

10th November 2016

Healthcare

Zealand

Price DKK94.00

Waiting for the FDA decision on Soliqua

Fair Value DKK172 (+83%)

BUY

Bloomberg	ZEAL DC
Reuters	22Z.F
12-month High / Low (DKK)	155.0 / 87.0
Market Cap (DKKm)	2,450
Avg. 6m daily volume (000)	119.1

	1 M	3 M	6 M	31/12/15
Absolute perf.	-10.0%	-25.4%	-22.3%	-38.0%
Healthcare	-2.5%	-8.1%	-1.1%	-12.2%
DJ Stoxx 600	0.0%	-1.4%	2.0%	-7.1%

	2015	2016e	2017e	2018e
P/E	NS	NS	NS	8.3x
Div yield (%)	NM	NM	NM	NM

ANALYSIS

- Of course quarterly numbers in the context of a company like Zealand Pharma do not matter that much and this is all the more true if we consider the upcoming FDA decision on iGlarLixi.
- That said, there were two interesting and pretty new elements in the third-quarter press release: (i) firstly, operating costs were well below estimates and well below the average of the previous quarters too. CFO Mats Blom explained that this was the reflection of a mix of strict control of costs on one hand and of cheaper clinical activity and some work being pushed forward into 2017. This will therefore reduce annual operating costs by 6-8% in 2016 but does not say much about long-term trends as Zealand is expected to increase its clinical activity very significantly in the coming year. We would like this to be the case because it would be good news.
- Actually management said clearly during the call that its proprietary pipeline would grow even faster if iGlarLixi is approved. And if not, then Zealand will adjust accordingly, meaning that it may decide either to delay one of the programmes or maybe to partner it (all three will not be able to be financed by Zealand). Similarly, BD activities will also depend on cash available. On iGlarLixi's approval and launch also depends the opportunity for Zealand to recall and repay part of its royalty bond whose interest rate is high and does not carry penalty for early recall as of 2017.

VALUATION

- So it is no surprise to see how much Zealand is dependent on iGlarLixi's approval in the US, due in a couple of weeks. Taking it at full value (i.e. with a PoS of 100%), iGlarLixi would represent more in terms of NPV than Zealand's full market cap. Sanofi said during its Q3 call that it was ready to launch. Therefore we would rate this outcome is high. Hence our BUY recommendation.

NEXT CATALYSTS

- Around 21st November 2016: PDUFA date for iGlarLixi (Soliqua) in the US

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