

SK Chemicals (006120 KS/Buy)

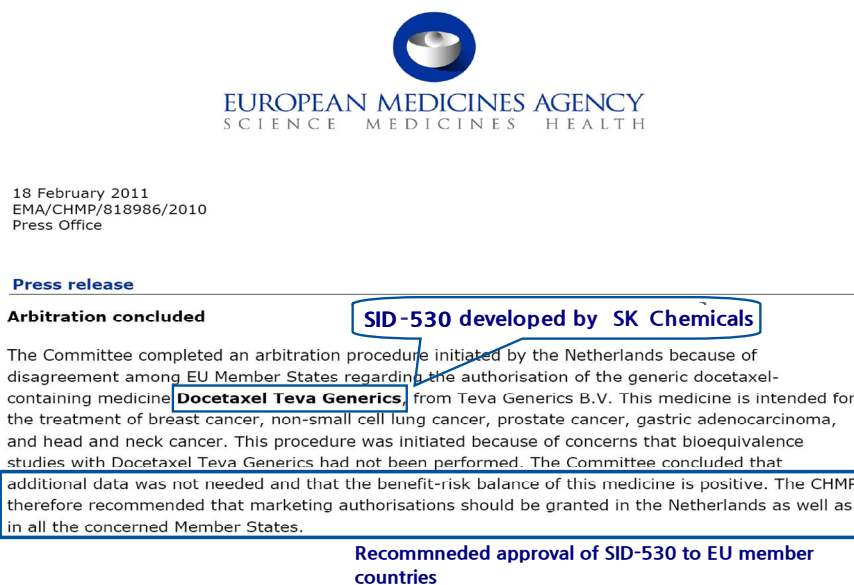
Expansion into the European anti-cancer drug market to speed up in 2011

- SID-530 received approval from EMEA
- SID-530 will be the only drug to directly compete with Taxotere for 18 months after European launch in 3Q11
- Recommend SK Chemicals as our top pick with a target price of W77,000

■ SID-530 was approved in Europe

SK Chemicals confirmed (on March 9th) that its anti-cancer treatment SID-530 received approval from the European Medicines Agency (EMA) on February 18th. According to the EMA, at meetings held between February 14th and 17th, its Committee for Medicinal Products for Human Use (CHMP) acknowledged the effects of SID-530 without calling for additional research data, and recommended that EU member countries approve the drug as well.

Figure 1. CHMP meeting minutes on SID-530 (released by EMA)



Source: EMA

| Earnings & Valuation Metrics | | | | | | | | | | | |
|------------------------------|----------------|-------------|------------------|-------------|------------|-----------------|--------------|------------|------------|------------|------------------|
| FY | Sales (Wbn) | OP (Wbn) | OP Margin (%) | NP (Wbn) | EPS (W) | EBITDA (Wbn) | FCF (Wbn) | ROE (%) | P/E (x) | P/B (x) | EV/EBITDA (x) |
| 12/08 | 1,086 | 74 | 6.9 | 7 | 277 | 112 | -137 | 1.0 | 97.1 | 0.8 | 13.7 |
| 12/09 | 1,276 | 84 | 6.6 | 124 | 5,260 | 121 | -41 | 14.3 | 12.7 | 1.8 | 14.9 |
| 12/10P | 1,335 | 68 | 5.1 | 272 | 11,479 | 101 | -139 | 29.3 | 5.4 | 1.6 | 15.7 |
| 12/11F | 1,405 | 89 | 6.3 | 64 | 2,719 | 121 | 49 | 6.6 | 21.7 | 1.4 | 12.6 |
| 12/12F | 1,538 | 135 | 8.8 | 105 | 4,422 | 164 | 83 | 9.8 | 13.3 | 1.3 | 8.8 |

Source: SK Chemicals, Daewoo Securities Research estimates

■ **SID-530 to hit the European market in 3Q11**

In order to reach European consumers, SK Chemicals needs to: 1) win approval from individual governments, 2) commence commercial production, 2) negotiate prices, and 4) launch its product. Given that the CHMP gave the drug the green light, the first step should progress smoothly. We forecast SK Chemicals will be able to launch SID-530 in Europe (beginning with the Netherlands) in 3Q11.

The 27 member countries that the CHMP advised to approve SID-530 include: the Netherlands, Austria, Belgium, Bulgaria, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Italy, Latvia, Lithuania, Luxembourg, Malta, Poland, Romania, Slovakia, Slovenia, Spain, Sweden, the UK, and Norway.

■ **SID-530: An IMD of the anti-cancer drug Taxotere**

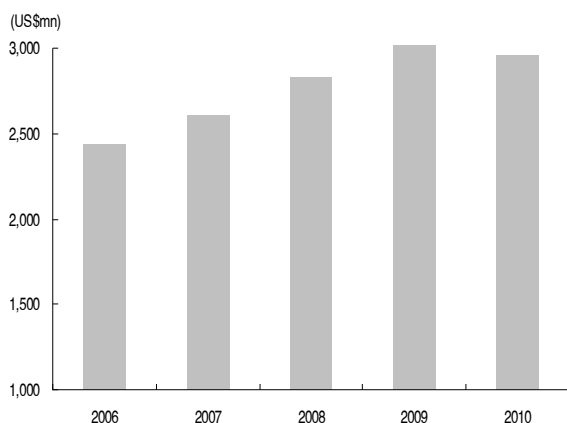
SID-530 is an incrementally modified drug (IMD) of Taxotere (an anti-cancer treatment developed by Sanofi-Aventis) that SK Chemicals developed on its own. Although it would be impossible to launch a generic version of Taxotere before the expiration of Sanofi-Aventis' patent in 2013, SK Chemicals circumvented this restriction by implementing a different delivery method. Therefore, SID-530 will be the only drug to directly compete with Taxotere in Europe over the next 18 months. We expect the drug's market penetration to be rapid from the start, given that it can treat as many different types of cancer (including breast cancer, small cell lung cancer, prostate cancer, stomach cancer, and head and neck cancer) as Taxotere.

■ **Taxotere: Top-selling global anti-cancer drug**

After receiving European approval for Taxotere in 1995, Sanofi-Aventis expanded its sales market for the drug to include the rest of the world. Taxotere sales have been on the upswing, growing from US\$2bn in 2005 to US\$3bn in 2010, thanks to: 1) a steady increase in cancer patients, 2) wide-ranging applications, and 3) growing demand for combination therapy.

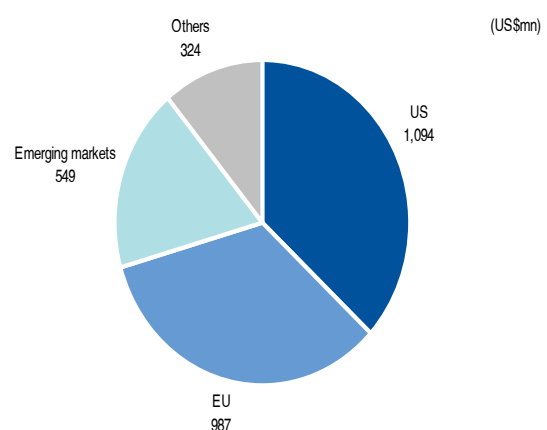
By market, Taxotere sales were the strongest in the U.S. as of 2010 (US\$1.1bn), followed by sales in Europe (US\$990mn) and emerging markets (US\$550mn). Sales in Korea also grew to W40bn per year in 2010. Thus, if SID-530 is launched smoothly in Europe and Korea, the drug will likely become a growth driver for SK Chemicals.

Figure 2. Taxotere sales trend



Source: Sanofi-Aventis

Figure 3. Taxotere sales by region (2010)



Source: Sanofi-Aventis

■ Sales prospects: Sales in Europe to reach US\$400mn in 2012

Assuming that the European market for Taxotere will remain flat over the next two years, we project SID-530 sales to reach US\$150mn in 2011 and US\$400mn in 2012, as: 1) SK Chemicals forged a partnership with Teva, the world's largest generic specialist (market cap of W52tr based on the closing price on March 8th), for its European operations, 2) SID-530 will be the only rival of Taxotere due to the aforementioned patent issue, and 3) SID-530's price competitiveness is stronger than that of Taxotere. The sales outlook for SK Chemicals' drug seems even brighter in light of Teva's past sales performances. Indeed, Teva launched its generic version of Cozzar (a hypertension treatment) in May 2010 and generated six-month sales of US\$1.6bn in North America alone. The generic version's sales (of US\$1.6bn) represent a whopping 44% of Cozzar's 2009 sales (US\$3.6bn).

Sales of SID-530 should provide a big boost to SK Chemicals' share price. If SID-530 sales meet our estimates (US\$150mn in 2011; US\$400mn in 2012), SK Chemicals' EPS will likely increase to W3,433 in 2011 (up 26% from our current estimate of W2,719) and to W5,825 in 2012 (up 33% from our current estimate of W4,422)—although revised projections will be made going forward, as, currently, the terms of the company's contract with Teva are uncertain, and many additional steps need to be taken before the launch in Europe.

Table1. SK Chemicals' EPS changes before/after the launch of SID-530 in Europe (US\$m, %, Wbn, W)

| | 2011F | 2012F | Remark |
|---|-------|-------|----------------------------------|
| Taxotere sales in Europe | 990 | 990 | US\$m (Assumption: Same as 2010) |
| SID-530's M/S in Europe (Assumption: sales launch in 3Q11) | | | |
| Best case | 20 | 60 | % |
| Average case | 15 | 40 | % |
| Worst case | 10 | 20 | % |
| Teva's SID-530 sales in Europe | | | |
| Best case | 200 | 590 | US\$m |
| Average case | 150 | 400 | US\$m |
| Worst case | 100 | 200 | US\$m |
| SK Chemicals' royalty profit (Assumption: Teva's OP margin of 30%, Profit-sharing with SK Chemicals at 50:50) | | | |
| Best case | 30 | 89 | US\$m |
| Average case | 22 | 59 | US\$m |
| Worst case | 15 | 30 | US\$m |
| SK Chemicals' net profit | | | |
| Before SID-530 | 64.3 | 104.6 | Wbn |
| After SID-530 (Assumption: Tax rate of 24.2%, F/X rate at W1,000/US\$) | | | |
| Best case | 86.8 | 161.2 | Wbn |
| Average case | 81.2 | 138.7 | Wbn |
| Worst case | 75.6 | 116.2 | Wbn |
| *OP related to SID-530 of W10.9bn added to earlier profit estimate for 2012 | | | |
| SK Chemicals' EPS | | | |
| Before SID-530 | 2,719 | 4,422 | W |
| After SID-530 | | | |
| Best case | 3,671 | 6,816 | W |
| Average case | 3,433 | 5,865 | W |
| Worst case | 3,195 | 4,913 | W |
| EPS growth rate | | | |
| Best case | 35 | 54 | % |
| Average case | 26 | 33 | % |
| Worst case | 18 | 11 | % |

Source: Daewoo Securities Research

■ Recommend SK Chemicals as our top pick; Maintain TP of W77,000

We continue to recommend SK Chemicals as our top pick in the sector and maintain our target price of W77,000. In spite of the approval for SID-530, we keep our target price unchanged, because: 1) the company's contract terms with Teva are uncertain, and 2) further steps need to be taken in order to reach consumers. Still, the launch of SID-530 in Europe should generate share price momentum.

Our investment recommendation is premised on the following:

- 1) SK Chemicals gained approval for SID-530 in Europe. If sales in Europe progress smoothly, the company's EPS should increase by 30%.
- 2) The company's smooth expansion into Europe should confirm its superior capability in the development of IMDs and brighten the outlook for the company's other drugs such as SID-820 (a gastroesophageal reflux treatment) and SID-710 (a patch for dementia).
- 3) In partnership with Australia-based CSL Limited, SK Chemicals entered clinical trials for NBP-601 (a hemophilia treatment) in the U.S. and other countries in February.

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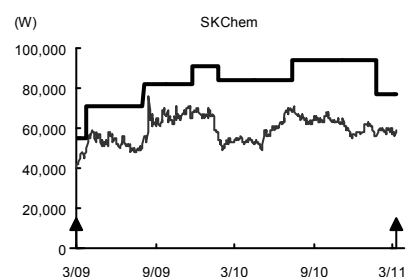
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| | |
|-------------|--|
| Buy | Relative Performance of +20% or greater |
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| Hold | Relative Performance of -10% and +10% |
| Sell | Relative Performance of -10% |

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| | |
|-------------|--|
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