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Biosimilar monetisation should drive EPS up from Rs 6.2 in FY18 to Rs 25.7 in FY21

Biocon (with Mylan) has made substantial regulatory/IP progress for its biosimilar portfolio in the US and EU markets over the last six months. Consequently, the company could monetise three products in FY19 — US pegfil, EU glargine, and EU adalimumab; three in FY20 — US trastu, EU pegfil, and EU trastu; and one in FY21 — US glargine. We estimate $120 mn FY18 biosimilar revenues to ramp up to $475 mn by FY21.

Plus, terminal **value should deepen**

In the last six months, Biocon has deepened its partnership with Mylan by adding two new products – glargine 300 units/mL and pertuzumab. It has broadened its portfolio by entering a new partnership with Sandoz, which gives launch visibility beyond 2024. Two more

products in its development pipeline have progressed – bevacizumab (in Phase III) and aspart (in Phase I). All these provide longer-term growth visibility and imply a terminal value buildup, in our view.

Reasonable **valuation for quality earnings**

P/E is 64x for FY19e and 31x for FY20e. Importantly, the near-term earnings capture very little upside from biosimilars, which will drive up earnings in FY20 and beyond. Therefore, in the context of earnings growth (FY19-21e CAGR of 57%) and regional comps (50-60x forward earnings), valuation appears reasonable to us. We emphasise that these are quality earnings since the entry barriers are higher for biosimilar opportunities. Our price target of Rs 785 (40x F20e EPS) implies 30% upside potential. Low double-digit base business growth and complex generic optionality should cushion the earnings. We believe that the regulatory success is priced in the stock. As the company shows 'in market performance' and monetises its assets, the stock price performance should follow. The company is planning a potential business restructuring by separating and listing its biosimilar business over the next 1-2 years, which should help unlock value.

Reiterate Overweight

Given its recent success in the regulatory pathway, Biocon is now well positioned to monetise its leading biosimilar pipeline assets in the US, EU and EMs. Plus, its biosimilar partnerships are both deepening (new products added with Mylan) and gaining breadth (new partnership with Sandoz). Key risks to our rating 'In market' challenges like higher competitive intensity, brand stickiness, innovators fighting back, etc. In addition, there are IP challenges and regulatory hurdles (like EU pegfil and trastu) which have yet to be cleared. Other risks include slowdown in the base business and setback in late-stage Syngene drugs.