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6th January 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	17158.66	+0.06%	-3.73%
S&P 500	2016.71	+0.20%	-2.05%
Nasdaq	4891.43	-0.24%	+3.28%
Nikkei	18191.32	-0.99%	+5.29%
Stoxx 600	358.876	+0.62%	+4.77%
CAC 40	4537.63	+0.34%	+6.20%
Oil /Gold			
Crude WTI	35.87	-2.42%	-33.35%
Gold (once)	1077.84	0.00	-9.15%
Currencies/Rates			
EUR/USD	1.0721	-0.77%	-11.40%
EUR/CHF	1.0846	-0.14%	-9.79%
German 10 years	0.548	-2.64%	+1.39%
French 10 years	0.922	-1.93%	+9.98%
Euribor	-	+-%	+-%

Economic releases :

Date	
6th-Jan	JP - PMI Services Dec. (51.5 act. 51.6 prev) JP - PmI composite Dec. (52.2 act. 52.3 prev) CNY - PMI Composite Dec. (49.4 act. 50.5 prev.) GB - UK services PMI Dec. (55.6 exp.) US - ISM non manufacturing Composite (56 exp.) US - Fred. Releases Minutes

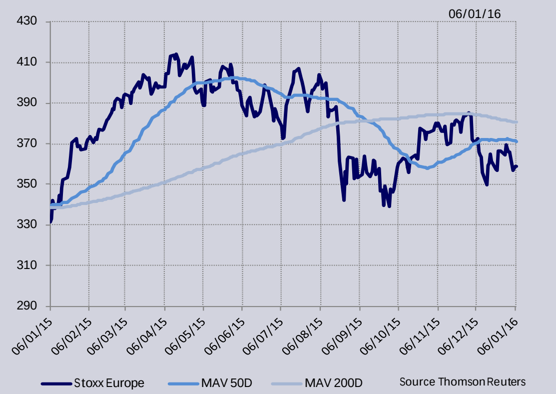
Upcoming BG events :

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



ACTELION — BUY – Top Pick List, Fair Value CHF166 vs. CHF159 (+21%)

Uptravi launched in the US at higher-than-expected price

Yesterday, Actelion held a conference call to discuss the label and the commercial strategy for Uptravi in the US where it is currently being launched. The company is still very much focused on developing a combination strategy that would leverage its comprehensive portfolio of drugs for PAH and also highlighted a meaningful lever should it succeed in boosting the use of prostacyclins for class II-III PAH. Together with a higher-than-expected price set for the drug, we now see peak sales of CHF1.3bn (vs CHF1bn). Our FV is slightly increased to CHF166. Actelion is added to the Top Pick List.

ENGIE — BUY, Fair Value EUR19 (+21%)

The new organisation is now in place

The French integrated utilities unveiled yesterday its new organisation is now well in place. The group is now made up of 24 business units created to serve the territories better, 5 Métiers in charge of specific fields of expertise and supporting the development of the Business Units, and a new head office to ensure global cohesion. Such a move is in line with recent changes implemented at other French utility groups such as Veolia or Suez. Positive.

SAP — NEUTRAL, Fair Value EUR75 vs. EUR70 (+5%)

No big surprise or disappointment to expect

We reiterate our Neutral rating and raise our DCF-derived fair value to EUR75 from EUR70 on the rollover of our model to 2016 (+EUR3), updated forward fx rates (+EUR1: EUR/USD 1.09 vs. 1.12), and less conservative assumptions on software licences (+EUR1). While we cannot rule out a preannouncement of FY15 results by early next week, we deem no real surprise or disappointment is to be expected on them, while SAP looks to be well in line with its 2017 and 2020 targets. We consider the stock contains no big catalyst unless Ifl cloud revenue growth accelerates well beyond 30-35%.

CONSUMER

TOP PICKS: Essilor, Pernod Ricard, SAB Miller, Ahold

INSURANCE

Top Picks Q1 2016: AXA and Allianz

In brief...

CAPGEMINI, *Is Capgemini interested in acquiring Hexaware?*

SANOFI, *Termination of agreement with Mannkind on Afrezza*

Healthcare

Actelion

Price CHF136.80

Uptravi launched in the US at higher-than-expected price

Fair Value CHF166 vs. CHF159 (+21%) **BUY – Top Pick List**

Bloomberg	ATLN VX
Reuters	ATLN.VX
12-month High / Low (CHF)	146.2 / 93.5
Market Cap (CHFm)	15,613
Ev (BG Estimates) (CHFm)	14,996
Avg. 6m daily volume (000)	373.6
3y EPS CAGR	6.6%

	1 M	3 M	6 M	31/12/14
Absolute perf.	-0.9%	13.7%	-1.1%	18.6%
Healthcare	-0.4%	3.6%	-2.6%	12.5%
DJ Stoxx 600	-3.8%	2.5%	-7.0%	4.1%

YEnd Dec. (CHFm)	2014	2015e	2016e	2017e
Sales	1,956	2,039	1,978	2,209
% change		*4.2%*	*-3.0%*	*11.7%*
EBITDA	687	758	680	831
EBIT	570.1	643.8	565.5	715.0
% change		*12.9%*	*-12.2%*	*26.4%*
Net income	648.2	679.8	608.1	741.8
% change		*4.9%*	*-10.6%*	*22.0%*

	2014	2015e	2016e	2017e
Operating margin	40.1	40.6	37.8	41.5
Net margin	33.1	33.3	30.7	33.6
ROE	33.8	44.4	32.3	31.5
ROCE	95.0	94.0	81.3	90.5
Gearing	-50.5	-40.3	-54.9	-65.8

(CHF)	2014	2015e	2016e	2017e
EPS	5.58	6.02	5.49	6.76
% change	-	*7.9%*	*-8.7%*	*23.2%*
P/E	24.5x	22.7x	24.9x	20.2x
FCF yield (%)	0.8%	4.1%	4.1%	4.8%
Dividends (CHF)	1.30	1.40	1.40	1.40
Div yield (%)	1.0%	1.0%	1.0%	1.0%
EV/Sales	7.5x	7.4x	7.4x	6.4x
EV/EBITDA	21.3x	19.8x	21.5x	16.9x
EV/EBIT	25.7x	23.3x	25.8x	19.7x

Yesterday, Actelion held a conference call to discuss the label and the commercial strategy for Uptravi in the US where it is currently being launched. The company is still very much focused on developing a combination strategy that would leverage its comprehensive portfolio of drugs for PAH and also highlighted a meaningful lever should it succeed in boosting the use of prostacyclins for class II-III PAH. Together with a higher-than-expected price set for the drug, we now see peak sales of CHF1.3bn (vs CHF1bn). Our FV is slightly increased to CHF166. Actelion is added to the Top Pick List.

ANALYSIS

- It would be excessive to say that the conference call held to discuss the label and the commercial strategy of Uptravi in the US was full of unexpected news.
- In line with the pre-marketing campaign conducted to promote the "power of three", Actelion presented a strategy that was very much dedicated to the promotion of a standard of care made of combinations. After SERAPHIN and AMBITION, GRIPHON is a third outcome-based study that gives advantage to combinations over monotherapies to treat PAH. The combination of an ERA with a PDE-5 inhibitor has progressed over the last few years and is still gaining share. What Actelion can now offer is an alternative to this combination, at least for those who are switching from whatever product to a dual or even a triple combination. It has been appropriately recalled that 79% of the patients in GRIPHON have already received therapy at baseline and almost 50% of those even two drugs. Recent data presented by Pr Sitbon at AHA show that triple therapy with Uptravi improves time to first morbi-mortality event by 37%, in a highly significant manner.
- So, based on this set of data and on a favourable label, Actelion will not only tackle the existing market of inhaled prostacyclins (this is the natural market the company anticipates a lot of switches from) but intends to enlarge the audience for the class thanks to the first-ever approved oral PC to have positive combination data and positive outcome data. In the US, only 1 out of 4 PAH specialists prescribing drugs for the disease do actually prescribe prostacyclins. The objective is to increase significantly this proportion, hence to increase use of prostacyclins overall. Today, less than 5,000 PAH patients are treated by inhaled PC in the US. The upside can be significant. This will be made easier by the combined marketing of Opsumit and Uptravi by the same sales force that will leverage the respective advantages of each drug (and their combination).
- This will require some education, that is why Actelion does not anticipate as quick a ramp-up as with Opsumit. Physicians and nurses have to become familiar with the uptitration strategy. That said, we are more optimistic than ever before about the final success of Uptravi. We see 9,000 patients in total on the drug by 2023 (incl. 7,500 in the US). Actelion also reported a gross price of USD160,000 (for the 200 mcg dose) to USD170,000 (for all the other doses), which is above our previous expectations (net price of USD120,000).

VALUATION

- Beyond the changes to the Uptravi estimates, we have also made a couple of others: first is roll-over into 2016 with a negative impact as 2015 was a spectacular year in operational cash flows but less good in free cash flows as share buy-backs lowered available cash significantly. Moving to 2016, the cash base is then lower whereas the number of shares was already adjusted. The second impact is positive and is the reduction of the beta from 1.0 to 0.9 which we are more comfortable with now that Actelion has a second significant product approved and launched.
- All together, the three inputs have a combined effect on the FV of CHF7 per share. Actelion remains a strong conviction with a BUY rating and jumps into the Top Pick List for Q1.

NEXT CATALYSTS

- 9 February 2016 : FY 2015 results

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Utilities

Engie

Price EUR15.75

The new organisation is now in place

Fair Value EUR19 (+21%) **BUY**

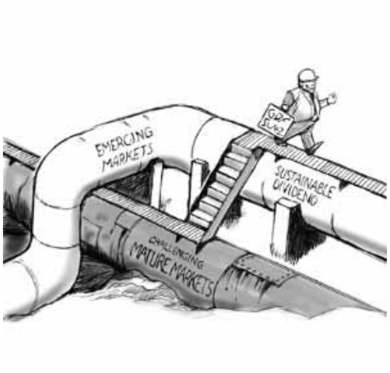
Bloomberg	GSZ FP
Reuters	GSZ.PA
12-month High / Low (EUR)	20.0 / 14.0
Market Cap (EURm)	38,356
Ev (BG Estimates) (EURm)	81,061
Avg. 6m daily volume (000)	6 060
3y EPS CAGR	0.5%

	1 M	3 M	6 M	31/12/14
Absolute perf.	-1.4%	8.6%	-5.8%	-18.9%
Utilities	-1.4%	0.8%	-4.1%	-4.9%
DJ Stoxx 600	-3.2%	0.2%	-6.4%	4.8%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	74,686	80,241	80,118	80,047
% change		*7.4%*	*-0.2%*	*-0.1%*
EBITDA	12,358	11,515	11,810	11,918
EBIT	6,574	6,540	6,696	6,647
% change		*-0.5%*	*2.4%*	*-0.7%*
Net income	3,125	2,737	2,849	2,981
% change		*-12.4%*	*4.1%*	*4.6%*

	2014	2015e	2016e	2017e
Operating margin	8.8	8.2	8.4	8.3
Net margin	4.2	3.4	3.6	3.7
ROE	5.6	5.0	5.2	5.4
ROCE	4.5	4.2	4.2	4.1
Gearing	53.2	56.6	59.3	61.5

(EUR)	2014	2015e	2016e	2017e
EPS	1.11	1.02	1.09	1.13
% change	-	*-7.8%*	*6.3%*	*3.6%*
P/E	14.2x	15.4x	14.5x	14.0x
FCF yield (%)	8.0%	4.1%	3.3%	3.9%
Dividends (EUR)	1.00	1.00	1.00	1.00
Div yield (%)	6.3%	6.3%	6.3%	6.3%
EV/Sales	1.2x	1.0x	1.0x	1.0x
EV/EBITDA	7.0x	7.0x	6.9x	6.9x
EV/EBIT	13.2x	12.4x	12.1x	12.4x



The French integrated utilities unveiled yesterday its new organisation is now well in place. The group is now made up of 24 business units created to serve the territories better, 5 Métiers in charge of specific fields of expertise and supporting the development of the Business Units, and a new head office to ensure global cohesion. Such a move is in line with recent changes implemented at other French utility groups such as Veolia or Suez. Positive.

ANALYSIS

- **What does this new organisation imply?** The group is now made up of **24 business units** created to serve the territories better, **5 Métiers in charge of specific fields of expertise** and supporting the development of the Business Units, and a **new head office** to ensure global cohesion. Such a transformation aims at maintaining a closer relation with the group's regions and customers, and is in line with recent changes implemented at other utility groups such as Veolia or Suez. A single brand name will be used in all regions, and through all businesses: **Engie**; which should simplify the group's commercial approach.
- **2016, a transition year for the group, again:** Integrated European utilities stocks will continue to see very limited earnings growth generation this year, due to capacity closures, lower commodity prices, timid power/gas demand evolution and disposals. In our models, we expect Engie to be the **only integrated stock we cover to generate positive EBITDA growth** (*+2.6% vs. 2015e*) while we expect a further decline coming from **EDF; E.ON & RWE** (*respectively -5.7%, -10.2% and -11.8%).* Lower power prices as well as lower commodity prices will continue to alter growth coming from new projects and new commissioning; yet all in all we expect positive earnings growth thanks notably to the restart of the Doel 3 and Tihange 2 Belgian nuclear reactors.
- **Upside on estimates/consensus from the new cost reduction programme:** The potential new cost-cutting programme for 2016-18 (*current Transformation plan is ending this year*) could drive up our earnings estimates by around 4-6% given, in our model, we currently assume a small annual contribution in line with E.ON and RWE beyond their respective programmes (*less than EUR100m/year*). We believe the announcement of a new cost reduction programme in the range of EUR1bn over 2016-18 could be a fair assumption. Such an announcement will be made during Q1-16.
- **Buy reiterated, with FV still at EUR19/share**: We stick to our Buy rating with no change in our estimates and FV. The dividend is in our view safe despite not being fully covered, as the group has sufficient cash and as the group can alter its growth capex envelope.

VALUATION

- At the current share price the stock is trading at 6.88x its 2016e EBITDA and offers a 6.35% yield
- Buy, FV @ EUR19/share

NEXT CATALYSTS

- February 25th 2016: 2015 earnings

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TMT

SAP

Price EUR71.43

No big surprise or disappointment to expect

Fair Value EUR75 vs. EUR70 (+5%) — NEUTRAL

Bloomberg	SAP GR
Reuters	SAPG.DE
12-month High / Low (EUR)	74.9 / 54.5
Market Cap (EUR)	87,752
Ev (BG Estimates) (EUR)	92,424
Avg. 6m daily volume (000)	3 010
3y EPS CAGR	8.9%

	1 M	3 M	6 M	31/12/14
Absolute perf.	-0.5%	20.5%	14.4%	22.6%
Softw.& Comp.	-1.7%	13.2%	10.6%	24.9%
DJ Stoxx 600	-3.2%	0.2%	-6.4%	4.8%

YEnd Dec. (€m)	2014	2015e	2016e	2017e
Sales	17,560	20,543	21,574	22,903
% change		*17.0%*	*5.0%*	*6.2%*
EBITDA	6,061	6,914	7,348	7,892
EBIT	4,330	4,474	5,679	6,228
% change		*3.3%*	*26.9%*	*9.7%*
Net income	4,304	4,582	5,203	5,553
% change		*6.5%*	*13.5%*	*6.7%*

	2014	2015e	2016e	2017e
Operating margin	32.0	31.0	31.4	31.8
Net margin	18.6	15.1	19.5	20.0
ROE	16.7	14.5	17.4	16.9
ROCE	16.7	20.2	21.2	23.1
Gearing	38.5	21.8	4.8	-9.6

(€)	2014	2015e	2016e	2017e
EPS	3.41	3.63	4.12	4.40
% change	-	*6.5%*	*13.5%*	*6.7%*
P/E	20.9x	19.7x	17.3x	16.2x
FCF yield (%)	3.2%	5.2%	5.7%	6.1%
Dividends (€)	1.10	1.20	1.30	1.40
Div yield (%)	1.5%	1.7%	1.8%	2.0%
EV/Sales	5.4x	4.5x	4.1x	3.7x
EV/EBITDA	15.7x	13.4x	12.1x	10.8x
EV/EBIT	17.0x	14.5x	13.1x	11.7x

We reiterate our Neutral rating and raise our DCF-derived fair value to EUR75 from EUR70 on the rollover of our model to 2016 (+EUR3), updated forward fx rates (+EUR1: EUR/USD 1.09 vs. 1.12), and less conservative assumptions on software licences (+EUR1). While we cannot rule out a preannouncement of FY15 results by early next week, we deem no real surprise or disappointment is to be expected on them, while SAP looks to be well in line with its 2017 and 2020 targets. We consider the stock contains no big catalyst unless lfl cloud revenue growth accelerates well beyond 30-35%.

ANALYSIS

- **Updating our forecasts ahead of FY15 results**. SAP will report FY15 results on 22nd January. We cannot rule out the company pre-announces them some time between the end of this week or the beginning of this week. We updated our model in order to reflect changes in fx rates since our last publication (2015 EUR/USD: 1.11 vs. 1.12) and a more cautious stance on the operating margin based on YTD opex trends. As such, we expect, on a non-IFRS basis, total sales up 8.7% at cc to EUR20,553m (consensus: EUR20,508m), Cloud & Software revenues up 10% at cc to EUR17,002m (consensus: EUR16,975m or +10.5% at cc), cloud subscriptions revenues up 86% at cc to EUR2,314m (consensus: EUR2,302m or +85.2% at cc), software licence revenues down 1% at cc to EUR4,623m (consensus: EUR4,587m), and an operating profit of EUR6,372m or 31% of sales (consensus: EUR6,329m or 30.8% of sales). Previously, we were expecting a non-IFRS op. margin of 31.4%. Our forecasts are at the top-end of company guidance (Cloud & Software up 8-10% at cc, cloud subscriptions up 77-86% at cc, operating profit of EUR5.6-5.9bn at cc).
- **A slightly higher growth scenario for 2016-18**. We increase our sales ests. by 1% for 2016 and 2% for 2017, as we now forecast revenues up 6.2% lfl for 2016 (vs. +5.1%) and 2017 (vs. +5.3%) and 6.3% for 2018. Our changes include a low-to-mid single-digit decline instead of mid-to-high single-digit on licences given the trends we expect for 2015 (-1% at cc) and the resilience of this selling mode as a significant part of the 1,300+ S/4HANA customers prefers buying the on-premise version rather than a cloud subscription. For 2016, we expect Software & Cloud revenues up 7.1% at cc (consensus: +6.3%) - vs. +6% - (o/w cloud subscriptions up 30.9% lfl and licences down 1.3% at cc) and a non-IFRS op. margin of 31.4% (consensus: 31.2%) - vs. 31.8% previously. We have the conviction 2016 will be a year of recovery for the op. margin after two years of decline, as the gross margin of the on-premise business is resilient (thanks to maintenance), the gross margin of the cloud business started to turnaround in Q2 15 on the Business Network and public cloud applications, the gross margin of Services recovers, and the HANA Enterprise Cloud may reach breakeven.
- **No particular deviation expected from the 2015-20 plan announced one year ago**. Unlike previous plans, we deem SAP remains well in line with its 2015-20 plan at this stage; i.e. reaching, on a non-IFRS basis, revenues of EUR26-28bn (o/w EUR7.5-8bn in Cloud subscriptions) with an op. profit of EUR8-9bn or 28.5-34.5% of sales for 2020 and revenues of EUR21-22bn (o/w 3.5-3.6bn in Cloud subscriptions) with an op. profit of EUR6.3-7bn or 28.6-33.3% of sales for 2017. We consider SAP has well-learnt the lessons of the transition to the cloud by assimilating the sales practices and the business model change. As such, the company gains more credibility in our view.

VALUATION

- SAP's shares are trading at est. 13.1x 2016 and 11.7x 2017 EV/EBIT multiples.
- Net debt on 30th September 2015 was EUR6,094m (net gearing: 28%).

NEXT CATALYSTS

- FY15 results on 22nd January before markets open.
- Investors Day on 4th February in New York from 9.30am EDT / 3.30pm CET / 2.30pm BST.

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Sector View

Consumer

TOP PICKS: Essilor, Pernod Ricard, SAB Miller, Ahold

	1 M	3 M	6 M	31/12/14
Pers & H/H Gds	-3.7%	8.1%	2.6%	19.8%
DJ Stoxx 600	-3.6%	9.0%	-4.3%	7.9%

*Stoxx Sector Indices

Companies covered

ADIDAS GROUP	BUY	EUR102
BEIERSDORF	NEUTRAL	EUR82 vs. 78
BIC	NEUTRAL	EUR130 vs.120
CHRISTIAN DIOR	BUY	EUR177 vs 170
ESSILOR	BUY	EUR131
GRANDVISION	BUY	EUR29
GROUPE SEB	BUY	EUR105 vs.100
HERMES Intl	BUY	EUR360 vs.344
HUGO BOSS	NEUTRAL	EUR107 vs. 110
KERING	NEUTRAL	EUR180 vs. 173
L'OREAL	BUY	EUR182 vs.175
LUXOTTICA	BUY	EUR66
LVMH	BUY	EUR182 vs.177
PRADA	NEUTRAL	HKD41
RICHEMONT	BUY	CHF90
SAFILO	BUY	EUR14
SALVATORE FERRAGAMO	BUY	EUR26.5 vs. 26
THE SWATCH GROUP	NEUTRAL	CHF440 vs. 430
TOD'S GROUP	NEUTRAL	EUR84 vs.82
AB INBEV	NEUTRAL	EUR122
CAMPARI	SELL	EUR7.1
CARLSBERG	NEUTRAL	DKK519
DIAGEO	NEUTRAL	1830p
HEINEKEN	NEUTRAL	EUR80
PERNOD RICARD	BUY	EUR122
REMY COINTREAU	BUY	EUR72
SABMILLER	BUY	4400p 4215p
AHOLD	BUY	EUR21
CARREFOUR	BUY	EUR31
CASINO GUICHARD	BUY	EUR69
DELHAIZE	BUY	EUR94
DIA	NEUTRAL	EUR7.5
JERONIMO MARTINS	NEUTRAL	EUR13.5
METRO AG	SELL	NOK24
RALLYE	BUY	EUR18.5
TESCO	NEUTRAL	166p

LOOKING BACK ON Q4 15

For the first time, our "Top Picks" report encompasses all our global Consumer franchises: Luxury, Consumer Goods, Retail and Beverages. In Q4 15, our Consumer stocks sample delivered a global performance (+4.6%) almost in line with the DJ Stoxx (+5.6%). In 2015, this universe grew by 10% on average vs. +6.8% for the DJ Stoxx but with very contrasted performances within this universe.

The Q4 increase includes a 4% contraction for our **Luxury sample** which has been particularly affected by the lingering difficult environment in Greater China and also by the attacks in Paris last November. Nevertheless, over 2015, it is worth noting the increase of **LVMH** (-4% / +10% in 2015) and **Hermès** (-3% / +6%). The most significant drops were **Prada** (-19% / -45%) which was clearly hit by the tough luxury market in Greater China (~26% of Retail sales) and **Hugo Boss** (-24% / -25%) as the group has revised down its FY15 and FY16 outlook. Moreover the unusually mild winter might be another headwind.

Almost all our **Consumer Goods** stocks have performed positively in Q4, the best-performers were **adidas Group** (+25% / +56% in 2015) boosted by the first positive results from the new Strategic Plan presented in March 2015 and a solid FY16 outlook and **GrandVision** (+21% / +38% since the IPO on 6 February) given an attractive equity story combined with excellent fundamentals in the Optical & Eyewear industry. These catalysts have also driven **Essilor** and **Luxottica** shares up in 2015 (+24% and +33% respectively) and despite a slight consolidation phase in Q4 (+6% and -3% respectively), we are convinced that they will perform further in 2016. Last but not least, **Safilo** only increased by 2.5% in Q4 (flat in 2015) on the back of painful initiatives to launch the Strategic Plan but we expect that the group will recover investors' confidence once its operating performance gradually improves in 2016.

The **L'Oréal** share price remained almost flat over the period but up 11.5% in 2015. The **SEB** share ended the year with another robust increase (+15% / +54% in 2015) whilst **BIC** was up 9% in Q4 (+38% in **2015)**, these performances reflected better-than-expected publications throughout the year.

For **Beverages**, during the fourth quarter, excluding Diageo (-0.3%), every single Beverages stock under our coverage outperformed the DJ Stoxx. This index was up 5.2% over the quarter while Beverages stocks rose by 7.5% on average. The top three were **ABI** (+14.6% vs DJ Stoxx), **Carlsberg** (+13.6%) and **Pernod Ricard** (+10.9%).

Retail stocks (+4%) slightly underperformed the DJ Stoxx despite **Ahold** and **Delhaize** rallying (both at +13%) while the **Casino** share price declined 11.5%.

WHAT WE SEE FOR Q1 16

With regards to luxury groups, we remain cautious on the Q4 15 publications at least concerning the organic sales growth performances. Following the terrorist attacks in Paris on November 13th, we have reduced our expectations for FY15 and for Q4 15 (*see our* Sector Report). On average, France accounts for 7% of the luxury goods industry and Paris alone 5%, being the world's second biggest city for the sector after NY (10%). Whilst the sales momentum in Europe was strong in Q3 thanks to the increase in tourist flows and to local clientele, after the attacks many tourists (mainly from US and Japan) have cancelled their trips to France and traffic in Parisian department stores was down by 20%. This will clearly affect the organic sales growth rates for Q4 and (we do not expect any growth vs +4% previously) which accounts for 30% of FY sales. For FY 15, we have also revised down our assumptions to 3% organic sales growth from 4% previously. **Aside from these attacks, the environment remains very challenging in Greater China with no clear improvement in HK and Macau** (~10% of sales).

For sure, the food retail sector has been penalised by the deflationary wave in Europe, which is likely to justify bumpy valuation levels as long as it lasts. This trend exacerbates a more fundamental issue which, for a large number of mature retailers, has meant that solid and recurring growth has sunk to a pace limited to just a few points (a disruptive factor in a fixed-cost industry). So far, we do not foresee any reversing trend in 2016: 1/ deflation is still there in several major markets (France and UK especially) while 2/ there is no obvious thinning on the horizon in emerging markets (Brazil especially).

Beverages: The releases of the **spirits groups** should confirm the improving trends in Europe and the US due to the better macro-economic background. The feedback of sales during the Festive season will be examined by the market. In Asia, the slowdown of the Chinese economy should continue to weigh. The Chinese New Year will occur earlier than last year (February 8th vs February 19th in 2015) but we do not expect any comments from the groups before Q2 2016. Furthermore, we do not expect big surprises in the 2015 results announcements from the **brewers**. All four have been updating the market every quarter and have been warning against too buoyant expectations for the last quarter of the year. However, the brewers will also reflect on the outlook for 2016 which, for emerging markets, have been deteriorating. As a result we are expecting the brewers in general to come with a less optimistic growth outlook for 2016.

Consumer Groups: Pick stocks with momentum! We expect investors to continue to favour groups benefiting from strong fundamentals and which operate in healthy markets like Optical & Eyewear (mid single-digit growth) and Sporting Goods (high single-digit growth). The latter will also benefit from two major sporting events in 2016: the UEFA Euro Championship (10 Jun – 10 Jul) and the Rio Summer OG (5-21 Aug). Against this context we maintain our positive stance on our **four Optical & Eyewear stocks**, and on **adidas Group**, not forgetting **Groupe SEB** which continues to report solid growth in both mature and emerging markets.

CONCLUSIONS AND TOP PICKS

Consumer Goods: Essilor (Buy, FV: EUR131) reappears. Essilor was removed from the Top Picks list on 18 Nov after a strong run (to EUR123) but the share price has come back to more attractive levels given the recent market's correction. Furthermore, we want to play: **(i)** a possible happy ending in Q4 15 (+4.8-5%e LFL growth vs. +4.4% in 9M), **(ii)** a "reassuring" risk/reward profile considering the strong footprint in the US and Europe (~75% of sales) and the limited exposure to emerging markets (21% of sales) and **(iii)** another supportive FY16 outlook. ***Next publication:*** *FY15 Results on 19 February.*

Food Retailing: Against the sector backdrop, size provides a key asset for large players which can dilute fixed costs over a far denser store network and obtain additional ammunition for nurturing their price and non-price competitiveness. In that respect, **Ahold (Buy, FV: EUR22.5)** and **Delhaize**, which are to merge in mid-2016, appear to be the best compromise within the sector. Moreover, insofar as both have: 1/ a very limited exposure to the unwell emerging markets together with a strong footprint in the USA (between 60% and 75% of the groups' respective EBIT), hence a good earnings visibility; and 2/ a higher-than-average profit-to-cash conversion, we have decided to put **Ahold** in our Top Picks list for Q1 2016, which, objectively, is to take the lead.

Beverages: We add **Pernod Ricard (Buy, FV: EUR122)** as Top Pick due to its better fundamentals and cheaper valuation than its peers. In the United States, its performance gap with the market is narrowing as the underlying trend on *Absolut* is less negative. Besides, its two key whiskies, *Jameson* and *The Glenlivet*, continue to be very dynamic (+20.7% and +10.9% on a twelve-month basis according to Nielsen). Brazil, its first exposure in LatAm, should post a very solid performance due to shipment loadings before an excise duty hike at the beginning of December. In Asia-ROW, India should continue to grow double-digit, which will partly offset the difficulties in China. Overall, we expect 2.2% organic sales growth in Q2 2015/16, implying +2.9% in Americas, +2.6% in Asia-ROW and +1.2% in Europe. At yesterday's price, the share is trading at 15.2x EV/EBIT 2015/16 and 14.5x EV/EBIT 2016/17, 14% and 13% below the peers' average. The integration of **SABMiller (Buy, FV: 4,400p)** into the ABI results will jolt its earnings somewhere during 2016 but by the time ABI announces its results (25 Feb) not much news will be able to be given around the time table. In this environment of uncertainty and deteriorating outlook we prefer to stick to SABMiller as our top pick for the quarter. From the current price levels (4,055p) the stock has limited upside to the offer price of 4,400p but we believe that investors should expect the 8.5% return to materialise over the next five to six months, which is more than the upside to fair value than we have for the other brewers. And because of the nature of the upside (a bid), there seems, in our view, not be a downside risk.

Luxury Goods: We do not include any Luxury goods stocks in our sector Q1 2016 Top Picks list. The visibility in the short term is too weak in our view; particularly with the likely negative impact of last November's terrorist attacks on Q4 sales growth in Europe (and likely not only in France). Furthermore, the uncertain current situation in Middle East (4% of Luxury goods market) is more bad news.

NEXT CATALYSTS

- **Luxury & Consumer Goods: Beiersdorf** (FY15 sales) and **Richemont** (Q3 2015/16 trading statement) on 14 Jan / **Groupe SEB** (FY15 sales) on 19 Jan.
- **Food Retailing: Carrefour** and **Casino** (FY 2015 sales) on 15 Jan and **Ahold** and **Delhaize** (FY 15 sales on 21 Jan.
- **Beverages: Rémy Cointreau** (Q3 16 sales) on 21 Jan, **Diageo** (H1 16 results) on 28 Jan and **Pernod Ricard** (H1 2016 results) on 11 Feb.

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Sector View

Insurance

Top Picks Q1 2016: AXA and Allianz

	1 M	3 M	6 M	31/12/14
Insurance	-3.7%	7.7%	2.7%	12.2%
DJ Stoxx 600	-6.5%	-0.2%	-7.4%	4.3%

*Stoxx Sector Indices

Companies covered

AEGON	BUY	EUR6.2 vs. 8.3
ALLIANZ	BUY vs. NEUTRAL	EUR195 vs. 171
AXA	BUY	EUR32 vs. 29
CNP ASSURANCES	NEUTRAL	EUR15 vs. 17.5
COFACE	NEUTRAL	EUR10.5 vs. 11.1
EULER HERMES	BUY vs. NEUTRAL	EUR103
HANNOVER RE	SELL	EUR107 vs. 97
MUNICH RE	SELL	EUR200 vs. 189
SCOR	BUY	EUR38.5 vs. 36
SWISS RE	NEUTRAL	CHF110. vs. 100
ZURICH INSURANCE GROUP	NEUTRAL	CHF310 vs. 330

LOOKING BACK ON Q4 2015

Excluding Aegon and Zurich, Q3 2015 numbers (published in November) were in line or ahead of expectations. Strong operating performances have been driven by underwriting results, especially in P&C (primary insurers + reinsurers) thanks to lower-than-budgeted natcats. Most companies continue to suffer ongoing pressure on recurring RoIs.

We have continued to see some volatility on the financial markets, driven by several geopolitical/economic issues. European rates have stabilised (10Y Euro rate at 1.07%). Corporate spreads have lowered in Q4 (down 13bps for the iTraxx Main and down 19bps for the iTraxx Senior Financials). Equity markets have risen (DJ Stoxx50 up 4.1%). These movements are positive for asset valuations, pushing insurers' NAVs up further.

As expected, most companies have passed the Solvency II test with flying colours. As expected, winners are companies with very diversified business models. We would especially mention AXA (212% at end-Sept.), Allianz (200%) and the reinsurers (Hannover Re, Munich Re 260% and Scor 208%).

Despite the challenging market environment, the insurance sector performed well again in Q4 2015 (+6.1% vs. Stoxx600 after +3.0% in Q3), as sustained convincing operating performances and strong capital and cash flow discipline have gradually improved the way investors see the sector, leading to a gradually lower cost of capital and as such some kind of gradual re-rating. The 2Y sector beta has come down to 1.0, its lowest level since 2002. AXA, our Q4 Top Pick, which was up 4.5% vs. the sector in Q4 (and up 15% for FY), is a good illustration of this.

NEW ESTIMATES, RECOMMENDATIONS AND FAIR VALUES

We take the opportunity to update our earnings forecasts for 2015-2017. On average, both our operating profit and net income sequences are revised upwards by 1%. Our sequence for NAV is revised downwards by 1% on average, mainly driven by higher returns to shareholders, helping companies to keep decent ROEs (c. 10% on average), above our cost of equity (9.3% on average).

We release our new fair values, which are based on our new 2016 estimates and adjustments we have made in our company specific betas. Please note that BG valuation criteria remain unchanged (risk-free rate 2.0%, equity risk premium 6.4%).

We take this opportunity to change two recommendations, with both Allianz (see below) and Euler Hermes (expected strong capital position within Solvency II, with a potential return to shareholders) turning to Buy vs. Neutral.

EUR	Fair value New	Old	Theoretical upside (%)	Recommendation New	Old
Aegon	6.2	8.3	23%	Buy	Buy
Allianz	195	171	25%	Buy	Neutral
AXA	32.0	29.0	31%	Buy	Buy
CNP	15.0	17.5	25%	Neutral	Neutral
Zurich (CHF)	310	330	24%	Neutral	Neutral
Hannover Re	107	97	5%	Sell	Sell
Munich Re	200	189	13%	Sell	Sell
Scor	38.5	36.0	18%	Buy	Buy
Swiss Re (CHF)	110	100	14%	Neutral	Neutral
Coface	10.5	11.1	13%	Neutral	Neutral
Euler Hermes	103	103	20%	Buy	Neutral

Source: Bryan Garnier & Co. ests.

WHAT WE SEE FOR Q1 2016

Geopolitical/economic uncertainties are high at the beginning of 2016, which could continue to generate some volatility on the financial markets. However:

Both the FED and the ECB have done their homework in December 2015, providing financial markets with some visibility on potential future actions.

Bonds usually represent 75% of total investments for insurance companies, with the bulk of it invested in OECD govies and investment grade corporate bonds. Going forward, the pressure on ROIs and investment income should remain. Should rates and spreads stay where they currently are, our calculations show that a 5-year duration theoretical investment portfolio made of govies (40% Euro, 10% US) and corporate bonds (25% investment grade, 5% high yield, 20% financials) would generate a 3.3% return in 2016 vs. 3.8% in 2015 and 4.3% in 2014. Actually there is nothing new here, and active management of the investment portfolio and some kind of diversification should help mitigate this trend. Marked-to-market fluctuations may impact NAVs but this is pure IFRS accounting. From an economic standpoint only default rates matter. And the Eurozone continues to benefit from low oil prices, a low Euro and a very favourable refinancing environment (QE). Bottom line, impairment risks are fairly limited to us.

Insurance companies’ Q4/FY 2015 numbers, which will be reported starting mid-February, should be strong again, driven by ongoing focus on underwriting results (primary P&C + reinsurance), persisting low natcats and insurers’ ability to pass lower interest rates on to customers (traditional life). Munich Re reported that 2015 natcat insured losses have been USD27bn vs. USD31bn in 2014 and USD39bn in 2013 and vs. USD34bn on a long-term inflation-adjusted average over the 1985-2014 period. In most cases, shareholder returns should be very satisfactory.

As a consequence, we see no reason to suspect insurers will deviate from current strategies, i.e. focusing on underwriting profitability through better risk management and cost control, price discipline, a more favourable product-mix in Life/Protection, a prolonged focus on capital allocation and cash flow management. This strategy should help protect the overall profitability in the current low interest rates environment. It should also continue to ease investors’ sentiment on the sector, which is good for valuation multiples. As a consequence, we will continue to use a ‘risk-on’ sector beta, i.e. 1.1 (vs. 1.35 for the ‘risk-neutral’ mode and 1.6 for the ‘risk-off’ mode) in our models.

CONCLUSIONS AND TOP PICKS

In the current unclear financial market environment, we believe the insurance sector will continue to benefit from its self-helped, transformational status. With current valuation multiples (1.0x P/NAV) undemanding considering the drop in the cost of capital, we have decided to increase the number of insurance stocks in our Top Pick list (2 vs. 1). We have also decided to focus on primary insurers, as the pricing environment in reinsurance remains challenging.

We continue to strongly support the AXA investment case (Buy, FV EUR32 vs. EUR29), considering: i/ the company’s convincing transformational journey strategy over the last few years, ii/ the recurring quality of earnings over the last half years (pricing power, combined ratio, new business margin, solvency,...), iii/ managements’ efforts to address shareholders’ return (pay-out ratio revised upwards to 45-55%), and iv/ a prolonged 10% discount to peers like Allianz and Zurich. FY 2015 numbers will be reported on 25th February.

At Allianz (Buy vs. Neutral, FV EUR195 vs. EUR171), we highlight the operating trends in P&C (combined ratio) and at Pimco (outflows are broadly over), which should continue to improve following several difficult quarters. The company has also now clearly embarked on a transformation of its too traditional life book, which should continue to have favourable impacts on NBV margins, capital allocation and cash flows. Allianz’s performance in 2014-2015 has been shy (broadly in line with the sector) and we believe it is time to be more aggressive on it. FY 2015 numbers are due to be published on 29th February.

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TMT

Capgemini

Price EUR83.42

Is Capgemini interested in acquiring Hexaware?

Fair Value EUR96 (+15%) **BUY**

Bloomberg	CAP FP
Reuters	CAPP.PA
12-month High / Low (EUR)	90.2 / 57.0
Market Cap (EURm)	14,363
Avg. 6m daily volume (000)	658.1

	1 M	3 M	6 M	31/12/14
Absolute perf.	-3.4%	3.1%	3.3%	40.2%
Softw.& Comp. SVS	-1.7%	13.2%	10.6%	24.9%
DJ Stoxx 600	-3.2%	0.2%	-6.4%	4.8%

	2014	2015e	2016e	2017e
P/E	20.0x	18.2x	15.1x	13.7x
Div yield (%)	1.4%	1.7%	1.8%	1.9%

ANALYSIS

- **Baring PE to sell its stake in Hexaware**. According to the *Economic Times*, Baring Private Equity Asia has initiated talks with Capgemini and private equity funds Blackstone and Carlyle to sell its 71% stake in the Indian IT Services company Hexaware Technologies. Listed in Mumbai, Hexaware generated in 2014 revenues of USD422.4m (+8.9%) and an operating margin of 16.8%, with 11,341 staff as of 30th September 2015. The company generates 81% of revenues in America, 14% in Europe and 5% in Asia Pacific, with a heavy exposure to Application Services (est. 87% of sales).
- **Fairly good potential strategic fit with Capgemini if a deal happens**. The *Economic Times* mentions the sale process could be initiated in January. If Capgemini wins such a deal - which is far from being done - we could find a fairly good fit with Hexaware: 1). On a strategic standpoint, Hexaware would raise the offshore leverage by c. 1-2ppt (to 55-56% from 54%) with an enhanced presence in India; 2). On a financial standpoint, converted in USD, Hexaware's market cap is around USD1.2bn, which values the company at est. 2015 EV/sales of 2.6x and EV/EBIT of 15x, and even with a 20-30% premium, we estimate Capgemini's end 2016 net gearing would rise to c. 35%.

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.

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Return to front page

Healthcare

Sanofi

Price EUR77.57

Bloomberg	SAN FP
Reuters	SASY.PA
12-month High / Low (EUR)	100.7 / 73.3
Market Cap (EURm)	101,278
Avg. 6m daily volume (000)	3 059

	1 M	3 M	6 M	31/12/14
Absolute perf.	-2.1%	-8.7%	-12.0%	2.5%
Healthcare	-0.4%	3.6%	-2.6%	12.5%
DJ Stoxx 600	-3.8%	2.5%	-7.0%	4.1%

	2014	2015e	2016e	2017e
P/E	14.9x	13.8x	13.7x	13.2x
Div yield (%)	3.7%	3.9%	4.1%	4.3%

Termination of agreement with Mannkind on Afrezza

Fair Value EUR90 (+16%) **NEUTRAL**

ANALYSIS

- Mannkind announced yesterday the termination of the licence and collaboration agreement with Sanofi for the development and commercialisation of the short-acting inhaled insulin Afrezza. It is said in the press release that the two companies will commence shortly the transition from Sanofi to Mannkind that will last between 90 and 180 days. As per the agreement, the termination will be effective no later than 6 months from the notice of termination, i.e. 4 July 2016. Actually the objective is to make the transition shorter and to terminate the agreement by early April. Sanofi paid USD150m upfront and our understanding is that there is no further financial obligation from any party except that the loan facility granted by Sanofi remains in place.
- The decision taken by Sanofi should not be a surprise to anyone. It has been said that it was Chris Viehbacher's decision to in-license the drug but this one has been a true disappointment since its launch in 2014 in the US. The clinical results were mixed, the label was restrictive, the scepticism from physicians about long-term effects of inhaling insulin on the lung was resilient and support from payers was poor. For the first nine months of 2015, Afrezza reported EUR5m in sales.

VALUATION

- We were expecting USD100m at peak for Afrezza around the turn of the decade but the drug would have struggled to reach break-even any way. It had already been de-emphasised since the new management took the reins of the company. It has therefore no impact on our FV.
- This termination makes things even clearer: in the diabetes franchise, Toujeo and LixiLan will be the drugs in focus from a commercial perspective for the next few years.

NEXT CATALYSTS

9 February 2016 - FY 2015 results

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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%

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