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14th April 2016

# BG's Wake Up Call

| | Last close | Daily chg (%) | Chg YTD (%) |
|---|---|---|---|
| **Indices** | | | |
| Dow Jones | 17908.28 | +1.06% | +2.77% |
| S&P 500 | 2082.42 | +1.00% | +1.88% |
| Nasdaq | 4947.42 | +1.55% | -1.20% |
| Nikkei | 16911.05 | +3.23% | -13.94% |
| Stoxx 600 | 343.057 | +2.52% | -6.22% |
| CAC 40 | 4490.31 | +3.32% | -3.16% |
| **Oil /Gold** | | | |
| Crude WTI | 42.17 | 0.00 | +13.36% |
| Gold (once) | 1247.38 | -0.81% | +17.41% |
| **Currencies/Rates** | | | |
| EUR/USD | 1.12835 | -0.81% | +3.87% |
| EUR/CHF | 1.0889 | +0.02% | +0.14% |
| German 10 years | 0.136 | -15.92% | -78.57% |
| French 10 years | 0.409 | -4.86% | -58.32% |
| Euribor | - | +-% | +-% |

**Economic releases :**

| Date | |
|---|---|
| 14th-Apr | GB - BoE rate decision<br>US - Initial Jobless claims (270K exp.)<br>US - Continuing claims<br>US - CPI Mar (+0.2% E m/m, +1.1% y/y E) |

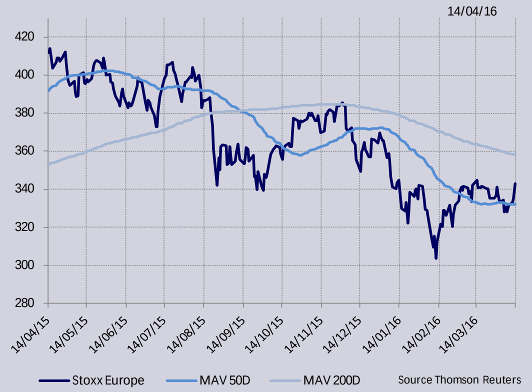
**Upcoming BG events :**

| Date | |
|---|---|
| 20th-Apr | REMY COINTREAU (BG Paris breakfast with CFO) |
| 22nd-Apr | PERNOD RICARD (BG Paris roadshow with Head of IR) |
| 28th-Apr | ORPEA (BG Luxembourg with IR) |
| 28th-Apr | ORPEA (BG Luxembourg with IR) |
| 15th-Jun | GENMAB (BG Paris roadshow) |
| 27th-Jun | IMERYS (BG Luxembourg with CFO) |

**Recent reports :**

| Date | |
|---|---|
| 11th-Apr | ALTICE NUMERICABLE SFR : The time of Marketing? |
| 8th-Apr | Nicox A visible decrease in pressure... (CORPORATE, FV EUR14) |
| 6th-Apr | EDP Renovaveis : Renewables, what else? |
| 4th-Apr | GAMELOFT : Nothing to gain by tendering your GFT shares now! |
| 29th-Mar | IPSEN Cabozantinib makes Ipsen a different story |
| 23rd-Mar | Feedback from our TMT Conference in Paris |

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




## CASINO GUICHARD — BUY, Fair Value EUR57 (+8%)

*Q1 trading statement (first take): no major surprise*

Regarding the quick refocusing on France, Casino delivered again in Q1 15 at both Géant and FP/LP and, at this early stage, we are reasonably optimistic as to Casino's ability to not even depend on its listed subsidiaries to pay the dividend (guidance is for a 2016 FCF after financial expenses and dividend above EUR200m in France).

## NESTLÉ — NEUTRAL, Fair Value CHF72 (+1%)

*Weak pricing penalizing Q1*

This morning, Nestlé released Q1 2016 sales globally in line with market expectations. Organic sales grew 3.9%, thanks to an acceleration of RIG (+3% vs +2.7% in Q4 2015). Pricing remains low (+0.9% vs consensus: +1.1%) as a result of tough negotiations with retailers, weak prices of commodities and tough comps in emerging market after last years' price hikes. The group has reiterated its FY guidance: it aims to achieve organic growth in line with 2015, with improvement in margin.

## SODEXO — NEUTRAL, Fair Value EUR88 (-8%)

*H1 2015-16 results: More or less in line with expectations*

Top line lfl growth slightly better than expectations at 3.7% vs. 3.5% from consensus driven by positive trend in North America in contract catering and some improvement in Benefits and Rewards Services up 6.3% on lfl vs. 5.5% anticipated. Nevertheless, after consolidated revenue of EUR10,596m up 6.7% on reported, operating result before exceptional was a bit lower than expected at EUR658m (consensus EUR668m) i.e. an operating margin flat at 6.2% vs. 6.4% anticipated. FY 2015-16 guidance confirmed with lfl revenue growth of around 3% with an increase in operating profit of around 8% excluding the currency effect and before exceptional items. Note that regarding currencies, management highlights that negative effect of BRL should continue in H2 while the positive effect of the US$ should decline. Neutral confirmed.

## SOFTWARE AG — BUY, Fair Value EUR40 vs. EUR39 (+17%)

*Q1 16 conference call feedback: leeway for upward revisions*

We reiterate our Buy rating and increase our DCF-derived fair value to EUR40 from EUR39 following the conference call held yesterday. We raise our non-IFRS operating margin forecasts to 31.4% from 30.7% for 2016, to 31.9% from 31.6% for 2017, and to 32.5% from 32.2% for 2018. We are now convinced Software AG will raise FY16 non-IFRS operating margin guidance (currently 30-31%) in the course of the year, as Q1 A&N sales exceeded expectations and DBP sales productivity surged.

## TESCO — SELL vs. NEUTRAL, Fair Value 166p (-8%)

*Postview: a return to commercial reality*

The improvement in the major balances (adjusted ND/EBITDA ratio of ~5.0x) is dependent on a recovery in lfl figures in the UK (+0.9% LFL currently vs ~2% needed to cover natural cost inflation). And given the sluggishness specific to the sector, Tesco's commercial resolutions could take time to produce their effects. Growth is at a standstill (a disruptive factor in a fixed-cost industry, as Tesco's CEO Dave Lewis hinted when he spoke of a "lethal cocktail of costs" in the UK). Ultimately, CEO said it would be "a significant, significant achievement" to meet analysts' estimates for operating profit of 1.25 billion pounds this year. In the end, we stick to our cautious stance and downgrade to Sell vs Neutral given a FV of 166p implying a -8% downside potential.

## *In brief...*

**ADOCIA, *First-quarter was very much in line with expectations***

**ALBIOMA, *Signature of an amendment to Albioma's Bois-Rouge PPA***

**LAFARGEHOLCIM, *Delays to the India assets disposal likely***

**SOITEC, *FQ4-16 sales in line with expectations, no surprise for FQ1-17***

**LUXURY GOODS, *Burberry H2 sales down 1% underlying (stable in H1)***

Food retailing

# Casino Guichard

Price EUR52.81

## Q1 trading statement (first take): no major surprise

**Fair Value EUR57 (+8%)** **BUY**

| | |
|---|---|
| Bloomberg | CO FP |
| Reuters | CASP.PA |
| 12-month High / Low (EUR) | 86.6 / 35.2 |
| Market Cap (EURm) | 5,978 |
| Ev (BG Estimates) (EURm) | 10,607 |
| Avg. 6m daily volume (000) | 806.8 |
| 3y EPS CAGR | 6.0% |

| | 1 M | 3 M | 6 M | 31/12/15 |
|---|---|---|---|---|
| Absolute perf. | 12.1% | 31.8% | -4.9% | 24.5% |
| Food Retailing | 1.2% | 8.1% | -2.1% | 3.4% |
| DJ Stoxx 600 | -2.7% | -2.2% | -8.3% | -9.0% |

| YEnd Dec. (EURm) | 2015 | 2016e | 2017e | 2018e |
|---|---|---|---|---|
| Sales | 46,145 | 41,275 | 41,815 | 43,691 |
| *% change* | | *-10.6%* | *1.3%* | *4.5%* |
| EBITDA | 2,343 | 2,063 | 2,175 | 2,384 |
| EBIT | 968.0 | 1,261 | 1,309 | 1,423 |
| *% change* | | *30.3%* | *3.8%* | *8.7%* |
| Net income | 412.0 | 358.6 | 412.2 | 472.5 |
| *% change* | | *-13.0%* | *15.0%* | *14.6%* |

| | 2015 | 2016e | 2017e | 2018e |
|---|---|---|---|---|
| Operating margin | 3.1 | 3.1 | 3.1 | 3.3 |
| Net margin | 0.9 | 0.9 | 1.0 | 1.1 |
| ROE | NM | NM | NM | NM |
| ROCE | 5.2 | 5.6 | 5.8 | 6.2 |
| Gearing | 48.9 | 18.5 | 18.5 | 18.1 |

| (EUR) | 2015 | 2016e | 2017e | 2018e |
|---|---|---|---|---|
| EPS | 2.80 | 2.32 | 2.80 | 3.33 |
| *% change* | *-* | *-16.9%* | *20.4%* | *19.0%* |
| P/E | 18.9x | 22.7x | 18.9x | 15.9x |
| FCF yield (%) | NM | 5.0% | 9.9% | 10.5% |
| Dividends (EUR) | 3.12 | 3.12 | 3.12 | 3.12 |
| Div yield (%) | 5.9% | 5.9% | 5.9% | 5.9% |
| EV/Sales | 0.3x | 0.3x | 0.3x | 0.2x |
| EV/EBITDA | 6.0x | 5.1x | 4.9x | 4.6x |
| EV/EBIT | 14.4x | 8.4x | 8.2x | 7.6x |


**Regarding the quick refocusing on France, Casino delivered again in Q1 15 at both Géant and FP/LP and, at this early stage, we are reasonably optimistic as to Casino's ability to not even depend on its listed subsidiaries to pay the dividend (guidance is for a 2016 FCF after financial expenses and dividend above EUR200m in France).**

**1/** As far as the domestic market is concerned (+1.5%LFL excl. fuel and calendar effects vs +2% e), this statement is decent. Figures turn out to be rather reassuring as to Casino's commercial recovery and FCF prospects in France. Both Hypermarkets (+3.8% vs +2,6% e) and FP/LP (~2.7% vs +2,6% e / +4.5% at LP and +0.1% at FP) show rather flattering figures, Supermarché Casino (+0.2% vs flat) prove to be fairly resilient. Proximity and others work out below expectations which, along with a slight deception on Monoprix (-0.4% vs +0,4% e), explains why France, as a whole, is below expectations (+1.5% LFL vs +2.0% e). **2/** No major surprise overseas since GPA and Cnova had already released their own statement. Latam Retail turned out to be fairly resilient (+3.7% vs +2,1%e) while Latam electronics shows a sequential improvement (-11.8% vs -12,1%e). Unsurprisingly, Cnova remains under pressure with -8.3% LFL (vs -5,2%e) because of Brazil (25% LFL sales decline or -19.7% restated for VAT adjustments) while France is rather encouraging (~+15% LFL).

**LFL excl. fuel and calendar**

| | Q1 14 | Q2 14 | Q3 14 | Q4 14 | Q1 15 | Q2 15 | Q3 15 | Q4 15 | Q1 16 |
|---|---|---|---|---|---|---|---|---|---|
| Géant | -0.1% | 1.1% | -3.9% | -2.3% | -1.5% | 1.0% | 3.5% | 2.8% | 3.8% |
| Casino | -2,5% | -2,1% | -4,6% | -2,9% | -1,4% | -2,3% | 0,7% | 0,0% | 0.2% |
| FP/LP | -4,4% | -4,3% | -8,7% | -5,9% | -5,6% | -3,5% | 1,7% | 1,9% | 2.7% e |
| Monoprix | -0,8% | -1,2% | -2,7% | -1,4% | 0,3% | 0,5% | 2,2% | 0,1% | -0.4% |

| | Q1 15 | Q2 15 | Q3 15 | Q4 15 | Q1 16 |
|---|---|---|---|---|---|
| LatAm retail | 2.60% | 2.40% | 2.40% | 1.30% | 3.70% |
| LatAm electronics | -2,70% | -23,6% | -24,7% | -15,2% | -11.8% |
| Asia | 0,30% | -2,90% | -4,70% | -5,30% | NA |
| Cnova | 17,0% | 15,7% | 7,70% | -8,10% | -8.3% |

*Sources: Casino, Bryan Garnier*

### ANALYSIS

- The repositioning of Géant, which brought visible benefits more than two years after the initiative was launched, illustrates the timescale specific to the sector (see Tesco in another register…). Regarding the quick refocusing on France, Casino delivered again in Q1 15 and, at this early stage, we are reasonably optimistic as to Casino's ability to not even depend on its listed subsidiaries to pay the dividend (guidance is for a 2016 FCF after financial expenses and dividend above EUR200m in France).
- Now that Thailand has been sold to TCC Group (Vietnam is to be sold sooner rather than later), the figures in Asia are not of great interest any more. However, ultimately, it is worth remembering that Casino managed to sell an asset which has been declining for a year at record multiples (i.e. 1.7x EV/Sales). Before the deal was announced, Asia represented ~40%e of Casino's EV. With hindsight, without questionning the long-term potential of Thaïland, we can imagine the consequence that a potential decline of Big C share price would have had on Casino's sacrosanct spot SOTP over a shorter time scale…

### VALUATION

- The spot SOTP currently stands at EUR51

### NEXT CATALYSTS

- Buyback of minorities in LatAm?

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Food & Beverages

# Nestlé

Price CHF71.20

| | |
|---|---|
| Bloomberg | NESN VX |
| Reuters | NESZn.VX |
| 12-month High / Low (CHF) | 76.8 / 67.5 |
| Market Cap (CHF) | 227,014 |
| Ev (BG Estimates) (CHF) | 242,414 |
| Avg. 6m daily volume (000) | 5 968 |
| 3y EPS CAGR | 1.4% |

| | 1 M | 3 M | 6 M | 31/12/15 |
|---|---|---|---|---|
| Absolute perf. | -0.5% | -1.9% | -5.1% | -4.5% |
| Food & Bev. | 0.2% | -0.2% | 1.3% | -3.5% |
| DJ Stoxx 600 | 0.2% | -0.5% | -4.3% | -6.2% |

| YEnd Dec. (CHFm) | 2014 | 2015 | 2016e | 2017e |
|---|---|---|---|---|
| Sales | 91,612 | 88,785 | 89,067 | 92,285 |
| *% change* | | *-3.1%* | *0.3%* | *3.6%* |
| EBITDA | 17,874 | 17,425 | 17,703 | 18,618 |
| EBIT | 14,019 | 13,407 | 13,755 | 14,606 |
| *% change* | | *-4.4%* | *2.6%* | *6.2%* |
| Net income | 10,968 | 10,234 | 10,503 | 11,172 |
| *% change* | | *-6.7%* | *2.6%* | *6.4%* |

| | 2014 | 2015 | 2016e | 2017e |
|---|---|---|---|---|
| Operating margin | 15.3 | 15.1 | 15.4 | 15.8 |
| Net margin | 12.0 | 11.5 | 11.8 | 12.1 |
| ROE | 15.6 | 14.4 | 14.8 | 15.7 |
| ROCE | 12.1 | 11.6 | 11.9 | 13.0 |
| Gearing | 0.7 | 0.9 | 0.8 | 0.7 |

| (CHF) | 2014 | 2015 | 2016e | 2017e |
|---|---|---|---|---|
| EPS | 3.43 | 3.26 | 3.37 | 3.58 |
| *% change* | - | *-5.0%* | *3.2%* | *6.4%* |
| P/E | 20.7x | 21.8x | 21.2x | 19.9x |
| FCF yield (%) | 4.5% | 4.1% | 4.1% | 4.4% |
| Dividends (CHF) | 2.20 | 2.25 | 2.30 | 2.35 |
| Div yield (%) | 3.1% | 3.2% | 3.2% | 3.3% |
| EV/Sales | 2.6x | 2.7x | 2.7x | 2.6x |
| EV/EBITDA | 13.4x | 13.9x | 13.6x | 12.8x |
| EV/EBIT | 17.1x | 18.1x | 17.5x | 16.3x |

## Weak pricing penalizing Q1

**Fair Value CHF72 (+1%)** **NEUTRAL**

**This morning, Nestlé released Q1 2016 sales globally in line with market expectations. Organic sales grew 3.9%, thanks to an acceleration of RIG (+3% vs +2.7% in Q4 2015). Pricing remains low (+0.9% vs consensus: +1.1%) as a result of tough negotiations with retailers, weak prices of commodities and tough comps in emerging market after last years' price hikes. The group has reiterated its FY guidance: it aims to achieve organic growth in line with 2015, with improvement in margin.**

### ANALYSIS

- **Group's sales globally in line with consensus. Q1 2016 sales were basically flattish year on year at CHF20,934m** (consensus: CHF21,040m and our estimate: CHF: 20,912m). The currency impact is still negative (-2.8%), but is lower than in 2015 (-7.4%). **The organic sales growth was slightly better than expected at 3.9%** (consensus: +3.6% and our estimate: +3.5%). **This is due to the RIG** which amounted to 3% (consensus and our estimate: +2.5%), above the Q4 2015 trend (+2.7%). **But pricing is really weak** (+0.9% vs consensus: +1.1% and our estimate: +1%). The negotiations with retailers are tough in developed countries, while the comparison base is unfavourable in emerging countries (price hikes last year to offset inflation). More generally, like its peers, Nestlé remains penalized by the low global pricing of commodities. **We think that the extra day in February (29 vs 28 last year) could have added as much as 1% to the group's organic sales growth.**

- **Good momentum in Americas . This division (29% of group's sales) posted 5% organic sales growth (consensus: +4.3%), above the Q4 2015 performance (+4.8%). The group reported a solid growth of its frozen food business in North America.** This is despite the recall of 14 SKUs in the US and 2 SKUs in Canada of the Stouffer's/Lean Cuisine/frozen pizzas brands. **Latin America proved to be resilient** despite the poor macro background and the low dairy prices in Brazil.

- **Europe/Middle East/North Africa (EMENA) was a positive surprise**. Organic sales in EMENA (19% of group's sales) increased 3.2%, above consensus expectations (+1.7%). **This was driven by a double digit growth in Russia,** which was not completely offset by the deflationary environment in Western Europe (pressure from the retailers and low commodity prices on coffee and dairy) and the instability in the Middle East and North Africa.

- **Gradual recovery in Asia/Oceania/sub-Saharan Africa. In this division (17% of group's sales), sales were up 2.1% organically (consensus: +2.9%), decelerating vs Q4 2015 (+3.2%).** China was weak on tough comps (timing of the Chinese New Year) and destocking issues. The comparison base in India was difficult as Maggi noodles were recalled in Q2 2015.

- **Good momentum in the other divisions** . Sales of **Nestlé Nutrition** (13% of groups's sales) only grew 2.6% organically (consensus: +2.8%) due to weak pricing. **Waters** (9% of group's sales) continued to show good momentum, with organic sales up 5.3% (consensus: +4.9%). Finally, sales of **Other Businesses** (16% of group's sales) rose 5.2% on an organic basis (consensus: +5.4%) as Nestlé Health Science and Nestlé Skin Health continued to enjoy good growth and the trend remained solid for Nespresso.

- **2016 guidance confirmed**. The group aims to achieve organic sales growth in 2016 in line with 2015, that-is-to-say +4.2%, with improvement in margin and underlying earnings per share in constant currencies.

### VALUATION

- We maintain our estimates before the conference call at 8.30am CET. Our DCF points to a Fair Value of CHF72. At yesterday's share price, the stock is trading at 21.2x P/E 2016e and 19.9x P/E 2017e, globally in line with the average of Danone's and Unilever's multiples.

### NEXT CATALYSTS

- Danone's Q1 2016 on April 19th

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Business Services

# Sodexo

Price EUR96.09

## H1 2015-16 results: More or less in line with expectations

**Fair Value EUR88 (-8%)** **NEUTRAL**

| | |
|---|---|
| Bloomberg | SW FP |
| Reuters | EXHO.PA |
| 12-month High / Low (EUR) | 96.1 / 71.0 |
| Market Cap (EUR) | 15,099 |
| Ev (BG Estimates) (EUR) | 15,900 |
| Avg. 6m daily volume (000) | 326.9 |
| 3y EPS CAGR | 7.0% |

| | 1 M | 3 M | 6 M | 31/12/15 |
|---|---|---|---|---|
| Absolute perf. | 0.7% | 5.3% | 26.0% | 6.6% |
| Travel&Leisure | -0.5% | -5.1% | -0.1% | -8.9% |
| DJ Stoxx 600 | 0.2% | -0.5% | -4.3% | -6.2% |

| YEnd Aug. (EURm) | 08/15 | 08/16e | 08/17e | 08/18e |
|---|---|---|---|---|
| Sales | 19,815 | 20,157 | 20,628 | 21,413 |
| *% change* | | *1.7%* | *2.3%* | *3.8%* |
| EBITDA | 1,396 | 1,476 | 1,562 | 1,677 |
| EBIT | 1,143 | 1,214 | 1,294 | 1,399 |
| *% change* | | *6.2%* | *6.6%* | *8.1%* |
| Net income | 700.0 | 707.0 | 756.2 | 840.2 |
| *% change* | | *1.0%* | *7.0%* | *11.1%* |

| | 08/15 | 08/16e | 08/17e | 08/18e |
|---|---|---|---|---|
| Operating margin | 5.8 | 6.0 | 6.3 | 6.5 |
| Net margin | 3.5 | 3.5 | 3.7 | 3.9 |
| ROE | 19.5 | 23.6 | 18.2 | 19.1 |
| ROCE | 28.6 | 29.4 | 30.4 | 32.1 |
| Gearing | 10.2 | 25.8 | -1.6 | -7.1 |

| (EUR) | 08/15 | 08/16e | 08/17e | 08/18e |
|---|---|---|---|---|
| EPS | 4.60 | 4.75 | 5.08 | 5.64 |
| *% change* | - | *3.1%* | *7.0%* | *11.1%* |
| P/E | 20.9x | 20.2x | 18.9x | 17.0x |
| FCF yield (%) | 4.6% | 3.9% | 4.3% | 5.8% |
| Dividends (EUR) | 2.20 | 2.37 | 2.54 | 2.82 |
| Div yield (%) | 2.3% | 2.5% | 2.6% | 2.9% |
| EV/Sales | 0.8x | 0.8x | 0.7x | 0.7x |
| EV/EBITDA | 11.1x | 10.8x | 9.6x | 8.8x |
| EV/EBIT | 13.5x | 13.1x | 11.6x | 10.6x |


**Top line lfl growth slightly better than expectations at 3.7% vs. 3.5% from consensus driven by positive trend in North America in contract catering and some improvement in Benefits and Rewards Services up 6.3% on lfl vs. 5.5% anticipated. Nevertheless, after consolidated revenue of EUR10,596m up 6.7% on reported, operating result before exceptional was a bit lower than expected at EUR658m (consensus EUR668m) i.e. an operating margin flat at 6.2% vs. 6.4% anticipated. FY 2015-16 guidance confirmed with lfl revenue growth of around 3% with an increase in operating profit of around 8% excluding the currency effect and before exceptional items. Note that regarding currencies, management highlights that negative effect of BRL should continue in H2 while the positive effect of the US$ should decline. Neutral confirmed.**

### ANALYSIS

- **Better lfl revenue growth mainly driven by better trend in North America:** Total revenue reached EUR10,596m, up 6.3% on reported (consensus EUR10,476m) with lfl growth of 3.7% and positive currency impact of 2.9% mainly due to US$/EUR was up over 11%. **On-site Services** was up 7.4% at EUR10,206m with lfl growth up 3.6% o/w 2.5% in Q2 after 4.7% in Q1 o/w 50% was due to RWC. Better lfl revenue growth mainly due to **NA** (45% of On-site Services) with lfl growth of 3.6% in H1 o/w 4.4% in Q2 after 2.9% in Q1 and some improvement in **Europe** (29%) with lfl revenue growth up 1.6% o/w 2.2% in Q2 after 1% in Q1. Regarding **Benefits and Rewards Services**, total revenue was up down 8.2% at EUR393m with lfl growth of 6.3% o/w 7.2% in Q2 and 5.3% in Q1. Currency negative impact reached 14.8% in Benefits and Rewards.
- **Flat EBIT margin before exceptionals (+30bps excluding currencies):** Operating result was slightly lower than expected at EUR658m (consensus EUR668m) up 6.1% on reported with negative impact from currency of 1.8%. Flat margin at 6.2% vs 6.4% anticipated which should have been up 30bps excluding currency impact. Sustained **operating cash flow** amounted up 16.2% to EUR273m with free cash flow up 5.9% to EUR54m.
- **For fiscal 2016**, Sodexo's objective is confirmed with revenue growth of around 3% and an increase in operating profit of around 8% (excluding currency effects and before exceptional items). Our forecast is based on lfl revenue growth of 2.8% with an operating result of EUR1,214m before exceptionals (EBIT margin up 35bps at 6.1%). EBIT is expected to be EUR1,114m after EUR100m of exceptional items (EUR37m in H1) due to the new plan for simplification and standardisation. Remember that the measures taken should progressively generate annual savings of around EUR200m between now and 2018 when the full benefit will be realised. The implementation of these initiatives will result in exceptional costs over the next 18 months, which are estimated to be EUR200m.

### VALUATION

- At the current share price, the stock is trading on 2016e and 2017e EV/EBIT multiples of 13.1x and 11.6x which compare with a median historical level of 10.8x and an 2015-18 CAGR in EBIT of 7.1%. 2016e and 2017e EPS capitalise at respectively 20.2x and 18.9x compared with an 2015-18 CAGR in EPS of 7.2%.

### NEXT CATALYSTS

- Conference call at 8:30am (Paris time)
- Q3 revenue on 8th July

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TMT

# Software AG

Price EUR34.05

## Q1 16 conference call feedback: leeway for upward revisions

**Fair Value EUR40 vs. EUR39 (+17%)** **BUY**

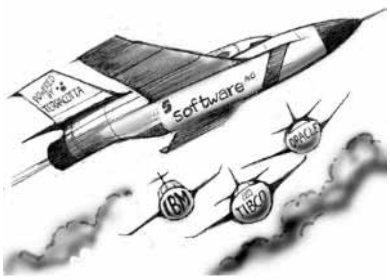
| | |
|---|---|
| Bloomberg | SOW GR |
| Reuters | SOWG.DE |
| 12-month High / Low (EUR) | 34.9 / 23.8 |
| Market Cap (EUR) | 2,690 |
| Ev (BG Estimates) (EUR) | 2,555 |
| Avg. 6m daily volume (000) | 262.8 |
| 3y EPS CAGR | 4.7% |

| | 1 M | 3 M | 6 M | 31/12/15 |
|---|---|---|---|---|
| Absolute perf. | 5.4% | 26.7% | 33.3% | 28.9% |
| Softw.& Comp. | 1.1% | -1.3% | 9.2% | -3.7% |
| DJ Stoxx 600 | 0.2% | -0.5% | -4.3% | -6.2% |

| YEnd Dec. (€m) | 2015 | 2016e | 2017e | 2018e |
|---|---|---|---|---|
| Sales | 873.1 | 889.5 | 915.1 | 956.2 |
| *% change* | | *1.9%* | *2.9%* | *4.5%* |
| EBITDA | 278 | 290 | 305 | 323 |
| EBIT | 209.4 | 234.6 | 254.2 | 274.5 |
| *% change* | | *12.0%* | *8.4%* | *8.0%* |
| Net income | 188.0 | 192.0 | 202.3 | 215.8 |
| *% change* | | *2.1%* | *5.4%* | *6.7%* |

| | 2015 | 2016e | 2017e | 2018e |
|---|---|---|---|---|
| Operating margin | 30.2 | 30.9 | 31.7 | 32.3 |
| Net margin | 16.0 | 17.4 | 18.6 | 19.3 |
| ROE | 12.8 | 12.9 | 12.8 | 12.2 |
| ROCE | 17.7 | 18.7 | 20.1 | 21.9 |
| Gearing | 1.3 | -11.2 | -22.0 | -33.7 |

| (€) | 2015 | 2016e | 2017e | 2018e |
|---|---|---|---|---|
| EPS | 2.33 | 2.38 | 2.51 | 2.67 |
| *% change* | - | *2.1%* | *5.4%* | *6.7%* |
| P/E | 14.6x | 14.3x | 13.6x | 12.7x |
| FCF yield (%) | 6.4% | 7.1% | 7.7% | 8.1% |
| Dividends (€) | 0.55 | 0.60 | 0.65 | 0.70 |
| Div yield (%) | 1.6% | 1.8% | 1.9% | 2.1% |
| EV/Sales | 3.1x | 2.9x | 2.6x | 2.3x |
| EV/EBITDA | 9.7x | 8.8x | 7.9x | 6.7x |
| EV/EBIT | 10.3x | 9.3x | 8.3x | 7.1x |




**We reiterate our Buy rating and increase our DCF-derived fair value to EUR40 from EUR39 following the conference call held yesterday. We raise our non-IFRS operating margin forecasts to 31.4% from 30.7% for 2016, to 31.9% from 31.6% for 2017, and to 32.5% from 32.2% for 2018. We are now convinced Software AG will raise FY16 non-IFRS operating margin guidance (currently 30-31%) in the course of the year, as Q1 A&N sales exceeded expectations and DBP sales productivity surged.**

### ANALYSIS

- **Digital Business Platform (DBP): confident of 5-10% lfl product revenue growth**. The sales pipeline remains strong, including +20% on the deals above EUR1m, and bigger mid-sized deals, while cloud order entry was up 155%. The c. EUR3m shortfall on DBP sales is not a concern as it is related to a large deal with a South African firm which slipped and was replaced by a deal of similar value on Adabas & Natural. Excluding this deal, DBP product revenues would have been up an est. 9% lfl (o/w an est. +17% lfl on licence sales). The EUR3m DBP deal is still in the pipeline and planned to close in Q2. Software AG delivered a tremendous quarter on DBP licence sales in the US (+14% lfl), Germany (+19% lfl) and the UK (+17% lfl), and Iberia, Eastern Europe, Asia, South Africa and even Brazil delivered 2-digit growth. France, Italy and the Middle East underperformed in Q1, but more due to an weak pipeline after a strong Q4 15 than to economic concerns - Australia as well due to execution issues, but leadership changes should help for a turnaround.
- **A&N (Adabas & Natural) sales trends clearly ahead of full-year guidance**. Excluding the EUR3m deal closed earlier than expected in South Africa, we estimate A&N product revenues in Q1 16 would have been up c. 15% lfl instead of the 20% lfl reported. That said, if Software AG looks to have actually benefited from its announcement to support A&N products beyond 2050, the trend looks ahead of schedule while company guidance for A&N product revenues for 2016 is -8%/-4% lfl. Management recognised during the call that if the trend remains ahead of company guidance after Q2 16 results, that full-year guidance may prove to be conservative.
- **Room for upward revision for non-IFRS operating margin**. Management acknowledges that, given the advance taken in Q1 16 on the non-IFRS operating margin (+3.9ppt) while FY16 guidance is 30-31% (+0.3ppt/+1.3ppt vs. 2015), the latter could be reviewed if the trend is confirmed in Q2. Cost optimisation on sales & marketing is visible (-11% lfl in Q1 16 on DBP, while sales productivity surged by 30%), the restructurings initiated in Q3 15 will provide strong leverage on the margin until Q3 16. In addition, the 4ppt decline of the Consulting margin to 4% in Q1 16 is due to restructurings (EUR2m out of the EUR4m reported in the quarter). Instead, we estimate the Consulting business line margin would have been flat or slightly growing at c. 8%.
- **Update on M&A**. Software AG is still committed on its use of cash: M&A, dividends, and/or share buy-backs. Even if there is no deal on the table immediately, M&A priorities remain oriented towards technology extension (real-time analytics, Internet of Things, Industry 4.0), new adjacent areas, and/or bigger targets in order to complete the solutions portfolio. Management confirms that there are signs of prices coming down (some companies struggle to leverage their buyouts, stock markets down) for unlisted companies, which may provide M&A opportunities.

### VALUATION

- Software AG's shares are trading at est. 9.3x 2016 and 8.3x 2017 EV/EBIT multiples.
- Net debt on 31st December 2015 was EUR13.9m (net gearing: 1%).

### NEXT CATALYSTS

Final Q1 16 results on 26th April before markets open.

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Food retailing

# Tesco

Price 181.00p

## Postview: a return to commercial reality

**Fair Value 166p (-8%)** **SELL vs. NEUTRAL**

| | |
|---|---|
| Bloomberg | TSCO LN |
| Reuters | TSCO.L |
| 12-month High / Low (p) | 246.9 / 139.2 |
| Market Cap (GBPm) | 14,735 |
| Ev (BG Estimates) (GBPm) | 22,664 |
| Avg. 6m daily volume (000) | 27 410 |
| 3y EPS CAGR | 103.4% |

| | 1 M | 3 M | 6 M | 31/12/15 |
|---|---|---|---|---|
| Absolute perf. | -5.8% | 14.3% | -6.7% | 21.1% |
| Food Retailing | 0.8% | 4.7% | 0.3% | 3.0% |
| DJ Stoxx 600 | 0.2% | -0.5% | -4.3% | -6.2% |

| YEnd Feb. (GBPm) | 02/16 | 02/17e | 02/18e | 02/19e |
|---|---|---|---|---|
| Sales | 54,433 | 56,245 | 57,696 | 58,948 |
| *% change* | | *3.3%* | *2.6%* | *2.2%* |
| EBITDA | 2,278 | 2,225 | 2,437 | 2,581 |
| EBIT | 1,046 | 1,069 | 1,252 | 1,370 |
| *% change* | | *2.2%* | *17.1%* | *9.4%* |
| Net income | 103.5 | 473.0 | 606.7 | 866.2 |
| *% change* | | *NM* | *28.3%* | *42.8%* |

| | 02/16 | 02/17e | 02/18e | 02/19e |
|---|---|---|---|---|
| Operating margin | 1.7 | 1.9 | 2.2 | 2.3 |
| Net margin | 0.2 | 0.8 | 1.1 | 1.5 |
| ROE | NM | NM | NM | NM |
| ROCE | 4.5 | 5.2 | 6.1 | 6.8 |
| Gearing | 59.3 | 48.5 | 38.5 | 30.6 |

| (p) | 02/16 | 02/17e | 02/18e | 02/19e |
|---|---|---|---|---|
| EPS | 1.27 | 5.83 | 7.48 | 10.68 |
| *% change* | - | *NM* | *28.3%* | *42.8%* |
| P/E | NS | 31.0x | 24.2x | 16.9x |
| FCF yield (%) | 0.1% | 0.1% | 0.1% | 0.1% |
| Dividends (p) | 0.00 | 0.88 | 2.24 | 4.27 |
| Div yield (%) | NM | 0.5% | 1.2% | 2.4% |
| EV/Sales | 0.4x | 0.4x | 0.4x | 0.3x |
| EV/EBITDA | 10.3x | 10.2x | 9.0x | 6.6x |
| EV/EBIT | 22.5x | 21.2x | 17.6x | 12.5x |


**The improvement in the major balances (adjusted ND/EBITDA ratio of ~5.0x) is dependent on a recovery in lfl figures in the UK (+0.9% LFL currently vs ~2% needed to cover natural cost inflation). And given the sluggishness specific to the sector, Tesco's commercial resolutions could take time to produce their effects. Growth is at a standstill (a disruptive factor in a fixed-cost industry, as Tesco's CEO Dave Lewis hinted when he spoke of a "lethal cocktail of costs" in the UK). Ultimately, CEO said it would be "a significant, significant achievement" to meet analysts' estimates for operating profit of 1.25 billion pounds this year. In the end, we stick to our cautious stance and downgrade to Sell vs Neutral given a FV of 166p implying a -8% downside potential.**

- Sector growth is at a standstill (a disruptive factor in a fixed-cost industry, as Tesco's CEO hinted when he spoke of a "lethal cocktail of costs" in the UK). As a reminder, *ceteris paribus*, lfl need to be well above the current levels in the UK (i.e. +0.9%) to amortize the natural cost inflation (~2.5%) and the emergence operating leverage. So even before yesterday publication, we were much less optimistic that the consensus as to Tesco's ability to deliver a very strong cash margin as soon as 2016/17.
- We do not question the ongoing commercial recovery (i.e. obvious sequential improvement in LFL). But our point is to say that there is a timescale specific to the sector (already evidenced by Géant Casino, the repositioning of which brought visible benefits more than two years after the initiative was launched) and that there is excessive optimism about how quickly improving commercial commercial trends at Tesco might translate into meaningful cash margin increase.
- Ultimately, CEO said it would be "a significant, significant achievement" to meet analysts' estimates for operating profit of 1.25 billion pounds this year. Profit growth "won't be smooth; we are in a turnaround". Before yesterday publication, we were already well below the consensus estimates for FY 16/17 current operating profit (i.e. 16% below). So today, more than ever, we stick to this estimate. (the +3% average adjustment to our estimates is very symbolic given the very low visibility we have on EPS).
- As a reminder for Q4 15/16: overseas (29% of EBIT), sales performances remain in a good momentum with a +3.8% LFL rate (vs +3.5% e / +2.9% in Q3, +2.3% in Q2 and -0.2% in Q1), which breaks down into a +3.5% LFL rate in Asia (vs +2.4% in Q3, flat in Q2 and -3.4% in Q1) and +4.1% LFL rate in Europe (vs +3.3% in Q3, +4.0% in Q2 and +2.2% in Q1). In the UK (53% of EBIT), Q4 LFL sales growth excl. fuel and VAT (main kpi) works out at +0.9% vs (+0.6% e / -1.5% in Q3, -1.0% in Q2 and -1.5% in Q1).
- Bottom line, FY trading profit worked out at GBP505m (vs GBP505m expected by the consensus) in UK & ROI (i.e. +4bp improvement in margin / +176 bp in H2); GBP277m (vs GBP264m e) for international activities (i.e. flat margin / +52bp in H2); GBP162m (vs GBP170m e) at Tesco Bank (i.e. -140bp decline in margin / -176 bp in H2).

### VALUATION

- NM

### NEXT CATALYSTS

- Significant improvement of LFL sales growth in UK&ROI

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Healthcare

# Adocia

Price EUR63.50

## First-quarter was very much in line with expectations

**Fair Value EUR93 (+46%)** **BUY**

| | |
|---|---|
| Bloomberg | ADOC FP |
| Reuters | ADOC.FR |
| 12-month High / Low (EUR) | 93.7 / 44.4 |
| Market Cap (EURk) | 434,721 |
| Avg. 6m daily volume (000) | 32.50 |

| | 1 M | 3 M | 6 M | 31/12/15 |
|---|---|---|---|---|
| Absolute perf. | 10.9% | -5.5% | -9.6% | -13.3% |
| Healthcare | 1.5% | -4.4% | -4.0% | -9.3% |
| DJ Stoxx 600 | 0.2% | -0.5% | -4.3% | -6.2% |

| | 2015 | 2016e | 2017e | 2018e |
|---|---|---|---|---|
| P/E | 34.6x | NS | NS | 32.1x |
| Div yield (%) | NM | NM | NM | NM |

### ANALYSIS

- Adocia disclosed numbers for its first-quarter which mainly consists of revenues, burn rate and cash position at the end of the quarter.
- As far as revenues, they were the reflection of the agreement with Lilly on BC lispro and the amount is therefore similar to the same quarter last year as it is going to be the case for all quarters until the end of the development of the compound, so no surprise here. The other part of the revenue line represents the research expenses that are rebilled to Lilly and again, unsurprisingly as the drug progresses towards phase III it is slightly increasing compared to last year. To note however is that we expect the drug to move in phase III by year-end and from then on, Lilly will be in charge of development costs and Adocia will no longer rebill its partner. Therefore we expect this section of revenues to be lower in the last quarter of the year. Last reference to revenues is research tax credit and Adocia reports that it expects to receive EUR6.8m in the coming weeks or months, which is slightly above what we had forecasted.
- Moving to expenses, as revenues reported in the P&L have no cash influence, cash consumption is the reflection of gross expenses which therefore amounted to EUR8m in the first quarter. This is very much in line with the EUR35m that we expect for the year as it should sequentially progress over the quarters as a consequence of BC Combo/Hinsbet's costs and an increased number of full-time employees. Net cash position at the end of the quarter was EUR64m, with research tax credit still to be received, as well as milestone payment from Lilly when BC lispro jumps in phase III (we expect USD50m, sometimes in Q4 2016).

### VALUATION

- Based in these various elements, we do expect Adocia to show positive earnings in 2016, which is not essential for the case over the long-term but which makes it different from many other companies that have years of losses before achieving profitability.
- Obviously, key for the year and the case is how BC Combo develops and perception of its capacity to be partnered either this year or next. This has to do with the intrinsic value of the product but also and maybe increasingly with the dynamics within the insulin market with a lot of influential new products like new-generation basal insulins (Toujeo, Tresiba), biosimilar glargine, basal/GLP1 combinations, new GLP1 formulations, etc… It puts some pressure on Adocia but we believe the case remains strong and in the end the opportunity is still very much valid at the current price.

### NEXT CATALYSTS

- Q2 2016: New phase Ib/II data from studies on BC lispro and BC combo

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Utilities

# Albioma

Price EUR13.64

| | |
|---|---|
| Bloomberg | ABIO FP |
| Reuters | ABIO.PA |
| 12-month High / Low (EUR) | 19.6 / 11.9 |
| Market Cap (EURm) | 406 |
| Avg. 6m daily volume (000) | 24.10 |

| | 1 M | 3 M | 6 M | 31/12/15 |
|---|---|---|---|---|
| Absolute perf. | -2.5% | -0.1% | -11.6% | -8.8% |
| Utilities | 1.0% | -1.3% | -2.7% | -4.4% |
| DJ Stoxx 600 | 0.2% | -0.5% | -4.3% | -6.2% |

| | 2015 | 2016e | 2017e | 2018e |
|---|---|---|---|---|
| P/E | 13.1x | 15.2x | 11.8x | 7.9x |
| Div yield (%) | 4.2% | 4.2% | 4.2% | 6.3% |

## Signature of an amendment to Albioma's Bois-Rouge PPA

## Fair Value EUR16 (+17%) BUY

### ANALYSIS

- The French independent energy producer specialized in biomass, Albioma, announced yesterday post-market that the company signed an amendment with EDF related to Albioma's Bois-Rouge plant (108MW), on Reunion Island, on 5 April 2016. This amendment comprises two types of compensation which will benefit Albioma's Bois-Rouge plant power purchase agreement with EDF:
  - A compensation for the extra cost of managing combustion by-products produced by Bois-Rouge plant. As a reminder, those extra-costs are due to a regulation enhancement that occurred in 2013 and Albioma had to carry them on its own since this date.
  - A readjustment in prices, responding to all additional costs necessary to meet the new more restrictive law concerning liquid effluent and gas emission treatment system. Born with the European Directives of 24 September 1996 (Integrated Pollution Prevention and Control Directive) and 24 November 2010 (Industrial Emissions Directive), it was recently transposed into French law.
- Positive as it confirms group's 2016 estimates are not at risk. The positive conclusions from negotiations with EDF definitively reinforce our investment case on Albioma as it confirms any additional costs are well impacted to French overseas tariffs.

### VALUATION

- We confirm the Buy rating with FV unchanged at EUR16.

### NEXT CATALYSTS

- Albioma 2016 Q1 results on April 27th.

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Return to front page

Construction & Building Materials

# LafargeHolcim

Price CHF48.50

## Delays to Indian asset disposals likely

**Fair Value CHF50 (+3%)** **BUY**

| | |
|---|---|
| Bloomberg | LHN VX |
| Reuters | LHN.VX |
| 12-month High / Low (CHF) | 72.9 / 34.1 |
| Market Cap (CHFm) | 29,435 |
| Avg. 6m daily volume (000) | 2,223 |

| | 1 M | 3 M | 6 M | 31/12/15 |
|---|---|---|---|---|
| Absolute perf. | 14.1% | 7.0% | -9.8% | -3.6% |
| Cons & Mat | 2.1% | 4.9% | 4.9% | -0.3% |
| DJ Stoxx 600 | 0.2% | -0.5% | -4.3% | -6.2% |

| | 2014 | 2015e | 2016e | 2017e |
|---|---|---|---|---|
| P/E | 29.7x | 28.1x | 21.0x | 13.2x |
| Div yield (%) | 2.7% | 3.1% | 3.6% | 4.1% |

### ANALYSIS

- According to the local newspaper website Business Standard, the Competition Appellate Tribunal (Compat) "*stayed*" the merger in India "*until the next hearing on May 9*". Advisors of Dalmia Cements, which has complained to the Compat, explain that "*CCI's second order is invalid as there is no provision under the Act which gives CCI the power to pass the second order when the first had not been followed*". Remember that LafargeHolcim was not able to implement the first order (5.5mt to be divested) for legal reasons (related to mining transfer) and CCI gave a second approval for the sale of 11mt. Eric Olsen was optimistic to close this last deal around mid-2016.
- We understand this is basically technical and just a matter of time before the disposal process can resume – but of course this deteriorates the sale process visibility and these Indian legal woes are not a positive support for LHN share price. This is especially frustrating as it is the last anti-trust hurdle to be completed. Furthermore, numerous companies have expressed interest and the press was mentioning a possible price of USD1.6bn, i.e. USD150 per ton (above recent deal prices).
- But, considering the recent rebound of the share price, negative market would not be a surprise in our view, if this news is properly noticed by the market. Otherwise, we have contacted the IR team yesterday but no comments were made on this specific Indian legal issue.

### VALUATION

- CHF50 FV derived from the application of historical multiples to our 2017 estimate, discounted back. 2016e EV/EBITDA at vs 7.9x vs 8.2x for the European Cement Sector (under coverage).

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TMT

## Soitec

Price EUR0.59

| | |
|---|---|
| Bloomberg | SOI FP |
| Reuters | SOIT.PA |
| 12-month High / Low (EUR) | 0.9 / 0.5 |
| Market Cap (EUR) | 136 |
| Avg. 6m daily volume (000) | 912.0 |

| | 1 M | 3 M | 6 M | 31/12/15 |
|---|---|---|---|---|
| Absolute perf. | -4.8% | -4.8% | -15.7% | -7.8% |
| Semiconductors | 3.9% | 10.0% | 9.0% | 0.2% |
| DJ Stoxx 600 | 0.2% | -0.5% | -4.3% | -6.2% |

| | 03/15 | 03/16e | 03/17e | 03/18e |
|---|---|---|---|---|
| P/E | NS | NS | 43.4x | 34.9x |
| Div yield (%) | NM | NM | NM | NM |

## FQ4-16 sales in line with expectations, no surprise for FQ1-17

**Fair Value EUR0.5 (-15%)** **NEUTRAL**

### ANALYSIS

- **Yesterday, Soitec reported FQ4-16 sales of EUR65.7m, up 8% on year, in line with our expectations (BG ests. FQ4-16 sales of EUR64.2m).** As a result, FY16 sales (FYE 31/03) came out at EUR237.5m, up 32% on year (BG ests. FY16 sales of EUR236m) excluding discontinued activities. The main driver remains the 200mm business which corresponds to sales of wafers named RF-SOI for Smartphone and Automobile. The gross cash position is expected to be stable compared to December quarter.

- **For FQ1-17, Soitec expects to see a flat growth yoy.** This implies a decrease of 15% compared to FQ4-16. Again, this is not a surprise in the guidance since FD-SOI sales are not expected to be significant in H1-17.

- **Capital increases on hold due to a lack of quorum.** On Monday April 11th, Soitec held an Extraordinary General Meeting in order to vote in favour or against the proposed capital increases. However, due to a lack of quorum, the EGM was unable to vote on resolution which concerned the planned capital increases. As a result, Soitec invites shareholders to meet on a second call on April 29th 2016 in order to vote.

- **We remind that Soitec prepares two successive capital increases.** First, a reserved capital increase of EUR76.5m for BPI France, CEA and a Chinese investment fund National Silicon Industry Group. At the closing of this operation, all of these investors will hold about 14.5% of Soitec shares. This reserved capital increase will be at a price of EUR0.55 per share. Then, the group is preparing a second capital increase with preferential subscription rights for a total amount to be determined in the range of EUR53.5m to EUR103.5m. **Note that the implementation of both capital increases depends on the favourable vote at the new call.**

### VALUATION

- Soitec shares are trading on FY17e EV/Sales of 0.8x and FY17e EV/EBIT of 19.7x.

### NEXT CATALYSTS

- April 13th: Q4 FY16e sales.

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Sector View

# Luxury Goods

## Burberry H2 sales down 1% underlying (stable in H1)

| | 1 M | 3 M | 6 M | 31/12/15 |
|---|---|---|---|---|
| Pers & H/H Gds | -1.4% | 4.1% | -2.0% | -2.2% |
| DJ Stoxx 600 | -2.7% | -2.2% | -8.3% | -9.0% |

*Stoxx Sector Indices

**Companies covered**

| | | |
|---|---|---|
| CHRISTIAN DIOR | BUY | EUR175 |
| HERMES Intl | BUY | EUR355 |
| HUGO BOSS | NEUTRAL | EUR80 |
| KERING | BUY | EUR176 |
| LVMH | BUY | EUR174 |
| PRADA | NEUTRAL | HKD35 |
| RICHEMONT | BUY | CHF81 |
| SALVATORE | BUY | EUR25.8 |
| THE SWATCH GROUP | NEUTRAL | CHF410 |
| TOD'S GROUP | NEUTRAL | EUR78 |

**Burberry H2 2015/16 (October 15 to March 16) sales declined 1% underlying (cs:stability) after stability in H1, including stability for Retail sales and -1% for wholesale. Retail performance at same stores in H2 (-2%) implies clear slowdown in Q4 (-5%) after stability in Q3 and -4% in Q2.**

### ANALYSIS

- Burberry has reported H2 (October-March) sales at GBP1.41bn (consensus: GBP1.42bn), implying underlying (at same forex) 1% decline (consensus was expecting stability) after stability in H1. Retail sales reached GBP1.06bn (consensus: GBP1.08bn) and remained stable at same forex (+2% in H1 and +1% on 9m) and. Retail comparable sales growth was -2% in H2 (consensus:-0.5%), implying -5% in Q4 alone after stability in Q3 and also 1% on FY. In H2, sales were down mid-single digit in Asia-Pacific (HLK down 20% but Mainland China growing), globally in line with Q3 alone, and stable in Europe, impacted by lower tourists flows (MSD increase in Q3). Lastly, in Americas, sales declined slightly in H2 after a stable Q3 performance. Five Mainline stores have been opened (eight closures) in H2 after 13 in H1 (Dubai, London, NY, Seoul) and 9 closures.

- Wholesale sales reached GBP330m (consensus: GBP331m), implying 1% decline at same forex (underlying). Excluding Beauty, wholesale sales were down 6% while Beauty sales were up 11%, driven by sell-in of Mr Burberry Men fragrance. Wholesale/retail sales were down 1 % in H2 versus +1% in H1.

### NEXT CATALYSTS

- FY 2015/16 results are expected on May 18th.

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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 56.8% NEUTRAL ratings 35.3% SELL ratings 7.9%

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