



30th May 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	17873.22	+0.25%	+2.57%
S&P 500	2099.06	+0.43%	+2.70%
Nasdaq	4933.5	+0.65%	-1.48%
Nikkei	17068.02	+1.39%	-11.55%
Stoxx 600	349.639	+0.21%	-4.42%
CAC 40	4514.74	+0.05%	-2.64%
Oil /Gold			
Crude WTI	49.38	+0.08%	+32.74%
Gold (once)	1211.9	-0.90%	+14.07%
Currencies/Rates			
EUR/USD	1.11315	-0.47%	+2.47%
EUR/CHF	1.1051	-0.17%	+1.63%
German 10 years	0.143	-0.60%	-77.39%
French 10 years	0.481	-0.47%	-50.93%
Euribor	-0.26	+0.78%	+98.47%

Economic releases :

Date	
30th-May	FR - Consumer Mfg Goods Consumption FR - GDP IT - PPI DE - CPI JP - Industrial production UK - Spring Bank holiday

Upcoming BG events :

Date	
7th-Jun	Cahiers Verts de l'Economie (BG Paris Lunch)
8th-Jun	Cahiers Verts de l'Economie (BG Paris Lunch)
13th-Jun	NOVARTIS (BG Paris roadshow with IR)
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



ALBIOMA

BUY, Fair Value EUR16 (+12%)

Further development in Brazil, as planned by management

Albioma announced this morning it has signed a JV agreement with Vale do Parana to develop a new cogeneration operation in the State of Sao Paulo. With this project, in which Albioma will own 40%, the group is further increasing its presence in this high growth potential market, while the timing is good in our view given the BRL depreciation compared with 2014-15. We confirm our Buy rating with FV unchanged at EUR16/share. Positive.

SANOFI

NEUTRAL, Fair Value EUR83 vs. EUR86 (+12%)

A more focused Sanofi is on the way (full report published today)

Sanofi is still seen as a Diabetes company although the segment accounted for only 17% of its total revenue base in 2015. However, this is set to change because the new management team is driving a strategy that should increase Sanofi's presence in three key businesses, namely CHC, Vaccines and Specialty Care under the leadership of Genzyme. All three are above-average core EBIT margin contributors. Through both internal and external growth, these three pillars should grow from a third to more than half of Sanofi's total revenues by the start of the next decade. That said, it is still premature to play the turnaround because Sanofi still needs to eliminate a number of uncertainties.

In brief...

SHIRE PLC, Shire and Baxalta's shareholders approve the deal

Utilities

Albioma

Price EUR14.30

Further development in Brazil, as planned by management

Fair Value EUR16 (+12%)

BUY

Bloomberg	ABIO.FP
Reuters	ABIO.PA
12-month High / Low (EUR)	19.0 / 11.9
Market Cap (EURm)	426
Ev (BG Estimates) (EURm)	1,065
Avg. 6m daily volume (000)	22.20
3y EPS CAGR	18.4%

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ANALYSIS

- **A new Brazilian project:** Albioma announced this morning it has signed a JV agreement with Brazilian company **Vale do Parana** aiming at developing a new cogeneration operation in the State of Sao Paulo in Brazil. This is Albioma's third project in the country after Rio Pardo Termoelétrica in March 2014 and Codora Energia in April 2015. Albioma and Vale do Parana are to create a project company that will own and operate the cogeneration plant. Albioma is to own **40%** of this project company. The **BRL100m investment** (c. EUR25m) is eligible for a BNDES (*Brazil National Bank for Development*) long-term loan. The project company will build an extension raising the plant's installed capacity from **16MW to 48MW of which 30MW** being exported to the power grid. **80%** of the expected electricity production has already been secured as it has been sold on the regulated market: **120GWh/year** has been sold over 25 years from January 2021 at **BRL245.2/MWh** (c. EUR59/MWh), which is lower than the 20-year PPA contracts recently signed by Codora (BRL278/MWh) but above Rio Pardo's 20-year PPA contracts (BRL212/MWh).

- **A deal in line with the group's guidance:** This deal is in line with the group's guidance to announce a project in Brazil every 12 to 18 months and clearly confirms its appetite for this high growth potential market. We appreciate the timing as the group is set to engage capital in the country at a cheaper rate than 12 months ago (c. EUR to BRL rate currently at 4 vs. 3.7 in 2015 and 3.12 in 2014) and more importantly, is investing through a JV (40% stake within new project) limiting the financial risk on this specific project while raising the implicit number of new potential Brazilian projects. As a reminder, during its investor day the group indicated it will spend around **EUR400m** in Brazil over 2013-2023 representing **40%** of its 10-year capex budget. With this new deal we estimate the group will have spent less than **EUR100m** representing less than **25%** of its Brazilian capex envelope.

- **Conclusion:** In our model we were already assuming the group would develop its Brazilian capacities as planned, but via integrated full investments (100%) and not investments through JVs implying a lower EBITDA contribution but also a lower financial cash-out. We currently stick to our Buy rating with FV unchanged at **EUR16/share**. We expect a positive share price reaction this morning with investors appreciating the group's commitment to its guidance.

	1 M	3 M	6 M	31/12/15
Absolute perf.	0.8%	19.3%	-4.0%	-4.3%
Utilities	-0.3%	6.5%	-5.0%	-1.9%
DJ Stoxx 600	0.4%	5.5%	-8.9%	-4.4%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	354.0	376.0	427.3	484.4
% change		6.2%	13.6%	13.4%
EBITDA	120	127	147	176
EBIT	76.1	73.9	88.0	112.8
% change		-2.9%	19.1%	28.2%
Net income	30.2	25.9	33.6	50.1
% change		-14.2%	29.8%	48.9%

	2015	2016e	2017e	2018e
Operating margin	21.5	19.7	20.6	23.3
Net margin	8.5	6.9	7.9	10.3
ROE	7.4	6.3	8.0	11.3
ROCE	4.7	4.4	4.5	5.3
Gearing	131.6	155.5	192.2	201.7

(EUR)	2015	2016e	2017e	2018e
EPS	1.04	0.89	1.15	1.72
% change		-14.2%	29.8%	48.9%
P/E	13.8x	16.1x	12.4x	8.3x
FCF yield (%)	1.5%	NM	NM	NM
Dividends (EUR)	0.57	0.57	0.58	0.86
Div yield (%)	4.0%	4.0%	4.0%	6.0%
EV/Sales	2.7x	2.8x	2.9x	2.7x
EV/EBITDA	8.0x	8.4x	8.4x	7.5x
EV/EBIT	12.7x	14.4x	14.0x	11.7x

VALUATION

- At the current share price the stock is trading at 8.4x its 2016e EBITDA and offers a 4% yield
- Buy, FV unchanged at EUR16/share

NEXT CATALYSTS

- 26th July 2016: H1 2016 earnings

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Analyst:
Xavier Caroen
33(0) 1.56.68.75.18
xcaroen@bryangarnier.com

Sector Team:
Pierre-Antoine Chazal

Healthcare

Sanofi

Price EUR73.80

A more focused Sanofi is on the way (full report published today)

Fair Value EUR83 vs. EUR86 (+12%)

NEUTRAL

Bloomberg	SAN.FP
Reuters	SASY.PA
12-month High / Low (EUR)	100.7 / 67.3
Market Cap (EURm)	94,969
Ev (BG Estimates) (EURm)	102,368
Avg. 6m daily volume (000)	3 131
3y EPS CAGR	2.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-4.2%	0.1%	-12.0%	-6.1%
Healthcare	3.2%	5.0%	-7.2%	-5.6%
DJ Stoxx 600	0.4%	5.5%	-8.9%	-4.4%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	36,575	35,963	36,740	38,444
% change		-1.7%	2.2%	4.6%
EBITDA	11,237	10,713	10,441	10,772
EBIT	9,948	9,587	9,591	9,984
% change		-3.6%	0.0%	4.1%
Net income	7,371	6,989	7,059	7,828
% change		-5.2%	1.0%	10.9%

	2015	2016e	2017e	2018e
Operating margin	27.2	26.7	26.1	26.0
Net margin	20.2	19.4	19.2	20.4
ROE	12.9	12.0	11.9	12.6
ROCE	11.9	11.2	10.9	11.3
Gearing	12.7	12.7	9.8	6.1

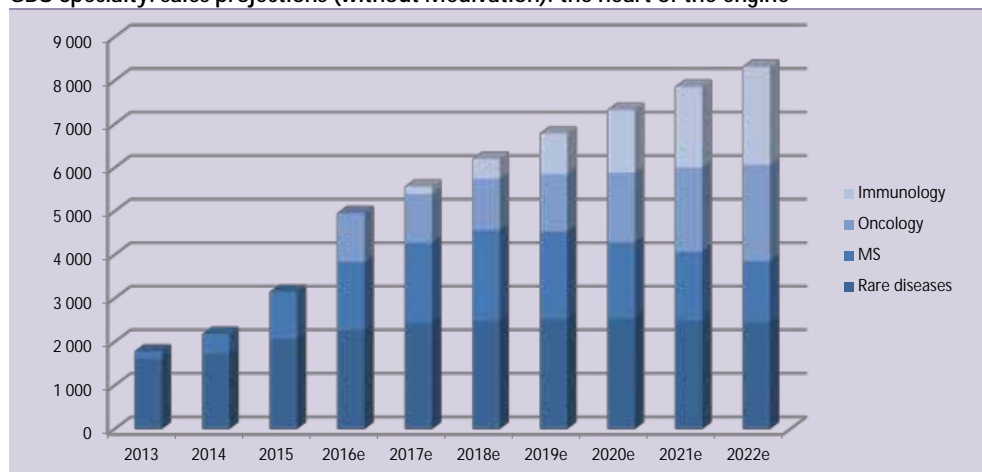
(EUR)	2015	2016e	2017e	2018e
EPS	5.64	5.47	5.52	6.12
% change		-3.1%	1.0%	10.9%
P/E	13.1x	13.5x	13.4x	12.1x
FCF yield (%)	4.6%	6.2%	5.7%	6.6%
Dividends (EUR)	2.93	3.00	3.15	3.50
Div yield (%)	4.0%	4.1%	4.3%	4.7%
EV/Sales	2.8x	2.8x	2.7x	2.6x
EV/EBITDA	9.1x	9.6x	9.7x	9.2x
EV/EBIT	10.3x	10.7x	10.5x	9.9x

Sanofi is still seen as a Diabetes company although the segment accounted for only 17% of its total revenue base in 2015. However, this is set to change because the new management team is driving a strategy that should increase Sanofi's presence in three key businesses, namely CHC, Vaccines and Specialty Care under the leadership of Genzyme. All three are above-average core EBIT margin contributors. Through both internal and external growth, these three pillars should grow from a third to more than half of Sanofi's total revenues by the start of the next decade. That said, it is still premature to play the turnaround because Sanofi still needs to eliminate a number of uncertainties.

ANALYSIS

- Sanofi is currently working on reinforcing its strategic franchises which are set to drive growth into the next decade. The established products will progressively decline whereas the Diabetes/CV GBU will be highly dependent on Praluent. We see the trajectory as positive, believing that it could ultimately open the way to a new and compelling investment case. That said, it is still a tad early.
- Over the next couple of months, Sanofi and B.I. are to sign the final agreement by which they will swap their animal health and CHC businesses, Sanofi becoming number one in CHC with over EUR5bn in sales and operating profit leverage for the years to come.
- At Sanofi Pasteur (vaccines), on top of the DengVaxia opportunity, the agreement to dismantle the JV with Merck which is responsible for marketing vaccines in Europe will be a way to boost the influence of this business within the group.
- Genzyme has progressively seen its scope of responsibilities expand from rare diseases to multiple sclerosis and oncology, and is now the cornerstone of the group's Specialty GBU, which will include highly promising drugs like dupilumab. This is also a business that Sanofi is looking to leverage through the proposed acquisition of Medivation.

GBU Specialty: sales projections (without Medivation): the heart of the engine



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

- We see these three pillars becoming the spinal cord of the New Sanofi (their total weight soaring from one third to half the business between 2015 and 2022). The influence of the other activities is set to wane over time, something which may or may not include the Diabetes/CV GBU, depending mainly on what happens with Praluent.

Three growth drivers going forward

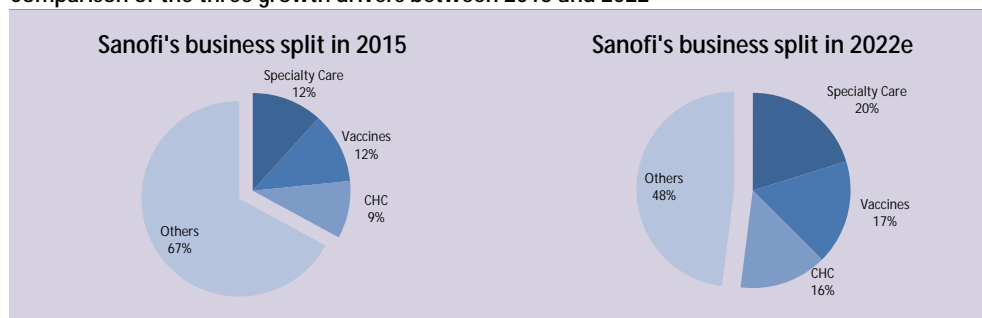
	2015 revenues	2022 est. revenues	CAGR	Comments
Specialty Care	EUR4,275m	EUR8,954m	11.1%	Does not include Medivation
Vaccines	EUR4,261m	EUR7,627m	8.7%	Incl. EUR400m of sales coming from SP MSD
CHC	EUR3,492m	EUR6,450m	9.2%	Incl. B.I. CHC

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



- Without even factoring in EM and Medivation, Specialty Care, Vaccines and CHC will represent more than 50% of Sanofi in 2022e.

Comparison of the three growth drivers between 2015 and 2022



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

- As the business moves in this new direction and the focus shifts away from Lantus, we expect Sanofi to again be able to convince investors that the stock is worth buying. How far are we from that point? Maybe no more than a few months and probably by the year-end as the trigger events should take place in 2016. Get ready to jump in!

VALUATION

- Excluding Medivation and without computing either the asset swap with B.I. or the restructuring of the SP-MSD joint-venture, we derive a new FV of EUR83 (WACC: 6.9% - Terminal growth rate: 1.8%). More than half of our change in FV from EUR86 down to EUR83 stems from the sales cut in future Praluent sales. Although we are still confident in the PCSK9 class to show a cv benefit, the slow ramp-up so far makes us more cautious and we therefore expect a more reasonable sales growth trajectory with peak sales reduced from EUR5bn to EUR3.4bn. Note that this FV does not factor in either Medivation (because the transaction remains highly uncertain) or the asset swap with B.I. since we lack financial details.
- Once visibility improves and uncertainties are removed, in our view Sanofi may well again be an attractive investment vehicle although the timing of this is likely to be a few months from now. For the time being, the core EPS CAGR we derive from the existing Sanofi is too limited (3.5% over [2015-2019]) to make a compelling case.

NEXT CATALYSTS

- By the end of June :
 - LIBERTY CHRONOS phase III data communicated (dupilumab in AD);
 - LixiLan-O and LixiLan-L phase III data presented at the ADA conference
 - Final DengVaxia licensure in Brazil and possibly other countries
 - Final District Court decision in PCSK9 patent case v. Amgen (?)

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Analyst :
 Eric Le Berrigaud
 33(0) 1 56 68 75 33
eleberrigaud@bryangarnier.com

Sector Team :
 Mickael Chane Du
 Hugo Solvet

Healthcare

Shire PLC

Price 4,289p

Shire and Baxalta's shareholders approve the deal

Fair Value 5900p (+38%)

BUY

Bloomberg	SHP LN
Reuters	SHP.L
12-month High / Low (p)	5,730 / 3,480
Market Cap (GBPm)	25,448
Avg. 6m daily volume (000)	2,073

	1 M	3 M	6 M	31/12/15
Absolute perf.	2.8%	10.1%	-8.1%	-8.7%
Healthcare	3.2%	5.0%	-7.2%	-5.6%
DJ Stoxx 600	0.4%	5.5%	-8.9%	-4.4%

	2015	2016e	2017e	2018e
P/E	16.1x	14.8x	13.1x	11.4x
Div yield (%)	0.4%	0.4%	0.5%	0.5%

ANALYSIS

- The verdict has been given: **the merger between Shire and Baxalta has been accepted by shareholders from both companies** (knowing that respectively 93.8% and 98.9% of the votes cast voted in favour of the adoption). So as promised, 1/ BXL shareholders will receive USD18.00 in cash along with 0.45 SHP ordinary shares for each BXL share; 2/ **the transaction should be completed on or around 3rd June 2016**.
- As a reminder, we believe this merger will enhance Shire's already-exceptional growth profile. And our calculations suggest that the transaction should be earning accretive as of 2017e (+1% and then +4-6% in the following years).

VALUATION

- BUY reiterated with a FV of GBP5,900...** all the more so 1/ once the deal is completed (and preferably once the pro-forma accounts are available), we will certainly raise this figure; 2/ at current levels, the stock is trading below an exaggeratedly-pessimistic scenario (BXL + SHP along with (i) a complete decline of the Haemophilia franchise by 2022, i.e. 5 years after the arrival of Roche's emicizumab, (ii) operational synergies potentially reaching only half the level communicated by Shire (USD250m); 3/ the payment of USD5.0bn linked to the loss of Baxalta's tax-free status.

NEXT CATALYSTS

- 3rd June 2016: Completion of the transaction.

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Mickael Chane Du, mchanedu@bryangarnier.com

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 55.9%

NEUTRAL ratings 34.3%

SELL ratings 9.8%

Bryan Garnier Research Team

Healthcare Team	Pharmaceuticals	Eric Le Berrigaud <i>(Head of Equities)</i>	33 (0) 1 56 68 75 33	eleberrigaud@bryangarnier.com
	Biotech/Medtech	Mickael Chane-Du	33 (0) 1 70 36 57 45	mchanedu@bryangarnier.com
	Medtech/Biotech	Hugo Solvet	33 (0) 1 56 68 75 57	hsolvet@bryangarnier.com
Consumer Team	Luxury/Consumer Goods	Loïc Morvan	33 (0) 1 70 36 57 24	lmorvan@bryangarnier.com
	Beverages	Nikolaas Faes	33 (0) 1 56 68 75 72	nfaes@bryangarnier.com
	Retailing	Antoine Parison	33 (0) 1 70 36 57 03	aparison@bryangarnier.com
	Luxury /Consumer Goods	Cedric Rossi	33 (0) 1 70 36 57 25	crossi@bryangarnier.com
TMT	Food & Beverages	Virginie Roumage	33 (0) 1 56 68 75 22	vroumage@bryangarnier.com
	Video Games / Payments	Richard-Maxime Beaudoux	33 (0) 1 56 68 75 61	rmbeaudoux@bryangarnier.com
	Telecom	Thomas Coudry	33(0) 1 70 36 57 04	tcoudry@bryangarnier.com
	Software & IT Services	Gregory Ramirez	33 (0) 1 56 68 75 91	gramirez@bryangarnier.com
Utilities	Semiconductor	Dorian Terral	33 (0) 1 56 68 75 92	dterral@bryangarnier.com
		Xavier Caroen	33 (0) 1 56 68 75 18	xcaroen@bryangarnier.com
Insurance		Olivier Pauchaut <i>(Head of Research)</i>	33 (0) 1 56 68 75 49	opauchaut@bryangarnier.com
Hotels/Business Services		Bruno de La Rochebrochard	33 (0) 1 56 68 75 88	bdelarochebrochard@bryangarnier.com
Construction/ Infrastructures Building Materials		Eric Lemarié	33 (0) 1 70 36 57 17	elemarie@bryangarnier.com
Marketing		Sophie Braincourt	33(0) 1 56 68 75 36	sbraincourt@bryangarnier.com
Market Data & Information Systems Manager		Eric Monnier	33(0) 1 56 68 75 63	emonnier@bryangarnier.com

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London	Paris	New York	Munich	New Delhi
Beaufort House	26 Avenue des Champs Elysées	750 Lexington Avenue	Widenmayerstrasse 29	The Imperial Hotel Janpath
15 St. Botolph Street	75008 Paris	New York, NY 10022	80538 Munich	New Delhi 110 001
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Germany	Tel +91 11 4132 6062
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	+49 89 2422 62 11	+91 98 1111 5119
Fax: +44 (0) 207 332 2559	Regulated by the	FINRA and SIPC member		Fax +91 11 2621 9062
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Financial Conduct Authority (FCA) the	Autorité de Contrôle prudentiel et			rue de Grenus 7
	de résolution (ACPR)			CP 2113
				Genève 1, CH 1211
				Tel +4122 731 3263
				Fax+4122731 3243
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