14th September 2016

Healthcare

Ablynx

Price EUR11.23

Feedback from roadshow with CEO

Fair Value EUR18 (+60%) **BUY**

Bloomberg	ABLX BB
Reuters	ABLX.BR
12-month High / Low (EUR)	16.1 / 10.4
Market Cap (EUR)	684
Ev (BG Estimates) (EUR)	836
Avg. 6m daily volume (000)	183.2
3y EPS CAGR	15.0%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-1.5%	-5.7%	-6.9%	-29.4%
Healthcare	-3.7%	1.5%	1.5%	-9.3%
DJ Stoxx 600	-2.1%	3.6%	-1.0%	-7.4%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	77.5	81.6	39.6	54.2
% change		*5.2%*	*-51.4%*	*36.7%*
EBITDA	-15.6	-21.9	-64.3	-44.4
EBIT	-17.0	-23.3	-65.0	-45.4
% change		*-37.6%*	*NS*	*30.2%*
Net income	-54.5	-60.9	-102.6	-83.0
% change		*-11.7%*	*-68.4%*	*19.1%*

	2015	2016e	2017e	2018e
Operating margin	-21.9	-28.6	-164.1	-83.8
Net margin	-70.3	-74.7	-258.9	-153.1
ROE	-195.4	184.5	75.7	38.0
ROCE	NM	NM	NM	NM
Gearing	NM	NM	NM	NM

(EUR)	2015	2016e	2017e	2018e
EPS	-1.01	-1.13	-1.90	-1.53
% change	-	*-11.7%*	*-68.4%*	*19.1%*
P/E	NS	NS	NS	NS
FCF yield (%)	NM	NM	NM	NM
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	7.7x	10.2x	20.9x	15.3x
EV/EBITDA	NS	NS	NS	NS
EV/EBIT	NS	NS	NS	NS

We remain positive on Ablynx and reiterate our favoured scenario of ABBV's opt-in by year-end. Almost all data from phase IIb program should be transferred by the end of September, enabling ABBV to take a decision by year-end. In an effort to achieve maximum transparency, the CEO shared his strategy upon opt-out which could move the game-up in the RA space in our view.

ANALYSIS

- Following the roadshow with CEO, Edwin Moses, we reiterate our confidence on the best-in-class profile of vobarilizumab (efficacy/safety/administration). AbbVie should have almost all of the data package by the end of September 2016 which should enable the partner to take a decision on whether or not it will in-license vobarilizumab by year-end. An opt-in which would trigger a USD75m milestone payment remains our favoured scenario. We would recall that this summer, AbbVie discontinued ABT-122, its bi-specific IL-17/anti-TNF which was the only "in-house competitor" to vobarilizumab, in our view. In an opt-in scenario and in order to further differentiate vobarilizumab and widen the gap with other IL-6, one should not forget that Ablynx' IL-6R is a Nanobody. Hence, we do not rule out that this should be emphasised by the potential future partner to position the product as a breakthrough drug instead of an IL-6R.

- The other scenario, although unlikely in our view, is an opt-out. Should it materialize, we would expect the partner's communication to be somewhat smoother than what we saw last year with GLPG, considering the introduction of interactions in between Ablynx's management and AbbVie's board. Beyond that topic on which we have little visibility, we welcomed Edwin Moses' comments on the company's strategy upon an opt-out. Ablynx would then conduct the end-of-phase II meeting with the FDA on its own and initiate the phase III trial on a standalone basis. Regarding the design of the phase III and keeping in mind the goal of "re-"attracting a commercial partner, the CEO mentioned his ambition to 1/ favour the DAS28 remission score as a primary endpoint and include H2H comparision with Actemra and Humira. While we believe that this could help to move the game-up in the RA space (see phase IIb results here), it worth noting that the ACR score is still the preferred way to look at RA compound in the US (vs. DAS28 in European guidelines). Hence, the end-of-phase II meeting with the FDA would be crucial. Note that upon an opt-in decision, AbbVie is likely to favour ACR as a primary endpoint to maintain a continuity with its JAK inhibitor phase III program. Moreover. Such trial would come at a cost of EUR200-250m which could be viewed as low. However, it could be enabled by a reduced number of patients to be enrolled. Indeed DAS28 is a more stringent criteria than the ACR20 (reduction of background noise).

- The Merck&Co partnership is the most promising in our view and mobilizes around one-fourth of the biotech discovery people (40FTEs, funded by Merck&Co). We believe that Ablynx' Nanobody platform might be key in helping the US Pharma to prepare for the after Keytruda. Several combination projects are underway (up to pentaspecific) and preclinical activities should intensify in the upcoming months with the first INDs expected towards late 2016/early2017.

- RSV phase II trial preparation are ongoing with first patient in expected in late 2016. The conservative 18 months recruitment period set by the company has been prompted by the high number of patients expected to be screened but not included (no flu concomitant to RSV as well as symptoms for less than three days). Results are expected in H2 2018. In the longer run, CEO sees application in COPD and other segments of the RSV market (elderly and at-home setting). Turning to Capalacizumab's phase III trial, recall that the recruitment target has been increased by 40% (from 92 to 132 patients) and that the the data are still expected to be reported in late 2017. Recruitment is key and well on track as recruitment target for the year has already been achieved helped by increased contacts with KOL and the introduction of consent forms.

VALUATION

- We reiterate our BUY rating. ABLYNX is in our Q3 Top-Picks list.

- Current share price of EUR11.2 only takes into account Caplacizumab (EUR8/share) RSV-program (EUR1/share) and cash (EUR3) leaving vobarilizumab (EUR6) and AbbVie's opt-in as a free option.

NEXT CATALYSTS

- H2 2016: AbbVie's decision on whether it will opt-in for vobarilizumab.

- Nov 14th&15th : ABLYNX to attend BG&Co Healthcare conference

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Analyst :
Hugo Solvet
33(0) 1 56 68 75 57
hsolvet@bryangarnier.com

Sector Team :
Mickael Chane Du
Eric Le Berrigaud

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London
Beaufort House
15 St. Botolph Street
London EC3A 7BB
Tel: +44 (0) 207 332 2500
Fax: +44 (0) 207 332 2559
Authorised and regulated by the Financial Conduct Authority (FCA)

Paris
26 Avenue des Champs Elysées
75008 Paris
Tel: +33 (0) 1 56 68 75 00
Fax: +33 (0) 1 56 68 75 01
Regulated by the Financial Conduct Authority (FCA) and the Autorité de Contrôle prudential et de resolution (ACPR)

New York
750 Lexington Avenue
New York, NY 10022
Tel: +1 (0) 212 337 7000
Fax: +1 (0) 212 337 7002
FINRA and SIPC member

Munich
Widenmayerstrasse 29
80538 Munich
Germany
+49 89 2422 62 11

New Delhi
The Imperial Hotel Janpath
New Delhi 110 001
Tel +91 11 4132 6062
+91 98 1111 5119
Fax +91 11 2621 9062

Geneva
rue de Grenus 7
CP 2113
Genève 1, CH 1211
Tel +4122 731 3263
Fax+4122731 3243
Regulated by the FINMA

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