13.8	9.7	11.1	11.4	13.9	41.3	45.9	54.7
China	2.8	2.3	3.4	1.0	2.9	3.2	3.8	0.3	9.6	10.3	13.8
North America	2.1	-0.3	-0.9	0.3	0.7	0.6	0.7	0.3	1.2	2.3	3.2
Other	0.6	-3.3	-3.2	-3.3	-1.6	-2.1	-2.0	-1.1	-9.1	-6.8	-5.2
Pretax profit	13.4	6.0	0.9	11.2	10.9	12.0	13.3	12.9	31.4	49.1	64.7
Net profit	11.1	4.5	-35.2	4.8	8.4	9.2	10.2	9.9	-14.9	37.8	49.8
OP margin (%)	9.8	5.4	7.3	8.0	8.0	8.4	8.3	8.2	7.6	8.2	9.1
Pretax margin (%)	10.4	4.3	0.6	7.6	7.4	7.9	7.9	7.9	5.6	7.8	8.8
Net margin (%)	7.2	2.2	-25.0	2.8	5.2	5.5	5.5	5.5	-2.6	6.0	6.8

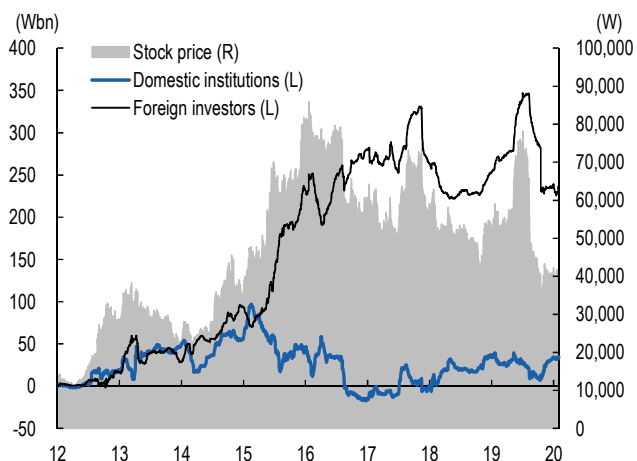
Source: Company data, Mirae Asset Daewoo Research estimates

Figure 1. Ownership breakdown



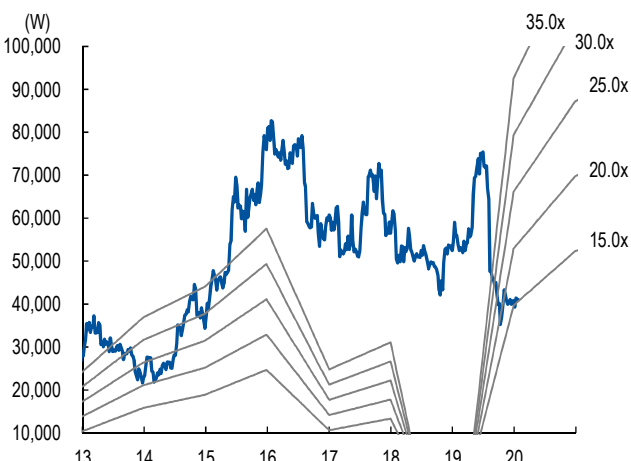
Source: Bloomberg, Mirae Asset Daewoo Research

Figure 2. Domestic institutional and foreign net buying vs. share price



Source: WISEfn, Mirae Asset Daewoo Research

Figure 3. P/E band chart



Source: WISEfn, Mirae Asset Daewoo Research

Table 4. Valuation comparison

Companies	Market cap	OP margin (%)			P/E (x)			P/B (x)			ROE (%)			EV/EBITDA (x)		
		18	19F	20F	18	19F	20F	18	19F	20F	18	19F	20F	18	19F	20F
Zimmer Biomet	35,835.1	0.4	27.5	27.7	27.3	18.9	17.9	3.8	3.8	3.7	-0.7	13.7	13.1	33.3	14.6	14.1
Align Technology	24,200.1	23.7	21.9	22.3	53.0	48.4	39.9	9.1	8.6	7.1	33.5	31.4	31.0	22.3	31.8	26.5
Straumann	19,149.9	25.1	25.4	26.2	54.5	46.9	38.5	10.8	9.9	8.6	24.8	25.1	25.3	33.1	33.3	27.9
Dentsply Sirona	15,634.4	-24.0	18.7	19.9	31.3	24.3	21.9	3.4	3.3	3.2	3.2	9.0	9.8	19.4	16.2	15.1
Henry Schein	12,225.0	5.7	7.3	7.3	19.3	20.5	19.2	1.0	1.0	1.0	17.2	16.2	15.9	11.5	13.8	13.5
Envista	5,937.4	10.5	13.5	13.5	-	18.4	18.3	-	1.8	1.8	4.7	6.4	7.3	-	14.9	14.5
SmileDirectClub	5,965.6	-10.8	-48.5	-8.7	-	-	-	-	6.7	4.4	-	-78.8	-17.5	-	-	290.0
DIO Implant	604.6	8.9	28.4	29.9	35.2	21.4	18.9	5.2	4.9	3.9	11.8	21.0	19.8	24.0	15.4	12.2
Osstem Implant	585.7	6.7	7.3	7.8	-	-	16.9	1.0	1.0	0.9	-16.1	-22.0	33.0	12.1	11.4	9.9
Dentium	563.4	22.5	19.7	20.2	12.1	18.5	12.0	1.8	2.2	1.8	17.6	15.6	19.0	14.2	12.3	10.0
Ray	329.7	11.7	17.7	21.7	51.6	28.8	18.0	5.3	4.5	3.3	25.6	22.4	21.6	-	23.9	12.7
Average		6.3	9.9	15.3	34.0	25.5	20.5	4.1	3.9	3.2	11.1	1.7	14.9	19.0	17.6	45.1

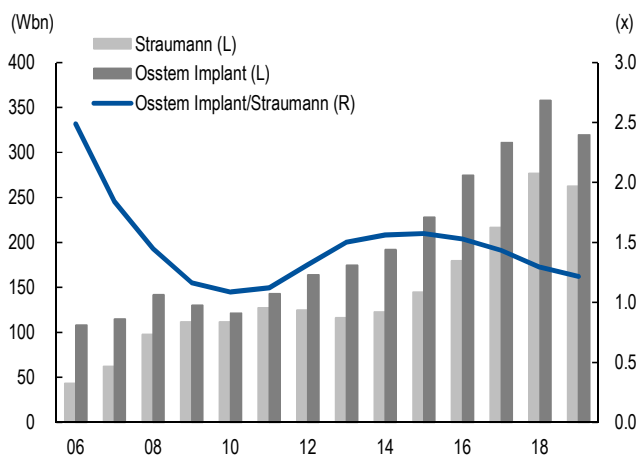
Source: Bloomberg

Table 5. Study on long-term outcomes of implants for patients aged 65 and older

Brand	Failures	Total implants	Success rate	Failure rate
Nobel Biocare (Branemark)	20	345	94.2%	5.8%
Nobel Biocare (Replace)	2	35	94.3%	5.7%
Straumann	5	352	98.6%	1.4%
Osstem Implant	2	139	98.6%	1.4%
Other	0	31	100.0%	0.0%
Total	29	902	96.8%	3.2%

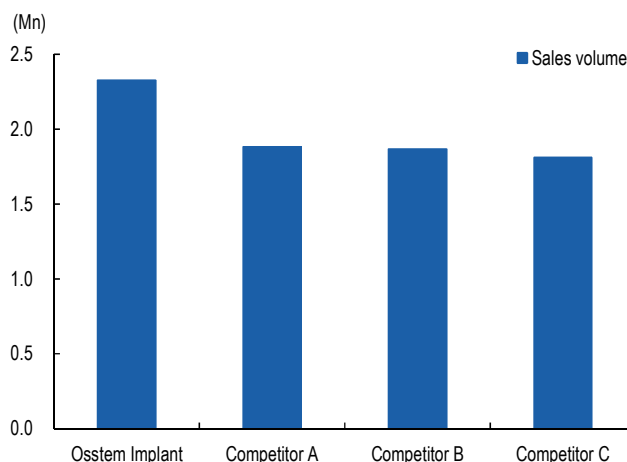
Source: Clinical Oral Implants Research, Mirae Asset Daewoo research

Figure 4. Asia revenue: Osstem Implant vs. Straumann



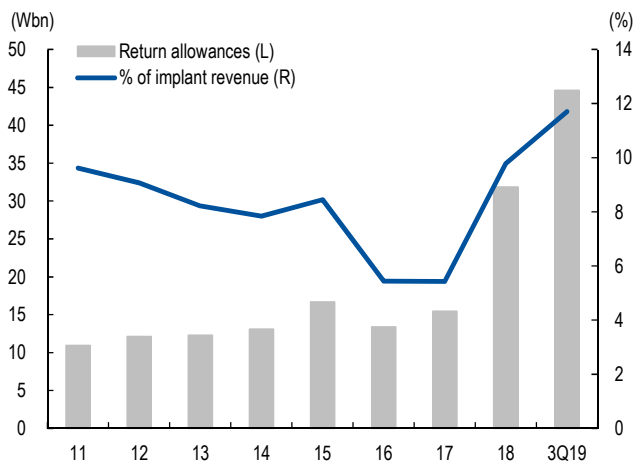
Source: Company data, Mirae Asset Daewoo Research

Figure 5. Osstem Implant's global fixture sales



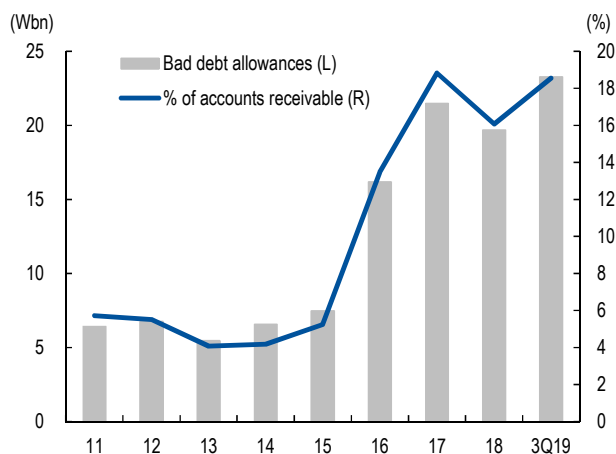
Note: Based on 2017 data
Source: MRG, Mirae Asset Daewoo Research

Figure 6. Return allowances-to-implant revenue ratio



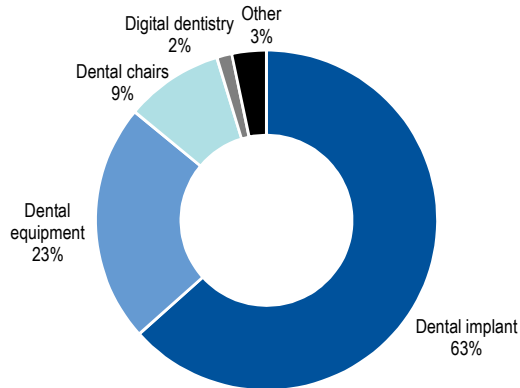
Source: Company data, Mirae Asset Daewoo Research

Figure 7. Bad debt allowances-to-accounts receivable ratio



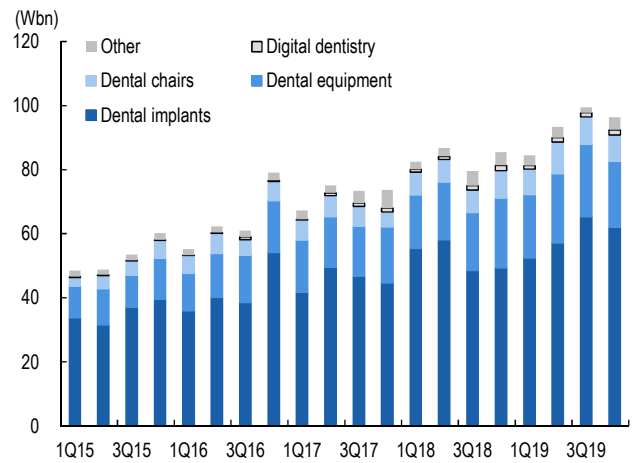
Source: Company data, Mirae Asset Daewoo Research

Figure 8. Revenue breakdown by category (2018)



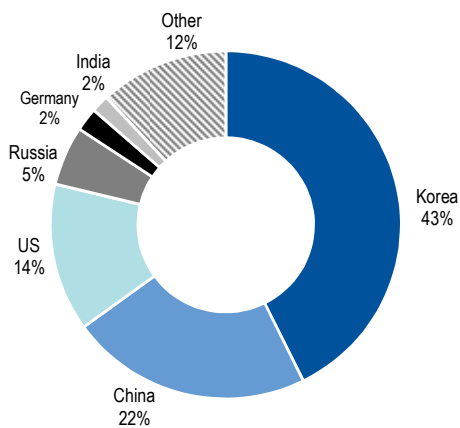
Note: Based on non-consolidated data
Source: Company data, Mirae Asset Daewoo Research

Figure 9. Revenue from key products



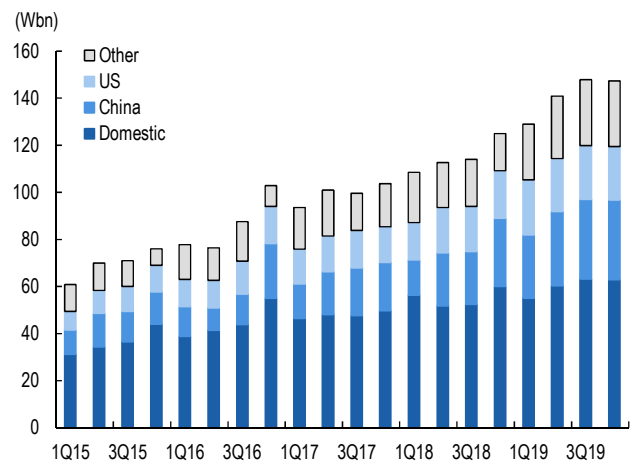
Note: Based on non-consolidated data
Source: Company data, Mirae Asset Daewoo Research

Figure 10. Revenue breakdown by region (2018)



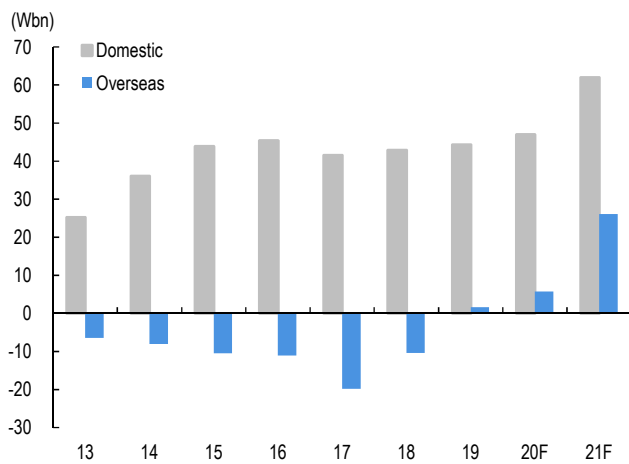
Source: Company data, Mirae Asset Daewoo Research

Figure 11. Revenue in key regions



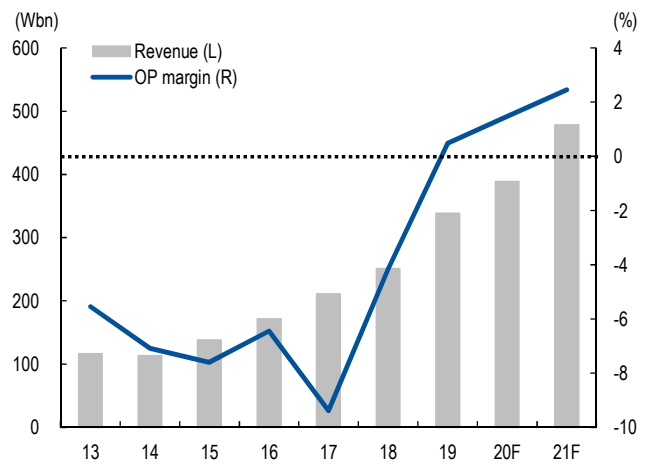
Source: Company data, Mirae Asset Daewoo Research

Figure 12. OP: Domestic vs. overseas



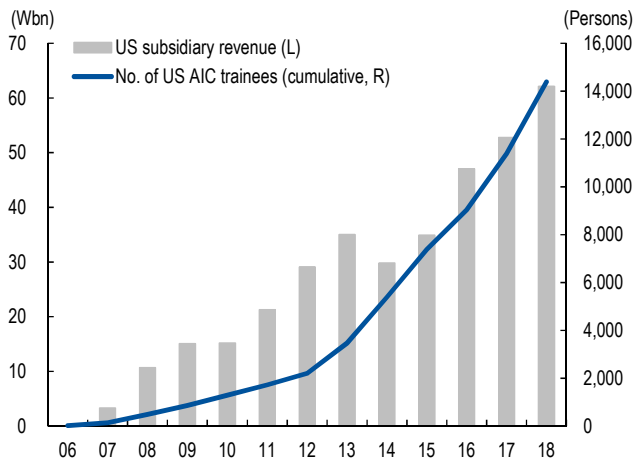
Source: Company data, Mirae Asset Daewoo Research

Figure 13. Overseas revenue vs. OP margin



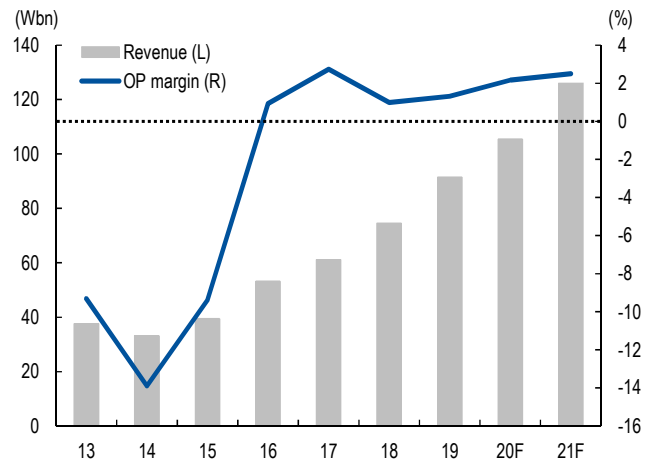
Source: Company data, Mirae Asset Daewoo Research

Figure 14. US revenue vs. no. of US AIC trainees



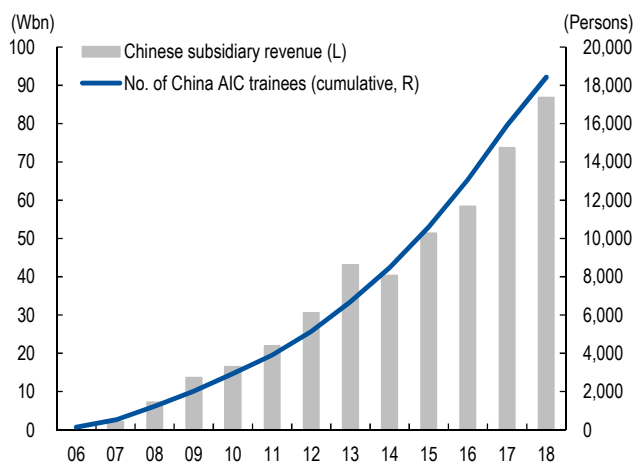
Source: Company data, Mirae Asset Daewoo Research

Figure 15. US subsidiary: Revenue and OP margin



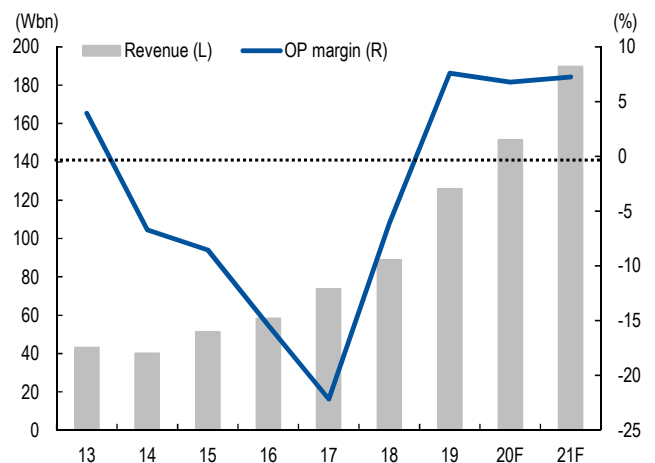
Source: Company data, Mirae Asset Daewoo Research

Figure 16. Chinese revenue vs. no. of Chinese AIC trainees



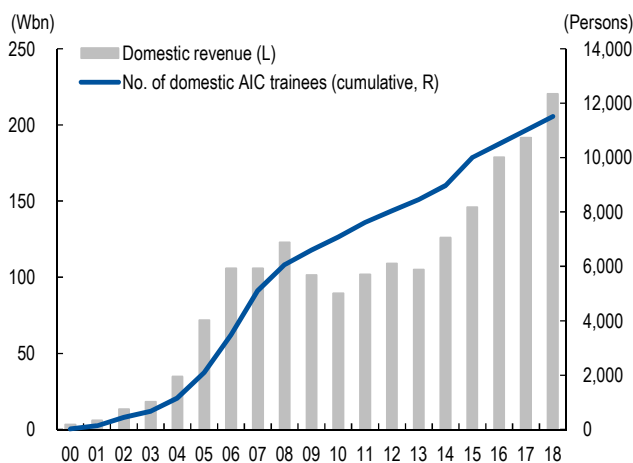
Source: Company data, Mirae Asset Daewoo Research

Figure 17. Chinese subsidiary: Revenue and OP margin



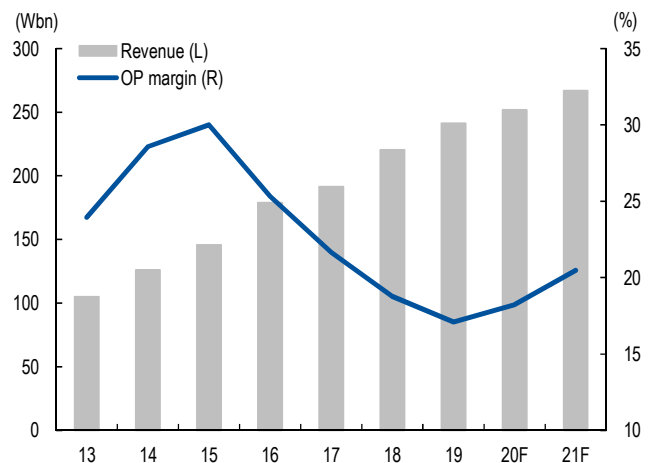
Source: Company data, Mirae Asset Daewoo Research

Figure 18. Domestic revenue vs. no. of domestic AIC trainees



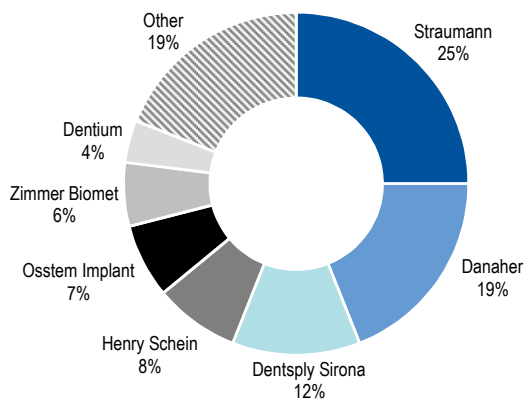
Source: Company data, Mirae Asset Daewoo Research

Figure 19. Domestic revenue and OP margin



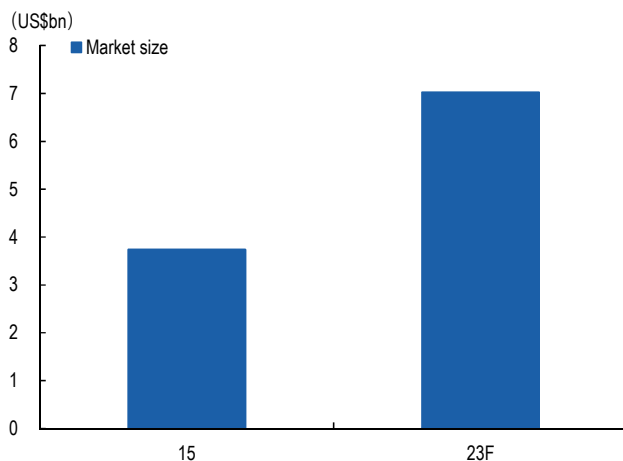
Source: Company data, Mirae Asset Daewoo Research

Figure 20. Global implant M/S breakdown



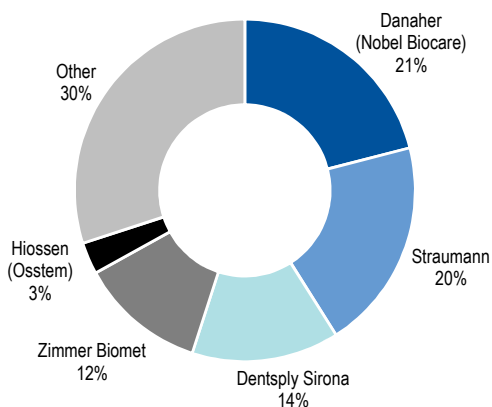
Source: Straumann, company data, Mirae Asset Daewoo Research

Figure 21. Global implant market growth (8.2% CAGR)



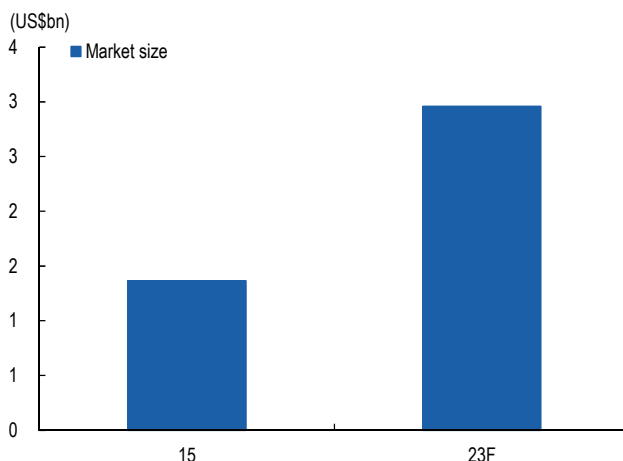
Source: MRG, Mirae Asset Daewoo Research

Figure 22. US M/S breakdown



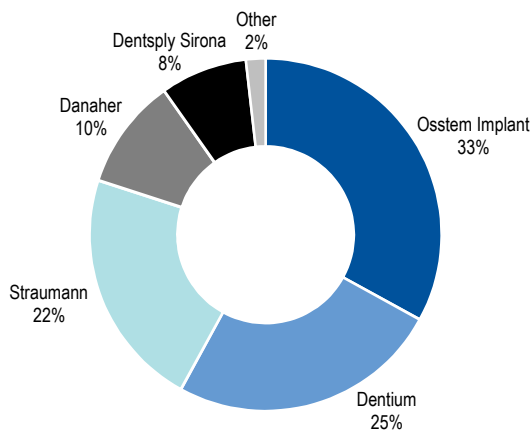
Source: Company data, Mirae Asset Daewoo Research

Figure 23. US implant market growth (10.2% CAGR)



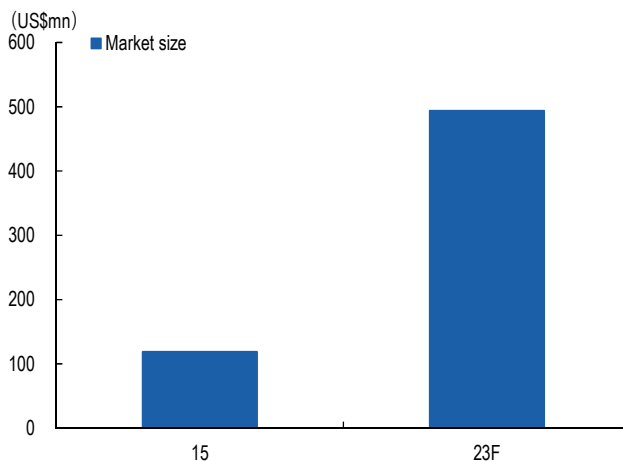
Source: MRG, Mirae Asset Daewoo Research

Figure 24. Chinese M/S breakdown



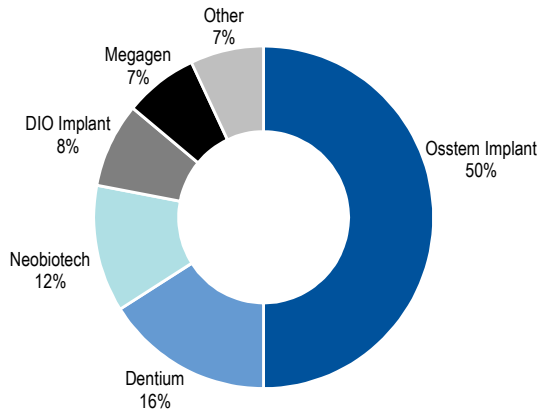
Source: Company data, Mirae Asset Daewoo Research

Figure 25. Chinese implant market growth (19.5% CAGR)



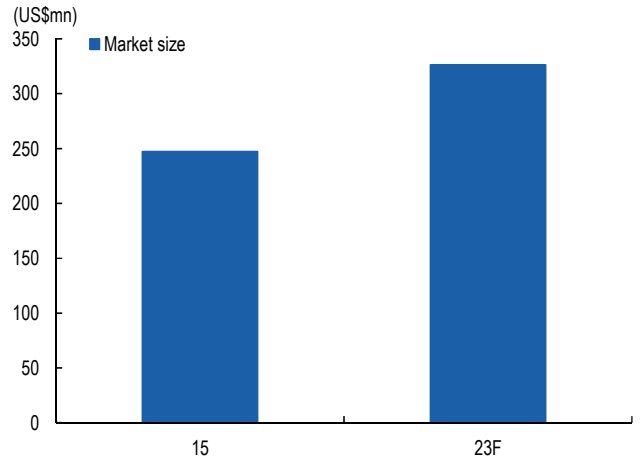
Source: MRG, Mirae Asset Daewoo Research

Figure 26. Domestic implant M/S breakdown



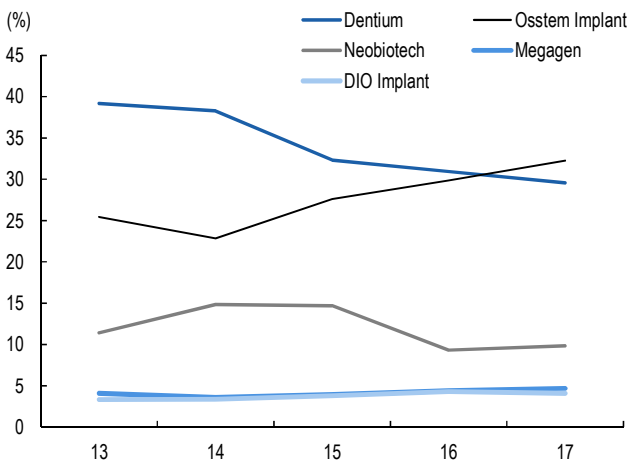
Source: KHIDI, Mirae Asset Daewoo Research

Figure 27. Domestic implant market growth (3.5% CAGR)



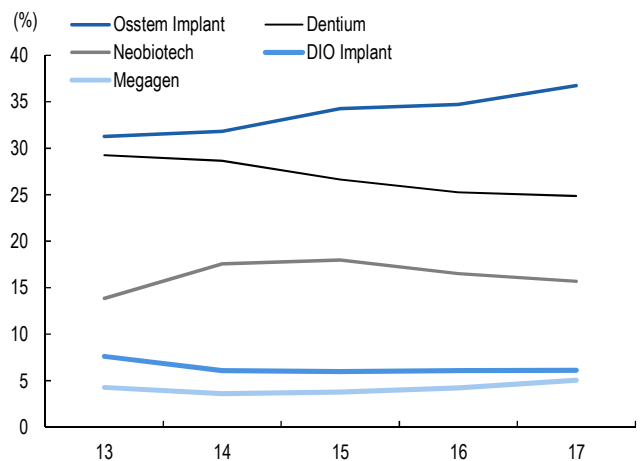
Source: MRG, Mirae Asset Daewoo Research

Figure 28. Brands most preferred by dentists



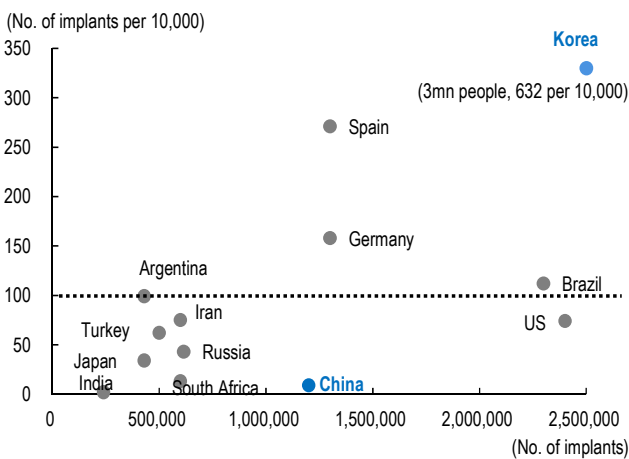
Source: Dentphoto, Mirae Asset Daewoo Research

Figure 29. Brands most widely used by dentists



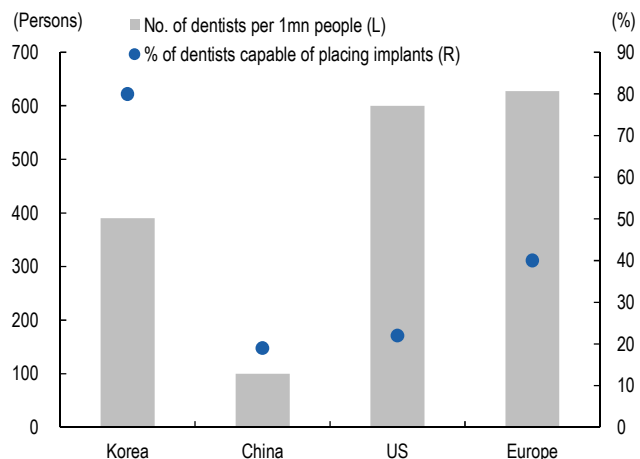
Source: Dentphoto, Mirae Asset Daewoo Research

Figure 30. Global implant market penetration



Source: Straumann, Mirae Asset Daewoo Research

Figure 31. No. of dentists per mn people vs. no. of dentists with implant capabilities (global)



Source: Company data, Mirae Asset Daewoo Research

Osstem Implant (048260 KQ/Buy/TP: W60,000)

Comprehensive Income Statement (Summarized)

(Wbn)	12/18	12/19F	12/20F	12/21F
Revenue	460	565	629	732
Cost of Sales	202	249	282	335
Gross Profit	258	316	347	397
SG&A Expenses	228	273	295	331
Operating Profit (Adj)	31	43	52	66
Operating Profit	31	43	52	66
Non-Operating Profit	-13	-12	-3	-1
Net Financial Income	-4	-4	-3	-2
Net Gain from Inv in Associates	0	-1	0	0
Pretax Profit	18	31	49	65
Income Tax	12	52	15	19
Profit from Continuing Operations	6	-21	34	45
Profit from Discontinued Operations	0	0	0	0
Net Profit	6	-21	34	45
Controlling Interests	13	-15	38	50
Non-Controlling Interests	-6	-6	-3	-5
Total Comprehensive Profit	4	-23	34	45
Controlling Interests	11	-17	33	43
Non-Controlling Interests	-7	-5	2	2
EBITDA	41	64	70	81
FCF (Free Cash Flow)	8	-61	69	84
EBITDA Margin (%)	8.9	11.3	11.1	11.1
Operating Profit Margin (%)	6.7	7.6	8.3	9.0
Net Profit Margin (%)	2.8	-2.7	6.0	6.8

Cash Flows (Summarized)

(Wbn)	12/18	12/19F	12/20F	12/21F
Cash Flows from Op Activities	41	16	69	84
Net Profit	6	-21	34	45
Non-Cash Income and Expense	43	63	36	36
Depreciation	9	19	17	14
Amortization	2	2	2	1
Others	32	42	17	21
Chg in Working Capital	0	-49	16	23
Chg in AR & Other Receivables	-11	-18	-11	-16
Chg in Inventories	-11	-20	-12	-17
Chg in AP & Other Payables	-3	5	2	3
Income Tax Paid	-14	-18	-15	-19
Cash Flows from Inv Activities	-57	-69	-2	-2
Chg in PP&E	-33	-76	0	0
Chg in Intangible Assets	-2	-1	0	0
Chg in Financial Assets	17	-2	-2	-2
Others	-39	10	0	0
Cash Flows from Fin Activities	17	12	0	0
Chg in Financial Liabilities	15	48	0	0
Chg in Equity	0	0	0	0
Dividends Paid	0	0	0	0
Others	2	-36	0	0
Increase (Decrease) in Cash	0	-40	67	81
Beginning Balance	111	111	71	138
Ending Balance	111	71	138	220

Source: Company data, Mirae Asset Daewoo Research estimates

Statement of Financial Condition (Summarized)

(Wbn)	12/18	12/19F	12/20F	12/21F
Current Assets	363	357	452	574
Cash and Cash Equivalents	111	71	138	220
AR & Other Receivables	91	107	119	135
Inventories	95	113	124	142
Other Current Assets	66	66	71	77
Non-Current Assets	275	360	341	326
Investments in Associates	2	2	2	2
Property, Plant and Equipment	223	285	268	254
Intangible Assets	12	9	7	5
Total Assets	638	716	793	901
Current Liabilities	480	504	546	606
AP & Other Payables	28	32	36	41
Short-Term Financial Liabilities	148	114	114	114
Other Current Liabilities	304	358	396	451
Non-Current Liabilities	44	129	130	132
Long-Term Financial Liabilities	35	118	118	118
Other Non-Current Liabilities	9	11	12	14
Total Liabilities	524	633	676	738
Controlling Interests	109	81	119	169
Capital Stock	7	7	7	7
Capital Surplus	56	56	56	56
Retained Earnings	84	67	105	155
Non-Controlling Interests	5	2	-1	-6
Stockholders' Equity	114	83	118	163

Forecasts/Valuations (Summarized)

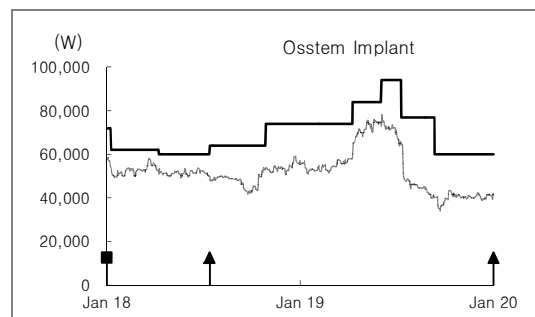
	12/18	12/19F	12/20F	12/21F
P/E (x)	60.2	-	15.5	11.8
P/CF (x)	15.6	14.1	8.3	7.2
P/B (x)	5.5	5.0	3.7	2.8
EV/EBITDA (x)	19.4	11.5	9.1	6.8
EPS (W)	888	-1,040	2,646	3,487
CFPS (W)	3,425	2,996	4,921	5,701
BPS (W)	9,727	8,497	11,142	14,629
DPS (W)	0	0	0	0
Payout ratio (%)	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0	0.0	0.0	0.0
Revenue Growth (%)	15.6	22.8	11.3	16.4
EBITDA Growth (%)	32.3	56.1	9.4	15.7
Operating Profit Growth (%)	40.9	38.7	20.9	26.9
EPS Growth (%)	25.4	-	-	31.8
Accounts Receivable Turnover (x)	5.4	5.8	5.7	5.9
Inventory Turnover (x)	5.0	5.4	5.3	5.5
Accounts Payable Turnover (x)	16.1	16.4	16.4	17.3
ROA (%)	1.0	-3.0	4.6	5.3
ROE (%)	11.5	-15.7	37.8	34.6
ROIC (%)	7.2	-18.1	17.6	26.4
Liability to Equity Ratio (%)	459.6	761.5	575.0	453.3
Current Ratio (%)	75.6	70.7	82.9	94.8
Net Debt to Equity Ratio (%)	29.7	151.7	48.9	-15.9
Interest Coverage Ratio (x)	6.2	9.1	12.1	15.5

APPENDIX 1

Important Disclosures & Disclaimers

2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
Osstem Implant (048260)	10/11/2019	Buy	60,000
	08/09/2019	Buy	77,000
	07/02/2019	Buy	94,000
	05/09/2019	Buy	84,000
	11/26/2018	Buy	74,000
	08/12/2018	Buy	64,000
	05/08/2018	Trading Buy	60,000
	02/07/2018	Trading Buy	62,000
	01/24/2018	Trading Buy	72,000



Stock Ratings

Buy	: Relative performance of 20% or greater
Trading Buy	: Relative performance of 10% or greater, but with volatility
Hold	: Relative performance of -10% and 10%
Sell	: Relative performance of -10%

Industry Ratings

Overweight	: Fundamentals are favorable or improving
Neutral	: Fundamentals are steady without any material changes
Underweight	: Fundamentals are unfavorable or worsening

Ratings and Target Price History (Share price (—), Target price (—), Not covered (≡), Buy (▲), Trading Buy (■), Hold (●), Sell (◆))

* Our investment rating is a guide to the relative return of the stock versus the market over the next 12 months.

* Although it is not part of the official ratings at Mirae Asset Daewoo Co., Ltd., we may call a trading opportunity in case there is a technical or short-term material development.

* The target price was determined by the research analyst through valuation methods discussed in this report, in part based on the analyst's estimate of future earnings.

* The achievement of the target price may be impeded by risks related to the subject securities and companies, as well as general market and economic conditions.

Equity Ratings Distribution & Investment Banking Services

	Buy	Trading Buy	Hold	Sell
Equity Ratings Distribution	84.05%	9.82%	6.13%	0.00%
Investment Banking Services	76.67%	13.33%	10.00%	0.00%

* Based on recommendations in the last 12-months (as of December 31, 2019)

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