

3rd May 2016

Healthcare

Fresenius Med. Care

Price EUR78.26

Slower than expected start to the year

Fair Value EUR94 (+20%)

BUY

Bloomberg	FME GR
Reuters	FMEG.DE
12-month High / Low (EUR)	83.1 / 65.3
Market Cap (EURm)	23,976
Avg. 6m daily volume (000)	676.2

ANALYSIS

- FMC has reported Q1 revenues in line with the consensus at USD4.205bn, up 6% (9% at CC). Top-line growth was driven by North America which rose 8% to USD3,044bn, slightly ahead of expectations. Care Coordination, which now represents 12% of total sales, grew 20% (17% CC) to USD522m. Two additional dialysis days as well as higher volumes with payers positively impacted dialysis revenues. Product sales were also dynamic in the region. EMEA sales increased 5% to USD631m. APAC grew 10% to USD374m with a 6% increase in dialysis treatment. However, dialysis products boosted sales in the region, the latter growing 16%. LatAm revenues were impacted by the divestment of two clinics in Venezuela leading to a 6% decrease in dialysis sales while the product sales decrease was contained to -4% at cc (USD40m). Reported sales in the region were hit by an 18pp FX effect.

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.0%	-1.0%	-1.6%	0.7%
Healthcare	5.6%	0.2%	-9.1%	-8.3%
DJ Stoxx 600	4.1%	4.2%	-7.2%	-4.6%

	2015	2016e	2017e	2018e
P/E	26.2x	22.0x	20.8x	18.3x
Div yield (%)	1.2%	1.3%	1.5%	1.6%

FMC (USDm exc PS)	Q1 2015	Q1 2015	YoY %	Q1 2015 CS	Delta
FMC - Revenues	3 960	4 205	6%	4 197	0,2%
FMC - EBIT	504	540	7%	547	-1,3%
EBIT margin %	12,7%	12,8%		13,0%	
FMC - Net Income	210	228	9%	235	-3,0%
FMC - EPS Adj.	0,69	0,75	9%	0,77	-2,6%

Source: Company Data; Vara consensus.

- Profitability was slightly disappointing with EBIT 3pp below expectations as 1/ procurement cost gains from Mircera were slightly lower than anticipated by the consensus, treatment costs in the US were down 2% to USD281 while the consensus was expecting USD279 (-3%). 2/ Care coordination margins are not progressing yet, 3/ the aggressive marketing strategy in APAC alongside changes to the board reduced the region's profitability to 17.4% (vs. 24.1%) or USD65m and 4/ higher costs related to inflation in LatAm did not fully offset the positive impact from the divestment of low margin Venezuelan dialysis business.
- The start to the year was slightly weaker than we would have expected for FMC. However, guidance for sales growth of 7-10% and net income up 15-20% is maintained.

VALUATION

- We reiterate our BUY recommendation and EUR94 Fair Value

NEXT CATALYSTS

- Today 3:30pmCET : conference call on Q1 results (DE +49 69 566 030 802, UK +44 203 059 5869, US +1 855 272 3518; ID : Fresenius Medical Care)

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Distribution of stock ratings

BUY ratings 72%

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