

## Fresenius SE

Price EUR55.09

FY2015 preview, cautious 2016 guidance should offer a buy opportunity

Fair Value EUR68 (+23%)

BUY

Bloomberg	FRE GR
Reuters	FREG.DE
12-month High / Low (EUR)	69.8 / 47.4
Market Cap (EURm)	30,065
Ev (BG Estimates) (EURm)	43,881
Avg. 6m daily volume (000)	1 648
3y EPS CAGR	14.8%

2015 should have been a strong year for Fresenius SE, driven by KABI. We anticipate FY2015 sales at EUR27.795m, in-line with consensus estimates and EPS at EUR2.63, 2% ahead of consensus. Looking into 2016, we are not ruling out the prospect of cautious FY guidance, offering a buy opportunity with management's meet and beat strategy having proved successful.

## ANALYSIS

- 2015 should be a strong year for Fresenius SE with management having repeatedly raised and beaten its guidance thank to Kabi and its IV generic business. Regarding the latter, we see this trend continuing in Q4 as growth should be fuelled by neostigmine, shortages from competitors and nine approvals all throughout the year (i.e. in the high range of its 6-10 product launch per year). We see organic growth for the year at 9.5%, ahead of the company's guidance. Regarding Helios, ramp-up of margins at RHK hospitals should bring the division's EBIT to EUR641 (+120bp)
- Turning to 2016, Kabi should remain a key driver for the company as we anticipate the bulk of launches from the IV generic business in the US. We believe that the number of launches could reach ~11 in 2016, potentially surpassing the company's guidance. With a new entrant in the neostigmine market at the beginning of January, namely Hikma, alongside the increasing buzz surrounding generic pricing, some might doubt the company's ability to perpetrate positive momentum and this could explain the slight underperformance vs. STOXX600HC (-16.5% vs. -15%). We would remind that Fresenius sells to GPOs at an average price of ~USD5 per vial, and that the company remains confident on the prospects for neostigmine in 2016. As for the rest of Kabi's business, clinical nutrition should perform well (synergies from APP products as well as sales from the 3-chambers bag). One point of interest would be Helios. For the latter German Hospital business, we might see some limitations beyond the integration of RHK hospitals with organic growth roughly in-line with the German-DRG (2.95% for FY2016). All in all, growth prospects should remain strong entering 2016.
- Alongside its FY2015 publication, Fresenius' management should provide investors with new mid-term guidance (probably over a three year horizon). We have a 2016-2019 revenue CAGR at 8% and EPS CAGR at 10%. For KABI, We see some further upside potential in the medium-term from the recent acquisition of BD's plant which sells generics in prefilled syringes. A premium pricing opportunity could emerge for KABI following the switch from traditional vials. For Helios, if the privatisation of the German hospital business is slow, we are not ruling out an expansion plan in bordering eastern European countries (e.g. Poland, Czech Rep., Austria?).
- Moreover, we would remind that the company has an excellent track record in beating its initial guidance. As such, shy 2016 guidance might provide a buy opportunity to benefit from rerating following unwarranted underperformance.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-5.6%	-17.7%	-15.8%	-16.5%
Healthcare	-4.8%	-11.9%	-16.9%	-13.3%
DJ Stoxx 600	-2.9%	-13.6%	-17.1%	-12.4%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	23,231	27,795	29,362	31,480
% change		19.6%	5.6%	7.2%
EBITDA	4,051	5,037	5,538	5,923
EBIT	3,114	3,926	4,364	4,664
% change		26.1%	11.2%	6.9%
Net income	1,067	1,383	1,535	1,657
% change		29.6%	11.1%	7.9%

	2014	2015e	2016e	2017e
Operating margin	13.4	14.1	14.9	14.8
Net margin	4.6	5.0	5.2	5.3
ROE	6.6	6.2	6.5	6.5
ROCE	3.3	3.6	3.8	3.8
Gearing	134.6	103.6	100.0	99.3

(EUR)	2014	2015e	2016e	2017e
EPS	2.01	2.63	2.82	3.04
% change	-	30.9%	7.2%	7.9%
P/E	27.4x	20.9x	19.5x	18.1x
FCF yield (%)	0.5%	2.5%	5.4%	5.5%
Dividends (EUR)	1.29	1.70	1.82	1.97
Div yield (%)	2.3%	3.1%	3.3%	3.6%
EV/Sales	1.8x	1.6x	1.6x	1.5x
EV/EBITDA	10.5x	8.7x	8.4x	7.8x
EV/EBIT	13.6x	11.2x	10.7x	10.0x



## VALUATION

- We reiterate our BUY rating and EUR68 Fair Value ahead of the 2015 publication.

## NEXT CATALYSTS

- 25th February  
7.00amCET : FY2015 results  
2.00pmCET : FY2015 conference call (UK +44 203 481 9014, US +1 631 302 6547, ID: Fresenius)

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NEUTRAL ratings 28,4%

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