

Bloomberg	BAY GY
Reuters	BAYG.F
12-month High / Low (EUR)	146.2 / 92.8
Market Cap (EURm)	78,386
Ev (BG Estimates) (EURm)	95,139
Avg. 6m daily volume (000)	2 425
3y EPS CAGR	5.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-10.2%	-22.9%	-15.6%	-18.1%
Healthcare	-7.4%	-12.7%	-6.9%	-12.8%
DJ Stoxx 600	-5.4%	-14.8%	-6.4%	-12.5%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	42,239	45,215	34,365	35,955
% change		7.0%	-24.0%	4.6%
EBITDA	8,847	9,974	9,069	9,598
EBIT	7,562	8,699	8,370	8,946
% change		15.0%	-3.8%	6.9%
Net income	4,977	5,546	5,361	5,886
% change		11.5%	-3.3%	9.8%

	2014	2015e	2016e	2017e
Operating margin	17.9	19.2	24.4	24.9
Net margin	11.8	12.3	15.6	16.4
ROE	24.4	26.6	23.6	23.6
ROCE	10.3	11.9	12.6	13.6
Gearing	99.0	76.9	40.4	26.4

(EUR)	2014	2015e	2016e	2017e
EPS	6.02	6.71	6.48	7.12
% change	-	11.5%	-3.3%	9.8%
P/E	15.8x	14.1x	14.6x	13.3x
FCF yield (%)	4.4%	6.6%	12.9%	7.3%
Dividends (EUR)	2.25	2.35	2.60	2.70
Div yield (%)	2.4%	2.5%	2.7%	2.8%
EV/Sales	2.3x	2.1x	2.6x	2.4x
EV/EBITDA	11.1x	9.5x	9.7x	8.9x
EV/EBIT	13.0x	10.9x	10.5x	9.5x

Bayer reported this morning lower-than-expected earnings for the last quarter of 2015 with a meaningful miss to consensus expectations on core EPS (EUR1.07 vs EUR1.21) despite in-line sales thanks to strong US operations for CropScience. Based on these light numbers, Bayer is forming a first cautious guidance that should be another disappointment for the investment community. The group is guiding towards low-single digit growth in sales and mid-single digit growth in adjusted EBITDA with Fx playing slightly negative where CS anticipates reported 8.5% growth. Capex for 2016 is also higher than expected whereas net debt should stay well above our expectations. We are far from the strong growth profile market was expecting from Bayer in the decade. FV under review.

ANALYSIS

- Bayer reported in-line revenues for Q4 2015, with CropScience above estimates, largely driven by strong performance in North America (+24%) whereas other divisions were roughly in line. Within Pharmaceuticals, there is no major surprise to report. The "5 BIG" totalled EUR1.2bn, slightly more than we had anticipated as both Xarelto and Eylea came above estimates (EUR650m and EUR354m respectively in Q4 2015, +28% and +58%).
- However, all divisions made much lower-than-expected EBITDA contributions in the last quarter of the year with the exception of Covestro but which reported two days ago as a stand-alone company. Pharmaceuticals, Consumer Healthcare and CropScience all missed consensus forecasts. The major difference is coming from CropScience where EBITDA margin was 13.7% for the quarter when consensus was expecting 16.9%. All in all, restated EBITDA for the group came out at EUR1.9bn whereas consensus expected EUR2,029m to be reported. This difference is also reflected into the core EPS as reported EUR1.07 compares to estimated EUR1.21. We had been more cautious and we have a much limited difference with Bayer's reported numbers.
- But we expect the focus to be on the guidance for 2016. Not only are 2015 figures soft but Bayer is making a cautious guidance for 2016 both in terms of sales (low-single digit percentage increase) and in terms of adjusted EBITDA and core EPS (growth by a mid single digit percentage). This should come as a significant disappointment to the investment community. Before looking at the numbers, the general comment would be that it leaves Bayer far from a profile of a fast-growing company in the short-term whereas it has to invest heavily in R&D to revive its pipeline, which is reflected into an estimated R&D budget of EUR4.5bn (vs EUR4.2bn BG est.). Back to the numbers, consensus was expecting EBITDA to grow by 8.5% on a reported basis, which is not supported by the guidance, considering also that if anything currencies should play slightly negatively. To note also is that Capex of EUR2.5bn is about EUR0.5bn higher than we had anticipated, financial result (exp. -EUR1.2bn, 200m more negative) and net financial debt at the end of 2016 anticipated "below EUR16bn" when we had slightly above EUR12bn.

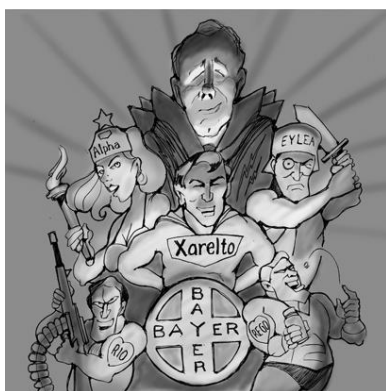
VALUATION

- Clearly, we have to revisit the whole set of numbers because guidance is disappointing on all fronts (with the exception of tax rate?). Hence the decision to suspend our FV. The cut in the sequence of core EPS can be expected as fairly significant.
- Bayer appeared cheap and share price performance (-18% YTD) raised questions about the attractiveness of the stock. But like with Sanofi and Novartis, we think it is too early. All the more so with Bayer than it was supposed to exhibit higher-than-peers growth as BIG 5 was growing fast. We keep our NEUTRAL rating and do favour others names in the space like GSK and AstraZeneca.

NEXT CATALYSTS

- Today at 2pm: Conference Call

[Click here to download document](#)



Analyst :
Eric Le Berrigaud
33(0) 1 56 68 75 33
eleberrigaud@bryangarnier.com

Sector Team :
Mickaël Chane Du
Hugo Solvet

Bryan Garnier stock rating system

For the purposes of this Report, the Bryan Garnier stock rating system is defined as follows:

Stock rating

BUY	Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
NEUTRAL	Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
SELL	Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

SELL ratings 28%

Research Disclosure Legend

1	Bryan Garnier shareholding in Issuer	Bryan Garnier & Co Limited or another company in its group (together, the "Bryan Garnier Group") has a shareholding that, individually or combined, exceeds 5% of the paid up and issued share capital of a company that is the subject of this Report (the "Issuer").	No
2	Issuer shareholding in Bryan Garnier	The Issuer has a shareholding that exceeds 5% of the paid up and issued share capital of one or more members of the Bryan Garnier Group.	No
3	Financial interest	A member of the Bryan Garnier Group holds one or more financial interests in relation to the Issuer which are significant in relation to this report	No
4	Market maker or liquidity provider	A member of the Bryan Garnier Group is a market maker or liquidity provider in the securities of the Issuer or in any related derivatives.	No
5	Lead/co-lead manager	In the past twelve months, a member of the Bryan Garnier Group has been lead manager or co-lead manager of one or more publicly disclosed offers of securities of the Issuer or in any related derivatives.	No
6	Investment banking agreement	A member of the Bryan Garnier Group is or has in the past twelve months been party to an agreement with the Issuer relating to the provision of investment banking services, or has in that period received payment or been promised payment in respect of such services.	No
7	Research agreement	A member of the Bryan Garnier Group is party to an agreement with the Issuer relating to the production of this Report.	No
8	Analyst receipt or purchase of shares in Issuer	The investment analyst or another person involved in the preparation of this Report has received or purchased shares of the Issuer prior to a public offering of those shares.	No
9	Remuneration of analyst	The remuneration of the investment analyst or other persons involved in the preparation of this Report is tied to investment banking transactions performed by the Bryan Garnier Group.	No
10	Corporate finance client	In the past twelve months a member of the Bryan Garnier Group has been remunerated for providing corporate finance services to the issuer or may expect to receive or intend to seek remuneration for corporate finance services from the Issuer in the next six months.	No
11	Analyst has short position	The investment analyst or another person involved in the preparation of this Report has a short position in the securities or derivatives of the Issuer.	No
12	Analyst has long position	The investment analyst or another person involved in the preparation of this Report has a long position in the securities or derivatives of the Issuer.	No
13	Bryan Garnier executive is an officer	A partner, director, officer, employee or agent of the Bryan Garnier Group, or a member of such person's household, is a partner, director, officer or an employee of, or adviser to, the Issuer or one of its parents or subsidiaries. The name of such person or persons is disclosed above.	No
14	Analyst disclosure	The analyst hereby certifies that neither the views expressed in the research, nor the timing of the publication of the research has been influenced by any knowledge of clients positions and that the views expressed in the report accurately reflect his/her personal views about the investment and issuer to which the report relates and that no part of his/her remuneration was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.	Yes
15	Other disclosures	Other specific disclosures: Report sent to Issuer to verify factual accuracy (with the recommendation/rating, price target/spread and summary of conclusions removed).	No

A copy of the Bryan Garnier & Co Limited conflicts policy in relation to the production of research is available at www.bryangarnier.com

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
Authorised and regulated by the	Financial Conduct Authority (FCA) and		Regulated by the	Fax +91 11 2621 9062
Financial Conduct Authority	the Autorité de Contrôle prudentiel et de		FINMA	
(FCA)	resolution (ACPR)			

Important information

This document is classified under the FCA Handbook as being investment research (independent research). Bryan Garnier & Co Limited has in place the measures and arrangements required for investment research as set out in the FCA's Conduct of Business Sourcebook.

This report is prepared by Bryan Garnier & Co Limited, registered in England Number 03034095 and its MIFID branch registered in France Number 452 605 512. Bryan Garnier & Co Limited is authorised and regulated by the Financial Conduct Authority (Firm Reference Number 178733) and is a member of the London Stock Exchange. Registered address: Beaufort House 15 St. Botolph Street, London EC3A 7BB, United Kingdom

This Report is provided for information purposes only and does not constitute an offer, or a solicitation of an offer, to buy or sell relevant securities, including securities mentioned in this Report and options, warrants or rights to or interests in any such securities. This Report is for general circulation to clients of the Firm and as such is not, and should not be construed as, investment advice or a personal recommendation. No account is taken of the investment objectives, financial situation or particular needs of any person.

The information and opinions contained in this Report have been compiled from and are based upon generally available information which the Firm believes to be reliable but the accuracy of which cannot be guaranteed. All components and estimates given are statements of the Firm, or an associated company's, opinion only and no express representation or warranty is given or should be implied from such statements. All opinions expressed in this Report are subject to change without notice. To the fullest extent permitted by law neither the Firm nor any associated company accept any liability whatsoever for any direct or consequential loss arising from the use of this Report. Information may be available to the Firm and/or associated companies which are not reflected in this Report. The Firm or an associated company may have a consulting relationship with a company which is the subject of this Report.

This Report may not be reproduced, distributed or published by you for any purpose except with the Firm's prior written permission. The Firm reserves all rights in relation to this Report.

Past performance information contained in this Report is not an indication of future performance. The information in this report has not been audited or verified by an independent party and should not be seen as an indication of returns which might be received by investors. Similarly, where projections, forecasts, targeted or illustrative returns or related statements or expressions of opinion are given ("Forward Looking Information") they should not be regarded as a guarantee, prediction or definitive statement of fact or probability. Actual events and circumstances are difficult or impossible to predict and will differ from assumptions. A number of factors, in addition to the risk factors stated in this Report, could cause actual results to differ materially from those in any Forward Looking Information.

Disclosures specific to clients in the United Kingdom

This Report has not been approved by Bryan Garnier & Co Limited for the purposes of section 21 of the Financial Services and Markets Act 2000 because it is being distributed in the United Kingdom only to persons who have been classified by Bryan Garnier & Co Limited as professional clients or eligible counterparties. Any recipient who is not such a person should return the Report to Bryan Garnier & Co Limited immediately and should not rely on it for any purposes whatsoever.

Notice to US investors

This research report (the "Report") was prepared by Bryan Garnier & Co Limited for information purposes only. The Report is intended for distribution in the United States to "Major US Institutional Investors" as defined in SEC Rule 15a-6 and may not be furnished to any other person in the United States. Each Major US Institutional Investor which receives a copy of this Report by its acceptance hereof represents and agrees that it shall not distribute or provide this Report to any other person. Any US person that desires to effect transactions in any security discussed in this Report should call or write to our US affiliated broker, Bryan Garnier Securities, LLC, 750 Lexington Avenue, New York NY 10022. Telephone: 1-212-337-7000.

This Report is based on information obtained from sources that Bryan Garnier & Co Limited believes to be reliable and, to the best of its knowledge, contains no misleading, untrue or false statements but which it has not independently verified. Neither Bryan Garnier & Co Limited and/or Bryan Garnier Securities LLC make no guarantee, representation or warranty as to its accuracy or completeness. Expressions of opinion herein are subject to change without notice. This Report is not an offer to buy or sell any security.

Bryan Garnier Securities, LLC and/or its affiliate, Bryan Garnier & Co Limited may own more than 1% of the securities of the company(ies) which is (are) the subject matter of this Report, may act as a market maker in the securities of the company(ies) discussed herein, may manage or co-manage a public offering of securities for the subject company(ies), may sell such securities to or buy them from customers on a principal basis and may also perform or seek to perform investment banking services for the company(ies).

Bryan Garnier Securities, LLC and/or Bryan Garnier & Co Limited are unaware of any actual, material conflict of interest of the research analyst who prepared this Report and are also not aware that the research analyst knew or had reason to know of any actual, material conflict of interest at the time this Report is distributed or made available..