

3rd February 2016

Healthcare

Bayer

Price EUR100.35

A couple of things to say about the offer and results from Syngenta

Fair Value EUR126 (+26%)

NEUTRAL

Bloomberg	BAY GY
Reuters	BAYG.F
12-month High / Low (EUR)	146.2 / 100.4
Market Cap (EURm)	82,984
Avg. 6m daily volume (000)	2 301

	1 M	3 M	6 M	31/12/15
Absolute perf.	-13.3%	-18.1%	-25.3%	-13.3%
Healthcare	-7.4%	-7.9%	-13.8%	-7.4%
DJ Stoxx 600	-8.5%	-11.2%	-15.6%	-8.5%

	2014	2015e	2016e	2017e
P/E	16.7x	15.0x	15.5x	14.1x
Div yield (%)	2.2%	2.3%	2.6%	2.7%

ANALYSIS

- Yesterday Syngenta announced that ChemChina had made an offer to acquire the company for a total consideration of USD43bn. The Board recognised that the proposed transaction respected its shareholders' interests and as a consequence, unanimously recommended to tender shares to the offer. After the acquisition, Syngenta will remain primarily based in Switzerland and will be IPOed again. The price offered is equivalent to 3.2x sales and 23x EBIT based on FY 2015 results published today.
- Applying these multiples to Bayer CropSciences' estimates for 2015, this value's Bayer's division at between EUR30bn and EUR42bn. At the current price, this would then value the remaining part of the business, once Covestro is priced at its current level, i.e. the Healthcare business, at 2.8x sales and 13.5x EV/EBIT. This is lower than CropScience, which does not make a lot of sense. It would also be roughly in line or even marginally below (for sales) the average historical metrics for the whole group whereas here we are dealing with the most profitable and fastest-growing division.
- Independently, Syngenta has also published its full-year 2015 results which point to persistently tough market conditions, notably in Latin America where sales fell 22% in Q4 (group: -6%). As for 2016, Syngenta is cautiously commenting on "further improving profitability in challenging market conditions". No doubt Bayer will pretty much say the same.

VALUATION

- At EUR100, Bayer obviously looks undervalued and may react positively to the Syngenta acquisition. However, we are maintaining our NEUTRAL rating for the time being and favour UK names in the sector.

NEXT CATALYSTS

- 25th February 2016 : FY 2015 results

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Eric Le Berrigaud, eleberrigaud@bryangarnier.com

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Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

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London	Paris	New York	Geneva	New Delhi
Beaufort House	26 Avenue des Champs Elysées	750 Lexington Avenue	rue de Grenus 7	The Imperial Hotel
15 St. Botolph Street	75008 Paris	New York, NY 10022	CP 2113	Janpath
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Genève 1, CH 1211	New Delhi 110 001
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	Tel +4122 731 3263	Tel +91 11 4132 6062
Fax: +44 (0) 207 332 2559	Regulated by the	FINRA and SIPC member	Fax+4122731 3243	+91 98 1111 5119
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