

Sanofi

Price EUR68.94

Just a matter of time now?

Fair Value EUR88 vs. EUR90 (+28%)

NEUTRAL

Bloomberg	SAN FP
Reuters	SASY.PA
12-month High / Low (EUR)	100.7 / 68.9
Market Cap (EURm)	90,015
Ev (BG Estimates) (EURm)	96,130
Avg. 6m daily volume (000)	3 266
3y EPS CAGR	7.4%

The guidance provided for 2016 looks very well balanced in its underlying assumptions. Although we need time to fully assess the delivery of top-line growth with new products, the cost base is under control in the meantime and we see no meaningful risk of deviation from a central scenario of flat earnings from 2015 to 2017. With a P/E ratio of 12-12.5x over the period, the stock is beginning to look attractive again in absolute terms. Our NEUTRAL recommendation reflects sluggish momentum (H1 will be tougher than H2) and a preference for UK peers.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-7.7%	-18.1%	-29.8%	-12.3%
Healthcare	-12.4%	-16.5%	-21.7%	-16.8%
DJ Stoxx 600	-9.4%	-17.7%	-22.1%	-15.4%

ANALYSIS

- What we were expecting most from the conference call were clarifications on what had been included in 2016 guidance and although this was not always entirely clear (in some cases due to competitive reasons), our general belief is that the guidance looks well balanced and fair.
- Starting with the top-line, Sanofi has factored into its 2016 guidance (i) limited growth for the US insulin market (low single digit growth) and a continuing trend of decline for Lantus, partially offset by new-to-brand progress for Toujeo although recent prescription trends are less favourable; (ii) prospective growth in emerging markets at the lower end of the range in which Sanofi has operated over the last 3 years i.e. 5-10% due to difficult market conditions in Russia despite a better trend in Q4 but with the loss of funding for Cerezyme in Latin America, although the underlying trend is not so bad in Brazil, and in China where the affiliate is doing very well but where price cuts are likely in 2016; (iii) DengVaxia is now licensed in four countries and the first shipments have started to the Philippines (1m doses at around EUR20 out of a total of 3m agreed on for the year), although this will be progressive. Olivier Charmeil said he was fine with consensus sales at about EUR200m for the current year.
- Moving to operating expenses, Jerome Contamine guided quite precisely on each line of the P&L towards a generally fairly stable picture at around 68-69% for gross margin and for the sum of SG&A and R&D expenses (EUR4.1bn in 2015). Selling, marketing and R&D expenses are set to grow, and should be more or less offset by lower general and administrative expenses. This is better than we had anticipated. After the good surprise in late 2015, the tax rate is set to come in at 24-25%, which is in line with previous guidance. Last but not least, the influence of share buy-backs was highly expected since Sanofi has already bought back EUR1.3bn in shares during the first five weeks of 2016 and this could suggest a record programme for the current year. Although Sanofi did not want to commit itself to any guidance in terms of SBB for the year, to keep some flexibility, the CFO mentioned that it would not be unreasonable to take the upper-end of the range in which Sanofi has operated over the past years as an estimate for 2016, implying around EUR2bn.

YEnd Dec. (EURm)	2016	2017e	2018e	2019e
Sales	36,588	37,450	39,188	41,321
% change		2.4%	4.6%	5.4%
EBITDA	10,687	10,656	11,424	11,424
EBIT	9,561	9,806	10,637	11,457
% change		2.6%	8.5%	7.7%
Net income	6,970	7,221	7,926	8,636
% change		3.6%	9.8%	8.9%

	2016	2017e	2018e	2019e
Operating margin	26.1	26.2	27.1	27.7
Net margin	19.1	19.3	20.2	20.9
ROE	12.0	12.1	12.7	13.1
ROCE	11.1	11.1	15.8	16.7
Gearing	13.1	10.0	6.2	2.2

(EUR)	2016	2017e	2018e	2019e
EPS	5.45	5.65	6.20	6.76
% change	-	3.6%	9.8%	8.9%
P/E	12.6x	12.2x	11.1x	10.2x
FCF yield (%)	6.3%	6.2%	7.1%	8.0%
Dividends (EUR)	3.00	3.15	3.50	3.80
Div yield (%)	4.4%	4.6%	5.1%	5.5%
EV/Sales	2.7x	2.6x	2.4x	2.2x
EV/EBITDA	9.1x	9.0x	8.2x	8.0x
EV/EBIT	10.2x	9.8x	8.8x	8.0x

VALUATION

- The various elements mentioned above have influenced numbers in both directions. However, with SG&A costs growing less than we had anticipated and share buy-backs being included for EUR2bn, the net balance was positive. Note however that Sanofi's mention of a flat impact from currencies is based on average December rates. We maintain the fact that based on YTD average rates, the impact on core EPS would be negative by 1.5-2pp.
- Actually the highest downside influence on our FV was the mark-to-market adjustment of the value of the Regeneron stake which was down by another 6% yesterday on disappointing FY 2015 numbers. We have also notched down our Praluent figures.

NEXT CATALYSTS

- By the end of March: final phase III results for dupilumab in atopic dermatitis

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