

# Sanofi

France/Pharmaceuticals  
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**UBS Research**

Jack Scannell, IB Analyst  
 Michael Leuchten, IB Analyst

## Model update post FY2016 results (Price Target to €82 from €78, Neutral rating retained)

- We are publishing our new Sanofi model post FY16 results on Feb 08, 2017
- Revenues
- Operating Profit and EPS
- Valuation:

In aggregate the changes are small. We forecast revenues and core EPS to grow at 4% and 3% CAGR from 2017 to 2020 respectively. The EPS CAGR of 3% is lower than the mean average CAGR of 7% that we forecast for our other large-cap European drug stocks.

**Revenues**

Our 2017-2020 revenue forecasts fall by around 1% versus our previous forecasts, with the main change being a cut in our Praluent estimates. We do, however, still assume that the drug remains on the US market.

**Operating Profit and EPS**

Our Business Operating Profit (i.e., core or adjusted operating profit) estimates for 2017 to 2020 decrease in the 1% to 2% range versus our previous forecasts. Our Business EPS estimates decline by 0% to 1% over the same period, depending on the year.

**Valuation:**

We focus on DCF in setting price targets (Sanofi WACC 5.3 %, terminal growth 2%), but sense-check vs. PE multiples for "core" and IFRS earnings, considering EPS growth profile and qualitative factors. Despite small declines in our earnings forecasts, our DCF valuation supports price target for Sanofi of €82. This is ~15x core 2017E earnings and ~22x IFRS 2017E earnings. For comparison, the mean average 12 month price target for our other large-cap European drug stocks is ~15.7x core 2017E earnings or 22.1x IFRS 2017E earnings.

12-month rating	<b>Neutral</b>
12-month price target	<b>€82.00</b>
Prior	€78.00
Price	<b>€81.20</b>

**Contributing authors:** Marcus A. Koch

**Trading data and key metrics**

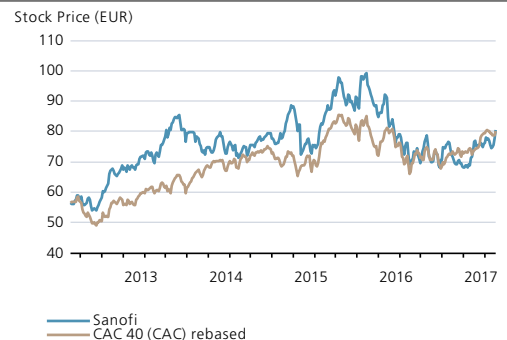
52-wk range	€81.20-67.30
Market cap.	€108bn/US\$114bn
Shares o/s	1,327m (ORD)
Free float	89%
Avg. daily volume ('000)	2,660
Avg. daily value (m)	€202.6
Common s/h equity (12/16E)	€61.6bn
P/BV (12/16E)	1.7x
Net debt / EBITDA (12/16E)	0.3x
RIC	SASY.PA
BBG	SAN FP

Sources: UBS, Bloomberg

**EPS (UBS, diluted) (€)**

	From	To	% ch	Cons.
12/16E	5.65	5.62	-1	5.68
12/17E	5.64	5.62	0	5.58
12/18E	5.88	5.86	0	5.93

**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](http://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 recently swapped its Animal Health business for Boehringer Ingelheim's consumer business (deal closed 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 marketed drugs (Praluent) and late-stage assets including dupilumab (atopic dermatitis) and sarilumab (rheumatoid arthritis).

### Statement of Risk

Risks for the pharmaceutical industry include political risks, government oversight of the approval and ongoing manufacturing process, discovery bottleneck and pipeline attrition, competitive developments, patent challenges and product liability. 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 5.3%, 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. For our Sanofi DCF, we calculate a WACC of 5.3%. We sense-check our DCF values versus P/E multiples for both "core" and IFRS earnings. We consider EPS growth and qualitative factors. Despite cuts to our earnings forecasts, our DCF valuation supports a target price for Sanofi of Euro 82.00. This is ~15x core 2017E earnings and ~22x IFRS 2017E earnings. For comparison, mean average 12 month price target for our other large-cap European drug stocks is ~15.7x core 2017E earnings or 22.1x IFRS 2017E earnings.

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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	34,708	37,353	38,634	40,377	42,361
EBIT (UBS)	8,893	8,940	9,270	9,221	10,080	10,584	11,090	11,161
Net earnings (UBS)	6,686	6,850	7,371	7,308	7,216	7,530	7,883	7,923
EPS (UBS, diluted) (€)	4.99	5.15	5.58	5.62	5.62	5.86	6.14	6.17
DPS (€)	2.80	2.85	2.93	2.96	3.28	3.35	3.57	3.83
Net (debt) / cash	(6,333)	(7,473)	(7,406)	(3,583)	(3,074)	(3,535)	(3,814)	(4,311)
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	26.6	27.0	27.4	27.5	26.3
ROIC (EBIT) %	13.9	14.4	15.6	16.2	17.6	18.2	18.7	18.5
EV/EBITDA (core) x	8.8	8.9	9.7	9.2	8.4	8.1	7.8	7.8
P/E (UBS, diluted) x	15.4	15.1	15.8	14.5	14.5	13.8	13.2	13.2
Equity FCF (UBS) yield %	5.5	6.1	5.3	4.7	3.9	3.8	4.3	4.1
Net dividend yield %	3.6	3.7	3.3	3.6	4.0	4.1	4.4	4.7

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 €81.20 on 15 Feb 2017 17:06 GMT

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UBS 12-Month Rating	Rating Category	Coverage <sup>1</sup>	IB Services <sup>2</sup>
Buy	Buy	45%	28%
Neutral	Hold/Neutral	39%	25%
Sell	Sell	15%	17%

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 December 2016.

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

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#### **Key Definitions**

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