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THE COMPASS

For Biocon, windfall seen from drug launch

Settlement with innovators of a key drug clears up legal hurdles, offers up a revenue machine

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Biocon stock is up five per cent this week after its partner Mylan settled up with Roche and Genentech, which hold patent for cancer drug trastuzumab. With analysts predicting more gains for the stock, the development looks significant for Biocon.

In 2016, the cancer drug is said to have clocked sales of just under \$7 billion (₹46,000 crore), largely from developed markets of the United States or US and the European Union. Analysts at Morgan Stanley believe Mylan and Biocon would clock sales of \$200 million within two years of the drug's launch, factoring in a 60 per cent erosion in its price as well as a market share of 15 per cent. This should help Biocon clock \$40 million (₹260 crore) in profit, factoring in a profit share of 35 per cent with partner Mylan. Any gains from emerging markets would rack up over and above this profit estimate.

The cancer drug is expected to be launched in the second half of 2018 in Europe and in 2019 in

the US. Biocon launched the drug, used to treat early-stage and late-stage breast cancer, in India in 2014 and is registering documents for it in other emerging markets.

Analysts are positive about Mylan's settlement with Roche and Genentech removing legal hurdles and paving the way for launch in key developed markets within a strict time frame.

The importance of the drug can be seen from the fact that, out of the five key biosimilars Biocon expects to launch in developed markets, the drug alone represents the biggest revenue potential.

(A biosimilar is designed to have active properties similar to a drug that has previously been licensed.) Analysts at Citi Research value the drug at ₹195 a share, with the overall valuation for the five products at ₹515 per share of Biocon. The Street expects the next biosimilar, pegfilgrastim, to be launched in



2018 or 2019. Used to treat low White Blood Cell count, it has been assigned a per-share value of ₹80.

Morgan Stanley analysts assign one-year forward price-to-earnings of 30 for Biocon, with a stock target price of ₹1,264. They justify this 40 per cent premium to its three-year average by citing improving business fundamentals; 30 per cent premium to peers is all down to the company being the only pure-play Indian story on global biosimilar opportunities. In addition, prospects for

domestic formulations and contract research, as well as commercialisation of new facility in Malaysia, also support these valuations. Citi Research has a stock target price of ₹1,315. Given the current stock price of ₹1,121, there is a potential of 13-18 per cent. While launch clarity helps, any delay could make pressure the valuations.