

Mezzion (140410)

Not rated

Stock price (Aug 7, KRW)	16,000
Market cap (USD mn)	115.9
Shares outstanding (mn)	8.1
52W High/Low (KRW)	25,200/13,900
6M avg. daily turnover (USD mn)	0.1
Free float (%)	48.2
Foreign ownership (%)	24.3

Yr to	Sales	OP	EBT	NP	EPS	% chg	EBITDA	PE	EV/EBITDA	PB	ROE
Dec	(W bn)	(W bn)	(W bn)	(W bn)	(KRW)	(YoY)	(W bn)	(x)	(x)	(x)	(%)
2011A	5.1	2.9	4.1	3.2	530	(80.5)	3	NA	NA	NA	12.1
2012A	8.6	1.7	3.0	2.4	315	(40.6)	2	63.3	52.0	2.1	5.2
2013F	5.0	0.7	3.1	3.0	410	30.0	1	39.1	67.3	1.6	4.6
2014F	14.0	8.9	12.5	10.3	1,417	245.9	9	11.3	4.3	1.4	14.5
2013F	27.2	16.7	19.9	18.1	2,484	75.3	17	6.4	1.4	1.2	21.4

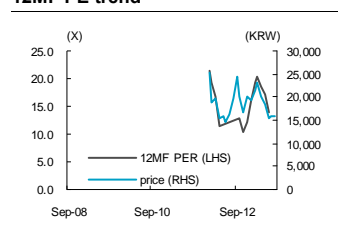
Note1. Based on K-IFRS (separate)

Global C&D business to post tangible results

Performance

	1M	6M	12M
Absolute (%)	0.9	(16.7)	1.6
Rel. to Kospi (%p)	(1.5)	(13.9)	2.0

12MF PE trend



Globally competitive new drug developer: Established in 2002, Mezzion specializes in globally connecting and developing (C&D) new drugs. Profits are generated by licensing in candidate new drug ingredients or new drugs in the clinical trial phase and licensing out technology patents to overseas partners. Mezzion owns a patent for udenafil, an ingredient for Zydena (treatment for erectile dysfunction) in the US, Canada, Mexico and Russia. As the phase 3 trial in the US nears completion, the firm will likely file a new drug application (NDA) in 1Q14.

Time to focus on the rising value of new drugs: In its agreement with partners, Mezzion will receive a milestone when submitting an NDA for udenafil in the US and take a set portion of sales as a running royalty after a drug is released. Although the company was expected to recognize a USD8mn milestone for filing a NDA in the US at end-2013, the forecast has been postponed to 1Q14. According to the contract, Mezzion is entitled to an additional USD5mn in cash when the drug obtains final approval from the US Food & Drug Administration. Given the process usually takes 10 months after filing an application, a conservative forecast is the firm will likely be rewarded in 2015. We project sales to jump 180% YoY in 2014F and 94% YoY in 2015F. Once the erectile dysfunction treatment is released in the US in 2015, Mezzion should secure a stable profit source of 10% running royalty from sales.

Securing mid/long-term growth engine by expanding indications and searching for additional new drug ingredients: Since acquiring a use patent for udenafil as a treatment for prostatic hyperplasia in North America in 2012, the company has smoothly run a clinical trial for the additional indication. The company is negotiating with its partner with a goal to start phase 2 clinical trial in the US in 4Q13. Once the trial enters phase 3, Mezzion would receive a USD5mn milestone. Moreover, the firm will likely secure more profit sources by expanding indications for conditions such as pulmonary hypertension. We are hopeful about the firm's new drug pipeline expansion as in 4Q13 it may finalize a US clinical trial contract for another indication (for patients who require the Fontan procedure) and a project to identify other new drug ingredients with a global pharmaceutical leader.

2014F sales to jump 180% YoY: With exports to Russia the sole profit source in 2013F, sales should amount to W5bn and OP W700mn. Unlike previous years, no one-off profits are visible in 2013F so sales and OP would drop 42% YoY and 56% YoY, respectively. But in 2014F, sales should swell 180% YoY and OP 1,091% as the USD8mn milestone is booked. Accordingly, the 2014F PE would fall to 11.3x and highlight Mezzion's valuation appeal.

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Small-cap

Balance sheet

FY-ending Dec. (W bn)	2011F	2012F	2013F	2014F	2015F
Current assets	18	60	63	79	96
Cash & cash equivalents	11	20	22	35	38
Accounts & other receivables	0	1	1	2	3
Inventory	0	0	0	0	0
Non-current assets	13	8	12	19	31
Investment assets	11	6	11	16	25
Tangible assets	0	0	0	0	0
Intangible assets	1	1	1	1	3
Total assets	32	67	75	98	127
Current liabilities	1	3	9	22	33
Accounts & other payables	0	1	1	2	3
ST debt & bonds	0	0	0	0	0
Current portion of LT debt	0	0	0	0	0
Non-current liabilities	2	1	1	0	1
Debentures	0	0	0	0	0
LT debt & financial liabilities	0	0	0	0	0
Total liabilities	3	4	9	22	33
Paid-in capital	3	4	4	4	4
Capital surplus	5	51	51	51	51
Capital adjustments	0	(14)	(14)	(14)	(14)
Retained earnings	20	22	24	35	53
Shareholders' Equity	28	63	66	76	93
dj. shareholders' equity	28	63	66	76	93

Income statement

FY-ending Dec. (W bn)	2011F	2012F	2013F	2014F	2015F
Sales	5	9	5	14	27
Gross profit	0	2	0	0	0
SG&A expenses	5	6	5	14	27
Other operating gains	2	5	4	5	10
Operating profit	3	2	1	9	17
Financial income	1	3	4	4	5
Interest income	1	3	4	4	5
Financial expenses	0	1	0	0	0
Interest expenses	0	0	0	0	0
Other non-operating profit	0	(1)	0	0	0
Gains (Losses) in associates, subsidiaries and JV	0	0	(1)	(1)	(2)
Earnings before tax	4	3	3	12	20
Income taxes	1	1	0	2	2
Net profit	3	2	3	10	18
Other comprehensive profit	0	(0)	(0)	(0)	(0)
Total comprehensive profit	3	2	3	10	18
EBITDA	3	2	1	9	17
Adj. net profit	3	2	3	10	18

Cash flow

FY-ending Dec. (W bn)	2011F	2012F	2013F	2014F	2015F
C/F from operations	(2)	3	10	22	29
Net profit	3	2	3	10	18
Depreciation	0	0	0	0	0
Amortization	0	0	0	0	0
Net incr. in W/C	(1)	1	6	12	9
Others	(4)	0	1	0	2
C/F from investing	1	(27)	(8)	(10)	(26)
Capex	(0)	(0)	(0)	(0)	(0)
Decr. in fixed assets	0	0	0	0	0
Incr. in investment	1	(26)	(6)	(6)	(11)
Net incr. in intangible assets	(0)	(0)	0	(1)	(1)
Others	(0)	0	(2)	(3)	(13)
C/F from financing	0	33	(0)	(0)	(0)
Incr. in equity	0	47	0	0	0
Incr. in debt	0	0	0	0	0
Dividends	0	0	(0)	(0)	(0)
Others	0	(14)	0	0	0
C/F from others	0	(0)	0	0	0
Increase in cash	(1)	9	2	12	3

Key financial data

FY-ending Dec.	2011F	2012F	2013F	2014F	2015F
Per-share data (KRW)					
EPS	530	315	410	1,417	2,484
BPS	4,655	9,572	9,932	11,150	13,272
DPS	0	25	25	25	25
Growth (%)					
Sales growth	(79.1)	69.6	(41.9)	180.0	94.1
OP growth	(83.4)	(42.5)	(55.7)	1,091.2	88.5
NP growth	(80.5)	(25.6)	25.0	245.9	75.3
EPS growth	(80.5)	(40.6)	30.0	245.9	75.3
EBITDA growth	(83.3)	(41.7)	(54.0)	1,020.4	88.0
Profitability (%)					
OP margin	57.7	19.6	14.9	63.3	61.5
NP margin	63.2	27.8	59.7	73.7	66.6
EBITDA margin	58.5	20.1	15.9	63.7	61.7
ROA	10.1	4.8	4.2	11.9	16.1
ROE	12.1	5.2	4.6	14.5	21.4
Dividend yield	NM	0.1	0.2	0.2	0.2
Stability					
Net debt (W bn)	(18)	(57)	(62)	(76)	(91)
Debt/equity ratio (%)	0.3	1.5	1.4	1.2	1.0
Valuation (x)					
PE	0.0	63.3	39.1	11.3	6.4
PB	0.0	2.1	1.6	1.4	1.2
PS	0.0	18.6	25.9	9.2	4.8
EV/EBITDA	(5.9)	52.0	67.3	4.3	1.4

Note: 1. K-IFRS (separate)
 2. EPS and BPS are calculated using adjusted net profit and shareholders' equity that includes equity-method gains/losses

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