



Fresenius Medical Care AG (FMS)

Updated February 22nd, 2024 by Nathan Parsh

Key Metrics

Current Price:	\$19	5 Year CAGR Estimate:	11.4%	Market Cap:	\$11.8 B
Fair Value Price:	\$25	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	05/17/24 ¹
% Fair Value:	75%	5 Year Valuation Multiple Estimate:	5.9%	Dividend Payment Date:	06/03/24 ²
Dividend Yield:	3.2%	5 Year Price Target	\$29	Years Of Dividend Growth:	24 ³
Dividend Risk Score:	A	Retirement Suitability Score:	A	Rating:	Buy

Overview & Current Events

Fresenius Medical Care AG is a diversified healthcare corporation focused on products and services related to renal (kidney) diseases. The company's services include kidney dialysis, clinical laboratory testing, and kidney diagnostic procedures. Fresenius Medical is headquartered in Germany. United States investors can initiate an ownership stake in Fresenius Medical through American Depository Receipts that trade on the New York Stock Exchange under the ticker FMS. Two ADR shares equals one share of the underlying company.

On February 21st, 2024, Fresenius Medical announced fourth quarter and full year results for the period ending December 31st, 2023. In constant currency, quarterly revenue was up 7% while adjusted earnings-per-share grew 8%. For the year, revenue grew 5% and adjusted earnings-per-share increased 6%.

Quarterly revenue for Care Delivery, formerly known as Health Care Services, grew 2% organically as growth in value-based care, higher reimbursement rates, favorable payor mix, and an increase in dialysis days was partially offset by currency exchange rates. Care Enablement, formerly known as Health Care Products, was up 6% due higher product sales and growth in average selling prices.

Fresenius Medical provided an outlook for 2024 as well, with the company expecting revenue to grow at a low to mid-single-digit percentage. The company is expected to earn \$1.95 in 2024. We have initiated our forecast accordingly.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$1.73	\$1.69	\$2.03	\$2.08	\$2.46	\$2.43	\$2.70	\$1.97	\$1.21	\$1.30	\$1.95	\$2.26
DPS	\$0.53	\$0.43	\$0.43	\$0.53	\$0.55	\$0.45	\$0.72	\$0.82	\$0.71	\$0.60	\$0.60	\$0.70
Shares⁴	604	611	614	613	613	602	598	586	586	587	587	587

Although Fresenius Medical has lofty forward-looking growth targets, it has been unable to achieve strong growth historically. Adjusted earnings-per-share have decreased 3.1% annually over the last decade. We reaffirm our earnings-per-share growth target of 3% for the next five years, down from 6% previously. We anticipate that the company will deliver earnings-per-share of \$1.95 in 2024. Applying a 3% growth rate to our 2024 earnings-per-share projection leads to 2029 earnings-per-share estimate of \$2.26.

Fresenius Medical Care has not prioritized growing its dividend payments in the past. However, the company has increased its dividend for 24 years in local currency. We forecast the dividend will grow in line with earnings-per-share.

¹ Estimated ex-dividend date

² Estimate dividend payment date

³ In local currency

⁴ In millions of shares

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	20.1	24.3	21.1	18.5	13.2	16.7	16.6	16.5	26.8	16.0	9.7	13.0
Avg. Yld.	1.5%	1.1%	1.0%	1.1%	1.3%	1.8%	1.8%	2.5%	2.2%	2.9%	3.2%	2.4%

Shares of Fresenius Medical have declined by \$1, or 5%, since our November 18th, 2023 report. The stock has traded with an average price-to-earnings ratio of 19.0 over the last decade. We are reaffirming our 2029 target P/E of 13.0. For context, the company is trading at a price-to-earnings ratio of 9.7 today based off earnings-per-share estimates for the current year. If the company's P/E ratio were to reach our target by 2029, then valuation would add 5.9% to annual returns over this period.

Income investors should note that the German government imposes a 26.375% withholding tax on dividend payments made to international investors. This reduces Fresenius Medical's net dividend yield to ~2.3%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

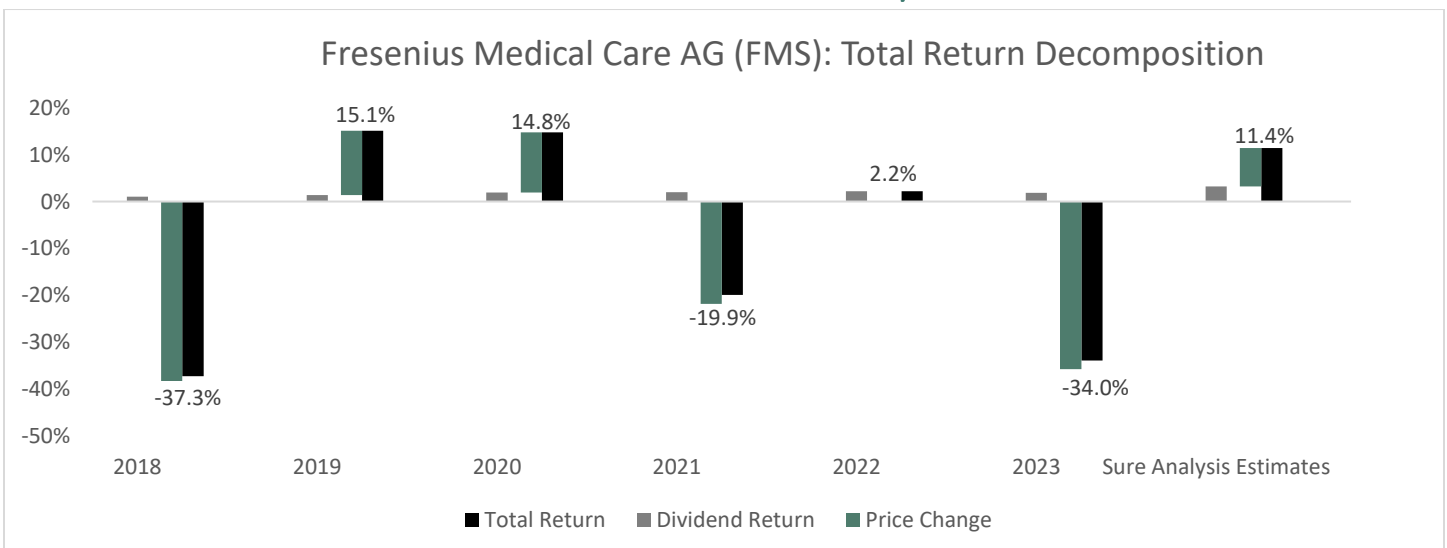
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	31%	25%	21%	26%	22%	19%	27%	42%	59%	46%	31%	31%

A key competitive advantage for Fresenius Medical is its lineup of kidney dialysis and diagnostic products. The company is a global leader in the area of dialysis and has more facilities worldwide than any other company in this sector. Fresenius Medical serves as a one-stop shop for customers requiring dialysis related treatments. Fresenius Medical managed to increase earnings-per-share during the last recession. The company's products make it so that patients' can control their kidney failure, making it likely that the company will perform well recessions.

Final Thoughts & Recommendation

Following fourth quarter results, we expect Fresenius Medical to have an annual return 11.4% per year through 2029, compared to our prior estimate of 2.0%. Our projected return stems from a 3% earnings growth rate, a starting yield of 3.2%, and a mid-single-digit tailwind from multiple expansion. The stock has fallen since our last report, but the valuation looks inexpensive against the historical average. We now view shares of Fresenius Medical as a buy due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	17,314	17,150	18,339	20,140	19,539	19,565	20,396	20,846	20,457	21,061
Gross Profit	5,463	5,745	6,216	6,816	6,087	6,041	6,324	5,647	5,161	5,332
Gross Margin	31.6%	33.5%	33.9%	33.8%	31.2%	30.9%	31.0%	27.1%	25.2%	25.3%
SG&A Exp.	2,892	3,272	3,467	4,120	3,407	3,394	3,579	3,281	3,343	3,460
D&A Exp.	765	719	776	833	932	1,784	2,040	1,921	1,939	1,897
Operating Profit	2,438	2,331	2,586	2,570	2,545	2,458	2,524	2,200	1,534	1,599
Op. Margin	14.1%	13.6%	14.1%	12.8%	13.0%	12.6%	12.4%	10.6%	7.5%	7.6%
Net Profit	1,143	1,060	1,266	1,449	2,340	1,343	1,330	1,147	710	540
Net Margin	6.6%	6.2%	6.9%	7.2%	12.0%	6.9%	6.5%	5.5%	3.5%	2.6%
Free Cash Flow	1,017	1,007	1,108	1,413	1,186	1,614	3,633	1,935	1,522	2,105
Income Tax	638	627	692	502	603	450	572	417	343	325

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	25,381	25,365	26,961	28,823	30,019	36,893	38,976	38,911	38,343	37,506
Cash & Equivalents	634	549	749	1,173	2,454	1,129	1,330	1,678	1,366	1,551
Acc. Receivable	3,669	3,751	4,201	4,566	3,799	3,927	3,984	3,973	3,961	4,076
Inventories	1,116	1,341	1,414	1,549	1,678	1,863	2,331	2,307	2,462	2,409
Goodwill & Int.	13,952	13,863	14,545	15,341	14,746	17,299	17,637	17,913	18,563	17,700
Total Liabilities	15,353	14,869	15,279	15,832	15,260	22,076	23,809	23,083	21,775	21,117
Accounts Payable	714	781	888	885	909	936	1,018	971	1,020	978
Long-Term Debt	9,466	8,646	8,597	8,935	8,632	10,168	9,702	9,704	9,130	8,738
Total Equity	9,443	9,887	10,548	11,781	13,450	13,395	13,794	14,378	15,002	15,056
LTD/E Ratio	1.00	0.87	0.82	0.76	0.64	0.76	0.70	0.67	0.61	0.58

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	4.7%	4.2%	4.8%	5.2%	8.0%	4.0%	3.5%	2.9%	1.8%	1.4%
Return on Equity	11.7%	10.3%	11.4%	11.7%	16.9%	9.1%	8.9%	7.4%	4.4%	3.3%
ROIC	6.1%	5.5%	6.4%	6.9%	10.3%	5.6%	5.3%	4.6%	2.8%	2.1%
Shares Out.	604	611	614	613	613	602	598	586	586	587
Revenue/Share	28.57	28.11	29.90	32.73	31.79	32.32	34.68	35.58	34.88	35.89
FCF/Share	1.68	1.65	1.81	2.30	1.93	2.67	6.18	3.30	2.60	3.59

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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