

Novo Nordisk

Price DKK377.70

A "quiet" fourth quarter and no change to the 2016 guidance

Fair Value DKK416 vs. DKK425 (+10%)

NEUTRAL

2015 is very much in line with expectations. 2016 guidance is unchanged but we point out that consensus is at the top-end. Longer-term targets may appear soft. Let's see how 2016 develops.

ANALYSIS

- Novo-Nordisk has reported this morning full-year 2015 results that are very much in line with consensus estimates with sales up 8% in local currencies to DKK107.9bn and EBIT of DKK49.444bn (vs DKK48.368bn for CS). So deviations are minimal and from one product to another, we would stress that NovoRapid and Levemir are somewhat above expectations, offset by Victoza (due to rebate adjustments) and NovoSeven that are slightly below. Again, nothing major here. To note also is that combined sales of Tresiba, Ryzodeg and Xultophy were DKK1,438m in 2015, which is DKK25m different from our estimate, so is in line although still quite modest but with no contribution from the US market. After a new round of negotiations, Novo-Nordisk did not successfully agree with the German authorities and as a consequence announces that it has started removing Tresiba from Germany. Our understanding of efforts on price to favour penetration of Tresiba in Europe is not such to please German authorities and this illustrates Novo-Nordisk's intention to keep playing a premium strategy in the insulin segment, which is in line with the overall profile of its products but could sometimes prove difficult in some markets as pricing conditions are tough.
- Actually, more important is the outlook for 2016 and beyond and here, we would say that although there is no major surprise, if anything there may be some disappointment. Novo-Nordisk is reiterating its 2016 FY guidance, simply translating "mid-to-high single digit" growth into 5-9% for both sales and operating profit, the latest when excluding one-time gains from the comparison base (DKK2,825m in total). When considering consensus expectations for the current year, we see 8.4% growth in revenues and 9% growth in operating income i.e. levels at the top-end of the guided range. As Novo-Nordisk mentions that current exchange rates would underpin 1% negative impact on sales and EBIT, then it appears that consensus is at the very high-end of the guidance. Of course, it is difficult to know what is exactly factored in by Novo-Nordisk but we think it would be reasonable to keep cautious as the company has several launches to execute in a touch and very competitive market environment.
- Actually the central point of this release is probably the issuance of new long-term targets that Novo-Nordisk is used to sharing on a 3-to-5-year frequency. The group is reducing the operating income growth from 15% to 10% for the opening period and is not establishing a new target for operating margins this time (40% last time) but suggesting that it could stabilise around 44% i.e. 2015 level when restated for one-offs as the group has to invest behind significant launches. This should not but could disappoint and even question the sustainability of Novo-Nordisk's premium over the sector should growth rates decline to around 10%. That said, with a slice of caution as usual and the leverage of the bottom part of the P&L (if only from share buy-backs), this means EPS should continue to grow comfortably in the double-digits.

VALUATION

- We have not made a lot of changes to our numbers. We have increased our tax rate by 1pp as Novo-Nordisk is suggesting 20-22% (vs 20%) and adjusted the financial result for deferred hedging losses by DKK1.3bn. Our mid-term estimates are already well in-line if not slightly below the new targets shared by Novo-Nordisk this morning so we feel comfortable.
- That said, 2016 will have to demonstrate ability to deliver on a premium strategy with Tresiba and Xultophy. In particular we are curious to see what can happen if Sanofi prices LixiLan well below what Novo-Nordisk intended to do with Xultophy in the US ...

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