214450 KQ · Medtech

PharmaResearch

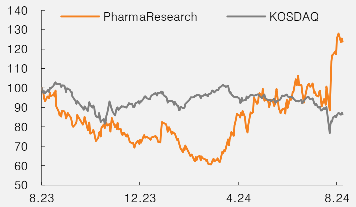
Global leadership in skin boosters is within reach

Equity Research
August 22, 2024

(Initiate)	Buy
Target price	W260,000
Current price (8/21/24)	W182,000
Upside	42.9%

OP (24F, Wbn)	124
Consensus OP (24F, Wbn)	124
EPS growth (24F, %)	33.9
Market EPS growth (24F, %)	87.0
P/E (24F, x)	18.2
Market P/E (24F, x)	10.4
KOSDAQ	779.87
Market cap (Wbn)	1,902
Shares (mn)	10
Free float (%)	59.4
Foreign ownership (%)	9.1
Beta (12M)	-0.36
52-week low (W)	89,100
52-week high (W)	188,100

(%)	1M	6M	12M
Absolute	28.8	92.4	29.6
Relative	36.9	113.2	47.7



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Initiate coverage with Buy rating and TP of W260,000

We initiate our coverage on PharmaResearch with a Buy recommendation and target price of W260,000 (43% upside). In deriving our target price, we applied a P/E of 23.1x, the stock's historical peak multiple. For 2024, we forecast revenue at W335.3bn (+28% YoY) and operating profit at W124.5bn (+35% YoY; OP margin of 37.1%). The stock is currently trading at 12-month forward P/E of 17x, higher than its three-year average (14x) but in line with the global peer average (17x).

Investment points

1) Reshaping the skin booster industry with Rejuran: The skin booster market has traditionally been dominated by polylactic acid dermal fillers, but PharmaResearch's Rejuran offers a different approach based on polynucleotide (PN) injections. Rejuran has become the fastest-growing injectable treatment in the domestic market, expanding at a CAGR of 54% over the past four years. Its annual revenue (domestic + overseas) has reached roughly W110bn, quickly closing the gap with Galderma's Sculptra, currently the world's most popular skin booster (2023 revenue: US$100mn). We expect Rejuran to drive display growth going forward, considering its growing overseas presence and status as a pioneering therapy (which allows it to stand out from competitors and maintain a strong brand identity).

2) Cosmetics business growth: The cosmetics business is also growing strongly, as the increasing popularity of Rejuran is supporting bundled product sales. Indeed, the revenue mix of cosmetics jumped from 9% in 2018 to 24% in 2H24. We see cosmetics business growth continuing as Rejuran expands into new overseas markets.

3) Business diversification via M&As: The company has been pursuing M&As to diversify its business portfolio (fillers, botulinum toxin, aesthetic devices, etc.). Notably, the botulinum toxin business generated revenue of W20bn in 2023, just five years after it was acquired (2018). Just as the cosmetics business is benefiting from the popularity of Rejuran, we expect the firm's diverse portfolio to create synergies (product bundling, etc.). The company held cash/cash equivalents of roughly W206bn as of end-2Q24 and generates free cash flow of roughly W13bn (12-quarter average). Backed by its strong financial position, we expect the company to seek more M&A opportunities.

(Dec.)	2022	2023	2024F	2025F	2026F
Revenue (Wbn)	195	261	335	390	463
OP (Wbn)	66	92	124	146	175
OP margin (%)	33.8	35.2	37.0	37.4	37.8
NP (Wbn)	41	77	104	123	150
EPS (W)	4,013	7,481	10,018	11,775	14,323
ROE (%)	12.5	19.7	21.6	20.9	20.9
P/E (x)	17.4	14.6	18.2	15.5	12.7
P/B (x)	2.0	2.6	3.5	2.9	2.4
Dividend yield (%)	0.9	0.9	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

Earnings outlook and valuation

Earnings outlook

For 2024, we expect PharmaResearch to report revenue of W335.3bn (+28% YoY). We forecast medical devices revenue to expand 28% YoY to W174.2bn, mainly driven by Rejuran, which is seeing steady growth in the domestic market and continuing to expand into new overseas markets. The product could potentially be released in Mexico and Taiwan in as early as 2H24, which would further bolster earnings.

We expect cosmetics revenue to jump 29% YoY to W77.7bn, supported by the expansion of Rejuran into new markets and the continued K-beauty boom. For pharma, we see revenue growing 30% YoY to W71bn on a rising mix of high-priced products (e.g., 200-unit botulinum toxin product). The pharma business should also be supported by the expansion of indications for Placentex (PDRN-based drug) in the domestic market (now covering orthopedic conditions, burns, pressure ulcers, spinal stenosis, and herniated discs).

We forecast 2024 operating profit at W124.5bn (+35% YoY). We expect OP margin to widen 1.8%p YoY to 37.1%, aided by stronger leverage effects. Of note, due to rapid hiring, labor is the fastest-growing SG&A expense component (total number of employees: 423 as of end-1H24 vs. 277 at end-2021). Accordingly, we expect labor expenses to increase to W26.5bn in 2024 (vs. W14bn in 2021). However, this increase is in line with the company's growth and should not place a significant burden on earnings.

Table 1. Quarterly and annual earnings (Wbn, %)

	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24F	4Q24F	2023	2024F	2025F
Revenue	**55.4**	**66.8**	**68.8**	**70.0**	**74.7**	**83.3**	**86.2**	**91.1**	**261.0**	**335.3**	**390.1**
Pharma	12.3	13.5	15.0	13.7	16.3	18.1	18.6	18.0	54.5	71.0	75.5
Medical devices	27.6	34.6	37.1	36.8	38.4	43.0	45.0	47.9	136.1	174.2	207.3
Cosmetics	13.9	16.8	14.0	15.3	17.7	19.9	19.5	20.6	60.0	77.7	92.3
Other	1.7	1.8	2.7	4.1	2.3	2.3	3.0	4.7	10.3	12.4	15.0
OP	**20.7**	**23.6**	**27.5**	**20.4**	**26.7**	**30.8**	**32.4**	**34.6**	**92.3**	**124.5**	**146.4**
NP (owners of the parent)	**17.7**	**16.7**	**26.7**	**15.4**	**17.2**	**31.5**	**26.8**	**28.7**	**76.6**	**104.2**	**123.1**
Revenue growth (%)	22.5	34.4	49.0	30.5	34.8	24.7	25.3	30.3	34.0	28.5	16.3
Pharma	2.0	22.6	32.9	22.0	32.7	33.7	24.2	31.0	19.5	30.2	6.3
Medical devices	21.8	41.2	62.0	15.3	39.0	24.2	21.3	30.0	33.4	28.0	19.0
Cosmetics	56.3	68.3	32.0	71.3	27.7	18.1	39.8	34.0	56.2	29.4	18.8
Other	0.1	-56.5	94.9	179.5	38.5	28.4	11.0	15.7	18.5	20.4	20.9
OP margin (%)	37.4	35.4	40.0	29.1	35.7	36.9	37.6	38.0	35.3	37.1	37.5
Net margin (owners of the parent, %)	33.1	22.7	41.0	22.2	24.5	39.0	32.0	32.5	29.6	32.2	32.5

Source: Company data, Mirae Asset Securities Research

Initiate coverage with Buy and TP of W260,000

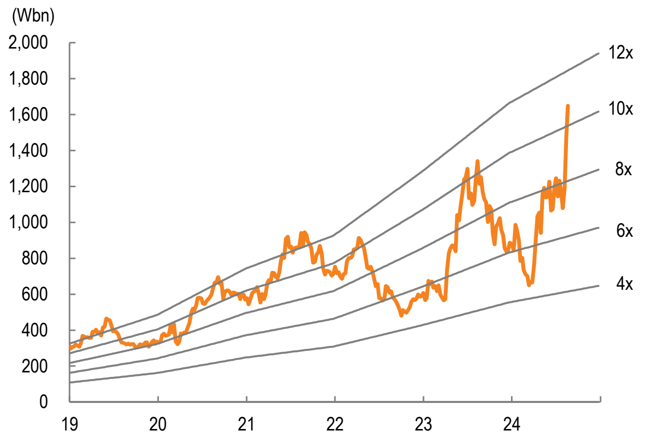
We initiate our coverage on PharmaResearch with a Buy rating and target price of W260,000 (43% upside). In deriving our target price, we applied a P/E of 23.1x, the stock's historical peak multiple. The stock is currently trading at 12-month forward P/E of 17x, higher than its three-year average (14x) but in line with the global peer average (17x).

Table 2. Valuation table

	Value	Notes
NP (Wbn)	117	12MF
Target P/E (x)	23.1	Historical peak valuation
Fair value (Wbn)	2,698	
No. of shares ('000)	10,333	As of end-2Q24
Target price (W)	260,000	
Current price (W)	182,000	Aug. 21 closing price
Upside	43%	

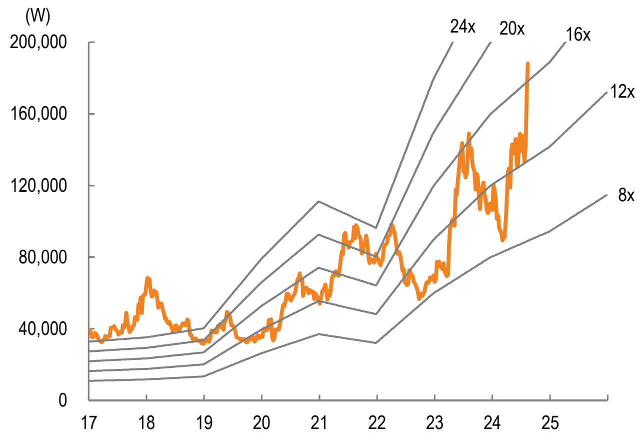
Source: Mirae Asset Securities Research

Figure 1. 12-month forward EV/EBITDA band chart



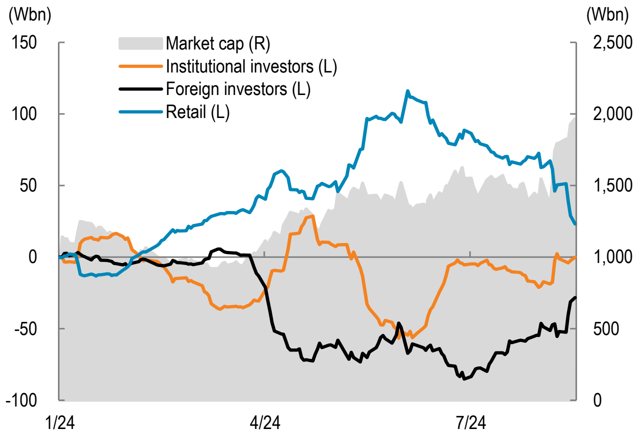
Source: QuantiWise, Mirae Asset Securities Research

Figure 2. 12-month forward P/E band chart



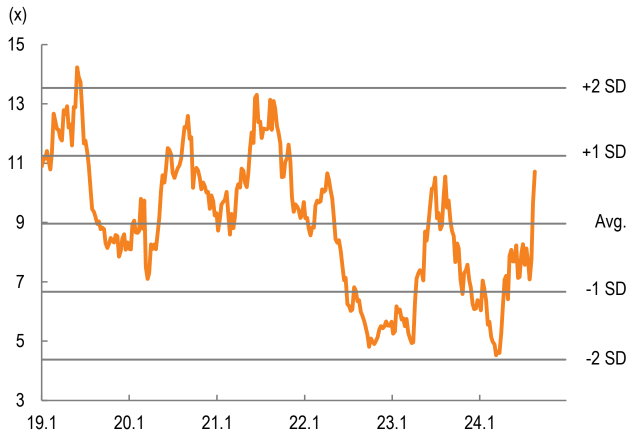
Source: QuantiWise, Mirae Asset Securities Research

Figure 3. Net buying by investor type vs. market cap



Source: QuantiWise, Mirae Asset Securities Research

Figure 4. 12-month forward EV/EBITDA ±2 SD



Source: QuantiWise, Mirae Asset Securities Research

Table 3. Global peer valuations

Company	Market cap (Wbn)	OP margin (%)			P/E (x)			P/S (x)			EV/EBITDA (x)			Revenue (Wbn)		
		23	24F	25F	23	24F	25F	23	24F	25F	23	24F	25F	23	24F	25F
Galderma	29,723	13.0	20.6	20.6	-	51.5	32.2	130.0	5.0	4.4	-	24.0	21.3	5,379	6,159	6,924
Hugel	3,598	36.8	40.2	42.3	28.1	28.4	22.5	9.1	9.5	8.1	14.4	19.3	16.0	320	379	447
Classys	3,200	49.8	51.5	52.8	35.8	30.9	25.4	15.7	13.7	11.2	29.3	25.1	20.1	180	233	286
PharmaResearch	1,926	35.3	37.1	37.8	20.7	19.2	15.4	6.3	5.8	4.8	8.3	13.1	11.0	261	335	401
InMode	1,763	39.8	33.1	35.9	9.0	8.5	7.3	3.2	3.1	2.9	5.8	4.1	3.6	643	582	627
Establishment Labs	1,636	(39.4)	(20.2)	(4.8)	-	-	-	7.9	7.0	5.1	-	-	-	216	241	330
Medytox	1,475	7.8	18.8	26.9	384.0	33.7	22.9	5.5	5.6	4.8	-	22.1	14.8	221	265	307
Viol	540	52.5	55.2	54.0	25.0	17.6	14.4	12.7	9.0	6.6	18.9	13.8	10.7	43	60	81
Wontech	532	39.8	38.4	39.3	18.4	12.4	8.6	4.9	4.1	2.9	18.6	9.4	6.5	116	128	182
AirSculpt Tech	321	4.8	(0.2)	4.2	106.6	79.1	19.3	1.2	1.3	1.2	16.5	12.4	9.4	256	253	282
Sisram Medical	249	11.2	9.3	10.2	5.9	5.3	7.2	0.5	0.7	0.6	5.6	4.8	4.2	469	391	436
Beauty Health	242	(32.9)	(11.5)	1.8	-	-	-	0.5	0.5	0.5	-	-	15.6	520	465	502
Hansbiomed	140	(5.3)	-	-	-	-	-	1.6	-	-	99.1	-	-	78	-	-
Avg.		**16.4**	**22.7**	**26.8**	**70.4**	**28.7**	**17.5**	**15.3**	**5.4**	**4.4**	**24.0**	**14.8**	**12.1**	**669.3**	**791.0**	**900.4**

Source: Bloomberg, Mirae Asset Securities Research

Risk factor analysis

Financial risks

PharmaResearch has strong cash flow, generating over W40bn in surplus cash annually since 2021. Its debt-to-equity ratio stood at only 18% as of end-1H24, indicating a stable financial structure. Its cash and cash equivalents have steadily increased, surpassing W200bn as of end-1H24. Working capital has increased since 2022 due to increases in inventory assets and accounts receivables, but we do not see this as a cause for concern, as the turnover ratio relative to sales has not declined.

Business risks

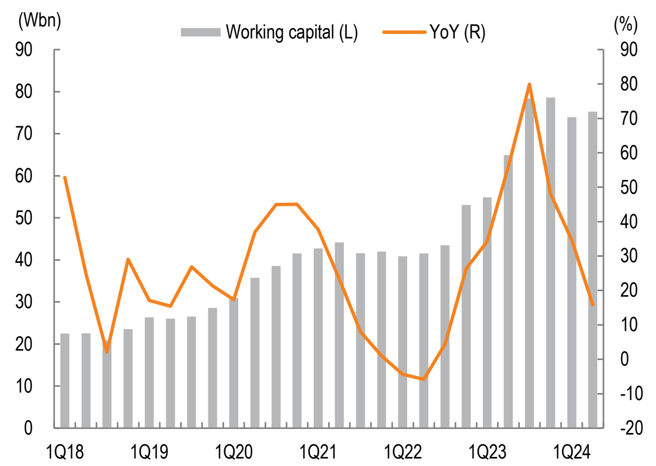
While maintaining its focus on Rejuran, PharmaResearch is seeking to diversify its product portfolio to become a comprehensive aesthetics company offering cosmetics, botulinum toxin products, and devices. Despite growing competition since last year, Rejuran still holds a significant lead in the domestic market, and we see a limited risk of competition dampening short-term earnings. That said, the company still relies heavily on the domestic market. While exports are growing, we find it somewhat disappointing that entry into the crucial US market is not planned for at least five years.

Competition in the cosmetics market is fierce, but we believe the company can differentiate itself through marketing campaigns tied to Rejuran. In particular, Rejuran's entry into new overseas markets should benefit the cosmetics business. Meanwhile, despite growing botulinum toxin demand, the company will likely be unable to expand related capacity until end-2025. Additionally, upcoming changes to the reimbursement criteria for Conjuran (joint injection) are a potential risk factor.

Share price risks

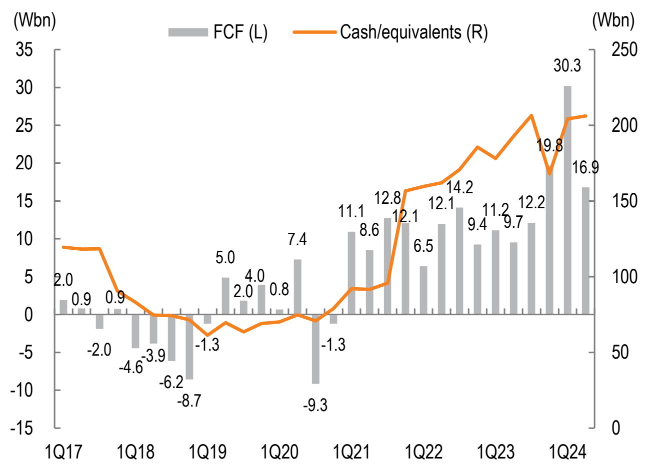
PharmaResearch is trading at a 12-month forward P/E of 17x, higher than its three-year average (14x) but in line with the global peer average (17x). As of end-1H24, the company's convertible bonds and bonds with warrants stand at W21.3bn and W10.3bn, respectively. Of note, the company invested W43bn in CTC Bio with the aim of creating business synergies. However, the plan has been delayed due to resistance from existing CTC Bio shareholders.

Figure 5. Working capital trend



Source: Company data, Mirae Asset Securities Research

Figure 6. Free cash flow and cash/equivalents



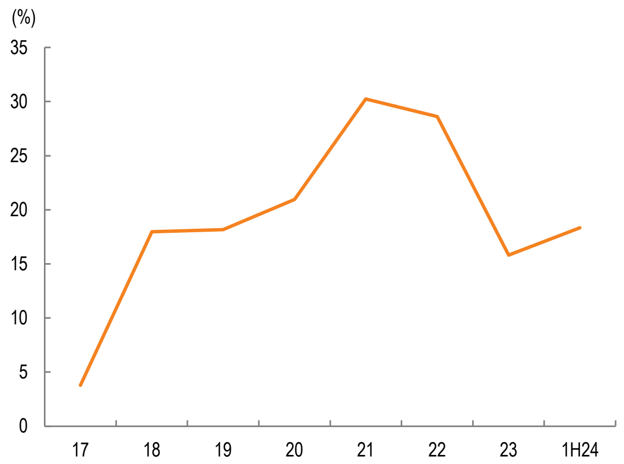
Source: Company data, Mirae Asset Securities Research

Company overview

PharmaResearch is a biopharmaceutical company engaged in the commercialization of PDRN/PN, a purified substance derived from DNA extracted from salmon milt. The company has achieved over 30% growth in revenue over the past decade, with sales in 2023 exceeding W260bn. The firm also boasts solid profitability (high gross margin and limited expenses), with OP margin averaging 33% over the past four years.

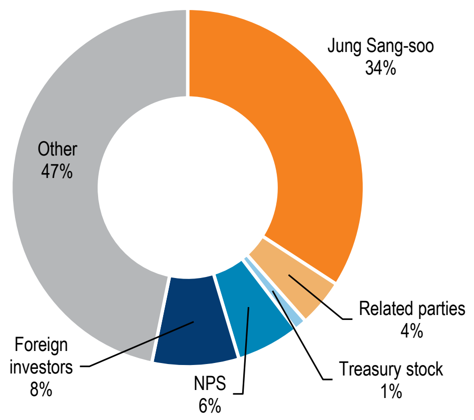
The company has four business units. In the medical devices unit, core products include the skin booster Rejuran, the joint injection Conjuran, and fillers. The pharma unit has historically focused on drug distribution, but the botulinum toxin business (acquired in 2018) has become a new growth engine. The cosmetics unit sells premium cosmetics linked to Rejuran. Lastly, other businesses include home aesthetic devices.

Figure 7. Debt-to-equity ratio trend



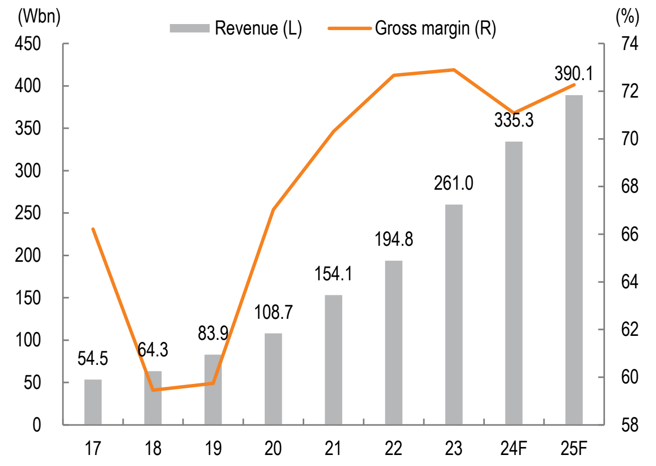
Source: Company data, Mirae Asset Securities Research

Figure 8. Ownership breakdown



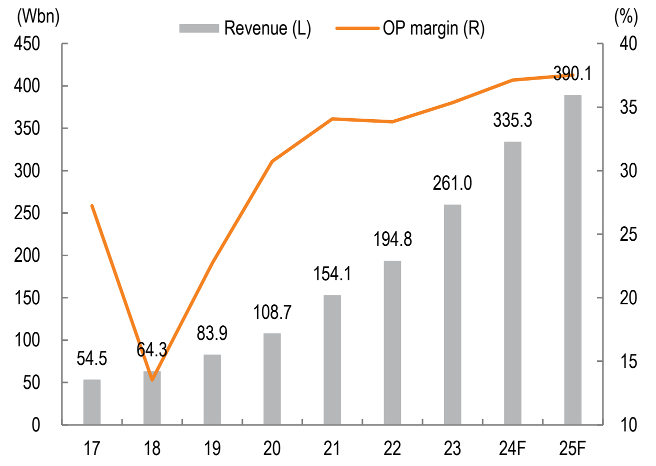
Source: Company data, Mirae Asset Securities Research

Figure 9. Revenue and gross margin



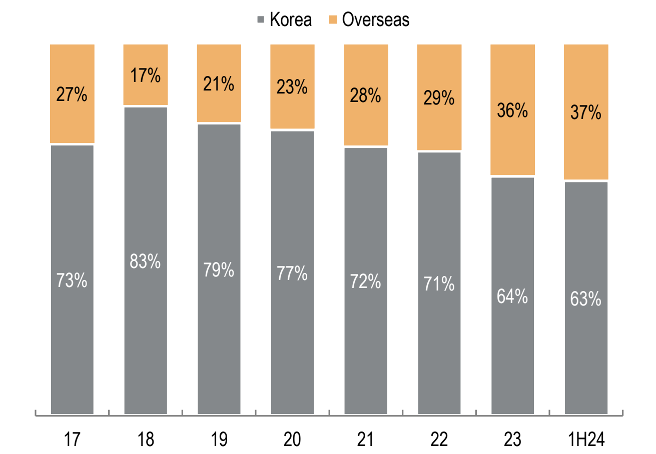
Source: Company data, Mirae Asset Securities Research

Figure 10. Revenue and OP margin



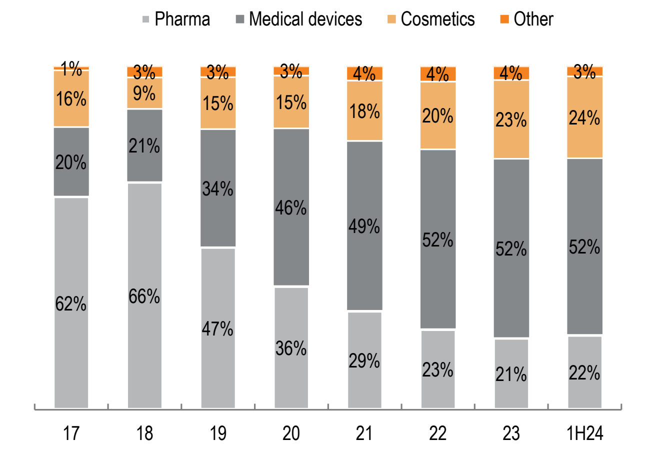
Source: Company data, Mirae Asset Securities Research

Figure 11. Revenue breakdown by region



Source: Company data, Mirae Asset Securities Research

Figure 12. Revenue breakdown by category



Source: Company data, Mirae Asset Securities Research

PharmaResearch (214450 KQ)

Income statement (summarized)

(Wbn)	2023	2024F	2025F	2026F
Revenue	**261**	**335**	**390**	**463**
Cost of revenue	**71**	**97**	**108**	**128**
GP	**190**	**238**	**282**	**335**
SG&A expenses	**98**	**114**	**136**	**160**
OP (adj.)	**92**	**124**	**146**	**175**
OP	**92**	**124**	**146**	**175**
Non-operating profit	**9**	**9**	**13**	**18**
Net financial income	4	7	12	18
Net income from associates	1	3	0	0
Pretax profit	101	133	159	193
Income tax	23	25	32	39
Profit from continuing operations	77	108	127	154
Profit from discontinued operations	0	0	0	0
NP	**77**	**108**	**127**	**154**
Attributable to owners	77	104	123	150
Attributable to minority interests	1	4	4	5
Total comprehensive income	**79**	**108**	**127**	**154**
Attributable to owners	78	102	120	145
Attributable to minority interests	1	6	7	9
EBITDA	104	138	159	187
FCF	53	113	119	151
EBITDA margin (%)	39.8	41.2	40.8	40.4
OP margin (%)	35.2	37.0	37.4	37.8
Net margin (%)	29.5	31.0	31.5	32.4

Balance sheet (summarized)

(Wbn)	2023	2024F	2025F	2026F
Current assets	**256**	**379**	**507**	**665**
Cash & equivalents	67	187	282	404
AR & other receivables	34	34	44	52
Inventory	50	57	69	82
Other current assets	105	101	112	127
Non-current assets	**279**	**289**	**288**	**289**
Investments in associates	17	21	24	29
PP&E	123	137	135	133
Intangible assets	32	30	27	25
Total assets	**535**	**667**	**795**	**955**
Current liabilities	**66**	**93**	**103**	**116**
AP & other payables	18	42	48	57
Short-term financial liabilities	33	32	33	33
Other current liabilities	15	19	22	26
Non-current liabilities	**7**	**9**	**10**	**11**
Long-term financial liabilities	1	2	2	2
Other non-current liabilities	6	7	8	9
Total liabilities	**73**	**102**	**113**	**128**
Equity attributable to owners	**433**	**533**	**646**	**786**
Capital stock	5	5	5	5
Capital surplus	175	181	181	181
Retained earnings	261	355	469	608
Minority interests	**29**	**33**	**37**	**41**
Shareholders' equity	**462**	**566**	**683**	**827**

Cash flow statement (summarized)

(Wbn)	2023	2024F	2025F	2026F
Operating cash flow	**65**	**136**	**127**	**159**
NP	77	108	127	154
Non-cash income/expenses	28	37	32	33
Depreciation	8	10	10	10
Amortization	4	4	3	3
Other	16	23	19	20
Chg. in working capital	-31	8	-13	-8
Chg. in AR & other receivables	0	3	-9	-7
Chg. in inventory	-28	-7	-12	-13
Chg. in AP & other payables	0	11	1	2
Income tax	-17	-25	-32	-39
Cash flow from investing activities	**-45**	**-18**	**-19**	**-22**
Chg. in PP&E	-12	-23	-8	-8
Chg. in intangible assets	-1	-2	0	0
Chg. in financial assets	8	3	-11	-14
Other	-40	4	0	0
Cash flow from financing activities	**-26**	**2**	**-10**	**-9**
Chg. in financial liabilities	-32	0	0	0
Chg. in equity	18	5	0	0
Dividends	-8	0	-10	-10
Other	-4	-3	0	1
Chg. in cash	**-6**	**119**	**95**	**122**
Beginning balance	73	67	187	282
Ending balance	67	187	282	404

Source: Company data, Mirae Asset Securities Research estimates

Key valuation metrics/ratios

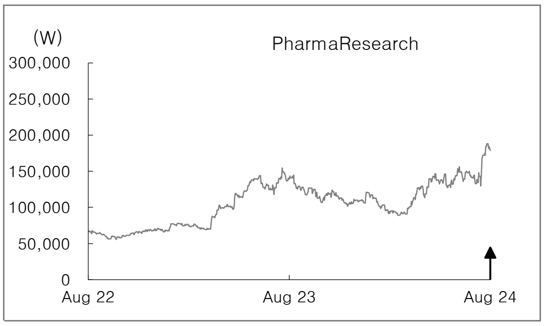
	2023	2024F	2025F	2026F
P/E (x)	14.6	18.2	15.5	12.7
P/CF (x)	10.7	13.1	11.9	10.1
P/B (x)	2.6	3.5	2.9	2.4
EV/EBITDA (x)	10.2	12.2	9.9	7.8
EPS (W)	7,481	10,018	11,775	14,323
CFPS (W)	10,268	13,913	15,246	17,934
BPS (W)	42,415	51,415	62,251	75,636
DPS (W)	950	950	950	950
Dividend payout ratio (%)	12.5	9.1	7.7	6.4
Dividend yield (%)	0.9	0.5	0.5	0.5
Revenue growth (%)	34.0	28.5	16.3	18.8
EBITDA growth (%)	36.2	32.3	15.6	17.6
OP growth (%)	40.0	34.9	17.6	19.7
EPS growth (%)	86.4	33.9	17.5	21.6
AR turnover (x)	8.2	11.0	11.3	10.8
Inventory turnover (x)	7.0	6.3	6.2	6.1
AP turnover (x)	22.3	12.5	8.1	8.4
ROA (%)	15.2	18.0	17.4	17.6
ROE (%)	19.7	21.6	20.9	20.9
ROIC (%)	35.0	47.5	55.9	64.8
Debt-to-equity ratio (%)	15.8	18.0	16.5	15.4
Current ratio (%)	389.2	407.2	494.2	573.5
Net debt-to-equity ratio (%)	-21.0	-44.0	-51.8	-59.1
Interest coverage ratio (x)	30.9	44.8	57.6	68.3

Appendix 1

Important disclosures and disclaimers

Two-year rating and TP history

Company	Date	Rating	TP (W)
PharmaResearch (214450)	08/22/24	Buy	260,000



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.
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	Buy	Trading Buy	Hold	Sell
Ratings distribution	79.52%	12.05%	8.43%	0%
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