5th October 2016

Healthcare

Roche

Price CHF241.90

The collection of BTDs continues at Roche

Fair Value CHF293 (+21%) **BUY**

Bloomberg	ROG VX
Reuters	ROG.VX
12-month High / Low (CHF)	279.3 / 233.2
Market Cap (CHFm)	169,950
Avg. 6m daily volume (000)	1 201

	1 M	3 M	6 M	31/12/15
Absolute perf.	-0.4%	-5.4%	2.4%	-12.5%
Healthcare	-1.3%	-4.1%	3.4%	-8.7%
DJ Stoxx 600	-1.2%	4.9%	3.5%	-5.4%

	2015	2016e	2017e	2018e
P/E	17.9x	15.3x	14.6x	14.4x
Div yield (%)	3.3%	3.9%	4.1%	4.2%

ANALYSIS

- Roche announced today that it has received a BTD for Actemra in Giant Cell Arteritis (GCA) for which it had previously reported positive phase III results from the GiACTA study early this year (data are still to be presented at a medical congress). It is difficult to assess with accuracy how many patients do actually suffer from the disease, characterised by an inflammation of arteries, often in the head or the aorta, although it is recognised that a higher incidence is reported in subjects of Northern European descent, hence a higher incidence in Northern Europe, the Northern part of the US or Canada. In countries or regions where it is frequent, the incidence can be somewhere around 25 patients per 100,000 inhabitants. Patients usually respond well to corticosteroid-based therapies although they often develop side effects over time associated with this type of therapy's visual disturbance or diabetes. Actemra has been tested to try to discontinue corticosteroids after six months (period during which they are combined) and to keep Actemra only for another six-month period. This new indication looks nice to have for Actemra and should help the drug stay on a growth trajectory despite upcoming competition in the IL-6 class, starting with Sanofi/Regeneron's sarilumab the approval of which is expected in coming weeks in RA. Note also that GSK/J&J's sirukumab is currently in phase III in GCA, however with no data expected before the end of 2018 at best. Actemra should exceed the CHF1.6bn mark in 2016 and we see it peaking above CHF2bn in the first years of the next decade.
- Since we are discussing the BTD for Actemra in GCA, note also that Roche received another BTD yesterday this time for Alecensa in first-line ALK-positive NSCLC where it demonstrated in the J-ALEX phase III study superiority over current standard-of-care (i.e. Pfizer's Xalkori). Although it is not a major market opportunity since ALK-positive NSCLC represents only 3% of all lung cancers, once it is approved in first-line we expect Alecensa to accelerate in the US (as was already the case in Japan) and to make significant inroads in Europe so that in the end it could reach and maybe slightly exceed the CHF500m mark in a few years, up from only CHF65m in 2014.

VALUATION

- No change to our numbers.
- Roche's stock performance is still highly dependent on the outcome of the APHINITY phase III trial at the turn of the year. However, Roche is accumulating good news from its pipeline (positive results, filings, BTDs, priority reviews, approvals) with little impact on the share price and we wonder whether this could give the market reasons to reassess the case and buy the stock (even in a negative scenario for APHINITY).

NEXT CATALYSTS

- 10th October 2016: Sell-side breakfast at ESMO to discuss OAK data and other oncology topics

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Distribution of stock ratings

BUY ratings 72% NEUTRAL ratings 0% SELL ratings 28%

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