25th November 2016

Healthcare

Sanofi

Price EUR74.58

Moving to Sanofi post-BI deal makes little change

Fair Value EUR83 vs. EUR84 (+11%) **NEUTRAL**

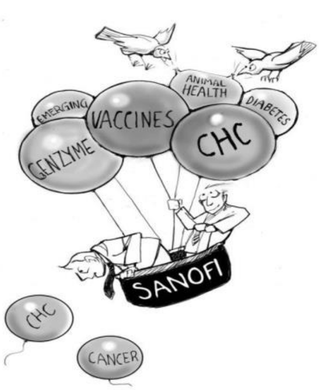
Bloomberg	SAN FP
Reuters	SASY.PA
12-month High / Low (EUR)	84.4 / 67.3
Market Cap (EUR)	96,166
Ev (BG Estimates) (EUR)	103,625
Avg. 6m daily volume (000)	2 574
3y EPS CAGR	1.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	7.8%	7.9%	3.9%	-5.1%
Healthcare	-4.1%	-8.8%	-8.0%	-15.1%
DJ Stoxx 600	-0.7%	-0.9%	-0.7%	-6.6%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	36,575	36,175	36,345	37,645
% change		*-1.1%*	*0.5%*	*3.6%*
EBITDA	11,211	10,773	10,210	10,449
EBIT	9,922	9,754	9,404	9,833
% change		*-1.7%*	*-3.6%*	*4.6%*
Net income	7,345	7,149	6,925	7,338
% change		*-2.7%*	*-3.1%*	*6.0%*

	2015	2016e	2017e	2018e
Operating margin	27.1	27.0	25.9	26.1
Net margin	20.1	19.8	19.1	19.5
ROE	12.9	12.3	11.9	12.3
ROCE	11.8	11.3	10.7	11.0
Gearing	12.7	12.7	14.3	11.0

(EUR)	2015	2016e	2017e	2018e
EPS	5.62	5.59	5.49	5.89
% change	-	*-0.5%*	*-1.9%*	*7.4%*
P/E	13.3x	13.3x	13.6x	12.7x
FCF yield (%)	4.6%	6.1%	5.9%	6.2%
Dividends (EUR)	2.93	3.00	3.15	3.50
Div yield (%)	3.9%	4.0%	4.2%	4.7%
EV/Sales	2.8x	2.9x	2.9x	2.7x
EV/EBITDA	9.2x	9.6x	10.2x	9.8x
EV/EBIT	10.4x	10.6x	11.1x	10.5x



As we come very close to the final stage of the transaction with Boehringer Ingelheim to swap assets (still expected to close by year-end), it is time for us to shift and use the new Sanofi as a base to value the stock going forward. Although it is going to be a B.U., Consumer Healthcare is unlikely to be as detailed from a P&L perspective as was Merial within Sanofi. So it may prove more difficult to follow its performance. Recent deals in Consumer Healthcare were mixed in terms of delivery on promises of synergies with GSK doing quite well but Bayer struggling to integrate Merck business. Sanofi's objective to increase the B.U.'s profitability to 30% in 2018 looks ambitious. In all, the change is fairly neutral in terms of EPS growth. Our FV is slightly adjusted downwards because industry-wise, we use lower LT growth rates in C.H. compared to animal healthcare.

ANALYSIS

- During the third-quarter conference call and again in recent meetings, Sanofi indicated that the asset swap with Boehringer Ingelheim (B.I.) was still expected to close by the end of the year, once all regulatory clearances are obtained. Already, several agreements have been reached, including from the EU in August for Sanofi to acquire B.I's OTC business and early in November for B.I. to acquire Merial. The agreement is subordinated to some (modest) divestitures, most of which have already been validated, including vaccines and pharmaceuticals acquired by Ceva Santé Animale to B.I. in October. Sanofi commented on this during the conference call by saying that the value of the assets to be divested represented only about EUR10-15m in annual sales.
- So the closure of the transaction will be announced soon and from then on, Sanofi will operate under a different structure. In 2016, Merial will generate about EUR2.6bn in revenues with a core operating margin of 25%. Top-line growth was exceeding the double-digit mark in 2015 and in H1 2016 but has significantly slowed-down in Q3, maybe in part because of some disturbance from the transaction. B.I.'s CH business posted more modest growth in the recent past but compared to the industry did quite well with 5% average growth, which was again the case in H1 2016 (-4% in reported terms, after currencies), with profitability said to be around 20%. It is Sanofi's objective to bring the overall CHC operating profitability back to 30% by 2018 and we look at this target as very ambitious. Although it is largely composed of OTC brands (therefore of assets with good profitability), we see few businesses able to reach this level of margins in this demanding industry.
- As a reminder, the difference in value between the two businesses will make B.I. pay Sanofi a true-up cash adjustment of EUR4.7bn. Sanofi will use it in big part to finance a EUR3.5bn share buy-back programme that will offset the core EPS dilution incurred by the transaction in year 1. Beyond 2017 and thanks to the synergies extracted in CHC, the deal is expected to be accretive. This of course is based on internal perspectives for the two businesses.

VALUATION

- As we implement the changes into our model, we are lowering the base of business for the group by about EUR1bn in sales and by close to EUR350m in core operating profit.
- Conversely, Sanofi has already started buying back shares (4 million in the first two weeks after it announced the start of a new SBB programme or EUR300m). Therefore, we expect the number of shares used to compute core EPS to fall by close to 30m between Q3 2016 and 2017 on average. We also take the opportunity of this update to refresh our asumptions on Soliqua following US approval (PoS to 100%) and on FX (USD/EUR now offering 5% +ve impact in 2017). In all, Core EPS is modestly impacted (slight increase in 2017 in reported terms). Our FV is down by EUR1 due to a small decrease in LT growth rates (CHC: 1.5% - AH: 2%).
- Looking beyond 2017, we see a fairly attractive CAGR for Sanofi should everything go according to plan. It is worth mentioning in particular that our numbers factor in positive ODYSSEY OUTCOMES data and EUR1bn in sales for Praluent in 2018. It is still a bit premature to BUY.

NEXT CATALYSTS

- By year-end: closing of the asset swap with B.I. - *Click here to download document*

Analyst :
Eric Le Berrigaud
33(0) 1 56 68 75 33
eleberrigaud@bryangarnier.com

Sector Team :
Mickael Chane Du
Marion Levi
Hugo Solvet

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London
Beaufort House
15 St. Botolph Street
London EC3A 7BB
Tel: +44 (0) 207 332 2500
Fax: +44 (0) 207 332 2559
Authorised and regulated by the
Financial Conduct Authority (FCA)

Paris
26 Avenue des Champs Elysées
75008 Paris
Tel: +33 (0) 1 56 68 75 00
Fax: +33 (0) 1 56 68 75 01
Regulated by the
Financial Conduct Authority (FCA) and the
Autorité de Contrôle prudential et de
resolution (ACPR)

New York
750 Lexington Avenue
New York, NY 10022
Tel: +1 (0) 212 337 7000
Fax: +1 (0) 212 337 7002
FINRA and SIPC member

Munich
Widenmayerstrasse 29
80538 Munich
Germany
+49 89 2422 62 11

New Delhi
The Imperial Hotel Janpath
New Delhi 110 001
Tel +91 11 4132 6062
+91 98 1111 5119
Fax +91 11 2621 9062

Geneva
rue de Grenus 7
CP 2113
Genève 1, CH 1211
Tel +4122 731 3263
Fax+4122731 3243
Regulated by the FINMA

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