

10 AstraZeneca – Richard Parkes, BUY, close 5171p, 5700p tgt, 10% upside

- **2018 is a likely turning point for margin and EPS momentum.** We believe EPS should grow at a c12% EPS CAGR to 2022 as it emerges from its patent cliff and margins grow.
- **Best-in-class pipeline.** Exceptional data on new oncology portfolio puts AZ in a strong position despite MYSTIC failure.
 - Expectations for the overall survival readout of MYSTIC in 1H18 are low, so this is close to a free option in our view. A positive would deliver >10% upside.
 - The new portfolio, plus other growth products, should **add >\$2bn in incremental sales in 18E.**
- **Substantial margin leverage momentum improvement.** Several new launches leverage existing infrastructure and thus will have very high margins.
 - We expect flat EPS in 2018, but substantial growth thereafter. The equity story should shift to one of delivering or beating on revenue and earnings expectations.
- The **best-in-class growth justifies a larger premium** than at present. The shares trade on 17x 18E P/E vs. 16x for peers.
- **Multiple catalysts from pipeline.** Data on existing drugs Imfinzi and Lymparza in 1Q18, plus readouts on two potential blockbusters in roxadustat (anemia in chronic kidney disease) and anifrolumab (lupus) in the next 12 months.

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