

8th August 2019

MERCK KGAA

Healthcare
Pharmaceuticals

BUY

Fair Value EUR109(+17%)
Share price EUR92.80
EPS 3Y Cagr 7.2%

Good Q2 numbers driven by LS and HC's legacy portfolio while Bavencio is lagging

Q2 sales in-line, EPS 3% ahead of expectations

Merck has reported Q2 results showing sales up 5.6% organic to EUR4bn, in line with the consensus at EUR4bn. Life Sciences continued to drive the group's performance with 9% organic growth in the quarter, in-line with expectations, yet triggering a FY19 guidance upgrade for the division. On the downside, the weak result of Performance materials sales, which were down 2% organic, was expected. Guidance for the division is adjusted downwards. Lastly, the Healthcare division (+5.2% organic) was driven by new product launches but above all by the GM & Endocrinology portfolio up +10.1% organic. Profitability was good in Q2 with an EBITDA pre-margin of 28.7% (vs consensus 28.7%). This was clearly driven by the Life Sciences and milestones in Healthcare. EPS of EUR1.54 was 3% ahead of consensus expectations at EUR1.50.

At the group level, all guidance has been reiterated. Sales +3-5% organic to EUR15.3-15.9bn (incl. 0-2% FX tailwind). EBITDApre organic growth of 10-13% to EUR4.15-4.35bn (incl. 0-2%FX tailwind) and EPSpre in the EUR5.30-5.65 range.

Healthcare driven by the legacy portfolio; Bavencio lagging

Sales in the healthcare division, up 5.1% organic to EUR1.7bn (42% of group sales) were driven by GM & Endocrinology (38% of HC) up 10.1% organic. Note that Glucophage sales increased 32% organic in Q2, despite a high comp basis (+14% in Q2 2018). We believe that the Merck's legacy portfolio performed extremely well in APAC with sales in the region up 24.5% organically. APAC sales were also boosted by the addition of Erbitux on the National Reimbursement List. Conversely, North American sales were down 8.3% organic in Q2, dragged by Rebif declining 21% to EUR210m. More generally, Rebif sales were down 16% to EUR331m. The drug is losing traction across all regions on increasing competition except LatAm and MEA. Turning to new launches, while Mavenclad delivered EUR64m in Q2, Bavencio's launch cannot be qualified as successful so far with Q2 sales of EUR23m, up by EUR1m compared to Q1 2019.

EBITDApre margin of 31.5% was slightly below the 32% forecast. Note importantly that the Q2 performance was helped by milestones (PegPal and Bavencio) and GSK deferred income (cumulative amount of EUR140). Adjusted for this, EBITDApre margin would have stood at 23.1%, down 80bp vs Q2 2018. Topline guidance unchanged, EBITDApre guidance adjusted for new FX (see page 2).

Another strong quarter in Life Sciences (guidance upgrade)

Life Sciences recorded another strong quarter with sales up +9% organic, driven by Process solutions up +16.2%. EBITDA pre continued to progress by 100bp to 31.3% (30bp ahead of expectations). This triggered a 1%pp increase in the topline and EBITDApre growth guidance ranges for FY19 (see page 2).

Perf. Materials continues to be weak (guidance downgrade)

PM sales down 2% organic are starting to see the end of support from China, not totally offset by demand in OLED ramping-up. This has an impact on margin down 90bp to 31.4%. As a result, FY19 guidance is adjusted downwards (see page 2).

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Market Data

Bloomberg / Reuters	MRK GY/MRCG.DE
Market Cap.	EUR40,347m
E.V.	EUR47.049m
Free Float	24%
Avg. Daily volume (6m)	530.8
12m high / low	EUR102.5 / EUR84.9
Ytd Perf.	3.1%

EURM	12/18	12/19e	12/20e	12/21e
Sales	14,834	15,543	16,332	17,097
% Change		4.8%	5.1%	4.7%
EBITDA	3,796	4,171	4,479	4,611
% Change		9.9%	7.4%	2.9%
EBIT	1,724	2,069	2,320	2,404
% Change		20.0%	12.2%	3.6%
Net Income	2,216	2,382	2,612	2,730
% Change		7.5%	9.7%	4.5%
ROE	0.13	0.13	0.14	0.14

	12/18	12/19e	12/20e	12/21e
EV/Sales	3.2x	2.8x	2.6x	2.4x
EV/EBITDA	12.4x	10.5x	9.5x	8.9x
EV/EBIT	27.3x	21.1x	18.3x	17.1x
EPS	5.10	5.48	6.01	6.28
% change		7.5%	9.7%	4.5%
P/E	18.2x	16.9x	15.4x	14.8x
Div Yield	1.2%	1.3%	1.4%	1.5%

Next Catalyst: 3.00pmCET conference call

Last rating Change:

[2017-1-13, Le vent tourne](#)

Last FV Change:

[2019-5-15, FY19 guidance implies a steep ramp-up of US Mavenclad](#)

Last Reports:

[2019-5-15, FY19 guidance implies a steep ramp-up of US Mavenclad](#)

The table below shows the summary of Q2 results and changes in guidance

Merck KGaA EURm exc. /share data	18Q2	19Q2	19Q2 CS	% yoy	FY19 Guidance	Guidance Adj.	FY19 CS
MERCK - Sales	3 714	3 971	3 930	1%	15 300 - 15 900	Unchanged	15 619
MERCK - EBITDApre	920	1 139	1 128	1%	4 150 - 4 350	Unchanged	4 204
MERCK - EBITDApre %	24,8%	28,7%	28,7%				26,9%
MERCK - EPSpre	1,23	1,54	1,50	3%	5,30 - 5,65	Unchanged	5,47
HC - Sales	1 584	1 677	1 647	2%	4-6%	Unchanged	6 535
Rebif	383	331	348	-5%			1 281
Bavencio	17	23	26	-11%			101
Mavenclad	20	61	64	-4%			287
HC - EBITDApre	379	528	527	0%	1 820 - 1 950	1 830 - 1 940	1 861
HC - EBITDApre %	23,9%	31,5%	32,0%				28,5%
LS - Sales	1 543	1 705	1 686	1%	6-7%	7-8%	6 719
LS - EBITDApre	452	533	522	2%	2 000 - 2 100	2 020 - 2 120	2 061
LS - EBITDApre %	29,3%	31,3%	31,0%				30,7%
PM - Sales	587	589	597	-1%	(3)-(6)%	(4)-(7)%	2 365
PM - EBITDApre	196	190	187	1%	700 - 760	685 - 745	720
PM - EBITDApre %	33,4%	32,3%	31,4%				30,4%

Source, Company data, Vara Consensus

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