

Roche Holding Ltd Dividend Right Cert.

CORE HOLDING*

Recommended since 20.04.15

21.07.2022



Country CH	Market capitalization (bn) CHF 270.9	Perf. since reco. (%)
Sector Health Care	Free float 91.1%	Roche Holding Ltd Dividend Right Cert. 20.2
Factset ROG-CH	Closing price CHF 328.25	Sector 22.3
ISIN CH0012032048	ESG Risk score* 23.5	Medium risk



*From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

Profile

Founded in 1896, Roche has a presence in both pharmaceuticals (77% of sales) and diagnostics (23% of sales). The Pharmaceuticals division mainly specialises in oncology, immunology, infectious diseases and neuroscience. The Diagnostics division focuses on rapid tests, haemostasis testing, molecular biology, histopathology and diabetes care.



Source: Factset

Market - competition - positions - barriers to entry

Roche is leader in oncology, with one of the most extensive and innovative pipelines in the industry. The group is also leader in in vitro diagnostics and a pioneer in personalised medicine. Barriers to entry are innovation, with a large R&D budget (17-20%); the clinical development process; the complexity of molecules and formulations; and the regulatory environment.

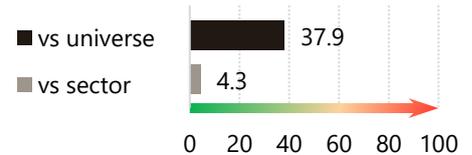
Investment case

- The clinical failure of tiragolumab (anti-TIGIT, a new therapeutic target in immuno-oncology) in lung cancer has led to a sharp de-rating of the stock. We believe that the market has not only suppressed the value of this asset, but has also lowered its expectations ahead of the release of data on gantenerumab in Alzheimer's disease (expected in Q4). While this setback removes a significant catalyst, the group's pipeline remains rich and offers an attractive opportunity/risk profile.
- Clinical publications have so far not led to an upward revision of the medium-term outlook. These remain modest but solid, with sales and EPS growth expected to average around 2% and 4% per year respectively. Business will continue to be driven by treatments in oncology (notably Tecentriq, Venclexta), haemophilia A (Hemlibra), multiple sclerosis (Ocrevus) and the ramp-up of recent launches (Vabysmo in ophthalmology, Polivy in haematology, Evrysdi in spinal muscular atrophy). The negative impact of biosimilars is starting to diminish and is expected to reach CHF 2bn in 2022 (vs CHF 4.6bn in 2021). The portfolio of off-patent medicines (Herceptin, Rituxan, Avastin) now represents only 14% of sales, down from 36% in 2018.
- After its excellent performance in 2021, the Diagnostics division is not expected to be a growth contributor in the medium term. Nevertheless, the level of sales should remain relatively solid, with the need for COVID testing still present. We expect moderate erosion over 2022-2023. From 2024 onwards, the division's performance should return more in line with its historical growth rate (i.e. +3-4% per year).
- The purchase of the stake held by Novartis (53.3mio bearer shares) for an amount of CHF 19bn (financed by debt) removes some uncertainty. The capital reduction by cancellation of the shares will lead to an accretion of about 5% on the group's EPS in 2022. In addition, Roche retains the financial flexibility to pursue targeted acquisitions to strengthen the pipeline.

ESG - risks and key points

- Roche's ESG risk is medium, mainly linked to its presence in the US market (49% of sales), where litigation is more commonplace. However, its presence in oncology (54% of sales) tends to mitigate this risk.
- The group's clinical data is considered highly transparent, boosting the perceived reliability of its drugs.
- A strong performance on overall management of ESG issues.

ESG risk vs. universe & sector (percentile)*



Source: Sustainalytics

Valuation** in CHF

Current price	Value Bordier Scenario
328	432

Our scenario assumes Swiss 10-year yields of 1.00%; sales growth averaging 2.2% a year out to 2032; a relatively stable EBITDA margin of around 40% by 2027 before contracting to around 39% towards the end of the period.

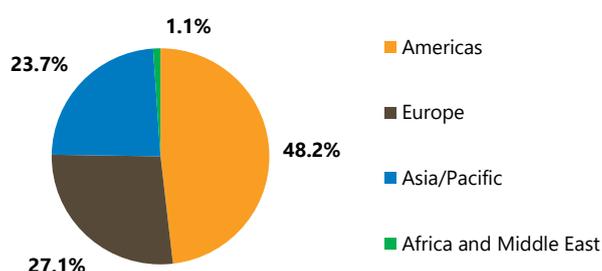
***) The theoretical value reflects the company's business model, our baseline growth and profit scenario and market data, exogenous to the company (risk-free rate and equity risk premium). It does not in itself constitute a target price.

"Bordier Core Holding" indicators

In millions of CHF	2020	2021	2022e	2023e	2024e
Sales revenue	58'323	62'801	63'429	65'332	67'292
Sales growth %	-5.0%	8.0%	1.0%	3.0%	3.0%
<i>o/w organic</i>	1.0%	9.0%	2.0%	3.0%	3.0%
EBIT adjusted	21'536	21'897	22'327	23'193	23'889
% of sales	36.9%	34.9%	35.2%	35.5%	35.5%
Net income	16'577	17'038	16'483	17'644	18'420
Adjusted EPS	19.16	19.81	20.43	21.86	22.82
Adjusted EPS growth	-4.9%	3.4%	3.1%	7.0%	4.4%
Capex/Sales	5.9%	5.8%	5.8%	5.8%	5.8%
Free cash-flow	15'108	17'344	16'749	17'260	17'994
FCF/Sales	25.9%	27.6%	26.4%	26.4%	26.7%
Dividend per share	9.10	9.30	10.21	10.93	11.41
Dividend yield	2.9%	2.5%	3.1%	3.3%	3.5%
ROCE - WACC	28.3%	27.5%	27.3%	29.0%	25.1%
ROE (%)	45.6%	69.6%	52.9%	45.6%	39.7%
Net debt/Ebitda	7.9%	78.1%	37.4%	1.5%	-32.6%

Source: Factset, Bordier estimates

Sales breakdown - 12/2021



Ratios

Roche Holding Ltd Dividend Right Cert.	Stoxx Europe 600 Sector	Stoxx Europe 600 Market
PE (x)***	Health Care	Stoxx 600
2021	20.1	15.4
2022e	18.8	12.5
2023e	17.1	12.0
P/B (x)***		
2021	3.8	2.0
2022e	3.5	1.7
2023e	3.3	1.6
Beta (2Y, daily) vs market: 0.98		

***) The valuation ratios set out are provided for information only. They do not constitute the criteria based upon which Core Holdings are selected, and may present significant premi-ums representing the quality of the company's business model.

Governance and ownership structure

Since 2008 - CEO Severin Schwan

Agenda

21 Jul. 2022: half year results

18 Oct. 2022: Q3 sales

Key shareholders (if any):

The Hoffmann, Oeri and Duschmalé families hold 75.08% of bearer shares. Capital Structure : 19% bearer shares/81% dividend-right certificates (with no voting rights or par value).

Any special characteristics of ownership (multiple voting rights, controlling holding company, shareholders' agreements, etc.):

The share capital consists solely of the bearer shares (160m), with voting rights attached. The shareholders' agreement between the Hoffmann, Oeri and Duschmalé families represents 67.5% of the share capital.

Glossary

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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