



23rd May 2016

## BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
<b>Indices</b>			
Dow Jones	17500.94	+0.38%	+0.44%
S&P 500	2052.32	+0.60%	+0.41%
Nasdaq	4769.56	+1.21%	-4.75%
Nikkei	16736.35	+0.54%	-12.07%
Stoxx 600	338.007	+1.23%	-7.60%
CAC 40	4353.9	+1.67%	-6.11%
<b>Oil /Gold</b>			
Crude WTI	47.78	-0.67%	+28.44%
Gold (once)	1252.68	+0.26%	+17.91%
<b>Currencies/Rates</b>			
EUR/USD	1.1213	+0.07%	+3.22%
EUR/CHF	1.11265	+0.31%	+2.32%
German 10 years	0.172	-1.05%	-72.96%
French 10 years	0.511	-0.09%	-47.92%
Euribor	-0.258	0.00	+96.95%

### Economic releases :

Date	
23rd-May	EUZ - Markit PMI May (51.9E) EUZ- Markit composite (53.2E ) US - Manuf. PMI (51 E.) EUZ - Consumer Confidene (-9E)

### Upcoming BG events :

Date	
24th-May	Petit Déjeuner Thématique avec J. Zelmanovitch, WIMPELCOM
25th-May	Luxtottica (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)
27th-Jun	IMERYS (BG Luxembourg with CFO)

### Recent reports :

Date	
19th-May	BURBERRY Too early to sing in the rain!
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?

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



### BAYER

**NEUTRAL, Fair Value UNDER REVIEW**

*Bayer bids for Monsanto for USD62bn in an all-cash transaction*

Bayer has announced this morning that it is offering USD122 per share to acquire Monsanto in an all-cash offer that values the target at USD62bn. Bayer is expecting to generate USD1.5bn in synergies which will make the acquisition accretive by a mid-single digit percentage in year 1 and double-digit percentage in the subsequent years. The offer is not subject to a financing condition. Bayer intends to finance the acquisition by a rights issue representing about 25% of the total amount and 75% in debt. Due to strong cash-flow generation, Bayer anticipates a long-term A credit rating by agencies. 50% of Bayer's revenues would then be generated in Crop Science. We put our FV under review.

### RICHEMONT

**NEUTRAL vs. BUY, Fair Value CHF63 vs. CHF81 (+7%)**

*Visibility on short term excessively low!*

While Richemont's FY 2015/16 (end-March 2016) results were slightly below expectations, what we would highlight from Friday's release is the 15% sales decline in April and consequently, the poor revenue momentum expected in the short term (at least during H1 2016/17) and the likely deleverage impact that could lead to a 19% FY 2016/17 EBIT decline, implying a 300bp narrowing in EBIT margin. This leads us to lower our estimates by 15%, hence our new FV of CHF63 vs CHF81 and our recommendation downgrade from Buy to Neutral.

### SHIRE PLC

**BUY Coverage initiated, Fair Value 5900p (+38%)**

*A rare opportunity!*

We are initiating coverage of Shire with a BUY recommendation and a FV of GBP5,900 with the dawn of a transformative merger with Baxalta. Beyond the fact that we see significant upside (+45%), in our view the pressure on the share price caused by the current arbitrage strategies, along with doubts regarding the potential value creation, have created an opportunity as 1/ Shire ex-Baxalta is a strong growth story associated with an attractive valuation (P/E 2017e: 12x); 2/ we believe the merger should accretive on earnings by 2017e.

### In brief...

**NOVO NORDISK, How much semantic is the discussion recommended on Xultophy?**

**GAMELOFT, The game is over as Amber Capital plans to tender its Gameloft stake to Vivendi**

**ILIAD, Said to consider Italian mobile tie-up with Sky.**

Healthcare

**Bayer**

Price EUR89.54

**Bayer bids for Monsanto for USD62bn in an all-cash transaction**

Fair Value UNDER REVIEW

NEUTRAL

Bloomberg	BAY.GY
Reuters	BAYG.F
12-month High / Low (EUR)	137.8 / 88.5
Market Cap (EURm)	74,045
Ev (BG Estimates) (EURm)	91,221
Avg. 6m daily volume (000)	2,696
3y EPS CAGR	6.4%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-18.4%	-8.7%	-29.0%	-22.7%
Healthcare	-2.0%	2.7%	-11.3%	-9.6%
DJ Stoxx 600	-3.6%	3.6%	-11.5%	-7.6%

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%

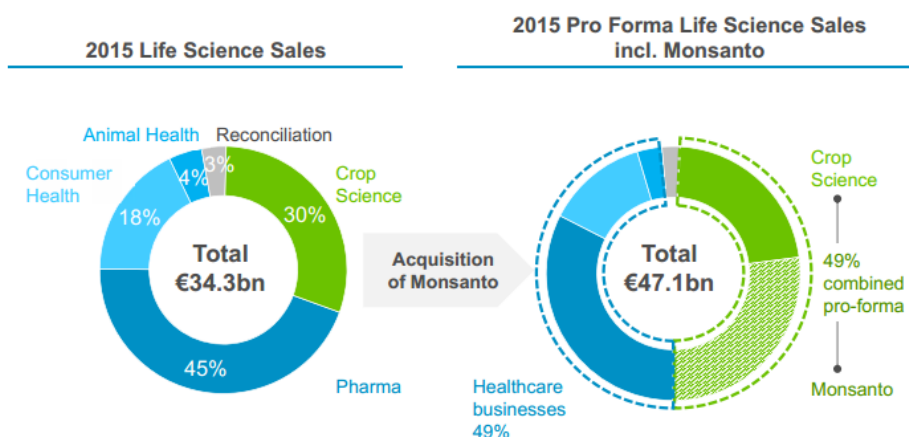
	2015	2016e	2017e	2018e
Operating margin	19.1	20.2	20.6	21.0
Net margin	12.3	12.7	13.5	14.0
ROE	25.6	22.9	22.7	21.8
ROCE	11.6	12.4	13.1	13.9
Gearing	71.0	51.8	35.6	20.9

(EUR)	2015	2016e	2017e	2018e
EPS	6.88	7.05	7.74	8.29
% change		2.5%	9.8%	7.1%
P/E	13.0x	12.7x	11.6x	10.8x
FCF yield (%)	5.8%	8.1%	8.7%	9.3%
Dividends (EUR)	2.50	2.60	2.70	2.80
Div yield (%)	2.8%	2.9%	3.0%	3.1%
EV/Sales	2.0x	2.0x	1.9x	1.7x
EV/EBITDA	9.2x	8.6x	7.9x	7.1x
EV/EBIT	10.7x	9.8x	9.0x	8.2x

Bayer has announced this morning that it is offering USD122 per share to acquire Monsanto in an all-cash offer that values the target at USD62bn. Bayer is expecting to generate USD1.5bn in synergies which will make the acquisition accretive by a mid-single digit percentage in year 1 and double-digit percentage in the subsequent years. The offer is not subject to a financing condition. Bayer intends to finance the acquisition by a rights issue representing about 25% of the total amount and 75% in debt. Due to strong cash-flow generation, Bayer anticipates a long-term A credit rating by agencies. 50% of Bayer's revenues would then be generated in Crop Science. We put our FV under review.

**ANALYSIS**

- Bayer is today initiating an offer to acquire Monsanto in an all-cash transaction valuing the target at USD62bn (USD122 per share), which represents a premium of about 33-38% over stock prices before rumours arose and an EBITDA multiple of 15.8x, considering also that Monsanto has net debt of between USD5bn and USD6bn in its balance sheet.
- Bayer is convinced it can offer "significant value creation" with this transaction. This factors in USD1.5bn in synergies expected in year 3. The split is not yet provided but total operating expenses at Monsanto in FY 2015 were USD4.7bn, excluding COGS and about USD12.3bn including COGS. This is a meaningful level of synergies that could nevertheless include the already presented cost savings from Monsanto's restructuring initiative that aimed to achieve USD500m in cost cutting through the creation of commercial hubs, optimising IT and supply chain and prioritising overall efforts.
- If the offer is successful, as illustrated below, and very much as expected, Bayer will generate half of its revenues in Crop Sciences.



**VALUATION**

- The offer is not subject to any financing condition as Bayer is confident in its ability to finance the transaction through a combination of debt (75% or about EUR41.5bn) and equity (25% or about EUR13.8bn) which is expected to be raised primarily via a rights offering. We would therefore anticipate the creation of a conditional new number of shares representing about 16% of the current number (157million).
- Two conference calls are scheduled today that should give more details on synergies and financing. Until then, we put our FV under review.

**NEXT CATALYSTS**

- Today: Conference calls at 9am and 2pm

[Click here to download](#)



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Luxury & Consumer Goods

**Richemont**

Price CHF58.95

Visibility on short term excessively low!

Fair Value CHF63 vs. CHF81 (+7%)

NEUTRAL vs. BUY

Bloomberg	CFR VX
Reuters	CFR.VX
12-month High / Low (CHF)	86.9 / 59.0
Market Cap (CHFm)	33,012
Ev (BG Estimates) (CHFm)	24,864
Avg. 6m daily volume (000)	1 807
3y EPS CAGR	2.9%

While Richemont's FY 2015/16 (end-March 2016) results were slightly below expectations, what we would highlight from Friday's release is the 15% sales decline in April and consequently, the poor revenue momentum expected in the short term (at least during H1 2016/17) and the likely deleverage impact that could lead to a 19% FY 2016/17 EBIT decline, implying a 300bp narrowing in EBIT margin. This leads us to lower our estimates by 15%, hence our new FV of CHF63 vs CHF81 and our recommendation downgrade from Buy to Neutral.

**ANALYSIS**

To briefly review FY 2015/16 sales, we would highlight that jewellery sales (35% of group sales) achieved a strong performance as expected, with an 8% sales increase, following +16% in H1, driven by the three brands (Cartier, Van Cleef & Arpels and Piaget). Watches revenues (46% of group sales) were down 8% over the FY implying a 12% decline in H2. Watches (and particularly Cartier) were clearly affected by significant negative momentum in wholesale in Asia-Pacific (and above all in Hong Kong which accounts for 13% of sales) and in the Americas. By geographical area, note the 10% revenue increase in Mainland China (9% of sales).

	1 M	3 M	6 M	31/12/15
Absolute perf.	-11.6%	-9.3%	-24.3%	-18.2%
Pers & H/H Gds	-1.9%	2.5%	-5.0%	-0.3%
DJ Stoxx 600	-3.6%	3.6%	-11.5%	-7.6%

YEnd Mar. (EURm)	03/15	03/16e	03/17e	03/18e
Sales	10,410	11,076	10,540	11,250
% change		6.4%	-4.8%	6.7%
EBITDA	3,060	2,471	2,110	2,435
EBIT	2,436	2,158	1,705	2,050
% change		-11.4%	-21.0%	20.2%
Net income	1,336	1,688	1,160	1,455
% change		26.3%	-31.3%	25.4%

	03/15	03/16e	03/17e	03/18e
Operating margin	23.4	19.5	16.2	18.2
Net margin	12.8	15.2	11.0	12.9
ROE	9.3	9.8	5.8	6.4
ROCE	23.3	18.6	11.3	12.9
Gearing	-39.6	-42.6	-45.8	-48.6

(EUR)	03/15	03/16e	03/17e	03/18e
EPS	2.39	3.01	2.07	2.60
% change	-	26.3%	-31.3%	25.4%
P/E	22.2x	17.6x	25.6x	20.4x
FCF yield (%)	5.0%	8.3%	9.2%	10.4%
Dividends (EUR)	1.60	1.85	2.10	2.20
Div yield (%)	3.0%	3.5%	4.0%	4.2%
EV/Sales	2.3x	2.0x	1.9x	1.6x
EV/EBITDA	7.8x	9.0x	9.7x	7.6x
EV/EBIT	9.8x	10.4x	12.0x	9.0x

**Sales by business**

EURm	Sales	org change (%)	as % of sales
Watches	5,098	-8	46
Jewellery	3,881	8	35
Leather goods	698	9	6
Clothing	442	5	4
Writing instruments	382	1	4
<b>Group</b>	<b>11,076</b>	<b>-1</b>	<b>100</b>

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

- Current group 2015/16 EBIT was down 11% to EUR2.15bn, implying a margin at 19.5% (-390bp). This excluded a negative EUR97m one-off (o/w EUR67m at COGS level) in 2015/16 and a EUR234m capital gain in 2014/15. The decline in 2015/16 recurring profitability was mainly due to watchmakers (-650bp to 16.9%) and Jewellery Maisons (-320bp to 31.7%). 2015/16 gross margin was down 180bp including -110 from FX.
- For 2016/17, given the very poor start to the year (April sales down 15% same forex) and as we expect no improvement in the short term, we expect FY sales to decline 4% organically (+3% previously expected). H2 will benefit from more favourable comps (H2: -5% after +3% in H1) and should be less affected by the buy-back of Cartier watch inventories (hence +2% expected in H2 after -10% in H1). The sales decline is set to stem from Europe (-7%) while Asia-Pacific sales should be down 3%, an improvement vs 2015/16 (-13%).
- Following our sales adjustments, we have lowered our EBIT estimate by 15% to expect EUR1.7bn (-20%) and now forecast EBIT margin to narrow a further 330bp to 16.2%. While gross margin should remain virtually unchanged at 65% thanks to optimisation of production capacity (positive impact of 2015/16 restructuring costs), selling & distribution should increase mid single digit, following store openings (22 in 2015/16 and almost 10 in 2016/17) and higher rents.

**VALUATION**

- The CFR share price has fallen 18% YTD and 11% over the past month and is trading on 2016 EV/EBIT with a 5% discount vs the peer average. Following 2016/17 adjustments, we lower our FV from CHF80 to CHF63 and have consequently downgraded our recommendation to Neutral versus Buy due to weak visibility on the short term and the lack of momentum.

**NEXT CATALYSTS**

- 5m trading statement due out on 14th September.

[Click here to download](#)



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## Healthcare

**Novo Nordisk**

Price DKK359.10

**How much semantic is the discussion recommended on Xultophy?**

Fair Value DKK400 (+11%)

NEUTRAL

Bloomberg	NOVOB.DC
Reuters	NOVOB.CO
12-month High / Low (DKK)	410.7 / 306.4
Market Cap (DKKm)	722,712
Avg. 6m daily volume (000)	2 581

	1 M	3 M	6 M	31/12/15
Absolute perf.	-3.6%	5.6%	-6.3%	-10.2%
Healthcare	-2.0%	2.7%	-11.3%	-9.6%
DJ Stoxx 600	-3.6%	3.6%	-11.5%	-7.6%

	2015	2016e	2017e	2018e
P/E	26.5x	23.9x	21.7x	20.5x
Div yield (%)	1.8%	1.9%	2.1%	2.2%

**ANALYSIS**

- 48 hours ahead of any FDA AdCom, briefing documents are posted on the FDA's website and this was the case for Xultophy last Friday as experts are due to meet tomorrow to discuss Novo's application for the fixed-dose combination of liraglutide and degludec.
- At first glance, and as is often the case, the documents posted point out our weaknesses in the clinical data package submitted to the regulator. In particular, they point out what they call bias in clinical studies aimed at comparing IdegLira to the single component basal insulin degludec (Tresiba). Novo Nordisk disagrees with the statement and states that it demonstrated superiority against each of the two components of the combination. The FDA actually notes that the 26-week comparator HbA1c does not reflect a period of preceding glycemic stability and so concludes that "due to trial design concerns, [it is] not able to conclude that IdegLira is superior to IDeg".
- It is true that Novo Nordisk spent more time comparing the combination to standard basal insulin Lantus than to its own basal insulin Tresiba, because this makes more sense from a marketing standpoint. What the agency looks uncomfortable with is the concept of combining fixed doses of the two drugs whereas basal insulin usually requires careful up-titration. One of the questions to the panellists is precisely this one.
- But the central question in our view, as anticipated, is very much the one of the positioning of the drug as the first two questions relate to who should receive such a treatment i.e. naïve patients or patients having previously failed on any of the two components.

**VALUATION**

- We do not expect the experts to fully follow the FDA in its cautious approach to the concept of basal/GLP1 FDC. Approval should not be an issue in our view and we do not expect any need for an extra clinical trial before getting the green light.
- That said, we expect the label could restrict use to resistant patients but this is very much how both Novo-Nordisk and Sanofi presented the opportunity of their respective drugs i.e. as an "efficacious alternative to insulin intensification" as stated by Novo at its CMD 2015.

**NEXT CATALYSTS**

- Today PM: briefing documents for Lyxumia and LixiLan - [Click here to download](#)

Eric Le Berrigaud, [eleberrigaud@bryangarnier.com](mailto:eleberrigaud@bryangarnier.com)



TMT

**Gameloft**

Price EUR7.99

**The game is over as Amber Capital plans to tender its Gameloft stake to Vivendi**

Fair Value EUR7.2 (-10%)

**TENDER TO THE OFFER**

Bloomberg	GFT.FP
Reuters	GLFT.PA
12-month High / Low (EUR)	8.0 / 3.2
Market Cap (EUR)	696
Avg. 6m daily volume (000)	304.0

	1 M	3 M	6 M	31/12/15
Absolute perf.	7.2%	24.8%	42.4%	31.8%
Softw.& Comp.				
SVS	-1.5%	3.2%	-3.9%	-3.9%
DJ Stoxx 600	-3.6%	3.6%	-11.5%	-7.6%
	2015	2016e	2017e	2018e
P/E	NS	36.8x	26.6x	18.5x
Div yield (%)	NM	NM	NM	NM

**ANALYSIS**

- Amber Capital (a US-based hedge fund) plans to tender its entire stake in Gameloft (on 21st April, it owned 14.62% of the capital and 13.17% of voting rights) to Vivendi (which owned 29.37% of the capital and 26.47% of voting rights on 19th May). Amber's decision was made public in a statement issued on the website of French market regulator AMF last Friday.
- Gameloft should hold a board meeting in the coming days to evaluate the Vivendi offer. Note that on 1st April, the Guillemot family owned 21.63% of the capital and 29.02% of voting rights.
- With the support of Amber Capital, Vivendi would have ~44% of Gameloft's capital. It only needs a minimum of 6% for its public offer to be successful. So, the situation is now clear... The game is over.

**VALUATION**

- We advise investors to tender their shares to Vivendi. In our view, the offer at EUR8.00 per share is very fair and stands in the middle of our estimated range of EUR7.6-8.6.

**NEXT CATALYSTS**

- Unless the AMF decides to make a change to the calendar, the offer will expire on 27th May.

[Click here to download](#)Richard-Maxime Beaudoux, [rmbeaudoux@bryangarnier.com](mailto:rmbeaudoux@bryangarnier.com)

## TMT

**Iliad**

Price EUR195.80

**Said to consider Italian mobile tie-up with Sky.**

Fair Value EUR212 (+8%)

NEUTRAL

Bloomberg	ILD.FP
Reuters	ILD.PA
12-month High / Low (EUR)	236.3 / 175.5
Market Cap (EURm)	11,495
Avg. 6m daily volume (000)	110.6

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.9%	-12.6%	-6.2%	-11.0%
Telecom	-2.0%	1.8%	-12.5%	-6.9%
DJ Stoxx 600	-3.6%	3.6%	-11.5%	-7.6%

	2015	2016e	2017e	2018e
P/E	35.1x	33.0x	25.6x	19.8x
Div yield (%)	0.2%	0.2%	0.2%	0.2%

## ANALYSIS

- According to the Financial Times, Hutchison (3) and VimpelCom (Wind) are in talks with Iliad and Sky to address **regulatory concerns** over the merger between their local businesses. The two groups need to address worries over competition since their merger would create the largest mobile operator in Italy. Iliad and Sky have spoken to Hutchison and VimpelCom about **creating a fourth operator**, according to people with knowledge of the situation.
- We believe the merger is **more likely to go through than in the UK** since the two companies are in a difficult financial situation and **cannot invest aggressively**: 3 Italy is hardly making money, with 2015 EBITDA – CAPEX of -EUR170m, and Wind is heavily indebted with **Net Debt/EBITDA of 6x**.
- A tie-up between Iliad and Sky could make sense in a **media/telco convergence** move. Iliad could afford debt of **EUR5bn to EUR6bn and an equity fuelled investment**, and bring **innovative pricing** in a market where subscription offers, unlimited calls and 3P services are not much developed. But Iliad will need to address the question of **fixed infrastructure**, possibly relying on Sky's existing partnership with Fastweb, and **Xavier Niel's 15% option** in Telecom Italia's capital.

## VALUATION

- We stick to our Fair Value of EUR212 with a Neutral recommendation.

## NEXT CATALYSTS

- Decision from the EC on the Wind/Three merger expected by 18th August.

[Click here to download](#)Thomas Coudry, [tcoudry@bryangarnier.com](mailto:tcoudry@bryangarnier.com)

Healthcare

**Novo Nordisk**

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- But the central question in our view, as anticipated, is very much the one of the positioning of the drug as the first two questions relate to who should receive such a treatment i.e. naïve patients or patients having previously failed on any of the two components.

**VALUATION**

- We do not expect the experts to fully follow the FDA in its cautious approach to the concept of basal/GLP1 FDC. Approval should not be an issue in our view and we do not expect any need for an extra clinical trial before getting the green light.
- That said, we expect the label could restrict use to resistant patients but this is very much how both Novo-Nordisk and Sanofi presented the opportunity of their respective drugs i.e. as an "efficacious alternative to insulin intensification" as stated by Novo at its CMD 2015.

**NEXT CATALYSTS**

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## BG's Wake Up Call

# 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%

NEUTRAL ratings 33.8%

SELL ratings 9.2%

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