

Actelion

Price CHF151.80

Can Actelion do better than market already expects?

Fair Value CHF173 (+14%)

BUY-Top Picks

Bloomberg	ATLN VX
Reuters	ATLN.VX
12-month High / Low (CHF)	166.5 / 115.9
Market Cap (CHFm)	17,325
Ev (BG Estimates) (CHFm)	16,920
Avg. 6m daily volume (000)	394.1
3y EPS CAGR	7.9%

Actelion has had an outstanding start to the year in the PAH franchise as Tracleer is still generic-free whereas Opsumit is growing steadily and Upravi has started strongly in the US. Our interactions with the company suggest that the recipe should benefit 2016 as a whole. The likelihood of another guidance increase is significant, in our view. Longer term, however, consensus is pretty well capturing the potential of the two drugs. The pipeline should therefore quickly become central to lifting the stock further.

ANALYSIS

- The PAH market is developing well and its leader Actelion is logically benefiting from this growth, driven by a 5-10% annual volume increase of the ERA segment, but also increased use of combinations, which means earlier use of more expensive therapeutics for a longer period of time. The mix is therefore very positive. For Actelion, the objective is to get the highest possible number of patients under a combination of Opsumit and Upravi. It is still too early to say how high Upravi can go, but out of the first 650 patients on treatment at the end of March, about 80% were coming for dual oral therapy and only 20% from switches from inhaled prostacyclins.
- So, short term, Actelion's PAH franchise should remain well oriented: (i) an MOU has been submitted to the independent project manager by the parties involved in the definition of a common REMS programme for bosentan and it has now to make a proposition to the FDA that will review it before giving a green light to the various versions ready to launch. A generic entry before year-end is increasingly unlikely. At the end of 2015, about 5,600 patients were still under Tracleer and the number is expected to decline by between 1,000 and 2,000 every year. Within the number and although it has not been fully confirmed, it is said that about 50% would be children and adolescents for which Opsumit has not been approved (yet). Note that Opsumit is now about 10% cheaper than Tracleer in the US. Outside the US, it has to be noticed that generic entry in Spain has been very aggressive and Tracleer is eroding faster than anticipated; (ii) Opsumit is growing strongly in the US, although outside price negotiations are much harder. Actelion expects even tougher discussions once Letairis is off patent i.e. in 2019-2020 as reference pricing should impact all class members; (iii) Upravi has obtained a price of EUR48,400 in Europe, which is about a third of the US list price. Based on favourable guidelines, it is anticipated that the drug will be prescribed well above and beyond the current PC market. If most of the inhaled PC users are expected to switch over a 2-3 period (this is the average duration of treatment), it is also anticipated that more and more patients will start with dual therapy and then move to triple. As a reminder, Actelion is conducting two trials to support broader use of Upravi: one analyses the switch of patients from inhaled (TRANSIT-1, data exp. In Q1 2017) and the other comparing triple to dual therapy (TRITTON, data exp. end of 2018).
- All that said, we expect Actelion to increase its full-year guidance for 2016 at least once more because without any generic bosentan in the US we do not see how core operating income growth would not be double digit (current BG est.: +13%) vs current guidance of "high single digit growth".
- Longer term, however, we have been somewhat surprised by the level of consensus for the two growth drivers. According to the company, Opsumit would be at or above CHF2bn and Upravi is now around CHF1.7bn. It is too early to say for Upravi, but Opsumit's expectations already look aggressive if we consider that Europe may have to do without digital ulcer, without France and maybe without the paediatric indication. Price could be higher in the US, but lower in Europe. More combinations overall and longer life expectancy could partially offset this, but without MAESTRO and/or MERIT positive i.e. without extensions, it looks like a bull case.
- Longer-term upside requires the pipeline to be given some value. Actelion is still working on targeted updates by year-end to help consensus do its job here.

NEXT CATALYSTS

- 21 July 2016: Half-year results - [Click here to download document](#)

	1 M	3 M	6 M	31/12/15
Absolute perf.	-2.6%	9.6%	11.6%	8.7%
Healthcare	-1.3%	0.6%	-11.0%	-12.1%
DJ Stoxx 600	-2.7%	-4.4%	-10.7%	-10.9%

YEnd Dec. (CHFm)	2014	2015e	2016e	2017e
Sales	1,956	2,042	2,263	2,274
% change		4.3%	10.8%	0.5%
EBITDA	687	769	886	827
EBIT	570.1	655.6	768.6	708.1
% change		15.0%	17.2%	-7.9%
Net income	648.2	693.5	806.1	755.1
% change		7.0%	16.2%	-6.3%

	2014	2015e	2016e	2017e
Operating margin	40.1	40.7	44.2	42.3
Net margin	33.1	34.0	35.6	33.2
ROE	33.8	52.6	44.0	32.8
ROCE	70.4	77.0	86.0	88.8
Gearing	-50.5	-30.7	-49.6	-63.6

(CHF)	2014	2015e	2016e	2017e
EPS	5.58	6.17	7.40	7.00
% change	-	10.6%	20.0%	-5.4%
P/E	27.2x	24.6x	20.5x	21.7x
FCF yield (%)	0.8%	3.8%	4.3%	4.7%
Dividends (CHF)	1.30	1.50	1.50	1.50
Div yield (%)	0.9%	1.0%	1.0%	1.0%
EV/Sales	8.4x	8.3x	7.3x	7.0x
EV/EBITDA	23.8x	22.0x	18.5x	19.2x
EV/EBIT	28.7x	25.8x	21.4x	22.4x



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