

1st April 2016

Healthcare

Novartis

Price CHF69.70

Minor adjustments to our numbers

Fair Value CHF95 vs. CHF100 (+36%)

NEUTRAL

Bloomberg	NOVN.VX
Reuters	NOVN.VX
12-month High / Low (CHF)	102.3 / 69.6
Market Cap (CHF)	186,586
Avg. 6m daily volume (000)	5,935

	1 M	3 M	6 M	31/12/15
Absolute perf.	-2.7%	-19.7%	-22.0%	-19.7%
Healthcare	-2.8%	-12.8%	-8.4%	-12.8%
DJ Stoxx 600	1.1%	-7.7%	-2.9%	-7.7%

	2015	2016e	2017e	2018e
P/E	14.5x	14.7x	13.7x	12.1x
Div yield (%)	3.8%	4.1%	3.6%	4.1%

ANALYSIS

- Yesterday, Novartis held a conference call to detail changes to segment reporting that have resulted in the transfer of Alcon's previously-reported Pharmaceuticals segment to Ophthalmics within Pharma mainly, with a few brands going to Sandoz. Of course, these are only intra-segment changes with no overall impact for the group. But, as always, this has provided an opportunity to revisit our estimates and assumptions for years to come, thereby resulting in minor adjustments on the downside as we expect the transferred division to come under continuous pressure in 2016 on the basis of strong competition in the glaucoma and allergy businesses in particular.
- Beyond this, we have made other small changes to Afinitor and Xolair for example, in order to remain on the safe side as the products face tougher competition in their respective fields. All in all, we have revised our core EPS sequence downwards by about 1-1.5% for coming years, including 2016 which is reduced from USD5.02 to USD4.95. This already looks in line with consensus.

VALUATION

- On top of the above-mentioned elements, we have implemented BG's new metrics for WACC calculation i.e. a risk-free rate of 1.6% (vs 2%) and equity risk premium of 7% (vs 6.4%). Lastly, we have made adjustments for exchange rates and other market prices. This includes Roche's list price which obviously dropped significantly over the first quarter (-14%).
- In all, our FV is revised downwards by CHF5 to CHF95 from CHF100. Note that our 2021 sales estimate for Entresto stands at USD5.2bn whereas Cosentyx is USD3.6bn.

NEXT CATALYSTS

- 21st April 2016: First quarter sales

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Eric Le Berrigaud, eleberrigaud@bryangarnier.com

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Distribution of stock ratings

BUY ratings 64.4%

NEUTRAL ratings 28.9%

SELL ratings 6.7%

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London	Paris	New York	Geneva	New Delhi
Beaufort House	26 Avenue des Champs Elysées	750 Lexington Avenue	rue de Grenus 7	The Imperial Hotel
15 St. Botolph Street	75008 Paris	New York, NY 10022	CP 2113	Janpath
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Genève 1, CH 1211	New Delhi 110 001
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	Tel +4122 731 3263	Tel +91 11 4132 6062
Fax: +44 (0) 207 332 2559	Regulated by the	FINRA and SIPC member	Fax+4122731 3243	+91 98 1111 5119
Authorised and regulated by the	Financial Conduct Authority (FCA) and		Regulated by the	Fax +91 11 2621 9062
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