

AstraZeneca PLC

CORE HOLDING*

Recommended since 04.07.16

29.07.2022



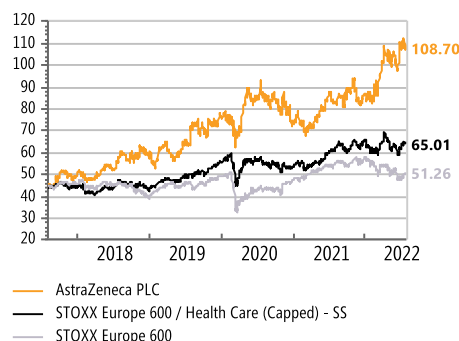
Country GB	Market capitalization (bn) GBP	169.1	Perf. since reco. (%)	
Sector Health Care	Free float	95.1%	AstraZeneca PLC	143.0
Factset AZN-GB	Closing price	GBP 108.70	Sector	40.4
ISIN GB0009895292	ESG Risk score*	22.2 Medium risk		



*From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

Profile

AstraZeneca is a pharmaceutical group born out of the 1999 merger of Swedish company Astra and UK firm Zeneca. The group has been refocusing on three treatment areas: (1) oncology (43% of sales); (2) respiratory, inflammatory and autoimmune diseases (20%); and (3) cardiovascular and metabolic diseases (18%).



Market - competition - positions - barriers to entry

Not having diversified into other fields in the healthcare sector, AstraZeneca is a pharma industry pure player. Barriers to entry are innovation, with a sizeable R&D budget (22% of sales); the clinical development process; the complexity of molecules and formulations; and the regulatory environment.

Source: Factset

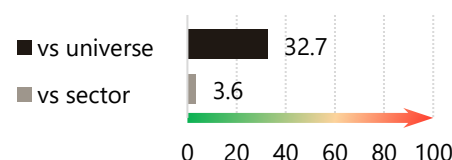
Investment case

- AstraZeneca has returned to growth thanks to a wave of new products. Already reflected in sales since the end of 2018, this has now filtered through into a clear uplift in the operating margin. New products, which include Lynparza (PARP inhibitor – breast, ovarian and prostate cancers with a BRCA gene mutation), Imfinzi (immuno-oncology – stage 3 non-small cell lung cancer, biliary tract cancer), Tagrisso (non-small cell lung cancer with an EGFR mutation) and Calquence (haematology) in oncology, Fasenra in respiratory and Farxiga in type 2 diabetes, will see their indications extended. Enhertu, now commercialised as a second-line treatment for HER2+ breast cancer, completes the oncology portfolio. This next-generation conjugated antibody shows promise for the treatment of cancers with HER2 overexpression (breast, gastric, colorectal and lung).
- While the acquisition of Alexion for USD 39mia appears primarily as a financial move, allowing for improved cash generation in the short term, the transaction nevertheless strengthens the Group's positioning in immunology, offers an entry point in rare diseases and new R&D opportunities.
- Ramp-up of the product portfolio and integration of Alexion will enable the group to generate the highest growth in the sector, with annual growth in sales and EPS set to average 10% and close to 20% respectively out to 2024.
- The year 2022 is likely to be quieter in terms of clinical publications, following the recent success of the study evaluating Enhertu as a last-line treatment for low HER2 expressing breast cancer. These data pave the way for a new indication representing 50% of breast cancers, but need to be confirmed by studies at an earlier stage in the treatment regimen (publication in second line is expected in 2023). The next major clinical step will be the publication in early 2023 of the phase III study evaluating DS-1062 (antibody conjugate) in second-line non-small cell lung cancer with overexpression of the TROP-2 protein.

ESG - risks and key points

- AstraZeneca's ESG risk is medium, mainly linked to its presence in the US (34% of sales), where litigation is more commonplace, and China (21% of sales), where the risk of corruption is higher. Shifting the portfolio's focus towards oncology (43% of sales, vs. 18% in 2017) tends to reduce litigation risk.
- Strong performance on corporate governance and overall management of ESG issues.

ESG risk vs. universe & sector (percentile)*



Source: Sustainalytics

Valuation** in GBP

Current price	Value Bordier Scenario
109	121

Our scenario assumes UK 10-year yields of 3%, organic growth averaging 2.8% a year over the period as a whole and an uplift in the EBITDA margin to around 40% in 2026 and gradually returning to 37% towards the end of the period.

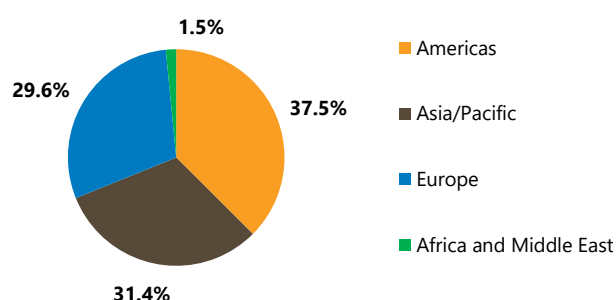
**) The theoretical value reflects the company's business model, our baseline growth and profit scenario and market data, exogenous to the company (risk-free rate and equity risk premium). It does not in itself constitute a target price.

"Bordier Core Holding" indicators

In millions of USD	2020	2021	2022e	2023e	2024e
Sales revenue	26'617	37'417	43'404	46'876	51'095
Sales growth %	9.0%	41.0%	16.0%	8.0%	9.0%
<i>o/w organic</i>	<i>10.0%</i>	<i>30.0%</i>	<i>10.0%</i>	<i>8.0%</i>	<i>9.0%</i>
EBIT adjusted	7'340	9'928	13'672	15'703	17'883
% of sales	27.6%	26.5%	31.5%	33.5%	35.0%
Net income	5'271	7'505	10'004	11'789	13'692
Adjusted EPS	4.02	5.26	6.46	7.61	8.84
Adjusted EPS growth	14.7%	31.0%	22.8%	17.8%	16.1%
Capex/Sales	3.2%	2.9%	4.2%	4.2%	4.2%
Free cash-flow	3'944	4'885	9'079	11'500	13'043
FCF/Sales	14.8%	13.1%	20.9%	24.5%	25.5%
Dividend per share	2.80	2.90	3.19	3.27	3.70
Dividend yield	2.8%	2.5%	2.4%	2.5%	2.8%
ROCE - WACC	12.3%	5.3%	10.7%	14.3%	18.2%
ROE (%)	33.7%	19.1%	24.2%	26.3%	27.1%
Net debt/Ebitda	142.8%	309.3%	120.2%	68.1%	20.0%

Source: Factset, Bordier estimates

Sales breakdown - 12/2021



Ratios

	AstraZeneca PLC	Stoxx Europe 600 Sector	Stoxx Europe 600 Market
PE (x)***		Health Care	Stoxx 600
2021	22.3	20.1	15.4
2022e	20.4	18.7	12.6
2023e	17.3	17.0	12.0
P/B (x)***			
2021	4.6	3.8	2.0
2022e	4.9	3.5	1.7
2023e	4.6	3.2	1.6
Beta (2Y, daily) vs market: 0.65			

***) Les ratios de valorisation présentés sont donnés à titre d'information. Ils ne constituent pas le critère de sélection des Core Holdings et peuvent présenter des primes significatives, représentatives de la qualité du modèle économique de l'entreprise.

Governance and ownership structure

Since 2012 - CEO Pascal Soriot

Agenda

28 July 2022: H1 results

Key shareholders (if any):

-

Any special characteristics of ownership (multiple voting rights, controlling holding company, shareholders' agreements, etc.):

None

Glossary

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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