

## Biotech sector

### Lai's first-day policies to support biotech sector

#### Key message

1. President-elect Lai will soon be sworn into office. The Health Charter, Health Assistance and Billion Cancer Fund advocated by him are all closely linked to Taiwan's biotech sector.
2. Clearly supported by policy and promoted by TWSE's biotech strategy, the Taiwanese biotech sector will see its market cap double to NT\$500bn within three years, or 2% of the Taiex total.
3. The Regenerative Medicine Act and the Act for the Development of Biotech and the Pharmaceutical Industry will be the cornerstones of the biotech sector's growth.

#### Event

President-elect Lai will soon be sworn into office. The Health Charter, Health Assistance and Billion Cancer Fund, advocated by him, are all closely linked to Taiwan's biotech sector. Clearly supported by policy and promoted by TWSE's biotech strategy, the Taiwanese biotech sector will see its market cap double to NT\$500bn within three years, or 2% of the Taiex total, and NT\$3tn within five years, making Taiwan the country with the fastest growing biotech sector in Asia. In addition, the last BTC meeting, the Regenerative Medicine Act, and the Act for the Development of Biotech and the Pharmaceutical Industry will be the cornerstones of the biotech sector's growth.

#### Impact

**Health Assistance calls for living longer & healthier.** Ageing is an issue in advanced countries. The concept of preventing and controlling diseases has been gaining focus over aggressive treatment at the later stages of a disease. Meanwhile, drugs treating the central nervous system, metabolism, immunity, obesity, neurodegenerative diseases, mental illness, skin conditions, eye diseases, and special infectious diseases have been areas of focus for Taiwanese biotech companies, which lack resources to seek breakthroughs. For instance, Lumosa Therapeutics' 6535 TT, NT\$185, OP) LT3001, which resolves cerebral thrombosis, Oneness' 4743 TT, NT\$159, OP) Fespixon, which treats diabetic foot ulcers, and their FB825 antibody, which treats medium and serious topic dermatitis, TaiMed's (4147 TT, NT\$87.7, OP) TMB365/380, a long-acting AIDS antibody drug, AP Biosciences' (6945 TT, NT\$59.7, NR), IBI302, which focuses on macular degeneration, Polaris' (6550 TT, NT\$70.8, NR) GLP-1 API, which will be mass produced in 3Q24F after a merger with Genovior (unlisted), PharmaEssentia's (6446 TT, NT\$408.5, OP) Besremi, an orphan drug used as the first-line treatment for polycythemia vera, and Medigen Vaccine's (6547 TT, NT\$54.7, OP) enterovirus drug are all worth following up on over the long term.

**505(b)(2) series & generic drugs.** Lotus (1795 TT, NT\$301, OP), a globally renowned firm specializing in P4 generic drugs, and Bora (6472 TT, NT\$800, OP), which is engaged in continual M&A and owns contract development and manufacturing organizations (CDMO) and brand drug channels, are companies with high profits and high growth over the long term. Nang Kuang (1752 TT, NT\$46.8, NR), Standard (1720 TT, NT\$72.1, NR), and YungShin (3705 TT, NT\$53.5, NR) are all generic drug makers in Taiwan with high cash dividend yields. In addition, 505(b)(2) series drugs enjoy low development costs and fast rates of development, suitable for developers in Taiwan. Representatives include Foresee (6576 TT, NT\$95, OP), Pharmosa (6875 TT, NT\$75.9, NR), Handa (6620 TT, NT\$137, restricted) and Alar (6785 TT, NT\$280, NR), which are all licensed for 505(b)(2) drug development by international companies.

#### Stocks for Action

Our top biotech picks are Bora, Lotus, PharmaEssentia, and Lumosa Therapeutics, with target prices of NT\$860, NT\$600, NT\$448, and NT\$228, respectively. On each, we maintain a rating of Outperform.

#### Risks

Policy changes.

**CDMO under Act for the Development of Biotech & the Pharmaceutical Industry.**

The Act strongly promotes CDMO, believing the success of CDMO hinges on science, speed, scope and scale, appropriate to Taiwan's environment and culture. WuXi APP's (CN) macromolecules order shifts, cell therapy (such as Pell (6949 TT, NT\$148, NR)), gene therapy, and the emergence of ADC and peptide drugs are especially suitable for high-hurdle biotech drug CDMO. Representative companies include EirGenix (6589 TT, NT\$83.1, OP) (macromolecules), Mycenax (4726 TT, NT\$44.15, NR) (macromolecules and cell therapy), TaiMed (macromolecules), Bora (solid oral small molecular, eye drops, micro-molecule), Formosa Laboratories (4746 TT, NT\$96.2, OP) (API, injection plants), TFBS (6939 TT, NT\$42.25, NR) (viral vectors) and Pell (viral vector CAR-T).

**New fields: Medicine R&D is ever changing.** Drug forms have developed from small molecular and macromolecules to the latest gene, cell, and peptide therapies, as well as exosomes, precision medicine (relating to the Billion Cancer Fund) and AI-aided drug R&D. Investors with a longer investment horizon can seek targets in the earlier emerging stock market.

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