

Shire PLC

Price 5,147p

Re-rating still underway! (full report released today)

Fair Value 6900p (+34%)

BUY-Top Picks

Bloomberg	SHP LN
Reuters	SHP.L
12-month High / Low (p)	5,323 / 3,480
Market Cap (GBPm)	46,476
Ev (BG Estimates) (GBPm)	61,444
Avg. 6m daily volume (000)	2,534
3y EPS CAGR	14.8%

We still consider that the market underestimates the resilience of Shire's haemophilia franchise, and consequently, its EPS growth in coming years (CAGR 2015-18 CAGR of +15%). We also reiterate our BUY recommendation as 1/ the share remains one of the cheapest in the sector in Europe (2017e P/E of 13x vs. 17x for peers) and that 2/ newsflow associated with Lifitegrast and DX2930 should reassure the market as to the group's ability to manage the decline in Feiba (Haemophilia A with inhibitors).

ANALYSIS

- Decline in Inhibitors: a manageable risk.** We fully admit that ACE910 is likely to have a substantial impact on sales in the inhibitors franchise, and the fact that Feiba is a high-margin product has caused a considerable amount of concern for investors. However, we should not under-estimate the diversity of the group's pipeline, its positioning in niche markets and/or rare diseases and the reactive nature of its management. More precisely, we consider that 1/ forthcoming newsflow on Lifitegrast (sales ramp-up), and DX2930 (Phase III results) should reassure the market in terms of Shire's ability to manage the decline in Feiba, 2/ the company could surprise the consensus positively in terms of its ability to rapidly implement its cost-cutting plan.
- An attractive risk-reward profile.** We reiterate our positive view on the share despite its clear outperformance since we initiated coverage (+21% vs. -2% for the STOXX 600 Euro Healthcare). Shire's valuation looks just as attractive in that 1/ it is still trading on a 20% discount to European peers, and even 40-45% relative to CSL, 2/ to justify a FV of GBP5,000, we would have to assume that the haemophilia and inhibitors franchises disappear entirely by 2018 (i.e. the first year ACE910 is on the market)... And it goes without saying that such scenario has never been observed throughout the long history of the pharma industry.

VALUATION

- BUY reiterated with a FV of GBp6,900.

NEXT CATALYSTS

- November 1st: Q3 16 results.
- November 10th: Capital market day.

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	1 M	3 M	6 M	31/12/15
Absolute perf.	5.6%	6.4%	20.4%	9.6%
Healthcare	-2.4%	-6.6%	-2.5%	-10.8%
DJ Stoxx 600	0.5%	0.4%	-1.2%	-7.1%

YEnd Dec. (USDm)	2015	2016e	2017e	2018e
Sales	6,100	11,278	15,272	16,259
% change		84.9%	35.4%	6.5%
EBITDA	2,924	4,815	6,746	7,456
EBIT	2,785	4,408	6,287	6,919
% change		58.2%	42.6%	10.0%
Net income	2,310	3,279	4,668	5,337
% change		42.0%	42.4%	14.3%

	2015	2016e	2017e	2018e
Operating margin	45.7	39.1	41.2	42.6
Net margin	37.9	29.1	30.6	32.8
ROE	23.5	10.9	13.8	13.8
ROCE	16.3	6.4	9.1	10.4
Gearing	13.8	60.7	42.5	24.7

(USD)	2015	2016e	2017e	2018e
EPS	3.89	4.21	5.15	5.89
% change	-	8.2%	22.2%	14.3%
P/E	16.1x	14.9x	12.2x	10.7x
FCF yield (%)	6.0%	4.0%	7.1%	9.1%
Dividends (USD)	0.23	0.20	0.22	0.31
Div yield (%)	0.4%	0.3%	0.3%	0.5%
EV/Sales	9.5x	6.6x	4.7x	4.1x
EV/EBITDA	19.9x	15.6x	10.5x	8.9x
EV/EBIT	20.8x	17.0x	11.3x	9.6x



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Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

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