



Special Situations



Shire Plc - Buy

16th May 2013

Price	2051p
12 Month Price Target	2325p
Risk Rating	Medium
Forward P/E Ratio	14x
Forward Dividend Yield	0.6%

Company Profile:

Shire Plc (“Shire”) is a leading speciality pharmaceutical company, with a balanced portfolio of differentiated products focussing on life-altering conditions such as rare genetic diseases and behavioural health such as Attention Deficit Disorder and Depression.

History

Shire traces its history back to 1986, when a team of entrepreneurs began to capitalise on a number of unmet medical needs. Within two years of operation, the company had launched a range of supplemental calcium products for patients seeking to treat osteoporosis and soon after began innovative drug development programmes for conditions such as Alzheimer’s disease.

Operations

Shire has major operations in the US, UK and Switzerland and its network of offices distribute products throughout Europe, South America, Canada and the Pacific Rim. Shire employs over 5,000 people in 29 countries.

Company Profile (cont):

Products

Shire is organised into three divisions:

1. Speciality Pharmaceuticals

Focuses on small-molecule medications within the therapeutic areas of Behavioural Health, where it maintains a leadership position. Examples include Attention Deficit Hyperactivity Disorder, Binge Eating Disorder and Major Depressive Disorder.

2. Human Genetic Therapies

Solely focuses on the research, development and marketing of novel products and services that profoundly enhance the quality of life of patients suffering from rare genetic diseases, e.g. Hunters.

3. Regenerative Medicine

Shire is a leader in providing regenerative medicine solutions for people with life-altering conditions.

The Shire pipeline continues to be sustained by creative acquisitions and innovative licensing deals.

Analysts View:

The consensus broker price target is 2286p, indicating 11.5% potential upside. Deutsche bank has placed a ‘Buy’ recommendation on the shares with a 2325p price target. This is derived from a 14.3x P/E applied to 2014e EPS, based on peer group comparisons. We feel the stock looks cheap, currently trading on a 10x 2014e P/E multiple excl. Y/E14 cash, particularly cheap given the 9% 2014-17e core EPS CAGR.



Core Defensive (cont)

Catalysts to the share price:

1) Value

Shire is cheap. The shares are currently trading on a 10x 2014e P/E multiple excl. Y/E14 cash, particularly cheap given the 9% 2014-17e core EPS CAGR (50% faster than EU large caps). Despite Shire being one of the few European speciality pharma companies to show high single digit growth, the stock trades at a ~45% to its peers. It is a discount we feel is hard to justify. In addition, it is trading at a modest premium to EU large cap pharma, despite its superior growth.

2) Pipeline could deliver in 2013

2013 could be the year when Shire's pipeline finally delivers. Success in Major Depressive Disorder, Schizophrenia and Binge Eating could boost its valuation by 530p with Phase III data expected in 2013-14. Treatments for Hunter Syndrome also have blockbuster potential. In addition, potential Phase III decisions for two further pipeline projects (GERD & Iron-Overload) are not included in consensus models.

3) Increasing clarity on legal challenges

Increasing clarity on legal challenges in H1 2013 relating to Adderall XR and/or Intuniv could drive EPS upgrades, as generic launches are already factored into broker forecasts for 2014/15 respectively.

4) Current valuation provides good entry point

At its current valuation, Shire is trading at the bottom end of its 3/5 year relative premium to the EU large cap pharma (a 10% premium compared to a historic ~65% premium). This, despite the company having sector-leading sales and EPS growth profiles.

Shire is also trading at implied P/E ratios significantly below its 3 and 5 year average on an absolute basis. We believe these add up to a very attractive entry point for a long-term industry winner.

Technicals:

Technically, the stock looks attractive. The RSI recently moved above 50, a traditional bullish sign. With the 200-day moving average turning upwards in early 2013, the shares are in a confirmed uptrend. Investors looking to trade the stock for the short-term may wish to wait for a retracement to 1850p level, its recent low.

Summary:

A cheap valuation, both compared with its peers and its historical P/E multiple, indicate that the current share price represents a very attractive entry point to a long-term industry winner. Potential EPS upside in the form of clarity on legal challenges and positive developments in its pipeline could propel the stock further than expected, as indicated by Goldman Sachs's optimistic 2675p price target. On top of that, Shire has been cited as a takeover target for many years. With improved clarity on the pipeline and the legal front, this scenario seems like a real possibility more than ever.



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Cyclical (cont)

Chart Legend:

	20 day moving average	(signifies the short-term direction of the security, prices tend to gyrate around their 20 day m/a)
	50 day moving average	(signifies the medium-term direction of the security)
	200 day moving average	(signifies the long-term direction of the security - whether it is in a bull or bear market)
	400 day moving average	(signifies the long-term direction of the security - whether it is in a bull or bear market)
	bollinger bands	(an indicator that measures 2 standard deviations away from the 20 day m/a)

Technical Analysis Guide:

RSI (relative strength index) - indicates whether a security is overbought (above 70) or oversold (below 30). Also when the RSI moves above 50 that is considered bullish (or vice versa).

ADX (average directional index) - indicates whether a security is in a trend (above 20) or not in a trend (below 20). For trending markets moving averages work best when considering lines of support/resistance. For non-trending markets Bollinger Bands work best (sell at upper band, buy at lower band).

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