

MedTech

Results Comment
August 12, 2019

(Maintain) **Buy**

Target Price (12M, W) ▼ **77,000**

Share Price (08/09/19, W) **64,400**

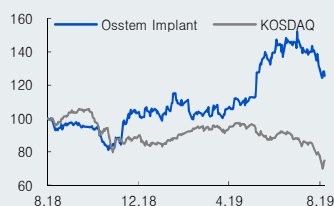
Expected Return **20%**

OP (19F, Wbn) 42
Consensus OP (19F, Wbn) 50

EPS Growth (19F, %) 130.1
Market EPS Growth (19F, %) -26.0
P/E (19F, x) 31.5
Market P/E (19F, x) 11.8
KOSDAQ 590.04

Market Cap (Wbn) 920
Shares Outstanding (mn) 14
Free Float (%) 75.9
Foreign Ownership (%) 54.6
Beta (12M) 0.29
52-Week Low 41,700
52-Week High 78,200

(%)	1M	6M	12M
Absolute	-11.8	19.7	27.3
Relative	-1.6	47.8	70.3



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[MedTech/Healthcare Solutions]

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Osstem Implant

(048260 KQ)

Disappointing OP despite record-high quarterly revenue

2Q19 review: Disappointing OP

For 2Q19, Osstem Implant reported record-high quarterly revenue of W140.9bn (+25.0% YoY), above our projection. Top-line growth was driven by overseas revenue (+32.2% YoY), which grew strongly across China (+39.8% YoY), North America (+17.5% YoY), Asia (+26.9% YoY), and Europe (+49.0% YoY). Domestic revenue also posted robust growth (+16.5% YoY).

Operating profit, however, came in far below our expectation, at W7.7bn (+5.6% YoY; OP margin of 5.4%). Earnings were hurt by the recognition of bad debt provisions and return allowances in emerging markets. On a positive note, the China subsidiary's OP margin was solid.

Asia's no. 1 dental implant supplier

1) Tighter grip on Asia: Since 2006, Osstem Implant has generated 1.1 to 2.5 times the revenue of global leader Straumann (STMN SW/CP: CHF798.40) in Asia. In 2019, we expect Osstem Implant's Asia revenue to expand 11.9% YoY (or +24% YoY, excluding Korea). In the maturing domestic market, the company remains the biggest beneficiary of the dental implant co-payment rate cut. Overall, we see robust top-line growth continuing in 2019, led by overseas markets (+24.7% YoY), especially in Asia.

2) Poised to become a total dental solutions provider: A notable trend in the global dental equipment market is that many companies are expanding across the value chain to provide total dental solutions. Osstem Implant already generates 28-30% of its revenue from products other than dental implants. The company currently sells oral scanners through a partnership with 3Shape, and is also moving into the digital imaging equipment market with its own products.

Lower TP to W77,000 but maintain Buy

We lower our target price on Osstem Implant to W77,000 (from W94,000), as we revised down our earnings estimates. With our target price implying 20% upside potential, we retain our Buy rating. The stock is currently trading at a 12-month forward P/E of 27.2x, a premium to global peers (23.3x).

In 2Q19, we believe Osstem Implant continued to recognize a significant amount of provisions, which dampened operating profit. Had operating profit met market expectations, we think the stock would have stood out as a growth play and sector leader deserving of a premium, especially amid the current market uncertainties. On the bright side, revenue was stronger than expected. Looking ahead, we believe cost management will be more important to share prices in 2H19 than top-line growth.

FY (Dec.)	12/16	12/17	12/18	12/19F	12/20F	12/21F
Revenue (Wbn)	345	398	460	548	628	729
OP (Wbn)	34	22	31	42	57	76
OP margin (%)	9.9	5.5	6.7	7.7	9.1	10.4
NP (Wbn)	24	10	13	29	37	50
EPS (W)	1,645	708	888	2,044	2,569	3,525
ROE (%)	22.1	9.3	11.5	23.7	23.5	25.2
P/E (x)	36.9	83.5	60.2	31.5	25.1	18.3
P/B (x)	6.7	6.1	5.5	5.5	4.5	3.6
Dividend yield (%)	0.0	0.0	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. 2Q19 review

(Wbn, %, %p)

	2Q18	1Q19	2Q19P			Growth	
			Preliminary	Mirae Asset Daewoo	Consensus	YoY	QoQ
Revenue	112.7	129.0	140.9	130.6	131.1	25.0	9.2
Operating profit	7.2	12.6	7.7	12.5	12.5	5.6	-39.5
OP margin (%)	6.4	9.8	5.4	9.6	9.6	-1.0	-4.4
Pretax profit	7.3	13.4	6.0	15.4	13.0	-18.0	-55.1
Net profit	4.3	11.1	4.5	10.8	9.2	3.5	-59.8

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
	19F	20F	19F	20F	19F	20F	
Revenue	530.2	611.4	548.1	627.7	3.4	2.7	Reflected 2Q19 earnings
Operating profit	49.9	62.2	42.2	57.2	-15.4	-8.0	
Pretax profit	51.1	57.4	38.8	52.4	-24.0	-8.7	
Net profit	37.5	40.2	29.2	36.7	-22.1	-8.7	
EPS (W)	2,624.9	2,814.0	2,043.8	2,568.8	-22.1	-8.7	

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

Source: Company data, Mirae Asset Daewoo Research estimates

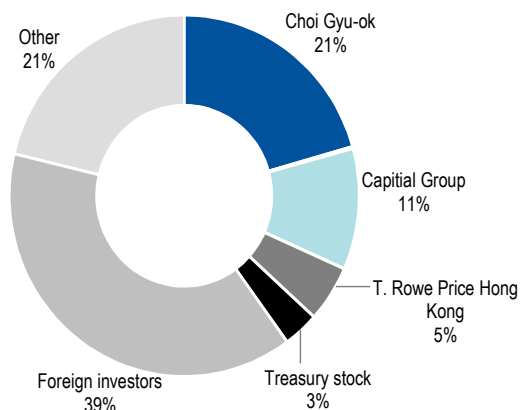
Table 3. Quarterly and annual earnings

(Wbn, %)

	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19P	3Q19F	4Q19F	2018	2019F	2020F
Revenue	108.5	112.7	114.0	125.0	129.0	140.9	134.0	144.3	460.1	548.1	627.7
Domestic	56.3	51.7	52.4	60.0	55.1	60.3	56.5	62.4	220.5	234.3	241.1
China	14.9	22.6	22.4	29.0	26.7	31.6	33.1	34.0	89.0	125.3	155.7
North America	15.9	19.1	19.2	20.3	23.5	22.5	22.2	24.1	74.5	92.3	111.4
Other	21.3	19.2	20.0	15.7	23.6	26.5	22.1	23.8	76.2	96.1	119.5
Operating profit	6.9	7.2	12.2	4.7	12.6	7.7	9.8	12.1	31.0	42.2	57.2
Domestic	10.7	12.1	13.9	4.7	7.1	8.9	5.4	5.6	41.4	26.9	23.7
China	-2.6	-2.3	-0.5	0.0	2.8	2.3	4.0	4.2	-5.4	13.3	20.9
North America	-0.3	0.6	0.4	0.0	2.1	-0.3	1.0	1.3	0.7	4.2	7.6
Other	-0.9	-3.2	-1.6	0.0	0.6	-3.3	-0.6	1.0	-5.7	-2.2	5.0
Pretax profit	6.3	7.3	0.6	3.8	13.4	6.0	8.6	10.9	18.0	38.8	52.4
Net profit	5.4	4.3	-0.9	3.9	11.1	4.5	6.0	7.6	12.7	29.2	36.7
OP margin (%)	6.4	6.4	10.7	3.7	9.8	5.4	7.3	8.4	6.7	7.7	9.1
Pretax margin (%)	5.8	6.5	0.6	3.0	10.4	4.3	6.4	7.6	3.9	7.1	8.4
Net margin (%)	3.7	2.7	-2.0	1.2	7.2	2.2	4.5	5.3	2.8	5.3	5.8

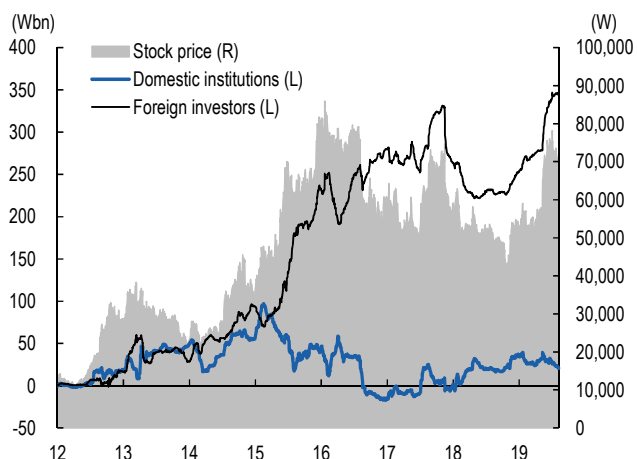
Source: Company data, Mirae Asset Daewoo Research estimates

Figure 1. Ownership breakdown



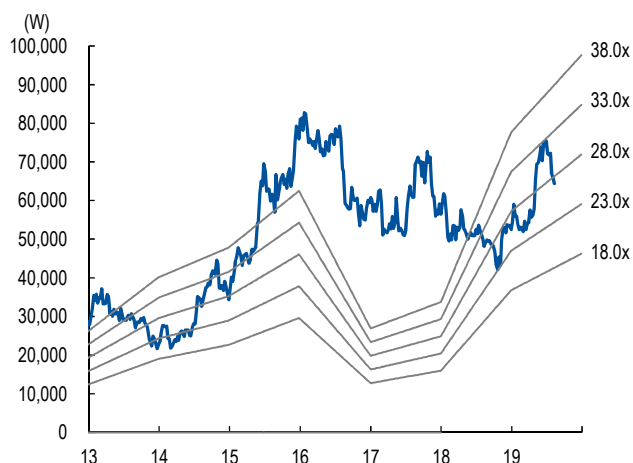
Source: Bloomberg, Mirae Asset Daewoo Research

Figure 2. Domestic institutional and foreign net buying vs. share price



Source: FnGuide, Mirae Asset Daewoo Research

Figure 3. P/E band chart



Source: FnGuide, Mirae Asset Daewoo Research

Table 4. Valuation comparison

Companies	Market cap	(Wbn)														
		OP margin (%)			P/E (x)			P/B (x)			ROE (%)			EV/EBITDA (x)		
		18	19F	20F	18	19F	20F	18	19F	20F	18	19F	20F	18	19F	20F
Straumann	15,512	25.1	25.8	26.2	45.5	35.6	29.9	9.1	7.8	6.8	23.9	26.1	26.3	24.6	25.6	21.8
Zimmer Biomet	33,500	0.4	27.4	27.9	25.5	17.3	16.3	3.5	3.5	3.4	-3.0	14.1	13.4	30.4	13.6	12.8
Dentsply Sirona	13,998	-24.0	18.2	19.5	33.3	21.6	19.2	2.9	2.9	2.8	2.0	9.1	9.9	23.3	14.6	13.4
Align Technology	18,245	23.7	21.6	23.1	38.0	36.6	29.5	6.9	6.3	5.2	32.2	30.9	32.8	34.8	23.6	18.8
Danaher	118,021	17.1	20.6	22.0	35.1	28.5	24.5	4.7	4.7	4.0	8.5	11.6	10.5	22.8	21.2	17.0
Dentium	786	22.5	21.4	22.4	18.1	18.7	14.8	3.1	3.4	2.8	18.2	19.1	19.9	15.5	17.7	14.0
Osstem Implant	920	6.7	9.2	10.6	48.3	23.3	19.7	1.9	1.7	1.5	15.7	31.0	29.4	16.3	16.2	13.0
DIO Implant	601	8.9	28.0	31.3	61.3	23.9	19.0	5.6	5.0	4.1	4.2	19.3	20.6	37.9	16.2	12.5
Average		10.1	21.5	22.9	38.1	25.7	21.6	4.7	4.4	3.8	12.7	20.2	20.3	25.7	18.6	15.4

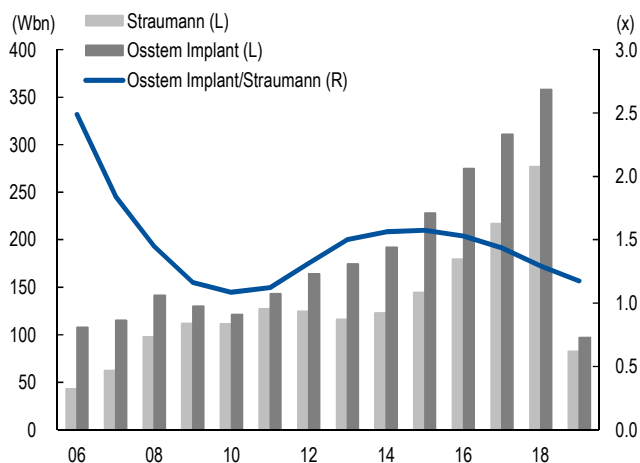
Source: Bloomberg, Mirae Asset Daewoo Research

Table 5. A study on the long-term outcomes of implants for patients aged 65 and older

Brand	Failures	Total Implants	Success rate	Failure rate
Nobel Biocare (Branemark)	20	345	94.2%	5.8%
Nobel Biocare (Replace)	2	35	94.3%	5.7%
Straumann	5	352	98.6%	1.4%
Osstem Implant	2	139	98.6%	1.4%
Other	0	31	100.0%	0.0%
Total	29	902	96.8%	3.2%

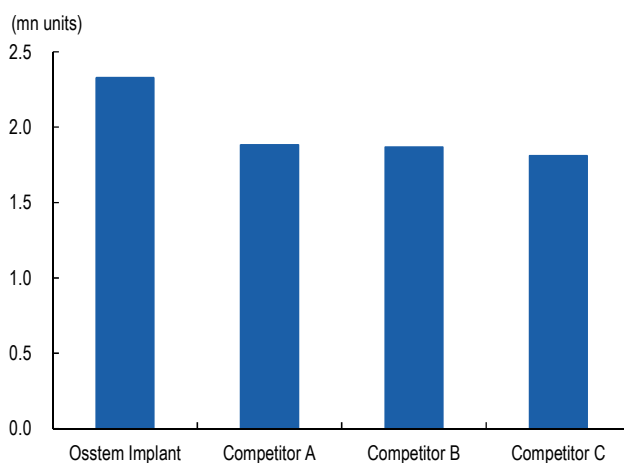
Source: Clinical Oral Implants Research, Mirae asset Daewoo research

Figure 4. Asia revenue: Osstem Implant vs. Straumann



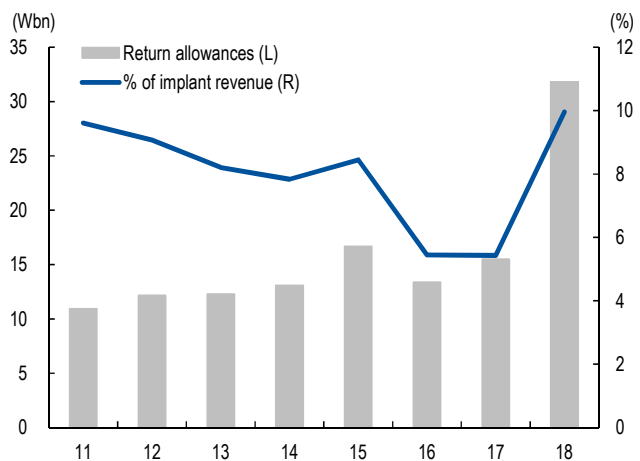
Source: Company data, Mirae Asset Daewoo Research

Figure 5. Osstem Implant's global fixture sales



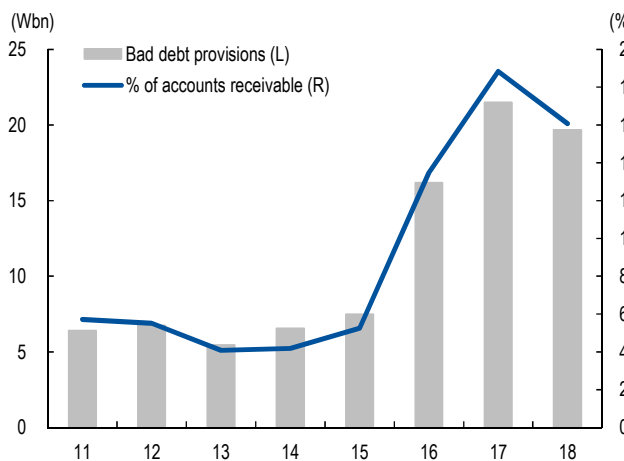
Source: MRG, Mirae Asset Daewoo Research

Figure 6. Return allowances-to-implant revenue ratio



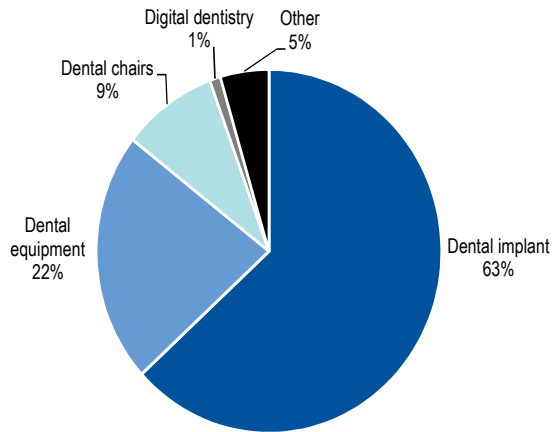
Source: Company data, Mirae Asset Daewoo Research

Figure 7. Bad debt provisions-to-accounts receivables ratio



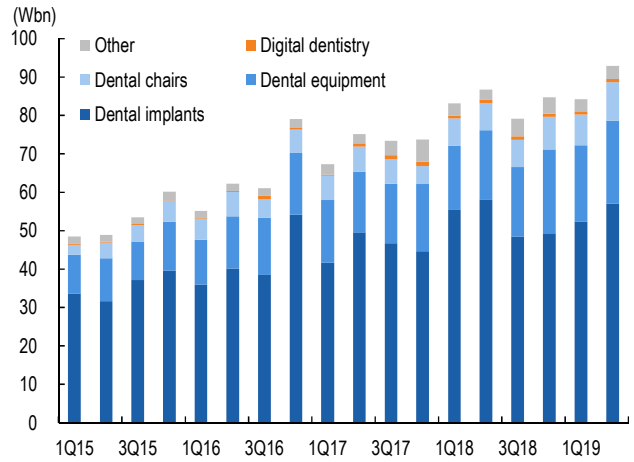
Source: Company data, Mirae Asset Daewoo Research

Figure 8. Revenue breakdown by category (2018)



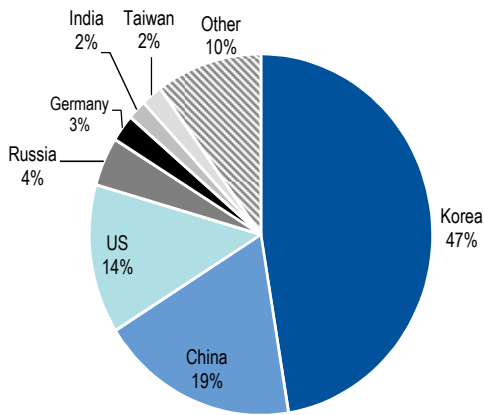
Note: Based on non-consolidated data
Source: Company data, Mirae Asset Daewoo Research

Figure 9. Revenue from key products



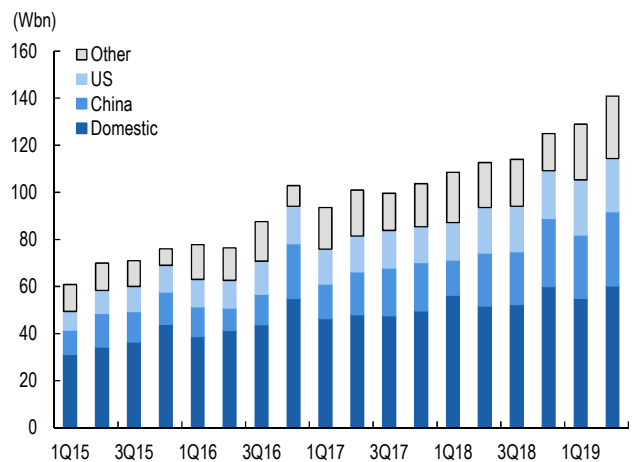
Note: Based on non-consolidated data
Source: Company data, Mirae Asset Daewoo Research

Figure 10. Revenue breakdown by region (2018)



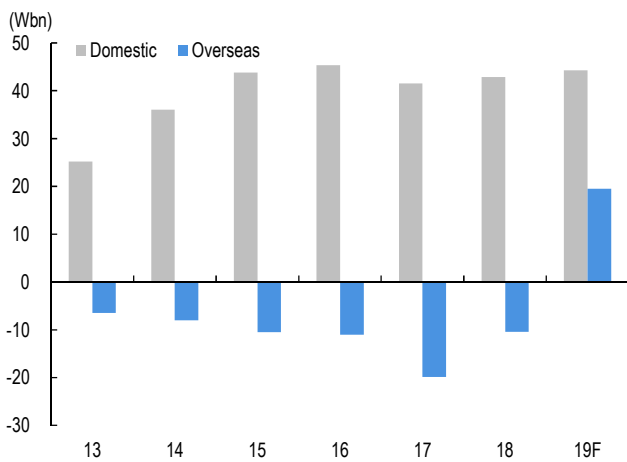
Source: Company data, Mirae Asset Daewoo Research

Figure 11. Revenue in key regions



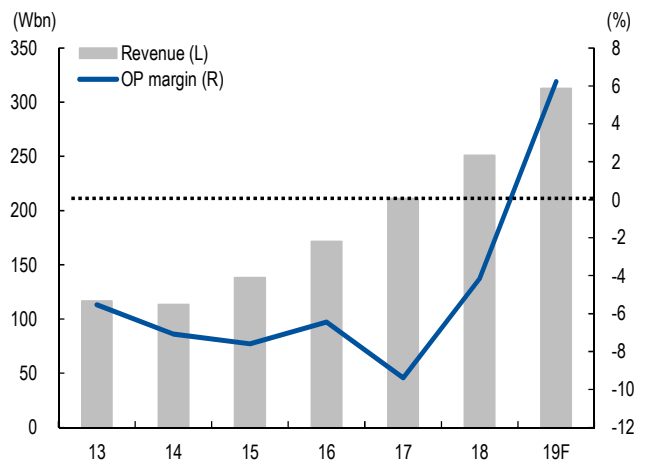
Source: Company data, Mirae Asset Daewoo Research

Figure 12. OP: Domestic vs. overseas



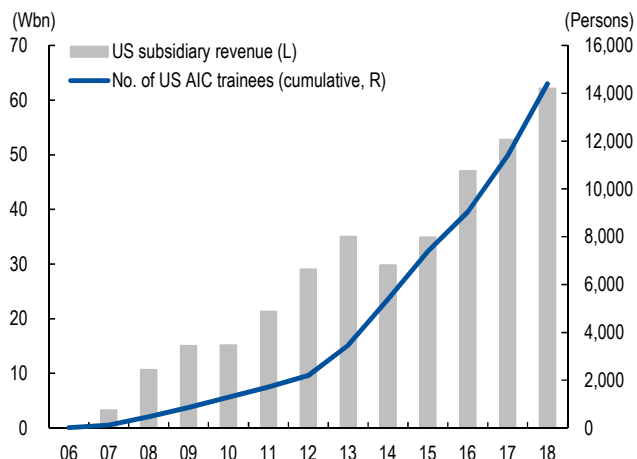
Source: Company data, Mirae Asset Daewoo Research

Figure 13. Overseas revenue vs. OP margin



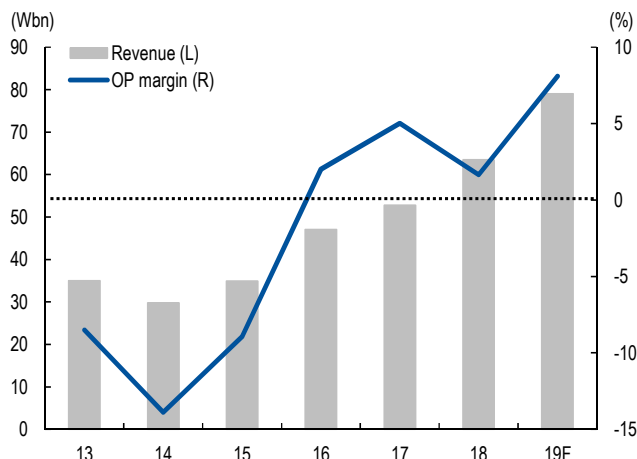
Source: Company data, Mirae Asset Daewoo Research

Figure 14. US revenue vs. no. of US AIC trainees



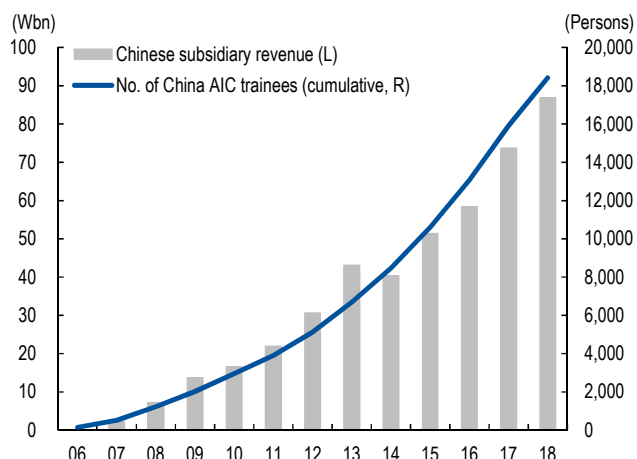
Note: AIC is Osstem Implant's implant clinical training institute.
Source: Company data, Mirae Asset Daewoo Research

Figure 15. US subsidiary: Revenue and OP margin



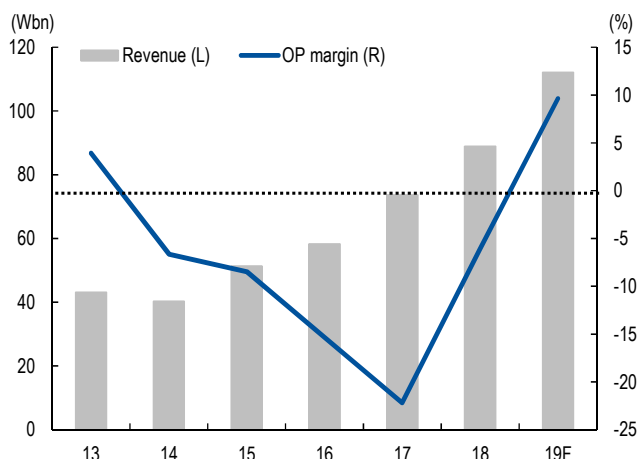
Source: Company data, Mirae Asset Daewoo Research

Figure 16. Chinese revenue vs. no. of Chinese AIC trainees



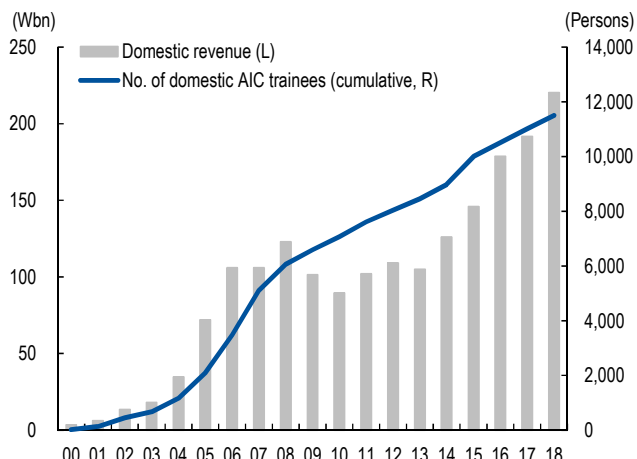
Source: Company data, Mirae Asset Daewoo Research

Figure 17. Chinese subsidiary: Revenue and OP margin



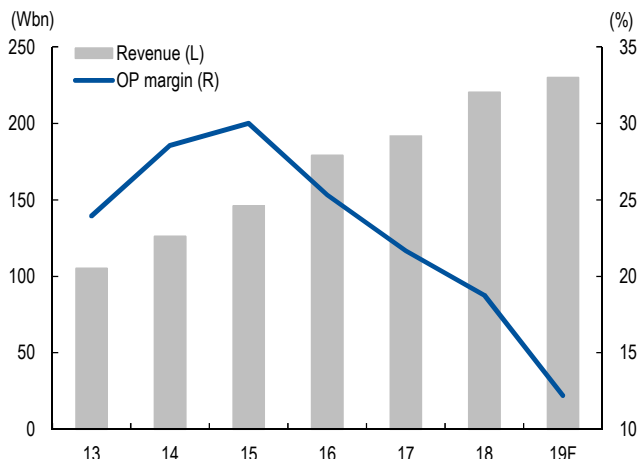
Source: Company data, Mirae Asset Daewoo Research

Figure 18. Domestic revenue vs. no. of domestic AIC trainees



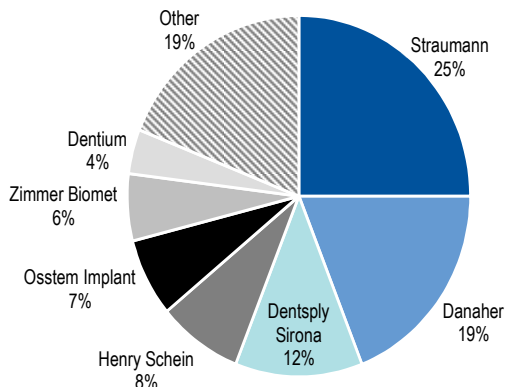
Source: Company data, Mirae Asset Daewoo Research

Figure 19. Domestic revenue and OP margin



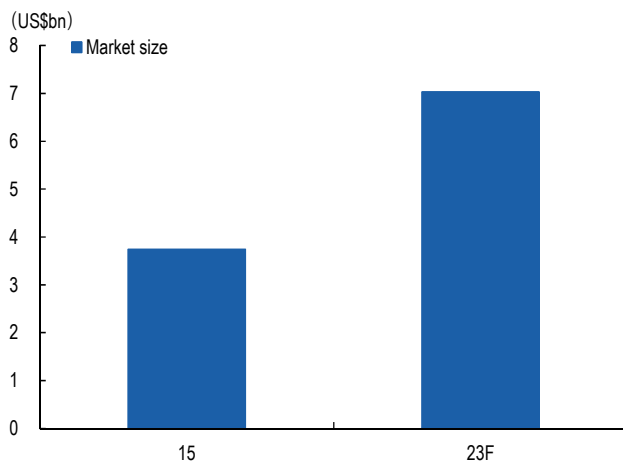
Source: Company data, Mirae Asset Daewoo Research

Figure 20. Global implant M/S breakdown



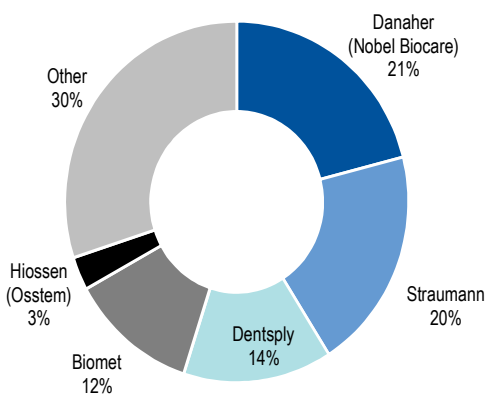
Source: Straumann, company data, Mirae Asset Daewoo Research

Figure 21. Global implant market growth (8.2% CAGR)



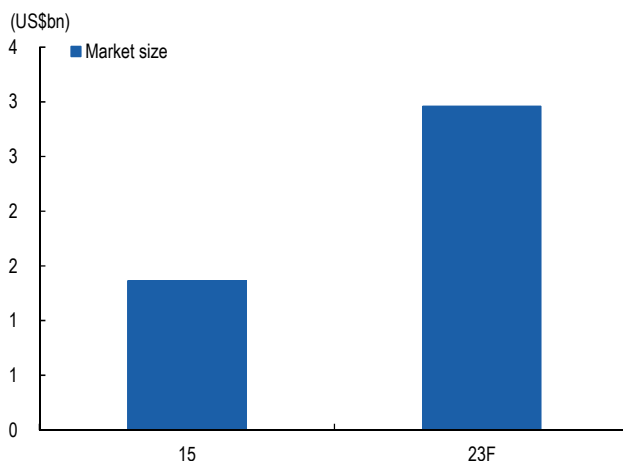
Source: MRG, Mirae Asset Daewoo Research

Figure 22. US M/S breakdown



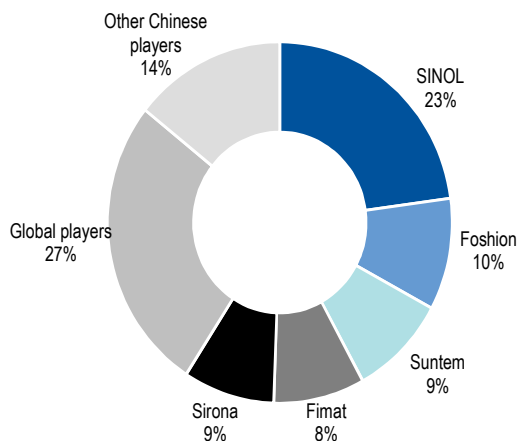
Source: Company data, Mirae Asset Daewoo Research

Figure 23. US implant market growth (10.2% CAGR)



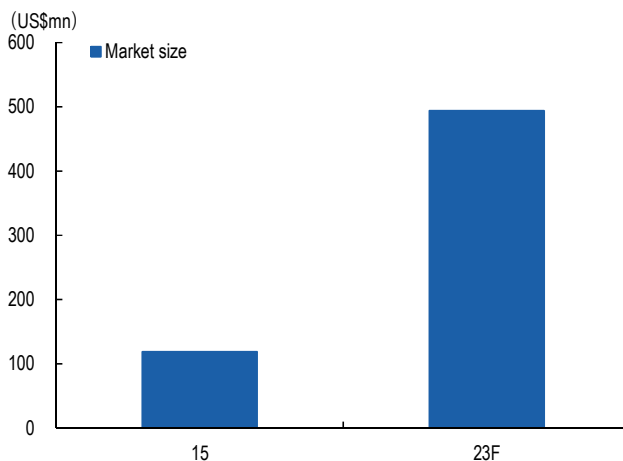
Source: MRG, Mirae Asset Daewoo Research

Figure 24. Chinese M/S breakdown



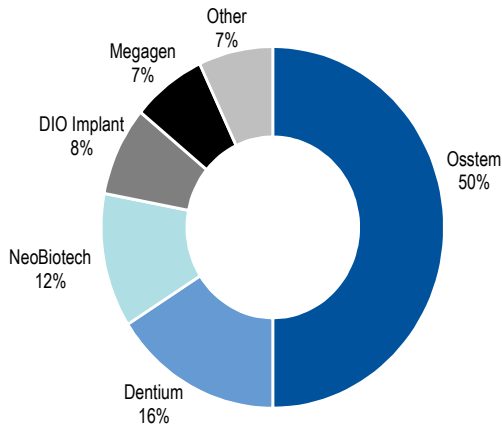
Source: Straumann, company data, Mirae Asset Daewoo Research

Figure 25. Chinese implant market growth (19.5% CAGR)



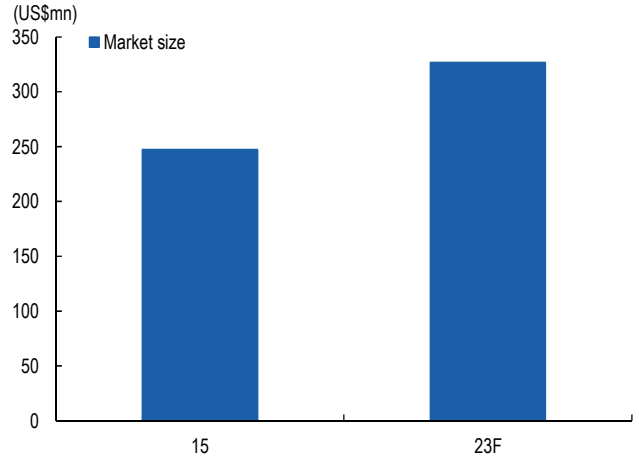
Source: MRG, Mirae Asset Daewoo Research

Figure 26. Domestic implant M/S breakdown



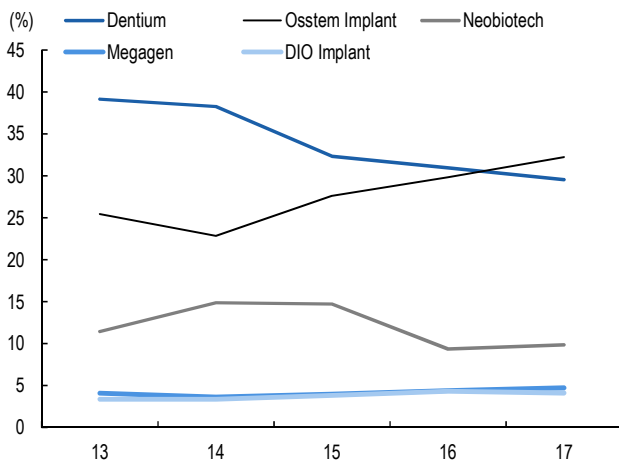
Source: KHIDI, Mirae Asset Daewoo Research

Figure 27. Domestic implant market growth (3.5% CAGR)



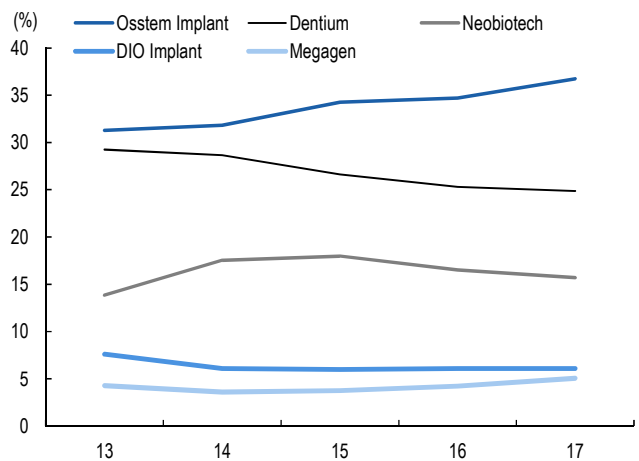
Source: MRG, Mirae Asset Daewoo Research

Figure 28. Brands most preferred by dentists



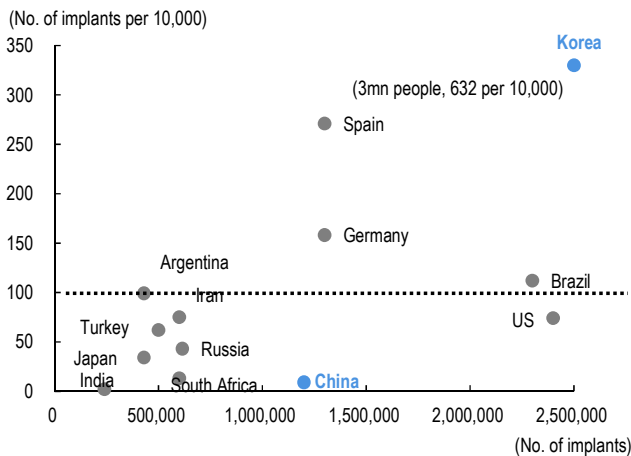
Source: Dentphoto, Mirae Asset Daewoo Research

Figure 29. Brands most widely used by dentists



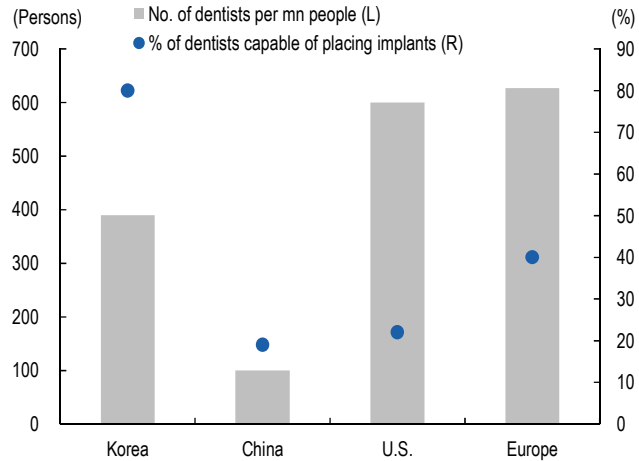
Source: Dentphoto, Mirae Asset Daewoo Research

Figure 30. Global implant market penetration



Source: Straumann, Mirae Asset Daewoo Research

Figure 31. No. of dentists per million people vs. no. of dentists with implant capabilities (global)



Source: Company data, Mirae Asset Daewoo Research

Osstem Implant (048260 KQ/Buy/TP: W77,000)

Comprehensive Income Statement (Summarized)

(Wbn)	12/18	12/19F	12/20F	12/21F
Revenue	460	548	628	729
Cost of Sales	202	240	280	333
Gross Profit	258	308	348	396
SG&A Expenses	228	266	290	320
Operating Profit (Adj)	31	42	57	76
Operating Profit	31	42	57	76
Non-Operating Profit	-13	-3	-5	-4
Net Financial Income	-4	-5	-5	-5
Net Gain from Inv in Associates	0	0	0	0
Pretax Profit	18	39	52	72
Income Tax	12	13	16	22
Profit from Continuing Operations	6	26	37	50
Profit from Discontinued Operations	0	0	0	0
Net Profit	6	26	37	50
Controlling Interests	13	29	37	50
Non-Controlling Interests	-6	-3	0	0
Total Comprehensive Profit	4	26	37	50
Controlling Interests	11	31	44	61
Non-Controlling Interests	-7	-5	-8	-11
EBITDA	41	42	57	76
FCF (Free Cash Flow)	8	30	60	77
EBITDA Margin (%)	8.9	7.7	9.1	10.4
Operating Profit Margin (%)	6.7	7.7	9.1	10.4
Net Profit Margin (%)	2.8	5.3	5.9	6.9

Cash Flows (Summarized)

(Wbn)	12/18	12/19F	12/20F	12/21F
Cash Flows from Op Activities	41	52	60	77
Net Profit	6	26	37	50
Non-Cash Income and Expense	43	24	21	26
Depreciation	9	0	0	0
Amortization	2	0	0	0
Others	32	24	21	26
Chg in Working Capital	0	11	24	27
Chg in AR & Other Receivables	-11	-12	-17	-19
Chg in Inventories	-11	-14	-18	-20
Chg in AP & Other Payables	-3	-3	3	3
Income Tax Paid	-14	-9	-16	-22
Cash Flows from Inv Activities	-57	-29	-2	-3
Chg in PP&E	-33	-22	0	0
Chg in Intangible Assets	-2	-1	0	0
Chg in Financial Assets	17	-2	-2	-3
Others	-39	-4	0	0
Cash Flows from Fin Activities	17	-3	0	0
Chg in Financial Liabilities	15	18	0	0
Chg in Equity	0	0	0	0
Dividends Paid	0	0	0	0
Others	2	-21	0	0
Increase (Decrease) in Cash	0	20	58	75
Beginning Balance	111	111	132	190
Ending Balance	111	132	190	265

Source: Company data, Mirae Asset Daewoo Research estimates

Statement of Financial Condition (Summarized)

(Wbn)	12/18	12/19F	12/20F	12/21F
Current Assets	363	425	524	647
Cash and Cash Equivalents	111	132	190	265
AR & Other Receivables	91	105	122	141
Inventories	95	110	128	148
Other Current Assets	66	78	84	93
Non-Current Assets	275	310	310	310
Investments in Associates	2	2	2	2
Property, Plant and Equipment	223	238	238	238
Intangible Assets	12	11	11	11
Total Assets	638	734	834	957
Current Liabilities	480	531	592	663
AP & Other Payables	28	32	37	43
Short-Term Financial Liabilities	148	148	148	149
Other Current Liabilities	304	351	407	471
Non-Current Liabilities	44	64	65	67
Long-Term Financial Liabilities	35	53	53	53
Other Non-Current Liabilities	9	11	12	14
Total Liabilities	524	594	658	730
Controlling Interests	109	138	175	225
Capital Stock	7	7	7	7
Capital Surplus	56	56	56	56
Retained Earnings	84	113	150	200
Non-Controlling Interests	5	2	2	2
Stockholders' Equity	114	140	177	227

Forecasts/Valuations (Summarized)

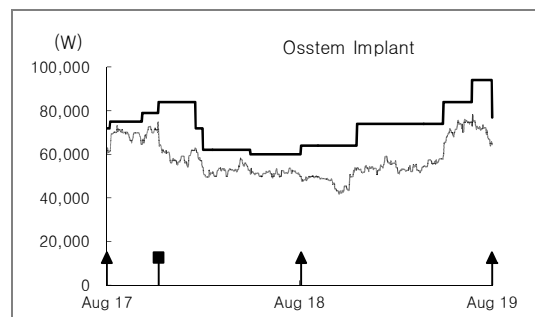
	12/18	12/19F	12/20F	12/21F
P/E (x)	60.2	31.5	25.1	18.3
P/CF (x)	15.6	18.3	16.1	12.0
P/B (x)	5.5	5.5	4.5	3.6
EV/EBITDA (x)	19.4	22.4	15.5	10.6
EPS (W)	888	2,044	2,569	3,525
CFPS (W)	3,425	3,516	4,007	5,355
BPS (W)	9,727	11,785	14,354	17,879
DPS (W)	0	0	0	0
Payout ratio (%)	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0	0.0	0.0	0.0
Revenue Growth (%)	15.6	19.1	14.6	16.1
EBITDA Growth (%)	32.3	2.4	35.7	33.3
Operating Profit Growth (%)	40.9	35.5	35.7	33.3
EPS Growth (%)	25.4	130.2	25.7	37.2
Accounts Receivable Turnover (x)	5.4	5.7	5.6	5.6
Inventory Turnover (x)	5.0	5.3	5.3	5.3
Accounts Payable Turnover (x)	16.1	16.1	16.2	16.6
ROA (%)	1.0	3.8	4.7	5.6
ROE (%)	11.5	23.7	23.5	25.2
ROIC (%)	7.2	16.8	23.5	34.7
Liability to Equity Ratio (%)	459.6	424.4	372.1	321.6
Current Ratio (%)	75.6	80.0	88.5	97.6
Net Debt to Equity Ratio (%)	29.7	16.3	-21.1	-50.5
Interest Coverage Ratio (x)	6.2	7.6	10.2	13.6

APPENDIX 1

Important Disclosures & Disclaimers

2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
Osstem Implant (048260)	08/09/2019	Buy	77,000
	07/02/2019	Buy	94,000
	05/09/2019	Buy	84,000
	11/26/2018	Buy	74,000
	08/12/2018	Buy	64,000
	05/08/2018	Trading Buy	60,000
	02/07/2018	Trading Buy	62,000
	01/24/2018	Trading Buy	72,000
	11/15/2017	Trading Buy	84,000
	10/15/2017	Buy	79,000
	08/15/2017	Buy	75,000
	07/14/2017	Buy	72,000



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	83.14%	8.72%	8.14%	0.00%
Investment Banking Services	77.78%	11.11%	11.11%	0.00%

* Based on recommendations in the last 12-months (as of June 30, 2019)

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