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4th February 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	16336.66	+1.13%	-8.34%
S&P 500	1912.53	+0.50%	-7.11%
Nasdaq	4504.24	-0.28%	-4.89%
Nikkei	17044.99	-0.85%	-1.49%
Stoxx 600	329.426	-1.54%	-3.83%
CAC 40	4226.96	-1.33%	-1.07%
Oil /Gold			
Crude WTI	32.38	+8.01%	-39.84%
Gold (once)	1139.1	+1.08%	-3.98%
Currencies/Rates			
EUR/USD	1.10495	+1.37%	-8.69%
EUR/CHF	1.11385	+0.13%	-7.36%
German 10 years	0.277	-12.11%	-48.84%
French 10 years	0.613	-5.76%	-26.86%
Euribor	-	+-%	+-%

Economic releases :

Date	
4th-Feb	GB - BOE rate decision (0.5% = E) US - Chain Store sales US - Initial Jobless claims (280K E) US - continuing claims (2240K E) US - Factory orderers (-2.8% E)

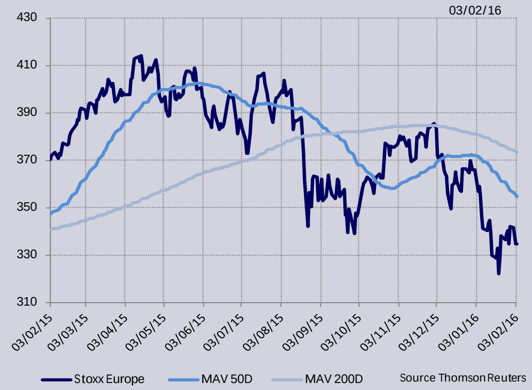
Upcoming BG events :

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



GLAXOSMITHKLINE — BUY, Fair Value 1670p vs. 1635p (+17%)

FY 2015 numbers validate our investment case

Yesterday GSK reported FY 2015 figures roughly in line with expectations. Hopefully, this should be the end of a tough period for the company, which is entering a new growth phase due to be led by a handful of new products and by the restructuring of the businesses acquired from Novartis last year. GSK has confirmed its targets for EPS growth of 10% this year and high single-digit growth by 2020, while bringing its target for GBP6bn in sales for its new products forward by two years to 2018, thereby making this guidance even more comfortable than before. We reiterate our BUY recommendation.

ARM HOLDINGS — BUY, Fair Value 1310p (+34%)

Google is about to support ARM based server chips

According to Bloomberg, Google is about to officially support Qualcomm in its server chips crusade. Indeed, we knew that Qualcomm was preparing a server chip for a top-tier server customer but we did not yet know its name. The official announcement is scheduled for next week Bloomberg says. Since Google is the first server chip consumer with about 5% of WW shipments (>1m processors per year), this would be a real support to the new Qualcomm's server chip business. We see a direct positive read-across for ARM since these chips will be based on the ARMv8-A instruction set.

DASSAULT SYSTÈMES — SELL, Fair Value EUR65 (-7%)

FY15 results slightly above our estimates, investments will weigh on the margin in 2016

This morning Dassault Systèmes reported FY15 results slightly above our expectations and ahead of the consensus average, posting Q4 revenues 6% above the top-end of the guidance range (o/w an est. 3% on fx) and a non-IFRS operating margin 1.8ppt above the group's projections. FY16 company guidance (sales up 6-7% lfl, op. margin up 0.2ppt to c. 31%) is below our ests. and embeds the impact of a more volatile economic environment and investments in R&D and sales channels, which will weigh on the operating margin. We expect a negative share price reaction in the short term.

LAFARGEHOLCIM — SELL, Fair Value CHF60 (+50%)

Birla deal cancelled + third largest shareholder to exit

In a press release this morning, LafargeHolcim confirms it is no longer in discussions with Birla (regarding the disposal of 5mt in cement capacity) because of regulatory issues. A new proposal with the Indian anti-trust authorities is underway. According to the press, Birla has decided to take legal action against the Swiss group. Finally, Bloomberg said this morning that Russian bank Sberbank is about to sell the 37.2 million shares it acquired recently from Russian cement group Eurocement. The stake would be valued at CHF1.5bn at the current LafargeHolcim share price.

THE SWATCH GROUP — NEUTRAL, Fair Value CHF410 vs. CHF420 (+23%)

2016 EBIT lowered by 4% after 2015 results

Following poor 2015 results, we are lowering our FY 2016 EBIT estimate by 4%. In view of this we have reduced our FV from CHF420 to CHF410. Neutral recommendation unchanged.

UTILITIES

2015 power consumption boosted by auto & metal sectors as well as climate

According to French grid operator RTE, French power consumption rose >2% YoY (incl. climate effect) and 0.5% organically to 476.3TWh last year, helped by greater usage of air conditioning systems and a slight recovery in both the auto and metal sectors in France. As already unveiled by EDF, nuclear output was important, still representing 76% of French power production, while renewables continued to take market share from fossil fuel assets, and more precisely from coal assets.

SEMICONDUCTORS

December data well below seasonal figure but January sales should be back in line

For December, preliminary WSTS data points to an overall global semiconductor market of USD27.2bn, down 1.0% sequentially and 9.0% yoy. This was in line with our previous comments but significantly below our 5-y historical benchmark pointing to a usual sequential increase of 7.8% in December. As a result, 2015 global semiconductor sales ended at USD335bn, flat compared to 2014 as expected..

In brief...

ASTRAZENECA, *First look at FY results suggests a clean delivery*

COMPASS GROUP, *Q1 IMS: A really strong start!*

MUNICH RE, *Strong Q4 numbers driven by reserve releases, higher than expected dividend*

Healthcare

GlaxoSmithKline

Price 1,431p

FY 2015 numbers validate our investment case

Fair Value 1670p vs. 1635p (+17%) BUY

Bloomberg	GSK LN
Reuters	GSK.L
12-month High / Low (p)	1,642 / 1,238
Market Cap (GBPm)	69,691
Ev (BG Estimates) (GBPm)	94,862
Avg. 6m daily volume (000)	8 253
3y EPS CAGR	-0.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	4.2%	4.0%	2.2%	4.2%
Healthcare	-9.7%	-10.2%	-16.9%	-9.7%
DJ Stoxx 600	-9.9%	-12.9%	-17.5%	-9.9%

YEnd Dec. (GBPm)	2014	2015e	2016e	2017e
Sales	23,006	23,923	25,060	25,712
% change		*4.0%*	*4.8%*	*2.6%*
EBITDA	8,294	7,429	8,435	9,114
EBIT	6,594	5,729	6,735	7,414
% change		*-13.1%*	*17.6%*	*10.1%*
Net income	4,584	3,658	4,181	4,656
% change		*-20.2%*	*14.3%*	*11.4%*

	2014	2015e	2016e	2017e
Operating margin	28.7	23.9	26.9	28.8
Net margin	19.9	15.3	16.7	18.1
ROE	81.4	78.0	86.9	94.4
ROCE	25.0	14.7	16.6	17.8
Gearing	264.9	118.9	131.8	107.7

(p)	2014	2015e	2016e	2017e
EPS	95.33	75.71	86.42	93.04
% change	*-*	*-20.6%*	*14.1%*	*7.7%*
P/E	15.0x	18.9x	16.6x	15.4x
FCF yield (%)	3.9%	2.8%	5.3%	6.3%
Dividends (p)	80.00	100.00	80.00	80.00
Div yield (%)	5.6%	7.0%	5.6%	5.6%
EV/Sales	3.6x	4.0x	3.8x	3.7x
EV/EBITDA	10.0x	12.8x	11.4x	10.5x
EV/EBIT	12.6x	16.6x	14.3x	12.9x

Yesterday GSK reported FY 2015 figures roughly in line with expectations. Hopefully, this should be the end of a tough period for the company, which is entering a new growth phase due to be led by a handful of new products and by the restructuring of the businesses acquired from Novartis last year. GSK has confirmed its targets for EPS growth of 10% this year and high single-digit growth by 2020, while bringing its target for GBP6bn in sales for its new products forward by two years to 2018, thereby making this guidance even more comfortable than before. We reiterate our BUY recommendation.

ANALYSIS

- Whether in relative terms (this is the first out of four publications from European Pharma companies that is considered positive) or in absolute terms, GSK's FY release looks good to us and backs our theory that the company is back on the right track to perform well in 2016 and beyond, although we are less bullish than management about the value of the R&D pipeline.
- For Q4 numbers, we would highlight the following: (i) sales were slightly ahead of our expectations despite ups and downs, although the Respiratory franchise was up in the US (by 3%) for the first time since Q4 2013, in line with management's estimates and reflecting the balance between the further decline in Advair sales but not largely offset by the contribution of new products Incruse, Anoro and more particularly Breo (GBP99m in Q4 vs GBP64m in Q3). Adding in Nucala, launched at the very end of 2015 and for which GSK does not anticipate any pricing issues, and despite a further drop of around 20% in 2016e for Advair in both the US and Europe, the entire Respiratory franchise (not only the US) that should show grow in 2016; (ii) the situation was tougher in Vaccines and in CHC, with actual numbers both slightly below estimates, admittedly with a limited margin but reflecting a mixed picture in both divisions. In Vaccines, GSK did reasonably well with Synflorix, while the flu vaccine was also in line, but suffered with pediatric vaccines and we were disappointed by the former Novartis products as well. In CHC, the growth rate fell from 7% over the first nine months to 5% in Q4 although this may have been due to tougher comparison with the same quarter last year when supply restrictions for denture care were removed; (iii) ViiV Healthcare was again very strong and Triumeq in particular exceeded our projections by far with GBP289m in the quarter.
- Net income was roughly in line too although COGS were higher as a percent of sales. In reported terms, it fell 21% in 2015 and the base for the recovery phase ahead is therefore GBP75.7.
- Looking ahead, obviously the two key elements from the release and the call are (i) reiterated guidance i.e. double-digit EPS growth in 2016 (meaning 10%, not more), with confirmation of our assumption that currencies could add about 5% at current levels; (ii) the target to generate GBP6bn in sales with new products has been advanced by two years from 2020 to 2018, leaving the way open to beat mid-term guidance.

VALUATION

- GSK's valuation has become a difficult matter due to the complex agreements in place with minority shareholders in ViiV and CHC. There are a lot of moving parts here, some of which are cash influencial but others not, P&L influencial but not always and for which sometimes it is worth changing the accounting methodology. What's new for instance, is that GSK will start recognising the liability for the put option Pfizer and Shionogi have on ViiV in its balance sheet in Q1 2016.
- Although working capital, the tax rate and minority interests have moved in the opposite direction, we have increased our FV slightly as the profitability mix is favouring wholly-owned assets, WACC is reduced by higher debt and Triumeq and Breo are revised upwards. Although the upside to our FV is not the greatest, we think GSK is a safe play for 2016 in the European Pharma space.

NEXT CATALYSTS

- 5th February 2016: Sell-side meeting with management Click here to download

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Luxury & Consumer Goods

The Swatch Group

Price CHF334.30

2016 EBIT lowered by 4% after 2015 results

Fair Value CHF410 vs. CHF420 (+23%) NEUTRAL

Bloomberg	UHR VX
Reuters	UHR.VX
12-month High / Low (CHF)	445.7 / 313.9
Market Cap (CHF)	18,410
Ev (BG Estimates) (CHF)	17,257
Avg. 6m daily volume (000)	248.0
3y EPS CAGR	-3.5%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-4.5%	-13.6%	-19.1%	-4.5%
Pers & H/H Gds	-1.9%	-6.3%	-7.7%	-1.9%
DJ Stoxx 600	-9.9%	-12.9%	-17.5%	-9.9%

YEnd Dec. (CHFm)	2014	2015e	2016e	2017e
Sales	8,709	8,451	8,900	9,410
% change		*-3.0%*	*5.3%*	*5.7%*
EBITDA	2,062	1,817	1,935	2,105
EBIT	1,752	1,451	1,610	1,770
% change		*-17.2%*	*11.0%*	*9.9%*
Net income	1,385	1,089	1,230	1,360
% change		*-21.4%*	*12.9%*	*10.6%*

	2014	2015e	2016e	2017e
Operating margin	20.1	17.2	18.1	18.8
Net margin	15.9	12.9	13.8	14.5
ROE	13.3	9.7	10.3	10.4
ROCE	15.4	11.5	11.3	11.2
Gearing	-13.0	-10.0	-7.9	-6.2

(CHF)	2014	2015e	2016e	2017e
EPS	25.57	20.11	20.76	22.96
% change	-	*-21.4%*	*3.3%*	*10.6%*
P/E	13.1x	16.6x	16.1x	14.6x
FCF yield (%)	3.9%	1.2%	1.6%	2.0%
Dividends (CHF)	7.50	7.50	7.88	8.27
Div yield (%)	2.2%	2.2%	2.4%	2.5%
EV/Sales	2.0x	2.0x	2.0x	1.9x
EV/EBITDA	8.3x	9.5x	9.0x	8.4x
EV/EBIT	9.7x	11.9x	10.8x	9.9x

Following poor 2015 results, we are lowering our FY 2016 EBIT estimate by 4%. In view of this we have reduced our FV from CHF420 to CHF410. Neutral recommendation unchanged.

ANALYSIS

- **In 2015, The Swatch Group did not change its historical pricing policy remaining very cautious concerning price increases**, particularly in the entry-segment brands such as Swatch and Tissot as competition in this segment is quite severe, especially from brands with non-CHF production costs and therefore not affected by the strength of the Swiss currency. The CEO's main objective is to increase brand volumes and to gain market share. Beyond lower production capacity utilisation, the negative product and geographical mix also explained the profitability decline (EBIT margin lost 300bp of which -380bp in H2). In 2015, The Swatch Group opened 100 own stores of which 40 for the Swatch brand and seven for Omega. Retail accounts for 25 to 30% of Group sales. In 2016, it expects to open 60 to 80 stores.

- **Negative product mix in 2015**. While sales were down 3% at same forex, volumes were well oriented but with a negative product mix. Sales of gold watches were down even in volume terms and the luxury Breguet brand suffered due to its Russian exposure. On the other hand, Blancpain sales grew in volumes and were strong in Mainland China, while the mix was lowered thereby implying a sales decline in value terms and in CHF. In the high-end segment again, Omega sales grew slightly in volumes but there again with a lower average selling price. Lastly, even Tissot suffered in value (negative mix) with more quartz watches sold than mechanical ones. On the other hand, Longines did very well both in volume and in value, and this trend is continuing, with for instance a 16% sales increase in Mainland China in January 2016 (at same forex).

- **Negative geographical mix**: in 2015, sales momentum was under pressure in Mainland China (around 20% of sales) with no more than low single digit sales growth (at same forex) and an even tougher situation in Hong Kong (15% of sales) with a 20% sales decline. In HK wholesale sales declined by 40 to 50% depending on the brand names while retail sales were down close to 12%. These two regions are very profitable. In HK, negociations with landlords, for lower rents were more successful than a year ago. US sales were also down last year, clearly affected by the negative wholesale trend. France sales were up 25% (+30% on 9m but decline in November and December). UK sales were up 10%.

- **Furthermore, The Swatch Group continued to invest in marketing in 2015** with a higher amount spent than in 2014, particularly with the Tissot agreement with the NBA (CHF25m per year over seven years) that should have a positive impact on brand awareness both in the US and also in Mainland China (basket-ball is the most popular game in MC with more than 300m people practising). The Swatch Group spent almost 12-13% of sales on marketing/communication in 2015. In 2016, management expects to spend almost the same amount despite the cost of the Olympic Games in Rio in August. Nevertheless, it is clear that if there is an interesting opportunity in terms of marketing or communication, Mr Hayek will not hesitate to invest.

- **Following 2015 results, we adjust our 2016 sales and EBIT. We are lowering our EBIT by 4%.** We expect sales to rise 5% and margin to widen slightly (+90bp to 18.1%), as marketing costs should be under control despite the Rio OG. Furthermore, the Swatch brand (sales estimated at CHF700) is close to signing an agreement with an eyewear manufacturer to launch a range of glasses.

VALUATION

- Given our new 2016 estimates, **our FV is reduced to CHF410 vs CHF420**. Neutral recommendation unchanged. The stock is trading in line with sector average.

NEXT CATALYSTS

- Mid July 2016: H1 results

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TMT

ARM Holdings

Price 981.00p

Google is about to support ARM based server chips

Fair Value 1310p (+34%) **BUY**

Bloomberg	ARM.LN
Reuters	ARM.L
12-month High / Low (p)	1,205 / 848.5
Market Cap (GBPm)	13,785
Ev (BG Estimates) (GBPm)	12,818
Avg. 6m daily volume (000)	4,242
3y EPS CAGR	17.3%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-5.6%	-4.9%	-2.6%	-5.6%
Semiconductors	-6.5%	-6.4%	-9.6%	-6.5%
DJ Stoxx 600	-8.5%	-11.2%	-15.6%	-8.5%

YEnd Dec. (GBPm)	2014	2015e	2016e	2017e
Sales	795.2	965.8	1,104	1,226
% change		*21.5%*	*14.3%*	*11.1%*
EBITDA	437	543	611	692
EBIT	400.4	498.1	559.6	634.9
% change		*24.4%*	*12.4%*	*13.5%*
Net income	342.8	428.1	481.2	551.2
% change		*24.9%*	*12.4%*	*14.5%*

	2014	2015e	2016e	2017e
Operating margin	50.3	51.6	50.7	51.8
Net margin	43.1	44.3	43.6	45.0
ROE	16.7	18.7	17.4	17.3
ROCE	36.6	46.7	53.2	62.5
Gearing	-43.7	-53.0	-61.2	-67.6

(p)	2014	2015e	2016e	2017e
EPS	24.12	30.21	33.95	38.89
% change	*-*	*25.2%*	*12.4%*	*14.5%*
P/E	40.7x	32.5x	28.9x	25.2x
FCF yield (%)	0.0%	0.0%	0.0%	0.0%
Dividends (p)	6.06	7.37	9.43	11.70
Div yield (%)	0.6%	0.8%	1.0%	1.2%
EV/Sales	16.5x	13.3x	11.3x	9.8x
EV/EBITDA	30.0x	23.6x	20.4x	17.4x
EV/EBIT	32.8x	25.7x	22.3x	19.0x

According to Bloomberg, Google is about to officially support Qualcomm in its server chips crusade. Indeed, we knew that Qualcomm was preparing a server chip for a top-tier server customer but we did not yet know its name. The official announcement is scheduled for next week Bloomberg says. Since Google is the first server chip consumer with about 5% of WW shipments (>1m processors per year), this would be a real support to the new Qualcomm's server chip business. We see a direct positive read-across for ARM since these chips will be based on the ARMv8-A instruction set. As a result, any shipments from Qualcomm to Google would generate royalties for ARM. In addition, we believe that the indirect positive impacts could also be important since this announcement would give credibility to ARM server processors and strengthen the ARM server ecosystem.

ANALYSIS

- **According to Bloomberg, Google is about to officially support Qualcomm's server chips.** Citing anonymous sources, Bloomberg says that Google is partnered in the development of a Qualcomm server chip. This is particularly positive for Qualcomm which is currently struggling in a tough and competitive smartphone market. It is also very positive for ARM Holdings since Qualcomm uses ARM architecture to design its server chips. Our first guess would go for a 24-core System-on-Chip (SoC) based on the ARMv8-A instruction set built on the FinFET process and targeting hyper scale data center. We know that Qualcomm has recently tested such a chip running the entire software stack for server (Linux kernel 2.4, KVM virtualization, OpenStack for cloud orchestration and guest virtual machine running standard Linux, Apache and Wordpress).
- **Direct impacts for ARM:** According to IDC, Google is the largest consumer of server chips (almost exclusively Intel so far), with about 5% of worldwide shipments or 1.2m processors per year (making it the largest end-user of Intel processors). This data is set to increase rapidly given the historical evolution of Google's data-center demand, which is 3x bigger today than in 2011. In the (very hypothetical and very first take) scenario of a Qualcomm chip with an ASP of USD200 (half compared to Intel's cheapest one), a 15% market share at Google, and a conservative 2.5% royalty rate for ARM Holding (similar to the current ARMv8-A royalty rate for standard smartphone), the impact would be an additional c. USD1m in ARM's revenues.
- **Indirect impact for ARM:** Bloomberg is right when it says it is a crucial stamp for Qualcomm and we would also add for ARM Holdings. ARM has been trying to penetrate the server market since 2010 at least and the lack of partners in this adventure was disappointing. As we highlighted in our ARM initiation report released in December, we currently observe a growing interest in ARM based server chips from 1/ chip makers, 2/ server manufacturers, 3/ customers and 4/ software developers and vendors. Since it is currently the largest customer of server chips, Google will bring significant credibility to ARM server chips. As a result, in our view, the indirect impacts could be larger than direct impacts.
- Currently, we include a relatively small amount of sales from server chips in our ARM scenario. We expected a development like this in the server segment but it might go faster than our anticipations. Currently we have about 3% of royalties revenues (2% of total group sales), or USD40m, in our 2018e total group revenues estimates of more than USD2bn (GBP1.37bn).

VALUATION

- Currently, ARM Holdings shares trade at a 2016e P/E ratio of 34.0x.

NEXT CATALYSTS

- 10th February 2016: FY15 results.

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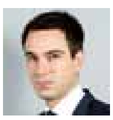

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TMT

Dassault Systèmes

Price EUR69.81

FY15 results slightly above our estimates, investments will weigh on the margin in 2016

Fair Value EUR65 (-7%) **SELL**

Bloomberg	DSY FP
Reuters	DAST.PA
12-month High / Low (EUR)	76.1 / 54.8
Market Cap (EUR)	17,922
Ev (BG Estimates) (EUR)	16,487
Avg. 6m daily volume (000)	300.9
3y EPS CAGR	18.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-5.4%	-4.1%	0.1%	-5.4%
Softw.& Comp.	-5.1%	-2.9%	1.4%	-5.1%
DJ Stoxx 600	-9.9%	-12.9%	-17.5%	-9.9%

YEnd Dec. (€m)	2014	2015e	2016e	2017e
Sales	2,294	2,822	3,161	3,480
% change		*23.0%*	*12.0%*	*10.1%*
EBITDA	677	887	1,046	1,191
EBIT	430.8	630.3	802.1	943.6
% change		*46.3%*	*27.3%*	*17.6%*
Net income	486.3	632.2	729.8	822.9
% change		*30.0%*	*15.4%*	*12.8%*

	2014	2015e	2016e	2017e
Operating margin	27.6	29.7	31.5	32.7
Net margin	12.7	15.0	16.8	17.9
ROE	9.8	13.0	14.4	15.1
ROCE	22.6	33.9	44.9	59.7
Gearing	-27.6	-43.8	-56.7	-67.5

(€)	2014	2015e	2016e	2017e
EPS	1.88	2.43	2.79	3.15
% change	-	*29.7%*	*14.9%*	*12.6%*
P/E	37.2x	28.7x	25.0x	22.2x
FCF yield (%)	2.5%	4.2%	4.4%	4.8%
Dividends (€)	0.43	0.45	0.52	0.61
Div yield (%)	0.6%	0.6%	0.7%	0.9%
EV/Sales	7.5x	5.8x	5.0x	4.3x
EV/EBITDA	25.3x	18.6x	15.1x	12.7x
EV/EBIT	27.0x	19.6x	15.9x	13.3x

This morning Dassault Systèmes reported FY15 results slightly above our expectations and ahead of the consensus average, posting Q4 revenues 6% above the top-end of the guidance range (o/w an est. 3% on fx) and a non-IFRS operating margin 1.8ppt above the group's projections. FY16 company guidance (sales up 6-7% lfl, op. margin up 0.2ppt to c. 31%) is below our ests. and embeds the impact of a more volatile economic environment and investments in R&D and sales channels, which will weigh on the operating margin. We expect a negative share price reaction in the short term.

ANALYSIS

- **FY15 results slightly above our expectations**. For 2015, on a non-IFRS basis, revenues were up 23% (+12% non-IFRS at cc and an est. +7% lfl) to EUR2.877bn, while the operating margin was up 1ppt to 30.8%, and EPS rose 24% to EUR2.25. On a lfl basis, the non-IFRS operating margin was up 1.2ppt and new licence sales grew by 11%. These figures were slightly above our ests. (sales EUR2,859m, operating margin 30.7%, EPS EUR2.17) and ahead of the consensus average (sales EUR2,843m, operating margin 30.3%, EPS EUR2,23). The figures were also above the high-end of the company's guidance range (non-IFRS sales up c. 12% cc to EUR2,820-2,830m, non-IFRS operating margin of c. 30%, and a non-IFRS EPS of c. EUR2.20, all based on EUR/USD and EUR/JPY assumptions of 1.12 and 135, vs. actual rates of 1.11 and 134).
- **Q4 2015 details**. With non-IFRS lfl sales growth of 8% to EUR802.1m and a 35.8% non-IFRS op. margin (+3.3ppt) for Q4, Dassault Systèmes was 6% (o/w an est. 3% on fx) above the top-end of its sales target (+5%/+6% cc to EUR745-755m) and 1.8ppt ahead of its op. margin (c. 34%) goal. On the product side, sales were up 8% lfl for Catia (licence sales up double-digit), up 14% lfl for Enovia (increasing 3DExperience adoption), and up 11% cc (driven by maintenance) for SolidWorks, while other software products were up 6% lfl (solid performance of Simulia). At the geographical level, on a lfl basis, Europe was up 5% (tough comps), the Americas were up 9% (driven by North America) and Asia was up 12%. Finally, on a lfl basis, non-IFRS initial licence fees and recurring licence fees were respectively up 11% and 7% - the latter being driven by strong growth in maintenance.
- **FY16 guidance below our forecast**. We consider the FY16 guidance (non-IFRS sales up 6-7% lfl to EUR2,980-3,010m based on double-digit lfl growth in new licence sales, non-IFRS op. margin up 0.2ppt to c. 31%, non-IFRS EPS up 7% to c. EUR2.40, based on EUR/USD and EUR/JPY of 1.14 and 130), is, restated from the fx assumptions we had so far (EUR/USD 1.09, EUR/JPY 131), 3% below our expectations for sales (BG est.: EUR3,163m or +9.5% at cc; consensus: EUR3,065m), and 0.5ppt behind our ests. on the non-IFRS op. margin (BG est.: 31.5%; consensus: 31.7%). The company anticipates a more back-end loaded year based on a volatile economic environment, while DS plans to accelerate investments in R&D and sales channels. For Q1 2016, DS expects non-IFRS sales up an est. 5-8% lfl to EUR685-695m (BG est.: EUR732m), a non-IFRS op. margin of 24-25% (-1.8ppt/-0.8ppt), and a non-IFRS EPS of EUR0.42-0.45 (-2%/+5%).

VALUATION

- Dassault Systèmes' shares are trading at est. 15.9x 2016 and 13.3x 2017 EV/EBIT multiples.
- Net cash position on 31st December 2015 was EUR1,351.3m (net gearing: -39%).

NEXT CATALYSTS

Analysts' meeting at 10.30am CET / 9.30am BST / 4.30am EDT in Paris (Pavillon Gabriel, 5 avenue Gabriel) – call +33 1 70 48 01 66 (France) or +44 20 34 27 19 07 (UK). Conference call at 3pm CET / 2pm BST / 9am EDT (Europe: +44 14 52 54 10 03; USA: +1 646 741 21 20).

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Construction & Building Materials

LafargeHolcim

Price CHF39.89

Birla deal cancelled + third largest shareholder to exit

Fair Value CHF60 (+50%) **SELL**

Bloomberg	HOLN VX
Reuters	HOLZn.VX
12-month High / Low (CHF)	72.9 / 39.9
Market Cap (CHFm)	24,210
Ev (BG Estimates) (CHFm)	42,746
Avg. 6m daily volume (000)	1,808
3y EPS CAGR	30.4%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-20.7%	-29.8%	-37.8%	-20.7%
Cons & Mat	-7.2%	-7.4%	-11.0%	-7.2%
DJ Stoxx 600	-9.9%	-12.9%	-17.5%	-9.9%

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

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

(EUR)	2014	2015e	2016e	2017e
EPS	2.06	2.06	3.27	4.57
% change	-	*0.1%*	*58.8%*	*39.6%*
P/E	19.4x	19.3x	12.2x	8.7x
FCF yield (%)	2.0%	7.4%	8.6%	13.0%
Dividends (EUR)	1.30	1.30	1.30	1.30
Div yield (%)	3.3%	3.3%	3.3%	3.3%
EV/Sales	1.3x	1.4x	1.3x	1.2x
EV/EBITDA	6.5x	7.2x	6.2x	5.1x
EV/EBIT	11.3x	13.1x	10.3x	7.7x

In a press release this morning, LafargeHolcim confirms it is no longer in discussions with Birla (regarding the disposal of 5mt in cement capacity) because of regulatory issues. A new proposal with the Indian anti-trust authorities is underway. According to the press, Birla has decided to take legal action against the Swiss group. Finally, Bloomberg said this morning that Russian bank Sberbank is about to sell the 37.2 million shares it acquired recently from Russian cement group Eurocement. The stake would be valued at CHF1.5bn at the current LafargeHolcim share price.

Firstly : last August, LafargeHolcim signed a deal with Indian group Birla to sell some assets in India, mostly two plants in the east with 5m tonnes in cement capacity, for an EV of CHF750m. Due to some legal issues regarding the transfer of mining rights, which cannot simply be transferred anymore since the new Mining Act voted last year, the process has not been finalised. Finally, according to the press, Birla has not only decided to cancel the deal signed last summer, but also to take legal action against LafargeHolcim. It is difficult to foresee what could be the issue of such a legal process, especially in a complex country like India.

Secondly : in a press release published this morning, LafargeHolcim confirms it is no longer in discussions with the Birla group. It confirms the mining rights transfert was an issue. Furthermore it announced it has submitted a new proposal to the CCI, the Competition Commission of India. This alternate remedy would be to divest Lafarge India as a whole. This would resolve the mining rights issue, as they would stay within the company, LafargeHolcim IR said to us yesterday. In this scenario, 11 million tons of cement capacity would be sold. LafargeHolcim would remain a very strong player in India though, with 62 mt of capacity.

Finally, regarding Sherbank: the Russian institution acquired last month from Eurocement the 37 millions shares it is about to sell (the two groups have a cooperation agreement, says Bloomberg). Eurocement was the third largest shareholder of LH with 6.12% stake. The first shareholders are Thomas Schmidheiny vehicle SC-IG with 12% of voting rights, Groupe Bruxelles Lambert with 10% and Egyptian Nasser Sawiris holding NSS with 5%. Sherbank shares are valued at CHF1.5bn, based on the current share price.

ANALYSIS

- The difficulties faced in India are not very positive for LH, as the disposal of 5mt of capacity was mandatory, in order to comply with the Competition Commission of India. So in any case, they must find a solution but we suspect it is just a matter of time here and that selling 5 or 11 mt will not be that different – except for the synergies expected to be generated by the combination of Holcim and Lafarge assets (knowing that India represents 11% of LH sales and that EBITDA level synergies are estimated at CCHF1.1bn).
- Sberbank is likely to be seen as negative newsflow, the amount to be sold is significant. We ignore the reasons behind the operation, but the share price is likely to be under pressure today.

VALUATION

- CHF60 FV derived from the application of historical multiples to our 2017 estimates, then discounted back.

NEXT CATALYSTS

- 2015 FY results to be published on 17th March 2015, pre-market.

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Luxury & Consumer Goods

The Swatch Group

Price CHF334.30

2016 EBIT lowered by 4% after 2015 results

Fair Value CHF410 vs. CHF420 (+23%) **NEUTRAL**

Bloomberg	UHR VX
Reuters	UHR.VX
12-month High / Low (CHF)	445.7 / 313.9
Market Cap (CHF)	18,410
Ev (BG Estimates) (CHF)	17,257
Avg. 6m daily volume (000)	248.0
3y EPS CAGR	-3.5%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-4.5%	-13.6%	-19.1%	-4.5%
Pers & H/H Gds	-1.9%	-6.3%	-7.7%	-1.9%
DJ Stoxx 600	-9.9%	-12.9%	-17.5%	-9.9%

YEnd Dec. (CHFm)	2014	2015e	2016e	2017e
Sales	8,709	8,451	8,900	9,410
% change		*-3.0%*	*5.3%*	*5.7%*
EBITDA	2,062	1,817	1,935	2,105
EBIT	1,752	1,451	1,610	1,770
% change		*-17.2%*	*11.0%*	*9.9%*
Net income	1,385	1,089	1,230	1,360
% change		*-21.4%*	*12.9%*	*10.6%*

	2014	2015e	2016e	2017e
Operating margin	20.1	17.2	18.1	18.8
Net margin	15.9	12.9	13.8	14.5
ROE	13.3	9.7	10.3	10.4
ROCE	15.4	11.5	11.3	11.2
Gearing	-13.0	-10.0	-7.9	-6.2

(CHF)	2014	2015e	2016e	2017e
EPS	25.57	20.11	20.76	22.96
% change	-	*-21.4%*	*3.3%*	*10.6%*
P/E	13.1x	16.6x	16.1x	14.6x
FCF yield (%)	3.9%	1.2%	1.6%	2.0%
Dividends (CHF)	7.50	7.50	7.88	8.27
Div yield (%)	2.2%	2.2%	2.4%	2.5%
EV/Sales	2.0x	2.0x	2.0x	1.9x
EV/EBITDA	8.3x	9.5x	9.0x	8.4x
EV/EBIT	9.7x	11.9x	10.8x	9.9x

Following poor 2015 results, we are lowering our FY 2016 EBIT estimate by 4%. In view of this we have reduced our FV from CHF420 to CHF410. Neutral recommendation unchanged.

ANALYSIS

- **In 2015, The Swatch Group did not change its historical pricing policy remaining very cautious concerning price increases**, particularly in the entry-segment brands such as Swatch and Tissot as competition in this segment is quite severe, especially from brands with non-CHF production costs and therefore not affected by the strength of the Swiss currency. The CEO's main objective is to increase brand volumes and to gain market share. Beyond lower production capacity utilisation, the negative product and geographical mix also explained the profitability decline (EBIT margin lost 300bp of which -380bp in H2). In 2015, The Swatch Group opened 100 own stores of which 40 for the Swatch brand and seven for Omega. Retail accounts for 25 to 30% of Group sales. In 2016, it expects to open 60 to 80 stores.
- **Negative product mix in 2015**. While sales were down 3% at same forex, volumes were well oriented but with a negative product mix. Sales of gold watches were down even in volume terms and the luxury Breguet brand suffered due to its Russian exposure. On the other hand, Blancpain sales grew in volumes and were strong in Mainland China, while the mix was lowered thereby implying a sales decline in value terms and in CHF. In the high-end segment again, Omega sales grew slightly in volumes but there again with a lower average selling price. Lastly, even Tissot suffered in value (negative mix) with more quartz watches sold than mechanical ones. On the other hand, Longines did very well both in volume and in value, and this trend is continuing, with for instance a 16% sales increase in Mainland China in January 2016 (at same forex).
- **Negative geographical mix**: in 2015, sales momentum was under pressure in Mainland China (around 20% of sales) with no more than low single digit sales growth (at same forex) and an even tougher situation in Hong Kong (15% of sales) with a 20% sales decline. In HK wholesale sales declined by 40 to 50% depending on the brand names while retail sales were down close to 12%. These two regions are very profitable. In HK, negociations with landlords, for lower rents were more successful than a year ago. US sales were also down last year, clearly affected by the negative wholesale trend. France sales were up 25% (+30% on 9m but decline in November and December). UK sales were up 10%.
- **Furthermore, The Swatch Group continued to invest in marketing in 2015** with a higher amount spent than in 2014, particularly with the Tissot agreement with the NBA (CHF25m per year over seven years) that should have a positive impact on brand awareness both in the US and also in Mainland China (basket-ball is the most popular game in MC with more than 300m people practising). The Swatch Group spent almost 12-13% of sales on marketing/communication in 2015. In 2016, management expects to spend almost the same amount despite the cost of the Olympic Games in Rio in August. Nevertheless, it is clear that if there is an interesting opportunity in terms of marketing or communication, Mr Hayek will not hesitate to invest.
- **Following 2015 results, we adjust our 2016 sales and EBIT. We are lowering our EBIT by 4%.** We expect sales to rise 5% and margin to widen slightly (+90bp to 18.1%), as marketing costs should be under control despite the Rio OG. Furthermore, the Swatch brand (sales estimated at CHF700) is close to signing an agreement with an eyewear manufacturer to launch a range of glasses.

VALUATION

- Given our new 2016 estimates, **our FV is reduced to CHF410 vs CHF420**. Neutral recommendation unchanged. The stock is trading in line with sector average.

NEXT CATALYSTS

- Mid July 2016: H1 results

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Sector View

Utilities

2015 power consumption boosted by auto & metal sectors as well as climate

	1 M	3 M	6 M	31/12/15
Utilities	-2.6%	-5.9%	-8.1%	-2.6%
DJ Stoxx 600	-8.5%	-11.2%	-15.6%	-8.5%

*Stoxx Sector Indices

Companies covered

ALBIOMA		**BUY**	**EUR20**
Last Price	EUR12,99	*Market Cap.*	EUR387m
E.ON		**BUY**	**EUR10,2**
Last Price	EUR9,26	*Market Cap.*	*EUR18,529m*
EDF		**BUY**	**EUR14,5**
Last Price	EUR11,56	*Market Cap.*	*EUR22,197m*
ENGIE		**BUY**	**EUR19**
Last Price	EUR14,32	*Market Cap.*	*EUR34,873m*
PENNON GROUP		**NEUTRAL**	**800p**
Last Price	889p	*Market Cap.*	*GBP3,666m*
RWE		**NEUTRAL**	**EUR9,8**
Last Price	EUR12,3	*Market Cap.*	*EUR7,454m*
SUEZ		**BUY**	**EUR19**
Last Price	EUR17,195	*Market Cap.*	*EUR9,331m*
VEOLIA ENVIRONNEMENT		**NEUTRAL**	**EUR22,5**
Last Price	EUR22,36	*Market Cap.*	*EUR12,597m*
VOLTALIA		**BUY**	**EUR13**
Last Price	EUR9,51	*Market Cap.*	*EUR249m*

According to French grid operator RTE, French power consumption rose >2% YoY (incl. climate effect) and 0.5% organically to 476.3TWh last year, helped by greater usage of air conditioning systems and a slight recovery in both the auto and metal sectors in France. As already unveiled by EDF, nuclear output was important, still representing 76% of French power production, while renewables continued to take market share from fossil fuel assets, and more precisely from coal assets.

ANALYSIS

- **A quick look back at the main electricity statistics for 2015:** According to French grid operator, RTE, French power consumption rose **0.5%** to **476.3TWh** in 2015, boosted by increased demand in the car manufacturing and metallurgic sectors, compared with last year. Including the climate effect, which had a beneficial impact on power consumption (warmer than average temperatures but colder temperatures compared with last year), final power consumption increased by **2.2%** to **475.4TWh**. Power consumption **by industrials** (15% of net final power consumption) **remained stable** compared with last year, with the auto and metal sectors driving up volumes consumed (+5% and +5.6% respectively) while the chemical, steel and paper industries contributed negatively (respectively -1.3%, -2.3% & -4.1%). Consumption from **private households, small companies and professionals** (all connected to the distribution network, and not to the transmission network as is the case for industrials) was slightly up at **+0.6%.**

- **Increasing renewables usage, to the detriment of coal:** Like everywhere in Europe, renewable energies continued to develop in France with a strong rise in installed capacity to the detriment of coal assets. French installed power capacity remained almost stable at 129G.3W (+584MW) with nuclear still representing **63GW or 49%**, while the share of thermal assets in total capacity declined by **1.5pp to 17.4%** with installed capacities representing **22.5GW**. Most of the **1.4GW** negative adjustment was made in coal fired assets, which now represent only **3GW** of installed power capacity. The installed base of gas assets remained stable. The 584MW increase in total French power capacity therefore stemmed from additional renewables installations, **with +1GW from wind and +895MW from solar**. All combined (excluding hydro), renewables now represent **14%** of the French power grid, and **6.7%** of French power production. Back in 2010, renewables represented only **2.7%** of production.

- **Nuclear, still important:** As mentioned above, nuclear still represents an important share of French power production (67%) despite the ramp-up of renewable energies. EDF's difficulties do not so much concern the volumes it is able to produce and sell on the market, but more which market it is able to sell on. In such a limited growth consumption environment, higher installed power capacities (net positive) means a stronger part of nuclear output is set to be exported outside France, sometimes at prices lower than the French average (Germany principally). According to RTE, last year's spot price in central western Europe converged **19%** of the time, as in 2014. In our view, a greater coupling between countries in the region will not help EDF we think as it could further boost power exportations (91.3TWh exported from France last year, with a net positive balance of 61.7TWh). **No indications were given for 2016 on the total power consumption expected by the French grid operator, but on an average climate basis we assume no real growth given the very limited economic rebound expected this year.**

VALUATION

- At the current share price, the utilities sector is trading at 7.6x 2016e EBITDA and offers a 4.4% yield.

NEXT CATALYSTS

- 16th February – EDF // 2015 earnings

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Sector View

Semiconductors

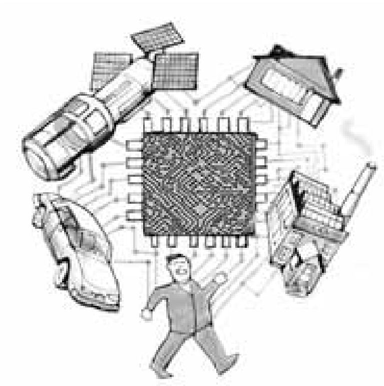
December data well below seasonal figure but January sales should be back in line

	1 M	3 M	6 M	31/12/15
Semiconductors	-6.5%	-6.4%	-9.6%	-6.5%
DJ Stoxx 600	-8.5%	-11.2%	-15.6%	-8.5%

*Stoxx Sector Indices

Companies covered

ARM HOLDINGS		**BUY**	**1310p**
Last Price	981p	*Market Cap.*	GBP13,785m
ASML		**BUY**	**EUR85**
Last Price	EUR82.25	*Market Cap.*	*EUR35,642m*
DIALOG SEMICONDUCTOR		**NEUTRAL**	**EUR38**
Last Price	EUR27.625	*Market Cap.*	*EUR2,151m*
INFINEON		**BUY**	**EUR15**
Last Price	EUR11.725	*Market Cap.*	*EUR13,261m*
SOITEC		**NEUTRAL**	**EUR0.8**
Last Price	EUR0.52	*Market Cap.*	*EUR120m*
STMICROELECTRONICS		**NEUTRAL**	**EUR7**
Last Price	EUR5.484	*Market Cap.*	*EUR4,996m*



For December, preliminary WSTS data points to an overall global semiconductor market of USD27.2bn, down 1.0% sequentially and 9.0% yoy. This was in line with our previous comments but significantly below our 5-y historical benchmark pointing to a usual sequential increase of 7.8% in December. As a result, 2015 global semiconductor sales ended at USD335bn, flat compared to 2014 as expected. Despite, the current weak spot in the smartphone sector, we expect to see January sales in line with the historical benchmark thanks to a recent sharp rebound in automotive production in Asia (clearing of excess inventories coming to the end). In this environment, we continue to favour stocks with solid fundamentals compared to value stocks, namely ASML, ARM and Infineon.

ANALYSIS

- **Global semiconductor sales continued to decrease on a yoy basis with December sales at USD27.2bn, down 9.0% yoy.** On a sequential basis, December's global sales were down 1.0% compared to November's sales. This was well below our benchmark based on 5-y historical data showing an historical seasonal increase of 7.8% in December vs. November. As a result, 2015 global semiconductor sales ended at USD335bn, USD1bn down compared to 2014, broadly flat as expected. Based on the visibility we now have, we anticipate a tough environment in smartphones while we see signs of recovery in the automotive sector impacted by inventory adjustments so far. The macro economy index is stabilising despite remaining at a very low level (US and Chinese January. PMI index <50).

- **As for November, all regions, including Asia, showed a yoy decrease in sales.** Indeed, December's sales in Asia, which represent 60.0% of semiconductor billings (of which ~50% are made in China), were down by 2.4% yoy. This was the third time in 2015 that Asian sales were down (July and November before). US momentum was particularly weak with a yoy decrease of 25.1% in December 2015. European and Japanese sales were down by 7.6% and 8.4% respectively.

- **January and beyond: January sales expected to be weak, 2015 to be flat.** We expected global December sales to be weak but the figures were worse than expected. This was due to the recent slowdown in the smartphone market, especially for the Apple supply chain which benefited from strong resistance so far. We believe the environment will remain tough in this segment over H1 2016 (at least). We also expected the end of the inventory adjustments in the automotive and Industrial sectors during Q1 2016 and we now believe that the automotive sector will benefit from a sharp rebound in production in China. Finally, we continue to see the PC segment at the bottom with no signs of improvement. January ISM data was stable with the US PMI Manufacturing index at 48.2 but below the 50 level indicating that economic conditions remain fragile. January's production index however was higher at 50.2 after a sharp decrease from 52.9 to 49.2 in October, and the Inventories Index stuck at a very low level of 43.5. Chinese data improved slightly with Markit PMI Manufacturing at 48.4 vs 48.2 (and 51.3 in April 2015). For 2016, we expect limited growth for the semiconductor industry at 2-3% or WW sales of USD343bn at mid-point.

VALUATION

- **2016e P/E valuation lowered in January.** Our semiconductor valuation table highlights the valuation differences between the six sub-sectors of the industry. On average, IP & EDA vendors, and IDMs have the highest valuation metrics with an average 2016e P/E ratio of 16.9x and 15.2x respectively (down from 19.6x and 16.4x a month ago). Conversely, Memory makers have the lowest valuation with an average 2016e P/E ratio of 9.1x (down from 13.4x a month ago).

BG semiconductor sub-sectors valuation table

	YTD stocks perf.		2016e			
Subsector avg. (# of comp.)	Avg. / Med.	High / Low	EV/Sales	EV/EBITDA	EV/EBIT	P/E
Fabless (14)	-5.8% / -8.7%	17.6% / -24.9%	2.4x	8.4x	10.3x	15.1x
Logic & Analog IDM (16)	-6.8% / -5.1%	1.9% / -19.9%	2.5x	7.8x	11.0x	15.2x
Memory IDM (4)	-15.6% / -15.8%	-8.7% / -22.1%	0.8x	2.7x	6.5x	9.1x
Foundry (5)	-5.9% / -8.7%	6.2% / -15.2%	1.4x	3.8x	10.3x	11.6x
Semi Equip. & Materials (11)	-4.7% / -5.5%	8.4% / -19.6%	1.9x	8.6x	15.9x	14.6x
IP & EDA (10)	-2.8% / -4.2%	7.0% / -8.2%	4.2x	13.4x	17.0x	16.9x

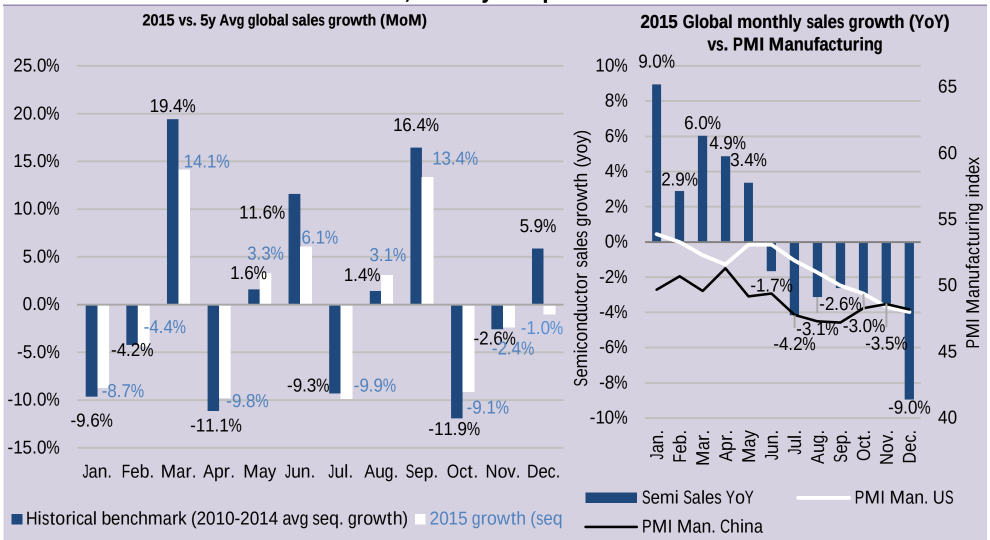
Numbers between brackets represent the number of companies in each category; green/red numbers are higher/lower data per ratio.

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

NEXT CATALYSTS

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

December sales are well below seasonal, January is expected to be in line



Sources: WSTS; Bryan Garnier & Co.

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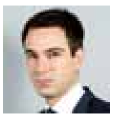

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Healthcare

AstraZeneca

Price 4,412p

First look at FY results suggests a clean delivery

Fair Value 5550p (+26%) **BUY-Top Picks**

Bloomberg	AZN LN
Reuters	AZN.L
12-month High / Low (p)	4,863 / 3,904
Market Cap (GBPm)	55,775
Avg. 6m daily volume (000)	2 273

	1 M	3 M	6 M	31/12/15
Absolute perf.	-4.4%	6.0%	1.6%	-4.4%
Healthcare	-9.7%	-10.2%	-16.9%	-9.7%
DJ Stoxx 600	-9.9%	-12.9%	-17.5%	-9.9%

	2014	2015e	2016e	2017e
P/E	15.1x	15.1x	15.9x	15.9x
Div yield (%)	4.3%	4.3%	4.3%	4.3%

ANALYSIS

- Although published a bit late to enable in-depth analysis, FY results from AstraZeneca look fairly clean. We note slightly higher than expected revenues, split equally between sales and outsourcing revenues. However, positive surprises mainly stemmed from mature drugs including Crestor (flat in Q4 vs negative first three quarters) and Nexium (only down 26%) whereas Symbicort was weak for instance.
- In terms of P&L structure, COGS was a touch higher than anticipated in Q4 but all in all there was no major deviation from expectations and core EPS stood at USD4.26 whereas the consensus was expecting USD4.27. As such, this will be the base for guidance.
- Precisely, for 2016, AstraZeneca is guiding towards a low-to-mid single digit decline in revenues and core EPS (with currencies adding a 3% negative). This is very reassuring guidance as it includes the two dilutive deals concluded recently i.e. ZS Pharma and Acerta. Obviously this factors in generics for Crestor as of May. This should then bring core EPS down to about USD4-4.05 which is very close to where the consensus is today. We were more conservative and should make some upward revisions to our numbers as we anticipated 11% reported core EPS in 2016.
- Now, with this reassuring resilience in short-term numbers, what is clearly more relevant to AZN's investment case is the way the pipeline is delivering and we know that 2016 will be rich in clinical and regulatory updates starting with the PINNACLES (PT003) and SOCRATES (Brilinta) phase III read-outs, saxa-dapa re-sumbission in the US and approvals for Tagrisso in Europe and ZS-9 in the US, all in H1 2016.

VALUATION

- We are very comfortable with our current FV. Adjustments to numbers to come.

NEXT CATALYSTS

- Today 1pm: Conference Call on FY results - Click here to download

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Business Services

Compass Group

Price 1,174p

Bloomberg	CPG LN
Reuters	CPG.L
12-month High / Low (p)	1,219 / 991.0
Market Cap (GBP)	19,302
Avg. 6m daily volume (000)	3 426

	1 M	3 M	6 M	31/12/15
Absolute perf.	-0.1%	8.2%	15.2%	-0.1%
Travel&Leisure	-9.2%	-7.3%	-5.6%	-9.2%
DJ Stoxx 600	-9.9%	-12.9%	-17.5%	-9.9%

	09/14	09/15e	09/16e	09/17e
P/E	23.9x	22.2x	20.8x	18.8x
Div yield (%)	2.3%	2.5%	2.7%	2.9%

Q1 IMS: A really strong start!

Fair Value 1200p (+2%) **NEUTRAL**

ANALYSIS

- **Good start:** With Ifl revenue growth of 5.9%, Q1 ending 31st December was really strong, ahead of our expectations and compared with competitors (in Q1 ending November 2015, Sodexo was up 4.7% on Ifl in OSS o/w 50% coming from RWC). By region **NA** (52% consolidated revenue) was really strong up 7.9% organically (Sodexo was up 2.9%), **Europe** (which now excludes Japan and includes Turkey and Russia representing all in all 29% of consolidated revenue) was up 3.6% (Sodexo +1%) sustained by new business wins particularly in the UK, the Mediterranean and the **RoW** (ex Fast Growing & Emerging including Japan and excluding Turkey and Russia) was up 3.6% (-4.2% for Sodexo) despite weaknesses in commodity related business in some emerging markets.
- **Outlook seems positive (as usual…):** The group's strategy is clearly delivering sustainable growth year after year. In fact, **NA** remained strong, **Europe** is improving and despite headwinds in **RoW,** good performances are really surprising bearing in mind that remote site and offshore represents 11% of consolidated revenue and around 50% of RoW. **Taking into account all of these elements, we can confirm without hesitation our estimate of 5.1% Ifl revenue growth over the FY.**

VALUATION

- At the current share price, the stock is trading at 16.2x EV/EBIT 2015-16e and 14.6x 2016-17e vs. 10y median historical of 12.5x and CAGR EBIT 2015-18e of 6.6%.

NEXT CATALYSTS

- Q1 IMS Conference call at 8.30 (UK time)
- H1 results on 11th May

Click here to download

Bruno de La Rochebrochard, bdelarochebrochard@bryangarnier.com

Insurance

Munich Re

Price EUR168.95

Strong Q4 numbers driven by reserve releases, higher than expected dividend

Fair Value EUR200 (+18%) **SELL**

Bloomberg	MUV2 GR
Reuters	MUVGn.DE
12-month High / Low (EUR)	205.9 / 158.7
Market Cap (EUR)	28,188
Avg. 6m daily volume (000)	789.6

	1 M	3 M	6 M	31/12/15
Absolute perf.	-8.5%	-7.0%	0.0%	-8.5%
Insurance	-14.9%	-15.0%	-15.8%	-14.9%
DJ Stoxx 600	-9.9%	-12.9%	-17.5%	-9.9%

	2014	2015e	2016e	2017e
P/E	9.0x	8.8x	10.0x	9.5x
Div yield (%)	4.6%	4.7%	4.7%	4.7%

ANALYSIS

- Preliminary Q4 2015 net income came in at EUR0.7bn, in line with expectations (EUR0.73bn). Q4 operating profit was EUR1.4bn, way ahead of the consensus (EUR1.09bn), driven by higher reserve releases in P&C reinsurance. FY net income was EUR3.1bn, in line with the consensus and slightly ahead of company guidance (c. EUR3bn).
- Q4 2015 reinsurance combined ratio was 78.6% (vs. consensus 91.5%), driven by low large losses (c. 4.8 pts) and very high reserve releases (20.9 pts). The reported FY combined ratio was 89.7% vs. 92.7% in 2014. Excluding large losses and reserve releases, it stood at 91.7% vs. 90.8% last year. The normalised combined ratio was c. 98.7% vs. c. 98% last year, illustrating the underlying deterioration in the P&C reinsurance business. FY investment income was EUR7.5bn (consensus EUR7.7bn), leading to a 3.2% return (vs. 3.6% in 2014).
- The dividend was EUR8.25 vs. EUR7.75 last year, higher than consensus (EUR8.1). The current share buy-back programme (EUR1bn from April 2015 to April 2016) is on track (EUR0.8bn currently). No mention of a new programme at this stage.
- Concerning January 2016 renewals (more than 50% of FY treaty business), the volume of business written was up 0.7% to EUR9.2bn, including a negative price impact of c. 1%.
- -> Operating numbers were strong but mainly driven by than expected higher reserve releases. The really good news concerned the dividend (4.9% yield).

VALUATION

- Based on our current 2016 estimates, our SOTP valuation works out to EUR200.

NEXT CATALYSTS

- Full reporting for Q4/FY 2015 is due on 16th March 2016.

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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 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 61.2% NEUTRAL ratings 29.9% SELL ratings 9%

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