

QIAGEN

Price EUR25.48

Aims to make life easier for labs

Fair Value EUR30 vs. EUR28 (+18%)

BUY-Top Picks

Bloomberg	QIA GR
Reuters	QGEN.DE
12-month High / Low (EUR)	25.9 / 17.8
Market Cap (EUR)	6,108
Ev (BG Estimates) (EUR)	6,643
Avg. 6m daily volume (000)	414.4
3y EPS CAGR	10.9%

During its investor day, QIAGEN's management laid the base of its ambitious journey to become one of the only players in the MDx industry able to make life easier for labs. Three main points of focus were on the agenda 1/ 2020 detailed guidance 2/ the GeneReader and 2/ QuantiFERON-TB Progresses made to bring cost discipline into the company's DNA set a solid base to deliver 7-9% CER (BGe 7.8%) growth on the topline while EPS should grow by more than 12% CAGR by 2020 (BGe 12%). Our fair value is up to EUR30 vs. EUR28, we reiterate our BUY recommendation.

ANALYSIS

	1 M	3 M	6 M	31/12/15
Absolute perf.	8.0%	3.5%	33.2%	1.5%
Healthcare	-3.1%	-8.7%	-3.2%	-13.6%
DJ Stoxx 600	-0.2%	-2.0%	1.3%	-7.3%

YEnd Dec. (USDm)	2015	2016e	2017e	2018e
Sales	1,281	1,347	1,445	1,557
% change		5.1%	7.3%	7.8%
EBITDA	438	443	490	518
EBIT	314.5	322.6	379.5	427.7
% change		2.6%	17.7%	12.7%
Net income	249.3	261.0	302.8	339.1
% change		4.7%	16.0%	12.0%

	2015	2016e	2017e	2018e
Operating margin	24.6	24.0	26.3	27.5
Net margin	19.5	19.4	21.0	21.8
ROE	5.0	4.6	5.9	6.8
ROCE	23.0	19.4	18.9	24.0
Gearing	38.8	20.2	11.2	1.9

(USD)	2015	2016e	2017e	2018e
EPS	1.05	1.10	1.27	1.43
% change	-	4.3%	16.4%	12.4%
P/E	26.0x	25.0x	21.4x	19.1x
FCF yield (%)	6.0%	6.9%	6.7%	7.3%
Dividends (USD)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	5.9x	5.3x	4.8x	4.2x
EV/EBITDA	17.2x	16.1x	14.1x	12.8x
EV/EBIT	24.0x	22.1x	18.2x	15.5x

Concerning the GeneReader, the impressive number of placements noted over the first nine months of sales with 55-60 placements targeted for 2016 (BGe 20 placements) bodes well with positive feedback received from professionals. Note that most of these placements were made in Europe and that the 2016 target represents a 10% market share of the ~500 annual placements for NGS oncology benchtop solutions. With the preliminary injunction hangover now behind in our view, the company should fully benefit from the growth reservoir of US clinical labs that have been either under-addressed by NGS companies so far or reluctant to adopt the technology because of 1/ complexity of the workflow 2/ hard interpretation of the results and 3/ high cost. In the long run, QIAGEN aims to capture a >20% market share in this highly dynamic market (which we estimate is growing at around 30% p.a.). As a reminder, QIAGEN has introduced a new chemistry for its GeneReader and performance results compare well with the PCR test (already on the market) as well as another NGS solution. Looking at the structure of R&D expenses, broadening the number of panels should now have a central place in the group's strategy since management's mention of R&D expenses related to "content" represents close to 50% of R&D. We are not ruling out that towards the end of the 2016-2020 period, the GeneReader should enable the group to outstrip its sales growth guidance. In our 2020-2025 model, NGS sales should still grow above 20%pa with a contribution to sales jumping from 11% to 20% of the company's sales. QIAGEN sees 150-200k pullthrough as well as 500 runs to be done on average per instrument per annum. The capacity of the QIAsymphony (> to QIAcube) that could be used upstream in the sample processing could open the door to higher throughput labs (>1,000 runs p.a.).

- Turning to QuantiFERON-TB, which should represent over 15% of the group's total sales in 2020, conversion from the TST to IGRA based platforms (i.e. QIA's QuantiFERON-TB of TSpot from Oxford Immunotec) is rapid. In an environment where overcharging for a "commodity test" might be a sensitive issue, we do not see Q-TB's price (which we estimate at USD18/test decreasing 2%p.a.) as a concern. Note that the TST price of USD8 does not include physician's labour (two visits). With the US now on track to deliver 25% growth (50% of Q-TB sales), we estimate that less than USD5m of the product sales are streamed from China which has been mentioned by the group as the next "case study". QIAGEN has doubled commercial operations in the country.
- Going digital is important for clinical labs which increasingly order via a push platform. QIAGEN has developed internet/application based approaches and aims to stream 50% of its sales via the e-commerce platform.

VALUATION

- Our Fair value is up to EUR30 vs EUR28 previously which leaves 18% upside. QIAGEN is in our Q4 top pick list.
- While our numbers were already in-line with both the company's 2016-20 sales and EPS CAGR (BGe sales growth 7.8% CER and EPS growth 12.1% CER over the period), detailed indications and hence adjustments to CAPEX and D&A expenditures going forward leads to a EUR2 upward revision to our Fair Value.
- In terms of operating cash flow, the group aims to reach USD600m towards 2020, which leaves place for 1/ opportunistic M&A albeit not on the agenda at the moment or 2/ further SBB not included in the 2020 guidance.

NEXT CATALYSTS

- Q4 2016/early 2017: GeneReader sales to be resumed in the US
- Feb 1st 2017. Q4/FY 2016 results [Click here to download](#)



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

Sector Team :
Mickael Chane Du
Eric Le Berrigaud
Marion Levi

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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
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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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