

AbbVie

United States of America/Pharmaceuticals,
Biotechnology & Life Sciences

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UBS Research

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4Q16 and 2017 Guidance Basically as Expected

- What's new? 4Q16 EPS of \$1.20 vs UBSe of \$1.19 and consensus of \$1.20
- Our takeaway: A good quarter
- Thoughts on the stock: Wouldn't expect much of a move this morning
- Valuation: Maintaining our Buy rating and PT of \$73

Revenues of \$6.8B was essentially in line with our estimate but a little light of consensus \$6.9B (-2%). GM was 80 bps better than our estimate, but was offset by a modestly higher SG&A (+\$41M). The 1 cent beat vs UBSe was driven largely by a modestly lower share count (1,623 vs 1,643 UBSe). Numerical EPS guidance of \$5.44-5.54 was given for the first time, but this was essentially in line with what mgt gave earlier of 13-15% growth from the midpoint of 2016 guidance of \$4.80-4.82.

Our takeaway: A good quarter

Overall, the quarter looks fine. US Humira continues to be strong, with growth of 23.5% vs 12% UBSe. International was weaker-than-expected, growing 2% (4% exFX of -2%) vs our 9%. Viekira was also a little softer-than-expected (-\$28M vs UBSe). We knew US Imbruvica would be a little weak (\$434M vs \$463M UBSe) when J&J reported earlier this week, but overall it is trending well and mgt indicated US sequential sales growth was impacted by customer ordering patterns (+6% seq; +38% Y/Y); so we don't see this as a concern. The other products performed essentially in line. It was also good to see mgt re-affirmed 2017 EPS guidance.

Thoughts on the stock: Wouldn't expect much of a move this morning

Given the quarter was in line and the 2017 guidance was basically reiterated, we wouldn't expect much of a move in the stock this morning unless we learn something new on the conference call. Investors are still concerned about the company achieving numbers this year because of Humira concerns, and we don't think a solid 4Q will help change that view.

Valuation: Maintaining our Buy rating and PT of \$73

We use a 0% (base biz) and ~2% (pipeline) terminal rate and a WACC of 8%.

12-month rating	Buy
12-month price target	\$73.00
Price	\$61.27

Contributing authors: Zidong Zhang

Trading data and key metrics

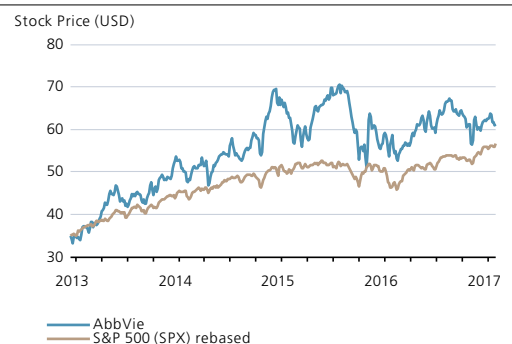
52-wk range	US\$67.39-52.18
Market cap.	US\$100bn
Shares o/s	1,640m (COM)
Free float	100%
Avg. daily volume ('000)	2,522
Avg. daily value (m)	US\$153.6
Common s/h equity (12/16E)	US\$2.60bn
P/BV (12/16E)	38.6x
Net debt / EBITDA (12/16E)	2.8x
RIC	ABBV.N
BBG	ABBV US

Sources: UBS, Bloomberg

EPS (UBS, diluted) (US\$)

	12/16E	
	UBS	Cons.
Q1	1.15	1.15
Q2	1.26	1.26
Q3	1.21	1.21
Q4E	1.19	1.19
12/16E	4.81	4.82
12/17E	5.50	5.47
12/18E	6.30	6.38

Performance



Sources: Bloomberg, UBS

Definitions of terms and abbreviations are available in the appendix section of this report, and more extensively on internet at www.ubs.com/glossary

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AbbVie

Company Profile: AbbVie

AbbVie is the proprietary pharmaceuticals business of the previous Abbott Laboratories. The company's revenues are largely derived from Humira (60% of total revenues) as well as other sources, such as oncology, virology and women's health.

Statement of Risk

Major risks include Humira biosimilar and additional competition, pipeline risk and emerging markets risk. Our price target is DCF-based.

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Highlights (US\$m)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Revenues	18,790	19,879	22,819	25,599	28,237	30,451	31,248	30,494
EBIT (UBS)	6,824	7,193	9,676	10,845	12,218	13,500	14,292	13,765
Net earnings (UBS)	5,066	5,375	7,059	7,900	8,973	10,134	10,827	10,494
EPS (UBS, diluted) (US\$)	3.13	3.32	4.29	4.81	5.50	6.30	6.80	6.70
DPS (US\$)	1.60	1.75	1.98	2.28	2.56	2.64	2.72	2.80
Net (debt) / cash	(11,077)	(6,165)	(28,774)	(31,324)	(27,987)	(22,104)	(19,053)	(14,224)
Profitability/valuation	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
EBIT margin %	36.3	36.2	42.4	42.4	43.3	44.3	45.7	45.1
ROIC (EBIT) %	36.8	50.3	38.1	26.4	29.6	34.3	37.7	37.8
EV/EBITDA (core) x	10.5	12.5	11.6	10.4	8.9	8.1	7.6	7.9
P/E (UBS, diluted) x	13.9	16.7	14.5	12.7	11.2	9.7	9.0	9.1
Equity FCF (UBS) yield %	9.1	2.6	(5.4)	5.0	9.4	10.3	10.8	10.9
Net dividend yield %	3.7	3.2	3.2	3.7	4.2	4.3	4.4	4.6

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied.

Valuations: based on an average share price that year, (E): based on a share price of US\$61.27 on 26 Jan 2017 19:41 EST

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UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	45%	28%
Neutral	Hold/Neutral	39%	25%
Sell	Sell	15%	17%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 December 2016.

UBS 12-Month Rating	Definition
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Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.

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Global Equity 12-Month Rating Definitions

Buy: FSR is > 6% above the MRA. **Neutral:** FSR is between -6% and 6% of the MRA. **Sell:** FSR is > 6% below the MRA.

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Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

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