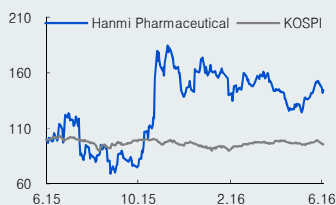


Healthcare

Company Visit Note
June 20, 2016

(Maintain)	Buy
Target Price (12M, W)	883,000
Share Price (06/17/16, W)	650,000
Expected Return	36%

OP (16F, Wbn)	74
Consensus OP (16F, Wbn)	110
EPS Growth (16F, %)	-41.9
Market EPS Growth (16F, %)	17.5
P/E (16F, x)	75.5
Market P/E (16F, x)	10.5
KOSPI	1,953.40
Market Cap (Wbn)	6,783
Shares Outstanding (mn)	10
Free Float (%)	58.2
Foreign Ownership (%)	11.0
Beta (12M)	1.22
52-Week Low	311,683
52-Week High	831,482
(%)	1M 6M 12M
Absolute	11.7 1.4 48.6
Relative	12.5 2.7 54.8



Mirae Asset Daewoo Co., Ltd.

[Healthcare]

Hyun-tae Kim
+822-768-3251
hyuntae.kim@dwsec.com

Seung-min Kim
+822-768-4157
sm.kim@dwsec.com

Hanmi Pharmaceutical

(128940 KS)

Beijing Hanmi visit note

China's pharmaceutical market: Tightening regulations, slowing growth

According to IMS Health, China was the world's fastest-growing pharmaceutical market from 2010 to 2015, expanding at a CAGR of 14.2% to US\$115.2bn in 2015. From 2016 to 2020, the company expects China's market to increase 6-9% CAGR to reach US\$150-180bn in 2020. The Chinese government forecasts the country's pharmaceutical market to grow to around RMB1tr by 2020, which represents a CAGR of just 6.9% from 2016 to 2020.

We believe the double-digit growth phase of China's pharmaceutical market has come to an end. A major factor behind the slowdown has been the government's healthcare reforms. Key measures such as tax deductions for health insurance, rationalization of prescriptions, and the purchase of drugs through centralized bidding have limited drugs that can be prescribed by government-designated hospitals, curbed over-prescription of antibiotics and other medications, and pushed down prices through bidding. The Chinese government has also announced plans to make huge price cuts for off-patent, original drugs.

Beijing Hanmi visit: Focused on children's medicine and R&D

Beijing Hanmi Pharmaceutical was established in 1996 and is 73.7% owned by Hanmi Pharmaceutical (the rest is held by China Resources). In 2015, the company generated revenue of RMB1.13bn. Its four biggest products are Mamiiai (digestive supplement for kids), Etanjing (cough medicine), Ruguotang (laxative), and Mechanang (gastrointestinal treatment).

Beijing Hanmi's revenue increased 21% CAGR from 2006 to 2015, supported by 1) its GMP-certified plant, 2) nationwide direct sales network, 3) focus on children's and digestive medicines, and 4) concentration on class II hospitals. The company is also actively engaged in local charities and community activities.

The company's core products are unlikely to be free from the pricing pressures of China's healthcare reforms. Thus, we may no longer see the high pace of growth witnessed in previous years. Still, we note that the company has made steady investments in R&D, establishing a solid pipeline and a 160-member talent pool, which could potentially generate synergy with the parent R&D unit. We thus could see positive results on the R&D front in the long term.

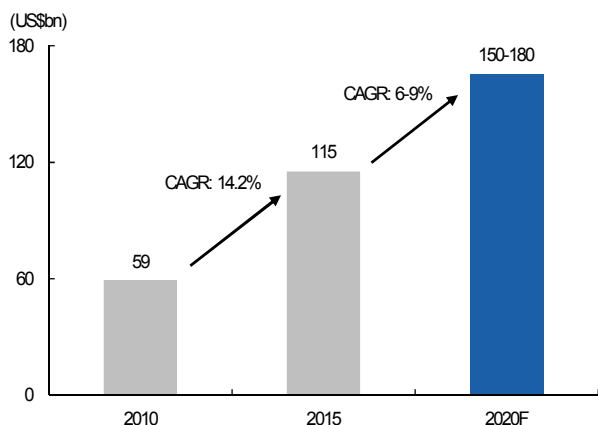
Maintain Buy and TP of W883,000

We reaffirm our Buy rating and target price of W883,000 on Hanmi Pharmaceutical. We highlight two investment points: 1) progress in drug development driving up the company's pipeline value, and 2) additional overseas deals on pipeline assets.

FY (Dec.)	12/13	12/14	12/15	12/16F	12/17F	12/18F
Revenue (Wbn)	730	761	1,318	1,006	1,064	1,110
OP (Wbn)	62	34	212	74	109	137
OP margin (%)	8.5	4.5	16.1	7.4	10.2	12.3
NP (Wbn)	44	36	154	90	91	47
EPS (W)	4,601	3,441	14,800	8,606	8,732	4,550
ROE (%)	11.4	7.6	25.7	12.7	11.7	5.7
P/E (x)	22.0	29.1	49.2	75.5	74.4	142.9
P/B (x)	2.4	2.0	11.2	9.1	8.3	8.0

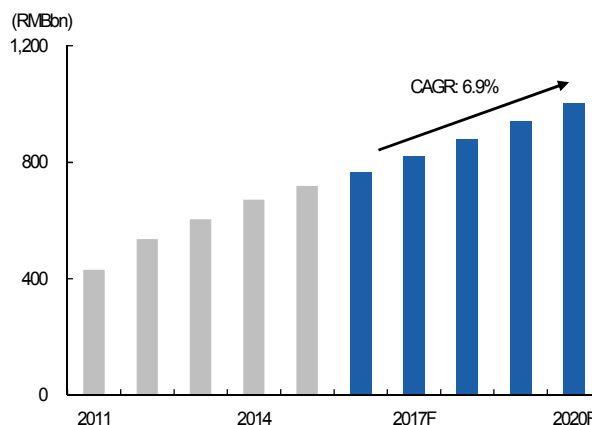
Notes: All figures are based on consolidated K-IFRS; NP refers to net profit attributable to controlling interests
Source: Company data, Mirae Asset Daewoo Research estimates

Table 1. China's pharmaceutical market forecast (1)



Source: IMS, Mirae Asset Daewoo Research

Table 2. China's pharmaceutical market forecast (1)



Source: Chinese government, Mirae Asset Daewoo Research

Table 1. Chinese government's drug pricing regulations

Year	Policy	Details
June 2015	Bidding	<ul style="list-style-type: none"> - National hospital-led drug price negotiations ended; All hospitals' drug needs combined for the purpose of drug procurement (provincial-level) - Total procurement amount must be at least 80% of actual drug use in the previous year - Drug procurement budget must be less than 25%-30% of hospitals' total spending - Hospitals must report drug purchases to authorities
May 2015	Price cap repeal	<p>Retail price caps on all drugs, excluding anesthetic and psychotropic drugs, abolished starting in June 2015</p> <ul style="list-style-type: none"> - As of 2014, the number of drugs subject to retail price caps stood at 2,700, accounting for 23% of the Chinese pharmaceutical market - Actual transaction prices set based on market competition
Mar. 2015	Price cut	Prices of excessively expensive drugs lowered via price negotiations, and announced plan to establish a national drug price guidance commission to prevent corruption and irregularities
Feb. 2015	Bidding	Divided drug bidding into basic drug and non-basic drug bids
Nov. 2014	Price cut	Government control over retail prices abolished starting in 2015 - Promotion of reasonable pricing via establishment of insurance coverage criteria
June 2014	Bidding	If drug transaction price in a "national hospital reform city" is lower than successful bid price in a province, hospitals allowed to purchase at the drug transaction price
Apr. 2014	Price cut	Insurance coverage criteria established for low-priced drugs
2012	Price cut	The National Development and Reform Commission (NDRC) cut the prices of digestive, anti-tumor, blood, and respiratory drugs
2011	Price cut	Lowered price caps on some antimicrobial, circulatory, endocrine, and neurological drugs
2010	Price cut	Lowered price caps on some drugs, including ceftriaxone sodium (Rocephin)
2009	Price cut	The NDRC announced its recommended prices for basic drugs
2007	Selling price cap	The State Planning Commission (SPC) announced price caps on 278 drugs for internal diseases, 188 Chinese medicines, and 260 other drugs
2006	Selling price cap	The SPC announced price caps on 99 antimicrobial drugs, 32 anti-tumor drugs, and 354 other drugs
2002	Selling price cap	The SPC announced price caps on the drugs that are included in the list of drugs covered by national basic health insurance
2001	Selling price cap	The SPC announced selling price caps on 383 drugs

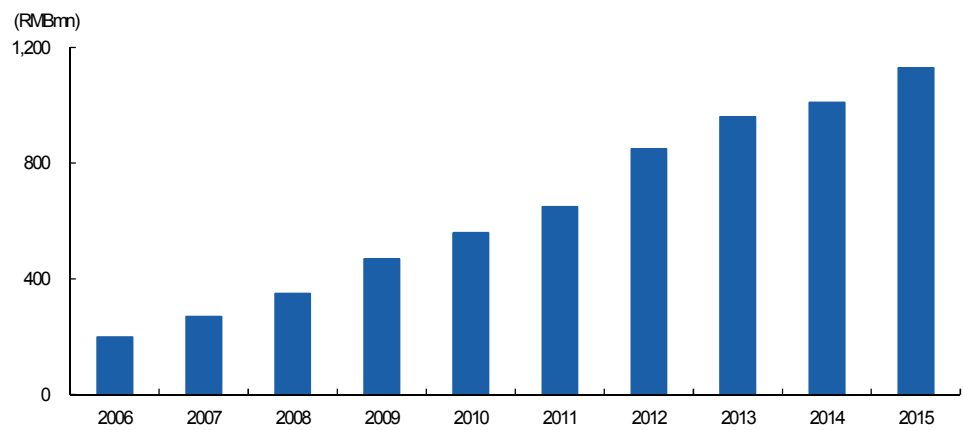
Source: Press releases, Mirae Asset Daewoo Research

Figure 3. Beijing Hanmi



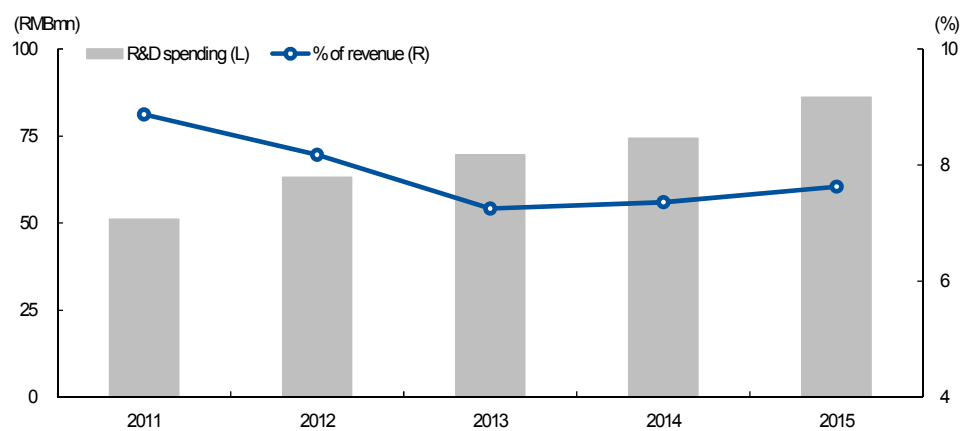
Source: Company data, Mirae Asset Daewoo Research

Figure 4. Beijing Hanmi revenue trend



Source: Company data, Mirae Asset Daewoo Research

Figure 5. Beijing Hanmi's R&D spending and proportion of revenue



Source: Company data, Mirae Asset Daewoo Research

Figure 6. Beijing Hanmi R&D center (1)



Source: Company data, Mirae Asset Daewoo Research

Figure 7. Beijing Hanmi R&D center (2)



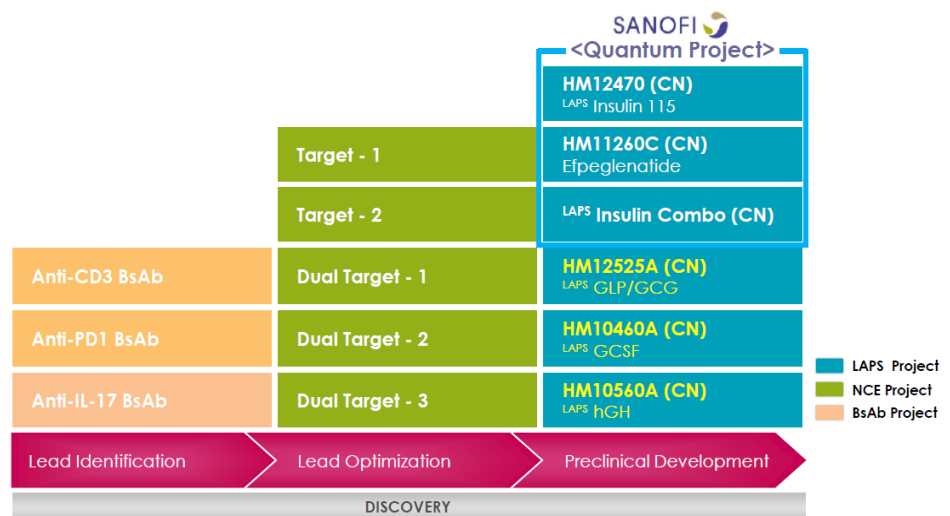
Source: Company data, Mirae Asset Daewoo Research

Figure 8. Beijing Hanmi's R&D synergy



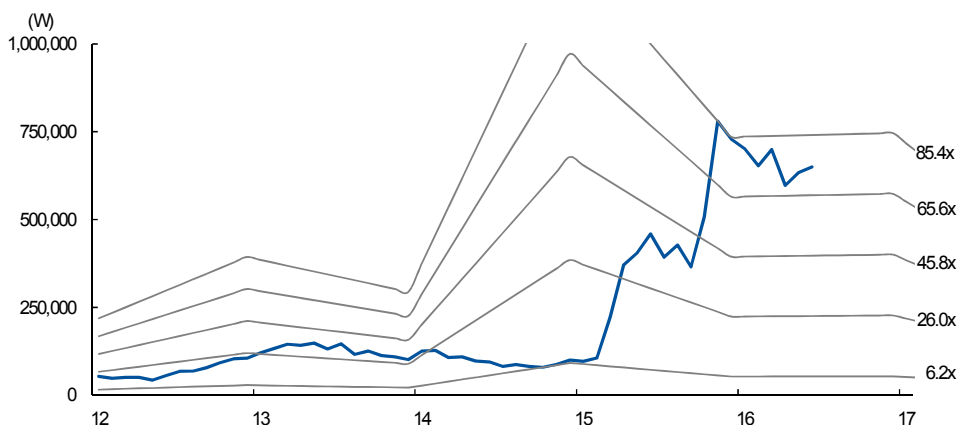
Source: Company data, Mirae Asset Daewoo Research

Figure 9. Beijing Hanmi's R&D synergy



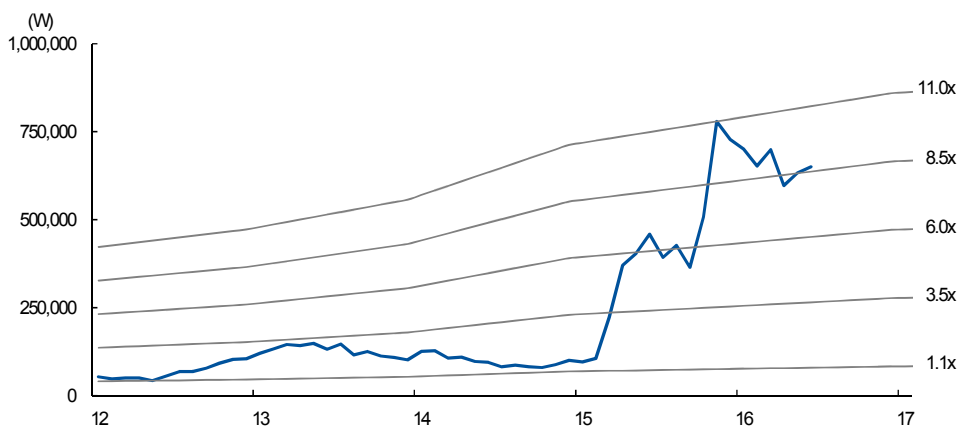
Source: Company data, Mirae Asset Daewoo Research

Figure 10. Hanmi Pharmaceutical's 12-month forward P/E band



Source: Mirae Asset Daewoo Research

Figure 11. Hanmi Pharmaceutical's 12-month forward P/B band



Source: Mirae Asset Daewoo Research

Table 7. Hanmi Pharmaceutical's pipeline

Type			Indications	Development	Other
Biologics	LAPS Insulin Combo	LAPS Insulin Combo	Diabetes & obesity	Ready for IND submission	Quantum Project
	HM12470	LAPS Insulin 115	Diabetes	Phase 1	Quantum Project
	HM12525A	LAPS GLP/GCG	Diabetes & obesity	Phase 1	
	Efpeglenatide	LAPS CA-Exd4	Diabetes & obesity	Phase 2	Quantum Project
	HM10560A	LAPS rhGH	Growth hormone	Phase 2	
	Eflapegrastim	LAPS GCSF	Neutropenia	Phase 3	
Chemicals	HM71224	BTK inhibitor	Rheumatoid arthritis	Phase 1	
	HM95573	RAF inhibitor	Solid tumor	Phase 1	
	KX2-391	Src/tubulin inhibitor	Solid tumor	Phase 1	
	Oratecan	Oral anticancer drug	Solid tumor	Phase 1	
	Poziotinib	pan-Her inhibitor	Lung cancer	Phase 2	
	Oraxol	Oral anticancer drug	Gastric cancer	Phase 2	
	HM61713	EGFR mutant selective	Lung cancer	Phase 2	
	Luminate	Cell adhesion inhibitor	Retina disease	Phase 2	
IMD/FDCs	HCP1405		Osteoporosis	Phase 1	
	HGP1202		COPD	Phase 1	
	HGP1207		Pulmonary hypertension	Phase 3	
	HCP1302		Hypertension/erectile dysfunction	Submitted NDA to MFDS	
	HCP1105		Hypertension/dyslipidemia	Phase 3	
	HCP1305		Hypercholesterolemia	Phase 3	
	HCP1401		Hypertension	Phase 3	
	HCP1303		Prostatism/erectile dysfunction	Phase 3	
	HCP1402		Prostatism/one-component	Approved	

Source: Company data, Mirae Asset Daewoo Research

Hanmi Pharmaceutical (128940 KS/Buy/TP: W883,000)

Comprehensive Income Statement (Summarized)

(Wbn)	12/15	12/16F	12/17F	12/18F
Revenue	1,318	1,006	1,064	1,110
Cost of Sales	398	430	457	475
Gross Profit	920	576	607	635
SG&A Expenses	707	502	497	497
Operating Profit (Adj)	212	74	109	137
Operating Profit	212	74	109	137
Non-Operating Profit	-2	39	6	-82
Net Financial Income	-11	-9	-6	-6
Net Gain from Inv in Associates	0	0	0	0
Pretax Profit	210	113	115	55
Income Tax	48	18	19	5
Profit from Continuing Operations	162	94	96	50
Profit from Discontinued Operations	0	0	0	0
Net Profit	162	94	96	50
Controlling Interests	154	90	91	47
Non-Controlling Interests	8	4	4	2
Total Comprehensive Profit	156	94	96	50
Controlling Interests	148	89	91	47
Non-Controlling Interests	8	5	5	3
EBITDA	262	119	151	176
FCF (Free Cash Flow)	-19	246	48	119
EBITDA Margin (%)	19.9	11.8	14.2	15.9
Operating Profit Margin (%)	16.1	7.4	10.2	12.3
Net Profit Margin (%)	11.7	8.9	8.6	4.2

Cash Flows (Summarized)

(Wbn)	12/15	12/16F	12/17F	12/18F
Cash Flows from Op Activities	102	413	105	149
Net Profit	162	94	96	50
Non-Cash Income and Expense	119	26	57	128
Depreciation	27	27	29	29
Amortization	23	17	13	10
Others	69	-18	15	89
Chg in Working Capital	-117	320	-23	-18
Chg in AR & Other Receivables	-492	372	-23	-19
Chg in Inventories	-25	47	-6	-5
Chg in AP & Other Payables	3	-15	2	2
Income Tax Paid	-50	-18	-19	-5
Cash Flows from Inv Activities	-114	-121	-48	-109
Chg in PP&E	-119	-166	-58	-30
Chg in Intangible Assets	-14	0	0	0
Chg in Financial Assets	6	0	0	0
Others	13	45	10	-79
Cash Flows from Fin Activities	95	-173	-21	-21
Chg in Financial Liabilities	95	-153	0	0
Chg in Equity	0	0	0	0
Dividends Paid	0	-20	-21	-21
Others	0	0	0	0
Increase (Decrease) in Cash	86	119	36	19
Beginning Balance	52	138	257	293
Ending Balance	138	257	293	313

Source: Company data, Mirae Asset Daewoo Research estimates

Statement of Financial Condition (Summarized)

(Wbn)	12/15	12/16F	12/17F	12/18F
Current Assets	1,145	843	909	952
Cash and Cash Equivalents	138	257	293	313
AR & Other Receivables	785	410	434	453
Inventories	158	111	118	123
Other Current Assets	64	65	64	63
Non-Current Assets	577	699	715	707
Investments in Associates	0	0	0	0
Property, Plant and Equipment	416	555	584	585
Intangible Assets	67	50	37	27
Total Assets	1,723	1,542	1,624	1,658
Current Liabilities	674	480	487	493
AP & Other Payables	225	123	130	136
Short-Term Financial Liabilities	103	11	11	0
Other Current Liabilities	346	346	346	357
Non-Current Liabilities	304	243	243	243
Long-Term Financial Liabilities	264	204	204	0
Other Non-Current Liabilities	40	39	39	243
Total Liabilities	978	723	730	736
Controlling Interests	675	745	814	841
Capital Stock	26	26	26	26
Capital Surplus	418	418	418	418
Retained Earnings	228	298	368	394
Non-Controlling Interests	70	74	79	81
Stockholders' Equity	745	819	893	922

Forecasts/Valuations (Summarized)

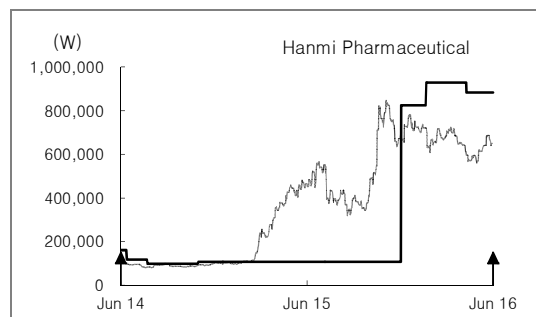
	12/15	12/16F	12/17F	12/18F
P/E (x)	49.2	75.5	74.4	142.9
P/CF (x)	27.0	56.4	44.3	38.2
P/B (x)	11.2	9.1	8.3	8.0
EV/EBITDA (x)	29.4	57.0	44.5	38.2
EPS (W)	14,800	8,606	8,732	4,550
CFPS (W)	26,942	11,532	14,661	17,037
BPS (W)	64,887	71,535	78,271	80,825
DPS (W)	2,000	2,000	2,000	2,000
Payout ratio (%)	12.6	22.1	21.8	41.8
Dividend Yield (%)	0.3	0.3	0.3	0.3
Revenue Growth (%)	73.2	-23.7	5.8	4.3
EBITDA Growth (%)	336.7	-54.6	26.9	16.6
Operating Profit Growth (%)	523.5	-65.1	47.3	25.7
EPS Growth (%)	330.1	-41.9	1.5	-47.9
Accounts Receivable Turnover (x)	2.5	1.7	2.5	2.5
Inventory Turnover (x)	9.0	7.5	9.3	9.2
Accounts Payable Turnover (x)	7.3	8.8	10.7	10.6
ROA (%)	11.8	5.8	6.0	3.0
ROE (%)	25.7	12.7	11.7	5.7
ROIC (%)	20.6	8.0	13.0	17.3
Liability to Equity Ratio (%)	131.3	88.4	81.8	79.8
Current Ratio (%)	170.0	175.6	186.6	193.3
Net Debt to Equity Ratio (%)	24.9	-10.6	-13.7	-15.4
Interest Coverage Ratio (x)	17.3	6.7	13.3	16.7

APPENDIX 1

Important Disclosures & Disclaimers

2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
Hanmi Pharmaceutical(128940)	04/29/2016	Buy	883,000
	02/10/2016	Buy	929,000
	12/23/2015	Buy	826,000
	11/20/2014	Buy	107,000
	08/12/2014	Buy	98,000
	07/03/2014	Buy	118,000
	05/02/2014	Buy	160,000



Stock Ratings

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

Industry Ratings

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

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

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

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

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

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

Equity Ratings Distribution

Buy	Trading Buy	Hold	Sell
68.29%	17.56%	14.15%	0.00%

* Based on recommendations in the last 12-months (as of March 31, 2016)

Disclosures

Mirae Asset Daewoo Co., Ltd.'s analyst attended the IR meeting held by Hanmi Pharm within recent one month. Expenses related to the meeting were covered by Hanmi Pharm.

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Daewoo Securities (Europe) Ltd. 41st Floor, Tower 42 25 Old Broad St. London EC2N 1HQ United Kingdom Tel: 44-20-7982-8000	Daewoo Securities (Singapore) Pte., Ltd. Six Battery Road #11-01 Singapore, 049909 Tel: 65-6671-9845	Tokyo Representative Office 7th Floor, Yusen Building 2-3-2 Marunouchi, Chiyoda-ku Tokyo 100-0005 Japan Tel: 81-3- 3211-5511
Beijing Representative Office 2401A, 24th Floor, East Tower, Twin Towers B-12 Jianguomenwai Avenue Chaoyang District, Beijing 100022 China Tel: 86-10-6567-9299	Shanghai Representative Office Room 38T31, 38F SWFC 100 Century Avenue Pudong New Area, Shanghai 200120 China Tel: 86-21-5013-6392	Ho Chi Minh Representative Office Suite 2103, Saigon Trade Center 37 Ton Duc Thang St, Dist. 1, Ho Chi Minh City, Vietnam Tel: 84-8-3910-6000
Daewoo Investment Advisory (Beijing) Co., Ltd. 2401B, 24th Floor, East Tower, Twin Towers B-12 Jianguomenwai Avenue, Chaoyang District, Beijing 100022 China Tel: 86-10-6567-9699	Daewoo Securities (Mongolia) LLC #406, Blue Sky Tower, Peace Avenue 17 1 Khoroo, Sukhbaatar District Ulaanbaatar 14240 Mongolia Tel: 976-7011-0807	PT. Daewoo Securities Indonesia Equity Tower Building Lt.50 Sudirman Central Business District Jl. Jendral Sudirman Kav. 52-53, Jakarta Selatan Indonesia 12190 Tel: 62-21-515-1140