

21st April 2016

Healthcare

Novartis

Price CHF74.05

Not bright but not worse than expected

Fair Value CHF95 (+28%)

NEUTRAL

Bloomberg	NOVN.VX
Reuters	NOVN.VX
12-month High / Low (CHF)	102.3 / 68.5
Market Cap (CHFm)	198,231
Avg. 6m daily volume (000)	6 014

	1 M	3 M	6 M	31/12/15
Absolute perf.	6.0%	-7.1%	-16.7%	-14.7%
Healthcare	6.3%	2.2%	-4.4%	-7.8%
DJ Stoxx 600	2.6%	8.8%	-3.3%	-4.1%

	2015	2016e	2017e	2018e
P/E	15.3x	15.5x	14.4x	12.7x
Div yield (%)	3.6%	3.9%	3.5%	3.9%

ANALYSIS

- Novartis reported earlier today its first-quarter numbers that are roughly in line with CS estimates with 1% top-line growth and 5% core EPS decline. Sales were a touch weaker than expected at USD11.6bn which mainly comes from Alcon and few products from Pharma including Gilenya (up 12%) and Tasigna (up only 6%). To note is that the two carefully-followed new drugs performed very differently one from the other which should also translate in FY adjustments, on the upside for Cosentyx (likely to reach blockbuster status in 2016 despite upcoming competition) and on the downside for Entresto that Novartis expects to see at about USD200m this year i.e. half our current estimate. The two will more or less cancel their net impacts.
- As far as EBIT and earnings, this is slightly better than expected despite a new sharp decline in Alcon's core EBIT margin by 800bp. Pharmaceuticals and Sandoz did quite well and this reflects tight cost control in purchasing and also in operating costs including R&D this quarter.
- In the end, core EPS came up at USD1.17 which was a touch better than the USD1.15 that CS was expecting for the quarter. This is a decline by 5% at constant currencies and 12% in reported terms. Comparison base was the toughest of the year. Currency impacts should ease as the year progresses. However, competition on Gleevec should worsen. Novartis maintains a guidance of flat sales and earnings compared to 2015 which points a small decline in reported terms, which is well reflected into CS numbers (that may even be slightly pessimistic with its USD4.74).

VALUATION

- We do not expect to make meaningful changes to our estimates.

NEXT CATALYSTS

- Today 2pm: Conference call - [Click here to download document](#)

Eric Le Berrigaud, eleberrigaud@bryangarnier.com



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Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

SELL ratings 28%

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BRYAN, GARNIER & CO

London	Paris	New York	Munich	New Delhi
Beaufort House 15 St. Botolph Street London EC3A 7BB Tel: +44 (0) 207 332 2500 Fax: +44 (0) 207 332 2559 Authorised and regulated by the Financial Conduct Authority (FCA)	26 Avenue des Champs Elysées 75008 Paris Tel: +33 (0) 1 56 68 75 00 Fax: +33 (0) 1 56 68 75 01 Regulated by the Financial Conduct Authority (FCA) and the Autorité de Contrôle prudentiel et de résolution (ACPR)	750 Lexington Avenue New York, NY 10022 Tel: +1 (0) 212 337 7000 Fax: +1 (0) 212 337 7002 FINRA and SIPC member	Widenmayerstrasse 29 80538 Munich Germany +49 89 2422 62 11	The Imperial Hotel Janpath New Delhi 110 001 Tel +91 11 4132 6062 +91 98 1111 5119 Fax +91 11 2621 9062 Geneva rue de Grenus 7 CP 2113 Genève 1, CH 1211 Tel +4122 731 3263 Fax+4122731 3243 Regulated by the FINMA

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