

Sector View

Pharmaceuticals

High pressure expected on UK stocks after vote for Brexit

	1 M	3 M	6 M	31/12/15
Healthcare	0.8%	4.1%	-7.7%	-8.5%
DJ Stoxx 600	2.9%	1.8%	-5.5%	-5.3%

*Stoxx Sector Indices

Companies covered

ACTELION	BUY	CHF173
ASTRAZENECA	BUY	5100p
BAYER	NEUTRAL	U.R.
GLAXOSMITHKLINE	BUY	1740p
IPSEN	BUY	EUR63
NOVARTIS	NEUTRAL	CHF89
NOVO NORDISK	NEUTRAL	DKK400
ROCHE HOLDING	BUY	CHF293
SANOFI	NEUTRAL	EUR83
SHIRE PLC	BUY	6500p
UCB	NEUTRAL	EUR80

In absolute terms, UK pharma stocks are expected to decline sharply today and maybe over several trading days. In relative terms, we expect GSK to do better than AstraZeneca and Shire.

- UK yesterday voted for the exit of the country from the European Union. It should come as a relative surprise to the investment community this morning as recent polls suggested that BriMain would win. We expect both the UK market and the British pound to decline a lot today.
- Pharmaceuticals in general should play defensive in this context and may have to be favoured in relative terms, all the more so that the healthcare market itself should not be hit much. Swiss companies have been used to operating in this market from outside the European Union with no disadvantage against the rest of the world. UK only represents 2% of AstraZeneca's turnover and about 5% for GSK.
- Their cost base (UK is loss-making for AstraZeneca) is much heavier and time will come to decide whether to reallocate resources outside the UK considering this move out of the European zone but this is a medium-term impact.
- Short-term, we expect UK stocks to be discounted as UK-only funds will be under attack and UK stocks pockets in international funds reduced. AZN, GSK and Shire should then be significantly down today. That said, reporting in GBP will help from a financial perspective and GSK could see its core EPS in reported terms growing by more than 20% this year. Moreover, "self-help" nature of GSK's investment case should also be more appreciated than riskier profiles. Listing of AZN in GBP while financials are in USD + high dependence to R&D makes the name much less attractive in our view.

VALUATION

- We could have put our FV under review on AZN but will revisit the models for all anyway in connection with half-year numbers. Within the UK zone, we would favour GSK over AstraZeneca.

NEXT CATALYSTS

- 27 July 2016 : H1 results - GSK
- 28 July 2016 : H1 results – AstraZeneca
- 2 August 2016: H1 results – Shire

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NEUTRAL ratings 0%

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