

Pick of the week



Biocon Ltd

Recommendation

Sell

Time Period

12 Months

Current Price

₹ 385

Target Price

₹ 225

Potential Downside

41.6%

Investment Argument

- Biocon management has laid out an aspirational US\$1 bn revenue target for the biologics segment by FY22 (KIE: US\$475 mn; FY20E: US\$280 mn), which we believe is a blue-sky scenario. KIE expects the lagging market share trend of Mylan in the US and EU to continue through FY21/22, given the emerging competitive landscape.
- Biocon (BIOS) and Mylan (MYL) have received USFDA approval for Semglee (Lantus), but as expected, the USFDA granted a non-interchangeable status to Semglee. The approval was highly anticipated but the product received a non-interchangeable rating, with interchangeability likely to be pursued post approval by MYL/BIOS. The focus shall now be on commercial execution.
- Also, Pfizer has announced the approval for Nyvepria, its biosimilar to Neulasta. This is the fourth biosimilar approval for Neulasta in the US, and given Pfizer's strengths in oncology and supportive care, KIE expects Pfizer to take a meaningful share of the market. KIE also expects Neulasta biosimilar market to turn further competitive in 2HCY20, potentially marking the peak for Fulphila in FY21.
- Even for Herceptin, Amgen has taken a meaningful lead in the market, whereas MYL has low single-digit market share. Thus KIE expects the full impact of launches by Pfizer, Teva and Merck to be seen in 2HCY20, and expect Mylan to lag competitors with an expected mid-single-digit market share for FY21.
- Thus, KIE believes expectations from BIOS' biosimilars pipeline remain elevated, and see risks of continued market share disappointments. Hence KIE retains its SELL rating on the stock with revised fair value of Rs225/share. In the SOTP target price of Rs.225/share, the base business is valued at Rs.130, Biologics pipeline is valued at Rs.101 and net debt at Rs.6.