BRYAN, GARNIER & CO

INDEPENDENT RESEARCH

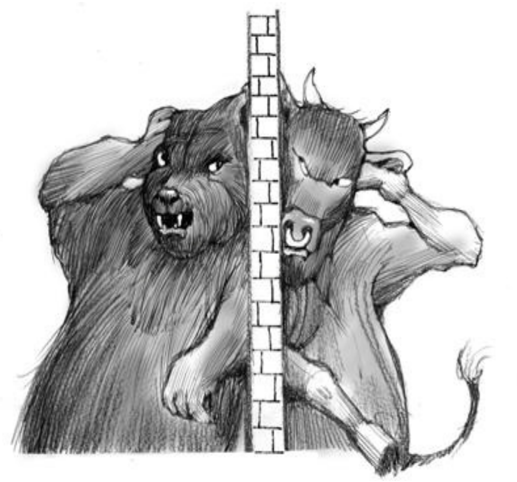
8th April 2016

Top Picks

Top Picks Q2 2016

Top Picks

ABLYNX		**BUY**	**FV EUR17**
Last Price	EUR13.24	*Market Cap.*	EUR732m
ACCORHOTELS		**BUY**	**FV EUR48**
Last Price	EUR35.74	*Market Cap.*	EUR8,414m
ACTELION		**BUY**	**FV CHF163**
Last Price	CHF147.2	*Market Cap.*	CHF16,800m
AHOLD		**BUY**	**FV EUR22**
Last Price	EUR20.09	*Market Cap.*	EUR16,763m
ATOS		**BUY**	**FV EUR90**
Last Price	EUR71.44	*Market Cap.*	EUR7,396m
AXA		**BUY**	**FV EUR29**
Last Price	EUR19.84	*Market Cap.*	EUR48,166m
ELIOR		**BUY**	**FV EUR23**
Last Price	EUR18.95	*Market Cap.*	EUR3,265m
ESSILOR		**BUY**	**FV EUR130**
Last Price	EUR107.75	*Market Cap.*	EUR23,326m
FRESENIUS SE		**BUY**	**FV EUR70**
Last Price	EUR63.78	*Market Cap.*	EUR34,812m
HEIDELBERGCEMENT		**BUY**	**FV EUR86**
Last Price	EUR72.65	*Market Cap.*	EUR13,652m
IPSEN		**BUY**	**FV EUR60**
Last Price	EUR51.88	*Market Cap.*	EUR4,319m
MELIA HOTELS		**BUY**	**FV EUR15**
Last Price	EUR10.23	*Market Cap.*	EUR2,036m
WIRECARD		**BUY**	**FV EUR52**
Last Price	EUR33.915	*Market Cap.*	EUR4,191m



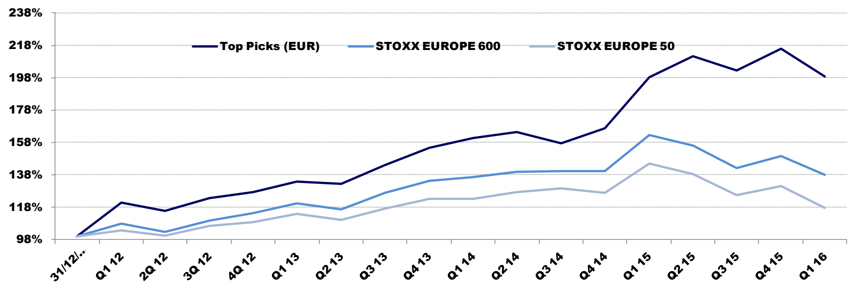
This is the second volume of our quarterly 'Top Picks' for 2016. This list is not intended to be a model portfolio but simply reflects a pure stock-picking exercise in our coverage universe. It reflects a biais towards themes that we believe fit best with the current uncertain market environment: self-helped businesses, robust organic growth, limited outside interferences, earnings momentum and/or secure shareholders' returns.

- We have experienced a very challenging market environment in Q1 2016 (Stoxx600 down -7.7%), with a high volatility level. In this context, the performance of our list has been disappointing (i.e. down -7.9%), pretty much in line with the market. It is the 5th time since the creation of our list in Q1 2012 (17 quarters) that we perform below market. Over this period, our cumulative performance has been 98% vs. 38% for the Stoxx600.

- At end-March, we updated our hypothesis for valuation modelling. Our risk-free rate has been reduced from 2.0% to 1.6%. Our equity risk premium has been increased from 6.4% to 7.0%.

- Our Q2 2016 list is more selective and contains only 13 stocks, which is pretty low compared to previous quarters and our growing coverage (133 stocks). But the environment has come under more pressure lately, with global macro-economic prospects revised downwards, ongoing global uncertainties (oil prices, China…) and a higher Euro vs. Dollar, partially compensated by more accommodative measures by the ECB (mainly new measures to support corporate lending). In this context, we strongly believe that companies that benefit from self-helped drivers, robust organic growth, limited outside interferences, earnings momentum and/or secure shareholders' returns offer attractive profiles.

This document is a compilation of the notes written to update our Top Pick list



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Our top picks for 2Q 2016 are

Changes :

+ABLYNX
+FRESENIUS SE
+IPSEN

-ALLIANZ
-ASTRAZENECA
-BONE THERAPEUTICS
-GENMAB
-PERNOD RICARD
-SABMILLER
-SUEZ
-WORLDLINE

Fig. 1: Valuation ratios: 2Q 2016 Top Picks

	Market Cap.	EV/EBIT(x)		PER (x)		RDT (%)			
	(EUR)	2015e	2016e	2015e	2016e	2015e	2016e	Reco	FV
ABLYNX	756	-39.7	-38.9	-13.6	-12.1	0.0%	0.0%	BUY	17.00
ACCORHOTELS	8 382	12.3	12.5	18.9	20.5	2.8%	3.1%	BUY	48.00
ACTELION	16 834	25.1	24.3	23.9	23.0	1.0%	1.0%	BUY	163.00
AHOLD	16 804	14.4	13.6	20.3	17.8	2.6%	2.7%	BUY	22.00
ATOS	7 360	7.4	6.0	12.3	10.2	1.3%	1.5%	BUY	90.00
AXA	47 256 -	-		7.9	7.9	5.7%	6.0%	BUY	29.00
ELIOR	3 275	15.0	13.3	23.9	16.8	1.7%	2.1%	BUY	23.00
ESSILOR	23 120	21.2	19.2	30.0	26.9	1.1%	2.0%	BUY	130.00
FRESENIUS SE	34 577	12.4	11.6	24.2	22.5	2.7%	2.9%	BUY	70.00
HEIDELBERGCEMENT	13 566	12.6	11.1	16.9	14.7	1.8%	2.1%	BUY	86.00
IPSEN	4 334	13.1	13.3	18.7	18.5	1.6%	1.6%	BUY	60.00
MELIA HOTELS	1 994	16.8	18.9	51.7	40.8	0.3%	0.6%	BUY	15.00
WIRECARD	4 047	17.0	12.4	24.7	17.9	0.4%	0.4%	BUY	52.00

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

Fig. 2: Dividend payments: 2Q 2016 Top Picks

Top Picks	Ex-Dividend date	Amount
ACCOR	27th April	1€
ACTELION	9th May	1.5CHF
AHOLD	21st April	0.52€
ATOS	2nd June	1.1€
AXA	6th May	1.1€
ELIOR	11th April	0.32€
ESSILOR	17th May	1.11€
FRESENIUS	17th May	0.55€
HEIDELBERGCEMENT	5th may	1.3€
WIRECARD	17th June	0.14€

Source: THOMSON REUTERS

Our Top Picks are updated and published every quarter.

Top picks for 1Q 2016 performances

	1Q 2016 perf.		incl. Div.	
	Euro	**Local Ccy**	**Euro**	**Local Ccy**
ACCOR (~E)	-6.9%	-6.9%		
ACTELION (~E)	2.6%	2.9%		
AHOLD KON. (~E)	1.5%	1.5%		
ALLIANZ (XET) (~E)	-12.6%	-12.6%		
ASTRAZENECA (~E)	-21.4%	-15.5%	-18.7%	-14.4%
ATOS (~E)	-7.6%	-7.6%		
AXA (~E)	-18.0%	-18.0%		
BONE THERAPEUTIC (~E)	-9.8%	-9.8%		
ELIOR GROUP (~E)	-0.2%	-0.2%		
ESSILOR INTL. (~E)	-5.6%	-5.6%		
GENMAB (~E)	-0.92%	-1.1%		
HEIDELBERGCEMENT (XET) (~E)	-0.49%	-0.5%		
MELIA HOTELS INTL. (~E)	-15.11%	-15.1%		
PERNOD-RICARD (~E)	-5.21%	-5.2%		
SABMILLER (~E)	-2.77%	-2.8%		
SUEZ ENVIRONNEMENT (~E)	-6.60%	-6.6%		
WIRECARD (XET) (~E)	-28.39%	-28.4%		
WORLDLINE (~E)	-5.19%	-5.2%		
1Q 2016* Top picks average Perf.	**-7.93%**	**-7.59%**	**-7.78%**	**-7.52%**
STOXX EUROPE 600	-7.73		-7.03	
STOXX EUROPE 50	-10.0		-8.95	

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

**calculation based on the opening prices of the day the stock has been removed.*

Pernod Ricard : 30/03/16

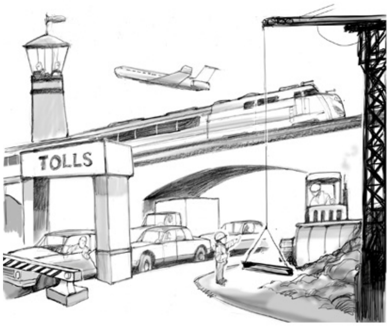
Construction & Materials : TOP PICKS Q2 2016 Heidelberg reiterated as Top Pick.

	1 M	3 M	6 M	31/12/15
Cons & Mat	4.1%	-1.0%	7.4%	-1.0%
DJ Stoxx 600	1.1%	-7.7%	-2.9%	-7.7%

*Stoxx Sector Indices

Companies covered

CRH		**BUY**	**EUR30**
Last Price	EUR24.83	*Market Cap.*	EUR20,459m
EIFFAGE		**BUY**	**EUR71**
Last Price	EUR67.5	*Market Cap.*	*EUR6,442m*
HEIDELBERGCEMENT		**BUY**	**EUR86**
Last Price	EUR75.25	*Market Cap.*	*EUR14,141m*
LAFARGEHOLCIM		**BUY**	**CHF50**
Last Price	CHF45.23	*Market Cap.*	*CHF27,450m*
SAINT GOBAIN		**BUY**	**EUR42**
Last Price	EUR38.73	*Market Cap.*	*EUR21,725m*
VICAT		**NEUTRAL**	**EUR56**
Last Price	EUR57	*Market Cap.*	*EUR2,559m*
VINCI		**BUY**	**EUR70**
Last Price	EUR65.47	*Market Cap.*	*EUR38,584m*



LOOKING BACK AT Q1 2016

Contractors Vinci and Eiffage performed very well in the first quarter (absolute perf. of +12% and +14%, resp.) benefiting from the combination of steady toll road traffic trends and decent order intake for contracting. Investors were clearly seduced by their strong and resilient profiles. Meanwhile, more cyclical building materials companies have been penalised. Apart from LafargeHolcim (-11% absolute, -4% vs DJStoxx600), performances haven't been that bad however, as the sector outperformed the market by 7%. More interestingly, while contractor share prices improved regularly through the quarter, we observed a "V shape" chart for building materials stocks, with a low-end around mid-February and a sharp rebound since. Apart from Saint-Gobain, share prices have actually returned to their levels at the start of the year. As such, from the low-points in 2016, the price rebounds have been particularly impressive for LafargeHolcim (+32%), HeidelbergCement (+26%) and Vicat (+26%). This recovery has been underpinned, in particular, by valuations and improving sentiment concerning the global risk of China for the cement market.

WHAT WE EXPECT IN Q2 2016

Contractors are unlikely to benefit from the same environment as in Q1. Market sentiment has improved and their defensive qualities might not be so sought after as in early 2016. Admittedly, traffic should be good in Q1, thanks to a favourable combination of decent weather and positive calendar effects (leap year, Easter week-end), but 2016 is likely to be a transition year for French civil works (better than 2015 though). Meanwhile, Saint-Gobain is likely to benefit from the French residential market rebound - but with a lag. Finally, cement stocks are the best placed to outperform in Q2. The sector has been penalised by the possibility of a worst case scenario with cheap Chinese cement invading the world. But this has not been the case so far and actually Chinese exports have dropped 22% in January according to Heidelberg. Moreover, EM worries have been mitigated by some good news in certain markets, such as India for instance, where cement volumes rose 9% in January.

CONCLUSIONS AND TOP PICKS

It is tempting to become more positive on the cement sector as a whole. Momentum is better and the sentiment towards EM has improved, as shown by stronger capital inflows (USD37bn in March vs USD22bn on average over 2010-2014, according to Les Echos citing the IIF). This doesn't mean that macro woes have disappeared but rather that confidence has improved and, apart from CRH, cement stocks are very exposed to EM, LafargeHolcim most of all (56% of PF EBITDA as reported). We would nevertheless stick to HeidelbergCement as a Top Pick, given that it ticks a lot of boxes: fine exposure to the US (29% of prospective 2016e pro-forma EBITDA), where the market is still well oriented (construction spending up 10% y/y in January, positive comments on the 5-year highway bill), some exposure to EM (43% of EBITDA) in particular Indonesia, where the infrastructure segment might improve this year, but no exposure to LatAm, which is presumably positive in the short term considering the current situation in Brazil and finally some M&A activity with the ongoing acquisition of Italcementi (scheduled to close early July). Q1 results to be reported on 4th May 2016.

Concerning valuation, we have updated our risk free rate (1.6% vs 2.0%) and risk premium (7% vs 6.4%) for our coverage. Building materials valuations, derived from the application of historical multiples to our 2017 forecast, discounted back, are barely affected by this move. Vinci and Eiffage's SOTPs are more sensitive to these changes, as toll roads and airports are valued through discounting methods. But overall, the impact is negative but limited and our FVs, based on round figures, are unchanged.

EUR per share (LHN in CHF)	HEI	LHN	CRH	VCT	SGO	DG	FGR
Previous unrounded valuation	86.1	50.4	29.7	56.0	42.2	70.3	71.3
Impact on valuation	-0.36	-0.19	-0.11	-0.11	-0.24	-0.61	-0.57
New unrounded valuation	85.8	50.3	29.5	55.9	42.0	69.7	70.7
Previous FV	86.0	50.0	30.0	56.0	42.0	70.0	71.0
New FV	86.0	50.0	30.0	56.0	42.0	70.0	71.0

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

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Business Services : Top picks Q2 2016: Elior again!

	1 M	3 M	6 M	31/12/15
Inds Gds & Svs	1.2%	-3.0%	3.8%	-3.0%
DJ Stoxx 600	-1.6%	-8.9%	-3.8%	-8.9%

*Stoxx Sector Indices

Companies covered

BUREAU VERITAS		**NEUTRAL**	**EUR22**
Last Price	EUR19.6	*Market*	EUR8,653m
COMPASS GROUP		**NEUTRAL**	**1200p**
Last Price	1238p	*Market*	*GBP20,352m*
EDENRED		**NEUTRAL**	**EUR19 20**
Last Price	EUR16.99	*Market*	*EUR3,922m*
ELIOR		**BUY**	**EUR23 23.5**
Last Price	EUR19.345	*Market*	*EUR3,333m*
SGS SA		**BUY**	**CHF2150**
Last Price	CHF2034	*Market*	*CHF15,910m*
SODEXO		**NEUTRAL**	**EUR88**
Last Price	EUR94.43	*Market*	*EUR14,838m*

LOOKING BACK AT Q1 2016

Compass Group and **Edenred** both turned in negative performances, losing 1.8% and 1.4% respectively in absolute terms and in euros. In relative terms, all stocks outperformed the DJ Stoxx in euros after FY results confirmed the resilience of business models or the ability to manage the market slowdown.

The picture was mixed for **Foodservices** stocks. **Sodexo** posted the best performance, up 6.3% in absolute terms benefiting from positive newsflow with i/ Q1 lfl revenue growth of 4.7% driven by RWC (released mid-January), ii/ Bellon SA's decision to increase its stake in Sodexo with the acquisition of around 2.2m shares no later than September 2016, iii/ a share buyback programme of EUR300m and iiii/ NYSE Euronext's decision to include Sodexo in the CAC 40 index from 21st March. **Compass Group** was negative despite the good Q1 numbers released in early February while **Elior**, our top pick, was flat in Q1 2016 i.e. a consolidation after the strong outperformance in 2015 (up 56.9%). Volatility remained sharp for **Edenred** due to the group's exposure to the Brazilian economy.

In the TIC sector, **Bureau Veritas** and **SGS** had strong performances, up 6.4% and 5.7% respectively in absolute terms and in euros, and outperforming the DJ Stoxx by 14.1% and 13.3%. After share price volatility in 2015 reflecting macroeconomic uncertainties and the end of the commodities hyper cycle, FY 2015 results were reassuring and confirmed the groups' cost flexibility in an environment lacking visibility.

WHAT WE SEE FOR Q2 2016

In **Foodservices**, **Sodexo** is due to release its H1 results on 14th April. After strong Q1 lfl revenue growth, H1 is automatically set to be lower given the lack of specific events and the consensus is forecasting growth of 3.5% bearing in mind that the contribution from RWC stood at 2.7% in Q1. Operating margin is expected to come in at 6.4% up 20bps vs. last year with an EBIT of EUR668m. Management's FY guidance should be confirmed i.e. lfl revenue growth of around 3% and an increase in operating profit of around 8% (excluding currency effects and before exceptional items). Despite reporting better Q1 lfl revenue growth of 5.9% in early February, the **Compass** share price was broadly stable and should remain so. Indeed, business trends remain the same from one quarter to the next, with NA still the main growth engine, a continued recovery in Europe and ongoing challenges in the ROW. We also confirm that no cash return is anticipated before 2017. **Edenred's** share price volatility is likely to remain due to the group's exposure to the Brazilian economy. It is still too early to revisit the share in view of this situation and the stock remains a trading share.

FY 2015 results confirmed TIC sector fundamentals. Nevertheless, the short term still looks challenging with a lack of visibility reflected in 2016 group guidance expectations (more or less the same performance as in 2015 with a wide range of expectations).

Bureau Veritas is forecasting lfl revenue growth of between 1% and 3% compared with 1.9% in 2015 (our forecast is 1.6%, while the consensus was at 1.5% at end-March vs. 2.1% before FY 2015 results) with an adjusted EBITA margin of between 16.5% and 17% compared with 16.7% in 2015 (our forecast is flat at 16.7% in line with consensus recently downgraded from 16.8%). LfL revenue growth is expected to be better in H2 2016 bearing in mind that Q1 lfl revenue should be negative (consensus at -0.4%) and H1 only slightly positive (consensus at 0.2%).

The same situation goes for **SGS**, with management expecting to deliver lfl growth of between 2.5% and 3.5% compared with 2% in 2015 (our forecast is 2.7%) with a stable margin vs. 2015 i.e. 16.1%.

CONCLUSIONS AND TOP PICKS

Elior (Buy, FV EUR23)

Last quarter, we decided to add Elior in our Top Picks list, given that the group's transformation was implemented more quickly than expected with significant concrete actions (see our note of 17th December) and **we maintain the stock in our Top Picks list in Q2**. In fact, Q1 2015-2016 results, released at the end February, confirmed positive expectations with i/ total revenue up 4.5% and lfl revenue growth of 1% with the termination or disposal of insufficiently profitable contracts impacting growth by 2.1%, ii/ EBITDA up 6.9% generating an EBITDA margin of 7.7%, up 20bp. FY 2015-2016 guidance has been reaffirmed, with management expecting lfl revenue growth of more than 3% excluding the impact of voluntary contract exits (probably less than 150bp) with an EBITDA margin up 20bp at least to 8.6%. Our forecast is 1.9% lfl revenue growth after contract exits with EBITDA margin slightly over 8.6%.

Our FV is based on a DCF (WACC of 8.4% with a leverage beta of 1.35) using our "Base Case" scenario anticipating:

- Total revenue of c. EUR7.5bn in 2020 i.e. the mid-point of management's target for between EUR7bn and EUR8bn, representing a 2015-2020 CAGR in revenue of 5.7% o/w 1.9% stemming from acquisitions.
- 2020 EBITDA margin of 9.3% compared with management's target for 9-10%.

In a "Blue sky" scenario, with total revenue of EUR8.1bn in 2020 and an EBITDA margin of 9.7%, our DCF valuation would be EUR29.5.

FV changes using our new ERP of 7% vs.6.2% previously with a RFR of 1.6% vs. 2%

	FV(before)	FV (after)	last price	Potential
Sodexo (EUR)	88	88	94.4	-6.8%
Compass Group (p)	1200	1200	1238	-3%
Elior (EUR)	23,5	23	19.3	19%
Edenred (EUR)	20	19	17	11.8%
Bureau Veritas (EUR)	22	22	19.6	12.2%
SGS (CHF)	2150	2150	2034	5.7%

Source: Bryan Garnier & Co. ests.

NEXT CATALYSTS

Sodexo: H1 2015-2016 results on 14th April

Edenred: Q1 2016 revenue on 14th April

Compass Group: H1 2015-2016 results on 11th May

Bureau Veritas: Q1 2016 trading update on 12th May

Elior: H1 2015-2016 results on 27th May

SGS: H1 2016 results on 18th July

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Utilities : TOP PICKS Q2 2016: No strong convictions for the quarter

	1 M	3 M	6 M	31/12/15
Utilities	2.5%	-5.3%	-1.1%	-5.3%
DJ Stoxx 600	1.1%	-7.7%	-2.9%	-7.7%

*Stoxx Sector Indices

Companies covered

ALBIOMA		**BUY**	**EUR16**
Last Price	EUR13,6	*Market*	EUR405m
E.ON		**BUY**	**EUR10 vs. 10,2**
Last Price	EUR8,438	*Market*	*EUR16,884m*
EDF		**BUY**	**EUR13.5 vs. 14,5**
Last Price	EUR9,864	*Market*	*EUR18,940m*
ENGIE		**BUY**	**EUR16.5 vs. 17**
Last Price	EUR13,64	*Market*	*EUR33,217m*
PENNON GROUP		**SELL**	**825p**
Last Price	811p	*Market*	*GBP3,344m*
RWE		**NEUTRAL**	**EUR9.5 vs. 9,8**
Last Price	EUR11,375	*Market*	*EUR6,881m*
SUEZ		**BUY**	**EUR18.5 vs.19**
Last Price	EUR16,12	*Market*	*EUR8,747m*
VEOLIA ENVIRONNEMENT		**NEUTRAL**	**EUR22 vs. 22,5**
Last Price	EUR21,17	*Market*	*EUR11,926m*
VOLTALIA		**BUY**	**EUR13**
Last Price	EUR8,45	*Market*	*EUR221m*

LOOKING BACK AT Q1 2016

The **Utilities sector** performed slightly better than the **Stoxx 600** (*-**5.3 %** for SX6P vs. **-7.7%** for the Stoxx 600*) during Q1 2016 after underperforming in Q4 2015 *(+**4.4%** for SX6P vs. **+5.2%** for the Stoxx 600*) and more importantly, after underperforming over all of 2015 *(-**3.7%** for SX6P vs. **+6.8%** for the Stoxx 600).* Since our initiation of coverage in July 2014, we have recommended staying out of the sector as a whole and playing it safe through stocks offering strong earnings growth equity stories based on restructuring efforts. After playing Veolia and Albioma during Q3 2015 and Q4 2015 we placed Suez on our BG Top Pick list for Q1 2016, as we expected two potential positive catalysts (*M&A deals & a deal with Engie*). Neither of these occurred and Suez's share price performance was limited over the quarter (-6.6%), **outperforming the Stoxx 600** but **underperforming the sector**. Inside the BG utilities universe, the top performer was **RWE** at **-2.9%**, followed by **Veolia** *(-3.2%)* and **E.ON** *(-5.5%).* The worst performers were EDF (*-27%*), **Voltalia** *(-16.6%)* and **Engie** *(-16.4%).* When looking inside the entire SX6P Index, most performers were regulated names, while underperformers were a mix of integrated utilities and renewables companies. During the period, European power prices (*forward FY1 power prices for France, Germany, Belgium, the UK and the Netherlands*) dropped by **20%** (**-12%** QoQ in Q4-15) while gas (*TTF*) prices continued to decline as over the first nine months, by around **-12%**, as well as coal prices with a drop of **-4%** in Q1 2016. Interestingly, during Q1, despite the decline observed in virtually all forward power price curves over the quarter, we started to see a stabilization in power prices in Germany and in France to the profit specifically of Clean Spark Spread margins (**gas assets**), in line with our view on the sector.

WHAT WE EXPECT IN Q2 2016

Given that we do not expect a short term recovery in commodity prices in Europe, and given that the sector remains still strongly correlated to this, we prefer adopting a cautious view for Q2. In terms of potential catalysts only **Engie and E.ON** are set to organise an official "investor day" during the second quarter. However, we do not expect much from these events, except more clarity on the mid-term strategy at both groups, which have no choice but to adapt to the new energy world. Both stocks could react positively on the back of more clarification from management, but since the entities are still very highly dependent on commodity prices and political decisions, we think potential upside could be too low compared with downside, especially on a quarterly basis.

CONCLUSIONS AND TOP PICKS

We have updated our models to include the latest **BG risk-free rate** and **risk-premium assumptions** (*respectively 1.6% vs. 2% previously and 7% versus 6.4% previously*) and integrated lower USD and stronger BRL assumptions, leading us to revise some of our Fair Values on the downside. We continue to see attractive valuations within the integrated utilities universe (*and still favour entities exposed to gas assets over entities exposed to coal assets*), while the environmental services subsector is already well priced-in. Our long term preference for renewables (*Voltalia & Albioma*) prevail, especially as earnings exposure to commodities is close to zero.

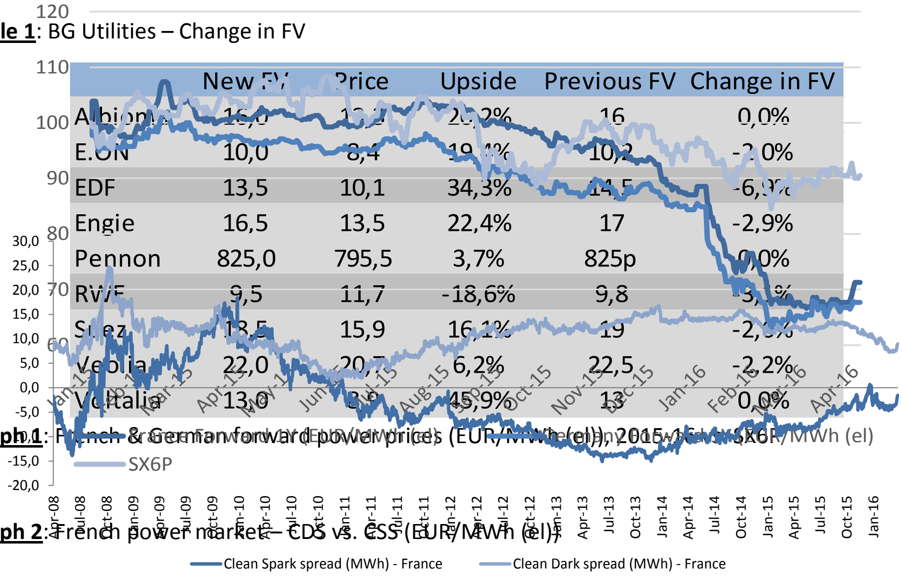
For Q2 we have decided not do not put any utilities stocks on the BG Top Picks list as we see very limited positive catalysts.

Below are the changes in FV made in our coverage following the integration of new **BG risk-free rate** and **risk-premium assumptions:**

Table 1: BG Utilities – Change in FV

	New FV	Price	Upside	Previous FV	Change in FV
Albioma	16,0	13,3	20,2%	16	0,0%
E.ON	10,0	8,4	19,4%	10,2	-2,0%
EDF	13,5	10,1	34,3%	14,5	-6,9%
Engie	16,5	13,5	22,4%	17	-2,9%
Pennon	825,0	795,5	3,7%	825p	0,0%
RWE	9,5	11,7	-18,6%	9,8	-3,1%
Suez	18,5	15,9	16,1%	19	-2,6%
Veolia	22,0	20,7	6,2%	22,5	-2,2%
Voltalia	13,0	8,9	45,9%	13	0,0%

Graph 1: French & German forward power prices (EUR/MWh (el)), 2015-16 vs SX6P



Graph 2: French power market – CDS vs. CSS (EUR/MWh (el))

[Click here to download]

TMT : Q1 2016 review and our TMT Top Picks for Q2: Atos and Wirecard

	1 M	3 M	6 M	31/12/15
Softw.& Comp.	1.5%	-0.7%	14.7%	-3.6%
DJ Stoxx 600	-2.1%	-6.2%	-3.8%	-8.6%

*Stoxx Sector Indices

Companies covered

ALTEN		**SELL**	**EUR46 vs. 47**
Last Price	EUR54,09	*Market Cap.*	EUR1,821m
ALTRAN TECHNOLOGIES		**NEUTRAL vs. BUY**	**EUR13**
Last Price	EUR12,275	*Market Cap.*	*EUR2,158m*
ARM HOLDINGS		**BUY**	**1340p vs. 1310p**
Last Price	1028p	*Market Cap.*	*GBP14,479m*
ASML		**SELL vs.BUY**	**EUR81 vs.85**
Last Price	EUR89,49	*Market Cap.*	*EUR38,779m*
ATOS		**BUY**	**EUR90 vs.93**
Last Price	EUR72,04	*Market Cap.*	*EUR7,458m*
AXWAY SOFTWARE		**NEUTRAL**	**EUR20 vs. 24**
Last Price	EUR19,6	*Market Cap.*	*EUR403m*
CAPGEMINI		**BUY**	**EUR90 vs. 93**
Last Price	EUR82,77	*Market Cap.*	*EUR14,251m*
CAST		**NEUTRAL vs. BUY**	**EUR3.6 vs. 3,9**
Last Price	EUR3,57	*Market Cap.*	*EUR58m*
DASSAULT SYSTEMES		**SELL**	**EUR63**
Last Price	EUR70,76	*Market Cap.*	*EUR18,166m*
DIALOG SEMICONDUCTOR		**BUY**	**EUR39 vs.40**
Last Price	EUR35,85	*Market Cap.*	*EUR2,791m*
GAMELOFT		**BUY**	**EUR7,2**
Last Price	EUR7,42	*Market Cap.*	*EUR637m*
GEMALTO		**NEUTRAL**	**EUR69**
Last Price	EUR63,46	*Market Cap.*	*EUR5,648m*
ILIAD		**NEUTRAL**	**EUR212**
Last Price	EUR190	*Market Cap.*	*EUR11,150m*
INDRA SISTEMAS		**NEUTRAL vs.BUY**	**EUR10 vs. 11**
Last Price	EUR9,986	*Market Cap.*	*EUR1,639m*
INFINEON		**BUY**	**EUR15**
Last Price	EUR12,665	*Market Cap.*	*EUR14,329m*
INGENICO GROUP		**BUY**	**EUR144 vs. 150**
Last Price	EUR99,15	*Market Cap.*	*EUR6,047m*
SAGE GROUP		**SELL vs.NEUTRAL**	**550p vs. 570p**
Last Price	629,5p	*Market Cap.*	*GBP6,794m*
SAP		**NEUTRAL**	**EUR73 vs. 74**
Last Price	EUR70,04	*Market Cap.*	*EUR86,044m*
SOFTWARE AG		**BUY**	**EUR39 vs. 38**

LOOKING BACK AT Q1 2016

In Q1 2016, the technology sector had a flattish performance in sluggish stock markets. Over the period, **the DJ STOXX Europe Technology index fell 2% and outperformed the DJ STOXX Europe 600 index by 6ppt** (-8%), due to stockmarket weakness in January and early February amid concerns over the Chinese economy, the banking sector and low oil prices. These concerns eased in mid-February, thus allowing a rebound in share prices.

During the period, **the best performers were Software AG** (+30%, higher than expected 2015 results and 2016 guidance), **Gameloft** (+23%, Vivendi's hostile takeover at EUR6, then raised to EUR7.2), **Indra Sistemas** (+18%, end-2015 net debt way below expectations) and **Gemalto** (+18%, FY15 sales and PFO in line with forecasts and 2017 PFO guidance maintained). **The worst performers were Wirecard** (-28%, following fraud allegations by Zatarra), **STMicroelectronics** (-21%, on the back of restructuration announcements and FX headwinds), **Axway Software** (-19%, FY15 results below expectations and FY18 ambitions needing clarification) **and Ingenico Group** (-13%, lost volumes from GlobalCollect's no. 1 client should weigh on top line growth until H1). **Our sector Q1 Top Picks Worldline, Atos, and Wirecard were down respectively 5%, 8% and 28%.**

NEW ESTIMATES, FAIR VALUES AND RECOMMENDATIONS

We have taken the opportunity to update our 2016-2018 forecasts and our DCF-derived Fair Values, essentially on new valuation criteria (risk-free rate of 1.6% vs. 2% previously, equity risk premium of 7% vs. 6.4% previously). Other factors include changes to our forward fx assumptions, marginal specific changes to our models, and the roll-over of our models to 2016 for all companies under coverage.

On this basis, we have adjusted our DCF-derived Fair Values for Alten (EUR46 vs. EUR47), **ARM Holdings** (1,340p vs. 1,310p), **ASML** (EUR81 vs. EUR85), **Atos** (EUR90 vs. EUR93), **Axway Software** (EUR20 vs. EUR24), **Cast** (EUR3.6 vs. EUR3.9), **Capgemini** (EUR90 vs. EUR93), **Dialog Semiconductor** (EUR39 vs. EUR40), **Indra Sistemas** (EUR10 vs. EUR11), **Ingenico Group** (EUR144 vs. EUR150), **Sage Group** (550p vs. 570p), **SAP** (EUR73 vs. EUR74), **Software AG** (EUR39 vs. EUR38), **STMicroelectronics** (EUR6.3 vs. EUR7), **Sword Group** (EUR26 vs. EUR28)**,** and **Temenos Group** (CHF51 vs. CHF53).

Given the strong rebound that happened on the share prices since early February - related to the stock market and the end of concerns on the Banking sector and oil prices -, **the lack of short-term market momentum that prevents us being more aggressive, and the lack of significant upside potential as of today, we downgrade our ratings on Altran Technologies (Neutral vs. Buy)**, **Indra Sistemas (Neutral vs. Buy)**, **Sage Group (Sell vs. Neutral)**, **and Temenos Group (Neutral vs. Buy)**. In particular, **since 10th February** (the low point of the CAC40 index) **the share price rebounds have been +19% for Altran Technologies, +26% for Indra Sistemas, +9% for Sage Group, +19% for Temenos Group**.

In addition, in separate notes published today, **we downgrade ASML to Sell from Buy and Cast to Neutral from Buy: 1). ASML**: we believe the NT momentum is now fully priced while we see higher risks regarding sales of DUV and EUV tools on the LT, as a result, we now see an unattractive risk/reward on the stock and prefer to look away for better opportunities in the Semiconductor industry ; **2). Cast**: the company reported yesterday evening FY15 results in line with our forecasts, but the management sees 2016 as another year of double-digit increase of operating expenses, leading to a stagnation of the operating profit.

WHAT WE EXPECT IN Q2 2016

For Software & IT Services, based on industry analysts' forecasts, we continue to anticipate stable growth or a slight slowdown in global IT spending for 2016, with estimated growth of 5-6% for software (vs. +6% in 2015), still driven by the now established SaaS model, and an estimate 3-4% for IT services (vs. +4%) driven by transformation projects in application services and IT consulting, while infrastructure services are likely to be flat due to the ramp-up of cost-efficient clouds. The main market drivers are still digital transformation (cloud, mobile, analytics/big data, social networks, security) and a moderately positive but increasingly volatile economic environment (stable growth in North America, modest improvement in Europe, volatility in emerging countries).

Last Price	EUR34,705	*Market Cap.*	*EUR2,742m*
SOITEC		**NEUTRAL**	**EUR0,5**
Last Price	EUR0,57	*Market Cap.*	*EUR132m*
SOPRA STERIA GROUP		**BUY**	**EUR113**
Last Price	EUR103,15	*Market Cap.*	*EUR2,109m*
STMICROELECTRONICS		**NEUTRAL**	**EUR6.3 vs. 7**
Last Price	EUR4,92	*Market Cap.*	*EUR4,482m*
SWORD GROUP		**BUY**	**EUR26 vs. 28**
Last Price	EUR23,98	*Market Cap.*	*EUR224m*
TEMENOS GROUP		**NEUTRAL vs. BUY**	**CHF51 vs. 53**
Last Price	CHF52,65	*Market Cap.*	*CHF3,659m*
UBISOFT		**BUY**	**EUR34**
Last Price	EUR27,605	*Market Cap.*	*EUR3,070m*
WIRECARD		**BUY**	**EUR52**
Last Price	EUR33,93	*Market Cap.*	*EUR4,193m*
WORLDLINE		**BUY**	**EUR29**
Last Price	EUR22,995	*Market Cap.*	*EUR3,037m*
WORLDPAY		**NEUTRAL**	**278p**
Last Price	278p	*Market Cap.*	*GBP5,560m*

BG TMT Club

In high-tech consulting, the market is expected to maintain a modest recovery thanks to better visibility in aerospace. **More specifically for the stocks we cover, we expect Q1 2016 sales to follow trends forecast for each of the segments over the full-year**. The economic environment is volatile and could translate into longer sales cycles, but we doubt Cognizant's sales warning for financial services announced on 8th February can really be extrapolated to other players as it seems to be company-specific in our view.

The payments sector should continue to benefit fully from EMV migration in the US, equipping emerging markets (notably in China), as well as rising demand for payment services outsourcing (notably e-commerce) and for security in electronic payments. **1) Ingenico Group (Buy – FV of EUR144, 100% of sales in payment)** has the best commercial multi-channel offer and we are still confident for Q1 2016 following VeriFone's comments. The group should post 8-9% organic sales growth in Q1 vs. FY guidance of ~+10% (26th April). **2) Wirecard (Buy – FV of EUR52, pure player in online payments)** should post FY15 organic sales growth of 24-25%, driven notably by south-east Asia, which should translate into 2015 EPS growth of 29.3% (7th April). Its Q1 organic sales growth should continue to accelerate (much the same way as growth in transaction volumes processed). **3) Worldline (Buy – FV of EUR29, 78% of 2016 sales in payment)** should now be fully considered as a PSP (#1 in Europe since the acquisition of Equens vs. #3 before). We expect the group to post 3-4% organic sales growth in Q1 (taking into account the termination of the public sector contract in the UK at the end of last year). **4) Gemalto (Neutral – FV of EUR69; less than 25% of its sales in payment**) should post lfl sales growth of 2.5% for Q1 (the Softcard negative impact will last until Q1). We believe there are still too many risks in the SIM and related services businesses. Shorter term, the CEO will have to ensure a smooth succession. **5) Worldpay (Neutral – FV 278p; 100% of its sales in payment**) is struggling in the US (half of group sales), such that the poor lfl top-line growth associated cannot create any leverage to its proprietary platform. We expect the group to post 6-7% organic sales growth in Q1.

For Video Games: by taking equity stakes in **Ubisoft (Buy – FV EUR34)** and **Gameloft (Buy – FV EUR7.2)**, Vivendi has encouraged investors to change the way they look at video games shares. For these two groups, speculation will be the main driver behind share prices in the next few months. As expected, Vivendi launched a hostile takeover bid for **Gameloft** (at EUR6.0 and then increased to EUR7.2 per share), however the group's mid-term outlook deserves more than EUR7.2 notably thanks to the ramp up of its advertising business (we estimate a fair offer in the range of EUR7.6-8.6). Regarding **Ubisoft**, the group is experiencing strong sales of its game *The Division* and *Far Cry Primal* is well received by gamers. We believe in a takeover bid if it is friendly. Note that our FVs reflect minimum prices in the case of takeover bids.

For Semiconductors, we expect global 2016 sales to grow slightly, by 2-3%, compared with 2015. During Q1 2016, we noted a rapid slowdown in the smartphone segment but we believe this market is now stabilising. PC sales also remain at a low level but we see no sign of further negative inflexion. At the beginning of Q2, visibility in the industry is improving compared with the particularly low levels seen in Q4 2015. This is mainly due to an improving situation in the automotive segment where inventory adjustments came to an end as expected. Q2 might be the quarter where momentum starts to improve in the industrial sector and the automotive segment gradually reaccelerates. This would be positive for **Infineon (Buy, FV EUR15)** and **STMicroelectronics (Neutral, FV EUR6.3)**. Regarding semi equipment makers, Q2 should be the quarter of the 10nm ramp-up at Logic IDM and foundries that is expected to trigger equipment orders. However, we believe that most of the positive impact from 10nm investments are already priced, and particularly for **ASML (Sell, FV EUR81)** which is unlikely to benefit from the adoption of multi-layer production in NAND as for other equipment manufacturers. Overall, we expect spending in wafer fab equipment to remain flat vs. 2015.

For Telecoms, after the break-down of negotiations between Orange and Bouygues Telecom, a stabilisation in the French market is still a long way ahead. Bouygues Telecom needs sustained customer growth in order to make its recovery dreams come true, and Numericable-SFR, which is still undergoing restructuring, needs to quickly regain momentum on the commercial side. The fight for customers will be tough as the wounded beasts are expected to be very aggressive, the price war will go on, and **Iliad (Neutral, FV EUR212)** and Orange are likely to suffer from collateral damages. In other European countries such as the UK and Italy, the markets reconfiguration following pending M&A operations should also be monitored closely.

In software & IT services, while most of the "growth" stories are almost priced in after the stockmarket rebound that took place in February, we recommend buying specific earnings-enhancing stories based on M&A. As such, we are keeping Atos in our Top Pick list. 1) Atos is highly focused on the structurally stable managed services/BPO businesses and can only generate low, but improving, organic growth out to 2018. 2) The acquisition of Unify should help Atos generate an accretive impact on EPS of at least 15% as of 2017, while the Equens takeover project via subsidiary Worldline should enhance EPS by 4-5% as of 2018 in our view, 3) Atos has expanded over the decades via acquisitions and this method is now part of its DNA, and, since the arrival of Thierry Breton at the head of the group, Atos has been faultless in integrating its acquisitions and delivering synergies.

In Payments, we expect investors to show an increasing appetite for the rising momentum of eCommerce. As such, **we are keeping Wirecard (Buy, FV EUR52) in our Q2 Top Pick list to benefit from** extremely good fundamentals (pure player in ePayment, exposure to South-East Asia) and a very attractive entry-point following the Zatarra story (EUR33.3). As a reminder, we expect organic sales growth of more than 20% in FY16e with EBITDA of EUR306.4m i.e. a margin of 30.1% (vs. an increased guidance range to EUR290-310m, which is still cautious in our view). **Wirecard's PEG has never been this appealing, with a PE of 18.2x vs. EPS growth of 40.7% in 2016e.**

In Video Games, 2016 should be buoyant for the French sector as a whole thanks to the speculation around Gameloft and Ubisoft. This main theme is set to drive the share prices in 2016e. However, and despite our buy ratings, we find it difficult to predict the exact timing of: 1) a fresh increase in the price offer for Gameloft, and 2) an increase in Ubisoft's capital by Vivendi and/or a friendly takeover bid for Ubisoft. As a result, **we are not including any video games players in our Q2 2016 Top Pick list.**

In Semiconductors, our three best picks in the industry are **ARM Holdings (Buy, FV 1,340p,) Infineon (Buy, FV EUR15)** and **Dialog Semiconductor (Buy, FV EUR39)**. However, while we expect a gradual improvement in momentum over Q2 2016, we see no strong catalysts to trigger an outperformance by a particular semi stock. As a result, **we are not including any Semiconductor players in our Q2 Top Pick list.**

In Telecoms, although a correction following the excessive reaction to the merger break-down is possible, we expect investors to remain prudent, waiting to see the players' reactions on the market and the impact of a likely renewed price war. We have not included **Iliad (Neutral, FV EUR212)** in our Top Pick list as the stock has already lost 15% between today and April 1st, and there is no way it can outperform its 31st March closing value before the end of Q2. We do not expect consolidation to be back on the table for many months.

NEXT CATALYSTS

Software & IT Services: Infosys' 2016 results on 15th April before the Indian markets open. TCS' 2016 results on 18th April after the Indian markets close. IBM's Q1 2016 results on 18th April after US markets close. Q1 2016 sales and results for European companies start on 19th April (Temenos).

Payments: Wirecard's FY earnings on 7th April (before trading), Worldline's Q1 sales on 20th April (after trading), Ingenico's Q1 sales on 26th April (after trading), Gemalto's Q1 sales on 29th April (before trading), and Worldpay's H1 earnings (late June/early July).

Video Games: Gameloft's FY sales on 28th April (after trading) and Ubisoft's FY sales the week of 9th May.

Semiconductors: TSMC's Q1 2016 results on 14th April, Soitec's FY sales on 18th April (after trading), ARM Holdings' and ASML Q1 results on 20th April, STMicroelectronics' Q1 results on 29th April, Infineon's Q2 results on 3rd May and Dialog's Q1 results on 4th May.

Telecoms: Iliad's Q1 revenues, expected in mid-May.

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Healthcare : Top Picks Q2. FRESENIUS, IPSEN and ABLYNX join ACTELION while ASTRAZENECA, GENMAB and BONE THERAPEUTICS are out

	1 M	3 M	6 M	31/12/15
Healthcare	-2.0%	-12.4%	-10.1%	-12.7%
DJ Stoxx 600	-4.0%	-8.6%	-8.4%	-10.3%

*Stoxx Sector Indices

Companies covered

ABLYNX		**BUY**	**EUR17 vs. 18**
Last Price	EUR13,02	*Market*	EUR720m
ACTELION		**BUY**	**CHF163 vs.166**
Last Price	CHF143,9	*Market*	*CHF16,423m*
ADOCIA		**BUY**	**EUR93 vs. 100**
Last Price	EUR62,56	*Market*	*EUR428m*
ASTRAZENECA		**BUY**	**5360p vs 5520p**
Last Price	3951p	*Market*	*GBP49,960m*
BAYER		**NEUTRAL**	**EUR108 vs. 113**
Last Price	EUR100	*Market*	*EUR82,695m*
BIOMERIEUX		**BUY**	**EUR115 vs. 118**
Last Price	EUR102,45	*Market*	*EUR4,042m*
BONE THERAPEUTICS		**BUY**	**EUR30**
Last Price	EUR18,2	*Market*	*EUR125m*
CELLECTIS		**BUY**	**EUR37**
Last Price	EUR25,64	*Market*	*EUR902m*
CELYAD		**BUY**	**EUR77**
Last Price	EUR38,76	*Market*	*EUR361m*
DBV TECHNOLOGIES		**BUY**	**EUR89 vs. 92**
Last Price	EUR59,7	*Market*	*EUR1,439m*
ERYTECH		**BUY**	**EUR48 vs. 51**
Last Price	EUR26,58	*Market*	*EUR211m*
FRESENIUS MED.CARE		**BUY**	**EUR94 vs. 97**
Last Price	EUR76,91	*Market*	*EUR23,562m*
FRESENIUS SE		**BUY**	**EUR70 vs. 68**
Last Price	EUR63,21	*Market*	*EUR34,501m*
GALAPAGOS		**BUY**	**EUR62 vs. 63**
Last Price	EUR37,25	*Market*	*EUR1,460m*
GENMAB		**BUY**	**DKK1225**
Last Price	DKK913	*Market*	*DKK54,486m*
GLAXOSMITHKLINE		**BUY**	**1670p**
Last Price	1419p	*Market*	*GBP69,116m*
INNATE PHARMA		**BUY**	**EUR18 vs. 19**
Last Price	EUR12,23	*Market*	*EUR658m*
IPSEN		**BUY**	**EUR60**
Last Price	EUR50,92	*Market*	*EUR4,239m*
LDR HOLDING		**BUY**	**USD38 vs. 41**
Last Price	USD26,84	*Market*	*USD784m*
NOVARTIS		**NEUTRAL**	**CHF95**
Last Price	CHF69,4	*Market*	*CHF185,783m*
NOVO NORDISK		**NEUTRAL**	**DKK400 vs. 416**
Last Price	DKK362,7	*Market*	*DKK748,092m*
QIAGEN		**NEUTRAL**	**EUR22**
Last Price	EUR19,93	*Market*	*EUR4,777m*

LOOKING BACK AT Q1 2016

The Healthcare sector significantly derated in Q1 amid concerns over the pricing power of innovation from pharmaceutical companies while entering an election year in the US. Several consecutive years with a dense flow of drug approvals have raised concern about adoption rates and coverage of healthcare costs going forward with a variety of new initiatives being implemented as a consequence. The increasing incidence of pay-for-performance pricing models, the rising level of rebates, increasing use of exclusive contracting etc… is raising the bar to reach commercial success with innovative drugs.

Fundamentals remain strong as long as innovation drives performance but we are simply at a point in the cycle when pressure is exacerbated by the aim of public representatives whoever they are to please patients/voters. And with the Supreme election coming in the US, we do not see this pressure slowing-down by any means. Beyond environment issues, we also see more competition.

As such, the STOXX600 Healthcare dropped 13% in Q1, underperforming the EUROSTOXX 50 index by 500bp (-8% in Q1), the worst relative quarterly performance since 2011. This was particularly well reflected by one of the worst performers in the quarter i.e. heavy weight Novartis that plummeted 20% amid concerns over the take-off of its highly advertised CHF drug Entresto.

WHAT WE EXPECT FOR Q2 2016

Entering Q2 2016, we see some signs of stabilization in the biotech segment if only because valuations have come down a lot, creating some M&A opportunities. The same should apply to pharmaceuticals where price-to-growth ratios like PEG have fallen significantly. That said, momentum continues to appear uncertain because these tough times for drug launches are likely to be reflected in disappointing quarterly sales reports for Q1. Moving closer to the US elections is unlikely to help and debate around the need for new healthcare reform that would favour generic/biosimilar use and limit price increases is very likely to strengthen. Mainly because of this adverse environment, we have decided not to include any large cap pharmaceutical stock in our Top Pick list for the ongoing quarter.

In order to drive through the quarter safely, we have also decided to exclude names with a low free float and too small market capitalisation.

Our selection nevertheless comprises four names as in the previous quarter with one that is reiterated (Actelion) and three new ideas. Self-help stories should outperform. However, it is also fair to remind that Q2 is specific given that it includes very popular medical congresses like ASCO and ADA that may drive stock performances to some extent. That said, we won't play any recovery idea until the second half of the year. Please note also that our FVs have been affected by the new risk-free rate and equity risk premium implemented for all our covered stocks, these now standing at 7.0% and 1.6% respectively vs. 7.4% and 2.0% previously.

CONCLUSIONS AND TOP PICKS

Actelion (BUY – FV CHF163 vs CHF166) stays in. The group was the best performer in the universe during Q1 (+3% in absolute terms) and clearly outperformed the healthcare sector mainly because the company delivered full-year guidance above expectations. Although for obvious reasons it was not easy for Actelion to comment, the origin of the beat concerned the delayed launch of generic bosentan in the US. Precise timings remain uncertain as the agenda is managed by an independent party that is entitled by the FDA to act as a rapporteur between all involved players but it seems fair to assume that the first half of 2016 should be risk-free. Tracleer still represents about USD100m in quarterly sales and margin is estimated close to 90%. So each month that remains generic-free provides significant upside to earnings for Actelion (about 10% on core EBIT for each quarter saved).

The reason why we are maintaining the stock for Q2 is because we are quite confident in the numbers to be reported for Q1 on 21st April 2016 and we see a reasonable chance of a guidance upgrade. This is all the more likely in that Actelion is suggesting a nice start for Uptravi in the US

ROCHE HOLDING		**BUY**	**CHF294 vs. 303**
Last Price	CHF235,8	*Market*	*CHF165,664m*
SANOFI		**NEUTRAL**	**EUR87**
Last Price	EUR72,26	*Market*	*EUR94,350m*
UCB		**NEUTRAL**	**EUR80 vs. 82**
Last Price	EUR68,19	*Market*	*EUR13,263m*
ZEALAND		**BUY**	**DKK180 vs. 200**
Last Price	DKK129,5	*Market*	*DKK3,160m*

although it is too early to call for a surprise because it could simply be the reflection of the easiest patients being captured. However, we see good feedbacks to report in any case at this stage during the conference call. Last but not least, Actelion looks more secured than many other names re environmental issues in the sector.

Removing AstraZeneca and Genmab

AstraZeneca (BUY – GBp vs. GBp5,520): clearly the group did not perform well in Q1 and because our thesis is intact, it could well have stayed in the list in Q2, all the more so that PT003 and ZS-9 should be approved during the quarter. But we are too uncomfortable with the environment to make a call on AZN for a short period of time. We would like to see how things stabilize before we return more aggressively in the second part of the year. From a longer-term view, it remains a clear BUY however.

Genmab (BUY – DKK1,225) performed well thanks to 1/ encouraging guidance for the very first year of sales of daratumumab (250-300 MUSD); 2/ the publication of positive Phase III results in combination with ibrutinib and dexamethasone (CASTOR study); 3/ the announcement of a collaboration between JNJ and Roche to test "dara" along with a PD-L1 checkpoint blocker in myeloma but also in a solid tumor. Besides, we remain positive on the outcome of the POLLUX study (which involves a combo with lenalidomide)… But we have to admit that short–term momentum is less engaging following the announcement that Morphosys is suing them and their partner for patent infringement.

We remove Bone Therapeutics (BUY – FV EUR30) from the list as we do not want to overweight healthcare. That said, one of the two expected catalysts occurred in Q1, namely interim results from the osteoporosis phase II trial. In Q2, we remain convinced that value creation should be triggered by the efficacy readout from the 2nd cohort enrolled in the Delayed-Union study. It should be followed by a DSMB review which would have the authority to prematurely stop the trial.

Adding Fresenius SE, Ipsen and Ablynx

Fresenius SE (BUY – FV EUR70 vs EUR68) enters our Top Pick list. Kabi should continue to drive the share price. Management has guided for low single-digit growth for the division in 2016, which we view as a floor in the light of 1/ our estimates pointing to 5% growth and 2/ management being conservative at the beginning of the year (meet and beat strategy). Following the approval of two new IV Gx with an upcoming launch as well as the launch of one approved in 2015. ANDA's backlog suggests that in 2016, Fresenius SE should have no difficulty in reaching the high range of its launch guidance (6-10). By playing the parent company, investors could also benefit from both strong topline at FMC and to a lesser extent, increased profitability from EPO and higher than communicated GEP gains while cushioning the risk of any major dilutive acquisition in the Care Coordination field.

Ablynx (BUY – FV EUR17 vs EUR18) jumps into our Top Pick list, ahead of key milestones for the biotech. Firstly, the phase I/IIa results expected in Q2 should provide additional insight as to the rationale of administration via nebulization in RSV infants. We would point out that Ablynx' platform may have the potential to be administrated in uncommon ways (nebulization, cream, ocular) thanks to its robustness). Secondly, we believe that the current share price significantly undervalues the deal with AbbVie for which phase IIb results and potential opt-in are expected in Q3 and H2 2016 respectively.

Ipsen (BUY – FV EUR60) is included in the list for Q2 because we highlighted in our recent note on the stock that the recent correction was a clear opportunity to play mid-term double-digit growth at a reasonable price but also interesting short-term catalysts that should reassure re the recent acquisition.

In March, Ipsen announced it had acquired the European rights for cabozantinib from Exelixis for an upfront payment of USD200m and potential other regulatory and commercial milestones + royalties. This is a transforming deal for Ipsen, one that has negative implications in the short-term because the company needs to build an oncology sales force (cost of about EUR50m), but positive ones in the medium-term. Starting in 2018-2019, it has an accretive impact on earnings and extends the growth trajectory well into the next decade. So we see it as possible provided clinical data supports the price paid. And precisely, we see upcoming catalysts that should help increase confidence in the deal with (i) final phase III data in 2L RCC to be presented either at ASCO or ESMO; (ii) FDA action date on 2L RCC expected by the end of June; (iii) EU opinion expected sometime in September.

With underlying operations still very robust, driven by Somatuline in the US, we see also Q1 numbers as reassuring for historical business. Altogether we therefore believe that Ipsen is and remains a very attractive growth story. With a PEG ratio of about 1x-1.1x, this is a strong BUY at the current price hence our decision to enter Ipsen into our Top Pick list for the ongoing quarter.

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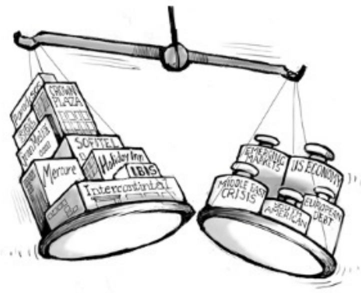
Hotels : Top Picks: Melia and AccorHotels again

	1 M	3 M	6 M	31/12/15
Travel&Leisure	-3.9%	-9.8%	-4.5%	-10.4%
DJ Stoxx 600	-4.0%	-8.6%	-8.4%	-10.3%

*Stoxx Sector Indices

Companies covered		
ACCORHOTELS	BUY	EUR48
InterContinental Hotels	NEUTRAL	2650p
MELIA HOTELS	BUY	EUR15
KORIAN	NEUTRAL	EUR29
ORPEA	BUY	EUR79



LOOKING BACK AT Q1 2016

Despite positive 2015 results and sector consolidation primarily concerning the battle for Starwood between Marriott and a consortium led by the Chinese insurance group, Anbang, the **hotel sector** performance was disappointing with **AccorHotels** down 6.2% in absolute terms and up just 0.5% vs. the DJ Stoxx, **Melia Hotels** down 16.4% and 10.4% vs. the DJ stoxx, while **IHG** was down 0.4% in absolute terms and in euros and up 6.8% in relative terms. For the two main groups exposed to Europe i.e. AccorHotels and Melia Hotels, the November terrorist attacks in Paris, political uncertainty in Spain as well as company-specific factors continued to weigh on their valuations despite attractive multiples compared to hoteliers most exposed to US.

In **dependence care, Orpea** (-2.2% in absolute terms and up 4.9% vs. the DJ Stoxx) outperformed **Korian** (-25.9% and -20.6% vs. DJ Stoxx), which was largely impacted by the new management's decision to rebase 2015 results (reclassification of personnel and IT expenses) and a lower-than-expected operating performance in H2, mainly in Germany.

WHAT WE EXPCT FOR Q2 2016

Consolidation in the **hotel industry** is set to continue and Chinese hoteliers or investors should be active. Regarding RevPAR, the European hotel industry remains under pressure following recent terrorist attacks.

No major moves are expected in **dependence care** with limited newsflow especially for **Korian** prior to the Investor Day on 15th September 2016 when the new management team will present its 2020 strategic plan.

CONCLUSIONS AND TOP PICKS

At the end of March, **Melia Hotels** notified the early redemption of all convertible bonds. The conversion will be exercised between 4th and 14th April, 2016. **Firstly**, note that the convertible bond, like the previous one, created a lot of volatility for the share price with an option largely in the money (conversion price of EUR7.318) notably with a short stock position of around 10%. **Secondly**, the potential dilution had yet been integrated into our EPS with the creation of 34.2m new shares (dilution of 17.2%). Taking into account treasury shares i.e. 5.05m that could be used, net new shares should be around 30m. With the short position, overhang should represent a maximum of 15m shares i.e. 6.5% of total share capital. **Thirdly**, the group's debt position should not be an issue with net debt/EBITDA falling to 1.7x on our estimates from 3.1x. Moreover, this multiple could give the group the opportunity to optimise the average cost of debt which was 4.4% in 2015 (4.8% in 2014). **Finally**, note that the Escarrer family will still control the equity capital with a stake of 52.1% vs. 60% previously. To conclude, we now estimate that the share price could fully reflect positive expectations for results and the current valuation (2016e EV/EBITDA of 9.3x and 2017e of 8.3x). After strong 2015 results, management is reasonably confident in 2016. In fact, its expects mid-single digit RevPAR growth for FY2016, with Q1 set to show mid-to-high single digit growth benefiting from strong business in **America** (high season) but also strong RevPAR in **Spain** (February was up 28.7% after 14% in January).

Undoubtedly, **AccorHotels'** valuation is suffering from its exposure to France (29% of the group's offer in number of rooms) with Paris/Ile de France generating over 60% of France EBIT, and to Brazil accounting for over 7% of the group's offer with 220 hotels and c.36,000 rooms.

In addition, AccorHotels is engaged in a vast restructuring of its assets (not always very clear as the agreement recently announced at the end of January for a new structure partly owned by AccorHotels an Eurazeo, which is also a shareholder of AccorHotels) and at the same time, in a dynamic growth strategy notably with the signature alongside the Qatar Investment Authority (QIA), Kingdom Holding Company (KHC) of Saudi Arabia and Oxford Properties (OMERS) for the acquisition of **FRHI** (Fairmont, Raffles and Swissôtel) or the alliance with **China Lodging**. New areas in hospitality are also being explored again as illustrated yesterday with the acquisition of **Onefinestay** in the private rental market specialised in the luxury segment, which could be difficult to value in the short term.

Nevertheless, the group's current valuation looks excessively low even in a stress scenario with 2016e EV/EBITDA just under 8x compared with the European average of 9.4x, while **Marriott** will pay over 13x for **Starwood**. Our view seems to be confirmed by some investors bearing in mind that **Jin Jiang**, the Chinese hotel leader, owns almost 11.7% of AccorHotels' equity capital or **QIA**, **KHC** and **OMERS** will be paid mainly in equity for FRHI (they will control c. 16% of AccorHotels' equity capital). Finally, Colony Capital and Eurazeo still own over 11% of the capital.

Q1 revenue is due out on 19th April after market. We are forecasting flat RevPAR vs. the same period last year with slightly lower consolidated revenue at EUR1,220m vs. EUR1,225m in Q1 2015.

NEXT CATALYSTS

AccorHotels: Q1 revenue on 19th April 2016; AGM on 22nd April 2016

Korian: Q1 revenue on 3rd May 2016

Orpea: Q1 revenue on 4th May 2016

IHG: Q1 IMS on 6th May 2016

Melia Hotels: Q1 results mid-May 2016

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Insurance : Top Pick Q2 2016: AXA

	1 M	3 M	6 M	31/12/15
Insurance	2.3%	-13.3%	-2.0%	-13.6%
DJ Stoxx 600	1.1%	-8.1%	-1.9%	-8.4%

*Stoxx Sector Indices

Companies covered

AEGON		**NEUTRAL vs. BUY**	**EUR6 vs. 6.4**
Last Price	EUR4.915	*Market Cap.*	EUR10,553m
ALLIANZ		**BUY**	**EUR180 vs.195**
Last Price	EUR142.6	*Market Cap.*	*EUR65,168m*
AXA		**BUY**	**EUR29 vs.31**
Last Price	EUR20.64	*Market Cap.*	*EUR50,109m*
CNP ASSURANCES		**NEUTRAL**	**EUR15**
Last Price	EUR13.345	*Market Cap.*	*EUR9,163m*
COFACE		**NEUTRAL**	**EUR10 vs.10.5**
Last Price	EUR7.114	*Market Cap.*	*EUR1,127m*
EULER HERMES		**BUY**	**EUR96 vs. 100**
Last Price	EUR79.25	*Market Cap.*	*EUR3,593m*
HANNOVER RE		**SELL**	**EUR110 vs.107**
Last Price	EUR100.8	*Market Cap.*	*EUR12,156m*
MUNICH RE		**SELL**	**EUR185 vs.200**
Last Price	EUR176.65	*Market Cap.*	*EUR29,473m*
SCOR		**BUY**	**EUR38 vs. 38.5**
Last Price	EUR30.7	*Market Cap.*	*EUR5,914m*
SWISS RE		**NEUTRAL**	**CHF100 vs.110**
Last Price	CHF88.35	*Market Cap.*	*CHF32,752m*
ZURICH INSURANCE GROUP		**NEUTRAL**	**CHF270 vs. 295**
Last Price	CHF220.9	*Market Cap.*	*CHF33,231m*

LOOKING BACK AT Q1 2016

Excluding Aegon and Zurich, Q4/FY 2015 numbers were in line or ahead of expectations. Operating performances were strong again, driven by underwriting results in most business lines (pricing discipline in primary insurance, lower-than-budgeted natcats, an ongoing shift from traditional life towards unit-linked and protection products) and some capital gains (although most companies continue to suffer ongoing pressure on recurring RoIs).

Most companies passed the Solvency II test with flying colours. As expected, the winners were companies with very diversified business models. We would especially mention AXA (205%), Allianz (200%) and the reinsurers (Hannover Re 246%, Munich Re 302%, Scor 211%, Swiss Re 205%). We had one positive surprise with CNP (192% vs. c. 180% expected) and one negative one with Euler Hermes (173% vs. c. 190% expected).

We continued to witness a degree of volatility on the financial markets, driven by i/ oil price weakness and its implications/consequences, ii/ the global economic slowdown, and iii/ political issues. Interest rates fell sharply (10Y Euro rate at 0.61% at end-March vs. 1.07% at end-December, 10Y US rate at 1.78% vs. 2.27%). Corporate spreads rose a little overall (iTraxx Main down 4bps and iTraxx Senior Financials up 14bps). Equity markets were more under pressure (DJ Stoxx50 down 10%).

Considering the structure of insurers' investment portfolios, these movements are globally positive for asset valuations, pushing insurers' NAVs up further. Note that the stress we experienced in some corporate spreads until mid-February has also allowed companies to invest in more satisfactory conditions. Yet the Q1 environment was clearly negative from a Solvency II perspective, with the margin probably down at end-March vs. end-December.

We see this as one key item justifying the underperformance of the sector in Q1 (-13.1% vs. -7.7% for the Stoxx600), with growing fears that dividends might be at risk if solvency margins fall below optimal areas due to lower interest rates. The other item justifying the sector's underperformance is the growing stress on corporate defaults, fuelled by issues in the oil sector and the global economic slowdown. We believe these fears have been overplayed: the sensitivity of Solvency II margins to interest rates is not new, and investors' fears clearly underestimate management actions over time, while bond portfolios are of high quality (mainly OECD govies and investment grade corporates). Yet in this context, reinsurers performed better than most primary insurers.

NEW ESTIMATES, RECOMMENDATIONS AND FAIR VALUES

We take this opportunity to update our earnings forecasts for 2016-2017. On average, both our operating profit and net income sequences are revised downwards by 2%. Overall company commitments for active cash flows / shareholders' equity base management allow companies to keep decent ROEs (c. 10% on average), slightly above our cost of equity (9.4% on average).

We release new fair values, which are based on our new 2016 estimates and include new BG valuation criteria (risk-free rate 1.6% vs. 2.0%, equity risk premium 7.0% vs. 6.4%). As a consequence, most fair values have been revised downwards.

We also take this opportunity to downgrade our recommendation on Aegon from Buy to Reduce, in view of the still below-standard quality of fundamentals and the dismal environment in both the USD and US rates.

EUR	Fair value New	Old	Theoretical upside (%)	Recommendation New	Old
Aegon	6.0	6.4	30%	Neutral	Buy
Allianz	180	195	31%	Buy	Buy
AXA	29.0	31.0	43%	Buy	Buy
CNP	15.0	15.0	9%	Neutral	Neutral
Zurich (CHF)	270	295	36%	Neutral	Neutral
Hannover Re	110	107	10%	Sell	Sell
Munich Re	185	200	6%	Sell	Sell
Scor	38.0	38.5	24%	Buy	Buy
Swiss Re (CHF)	100	110	15%	Neutral	Neutral
Coface	9.5	10.5	31%	Neutral	Neutral
Euler Hermes	96	100	22%	Buy	Buy

Source: Bryan Garnier & Co. ests.

WHAT WE EXPECT IN Q2 2016

Geopolitical/economic uncertainties remain high at the beginning of Q2 2016 and should continue to generate some volatility on the financial markets. However:

Both the FED and the ECB actions continue to create a fairly safe environment for bonds investors like insurance companies. Bonds usually represent 75% of total investments for insurance companies, with the bulk of it invested in OECD govies and investment grade corporate bonds. And the ECB has just extended its QE programme to non-financial investment grade corporate bonds, meaning that it can now act on c. 70% of bond instruments held by typical European insurers. This is good news from a default risk perspective, which is key from an economic standpoint, and remember that lower credit spreads are positive under Solvency II. True, the pressure on ROIs and investment income should remain. Should rates and spreads stay where they currently are, our calculations show that a theoretical 5-year investment portfolio made up of govies (40% Euro, 10% US) and corporate bonds (25% investment grade, 5% high yield, 20% financials) would generate a 3.3% return in 2016 vs. 3.8% in 2015 and 4.3% in 2014. Nothing new here, and active management of the investment portfolio and some kind of diversification should help mitigate this trend.

Insurance companies are due to report Q1 2016 numbers in late April and in May and these should be strong again, driven by the ongoing focus on underwriting results (primary P&C and Life + reinsurance), persistantly low natcats and insurers' ability to pass lower interest rates on to customers (traditional life). As we already said, solvency margins should be down vs. end-December, yet still comfortably within optimal areas.

As a consequence, insurers will not deviate from current strategies, i.e. focusing on underwriting profitability through better risk management and cost control, price discipline, a more favourable product-mix in Life/Protection, a prolonged focus on capital allocation and cash flow management. This strategy should help protect overall profitability in the low interest rate environment and higher-than-average shareholders' returns.

Based on these items, we continue to use a 'risk-on' sector beta, i.e. 1.1 (vs. 1.35 for the 'risk-neutral' mode and 1.6 for the 'risk-off' mode) in our models.

CONCLUSIONS AND TOP PICKS

We believe the insurance sector will continue to show strong fundamentals/earnings quality, and that investors will gradually learn how to deal with the new Solvency II environment, which should be positive for multiples.

We continue to favour diversified primary insurers vs. reinsurers, which are exposed to potential back-to-normal natcats levels. As for Q2, we continue to strongly support the AXA investment case (Buy, FV EUR29 vs. EUR31), considering: i/ the company's convincing transformational journey strategy over the last few years, ii/ the recurring quality of earnings over the last half year periods (pricing power, combined ratio, new business margin, solvency,…), iii/ managements' efforts to address shareholder returns (pay-out ratio revised upwards to 45-55%), iv/ a prolonged 10-15% discount to peers like Allianz and Zurich, and v/ the prospect of the new 2020 strategic plan, which should bring a balance between continuity (focus on underwriting profitability and capital management) and adaptation to the digital transformation. Q1 2016 sales/solvency will be reported on 3th May. Investor Day on 21st June.

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Consumer : Q2 16 TOP PICKS: we continue with Essilor and Ahold

	1 M	3 M	6 M	31/12/15
Pers & H/H Gds	-0.2%	1.3%	2.9%	-1.5%
DJ Stoxx 600	-2.1%	-6.2%	-3.8%	-8.6%

*Stoxx Sector Indices

Companies covered		
ADIDAS GROUP	BUY	EUR108 vs.
BEIERSDORF	NEUTRAL	EUR80 vs. 82
BIC	NEUTRAL	EUR119 vs.122
CHRISTIAN DIOR	BUY	EUR175 vs 177
ESSILOR	BUY	EUR130 vs.
GRANDVISION	BUY	EUR28 vs. 29
GROUPE SEB	BUY	EUR102 vs.105
HERMES Intl	BUY	EUR355 vs.360
HUGO BOSS	NEUTRAL	EUR80 vs. 87
KERING	NEUTRAL	EUR176 vs.
L'OREAL	BUY	EUR177 vs.182
LUXOTTICA	BUY	EUR61 vs. 63
LVMH	BUY	EUR177 vs.182
PRADA	NEUTRAL	HKD37 vs. 41
RICHEMONT	BUY	CHF81
SAFILO	BUY	EUR12 vs. 12.5
SALVATORE FERRAGAMO	BUY	EUR25.8vs.26.
THE SWATCH GROUP	NEUTRAL	CHF410 vs. 420
TOD'S GROUP	NEUTRAL	EUR78 vs.82
AB INBEV	NEUTRAL	EUR109 vs 111
DANONE	BUY	EUR70 vs. 71
CAMPARI	BUY	EUR9.3 vs. 9.4
CARLSBERG	SELL	DKK500 vs.
DIAGEO	NEUTRAL	1790p
HEINEKEN	BUY	EUR79 vs. 83
NESTLE	NEUTRAL	CHF72 vs. 73
PERNOD RICARD	BUY	EUR113
REMY COINTREAU	BUY	EUR72
SABMILLER	NEUTRAL vs. BUY	4400p
MOLSON COORS	NEUTRAL vs. BUY	USD97 vs 101
AHOLD	BUY	EUR21
CARREFOUR	BUY	EUR31
CASINO GUICHARD	BUY	EUR69
DELHAIZE	BUY	EUR94
DIA	NEUTRAL	EUR7.5
JERONIMO MARTINS	NEUTRAL	EUR13.5
METRO AG	SELL	NOK24
RALLYE	BUY	EUR18.5
TESCO	NEUTRAL	166p

LOOKING BACK ON Q1 2016

Our **Consumer** "Top Picks" report encompasses all our global Consumer franchises: **Luxury**, **Consumer goods**, **Retail** and **Food & Beverages**. In Q1 16, our Consumer stocks sample delivered a very modest global performance (+0.5%), but nevertheless outperformed the DJ Stoxx index by 7%.

Luxury goods stocks share price remained almost unchanged during the period but **Prada** rebounded by 5.5%, whilst **LVMH** was up 4% (+13% vs DJ Stoxx) and even **Ferragamo** (+3%) which can appear as a great performance with the challenging luxury goods industry environment (still poor activity in HK, negative impact of the attacks in November in Paris and in Brussels on 22nd March for tourists flows in Europe). **Tod's** (-14%) and **Hugo Boss** (-25%) were the worst performers amongst the sample, the HB share price has suffered from the PW on 2016 outlook and the departure of the CEO last February.

Our **Optical & Eyewear sample** was impacted by profit-takings after the strong run over 2015 and disappointments with the profitability outlook as the four groups are spending significant capex investments to achieve a sustainable MT growth, which is particularly true for **Safilo** (-27%). **Luxottica** (-20%) was heavily impacted by the surprising departure of CEO for Markets Adil Khan last February, raising concerns about the governance structure and the succession plan on which Mr Del Vecchio is currently working on. **GrandVision** (-9%) and **Essilor** (-6%) resisted quite well, confirming their defensive profiles in a volatile environment.

Within the **HPC/Consumer Goods** sample, we highlight the **adidas** share price rally (+15%), fuelled by strong momentum, a supportive 2016 outlook and the appointment of Mr Rorsted as CEO from October. **SEB** remained broadly flat (-4%) whilst **BIC** (-13%) was impacted by conservative 2016 guidance. It is worth noting the outperformance of **L'Oréal** (+1%) vs. **Beiersdorf** (-6%).

Food & Beverages, in Q1 2016, with a global 1% increase, our Food & Beverages sample has outperformed the DJ Stoxx by almost 9%. The top three were **Campari** (+19% vs DJ Stoxx), **SAB Miller** (+13.3%), and **Molson Coors** (+11%). **Danone**, with a slight 0.4% increase, has outperformed DJ Stoxx by 9%. On the other hand, **Nestlé** has only outperformed the index by 4%.

Lastly, it is worth noting the clear rebound of our **Retail** sample (+3%) thanks to Casino which did very well (+19%) after several quarters of underperformance. Ahold and Delhaize were also very resilient during the period (close to +2%), but Carrefour was down 9%.

WHAT WE SEE FOR Q2 2016

With regards to luxury groups, we remain cautious on the Q1 1 publications at least concerning the organic sales growth performances. Following the terrorist attacks in Paris on November 13th and the one in Brussels on March 22nd, activity in Paris for luxury goods brands has not recovered the levels pre- attacks and we argue that the trend has even likely recently deteriorated (Brussels impact) while since January 2016, the trend was progressively improving. On average, France accounts for 7% of the luxury goods industry and Paris alone 5%, being the world's second biggest city for the sector after NY (10%). It also appears that the situation is not improving in Hong Kong and in Macau (double digits sales decline) while it is normalizing in Mainland China (close to 10% Luxury Goods sales). In others Asia countries, the momentum is well oriented, particularly in Korea and Singapore, as it is also the case in Japan thanks to local consumers and Chinese tourists. On the other hand, revenues momentum in US is somewhat deteriorating (negative impact of strong USD for tourist's flows, despite recent weakness, poor financial markets and US elections to come…). Ahead of Q1 sales release, we are cautious, and anticipate some slowdown vs Q4 15. For instance, LVMH Q1 sales should be up close to 4% vs +5% in Q4 15 (+2% for F&L vs +3% in Q4 15) and Kering revenues should grow 5.8% organically vs +8% with Gucci at almost the same trend than in Q4 (+4.8% despite very undemanding comps (-8% in Q1 15).

Food retail sector remains penalised by the deflationary wave in Europe. This trend exacerbates a more fundamental issue which is the dilution of the growth potential in a fixed costs industry (structurally, the environment is that of a sluggish demography, deflation and very high penetration rate of modern food retail). So far, we do not foresee any reversing trend in 2016: 1/ deflation is still there in several major markets (France and UK especially) while 2/ there is no obvious thinning on the horizon in emerging markets (Brazil especially).

Food & Beverages: This is likely not to be the best quarter of all for the food and spirits companies in terms of organic sales growth. Their performance should be dragged down by the tough macro background in emerging countries (especially China and Brazil) and a number of technical effects. One exception is Rémy Cointreau which is likely to report an improving performance in its last fiscal quarter, with organic sales expected to be up 7.6% after +3.2% in Q3.

Consumer Groups: some opportunities after Q1 publications… Indeed **GrandVision** faces a difficult comparison base in Q1 given successful promotional campaigns in G4 last year (SSSG: +6.8%), but we are convinced that this stock share numerous catalysts with Essilor and has an interesting defensive profile. **Luxottica** has already insisted on the tough comparison base this quarter. As this negative base effect is included in FY16 rule-of-thumbs, it implies a clear improvement in the sales and earnings momentum afterwards. **adidas Group**'s Q1 results will be marked by a strong top line performance and even if the USD and higher input costs hamper the profitability, the risk profile improves. Hence we nudge down our beta assumption (5-yr average), justifying our slight increase in our FV to EUR108.

CONCLUSIONS AND TOP PICKS: Essilor and Ahold once again

Consumer Goods: Essilor (Buy, FV: EUR130) reiterated. We continue to favour **Essilor** since we have not identified major threats ahead of the Q1 publication, unlike Luxottica and GrandVision which cope with challenging comparison bases. The visibility remains good as we expect another slight LFL growth acceleration (BG: +5% in 2016 vs. +4.6% in 2015) supported by innovation, marketing campaigns and emerging markets (we are more cautious on Brazil). The market is now aligned with the group's prudent contribution margin outlook ("at least 18.8%" vs. 18.8% in 2015), leaving a limited downside risk for the remainder of the year. ***Next publication:*** *Q1 16 Sales on 21st April.*

Food Retailing: Against the sector backdrop, size provides a key asset for large players which can dilute fixed costs over a far denser store network and obtain additional ammunition for nurturing their price and non-price competitiveness (for as long as productivity gains are wisely reinvested back into the value proposition). In that respect, **Ahold** (Buy, FV: EUR22) and **Delhaize**, which are to merge in mid-2016, appear to be the best compromise within the sector as they are getting bigger. Moreover, both have: 1/ a very limited exposure to the emerging markets/forex together with a strong footprint in US (between 60% and 75% of the groups' respective EBIT); and 2/ a higher-than-average profit-to-cash conversion, we keep Ahold in our Top Picks list for Q2 2016, which, objectively, is to take the lead.

Food & Beverages: Regarding brewers, on the back of the changed BG research risk free rate and risk premium, we are lowering our DCF-based FV for brewers stocks (see table on page 1). For SABMiller the FV of GBp4,400 is driven by the ABI offer price and remains unchanged. As a result of these FV adjustments we have limited upside for the brewers. AB InBev Heineken and Molson Coors are trading at FV, SABMiller has an upside of 3% to FV and Carlsberg has a significant downside, in our view. Following on from that we lower our recommendation for SABMiller to Neutral (from Buy) and for Molson Coors to Neutral (from Buy). Although there is no upside to FV for Heineken shares and that's why we do not put it in our top pick list, we believe this stock is still worthwhile buying. Organically the company is growing well with last year delivering 3.5% organic sales growth. But on top of that HEIA is most likely to be the next brewer to make a significant acquisition. And acquisitions are the big value creator (or destructor in some cases) in the sector. With deals like FEMSA Cerveza and Asia Pacific Breweries, Heineken's recent acquisition track record has been good. Furthermore with net debt/EBITDA of 2.2xe at end of 2016, the company has the capability to gear up. If external growth opportunities would not come along, we can expect, Heineken to start buying back to 20% that FEMSA has in the company. FEMSA has always made it clear that although it is a happy shareholder of Heineken, the stake could be sold if an opportunity in its retail and bottling business would arrive. We neither chose a top pick in the sample of spirits and food stocks as the groups' releases should show a subdued performance in Q1. We think that the improving organic sales growth of Rémy Cointreau is partly already factored into market expectations.

Luxury Goods: Again we do not include any Luxury goods stocks this quarter. The visibility remains poor ahead of Q1 16 publications, as the situation in Europe has certainly deteriorated vs Q4 15 while the environment remains tough in H-K and Macau.

NEXT CATALYSTS

- **Luxury Goods: LVMH** (Q1 sales) on April 11 and **Kering** (Q1 sales) on April 21st.
- **Consumer Goods (April): Essilor** (Q1 sales) on 21st / **BIC** (Q1 Results) on 27th / **SEB** (Q1 Sales) on 28th / **GrandVision** (Q1 Trading update) on 29th / **Luxottica** (Q1 Results) on 29th.
- **Food & Beverages: Nestlé** (Q1 16 sales) on Apr 14th**, Rémy Cointreau** (Q4 16 sales) on Apr 19th, **Danone** (Q1 16 sales) on Apr 19th**, Heineken** (Q1 16 sales) on Apr 20th, **Pernod Ricard** (T3 16 sales) on Apr 21st, **SAB** (Q4 16 sales) on Apr 21st**, ABI** on May 4th (Q1 16 results), **Campari** (Q1 16 results) on May 9th, **Carlsberg** (Q1 16 sales) on May 11th

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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 56.9% NEUTRAL ratings 35% SELL ratings 8%

Research Disclosure Legend

1	Bryan Garnier shareholding in Issuer	Bryan Garnier & Co Limited or another company in its group (together, the "Bryan Garnier Group") has a shareholding that, individually or combined, exceeds 5% of the paid up and issued share capital of a company that is the subject of this Report (the "Issuer").	No
2	Issuer shareholding in Bryan Garnier	The Issuer has a shareholding that exceeds 5% of the paid up and issued share capital of one or more members of the Bryan Garnier Group.	No
3	Financial interest	A member of the Bryan Garnier Group holds one or more financial interests in relation to the Issuer which are significant in relation to this report	No
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5	Lead/co-lead manager	In the past twelve months, a member of the Bryan Garnier Group has been lead manager or co-lead manager of one or more publicly disclosed offers of securities of the Issuer or in any related derivatives.	No
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7	Research agreement	A member of the Bryan Garnier Group is party to an agreement with the Issuer relating to the production of this Report.	No
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10	Corporate finance client	In the past twelve months a member of the Bryan Garnier Group has been remunerated for providing corporate finance services to the issuer or may expect to receive or intend to seek remuneration for corporate finance services from the Issuer in the next six months.	No
11	Analyst has short position	The investment analyst or another person involved in the preparation of this Report has a short position in the securities or derivatives of the Issuer.	No
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14	Analyst disclosure	The analyst hereby certifies that neither the views expressed in the research, nor the timing of the publication of the research has been influenced by any knowledge of clients positions and that the views expressed in the report accurately reflect his/her personal views about the investment and issuer to which the report relates and that no part of his/her remuneration was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.	Yes
15	Other disclosures	Other specific disclosures: Report sent to Issuer to verify factual accuracy (with the recommendation/rating, price target/spread and summary of conclusions removed).	No

A copy of the Bryan Garnier & Co Limited conflicts policy in relation to the production of research is available at www.bryangarnier.com

Please see the section headed "Important information" on the back page of this report.

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