

Actelion

Price CHF173.80

Amazing performance by Upravi in the US drives new guidance upgrade

Fair Value CHF173 (0%)

BUY

Bloomberg	ATLN VX
Reuters	ATLN.VX
12-month High / Low (CHF)	173.8 / 115.9
Market Cap (CHFm)	19,835
Ev (BG Estimates) (CHFm)	19,431
Avg. 6m daily volume (000)	384.7
3y EPS CAGR	7.9%

As expected, Actelion has again revised its full-year guidance upwards for core operating income growth from high-single digit to low double-digit. The consensus numbers are already in line with this new guidance provided positive currency impacts reduce by year-end to represent no more than 4pp (vs 7pp in H1). In any case, we see Upravi's US performance as the key component of today's release as it came well ahead of estimates. This should drive some new upgrades.

ANALYSIS

- There is no doubt that the central component of today's release was the outstanding performance of Upravi in the second quarter. Already in Q1, Upravi exceeded expectations but Actelion warned at the time because sales figures included an inventory build-up effect of all formulations at the time of US launch (CHF15m of demand vs CHF20m of inventory) and a catch-up of available cohort of patients so that, despite strong underlying performance, numbers should not be extrapolated over the full-year. As a consequence, we and the consensus projected sales for Upravi slightly below first-quarter numbers. But the actual sales were well above at CHF56m (o/w CHF55m in the US), compared to CHF35m in Q1 2016. In the second-quarter, inventories were only CHF10m implying underlying demand of CHF45m i.e. three times higher than in Q1. Despite the decent performance of Orenitram (United Therapeutics) and comments from physicians that growth in Upravi may not come at the expense of Orenitram, the numbers confirm at first glance that the class is expanding with available oral drugs. The questions could be: are the drugs used earlier than before? This is likely. Are they used more in combinations? This is also likely but it remains to be known what it is then associated with. A combination with Opsumit would put Actelion in a win-win situation of course. We should also stress that no sales have yet been recorded ex-US, which leaves tremendous potential for the drug going forward. The launch has now taken place in Germany, in France and in Canada.

- We see much less noticeable things beyond Upravi in Actelion's report. Opsumit had another strong quarter. It was as strong as expected in the US (CHF126m vs CHF120m in Q1) but more interestingly it did better than expected in Japan and in the ROW region, while remaining lacklustre in Europe. Conversely, Tracleer was below expectations which is not bad considering upcoming competition from generics. The decline was particularly strong in the US and in Europe (where we know that recent generic entry in Spain hit the drug very hard) whereas Tracleer did well in Japan.
- Moving to the P&L, it is worth noting that Actelion may have used this strong top-line performance to invest a bit more in marketing and R&D expenses during the period. We note also a slight increase in the cost of sales which likely corresponds to first payments to Nippon Shinyaku on Upravi's sales. That said, and as Actelion also booked positive financial profits in the quarter, core EPS came out above estimates at CHF1.68 (vs. CS CHF1.58).

VALUATION

- Guidance for core operating income growth has been revised upwards again, from high-single digit to low double-digit, which may appear modest considering the strong underlying performance of Upravi. Over the first half of the year, growth was 11%. It is worth noting that currencies added 7pp to the performance. Over the full-year, CS anticipates growth of 15% including currencies, which suggests it is more or less aligned with the bottom-end of the guidance (10-11%). We would expect Actelion to do a touch better than that should Tracleer remain generic-free and Upravi remain on its existing strong momentum.

NEXT CATALYSTS

- Today 2pm: conference call

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Analyst :
Eric Le Berrigaud
33(0) 1 56 68 75 33
eleberrigaud@bryangarnier.com

Sector Team :
Mickael Chane Du
Hugo Solvet

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London	Paris	New York	Munich	New Delhi
Beaufort House	26 Avenue des Champs Elysées	750 Lexington Avenue	Widenmayerstrasse 29	The Imperial Hotel Janpath
15 St. Botolph Street	75008 Paris	New York, NY 10022	80538 Munich	New Delhi 110 001
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Germany	Tel +91 11 4132 6062
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	+49 89 2422 62 11	+91 98 1111 5119
Fax: +44 (0) 207 332 2559	Regulated by the	FINRA and SIPC member		Fax +91 11 2621 9062
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Financial Conduct Authority (FCA)	Autorité de Contrôle prudentiel et de			rue de Grenus 7
	resolution (ACPR)			CP 2113
				Genève 1, CH 1211
				Tel +4122 731 3263
				Fax+4122731 3243
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