



7th June 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	17920.33	+0.64%	+2.84%
S&P 500	2109.41	+0.49%	+3.20%
Nasdaq	4968.71	+0.53%	-0.77%
Nikkei	16675.45	+0.58%	-12.89%
Stoxx 600	342.411	+0.33%	-6.40%
CAC 40	4423.38	+0.04%	-4.61%
Oil /Gold			
Crude WTI	48.73	0.00	+30.99%
Gold (once)	1245.6	+0.46%	+17.25%
Currencies/Rates			
EUR/USD	1.13665	+0.30%	+4.63%
EUR/CHF	1.10445	-0.38%	+1.57%
German 10 years	0.087	+18.77%	-86.31%
French 10 years	0.45	+6.16%	-54.13%
Euribor	-	+-%	+-%

Economic releases :

Date	
7th-Jun	DE - Industrial prod. Apr. (1.0% y/y) EUZ - GDP (1.5% y/y) FR - Merchandise Trade US - Consumer Credit US - Redbook

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	
3rd-Jun	GENEURO : The GeNesis of a disruptive treatment for MS
3rd-Jun	GENEURO : The GeNesis of a disruptive treatment for MS
1st-Jun	Luxury goods Reduced visibility in the short term: be selective!
1st-Jun	Luxury goods Reduced visibility in the short term: be selective!
31st-May	SEB The kitchen is now bigger and well-equipped!
30th-May	SANOFI A more focused Sanofi is on the way

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



AB INBEV

NEUTRAL, Fair Value EUR109 (-5%)

Already Gone (full report released today)

Despite tumbling earnings forecasts (-20% over 12 months), AB InBev shares have held up very well as the acquisition of SABMiller is expected to balance the decline with a 19% accretion of earnings. As a result investors should not expect an additional share price boost from the acquisition but instead should brace themselves for increased share price volatility linked with emerging market currency movements.

PHARMACEUTICALS

ASCO part II: The lung cancer market to split into smaller parts

Presentations at ASCO over the weekend were largely dominated by immuno-oncology as we described in our short note yesterday morning. Although a few more results came out yesterday, companies made headlines on data obtained in various subsets of the lung cancer market with small molecules. This confirms that the market is set to divide up into small parts as an increasing number of biomarkers show relevance in this setting. We show this today with three different clinical results. From a financial standpoint, it is uncertain whether this will translate into big opportunities for companies.

SEMICONDUCTORS

April data above seasonal average, May data should harbour no surprises

April sales came out above expectations and the seasonal average. According to WSTS data, unadjusted global semiconductor sales stood at USD25.2bn, down 8.1% on a sequential basis and down 6.1% on a yearly basis. This downtrend was 300bp above our 5-y historical benchmark pointing to a sequential decrease of 11.1%. Computer processors, which disappointed in March, shows better momentum in April while memory segment saw a challenging environment.

In brief...

FRESENIUS SE, One man's meat is another man's poison

SOITEC, Soitec announces success of EUR75.4m rights issue

Food & Beverages

AB InBev

Price EUR114.40

Already Gone (full report released today)

Fair Value EUR109 (-5%)

NEUTRAL

Bloomberg	ABI BB
Reuters	ABI.BR
12-month High / Low (EUR)	123.3 / 91.3
Market Cap (EURm)	183,983
Ev (BG Estimates) (EURm)	259,489
Avg. 6m daily volume (000)	1,702
3y EPS CAGR	6.9%

Despite tumbling earnings forecasts (-20% over 12 months), AB InBev shares have held up very well as the acquisition of SABMiller is expected to balance the decline with a 19% accretion of earnings. As a result investors should not expect an additional share price boost from the acquisition but instead should brace themselves for increased share price volatility linked with emerging market currency movements.

ANALYSIS

- AB InBev 2017 standalone earnings expectations have tumbled by 27% since the start of 2015 to USD5.0 from USD6.9 and by 20% over the past 12 months. This has come on the back of emerging market currency weakness which impacts not only the translation of profits but also operating margins as the price of some cost of goods (eg packaging, wheat, transport) is linked with the USD. Indeed the Brazilian real has come down by 23% since the start of 2015 and the Argentinean peso by 34%. The Mexican peso and the euro limited the decline to 9%.
- The approach for SABMiller has been very timely as the acquisition is expected to enhance earnings significantly. We calculate that the acquisition is accretive to the tune of 19% by 2020 (originally it was 25% but also SABMiller earnings projections have suffered from the emerging market currency weakness). Our assumption is that AB InBev will save USD3.0bn by 2020 (including the remaining USD0.5bn from the existing SABMiller plan). This is 25% of the expected SABMiller revenues from those assets that AB InBev is keeping (Africa, Latin America, Asia outside the Chinese business).
- These are realistic, but punchy savings targets to justify the current share price. The consequence is that investors should not expect a lot of cost cutting surprise above these projections. As a result the shares risk to become more linked to emerging market exchange rates (which of course can play both ways). Indeed, over the past couple of months the stronger Brazilian real, Argentinian and Columbian peso and South African rand have started to improve the outlook and earnings projections for AB InBev and SABMiller have stabilised.

	1 M	3 M	6 M	31/12/15
Absolute perf.	4.7%	8.0%	-1.7%	0.0%
Food & Bev.	3.3%	1.9%	-3.4%	-1.9%
DJ Stoxx 600	3.2%	0.2%	-7.6%	-6.4%

YEnd Dec. (USDm)	2015	2016e	2017e	2018e
Sales	43,604	43,076	59,609	62,027
% change		-1.2%	38.4%	4.1%
EBITDA	16,921	16,885	24,041	25,884
EBIT	13,768	13,842	20,172	21,899
% change		0.5%	45.7%	8.6%
Net income	8,513	7,712	11,388	12,448
% change		-9.4%	47.7%	9.3%

	2015	2016e	2017e	2018e
Operating margin	31.6	32.1	33.8	35.3
Net margin	19.5	17.9	19.1	20.1
ROE	20.2	17.9	13.7	14.3
ROCE	10.1	10.3	10.5	8.7
Gearing	98.7	101.3	104.7	97.1

(USD)	2015	2016e	2017e	2018e
EPS	5.10	4.62	5.71	6.24
% change	-	-9.4%	23.5%	9.3%
P/E	25.5x	28.1x	22.8x	20.8x
FCF yield (%)	3.6%	3.1%	5.4%	4.9%
Dividends (USD)	2.68	2.43	3.00	3.28
Div yield (%)	2.1%	1.9%	2.3%	2.5%
EV/Sales	6.7x	6.8x	5.7x	5.4x
EV/EBITDA	17.4x	17.5x	14.1x	13.0x
EV/EBIT	21.3x	21.3x	16.8x	15.3x

VALUATION

- Using a risk free rate of 1.6% and a risk premium of 7%, we derive for AB InBev a fair price of EUR109 per share assuming a long term growth rate of 3.7%

NEXT CATALYSTS

- 29th July Q2 216 Earnings release.

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Sector View

Pharmaceuticals

ASCO part II: The lung cancer market to split into smaller parts

	1 M	3 M	6 M	31/12/15
Healthcare	7.7%	4.9%	-5.1%	-6.5%
DJ Stoxx 600	3.2%	0.2%	-7.6%	-6.4%

*Stoxx Sector Indices

Companies covered

ACTELION	BUY	CHF173
Last Price	CHF164,8	Market Cap. CHF18,808m
ASTRAZENECA	BUY	5100p
Last Price	4067,5p	Market Cap. GBP51,437m
BAYER	NEUTRAL	U.R.
Last Price	EUR89,18	Market Cap. EUR73,747m
GLAXOSMITHKLINE	BUY	1700p
Last Price	1470,5p	Market Cap. GBP71,640m
IPSEN	BUY	EUR63
Last Price	EUR56,97	Market Cap. EUR4,743m
NOVARTIS	NEUTRAL	CHF89
Last Price	CHF79,05	Market Cap. CHF207,673
NOVO NORDISK	NEUTRAL	DKK400
Last Price	DKK373,6	Market Cap. DKK751,894
ROCHE HOLDING	BUY	CHF293
Last Price	CHF258,6	Market Cap. CHF181,683
SANOFI	NEUTRAL	EUR83
Last Price	EUR72,4	Market Cap. EUR93,167m
SHIRE PLC	BUY	6500p
Last Price	4407p	Market Cap. GBP39,600m
UCB	NEUTRAL	EUR80
Last Price	EUR66,78	Market Cap. EUR12,989m

Presentations at ASCO over the weekend were largely dominated by immuno-oncology as we described in our short note yesterday morning. Although a few more results came out yesterday, companies made headlines on data obtained in various subsets of the lung cancer market with small molecules. This confirms that the market is set to divide up into small parts as an increasing number of biomarkers show relevance in this setting. We show this today with three different clinical results. From a financial standpoint, it is uncertain whether this will translate into big opportunities for companies.

ANALYSIS

- A series of three almost concomitant clinical trial results came out yesterday that illustrate how the lung cancer market is currently restructuring itself. This should not prevent big commercial opportunities arising and reaching blockbuster status, including new standards of care in first and second lines with combinations of IO/IO or IO/chemo drugs. But this is not the end of targeted therapies as more and more biomarkers look actionable and help split the market into plenty of smaller segments that will be addressed differently. For some time we had EGFR-positive lung cancers and more recently ALK-positive lung cancers with more or less significant market sizes in the end (Xalkori in 2015 achieved only USD488m in sales in ALK-positive cancers).
- The first interesting results to be presented yesterday showed very promising data for a dual ALK/ROS1 tyrosine kinase inhibitor in a phase I/II trial with 54 patients previously treated with several ALK TKIs. ORR was 46% and median PFS was 11.4 months. The treatment was also able to reduce the size of brain metastases in many patients. The main side effects were cholesterol elevation and peripheral oedemas. A larger phase II with 240 patients will now begin. We lack some details about the study including which ALK TKIs were used before starting the investigational drug, since Xalkori (Pfizer's drug) is known not to cross the brain-blood barrier, unlike Zykadia and Cotellic. The incremental value of the drug will therefore have to be determined with a closer look. That said, in ROS1-positive patients and in patients with both ALK+ and ROS1+ tumours, the drug looks interesting. Whether it can be a meaningful drug for Pfizer remains unclear at this stage however.
- The other two presentations were different in that they refer to existing products that have successfully explored new territories in sub-segments of the lung cancer market. The first is Novartis' combination of Mekinist and Tafenlar that are currently approved for BRAF V600E-mutation positive melanoma and that has been tested in BRAF V600E-mutation positive lung cancer with encouraging results. Out of the 57 patients tested in phase II, 63% had a clinical response with median duration of 9.0 months and PFS of 9.7 months while having already performed a first line of chemotherapy. It is estimated that only 1-2% of NSCLC patients have BRAF V600E mutation i.e. less than half the number with ALK mutation, but this may represent a few hundreds of millions more for the combination that should be a blockbuster in melanoma alone.
- The second product in the same category although with a different angle (not a new biomarker this time) is Tagrisso from AstraZeneca that has already received approval for NSCLC with EGFR T790M mutation. What was shown in an updated presentation of a phase I trial with the drug is that the drug works equally well when the disease spreads and shows CNS lesions. When patients have what is called leptomeningeal disease secondary to their lung cancer, they usually receive heavy treatments like intrathecal chemotherapy or whole-brain radiations. At least similar results were obtained with Tagrisso without the need for concomitant heavy treatments.

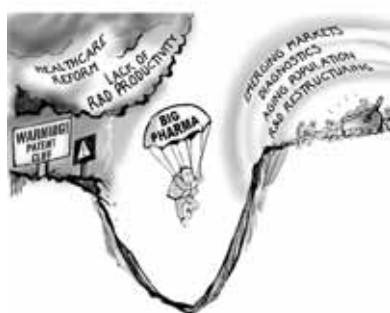
VALUATION

- No change to our forecasts as a result of the above-mentioned clinical results.

NEXT CATALYSTS

- Today is the last day of the ASCO 2016 meeting

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Sector View

Semiconductors

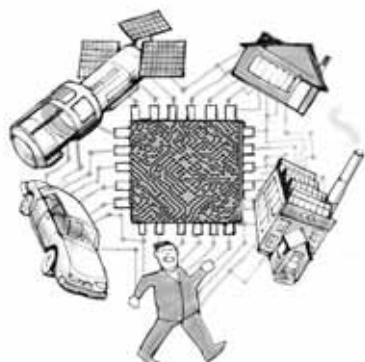
April data above seasonal average, May data should harbour no surprises

	1 M	3 M	6 M	31/12/15
Semiconductors	7.6%	2.0%	-6.5%	-1.5%
DJ Stoxx 600	1.7%	0.6%	-8.3%	-6.7%

*Stoxx Sector Indices

Companies covered

ARM HOLDINGS	BUY	1340p
Last Price	991.5p	Market Cap. GBP13,954m
ASML	SELL	EUR81
Last Price	EUR88.75	Market Cap. EUR38,458m
DIALOG SEMICONDUCTOR	BUY	EUR35
Last Price	EUR28.175	Market Cap. EUR2,194m
INFINEON	BUY	EUR15
Last Price	EUR13.18	Market Cap. EUR14,914m
SOITEC	NEUTRAL	EUR.45 vs. 0.5
Last Price	EUR0.53	Market Cap. EUR321m
STMICROELECTRONICS	NEUTRAL	EUR6.3
Last Price	EUR5.322	Market Cap. EUR4,848m



April sales came out above expectations and the seasonal average. According to WSTS data, unadjusted global semiconductor sales stood at USD25.2bn, down 8.1% on a sequential basis and down 6.1% on a yearly basis. This downtrend was 300bp above our 5-y historical benchmark pointing to a sequential decrease of 11.1%. Computer processors, which disappointed in March, shows better momentum in April while memory segment saw a challenging environment.

ANALYSIS

- **Unadjusted global semiconductor sales continued to decrease on a yoy basis in April to USD25.2bn (down 6.1%) but the trend is improving.** On a sequential basis, unadjusted global sales were down 8.1% in April compared to March. This was above our benchmark based on 5-y historical data showing an historical seasonal sequential decline in sales of 11.1% in April. Based on the visibility we now have, we anticipate further healthy momentum in the Smartphone, Automotive and Industrial segments while PCs should remain soft. We continue to expect low growth of 2-3% over the full year with H2 stronger than H1 thanks to better comparison. Note however that the environment is still fragile (March data, usually strong, was particularly disappointing).
- **The Americas were the weakest point in April.** Sales in Asia, which represents about 60% of semiconductor billings (~50% of which generated in China), were down by 5% yoy in March. European sales were down by 7% and US sales by 14%. In contrast, Japanese sales (about 10% of WW sales) rose by 1%.
- **May and beyond: May data should harbour no surprises.** April sales came out better than expected (macro index suggested a disappointment) and in view of current visibility, we expect May sales to be in line with historical seasonality (i.e. a sequential increase of 1%, +/-300bp). We expect Smartphone sales to maintain their current bumpy trend but we expect things to improve gradually from now. Q1 vehicle production remained encouraging, with production of light vehicles up 7% yoy in China and 9% in Europe (however, the US, which accounts for a quarter of Chinese production and a third of European production, decreased by 3%). Our mid-term view has not changed and we continue to expect better momentum in H2 2016 thanks to better comparison in Automotive and Smartphones. May ISM data improved slightly with the US PMI Manufacturing index at 51.3 compared with 50.8 in April. Compared to the January PMI at 48.2, this highlights a reacceleration in the industrial sector in the US that could boost demand for chips in this segment. Finally, Chinese data dipped slightly with Markit PMI Manufacturing at 49.2 compared with 48.0 in January.

VALUATION

- **The 2016e P/E valuation improved significantly in May.** Our semiconductor valuation table shows that the overall valuation between the six sub-sectors of the industry improved slightly in May. On average, IP & EDA vendors, and Fables maintained the highest valuation metrics with average 2016e P/E ratios of 20.0x and 19.4x respectively (from 18.4x and 15.6x a month ago). Conversely, Memory makers now have the lowest valuation with an average 2016e P/E ratio of 11.5x (stable from 11.5x a month ago) while Foundry and IDMs valuation improved to 12.0x and 16.4x respectively (vs. 11.2x and 14.8x a month ago).

BG semiconductor sub-sector valuation table

Subsector (# of comp.)	YTD stocks perf.		2016e			
	Avg. / Median	High / Low	EV/Sales	EV/EBITDA	EV/EBIT	P/E
Fabless (15)	3.4% / 0.3%	43.0% / -36.9%	2.3x	8.8x	11.5x	19.4x
Logic & Analog IDM (19)	-0.5% / 0.6%	14.0% / -24.7%	2.6x	8.1x	11.4x	16.4x
Memory IDM (4)	0.7% / 0.5%	10.6% / -8.8%	0.9x	4.1x	2.5x	11.5x
Foundry (5)	-0.8% / 1.2%	10.7% / -16.5%	1.4x	3.9x	12.7x	12.0x
Semi Equipmt & Materials (11)	8.1% / 5.7%	37.2% / -5.8%	2.0x	8.1x	9.6x	14.9x
Intellectual Property & EDA (10)	20.8% / 18.4%	43.2% / -5.3%	4.3x	13.6x	18.4x	20.0x

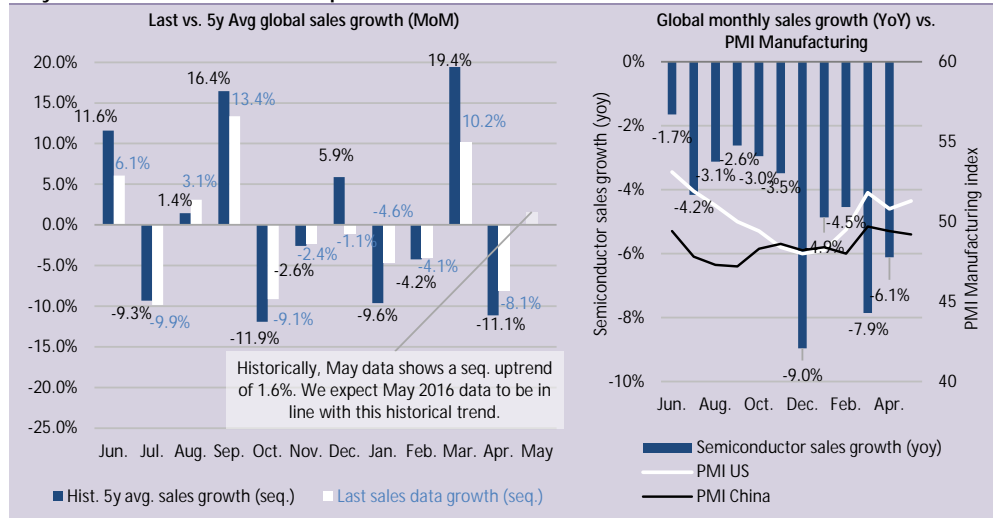
Numbers between brackets represent the number of companies in each category; green/red numbers are higher/lower data per ratio.

Sources: Thomson Reuters I.B.E.S.; Bryan Garnier & Co.

NEXT CATALYSTS

- May 2016 WSTS global billing reports, expected for early July.

May data should harbour no surprise



Sources: WSTS; Bryan Garnier & Co.

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Healthcare

Fresenius SE

Price EUR66.40

One man's meat is another man's poison

Fair Value EUR73 (+10%)

BUY-Top Picks

Bloomberg	FRE GR
Reuters	FREG.DE
12-month High / Low (EUR)	69.8 / 53.1
Market Cap (EURm)	36,263
Avg. 6m daily volume (000)	1 282

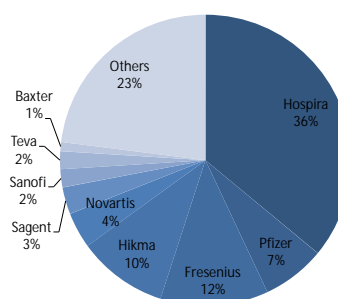
	1 M	3 M	6 M	31/12/15
Absolute perf.	5.2%	10.0%	2.6%	0.7%
Healthcare	7.7%	4.9%	-5.1%	-6.5%
DJ Stoxx 600	3.2%	0.2%	-7.6%	-6.4%

	2015	2016e	2017e	2018e
P/E	25.4x	22.9x	21.5x	19.6x
Div yield (%)	2.5%	2.8%	3.0%	3.3%

ANALYSIS

- A translated notice from the Hungarian Food and Drug Administration (OGYE) states that Teva decided to temporarily suspend production of Sterile Injectable drugs (all except two, almost 200) in its Gödöllő plant four months ago. The FDA therefore issued an import alert (see [here](#)) banning imports from Teva's Gödöllő plant on the basis that the plant does not operate in conformity with current GMP. We believe that this is a hit for Teva, whose USD110m Hungarian plant opened in 2012 has capacity for 160-200 million injectable units mainly for the US, European and East Asian markets.
- Meanwhile, we see a positive read-across for Fresenius SE, whose IV generic business benefits from strong momentum. Teva's 2% market share, which is under pressure in the IV Gx injectable space, alongside Pfizer's acquisition of Hospira which places the emphasis on biosimilar opportunities rather than IV Gx should continue to profit Kabi in the short term. As a reminder, the business unit represents 45% of Fresenius SE's net income (22% and 30% of sales and EBIT respectively) and had a strong start to the year (7% cc growth) with further attractive profitability gains, which came as a surprise whereas we were expecting a normalization (see our comment [here](#)).

Sterile Injectable Market 2015 (in units)



VALUATION

- We reiterate our BUY rating and EUR73 fair value on Fresenius SE which is our Top Pick list for Q2 2016.

NEXT CATALYSTS

- 2nd August: H1 results

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TMT

Soitec

Price EUR0.52

Soitec announces success of EUR75.4m rights issue**Fair Value EUR0.45 vs. EUR0.50 (-13%)****NEUTRAL**

Bloomberg	SOI.FP
Reuters	SOIT.PA
12-month High / Low (EUR)	0.6 / 0.4
Market Cap (EUR)	315
Avg. 6m daily volume (000)	1,002

	1 M	3 M	6 M	31/12/15
Absolute perf.	6.6%	-1.5%	-12.1%	-18.8%
Semiconductors	9.6%	1.9%	-6.6%	-1.3%
DJ Stoxx 600	3.2%	0.2%	-7.6%	-6.4%

	03/15	03/16e	03/17e	03/18e
P/E	NS	NS	50.5x	48.1x
Div yield (%)	NM	NM	NM	NM

ANALYSIS

- **Yesterday, Soitec announced the success of its second capital increase announced on May 13th.** The group raised EUR75.4m resulting in the creation of about 235.7m of shares. Including the previous reserved capital increase of EUR76.5m, the group raised an overall amount of EUR151.9m. Given that this second capital increase was a rights issue, Bpifrance, CEA Investissement and NSIG Sunrise (who invested in the first reserved capital increase) remain the three largest shareholders with 14.5% of outstanding shares (14.2% of voting rights).
- **Proceeds from the two successive capital increases will be invested to increase production capacity and strengthen the group's financial situation.** The group confirmed that the funds will be used to 1/ finance the ramp-up in 300mm production dedicated to Soitec's FD-SOI technology for about EUR40m, 2/ repay the bridge loan set up a year ago to support the wind-down of the solar business for about EUR50m, and 3/ repurchase the 2018 OCEANES for about EUR61m (out of c. EUR100m).

VALUATION

- **Due to the issue of new shares, we adjust our Fair Value from EUR0.50 to EUR0.45.** Note that, in addition to the impact of the capital increase, we adjust our beta in order to take into account the strengthened financial structure from 1.8 to 1.6 (WACC of 12.2%).
- Soitec shares are trading on FY17e EV/Sales of 1.4x and FY17e EV/EBIT of 32.1x.

NEXT CATALYSTS

- 16th June 2016: FY16 results (before market opening)

[Click here to download](#)Dorian Terral, dterral@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 56.2%

NEUTRAL ratings 34%

SELL ratings 9.7%

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