

European Big Pharma

Most Preferred

AZN | TP 12,300p | Novo Nordisk | TP DKK 910

Least Preferred

Roche | TP CHF 300

A beneficial forex trend for Sanofi, GSK and Novo Nordisk

Publication date 17/10/2022 07:12

Writing date 17/10/2022 07:08

Price 10/14/22	Reco.	Curr.	Price	TP
AstraZeneca	Outperform	GBP	9818.00	12300.00
GSK	Outperform	GBP	1305.80	1700.00
Novartis	Neutral	CHF	75.99	88.00
Novo Nordisk	Outperform	DKK	798.90	910.00
Roche Holding	Underperform	CHF	326.40	300.00
Sanofi	Outperform	EUR	81.57	108.00

Next Events		
18/10/2022	Roche Holding	Earnings Release
25/10/2022	Novartis	Earnings Release
28/10/2022	Sanofi	Q3 Results
02/11/2022	GSK	Earnings Release
02/11/2022	Novo Nordisk	Q3 Results

Q3 marked by profit taking and the Zantac scandal

The pharma sector was impacted in Q3 by profit taking following the excellent H1 performance (+8% vs STOXX600 -17%), as well as by the Zantac scandal (Sanofi and GSK) and to a lesser extent the Nexium affair (AstraZeneca) which put the legal risks intrinsic to the sector back in the spotlight. The performance for STOXX600 Healthcare stands at -7.6% over the quarter vs -4.8% for the STOXX600. The median performance in our universe of coverage comes to -7.3% over the period (Roche 1.5%, Novo Nordisk -3.3%, Novartis -6.6%, AstraZeneca -7.9%, Sanofi -18.6% and GSK -26.8%).

Forex: positive for Sanofi, GSK and Novo Nordisk

The forex trend since the start of the year and above all in Q3 is favourable for companies consolidating in €, £ and DKK. These three currencies are showing an average decline (vs Q3 2021) of around 15% vs \$. We expect a significant positive forex impact of c.15%, 12% and 15% on EPS for GSK, Novo Nordisk and Sanofi respectively. Conversely, the forex trend should be particularly unfavourable for AstraZeneca and Novartis with a negative impact of 7% and c.9-10% on EPS.

Seasonal flu vaccines, a new record quarter for Sanofi

Q3 is characterised by sales of seasonal flu and meningitis vaccines linked to the start of the school year. By definition, Sanofi (and to a lesser extent GSK) should benefit from this. The French pharma sector confirmed that 60% of deliveries were made in Q3 vs 55% in Q3 2021. Note that management had already highlighted that this year would see record sales driven by volume as well as the trend in the product mix. Moreover, deliveries to the west should also benefit from a favourable forex effect.

A challenging comparison base for most players but not insurmountable

Q3 should be marked by a challenging comparison base for most players in our coverage, due notably to the high Q3 2021 and the end/slowdown of the pandemic. We estimate the sales loss in Q3 2022 related to the end/slowdown of the pandemic at CHF 1.5bn (9% of sales) for Roche and c.£ 200m (3% of sales) for GSK. Only AZN should continue to show an attractive comparison base, noting that the integration of Alexion was carried out in Q4 2021. We think that all guidance cc will be confirmed (bearing in mind that all guidance was broadly raised in Q2). Only the forex effect could be readjusted but looks to be accurately factored in to estimates. Note, however, the development of lockdowns in China that could slow sales in Q4 and may be a point to watch at the conference call (AZN is the most dependent player with 14% of sales and has already guided on a decline in sales of around 5% in 2022).

Our Top Picks are AstraZeneca and Novo Nordisk, caution on Roche

After a tough Q3, the European pharma sector is becoming attractive once again in terms of valuation with a 2023e P/E of 13.3x, i.e. a discount of 10% vs the historic median for our coverage. The sector should also continue to play its defensive role in an uncertain geopolitical environment (exposure to Russia <2%) and a strong inflationary environment (limited exposure to raw materials and energy).

For the year-end, we favour AstraZeneca and Novo Nordisk, which have an attractive growth profile with strong visibility (EPS CAGR 2022-26e >15%) coupled with a clinical newsflow that is partly derisked (results of the TROPION-Lung01 and SELECT trials expected in H1 2023e). We remain somewhat cautious on Roche pending the results of the GRADUATE 1&2 trials (Alzheimer's) expected in the coming weeks.

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Q3 preview								
LCm	Publication date	Q3 2022 (ODDO BHF)	Q3 2021	Chg.	Q3 2022 (consensus)	Chg. (ODDO vs cons.)	Guidance 2022 (CER)	Comments
AstraZeneca (\$)		10/11/2022						
Sales		10 817	9 866	10%	10 753	1%	Total revenue is expected to increase by a low twenties percentage (FX could have a mid-single-digit adverse impact) Core EPS is expected to increase by a mid-to-high twenties percentage. FX could have a mid-single-digit adverse impact	The acquisition of Alexion was operational in Q4 2021. We therefore look for top-line growth of 10% (+17% at CER; -7% FX) driven by rare diseases and Farxiga. The adjustment variable concerns Covid-19 sales which will be down strongly for the vaccine but offset by Evusheld. We are a bit more cautious than the consensus on the gross margin for Q3, forecasting \$ 7.9bn vs \$ 8bn for consensus. In all, we think that AZN is likely to confirm its full-year guidance at CER, but could adjust up the FX impact at the top-line level to high-single digit while maintaining estimates for core EPS. We will pay close attention to the Q3 results to the most recent launches, namely Tezpire, Saphnelo and Enhertu.
Core EBIT		3 078	2 281	34.9%	3 190	-3.5%		
Core EPS		1.54	1.08	42.6%	1.54	0.0%		
GSK (£)		02/11/2022						
Sales		7 035 (excl. Covid: 7 010)	6 627 (excl. Covid: 6 418)	6.2% (excl. Covid: 9.2%).	7 227 (excl. Covid: 7 058)	-2.7% (excl. Covid: 1.2%)	6% to 8% for the New GSK excluding Covid-19 solutions. Covid-19 solutions: similar sales to 2021 (c. £ 1.4bn) but substantially reduced profit contribution resulting in a reduction of GSK's core EBIT (incl. Covid-19 solutions in both years) of between 5% and 7%. 13% to 15% for the New GSK excluding Covid-19 solutions 12% to 14% for the New GSK excluding Covid-19 solutions	We expect group sales to be up 6.2% (consensus +9.1%), lifted by a positive FX effect (ODDO BHF +9%). At CER, growth should therefore come to -3% (0% excl. Covid), penalised by an unfavourable base effect: Q3 2021 saw a strong recovery for Shingrix (+41% at CER) and a good performance from pharma (+10% at CER). For Q3, we expect growth of the HIV franchises in line with the company's full-year guidance (mid to high single-digit) as well as a good performance from Shingrix (ODDO BHF +25%; consensus +36%) in line with previous quarters. The general medicines division will continue to drag on growth and we see it falling 6% at CER (-0.7% incl. FX; consensus +3.7%). We model core EPS growth of 5.6% (consensus +7.3%), benefiting from an FX effect of around +15%. We expect the company to confirm its full-year targets for 2022.
Core EBIT		2 284	2 209	3.4%	2 255	1.3%		
Core EPS (p)		39.5	37.4	5.5%	40.2	-1.9%		
Novartis (\$)		25/10/2022						
Sales		12 747	13 030	-2.2%	12 892	-1.1%	Group: mid-single digit; IM: Grow mid-single digit; Sandoz; grow low-single digit Group: mid-single digit; IM: Grow mid-to-high single digit, ahead of sales; Sandoz: broadly in line with prior year	Q3 will be marked by a strong negative FX impact that the company estimates at -8% on sales and -9%/-10% on core EBIT. The innovative medicine division (80% of sales) is forecast to post growth of around 6% at CER (-1% incl. FX vs consensus +0.1%) driven notably by Cosentyx, Entresto, Zolgensma, Kisqali and Kesimpta (+8%, +26%, +13%, +18%,+143%). Sandoz is expected to post growth of 2% at CER (-8% incl. FX vs consensus -6.3%). We expect core EPS growth of 2% (-9% incl. FX vs consensus -6.7%) affected by a slight increase in the tax rate (16% vs 15%). We expect confirmation of the 2022 guidance: sales and core EBIT showing mid-single digit growth at CER. The full-year FX impact is estimated at -6%/-7% on sales and -8% on core EBIT.
Core EBIT		4 292	4 467	-3.9%	4 370	-1.8%		
Core EPS		1.6	1.7	-7.6%	1.6	-1.3%		
Novo Nordisk (DKK)		02/11/2022						
Sales		45 024	35 622	26%	44 437	1%	For the 2022 outlook, sales growth is now expected to be 12-16% at CER with a positive FX impact of 9% Operating profit growth is now expected to be 11-15% at CER with a positive FX impact of 14%	The base of comparison will be high again this quarter. The supply difficulties for Wegovy began at the end of Q4 2021 and Novo had to record the entry of insulins into the VBP programme in China last May. We will pay close attention to sales of Ozempic which we expect to be DKK 15,500m vs DKK 15,750m for the consensus, after the challenge from the launch of Mounjaro last June. However, despite these headwinds, we are ambitious for Q3 which should confirm the group's guidance, namely EPS growth of +11-15% for a FX impact that we expect to be adjusted upwards to +15% (vs 14% previously). The management is likely to give a recap on the ramp-up of Wegovy production.
Core EBIT		19 468	15 249	27.7%	19 364	0.5%		
Core EPS		6.29	5.27	19.4%	6.23	1.0%		
Sanofi (€)		28/10/2022						

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LCm	Publication date	Q3 2022 (ODDO BHF)	Q3 2021	Chg.	Q3 2022 (consensus)	Chg. (ODDO vs cons.)	Guidance 2022 (CER)	Comments
Sales		12 600	10 432	21%	11 805	6.7%		The quarter should again show good growth, driven by the vaccine franchise and a positive FX effect (+11% for sales and 12% for core EPS by our estimates). Q3 is the group's most profitable quarter as that is when it books sales of its seasonal flu vaccine. Unlike last year, Sanofi will book 60% of its vaccine sales in Q3 and 40% in Q4 (vs 55/45%). We expect a 15% increase in seasonal flu vaccine sales over the full year (including the FX effect). We will continue to pay close attention to the ramp-up of Dupixent for which we expect sales of € 2,065m vs € 2,135m for the consensus. We expect confirmation of the guidance at constant FX and an upward adjustment to the currency effect for EPS to between 8% and 9%.
Core EBIT		4 361	3 558	22.6%	4 130	5.6%		
Core EPS		2.73	2.18	25.2%	2.64	3.4%	Sanofi expects 2022 business EPS to grow approximately 15% at CER. The positive currency impact on 2022 business EPS is estimated at between +7.5% to +8.5%	
Roche (CHF)		18/10/2022						
Sales		14 909	15 971	-6.6%	15 227	-2.1%	Stable to low-single-digit; Roche expects sales of Covid-19 medicines and diagnostics to decrease by approximately CHF 2 bn to around CHF 5 bn, and sales losses to biosimilars of Avastin, Herceptin and MabThera in the current year to be roughly CHF 2.5 bn. Excluding these effects, group sales are expected to grow in the high-single digit range. Note that a first biosimilar to Lucentis will be launched in the US by Samsung Bioepis in July.	We expect Q3 sales to be down 6.6% (vs consensus -4.7%) with a FX impact of -1%. The pharma division (ODDO BHF -2.9%; consensus -2.2%) is likely to be penalised further by the sharp decline in the historical franchise (Avastin, Herceptin and MabThera),5 the arrival of Esbriet generics on the US market and the end of the pandemic (AHR: -CHF 560m, Lucentis/Esbriet: -CHF 160m, Covid-19: -CHF 790m). Diagnostics is expected to show a decline (ODDO BHF -17%; consensus -11.4%) given the decrease in the number of Covid-19 cases and the lockdowns in China (Covid-19: -CHF 700m). The company should reiterate its FY guidance: 1/ sales growth "stable- to low-single digit at CER" and 2/ core EPS growth "low- to mid-single digit at CER". We estimate the full-year FX impact at -1% on sales and -1/-2% on core EPS.
Core EBIT		na	na	na	na	na		
Core EPS		na	na	na	na	na	Low to mid-single-digit (incl. accretion of 4.4% from share buybacks)	

• **Valuation method**

Our target prices are established on a 12-month timeframe and we use three valuation methods to determine them. First, the discounting of available cash flows using the discounting parameters set by the Group and indicated on ODDO BHF' website. Second, the sum-of-the-parts method based on the most pertinent financial aggregate depending on the sector of activity. Third, we also use the peer comparison method which facilitates an evaluation of the company relative to similar businesses, either because they operate in identical sectors (and are therefore in competition with one another) or because they benefit from comparable financial dynamics. A mixture of these valuation methods may be used in specific instances to more accurately reflect the specific characteristics of each company covered, thereby fine-tuning its evaluation.

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Our stock market recommendations reflect the RELATIVE performance expected for each stock on a 12-month timeframe.

Outperform: performance expected to exceed that of the benchmark index, sectoral (large caps) or other (small and mid caps).

Neutral: performance expected to be comparable to that of the benchmark index, sectoral (large caps) or other (small and mid caps).

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		Outperform	Neutral	Underperform
Our whole coverage	(681)	52%	38%	10%
Liquidity providers coverage	(90)	57%	38%	6%
Research service coverage	(60)	63%	32%	5%
Investment banking services	(42)	60%	36%	5%

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Company	Date	Reco	Price	
GSK	27/04/2022	Neutral	21.34	Martial Descoutures
Novartis	25/08/2022	-	83.40	Martial Descoutures
Novo Nordisk	04/08/2022	Neutral	104.68	Martial Descoutures

Target price history over the last 12 months for the company analysed in this report

Company	Date	Price Target	Price	Analyst
AstraZeneca	29/07/2022	11570.90 GBP	10844.00	Martial Descoutures
	19/10/2021	9438.01 GBP	8739.00	Martial Descoutures
GSK	27/04/2022	18.29 GBP	1797.00	Martial Descoutures
	29/07/2021	17.63 GBP	1406.40	Martial Descoutures
Novartis	25/08/2022	96.29 CHF	80.20	Martial Descoutures
Novo Nordisk	04/08/2022	104.80 DKK	779.10	Martial Descoutures
	26/07/2022	100.34 DKK	860.00	Martial Descoutures
	11/04/2022	94.79 DKK	826.00	Martial Descoutures
	01/11/2021	83.34 DKK	702.70	Martial Descoutures
	05/08/2021	77.99 DKK	642.70	Martial Descoutures
	20/10/2021	307.29 CHF	352.20	Martial Descoutures
Roche Holding	11/07/2022	116.00 EUR	100.14	Martial Descoutures
Sanofi	07/02/2022	111.00 EUR	93.10	Martial Descoutures
	29/10/2021	108.00 EUR	86.43	Martial Descoutures

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