UCB – QuickView

25 January 2013

Investment summary: Wherefore art thou romo

Much attention rests on UCB's three recently launched drugs but forthcoming news regarding its Phase III, Amgen-partnered antibody, romosozumab, could help to maintain the current share price momentum. Phase II data show a rapid increase in bone mineral density (BMD) in women with post-menopausal osteoporosis (PMO) that is superior to existing therapies, with no concerning safety signals. Data from the ongoing Phase III trials assessing c 10,000 women with PMO are not expected until 2015. However, new fracture healing data, expected in H113 and Phase III trial initiations, expected this year could provide further indication of its potential.

Better efficacy over competitors...

Top-line Phase II data show a rapid increase in BMD over 12 months at the lumbar spine and hip of women with PMO treated with the anti-sclerostin antibody, romosozumab, that is significantly superior to alendronate (Fosamax) or teriparatide (Forteo). In a meta-analysis, 12 month BMD increases at the lumbar spine compared favourably to increases with 36 month denosumab (Prolia) and zoledronic acid (Reclast) treatment (11.3% vs 8.8% and 6.7% respectively), and 24 month odanacatib treatment (2.3%), Merck's Phase III bone resorption inhibitor.

...with no significant safety signals

Anti-resorptive agents, largely bisphosphonates (eg Fosamax), dominate the c $8bn global osteoporosis market. However, their prolonged use has been associated with osteonecrosis of the jaw, severe pain and hypocalcaemia. The only FDA-approved bone-builder, Forteo, carries a black box warning against osteosarcoma. So far, the only significant side effect associated with romosozumab is mild injection site reactions, although further studies will assess longer term safety risks including the possibility of abnormal bone formation seen in patients naturally lacking sclerostin.

New Phase III trials to highlight potential

Data from the current Phase III trial is not expected until 2015. However, new data and new Phase III trials should support the anti-sclerostin approach. Positive data on two Phase II romosozumab studies in tibial and hip fracture healing could trigger the start of Phase III trial(s) in this indication this year. Eli Lilly's direct competitor, blosozumab, at least 12 months behind, could start major Phase III trials this year in PMO, and data from Phase II with this antibody could also be presented.

Valuation: Romosozumab newsflow should buoy shares

UCB shares have risen c 37% in the last year, largely because of rising expectations for three new products: Cimzia, Vimpat and Neupro. UCB now trades on a one year forward P/E of 24x, a 72% premium to its peer group. However, we believe that 2013 romosozumab related newsflow still represents important catalysts for the shares.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	Net debt (€m)	P/E (x)	Yield (%)
12/10	2,786	19	1.54	1,511	27.9	2.2
12/11	2,876	229	1.49	1,550	28.8	2.3
12/12e	3,218	292	1.62	1,499	26.5	2.9
12/13e	3,325	356	1.82	1,392	23.6	2.4

Source: Bloomberg.

Price	€42.9
Market cap	€7,868m

Share price graph

Share details

Code	UCB
Listing	Brussels
Sector	Pharma & biotech
Shares in issue	183.4m

Business

UCB is a Belgium biopharmaceutical company focused on neurology and immunology. Rebuilt via sale of its chemical business and acquisitions of Schwarz Pharma and Celltech, UCB is now in growth-phase propelled by lead products Cimzia, Vimpat and Neupro. Its late-stage pipeline is high-risk/high-reward.

Bull

- Cimzia line extensions, Neupro and Vimpat success lift CVN guidance.
- Keppra generic erosion is lower than consensus forecasts.
- Positive anti-sclerostin data and trial progress.

Bear

- Pfizer's oral Xeljanz will compete ahead of injectable anti-TNFs in RA.
- Clinical risk associated with late-stage pipeline.
- Gearing limits M&A opportunities.

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