

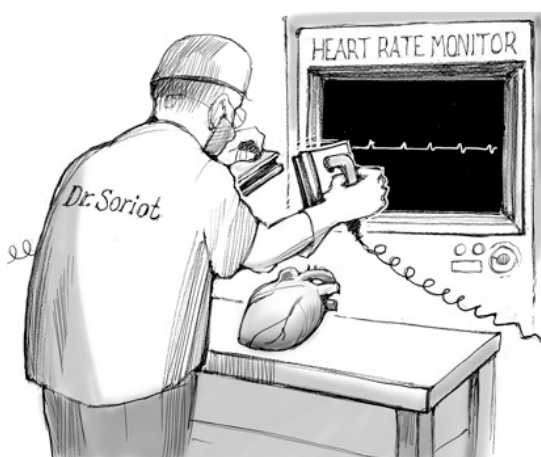
INDEPENDENT RESEARCH
UPDATE

13th July 2016

Healthcare

Bloomberg	AZN LN
Reuters	AZN.L
12-month High / Low (p)	4,628 / 3,774
Market capitalisation (GBPm)	56,604
Enterprise Value (BG estimates GBPm)	68,227
Avg. 6m daily volume ('000 shares)	2,845
Free Float	100%
3y EPS CAGR	-3.3%
Gearing (12/15)	48%
Dividend yield (12/16e)	4.74%

YE December	12/15	12/16e	12/17e	12/18e
Revenue (USDm)	23,641	21,272	20,402	21,474
EBIT (USDm)	4,114	3,047	5,219	5,267
Basic EPS (USD)	2.24	1.39	2.83	2.87
Diluted EPS (USD)	4.26	3.63	3.82	3.86
EV/Sales	3.53x	4.23x	4.51x	4.39x
EV/EBITDA	14.1x	21.2x	15.1x	14.5x
EV/EBIT	20.3x	29.5x	17.6x	17.9x
P/E	13.8x	16.3x	15.4x	15.3x
ROCE	16.2	13.5	12.1	12.0



AstraZeneca

Buying time

Fair Value 5370p vs. 5100p (price 4,476p)

BUY


AstraZeneca is not yet in a comfortable situation overall as innovative drugs do not yet offset the patent cliff and it is uncertain whether the group will be able to show any growth before 2018. However, in oncology, which is the focus of this report, things are developing well: Lynparza and Tagrisso are taking off nicely, key data read-outs are coming for durva and treme next year and acalabrutinib should soon be added to the list of key drugs for the company.

■ We see sales in oncology doubling in size from 2015 to 2019 and tripling by 2022 for AstraZeneca despite using still cautious PoS when making our forecasts.

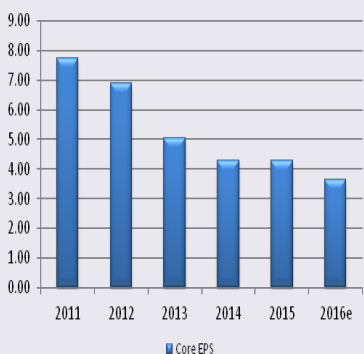
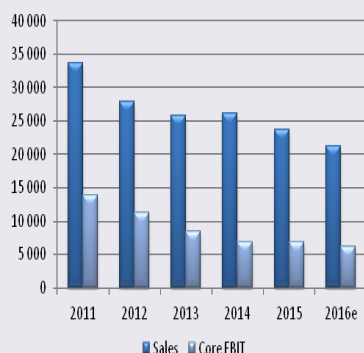
■ In this report, we pay particular attention to ICI (immune checkpoint inhibitors) including durvalumab but we also and more specifically address two non-IO drugs: PARP inhibitor Lynparza (in ovarian and breast cancers) and BTK inhibitor acalabrutinib (in liquid tumours). We are taking the opportunity of this report to include Acerta for the first time in our model, meaning debt attached to the acquisition (including upfront and unconditional payment) but more importantly estimated future sales that are risk-adjusted by indication. Although six different indications are factored in, our risk-adjusted peak sales of USD2.1bn in 2026 mainly derives from R/R and 1L CLL where it may achieve USD1.8bn in sales. Phase III data in R/R CLL are expected to be released by year-end.

■ As for Lynparza, we see the drug as mainly competing with Tesaro's in ovarian cancer while the game is more open in the breast cancer area which can be much bigger but with many more compounds engaged including potential best-in-class talazoparib (Medivation). What is clearer now is that, since Tesaro disclosed data recently with its own candidate, the class looks highly attractive at least in these two cancers.

■ Last but not least, durvalumab is likely to deliver clinical data in head & neck and, with the MYSTIC trial over the coming 12 months, we see the two settings as key for the peak sales of the drug that is so far not clearly differentiated from the pack. We have 50% PoS on USD3.7bn PS.

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AstraZeneca



Company description

AstraZeneca was formed in 1999 by the merger of Swedish Astra and British Zeneca. Originally a life science company, it then span off its agrochemicals business (merged with Novartis' to form Syngenta) and focused on pharmaceuticals, divesting some other minor diversifications and acquiring biotech capabilities with CAT and then MedImmune.

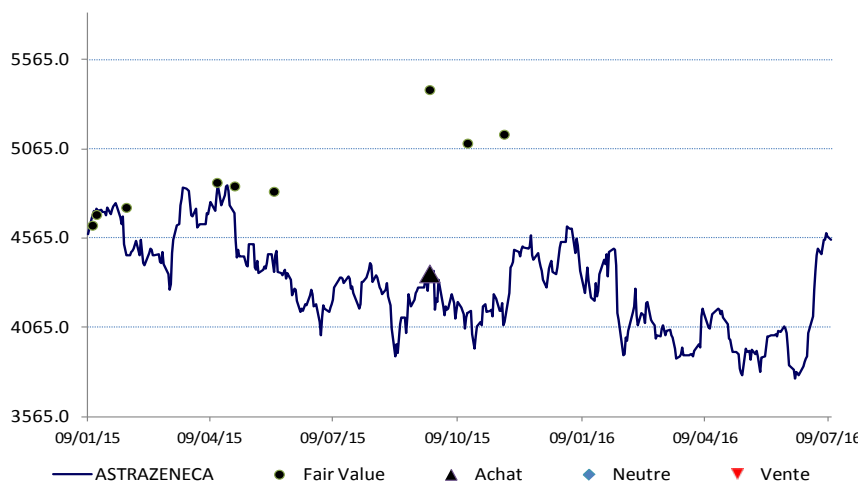
AstraZeneca has strong brands like Nexium, Crestor or Seroquel and is currently facing a deep patent cliff. Time will tell whether R&D revives and is able to deliver new medicines that could offset part if not all of sales lost to patent expiries.

Profit & Loss account (USDm)	2013	2014	2015	2016e	2017e	2018e
Sales	25,712	26,095	23,641	21,272	20,402	21,474
Change (%)	-7.7%	1.5%	-9.4%	-10.0%	-4.1%	5.3%
EBITDA	7,850	4,104	5,937	4,248	6,073	6,500
EBIT	3,712	2,137	4,114	3,047	5,219	5,267
Change (%)	-54.4%	-42.4%	92.5%	-25.9%	71.3%	0.9%
Core EBIT	8,390	6,937	6,902	6,142	6,409	6,457
Change (%)	-24.8%	-17.3%	-0.5%	-11.0%	4.3%	0.7%
Financial result	(445)	(891)	(1,045)	(1,042)	(945)	0.0
Pre-Tax profit	3,267	1,246	3,069	2,005	4,274	4,366
Exceptionals	0.0	0.0	0.0	0.0	0.0	0.0
Tax	696	11.0	243	276	718	735
Income from associates	0.0	0.0	0.0	0.0	0.0	0.0
Minority interests	15.0	2.0	1.0	(30.0)	(20.0)	5.0
Reported net result	2,556	1,233	2,825	1,759	3,576	3,626
Core Net result	6,319	5,396	5,390	4,587	4,829	4,879
Change (%)	-27.0%	-14.6%	-0.1%	-14.9%	5.3%	1.0%
Cash-Flow Statement (USDm)						
Operating cash-flows	7,348	4,260	3,496	2,752	4,364	4,763
Change in working capital	172	(3,080)	(351)	537	763	62.5
Capex (net)	2,023	2,752	2,788	1,400	1,400	1,200
Financial investments	1,158	3,804	2,446	3,139	0.0	1,500
Dividends paid	3,507	3,545	3,486	3,539	3,539	3,539
Net Debt	1,162	4,504	8,823	15,323	17,361	19,670
Free Cash flow	4,317	173	(2,955)	(2,324)	2,201	2,001
Balance Sheet USDm						
Shareholder funds	23,253	19,646	18,509	15,262	13,673	12,470
+ Provisions	3,650	4,058	3,216	3,216	3,216	3,216
+ Net Debt	1,162	4,504	8,823	15,323	17,361	19,670
= Invested Capital	28,065	28,208	30,548	33,801	34,250	35,356
Tangible assets	33,697	40,786	43,210	45,299	44,349	44,699
+ Working Capital	1,827	(1,253)	(1,604)	(1,067)	(305)	(242)
+ Others / Miscellaneous	(7,459)	(11,325)	(11,058)	(10,431)	(9,794)	(9,101)
= Capital employed	28,065	28,208	30,548	33,801	34,250	35,356
Total Balance Sheet	55,899	58,595	60,124	54,870	51,570	49,996
Financial Ratios						
Operating margin	14.44	8.19	17.40	14.32	25.58	24.53
Core operating margin	32.63	26.58	29.20	28.87	31.41	30.07
Tax rate	20.28	16.15	7.92	7.92	20.99	21.45
Net margin	9.78	2.29	6.84	1.26	9.44	10.76
ROE (after tax)	10.76	2.91	8.61	1.73	13.48	17.87
ROCE (after tax)	19.86	15.60	16.16	13.48	12.13	12.03
Gearing	5.00	22.93	47.67	100	127	158
Distribution rate	137	287	125	201	98.97	97.59
Number of shares (diluted)	1,250	1,263	1,264	1,264	1,264	1,264
Per share data USD						
Reported EPS	2.04	0.98	2.24	1.39	2.83	2.87
Restated EPS	2.04	0.98	2.24	1.39	2.83	2.87
Core EPS	5.05	4.28	4.26	3.63	3.82	3.86
change (%)	-26.5%	-15.3%	-0.3%	-14.9%	5.3%	1.0%
Goodwill per share	0.0	0.0	0.0	0.0	0.0	0.0
NPV	18.58	15.54	14.63	12.04	10.76	9.79
Cash flow per share	5.88	3.37	2.77	2.18	3.45	3.77
FCF per share	3.45	0.14	(2.34)	(1.84)	1.74	1.58
Dividend per share	2.80	2.80	2.80	2.80	2.80	2.80

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

Price Chart and Rating History

AstraZeneca



Ratings

Date	Ratings	Price
18/09/15	BUY	4271p
20/12/13	NEUTRAL	3599p
17/01/13	BUY	3037p
18/07/11	NEUTRAL	3093p

Target Price

Date	Target price
02/05/16	5100p
06/04/16	5360p
10/03/16	5520p
05/02/16	5500p
17/12/15	5550p
03/12/15	5400p
12/11/15	5150p
16/10/15	5100p
18/09/15	5400p
26/05/15	4830p
27/04/15	4860p
14/04/15	4880p
06/02/15	4740p
15/01/15	4700p
12/01/15	4640p
12/11/14	4570p
17/09/14	4450p
01/08/14	4400p
26/06/14	4220p
25/04/14	4230p
15/01/14	3830p
20/12/13	3640p
01/11/13	3580p
02/08/13	3620p

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NEUTRAL	Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
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Distribution of stock ratings

BUY ratings 56.8%

NEUTRAL ratings 33.8%

SELL ratings 9.5%

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