

2nd May 2016

Healthcare

AstraZeneca

Price 3,928p

Weak underlying Q1 but further focus towards Specialty

Fair Value 5100p vs. 5360p (+30%)

BUY

Bloomberg	AZN LN
Reuters	AZN.L
12-month High / Low (p)	4,628 / 3,890
Market Cap (GBP)	49,670
Avg. 6m daily volume (000)	2 589

	1 M	3 M	6 M	31/12/15
Absolute perf.	0.3%	-12.5%	-6.4%	-14.9%
Healthcare	2.8%	-3.9%	-10.9%	-10.4%
DJ Stoxx 600	1.4%	-0.2%	-9.1%	-6.7%

	2015	2016e	2017e	2018e
P/E	13.5x	14.4x	15.0x	14.5x
Div yield (%)	4.9%	4.9%	4.9%	4.9%

ANALYSIS

- Clearly, there were two distinct parts in last Friday's press release: (i) the first-quarter numbers *per se* that were somewhat soft in our view considering higher-than-expected externalisation revenues (USD550m vs USD420m) and (ii) the announcement of a sharper focus on Specialty Care as required by necessary investments to support healthy progress in the oncology pipeline. Restructuring charges will represent USD1.5bn mostly in cash whereas expected savings are USD1.1bn and will primarily stem from SG&A costs.
- From the quarterly earnings, we noted the good performance of Tagrisso, which is set to ramp up much quicker than we had expected in view of the upcoming launch in Japan. We have increased our estimates for 2016-2018 by about 50% as a consequence. However, this is more than offset by the weak performance in Respiratory. Crestor was solid but with the upcoming first generic launch in the US next week, this is clearly not recurring. In diabetes, Onglyza and Farxiga were high but Bydureon weak. From a cost perspective, R&D was even higher than expected, maybe as a reflection of the integration of ZS Pharma and Acerta.
- The move towards a greater focus on Oncology and Specialty Care is strategically positive in our view and consistent with the group's strategy. In concrete terms, it means that immunology is no longer strategic beyond respiratory and with the exception of anifrolumab (lupus). Now, what is difficult with this strategy is not to account for things twice. We had already assumed that SG&A costs would go down, but it remains to be seen what extra savings will be delivered by these additional costs compared with what was already expected. The same goes for externalisation revenues where certain amounts are accounted for in mass (for instance about USD1.5bn for 2016) that may also be reported as product sales. This was the case for Plendil in China and again with lesinurad in the US.

VALUATION

- So, we are still thinking that the overall picture is nice and will move more and more positively with time as clinical data is reported and new products replace old ones.
- Despite adjustments to our numbers and another FV cut (cash restructuring expenses, lesinurad dual accounting, some minor Q1-related changes), we are maintaining a strong BUY conviction for the medium term that we consider bright, and with unparalleled CAGR.
- For the short-term however, we are more cautious because the environment is adverse for the large cap pharma segment. We would still favour GSK.

NEXT CATALYSTS

- 26 May 2016: PDUFA date for ZS-9 - [Click here to download](#)

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