

Sanofi

Price EUR68.86

How much Q3 2016 says about 2017 and beyond?

Fair Value EUR84 vs. EUR83 (+22%)

NEUTRAL

Bloomberg	SAN FP
Reuters	SASY.PA
12-month High / Low (EUR)	93.3 / 67.3
Market Cap (EURm)	88,769
Ev (BG Estimates) (EURm)	96,222
Avg. 6m daily volume (000)	2 431
3y EPS CAGR	2.4%

Post-Q3 conference call clarified that the very good Q3 performance might not be extrapolable over the coming quarters and year and could be the starting point of a new phase for the company. It does not mean that Sanofi is not doing well on costs, but simply that 2017 core EPS may not have to be meaningfully revised by consensus. Hence a modest overall revision overall.

ANALYSIS

- The Sanofi share price behaved strangely through the trading day on Friday, opening sharply up and rising all morning to peak at +7% but then progressively reducing its gains from the time the conference call started. And this was in spite of a good call in our view, more focused in terms of speakers and overall duration. So, what can explain the intraday stock price evolution?
- In our view, from the beginning of the day when we read the press release, the key question was how much of the performance in Q3 was quarter-specific and how much it was saying about a potential new trend i.e. to be clear about a potential turning point in the story. And it looks like the market assumed at the start of the day that it was maybe the second scenario that was the right one, which we doubted. Indeed Q3 numbers were very good, suggesting flat 2016 core EPS numbers vs a slight decline anticipated. But we were unsure about what it meant for 2017 and whether a take-off in core EPS growth might have started already.
- Actually when Olivier Brandicourt repeated that Sanofi was committed to its flat core EPS guidance over 2015-2017, it was like assuming that if 2016 is slightly ahead, then 2017 might be slightly below the line, so that in the end it leads us to the same final core EPS assumption at the end of 2017. What is surprising then is that Sanofi is not sharing anything that could explain what is now getting worse than expected in 2017 which could reverse the trend seen in Q3. Worsening of the situation in diabetes was anticipated (unlike Novo Nordisk). Cost savings have just started to be delivered and new simplified GBU structure will continue to pay off, so much so that peak numbers have been increased to EUR1.5bn. Now, Sanofi Pasteur's comparison base will be very high, DengVaxia may not be that high in 2017, launch costs will increase and R&D is likely to require also additional investments. So, in the context of a declining Diabetes franchise by high-single to low teens in 2017 (largely depending on what happens with iGlarLixi), it is tough to expect core EPS to stay flat or even improve. Moreover, as expected, most of the share buy backs will either offset dilution from asset swap with B.I. or stock option exercises.
- So, in the end, our numbers are very slightly revised upwards for 2016 (EUR5.60 vs EUR5.47) but stay very close to where they were already for subsequent years, so that FV only moves by EUR1.

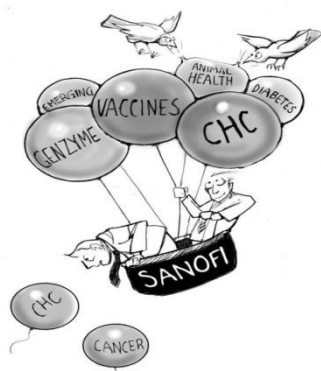
VALUATION

- Now, does this give more visibility over the future? We would however say 'yes, at least for the earnings section, because it improves confidence in the fact that savings might come through the bottom-line and/or mitigate requirements for extra investments. But, it does not remove questions over revenues (iGlarLixi take-off, PCSK9 patent litigation, overall diabetes decline, sarilumab et dupilumab launch trajectories etc ...). For that reason, we keep our NEUTRAL rating.
- We would add that Sanofi appeared confident in fixing the issues about the manufacturing inspection by the FDA at Le Trait (in France, not in an Irish plant as we previously wrongly stated) but it casts doubts about sarilumab and dupilumab launches anyway. Note that despite a comprehensive corrective action plan submitted to the FDA, Sanofi received a CRL for sarilumab on Friday evening.

NEXT CATALYSTS

- End of November: FDA PDUFA date for iGlarLixi

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Distribution of stock ratings

BUY ratings 56,7%

NEUTRAL ratings 31,2%

SELL ratings 12,1%

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