

## Novartis

# Scemblix hits in 1L CML. Best case, supports our above-cons estimates

Maintain Rating: BUY | PO: 109.00 CHF | Price: 90.41 CHF

## Scemblix hits in 1L CML on both coprimary endpoints

Novartis announced today that Scemblix, its oral STAMP inhibitor, hit both coprimary endpoints vs Gleevec and standard of care TKI's with clinically meaningful and statistically significant superiority, as well as a favourable safety and discontinuation profile vs TKI's in its 1L CML PIII trial. Pending detailed data, superiority would support our peak of \$3.5bn (with \$2.9bn in 1L) vs consensus \$1.8bn. Given current premium pricing (c\$240k) our 1L opportunity assumes that, despite efficacy superiority, we model penetration at c30% into the 1L setting (in line with KOL feedback), which we see could be conservative. Scemblix is approved in CML in the 3L and T315I mutation setting. Filing is expected in 24E, that we see as another upside driver alongside Kisqali, Pluvicto, Kesimpta and Iptacopan, driving our above cons estimates. Maintain Buy.

## Trial assessed Scemblix vs TKI's and Gleevec

The Scemblix ASC4FIRST 1L PIII trial has co-primary endpoints of major molecular response (MMR) reduction at 48-weeks vs investigator selected TKI, and compared to Gleevec alone. Results showed a clinically meaningful and statistically significant superiority on both co-primary endpoints. Results also showed a favourable safety and tolerability profile vs investigator selected TKI's, which we see could be a key differentiator vs current TKI's, as KOL feedback suggests limited unmet need on the efficacy profiles of current standard of care.

## KOL feedback sees efficacy and safety combo attractive

KOL feedback suggests that superior efficacy and more attractive safety profile could see increased usage particularly in large treatment centres, and in the c70% of patients that are high risk (where Gleevec is not suggested as an option by NCCN). KOL feedback suggests it would be excited by Scemblix if tolerability profile was more attractive than current TKI's (given relative comfort with current therapies, and no huge unmet need), as well as potential to avoid resistance. We await detailed data for safety profile specifics.

## Maintain Buy. Positive earnings momentum to continue

Maintain Buy: 1) Strong near-to-mid-term EPS momentum driven by Kisqali, Kesimpta, Pluvicto, Scemblix and Iptacopan, driving c12-15% EPS growth 24E/25E, c5% above cons and our 28E core opinc est 18% above cons: 2) Novartis's post 27-32E mid-single digit sales target through major LOEs implies confidence in mid-stage pipe and 30E core opinc c20% above cons. 3) Our above-cons ests are mainly driven by our estimates of higher peak for several key drivers: a) Kisqali \$11.9bn peak (\$13bn un-risk-adj) vs cons \$6.6bn driven by metastatic and adjuvant; b) Pluvicto \$4.9bn vs cons \$3.6bn with PSMAfore filing 24E and PIII in HSPC 25E; c) Kesimpta (MS) peak \$5.6bn vs cons \$5.1bn; d) Iptacopan \$4.3bn un-risk-adj vs cons \$2.5bn; e) Scemblix \$2.5bn vs cons \$1.8bn; 4) 12x 25E PE undervalues 25-28E EPS CAGR 7%. See our [Novartis deep dive report](#).

08 January 2024

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### Stock Data

Price (Common / ADR)	90.41 CHF / 106.31 USD
Price Objective	109.00 CHF / 125.00 USD
Date Established	4-Oct-2023 / 6-Dec-2023
Investment Opinion	A-1-7 / A-1-7
52-Week Range	69.89 CHF-90.54 CHF
Market Value (mn)	186,995 CHF
Shares Outstanding (mn)	2,068.3 / 2,068.3
Average Daily Value (mn)	311.86 USD
Free Float	100.0%
BofA Ticker / Exchange	NVSEF / VIR
BofA Ticker / Exchange	NVS / NYS
Bloomberg / Reuters	NOVN SW / NOVN.S
ROE (2023E)	26.2%
Net Dbt to Eqty (Dec-2022A)	12.2%
ESGMeter™	High

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**Refer to important disclosures on page 3 to 6. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.**

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Timestamp: 08 January 2024 02:50AM EST

## Glossary

1L = 1<sup>st</sup> Line

CML = Chronic Myeloid Leukemia

TKI = Tyrosine Kinase Inhibitor

STAMP = Specifically Targeting the ABL Myristoyl Pocket

PIII = Phase 3

MMR = Major Molecular Response

LOE = Loss of Exclusivity

MS = Multiple Sclerosis

## Price objective basis & risk

### Novartis (NVSEF / NVS)

Our CHF109/USD125 PO is based on a 15x 25E PE, a c6% discount to our target sector multiple of c16x with 7% 25-28E EPS CAGR in line with sector, but due to lack of growth post 2028 caused by patent expiries and insufficient visibility on mid-to-late stage pipeline to address this.

Our target sector multiple of c16x 25E PE is based on: 1) A 40% premium to the market average multiple which implies c15x 25E PE, a premium which is in line with the long-term historical trend for periods of growth for the sector during times of broader market uncertainty, 2) Regression analysis of historical sector forward PEs and three-year-forward EPS CAGR implies a target PE of c16x 25E PE based on sector growth of c7%, 3) Our DCF valuations imply c17x 25E PE.

Upside risks to our price objective are favourable currency moves, faster product launches, positive earnings momentum positive pipeline surprises, value-accretive M&A.

Downside risks are new competition to growth franchises, negative currency movements, early generic competition, pipeline failure, risk of litigation, failure to execute on product launches, regulatory changes, pricing pressure, significant changes in the US political environment, or value-destructive M&A.

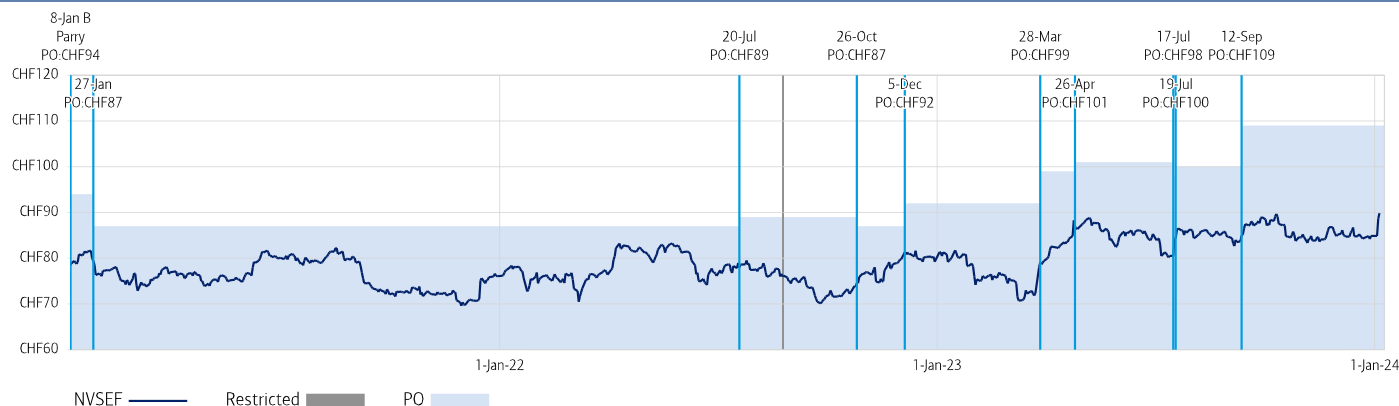
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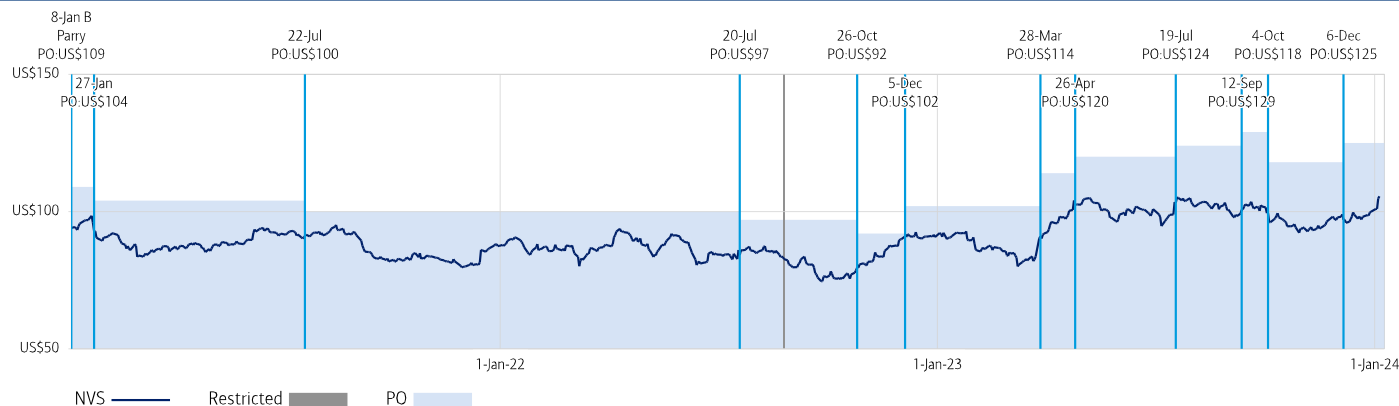
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### Novartis (NVS) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

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Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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