

Shire PLC

Price 5,083p

All eyes on Haemophilia/ACE910 (over and over again)

Fair Value 6800p (+34%)

BUY

Bloomberg	SHP LN
Reuters	SHP.L
12-month High / Low (p)	5,323 / 3,480
Market Cap (GBP)	45,925
Ev (BG Estimates) (GBP)	63,118
Avg. 6m daily volume (000)	2,736
3y EPS CAGR	14.0%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-4.5%	0.2%	23.9%	8.2%
Healthcare	-3.4%	-7.5%	-2.0%	-12.6%
DJ Stoxx 600	-0.9%	-1.5%	0.8%	-7.4%

YEnd Dec. (USDm)	2015	2016e	2017e	2018e
Sales	6,100	10,953	14,821	15,765
% change		79.6%	35.3%	6.4%
EBITDA	2,924	4,609	6,695	7,371
EBIT	2,785	4,334	6,250	6,851
% change		55.6%	44.2%	9.6%
Net income	2,310	3,305	4,646	5,321
% change		43.1%	40.6%	14.5%

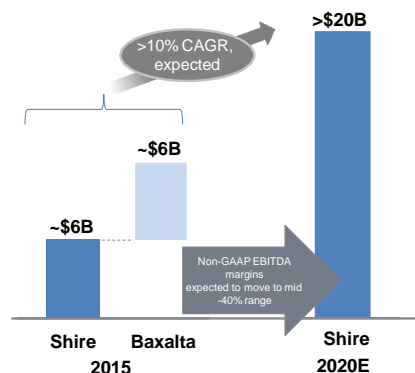
	2015	2016e	2017e	2018e
Operating margin	45.7	39.6	42.2	43.5
Net margin	37.9	30.2	31.4	33.8
ROE	23.5	11.0	14.0	14.3
ROCE	16.2	5.1	7.2	8.2
Gearing	14.7	71.6	55.1	37.6

(USD)	2015	2016e	2017e	2018e
EPS	3.89	4.25	5.04	5.77
% change	-	9.0%	18.7%	14.5%
P/E	16.3x	14.9x	12.6x	11.0x
FCF yield (%)	5.9%	NM	5.7%	7.8%
Dividends (USD)	0.23	0.20	0.22	0.30
Div yield (%)	0.4%	0.3%	0.3%	0.5%
EV/Sales	9.6x	7.2x	5.1x	4.5x
EV/EBITDA	20.1x	17.1x	11.3x	9.7x
EV/EBIT	21.1x	18.2x	12.1x	10.4x

Shire yesterday hosted a CMD during which top management reviewed its commercial and development portfolio, as well as its strategy to reach c.USD20Bn sales by 2020 and a c.45% EBITDA margin. Numerous issues were addressed, but obviously most of the questions revolved around growth potential in the Hematology franchise (haemophilia + inhibitor, with Advate and Feiba as current flagship products). We leave our numbers unchanged, though we now wonder a bit more whether some of the thrombotic events observed in ACE910's trial are related to the compound...

ANALYSIS

- Shire yesterday hosted a Capital Market Day during which top management reviewed its commercial and development portfolio, as well as its strategy to reach c.USD20Bn sales by 2020 as well as a c.45% EBITDA margin. Numerous issues were addressed, but obviously most of the questions revolved around growth potential of in Hematology franchise (haemophilia + inhibitor, with Advate and Feiba as the current flagship products). And overall our base-case scenario is unchanged (which is good news in itself in the current context).



- Hematology: the main source of disagreement.** SHP's management expects this franchise to grow on average by +3-5% between 2015 and 2020 (in line with BXL management prior to its acquisition). Obviously, we are much more cautious (BG: +0% with Feiba significantly declining from 2018e), as we believe ROG's ACE910 and eventually BIIB/SOBI's Eloctate are potentially practice-changing options for inhibitor patients...
- ACE910: what if the recent SAE were related to the compound?** ACE910's upcoming Phase III results remain the most important near-term catalyst in our view. As said in our previous comments, we'll pay a particular attention to the safety profile of this promising compound. Interestingly, one of the speaker put an emphasis on the long-term hindsight physicians have on Feiba, and noted that one of the two severe adverse events seen in ACE910's ongoing trial (thrombotic microangiopathy) has never been observed with Feiba; and apparently the same is true for NOVO's NovoSeven. Still, there is no certainty that such AE is related to ROG's candidate or due to some of the interactions with bypassing agents... So we continue to urge cautious optimism pending the presentation of detailed data (see our previous comment [here](#)).
- SHP621: an underestimated asset?** A focus was made on six candidates during the second part of the CMD, and SHP621 (oral budesonide in eosinophilic esophagitis) was perchance the molecule for which our expectations diverged the most from management's (peak sales of USD200m). In short, 1/ there is a strong rationale (corticosteroids are known to be effective and somewhat safe off-label options but a topical/adapted formulation may improve the outcomes), 2/ a strong dataset, and 3/ the significance of the addressable market (150,000 cases in the US). However, we remain quite pessimistic on its potential pricing due to the existence of low-cost alternatives (though non-FDA approved).
- Lanadelumab (DX2930) in Hereditary angioedema was one of the projects under the spotlights and we could not agree more on the potential of this candidate for which Phase III results are expected in Q2 2017... But as we undertook a fairly ind-depth analysis of it in our previous reports, we won't discuss this again here. Apart from that, we stick to our cautious stance regarding SHP467 due to potential competition from oral JAK inhibitors in inflammatory bowel diseases; despite the very encouraging clinical package (especially on the safety side).

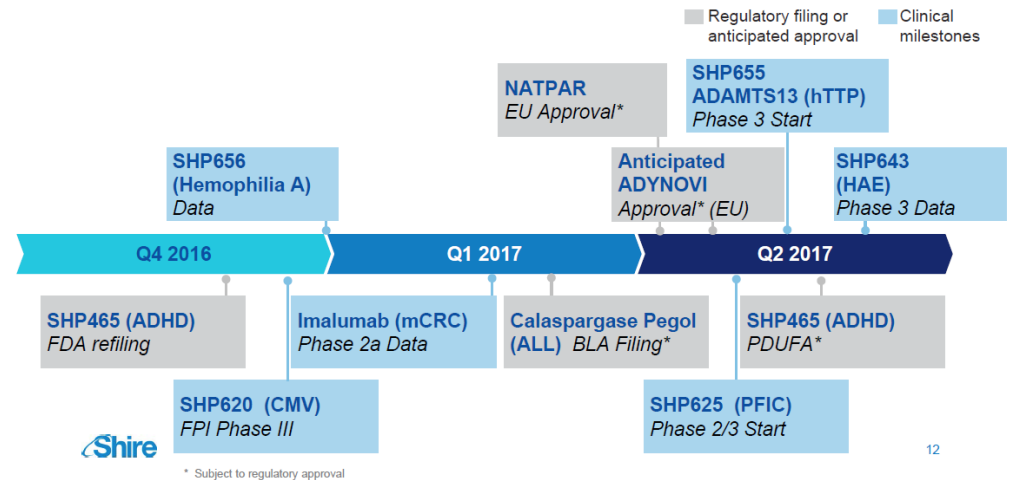


VALUATION

- This Capital Market Day admittedly brought nothing material to the table, but we remain buyers of the stock with a FV of GBP6,800 despite the recent rally.
- SHP is still one of the cheapest names within the European Pharma field (c.20% discount vs STOXX 600 Euro Healthcare). Q4 2016 results, Phase III results from lanadelumab are likely to be strong catalysts, but all eyes will be on the end of the year and ACE910's clinical data.

NEXT CATALYSTS

- Q4 2016: ROG's ACE910 Phase III results for the treatment of patients.
- End of January 2017: Q4 2016 results.



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