

22nd April 2016

Healthcare

Bayer

Price EUR110.45

Covestro shares deposited in Pension Fund

Fair Value EUR110 vs. EUR108 (0%)

NEUTRAL

Bloomberg	BAY GY
Reuters	BAYG.F
12-month High / Low (EUR)	138.4 / 92.8
Market Cap (EURm)	91,336
Avg. 6m daily volume (000)	2,449

	1 M	3 M	6 M	31/12/15
Absolute perf.	7.8%	7.0%	0.6%	-4.6%
Healthcare	6.3%	1.3%	-2.5%	-7.3%
DJ Stoxx 600	2.6%	6.4%	-3.6%	-4.4%

	2015	2016e	2017e	2018e
P/E	16.1x	15.2x	13.8x	12.9x
Div yield (%)	2.3%	2.4%	2.4%	2.5%

ANALYSIS

- Yesterday Bayer announced an original move by which it has reduced the net amount recognised for pension provisions (EUR10.8bn at the end of last year) by EUR338m, which is the market value of 10 million shares in Covestro that have been deposited in the Bayer Pension Trust. Although it is a small part of the total (about 3%), we see this as interesting in that it uses a financial asset that Bayer may not want to fully divest in the short-term against cash that it could use for internal purposes and/or for BD or acquisitions. It also reduces sensitivity and exposure of Bayer to the Chemicals business while not embarrassing Covestro's management with stock divestiture.

VALUATION

- We see each and every move in the direction of a devaluation or reduction in weight of the two chemistry-related businesses (i.e. agrochemicals and Covestro) as good for the investment case.
- This change is too limited in its scope to have an influence at the group valuation level. As a reminder, we apply a beta of 0.95 to Bayer (vs. 0.80 for pure healthcare stocks). Assuming 0.80 as a beta (while still valuing Covestro as a separate company) the impact would be EUR25 on our valuation, just to give a sense of how much any switch from Chemistry to Healthcare in group assets could be accretive and value enhancing. Obviously, this would have a cost to put in deduction from the overall new valuation (1 USD of FCF generated in healthcare does not have the same acquisition price than 1 USD of FCF generated in agrochemicals).
- Today's FV change is related to J&J's Q1 numbers that included higher-than-expected Xarelto sales in the US. We have increased our forecast for 2016 by 7.4% to USD2.32bn.

NEXT CATALYSTS

- 26th April 2016: First-quarter results - [Click here to download](#)

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Distribution of stock ratings

BUY ratings 57.6%

NEUTRAL ratings 33.8%

SELL ratings 8.6%

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