

Equities

1 November 2011 | 7 pages

Sun Pharmaceuticals (SUN.BO)

Alert: *Cardizem CD*: Another Attractive Addition to US Biz

Company Update

- Another niche approval** – We believe the recently approved generic *Cardizem CD* is an attractive opportunity for SUN, given that it is the only player selling all dosage forms in this limited competition product. We expect this to add to the confidence in the company's seemingly aggressive FY12 topline growth guidance. We continue to like the biz but at 20x FY13E EPS, upside appears limited. Maintain Neutral.
- Cardizem CD*: an attractive opportunity** — *Cardizem CD* (Diltiazem ER) capsules (caps) are indicated for treatment of hypertension & angina and have a sizeable market of cUS\$300m despite the presence of generic players in the market for several years. The first generic (by Andrx, now Watson) was launched in 1999 and two more players (Apotex & Actavis) have launched subsequently. SUN & Biovail (now Valeant) entered a settlement in 2010, allowing SUN to launch the generic version on ANDA approval in all the five strengths with a non-exclusive license. SUN will pay royalties on sales to Valeant.
- Exclusive in one strength: to aid market share gains** — SUN will be the first generic player with all five strengths and exclusive in the 360mg version, which accounts for c25% of the market. The other generic players can launch the 360mg strength only post patent expiry in Aug 2012. Not only does this give SUN exclusivity in this strength for c10 months (very attractive in itself), we also expect this to help SUN gain share faster in other strengths as well. We expect this to become another chunky, high-margin product for SUN.
- Key catalysts** — 1) Faster than expected improvement in Taro's financials / conclusion of 100% buyout of Taro; 2) US Biz: better/lower than expected ramp-up of generic *Taxotere* (docetaxel) in the US; launch of generic *Gemzar* (gemcitabine) & news flow on other P-IV / niche oppys (*Prandin* for instance); 3) Progress on efforts to resolve the FDA issues at the Caraco mfg site.

Neutral	2
Price (01 Nov 11)	Rs506.70
Target price	Rs525.00
Expected share price return	3.6%
Expected dividend yield	0.7%
Expected total return	4.3%
Market Cap	Rs524,729M
	US\$10,776M

Price Performance (RIC: SUN.BO, BB: SUNP IN)



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Sun Pharmaceuticals

Valuation

Our target price of Rs525 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 & 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. At 22x Sep'12E EPS we arrive at a value of Rs 515/sh for Sun's core business. We also ascribe an option value of Rs10/sh to Sun's patent challenge pipeline.

Risks

Key downside risks to our target price include: 1) Inability to effectively integrate the Taro acquisition and exploit synergies could keep earnings depressed for longer than anticipated; 2) Any damages to be paid in litigation on Protonix with Wyeth; and 3) Rising competition in emerging markets from Big Pharma companies could make it a bit more difficult for Sun Pharma to expand its presence in these countries. Key upside risks 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

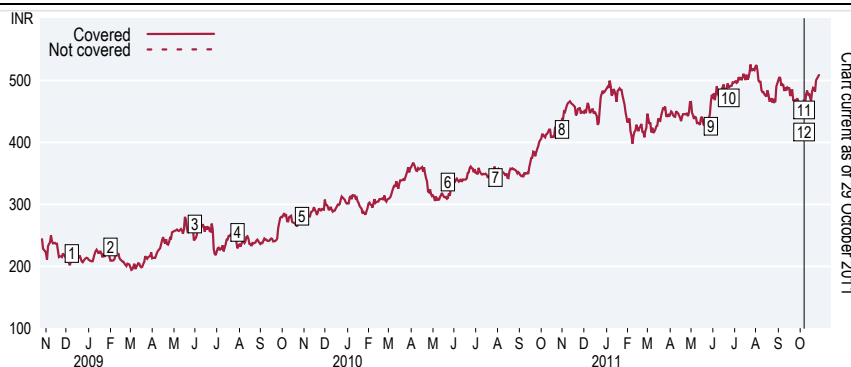


Chart current as of 29 October 2011

	Date	Rating	Target Price	Closing Price
1	9-Dec-08	1M	*253.00	207.23
2	1-Feb-09	1M	*256.00	214.69
3	1-Jun-09	*2M	*272.20	243.70
4	30-Jul-09	2M	*258.00	229.05

	Date	Rating	Target Price	Closing Price
5	29-Oct-09	*1L	*320.00	280.84
6	24-May-10	1L	*370.00	310.36
7	29-Jul-10	*2L	*384.00	355.07
8	1-Nov-10	2L	*480.00	437.85

	Date	Rating	Target Price	Closing Price
9	30-May-11	2L	*500.00	465.00
10	23-Jun-11	2L	*525.00	488.25
11	7-Oct-11	Stock rating system changed		
12	7-Oct-11	*2	525.00	469.45

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Sun Pharmaceuticals (SUN.BO)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Prashant Nair, CFA

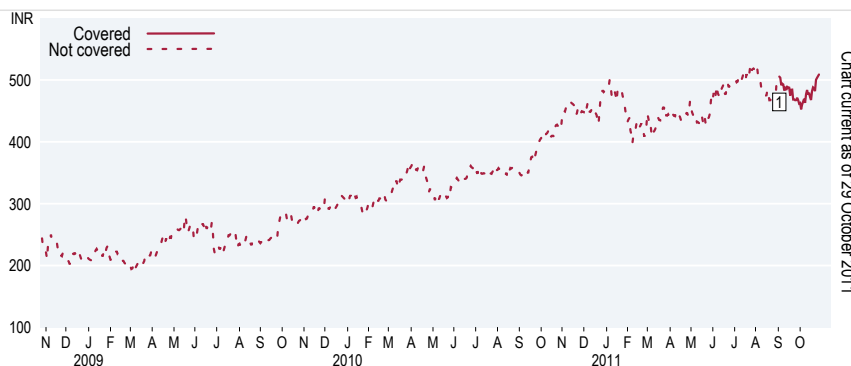


Chart current as of 29 October 2011

Date	Rating	Target Price	Closing Price
2-Sep-11	*ADD LP	-	505.45

* Indicates change

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Data current as of 10 Oct 2011

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	45%	42%	37%	50%	43%	46%

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