



Incyte Bulls Build Positions on Pipeline Outlook

Ticker/Price: INCY (\$78.40)

Analysis:

Incyte (INCY) shares are off to a strong start in 2019 gaining 23.3% with the JP Morgan Healthcare Conference an early-year catalyst. The \$16.75B Biotech trades 37X Earnings and 9.3X Sales. INCY grew revenues 44%, 47%, 47%, and 39% the last four years before slowing to 11% in 2018, so shares revalued lower but expects 18.9% and 16% topline growth the next two years with ESP seen rising to above \$3/share in 2020 from \$1.09/share in 2018. On the chart shares put in a multi-month base near the \$60 level in 2018 which was a retest level of a 2014 breakout, as well as a 61.8% Fibonacci of its 2009/2017 range. Monthly MACD is nearing a bull crossover and the current \$60/\$75 base breakout measures to an upside target of \$90 which aligns with a 38.2% retracement of the 2017 resistance high to the recent low. Weekly RSI is at its highest level since April 2017 and shares have moved into the weekly cloud. INCY has seen a bit of bullish positioning recently, most notable the 2,000 March \$70 calls bought for \$1.34M on 9/11 and 1,000 March \$80 calls bought on 1/9 against the sale of 1,500 of the \$65 puts. In Jan. 2020 there is mixed open interest with August purchases of 1,000 each of the \$77.5 and \$75 puts still in OI, while \$85/\$100 call spreads are also in OI against sales of the \$65 puts. INCY has a lot of catalysts in 2019 including a 2-24 PDUFA for GVHD, a NDA for cholangiocarcinoma and capmatanib, clinical updates for GRAVITAS-301 and REACH-2/3 in GVHD, data for its bladder cancer drug pemigatinib, Phase 3 data for baricitinib in atopic dermatitis in 1H19, and Phase 2-II data for topical rux in vitiligo. Jakafi is its main earnings with strong sales of near \$1.4B in 2018 and long-term guidance of \$2.5-\$3B potential sales, growing 9% Y/Y in Q3. The INCY narrative looks to be shifting back to its expansive pipeline. Analysts have an average target of \$85 on shares and short interest at 2.9% of the float is back near a two year low. BAML sees earnings in mid-February in-line for Jakafi sales and the focus will be on long-term strategy and pipeline progress for the call. UBS downgraded shares to Neutral last week with an \$82 target, not seeing meaningful catalyst upside in 1H19. Goldman raised shares to Conviction Buy last week with a \$111 target, citing pipeline and M&A optionality with its 21 drugs across the verticals on oncology and inflammation/autoimmunity. Cowen names INCY a Best Idea for 2019 seeing the base business offering strong support for shares in the low \$60's and minimal expectations for multiple pipeline programs over the next 12-16 months. Hedge Fund ownership rose 3.27% in Q3 filings, new call option position disclosed by Armistice Capital.

Hawk Vision:



Trading Strategy: INCY does not have a lot of positioning through February expiration and think can see it back closer to \$70 for ideal entry. I agree on the view shares have a positive skewed reward/risk near that level.

Confidence Ranking: \$\$