

RANBAXY - Teva Partnership Hurts

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Date: February 2012

Pages: 6

Price: US\$ 140.00 (Single User License)

ID: R0F925EB4D7EN

Abstracts

We reiterate our Market Perform rating on Ranbaxy after its Q4 CY11 result that was higher than our estimates on sales, but lower on profits. This was largely due to the unexpectedly high payment of ~\$150m to Teva under the Lipitor generic agreement. Ranbaxy generated ~\$300m from generic Lipitor that represents 3 months of sales including the channel inventory. In other words, Teva's share is as high as ~50% of the overall sales.

The management mentioned that base business margin improved sequentially and expects the margin to improve going forward. However, raw material writes down and impairment losses indicate that some termination of some businesses is still on and thus recovery may be distant. The company has initiated actions on consent decree and does not expect any material impact due to the relinquishment of 3 FTF opportunities.

RBXY's near term outlook depends heavily on USFDA resolution and improvement in the bases business margin. On the other hand, the longer term potential of Ranbaxy seems promising with (1) Daiichi-Ranbaxy likely to become the largest generic company in Japan generics market (2) leveraging of Ranbaxy's emerging market infrastructure (especially India) to launch Daiichi' proprietary products.

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COMPANIES MENTIONED

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