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Circassia Pharmaceuticals

Pharma & biotech

8 November 2018

Joining the dots

Circassia's recent interims demonstrated 55% y-o-y revenue growth to £28.4m and a 75% R&D expense reduction (to £6.9m from £27.2m in H117) while growing the commercial infrastructure that now includes China. Investors should see a path to profitability, but we note recent licensing opportunities in the respiratory therapeutic area could accelerate this.

Circassia's transformation

Circassia has moved past R&D disappointments and transformed into a respiratory specialty pharmaceutical company with the potential for profitability. Circassia's revenues (from its respiratory products Tudorza for COPD and NIOX) grew to £28.4m in H118 from £18.3m in H117. Just as important was the cost discipline, as illustrated by a 26% y-o-y fall in operational costs, helped by a 75% reduction in R&D spend. Circassia ended H118 with £50.8m in cash (£59.5m at YE17).

Big opportunities in respiratory space

Changing priorities at the UK's biggest pharma companies could bring opportunities in the respiratory space. GlaxoSmithKline's (GSK's) recent Q318 results included a pruning of its once-dominant respiratory pipeline of three experimental products; media reports (by GSK's head of oncology) have suggested a side-lining of the franchise with resources diverted to other therapeutic areas. In addition, after nine quarters of product sales declines, AstraZeneca is divesting its formerly most treasured but deprioritised respiratory brands such as Alvesco for asthma.

Therapeutic specialty and in-licensing record

Circassia in-licensing deprioritised complementary respiratory products from big pharma would make commercial sense, and is a logical fit beyond Circassia's COPD product focus. Circassia's commercial infrastructure will be leveraged once the second product from the AstraZeneca transaction, Duaklir, is approved, but a more complete respiratory portfolio, containing an inhaled corticosteroid (alone or in combination), could expand the franchise to asthma and further utilise the salesforce. In addition, the AstraZeneca deal has given Circassia a track record of structuring transactions that involve deferred and option payments, loans and share purchases without significant shareholder dilution.

Valuation: Few specialty respiratory peers

There are few opportunities for commercial respiratory exposure and, with an EV of c £151m, past R&D issues may still be discounting Circassia's valuation.

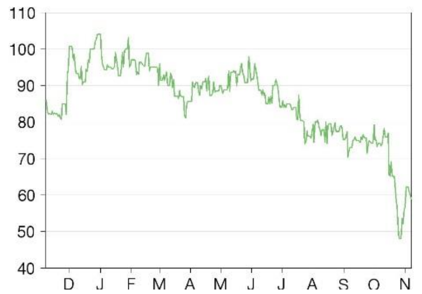
Consensus estimates

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
12/16	23.1	(64.9)	(20.0)	N/A	N/A	N/A
12/17	46.3	(40.4)	(11.0)	N/A	N/A	N/A
12/18e	56.4	(27.2)	(6.9)	N/A	N/A	N/A
12/19e	76.3	(26.9)	(6.7)	N/A	N/A	N/A

Source: Reuters

Price	58.85p
Market cap	£210m
	GBP:US$1.3

Share price graph



Share details

Code	CIR
Listing	LSE
Shares in issue	357.2m

Business description

Circassia Pharmaceuticals operates as a specialty pharmaceutical company focusing on respiratory disease. It offers an asthma management diagnostic product (NIOX) and, in collaboration with AstraZeneca, the COPD therapies Tudorza, which is on the US market, and Duaklir, which is under review by the FDA.

Bull

- A viable commercial respiratory franchise.
- A rare path to near-term profitability among UK biotechs.
- AstraZeneca collaboration and cash of c £51m.

Bear

- Past R&D failures still cloud the stock.
- Time to profitability dependent on organic growth.
- Incomplete respiratory portfolio.

Analyst

Andy Smith +44 (0)20 3077 5700

healthcare@edisongroup.com

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EDISON

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
295 Madison Avenue, 18th Floor
10017, New York
US

Sydney +61 (0)2 8249 8342
Level 12, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia