Sanofi SA (SNY)

Updated February 15th, 2023 by Nathan Parsh

Key Metrics

Current Price:	$47	**5 Year CAGR Estimate:**	15.5%	**Market Cap:**	$119 B
Fair Value Price:	$70	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	5/04/23[1]
% Fair Value:	67%	**5 Year Valuation Multiple Estimate:**	8.4%	**Dividend Payment Date:**	5/30/23[2]
Dividend Yield:	4.1%	**5 Year Price Target**	$86	**Years Of Dividend Growth:**	27[3]
Dividend Risk Score:	C	**Retirement Suitability Score:**	B	**Rating:**	Buy

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 $43 billion. Sanofi is incorporated in France, but U.S. investors have access to the company through an American Depositary Receipt, or ADR. Two ADR shares equal one share of the underlying company.

On February 3rd, 2023, Sanofi announced fourth quarter and full year results for the period ending December 31st, 2022. For the quarter, revenue grew 1.1% to $11.6 billion, but this was $393 million less than expected. The company's earnings-per-share per ADR of $0.93 compared to $0.79 in the prior year and was $0.02 above estimates. For the year, revenue grew marginally to $44.5 billion while earnings-per-share per ADR totaled $4.27 compared to $3.84 in 2021.

Unless otherwise noted, all figures are listed in U.S. dollars and at constant exchange rates. Revenue grew 2.6% year-over-year. Pharmaceutical revenues were higher by 7.3% during the quarter. Specialty Care remains especially impressive, with 18.1% revenue growth. *Dupixent*, which treats patients with moderate-to-severe asthma, grew 42% as both total prescriptions and new patient growth was robust. The product is now approved for use in adults in more than 60 countries and in adolescents in ~20 countries. Sanofi estimates that the product can be launched in ~50 additional countries. Oncology fell 11.7%. This was mostly due to a 24.5% decline in *Jevtana*, which treats prostate cancer that has spread to other parts of the body. The loss of partnership for *Libtayo*, which treats non-small cell lung cancer, also impacted results. Rare Diseases was higher by 1.8% due to new product launches. Vaccine revenue decreased 16.3% mostly due to strong growth in the preceding quarter. Consumer Healthcare grew 6.6% as strength in allergy, cough and cold, and digestive health was only partially offset by physical and mental wellness. By region, U.S. sales grew 8.7%, Europe fell 5.6%, and the rest of the world was higher by 2.4%. China was up 2.3%.

Sanofi provided an outlook for 2023 as well. The company expects earnings-per-share growth in the low single-digits, with currency exchange likely to be a 3.5% to 4.5% headwind. We have initiated our forecast accordingly.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$2.25	$2.00	$1.82	$1.78	$2.36	$3.19	$3.33	$3.44	$3.84	$4.27	***$4.40***	***$5.35***
DPS	$1.91	$1.91	$1.61	$1.66	$1.64	$1.86	$1.74	$1.70	$1.93	$1.92	***$1.92***	***$2.34***
Shares[4]	2636	2639	2611	2584	2508	2500	2500	2500	2500	2507	***2507***	***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 2028. 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	22.7	25.7	26.8	22.6	19.5	21.3	33.9	8.2	13.0	11.3	***10.7***	***16.0***
Avg. Yld.	3.7%	3.7%	3.3%	4.1%	3.6%	4.3%	3.9%	3.4%	3.9%	4.0%	***4.1%***	***2.7%***

Shares of Sanofi have increased $4, or 9.3%, since our October 31st, 2022 report. We maintain our 2028 target price-to-earnings ratio of 16, which is in line with peers and well below the long-term average. Based off of guidance for earnings-per-share for 2023, shares trade with a price-to-earnings ratio of 10.7 today. If the stock expanded to our target valuation, investors would see a tailwind of 8.4% added to annual returns through 2028. The stock's 4.1% yield is well-above the yield of the S&P 500.

Safety, Quality, Competitive Advantage, & Recession Resiliency

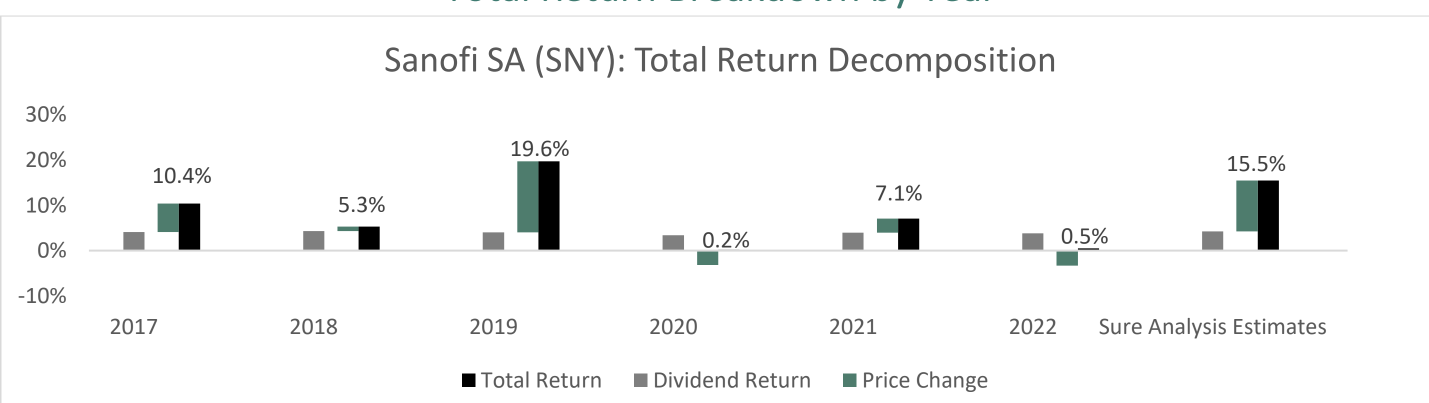
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	85%	96%	89%	93%	70%	58%	52%	49%	50%	45%	***44%***	***44%***

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 15.5% annually through 2028, down from our previous estimate of 17.8%. Our projected return stems from a 4% earnings growth rate, starting yield of 4.1%, and a high single-digit contribution from multiple expansion. Sanofi continues to see very strong performances in its most important areas, particularly Dupixent. We have lowered our five-year price target $1 to $86 due to EPS estimates for the year, but continue to rate shares of Sanofi as a buy due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	41,557	42,554	38,685	38,400	41,021	42,128	42,128	42,676	46,351	47,867
Gross Profit	27,875	28,949	26,568	26,557	27,869	28,625	28,721	28,793	31,851	33,424
Gross Margin	67.1%	68.0%	68.7%	69.2%	67.9%	67.9%	68.2%	67.5%	68.7%	69.8%
SG&A Exp.	10,558	11,204	10,411	10,490	11,407	11,642	11,064	10,724	11,305	11,065
D&A Exp.	6,767	4,362	4,745	3,653	4,174	5,053	8,342	4,207	2,029	
Operating Profit	8,444	8,963	7,916	8,330	8,156	7,386	8,089	9,014	10,823	12,530
Op. Margin	20.3%	21.1%	20.5%	21.7%	19.9%	17.5%	19.2%	21.1%	23.3%	26.2%
Net Profit	4,935	5,838	4,757	5,212	9,531	5,085	3,141	14,063	7,363	7,087
Net Margin	11.9%	13.7%	12.3%	13.6%	23.2%	12.1%	7.5%	33.0%	15.9%	14.8%
Free Cash Flow	7,501	8,294	6,822	6,752	6,142	4,215	6,636	6,093	4,420	
Income Tax	964	1,614	787	1,466	1,950	568	156	2,070	1,843	1,585

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	132639	118431	111868	110662	119746	127440	126283	140866	136140	133605
Cash & Equivalents	11,402	8,927	10,002	10,860	12,375	7,922	10,560	17,115	11,433	13,658
Acc. Receivable	9,433	8,693	8,075	7,729	8,657	8,305	8,891	9,214	8,569	
Inventories	8,771	7,980	7,124	7,290	8,180	8,553	8,955	10,273	9,867	22,430
Goodwill & Int.	72,536	65,349	56,396	54,091	63,997	75,639	68,432	77,223	78,647	74,419
Total Liabilities	53,884	50,008	48,227	49,641	49,876	59,909	60,072	63,198	57,982	54,771
Accounts Payable	4,147	4,440	4,173	4,543	5,558	5,766	5,951	6,513	6,997	20,198
Long-Term Debt	20,147	18,014	18,098	19,641	18,717	28,186	27,651	27,689	22,991	20,409
Total Equity	78,577	68,243	63,465	60,842	69,667	67,348	66,016	77,489	77,762	78,440
LTD/E Ratio	0.26	0.26	0.29	0.32	0.27	0.42	0.42	0.36	0.30	0.26

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	3.7%	4.7%	4.1%	4.7%	8.3%	4.1%	2.5%	10.5%	5.3%	5.3%
Return on Equity	6.4%	8.0%	7.2%	8.4%	14.6%	7.4%	4.7%	19.6%	9.5%	9.1%
ROIC	5.1%	6.3%	5.7%	6.4%	11.3%	5.5%	3.3%	14.1%	7.1%	7.1%
Shares Out.	2636	2639	2611	2584	2508	2500	2500	2500	2500	2507
Revenue/Share	15.52	15.98	14.65	14.81	16.19	16.78	16.76	16.93	18.42	19.12
FCF/Share	2.80	3.12	2.58	2.61	2.42	1.68	2.64	2.42	1.76	

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