

Issue Comment

Green Cross (006280.KS)

Korea / Pharmaceuticals

May 21, 2008

BUY (Maintain)

Rating within Industry: **Overweight**

Earnings Quality Score: **Medium**

Price Volatility: **Low**

The Long-Awaited Albumin Price Increase

Result of Albumin price review unveiled

Since last week, the National Health Insurance Corporation (NHIC) and albumin (a plasma-derived protein) makers Korea Green Cross and SK Chemicals have been in negotiations for the insurance price of the drug. As a result, the NHIC has decided to raise the price of Albumin by approximately 7% (lower than our expectations). Also, the NHIC designated Albumin as a drug that should not be removed from the covered drug list and excluded the drug from price reassessment. Of note, in 2007 the Drug Reimbursement Review Committee of the Health Insurance Review and Assessment Service discussed a price increase for Albumin, but did not come to a decision on the matter. The increased drug price is expected to take effect in June.

No more concerns over blood drugs

Green Cross's hemophilia drugs, which accounted for 41.1% of total sales in FY07, include mega drugs such as Albumin (annual sales of W45.9bn), GreenMono (annual sales of W33.5bn), and Recombinate (annual sales of W28.1bn). In 1Q08, as the nationwide shortage of blood plasma had led to a shortage of Albumin, Albumin posted sluggish sales of W7.5bn, down 33.0% YoY. However, we expect a roughly W3.2bn increase in Albumin sales this year following the recent price increase. Also, we believe that monthly Albumin supply for Green Cross will recover to its historical average of 60,000 bottles.

Maintain BUY rating and TP of W110,000

Our investment points for the company are: 1) potential improvement in operating margin of blood drugs backed by higher Albumin price and the alleviation of the supply shortage of blood plasma (a raw material for Albumin); 2) reinforced product lineup of the hemophilia and vaccine divisions (the company's two growth pillars); and 3) expected increase in earnings contribution of vaccine drugs as a result of the division's vertical integration following the scheduled completion of the Hwasun vaccine plant (slated for end 2008). We maintain our **BUY** rating and TP of W110,000 for Korea Green Cross.

Forecast Earnings & Valuation

Fiscal year	ending Dec	2005	2006	2007P	2008E	2009E
Sales/Revenue	(W bn)	366.7	442.3	524.0	597.1	660.1
OP	(W bn)	53.3	58.4	70.0	81.7	92.0
EBITDA	(W bn)	60.1	68.9	87.5	105.3	116.6
Pre-tax profit	(W bn)	52.2	60.1	73.4	89.6	102.1
NP	(W bn)	34.8	44.4	53.5	65.0	74.0
EPS	(W)	3,862	4,922	5,940	7,208	8,212
YoY	(%)	19.4	27.4	20.7	21.3	13.9
P/E	(x)	15.3	18.9	14.7	12.2	10.7
P/B	(x)	2.9	3.6	3.1	2.5	2.1
EV/EBITDA	(x)	9.6	13.1	10.0	8.1	6.9
ROE	(%)	21.4	21.2	21.3	22.1	20.9

Target Price & Expected Return

Target Price (6M)	W110,000
Consensus Target Price	W110,000
Current Price (May 20)	W87,600
Expected DPS (08E)	W1,000
Expected Price Return (6M)	25.6%
Expected Dividend Yield (12M)	1.1%

Fundamental Data

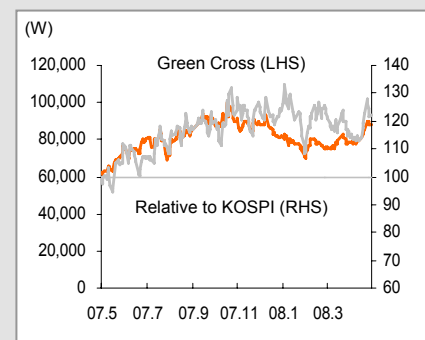
Expected EPS (08E/09E)	W5,940 / W7,208
Consensus EPS (08E/09E)	W5,782 / W6,890
Est. 3-Yr EPS Growth (CAGR)	18.6%
Hist. 5-Yr EPS Growth (CAGR)	34.2%
Net Debt / Equity (08E)	32.9%

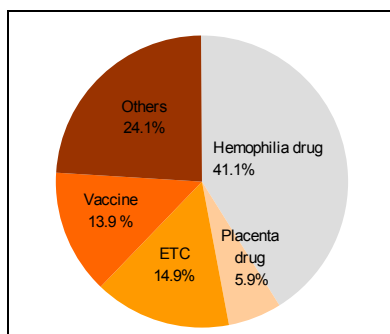
Earnings Quality Score



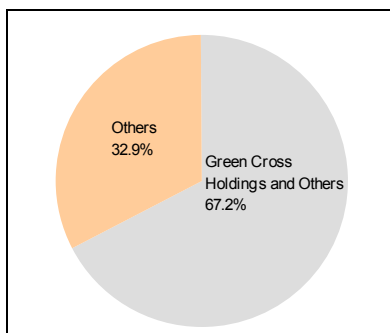
Trading Data

Market Cap. (W bn / US\$ mn)	789 / 757
Shares Outstanding	9mn
Free Float	25.7%
Adj. Beta	1.0
Price Return Volatility	40.7%
52-Week Price Low/High	W61,100 - W99,900
Daily Average Volume (3M)	26,228
Daily Average Turnover (3M)	W2,065mn
Foreign Ownership	10.7%

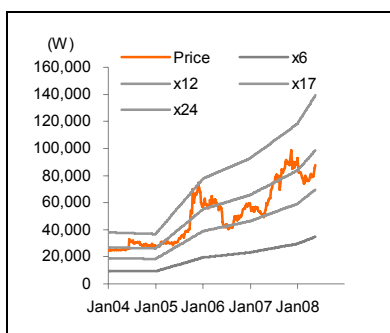


Key Sales Contributors

As of FY2007

Major Shareholders

As of 1Q07

P/E Valuation

As of May 16

Company Description**Brief History**

Korea Green Cross (006280.KS) focuses on biopharmaceuticals and plasma extracts. In 1983, it boasted the world's third development of a hepatitis B vaccine. The company merged with Sang-A Pharmaceuticals to enter the small molecule market.

Business Operation

The company's improved profitability stems from sales contributions of new products such as hemophilia drugs (41.1%), placenta-derived drugs (5.9%), and biopharmaceuticals (whose cost rates fall far below the enterprise-wide average). Products not covered by the National Health Insurance (NHI) contribute to 40% of sales, indicating that the company is not very vulnerable to the government's policy changes and drug price cuts.

Shareholder Structure

Green Cross Holdings is a major shareholder with a 60% stake in Korea Green Cross.

Key Drivers

The construction of the new vaccine manufacturing facility is expected to boost Korea Green Cross's productivity over the mid and long term. Green Cross Vaccine, the company's affiliate, is planning to commence construction of a comprehensive vaccine production facility that is scheduled to produce influenza vaccines (among other vaccines) beginning in late 2008. Vertical integration of the vaccine division through affiliation is expected to help the company boost its cost competitiveness and recover its reputation as a specialized vaccine producer.

Risks

- Sales contribution of low-margin blood-based drugs still high.
- Competition from newcomers expanding into the vaccine market.

Summary Financial Statements

Balance Sheet

(W bn)	2005	2006	2007P	2008E	2009E
Current assets	186.1	223.0	264.9	324.0	407.8
Cash and cash equivalents	14.1	12.5	16.5	41.6	96.1
Receivables	90.8	121.5	143.9	164.0	181.2
Inventories	73.0	82.4	97.7	111.3	123.0
Fixed assets	140.9	202.7	249.3	259.5	253.1
Investment assets	47.2	45.1	36.4	37.6	38.9
Tangible assets	87.0	148.3	202.7	210.8	202.1
Intangible assets	6.8	9.3	10.2	11.0	12.1
Total assets	327.0	425.6	514.2	583.4	660.9
Current liabilities	109.0	129.7	169.7	183.0	195.4
Payables	34.9	38.5	45.6	51.9	57.4
ST debt	26.0	19.0	26.7	26.7	26.7
CP of LT debt	10.0	10.0	14.1	14.1	14.1
Fixed liabilities	35.1	59.9	78.2	78.2	78.2
Corporate bond	25.0	15.0	21.1	21.1	21.1
LT debt	0.0	30.0	42.2	42.2	42.2
Total liabilities	144.2	189.6	247.9	261.2	273.6
Paid-in capital	45.1	45.1	45.1	45.1	45.1
Capital surplus	76.2	84.0	84.0	84.0	84.0
Retained earnings	59.6	97.4	141.9	197.9	262.9
Capital adjustments	(7.9)	(4.7)	(4.7)	(4.7)	(4.7)
Shareholders' equity	182.8	236.0	266.3	322.3	387.2
Total debt	61.0	74.0	104.0	104.0	104.0
Net debt	46.9	61.5	87.5	62.4	7.9

Income Statement

(W bn, %)	2005	2006	2007P	2008E	2009E
Sales	366.7	442.3	524.0	597.1	660.1
YoY change	9.0	20.6	18.5	14.0	10.5
Cost of goods sold	218.6	261.9	275.0	279.1	287.1
Gross profit	148.2	180.4	249.0	318.1	373.0
YoY change	25.3	21.8	38.0	27.8	17.3
Gross margin	40.4	40.8	47.5	53.3	56.5
SG&A	94.9	122.0	179.0	236.4	281.0
OP	53.3	58.4	70.0	81.7	92.0
YoY change	66.4	9.7	19.8	16.7	12.6
Non-operating profit	(1.1)	1.7	3.2	7.7	9.9
Net financial expenses	2.5	2.6	2.1	1.5	(0.3)
FX translation gains	(0.1)	(0.8)	(1.5)	(1.5)	(1.5)
Equity method gains	(0.3)	1.2	1.2	1.2	1.2
Others	1.8	3.8	5.7	9.5	9.9
Pre-tax profit	52.2	60.1	73.4	89.6	102.1
Tax	17.4	15.8	19.9	24.6	28.1
Net profit	34.8	44.4	53.5	65.0	74.0
EPS	3,862	4,922	5,940	7,208	8,212
YoY change	19.4	27.4	20.7	21.3	13.9
EBITDA	60.1	68.9	87.5	105.3	116.6
YoY change	57.8	14.6	27.0	20.3	10.7

Cash Flow Statement

(W bn)	2005	2006	2007P	2008E	2009E
Operating cash flow	27.4	35.2	45.8	66.6	80.5
Net profit	34.8	44.4	53.5	65.0	74.0
Depreciation	6.7	9.5	16.2	22.2	23.1
Amortization	0.2	1.0	1.3	1.4	1.6
FX translation loss (gain)	0.0	0.1	(0.4)	(0.4)	(0.4)
Equity method loss (gain)	0.3	(1.2)	(1.2)	(1.2)	(1.2)
Chg in working capital	(39.1)	(37.4)	(30.5)	(27.4)	(23.5)
Chg in receivables	(18.5)	(31.3)	(22.4)	(20.1)	(17.3)
Chg in inventories	(13.8)	(9.4)	(15.2)	(13.6)	(11.7)
Chg in payables	(6.8)	3.4	7.1	6.4	5.5
Others	24.4	18.9	6.9	6.9	7.0
Investment cash flow	(37.2)	(54.3)	(62.9)	(32.5)	(17.0)
ST financial instrument disposal (purchase)	0.0	(6.6)	0.0	0.0	0.0
Securities disposal (purchase)	0.0	0.0	0.0	0.0	0.0
Tangible asset purchase	(35.2)	(70.9)	(70.6)	(30.2)	(14.3)
Tangible asset disposal	0.0	0.0	0.0	0.0	0.0
Intangible asset disposal (purchase)	(1.1)	(3.5)	(2.2)	(2.3)	(2.7)
Investment asset disposal (purchase)	0.1	27.8	10.0	0.0	0.0
Others	(0.9)	(1.1)	(0.0)	0.0	0.0
Financial cash flow	10.7	10.8	21.0	(9.0)	(9.0)
Debt raised (repaid)	9.3	13.0	30.0	0.0	0.0
Capital raised (repaid)	5.4	4.4	0.0	0.0	0.0
Dividends	(4.3)	(6.6)	(9.0)	(9.0)	(9.0)
Others	0.2	(0.0)	0.0	0.0	0.0
Net cash flow	0.9	(8.2)	4.0	25.1	54.5
Beginning cash	13.2	14.1	5.8	9.8	34.9
Ending cash	14.1	5.8	9.8	34.9	89.4
FCF	(9.8)	(19.0)	(17.0)	34.1	63.5

Source: Company data, Mirae Asset Research estimates

Key Investment Index

(W, %, x)	2005	2006	2007P	2008E	2009E
Per share data					
EPS	3,862	4,922	5,940	7,208	8,212
BPS	19,538	25,157	28,420	34,536	41,626
EBITDA per share	6,674	7,647	9,715	11,690	12,944
DPS	750	0	1,000	1,000	1,000
P/E	15.3	18.9	14.7	12.2	10.7
P/B	2.9	3.6	3.1	2.5	2.1
EV/EBITDA	9.6	13.1	10.0	8.1	6.9
Dividend yield	1.3	0.0	1.1	1.1	1.1
Profitability					
Gross margin	40.4	40.8	47.5	53.3	56.5
Operating margin	14.5	13.2	13.4	13.7	13.9
EBITDA margin	16.4	15.6	16.7	17.6	17.7
Net margin	9.5	10.0	10.2	10.9	11.2
ROE	21.4	21.2	21.3	22.1	20.9
ROIC	19.6	18.0	16.6	15.7	15.3
Stability					
Debt ratio	78.9	80.4	93.1	81.0	70.7
Net debt ratio	25.6	26.0	32.9	19.4	2.0
Current ratio	170.7	171.9	156.1	177.1	208.7
Activity ratio (Turnover)					
Total assets	1.3	1.2	1.1	1.1	1.1
Receivables	4.5	4.2	4.0	3.9	3.8
Inventories	5.4	5.7	5.8	5.7	5.6
Payables	9.6	12.1	12.5	12.3	12.1
Net working capital	4.1	4.2	4.6	4.6	4.4

Source: Company data, Mirae Asset Research estimates

Recommendation

By item (six months)

Buy: A target price of over + 20% of the current price,
Hold: A target price of - 10% to +10% of the current price
Reduce: A target price of -20% or less than the current price
* Note: Correction of -10% to +10% is possible based on the investment recommendations by industry.

By industry

Attractive: over +10% of the current industry index
Neutral: -10% to +10% of the current industry index
Cautious: -10% or less than the current industry index
Terminology of Investment recommendation by industry has changed since August 3, 2005 as follows: Overweight → Attractive / Underweight → Cautious.

Earnings Quality Score

Earnings Quality Score = 0.70*(Historical Earnings Stability) + 0.15*(Consensus Forecast Certainty) + 0.15*(Consensus Forecast Accuracy)

1. Historical Earnings Stability

- The variability of the net profit growth rate (YOY) over the last 20 quarters was translated into percentage terms.
- Earnings growth variability was calculated based on MAD (Median Absolute Deviation), rather than SD (Standard Deviation) in order to minimize distortion from outliers.
- The lower the earnings growth variability, the higher this indicator.

2. Consensus Forecast Certainty

- The gap between analysts' views on 12-month forward EPS was translated into percentage terms.
- The gap is calculated by dividing the SD of 12-month forward EPS with the average value.
- The narrower the gap is, the higher this indicator.

3. Consensus Forecast Accuracy

- The median value of absolute EPS surprise over the last 3-year was translated into percentage terms.
- EPS surprise was calculated based on 'the actual figure at the end of the year / the consensus estimate at the beginning of the year - 1'.
- The lower the absolute EPS surprise, the higher this indicator.

* Reference

- 1) Consensus Forecast Certainty and Consensus Forecast Accuracy were applied only to companies with more than 5 years of EPS estimates.
- 2) We gave the average score of 50 to cases in which the aforementioned indicators could not be produced.

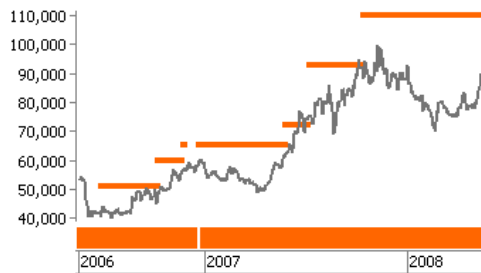
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Item	Analyst	Securities Held by the Analyst			Holdings of Shares over 1%	Participation in the Issuance of Securities	Involvement with the Affiliates	Treasury Stock Acquired
		Type	Number of Shares	Purchasing Price				
N/A								

Stock Price & Target Price Trend Stock Price ■ Target Price Green Cross (006280.KS)

■ Buy ■ Hold ■ Reduce □ Not Rated Previously ■ Strong Buy ■ Buy® ■ Mkt.Perm ■ Und.Perm



Date	Recommendation	6-Month Target Price (W)
05/19/2006	BUY	64,000
06/29/2006	BUY	51,000(하향)
07/12/2006	BUY	51,000
07/18/2006	BUY	51,000
08/16/2006	BUY	51,000
09/18/2006	BUY	51,000
10/11/2006	BUY	60,000 (Up)
10/16/2006	BUY	60,000
11/16/2006	BUY	60,000
11/22/2006	BUY	65,000 (Up)
<No changes in our TP and rating>		
04/17/2007	BUY	65,000
05/23/2007	BUY	72,000 (Up)
06/18/2007	BUY	72,000
07/04/2007	BUY	93,000 (Up)
07/16/2007	BUY	93,000
08/01/2007	BUY	93,000
08/17/2007	BUY	93,000
09/05/2007	BUY	93,000
09/21/2007	BUY	93,000
10/12/2007	BUY	110,000 (Up)
01/30/2008	BUY	110,000
<Change in analyst>		
02/12/2008	BUY (Reinstate)	110,000
02/18/2008	BUY	110,000
02/25/2008	BUY	110,000
02/26/2008	BUY	110,000
03/11/2008	BUY	110,000
<No changes in our TP and rating>		
04/30/2008	BUY	110,000
05/21/2008	BUY	110,000