

AstraZeneca

Bull bear debate today. Key debates summarised. Maintain Buy

Maintain Rating: BUY | PO: 14,500 GBp | Price: 9,501 GBp

Bull bear debate on AZN today. Maintain Buy

We are hosting a bull bear debate today on AZN, following 20% underperformance since June-23 (pre TL01). Key bull and bear debates are summarized below. We maintain our Buy rating for attractive valuation (13.5x 25E PE) for premium growth prospect (13% FY25-28 EPS CAGR), with best-in-class mid-stage pipeline, a big FY25 catalyst path and May investor day to confirm mid-term growth prospects above consensus.

Bear debates: Mid-term margin, 4Q misses, Dato TL01

Bear debates detailed: 1) Key debate has been the mid-term margin profile driven by three factors: a) mid-term margin communication misinterpreted; b) collaboration revenue, with deal income cited. Driving return of quality of earnings debate, that AZN had moved away from; c) SG&A increase in 4Q given tax benefit. Our view on each is: a) Mid-term mid-30's margin target interpreted as 28-30E, but we see as 25-26E, in line with consensus 35%. We believe AZN intends to growth the margin from mid-30s but level dependent on pipeline opportunities and success; b) We see collaboration revenues offset by large decline in OOI, so don't see quality of EPS changing; c) 4Q tax benefit essentially spent on SG&A, but clear that SG&A growth below sales in 24E; 2) 4Q product misses (Tagrisso, Imfinzi, Calquence, Enhertu), but we see still strong and down to specific product dynamics. Post 4Q our numbers are roughly unchanged, with us below consensus on Calquence. We expect Enhertu growth to continue driven by new indications; 3) Dato 2L with two drivers of risk of approval; a) OS, where some investors believe stat sig improvement needed, contrary to AZN commentary of no detriment needed; b) Non squamous wasn't a prespecified subgroup (although a stratification factor), with our understanding that FDA comfortable looking at non-squamous; 4) Quieter catalyst path with no single big event in 24E (vs DB-04 and TL-01 in 22/23), though we cite multiple smaller events (*listed below*); 5) GLP1 dynamic dominates generalist debate.

Bull debates: Valuation, 24E and 25E catalyst path

High level, the key bull debates are: 1) Valuation attractive relative to growth, with 13.5x 25E P/E for 9% sales and 13% EPS CAGR's 25-28E. AZN is now within 1 P/E point of Novn/Rog for better growth and pipe; 2) 24E catalyst path is still reasonable, with Dato file acceptance end-Feb and approval from 3Q24E, Eccogene (GLP1) data at ACC, HELIOS-B data mid-year as Eplontersen readthrough, Enhertu DB-06, Tagrisso LAURA, May investor day (potential mid-term sales guide above cons), PARP1 deal, Farxiga LCM, Imfinzi EMERALD-2, and ASCO (potential TL02/04, PD-1/CTLA4 updates); 3) Busy FY25 catalyst path coming into debate from mid-year. Specifically: a) Dato 1L NSCLC (AVANZAR) data; b) Three Enhertu reads with DB-11 (neoadjuvant HER2+ve), DB-09 (1L HER2+ve mBC) and DB-05 (post-neoadjuvant HER2+ve); c) Camizestran SERENA-6 in 1L ESR1m Breast cancer; d) Eplontersen ATTR-cardiomyopathy; e) First Truqap data in prostate (CAPitello-281); f) Baxdostat in uncontrolled hypertension; g) Tozorakimab (IL-33) acute respiratory failure; 4) Margin concerns overdone, (*discussed above*).

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Stock Data

Price (Common / ADR)	9,501 GBp / 61.03 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	9,461 GBp-12,390 GBp
Market Value (mn)	147,283 GBP
Shares Outstanding (mn)	1,550.2 / 3,100.4
Average Daily Value (mn)	164.12 USD
Free Float	100.0%
BofA Ticker / Exchange	AZNCF / LSE
BofA Ticker / Exchange	AZN / NYS
Bloomberg / Reuters	AZN LN / AZN.L
ROE (2024E)	29.6%
Net Dbt to Eqty (Dec-2023A)	54.7%
ESGMeter™	High

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Glossary

AZN = AstraZeneca

NOV = Novartis

ROG = Roche

FDA = Food & drug administration

TL = TROPION-Lung

DB = DESTINY-Breast

1/2L = 1st / 2nd Line

GLP1 = Glucagon like peptide 1

OS = Overall survival

OOI = Other operating income

ASCO = American Society of Clinical Oncology

NSCLC = Non-small cell lung cancer

HER2 = Human epidermal growth factor receptor 2

mBC = metastatic Breast Cancer

ESR1m = Estrogen Receptor 1 mutation

ATTR = Transthyretin amyloidosis

IL-33 = Interleukin 33

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.

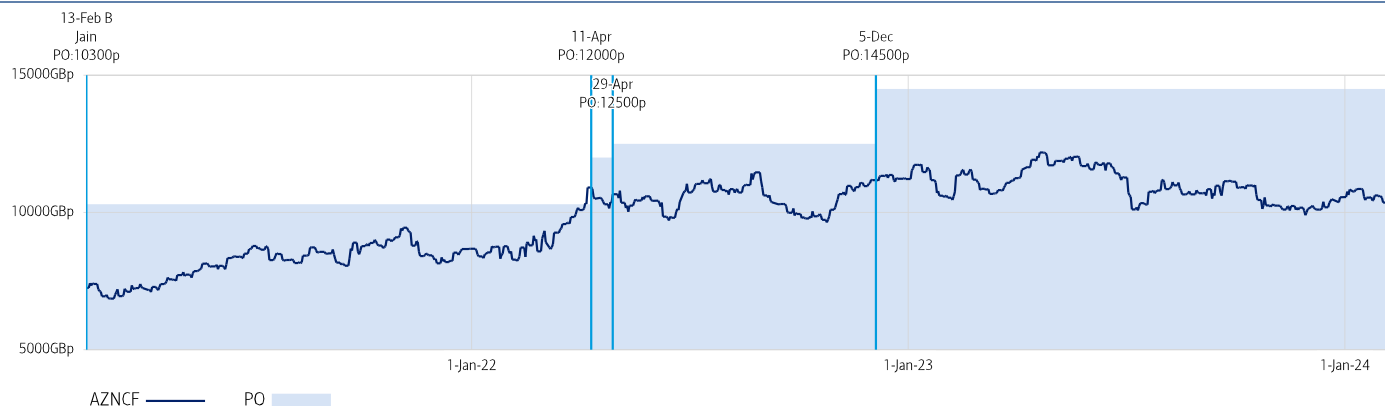
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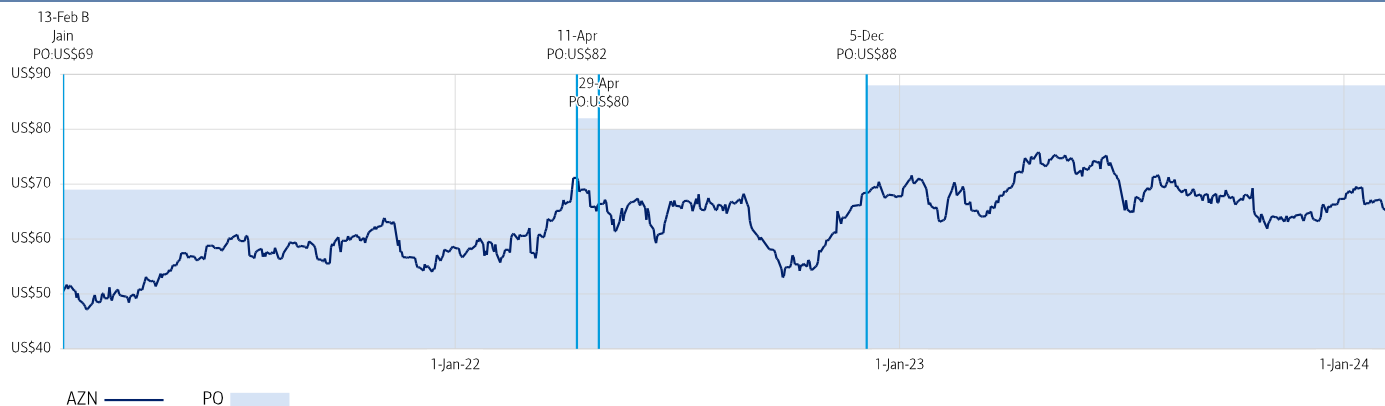
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AstraZeneca (AZNCF) Price Chart



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AstraZeneca (AZN) 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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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
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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