

23rd May 2016

Shire PLC

Price 4,281p

A rare opportunity!

Fair Value 5900p (+38%)

BUY

Coverage initiated

We are initiating coverage of Shire with a BUY recommendation and a FV of GBp5,900 with the dawn of a transformative merger with Baxalta. Beyond the fact that we see significant upside (+45%), in our view the pressure on the share price caused by the current arbitrage strategies, along with doubts regarding the potential value creation, have created an opportunity as 1/ Shire ex-Baxalta is a strong growth story associated with an attractive valuation (P/E 2017e: 12x); 2/ we believe the merger should accrete on earnings by 2017e.

Bloomberg	SHP LN
Reuters	SHP.L
12-month High / Low (p)	5,730 / 3,480
Market Cap (GBpm)	25,397
Ev (BG Estimates) (GBpm)	29,228
Avg. 6m daily volume (000)	2,018
3y EPS CAGR	12.3%

	1 M	3 M	6 M	31/12/15
Absolute perf.	2.2%	12.1%	-9.1%	-8.9%
Healthcare	-2.0%	2.7%	-11.3%	-9.6%
DJ Stoxx 600	-3.6%	3.6%	-11.5%	-7.6%

YEnd Dec. (USDm)	2015	2016e	2017e	2018e
Sales	6,100	6,796	7,604	8,362
% change		11.4%	11.9%	10.0%
EBITDA	2,924	3,248	3,736	4,223
EBIT	2,785	3,078	3,538	3,989
% change		10.5%	14.9%	12.8%
Net income	2,310	2,508	2,839	3,270
% change		8.6%	13.2%	15.2%

	2015	2016e	2017e	2018e
Operating margin	45.7	45.3	46.5	47.7
Net margin	37.9	36.9	37.3	39.1
ROE	23.5	22.7	22.5	22.3
ROCE	16.3	12.8	15.0	17.9
Gearing	13.8	50.4	26.6	3.8

(USD)	2015	2016e	2017e	2018e
EPS	3.89	4.23	4.79	5.51
% change	-	8.5%	13.2%	15.2%
P/E	16.0x	14.7x	13.0x	11.3x
FCF yield (%)	6.0%	4.8%	6.4%	8.1%
Dividends (USD)	0.23	0.26	0.28	0.32
Div yield (%)	0.4%	0.4%	0.5%	0.5%
EV/Sales	6.3x	6.2x	5.3x	4.5x
EV/EBITDA	13.1x	13.1x	10.8x	8.9x
EV/EBIT	13.7x	13.8x	11.4x	9.4x

ANALYSIS

- So rare, my precious. On a stand-alone basis, Shire is a growth story which is unparalleled in Europe. Firstly, from a quantitative perspective, EPS growth is expected to average nearly 11% in the 2015-2020e period (vs +8% for the big/specialty pharmas in Europe); but also at the qualitative level since this growth should be underpinned, in particular, by the company's growing exposure to rare diseases (well known for the pricing power it offers, in addition to strong resilience and a degree of immunity given the debate surrounding drug prices).
- The merger with Baxalta will enhance an already-exceptional growth/risk profile; our initial estimates of the EPS impact associated with the integration of this Baxter spin-off suggest that the transaction should be earnings accretive as of 2017e (+1%e then +4-5%e in the following years). In addition to the fact that the Hemophilia franchise should continue to grow despite competition from novel new therapies, in our view a portion of the consensus is underestimating the potential for the ImmunoGlobulin activities (and notably that of Hyqvia).
- Initiation of coverage with a BUY recommendation and an ex-Baxalta FV of GBp5,900. The earnings dynamic in our forecasts is more than positive...and yet 1/ the share price has fallen by more than 25% over 12m (vs -13% for the STOXX Europe 600 Healthcare); and 2/ the 2017e PER currently stands at a c.30% discount relative to the rest of the sector. Note also that the stock currently trade at our worst-case valuation (GBp4,200).

VALUATION

- We are initiating coverage of Shire with BUY recommendation and a FV of GBp5,900.

NEXT CATALYSTS

- May, 27 2016: approval of the merger by both Shire and Baxalta's shareholders.

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Distribution of stock ratings

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