

Fresenius SE

Price EUR66.79

Meet and beat! FY Net income guidance increased

Fair Value EUR73 (+9%)

BUY-Top Picks

Bloomberg	FRE GR
Reuters	FREG.DE
12-month High / Low (EUR)	69.8 / 53.1
Market Cap (EURm)	36,476
Ev (BG Estimates) (EURm)	51,774
Avg. 6m daily volume (000)	1 210
3y EPS CAGR	9.0%

	1 M	3 M	6 M	31/12/15
Absolute perf.	2.4%	5.1%	9.6%	1.2%
Healthcare	3.4%	8.1%	3.9%	-3.1%
DJ Stoxx 600	4.7%	0.1%	-0.1%	-6.5%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	27,626	29,070	30,963	33,250
% change		5.2%	6.5%	7.4%
EBITDA	4,990	5,432	5,799	6,287
EBIT	3,875	4,269	4,561	4,957
% change		10.2%	6.8%	8.7%
Net income	1,358	1,576	1,681	1,843
% change		16.1%	6.6%	9.6%

	2015	2016e	2017e	2018e
Operating margin	14.0	14.7	14.7	14.9
Net margin	4.9	5.4	5.4	5.5
ROE	7.2	7.6	7.5	7.6
ROCE	3.8	4.2	4.3	4.6
Gearing	118.4	107.5	99.2	90.1

(EUR)	2015	2016e	2017e	2018e
EPS	2.62	2.90	3.09	3.39
% change	-	10.8%	6.6%	9.6%
P/E	25.5x	23.0x	21.6x	19.7x
FCF yield (%)	2.0%	4.2%	4.2%	4.5%
Dividends (EUR)	1.69	1.87	2.00	2.19
Div yield (%)	2.5%	2.8%	3.0%	3.3%
EV/Sales	1.8x	1.8x	1.7x	1.6x
EV/EBITDA	10.0x	9.5x	8.9x	8.3x
EV/EBIT	12.9x	12.1x	11.4x	10.6x

Fresenius SE has reported Q2 results in line with estimates. KABI continued to drive performance especially in North America where EBIT margins widened 210bp despite a 2% decrease in organic growth due to a demanding comparison basis and an easing drug shortage situation. This enabled the group to revise 1/ KABI guidance upwards with sales and EBIT growth now expected to stand at 3-5% and 2/ group net income guidance now expected to grow 11-14% vs (8-12% previously)

FRE (EURm exc PS)	Q2 2015	Q2 2016	YoY %	Q2 2016 CS	Delta	FY16 Guid.	NEW
FRE - Revenues	6 946	7 100	2%	7 221	-1,7%	6-8%	na
FRE - EBIT	971	1051	8%	1 049	0,2%		
EBIT margin %	14,0%	14,8%		14,5%			
FRE - Net Income Adj.	350	393	12%	389	1,0%	8-12%	11-14%
FRE - EPS Adj.	0,64	0,72	13%	0,71	1,4%		
KABI - Sales	1538	1476	-4%	1555	-5,1%	low single	3-5%
KABI - EBIT	314	307	-2%	309	-0,6%	roughly flat	3-5%
EBIT margin %	20,4%	20,8%		19,9%			
HELIOS - Sales	1383	1477	7%	1451	1,8%	3-5%	na
HELIOS - EBIT	160	173	8%	173	0,0%	EUR670-700m	na
EBIT margin %	11,6%	11,7%		11,9%			
VAMED - Sales	155	254	64%	264	-3,8%	5-10%	na
VAMED - EBIT	9	9	0%	12	-25,0%	5-10%	na

ANALYSIS

- Fresenius reported Q2 results in line with expectations at the group level. Sales rose 5% organic (2% reported) driven by North America (+5% organic, 46% of sales) and Emerging Markets (14% of sales) where APAC and LatAm reported 9% and 14% organic growth rates respectively. In the latter regions however, FX effect significantly impaired reported results which were 1.7% below expectations. EBIT grew +11% organic to 14.8% of sales while Net Income grew 12% to EUR393m. EPS stands at EURO.72/share.
- KABI is the main point of interest of this publication. Sales rose 3% organic. North American sales decreased 6% organic as a result of a high comparison basis marked by product launches. However, back-end loaded launches of products and the confirmation of FY2016 guidance enables the group to raise its forecast for the region from roughly flat sales to low single digit-growth. Emerging markets performed well at KABI (+8% organic exc. China where tender are progressing slowly than expected and +22% organic in LatAm/Africa). Hence, in this region too, management now expects a low double-digit sales increase in both regions vs mid/high single-digit growth previously. Hence FY2016 sales guidance has been lifted slightly from low single-digit organic growth to 3-5% range. We were pleased to see KABI's EBIT margin progressing 40bp to 20.8%. Note that management successfully increased margin in North America by 210bp to 43.1% while we and the consensus would have expected flat margins. KABI's EBIT margin growth guidance was also revised upwards from roughly flat to the 3-5% range.
- FY2016 outlook is confirmed at Helios and Vamed. Note that Helios grew 6% organically in Q2 2016 and that margins continued to progress (+60bp)
- A good set of results at KABI and maintained trends at FMC enables the group to revise its FY2016 net income guidance upwards from 8-12% to 11-14%.

VALUATION

- We reiterate our BUY recommendation and EUR73 Fair Value. On the back of this good set of results and improved FY2016 guidance, we are not rule out profit taking moves.

NEXT CATALYSTS

- Today 8.00amEDT/2.00pmCET: Conference call on Q2 results (UK +44 161 250 8212, US +1 347 549 4091; ID: Fresenius)



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Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

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