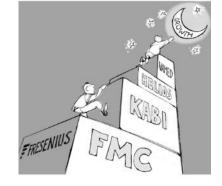
6th September 2016

Healthcare

Fresenius SE

Price EUR66.17

Bloomberg Reuters 12-month High Market Cap (EU Ev (BG Estimate Avg. 6m daily vo 3y EPS CAGR	FRE GR FREG.DE 69.8 / 53.1 36,152 51,451 1 053 9.0%				
1 M 3 M 6 M 31					
Absolute perf.	-1.5%	-0.2%	9.6%	0.3%	
Healthcare	-3.7%	-0.8%	3.7%	-7.5%	
DJ Stoxx 600	2.7%	2.7%	2.6%	-4.2%	
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	25.3x	22.8x	21.4x	19.5x	
FCF yield (%)	2.0%	4.2%	4.3%	4.5%	
Dividends (EUR)	1.69	1.87	2.00	2.19	
Div yield (%)	2.6%	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	12.8x	12.1x	11.3x	10.5x	



Fresenius acquires largest Spanish hospital group for EUR5.76bn

Fair Value EUR73 (+10%)

BUY-Top Picks

Fresenius announces the acquisition of Quironsalud, Spain's largest hospital network for EUR5.76bn (12.3x 2016e sales, 2.3x 2016e EBITDA). While this acquisition should be neutral to the group's EPS in 2016e (1% relutive) we estimate accretion of 9% in 2017e which excludes any synergies. More importantly, this acquisition should lower the group's exposition to its IV Generic business which despite keeping-up with high margins, should see an increasing competition in the upcoming months.

ANALYSIS

- Quironsalud, Spain's largest hospital network is a perfect fit into Helios Portfolio. Result of the 2014 merger of Spain's first and second largest hospital networks (IDC and GHQ) which comprises 43 hospitals and 300 Occupational risk prevention centres located in Spain's richest and more dense areas (Catalunya, South and Madrid). The acquired group which is expected to total 2016 sales of EUR2.5bn in sales has attractive growth prospects with an anticipated 8% growth rate this year which should bring sales to 2.7bn in 2017e (5% growth appears more sustainable level in the long run). This should fuel Helios growth and account for 43% of the division's sales in 2017e.
- At a profitability level, Quironsalud is expected to post a ~18.8% EBITDA margin in 2016e (EUR460-480M), ~19.8% in 2017e (EUR520-550m) as a result of synergies already implemented at Quironsalud. This compare well with the 15.3% and 15.6% EBITDA margins that we have modelled for Helios (standalone) in 2016e and 2017e respectively. Note that these levels exclude any incremental synergies of EUR50m per year that are expected to be reach within a 3 to 4 years period. We do not rule out that synergies with Helios and within the existing group might be higher. While the impact to the groups' earnings should be marginal in 2016e (+1%) we estimate a 9% positive impact in 2017e (exc. synergies.).
- 93% of the EUR5.76m acquisition price should be financed by debt (EUR5.36m) while the remaining 7% is expected to be financed by the issuance of new shares (EUR400m) to Quironsalud's CEO, Victor Madera. This should bring Fresenius SE's leverage to 3.1x, expected to be back to 3.0-2.5x by mid-2017.
- Rebalancing Helios contribution to the group's earnings. Easing of the US drug shortage situation
 is impacting KABI as highlighted by a -6% organic growth in the region in the second quarter.
 Hence, this could have cast doubts on management's ability to maintain attractive profitability
 levels of north of 40% (40.5% and 43.1% in Q1 and Q2 respectively) in North America. Following
 this acquisition, we are pleased to see that Fresenius is rebalancing Helios contribution to
 earnings, diluting risk for shareholders.

VALUATION

- We reiterate our BUY rating and EUR73 fair value. We would wait for the conference call before modifying our estimates.
- Note that the transaction is expected to close in Q4 2016/Q1 2017 after approval by antitrust issues

NEXT CATALYSTS

Today 2.00pmCET: conference call (UK +44 161 250 8213, US+1 213 536 4059; ID: Fresenius)

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Stock rating

BUY	Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a					
DUI	recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of					
elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published up						
	ill feature an introduction outlining the key reasons behind the opinion.					

- NEUTRAL Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
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Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

SELL ratings 28%

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