

Novo Nordisk

Price DKK379.60

Liraglutide now differentiated in the GLP1 class

Fair Value DKK416 (+10%)

NEUTRAL

Bloomberg	NOVOB DC
Reuters	NOVOB.CO
12-month High / Low (DKK)	410.7 / 306.4
Market Cap (DKKm)	782,949
Ev (BG Estimates) (DKKm)	759,963
Avg. 6m daily volume (000)	2 817
3y EPS CAGR	19.0%

	1 M	3 M	6 M	31/12/15
Absolute perf.	14.2%	-2.4%	4.1%	-5.1%
Healthcare	1.3%	-9.5%	-8.6%	-10.9%
DJ Stoxx 600	4.0%	-7.8%	-3.2%	-6.6%

YEnd Dec. (DKKm)	2014	2015e	2016e	2017e
Sales	88,806	107,394	116,743	123,208
% change		20.9%	8.7%	5.5%
EBITDA	37,927	53,175	54,388	58,021
EBIT	34,492	49,175	50,288	54,221
% change		42.6%	2.3%	7.8%
Net income	26,481	34,860	38,700	42,124
% change		31.6%	11.0%	8.8%

	2014	2015e	2016e	2017e
Operating margin	38.8	45.8	43.1	44.0
Net margin	29.8	32.5	33.2	34.2
ROE	65.7	73.8	68.8	52.3
ROCE	64.6	96.7	90.0	112.9
Gearing	-37.8	-48.7	-50.7	-60.8

(DKK)	2014	2015e	2016e	2017e
EPS	10.07	13.56	15.45	16.99
% change	-	34.7%	13.9%	9.9%
P/E	37.7x	28.0x	24.6x	22.3x
FCF yield (%)	2.8%	3.4%	3.7%	4.1%
Dividends (DKK)	4.53	6.10	6.95	7.64
Div yield (%)	1.2%	1.6%	1.8%	2.0%
EV/Sales	8.6x	7.1x	6.5x	6.0x
EV/EBITDA	20.2x	14.3x	13.9x	12.7x
EV/EBIT	22.3x	15.5x	15.0x	13.5x

After the two SWITCH trials demonstrated superiority of Tresiba over Lantus in reducing hypos, now liraglutide proves superior to placebo in reducing cardiovascular events in the LEADER trial. These are very good news for Novo-Nordisk and its diabetes franchise. Clearly the group has best-in-class drugs which should also benefit Xultophy which combines the two. Now it is up to Novo-Nordisk to determine the right positioning and overall marketing strategy to better leverage the various opportunities of its portfolio. We are not changing (yet) our estimates but the mood is more positive.

ANALYSIS

- Last Friday, during the course of the trading session, Novo-Nordisk reported positive headline results for liraglutide in the LEADER cardiovascular phase III trial meaning that the drug not only proved non-inferior but also superior to placebo in reducing the risk of cardiovascular events in patients with type II diabetes. The primary endpoint was a composite one of heart attack, stroke and death from cv causes. Details will be presented at the ADA congress next June.
- This is the first time a drug from this class shows a cv benefit although few have reported results so far but lixisenatide in the ELIXA study. It was also the case for empagliflozin (Jardiance) last year but in the SGLT-2 class and the benefit was attributed to the diuretic effect. This time, contrasting also from limited impact of lixi on HbA1c and weight, longer-acting GLP-1 analogs may have found in their impact on these two parameters enough power to result in a cv benefit. In a call held on Friday afternoon, Novo-Nordisk said it could not imagine why semaglutide, its upcoming once-weekly GLP1, would not share same property with liraglutide. This could also be the case for Bydureon (AstraZeneca) and Trulicity (Lilly) but this has still to be demonstrated.
- So clearly Novo-Nordisk now will benefit from a clear differentiated factor in the GLP1 class. The results of LEADER will be submitted in a sBLA to the FDA in H2 2016 and label should be updated in the course of 2017. In our view, this should however shortly favour the class (despite limitation of pricing) and place Novo-Nordisk in a leader seat, while semaglutide and Xultophy are expected to strengthen the franchise by year-end.

VALUATION

- Novo-Nordisk will benefit over the coming years from a very strong mix effect as the GLP1 franchise will take an increasing weight of its total revenues. What we call the GLP1 franchise is made of Victoza, Saxenda, semaglutide and Xultophy and we expect their combined sales to jump from DKK18.6bn in 2015 to about DKK47bn in 2021, already doubling by 2019.
- Obviously, LEADER results are not only good news for Victoza but also for Xultophy as liraglutide is one of the two components. If the price of Xultophy remains something to determine with more accuracy and if there is room for two players, obviously after SWITCH, LEADER supports a fairly clear superiority of Xultophy over Lixilan. Now let's see how the two companies position their respective products in a challenging and increasingly price-constrained environment.
- We are not changing the estimates within the GLP1 class of our sales model because there are still a lot of moving parts but having both SWITCH and LEADER clinical trials positive is indeed very positive for Novo-Nordisk and should help position its drugs as best-in-class. Now it remains to be seen how much premium the company can charge for this status.

NEXT CATALYSTS

- 21 March 2016: Novo-Nordisk trades ex-dividend (DKK6.40)

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