

bioMérieux

Price EUR124.70

Sales guidance upgrade priced-in, limited upward revision ahead

Fair Value EUR127 vs. EUR122 (+2%)

NEUTRAL vs. BUY

Bloomberg	BIM FP
Reuters	BIOX.PA
12-month High / Low (EUR)	124.7 / 93.7
Market Cap (EURm)	4,920
Ev (BG Estimates) (EURm)	5,323
Avg. 6m daily volume (000)	48.60
3y EPS CAGR	28.9%

	1 M	3 M	6 M	31/12/15
Absolute perf.	10.2%	13.5%	22.3%	13.5%
Healthcare	9.0%	4.2%	5.0%	-4.2%
DJ Stoxx 600	4.0%	-1.6%	3.1%	-7.4%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	1,965	2,099	2,264	2,424
% change		6.8%	7.9%	7.1%
EBITDA	388	420	475	539
EBIT	260.0	283.4	328.3	381.8
% change		9.0%	15.9%	16.3%
Net income	110.3	161.2	198.7	236.2
% change		46.1%	23.3%	18.9%

	2015	2016e	2017e	2018e
Operating margin	13.2	13.5	14.5	15.8
Net margin	5.6	7.7	8.8	9.7
ROE	7.3	9.9	11.2	12.1
ROCE	8.2	8.4	9.4	10.7
Gearing	14.9	24.8	19.0	11.0

(EUR)	2015	2016e	2017e	2018e
EPS	2.80	4.09	5.04	5.99
% change	-	46.1%	23.3%	18.9%
P/E	44.6x	30.5x	24.8x	20.8x
FCF yield (%)	1.4%	NM	2.6%	3.9%
Dividends (EUR)	1.00	1.02	1.26	1.50
Div yield (%)	0.8%	0.8%	1.0%	1.2%
EV/Sales	2.6x	2.5x	2.3x	2.1x
EV/EBITDA	13.3x	12.7x	11.1x	9.5x
EV/EBIT	19.8x	18.8x	16.0x	13.4x

Following the publication of strong H1 sales and 25% absolute performance over the past 6 months, we downgrade BIM to NEUTRAL, but increase our fair value from EUR122 to EUR127. Fundamentals are good, but we see limited upward revision in consensus numbers ahead of H1 results to be released on August 31st, with the likelihood of a sales guidance upgrade already priced-in. We would expect margins to be under pressure in H1 with investments made not offset by strong uptake in reagent. Looking to H2, uncertainties in APAC calls for cautiousness and rebalancing of the reagent/instrument mix, which should pressure margins. We would take profit at current levels.

ANALYSIS

- We have revised our estimates following strong H1 sales. Main changes include clinical application organic growth rate for FY2016 now standing at 9.3%CER vs 8.1%CER and Industrial application growth rate now at 6.5%CER vs. 4.5%CER. However, we cannot but acknowledge that our new fair value of EUR127 leave us with limited upside ahead of H1 results which are expected to be released on August 31st. Moreover, we see 1/ the likelihood of a sales guidance upgrade already priced-in and 2/ a low probability of a rise in contributive EBIT at this stage. Hence, we would take profit at current levels.
- On the one hand, current level already price-in potential management's decision to revise FY2016 sales guidance range of 6%-8%CER up by at least 150bp (new BGe 9.5%CER). On the other hand, it is unlikely that we would see an upgrade in the contributive EBIT guidance range (EUR265-290m; BGe EUR285m) when the Street and us are already in the high range. As BIM will now discuss profitability only twice a year (i.e. FY and HY results), what motivates our view on the latter point is that 1/ reagent sales growth were stronger than instrument's sales in H1 (11.7% YoY vs. 3% YoY), which would theoretically positively impact margins, but should be more than offset by: 2/ strong investments in R&D and direct sales force. All in all, we forecast an 11.7% contributive EBIT margin for H1 vs 13.1% last year. Turning to H2, recall that instrument sales are historically stronger in the second half which should not benefit margins despite a ramp up of FilmArray.
- During the conference call management commented positively on FilmArray and the competitive environment around the VIDAS BRAHMS PCT test in the US. China is still calling for caution. FilmArray sales increased sharply in H1 with 600 placements. Trend in instrument was back-end loaded into the quarter with 400 placements in Q2 vs 200 in Q1. We would note that as most users start with low utilisation rates, the impact of these placements in reagent sales should be seen in late 2016/early2017. Slow ramp-up in GI panel sales with the need for education does not call for a shift in panels' sales mix. BIM still relies on its respiratory panel and hence on the magnitude of the flu season which is hard to predict. In China, we do not rule out that an approval of the FilmArray expected in the next 6/12months might prompt increased investment in reps. We also had the confirmation that VIDAS BRAHMS PCT test US market shares are not at risk yet and needs to be monitored closely in the long run. With Roche having received 510(k) clearance by the FDA for its Cobas, BioMérieux' management reminded us that it has long-term contracts in place and recently "secured" its market. China is maturing according to management. This translated into an increased reagent sales in H1. However, there are no reasons to reassess previously communicated expectations of a stabilisation period in the country that should take ~2 years.

VALUATION

- Following yesterday's share price appreciation, we see potential for increased guidance (at least +150bp) taking into account at current levels: 1/ Limited upside potential and 2/ low probability of meaningful EBIT guidance upgrade does not leave room for substantial upward revision on H1 results in our view. We would take our profit at current levels.

NEXT CATALYSTS

- August 31st : H1 result
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