

## Sanofi

Price EUR69.91

Decent quarterly report and reassuring guidance for 2016

Fair Value EUR90 (+29%)

NEUTRAL

Bloomberg	SAN FP
Reuters	SASY.PA
12-month High / Low (EUR)	100.7 / 69.9
Market Cap (EURm)	91,281
Ev (BG Estimates) (EURm)	99,850
Avg. 6m daily volume (000)	3 247
3y EPS CAGR	2.1%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-6.4%	-19.6%	-28.8%	-11.1%
Healthcare	-11.4%	-16.8%	-20.9%	-15.9%
DJ Stoxx 600	-7.9%	-17.3%	-20.8%	-14.1%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	33,766	36,838	36,366	37,579
% change		9.1%	-1.3%	3.3%
EBITDA	10,625	11,050	10,329	10,595
EBIT	9,445	9,948	9,359	9,727
% change		5.3%	-5.9%	3.9%
Net income	6,843	7,242	6,807	7,084
% change		5.8%	-6.0%	4.1%

	2014	2015e	2016e	2017e
Operating margin	28.0	27.0	25.7	25.9
Net margin	20.3	19.7	18.7	18.9
ROE	12.1	12.8	11.8	11.9
ROCE	10.4	10.7	10.0	10.1
Gearing	13.3	15.1	14.1	11.0

(EUR)	2014	2015e	2016e	2017e
EPS	5.20	5.54	5.33	5.54
% change	-	6.6%	-4.0%	4.1%
P/E	13.4x	12.6x	13.1x	12.6x
FCF yield (%)	8.4%	5.7%	6.9%	6.3%
Dividends (EUR)	2.85	3.00	3.15	3.30
Div yield (%)	4.1%	4.3%	4.5%	4.7%
EV/Sales	2.9x	2.7x	2.7x	2.6x
EV/EBITDA	9.3x	9.0x	9.6x	9.3x
EV/EBIT	10.5x	10.0x	10.6x	10.1x

As Sanofi is entering a two-year transition phase with “no meaningful growth”, it is fairly reassuring that the group is able to deliver in-line core EPS numbers for 2015 on which base it has formed guidance for “broadly stable” figures for 2016. This is obviously not bad at all as Q4 2015 final numbers included very high vaccines sales and a very low tax rate of 19.5%. Although share buybacks are set to make a very significant contribution (EUR1bn bought back in January alone), this should make it possible to deliver core EPS in the region of EUR5.50 once negative currency impacts are factored in i.e. only 1-2% below current consensus estimates but above ours.

## ANALYSIS

- 2015 ended on a not so positive note as core EPS declined by 13% in CER terms although this was actually better than expected. However, it is fair to say that the top-line was not at the root of the quarterly beat as sales fell a bit short of expectations at EUR37,057m for the full year or about EUR70m lower than consensus. This was due to a mix of situations across the portfolio with a very good (once again) performance for Genzyme, largely driven by surprising (less and less so however) Aubagio, and also by a very strong Sanofi Pasteur, driven by flu (despite low season in the US) and by pediatric vaccines thanks to a lack of competition in Eastern Asia. This was offset by disappointing numbers for Lantus (but quite reasonable figures for Toujeo), Praluent (a mere EUR5m), for Auvi-Q (-EUR118m for the recall of products) and for Animal Health.
- The P&L structure showed no major differences compared to anticipations. We thought other revenues would be more hurt than they effectively were by lower Enbrel royalties but this was offset by higher R&D expenses and in all, business operating income was very much in line. Actually the good surprise came from the bottom part of the P&L where Sanofi benefited from lower financial expenses and lower pension interest costs to post a financial result negative by EUR76m (vs EUR138m a year ago and EUR136m anticipated), and also from a 19.5% tax rate in Q4 as the group adjusted for a change in the taxation of dividends in France. This should help 2016 too whereas we had anticipated a progressive increase in the tax rate in 2016 onwards. Moving our tax rate down from 25% to 23% would add EUR0.13 to our core EPS for the current year.
- So in the end, core EPS for 2015 came out at EUR5.64 which was even slightly above market expectations (EUR5.61). Note that the dividend proposed is EUR2.93 whereas we thought it would reach EUR3.00 but it is not a bad idea for Sanofi to keep financial flexibility. All the more so in that Sanofi should aggressively buy back shares in 2016 (already EUR1bn in January) such that shareholder returns will be significant when dividends and SBB are added-up.
- As far as 2016 goes, Sanofi anticipates “broadly stable” business EPS at CER, which based on the EUR5.64 posted for 2015, is not bad at all considering the trajectory of diabetes sales and R&D cost increases. We would be interested to hear what the expected tax rate for 2016 is and the level of the share buy-back programme factored into the guidance. Taking 23% and EUR2bn respectively would make it possible to reach about EUR5.50 in core EPS. We would anticipate a 2.5-3% negative impact from currencies on core EPS if they stay at the current level. Consensus numbers would then have to adjust marginally by something like 2-3%.

## VALUATION

- Valuation is obviously attractive considering the recent correction. We see a P/E ratio of about 12-12.5x for 2016 once we adjust our current numbers. In absolute terms, risk looks limited and so we will listen carefully to the call to try measure how quickly the recovery might take place. In relative terms, we see more upside and stronger momentum in other names for the time being.

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NEUTRAL ratings 29,9%

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