

Equities

6 December 2010 | 6 pages

Sun Pharmaceuticals (SUN.BO)

Alert: Takeaways from India Pharma Conf., Dec. 6-7

Takeaways from Mumbai – Sun Pharma presented at our India Pharma Mini-Conference in Mumbai. Below are key takeaways.

Growth on track – Sun continues to remain confident of growth in all key markets even as it addresses outstanding issues on regulatory compliance (Caraco, Cranberry) and looks to integrate the recent acquisition of Taro. We continue to find FY11 sales growth guidance conservative and expect newsflows on certain key product opportunities (docetaxel / Taxotere, gemcitabine / Gemzar) over the next few months. Sun remains a good long-term fundamental story in our view, but stock valuations are likely to constrain upside.

Update on key markets – a) India: robust growth to continue – Sun intends to stay focused primarily on specialty segments and urban areas. b) USA: growth will continue to be driven by filings from India and some niche/limited competition products – management also focusing on getting Caraco's operations back on track & integrating Taro into the biz. c) Europe: remains an attractive market despite several regulatory changes – focus on complex generics. d) Emerging markets: will continue to grow at a fast pace – focus on deepening product basket and adding sales force; competition to be stiffer going forward.

Key product opportunities in US – a) Decent traction in recently launched Effexor-XR & Exelon generics; b) Docetaxel - awaiting final approval; will have to evaluate the possibility of an 'at risk' launch once it comes through; c) Gemzar - likely to be a very competitive market post Teva's exclusivity launch / forfeiture. On Protonix, Sun remains confident of its legal position in patent infringement litigation.

Other takeaways – a) Caraco: expressed interest to buy out minority shareholders – Caraco board has to take a call. On course with corrective action at the plant, but even on resumption, market share gains will be slow. b) Taro: focus on securing future pipeline (improving R&D productivity, filing more products) plus some cost rationalization (already let go of some people) – will provide a status update on audit in Dec '10 – have to still take a call on strategy re Taro's innovative R&D.

Sun Pharmaceuticals (SUN.BO; Rs455.95; 2L)

■ Company Update

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Sun Pharmaceuticals

Valuation

Our target price of Rs480 is based on a sum-of-the-parts approach, valuing its base business using a P/E and ascribing an option value for its patent challenge pipeline. We value frontline pharma stocks such as Cipla and DRL at 20x 12m forward earnings. However, we believe Sun deserves a premium to these stocks, given its consistent track record, high profitability and return ratios, as well as the potential upside from the deployment of idle cash in the business, and consequently value it at 22x 12-month forward earnings. We also ascribe an option value to Sun's patent challenge pipeline.

Risks

We rate Sun Pharma shares Low Risk in line with the recommendation of our quantitative risk-rating system, which tracks 260-day historical share price volatility. Key downside risks that could impede the stock from reaching our target price include: 1) FDA issues at Caraco's Detroit plant may take longer than expected to be resolved. This may also impact US sales of products from Sun's facilities until issues are resolved; 2) Inability to close/effectively integrate the Taro acquisition and exploit synergies could keep earnings depressed for longer than anticipated; 3) Any damages to be paid in litigation on Protonix with Wyeth; and 4) A stronger IPR law in India could lead to a gradual slowdown in growth rates for the Indian market. Key upside risks that could push the shares above our target price include: 1) any new first to file/limited competition launch could act as positive catalysts. 2) Faster than expected improvement in Taro's financials

Appendix A-1

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Sun Pharmaceuticals (SUN.BO)

Ratings and Target Price History Fundamental Research

Analyst: Prashant Nair, CFA

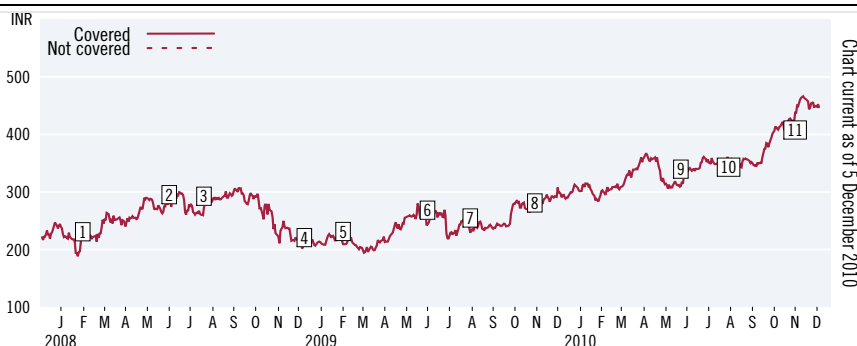


Chart current as of 5 December 2010

	Date	Rating	Target Price	Closing Price
1	31-Jan-08	1L	*270.00	227.69
2	1-Jun-08	1L	*331.80	280.58
3	21-Jul-08	*1M	331.80	273.36
4	9-Dec-08	1M	*253.00	207.23

	Date	Rating	Target Price	Closing Price
5	1-Feb-09	1M	*256.00	214.69
6	1-Jun-09	*2M	*272.20	243.70
7	30-Jul-09	2M	*258.00	229.05
8	29-Oct-09	*1L	*320.00	280.84

	Date	Rating	Target Price	Closing Price
9	24-May-10	1L	*370.00	310.36
10	29-Jul-10	*2L	*384.00	355.07
11	1-Nov-10	2L	*480.00	437.85

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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