16th December 2016

Healthcare

AstraZeneca

Price 4,400p

A late-stage pipeline call that helps put things in perspective

Fair Value 5100p (+16%) **BUY**

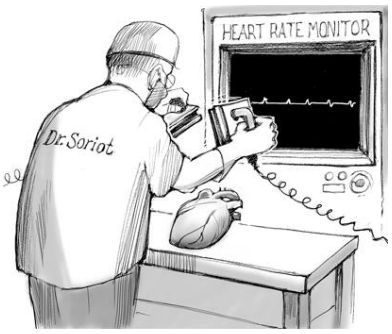
Bloomberg	AZN LN
Reuters	AZN.L
12-month High / Low (p)	5,220 / 3,774
Market Cap (GBPm)	55,662
Ev (BG Estimates) (GBPm)	68,014
Avg. 6m daily volume (000)	3 003
3y EPS CAGR	-8.3%

	1 M	3 M	6 M	31/12/15
Absolute perf.	0.9%	-11.9%	15.4%	-4.7%
Healthcare	2.4%	-3.6%	0.4%	-11.6%
DJ Stoxx 600	5.8%	5.4%	10.9%	-1.9%

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	12.8x	12.9x	16.5x	16.6x
FCF yield (%)	NM	NM	2.1%	1.7%
Dividends (USD)	2.80	2.80	2.80	2.80
Div yield (%)	5.1%	5.1%	5.1%	5.1%
EV/Sales	3.3x	3.9x	4.4x	4.4x
EV/EBITDA	13.1x	19.9x	15.9x	16.0x
EV/EBIT	18.9x	26.6x	19.2x	20.1x



AstraZeneca yesterday held its second late-stage pipeline webcast, which was an opportunity to summarise the key advances made during the current year and also to get a clearer view about what is going to happen over the coming 18 months. Although there was nothing really new, we found this call interesting to put everything into perspective and we came out of call with the conviction that AstraZeneca remains one of the most transformative stories in the large cap pharma space in Europe over the coming years. Indeed it has yet to transform a potentiality into reality but it is mainly timing that now matters and from that perspective H1 2017 is key.

ANALYSIS

- EVP Global Medicines Development and CMO Sean Bohen was managing the call yesterday and his key message as he introduced the call was to show that there was "more than durvalumab in IO, more than IO in oncology and more oncology at AstraZeneca". And this objective was reached although it is very clear that oncology carries the most exciting and attractive part of AZ's pipeline.
- A lot of time was spent speaking about developments in oncology and most of the questions during the Q&A session were about this theme. Before addressing the central case, which was MYSTIC with no surprise, AZ reiterated its strong confidence behind Lynparza and Tagrisso. Recent disclosure of headline data from the SOLO-2 trial (yet to be presented in a medical congress) revigorated the level of confidence behind Lynparza in a fairly competitive PARP inhibitor class and AZ clearly stated that SOLO-2 data would show the competitive profile of Lynparza in ovarian cancer whereas it is difficult to drive any conclusion from AbbVie's recent failure in breast cancer with its own PARP considering profound differences in trial design. First data in breast cancer with Lynparza will shortly come. Note also that SOLO-2 allows AZ to promote a four-tablet-a-day regime that is much more convenient than the current 16-capsules-a-day that prevails with Lynparza. Moving to Tagrisso, this is a very clear and easy path for the drug in the T790M segment but with the objective now to broaden the scope and embrace the full EGFRm NSCLC market and FLAURA phase III data will tell what to expect from the drug in 1L in H2 2017, with high hopes.
- Moving to durvalumab, AZ tried to make clear that it was still learning from two ongoing trials called 1108 (monotherapy) and 006 (combination with treme) to finetune MYSTIC. An important clarification came across about PFS too. AZ could have decided to drop PFS as a primary endpoint to favour OS but did not opt for this solution and will not because it still considers that even though OS is gold standard, PFS is a reliable endpoint in lung and as it will have full final analyses in H1 2017, there is a chance that MYSTIC can initiate a filing for the combination before OS data are out. PFS or OS, PD-L1 positive patients (with different thresholds) or all comers, MYSTIC has been designed and powered to answer different questions. AZ actually sold the worst-case in recent calls to keep expectations low but the probability to show something as early as in 2017 is reasonably high. In any case, durvalumab is likely to progress in bladder cancer with a PDUFA date in Q2 2017 and more data to come on study 1108 and later on in 1L with DANUBE (2018). We would say that same strategy was applied with acalabrutinib. Filing in 2017 is challenging based on "fast-to-market" strategy but not at all impossible considering strong data published so far.
- We heard less meaningful comments outside of oncology but we would nevertheless stress reiterated support behind ZS-9 and benralizumab. First is probably AZ biggest opportunity in the short-term with an anticipated regulatory decision expected in Q1 2017 in the US whereas it remains the best-in-class candidate for hyperkalaemia. Second is AZ best chance to bring the Respiratory franchise back to growth in the developed markets with best-in-IL5-class status although late entry vs GSK will make competition not so easy (despite the 8-w regime argument).

VALUATION

- No change

NEXT CATALYSTS

- 2nd February 2017: Full-year results - *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