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Biologics, research services the golden goose for Biocon

Biosimilar launches in emerging markets to drive earnings further

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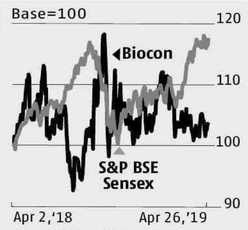

Compiled by BS Research Bureau

Biocon's March quarter (Q4) revenues, at ₹1,528 crore (up 31 per cent year-on-year, or YoY), may have missed *Bloomberg* consensus estimates of ₹1,604 crore. However , operating performance remained strong and net profit at ₹214 crore grew 64 per cent YoY, ahead of analyst estimates of ₹206 crore.

Core operating margins expanded 800 basis points YoY and it expects to sustain margins at the 34 per cent level. However, at ₹619.8 apiece, stock price closed little changed.

Biocon's performance continues to be driven by growth in its biologics and research services business, while the small molecules segment also supported Q4 growth. Yet, a softer than expected performance by the branded formulations segment — accounting for less than a tenth of overall revenues — weighed on Biocon's revenues, having been impacted by challenges in West Asia.

However, the Street is more watchful on progress in biologics and research services segments, which account for almost two-third of its overall revenues.

At a time when pricing pressure in US generics remains high and most Indian pharmaceutical companies are working on developing biosimilars or other specialty products, Biocon, with its partner Mylan, has already made significant progress.

The biologics segment's 87 per cent YoY growth was driven by the biosimilar of oncology drug, mainly Pegfilgrastim and Trastuzumab, marketed in the US and emerging markets. Trastuzumab was launched by Mylan in Europe in Q4 and more launches are planned in emerging markets.

According to Biocon, the product continues to gain traction in key markets of Latin America and Africa-Middle East regions.

While Europe has already seen launch of its insulin Glargine, the launch of Pegfilgrastim is expected in the second half of FY20. Glargine, too, may be launched in the US in FY20. With these products on the anvil, Goldman Sachs believes Biocon's Pegfilgrastim has more legs to run in the US and the introduction of Glargine represents a higher upside potential to FY20 earnings.

Similar views are echoed by analysts at Citi, who expect the earnings momentum to surprise the Street from FY20 and drive the re-rating of the Biocon stock.

Meanwhile the research services segment (represented by Biocon's listed arm Syngene), too, offers strong outsourcing opportunities. Syngene reported 30 per cent YoY growth in revenues in Q4 and analysts at ICICI Securities say biosimilar launches in developed and emerging markets, along with Syngene's performances, remain key levers.