21st October 2016

Healthcare

Ablynx

Price EUR9.50

ABLYNX

Fair Value EUR16 vs. EUR18 (+68%) **BUY**

Bloomberg	ABLX BB
Reuters	ABLX.BR
12-month High / Low (EUR)	16.1 / 9.5
Market Cap (EURm)	579
Ev (BG Estimates) (EURm)	731
Avg. 6m daily volume (000)	198.3
3y EPS CAGR	19.2%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-16.5%	-24.8%	-28.8%	-40.3%
Healthcare	-4.0%	-7.5%	-2.9%	-10.4%
DJ Stoxx 600	1.0%	1.0%	-1.8%	-5.9%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	77.5	81.6	39.6	48.8
% change		*5.2%*	*-51.4%*	*23.3%*
EBITDA	-15.6	-21.9	-72.5	-53.9
EBIT	-17.0	-23.3	-73.2	-54.7
% change		*-37.6%*	*NS*	*25.2%*
Net income	-54.5	-60.9	-110.8	-92.3
% change		*-11.7%*	*-81.8%*	*16.6%*

	2015	2016e	2017e	2018e
Operating margin	-21.9	-28.6	-184.6	-112.1
Net margin	-70.3	-74.7	-279.5	-189.0
ROE	-195.4	184.5	77.0	39.1
ROCE	NM	NM	NM	NM
Gearing	NM	NM	NM	NM

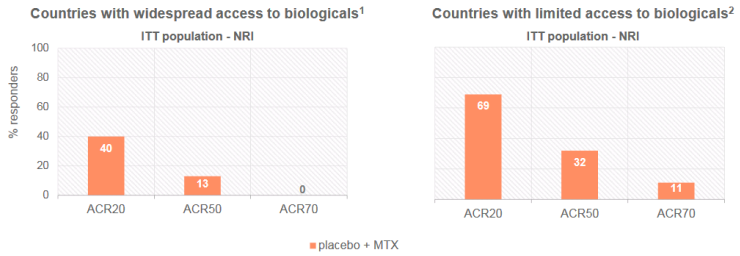
(EUR)	2015	2016e	2017e	2018e
EPS	-1.01	-1.13	-2.05	-1.71
% change	-	*-11.7%*	*-81.8%*	*16.6%*
P/E	NS	NS	NS	NS
FCF yield (%)	NM	NM	NM	NM
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	6.4x	9.0x	18.2x	14.8x
EV/EBITDA	NS	NS	NS	NS
EV/EBIT	NS	NS	NS	NS

Ablynx held a conference call following the opt-out decision from ABBVIE on vobarilizumab IL-6R Nanobody. Looking at detailed data, as the company now has an increased latitude of communication, we believe that 1/ a new partner could be found (BGe 2018) and that 2/ the ability of inking a new deal is not diminished by the ongoing SLE trial, whose indication is still partnered to ABBVIE.

ANALYSIS

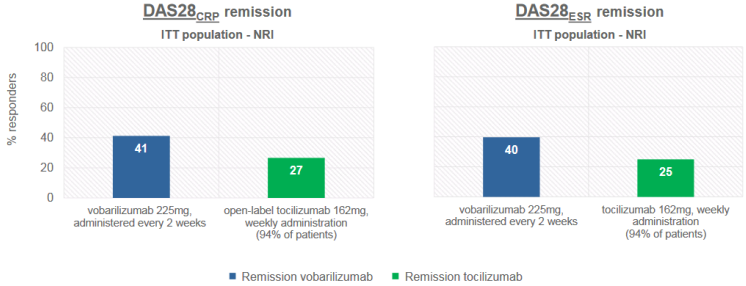
- Looking at data, the localisation of sites clearly played a role on the placebo effect. ACR50 placebo rate is three times higher in countries with limited access to biologics (eastern Europe and LatAm). The forced discontinuation at 12, 16 and 20 weeks in the vobarilizumab+MTX vs. placebo trial as well as the opportunity of participating in open-label extension being the main drivers.

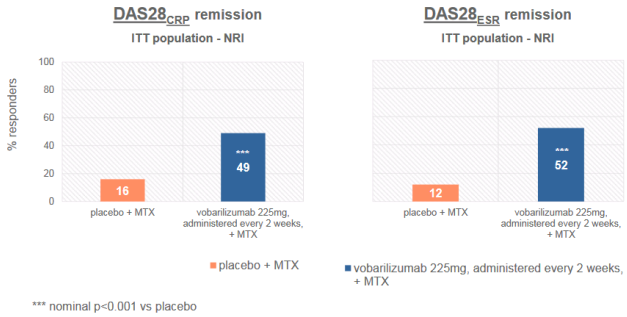
Voba+MTX vs. placebo+MTX phase IIb trial - Placebo+MTX arm ACR20/50/70 scores at 12w



- The emergence of anti-vobarilizumab antibodies in 31% of patients could have prompted ABBVIE to opt-out. However, we would highlight that over the duration of the study, both companies did not record an effect of these “non neutralising” anti-voba antibodies on PK, safety or efficacy. This will certainly be monitored by a potential future partner in a phase III trial, which is likely to ask for longer term data to see if they become neutraliding anti-voba antibodies.
- DAS28 remission rate was the highest we have seen for an anti-IL-6 reinforcing the best in class efficacy profile of the drug. Note that to insist on this aspect of the drug which is key when it comes to prescription and gaining KOL’s traction, analysis of the DAS28 remission rate with the ESR score confirms findings communicated earlier (ie. CRP). As a reminder, ESR (erythrocyte sedimentation rate) is a more stringent criteria as an increase in CRP levels could also be triggered by infection or trauma.

Voba vs. tocilizumab (Top; 12w) and voba+MTX vs placebo (Bottom; 24w)– DAS remission rates





- The group's CEO stated the team has been working on a phase III design for quite some time. However he was not willing to communicate on the latter as the end of phase II meeting has not been held yet. The end of phase II meeting is expected in H1 2017. Note that during the roadshow in Paris, the CEO stated that in order to re-attract a parter should abbvie decids to opt-out, he would 1/ favour DAS remission rate as a primary endpoint and 2/ include H2H arms (adalimumab, tocilizumab?). Should the company decide to move alone for a phase III trial and partner voba afterwards, we believe that 1/ choosing the DAS remission rate could help to further differentiate its product and limit the size of phase II trial but would limit potential partners to new entrants in the RA field; 2/ significant capital would need to be deployed and scientific and regulatory teams would need to be reinforced. We estimate the cost of a global phase III programme at around EUR250-300m, of which EUR100-150m to be financed by ABLYNX should management decide to move alone before finding a new partner. Note that this also raises the issue of opening centers to be able to recruit over 1,000 patients. In all, we are not favouring this scenario but think that a new partner would be found before the initiation of a phase III trial. A co financing/profit sharing deal would be the most likely in our view.
- Note that the Lupus indication, still partnered with ABBV is on track with recruitment to be ended in late 2016/early 2017 and readout expected in H1 2018. ABBV has the right to opt-in for this indication. We would not expect this partnership to have any impact on other discussions.
- The CEO stated that discussions with other partners could be engaged at this time. While further information should be handed to ABBV, Ablynx has all the data in hand at the moment. The biotech is also managing and outsourcing manufacturing and our understanding is that previous discussions with regulatory agencies on the validation of the manufacturing process ahead of phase III should not be an issue.
- Another reason than the clinical package on which we see no particular black spot and that might have prompted ABBV to opt out, is the conflict of interest. Indeed, It would have been costly for AbbVie to initiate a large phase III trial for vobarilizumab in a 1L setting and with H2H comparison trial when it already has its own JAK developed in the same setting.

VALUATION

- We reiterate our BUY rating as 1/ we believe that another partner could be found and 2/ other ongoing partnerships should deliver newsflow in upcoming quarters. While a co-financing co-profit deal is the most likely, we have chosen to remain conservative for now and have assumed a a 75% chance to repartner in the same conditions in 2018. Our SotP for vobvarilizumab points to EUR4/share vs EUR6/share previously.
- Fair Value down from EUR18 to EUR16.

NEXT CATALYSTS

- Q4 2016/Q1 2017: IND to be filed to the FDA for I-O candidate in the Merck & Co partnership.

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BUY ratings 56,7% NEUTRAL ratings 31,2% SELL ratings 12,1%

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