

Fresenius SE

Price EUR70.43

¡Salud! (full report published today)

Fair Value EUR78 vs. EUR73 (+11%)

BUY-Top Picks

Bloomberg	FRE GR
Reuters	FREG.DE
12-month High / Low (EUR)	70.4 / 53.1
Market Cap (EURm)	38,480
Ev (BG Estimates) (EURm)	53,729
Avg. 6m daily volume (000)	1 068
3y EPS CAGR	12.6%

Management's review of the growth prospect for Quirónsalud reinforce our sentiment on a perfect fit with Helios. Diluting KABI by bringing both stability and visibility to sales and earning ramps should be much appreciated in a difficult environment for the Pharmaceutical sector. Having integrated Quirónsalud in our model lift our 2017e EPS by 8.5%. We reiterate our BUY rating and raise our Fair Value from EUR73 to EUR78.

ANALYSIS

- **Fresenius SE acquired Spain's leading hospital network, Quirónsalud, for EUR5.76bn.** This acquisition which is the largest conducted by Fresenius SE is a perfect fit into its portfolio. Indeed, it should bring both stability and visibility to the PnL at a time 1/ KABI NA long term growth might have cast doubt.
- **The Spanish hospital Market is highly attractive** with 1/ an increased proportion of the population benefiting from a private insurance and 2/ lower hospital coverage leaving room for new projects. Quirónsalud's EUR2.7bn revenues which are expected to growth by 5% in the long term comes from both private and public payers and should offer to Fresenius a strong footprint in the country before taking a role into the consolidation of the market.
- **On top of embedded synergies, the groups communicated on an additional EUR50m synergies** that should be reached in the mid-term. Considering 1/ comments from the CEO during the conference call and 2/ the groups excellent track record in integrating and over delivering on synergies, we do not rule out that they could go higher, further enhancing the accretion of the deal.

VALUATION

- Integrating Quirónsalud to our estimates with synergies of EUR50m as a base scenario **lift our EPS by 8.5%, 10% and 10.7% in 2017e, 2018e and 2019e respectively.**
- We reiterate our BUY rating for Fresenius which is included in our Q3 top picks list. Our new Fair Value is increased by EUR5 to EUR78 offering an upside of 11%.

NEXT CATALYSTS

- Oct 27th: Q3 2016 results
- Nov. 15th: Fresenius SE to attend BG Healthcare conference
- Feb. 2017: FY 2016 results with new mid-term targets

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	1 M	3 M	6 M	31/12/15
Absolute perf.	4.8%	6.1%	16.7%	6.8%
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	27,626	28,927	33,694	36,132
% change		4.7%	16.5%	7.2%
EBITDA	4,990	5,407	6,213	6,756
EBIT	3,875	4,250	4,865	5,311
% change		9.7%	14.5%	9.2%
Net income	1,358	1,623	1,864	2,064
% change		19.5%	14.9%	10.7%

	2015	2016e	2017e	2018e
Operating margin	14.0	14.7	14.4	14.7
Net margin	4.9	5.6	5.5	5.7
ROE	7.2	7.9	8.3	8.4
ROCE	3.8	4.3	4.8	5.1
Gearing	118.4	107.2	101.0	91.6

(EUR)	2015	2016e	2017e	2018e
EPS	2.62	2.97	3.38	3.74
% change	-	13.6%	13.6%	10.7%
P/E	26.9x	23.7x	20.9x	18.8x
FCF yield (%)	1.9%	4.1%	1.9%	4.4%
Dividends (EUR)	1.69	1.93	2.21	2.45
Div yield (%)	2.4%	2.7%	3.1%	3.5%
EV/Sales	1.9x	1.9x	1.8x	1.7x
EV/EBITDA	10.4x	9.9x	9.6x	8.9x
EV/EBIT	13.4x	12.6x	12.3x	11.3x



Analyst :
Hugo Solvet
33(0) 1 56 68 75 57
hsolvet@bryangarnier.com

Sector Team :
Mickael Chane Du
Eric Le Berrigaud

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London	Paris	New York	Munich	New Delhi
Beaufort House	26 Avenue des Champs Elysées	750 Lexington Avenue	Widenmayerstrasse 29	The Imperial Hotel Janpath
15 St. Botolph Street	75008 Paris	New York, NY 10022	80538 Munich	New Delhi 110 001
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Germany	Tel +91 11 4132 6062
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	+49 89 2422 62 11	+91 98 1111 5119
Fax: +44 (0) 207 332 2559	Regulated by the	FINRA and SIPC member		Fax +91 11 2621 9062
Authorised and regulated by the	Financial Conduct Authority (FCA) and the			Geneva
Financial Conduct Authority (FCA)	Autorité de Contrôle prudentiel et de			rue de Grenus 7
	resolution (ACPR)			CP 2113
				Genève 1, CH 1211
				Tel +4122 731 3263
				Fax+4122731 3243
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