

AstraZeneca

FY24 guide good enough. Investor day May for mid-term outlook. Dato 2L focus call

Maintain Rating: BUY | PO: 14,500 GBp | Price: 10,490 GBp

FY23 miss on SG&A; 24 guide implies EPS c1-2% below

Key takes from FY23 results and guide: 1) FY23 EPS \$7.26 marginally below consensus and \$42.8bn product sales in line consensus, although small misses for Tagrisso, Imfinzi and Calquence, and worse margins on SG&A (IR flagging 3 new NME approvals), offset by tax; 2) FY24 guide implies EPS of c\$8.00, 2% below consensus on Fx and lower base, but we think good enough given recent debate; 3) FY25 catalyst path disclosed for the first time, and includes: a) Dato 1L NSCLC (AVANZAR); b) Enhertu DB-11, 09 and 05; c) Camizestrant SERENA-6; d) Eplontersen ATTR-CM; 4) No material pipeline updates; 5) Investor day May 21st, with potential for mid-term outlook/ discussion to clarify prior high-sd sales CAGR commentary vs consensus low-mid sd; 6) Slides mention on track for ambition for mid-30's operating margin in the mid-term, we expect AZN to frame as 25/26E timeframe. Maintain Buy on attractive valuation for premium growth prospect.

FY23 EPS \$7.26 slightly light on higher SG&A

1) FY22 EPS of \$7.26 in line (3% miss in the quarter) on product sales \$43.8bn also in line. Worse margins with operating profit 3% miss (on SG&A 10% larger for the Q on 3 new NME approvals, and R&D 4% larger), but with tax offsets below the line; 2) Sales in line on Pulmicort (10% beat, driven by China) and collab revenue 13% ahead, offset by misses for Tagrisso (1% on year end hospital ordering in China / Australia mechanism vs Zoladex), Imfinzi (1%) and Calquence (1% on some GTN pressure).

FY24 guide implies EPS c\$8.00. Good enough

AstraZeneca guided to 1) Total revenue growth increase by low double digit to low teens percentage with a low-sd Fx -ve, implying total revenue of c\$50.4bn, in line consensus; 2) EPS guide is for low double digit to low teens percentage with a low-sd Fx -ve, implying EPS of c\$8.00, 2% below consensus on 1% lower Fx and slightly lower base. Consensus is close to top end of guide. Pillar 2 impact on tax rate expected to be immaterial.

Busy FY25 catalyst path coming into debate – Dato 1L

From mid-year we see a big FY25 path coming into focus: Specifically: 4) Dato 1L NSCLC (AVANZAR) data, we think given rapid trial recruitment; 2) Three Enhertu reads with DB-11 (neoadjuvant HER2+ve, a \$1.2bn opp) DB-09 (1L HER2+ve mBC, a \$2.5bn opp) and DB-05 (post-neoadjuvant HER2+ve, a \$1.5bn opp); 3) Camizestrant SERENA-6 in 1L ESR1m Breast cancer, a \$1.8bn opp; 4) Eplontersen ATTR-cardiomyopathy; 5) Tozorakimab (IL-33) acute respiratory failure.

Key topics for the call. Focus Dato 2L

1) Reiteration of Dato confidence. Next TL01 milestones include: a) Acceptance of filing 1Q24; b) Clarification of final OS timing 1H24, in our opinion; c) Final approval 2H24; d) Commercial launch to confirm >\$2bn potential; 2) Confidence in mid-term, specifically high-sd sales CAGR to end of the decade, and mid-30's margin; 3) Clarification of IRA impact, expected to be broadly neutral in contrast to recent broker comments.

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Stock Data

Price (Common / ADR)	10,490 GBp / 66.55 USD
Price Objective	14,500 GBp / 88.00 USD
Date Established	5-Dec-2022 / 5-Dec-2022
Investment Opinion	A-1-7 / B-1-7
52-Week Range	9,851 GBp-12,390 GBp
Market Value (mn)	162,612 GBP
Shares Outstanding (mn)	1,550.2 / 3,100.3
Average Daily Value (mn)	151.55 USD
Free Float	100.0%
BofA Ticker / Exchange	AZNCF / LSE
BofA Ticker / Exchange	AZN / NYS
Bloomberg / Reuters	AZN LN / AZN.L
ROE (2023E)	28.5%
Net Dbt to Eqty (Dec-2022A)	58.8%
ESGMeter™	High

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Glossary

-ve: negative

1L = first line

ATTR-CM = Transthyretin amyloid cardiomyopathy

DB = Destiny-Breast

ESR1m = Estrogen Receptor 1 mutation

HER2 = Human epidermal growth factor receptor 2

IL = Interleukin

IR: investor relations

IRA = Inflation Reduction Act

mBC = metastatic Breast Cancer

NME = New Molecular Entity

NSCLC = Non small cell lung cancer

opp: opportunity

sd: single digit

OS = Overall Survival

Best GARP with Best pipe. 24 guide & catalyst path debate

Buy for attractive valuation (14.0x 25E PE) for premium growth prospect (12% FY25-28 EPS CAGR), with best-in-class mid-stage pipeline. We see two near-term clearing events; 1) 24 EPS guide (with guide good enough), and 2) Dato filing and approval. While the catalyst path is quieter than FY23; 1) We believe lack of binary events attractive for investors to re-engage; 2) The catalyst path is still busy relative to EU pharma broadly (with most important Imfinzi and Capivasertib beats, Dato 2L lung launch, Enhertu DB06, Tagrisso LAURA). From mid-year we see a big FY25 path coming into focus: Dato 1L lung, Enhertu DB09/11/05, Camizestran SERENA-6, and first Eplontersen data.

Exhibit 1: AstraZeneca 4Q23 and FY23 Variance analysis

Variance

	Previous 4Q22A	Consensus 4Q23E	Reported 4Q23A	% Chg	Diff v cons USDm	% Chg	Previous 2022A	Consensus 2023E	Reported 2023A	% Chg	Diff v Cons USDm	% Chg
USDm												
Oncology												
Tagrisso	1,342	1,475	1,419	6	-56	-4	5,444	5,855	5,799	7	-56	-1
Imfinzi	753	1,165	1,135	51	-30	-3	2,784	4,262	4,237	52	-25	-1
Lynparza Total	689	737	741	8	4	1	2,638	2,804	2,811	7	7	0
Calquence	588	696	675	15	-21	-3	2,057	2,535	2,514	22	-21	-1
Zoladex	211	219	254	20	35	16	927	917	952	3	35	4
Enhertu	27	86	83	207	-3	-3	79	263	261	230	-2	-1
Cardiovascular												
Farxiga	1,177	1,588	1,606	36	18	1	4,381	5,946	5,963	36	17	0
Brilinta	345	335	329	-5	-6	-2	1,358	1,331	1,324	-3	-7	-1
Onglyza (saxagliptin)	52	46	47	-10	1	2	257	227	227	-12	0	0
Bydureon (exenatide)	73	43	39	-47	-4	-10	280	165	163	-42	-2	-1
Lokelma	81	110	112	38	2	1	289	410	412	43	2	0
Crestor	224	229	247	10	18	8	1,048	1,089	1,107	6	18	2
Seloken/Toprol	157	141	144	-8	3	2	862	636	640	-26	4	1
Respiratory												
Symbicort	620	535	520	-16	-15	-3	2,538	2,378	2,362	-7	-16	-1
Fasenra	381	422	420	10	-2	-1	1,396	1,555	1,553	11	-2	-0
Pulmicort	167	156	219	31	63	40	645	649	713	11	64	10
Rare Disease												
Soliris	844	725	715	-15	-10	-1	3,762	3,154	3,145	-16	-9	-0
Ultomiris	594	830	825	39	-5	-1	1,965	2,971	2,965	51	-6	-0
Others												
Nexium	299	221	209	-30	-12	-5	1,285	945	945	-26	-0	-0
Total Product Sales	10,798	11,341	11,323	5	-18	-0	42,998	43,803	43,789	2	-14	-0
Alliance Revenue	153	441	424	178	-17	-4	607	1,458	1,428	135	-30	-2
Enhertu	186	296	281	51	-15	-5	519	1,049	1,022	97	-27	-3
Tezspire	36	80	80	125	0	0	79	255	259	228	4	2
Collaboration Revenue	256	231	277	8	46	20	746	526	594	-20	68	13
Total sales	11,207	12,013	12,024	7	11	0	44,351	45,787	45,811	3	24	0
COGS (CORE) excl. externalisation costs	-2,462	-2,245	-2,286	-7	-41	2	-8,588	-7,970	-8,011	-7	-41	1
% Sales	22.8	19.8	20.2				19.4	17.4	17.5			
Gross Profit	8,745	9,768	9,738	11	-30	-0	35,763	37,817	37,800	6	-17	-0
Distribution costs	-156	-145	-145	-7	-0	0	-534	-539	-539	1	-0	0
% Sales	1.4	1.2	1.2				1.2	1.2	1.2			
R&D (CORE)	-2,526	-2,808	-2,914	15	-106	4	-9,500	-10,161	-10,267	8	-106	1
% Sales	22.5	23.4	24.2				21.4	22.2	22.4			
S,G&A (CORE)	-3,583	-3,682	-4,034	13	-352	10	-12,826	-13,387	-13,739	7	-352	3
% Sales	32.0	30.7	33.5				28.9	29.2	30.0			
Other oper income (CORE)	130	55	107	-18	52	95	447	1,229	1,279	186	50	4
CORE operating profit	2,610	3,187	2,752	5	-435	-14	13,350	14,959	14,534	9	-425	-3
Margin %	23.3	26.5	22.9				30.1	32.7	31.7			
Financial Income/Expense (CORE)	-245	-249	-259	6	-10	4	-974	-982	-984	1	-2	0
Pretax profit (CORE)	2,364	2,938	2,493	5	-445	-15	12,371	13,977	13,550	10	-427	-3
CORE tax	-226	-618	-242	7	376	-61	-2,058	-2,667	-2,291	11	376	-14
CORE tax rate (%)	9.6	21.0	9.7				16.6	19.1	17.0			
Net Income (CORE)	2,137	2,321	2,252	5	-69	-3	10,308	11,308	11,253	9	-55	-0
Margin %	19.1	19.3	18.7				23.2	24.7	24.6			
Minorities	-1	1	1	-200	0	69	-5	-3	-6	20	-3	137
Core EPS	1.38	1.50	1.45	5	-0.05	-3	6.66	7.29	7.26	9	-0.03	-0

Source: BofA Global Research estimates, Company data, Company consensus

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Price objective basis & risk

AstraZeneca (AZNCF / AZN)

Our PO of GBP145 (US\$88) is based on c19x FY25E PE, ahead of our target sector multiple of c16x due to potential for premium growth (11% 25-28E EPS CAGR vs sector c7%) and significant pipeline optionality.

Our target sector multiple of c16x 25E PE is based on: 1) A 40% premium to the market average multiple which implies c15x 25E PE, a premium which is in line with the long-term historical trend for periods of growth for the sector during times of broader market uncertainty, 2) Regression analysis of historical sector forward PEs and three-year-forward EPS CAGR implies a target PE of c16x 25E PE based on sector growth of c7%, 3) Our DCF valuations imply c17x 25E PE

Upside risks to our PO are better-than-expected EPS momentum driven by better execution on product launches and pipeline success.

Downside risks to our PO are pipeline failure, risk of litigation, adverse currency moves, greater margin pressure driving EPS miss and a failure to inflect key product launches.

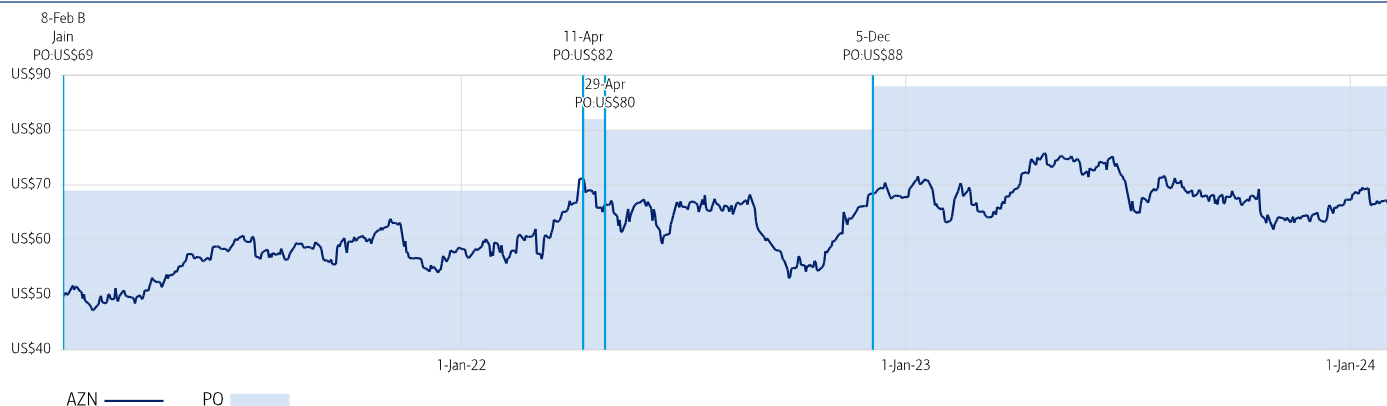
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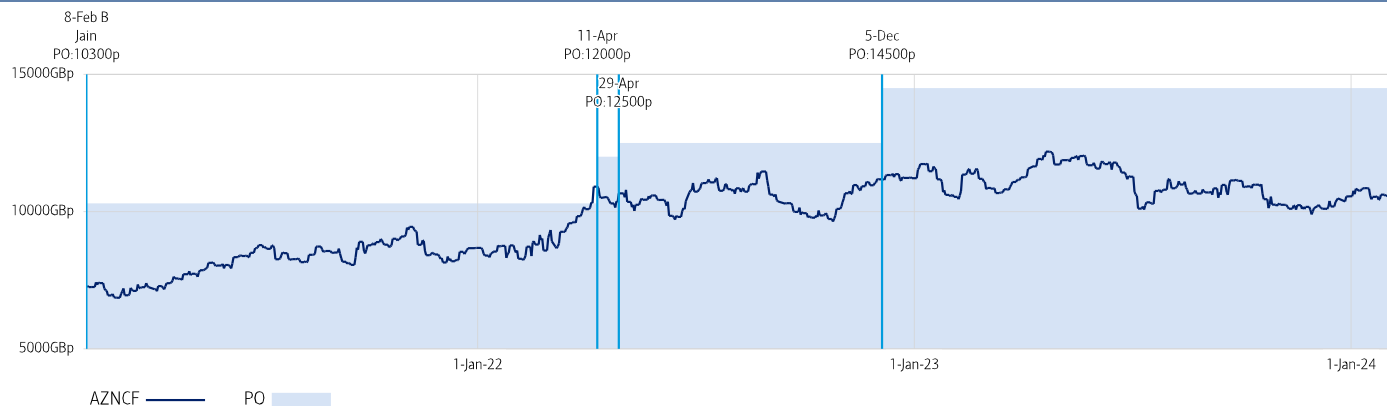
AstraZeneca (AZN) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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AstraZeneca (AZNCF) Price Chart



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Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Underperform	N/A	≥ 20%

^{R2}Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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