



25th May 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	17706.05	+1.22%	+1.61%
S&P 500	2076.06	+1.37%	+1.57%
Nasdaq	4861.06	+2.00%	-2.92%
Nikkei	16757.35	+1.57%	-13.32%
Stoxx 600	344.119	+2.21%	-5.93%
CAC 40	4431.52	+2.46%	-4.43%
Oil /Gold			
Crude WTI	48.32	+1.77%	+29.89%
Gold (once)	1234.62	-1.09%	+16.21%
Currencies/Rates			
EUR/USD	1.11605	-0.35%	+2.74%
EUR/CHF	1.1077	-0.29%	+1.87%
German 10 years	0.177	-3.94%	-72.15%
French 10 years	0.508	-3.25%	-48.24%
Euribor	-	+-%	+-%

Economic releases :

Date	
25th-May	DE - GfK Consumer Climate (9.7E) DU - GfK Expectations May (100.8E) US - PMI Services CH - ZEW survey US - House price index US - DOE Oil Inventories

Upcoming BG events :

Date	
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	
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



GRUPE SEB

BUY, Fair Value Under Review

Conference Call Feedback: how WMF will transform Groupe SEB

Yesterday morning SEB's management provided further details on WMF's three divisions to better understand how they will drive sales and earnings momentum over the coming years. Despite a significant accretive impact (BG: +20%e on top line and ~15%e on EPS in 2017e), we understand that the business plan was built on conservative assumptions (+3-4% LFL, synergies of EUR40m/year from 2020). We will work on our new forecasts but our early estimates suggest there remains some upside potential, hence we keep our Buy recommendation.

PENNON GROUP

SELL, Fair Value 825p (0%)

2015/16 earnings - first take: in line thanks to Viridor and Bournemouth

Pennon has posted 2015/16 earnings in line with market expectations for EBITDA and net profit before tax, but higher than our EBITDA forecast. The fairly good performance (+1.1% EBITDA growth) was only driven by the rise in the Viridor asset base and the Bournemouth acquisition. Excluding these factors, we estimate the group's core business operating profit would have fallen 4.6% YoY compared with the decline of just 3.6% posted by Severn Trent yesterday. At the current share price, we continue to assume the premium paid on Water RAB is too high and reduces the risk of a takeover bid. Sell rating confirmed with FV @ 825p.

Luxury & Consumer Goods

Groupe SEB

Price EUR105.40

Conference Call Feedback: how WMF will transform Groupe SEB

Fair Value Under Review

BUY

Bloomberg	SK FP
Reuters	SEBF.PA
12-month High / Low (EUR)	105.4 / 78.3
Market Cap (EUR)	5,288
Ev (BG Estimates) (EUR)	5,646
Avg. 6m daily volume (000)	49.40
3y EPS CAGR	13.6%

Yesterday morning SEB's management provided further details on WMF's three divisions to better understand how they will drive sales and earnings momentum over the coming years. Despite a significant accretive impact (BG: +20%e on top line and ~15%e on EPS in 2017e), we understand that the business plan was built on conservative assumptions (+3-4% LFL, synergies of EUR40m/year from 2020). We will work on our new forecasts but our early estimates suggest there remains some upside potential, hence we keep our Buy recommendation.

ANALYSIS

- **The Professional Coffee Machines (PCM) division is WMF's cash cow.** WMF has outperformed a rather dynamic global PCM market worth EUR1.5bn (sales CAGR 2013-15 of 10.4% vs. -8% p.a.) and currently boasts market share of 28% and a relative market share of 1.9x vs. the no. 2 player. This leadership provides WMF strong pricing power, especially since barriers to entry are high (innovation, brand awareness) and the business is relatively resilient as recurring revenues (maintenance, spare parts) account for ~37% of the division's sales. Last but not least, WMF has a premium positioning (machines are sold from EUR3k to EUR10k) and is exclusively sold to professionals (McDonald's, Seven Eleven, Dunkin' Donuts, etc.). Consequently, we were not surprised to learn that this business is "very profitable" according to CFO Vincent Leonard.

- **Consumer Products (CP): key positions in Germany and complimentary to SEB's cookware business.** After the integration of WMF, SEB is set to generate sales of EUR614m vs. EUR242m previously, with Germany becoming the group's no. 3 market in small domestic equipment. SEB is also to become a leading player in cookware as WMF brands were either no. 1 or no. 2 in their categories (cookware, kitchenware, see Fig. 3 next page), with a complimentary positioning as they are premium brands whilst Tefal is positioned more in the mid-tier segment. With 2015 pro-forma sales of EUR355m in kitchenware/bakeware/ovenware, the group is well on track to achieve its MT objective of EUR500m. In terms of synergies, this CP division harbours interesting levers (sourcing, purchasing, manufacturing), especially in own retail where SEB intends to leverage the ~200 stores through cross-selling (push its own brands, enlarge the offering).

- **Cautious business plan at this stage.** Reassuringly, the expected accretive impacts and the deleveraging capacity of the NewCo (2016e net debt ratio of 2.8x to below 2x by 2018e) are based on conservative assumptions in our view: 1/ management is not expecting a major inflection point in WMF's sales growth trajectory (+3-4% LFL) despite interesting revenues synergies and 2/ SEB is sticking to a relatively cautious synergy plan (EUR40m p.a. from 2020) whereas sources of optimisation exist (sourcing, manufacturing, distribution, etc.), particularly WMF's working capital management that must be improved to approach SEB's level (~21% of 2015 sales). The profitability increase (2016e adj. EBITDA of EUR140m vs. EUR119m in 2015) is driven by the same drivers as SEB: product and price-mix (innovation, powerful brands) and efficiency gains.

VALUATION

- Further to this conference call, we believe that potential risks surrounding this acquisition are under control (cost of financing around 2%, no anti-trust risks, rapid deleveraging, SEB's proven track record in integrating new acquisitions, etc.), which confirms our positive stance on this "transforming" deal.
- Management confirmed it expects to complete the acquisition during the course of H2 2016. While we will update our forecasts in coming days, we maintain our Buy recommendation.

NEXT CATALYSTS

- Groupe SEB is due to report H1 results on 25th July.

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(To be continued next page)

	1 M	3 M	6 M	31/12/15
Absolute perf.	15.1%	23.6%	14.8%	11.4%
Consumer Gds	0.4%	5.6%	-4.9%	-3.1%
DJ Stoxx 600	-1.2%	7.5%	-8.4%	-5.9%

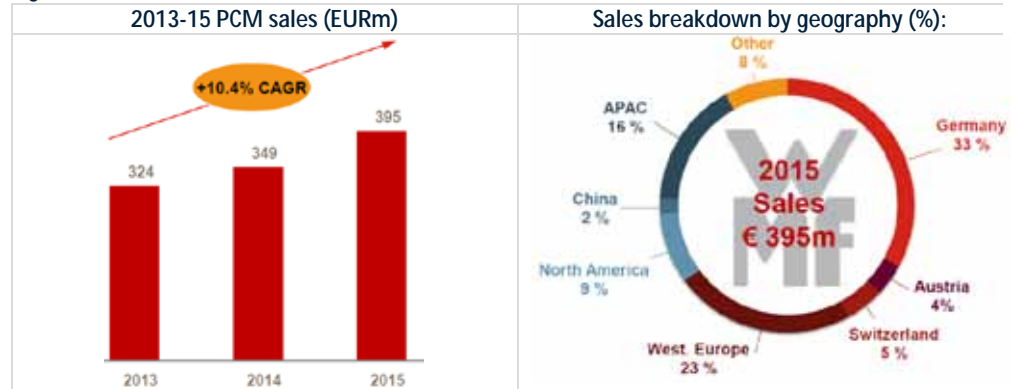
YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	4,770	4,949	5,200	5,459
% change		3.8%	5.1%	5.0%
EBITDA	428	470	504	549
EBIT	396.6	437.6	470.2	513.4
% change		10.3%	7.5%	9.2%
Net income	205.9	248.9	273.7	301.8
% change		20.9%	10.0%	10.3%

	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	25.4x	21.0x	19.1x	17.4x
FCF yield (%)	6.0%	4.9%	5.3%	5.8%
Dividends (€)	1.54	1.65	1.80	2.00
Div yield (%)	1.5%	1.6%	1.7%	1.9%
EV/Sales	1.2x	1.1x	1.1x	1.0x
EV/EBITDA	13.1x	12.0x	10.9x	9.6x
EV/EBIT	14.1x	12.9x	11.6x	10.3x

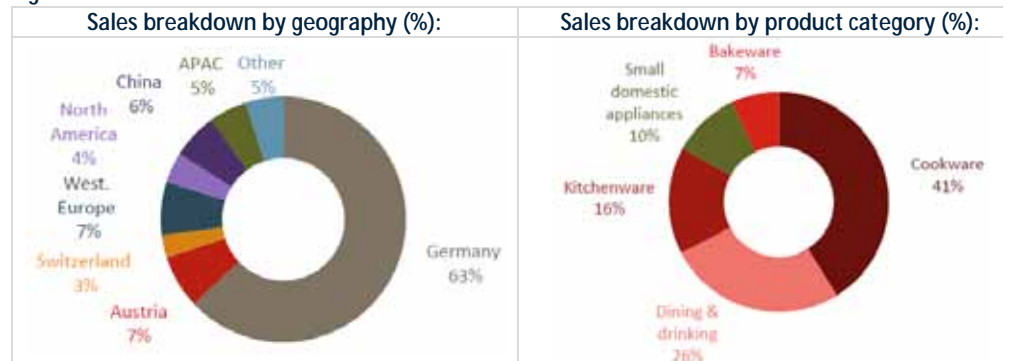


Fig. 1: Professional Coffee Machine Division:



Source: Company Data

Fig. 2: Consumer Products Division:



Source: Company Data

Fig. 3: SEB is acquiring a group with solid positions in German-speaking cookware markets:

Segment	2015 MS in DACH	Ranking	Main products
Cookware	21%	#1	Pans Pots Pressure cookers
Kitchenware	10%	#3	Kitchen knives Kitchen gadgets
Bakeware	28%	#2	Baking pans Accessories
Dining & Drinking	30%	#1	Cutlery Dinnerware Beverageware

DACH stands for Germany, Austria and Switzerland

Source: Company Data



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Utilities

Pennon Group

Price 824.50p

2015/16 earnings - first take: in line thanks to Viridor and Bournemouth

Fair Value 825p (0%)

SELL

Bloomberg	PNN LN
Reuters	PNN.L
12-month High / Low (p)	896.5 / 713.0
Market Cap (GBPm)	3,402
Ev (BG Estimates) (GBPm)	6,152
Avg. 6m daily volume (000)	821.3
3y EPS CAGR	9.2%

Pennon has posted 2015/16 earnings in line with market expectations for EBITDA and net profit before tax, but higher than our EBITDA forecast. The fairly good performance (+1.1% EBITDA growth) was only driven by the rise in the Viridor asset base and the Bournemouth acquisition. Excluding these factors, we estimate the group's core business operating profit would have fallen 4.6% YoY compared with the decline of just 3.6% posted by Severn Trent yesterday. At the current share price, we continue to assume the premium paid on Water RAB is too high and reduces the risk of a takeover bid. Sell rating confirmed with FV @ 825p.

ANALYSIS

- Main 2015/16 metrics:** 1/ 2015/16 sales fell 0.4% YoY to GBP1.35bn with most of the sales decline coming from **Viridor** (sales down 3.6% YoY) while the water entities (**SWW and Bournemouth**) generated a combined 4.7% in sales growth over the period. In our model we were anticipating a 5% YoY increase at least, closer to GBP1.45bn. 2/ The group's EBITDA came out at **GBP448.4m**, 1.1% ahead of our **GBP443m** estimates but in line with market expectations. This reflects 9% YoY growth compared with last year, thanks primarily to the Viridor assets extension. EBITDA from the water business suffered from lower allowed returns for the K6 regulatory period and generated positive growth only thanks to the integration of Bournemouth. 3/ In all, the group's net profit before tax for the fiscal year is GBP211m while profit after tax was up 20% to **GBP152m** thanks to lower tax. 4/ The final dividend rose 6% to **23.12p** bang in line with our **23.09** estimate, and leading to a total 2015/16 dividend of **33.58p** in line with both BG and consensus full-year estimates. 5/ Net debt surged by **GBP287m** to **GBP2.48bn** (slightly below our expectations) reflecting capital investment and the net debt taken on in the Bournemouth acquisition. In all, overall results were ok, thanks to Viridor notably (scope effect) and to the Bournemouth acquisition. Excluding these two scope effects, the group's underlying water EBITDA would have fallen 4.6% vs. -3.6% posted by Severn Trent yesterday.

- What about 2016/17?:** The group reiterated its aim to generate annual dividend growth of 4% above RPI inflation to 2020 while indicating that all 11 committed ERFs in the Viridor portfolio will be on-stream by H1 2018/19 and that RCV in the water business is set to grow by 21% over the same period. All these targets are in line with our estimates and in line with market expectations, implying no further upside relative to the short term consensus (assuming a rise in RPI expectations, which we view as unlikely). The group is well on track to deliver **GBP100m in EBITDA by 2016/17** from Viridor ERFs assets. Further synergies between SWW and Bournemouth could be implemented, potentially ahead of our expectations.

- What to retain from this publication?** 1/ 2015/16 sales came out below expectations due to Viridor, yet EBITDA came out in line with consensus expectations and above our own estimate (+1.1%), 2/ All 2015/16 targets were achieved, albeit only thanks to Bournemouth and Viridor. When excluding these two scope effects, it appears that SWW's performance is lower compared with Severn Trent during the same period.

- Conclusion:** At this stage we confirm our **Sell rating with an 825p FV** unchanged as we continue to consider that the market currently over-prices the group's waste business, mechanically undervaluing the water business in our model and SOTP. In our view, the implied premium paid by investors to Pennon water RAB is already above 30% limiting upside to the latest share price and limiting the probability of a take-over bid. We will have to adjust our estimates, but do not see significant changes, thereby limiting potential upside to the recent share price. A conference call is scheduled for 10.00am GMT.

VALUATION

- At the current share price Pennon is trading at **13.7x** its 2016/17 EBITDA and offers a **4.3%** yield
- Sell, 825p**

NEXT CATALYSTS

- September 6th: H1-2016/17 trading statement
- November 25th: H1-2016/17 earnings

	1 M	3 M	6 M	31/12/15
Absolute perf.	4.6%	-0.8%	-0.9%	-4.2%
Utilities	-2.0%	2.5%	-7.8%	-5.6%
DJ Stoxx 600	-3.4%	2.7%	-11.5%	-8.0%

YEnd Mar. (GBPm)	03/15	03/16e	03/17e	03/18e
Sales	1,357	1,449	1,501	1,566
% change		6.7%	3.6%	4.3%
EBITDA	411	443	465	495
EBIT	232.9	258.8	262.7	278.0
% change		11.1%	1.5%	5.8%
Net income	126.3	147.9	152.5	164.4
% change		17.1%	3.1%	7.8%

	03/15	03/16e	03/17e	03/18e
Operating margin	17.2	17.9	17.5	17.8
Net margin	9.3	10.2	10.2	10.5
ROE	9.3	10.7	10.9	11.6
ROCE	5.2	5.4	5.2	5.5
Gearing	162.3	182.8	195.4	196.6

(p)	03/15	03/16e	03/17e	03/18e
EPS	30.70	35.95	37.07	39.96
% change		17.1%	3.1%	7.8%
P/E	26.9x	22.9x	22.2x	20.6x
FCF yield (%)	NM	NM	NM	3.0%
Dividends (p)	31.80	33.55	35.56	37.87
Div yield (%)	3.9%	4.1%	4.3%	4.6%
EV/Sales	4.1x	4.2x	4.2x	4.1x
EV/EBITDA	13.6x	13.9x	13.7x	12.9x
EV/EBIT	23.9x	23.8x	24.2x	23.0x



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BG's Wake Up Call

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Stock rating

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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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