

31st August 2016

Healthcare

Novartis

Price CHF78.10

Sandoz's biosimilar drug to Amgen's Enbrel approved in the US

Fair Value CHF87 (+11%)

NEUTRAL

Bloomberg	NOVN.VX
Reuters	NOVN.VX
12-month High / Low (CHF)	94.8 / 68.5
Market Cap (CHFm)	205,178
Avg. 6m daily volume (000)	4 876

	1 M	3 M	6 M	31/12/15
Absolute perf.	-2.7%	-1.8%	9.0%	-10.0%
Healthcare	-4.7%	-2.2%	3.0%	-7.7%
DJ Stoxx 600	0.8%	-1.5%	3.2%	-5.8%

	2015	2016e	2017e	2018e
P/E	15.9x	16.6x	15.2x	13.6x
Div yield (%)	3.5%	3.8%	3.3%	3.7%

ANALYSIS

- Sandoz received very good news from the FDA yesterday when it saw its version and first-of-its-kind biosimilar of Amgen's etanercept (Enbrel) approved by the agency (as Erelzi) in all targeted indications in rheumatology and in dermatology (RA, PsA, psoriasis etc...). It has been approved as a non-interchangeable product however but which was highly expected considering the pathway in place to approve biosimilars in the US.
- Sandoz will be first to compete against Enbrel, after a few biosimilars already attacked one its peers i.e. the other anti-TNF drug infliximab (Remicade). Recently, Sandoz showed examples of pricing for this biosimilar in various markets, suggesting it would price Enbrel's copy in a similar way i.e. with a circa 20% discount. Enbrel achieved USD1.4bn in sales in Q2 2016 which makes it almost a USD6bn drug in the US only for Amgen.

VALUATION

- Should a 20% discount be applied on prices, the net market value of etanercept in the US is likely to be somewhere between USD4bn and USD5bn and it is fair to assume that Sandoz can take a 20% of it. It is uncertain whether Novartis Pharma will play a role on the marketing and commercial side with Erelzi (it is in charge of its manufacturing) but there might be some synergies with Cosentyx as the targeted physicians are identical. Those who might not be convinced by the value of the anti-IL17 could be offered biosimilar Enbrel.
- Anyway, this opportunity for Sandoz might be somewhere around USD1bn i.e. a sizeable one considering that Sandoz in totality is around USD10bn. Together with other like peg-filgrastim, adalimumab or rituximab, this should significantly expand Co.'s biosimilar portfolio with a very likely meaningful positive impact on margins for Sandoz, not necessarily reflected in the consensus.
- After the positive news from BAF312 in SPMS and before phase III data of LEE011 are presented at ESMO in October, this approval is another positive for Novartis, which might recover progressively. Only speculation around a major acquisition could play in the other direction.

NEXT CATALYSTS

- 7-11 October 2016: ESMO congress in Copenhagen (LEE011 phase III to be presented)

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Distribution of stock ratings

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NEUTRAL ratings 0%

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