

Biocon – Uneventful Quarter – R&D Expense Yet To Rise

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Date: July 2011

Pages: 6

Price: US\$ 140.00 (Single User License)

ID: BE9DECF0969EN

Abstracts

BIOS 4QFY11 result was below our expectations on sales (excluding licensing income), but met our earnings estimate largely due to a lower than expected R&D expense. Licensing income too remained below estimate as it remains lumpy.

Surprisingly biopharma sales (ex licensing income) grew by a modest 9% mainly due to the turmoil in the Mideast. Statins and domestic sales remained buoyant.

Once again R&D expense remained much below its guided annual rate of Rs.1.5 – Rs.1.8b. We believe the expenses will rise after the pending R&D restructuring that BIOS is likely to announce soon.

We continue to remain cautious about the biosimilars opportunity (Pfizer and Mylan deals) and about BIOS basic research program with Oral Insulin's less encouraging PhIII data. In other words, upfront R&D costs for a less visible and longer term product pipeline, both in R&D and biosimilars remains our key concern about the company's future.

We do not change our FY12 estimates. We arrive at our target price of Rs.324 by applying a PE of 20x on FY12 EPS excluding the licensing income from Pfizer and value the Pfizer deal at \$100m based on the upfront payment (realized + unrealized) received from Pfizer so far.

Contents

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