BRYAN, GARNIER & CO

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13th January 2016

# BG's Wake Up Call

| | Last close | Daily chg (%) | Chg YTD (%) |
|---|---|---|---|
| **Indices** | | | |
| Dow Jones | 16516.22 | +0.72% | -7.33% |
| S&P 500 | 1938.68 | +0.78% | -5.84% |
| Nasdaq | 4685.92 | +1.03% | -1.06% |
| Nikkei | 17715.63 | +2.88% | -1.33% |
| Stoxx 600 | 343.221 | +0.88% | +0.20% |
| CAC 40 | 4378.75 | +1.53% | +2.48% |
| **Oil /Gold** | | | |
| Crude WTI | 30.6 | -1.77% | -43.14% |
| Gold (once) | 1089.05 | -1.11% | -8.20% |
| **Currencies/Rates** | | | |
| EUR/USD | 1.0826 | -0.26% | -10.53% |
| EUR/CHF | 1.08645 | -0.07% | -9.64% |
| German 10 years | 0.53 | -2.32% | -2.06% |
| French 10 years | 0.928 | +1.22% | +10.71% |

**Economic releases :**

| Date | |
|---|---|
| 13th-Jan | CNY trade balance<br>JP - bnakrupties Dec.<br>EUZ - Industrial Prod. Nov. (+1.3% y/y)<br>US - F. Rosengren speaks on Economy outlook to Boston US Chamber<br>Us - DOE inventories<br>US - Beige Book |

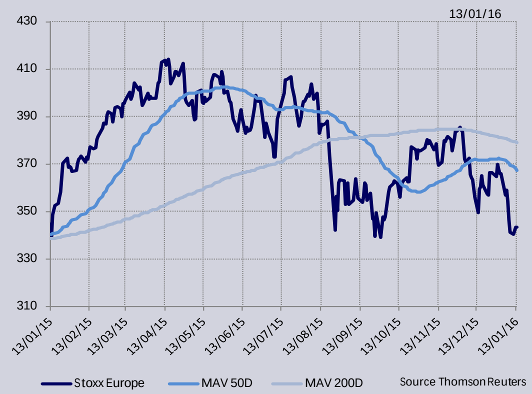
**Upcoming BG events :**

| 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




## ENGIE — BUY, Fair Value EUR19 (+26%)

*E&P disposal in the pipeline?*

According to Reuters, citing daily energy trade publication Enerpresse, the French group is considering a possible sale of part or all of its E&P business to reduce notably its direct exposure to merchant activities. We see such a move as positive, yet struggle to see the rationale of the timing given we assume the group could get more from this business unit once uncertainties on Brent and gas prices are lower. Positive.

## JERONIMO MARTINS — NEUTRAL, Fair Value EUR13,5 (+7%)

*Q4 trading statement: Jeronimo Martins commands respect!*

We admire Jeronimo Martins' exemplary model that should benefit from the move in favour of both discount and proximity within the industry going forward. Once again, the retailer showed its class by publishing its strongest LFL rates for two years at Biedronka (+3.8% in Q4), while Pingo Doce keeps showing an impressive performance (+4.1% LFL excl. fuel). Within a sector suffering from anorexic growth (a disruptive factor in a fixed-cost industry), Jeronimo is the best-in-class. Only the uncertainty about the implementation of a retail tax in Poland and to a lesser extent the valuation (22x 2016 P/E vs 16x for the panel or 15x excluding Tesco) prevent us from buying the stock.

## LAFARGEHOLCIM — SELL, Fair Value CHF60 (+34%)

*Uncertainties regarding LH asset disposals in India*

In order to comply with the Indian anti-trust entity CCI's demands, LH had signed last August an agreement with a local company Birla to sell some assets in India, mostly two plants in the East with a 5.2m tonnes of cement capacity, for an EV of CHF750m. Unfortunately, due to legal changes, the press reports Birla had some difficulties in securing the mining rights, which can't be simply be transferred anymore, but have to be attributed by auction.

## SODEXO — NEUTRAL, Fair Value EUR88 (-1%)

*Q1 revenue: Strong lfl revenue growth benefiting from the Rugby World Cup*

Q1 consolidated revenue was slightly higher than anticipated reaching EUR5.57bn vs. EUR5.54bn, up 9.6% on reported. Strong lfl revenue growth up 4.7% vs. 3.9% from consensus and our expectation of 3.6%, o/w 50% coming from the RWC, i.e. 2.4% (our forecast was 1.5% and 1.6% for consensus). By segment, there was disappointment regarding Benefits & Rewards Services with lfl revenue growth of 5.3% (8% anticipated) and, in OSS, difficulties in the RoW with lfl growth down 4.2% (-2% anticipated), while NA is still strong, up 2.9%. Following Q1 revenue, Sodexo confirmed its expectation for 2015-16 of lfl revenue growth of around 3% and an increase in operating profit of around 8% excluding currency effects and before exceptional items.

## FOOD INDUSTRY

*A spicer dish (NESTLE coverage initiation)*

We reiterate our Buy recommendation and have increased our Fair Value to EUR74 mainly to take account of the roll-over of our estimates. We are initiating coverage of Nestlé with a Neutral recommendation and a Fair Value of CHF76.

## SEMICONDUCTORS

*November global semi sales in line but poor macro index points to weak December data*

November WSTS data points to overall global semiconductor sales of USD27.5bn, down 2.4% sequentially (-3.5% YoY). This is broadly in line with our benchmark based on 5-y historical data of -2.0% MoM. We continue to expect a flat year of growth, i.e. 2015 global sales at USD336bn. December's PMI index remains weak in both the US and China. As a result, we would recommend a cautious stock-picking until the economic index points to an improving macro-economic situation. In other worlds, we would prefer stock with solid fundamentals rather than value stocks.

***In brief...***

**GLAXOSMITHKLINE, *Advair's generic threat more material now***

Utilities

# Engie

Price EUR15.06

## E&P disposal in the pipeline?

**Fair Value EUR19 (+26%)** **BUY**

| | |
|---|---|
| Bloomberg | GSZ FP |
| Reuters | GSZ.PA |
| 12-month High / Low (EUR) | 20.0 / 14.0 |
| Market Cap (EURm) | 36,663 |
| Ev (BG Estimates) (EURm) | 79,369 |
| Avg. 6m daily volume (000) | 5 998 |
| 3y EPS CAGR | 0.5% |

| | 1 M | 3 M | 6 M | 31/12/14 |
|---|---|---|---|---|
| Absolute perf. | -4.9% | -0.8% | -12.7% | -22.5% |
| Utilities | -1.4% | -3.1% | -8.2% | -7.1% |
| DJ Stoxx 600 | -4.4% | -6.2% | -12.5% | -0.7% |

| 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 | 13.5x | 14.7x | 13.8x | 13.4x |
| FCF yield (%) | 8.3% | 4.3% | 3.5% | 4.1% |
| Dividends (EUR) | 1.00 | 1.00 | 1.00 | 1.00 |
| Div yield (%) | 6.6% | 6.6% | 6.6% | 6.6% |
| EV/Sales | 1.1x | 1.0x | 1.0x | 1.0x |
| EV/EBITDA | 6.9x | 6.9x | 6.7x | 6.8x |
| EV/EBIT | 12.9x | 12.1x | 11.9x | 12.2x |


**According to Reuters, citing daily energy trade publication *Enerpresse*, the French group is considering a possible sale of part or all of its E&P business to reduce notably its direct exposure to merchant activities. We see such a move as positive, yet struggle to see the rationale of the timing given we assume the group could get more from this business unit once uncertainties on Brent and gas prices are lower. Positive.**

### ANALYSIS

- **What is in the press today?** According to Reuters, citing daily energy trade publication ***Enerpresse***, the French group is considering a possible sale of part or all of its hydrocarbon exploration and production (*E&P*) operations to reduce its direct exposure to merchant activities. **Engie declined to comment on the report** but had already mentioned it is reviewing strategically all its non/less profitable assets following the massive swing in commodity prices.
- **A few words on the group's E&P business:** E&P business is part of the **Global Gas & LNG business unit** of the group (*2015e sales of EUR6.3bn and 2015e EBITDA of EUR1.48bn*) and is composed of gas production which represents **two thirds of the 60Mboe** annual gas and oil production (40Mboe) while oil production only represents one third (20Mboe). The group currently owns **70%** of E&P International following the acquisition (*through a capital increase*) of a **30%** minority stake in this business (*excluding the 22.5% equity stake in E.F. Oil & Gas Limited*) by **China Investment Corporation** (*CIC*) fund in August 2011. Back then (*2010 metrics*), this business generated **EUR2.2bn** of revenues and **EUR1.4bn** of EBITDA (*63% EBITDA margin*) with the transaction valuing Engie E&P business at an **EV of EUR8.1bn** (*5.7x EV/EBITDA implied multiple*). But back in 2011, Brent was **USD111/barrel** while the TTF gas price was **EUR26/MWh** vs. respectively **USD32/barrel** and **EUR15/MWh** today. In our model, we assume for 2015, the EBITDA of the E&P business will be closer to **EUR600-650m compared with 2014 at EUR1.2-1.3bn** (*the group is still benefiting from its hedging position on the gas production business explaining the limited drop despite the massive drop in commodity prices)* yet is set to further decline in 2016 and 2017 as hedging positions will suffer from the strong drop in gas prices. As a reminder, the group does not hedge its oil price exposure (*one third of its volumes or 20Mboe*), except for 2015, where volumes were covered ahead of the March drop. **In our SOTP we currently value the E&P business (at 100%) at less than EUR6bn.**
- **A positive move if made at the right price:** Such a **move is clearly positive** for the group as: **1/** it is in line with its mid- to long-term strategy to reduce its exposure to merchant activities to the profit of regulated/non-merchant activities; and as **2/** it will reinforce the group's balance sheet before financing new renewables projects (solar notably where the group is lagging other European peers) and infrastructure projects in both Europe (*strong need for new interconnections between EU countries by 2020*) and emerging markets. Such a disposal is therefore clearly credible, yet we struggle to see the rationale of the timing, with such strong uncertainties on both Brent and Gas prices especially given we assume the group is sufficiently strong (financially) to pass through this difficult cycle.

### VALUATION

- At the current share price Engie is trading at 6.8x its 2016e EBITDA and offers a 6.6% yield.
- Buy, FV @ EUR19/share

### NEXT CATALYSTS

- February 25th 2016: Engie - 2015 earnings

*Click here to download*

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Food retailing

# Jeronimo Martins

Price EUR12.56

| | |
|---|---|
| Bloomberg | JMT PL |
| Reuters | JMT.LS |
| 12-month High / Low (EUR) | 13.8 / 8.6 |
| Market Cap (EURm) | 7,904 |
| Ev (BG Estimates) (EURm) | 8,475 |
| Avg. 6m daily volume (000) | 1 129 |
| 3y EPS CAGR | 8.6% |

| | 1 M | 3 M | 6 M | 31/12/14 |
|---|---|---|---|---|
| Absolute perf. | 6.5% | 2.6% | 8.6% | 50.7% |
| Food Retailing | 0.1% | -7.0% | -8.1% | 6.1% |
| DJ Stoxx 600 | -3.5% | -5.1% | -11.7% | 0.2% |

| YEnd Dec. (EURm) | 2014 | 2015e | 2016e | 2017e |
|---|---|---|---|---|
| Sales | 12,679 | 13,735 | 14,627 | 15,551 |
| *% change* | | *8.3%* | *6.5%* | *6.3%* |
| EBITDA | 732 | 789 | 863 | 945 |
| EBIT | 446.9 | 486.7 | 517.3 | 565.1 |
| *% change* | | *8.9%* | *6.3%* | *9.2%* |
| Net income | 310.4 | 336.4 | 358.9 | 397.6 |
| *% change* | | *8.4%* | *6.7%* | *10.8%* |

| | 2014 | 2015e | 2016e | 2017e |
|---|---|---|---|---|
| Operating margin | 3.6 | 3.6 | 3.5 | 3.6 |
| Net margin | 2.4 | 2.4 | 2.5 | 2.6 |
| ROE | NM | NM | NM | NM |
| ROCE | 18.6 | 20.5 | 21.7 | 24.1 |
| Gearing | 17.4 | 19.2 | -3.8 | -15.2 |

| (EUR) | 2014 | 2015e | 2016e | 2017e |
|---|---|---|---|---|
| EPS | 0.49 | 0.53 | 0.57 | 0.63 |
| *% change* | - | *8.4%* | *6.7%* | *10.8%* |
| P/E | 25.5x | 23.5x | 22.0x | 19.9x |
| FCF yield (%) | 2.2% | 4.7% | 4.9% | 5.6% |
| Dividends (EUR) | 0.25 | 0.27 | 0.00 | 0.32 |
| Div yield (%) | 2.0% | 2.1% | NM | 2.5% |
| EV/Sales | 0.7x | 0.6x | 0.6x | 0.5x |
| EV/EBITDA | 11.5x | 10.7x | 9.4x | 8.3x |
| EV/EBIT | 18.9x | 17.4x | 15.6x | 13.9x |


## Q4 trading statement: Jeronimo Martins commands respect!

**Fair Value EUR13,5 (+7%)** **NEUTRAL**

**We admire Jeronimo Martins' exemplary model that should benefit from the move in favour of both discount and proximity within the industry going forward. Once again, the retailer showed its class by publishing its strongest LFL rates for two years at Biedronka (+3.8% in Q4), while Pingo Doce keeps showing an impressive performance (+4.1% LFL excl. fuel). Within a sector suffering from anorexic growth (a disruptive factor in a fixed-cost industry), Jeronimo is the best-in-class. Only the uncertainty about the implementation of a retail tax in Poland and to a lesser extent the valuation (22x 2016 P/E vs 16x for the panel or 15x excluding Tesco) prevent us from buying the stock.**

Yesterday, Jeronimo Martins released its 2015 preliminary sales which work out rather in line with our initial estimates (total sales of EUR13.73bn vs EUR13.69bn e). Beyond the expansion programme that delivered in line with expectations (see table on next page), the overall performance remains driven by strong LFL rates, both in Poland and Portugal. Elsewhere, Colombia (EUR122m annual sales vs EUR118m e) and Hebe (EUR100m annual sales vs EUR100m e) also delivered in line with estimates.

In Poland, food inflation was negative in the first nine months of the year (-2.2%), but turned marginally positive in October (+0.4%) and November (+0.1%). Against this backdrop, Biedronka put the emphasis on improving its offer in a bid to grow its share of wallet. In the end, LFL sales growth worked out at +3.8% in Q4 (vs +2.9% in 9M), driven by volumes (+5%e). It goes without saying, the banner grew its market share. In the end, the LFL rate has improved all along the year, supported by strong volume growth which more than compensated the basket deflation. Both the number of visits and the average tickets contributed positively to the annual LFL performance of +3.2%. On the whole, impressive.

In Portugal, Pingo Doce and Recheio, sticking to their promotional strategy, obviously reinforced their value proposition and outperformed their respective market. We would like to emphasise the exceptional commercial performance by Jeronimo Martins, which, against the backdrop of declining sales momentum all over Europe (see our recent report: Anorexic growth... the bigger the better!), is able to show a +4.1% LFL Q4 sales growth excl. fuel (vs +4.7% in 9M) at Pingo Doce (!), driven by volumes (+6% we believe). If we play the devil's advocate, we could notice the sequential deceleration at Recheio whose LFL sales growth worked out at +1.4% in Q4 (vs +4.2% in 9M). Let us not deceive ourselves, this is another set of strong figures.

### Why we remain cautious despite such performances

As a reminder, the Polish government may introduce a progressive retail tax of 0.5/2% on turnover with a progression depending on revenues (implementation could be in Q2 2016). Hence, at this stage, our understanding is that big retailers may be subject to a higher tax rate than their smaller competitors (the initial plan was to introduce a tax representing up to 2.5% of the banner's sales for the stores with a selling area exceeding 250sqm). This scenario would meet with both the fiscal (budget) and social (protection of the smallest players) targets of the government. On the one hand, we do believe that Biedronka should be able to pass part of this tax to suppliers. On the other one, it seems complicated to us to pass part of this tax on to consumers through homogeneous price increases (potential risk of cross-elasticity), since different retailers could be subject to different tax rates depending on their revenues. In short, at this stage, the lack of information leads to caution.

### VALUATION

- Jeronimo Martins is showing a 21x 2016 P/E vs 16x for the panel (15x excluding Tesco)

### NEXT CATALYSTS

- Upcoming details about the retail tax in Poland (next week?)
- Field Trip to Colombia (15&16 March 2016)

**Performances at Jeronimo Martins’ main banner**

| BIEDRONKA | Q1 | Q2 | Q3 | Q4 | 2 014 | Q1 | Q2 | Q3 | Q4 | 2 015 |
|---|---|---|---|---|---|---|---|---|---|---|
| Sales (EURm) | 1 953 | 2 076 | 2 162 | 2 241 | **8 432** | 2 172 | 2 327 | 2 337 | 2 369 | **9 205** |
| (1) LFL | -2.7% | 0.3% | -1.3% | 0.3% | **-0.8%** | 2.9% | 2.4% | 3.5% | 3.8% | **3.2%** |
| (2) F/X | -0.7% | 0.8% | 1.9% | -0.6% | **0.3%** | -0.2% | 1.5% | -0.3% | 1.1% | **-0.1%** |
| (3) Expansion | 9.3% | 11.2% | 10.3% | 9.1% | **10.0%** | 8.5% | 8.2% | 4.9% | 3.2% | **6.1%** |
| (1)+(2)+(3) % change | 5.9% | 12.3% | 10.9% | 8.8% | **9.5%** | 11.2% | 12.1% | 8.1% | 8.1% | **9.2%** |
| (1)+(3)% change tcc | 6.6% | 11.5% | 9.0% | 9.4% | **9.1%** | 11.4% | 10.6% | 8.4% | 7.0% | **9.3%** |

*Source: Group, BG estimates*

| PINGO DOCE | Q1 | Q2 | Q3 | Q4 | 2 014 | Q1 | Q2 | Q3 | Q4 | 2 015 |
|---|---|---|---|---|---|---|---|---|---|---|
| Sales (EURm), store sales | 743 | 812 | 835 | 844 | **3 234** | 772 | 850 | 888 | 896 | **3 406** |
| (1) LFL (incl. fuel) | 1.1% | 1.9% | -2.0% | 1.1% | **0.5%** | 3.4% | 4.2% | 4.0% | 3.4% | **3.8%** |
| (2) Expansion | 1.1% | 1.0% | 1.8% | 0.8% | **1.2%** | 0.5% | 0.5% | 2.3% | 2.8% | **1.6%** |
| (1)+(2) % change | 2.2% | 2.9% | -0.2% | 1.9% | **1.7%** | 3.9% | 4.7% | 6.3% | 6.2% | **5.3%** |

*Source: Group, BG estimates*

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Construction & Building Materials

# LafargeHolcim

Price CHF44.84

## Uncertainties regarding LH asset disposals in India

**Fair Value CHF60 (+34%)** **SELL**

| | |
|---|---|
| Bloomberg | HOLN VX |
| Reuters | HOLZn.VX |
| 12-month High / Low (CHF) | 72.9 / 44.8 |
| Market Cap (CHF) | 27,214 |
| Ev (BG Estimates) (CHF) | 45,750 |
| Avg. 6m daily volume (000) | 1,893 |
| 3y EPS CAGR | 30.4% |

| | 1 M | 3 M | 6 M | 31/12/14 |
|---|---|---|---|---|
| Absolute perf. | -10.0% | -20.5% | -35.7% | -37.2% |
| Cons & Mat | -4.1% | -2.9% | -6.9% | 8.9% |
| DJ Stoxx 600 | -4.4% | -6.2% | -12.5% | -0.7% |

| YEnd Dec. (EURm) | 2014 | 2015e | 2016e | 2017e |
|---|---|---|---|---|
| Sales | 31,564 | 29,968 | 31,571 | 33,640 |
| *% change* | | *-5.1%* | *5.3%* | *6.6%* |
| EBITDA | 6,495 | 5,899 | 6,751 | 7,907 |
| EBIT | 3,765 | 3,273 | 4,111 | 5,268 |
| *% change* | | *-13.1%* | *25.6%* | *28.1%* |
| Net income | 1,247 | 1,249 | 1,983 | 2,769 |
| *% change* | | *0.1%* | *58.8%* | *39.6%* |

| | 2014 | 2015e | 2016e | 2017e |
|---|---|---|---|---|
| Operating margin | 11.9 | 10.9 | 13.0 | 15.7 |
| Net margin | 5.3 | 3.8 | 5.6 | 8.6 |
| ROE | 3.3 | 3.3 | 5.2 | 6.9 |
| ROCE | 3.4 | 3.8 | 4.7 | 6.1 |
| Gearing | 41.6 | 39.9 | 37.0 | 31.0 |

| (EUR) | 2014 | 2015e | 2016e | 2017e |
|---|---|---|---|---|
| EPS | 2.06 | 2.06 | 3.27 | 4.57 |
| *% change* | - | *0.1%* | *58.8%* | *39.6%* |
| P/E | 21.8x | 21.7x | 13.7x | 9.8x |
| FCF yield (%) | 1.7% | 6.6% | 7.7% | 11.6% |
| Dividends (EUR) | 1.30 | 1.30 | 1.30 | 1.30 |
| Div yield (%) | 2.9% | 2.9% | 2.9% | 2.9% |
| EV/Sales | 1.4x | 1.5x | 1.4x | 1.3x |
| EV/EBITDA | 7.0x | 7.8x | 6.7x | 5.5x |
| EV/EBIT | 12.1x | 14.0x | 11.0x | 8.3x |

**In order to comply with the Indian anti-trust entity CCI's demands, LH had signed last August an agreement with a local company Birla to sell some assets in India, mostly two plants in the East with a 5.2m tonnes of cement capacity, for an EV of CHF750m. Unfortunately, due to legal changes, the press reports Birla had some difficulties in securing the mining rights, which can't be simply be transferred anymore, but have to be attributed by auction. Still, according to the press, LH might sell its whole Lafarge Indian subsidiary, representing 11mt of cement capacities, with the mining rights directly included. It has not been officially confirmed though, but the new CCI chairman recently said an "alternative proposal" was "on the table", but no additional details were given. In any case, several potential bidders have been mentioned by the press, included CRH. LH would in any case remain a strong player in the country, with 62mt of capacity, although we can't see how "merger" synergies can be generated in the country in a scenario where all the Lafarge assets are disposed of.**

In August 2015, LH signed an agreement with Birla Corporation in order to divest some assets located in the eastern part of the country and to comply with the Competition Commission of India (CCI)'s requests. EV was INR50bn or CHF750m for 5.15m tonnes of capacity, for mainly one cement plant and one grinding station. LafargeHolcim's combined capacity in India was 73 mt: 62mt from Holcim and 11mt from Lafarge. The initial plan was to retain 68mt after the Birla deal. Unfortunately, the Indian government amended the Mining Act a bit later. With the new policy, mining rights have to be won at auction and can't be simply transferred. And, according to the press since early January, Birla has faced some difficulties in securing the acquisition of the limestone reserves rights, while it was a condition of the deal with LH, as limestone access is essential for a cement plant. One of the solutions suggested by the press would be for LafargeHolcim to directly sell the Lafarge India company as a whole: all assets (plants, brands, mining rights…) included. In that case, limestone reserve rights do not have to be transferred but would stay within the same entity.

Whether LH sells the entire Lafarge India business or not, the Indian CCI new chairman has recently (6 January, CNBC) confirmed that LH has come back with an " alternative proposal", but he wasn't more specific. In any case, some potential buyers for the 11mt have been mentioned by the press, including CRH (BUY, FV EUR30). The EV of the deal is likely to be close to CHF1.5bn, if based on the same EV/tonnes ratio.

We have contacted LafargeHolcim. It admits the process has been delayed but didn't disclosed much details. However, it expects a decision from the CCI in the next couple of weeks. We have contacted CRH as well but it doesn't comment on speculation.

### ANALYSIS

- As far as we understand, we will ignore today what might be the new proposal of LafargeHolcim until we get further details. However, in any case, the current issue underlines how India can be a complex, hard-to-predict country.
- If LH is forced to sell all Lafarge assets in India, then we can't see how "merger" synergies can be generated within India. Nevertheless, LH would in any case remain a strong player in the country, the leader with 62mt of capacity, with only 10% in the South, where utilisation rates are the lowest at c.60%. As a reminder, as a whole, LH got c.375mt of capacity and the first exposure is India.
- CRH has invested in 2015 EUR6.5bn in the LH assets and EUR1.2bn in CRLaurence and the leverage is likely to stand above 3x by the end of 2015 (we have 3.3x) and the target is less than 2.5x at end 2016. Investing EUR1.4bn in a new asset is likely to postpone this objective. Besides, integrated various assets from LH will take time and energy from the management.

### VALUATION

- CHF60 FV derived from the historical multiples application to our 2017e EBITDA, discounted back. Current EV/EBITDA stands at 6.7x 2017e, below c7.5x historical average or European sector ratio.

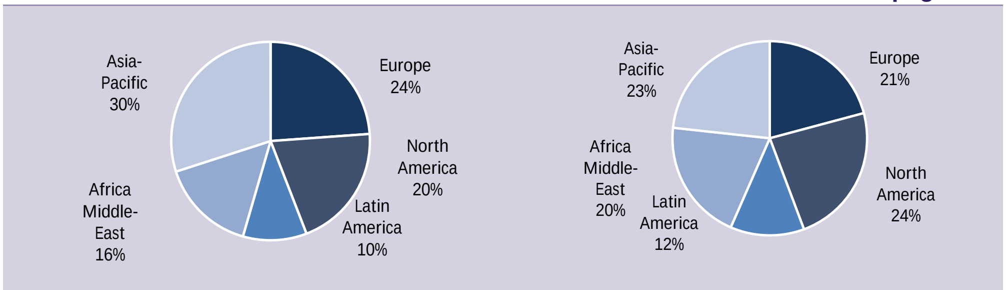
### NEXT CATALYSTS

- FY results on 17 March 2016

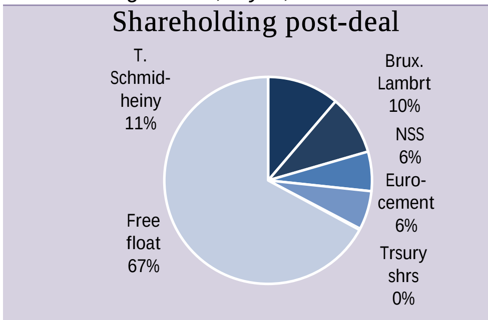
**Key metrics**

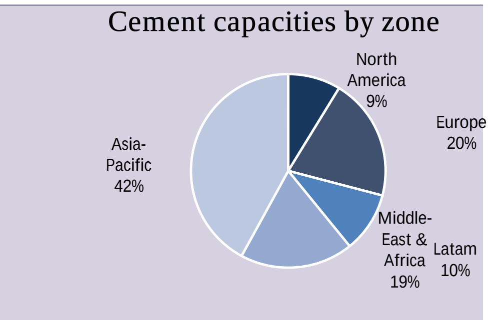
| 2016e Revenues | 2016e EBITDA |
|---|---|

Return to front page

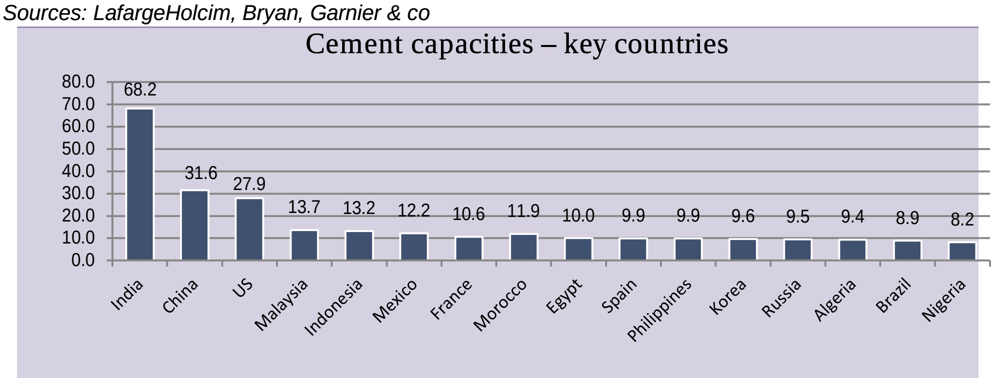



*Sources: LafargeHolcim, Bryan, Garnier & co*




*Sources: LafargeHolcim, Bryan, Garnier & co*




*Sources: LafargeHolcim, Bryan, Garnier & co*

**Valuation multiples**

| BG multiples x | Price* 11/01/16 | Mk. 000 | PE 2015e | 2016e | 2017e | EV/EBIT 2015e | 2016e | 2017e | Div. 2015e |
|---|---|---|---|---|---|---|---|---|---|
| LafargeHolcim (CHF) | 44.84 | 27 214 | 21.7 | 13.7 | 9.8 | 7.8 | 6.7 | 5.5 | 2.9% |
| Vicat | 51.18 | 2 298 | 16.1 | 13.2 | 10.0 | 7.7 | 7.0 | 5.7 | 2.9% |
| CRH | 24.74 | 20 364 | 33.4 | 17.5 | 13.7 | 11.9 | 8.8 | 7.5 | 2.5% |
| HeidelbergCement | 69.00 | 12 966 | 18.1 | 15.0 | 9.8 | 8.4 | 7.3 | 5.9 | 1.6% |
| Saint-Gobain | 36.15 | 20 275 | 16.6 | 13.4 | 10.8 | 7.5 | 6.4 | 5.6 | 3.4% |
| Vinci | 58.09 | 34 183 | 17.8 | 15.9 | 14.4 | 8.3 | 7.5 | 6.8 | 3.0% |
| Eiffage | 57.15 | 5 454 | 17.6 | 15.2 | 12.7 | 9.2 | 8.9 | 8.5 | 2.1% |
| *Cement average* | | | *23.7* | *14.8* | *11.2* | *9.1* | *7.5* | *6.2* | *2.8%* |
| *Building Materials average* | | | *22.3* | *14.9* | *10.8* | *9.0* | *7.2* | *6.2* | *2.5%* |

** in EUR, except LafargeHolcim*

*Source : Bryan Garnier & Co. ests.*

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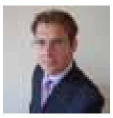

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Business Services

# Sodexo

Price EUR88.82

## Q1 revenue: Strong lfl revenue growth benefiting from the Rugby World Cup

**Fair Value EUR88 (-1%)** **NEUTRAL**

| | |
|---|---|
| Bloomberg | SW FP |
| Reuters | EXHO.PA |
| 12-month High / Low (EUR) | 95.3 / 71.0 |
| Market Cap (EUR) | 13,956 |
| Ev (BG Estimates) (EUR) | 14,333 |
| Avg. 6m daily volume (000) | 274.4 |
| 3y EPS CAGR | 18.1% |

| | 1 M | 3 M | 6 M | 31/12/14 |
|---|---|---|---|---|
| Absolute perf. | -1.5% | 15.1% | 3.0% | 9.3% |
| Travel&Leisure | 0.3% | 5.0% | 1.1% | 15.2% |
| DJ Stoxx 600 | -3.5% | -5.1% | -11.7% | 0.2% |

| YEnd Aug. (EURm) | 08/14 | 08/15e | 08/16e | 08/17e |
|---|---|---|---|---|
| Sales | 18,016 | 19,815 | 20,240 | 20,702 |
| *% change* | | *10.0%* | *2.1%* | *2.3%* |
| EBITDA | 1,229 | 1,396 | 1,499 | 1,592 |
| EBIT | 966.0 | 1,143 | 1,236 | 1,323 |
| *% change* | | *18.3%* | *8.1%* | *7.1%* |
| Net income | 480.8 | 700.0 | 721.3 | 775.2 |
| *% change* | | *45.6%* | *3.0%* | *7.5%* |

| | 08/14 | 08/15e | 08/16e | 08/17e |
|---|---|---|---|---|
| Operating margin | 5.4 | 5.8 | 6.1 | 6.4 |
| Net margin | 2.7 | 3.5 | 3.6 | 3.7 |
| ROE | 15.7 | 19.5 | 23.9 | 18.5 |
| ROCE | 25.6 | 28.6 | 30.0 | 31.1 |
| Gearing | 13.2 | 10.2 | 24.8 | -2.4 |

| (EUR) | 08/14 | 08/15e | 08/16e | 08/17e |
|---|---|---|---|---|
| EPS | 3.17 | 4.60 | 4.85 | 5.21 |
| *% change* | - | *45.4%* | *5.4%* | *7.5%* |
| P/E | 28.1x | 19.3x | 18.3x | 17.0x |
| FCF yield (%) | 3.9% | 5.0% | 4.4% | 4.8% |
| Dividends (EUR) | 1.80 | 2.20 | 2.43 | 2.61 |
| Div yield (%) | 2.0% | 2.5% | 2.7% | 2.9% |
| EV/Sales | 0.8x | 0.7x | 0.7x | 0.7x |
| EV/EBITDA | 11.7x | 10.3x | 9.8x | 8.7x |
| EV/EBIT | 14.9x | 12.5x | 11.9x | 10.5x |


**Q1 consolidated revenue was slightly higher than anticipated reaching EUR5.57bn vs. EUR5.54bn, up 9.6% on reported. Strong lfl revenue growth up 4.7% vs. 3.9% from consensus and our expectation of 3.6%, o/w 50% coming from the RWC, i.e. 2.4% (our forecast was 1.5% and 1.6% for consensus). By segment, there was disappointment regarding Benefits & Rewards Services with lfl revenue growth of 5.3% (8% anticipated) and, in OSS, difficulties in the RoW with lfl growth down 4.2% (-2% anticipated), while NA is still strong, up 2.9%. Following Q1 revenue, Sodexo confirmed its expectation for 2015-16 of lfl revenue growth of around 3% and an increase in operating profit of around 8% excluding currency effects and before exceptional items.**

### ANALYSIS

- **Strong lfl revenue growth in OSS (96.7% of consolidated revenue):** In OSS, total revenue reached EUR5,388m (consensus at EUR5,370m) up 10.3% on reported with lfl revenue growth of 4.7% and a positive currency effect of 5.6%. **Regarding lfl revenue growth**, the spread compared with the forecast was largely explained by the Rugby World Cup representing revenue of EUR131m and explaining 50% of the lfl revenue growth.
    - By geography, **NA** (45% of OSS revenue) was still sustained with lfl revenue growth of 2.9% (2.5% anticipated) while **RoW** (15% of OSS) was down 4.2% on a lfl basis largely impacted by the remote sites' activity (9% of OSS in 2015), lfl excluding remote sites was 6%. **Continental Europe** (28% of OSS) was up 1%, in line with our expectations and UK and Ireland (12% of OSS) was up 47.6% and 17.5% excluding the RWC which was still very strong especially in corporate services, up 21.3%.
    - By segment, Corporate Services (49.9% of OSS) was up 7.5% on lfl basis, o/w 2/3rds was explained by the RWC (Q1 2015 was up 6.1%), Health Care and Seniors (23.3% of OSS) was up 2.7% reflecting some improvement while Education (26.8% of OSS) was still challenging with lfl revenue growth of 1.2%.
- **Disappointed on Benefits & Rewards Services:** in fact, total revenue reached EUR186m in line with our estimate of down 6% mainly due to negative currency effects of 14.4%, but with only 5.3% lfl revenue growth vs. 8% expected impacted by a decline in the number of beneficiaries under existing contracts in LatAm (lfl up 8.9%) and a still challenging economic environment in Europe and Asia (lfl up 1.1%).
- **For fiscal 2016**, Sodexo's objective is for revenue growth of around 3% and an increase in operating profit of around 8% (excluding currency effects and before exceptional items). Our forecast is based on lfl revenue growth of 2.8% with an operating result of EUR1,236m before exceptionals (EBIT margin up 35bps at 6.1%). EBIT is expected to be EUR1,138m after EUR100m of exceptional items due to the new plan for simplification and standardisation. Remember that the measures taken should progressively generate annual savings of around EUR200m between now and 2018 when the full benefit will be realised. The implementation of these initiatives will result in exceptional costs over the next 18 months, which are estimated to be EUR200m.

### VALUATION

- At the current share price, the stock is trading at 11.8x and 10.4x EV/EBIT 2016e and 2017e which compare with median historical of 10.8x and an CAGR EBIT2014-17 of 7.7%. EPS 2015e and 2016e are respectively capitalised 20.0x and 18.5x compared with an CAGR EPS2014-17 of 7.9%

### NEXT CATALYSTS

- Conference call today at 8.30 am (Paris time)
- AGM on 26th January 2016
- H1 results on 14th April 2016

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Sector View

# Food industry

## A spicer dish (NESTLE coverage initiation)

| | 1 M | 3 M | 6 M | 31/12/14 |
|---|---|---|---|---|
| Food & Bev. | -3.4% | 1.3% | -1.7% | 11.3% |
| DJ Stoxx 600 | -4.4% | -6.2% | -12.5% | -0.7% |

*Stoxx Sector Indices

**Companies covered**

| | | | |
|---|---|---|---|
| **DANONE** | | **BUY** | **EUR74 vs EUR69** |
| *Last Price* | EUR58,74 | *Market Cap.* | EUR38,472m |
| **NESTLE** | | **NEUTRAL initiation** | **CHF76** |
| *Last Price* | EUR70,25 | *Market Cap.* | *EUR223,985m* |

**The business environment has deteriorated for major food groups that are facing constant political intervention, an accumulation of regulations and sociological changes. Only 16% of Danone's portfolio is based in high-risk categories (yoghurts sold in Europe excluding CIS). The group has mapped out a specific plan to restore its performance and has set credible financial targets. The first results have been positive. In contrast, Nestlé is not only exposed to risk categories for 25%, but the strong measures implemented by the Swiss group only concern 8% of its sales. This analysis strengthens our positive conviction on Danone. We reiterate our Buy recommendation and have increased our Fair Value to EUR74 mainly to take account of the roll-over of our estimates. We are initiating coverage of Nestlé with a Neutral recommendation and a Fair Value of CHF76.**

### ANALYSIS

- The food industry is the focus of much attention, notably from politicians. Regulations are mounting: taxes on calories, increasingly strict standards in terms of product labelling, advertising etc. The backdrop is less beneficial for major groups, who are also under pressure by certain sociological developments: the ramp-up in e-commerce and online advertising, an increase in away-from-home consumption and above all, the emergence of the Millennial generation. In contrast, some newly created brands are very dynamic. They have managed to make the most of new technologies in order to publicise their products and distribute at a low cost. Above all, they offer products that meet consumer demands as major groups have failed to do.

- The major groups are reformulating their products: reducing the size of portions, reducing salt, sugar and saturated fat levels, or on the contrary adding beneficial ingredients (vitamins and minerals etc.). This approach has its downsides since it involves additional costs, technical obstacles and above all, a possible rejection by consumers who could be disappointed by the resulting taste or worried about the ingredients used as substitutes. An alternative solution for groups is to acquire a small brand (ex: acquisition of Annie's by General Mills in September 2014) in a bid to strengthen their innovative capacity and efficiency, while enhancing their reputation. However, this strategy also carries risks such as the loss of customer confidence, and retaliatory measures by mass-market retailers. In addition, these acquisitions are too small to really make a difference.

- Danone only derives 16% of its portfolio from risk categories, namely those negatively affected by the changes in the food industry we described above. This concerns yoghurts sold in Europe (excluding CIS). The group has mapped out a specific plan to restore their performance and has set credible financial targets. The first results have been positive with a return to growth of Actimel, a stabilisation in trends of Activia and an increase in the gross margin (+130bp in H1 2015 excluding the impact of milk prices). Nestlé is more exposed. We estimate that 25% of its portfolio is at risk, corresponding to sales in western countries of frozen and chilled products, cooking aids, liquid and powdered beverages, confectionary and ice-creams. The strong measures implemented by the Swiss group only concern 8% of its sales: frozen products in the US (5%) and ice-creams/frozen products in Europe (3%). Other initiatives are headed in the right direction, but their impact is minimal (launch of Cailler chocolate) or uncertain (reformulation).

### VALUATION

- This analysis strengthens our positive conviction on Danone. We reiterate our Buy recommendation and have increased our Fair Value to EUR74 in order to take account of the roll-over of our estimates and the 1% increase in our EPS forecasts for the next three years. The Swiss group seems to be facing far larger challenges. Besides, its theoretical upside (+8%, Fair Value of CHF76) is low. So we are initiating coverage of the stock with a Neutral recommendation. Despite the good performance enjoyed over the past three months, Danone's 12m forward P/E only stands at 20.1x (based on a consensus 2.5% lower than our estimates) compared with 20.4x for Unilever and 21.2x for Nestlé (our expectations are 1.6%

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Sector View

# Semiconductors

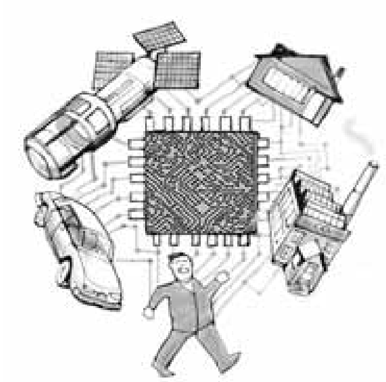
## November global semi sales in line but poor macro index points to weak December data

| | 1 M | 3 M | 6 M | 31/12/14 |
|---|---|---|---|---|
| Semiconductors | -9.5% | -4.2% | -14.7% | -17.0% |
| DJ Stoxx 600 | -4.4% | -6.2% | -12.5% | -0.7% |

*Stoxx Sector Indices

**Companies covered**

| | | | |
|---|---|---|---|
| **ARM HOLDINGS** | | **BUY** | **1310p** |
| *Last Price* | 953p | *Market Cap.* | GBP13,392m |
| **ASML** | | **NEUTRAL** | **EUR76** |
| *Last Price* | EUR75.69 | *Market Cap.* | *EUR32,799m* |
| **DIALOG** | | **NEUTRAL** | **EUR34** |
| *Last Price* | EUR26.654 | *Market Cap.* | *EUR2,075m* |
| **INFINEON** | | **BUY** | **EUR15** |
| *Last Price* | EUR12 | *Market Cap.* | *EUR13,551m* |
| **SOITEC** | | **NEUTRAL** | **EUR0.8** |
| *Last Price* | EUR0.63 | *Market Cap.* | *EUR146m* |
| **STMICROELECTRONICS** | | **SELL** | **EUR6.8** |
| *Last Price* | EUR5.73 | *Market Cap.* | *EUR5,220m* |

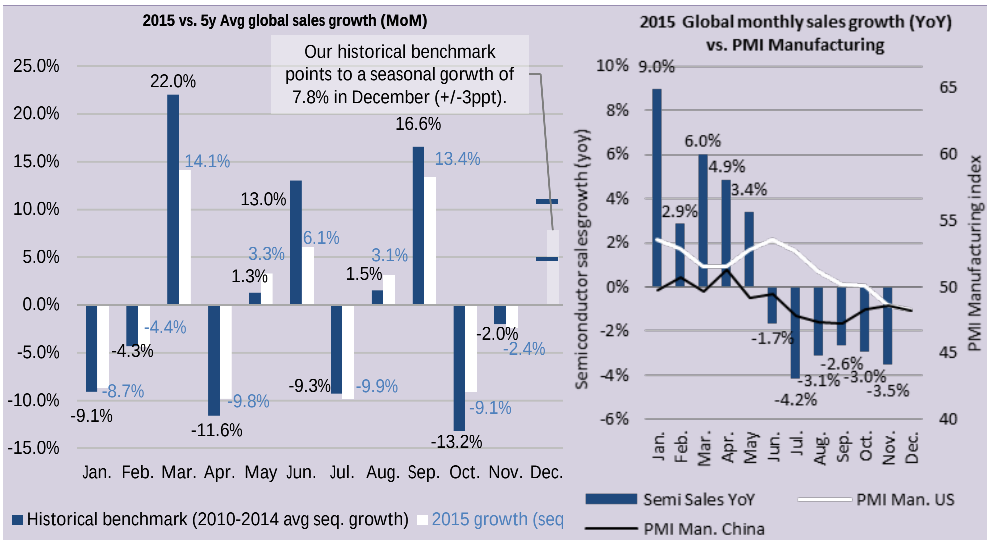


**November WSTS data points to overall global semiconductor sales of USD27.5bn, down 2.4% sequentially (-3.5% YoY). This is broadly in line with our benchmark based on 5-y historical data of -2.0% MoM. We continue to expect a flat year of growth, i.e. 2015 global sales at USD336bn. December's PMI index remains weak in both the US and China. As a result, we would recommend a cautious stock-picking until the economic index points to an improving macro-economic situation. In other worlds, we would prefer stock with solid fundamentals rather than value stocks.**

### ANALYSIS

- **Global semiconductor sales continue to decrease on a yoy basis with November sales at USD27.5bn, down 3.5% yoy.** On a sequential basis, November's global sales came out at USD27.5bn, down 2.4% compared to October's sales. This is broadly in line with our benchmark based on 5-y historical data showing an historical seasonal decline of 2.0% in November vs. October. Based on the visibility we now have, our feeling is similar to the one we had a month ago, i.e. the short-term momentum will remain weak for the semi industry. In addition, the current poor macro economy index puts pressure on our expectation of a rebound during Q1-16.
- **All regions, including Asia, show a decrease in sales on a yearly basis.** Indeed, November's sales in Asia, which represent c. 60% of semiconductor sales (of which ~50% are made in China), were down by 0.7% yoy. This was the second time in 2015 that Asian sales were down (July's sales in Asia were down by 1.1% yoy). US and European sales were both down by 7.9% and 8.4% yoy in November respectively. On a more positive note, Japanese sales were down by "only" 5.1% yoy in November while monthly down by more than 11% yoy on average since the start of 2015.
- **December and beyond: December expected to be weak, 2015 to be flat.** We expect global December sales to be close to USD28.7bn, up +4.3% sequentially (vs. historical data pointing to a growth of +7.8% seq. in December) but down 4.0% on a yearly basis. As a result, 2015e sales should end at USD336.2bn, up +0.1% yoy. Recently, smartphone market momentum has proven to be particularly weak, especially for the Apple supply chain which had benefited from a strong resistance so far. We continue to foresee the end of the inventory adjustments impacting Q4-15 momentum in the Automotive and Industrial sectors during Q1-16. Finally, we do not expect a further decrease for the PC segment. December ISM data were negative with the US PMI Manufacturing index indicating a continuous slowdown to 48.2 from 48.6 in November (12m high at 53.5 in June). December's production index bounced back to 49.8 after a sharp decrease from 52.9 to 49.2 in October, and the Inventories Index stuck at a very low level of 43.5. Chinese data were also disappointing with Markit PMI Manufacturing down to 48.2 from 48.6 (was at 51.3 in April 2015). Overall, we keep our November comment: macro data are not particularly supportive and our feeling is that the short-term momentum remains weak.

**November sales are in line with seasonal but macro indices remain weak.**




*Sources: WSTS; Bryan Garnier & Co.*

## VALUATION

**Standard deviation on 2016e P/E valuation between different sectors have been reduced during December.** Our semiconductor valuation table highlights the valuation differences of the 6 sub-sectors of the industry. On average, IP & EDA vendors, and Semiconductor Equipment makers have the highest valuation metrics with an average 2016e P/E ratio of 19.6x and 17.8x respectively (down from 21.8x and 19.6x a month ago). Conversely, Foundries have the lowest valuation with an average 2016e P/E ratio of 11.9x (down from 13.1x a month ago).

**BG semiconductor sub-sectors valuation table**

| | 2016e | | | |
|---|---|---|---|---|
| | EV/Sales | EV/EBITDA | EV/EBIT | P/E |
| Fabless (15) average | 2.8x | 9.8x | 12.4x | 16.2x |
| Logic & Analog IDM (17) average | 3.0x | 9.9x | 14.6x | 16.4x |
| Memory IDM (4) average | 0.9x | 3.5x | 11.8x | 13.4x |
| Foundry (5) average | 1.5x | 4.2x | 12.4x | 11.9x |
| Semiconductor Equipment & Materials (11) average | 2.3x | 2.2x | 8.0x | 17.8x |
| Intellectual Property & EDA (10) average | 4.7x | 15.5x | 19.7x | 19.6x |

*Numbers between brackets represent the number of companies in each category; green/red numbers are higher/lower data per ratio.*

*Sources: Thomson Reuters I.B.E.S.; Bryan Garnier & Co.*

## NEXT CATALYSTS

- December 2015 SIA global billing reports, expected for early February.

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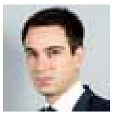

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Healthcare

# GlaxoSmithKline

Price 1,364p

| | |
|---|---|
| Bloomberg | GSK LN |
| Reuters | GSK.L |
| 12-month High / Low (p) | 1,642 / 1,238 |
| Market Cap (GBPm) | 66,400 |
| Avg. 6m daily volume (000) | 8 047 |

| | 1 M | 3 M | 6 M | 31/12/14 |
|---|---|---|---|---|
| Absolute perf. | 5.1% | 4.4% | -0.5% | -0.9% |
| Healthcare | -1.9% | -0.6% | -9.4% | 8.1% |
| DJ Stoxx 600 | -3.5% | -5.1% | -11.7% | 0.2% |

| | 2014 | 2015e | 2016e | 2017e |
|---|---|---|---|---|
| P/E | 14.3x | 18.3x | 16.2x | 14.7x |
| Div yield (%) | 5.9% | 5.9% | 5.9% | 5.9% |

## Advair's generic threat more material now

**Fair Value 1540p (+13%)** **NEUTRAL**

### ANALYSIS

- Although Sandoz (Novartis group), which has long appeared as the main threat to GSK's Advair as the one which could get a generic version of the drug approved the fastest, has always been quiet about timings and progress, Mylan yesterday confirmed that it has filed an ANDA to get its own generic version of Advair approved by the FDA.
- Advair's generic risk is a very long story and a bit like with biosimilars, GSK has nothing but gained time to this meaningful outcome for its pharmaceutical business. That said, it has not prevented the drug from decreasing sharply in sales over the last couple of years. In the US, Advair went down by 25% in 2014 and should have another negative year in 2015 of close to 20%. In two years, GSK desensitised a lot from its biggest product whose sales went from GBP5,274m to GBP3,65m (e), with half of it in the US. This was a reflection of competition in the class, the internal resource shift in favour of Breo and price pressures in general. The result is that its weight went down from 20% of GSK's total sales to 15% from 2013 to 2015.
- Because it has always been difficult to say when competition would come, GSK included some form of generic competition starting in 2017 to form its medium-term guidance of high single-digit EPS growth by 2018. As a reminder, most will come from the benefits of the integration of Novartis's former vaccines and CHC businesses and to a lesser extent from the rejuvenation of the portfolio (Breo, Anoro, ViiV, Nucala) and some cost-cutting measures.

### VALUATION

- There can still be a long way from filing to approval for a complex drug like Advair but it is reasonable now to assume that generic competition might start sometime in 2017 from Mylan and maybe from Sandoz too.
- Currently, we plan erosion in Advair sales by 25%, 30% and 50% from 2017 to 2019. Although it might be slightly worse, we stick to this scenario for the time being. Obviously, sentiment will be hurt more than numbers as we do not expect major cuts.
- We still believe that GSK is close to a turnaround point. The upside to our FV is too limited however to have a BUY recommendation.

### NEXT CATALYSTS

- 3 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 58.5% NEUTRAL ratings 32.3% SELL ratings 9.2%

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