

Actelion

Price CHF163.80

Third quarter in a row to show outstanding performance

Fair Value CHF180 (+10%)

NEUTRAL

Bloomberg	ATLN VX
Reuters	ATLN.VX
12-month High / Low (CHF)	173.8 / 122.5
Market Cap (CHFm)	17,651
Ev (BG Estimates) (CHFm)	16,733
Avg. 6m daily volume (000)	335.2
3y EPS CAGR	5.5%

Actelion has reported very strong quarterly numbers driven once again by Opsumit and even more by Upravi's good performance in the US. Even more surprisingly, the quarter was characterised by an impressive quality of results, reflecting good R&D and SG&A cost control. That said, revised guidance for core operating income growth in the mid-teens is already well captured by our FY numbers.

ANALYSIS

- This morning Actelion posted another outstanding performance for the third consecutive quarter in 2016 with revenues and profits both well above expectations.
- On the one hand, the performance was driven by the strong performance of PAH products, namely Opsumit and Upravi, whereas the decline in Tracleer gained momentum. Taking each of the two drivers one by one, we would say that the main difference comes from Upravi that had 1,800 patients on treatment at the end of the third quarter, meaning about 650 patients gained in three months, which leaves the drug on a very good trend (600 in Q1, 550 more in Q2, 650 more in Q3) and represents a very sizeable number considering the appeal from the PG class so far. No doubt that Upravi is significantly enlarging the audience of this class among physicians. So far, the success mainly comes from the US and translates into CHF70m quarterly sales (o/w CHF166m in the US), all corresponding to underlying demand (no longer any inventory effect). In the US alone, Upravi will have achieved CHF156m over its first 9 months in the market. Our CHF206m expectations for the full-year now appear light and will have to be upgraded. On the other hand, Opsumit did very well too but still with the caveat already stressed in the previous quarter i.e. a balanced performance across geographies, with stellar growth in the US but more mixed behaviour in Europe where competition with Tracleer generics makes business more difficult. Note also the very good reported growth in Japan, partially driven by currencies however. Considering how Europe is reacting to Tracleer generics and also bearing CVS's decision in mind for Opsumit as of January 2017, we are cautiously approaching next year with the perspective of having generics in the US too, which could not only have an impact on Tracleer's sales of course but could also slow Opsumit's growth too.
- Beyond PAH, there is nothing particular to report in terms of revenues for Q3.
- Moving to profits, we would say that this is where the good surprise was even more obvious because the beat at the sales level was in the end relatively modest. However, expenses were extremely well controlled during this last quarter with both R&D and S&M expenses at a much lower level than expected. R&D expenses were 11% lower sequentially (i.e. vs Q2) although yet another 17% above last year's level. SG&A costs were up by only 6% compared to 10% growth over the first half of the year. As such, Actelion is able to combine strong top-line growth with good cost control while still investing behind a maturing pipeline that includes two quite expensive phase III trials in MS. So, bottom-line, Actelion reported core operating income growth of 14% after 9 months and core EPS growth of 23%, including CHF2.06 for the third quarter whereas we had anticipated CHF1.97 i.e. a clear and meaningful beat. Here also, our estimates will have to be revised upwards.

VALUATION

- All in all, Actelion has posted a very strong quarterly performance. We will make some revisions. We need to understand however how much of avoided costs in Q3 will actually shift into Q4 because guidance for mid-teen growth in core operating income is already in our books. We are expecting 18% growth (including currencies however), which leaves minor upside at first glance.

NEXT CATALYSTS

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Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

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