

Bloomberg	BAY GY
Reuters	BAYG.F
12-month High / Low (EUR)	137.4 / 84.4
Market Cap (EURm)	77,378
Ev (BG Estimates) (EURm)	94,498
Avg. 6m daily volume (000)	2 865
3y EPS CAGR	6.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	6.8%	-13.7%	-11.2%	-19.2%
Healthcare	8.4%	6.4%	2.5%	-2.9%
DJ Stoxx 600	6.0%	-1.7%	0.6%	-6.7%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	46,325	45,939	47,665	49,233
% change		-0.8%	3.8%	3.3%
EBITDA	10,275	10,661	11,211	11,801
EBIT	8,851	9,294	9,787	10,330
% change		5.0%	5.3%	5.5%
Net income	5,687	5,842	6,425	6,881
% change		2.7%	10.0%	7.1%

	2015	2016e	2017e	2018e
Operating margin	19.1	20.2	20.5	21.0
Net margin	12.3	12.7	13.5	14.0
ROE	25.6	22.9	22.8	21.8
ROCE	11.6	12.4	13.2	14.0
Gearing	71.0	51.7	35.4	20.6

(EUR)	2015	2016e	2017e	2018e
EPS	6.88	7.06	7.77	8.32
% change	-	2.7%	10.0%	7.1%
P/E	13.6x	13.2x	12.0x	11.2x
FCF yield (%)	5.6%	7.7%	8.4%	8.9%
Dividends (EUR)	2.50	2.60	2.70	2.80
Div yield (%)	2.7%	2.8%	2.9%	3.0%
EV/Sales	2.1x	2.1x	1.9x	1.8x
EV/EBITDA	9.5x	8.9x	8.1x	7.4x
EV/EBIT	11.1x	10.2x	9.3x	8.4x

Bayer today released second-quarter earnings. Although sales came out below estimates with marked disappointments in Consumer Health and in Crop Science, margins were very strong and driven by Pharmaceuticals but also by Covestro. Same recipes within Pharma where Xarelto and Eylea performed strongly and exceeded expectations. The outlook for the year has been revised upwards for EBITDA growth and margins thanks to Pharmaceuticals and Covestro, while Consumer and Crop are cut. This should be marginally positive for the stock but the outcome of Monsanto's bid remains the focus.

ANALYSIS

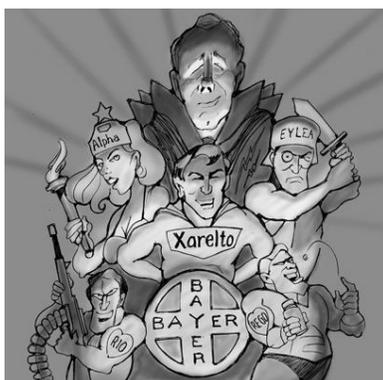
- Overall, Bayer released a good quarter this morning with Q2 figures although in detail, it is rather mixed as the top-line missed estimates with disappointing growth of 2.3%, including a particularly poor performance for CropScience.
- Pharmaceuticals were up 8.4%, largely driven by Xarelto as always (up 30.1% to EUR703m, vs BGe EUR672m) and Eylea (up 40.9% to EUR418m, vs BGe EUR394m). Note also that Betaferon was still highly resilient in the US (+3%) where prices offset volume declines and although Europe weighs on the drug, its decline remains manageable (-8.7% overall). Aspirin Cardio, up 16.4%, also performed strongly in the quarter. On a less positive tone, Stivarga was still down significantly (by 25%) but could be expected to turnaround shortly on the back of recent good data released in HCC.
- In CropSciences, we do not necessarily find the same ingredients as in Syngenta's release where the climate affected a lot of performances in Europe and in Asia. Actually, Bayer did well in Asia-Pacific (+8.4%) and suffered more in the Americas, particularly in seeds. In the end, sales came out about EUR200m below estimates, with growth of just 0.4% in the quarter compared to 1.2% in Q1. So the situation is not improving (yet) and Bayer has revised its annual top-line guidance from low single-digit growth to flat.
- Moving to EBITDA and margins, the picture looks much healthier for the quarter and makes the quarterly set of numbers rather good overall. With two noticeable exceptions but that luckily correspond to the two smallest businesses, namely Consumer Health and Animal Health, where margins were down sharply (170bp and 450bp respectively), all big divisions reported in line (Crop) and above anticipated margin growth. This was particularly true for Pharmaceuticals where EBITDA margin advanced 220bp to 32.9%, very likely driven by the strong performance of Xarelto and despite high investments in R&D expenses (up 17% in Q2). Bayer has revised its guidance upwards here and now expects growth in the high single digits for the full year.
- In all, the main take-away message investors are likely to have from this quarterly release is the upward revision in EBITDA and core EPS growth perspectives for the group. It is worth noting that both Consumer Health and CropScience are revised downwards but the impact is more than offset by trends in the opposite direction in Pharmaceuticals but also at Covestro.

VALUATION

- Sales will have to be revised downwards by about EUR1bn by the consensus. So, EBITDA margin growth will act on lower sales figures and together with currency impacts, we believe that changes at the earnings level are likely to be very limited in the end.
- Moreover, of course, it is obvious that Bayer's case is not really dependent on marginal changes in numbers but rather on Monsanto's bid. From that perspective, the conference call should be interesting.

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