

Actelion

Price CHF153.20

How much does this quarter tell about underlying trends?

Fair Value CHF172 vs. CHF163 (+12%)

BUY-Top Picks

Bloomberg	ATLN VX
Reuters	ATLN.VX
12-month High / Low (CHF)	155.0 / 115.9
Market Cap (CHFm)	17,484
Ev (BG Estimates) (CHFm)	17,080
Avg. 6m daily volume (000)	400.8
3y EPS CAGR	8.2%

This morning Actelion released Q1 earnings characterised by very strong top-line growth of 11% driven by resilient Tracleer, sustained Opsumit and outstanding Upravi, whose sales significantly exceeded expectations on the back of a strong underlying adoption rate in the US and also a meaningful inventory build-up. With very well controlled COGS and despite higher operating costs both in R&D and in selling and marketing, core EPS rose by 17% to CHF1.98 and by 23% in reported terms as currencies helped. The first changes to our estimates point to a new FV of CHF172.

	1 M	3 M	6 M	31/12/15
Absolute perf.	17.0%	19.3%	18.0%	9.7%
Healthcare	6.3%	2.2%	-4.4%	-7.8%
DJ Stoxx 600	2.6%	8.8%	-3.3%	-4.1%

YEnd Dec. (CHFm)	2014	2015e	2016e	2017e
Sales	1,956	2,042	2,085	2,205
% change		4.3%	2.1%	5.8%
EBITDA	687	769	799	846
EBIT	570.1	655.6	685.4	731.0
% change		15.0%	4.5%	6.6%
Net income	648.2	693.5	732.9	775.2
% change		7.0%	5.7%	5.8%

	2014	2015e	2016e	2017e
Operating margin	40.1	40.7	40.4	41.3
Net margin	33.1	34.0	35.1	35.2
ROE	33.8	52.6	41.7	34.6
ROCE	70.4	77.0	80.1	91.0
Gearing	-50.5	-30.7	-48.6	-62.5

(CHF)	2014	2015e	2016e	2017e
EPS	5.58	6.17	6.62	7.07
% change	-	10.6%	7.4%	6.8%
P/E	27.5x	24.8x	23.1x	21.7x
FCF yield (%)	0.8%	3.7%	3.9%	4.5%
Dividends (CHF)	1.30	1.50	1.50	1.50
Div yield (%)	0.8%	1.0%	1.0%	1.0%
EV/Sales	8.4x	8.4x	8.0x	7.3x
EV/EBITDA	24.1x	22.2x	20.8x	19.0x
EV/EBIT	29.0x	26.0x	24.3x	22.0x

ANALYSIS

- Actelion has released very strong first-quarter revenues of CHF590m, up 14% in reported terms including 3pp positive currency impact. This compares to CHF553m for the consensus i.e. a meaningful beat that is mainly explained by two outperforming products: (i) firstly Tracleer which proved more resilient than expected in the absence of generics in the US and despite progressive decline of treated patients with PAH as new ones opt for new-generation drugs like Opsumit and Letairis. Digital ulcer indication in Europe also helps. Actelion reported that overall volumes fell 14% with an additional small price decline, notably in countries where generics are available like Spain; (ii) much more relevant for the future was the performance of Upravi during the quarter as it far exceeded market expectations (and our's) although we understood from recent interactions with the company that numbers would be inflated by inventory build-ups in the US. Indeed, this was a key element in the reported figure as Upravi landed at CHF35m in the quarter, which included CHF15m in underlying sales and CHF20m in inventories of the various dose packs. What is more interesting to us is that the company mentioned that approx.. 650 patients were using Upravi at the end of the quarter. This compares very favourably to the first targeted population of prostacyclin analogs that we assumed would be 4,500 patients in the US.
- After a relatively weak fourth quarter of 2015, Opsumit is back on a more normal trajectory with CHF178m reported sales in Q1. We did not find the performance by geographies but the specific performance in the US will have to be more closely monitored vs Letairis.
- Even smaller drugs performed well in the quarter, including Veletri (+20%) ou Valchlor (+80%). To note for the coming quarters is that Japan required a 12% price decline for Veletri as of March.
- Moving to the content of the P&L, we would note that COGS remained very low at 8.2%, which questions whether Actelion started paying Nippon Shinyaku on Upravi's sales or if there is a delay as we do not see any sign of royalty impact yet. For the rest of operating expenses, we see an increase in R&D and marketing costs which reflects a maturing pipeline (including progress in phase III for ponesimod in MS, that is anticipated to end recruitment by year-end, like cadazolid) and Upravi roll-outs or preparation for launch in various countries.
- In the end, core operating income grew 14% in reported terms, representing a small margin increase and core EPS stood at CHF1.98 where CS was expecting CHF1.89 or a growth by 23% which includes 6pp currency impact. This drives a first annual guidance raise from low-single digit growth to high-single digit growth in core operating income for 2016.

VALUATION

- We see Upravi's take-off, beyond inventory build-ups, as stronger than expected. We are increasing the first year penetration rate in the US from 25% to 35% in the target population. We cannot (yet) assume that Upravi is enlarging this market segment. We are also slightly delaying entry of bosentan generics in the US.
- This afternoon's conference call might permit new estimate changes but the ones we have made already point to a new FV of CHF172 that is supportive of our BUY rating.

NEXT CATALYSTS

- Today 3pm: Conference Call - [Click here to download](#)



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