

19th April 2016

Healthcare

Roche

Price CHF249.50

Q1 sales marginally above estimates, but only due to Tamiflu

Fair Value CHF294 (+18%)

BUY

Bloomberg	ROG VX
Reuters	ROG.VX
12-month High / Low (CHF)	282.5 / 233.2
Market Cap (CHFm)	175,289
Ev (BG Estimates) (CHFm)	188,006
Avg. 6m daily volume (000)	1 466
3y EPS CAGR	6.1%

This morning Roche released Q1 sales that were roughly in line with estimates. Composition is mixed as difficult-to-predict Tamiflu was CHF100-150m above estimates whereas other products were more or less as expected. "Big Three" saw modest growth in the quarter and HER2 franchise progressed only 9% with Perjeta still robust, but Herceptin less dynamic. Overall, group sales grew 4% in Q1, which is in line with FY guidance that is being reiterated. All in all, nothing to be neither excited nor worried about with these Q1 numbers.

	1 M	3 M	6 M	31/12/15
Absolute perf.	6.5%	-2.7%	-3.9%	-9.7%
Healthcare	6.0%	0.8%	-5.2%	-8.1%
DJ Stoxx 600	0.7%	4.7%	-5.2%	-5.9%

ANALYSIS

- This should not be a major catalyst as Q1 numbers this morning came out very much in line with expectations at CHF12,414m i.e. slightly above CS estimates but mainly as a result of a decent Tamiflu (CHF367m vs CHF214m for CS). Considering the mild flu season in the US, we had expected a more severe decline, but actually it was only down 15% in the US and moreover partially balanced by strong growth in Europe and International regions.

YEnd Dec. (CHFm)	2015	2016e	2017e	2018e
Sales	48,145	50,078	51,451	53,022
% change		4.0%	2.7%	3.1%
EBITDA	19,430	19,963	21,220	21,609
EBIT	13,821	16,732	18,420	19,409
% change		21.1%	10.1%	5.4%
Net income	11,626	12,294	13,666	13,882
% change		5.7%	11.2%	1.6%

CHFm	Q1 2015	Q1 2016		
		CS	BG	actual
Pharmaceuticals	9322	9641	9643	9800
Diagnostics	2511	2626	2623	2614
Group	11833	12267	12266	12414

	2015	2016e	2017e	2018e
Operating margin	28.7	33.4	35.8	36.6
Net margin	24.1	24.5	26.6	26.2
ROE	43.7	49.1	45.8	40.9
ROCE	28.1	27.1	28.4	28.4
Gearing	60.4	45.7	28.7	15.0

- Compared to annual growth rates in recent years, "Big Three" (i.e. Rituxan, Avastin and Herceptin) grew modestly by 3-4% in Q1 with particular difficult performance in the US where, combined, they were almost flat. This is also reflected in an HER2 franchise that no longer grew double-digit but "only" 9%, again on the back of a disappointing performance in the US. Growth in this country was limited to 3% for the group in the first quarter in spite of a very favourable comparison base for Esbriet (+145%) and of solid performance for Xolair (+22%) that is still benefiting its last indication in severe urticaria while not suffering (yet) from competition from GSK's anti-IL5 Nucala.
- "New" products did well in the quarter with no major difference in sales compared to consensus numbers with the exception of Kadcylla that was light as it is no longer progressing in the US.
- On the negative side, Lucentis was down at the same pace as in 2015 and to note is that Tarceva declined 14% in the quarter, with a tough performance in almost all regions.
- In Diagnostics, the picture is very simple: if numbers in the end are as expected, this is the result of a different business mix with Diabetes Care back in the deep dark (-11%) as continued price pressure for Medicare plans drove sales generated in the US down by ... 49% ! This was offset by strong performance in Professional Diagnostics (+7%).

(CHF)	2015	2016e	2017e	2018e
EPS	13.49	14.26	15.85	16.10
% change	-	5.7%	11.2%	1.6%
P/E	18.5x	17.5x	15.7x	15.5x
FCF yield (%)	5.5%	4.5%	5.4%	6.0%
Dividends (CHF)	8.10	8.57	9.52	9.67
Div yield (%)	3.2%	3.4%	3.8%	3.9%
EV/Sales	3.9x	3.8x	3.6x	3.4x
EV/EBITDA	9.7x	9.4x	8.7x	8.4x
EV/EBIT	13.7x	11.2x	10.0x	9.3x

VALUATION

- With Tamiflu to be approached as a "one off", we might do some cuts here and there on specific product growth rates, but this should not impact our annual numbers massively, hence our FV.
- We keep our BUY rating as we would expect Roche to recover somewhat as the year progresses, but we would remain that we don't have any large cap pharma stock in our Top Pick List for Q2.

NEXT CATALYSTS

- Today 2pm: Conference Call to present Q1 sales

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