MIRAE ASSET
Building on principles

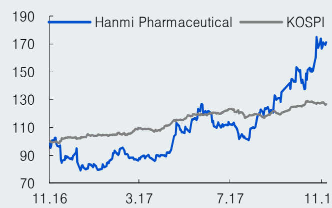
**Healthcare**

Company Update
November 29, 2017

| (Maintain) | Buy |
|---|---|
| Target Price(12M, W) | ▲ 710,000 |
| Share Price (11/28/17, W) | 575,000 |
| Expected Return | 23% |

| | |
|---|---|
| OP (17F, Wbn) | 98 |
| Consensus OP (17F, Wbn) | 101 |
| EPS Growth (17F, %) | 150.4 |
| Market EPS Growth (17F, %) | 46.0 |
| P/E (17F, x) | 109.9 |
| Market P/E (17F, x) | 10.2 |
| KOSPI | 2,514.19 |
| Market Cap (Wbn) | 6,419 |
| Shares Outstanding (mn) | 11 |
| Free Float (%) | 58.2 |
| Foreign Ownership (%) | 12.5 |
| Beta (12M) | 0.46 |
| 52-Week Low | 266,043 |
| 52-Week High | 588,000 |

| (%) | 1M | 6M | 12M |
|---|---|---|---|
| Absolute | 18.7 | 58.0 | 69.9 |
| Relative | 17.9 | 48.0 | 33.6 |





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[Pharmaceutical/Biotech]

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# Hanmi Pharmaceutical
(128940 KS)

## Long-awaited phase 3 study of efpeglenatide to begin

### Sanofi unveils phase 3 study design for efpeglenatide

On November 27th, Sanofi's plans for its phase 3 study of the diabetes treatment efpeglenatide (once-weekly injectable GLP-1) were released on ClinicalTrials.gov, a database provided by the US National Institutes of Health (NIH). The phase 3 study of efpeglenatide—one of the three assets Sanofi licensed from Hanmi Pharmaceutical for W5tr in November 2015—had previously been delayed due to manufacturing issues.

The placebo-controlled trial will begin on December 4th, enrolling 400 type 2 diabetes patients for a duration of approximately 65 weeks (including a three-week screening period, a 56-week treatment period, and a six-week safety follow-up). The primary outcome measure will be changes in glycated hemoglobin (HbA1c) levels for 30 weeks after administration.

### Sanofi strongly committed to developing efpeglenatide

We believe manufacturing issues related to the LAPSCOVERY program that persisted over the past couple of years have now been completely resolved. Sanofi announced the initiation of the phase 3 study of efpeglenatide, while Janssen restarted the phase 1 study of the diabetes/obesity treatment HM12525A in August. The global phase 3 study of the long-acting neutropenia treatment Rolontis (based on the same platform technology) is also moving along smoothly.

Given that the efpeglenatide study design involves 400 patients and a placebo control group, we think an additional phase 3 study is likely to be separately conducted.

The phase 3 study will reportedly cost more than W700bn in total, of which Hanmi Pharmaceutical will cover around 25% (up to W180bn), while Sanofi will pay over W500bn.

We believe Sanofi has a strong desire to develop efpeglenatide, considering that: 1) W500bn in clinical costs is not an insignificant amount, even for the drugmaker; 2) sales of the diabetes drug Lantus (its biggest seller, accounting for 14% of revenue) are rapidly declining due to biosimilar competition; and 3) its diabetes pipeline (including long-acting treatments) appears lackluster.

### Maintain Buy and Raise TP to W710,000 from W610,000

We raise our target price on Hanmi Pharmaceutical to W710,000 from W610,000. In light of the efpeglenatide phase 3 study announcement, we revised up our success rate assumption for efpeglenatide to 71% (likelihood of release in phase 3 study) from 38% (likelihood of release in phase 2 study), and removed the value of the insulin combo therapy, for which new pre-clinical trials were recently initiated.

We maintain our Buy recommendation on the stock, as we expect a number of R&D events ahead in 2018, including clinical trial initiation, data release, and participation in academic conferences, as well as licensing deals for assets for which clinical data were recently released.

| FY (Dec.) | 12/14 | 12/15 | 12/16 | 12/17F | 12/18F | 12/19F |
|---|---|---|---|---|---|---|
| Revenue (Wbn) | 761 | 1,318 | 883 | 912 | 920 | 1,164 |
| OP (Wbn) | 34 | 212 | 27 | 98 | 87 | 229 |
| OP margin (%) | 4.5 | 16.1 | 3.1 | 10.7 | 9.5 | 19.7 |
| NP (Wbn) | 36 | 154 | 23 | 58 | 53 | 149 |
| EPS (W) | 3,217 | 13,835 | 2,089 | 5,231 | 4,753 | 13,354 |
| ROE (%) | 7.6 | 25.7 | 3.5 | 8.5 | 7.1 | 17.6 |
| P/E (x) | 29.1 | 49.2 | 136.7 | 109.9 | 121.0 | 43.1 |
| P/B (x) | 2.0 | 11.2 | 4.8 | 8.8 | 8.2 | 6.9 |
| Dividend yield (%) | 0.0 | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 |

Note: 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


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**Table 1. Phase 3 study design for efpeglenatide**

| Item | Description |
|---|---|
| NCT no. | NCT03353350 |
| Sponsor | Sanofi |
| Drug | Efpeglenatide (SAR439977) |
| Indication | Type 2 diabetes mellitus |
| Phase | Phase 3 |
| Estimated enrollment | 400 patients aged 18 or older |
| Study duration | Dec. 2017 to Jan. 2020 |
| Treatment groups | Three (high/middle/low dose) groups (once-weekly injection) vs. placebo control group |
| Primary outcome measure | 30-week HbA1c change |
| Secondary outcome measure | Glycemic and body weight control |

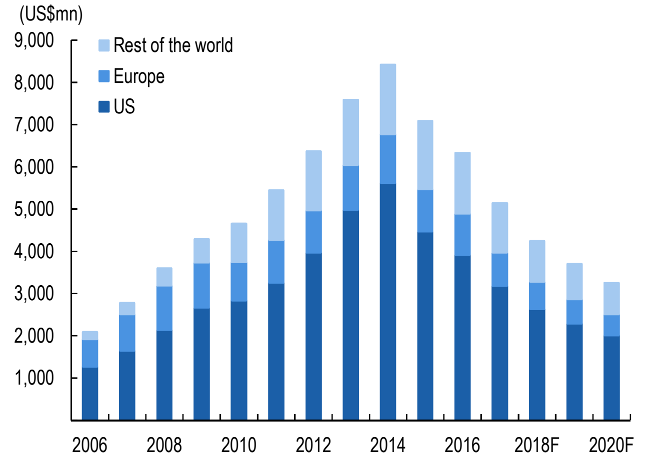
Source: ClinicalTrials.gov, Mirae Asset Daewoo Research

**Table 2. Key events**

| Timeline | Event |
|---|---|
| 4Q17 | Initiation of Sanofi's phase 3 study of efpeglenatide |
| 1Q18 | Participation in the JP Morgan Healthcare Conference |
| | Completion of Janssen's HM12525A phase 1 study |
| | Release of interim data from Rolontis phase 3 study |
| 2Q18 | Initiation of phase 1 study of triple agonist and glucagon analog |
| | Initiation of phase 3 study of olmutinib |
| | Participation in American Society of Clinical Oncology meeting in June |
| 3Q18 | Release of interim data from Eli Lilly's BTK inhibitor phase 2 study |
| 4Q18 | Filing of biologics license application for Rolontis |
| | Release of data from Janssen's HM12525A phase 1 study |
| | Initiation of phase 2 study of long-acting growth hormone for children |
| | Initiation of phase 1 study of FLT3 |
| | Potential licensing deals |

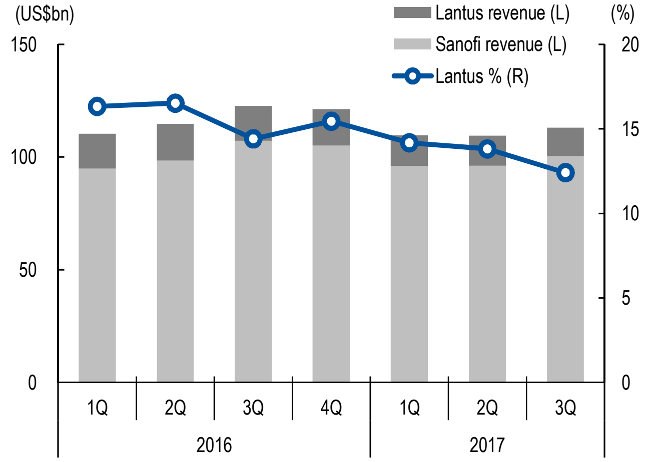
Source: Industry data, media reports, Mirae Asset Daewoo Research

**Figure 1. Lantus: Annual sales**




Source: Sanofi, Bloomberg, Mirae Asset Daewoo Research

**Figure 2. Lantus: Quarterly sales and % of total sales**




Source: Sanofi, Mirae Asset Daewoo Research

**Table 3. Valuation** (Wbn)

| | Fair value | Notes |
|---|---|---|
| Domestic business | 1,250.0 | 25x (average prior to reflection of new drug value) 12-month forward EBITDA |
| Beijing Hanmi | 619.8 | 25x 12-month forward net profit (equity-method) |
| Hanmi Fine Chemical | 28.9 | 15x 12-month forward net profit (equity-method) |
| New drug value | 6,202.6 | |
| BTK inhibitor | 305.2 | |
| Quantum Project | 4,547.3 | |
| LAPS-GLP-1/GCG | 433.0 | |
| RAF inhibitor | 152.2 | |
| Rolontis | 673.3 | |
| Poziotinib | 91.6 | |
| Net debt | 144.3 | |
| Target market cap | 7,957.0 | |
| No. of shares ('000) | 11,163.5 | |
| Target price (W) | 712,771 | |

Source: Mirae Asset Daewoo Research estimates

**Table 4. Global peer group comparison** (US$mn, Wbn, US$, W)

| | | Novartis NVS:US | Pfizer PFE:US | Merck MRK:US | Sanofi SNY:US | BMS BMY:US | Eli Lilly LLY:US | GSK GSK:US | AstraZeneca AZN:US | Hanmi 128940 KS |
|---|---|---|---|---|---|---|---|---|---|---|
| Market cap | | 21,176 | 211,546 | 148,618 | 115,223 | 100,837 | 93,384 | 87,430 | 85,274 | 6,419 |
| Closing price (11/27) | | 84.5 | 35.5 | 54.6 | 45.6 | 61.6 | 84.8 | 35.6 | 33.7 | 575,000 |
| Revenue | 16 | 49,386 | 52,824 | 39,807 | 38,416 | 19,427 | 21,222 | 37,800 | 23,002 | 883 |
| | 17F | 48,921 | 52,563 | 40,219 | 41,846 | 20,638 | 22,621 | 40,148 | 22,027 | 912 |
| | 18F | 50,662 | 53,909 | 40,947 | 42,117 | 21,326 | 22,978 | 40,687 | 22,138 | 920 |
| OP | 16 | 9,186 | 16,168 | 7,790 | 8,289 | 4,799 | 4,075 | 10,014 | 4,363 | 27 |
| | 17F | 12,737 | 19,845 | 13,730 | 11,376 | 5,421 | 5,595 | 11,443 | 6,480 | 98 |
| | 18F | 13,685 | 20,842 | 14,128 | 11,526 | 5,749 | 6,211 | 11,227 | 6,305 | 87 |
| Revenue growth | 16 | -1.9 | 8.1 | 0.8 | -0.7 | 17.3 | 6.3 | 3.4 | -6.9 | -33.0 |
| | 17F | -0.9 | -0.5 | 1.0 | 8.9 | 6.2 | 6.6 | 6.2 | -4.2 | 3.3 |
| | 18F | 3.6 | 2.6 | 1.8 | 0.6 | 3.3 | 1.6 | 1.3 | 0.5 | 0.8 |
| OP growth | 16 | -8.9 | 12.3 | -41.5 | 5.4 | 16.5 | 13.4 | 18.0 | -0.3 | -87.4 |
| | 17F | 38.7 | 22.7 | 76.3 | 37.2 | 13.0 | 37.3 | 14.3 | 48.5 | 267.5 |
| | 18F | 7.4 | 5.0 | 2.9 | 1.3 | 6.1 | 11.0 | -1.9 | -2.7 | -11.3 |
| EPS growth | 16 | -61.9 | 4.4 | -10.1 | 11.3 | 184.0 | 14.1 | -90.4 | 24.2 | -84.9 |
| | 17F | 14.6 | 55.4 | 28.1 | 84.4 | -8.1 | -32.7 | 292.5 | -35.6 | 150.4 |
| | 18F | 16.6 | 14.8 | 67.1 | -31.9 | 20.6 | 145.1 | 16.5 | 24.9 | -9.1 |
| OP margin | 16 | 18.6 | 30.6 | 19.6 | 21.6 | 24.7 | 19.2 | 26.5 | 19.0 | 3.0 |
| | 17F | 26.0 | 37.8 | 34.1 | 27.2 | 26.3 | 24.7 | 28.5 | 29.4 | 10.7 |
| | 18F | 27.0 | 38.7 | 34.5 | 27.4 | 27.0 | 27.0 | 27.6 | 28.5 | 9.5 |
| ROE | 16 | 8.8 | 11.6 | 9.2 | 8.1 | 29.3 | 19.2 | 29.2 | 21.0 | 3.5 |
| | 17F | 15.5 | 26.4 | 23.0 | 12.3 | 28.8 | 25.0 | 500.0 | 15.2 | 8.5 |
| | 18F | 17.0 | 28.5 | 25.8 | 12.3 | 31.5 | 30.9 | 210.3 | 19.8 | 7.1 |
| P/E | 16 | 25.8 | 17.5 | 28.3 | 22.5 | 21.4 | 24.0 | 83.1 | 19.8 | 136.7 |
| | 17F | 17.5 | 13.7 | 13.8 | 13.6 | 20.6 | 20.1 | 11.9 | 17.5 | 109.9 |
| | 18F | 16.0 | 12.9 | 13.4 | 13.2 | 19.0 | 18.3 | 12.3 | 17.9 | 121.0 |
| P/B | 16 | 2.3 | 3.3 | 4.0 | 1.7 | 6.0 | 5.8 | 68.2 | 4.7 | 4.8 |
| | 17F | 2.7 | 3.7 | 4.1 | 1.6 | 6.4 | 6.2 | 59.2 | 5.7 | 8.8 |
| | 18F | 2.7 | 3.7 | 4.1 | 1.6 | 5.8 | 5.6 | 38.4 | 6.2 | 8.2 |

Note: Closing price for Hanmi is based on November 28th close

Source: Bloomberg, Mirae Asset Daewoo Research estimates

## Hanmi Pharmaceutical (128940 KS/Buy/TP: W710,000)

### Comprehensive Income Statement (Summarized)

| (Wbn) | 12/16 | 12/17F | 12/18F | 12/19F |
|---|---|---|---|---|
| **Revenue** | **883** | **912** | **920** | **1,164** |
| **Cost of Sales** | **422** | **411** | **406** | **469** |
| **Gross Profit** | **461** | **501** | **514** | **695** |
| **SG&A Expenses** | **434** | **402** | **426** | **466** |
| **Operating Profit (Adj)** | **27** | **98** | **87** | **229** |
| **Operating Profit** | **27** | **98** | **87** | **229** |
| **Non-Operating Profit** | **-19** | **-18** | **-9** | **-9** |
| Net Financial Income | -7 | -8 | -9 | -8 |
| Net Gain from Inv in Associates | 0 | 0 | 0 | 0 |
| Pretax Profit | 8 | 80 | 78 | 220 |
| Income Tax | -22 | 4 | 9 | 26 |
| Profit from Continuing Operations | 30 | 76 | 69 | 194 |
| Profit from Discontinued Operations | 0 | 0 | 0 | 0 |
| **Net Profit** | 30 | 76 | 69 | 194 |
| Controlling Interests | 23 | 58 | 53 | 149 |
| Non-Controlling Interests | 7 | 17 | 16 | 45 |
| **Total Comprehensive Profit** | **17** | **77** | **69** | **194** |
| Controlling Interests | 12 | 54 | 48 | 135 |
| Non-Controlling Interests | 5 | 23 | 21 | 58 |
| EBITDA | 66 | 140 | 130 | 273 |
| FCF (Free Cash Flow) | 213 | -156 | 49 | 129 |
| EBITDA Margin (%) | 7.5 | 15.4 | 14.1 | 23.5 |
| Operating Profit Margin (%) | 3.1 | 10.7 | 9.5 | 19.7 |
| Net Profit Margin (%) | 2.6 | 6.4 | 5.8 | 12.8 |

### Statement of Financial Condition (Summarized)

| (Wbn) | 12/16 | 12/17F | 12/18F | 12/19F |
|---|---|---|---|---|
| **Current Assets** | **841** | **749** | **781** | **1,013** |
| Cash and Cash Equivalents | 130 | 111 | 137 | 198 |
| AR & Other Receivables | 272 | 265 | 267 | 338 |
| Inventories | 190 | 196 | 198 | 250 |
| Other Current Assets | 249 | 177 | 179 | 227 |
| **Non-Current Assets** | **756** | **875** | **898** | **935** |
| Investments in Associates | 0 | 0 | 0 | 0 |
| Property, Plant and Equipment | 599 | 699 | 721 | 744 |
| Intangible Assets | 40 | 46 | 47 | 48 |
| **Total Assets** | **1,597** | **1,624** | **1,679** | **1,947** |
| **Current Liabilities** | **544** | **488** | **487** | **572** |
| AP & Other Payables | 261 | 227 | 228 | 289 |
| Short-Term Financial Liabilities | 171 | 153 | 149 | 145 |
| Other Current Liabilities | 112 | 108 | 110 | 138 |
| **Non-Current Liabilities** | **318** | **325** | **311** | **301** |
| Long-Term Financial Liabilities | 161 | 275 | 259 | 244 |
| Other Non-Current Liabilities | 157 | 50 | 52 | 57 |
| **Total Liabilities** | **862** | **813** | **798** | **873** |
| **Controlling Interests** | **660** | **719** | **773** | **921** |
| Capital Stock | 26 | 26 | 26 | 26 |
| Capital Surplus | 417 | 417 | 417 | 417 |
| Retained Earnings | 229 | 287 | 340 | 489 |
| **Non-Controlling Interests** | **75** | **93** | **108** | **153** |
| **Stockholders' Equity** | **735** | **812** | **881** | **1,074** |

### Cash Flows (Summarized)

| (Wbn) | 12/16 | 12/17F | 12/18F | 12/19F |
|---|---|---|---|---|
| **Cash Flows from Op Activities** | **413** | **-18** | **109** | **193** |
| Net Profit | 30 | 76 | 69 | 194 |
| Non-Cash Income and Expense | 72 | 61 | 58 | 75 |
| Depreciation | 36 | 38 | 39 | 40 |
| Amortization | 3 | 4 | 4 | 4 |
| Others | 33 | 19 | 15 | 31 |
| Chg in Working Capital | 332 | -143 | 0 | -41 |
| Chg in AR & Other Receivables | 527 | -8 | -2 | -69 |
| Chg in Inventories | -35 | -6 | -2 | -53 |
| Chg in AP & Other Payables | -8 | -3 | 0 | 13 |
| Income Tax Paid | -12 | -4 | -9 | -26 |
| **Cash Flows from Inv Activities** | **-355** | **-99** | **-63** | **-112** |
| Chg in PP&E | -200 | -138 | -60 | -63 |
| Chg in Intangible Assets | -23 | -10 | -5 | -5 |
| Chg in Financial Assets | -145 | 69 | -1 | -47 |
| Others | 13 | -20 | 3 | 3 |
| **Cash Flows from Fin Activities** | **-63** | **96** | **-19** | **-20** |
| Chg in Financial Liabilities | -35 | 96 | -19 | -20 |
| Chg in Equity | 0 | 0 | 0 | 0 |
| Dividends Paid | -20 | 0 | 0 | 0 |
| Others | -8 | 0 | 0 | 0 |
| **Increase (Decrease) in Cash** | **-8** | **-19** | **26** | **61** |
| Beginning Balance | 138 | 130 | 111 | 137 |
| Ending Balance | 130 | 111 | 137 | 198 |

### Forecasts/Valuations (Summarized)

| | 12/16 | 12/17F | 12/18F | 12/19F |
|---|---|---|---|---|
| P/E (x) | 136.7 | 109.9 | 121.0 | 43.1 |
| P/CF (x) | 31.2 | 46.8 | 50.5 | 23.9 |
| P/B (x) | 4.8 | 8.8 | 8.2 | 6.9 |
| EV/EBITDA (x) | 49.7 | 47.9 | 51.4 | 24.2 |
| EPS (W) | 2,089 | 5,231 | 4,753 | 13,354 |
| CFPS (W) | 9,167 | 12,288 | 11,386 | 24,021 |
| BPS (W) | 59,905 | 65,244 | 69,998 | 83,352 |
| 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 (%) | -33.0 | 3.3 | 0.9 | 26.5 |
| EBITDA Growth (%) | -74.8 | 112.1 | -7.1 | 110.0 |
| Operating Profit Growth (%) | -87.3 | 263.0 | -11.2 | 163.2 |
| EPS Growth (%) | -84.9 | 150.4 | -9.1 | 181.0 |
| Accounts Receivable Turnover (x) | 1.7 | 3.6 | 3.5 | 3.9 |
| Inventory Turnover (x) | 5.1 | 4.7 | 4.7 | 5.2 |
| Accounts Payable Turnover (x) | 7.9 | 8.4 | 8.5 | 8.6 |
| ROA (%) | 1.8 | 4.7 | 4.2 | 10.7 |
| ROE (%) | 3.5 | 8.5 | 7.1 | 17.6 |
| ROIC (%) | 12.2 | 11.0 | 8.2 | 20.6 |
| Liability to Equity Ratio (%) | 117.4 | 100.1 | 90.6 | 81.3 |
| Current Ratio (%) | 154.5 | 153.5 | 160.3 | 176.9 |
| Net Debt to Equity Ratio (%) | 0.3 | 23.1 | 16.0 | 2.3 |
| Interest Coverage Ratio (x) | 2.7 | 9.0 | 7.3 | 20.0 |

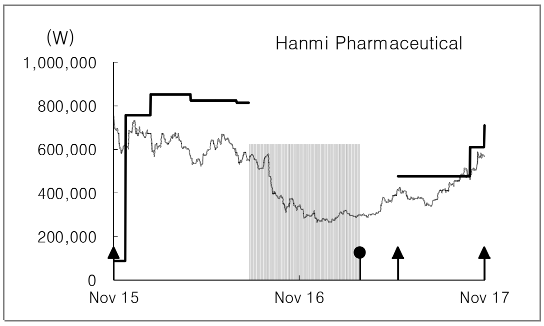
Source: Company data, Mirae Asset Daewoo Research estimates

# APPENDIX 1

## Important Disclosures & Disclaimers

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

| Company (Code) | Date | Rating | Target Price |
|---|---|---|---|
| Hanmi Pharmaceutical (128940) | 11/28/2017 | Buy | 710,000 |
| | 10/31/2017 | Buy | 610,000 |
| | 06/11/2017 | Buy | 476,915 |
| | 03/28/2017 | Hold | |
| | 08/22/2016 | No Coverage | |
| | 07/28/2016 | Buy | 815,430 |
| | 04/29/2016 | Buy | 825,717 |
| | 02/10/2016 | Buy | 852,817 |
| | 12/23/2015 | Buy | 758,264 |




| 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 & Investment Banking Services**

| | Buy | Trading Buy | Hold | Sell |
|---|---|---|---|---|
| Equity Ratings Distribution | 74.52% | 12.50% | 12.98% | 0.00% |
| Investment Banking Services | 70.73% | 19.51% | 9.76% | 0.00% |

* Based on recommendations in the last 12-months (as of September 30, 2017)

**Disclosures**

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