

# Chong Kun Dang Holdings

(001630 KS)

## The worst is over

**Buy**  
(Initiate)

TP: W63,000  
Upside: 23.0%

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### Company overview

#### A pharmaceutical holding company with a long history

- Chong Kun Dang Holdings (CKD Holdings) was established in 2013 through the spin-off of Chong Kun Dang.
- Among the company's eight first-tier subsidiaries, Chong Kun Dang, Kyung-Bo Pharmaceuticals, and CKD Bio are publicly traded.
- CKD Healthcare is an unlisted company that is well-known for its probiotic brand Lacto-Fit, which was launched in 2016.
- CKD Holdings' revenue growth is largely tied to that of CKD Healthcare.

### Investment points

#### Swinging to profit on the back of product/channel mix improvements

- Shifts in consumer behavior have led to favorable changes in the revenue mix of health supplements.
- We expect sales of more profitable premium products (e.g., Lacto-Fit Solution, I'm Vita, etc.) to grow.
- In 1Q23, the vitamin category saw revenue surge 109% YoY, driven by premium products (I'm Vita).
- The channel mix is also improving. In particular, the contribution of the online channel should continue to increase, boosting operating profit (by reducing commissions paid to home shopping channels).

### Recommendation

#### Initiate coverage with Buy rating and TP of W63,000

- We initiate our coverage on CKD Holdings with a target price of W63,000, which is based on our calculation of the company's NAV.
- For 2023, we forecast CKD Holdings to post revenue of W899.2bn and operating profit of W23.4bn.
- For 2023, we forecast CKD Healthcare to post revenue of W492.2bn and operating profit of W35.9bn.

### Key data



Current price (5/24/23, W)	51,200	Market cap (Wbn)	257
OP (23F, Wbn)	23	Shares outstanding (mn)	5
Consensus OP (23F, Wbn)	-	Free float (%)	49.3
EPS growth (23F, %)	1,279.5	Foreign ownership (%)	5.2
P/E (23F, x)	17.3	Beta (12M)	0.68
Market P/E (23F, x)	15.4	52-week low (W)	49,050
KOSPI	2,567.45	52-week high (W)	65,600

### Share performance

(%)	1M	6M	12M
Absolute	1.6	-6.9	-21.2
Relative	-0.2	-11.5	-20.1

### Earnings and valuation metrics

(Dec.)	2020	2021	2022	2023F	2024F	2025F
Revenue (Wbn)	858	926	909	899	917	936
OP (Wbn)	89	34	-33	23	23	28
OP margin (%)	10.4	3.7	-3.6	2.6	2.5	3.0
NP (Wbn)	79	16	1	15	6	11
EPS (W)	15,704	3,192	214	2,959	1,274	2,283
ROE (%)	15.6	3.0	0.2	2.8	1.2	2.1
P/E (x)	8.1	24.0	247.1	17.3	40.2	22.4
P/B (x)	1.2	0.7	0.5	0.5	0.5	0.5
Div. yield (%)	1.1	1.8	2.6	2.7	2.7	2.7

Notes: Under consolidated K-IFRS; NP is attributable to owners of the parent

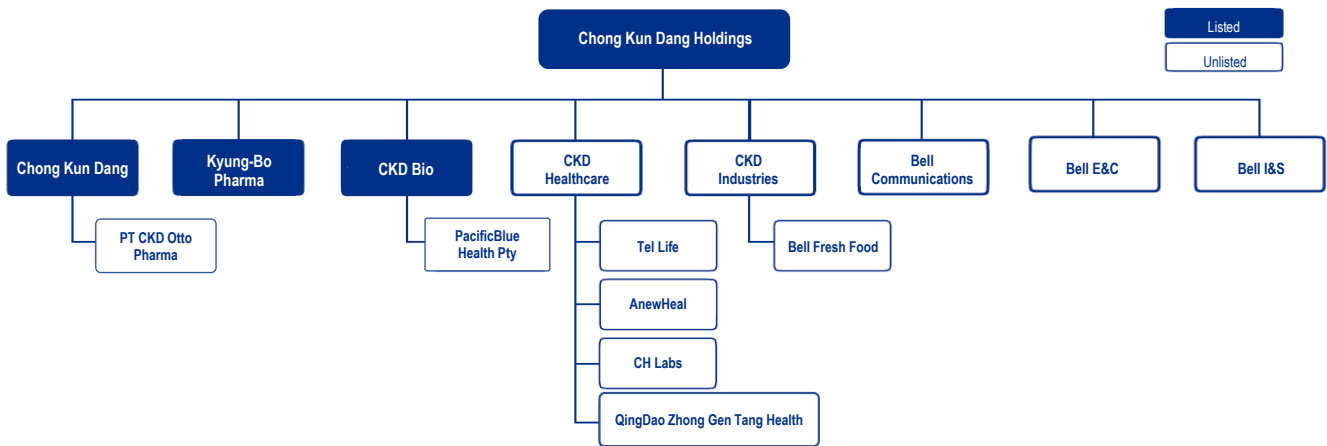
Source: Company data, Mirae Asset Securities Research estimates

### 1. Company overview

CKD Holdings was established as a holding company in 2013 through the spin-off of Chong Kun Dang. The company has eight first-tier subsidiaries and seven second-tier subsidiaries. Among them, 12 are based in Korea and three are based overseas. Among the first-tier subsidiaries, Chong Kun Dang, Kyung-Bo Pharmaceuticals, and CKD Bio are publicly traded. CKD Healthcare is an unlisted company that is well-known for its probiotic brand Lacto-Fit.

After converting to a holding company structure in Nov. 2013, CKD Holdings strengthened its core business portfolio, which consists of pharma, biotech, and health supplements. In particular, CKD Healthcare's soaring health supplement sales have captured the market's attention in recent years.

**Figure 1. CKD Holdings' business structure**



Note: As of Mar. 31, 2023  
 Source: Company data, Mirae Asset Securities Research

### Major subsidiaries

For 1Q23, CKD Holdings recorded revenue of W214.6bn (-9.7% YoY) and operating profit of W9.4bn (swinging to profit YoY). Active pharmaceutical ingredient (API) sales recovered, helped by the shift to the endemic phase of COVID-19, but changes in consumer patterns weighed on health supplement sales. At the operating level, the company turned a profit for the first time in four quarters on a reduction in SG&A expenses (advertising, commissions paid, etc.).

#### 1) CKD Bio

Spun off from Chong Kun Dang in 2001, CKD Bio mainly sells antibiotic APIs and develops novel microbiome drugs. For 1Q23, the company posted revenue of W43.7bn (-6.7% YoY) and an operating loss of W3.6bn (turning to loss YoY). Revenue from APIs such as potassium clavulanate (β-lactamase inhibitor) and demeclocycline hydrochloride (antibiotics ingredient) recovered, but higher utility costs (due to inflation) and lower utilization eroded cost competitiveness. At the operating level, the company swung to a loss, hurt by increases in botulinum toxin clinical costs and probiotics marketing expenses. The company's investigational new drug (IND) application to initiate a phase 1 trial of its liquid-type botulinum toxin for the treatment of glabellar lines was approved in 2Q22, while its IND application to start a phase 3 trial of its solid-type botulinum toxin for the treatment of glabellar lines was approved in 1Q23.

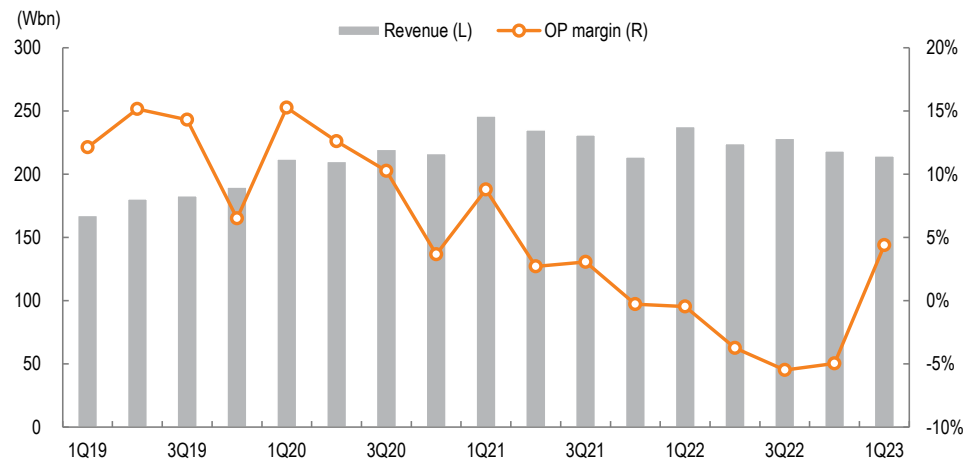
2) CKD Healthcare

Founded in 1996, CKD Healthcare manufactures and sells health supplements. In 1Q23, the company delivered revenue of W112.7bn (-21.6% YoY) and operating profit of W9.3bn (turning to profit YoY). We believe health supplement revenue contracted due to shrinking consumer interest in health supplements amid the end of the pandemic phase of COVID-19. Nevertheless, the company swung to an operating profit, helped by reduced sales through home shopping channels. The sales mix of home shopping channels was 28.9% in 1Q23, down from 42.2% in 2021. We believe a decline in commissions to home shopping channels (which have recently been raised further) will contribute to operating profit improvements in 2023.

In 2020, probiotics revenue expanded to W257.5bn (from W201.4bn in 2019), as interest in health and wellness grew during the pandemic. But in 2022, revenue retreated to W221.4bn, affected by the easing of social distancing measures and the greater variety of probiotic products available to consumers. In an effort to stem the decline in its market share, the company released a premium probiotic line called Lacto-Fit Solution in Jul. 2022.

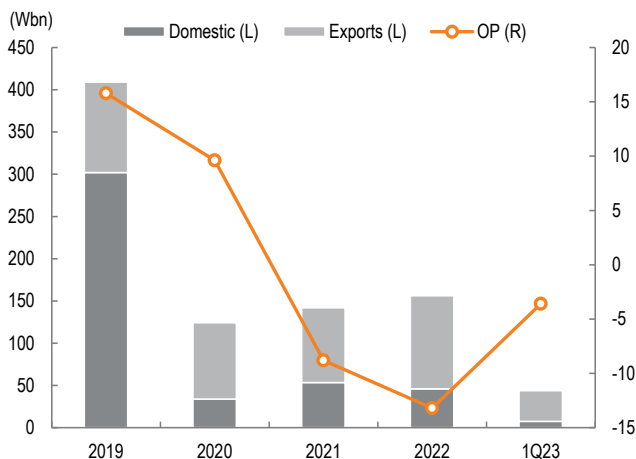
Revenue from probiotics, omega-3, and lutein products continued to decline in 1Q23, but the vitamin category saw revenue surge 109% YoY, thanks to strong sales of the premium line I'm Vita. Looking ahead, we expect the operation of the company's own smart factory in Hapdeok (completed in Mar. 2022) to lead to cost savings, supporting profit improvements.

Figure 2. CKD Holdings: Revenue and OP margin



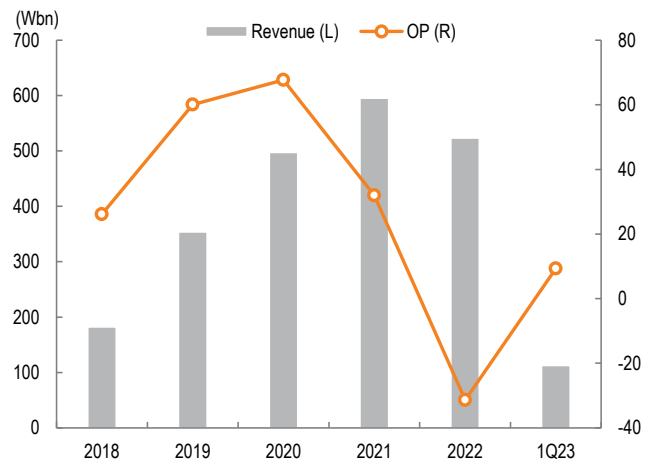
Source: Company data, Mirae Asset Securities Research

Figure 3. CKD Bio: Revenue and OP margin



Source: Company data, Mirae Asset Securities Research

Figure 4. CKD Healthcare: Revenue and OP margin



Source: Company data, Mirae Asset Securities Research

Figure 5. Lacto-Fit probiotics



Source: Company materials, Mirae Asset Securities Research

Figure 6. Promega blood circulation supplements



Source: Company materials, Mirae Asset Securities Research

Figure 7. Lacto-Fit Solution (premium probiotic line)



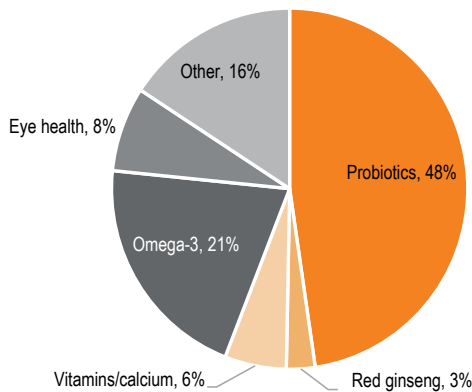
Source: Company materials, Mirae Asset Securities Research

Figure 8. I'm Vita (premium multivitamin product)



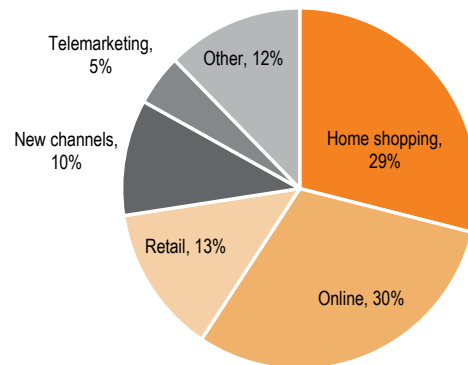
Source: Company materials, Mirae Asset Securities Research

Figure 9. CKD Healthcare: 1Q23 revenue breakdown by product



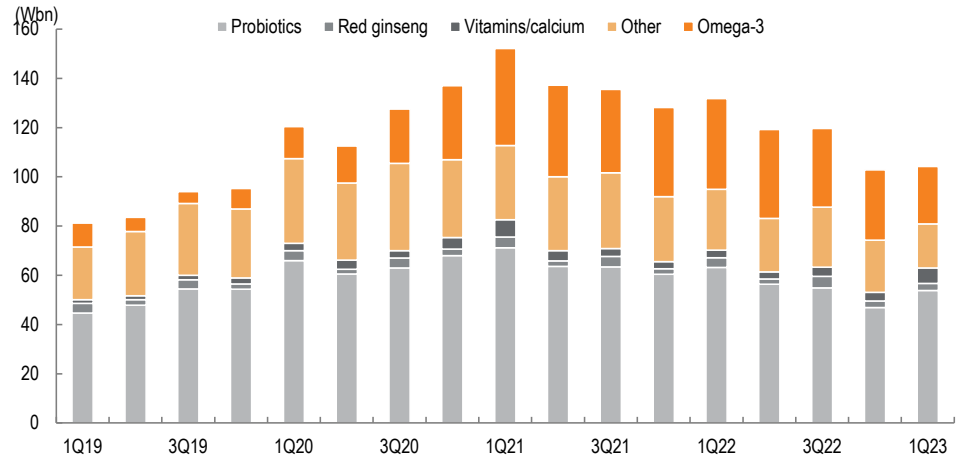
Source: Company data, Mirae Asset Securities Research

Figure 10. CKD Healthcare: 1Q23 revenue breakdown by distribution channel



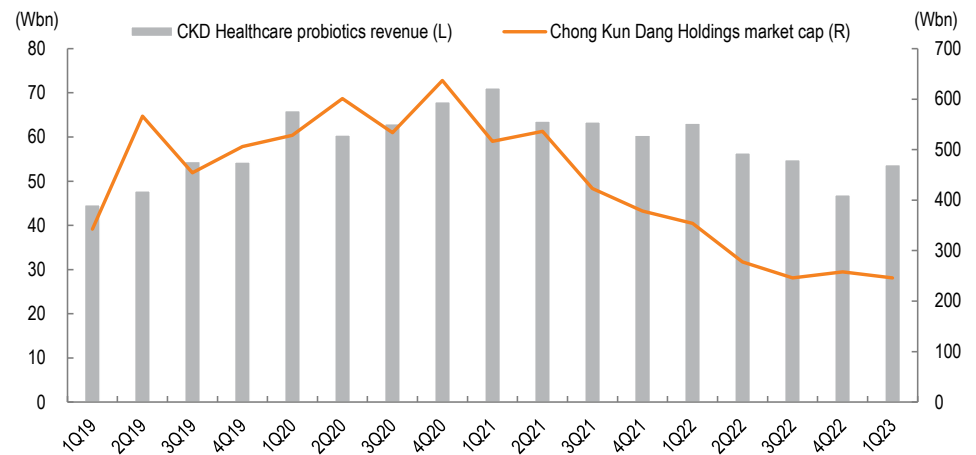
Source: Company data, Mirae Asset Securities Research

**Figure 11. CKD Healthcare: Revenue composition**



Source: Company data, Mirae Asset Securities Research

**Figure 12. CKD Healthcare's probiotics revenue and CKD Holdings' market cap**



Source: Company data, Mirae Asset Securities Research

**Table 1. CKD Holdings: Earnings and forecasts**

	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23F	3Q23F	4Q23F	2022	2023F	2024F
Revenue	238	224	228	219	215	229	233	223	909	899	917
YoY	-3.4%	-4.6%	-1.2%	2.2%	-9.7%	2.0%	2.0%	2.0%	-1.8%	-1.1%	2.0%
OP	-1	-8	-13	-11	9	9	9	-4	-33	23	23
YoY	TTR	TTR	TTR	RR	TTB	TTB	TTB	RR	TTR	TTB	-1.2%
OP margin	-0.5%	-3.7%	-5.5%	-5.0%	4.4%	4.0%	4.0%	-2.0%	-3.6%	2.6%	2.5%

Source: Company data, Mirae Asset Securities Research

## 2. Valuation

Amid the pandemic, revenue from CKD Healthcare's Lacto-Fit probiotics line reached a record high of W71.2bn in 1Q21. Expectations on Lacto-Fit sales also drove CKD Holdings' market cap to roughly W700bn in Dec. 2020. However, with the transition to the endemic phase of COVID-19, revenue dropped to W46.9bn in 4Q22 (similar to the 1H19 level). Revenue from omega-3 (-36.6% YoY) and lutein (-29.1% YoY) products also declined.

Indeed, we have seen an overall downtrend in health supplement revenue amid waning interest in health and wellness with the end of the pandemic. Nevertheless, we believe consumers are likely to resume spending on probiotics, which are increasingly being seen as a daily supplement. Given that CKD Healthcare's Lacto-Fit is more affordable than other probiotic products, we think sales are likely to recover even as consumers shift their focus away from health supplements. While health supplements may never be as popular as they were in 2021, we still see potential for revenue to recover, as current revenue remains below the 2019 level.

For vitamins, consumer spending is moving toward more premium products—a trend that should benefit CKD Healthcare's I'm Vita. Despite its high price tag (W3,000 per dose), revenue from the vitamin product has continued to grow. For reference, Dong-A Pharmaceutical's Orthomol (W4,000 per dose) is a premium vitamin that generated revenue of W27.8bn in 1Q23.

Our valuation of CKD Holdings is based on our estimate of the company's NAV. For listed subsidiaries (Chong Kun Dang, Kyung-Bo Pharmaceuticals, and CKD Bio), we applied a 20% discount to the current market values of CKD Holdings' equity stake holdings. For CKD Healthcare, we applied a P/E of 16x (average multiple of publicly traded health supplement companies) to our 2023F net profit of W23.5bn and then applied a 20% discount. For other unlisted subsidiaries, we used book value. We arrived at NAV of W63,051 per share and a target price of W63,000.

**Table 2. Valuation table**

(Wbn)

Listed	Market value	Stake	Value	Notes
Kyung-Bo Pharmaceuticals	192	43%	83	Current market value
CKD Bio	148	39%	58	Current market value
Chong Kun Dang	1,110	25%	282	Current market value
Subtotal (A)			338	Discounted by 20%
Unlisted	Book value	Stake	Value	Notes
CKD Healthcare	2.6	51%	153	16x 2023F NP of W23.5bn, discounted by 20%
CKD Industries	26.6	58%	15	
Bell Communications	0.4	51%	0	
Bell E&C	0.7	42%	0	
Bell I&S	3.0	40%	1	
Other assets	4.0		4	As of end-Mar. 2023
Subtotal (B)			174	
Total investment assets (A+B)			513	
Net debt (C)			326	
Brand royalties (D)			129	
NAV (A+B-C+D)			316	
No. of shares ('000)			5,010	
NAV per share (W)			63,051	

Source: Mirae Asset Securities Research

## Chong Kun Dang Holdings (001630 KS)

## Income statement (summarized)

(Wbn)	2022	2023F	2024F	2025F
<b>Revenue</b>	<b>909</b>	<b>899</b>	<b>917</b>	<b>936</b>
<b>Cost of revenue</b>	<b>510</b>	<b>513</b>	<b>516</b>	<b>524</b>
<b>GP</b>	<b>399</b>	<b>386</b>	<b>401</b>	<b>412</b>
<b>SG&amp;A expenses</b>	<b>432</b>	<b>363</b>	<b>378</b>	<b>384</b>
<b>OP (adj.)</b>	<b>-33</b>	<b>23</b>	<b>23</b>	<b>28</b>
<b>OP</b>	<b>-33</b>	<b>23</b>	<b>23</b>	<b>28</b>
<b>Non-operating profit</b>	<b>8</b>	<b>-5</b>	<b>-15</b>	<b>-14</b>
Net financial income	-9	-15	-15	-14
Net income from associates	15	9	0	0
Pretax profit	-25	18	8	14
Income tax	-2	1	1	1
Profit from continuing operations	-23	17	7	13
Profit from discontinued operations	0	0	0	0
<b>NP</b>	<b>-23</b>	<b>17</b>	<b>7</b>	<b>13</b>
Attributable to owners	1	15	6	11
Attributable to minority interests	-24	2	1	1
<b>Total comprehensive income</b>	<b>-22</b>	<b>16</b>	<b>7</b>	<b>13</b>
Attributable to owners	0	14	7	12
Attributable to minority interests	-22	1	1	1
EBITDA	10	65	59	60
FCF	-105	20	40	41
EBITDA margin (%)	1.1	7.2	6.4	6.4
OP margin (%)	-3.6	2.6	2.5	3.0
Net margin (%)	0.1	1.7	0.7	1.2

## Balance sheet (summarized)

(Wbn)	2022	2023F	2024F	2025F
<b>Current assets</b>	<b>399</b>	<b>444</b>	<b>478</b>	<b>472</b>
Cash & equivalents	36	67	94	81
AR & other receivables	112	114	117	119
Inventory	188	192	196	200
Other current assets	63	71	71	72
<b>Non-current assets</b>	<b>978</b>	<b>953</b>	<b>923</b>	<b>897</b>
Investments in associates	276	281	287	293
PP&E	492	454	421	392
Intangible assets	29	27	24	21
<b>Total assets</b>	<b>1,376</b>	<b>1,397</b>	<b>1,400</b>	<b>1,368</b>
<b>Current liabilities</b>	<b>399</b>	<b>433</b>	<b>435</b>	<b>396</b>
AP & other payables	87	89	90	92
Short-term financial liabilities	292	323	323	282
Other current liabilities	20	21	22	22
<b>Non-current liabilities</b>	<b>178</b>	<b>161</b>	<b>162</b>	<b>163</b>
Long-term financial liabilities	147	129	129	129
Other non-current liabilities	31	32	33	34
<b>Total liabilities</b>	<b>578</b>	<b>594</b>	<b>597</b>	<b>559</b>
<b>Equity attributable to owners</b>	<b>529</b>	<b>533</b>	<b>533</b>	<b>537</b>
Capital stock	13	13	13	13
Capital surplus	175	175	175	175
Retained earnings	362	368	368	372
<b>Minority interests</b>	<b>270</b>	<b>270</b>	<b>270</b>	<b>272</b>
<b>Shareholders' equity</b>	<b>799</b>	<b>803</b>	<b>803</b>	<b>809</b>

## Cash flow statement (summarized)

(Wbn)	2022	2023F	2024F	2025F
<b>Operating cash flow</b>	<b>-47</b>	<b>28</b>	<b>40</b>	<b>41</b>
NP	-23	17	7	13
Non-cash income/expenses	49	47	52	47
Depreciation	39	38	33	29
Amortization	3	4	3	3
Other	7	5	16	15
Chg. in working capital	-54	-21	-4	-4
Chg. in AR & other receivables	-8	-7	-2	-2
Chg. in inventory	-18	-3	-4	-4
Chg. in AP & other payables	-14	1	1	1
Income tax	-10	0	-1	-1
<b>Cash flow from investing activities</b>	<b>-65</b>	<b>-18</b>	<b>-1</b>	<b>-1</b>
Chg. in PP&E	-58	-7	0	0
Chg. in intangible assets	-7	-1	0	0
Chg. in financial assets	-14	-1	-1	-1
Other	14	-9	0	0
<b>Cash flow from financing activities</b>	<b>67</b>	<b>19</b>	<b>-7</b>	<b>-48</b>
Chg. in financial liabilities	81	14	0	-41
Chg. in equity	0	0	0	0
Dividends	-10	0	-7	-7
Other	-4	5	0	0
<b>Chg. in cash</b>	<b>-44</b>	<b>31</b>	<b>27</b>	<b>-13</b>
Beginning balance	80	36	67	94
Ending balance	36	67	94	81

## Key valuation metrics/ratios

	2022	2023F	2024F	2025F
P/E (x)	247.1	17.3	40.2	22.4
P/CF (x)	9.9	4.0	4.3	4.3
P/B (x)	0.5	0.5	0.5	0.5
EV/EBITDA (x)	90.5	13.2	13.9	13.3
EPS (W)	214	2,959	1,274	2,283
CFPS (W)	5,354	12,819	11,853	11,945
BPS (W)	107,743	108,652	108,569	109,496
DPS (W)	1,400	1,400	1,400	1,400
Dividend payout ratio (%)	-30.0	40.6	94.2	52.6
Dividend yield (%)	2.6	2.7	2.7	2.7
Revenue growth (%)	-1.8	-1.1	2.0	2.0
EBITDA growth (%)	-85.7	543.8	-8.3	0.8
OP growth (%)	-	-	-1.2	21.3
EPS growth (%)	-93.3	1,279.5	-56.9	79.2
AR turnover (x)	8.4	8.1	8.1	8.1
Inventory turnover (x)	5.0	4.7	4.7	4.7
AP turnover (x)	8.2	9.9	9.7	9.7
ROA (%)	-1.7	1.2	0.5	0.9
ROE (%)	0.2	2.8	1.2	2.1
ROIC (%)	-4.3	3.0	3.0	3.9
Debt-to-equity ratio (%)	72.4	74.0	74.3	69.0
Current ratio (%)	99.8	102.5	109.8	119.0
Net debt-to-equity ratio (%)	47.1	40.6	37.2	33.4
Interest coverage ratio (x)	-3.0	1.3	1.3	1.6

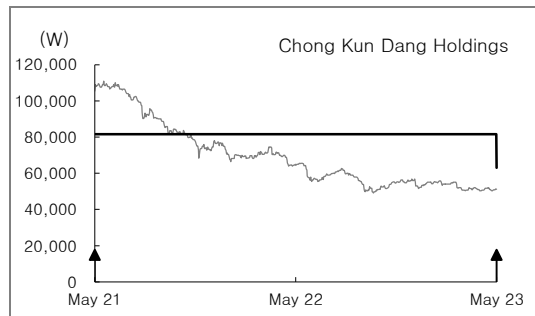
Source: Company data, Mirae Asset Securities Research estimates

# Appendix 1

## Important disclosures and disclaimers

### Two-year rating and TP history

Company	Date	Rating	TP (W)
Chong Kun Dang Holdings (001630)	05/25/23	Buy	63,000
	11/08/15	One year	



### Stock ratings

Buy	Expected 12-month performance: +20% or greater
Trading Buy	Expected 12-month performance: +10% to +20%
Hold	Expected 12-month performance: -10% to +10%
Sell	Expected 12-month performance: -10% or worse

### Sector ratings

Overweight	Expected to outperform the market over 12 months
Neutral	Expected to perform in line with the market over 12 months
Underweight	Expected to underperform the market over 12 months

Rating and TP history: Share price (—), TP (—), Not Rated (■), Buy (▲), Trading Buy (■), Hold (●), Sell (◆)

\* Our investment rating is a guide to the expected return of the stock over the next 12 months.

\* Outside of the official ratings of Mirae Asset Securities Co., Ltd., analysts may call trading opportunities should technical or short-term material developments arise.

\* The TP was determined by the research analyst through valuation methods discussed in this report, in part based on estimates of future earnings.

\* TP achievement may be impeded by risks related to the subject securities and companies, as well as general market and economic conditions.

### Ratings distribution and investment banking services

	Buy	Trading Buy	Hold	Sell
Ratings distribution	85.7%	10.7%	2.9%	0.7%
Investment banking services	87.5%	12.5%	0%	0%

\* Based on recommendations in the last 12-months (as of March 31, 2023)

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