Biotech Daily

Friday July 7, 2017

Daily news on ASX-listed biotechnology companies

Dr Boreham's Crucible: CSL

By TIM BOREHAM

ASX Code: CSL; **Market cap:** $60.9 billion; **Share price:** $134.17

Chief executive officer: Paul Perreault

Board: Prof John Shine (chairman), Paul Perreault, John Akehurst, David Antice, Bruce Brook, Dr Megan Clark, Marie McDonald, Christine O'Reilly, Maurice Renshaw, Dr Tadataka 'Tachi' Yamada

Financials (first half to Dec 31, 2016): revenue $US3.68 billion (up 17%), earnings before interest taxation depreciation and amortization $US1.254 billion (up 37%), net profit $US805.5 million (up 12%), earnings per share $US1.764 (up 14%), dividend 64 US cents (up 10%).

Major shareholders (as of 2016 annual report *): HSBC Custody Nominees (27%), JP Morgan Nominees 15%, National Nominees (9.75%)

***** Blackrock Group and CBA have since declared stakes of around 5%.

Ever since its proposed $US3 billion acquisition of US plasma rival Talecris almost a decade ago, CSL has faced perceived growth issues and questions about what to do with its pot of excess cash (the answer, in the main, has been rolling share buy-backs).

It's a nice problem to have. Still, like frustrated footy fans, investors called for CSL to Just Do Something and in 2015 CSL Did Just That, outlaying $US275 million for the flu vaccine business of global giant Novartis.

Last month, the big blood company followed up by paying a chunky $US352 million for an 80 percent share in Chinese plasma company Wuhan Zhong Yuan Rui de Biological Production (Ruide to friends).

For the time being the other 20 percent will be retained by the Shanghai-listed Humanwell (the mob who bought Ansell's condom division recently).

We all know that China is a difficult market. In this case that's not for the usual reasons of transparency, but because of a cultural aversion on the part of many eligible donors to give up their claret.

Having said that, it's the second biggest plasma market behind the US, mainly for albumin products used for critical care including fluid resuscitation.

CSL cites the Chinese plasma market at $US3.3 billion, with around 7,100 tonnes collected annually. The Chinese population is 1.38 billion, give or take a few hundred million.

The plasma market in the US (320 million people) is worth $US8.6 billion annually, with around 31,000 tonnes collected each year.

CSL has not exactly ignored China and is currently the biggest albumin importer with a 16 percent market share. But the Ruide purchase delivers a manufacturing facility, four collection centres and – for the time being at least – the support of Humanwell.

China is the fastest growing market for immunoglobulin products, used to treat ailments including immune-deficiencies, Guillain-Barre syndrome, Kawasaki disease, AIDS/HIV and measles.

Despite the ginormous potential, Ruide won't move the revenue dial for CSL for some time: it turns over $US30 million compared with the greater CSL annual revenues of $US6.6 billion.

Beefing up the business is likely to require more capital expenditure in plasma centres, manufacturing and sales and marketing.

The Magic Pudding continues to deliver

CSL's business is split between Behring (aka The Magic Pudding) and Seqirus, previously Bio-CSL.

Seqirus, which is Latin for 'here's another silly confected company name', in essence is the merged 'flu divisions of CSL and Novartis.

Seqirus lost $US205 million last year, but Mr Perreault says the business should break even this year.

Influenza shots have been integral to the CSL story since the company was founded as the government-owned Commonwealth Serum Laboratories in 1916.

CSL dosed Allied soldiers with ’flu vaccines and penicillin in World War Two; and helped stave off the Spanish ’flu after the Great War.

But these heroic acts were still not enough to sway Her Majesty to pen a congratulatory telegram for CSL’s centenary celebrations last year (obviously the Crown jewels don’t include a wad of CSL scrip).

CSL spends a poultice on research and development - more than $US600 million last year - and has had regular clinical and regulatory wins on both sides of the business.

Last month the US Food and Drug Administration approved Behring’s Haegarda, a subcutaneous therapy for hereditary angioedema. We hadn’t heard of it either, but it’s a rare and potentially swelling condition affecting about one in every 25,000 people.

CSL also announced positive test results for CSL212 a so-called apoliprotein to prevent recurrence of secondary heart attacks.

CSL: The $400 share

The sixth biggest ASX-listed stock, CSL has been a favorite of retail investors amid the boring banks and supermarket stocks that dominate the top 10.

CSL shares hover at close to the June 23 record of $143. Bearing in mind CSL split its shares three ways in 2007, the shares should really be worth more than $400 (unlike their US counterparts, Aussie investors are uncomfortable with large-denomination shares).

Maiden aunts who subscribed at $2.30 a share in the 1994 privatisation and ASX-listing are never short of visits from long-lost relatives.

On our sums, every $1,000 invested in the float is worth roughly $270,000. But let’s hope for the sake of Great Aunt Dora’s rapacious relatives that she didn’t lose her nerve and sell when the stock dropped to as low as $2.25 a couple of months after listing.

CSL is one of those stocks that looks perennially expensive: it trades on a current price-earnings multiple of around 35 times (falling to 30 times in the current financial year, based on management guidance of a an 18-20 percent profit uplift).

But the company has an ingrained habit of expanding earnings per share, aided and abetted by share buy-backs (which will continue despite the debt-funded Ruide purchase).

CSL investors will be regularly unsettled by competitor activity. For instance, a number of rivals will outline haemophilia treatment data at the International Society on Thrombosis and Haemostasis annual shindig which kicks off in Berlin his weekend.

Haemophilia products account for 16 percent of CSL's sales and the company estimates two new treatments could generate revenue of $US700 million to $US1 billion within five years.

Dr Boreham's diagnosis:

While $US350 million is a meaty sum in yuan or greenbacks, the Chinese venture won't break the (blood) bank and appears a measured approach to tackling the Middle Kingdom.

CSL and its plasma rivals will continue to engage in skirmishes over particular products and pricing. But the ultimate supportive truth for the stock is that plasma is critical to sustaining life, so an underlying increase in demand is guaranteed. In the words of one fund manager, the plasma game is "economically insensitive".

A profitable Seqirus would also be a useful shot in the arm for earnings.

Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort. The author owns CSL shares, but acquired them well North of $2 and sadly there is no Great Aunt Dora in his life.