

28th July 2016

Healthcare

UCB

Price EUR71.00

Profitability above expectations in H1

Fair Value EUR80 (+13%)

NEUTRAL

Bloomberg	UCB BB
Reuters	UCBBt.BR
12-month High / Low (EUR)	85.6 / 62.3
Market Cap (EURm)	13,810
Ev (BG Estimates) (EURm)	13,393
Avg. 6m daily volume (000)	359.0
3y EPS CAGR	37.7%

UCB has released a good set of results for the first-half of 2016. Topline was in-line with estimates growing 5% CER to EUR2bn (+5% reported) with all core products contributing to growth. RecEBITDA came in 7% above consensus expectations at EUR549m (27.2% of revenues) boosted by a drop in operating expenses. Profitability has kicked in faster than expected and does not seem to put at risk the 2018 target of 30% recEBITDA margin for now. FY2016 guidance reiterated.

	1 M	3 M	6 M	31/12/15
Absolute perf.	9.7%	5.2%	-16.5%	-14.7%
Healthcare	8.4%	6.4%	2.5%	-2.9%
DJ Stoxx 600	6.0%	-1.7%	0.6%	-6.7%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	3,344	3,876	4,117	4,689
% change		15.9%	6.2%	13.9%
EBITDA	609	821	982	1,248
EBIT	379.0	577.0	720.7	947.0
% change		52.2%	24.9%	31.4%
Net income	229.0	322.0	417.0	589.2
% change		40.6%	29.5%	41.3%

	2014	2015e	2016e	2017e
Operating margin	11.3	14.9	17.5	20.2
Net margin	6.8	8.3	10.1	12.6
ROE	4.1	12.2	7.9	11.0
ROCE	5.3	6.2	7.4	9.9
Gearing	33.3	7.5	7.2	8.1

(EUR)	2014	2015e	2016e	2017e
EPS	1.69	2.17	3.13	4.40
% change	-	28.8%	44.3%	40.4%
P/E	42.1x	32.7x	22.7x	16.1x
FCF yield (%)	3.1%	1.3%	2.9%	3.0%
Dividends (EUR)	0.91	1.10	1.63	2.29
Div yield (%)	1.3%	1.5%	2.3%	3.2%
EV/Sales	3.6x	3.5x	3.3x	2.8x
EV/EBITDA	20.0x	16.3x	13.6x	10.7x
EV/EBIT	32.2x	23.2x	18.6x	14.1x

UCB (EURm exc. PS data)	H1 2015	H1 2016	y/y	H1 2016 cs	Delta	FY16	FY16 cs
Cimzia	490	602	22,9%	583	3,3%		
Vimpat	323	379	17,3%	391	-3,1%		
Neupro	129	143	10,9%	145	-1,4%		
Total CVN	942	1124	19,3%	1119	0,4%		
Keppra	385	354	-8,1%	349	1,4%		
Revenue	1917	2019	5,3%	2018	0,0%	4000-4100	4123
Rec. EBITDA	464	549	18,3%	513	7,0%	970-1010	989
Margin %	24,2%	27,2%		25,4%			24,0%
Core EPS	1,18	1,72	45,8%	1,56	10,3%	2,90-3,20	3,01

Source : Company Data; Ellinghorst IR.

ANALYSIS

- Revenues rose 5% CER in H1 2016 driven by CVN sales, which now account for 56% of revenues vs. 49% in H1 2015 up 19.3% YoY. Cimzia sales increased 24% CER (23% reported, 30% of UCB's revenues) reflecting broader use of the product, which now benefits from five indications both in the US and in Europe. Europe was the main contributor to growth with sales up 25% CER. Total Vimpat sales rose 18% CER to EUR379m (18% reported; 18% of UCB revenues). The US remains the main market for the drug (75% of sales) and benefited from an 18% CER increase in the country. Going forward, we would expect Vimpat's ramp-up in Japan to boost the product's sales (commercialisation by partner Daiichi Sankyo) following approval in the country in early July 2016. Neupro sales increased 12% CER (11% reported; 7% of UCB's revenues). Note that sales from the neurology franchise recorded the first sales of BRIVIACT in epilepsy (EUR7m vs consensus EUR8m). Keppra sales decreased 7% CER as H1 2015 sales offered a challenging comparison basis with a stocking effect from distributors that did not reoccur. Royalty income and Other revenues had a negative impact on sales.
- Looking at profitability, gross margin improved (product mix). Significant decrease in G&A expenses of -12% and a -3% drop in R&D expenses with two romosozumab's phase III trial, which ended in Q1 enabled the group to report a 27.2% recEBITDA margin (EUR549m). This compares to 24.2% YoY and consensus expectations of 25.4% margin. A lower than expected tax rate further benefited net profit and EPS, the latter standing at EUR1.72/share, 10% ahead of consensus.
- This good set of results should positively impact share price today. Turning to H2 2016, 1) the expected outcome of the patent judge on Vimpat, 2) concerns regarding mixed safety results of romosozumab and 3) weak pipeline newsflow are not likely to benefit to the share price in our view. R&D expenses should rebound with Bimekizumab phase IIb trial to be initiated.

VALUATION

- We reiterate our NEUTRAL recommendation.
- UCB reiterates its FY 2016 guidance: Sales EUR4.0-4.1bn vs BGe EUR4.1bn, recEBITDA EUR970-1,010m vs. BGe, EPS EUR2.9-3.2/share vs. BGe EUR3.13/share.

NEXT CATALYSTS

- Today 8.00am EDT/2.00pm CET: Conference call on HY2015 results (FR +33 1 72 04 00 33, UK +44 20 77 50 99 26, US +1 866 676 58 66; PIN 13465364#)

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