Can Sirtex Medical repeat its share price surge in 2015?

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Sirtex's liver cancer treatment. **Photo: Dominic Lorrimer**

Bulls and bears

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Sirtex Medical investors can lay claim to owning the best-performing health stock of 2014, and within just three months they should know whether the hype has been worth it.

In March the medical device maker, which has developed a targeted treatment for liver cancer, will release basic trial data that Montgomery Investment Management portfolio manager Russell Muldoon says could be the catalyst to more than double the share price.

That is quite a prediction for a stock that gained 143 per cent in the year ended December 31 – making it the second-best performer in the top 200 companies – and has increased 253 per cent in the past five years. But the investment and oncology communities are excited about Sirtex and its Sirflox trial.

"This could be a blockbuster medical device," Mr Muldoon said.

The Sydney-based company has developed tiny radioactive beads that are injected into the blood supply of liver cancers. The technology was a response to the fact that standard radiation therapy, which is a successful treatment of many cancers, cannot be used on the liver because radioactive beams can damage other sensitive, nearby organs.

Sirtex's device, known as SIR-Spheres, has been used by oncologists for about a decade.

However, they have mainly been relied on as a salvage therapy. That is, SIR-Spheres are used when other therapies like chemotherapy or biologic drugs have failed.

The company hopes that its seven-year, 500-patient Sirflox trial, which compares the use of SIR-Spheres with chemotherapy in patients with metastatic colorectal cancer (mCRC), versus the chemotherapy on its own, will persuade oncologists to use the therapy as a first line of defence.

The key result from the trial – known as the primary endpoint – is whether SIR-Spheres and chemotherapy combined increases the time in which the cancer is prevented from growing. This is called "progression-free survival".

Whether the primary endpoint has been met will be known in March. The company will then unveil more detailed data at a meeting of the American Society of Clinical Oncology midway through the year.

Eric Van Cutsem, a Belgian oncologist whom Sirtex brought to Australia for investor briefings in December, said if the trial significantly improves progression-free survival by some months it may be enough to persuade oncologists to consider it as a good first-line therapy. If it significantly increases overall survival, which is how long a patient lives and is another measure of the trial, it may be mandated for use by health authorities, Dr Van Cutsem said.

"I don't expect to see a negative trial," he told investors. "The question is how strong the data will be."

Comparison with Avastin

Mr Muldoon, who controls Montgomery's stake of about 2.5 per cent in Sirtex, pointed to the success of pharmaceutical giant Roche's drug, Avastin, as an illustration of Sirtex's commercial potential.

Avastin was approved by the United States Food and Drug Administration for mCRC patients in early 2004 on the basis that it increased progression-free survival by four months and overall survival by about five months, when given alongside chemotherapy. The drug works by cutting off a cancer's blood supply, interrupting its ability to grow.

Roche now has annual sales from Avastin of about Sfr6 billion ($7.4 billion).

Sirtex had sales of $131 million in 2013-14, from about 8500 doses of the radioactive beads. Mr Muldoon says the bull case on Sirtex, which has the company delivering first-line therapy to about 20 per cent of cases of mCRC and another liver cancer, hepato-cellular carcinoma, could mean 90,000 to 110,000 doses each year. That could deliver a valuation surge to "anything from $60 to $100" a share.

This would be a 111 per cent to 252 per cent rise on 2014's closing price of $28.37. "We don't really invest in the biotech sector, but this is one of those rare up-and-coming companies," Mr Muldoon said. "It's like a little Cochlear … or CSL in its early days."

It is common for biotechnology stocks to run up in value as a clinical trial announcement looms. Of course, a poor clinical trial result can erase all of those gains in an instant. But investors still see value in Sirtex even if the trial doesn't show a big enough benefit to progression-free survival for oncologists to change their practices.

Mr Muldoon said dose sales could continue their double-digit rates of growth, simply as a salvage therapy, and hit about 30,000 by 2020. Under that scenario, Sirtex shares would still be fairly valued at about $15 to $20 a piece, he said. “There is already some premium built in at current levels.”

For this reason, Sirflox and Sirtex’s four other trials are “relatively low-risk”, Watermark Funds Management analyst Joshua Ross said.

Mr Ross does not control a stake in Sirtex at present, though he has in the past. The company’s management team, led by chief executive Gilman Wong, is one of the stock’s most attractive qualities, he said. “They’re a very credible management team and they don’t promise the world, which is rare in this industry,” Mr Ross said. “They have a clear strategy that they’ve stuck to for years.”

Even if the trial is a success and increases progression-free survival by some months, however, it will not lead to a rapid jump in dose sales, he said.

It will take some time to persuade conservative oncologists, not to mention the need for equipping hospitals with equipment and expertise. “The data needs to be published in a decent clinical journal and then it’s an education process.”

That is a main concern of CIMB analyst Derek Jellinek. He is the only broking analyst covering the stock, out of 10 listed on Bloomberg, who has a negative recommendation. In a number of notes Mr Jellinek has warned that clinical practices in oncology are quite entrenched.

One real risk to Sirtex, which could be seen as a reflection of its success so far, will be the arrival of competitors using similar technology.

Montgomery’s Mr Muldoon reckons a broker note promoting London company BTG’s Theraspheres was the reason for a sudden 13 per cent slump in Sirtex shares over a week in December.

However he is not really concerned by this risk. Unlike SIR-Spheres, which are approved for use by many authorities around the globe, Theraspheres only have an exemption for humanitarian use at the moment. “We think Sirtex probably have a five- to six-year headstart,” he said.

The Australian Financial Review