

Adocia

Price EUR51.74

Investment case is shifting: longer-term but more diversified

Fair Value EUR74 vs. EUR82 (+43%)

BUY

Bloomberg	ADOC.FP
Reuters	ADOC.FR
12-month High / Low (EUR)	77.7 / 44.4
Market Cap (EUR)	354
Ev (BG Estimates) (EUR)	-14,997
Avg. 6m daily volume (000)	17.40
3y EPS CAGR	30.6%

Lilly was holding a FY 2017 guidance call yesterday in the US and it is fair to consider phase III start with BC lispro in 2017 as more hypothetical than it used to be because (i) the programme is in competition with an internal one from LLY and (ii) phase III initiation with an URI is "possible". We therefore have to adjust for the risk of LLY opting-out, which was so far not an option in our view. Conversely, even though they are earlier-stage, we view BC glucagon and BC GLP1 combos as new opportunities that could be even more in line with market dynamics. All in all, our FV is adjusted downwards because a short-term outcome is jeopardised but the name remains very attractive.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-1.0%	0.3%	6.1%	-29.3%
Healthcare	2.4%	-3.6%	0.4%	-11.6%
DJ Stoxx 600	5.8%	5.4%	10.9%	-1.9%

ANALYSIS

YEnd Dec. (EURk)	2015	2016e	2017e	2018e
Sales	36,936	31,771	32,638	27,827
% change		-14.0%	2.7%	-14.7%
EBITDA	10,571	3,571	7,638	2,827
EBIT	10,103	3,071	7,138	2,327
% change		-69.6%	132.4%	-67.4%
Net income	12,554	5,189	2,223	27,994
% change		-58.7%	-57.2%	

	2015	2016e	2017e	2018e
Operating margin	27.4	9.7	21.9	8.4
Net margin	34.0	16.3	6.8	100.6
ROE	26.7	9.9	4.1	33.9
ROCE	NM	NM	NM	NM
Gearing	-153.2	-29.4	16.5	-61.2

(EUR)	2015	2016e	2017e	2018e
EPS	1.84	0.76	0.33	4.09
% change		-58.7%	-57.2%	
P/E	28.2x	68.2x	NS	12.6x
FCF yield (%)	NM	NM	NM	16.8%
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	NS	NS	0.3x	NS
EV/EBITDA	NS	NS	1.2x	NS
EV/EBIT	NS	NS	1.3x	NS

Lilly was holding an investor call yesterday and among other things confirmed that its ultra-rapid insulin programme had shifted into 2017 for phase III initiation. We would even see in the mention reported on the slides "possible in 2017" an additional layer of caution regarding the future of this programme. Moreover, it has to be remembered that BC lispro has been put in direct competition against an "internal ultra-rapid formulation" for some time now, as reflected on Lilly's website. All together we see these pieces of information as key for Adocia's BC lispro project. It has to be remembered that Lilly in the past licensed the drug in a first time, before returning rights to Adocia and licensing the same drug again, indeed at a more advanced stage but for a much bigger amount of money a couple of years ago. Since then, the development of BC lispro in phase II has progressed according to plan and we did not know that Lilly was running a paralleled development in-house with another compound. Hence our strong confidence in this agreement, reflected by 60% PoS and certain regulatory milestone payments in 2017 and 2018. Now what we read suggest two levels of caution: first with the opportunity to move any of the URI forward and second to opt for BC lispro rather than for the internal project. As a consequence, we are lowering the PoS for BC Lispro from 60% to 50% and we are also applying this PoS to milestone payments. It is fair to say however that should Lilly decide not to move on with BC Lispro in 2017 and to return rights to Adocia that Adocia could be free to find another partner in different conditions, which would make us reconsider the full model for BC Lispro with different timing and terms.

In the opposite direction, we did not move when Adocia announced in the course of the year that it had decided to initiate new platforms with the BioChaperone technology, with glucagon on one hand and combinations between glargine and different popular GLP1 compounds on the other hand. The developments in the field of diabetes in 2016 put Adocia in a situation where it had to reconsider its priorities. 2016 demonstrated that, at least in the field of insulins, price increasingly matters and best drugs can be commercial failures if they are not properly priced. Hence requirement for effective drugs at an affordable price and we see Adocia more and more inclined to play the game this way. This might suggest that potential partners are different from the usual suspects (or not if they decide to play different!). Actually, in particular with the opportunity of basal-GLP1 combinations, there is a wide variety of options and partners, depending mainly on whether Adocia moves forward with branded products (hence with the agreement of patent holders) or with a biosimilar, which opens the game but requires patent expiry (easier with exenatide than with liraglutide or dulaglutide).

VALUATION

In the end, we have adjusted the contribution from BC Lispro as explained above (EUR32/share vs EUR55) whereas in the opposite direction we introduced BC Glucagon (EUR4/share) only as a rescue option (like with Zealand we are not putting any value on dual-hormone artificial pancreas yet) and BC prandial combos (EUR22/share with average-weighted options on liraglutide, dulaglutide and exenatide). Note that we have also adjusted BC Combo PoS from 50% to 40% as we see less chance of partnership given competitive landscape with biosimilars. All in all, our FV is slightly lowered but we see Adocia better equipped now to face the reality of the diabetes field than before, hence our reiterated BUY rating.

NEXT CATALYSTS

By year-end : Last phase IIa study results with BC lispro (in type 1 diabetics using pumps)

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BUY ratings 54,9%

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