10th March 2016

Healthcare

AstraZeneca

Price 4,076p

A handful of news items to mention

Fair Value 5520p vs. 5550p (+35%) **BUY-Top Picks**

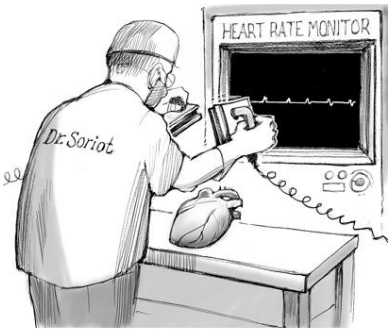
Bloomberg	AZN LN
Reuters	AZN.L
12-month High / Low (p)	4,863 / 3,904
Market Cap (GBPm)	51,530
Ev (BG Estimates) (GBPm)	60,983
Avg. 6m daily volume (000)	2,460
3y EPS CAGR	-1.0%

	1 M	3 M	6 M	31/12/15
Absolute perf.	4.1%	-7.4%	-4.5%	-11.7%
Healthcare	7.4%	-8.3%	-10.2%	-10.7%
DJ Stoxx 600	9.6%	-6.9%	-6.8%	-7.3%

YEnd Dec. (USDm)	2015	2016e	2017e	2018e
Sales	23,641	21,754	21,108	22,510
% change		*-8.0%*	*-3.0%*	*6.6%*
EBITDA	5,937	7,033	6,557	7,254
EBIT	4,114	5,503	5,325	5,719
% change		*33.8%*	*-3.2%*	*7.4%*
Net income	5,390	5,016	4,893	5,226
% change		*-6.9%*	*-2.5%*	*6.8%*

	2015	2016e	2017e	2018e
Operating margin	17.4	25.3	25.2	25.4
Net margin	6.8	11.8	10.9	12.9
ROE	8.6	14.4	13.7	18.3
ROCE	16.2	14.5	12.4	12.9
Gearing	47.7	76.5	88.1	102.1

(USD)	2015	2016e	2017e	2018e
EPS	4.26	3.97	3.87	4.13
% change	-	*-6.9%*	*-2.5%*	*6.8%*
P/E	13.6x	14.6x	15.0x	14.0x
FCF yield (%)	NM	NM	4.5%	3.6%
Dividends (USD)	2.80	2.80	2.80	2.80
Div yield (%)	4.8%	4.8%	4.8%	4.8%
EV/Sales	3.5x	4.0x	4.2x	4.0x
EV/EBITDA	13.8x	12.3x	13.4x	12.3x
EV/EBIT	20.0x	15.8x	16.5x	15.6x



We have summarised our thoughts on the consequences on our figures, sentiment and investment case of a two-part deal in China as well as recent data for tremelimumab and lebrikizumab. In all, the financial impact is limited and our FV is reduced by only 30 pence to 5,520p. BUY unchanged.

ANALYSIS

- Over the past 10 days, AstraZeneca has been directly and indirectly in the news with several of its products and our intention here is to summarise our thoughts about the consequences of this information on our figures, sentiment and investment case.
- The first announcement by AstraZeneca was an agreement with a Chinese company called CMS to sell the commercial rights of Plendil in China. This calcium channel blocker approved for HBP is actually a big drug in China as it represented USD189m or 7.5% of the company's total sales in the country in 2015. AZN will continue to manufacture and supply the medicine to CMS and will receive royalties that we assume will reach approx. 30% in total, on top of an initial payment of USD310m. This payment is to be booked as an externalisation revenue in Q1 2016. A second smaller agreement is attached to the first namely the divestment of ex-US rights of another cv drug called Imdur whose sales were USD57m in 2015. In this case, AZN will receive a one-time payment of USD190m that will be booked in other operating income in Q2. Together the two drugs totalled 1% of group sales. The impact is already factored into guidance for a low to mid single digit revenue decline in 2016 vs. 2015. The group stated that externalisation revenues and other operating income would both grow in 2016 vs 2015 but the origin was largely unknown: here is a first component.
- On the same day actually, AstraZeneca reported that tremelimumab, its investigational CTLA-4 targeting agent, failed to reach the primary endpoint in the DETERMINE phase III trial that was assessing its efficacy in advanced malignant mesothelioma. "Treme" failed to improve OS. Although it is rare (about 20,000 new cases in the US per annum), mesothelioma is devastating and has no approved drug beyond first-line. "Treme" received orphan drug status last year and so there was some hope that it could open the market to the drug as early as next year. That said, it has always been considered that big hopes with "treme" were in combination, notably with durvalumab. All interim results here are very encouraging irrespectively of the PD-L1 status of lung cancer patients. As a consequence of DETERMINE data, we have slightly impacted the sales curve at the beginning and removed the USD30m contribution in 2017 while keeping our probability-adjusted estimates of USD500m in 2022 unchanged. DETERMINE represented a "fast-to-market" route for "treme" that will not materialise. This would have helped physicians become more familiar with the drug before the combination with durva is approved. This should not materially impact 2023 targets.
- The third newsflow item is more indirect and relates to the announcement by Roche that lebrikizumab had mixed results in phase III with only one of the two LAVOLTA studies reaching their primary endpoint of reducing the rate of asthma exacerbations. Filing looks uncertain and commercial perspectives are even more jeopardised in our view, at least in asthma. So now, what does this mean for the very similar IL-13 antibody tralokinumab developed by AZN? The fact that only one in two equally designed trials works is intriguing obviously and may question the target itself and its validity in asthma as STRATOS 1-2 are very similar to LAVOLTA1-2 although the compounds are different and could therefore deliver slightly different results: note in particular that "lebri" was tested in two different doses four weeks apart (on top of ICS+other) when "tralo" is tested only with a 300mcg dose every two weeks (on top of ICS+LABA). It looks fair to us at this point to consider that PoS has declined but may give IL-5 targeting agents a larger audience which is good for Nucala (GSK) but also for "benra" (AZN) whereas Roche has no anti-IL-5 in house. Our 2022 sales estimate for "tralo" was USD330m in 2022 and we keep it unchanged for the moment.

VALUATION

- The three product-related news items discussed above have a limited combined impact on our FV that we have marginally reduced from GBP5,550 to GBP5,520p. We remain at BUY.

NEXT CATALYSTS

- March 2016 : SOCRATES phase III results (Brilinta in stroke) - Click here to download

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