7th December 2016

Healthcare

AstraZeneca

Price 4,034p

Two good data sets presented at ASH

Fair Value 5100p (+26%) **BUY**

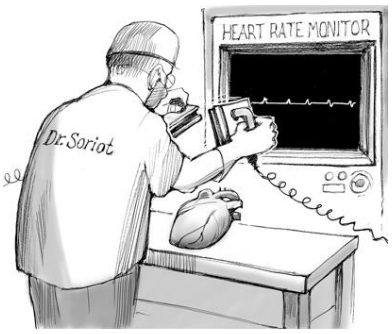
Bloomberg	AZN LN
Reuters	AZN.L
12-month High / Low (p)	5,220 / 3,774
Market Cap (GBPm)	51,026
Ev (BG Estimates) (GBPm)	63,087
Avg. 6m daily volume (000)	2 902
3y EPS CAGR	-8.3%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-7.7%	-17.7%	-0.1%	-12.6%
Healthcare	2.4%	-8.4%	-9.2%	-15.3%
DJ Stoxx 600	3.8%	-2.7%	0.0%	-6.7%

YEnd Dec. (USDm)	2015	2016e	2017e	2018e
Sales	23,641	21,375	19,695	20,463
% change		*-9.6%*	*-7.9%*	*3.9%*
EBITDA	5,937	4,232	5,493	5,633
EBIT	4,114	3,168	4,529	4,491
% change		*-23.0%*	*43.0%*	*-0.8%*
Net income	5,390	5,337	4,185	4,165
% change		*-1.0%*	*-21.6%*	*-0.5%*

	2015	2016e	2017e	2018e
Operating margin	17.4	14.8	23.0	21.9
Net margin	6.8	0.8	7.0	7.4
ROE	8.6	1.2	9.9	12.9
ROCE	16.2	14.5	10.8	10.6
Gearing	47.7	101.1	139.1	192.8

(USD)	2015	2016e	2017e	2018e
EPS	4.26	4.22	3.31	3.29
% change	-	*-1.1%*	*-21.6%*	*-0.5%*
P/E	12.0x	12.1x	15.5x	15.6x
FCF yield (%)	NM	NM	2.3%	1.8%
Dividends (USD)	2.80	2.80	2.80	2.80
Div yield (%)	5.5%	5.5%	5.5%	5.5%
EV/Sales	3.1x	3.7x	4.2x	4.2x
EV/EBITDA	12.4x	18.9x	15.1x	15.3x
EV/EBIT	17.9x	25.3x	18.3x	19.2x



In the context of the ASH medical congress, investigators presented two AZN-sponsored studies on Tagrisso (in 2L EGFR+ NSCLC with T790 mutation) and acalabrutinib (in R/R CLL) that are very much supportive of the value of these two medicines. We would call the data confirmatory promises for the two drugs, and acalabrutinib reassuring in the context of recent doubts about the ability to differentiate it from ibrutinib. We view the data as positive for the call in general and the one relating to the Oncology franchise even more specifically.

ANALYSIS

- Tagrisso: Back in October when we held a breakfast meeting with Pascal Soriot in Paris, we found him very bullish about the drug. At ASH were presented the detailed results of the AURA-3 phase III study that was investigating the compound at an earlier stage of the disease compared to its current indication i.e. in 2L of EGFR+ NSCLC with T790 mutation in comparison with a platinum-based doublet CT. And the results are indeed supportive of the group's enthusiasm for the drug since PFS (primary endpoint) was improved from 4.4 to 10.1 months (HR=0.30). Moreover the benefit was seen across all subgroups irrespectively of the age groups, ethinicity and the presence or not of CNS metastases (associated with poor prognosis, presence of CNS metastases translated into a median PFS jumping from 4.2 to 8.5 months). Other efficacy endpoints were also meaningfully in favour of Tagrisso with ORR of 71% (vs 31%) and duration of response of 9.7 months (vs 4.1 months). Last but not least, safety was also in favour of Tagrisso as only 23% in this arm developed adverse events of grade 3 or more compared to 47% in the CT arm. 7% had AEs leading to discontinuation of treatment vs 10% with CT.
- Acalabrutinib (1): BTK inhibitor's Phase I/II data in ibrutinib-intolerant patients with CLL were highly encouraging, in our view. ORR stood at 79% with most of the responses being partial, knowing that patients' baseline characteristics were challenging (median of 4 prior lines of therapy, ibrutinib being the last prior one in 91% of cases, 38% with a del17p, etc.). Moreover, the agent was well-tolerated since the majority of adverse events were Grade 1-2, and discontinuation rate due to AE was 9% (plus, 36% of patients had a recurrence of a side effect that they experienced during previous treatments with "ibru", most of which being of decreased or similar severity). So here again, the dataset looks superior to JNJ/ABBV's Imbruvica in slightly less pre-treated patients with CLL (Byrd *et al*, 2014). Besides, time will tell but induced responses with "aca" are likely to deepen over time, as seen in previous trials.
- Acalabrutinib (2): Data in patients with Richter's transformation were promising too and compare more than favorably with historical controls (Tsimberidou *et al*, 2006) with an 38% ORR in heavily pre-treated patients (median of 4 prior lines). Not too surprisingly, most of them are "secondary" DLBCL, but we lack details regarding their phenotypes, keeping in mind that the first generation of BTKi is much less potent in GBC subtypes compared to ABC ones (Wilson *et al*, 2015). So the higher the rate of GBC patients, the more impressive the data.

VALUATION

- Tagrisso sales are progressing steadily despite narrowed label so far and totalled USD276m over the first 9 months of the year. Not only are fresh data supporting an expansion of the label but T790M testing is also making progress and data presented at ASH suggested that about 50% of patients could be detected through simple plasma ctDNA testing while others should, if possible, perform tissue testing. Of course, it is worth keeping in mind that FLAURA phase III trial is still ongoing and compares Tagrisso to Tarceva in 1L. Data are expected in 2017. So far, we are not factoring in use of Tagrisso in 1L, therefore our conservative PS of USD1.6bn.
- On "aca", we are slightly adjusting our sales estimates by increasing our PoS in R/R CLL from 70% to 80%, translating into a PS of USD2.2bn (vs. USD2.1bn) in 2026. PoS in other indications remain unchanged (30% in DLBCL, FL, MM and WM, 40% in MCL).

NEXT CATALYSTS

- 2 February 2017: Full-year results - *Click here to download document*

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