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2nd February 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	16449.18	-0.10%	-7.71%
S&P 500	1939.38	-0.04%	-5.81%
Nasdaq	4620.37	+0.14%	-2.44%
Nikkei	17750.68	-0.64%	+2.38%
Stoxx 600	341.61	-0.19%	-0.27%
CAC 40	4392.33	-0.56%	+2.80%
Oil /Gold			
Crude WTI	31.42	-6.74%	-41.62%
Gold (once)	1126.75	+0.86%	-5.02%
Currencies/Rates			
EUR/USD	1.08935	+0.67%	-9.97%
EUR/CHF	1.1086	-0.01%	-7.80%
German 10 years	0.358	+34.77%	-33.78%
French 10 years	0.68	+3.79%	-18.86%

Economic releases :

Date	
2nd-Feb	DE - Unemployment rate (6.3% E) JP - Monetary Base Jan. (28.9% A) EUZ - Unemployment rate Dec. (10.5% E) US - ISM New York Jan.

Upcoming BG events :

Date	
4th-Feb	QIAGEN (BG Paris With CFO, IR)
9th-Feb	Déjeuner Sectoriel Paiements (BG Paris Lunch)
18th-Feb	INNATE (BG Paris roadshow with CEO)
2nd-Mar	ALBIOMA (BG Paris Lunch CEO)
10th-Mar/ 11th-Mar	BG TMT Conference
15th-Mar	ABLYNX (BG Paris roadshow with CEO)

Recent reports :

Date	
1st-Feb	An aisle-end stock, but not a bargain
27th-Jan	GSK : A balanced story with most risks now behind us
25th-Jan	BioTechnology Last mark down on biotech!
20th-Jan	SAINT GOBAIN : France likely to be a positive catalyst in 2016
19th-Jan	The wild child comes of age: thank you Orange!
15th-Jan	QIAGEN : Leverage would have to wait

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

EDF — BUY vs. NEUTRAL, Fair Value EUR14.5 (+23%)

There is a captain on board!

EDF is among the European integrated utilities that have suffered the most since 2008, for good reasons (strong decline in French power prices combined with significant political uncertainty concerning Areva). Since the beginning of the year, the downside spiral has continued with the stock dropping 13% while the SX6P index has only lost 1.1%, as French forward prices have fallen further to EUR30/MWh (>EUR65/MWh in 2008). The fact that EDF is in trouble is no news. However, at the current share price we consider the market is over-reacting and has factored in French power prices of EUR22/MWh, well below the current price. We have adjusted our model to include the latest market prices and still find upside. As such we have upgraded our recommendation to Buy (vs. Neutral). Our FV now stands at EUR14.5/share implying >20% upside to the current share price. All has a price, even EDF.

INFINEON — BUY, Fair Value EUR15 (+21%)

Higher than expected Q1 2016 results, Q2 likely to be soft but FY16 guidance confirmed

Infineon has reported Q1 2016 results slightly above consensus expectations and company guidance. Q1 sales came in at EUR1.556bn down 2.6% sequentially, with current operating margin at 14.1%, current operating result at EUR220m and EPS at EUR0.17. This was above consensus expectations with sales estimates at EUR1.504bn, current operating result at EUR207m (current operating margin of 13.8%) and adjusted EPS at EUR0.16. For Q2, the group expects revenue to rise 3% seq. to EUR1.6bn and current operating result at c. EUR208, compared with the street forecast for revenue at EUR1.61bn and current operating result at EUR239. As a result, revenue guidance is in line with consensus expectations although margin appears to be low, but the group has confirmed its FY16 guidance for sales growth of 13% yoy and a margin of 16%.

ROCHE — BUY, Fair Value CHF311 vs. CHF338 (+18%)

Preparing for 2017

FY 2015 numbers (below expectations, mainly as a result of fx, financial expenses and taxes) and comments on them have led us to slash our 2016 estimates. This year will essentially prepare for coming years for meaningful product launches, which require significant extra investments in manufacturing and commercial infrastructures. We have cut core EPS by 9% for 2016 (also due to the unexpected negative fx impact) and 4% for 2017, and our FV by 8% to CHF311.

CAST — BUY, Fair Value EUR3.9 vs. EUR4.4 (+17%)

Q4 2015 sales below forecasts, growth set to pick up from 2016

We are reiterating our Buy rating but have cut our DCF-derived fair value to EUR3.9 from EUR4.4 since we have reduced our adj. EPS ests by 42% for 2015, 35% for 2016, 24% for 2017 and 20% for 2018 (-EUR0.7/share) and adjusted our WCR assumptions (+EUR0.2). Yesterday Cast reported Q4 15 sales 11% below our forecasts due to slippage on a couple of deals as it remained strict on its discount policy. However, while we cannot rule out a negative share price reaction short-term, Cast is likely to stay profitable in 2015 and the management is confident that growth will pick up as of 2016.

CONSTRUCTION-CONCESSIONS

French toll roads: safe harbour in difficult times

While macro uncertainties are persisting in EM and have penalised numerous building materials stocks, visibility is fine for DG and FGR. Toll roads traffic is steady (2.5% 2016e) and tariffs are up (0.8%/1.6%). The French construction market is close to the trough level with a slightly more optimistic outlook. 2016 will not be rosy but order books offer a welcome cushion until 2017, when the Grand Paris projects should start to kick off. Buy reiterated on FGR, FV lifted to EUR71 vs EUR63. DG upgraded to Buy vs Neutral, FV lifted to EUR70 vs EUR65.

Utilities

EDF

Price EUR11.81

Bloomberg	EDF FP
Reuters	EDF.PA
12-month High / Low (EUR)	23.8 / 11.0
Market Cap (EUR)	22,677
Ev (BG Estimates) (EUR)	84,399
Avg. 6m daily volume (000)	2 407
3y EPS CAGR	-23.0%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-13.0%	-27.6%	-43.5%	-13.0%
Utilities	-1.1%	-3.8%	-6.6%	-1.1%
DJ Stoxx 600	-6.6%	-9.0%	-13.8%	-6.6%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	72,874	75,765	76,950	78,165
% change		*4.0%*	*1.6%*	*1.6%*
EBITDA	17,279	17,411	16,514	16,141
EBIT	7,984	5,211	7,867	6,932
% change		*-34.7%*	*51.0%*	*-11.9%*
Net income	4,464	4,043	2,725	2,103
% change		*-9.4%*	*-32.6%*	*-22.8%*

	2014	2015e	2016e	2017e
Operating margin	11.0	6.9	10.2	8.9
Net margin	6.1	5.3	3.5	2.7
ROE	11.0	9.6	6.5	5.0
ROCE	3.4	2.4	3.3	2.9
Gearing	139.8	142.7	153.1	160.0

(EUR)	2014	2015e	2016e	2017e
EPS	2.40	2.11	1.42	1.10
% change	-	*-12.2%*	*-32.6%*	*-22.8%*
P/E	4.9x	5.6x	8.3x	10.8x
FCF yield (%)	NM	0.3%	NM	1.3%
Dividends (EUR)	1.25	1.25	1.04	0.84
Div yield (%)	10.6%	10.6%	8.8%	7.1%
EV/Sales	1.1x	1.1x	1.2x	1.2x
EV/EBITDA	4.6x	4.8x	5.4x	5.7x
EV/EBIT	10.0x	16.2x	11.3x	13.2x

There is a captain on board!

Fair Value EUR14.5 (+23%) **BUY vs. NEUTRAL**

EDF is among the European integrated utilities that have suffered the most since 2008, for good reasons (strong decline in French power prices combined with significant political uncertainty concerning Areva). Since the beginning of the year, the downside spiral has continued with the stock dropping 13% while the SX6P index has only lost 1.1%, as French forward prices have fallen further to EUR30/MWh (>EUR65/MWh in 2008). The fact that EDF is in trouble is no news. However, at the current share price we consider the market is over-reacting and has factored in French power prices of EUR22/MWh, well below the current price. We have adjusted our model to include the latest market prices and still find upside. As such we have upgraded our recommendation to Buy (vs. Neutral). Our FV now stands at EUR14.5/share implying >20% upside to the current share price. All has a price, even EDF.

ANALYSIS

- **Risks are high, but are well identified**: We have identified several short terms risks at EDF: **1/** approval by board members to build up and operate **two EPR reactors in the UK** (HPC project) with Chinese operator CGN. Recent delays and higher capex for all other EPR projects (EDF and Areva in France, Finland & China) are not reassuring, especially as EDF will consolidate the entire debt. As a reminder, S&P has warned several times that it might downgrade EDF's debt if it goes ahead with Hinkley Point, given the project's high execution risk and substantial investment needs. EDF's board recently delayed the decision on whether to go ahead with this project last week. **2/Areva NP integration**: We now know the price-tag at which Areva NP will be bought by the group (around EUR1.3bn for a 51% stake) but still have no clue as to the potential P&L and CFS impact for EDF (positive or negative), once the entity is fully consolidated. **3/**A reduction in the group's average French power price (ARPU) due to both market share loss to the profit of alternative suppliers and to lower forward French power prices (currently at EUR30/MWh vs. EUR38/MWh in 2015 and EUR42/MW in 2014), set to alter the group's earnings and cash flow. **4/A cut in the dividend** which we view as inevitable, since the group cannot afford to spend **EUR2.3bn** on dividends, and **EUR4bn** on gross capex while committing itself to an important programme such as the Hinkley Point C project. **We do view at all this cut as a risk if it is part of a strategic plan unveiled by the group during its 2015 full-year publication**.
- **A negative EPS adjustement prompting us to lower our FV from EUR18.5 to EUR14.5…**: We have updated our model to include the latest French forward prices *(EUR30/MWh)* and the latest indications on the cost of Cigeo, while integrating further market share losses in the French power market to the profit of alternative suppliers. In all, we have cut our 2016-17 adjusted EPS by **16%** and our FV from **EUR18.5 to EUR14.5/share**, which still points to **>20%** upside to the current share price. In our model we currently stand **8%** below consensus on 2016-17 earnings, implying further downside potential for the consensus over the short term.
- **…and to upgrade our recommendation from Neutral to Buy:** Despite the average **16%** negative adjustment in our restated 2016-17 EPS, we have decided **to upgrade EDF from Neutral to Buy** for **four main reasons**: **1/** Recent newsflow on EDF has been fairly reassuring, and should provide positive potential catalysts in coming months (ARENH price increase announced by French government, law change to allow the disposal of a RTE stake to non-French state entities). We also see the potential departure of Segolène Royale as positive for the group. **2/** With the arrival of Jean-Bernard Lévy, the group is entering a massive transformation phase (disposals, growth capex optimisation, cost-control optimisation…) that can only create value. **3/**At the current share price, the yield implied is quite attractive, even if we assume a cut. **4/** At the current share price, we assume the market is pricing in a further fall in French power prices from **EUR30/MWh to EUR22/MWh,** which we view as unlikely given the structure of the French power market.
- **1/Recent newsflow is quite positive** Unofficial recent indications (unveiled in most cases by union members), indicate that the group's management, prompted by the recent arrival of Mr Lévy at the head of the group, is currently working on implementing a cost-cutting programme. While we were already aware that the group was working on a way to optimise its operating costs to adapt its structure to the progressive opening of the French power market, we were positively surprised by the group's new 2019 targets (up to 4,000 job cuts in France and 2,000 additional job cuts in the international division, mainly in the UK), these being far more aggressive than we expected. These job cuts (no redundancies, as natural departures will more than offset the group's annual recruitment) are set to increase the group's EBITDA by around **EUR700m or 4%** by 2019 with very limited restructuring costs as all departures (at least in France) are set to be natural. The group also indicated it will reduce its exposure to international merchant activities, with different rumours hinting at potential disposals of **EUR6-**

7bn. The group could also benefit from positive newsflow over coming months (ARENH price increase announced by French government, law change to allow the disposal of a RTE stake to non-French state entities), which as in the past, could positively impact the share price. We also consider the the potential departure of **Segolène Royale** from the French Environment & Ecology ministry to Quai d'Orsay (*French Foreign Affairs*) during the next ministerial shuffle as a positive factors, since EDF has suffered in the past from her unexpected intervention in tariff increases. A new minister (even stemming from the French ecologist party) could be seen as positive since it would reduce interference risk for EDF (the new minister should notably be more malleable).

- **2/…with the group entering a transformation phase,** EDF is hard to restructure, like all old French monopolies (Orange or Engie). The most virulent French trade unions (CGT & FO) have strong positions in the group, and clearly try their best to protect both existing and future jobs, as well as employee advantages from the former monopolistic positions, to the detriment of the group's long-term survival. We believe the new CEO's arrival should definitively help EDF to adapt itself to this more competitive environment. Several transformation plans are currently ongoing: reform of standard contracts for some employees, to obtain greater flexibility more cheaply, lowering annual job creations to optimise the cost structure. A transformation is clearly needed, especially given the strong changes in the European energy environment since 2008. Increasing presence in renewables (5% of EBITDA) should definitively help the group to generate growth over coming years, although an adjustment is clearly needed in its merchant activities.
- **3/Yield is attractive, even after a dividend cut:** We still find upside despite slashing our estimates for the French power market, and cutting the **EUR1.25** dividend (the 2015 dividend looks safe) **to EUR1.04** for 2016 and to **EUR0.84** for 2017, assuming the group's guidance on dividend payout remains at **55-65%** without a "political" floor at EUR1.25. At the current share price, the 2015 implied yield is unreal and attractive (10.7%), even based on our 2016 earnings and dividends estimates (respectively 8.6% and 7%). Assuming we are right, the cut would imply a positive share price reaction (as for Engie when it cut its EUR1.5 dividend to EUR1 for a similar reason, the share rose 6%). However, if we are wrong, at the current share price, it would imply a very attractive yield on dividends already under pressure. **In both cases, investors win!**
- **4/** At the current share price, based on our dividend yield calculation model, we identify that the market has overpriced the deterioration in French forward power prices, since the current share price implies **EUR22/MWh** whereas prices are currently closer to **EUR30/MWh** (a 5.5% average yield for the sector on the current share price of EUR11.8/share leads to a EUR0.64 theoretical dividend, which leads to a EUR1.07/share EPS based on a 60% mid-range guidance payout ratio, implying EUR22/MWh in our model vs. a current price at EUR30/MWh).
- **Conclusion:** Following the strong share price deterioration in 2015 (-40%) due to lower French forward power prices, as well as newsflow on Areva and Hinkley Point C, the EDF share is trading close to its lowest level (EUR11.7) since the IPO at EUR32/share (2005). On our adjusted estimates, the stock is trading at **5.4x** its 2016e EBITDA and at **8.5x** its 2016e earnings, versus peers at respectively **7x** and **13x** and most importantly, versus historical multiples of respectively **6.5x** and **11.3x**. While risks to our investment case are high, at the current share price, we consider that downside risk is pretty limited (-10%), compared with potential upside (>30%). **As such, we have upgraded our recommendation from Neutral to Buy, with a new FV at EUR14.5.**

VALUATION

- At the current share price, the stock is trading at 5.4x its 2016e EBITDA and offers a 9% yield.
- Buy, FV @ EUR14.5

NEXT CATALYSTS

- 16th February: 2015 earnings publication

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TMT

Infineon

Price EUR12.44

Higher than expected Q1 2016 results, Q2 likely to be soft but FY16 guidance confirmed

Fair Value EUR15 (+21%) BUY

Bloomberg	IFX GY
Reuters	IFXGn.DE
12-month High / Low (EUR)	14.0 / 8.7
Market Cap (EUR)	14,048
Ev (BG Estimates) (EUR)	13,426
Avg. 6m daily volume (000)	7,420
3y EPS CAGR	16.7%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-7.9%	11.1%	21.9%	-7.9%
Semiconductors	-3.3%	-1.9%	-6.5%	-3.3%
DJ Stoxx 600	-6.6%	-9.0%	-13.8%	-6.6%

YEnd Sept. (EURm)	09/15	09/16e	09/17e	09/18e
Sales	5,795	6,558	6,984	7,348
% change		*13.2%*	*6.5%*	*5.2%*
EBITDA	1,658	1,926	2,109	2,298
EBIT	898.0	1,074	1,201	1,343
% change		*19.6%*	*11.9%*	*11.8%*
Net income	680.0	857.5	964.1	1,080
% change		*26.1%*	*12.4%*	*12.0%*

	09/15	09/16e	09/17e	09/18e
Operating margin	15.5	16.4	17.2	18.3
Net margin	11.7	13.1	13.8	14.7
ROE	13.3	13.2	13.5	14.0
ROCE	18.5	15.6	17.3	19.3
Gearing	-4.7	-12.1	-19.8	-27.6

(EUR)	09/15	09/16e	09/17e	09/18e
EPS	0.60	0.76	0.86	0.96
% change	-	*26.1%*	*12.4%*	*12.0%*
P/E	20.6x	16.3x	14.5x	13.0x
FCF yield (%)	0.6%	4.5%	5.2%	6.1%
Dividends (EUR)	0.18	0.20	0.20	0.20
Div yield (%)	1.4%	1.6%	1.6%	1.6%
EV/Sales	2.4x	2.0x	1.9x	1.7x
EV/EBITDA	8.3x	7.0x	6.1x	5.4x
EV/EBIT	15.4x	12.5x	10.8x	9.2x

Infineon has reported Q1 2016 results slightly above consensus expectations and company guidance. Q1 sales came in at EUR1.556bn down 2.6% sequentially, with current operating margin at 14.1%, current operating result at EUR220m and EPS at EUR0.17. This was above consensus expectations with sales estimates at EUR1.504bn, current operating result at EUR207m (current operating margin of 13.8%) and adjusted EPS at EUR0.16. For Q2, the group expects revenue to rise 3% seq. to EUR1.6bn and current operating result at c. EUR208, compared with the street forecast for revenue at EUR1.61bn and current operating result at EUR239. As a result, revenue guidance is in line with consensus expectations although margin appears to be low, but the group has confirmed its FY16 guidance for sales growth of 13% yoy and a margin of 16%.

ANALYSIS

- **Infineon's Q1 sales, operating margin and EPS came out above consensus expectations and the company's guidance.** Q1 sales of EUR1.556bn were down 2.6% seq., above the company's guidance and consensus expectations for a sequential decrease of 6.0% (+/-2%) (BG ests. EUR1.502bn). Q1 segment result came in at EUR220m, pointing to a 14.1% margin, in line with the company's guidance (14% at midpoint) but slightly above expectations (cs. 13.8%). As a result, adjusted Q1 EPS was slightly above expectations at EUR0.17 vs. EUR0.16 (BG ests. EUR0.16). The net cash position at the end of the first quarter was a positive EUR204m vs. EUR220m at the end of the FY15.
- **Automotive (ATV) showed a flat performance, but was the best performing division.** Indeed, Chip Card & Security (CCS), Power Management and Multimarket (PMM) and Industrial Power Control (IPC) revenues decreased in line with seasonal factors. The automotive division (Q1 sales: EUR614m, segment result: EUR81m or 13.2%) benefited from high demand in North America while markets in China saw a sharp rise. As a result, ATV's sales came out at EUR614m, flat sequentially. IPC's revenue fell by 8% (Q1 sales: EUR249m, segment result: EUR23m or 9.2%), in line with seasonal factors as for PMM (Q1 sales: EUR510m, segment result: EUR79m or 15.5%), witnessing an unusual decline in mobile product momentum offset by stronger demand for power amplifiers for base stations. Finally, CCS revenue decreased by 4% sequentially (sales: EUR173m, segment result: EUR35m or 20.2%), better than normal for the season thanks to higher demand for SIM cards and security for mobile devices.
- **The group expects a soft Q2 but has confirmed its FY16 guidance.** While the environment is set to favour the automotive segment, the group continues to expect softness in other divisions. The group expects sales to increase by +3% (+/- 2pts) sequentially or sales at EUR1.60 vs. EUR1.61 expected by the consensus (based on a EUR/USD exchange rate of 1.10). A more surprising figure was the low guidance for a 13% margin (vs. 14.1% in FQ1-16) leading to a current operating result of EUR208 vs EUR239 expected by the consensus. We will wait for the conference call to have more details. The group added that FY16 guidance for sales growth of 13% (+/- 2pts) and current operating margin of 16% was confirmed.

VALUATION

- We are making no change to our estimates at this point and will wait for further details from today's conference call (9:30am CET).
- Infineon's shares are trading on 2016e P/E of 16.3x and 2016e PEG of 1.0x.

NEXT CATALYSTS

- Conference call to be hold at 9:30 today
- 18th February: Annual General Meeting
- 9th May: FQ2-16 results

FQ1-16 actual vs. estimates

[EURm]	BG ests. FQ1	Consensus FQ1	FQ1 Actual	Cons. Vs. Actual
Net revenue	1502	1504	1556	3.5%
% change (seq)	*-6.0%*	*-5.9%*	*-2.6%*	325bp
Gross Margin	34.5%	37.0%	35.9%	-110bp
Adj. EBIT	210	207	220	6.3%
% of revenue	*14.0%*	*13.8%*	*14.1%*	38bp
Dil. EPS	0.16	0.16	0.17	6.3%

Sources: Company data; Thomson Reuters I.B.E.S; Bryan, Garnier & Co ests.

FQ2-16 guidance vs. estimates

[EURm]	BG ests. FQ2	Consensus FQ2	FQ2 Guidance	Cons. Vs. Guid.
Net revenue	1648	1608	1603	-0.3%
% change (seq)	*9.7%*	*6.9%*	*3.0%*	-391bp
Adj. EBIT	274	239	208	-12.8%
% of revenue	*16.6%*	*14.9%*	*13.0%*	-186bp
Dil. EPS	0.20	0.18	-	-

Sources: Company data; Thomson Reuters I.B.E.S; Bryan, Garnier & Co ests.

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Price CHF264.30

Preparing for 2017

Fair Value CHF311 vs. CHF338 (+18%) BUY

Bloomberg	ROG VX
Reuters	ROG.VX
12-month High / Low (CHF)	282.5 / 241.7
Market Cap (CHF)	185,687
Ev (BG Estimates) (CHF)	198,110
Avg. 6m daily volume (000)	1,425
3y EPS CAGR	7.4%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-4.4%	-1.5%	-5.3%	-4.4%
Healthcare	-6.4%	-6.7%	-12.9%	-6.4%
DJ Stoxx 600	-6.6%	-9.0%	-13.8%	-6.6%

YEnd Dec. (CHFm)	2015	2016e	2017e	2018e
Sales	48,145	51,450	53,110	54,933
% change		*6.9%*	*3.2%*	*3.4%*
EBITDA	19,430	20,115	21,786	22,318
EBIT	13,821	16,884	18,986	20,118
% change		*22.2%*	*12.4%*	*6.0%*
Net income	11,626	12,404	14,084	14,406
% change		*6.7%*	*13.5%*	*2.3%*

	2015	2016e	2017e	2018e
Operating margin	28.7	32.8	35.7	36.6
Net margin	24.1	24.1	26.5	26.2
ROE	43.7	49.5	46.8	41.7
ROCE	28.1	27.5	29.1	29.3
Gearing	60.4	44.5	27.2	13.3

(CHF)	2015	2016e	2017e	2018e
EPS	13.49	14.39	16.34	16.71
% change	-	*6.7%*	*13.5%*	*2.3%*
P/E	19.6x	18.4x	16.2x	15.8x
FCF yield (%)	5.2%	4.3%	5.1%	5.8%
Dividends (CHF)	8.10	8.64	9.81	10.04
Div yield (%)	3.1%	3.3%	3.7%	3.8%
EV/Sales	4.1x	3.9x	3.7x	3.5x
EV/EBITDA	10.3x	9.8x	8.9x	8.6x
EV/EBIT	14.5x	11.7x	10.3x	9.5x

FY 2015 numbers (below expectations, mainly as a result of fx, financial expenses and taxes) and comments on them have led us to slash our 2016 estimates. This year will essentially prepare for coming years for meaningful product launches, which require significant extra investments in manufacturing and commercial infrastructures. We have cut core EPS by 9% for 2016 (also due to the unexpected negative fx impact) and 4% for 2017, and our FV by 8% to CHF311.

ANALYSIS

- We have now digested the full-year 2015 numbers and the comments provided during the conference that was held last Thursday in London and we have updated our figures. The message in short is that 2016 will prepare extensively for 2017 and beyond as Roche is about to launch eight new drugs over the next two years, including some in areas where the group has to build commercial and marketing infrastructure. As such, together with additional investments in manufacturing to obtain the right level of capacity for the upcoming biologicals and the required expense in the late-stage pipeline, operational leverage is set to be very limited in 2016.
- Starting with the top line, low-to-mid single digit growth guidance for 2016 takes into account a fairly similar picture to 2015 when sales grew 5% with a slowdown in Perjeta's growth now that it has penetrated a large share of its target market in the US and in Esbriet which was in its first year. Caution on Tamiflu is also reasonable considering the current season in the US. On the other side, the decline in Xeloda and Lucentis sales is not expected to be as sharp as in 2015. New products Cotellic and Alecensa will have a limited contribution this year. We have also removed the USD50m contribution we had from ocrelizumab in the US as Roche suggested the first launches would take place in 2017 after a very careful preparation for launch.
- With this picture of limited top-line growth in mind and the required investments described above, operating margin leverage is expected to be very minimal in 2016. Actually, if core earnings are expected to grow by more than sales, this is mainly as a result of a better outlook for the bottom part of the P&L, unlike 2015. Roche restructured its gross debt last year and this came at a cost. However, this should transform into a profit in the future as the effective interest rate has been reduced from 4.4% to 3.7% while it is fair to think that the CHF324m in losses incurred due to the devaluations of the Venezuelian and Argentinean currencies are one-offs. Together with a flat tax rate, the bottom part of the P&L should offer the majority of leverage in 2016 as far as core EPS is concerned. Asked about the impact currencies could have this year, Roche said that current rates would have no impact on sales and EBIT, but a further 3% negative impact on core EPS as most of its debt is denominated in USD. This was not at all our scenario so far.

VALUATION

- We have made no major changes to our top-line estimates, but have significantly increased the cost of goods in 2016 (vs our previous estimate not vs 2015) due to new facilities with sub-optimal capacity as they are ramping up. Including final 2015 numbers, this has had a negative impact on 2016 financials and the tax rate. We have also made changes to our model to reflect Roche's guidance for the impact currencies would have on core EPS. In the end, the revision is hefty with core EPS reduced from CHF15.80 to CHF14.39 for 2016 and from CHF16.98 to CHF16.34 for 2017.
- What looks clearer now however is that 2016 is set to be a year of preparation for stronger growth in 2017 and beyond. In 2017, leverage could be maximum as biosimilars should have a limited impact while ocrelizumab and atezo will participate over the full-year. In addition, APHINITY and GOYA could also play a significant (but as yet unknown) role for Perjeta and Gazyva respectively. As such, 2016 is likely to be quiet in our view, especially in H1, thereby favouring UK peers. However, we are maintaining our BUY recommendation for the long-term perspectives harboured in the renewed pipeline.

NEXT CATALYSTS

- Q1 2016 : Completion of filing for atezo in 3L lung cancer

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Cast

Price EUR3.33

Q4 2015 sales below forecasts, growth set to pick up from 2016

Fair Value EUR3.9 vs. EUR4.4 (+17%) BUY

Bloomberg	CAS.PA
Reuters	CAS FP
12-month High / Low (EUR)	3.7 / 2.9
Market Cap (EUR)	54
Ev (BG Estimates) (EUR)	37
Avg. 6m daily volume (000)	10.10
3y EPS CAGR	11.0%

	1 M	3 M	6 M	31/12/15
Absolute perf.	10.3%	-0.3%	-9.0%	10.3%
Softw.& Comp.	-2.4%	1.5%	4.6%	-2.4%
DJ Stoxx 600	-6.6%	-9.0%	-13.8%	-6.6%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	33.2	36.3	40.1	44.5
% change		*9.6%*	*10.4%*	*11.0%*
EBITDA	5.0	3.6	4.4	6.0
EBIT	2.0	0.7	1.7	3.4
% change		*-63.7%*	*133.9%*	*102.1%*
Net income	1.8	0.7	1.3	2.4
% change		*-63.4%*	*96.5%*	*89.9%*

	2014	2015e	2016e	2017e
Operating margin	6.1	2.1	4.3	7.7
Net margin	5.1	1.8	3.2	5.4
ROE	17.0	4.6	8.4	13.9
ROCE	340.5	-17.4	-32.5	-53.2
Gearing	-95.2	-123.9	-124.1	-124.8

(EUR)	2014	2015e	2016e	2017e
EPS	0.12	0.04	0.08	0.16
% change	-	*-63.4%*	*96.7%*	*89.9%*
P/E	28.4x	77.6x	39.5x	20.8x
FCF yield (%)	10.1%	8.7%	3.2%	6.2%
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	1.3x	1.0x	0.9x	0.7x
EV/EBITDA	9.0x	10.3x	8.0x	5.3x
EV/EBIT	21.8x	48.3x	20.5x	9.4x

We are reiterating our Buy rating but have cut our DCF-derived fair value to EUR3.9 from EUR4.4 since we have reduced our adj. EPS ests by 42% for 2015, 35% for 2016, 24% for 2017 and 20% for 2018 (-EUR0.7/share) and adjusted our WCR assumptions (+EUR0.2). Yesterday Cast reported Q4 15 sales 11% below our forecasts due to slippage on a couple of deals as it remained strict on its discount policy. However, while we cannot rule out a negative share price reaction short-term, Cast is likely to stay profitable in 2015 and the management is confident that growth will pick up as of 2016.

ANALYSIS

- **Q4 2015 sales below our forecasts**. Cast has reported Q4 sales up 2.6% to EUR13.3m, 11% below our EUR15m estimate. Excluding fx tailwinds of EUR1.4m (USD), we estimate the Q4 lfl decline at 8.2%. For FY15, sales totalled EUR36.3m, up 9.6% (est. -1.6% excl. fx tailwinds of EUR3.7m), close to the company's guidance until November 2015 (sales up above 10%). The quarter was hit by tough year-on-year comps (Q4 2014 was up 13.4%) while a couple of deals (three/four as we understand) slipped up in Europe, the US and India as Cast remained strict on its discount policy. However, the performance in the US (est. 60% of sales) remained strong.
- **Still profitable in 2015**. Despite the deals that slipped in Q3 and Q4, management mentioned during the conference call that Cast was still profitable in 2015. Investments planned for the year for future growth were well advanced (sales, services, R&D), but slightly lagging compared to initial targets. As such, this should translate into a lower opex than previously expected even after Q3 2015 sales. We now estimate breakeven point for 2015 at EUR35.6m (vs. EUR36.4m), up from EUR31.1m in 2014, which would translate into an op. margin of 2.1% (vs. 4.3%). Finally, management confirmed that the net cash position remained healthy (BG end-2015 est. EUR17.1m).
- **Growth acceleration scenario for 2016 and beyond**. Management foresees a possible revenue growth acceleration in 2016 and beyond, and consider that +10% lfl is achievable. Q1 2016 could generate significant growth in management's view as it could benefit from some deals that slipped in 2015 and comps are easy. This optimism is underpinned by more recurring revenues (maintenance, SaaS, managed services), more efficient sales channels, increased support from strategy consulting firms (BCG, McKinsey), the propagation of the standards defined by the CISQ consortium, and strong appetite from management of large companies and IT Services companies for software risk management based on analytics. For 2017, Cast expects significant licence renewals from large IT Services companies. As such, we expect operating margin to widen gradually from 2016 following investments for growth made in 2015.

VALUATION

- Cast's shares are trading at est. 20.5x 2016 and 9.4x 2017 EV/EBIT multiples.
- Net cash position on 30th June 2015 was EUR16.6m (net gearing: -155%).

NEXT CATALYSTS

FY15 results on 4th April after markets close.

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Sector View

Construction-Concessions

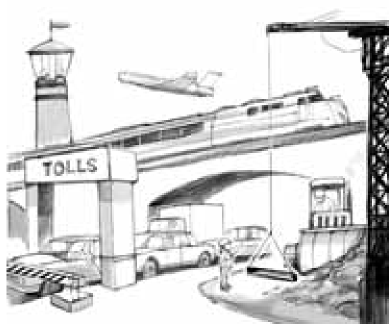
French toll roads: safe harbour in difficult times

	1 M	3 M	6 M	31/12/15
Cons & Mat	-3.3%	-2.3%	-6.5%	-3.3%
DJ Stoxx 600	-6.6%	-9.0%	-13.8%	-6.6%

*Stoxx Sector Indices

Companies covered

EIFFAGE		BUY	EUR71 vs. 63
Last Price	EUR63.87	*Market Cap.*	EUR6,095m
VINCI		BUY vs. NEUTRAL	EUR70 vs. 65
Last Price	EUR63.64	*Market Cap.*	EUR37,495m



While macro uncertainties are persisting in EM and have penalised numerous building materials stocks, visibility is fine for DG and FGR. Toll roads traffic is steady (2.5% 2016e) and tariffs are up (0.8%/1.6%). The French construction market is close to the trough level with a slightly more optimistic outlook. 2016 will not be rosy but order books offer a welcome cushion until 2017, when the Grand Paris projects should start to kick off. Buy reiterated on FGR, FV lifted to EUR71 vs EUR63. DG upgraded to Buy vs Neutral, FV lifted to EUR70 vs EUR65.

- While the building & materials index is down -3% YTD, Vinci and Eiffage share prices have been up 5.5% and 6.3%, respectively, clearly over- performing. We assume investors have penalised cyclical building material companies, in particular those with an EM exposure. Then the two French contractors have benefited from a favourable combination of right geographical exposure, favourable business mix and decent outlook.
- France remains a key driver for Vinci and Eiffage, representing respectively 59% and 82% of sales at end September. Following a challenging year in 2015, 2016 is likely to be flattish. In this context, resilient order books will be useful to prevent any margin disappointment and manage the transition with 2017 expected to be a better year.
- With steady traffic performance and lower political risk, toll roads are more attractive than ever for investors interested by visibility. With respectively 62% and 66% of EBIT derived from toll roads, Vinci and Eiffage are interesting vehicles to play the defensive motorways business.
- Finally, we have upgraded SOTPs in view of stronger traffic growth in 2016 onwards and the roll-over to 2017 (but discounted back), as we consider the market is likely to anticipate next year's results, especially with good visibility on business. Buy reiterated on FGR, with a FV lifted to EUR71. DG upgraded to Buy vs Neutral, with a FV lifted to EUR70.

VINCI (Back to Buy, (BUY vs. NEUTRAL, Fair Value EUR70 vs. EUR65)

Encouraged by healthy traffic figures in Q4 at APRR and given the current market uncertainties, we have decided to revisit our position on Vinci. We have increased our traffic estimates and implemented our SOTP with 2017 forecasts since we consider investors are likely to anticipate next year, with 2016 likely to be a transition year. Since our downgrade on 30th November, the share price has been flat, which actually represents a strong relative performance. Upgrade to BUY. New FV at EUR70.

Eiffage, Positive stance reiterated (EUR71 vs. EUR63, BUY)

Following steady figures from APRR with healthy traffic growth of 2.7% in 2015, and prior to the full year publication expected on 24th February, we would like to reiterate our positive stance, despite the share price rally in 2015 (41%). Risk/reward looks attractive to us, while momentum should progressively improve over the course of 2016, thanks in particular to French construction trends.

NEXT CATALYSTS

- Vinci 2015 FY results on 4th February 2016, post market
- Eiffage 2015 FY results on 24th February 2016, post market

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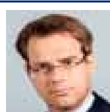

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BUY	Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or 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 that could include a SWOT analysis, momentum, technical aspects or 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 59.7% NEUTRAL ratings 31.3% SELL ratings 9%

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