

## AstraZeneca PLC

## CORE HOLDING\*

Recommended since 04.07.16

16.02.2024



Country	GB	Market capitalization (bn)	GBP	153,0
Sector	Health Care	Free float		95,0%
Factset	AZN-GB	Closing price	GBP	98,26
ISIN	GB0009895292	ESG Risk score*	22,0	Medium risk

Perf. since reco. (%)

AstraZeneca PLC 119,6

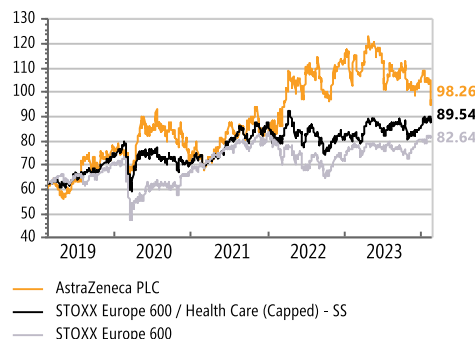
Sector 45,6



\*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 four treatment areas: 1/ Oncology (37% of sales); 2/ Cardiovascular and Metabolic diseases (21%); 3/ Respiratory and Immunology (16%); and 4/ Rare disease (8%).



## 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 (26% of sales); the clinical development process; the complexity of molecules and formulations; and the regulatory environment.

Source: Factset

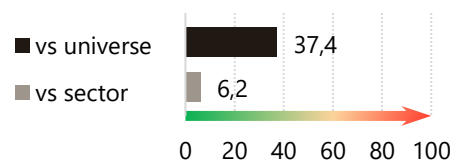
## Investment case

- AstraZeneca continues to grow on the back of the launches it has made in recent years, and this is now reflected in a visible improvement in margins. Business is driven by oncology treatments with Lynparza (PARP inhibitor - breast, ovarian and prostate cancers with BRCA mutation), Imfinzi (immuno-oncology - stage 3 non-small cell lung cancer), Tagrisso (non-small cell lung cancer with EGFR mutation), Calquence (hematology) as well as Fasenna in respiratory and Farxiga in type II diabetes. The launch of Enhertu, now marketed in HER2+ and HER2-low breast cancer, completes the oncology portfolio. This antibody-drug conjugate holds promise for the treatment of cancers expressing the HER2 protein (breast, gastric, colorectal and lung cancers). The Group is also preparing the launch of AirSupra for asthma and Truqap for HR+ breast cancer.
- The clinical newsflow will be quieter in 2024, but we will nevertheless have Phase III data from Tagrisso in unresectable Stage III lung cancer and Enhertu in 2nd-line low HER2-expressing breast cancer.
- In 2023, AstraZeneca pursued targeted acquisitions and forged partnerships that enabled it to strengthen its pipeline with promising new platforms and technologies : 1/ six antibody-drug conjugates have been added to its existing platform (cf Enhertu and DS-1062) ; 2/ diversification of cell therapy developments, notably with the addition of the T-regulatory lymphocyte (Treg) technology, which regulates T lymphocytes and could prevent autoimmune diseases (studied in type 1 diabetes, inflammatory bowel diseases) ; 3/ oral GLP-1 treatment in obesity.
- Over the next three years, we expect sales to grow by 8%/year. The target of improving operating margin to 35% by 2025-26 (vs. 31.7% in 2023), will enable EPS growth of 10%/year. Given the richness of the pipeline (a total of 178 projects / 27 Phase III programs, including more than 10 with blockbuster potential), R&D investments will remain sustained. While this implies a more limited increase in margins post-2026, the Group should be in a position to generate long-term growth drivers.

## ESG - risks and key points

- AstraZeneca's ESG risk is medium, mainly linked to its presence in the US (33% of sales), where litigation is more commonplace, and China (16% of sales), where the risk of corruption is higher. Shifting the portfolio's focus towards oncology (37% 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 &amp; sector (percentile)\*



Source: Sustainalytics

## Valuation\*\* in GBP

Current price	Value Bordier Scenario
98	135

Our scenario assumes UK 10-year yields of 3% ; organic growth averaging 0,6% a year over the period as a whole ; an increase in EBIT margin to 35% by 2026, stabilizing by 2030 and gradually returning to 32% by the end of the period.

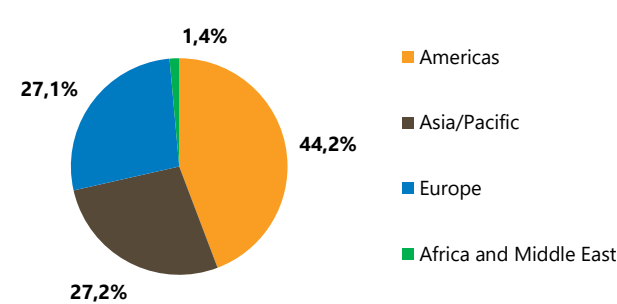
\*\*) The theoretical value reflects the company's business model, our baseline growth and profit scenario and market data, exogenous to the company (risk-free rate and equity risk premium). It does not in itself constitute a target price.

"Bordier Core Holding" indicators

In millions of USD	2022	2023	2024e	2025e	2026e
Sales revenue	44 351	45 811	50 850	54 410	57 674
Sales growth %	19,0%	3,3%	11,0%	7,0%	6,0%
o/w organic	17,0%	6,3%	12,0%	7,0%	6,0%
EBIT adjusted	13 350	14 534	16 781	18 499	20 186
% of sales	30,1%	31,7%	33,0%	34,0%	35,0%
Net income	10 308	11 247	12 375	13 750	15 099
Adjusted EPS	6,61	7,20	7,92	8,80	9,67
Adjusted EPS growth	25,6%	9,0%	10,0%	11,1%	9,8%
Capex/Sales	1,8%	2,7%	4,5%	4,5%	4,5%
Free cash-flow	8 999	9 116	11 316	12 984	14 389
FCF/Sales	20,3%	19,9%	22,3%	23,9%	24,9%
Dividend per share	2,90	2,90	3,00	3,00	3,00
Dividend yield	2,1%	2,1%	2,4%	2,4%	2,4%
ROCE - WACC	10,7%	13,1%	15,0%	18,2%	20,7%
ROE (%)	27,8%	28,7%	28,0%	27,4%	26,3%
Net debt/Ebitda	249,7%	167,8%	87,4%	38,2%	-9,1%

Source: Factset, Bordier estimates

Sales breakdown - 12/2022



Governance and ownership structure

Since 2012 - CEO Pascal Soriot

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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