

11th April 2016

Healthcare

Roche

Price CHF243.40

Atezolizumab gets second priority review

Fair Value CHF294 (+21%)

BUY

Bloomberg	ROG.VX
Reuters	ROG.VX
12-month High / Low (CHF)	282.5 / 233.2
Market Cap (CHFm)	171,004
Avg. 6m daily volume (000)	1 478

	1 M	3 M	6 M	31/12/15
Absolute perf.	-3.0%	-7.5%	-4.1%	-11.9%
Healthcare	0.6%	-5.3%	-5.1%	-10.1%
DJ Stoxx 600	-1.7%	-2.8%	-8.2%	-9.3%

	2015	2016e	2017e	2018e
P/E	18.0x	17.2x	15.5x	15.2x
Div yield (%)	3.3%	3.5%	3.9%	3.9%

ANALYSIS

- After it got priority review status in March for advanced bladder cancer based on IMvigor 210 phase II study (with PDUFA date on 12 September 2016), atezolizumab has just obtained a second PR in the US, this time for advanced PD-L1 positive non-small-cell lung cancer (NSCLC) as determined by an approved companion FDA-approved IHC test developed by Roche Diagnostics. This is based on the BIRCH phase II study during which 667 patients received 1,200 mg iv every three weeks for their NSCLC which has progressed after one line of platinum-based chemotherapy.
- For this second indication, it was far from granted as Opdivo and Keytruda have a similar indication already on label and Merck's product even more specifically in PD-L1 positive tumours as determined by an FDA-approved test. So Roche did a great job in achieving that, which may have to do with the difference between PD-1 and PD-L1 targeting antibodies and/or some kind of patient selection through the companion diagnostic test and stratification deriving from its use. Yet, in this case, PDUFA date is set for 19 October 2016.

VALUATION

- So, by year-end, Roche should have atezolizumab on the market in two indications. We had no sales so far for the drug and although they're likely to be minimal, it will prepare for a full commercial in 2017 that could make our CHF220m too low. Together with venetoclax and ocrelizumab, atezolizumab will be one of Roche's major launches in 2016.
- Yet we understand that the current debate around Medicare Part B and biosimilars increase the pressure on injectable drugs. Competition will come. But Roche is well prepared and the new wave of products is now ready to launch. Share price should recover somewhat in the coming months.

NEXT CATALYSTS

- 19 April 2016 : First-quarter sales

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Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

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