

8th August 2016

Healthcare

Novo Nordisk

Price DKK330.00

Pricing at the heart of discussions during conference call

Fair Value DKK385 vs. DKK400 (+17%)

NEUTRAL

Bloomberg	NOVOB DC
Reuters	NOVOB.CO
12-month High / Low (DKK)	404.2 / 306.4
Market Cap (DKK)	664,146
Avg. 6m daily volume (000)	2 660

	1 M	3 M	6 M	31/12/15
Absolute perf.	-9.9%	-5.6%	0.3%	-17.5%
Healthcare	1.5%	9.6%	10.2%	-4.0%
DJ Stoxx 600	5.3%	2.6%	4.7%	-6.7%

	2015	2016e	2017e	2018e
P/E	24.3x	21.1x	19.5x	18.6x
Div yield (%)	1.9%	2.1%	2.3%	2.4%

ANALYSIS

- The Novo-Nordisk share was sent tumbling by close to 10% last Friday after the publication of disappointing sales figures for the second-quarter and cautious comments about intensifying competition and increased price pressure. In addition, the first discussions with health insurers suggest a low to mid-single digit price decline for 2017 compared with 2016. Considering that Novo-Nordisk took a scenario of flat prices for its mid-term targets, the question was asked about their sustainability. The group believes this is balanced by stronger-than-expected labels given the positive outcome of trials with several drugs.
- However, the overall sentiment is that diabetes provides mixed pictures for industry players. Indeed, momentum remains robust in volume growth and for highly innovative groups like Novo-Nordisk, mix effects are positive, but price pressure is also strong. And with decisions like CVS's to delist Toujeo together with Lantus when biosimilar glargine comes in, there is fear that payers can go beyond expectations. Simultaneously, outside the US, even though prices are lower, there is still reluctance to pay for GLP1 analogues or for combinations like Xultophy (removed from the German market after year one). So the level of disruption introduced by Basaglar or other upcoming biosimilars is not yet fully clear and Novo-Nordisk says it can be 2-3% but also 5-6% in 2017.
- When adding that BioPharmaceuticals should either be neutral or a small drag to the group over 2016-2019 (generic Vagifem, price pressure on NordiTropin, competition on NovoSeven), this puts a lot of pressure on new diabetes drugs to drive top-line growth at least in the high-single digit range in order to keep Novo-Nordisk in a high-premium category.

VALUATION

- We have slightly adjusted top-line growth rate to factor in a slowdown in US NovoLog, NovoLog Mix and NovoSeven trends. This was somewhat offset by lower-than-expected growth in operating expenses in reported terms (i.e. greater positive impact from currencies). Hence our new FV.

NEXT CATALYSTS

- 16 September 2016: EASD Investor presentation

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SELL ratings 10,7%

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