BRYAN, GARNIER & CO

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19th May 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	17526.62	-0.02%	+0.58%
S&P 500	2047.63	+0.02%	+0.18%
Nasdaq	4739.12	+0.50%	-5.36%
Nikkei	16646.66	+0.01%	-12.55%
Stoxx 600	337.585	+0.86%	-7.72%
CAC 40	4319.3	+0.51%	-6.85%
Oil /Gold			
Crude WTI	48.55	0.00	+30.51%
Gold (once)	1271.28	-0.64%	+19.66%
Currencies/Rates			
EUR/USD	1.12795	-0.50%	+3.83%
EUR/CHF	1.10715	+0.08%	+1.82%
German 10 years	0.166	+25.14%	-73.89%
French 10 years	0.515	+8.02%	-47.47%
Euribor	-	+-%	+-%

Economic releases :

Date	
19th-May	GB - Retail sales Apr. (+2% Ey/y) US - Jobless Claims US - New Claims (275K E) US - Philadelphia Fed Business Outlook (3 E) US - Chicago Fed National Activity index (-0.2 E) US - Leading indicators

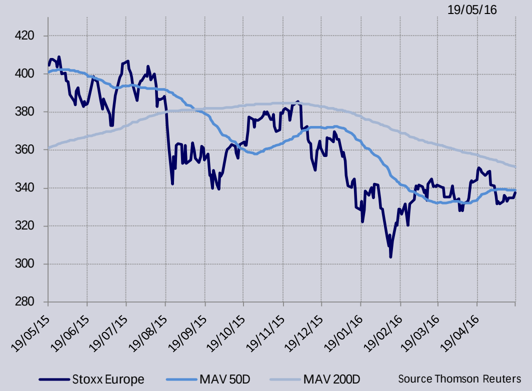
Upcoming BG events :

Date	
19th-May	Melia (BG Paris roadshow with IR)
24th-May	Petit Déjeuner Thématique avec J. Zelmanovitch, WIMPELCOM
25th-May	Luxottica (BG Paris Roadshow whit IR)
7th-Jun	Cahiers Verts de l'Economie (BG Paris Lunch)
8th-Jun	Cahiers Verts de l'Economie (BG Paris Lunch)
15th-Jun	GENMAB (BG Paris roadshow)

Recent reports :

Date	
13th-May	ROYAL UNIBREW Camp Blue Lake
10th-May	SOFTWARE AG French Flair at work
3rd-May	Rémy cointreau The glass is filling up
2nd-May	Moncler Good protection from chilly conditions
11th-Apr	ALTICE NUMERICABLE SFR : The time of Marketing?
8th-Apr	Nicox A visible decrease in pressure... (CORPORATE, FV EUR14)

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



BAYER — **NEUTRAL, Fair Value EUR110 (+14%)**

Interested in buying Monsanto: Never say never!

By way of press release, Monsanto and Bayer have confirmed preliminary discussions for a negociated acquisition of the leading seeds company by Bayer. Monsanto is currently reviewing the non-binding proposal received and no further comment will be made until it is completed. We did not believe the rumour last week about this combination – and we were wrong. If consumated, it would create by far the leading company in Crop Sciences and, subject to divestments, this division would represent half of Bayer's total revenues. This is consistent with Bayer's strategy to grow in seeds and to be a life sciences company, but we did not assume that the mix could be so strongly balanced between human health and crop sciences. We would stay very neutral.

BONE THERAPEUTICS — **BUY, Fair Value EUR30 (+60%)**

Switching to allogeneic platform in Osteoporosis, a strategic move maximizing value!

This morning, Bone Therapeutics has announced its intention to switch its osteoporosis phase II program from the autologous platform (PREOB) to the allogeneic one (ALLOB). Trial should be initiated in early 2017, with no delay incurred from this move which we view has strategic.

BURBERRY — **NEUTRAL coverage initiated, Fair Value 1200p (+8%)**

Too early to sing in the rain! (full report published today)

We are initiating coverage of Burberry with a Neutral recommendation and a Fair Value of 1,200p. In a luxury sector enduring a slowdown in growth, Burberry is likely to underperform the sector in 2016/17 as was the case in 2015/16. In our view, Burberry suffers from a riskier profile compared to peers. The share is trading with a small discount vs the sector average on 2016 EV/EBIT

EULER HERMES — **BUY, Fair Value EUR99 vs. EUR96 (+21%)**

Excess capital to be returned to shareholders

We upgraded Euler Hermes is January to play i/ the gradual improvement in underwriting performance (and clearly, Q1 2016 was better than H2 2015), and ii/ potential use of excess capital through shareholder return. Yesterday, the company announced its intention to i/ buy-back 2.2m shares (4.85% of the capital) out of a 3.88m shares (8.56% of the capital) by Allianz Vie, ii/ cancel 2.7m shares (2.2m bought-back + 0.5m already held as treasury shares), and iii/ increase the 2015 dividend to EUR4.68 (5.7% yield) vs. EUR4.4 initially. Our FV is adjusted upwards to EUR99.

SAP — **NEUTRAL, Fair Value EUR73 (+6%)**

Feedback from Sapphire Now 2016 (Day 2): a simpler product roadmap

As a follow-up to our comments published yesterday on the Sapphire Now 2016 event, and on top of the analysts' meeting, we met the CFO Luka Mucic and the Head of Business Networks & Apps Steve Singh. Management remains committed to medium-term targets. Our key takeways from yesterday are the following: 1). The simplified product roadmap should help adoption of S/4HANA, with the goal of converting half of the Business Suite installed base by 2020; 2). Q2 is likely to be the fastest growing quarter of 2016; 3). Business Networks are expected to see growth accelerate.

GENMAB — **BUY, Fair Value DKK1450 vs. DKK1350 (+43%)**

Classical mythology with CASTOR... and now POLLUX

Genmab has announced that the POLLUX study met its primary endpoint of improving PFS (HR: 0.37, p<0.0001)... and that the top-line results: 1/ are far above our expectations; 2/ confirm dara's best-in-class status as a treatment for multiple myeloma. Along with increasing our PoS for the second-line setting of this disease, we have raised our sales estimates for the second-line treatment of multiple myeloma by 5% (implying now a 35-45% market share for dara witihin this very setting, depending on the geographic area) to take into account these outstanding preliminary results. BUY reiterated with a FV of DKK 1,450 vs DKK1,350.

GROUPE SEB — **BUY, Fair Value EUR102 (+4%)**

SEB increases its presence in kitchenware thanks to the acquisition of EMSA

Yesterday, SEB announced that it had signed an agreement to acquire EMSA for an undisclosed amount. The German-based company, which generated sales of EUR92m in 2015, is a significant player in kitchenware and accessories. Based on a possible consolidation from Q3 16, this acquisition would imply a positive scope effect of 1.1pp this year and 80bp in 2017.

WIRECARD — **BUY-Top Picks, Fair Value EUR52 (+24%)**

Strong start to the year, FY16 guidance confirmed

Wirecard has just reported its full audited Q1 figures. Revenue and EBITDA were already known and EPS is in line with our expectation. This confirms the strong start to the year. In the coming quarters, management expects the good business performance to continue. The FY16 EBITDA guidance is confirmed (EUR290-310m vs. our EUR306.3m and cons. of EUR300.1m). The profitable growth is not already priced in, with a 2016 P/E of 22.9x vs. our rest. EPS growth of +37.9%. We maintain our Buy rating and FV of EUR52, the stock is on our Q2 Top Pick list. Conf. call today at 1pm.

In brief...

DIAGEO, *Mr Javier Ferran to become the next chairman of Diageo*

ROCHE, *Atezolizumab approved by FDA in bladder cancer in record time*

Healthcare

Bayer

Price EUR96.42

Interested in buying Monsanto: Never say never!

Fair Value EUR110 (+14%) **NEUTRAL**

Bloomberg	BAY GY
Reuters	BAYG.F
12-month High / Low (EUR)	137.8 / 92.8
Market Cap (EURm)	79,734
Ev (BG Estimates) (EURm)	96,910
Avg. 6m daily volume (000)	2 585
3y EPS CAGR	6.4%

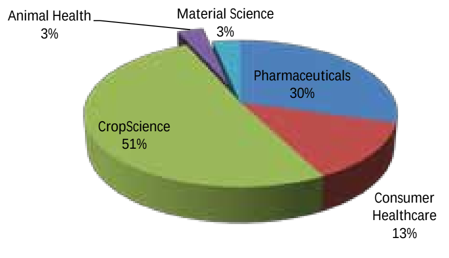
	1 M	3 M	6 M	31/12/15
Absolute perf.	-9.5%	-2.6%	-22.3%	-16.7%
Healthcare	-2.4%	1.2%	-11.3%	-10.3%
DJ Stoxx 600	-1.9%	2.6%	-11.0%	-7.7%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	46,325	45,860	47,452	49,008
% change		*-1.0%*	*3.5%*	*3.3%*
EBITDA	10,275	10,653	11,169	11,755
EBIT	8,851	9,274	9,752	10,291
% change		*4.8%*	*5.1%*	*5.5%*
Net income	5,687	5,827	6,399	6,852
% change		*2.5%*	*9.8%*	*7.1%*

	2015	2016e	2017e	2018e
Operating margin	19.1	20.2	20.6	21.0
Net margin	12.3	12.7	13.5	14.0
ROE	25.6	22.9	22.7	21.8
ROCE	11.6	12.4	13.1	13.9
Gearing	71.0	51.8	35.6	20.9

(EUR)	2015	2016e	2017e	2018e
EPS	6.88	7.05	7.74	8.29
% change	-	*2.5%*	*9.8%*	*7.1%*
P/E	14.0x	13.7x	12.5x	11.6x
FCF yield (%)	5.4%	7.5%	8.1%	8.6%
Dividends (EUR)	2.50	2.60	2.70	2.80
Div yield (%)	2.6%	2.7%	2.8%	2.9%
EV/Sales	2.2x	2.1x	2.0x	1.8x
EV/EBITDA	9.8x	9.1x	8.4x	7.6x
EV/EBIT	11.3x	10.4x	9.6x	8.7x

Revenue split - Bayer (2015, incl. Monsanto)



By way of press release, Monsanto and Bayer have confirmed preliminary discussions for a negociated acquisition of the leading seeds company by Bayer. Monsanto is currently reviewing the non-binding proposal received and no further comment will be made until it is completed. We did not believe the rumour last week about this combination – and we were wrong. If consumated, it would create by far the leading company in Crop Sciences and, subject to divestments, this division would represent half of Bayer's total revenues. This is consistent with Bayer's strategy to grow in seeds and to be a life sciences company, but we did not assume that the mix could be so strongly balanced between human health and crop sciences. We would stay very neutral.

ANALYSIS

- Never say never. We must say that we did not believe in the rumours last week that Bayer may be interested in discussing a combination with Monsanto. It looked too big both from a financial perspective and afterwards for the question of balance between the two big activities within the group i.e. human health and crop sciences.
- But it was indeed very true and both companies have stated publicly that Bayer has initiated discussions with Monsanto about a proposed combination. Monsanto's Board of Directors is currently reviewing the unsolicited and non-binding offer made by Bayer and no further comments will be made until the process is completed.
- Monsanto achieved USD15bn in net sales in 2015 o/w USD10.2bn in the so-called seeds and genomics segment. This compares with sales of USD11.5bn achieved by Bayer CropSciences last year, with seeds representing only a small part although a very dynamic one (SeedGrowth was up 5.4% in Q1 and Seeds 11.9% in a division only up by 1%). For quite some time, Bayer made it clear that it wanted to grow especially within this segment of the Agrochemical business.
- At the end of the previous fiscal year, Monsanto had initiated a restructuring programme (at a cost of USD850-900m) to improve productivity and introduce additional operational discipline within the organisation with a target of USD275-300m of cost savings over two years. That said, EBITDA margin was already at a very high level of 32.5% in 2015, well ahead that of Bayer in Crop Sciences (23.3%) and actually even superior to that of Bayer in Life Sciences (25%). So a combination would not be dilutive margin-wise even before synergies.
- That said, an acquisition of Monsanto would represent a bid of circa USD40bn, excluding the existing USD5bn of net debt of Monsanto at the end of the previous fiscal year. Bayer had already EUR18bn in net debt at the end of 2015 and although corporates raise money easily and at a low interest rate, gearing would exceed 2x (although we might expect Bayer to have included paper in its offer and not only cash). No doubt Bayer could consider selling the rest of its stake in Covestro (less than USD5bn) and may be some smaller assets and may also have to divest some of Monsanto's assets to get antitrust approvals, but the bill is high.

VALUATION

- Based on the product/franchise mix shown on the left, Bayer will no doubt be approached differently by the investment community. How much would it have to be compared with other pharmaceutical companies? Because the market and ourselves are questioning the pharma pipeline of Bayer and would expect the group to make acquisitions to strengthen it, this acquisition looks preventive to any further significant deal, which is not very good.
- That said, Bayer's share price has already suffered a lot in the recent past and P/E ratio may even appear attractive, so we would not suggest more than a cautious neutrality on the stock.

NEXT CATALYSTS

- Coming days: next step in the discussions between Bayer and Monsanto

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Healthcare

Bone Therapeutics

Price EUR18.70

Switching to allogeneic platform in Osteoporosis, a strategic move maximizing value!

Fair Value EUR30 (+60%) **BUY**

Bloomberg	BONE FP
Reuters	BONE.PA
12-month High / Low (EUR)	23.0 / 15.2
Market Cap (EURk)	128,095
Ev (BG Estimates) (EURk)	99,850
Avg. 6m daily volume (000)	2.70
3y EPS CAGR	ns

	1 M	3 M	6 M	31/12/15
Absolute perf.	5.6%	13.4%	-6.2%	-4.1%
Healthcare	-2.4%	1.1%	-12.1%	-11.0%
DJ Stoxx 600	-2.4%	1.8%	-11.9%	-8.5%

YEnd Dec. (EURk)	2014	2015e	2016e	2017e
Sales	2,908	2,327	1,591	1,489
% change		*-20.0%*	*-31.6%*	*-6.4%*
EBITDA	-4,678	-6,646	-9,598	-12,762
EBIT	-5,277	-7,367	-10,401	-13,646
% change		*-39.6%*	*-41.2%*	*-31.2%*
Net income	-5,891	-10,600	-10,441	-13,686
% change		*-79.9%*	*1.5%*	*-31.1%*

	2014	2015e	2016e	2017e
Operating margin	NM	NM	NM	NM
Net margin	NM	NM	NM	NM
ROE	NM	NM	NM	NM
ROCE	NM	NM	NM	NM
Gearing	NM	NM	NM	NM

(EUR)	2014	2015e	2016e	2017e
EPS	NM	NM	NM	NM
% change	-	*ns*	*ns*	*ns*
P/E	x	x	x	x
FCF yield (%)	%	%	%	%
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	46.9x	42.9x	69.7x	83.9x
EV/EBITDA	NS	NS	NS	NS
EV/EBIT	NS	NS	NS	NS

This morning, Bone Therapeutics has announced its intention to switch its osteoporosis phase II program from the autologous platform (PREOB) to the allogeneic one (ALLOB). Trial should be initiated in early 2017, with no delay incurred from this move which we view has strategic.

ANALYSIS

- Management has stated that it intends to discontinue the ongoing phase IIa trial in severe osteoporosis to switch it from the autologous to the allogeneic platform. The initial program was designed to enroll approximately 20 patients, of which 7 have already been treated (their follow-up will continue). In early 2017, management expects to initiate a randomized multi-centered placebo-controlled phase II trial in severe osteoporosis with the allogeneic platform. To date, the company accumulated meaningful data on both the safety and the efficacy of the allogeneic platform which motivated the switch. Indeed, ALLOB and PREOB have shown similar profile and we benefit from necessary hindsight to support this strategic decision.
- The dose escalation trial that should be initiated in early 2017 will assess the safety and efficacy of ALLOB on top of bisphosphonate in severe osteoporotic patients non-responders to the latter versus bisphosphonate + placebo. Moreover, Bone Therapautics should target patients with a low bone turnover. We believe that 60 to 80 patients should be enrolled to give to the trial enough robustness for statisticall analysis (vs. 20 for the osteoporosis PREOB study). With regards to the multiple delayed-union fractures trial initiated earlier this year (please see here), we believe that Bone Therapeutics should not be limited by dosage for escalation as: 1/ the 200^6 cells dose still offer a confortable safety margin and 2/ first effects have been reported in other trials at the 100^6 cells dose. The unknown at this stage being the safety of the IV route for the allogeneic platform, we would highlight that lead center has supported the switch.
- We would expect no delay to be incurred from the change of platform. Expansion of the number of centers to be opened (~15/20 vs. 1 in the discontinued trial) and less extensive use of medical imaging in the short term follow-up post infusion should ease recruitement.
- Value creation should arise upon positive results from this phase II as the cost structure of the company will not be able to handle a commercialisation on a stand-alone basis, hence the need for a partnership. Indeed, economics from a potential licensing deal are likely to be revised upwards once considering that the production and logistic is higly simplified with an allogeneic platform. Morevover, switching from an autologous to an allogeneic product administrated via IV (likely to be a once a year treatment regimen) might trigger interests from pharma cie.
- Turning to the US, while management has communicated on its intention to initiate a trial in Osteonecrosis before the end of the year, it also stated before that that it has budgeted the initiation of two trials. With the strategic move announced today, we would not expect another US trial to be initiated in 2016. However, we do not rule out that this could occur next year and would tend to favour the Spine or osteoporosis indication for whom clinical guidelines as to the design of the trial already exist.

VALUATION

- We reiterate our BUY rating and EUR30 fair value and would not expect any impact on the cash burn in 2016 (BGe EUR10-12m).
- Our peak sales for the product stands at EUR1bn and EUR1.7bn in Europe and in the US respectively. Note that in our valuation, we only include European sales, adjusted with a 20% probability of Success. Hence contribution form the project to our fair value is EUR5.

NEXT CATALYSTS

- Today: Paris' roadshow with CEO (Enrico Bastianelli) and CFO (Wim Goemaere)

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Luxury & Consumer Goods

Burberry

Price 1,112p

Too early to sing in the rain! (full report published today)

Fair Value 1200p (+8%)

NEUTRAL coverage initiated

Bloomberg	BRBY LN
Reuters	BRBY.L
12-month High / Low (p)	1,808 / 1,078
Market Cap (GBPm)	4,949
Ev (BG Estimates) (GBPm)	4,312
Avg. 6m daily volume (000)	2 336
3y EPS CAGR	2.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-13.0%	-12.9%	-13.3%	-6.9%
Pers & H/H Gds	-0.4%	2.2%	-4.5%	-0.3%
DJ Stoxx 600	-1.9%	2.6%	-11.0%	-7.7%

YEnd Mar. (GBPm)	03/15	03/16e	03/17e	03/18e
Sales	2,523	2,515	2,630	2,735
% change		*-0.3%*	*4.6%*	*4.0%*
EBITDA	585	550	560	625
EBIT	455.0	417.8	420.0	485.0
% change		*-8.2%*	*0.5%*	*15.5%*
Net income	336.1	309.5	314.0	364.0
% change		*-7.9%*	*1.5%*	*15.9%*

	03/15	03/16e	03/17e	03/18e
Operating margin	18.0	16.6	16.0	17.7
Net margin	13.3	12.3	11.9	13.3
ROE	24.0	19.7	18.5	19.5
ROCE	49.0	41.4	40.2	45.3
Gearing	-38.0	-40.7	-42.9	-46.5

(p)	03/15	03/16e	03/17e	03/18e
EPS	76.75	69.90	71.84	83.01
% change	-	*-8.9%*	*2.8%*	*15.5%*
P/E	14.5x	15.9x	15.5x	13.4x
FCF yield (%)	0.0%	0.0%	0.1%	0.1%
Dividends (p)	35.20	37.00	37.00	37.00
Div yield (%)	3.2%	3.3%	3.3%	3.3%
EV/Sales	1.7x	1.7x	1.6x	1.5x
EV/EBITDA	7.5x	7.8x	7.5x	6.5x
EV/EBIT	9.7x	10.3x	10.0x	8.4x

We are initiating coverage of Burberry with a Neutral recommendation and a Fair Value of 1,200p. In a luxury sector enduring a slowdown in growth, Burberry is likely to underperform the sector in 2016/17 as was the case in 2015/16. In our view, Burberry suffers from a riskier profile compared to peers. The share is trading with a small discount vs the sector average on 2016 EV/EBIT

ANALYSIS

- Burberry is a global luxury brand. However, its current profile looks riskier than some of its peers in view of i/ its relatively lower weight in retail (73% of sales) compared with some most comparable rivals, ii/ over-exposure to Chinese customers (37% of sales vs. an average of 30% for the soft luxury sector), and above all, iii/ very high exposure to Apparel (53% of sales), the most volatile and most competitive segment in the luxury industry.
- In 2015/16 (end March 2016), Burberry sales declined 1% a same forex (underlying) including a 1% increase for Retail network (-1% at same stores including -5% in Q4 alone). Consequently, and given a 5% OPEX increase at same forex, EBIT margin (GBP418m) declined 140bp to 16.6%.
- For 2016/17, we are expecting sales to stabilize at same forex, of which a 2% increase for Retail (stable at same stores). EBIT should remain unchanged despite cost savings program that will have a positive GBP20m impact this year (GBP100m on three years). EBIT margin should therefore decline 60bp to 16.0%.

VALUATION

- Even though Burberry is 100% free float, we do not believe in a modification of the UK group's capital. Indeed, the size already reached (market capitalisation of GBP5bn or EUR6.5bn) and the group's high dependence on ready-to-wear/Apparel does not make it an ideal candidate for an acquisition. Our Fair Value of 1,200p is the result of a DCF valuation (WACC of 8.9% and growth to infinity of 2.5%). The stock is trading with a slight discount versus our luxury sample average.

NEXT CATALYSTS

- October 2016: H1 trading update.

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Insurance

Euler Hermes

Price EUR82.10

Excess capital to be returned to shareholders

Fair Value EUR99 vs. EUR96 (+21%) **BUY**

Bloomberg	ELE FP
Reuters	ELER.PA
12-month High / Low (EUR)	105.2 / 70.7
Market Cap (EURm)	3,723
Emb. Value (BG Est.)	2,482
Avg. 6m daily volume ('000)	15.40
3y EPS CAGR	4.2%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-0.2%	5.0%	-1.7%	-7.3%
Insurance	-4.2%	0.6%	-16.1%	-15.2%
DJ Stoxx 600	-1.9%	2.6%	-11.0%	-7.7%

(EURm)	2015	2016e	2017e	2018e
Total gross prem.	2,372	2,374	2,420	2,465
% change		*0.1%*	*1.9%*	*1.9%*
Insurance op. profit	386	367	395	422
Total operating profit	378	360	388	415
Underlying PTP	427.7	427.7	433.6	461.8
% change		*0.0%*	*1.4%*	*6.5%*
Net attributable profit	*302.5*	*324.3*	*305.9*	*325.7*
% Change		*7.2%*	*-5.7%*	*6.5%*

(EURm)	2015	2016e	2017e	2018e
Shareholders' equity	2,715	2,625	2,949	3,081
Technical reserves :				
-Life net (excl. UL)	NM	NM	NM	NM
-UL contracts	NM	NM	NM	NM
-P&C net	2,388	2,507	2,632	2,764
NAV net of intangibles	2,482	2,392	2,715	2,848
Embedded value	2,482	2,392	2,715	2,848

(EUR)	2015	2016e	2017e	2018e
EPS (€)	6.86	7.52	7.28	7.75
% change	-	*9.7%*	*-3.2%*	*6.5%*
P/E	12.0x	10.9x	11.3x	10.6x
P/NAV (%)	1.4x	1.3x	1.2x	1.1x
ROE	NM	NM	NM	NM
Dividends	4.7	4.7	4.7	4.7
Div yield (%)	5.7%	5.7%	5.7%	5.7%

We upgraded Euler Hermes is January to play i/ the gradual improvement in underwriting performance (and clearly, Q1 2016 was better than H2 2015), and ii/ potential use of excess capital through shareholder return. Yesterday, the company announced its intention to i/ buy-back 2.2m shares (4.85% of the capital) out of a 3.88m shares (8.56% of the capital) by Allianz Vie, ii/ cancel 2.7m shares (2.2m bought-back + 0.5m already held as treasury shares), and iii/ increase the 2015 dividend to EUR4.68 (5.7% yield) vs. EUR4.4 initially. Our FV is adjusted upwards to EUR99.

ANALYSIS

- Allianz Vie (French life subsidiary of Allianz group) has launched a share placement of its 8.56% stake (3.88m shares) on Euler Hermes, through an accelerated book building. Euler Hermes has decided to participate and buy-back 2.2m shares, or 4.85% of the capital.
- Euler Hermes has also decided to:
  - i/ Cancel these 2.2m shares, on top of 0.5m (out of 1.1m) shares already held as treasury stock. Following this operation, the total number of shares of Euler Hermes will drop from 45.3m to 42.6m (down 6.0%), and from 44.2m to 42.0m excluding treasury shares (down 5.0%). Allianz group aggregate shareholding will be reduced from 67.8% to 63.0%.
  - ii/ Increase the 2015 dividend to EUR4.68 (5.7% yield) vs. EUR4.4 initially. In fact, it is more like an adjustment to the new number of shares.
- Depending on the pricing of the placement, we calculate that this operation will cost Euler Hermes c. EUR170-175m, to be compared to EUR191m theoretical excess capital at end-2015 based on a 160% target solvency II margin (173% reported). As a consequence, we do not expect other shareholder return operations in the short term.
- Following this move by Allianz, the scenario of a minority buy-out is definitely not on the agenda, but at current share price we consider the buy-out probability was minimum.

VALUATION

- We have adjusted our numbers accordingly (mainly EPS, dividend and shareholders' equity).
- Our fair value has been revised upwards to EUR99.

NEXT CATALYSTS

- AGM on 25th May. Q2 2016 numbers on 2nd August.

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TMT

SAP

Price EUR68.95

Feedback from Sapphire Now 2016 (Day 2): a simpler product roadmap

Fair Value EUR73 (+6%) **NEUTRAL**

Bloomberg	SAP GR
Reuters	SAPG.DE
12-month High / Low (EUR)	74.9 / 55.9
Market Cap (EURm)	84,705
Ev (BG Estimates) (EURm)	87,434
Avg. 6m daily volume (000)	2,975
3y EPS CAGR	6.4%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-1.6%	-0.4%	-6.8%	-6.0%
Softw.& Comp.	-0.8%	2.8%	-3.5%	-4.4%
DJ Stoxx 600	-1.9%	2.6%	-11.0%	-7.7%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	20,798	21,724	23,154	24,744
% change		*4.5%*	*6.6%*	*6.9%*
EBITDA	6,884	7,066	7,440	8,039
EBIT	6,333	6,501	6,840	7,399
% change		*2.6%*	*5.2%*	*8.2%*
Net income	4,660	4,991	5,250	5,611
% change		*7.1%*	*5.2%*	*6.9%*

	2015	2016e	2017e	2018e
Operating margin	30.5	29.9	29.5	29.9
Net margin	14.8	17.6	18.2	18.4
ROE	13.2	14.9	14.8	14.5
ROCE	18.5	18.7	19.5	21.2
Gearing	24.7	10.6	-2.0	-13.1

(€)	2015	2016e	2017e	2018e
EPS	3.69	3.96	4.16	4.45
% change	-	*7.1%*	*5.2%*	*6.9%*
P/E	18.7x	17.4x	16.6x	15.5x
FCF yield (%)	3.5%	5.5%	5.8%	6.3%
Dividends (€)	1.15	1.20	1.30	1.40
Div yield (%)	1.7%	1.7%	1.9%	2.0%
EV/Sales	4.3x	4.0x	3.6x	3.3x
EV/EBITDA	13.1x	12.4x	11.3x	10.0x
EV/EBIT	14.3x	13.5x	12.3x	10.9x

As a follow-up to our comments published yesterday on the Sapphire Now 2016 event, and on top of the analysts' meeting, we met the CFO Luka Mucic and the Head of Business Networks & Apps Steve Singh. Management remains committed to medium-term targets. Our key takeways from yesterday are the following: 1). The simplified product roadmap should help adoption of S/4HANA, with the goal of converting half of the Business Suite installed base by 2020; 2). Q2 is likely to be the fastest growing quarter of 2016; 3). Business Networks are expected to see growth accelerate.

ANALYSIS

- **Simplifying the roadmap**. Although SAP has 3,200 customers on S/4HANA, only 170 are "live" (Sabre, Burberry, Under Armour, Siemens…), and have not had generated a significant percentage of revenues so far. The product roadmap (available in a 12-page flyer), an increased number of live references and the support of large systems integrators – under a "value assurance" contract – are important for mass adoption of S/4HANA. SAP expects 1,000 S/4HANA will be gone "live" by end 2016 and half of its 30,000 Business Suite (customers will migrate to S/4HANA by 2020. At this stage, the vast majority of S/4HANA deals are on-premise, but public cloud contracts are expected to surge from 2018. The HANA Cloud Platform will enjoy growing importance going forward as SAP has recently launched its API framewok in order to help partners building apps on top of S/4HANA. Finally, SAP relaunched its BI in the cloud through Business Objects Cloud, which replaces its Lumira Cloud and catches up on Tableau.

- **Q2 likely to be the fastest-growing quarter of the year**. Unsurprisingly, SAP reiterated confidence in 2016 guidance (Cloud & Software up 6-8% at cc, non-IFRS op. profit of EUR6.4-6.7bn at cc) as well as 2020 targets (sales of EUR26-28bn with a non-IFRS op. profit of EUR8-9bn) with the goal to improve the operating margin from 2018. Q2 16 is likely to be strong on licence sales growth as most of the deals postponed at the end of Q1 – licence sales in Q1 16 were down 10% lfl – have been closed since, and management is confident on flattish licence revenues for 2016. This implies a decent Q3, but maybe some decline in Q4 given tough comps (+11% lfl in Q4 15). On emerging countries: 1). Brazil was weak in Q1 16 with very low licence sales, but looks to have reached the trough; 2). China continues to perform quite well, and management is confident that this will continue; 3). Russia has returned to growth lfl since H2 15; 4). Middle-East is impacted by oil prices. Finally, SAP reiterates its intention not to make big acquisitions until 2018. It will be opportunistic and we deem machine learning is an area the company may look at on M&A.

- **Acceleration expected on Business Networks**. Within cloud subscriptions up 33% lfl in Q1 16, Business Networks (Ariba, Concur, Fieldglass) were up 21% lfl while other SaaS applications (SuccessFactors, Cloud for Customer, Business ByDesign…) were up 51% lfl. The growth rate of Business Networks was a bit weak (Ariba was up just above the low double-digits after having slowed down since H1 15), but is expected to accelerate in the coming quarters. On Concur, penetration rate is already high in the US, but there is high potential in other geographies. On SMEs, SAP intends to make further announcements highlighting its renewed focus in this areas, and we understand this will imply more integration with the different business suites with cloud apps and business networks. More investments are planned for pushing Ariba and Fieldglass in the SME space, but also to make sure that software deployments will be affordable for SMEs.

VALUATION

- SAP's shares are trading at est. 13.5x 2016 and 12.3x 2017 EV/EBIT multiples.
- Net debt on 31st March 2016 was EUR3,365m (net gearing: 15%).

NEXT CATALYSTS

Q2 16 results on 20th July before markets open.

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Healthcare

Genmab

Price DKK1,016

Classical mythology with CASTOR… and now POLLUX

Fair Value DKK1450 vs. DKK1350 (+43%) **BUY**

Bloomberg	GEN DC
Reuters	GEN.CO
12-month High / Low (DKK)	1,016 / 548.0
Market Cap (DKK)	60,633
Ev (BG Estimates) (DKK)	57,017
Avg. 6m daily volume (000)	434.1
3y EPS CAGR	17.5%

	1 M	3 M	6 M	31/12/15
Absolute perf.	6.8%	36.1%	22.9%	10.7%
Healthcare	-2.4%	1.2%	-11.3%	-10.3%
DJ Stoxx 600	-1.9%	2.6%	-11.0%	-7.7%

YEnd Dec. (DKKm)	2015	2016e	2017e	2018e
Sales	1,133	1,175	1,680	2,213
% change		*3.7%*	*43.0%*	*31.7%*
EBITDA	554	285	539	908
EBIT	730.4	285.1	539.5	907.9
% change		*-61.0%*	*89.2%*	*68.3%*
Net income	587.3	320.1	579.5	952.9
% change		*-45.5%*	*81.0%*	*64.4%*

	2015	2016e	2017e	2018e
Operating margin	64.5	24.3	32.1	41.0
Net margin	67.4	27.2	34.5	43.1
ROE	21.9	8.4	13.2	17.8
ROCE	-15,400	166.0	150.4	166.5
Gearing	-100.2	-95.0	-91.2	-89.3

(DKK)	2015	2016e	2017e	2018e
EPS	9.71	5.29	9.58	15.76
% change	-	*-45.5%*	*81.0%*	*64.4%*
P/E	NS	NS	NS	64.5x
FCF yield (%)	0.3%	0.0%	0.1%	NM
Dividends (DKK)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	50.4x	48.5x	33.7x	25.2x
EV/EBITDA	103.1x	200.0x	105.0x	61.5x
EV/EBIT	78.2x	200.0x	105.0x	61.5x

Genmab has announced that the POLLUX study met its primary endpoint of improving PFS (HR: 0.37, p<0.0001)… and that the top-line results: 1/ are far above our expectations; 2/ confirm dara's best-in-class status as a treatment for multiple myeloma. Along with increasing our PoS for the second-line setting of this disease, we have raised our sales estimates for the second-line treatment of multiple myeloma by 5% (implying now a 35-45% market share for dara witihin this very setting, depending on the geographic area) to take into account these outstanding preliminary results. BUY reiterated with a FV of DKK 1,450 vs DKK1,350.

ANALYSIS

- **Yesterday, Genmab announced that the POLLUX study** (the Phase III evaluating daratumumab in combination with Celgene's Revlimid and dexamethasone in patients with myeloma who received at least one prior therapy) **met its primary endpoint of an improvement of progression free survival (median not reached within the active arm vs 18.4 months for the control; HR: 0.37, p<0.0001)**. As seen with CASTOR, an IDMC (Independent Data Monitoring Committee) recommended stopping the trial early due to a strong benefit…
- Of course, we only have the top-line results… but: 1/ they are far above our expectations (and we assume those of the consensus); and 2/ they confirm dara's best-in-class status (remember that even Amgen's Kyprolis and BMS' Emplicity exhibited an HR of 0.69 and 0.70 respectively). Safety-wise, "dara" once again exhibited a very clean profile (consistent with what was seen with GEN503).
- **We have raised our sales estimates for the second-line treatment of multiple myeloma by 5%** (implying now a 35-45% market share for dara witihin this very setting, depending on the geographic area) to take into account these outstanding preliminary results… So our peak sales for this compound now amounts to EUR6.5Bn vs EUR6.2Bn (meaning that we remain below consensus average).
- **Now that data from two Phase III involving second-line patients have been accumulated, we understand JNJ will engage in a dialogue with the regulators.** Depending on: 1/ the timing of the filling (June? July?); and 2/ whether or not Genmab and JNJ will receive a Priority from the FDA, we cannot rule out a possible label extension by the end of this year. Should that be the case, the current FY guidance would (once again) be raised… and notably because Genmab would then receive a significant milestone payment (USD50-100m, in our view).

VALUATION

- **We have raised our FV from DKK1,350 to DKK1,450** after having raised: 1/ our probability of success (PoS) for the second-line treatment of myeloma (80% vs 70%); and 2/ our sales estimates for daratumumab.

NEXT CATALYSTS

- **June 5, 2015**: Detailed presentation of data from the CASTOR study during the 2016 ASCO meeting.
- **H2 2016**: Potential label expansion of daratumumab to the second-line setting as a treatment for myeloma.
- **H2 2016**: Phase II results of daratumumab as a treatment for non-hodgkin lymphomas.

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Luxury & Consumer Goods

Groupe SEB

Price EUR97.83

SEB increases its presence in kitchenware thanks to the acquisition of EMSA

Fair Value EUR102 (+4%) **BUY**

Bloomberg	SK FP
Reuters	SEBF.PA
12-month High / Low (EUR)	99.4 / 78.3
Market Cap (EURm)	4,908
Ev (BG Estimates) (EURm)	5,266
Avg. 6m daily volume (000)	48.20
3y EPS CAGR	13.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	4.7%	12.5%	6.0%	3.4%
Consumer Gds	-1.6%	1.5%	-7.1%	-4.7%
DJ Stoxx 600	-1.9%	2.6%	-11.0%	-7.7%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	4,770	4,949	5,200	5,459
% change		*3.8%*	*5.1%*	*5.0%*
EBITDA	428	470	504	549
EBIT	396.6	437.6	470.2	513.4
% change		*10.3%*	*7.5%*	*9.2%*
Net income	205.9	248.9	273.7	301.8
% change		*20.9%*	*10.0%*	*10.3%*

	2015	2016e	2017e	2018e
Operating margin	8.3	8.8	9.0	9.4
Net margin	4.3	5.0	5.3	5.5
ROE	13.2	15.8	15.7	15.5
ROCE	12.8	13.9	14.8	15.8
Gearing	16.5	19.1	9.1	0.0

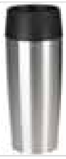
(€)	2015	2016e	2017e	2018e
EPS	4.14	5.01	5.51	6.07
% change	*-*	*20.9%*	*10.0%*	*10.3%*
P/E	23.6x	19.5x	17.8x	16.1x
FCF yield (%)	6.5%	5.3%	5.7%	6.3%
Dividends (€)	1.54	1.65	1.80	2.00
Div yield (%)	1.6%	1.7%	1.8%	2.0%
EV/Sales	1.1x	1.1x	1.0x	0.9x
EV/EBITDA	12.2x	11.2x	10.1x	8.9x
EV/EBIT	13.2x	12.0x	10.8x	9.6x

Yesterday, SEB announced that it had signed an agreement to acquire EMSA for an undisclosed amount. The German-based company, which generated sales of EUR92m in 2015, is a significant player in kitchenware and accessories. Based on a possible consolidation from Q3 16, this acquisition would imply a positive scope effect of 1.1pp this year and 80bp in 2017.

ANALYSIS

- **EMSA is a significant player in kitchenware & accessories.** Founded in 1949, EMSA has grown at a fast pace (sales CAGR 13-15: ~+9%) to achieve revenue of EUR92m in 2015. The German group mainly operates in the core-range segment (mid-tier) and has a strong footprint in its domestic market (~58% of total sales before intra-group restatements), in Europe and in the Middle-East. As show in the table below, EMSA focuses on three main categories: **(i)** carafes and mugs, **(ii)** kitchenware and utensils and **(iii)** food storage containers. Last but not least, the production is spread over three sites: Germany, Vietnam and China.

- **Groupe SEB strengthens its footprint in cookware & kitchenware.** Whilst SEB is the leading player in the cookware market (~20% market share and ~1/3 of group sales), SEB's market share in the kitchenware/bakenware/ovenware segments is only 1-2%. Consequently, this kitchenware market harbours significant growth opportunities for the group, all the more since it is twice as large as the cookware market, it is growing in the double-digits and is highly fragmented.

Thermo mug:	Tableware:	Food storage container:
		

- **Implications on our assumptions.** If we consider a consolidation from Q3 16, the integration of EMSA should represent a positive scope effect of 1.1pp in 2016 and 80bp in 2017. SEB did not communicate the profitability level of EMSA but according to its FY14 financial report, the latter was budgeting an EBIT margin between 5-7% over 2015-17 (vs. 7.8% for SEB in 2015). Hence we might expect a slight dilutive impact in the ST but we believe there is an interesting potential for synergies in the MT/LT: EMSA could rely on SEB's critical size to reduce sourcing costs as well as on its global distribution network (revenue synergies), whilst SEB could take advantage of EMSA's plants to insource a share of the production (~100% of SEB's kitchenware offering is currently outsourced).

- **2016: a busy year in terms of M&A?** The group recently admitted to bid for another German group, WMF Group, as its owner KKR considers a sale. WMF produces high-end coffee machines (professional brands for hotels and restaurants) and cookware (consumer and professional brands) and generated sales of EUR1,061m (+4%) and EBITDA of approx. EUR150m in 2015. According to some press articles, WMF Group might be valued around EUR1.5bn (10x EBITDA). In our view, SEB should be particularly interested by the coffee machine business (+13% to EUR394m), which would strengthen its presence in this fast-growing and profitable activity. The sale process should be completed in the coming months.

VALUATION

- This announcement is consistent with the group's acquisition policy (OBH Nordica last year) to increase market share in specific product categories and/or markets. We maintain our Buy recommendation and FV of EUR102.

NEXT CATALYSTS

- AGM today at 2:30pm (CET) // H1 16 Results on 25 July.

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TMT

Wirecard

Price EUR41.93

Strong start to the year, FY16 guidance confirmed

Fair Value EUR52 (+24%) **BUY-Top Picks**

Bloomberg	WDI GR
Reuters	WDIG.DE
12-month High / Low (EUR)	47.4 / 31.2
Market Cap (EUR)	5,181
Ev (BG Estimates) (EUR)	4,483
Avg. 6m daily volume (000)	887.8
3y EPS CAGR	28.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	19.2%	-1.8%	-6.8%	-9.8%
Softw.& Comp. SVC	-0.8%	2.8%	-3.5%	-4.4%
DJ Stoxx 600	-1.9%	2.6%	-11.0%	-7.7%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	771.3	1,016	1,259	1,504
% change		*31.7%*	*23.9%*	*19.5%*
EBITDA	227	306	385	466
EBIT	197.4	270.7	341.1	413.7
% change		*37.1%*	*26.0%*	*21.3%*
Net income	163.8	225.9	287.2	350.1
% change		*37.9%*	*27.1%*	*21.9%*

	2015	2016e	2017e	2018e
Operating margin	25.6	26.6	27.1	27.5
Net margin	18.5	26.4	20.3	20.8
ROE	11.1	18.3	15.0	15.7
ROCE	29.5	31.6	33.7	36.2
Gearing	-54.1	-47.6	-48.3	-50.2

(EUR)	2015	2016e	2017e	2018e
EPS	1.33	1.83	2.33	2.84
% change	-	*37.9%*	*27.1%*	*21.9%*
P/E	31.6x	22.9x	18.0x	14.8x
FCF yield (%)	2.5%	3.6%	3.6%	4.6%
Dividends (EUR)	0.13	0.14	0.15	0.16
Div yield (%)	0.3%	0.3%	0.4%	0.4%
EV/Sales	5.8x	4.4x	3.5x	2.8x
EV/EBITDA	19.7x	14.6x	11.3x	9.0x
EV/EBIT	22.7x	16.6x	12.8x	10.1x

Wirecard has just reported its full audited Q1 figures. Revenue and EBITDA were already known and EPS is in line with our expectation. This confirms the strong start to the year. In the coming quarters, management expects the good business performance to continue. The FY16 EBITDA guidance is confirmed (EUR290-310m vs. our EUR306.3m and cons. of EUR300.1m). The profitable growth is not already priced in, with a 2016 P/E of 22.9x vs. our rest. EPS growth of +37.9%. We maintain our Buy rating and FV of EUR52, the stock is on our Q2 Top Pick list. Conf. call today at 1pm.

ANALYSIS

- **Key metrics in Q1 16:** **1/** revenue came in at EUR210.5m i.e. +32.0% Y/Y and +20.1% lfl (vs. our EUR207.2m); **2/** transaction volumes processed were at EUR12.8bn (+34.7% Y/Y, +29.3% lfl), breaking down into 70.3% Europe (+25.0% Y/Y) and 29.7% outside Europe (+65.2% Y/Y); **3/** EBITDA of EUR62.0m i.e. a margin of 29.5%, +60bp (vs. our 29.5%e); **4/** underlying EBIT of EUR53.4m i.e. a margin of 25.4%, +20bp (vs. our 25.2%e); and **5/** EPS of EUR0.30, i.e. +30.4% Y/Y (vs. our EUR0.30).
- **Trends YTD:** the group is experiencing a strong start to the year in the operating business, newly consolidated subsidiaries in Brazil and Romania and additionally a high EBITDA contribution from the new Indian business. In the coming quarters, management expects the good business performance to continue.
- **FY16 guidance:** Management confirmed its expectation to reach FY16 EBITDA of EUR290-310m. The mid-point of this range is based on organic growth of 23% (seen as conservative by management), an expected EBITDA contribution from mobile payment of EUR5.0m (vs. BG est. 5.5m), EUR16.0m EBITDA contribution from the payment business of GI Retail (BG est.: EUR16.5m), and EUR4.0m combined EBITDA contribution from Provus Group and MoIP (BG est.: EUR5.2m). The Board will propose at the AGM a dividend of EUR0.14 per share (perfectly in line with our expectation). As a reminder, we have FY16e revenue of EUR1,016.3m i.e. +20.3% lfl (cons. of EUR1,007m), EBITDA of EUR306.3m i.e. margin of 30.1% +60bp (cons. of EUR300.1m) and rest. net income of EUR225.9m i.e. margin of 22.2%, +100bp (cons. of EUR209.9m).
- **Bear in mind that during its Capital Market Day in London earlier this month, Wirecard announced its strategic plan (2020 financial targets):** **1/** transaction volume would increase from EUR45.2bn to over EUR160bn i.e. CAGR >+28.8% (vs. BG est.: EUR140bn, +25.4%), breaking down into +25% in Europe and +40% outside Europe (notably India); **2/** revenues of over EUR2.1bn only in organic terms, i.e. CAGR 2015/20 of over +22,2%, (vs. BG est.: EUR2.08bn and +21.9% respectively); **3/** EBITDA margin to reach 30-35% (vs. BG est.: 31.9%); **4/** EBITDA to FCF conversion rate of over 65%, limiting Capex to 7-8% of revenue over the period (vs. BG est.: EUR57.6% and 8% respectively) with neutral to negative WCR in the near term.

VALUATION

- **Buy rating and FV of EUR52 maintained**. The stock is in our Q2 Top Pick List.
- **Over FY16e:** P/E of 22.9x vs. rest. EPS growth of +37.9%. **Our estimates remained unchanged** but note that **if we put the upper end of Wirecard's 2020 targets into our model, our EPS sequence would increase by +6.7% on average over 2016/20e** (0% in 2016e, +5.2% in 2017e, +6.4% in 2018, +9.4% in 2019e and +12.4% in 2020e).

NEXT CATALYSTS

- **AGM:** 16th June.
- **H1 financial statements:** 11st August (before trading).

(to be continued next page)

Management track-record from 2010 to 2015: reported EBITDA vs. initial guidance

Year	2010		2011		2012		2013		2014		2015	
EURm	Init. Guid.	Rep. Fig.	Init. Guid.	Rep. Fig.	Init. Guid.	Rep. Fig.	Init. Guid.	Rep. Fig.	Init. Guid.	Rep. Fig.	Init. Guid.	Rep. Fig.
EBITDA	70-75	73.3	81-89	84.4	103-115	109.2	120-130	126.0	160-175	172.9	205-225	227.2
Mid-point	72.5	73.3	85.0	84.4	109.0	109.2	125.0	126.0	167.5	172.9	215.0	227.2
Reported vs. mid-point		*+1.1%*		*-0.7%*		*+0.2%*		*+0.8%*		*+3.2%*		*+5.7%*
Reported vs. upper range		*-2.3%*		*-5.2%*		*-5.0%*		*-3.1%*		*-1.2%*		*+1.0%*

Source: Bryan, Garnier & Co.

- **In recent years, the group has regularly raised its EBITDA guidance** (several times during the year).
- **On average, it has reported a figure 2% higher than the middle of its initial range** (6% higher in 2015).
- Every year, it moves slightly closer to the top-end of its initial range, and **above the range for the first time in 2015e**. **We expect a similar scenario in 2016e** (BG est. EUR306.3m vs. initial guidance range of EUR280-300m) **thanks to the continued dynamic growth of the European e-commerce market and to the above-average growth in emerging markets**.

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Food & Beverages

Diageo

Price 1,844p

Bloomberg	DGE LN
Reuters	DGE.L
12-month High / Low (p)	1,950 / 1,640
Market Cap (GBPm)	46,401
Avg. 6m daily volume (000)	3 878

	1 M	3 M	6 M	31/12/15
Absolute perf.	-4.2%	1.0%	-2.2%	-0.7%
Food & Bev.	-1.6%	1.9%	-6.7%	-3.7%
DJ Stoxx 600	-1.9%	2.6%	-11.0%	-7.7%

	06/15	06/16e	06/17e	06/18e
P/E	20.9x	21.7x	20.9x	19.6x
Div yield (%)	3.1%	3.2%	3.4%	3.6%

Mr Javier Ferran to become the next chairman of Diageo

Fair Value 1790p (-3%) **NEUTRAL**

ANALYSIS

- Yesterday, Diageo has announced that Mr Javier Ferran will succeed Mr Franz Humer as chairman on 1 January 2017. Meanwhile, he will be appointed as a non-executive director from 22 July 2016. Mr Ferran who is a partner at Lion Capital began his career at Lloyds before joining Bacardi Group. He was CEO of the company in 2003-2004 and oversaw the acquisition of Grey Goose vodka. Diageo has recently made a number of changes in its management team. Former CFO Deirdre Mahlan is now CEO of North America and has been replaced by Ms Kathryn Mikells.

VALUATION

- At yesterday's share price, the stock is trading at 18.5x EV/EBIT 2015/16e and 17.9x EV/EBIT 2016/17e, 2% and 8% above the peer average.

NEXT CATALYSTS

- 2015/16 results due on July 28th

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Healthcare

Roche

Price CHF245.30

Bloomberg	ROG VX
Reuters	ROG.VX
12-month High / Low (CHF)	282.5 / 233.2
Market Cap (CHFm)	172,339
Avg. 6m daily volume (000)	1 463

	1 M	3 M	6 M	31/12/15
Absolute perf.	-1.7%	-4.3%	-9.9%	-11.3%
Healthcare	-2.4%	1.2%	-11.3%	-10.3%
DJ Stoxx 600	-1.9%	2.6%	-11.0%	-7.7%

	2015	2016e	2017e	2018e
P/E	18.2x	16.8x	15.6x	15.4x
Div yield (%)	3.3%	3.6%	3.9%	3.9%

Atezolizumab approved by FDA in bladder cancer in record time

Fair Value CHF293 (+19%) **BUY**

ANALYSIS

- Roche took time before ending submission of atezolizumab in first indications i.e. bladder and advanced lung cancers, but made clear that they were rolling submissions under fast-track pathway. And so, as with anti-PD-1 Opdivo and Keytruda coming, it received approval from the FDA in a new record time since the completion of the filing that was based on the phase II study IMvigor.
- So atezolizumab, which by the way will be marketed as Tecentriq, has received approval for the treatment of urothetial carcinoma (mUC, 90% of bladder cancers) in advanced or metastatic stages i.e. after progression with platinum-based chemotherapy.

VALUATION

- Although it could have been anticipated that atezolizumab would receive accelerated approval especially in bladder cancer where no other immune-oncology drug had been approved so far, we had not factored in sales for the drug in our 2016 estimates. This will obviously be the case and Tecentriq will even contribute over the entire second half of the year.
- This should not make a major difference, but this is likely to change our full sequence of numbers for the drug. This is genuinely good news for Roche, because this drug is iconic and very representative of the future for the group and its oncology franchise. Every month gained before biosimilars rituximab and trastuzumab come to the market is a victory and something that can revive the stock. That said, before APHINITY delivers its verdict, it may prove difficult to reach FV.

NEXT CATALYSTS

- 3-7 June 2016 : ASCO meeting

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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 57.4% NEUTRAL ratings 33.3% SELL ratings 9.2%

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