Biotech Daily

Monday January 23, 2017

Daily news on ASX-listed biotechnology companies

Dr Boreham's Crucible: Sirtex Medical

By TIM BOREHAM

Code: SRX; **Market cap:** $871m; **Share price:** $15.09.

Acting chief executive officer: Nigel Lange.

Board: Richard Hill (non-executive chairman), Dr John Eady (deputy chairman), Dr Katherine Woodthorpe, Grant Boyce, Darren Smith (chief financial officer).

Financials for 2015-'16 year: revenue $234.7m (up 32 percent), net profit $53.5m (up 33 percent), dose sales 11,931 (up 16 percent), earnings per share 93.7c (up 31 percent), cash on hand $107m (up 44 percent).

Market darlings trading on high earnings multiples have a nasty habit of reverting to the norm. Sadly that's the case with the liver cancer house, which offers a targeted second line (or survival) therapy for patients with an advanced form of the malady.

There's no doubting Sirtex's impressive global market reach. Its SIR-Spheres - microscopic beads that deliver radiation treatment straight to the liver tumor - are sold in 1000 medical centres across 40 countries, with 67,000 patients treated to date.

Early in 2016 Sirtex shares appeared to have shrugged off the previous year's swoon, which stemmed from the poor (or, more generously, indifferent) results of the long-awaited 550-patient Sirflox trial.

The trial aimed at first-line treatment for metastatic colorectal cancer, but failed to show a difference in "overall progression free survival".

Sirtex's inability to expand its repertoire to beyond a salvage treatment is now hurting the company. In a December 9, 2016 trading update, Sirtex reported global dose sales growth was expected to be five to 11 percent for the 2016-'17 year, compared with 15.7 percent growth the previous year.

The company cited "volatile" trading conditions ensuing from a range of factors, including a rival drug approval for salvage metastatic colorectal cancer and restricted reimbursements, especially in Europe.

In constant-currency terms, Sirtex expects earnings before interest, taxation, depreciation and amortisation (Ebitda) to be $65 million -74 million: at best a flat number or a decline of up to 12 percent.

On January 9, 2017, Sirtex reported first half sales growth of 5.6 percent - at the upper end of the guided four to six percent range - and investors exhaled a sigh of relief.

But not for long.

Four days later, Sirtex announced that chief executive officer Gilman Wong - dubbed CEO of the year by CEO Magazine in 2013 and by Biotech Daily in 2012 - had been terminated from the role "with immediate effect".

Mr Wong had already stepped down pending the outcome of an internal review of his decision to off-load some of his personal holding in Sirtex shares in October.

In short, a financial year annus horribilis. But what's the prospect for salvage therapy for investors under interim chief executive officer and former chief operating officer Nigel Lange?

To the naysayers, advancing competition has caught up with Sirtex's stagnating one-trick-pony. Competition from radiotherapy rival BTG is intensifying, while Japanese pharmaceutical house Taiho Oncology has released a new chemotherapy drug called Lonsurf.

In January, the US Food and Drug Administration granted priority review status for Stivarga (regorafenib), a second-line treatment for the most prevalent liver cancer, hepatocellular carcinoma (HCC).

Drowned out by the noise of the claqueurs in the Sirtex cheer squad, Lodge Partners analyst Marc Sinatra saw the Sirtex problems coming some time ago, warning about the "very significant risks" in the clinical trials and over-enthusiastic projections about the potential size of the market, especially in China.

"Lodge tried very hard some time ago to inform investors that we saw very significant risk in the Sir-Spheres clinical trials, that the market for the product was a lot smaller than most were projecting and that competition would increase substantially in several forms in the near/medium term," Mr Sinatra said.

“It looks very much like the speculative risks we saw back then, have become very reality since,” Mr Sinatra said.

The more consensual view is that dosage growth of five to 11 percent still amounts to advancing sales and the stock looks keen value if it can regain its growth trajectory.

The optimists also note that Mr Lange has a sales background and this discipline should help Sirtex retain market share in the US, its most important geography.

According to Bell Potter, there’s still potential if an eight-month extension of the Sirflox trial can generate a survival benefit. Bear in mind that the original trial showed the treatment slowed the spread of cancer in the liver by 7.9 months.

Meanwhile Sirtex retains the faith of major holder Hunter Hall Investments, despite January’s surprise departure of Hunter Hill founder and chief investment officer Peter Hall. After buying stock on December 9, the fund disclosed its stake at 6.69 percent compared with 4.97 percent previously.

Several funds trade in Sirtex, with Goldman Sachs, AMP and Perpetual all trading around the five percent substantial mark.

Sirtex shares are trading close to their January 3 low of $14, compared with the previous February’s 12 month peak of just over $38 per share.

Sirtex shares trade on an earnings multiple of 18 times, which is modest for the health care sector.

Thankfully, Lodge’s Marc Sinatra doesn’t see Sirtex as an “Acrux in the making”, a reference to the roll-on testosterone house which has had its own libido issues in the face of intensifying competition.

“But (Sirtex) will need everything to go their way if they are to return to anywhere near their former glory,” Mr Sinatra said.

Dr Boreham concurs. Sirtex needs a period of rest and recuperation and investors should tip-toe past the recovery ward to healthier exposures.

**** Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort. Nor is he a licenced financial adviser.***