27th May 2016

Healthcare

# Roche

Price CHF253.20

## GALLIUM positive is very good news for Gazyva and CD20 franchise

**Fair Value CHF293 (+16%)** **BUY**

| | |
|---|---|
| Bloomberg | ROG VX |
| Reuters | ROG.VX |
| 12-month High / Low (CHF) | 282.5 / 233.2 |
| Market Cap (CHFm) | 177,889 |
| Ev (BG Estimates) (CHFm) | 190,458 |
| Avg. 6m daily volume (000) | 1 465 |
| 3y EPS CAGR | 5.8% |

| | 1 M | 3 M | 6 M | 31/12/15 |
|---|---|---|---|---|
| Absolute perf. | 2.4% | -2.7% | -7.6% | -8.4% |
| Healthcare | 2.7% | 4.3% | -8.0% | -6.3% |
| DJ Stoxx 600 | 0.5% | 5.2% | -9.2% | -4.6% |

| YEnd Dec. (CHFm) | 2015 | 2016e | 2017e | 2018e |
|---|---|---|---|---|
| Sales | 48,145 | 50,118 | 51,371 | 52,555 |
| *% change* | | *4.1%* | *2.5%* | *2.3%* |
| EBITDA | 19,430 | 20,244 | 21,226 | 21,459 |
| EBIT | 13,821 | 17,013 | 18,426 | 19,259 |
| *% change* | | *23.1%* | *8.3%* | *4.5%* |
| Net income | 11,626 | 12,603 | 13,561 | 13,770 |
| *% change* | | *8.4%* | *7.6%* | *1.5%* |

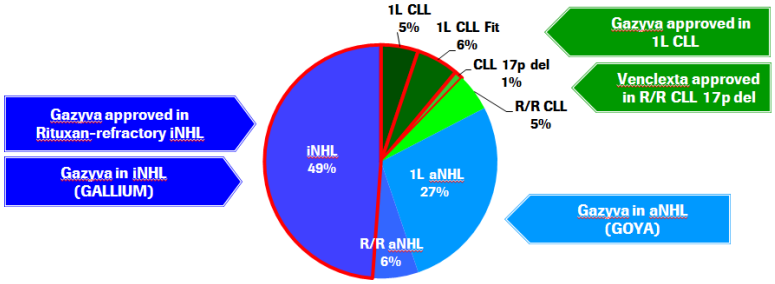
| | 2015 | 2016e | 2017e | 2018e |
|---|---|---|---|---|
| Operating margin | 28.7 | 33.9 | 35.9 | 36.6 |
| Net margin | 24.1 | 25.1 | 26.4 | 26.2 |
| ROE | 43.7 | 50.1 | 45.5 | 40.5 |
| ROCE | 28.1 | 27.7 | 28.4 | 28.3 |
| Gearing | 60.4 | 44.7 | 28.2 | 14.4 |

| (CHF) | 2015 | 2016e | 2017e | 2018e |
|---|---|---|---|---|
| EPS | 13.49 | 14.62 | 15.73 | 15.97 |
| *% change* | - | *8.4%* | *7.6%* | *1.5%* |
| P/E | 18.8x | 17.3x | 16.1x | 15.9x |
| FCF yield (%) | 5.4% | 4.5% | 5.4% | 5.9% |
| Dividends (CHF) | 8.10 | 8.78 | 9.45 | 9.59 |
| Div yield (%) | 3.2% | 3.5% | 3.7% | 3.8% |
| EV/Sales | 4.0x | 3.8x | 3.6x | 3.5x |
| EV/EBITDA | 9.9x | 9.4x | 8.8x | 8.6x |
| EV/EBIT | 13.9x | 11.2x | 10.2x | 9.5x |


**The investment community usually sees GOYA as the key remaining phase III study to determine whether Gazyva can be an effective line of defense for the rituximab franchise. This is partially because results were anticipated earlier than GALLIUM's. But actually the latter phase III trial met its primary endpoint (PFS) early, which now makes it possible to file sooner than anticipated and may be to get a first-line iNHL indication on label before the first biosimilar comes out next year. So far, Gazyva has had a slow start because its scope of indications is limited to a small subset of the total CD20 addressable market. This could change and our CHF1.6bn peak sales look achievable.**

### ANALYSIS

- This morning Roche said that the GALLIUM phase III study had reached its primary endpoint early which means that Gazyva+CT during the induction phase followed by Gazyva alone in the maintenance phase proved superior to rituximab/CT followed by rituximab, which has been the standard of care in first-line iNHL. The measure was progression-free survival (PFS).
- That's also what happened in the past with the GADOLIN study which studied Gazyva in R/R iNHL but this time after rituximab failed and vs bendamustine. For the first time here, Gazyva shows superiority over rituximab and in the prime setting of the reference product. As illustrated below, this time it is opening a much wider segment of current rituximab market to Gazyva, although it is fair to say that most of the patients in the GALLIUM had follicular NHL which is not the whole part of iNHL.




*Source: Roche*

- This is a very meaningful piece of news for Roche's CD20 franchise in our view. Together with venetoclax and the subcutaneous formulation, Gazyva will be a key line of defense for this CHF7bn+ franchise that is likely to face biosimilar competition by the end of 2017 in the first European countries (Sandoz recently confirmed acceptance of the filing). The RA portion of rituximab's sales is more likely to go but as long as the haematology part, GALLIUM is improving the chance of the franchise to be highly resilient and to erode only slowly. Whether GALLIUM increases the chance of GOYA –whose results are expected in 2016 - to be successful too is difficult to say.

### VALUATION

- Gazyva is a product we've been more optimistic about than the consensus since the beginning but so far it has delivered poorly. Now with positive data with GALLIUM, confidence is increasing that the CD20 franchise will be aggressively defended against biosimilars.
- GALLIUM/GOYA on one hand and even more importantly APHINITY on the other are key assets for Roche. If they both deliver positive results the group would find itself in a very comfortable position for getting through the biosimilar period. APHINITY should only deliver data at the end of 2016.

### NEXT CATALYSTS

- 3-7 June 2016 : ASCO meeting

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**Distribution of stock ratings**

BUY ratings 72% NEUTRAL ratings 0% SELL ratings 28%

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