

## Fresenius SE

Price EUR66.17

## Fresenius acquires largest Spanish hospital group for EUR5.76bn

Fair Value EUR73 (+10%)

BUY-Top Picks

Bloomberg	FRE GR
Reuters	FREG.DE
12-month High / Low (EUR)	69.8 / 53.1
Market Cap (EURm)	36,152
Ev (BG Estimates) (EURm)	51,451
Avg. 6m daily volume (000)	1 053
3y EPS CAGR	9.0%

**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% relative) 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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	1 M	3 M	6 M	31/12/15
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



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## Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

SELL ratings 28%

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