

Genmab

Price DKK998.00

Q1 EBIT in line. Now waiting for POLLUX and a continuing ramp-up

Fair Value DKK1350 (+35%)

BUY

Bloomberg	GEN DC
Reuters	GEN.CO
12-month High / Low (DKK)	998.0 / 529.5
Market Cap (DKK)	59,559
Ev (BG Estimates) (DKK)	55,943
Avg. 6m daily volume (000)	440.4
3y EPS CAGR	17.5%

	1 M	3 M	6 M	31/12/15
Absolute perf.	5.7%	48.1%	38.6%	8.8%
Healthcare	-0.8%	4.7%	-10.6%	-10.9%
DJ Stoxx 600	1.3%	6.7%	-10.6%	-8.1%

YEnd Dec. (DKKm)	2015	2016e	2017e	2018e
Sales	1,133	1,175	1,680	2,213
% change		3.7%	43.0%	31.7%
EBITDA	554	285	539	908
EBIT	730.4	285.1	539.5	907.9
% change		-61.0%	89.2%	68.3%
Net income	587.3	320.1	579.5	952.9
% change		-45.5%	81.0%	64.4%

	2015	2016e	2017e	2018e
Operating margin	64.5	24.3	32.1	41.0
Net margin	67.4	27.2	34.5	43.1
ROE	21.9	8.4	13.2	17.8
ROCE	-15,400	166.0	150.4	166.5
Gearing	-100.2	-95.0	-91.2	-89.3

(DKK)	2015	2016e	2017e	2018e
EPS	9.71	5.29	9.58	15.76
% change	-	-45.5%	81.0%	64.4%
P/E	NS	NS	NS	63.3x
FCF yield (%)	0.3%	0.0%	0.1%	NM
Dividends (DKK)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	49.5x	47.6x	33.1x	24.8x
EV/EBITDA	101.2x	196.2x	103.0x	60.3x
EV/EBIT	76.8x	196.2x	103.0x	60.3x



Q1 revenues were slightly above our estimates, while net result was somewhat lower than anticipated due to non-cash items (in this case, FX unrealised losses because of a weak USD vs DKK over the period). But more importantly, management stated during the conference call that 1/ the top-line results from POLLUX should be published in the very near future; 2/ in theory, an HR of 0.4 (which would be similar to what we saw in the CASTOR study) is entirely achievable... And should it be the case, "dara" would be much more powerful than what we (and probably the consensus) previously thought. BUY reiterated with a FV of DKK1,350, bearing in mind that this figure could be increased by more than DKK50-100m depending on POLLUX results.

ANALYSIS

- **Q1 revenues were slightly above our estimates** (DKK170m vs BG: DKK152m). Note, 1/ royalties related to Darzalex are a bit higher than we expected (DKK83m vs DKK77m), 2/ while inflows from Novartis' Arzerra fell by 31% as the compound is suffering from sharper competition JNJ's Imbruvica in the CLL field (but nothing surprising here); 3/ milestone payments stood at DKK45m (vs DKK34m but our figures did not include a preclinical development milestone of DKK11m achieved in partnership with Lundbeck).
- **The net result was below our expectations** (-DKK12m vs BG: DKK12m and consensus: DKK40-50m), but this was mainly due to a -DKK38m realised/unrealised FX loss (the main reason being a weak USD vs DKK)... so part of it is non-cash, and this partly explains why the cash position is quite stable on a y-o-y basis (DKK3,491m vs DKK3,493m at the end of 2015). Plus, we understand that this loss should be closer to zero on a full year basis should current FX rates be maintained going forward.
- As a reminder, **our 2016 figures are above both consensus estimates and the latest company guidance, since we are far more bullish on the commercial ramp-up of Darzalex (daratumumab)**. And against this backdrop, we believe that management (and part of the consensus) is likely to revise up its estimates in coming months... More precisely, we note that Genmab is guiding for FY16 sales of USD400-450m for Darzalex whereas 1/ the compound already generated USD102m during Q1 16 and solely in the US, while initially launched in November there (hence an annualized run rate of USD400m); 2/ the medical need is so high, and "dara" efficacy data was so impressive, that its sales should increase on a sequential basis (as seen with Pfizer's Ibrance – which generated USD38m of sales in Q1 15 and USD311m in Q4 15) ; 3/ we expect a green light from the EC as a treatment for heavily pre-treated patients with myeloma.

Fig. 1: Q1 results vs BG estimates

(DKKm)	Q1 15	Q1 16	Var (%)	BG
(+) Revenues	110	170	55%	152
- Royalties	22	100	355%	98
- Milestone payments	0	45	n/s	34
- Deferred revenue	76	23	-70%	20
- Reimbursement income	12	2	-83%	0
(-) R&D expenses	86	127	49%	120
(-) SG&A expenses	25	27	9%	29
(+) Other income	176	0	-100%	0
= Operating result	176	16	-91%	3
(+/-) Net financial items	44	-28	n/s	9
= Net income	221	-12	n/s	12

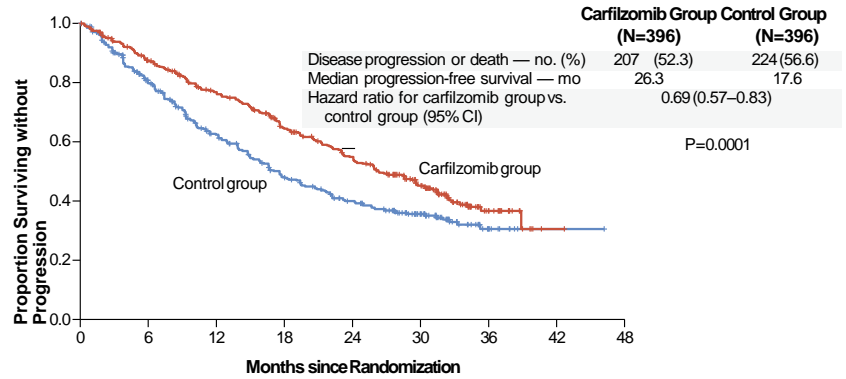
Source : Company Data; Bryan Garnier & Co. ests.

Fig. 2: BG estimates vs consensus and company's guidance

	New BG est.	Consensus	GEN guidance	Former guidance
Revenues (DKKm)	1,175	1,060	925-975	825-875
Darzalex JNJ's sales (USDm)	590	505	400-450	250-300
Operating income (DKKm)	285	196	125-175	25-75
Cash position at year end (DKKm)	3,616	3,420	3,400-3,500	3,300-3,400

Source : Company Data; Bryan Garnier & Co. ests.

- We understand that top-line results from the POLLUX study should be published in the very near future. Obviously, most observers are expecting a positive outcome. But how positive could it be? Given the Hazard Ratio observed within the CASTOR study (0.39, $p < 0.0001$), management stated that a similar level of improvement is theoretically achievable with POLLUX (although controls are completely different). And if it turns out that “dara” is far more powerful than we (and probably the consensus) previously thought... its superiority over Amgen’s Kyprolis (carfilzomib) would therefore be undisputed, as the latter generated an HR of 0.69 in quite a similar setting.



No. at Risk	0	6	12	18	24	30	36	42	48
Carfilzomib group	396	332	279	222	179	112	24	1	
Control group	396	287	206	151	117	72	18	1	

VALUATION

- BUY reiterated with a FV of DKK1,350...** but note that this figure could be increased by more than +DKK50-100 depending on the results from POLLUX.

NEXT CATALYSTS

- Q2: top-line results from the Phase III study POLLUX (which evaluates daratumumab in combination with Celgene’s Revlimid in patients with multiple myeloma).

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