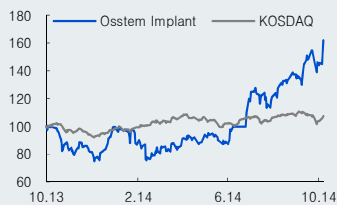


Healthcare

Company Report  
October 23, 2014

(Reinstate)	<b>Buy</b>
Target Price (12M, W)	<b>54,000</b>
Share Price (10/22/14, W)	45,550
Expected Return	19%

OP (14F, Wbn)	29
Consensus OP (14F, Wbn)	28
EPS Growth (14F, %)	12.7
Market EPS Growth (14F, %)	6.1
P/E (14F, x)	31.7
Market P/E (14F, x)	11.8
KOSDAQ	564.52
Market Cap (Wbn)	647
Shares Outstanding (mn)	14
Free Float (%)	74.8
Foreign Ownership (%)	27.4
Beta (12M)	1.42
52-Week Low	21,050
52-Week High	45,550
<b>(%)</b>	<b>1M</b> <b>6M</b> <b>12M</b>
Absolute	21.5    74.2    62.4
Relative	24.2    76.2    53.0



Daewoo Securities Co., Ltd.

[Healthcare]

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# Osstem Implant

(048260 KQ)

## NHIS dental implant coverage and overseas turnaround to strengthen fundamentals

### Reinstate coverage with Buy rating and TP of W54,000

We previously suspended our coverage of Osstem Implant after the Korea Exchange (KRX) halted trading of the firm's shares on June 25<sup>th</sup> following the disclosure of embezzlement charges against company officials. However, trading resumed on July 11<sup>th</sup>, as the KRX decided not to subject the stock to a delisting review. As such, the potential damage to investors has been reduced considerably. We thus reinstate our coverage on the stock and present a Buy rating and target price of W54,000.

Our investment recommendation for Osstem Implant, the leading dental implant producer in Korea and China, is premised on the following two points: 1) domestic earnings should improve on the back of the National Health Insurance Service's (NHIS) recent coverage of dental implants, and 2) overseas subsidiaries are set to post better profit margins.

### Poised to benefit from dental implant coverage by the NHIS

The NHIS began providing dental implant coverage to senior citizens on July 1, 2014. Coverage currently applies only to senior citizens aged 75 or older, but the age limit of the program will be lowered to 70 in July 2015 and 65 in July 2016. NHIS coverage is expected to considerably lower patients' cost burden for dental implant treatments. We expect the program to drive domestic market growth, generating between W18.7bn and W77.9bn in incremental revenue in 2016.

### On track to deliver equity-method gains in 2015

For 2014, we forecast non-consolidated revenue and operating profit to rise to W166.2bn (+6.9% YoY) and W29.1bn (+2.1% YoY), respectively. We expect 2014 equity-method losses to narrow significantly YoY thanks to improving margins at overseas subsidiaries.

Looking ahead to 2015, we see non-consolidated revenue and operating profit growing to W186.3bn (+12.1% YoY) and W36bn (+23.5% YoY), respectively, supported by: 1) the full-fledged impact of NHIS coverage and 2) the growth of overseas subsidiaries. In particular, dental implant coverage should help drive up domestic sales by 10.9% YoY. Overseas subsidiaries' margins should also continue to improve, resulting in equity-method gains next year.

In 2015, we anticipate overseas subsidiaries to post top-line growth of 15.3% YoY and swing to a combined net profit, led by the US and Chinese subsidiaries. We expect the US subsidiary to break even and the China subsidiary to record a net profit of W2.1bn.

FY (Dec.)	12/11	12/12	12/13	12/14F	12/15F	12/16F
Revenue (Wbn)	132	151	156	166	186	212
OP (Wbn)	21	31	29	29	36	45
OP Margin (%)	15.9	20.5	18.6	17.5	19.4	21.2
NP (Wbn)	10	17	18	20	27	30
EPS (W)	715	1,198	1,274	1,437	1,901	2,130
ROE (%)	14.2	19.9	16.9	16.2	18.0	16.9
P/E (x)	17.4	23.9	18.1	31.7	24.0	21.4
P/B (x)	2.2	4.1	2.8	4.7	4.0	3.3

Note: All figures are based on non-consolidated K-IFRS

Source: Company data, KDB Daewoo Securities Research estimates

Analysts who prepared this report are registered as research analysts in Korea but not in any other jurisdiction, including the U.S. PLEASE SEE ANALYST CERTIFICATIONS AND IMPORTANT DISCLOSURES & DISCLAIMERS IN APPENDIX 1 AT THE END OF REPORT.

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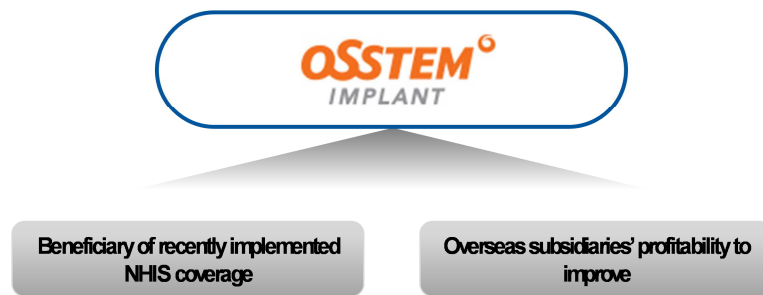
## Investment recommendation

### Reinstate coverage with Buy and TP of W54,000

We reinstate coverage on Osstem Implant with a Buy rating and target price of W54,000. Our investment recommendation is premised on the following points:

- 1) Domestic earnings should improve on the back of NHIS coverage of dental implants. The NHIS began providing dental implant coverage to senior citizens on July 1, 2014. Coverage currently applies only to individuals aged 75 or older, but the age limit of the program will be lowered to 70 in July 2015 and 65 in July 2016. We expect NHIS coverage to serve as a major growth catalyst for the domestic industry, which should benefit Osstem Implant, the current market leader.
- 2) We expect profit margins at overseas subsidiaries to improve. Osstem Implant has a number of overseas subsidiaries, most of which have yet to turn profits. However, we believe 2015 will be the year of the turnaround for overseas subsidiaries, driven by cost control efforts and revenue growth in the US and China.

Figure 1. Key investment points

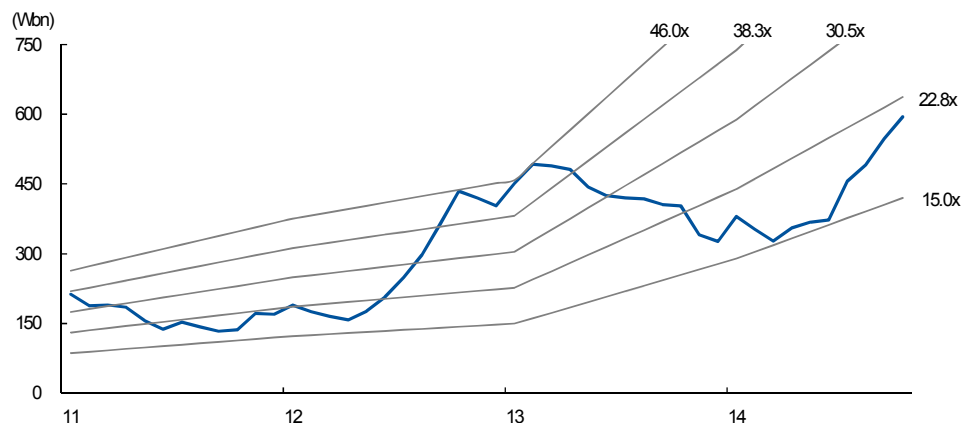


Source: KDB Daewoo Securities Research

Our target price of W54,000 is equivalent to 25x our 2015F EPS of W2,173, which reflects our net profit estimates for overseas subsidiaries. Our target multiple of 25x is largely in line with the average 2015F multiple (24.2x) of global peers Nobel Biocare and Straumann, which derive 80% of their sales from dental implants.

We believe Osstem Implant will deserve a premium over global rivals in the future, as we expect the firm's profit to outpace its competitors' on the back of: 1) continuing strong performance in the high-growth Chinese market and 2) the likely 2015 profit turnaround of overseas subsidiaries.

Figure 2. 12-month forward P/E band



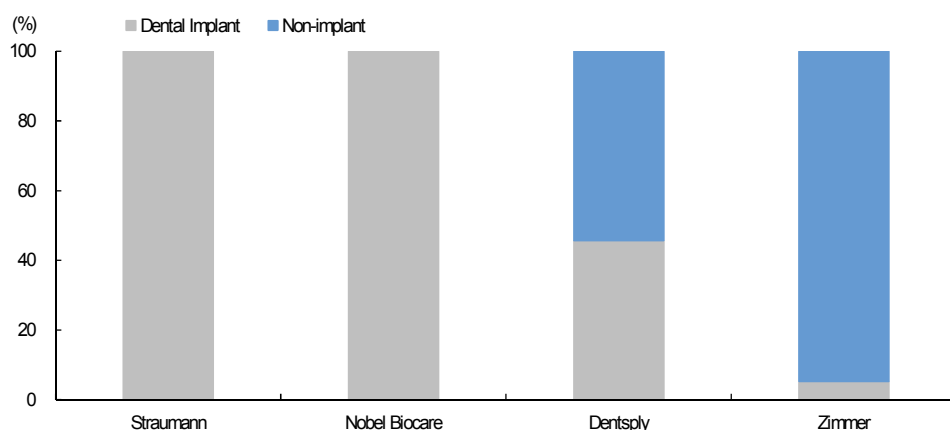
Source: KDB Daewoo Securities Research

**Table 1. Valuations and earnings forecasts for global peers**

		Nobel Biocare	Straumann	Dentsply International	Zimmer Holdings
Currency		EUR	CHF	US\$	US\$
Price		17.8	221.5	45.9	101.3
Market cap (US\$mn)		2,197.4	3,472.9	6,512.6	17,153.6
Revenue (US\$mn)	2014F	731.2	735.3	2,993.8	4,712.9
	2015F	768.2	870.5	3,072.8	4,873.7
	2016F	811.1	958.2	3,198.2	5,060.5
OP (US\$mn)	2014F	98.0	147.5	515.8	1,441.7
	2015F	117.0	188.6	549.2	1,531.2
	2016F	136.9	222.5	592.3	1,619.7
OP margin (%)	2014F	13.4	20.1	17.2	30.6
	2015F	15.2	21.7	17.9	31.4
	2016F	16.9	23.2	18.5	32.0
Net profit (US\$mn)	2014F	65.7	133.8	363.2	1,040.0
	2015F	80.3	156.5	392.3	1,111.6
	2016F	93.6	178.7	426.2	1,191.4
EPS (US\$)	2014F	0.5	8.7	2.5	6.0
	2015F	0.7	10.4	2.7	6.4
	2016F	0.8	11.7	3.0	6.9
EPS growth (%)	2014F	18.1	23.3	14.3	34.4
	2015F	20.4	18.8	8.3	6.5
	2016F	17.4	12.7	10.1	7.4
ROE (%)	2014F	14.5	18.8	13.0	13.9
	2015F	16.1	20.4	13.0	14.1
	2016F	16.8	20.6	13.5	13.8
P/E (x)	2014F	32.3	25.4	18.3	16.8
	2015F	26.9	21.4	16.9	15.8
	2016F	22.9	19.0	15.3	14.7
P/B (x)	2014F	4.7	4.7	2.4	2.5
	2015F	4.3	4.2	2.2	2.2
	2016F	3.8	3.8	2.0	2.0
EV/EBITDA (x)	2014F	17.1	19.3	10.6	9.5
	2015F	15.0	15.0	10.0	9.2
	2016F	13.7	13.2	9.2	8.5

Source: Bloomberg, KDB Daewoo Securities Research

**Figure 3. Contribution of dental implants to major implant makers' revenue**



Source: Bloomberg, KDB Daewoo Securities Research

## Risks

A major risk associated with Osstem Implant is the indictment of company officials, including the CEO, on various charges, including embezzlement. The KRX halted trading of the company on June 25<sup>th</sup> following the disclosure of these charges. However, the stock resumed trading on July 11<sup>th</sup>, as the bourse decided not to subject the stock to a delisting review.

**Table 2. Charges against Osstem Implant officials**

**Disclosed on June 24, 2014**

Parties	Current and former executives, including the current CEO
Charges	Embezzlement and breach of trust (₩9.79bn)
Scale of malpractice relative to equity	Total value: ₩9.79bn Equity: ₩ 86.17bn % of equity: 11.3%

**KOSDAQ delisting rules**

Article 37, paragraph 2 (delisting)	The KRX may delist a KOSDAQ-listed firm after conducting a review if the firm is subject to one or more of the following subparagraphs.
Subparagraph 5	If the firm meets one or more of the following criteria, delisting is necessary.
Item 2	The scale of embezzlement and breach of trust is confirmed to exceed the figures specified in detailed regulations.
Article 33, paragraph 11, subparagraph 2	The scale of embezzlement and breach of trust by executives exceeds 3% of equity or ₩1bn.

Source: DART, KRX, KDB Daewoo Securities Research

Charges against the implicated parties include violation of the Medical Device Act, fraud, breach of trust under the Act on the Aggravated Punishment, etc. of Specific Economic Crimes, and embezzlement.

# Dental implant coverage for senior citizens

## Dental implant coverage for senior citizens to expand

The NHIS began providing dental implant coverage to senior citizens on July 1, 2014 after the Ministry of Health & Welfare put forth a detailed implementation plan during the 6<sup>th</sup> National Health Insurance Policy Committee meeting in May. Coverage currently applies only to senior citizens aged 75 or older, but the age limit of the program will be lowered to 70 in July 2015 and 65 in July 2016.

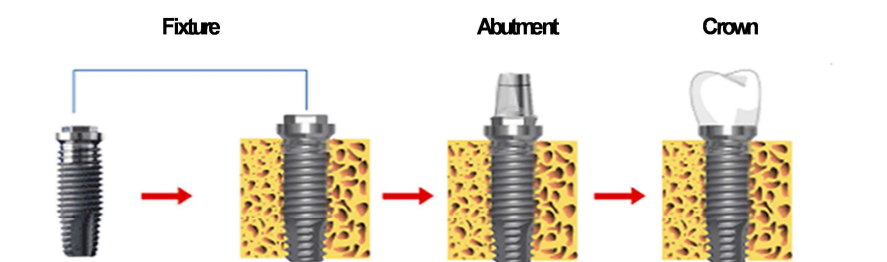
**Table 3. Details of NHIS coverage of dental implants**

	Notes
Eligibility	Partially edentulous senior citizens aged 75 or older (fully edentulous patients are not eligible)
Number of implants	Two in a lifetime
Applicable classes	Both molars and incisors on upper and lower jaws (but incisor implants are covered only in cases where molar implant placement is not possible)
Benefits	Treatment/procedures: W1,012,960 Implant materials: between W130,000 and W270,000, depending on surface treatment process and other factors
Co-payment	50%

Source: Ministry of Health & Welfare, KDB Daewoo Securities Research

With regard to NHIS dental implant coverage, the costs of procedures and materials are considered separate. And implant materials are further divided into fixtures and abutments. The insurance agency has drawn up comprehensive lists of covered and non-covered products, and caps on coverage are also in place. High-priced imported products that are deemed less cost-effective have been excluded from coverage. The products of the top five domestic makers are all subject to coverage, while those of foreign makers, including Zimmer, Nobel Biocare, and Straumann, are not covered.

**Figure 4. Dental implant treatment materials**



- Implant materials: Fixture, abutment
- Crown types: Porcelain-fused-to-metal (PFM), gold, porcelain-fused-to-gold (PFG), zirconia, metal, etc.

Source: Ministry of Health & Welfare, KDB Daewoo Securities Research

**Table 4. Fixture coverage details**

Surface treatment	Maximum coverage (W)	No. of items		
		Covered	Non-covered	Total
Resorbable Blasted Media (RBM)	89,150	74	13	87
Sandblasted large-grit acid-etching (SLA)	112,750	77	31	108
Hydroxyapatite coating (HA)	160,810	18	7	25
Anodizing	177,930	16	12	28
Total		185	63	248

Source: Ministry of Health & Welfare, KDB Daewoo Securities Research

**Table 5. Abutment coverage details**

Type	Maximum coverage (W)	No. of items		
		Covered	Non-covered	Total
One-piece (straight)	42,120	71	8	79
One-piece (angled)	41,390	2	1	3
Multi-piece (straight)	66,750	116	37	153
Multi-piece (angled)	92,390	88	13	101
Total		277	59	336

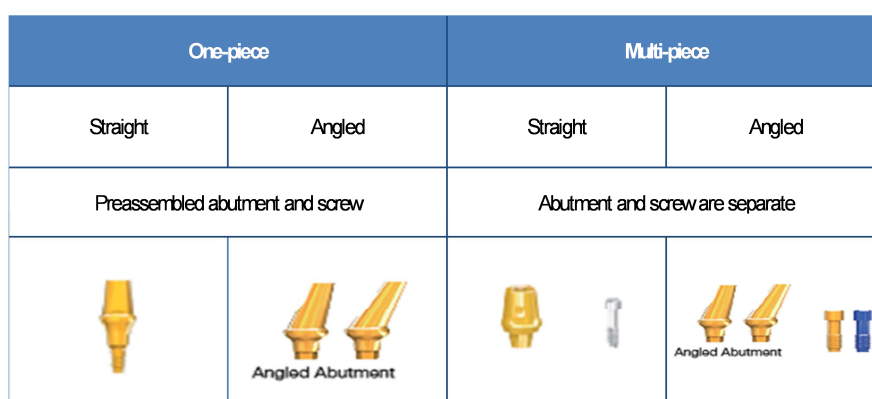
Source: Ministry of Health & Welfare, KDB Daewoo Securities Research

**Table 6. Fixture surface treatment technologies**

Technology	Details
HA	Increases surface area by attaching hydroxyapatite via plasma spray; coating could come off, but recently developed technologies have reduced this problem
RBM	Blasts hydroxyapatite on the surface of a fixture; however, long time lag between fixture implantation and crown attachment is required
SLA	Speeds up osteogenesis and etches surface of fixture with acid; low hydrophilicity; cost is higher than that of RBM
Anodizing	Creates oxide film on a fixture by immersion in an electrolyte solution

Source: Ministry of Health & Welfare, KDB Daewoo Securities Research

**Figure 5. Abutment types**



Source: Ministry of Health & Welfare, Daewoo Securities Research

The NHIS program has lowered covered patients' cost burden for dental implant treatments from W1.39-1.8mn to W570,000-640,000.

**Table 7. Dental implant costs**

	Previous (not covered)	Revised (covered)	Notes
Coverage per implant	W1.39-1.8mn (standard price range at clinics)	W1.19mn	Treatment: about W1,01mn Materials: about W179,000
Co-payment per implant		W596,000	Follow-up visit costs included

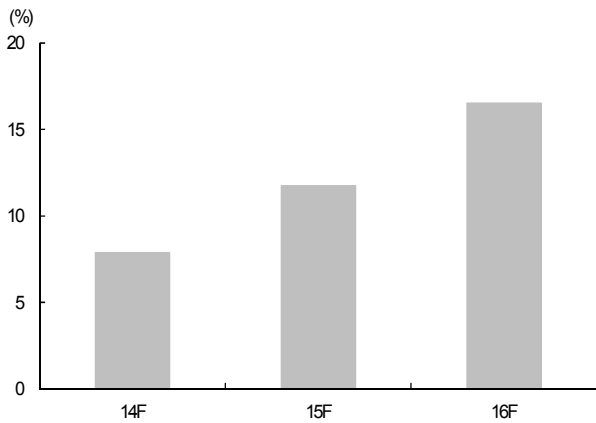
Note: Cost of dental implant materials is the sum of the costs of a fixture (SLA) and an abutment (straight; multi-piece)

Source: Ministry of Health & Welfare, KDB Daewoo Securities Research

**Domestic dental implant market to grow on NHIS coverage**

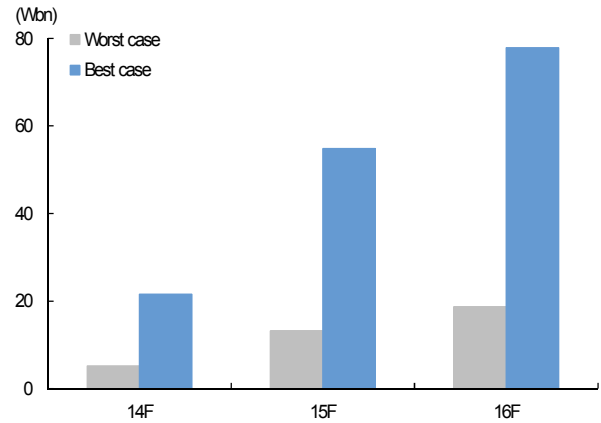
Dental implant insurance coverage for senior citizens is slated to gradually expand. Currently, individuals aged 75 or older, who account for 7.9% (or 3.97mn) of the overall population, are eligible for coverage. The age limit of the program will be lowered to 70 in July 2015 and 65 in July 2016, expanding coverage to 11.7% (or 5.94mn) of the population next year and 16.5% (or 8.4mn) in 2016. We expect NHIS coverage of implants to drive domestic market growth, generating between W18.7bn and W77.9bn in incremental revenue in 2016. (In 2013, the market was worth approximately W256.4bn.)

**Figure 6. % of population eligible for implant coverage to expand**



Source: Ministry of Health & Welfare, National Statistics, KDB Daewoo Securities Research

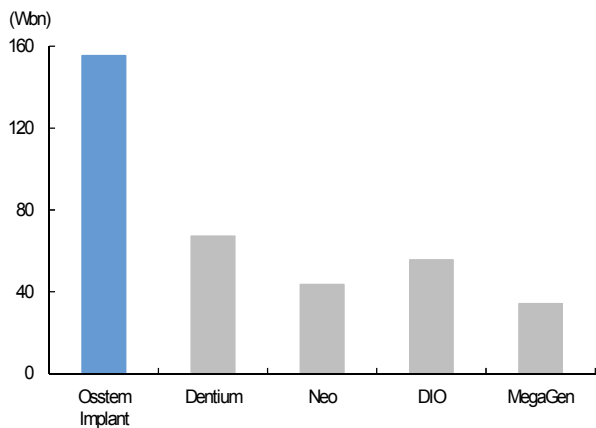
**Figure 7. Additional new dental implant market growth after coverage expansion**



Source: Ministry of Health & Welfare, KDB Daewoo Securities Research

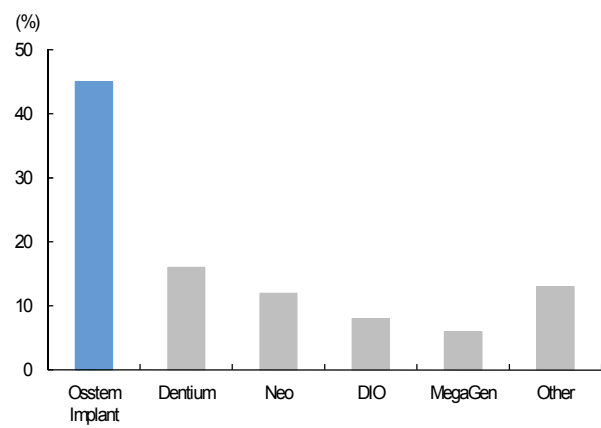
In our view, the NHIS' dental implant coverage will make it more difficult for producers to hike product prices to some extent. As such, implant makers' profits will diverge depending on their production capacity and sales capabilities. In particular, with the government toughening illegal rebate practices, market share gaps should widen going forward. We expect this industry realignment to provide an opportunity for Osstem Implant, the domestic industry leader, to make market share gains.

**Figure 8. Revenue of major domestic dental implant companies**



Note: Revenue based on non-consolidated K-IFRS result for FY2013  
Source: Company data, KDB Daewoo Securities Research

**Figure 9. Osstem Implant boasts the largest market share**

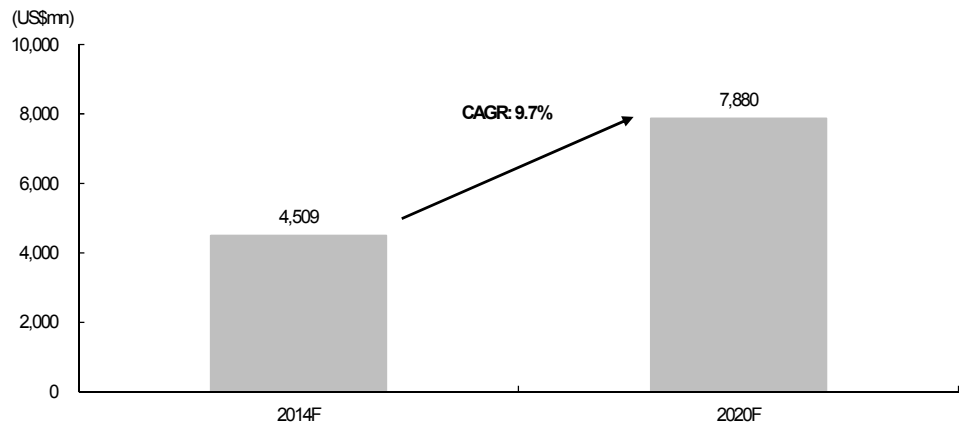


Source: Company data, KDB Daewoo Securities Research

## China: Land of opportunity

We project the global dental implant market to reach US\$4.5bn in 2014 and grow to US\$7.9bn in 2020, in light of population aging as well as growing attention to dental health.

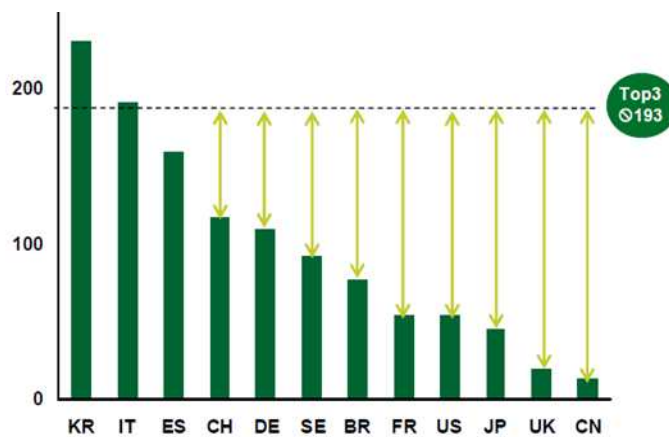
**Figure 10. Global dental implant market likely to grow to US\$7.9bn in 2020**



Source: Persistence Market Research, KDB Daewoo Securities Research

The number of dental implant cases per 10,000 individuals varies greatly by country. The number is high in Italy, Spain, and Korea, while major developed nations (e.g., France, the US, Japan, and the UK) display relatively low figures. However, we expect implant penetration in developed markets to increase, supported by a growing need for dental treatment (amid population aging and an increasing prevalence of oral disease), and technological advances.

**Figure 11. % of annual dental implant cases per 10,000 people**

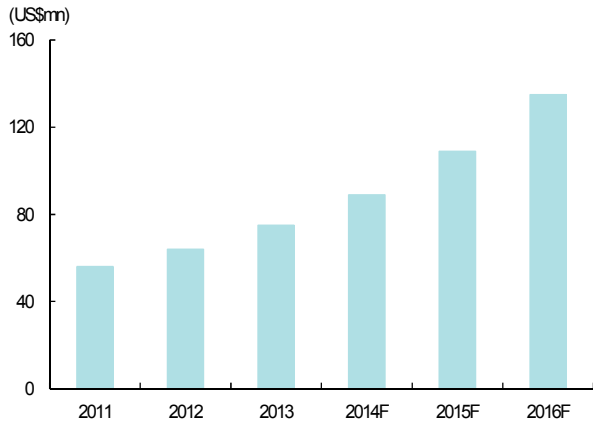


Note: Based on 2011

Source: Straumann, KDB Daewoo Securities Research

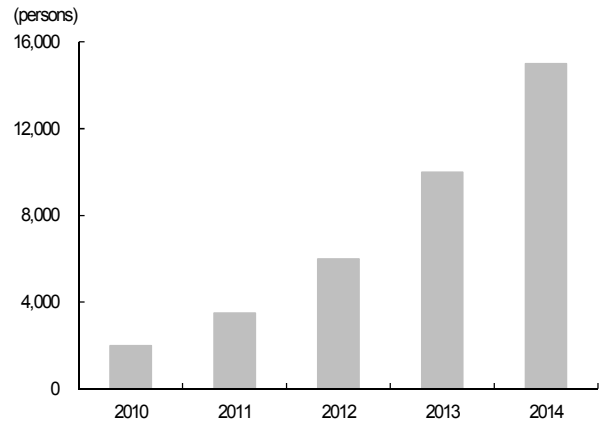
The Chinese dental implant market, worth US\$56mn in 2011, is forecast to grow at a CAGR of 19.2% to US\$135mn in 2016, driven by populating aging, income growth, and an increase in the number of trained dentists/oral surgeons.

**Figure 12. Chinese dental implant market to show double-digit growth**



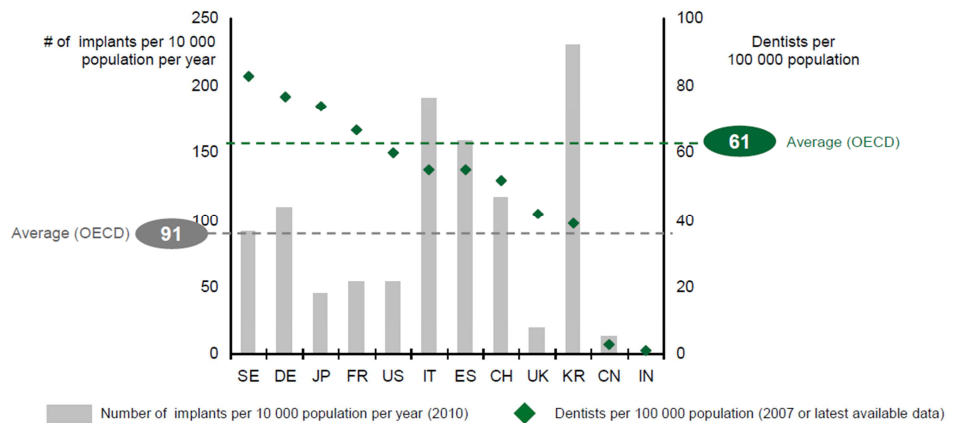
Source: MRG, company data, KDB Daewoo Securities Research

**Figure 13. No. of trained dentists to increase in China**



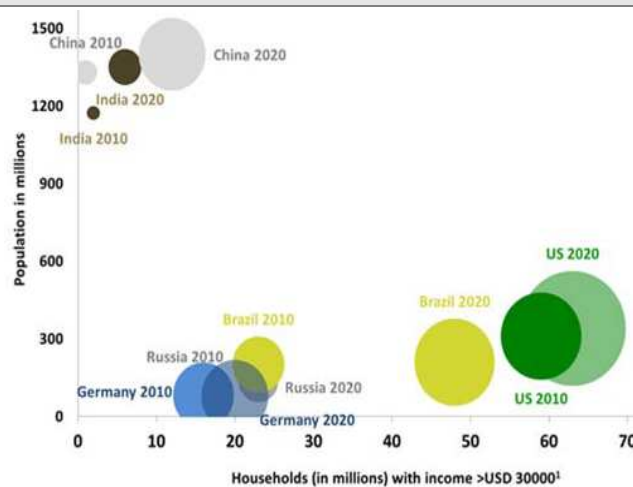
Source: MRG, CMRC, company data, KDB Daewoo Securities Research

**Figure 14. Dental implant cases and trained dentists**



Source: Straumann, KDB Daewoo Securities Research

**Figure 15. Dental implant market size by country in 2020**



Source: Straumann, KDB Daewoo Securities Research

## Earnings outlook

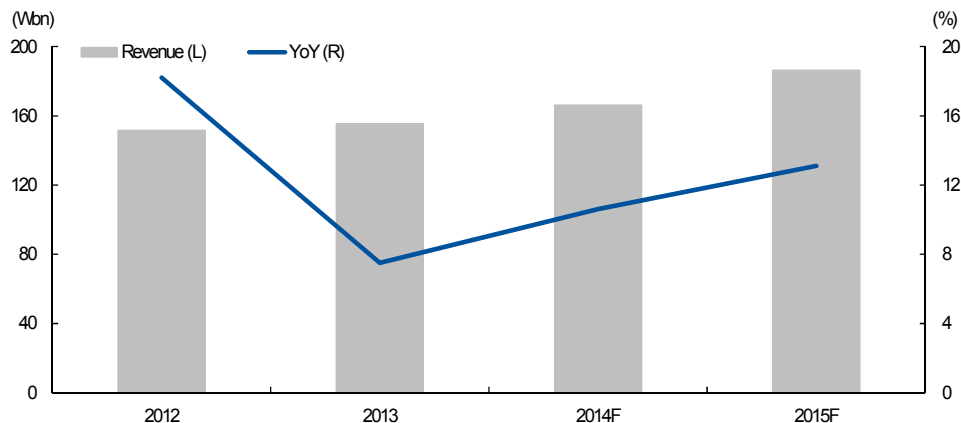
### Both domestic sales and exports to drive growth in 2015

We project Osstem Implant’s 2014 revenue to grow 6.9% YoY to W166.2bn on the back of robust domestic sales. Exports are forecast to deteriorate this year, as the company has lowered transfer prices for overseas subsidiaries. However, 2015 revenue is projected to rise 12.1% YoY to W186.3bn on the back of dental implant insurance coverage as well as growth of overseas subsidiaries.

With new orders expanding both before and after the dental implant coverage program was rolled out in July, we forecast the company’s 2014 domestic revenue to expand 15% to W121bn. New order growth is largely attributable to the company’s strong market dominance and solid brand reputation (resulting from steady marketing efforts). We anticipate domestic top line to expand 10.9% to W134.2bn in 2015, including W9.6bn in revenue related to the senior citizen dental implant coverage program.

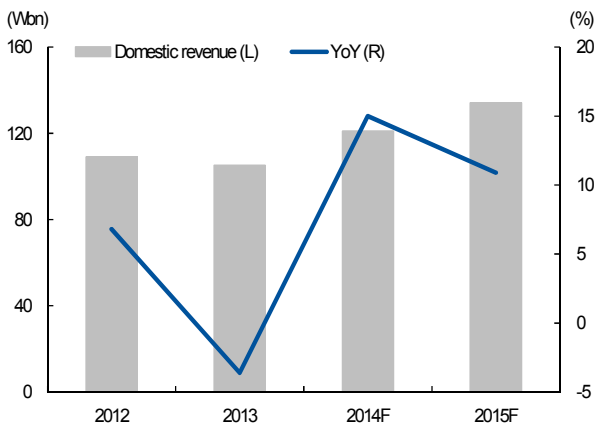
Exports are likely to be stagnant this year but are forecast to expand 15.3% to W52.1bn in 2015 in light of the growth of overseas subsidiaries (in China and the US).

Figure 16. Revenue to grow 13% in 2015



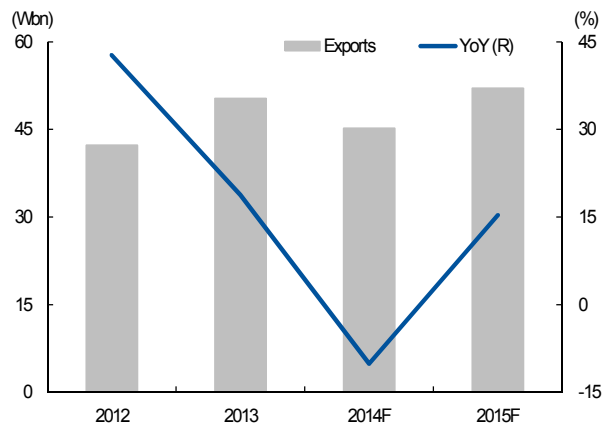
Source: Company data, KDB Daewoo Securities Research

Figure 17. Domestic sales to increase by 11% in 2015



Source: Company data, KDB Daewoo Securities Research

Figure 18. Exports to increase by 15% in 2015



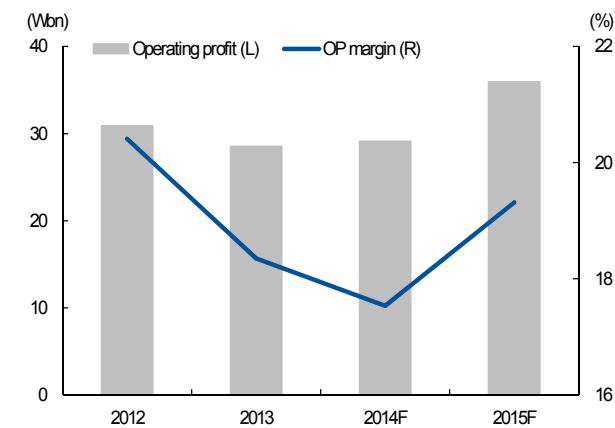
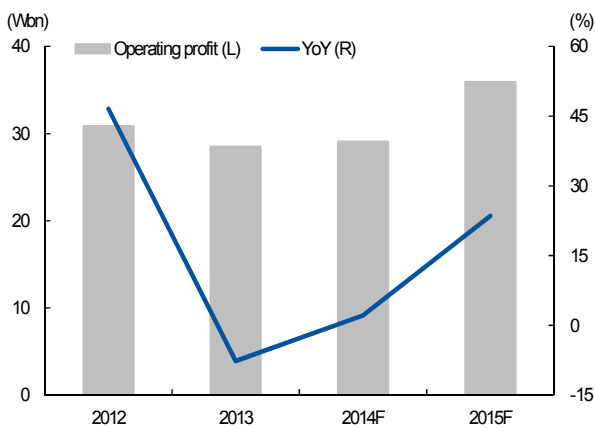
Source: Company data, KDB Daewoo Securities Research

**To report equity-method gains starting next year**

We project Osstem Implant’s operating profit to improve 2.1% YoY to W29.1bn in 2014. However, OP margin is expected to slide 0.8%p YoY to 17.5% due to a cut in export prices and an increased proportion of low-margin dental chair sales. In 2015, the company is anticipated to see its operating profit rise 19.3% YoY to W36bn on the back of NHIS dental implant coverage, with OP margin rising 1.8%p to 19.3%.

Meanwhile, the company will likely see a sharp contraction in equity-method losses in 2014, aided by overseas subsidiaries’ cost control efforts and subsequent profitability improvement. In 2015, Osstem Implant is forecast to record equity-method gains of W3.9bn. In particular, profitability recovery at Chinese and US subsidiaries in line with their top-line growth should give a boost to the company’s overall earnings from 2015 onwards.

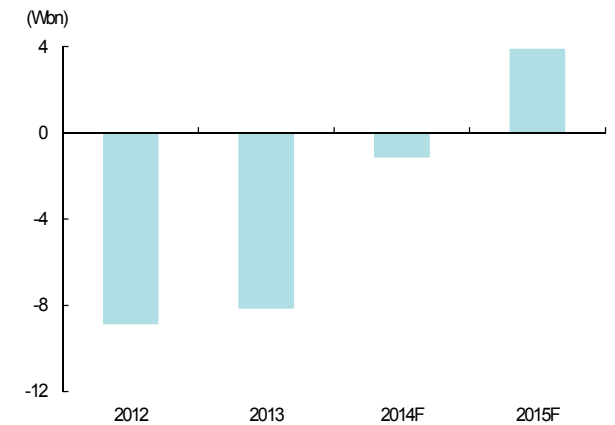
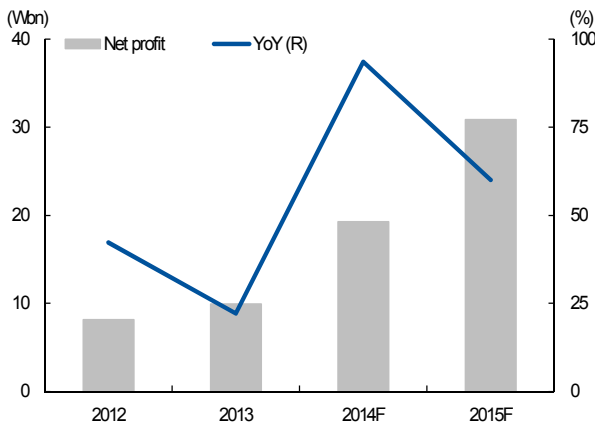
**Figure 19. Operating profit to increase by 24% in 2015** **Figure 20. OP margin to improve in 2015 thanks to by NHIS dental implant coverage**



Source: Company data, KDB Daewoo Securities Research

Source: Company data, KDB Daewoo Securities Research

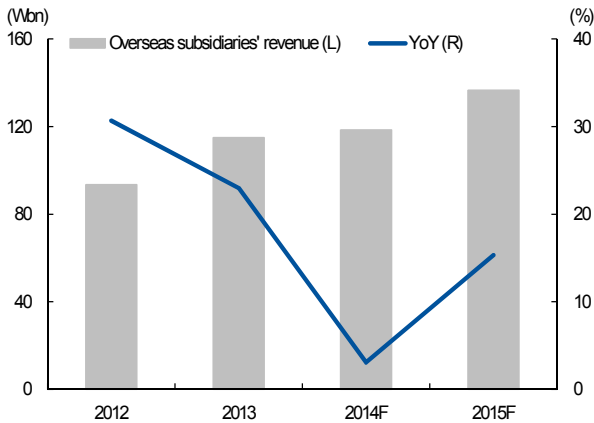
**Figure 21. Overseas subsidiaries’ net profit is rising sharply** **Figure 22. Likely to see equity-method gains in 2015**



Note: Net profit includes equity-method contributions from overseas subsidiaries  
Source: Company data, KDB Daewoo Securities Research

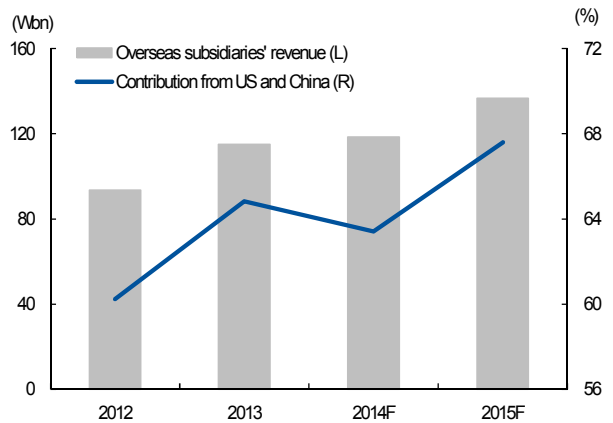
Source: Company data, KDB Daewoo Securities Research

**Figure 23. Overseas subsidiaries' revenue to increase by 15% in 2015**



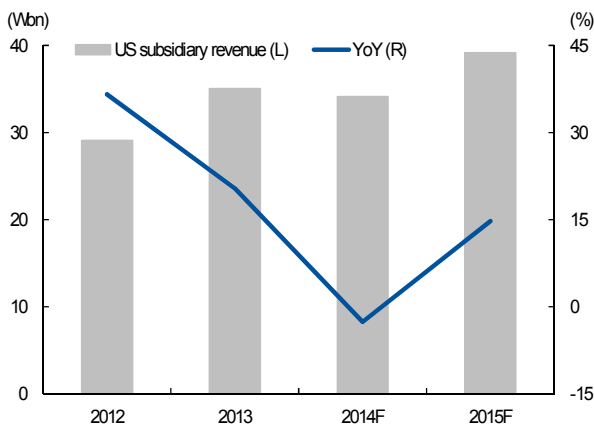
Source: Company data, KDB Daewoo Securities Research

**Figure 24. Revenue contribution of Chinese and US subsidiaries on the rise**



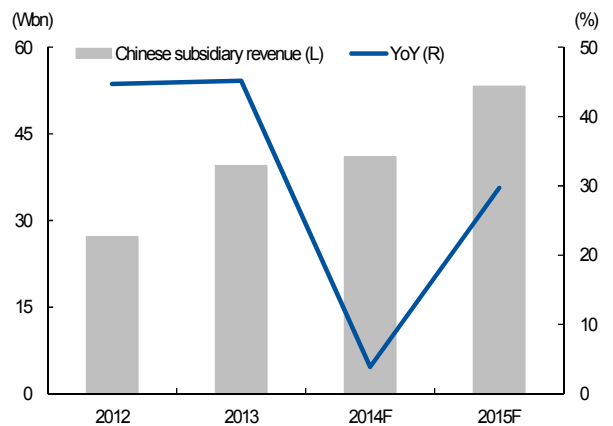
Source: Company data, KDB Daewoo Securities Research

**Figure 25. US subsidiary's revenue to increase by 15% in 2015**



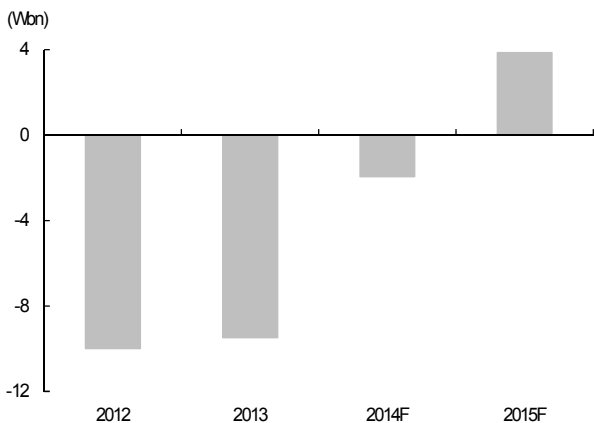
Source: Company data, KDB Daewoo Securities Research

**Figure 26. Chinese subsidiary's revenue to increase by 30% in 2015**



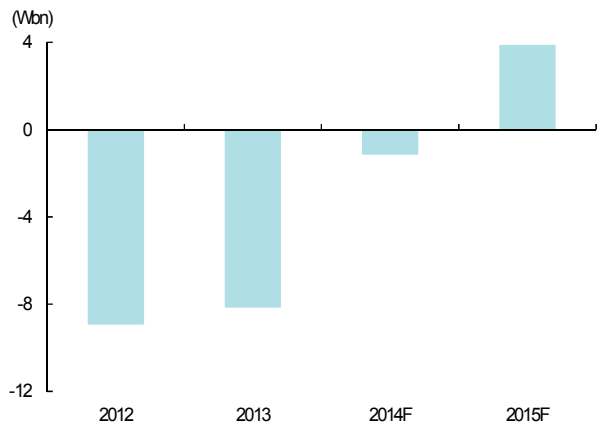
Source: Company data, KDB Daewoo Securities Research

**Figure 27. Net profit trend and forecasts for overseas subsidiaries**



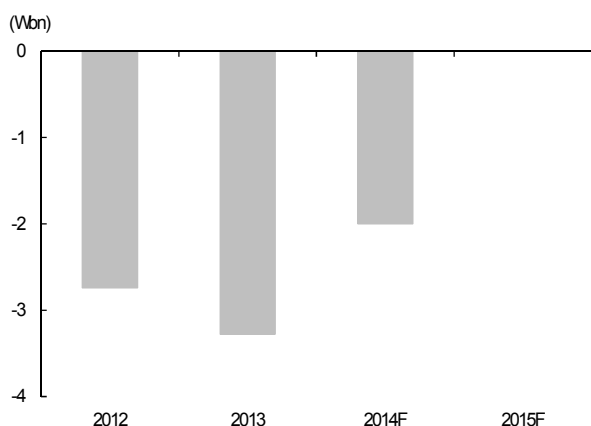
Source: Company data, KDB Daewoo Securities Research

**Figure 28. Net profit trend and forecasts for overseas subsidiaries**



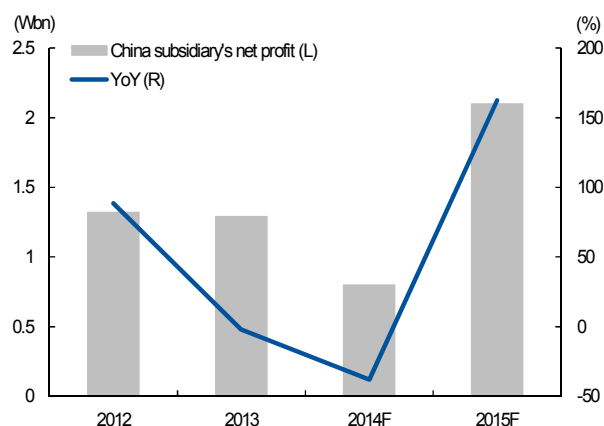
Note: Based on Osstem Implant's stakes in subsidiaries  
Source: Company data, KDB Daewoo Securities Research

**Figure 29. US subsidiary to reach break-even point in 2015**



Source: Company data, KDB Daewoo Securities Research

**Figure 30. Chinese subsidiary's net profit to surge 163% in 2015**



Source: Company data, KDB Daewoo Securities Research

**Table 8. Quarterly and annual earnings trends**

(Wbn, %, W)

	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14F	4Q14F	2013	2014F	2015F
Revenue	31.1	40.0	41.3	43.1	37.8	42.7	41.8	43.8	155.5	166.2	186.3
YoY	-10.8	1.2	10.3	8.9	21.8	6.7	1.2	1.7	2.7	6.9	12.1
OP	3.0	6.7	9.6	9.2	6.3	6.1	7.5	9.2	28.5	29.1	36.0
OP margin	9.7	16.7	23.3	21.3	16.8	14.4	17.9	21.0	18.4	17.5	19.3
YoY	-53.9	-12.6	29.3	-0.7	109.7	-8.3	-22.5	0.2	-7.7	2.1	23.5
Pretax profit	6.1	8.1	3.2	5.1	7.6	0.2	6.2	11.3	22.5	25.3	33.5
YoY	-6.4	-0.1	-44.8	60.6	24.4	-98.1	94.9	123.8	-4.7	12.7	32.3
Net profit	4.9	6.6	2.6	3.9	5.9	0.3	5.0	9.2	18.1	20.4	27.0
YoY	-6.5	1.7	-5.3	59.4	18.7	-95.1	89.7	134.3	6.4	12.7	32.3
Net profit (includes equity-method gains/losses)	3.3	3.9	-0.1	2.8	4.4	0.1	4.8	9.9	10.0	19.3	30.9
YoY	-35.8	-23.6	TTR	-171.7	33.4	-96.4	TTB	250.7	22.2	93.5	60.1
EPS									1,274	1,437	1,901
YoY									6.3	12.8	32.3
EPS (includes equity-method gains/losses)									702	1,358	2,173
YoY									22.2	93.5	60.1

Source: Company data, KDB Daewoo Securities Research

## Company overview

Established in 1997, Osstem Implant mainly engages in the manufacture and sale of dental implants and the development of related software. A pioneer in Korea's dental implant industry, the company was listed on the KOSDAQ in 2007.

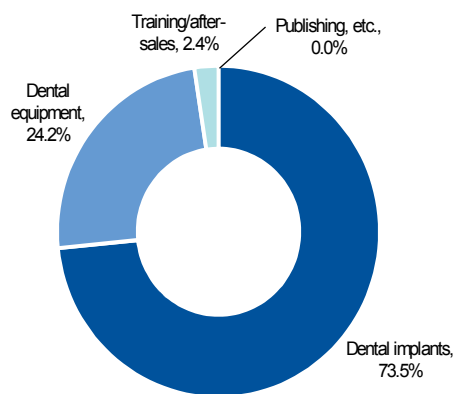
The company's revenue is largely generated from dental implants, dental equipment, training, after-sales services, and book publishing. As of 1H14, dental implants generated W84.5bn in revenue, accounting for 73.5% of the company's consolidated result, with dental equipment and training/after-sales services generating W27.8bn (24.2%) and W2.7bn (2.4%), respectively.

Figure 31. Company overview

CEO	Choi Kyoo-ok
Web site	www.osstem.com
Address	123, Gasan Digital Complex, Gasan-dong, Geumcheon-gu, Seoul
Foundation date	January 1997
Listing date	February 2007(KOSDAQ)
No. of employees	914
Business areas	Dental implants, dental equipment, etc.
Products	Osstem, Kavo, AIC, etc.

Source: Company data, KDB Daewoo Securities Research

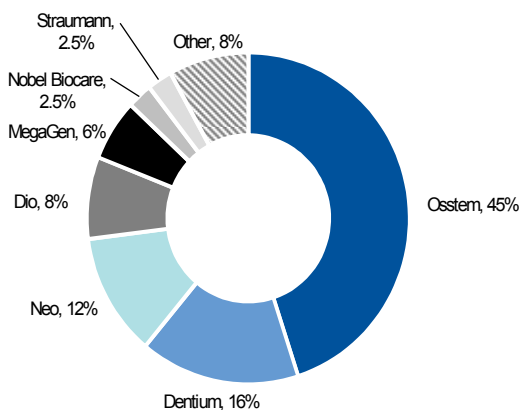
Figure 32. Revenue breakdown by product



Note: Based on 1H14 consolidated data  
Source: Company data, KDB Daewoo Securities Research

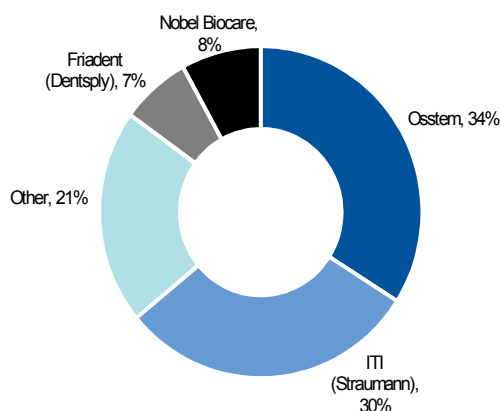
Currently, Osstem Implant has three domestic and 21 overseas subsidiaries under its umbrella. Using its solid leadership in the domestic market as a springboard, the company is rapidly expanding its foothold overseas. In 2013, overseas subsidiaries generated W115bn in revenue, with Chinese and US subsidiaries making the biggest contributions. Of note, the company claims 34% of the market in China, boasting a greater market share than leading global players, including Straumann and Nobel Biocare.

Figure 33. Domestic dental implant market share breakdown (2013)



Source: Company data, KDB Daewoo Securities Research

Figure 34. Chinese dental implant market share breakdown (2013)



Source: Company data, KDB Daewoo Securities Research

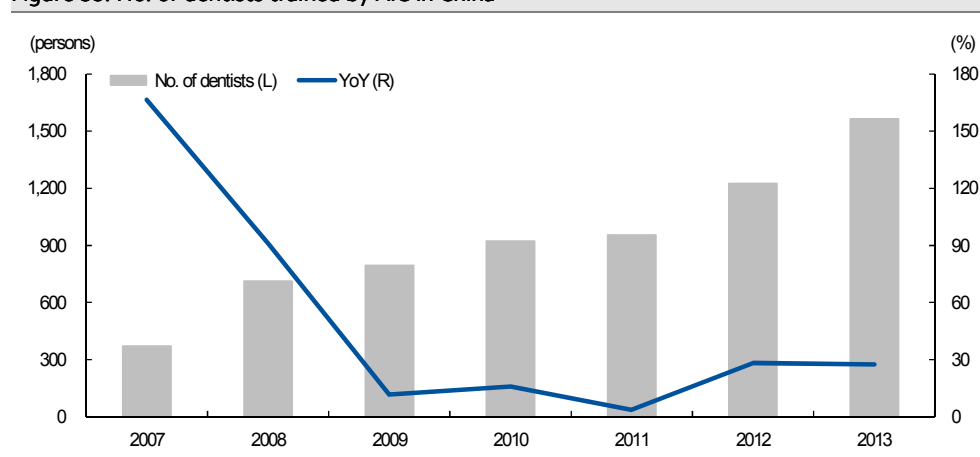
**Table 9. Overseas subsidiaries**

	Country	Share
Osstem Corporation	Taiwan	100%
Deutsche Osstem	Germany	100%
Osstem	Russia	100%
Osstem Implant India	India	100%
Hiossen	US	58.7%
Osstem Hong Kong	Hong Kong	100%
Osstem Singapore	Singapore	100%
Osstem Japan	China	100%
Osstem China	China	100%
Osstem (Thailand)	Thailand	100%
Osstem Malaysia	Malaysia	100%
Osstem Australia	Australia	100%
PT. Osstem Indonesia	Indonesia	100%
Hiossen de Mexico.	Mexico	100%
Osstem Kazakhstan.	Kazakhstan	100%
Hiossen Implant Canada	Canada	100%
Osstem Implant Vina	Vietnam	100%
Osstem Bangladesh	Bangladesh	100%
Osstem Philippines	Philippines	100%
Osstem South China	China (Shenzhen)	100%
Osstem Implant Dis Ticaret Anonim Sirketi	Turkey	100%

Source: Company data, KDB Daewoo Securities Research

In our view, Osstem Implant’s strong performance in China is attributable to the unique training program provided by the company’s Advanced Dental Implant Research & Education Center (AIC) and a marketing strategy primarily targeting private dental clinics. The AIC provides various practice-based training programs, encompassing diagnosis, treatment planning, implantation, and prosthetic dentistry. Between 2006 and 2013, 6,694 dentists were trained under the AIC program in China.

**Figure 35. No. of dentists trained by AIC in China**



Source: Company data, KDB Daewoo Securities Research

Meanwhile, Straumann, the company’s biggest rival in China, declared a shift in its marketing strategy in the country during its 2Q14 earnings release. Previously, the company had focused on indirect marketing based on exclusive supply to public hospitals. Straumann’s new strategy of employing direct marketing strategies targeting private dental clinics is largely in line with Osstem Implant’s strategies. Straumann’s strategic change suggests that: 1) private dental clinics are emerging as a new growth driver for the Chinese implant market, and 2) Osstem’s business model is proving effective in China.

## Osstem Implant (048260 KQ/Buy/TP: W54,000)

## Comprehensive Income Statement (Summarized)

(Wbn)	12/13	12/14F	12/15F	12/16F
<b>Revenue</b>	<b>156</b>	<b>166</b>	<b>186</b>	<b>212</b>
<b>Cost of Sales</b>	<b>76</b>	<b>83</b>	<b>93</b>	<b>104</b>
<b>Gross Profit</b>	<b>80</b>	<b>83</b>	<b>93</b>	<b>108</b>
<b>SG&amp;A Expenses</b>	<b>51</b>	<b>54</b>	<b>58</b>	<b>63</b>
<b>Operating Profit (Adj)</b>	<b>29</b>	<b>29</b>	<b>36</b>	<b>45</b>
<b>Operating Profit</b>	<b>29</b>	<b>29</b>	<b>36</b>	<b>45</b>
<b>Non-Operating Profit</b>	<b>-7</b>	<b>-4</b>	<b>-2</b>	<b>-7</b>
Net Financial Income	-2	-2	-2	-2
Net Gain from Inv in Associates	0	0	0	0
Pretax Profit	22	25	34	38
Income Tax	4	5	7	7
Profit from Continuing Operations	18	20	27	30
Profit from Discontinued Operations	0	0	0	0
<b>Net Profit</b>	<b>18</b>	<b>20</b>	<b>27</b>	<b>30</b>
Controlling Interests	18	20	27	30
Non-Controlling Interests	0	0	0	0
<b>Total Comprehensive Profit</b>	<b>18</b>	<b>20</b>	<b>27</b>	<b>30</b>
Controlling Interests	18	20	27	30
Non-Controlling Interests	0	0	0	0
EBITDA	32	32	39	48
FCF (Free Cash Flow)	14	21	11	14
EBITDA Margin (%)	20.5	19.3	21.0	22.6
Operating Profit Margin (%)	18.6	17.5	19.4	21.2
Net Profit Margin (%)	11.5	12.0	14.5	14.2

## Cash Flows (Summarized)

(Wbn)	12/13	12/14F	12/15F	12/16F
Cash Flows from Op Activities	31	21	12	15
Net Profit	18	20	27	30
Non-Cash Income and Expense	14	10	10	15
Depreciation	3	2	2	2
Amortization	1	1	1	1
Others	10	7	7	12
Chg in Working Capital	-2	-3	-17	-22
Chg in AR & Other Receivables	-20	0	-13	-17
Chg in Inventories	-2	-2	-5	-6
Chg in AP & Other Payables	3	-1	1	1
<b>Income Tax Paid</b>	<b>-2</b>	<b>-5</b>	<b>-7</b>	<b>-7</b>
Cash Flows from Inv Activities	-30	-2	0	-5
Chg in PP&E	-17	-1	-1	-1
Chg in Intangible Assets	-2	-1	-1	-1
Chg in Financial Assets	3	0	0	0
<b>Others</b>	<b>-14</b>	<b>0</b>	<b>2</b>	<b>-3</b>
Cash Flows from Fin Activities	2	0	0	0
Chg in Financial Liabilities	1	0	0	0
Chg in Equity	0	0	0	0
Dividends Paid	0	0	0	0
<b>Others</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>
Increase (Decrease) in Cash	3	19	11	10
Beginning Balance	22	25	44	56
<b>Ending Balance</b>	<b>25</b>	<b>44</b>	<b>56</b>	<b>65</b>

Source: Company data, KDB Daewoo Securities Research estimates

## Statement of Financial Condition (Summarized)

(Wbn)	12/13	12/14F	12/15F	12/16F
<b>Current Assets</b>	<b>190</b>	<b>211</b>	<b>241</b>	<b>273</b>
Cash and Cash Equivalents	25	44	55	65
AR & Other Receivables	111	111	124	141
Inventories	36	37	42	48
Other Current Assets	18	19	20	19
<b>Non-Current Assets</b>	<b>83</b>	<b>82</b>	<b>80</b>	<b>79</b>
Investments in Associates	21	21	21	21
Property, Plant and Equipment	47	45	43	42
Intangible Assets	6	6	7	7
<b>Total Assets</b>	<b>274</b>	<b>293</b>	<b>321</b>	<b>353</b>
<b>Current Liabilities</b>	<b>132</b>	<b>131</b>	<b>132</b>	<b>133</b>
AP & Other Payables	10	9	10	12
Short-Term Financial Liabilities	40	40	40	40
Other Current Liabilities	82	82	82	81
<b>Non-Current Liabilities</b>	<b>26</b>	<b>26</b>	<b>26</b>	<b>26</b>
Long-Term Financial Liabilities	20	20	20	20
Other Non-Current Liabilities	6	6	6	6
<b>Total Liabilities</b>	<b>158</b>	<b>156</b>	<b>158</b>	<b>159</b>
<b>Controlling Interests</b>	<b>116</b>	<b>136</b>	<b>163</b>	<b>194</b>
Capital Stock	7	7	7	7
Capital Surplus	54	54	54	54
Retained Earnings	55	75	102	132
<b>Non-Controlling Interests</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Stockholders' Equity</b>	<b>116</b>	<b>136</b>	<b>163</b>	<b>194</b>

## Forecasts/Valuations (Summarized)

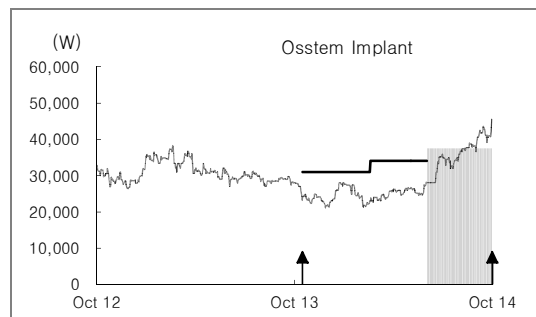
	12/13	12/14F	12/15F	12/16F
P/E (x)	18.1	31.7	24.0	21.4
P/CF (x)	10.1	21.2	17.5	14.2
P/B (x)	2.8	4.7	4.0	3.3
EV/EBITDA (x)	10.8	19.9	16.2	13.0
EPS (W)	1,274	1,437	1,901	2,130
CFPS (W)	2,281	2,148	2,600	3,200
BPS (W)	8,173	9,610	11,511	13,642
DPS (W)	0	0	0	0
Payout ratio (%)	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0	0.0	0.0	0.0
Revenue Growth (%)	3.3	6.4	12.0	14.0
EBITDA Growth (%)	-5.9	0.0	21.9	23.1
Operating Profit Growth (%)	-6.5	0.0	24.1	25.0
EPS Growth (%)	6.3	12.8	32.3	12.0
Accounts Receivable Turnover (x)	1.6	1.6	1.6	1.7
Inventory Turnover (x)	4.4	4.5	4.7	4.7
Accounts Payable Turnover (x)	12.4	11.5	13.4	13.4
ROA (%)	7.1	7.2	8.8	9.0
ROE (%)	16.9	16.2	18.0	16.9
ROIC (%)	21.9	21.0	24.1	26.2
Liability to Equity Ratio (%)	135.8	114.6	96.4	82.1
Current Ratio (%)	144.3	161.4	182.3	204.8
Net Debt to Equity Ratio (%)	15.6	-0.9	-7.7	-11.5
Interest Coverage Ratio (x)	10.7	10.8	13.3	16.7

## APPENDIX 1

### Important Disclosures & Disclaimers

#### 2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
Osstem Implant (048260)	10/23/2014	Buy	54,000
		No Coverage	
	03/12/2014	Buy	34,000
	11/07/2013	Buy	31,000



#### 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 Daewoo Securities, 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.

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