

CSL

Continued growth from plasma and vaccines

CSL is in a strong position as the leading supplier of plasma-derived products globally, including treatments for haemophilia, inherited immune disorders (IID) and other rare diseases. It has generated consistent growth through strategic acquisitions to build scale combined with organic growth from novel therapeutics and value-added products such as subcutaneously injected formulations of IV therapies. ROE was 47% in FY16 and annual shareholder returns have averaged 27.6% since listing in 1994.

Plasma

Key business CSL Behring (FY16 sales US\$5.3bn) is a global provider of plasma-derived therapies and recombinant analogues, and operates one of the largest and most efficient plasma collection networks in the world. In August CSL acquired an 80% stake in a Chinese plasma fractionator for US\$352m cash, providing an opportunity to participate fully in the rapidly growing market for plasma products in China, where CSL is market leader but is restricted to importing albumin only.

Vaccines

In July 2015 CSL combined the loss-making influenza vaccines arm of Novartis with its existing vaccines business to form Seqirus, the second largest influenza vaccine provider globally, with FY16 sales of US\$0.7bn. Seqirus is expected to report a loss in FY17 before improving to breakeven in FY18 due to progress of the turnaround strategy and the full-year impact of new quadrivalent (Flucelvax QIV, Afluria QIV) and adjuvanted (Fluad) flu vaccines. Improving yields and efficiency at the Holly Springs (US) cell-based manufacturing plant is a key turnaround goal.

Integration, efficiency and new products drive growth

CSL has a track record of successfully integrating acquisitions to drive efficiency and build scale. In addition to being an operationally efficient low-cost producer, a key strategy is to develop new and value-added products to maximise revenue from each litre of plasma processed; in addition to an extensive pipeline of new haemophilia and IID therapies, it has completed a successful Phase II trial of CSL112, a previously unused plasma component that aims to reduce early repeat heart attacks by stabilising arterial plaques, with a Phase III to commence in FY18.

Valuation: Track record justifies high multiple

Consensus estimates indicate that the market sees a growth in EPS in FY17 and FY18 after a fall in FY16 due to the acquisition of the loss-making flu business from Novartis. CSL currently trades at 33.4x 2017e P/E; the high multiple reflects the track record of consistent earnings growth and the strong profit growth expected in FY18.

Consensus estimates

Year end	Revenue (US\$m)	PBT* (US\$m)	EPS* (\$)	DPS (\$)	P/E (x)	Yield (%)
06/15	5,612	1,714.00	2.97	1.24	33.5	1.2
06/16	6,115	1,555.90	2.69	1.26	37.0	1.3
06/17e	6,873	1,751.78	2.98	1.42	33.4	1.4
06/18e	7,453	2,085.33	3.64	1.62	27.3	1.6

Source: CSL, Bloomberg. Note: CSL reports results in US\$; share price is in A\$.

Pharma & biotech

3 August 2017

Price **A\$127.48**

Market cap **A\$58bn**

US\$0.78/A\$

Share price graph



Share details

Code	CSL
Listing	ASX
Shares in issue	453.8m

Business description

CSL is a global specialty biopharmaceuticals company headquartered in Australia that delivers innovative biotherapies, with a focus on plasma products and vaccines. It is the largest global supplier of plasma-derived therapies and number two in influenza vaccines worldwide.

Bull

- Low-cost, efficient manufacturer of plasma products with extensive plasma collection network.
- Extensive pipeline of novel and value-added plasma products, vaccines and protein drugs, eg Haegarda and CIDP indication for Privigen.
- Increasing detection of rare diseases is lifting demand for CSL's products.

Bear

- Premium valuation multiple may deflate if growth targets are not met.
- Improving vaccine yields at Holly Springs is a challenge as targets were not met under Novartis.
- Potential for regulatory and/or reimbursement changes as US reviews health care funding.

Analysts

Dr Dennis Hulme	+61 (0)2 8249 8345
Dr Daniel Wilkinson	+44 (0)20 3077 5734

healthcare@edisongroup.com

**CSL is a client of Edison
Investment Research Limited**

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. Edison is authorised and regulated by the [Financial Conduct Authority](#). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison and is not regulated by the Australian Securities and Investment Commission. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

DISCLAIMER

Copyright 2017 Edison Investment Research Limited. All rights reserved. This report has been prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Aus and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") (c) FTSE [2014]. "FTSE(i)" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.