



12M rating **BUY (Maintain)**  
 12M TP **W44,000** from W34,000  
 Up/downside **+22%**

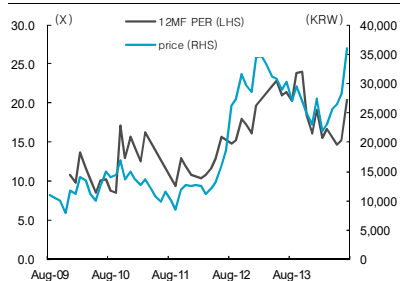
**Stock Data**

KOSPI (Jul 23, pt)	2,028
Stock price (Jul 23, KRW)	35,950
Market cap (USD mn)	499
Shares outstanding (mn)	14
52-Week high/low (KRW)	35,950/21,050
6M avg. daily turnover (USD mn)	7.2
Free float / Foreign ownership (%)	74.8/22.9
Major shareholders (%)	
Gyu-Ok Choi and 6 others	25.2
OrbiMed Advisors LLC and 2 others	6.8

**Performance**

	1M	6M	12M
Absolute (%)	27.7	30.5	15.6
Relative to Kospi (%p)	25.0	26.3	9.1

**12MF PE trend**



Source: WISEfn consensus

# Osstem Implant (048260)

## Brisker domestic market

### Domestic market getting hotter again on health insurance coverage

Starting from July, Koreans aged 75 or older are granted health insurance coverage for dental implants for a maximum of two teeth for the rest of their life. Patients pay half the medical fees with the remainder covered by insurance. Total fees for dental implants are split into procedure and materials, and insurance payments are applied accordingly. For example, if a total W1.2mn is spent for a tooth (W1mn procedure, W0.2mn materials), patients would pay W0.6mn (W0.5mn and W0.1mn). What is noteworthy here is the distinction of material costs. Until now, costs for procedure and materials were combined in a lump sum. But material costs are now separate. This would be a plus for Osstem Implant (Osstem) in terms of consumers' greater discretion over material choices and the narrow price gap with the competition (Table 1). As the price gap seems insignificant, more patients will likely choose Osstem products with its more popular brand. Osstem that commands 45% of the domestic market has distinguished its brand by reinforcing marketing instead of joining the price-cut race led by late entrants.

### Pleasant operating conditions formed in Korea and overseas

The Ministry of Health & Welfare plans to expand the national insurance coverage for dental implants to patients aged 70 or older from July 2015 and then down to 65 from July 2016. As of 2014, there are 6.39mn senior citizens aged 65 years and their weighting in the population is rising fast. The insurance coverage for dental implants should trigger the formation of a related market worth W50bn (conservative) assuming 2% of the elderly population choose the procedure. Thus, a future growth story will likely unfold in a way different from the past that was driven by 21 overseas subsidiaries. Domestic and overseas sales should each amount to W120bn, up 14% YoY and 8% YoY, respectively, in 2014F. As overseas subsidiaries reorganize operations, the overseas sales growth will become slower. But the shakeup is a must to improve margins and the main overseas subsidiaries in China and the US should enjoy solid growth in 2015. We peg 2Q14F sales at W60bn (+6% YoY) and OP at W6.5bn (+140% YoY).

### Lift TP as earnings improve in a vigorous domestic market

We lift the TP 30% from W34,000 to W44,000 (29.4x 12MF PE). Our target PE is a 20% premium to 24.5x average of Nobel and Straumann. We believe Osstem deserves a higher valuation over rivals given the following. 1) The company has an overwhelming presence in China's market that features high growth visibility. 2) Its earnings growth driven by the lively domestic market sets it apart from global players whose growth has stagnated. However, the management was recently

Yr to	Sales	OP	NP	EPS	% chg	EBITDA	PE	E/EBITDA	PB	ROE	DY
Dec	(W bn)	(W bn)	(W bn)	(KRW)	(YoY)	(W bn)	(x)	(x)	(x)	(%)	(%)
2012A	201	20	6	439	10.6	25	65.1	18.2	5.5	9.2	-
2013A	216	19	10	699	59.2	24	33.0	15.3	3.9	12.7	-
2014F	240	28	19	1,335	91.0	33	26.9	16.7	5.0	20.5	-
2015F	270	34	24	1,690	26.6	40	21.3	13.6	4.0	21.0	-
2016F	300	39	27	1,925	13.9	46	18.7	11.7	3.3	19.6	-

Note: NP and EPS attributed to controlling interest

Analysts who prepared this report are registered as research analysts in Korea but not in any other jurisdiction, including the U.S. PLEASE SEE ANALYST CERTIFICATIONS AND IMPORTANT DISCLOSURES & DISCLAIMERS AT THE END OF THIS REPORT.

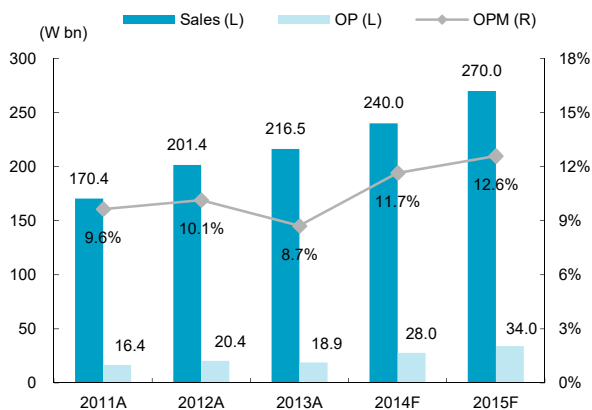
Jee Hyung Han  
 822-3276-6236  
 jhh6@truefriend.com



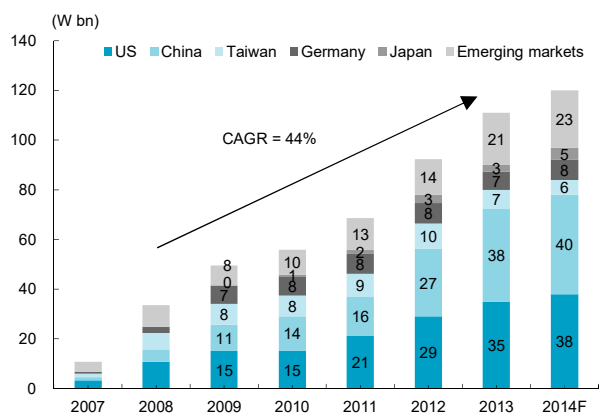
charged by the prosecutor's office for embezzlement and breach of trust. As such, unquantifiable owner risks and uncertainties will likely remain for a considerable time until a verdict is reached. We shall closely monitor the upcoming trial's impact on shareholder value.

www.befrest.com

**Figure 1. Annual earnings**



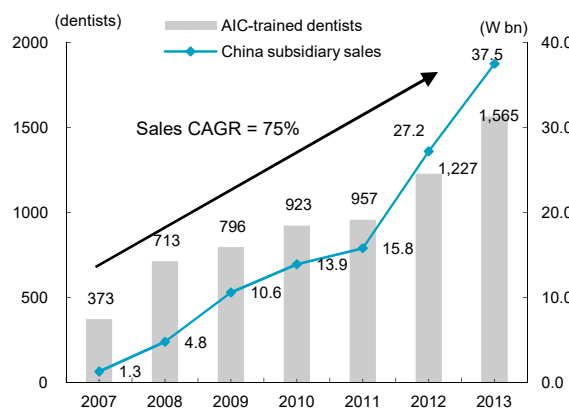
**Figure 2. Sales at overseas subsidiaries**



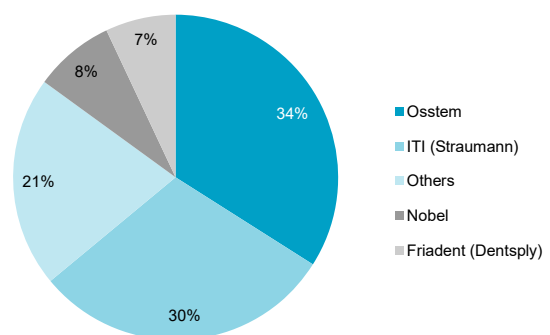
Source: Korea Investment & Securities

Source: Korea Investment & Securities

**Figure 3. Sales at Chinese subsidiary and dentists who completed AIC training program**



**Figure 4. China implant market breakdown**



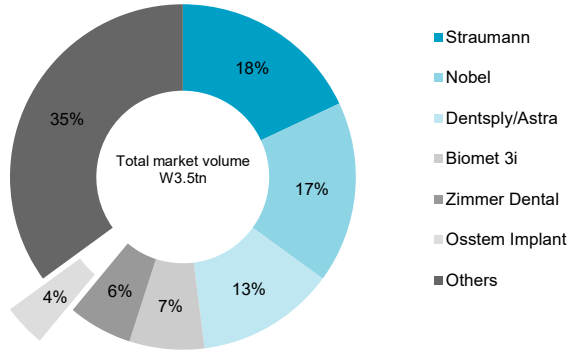
Note: Cumulative number of dentists who completed the AIC program is 6,694

Source: Company data, Korea Investment & Securities

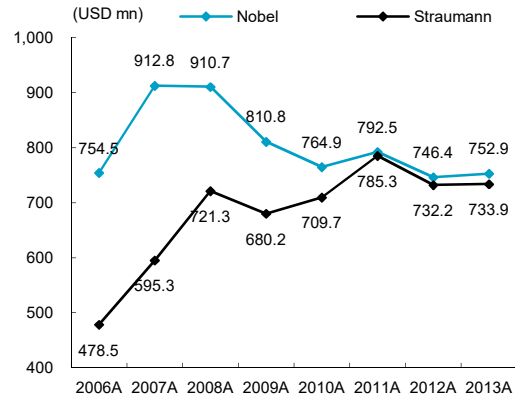
Source: Company data, Korea Investment & Securities



**Figure 5. Global market share breakdown**



**Figure 6. Sales at competitors**



Note: As of 2012  
Source: Company data

Source: Bloomberg, Korea Investment & Securities

**Table 1. Health insurance coverage for domestic dental implant operations (per tooth)**

	Before coverage	Under coverage
Osstem	W1.2mn Procedure: ? Materials: ?	W0.6mn Procedure: W1mn * 50% = W0.5mn Material: W0.2mn * 50% = W0.1mn
Competitor	W1.13mn Procedure: ? Materials: ?	W565,000 Procedure: W1mn * 50% = W0.5mn Materials: W0.13mn * 50% = W65,000
Price gap	W70,000	W35,000

Estimated insurance fees: Avg. material costs of W0.2mn (W0.13mn-0.27mn range) \* two teeth per patient \* 2% of 6.39mn elderly = W51.1bn

Note: Insurance coverage for elderly aged 75 or older started from July 2014 and is scheduled to be lowered to 70 from July 2015 and 65 from July 2016  
Source: Korea Investment & Securities

**Table 2. Revised earnings estimates**

(W bn, %, %p)

	2014F			2015F		
	Previous	Revised	Chg.	Previous	Revised	Chg.
Sales	250.0	240.0	(4.0)	290.0	270.0	(6.9)
OP	25.0	28.0	12.0	36.0	34.0	(5.6)
OPM	10.0	11.7	1.7	12.4	12.6	0.2
NP	15.0	19.0	26.7	24.0	24.0	0.0

Source: Korea Investment & Securities

**Company overview & Glossary**

Osstem Implant is the domestic no.1 implant manufacturer and takes up 45% of the domestic market. In the 1990s, implants that are similar to natural teeth and have strong masticatory force started to replace dentures and bridges. The domestic market grew fast in the favorable conditions of rising national income and an aging society. Sales CAGR for seven years (2001 to 2008) reached 41% as the market expanded. However, with the domestic market maturing and more competitors denting earnings, sales and margins peaked in 2008 and entered a downslide. Instead, growth in overseas markets such as China has come to the fore. Currently, the domestic implant market size is ~W240bn and ~40 companies compete.



**Balance sheet**

FY-ending Dec. (W bn)	2012A	2013A	2014F	2015F	2016F
<b>Current assets</b>	193	207	213	229	245
Cash & cash equivalents	32	42	41	43	45
Accounts & other receivables	81	84	91	97	105
Inventory	56	59	60	65	69
<b>Non-current assets</b>	76	93	99	105	110
Investment assets	3	1	1	1	2
Tangible assets	45	58	61	63	65
Intangible assets	5	6	6	7	8
<b>Total assets</b>	269	300	312	333	355
<b>Current liabilities</b>	176	187	179	175	168
Accounts & other payables	12	18	20	22	25
ST debt & bonds	86	74	72	70	68
Current portion of LT debt	15	27	30	33	35
<b>Non-current liabilities</b>	0	2	4	6	7
Debentures	0	2	4	6	7
LT debt & financial liabilities	10	19	20	20	19
<b>Total liabilities</b>	190	214	209	208	203
<b>Controlling interest</b>	73	83	102	126	153
Capital stock	7	7	7	7	7
Capital surplus	54	54	54	54	54
Other reserves	(12)	(12)	(12)	(12)	(12)
Retained earnings	23	32	51	75	103
<b>Minority interest</b>	5	3	1	(0)	(1)
<b>Shareholders' equity</b>	78	86	103	126	152

**Changes to recommendation and price target**

**Income statement**

FY-ending Dec. (W bn)	2012A	2013A	2014F	2015F	2016F
<b>Sales</b>	201	216	240	270	300
<b>COGS</b>	80	85	88	99	110
<b>Gross profit</b>	121	131	152	171	190
<b>SG&amp;A expenses</b>	101	112	124	137	151
<b>Operating profit</b>	20	19	28	34	39
<b>Financial income</b>	5	6	5	6	6
Interest income	0	1	1	1	1
<b>Financial expenses</b>	14	13	9	9	9
Interest expenses	4	4	4	4	4
Other non-operating profit	(1)	(2)	(1)	(1)	(1)
<b>Gains (Losses) in associates, subsidiaries and JV</b>	0	0	0	0	0
<b>Earnings before tax</b>	10	11	22	29	34
<b>Income taxes</b>	5	3	5	7	7
<b>Net profit</b>	5	8	17	22	27
Net profit of controlling interest	6	10	19	24	27
<b>Other comprehensive profit</b>	(1)	(0)	0	0	0
<b>Total comprehensive profit</b>	4	8	17	22	27
Total comprehensive profit of controlling interest	6	10	19	24	27
<b>EBITDA</b>	25	24	33	40	46

**Cash flow**

FY-ending Dec. (W bn)	2012A	2013A	2014F	2015F	2016F
<b>C/F from operations</b>	(8)	32	6	13	14
Net profit	5	8	17	22	27
Depreciation	4	4	4	5	6
Amortization	0	1	1	1	1
Net incr. in W/C	(16)	11	(15)	(15)	(19)
Others	(1)	8	(1)	0	(1)
<b>C/F from investing</b>	(17)	(21)	(10)	(12)	(12)
Capex	(10)	(17)	(7)	(7)	(8)
<b>Decr. in fixed assets</b>	0	0	0	0	0
Incr. in investment	(3)	(2)	(0)	(0)	(0)
Net incr. in intangible assets	(4)	(2)	(2)	(2)	(2)
Others	0	0	(1)	(3)	(2)
<b>C/F from financing</b>	39	0	3	1	(0)
Incr. in equity	9	0	0	0	0
Incr. in debt	30	(1)	1	(0)	(1)
Dividends	0	0	0	0	0
Others	0	1	2	1	1
<b>C/F from others</b>	(0)	(0)	0	0	0
<b>Increase in cash</b>	14	11	(2)	2	2

Note: K-IFRS (consolidated)

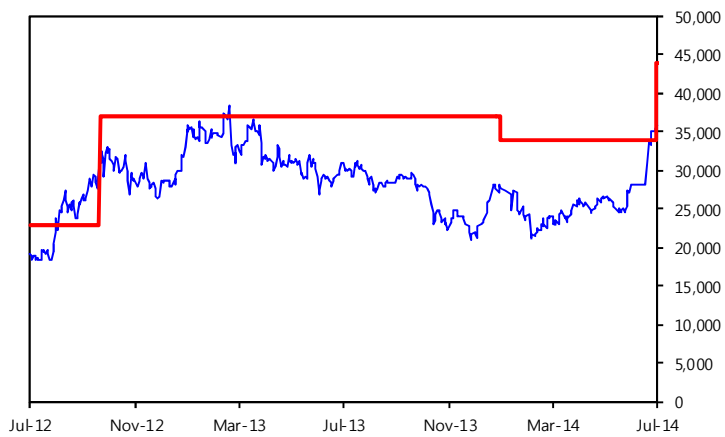
**Key financial data**

FY-ending Dec.	2012A	2013A	2014F	2015F	2016F
<b>Per-share data (KRW)</b>					
EPS	439	699	1,335	1,690	1,925
BPS	5,169	5,853	7,188	8,879	10,804
DPS	0	0	0	0	0
<b>Growth (%)</b>					
Sales growth	18.2	7.5	10.9	12.5	11.1
OP growth	24.3	(7.7)	48.2	21.6	14.7
NP growth	11.5	62.5	91.1	26.6	13.9
EPS growth	10.6	59.2	91.0	26.6	13.9
EBITDA growth	16.0	(4.0)	41.3	20.6	14.1
<b>Profitability (%)</b>					
OP margin	10.1	8.7	11.7	12.6	13.0
NP margin	3.0	4.6	7.9	8.9	9.1
EBITDA margin	12.2	10.9	13.9	14.9	15.3
ROA	1.9	2.8	5.6	7.0	7.7
ROE	9.2	12.7	20.5	21.0	19.6
Dividend yield	-	-	-	-	-
Dividend payout ratio	0.0	0.0	0.0	0.0	0.0
<b>Stability</b>					
Net debt (W bn)	45	36	38	34	28
Debt/equity ratio (%)	122.6	110.3	92.9	76.1	62.1
<b>Valuation (x)</b>					
PE	65.1	33.0	26.6	21.0	18.4
PB	5.5	3.9	4.9	4.0	3.3
EV/EBITDA	18.2	15.3	16.4	13.4	11.5



**Changes to recommendation and price target**

Company (Code)	Date	Recommendation	Price target
Osstem Implant (048260)	08-20-12	BUY	W23,000
	10-14-12	BUY	W37,000
	01-23-14	BUY	W34,000
	07-23-14	BUY	W44,000





@ Guide to Korea Investment & Securities Co., Ltd. stock ratings based on absolute 12-month forward share price performance

- BUY: Expected to give a return of +15% or more
- Hold: Expected to give a return between -15% and 15%
- Underweight: Expected to give a return of -15% or less
- Korea Investment & Securities does not offer target prices for stocks with Hold or Underweight ratings.

@ Guide to Korea Investment & Securities Co., Ltd. sector ratings for the next 12 months

- Overweight: Recommend increasing the sector's weighting in the portfolio compared to its respective weighting in the Kospi (Kosdaq) based on market capitalization.
- Neutral: Recommend maintaining the sector's weighting in the portfolio in line with its respective weighting in the Kospi (Kosdaq) based on market capitalization.
- Underweight: Recommend reducing the sector's weighting in the portfolio compared to its respective weighting in the Kospi (Kosdaq) based on market capitalization.

@ Analyst Certification

I/We, as the research analyst/analysts who prepared this report, do hereby certify that the views expressed in this research report accurately reflect my/our personal views about the subject securities and issuers discussed in this report. I/We do hereby also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report.

@ Distribution

United States: This report is distributed in the U.S. by Korea Investment & Securities America, Inc., a member of FINRA/SIPC, and is only intended for major U.S. institutional investors as defined in Rule 15a-6(a)(2) under the U.S. Securities Exchange Act of 1934. All U.S. persons that receive this document by their acceptance thereof represent and warrant that they are a major U.S. institutional investor and have not received this report under any express or implied understanding that they will direct commission income to Korea Investment & Securities, Co., Ltd. or its affiliates. Pursuant to Rule 15a-6(a)(3), any U.S. recipient of this document wishing to effect a transaction in any securities discussed herein should contact and place orders with Korea Investment & Securities America, Inc., which accepts responsibility for the contents of this report in the U.S. The securities described in this report may not have been registered under the U.S. Securities Act of 1933, as amended, and, in such case, may not be offered or sold in the U.S. or to U.S. person absent registration or an applicable exemption from the registration requirement.

@ Important Disclosures

As of the end of the month immediately preceding the date of publication of the research report or the public appearance (or the end of the second most recent month if the publication date is less than 10 calendar days after the end of the most recent month), Korea Investment & Securities Co., Ltd., or its affiliates does not own 1% or more of any class of common equity securities of Osstem Implant.

There is no actual, material conflict of interest of the research analyst or Korea Investment & Securities Co., Ltd., or its affiliates known at the time of publication of the research report or at the time of the public appearance.

Korea Investment & Securities Co., Ltd., or its affiliates has not managed or co-managed a public offering of securities for Osstem Implant in the past 12 months;

Korea Investment & Securities Co., Ltd., or its affiliates has not received compensation for investment banking services from Osstem Implant in the past 12 months; Korea Investment & Securities Co., Ltd., or its affiliates does not expect to receive or intend to seek compensation for investment banking services from Osstem Implant in the next 3 months.

Korea Investment & Securities Co., Ltd., or its affiliates was not making a market in Osstem Implant's securities at the time that the research report was published.

Korea Investment & Securities Co., Ltd. does not own over 1% of Osstem Implant shares as of July 24, 2014.

Korea Investment & Securities Co., Ltd. has not provided this report to various third parties.

Neither the analyst/analysts who prepared this report nor their associates own any shares of the company/companies covered in this report as of July 24, 2014.

Prepared by: Jee Hyung Han

This report was written by Korea Investment & Securities Co., Ltd. to help its clients invest in securities. This material is copyrighted and may not be copied, redistributed, forwarded or altered in any way without the consent of Korea Investment & Securities Co., Ltd. This report has been prepared by Korea Investment & Securities Co., Ltd. and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy. We make no representation as to its accuracy or completeness and it should not be relied upon as such. The company accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. The final investment decision is based on the client's judgment, and this report cannot be used as evidence in any legal dispute related to investment decisions.