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8th January 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	16514.1	-2.32%	-7.34%
S&P 500	1943.09	-2.37%	-5.62%
Nasdaq	4689.43	-3.03%	-0.98%
Nikkei	17697.96	-0.39%	+1.81%
Stoxx 600	346.511	-2.21%	+1.16%
CAC 40	4403.58	-1.72%	+3.06%
Oil /Gold			
Crude WTI	33.19	-2.30%	-38.33%
Gold (once)	1104.15	+1.36%	-6.93%
Currencies/Rates			
EUR/USD	1.0833	+0.77%	-10.47%
EUR/CHF	1.08675	+0.21%	-9.61%
German 10 years	0.545	+6.21%	+0.78%
French 10 years	0.935	+6.73%	+11.55%
Euribor	-	+-%	+-%

Economic releases :

Date	
8th-Jan	DE - Industrial production Nov. (0.1% act. ,0.5% exp. y/y) US - unemployment rate (5.0% exp.) US - Wholesale Inventories Nov. (-0.1% exp.) US - Consumer Credit Nov.

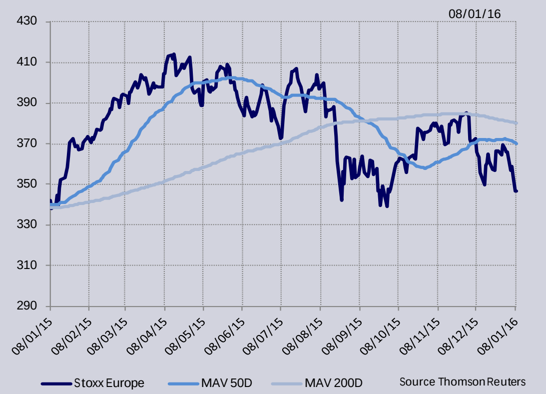
Upcoming BG events :

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



AB INBEV — NEUTRAL, Fair Value EUR111 vs. EUR122 (0%)

Deteriorating earnings outlook on the back of falling EM currencies and Brazilian economy

We have lowered the fair value for AB InBev shares by 9% to EUR111 from EUR122, reflecting the weakness is its main emerging market currencies (Brazilian real, Mexian and Colombian peso, South African rand) and a lower outlook for beer sales in Brazil. This is also reflected in the lowering of our 2016 and 2017 EPS by 4.5% and 3.2%.

ESSILOR — BUY-Top Picks, Fair Value EUR134 (+20%)

Nine additional acquisitions signed over past months

This morning Essilor has announced the signing of nine transactions over past months, representing a combined annual revenue of approx. EUR60m. Three of them are in mature countries whilst the remainder is located in fast-growing markets (i.e. Brazil, Russia and Kuwait). Consequently, Essilor realised a total of 19 acquisitions throughout 2015 for total additional sales of EUR214m on a full-year basis. The scope effect will certainly be higher in Q4 15 (~+3%e vs. +1.7% in Q3).

TMT

Q4 2015 review, and our TMT Top Picks for Q1 2016: Atos, Wirecard and Worldline

UTILITIES

Top Picks Q1 2016: We play Suez for M&A

In brief...

ROCHE, *Encouraging update for atezolizumab in bladder cancer*

Food & Beverages

AB InBev

Price EUR110.60

Deteriorating earnings outlook on the back of falling EM currencies and Brazilian economy

Fair Value EUR111 vs. EUR122 (0%) **NEUTRAL**

Bloomberg	ABI BB
Reuters	ABI.BR
12-month High / Low (EUR)	123.3 / 91.3
Market Cap (EURm)	177,872
Ev (BG Estimates) (EURm)	248,479
Avg. 6m daily volume (000)	1,848
3y EPS CAGR	3.6%

	1 M	3 M	6 M	31/12/14
Absolute perf.	-7.0%	12.1%	4.2%	17.8%
Food & Bev.	-6.1%	2.7%	2.8%	12.5%
DJ Stoxx 600	-7.0%	-4.0%	-7.0%	1.2%

Dec. (USDm)	2014	2015e	2016e	2017e
Sales	47,063	44,386	42,865	59,594
% change		*-5.7%*	*-3.4%*	*39.0%*
EBITDA	18,663	17,838	17,236	24,671
EBIT	15,308	14,508	13,837	20,444
% change		*-5.2%*	*-4.6%*	*47.7%*
Net income	8,865	8,375	8,027	11,721
% change		*-5.5%*	*-4.2%*	*46.0%*

	2014	2015e	2016e	2017e
Operating margin	32.5	32.7	32.3	34.3
Net margin	18.8	18.9	18.7	19.7
ROE	17.7	16.0	14.6	12.3
ROCE	11.1	10.3	9.5	10.0
Gearing	83.5	80.7	75.6	85.0

(USD)	2014	2015e	2016e	2017e
EPS	5.32	5.06	4.85	5.91
% change	-	*-5.1%*	*-4.2%*	*22.0%*
P/E	22.5x	23.7x	24.7x	20.3x
FCF yield (%)	4.7%	4.9%	4.3%	6.1%
Dividends (USD)	2.64	2.65	2.54	3.10
Div yield (%)	2.2%	2.2%	2.1%	2.6%
EV/Sales	6.0x	6.1x	6.2x	5.2x
EV/EBITDA	15.0x	15.1x	15.5x	12.5x
EV/EBIT	18.3x	18.6x	19.4x	15.1x

We have lowered the fair value for AB InBev shares by 9% to EUR111 from EUR122, reflecting the weakness is its main emerging market currencies (Brazilian real, Mexian and Colombian peso, South African rand) and a lower outlook for beer sales in Brazil. This is also reflected in the lowering of our 2016 and 2017 EPS by 4.5% and 3.2%.

ANALYSIS

- Since our last update (24 November) on AB InBev estimates, the USD has continued to strengthen against nearly all currencies. Over the past month and a half, the South African rand and the Russian rouble have weakened by 12%, the Brazilian real by 9%, the Mexican peso by 7%, and the Colombian peso by 6%.
- We have also updated our model to account for the deteriorating Brazilian economy and are now expecting a decline in volumes of 1% instead of a rebounding 2% growth. In the face of the squeeze on consumers, a decline of only 1% in beer volumes would still be a strong performance of the AB InBev management team. The deteriorating outlook for Brazil is also reflected in the share price of its quoted AmBev subsidiary. Its share price has dropped by 20% over the past 1 ½ month to USD4.11 from USD5.06.
- As a result of these further merging market currency weaknesses, we have lowered our estimates for 2016 and 2017 operating profit by respectively 4.7% and 2.8% (about 100bp is from the weaker Brazilian volumes). In terms of earnings per share the impact is 4.5% and 3.2%.

VALUATION

- However, because of the financial leverage (the SABMiller acquisition price of £44 per share is in British pounds), the impact on our DCF based fair value is slightly larger. As a result of our updated figures (and the slightly stronger EUR), we have lowered our fair value for AB InBev by 9% to EUR111 from EUR122.

NEXT CATALYSTS

- 25 February: FY 2016 results

(to be continued next page)

	FY2015e				FY2016e				FY2017e			
USDm	Old	**New**	% chge	% Incr.	Old	**New**	% chge	% Incr.	Old	**New**	% chge	% Incr.
Revenues	44,704	**44,386**	-0.7%	-5.7%	44,250	**42,865**	-3.1%	-3.4%	61,181	**59,594**	-2.6%	39.0%
North America	16,093	**16,093**	0.0%	0.0%	16,254	**16,254**	0.0%	1.0%	16,498	**16,498**	0.0%	1.5%
Latin America	16,468	**16,332**	-0.8%	-13.4%	15,460	**14,356**	-7.1%	-12.1%	15,337	**15,045**	-1.9%	4.8%
Europe	3998	**3,815**	-4.6%	-21.6%	3926	**3,645**	-7.2%	-4.5%	3671	**3,671**	0.0%	0.7%
Asia Pacific	5,818	**5,818**	0.0%	15.4%	6,167	**6,167**	0.0%	6.0%	6,537	**6,537**	0.0%	6.0%
SABMiller									16,572	**15,277**	-7.8%	na
Global export and holding companies	2,327	**2,327**	0.0%	5.0%	2,443	**2,443**	0.0%	5.0%	2,565	**2,565**	0.0%	5.0%
Operating profit	14,608	**14,508**	-0.7%	-5.2%	14,516	**13,837**	-4.7%	-4.6%	21,023	**20,444**	-2.8%	47.7%
North America	6,132	**6,132**	0.0%	1.1%	6,242	**6,242**	0.0%	1.8%	6,386	**6,386**	0.0%	2.3%
Latin America	7,036	**6,970**	-0.9%	-12.3%	6,684	**6,058**	-9.4%	-13.1%	6,763	**6,533**	-3.4%	7.8%
Europe	777	**742**	-4.5%	-18.1%	794	**741**	-6.6%	-0.2%	749	**749**	0.0%	1.2%
Asia Pacific	786	**786**	0.0%	52.0%	918	**918**	0.0%	16.8%	1,012	**1,012**	0.0%	10.3%
SABMiller									6,234	**5,884**	-5.6%	na
Global export and holding companies	-123	**-123**	0.0%	-3.8%	-122	**-122**	0.0%	-1.0%	-120	**-120**	0.0%	-1.3%
Non recurring items	0	**0**	na	na	0	**0**	na	na	0	**0**	na	na
operating profit margin	32.7%	**32.7%**			32.8%	**32.3%**			34.4%	**34.3%**		
North America	38.1%	**38.1%**			38.4%	**38.4%**			38.7%	**38.7%**		
Latin America	42.7%	**42.7%**			43.2%	**42.2%**			44.1%	**43.4%**		
Europe	19.4%	**19.5%**			20.2%	**20.3%**			20.4%	**20.4%**		
Asia Pacific	13.5%	**13.5%**			14.9%	**14.9%**			15.5%	**15.5%**		
SABMiller									37.6%	**38.5%**		
Net interest	(1,144)	**(1,146)**	0.2%	-13.1%	(2,018)	**(2,030)**	0.6%	77.1%	(3,435)	**(3,459)**	0.7%	70.4%
PBT	13,464	**13,362**	-0.8%	-3.2%	12,499	**11,807**	-5.5%	-11.6%	17,588	**16,985**	-3.4%	43.9%
Tax	(2,558)	**(2,539)**	-0.8%	1.6%	(2,500)	**(2,361)**	-5.5%	-7.0%	(3,869)	**(3,737)**	-3.4%	58.2%
Minority interests	(1,790)	**(1,767)**	-1.2%	-15.3%	(1,638)	**(1,467)**	-10.5%	-17.0%	(1,652)	**(1,574)**	-4.7%	7.3%
Net profit	9,116	**9,056**	-0.7%	-1.7%	8,360	**7,979**	-4.6%	-11.9%	12,066	**11,674**	-3.3%	46.3%
Net profit - adjusted	8,435	**8,375**	-0.7%	-5.5%	8,408	**8,027**	-4.5%	-4.2%	12,113	**11,721**	-3.2%	46.0%
Number of fully diluted shares	1,657	**1,657**	0.0%	-0.5%	1,657	**1,657**	0.0%	0.0%	1,983	**1,983**	0.0%	19.7%
Diluted EPS - adjusted	5.09	**5.06**	-0.7%	-5.1%	5.08	**4.85**	-4.5%	-4.2%	6.11	**5.91**	-3.2%	22.0%
Net dividend (EUR)	2.67	**2.65**	-0.7%	0.5%	2.66	**2.54**	-4.5%	-4.2%	3.21	**3.10**	-3.2%	22.0%

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Luxury & Consumer Goods

Essilor

Price EUR111.85

Nine additional acquisitions signed over past months

Fair Value EUR134 (+20%) **BUY-Top Picks**

Bloomberg	EF FP
Reuters	ESSI.PA
12-month High / Low (EUR)	123.6 / 91.5
Market Cap (EURm)	24,206
Ev (BG Estimates) (EURm)	25,805
Avg. 6m daily volume (000)	570.9
3y EPS CAGR	14.2%

	1 M	3 M	6 M	31/12/14
Absolute perf.	-6.4%	4.2%	8.1%	20.7%
Consumer Gds	-7.6%	-0.8%	-2.1%	10.2%
DJ Stoxx 600	-7.0%	-4.0%	-7.0%	1.2%

YEnd Dec. (€m)	2014	2015e	2016e	2017e
Sales	5,670	6,730	7,199	7,700
% change		*18.7%*	*7.0%*	*7.0%*
EBITDA	1,043	1,275	1,382	1,501
EBIT	1,222	1,215	1,322	1,436
% change		*-0.6%*	*8.8%*	*8.6%*
Net income	929.3	775.3	865.6	963.3
% change		*-16.6%*	*11.7%*	*11.3%*

	2014	2015e	2016e	2017e
Operating margin	21.6	18.1	18.4	18.7
Net margin	16.4	11.5	12.0	12.5
ROE	18.9	14.5	14.3	14.6
ROCE	16.9	21.2	21.8	22.4
Gearing	34.6	28.0	18.5	12.5

(€)	2014	2015e	2016e	2017e
EPS	3.05	3.66	4.08	4.54
% change	-	*19.9%*	*11.7%*	*11.3%*
P/E	36.7x	30.6x	27.4x	24.6x
FCF yield (%)	3.3%	2.8%	3.8%	4.3%
Dividends (€)	1.05	1.15	2.15	3.15
Div yield (%)	0.9%	1.0%	1.9%	2.8%
EV/Sales	4.6x	3.8x	3.5x	3.3x
EV/EBITDA	24.9x	20.2x	18.4x	16.7x
EV/EBIT	21.3x	21.2x	19.2x	17.5x

This morning Essilor has announced the signing of nine transactions over past months, representing a combined annual revenue of approx. EUR60m. Three of them are in mature countries whilst the remainder is located in fast-growing markets (i.e. Brazil, Russia and Kuwait). Consequently, Essilor realised a total of 19 acquisitions throughout 2015 for total additional sales of EUR214m on a full-year basis. The scope effect will certainly be higher in Q4 15 (~+3%e vs. +1.7% in Q3).

ANALYSIS

- **PERC/IVA is Essilor's second operation in the US ECP alliance sector.** As announced in our comment dated 12 November, Essilor has acquired PERC/IVA (BG ests: revenue of ~EUR10m) right after Vision Source (*see below*), giving the French group an active role in consolidating this independent optomestrist channel that accounts for ~45% of the US optical market. PERC/IVA was founded in 2008 and encompasses 2,400 pratices (1,700 in PERC and 700 in IVA) and 4,000 doctors.

  Why is the ECP alliance sector so attractive? Firstly, like VS or PERC/IVA, these networks are expanding rapidly in North America as more and more independent optometrists and ECPs want to take advantage of a centralised platform to benefit from superior purchasing power and practice services. Secondly, the independent optometrist channel is more premium than the market average as the doctors have greater expertise of practices and state-of-the-art technology to offer the latest lens technologies, which fits well with Essilor's high value brands (Varilux, Crizal, Transitions, Xperio, etc.).

- **Two operations in Europe.** Interestingly, Essilor also bought a majority stake in **ECP** (Spain), which is the distribution platform of CECOP, a purchasing organisation comprising ~800 optical stores in Spain as well as operations in Italy, Portugal and the UK. ECP posted revenue of ~EUR3m in 2015 and will develop the Kodak brand in Spain and Portugal. In Poland, Essilor also enhanced its mid-range ophthalmic lens offering with the acquisition of **Jai Kudo** (sales of ~EUR5m), which is also present in the Czech Republic and Slovakia.

- **Four acquisitions in Brazil (~4% of total sales).** The first two acquisitions are traditional bolt-on acquisitions (i.e. Rx labs): **(i) Prime Optical** (sales of BRL49m or ~EUR11m) based in Rio de Janeiro and **(ii) RX** (sales of BRL8m or ~EUR2m) which is located in Recife (northern part of Brazil). Essilor also took over two leading online players: **(i) eOtica** (sales of BRL15m or ~EUR3.5m) that sells a large choice of optical products (contact lens, sunglasses and Rx) whilst **(ii) e-lens** only operates in the contact lens category (sales of BRL12m or ~EUR2.8m). Although we admit that the domestic market is currently affected by adverse macro conditions, the Brazilian optical market clearly harbours significant growth opportunities over the long run.

- **One transaction in Russia and first entry in Kuwait.** The group has acquired **Optic Club** which is a major distributor in the Russian contact lens market, with sales of ~EUR20m. Last but not least, Essilor has acquired a majority stake in **Nikon Optical Middle-east** (NOME) which is the exclusive distributor of Nikon brand lenses in the Gulf region. It generates sales of EUR3.5m and this operation marks Essilor's first entry in Kuwait.

VALUATION

- These additional acquisitions confirm that Essilor has accelerated the closing of bolt-on acquisitions in Q4 15, in line with Laurent Vacherot's statement during the Q3 sales conference call. Consequently, the scope effect would amount ~3% in Q4 15 vs. +1.7% in Q3. Given the market's correction, the share has come back to attractive levels, Buy recommendation and FV of EUR134 reiterated.

NEXT CATALYSTS

- Essilor will release its FY15 Annual Results on 19 February 2016.

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Sector View

TMT

Q4 2015 review, and our TMT Top Picks for Q1 2016: Atos, Wirecard and Worldline

	1 M	3 M	6 M	31/12/14
Softw.& Comp. SVS	-2.1%	14.5%	9.1%	25.0%
DJ Stoxx 600	-6.5%	-0.2%	-7.4%	4.3%

*Stoxx Sector Indices

Companies covered

ALTEN	NEUTRAL	EUR48 vs. 44
ALTRAN TECHNOLOGIES	BUY	EUR13
ARM HOLDINGS	BUY	1310p
ASML	NEUTRAL	EUR76
ATOS	BUY	EUR93 vs. 94
AXWAY SOFTWARE	BUY	EUR30
CAPGEMINI	BUY	EUR96
CAST	BUY	EUR4.4 vs. 4.7
DASSAULT SYSTEMES	SELL	EUR65 vs. 66
DIALOG SEMICONDUCTOR	NEUTRAL	EUR37
GAMELOFT	BUY	EUR6.7
GEMALTO	NEUTRAL	EUR69
INDRA SISTEMAS	SELL	EUR10 vs. 9.8
INFINEON	BUY	EUR15
INGENICO GROUP	BUY	EUR150
SAGE GROUP	NEUTRAL	550p vs. 540
SAP	NEUTRAL	EUR75
SOFTWARE AG	BUY	EUR33
SOITEC	NEUTRAL	EUR0.8
SOPRA STERIA GROUP	BUY	EUR115
STMICROELECTRONICS	SELL	EUR6.8
SWORD GROUP	BUY	EUR28
TEMENOS GROUP	BUY	CHF52 vs. 47
UBISOFT	BUY	EUR37
WIRECARD	BUY	EUR52
WORLDLINE	BUY	EUR29

LOOKING BACK ON Q4 2015

In Q4 2015, the performance of the Technology sector was outstanding. Over the period, **the DJ STOXX Europe Technology index surged by 19% and outperformed the DJ STOXX Europe 600 index by 13ppt** (+6%), on the back of the stockmarket catch-up in October after last summer's concerns regarding the Chinese economy vanished. In addition, we cannot rule out that during the same month the anticipation of an extension of the ECB's 'quantitative easing' policy until March 2017 did help.

During the period, **the best performers were Gameloft** and **Ubisoft** (respectively +84% and +47%, Vivendi's entry in their share capitals and then speculation), **Infineon** (+34%, great integration of International Rectifier leading to market share gain and margin improvement) **and Temenos Group** (+30%, Q3 15 results above expectations). **The worst performers were Dialog Semiconductor** (-13%, rumours of fragile iPhone supply chain, downward revision of the Q4 guidance, and the controversial acquisition of Atmel), **Cast** (-7%, 'soft' quarter in Q3 15), **Indra Sistemas** (-7%, further write-offs in Brazil and mounting worries on LatAm) **and Gemalto** (-5%, lower sales to mobile operators). **Our sector Top picks Wirecard and Ingenico Group, were up respectively 9% and 8%**.

NEW ESTIMATES AND FAIR VALUES

We take the opportunity to update our forecasts for 2015-2018 and DCF-derived fair values: 1). The roll-over of our models to 2016 for the companies under coverage for which we haven't yet done (Alten, Axway, Cast, Indra, Sopra Steria, and Temenos); 2). Update in our forward fx assumptions (slightly positive for Sage, slightly negative for Dassault Systèmes, Atos, Indra and Sopra Steria); 3). Marginal company-specific changes to our models (more caution on LatAm for Indra due to the economic environment in Brazil); 4). The specific case of Temenos, which trades in CHF but reports in USD while the CHF/USD rate fell by 5% since our last update on the stock (21/10/15).

As such, we adjust our DCF-derived fair value on Alten (EUR48 vs. EUR44), **Atos** (EUR93 vs. EUR94), **Cast** (EUR4.4 vs. EUR4.7), **Dassault Systèmes** (EUR65 vs. EUR66), **Indra Sistemas** (EUR10 vs. EUR9.8), **Sage Group** (550p vs. 540p) and **Temenos Group** (CHF52 vs. CHF47).

WHAT WE SEE FOR Q1 2016

For Software & IT Services, based on industry analysts' forecasts, we anticipate stable growth or a slight slowdown in global IT spending for 2016, with est. +5-6% for Software (vs. +6% in 2015) - still driven by the now established SaaS model - and an est. +3-4% for IT Services (vs. +4%) - driven by transformation projects in Application Services and IT Consulting while Infrastructure Services are likely to be flat due to the ramp-up of cost-efficient clouds. The main drivers of the market continue to be digital transformation (cloud, mobile, analytics/big data, social networks, security) and a moderately positive but increasingly volatile economic environment (stable growth in North America, modest improvement in Europe, volatility in emerging countries). In High-tech Consulting, the market is expected to maintain modest recovery thanks to better visibility in Aerospace & Defence.

In Payments, companies should continue to benefit fully from the EMV migration in the US (in the US, 60% of the 13m POS devices, i.e. 8m, still need the EMV upgrade according to VeriFone), the equipping of emerging markets (notably the growing installed base of terminal POS in China which should double from 2014 to 2017), the management of the installed base in mature countries, the growing importance and good performance expected from e-commerce during the festive season, and the rising demand for security in electronic payments. **1/ Ingenico Group** (Buy – FV of EUR150; 100% of its sales in payment) has the best commercial offer in multi-channel payment and we are still confident for Q4 2015 following VeriFone's comments. The group should post 13.2% organic growth in FY15 (i.e. +8.2%e in Q4; since VeriFone released its Q4, we believe Ingenico is likely to post a performance in a range of +8/+11%) with an EBITDA margin of 23.3% (-10bp Y/Y) vs. management's guidance of +12/13% and ~23% respectively. **2/ Wirecard** (Buy – FV of EUR52; pure player in online payments) should post FY15 organic growth of 23.5% (i.e. +22.3%e in Q4) driven by the expanding online payment segment and notably south-east Asia, which should translate into the high-end of its EBITDA guidance range of EUR223-232m (BG. EUR231m, a margin of 30.0% +120bp). **3/ Worldline** (Buy – FV of EUR29; ~70% of its 2015 sales in payment). Since the acquisition of Equens, Worldline should now be fully considered as a PSP (#1 in Europe vs. #3 before). It should post a FY15 organic growth of 4.3% (i.e. +4%e in Q4, taking into account the end of the technical car control contract in the UK which is already known from its IPO) with an EBITDA of EUR19.2% (+50bp Y/Y) vs. Worldline's guidance of +4/5% and +50bp in pro forma terms respectively. **4/ Gemalto** (Neutral – FV of EUR69; ~30% of its sales in payment) should post lfl sales growth of 7.8% in FY15 (i.e. +6.7%e in Q4, impacted by lower sales to mobile operators) with a PFO of EUR421m, i.e. +10% Y/Y (margin of 13.4%, -210bp) vs. a vague guidance of double-digit growth in PFO. We believe there are still too many risks in its SIM and related services businesses.

For Video Games: by taking equity stakes in Ubisoft and Gameloft, Vivendi has encouraged investors to change the way they look at video games shares. On these two particular shares, only speculation (and not financial releases) will drive the share prices in the next few months. We believe Vivendi will launch a public tender offer on **Gameloft** in the short term (hostile or friendly, it will succeed in our view) to force Ubisoft to enter into discussions and convince the Guillemot family that there are synergies between both groups. And finally, we expect a friendly takeover bid on **Ubisoft** sometime in 2016e. It's now time to try to value the entire cycle. Note that our FVs on Ubisoft (Buy, FV of EUR37) and Gameloft (Buy, FV of EUR6.7) reflect minimum prices in the case of takeover bids.

In Semiconductors, we forecast weak momentum on PC, tablet and smartphone sales representing together about 2/3rds of total semiconductor sales. Q4 2015 has been impacted by a complex environment and temporary inventory adjustments in the automotive and industrial sectors, resulting in low visibility in these sectors which we expect to gradually return to normal in Q1 2016. Overall, we continue to believe that these two segments and the IoT are poised to drive growth in the medium/long term. Regarding semi equipment makers, 2016 should be the year of the 10nm ramp at IDM and foundries which is expected to trigger equipment orders, however, the current market environment could delay the ramp up of the 10nm process technology initially expected to ramp up from Q2 2016.

In Telecoms, after the takeover of SFR by Numericable in late 2014, the French Telecom market entered a new era in 2015, but stabilisation of the market is still a long way ahead. As 2016 begins, Iliad still needs to find a smooth way out of its national 2G/3G roaming agreement with Orange while accelerating the roll-out of its mobile and fibre networks. Numericable-SFR is still in a restructuring phase but has to regain momentum on the commercial side. And Bouygues Telecom needs sustained customer growth in order to make its recovery dreams come true, while Orange is investing billions of euros to maintain its leadership in 4G and catch up with Numericable-SFR on the very high speed fixed side (fibre/cable). But something else is happening backstage: merger talks between Orange and Bouygues Telecom, involving all players and raising major competitive concerns, which could have a disruptive effect on the market. In many other European countries such as the UK, Spain, Belgium or Portugal, the reconfiguration of markets following M&A operations should also be closely monitored.

CONCLUSIONS AND TOP PICKS

In Software & IT Services, while we deem the current mixed economic news-flow will not urge investors to invest pure "growth" stories, we recommend to buy specific earnings-enhancing stories based on M&A. As such, we reintroduce Atos in our Top Pick list. 1). Atos is highly focused on the structurally stable Managed Services/BPO businesses and can only generate low organic growth out to 2018; 2). The project to acquire Unify should help Atos generate an accretive impact on EPS of at least 15% as of 2017, while the Equens takeover project via subsidiary Worldline should enhance EPS by 4-5% as of 2018 in our view; 3). Atos has expanded over the decades via acquisitions and this method is now part of its DNA, and, since the arrival of Thierry Breton at the head of the group, Atos has been faultless in integrating its acquisitions and delivering synergies; 4). Yet the rumours reported by the press since mid-December (*Re/code*, *Economic Times*) are not confirmed, and we estimate Atos may create another EPS enhancing story in case of a bid on Dell's Perot Systems business.

In Payments, we expect investors to show an increasing appetite for the electronic payments and digital security themes by betting on payment service providers (PSP). As such, **we keep Wirecard (Buy, FV EUR52) in our Q1 Top Pick list to benefit from the rising momentum of the eCommerce** (notably during the Christmas period) and a good visibility (first 2016 guidance already given). The group is a growth story (we see our +23.5% as a minimum) and one of margin improvement (we expect +120bp thanks to its fixed-cost structure). We believe it will come in at the high-end of its FY15 EBITDA guidance range and above the consensus (which is at the middle of the guidance range). The share is attractive relative to its EPS growth (2016e: P/E of 25x vs. +38% attrib. net profit). **We also include Worldline (Buy, FV EUR29) in our list** because, since the acquisition of Equens, it will become the #1 PSP in Europe (77% of its pro forma sales will be derived from payment). Worldline's is currently trading at an EV/EBITDA 2016e of 8.8x (with the consolidation of

Equens as of mid-May 2016 and including a possible loss of the French radar contract), i.e. an unjustified discount of 27% to payment processors evolving in the physical space. At our FV, the share would be at 12x, which is perfectly consistent with its positioning (a payment processor in the physical space).

In Video Games, 2016 should be buoyant for the French sector as a whole thanks to the speculation around Ubisoft and Gameloft. Only this theme will drive the share prices in 2016e. However and despite our buy ratings, we find it difficult to predict the exact timing of the likely takeover bids within the year (we expect a hostile or friendly offer on Gameloft and then a friendly one on Ubisoft). As a result, **we do not include any Video Game players in our Q1 2016 Top Pick list.**

In Semiconductors, our two best pick in the industry are ARM Holdings (Buy, FV 1,310p) and Infineon (Buy, FV EUR15). Amid a low visibility environment, we favour companies with solid profiles rather than value stocks. However, while we expect to see the end of inventory adjustment to gradually come over Q1 2016, we see no strong catalysts to trigger an outperformance of a particular semi stock. As a result, **we do not include any Semiconductor players in our Q1 Top Pick list.**

In Telecoms, the French market will be structured by the outcome of ongoing merger discussions between Orange and Bouygues Telecom. If the deal happens, all players on the market will benefit from it. If it does not, a hangover won't be far away. Promotional wars will go on, with no stabilisation to be expected soon. In all cases, high investments in 4G and fibre networks will remain crucial. On a European level, as in-country mergers are mostly behind us, we are seeing renewed interest in cross-border mergers and media telecom convergence. In particular, major players such as Vodafone, Deutsche Telekom, KPN or Telecom Italia might turn over a new page. **Since coverage is under construction, we do not provide any specific recommendation at this time.**

NEXT CATALYSTS

Software & IT Services: TCS' Q3 FY16 results on 12th January after the Indian markets close. Infosys' Q3 FY16 results on 14th January before the Indian markets open. IBM's FY15 results on 19th January after US markets close. FY15 sales and results for European companies starts on 22nd January (SAP).
Payments: Ingenico's FY earnings on 18th February (after trading), Worldline's FY earnings on 23rd February (after trading), Gemalto's FY earnings on 4th March (before trading) and Wirecard's FY earnings at the beginning of April.
Video Games: Gameloft's FY sales on 28th January (after trading) and Ubisoft's Q3 sales in February.
Semiconductors: Soitec's Q3 sales on 18th January (after trading). ASML's Q4 results on 20th January (before market opening). Infineon's Q1 results on 2nd February (before trading).

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Sector View

Utilities

Top Picks Q1 2016: We play Suez for M&A

	1 M	3 M	6 M	31/12/14
Utilities	-3.1%	-1.8%	-2.8%	-6.3%
DJ Stoxx 600	-7.0%	-4.0%	-7.0%	1.2%

*Stoxx Sector Indices

Companies covered			
ALBIOMA		**BUY**	**EUR20**
Last Price	EUR14,26	*Market Cap.*	EUR425m
E.ON		**BUY**	**EUR10,2**
Last Price	EUR8,204	*Market Cap.*	*EUR16,416m*
EDF		**NEUTRAL**	**EUR18**
Last Price	EUR12,56	*Market Cap.*	*EUR24,117m*
ENGIE		**BUY**	**EUR19**
Last Price	EUR15,44	*Market Cap.*	*EUR37,601m*
PENNON GROUP		**NEUTRAL**	**800p**
Last Price	852p	*Market Cap.*	*GBP3,513m*
RWE		**NEUTRAL**	**EUR9,8**
Last Price	EUR10,86	*Market Cap.*	*EUR6,580m*
SUEZ		**BUY**	**EUR19**
Last Price	EUR16,875	*Market Cap.*	*EUR9,157m*
VEOLIA ENVIRONNEMENT		**NEUTRAL**	**EUR22,5**
Last Price	EUR21,22	*Market Cap.*	*EUR11,955m*
VOLTALIA		**BUY**	**EUR13**
Last Price	EUR9,92	*Market Cap.*	*EUR260m*

LOOKING BACK ON Q4 2015

The **Utilities sector** performed slightly better than the **Stoxx 600** (**-1.3%** for SX6P vs. **-1.9%** for the Stoxx 600) during Q4-15 after having underperformed in Q3-15 (+**4.4%** for SX6P vs. **+5.2%** for the Stoxx 600). Since our initiation of coverage in July 2014, we recommended to stay out of the sector as a whole and to play it safe through stocks offering strong earnings growth equity stories based on restructuring efforts. We previously played the sector through Veolia & Engie during Q3-15, on positive momentum and catalysts trends. As for Q4-15, we decided to play the sector through **Albioma**, as we assumed investors would come back to the investment case following details unveiled during the Analysts' Event on the growth potential from the French overseas departments' energy transition. Inside the SX6P, in Q4-15, **E.ON** was the top performer (**+16.3%**) followed by its German peer **RWE** (+**15.4%**) and **Engie** (+**13%**), while the worst performers were **CEZ** (**-12.2%**), **EDF** (**-10.6%**) and **Centrica** (**-4.8%**). In our coverage (*Albioma, E.ON, EDF; Engie, Pennon; RWE; Suez, Veolia & Voltalia*), **integrated utilities clearly out-performed environmental services stocks,** while **EDF** (**-14%**), **Albioma** (+**0.4%**) and Voltalia (+**6.6%**) were the worst performers. During the period, European power prices (*forward FY1 power prices for France, Germany, Belgium, the UK and the Netherlands*) dropped by **12%** (**-7%** QoQ in Q3-15) while gas (*TTF*) prices continued to decline as in first nine months, by **-20%**, as well as coal prices with a drop of **-8%** in Q2-15. During Q4-15 investors came back on stocks offering attractive valuations, and positive newsflows.

WHAT WE SEE FOR Q1 2016

Fundamentals are expected to remain weak in Q1-16 given we do not expect power & gas prices to pick-up in the short term, and given power & gas demand in Europe is set to remain poor (*at average climate)*. The margin for gas thermal assets should remain under pressure in Europe, as well as profits coming from E&P activities, yet we anticipate a slight improvement in the CSS (*Clean Spark Spread*) margin following the strong gas price declined observed at the end of 2015. **Only Utilities exposed to renewables assets, regulated markets or environmental services exposed to industrials** (*in both the water and waste markets*) are still expected to **stand out from the crowd** yet following strong performances of these stocks in 2015, the valuation is no longer so undemanding. In our models, we do not expect power prices to pick up in Europe for 2015-18 (*except on ARENH in France*) and expect a gradual European industrial recovery to positively affect margins for environmental services' operators (*Veolia & Suez*). **In our view, the Utilities sector can only be played by investors for its attractive valuation and its attractive yield in the short term, not for its earnings growth potential**, **at least not today (not until H2-16 in our view).**

CONCLUSIONS AND TOP PICKS

In our last sector reports published in December 2015 (*report on Integrated Utilities: Gone too far? (Upgrade on E.ON & RWE)* and on Suez/Veolia: *It is time to take a rest on Veolia (Downgrade on Veolia to Neutral))*, we had **already updated most of our models with the latest macro data and latest rollover to 2016** implying no changes in either estimates or FVs in our universe today. Please note that BG valuation criteria remain **unchanged** (*risk-free rate 2.0%, equity risk premium 6.4%).* Given we believe investors will only start to focus on 2017 earnings growth potential during H2-16, **we prefer keeping our cautious view on the sector for Q1-16** (*and then for H1-16*) and therefore do not integrate "value" stocks like Engie, RWE & E.ON even if we believe the market went too far on pricing in the commodity prices deterioration on these stocks.

Nevertheless, we choose to put **Suez** (*Buy, FV @ EUR19*) on our BG Top Pick list for first quarter as we see **two potential positive catalysts** that could alter both stock and earnings estimates upwards. The first one is a structuring acquisition (*like Urbaser ACS's waste management unit for instance)* that will allow the group to grow at a faster pace than the market and to raise its exposure to Southern Europe as the group always had ambitions to do so. Given its 2017 guidance to reach **EUR3bn EBITDA** is based partly on M&A, we believe it is fair to assume Suez M&A teams are working quite hard to find the perfect match. **We can therefore expect positive news from this subject during the quarter**.

The second driver that could alter the stock positively is the potential deal with Engie, which, according to some rumours, **seems credible**. As a reminder, back in November 2015, "*La Lettre de l'Expansion*" reported Engie was studying possible moves to retake control of Suez after it lost it under a shareholder pact that expired in 2013. The group which recently entered into an important reorganisation phase is, in our view, **looking at all opportunities to reduce its direct earnings exposure to merchant activities** (*commodities exposure*) and **is reviewing all options**. We believe raising its stake in Suez (*currently 34%)* to get access to regulated assets (*Agbar & United Water*) and to a more stable subsector in the utilities world (*water & waste management*) is the last-ditch option for the group given it would imply all other options to generate earnings growth (*merchant assets disposals to finance large infrastructure acquisitions; launch of a new cost reduction programme, rise in growth capex dedicated to renewables*) **were fruitless**. This deal which could either be made through **a takeover bid** or through the **disposal of its Energy Services business** (*Cofely*) to Suez is clearly more positive for Suez than for Engie (*premium paid by Engie on the latest Suez share price to raise its 34% stake above 50%; higher impact on Suez's EBIT than on Engie's EBIT from synergies between both groups on IT, purchasing…*) explaining our move to select Suez as our Top Pick for Q1-16.

At the current share price, we see 13% upside and the stock is trading at 7.3x its 2016e EBITDA and offers a 4% yield. Buy, FV @ EUR19.

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Healthcare

Roche

Price CHF270.00

Bloomberg	ROG VX
Reuters	ROG.VX
12-month High / Low (CHF)	286.2 / 241.7
Market Cap (CHFm)	189,692
Avg. 6m daily volume (000)	1,360

	1 M	3 M	6 M	31/12/14
Absolute perf.	-1.6%	7.8%	3.8%	0.0%
Healthcare	-3.1%	2.2%	-3.5%	10.6%
DJ Stoxx 600	-7.0%	-4.0%	-7.0%	1.2%

	2014	2015e	2016e	2017e
P/E	18.9x	19.1x	17.1x	15.9x
Div yield (%)	3.0%	3.0%	3.3%	3.6%

Encouraging update for atezolizumab in bladder cancer

Fair Value CHF338 (+25%) **BUY**

ANALYSIS

- Roche presented updated data from the phase II study IMvigor210 that has been investigating atelizumab, the group's PD-L1 targeting agent, in metastatic urothelial bladder cancer (mUBC), at the ASCO GU meeting. Compared to what had already been disclosed at the ECC meeting last September, the key element is the median overall survival for the high PD-L1 expressers that reached 11.4 months compared to 7.9 months for the overall population. With a median follow-up of 11.7 months, it has also been established that 84% of the responders (from 15% to 26% depending on the level of expression) continued to respond, this time irrespectively of the level of expression and the median duration of response was not yet reached in any PD-L1 subgroup. To note also is that the level of complete responses ranged from 5% to 11% across the various subgroups.
- Based on this more mature data, Roche's statement about regulatory review has progressed and the company is no longer mentioning discussions with the authorities but submission to the FDA under BTD designation "imminently". We would then expect atezolizumab to be filed during Q1 2016 in its first indication, i.e. mUBC.

VALUATION

- In our sales estimates for Roche, atezolizumab gets first reported revenues in late 2016 as we anticipate a filing in mUBC and advanced NSCLC in Q1 2016. So the first part of this schedule is today validated by the company.
- The question in mUBC is whether the label and then the use in practice of atezolizumab will cover the whole spectrum of the indication or preferentially the so-called high-PD-L1 expressers. Our expectation is that it may cover the IC1/2/3 part of the population but not the IC0 which would represent about two-thirds of the 35,000 patients with mUBC in the US and Top5 Europe annually. Considering an average USD80,000 net annual price for the drug and a duration of treatment beyond one year, the underlying targeted market would be close to USD2bn. We would expect atezolizumab to reach at least 50% of it, therefore translating into USD950m peak sales for the drug in this single indication by 2021-22. This is about 45% of the sales estimates we have for the drug in total in 2021, leaving potentially too little for the other indications it is running after, starting with lung which is however a more competitive space.

NEXT CATALYSTS

- 29 January 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 58.5% NEUTRAL ratings 33.1% SELL ratings 8.5%

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