

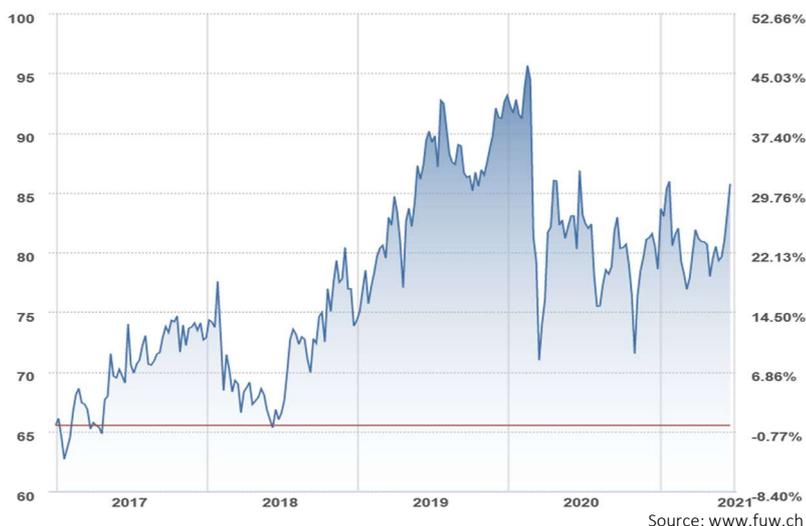
Novartis

Valor: 1 200 526 Industry: Pharma

BUY

NOVN 5Y Price Target: **CHF 104.-** Price: **CHF 85.7.-** Upside: **21.4%**

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Stock Data in Mio.

Price	85.72 CHF
52-Week Range	70.42 CHF-86.73 CHF
P/E	14.1x
Price/Book	4x
Dividend yield	3.5%
Market cap.	192,449 CHF
Sales	48,659 CHF
EBIT	10,152 CHF
Earnings	8,072 CHF

Valuation

The valuation of Novartis is at a low level compared to the past. The P/B ratio of 4x is also quite a bit lower than Roche, where the P/B ratio is 8.2x. The share price is still down sharply since the March 2020 slump. Novartis is continuously increasing dividends, it wants to maintain this.

Description

Novartis is one of the world's largest pharmaceutical companies in terms of sales. The six main areas in which Novartis operates include therapeutic areas such as cancer, heart disease and skin disease. In 2019, they successfully spin off Alcon. In recent years, Novartis has made several large acquisitions in cell therapy, gene therapy and nuclear therapy. With approximately 106,000 employees, Novartis operates globally. The three main sales markets are Europe, USA and Asia. In 2020, earnings slumped somewhat surprisingly more than expected.

	12/2017	12/2018	12/2019	12/2020
P/E	25.1x	13.7x	17.9x	26.7x
Price/Book	2.57x	2.2x	3.75x	3.77x

Outlook

In 2021, Novartis aims to grow sales in the low-to-mid range. Novartis wants to continue to grow strongly until 2025 and continuously increase the dividend as it has done since its inception in 1996. Financially, Novartis is very well positioned. Return on equity and return on sales are also at a high level. Starting in 2023, the multiple sclerosis drug Gilenya is expected to lose sales due to strong competition. Recently, Novartis has published some positive trial data on new drugs and will soon be on the verge of breakthrough. These drugs will replace the sales of the previous drug.

Growth

The Group's revenues are mainly generated from Innovative Medicines. These include six major therapeutic areas. Sales and profit growth fluctuate slightly. Profit has been rising slowly for some time. In the medium term, new medicines are expected to compensate for the loss of sales.

	12/2017	12/2018	12/2019	12/2020
Sales	49,109	44,833	47,498	48,659
Growth		-8.7%	5.9%	2.4%
Earnings (EBIT)	8,972	8,489	9,086	10,152
Growth		-5.4%	7.0%	11.7%

Efficiency

Margins in the pharmaceutical sector are high despite the capital-intensive investments. The return on sales is at a satisfactory level of 16.6%. Sales per employee are high at approximately CHF 457,000. In order to continue to increase profitability, discontinued drugs must be replaced by new ones.

	12/2017	12/2018	12/2019	12/2020
Return on sales	15.7%	28.1%	24.7%	16.6%
Sales per employee	388,345	414,666	457,090	459,941

Profitability

Novartis has a very high return on equity, but this fluctuates time and again. Compared to competitors such as Roche, Novartis still has some room for improvement. New drugs could provide a boost.

	12/2017	12/2018	12/2019	12/2020
Return on equity	10.3%	16.5%	17.5%	14.4%
e.g. GN Store Nord	34.3%	38.8%	44.7%	41.4%

Balance sheet quality

The level of debt at Novartis is low. With its high cash position, Novartis remains open to further acquisitions in generics for up to 5% of its market value. Somewhat concerning is the declining equity ratio. However, since research and development cost an enormous amount, it is understandable.

	12/2017	12/2018	12/2019	12/2020
Equity ratio	55.8%	54.1%	46.9%	42.9%
Net. Liquidity	9'485	15'964	11'446	11'563
Debt-equity ratio	79%	85%	113%	133%

SWOT-Analysis

<p>Strengths</p> <ul style="list-style-type: none"> Steadily increased dividend. Extremely solid financial position with a lot of cash and good acquisitions. Very good product portfolio, with a strong brand. 	<p>Weaknesses</p> <ul style="list-style-type: none"> Despite high investment costs in research and development, Novartis is not the most innovative company. The profitability of Novartis is below the industry average.
<p>Opportunities</p> <ul style="list-style-type: none"> New technologies offer Novartis the opportunity to practice a differentiated pricing strategy. New trends in consumer behavior can open new markets with higher revenue streams for Novartis. 	<p>Threats</p> <ul style="list-style-type: none"> Different policies in countries could lead to lawsuits. Rising wages could put pressure on Novartis profitability.

Appointments

GA: 02.03.2022, Basel
 Year-end figures: 26.01.2022
 Quarterly statement: 21.07.2021

Website

<https://www.novartis.com/>

Investor Relations

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