BUY
TP: Rs 2,086 | ⮝ 29%

SUN PHARMA | Pharmaceuticals | 10 March 2025

Acquiring Checkpoint Therapeutic to widen Specialty portfolio

- **SUNP to acquire Checkpoint Therapeutic for US$ 4.10 a share, at ~66% premium to its last closing price. Deal valued at US$ 355mn**
- **Checkpoint received USFDA approval for product Cosibelimab (market size of US$ 1bn), we expect UNLOXCYT sales of USD250mn by FY27E**
- **Factoring in UNLOXCYT sales, we raise EPS estimates by 2% in FY26 and 5% in FY27, ascribing P/E of 35x on Mar'27 for a TP of Rs 2,086**

Foram Parekh
research@bobcaps.in

SUNP to acquire Checkpoint Therapeutics: SUNP has announced it is acquiring Checkpoint Therapeutics, an immunotherapy and targeted-oncology company for US$ 355mn. On the completion of the transaction, SUNP will have acquired all outstanding shares of Checkpoint for upfront cash payment of US$ 4.10, ~66% premium to Friday's CMP of US$ 2.47.

Checkpoint Therapeutics received USFDA approval for cosibelimab-ipdl: Checkpoint Therapeutics has received USFDA approval for UNLOXCYT (cosibelimab-ipdl), the only drug to receive marketing approval for cutaneous squamous cell carcinoma ("cSCC") by the USFDA. PD-L1 inhibitors are a class of drugs that target the PD-L1 protein to treat cancer. The PD-1/PD-L1 inhibitor market was valued at around US$ 41.83bn in 2023 and is expected as per DelveInsight to grow to US$ 178.58bn by 2032, at a CAGR of 17.5%. Of this, the market opportunity for cosibelimab in the US is estimated to exceed US$ 1bn annually as per Checkpoint's press release.

SUNP's Specialty portfolio to widen with the launch of UNLOXCYT: Post the completion of Checkpoint's acquisition, SUNP can launch UNLOXCYT as it has received USFDA approval. SUNP's Specialty sales contributed 18% as on FY24 and increased to 21% as on Q3FY25. We expect it to increase to ~23% by FY27 with the launch of UNLOXCYT.

Checkpoint's oncology products pipeline in early clinical trial stages: Checkpoint focuses on the development and commercialization of novel treatments in Oncology and immunotherapy. Currently Checkpoint has products like Olafertinib and CK-103 in phase 1 trials and CK-302 and CK-303 in the preclinical stage. These products have the scope to further widen SUNP's Specialty portfolio.

Valuation outlook: As we factor in sales of UNLOXCYT in FY26 and FY27, we raise our EPS estimates by 2% to Rs 54.6 for FY26 and 5% to Rs 61.7 for FY27, Thus, we maintain a BUY rating and our TP of Rs 2,086 on SUNP for which we ascribe a P/E of 35x on Mar'27, roll forward by 3 months.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	SUNP IN/Rs 1,612
Market cap	US$ 44.3bn
Free float	45%
3M ADV	US$ 41.3mn
52wk high/low	Rs 1,960/Rs 1,377
Promoter/FPI/DII	54%/16%/20%

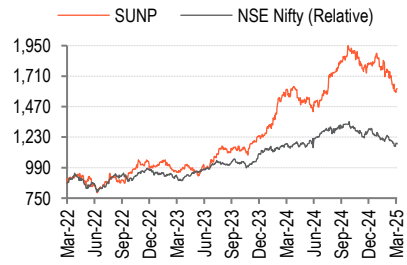
Source: NSE | Price as of 10 Mar 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	484,969	528,532	581,224
EBITDA (Rs mn)	129,884	155,376	170,813
Adj. net profit (Rs mn)	100,359	119,971	131,027
Adj. EPS (Rs)	41.8	50.0	54.6
Consensus EPS (Rs)	41.8	46.8	53.9
Adj. ROAE (%)	15.9	16.6	15.9
Adj. P/E (x)	38.5	32.2	29.5
EV/EBITDA (x)	28.6	23.7	21.1
Adj. EPS growth (%)	17.2	19.6	9.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

SUNP to acquire Checkpoint Therapeutics

Checkpoint to be acquired at 66% premium

SUNP is to acquire Checkpoint Therapeutics for upfront payment of US$ 355mn. On completion of the transaction, SUNP will acquire all the outstanding shares of Checkpoint and Checkpoint stockholders will receive an upfront cash payment of US$ 4.10 per share, ~66% premium to the CMP of US$ 2.47 without interest, and a non-transferable contingent value right (CVR) entitling the stockholder to receive up to an additional US$ 0.70 in cash, without interest, if cosibelimab is approved prior to certain deadlines in the European Union pursuant to centralised approval procedures in Germany, France, Italy, Spain or the United Kingdom, subject to the terms and conditions in the contingent value rights agreement.

Closure of transaction expected by Jun'25

The transaction is expected to be completed by Jun'25. The transaction is subject to customary closing conditions, including required regulatory approvals and approval by the holders of most of the voting power of outstanding shares of Checkpoint's common stock, and by the holders of most of the shares of Checkpoint's common stock that are not held by Fortress or by certain other affiliates of Checkpoint.

Fortress to receive royalty on sale of cosibelimab on close of transaction

Upon completion of the acquisition, SUNP and Fortress Biotech, Checkpoint's controlling stockholder, have entered into a royalty agreement where Fortress would be entitled to receive royalty payments based on future sales of cosibelimab for a specified term in lieu of royalty rights that were granted to Fortress in connection with its founding of Checkpoint.

Financials of Checkpoint as on Sep'24

For the nine-month period ending Sep'24, Checkpoint reported US$ 0.04mn in revenue and a net loss of US$ 27.3mn. The R&D expense for the nine-month period was US$ 19.3mn. As of 30 September 2024, Checkpoint had a cash balance of US$ 4.7mn, outstanding accounts payable and accrued expenses of US$ 15.6mn, and outstanding accounts payable and accrued expenses – related party – of US$ 2.0mn.

Checkpoint received USFDA approval for cosibelimab-ipdl

Checkpoint Therapeutics has received U.S. Food and Drug Administration approval for UNLOXCYT (cosibelimab-ipdl) for the treatment of adults with metastatic cutaneous squamous cell carcinoma (cSCC) or locally advanced cSCC who are not candidates for curative surgery or curative radiation. Cutaneous squamous cell carcinoma (cSCC) is the second-most common type of skin cancer in the United States, with an estimated annual incidence of about 1.8mn cases, according to the Skin Cancer Foundation. UNLOXCYT is the first and only programmed death ligand-1 (PD-L1) blocking antibody to receive FDA marketing approval for this indication. The recommended commercial dosage of UNLOXCYT is 1,200 mg administered as an intravenous infusion over 60 minutes every three weeks.

The PD-L1 Inhibitor

PD-L1 inhibitors are a class of drugs that target the PD-L1 protein to treat cancer. The PD-1/PD-L1 inhibitor market was valued at around US$ 41.83bn in 2023. It is expected to grow to US$ 178.58bn by 2032, at a CAGR of 17.5%.

Factors driving PD-L1 growth

Cancer prevalence: The rising number of cancer cases is driving the demand for PD-1/PD-L1 inhibitors.

Early detection: Improved imaging and screening tests allow for earlier detection of tumours, which are more likely to be curable.

Immunotherapy: PD-1/PD-L1 inhibitors are effective against a variety of cancers and have a better side effect profile than chemotherapy.

Clinical trials: Clinical trials of PD-L1 inhibitors tripled in recent years, with more than 4,400 clinical trials (over 3,600 are ongoing).

Some examples of PD-L1 inhibitors include Atezolizumab, Durvalumab, Envafolimab and Tislelizumab.

Fig 1 – Market Size of few molecules in PD L1 inhibitors

		Market Size (US$ bn)			Market Share (%)
	Brand	2023	2025	2030	2022
Atezolizumab	Tecentriq	2.68	NA	7.86	33
Durvalumab	Imfinzi	2.70	3.01	4.50	NA

Source: Company, BOBCAPS Research

Other drugs that target the PD-1/PD-L1 pathway include:

- Nivolumab
- Pembrolizumab
- Cemiplimab

Checkpoint received USFDA approval for cosibelimab-ipdl injection

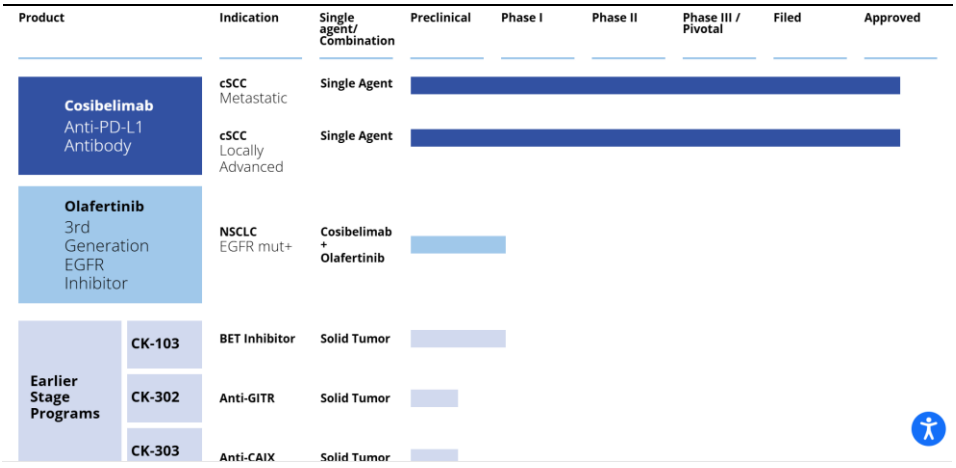
Checkpoint received USFDA approval for the cosibelimab-ipdl injection under the brand name UNLOXCYT. UNLOXCYT is the first and only programmed death ligand-1 (PD-L1) blocking antibody to receive FDA marketing approval for the indication of skin cancer called Cutaneous Squamous Cell Carcinoma (CSCC). The market opportunity in the US for Cosibelimab-ipdl injection is estimated to exceed US$1 bn as per Checkpoint's press release. UNLOXCYT has demonstrated the ability to induce antibody-dependent cell-mediated cytotoxicity (ADCC), another potential differentiating feature of the drug compared to existing marketed therapies for patients with cSCC.

Sun's specialty portfolio to widen

UNLOXCYT to be added to SUNP's Specialty portfolio

SUNP's high-growth global specialty portfolio spans innovative products in dermatology, ophthalmology and onco-dermatology, and accounts for over 18% of company sales in FY24 as against 7.3% of sales in FY18. It has a wide portfolio of 26 products marketed globally. A large part of global specialty sales is derived from the US region. Currently the key products in the global specialty portfolio are Ilumya, Winlevi, Levulan, Absorica, Odomzo, Cequa, Bromsite Xelpros , Yonsa and Sezaby. SUNP's global specialty sales spiked to US$ 325mn in Q3FY25 from US$ 286mn in Q2FY25. We expect SUNP's global specialty sales to reach US$ 1.15bn in FY25. As UNLOXCYT has received USFDA approval, we believe SUNP would be able to launch UNLOXCYT in FY26. As UNLOXCYT is the only brand in cosibelimab, we expect UNLOXCYT sales to inch up to US$ 250mn by FY27, Implying a market share of 25%.

Fig 2 – Checkpoint's pipeline products



Source: Company, BOBCAPS Research

Fig 3 – SUNP's specialty pipeline products

Candidate	Indication	Current phase	Next milestone
deuruxolitinib	alopecia areata	Approved for alopecia areata in the US	Launch
Nidlegy™ (EU, ANZ rights with Sun)	melanoma and non-melanoma skin cancers	Filed with EMA (EU) for treatment of locally advanced, fully resectable melanoma in the neoadjuvant setting	Approval
Ilumya	psoriatic arthritis	Phase 3	Topline data during H2CY25
MM-II	pain in osteoarthritis	Phase 2 completed	Phase 3 to start in H1CY25
SCD-044	atopic dermatitis	Phase 2	Topline data by H1CY25
	psoriasis	Phase 2	Topline data by H1CY25
GL0034	type-2 diabetes & obesity	Phase 1 completed	Phase 2 to start by H2CY24

Source: Company, BOBCAPS Research

Valuation methodology

We expect SUNP's Specialty portfolio to expand after the completion of acquisition of Checkpoint Therapeutics by launching UNLOXCYT. SUNP's acquisition of Checkpoint Therapeutics is in line with the interest expressed during the Q3FY25 conference call to acquire assets in the specialty segment. SUNP's global specialty portfolio contributes 18% of sales as on FY24 and we expect this segment to increase up to 23% of sales by FY27

As we factor in sales of UNLOXCYT in FY26 and FY27, we raise our EPS estimates by 2% to Rs 54.6 for FY26 and 5% to Rs 61.7 for FY27. Thus, we maintain a BUY rating and TP of Rs 2,086 on SUNP, ascribing a P/E of 35x on Mar'27, roll forward by 3 months.

Fig 4 – Change in Estimates

(Rs mn)	New		Old		Change (%)	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Sales	581,224	646,918	572,334	619,359	1.6	4.4
EBITDA	170,813	193,354	168,253	185174	1.5	4.4
EBITDA margin (%)	29.4	29.9	29.4	29.9	(0.92)	(0.92)
EPS (Rs)	54.6	61.7	53.6	58.70	1.9	5.2

Source: Company, BOBCAPS Research

Fig 5 – Key assumptions

(Rs mn)	FY24	FY25E	FY26E	FY27E
Formulation	455,708	498,610	549,578	613,342
Domestic	148,893	166,418	182,814	200,138
Exports	306,815	332,192	366,763	413,203
US	153,493	165,061	186,368	218,380
ROW	67,128	72,317	76,099	80,099
EM	86,195	94,814	104,295	114,725
APIs and others	21,877	24,199	25,352	26,571
Net Sales	477,585	522,809	574,930	639,912
Other Operating Income	7,384	5,724	6,294	7,006
Total Income	**484,969**	**528,532**	**581224**	**646918**

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- any regulatory hurdle affecting the completion of Checkpoint's acquisition,
- continued regulatory hindrances to plants under USFDA scrutiny,
- deterioration in the US generic pricing environment, and
- reduced market share and heightened competition for gRevlimid.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	**438,857**	**484,969**	**528,532**	**581,224**	**646,918**
EBITDA	121,740	129,884	155,376	170,813	193,354
Depreciation	25,294	25,566	26,769	27,652	28,534
EBIT	96,446	104,317	128,607	143,161	164,820
Net interest inc./(exp.)	(1,720)	(2,385)	(1,094)	(1,044)	(998)
Other inc./(exp.)	277	13,542	15,684	14,373	12,798
Exceptional items	0	0	0	0	0
EBT	95,003	115,474	143,197	156,490	176,621
Income taxes	8,476	14,395	21,480	23,474	26,493
Extraordinary items	(1,715)	(4,943)	0	0	0
Min. int./Inc. from assoc.	873	721	1,746	1,990	1,990
Reported net profit	**83,940**	**95,416**	**119,971**	**131,027**	**148,138**
Adjustments	1,715	4,943	0	0	0
Adjusted net profit	**85,654**	**100,359**	**119,971**	**131,027**	**148,138**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	56,815	56,533	53,292	57,210	62,123
Other current liabilities	31,628	36,579	36,734	36,904	37,092
Provisions	56,973	57,715	63,072	68,965	75,448
Debt funds	68,859	32,737	31,252	29,841	28,501
Other liabilities	0	0	0	0	0
Equity capital	2,399	2,399	2,399	2,399	2,399
Reserves & surplus	590,086	668,660	768,377	877,401	1,000,453
Shareholders' fund	592,485	671,060	770,777	879,800	1,002,852
Total liab. and equities	**806,760**	**854,622**	**955,126**	**1,072,720**	**1,206,015**
Cash and cash eq.	57,261	105,207	168,057	272,462	387,036
Accounts receivables	114,385	112,494	138,110	151,879	169,045
Inventories	105,131	98,683	122,645	134,872	150,116
Other current assets	87,984	102,335	102,335	102,335	102,335
Investments	148,301	150,258	150,258	150,258	150,258
Net fixed assets	103,670	101,917	89,992	77,185	63,495
CWIP	49,732	53,539	53,539	53,539	53,539
Intangible assets	140,297	130,191	130,191	130,191	130,191
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	**806,760**	**854,622**	**955,126**	**1,072,720**	**1,206,015**

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	**58,821**	**130,925**	**100,373**	**143,538**	**156,655**
Capital expenditures	(81,520)	(17,514)	(14,845)	(14,845)	(14,845)
Change in investments	(19,815)	(1,957)	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	**(101,335)**	**(19,471)**	**(14,845)**	**(14,845)**	**(14,845)**
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	55,956	(36,122)	(1,485)	(1,411)	(1,340)
Interest expenses	(1,720)	(2,385)	(1,094)	(1,044)	(998)
Dividends paid	(15,125)	(17,192)	(21,617)	(23,609)	(26,692)
Other financing cash flows	10,347	(7,810)	1,517	1,776	1,793
Cash flow from financing	**49,459**	**(63,509)**	**(22,678)**	**(24,288)**	**(27,236)**
Chg in cash & cash eq.	**6,945**	**47,945**	**62,850**	**104,406**	**114,574**
Closing cash & cash eq.	**57,261**	**105,207**	**168,057**	**272,462**	**387,036**

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	35.0	39.8	50.0	54.6	61.7
Adjusted EPS	35.7	41.8	50.0	54.6	61.7
Dividend per share	6.3	7.2	9.0	9.8	11.1
Book value per share	233.1	265.4	306.4	351.2	401.8

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	8.5	7.7	7.0	6.2	5.5
EV/EBITDA	30.6	28.6	23.7	21.1	18.2
Adjusted P/E	45.1	38.5	32.2	29.5	26.1
P/BV	6.9	6.1	5.3	4.6	4.0

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	90.2	86.9	83.8	83.7	83.9
Interest burden (PBT/EBIT)	98.5	110.7	111.3	109.3	107.2
EBIT margin (EBIT/Revenue)	22.0	21.5	24.3	24.6	25.5
Asset turnover (Rev./Avg TA)	14.6	14.6	14.6	14.3	14.2
Leverage (Avg TA/Avg Equity)	1.4	1.3	1.3	1.2	1.2
Adjusted ROAE	15.5	15.9	16.6	15.9	15.7

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	13.5	10.5	9.0	10.0	11.3
EBITDA	16.3	6.7	19.6	9.9	13.2
Adjusted EPS	11.5	17.2	19.6	9.2	13.1
Profitability & Return ratios (%)					
EBITDA margin	27.7	26.8	29.4	29.4	29.9
EBIT margin	22.0	21.5	24.3	24.6	25.5
Adjusted profit margin	19.5	20.7	22.7	22.5	22.9
Adjusted ROAE	15.5	15.9	16.6	15.9	15.7
ROCE	14.6	14.9	15.9	15.3	16.3
Working capital days (days)					
Receivables	92	85	95	95	95
Inventory	81	77	85	85	85
Payables	174	205	175	175	175
Ratios (x)					
Gross asset turnover	1.3	1.4	1.4	1.5	1.6
Current ratio	2.5	2.8	3.5	4.1	4.6
Net interest coverage ratio	56.1	43.7	117.6	137.1	165.2
Adjusted debt/equity	(0.2)	(0.3)	(0.4)	(0.4)	(0.5)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**
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Note: Recommendation structure changed with effect from 21 June 2021

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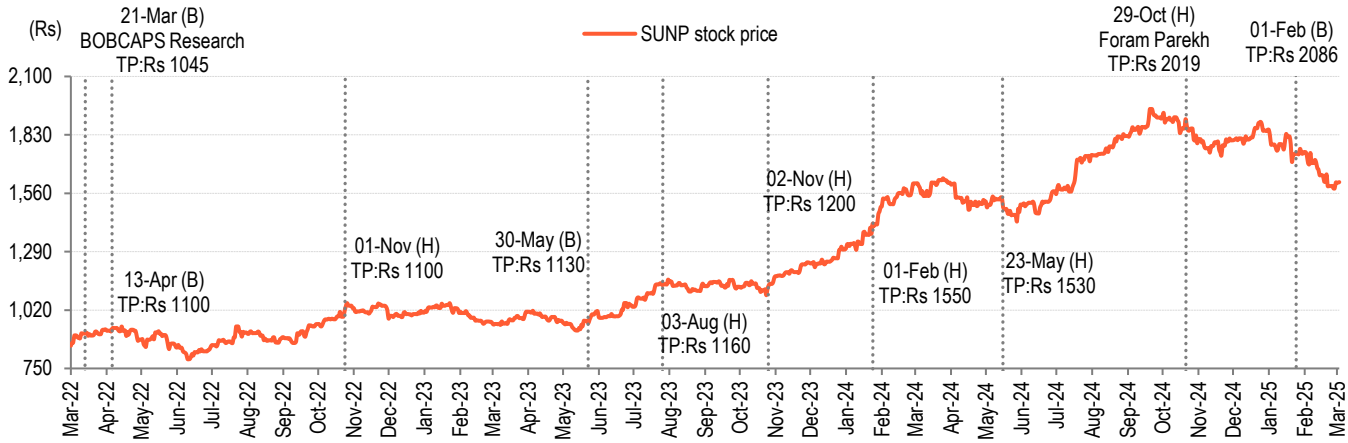
Ratings and Target Price (3-year history): SUN PHARMA (SUNP IN)



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