

Grifols

Price EUR17.76

Q3 2016 operating results in line with expectations. Diagnostics back to growth

Fair Value EUR20 (+13%)

NEUTRAL

Bloomberg	GRF.SM
Reuters	GRF.MC
12-month High / Low (EUR)	22.7 / 17.4
Market Cap (EURm)	11,091
Ev (BG Estimates) (EURm)	14,685
Avg. 6m daily volume (000)	759.5
3y EPS CAGR	8.5%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-6.6%	-8.6%	-2.6%	-16.7%
Healthcare	-6.8%	-12.7%	-3.4%	-16.2%
DJ Stoxx 600	-1.7%	-2.2%	0.7%	-8.7%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	3,935	4,032	4,249	4,445
% change		2.5%	5.4%	4.6%
EBITDA	1,163	1,157	1,258	1,356
EBIT	970.3	955.7	1,041	1,125
% change		-1.5%	8.9%	8.0%
Net income	532.1	572.3	622.9	681.3
% change		7.5%	8.8%	9.4%

	2015	2016e	2017e	2018e
Operating margin	24.7	23.7	24.5	25.3
Net margin	13.5	14.2	14.7	15.3
ROE	16.1	15.6	15.4	15.2
ROCE	6.9	7.2	7.8	8.4
Gearing	112.6	98.2	82.0	67.1

(EUR)	2015	2016e	2017e	2018e
EPS	0.78	0.83	0.91	0.99
% change		7.2%	8.9%	9.4%
P/E	22.9x	21.3x	19.6x	17.9x
FCF yield (%)	3.9%	5.0%	4.3%	4.9%
Dividends (EUR)	0.32	0.31	0.33	0.36
Div yield (%)	1.8%	1.7%	1.9%	2.0%
EV/Sales	3.8x	3.6x	3.4x	3.2x
EV/EBITDA	12.7x	12.7x	11.5x	10.4x
EV/EBIT	15.3x	15.4x	13.8x	12.5x

GFS' Q3 operating results are in line with expectations. Revenue growth remains solid regarding plasma-derived proteins (+4% cc vs +3.5%e) and Diagnostics have restored growth. However, margins remain under pressure due to the different factors we highlighted in our initiation report (suboptimal capacities, strengthening of sales & marketing teams in the US, etc.). Given how demanding the valuation is (P/E 2017e: 19x, hence a +10-15% premium vs European pharma peers), we continue to favour names like SHP or FRE SE.

ANALYSIS

- **No surprises on top line growth.** Group sales reached EUR1,000m (+3.0%, +4.0% cc vs BG: +3.5% cc), with Bioscience up by 5.6%, still driven primarily by IV immunoglobulins, Alpha-1 and albumins. Plasma-derived FVIII (e.g. Alphanate) continued to grow and was probably in line with previous quarters thereby confirming our view that the results from the SIPPET study are unlikely to be game-changing in the very near term.
- Apart from plasma therapies, we noted that Diagnostics had returned to growth (+2.8% cc in Q3 vs -7.9% in H1; BG: -2%e). A part of the turnaround stemmed from easier comps as well as the implementation of the new Abbott contract. But more importantly, the NAT business seems to have improved even in the US (but given the wording, there is no certainty that growth is back in positive territory).

(in EURm)	Q3 15	Q3 16	BG	CS	CS vs pub.
Sales	971	1,000	1,002	999	0%
% growth y-o-y		3%	3%	3%	
EBITDA	296	289	290	290	0%
% growth y-o-y		-2%	-2%	-2%	
EBIT	247	239	237	240	0%
% growth y-o-y		-3%	-4%	-3%	
Net income	140	142	139	137	3%
% growth y-o-y		1.6%	-0.8%	-1.8%	

Source : Company Data; Bryan Garnier & Co. ests.

- **Margins still impacted.** EBITDA was also very much in line with expectations (-2% to EUR289m vs BG/CS: EUR290m), but note that the Bloomberg consensus has significantly revised down its estimates in the past few days... Overall, margins were still impacted by 1/ the ongoing expansion of the manufacturing network (fractionation plants, donor centers) and thus their temporary suboptimal use; 2/ reduced royalties related to the transfusion diagnostic unit; and 3/ the strengthening of sales & marketing teams in the US. Net income on the other hand remained squeezed by higher D&A.
- Net income was a bit higher than anticipated due to a slight improvement in the financial result (favourable impact of FX) as well as a lower than expected tax rate (20% vs BG: 24%e).

VALUATION

- **NEUTRAL recommendation reiterated with FV of EUR20.** Our preference still goes to SHP despite its recent lacklustre Q3 2016 results, or FRE SE within the Medtech field.
- Despite the recent share price correction (-9% over the past month), the valuation is still unattractive in our view with a c.10-15% premium relative to the STOXX Europe 600 Healthcare (which admittedly has been under pressure lately).

NEXT CATALYSTS

- Q4 2016: Phase III results of CSL's Hizentra for the treatment of CIDP.
- Q4 2016: Phase III results of ROG's ACE910 for the treatment of Haemophilia A with inhibitors.

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