

Bayer and Monsanto said to be close to an agreement

Fair Value Under Review

NEUTRAL

Bloomberg	BAY GY
Reuters	BAYG.F
12-month High / Low (EUR)	126.9 / 84.4
Market Cap (EURm)	79,321
Ev (BG Estimates) (EURm)	96,950
Avg. 6m daily volume (000)	2 578
3y EPS CAGR	7.4%

Every day press reports claim that the Bayer-Monsanto deal is getting closer and even that a Board could meet on 14th September to discuss the final terms. In order to prepare for this outcome, here are a few elements to assess the move, ahead of the "Meet The Management" meeting on 19-20th September.

ANALYSIS

- Over the week-end and again early this week, press reports stated that the management teams of Bayer and Monsanto had met again and were one step closer to an agreement. In particular, at the price of another small increase to its offer from USD125 to USD127.50 per Monsanto share, Bayer has obtained exclusive access to the data room to conduct in-depth due diligence. It was been reported that Monsanto would like Bayer to articulate a final offer somewhere between USD130 and USD135 per share.
- All this makes sense and sounds very likely. Unlike what we initially thought (and some of Bayer's shareholders too), after the very negative reactions from the market to the initial sudden offer, Bayer will not walk away from Monsanto at the first opportunity because management is convinced it can do well and wants to bring this deal to completion, barring any unexpected event.
- As a consequence, the base-case scenario is now that Bayer will become a life company whose mix is either balanced between healthcare and agro-chemicals or even slightly in favour of the latter depending on how exactly the deal is financed. Because, indeed, what is still missing to fully calculate the various impacts is not only the final price, which is now unlikely to be very different from USD130, but how the deal is going to be financed by Bayer. Initially, the group said that it would not require any asset disposals but since then, rumours have suggested that contrasting agents and animal healthcare could be put up for sale to help finance the transaction. Of course, selling another part of Covestro would also make sense. Mid-May, Bayer already signed an agreement with SBM Development to sell Bayer Garden and Bayer Advanced Businesses for an undisclosed amount but an estimated amount that is close to EUR1bn (EUR239m of turnover in 2015). Some other small divestments can be expected as part of the antitrust requirements. So in the end, we do not know for sure how much Bayer will need to raise to complete the financing of the transaction and how much it is going to impact the product mix.

VALUATION

- In order to make a calculation anyway, we have assumed that the 75% debt/25% right issue would be maintained. We have taken a 3% gross rate for debt issuance considering a BBB rating and a 5% discount to a EUR95 share price for the equity component. We have also assumed that the USD1.5bn in synergies are reached in 2020 and we have used new consensus estimates for Monsanto (cut from high-single to high-double digits in EBITDA, EBIT and net income from 2016 to 2019 since the first offer was formulated). From our initial calculations, the deal is no longer accretive in year 1 (neutral to slightly dilutive) and accretive by 7.5% in 2019 (vs 13%). Core EPS CAGR over the [2016-2019] period would therefore jump from 6.7% to 9.3%, making it one of the fastest growing companies in our universe although, admittedly, not with a standard healthcare profile.
- In terms of FV, it is still difficult to communicate on a new one right now because of the above-mentioned limitations to the financing of the deal. As a consequence, we are maintaining our FV under review while mentioning that the "old Bayer" would carry a FV of EUR106.
- Note that Bayer will hold a "Meet the Management" meeting on 19-20th September, when it is very likely to share the details of the final transaction with the investment community but also to update the group's medium-term targets, including sales figures for the five "new" flagships.

NEXT CATALYSTS

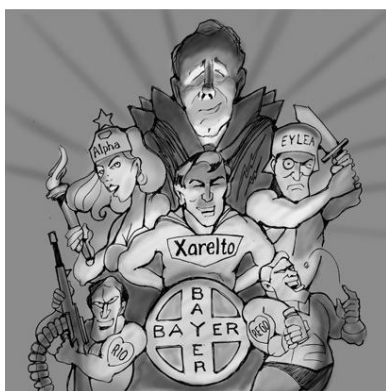
- 14th September 2016 (?): Board meeting to discuss Monsanto transaction (?)

	1 M	3 M	6 M	31/12/15
Absolute perf.	0.1%	7.6%	-2.6%	-17.2%
Healthcare	-3.6%	-1.1%	3.8%	-7.5%
DJ Stoxx 600	2.4%	2.1%	2.2%	-4.5%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	46,325	46,586	46,895	48,626
% change		0.6%	0.7%	3.7%
EBITDA	10,334	10,949	11,025	11,619
EBIT	8,851	9,659	9,980	10,546
% change		9.1%	3.3%	5.7%
Net income	5,687	6,099	6,569	7,039
% change		7.2%	7.7%	7.1%

	2015	2016e	2017e	2018e
Operating margin	19.1	20.7	21.3	21.7
Net margin	12.3	13.1	14.0	14.5
ROE	25.6	23.9	23.4	22.6
ROCE	11.6	12.9	13.4	14.3
Gearing	71.0	51.8	36.6	22.6

(EUR)	2015	2016e	2017e	2018e
EPS	6.88	7.37	7.94	8.51
% change	-	7.2%	7.7%	7.1%
P/E	13.9x	13.0x	12.1x	11.3x
FCF yield (%)	5.5%	7.5%	7.8%	8.4%
Dividends (EUR)	2.50	2.60	2.70	2.80
Div yield (%)	2.6%	2.7%	2.8%	2.9%
EV/Sales	2.2x	2.1x	2.0x	1.9x
EV/EBITDA	9.7x	8.9x	8.5x	7.8x
EV/EBIT	11.3x	10.0x	9.4x	8.6x



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NEUTRAL ratings 0%

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