

QIAGEN

Price EUR21.16

Delayed ramp-up in profitability

Fair Value EUR22 (+4%)

NEUTRAL

Bloomberg	QIA GR
Reuters	QGEN.DE
12-month High / Low (EUR)	26.0 / 17.8
Market Cap (EURm)	5,072
Ev (BG Estimates) (EURm)	5,627
Avg. 6m daily volume (000)	421.8
3y EPS CAGR	7.5%

	1 M	3 M	6 M	31/12/15
Absolute perf.	9.1%	0.1%	-8.1%	-15.7%
Healthcare	6.2%	-2.5%	-7.5%	-7.7%
DJ Stoxx 600	3.5%	3.1%	-8.1%	-5.2%

YEnd Dec. (USDm)	2015	2016e	2017e	2018e
Sales	1,281	1,324	1,404	1,509
% change		3.3%	6.0%	7.5%
EBITDA	438	446	472	511
EBIT	314.5	322.6	349.3	387.6
% change		2.6%	8.3%	11.0%
Net income	249.3	258.5	276.7	306.0
% change		3.7%	7.1%	10.6%

	2015	2016e	2017e	2018e
Operating margin	24.6	24.4	24.9	25.7
Net margin	19.5	19.5	19.7	20.3
ROE	5.0	4.8	5.1	5.7
ROCE	23.0	19.5	18.0	23.6
Gearing	38.8	21.9	15.5	8.9

(USD)	2015	2016e	2017e	2018e
EPS	1.05	1.09	1.18	1.31
% change	-	4.1%	7.5%	11.1%
P/E	22.7x	21.8x	20.3x	18.3x
FCF yield (%)	6.9%	7.0%	6.1%	6.6%
Dividends (USD)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	5.2x	4.8x	4.4x	4.0x
EV/EBITDA	15.3x	14.2x	13.1x	11.7x
EV/EBIT	21.3x	19.7x	17.7x	15.5x

Q1 sales came slightly above CS while significant cost to reallocate the production of QuantiFERON TB test as well as S&M expenses impacted Operating income which came 10% below expectations. However EPS is in line with expectations at USD0.19. We flagged the risk on overly-optimistic consensus which should put the share price under pressure at opening. Indeed, while Q2 sales guidance is in line with expectations, EPS is expected at USD0.21 i.e. 19% below consensus. This may provide entry points as maintained FY2016 guidance translates management's confidence in ramping-up profitability and should be accompanied by a USD100m share repurchase programme.

QIA (USDm exc. PS)	Q1 2015	Q1 2016	Q1 2016 cs	Δ	Q2 2016 guid	Q2 2016 cs	Δ
Revenue	298,7	298,4	294,9	1%	325,8	327,0	0%
% growth		0%	-1%			10%	
Operating Income (adj.)	67,4	53,4	59,4	-10%			
% margin	22,6%	17,9%	20,1%				
EPS	0,22	0,19	0,19	0%	0,21	0,26	-19%
% growth		-14%					

Source : Company Data; Vara Consensus.

ANALYSIS

- Q1 sales grew 2% CER (of which 1pp from M&A) at USD298.4m, impacted by 2pp headwind from currencies and slightly ahead of consensus expectations at USD294.9m. **Molecular diagnostic grew 2% CER (48% of sales) and 6% CER when excluding the impact of decreasing US HPV sales (-40% CER)** which now represents less than 3% of sales. This was mainly driven by the strong momentum in QuantiFERON TB test sales which increased 25% CER yoy (10% of sales) boosted by marketing efforts as well as **QIASymphony consumables sales which grew double-digits with the group being confident in achieving 1,750 placements** by year-end. **Applied testing sales decreased 5% CER (8% of sales)** with good performance in APAC offset by weak America and EMEA. We would expect Applied testing sales to growth above 7% CER for the remainder of the year. Pharma grew 7% CER (23% of sales) while Academia sales grew 2% with a ramp-up expected in 2016. By region, America was impacted by strong US HPV decline which would have performed 5% CER without the latter. EMEA sales grew 7% CER and APAC grew 4% CER impacted by Japan.
- Turning to profitability, costs to reallocate the manufacturing of QuantiFERON TB which should fade away in Q2 as well as spending to reinforce sales force significantly impacted Operating income during the quarter. Adjusted operating income came 10% below consensus expectations at USD53.4m. Lower tax rate enables the group to report EPS in line with consensus at USD0.19.
- For the second quarter, sales guidance is in line with consensus i.e. 4% CER growth (inc 2pp negative US HPV impact) but 2% on a reported basis (-2pp FX impact). As we expected, investments in S&M should be prolonged in Q2. **EPS guidance came significantly below consensus estimates at USD0.22 CER or USD0.21 reported while we and the consensus were expecting USD0.245 and USD0.26 respectively.**
- Investments are above our estimates for H1 which could raise the question of the management's ability to significantly ramp-up profitability in the second half. Maintained FY2016 guidance with sales expected to rise 6% CER, 4% reported and EPS in the USD1.10-1.11 range (exc. USD0.02 FX impact) alongside USD100m share buy-back programme answer that question in our view.

VALUATION

- We would expect the share price to be under pressure at opening. However, maintained FY2016 guidance translates the group's confidence in ramping-up sales and profitability in H2. Is it realistic?

NEXT CATALYSTS

- Today 03:30pm: conference call on Q1 2016 results (US +1 631 302 6547, UK +44 203 059 8128, GR +49 69 566 036 000)

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