

Sector View

Healthcare

Top Picks Q4, favouring Medtech and Specialty ahead of US presidential elections

	1 M	3 M	6 M	31/12/15
Healthcare	0.8%	1.6%	6.4%	-7.5%
DJ Stoxx 600	-0.3%	8.2%	2.2%	-6.4%

*Stoxx Sector Indices

Companies covered

ABLYNX	BUY	EUR18
Last Price	EUR11.45	Market Cap. EUR697m
ACTELION	NEUTRAL	CHF180
Last Price	CHF169.9	Market Cap. CHF18,309m
ADOCIA	BUY	EUR90
Last Price	EUR50	Market Cap. EUR342m
ASTRAZENECA	BUY	5400p
Last Price	5122p	Market Cap. GBP64,792m
BAYER	NEUTRAL	EUR98
Last Price	EUR89.26	Market Cap. EUR73,813m
BIOMERIEUX	NEUTRAL	EUR130
Last Price	EUR135.7	Market Cap. EUR5,354m
BONE THERAPEUTICS	BUY	EUR30
Last Price	EUR11.54	Market Cap. EUR79m
CELLECTIS	BUY	EUR37
Last Price	EUR21.87	Market Cap. EUR773m
CELYAD	NEUTRAL	EUR21
Last Price	EUR19	Market Cap. EUR177m
DBV TECHNOLOGIES	BUY	EUR91
Last Price	EUR66.68	Market Cap. EUR1,607m
ERYTECH	BUY	EUR47
Last Price	EUR19.1	Market Cap. EUR152m
FRESENIUS MED.CARE	BUY	EUR94
Last Price	EUR78.16	Market Cap. EUR24,313m
FRESENIUS SE	BUY	EUR78
Last Price	EUR71.35	Market Cap. EUR38,982m
GALAPAGOS	BUY	EUR64
Last Price	EUR57.95	Market Cap. EUR2,676m
GENEURO	BUY	EUR18.2
Last Price	EUR7.44	Market Cap. EUR109m
GENMAB	BUY	DKK1600
Last Price	DKK1142	Market Cap. DKK68,728m
GLAXOSMITHKLINE	BUY	1810p
Last Price	1655p	Market Cap. GBP80,690m
INNATE PHARMA	BUY	EUR18
Last Price	EUR10.95	Market Cap. EUR590m
IPSEN	BUY	EUR67 vs. 66
Last Price	EUR61.68	Market Cap. EUR5,136m
KORIAN	NEUTRAL	EUR28
Last Price	EUR29.41	Market Cap. EUR2,358m
MORPHOSYS	BUY	EUR62
Last Price	EUR36.07	Market Cap. EUR957m
NOVARTIS	NEUTRAL	CHF87
Last Price	CHF78.55	Market Cap. CHF206,360m
NOVO NORDISK	NEUTRAL	DKK360
Last Price	DKK290	Market Cap. DKK583,644m

LOOKING BACK ON Q3 2016

After the rally that followed the Brexit vote at the end of Q2 2016, the STOXX Healthcare paused for breath in July to end Q3 down -2.44%, underperforming the STOXX EUROPE 600 (up +3.85% over the period) by over 600bp. Two major events/trends were at the root of this poor performance. Firstly, the forthcoming US elections alongside statements on drug pricing from both parties, muted the overall sector performance. Secondly we saw large US Pharmacy Benefit Managers excluding drugs to favour cheaper alternatives which put further pressure on large cap pharma, starting with companies involved in the diabetes field (Novo Nordisk -19.2% and Sanofi -8.8%).

As Q3 2016 was quite hard to predict following the Brexit vote and ahead of a potential shake-up in the US, we decided to include three companies in our Q3 top pick list that 1/ benefit from good momentum and 2/ have limited binary events over the period, namely Shire, Ipsen and Fresenius SE, which outperformed the STOXX Healthcare by 8.8%, 14.4% and 11.1% respectively and the STOXX EUROPE 600 by 2.2%, 7.2% and 4.4% respectively (performances reported in EUR terms). We also decided to play the outcome of Ablynx' phase IIb results for vobarilizumab in RA. While these results position the drug as a best-in-class IL-6R in our view, the Street is waiting for AbbVie's opt-in decision which is expected sometimes in Q4 and is likely to mute the share price performance until then.

To note also in our coverage universe Bayer's sweetened bid for Monsanto at EUR128/share (total deal of USD66bn) which has been approved by the two Boards. While the combination of the two companies is expected to create a leader in the Crop Science field, we still see hurdles ahead such as an increased regulatory scrutiny, the need to divest some assets to finance the deal or some misunderstanding with regards to the shift in strategy (weakened pharma division despite optimistic long-term targets).

WHAT WE SEE FOR Q4 2016

Turning to Q4, the quarter should be divided into two halves with the inflexion point being the US presidential elections on 8th November. Before the election day, we would expect large cap pharma stocks to be under pressure. Indeed, both candidates have been vocal about their ambition to either cap drug price hikes or give the opportunity to Medicare to negotiate higher rebates. Moreover, with the intensity of the campaign increasing, such topics might return to the front stage in coming weeks. If the Democrats' candidate is elected, we would anticipate a period of uncertainty, to be exacerbated on large cap pharmaceutical stocks. Note that this might also mute the performance of biotech companies. Should the balance weigh in favour of the Republicans, we would expect the party line to be toed with no significant shift and hence, do not rule out a rally in the pharmaceutical sector as freedom to operate for the healthcare industry will remain a dogma and limit the influence of a reform.

As far as the beginning of Q4 is concerned, we have decided not to include any large cap pharma or biotech stocks in our Top Pick list. Entering the quarter, we would favour Medtech and Specialty pharma stocks. Medtechs because we believe they offer more visibility in the current environment of market turmoil and for some of them, harbour a strong newsflow in Q4; Specialty pharma because their growth profile and pipeline mainly focused on innovative drugs should keep them away from background noise around reimbursement concerns. The transformative nature of their business should more than overcome the tough conditions in the healthcare industry.

CONCLUSIONS AND TOP PICKS

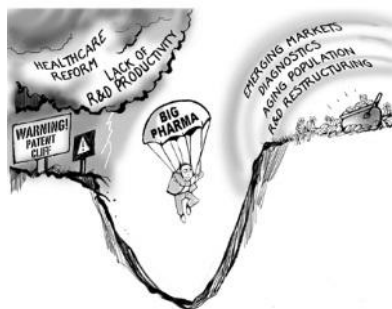
As such, we are maintaining our exposure to the Healthcare sector unchanged and maintain four names in our list for the coming quarter. Three of these are left unchanged, namely Fresenius SE, Ipsen and Shire which are still in our top pick list for Q4 whereas QIAGEN jumps in to the expense of Ablynx.

ORPEA	BUY	EUR85
Last Price	EUR80.52	Market Cap. EUR4,836m
QIAGEN	BUY	EUR26
Last Price	EUR24.1	Market Cap. EUR5,777m
ROCHE HOLDING	BUY	CHF293
Last Price	CHF244.6	Market Cap. CHF171,847m
SANOFI	NEUTRAL	EUR83
Last Price	EUR68.32	Market Cap. EUR88,067m
SHIRE PLC	BUY	6900p
Last Price	5108p	Market Cap. GBP46,075m
UCB	NEUTRAL	EUR80
Last Price	EUR70.4	Market Cap. EUR13,693m
ZEALAND	BUY	DKK172
Last Price	DKK105	Market Cap. DKK2,582m

IPSEN (BUY – Fair Value EUR67 from EUR66) has already performed well during Q3 on the back of another strong quarter characterised by a strong and resilient performance by Somatuline, an upgrade in guidance for specialty care growth in 2016 and the CHMP positive opinion and then final EU approval for Cabometyx in 2L renal cell carcinoma. To some extent also, the announcement of the arrival of David Meek as new CEO from Baxalta was welcome and first feedbacks from his first meetings with investors look positive.

On the back of this, we see another strong quarter ahead with almost the same recipe: a strong quarter driven by Somatuline (we have notched up our forecast for the full-year from 27% to 30% growth for the product and also the subsequent years) and a positive news flow around Cabometyx starting with the presentation of a lot of clinical stuff at the ESMO congress in Copenhagen (including the highly-awaited CABOSUN phase II data in 1L RCC on 8th October) but also with the first meaningful launches in Europe, including Germany and the UK. Because it is our understanding that it has been David Meek's priority since his arrival at Ipsen, another move in the field of BD cannot be ruled out. The Board gave the Executive Committee some freedom to operate and we would be curious to see what can be done to leverage some of the existing infrastructures in endocrinology and in oncology.

For those reasons, we see opportunities to adjust our FV upwards in the coming weeks and months. Hence the limited upside to the FV today does not prevent a presence of Ipsen in the list for Q4.



SHIRE (BUY – Fair Value GBP6,900). We still believe SHP offers an attractive risk-reward despite the recent rally as the stock is trading at a c.20% discount vs its European peers based on our P/E 2017e (and even c.45% vs CSL). We expect the upcoming Capital Market Day (10th November) to reassure the street regarding the resilience of the Haemophilia franchise (e.g. with a deep-dive on some early-stage candidates like BAX826). Lifitegrast is also likely to be a strong catalyst as we believe the next weekly/monthly figures will confirm a strong uptake in the US. This will be of importance as we see "lifi" as the most significant buffer along with DX2930 against a declining Feiba by 2018e.

FRESENIUS SE (BUY – Fair Value EUR78). The company recently acquired Quironsalud and reinforced its hospital business (HELIOS), thereby bringing stability and visibility to both sales and earnings at a time when visibility at KABI could be seen as decreasing due to an easing of the IV generic drug shortage situation in the US.

Regarding the Quironsalud acquisition, we believe that sales growth rate in the highly attractive Spanish hospital market could help the Spanish business deliver above 5% CER growth rate guidance and that targeted synergies from the integration could top the EUR50m announced.

Turning to KABI, we would remind that management has a track record in targeting key IV generic drug which should help maintaining high profitability, as highlighted by the recent launch of daptomycin (generic of Cubicin) which is likely to grab a significant share of this USD1bn market over the coming weeks.

QIAGEN (BUY – Fair Value EUR26). After a difficult start to the year, QIAGEN's management delivered well in Q2 and QIAGEN shares started to regain investor interest. On top of a good momentum for the Medtech sector in Q4, we identify several catalysts that are likely to drive the share price over the quarter.

Qiagen should roll-out several products in Life Science and help the business end the year in the high single-digit growth rate. An investor day on 15th November should offer an in-depth review of the company's strongest growth driver, the GeneReader, as well as its innovative reimbursement. Note that this event should also be the occasion for the company to update on its R&D activities and mainly where it stands on the upgrade of the GeneReader as one sequencing step it includes might be infringing one of Illumina's patents. Moreover, we do not rule out that long term guidance might be updated, which should offer the consensus the opportunity to reassess QIAGEN's growth prospects which we believe are undervalued.

[Click here to download](#)



E. LE BERRIGAUD
01 56 68 75 61
eleberrigaud@bryangarnier.com



H. SOLVET
01 56 68 75 57
hsolvet@bryangarnier.com



M. CHANE DU
01 70 36 57 45
mchanedu@bryangarnier.com

Bryan Garnier stock rating system

For the purposes of this Report, the Bryan Garnier stock rating system is defined as follows:

Stock rating

BUY	Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
NEUTRAL	Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
SELL	Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

Distribution of stock ratings

BUY ratings 55.8%

NEUTRAL ratings 32.5%

SELL ratings 11.7%

Research Disclosure Legend

1	Bryan Garnier shareholding in Issuer	Bryan Garnier & Co Limited or another company in its group (together, the "Bryan Garnier Group") has a shareholding that, individually or combined, exceeds 5% of the paid up and issued share capital of a company that is the subject of this Report (the "Issuer").	No
2	Issuer shareholding in Bryan Garnier	The Issuer has a shareholding that exceeds 5% of the paid up and issued share capital of one or more members of the Bryan Garnier Group.	No
3	Financial interest	A member of the Bryan Garnier Group holds one or more financial interests in relation to the Issuer which are significant in relation to this report	No
4	Market maker or liquidity provider	A member of the Bryan Garnier Group is a market maker or liquidity provider in the securities of the Issuer or in any related derivatives.	No
5	Lead/co-lead manager	In the past twelve months, a member of the Bryan Garnier Group has been lead manager or co-lead manager of one or more publicly disclosed offers of securities of the Issuer or in any related derivatives.	No
6	Investment banking agreement	A member of the Bryan Garnier Group is or has in the past twelve months been party to an agreement with the Issuer relating to the provision of investment banking services, or has in that period received payment or been promised payment in respect of such services.	No
7	Research agreement	A member of the Bryan Garnier Group is party to an agreement with the Issuer relating to the production of this Report.	No
8	Analyst receipt or purchase of shares in Issuer	The investment analyst or another person involved in the preparation of this Report has received or purchased shares of the Issuer prior to a public offering of those shares.	No
9	Remuneration of analyst	The remuneration of the investment analyst or other persons involved in the preparation of this Report is tied to investment banking transactions performed by the Bryan Garnier Group.	No
10	Corporate finance client	In the past twelve months a member of the Bryan Garnier Group has been remunerated for providing corporate finance services to the issuer or may expect to receive or intend to seek remuneration for corporate finance services from the Issuer in the next six months.	No
11	Analyst has short position	The investment analyst or another person involved in the preparation of this Report has a short position in the securities or derivatives of the Issuer.	No
12	Analyst has long position	The investment analyst or another person involved in the preparation of this Report has a long position in the securities or derivatives of the Issuer.	No
13	Bryan Garnier executive is an officer	A partner, director, officer, employee or agent of the Bryan Garnier Group, or a member of such person's household, is a partner, director, officer or an employee of, or adviser to, the Issuer or one of its parents or subsidiaries. The name of such person or persons is disclosed above.	No
14	Analyst disclosure	The analyst hereby certifies that neither the views expressed in the research, nor the timing of the publication of the research has been influenced by any knowledge of clients positions and that the views expressed in the report accurately reflect his/her personal views about the investment and issuer to which the report relates and that no part of his/her remuneration was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.	Yes
15	Other disclosures	Other specific disclosures: Report sent to Issuer to verify factual accuracy (with the recommendation/rating, price target/spread and summary of conclusions removed).	No

A copy of the Bryan Garnier & Co Limited conflicts policy in relation to the production of research is available at www.bryangarnier.com

London	Paris	New York	Munich	New Delhi
Beaufort House	26 Avenue des Champs Elysées	750 Lexington Avenue	Widenmayerstrasse 29	The Imperial Hotel Janpath
15 St. Botolph Street	75008 Paris	New York, NY 10022	80538 Munich	New Delhi 110 001
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Germany	Tel +91 11 4132 6062
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	+49 89 2422 62 11	+91 98 1111 5119
Fax: +44 (0) 207 332 2559	Regulated by the	FINRA and SIPC member		Fax +91 11 2621 9062
Authorised and regulated by the	Financial Conduct Authority (FCA) and the			Geneva
Financial Conduct Authority (FCA)	Autorité de Contrôle prudentiel et de			rue de Grenus 7
	resolution (ACPR)			CP 2113
				Genève 1, CH 1211
				Tel +4122 731 3263
				Fax+4122731 3243
				Regulated by the FINMA

Important information

This document is classified under the FCA Handbook as being investment research (independent research). Bryan Garnier & Co Limited has in place the measures and arrangements required for investment research as set out in the FCA's Conduct of Business Sourcebook.

This report is prepared by Bryan Garnier & Co Limited, registered in England Number 03034095 and its MIFID branch registered in France Number 452 605 512. Bryan Garnier & Co Limited is authorised and regulated by the Financial Conduct Authority (Firm Reference Number 178733) and is a member of the London Stock Exchange. Registered address: Beaufort House 15 St. Botolph Street, London EC3A 7BB, United Kingdom

This Report is provided for information purposes only and does not constitute an offer, or a solicitation of an offer, to buy or sell relevant securities, including securities mentioned in this Report and options, warrants or rights to or interests in any such securities. This Report is for general circulation to clients of the Firm and as such is not, and should not be construed as, investment advice or a personal recommendation. No account is taken of the investment objectives, financial situation or particular needs of any person.

The information and opinions contained in this Report have been compiled from and are based upon generally available information which the Firm believes to be reliable but the accuracy of which cannot be guaranteed. All components and estimates given are statements of the Firm, or an associated company's, opinion only and no express representation or warranty is given or should be implied from such statements. All opinions expressed in this Report are subject to change without notice. To the fullest extent permitted by law neither the Firm nor any associated company accept any liability whatsoever for any direct or consequential loss arising from the use of this Report. Information may be available to the Firm and/or associated companies which are not reflected in this Report. The Firm or an associated company may have a consulting relationship with a company which is the subject of this Report.

This Report may not be reproduced, distributed or published by you for any purpose except with the Firm's prior written permission. The Firm reserves all rights in relation to this Report.

Past performance information contained in this Report is not an indication of future performance. The information in this report has not been audited or verified by an independent party and should not be seen as an indication of returns which might be received by investors. Similarly, where projections, forecasts, targeted or illustrative returns or related statements or expressions of opinion are given ("Forward Looking Information") they should not be regarded as a guarantee, prediction or definitive statement of fact or probability. Actual events and circumstances are difficult or impossible to predict and will differ from assumptions. A number of factors, in addition to the risk factors stated in this Report, could cause actual results to differ materially from those in any Forward Looking Information.

Disclosures specific to clients in the United Kingdom

This Report has not been approved by Bryan Garnier & Co Limited for the purposes of section 21 of the Financial Services and Markets Act 2000 because it is being distributed in the United Kingdom only to persons who have been classified by Bryan Garnier & Co Limited as professional clients or eligible counterparties. Any recipient who is not such a person should return the Report to Bryan Garnier & Co Limited immediately and should not rely on it for any purposes whatsoever.

Notice to US investors

This research report (the "Report") was prepared by Bryan Garnier & Co Limited for information purposes only. The Report is intended for distribution in the United States to "Major US Institutional Investors" as defined in SEC Rule 15a-6 and may not be furnished to any other person in the United States. Each Major US Institutional Investor which receives a copy of this Report by its acceptance hereof represents and agrees that it shall not distribute or provide this Report to any other person. Any US person that desires to effect transactions in any security discussed in this Report should call or write to our US affiliated broker, Bryan Garnier Securities, LLC, 750 Lexington Avenue, New York NY 10022. Telephone: 1-212-337-7000.

This Report is based on information obtained from sources that Bryan Garnier & Co Limited believes to be reliable and, to the best of its knowledge, contains no misleading, untrue or false statements but which it has not independently verified. Neither Bryan Garnier & Co Limited and/or Bryan Garnier Securities LLC make no guarantee, representation or warranty as to its accuracy or completeness. Expressions of opinion herein are subject to change without notice. This Report is not an offer to buy or sell any security.

Bryan Garnier Securities, LLC and/or its affiliate, Bryan Garnier & Co Limited may own more than 1% of the securities of the company(ies) which is (are) the subject matter of this Report, may act as a market maker in the securities of the company(ies) discussed herein, may manage or co-manage a public offering of securities for the subject company(ies), may sell such securities to or buy them from customers on a principal basis and may also perform or seek to perform investment banking services for the company(ies).

Bryan Garnier Securities, LLC and/or Bryan Garnier & Co Limited are unaware of any actual, material conflict of interest of the research analyst who prepared this Report and are also not aware that the research analyst knew or had reason to know of any actual, material conflict of interest at the time this Report is distributed or made available.