



Novartis Calls Active Post-Earnings

Ticker/Price: NVS \$87.25

Analysis:

Novartis (NVS) buyers yesterday for 2,750 December \$90 calls around \$1 and follows action in the November \$87.50 calls and January 2021 \$82.50 short puts recently. NVS still has open interest in the January \$80 calls and Jan. 2020 \$92.50 short puts from earlier this year. Shares are consolidating just below YTD VPOC at \$89 while moving out of a small downtrend from the July highs. A move higher targets \$94 near the July highs. The \$219.75B company trades 15.4X earnings, 4.4X sales, and 21.2X cash with a 3.24% yield. NVS sees near 10% EPS growth both FY20 and FY21 with sales up 3% and then 5%. NVS raised their FY sales outlook this week with strength in Zolgensma (\$160m vs \$98m forecast). Shares traded down in August over reports of data manipulation around the gene therapy were raised. CEO Vas Narasimhan has said the company will work on better transparency on issues but they could still face civil or criminal penalties, a potential overhang. NVS has been undergoing a transformation since Vas took over in 2018 with a focus on high-growth areas, shedding non-core businesses, and deciding what to do on their generics unit Sandoz. In July, the company decided against a sale and instead is revamping the business from within selling off their pills and dermatology unit to Aurobindo (a deal which is still awaiting approval). They could also consider other asset sales. NVS is also pursuing a bigger footprint in China with plans to submit 50 NDAs by 2023 in the country. They'll focus on both new and off-patent drugs. Analysts have an average target for shares of \$92. Short interest is negligible. Hedge fund ownership fell 7% in Q2. Samlyn Capital a notable buyer.

Hawk Vision:



Hawk's Perspective: NVS has lagged some of its mega-cap peers with the data manipulation overhang but giving a nice reward/risk spot here to trade against for a catch-up trade.

Confidence Ranking: \$\$