MORNING FARSIGHT

Wednesday, December 12, 2018

BIOCON	CMP:RS 629	TRGT:RS 700	TIME HORIZON: 6 MONTHS

Biocon, India's largest bio-pharma company, is looking a safe buy in current uncertain times, given company's Certainty, Predictability and Surety on earnings growth for the coming quarters, after robust Q2 earnings reported by the company. Biocon had reported good earnings for Q2FY19, with Revenue rising to Rs. 1,321 cr from Rs. 1,124 cr QoQ and Rs. 969 cr YoY, a growth of 18% QoQ and 36% YoY, leading to PBT of Rs. 263 cr against Rs. 190cr QoQ and Rs. 126 cr YoY (38% QoQ and 109%YoY). Company's Small Molecules Division has shown excellent EBIT growth to Rs. 87 cr from Rs. 73 cr QoQ and Rs. 47 cr YoY (+19% QoQ, 85% YoY), led by robust API sales in Latin America, Europe and the Middle East markets driven by a better product mix across immunosuppressants,statins and other key APIs. The Generic Formulations business continues to gain traction in the U.S. with improved market share for Rosuvastatin calcium tablets and sales of Simvastatin tablets launched last quarter. Biologics division EBIT has gone through the roof to Rs. 91 cr from Rs. 27 a 000 (more than 3 times rise), driven by the commercial launch of biosimilar Pegfilgrastim in the U.S. and strong sales of Insulins as well as biosimilar MAbs in key emerging markets. We recently gave a buy call on the stock at Rs. 595 on 9th Oct, with target having met, wherein we had stated that robust Q2 eamings will be seen from the company backed by USD gains (especially in Contract Research business) while other catalysts include 2 new potential EU launches (glargine and adalimumab) planned within next 60 days and potential 2 new EU approvals (trastu and pegfil). The European Medicines Agency's Committee for Medicinal Products for Human Use (CHMP) has issued a positive opinion recommending approval for Biocon/Mylan's Neulasta biosimilar Fulphila. Subsequent approval, post consideration by the regulatory agency, would enable Biocon Mylan to launch Fulphila in the EU market Separately, the week-long USFDA inspection at Biocon's Bengaluru drug substance facility was completed successfully on 21st September 2018 with zero 483s. This augurs well for the company's Fulphila sales in the US market Further, the drug product facility was inspected in April-May 2018 and received the Establishment Inspection Report (EIR) in June 2018. Successful Inspections at both its facilities imply minimal regulatory hurdles for sales of pegfilgrastim biosimilar in the US market Going ahead, Biocon's rich pipeline (partnered with Mylan) has four lead biosimilars in advanced stages of approval in various markets (US, EU, EMs). It includes Trastu, recently approved by the US FDA, which should result in significant monetization in 2019 and onwards. On an estimated EPS of Rs. 18 for FY20, stock is trading at PE of 35x, which are likely to sustain given improving visibility of the second wave of the company's five biosimilar assets, steady base business fundamentals, prospects of global biosimilar opportunities coming to fruition in the coming years (through 2020), and commercialization of its greenfield Malaysian facility (US$200mn capex). Biocon's PE multiples are at 50-60% premium to Indian phamia industry multiples (not strictly comparable, since this is the only pure play on global biosimilars). To note, Asian biosimilar stocks are commanding much higher multiples at 60-70x one-year forward consensus earnings, and hence valuations of Biocon are still attractive. Biocon reiterated its FY19 biosimilar revenue guidance of US$200mn (vs US$115mn in FY18) which includes some contribution from the US/EU launches (pegfil in the US, glargine and adalimumab in the EU). Share ruling at Rs. 629 can move to Rs. 700 in 6 months.

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Disclosure of interest statement – • Analyst interest of the stock /Instrument(s): - No. • Firm interest of the stock / Instrument (s): - No.