

8th April 2016

Healthcare

AstraZeneca

Price 4,168p

USD100m in externalisation revenues as AZD3293 moves to phase III

Fair Value 5360p (+29%)

BUY

Bloomberg	AZN LN
Reuters	AZN.L
12-month High / Low (p)	4,863 / 3,890
Market Cap (GBPm)	52,698
Avg. 6m daily volume (000)	2 542

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.8%	-4.9%	1.3%	-9.7%
Healthcare	0.4%	-6.8%	-4.7%	-10.1%
DJ Stoxx 600	-3.8%	-5.3%	-9.1%	-10.3%

	2015	2016e	2017e	2018e
P/E	13.8x	14.9x	15.3x	14.3x
Div yield (%)	4.8%	4.8%	4.8%	4.8%

ANALYSIS

- AstraZeneca and Lilly jointly announced this morning that following recommendations from the independent data monitoring committee, the phase II/III study AMARANTH currently evaluating BACE inhibitor AZD3293 for early Alzheimer's disease would proceed to phase III. The IDC recommendation is based on a pre-scheduled interim safety analysis. The phase III will be named DAYBREAK and is to study AZD3293 in people with mild Alzheimer's disease and will start enrolling patients in Q3 2016.
- As a consequence of this move into phase III testing, Lilly will make a payment of USD100m to AstraZeneca, which is part of the USD500m in clinical and regulatory milestones to be paid by the potential launch of the drug. Since it is a joint development for which AstraZeneca remains exposed and strongly involved in the project, the payment will be booked as "externalisation revenue" in Q2 2016.
- Note that for Q1 2016, numbers for which are due out later this month, externalisation revenues are set to total between USD400m and USD500m, including two main payments from ProStrakan (Moventig rights in Europe, USD70m) and from CMS (Plendil rights in China, USD310m). This is very much in line with the objective to have externalisation revenues in excess of the 2015 level i.e. USD1,067m. Our estimate for 2016 is USD1,320m. The objective is also to have other operating income (OOI) in excess of the 2015 level (which was USD1.5bn) but here AstraZeneca has been less active and Q1 should be of a magnitude of USD100-150m only. We would not be surprised to see products like lesinurad sold. USD190m will be booked in Q2 from the sale of ex-US rights for Imdur.

VALUATION

- No change.

NEXT CATALYSTS

- 29th April 2016: First-quarter results - [Click here to download](#)

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Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

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