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24th May 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	17492.93	-0.05%	+0.39%
S&P 500	2048.04	-0.21%	+0.20%
Nasdaq	4765.78	-0.08%	-4.83%
Nikkei	16498.76	-0.76%	-12.50%
Stoxx 600	336.691	-0.39%	-7.96%
CAC 40	4325.1	-0.66%	-6.73%
Oil /Gold			
Crude WTI	47.78	0.00	+28.44%
Gold (once)	1248.18	-0.36%	+17.49%
Currencies/Rates			
EUR/USD	1.11995	-0.12%	+3.10%
EUR/CHF	1.11095	-0.15%	+2.17%
German 10 years	0.184	+7.23%	-71.01%
French 10 years	0.525	+2.73%	-46.50%
Euribor	-	+-%	+-%

Economic releases :

Date	
24th-May	DE - GDP 1Q (+1.3% E y/y) GBP - BoE Carney, Broadbent, Weal and Vleighe in Parliament DE ZEW survey current situation (49E) DE ZEW survey Eco sentinment (12E) FR - Business Climate (104E) US - New Home Sales Apr. (2% E m/m)

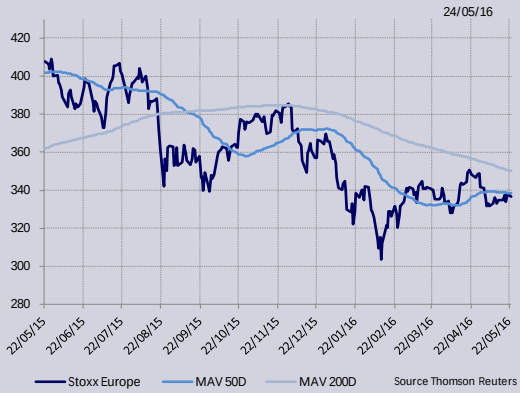
Upcoming BG events :

Date	
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)
27th-Jun	IMERYS (BG Luxembourg with CFO)

Recent reports :

Date	
23rd-May	SHIRE : A "rare" opportunity!
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

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



BAYER — NEUTRAL, Fair Value UNDER REVIEW

A value call for a new investor base?

The rationale behind the transaction is strong but it significantly changes the business mix in an unexpected manner that shareholders may need some time to accept. Short-term uncertainties also make it difficult to buy a new story quickly despite an attractive core EPS CAGR. Let's wait.

GENMAB — BUY, Fair Value DKK1450 (+20%)

Darzalex (daratumumab) obtains first approval in Europe

JNJ and Genmab yesterday announced that Darzalex (daratumumab) has been approved by the EC as a treatment for heavily pre-treated patients with multiple myeloma. While this approval was widely expected, its timing was quite important for respecting (and even beating) the FY 2016 sales guidance that was given for this compound. Of course, the US will remain the main driver behind this growth, but we believe JNJ should be able to generate USD50-100m within the old continent. BUY rating reiterated with an unchanged FV of DKK1,450.

GROUPE SEB — BUY, Fair Value Under Review vs. EUR102

French Touch or Deutsche Qualität? Groupe SEB takes both!

They made it! Barely a few days after acquiring German based EMSA, Groupe SEB has announced its intention to buy WMF Group for a total amount of EUR1.585bn (excl. pension liabilities), entirely paid for in cash (a second piece of good news!). Based on our estimates, the net debt/EBITDA ratio of NewCo should be around 2.8x at the end-2016e and below 2x in 2018. In our view, the relatively high transaction multiple (2016e EV/EBITDA of 11.3x) is justified by leading positions (N°1 worldwide in professional coffee machines, N°1 in Germany in cookware) and a strong accretive impact on SEB's P&L on a full-year basis despite a cautious estimates and synergy plan (2017e: +20% on sales and >20% on EPS according to SEB). Conference today at 9:30am (Paris time). Buy recommendation and FV placed under review.

IPSEN — BUY-Top Picks, Fair Value EUR63 vs. EUR60 (+17%)

CABOSUN positive is indeed very good news

Last night, Exelixis announced that the CABOSUN phase II trial had achieved its primary endpoint i.e. PFS improvement when comparing cabozantinib to sunitinib in first-line RCC. After showing very solid efficacy results in second-line, "cabo" confirmed a strong profile in RCC overall. Exelixis and Ipsen will open discussions with the European regulators to see if CABOSUN alone can support filing and approval for the drug in this setting. Exelixis is committed to conduct a phase III trial but conditional approval looks possible. This would provide meaningful incremental value for Ipsen.

THE SWATCH GROUP — NEUTRAL, Fair Value CHF370 vs. CHF410 (+28%)

More cautious view on The Swatch Group prospects

Given the very poor Swiss watch industry (-9.5% YTD) and the clearly tough environment for the luxury industry, we have decided to be more cautious on The Swatch Group's prospects. Following this review, we have lowered our 2016-2017 EBIT by 9% implying further margin erosion (-110bp to 16.1%), hence our new CHF370 FV versus CHF410 previously. Neutral recommendation reiterated.

In brief...

LAFARGEHOLCIM, ***New low-cost plant line inaugurated in Brazil***

RICHEMONT, ***The Swiss group close to buying Buccellati?***

ROCHE, ***Sandoz starts the clock for rituximab's biosimilar in Europe***

SANOFI, ***Briefing documents for lixi similar to Novo's in essence***

Healthcare

Bayer

Price EUR84.42

A value call for a new investor base?

Fair Value UNDER REVIEW — **NEUTRAL**

Bloomberg	BAY GY
Reuters	BAYG.F
12-month High / Low (EUR)	137.4 / 84.4
Market Cap (EURm)	69,811
Ev (BG Estimates) (EURm)	86,987
Avg. 6m daily volume (000)	2 758
3y EPS CAGR	6.4%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-23.5%	-13.1%	-32.7%	-27.1%
Healthcare	-1.9%	2.4%	-10.3%	-9.2%
DJ Stoxx 600	-3.4%	2.7%	-11.5%	-8.0%

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	12.3x	12.0x	10.9x	10.2x
FCF yield (%)	6.2%	8.6%	9.2%	9.9%
Dividends (EUR)	2.50	2.60	2.70	2.80
Div yield (%)	3.0%	3.1%	3.2%	3.3%
EV/Sales	2.0x	1.9x	1.8x	1.6x
EV/EBITDA	8.8x	8.2x	7.5x	6.8x
EV/EBIT	10.2x	9.4x	8.6x	7.7x

The rationale behind the transaction is strong but it significantly changes the business mix in an unexpected manner that shareholders may need some time to accept. Short-term uncertainties also make it difficult to buy a new story quickly despite an attractive core EPS CAGR. Let's wait.

ANALYSIS

- During two successive conference calls yesterday, Bayer's management tried to convince investors and analysts why they had decided to bid for Monsanto for USD62bn in an all-cash transaction.
- First of all, managemennt reiterated that although people may have been surprised by the nature and size of the deal, it is fully in line with the group's strategy of always looking for opportunities to reinforce Bayer as a Life Science company i.e. in each of its core businesses. Then, over the years, as various combinations with Monsanto have been considered, it became clear that an acquisition and merger of the two entities was the scenario that made the most sense and created the most value in an Agro industry facing increasing opportunities and challenges to close the gap between people's needs (3 billion more inhabitants by 2050) and farmland capabilities (expected to decline). Of course, management also stressed that the two companies have very complementary portfolios with limited overlaps that also make a combination highly attractive. Bayer will indeed strengthen its positions in seeds and traits and from a geographical perspective, significantly grow its exposure to the North American and Latin American regions.
- Hence the level of synergies (USD1.5bn) that could appear high but with which Bayer looks very comfortable although management did not want to break it down between components for obvious reasons (it does not want Monsanto to be given too much). That said, it includes both revenue and cost synergies.

VALUATION

- The most interesting part of the conference call was that concerning the financial aspects of the deal: (i) first, Bayer agreed that key assumptions suggest a leverage above 4x after transaction and current discussions with credit rating agencies drive to a central case of BBB post transaction (from the current A- with negative outlook i.e. two levels of downgrade. However, a third level of downgrade cannot be ruled out. That said, Bayer is not expecting any asset sale to reduce the amount of debt required. However, we do expect Covestro's remaining shares to be fairly quickly divested; (ii) second, Bayer said that NOPAT would exceed cost of capital in the third year post transaction, considering that WACC used for the statement is 7.7% (we are currently using a WACC of 7.2%). Everything else being equal, our FV of Bayer with a WACC of 7.7% would be EUR94; (iii) the core EPS accretion calculation indeed includes subscription rights by existing shareholders but the ratio of subscription vs sale of rights by shareholders is another unknown factor, as well as the discount offered to acquire new shares.
- Let's make some basic asumptions. It we compute and take for granted the USD1.5bn in synergies as follows (USD500m in Y1, USD1bn in Y2, USD1.5bn in Y3), a tax rate of 25%, a EUR/USD parity of 1.12, assume 25% of financing is made through a rights issue at a 5% discount to the last share price (158.5m new shares issued) and the remaining through debt at an average gross rate of 3.5%, then we derive a core EPS accretion of 3% in Y1, 10% in Y2 and 13% in Y3. Note that we do not factor in here any cost for the restructuring programme to deliver the synergies (the cash part should be accounted for). Bayer's annual core EPS growth rate would then be 12.2% on average between 2015 and 2019.
- So, in the end, Bayer could well become an attractive value call, maybe for a different shareholder base as the product mix changes. That said, it is too early to play because Monsanto's statement, the price discount on rights issuance, final credit rating and part of revenue synergies are key components in the equation. Also the fact that Monsanto's price did not adjust to the offer price (USD122) could mean it is far from over. We must wait.

NEXT CATALYSTS

- Upcoming days: Monsanto's answer to the offer - Click here to download

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Healthcare

Genmab

Price DKK1,205

Darzalex (daratumumab) obtains first approval in Europe

Fair Value DKK1450 (+20%) **BUY**

Bloomberg	GEN DC
Reuters	GEN.CO
12-month High / Low (DKK)	1,205 / 548.0
Market Cap (DKK)	72,100
Ev (BG Estimates) (DKK)	68,485
Avg. 6m daily volume (000)	439.8
3y EPS CAGR	17.5%

	1 M	3 M	6 M	31/12/15
Absolute perf.	24.2%	51.7%	42.4%	31.3%
Healthcare	-1.9%	2.4%	-10.3%	-9.2%
DJ Stoxx 600	-3.4%	2.7%	-11.5%	-8.0%

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	76.5x
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	60.6x	58.3x	40.5x	30.4x
EV/EBITDA	123.8x	240.2x	126.2x	74.2x
EV/EBIT	93.9x	240.2x	126.2x	74.2x

JNJ and Genmab yesterday announced that Darzalex (daratumumab) has been approved by the EC as a treatment for heavily pre-treated patients with multiple myeloma. While this approval was widely expected, its timing was quite important for respecting (and even beating) the FY 2016 sales guidance that was given for this compound. Of course, the US will remain the main driver behind this growth, but we believe JNJ should be able to generate USD50-100m within the old continent. BUY rating reiterated with an unchanged FV of DKK1,450.

ANALYSIS

- JNJ and Genmab yesterday announced that **Darzalex (daratumumab) has been granted a conditional marketing authorisation by the EC as a treatment for heavily pre-treated patients with multiple myeloma** ("double-refractory" to a proteasome inhibitor and an immunomodulatory agent).
- **While the approval was widely expected, its timing was quite important to respect (and even to beat) the FY 2016 sales guidance that was given for this compound**. As a reminder 1/ management's guidance is for sales of USD400-450m; 2/ "dara" generated USD100m solely in the US, and we assume a continuous ramp-up on a quarterly basis. We expect a less aggressive penetration in Europe as for this year, given the more heterogeneous nature of this market along with a lower treatment cost per patient. That said, one should bear in mind that JNJ also markets Velcade (bortezomib) there; and we would not be surprised to see the big pharma quickly reallocating a part of its marketing effort to daratumumab as Velcade is set to lose ground because of increasing competition (see Amgen's Kyprolis and Takeda's Ninlaro) along with the arrival of generics.
- **Just to give a quick basis of comparison, Celgene's pomalidomide (Pomalyst/Imnovid) generated USD60m during its very first year of commercialisation in Europe (2013)**... bearing in mind that the compound 1/ was approved in August as a third-line option in multiple myeloma, and 2/ exhibited far less impressive efficacy data than Genmab's. In all cases, the Q2 results publication will give us a preliminary view of its acceptance.
- **Importantly, JNJ will certainly file an sBLA (supplemental Biologic License application) in coming weeks/months to expand dara's label to second-line patients** thanks to the clinical package accumulated with the CASTOR and POLLUX studies. Assuming a Priority Review is granted, we believe another FDA approval could be obtained by the end of this year... Apart from the fact this is an important step on the road to achieving USD1bn in revenues by 2017e, our FV would then be raised by +DKK100 (all other things being equal).

VALUATION

- **BUY rating reiterated with a FV of DKK,1450**.

NEXT CATALYSTS

- Q2 2016: Details from the CASTOR and POLLUX studies to be presented respectively at the ASCO meeting and the EHA congress.
- Q3 2016: Filing of a supplemental BLA to expand Darzalex's label in myeloma to the second-line + Obtention of a Priority Review from the FDA.

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Luxury & Consumer Goods

Groupe SEB

Price EUR96.74

French Touch or Deutsche Qualität? Groupe SEB takes both!

Fair Value Under Review vs. EUR102 **BUY**

Bloomberg	SK FP
Reuters	SEBF.PA
12-month High / Low (EUR)	99.4 / 78.3
Market Cap (EURm)	4,853
Ev (BG Estimates) (EURm)	5,212
Avg. 6m daily volume (000)	48.00
3y EPS CAGR	13.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	5.7%	13.3%	4.3%	2.3%
Consumer Gds	-1.8%	1.5%	-8.2%	-5.2%
DJ Stoxx 600	-3.4%	2.7%	-11.5%	-8.0%

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	23.4x	19.3x	17.6x	15.9x
FCF yield (%)	6.5%	5.4%	5.8%	6.4%
Dividends (€)	1.54	1.65	1.80	2.00
Div yield (%)	1.6%	1.7%	1.9%	2.1%
EV/Sales	1.1x	1.1x	1.0x	0.9x
EV/EBITDA	12.1x	11.1x	10.0x	8.8x
EV/EBIT	13.0x	11.9x	10.7x	9.5x

They made it! Barely a few days after acquiring German based EMSA, Groupe SEB has announced its intention to buy WMF Group for a total amount of EUR1.585bn (excl. pension liabilities), entirely paid for in cash (a second piece of good news!). Based on our estimates, the net debt/EBITDA ratio of NewCo should be around 2.8x at the end-2016e and below 2x in 2018. In our view, the relatively high transaction multiple (2016e EV/EBITDA of 11.3x) is justified by leading positions (N°1 worldwide in professional coffee machines, N°1 in Germany in cookware) and a strong accretive impact on SEB's P&L on a full-year basis despite a cautious estimates and synergy plan (2017e: +20% on sales and >20% on EPS according to SEB). Conference today at 9:30am (Paris time). Buy recommendation and FV placed under review.

ANALYSIS

- **Groupe SEB won the sale process.** The total amount spent (EUR1.585bn) includes a purchase price of EUR1.020bn and net debt of EUR565m but strips out EUR125m in retirement and pension liabilities. Hence the offer of EUR1,585m values WMF at a 2016e EV/EBITDA multiple of 11.3x, which is in the higher range of the industry (2016e EV/EBITDA: 11.7x for SEB and 10.7x for De Longhi). However these attractive financial terms certainly enabled SEB to gain an advantage over the other bidders (household appliances makers like Haier, KingClean or De Longhi and some investment firms), especially since SEB is taking over the entire group, making WMF easier to sell from KKR's point of view (KKR bought WMF for EUR600m in 2012).

- **A quick presentation of WMF Group.** In 2015, WMF achieved sales growth of 4% to EUR1.061bn. As shown in the table below, WMF Group's operations are organised into three business units: **(i) Consumer Products** (56% of total sales) encompass the tableware/cookware/kitchenware brands (~20% ms in cookware in Germany), **(ii) Coffee Machines** (37% of sales) for Hotels & Restaurants, WMF brands clearly lead the professional coffee market (~28% ms) and **(iii)** Hotel Equipment (7% of sales), which is mainly tableware for professionals. WMF has a solid presence in Europe (~75% of total sales), o/w 51% in Germany where it dominates the cookware market (20% ms), the remaining 25% share is equally split between the US, China, Japan and SK.

Consumer Products	Coffee machines	Hotel Equipment
WMF Silit ORIGINAL KAISER	WMF schaerer	WMF HEPP
2015 Sales: EUR591m (+1%)	EUR394m (+13%)	EUR75m (-16%)

- **A profitable business.** In 2015, WMF achieved an adj. EBITDA margin of 11.1% in line with SEB's level (11.2% for SEB) despite modest top-line growth. The German group carried out a successful reorganisation of its Consumer Products division, particularly in its own retail in Germany (~40 of the 200 stores were modernised in 2015, another 40 expected this year). WMF expects adj. EBITDA of EUR140m for 2016 (+19%), certainly implying a further improvement in profitability.

- **What is the rationale behind this transforming acquisition?** SEB's biggest acquisition ever will bring some significant competitive advantages: **(i)** a notable presence in tableware & kitchenware in which SEB had a tiny market share (~1-2% vs. ~20% for the global cookware market) prior to the EMSA and WMF deals, **(ii)** penetration of the "B2B" channel that offers new growth opportunities for the brand portfolio of SEB and **(iii)** a high potential for synergies (top line: complimentary geographical footprint, cross-selling opportunities in "BtoC" and "BtoB" channels / costs: sourcing, distribution, etc.), the group anticipates synergies of EUR40m/year from 2020.

- **A significant accretive impact from 2017.** SEB expects this deal to be significantly accretive (>20%) on EPS. Pending more details to be communicated at the conference call, our early estimates lead to an accretive impact of: **(i)** ~20% at the top line level, **(ii)** ~23% on the adj. EBITDA (o/w EUR10m from synergies) and **(iii)** ~15% on EPS, which is more conservative than the group's objective.

VALUATION

- Admittedly some question marks and a period of uncertainty are likely in the ST given the significant size of WMF (integration risks, high leverage ratio, etc.), but we clearly focus on the numerous positive points: **(i) no capital increase** that was feared by many investors, **(ii)** SEB will generate sales of approx. EUR6.1bn in 2016e (on a full-year basis) after integration of EMSA and WMF, **surpassing its main competitor Philips** (2015 sales of EUR5.3bn in the SHA division),

(iii) SEB has an **excellent track record in terms of integrating acquisitions** and **(iv) a significant accretive impact** despite cautious assumptions and a moderate synergy plan (only EUR40m by 2020).

- Pending the conference call today that should provide more details on financials, we leave our assumptions unchanged and are placing our FV under review. Naturally we confirm our Buy recommendation.

NEXT CATALYSTS

- Conference call today at 9.30 (Paris time) // H1 2016 Results on 25th July.

SEB 2015 P&L items prior and after acquisition:

EURm	SEB stand alone	SEB + WMF	*Impact (%)*
Sales	4,770	5,824	*22*
Adjusted EBITDA	533	651	*22*
Adj. EBITDA margin (%)	11.2	11.2	=

Source: Company Data, Bloomberg consensus

Click here to download

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Healthcare

Ipsen

Price EUR53.64

CABOSUN positive is indeed very good news

Fair Value EUR63 vs. EUR60 (+17%)

BUY-Top Picks

Bloomberg	IPN FP
Reuters	IPN.PA
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Market Cap (EURm)	4,466
Ev (BG Estimates) (EURm)	4,553
Avg. 6m daily volume (000)	83.20
3y EPS CAGR	12.9%

	1 M	3 M	6 M	31/12/15
Absolute perf.	2.5%	1.2%	-11.0%	-12.1%
Healthcare	-1.9%	2.4%	-10.3%	-9.2%
DJ Stoxx 600	-3.4%	2.7%	-11.5%	-8.0%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	1,444	1,562	1,701	1,850
% change		*8.1%*	*8.9%*	*8.8%*
EBITDA	366	404	453	533
EBIT	322.5	337.9	381.4	455.6
% change		*4.8%*	*12.9%*	*19.5%*
Net income	228.0	235.1	271.7	327.7
% change		*3.1%*	*15.5%*	*20.6%*

	2015	2016e	2017e	2018e
Operating margin	22.3	21.6	22.4	24.6
Net margin	12.5	13.9	13.9	15.6
ROE	15.5	16.7	16.3	17.5
ROCE	22.6	17.5	19.2	22.3
Gearing	NM	NM	NM	NM

(€)	2015	2016e	2017e	2018e
EPS	2.78	2.87	3.31	4.00
% change	-	*3.1%*	*15.5%*	*20.6%*
P/E	19.3x	18.7x	16.2x	13.4x
FCF yield (%)	4.0%	4.4%	5.2%	6.4%
Dividends (€)	0.85	0.85	1.08	1.17
Div yield (%)	1.6%	1.6%	2.0%	2.2%
EV/Sales	3.0x	2.9x	2.6x	2.3x
EV/EBITDA	11.9x	11.3x	9.9x	8.1x
EV/EBIT	13.5x	13.5x	11.7x	9.5x

Last night, Exelixis announced that the CABOSUN phase II trial had achieved its primary endpoint i.e. PFS improvement when comparing cabozantinib to sunitinib in first-line RCC. After showing very solid efficacy results in second-line, "cabo" confirmed a strong profile in RCC overall. Exelixis and Ipsen will open discussions with the European regulators to see if CABOSUN alone can support filing and approval for the drug in this setting. Exelixis is committed to conduct a phase III trial but conditional approval looks possible. This would provide meaningful incremental value for Ipsen.

ANALYSIS

- Somewhat earlier than we had expected, the CABOSUN phase II trial delivered top-line results yesterday and the trial met its primary endpoint which means that cabozaninib improved progression-free survival (PFS) in patients with advanced renal cell carcinoma (RCC) not previously treated when compared to those receiving standard-of-care therapy sunitinib (Pfizer's Sutent).
- This is an outstanding achievement for the drug because cabozantinib now looks able to compete over the entire spectrum of the RCC market. Also because results came early enough to be first to beat Sutent in a head-to-head trial, ahead of the CheckMate-214 trial that is currently ongoing and that compares the IO/IO combination of nivolumab and ipilimumab with Sutent and which is likely to develop a certain level of toxicity that could make it a potent option but with significant side effects.
- Note that CABOSUN achieved recruitement of 150 patients in March 2015 and was powered to detect a difference in PFS by at least 33% which would be remarkable vs an active compound. On a less positive tone, we would also note that CABOSUN was an open-label trial which could be criticized by regulators although a strong PFS gain could not be entirely balanced by such a status. We see a reasonable likelihood that based on undisputed clinical data from CABOSUN, cabozantinib is approved by the UE in first-line RCC at least under a conditional approval route, pending confirmation in phase III trials. If so, filing might take place by the year-end and approval in 2017.

VALUATION

- The debate about how cabozantinib and nivolumab can share the RCC market is still very much valid after these top-line results. Should both products prove superior to Sutent in first-line then they would have the RCC market widely open for first and second line. No matter the preference on a physician by physician basis, they will be used in either one setting or the other. It indeed makes a difference because the patient base is much larger in first-line and so is the duration of therapy. Sutent's prescribing information points to a median PFS of 47.3 weeks i.e. almost 11 months in first-line whereas cabozantinib achieved 7.4 months on average in the METEOR trial in second-line. Should CABOSUN show an improvement of about 30-40% then median PFS could be 13-14 months i.e. almost double that in second-line.
- Doubling the size of the addressable market for cabozantinib in Ipsen territories could add something like EUR5-6 to our FV. Bear in mind that the drug is also developed in other solid tumours including HCC (in phase III) or lung cancer (in phase II) for which no figures are factored into our sales estimates. Because there are still a lot of free options, we decide to make half-way in first-line RCC and increase the addressable market from 17.5% to 20% while increasing also the average duration of treatment from 7.4 months to 9 months. Our new FV is EUR63.

NEXT CATALYSTS

- Upcoming announcement of a new CEO?

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Luxury & Consumer Goods

The Swatch Group

Price CHF289.90

More cautious view on The Swatch Group prospects

Fair Value CHF370 vs. CHF410 (+28%) **NEUTRAL**

Bloomberg	UHR VX
Reuters	UHR.VX
12-month High / Low (CHF)	432.9 / 289.9
Market Cap (CHF)	15,949
Ev (BG Estimates) (CHF)	14,274
Avg. 6m daily volume (000)	265.1
3y EPS CAGR	1.2%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-11.8%	-13.0%	-19.9%	-17.2%
Pers & H/H Gds	-0.1%	2.3%	-5.5%	-1.0%
DJ Stoxx 600	-3.4%	2.7%	-11.5%	-8.0%

YEnd Dec. (CHFm)	2015	2016e	2017e	2018e
Sales	8,451	8,470	8,870	9,280
% change		*0.2%*	*4.7%*	*4.6%*
EBITDA	1,817	1,735	1,880	2,022
EBIT	1,451	1,360	1,500	1,643
% change		*-6.3%*	*10.3%*	*9.5%*
Net income	1,089	980.0	1,090	1,236
% change		*-10.0%*	*11.2%*	*13.4%*

	2015	2016e	2017e	2018e
Operating margin	17.2	16.1	16.9	17.7
Net margin	12.9	11.6	12.3	13.3
ROE	10.0	8.5	9.1	9.4
ROCE	12.2	10.0	10.7	11.0
Gearing	-14.4	-14.0	-13.8	-12.8

(CHF)	2015	2016e	2017e	2018e
EPS	20.11	16.54	18.40	20.86
% change	-	*-17.7%*	*11.2%*	*13.4%*
P/E	14.4x	17.5x	15.8x	13.9x
FCF yield (%)	4.0%	3.2%	3.5%	3.5%
Dividends (CHF)	7.50	7.88	8.27	8.68
Div yield (%)	2.6%	2.7%	2.9%	3.0%
EV/Sales	1.7x	1.7x	1.6x	1.5x
EV/EBITDA	7.9x	8.2x	7.6x	7.0x
EV/EBIT	9.9x	10.5x	9.5x	8.7x

Given the very poor Swiss watch industry (-9.5% YTD) and the clearly tough environment for the luxury industry, we have decided to be more cautious on The Swatch Group's prospects. Following this review, we have lowered our 2016-2017 EBIT by 9% implying further margin erosion (-110bp to 16.1%), hence our new CHF370 FV versus CHF410 previously. Neutral recommendation reiterated.

ANALYSIS

- **The Swiss watch industry is clearly under pressure** and is undoubtly the sector the most affected by the very challenging environment within the entire luxury industry. On first 4m 2016, Swiss watch exports fell 9.5% including -16% in March and -11% in April. Unsurprisingly, exports to Hong Kong and Mainland China were down respectively 7.4% and 31% (-25% for Greater China) over the first three months of the year and the trend is going on in April (-36% in China). HK accounted for 15% of the Swiss watch industry in 2015 while the weight of Mainland China was around 6%. Nevertheless, Asia is not the only issue currently, and indeed the US (11% of Swiss watch exports) is in no better shape with a 15% decline in exports in Q1. The reasons for such a soft US market are i/ low tourism levels given the strong USD; ii/ a challenging situation in US Department stores given e-commerce development and iii/ poor local consumption in an election year.
- **In this context of poor visibility, we prefer to be cautious on Swatch Group** and consequently expect almost no sales growth for FY 2016 versus +3% anticipated previously, which was even less dynamic than CEO Nick Hayek's initial guidance ("at least 5% sales increase"), after he has often proven to be overly optimistic in the past. In 2015, Greater China accounted for 33% of Swatch Group sales (37% in 2014), of which almost 20% in MC and 13% in Hong Kong, while the Americas represented 8%. Nevertheless, Europe (33% of The Swatch Group sales) is also beginning to suffer from a much more difficult situation given the lack of tourists after the terrorist attacks in Paris and Brussels as Global Blue figures highlight (Chinese tourist spending dropped more than 25% in March 2016 and 18% in April 2016). Swiss watches exports to France declined 31% in April. Eastern Europe accounts for around 3-4% of Swatch Group sales and the Middle East for close to 5%.
- **Furthermore, note that The Swatch Group is mainly wholesale driven** as retail accounts for less than 30% of sales and therefore, it is much more sensitive than other luxury groups to destocking movements in the trade and to the risk of suffering from excessively high inventory levels, particularly in the US and Hong Kong. Nevertheless, the group's management has clearly stated that it does not intend to buy back watches inventories as Richemont has announced recently.
- **For H1 2016, it is fair, to assume a 4% sales decline in our view,** with perhaps an end of the half-year with a less negative trend than in Q1 (it seems that April and May saw a slight improvement albeit still negative) and with some recovery in H2 (+3%). Comparison bases are less demanding in H2 with a 5% decline in H2 2015 compared to +3.6% in H1 2015.
- **Consequently, we lower our 2016-2017 EBIT by 9%** and we currently expect a 2016 FY EBIT at EUR1.36bn, down 6% vs 2015, implying a further profitability deterioration (-110bp to 16.1%) which leads to a 840bp decline since 2013. The Swatch Group is less reactive in implementing a cost restructuring plan than others peers (50% of total group employees are located in Switzerland with half in production), hence the new margin decrease expected which should be more significant in H1 than in H2.

VALUATION

- The Swatch Group share price has lost 17% YTD and 11% over the last month and is trading on an 8% discount vs the peer average. Following our new results assumptions, we lower our FV from CHF410 to CHF370. Neutral recommendation reiterated.

NEXT CATALYSTS

- H1 results due out end of July 2016

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Construction & Building Materials

LafargeHolcim

Price CHF43.96

Bloomberg	LHN VX
Reuters	LHN.VX
12-month High / Low (CHF)	72.3 / 34.1
Market Cap (CHFm)	26,680
Avg. 6m daily volume (000)	2,376

	1 M	3 M	6 M	31/12/15
Absolute perf.	-9.8%	16.9%	-20.0%	-12.6%
Cons & Mat	-1.0%	6.6%	-3.4%	-0.9%
DJ Stoxx 600	-3.4%	2.7%	-11.5%	-8.0%

	2015	2016e	2017e	2018e
P/E	25.4x	18.2x	12.0x	10.2x
Div yield (%)	3.4%	3.8%	4.1%	4.4%

New low-cost plant line inaugurated in Brazil

Fair Value CHF50 (+14%) — BUY

ANALYSIS

- As previously announced by LHN CEO Eric Olsen, a new plant line is opening in Brazil, at the existing Barroso site. The plant's total capacity is 3.6 million tonnes of cement per year, on a site located in the South-Eastern region of Brazil, in the state of Minas Gerais, between Belo Horizonte and Rio de Janeiro.
- The new line strengthens LHN's exposure to Brazil (cement capacity to increase to 12mt vs 9mt) and LatAm (new capacity to 43mt vs 40mt), compared with approx. 375 mt at the group level.
- According to LafargeHolcim, "*the new line will allow the reduction of total costs per tonne of cement by around 25% from 2014 to 2017*". This is necessary of course, as 2016 is likely to be a difficult year in Brazil, even if the Olympic Games are providing some business for cement players. The market is likely to decline by 8-10% this year, said LHN.

VALUATION

- CHF50 derived from the application of historical EV/EBITDA to our 2017 estimates, discounted back.

NEXT CATALYSTS

- Q2 2016 to be released on 5th August 2016

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Luxury & Consumer Goods

Richemont

Price CHF56.90

The Swiss group close to buying Buccellati?

Fair Value CHF63 (+11%) **NEUTRAL**

Bloomberg	CFR VX
Reuters	CFR.VX
12-month High / Low (CHF)	86.6 / 56.9
Market Cap (CHFm)	31,864
Avg. 6m daily volume (000)	1 835

	1 M	3 M	6 M	31/12/15
Absolute perf.	-11.2%	-9.8%	-26.1%	-21.1%
Pers & H/H Gds	-0.1%	2.3%	-5.5%	-1.0%
DJ Stoxx 600	-3.4%	2.7%	-11.5%	-8.0%

	03/15	03/16e	03/17e	03/18e
P/E	21.5x	17.0x	24.7x	19.7x
Div yield (%)	3.1%	3.6%	4.1%	4.3%

ANALYSIS

- According to Italian newspaper, Sole24Ore, Richemont is very close to purchasing Italian jewellery-maker Buccellati whose sales are estimated at around EUR50m. The very high-end brand is owned by private equity fund Clessidra for 67%, with the remainder in the family's hands. The Buccellati family is also member of the management as some 4th generation members are involved in creation.
- The Buccellati brand was founded in 1891 by Mario Buccellati in Milan and is very well known for its high jewellery and jewellery lines (including bridal lines) and for its silversmith products (flatware). Furthermore, since 2001, the brand has also launched jewellery watch lines. The brand is mainly sold in boutiques and is therefore a pure retail-oriented brand.
- In March 2016, Richemont had net cash of EUR5.4bn and therefore this acquisition should be very easily financed with a marginal impact on the P&L. Even if the Swiss group is not very used to making acquisitions, this one could fit well with Richemont's business model and strategy to be increasingly high-end and retail oriented.

VALUATION

- Neutral recommendation and CHF63 FV unchanged.

NEXT CATALYSTS

- 5m trading statement to be reported on 14th September.

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Healthcare

Roche

Price CHF247.90

Bloomberg	ROG VX
Reuters	ROG.VX
12-month High / Low (CHF)	282.5 / 233.2
Market Cap (CHFm)	174,165
Avg. 6m daily volume (000)	1 468

	1 M	3 M	6 M	31/12/15
Absolute perf.	-1.6%	-2.5%	-8.8%	-10.3%
Healthcare	-1.9%	2.4%	-10.3%	-9.2%
DJ Stoxx 600	-3.4%	2.7%	-11.5%	-8.0%

	2015	2016e	2017e	2018e
P/E	18.4x	17.0x	15.8x	15.5x
Div yield (%)	3.3%	3.5%	3.8%	3.9%

Sandoz starts the clock for rituximab's biosimilar in Europe

Fair Value CHF293 (+18%) **BUY**

ANALYSIS

- Sandoz announced earlier this morning that its submission of the biosimilar rituximab's dossier has been accepted by the EMA. Sandoz is seeking approval for its product in all indications covered by MabThera's prescribing information in hemato-oncology as well as in rheumatoid arthritis.
- Rituxan/MabThera is Roche's biggest drug and achieved CHF7bn in sales in 2015, 26% of which in Europe (CHF1.8bn), up 1% (+5% in Q1 2016).
- After several delays, it looks like this time is the right one and Europe could therefore see the first rituximab biosimilar on the market by the end of 2017. The dossier submitted by Sandoz included data on more than 800 patients.

VALUATION

- We have already factored in biosimilar competition for MabThera in Europe as of 2017 although it is difficult to predict how it will play out. Swing factors include the number of players (Sandoz should not discount its drug too much, but this will depend on competition), loyalty to the brand, subcutaneous form sustainability and other defence strategies, timing of pricing in southern Europe etc... All in all, we expect the erosion to be somewhat gradual although this is a nice opportunity for payers to save money and reallocate the savings to other newer products.
- So we stick to our forecasts i.e. a 10% decline in 2017 and 20% per annum thereafter.

NEXT CATALYSTS

- 3-7th June 2016 : ASCO meeting - Click here to download

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Healthcare

Sanofi

Price EUR70.20

Bloomberg	SAN FP
Reuters	SASY.PA
12-month High / Low (EUR)	100.7 / 67.3
Market Cap (EURm)	90,336
Avg. 6m daily volume (000)	3 142

	1 M	3 M	6 M	31/12/15
Absolute perf.	-10.6%	-0.4%	-15.4%	-10.7%
Healthcare	-1.9%	2.4%	-10.3%	-9.2%
DJ Stoxx 600	-3.4%	2.7%	-11.5%	-8.0%

	2015	2016e	2017e	2018e
P/E	12.4x	12.8x	12.7x	11.7x
Div yield (%)	4.2%	4.3%	4.5%	5.0%

Briefing documents for lixi similar to Novo's in essence

Fair Value EUR86 (+23%) **NEUTRAL**

ANALYSIS

- In the briefing documents posted yesterday on the FDA's website ahead of Thursday's AdCom to review the clinical package submitted for both lixisenatide as a monotherapy and lixi-Lantus FDC, we do not see anything major that could prevent either of the two drugs from being recommended and approved by the FDA.
- However, again, the documents focus on the label and the positioning of such a combination and in this case, more specifically target the risk of having to reduce the dose of insulin when switching from Lantus to the FDC. Clearly the flexibility offered by the FDC of Xultophy and LixiLan is not perfect and is limited to a few cases when patients sometimes require careful attention to the right dose. The question about initiating treatment with either of the two FDC is asked and in our view unlikely to be answered positively. The category should be primarily prescribed for intensification of treatment in patients whose glycaemia is not controlled either under basal insulin or GLP1.
- This should not be too problematic for Sanofi or Novo-Nordisk, as this is how they finally recently said they would position the drugs. However, this means it will take more time than initially thought to make these drugs a commercial success. Discussions with payers might also take time.
- Note that the FDA points out inferiority of lixisenatide vs. exenatide in one study and also has questions about some doses of lixisenatide in the FDC (i.e. below 20µg) that may not be approved.

VALUATION

- No change to our estimates

NEXT CATALYSTS

- 24-25th May 2016: FDA AdCom for Xultophy, lixisenatide and lixiLan

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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 56.3% NEUTRAL ratings 34.5% SELL ratings 9.2%

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