Bayer: Seeking share capital authorization

Investment grade bonds

Author: Fabrice Schwarzmann, CFA, Analyst, UBS Switzerland AG

- Bayer plans to request a share capital authorization, which should serve as a financial backstop while resolving its litigation issues. In the glyphosate cases, the company plans to file a petition for review with the US Supreme Court.
- While the share capital authorization still needs to be approved at the upcoming shareholders' meeting in April and the company still faces numerous challenges, we believe this move underlines the company's debt reduction commitment. This should limit the spread widening potential over the coming few weeks, in our view.
- We remove Bayer from our Avoid list. For investors with a higher risk-tolerance, we currently see value in select hybrid bonds, which remain among the widest-trading ones in our coverage.

Bayer

Sector	Health
Country	Germany
Moody's	Baa2, neg
S&P	BBB, stable

CIO credit risk flags

Senior unsecured

<2y	2-5y	5-10y	>10y

Subordinated

Hybrid

Issuer credit outlook	Deteriorating
Issuer valuation view	n.a.

Source: UBS, Moody's, S&P, as of 14 March 2025. Please refer to the end of the report for an explanation of CIO risk/valuation views.

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Capital authorization as a financial backstop

Life science company Bayer announced plans to request an equity issuance authorization amounting to 35% of its current share capital (market capitalization amounted to EUR 22.5bn as of 13 March). The company specified that the capital authorization should only serve as backstop to maintain balance sheet resilience while it resolves the glyphosate litigation. The company also emphasized that the capital authorization should not be used to finance external growth, such as M&A.

At this stage, there are no specific plans to raise equity. While the capital authorization still needs to be approved at the next shareholders' meeting in April and the potential proceeds would depend on the prevailing market conditions, we believe it underlines the company's debt reduction commitment, which should improve sentiment among bond investors and limit spread widening potential over the coming few months. We therefore remove Bayer from our Avoid list.

Limited flexibility under current ratings

That said, we advise investors to maintain a selective stance and contain exposure to this name. Although a capital authorization should reduce the risk of a downgrade to non-investment grade, we still see a high probability of a one-notch downgrade to low BBB over the next few months. We see the greatest rating pressure currently at Moody's, which already noted in 2023 that a downgrade could be considered if adjusted (gross) leverage does not return below 4x (FY23: 4.3x and LTM 3Q24: 4.3x). We therefore keep our Deteriorating issuer credit outlook on Bayer, reflecting its limited flexibility under current ratings, as well as its weak operating performance and litigation uncertainties.

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Operating performance to remain challenging
Bayer reported FY24 results, which while more or less in line with management's revised guidance, continued the downward trend. Net sales and EBITDA (before special items) declined 2% y/y to EUR 46.6bn and 14% to EUR 10.1bn, respectively. This weaker performance reflects primarily pricing pressure in the crop protection business, increasing generics competition for its anticoagulant medicine Xarelto, and adverse currency movements. On a more positive note, the company remains committed to strengthening its balance sheet. Bayer reduced dividends to the legal minimum (FY24: EUR 131mn), which enhanced free cash flow to EUR 3.0bn (FY23: EUR -1.1bn) and reduced net financial debt (company definition includes hybrid securities) to EUR 32.6bn (FY23: EUR 34.5bn).

Bayer anticipates FY25 to remain challenging. While revenues are expected to remain relatively stable, it guided for another decline in EBITDA (before special items) to EUR 9.3-9.8bn. Also free cash flow is likely to be below the prior year, while net financial debt is anticipated to decline only modestly to EUR 31.2-32.2bn.

Potential review by the US Supreme Court
In terms of legal risks, Bayer continues to face uncertainties related to Roundup/glyphosate and PCB claims, which—depending on potential settlement payments—may reduce free cash flows and increase leverage. At end-FY24, the company reported litigation provisions of EUR 6.5bn, which related mostly to Roundup/glyphosate claims (67,000 unresolved claims as of 31 January 2025). Bayer plans to file a petition with the US Supreme Court to review the glyphosate issue. While a favorable ruling by the US Supreme Court could put a limit on the glyphosate claims, it remains uncertain whether the US Supreme Court is prepared to review the issue and what the outcome would be.

Investment case
Bayer's senior bonds are currently trading in line with mid- to low-BBB peers. In our view, the proposed capital authorization and debt reduction commitment should support valuations and limit the spread widening potential in the coming weeks. Accordingly, we revise our view on the EUR 1% 2036 bond (ISIN: XS2281343686) to fair from expensive.

While valuations may benefit from a favorable glyphosate review by the US Supreme Court, downward pressure could emerge if the capital authorization does not receive the necessary shareholder support, the US Supreme Court refuses to review the glyphosate issue (which may lead to another surge in claims), or Xarelto faces faster-than-expected sales declines.

For investors with a higher risk-tolerance, we currently see value in select hybrid bonds, which remain among the widest-trading ones in our coverage. We currently recommend the EUR 6.625% 2083 (callable in 2028), EUR 5.5% 2054 (callable in 2029) and EUR 5.375% 2082 (callable in 2030). Please refer to our regularly published Bond Top List for recommendation changes.

Company description
Bayer is a life science company headquartered in Germany. The company's business segments include pharmaceuticals, consumer health, and crop science. In 2018, Bayer acquired US company Monsanto, a leading provider of agriculture products, including seeds and herbicides.

Figure 1 - Bayer's subordinated hybrid bonds currently on our Bond Top List
Please refer to our regularly published Bond Top List for recommendation changes

Currency	ISIN	Issuer name	Coupon	Maturity	Next call	CIO valuation view	CIO issuer credit view	Bond rating (MDY / S&P)	YTC	Ind. off. price
EUR	XS2684826014	Bayer	6.625%	25.09.2083	25.09.2028	fair	Deteriorating	Ba1 / BB+	5.2%	104.5
EUR	XS2900282133	Bayer	5.500%	13.09.2054	13.09.2029	attractive	Deteriorating	Baa3 / BB+	5.3%	100.7
EUR	XS2451803063	Bayer	5.375%	25.03.2082	25.06.2030	attractive	Deteriorating	Ba1 / BB+	5.5%	99.2

Source: UBS, as of 14 March 2025, 9:30am CET

12 month rating history

ISSUER_LEGAL_NAME	ISSUER_NAME	PREVIOUS_ISSUER_VALUATION_VIEW	ISIN	PREVIOUS_BOND_RECO
BAYER	BAYER		XS2900282133	Fair (2025-03-11)
BAYER	BAYER		XS2451803063	Fair (2025-03-11)

UBS CIO risk views

Credit risk flags

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Very low credit risk

We believe that the probability of debt payments not being made when they come due is very low (cumulative probability of less than 2%).

Medium credit risk

We believe that the probability of debt payments not being made when they come due is low to medium (cumulative probability of non-payment between 2% and less than 20%).

High credit risk

We believe that the probability of debt payments not being made when they come due is at least one in five cumulatively.

UBS credit rating

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Issuer credit outlook

We complement the instrument-specific risk information of the credit risk flags by indicating our outlook for the credit quality of an issuer over the next 12 months. Depending on instrument pricing, all combinations of an issuer credit outlook and relative valuation recommendations are possible.
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UBS CIO valuation views

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Attractive Bonds seen as “attractive” are expected to generate a total return exceeding the average return of comparable instruments. Our recommendation can stem from a positive view on the issuer’s credit profile not fully reflected in the price, unduly high risk premiums, our take on an instrument's call probability, the risk of coupon deferrals, and external factors including regulatory intervention.

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While terminology might differ due to technical limitations, the definitions of the UBS valuation methodology apply.

UBS bond recommendation	Credit Suisse channels
Attractive	Buy
Fair	Neutral
Expensive	*no equivalent in CS channels*
Sell	Sell

For more information about our present and past recommendations, please contact ubs-cio-wm@ubs.com.

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		AA+ AA AA-	Aa1 Aa2 Aa3	Issuer / bonds have very strong credit quality.
		A+ A A-	A1 A2 A3	Issuer / bonds have high credit quality.
		BBB+ BBB BBB-	Baa1 Baa2 Baa3	Issuer / bonds have adequate credit quality. This is the lowest Investment Grade category.
	Non-investment grade	BB+ BB BB-	Ba1 Ba2 Ba3	Issuer / bonds have weak credit quality. This is the highest Speculative Grade category.
		B+ B B-	B1 B2 B3	Issuer / bonds have very weak credit quality.
		CCC+ CCC CCC-	Caa1 Caa2 Caa3	Issuer / bonds have extremely weak credit quality.
		CC C	Ca	Issuer / bonds have very high risk of default.
		D	C	Obligor failed to make payment on one or more of its financial commitments. This is the lowest quality of the Speculative Grade category.
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Risk Information

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