

AstraZeneca

Price 5,027p

What could be behind yesterday's call tone?

Fair Value 5400p vs. 5370p (+7%)

BUY

Bloomberg	AZN LN
Reuters	AZN.L
12-month High / Low (p)	5,027 / 3,774
Market Cap (GBPm)	63,572
Ev (BG Estimates) (GBPm)	75,404
Avg. 6m daily volume (000)	2,900
3y EPS CAGR	-2.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	17.6%	27.0%	15.6%	8.9%
Healthcare	6.1%	5.3%	5.5%	-3.5%
DJ Stoxx 600	7.2%	-2.7%	1.4%	-7.2%

YEnd Dec. (USDm)	2015	2016e	2017e	2018e
Sales	23,641	21,387	20,512	21,581
% change		-9.5%	-4.1%	5.2%
EBITDA	5,937	3,997	6,165	6,590
EBIT	4,114	2,796	5,311	5,357
% change		-32.0%	90.0%	0.9%
Net income	5,390	4,733	4,904	4,952
% change		-12.2%	3.6%	1.0%

	2015	2016e	2017e	2018e
Operating margin	17.4	13.1	25.9	24.8
Net margin	6.8	0.3	9.8	11.1
ROE	8.6	0.5	14.2	18.6
ROCE	16.2	13.7	12.3	12.2
Gearing	47.7	103.1	129.1	158.9

(USD)	2015	2016e	2017e	2018e
EPS	4.26	3.74	3.88	3.92
% change		-12.2%	3.6%	1.0%
P/E	15.5x	17.6x	17.0x	16.8x
FCF yield (%)	NM	NM	2.7%	2.5%
Dividends (USD)	2.80	2.80	2.80	2.80
Div yield (%)	4.2%	4.2%	4.2%	4.2%
EV/Sales	3.9x	4.6x	4.9x	4.8x
EV/EBITDA	15.5x	24.8x	16.4x	15.7x
EV/EBIT	22.4x	35.4x	19.0x	19.3x

AstraZeneca is obviously approaching the end of the transition period, as Crestor starts to collapse under the influence of initial generics in the US. Although it will accelerate in H2, this will be more than offset by significantly higher inflows from milestones and royalties paid by third-parties on externalisation deals, most of which have already been signed. Management expressed both gratitude and confidence to its shareholders during the call. This has left curious impression. Speculative interest may have been revived – and even become strong as we approach 2017. We keep our BUY rating as our new and still speculation-free FV (5400p) remains above the share price.

ANALYSIS

- First questions during the Q&A section of yesterday's call and market reaction afterwards (which has nothing to do with Q2 numbers for sure) were the unsurprising reflection of the overall tone of the conference call, of some introductory comments made by Pascal Soriot and Marc Dunoyer and also of one or two slides included in the slide deck. Unlike usual quarterly conference calls, this one was very focused on philosophy, strategy, future and also included a couple of strange comments to thank shareholders for their patience and debtors for the restructuring of debt in good conditions. When the questions were asked, management said that there was nothing to read behind these comments, but as AstraZeneca approaches the end of its transition period, it was good time to reiterate confidence in the future and in the value of the pipeline. Pascal Soriot added that this value was clear to the management team, hopefully clear to shareholders and so likely clear to other parties as well. Did he mean to predators? As the comment comes a few weeks after Novartis suggested that it might be preparing something big, and a few days after brokers elaborated on this scenario, that's probably how investors are reading the comment.
- We would advise investors to listen to feedback from all upcoming roadshows, because it is difficult otherwise to say for sure if the comments made during the conference call reflected any ongoing discussion with other parties for a merger, or preparation for a defense strategy.
- That said, how are we now supposed to behave in light of these comments and also after yesterday's share price rise of more than 5% (i.e. with stock back to its 5-year price highs), which likely reflects some renewed speculative interest in the stock ?
- Well, until our FV – which is, of course, only based on DCF and EVA – exceeds the current share price, we see no reason to change our approach to the investment case. Hence, since Q2 numbers influenced some of our revenue estimates positively (we increased the sequence of annual sales for Farxiga, Tagrisso, Faslodex and Nexium), this is indeed the case as our new FV is GBP5,400 which implies 8% upside to yesterday's closing price. Therefore we keep our BUY rating.
- It is also fair to say that H2 2016 is full of potential catalysts for the stock with a lot of regulatory activity (approvals expected for saxa-dapa in the US after resubmission, for brodalumab in the US, for benralizumab in severe asthma globally, resubmission of ZS-9 in the US after CRL) and clinical newsflow including key data from phase III trials with Brilinta (PEGASUS), Lynparza (in ovarian cancer), for acalabrutinib in CLL and for durvalumab (HAWK study in head and neck cancer).

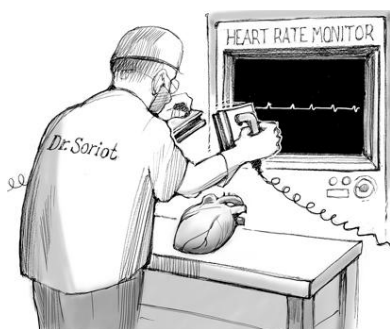
VALUATION

- Our change in FV mainly derives from stronger-than-expected ramp-up for Farxiga and Tagrisso and better-than-expected resilience of Nexium in the US.

NEXT CATALYSTS

- Q3 2016: Lynparza data in ovarian cancer, acalabrutinib data in CLL

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