

30th May 2016

Healthcare

**Sanofi**

Price EUR73.80

A more focused Sanofi is on the way (full report published today)

Fair Value EUR83 vs. EUR86 (+12%)

NEUTRAL

Bloomberg	SAN FP
Reuters	SASY.PA
12-month High / Low (EUR)	100.7 / 67.3
Market Cap (EURm)	94,969
Ev (BG Estimates) (EURm)	102,368
Avg. 6m daily volume (000)	3 131
3y EPS CAGR	2.8%

Sanofi is still seen as a Diabetes company although the segment accounted for only 17% of its total revenue base in 2015. However, this is set to change because the new management team is driving a strategy that should increase Sanofi's presence in three key businesses, namely CHC, Vaccines and Specialty Care under the leadership of Genzyme. All three are above-average core EBIT margin contributors. Through both internal and external growth, these three pillars should grow from a third to more than half of Sanofi's total revenues by the start of the next decade. That said, it is still premature to play the turnaround because Sanofi still needs to eliminate a number of uncertainties.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-4.2%	0.1%	-12.0%	-6.1%
Healthcare	3.2%	5.0%	-7.2%	-5.6%
DJ Stoxx 600	0.4%	5.5%	-8.9%	-4.4%

**ANALYSIS**

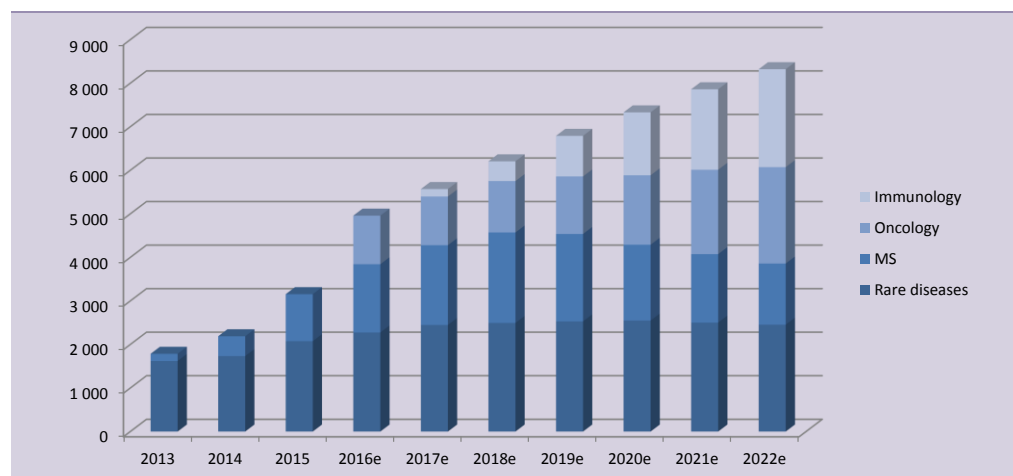
- Sanofi is currently working on reinforcing its strategic franchises which are set to drive growth into the next decade. The established products will progressively decline whereas the Diabetes/CV GBU will be highly dependent on Praluent. We see the trajectory as positive, believing that it could ultimately open the way to a new and compelling investment case. That said, it is still a tad early.
- Over the next couple of months, Sanofi and B.I. are to sign the final agreement by which they will swap their animal health and CHC businesses, Sanofi becoming number one in CHC with over EUR5bn in sales and operating profit leverage for the years to come.
- At Sanofi Pasteur (vaccines), on top of the DengVaxia opportunity, the agreement to dismantle the JV with Merck which is responsible for marketing vaccines in Europe will be a way to boost the influence of this business within the group.
- Genzyme has progressively seen its scope of responsibilities expand from rare diseases to multiple sclerosis and oncology, and is now the cornerstone of the group's Specialty GBU, which will include highly promising drugs like dupilumab. This is also a business that Sanofi is looking to leverage through the proposed acquisition of Medivation.

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	36,575	35,963	36,740	38,444
% change		-1.7%	2.2%	4.6%
EBITDA	11,237	10,713	10,441	10,772
EBIT	9,948	9,587	9,591	9,984
% change		-3.6%	0.0%	4.1%
Net income	7,371	6,989	7,059	7,828
% change		-5.2%	1.0%	10.9%

	2015	2016e	2017e	2018e
Operating margin	27.2	26.7	26.1	26.0
Net margin	20.2	19.4	19.2	20.4
ROE	12.9	12.0	11.9	12.6
ROCE	11.9	11.2	10.9	11.3
Gearing	12.7	12.7	9.8	6.1

(EUR)	2015	2016e	2017e	2018e
EPS	5.64	5.47	5.52	6.12
% change	-	-3.1%	1.0%	10.9%
P/E	13.1x	13.5x	13.4x	12.1x
FCF yield (%)	4.6%	6.2%	5.7%	6.6%
Dividends (EUR)	2.93	3.00	3.15	3.50
Div yield (%)	4.0%	4.1%	4.3%	4.7%
EV/Sales	2.8x	2.8x	2.7x	2.6x
EV/EBITDA	9.1x	9.6x	9.7x	9.2x
EV/EBIT	10.3x	10.7x	10.5x	9.9x

**GBU Specialty: sales projections (without Medivation): the heart of the engine**



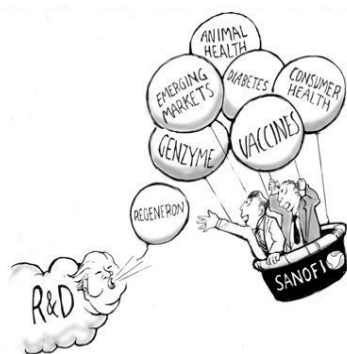
Source: Company Data; Bryan, Garnier & Co ests.

- We see these three pillars becoming the spinal cord of the New Sanofi (their total weight soaring from one third to half the business between 2015 and 2022). The influence of the other activities is set to wane over time, something which may or may not include the Diabetes/CV GBU, depending mainly on what happens with Praluent.

**Three growth drivers going forward**

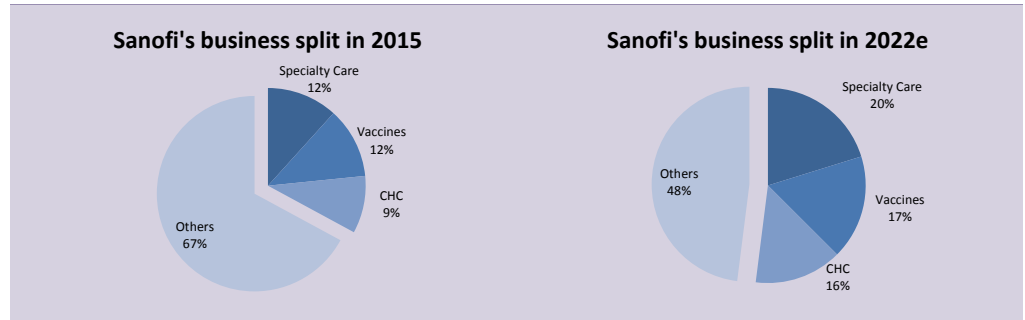
	2015 revenues	2022 est. revenues	CAGR	Comments
Specialty Care	EUR4,275m	EUR8,954m	11.1%	Does not include Medivation
Vaccines	EUR4,261m	EUR7,627m	8.7% Incl. EUR400m of sales coming from SP MSD	
CHC	EUR3,492m	EUR6,450m	9.2%	Incl. B.I. CHC

Source: Company Data; Bryan, Garnier & Co ests.



- Without even factoring in EM and Medivation, Specialty Care, Vaccines and CHC will represent more than 50% of Sanofi in 2022e.

#### Comparison of the three growth drivers between 2015 and 2022



Source: Company Data; Bryan, Garnier & Co ests.

- As the business moves in this new direction and the focus shifts away from Lantus, we expect Sanofi to again be able to convince investors that the stock is worth buying. How far are we from that point? Maybe no more than a few months and probably by the year-end as the trigger events should take place in 2016. Get ready to jump in!

#### VALUATION

- Excluding Medivation and without computing either the asset swap with B.I. or the restructuring of the SP-MSD joint-venture, we derive a new FV of EUR83 (WACC: 6.9% - Terminal growth rate: 1.8%). More than half of our change in FV from EUR86 down to EUR83 stems from the sales cut in future Praluent sales. Although we are still confident in the PCSK9 class to show a cv benefit, the slow ramp-up so far makes us more cautious and we therefore expect a more reasonable sales growth trajectory with peak sales reduced from EUR5bn to EUR3.4bn. Note that this FV does not factor in either Medivation (because the transaction remains highly uncertain) or the asset swap with B.I. since we lack financial details.
- Once visibility improves and uncertainties are removed, in our view Sanofi may well again be an attractive investment vehicle although the timing of this is likely to be a few months from now. For the time being, the core EPS CAGR we derive from the existing Sanofi is too limited (3.5% over [2015-2019]) to make a compelling case.

#### NEXT CATALYSTS

- By the end of June :
  - LIBERTY CHRONOS phase III data communicated (dupilumab in AD);
  - LixiLan-O and LixiLan-L phase III data presented at the ADA conference
  - Final DengVaxia licensure in Brazil and possibly other countries
  - Final District Court decision in PCSK9 patent case v. Amgen (?)

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NEUTRAL ratings 0%

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