

Fresenius SE

Price EUR69.81

Good prospects across all divisions

Fair Value EUR78 (+12%)

BUY-Top Picks

Bloomberg	FRE GR
Reuters	FREG.DE
12-month High / Low (EUR)	72.9 / 53.1
Market Cap (EURm)	38,181
Ev (BG Estimates) (EURm)	53,375
Avg. 6m daily volume (000)	1 027
3y EPS CAGR	13.6%

The tone was very positive during yesterday's Q3 call. Management sees no incapacitating pricing pressure in the US and should reach the high end of the 6-10 drug launches per year. Slowdown in Q4 should be expected (investment in plants and high comp basis). On the M&A front, management feels it has time, but gave an initial indication of its goal to rebalance contributions from different geographies to group's sales while staying within the existing businesses.

ANALYSIS

- We were pleased by management's comments on KABI outlook. Not only because no incapacitating pricing pressure has been seen in the US so far, but also because management mentioned that even when competitors come back to the market, it continues to see some positive effect, capitalizing on its former monopoly situation. Six IV generic drugs have been launched at KABI year to date which bodes well with the ability of the group to reach the high-end of the 6-10 product launches. Good development in Q3 should enable KABI to report FY2016 growth in the updated 4-6% corridor (vs. 3-5% previously). This triggers a narrowing of the group's Net Income income guidance. The latter is now expected to growth within the 12-14% range vs. 11-14% previously. Without the financing costs of Quironsalud, we do not rule out that the upper range would have been revised up as well.
- Despite these positive comments, we cannot but acknowledge that a slowdown should be expected in Q4. The latter has for main sources: 1/ a longer than usual stop in late Q4 at US plants to ramp-up production, 2/ high comp basis (8%cc growth in Q4 2015) and 3/ benefit from a small medical devices shortage in Q2 and Q3 expected to fade away. Note that investments to be done at US IV generic drug plants in late Q4 are likely to enable Fresenius to bring differentiated IV Gx drugs with even higher margins (like the one acquired from the BD plant, Simplist range).
- Management eager to growth KABI bigger? It might be too early considering that Fresenius has to swallow the EUR5.76bn Quironsalud pill. However, whether it would be organically or externally, management's next move would be to rebalance geographies.. within the existing businesses (Med devices, clinical nutrition, IV Drugs or Infusion therapy). Our guess would be that it is likely that we would see development in the Emerging markets front, be it APAC or LatAm. While KABI's business in APAC is mainly a clinical nutrition one, IV push should not be ruled out. Indeed, APAC represents <20% of sales and harbor nice growth of 8%cc (vs 4%cc growth for the division in Q3). First step could be a positive impact from tenders in China as 21 provinces representing 60% of population have not yet finalized their tender processes. Note that the impact from tender is likely to be low single digit price reduction vs. double digit volume growth which would be accretive to the division growth.
- Turning to HELIOS, "no skeletons have been discovered at Quironsalud" and the management of the Spanish company is on track to meet its FY2016 objectives. At the moment, SCEO would expect Quironsalud to be integrated as of Feb 1st 2017.
- Lastly, CFO search is well on track and we would expect more details (potentially nomination) in late 2016/Q1 2017.

VALUATION

- We reiterate our BUY rating and EUR78 fair value. A few changes to our estimates lead to a 1% increase in our EPS estimates up from EUR2.97 to EUR3/share.
- Overall, the tone was really positive during the call. With regards to new guidance whether at KABI (sales and EBIT 4%-6% growth vs. 3%-5%) or at a group level (Net income growth 12%-14% vs. 11%-14%), CEO stated that "the group will not end the year at the bottom end of FY2016 guidance".

NEXT CATALYSTS

- Late Feb. 2017: FY2016 results and mid-term guidance [Click here to download document](#)

	1 M	3 M	6 M	31/12/15
Absolute perf.	-1.5%	3.0%	7.4%	5.8%
Healthcare	-5.7%	-10.6%	-5.3%	-13.3%
DJ Stoxx 600	0.4%	-0.3%	-1.9%	-6.6%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	27,626	29,010	33,926	36,260
% change		5.0%	16.9%	6.9%
EBITDA	4,990	5,457	6,355	6,887
EBIT	3,875	4,297	4,998	5,437
% change		10.9%	16.3%	8.8%
Net income	1,358	1,639	1,926	2,115
% change		20.7%	17.5%	9.8%

	2015	2016e	2017e	2018e
Operating margin	14.0	14.8	14.7	15.0
Net margin	4.9	5.6	5.7	5.8
ROE	7.2	7.9	8.5	8.5
ROCE	3.8	4.4	4.9	5.2
Gearing	118.4	107.0	100.4	90.9

(EUR)	2015	2016e	2017e	2018e
EPS	2.62	3.00	3.49	3.83
% change	-	14.7%	16.2%	9.8%
P/E	26.7x	23.3x	20.0x	18.2x
FCF yield (%)	1.9%	4.0%	1.8%	4.7%
Dividends (EUR)	1.69	1.95	2.29	2.51
Div yield (%)	2.4%	2.8%	3.3%	3.6%
EV/Sales	1.9x	1.8x	1.7x	1.6x
EV/EBITDA	10.4x	9.8x	9.3x	8.7x
EV/EBIT	13.3x	12.4x	11.9x	11.0x



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
				Regulated by the FINMA

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