



## Core Defensive



### Astrazeneca - Buy

17th May 2011

Price	3169p
24 Month Price Target	3400p
Risk Rating	Medium
Forward P/E Ratio	6.9x
Forward Dividend Yield	5.26%

#### Analysts View (cont):

growth as a consequence of known patent expirations and the unimpressive R&D track record, all of which are discounted in the valuation.

UBS has the company on its 'Key Calls' list.

#### Company:

A world-leading pharmaceutical group, AstraZeneca was created in 1999 via the merger of Sweden's Astra and the UK's Zeneca, which had been demerged from chemicals group ICI in 1993. The company has a strong presence in the key US market and has major products to treat disease in cancer, cardiovascular, gastrointestinal, infection, neuroscience and respiratory.

#### Analysts View:

Citigroup has a price target of 3400p. AZN trades on a significant discount to its peer group which Citigroup feels is excessive given its track record of out-exceeding market expectations. Citigroup feels the discount could start to close modestly as the trough earnings year of 2012 approaches – the market typically discounts trough earnings 9-12 months ahead of the low point. They view AZN's potential to return its market cap to investors over the next decade through dividends and share buybacks as outweighing the lack of earnings

#### Core Defensive Sector:

Core defensive stocks should form the backbone of any portfolio. These solid stock market stalwarts that deliver reliable profits have lost their lustre in recent years but recent 'black swan' events have highlighted the attractions of dull-but-worthy shares. Supported by good, growing dividend yields (which make up the majority of a share's total return), they are also currently benefiting from:

- 1) their current outperformance is relatively modest;
- 2) seasonal trends (defensive stocks tend to outperform in the summer months);
- 3) defensives remain under-owned;
- 4) long-term earnings expectations for defensives are at a record low relative to cyclicals;
- 5) defensives trade at long-term valuation lows versus cyclicals on a variety of valuation metrics;
- 6) macro newsflow is likely to weigh on risk appetite.



## Core Defensive (cont)

### Core Defensive Sector (cont):

With this in mind, we are advising investors to add some exposure to pharmaceuticals. Post poor long-term performance the sector offers good value and any USD strength associated with the end of QE2 should offer support.

### Catalysts to the share price:

- 1) A low valuation of 6.9x earnings, a substantial discount to the Pan-European pharma sector, will see the share price rise with a rerating coming from its track record of exceeding market expectations
- 2) US Food and Drug Administration is soon to make a decision on the group's blood thinning drug Brilinta. Failure to gain approval suggests a 3% EPS downside, versus a 40% potential EPS upside on success. Approval from the European regulators bodes well for the outcome
- 3) Sales to emerging markets are growing strongly, reducing its dependence on Western markets
- 4) Substantial cost savings planned by management (annual savings of \$1.9bn by end 2014) are expected to more than make up for patent expiries

### Technicals:

#### Primary Trend:

The primary trend of the stock price is up as indicated by the 200 day moving average. The RSI is approaching overbought territory at 70%, but with the ADX at 30, shares are still in a strong trend.

#### Support Levels:

Natural support lies at the recent low of 2828p.





### Summary:

Our pick of the UK sector is Astrazeneca trading on a low 2011E p/e multiple of 6.9x and yielding 5.26%. We see Astrazeneca as having a better chance of outperforming expectations than sector peer Glaxo-SmithKline where the return to sustainable growth looks factored into the City's forecasts and the 40% 2012e p/e premium to Astra.



## Core Defensive (cont)

### Chart Legend:

	20 day moving average	(signifies the short-term direction of the security. prices tend to gyrate around their 20 day m/a)
	50 day moving average	(signifies the medium-term direction of the security)
	200 day moving average	(signifies the long-term direction of the security - whether it is in a bull or bear market)
	bollinger bands	(an indicator that measures 2 standard deviations away from the 20 day m/a)

### Technical Analysis Guide:

**ADX** (average directional index) - indicates whether a security is in a trend (above 20) or not in a trend (below 20). For trending markets moving averages work best when considering lines of support/resistance. For non-trending markets bollinger bands work best (sell at upper band, buy at lower band).

**RSI** (relative strength index) - indicates whether a security is overbought (above 70) or oversold (below 30). Also when the RSI moves above 50 that is considered bullish (or vice versa).

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