

Sanofi

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Low pharma pricing power offset by low expectations. Maintain Neutral rating

- Today we reiterate our Neutral rating on Sanofi
- Praluent faces a long slow slog
- Dupixent/dupilumab looks priced in
- Valuation:

Sanofi looks relatively cheap, expectations are low, but pricing power in its main pharma franchises is declining. The diabetes business (18% '17e revenues) faces commoditization; more so than Novo Nordisk. The market will have to wait until '17 guidance to know the price concessions required to keep Lantus on US formularies for another year. Competition is increasing in multiple sclerosis, and orphan drugs are on payers' minds. The difficult fundamentals are offset by low expectations and sustainable Consumer Health, Vaccines and emerging market sales.

Praluent faces a long slow slog

Praluent, Sanofi's PCSK9 inhibitor to treat high cholesterol/cardiovascular risk, faces slow adoption even if, as we expect, it turns out to improve cardiovascular outcomes (data late '17/early '18). Payers were taken aback by the potential budget impact of the PCSK9 inhibitors and blocked access with an efficiency that surprised everyone. We forecast a slow ramp to €3bn by '25 but only with new trial data, a new label, and new treatment guidelines.

Dupixent/dupilumab looks priced in

Sanofi's dermatitis drug, dupilumab, looks good, but consensus seems reasonable-to-optimistic. We forecast €2.7bn by '25. But there are major wrinkles with dupilumab and with Praluent: a patent dispute with Amgen on Praluent; potential manufacturing problems with dupilumab; and, even if the drugs do well, Sanofi shares around half the profits with Regeneron.

Valuation:

We focus on DCF in setting price targets (Sanofi WACC 4.9%, terminal growth 2%), but sense-check vs. PE multiples for "core" and IFRS earnings, considering EPS growth profile. Our price target for Sanofi is €78 which is 20.1x 2017e IFRS EPS and 13.7x 2017e "business" EPS. Our EPS numbers are behind consensus in the outer years. Sanofi looks cheap on an adjusted earnings basis. However, it has relatively low growth ('17e-'25e EBIT CAGR near 2%), the lowest ROIC of the group (<5% including capitalized R&D), and looks close to fair value on DCF and IFRS earnings multiples.

12-month rating	Neutral
12-month price target	€78.00
Price	€76.33

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Trading data and key metrics

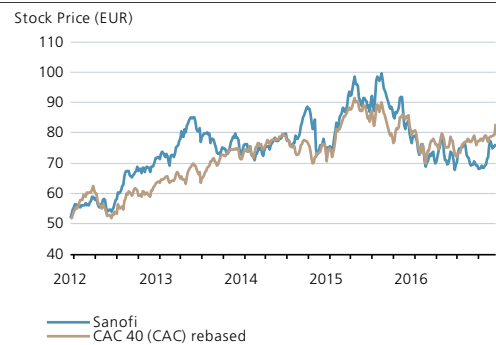
52-wk range	€80.10-67.27
Market cap.	€101bn/US\$107bn
Shares o/s	1,327m (ORD)
Free float	89%
Avg. daily volume ('000)	2,873
Avg. daily value (m)	€207.3
Common s/h equity (12/16E)	€58.7bn
P/BV (12/16E)	1.7x
Net debt / EBITDA (12/16E)	0.5x
RIC	SASY.PA
BBG	SAN FP

Sources: UBS, Bloomberg

EPS (UBS, diluted) (€)

	UBS	Cons.
12/16E	5.89	5.60
12/17E	5.70	5.50
12/18E	5.89	5.87

Performance



Sources: Bloomberg, UBS

Definitions of terms and abbreviations are available in the appendix section of this report, and more extensively on internet at www.ubs.com/glossary

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Investment Thesis

Investment Case

We believe the market is failing to distinguish pharma sub-segments that will retain pricing power from those that won't. Sanofi is on the wrong side of the distinction. The offsetting positives are low expectations and sustainable revenues from Consumer Health, Vaccines, and emerging markets.

Company Profile: Sanofi

Sanofi has capabilities in branded and generics, vaccines and consumer health, and has agreed to swap its Animal Health business for Boehringer Ingelheim's consumer business (expected closure end 2016). Pharma (including consumer) contributed 80% of 2015 group sales, and vaccines 13%. Key franchises in pharma are diabetes (Lantus, Toujeo), cardiovascular and Genzyme (focused on rare diseases, multiple sclerosis and oncology). Sanofi's collaboration with Regeneron has yielded key marketed drugs (Praluent) and late-stage assets including dupilumab (atopic dermatitis) and sarilumab (rheumatoid arthritis).

Statement of Risk

Risks for the pharmaceutical industry include low R&D productivity, generic competition, and legislative pressure on pricing and litigation risk. Company-specific risks include lack of visibility on US pricing dynamics for basal insulin, uptake of dupilumab in atopic

dermatitis and potential pipeline setbacks. Valuation: We consider several methods when we set our price targets (Sanofi WACC 4.9%, terminal growth 2%). We are most heavily influenced by DCF analysis. Our explicit forecasts run to 2025. From 2025, we assume 2% annual growth in (operating income x (1 – tax rate)) and a straight-line ROIC fade. ROIC fades to WACC over a 20 year period. This approach means that our DCF valuations are particularly sensitive to 2 parameters; WACC and our estimate of ROIC around 2025. Given these sensitivities, we sense-check our DCF valuation against PE multiples calculated on the basis of both adjusted ("core" or "non-GAAP" numbers) and IFRS or GAAP numbers, calibrated against the rest of the sector and considering the EPS growth profile.

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Highlights (€m)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Revenues	31,291	31,999	34,861	34,843	37,258	38,744	41,054	42,913
EBIT (UBS)	8,893	8,937	9,270	9,692	10,396	10,710	11,320	11,162
Net earnings (UBS)	6,686	6,847	7,371	7,585	7,345	7,584	8,015	7,886
EPS (UBS, diluted) (€)	4.99	5.14	5.58	5.89	5.70	5.89	6.22	6.12
DPS (€)	2.80	2.85	2.93	2.94	3.67	3.46	3.57	3.91
Net (debt) / cash	(6,333)	(7,473)	(7,406)	(6,945)	(6,926)	(7,364)	(7,731)	(8,295)
Profitability/valuation	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
EBIT margin %	28.4	27.9	26.6	27.8	27.9	27.6	27.6	26.0
ROIC (EBIT) %	13.9	14.4	15.6	16.9	18.0	18.3	18.9	18.3
EV/EBITDA (core) x	8.8	8.9	9.7	8.4	7.6	7.5	7.2	7.2
P/E (UBS, diluted) x	15.4	15.1	15.8	13.0	13.4	13.0	12.3	12.5
Equity FCF (UBS) yield %	5.5	6.1	5.3	5.1	4.4	4.1	4.6	4.3
Net dividend yield %	3.6	3.7	3.3	3.9	4.8	4.5	4.7	5.1

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied.

Valuations: based on an average share price that year, (E): based on a share price of €76.33 on 09 Dec 2016 21:37 GMT

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Buy	Buy	45%	36%
Neutral	Hold/Neutral	45%	36%
Sell	Sell	11%	19%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 March 2013.

UBS 12-Month Rating	Definition
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** Neutral	FSR is between -6% and 6% of the MRA.
** Sell	FSR is > 6% below the MRA.

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Key Definitions

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

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