

Actelion

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UBS Research

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Will they or won't they?

- Case for independence?
- We disagree with consensus modelling for Opsumit and Uptravi
- Management believes
- Valuation:

We rate Actelion Neutral. The recent press announcement on J&J's interest in Actelion (company announcement, 25 November) demonstrates the quality of Actelion's pulmonary arterial hypertension (PAH) franchise. However, putting aside the potential M&A, which is of course difficult to forecast, we view the stand-alone business as fully valued. We think Consensus Opsumit estimates (UBS CHF1bn vs cons CHF1.4bn '20E) are overly optimistic; however, we feel consensus is pessimistic for Uptravi (UBS CHF1.5bn '20E vs cons CHF1.3bn). Taken together, our long-term estimates are close to consensus and it is hard to find upside unless we believe in Actelion's pipeline (too early) or in a successful takeover.

We disagree with consensus modelling for Opsumit and Uptravi

Our patient flow models suggest that consensus is overly optimistic on Opsumit in the medium term (where generic Letairis will take new patient share) and does not appreciate the different pockets of patients for Uptravi. Fortunately, the two balance out, and we believe consensus is likely to revise its Uptravi numbers in the next few quarters, before we might see some headwinds for Opsumit in Europe as Tracleer (PAH) generic launch causes some pricing volatility.

Management believes

Management recently made a strong case for shareholder value creation, stating that the best way to do so is via new products. We read this as a case for independence and ongoing significant R&D investment. Our pipeline analysis shows why management is hopeful but why it should take time until the market is able to share this confidence.

Valuation:

We focus on DCF in setting price targets, but sense-check vs. PE multiples for "core" and IFRS earnings, considering EPS growth profile. Our new target for Actelion is CHF200. This is 27x '17e "core" earnings. Our sector "core" '17e target multiple is 15x but our ATLN valuation includes a 30% takeover premium.

12-month rating	Neutral
12-month price target	CHF200.00
Prior	CHF170.00
Price	CHF204.00

Contributing authors: Marcus A. Koch

Trading data and key metrics

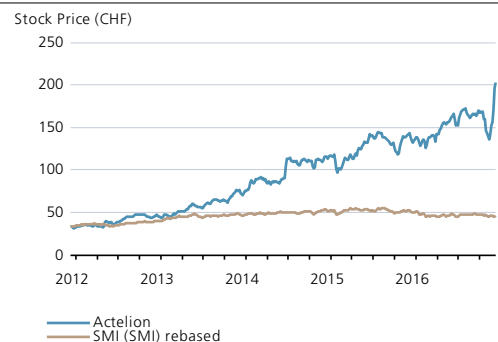
52-wk range	CHF209.00-122.50
Market cap.	CHF22.4bn/US\$22.1bn
Shares o/s	110m (ORD)
Free float	90%
Avg. daily volume ('000)	847
Avg. daily value (m)	CHF141.9
Common s/h equity (12/16E)	CHF1.06bn
P/BV (12/16E)	20.3x
Net debt / EBITDA (12/16E)	NM
RIC	ATLN.VX
BBG	ATLN VX

Sources: UBS, Bloomberg

EPS (UBS, diluted) (CHF)

	From	To	% ch	Cons.
12/16E	7.22	8.26	14	7.83
12/17E	7.42	8.84	19	7.73
12/18E	8.63	9.44	9	9.11

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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Investment Thesis

Investment Case

Actelion has mastered its primary franchise, PAH and whilst Opsumit will likely stall after the introduction of Letairis generics, we think Uptravi can do better than consensus currently expects (UBS CHF1.4bn '20E vs cons CHF1bn). Those two should even each other out. Upside resides with the pipeline or M&A approaches. The company is heavily investing clinical trials targeting class expansion but also to diversify from the core PAH franchise. As long as management "believes" in its pipeline, we think it will be reluctant to entertain takeover approaches. Our pipeline review shows why management may have this confidence but why it is harder for investors to share the same until they see incremental data.

Company Profile: Actelion

Actelion is a Swiss biotech company that positioned itself as the leader in the treatment of pulmonary arterial hypertension (PAH) with its blockbuster Tracleer. Following patent expiry and generic entry, Actelion launched Opsumit as a replacement product for Tracleer and more recently received FDA approval for Uptravi (an oral prostacyclin receptor agonist). In 2015, the PAH franchise accounted for >90% of sales. R&D effort is focussed on life-cycle management of PAH (growing Opsumit's label) and diversification into therapy areas with high unmet patient need through growth of its specialty franchise.

Statement of Risk

Risks for the pharmaceutical/biotech industry in general include low R&D productivity, generic competition, legislative pressure on pricing and litigation risk. For Actelion in particular, key compa-

ny risks include: commercial risks related to Opsumit following the entry of a Letairis generic in 2018, Uptravi uptake and regional pricing pressures on relatively expensive specialist medications. Further risk in the US is increasing payer focus on rare diseases. Valuation: We consider several methods when we set our price targets. We are most heavily influenced by DCF analysis. Our explicit forecasts run to 2025. From 2025, we assume 2% annual growth in (operating income x (1 - tax rate)) and a straight-line ROIC fade. ROIC fades to WACC over a 20-year period. This approach means that our DCF valuations are particularly sensitive to two parameters: WACC, and our estimate of ROIC around 2025. Given these sensitivities, we sense-check our DCF valuation against PE multiples calculated on the basis of both adjusted ("core" or "non-GAAP" numbers) and IFRS or GAAP numbers, calibrated against the rest of the sector and considering the EPS growth profile. Following the takeover approach by Johnson & Johnson, we include a 30% M&A premium in our valuation.

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Highlights (CHFm)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Revenues	1,784	1,956	2,042	2,436	2,604	2,756	2,938	3,187
EBIT (UBS)	619	743	814	1,011	1,073	1,143	1,238	1,395
Net earnings (UBS)	509	648	694	894	945	1,006	1,088	1,224
EPS (UBS, diluted) (CHF)	4.41	5.58	6.17	8.26	8.84	9.44	10.24	11.56
DPS (CHF)	1.20	1.30	1.50	1.70	1.90	2.10	2.20	2.30
Net (debt) / cash	392	970	405	161	371	599	852	1,175
Profitability/valuation	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
EBIT margin %	34.7	38.0	39.8	41.5	41.2	41.5	42.2	43.8
ROIC (EBIT) %	58.5	63.1	81.8	104.5	111.8	120.7	134.4	154.6
EV/EBITDA (core) x	8.9	13.0	15.4	20.1	19.1	17.8	16.4	14.4
P/E (UBS, diluted) x	13.4	17.9	20.6	24.7	23.1	21.6	19.9	17.7
Equity FCF (UBS) yield %	7.7	1.0	4.2	3.7	3.9	4.3	4.6	5.2
Net dividend yield %	2.0	1.3	1.2	0.8	0.9	1.0	1.1	1.1

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 CHF204.00 on 02 Dec 2016 21:37 GMT

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UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	45%	36%
Neutral	Hold/Neutral	45%	36%
Sell	Sell	11%	19%

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 March 2013.

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.

Key Definitions

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

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