

26th October 2016

Healthcare

Bayer

Price EUR91.50

Decent quarter with focus on profitability

Fair Value EUR98 (+7%)

NEUTRAL

Bloomberg	BAY GY
Reuters	BAYG.F
12-month High / Low (EUR)	126.9 / 84.4
Market Cap (EURm)	75,666
Avg. 6m daily volume (000)	2 571

	1 M	3 M	6 M	31/12/15
Absolute perf.	0.0%	-1.2%	-16.6%	-21.0%
Healthcare	-6.4%	-9.9%	-5.6%	-12.9%
DJ Stoxx 600	-0.7%	0.6%	-1.0%	-6.2%

	2015	2016e	2017e	2018e
P/E	13.3x	12.4x	11.7x	10.9x
Div yield (%)	2.7%	2.8%	3.0%	3.1%

ANALYSIS

- Third-quarter numbers released this morning are bang in line with estimates at the top-line level but above estimates at the profit and margin level.
- Sales for the quarter were EUR12.3bn, as expected and we see no major differences across divisions compared to expectations. Within Pharmaceuticals, there are a few swings to point out although in the end ups and downs are balancing each other out: on the positive side, clearly Xarelto posted another very strong quarter with sales up 34% (i.e. above two previous quarters in terms of annual growth rate) and Mirena; with a negative tone, Eylea (with a slow-down in growth), Betaferon (whose decline is accelerating) or Stivarga (still disappointing).
- Like in Q2, Crop Science and Consumer Healthcare were a touch below estimates. However, they are diverging in terms of operating margin because Crop Science was very resilient (margin slightly up to 15.5% when CS was expecting 14%) whereas Consumer Care saw a 90bp decline, again. Since Pharmaceuticals saw a gain in margin of 180bp in the quarter, the group posted higher-than-expected EBITDA and EBITDA margin (EUR2,682m vs EUR2,532m estimated).

VALUATION

- Third-quarter numbers are solid although they should not influence the consensus very much. The only change in the guidance relates to core EPS that is expected to grow high-single digit. We had 8% to EUR7.42 while consensus is expecting EUR7.38 for the full-year (+7.1% after 9 months). If anything, it could be revised upwards by 1-2pp. Obviously, this is not what matters with Bayer.

NEXT CATALYSTS

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Distribution of stock ratings

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