

Novo Nordisk

Price DKK367.00

Revised guidance reflects increasing price pressure and intensifying competition

Fair Value DKK400 (+9%)

NEUTRAL

Bloomberg	NOVOB.DC
Reuters	NOVOB.CO
12-month High / Low (DKK)	410.7 / 306.4
Market Cap (DKKm)	738,611
Ev (BG Estimates) (DKKm)	713,460
Avg. 6m daily volume (000)	2 577
3y EPS CAGR	8.9%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-0.2%	5.0%	10.4%	-8.2%
Healthcare	1.0%	10.0%	9.3%	-3.8%
DJ Stoxx 600	2.4%	1.8%	2.8%	-7.6%

YEnd Dec. (DKKm)	2015	2016e	2017e	2018e
Sales	107,927	115,283	120,757	124,474
% change		6.8%	4.7%	3.1%
EBITDA	52,403	53,251	56,643	59,252
EBIT	49,444	49,451	52,843	55,452
% change		0.0%	6.9%	4.9%
Net income	34,860	38,040	41,035	43,412
% change		9.1%	7.9%	5.8%

	2015	2016e	2017e	2018e
Operating margin	45.8	42.9	43.8	44.5
Net margin	32.3	33.0	34.0	34.9
ROE	74.2	69.7	52.6	42.4
ROCE	82.0	77.4	97.7	78.4
Gearing	-41.9	-46.1	-57.6	-66.0

(DKK)	2015	2016e	2017e	2018e
EPS	13.56	15.19	16.55	17.51
% change	-	12.0%	9.0%	5.8%
P/E	27.1x	24.2x	22.2x	21.0x
FCF yield (%)	3.5%	3.9%	4.1%	4.6%
Dividends (DKK)	6.40	6.83	7.45	7.88
Div yield (%)	1.7%	1.9%	2.0%	2.1%
EV/Sales	6.7x	6.2x	5.7x	5.4x
EV/EBITDA	13.7x	13.4x	12.2x	11.3x
EV/EBIT	14.5x	14.4x	13.1x	12.1x

When was last time Novo-Nordisk revised both sales and operating income growth downwards? This is what the group is doing today for 2016 or more precisely it is narrowing the expected range closer to the bottom part of it in both cases. Sales are now expected to grow 5-7% (vs 5-9%) and EBIT 5-8% (vs 5-9%). With currencies having negative impacts respectively by 2 and 3pp on sales and EBIT, they should achieve levels that are now below consensus estimates for sales and in-line for EBIT. The group is globally giving sense of increased feel of price pressure and fierce competition. We keep our NEUTRAL rating on the stock.

ANALYSIS

- Novo-Nordisk today reported Q2 numbers that were a touch short of estimates. Actually top-line is where the difference is with expectations since it came almost DKK1bn below consensus figures.
- The difference was spread across different drugs including NovoRapid (down 3%, with mention of a NovoLog contract loss in the US that was already mentioned in Q1 – refers to United Healthcare – but had actually a bigger-than-anticipated impact, the decline was 10% in the quarter in the US), NovoMix (down 1% but here also heavily impacted by the US where the drug was down 28%, company mentioning price cuts and segment overall decline) and Haemophilia, down 1% but 10% in the US, driven by lower NovoSeven sales. Here the group says that it experiments tougher competition from both Feiba and from drugs currently in development trials (less patients available for NovoSeven).
- Same factors led Novo-Nordisk narrow the range of sales growth for the year closer to the bottom part of the previous one (NovoLog contract loss impact and NovoSeven mainly), adding macroeconomic conditions in some International regions and generic competition in HRT.
- Novo-Nordisk is also making a first comment about price negotiations with payers about formulary positions for 2017 and anticipate average net prices to be “moderately lower compared to 2016”. This includes the two recently published exclusion lists from ESI and CVS. Actually Novo’s drugs were already excluded from ESI and so there is no change here. As long as CVS, the impact is mainly on Sanofi but interestingly, what Novo suggests is that Lantus will be globally excluded from CVS formularies in 2017 i.e. not only the pen formulation and so as Basaglar is only available in pens, Levemir might become the one option for patients that use vials.
- Moving to operating profits, we note an operating cost base that was well under control in Q2 with commercial and R&D expenses growing only 5-6% excluding currencies, with favourable currency impacts coming on top. In the end, the miss in sales growth is offset by this lower cost base so that operating income is almost in line with expectations and core EPS fully in line.
- There are two last elements in the press release that we would point: (i) in the R&D update section, two projects are discontinued, one being an oral insulin as selection favours OI338GT over OI320GT. The other is the GLP-1/GIP dual-agonist NN9709 that met its primary endpoint in trial but actually had results almost on par with semaglutide and therefore did not deserve further investments. It is also worth noting that Novo-Nordisk has decided to initiate a head-to-head phase III trial to compare Tresiba to Toujeo in T2D in 2017. (ii) FCF for the year has been revised upwards at the opposite of the other changes but this is because Novo-Nordisk anticipates one-offs related to tax settlements of about DKK3bn.

VALUATION

- What Novo-Nordisk already describes should not improve if basal/GLP1 combo class opens new war against Sanofi and if ACE910 reaches the market. Short-term, we expect some minor adjustment to consensus numbers. We were already at the bottom-end of it.

NEXT CATALYSTS

- Today 1pm: Conference Call

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