BRYAN, GARNIER & CO

INDEPENDENT RESEARCH

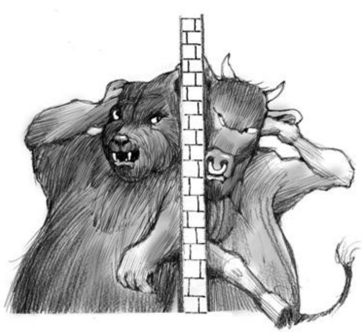
11th January 2016

Top Picks

Top Picks Q1 2016

Top Picks

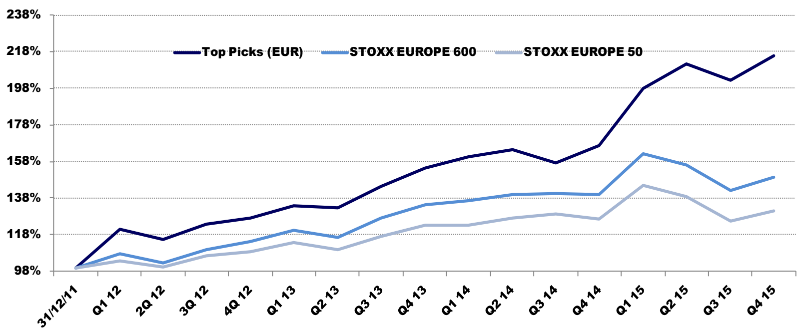
ACCORHOTELS		**BUY**	**EUR53**
Last Price	EUR38.6	*Market Cap.*	EUR9,083m
ACTELION		**BUY**	**CHF166**
Last Price	CHF139.1	*Market Cap.*	CHF15,875m
AHOLD		**BUY**	**EUR21**
Last Price	EUR19.565	*Market Cap.*	EUR16,325m
ALLIANZ		**BUY**	**EUR195**
Last Price	EUR156.5	*Market Cap.*	EUR71,521m
ASTRAZENECA		**BUY**	**5550p**
Last Price	4562p	*Market Cap.*	GBP57,669m
ATOS		**BUY**	**EUR94**
Last Price	EUR76.17	*Market Cap.*	EUR7,866m
AXA		**BUY**	**EUR32**
Last Price	EUR24.345	*Market Cap.*	EUR59,026m
BONE THERAPEUTICS		**BUY**	**EUR29**
Last Price	EUR19.905	*Market Cap.*	EUR136m
ELIOR		**BUY**	**EUR23.5**
Last Price	EUR18.92	*Market Cap.*	EUR3,260m
ESSILOR		**BUY**	**EUR131**
Last Price	EUR112.85	*Market Cap.*	EUR24,423m
GENMAB		**BUY**	**DKK1170**
Last Price	DKK925	*Market Cap.*	DKK54,873m
HEIDELBERGCEMENT		**BUY**	**EUR85**
Last Price	EUR73.93	*Market Cap.*	EUR13,893m
MELIA HOTELS		**BUY**	**EUR15**
Last Price	EUR11.815	*Market Cap.*	EUR2,352m
PERNOD RICARD		**BUY**	**EUR122**
Last Price	EUR102	*Market Cap.*	EUR27,073m
SABMILLER		**BUY**	**4400p**
Last Price	4070p	*Market Cap.*	GBP65,938m
SUEZ		**BUY**	**EUR19**
Last Price	EUR17.03	*Market Cap.*	EUR9,241m
WIRECARD		**BUY**	**EUR52**
Last Price	EUR45.625	*Market Cap.*	EUR5,634m
WORLDLINE		**BUY**	**EUR29**
Last Price	EUR23.51	*Market Cap.*	EUR3,102m



This is the first volume of our quarterly 'Top Picks' for 2016. This list is not intended to be a model portfolio but simply reflects a pure stock-picking exercise in our coverage universe. It reflects a biais towards themes that we believe fit best with the current uncertain market environment: self-helped businesses, solid organic growth, earnings momentum and shareholders' return.

- We have experienced a challenging market environment in Q4 2015, with a high volatility level. In this context, the performance of our list has been decent, at +6.6%, 140bps better than the market. Since the creation of our list at the beginning of 2012, our cumulative performance has been +115.9% vs. +49.6% for the Stoxx600.
- For Q1 2016, our hypothesis for valuation modelling have remained unchanged, with a 2.0% risk-free rate and a 6.4% equity risk premium.
- The financial environment remains favourable in Europe, with among others the accommodative monetary policy of the ECB and the low Euro. But several critical uncertainties have clouded the global picture, including i/ the situation in China and its impact on emerging and global economies and markets, ii/ the outcome of the current oil market crisis, and iii/ the sustainability of current 2016-2017 earnings' expectations.
- Our Q1 2016 list contains 18 stocks, which is pretty high compared to previous quarters but consistent with our growing coverage (128 stocks at end-2015). Yet we do not intend to deviate from our strategy and continue focusing on our strongest convictions to seek absolute performance, which is the reason why there is no representative from Luxury or Semis sectors.

This document is a compilation of the notes written to update our Top Pick list



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see the section headed "Important information" on the back page of this report.

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Our top picks for 1Q 2016 are

Changes :

+ACCORHOTELS
+ACTELION
+AHOLD
+ALLIANZ
+ASTRAZENECA
+BONE THERAPEUTICS
+ELIOR
+ESSILOR
+GENMAB
+HEIDELBERGCEMENT
+PERNOD RICARD
+SUEZ
+WORLDLINE

-ALBIOMA
-FRESENIUS MED CARE
-INGENICO
-INNATE PHARMA
-ROCHE HOLDING

Fig. 1: Valuation ratios: 1Q 2016 Top Picks

	Market Cap.	EV/EBIT(x)		PER (x)		RDT (%)			
	(EUR)	2015e	2016e	2015e	2016e	2015e	2016e	Reco	FV
ACCORHOTELS	8 712	13.3	12.1	20.3	20.0	2.2%	2.7%	BUY	53.00
ACTELION	15 225	22.7	25.1	22.2	24.3	1.0%	1.0%	BUY	166.00
AHOLD	16 170	14.1	12.4	19.8	17.4	2.6%	2.7%	BUY	21.00
ALLIANZ	69 373	-	-	10.3	10.4	4.8%	4.8%	BUY	195.00
ASTRAZENECA	54 977	25.2	17.4	16.0	16.7	4.1%	4.1%	BUY	5550.00
ATOS	7 467	7.5	6.1	12.8	10.5	1.2%	1.5%	BUY	93.00
AXA	56 359	-	-	9.6	9.3	4.7%	5.1%	BUY	32.00
BONE THERAPEUTICS	129	3.8	1.6	-	-	0.0%	0.0%	Corp.	29.00
ELIOR	3 064	14.3	12.7	22.4	15.7	1.8%	2.2%	BUY	23.50
ESSILOR	24 012	21.1	19.1	30.3	27.2	1.0%	1.9%	BUY	131.00
GENMAB	52 114	NM	NM	NM	NM	NM	NM	BUY	1170.00
HEIDELBERGCEMENT	13 041	12.3	10.8	18.9	14.3	1.6%	2.2%	BUY	86.00
MELIA HOTELS	2 230	15.2	13.0	29.5	24.6	0.5%	0.6%	BUY	15.00
PERNOD RICARD	26 319	14.8	14.0	17.9	16.7	2.0%	2.2%	BUY	122.00
SABMILLER	65 371	24.9	23.2	29.8	27.7	1.9%	2.1%	BUY	4400.00
SUEZ	9 030	15.7	15.4	22.3	17.8	3.9%	3.9%	BUY	19.00
WIRECARD	5 593	25.6	19.0	34.1	24.8	0.3%	0.3%	BUY	52.00
WORLDLINE	2 915	13.9	12.2	23.3	21.9	0.0%	1.1%	BUY	29.00

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

Fig. 2: Dividend payments: 1Q 2016 Top Picks

Top Picks	Ex-Dividend date	Amount

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

Our Top Picks are updated and published every quarter.

Top picks for 4Q 2015 performances

	4Q 2015 perf.		incl. Div.	
	Euro	**Local Ccy**	**Euro**	**Local Ccy**
ACTELION (~E)	13.2%	12.9%	12.9%	12.9%
ALBIOMA (~E)	0.4%	0.4%		
AXA (~E)	16.6%	16.6%	16.6%	16.6%
ESSILOR INTL. (~E)	12.2%	12.2%	12.2%	5.6%
FRESENIUS MED.CARE (XET) (~E)	11.3%	11.3%		
BOSS (HUGO) (XET) (~E)	-7.7%	-7.7%		
INGENICO GROUP (~E)	8.1%	8.1%	8.1%	-23.7%
INNATE PHARMA (~E)	1.0%	1.0%	1.0%	1.0%
MELIA HOTELS INTL. (~E)	-2.1%	-2.1%	-2.1%	-2.1%
ROCHE HOLDING (~E)	7.9%	7.5%	7.5%	-2.1%
SABMILLER (~E)	8.87%	8.90%	9.40%	7.5%
WIRECARD (XET) (~E)	8.89%	8.89%	8.9%	8.9%
4Q 2015* Top picks average Perf.	**6.55%**	**6.55%**	**6.60%**	**6.60%**
STOXX EUROPE 600	5.19		5.58	
STOXX EUROPE 50	4.15		4.63	

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

**calculation based on the opening prices of the day the stock has been removed.*

Essilor : 18/11/15

HUGO BOSS : 16/10/15

Healthcare : A more challenging 2016 for healthcare stocks? Three new names in the “Top Pick List”

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

*Stoxx Sector Indices

Companies covered

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

LOOKING BACK ON 2015

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

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

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

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

WHAT WE SEE FOR Q1 2016

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

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

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

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

CONCLUSIONS AND TOP PICKS

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

Stock prices as at close of 4th January 2016

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

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

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

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

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Business Services : Top pick Q1 2016 : Elior

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

*Stoxx Sector Indices

Companies covered

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

Stock prices as at close of 4th January 2016

LOOKING BACK ON Q4 2015

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

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

For the FY, the great disparity between stocks is **Elior** which registered the best performance, up over 56.9% (+46.9% vs. DJ Stoxx). **Sodexo** and **Compass Group** registered approximately the same performances (+10.9% and 12.4% respectively in absolute terms) and **Edenred** the worse, down 24% in absolute terms and -28.8% vs. the DJ Stoxx.

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

WHAT WE SEE FOR Q1 2016

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

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

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

Short term uncertainties with lack of visibility should continue to weigh on TIC performances during the first quarter. Regarding **Bureau Veritas**, after our downgrade (too late…) last November, remember that we had based our forecast on 1.8% lfl revenue growth for the FY 2015 which implies -0.5% in Q4 and regarding 2016, it is difficult to be more positive and we assume lfl growth is lower than in 2015 at 1.6% with negative numbers during the 2016 first two quarters.

We have maintained our buy recommendation on **SGS** even if the short term is also challenging with nevertheless less volatility regarding lfl revenue growth or results with a better balance between geographies or businesses.

CONCLUSIONS AND TOP PICKS

Elior (Buy, FV EUR23.5)

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

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

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

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

NEXT CATALYSTS

Sodexo: Q1 2015-2016 revenue on 13th January

SGS: FY 2015 results on 20th January

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

Edenred: FY 2015 results on 11th February

Bureau Veritas: FY 2015 results on 25th February

Elior: Q1 2015-2016 results on 26th February

Sodexo main adjustments

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

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

Compass Group main adjustments

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

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

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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**	**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**

Stock prices as at close of 5th January 2016

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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Luxury & Consumer Goods : 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*	SELL vs. NEUTRAL	DKK485 vs. 519
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

Stock prices as at close of 5th January 2016

*changed 11th January 2016

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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Construction & Materials : TOP PICKS Q1 2016 :HeidelbergCement (FV updated to EUR86 vs EUR85) as a new Top Pick.

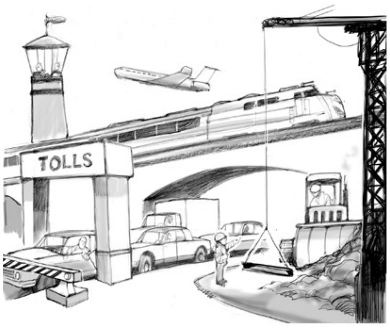
	1 M	3 M	6 M	31/12/14
Cons & Mat	-3.7%	0.6%	-1.0%	12.6%
DJ Stoxx 600	-4.4%	-1.7%	-6.4%	3.4%

*Stoxx Sector Indices

Companies covered

CRH		**BUY**	**EUR30**
Last Price	EUR25.76	*Market Cap.*	EUR21,203m
EIFFAGE		**BUY**	**EUR63**
Last Price	EUR58.65	*Market Cap.*	*EUR5,597m*
HEIDELBERGCEMENT		**BUY**	**EUR85**
Last Price	EUR72.56	*Market Cap.*	*EUR13,635m*
LAFARGEHOLCIM		**SELL**	**CHF60**
Last Price	CHF47.58	*Market Cap.*	*CHF28,877m*
SAINT GOBAIN		**NEUTRAL**	**EUR42**
Last Price	EUR38.095	*Market Cap.*	*EUR21,368m*
VICAT		**NEUTRAL**	**HKD64**
Last Price	EUR53.25	*Market Cap.*	*EUR2,391m*
VINCI		**NEUTRAL**	**EUR65**
Last Price	EUR57.71	*Market Cap.*	*EUR34,615m*

Stock prices as at close of 6th January 2016



LOOKING BACK ON Q4 2015

The last quarter of 2015 was a very contrasting one for Construction & Materials stocks. Vinci's and Eiffage's share prices have performed well in absolute terms (+4.3% and +7.6%, respectively) but faded a bit compared to Q3 (+9.3% and +10.8%, respectively, in absolute terms). The two stocks have benefited from the end of the order intake deterioration in France for roadworks and from the steady traffic trends on toll roads but have been gradually penalised by a more demanding valuation.

Building materials companies' share price performances have been particularly contrasting. While both CRH and HeildelbergCement have rebounded in Q4 after a poor Q3 (+13% and +23%, respectively), LafargeHolcim and Vicat have continued to be under pressure (-1.5% and -0.9%, resp.), while Saint-Gobain was slightly up (+2.9%) in Q4. CRH has benefited from a sound performance in the US (H1 EBITDA +30% lfl for the Americas zone) but LafargeHolcim has been penalised, we believe, by its emerging markets' exposure (60% of pro-forma revenues). Finally, worries regarding the French renovation market in the residential segment have taken its toll on Saint-Gobain.

WHAT WE SEE FOR Q1 2016

On one side, the weather has been mild in Q4 2015 and the results will benefit from this. HeidelbergCement's CEO has recently underlined that he expected strong November and December trends thanks to a favourable weather impact. On the other, we are expecting contrasting trends from the emerging markets, either impacted by recession (Brazil), geopolitical tension (Russia, Middle-East) oil prices (Africa, Middle-East) or macro slowdown (China). We need to understand in particular what the extent of the impact of the Chinese slowdown on the rest of the emerging world might be. As a reminder, the risk of Chinese exports pressure in the Asian region looks modest but Vietnam's National Cement Association declared at end December that "*Vietnamese cement makers have been facing fierce competition from China*". We ignore this if this reflects any break in trends but, in any case, visibility looks poor.

CONCLUSIONS AND TOP PICKS

HeidelbergCement (Buy, FV EUR86 vs EUR85)

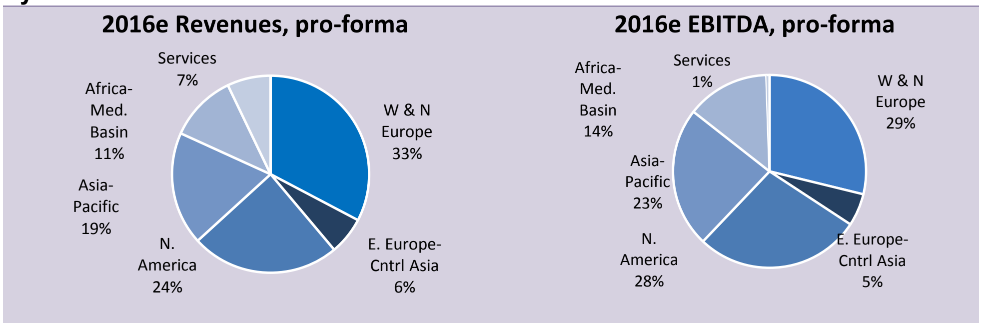
2016 is likely to be a good year for HeidelbergCement's share price, as the group should benefit from numerous positive newsflows and catalysts.

First, the German management will without doubt regularly communicate on the acquisition process of Italcementi. Recently, CEO Bernd Scheifele lifted the synergies target from the deal from EUR300m (which is actually the top of a EUR275-300m range, of which EUR215-230m regards EBITDA) to EUR400m. Further details will be communicated, presumably in Q1 (FY release is expected on 17 March), but we have already updated our valuation with the new guidance. Hence, our FV is lifted to EUR86 with EUR300m synergies targeted at the EBITDA level vs EUR230m previously).

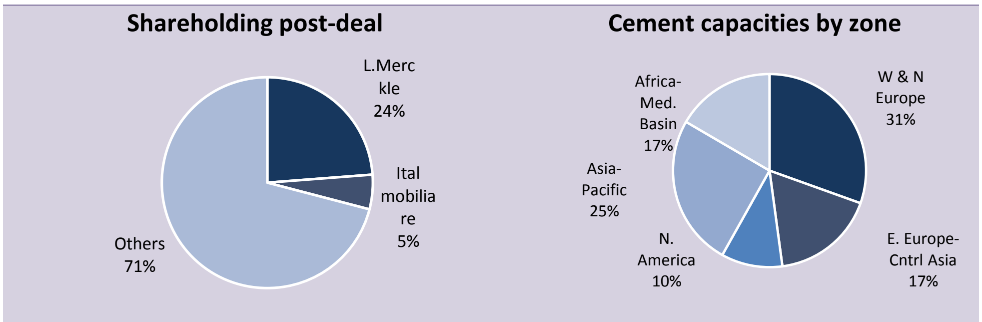
Secondly, we view the Italcementi deal as a very attractive one: **1)** there is a good geographical fit between the two footprints, with limited overlap (except Belgium and US), **2)** no specific governance risks contrary to the Lafarge-Holcim deal, as it is a proper and friendly bid with a straightforward change of control of the Italian company; **3)** timing and multiples are fine. It is better to acquire Italcementi now, which generated less than EUR650m of EBITDA in 2014 vs almost EUR1.5bn in 2006 at less than 8x EV/EBITDA 2016e, than, for instance, Hanson in 2007 at more than 12x; **4)** some countries acquired are presumably very close to their trough, in particular Spain (80% below, 3.2mt of cement acquired), Italy (50% below peak, 12.5mt acquired), France (30% below, 11.9mt acquired included Belgium) or Morocco (16% below peak, 5.5mt acquired with Mauritania); **5)** debt will stay reasonable (EUR8bn targeted post-disposal, to compare with EUR8.6bn forecasted by end 2016e, i.e. 2.5x the EBITDA). Thirdly, the footprint is attractive, with a decent exposure to North America

(~28% EBITDA 2016e) and reasonable exposure to emerging markets (~43%) with no exposure to LatAm, and Indonesia's weight to be reduced from ~19% of the EBITDA to ~13% thanks to the Italcementi deal. Finally, the valuation is fine with 2017e EV/EBITDA at 6.0x vs more than 7.5x historically and the sector close to 6.5x (consensus). Yield is not bad at ~2% for the dividend to be paid in 2016 and 7.9% for FCF 2017e.

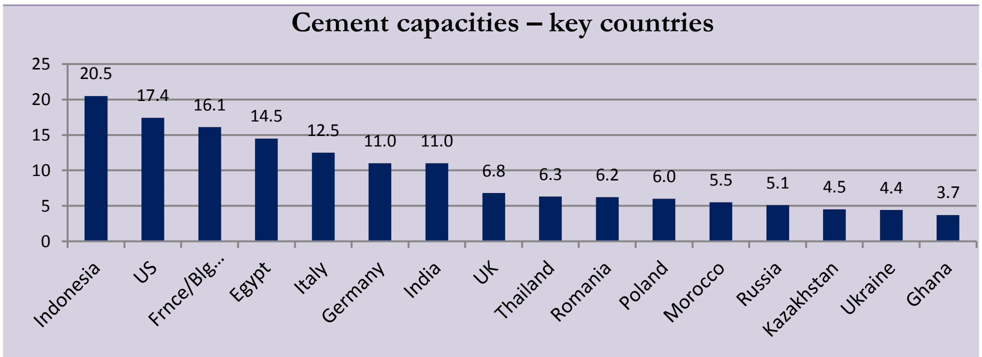
Key metrics



Sources: HeidelberCement, Italcementi, Bryan, Garnier & co



Sources: HeidelbergCement, Italcementi, Bryan, Garnier & co



Sources: HeidelbergCement, Italcementi, Bryan, Garnier & co

Valuation multiples

BG multiples x	Price* 06/01/1	Mk. cap. 000	PE 2015e	2016e	2017e	EV/EBITDA 2015e	2016e	2017e	Div. 2015e
LafargeHolcim (CHF)	47.58	28 877	23.1	14.5	10.4	8.0	6.9	5.7	2.7%
Vicat	53.25	2 391	16.7	13.7	10.4	7.9	7.2	5.9	2.8%
CRH	25.78	21 220	34.8	18.2	14.3	12.3	9.0	7.7	2.4%
HeidelbergCement	72.56	13 635	19.0	15.8	10.3	8.7	7.5	6.1	1.5%
Saint-Gobain	38.10	21 368	17.5	14.1	11.3	7.8	6.7	5.8	3.3%
Vinci	57.71	34 615	17.6	15.8	14.3	8.4	7.6	6.9	3.1%
Eiffage	58.65	5 597	18.1	15.6	13.0	9.2	8.9	8.5	2.0%
Cement average			*24.9*	*15.5*	*11.7*	*9.4*	*7.7*	*6.4*	*2.7%*
Building Materials average			*23.4*	*15.6*	*11.4*	*9.2*	*7.7*	*6.4*	*2.4%*

** in EUR, except LafargeHolcim*

Source : Bryan Garnier & Co. ests. Click here to download

Hotels : Top picks Hotels: Again Melia Hotels + Accor Hotels

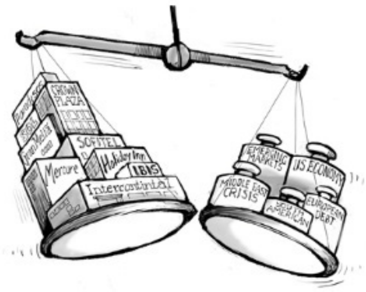
	1 M	3 M	6 M	31/12/14
Travel&Leisure	-0.1%	9.1%	5.1%	19.6%
DJ Stoxx 600	-4.8%	5.7%	-5.5%	6.8%

*Stoxx Sector Indices

Companies covered

ACCORHOTELS		**BUY**	**EUR53**
Last Price	EUR36.68	*Market Cap.*	EUR8,631m
InterContinental Hotels		**NEUTRAL**	**2650p**
Last Price	2538p	*Market Cap.*	*GBP5,993m*
MELIA HOTELS		**BUY**	**EUR15**
Last Price	EUR11.415	*Market Cap.*	*EUR2,272m*
KORIAN		**SELL**	**EUR38**
Last Price	EUR33.065	*Market Cap.*	EUR2,627m
ORPEA		**BUY**	**EUR76**
Last Price	EUR74.31	*Market Cap.*	*EUR4,463m*

Stock prices as at close of 6th January 2016



LOOKING BACK ON Q4 2015

The two main European hoteliers underperformed during Q4 while **IHG** benefited from better Q3 results despite high comps in Americas (65% of total number of rooms).

In fact, **IHG** was up 16.4% in euros in absolute terms (+10.6% compared with the DJ Stoxx) while **Accor Hotels** reported the worse performance, down 4.2% in absolute terms and -8.9% vs. the DJ Stoxx which was largely due to the November 13th terrorist attacks. And nearly the same negative performance for **Melia Hotels,** down 2.1% and 7% vs. the DJ Stoxx, which was impacted by political uncertainties (IBEX was down during Q4) and despite sustained economic and financial results.

During FY2015, **Melia Hotels** reported definitely the best performance up 37.5% in absolute term compared with +7.1% for **Accor Hotels** and 2.4% for **IHG**.

In **Dependence care**, **Orpea** (+3.8%) slightly outperformed **Korian** (flat) in Q4, impacted by the decision of the Board of Directors on 19th November to remove Yann Coléou with immediate effect and to appoint of Sophie Boissard, who will take up her position on 26th January 2016. During FY2015, **Orpea** significantly outperformed **Korian**, respectively up 42.2% and 11.5%.

WHAT WE SEE FOR Q1 2016

The Hotel industry is in good shape and the fundamentals remain strong especially in **Europe** with a favourable balance between supply-demand and RevPAR still significantly lower than the previous peak.

The Dependence care sector should continue to confirm its resilience with companies having dynamic growth strategies abroad. Regarding **Korian**, we are confirming our sell opinion after the Board's decision to remove Yann Coléou at the end of November and await the arrivals of the new CEO at the end of January and the new CFO (the name should be announced shortly) announced for 1st March 2016.

CONCLUSIONS AND TOP PICKS

We add **Accor Hotels** to our top pick list. Beyond challenging short-term trading due to the November 13th terrorist attacks in Paris (France generates 30% of consolidated EBIT o/w 60% coming from Paris/Ile de France), we estimate that the current valuation represents a good entry point.

Firstly, based on Accor Hotels' EBIT sensitivity (1% RevPAR decrease explained 50/50 by occupancy and rate having an impact of EUR19m), the share price decrease of 7% since the attacks, should imply a lower RevPAR of 3%pt, i.e. c.10% in France or over 20% in Paris/Ile de France compared with nearly 5% anticipated for the group in 2016, a FY impact which seems to us excessive (RevPAR in France was down 2.7% in November and COP 21 should have a positive impact on December). Secondly, beyond the HotelInvest transformation which is well engaged, the signing of an agreement for the acquisition of FRHI (closing scheduled by the end of H1 2016) represents a major move with a network perfectly complementary with that Accor Hotels and a deal that should be accretive on 2017e. Thirdly, taking even longer than anticipated, the group should finalise the deal with China Lodging with is another significant development for the group. Finally, at the current share price and taking into account our hypotheses, i.e. the integration of FRHI on a FY basis in 2016, the stock is trading at 10.3x EV/EBITDA 2015e and 9.5x 2016e which compares with an average European peers' valuation of respectively 9.9x and 9.0x.

We are confirming **Melia Hotels** on the list. The FY 2015 results, which will be released at the end of

February, should be outstanding, notably sustained by the recovery in Spain. Remember that following the strong Q3 results and bookings for Q4, management upgraded in early November its expectation for the full year to double-digit RevPAR growth from a high single-digit (RevPAR in Spain representing nearly 50% of the total number of rooms was up 12.4% at the end of November). Moreover, the convertible bond (which continues to generate volatility on the share price) should be forced by April 2016 and along with the preference share (EUR76m at 7.8%) ending in June, financials won't be an issue for a while and should give Melia new development opportunities.

NEXT CATALYSTS

Accor Hotels: FY results on 18th February

Melia Hotels: FY results at the end of February

IHG: FY results on 23rd February

Korian: FY 2015 revenue on 10th February (after closing)

Orpea: FY 2015 revenue on 10th February (before opening)

Click here to download

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.	-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

Stock prices as at close of 7th January 2016

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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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*

Stock prices as at close of 7th January 2016

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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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%

Research Disclosure Legend

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2	Issuer shareholding in Bryan Garnier	The Issuer has a shareholding that exceeds 5% of the paid up and issued share capital of one or more members of the Bryan Garnier Group.	No
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