

## Bioton SA – insulin analogs option

In the company's environment, it is worth noting the impact of COVID-19 on the pharmaceutical distribution market - high stocking in March and declines in the following months, which probably had an impact on the company's 2Q20 results. Longer-term, however, the development and release of biosimilar insulin analogs is the main growth driver for the company's financials. As a result of the forecast update, the valuation in the report has been adjusted from PLN 6.37 to PLN 6.79.

### Strong 1Q2020 results and potential impact of COVID-19 on 2Q20 results

In 1Q20 Bioton improved its financial results on most levels. Consolidated revenue in 1Q20 amounted to PLN 37.1m vs. PLN 30.7m a year earlier (+21% y/y) thanks to higher insulin sales (mainly in Poland). EBIT adjusted for other operating activities in 1Q20 was PLN -0.5m (vs. PLN -22.4m in 1Q19), while reported EBIT amounted to PLN 13.9m thanks to received compensation from settlement with Harbin Gloria (PLN 16.2m). The good sales performance in 1Q20 may have been partly due to the impact of increased purchases related to the pandemic outbreak. Similarly, COVID-19 may have had an impact on lower sales in 2Q20, but in the context of the whole half-year, the sales results adjusted for a one-time event (additional revenue of PLN 13m resulting from the termination of the contract with Harbin Gloria in 2Q19 and early recognition of an upfront fee) may be comparable.

### COVID-19 has shaken the entire pharmaceutical market

IQVIA reported in a brief note that the market for over-the-counter (OTC) drugs in Poland grew by 13% y/y in February 2020, by 37% y/y in March, only to record declines of up to several percent on an annualized basis in the following months. The channel that showed growth during this period, for obvious reasons, was online pharmacies. Even though insulin is a chronic disease drug, the pharmacy wholesalers' stocking policy may have had a negative impact on the company's 2Q20 results.

### Market stabilization in the 2H and analogs impact in the long term

The pharmaceutical market situation in the second half of 2020 is starting to stabilize after the shaky first half of this year due to COVID-19. Of course, Bioton continues to work on its own insulin analogs, which in the long term represent a significant potential source of earnings improvement for the company.

### Risks for our forecasts and valuation

Main risk factor as we see in our forecasts and valuation is the risk related to the registration and launch of insulin analogues.

**Our valuation is equally based on DCF (PLN6.28/share) and peers valuation (7.29/share) and indicates present fair price at PLN6.79/share.**

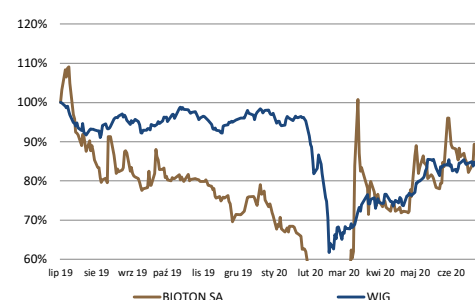
PLN m	2018	2019	2020F	2021F	2022F
Revenues	241	202	252	274	421
EBITDA	-23	-131	31	29	42
EBIT	-52	-164	-1	-2	12
Net profit	26	-127	-6	-7	5
P/E (x)	15.3	-3.1	-66.1	-58.0	81.0
EV/EBITDA (x)	-21.9	-3.9	16.9	17.5	12.1

Source: Bioton (results 2018-2019), F – forecasts Noble Securities (2020F-2022F)

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Current price	4.64 zł
Valuation	6.79 zł
Upside/downside	46%
Market cap.	398 mln zł
Free float	45.31%
Avg. Vol. 6M	138 297



Source: Bloomberg, Noble Securities

### COMPANY PROFILE

Bioton is a recombinant human insulin (RHI) manufacturer and is in a process of development of his own analogue insulin. Main business area of Bioton is diabetology. Capital Group includes feed additives manufacturer (Biolek). At the end of 2019 Company was employing 511 people.

### SHAREHOLDERS

Yifan Pharmaceutical Co. Ltd	31,6%
Bimeda Holding Ltd.	13,2%
Jiman Zhu	11,4%
Troqueera Enterprises Ltd	9,9%
Others	33,9%

Source: infostrefa.com, Noble Securities

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## VALUATION

We calculated the value of one share of Bioton as the average of the peers and DCF valuation with equal weights. On this basis, we estimated the current value of the company's stock at 6.79 PLN per share (previously 6.37 PLN/share).

In table below we present valuation summary:

Valuation summary	Weight (x)	Per share (PLN)	Previously (PLN)	Change %
DCF	0.5	6.28	6.47	-3%
Peers	0.5	7.29	6.26	17%
Average valuation		6.79	6.37	7%
Current price		4.64	3.89	19%
Upside/downside		46%		

Source: Noble Securities

## DCF VALUATION

Assumptions:

- FCF discounted at the beginning of August 2020 (previously: at the beginning of May 2020),
- Net debt on 31.12.2019 calculated at PLN 112m (unchanged), effective tax rate at the level of 20% (unchanged),
- Growth rate (g) 2% (unchanged),
- Beta 1.5, risk free rate 3.5%, market risk premium 6% (all parameters unchanged).

## DCF AND SENSITIVITY ANALYSIS

DCF (PLN m)	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F
Revenues	252	274	421	419	278	339	400	625	639	653
NOPAT	-1	-2	10	10	7	22	38	99	101	103
Depreciation and amortization	32	31	30	30	29	29	28	27	27	26
Change in WC	-13	-5	-35	0	33	-16	-16	-57	-3	-4
CAPEX	-20	-8	-8	-8	-8	-8	-8	-8	-8	-26
<b>FCFF</b>	-2	17	-3	33	62	28	43	62	117	99
WACC	<b>10.9%</b>	<b>10.9%</b>	<b>10.9%</b>	<b>10.9%</b>	<b>10.9%</b>	<b>10.9%</b>	<b>10.9%</b>	<b>10.9%</b>	<b>10.9%</b>	<b>10.9%</b>
Discount factor	0.96	0.86	0.78	0.70	0.63	0.57	0.52	0.46	0.42	0.38
DFCFF	-2	14	-2	23	39	16	22	29	49	38
Sum of DFCFF to 2029	226									
Growth rate (g)	2%									
Residual value 2029	1 143									
Discounted Residual value	432									
Enterprise Value (EV)	658									
Net debt 31/12/2019	119									
Minorities	0									
Equity Value	539									
Shares (m.)	85.9									
Equity Value per share (PLN)	6.3									

Sensitivity analysis					
Growth rate (g)					
	0%	1%	2%	3%	4%
WACC - 1,0%	6.2	6.8	7.6	8.6	9.8
WACC - 0,5%	5.7	6.3	6.9	7.7	8.8
WACC	5.3	5.7	6.3	7.0	7.9
WACC + 0,5%	4.9	5.3	5.7	6.3	7.1
WACC + 1,0%	4.5	4.8	5.3	5.8	6.4

Source: Noble Securities

Below we present Cost of Equity and WACC calculation:

WACC	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F
Risk free rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Market risk premium	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Beta	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
<b>Cost of equity</b>	<b>12.5%</b>	<b>12.5%</b>	<b>12.5%</b>	<b>12.5%</b>	<b>12.5%</b>	<b>12.5%</b>	<b>12.5%</b>	<b>12.5%</b>	<b>12.5%</b>	<b>12.5%</b>
Effective tax rate	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Cost of debt	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%
Cost of debt after tax bracket	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%
Net debt/EV	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
<b>WACC</b>	<b>10.9%</b>	<b>10.9%</b>	<b>10.9%</b>	<b>10.9%</b>	<b>10.9%</b>	<b>10.9%</b>	<b>10.9%</b>	<b>10.9%</b>	<b>10.9%</b>	<b>10.9%</b>

Source: Noble Securities

## PEERS VALUATION

We've based comparative analysis on foreign insulin manufacturers. In valuation process we've taken into account EV/EBITDA and EV/Sales multiples (we assign 75% weight to EV/EBITDA and 25% to EV/Sales). **On the base of peers valuation, we valued Bioton at PLN7.29/share.**

Peers valuation summary of Bioton:

Company	Market cap. (PLN m)	P/E (x)			EV/EBITDA (x)			EV/Sales		
		2020F	2021F	2022F	2020F	2021F	2022F	2020F	2021F	2022F
NOVO NORDISK-B	620 478	24.6	21.6	19.3	17.2	16.0	14.6	7.8	7.2	6.6
ELI LILLY & CO	609 053	24.1	20.6	18.5	20.6	17.7	16.2	6.3	5.7	5.5
SANOFI	514 464	15.4	14.1	13.0	11.5	10.6	9.7	3.3	3.1	2.9
MERCK & CO	767 094	14.8	13.1	11.9	11.1	10.1	9.4	4.4	4.0	3.8
TONGHUA DONGBA-A	15 855	28.5	23.2	18.3	23.3	19.6	16.4	8.0	6.6	5.7
BIOCON LTD	26 945	59.5	48.1	33.4	30.3	24.8	18.4	6.8	5.5	4.5
<b>Median</b>		<b>24.4</b>	<b>21.1</b>	<b>18.4</b>	<b>18.9</b>	<b>16.9</b>	<b>15.4</b>	<b>6.6</b>	<b>5.6</b>	<b>5.0</b>
Bioton	398	-66.1	-58.0	81.0	16.9	17.5	12.1	2.5	2.3	2.3
Premium/discount to median (%)		-372%	-375%	340%	-11%	4%	-21%	-62%	-59%	-55%
Implied fair value of Bioton					5.4	4.4	6.3	14.5	13.0	11.9
Weight					25%	25%	25%	8%	8%	8%
Implied fair value of Bioton					<b>7.29</b>					

Source: Bloomberg, Noble Securities, data on 22/07/2020 at 10:25 a.m.

Profil and loss account	2018	2019	2020F	2021F	2022F
<b>Net revenues</b>	<b>241</b>	<b>202</b>	<b>252</b>	<b>274</b>	<b>421</b>
Gross profit from sales	116	102	130	155	295
Cost of sales	83	70	65	65	66
SG&A costs	51	39	37	37	37
R&D costs	33	7	45	55	180
Other operating revenues and expenses	-2	-150	15	0	0
<b>EBIT</b>	<b>-52</b>	<b>-164</b>	<b>-1</b>	<b>-2</b>	<b>12</b>
Financial income and costs	68	1	-6	-6	-6
Profit before tax	15	-162	-7	-8	6
Income tax	-11	35	-1	-2	1
<b>Net profit</b>	<b>26</b>	<b>-127</b>	<b>-6</b>	<b>-7</b>	<b>5</b>
Depreciation and amortization	29	32	32	31	30
<b>EBITDA</b>	<b>-23</b>	<b>-131</b>	<b>31</b>	<b>29</b>	<b>42</b>

Source: Bioton (2018. 2019). Noble Securities (2020F-2022F)

Balance Sheet	2018	2019	2020F	2021F	2022F
<b>Assets</b>	<b>1 010</b>	<b>881</b>	<b>910</b>	<b>901</b>	<b>901</b>
<b>Non-current Assets</b>	<b>859</b>	<b>744</b>	<b>733</b>	<b>709</b>	<b>686</b>
Tangible assets	336	327	321	310	298
Intangible assets	405	377	371	359	348
Other non-current assets	118	40	40	40	40
<b>Current Assets</b>	<b>151</b>	<b>137</b>	<b>177</b>	<b>192</b>	<b>215</b>
Inventories	78	80	97	95	100
Trade receivables	62	49	61	66	101
Cash and cash equivalents	8	7	18	29	12
Other current assets	3	2	2	2	2
<b>Liabilities</b>	<b>1 010</b>	<b>881</b>	<b>910</b>	<b>901</b>	<b>901</b>
<b>Equity</b>	<b>713</b>	<b>582</b>	<b>576</b>	<b>569</b>	<b>574</b>
<b>Non-current liabilities</b>	<b>123</b>	<b>103</b>	<b>103</b>	<b>103</b>	<b>103</b>
Loans, borrowings and other financial liabilities	18	41	41	41	41
Deferred tax liabilities	33	0	0	0	0
Other	72	62	62	62	62
<b>Current liabilities</b>	<b>174</b>	<b>197</b>	<b>231</b>	<b>229</b>	<b>224</b>
Loans, borrowings and other financial liabilities	94	78	96	96	86
Accounts payable	56	77	94	92	97
Other	24	41	41	41	41

Source: Bioton (2018. 2019). Noble Securities (2020F-2022F)

Cash flow statement	2018	2019	2020F	2021F	2022F
Profit before tax	26	-127	-6	-7	5
Depreciation and amortization	29	32	32	31	30
Other	-57	87	6	6	6
Change in working capital	29	54	-13	-5	-35
<b>CF from operating activities</b>	<b>28</b>	<b>47</b>	<b>19</b>	<b>25</b>	<b>6</b>
CAPEX	43	53	20	8	8
Divestments and other	81	0	0	0	0
<b>CF from investment activities</b>	<b>37</b>	<b>-54</b>	<b>-20</b>	<b>-8</b>	<b>-8</b>
Increase of share capital	0	0	0	0	0
Change of financial liabilities	-85	18	18	0	-10
Other	-7	-11	-6	-6	-6
Dividends and other proceeds to shareholders	0	0	0	0	0
<b>CF from financial activities</b>	<b>-96</b>	<b>7</b>	<b>11</b>	<b>-6</b>	<b>-16</b>
<b>CF</b>	<b>-31</b>	<b>-1</b>	<b>11</b>	<b>11</b>	<b>-18</b>
Cash at the beginning of the period	39	8	7	18	29
Cash at the end of the period	8	7	18	29	12

Source: Bioton (2018. 2019). Noble Securities (2020F-2022F)

Selected indicators	2018	2019	2020F	2021F	2022F
EBITDA margin	-9.5%	-65.0%	12.1%	10.6%	10.1%
EBIT margin	-21.7%	-80.9%	-0.4%	-0.7%	2.9%
Net profit margin	10.8%	-62.7%	-2.4%	-2.5%	1.2%
Net debt	104	112	119	107	115
Net debt/EBITDA	-4.5	-0.9	3.9	3.7	2.7
Number of shares issued	85.9	85.9	85.9	85.9	86.9
Dividend per share	0.0	0.0	0.0	0.0	0.0
P/BV	0.6	0.7	0.7	0.7	0.7

Source: Bioton (2018, 2019), Noble Securities (2020F-2022F)

Annual growth rates	2018	2019	2020F	2021F	2022F
Przychody		-16%	25%	9%	53%
EBITDA				-5%	47%

Source: Bioton (2018, 2019), Noble Securities (2020F-2022F)

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Analyst preparing the Report: Krzysztof Radojewski

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Recent research concerning Bioton SA		
Direction	na.	na.
Date	26/07/2019 at 8:58 am	05/05/2020 at 5:30 pm
Stock price at the date of report	5.26	3.89
Valuation per share	7.48	6.37
WIG Index at the date of report	60 249.72	45 018.81

**All recommendations distributed by NS in last 12 months:**

Company	Direction	Target price	Price at publication	Current price	Difference to price target	Date of publication (1)	Validity date (2)	Prepared by (3)
TIM	na	17.1	10.9	14.5	18%	26.06.2020	24M	Michał Sztabler
Aplisens	na	15.8	9.8	10.7	48%	02.06.2020	9M	Michał Sztabler
LW Bogdanka	Reduce	18.3	21.0	16.5	11%	30.04.2020	9M	Michał Sztabler
Bioton	na	6.4	3.9			29.04.2020	9M	Krzysztof Radojewski
Dino Polska	Sell	138.8	188.9	246.0	-44%	23.04.2020	9M	Dariusz Dadej
Eurocash	Hold	23.0	21.9			23.04.2020	9M	Dariusz Dadej
MCI Capital	na	21.9	8.3			12.03.2020	24M	Kamil Jędrej
TIM	na	17.3	11.4			31.01.2020	24M	Michał Sztabler
PKP Cargo	Buy	30.6	20.9	11.1	176%	07.01.2020	9M	Michał Sztabler
Aplisens	na	17.3	10.5	10.7	62%	03.01.2020	nd	Michał Sztabler
Forte	Hold	29.5	30.9	34.8	-15%	20.12.2019	9M	Dariusz Dadej
Amica	Accumulate	165.2	138.0	155.0	7%	13.12.2019	9M	Michał Sztabler
11 bit studios	Buy	479.2	388.0	491.0	-2%	11.12.2019	9M	Kamil Jędrej
Aparator	Accumulate	24.4	21.4	21.6	13%	28.11.2019	9M	Michał Sztabler
Dino Polska	Hold	129.0	134.2			25.11.2019	9M	Dariusz Dadej
CD Projekt	Hold	232.3	243.0	387.5	-40%	15.10.2019	9M	Kamil Jędrej
Bogdanka	Reduce	31.6	35.2			04.10.2019	9M	Michał Sztabler
Dino Polska	Reduce	140.2	156.3			2019-09-16	9M	K. Radojewski, D. Dadej
Amrest Holdings	Buy	54.9	43.2	22.4	145%	2019-09-16	9M	K. Radojewski, D. Dadej
Eurocash	Accumulate	27.0	22.7			2019-09-11	9M	K. Radojewski, D. Dadej
Bioton	na	7.5	5.3			2019-07-26	24M	K. Radojewski, K. Jędrej

(1) Date of publication is simultaneously date of first publication, (2) recommendation is valid for a period of 9 months, unless it is previously updated

(3) Job position: Krzysztof Radojewski – Senior Analyst, Michał Sztabler – Equity Analyst, Dariusz Dadej - Equity Analyst, Maciej Kietliński - Junior Equity Analyst

Kamil Jędrej – Equity Analyst (left NS on 2020/03/31),



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