Sanofi SA (SNY)

Updated April 29th, 2019 by Nathan Parsh

Key Metrics

Current Price:	$43	**5 Year CAGR Estimate:**	12.1%	**Volatility Percentile:**	16.6%
Fair Value Price:	$52	**5 Year Growth Estimate:**	4.0%	**Momentum Percentile:**	53.6%
% Fair Value:	83%	**5 Year Valuation Multiple Estimate:**	3.9%	**Growth Percentile:**	23.3%
Dividend Yield:	4.2%	**5 Year Price Target**	$63	**Valuation Percentile:**	87.4%
Dividend Risk Score:	C	**Retirement Suitability Score:**	B	**Total Return Percentile:**	76.4%

Overview & Current Events

Sanofi, a global pharmaceutical leader, incorporated in 1994. The company develops and markets a variety of therapeutic treatments and vaccines. Pharmaceuticals account for ~72% of sales, vaccines makeup ~15% of sales and consumer healthcare contributing the remainder of sales. 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 produces more than €34 billion annual revenues.

Sanofi is incorporated in France, but U.S. investors have access to the company through an American Depositary Receipt, or ADR. Sanofi's ADR are highly liquid and easily invested in through almost any broker. The stock has a market capitalization of $106 billion in the US.

Sanofi has also used acquisitions to produce growth. The company 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 higher growth markets in pharmaceuticals. These acquisitions also give the company a large presence in emerging markets, as well as new diabetes and skin cancer drugs.

Sanofi released financial results for the first quarter on 4/26/2019. Unless otherwise noted, all figures are listed in constant exchange rates. Revenue improved 4.2% to €8.4 billion for the quarter. The company earned $1.58 per ADR share during the quarter, which was $0.12 above estimates.

The pharmaceutical segment grew 3.1% primarily due to a 31% increase in specialty care products. Within this group, rare disease improved 10.1% and immunology grew 186%. These gains were offset by a 6.9% decline in diabetes and a 9.3% drop in generic drugs. *Dupixent*, which was approved in the third quarter of last year for treatment in the U.S. for patients with moderate-to-severe asthma, had revenue growth of 187% for the quarter. Growth for this drug should be strong going forward. The product gained approval for asthma in Japan and is now available in nearly 20 countries. In the rare disease franchise, sales for *Myozyme/Lumizyme,* which treats Pompe disease, grew almost 11%. Sanofi's diabetes franchise and generic products remain challenged. Sales for *Lantus*, used to improve blood sugar control in adults and children with diabetes, declined 17% in the quarter as a change in Medicare Part D coverage and competition from biosimilars continues to weigh on sales. Generic revenues declined due to pricing pressures in the U.S. Vaccines grew 20.1% during the quarter due primarily to growth in Polio/Pertussis/Hib vaccines. We expect Sanofi to earn $3.32 per ADR share in 2019, which would be an increase of 4.1% from the previous year.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$3.02	$2.76	$2.98	$2.60	$2.25	$2.00	$1.82	$1.78	$2.36	$3.19	***$3.26***	***$3.97***
DPS	$1.44	$1.47	$1.76	$1.69	$1.91	$1.91	$1.61	$1.66	$1.64	$1.86	***$1.86***	***$2.26***
Shares	2618	2622	2647	2647	2636	2639	2611	2584	2508	2500	***2500***	***2450***

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. We expect the company's pharmaceutical segment to continue to show growth in the coming years, leading to a 4% annual increase in earnings and dividends per share through 2024.

The fluctuations in dividends received for the ADR is, again, due largely to currency exchanges, as Sanofi has increased its dividend for 25 consecutive years in its local currency. Sanofi pays an annual dividend each June.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	10.8	12.2	12.0	15.3	22.7	25.7	26.8	22.6	19.5	13.8	***13.2***	***16.0***
Avg. Yld.	4.4%	4.4%	4.9%	4.2%	3.7%	3.7%	3.3%	4.1%	3.6%	4.0%	***4.2%***	***3.5%***

Shares of Sanofi are flat since our February 10th update. We maintain our 2024 target price-to-earnings ratio of 16, which is in line with peers. Based off of guidance for earnings-per-share for 2019, shares trade with a price-to-earnings multiple of 13 today. If the stock expanded to its historical average, investors would see an additional 3.9% in annual returns through 2024. The stock's 4.2% yield is more than double the yield of the S&P 500.

Safety, Quality, Competitive Advantage, & Recession Resiliency

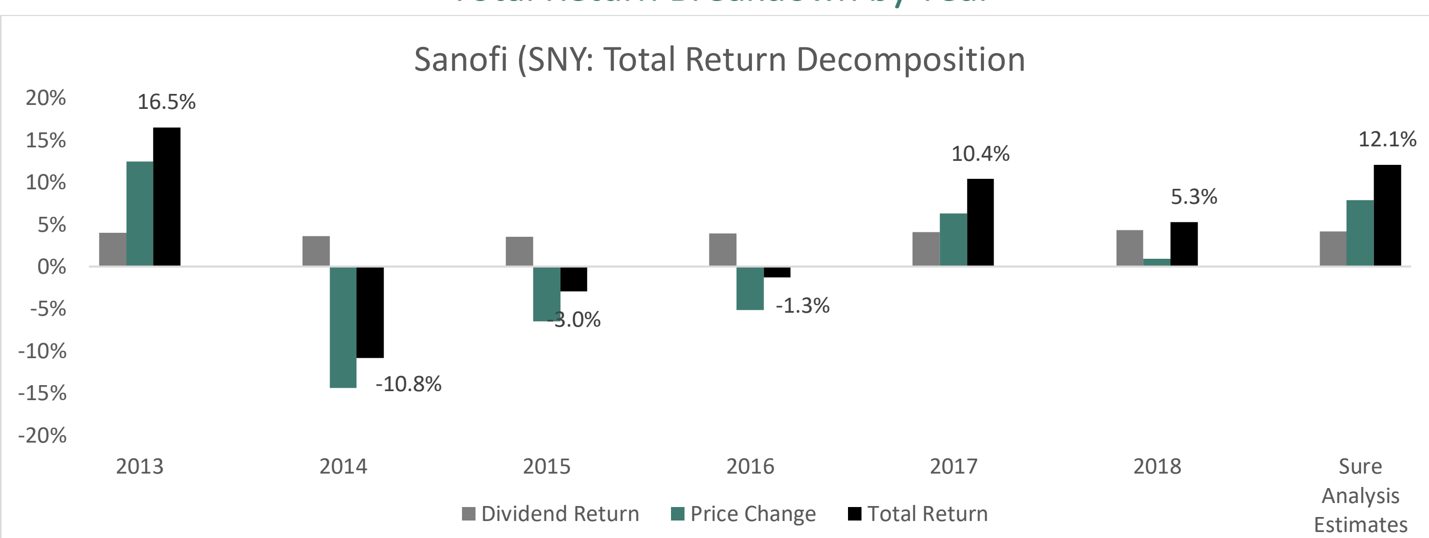
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	48%	53%	59%	65%	85%	96%	89%	93%	70%	58%	***56%***	***57%***

Sanofi's specialty care division, especially in the areas of rare disease and immunology, have demonstrated high rates of growth. These areas are likely to be continued sources of strength for the company. Several of these products, such as *Dupixent*, are just starting to gain traction. Sanofi has also showed a willingness to use acquisitions to fund its growth.

Final Thoughts & Recommendation

We maintain our expected total return of 12.1% through 2024 for shares of Sanofi. This estimate is based off of earnings growth (4.0%), dividends (4.2%) and multiple expansion (3.9%). We continue to find the company's portfolio of products, outside of diabetes and generics, attractive. Growth rates in specialty care have been robust. Sanofi offers a solid combination of growth, dividend yield and potential valuation expansion, and the stock receives a buy recommendation from Sure Dividend at this time. Investors looking for exposure to foreign healthcare companies are encouraged to consider purchasing shares of Sanofi due to high expected total returns.

Total Return Breakdown by Year



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

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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	42880	45115	48882	46227	41557	42554	38685	38414	41021	42128
Gross Profit	31891	32658	33733	31960	27875	28949	26568	26569	27869	28625
Gross Margin	74.4%	72.4%	69.0%	69.1%	67.1%	68.0%	68.7%	69.2%	67.9%	67.9%
SG&A Exp.	10215	10802	11863	11482	10558	11204	10411	10499	11407	11642
D&A Exp.	6988	6799	7743	6309	6767	4362	4745	3653	4174	N/A
Operating Profit	10383	11254	10637	10131	8444	8963	7916	8333	8156	7386
Op. Margin	24.2%	24.9%	21.8%	21.9%	20.3%	21.1%	20.5%	21.7%	19.9%	17.5%
Net Profit	7342	7247	7872	6284	4935	5838	4757	5212	9531	5085
Net Margin	17.1%	16.1%	16.1%	13.6%	11.9%	13.7%	12.3%	13.6%	23.2%	12.1%
Free Cash Flow	9385	10865	10509	8432	7501	8294	6822	6752	6142	N/A
Income Tax	1902	1895	614	1424	964	1614	787	1468	1950	568

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets ($B)	114.76	113.40	130.40	132.78	132.64	118.43	111.87	110.66	119.76	127.44
Cash & Equivalents	6710	8598	5342	8439	11402	8927	10002	10860	12375	7922
Acc. Receivable	8601	8654	10417	9928	9433	8693	8075	7729	8657	N/A
Inventories	6355	6676	7838	8436	8771	7980	7124	7286	8177	20194
Goodwill & Int.	62176	59065	80595	77055	72536	65349	56396	54091	63997	75639
Total Liabilities	45290	42527	57393	56752	53884	50008	48227	49632	49869	59909
Accounts Payable	3795	3724	4123	4219	4147	4440	4173	4543	5558	16474
Long-Term Debt	12623	10985	19998	19217	20147	18014	18098	19641	18717	28186
Total Equity	69100	70617	72787	75848	78577	68243	63465	60844	69689	67348
D/E Ratio	0.18	0.16	0.27	0.25	0.26	0.26	0.29	0.32	0.27	0.42

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	6.8%	6.4%	6.5%	4.8%	3.7%	4.7%	4.1%	4.7%	8.3%	4.1%
Return on Equity	11.1%	10.4%	11.0%	8.5%	6.4%	8.0%	7.2%	8.4%	14.6%	7.4%
ROIC	9.6%	8.8%	9.0%	6.7%	5.1%	6.3%	5.7%	6.4%	11.3%	5.5%
Shares Out.	2618	2622	2647	2647	2636	2639	2611	2584	2508	2500
Revenue/Share	16.40	17.24	18.42	17.38	15.52	15.98	14.65	14.82	16.19	16.89
FCF/Share	3.59	4.15	3.96	3.17	2.80	3.12	2.58	2.61	2.42	N/A

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.