



Merck & Co

Blockbuster drugs to drive growth



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U.S. | PHARMACEUTICAL | TRADING NOTE

Description

Merck & Co., Inc. (MRK) is a global health care company that delivers health solutions through its prescription medicines, vaccines, biologic therapies, animal health, and consumer care products, which it markets directly and through its joint ventures. The Company has operations in pharmaceutical, animal health, and consumer care.¹

Investment Rationale

We believe there is potential upside for MRK over the next few quarters, driven by robust growth in its core product: (i) Keytruda – treatment of non-small cell lung cancer (NSCLC) and renal cell carcinoma (RCC); (ii) Gardasil –vaccine for Human Papillomavirus (HPV)

Ramp-up of Keytruda and strong Gardasil sales. MRK reported Keytruda sales of US\$2.63bn (+30% YoY) for the 2Q19 results due to strong uptake in the NSCLC space. We expect Keytruda to be one of the key drugs in the treatment of NSCLC following approvals from various countries such as the US, EU and China. We believe the Keytruda-chemo combo approved in EU will provide significant upside for EU revenue growth. The drug also sees opportunity in the RCC market as the Keytruda-Inlyta combo was launched in the US this year and awaiting ex-US launch. We see an acceleration of Gardasil growth due to high demand for the HPV vaccine in both US and ex-US. Gardasil revenue grew 50% constant currency (CC) YoY in 2Q19, as compared to 31% YoY in 1Q19.

Higher growth in the China market. MRK announced robust results in China with sales in 2Q19 rising 51% YoY, due to new launches (Keytruda, Lynparza, Lenvima, Gardasil) and the drug Januvia making it on the national reimbursement drug list (NRDL) listing. The pharmaceutical giant is also benefiting from the metastatic melanoma launch this year and the approval for Keytruda's First Anti-PD-1 Therapy for lung cancer, which is likely to make the NRDL listing.

Bolt-on acquisitions to enhance organic growth. MRK maintains that it is focused on making "non-disruptive" bolt-on acquisitions. MRK commented that it is focused on targets to boost a wide spectrum of therapeutic areas. We believe the acquisitions will speed up the R&D programs (taking an average of 6-7 years) and provide additional synergies such as combination therapies.

RECOMMENDATION

We have a **TECHNICAL BUY** rating for MRK. MRK is currently trading at a P/E ratio of 17.9, which is below its historical average. We believe the stock price of MRK is attractive given its potential upside from the strong organic growth led by Keytruda.

23 August 2019

Merck & Co Inc	Technical Buy
ENTRY PRICE	USD 86.72
STOP LOSS	USD 80.00
TARGET PRICE	USD 96.44
CLOSING PRICE	USD 86.72

COMPANY DATA

Bloomberg Code	MRK US
O/S SHARES /Mn :	2,560.38
MARKET CAP /USD Mn :	222,036
52 - WK HI/LO (USD) :	87.25

MAJOR SHAREHOLDERS (%)

VANGUARD GROUP	8.18%
BLACKROCK	7.49%
CAPITAL GROUP COMPAN	5.02%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
Merck & Co Inc	5.7%	7.0%	13.5%
S&P500	-2.7%	3.6%	16.6%

PRICE VS. SPX



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (USD)	FY 15	FY 16	FY 17	FY 18
Revenue /Bn	39.5	39.8	40.1	42.3
Net Profit /Bn	4.4	3.9	2.4	6.2
EPS (adj.)	3.6	2.1	3.9	4.4
PE Ratio (adj.)	14.7	28.3	14.6	17.4
P/BV	3.3	4.0	4.4	7.4
ROE, %	9.5	9.2	6.4	20.4

Source: Company Data, PSR

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¹ Source: Bloomberg

Merck & Co Inc (US\$86.72) - Technical BUY

Buy spot: 86.72 Stop loss: 80.00 Take profit: 96.44



Support 1: 131.37

Resistance 1: 141.68

CHART LEGENDS

----- 200 periods MA

----- 50 periods MA

----- 22 periods MA

The stock price of **MRK** exhibits strong bullish momentum since the start of 1Q19. Based on the weekly technical chart, we believe the rally will continue:

- There is an ascending triangle formation, a signal of strong bullish momentum.
- The 'Hanging man' pin bar is invalidated as the new candle remains bullish with the potential to break to the upside.
- Prices rebounded strongly above the 50% Fibonacci retracement level 6 periods ago.
- Prices are trending above all three moving averages.

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