Sanofi SA (SNY)

Updated November 1st, 2021 by Nathan Parsh

Key Metrics

Current Price:	$50	**5 Year CAGR Estimate:**	11.1%	**Market Cap:**	$127 billion
Fair Value Price:	$61	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	5/3/2022[1]
% Fair Value:	82%	**5 Year Valuation Multiple Estimate:**	3.9%	**Dividend Payment Date:**	5/23/2022[2]
Dividend Yield:	3.9%	**5 Year Price Target**	$74	**Years Of Dividend Growth:**	27[3]
Dividend Risk Score:	C	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	12.2%

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 annual revenues of about $44 billion. Sanofi is incorporated in France, but U.S. investors have access to the company through an American Depositary Receipt, or ADR.

Sanofi reported third quarter earnings results on 10/28/2021. Unless otherwise noted, all figures are listed in U.S. dollars and constant exchange rates. Revenue grew 10.1% to $12.2 billion, topping expectations by $370 million. The company's earnings-per-share per ADR of $1.26 was a 16.7% increase from the prior year and $0.10 above estimates.

Pharmaceutical revenues were higher by almost 8%. Specialty Care sales were up more than 20% year-over-year. *Dupixent*, which treats patients with moderate-to-severe asthma, grew nearly 55% due to higher uptake rates in adults and children age 6 to 11. Total prescriptions improved 45% and new patients starts grew 23% even as patient levels remain compressed due to COVID-19. *Dupixent* was approved for use in children ages 6 to 11 in the U.S. in May of 2020 and was recently approved for use in China for treatment in adults. The product is now approved for use in adults in more than 50 countries and in adolescents in ~20 countries. Sanofi estimates that the product can be launched in ~50 additional countries. Oncology was up 8.1%. *Jevtana*, which treats prostate cancer that has spread to other parts of the body, remains challenged and had a sales decrease of almost 21%%, but the remainder of the portfolio continues to show solid growth rates. Rare Diseases grew 5.4%, with gains once again made in all areas. Cardiovascular and Established Products fell 2.1%, primarily due to generic pressure and divestment of non-core products. Vaccine revenues were higher by almost 17% due to ongoing demand for meningitis and influenzas vaccines. Consumer Healthcare was up 11.1% as gains in pain care, cough, cold and flu and digestive and mental wellness offset weakness in physical wellness. By region, U.S. sales grew 13.4%, Europe increased 8.9% and the rest of the world was higher by 6.7%. China was up 12.8%.

Sanofi offered revised guidance and now expects earnings-per-share growth of approximately 14%, up from 12% and high single-digit growth previously. Currency is still currency expected to be a 3.5% to 4.5% headwind to results, compared to prior guidance of a 4% to 5% impairment.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$2.98	$2.60	$2.25	$2.00	$1.82	$1.78	$2.36	$3.19	$3.33	$3.44	***$3.79***	***$4.61***
DPS	$1.76	$1.69	$1.91	$1.91	$1.61	$1.66	$1.64	$1.86	$1.74	$1.70	***$1.93***	***$2.35***
Shares[4]	2647	2647	2636	2639	2611	2584	2508	2500	2500	2500	***2500***	***2450***

[1] Estimated ex-dividend date
[2] Estimated dividend payment date
[3] In local currency
[4] In millions of shares

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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 2026. The fluctuations in dividends received for the ADR is, again, due largely to currency exchanges, as Sanofi has increased its dividend for 27 consecutive years in its local currency. Sanofi pays an annual dividend, usually in May or June.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	12.0	15.3	22.7	25.7	26.8	22.6	19.5	21.3	33.9	8.2	***13.2***	***16.0***
Avg. Yld.	4.9%	4.2%	3.7%	3.7%	3.3%	4.1%	3.6%	4.3%	3.9%	3.4%	***3.9%***	***3.2%***

Shares of Sanofi have decreased $2, or 3.8%, since our 7/31/2021 update. We maintain our 2026 target price-to-earnings ratio of 16, which is in line with peers. Based off of updated guidance for earnings-per-share for 2021, shares trade with a price-to-earnings multiple of 13.2 today. If the stock expanded to our target valuation, investors would see an additional 3.9% added to annual returns through 2026. The stock's 3.9% yield is well-above the yield of the S&P 500.

Safety, Quality, Competitive Advantage, & Recession Resiliency

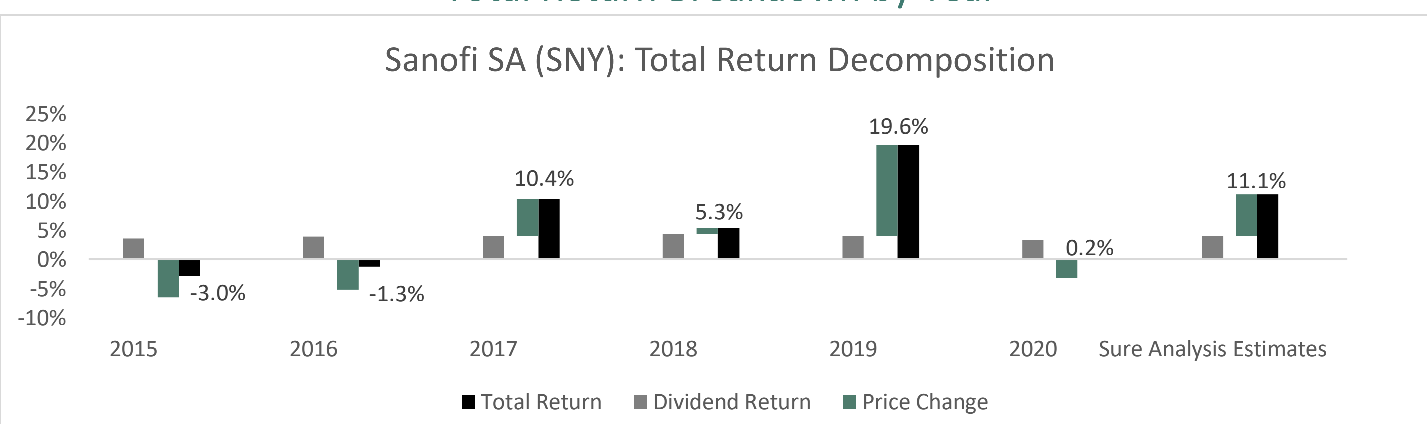
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	59%	65%	85%	96%	89%	93%	70%	58%	52%	49%	***51%***	***51%***

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. Given Sanofi's products are used to treat diseases, and thus, shouldn't be dependent upon strong economic conditions, we see Sanofi as a defensive play for when the next recession strikes.

Final Thoughts & Recommendation

Sanofi is now expected to return 11.1% annually through 2026, up from our previous estimate of 9.8%. Our projected return stems from a 4% earnings growth rate, starting yield of 3.9% and a low single-digit contribution from multiple expansion. Third quarter results were very strong, with growth in nearly every area of the company. *Dupixent* continues to see very high growth rates even as patient visits remain below pre-pandemic levels. We have raised our 2026 price target $2 to $74 and rate shares of Sanofi as a buy due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	48,882	46,227	41,557	42,554	38,685	38,400	41,021	42,128	42,128	42,676
Gross Profit	33,733	31,960	27,875	28,949	26,568	26,557	27,869	28,625	28,721	28,793
Gross Margin	69.0%	69.1%	67.1%	68.0%	68.7%	69.2%	67.9%	67.9%	68.2%	67.5%
SG&A Exp.	11,863	11,482	10,558	11,204	10,411	10,490	11,407	11,642	11,064	10,724
D&A Exp.	7,743	6,309	6,767	4,362	4,745	3,653	4,174	5,053	8,342	
Operating Profit	10,637	10,131	8,444	8,963	7,916	8,330	8,156	7,386	8,089	9,014
Op. Margin	21.8%	21.9%	20.3%	21.1%	20.5%	21.7%	19.9%	17.5%	19.2%	21.1%
Net Profit	7,872	6,284	4,935	5,838	4,757	5,212	9,531	5,085	3,141	14,063
Net Margin	16.1%	13.6%	11.9%	13.7%	12.3%	13.6%	23.2%	12.1%	7.5%	33.0%
Free Cash Flow	10,509	8,432	7,501	8,294	6,822	6,752	6,142	4,215	6,636	
Income Tax	614	1,424	964	1,614	787	1,466	1,950	568	156	2,070

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets ($B	130.4	132.8	132.6	118.4	111.9	110.7	119.7	127.4	126.3	140.9
Cash & Equivalents	5342	8439	11402	8927	10002	10860	12375	7922	10560	17115
Acc. Receivable	10417	9928	9433	8693	8075	7729	8657	8305	8891	
Inventories	7838	8436	8771	7980	7124	7290	8180	8553	8955	22853
Goodwill & Int.	80595	77055	72536	65349	56396	54091	63997	75639	68432	77223
Total Liabilities	57393	56752	53884	50008	48227	49641	49876	59909	60072	63198
Accounts Payable	4123	4219	4147	4440	4173	4543	5558	5766	5951	18975
Long-Term Debt	19998	19217	20147	18014	18098	19641	18717	28186	27651	27689
Total Equity	72787	75848	78577	68243	63465	60842	69667	67348	66016	77489
D/E Ratio	0.27	0.25	0.26	0.26	0.29	0.32	0.27	0.42	0.42	0.36

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	6.5%	4.8%	3.7%	4.7%	4.1%	4.7%	8.3%	4.1%	2.5%	10.5%
Return on Equity	11.0%	8.5%	6.4%	8.0%	7.2%	8.4%	14.6%	7.4%	4.7%	19.6%
ROIC	9.0%	6.7%	5.1%	6.3%	5.7%	6.4%	11.3%	5.5%	3.3%	14.1%
Shares Out.	2647	2647	2636	2639	2611	2584	2508	2500	2500	2500
Revenue/Share	18.42	17.38	15.52	15.98	14.65	14.81	16.19	16.78	16.76	17.02
FCF/Share	3.96	3.17	2.80	3.12	2.58	2.61	2.42	1.68	2.64	

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