

Morphosys

Price EUR44.47

"Back for MORE" (full report published today)

Fair Value EUR62 (+39%)

BUY

Coverage initiated

Bloomberg	MOR GR
Reuters	MORG.DE
12-month High / Low (EUR)	76.3 / 35.0
Market Cap (EURm)	1,180
Ev (BG Estimates) (EURm)	937
Avg. 6m daily volume (000)	143.5
3y EPS CAGR	

We are initiating coverage of Morphosys with a Buy recommendation and a FV of EUR62, representing c.35% upside potential. The stock has significantly underperformed both its peers and the wider market, following disappointing late-stage data for MOR202 and bimagramab plus Celgene's decision to end the partnership agreement for the latter. We believe that upcoming Phase III data for guselkumab, an anti-IL23p19 (partnered with JNJ) in development for the treatment of plaque psoriasis, could lead to a rerating of the shares.

	1 M	3 M	6 M	31/12/15
Absolute perf.	6.7%	15.5%	-23.6%	-22.9%
Healthcare	1.8%	2.8%	-6.8%	-9.2%
DJ Stoxx 600	-1.0%	-0.2%	-8.3%	-9.0%

ANALYSIS

- **Low-risk business model.** Morphosys, a German biotech company focused on the discovery and development of monoclonal antibodies, has a two-pronged business model: 1/ Discovery agreements with major laboratories who assume all the development costs as soon as a project is created, with MOR receiving royalty rates of 4-6% on average; 2/ More profitable partnership agreements for proprietary candidates following proof of concept data. Of note, Morphosys has already signed over a dozen partnership agreements with big pharmas and smaller laboratories.
- **Significant near-term catalyst.** While consensus is focused on anti-CD19 MOR208 for blood cancers, we see guselkumab as the key share price driver. Headline Phase III data is due in H2 16. We anticipate launch in late 2017 and forecast peak sales of EUR1.5Bn in 2025.

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	106.2	55.0	79.6	15.3
% change		-48.2%	44.8%	-80.8%
EBITDA	20.6	-60.2	-56.2	-141.2
EBIT	17.2	-64.2	-60.2	-145.2
% change		NM	6.3%	-141.3%
Net income	14.8	-42.8	-40.4	-100.2
% change		NM	5.8%	-148.3%

VALUATION

- **Initiating at Buy with a FV of EUR62.** Recent share price weakness has led to an attractive entry point for MOR shares, in our view, since Morphosys' pipeline is sufficiently rich and diverse for investors to play significant near-term clinical catalysts with limited downside risk. In a best case scenario, we see upside of 50%, vs. downside of only 2%. The main risk to our FV would be guselkumab missing its primary endpoint in a Phase III trial (-EUR18 all other things being equal, assuming we completely remove this compound from our valuation).

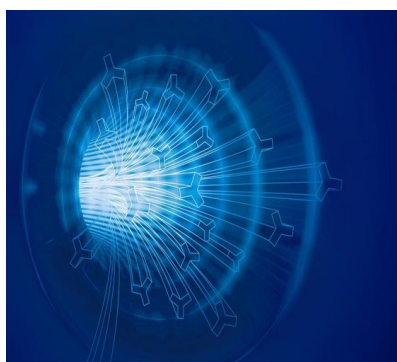
	2015	2016e	2017e	2018e
Operating margin	16.2	-116.7	-75.6	-951.0
Net margin	14.0	-77.9	-50.7	-656.5
ROE	4.1	-13.4	-14.4	-55.9
ROCE	16.0	-47.9	-42.3	-98.9
Gearing	-77.9	-76.1	-70.5	-50.6

(EUR)	2015	2016e	2017e	2018e
EPS	0.57	-1.63	-1.53	-3.80
% change		NM	5.8%	-148.3%
P/E	78.0x	NS	NS	NS
FCF yield (%)	NM	NM	NM	NM
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	8.4x	17.0x	12.3x	71.4x
EV/EBITDA	43.5x	NS	NS	NS
EV/EBIT	52.3x	NS	NS	NS

NEXT CATALYSTS

- Q2/Q3 16: Phase III results for guselkumab (anti-IL23p19) for the treatment of plaque psoriasis.

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Distribution of stock ratings

BUY ratings 55.5%

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