

21st September 2016

Healthcare

Bayer

Price EUR91.60

Only time will tell

Fair Value EUR98 (+7%)

NEUTRAL

Bloomberg	BAY GY
Reuters	BAYG.F
12-month High / Low (EUR)	126.9 / 84.4
Market Cap (EURm)	75,748
Avg. 6m daily volume (000)	2 607

	1 M	3 M	6 M	31/12/15
Absolute perf.	-4.9%	4.0%	-7.7%	-20.9%
Healthcare	0.4%	5.6%	6.9%	-7.2%
DJ Stoxx 600	0.3%	4.8%	-0.1%	-6.7%

	2015	2016e	2017e	2018e
P/E	13.3x	12.4x	11.7x	10.9x
Div yield (%)	2.7%	2.8%	2.9%	3.1%

ANALYSIS

- Yesterday's "meet the management" meeting unfortunately did not change the perception that Bayer is going to need time to convince investors that it is worth giving the group a chance.
- Despite the first political and regulatory public criticisms, Bayer reiterated that it was confident it could reach an agreement and overcome the three big risks i.e. 1) product overlap as management is ready to divest up to USD1.6bn in volume sales max to comply with antitrust demands; 2) US National security thanks to its long lasting presence in the US; 3) industry consolidation, which is good for innovation. Note that during meetings, management suggested taking 3.5% as cost of debt (in-line with what we have in our model) and indicated that Covestro would be sold over a not too long period of time. Bayer's 64% stake in Covestro is worth close to EUR6bn.
- But beyond Crop, the objective was to convince that other areas were healthy and had bright perspectives. They missed the point with Consumer Care in our view whether Pharma is ok but will see its profitability expansion limited by the low US presence whereas the pipeline is maturing but needs a bit more time to deliver however. The USD6bn in peak sales they talked about still looks highly speculative.

VALUATION

- We will work a touch more on the pipeline to see if we can extract some more value but our NEUTRAL recommendation will remain unchanged.

NEXT CATALYSTS

- 26th October: Q3 results

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Distribution of stock ratings

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