7th July 2016

Healthcare

Actelion

Price CHF164.80

First initiative to update pipeline adds phase II compound in insomnia

Fair Value CHF173 (+5%) **BUY**

Bloomberg	ATLN VX
Reuters	ATLN.VX
12-month High / Low (CHF)	166.5 / 115.9
Market Cap (CHFm)	18,808
Ev (BG Estimates) (CHFm)	18,403
Avg. 6m daily volume (000)	396.8
3y EPS CAGR	7.9%

	1 M	3 M	6 M	31/12/15
Absolute perf.	0.0%	12.0%	20.6%	18.1%
Healthcare	0.4%	5.0%	-4.9%	-6.1%
DJ Stoxx 600	-6.9%	-3.6%	-10.0%	-12.9%

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	29.6x	26.7x	22.3x	23.5x
FCF yield (%)	0.7%	3.5%	4.0%	4.3%
Dividends (CHF)	1.30	1.50	1.50	1.50
Div yield (%)	0.8%	0.9%	0.9%	0.9%
EV/Sales	9.1x	9.0x	7.9x	7.6x
EV/EBITDA	26.0x	23.9x	20.2x	21.0x
EV/EBIT	31.3x	28.1x	23.3x	24.5x

It was our understanding that Actelion was still working on the orexin pathway and would, one day or another, revive the antagonism approach to orexin receptors with one new compound going into the clinic, but we had not anticipated that it would be again in insomnia where almorexant still is in all memories. This is, however, what Actelion has announced today i.e. start of phase II with a new ORA in insomnia by year-end in a comparative study to zolpidem. We are not sure that investors will be ready to grant additional value to Actelion for this until they get clearer view on clinical results with the compound. Company confirms simultaneously that MERIT (macitentan in CTEPH), OPTIMUM (ponesimod in MS) and IMPACT (cadazolid in Cdiff) are all developing according to plans.

ANALYSIS

- This is a come-back and some will think it is not the one we would have expected or wished from Actelion, because it is not a way to remember good old news: the revival of the orexin receptor antagonist pathway in the form of the initiation of a phase II clinical trial with new compound in insomnia by year-end. The study is expected to recruit about 300 individuals suffering from insomnia from Q4 2016 and to randomize them in six arms including placebo, four doses of zolpidem (Stilnox/Ambien) and investigational drug. Duration of treatment is four weeks (with five cross-over periods) and primary endpoint will be WASO at day 1 and 2. Other endpoints will include time to persistent sleep and to sleep onset.
- Actelion has scheduled a conference call for this afternoon (2pm) to provide background information about the drug, the programme and rationale for investing (again) in this field. In the press release, the company reports fast onset of CNS effects and natural physiologic sleep architecture in animal models, together with good PD/PK profile for a medication and good safety. This is suggestive of the fact that almorexant was not perfect in its structure, but that the mechanism of action of DORA (dual orexin receptor antagonism) still looks very valid and promising to address insomnia. To some extent, this is further validated by the fact that one compound in the class did come through to the market: under the brand name Belsomra, Merck reached FDA acceptance for suvorexant and hit the US market in February 2015 for the "treatment of insomnia in adults who have difficulty falling asleep and staying asleep". Note that the drug is Schedule IV controlled. It looks, however, that it is too small to be reported by Merck as an individual product in its quarterly releases.
- So, at this point, we cannot say much more than 'let's see what the drug delivers in phase II' before we factor it into our sales model. Of course we can imagine that the long experience acquired with almorexant has made Actelion very wary about deciding to move the drug in phase II and probably with good reasons, but the history is such that CS cannot do differently in our view.
- Actelion is also taking the opportunity of the press release to update on the clinical development status of other drugs simply to say that they are developing on track. Cadazolid and ponesimod are progressing on target to complete recruitment of IMPACT and OPTIMUM respectively by year-end. As long as MERIT, the phase II investigating macitentan in CTEPH, it is still expected to deliver results by year-end. As a reminder, no ERA is currently approved in this indication and Tracleer failed to show a benefit. Only approved drug in CTEPH is Bayer's Adempas. It achieved EUR182m in sales in 2015 and was progressing again by 47% in Q1 2016 and we expect the drug to exceed EUR250m in 2016, with a meaningful portion of sales coming from the differentiating indication of CTEPH. Should it represent USD200-300m and this would be welcome addition to help Opsumit reach peak sales of close to USD2bn.

VALUATION

- No change to our FV

NEXT CATALYSTS

- Today 2pm: Conference Call – New DORA moving in phase II

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