Mirae Asset Securities Co., Ltd.
Seung-min Kim sm.kim.a@miraeasset.com

MIRAE ASSET Securities

069620 KS • Pharma/Biotech

Daewoong Pharmaceutical

Margins continue expanding on improved product mix

(Maintain) Buy	Target price W160,000	Upside 43.2%	Current price (2/5/24) W111,700

KOSPI	2,591.31	Market cap (Wbn)	1,294	Shares outstanding (mn)	12	Foreign ownership (%)	9.8

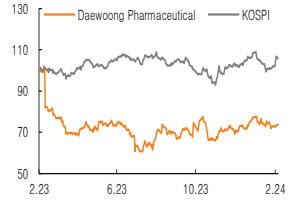
Report summary

Maintain Buy and TP of W160,000

Our valuation represents the sum of the company's operating value (W1.8tr) and the value of its HanAll Biopharma stake (W400bn), minus net debt (W380bn). While margins are expanding on product mix improvements, valuation remains depressed due to uncertainty over Medytox's lawsuit. That said, we advise focusing on the increasing value of HanAll Biopharma (subsidiary) and Nabota. Batoclimab and IMVT-1402, two anti-FcRn candidates developed by HanAll Biopharma, are seeing smooth progress in clinical trials. Key points to watch include: 1) the release of data from a phase 2 trial of batoclimab for chronic inflammatory demyelinating polyneuropathy (CIDP; 1H24); 2) the release of data from a phase 3 trial of batoclimab for myasthenia gravis (MG; 2H24); and 3) R&D plans related to the development of IMVT-1402 to treat Graves' disease. Meanwhile, the outlook for Nabota exports is bright. Evolus guided 2023 revenue at US$202mn, above the previous target of US$185-195mn. For 2024, the company is guiding revenue of US$255-265mn, representing growth of at least 26% YoY. Meanwhile, AbbVie, the leading provider of botulinum toxin (Botox), noted during its 4Q23 earnings call that the US botulinum toxin market has been recovering since the end of 2023.

Key data

Price performance



(%)	1M	6M	12M
Absolute	-1.8	3.2	-26.3
Relative	-2.3	3.7	-29.4

Earnings and valuation metrics

(Dec.)	2021	2022	2023P	2024F	2025F
Revenue (Wbn)	1,055	1,161	1,222	1,298	1,384
OP (Wbn)	95	106	133	148	161
OP margin (%)	9.0	9.1	10.9	11.4	11.6
NP (Wbn)	36	49	112	114	154
EPS (W)	3,089	4,191	9,652	9,870	13,302
ROE (%)	6.0	7.6	15.7	14.0	16.3
P/E (x)	47.9	37.8	12.1	11.3	8.4
P/B (x)	2.7	2.7	1.7	1.5	1.2
Dividend yield (%)	0.4	0.4	0.5	0.5	0.5

Notes: Under non-consolidated K-IFRS; NP is attributable to owners of the parent
Source: Company data, Mirae Asset Securities Research estimates

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4Q23 review

For 4Q23, Daewoong Pharmaceutical posted non-consolidated revenue of W319.6bn (+9% YoY; in line with consensus) and operating profit of W32.1bn (+110% YoY; 11% above consensus). Nabota revenue slipped 1% YoY due to reduced exports to Evolus, but prescription drug revenue climbed 7% YoY, aided by Fexuclue (4Q23 revenue: W16.3bn; 2023 revenue: W55bn) and Envlo (4Q23 revenue: W2.2bn; 2023 revenue: W4.6bn). OTC drug revenue rose 13% YoY, driven by new solid dosage form products. Revenue from the global segment (exports and milestones) jumped 88% YoY, thanks to the recognition of up-front and milestone payments related to out-licensed items.

Operating profit growth was driven by mix improvements and a favorable YoY base (stemming from higher R&D costs in 4Q22). The share of internally developed products in total prescription drug revenue rose 1.2%p YoY to 52.7% (from 51.5% in 4Q22).

2024 earnings outlook

On a non-consolidated basis, we look for 2024 revenue of W1.3tr (+6% YoY) and operating profit of W148bn (+11% YoY; OP margin of 11.4%). By segment, we forecast revenue to decline 6% YoY for OTC drugs but expand 9% for prescription drugs, 9% YoY for Nabota, 5% YoY for exports, and 5% for CMO and others.

While slowing economic growth is likely to weigh on OTC drug sales, we expect prescription drug revenue to expand on the back of Fexuclue and Envlo. We also expect exports to grow, driven by Nabota (US partner: Evolus). Fexuclue (long half-life) and Envlo (first homegrown SGLT-2 inhibitor) are increasing their market penetration. We expect Fexuclue to generate 2024 revenue of W89bn (but we note the pharma may seek a co-promotion deal with Chong Kun Dang). For Envlo, we look for revenue of W19.4bn.

Valuation and outlook

We maintain our Buy rating and target price of W160,000 on Daewoong Pharmaceutical. Our valuation represents the sum of the company's operating value (W1.8tr) and the value of its HanAll Biopharma stake (W400bn), minus net debt (W380bn).

While margins are expanding on product mix improvements, valuation remains depressed due to uncertainty over Medytox's lawsuit. That said, we advise focusing on the increasing value of HanAll Biopharma and Nabota. Batoclimab and IMVT-1402, two anti-FcRn candidates developed by HanAll Biopharma, are seeing smooth progress in clinical trials. Key points to watch include: 1) the release of data from a phase 2 trial of batoclimab for CIDP (1H24); 2) the release of data from a phase 3 trial of batoclimab for MG (2H24); and 3) R&D plans related to the development of IMVT-1402 to treat Graves' disease.

Meanwhile, the outlook for Nabota exports is bright. Evolus guided 2023 revenue at US$202mn, above the previous target of US$185-195mn. For 2024, the company is guiding revenue of US$255-265mn, representing growth of at least 26% YoY. Meanwhile, AbbVie, the leading provider of botulinum toxin (Botox), noted during its 4Q23 earnings call that the US botulinum toxin market has been recovering since the end of 2023.

Table 1. Valuation table (Wbn, x)

	Value	Notes
12MF EBITDA	180	
Target EV/EBITDA	10.1	- 20% discount to avg. of top six domestic pharmas (to reflect uncertainty over Medytox litigation)
EV	1,816	
Total borrowings	441	- 2024F
Net cash	65	- 2024F
Net borrowings	379	- 2024F
HanAll Biopharma stake	405	- 3M avg. market cap; 30.8% stake
Fair value	1,853	
No. of shares ('000)	11,506	
Fair value/share (W)	160,308	- TP: W160,000
Current price (W)	111,700	
Upside	43.5%	

Source: Mirae Asset Securities Research

Table 2. Peer valuation table: Top domestic pharmas (consensus)

Company	Market cap (Wtr)	Revenue (Wbn)		OP (Wbn)		OP margin (%)		NP (Wbn)		ROE (%)		P/E (x)		P/B (x)		EV/EBITDA (x)		P/S (x)	
		FY1	FY2	FY1	FY2	FY1	FY2	FY1	FY2	FY1	FY2	FY1	FY2	FY1	FY2	FY1	FY2	FY1	FY2
Yuhan	4.5	1,904	2,129	69	154	3.6	7.2	82	168	3.9	7.6	58.3	28.3	2.3	2.2	39.6	22.8	2.6	2.3
Hanmi	4	1,469	1,602	211	239	14.4	14.9	153	167	14.3	13.7	28.4	26	4.0	3.6	14.3	12.7	2.8	2.5
Chong Kun Dang	1.4	1,619	1,565	216	124	13.3	7.9	183	96	23.1	10.9	7.6	14.6	1.8	1.6	5.8	8.6	0.9	0.9
Dong-A ST	0.6	609	652	30	36	4.9	5.5	25	30	3.6	4.2	26.1	22.1	0.9	0.9	13.8	12.1	1.0	1.0
GC Biopharma	1.2	1,651	1,754	34	67	2.1	3.8	-9	35	-0.7	2.6		37.2	1.0	1.0	18.1	13.5	0.8	0.7
Daewoong	1.3	1,300	1,357	126	141	9.7	10.4	89	101	12.5	12.8	14.9	13	1.9	1.7	10	8.9	1.0	1.0
HK inno.N	1.2	827	925	66	103	8.0	11.1	47	72	-	-	25.2	16.7	-	-	16.7	10.7	1.4	1.3
Avg.						8.0	8.7			9.5	8.6	26.7	22.5	2.0	1.8	16.9	12.7	1.5	1.4

Source: FactSet, Mirae Asset Securities Research

Table 3. 4Q23 review (Wbn, %, %p)

	4Q22	3Q23	4Q23P			Growth	
			Preliminary	Consensus	Diff.	YoY	QoQ
Revenue	294	303	320	321	-0.5	8.8	5.5
GP	142	152	159			11.7	4.5
Gross margin	48.4	50.2	49.7			1.3	-0.5
OP	15	34	32	29	11	109.7	-6.2
OP margin	5.2	11.3	10	9	1	4.8	-1.2
NP	-11.2	19.8	42.9	10.5	308.3	-482.8	116.9

Source: QuantiWise, Mirae Asset Securities Research

Table 4. Quarterly and annual earnings (Wbn, %)

	1Q23	2Q23	3Q23	4Q23P	1Q24F	2Q24F	3Q24F	4Q24F	2021	2022	2023P	2024F
Revenue	292	307	303	320	307	319	325	347	1,055	1,161	1,222	1,298
YoY	7.3	4.5	0.5	8.8	4.8	3.9	7.3	8.6	11.7	10.1	5.2	6.2
ETC	207	221	217	228	224	239	238	248	778	826	873	949
YoY	4.7	7.2	3.3	7.4	8.2	8.3	10	8.6	9.7	6.1	5.7	8.7
Fexuclue	12	13	14	16	20	22	23	24	0	17	55	89
YoY			114.9	63	70.9	76	59.7	47.2			228.7	62.1
Envlo		1	1	2	3	4	5	7			46	194
YoY						264.5	316.4	219.8				322.4
Nabota	43	33	38	34	43	36	43	38	80	142	147	160
YoY	40.1	-11.9	-5.9	-1.5	0.7	11.1	12.2	13.6	57.9	78.5	3.4	8.9
OTC	26	28	29	33	22	24	26	35	114	128	115	108
YoY	-12.5	-19.5	-16.1	12.8	-14.1	-11.7	-11.2	8.6	0.9	11.7	-9.6	-6.4
Global	4	7	4	11	4	7	4	12	37	20	26	27
YoY	11.4	4.8	-13	88.1	5	5	5	5	149.3	-45	26.1	5
CMO/other	13	12	14	13	13	13	14	14	46	46	51	54
YoY	14.4	15.5	12.4	6.5	5	5	5	5	-18.6	-1.1	12	5
GP	143	154	152	159	153	166	163	171	487	567	608	653
YoY	9.9	5.9	2	11.7	7.3	7.3	7.3	7.3	24.9	16.5	7.2	7.3
Gross margin	48.9	50.3	50.2	49.7	50	51.9	50.2	49.1	46.2	48.8	49.8	50.3
OP	31	36	34	32	34	40	38	36	96	106	134	148
YoY	15.7	7.8	12.8	109.7	11.2	10.5	10.7	11.3	656.4	11	25.9	10.9
OP margin	10.6	11.8	11.3	10	11.2	12.5	11.6	10.3	9.1	9.1	10.9	11.4
EBITDA	39	45	43	38	43	49	47	42	128	138	166	180
YoY	12.5	8.6	12.9	62.7	8.7	8.5	8.5	9.5	181.5	7.5	20	8.8
EBITDA margin	13.4	14.7	14.2	11.9	13.9	15.3	14.4	12	12.2	11.9	13.6	13.9
NP	21	29	20	43	24	29	28	33	36	49	112	114
YoY	16.9	38.5	-8.1	TTB	18.3	0.6	40.7	-22	1,040.40	35.7	130.3	2.3

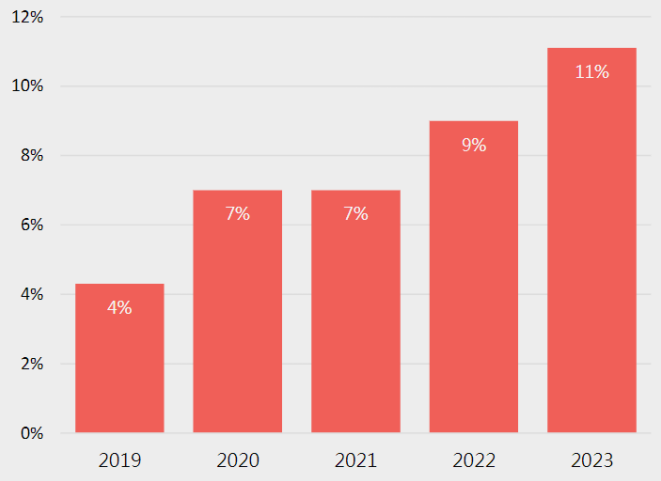
Source: Company data, Mirae Asset Securities Research

Figure 1. HanAll Biopharma: FcRn drug development status (partner: Immunovant)

Investigational Compound	Target Indication / Therapeutic Area	Stage of Development
Batoclimab	Myasthenia Gravis (MG)	Pivotal Trial
	Thyroid Eye Disease (TED)	Pivotal Trials
	Chronic Inflammatory Demyelinating Polyneuropathy (CIDP)	Pivotal Trial[1]
	Graves' Disease (GD)	Proof of Concept Study
IMVT-1402	Autoimmune Diseases	Phase 1

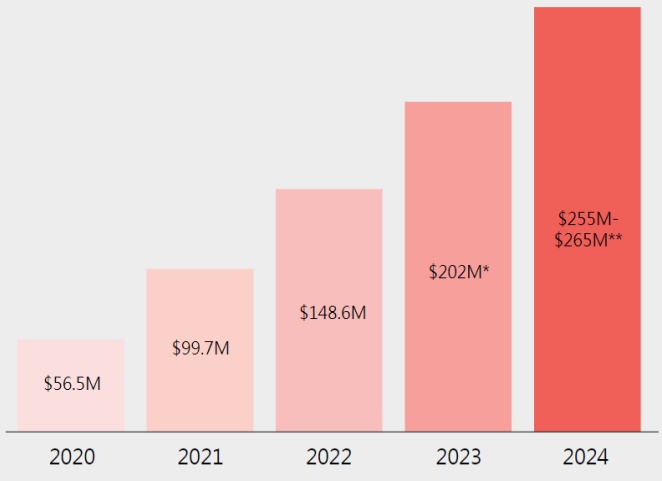
Source: Immunovant, Mirae Asset Securities Research

Figure 2. US market share of Evolus's Jeuveau (Nabota)



Source: Evolus, Mirae Asset Securities Research

Figure 3. Evolus's 2024 revenue guidance (2028 target: US$700mn)



Source: Evolus, Mirae Asset Securities Research

Daewoong Pharmaceutical (069620 KS)

Income statement (summarized)

(Wbn)	2022	2023F	2024F	2025F
Revenue	**1,161**	**1,222**	**1,298**	**1,384**
Cost of revenue	**594**	**614**	**645**	**681**
GP	**567**	**608**	**653**	**703**
SG&A expenses	**461**	**475**	**505**	**542**
OP (adj.)	**106**	**133**	**148**	**161**
OP	**106**	**133**	**148**	**161**
Non-operating profit	**-61**	**-21**	**-5**	**-1**
Net financial income	-6	-4	0	3
Net income from associates	0	0	0	0
Pretax profit	45	112	143	160
Income tax	-4	0	29	6
Profit from continuing operations	49	112	114	154
Profit from discontinued operations	0	0	0	0
NP	**49**	**112**	**114**	**154**
Attributable to owners	49	112	114	154
Attributable to minority interests	0	0	0	0
Total comprehensive income	**52**	**112**	**114**	**154**
Attributable to owners	52	112	114	154
Attributable to minority interests	0	0	0	0
EBITDA	138	166	180	193
FCF	47	158	145	181
EBITDA margin (%)	11.9	13.6	13.9	13.9
OP margin (%)	9.1	10.9	11.4	11.6
Net margin (%)	4.2	9.2	8.8	11.1

Balance sheet (summarized)

(Wbn)	2022	2023F	2024F	2025F
Current assets	**383**	**510**	**586**	**626**
Cash & equivalents	31	141	194	208
AR & other receivables	155	162	172	183
Inventory	176	185	197	210
Other current assets	21	22	23	25
Non-current assets	**991**	**983**	**983**	**990**
Investments in associates	235	248	263	281
PP&E	334	305	279	256
Intangible assets	178	187	197	208
Total assets	**1,374**	**1,494**	**1,569**	**1,616**
Current liabilities	**441**	**453**	**416**	**312**
AP & other payables	163	172	182	194
Short-term financial liabilities	230	230	180	59
Other current liabilities	48	51	54	59
Non-current liabilities	**273**	**276**	**280**	**285**
Long-term financial liabilities	211	211	211	211
Other non-current liabilities	62	65	69	74
Total liabilities	**714**	**728**	**696**	**596**
Equity attributable to owners	**660**	**765**	**873**	**1,020**
Capital stock	29	29	29	29
Capital surplus	134	134	134	134
Retained earnings	543	648	756	903
Minority interests	**0**	**0**	**0**	**0**
Shareholders' equity	**660**	**765**	**873**	**1,020**

Cash flow statement (summarized)

(Wbn)	2022	2023F	2024F	2025F
Operating cash flow	**92**	**153**	**142**	**181**
NP	49	112	114	154
Non-cash income/expenses	55	47	61	35
Depreciation	24	24	23	22
Amortization	8	8	9	10
Other	23	15	29	3
Chg. in working capital	7	-3	-5	-5
Chg. in AR & other receivables	-9	-6	-8	-9
Chg. in inventory	-44	-9	-11	-13
Chg. in AP & other payables	39	4	5	6
Income tax	-7	0	-29	-6
Cash flow from investing activities	**-89**	**-12**	**-17**	**-22**
Chg. in PP&E	-45	6	4	1
Chg. in intangible assets	-42	-18	-20	-21
Chg. in financial assets	27	0	-1	-1
Other	-29	0	0	-1
Cash flow from financing activities	**-6**	**-7**	**-57**	**-127**
Chg. in financial liabilities	2	0	-50	-120
Chg. in equity	1	0	0	0
Dividends	-7	-7	-7	-7
Other	-2	0	0	0
Chg. in cash	**-2**	**110**	**53**	**14**
Beginning balance	33	31	141	194
Ending balance	31	141	194	208

Key valuation metrics/ratios

	2022	2023F	2024F	2025F
P/E (x)	37.8	12.1	11.3	8.4
P/CF (x)	17.8	8.5	7.4	6.8
P/B (x)	2.7	1.7	1.5	1.2
EV/EBITDA (x)	16.2	9.9	8.2	7.0
EPS (W)	4,191	9,652	9,870	13,302
CFPS (W)	8,895	13,743	15,102	16,315
BPS (W)	58,534	67,613	76,887	89,593
DPS (W)	600	600	600	600
Dividend payout ratio (%)	13.7	6.2	6.0	4.5
Dividend yield (%)	0.4	0.5	0.5	0.5
Revenue growth (%)	10.1	5.2	6.2	6.7
EBITDA growth (%)	7.5	20.0	8.8	7.2
OP growth (%)	11.0	25.9	10.9	8.8
EPS growth (%)	35.7	130.3	2.3	34.8
AR turnover (x)	10.0	10.0	10.0	10.1
Inventory turnover (x)	7.3	6.8	6.8	6.8
AP turnover (x)	8.1	7.6	7.6	7.5
ROA (%)	3.7	7.8	7.5	9.7
ROE (%)	7.6	15.7	14.0	16.3
ROIC (%)	18.2	20.4	18.4	24.3
Debt-to-equity ratio (%)	108.2	95.2	79.8	58.5
Current ratio (%)	86.7	112.7	140.7	200.9
Net debt-to-equity ratio (%)	61.2	38.3	21.7	5.4
Interest coverage ratio (x)	13.3	16.7	19.6	26.9

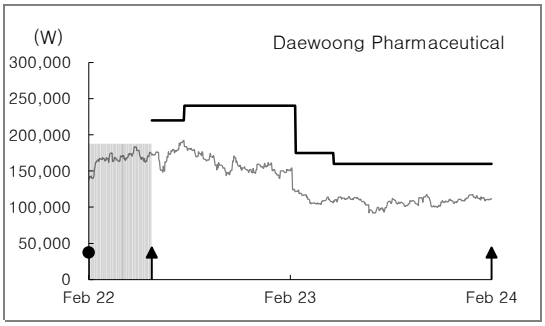
Source: Company data, Mirae Asset Securities Research estimates

Appendix 1

Important disclosures and disclaimers

Two-year rating and TP history

Company	Date	Rating	TP (W)
Daewoong Pharmaceutical (069620)	04/26/23	Buy	160,000
	02/16/23	Buy	175,000
	07/29/22	Buy	240,000
	05/31/22	Buy	220,000
	07/29/21	No Coverage	



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	74.13%	15.92%	9.95%	0.00%
Investment banking services	75.00%	11.11%	13.89%	0.00%

* Based on recommendations in the last 12 months (as of December 31, 2020)

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Mirae Asset Securities International Network

Mirae Asset Securities Co., Ltd. (Seoul)
One-Asia Equity Sales Team
Mirae Asset Center 1 Building
26 Eulji-ro 5-gil, Jung-gu, Seoul 04539
Korea

Tel: 82-2-3774-2124

Mirae Asset Securities (HK) Ltd.
Units 8501, 8507-8508, 85/F
International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong
Tel: 852-2845-6332

Mirae Asset Securities (UK) Ltd.
41st Floor, Tower 42
25 Old Broad Street,
London EC2N 1HQ
United Kingdom

Tel: 44-20-7982-8000

Mirae Asset Securities (USA) Inc.
810 Seventh Avenue, 37th Floor
New York, NY 10019
USA

Tel: 1-212-407-1000

Mirae Asset Wealth Management (Brazil) CCTVM
Rua Funchal, 418, 18th Floor, E-Tower Building
Vila Olimpia
Sao Paulo - SP
04551-060
Brazil
Tel: 55-11-2789-2100

PT. Mirae Asset Sekuritas Indonesia
District 8, Treasury Tower Building Lt. 50
Sudirman Central Business District
Jl. Jend. Sudirman, Kav. 52-54
Jakarta Selatan 12190
Indonesia
Tel: 62-21-5088-7000

Mirae Asset Securities (Singapore) Pte. Ltd.
6 Battery Road, #11-01
Singapore 049909
Republic of Singapore

Tel: 65-6671-9845

Mirae Asset Securities (Vietnam) LLC
7F, Saigon Royal Building
91 Pasteur St.
District 1, Ben Nghe Ward, Ho Chi Minh City
Vietnam

Tel: 84-8-3911-0633 (ext.110)

Mirae Asset Securities Mongolia UTsK LLC
#406, Blue Sky Tower, Peace Avenue 17
1 Khoroo, Sukhbaatar District
Ulaanbaatar 14240
Mongolia

Tel: 976-7011-0806

Mirae Asset Investment Advisory (Beijing) Co., Ltd
2401B, 24th Floor, East Tower, Twin Towers
B12 Jianguomenwai Avenue, Chaoyang District
Beijing 100022
China

Tel: 86-10-6567-9699

Beijing Representative Office
2401A, 24th Floor, East Tower, Twin Towers
B12 Jianguomenwai Avenue, Chaoyang District
Beijing 100022
China

Tel: 86-10-6567-9699 (ext. 3300)

Shanghai Representative Office
38T31, 38F, Shanghai World Financial Center
100 Century Avenue, Pudong New Area
Shanghai 200120
China

Tel: 86-21-5013-6392

Ho Chi Minh Representative Office
7F, Saigon Royal Building
91 Pasteur St.
District 1, Ben Nghe Ward, Ho Chi Minh City
Vietnam

Tel: 84-8-3910-7715

Mirae Asset Capital Markets (India) Pvt Ltd
1st Floor, Tower 4, Equinox Business Park,
LBS Marg, Off BKC, Kurla (West), Mumbai - 400 070
India

Tel: 91-22-62661300 / 48821300