



25th April 2019

NOVARTIS

| Healthcare
| Pharmaceuticals

BUY

Fair Value CHF90(+16%)
Share price CHF79.82
EPS 3Y Cagr 6.6%

High-level confidence in sustainable margin growth

Zolgensma attracted most of the questions during the call

The Q&A session of the conference call was led by questions about Zolgensma, all very different in nature, ranging from the expected label to the anticipated pricing, including the case of a second death in the clinical trials. The drug is clearly attracting a high level of interest since it is one that could make a huge difference depending on whether or not it meets demanding expectations. In other words, it could go from hundreds of millions to several billions in peak sales within just a few years, with very high margins too, considering the very limited commercial investment.

Novartis again underscored the very constructive ongoing discussions with regulators and payers which, with only a few days prior to the expected FDA decision, should tell a lot about the degree of confidence the company has in receiving positive feedback. Actually, the trickiest question to answer is that concerning the label the drug could obtain and in particular whether it could go beyond SMA type 1. The reservation is mainly about the administration route since the iv formulation can only work in babies weighing less than 8.5 kg, which more or less restricts the scope to SMA type 1. And if not on the label, then the price is likely to play against off label use. While we (and the consensus) are expecting the drug to exceed USD100m in sales this year, we diverge on the following years with USD1.2bn in sales anticipated by the CS in 2021 whereas we believe this level can be achieved as early as next year. We are maintaining this estimate for the time being.

Margins on the right track to reach 2022 goal

Core operating margin in IM up 200bp in Q1 2019 was clearly the other topic of focus during the call. Management was very pleased about this impressive increase which was described as a consequence of a positive product mix (with specialty and oncology drugs over-performing) and of a "renewed commitment to productivity" with a continuous delivery of savings from the NTO and NBS initiatives.

It bodes well in terms of delivering mid-term guidance to reach the mid-30s level by 2022 which now looks even pretty close (33.3% in Q1). That said, Novartis also warned that Q1 should not be extrapolated because it was certainly the most favourable quarter from a generic impact perspective. Indeed, the group anticipates more pressure to play on both Afinitor and Exjade. With a 70bp improvement over the full year, we put ourselves on the safe side and any surprise can only be positive.

FV unchanged at CHF90

Despite the positive developments in Q1 for top-line growth and operating margins, our FV remains unchanged because we see more phasing patterns than absolute changes to make to our forecasts. The FV is also negatively impacted by later-than-expected divestment of poorly performing US Gx brands to Aurobindo (Q3 rather than our estim. Q2) and by a higher-than-expected share count in Q1 and therefore an average for the full year to calculate core EPS. This also takes into account continuing business (i.e. ex-Alcon). Novartis remains a BUY.

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Market Data

Bloomberg / Reuters	NOVN VX/NOVN.VX
Market Cap.	CHF203,591m
E.V.	CHF205,159m
Free Float	100%
Avg. Daily volume (6m)	4,959
12m high / low	CHF84.9 / CHF64
Ytd Perf.	-5.0%

usdM	12/18	12/19e	12/20e	12/21e
Sales	51,900	46,385	48,395	50,389
% Change		-10.6%	4.3%	4.1%
EBITDA	8,199	16,185	17,098	17,601
% Change		97.4%	5.6%	2.9%
EBIT	8,199	10,185	11,098	12,101
% Change		24.2%	9.0%	9.0%
Net Income	12,641	8,546	9,434	10,399
% Change		-32.4%	10.4%	10.2%
ROE	0.17	0.11	0.12	0.12

	12/18	12/19e	12/20e	12/21e
EV/Sales	3.9x	4.3x	4.0x	3.7x
EV/EBITDA	24.6x	12.3x	11.2x	10.5x
EV/EBIT	24.6x	19.5x	17.3x	15.3x
EPS	4.71	5.02	5.32	5.71
% change		6.5%	6.1%	7.3%
P/E	16.7x	15.6x	14.7x	13.7x
Div Yield	3.6%	3.4%	3.4%	3.6%

Next Catalyst: 08/05/2019 - Conference Call AAN

Last rating Change:

[2018-7-2, If Alcon is worth USD22-23bn, then our FV is CHF95](#)

Last FV Change:

[2019-4-10, New temporary FV set at CHF90 per Novartis share post Alcon spin-off](#)

Last Reports:

[2019-4-24, Strong first quarter for Innovative Medicines](#)

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