

Pick of the week



Suven Life Sciences Ltd.

Recommendation

Buy

Time Period

12 Months

Current Price

₹ 277

Target Price

₹ 391

Potential Upside

41%

Investment Argument

- Suven Lifesciences SUVN 502 molecule failed to meet the primary endpoints, which was clearly a negative, however, the drug was safe and well tolerated with no significant adverse events. Company will work with regulators and potential partnering companies in the design and conduct of future studies for further exploration of the potential of Masupirdine (SUVN-502).
- We believe that although the outcome was clearly negative for stock, but the findings present an important step forward in further exploration of the potential therapeutic effects of SUVN-502 (out-licensing potential of which is uncertain) in Alzheimer's Disease (AD) and Behavioral & Psychological Symptoms in Dementia (BPSD).
- Demerger Benefit: Another adjustment that we have not incorporated in our numbers (but can have significant positive impact) is demerger of current business into two, namely, R&D arm (SLSL) and core CRAMS business (SPL). Management expects the demerger to complete by end of FY20.
- Post de-merger, we expect the R&D expenses to reduce to ~4-5% of sales for FY21E and FY22E resulting in EBIDTA margins for core CRAMS business improving from current 35% and 36% to ~ 42% and 43% for FY21E and FY22E, respectively. The potential jump in earnings clubbed with higher return ratios could lead to upside risk to our target price, which we are not factoring as of now.
- Post the failure of SUVN 502, we have deduced Rs 54, as the potential of out-licensing is out of picture. Thus we arrive at our revised target price of Rs 391 (vs. earlier target price of Rs 445), valuing the stock at 19x FY22E EPS of Rs.19.4 arriving at price of Rs.369 (for base business). We have added the value of other 3 molecules put together at Rs 22.