Please find our Research on Bloomberg BRYG <GO>)

25th April 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	18003.75	+0.12%	+3.32%
S&P 500	2091.58	0.00	+2.33%
Nasdaq	4906.23	-0.80%	-2.02%
Nikkei	17439.3	-0.76%	-7.68%
Stoxx 600	348.456	-0.32%	-4.75%
CAC 40	4569.66	-0.29%	-1.45%
Oil /Gold			
Crude WTI	42.73	+1.09%	+14.87%
Gold (once)	1241.59	-0.68%	+16.87%
Currencies/Rates			
EUR/USD	1.12405	-0.43%	+3.48%
EUR/CHF	1.09845	+0.03%	+1.02%
German 10 years	0.233	-0.25%	-63.34%
French 10 years	0.486	+2.04%	-50.44%
Euribor	-0.249	0.00	+90.08%

Economic releases :

Date	
25th-Apr	DE - IFO Business Climate Feb. (107.1 E) DE - IFO Expectations (113.8 E) US - New Home Sales Mar. (+1.6% m/m)

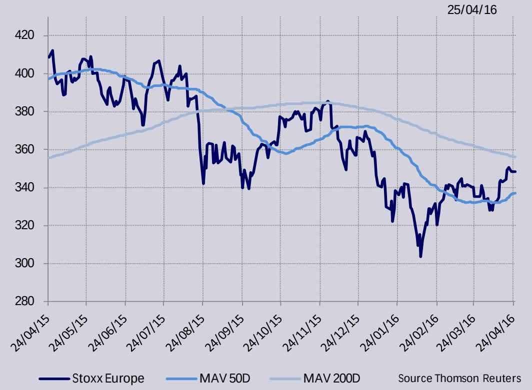
Upcoming BG events :

Date	
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)
15th-Jun	GENMAB (BG Paris roadshow)

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



EDF — BUY, Fair Value EUR13,5 (+10%)

The curtain goes up

Last Friday the Board of Directors unveiled a new plan which aims to adapt the group to a low power price environment. Most of the announced measures were already well known by investors except 1/ the EUR300m increase in the costs cutting programme, 2/the EUR4bn capital increase o/w the French government is likely to finance EUR3bn and 3/ the delay in the final decision on Hinkley Point. Others indications (assets rotation programme, life-time extension of nuclear sites in the group's accounts, cut in net capex) were almost already integrated into our model. Our model still gives us a EUR13.5 FV. Buy.

NUMERICABLE SFR — NEUTRAL, Fair Value EUR28,4 (0%)

Buying media assets from Altice

According to French weekly, Le Journal du Dimanche, NC-SFR is to buy all media assets from the Altice Group and Patrick Drahi's personal holding. The transaction could amount to EUR400m. We do not expect major commercial synergies to emerge from the deal, besides operational efficiency, and also see this transaction as way of managing financial ratios across the group. The financial impact should therefore be limited, but NC-SFR's minority shareholders are exposed to a risk of Altice moving assets around within the group.

PERNOD RICARD — BUY, Fair Value EUR107 (+11%)

Feedback from roadshow

The group has reiterated what it said during the conference call, namely that it sees no turnaround for cognac or scotch next year in China, or any margin improvement in the country. However, there was some good news elsewhere. In the US, Absolut is headed in the right direction and now has the same weight as Jameson. The lifting of the embargo against Cuba is a catalyst. Europe is also better, especially the key Spanish market. Trends in the UK, Germany, and Poland are also better.

ENVIRONMENTAL SERVICES

We bet on a timid year start for French environmental services group

In coming weeks, both Suez and Veolia are expected to post poor Q1 2016 metrics on the back of low inflation and no industrial recovery in Europe and a negative FX impact following a strengthening in the euro versus most emerging markets currencies. The majority of earnings growth is only set to stem from a cost cutting programme and new contract signatures, which is not new. From this Q1 earnings presentation, we expect a stronger growth performance from Veolia, but assume the market is already aware of this outperformance, making Suez more attractive than Veolia in valuation terms. We stick to our Buy rating with FV @ EUR18.5.

In brief...

BAYER, *Covestro"s strange Q1: sales light, earnings good and cash flows down!*

HUGO BOSS, *Departure of Chief Brand Officer Christoph Auhagen*

SOITEC, *Q3 results reported exceptionally*

UCB, *Q1 1 sales. Good trend from CVN but lack of newsflow for the remainder of 2016*

Utilities

EDF

Price EUR12.24

The curtain goes up

Fair Value EUR13,5 (+10%) **BUY**

Bloomberg	EDF FP
Reuters	EDF.PA
12-month High / Low (EUR)	22.4 / 9.2
Market Cap (EURm)	23,502
Ev (BG Estimates) (EURm)	86,294
Avg. 6m daily volume (000)	2 997
3y EPS CAGR	-25.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	17.5%	2.6%	-28.3%	-9.8%
Utilities	2.3%	1.0%	-6.2%	-3.6%
DJ Stoxx 600	2.4%	3.0%	-5.8%	-4.7%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	75,006	75,527	76,716	77,948
% change		*0.7%*	*1.6%*	*1.6%*
EBITDA	17,601	16,427	15,794	16,321
EBIT	4,280	7,397	6,313	6,270
% change		*72.8%*	*-14.7%*	*-0.7%*
Net income	4,231	2,613	1,900	1,884
% change		*-38.2%*	*-27.3%*	*-0.8%*

	2015	2016e	2017e	2018e
Operating margin	5.7	9.8	8.2	8.0
Net margin	5.6	3.5	2.5	2.4
ROE	10.5	6.5	4.8	4.8
ROCE	2.0	3.0	2.6	2.6
Gearing	167.6	177.5	188.3	189.6

(EUR)	2015	2016e	2017e	2018e
EPS	2.27	1.30	0.95	0.94
% change	-	*-42.8%*	*-27.3%*	*-0.8%*
P/E	5.4x	9.4x	12.9x	13.0x
FCF yield (%)	NM	NM	NM	10.1%
Dividends (EUR)	1.10	0.96	0.74	0.74
Div yield (%)	9.0%	7.8%	6.1%	6.0%
EV/Sales	1.1x	1.1x	1.2x	1.1x
EV/EBITDA	4.7x	5.3x	5.7x	5.5x
EV/EBIT	19.4x	11.7x	14.2x	14.3x

Last Friday the Board of Directors unveiled a new plan which aims to adapt the group to a low power price environment. Most of the announced measures were already well known by investors except 1/ the EUR300m increase in the costs cutting programme, 2/the EUR4bn capital increase o/w the French government is likely to finance EUR3bn and 3/ the delay in the final decision on Hinkley Point. Others indications (assets rotation programme, life-time extension of nuclear sites in the group's accounts, cut in net capex) were almost already integrated into our model. Our model still gives us a EUR13.5 FV. Buy.

ANALYSIS

- **What is new?** The Board of Directors announced: **1/** A reduction in operational expenditure of a further **EUR300m** on top of the **EUR700m** target already announced by the group. This new 2019 objective implies EDF is aiming to reduce by **EUR1bn** its operating expenditure compared to 2015. No further indications were given on how the group will manage to do this. **2/** A capital increase project via a market operation for an amount of **EUR4bn**, o/w the French government will support **EUR3bn** (75%). No further indications were given on the price and on the timing though. We estimated a potential 2016-18 EPS dilution effect of **6-7%** on average assuming no discount to the latest price, and of **8-9%** assuming a **10%** discount (*12-13% with 30% discount*). We assume this capital increase will be made with preferred rights. EDF also indicated officially its intention to propose an option to pay the dividend related to fiscal years 2016 and 2017 in shares implying in total that the group is likely to receive around **EUR6-7bn** over the next two years. **3/** As for the **Hinkley Point project** in the UK, the French Economy Minister Emmanuel Macron said EDF would make a final decision in September.
- **What was not known? 1/** the net investmentsreduction of **EUR2bn** in 2018 compared to 2015. Net investments should reach **EUR10.5bn** in 2018. This target was already announced by the group and integrated into our model. **2/** the **EUR10bn** assets disposal plan by 2020. In our model we have no disposals given the lack of visibility on timing and assets disposed. The plan as expected includes a change in RTE's equity capital, thermal power generation assets outside of France and minority stakes. **3/** We see the group's decision to extend the depreciation period for its nuclear plants this year as really new as it was mentioned several times in recent months past months as being a short term decision. The ASN will still need to get individual approval to the group for all concerned reactors. In our model we were already taking into account this life time extention for 2016 yet may have to adjust in function of official timing. We expect a positive impact on 2016 EPS consensus from this announcement given around **50%** of consensus on EDF was not taking into account the life time extention.
- **Conclusion:** As we expected, the French government had to react to help EDF to adapt to the new low power price environment. The cut in operating expenses is clearly a positive signal as it implies the French government is "authorizing" EDF to adapt its cost structure despite being a public company. The EUR4bn capital increase combined dividend payment in shares should help the group reduce its leverage ratio from **2.5x to 2.1x** and to reduce its gearing ratio from **>180%** to around **160%**. It should give the group more financial flexibility to invest in its "Grand Carenage program", in renewables and potentially in Hinkley Point UK project. **At this stage we confirm the Buy rating with a FV unchanaged at EUR13.5 per share.**

VALUATION

- At the current share price, EDF is trading at 5.3x its 2016e EBITDA and offers a 7.8% yield
- Buy, FV @ EUR13.5

NEXT CATALYSTS

- May 10th 2016: Q1-16 earnings

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TMT

Numericable SFR

Price EUR28.42

Buying media assets from Altice

Fair Value EUR28,4 (0%) **NEUTRAL**

Bloomberg	NUM FP
Reuters	NUME.PA
12-month High / Low (EUR)	48.0 / 28.1
Market Cap (EURm)	12,453
Ev (BG Estimates) (EURm)	26,849
Avg. 6m daily volume (000)	279.0
3y EPS CAGR	17.4%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-22.1%	-17.9%	-19.1%	-15.2%
Telecom	-0.8%	-2.9%	-7.3%	-6.3%
DJ Stoxx 600	2.4%	3.0%	-5.8%	-4.7%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	11,039	10,808	10,886	11,054
% change		*-2.1%*	*0.7%*	*1.6%*
EBITDA	3,860	3,982	4,171	4,402
EBIT	0.0	0.0	0.0	0.0
% change		*NM*	*NM*	*NM*
Net income	682.0	649.3	821.8	1,102
% change		*-4.8%*	*26.6%*	*34.1%*

	2015	2016e	2017e	2018e
Operating margin	11.7	14.9	16.6	19.5
Net margin	6.2	6.0	7.5	10.0
ROE	15.9	13.0	14.2	16.0
ROCE	2.8	4.7	5.2	6.2
Gearing	337.5	292.8	239.5	187.2

(EUR)	2015	2016e	2017e	2018e
EPS	1.45	1.37	1.74	2.35
% change	*-*	*-5.2%*	*27.0%*	*34.5%*
P/E	19.6x	20.7x	16.3x	12.1x
FCF yield (%)	6.0%	0.0%	4.9%	7.1%
Dividends (EUR)	5.40	0.00	0.00	0.00
Div yield (%)	19.0%	NM	NM	NM
EV/Sales	2.4x	2.5x	2.4x	2.3x
EV/EBITDA	7.0x	6.7x	6.3x	5.7x
EV/EBIT	NS	NS	NS	NS

According to French weekly, Le Journal du Dimanche, NC-SFR is to buy all media assets from the Altice Group and Patrick Drahi's personal holding. The transaction could amount to EUR400m. We do not expect major commercial synergies to emerge from the deal, besides operational efficiency, and also see this transaction as way of managing financial ratios across the group. The financial impact should therefore be limited, but NC-SFR's minority shareholders are exposed to a risk of Altice moving assets around within the group.

ANALYSIS

- According to Le Journal du Dimanche, the assets bought by NC-SFR could include newspapers such as **Libération**, **L'express**, **L'étudiant**, as well as the Israeli news channel **i24 News** owned by Patrick Drahi. More importantly, NC-SFR could buy out the **49% stake Altice owns in NextRadio TV** (BFMTV, BFM Business and RMC).
- According to the takeover bid in early February, NextRadio is valued at around **EUR600m.** In 2014, NextRadio generated **net income of EUR17.4m** and **EBITDA of EUR33.8m** and this is expected to be higher in 2015, with **2015 revenues up 9% YoY**. According to JDD, other activities might be valued **EUR100m.**
- For NC-SFR and Altice, this is one step further towards convergence. NC-SFR should launch **two new sports channels**, available to **SFR or competitors' customers**, broadcasting in particular the **premier league rights** acquired by NC-SFR last year.
- Beyond **cost cutting** already going on, and **improved operational efficiency**, we do not believe the merger will generate major **commercial synergies** that could not have been possible otherwise.
- We believe this transaction is also a matter of managing financial ratios across the group. It should contribute to **deleveraging some of Altice's international or holding entities**, transferring some of the burden to NC-SFR. As a reminder, on 31st December 2015, leverage was **5.3x 2015 EBITDA** at the Altice Group level, and **3.75 at the NC-SFR** level.
- As already mentioned in our initiation report, minority shareholders in NC-SFR are **exposed to this moving around of assets** between the company and Altice, with the risk of **favouring the interests of the holding company** to the detriment of the daughter.

VALUATION

- At this point, pending further confirmation and information from the company, we are sticking to our Fair Value of EUR28.4 with a NEUTRAL recommendation.

NEXT CATALYSTS

- Press conference by Altice and Alain Weil on Wednesday 27th April.
- NC-SFR Q1 results on 10th May.

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Food & Beverages

Pernod Ricard

Price EUR96.50

Bloomberg	RI FP
Reuters	PERP.PA
12-month High / Low (EUR)	117.3 / 88.3
Market Cap (EURm)	25,613
Ev (BG Estimates) (EURm)	34,168
Avg. 6m daily volume (000)	510.7
3y EPS CAGR	2.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-5.0%	-6.5%	-6.9%	-8.3%
Food & Bev.	1.4%	1.2%	-0.9%	-2.6%
DJ Stoxx 600	2.4%	3.0%	-5.8%	-4.7%

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	19.3x	19.1x	18.8x	17.8x
FCF yield (%)	4.5%	4.5%	4.4%	4.6%
Dividends (EUR)	1.80	1.83	1.86	1.97
Div yield (%)	1.9%	1.9%	1.9%	2.0%
EV/Sales	4.0x	3.9x	3.8x	3.7x
EV/EBITDA	14.1x	13.2x	13.1x	12.5x
EV/EBIT	15.5x	15.2x	15.0x	14.3x

Feedback from roadshow

Fair Value EUR107 (+11%) **BUY**

The group has reiterated what it said during the conference call, namely that it sees no turnaround for cognac or scotch in China. However, there was some good news elsewhere. In the US, Absolut is headed in the right direction and now has the same weight as Jameson. The lifting of the embargo against Cuba is a catalyst. Europe is also improving, especially the key Spanish market. Trends in the UK, Germany, and Poland are better.

ANALYSIS

- **Asia-ROW.** Pernod Ricard's cognac depletions are down slightly (flattish for Moet Hennessy and Rémy Martin). **The group said that no cognac player is really gaining shares. Most of the performance difference with competitors is due to the weight of scotch in the portfolio** (20% of sales in China). This category was not well established when the anti-extravagance policy was implemented. **Pernod Ricard has reduced its exposure to the contracted outlets, which now account for only 5% of the group's volumes** (we think this should be a double digit figure for Moet Hennessy and Rémy Martin). Some of these contracts were unprofitable as a result of the group's lack of clout in negotiations with these big clients. **The group sees no inflection for cognac or scotch and expects no margin improvement in the country.** Over the long term, the group should benefit from diversification in consumption thanks to its comprehensive portfolio (vodka, champagne, wines, Irish whiskey…). In India, Pernod Ricard generates volumes that are four times lower but profits three times higher than its closest competitor. **The margin in India is about 3/4 of the margin in China and improves year after year. The implementation of the GST system could be a risk or an opportunity.** This could add a supplementary layer of taxes or simplify the current system.

- **Americas. Pernod Ricard is increasing its investments in the US partly thanks to the lower resources invested in Europe.** Absolut is key to end the loss of market share in the US. The goal is not to make the brand grow in line with the category but to stabilise it. This is unlikely to occur for three years. The problem of Absolut is its low brand equity with Millenials. A new marketing campaign focused on authenticity was launched at the beginning of April and the first feedback is positive. In addition, Pernod Ricard now has 800 dedicated sales i.e. three times more than in the past. **Jameson now has the same weight as Absolut i.e. 25% of the group's US sales and is the most profitable brand in the country. It continues to premiumise** and is now USD3 above Jack Daniel's which used to be the main competitor. **The lifting of the embargo against Cuba remains a positive catalyst.** The US accounts for 40% of the global rum market. **Pernod Ricard will be in a position to premiumise the rum category in the country and is set to benefit from the rebellious Cuban image of Havana Club.** Elyx, Avion and Martell are also critical investments in the country. The group believe it can take some market share in cognac but it will need some time. Its market share is currently just 1% (16% for prestige).

- **Europe. Spain has clearly recovered** and grew 8% over the first nine months of the year. **The country represents 4% of the group's sales and has a margin in the mid forties (i.e. the same as in the US).** The recovery is driven by gin which accounts for 40% of the market but whiskies are also better. The UK is also doing well, as is Germany. **France is much more complicated, with a market down slightly in underlying terms.** Negotiations with retailers are tough. There is also a huge technical effect this year since there are only 50 weeks of sales vs 54 last year as the merger of Pernod's and Ricard's IT systems was implemented at the beginning of 2015/16. **In the East, Poland is recovering while Russia remains tough. Note that last year, the country's margin remained above the group average despite the FX effect.**

VALUATION

- At yesterday's share price, the stock is trading at 15.2x EV/EBIT 2015/16e and 15x EV/EBIT 2016/17e, 18% and 11% below the peer average.

NEXT CATALYSTS

- Campari: Q1 2016 sales on 9th May

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Sector View

Environmental Services

We bet on a timid year start for French environmental services group

	1 M	3 M	6 M	31/12/15
Utilities	2.3%	1.0%	-6.2%	-3.6%
DJ Stoxx 600	2.4%	3.0%	-5.8%	-4.7%

*Stoxx Sector Indices

Companies covered			
PENNON GROUP		**SELL**	**825p**
Last Price	788.5p	*Market Cap.*	*GBP3,253m*
SUEZ		**BUY**	**EUR18.5**
Last Price	EUR16.05	*Market Cap.*	*EUR8,738m*
VEOLIA ENVIRONNEMENT		**NEUTRAL**	**EUR21.5**
Last Price	EUR21.06	*Market Cap.*	*EUR11,864m*

In coming weeks, both Suez and Veolia are expected to post poor Q1 2016 metrics on the back of low inflation and no industrial recovery in Europe and a negative FX impact following a strengthening in the euro versus most emerging markets currencies. The majority of earnings growth is only set to stem from a cost cutting programme and new contract signatures, which is not new. From this Q1 earnings presentation, we expect a stronger growth performance from Veolia, but assume the market is already aware of this outperformance, making Suez more attractive than Veolia in valuation terms. We stick to our Buy rating with FV @ EUR18.5.

ANALYSIS

- **What to expect from Suez Q1 publication?** Suez is set to report its main Q1 metrics next week on Thursday 28th April in the morning (*conf. call @ 08.30 am CET:* ***+44(0)20 3427 1919*** *– Code: 4791364*) a week ahead of Veolia. We do not expect any change in management's message concerning the global outlook in Europe compared with February 2016. For both the European water and waste segments, underlying growth should remain quite limited due to low inflation and non-existent industrial recovery while growth outside Europe should be affected by a negative FX effect. In all, we expect Suez to post flat Q1 sales compared with last year at **EUR3.54bn**, with the **International division** being the sole segment we expect to post sales growth *(+7% YoY*). The **Water Europe division** will be negatively impacted by poor inflation, loss of the Lille contract and poor tariff indexation (Spain and Chile) while the Waste Europe division is set to suffer from a decline in commodities (scrapped metal down 30% over Q1 vs. Q1) and from flat waste treated volumes. All combined we expect this flat sales performance to have a negative impact on the group's operating performance. EBITDA growth is likely to be negative on a YoY basis by **0.5%** to **EUR579m** yet positive on a LFL basis, to **+1%.** As for EBIT, we expect a slightly better performance due to lower D&A charges (due to CLP depreciation) and to lower concession charges (*loss of Lille contract*). All in all we then anticipate Suez will post Q1-16 EBIT of **EUR258m** down **3.1%** YoY but up **2.6%** LfL close to the low range of its annual guidance for 2016. Net debt should increase compared with end 2015 due to traditional WCR reversal, to **EUR8.4bn**. All in all we then assume as for 2015 that most of 2016 earnings growth for Suez will come from Compass costs reduction program only. Any announcements on M&A deals will be well appreciated given 2017 EBITDA target is based on it.

- **What to expect from Veolia's Q1 publication?** Like Suez, Veolia is unlikely to post incredible Q1 earnings growth on Wednesday 4th May before trading (*conf. call @ 08.30 am CET:* ***+44 (0)20 3367 9456***). The group is likely to suffer from its presence in the Energy segment in the US and in Central Europe due to an unfavourable weather effect during the quarter compared with last year while benefiting in its Water division from the win of the Lille contract to the detriment of Suez. We do not expect growth in France and in European regions, leading to total group Q1 sales of **EUR6.19bn** down **1.8%** YoY. As for EBITDA YoY growth is set to be higher thanks solid contribution to Convergence program (*EUR50m over the quarter*). We therefore forecast that Veolia will post EBITDA of **EUR843m**, reflecting a **+3.3%** YoY and a **+5.2%** LfL growth over the period while recurring EBIT is likely to stand at EUR410m, up **3.3%** YoY and up **5.8%** LfL. Net recurring income and net debt are respectively expected at around **EUR190m** and **EUR8.6bn** (*integration of Kurion acquisition and reimbursement of Transdev loan*).

- **Conclusion**: The earnings growth generation we expect for both stocks during the quarter will only come from **cost cutting programmes**, although this is not new. We now assume investors are today well aware of both investment cases, making us believe the share price reaction to the earnings publication should be quite limited (*limited potential surprise*). We anticipate higher LfL EBIT growth at Veolia than at Suez (*6% vs. 2.6%)* for Q1 as for entire year yet when looking at current 2016 multiples we see the market is already paying a premium for Veolia. Suez therefore more attractive to us (*notably on the yield*) with higher upside than downside on consensus adjustment given that investors are not giving credit to the group's 2017 EBITDA target of **EUR3bn** (*smart consensus currently at* ***EUR2.9bn***).

VALUATION

- At the current share price, Suez is trading at **9x** restated 2016e EBITDA, at **19.5x** 2016e EPS, while offering a **4%** 2016e yield.

- At the current share price, Veolia is trading at **8.5x** restated 2016e EBITDA, at **22.5x** 2016e EPS, while offering a **3.44%** 2016e yield.

NEXT CATALYSTS

- 28th April: Suez Q1 publication
- 4th Ma: Veolia Q publication

Table 1: Suez Q1 estimates (EURm)

	Q1-16e	Q1-15	YoY growth	LfL growth	2016e	2015	YoY	LfL growth
Sales	**3 566**	**3 536**	**0,9%**	**-**	**15 444**	**15 135**	**2,0%**	**-**
o/w Water Europe	1 111	1 120	-0,8%	-	4 757	4 677	1,7%	-
o/w Waste Europe	1 533	1 539	-0,4%	-	6 431	6 357	1,2%	-
o/w International	896	851	5,3%	-	4 150	3 997	3,8%	-
o/w Others	26	26	2,0%	-	106	104	2,0%	-
EBITDA	**591**	**597**	**-1,0%**	**1,5%**	**2 690**	**2 751**	**-2,2%**	**4,0%**
% of sales	16,6%	16,9%	-	-	17,4%	18,2%	-	-
EBIT	**258**	**266**	**-3,1%**	**2,6%**	**1 315**	**1 381**	**-4,8%**	**6,8%**
% of sales	7,2%	7,5%	-	-	8,5%	9,1%	-	-

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

Table 2: Veolia Q1-16^{e} estimates (EURm)

	Q1-16e	Q1-15	YoY	LfL	2016e	2015	YoY	LfL
Sales	**6 191**	**6 305**	**-1,8%**	**-**	**25 324**	**24 965**	**1,4%**	**-**
o/w France	1 309	1 320	-0,8%	-	5 445	5 471	-0,5%	-
o/w RoEurope	2 277	2 312	-1,5%	-	8 489	8 575	-1,0%	-
o/w RoWorld	1 457	1 510	-3,5%	-	6 074	5 926	2,5%	-
o/w Other worldwide business	1 095	1 112	-1,5%	-	4 979	4 881	2,0%	-
o/w Others	52	51	2,0%	-	111	112	-0,7%	-
EBITDA (recurring)	**843**	**816**	**3,3%**	**5,2%**	**3 148**	**2 997**	**5,0%**	**-**
EBIT (recurring)	**410**	**397**	**3,3%**	**5,8%**	**1 375**	**1 315**	**4,6%**	**-**
Net income (recurring)	176	212	-16,9%	21,5%	601	580	3,6%	17,2%

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

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Healthcare

Bayer

Price EUR110.30

Bloomberg	BAY GY
Reuters	BAYG.F
12-month High / Low (EUR)	138.4 / 92.8
Market Cap (EURm)	91,212
Avg. 6m daily volume (000)	2 448

	1 M	3 M	6 M	31/12/15
Absolute perf.	6.4%	4.5%	-1.2%	-4.7%
Healthcare	5.6%	-1.7%	-4.7%	-7.4%
DJ Stoxx 600	2.4%	3.0%	-5.8%	-4.7%

	2015	2016e	2017e	2018e
P/E	16.0x	15.2x	13.8x	12.9x
Div yield (%)	2.3%	2.4%	2.4%	2.5%

Covestro"s strange Q1: sales light, earnings good and cash flows down!

Fair Value EUR110 (0%) **NEUTRAL**

ANALYSIS

- A day earlier than its parent group Bayer, Covestro has released first-quarter results this morning that are actually substantially different to what we had included in our estimates for Bayer.
- At EUR2.875bn, sales were down 6% i.e. a couple of points worse than we had anticipated, on the back of a sharp 10.5% decline in prices during the period, which was especially reflected in the Polyurethanes business that was down 9.7% in the quarter.
- But actually, the real surprise came from the rest of the release with earnings and margins coming out very strong despite the difficult context. EBITDA increased 22% to EUR508m and EBIT by 65% to EUR340m. No proceeds artificially impacted first-quarter numbers this year whereas in the reference quarter in 2015 negative EUR45m and EUR23m one-offs lowered the respective EBITDA and EBIT numbers.
- If we stop here our comments would be very positive, but operating cash flows during the quarter decreased 33% to EUR124m and Covestro highlighted a significant increase in cash tied up in working capital (and also higher tax payments). In the balance sheet, we do not see high inventories or issues with trade accounts receivable but maybe more with trade accounts payable.
- In the end, free cash flows decreased from EUR90m to EUR77m and that is what really matters.

VALUATION

- Covestro's contribution to Bayer's earnings is set to be pretty good and we see a EUR0.10 positive impact on our estimated core EPS in Q1 from Covestro's actual numbers. Our core EPS for Bayer in Q1 now stands at EUR2.21 whereas the consensus expects EUR2.15.

NEXT CATALYSTS

- Tomorrow 26th April 2016 : First-quarter results

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Luxury & Consumer Goods

Hugo Boss

Price EUR58.16

Bloomberg	BOSS GR
Reuters	BOSG_p.DE
12-month High / Low (EUR)	114.0 / 51.3
Market Cap (EURm)	4,094
Avg. 6m daily volume (000)	409.4

	1 M	3 M	6 M	31/12/15
Absolute perf.	2.1%	-12.4%	-35.4%	-24.1%
Pers & H/H Gds	1.5%	7.8%	-1.3%	-0.1%
DJ Stoxx 600	2.6%	6.4%	-3.6%	-4.4%

	2014	2015e	2016e	2017e
P/E	11.5x	12.4x	14.3x	12.7x
Div yield (%)	6.2%	6.2%	5.6%	6.4%

Departure of Chief Brand Officer Christoph Auhagen

Fair Value EUR80 (+38%) **NEUTRAL**

ANALYSIS

- Following the resignation of Claus-Dietrich Lahrs as CEO last February, the German group announced another top management change on Friday with the immediate departure of its Chief Brand Officer Christoph Auhagen. The latter had been Member of the Managing Board since December 2009 and was responsible for Creative Management, Brand Management, Sourcing and Production.
- In the same press release, Hugo Boss announced the return of Ingo Wilts as a member of the Managing Board and as CBO (Brand and Creative Management only) next November at the latest. As a reminder, Ingo Wilts worked for the German group from 1997 to 2009 in several menswear positions (Head of Design from 2000 to 2004 and Creative Director from 2005 to 2009) and he briefly returned to Hugo Boss in April 2014 (as a Senior VP of Boss Menswear) but left seven months later.
- It is worth noting that Mr Auhagen's remaining areas of responsibility (i.e. Sourcing and Production) are taken over by the other Managing Board members Mark Langer (CFO) and Bernd Hake (Chief Sales Officer). In the meantime, the Supervisory Board continues to look for a new CEO.

VALUATION

- The stock is trading at 9.2x 2016e EV/EBIT, representing a 26% discount to our luxury sample average (excl. Hermès). In our opinion, this valuation is merited pending the first positive signs from two strategic measures implemented by the group (i.e. price adjustments in China and distribution upgrade in the US) to relaunch growth in the two regions.

NEXT CATALYSTS

- Hugo Boss is to report Q1 2016 results on 3rd May 2016.

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TMT

Soitec

Price EUR0.58

Q3 results reported exceptionally

Fair Value EUR0.5 (-14%) **NEUTRAL**

Bloomberg	SOI FP
Reuters	SOIT.PA
12-month High / Low (EUR)	0.9 / 0.5
Market Cap (EURm)	134
Avg. 6m daily volume (000)	720.4

	1 M	3 M	6 M	31/12/15
Absolute perf.	-3.3%	1.8%	-23.7%	-9.4%
Semiconductors	-2.6%	-0.7%	-5.0%	-5.0%
DJ Stoxx 600	2.4%	3.0%	-5.8%	-4.7%

	03/15	03/16e	03/17e	03/18e
P/E	NS	NS	42.6x	34.3x
Div yield (%)	NM	NM	NM	NM

ANALYSIS

- **In the context of the previously announced capital increases, the group has reported Q3 2016 results.** Note that the group already published Q3 sales of EUR60.8m, up 36% yoy, on 20th January 2016. On 13th April, the group also published Q4 sales of EUR65.7m, up 8% yoy. Today, the group has exceptionally published its Q3 results, announcing that gross profit for the first nine-months amounted to EUR42.4, implying that gross margin for Q3 improved from 24% in H1 to 26%. Current operating income for the first nine months came out at EUR8.4m (and a FQ3-16 current operating result of EUR5.4m or a 9% current operating margin vs. 3% in FH1-16). However, we note that nine-month operating income was negative at -EUR19.7m (vs. -EUR36.4m in the first nine months of FY15) mainly due to EUR20.1m in depreciation recorded in Q3 with respect to the cleanroom in Singapore and other impairments. The consolidated net loss for the first nine months was EUR69.1m and 9m EPS from continuing operations at -EUR0.18, compared with -EUR0.20 a year ago (non adj. 9m EPS -EUR0.30 vs. -EUR0.50 a year ago).
- **Note that the end-Q3 gross cash position stood at EUR51.8m whereas during the Q4 sales conference call, the group said it would be at a similar level by the end of Q4.**
- **The group has confirmed its FY16, Q1 2017 and FY17 guidance.** For the 2016, the group is guiding for an EBITDA margin of 15% in Electronics business. For Q1 2017, the group foresees flat growth on an annual basis.

VALUATION

- Soitec shares are trading on FY17e EV/Sales of 0.8x and FY17e EV/EBIT of 19.5x.

NEXT CATALYSTS

- **29th April 2016: Extraordinary General Meeting** to vote for or against the **capital increases**.
- Given the current capital increase project, the date of publication of the FY 2015-16 results has not yet been decided.

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Healthcare

UCB

Price EUR72.31

Q1 1 sales. Good trend from CVN but lack of newsflow for the remainder of 2016

Fair Value EUR80 (+11%) **NEUTRAL**

Bloomberg	UCB BB
Reuters	UCBBt.BR
12-month High / Low (EUR)	85.6 / 61.5
Market Cap (EURm)	14,065
Avg. 6m daily volume (000)	346.7

	1 M	3 M	6 M	31/12/15
Absolute perf.	2.7%	-10.5%	6.4%	-13.1%
Healthcare	5.6%	-1.7%	-4.7%	-7.4%
DJ Stoxx 600	2.4%	3.0%	-5.8%	-4.7%

	2014	2015e	2016e	2017e
P/E	42.9x	33.3x	23.1x	16.4x
Div yield (%)	1.3%	1.5%	2.3%	3.2%

ANALYSIS

- UCB has reported Q1 results of EUR991m, growing 11%CER (+2pp positive FX impact). These results were 3.3% ahead of consensus expectations at EUR959. CVN reported growth above 20%CER. The 10%CER decline in Keppra sales was more than offset by stable tail product sales while would have expected a ~7-10% decline yoy.

EURm	Q1 2015	Q1 2016	y/y	CS Q1 2016	Delta
Cimzia	227	283	25%	285	-0,7%
Vimpat	146	188	29%	183	2,7%
Neupro	60	73	22%	68	7,4%
Total CVN	**433**	**544**	**26%**	**536**	**1,5%**
Keppra	190	170	-11%	181	-6,1%
Revenue	**895**	**991**	**11%**	**959**	**3,3%**

Source: Company Data; Ellinghorst' consensus.

- Cimzia performed well in all regions with 24%CER growth (+25% reported; 29% of sales) to EUR283m. So did Vimpat for which Q1 2016 sales came in at EUR188m +28% CER (+29% reported; 19% of sales). Neupro outperformed expectations and grew 22% CER (22% reported; 7% of sales) to EUR73m. While Keppra sales more than resisted in 2015 (+11%) boosted by stocking effects, the product (which faces competition from generics) posted a 10%CER decline (11% reported) in the first quarter of 2016 to EUR170m (17% of sales).
- The company has reiterated its guidance for the year (Sales EUR4.0-4.1bn, rec. EBITDA EUR970-1010m and core EPS EUR2.9-3.2/share). While the good performance of CNV is already taken into account in the current valuation, lack of late stage clinical newsflow in 2016 following mixed romosozumab's phase III results might impact the performance of UCB's share price vs. peers. In terms of ongoing programmes, UCB initiated a phase IIa programme for UCB7665 (immune thrombocytopenia) in Q1 and bimekizumab (immunology) is expected to enter phase IIb in H2 2016 implying a phasing in R&D spending this year.

VALUATION

- We stick to our NEUTRAL and EUR80 fair value

NEXT CATALYSTS

- 28th July 2016: HY 2016 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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