

20th April 2016

Healthcare

Roche

Price CHF254.40

Negative inventory patterns behind poor Q1 performance for major drugs in the US

Fair Value CHF293 vs. CHF294 (+15%)

BUY

Bloomberg	ROG VX
Reuters	ROG.VX
12-month High / Low (CHF)	282.5 / 233.2
Market Cap (CHF)	178,732
Avg. 6m daily volume (000)	1,465

ANALYSIS

- We said yesterday morning that the US performance was surprisingly light in Q1 (+3%) for most products including the Big Three. Roche said it had actually faced negative inventory patterns in the country during Q1 that should revert in coming quarters to more accurately reflect underlying trends that are not significantly different from last year's levels, although Herceptin slowed down a bit. This is reassuring as it was our main reservation about the Q1 numbers since these were in line thanks to Tamiflu, which is never good considering the volatile aspect of this drug. Although Esbriet had a favourable comparison base in Q1, we think that quarter on quarter growth in newly launched drugs should offset the impact and make it possible to sustain a 4-5% top-line increase rate over the year. This would then be at the upper-end of annual guidance.
- The other interesting update stemming from the call was the fact that currencies are no longer expected to have an impact on core EPS in 2016 as USD-denominated debt will offset the negative influence from emerging markets. Taking CHF13.85 as the basis for comparison in 2015 (adjusted for exceptional items related to currency devaluations), 2016 core EPS should therefore rise by 5-6% to CHF14.60-14.65. CS should slightly adjust upwards.

VALUATION

- We have notched up our numbers across the board with little net impact.
- We have corrected our model for Venclexta to reflect the fact that AbbVie is to book worldwide sales and Roche part of the profits in royalties and other income, prompting a drop in future sales.

NEXT CATALYSTS

- 3-7th June 2016: ASCO meeting - [Click here to download document](#)

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	1 M	3 M	6 M	31/12/15
Absolute perf.	8.6%	-2.1%	-2.3%	-8.0%
Healthcare	6.9%	0.2%	-5.2%	-7.3%
DJ Stoxx 600	2.2%	4.9%	-4.1%	-4.5%

	2015	2016e	2017e	2018e
P/E	18.9x	17.4x	16.2x	15.9x
Div yield (%)	3.2%	3.5%	3.7%	3.8%



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NEUTRAL ratings 33.8%

SELL ratings 8.6%

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