2nd December 2016

Healthcare

Actelion

Price CHF195.50

Is a split into two parts possible? Yes, we think it is!

Fair Value CHF194 (-1%) **BUY**

Bloomberg	ATLN VX
Reuters	ATLN.VX
12-month High / Low (CHF)	209.0 / 122.5
Market Cap (CHFm)	21,067
Ev (BG Estimates) (CHFm)	20,105
Avg. 6m daily volume (000)	553.7
3y EPS CAGR	9.0%

	1 M	3 M	6 M	31/12/15
Absolute perf.	38.7%	20.1%	20.1%	40.0%
Healthcare	0.9%	-6.3%	-9.7%	-15.3%
DJ Stoxx 600	1.6%	-0.8%	-0.9%	-6.8%

YEnd Dec. (CHFm)	2015	2016e	2017e	2018e
Sales	2,042	2,396	2,326	2,438
% change		*17.4%*	*-2.9%*	*4.8%*
EBITDA	769	958	852	909
EBIT	655.6	838.6	731.8	787.7
% change		*27.9%*	*-12.7%*	*7.6%*
Net income	693.5	880.6	791.3	844.9
% change		*27.0%*	*-10.1%*	*6.8%*

	2015	2016e	2017e	2018e
Operating margin	40.7	46.3	43.4	46.1
Net margin	34.0	36.7	34.0	34.7
ROE	52.6	46.3	33.1	28.8
ROCE	77.0	91.8	91.9	105.4
Gearing	-30.7	-50.6	-64.7	-73.4

(CHF)	2015	2016e	2017e	2018e
EPS	6.17	8.16	7.41	7.99
% change	-	*32.4%*	*-9.3%*	*7.8%*
P/E	31.7x	23.9x	26.4x	24.5x
FCF yield (%)	2.9%	3.6%	3.8%	3.9%
Dividends (CHF)	1.50	1.50	1.50	1.50
Div yield (%)	0.8%	0.8%	0.8%	0.8%
EV/Sales	10.1x	8.4x	8.4x	7.8x
EV/EBITDA	26.9x	21.0x	22.9x	20.8x
EV/EBIT	31.5x	24.0x	26.7x	24.0x

We hear that Actelion has apparently rejected a first offer from J&J and more generally is against any offer for the whole company. We indeed give credit to the thesis suggesting a potential split and this could even be the best way to unlock pipeline value to the benefit of shareholders! BUY.

ANALYSIS

- From one day to the next, Actelion is trading up and down depending on what rumours say about its discussions with J&J. The mot recent one suggested that a first offer of CHF246/share was rejected by the Board. J&J is apparently ready to pay more. But Actelion's CEO is determined to keep the company independent and more than just trying to get the highest possible price would like to work on a more complex deal that could please both parties. J&J would be open to such discussions too, although the acquisition of the whole group was its preferred option.
- Before even considering rival propositions, the two companies are thought to be discussing a split of Actelion into two businesses. Although extracting a piece of the PAH franchise (like Opsumit) would make no sense at all, we do believe that a split between the whole franchise (i.e. almost the full existing portfolio) with the related assets (mainly regulatory, commercial and marketing) and the rest of the company, is a viable option. J&J is looking for growth drivers and that is what the PAH franchise is offering over the next decade with Opsumit and Uptravi totalling less than USD1bn in 2016 but cumulatively USD4bn+ at peak. Moreover, if it can get most of the revenues with a limited portion of Actelion's total costs, then J&J could be ready to pay more than our calculation of the current value of the PAH franchise. From a legal point of view, it may be needed to form a separate Swiss company, if only to keep the tax rate unchanged. In general terms, it is not always easy to separate one franchise from the rest of the company but in this case it might not be too complex considering that it is the whole commercial and marketing infrastructure, limited support functions (could be discussed whether some should be transferred) whereas ongoing work on Opsumit and Uptravi (new indications) could either be part of the transaction or kept within Actelion until their end, under a specific collaborative agreement.
- The stand-alone Actelion going forward would therefore consist of a pipeline company with limited or no revenues, depending on whether small drugs like Valchor are part of the deal or not. We can imagine that the spirit of what JP Clozel wanted to achieve since the beginning is somewhat broken if the company is split because the idea was to create a diversified European Specialty Care champion. But, if at some point, independence is no longer possible, then the least bad option will have to be favoured. And our guess is that JP Clozel is more excited by the challenge of delivering a pipeline (all the more so that the market gives no value to it!) than the one of driving the PAH franchise. Actelion is first about discovering and developing medicines. And so we would not rule out at all the idea that he might re-start from the beginning and drive a new Actelion that would essentially be a pure R&D engine but with six molecules in phase III in 2017. It could be that, in the context of the overall deal with J&J, the group could get rights (at least in the US) for ACT-132577 in resistant hypertension because it would be great for its CV franchise and would also help Actelion finance its R&D expenses and would give credibility to the project.

VALUATION

- So, now, from a valuation standpoint, what could that mean? Well, it's very difficult to put numbers on what is currently pure speculation because this scenario could actually cover a lot of different situations. One of the key questions to be answered is obviously what exactly goes with PAH and what is left within Actelion? We assume that a light PAH franchise (i.e. with a limited portion of structure costs) could be valued at at least CHF200 per share, depending also on what is left with Tracleer. This would be paid in cash to each Actelion shareholder. As long as the value of the new Actelion share, it will require in-depth analysis of the pipeline and more extensive disclosure of data, trial designs and market opportunities from the company but it remains pure upside to the current market valuation. Hence our reiterated BUY.

NEXT CATALYSTS

- Update on discussions with J&J at anytime - *Click here to download document*

Analyst :
Eric Le Berrigaud
33(0) 1 56 68 75 33
eleberrigaud@bryangarnier.com

Sector Team :
Mickael Chane Du
Marion Levi
Hugo Solvet

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London
Beaufort House
15 St. Botolph Street
London EC3A 7BB
Tel: +44 (0) 207 332 2500
Fax: +44 (0) 207 332 2559
Authorised and regulated by the
Financial Conduct Authority (FCA)

Paris
26 Avenue des Champs Elysées
75008 Paris
Tel: +33 (0) 1 56 68 75 00
Fax: +33 (0) 1 56 68 75 01
Regulated by the
Financial Conduct Authority (FCA) and the
Autorité de Contrôle prudential et de
resolution (ACPR)

New York
750 Lexington Avenue
New York, NY 10022
Tel: +1 (0) 212 337 7000
Fax: +1 (0) 212 337 7002
FINRA and SIPC member

Munich
Widenmayerstrasse 29
80538 Munich
Germany
+49 89 2422 62 11

New Delhi
The Imperial Hotel Janpath
New Delhi 110 001
Tel +91 11 4132 6062
+91 98 1111 5119
Fax +91 11 2621 9062

Geneva
rue de Grenus 7
CP 2113
Genève 1, CH 1211
Tel +4122 731 3263
Fax+4122731 3243
Regulated by the FINMA

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