

QIAGEN

Price EUR23.48

Dense newsflow in H2

Fair Value EUR26 vs. EUR22 (+11%)

BUY

Bloomberg	QIA GR
Reuters	QGEN.DE
12-month High / Low (EUR)	26.0 / 17.8
Market Cap (EURm)	5,627
Ev (BG Estimates) (EURm)	6,196
Avg. 6m daily volume (000)	431.2
3y EPS CAGR	9.7%

Last Friday we upgraded QIAGEN from Neutral to Buy. Following the conference call on Q2 results, we have reviewed the investment case which now features a higher level of confidence and raised our Fair Value from EUR22 to EUR26. The main points of interest during the call were 1/ the margin ramp-up, 2/ growth drivers and 3/ NGS. We welcomed management's confidence in all of these topics. Note that an Investor Day on 15th November (right after the AMP), should provide us with more details on the GeneReader.

ANALYSIS

- Management was pleased with the results, which were higher than internal targets and reiterated its commitment to deliver on operational leverage in H2 2016. Looking at Q3 guidance, which was ahead of expectations in terms of sales (8-9% sales growth at CER) but slightly lower in terms of EPS (USD0.28 at CER) confirms our sentiment on significantly back-end loaded leverage in Q4. We estimate a USD27m increase in absolute sales in Q4, which should be leveraged to enable QIAGEN to post a minimum of 30.6% in adj. operating income in Q4. We prefer to speak of a "minimum" as this should bring us to a 23.7% adj. operating margin for the year (BGe), 90bp below the FY2015 level of 24.6% while CFO, Roland Sackers, seems confident in the group's ability to catch-up FY 2015 levels. Apart from adding further upside, we do not rule out that this might enable the company to beat its FY2016 guidance.
- Growth drivers accounted for 35% of revenues in Q2 2015 and management expects strong double-digit growth in sales in the upcoming year. Note that our CER growth rates for QIA's growth drivers (combined) are 22%, 19.5% and 18.5% for 2016, 2017 and 2018 respectively. Across all divisions, volume expansion was solid and also ahead of management's internal projections. QuantiFERON grew >25% and even faster in the US. We do not expect this trend to change as a grade "B" recommendation is expected to be granted by the USPSTF this semester. Note that sales are not expected to be impacted by the warning letter issued in May 2016, since QIAGEN has answered the regulators points. The Life Sciences business benefited from a good macro trend. Academia (20% of sales) and Pharma (20% of sales) grew 6% and 9% at CER over Q2 on the back of marketing initiatives and a sales rep added. Note that we expected an acceleration in Academia as a result of a budget increase for 2016. With even more US research labs having cash in their hands entering H2, we would expect growth levels in this division to be at least maintained in Q3. Rebound in Applied Testing was helped by QIASymphony among others. Management pointed out to an attractive pipeline with new solutions to be rolled-out in the Life Sciences businesses in H2 2016 and transferred to the GeneReader.
- Another point of interest during the call was QIAGEN's commitment to return cash to shareholders. While our numbers do not include the newly disclosed USD200m share buy-back programme (excluded in the group's guidance, no dividend anticipated), the latter will come on top of the existing USD100m programme which has not been initiated yet because of volatile market conditions. Out of this programme, which accounts for USD300m, USD200m should be completed by early-2017. Note that this should be a major support to the share price as it represents around 22 days of trading.

VALUATION

- Our Fair Value is raised from EUR22 to EUR26. EUR1 stems from slight adjustments in our sales estimates for 2016e and 2017e. With increased confidence in the company's ability to achieve its FY2016 guidance, we have lowered our Beta from 1.0 to 0.9 such that it is now aligned with the Beta we use for other Dx Cies in our coverage universe and consistent with Bloomberg's 5yr adj. Beta. This latter change triggers a EUR3 increase in our Fair Value.

NEXT CATALYSTS

- H2 2016: Roll-out of novel products in the LS division // IR Day (15th Nov.) // expected "B" grade from the USPSTF.

	1 M	3 M	6 M	31/12/15
Absolute perf.	22.5%	20.0%	12.2%	-6.5%
Healthcare	3.4%	8.1%	3.9%	-3.1%
DJ Stoxx 600	4.7%	0.1%	-0.1%	-6.5%

YEnd Dec. (USDm)	2015	2016e	2017e	2018e
Sales	1,281	1,347	1,433	1,535
% change		5.1%	6.4%	7.1%
EBITDA	438	442	492	531
EBIT	314.5	318.7	369.2	407.9
% change		1.3%	15.9%	10.5%
Net income	249.3	257.2	295.5	325.5
% change		3.2%	14.9%	10.2%

	2015	2016e	2017e	2018e
Operating margin	24.6	23.7	25.8	26.6
Net margin	19.5	19.1	20.6	21.2
ROE	5.0	4.5	5.5	6.1
ROCE	23.0	19.6	19.1	24.7
Gearing	38.8	22.3	15.4	8.4

(USD)	2015	2016e	2017e	2018e
EPS	1.05	1.09	1.25	1.39
% change	-	3.4%	15.3%	10.6%
P/E	25.0x	24.2x	21.0x	19.0x
FCF yield (%)	6.3%	6.3%	5.9%	6.3%
Dividends (USD)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	5.7x	5.1x	4.7x	4.3x
EV/EBITDA	16.7x	15.7x	13.7x	12.4x
EV/EBIT	23.2x	21.7x	18.3x	16.1x



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Distribution of stock ratings

BUY ratings 56.4%

NEUTRAL ratings 32.9%

SELL ratings 10.7%

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