

2nd May 2016

Healthcare

Sanofi

Price EUR72.11

Q1 not such a bad surprise for us

Fair Value EUR86 vs. EUR87 (+19%)

NEUTRAL

Bloomberg	SAN FP
Reuters	SASY.PA
12-month High / Low (EUR)	100.7 / 67.3
Market Cap (EUR)	94,154
Avg. 6m daily volume (000)	3 276

	1 M	3 M	6 M	31/12/15
Absolute perf.	2.3%	-5.8%	-20.7%	-8.3%
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	12.8x	13.1x	13.0x	12.0x
Div yield (%)	4.1%	4.2%	4.4%	4.9%

ANALYSIS

- The markets sent Sanofi tumbling by more than 5% on Friday as disappointing quarterly numbers added to a bad index performance. We would nevertheless disagree with this view somewhat, even if Q1 could be considered as uninspiring after restating for all non-recurring and special items. But who would have expected anything better this early into the transition phase?
- Once restated for the reclassification of US distribution of third-party vaccines from sales to other revenues and after taking into account the full impact of Venezuela (-EUR197m on sales and EUR106m in currency losses), the rest of the quarterly performance was very much in line with expectations.
- We recognise that sales and earnings were helped significantly by the strong performance (partly front-loaded as a consequence of some distribution channel changes in the US) from Merial and in view of the pending asset swap with B.I., an outperformance driven by Animal Health is not exactly pleasing. But this simply accounts for the difference between a small increase in core EPS in Q1 and full-year guidance for flat earnings. What we heard about Praluent and diabetes in terms of competitive landscape and uncertainty about execution was not surprising either.
- Lastly, if the negative reaction stemmed from the rejection of the Medivation offer, here again we are not surprised by the unanimous rejection of this first offer by the board. Admittedly, this means Sanofi will be compelled to either significantly increase its offer or fly away from the target.

VALUATION

- As we compute the Q1 numbers and take care of the new classification, we come out with marginally affected new estimates that adjust our FV down from EUR87 to EUR86.
- We continue to believe that it is too early to buy Sanofi and that there are more obvious opportunities in the sector that is globally more challenging these days. As with Novartis, as the year progresses, things might be reconsidered depending on how things play out for Lantus in the US, Praluent globally and with dupilumab early in 2017.

NEXT CATALYSTS

- 24-2th5 May 2016: FDA Advisory Committee for Lyxumia, LixiLan and Xultophy

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