

28th January 2016

Healthcare

**Roche**

Price CHF268.40

Lower part of the PnL makes final 2015 numbers disappointing

Fair Value UNDER REVIEW

BUY

Bloomberg	ROG VX
Reuters	ROG.VX
12-month High / Low (CHF)	282.5 / 241.7
Market Cap (CHFm)	188,568
Ev (BG Estimates) (CHFm)	199,885
Avg. 6m daily volume (000)	1 391
3y EPS CAGR	5.9%

Roche's publication shows a mixed picture. While topline growth was strong with the two divisions exceeding expectations and EBIT was in line, disappointment came from the lower part of the PnL with core EPS 2.5% below expectations at CHF13.46 (vs consensus CHF13.84), negatively impacted by financial expenses as well as a higher tax rate.

ROCHE in CHFm (exc. /sh data)	FY2014	FY 2015	y/y	FY2015 CS	Delta
Sales	47 462	48 145	1,4%	47 889	0,5%
Core R&D	8 913	9 332	4,7%	9 083	2,7%
Core Op Profit	17 636	17 542	-0,5%	17 474	0,4%
Tax	3 987	4 289	7,6%	4 081	5,1%
Core Net Income	12 533	11 837	-5,6%	12 159	-2,6%
Core EPS	14,29	13,49	-5,6%	13,84	-2,5%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-1.5%	2.1%	-2.0%	-2.9%
Healthcare	-4.6%	-4.7%	-9.6%	-5.5%
DJ Stoxx 600	-7.1%	-8.5%	-11.8%	-7.0%

YEnd Dec. (CHFm)	2014	2015e	2016e	2017e
Sales	47,462	48,511	50,574	52,231
% change		2.2%	4.3%	3.3%
EBITDA	19,558	19,773	21,277	22,170
EBIT	14,090	14,782	18,046	19,370
% change		4.9%	22.1%	7.3%
Net income	12,329	12,220	13,638	14,650
% change		-0.9%	11.6%	7.4%

	2014	2015e	2016e	2017e
Operating margin	29.7	30.5	35.7	37.1
Net margin	26.0	25.2	27.0	28.0
ROE	48.0	47.5	49.8	44.0
ROCE	29.8	30.1	31.2	32.7
Gearing	65.0	45.6	27.0	9.0

(CHF)	2014	2015e	2016e	2017e
EPS	14.29	14.16	15.80	16.98
% change	-	-0.9%	11.6%	7.4%
P/E	18.8x	19.0x	17.0x	15.8x
FCF yield (%)	5.6%	4.7%	4.8%	5.9%
Dividends (CHF)	8.00	8.08	8.98	9.65
Div yield (%)	3.0%	3.0%	3.3%	3.6%
EV/Sales	4.3x	4.1x	3.9x	3.7x
EV/EBITDA	10.4x	10.1x	9.3x	8.7x
EV/EBIT	14.4x	13.5x	10.9x	9.9x

Pharma	FY2014	FY 2015	y/y	FY2015 CS	Delta
Pharma Sales	36 696	37 331	1,7%	37 182	0,4%
Cope Op Profit	16 001	16 055	0,3%	15 885	1,1%
Diagnosics					
Diag Sales	10 766	10 814	0,4%	10 707	1,0%
Diag Op Profit	2 096	1 947	-7,1%	2 040	-4,6%

**ANALYSIS**

- Today's publication can be seen in two separate sections. The first runs from revenues to core operating income and here Roche did well with strong top line growth in Q4 with the two divisions exceeding expectations and all big products doing well. Despite higher R&D and commercial expenses, core EBIT was also higher than expected although admittedly not the margin (36.4% vs 36.5%). However, the surprise came from the lower part of the PnL as financial expenses exceeded our estimates by more than CHF500m (mainly due to lower income and foreign currency losses on the Venezuelan and Argentinian currencies of 254m and 105m respectively) and the tax rate reached 26.6% vs 24.1% one year ago given that the US took a higher part in the mix. As a reminder, we had considered the 25.9% tax rate in H1 2015 as a peak. FY2015 tax rate of 26.6% could be explained by a sales mix more oriented towards the US.
- In the end, the miss at the core EPS level is significant. Core EPS stood at CHF13.49 vs CHF13.84 anticipated by the consensus. Moreover, from this much lower starting base, underlying growth for 2016 in view of the consensus (CHF15.3) and BGe (CHF15.4) could prove difficult to achieve and dampen optimism. All the more so since the currency impact was neutral to negative whereas we thought it would be positive (Roche takes December as a base and we take January).

**VALUATION**

- In all, this was a slightly disappointing release although operations are solid and we are likely to revise our 2016 numbers downwards.
- We have placed our Fair Value under review.

**NEXT CATALYSTS**

- Today 03.00pm GMT/04.00pm CET: Conference call on FY2015 results (Europe +41 58 310 5000, UK +41 203 059 5862, US +1 631 570 5613)



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