

Fresenius Med. Care

Price EUR75.55

FY2015 preview: strong results, ambitious 2016 guidance

Fair Value EUR97 (+28%)

BUY

Bloomberg	FME GR
Reuters	FMEG.DE
12-month High / Low (EUR)	83.1 / 64.2
Market Cap (EUR)	23,637
Ev (BG Estimates) (EUR)	31,312
Avg. 6m daily volume (000)	761.0
3y EPS CAGR	7.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	4.8%	-4.2%	2.5%	-2.8%
Healthcare	-4.8%	-11.9%	-16.9%	-13.3%
DJ Stoxx 600	-2.9%	-13.6%	-17.1%	-12.4%

YEnd Dec. (USDm)	2014	2015e	2016e	2017e
Sales	15,832	16,861	18,001	19,358
% change		6.5%	6.8%	7.5%
EBITDA	2,954	3,086	3,536	3,759
EBIT	2,255	2,344	2,744	2,907
% change		4.0%	17.1%	5.9%
Net income	1,045	1,060	1,239	1,309
% change		1.4%	16.9%	5.6%

	2014	2015e	2016e	2017e
Operating margin	14.2	13.9	15.2	15.0
Net margin	6.6	6.3	6.9	6.8
ROE	11.1	9.5	9.9	9.5
ROCE	7.0	7.1	8.0	8.3
Gearing	95.3	76.3	63.3	52.6

(USD)	2014	2015e	2016e	2017e
EPS	3.45	3.48	4.07	4.30
% change	-	0.9%	16.9%	5.6%
P/E	24.4x	24.2x	20.7x	19.6x
FCF yield (%)	5.9%	5.4%	6.1%	8.2%
Dividends (USD)	0.94	1.10	1.16	1.31
Div yield (%)	1.1%	1.3%	1.4%	1.6%
EV/Sales	2.2x	2.1x	1.9x	1.7x
EV/EBITDA	12.0x	11.3x	9.7x	8.9x
EV/EBIT	15.7x	14.9x	12.5x	11.6x

FMC is due to report FY2015 figures on 24th February. Q4 results should highlight the strong momentum in NA seen throughout 2015. For the last quarter of the year, we do not expect a major improvement in product sales, further impacted by exchange rates. 2015 guidance is not at risk in our view. Entering 2016, fundamentals should be strong with Mircera and the GEP lifting margins. However, potentially dilutive M&A operations in 2016, which should help FMC to reach critical size in its care coordination business, might be a threat to ambitious 2016 net income growth guidance.

ANALYSIS

- Ahead of FY2015 results, we expect Fresenius Medical Care to deliver its 2015 guidance for 10-12% CER revenue growth (5-7% reported) and 0-5% net income growth at risk. Our revenue estimates stand at the high end of the communicated range at 6.5% reported growth. From a profitability standpoint, we see positive momentum continuing through Q4, derived from 1/ switch to Mircera with gains outpacing price increases from Epogen decreasing supply and 2/ efficiency gains from the GEP (positive 170bp impact on EBIT) that should come close to USD200m by year-end, offsetting weak profitability from the ongoing integration of 2014's USD1.2bn in dilutive acquisitions made as part of the care coordination strategy. We expect EBIT margin to contract by a slight 30bp vs. last year. Our net income growth of 0.9% for the year is in line with consensus estimates for 1% growth. BGe EPS stands at USD3.48 vs USD3.48 for the consensus.
- Our estimates for top line growth in 2016 are at the low-end of the company's guidance range of 7-10% cc growth at 7.7%. Regarding net income growth (the company expects a range of 15%-20%, BGe 17%), we see tailwinds from the switch to Mircera and efficiency gains from the GEP that are expected to reach USD300m, fuelling leverage during the year. Guidance should be reiterated by management in our view. However, we expect M&A moves in 2016 following a year of integration as a potential risk to guidance. Net income growth guidance could suffer from dilutive M&A operations, if these are significant (re. USD1.2bn in acquisitions made in 2014). Note that with 1.8bn still unallocated (USD3bn to be allocated to M&A by 2018), current trading multiples might prompt or reinforce interest in potential targets.
- Granuflo litigation could be close to an end, but is still a short-term risk. Although we would not speculate on the outcome of the trials, it worth mentioning that the first bellwether case ruled in favour of Fresenius. No relation has been demonstrated between injection of the solution and death, hence some plaintiffs might withdraw. The second bellwether case is scheduled for 16th February.
- Japan continues to show upside in the long run with a slowly opening USD10bn market. We believe that FMC made its first acquisition of a mid-size player in the country in Q1 2014. The company should play consolidation of the industry in the country, which is mainly represented by independent nephrologists at the moment.

VALUATION

- We stick to our BUY rating and EUR97 Fair Value

NEXT CATALYSTS

- 25th February:
 - 7.00amCET: FY2015 results
 - 3.30pmCET: FY2015 conference call (UK +44 203 059 5869, US +1 855 272 3518; ID: Fresenius MC)

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