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22nd February 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	16391.99	-0.13%	-5.93%
S&P 500	1917.78	0.00	-6.17%
Nasdaq	4504.43	+0.38%	-10.04%
Nikkei	16111.05	+0.9%	-16.11%
Stoxx 600	326.368	-0.77%	-10.78%
CAC 40	4223.04	-0.39%	-8.93%
Oil /Gold			
Crude WTI	29.78	-2.52%	-19.95%
Gold (once)	1232.03	+1.20%	+15.97%
Currencies/Rates			
EUR/USD	1.11065	+0.06%	+2.24%
EUR/CHF	1.1012	-0.19%	+1.27%
German 10 years	0.204	-4.65%	-67.91%
French 10 years	0.56	-3.36%	-42.92%
Euribor	-0.198	+1.54%	+51.15%

Economic releases :

Date	
22nd-Feb	JP - Nikkei PMI Manuf. Feb. (50.2A, 52 E) DE - Markit Manuf. PMI Feb. (51.9E) EUZ - Markit Eurozone Manuf. PMI Feb. (52E) US - Markit US Manuf PMI (52.5 E)

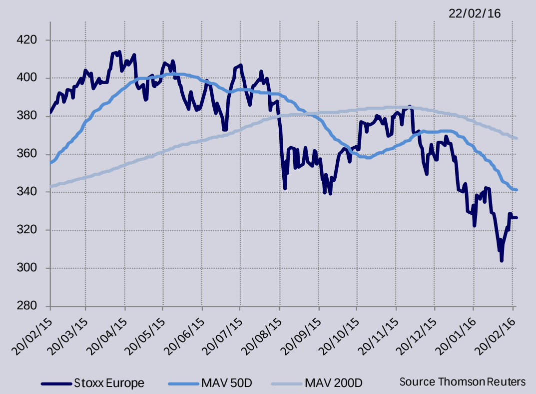
Upcoming BG events :

Date	
2nd-Mar	ALBIOMA (BG Paris Lunch CEO)
10th-Mar/ 11th-Mar	BG TMT Conference
15th-Mar	ABLYNX (BG Paris roadshow with CEO)
18th-Mar	CNP (BG Paris roadshow with CEO, CFO)
23rd-Mar	EIFFAGE (BG Luxembourg with IR)
8th-Apr	VINCI (BGLuxembourg roadshow with CFO)

Recent reports :

Date	
19th-Feb	CASINO With hindsight: a real Catch-22!
17th-Feb	LAFARGEHOLCIM Everything can't be that bad.
11th-Feb	Pennon : At any price?
2nd-Feb	French toll roads: safe harbour in difficult times
1st-Feb	An aisle-end stock, but not a bargain
27th-Jan	Worldpay : An aisle-end stock, but not a bargain

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



ESSILOR — BUY-Top Picks, Fair Value EUR132 vs. EUR134 (+21%)

Essilor's priority: fuelling top line growth

This is not the first time that investors have tended to lose sight of Essilor's growth strategy to always favour top-line growth (Ifl + acquisitions) ahead of margin expansion. The decision to further increase consumer marketing spend by EUR14m in 2016 is a good illustration of this strategic choice (=>20bp negative impact on the CM). In view of this 2016 CM guidance, we have reduced our 2016 and 2017 estimates by 1.5% and 2.5% respectively, although the growth story remains intact: Essilor will again rely on its levers (innovation, brand portfolio, etc.) to capture growth opportunities within the global optical market. FV adjusted to EUR132 vs. EUR134 but Buy recommendation confirmed.

GENMAB — BUY-Top Picks, Fair Value DKK1170 (+53%)

Is Darzalex (daratumumab) guidance too conservative?

We had the opportunity to talk to Genmab's top management during a breakfast meeting in London. Unsurprisingly, most of the questions revolved around Darzalex (daratumumab) and its sales guidance for 2016 (USD250-300m)... and we now think this figure could be beaten if a European approval takes place in coming weeks. Apart from that, we understand that JNJ is already talking with other big pharmas, and this may lead to the initiation of clinical studies evaluating Darzalex with checkpoint blockers (which validates the scenario we put forward in our recent report). BUY reiterated with a FV of DKK1,170.

KERING — BUY, Fair Value EUR180 (+13%)

2016: a year of profitability improvement and net debt reduction

After 2015 was marked by a sales rebound at Gucci in Q4, but generally disappointing profitability and FCF, Kering's CEO was very clear at Friday's analysts' meeting: in 2016 the focus will be on margin recovery and CF generation in order to reduce the net debt level. We are maintaining our Buy recommendation and our FV of EUR180.

UCB — NEUTRAL, Fair Value EUR78 vs. EUR75 (+1%)

Briviact approved in the US while FRAME releases top-line results

In a couple of days time, UCB first received FDA approval for brivaracetam (as Briviact) as adjunctive therapy to treat epileptic patients with partial-onset seizures (+1 EUR to our FV) and today released top-line results from the phase III trial FRAME. Co-primary endpoints were met although key secondary one (non-vertebral fracture reduction) is not while safety requires further investigation. Overall this is positive (+2 EUR to our FV) but detailed results and second trial are needed to fully assess the value of the drug in this challenging indication of post-menopausal osteoporosis.

VEOLIA ENVIRONNEMENT — NEUTRAL, Fair Value EUR22,5 (+6%)

Veolia 2015 earnings preview - A more classical year

Veolia is due to report its 2015 earnings a day after Suez, on Thursday 25th February (morning). Since the group already communicated both unofficial 2015 net income and a 2018 net income target during its December Investor Day, we assume newsflow on the investment case should be quite limited. As for Suez, we believe management should be cautious on industrial recovery in Europe this year, limiting earnings growth potential. At the current share price we continue to prefer Suez over Veolia. We remain Neutral with a FV unchanged at EUR22/share.

SUEZ — BUY-Top Picks, Fair Value EUR19 (+12%)

Suez - 2015 earnings preview: looking for external growth!

Suez is set to be the first French environmental services group to post 2015 earnings, ahead of Veolia, which will post the next day. We do not see major disappointment risks for 2015 metrics, but anticipate cautious guidance for EBITDA growth as usual, excluding M&A deals. Investors are mainly set to focus on this theme in our view, especially as it is the basis of the 2017 EBITDA target. We continue to prefer Suez over Veolia, in view of its more attractive valuation and the prospect of more buoyant newsflow.

Luxury & Consumer Goods

Essilor

Price EUR109.35

Essilor's priority: fuelling top line growth

Fair Value EUR132 vs. EUR134 (+21%) **BUY-Top Picks**

Bloomberg	EF FP
Reuters	ESSI.PA
12-month High / Low (EUR)	123.6 / 99.3
Market Cap (EUR)	23,669
Ev (BG Estimates) (EUR)	25,674
Avg. 6m daily volume (000)	583.5
3y EPS CAGR	12.9%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-1.6%	-9.4%	-1.9%	-5.0%
Consumer Gds	0.6%	-9.2%	-4.4%	-6.6%
DJ Stoxx 600	-2.0%	-14.3%	-14.4%	-10.8%

YEnd Dec. (€m)	2014	2015e	2016e	2017e
Sales	5,670	6,716	7,186	7,683
% change		*18.4%*	*7.0%*	*6.9%*
Contr. From Op.	1,043	1,263	1,358	1,460
EBIT	1,222	1,183	1,288	1,390
% change		*-3.2%*	*8.9%*	*7.9%*
Net income	929.3	756.6	843.8	930.9
% change		*-18.6%*	*11.5%*	*10.3%*

	2014	2015e	2016e	2017e
EBIT margin	21.6	17.6	17.9	18.1
Net margin	16.4	11.3	11.7	12.1
ROE	18.9	15.1	14.9	15.1
ROCE	16.9	20.8	21.2	21.7
Gearing	34.6	37.4	27.6	21.5

(€)	2014	2015e	2016e	2017e
EPS	3.05	3.57	3.98	4.39
% change	-	*16.9%*	*11.5%*	*10.3%*
P/E	35.9x	30.7x	27.5x	24.9x
FCF yield (%)	3.3%	2.5%	3.6%	4.1%
Dividends (€)	1.05	1.15	2.15	3.15
Div yield (%)	1.0%	1.1%	2.0%	2.9%
EV/Sales	4.5x	3.8x	3.5x	3.3x
EV/EBITDA	24.4x	20.3x	18.6x	17.2x
EV/EBIT	20.9x	21.7x	19.7x	18.0x

This is not the first time that investors have tended to lose sight of Essilor's growth strategy to always favour top-line growth (lfl + acquisitions) ahead of margin expansion. The decision to further increase consumer marketing spend by EUR14m in 2016 is a good illustration of this strategic choice (=>20bp negative impact on the CM). In view of this 2016 CM guidance, we have reduced our 2016 and 2017 estimates by 1.5% and 2.5% respectively, although the growth story remains intact: Essilor will again rely on its levers (innovation, brand portfolio, etc.) to capture growth opportunities within the global optical market. FV adjusted to EUR132 vs. EUR134 but Buy recommendation confirmed.

ANALYSIS

- **Essilor virtually controls the pace of margin improvement.** The group is not affected by the significant margin pressure that hampers profitability for many groups in the consumer sector (adverse FX, weak organic growth rates, pricing issues, etc.). Following its traditional growth strategy, in 2015 the group deliberately decided to reinvest most of its margin/synergy gains in marketing spend (EUR215m vs. EUR150m in 2014) and in SG&A as Essilor muscles up its presence in fast-growing markets. However, Essilor met its 2015 CM guidance ("for at least 18.8%").
- **Limited downward revision to our 2016 and 2017 CM assumptions (-1.5% and -2.5% respectively).** We have increased our FX-n growth forecast to 8% vs. 7% previously to be consistent with the company's guidance ("to exceed 8%") although this is offset by a negative FX impact (-1% vs. zero initially), hence our top-line growth forecast remains broadly unchanged. As for profitability, Essilor is set to invest further in boosting top line growth since consumer marketing spend is set to increase by EUR14m, implying a 20bp negative impact and accounting for two-thirds of the "margin gap" between our previous and new CM assumptions. Moreover, a 3pp scope effect should imply a higher dilutive impact from bolt-on acquisitions. It is worth noting that our 2016e CM assumption (18.9%) is slightly ahead of guidance.

NEW and OLD contribution margins for 2016 & 2017:

EURm	2016e			2017e		
	NEW	OLD	% change	NEW	OLD	% change
Contr. From Op.	1,358	1,379	*-1.5*	1,460	1,498	*-2.5*
Margin (%)	18.9	19.2	*-30bp*	*19.0*	*19.5*	*-50bp*

Source: BG ests

- **Successful growth strategy and execution to continue in 2016.** The sequential acceleration in lfl growth throughout 2015 not only illustrated the ramp-up in growth but more importantly, Essilor's successful execution in capturing these growth opportunities, even in markets where the macro environment was volatile (e.g.: Italy and Spain grew DD, Brazil was up around 5% lfl). Furthermore the two "new categories" will also play a key role in achieving around 5% lfl growth in 2016: **1/ sunwear** (around 13% of total sales)**:** the sunglass brand portfolio (Bolon, Costa, etc.) and sunlenses production should both grow by more than 10%; **2/ online:** revenue should also increase in double-digits as Coastal has been turned around. **Consequently we are comfortable with our 5% lfl growth forecast for 2016, vs. the company's guidance for "around +5%".**
- **No signs of a slowdown in North America.** While many luxury and consumer groups reported softer trends in Q4, Essilor continued to enjoy solid growth (+4.8% lfl, +4.4% in 2015). The group is quite confident about 2016 in light of: **(i)** healthy market trends, **(ii)** a successful combination of media campaigns and innovation and **(iii)** a higher contribution from two fast-growing channels: independent ECP's (acquisitions of Vision Source and PERC/IVA) and online platforms).

VALUATION

- We expect that the temporary disappointment caused by "cautious" CM guidance should gradually make room for a focus on solid top-line momentum and MT growth prospects. Our new FV of EUR132 vs. EUR134 reflects our CM adjustments but we are making no change to our Buy recommendation.

NEXT CATALYSTS

- Essilor will report its Q1 16 Sales on 21st April 2016.

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Healthcare

Genmab

Price DKK763.50

Bloomberg	GEN DC
Reuters	GEN.CO
12-month High / Low (DKK)	954.0 / 466.2
Market Cap (DKK)	45,292
Ev (BG Estimates) (DKK)	41,912
Avg. 6m daily volume (000)	389.0
3y EPS CAGR	-12.3%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-9.0%	-9.1%	22.7%	-16.8%
Healthcare	-4.9%	-12.9%	-15.7%	-12.0%
DJ Stoxx 600	-2.0%	-14.3%	-14.4%	-10.8%

YEnd Dec. (DKKm)	2015	2016e	2017e	2018e
Sales	1,133	866.7	906.4	1,306
% change		*-23.5%*	*4.6%*	*44.1%*
EBITDA	554	50.1	2.7	351
EBIT	730.4	50.1	2.7	351.2
% change		*-93.1%*	*-94.5%*	
Net income	587.3	85.1	42.7	396.2
% change		*-85.5%*	*-49.8%*	

	2015	2016e	2017e	2018e
Operating margin	64.5	5.8	0.3	26.9
Net margin	67.4	9.8	4.7	30.3
ROE	21.9	2.4	1.2	9.9
ROCE	-15,400	44.2	11.1	69.2
Gearing	-100.2	-94.6	-89.4	-85.8

(DKK)	2015	2016e	2017e	2018e
EPS	9.71	1.41	0.71	6.55
% change	-	*-85.5%*	*-49.8%*	
P/E	78.6x	NS	NS	NS
FCF yield (%)	0.4%	0.1%	0.1%	NM
Dividends (DKK)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	36.9x	48.4x	46.4x	32.0x
EV/EBITDA	75.4x	835.7x	15302.4x	119.2x
EV/EBIT	57.2x	835.7x	15302.4x	119.2x

Is Darzalex (daratumumab) guidance too conservative?

Fair Value DKK1170 (+53%) **BUY-Top Picks**

We had the opportunity to talk to Genmab's top management during a breakfast meeting in London. Unsurprisingly, most of the questions revolved around Darzalex (daratumumab) and its sales guidance for 2016 (USD250-300m)... and we now think this figure could be beaten if a European approval takes place in coming weeks. Apart from that, we understand that JNJ is already talking with other big pharmas, and this may lead to the initiation of clinical studies evaluating Darzalex with checkpoint blockers (which validates the scenario we put forward in our recent report). BUY reiterated with a FV of DKK1,170.

ANALYSIS

- **2016 sales guidance for Darzalex (daratumumab) looks very realistic**. While the compound was approved solely in the US on the 16th November, net sales during December 2015 amounted to approximately USD15-20m... thus already implying an annual run rate of USD180-240m. Since 1/ a European approval could be given by the end of H1 2016 (and knowing that the CHMP granted an accelerated assessment to the marketing authorisation application back in September), and 2/ we cannot rule out an off-label use of the drug in other settings (in combination with pomalidomide in R/R patients for example, as some data involving this setting have recently been presented), the low-end of the guidance (USD250m) looks entirely achievable.

- **Under what conditions could the USD300m threshold could be attained?** A cautious assumption for monthly sales of USD10-15m for Europe starting from June, and some growth in the US (which is very likely as the company is already seeing rising demand following the ASH meeting), means the high-end looks already at hand. But given how fast the FDA was (two months), we guess the EC could give its green light in coming weeks... If so, this would increase the likelihood of a rise in guidance when Q2 or Q3 results are released. Besides, we think JNJ will quickly reallocate a part of its marketing efforts to Darzalex as Velcade will continue to lose ground 1/ vs Amgen's Kyprolis and Takeda's Ninlaro (the first one being more potent and safer, while the second one is patient-friendlier), and 2/ with the advent of generics.

- **Management also reiterated its confidence in the outcome of the POLLUX and CASTOR studies.** Why should we be positive about this? Because 1/ dara already exhibited best-in-class data in R/R patients either as a monotherapy or along with the current standard of care; 2/ BMS' Empliciti (elotuzumab) got positive Phase III results in a similar setting with a far less impressive efficacy/toxicity profile as a monotherapy. As such, we are expecting a quite broad label expansion as of 2017, and thus a strong increase in revenues.

  Note that CASTOR – which evaluates dara along with Velcade (bortezomib) and dexamethasone – may come first as this proteasome inhibitor is much less potent than the agent used in POLLUX (Celgene's Revlimid (lenalidomide)).

- **JNJ is already talking with other pharmas to test Darzalex in combination with checkpoint blockers;** and this validates the scenario we put forward in our latest report (here). Of course, the timing of such a deal remains uncertain... but we'd say its probability will certainly increase once the (positive) results of the POLLUX and CASTOR studies are available. In any case, we see a strong rationale behind such a combo: 1/ dara is said to increase the CD8+/CD4+ T cells ratio thanks to its immune-modulation properties (some Tregs and myeloid-derived suppressor cells exhibiting CD38 at their surface + adenosine being produced through a CD38-mediated pathway); 2/ our hypothesis that dara could lead to an upregulation of PD-L1 remains to be confirmed, but if so this would only make it more appealing.

- Who would be the best partner in a perfect world? We'd say Celgene because of their deep knowledge of multiple myeloma, and their obtention of durvalumab (anti-PD-L1)'s rights from AstraZeneca... but also because we're assuming the big biotech will expand its collaboration agreement with AZN to obtain the rights to Innate Pharma's monalizumab (here). And if so, a mona/dara combo may see the light whereby mona may enhance the dara-mediated ADCC, while dara would augment the number of NKG2A CD8+ T cells. But of course, all this remains our conjecture.

(to be continued next page)

Return to front page

VALUATION

- **Buy reiterated with a FV of DKK1,170**.
- To our eyes, the recent fall in the share price has opened a window of opportunity as the current level is even lower than that seen prior to daratumumab's first approval; 2/ **based on our SOTP valuation, the street gives nearly no value to daratumumab as a first and second-line treatment for patients with multiple myeloma** (these accounting for roughly DKK500 of our FV). In other words, the risk-reward profile is very attractive and should allow us to play serenely the upcoming publication of Phase III results.

NEXT CATALYSTS

- Q1 2016: European approval of daratumumab for the treatment of double-refractory patients.
- Q2 2016: Phase III results for daratumumab (anti-CD38) for the treatment of MM patients who received ≥ 1 prior line of therapy.
- H2 2016: Read-across from the approval of Roche's ocrelizumab (anti-CD20) in multiple sclerosis.
- 2016: collaboration agreement between JNJ and another big pharma to evaluate daratumumab in combination with a PD-1/PD-L1 checkpoint blocker.

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Luxury & Consumer Goods

Kering

Price EUR159.35

2016: a year of profitability improvement and net debt reduction

Fair Value EUR180 (+13%) **BUY**

Bloomberg	PP FP
Reuters	PRTP.PA
12-month High / Low (EUR)	197.0 / 139.1
Market Cap (EUR)	20,121
Ev (BG Estimates) (EUR)	23,951
Avg. 6m daily volume (000)	366.1
3y EPS CAGR	5.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	5.9%	-4.6%	-4.8%	0.9%
Pers & H/H Gds	3.4%	-6.7%	-2.8%	-2.8%
DJ Stoxx 600	-2.0%	-14.3%	-14.4%	-10.8%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	10,037	11,584	12,210	12,800
% change		*15.4%*	*5.4%*	*4.8%*
EBITDA	2,044	2,056	2,305	2,510
EBIT	1,664	1,646	1,885	2,070
% change		*-1.1%*	*14.5%*	*9.8%*
Net income	1,177	1,017	1,238	1,403
% change		*-13.6%*	*21.7%*	*13.3%*

	2014	2015e	2016e	2017e
Operating margin	16.6	14.2	15.4	16.2
Net margin	11.7	8.8	10.1	11.0
ROE	10.5	8.7	9.6	10.2
ROCE	6.7	5.8	6.9	7.4
Gearing	39.0	37.7	27.1	21.9

(EUR)	2014	2015e	2016e	2017e
EPS	9.31	8.05	9.79	11.01
% change	*-*	*-13.6%*	*21.7%*	*12.4%*
P/E	17.1x	19.8x	16.3x	14.5x
FCF yield (%)	2.8%	1.4%	3.5%	4.5%
Dividends (EUR)	4.00	4.00	4.40	5.00
Div yield (%)	2.5%	2.5%	2.8%	3.1%
EV/Sales	2.4x	2.1x	1.9x	1.8x
EV/EBITDA	11.7x	11.6x	9.9x	8.9x
EV/EBIT	14.4x	14.6x	12.2x	10.8x

After 2015 was marked by a sales rebound at Gucci in Q4, but generally disappointing profitability and FCF, Kering's CEO was very clear at Friday's analysts' meeting: in 2016 the focus will be on margin recovery and CF generation in order to reduce the net debt level. We are maintaining our Buy recommendation and our FV of EUR180.

ANALYSIS

- **A look back at 2015 figures**: we would highlight three factors: **i/** the Gucci rebound in Q4 (+4.8% vs -0.4% in Q3) was driven by Alessandro Michele's new collections that accounted for 30% of sales and were up double digit and with no higher weight of markdown. Brand transformation is well on track. 34 stores have been renovated with the new store concept, including the Milano Via Montenapoleone flagship, which was welcomed warmly by clientele; **ii/** the Asia-Pacific region of the luxury division improved in Q4 with 2% organic sales growth versus -12% in Q3 (-17% for Gucci), helped by slightly better momentum in Mainland China while the situation remained very challenging in Hong Kong and Macau. Note that all of Kering's luxury competitors witnessed the same trend in MC. Could this be the first stage of a return to normal in the country? If it is, it should be a very positive catalyst for the luxury sector. While it is perhaps too soon to tell, we would remain cautious and wait for Q1 2016 figures; **iii/** Luxury EBIT margin narrowed by 290bp to 21.7%, 40% of which 40 due to a FX impact including a negative hedging impact (50% at Gucci).

- **What can we expect for 2016?:**
  - o Clearly 2016 could be the year of the Gucci sales growth recovery. Actually, in Q1, the new collection should account for 50% of sales, rising to 100% by the end of the year and this is quite promising given the strong welcome for the new Alessandro Michele collection. Furthermore, 60 stores (on a total of 525 stores at the end of 2015) should be renovated to adopt the new store concept that should be a catalyst for sales momentum. At this stage, we anticipate a 5% FY organic sales increase for the group's iconic brand with a very undemanding comparison basis in Q1 (-8% in Q1 2015). This implies almost 6% growth for the luxury division and combined with 8% at Puma (in line with HSD guidance) this should lead to +6.2% for the Kering group.
  - o The second point is the focus on profitability for all the luxury brands and first of all for Gucci and Bottega Veneta, that Kering's management admitted were dispointing last year with a 290bp decline for the luxury division to 21.7% of which -370bp for Gucci (26.5%). Gucci's management wants to improve store productivity and will not open new stores at Gucci this year (net of closing) after +20 in 2015. Some stores have already been closed in MC and in HK for Gucci and BV and we are not ruling out further decisions. Even if for Gucci the target is to return to the 30% level, we do not expect this to happen this year! At this stage, we expect EBIT margin to be up 110bp to 15.3%.
  - o The third point is FC generation. After the disappointing level of EUR600m in 2015, management expects to reach FCF of close to EUR1bn that could allow Kering to reduce its net debt. The ultimate target is to deliver a net debt/EBITDA ratio below 2x versus 2.28x in 2015 and finally, to implement a more aggressive distribution policy (after stability in 2015). Consequently, do not expect any acquisitions in 2016 (which is good news in our view, as there is already enough work to do with existing brands!).

VALUATION

- Buy recommendation and EUR180 FV unchanged. The stock has gained 6% over the last month and has outperformed DJ Stoxx by 8%.

NEXT CATALYSTS

- Q1 sales due out in April.

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Healthcare

UCB

Price EUR76.85

Briviact approved in the US while FRAME releases top-line results

Fair Value EUR78 vs. EUR75 (+1%) **NEUTRAL**

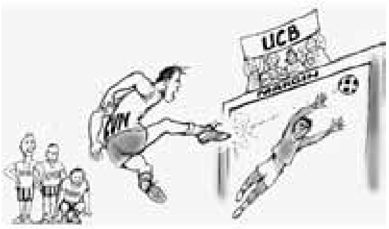
Bloomberg	UCB BB
Reuters	UCBBt.BR
12-month High / Low (EUR)	85.6 / 61.5
Market Cap (EURm)	14,948
Ev (BG Estimates) (EURm)	14,698
Avg. 6m daily volume (000)	293.2
3y EPS CAGR	30.0%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-2.0%	-5.2%	9.2%	-7.7%
Healthcare	-4.9%	-12.9%	-15.7%	-12.0%
DJ Stoxx 600	-2.0%	-14.3%	-14.4%	-10.8%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	3,344	3,753	4,118	4,702
% change		*12.2%*	*9.7%*	*14.2%*
EBITDA	609	807	904	1,177
EBIT	379.0	544.9	637.4	890.4
% change		*43.8%*	*17.0%*	*39.7%*
Net income	229.0	322.0	416.7	509.4
% change		*40.6%*	*29.4%*	*22.2%*

	2014	2015e	2016e	2017e
Operating margin	11.3	14.5	15.5	18.9
Net margin	6.8	8.6	10.1	10.8
ROE	4.1	12.5	7.7	11.7
ROCE	5.3	6.8	8.0	11.3
Gearing	33.3	5.2	8.3	3.8

(EUR)	2014	2015e	2016e	2017e
EPS	1.69	2.14	2.62	3.70
% change	-	*27.1%*	*22.2%*	*41.4%*
P/E	45.6x	35.9x	29.3x	20.7x
FCF yield (%)	2.9%	2.9%	1.0%	3.9%
Dividends (EUR)	0.91	1.14	1.36	1.93
Div yield (%)	1.2%	1.5%	1.8%	2.5%
EV/Sales	4.0x	3.9x	3.5x	3.1x
EV/EBITDA	21.9x	18.2x	16.1x	12.5x
EV/EBIT	35.2x	27.0x	22.8x	16.6x



UCB has received FDA approval for brivaracetam (as Briviact) as an adjunctive therapy to treat epileptic patients with partial-onset seizures (+1 EUR to our FV) and today released top-line results from the phase III trial FRAME. Co-primary endpoints were met although key secondary ones (non-vertebral fracture reduction) were not, while safety requires further investigation. Overall this is positive (+EUR2 to our FV) but detailed results and a second trial are needed to fully assess the value of the drug in this challenging indication of post-menopausal osteoporosis.

ANALYSIS

- Following European approval for brivaracetam (brand name BRIVIACT) in late January, the FDA has approved the anti-epileptic drug for use in patients suffering from epilepsy with partial onset seizures. The drug should be made available in the US in late Q2 2016, following a 90-day review process by the DEA. As a reminder, brivaracetam features a high safety profile and should be indicated for epileptic patients not responding to one or two other AED. We have modelled EUR476m in peak sales for the drug (of which 60% should be recorded in the US).
- UCB is delivering on its strategy to address all treatment lines in epilepsy with Vimpat as a 1st AE and now brivaracetam in uncontrolled patients. Note that within the company's pipeline, UCB0942, which should readout in Q3 2016, should broaden the company's offering as a last-line AE drug in highly refractory patients (non responders to 4/5 AED with multiples seizures per week).
- Separately, UCB and Amgen announced this morning that romosozumab's (partnership with Amgen) phase III FRAME trial met all its primary endpoints. Results from the STRUCTRE trial (open label) released in early September 2015 gave a positive tone, hence we believe that positive results were anticipated and should not be a major surprise. FRAME is one of the two large multicentric phase III studies ongoing in more than 10,000 postmenopausal women that will be the basis for a filing of the drug in key markets including the US. FRAME is placebo-controlled over the first 12 months and then compares to denosumab for the following 12 months. The primary endpoint was a composite one measuring clinical fracture risk reduction at 12 and 24 months. We said previously that a positive read-out would add EUR5 to our fair value (PoS up to 80% from 60%). Because the secondary endpoint of reduction non-vertebral fractures at months 12 and 24 is not met, we would make half the road (PoS of 70%), waiting for more data to assess the results in details and also because cases of osteonecrosis of the jaw have been noticed. To get a more balanced view about efficacy and safety, we think it is fair to wait for the results to be published in a medical congress and for the second trial to be released too.

VALUATION

- The news was anticipated following late January's EU approval of brivaracetam. Raising our PoS of success from 90% to 100% adds EUR1 to our Fair Value.
- As far as romosozumab is concerned, we are comfortable with an increase in the PoS from 60% to 70% but we think it is fair to wait for more detailed results from the trial as well as the second one, for a comparative efficacy profile and to get extra safety data before making a definitive assessment. As such, impact on the FV is limited to EUR2 per share.
- We reiterate our Neutral rating.

NEXT CATALYSTS

- 26th February: FY2015 results

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Utilities

Veolia Environnement

Price EUR21.32

Bloomberg	VIE FP
Reuters	VIE.PA
12-month High / Low (EUR)	22.9 / 16.6
Market Cap (EURm)	12,008
Ev (BG Estimates) (EURm)	19,687
Avg. 6m daily volume (000)	2 131
3y EPS CAGR	78.4%

	1 M	3 M	6 M	31/12/15
Absolute perf.	1.4%	-4.3%	3.2%	-2.5%
Utilities	-2.2%	-10.4%	-11.3%	-7.7%
DJ Stoxx 600	-2.0%	-14.3%	-14.4%	-10.8%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	23,880	24,970	25,495	26,148
% change		*4.6%*	*2.1%*	*2.6%*
EBITDA	2,164	2,960	3,151	3,341
EBIT	414.1	1,292	1,398	1,564
% change		*NM*	*8.2%*	*11.9%*
Net income	123.1	548.6	548.9	698.9
% change		*NM*	*0.1%*	*27.3%*

	2014	2015e	2016e	2017e
Operating margin	4.6	5.4	5.5	6.0
Net margin	1.0	2.5	2.4	2.9
ROE	1.3	6.2	6.2	7.8
ROCE	5.8	8.0	8.0	8.5
Gearing	86.5	98.9	98.1	95.5

(EUR)	2014	2015e	2016e	2017e
EPS	0.22	0.98	0.98	1.24
% change	*-*	*NM*	*0.1%*	*27.3%*
P/E	97.4x	21.8x	21.8x	17.1x
FCF yield (%)	1.8%	6.5%	5.4%	5.9%
Dividends (EUR)	0.70	0.73	0.76	0.89
Div yield (%)	3.3%	3.4%	3.6%	4.2%
EV/Sales	0.6x	0.8x	0.8x	0.8x
EV/EBITDA	6.5x	6.7x	6.2x	5.9x
EV/EBIT	34.1x	15.2x	14.1x	12.6x

Veolia 2015 earnings preview - A more classical year

Fair Value EUR22,5 (+6%) **NEUTRAL**

Veolia is due to report its 2015 earnings a day after Suez, on Thursday 25th February (morning). Since the group already communicated both unofficial 2015 net income and a 2018 net income target during its December Investor Day, we assume newsflow on the investment case should be quite limited. As for Suez, we believe management should be cautious on industrial recovery in Europe this year, limiting earnings growth potential. At the current share price we continue to prefer Suez over Veolia. We remain Neutral with a FV unchanged at EUR22/share.

ANALYSIS

- **Our earnings expectations for 2015?** We expect Veolia to post **EBITDA of EUR2.96bn**, up **7.1% YoY** and **6.9%** LFL. Most of this solid EBITDA growth is set to stem from the Convergence programme, as well as from growth in the Rest of Europe and outside Europe. Activities in France are likely to remain under pressure, due to the highly competitive environment in the waste business, as well as the limited inflation in water business contracts. As for net income (*Veolia def.*) we estimate the group will easily reach its **EUR500m** target for 2015, at **EUR590m** (during its investor day in December, the group mentioned it could deliver **EUR550m** at least. Net debt is set to increase by **>EUR500m** compared with last year to **EUR8.8bn**, although due to the change in the definition of EBITDA and solid growth in this EBITDA, the group's leverage ratio is set to decline from 3.5x to 3.0x.
- **What to expect beyond 2015?** As already mentioned above, given that we do not anticipate a recovery in industrial production in Europe this year, we see very limited growth in waste volumes treated in the region, to the detriment of the group's EBITDA margin in the waste business. In our model we currently assume a **0.7%** increase in volumes on a worldwide basis for 2016, as well as a further decline in commodities and in recycled materials, as in 2015. As for the water division, only the signature of new contracts and development with industrials can drive up sales and margin. In all, we expect the group to post EBITDA of **EUR3.15n**, up **6.4%** YoY and up **5.6%** thanks to the positive contribution of the new Convergence programme for 2016-2018 (EUR600m gross impact, EUR500m net). As for net income we expect a +10% YoY rise to **EUR650m**, but flat growth once adjusted for hybrid costs and restructuring efforts. As for net debt, we anticipate stable growth, despite a rise in capex and the dividend.
- **What to expect from management during this pusblication? 1/** an update on changes in commodities prices and recycled materials prices, and therefore the impact on the group's margin, **2/**an update on the Transdev-CDC deal, and on the calendar effect. **3/**An update on the order book and sales growth potential with industrials, in both the waste and water businesses. **4/**An update on the group's strategy to expand in nuclear business.
- **Conclusion:** At the current share price we continue to favour Suez over Veolia (for its valuation notably) as we anticipate more positive newsflow. We are sticking to our Neutral rating with our FV unchanged at **EUR22.5/share**.
-

VALUATION

- At the current share price, Veolia trades at 22x its 2016e EBITDA and offers a 3.6% yield
- Neutral, FV @ EUR22.5

NEXT CATALYSTS

- February 25th 2016: 2015 earnings (conference call @ 3.00pm)

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Utilities

Suez

Price EUR16.98

Suez - 2015 earnings preview: looking for external growth!

Fair Value EUR19 (+12%) **BUY-Top Picks**

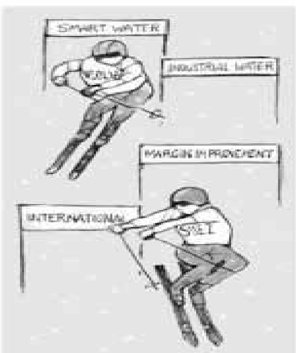
Bloomberg	SEV FP
Reuters	SEVI.PA
12-month High / Low (EUR)	19.0 / 15.1
Market Cap (EURm)	9,211
Ev (BG Estimates) (EURm)	19,904
Avg. 6m daily volume (000)	1 329
3y EPS CAGR	18.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.1%	-5.5%	-0.3%	-1.7%
Utilities	-2.2%	-10.4%	-11.3%	-7.7%
DJ Stoxx 600	-2.0%	-14.3%	-14.4%	-10.8%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	14,321	14,956	15,283	15,823
% change		*4.4%*	*2.2%*	*3.5%*
EBITDA	2,643	2,647	2,764	2,954
EBIT	1,255	1,258	1,304	1,443
% change		*0.3%*	*3.6%*	*10.7%*
Net income	320.9	442.8	475.5	555.8
% change		*38.0%*	*7.4%*	*16.9%*

	2014	2015e	2016e	2017e
Operating margin	8.8	8.4	8.5	9.1
Net margin	2.2	3.0	3.1	3.5
ROE	4.6	6.4	6.9	8.0
ROCE	6.7	7.4	7.5	8.2
Gearing	105.8	117.4	125.2	130.4

(EUR)	2014	2015e	2016e	2017e
EPS	0.62	0.82	0.88	1.03
% change	-	*33.0%*	*7.4%*	*16.9%*
P/E	27.4x	20.6x	19.2x	16.4x
FCF yield (%)	6.1%	NM	1.2%	2.2%
Dividends (EUR)	0.65	0.65	0.65	0.71
Div yield (%)	3.8%	3.8%	3.8%	4.2%
EV/Sales	1.1x	1.3x	1.3x	1.3x
EV/EBITDA	6.1x	7.5x	7.3x	7.0x
EV/EBIT	12.9x	15.8x	15.5x	14.3x



Suez is set to be the first French environmental services group to post 2015 earnings, ahead of Veolia, which will post the next day. We do not see major disappointment risks for 2015 metrics, but anticipate cautious guidance for EBITDA growth as usual, excluding M&A deals. Investors are mainly set to focus on this theme in our view, especially as it is the basis of the 2017 EBITDA target. We continue to prefer Suez over Veolia, in view of its more attractive valuation and the prospect of more buoyant newsflow.

ANALYSIS

- **Our earnings expectations for 2015?** We expect the group to deliver its EBITDA guidance of **>2%** IfL growth to **EUR2.65bn**, as we assume **+2.1% IfL**. On a YoY basis, EBITDA is set to be flat. Most of EBITDA growth is set to come from a positive Compass contribution and from the water business unit. Our EBIT estimate stands at **EUR1.26bn** while our net reported income forecast stands at **EUR401m**. Net debt should be negatively affected by a FX effect, by higher capex and by cash out linked to the Sembsita minorities' purchase, leading to a net debt/EBITDA ratio of **3x**, at the high end of the group's guidance range.
- **What to expect beyond 2015?** Given the lack of industrial rebound observed in Europe over Q4 2015 and over the first months of Q1 2016, we believe management's speech and the group's budget should be based on almost no recovery in industrial production in the region and thereforeno rebound in treated waste volumes. Our model currently forecasts **0.5%** in organic growth for volumes, although thanks to new UK EfW capacities *(Cornwall, Poznan, West London, Merseyside*) we assume a total of **+1.6%** in volumes for the year, with part of this growth not fully impacting the group's EBITDA as all four new UK projects are off-balance sheet. We also expect the group to communicate on a traditional cost-cutting contribution of **EUR125m** but admit that given the lack of visibility on an industrial recovery, **this target could be revised up.** In all, these two elements combined with positive indexation effects from regulated water assets in the US and Chile, should lead to positive YoY EBITDA growth of **>4%** to **EUR2.76bn.** The smart consensus is currently standing at **EUR2.7bn.** We expect the group to post EBIT of **EUR1.3bn** and net adjusted income (BG def.) of **EUR475m** (+7.4%).
- **What to expect from management during this publication? 1/**An update on the M&A potential in Europe and in Latam. **2/**An update on the Compass programme, and on the additional potential this could provide, **3/**An update on the group's development in waste recovery (2016 target to reach 2m tons recovered for 1m ton eliminated). **4/**an update on a potential deal with Cofely and Engie.
- **Conclusion:** We expect a cautious message from Suez' management during this publication, implying again that most of the earnings growth potential will ste from cost reductions and M&A. At the current share price, the group's valuation remains more attractive than Veolia's, especially in view of potentially positive newsflow. We are sticking to our Buy rating with a FV unchanged at **EUR19/share.**

VALUATION

- At the current share price, Suez trades at 19.2x its 2016e EPS and offers a 3.8% yield
- Buy, FV @ EUR19

NEXT CATALYSTS

- February 24th 2016: 2015 earnings (conference call @ 8.30am : ***UK: +44 (0)20 3427 1918)***

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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.
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BUY ratings 63.4% NEUTRAL ratings 28.4% SELL ratings 8.2%

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