

MedTech

Results Comment

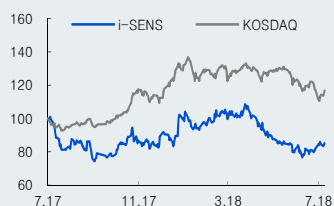
August 2, 2018

(Maintain)	Buy
Target Price (12M, W)	30,000
Share Price (08/01/18, W)	23,750
Expected Return	26%

OP (18F, Wbn)	24
Consensus OP (18F, Wbn)	27
EPS Growth (18F, %)	13.5
Market EPS Growth (18F, %)	10.4
P/E (18F, x)	18.3
Market P/E (18F, x)	9.1
KOSDAQ	790.25

Market Cap (Wbn)	326
Shares Outstanding (mn)	14
Free Float (%)	75.3
Foreign Ownership (%)	39.1
Beta (12M)	0.54
52-Week Low	20,750
52-Week High	30,300

(%)	1M	6M	12M
Absolute	5.6	-13.8	-11.7
Relative	9.3	-0.9	-27.0



Mirae Asset Daewoo Co., Ltd.

[MedTech/IT small-cap]

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i-SENS

(099190 KQ)

Decent results considering one-off expenses

2Q18 review: Top line met our expectations

For 2Q18, i-SENS reported revenue of W40.9bn (+9.4% YoY), in line with our estimate. For the core blood glucose monitoring system business, revenue improved 8.8% YoY. The PT/INR monitoring system and gas analyzer businesses also posted robust revenue growth of 28.2% YoY and 11.7% YoY, respectively.

By market, revenue climbed 23.7% YoY in Asia, 13.7% YoY in the US, 7.1% YoY in Korea, and 14.7% YoY in other countries. However, revenue from the European market declined 16.5% YoY. Meanwhile, operating profit significantly missed both the market consensus and our forecast, coming in at W4.4bn (-21.1% YoY; OP margin of 10.8%), largely due to one-off expenses of W1.5bn.

2018 will be marked by fundamental enhancements for portfolio expansion

1) Mega trend: The blood glucose monitoring market is undergoing a major shift. The self-glucose monitoring (SGM) market is slowing, due to falling reimbursement rates in the US (the world's largest market), while the continuous glucose monitoring (CGM) market is growing on the back of technological and regulatory developments. Considering the cost picture, we think it is unlikely that CGM will completely supplant SGM. Rather, the market is likely to become divided, with insulin-dependent patients turning to CGM and non-insulin-dependent patients to SGM. We believe adapting to these market changes will be key going forward.

2) In-vitro diagnostics portfolio expansion: i-SENS has continued to reduce its revenue exposure to blood glucose monitoring (from 97.1% in 2010 to 90.1% in 2017) by diversifying its business portfolio. This is why the company was able to deliver solid growth last year despite the weakness of its blood glucose monitoring business. In 2018, we expect the point-of-care testing (POCT) business to continue to expand, supported by the growth of US-based CoaguSense and potential commercialization of immunoassay systems (for cardiovascular diseases).

3) Potential operation of China plant: i-SENS is seeking manufacturing certification for its China plant for both local sales and exports. We expect approval for exports to come through in 3Q18.

4) CGM business: i-SENS is currently working on developing CGM systems, with commercialization targeted for 2019. The company's product will be based on the flash glucose monitoring (FGM) method used by Abbott (ABT US/CP: \$64.78) and will likely boast price competitiveness against rival products. CGM systems are one of the key items in the government's recently released medical device deregulation plan. The company is the only CGM developer in the domestic market.

Maintain Buy with TP of W30,000

We maintain Buy on i-SENS with a target price of W30,000. The stock is currently trading at a historical-low 12-month forward P/E of 14.6x (vs. the global peer average of 16.8x). As the company continues to work on enhancing its fundamentals, we believe investors should pay closer attention to margins than top-line growth. In 2H18, we expect margins to meaningfully improve, as shipments to AgaMatrix should recover (after a weak 1H18) and overseas subsidiaries should see operating leverage effects.

FY(Dec.)	12/15	12/16	12/17	12/18F	12/19F	12/20F
Revenue (Wbn)	102	132	157	170	189	214
OP (Wbn)	19	26	23	24	31	36
OP Margin (%)	18.6	19.7	14.6	14.1	16.4	16.8
NP (Wbn)	15	18	16	18	26	29
EPS (W)	1,077	1,280	1,146	1,301	1,858	2,139
ROE (%)	11.8	12.5	10.1	10.5	13.4	13.6
P/E (x)	31.6	23.0	22.1	18.3	12.8	11.1
P/B (x)	3.5	2.7	2.1	1.8	1.6	1.4
Dividend Yield (%)	0.0	0.3	0.4	0.4	0.4	0.4

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. 2Q18 review

(Wbn, %, %p)

	2Q17	1Q18	2Q18P			Growth	
			Preliminary	Mirae Asset Daewoo	Consensus	YoY	QoQ
Revenue	37.3	38.3	40.9	40.6	41.5	9.4	6.7
Operating profit	5.6	5.7	4.4	6.5	6.6	-21.1	-22.2
OP margin (%)	15.0	14.9	10.8	16.0	15.9	-4.2	-4.0
Pretax profit	6.5	4.3	4.0	6.7	6.0	-37.9	-6.7
Net profit	5.2	3.2	4.0	5.6	5.0	-22.0	26.5

Notes: Based on consolidated K-IFRS; net profit is attributable to controlling interests

Source: FnGuide, company data, Mirae Asset Daewoo Research estimates

Table 2. Earnings forecast revisions

(Wbn, W, %)

	Previous		Revised		% chg.		Notes
	18F	19F	18F	19F	18F	19F	
Revenue	170.2	188.9	170.4	188.9	0.1	0.0	Reflected 2Q18 earnings
Operating profit	27.0	31.5	23.7	31.0	-12.2	-1.7	
Pretax profit	25.9	32.1	22.0	31.5	-15.2	-1.8	
Net profit	21.2	26.4	17.9	25.5	-15.8	-3.4	
EPS (W)	1,545	1,923	1,301	1,858	-15.8	-3.4	

Notes: Based on consolidated K-IFRS; net profit is attributable to controlling interests

Source: Company data, Mirae Asset Daewoo Research estimates

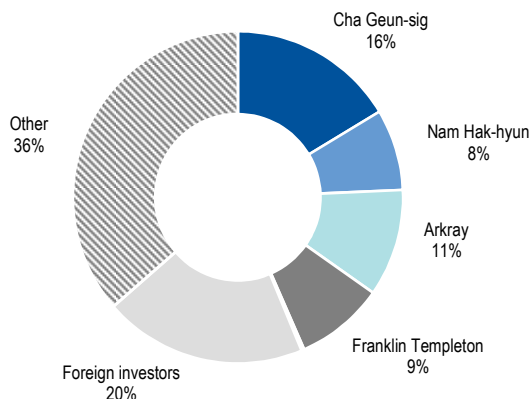
Table 3. Quarterly and annual earnings

(Wbn, %)

	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18P	3Q18F	4Q18F	2017	2018F	2019F
Revenue	36.0	37.3	40.1	43.5	38.3	40.9	43.8	47.4	157.0	170.4	188.9
Glucose monitoring systems	32.3	33.7	35.7	39.6	35.0	36.7	39.5	43.2	141.4	154.3	170.9
POCT	1.4	1.6	1.7	1.7	1.5	1.8	2.0	1.9	6.4	7.2	8.2
PT/INR monitoring systems	1.7	1.7	1.7	2.8	1.8	2.1	2.0	2.0	7.8	7.9	8.5
Operating profit	5.3	5.6	4.9	6.9	5.7	4.4	6.1	7.5	22.8	23.7	31.0
Pretax profit	2.9	6.5	4.7	5.4	4.3	4.0	6.0	7.6	19.5	22.0	31.5
Net profit	2.4	5.2	3.8	4.4	3.2	4.0	4.7	5.9	15.7	17.9	25.5
OP margin (%)	14.8	15.0	12.3	15.8	14.9	10.8	13.9	15.9	14.5	13.9	16.4
Pretax margin (%)	8.1	17.3	11.8	12.3	11.2	9.8	13.8	16.0	12.4	12.9	16.7
Net margin (%)	5.5	12.5	8.5	11.6	8.1	9.8	10.6	12.3	10.0	10.5	13.5

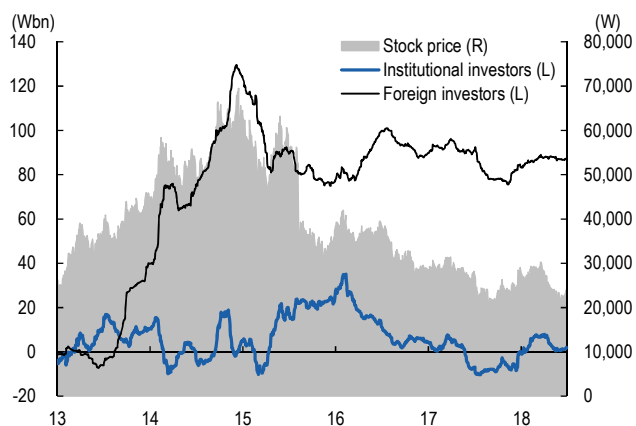
Source: Company data, Mirae Asset Daewoo Research estimates

Figure 1. Ownership breakdown



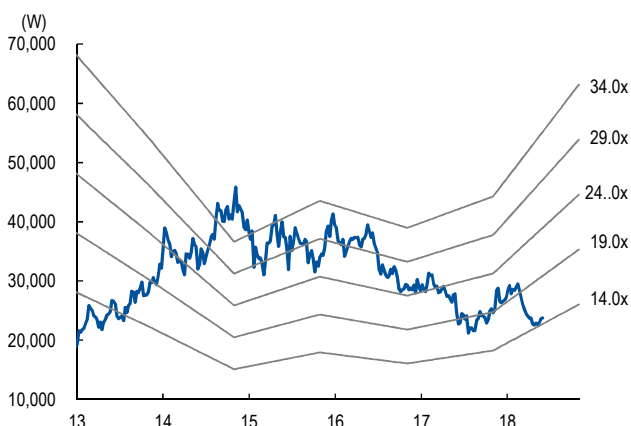
Source: Bloomberg, Mirae Asset Daewoo Research

Figure 2. Institutional and foreign net buying vs. share price



Source: Mirae Asset Daewoo Research

Figure 3. P/E band chart



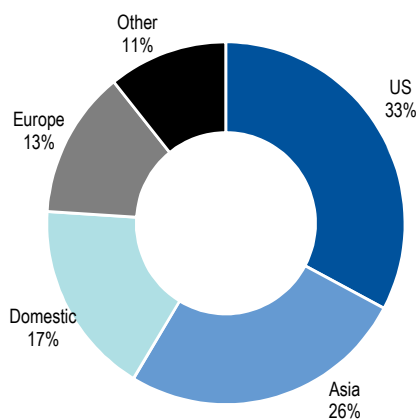
Source: Mirae Asset Daewoo Research

Table 4. Global peer valuation: ROBO index players

Companies	Market cap	OP margin (%)			P/E (x)			P/B (x)			ROE (%)			EV/EBITDA (x)		
		17	18F	19F	17	18F	19F	17	18F	19F	17	18F	19F	17	18F	19F
Roche	234,464	24.4	34.9	35.3	19.8	14.2	14.0	7.6	6.5	5.6	41.7	48.1	41.7	10.9	10.2	10.1
Abbott	128,624	6.3	21.4	22.5	36.3	22.8	20.3	3.7	-	-	1.5	16.3	17.7	18.8	17.8	16.3
Johnson & Johnson	390,440	24.5	31.7	32.5	20.3	16.0	15.2	5.5	5.4	4.9	1.9	35.3	33.9	14.3	12.5	11.8
i-SENS	324	14.5	14.1	16.4	22.1	18.3	12.8	2.1	1.8	1.6	10.1	10.5	13.4	12.1	10.3	8.2
Dexcom	10,036	-5.9	-4.7	-0.2	-	-	-	21.3	18.5	16.3	-9.3	-9.6	-4.2	-	-	319.6
Sinocare	1,636	28.8	23.0	24.1	29.1	26.2	21.4	4.0	4.2	3.6	15.6	19.7	18.3	-	21.8	17.6
TaiDoc Technology	439	19.0	24.6	24.4	22.9	15.8	12.2	3.7	3.5	3.1	16.9	22.9	25.7	10.7	10.1	8.4
Apex Biotechnology	102	9.0	11.6	-	-	-	-	1.7	1.6	-	8.4	-	-	10.8	-	-
Bionime	121	13.6	-	-	22.0	16.8	-	1.4	-	-	6.0	-	-	13.1	-	-
Tandem	1,508	-58.5	-36.0	-17.3	-	-	-	53.1	-	-	-	-	-	-	-	-
Insulet	5,628	-1.6	2.5	6.9	-	-	-	29.5	32.5	25.6	-20.0	-7.3	10.3	443.3	160.2	64.6
Medtronic	134,813	22.2	28.5	29.0	24.2	17.4	16.1	2.4	2.2	2.2	6.2	13.0	13.6	13.4	13.6	12.7
Average		8.0	13.8	17.4	24.6	18.4	16.0	11.3	8.5	7.9	7.2	16.5	18.9	60.8	32.1	52.2

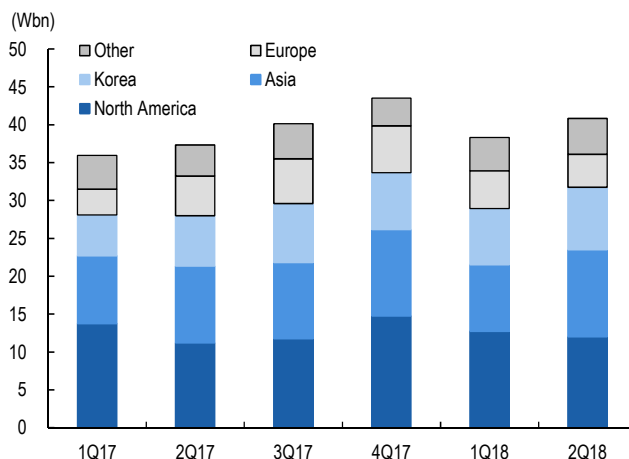
Source: Bloomberg, Mirae Asset Daewoo Research

Figure 4. Revenue breakdown by region (2017)



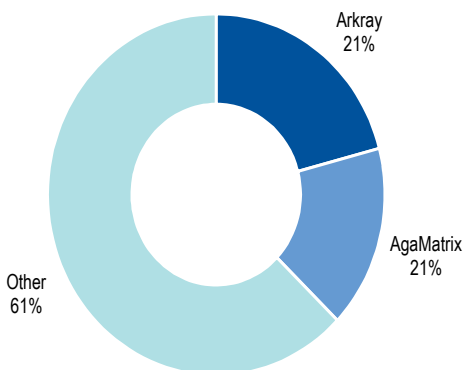
Source: Company data, Mirae Asset Daewoo Research

Figure 5. Quarterly revenue breakdown by region



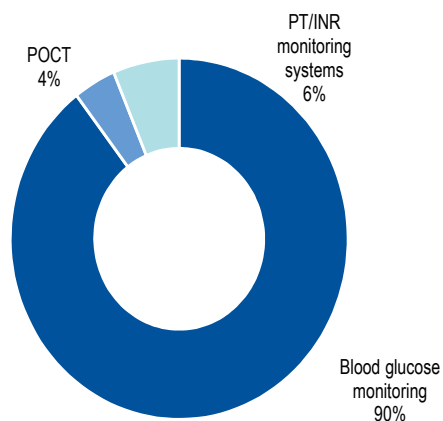
Source: Company data, Mirae Asset Daewoo Research

Figure 6. Revenue breakdown by customer (2017)



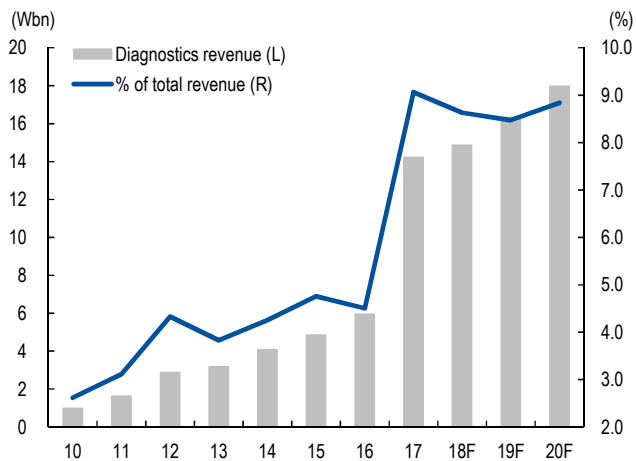
Source: Company data, Mirae Asset Daewoo Research

Figure 7. Revenue breakdown by product category (2017)



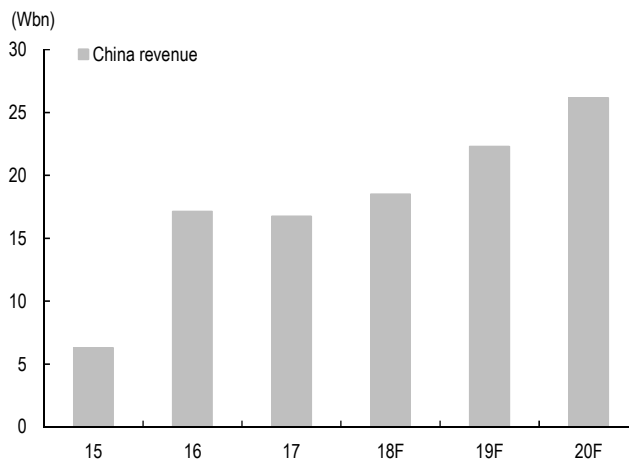
Source: Company data, Mirae Asset Daewoo Research

Figure 8. POCT revenue



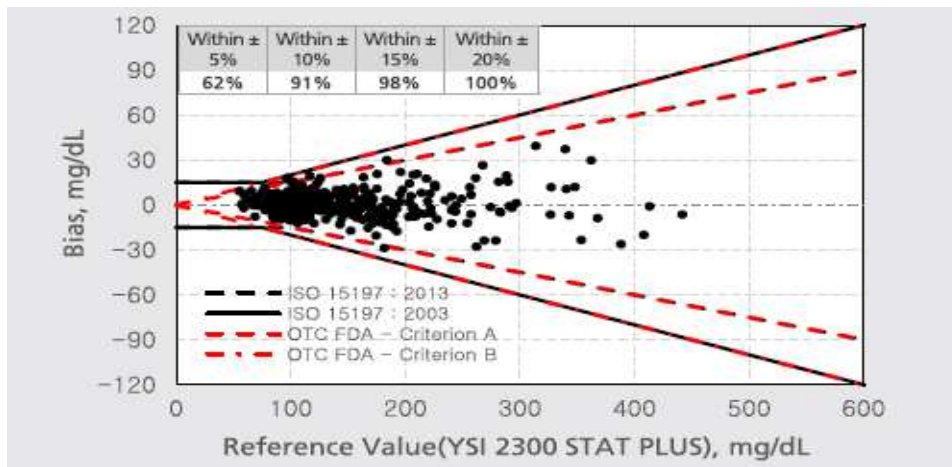
Source: Company data, Mirae Asset Daewoo Research

Figure 9. Chinese subsidiary's revenue



Source: Company data, Mirae Asset Daewoo Research

Figure 10. i-SENS's clinical trial results meet new standards of US FDA



Source: Company data, Mirae Asset Daewoo Research

Figure 11. Two out of six products certified by DTS were i-SENS products

Brand	Blood Glucose Monitor	Test Strip	Valid Trials	Trials Within Protocol Limits	
				N	%
Bayer	Contour Next	Contour Next	312	311	100%
Roche	ACCU-CHEK AVIVA Plus	ACCU-CHEK AVIVA Plus	311	306	98%
Arkray	Walmart ReliOn Confirm (Micro)	ReliOn Confirm/micro	317	307	97%
Agamatrix	CVS Advanced	CVS Advanced	318	307	97%
Abbott	FreeStyle Lite	FreeStyle Lite	312	298	96%
Roche	Accu-Chek Smart View	ACCU-CHEK SmartView	320	305	95%
Arkay	Wal-Mart ReliOn Prime	ReliOn Prime	312	288	92%
Johnson	OneTouch Free	OneTouch Free	319	294	92%
Prodigy	Prodigy Advance	Prodigy NO Coding	312	282	90%
Johnson	OneTouch Ultra	OneTouch Ultra	311	280	90%
Abbott	FreeStyle Libre	FreeStyle Libre	319	285	89%
Bayer	Contour Next	Contour Next	320	284	89%
Orion InVivo	Orion	Orion	319	282	88%
Orion InVivo	Orion	Orion	318	279	88%
Orion InVivo	Orion	Orion	205	187	91%
Orion InVivo	Orion	Orion	320	244	76%
Orion InVivo	Orion	Orion	319	241	76%

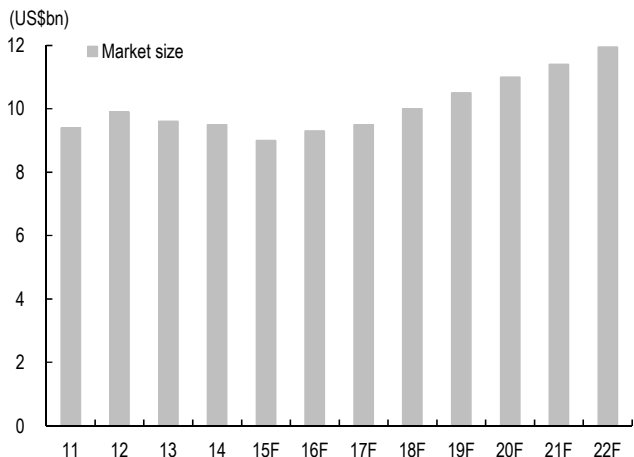
Source: Company data, Diabetes Technology Society, Mirae Asset Daewoo Research

Figure 12. i-SENS's products recommended by the UK's NHS

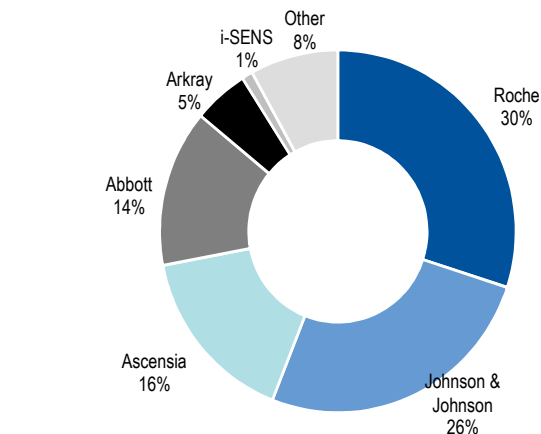
Choice dependant on:	Meter company	Test Strip
Basic Monitoring	TEE2 Spirit	TEE2
	WaveSense JAZZ (Wireless) AgaMatrix	WaveSense JAZZ
	Accu-Chek Performa Nano Roche	Performa
	Contour Black Ascensia	Contour
Visually impaired	CareSens N Voice Spirit	CareSens N
Gestational diabetes	CareSens N Spirit	CareSens N
Gestational diabetes / Medtronic Pump	Contour Next (Gestational) Contour Next (Link Pump) Ascensia	Contour Next
Carbohydrate counting / Paediatrics	Accu-Chek Expert Roche	Accu-Chek Aviva
Blood Glucose & Ketone testing and for newly diagnosed type 1 diabetes	Caresens Dual Spirit	Caresens PRO (50) Ketosens (10)

Source: Company data, Mirae Asset Daewoo Research

Figure 13. Size of global blood glucose monitor market **Figure 14. Blood glucose monitor market breakdown (by company)**

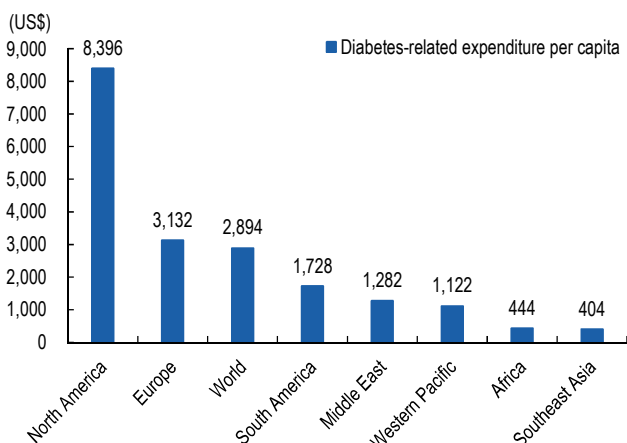


Source: Industry data, Meddevicetracker, Mirae Asset Daewoo Research

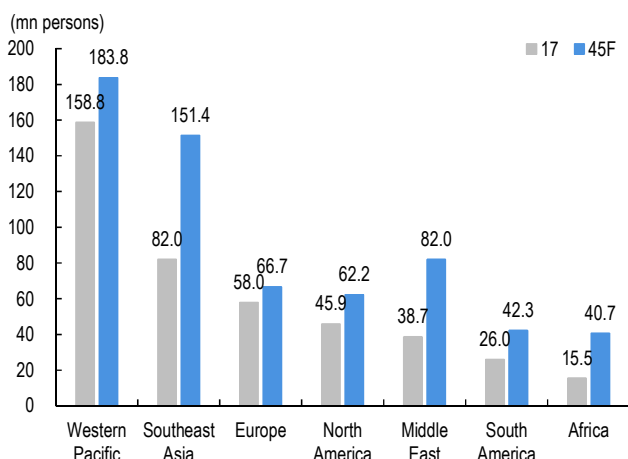


Source: KHIDI, Mirae Asset Daewoo Research

Figure 15. Diabetes-related spending by region **Figure 16. No. of diabetics by region**

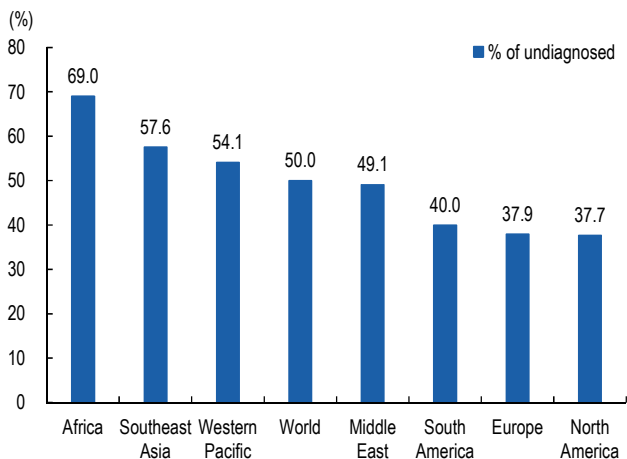


Source: IDF, Mirae Asset Daewoo Research

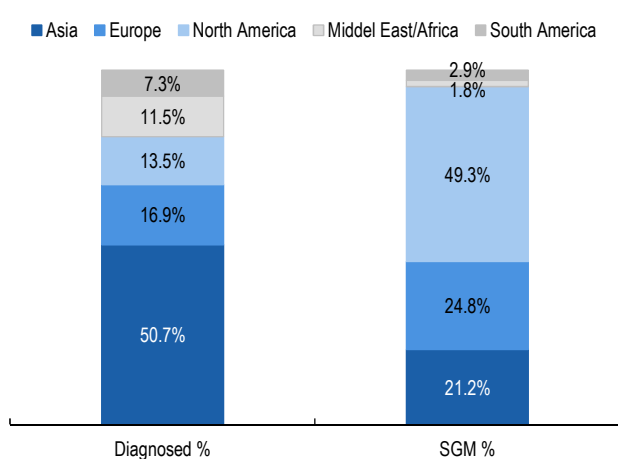


Source: KHIDI, Global data, Mirae Asset Daewoo Research

Figure 17. % of undiagnosed diabetics by region **Figure 18. Global diagnosed diabetes case breakdown vs. blood glucose monitor market breakdown**

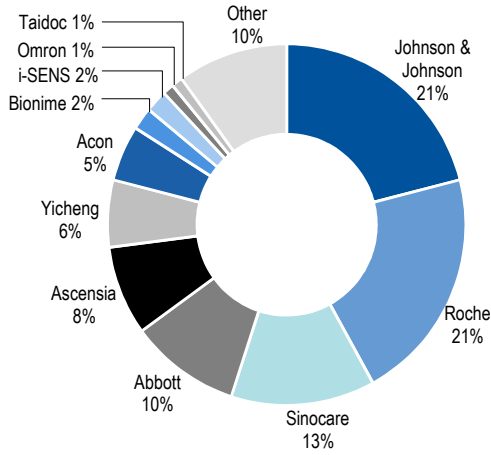


Source: IDF, Mirae Asset Daewoo Research



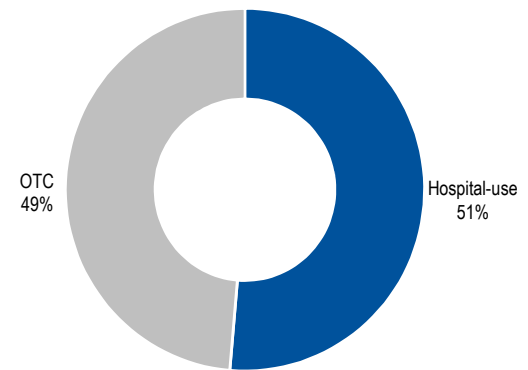
Source: KHIDI, industry data, IDF, Mirae Asset Daewoo Research

Figure 19. Blood glucose monitor M/S breakdown for China



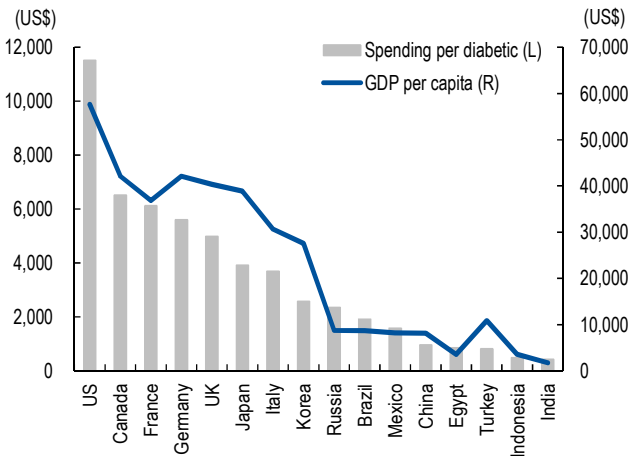
Source: Company data, Mirae Asset Daewoo Research

Figure 20. Chinese test strip market breakdown



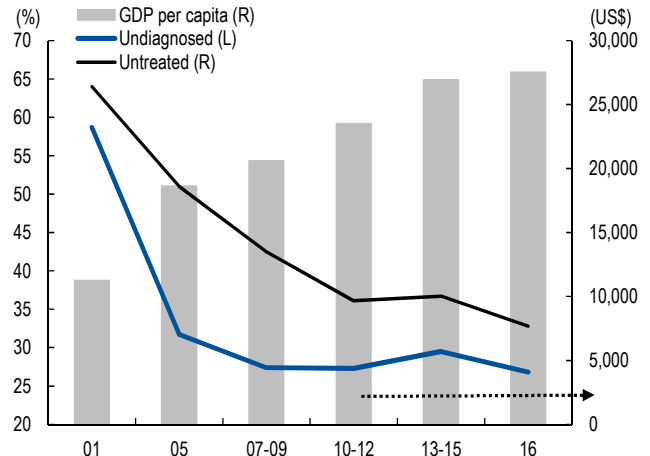
Source: Company data, Mirae Asset Daewoo Research

Figure 21. Diabetes-related spending is correlated with a country's economic level



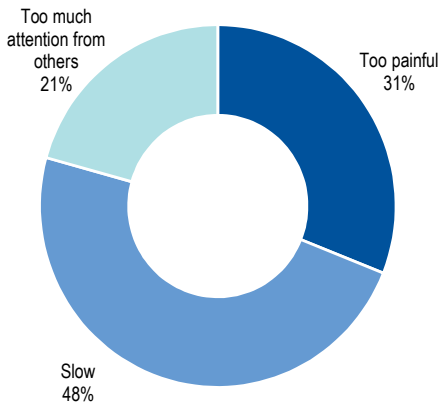
Source: IDF, IMF, Mirae Asset Daewoo Research

Figure 22. Proportions of undiagnosed and untreated diabetics in Korea have fallen



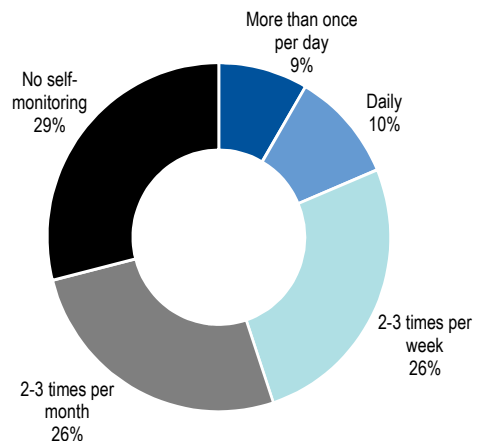
Source: IMF, MOHW, Korea Centers for Disease Control & Prevention, Mirae Asset Daewoo Research

Figure 23. Reasons for resistance to blood glucose monitoring



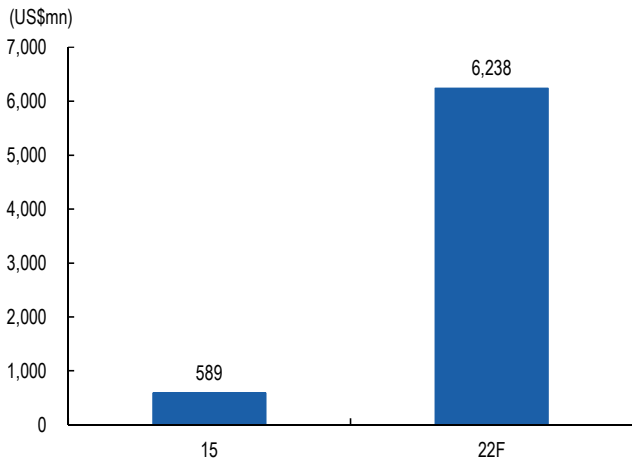
Source: FDA, Dexcom, Mirae Asset Daewoo Research

Figure 24. Results of Ascensia's 2015 survey of Korean diabetics

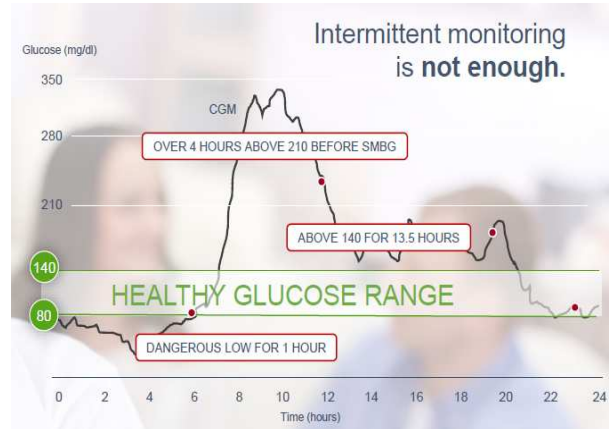


Note: Ascensia surveyed 107 diabetics living in the Seoul capital area in January 2015. Source: Mirae Asset Daewoo Research

Figure 25. CGM market outlook **Figure 26. CGM offers continuous monitoring of glucose levels**

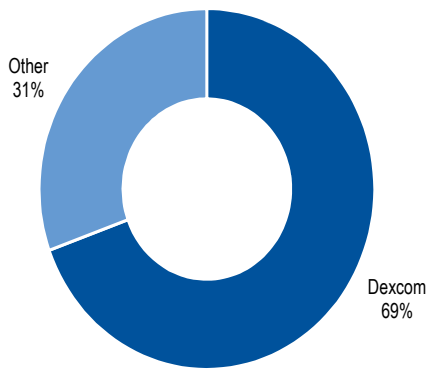


Source: Allied Market Research, Mirae Asset Daewoo Research

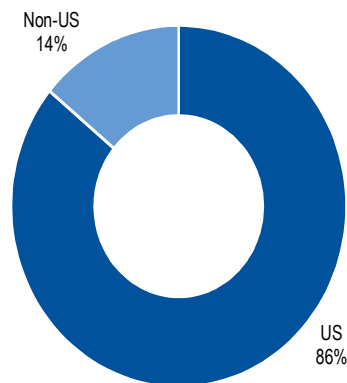


Source: Dexcom, Mirae Asset Daewoo Research

Figure 27. CGM market share **Figure 28. Dexcom's revenue by region**



Source: Dexcom, Mirae Asset Daewoo Research

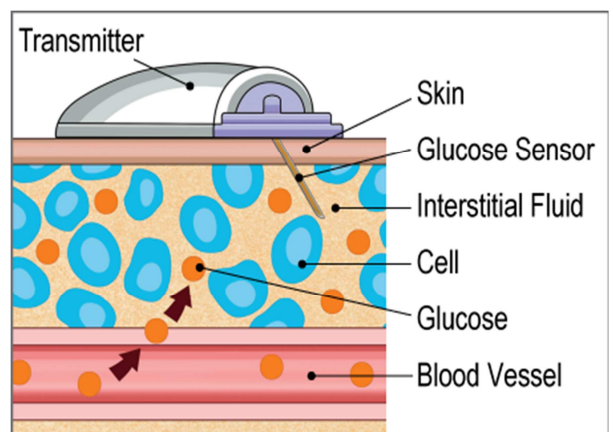


Source: Dexcom, Mirae Asset Daewoo Research

Figure 29. Application of transmitter and sensor **Figure 30. Glucose levels monitored via interstitial fluid**



Source: Dexcom, Mirae Asset Daewoo Research



Source: Medtronic, Mirae Asset Daewoo Research

i-SENS (099190 KQ/Buy/TP: W30,000)

Comprehensive Income Statement (Summarized)

(Wbn)	12/17	12/18F	12/19F	12/20F
Revenue	157	170	189	214
Cost of Sales	88	93	101	114
Gross Profit	69	77	88	100
SG&A Expenses	46	54	57	65
Operating Profit (Adj)	23	24	31	36
Operating Profit	23	24	31	36
Non-Operating Profit	-4	-2	0	1
Net Financial Income	-1	-1	-1	0
Net Gain from Inv in Associates	-2	0	1	1
Pretax Profit	19	22	31	37
Income Tax	4	4	6	7
Profit from Continuing Operations	15	18	25	29
Profit from Discontinued Operations	0	0	0	0
Net Profit	15	18	25	29
Controlling Interests	16	18	26	29
Non-Controlling Interests	-1	0	0	0
Total Comprehensive Profit	13	18	25	29
Controlling Interests	14	18	26	30
Non-Controlling Interests	-1	0	-1	-1
EBITDA	30	31	38	42
FCF (Free Cash Flow)	-1	20	27	28
EBITDA Margin (%)	19.1	18.2	20.1	19.6
Operating Profit Margin (%)	14.6	14.1	16.4	16.8
Net Profit Margin (%)	10.2	10.6	13.8	13.6

Cash Flows (Summarized)

(Wbn)	12/17	12/18F	12/19F	12/20F
Cash Flows from Op Activities	22	22	27	28
Net Profit	15	18	25	29
Non-Cash Income and Expense	13	14	14	14
Depreciation	6	6	6	5
Amortization	1	1	1	1
Others	6	7	7	8
Chg in Working Capital	-3	-6	-5	-8
Chg in AR & Other Receivables	-5	-41	-5	-7
Chg in Inventories	2	-3	-4	-5
Chg in AP & Other Payables	2	6	1	1
Income Tax Paid	-6	-4	-6	-7
Cash Flows from Inv Activities	-28	-4	0	-1
Chg in PP&E	-24	-2	0	0
Chg in Intangible Assets	-1	0	0	0
Chg in Financial Assets	2	0	0	-1
Others	-5	-2	0	0
Cash Flows from Fin Activities	8	-2	-1	-1
Chg in Financial Liabilities	6	-1	0	0
Chg in Equity	0	0	0	0
Dividends Paid	-1	-1	-1	-1
Others	3	0	0	0
Increase (Decrease) in Cash	2	14	25	26
Beginning Balance	26	27	42	67
Ending Balance	27	42	67	92

Source: Company data, Mirae Asset Daewoo Research estimates

Statement of Financial Condition (Summarized)

(Wbn)	12/17	12/18F	12/19F	12/20F
Current Assets	96	116	150	188
Cash and Cash Equivalents	27	42	67	92
AR & Other Receivables	38	41	46	53
Inventories	29	32	35	41
Other Current Assets	2	1	2	2
Non-Current Assets	138	134	128	123
Investments in Associates	3	4	4	5
Property, Plant and Equipment	99	94	88	83
Intangible Assets	19	18	17	16
Total Assets	234	251	278	311
Current Liabilities	26	28	30	34
AP & Other Payables	16	17	19	22
Short-Term Financial Liabilities	5	5	5	5
Other Current Liabilities	5	6	6	7
Non-Current Liabilities	43	43	43	44
Long-Term Financial Liabilities	38	37	37	37
Other Non-Current Liabilities	5	6	6	7
Total Liabilities	69	70	74	79
Controlling Interests	163	178	202	230
Capital Stock	7	7	7	7
Capital Surplus	46	46	46	46
Retained Earnings	112	127	151	179
Non-Controlling Interests	2	2	2	2
Stockholders' Equity	165	180	204	232

Forecasts/Valuations (Summarized)

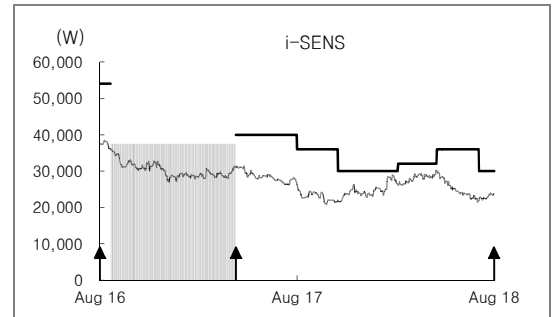
	12/17	12/18F	12/19F	12/20F
P/E (x)	22.1	18.3	12.8	11.1
P/CF (x)	12.3	10.4	8.3	7.4
P/B (x)	2.1	1.8	1.6	1.4
EV/EBITDA (x)	12.1	10.5	7.9	6.5
EPS (W)	1,146	1,301	1,858	2,139
CFPS (W)	2,058	2,274	2,861	3,188
BPS (W)	11,856	12,987	14,745	16,783
DPS (W)	100	100	100	100
Payout ratio (%)	9.1	7.8	5.5	4.7
Dividend Yield (%)	0.4	0.4	0.4	0.4
Revenue Growth (%)	18.9	8.3	11.2	13.2
EBITDA Growth (%)	-6.3	3.3	22.6	10.5
Operating Profit Growth (%)	-11.5	4.3	29.2	16.1
EPS Growth (%)	-10.5	13.5	42.8	15.1
Accounts Receivable Turnover (x)	4.5	4.5	4.5	4.5
Inventory Turnover (x)	5.2	5.6	5.6	5.6
Accounts Payable Turnover (x)	14.0	12.6	12.4	12.3
ROA (%)	6.7	7.3	9.5	10.0
ROE (%)	10.1	10.5	13.4	13.6
ROIC (%)	10.9	11.4	14.5	16.7
Liability to Equity Ratio (%)	41.7	38.9	36.0	33.9
Current Ratio (%)	371.5	420.3	492.9	546.1
Net Debt to Equity Ratio (%)	8.9	-0.5	-12.6	-22.1
Interest Coverage Ratio (x)	18.4	17.4	22.7	26.1

APPENDIX 1

Important Disclosures & Disclaimers

2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
i-SENS(099190)	07/05/2018	Buy	30,000
	04/18/2018	Buy	36,000
	02/05/2018	Buy	32,000
	10/17/2017	Buy	30,000
	08/02/2017	Buy	36,000
	04/11/2017	Buy	40,000
	08/22/2016	No Coverage	
	09/13/2015	Buy	54,000



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 & Investment Banking Services

	Buy	Trading Buy	Hold	Sell
Equity Ratings Distribution	73.40%	14.78%	11.82%	0.00%
Investment Banking Services	77.42%	9.68%	12.90%	0.00%

* Based on recommendations in the last 12-months (as of June 30, 2018)

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