

**REDUCE**

TP: Rs 470 | ▼ 3%

**SUN PHARMA**

Pharmaceuticals

15 June 2020

## Ilumya out-licensed to Hikma for MENA region

**Event:** Sun Pharma (SUNP) and Hikma (market cap: US\$ 7.4bn) today entered into an exclusive licensing and distribution agreement for Ilumya – an innovative biologic product – for the Middle East & North Africa (MENA) region. To recap, Ilumya (Tildrakizumab) is a key specialty drug for SUNP and is already approved in the US and EU (with partner Almirall). The drug is used for treatment of adults with moderate-to-severe plaque psoriasis.

**Deal terms:** (1) SUNP will receive upfront payment from Hikma and be entitled to milestone payments on achievement of certain sales targets. The quantum has not been disclosed. (2) Hikma will be responsible for registration and commercialisation of the product in all MENA markets and SUNP will manage product supply. Key markets include the UAE, Lebanon, Qatar, Saudi Arabia, Kuwait, Bahrain, Egypt, Algeria, Jordan, Iraq, Morocco and Oman. (3) The agreement is for 15 years from first sale, with auto-renewal periods of 2 years.

**MENA a small market...:** As per IQVIA, pharma sales in the MENA region for 2019 totalled ~US\$ 26bn (~2% of global pharma market), growing at 8% p.a. The region has a relatively lower penetration of biologics due to lower purchasing power and a tender-based market structure (20-70% institutional mix depending on the region).

**...but Hikma a good choice of partner:** Hikma is the fifth largest pharma company in the MENA region by revenue (US\$ 725mn, 33% of its total sales in 2019). It has over 40 years of manufacturing and marketing presence across 18 markets and a proven track record on several in-licensed products. Based on management interaction, we understand that Hikma has healthy dermatology brands in this market and an established field force which can give it a decent head start.

**Our view:** We believe the deal has limited immediate implications for SUNP given low upfront/milestone payments in view of the minuscule market size. Long-term value add depends on the scale of biologic adoption. We maintain REDUCE on SUNP with a Mar'21 target price of Rs 470, based on a 12x FY22E EV/EBITDA multiple (20x implied P/E).

Key stock overhangs include (1) below-expected Ilumya ramp-up, (2) anti-trust liability/adverse US Dept. of Justice ruling on generic price fixing, (3) SEBI-ordered forensic audit for 2016-18 financials, and (4) a Rs 40.6bn contingent tax liability not provided for. These would constrain valuations in our view.

**Vivek Kumar**

research@bobcaps.in

Ticker/Price	SUNP IN/Rs 486
Market cap	US\$ 15.3bn
Shares o/s	2,399mn
3M ADV	US\$ 86.0mn
52wk high/low	Rs 513/Rs 312
Promoter/FPI/DII	54%/17%/16%

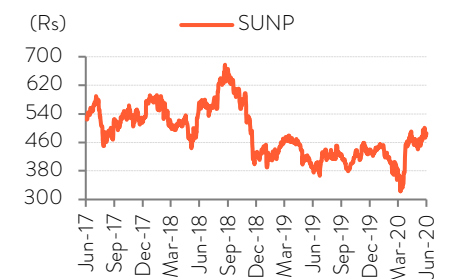
Source: NSE

### KEY FINANCIALS

Y/E 31 Mar	FY20P	FY21E	FY22E
Total revenue (Rs mn)	323,880	359,378	401,176
EBITDA (Rs mn)	69,823	77,825	86,281
Adj. net profit (Rs mn)	40,453	49,485	55,981
Adj. EPS (Rs)	16.9	20.6	23.3
Adj. EPS growth (%)	10.9	22.3	13.1
Adj. ROAE (%)	8.7	9.8	10.2
Adj. P/E (x)	28.8	23.6	20.8
EV/EBITDA (x)	15.8	14.0	12.2

Source: Company, BOBCAPS Research

### STOCK PERFORMANCE



Source: NSE

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### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

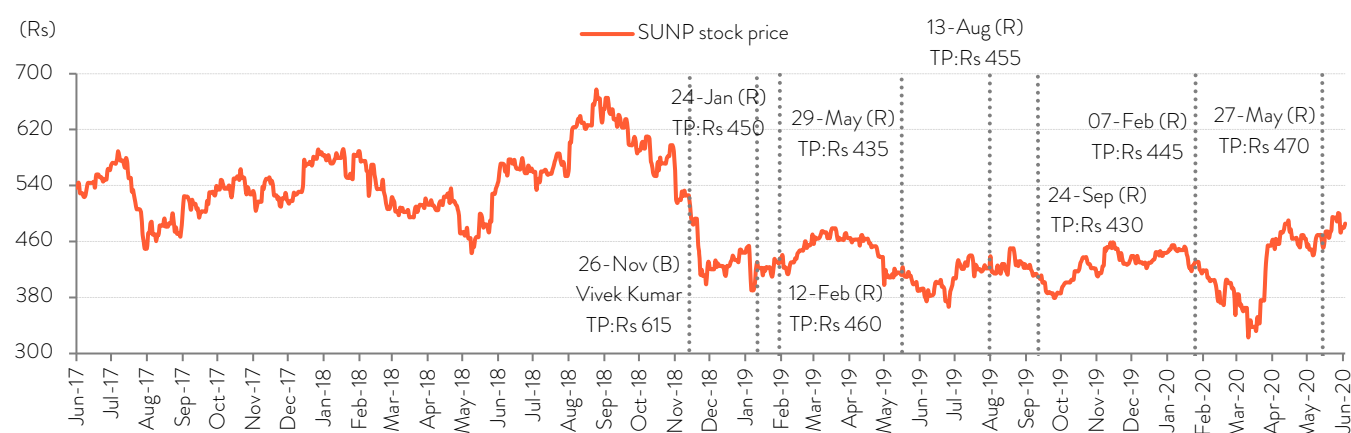
**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

### HISTORICAL RATINGS AND TARGET PRICE: SUN PHARMA (SUNP IN)



Note: B – Buy, A – Add, R – Reduce, S – Sell

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