Please find our Research on Bloomberg BRYG <GO>)

22nd April 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	17982.52	-0.63%	+3.20%
S&P 500	2091.48	-0.52%	+2.33%
Nasdaq	4945.89	-0.05%	-1.23%
Nikkei	17572.49	+1.2%	-8.77%
Stoxx 600	349.59	-0.33%	-4.44%
CAC 40	4582.83	-0.20%	-1.17%
Oil /Gold			
Crude WTI	42.27	-0.80%	+13.63%
Gold (once)	1250.07	-0.38%	+17.67%
Currencies/Rates			
EUR/USD	1.12895	-0.39%	+3.93%
EUR/CHF	1.0981	+0.34%	+0.98%
German 10 years	0.233	+53.97%	-63.25%
French 10 years	0.476	+16.11%	-51.43%
Euribor	-	+-%	+-%

Economic releases :

Date	
22nd-Apr	JP - PMI mfg Apr. (48A 49.5E) EUZ - PMI Serv Apr. (51.9 E) EUZ - PMI Composite Apr. (53.3 E) US - Markit US Manuf PMI (52 E)

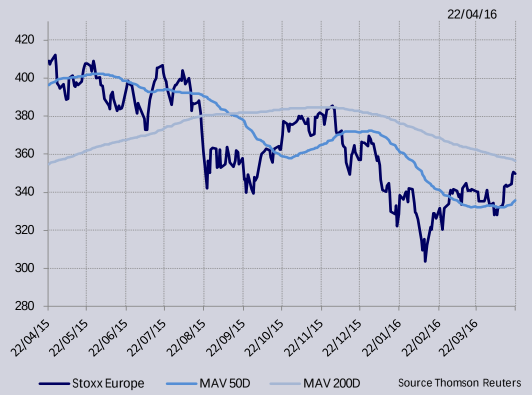
Upcoming BG events :

Date	
22nd-Apr	PERNOD RICARD (BG Paris roadshow with Head of IR)
27th-Apr	ELIOR (BG Geneva with CFO)
28th-Apr	ORPEA (BG Luxembourg with IR)
28th-Apr	ORPEA (BG Luxembourg with IR)
3rd-May	Groupe SEB (BG Paris Lunch with IR)
4th-May	Groupe SEB (BG Luxembourg Lunch with IR)

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



ATOS — **BUY-Top Picks, Fair Value EUR93 vs. EUR90 (+17%)**

Q1 16 conference call feedback: the day that never comes is finally here

BIOMÉRIEUX — **BUY, Fair Value EUR122 vs. EUR115 (+5%)**

Post-view Q1 results

DASSAULT SYSTÈMES — **SELL, Fair Value EUR62 vs. EUR63 (-11%)**

Q1 16 analysts" meeting and conference call feedback: the Champion's syndrome, again

ESSILOR — **BUY-Top Picks, Fair Value EUR130 (+13%)**

Reassuring outlook: very solid growth in Lenses, rebound expected in Sun in Q2, what else?

KERING — **BUY, Fair Value EUR174 vs. EUR176 (+9%)**

Q1 below expectations

NOVARTIS — **NEUTRAL, Fair Value CHF88 vs. CHF95 (+18%)**

How close is the bottom?

PERNOD RICARD — **BUY, Fair Value EUR107 vs. EUR113 (+8%)**

More difficulties in China than anticipated

INTEGRATED UTILITIES

It could have been worse

In brief...

ACTELION, *It looks like the planets are very well aligned currently*

BAYER, *Covestro shares deposited in Pension Fund*

GALAPAGOS, *20w data in Crohn"s disease supportive for phase III trial*

TMT

Atos

Price EUR79.32

Q1 16 conference call feedback: the day that never comes is finally here

Fair Value EUR93 vs. EUR90 (+17%) **BUY-Top Picks**

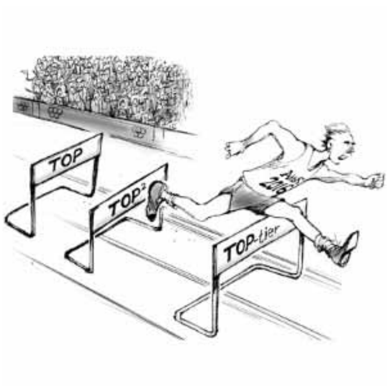
Bloomberg	ATO FP
Reuters	ATOS.PA
12-month High / Low (EUR)	79.3 / 62.7
Market Cap (EUR)	8,212
Ev (BG Estimates) (EUR)	7,364
Avg. 6m daily volume (000)	381.4
3y EPS CAGR	15.1%

	1 M	3 M	6 M	31/12/15
Absolute perf.	12.0%	12.4%	12.5%	2.4%
Softw.& Comp.	1.3%	2.9%	5.2%	-2.9%
DJ Stoxx 600	2.6%	6.4%	-3.6%	-4.4%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	10,686	11,756	12,239	12,518
% change		*10.0%*	*4.1%*	*2.3%*
EBITDA	1,334	1,524	1,680	1,771
EBIT	589.0	659.0	889.0	993.0
% change		*11.9%*	*34.9%*	*11.7%*
Net income	608.0	731.0	867.0	938.0
% change		*20.2%*	*18.6%*	*8.2%*

	2015	2016e	2017e	2018e
Operating margin	8.6	9.2	9.9	10.4
Net margin	4.0	4.2	5.6	6.2
ROE	9.9	10.8	13.4	13.3
ROCE	22.9	27.5	38.8	43.6
Gearing	-14.0	-20.0	-45.0	-54.0

(€)	2015	2016e	2017e	2018e
EPS	5.80	6.94	8.20	8.84
% change	-	*19.7%*	*18.2%*	*7.8%*
P/E	13.7x	11.4x	9.7x	9.0x
FCF yield (%)	4.8%	6.4%	7.3%	9.7%
Dividends (€)	0.90	1.10	1.40	1.55
Div yield (%)	1.1%	1.4%	1.8%	2.0%
EV/Sales	0.7x	0.6x	0.5x	0.4x
EV/EBITDA	5.7x	4.8x	3.6x	3.0x
EV/EBIT	8.3x	6.8x	5.0x	4.0x



We reiterate our Buy rating and raise our DCF-derived fair value to EUR93 from EUR90 following the conference call held yesterday. We keep our adj. EPS virtually unchanged but increase our medium-term adj. EBIT margin assumption to 10.5% from 10% on better confidence to profitability. We consider the take-off of lfl revenue growth in Q1 and further acceleration expected for Q2 were the missing catalysts for allowing a re-rating valuation catch-up vs. IT Services peers.

ANALYSIS

- **Growth acceleration planned for Q2, FY16 guidance may be reviewed for H1 results**. Yet the CEO Thierry Breton considers it is too early to review the FY16 revenue guidance (sales up 8% at cc implying c. +0.8% lfl), we are convinced Atos will do so for H1 16 results in July. The management is very confident on the sales dynamic, and that lfl sales growth will accelerate in Q2 16 from the +1.6% reported for Q1. Such a growth is driven by the turnaround of Germany, the US, France, Big data & Cyber-Security, and Worldline. No particular revenue one-off is expected for the remainder of the year. In Systems Integration, which had been the weakest link for years, Atos is confident beyond Q1, based on the strong book-to-bill ratio (1.33x in Q4 15, 1.1x in Q1 16) driven by Germany (sales >+3%) and France (sales >+6%). In addition, the Benelux & The Nordics region is planned to be back to growth during the year driven by a book-to-bill ratio of 1.31x, while the UK, which was down 7.7% lfl in Q1 16, is expected close to stability in Q2 and back to growth in H2. Finally, the Cloud business was up 32% and is on track to post more than EUR700m revenues in 2016.
- **Unify integration on track**. The services business has integrated within Atos Business Services in core countries (Germany, the UK, and Austria), while the Unify Software & Platforms business has been created to prepare its disposal. The restructurings are on track with 292 departures in Q1 16 vs. a FY16 target of 792 (i.e. 37% of the restructuring of the year), and the non-personal cost savings are on track with the EUR50m target. On Software & Platforms, in 3 months the number of partners in indirect sales was up 10% to 2,146, and the number of cloud-based communication users was up 5% to 214,000 in line with the annual target of +20%. The number of Circuit users has reached 20,000 (driven by Siemens) while the year-end target is 500,000. Atos is confident on its ability to sell Software & Platforms, once the benefit of restructurings and transformation will be complete, for 10x EBITDA by 2017 when the entity would have an EBITDA of c. EUR100m. The planned acquisition of Polycom by the competitor Mitel for 9.6x EBITDA 2015 backs the management.
- **FY16 profitability and cash targets confirmed**. Atos sticks with its FY16 cash restructuring guidance (EUR150m), yet it intends to complete more than 50% of it by the end of H1 16. The strong increase in utilisation rate in Systems Integration (82.3% vs. 80% in the past), combined with personal productivity gains led by service automation, brings more comfort with the 9-9.5% operating margin guidance and c. EUR550m free cash flow for 2016.

VALUATION

- Atos' shares are trading at est. 6.8x 2016 and 5.0x 2017 EV/EBIT multiples.
- Net cash position on 31st December 2015 was EUR593.1m (net gearing: -15%).

NEXT CATALYSTS

- AGM on 26th May.
- H1 16 results on 27th July before markets open.

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Healthcare

bioMérieux

Price EUR116.65

Post-view Q1 results

Fair Value EUR122 vs. EUR115 (+5%) **BUY**

Bloomberg	BIM FP
Reuters	BIOX.PA
12-month High / Low (EUR)	118.7 / 92.2
Market Cap (EUR)	4,602
Ev (BG Estimates) (EUR)	4,998
Avg. 6m daily volume (000)	50.40
3y EPS CAGR	27.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	19.0%	8.0%	15.8%	6.1%
Healthcare	6.3%	1.3%	-2.5%	-7.3%
DJ Stoxx 600	2.6%	6.4%	-3.6%	-4.4%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	1,965	2,078	2,220	2,366
% change		*5.8%*	*6.8%*	*6.6%*
EBITDA	388	422	466	527
EBIT	260.0	286.8	321.9	372.7
% change		*10.3%*	*12.3%*	*15.8%*
Net income	110.3	163.5	194.4	230.0
% change		*48.2%*	*18.9%*	*18.3%*

	2015	2016e	2017e	2018e
Operating margin	13.2	13.8	14.5	15.8
Net margin	5.6	7.9	8.8	9.7
ROE	7.3	10.1	11.0	11.8
ROCE	8.2	8.5	9.2	10.4
Gearing	14.9	24.3	19.3	11.3

(EUR)	2015	2016e	2017e	2018e
EPS	2.80	4.14	4.93	5.83
% change	-	*48.2%*	*18.9%*	*18.3%*
P/E	41.7x	28.2x	23.7x	20.0x
FCF yield (%)	1.5%	NM	2.5%	4.2%
Dividends (EUR)	1.00	1.04	1.23	1.46
Div yield (%)	0.9%	0.9%	1.1%	1.2%
EV/Sales	2.5x	2.4x	2.2x	2.0x
EV/EBITDA	12.4x	11.8x	10.6x	9.2x
EV/EBIT	18.6x	17.4x	15.4x	12.9x

BioMérieux’ management was confident on LT growth prospect for the company’s Immunoassays and Microbiolgy divisions. FilmArray is doing well and ramp-up of the GI panel should support growth throughout the year. We do not see further investments occurring in 2016 andprofitability guidance looks somewhat conservative to us. In 2017 however, we do not rule out that sales force might need to be upsized.

ANALYSIS

- Molecular Diagnostics. Despite a small seasonality effect from flu this year, BioFire sales remained dynamic helped by 1/ an increased user rate and to a lesser extent 2/ the number of new clients opened. The full product range (FilmArray, FilmArray2.0 and FilmArray Torch) now allows the group to address all sizes of laboratories. Management stated that more than 1,000 clients are now opened, which would represent an installed base of 2,700 instruments vs ~760 clients or 2,300 instruments six months ago. Although a higher share of revenues is now derived from outside the US (8% vs. 4% QoQ i.e. EUR5m), we believe that BIM addresses 18-19% of the 5,000 US hospitals vs 15% six months ago. As such, we have lifted our estimates for FilmArray (see valuation). Outside the US, the dedicated sales force and the effect of clinical studies is starting to pay off.
- Immunoassays. Investors questioned us recently on the group's ability to maintain its market share notably in the US where we would expect competition to kick in in H2 2016 (exposure of 6% of the group’s sales). Bear in mind that the 8.6% growth in Q1 was not only driven by the US, but more by EM and high value tests in all regions.
- Microbiology. Management was confident on its ability to deliver and maintain growth at least at the high range of 3-5% market growth following a strong start to the year (+6.7% in Q1). Note that our estimates are conservative at 3% in the long run.
- Growth in China was 12.5% and management prefers to remain cautious (note the false start in H1 2015). We would stick to our 5% growth rate for the year, 8% in 2017e.
- Bottom line. We remain confident on both the short and long term outlook for the group. It is likely that any further gain will leverage profitability in 2016 as the company will wait at least nine months to measure the full impact of its new sales force before potentially deciding to further reinforce it. As such, 2016 contributive EBIT guidance looks somewhat conservative (BGe EUR287m vs. guidance EUR265-290m). For 2017 note that this might raise the question of increased investments which might, again, slightly lower leverage opportunities.

VALUATION

- We welcome management's confidence in long-term growth prospects and have raised our LT estimates for the Microbiology and Immunoassays businesses. Our 2016 growth rate for the Microbiology BU is up from 4.5%CER to 5%CER. From 2017 onwards, our sales growth rate for both divisions now stands at 5%CER and 4%CER vs 4%CER and 3%CER respectively. This adds EUR6 to our fair value. With a dynamic Biofire division in Q1, albeit helped by seasonality from a mild flu season, we have increased our sales for the year from EUR191m to EUR205m (35%CER to 40%CER). Exiting the flu season, we believe that the ramp-up of the GI (USD800m market) should support sales growth. The latter change adds EUR1 to our Fair Value. As a result, our Fair Value is up from EUR115 to EUR122.
- Note that 1/ our CER growth rate for the year now stands at 8.1% or slightly ahead of the company’s guidance (6-8%), and that 2/ our contributive EBIT stands at EUR287m, even closer to the company’s high range (EUR265-290m).

NEXT CATALYSTS

- 18th July 2016: Q2 sales

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TMT

Dassault Systèmes

Price EUR69.93

Q1 16 analysts" meeting and conference call feedback: the Champion's syndrome, again

Fair Value EUR62 vs. EUR63 (-11%) **SELL**

Bloomberg	DSY FP
Reuters	DAST.PA
12-month High / Low (EUR)	76.1 / 59.9
Market Cap (EURm)	17,953
Ev (BG Estimates) (EURm)	16,034
Avg. 6m daily volume (000)	285.4
3y EPS CAGR	11.1%

	1 M	3 M	6 M	31/12/15
Absolute perf.	0.6%	4.5%	-0.5%	-5.2%
Softw.& Comp.	1.3%	2.9%	5.2%	-2.9%
DJ Stoxx 600	2.6%	6.4%	-3.6%	-4.4%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	2,839	3,068	3,341	3,654
% change		*8.0%*	*8.9%*	*9.4%*
EBITDA	897	1,003	1,117	1,255
EBIT	633.2	729.0	842.8	978.1
% change		*15.1%*	*15.6%*	*16.1%*
Net income	617.1	713.0	766.6	855.2
% change		*15.5%*	*7.5%*	*11.6%*

	2015	2016e	2017e	2018e
Operating margin	29.8	30.9	31.7	32.7
Net margin	14.2	16.2	16.6	17.6
ROE	11.5	13.0	13.1	13.6
ROCE	28.9	37.1	44.5	56.4
Gearing	-38.7	-50.1	-59.7	-68.2

(€)	2015	2016e	2017e	2018e
EPS	2.38	2.74	2.94	3.26
% change	-	*15.1%*	*7.3%*	*10.9%*
P/E	29.4x	25.5x	23.8x	21.4x
FCF yield (%)	3.0%	4.1%	4.4%	4.9%
Dividends (€)	0.43	0.49	0.54	0.63
Div yield (%)	0.6%	0.7%	0.8%	0.9%
EV/Sales	5.8x	5.2x	4.6x	4.0x
EV/EBITDA	18.5x	16.0x	13.8x	11.7x
EV/EBIT	19.6x	16.9x	14.6x	12.3x

We reiterate our Sell rating and have shaved our DCF-derived Fair Value to EUR62 from EUR63 after reducing our adjusted EPS ests. by 1% for 2016 and 3% for 2017-18. We consider that yesterday's 4% share price decline reflects Dassault Systèmes' 'Champion's syndrome': current high valuation multiples imply the company regularly exceeds its quarterly guidance, and we believe that when a quarter is in line or just above the high-end of the range, as in Q1 2016, the stock is sanctioned.

ANALYSIS

- **FY16 growth to be back-end loaded**. Management is confident in achieving FY16 guidance (revenues up 6-7% at cc, non-IFRS op. margin of c. 30%, non-IFRS EPS up 7% to EUR2.40 with a fx headwind of 4% and a tax rate 2ppt lower than in FY15) based on a strong pipeline, driven by 'new' industries like Marine & Offshore, High Tech, Life Sciences, and Energy, Process & Utilities. However, quarterly revenue seasonality this year is expected to be more pronounced than for previous years, with Q1 and Q3 lower and Q4 higher, i.e. the weight of Q1 within the full-year could be 2ppt lower than in 2015, while that of Q4 could be 2ppt higher. For Q2 16, DS expects revenues up 5-6% at cc, with flat services (down from +6% in Q1 16 amidst of a strong software installation activity and Quintiq) and software growth above +6% (new licence sales up high single-digit). We estimate that, in order to reach 7% lfl revenue growth for FY16 Dassault Systèmes has to deliver an outstanding 11-12% lfl growth rate in Q4 with new licence sales up 18-20% lfl.
- **Non-IFRS EPS boosted by a tax reversal**. Non-IFRS EPS in Q1 was inflated for EUR0.05 by a tax reserve reversal after a tax audit in France. In other words, excluding this tax tailwind, Dassault Systèmes' non-IFRS EPS would have totalled EUR0.46, or just above the high-end of company guidance (EUR0.42-0.45). However, the impact to the full-year tax rate will be marginal (32.5% instead of 33%) and will not affect FY16 non-IFRS EPS guidance (EUR2.40). At constant fx, the non-IFRS operating margin in Q1 16 would have been up 0.6ppt to 26.4% (vs. +0.4ppt as reported), which is in line with the 0.5ppt progression expected for the full-year, while Dassault Systèmes will continue to sustain its R&D investments on the 3DExperience platform (multi-physics simulation, Life Sciences…) and increase the sales coverage in targeted industries or regions.
- **SolidWorks evolution towards the 3DExperience platform**. SolidWorks revenues up 8% in Q1 16, driven by maintenance while new licence sales were down, reflect the back-end loaded feature of this business in 2016. Beyond 2016, the strategy on SolidWorks is to expand the desktop version to cloud-based services through the 3DExperience platform. The Industrial Design cloud app has been launched, and the beta version of Xdesign will be available in the summer. Over time, the desktop version will become a collection of apps, and the management considers the SolidWorks value-added distributors are no longer concerned by a risk of squeezing their cash flow.
- **Update on M&A**. With EUR2.6bn cash on its balance sheet, Dassault Systèmes has not imposed itself a budget for acquisitions. The company has a pipeline of opportunities but it will choose the right targets that fit with its strategy, terms and valuation criteria. A few targets are in the pipeline and no "mega-transaction" is expected, but the management is very optimistic that the company will be able to make acquisitions this year. Mechatronics and IoT can be domains of interest.

VALUATION

- Dassault Systèmes's shares are trading at est. 16.9x 2016 and 14.6x 2017 EV/EBIT multiples.
- Net cash position on 31st March 2016 was EUR2,590.2m (net gearing: -46%).

NEXT CATALYSTS

- AGM on 26th May. Capital Markets Day on 10th June in Vélizy-Villacoublay (France).
- Q2 16 results on 21st July before markets open. *Click here to download*

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Luxury & Consumer Goods

Essilor

Price EUR114.65

Reassuring outlook: very solid growth in Lenses, rebound expected in Sun in Q2, what else?

Fair Value EUR130 (+13%) **BUY-Top Picks**

Bloomberg	EF FP
Reuters	ESSI.PA
12-month High / Low (EUR)	123.6 / 100.4
Market Cap (EURm)	24,819
Ev (BG Estimates) (EURm)	26,824
Avg. 6m daily volume (000)	537.8
3y EPS CAGR	12.9%

	1 M	3 M	6 M	31/12/15
Absolute perf.	6.2%	5.7%	3.5%	-0.3%
Consumer Gds	1.9%	6.4%	0.2%	-2.3%
DJ Stoxx 600	2.6%	6.4%	-3.6%	-4.4%

YEnd Dec. (€m)	2014	2015e	2016e	2017e
Sales	5,670	6,716	7,187	7,688
% change		*18.4%*	*7.0%*	*7.0%*
EBITDA	1,043	1,263	1,358	1,461
EBIT	1,222	1,183	1,288	1,391
% change		*-3.2%*	*8.9%*	*7.9%*
Net income	929.3	756.6	843.9	931.6
% change		*-18.6%*	*11.5%*	*10.4%*

	2014	2015e	2016e	2017e
Operating 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	21.6

(€)	2014	2015e	2016e	2017e
EPS	3.05	3.57	3.98	4.39
% change	-	*16.9%*	*11.5%*	*10.4%*
P/E	37.6x	32.2x	28.8x	26.1x
FCF yield (%)	3.2%	2.4%	3.4%	3.9%
Dividends (€)	1.05	1.15	2.15	3.15
Div yield (%)	0.9%	1.0%	1.9%	2.7%
EV/Sales	4.7x	4.0x	3.7x	3.4x
EV/EBITDA	25.5x	21.2x	19.5x	18.0x
EV/EBIT	21.8x	22.7x	20.5x	18.9x

During the conference call yesterday, management confirmed that Bolon should enjoy a strong catch-up effect as early as Q2, confirming that the only issue of yesterday's publication is behind the group. We understood that the Lenses division (87% of sales) would maintain strong momentum and even the Equipment division seems to be recovering gradually. At this stage, we have fine-tuned our sales assumptions and remain convinced that Essilor will achieve all FY guidance, marking another step further towards the 2018 targets. Buy recommendation and FV of EUR130 confirmed.

ANALYSIS

- **Readers & Sun: strong catch-up as early as Q2!** The sales disruption at Bolon (-33%) caused by the introduction of the new ARTEMIS inventory management system dented Essilor's lfl growth by around 1pp (+5%). Management reassured by confirming that ARTEMIS was now fully operational, boding well for a significant sales jump in Q2. **Since Essilor maintained its guidance of high single-digit growth for 2016, it implies, at least, a ~10% lfl growth in R&S sales over the three remaining quarters**, fuelled by a double-digit sales increase at Bolon.
- **Consolidating the ECP alliance channel in North America.** Essilor is sticking to its "oil spot strategy" with the acquisition of **Opti-Port** (33 members and >400 offices), marking the fourth transaction of an US alliance following the acquisitions of **Vision Source** (4,071 doctors), **PERC** (3,141) and **IVA** (912) last year. **The group now covers over 8,000 doctors, or >30% of the total channel** (~25,000 independent eye doctors), which represent a significant growth opportunity for Essilor to push its products and services further. As a reminder, the independent ECP channel has constantly gained market share over the last decade (2015: 53% market share vs. 50% in 2005) thanks to a high level of expertise and service.
- **What to expect in Europe and LatAm throughout the remainder of the year?** With 4.7% LFL in Q1 **Europe** performed again above expectations (France was up in Q1), illustrating the success of the strategy implemented in 2013 (e.g: Country Management, media push, innovation, key partnerships). Even if the comparison base will toughen, we believe the combination of these drivers will continue to deliver a solid momentum, hence we are comfortable with our 2.6% LFL forecast. **LatAm** (+9% LFL) also surprised positively as the low single-digit growth in Brazil was offset by the other markets (>+15% LFL), particularly Mexico (>+30% LFL). We anticipate ~5% LFL growth for LatAm in 2016.
- **Implications for our FY16 top line forecast.** We maintain our 5% LFL growth assumption (guidance: "around 5%") but we nudge up our scope effect forecast to 3.2% (from 3%) given the nine acquisitions completed since the beginning of the year, representing a combined revenue of EUR100m on a full-year basis. This adjustment leads to a 8.2% FX-n growth estimate to be compared with a guidance of "exceeding 8%". On the opposite, we have retained a more adverse FX impact (-1.2% vs. -1%) as COO Laurent Vacherot reminded that FX should weigh on sales growth by 1-2pp over 2016.
- **We leave our CM assumption unchanged.** Despite sound organic growth and a favourable product-mix (driven by the new products + high value brands), unsurprisingly, Essilor has reiterated its CM guidance ("at least 18.8% after 18.8% in 2015) and during the conference call, CEO Hubert Sagnières recalled that "*profitability improvement was not a priority for the group*", exactly in line with his previous declaration made at the FY results presentation. Admittedly the group copes with an increase in **marketing spend** (EUR215m vs. EUR200m in 2015) and a dilutive impact from acquisitions but we still believe there is small room for a good surprise, hence we leave our 18.9% assumption unchanged.

VALUATION

- Yesterday's publication confirmed that Essilor is reaping the fruits of playing on a bigger field (more countries, more categories) and showed its ability to constantly gain market share, as highlighted by the reassuring outlook. Buy recommendation and FV of EUR130 confirmed.

NEXT CATALYSTS: AGM on 11th May // H1 16 Results on 29th July. **Click here to download**

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Luxury & Consumer Goods

Kering

Price EUR160.10

Q1 below expectations

Fair Value EUR174 vs. EUR176 (+9%) **BUY**

Bloomberg	PP FP
Reuters	PRTP.PA
12-month High / Low (EUR)	181.5 / 139.1
Market Cap (EURm)	20,216
Ev (BG Estimates) (EURm)	23,016
Avg. 6m daily volume (000)	311.7
3y EPS CAGR	14.1%

	1 M	3 M	6 M	31/12/15
Absolute perf.	0.3%	8.9%	5.6%	1.4%
Pers & H/H Gds	1.5%	7.8%	-1.3%	-0.1%
DJ Stoxx 600	2.6%	6.4%	-3.6%	-4.4%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	11,584	12,140	12,800	13,500
% change		*4.8%*	*5.4%*	*5.5%*
EBITDA	2,056	2,245	2,510	2,710
EBIT	1,646	1,825	2,070	2,270
% change		*10.9%*	*13.4%*	*9.7%*
Net income	1,017	1,158	1,363	1,534
% change		*13.9%*	*17.7%*	*12.5%*

	2015	2016e	2017e	2018e
Operating margin	14.2	15.0	16.2	16.8
Net margin	8.8	9.5	10.6	11.4
ROE	8.7	9.0	9.9	10.8
ROCE	5.8	6.4	7.2	7.9
Gearing	37.7	27.1	21.9	21.2

(EUR)	2015	2016e	2017e	2018e
EPS	8.05	9.16	10.70	11.95
% change	-	*13.9%*	*16.8%*	*11.7%*
P/E	19.9x	17.5x	15.0x	13.4x
FCF yield (%)	1.4%	3.1%	4.2%	5.0%
Dividends (EUR)	4.00	4.30	4.70	5.20
Div yield (%)	2.5%	2.7%	2.9%	3.2%
EV/Sales	2.1x	1.9x	1.8x	1.7x
EV/EBITDA	11.7x	10.3x	9.0x	8.3x
EV/EBIT	14.6x	12.6x	10.9x	9.9x

Kering reported Q1 sales of EUR2.72bn yesterday (consensus: EUR2.78bn), up 2.7% and 4% organically (consensus: +5.6%). Kering Luxury sales grew 2.6% (consensus: +4.9%) of which 3.1% for Gucci following 4.8% in Q4 2015, thereby confirming the iconic Italian brand's transition, but in a challenging global environment. We maintain our Buy recommendation and our EUR176 FV.

ANALYSIS

- Kering Group Q1 sales increased 2.7% to EUR2.72bn (consensus: EUR2.78bn). Organically, Group revenues were up 4% versus +8% in Q4 2015 and +4.6% on FY 2015. **Luxury branch** sales momentum slowed in Q1 with a 2.6% increase (consensus:+4.6%) vs +7.2% in Q4 and +4.1% over the full-year. **By geographical area**, note the still dynamic Europe (+10%) albeit at a slower pace than in Q4 2015 (+23%), like most other peers in fact, given less dynamic tourists flows following the Paris and Brussels attacks. The North American situation even deteriorated in Q1 (-5%) versus Q4 2015 (-1%), following a lack of tourists and more subdued activity with local clientele (less wealth creation and negative impact of US elections). Asia-Pacific sales remained stable versus +2% in Q4) with confirmation of positive momentum in Mainland China (+7%) while Hong Kong and Macau remained very challenging and Japan remained well oriented (+5%) despite a clear slowdown vs Q4 (+15%).
- Within Kering's luxury business, brand momentum was significantly contrasted. **Gucci** (49% of Kering Group sales) did relatively well (+3.1% vs consensus at +4.7%) even if the trend, clearly below expectations, was explained by a very undemanding comparison basis (-8% in Q1 2015) although the higher weight of the new Alessandro Michele collections versus Q4 (50% vs 30%) despite some differences between categories, was the other explanation for this positive trend. Q1 Gucci sales growth has been driven by Europe (+20%) and by Japan (+1%) while sales momentum in US and in Asia-Pacific remained negative (respectively -5% and -2%). Nevertheless, Gucci sales momentum has accelerated in March, and the trend was confirmed in the first days of April, which is encouraging for Q2 despite a more demanding comparison basis. RTW and Shoes performed well (more seasonal products) where the transition is more advanced with around 80-90% of sales carried out with Allessandro Michele while the Leather Goods transition is taking more time. In Q2, management expects that 2/3 of sales should be achieved with the AM collection and this should help revenues momentum. In Q1, Gucci closed three stores net of openings and 13 new stores have been refurbished with the new format , after 30 stores in 2015.
- On the other hand, **Bottega Veneta** (16% of Kering Group sales) sales were very disapointing in Q1 (-8% vs cs at -3.5%) with a new deterioration versus Q4 15 (-3.1%), as the brand suffered from its high exposure to Hong Kong/Macau markets and also to the tourists clientele in Europe (close to 70/80%). Q1 **BV** sales declined 9% in Asia-Pacific, 17% in Europe and 22% in US. The only positive point is that the BV business was quiet well oriented with local clientele in Europe.
- The only positive surprise is again coming from **YSL** (12% of Kering Group sales) that registered a strong Q1 with a 26.5% (cs:+20%) organic sales growth, globally in line with Q4 15 momemtum, which highlights again the brand strong success in every region and with all products categories. Among "Others" division performance (-3%), we want to highlight still very challenging watches brands sales while momentum was better for soft luxury brands. Lastly **Puma** sales grew 8.1%, in line with expectations and FY 2016 management guidance of High Single Digit sales increase, driven by footwear (+10%) and Apparel (+7%). China was quite supporting with also solid trend in Europe.
- We have slightly adjusted our FY 2016 estimate to expect 5.4% organic sales growth vs +5.9% previously (+4.6% vs +5.4% for Kering Luxury) and have reduced our 2016 EBIT by around 2%.

VALUATION

- The Kering share price remains almost unchanged YTD (+6% vs DJ Stoxx). The stock is trading 12.6x on 2016 EV/EBIT, a 3% premium vs peers average. Following new 2016 EBIT assumptions, we adjusted our FV from EUR 176 to EUR174 and remained Buy on the stock.

NEXT CATALYSTS

- H1 2016 results to be released end of July.

Quarterly organic sales growth by division

in %	Q3 15	9m 15	Q4 15	FY 15	Q1 16
Gucci	-0.4	-1.2	4.8	0.4	3.1
Bottega Veneta	4.3	5.6	-3.1	3.2	-8.3
YSL	26.5	25.1	27.5	25.8	26.5
others	-1.1	0.3	10.6	3.1	-3.3
Kering Luxury	**3.1**	**3.0**	**7.2**	**4.1**	**2.6**
PUMA	3.9	5.2	11.5	6.8	8.1
Kering Group	**3.1**	**3.4**	**8.0**	**4.6**	**4.0**

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

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Healthcare

Novartis

Price CHF74.55

How close is the bottom?

Fair Value CHF88 vs. CHF95 (+18%) NEUTRAL

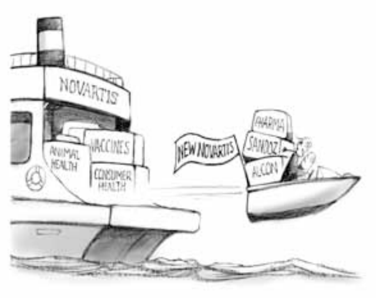
Bloomberg	NOVN VX
Reuters	NOVN.VX
12-month High / Low (CHF)	102.3 / 68.5
Market Cap (CHF)	199,570
Ev (BG Estimates) (CHF)	202,995
Avg. 6m daily volume (000)	6,025
3y EPS CAGR	5.7%

	1 M	3 M	6 M	31/12/15
Absolute perf.	4.7%	-7.0%	-15.0%	-14.1%
Healthcare	6.3%	1.3%	-2.5%	-7.3%
DJ Stoxx 600	2.6%	6.4%	-3.6%	-4.4%

YEnd Dec. (USDm)	2015	2016e	2017e	2018e
Sales	49,414	50,147	52,651	55,882
% change		*1.5%*	*5.0%*	*6.1%*
EBITDA	13,119	12,998	13,864	15,382
EBIT	7,544	7,498	8,364	9,882
% change		*-0.6%*	*11.6%*	*18.1%*
Net income	6,017	6,569	7,639	9,141
% change		*9.2%*	*16.3%*	*19.7%*

	2015	2016e	2017e	2018e
Operating margin	15.3	15.0	15.9	17.7
Net margin	12.2	13.1	14.5	16.4
ROE	8.1	8.5	9.9	11.7
ROCE	14.4	13.4	14.7	16.9
Gearing	21.4	22.5	20.9	16.6

(USD)	2015	2016e	2017e	2018e
EPS	5.01	4.96	5.29	5.92
% change	-	*-1.0%*	*6.8%*	*11.8%*
P/E	15.3x	15.5x	14.5x	12.9x
FCF yield (%)	0.6%	3.2%	4.7%	5.2%
Dividends (USD)	2.75	3.00	2.65	2.96
Div yield (%)	3.6%	3.9%	3.5%	3.9%
EV/Sales	4.2x	4.2x	3.9x	3.7x
EV/EBITDA	15.8x	16.1x	15.0x	13.3x
EV/EBIT	27.6x	27.8x	24.8x	20.7x



Novartis has clearly said that Q2 will be another tough quarter, but at the same time, it seems that the two issues that are weighing on the stock are being addressed and we see very little, if any, further downside risk on Alcon and Entresto. While we acknowledge that short-term catalysts are rare, we approach the next three months as a potential turning point with longer-term triggers on the horizon in the pipeline. We adjust our FV mainly to include safer estimates for Entresto and are maintaining our NEUTRAL recommendation until we have further and clearer evidence that a turning point is getting closer.

ANALYSIS

- We think it is a fair question to ask how far the bottom might be for Novartis because although Alcon and Entresto remain two hot topics not yet fully addressed, we see them more or less risk-adjusted by the consensus whereas mitigating factors are starting to emerge more clearly as well as some (admittedly more mid-term) upsides from the pipeline.
- During yesterday's conference call, Novartis management made its best effort to address the two recurring negative questions that weigh on the stock i.e. Alcon and Entresto. On Alcon, time was left to the new Head of division to share his confidence in turning the business around and bringing it back to growth by year-end. That said, he did not commit himself to any targets as it is premature to say how quick patients and physicians will react to new marketing initiatives that are being put in place. On Entresto, as expected, Novartis showed charts supporting the thesis of a quicker take-off in Europe vs the US while also trying to reassure about the US situation. Now that reimbursement has improved, Novartis is ready to spend more on marketing, has increased the sales force by 50%, started a DTC campaign and is considering starting promotion towards PCPs. And USD5bn in peak sales was reaffirmed. We do not see how things could get worse here.
- Simultaneously, Novartis pointed out that Cosentyx is exceeding internal expectations by far and is not worried by upcoming competition from Lilly's drug as superior safety should offset perceived lower efficacy. Moreover, the opportunity in rheumatology is untapped as yet and nevertheless highly significant. The group also stressed four ongoing developments in phase III trials that each have blockbuster potential (LEE011, Fovista, AMG334, serelaxin). We have only two out of the four in our models with low probabilities of success. Soon filing of biosimilars rituximab and adalimumab in the US and Europe also remind us that Sandoz should benefit from higher top and bottom-line exposure to biosimilars in coming years. Here again, we have little to no expectations in our model as we have always had trouble in sizing the opportunity and determining the right timing for product launches.

VALUATION

- So, in summary, we are approaching the bottom as no new warning is emerging. We see catalysts on the horizon. But we are still lacking short-term momentum as the CFO himself said that Q2 would show the biggest earnings decline with the combination of higher marketing expenses for Alcon, Entresto and Cosentyx, the full generic impact on Gleevec and the end to the positive perimeter effect from the GSK asset swap. The CFO talked about a high single digit decline in core EBIT to be expected in Q2.
- In this context, we see Q2 2016 as a potential turning point for the story and to some extent, the Meet the Management Meeting due on 24-25th May 2016 in Basel can be seen as a catalyst that could help fine-tune impacts from currently under-estimated products and assets.
- We think this is the right time to put ourselves on a safer side re Entresto too. As such, we have reduced the net average selling price and penetration while putting 0 for the pEF opportunity (vs 20% PoS before), thereby reducing peak sales from USD5.5bn to USD4.1bn. This is largely behind our FV adjustment today but should we get closer to an inflexion point, we think it is the right thing to do.

NEXT CATALYSTS

- 24-25 May 2016: Meet The Management Meeting in Basel - Click here to download

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Food & Beverages

Pernod Ricard

Price EUR98.65

Bloomberg	RI FP
Reuters	PERP.PA
12-month High / Low (EUR)	117.3 / 88.3
Market Cap (EURm)	26,184
Ev (BG Estimates) (EURm)	34,738
Avg. 6m daily volume (000)	507.5
3y EPS CAGR	2.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-3.0%	-1.6%	0.1%	-6.2%
Food & Bev.	2.0%	4.6%	2.4%	-1.7%
DJ Stoxx 600	2.6%	6.4%	-3.6%	-4.4%

YEnd Jun. (EURm)	06/15	06/16e	06/17e	06/18e
Sales	8,558	8,693	8,797	9,089
% change		*1.6%*	*1.2%*	*3.3%*
EBITDA	2,456	2,595	2,583	2,663
EBIT	2,238	2,247	2,249	2,336
% change		*0.4%*	*0.1%*	*3.9%*
Net income	1,329	1,343	1,365	1,443
% change		*1.0%*	*1.6%*	*5.7%*

	06/15	06/16e	06/17e	06/18e
Operating margin	26.2	25.8	25.6	25.7
Net margin	10.1	14.7	14.8	15.2
ROE	6.6	9.1	9.0	9.1
ROCE	8.8	10.9	10.7	10.9
Gearing	67.9	60.0	55.1	50.0

(EUR)	06/15	06/16e	06/17e	06/18e
EPS	4.99	5.04	5.13	5.42
% change	-	*1.1%*	*1.6%*	*5.7%*
P/E	19.8x	19.6x	19.2x	18.2x
FCF yield (%)	4.4%	4.4%	4.3%	4.5%
Dividends (EUR)	1.80	1.83	1.86	1.97
Div yield (%)	1.8%	1.9%	1.9%	2.0%
EV/Sales	4.1x	4.0x	3.9x	3.7x
EV/EBITDA	14.3x	13.4x	13.3x	12.7x
EV/EBIT	15.7x	15.5x	15.2x	14.5x

More difficulties in China than anticipated

Fair Value EUR107 vs. EUR113 (+8%) **BUY**

The release contained some good news. Growth in the US, western Europe and India was strong, but China proved to be particularly weak. Management reported a deterioration in the underlying trend and now forecasts a 7% decrease in value depletions in the country in 2015/16 vs the previous guidance for -4/5%. Sales in the country are expected to be down 10% over the year vs the previous guidance for a mid to high single digit decline. We have cut our estimates by 4% on average over the next three years. Our Fair value is adjusted downwards to EUR107.

ANALYSIS

- Some good news in the US/Western Europe/India. **The US spirits market continues to grow strongly,** at around 6.4% over 9M 2015/16 (*Nielsen data*), and Pernod Ricard is closing the gap with the market. **Management said that organic sales growth over the year in the country should be between 3% and 4% (our estimate: +3%)**, accelerating vs last year when they were flat. **Western countries are picking up**, in particular Spain (5% of group's sales) which grew high single digit every quarter since the beginning of this fiscal year. **In Asia, India remained very strong**, with organic sales up 14% in Q3.
- 10% organic sales decline in China in 2015/16. **Over the last couple of days, the stock has benefitted from positive comments from LVMH and Rémy Cointreau on China. We had flagged that this should not be extrapolated to Pernod Ricard as** 1/ the group shipped in its Q2 2015/16 for the Chinese New Year and 2/ it has scotch in its Chinese portfolio (20% of its sales in the country), a category which is still declining double digit. **But the news coming from China are worse than expected**. The Chinese New Year was reported to be soft. **The underlying trend has deteriorated. Pernod Ricard anticipates value depletions to be down 7% in 2015/16 vs the previous guidance of -4/5%. In terms of organic sales growth, it said that a 10% decline over the year is likely.** This compares to the previous guidance of a mid to high single digit drop. The difference between organic sales decline and value depletions decline is due to excess inventory in the trade at the end of 2014/15. **Pernod Ricard also indicated that it will not be able to increase prices in China.**
- **Q4 2015/16 should be weak.** We forecast 1% organic sales decline in Q4 due to: 1/ the reversal of shipment loading in the US in Q3, 2/ an unfavourable comparison base in France as the group overshipped in Q4 2014/15 before the merger of Pernod's and Ricard's IT systems, 3/ an organic sales decline of 10% in China, in line with what the group said during the conference call, and 4/ destocking in South East Asia (Vietnam, Indonesia, Malaysia...).
- EPS cut by 4% on average over the next three years. **We now forecast 1.7% organic sales growth in 2015/16, with: +1.5% in Asia/ROW, +3.3% in Americas and +0.6% in Europe. We also revise downwards our estimate for organic EBIT growth for the year, at +1% vs +2% previously. This puts us at the low end of the group's guidance (1/3%)** which was confirmed yesterday. We expect FX effects to be flat this year. This is in line with comments from Pernod Ricard, which flagged yesterday a flat to slightly positive effect on 2015/16 EBIT (vs +EUR20m previously). **In all, we have adjusted downwards our EPS estimates by 4% on average over the next three years.**

VALUATION

- Our Fair Value is adjusted downwards to EUR107. At yesterday's share price, the stock is trading at 15.5x EV/EBIT 2015/16e and 15.2x EV/EBIT 2016/17e, 17% and 12% below the peer average.

NEXT CATALYSTS

- Campari: Q1 2016 sales on 9th May

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Return to front page

Sector View

Integrated Utilities

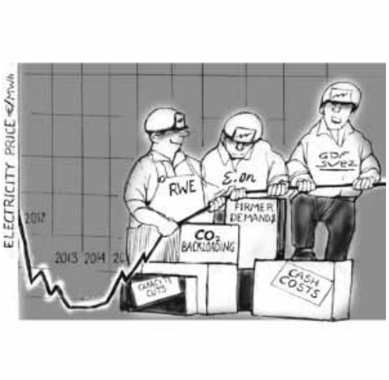
It could have been worse

	1 M	3 M	6 M	31/12/15
Utilities	1.3%	3.5%	-4.8%	-3.7%
DJ Stoxx 600	2.6%	6.4%	-3.6%	-4.4%

*Stoxx Sector Indices

Companies covered

E.ON		**BUY**	**EUR10**
Last Price	EUR9.326	*Market Cap.*	EUR18,661m
EDF		**BUY**	**EUR13.5**
Last Price	EUR11.87	*Market Cap.*	*EUR22,792m*
ENGIE		**BUY**	**EUR16.5**
Last Price	EUR14.315	*Market Cap.*	*EUR34,861m*
RWE		**NEUTRAL**	**EUR9.5**
Last Price	EUR12.68	*Market Cap.*	*EUR7,664m*



According to Reuters, the German commission dedicated to making decisions on nuclear dismantling in the country expects a EUR7bn surcharge for nuclear storage on top of the EUR18bn already provisioned for by the main operators in their accounts. This surcharge would be at the lower end of the indicated EUR6-18bn range discussed previously. If confirmed, the news is clearly positive for E.ON and RWE as the potential rise in provisions would be limited and as it finally implies that any additional liability could be capped. Positive.

ANALYSIS

- **What was in the press yesterday?** According to Reuters, citing sources familiar with the plans, nuclear operators present in Germany may have to come up with a further **EUR7bn** to remove unwanted long-term liability for the storage of nuclear waste from decommissioning plants. The utilities (*E.ON, RWE, EnBW & Vattenfall*) will have to transfer provisions set aside to pay for the interim and final storage to a fund in cash by 2022 while the provisions dedicated to dismantling will remain in the groups' accounts. This recommendation implies that the utilities will have to create new provisions at some point on top of the existing ones, and more importantly to create a dedicated asset fund in their balance sheet. As of today, the four utilities have **EUR40bn** provisioned in their accounts o/w **EUR18bn** dedicated for nuclear storage.
- **Repercussions for E.ON & RWE?** If confirmed, the news implies that E.ON and RWE would have to create new provisions at some point, on top of the existing ones, and more importantly to create a dedicated asset fund in their balance sheet. The positive element is that rumors indicate only **EUR7bn** in additional costs, at the lower end of the **EUR6-18bn** range indicated previously. For E.ON, we calculated a potential negative impact of **EUR1.9/share** and of **EUR3/share** for RWE assuming **EUR7bn** needs to be found before 2022.
- **Conclusion**: As it is, assuming both groups will have to book new provisions of up to EUR7bn of their current nuclear waste storage provisions **is clearly negative**, but since the amount is at the low end of the guidance range, and as it indicates that liabilities will be capped, **it is not so negative**. We also see positively the fact that utilities will only have to cash-out the provisions **dedicated to nuclear waste storage and not for entire provisions.** The commission aims to complete its recommendations on 27th April and make them public by this date. Despite higher exposure to German nuclear, **we continue to favor E.ON over RWE inside our European integrated utilities universe.**

VALUATION

- At the current share price E.ON is trading at 8x its 2016 EBITDA and at 11.6x its 2016e earnings
- E.ON: Buy with FV @ EUR10/share
- At the current share price RWE is trading at 8.3x its 2016 EBITDA and at 17.3x its 2016e earnings
- RWE: Neutral with FV @ EUR9.5/share

NEXT CATALYSTS

- April 26th 2016: E.ON Capital market day
- May 11th 2016: E.ON Q1-16 earnings
- May 12th 2016: RWE Q1-16 earnings

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Healthcare

Actelion

Price CHF158.30

It looks like the planets are very well aligned currently

Fair Value CHF173 vs. CHF172 (+9%) **BUY-Top Picks**

Bloomberg	ATLN VX
Reuters	ATLN.VX
12-month High / Low (CHF)	158.3 / 115.9
Market Cap (CHFm)	18,066
Avg. 6m daily volume (000)	399.0

	1 M	3 M	6 M	31/12/15
Absolute perf.	18.8%	21.9%	24.5%	13.4%
Healthcare	6.3%	1.3%	-2.5%	-7.3%
DJ Stoxx 600	2.6%	6.4%	-3.6%	-4.4%

	2014	2015e	2016e	2017e
P/E	28.4x	25.7x	19.8x	21.8x
Div yield (%)	0.8%	0.9%	0.9%	0.9%

ANALYSIS

- As it could have been hypothesised, guidance upgrade was the result of a dual positive influence: (i) on one hand a new assumption in what could be a realistic timing for generic bosentan entry in the US and here Otto Schwarz indicated that it could take somewhere between 6 and 9 months until FDA gives a formal answer. This means we might see no generic this year; (ii) on the other hand, Uptravi's strong take off is putting the drug on a trajectory that is above expectations. Despite cautionary comments about catch-up cohort and inventory build-ups, the 650 patients captured at the end of March (taking into account that it takes about 21 days to carry a new patient to treatment) already represent more than the USD20m quarterly sales reported in Q1 as underlying sales (stripping out inventory effect). With full quarters of prescription now ahead in the US, inventory one-off and European contribution in some countries for H2 (including France where negotiated ATU will start in May), we see the expected CHF120-130m annual sales for Uptravi as reflected in the consensus numbers as conservative. Longer-term, it remains premature to say how the drug will be used and in particular how much it will expand the existing PG market although quick adoption and high-level brand awareness are very encouraging signs.
- Actually, the only mixed feedback we had on all fronts during the conference call is recognition by management that Opsumit's penetration is facing tough discussions on pricing in several European countries. In this context, and without additional indications, we would question the mid-term guidance of the company to make Opsumit a bigger drug than Tracleer at peak.
- Lastly we would say a word on ponesimod which is one among several largely ignored R&D assets in group's pipeline. We found JP Clozel's comments roughly encouraging as he suggested that recruitment was going very well, with high interest for a study design that compares for the first time two oral drugs. To note is that number of recruiting sites has been increased to complete enrolment faster i.e. by year-end. It could become increasingly difficult to ignore those assets any longer (remember the price paid by Celgene to acquire Receptos!) even though we see ponesimod largely as a me-too drug while more innovative alternatives are approaching.

VALUATION

- A new slight delay in bosentan generics in the US is impacting our FV by another CHF1 vs yesterday's new calculation based on first glance Q1 read-out.

NEXT CATALYSTS

- 4 May 2016 : Annual General Meeting

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Eric Le Berrigaud, eleberrigaud@bryangarnier.com

Healthcare

Bayer

Price EUR110.45

Bloomberg	BAY GY
Reuters	BAYG.F
12-month High / Low (EUR)	138.4 / 92.8
Market Cap (EURm)	91,336
Avg. 6m daily volume (000)	2,449

	1 M	3 M	6 M	31/12/15
Absolute perf.	7.8%	7.0%	0.6%	-4.6%
Healthcare	6.3%	1.3%	-2.5%	-7.3%
DJ Stoxx 600	2.6%	6.4%	-3.6%	-4.4%

	2015	2016e	2017e	2018e
P/E	16.1x	15.2x	13.8x	12.9x
Div yield (%)	2.3%	2.4%	2.4%	2.5%

Covestro shares deposited in Pension Fund

Fair Value EUR110 vs. EUR108 (0%)

NEUTRAL

ANALYSIS

- Yesterday Bayer announced an original move by which it has reduced the net amount recognised for pension provisions (EUR10.8bn at the end of last year) by EUR338m, which is the market value of 10 miilion shares in Covestro that have been deposited in the Bayer Pension Trust. Although it is a small part of the total (about 3%), we see this as interesting in that it uses a financial asset that Bayer may not want to fully divest in the short-term against cash that it could use for internal purposes and/or for BD or acquisitions. It also reduces sensitivity and exposure of Bayer to the Chemicals business while not embarrassing Covestro's management with stock divestiture.

VALUATION

- We see each and every move in the direction of a devaluation or reduction in weight of the two chemistry-related businesses (i.e. agrochemicals and Covestro) as good for the investment case.
- This change is too limited in its scope to have an influence at the group valuation level. As a reminder, we apply a beta of 0.95 to Bayer (vs. 0.80 for pure healthcare stocks). Assuming 0.80 as a beta (while still valuing Covestro as a separate company) the impact would be EUR25 on our valuation, just to give a sense of how much any switch from Chemistry to Healthcare in group assets could be accretive and value enhancing. Obviously, this would have a cost to put in deduction from the overall new valuation (1 USD of FCF generated in healthcare does not have the same acquisition price than 1 USD of FCF generated in agrochemicals).
- Today's FV change is related to J&J's Q1 numbers that included higher-than-expected Xarelto sales in the US. We have increased our forecast for 2016 by 7.4% to USD2.32bn.

NEXT CATALYSTS

- 26th April 2016: First-quarter results - Click here to download

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Healthcare

Galapagos

Price EUR38.50

20w data in Crohn"s disease supportive for phase III trial

Fair Value EUR62 (+61%) BUY

Bloomberg	GLPG BB
Reuters	GLPG.BR
12-month High / Low (EUR)	58.5 / 32.0
Market Cap (EURm)	1,510
Avg. 6m daily volume (000)	218.7

	1 M	3 M	6 M	31/12/15
Absolute perf.	4.4%	-18.7%	-14.6%	-32.2%
Healthcare	6.3%	2.2%	-4.4%	-7.8%
DJ Stoxx 600	2.6%	8.8%	-3.3%	-4.1%

	2014	2015e	2016e	2017e
P/E	NS	82.5x	NS	NS
Div yield (%)	NM	NM	NM	NM

ANALYSIS

- Galapagos has reported 20w phase IIb data for filgotinib in Crohn's disease. Note that the primary endpoint of the FITZROY trial has already been met at 10w with 1/ 48% of patients in the filgotinib arm achieving clinical remission (i.e. CDAI score lower than 150) vs. 23% in the placebo arm (p=0.0067). Please see our comment here for a detailed review of 10w data. The second part of the trial which evaluated continued treatment through 20w was not powered for statistical significance. Clinical response has been maintained in the 200mg active arm and improvement in clinical remission was seen in non-responder patients from the placebo group switched to active the 100mg dose at 10w. Safety profile was consistent with previous findings.
- Completion of the trial and subsequent results are supportive for the initiation of a phase III trial in Crohn's Disease which is expected to begin in 2016.

VALUATION

- We reiterate our BUY rating and Fair Value
- Our FV already included positive results from the trial communicated in December 2015 (i.e. 60% PoS)

NEXT CATALYSTS

- 29th April: Q1 results

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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 57.6% NEUTRAL ratings 33.8% SELL ratings 8.6%

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