

28th September 2016

Healthcare

Shire PLC

Price 5,143p

TNF biosimilars to be discontinued... another step towards a better capital allocation

Fair Value 6900p (+34%)

BUY-Top Picks

Bloomberg	SHP LN
Reuters	SHP.L
12-month High / Low (p)	5,315 / 3,480
Market Cap (GBPm)	46,391
Avg. 6m daily volume (000)	2,558

	1 M	3 M	6 M	31/12/15
Absolute perf.	6.0%	23.9%	32.4%	9.5%
Healthcare	0.2%	3.6%	5.8%	-8.1%
DJ Stoxx 600	-1.0%	10.2%	1.5%	-7.0%

	2015	2016e	2017e	2018e
P/E	17.1x	15.8x	13.5x	11.6x
Div yield (%)	0.3%	0.3%	0.3%	0.4%

ANALYSIS

- Coherus and Momenta announced they had regained (or will regain) all rights on their TNF- α biosimilars from SHP – respectively CHS-0214 (etanercept) and M923 (adalimumab), two candidates for which we had very low expectations (2020e sales: USD100m for the whole franchise, with revenue anticipations starting from 2017e).
- We expected this news as we saw these BXLT's legacy assets as 1/ non-core, and 2/ low ROI. As such, we see this as positive from a capital reallocation / cost savings point of view. Remember that 1/ we (and probably the consensus) included low cost synergies from the acquisition of BXLT for this year; 2/ in light of management's track-record, we believe the street could be positively surprised by the speed with which the cost cutting plan is implemented.
- Note that Shire will continue to fund the development of the Momenta compound until the termination of the agreement (in 12 months). But the potential costs associated are likely to be limited as M923 is a Phase III compound for which the top-line results are to be published by year end. The press release gave no details about a potential one-shot payment to Momenta. On the other hand, we understand that Coherus will recognise USD162.6m in revenue for this year as a result of the termination agreement.

VALUATION

- BUY reiterated with a FV of GBP6,900.

NEXT CATALYSTS

- 28th October: Q3 2016 results.
- 10th November: Capital Market Day.

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