

Sanofi

Price EUR76.29

In-line Q2 reporting and reiterated FY guidance

Fair Value EUR83 (+9%)

NEUTRAL

Bloomberg	SAN FP
Reuters	SASY.PA
12-month High / Low (EUR)	100.7 / 67.3
Market Cap (EURm)	98,331
Ev (BG Estimates) (EURm)	105,726
Avg. 6m daily volume (000)	2 903
3y EPS CAGR	2.6%

Sanofi has reported a set of numbers for Q2 that was very much in line with CS estimates with sales coming in a touch lower than expected on the back of a weak quarter in CHC and Gx, which was offset lower in the P&L by lower financial costs and tax rate. In the end, core EPS was in line with CS estimates at EUR1.31. Our guess is that investors should be more interested in capturing upcoming newsflow rather than discussing in-line Q2 numbers. In our view we are approaching better times.

ANALYSIS

- To summarise Sanofi's second-quarter we would say it was very much as expected with the same ingredients as in Q1 playing out and characterising the period i.e. pressure on Lantus and on the Diabetes franchise overall, very strong growth for Genzyme and solid growth for Vaccines as well, despite a disappointing ramp-up for Dengvaxia due to difficult macro-economic conditions in emerging markets where first tenders and sales should come from. Note however that the vaccine was launched in El Salvador in July and that a first vaccination programme was also implemented in July in Brazil. With only EUR1m booked in the quarter for DengVaxia, the reported 6.3% increase was remarkable and mainly reflected a 29% increase for paediatric vaccines, largely driven by Pentaxim and Hexaxim in emerging markets, up 44%
- However, it is fair to stress that CHC suffered even more than in Q1 and reported a 4.3% decline that, when restated for the specific situation in Venezuela and for a few asset disposals, would have been an increase of 2.7%. But overall the performance was poor, including for the US, which was not specific to Sanofi and also reflected a low cough & cold and allergy season.
- We would also like to highlight another spectacular performance from Genzyme in Q2. More specifically, the MS franchise expectations again time and grew another 67% although the comparison basis itself increased. Over the full year, it is now fair to expect Aubagio to approach EUR1.3bn in sales.
- A word also about Diabetes, down 3.2% in the quarter and so well within the guided range and even slightly above as the glargine franchise was very well under control with Toujeo able to offset most of Lantus decline so far. Toujeo reached EUR141m in the quarter, of which EUR106m were in the US which confirms the good sentiment we had back from ADA about how the drug was received on the back of a strong marketing support. The drug looks on track to reach blockbuster status towards the end of 2017/early 2018, although we will see how it will react once Basaglar is launched later this year and how payers behave.
- Moving to earnings, the main blocks are as expected with R&D expenses growing 4.6% in CER terms, in line with guidance and increased investments in oncology in particular, whereas other expenses were more or less stable. Marketing and selling expenses also grew slightly in light of the support needed by Praluent, Toujeo or the MS franchise.
- The small miss to business operating income with consensus was offset by reduced financial expenses (a line that includes a capital gain on a minor asset sale) and by a lower-than-expected tax rate of 24%. In the end, core EPS of EUR1.31 was in line with estimates.
- In R&D, Jevtana missed the endpoint in 1L prostate cancer and glucagon analog was discontinued. PD-1 inhibitor entered phase II as expected in cutaneous SCC.

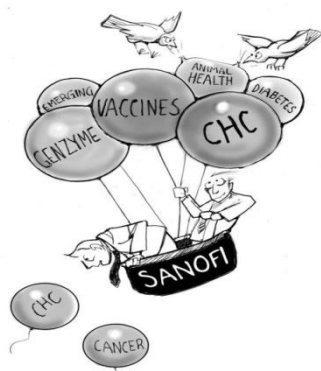
VALUATION

- There should be no meaningful change in numbers. We would simply note that stable EPS together with -4% Fx impact leads to an EPS of about EUR5.40 when CS is closer to EUR5.50-5.55.

NEXT CATALYSTS

- End of August: PDUFA date for iGlarLixi

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	1 M	3 M	6 M	31/12/15
Absolute perf.	4.8%	0.1%	1.7%	-2.9%
Healthcare	6.1%	5.3%	5.5%	-3.5%
DJ Stoxx 600	7.2%	-2.7%	1.4%	-7.2%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	36,575	35,970	36,779	38,358
% change		-1.7%	2.2%	4.3%
EBITDA	11,237	10,722	10,472	10,731
EBIT	9,948	9,595	9,620	9,942
% change		-3.5%	0.3%	3.3%
Net income	7,371	6,995	7,080	7,796
% change		-5.1%	1.2%	10.1%

	2015	2016e	2017e	2018e
Operating margin	27.2	26.7	26.2	25.9
Net margin	20.2	19.4	19.3	20.3
ROE	12.9	12.0	11.9	12.6
ROCE	11.9	11.2	11.0	11.2
Gearing	12.7	12.7	9.8	6.1

(EUR)	2015	2016e	2017e	2018e
EPS	5.64	5.47	5.54	6.10
% change	-	-3.0%	1.2%	10.1%
P/E	13.5x	13.9x	13.8x	12.5x
FCF yield (%)	4.5%	6.0%	5.5%	6.4%
Dividends (EUR)	2.93	3.00	3.15	3.50
Div yield (%)	3.8%	3.9%	4.1%	4.6%
EV/Sales	2.9x	2.9x	2.8x	2.7x
EV/EBITDA	9.4x	9.9x	10.0x	9.5x
EV/EBIT	10.6x	11.0x	10.8x	10.3x

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Distribution of stock ratings

BUY ratings 72%

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