

10th November 2016

Healthcare

## AstraZeneca

Price 4,451p

Tax benefit of USD0.36 helps Q3 to come in-line but more importantly is part of FY guidance

Fair Value 5220p (+17%)

BUY

Bloomberg	AZN LN
Reuters	AZN.L
12-month High / Low (p)	5,220 / 3,774
Market Cap (GBPm)	56,301
Avg. 6m daily volume (000)	2 743

	1 M	3 M	6 M	31/12/15
Absolute perf.	-12.5%	-14.2%	17.2%	-3.6%
Healthcare	-6.8%	-11.6%	-3.4%	-16.1%
DJ Stoxx 600	-1.4%	-1.9%	1.0%	-8.4%

  

	2015	2016e	2017e	2018e
P/E	12.9x	13.9x	14.1x	14.4x
Div yield (%)	5.1%	5.1%	5.1%	5.1%

### ANALYSIS

- AstraZeneca Q3 numbers came out below estimates at the top-line level mainly because of weak sales for Brilinta (stocking in the referenced quarter of 2015 because of new formulation's launch) and even more significantly for the Respiratory franchise and Symbicort more specifically, which suffered from a true-up in 9-month rebates in the US following price negotiations with payers. All in all sales were USD5,025m when consensus was expecting USD300m more.
- This is offset by a good control of SG&A expenses so that core operating income is more or less in line with expectations but margin obviously higher.
- What then makes a big difference is the one-off benefit of USD453m (or USD0.36 per share) resulting from agreements with Canadian, UK and Sweden tax authorities in respect of transfer pricing arrangements over the 2004-2016 period. Restating from that one-off item, core EPS would have been USD0.96 i.e. very close to the USD0.98 anticipated by both the CS and us.
- What is more worrying is that AstraZeneca is not restating this one-off element when reaffirming its full-year core EPS guidance of a low-to-mid single digit decline. After the first 9 months, it is down 10% but Q4 2016 will include a lot of other operating income (as we speak we have already USD1.1bn). It has never been said that such a big one-off would be required to reach that target, meaning that underlying business is probably somewhat below expectations.

### VALUATION

- The just-above mentioned element is likely to be the disappointing factor of the quarterly release, together with pressure on Respiratory sales. Although nobody buys AstraZeneca for its 2016 core EPS numbers, this will also make 2017 core EPS guidance difficult in comparison to this inflated 2016 number. Lastly, with data on acalabrutinib and Lynparza breast shifting into 2017, we are afraid that investors will take a rest and wait for more data in 2017 before buying again. We will wait for our interactions with the company in the context of our Conference next week.

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- 14 November 2016: 4<sup>th</sup> BG Healthcare Conference - [Click here to download document](#)

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## Distribution of stock ratings

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NEUTRAL ratings 0%

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