

## ASTRAZENECA

| Healthcare  
| Pharmaceuticals

## NEUTRAL

Fair Value 6220p(-3%)  
Share price 6,496p  
EPS 3Y Cagr 11.3%

### Strategic partnership with Daiichi Sankyo in Her2-positive cancers

#### AstraZeneca gets access to an interesting asset

Daiichi-Sankyo (DS) and AstraZeneca (AZ) have signed an agreement under which they will cooperate on the joint development and commercialization of an antibody-drug conjugate called trastuzumab deruxtecan, whose construct is quite similar to Kadcyra (trastuzumab emtansine) i.e. whereby trastuzumab acts not only as an antibody but also as a carrier to bring a chemotherapeutic agent to the tumour site. Daiichi-Sankyo has so far developed the drug in various HER2-positive cancers, of course starting with breast cancer where incidence is the greatest. Some quite impressive results have been made public in 2017 and 2018: in very heavily pretreated patients with HER2-positive advanced or metastatic breast cancer (BC), already treated at least by Herceptin and Perjeta and for most with Kadcyra too, trastuzumab deruxtecan showed DCR of about 95%, ORR of 56% and a median PFS of 10.3 months in the HER2-positive cohort of those having received Kadcyra.

The drug has received BTX by the FDA for the specific setting of HER2+ advanced BC patients after Herceptin, Perjeta and Kadcyra where there are very few options.

#### A rich deal funded by an equity placement

AZ will pay DS USD1.35bn upfront, 50% immediately and 50% 12 months later. Further contingent payments include USD3.8bn of regulatory and development milestones and USD1.75bn of sales-related milestones. From now on, costs and profits will be equally shared although DS will book US and some European sales and AZ sales in rest of the world, except Japan where the first will keep exclusive rights. Surprisingly because it is quite uncommon, AZ will fund the transaction through an equity placement of approximately USD3.5bn, more than half of whose proceeds will be used specifically for it. The terms will be disclosed during the day.

An easy reference to assess how big the drug can be is to take Kadcyra, whose sales reached close to USD1bn in 2018. However, it is still growing and with KATHERINE data should come close to USD2bn at peak. The plan with DS and AZ is to develop trastuzumab deruxtecan in various tumour types, including breast, but also in gastric cancer (where Herceptin works but Kadcyra is not), in NSCLC and in CRC (where HER-2 positivity is much less frequent but where a topoisomerase-1 inhibitor makes sense). The strategy does not seem to target direct competition against Roche, but to expand use of HER-2 targeting agents well beyond their existing presence. In breast only, epidemiology data suggest that patients going 3L-4L represent more than half of those eligible for Herceptin in 1L. We would like to see more data outside breast cancer (maybe in combination with durvalumab?) before including sales in our model but BC and gastric cancer can be sufficient to make the drug a blockbuster in our view.

#### We expect small EPS dilution in 2019 & 2020 and accretion after

AZ says that the deal will be earnings neutral in 2019, but considering the equity placement, it cannot be but EPS dilutive. However, the guidance is unchanged meaning that AZ's underlying business is strong enough to offset the impact, which is obviously very good news. First filing should take place in H2 2019. AZ suggests accretion as early as 2020 which seems optimistic to us.

#### Market Data

Bloomberg / Reuters	AZN LN/AZN.L
Market Cap.	GBP82 323m
E.V.	GBP96,636m
Free Float	100
Avg. Daily volume (6m)	2,041
12m high / low	6,525 / 4,867
Ytd Perf.	10.6%

usdM	12/18	12/19e	12/20e	12/21e
Sales	21,049	22,578	24,485	26,382
% Change		7.3%	8.4%	7.7%
EBITDA	5,859	8,124	9,021	10,314
% Change		38.7%	11.0%	14.3%
EBIT	3,387	6,311	7,118	8,327
% Change		86.4%	12.8%	17.0%
Net Income	4,389	4,445	5,092	6,051
% Change		1.3%	14.5%	18.8%
ROE	0.07	0.20	0.26	0.34

	12/18	12/19e	12/20e	12/21e
EV/Sales	5.8x	5.5x	5.1x	4.7x
EV/EBITDA	20.8x	15.4x	13.8x	12.0x
EV/EBIT	36.0x	19.8x	17.5x	14.9x
EPS	3.46	3.51	4.02	4.78
% change		1.3%	14.5%	18.8%
P/E	24.5x	24.2x	21.2x	17.8x
Div Yield	3.3%	3.3%	3.4%	3.5%

#### Next Catalyst : 26/04/2019 - Q1 earnings

#### Last rating Change:

2018-11-2, Upside to the current price is less clear to us

#### Last FV Change:

2019-2-15, Leverage on margins comes earlier-than-anticipated

#### Last Reports:

2019-2-22, A two-sided case, converging into one?

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