Sanofi SA (SNY)

Updated August 8th, 2018 by Nate Parsh

Key Metrics

Current Price:	$42	**5 Year CAGR Estimate:**	15.3%	**Volatility Percentile:**	31.3%
Fair Value Price:	$59	**5 Year Growth Estimate:**	4.0%	**Momentum Percentile:**	16.5%
% Fair Value:	71%	**5 Year Valuation Multiple Estimate:**	7.1%	**Valuation Percentile:**	94.9%
Dividend Yield:	4.2%	**5 Year Price Target**	$73	**Total Return Percentile:**	91.8%

Overview & Current Events

Sanofi is a global pharmaceutical leader incorporated in 994. The company develops and markets a variety of therapeutic treatments and vaccines. Pharmaceuticals account for ~85% of sales, with the remaining sales coming from vaccines. Sanofi is truly a global leader, with a third of sales coming from the U.S., a little more than a quarter coming from Western Europe and the remainder of sales coming from emerging markets/rest of the world. Sanofi has more than 100,000 employees and operates in more than 170 countries. Sanofi generated €35 billion of revenue in 2017.

Sanofi is incorporated in France, but U.S. investors have access to the company through an American Depositary Receipt, or ADR. Sanofi's ADRs are highly liquid and easily invested in through almost any broker.

Sanofi reported 2nd quarter earnings on July 31st. The company earned $0.74 per ADR share, growing 1.5% at constant currency rates. The company saw revenue decline 5.7% in to $9.75 billion.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$2.37	$3.02	$2.76	$2.98	$2.60	$2.25	$2.00	$1.82	$1.78	$2.36	***$3.28***	***$3.99***
DPS	$1.63	$1.44	$1.47	$1.76	$1.69	$1.91	$1.91	$1.61	$1.66	$1.64	***$1.79***	***$2.18***

Sanofi saw earnings growth during the last recession, though there has been some variance in results in the past few years. This is the case with many ADRs and is often a result of currency fluctuations. The company is expected to earn $3.28 per share in 2018. We expect earnings and dividends per share to grow by 4% annually over the next 5 years.

Sanofi's 2nd quarter sales declined 4.4% in the U.S. and 0.7% for the rest of the world. Emerging markets had revenue growth of 5.2% while sales in Europe were flat. Pharmaceuticals grew almost 2% year over year thanks to growth in Immunology and Rare Blood Disorder franchise, but were offset by lower Diabetes and Established drug sales. *Lantus*, used to improve blood sugar control in adults and children with diabetes, again saw massive year over year declines. The drug had revenue declines of nearly 40% in the U.S. alone. Biosimilar competition caused sales to decline almost 10% in Europe during the quarter. *Lantus* still accounts for ~10% of Sanofi's sales so these reductions in revenue is quite significant for the company.

That being said, Sanofi does have other promising drugs. *Dupixent,* treatment for moderate to severe eczema, and *Kevzara*, treatment for rheumatoid arthritis, combined for 29.5% sales growth. *Dupixent* grew 27% in the U.S. In addition, the company has been very active on the acquisition front. Sanofi paid $11.6 billion for Bioverativ, which closed in March of this year, and $4.8 billion for Ablynx, which closed in June of this year. These purchases have given Sanofi access to the markets for rare blood disorders, one of the more high-growth markets in pharmaceuticals. The Bioverativ acquisition helped Sanofi's rare disease drugs division grow 14% in the quarter. These acquisitions also give the company a large presence in emerging markets as well as new diabetes and skin cancer drugs.

The fluctuations in dividends received for the ADR is due largely to currency exchanges, as Sanofi has increased its dividend for 24 consecutive years in its local currency. Sanofi pays an annual dividend each June so investors will have to wait until next year to capture the income.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	15	10.8	12.2	12	15.3	22.7	25.7	26.8	22.6	19.5	***13***	***18.3***
Avg. Yld.	4.6%	4.4%	4.4%	4.9%	4.2%	3.7%	3.7%	3.3%	4.1%	3.6%	***4.2%***	***3.0%***

Shares of Sanofi are unchanged since our July 7th update. Sanofi has an average price to earnings multiple of 18.3 over the past 10 years. Based off of expectations for EPS for 2018, shares trade with a multiple of 13. This is one of the lower pharma multiples in our coverage universe and would offer valuation multiple annual returns of 7.1% through 2023. The stock's 4.2% yield is more than double the yield of the S&P 500. The yield also beats that of the 10-year Treasury Bond.

Safety, Quality, Competitive Advantage, & Recession Resiliency

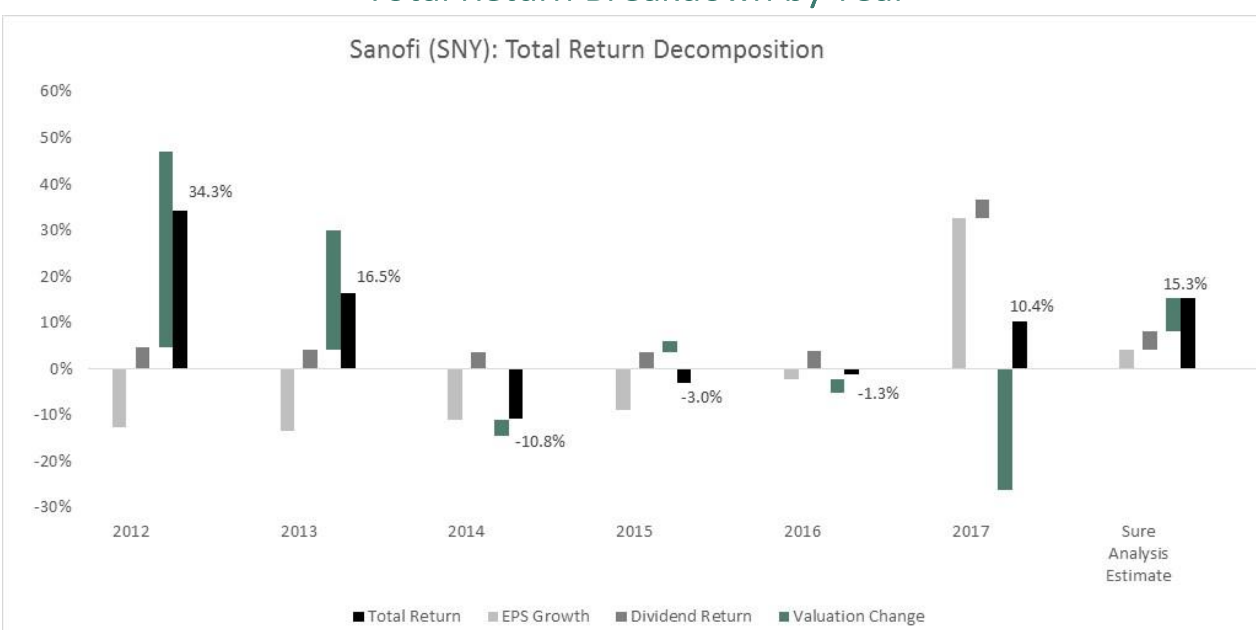
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	31.3%	27.8%	28.8%	25.9%	24.1%	21%	24.4%	23.7%	24%	23.3%	***23.7%***	***25.4%***
Debt/A	37.4%	39.5%	37.5%	44%	42.7%	40.6%	42.2%	43.1%	44.9%	41.6%	***41.6%***	***41.4%***
Int. Cov.	19.4	21.3	18.3	9.9	9.9	10.2	15.4	15.2	7.7	21.8	***20.4***	***14.9***
Payout	68.8%	47.7%	53.3%	59.1%	65%	84.9%	95.5%	88.5%	93.3%	69.5%	***54.6%***	***54.6%***
Std. Dev.	30.7%	28.4%	26.3%	23.7%	16.4%	16.4%	19.9%	20.7%	17.2%	17.6%	***18.4%***	***21.7%***

Like many of the pharmaceutical names in our coverage universe, Sanofi has seen its gross profit to asset ratio decline over the last decade. Unlike many pharma companies, however, that decline has slowed and stabilized in the last few years. The company's debt as a percentage of assets has only increased slightly, meaning that Sanofi can access debt markets in order to fund additional acquisitions. Unlike many ADRs, Sanofi's dividend payout ratio is safe and reasonable, meaning there's little risk the dividend doesn't continue growing in the future.

Final Thoughts & Recommendation

We continue to see shares of Sanofi offering a total annual return of 15.3% through 2023. This estimate is based off of earnings growth (4%), dividends (4.2%) and multiple expansion (7.1%). While Sanofi has issues, primarily with weakness in its diabetes drug *Lantus*, the company has other promising medications. Recent acquisitions are already helping to boast sales and earnings growth and should do so in the future. With a high dividend yield and the possibility of significant multiple expansion over the next five years, Sanofi is a buy at current prices and one of the best pharmaceutical stocks to own today. We maintain our 2023 price target of $73.

Total Return Breakdown by Year



Disclosure: This analyst has no position in the security discussed in this report and no plans to initiate one in the next 72 hours.