

**Actelion**

Price CHF136.80

Upravi launched in the US at higher-than-expected price

Fair Value CHF166 vs. CHF159 (+21%)

BUY – Top Pick List

Bloomberg	ATLN.VX
Reuters	ATLN.VX
12-month High / Low (CHF)	146.2 / 93.5
Market Cap (CHFm)	15,613
Ev (BG Estimates) (CHFm)	14,996
Avg. 6m daily volume (000)	373.6
3y EPS CAGR	6.6%

	1 M	3 M	6 M	31/12/14
Absolute perf.	-0.9%	13.7%	-1.1%	18.6%
Healthcare	-0.4%	3.6%	-2.6%	12.5%
DJ Stoxx 600	-3.8%	2.5%	-7.0%	4.1%

YEnd Dec. (CHFm)	2014	2015e	2016e	2017e
Sales	1,956	2,039	1,978	2,209
% change		4.2%	-3.0%	11.7%
EBITDA	687	758	680	831
EBIT	570.1	643.8	565.5	715.0
% change		12.9%	-12.2%	26.4%
Net income	648.2	679.8	608.1	741.8
% change		4.9%	-10.6%	22.0%

	2014	2015e	2016e	2017e
Operating margin	40.1	40.6	37.8	41.5
Net margin	33.1	33.3	30.7	33.6
ROE	33.8	44.4	32.3	31.5
ROCE	95.0	94.0	81.3	90.5
Gearing	-50.5	-40.3	-54.9	-65.8

(CHF)	2014	2015e	2016e	2017e
EPS	5.58	6.02	5.49	6.76
% change	-	7.9%	-8.7%	23.2%
P/E	24.5x	22.7x	24.9x	20.2x
FCF yield (%)	0.8%	4.1%	4.1%	4.8%
Dividends (CHF)	1.30	1.40	1.40	1.40
Div yield (%)	1.0%	1.0%	1.0%	1.0%
EV/Sales	7.5x	7.4x	7.4x	6.4x
EV/EBITDA	21.3x	19.8x	21.5x	16.9x
EV/EBIT	25.7x	23.3x	25.8x	19.7x

Yesterday, Actelion held a conference call to discuss the label and the commercial strategy for Upravi in the US where it is currently being launched. The company is still very much focused on developing a combination strategy that would leverage its comprehensive portfolio of drugs for PAH and also highlighted a meaningful lever should it succeed in boosting the use of prostacyclins for class II-III PAH. Together with a higher-than-expected price set for the drug, we now see peak sales of CHF1.3bn (vs CHF1bn). Our FV is slightly increased to CHF166. Actelion is added to the Top Pick List.

**ANALYSIS**

- It would be excessive to say that the conference call held to discuss the label and the commercial strategy of Upravi in the US was full of unexpected news.
- In line with the pre-marketing campaign conducted to promote the “power of three”, Actelion presented a strategy that was very much dedicated to the promotion of a standard of care made of combinations. After SERAPHIN and AMBITION, GRIPHON is a third outcome-based study that gives advantage to combinations over monotherapies to treat PAH. The combination of an ERA with a PDE-5 inhibitor has progressed over the last few years and is still gaining share. What Actelion can now offer is an alternative to this combination, at least for those who are switching from whatever product to a dual or even a triple combination. It has been appropriately recalled that 79% of the patients in GRIPHON have already received therapy at baseline and almost 50% of those even two drugs. Recent data presented by Pr Sitbon at AHA show that triple therapy with Upravi improves time to first morbi-mortality event by 37%, in a highly significant manner.
- So, based on this set of data and on a favourable label, Actelion will not only tackle the existing market of inhaled prostacyclins (this is the natural market the company anticipates a lot of switches from) but intends to enlarge the audience for the class thanks to the first-ever approved oral PC to have positive combination data and positive outcome data. In the US, only 1 out of 4 PAH specialists prescribing drugs for the disease do actually prescribe prostacyclins. The objective is to increase significantly this proportion, hence to increase use of prostacyclins overall. Today, less than 5,000 PAH patients are treated by inhaled PC in the US. The upside can be significant. This will be made easier by the combined marketing of Opusmit and Upravi by the same sales force that will leverage the respective advantages of each drug (and their combination).
- This will require some education, that is why Actelion does not anticipate as quick a ramp-up as with Opsumit. Physicians and nurses have to become familiar with the uptitration strategy. That said, we are more optimistic than ever before about the final success of Upravi. We see 9,000 patients in total on the drug by 2023 (incl. 7,500 in the US). Actelion also reported a gross price of USD160,000 (for the 200 mcg dose) to USD170,000 (for all the other doses), which is above our previous expectations (net price of USD120,000).

**VALUATION**

- Beyond the changes to the Upravi estimates, we have also made a couple of others: first is roll-over into 2016 with a negative impact as 2015 was a spectacular year in operational cash flows but less good in free cash flows as share buy-backs lowered available cash significantly. Moving to 2016, the cash base is then lower whereas the number of shares was already adjusted. The second impact is positive and is the reduction of the beta from 1.0 to 0.9 which we are more comfortable with now that Actelion has a second significant product approved and launched.
- All together, the three inputs have a combined effect on the FV of CHF7 per share. Actelion remains a strong conviction with a BUY rating and jumps into the Top Pick List for Q1.

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- 9 February 2016 : FY 2015 results

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