BRYAN, GARNIER & CO

LONDON • PARIS • GENEVA • NEW YORK • NEW DELHI

Please find our Research on Bloomberg BRYG <GO>)

5th January 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	17148.94	-1.58%	-3.78%
S&P 500	2012.66	-1.53%	-2.25%
Nasdaq	4903.09	-2.08%	+3.53%
Nikkei	18374	-0.42%	+5.73%
Stoxx 600	356.663	-2.50%	+4.12%
CAC 40	4522.45	-2.47%	+5.84%
Oil /Gold			
Crude WTI	36.76	-1.18%	-31.70%
Gold (once)	1077.84	+1.46%	-9.15%
Currencies/Rates			
EUR/USD	1.08045	-0.54%	-10.71%
EUR/CHF	1.08615	-0.11%	-9.66%
German 10 years	0.563	-11.20%	+4.14%
French 10 years	0.94	-4.20%	+12.14%

Economic releases :

Date	
5th-Jan	DE - Unemployment change Dec. (-8K exp.) EUZ - CPI estimate Dec. (+0.4% y/y exp) EUZ - CPI Core est. Dec. (+1.0% y/y) US - ISM Nex York

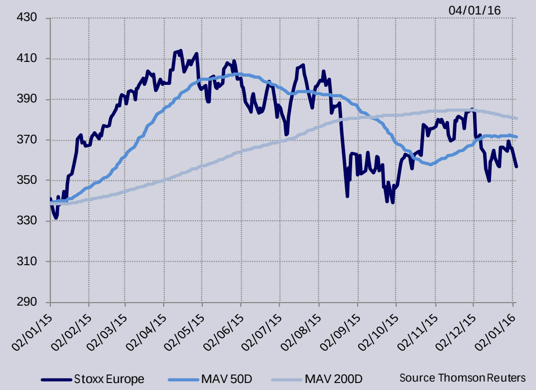
Upcoming BG events :

Date	
14th-Jan	LDR HOLDING (BG Paris with CEO)
15th-Jan	INGENICO (BG Luxembourg with IR)
2nd-Mar	ALBIOMA (BG Paris Lunch CEO)
10th-Mar/ 11th-Mar	BG TMT Conference
23rd-Mar	EIFFAGE (BG Luxembourg with IR)
28th-Apr	ORPEA (BG Luxembourg with IR)

Recent reports :

Date	
14th-Dec	ATOS Synergies before organic growth
7th-Dec	ARM HOLDING - Cash me if you can
3rd-Dec	Luxury Goods, Buying opportunities despite volatile environment!
30th-Nov	Environmental Services It is time to take a rest on Veolia!
25th-Nov	Actelion (BUY-Top Picks ,FV CHF159 vs. CHF156), Combining and diversifyin
25th-Nov	Food retailing Anorexic growth... the bigger the better!

List of our Reco & Fair Value : Please click here to download



HEINEKEN — NEUTRAL, Fair Value EUR80 vs. EUR85 (+3%)

Slowdown expected for 2016 after buoyant 2015

We have fine-tuned our expected earnings for 2015 and beyond, but have hardly changed our numbers. Nevertheless we are lowering the fair value of the company to EUR80 from EUR85 as we return to our previous long-term growth rate of 3.3% (as compared to 3.6% which underpinned the EUR85 fair value). At 19.5x 2016 earnings, the company trades at the average for 2015, but well ahead of the average 17.0x of the past five years.

HEALTHCARE

A more challenging 2016 for healthcare stocks? Three new names in the "Top Pick List"

BUSINESS SERVICES

Top pick Q1 2016 : Elior

ORPEA

New footprint in Poland after the acquisition of MEDI System

Orpea's expansion strategy again illustrated with the acquisition of MEDI System, Poland's private leader in dependency care, with currently 7 facilities and 704 beds. Financial impacts for Orpea won't be significant (total revenue of around EUR10m in 2015) but MEDI System represents a new platform in a new geography with growth potential regarding current fundamentals and needs (number of beds well below European standards, one of the fastest-growing economies in Europe). Closing is done and the company will be consolidated from 1st January 2016. Orpea has acquired 90% of the equity capital, the founder keeping 10%. Positive opinion confirmed.

In brief...

CAPGEMINI, *Acquisition of Oinio. Adjusting our fair value to new model assumptions.*

ERYTECH, *Yann Godfrin is leaving the company to pursue new opportunities*

Food & Beverages

Heineken

Price EUR77.79

Bloomberg	HEIA NA
Reuters	HEIN.AS
12-month High / Low (EUR)	85.2 / 56.8
Market Cap (EUR)	44,807
Ev (BG Estimates) (EUR)	55,894
Avg. 6m daily volume (000)	853.0
3y EPS CAGR	12.3%

	1 M	3 M	6 M	31/12/14
Absolute perf.	-2.9%	6.9%	14.2%	32.0%
Food & Bev.	-3.0%	6.7%	4.5%	15.2%
DJ Stoxx 600	-3.8%	2.5%	-7.0%	4.1%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	19,257	20,361	20,984	21,712
% change		*5.7%*	*3.1%*	*3.5%*
EBITDA	4,566	4,852	5,152	5,509
EBIT	3,129	3,415	3,659	3,917
% change		*9.1%*	*7.2%*	*7.0%*
Net income	1,758	2,083	2,287	2,487
% change		*18.5%*	*9.8%*	*8.8%*

	2014	2015e	2016e	2017e
Operating margin	16.2	16.8	17.4	18.0
Net margin	9.1	10.2	10.9	11.5
ROE	14.2	15.1	15.3	15.3
ROCE	7.7	9.0	9.6	10.3
Gearing	89.3	66.8	54.0	41.5

(EUR)	2014	2015e	2016e	2017e
EPS	3.05	3.62	3.97	4.32
% change	-	*18.5%*	*9.8%*	*8.8%*
P/E	25.5x	21.5x	19.6x	18.0x
FCF yield (%)	3.5%	5.5%	4.7%	5.3%
Dividends (EUR)	0.94	1.11	1.18	1.28
Div yield (%)	1.2%	1.4%	1.5%	1.7%
EV/Sales	3.0x	2.7x	2.6x	2.5x
EV/EBITDA	12.5x	11.5x	10.7x	9.7x
EV/EBIT	18.3x	16.4x	15.0x	13.7x

Slowdown expected for 2016 after buoyant 2015

Fair Value EUR80 vs. EUR85 (+3%) **NEUTRAL**

We have fine-tuned our expected earnings for 2015 and beyond, but have hardly changed our numbers. Nevertheless we are lowering the fair value of the company to EUR80 from EUR85 as we return to our previous long-term growth rate of 3.3% (as compared to 3.6% which underpinned the EUR85 fair value). At 19.5x 2016 earnings, the company trades at the average for 2015, but well ahead of the average 17.0x of the past five years.

On 10 February, the company will report full-year 2016 figures. Overall, we are looking for organic revenue growth of 3.9% (2.8% volume and 1.1% price/mix), driving organic operating profit growth of 8.7%. Including the currency impact, we are expecting reported operating profit growth of 9.1%. For 2016, we expect organic revenue growth to slow down to 2.7% and organic operating profit growth to slow down to 6.5%.

ANALYSIS

- In Europe, we are expecting full-year organic revenue growth of 2.5%, of which 0.7% volume growth and 1.8% price/mix. This is a marked slowdown compared to the 1.9% volume growth after 9 months and assumes a decline of 2% in the fourth quarter after the strong weather-driven 6.8% growth in Q3. Q4 price/mix looks like to be in line with the previous quarters. The first indications are that volume in the UK remains positive, driven by strong off-premise performance. In Spain, the positive volume trend (over 5 quarters) continues but we would expect that the terrorist attacks in France will hold back the positive growth that the company had experienced in this country since the start of the year. In Poland, we do not expect the company to repeat the double-digit growth from Q3 (because of the relisting), but even a more flattish figure would already be more positive than the declines of the past years. Because of these relatively good performances in Q4 on top of a very strong Q3, we are increasing our margin expectation for the European business from 11.1% to 12.0% (compared to 11.4% in 2014).

- The region which seems to be worse off in the fourth quarter is Africa, Middle East & Eastern Europe as the flattish Q3 figures were helped by the mid single-digit increase in volumes in Nigeria, driven by the earlier promotional campaigns. This has a balance impact in Q4 on top of the harsher economic conditions (also price/mix will be lower than the 6% from Q3). In Russia, the decline in volumes seems to be decelerating from double-digit to high single-digit. For the remainder, Egypt, Tunisia and Algeria are all weaker because of terrorist treats whereas Ethiopia continues to grow double-digit. Overall, we are expecting for the year a volume decline of 2.5% (1.4% decline after 9 months) and a price/mix of 5% (5.9% after 9 months), which should be enough to allow for a 40bp margin expansion from 21.0% to 21.4%.

- In the Americas, the momentum (delivering 4.5% volume growth so far this year) seems to be continuing although not as strong as the 7.2% volume growth in Q3 itself, as Q3 benefited from some promotional activities in Mexico and Brazil was still growing double-digit. But despite the economic difficult conditions in Brazil, volume growth for Heineken still looks like being in a high single-digit. In the US, Q4 volumes look to be positive as the Mexican brands are improving and the Heineken brand is confirming the positive trends. Overall, we are expecting for the full year organic volume growth of 4% and price/mix of 3%, which should drive 100bp margin expansion to 17.7% from 16.7%.

- Also, in Asia, the strong momentum seems to be continuing and we are expecting organic volume growth for the full year of 7.5% with the strongest performance expected to be in Vietnam following the repositioning of the Heineken and Tiger brands which is driving strong Tiger volumes. The Tiger brand volumes also seem to be continuing to grow strongly in Cambodia and Malaysia. The volume decline in Indonesia, seems to be improving as the company is working with the supermarkets to counter the impact from the ban on the sale of alcoholic beverages in minimarts (convenience stores). Heineken's volumes in China continue to be impacted by the general slowdown in the economy and the impact from the anti-extravaganza measures on the consumption of beer (see our note on the Chinese promise). Because of the country mix, we are expecting a regional price/mix to be down by 1.8%, but still allowing for an operating profit margin of 27% (from 26.3% last year).

VALUATION

- The fine-tuning of our numbers 2015 and beyond hardly changes our earnings forecasts (less than 1% plus or minus depending on the year). However, we are lowering again our long-term growth rate for the company to 3.3% from 3.6%. In our last update, we had increased it from 3.3% to 3.6% showing that a more bullish stance was still resulting in an overvalued stock and hence deserved a downgrade. Applying a long-term growth rate of 3.3% (1.3% volume growth based on our market by market analysis of growth potential and a 2% standard inflation rate) leads to a fair value of EUR80, which is 4% higher than the current share price.

- The stock is trading at 19.5x 2016 earnings which is in line with the average 2015 rating of 19.6x but is still significantly higher than the average 17.0x that the company traded over the past 5 years. At EUR68 (12% lower than the current share price), the stock would be trading at 17.0x 2016 numbers.

NEXT CATALYSTS

- On 10 February, the company will report full year 2016 figures and will also give guidance for 2016 where we believe that the message is likely to be of a challenging macro-economic environment (Brazil, Nigeria, Russia) and with organic revenue growth below the 2015 level (we are expecting 2.7% organic revenue growth in 2016 compared to 3.9% in 2015).

	FY2015e				FY2016e			
EURm	Old	New	% chge	% Incr.	Old	New	% chge	% Incr.
Revenues	20,429	20,361	-0.3%	5.7%	21,127	20,984	-0.7%	3.1%
Europe ex. Russia, Belarus	10,199	10,297	1.0%	37.7%	10,199	10,297	1.0%	0.0%
Americas	5,094	5,071	-0.5%	9.5%	5,537	5,511	-0.5%	8.7%
Africa, Middle East & Eastern Europe	3,285	3,221	-1.9%	21.9%	3,383	3,253	-3.8%	1.0%
Asia Pacific	2,516	2,437	-3.2%	16.7%	2,692	2,607	-3.2%	7.0%
Head office	-665	-665	0.0%	47.3%	-684	-684	0.0%	3.0%
Operating profit	3,371	3,415	1.3%	9.1%	3,700	3,659	-1.1%	7.2%
Europe ex. Russia, Belarus	1,131	1,240	9.7%	45.5%	1,141	1,250	9.6%	0.8%
Americas	903	899	-0.5%	15.3%	1,082	1,077	-0.5%	19.8%
Africa, Middle East & Eastern Europe	728	689	-5.4%	5.2%	830	707	-14.8%	2.6%
Asia Pacific	679	658	-3.2%	19.6%	719	697	-3.2%	5.9%
Head office	-71	-71	0.0%	-454.0%	-72	-72	0.0%	1.0%
Non recurring items	-239	-239	0.0%	18.7%	-220	-220	0.0%	-7.8%
Operating profit margin	16.5%	16.8%			17.5%	17.4%		
Europe ex. Russia, Belarus	11.1%	12.0%			11.2%	12.1%		
Americas	17.7%	17.7%			19.5%	19.5%		
Africa, Middle East & Eastern Europe	22.2%	21.4%			24.5%	21.7%		
Asia Pacific	27.0%	27.0%			26.7%	26.7%		
Net interest	-440	-440	-0.1%	-9.9%	-376	-375	-0.2%	-14.7%
PBT	2,692	2,736	1.7%	12.1%	3,104	3,064	-1.3%	12.0%
Tax	-829	-841	1.5%	15.0%	-820	-809	-1.4%	-3.9%
Minority interests	-221	-221	0.0%	15.0%	-254	-254	0.0%	15.0%
Net profit	1,642	1,674	2.0%	10.4%	2,030	2,001	-1.4%	19.5%
Net profit - adjusted	2,050	2,083	1.6%	18.5%	2,315	2,287	-1.2%	9.8%
Number of fully diluted shares	576	576	0.0%	0.0%	576	576	0.0%	0.0%
Diluted EPS - adjusted	3.56	3.62	1.6%	18.5%	4.02	3.97	-1.2%	9.8%
Net dividend (EUR)	1.09	1.11	1.6%	18.3%	1.20	1.18	-1.2%	6.7%

Click here to download

Analyst :
Nikolaas Faes
33(0) 1 56 68 75 72
nfaes@bryangarnier.com

Sector Team :
Loïc Morvan
Antoine Parison
Cédric Rossi
Virginie Roumage

Sector View

Healthcare

A more challenging 2016 for healthcare stocks? Three new names in the "Top Pick List"

	1 M	3 M	6 M	31/12/14
Healthcare	-1.7%	5.4%	-1.2%	14.6%
DJ Stoxx 600	-4.8%	5.7%	-5.5%	6.8%

*Stoxx Sector Indices

Companies covered

ABLYNX		**BUY**	**EUR18 vs 17**
Last Price	EUR15,905	*Market Cap.*	*EUR872m*
ACTELION		**BUY**	**CHF159**
Last Price	CHF139,6	*Market Cap.*	*CHF15,932m*
ADOCIA		**BUY**	**EUR113**
Last Price	EUR73,22	*Market Cap.*	*EUR501m*
ASTRAZENECA		**BUY**	**5550p**
Last Price	4616,5p	*Market Cap.*	*GBP58,347m*
BAYER		**NEUTRAL**	**EUR126 vs 124**
Last Price	EUR115,8	*Market Cap.*	*EUR95,761m*
BIOMERIEUX		**BUY**	**EUR121 vs 112**
Last Price	EUR109,9	*Market Cap.*	*EUR4,336m*
BONE THERAPEUTICS		**BUY**	**EUR29 vs 26**
Last Price	EUR19,49	*Market Cap.*	*EUR134m*
CELYAD		**BUY**	**EUR81**
Last Price	EUR48,4	*Market Cap.*	*EUR451m*
DBV TECHNOLOGIES		**BUY**	**EUR92 vs 83**
Last Price	EUR66,43	*Market Cap.*	*EUR1,601m*
ERYTECH		**BUY**	**EUR51**
Last Price	EUR25,62	*Market Cap.*	*EUR201m*
FRESENIUS MED.CARE		**BUY**	**EUR97 vs 90**
Last Price	EUR77,73	*Market Cap.*	*EUR24,318m*
FRESENIUS SE		**BUY**	**EUR68 vs 64**
Last Price	EUR65,97	*Market Cap.*	*EUR35,955m*
GALAPAGOS		**BUY**	**EUR64**
Last Price	EUR56,76	*Market Cap.*	*EUR2,218m*
GENMAB		**BUY**	**DKK1170**
Last Price	DKK917,5	*Market Cap.*	*DKK54,428m*
GENOMIC VISION			
Last Price	EUR8,79	*Market Cap.*	*EUR39m*
GLAXOSMITHKLINE		**NEUTRAL**	**1540p vs 1530p**
Last Price	1373p	*Market Cap.*	*GBP66,822m*
INNATE PHARMA		**BUY**	**EUR19**
Last Price	EUR13,54	*Market Cap.*	*EUR728m*
IPSEN		**BUY**	**EUR63**
Last Price	EUR61	*Market Cap.*	*EUR5,077m*
KORIAN		**SELL**	**EUR38**
Last Price	EUR33,68	*Market Cap.*	*EUR2,676m*
LDR HOLDING		**BUY**	**USD53**
Last Price	USD25,11	*Market Cap.*	*USD729m*
NICOX		**Under review**	**U.R.**
Last Price	EUR9,124	*Market Cap.*	*EUR209m*

LOOKING BACK ON 2015

In 2015, Healthcare stocks outperformed the general indices for the fifth consecutive year and the outperformance was 7.3% when comparing the Stoxx Healthcare to the Stoxx Europe 600. However, it is worth mentioning that the last quarter of the year was less good as the sector then underperformed by 0.05% with a very wide range of performances in absolute terms coming from Novartis (-3%) and Sanofi (-7%) that disappointed by announcing flat EPS growth for the next three years up to 13% and 19% for Actelion and UCB respectively.

In more general terms, 2015 was another record year for the number of approvals in the US with a total of 45 new drugs approved, up from 41 the year before. This is indeed recognition of the recovered ability of the industry to bring innovative drugs on a more regular basis to the market. But the other side of the coin is that too many innovative drugs then question how to pay for them as healthcare costs are already very high. And we have seen as a consequence increasing difficulties for industry players to be paid for the innovation they are bringing.

That is why 2015 was made up of a mix of authentic successes and disappointments. It looks more difficult in Primary Care with the examples of respiratory drugs, diabetes and heart drugs in trouble to perform, contrasting with Speciality Care which still looks relatively protected as illustrated by MS and oncology medicines. From that perspective, 2015 clearly confirmed promises for the immune-oncology drugs (and in particular the anti-PD1/PD-L1) whereas ocrelizumab was the first drug to show positive phase III data in PPMS.

Altogether, the regular flow of innovation, the increasing pressures on prices but also the requirement for more combinations should confirm the trend in favour of more focused strategies and portfolios. This was again illustrated in 2015 with the listing of Covestro (a first step towards a less diversified Bayer), the asset swap between Sanofi and B.I. or the deal between AstraZeneca and Celgene in immuno-haematology.

WHAT WE SEE FOR Q1 2016

The last part of 2015 was already more challenging for the healthcare sector and we expect 2016 to feed with the same ingredients to make this year of presidential elections in the US a more volatile one for the sector as a whole. In particular, we do expect a lot of noise around the need for a reform of the drug pricing system and we may anticipate some more pressure on this front.

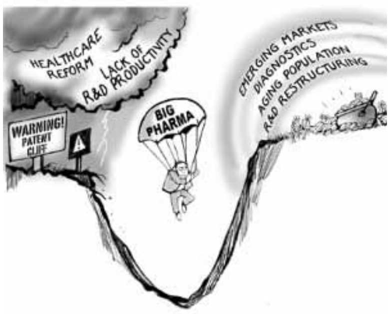
That being said, several stocks trade at severe discounts to their respective highs (see Bayer, Novartis or Sanofi) and, in general, valuations are back to relatively attractive levels. Even if valuation *per se* does not make an investment case appealing because other elements are required, including a good momentum, it is difficult for us to warn about unreasonable price levels, hence the absence of any SELL rating as we start the new year.

True is however that 2016 is not expected to be a fantastic year in terms of growth as most of the companies in our European universe will face significant generic headwinds (Novartis' Gleevec, AZN's Crestor, Sanofi's Lantus, Actelion's Tracleer etc …) while investing behind new launches or new growth platforms.

After Novartis-GSK and more recently Sanofi-B.I., we would expect more asset swaps and BD transactions as several portfolios still need to be reshuffled and refocused. This is a good reason why we will still approach our sector vertically, i.e. covering both small and large cap companies as they will increasingly interact together. Hence our interest in Adocia and Zealand or Genmab and Innate to leverage our global understanding of the diabetes and haemato-oncology businesses respectively.

Return to front page

NOVARTIS		**BUY**	**CHF109 vs 107**
Last Price	CHF86,8	*Market Cap.*	*CHF232,363*
NOVO NORDISK		**NEUTRAL**	**DKK425 vs 415**
Last Price	DKK399,9	*Market Cap.*	*DKK824,819*
ORPEA		**BUY**	**EUR76**
Last Price	EUR73,78	*Market Cap.*	*EUR4,431m*
QIAGEN		**Under review**	**U.R.**
Last Price	EUR25,115	*Market Cap.*	*EUR6,020m*
ROCHE HOLDING		**BUY**	**CHF338 vs 327**
Last Price	CHF276,4	*Market Cap.*	*CHF194,188*
SANOFI		**NEUTRAL**	**EUR90**
Last Price	EUR78,6	*Market Cap.*	*EUR102,622*
TRANSGENE			**EUR12**
Last Price	EUR2,53	*Market Cap.*	*EUR98m*
UCB		**NEUTRAL**	**EUR75 vs 73**
Last Price	EUR83,23	*Market Cap.*	*EUR16,189m*
ZEALAND		**BUY**	**DKK200**
Last Price	DKK151,5	*Market Cap.*	*DKK3,689m*



CONCLUSIONS AND TOP PICKS

Hence we come to our selection for Q1 2016. We have tried to be balanced by segment and size when selecting the various names and here is the final list: **Bone Therapeutics** is jumping in as we see a rich first-quarter that we approach with optimism; **Genmab** is also joining because we anticipate a dense direct and indirect news-flow for the company at the start of the year; because we are strong believers in a favourable year for the UK large caps, we have opted for **AstraZeneca** that enjoys superior upside to its FV than GSK and more attractive news-flow too. Thinking about a fourth seat for a healthcare stock, we fluctuated between Roche and Actelion and finally decided not to pick either of the two for Q1 as we would like to see how their guidances for 2016 are made first and there are two other strong BUY recommendations in our coverage list.

The reason why we picked **AstraZeneca (BUY – FV GBp5,550)** in the large cap pharma universe is because we think that 2016 will be selective and transformative stories only will be able to perform strongly in a more challenging environment. In the recent two years, Bayer and Novartis benefited strongly from structural changes. 2016 will be the pivotal year in which AstraZeneca will at the same time lose a significant part of US Nexium and US Crestor but also increase the contribution from new growth engines like Brilinta, Lynparza, Farxiga or Tagrisso while new opportunities will continue to arise across the year with new phase III study read-outs, filings and approvals, including benralizumab, saxa-dapa or durvalumab. Moreover, we expect the two most recent strategic transactions with ZS Pharma and Acerta to contribute also to the positive news-flow as early as in 2016. Lastly, from a financial perspective, and despite the loss of exclusivity of key historical drugs and their impact on profits and margins, we think that AstraZeneca can manage its bottom-line and deliver another flat year of core EPS on which it will then build an undisputed growth trajectory over the following 7-8 years until 2023. That is why we think it is worth buying now despite a couple of years of flattish core EPS ahead.

We're also adding **Genmab (BUY – FV DKK1,170)** to our list. Its lead product, Darzalex (daratumumab), has recently been approved for the treatment of double-refractory or heavily pre-treated patients with multiple myeloma. Plus, impressive novel data were presented during the ASH conference… But we do believe this is not the end of the story. We have identified several other catalysts that should materialise during this Q1 16 : 1/ the approval of ofatumumab as a maintenance therapy for CLL; 2/ a positive read-across arising from the granting of a priority review for Roche's ocrelizumab in multiple sclerosis to be filed shortly both in RRMS and PPMS; 3/ the icing on the cake, we think a deal between JNJ (which currently retains all rights on daratumumab) and another big pharma is very likely in order to explore further the potential of combining the drug with others with different mechanisms of action. By the way, Q2-16 will also be of importance as we expect positive phase III results for Darzalex as a second-line therapy.

Lastly, we are adding **Bone Therapeutics (BUY – FV EUR29)** to our Q1 top picks list. After its successful Euronext IPO in February 2015, the company delivered on its pipeline with (i) positive results from the first patients cohort in its pivotal delayed-union phase IIb/III trial, (ii) the initiation of the spine fusion phase IIa trial, and (iii) expansion of its footprint in the US with the opening of its headquarters. Moreover, the application of the company's autologous technology in the osteoporosis indication has been proven safe in the first patients infused. We expect a strong news-flow in Q1 this year, with the results from the second patient cohort in the delayed union trial (phase IIa/III). Recall that if interim results expected in H1 2016 showed a 75% (n=12) responder rate in the first 16 patients treated, the study could be prematurely stopped and phase III initiated, adding ~EUR12 to our fair value. As mentioned above, the IV route has been proved safe in patients suffering from osteoporosis (72h follow-up showing migration of osteoblastic cells to the skeleton). Although cautious (EUR3 of our fair value), should the results be positive which would add a further EUR3, we would expect the company to proceed to a development strategy update (partnership opportunity?) to maximise the value of the product in a highly capital-intensive indication.

Click here to download

Analyst :
Eric Le Berrigaud
33(0) 1 56 68 75 33
eleberrigaud@bryangarnier.com

Sector Team :
Mickael Chane Du
Hugo Solvet

Sector View

Business Services

Top pick Q1 2016 : Elior

	1 M	3 M	6 M	31/12/14
Travel&Leisure	0.5%	4.8%	3.0%	17.6%
DJ Stoxx 600	-6.5%	-0.2%	-7.4%	4.3%

*Stoxx Sector Indices

Companies covered

COMPASS GROUP		**NEUTRAL**	**1200 p vs.1150p**
Last Price	1140p	*Market Cap.*	GBP18,751m
EDENRED		**NEUTRAL**	**EUR20**
Last Price	EUR16,595	*Market Cap.*	*EUR3,831m*
SODEXO		**NEUTRAL**	**EUR88 vs.80**
Last Price	EUR89,32	*Market Cap.*	*EUR14,035m*
ELIOR		**BUY**	**EUR23.5**
Last Price	EUR18.92	*Market Cap.*	*EUR3,260m*
BUREAU VERITAS		**NEUTRAL**	**EUR22**
Last Price	EUR18.065	*Market Cap.*	EUR7,985m
SGS SA		**BUY**	**CHF2150**
Last Price	CHF1859	*Market Cap.*	*CHF14,541m*

LOOKING BACK ON Q4 2015

Positive performances in Q4 in euro terms for all, except Bureau Veritas, in absolute terms or relative to the DJ Stoxx in euros.

Regarding **Foodservices**, following the FY results on 19th November, slightly ahead of expectations with a share buy-back programme of EUR300m, i.e. around 2.1% of the share capital, **Sodexo** reported the best performance, up 21.8% in absolute terms and 15.8% vs. the DJ Stoxx. A rebound for **Edenred** (+19.6% and 13.7% vs. DJ Stoxx) with again significant volatility during the quarter due to the group's exposure to the Brazilian economy (around 40% of consolidated issue volume at the end of 9 months). **Compass Group** and **Elior** registered nearly the same performances during the quarter, up 11.6% and 12.9% respectively in absolute terms and 6.1% and 7.3% vs. the DJ Stoxx.
For the FY, the great disparity between stocks is **Elior** which registered the best performance, up over 56.9% (+46.9% vs. DJ Stoxx). **Sodexo** and **Compass Group** registered approximately the same performances (+10.9% and 12.4% respectively in absolute terms) and **Edenred** the worse, down 24% in absolute terms and -28.8% vs. the DJ Stoxx.

On the TIC sector, there were erratic performances between **Bureau Veritas** and **SGS** quarter after quarter during the FY (**Bureau Veritas** was down 2.4% in Q4 in absolute terms and 7.2% vs. the DJ Stoxx and **SGS** was up 12.7% and 7.2% vs. the DJ Stoxx). During the last 12 months, **Bureau Veritas** underperformed the DJ Stoxx by 6% and **SGS** by -3.2%.

WHAT WE SEE FOR Q1 2016

On Foodservices, we take the opportunity to adjust our forecasts and FV on **Sodexo** (contact), maintaining our neutral recommendation with a FV of EUR88 from EUR80 mainly due to a higher margin improvement than initially anticipated. The stock price increase after the FY results release was a bit surprising for us. In fact, beyond the results and the (limited) share buy-back announcement, management again highlighted the volatility of the economy with low GDP in developing countries and especially in Brazil (5% consolidated revenue and 20% EBIT), the impact of oil & gas and minerals price decreases, currency volatilities and a "halting" recovery in Europe. For FY 2015-16, management's objectives are for organic growth of around 3% with growth in operating profit excluding currency effects and before exceptional of around 8%

On **Compass Group**, we move our FV to 1,200p from 1,150p mainly due to the rollover of our DCF on 2016 numbers with neutral confirmed. 2016 business trends should be more or less similar to 2015's with NA still the main growth engine, a continued recovery in Europe & Japan and another challenging environment in Fast growing & Emerging countries. All in all, we are anticipating lfl revenue growth of 5.1% with the EBIT margin stable vs. last year. **No cash return to shareholders anticipated before 2017**, with higher capex announced for 2016 at around 3% of revenue (2.8% in 2015), infill acquisitions (£100m in our model), and based on our estimates, the net debt/EBITDA ratio should be only slightly lower 1.5x (1.6x in 2015) which is the level required to maintain a strong investment grade. 2017e net debt on EBITDA is 1.2x.

We remain neutral on **Edenred** due to the group's exposure to the Brazilian economy and our inability to determine what could be the evolution of BRL/EUR parity despite a current upside of c. 15%. Too early to come back regarding these uncertainties and the management transition. A trading share more than ever.

Short term uncertainties with lack of visibility should continue to weigh on TIC performances during the first quarter. Regarding **Bureau Veritas**, after our downgrade (too late…) last November, remember that we had based our forecast on 1.8% lfl revenue growth for the FY 2015 which implies -0.5% in Q4 and regarding 2016, it is difficult to be more positive and we assume lfl growth is lower than in 2015 at 1.6% with negative numbers during the 2016 first two quarters. We have maintained our buy recommendation on **SGS** even if the short term is also challenging with nevertheless less volatility regarding lfl revenue growth or results with a better balance between geographies or businesses.

CONCLUSIONS AND TOP PICKS

Elior (Buy, FV EUR23.5)

The group's transformation has been implemented more quickly than expected. In fact, only eight months after the appointment of Philippe Salle, it is clear that the group's transformation is well engaged with significant concrete actions, i.e. 100% ownership of Areas, 2016-2020 strategic plan launched, new organisation implemented with the top 20 management completed and the top 100 scheduled by the end of Q1, debt refinanced or innovation with investment in two start-ups. All eight projects of the strategic plan, announced at the end of September 2015, have already been launched and started to deliver results in marketing (SNCF contracts) or in M&A (two new acquisitions in contract catering in USA.

Our valuation is based on a DCF, using a WACC of 8.2% with a risk-free rate of 2%, a market risk premium of 6.4% with a leverage beta of 1.35 (unleveraged beta of 0.8 corresponding of the current beta of Sodexo or Compass Group).

- "Base case" with total revenue of EUR7,498m in 2020 and an EBITDA margin of 9.3% derive a DCF valuation of c.EUR23.5.
- "Blue sky" with total revenue of EUR8,121m in 2020 and an EBITDA margin of 9.7% derive a DCF valuation of EUR30.5.

Based on our FV, the share would be valued 10.6x EV/EBITDA 2015-2016e and 9.5x 2016-2017e.

NEXT CATALYSTS

Sodexo: Q1 2015-2016 revenue on 13th January

SGS: FY 2015 results on 20th January

Compass Group: AGM & Q1 2015-2016 IMS on 4th February

Edenred: FY 2015 results on 11th February

Bureau Veritas: FY 2015 results on 25th February

Elior: Q1 2015-2016 results on 26th February

Sodexo main adjustments

	2015			2016e			2017e		
	Old	New	Change %	Old	New	Change %	Old	New	Change %
SALES	19 815	19 815	0.0%	20 274	20 240	-0.2%	21 029	20 702	-1.6%
EBITDA	1 396	1 396	0.0%	1 485	1 499	1.0%	1 572	1 592	1.3%
	7.0%	7.0%	-	7.3%	7.4%	8 bp	7.5%	7.7%	22 bp
EBIT	1 143	1 143	0.0%	1 221	1 236	1.2%	1 299	1 323	1.9%
	5.8%	5.8%	-	6.0%	6.1%	8 bp	6.2%	6.4%	22 bp
EPS	4.60	4.60	0.0%	4.61	4.85	5.3%	4.88	5.21	6.8%

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

Compass Group main adjustments

	2015			2016e			2017e		
	Old	New	Change %	Old	New	Change %	Old	New	Change %
SALES	17 843	17 843	0.0%	18 658	18 718	0.3%	19 688	19 752	0.3%
EBITDA	1 636	1 636	0.0%	1 701	1 706	0.3%	1 841	1 847	0.3%
	9.2%	9.2%	-	9.1%	9.1%	0 bp	9.4%	9.4%	0 bp
EBIT	1 287	1 287	0.0%	1 336	1 341	0.3%	1 432	1 437	0.3%
	7.2%	7.2%	-	7.2%	7.2%	0 bp	7.3%	7.3%	0 bp
EPS	52.91	52.91	0.0%	54.61	54.82	0.4%	60.51	60.73	0.4%

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

Click here to download

Analyst :
Bruno de La Rochebrochard
33(0) 1 56 68 75 88
bdelarochebrochard@bryangarnier.com

Healthcare

Orpea

Price EUR73.78

New footprint in Poland after the acquisition of MEDI System

Fair Value EUR76 (+3%) **BUY**

Bloomberg	ORP FP
Reuters	ORP.PA
12-month High / Low (EUR)	74.5 / 49.3
Market Cap (EUR)	4,431
Ev (BG Estimates) (EUR)	6,694
Avg. 6m daily volume (000)	99.40
3y EPS CAGR	7.1%

	1 M	3 M	6 M	31/12/14
Absolute perf.	0.7%	5.1%	16.1%	42.2%
Healthcare	-1.7%	5.4%	-1.2%	14.6%
DJ Stoxx 600	-4.8%	5.7%	-5.5%	6.8%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	1,949	2,390	2,759	2,955
% change		*22.6%*	*15.5%*	*7.1%*
EBITDA	350	405	467	515
EBIT	271.3	319.5	365.1	402.7
% change		*17.8%*	*14.3%*	*10.3%*
Net income	153.8	156.8	189.0	217.0
% change		*2.0%*	*20.5%*	*14.8%*

	2014	2015e	2016e	2017e
Operating margin	13.9	13.4	13.2	13.6
Net margin	7.9	6.6	6.8	7.3
ROE	9.1	9.1	10.8	12.2
ROCE	4.4	4.5	4.9	5.4
Gearing	147.4	131.3	129.9	122.4

(EUR)	2014	2015e	2016e	2017e
EPS	2.94	2.75	3.14	3.61
% change	-	*-6.3%*	*14.2%*	*14.8%*
P/E	25.1x	26.8x	23.5x	20.4x
FCF yield (%)	NM	NM	4.5%	6.3%
Dividends (EUR)	0.80	0.96	1.10	1.26
Div yield (%)	1.1%	1.3%	1.5%	1.7%
EV/Sales	3.4x	2.8x	2.4x	2.2x
EV/EBITDA	19.0x	16.5x	14.3x	12.8x
EV/EBIT	24.5x	21.0x	18.4x	16.4x

Orpea's expansion strategy again illustrated with the acquisition of MEDI System, Poland's private leader in dependency care, with currently 7 facilities and 704 beds. Financial impacts for Orpea won't be significant (total revenue of around EUR10m in 2015) but MEDI System represents a new platform in a new geography with growth potential regarding current fundamentals and needs (number of beds well below European standards, one of the fastest-growing economies in Europe). Closing is done and the company will be consolidated from 1st January 2016. Orpea has acquired 90% of the equity capital, the founder keeping 10%. Positive opinion confirmed.

ANALYSIS

- **Polish market leader in depency care:** Founded in 2001 with currently a network representing 7 facilities with 704 beds (2/3rds nursing homes and 1/3rd in post-acute and rehabilitation care) and around 500 people, MEDI System is nevertheless the private leader in dependency care in a highly fragmented market and largely dominated by the public and charitable sector (total offer representing around 85,000 beds). MEDI System perfectly corresponds to Orpea's criteria, i.e. with large facilities of around 100 beds (o/w 50% single rooms which is high for Poland), in urban locations (6 facilities in the Warsaw region) with real estate fully owned (6 facilities), o/w 80% are less than 10 years old.
- **Limited short-term financial impacts...:** Regarding financials, MEDI System generated around EUR10m total revenue. The company generates around 20% EBITDAR margin and nearly 18% on EBITDA. Acquisition amount is estimated at EUR25m, o/w EUR15m for real estate, representing an EV/EBITDA ratio of 13x. The acquisition is fully paid in cash (at the end of H1 2015, net debt amounted to EUR2,511m, o/w 75% linked to real estate with a restated financial leverage of 2.6x vs. 5.5x authorised).
- **...but strong potential development:** In fact, Orpea acquired a new platform in a country with: i) number of beds well below European standards, i.e. 6 beds per 100 people aged 80 and over compared with 15% to 20% for Europe, ii) a significant ageing population with the need to create 120,000 beds in 15 years (one of the highest number of beds to create in Europe), iii) increasing purchasing power of working people in a country with a dynamic economy, and iiii) the ability to optimise the current business with notably an occupancy rate of around 85%.

VALUATION

- At the current share price, the stock is trading 16.5x EV/EBITDA 2015e and 14.3x 2016e which compares with an historical median of 13.1x.
- From France, good news for nursing homes with a legal price increase of 0.61% for nursing home in 2016 after 0.05% last year and 0.25% expected for 2016

NEXT CATALYSTS

- FY 2015 revenue on 10th February

Click here to download

Analyst :
Bruno de La Rochebrochard
33(0) 1 56 68 75 88
bdelarochebrochard@bryangarnier.com

TMT

Capgemini

Price EUR82.85

Acquisition of Oinio. Adjusting our fair value to new model assumptions.

Fair Value EUR96 vs. EUR97 (+16%) **BUY**

Bloomberg	CAP FP
Reuters	CAPP.PA
12-month High / Low (EUR)	90.2 / 57.0
Market Cap (EURm)	14,265
Avg. 6m daily volume (000)	660.3

	1 M	3 M	6 M	31/12/14
Absolute perf.	-4.1%	5.7%	2.6%	39.3%
Softw.& Comp. SVS	-2.4%	15.4%	9.8%	23.9%
DJ Stoxx 600	-3.8%	2.5%	-7.0%	4.1%

	2014	2015e	2016e	2017e
P/E	19.9x	18.1x	15.0x	13.6x
Div yield (%)	1.4%	1.7%	1.8%	1.9%

ANALYSIS

- **Acquisition of Oinio, a specialist of Salesforce solutions**. Oinio is a Munich-based specialist in consulting and deployment of Salesforce cloud-based CRM and digital marketing solutions, which employs over 100 staff in Germany and China. As an elite Salesforce Platinum Cloud Alliance partner, Oinio has worked on more than 600 projects with international clients in life sciences, manufacturing, financial services, high tech and utilities. It has proven rapid growth in the last 5 years. This acquisition will increase Capgemini's presence in Salesforce-based projects in Europe and Asia. We expect Oinio's contribution to Capgemini's revenues will be in the low-teens.
- **Adjusting our fair value to new model assumptions**. We update our DCF-derived fair value to EUR96 from EUR97 on the roll-over of our model, updated fx assumptions, and a reduction of 1-2ppt of our revenue growth assumptions for 2017-18 due to the uncertainties beyond the end of the Aspire contract with the British HMRC. At this stage we estimate Capgemini generated EUR500-600m revenues with HMRC and that half of them will come to an end from 2017 onwards.

VALUATION

- Capgemini's shares are trading at est. 10.4x 2016 and 8.9x 2017 EV/EBIT multiples.
- Net cash position on 30th June 2015 was EUR1,464m (net gearing: -24%).

NEXT CATALYSTS

FY15 results on 18th February before markets open.

Click here to download

Gregory Ramirez, gramirez@bryangarnier.com

Healthcare

ERYTech

Price EUR25.62

Bloomberg	ERYP FP
Reuters	ERYP.PA
12-month High / Low (EUR)	40.0 / 23.5
Market Cap (EUR)	201
Avg. 6m daily volume (000)	30.00

	1 M	3 M	6 M	31/12/14
Absolute perf.	-10.1%	-15.4%	-15.7%	-5.4%
Healthcare	-1.7%	5.4%	-1.2%	14.6%
DJ Stoxx 600	-4.8%	5.7%	-5.5%	6.8%

	2014	2015e	2016e	2017e
P/E	NS	NS	NS	NS
Div yield (%)	NM	NM	NM	NM

Yann Godfrin is leaving the company to pursue new opportunities

Fair Value EUR51 (+99%) **BUY**

ANALYSIS

- Erytech announces that Yann Godfrin (Chief Scientific Officer and one of the co-founders – implying that most of his work was lately focused on early-stage candidates) is leaving the company to pursue new opportunities. He will nonetheless continue to support the company as a consultant.
- Yann was key in the development of Erytech as the inventor of the encapsulation technology ("ERYCAPS"), but his departure should not be overstated. Erytech is becoming a quite mature biotech company as: 1/ we expect the commercialisation of its first drug by the end of this year; and 2/ the vast majority of the value lies in GRASPA/ERY-ASP in haematological malignancies, for which we expect several new clinical trials (which will be supervised by Dr Iman El-Hariry).

VALUATION

- Buy rating reiterated with a FV of EUR51.

NEXT CATALYSTS

- H1 16: Possible US listing + Initiation of several new clinical trials.
- H2 16: Phase II results for ERY-ASP in pancreatic cancer + Marketing authorization for GRASPA ALL.

Click here to download

Mickael Chane Du, mchanedu@bryangarnier.com

Bryan Garnier stock rating system

For the purposes of this Report, the Bryan Garnier stock rating system is defined as follows:

Stock rating

BUY	Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements including a SWOT analysis, positive momentum, technical aspects and the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
NEUTRAL	Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
SELL	Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements including a SWOT analysis, positive momentum, technical aspects and the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

Distribution of stock ratings

BUY ratings 56.9% NEUTRAL ratings 34.6% SELL ratings 8.5%

Bryan Garnier Research Team

Healthcare Team	Pharmaceuticals	Eric Le Berrigaud *(Head of Equities)*	33 (0) 1 56 68 75 33	eleberrigaud@bryangarnier.com
	Biotech/Medtech	Mickael Chane-Du	33 (0) 1 70 36 57 45	mchanedu@bryangarnier.com
	Medtech/Biotech	Hugo Solvet	33 (0) 1 56 68 75 57	hsolvet@bryangarnier.com
Consumer Team	Luxury/Consumer Goods	Loïc Morvan	33 (0) 1 70 36 57 24	lmorvan@bryangarnier.com
	Beverages	Nikolaas Faes	33 (0) 1 56 68 75 72	nfaes@bryangarnier.com
	Retailing	Antoine Parison	33 (0) 1 70 36 57 03	aparison@bryangarnier.com
	Luxury /Consumer Goods	Cedric Rossi	33 (0) 1 70 36 57 25	crossi@bryangarnier.com
	Food & Beverages	Virginie Roumage	33 (0) 1 56 68 75 22	vroumage@bryangarnier.com
TMT	Video Games / Payments	Richard-Maxime Beaudoux	33 (0) 1 56 68 75 61	rmbeaudoux@bryangarnier.com
	Telecom	Thomas Coudry	33(0) 1 70 36 57 04	tcoudry@bryangarnier.com
	Software & IT Services	Gregory Ramirez	33 (0) 1 56 68 75 91	gramirez@bryangarnier.com
	Semiconductor	Dorian Terral	33 (0) 1 56 68 75 92	dterral@bryangarnier.com
Utilities		Xavier Caroen	33 (0) 1 56 68 75 18	xcaroen@bryangarnier.com
Insurance		Olivier Pauchaut *(Head of Research)*	33 (0) 1 56 68 75 49	opauchaut@bryangarnier.com
Hotels/Business Services		Bruno de La Rochebrochard	33 (0) 1 56 68 75 88	bdelarochebrochard@bryangarnier.com
Construction/ Infrastructures Building Materials		Eric Lemarié	33 (0) 1 70 36 57 17	elemarie@bryangarnier.com
Marketing		Sophie Braincourt	33(0) 1 56 68 75 36	sbraincourt@bryangarnier.com
Market Data & Information Systems Manager		Eric Monnier	33(0) 1 56 68 75 63	emonnier@bryangarnier.com

A copy of the Bryan Garnier & Co Limited conflicts policy in relation to the production of research is available at www.bryangarnier.com

London
Beaufort House
15 St Botolph Street
London EC3A 7BB
Tel: +44 (0) 207 332 2500
Fax: +44 (0) 207 332 2559
Authorised and regulated by the Financial Conduct Authority (FCA)

Paris
26 Avenue des Champs Elysées
75008 Paris
Tel: +33 (0) 1 56 68 75 00
Fax: +33 (0) 1 56 68 75 01
Regulated by the Financial Conduct Authority (FCA) and l Autorité de Contrôle prudential et de resolution (ACPR)

New York
750 Lexington Avenue
New York, NY 10022
Tel: +1 (0) 212 337 7000
Fax: +1 (0) 212 337 7002
FINRA and SIPC member

Geneva
rue de Grenus 7
CP 2113
Genève 1, CH 1211
Tel +4122 731 3263
Fax+4122731 3243
Regulated by the FINMA

New Delhi
The Imperial Hotel
Janpath
New Delhi 110 001
Tel +91 11 4132 6062
+91 98 1111 5119
Fax +91 11 2621 9062

BRYAN, GARNIER & CO