

Grifols

Price EUR18.84

¡El consenso al borde de un ataque! (full report released today)

Fair Value EUR20 (+6%)

NEUTRAL

Coverage initiated

Bloomberg	GRF.SM
Reuters	GRF.MC
12-month High / Low (EUR)	22.7 / 18.0
Market Cap (EURm)	11,629
Ev (BG Estimates) (EURm)	15,203
Avg. 6m daily volume (000)	793.4
3y EPS CAGR	8.5%

We are initiating coverage of Grifols with a Neutral recommendation and a Fair Value of EUR21. The company is far from lacking in qualities but 1/ its valuation looks demanding (2017e P/E of 20x), and 2/ forthcoming newsflow is not particularly exciting (readout in Alzheimer's, clinical announcements by rivals in haemophilia and immunoglobulins). Hence our caution...

ANALYSIS

- **An under-estimated risk of deceleration.** Although our forecasts are generally in line with those of the consensus for the current year, we are nevertheless far more cautious on growth prospects as of 2017e. In addition to the fact that we are probably more cautious on the recovery in the diagnostics segment, we believe that the market under-estimates 1/ the impact of the label extension in subcutaneous immunoglobulins for the treatment of chronic inflammatory demyelinating polyneuropathy or CIDP (to which GFS is significantly exposed), and especially as of 2018e, and 2/ the risk of market share losses for Alphanate and other plasma-derived FVllIs in favour of ROG's ACE910 (and eventually Eloctate/Elocta by SOBI/BIIB).
- **Operating leverage will have to wait.** While the outlook is generally positive, we believe EBITDA margin should remain under pressure (around 29-30% in 2017e vs. 31-33% in normal average terms) given 1/ the expansion in the group's activities, and 2/ persistent pressure on US revenues in the diagnostics business.

VALUATION

- **Neutral with a FV of EUR20.** With 2017e P/E of 20x, GFS is trading on a premium of 10% relative to the European pharma segment. This leaves little room for an eventual disappointment. In addition, given the news flow we anticipate (Phase III for Hizentra in CIDP and ACE910 in haemophilia with inhibitors in Q4 2016, readout of Albutein in Alzheimer's, etc.), we prefer to take a cautious stance on the share.

NEXT CATALYSTS

- November 8th: Q3 16 results.

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	1 M	3 M	6 M	31/12/15
Absolute perf.	-0.8%	-5.0%	-3.2%	-11.6%
Healthcare	-2.4%	-6.6%	-2.5%	-10.8%
DJ Stoxx 600	0.5%	0.4%	-1.2%	-7.1%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	3,935	4,033	4,250	4,447
% change		2.5%	5.4%	4.6%
EBITDA	1,163	1,178	1,258	1,356
EBIT	970.3	976.0	1,041	1,125
% change		0.6%	6.7%	8.0%
Net income	532.1	591.8	623.1	681.6
% change		11.2%	5.3%	9.4%

	2015	2016e	2017e	2018e
Operating margin	24.7	24.2	24.5	25.3
Net margin	13.5	14.7	14.7	15.3
ROE	16.1	16.1	15.3	15.1
ROCE	6.9	7.5	7.8	8.4
Gearing	112.6	97.1	81.5	66.7

(EUR)	2015	2016e	2017e	2018e
EPS	0.78	0.86	0.91	0.99
% change	-	10.9%	5.3%	9.4%
P/E	24.3x	21.9x	20.8x	19.0x
FCF yield (%)	3.7%	4.9%	4.1%	4.6%
Dividends (EUR)	0.32	0.31	0.34	0.36
Div yield (%)	1.7%	1.6%	1.8%	1.9%
EV/Sales	3.9x	3.8x	3.5x	3.3x
EV/EBITDA	13.2x	12.9x	11.9x	10.8x
EV/EBIT	15.8x	15.6x	14.4x	13.0x



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Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

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