

12th July 2016

Healthcare

Shire PLC

Price 4,818p

Lifitegrast approved by the FDA! A significant overhang now gone. FV lifted.

Fair Value 6750p vs. 6500p (+40%)

BUY-Top Picks

Bloomberg	SHP LN
Reuters	SHP.L
12-month High / Low (p)	5,730 / 3,480
Market Cap (GBPm)	43,308
Ev (BG Estimates) (GBPm)	58,910
Avg. 6m daily volume (000)	2,776
3y EPS CAGR	14.6%

Shire has announced that lifitegrast has been approved as a treatment for dry eye disease, and more precisely, as a way to improve both signs and symptoms of the sickness. Valuation-wise, our FV is "only" lifted from GBp6,500 to 6,750 after increasing our PoS (100% vs 50% previously) along with our peak sales for the compound (USD1.2bn vs USD800m). But from a market-sentiment perspective, we believe this news should be more than well-received as "lifi" has always been presented as a cornerstone in the future ophthalmic franchise. BUY reiterated.

	1 M	3 M	6 M	31/12/15
Absolute perf.	16.0%	13.5%	22.8%	2.6%
Healthcare	5.7%	7.1%	3.0%	-4.1%
DJ Stoxx 600	-0.1%	0.0%	-2.2%	-9.0%

ANALYSIS

- **Lifitegrast has finally been approved by the FDA for the treatment of dry eye disease** (a disorder affecting nearly 35m persons in the US characterised by inflammation of the surface of the eye and tear glands, and a chronic inability to produce tears), and will be marketed as Xiida® from this Q3.
- But good things come in pairs: contrary to our belief, **the label is much broader than we anticipated as the compound will be indicated for the improvement of both signs and symptoms** (and we thought Shire would only get the latter). And thus, Xiida will be the very first FDA-approved drug with such a favourable label... And this is not insignificant as the medical need is largely unmet. As a reminder, the only available pharmaceutical treatment is Allergan's Restasis – which is known to generate nearly USD1bn in revenues, with a very restricted label however ("increasing tear production in patients with a type of Chronic Dry Eye disease").
- **In our view, a significant "overhang" is now removed** as although it now can be considered as a quite small molecule following the acquisition of Baxalta, lifitegrast is nonetheless a key element in building an ophthalmic franchise... Which we believe might yield more than USD2bn in sales.

YEnd Dec. (USDm)	2015	2016e	2017e	2018e
Sales	6,100	10,774	15,298	16,656
% change		76.6%	42.0%	8.9%
EBITDA	2,924	4,564	6,723	7,646
EBIT	2,785	4,220	6,142	6,980
% change		51.5%	45.5%	13.6%
Net income	2,310	3,184	4,520	5,315
% change		37.8%	42.0%	17.6%

	2015	2016e	2017e	2018e
Operating margin	45.7	39.2	40.1	41.9
Net margin	37.9	29.6	29.5	31.9
ROE	23.5	9.9	12.1	12.3
ROCE	16.3	5.7	8.1	9.4
Gearing	13.8	63.0	42.4	23.8

VALUATION

- **Our FV is lifted from GBp6,500 to GBp6,750** after increasing 1/ our PoS from 50% to 100% for this molecule, along with 2/ our peak sales (USD1.2bn vs USD800m) to take into account a broader-than-anticipated label. BUY rating reiterated.
- **We more than ever believe that Shire displays a very attractive risk-reward** as 1/ we anticipate a +15% EPS CAGR over the 2015-2020 period; 2/ the stock is trading on a 30% discount vs its European peers (and even 50% if we compare it to CSL limited...).
- **As a reminder, our valuation might go further up in coming weeks**, as we assume the anticipated cost synergies with Baxalta could be raised (USD750m vs 500m?). In such a scenario, our FV and our mid-term EPS would be increased by +GBp200 and +4% respectively.

(USD)	2015	2016e	2017e	2018e
EPS	3.89	4.11	4.99	5.86
% change	-	5.5%	21.3%	17.6%
P/E	16.1x	15.2x	12.6x	10.7x
FCF yield (%)	6.0%	0.1%	8.3%	10.2%
Dividends (USD)	0.23	0.20	0.23	0.32
Div yield (%)	0.4%	0.3%	0.4%	0.5%
EV/Sales	9.4x	7.1x	4.7x	4.0x
EV/EBITDA	19.7x	16.8x	10.7x	8.7x
EV/EBIT	20.7x	18.1x	11.7x	9.5x

NEXT CATALYSTS

- 2nd August 2016: Q2 2016 results + Update on the cost synergies with Baxalta.

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