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16th June 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	17640.17	-0.20%	+1.23%
S&P 500	2071.5	-0.18%	+1.35%
Nasdaq	4834.93	-0.18%	-3.44%
Nikkei	15434.14	-3.05%	-16.36%
Stoxx 600	323.627	+0.97%	-11.53%
CAC 40	4171.58	+1.00%	-10.04%
Oil /Gold			
Crude WTI	47.88	-1.38%	+28.71%
Gold (once)	1283.38	-0.19%	+20.80%
Currencies/Rates			
EUR/USD	1.1235	+0.22%	+3.42%
EUR/CHF	1.081	+0.07%	-0.59%
German 10 years	-0.016	-3412.50%	-102.49%
French 10 years	0.409	-2.43%	-58.29%

Economic releases :

Date	
16th-Jun	ECB - Publishes Economic Bulletin
	GB - Retail sales May (3.8% E)
	GB - BoE rate Decision
	US - Initial Jobless Claims (270K E)
	US - Philadelphia Claims Jun (1.3E)
	US - CPI May

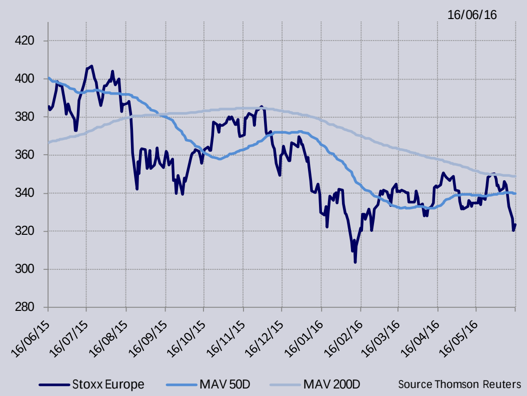
Upcoming BG events :

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

Recent reports :

Date	
15th-Jun	MELIA The best place to be under the sun
13th-Jun	MORPHOSYS Back for MORe
10th-Jun	UNILEVER Well priced Quality
9th-Jun	GLAXOMSITHKLINE : ViiV likely to impact GSK beyond dolutegravir
8th-Jun	IMERYS : Stronger than Kryptonite
7th-Jun	AB INBEV Already Gone

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



ASML — SELL, Fair Value EUR81 (-3%)

ASML to acquire Hermes Microvision for EUR2.75bn

Today, ASML has announced the acquisition of Hermes Microvision, a specialist of verification systems, for about TWD100bn, or EUR2.75bn. The operation aims to reinforce ASML's Holistic lithography portfolio with technologies independent of EUV. The group expects the deal to be closed by Q4-16 and says the operation will be accretive immediately. We believe the stock is poised to react positively today, although it does not change our view on the case significantly. We continue to see risks on the timing of adoption of the EUV technology, while current valuation metrics offer no room for a disappointment.

GALAPAGOS — BUY, Fair Value EUR64 (+37%)

Feedback R&D day: Confidence and supportive Newsflow to come despite lack of numbers

Galapagos hosted its annual R&D day which in our view highlighted the management's confidence in keeping up with its timeline for the CF program (phase II for the x3 combo towards mid-2017). While investors and us might have expected more direct comparison with Vertex' product, we acknowledge that it might be a bit early. Focus has also been put on other early/mid-stage assets and especially two developed in Osteoarthritis and IPF. Sitting on a ~EUR1bn cash pile, the future of the company will involve in and out-licensing deals to 1/ keep-up with ambitious and appreciated development plan and 2/ evolve towards an integrated biopharma company.

SOITEC — NEUTRAL, Fair Value EUR0.45 (-8%)

Audited FY16 results contain no material surprise; FQ1-17 guidance confirmed

Today, Soitec reports audited FY16 results in line with previously reported expected FY16 results. Note that, in the context of the latest capital increases, Soitec already reported FY16 data. For FY16, sales were up to EUR237.5m (+6.5%; +17% at constant exchange rates), current operating income improved significantly from -EUR126m in FY15 to EUR22.4m in FY16 (vs. EUR10m previously announced as an estimate by Soitec) and net result remains in negative territory, but losses have been reduced from EUR259m to EUR72m or EUR0.30 per share.

ENVIRONMENTAL SERVICES

Haste makes waste, it's upside time! (report released today)

Ahead of the H1-16 results (and after the FY15/16 results for Pennon), we update our models and review our investment case on environmental services companies. Despite the still challenging macro environment, we remain confident of the resilience of the companies' margins and the cost-reduction measures being implemented. We upgrade our rating on Veolia from Neutral to Buy and maintain our Buy rating on Suez as we believe current and potential additional cost-cutting measures could, at least, partly offset macro headwinds and M&A shortfall for Suez. We also maintain our Sell rating on Pennon.

In brief...

ALTICE, *Wins regulatory approval to acquire Cablevision*

ILIAD, *Signs addendum to roaming agreement with Orange; ARCEP reaction expected*

FOOD INDUSTRY, *What Mead Johnson said at the DB conference?*

TMT

ASML

Price EUR83.91

ASML to acquire Hermes Microvision for EUR2.75bn

Fair Value EUR81 (-3%) SELL

Bloomberg	ASML NA
Reuters	ASML.AS
12-month High / Low (EUR)	99.7 / 71.8
Market Cap (EURm)	36,361
Ev (BG Estimates) (EURm)	34,935
Avg. 6m daily volume (000)	1,257
3y EPS CAGR	21.9%

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.2%	-3.5%	2.7%	1.6%
Semiconductors	4.1%	-2.8%	-6.4%	-6.2%
DJ Stoxx 600	-3.3%	-5.1%	-10.0%	-11.5%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	6,287	6,487	7,415	8,742
% change		*3.2%*	*14.3%*	*17.9%*
EBITDA	1,864	1,774	2,337	3,031
EBIT	1,565	1,469	2,017	2,666
% change		*-6.1%*	*37.3%*	*32.2%*
Net income	1,387	1,266	1,758	2,353
% change		*-8.7%*	*38.8%*	*33.8%*

	2015	2016e	2017e	2018e
Operating margin	24.9	22.7	27.2	30.5
Net margin	22.1	19.5	23.7	26.9
ROE	16.5	15.5	20.0	23.8
ROCE	22.9	19.1	26.4	25.9
Gearing	-27.2	-17.5	-23.6	-7.4

(EUR)	2015	2016e	2017e	2018e
EPS	3.21	3.02	4.26	5.82
% change	-	*-6.0%*	*41.2%*	*36.6%*
P/E	26.1x	27.8x	19.7x	14.4x
FCF yield (%)	4.1%	1.9%	5.1%	NM
Dividends (EUR)	0.70	1.05	1.21	1.39
Div yield (%)	0.8%	1.3%	1.4%	1.7%
EV/Sales	5.4x	5.4x	4.6x	4.1x
EV/EBITDA	18.3x	19.7x	14.7x	11.8x
EV/EBIT	21.8x	23.8x	17.0x	13.4x

Today, ASML has announced the acquisition of Hermes Microvision, a specialist of verification systems, for about TWD100bn, or EUR2.75bn. The operation aims to reinforce ASML's Holistic lithography portfolio with technologies independent of EUV. The group expects the deal to be closed by Q4-16 and says the operation will be accretive immediately. We believe the stock is poised to react positively today, although it does not change our view on the case significantly. We continue to see risks on the timing of adoption of the EUV technology, while current valuation metrics offer no room for a disappointment.

ANALYSIS

- **ASML acquires Hermes Microvision for TWD100bn, or EUR2.75m.** Hermes Microvision is a Taiwanese publicly traded company specialised in pattern verification systems (with e-beam inspection technology), generating TWD6.65bn (EUR189m) of revenues in FY15 (operating profit of 37%). ASML acquires HMI in a deal worth TWD100bn (EUR2.75m) cash representing a 31% premium over Hermes' 30-day wtd avg trading price. For this acquisition, ASML says it will issue 1/ issue about 5.9m shares or a limited dilutution of about 1.4% of currently outstanding shares at a price of EUR85.24 for a total issue of EUR500m, 2/ issue EUR1.5bn of debt and 3/ add the remainder EUR750m from available cash (net debt of EUR2.0bn by the end of Q1-16). The transaction, which has already been approved by ASML and HMI boards, is expected to be closed in Q4-16 and is expected to be immediately accretive to EPS.
- **Buying growth at high multiples.** This transaction highlights high multiples with 2016e purchase price to sales multiple of 13x and purchase price to net income of 35x. We believe the group is seeking a way to help to achieve the 2020 target of a revenue of EUR10bn. We note that the Street currently estimates HMV 2018 sales of about EUR327m.
- **An additional asset in the ASML's holistic lithography portfolio**. On a business perspective, this deal appears to be positive. HMI's technology is complementary to ASML computational knowledge through the holistic lithography offering and more particularly 1/ lithography exposure systems, 2/ computational lithography and 3/ metrology. It should provide more accurate pattern information used to optimise lithography steps. In addition, we note that this should bring additional revenue which is independent to EUV success and allow ASML to be more exposed to 3D-NAND market (hence expand TAM). Indeed, HMI e-beam technology allow high voltage contrast metrology, a technology required to in the production of 3D-NAND.

VALUATION

- We believe the stock is poised to react positively today. However, the deal does not change our view that the timing of adoption of the EUV is under pressure given the current tough environment in the semiconductor market and the slowdown of Moore's Law.
- Based on our estimates, ASML's shares trade at a 2016e P/E ratio of 27.8x and a 2016e PEG ratio of 1.3x.

NEXT CATALYSTS

- 20th July 2016: FQ2-16 results.

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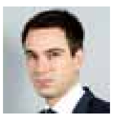

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Healthcare

Galapagos

Price EUR46.83

Feedback R&D day: Confidence and supportive Newsflow to come despite lack of numbers

Fair Value EUR64 (+37%) **BUY**

Bloomberg	GLPG BB
Reuters	GLPG.BR
12-month High / Low (EUR)	58.5 / 32.7
Market Cap (EURm)	2,159
Ev (BG Estimates) (EURm)	0
Avg. 6m daily volume (000)	218.9
3y EPS CAGR	

	1 M	3 M	6 M	31/12/15
Absolute perf.	4.7%	15.7%	-9.3%	-17.5%
Healthcare	-1.7%	-3.0%	-7.3%	-12.4%
DJ Stoxx 600	-4.2%	-7.0%	-8.3%	-12.4%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	90.0	31.7	28.0	19.6
% change		*-64.8%*	*-11.7%*	*-30.0%*
EBITDA	NM	NM	NM	NM
EBIT	-36.6	-78.5	-20.4	-2.1
% change		*-114.3%*	*74.0%*	*89.9%*
Net income	-37.3	-13.1	30.8	45.5
% change		*64.9%*	*NS*	*47.7%*

	2014	2015e	2016e	2017e
Operating margin	-40.7	-247.7	-73.0	-10.5
Net margin	-41.4	-41.3	110.0	232.2
ROE	-18.1	-3.2	3.5	5.0
ROCE	-17.8	-2.8	3.1	4.2
Gearing	0.0	0.0	0.0	0.0

(EUR)	2014	2015e	2016e	2017e
EPS	-1.24	-0.34	0.81	1.19
% change	*-*	*72.3%*	*NS*	*47.7%*
P/E	NS	NS	57.9x	39.2x
FCF yield (%)	NM	NM	NM	NM
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	0.0x	0.0x	0.0x	0.0x
EV/EBITDA	x	x	x	x
EV/EBIT	0.0x	0.0x	0.0x	0.0x

Galapagos hosted its annual R&D day which in our view highlighted the management's confidence in keeping up with its timeline for the CF program (phase II for the x3 combo towards mid-2017). While investors and us might have expected more direct comparison with Vertex' product, we acknowledge that it might be a bit early. Focus has also been put on other early/mid-stage assets and especially two developed in Osteoarthritis and IPF. Sitting on a ~EUR1bn cash pile, the future of the company will involve in and out-licensing deals to 1/ keep-up with ambitious and appreciated development plan and 2/ evolve towards an integrated biopharma company.

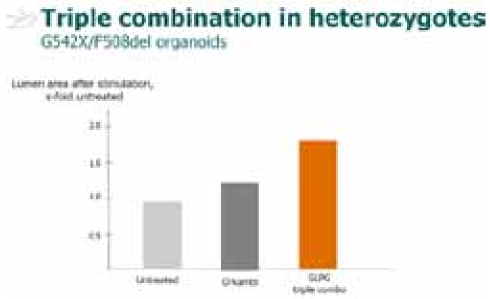
ANALYSIS

- **Cystic Fibrosis Program (partnered with AbbVie) well on track with confidence despite lack of numbers to fine tune our model yet.** Strategy of the management to accelerate CF program last year proven right with back-up compound being more appropriate to the development of a combination therapy. Indeed, corrector 2 back-up compound GLPG2737 has been prioritised over GLPG2665 as it features a higher lung penetration and affect less the binding of other compounds (potentiator and C1). In the heterozygote population as well as in the homozygotes F508del populations (previously communicated), early results show higher efficacy of GLPG molecules over Orkambi.

  Regarding SAPHIRA phase II program for GLPG222 alone, we see slighty higher efficacy over lumacaftor. Remind that efficacy is augmented when molecules are in combination. The company has no difficulties in switching patients from Kalydeco to GLPG222. We do not rule out that Fev improvement

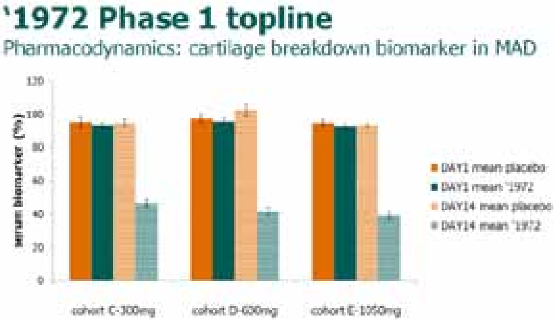
  might been hard to see with two dose excalation in the SAPHIRA 2 trial (G551D mutation; n=30). While VRTX is faced some safety issues (deaths) with its 2nd generation corrector, GLPG did not raised any safety issues in extensive preclinical toxicity testing conducted at high dose and management mentionned the front-end loaded testing strategy pursued to minimize such effects.

  Discussions with the FDA are ongoing to determine the next necessary steps to be taken ahead of opening US centers. We believe that this would be mandatory for the triple combination phase II trial. CSO, Piet Wigerinck, was confident on the ability of its team to bring the x3 combo in phase II towards mid -2017. Timeline reiterated with IND expected later this year. The CF program should be the main value creating opportunity within the next 12-18months. As a reminder, we expect a ~EUR8bn peak sales for the product which should address both F508del heterozygotes and homozygotes populations (to be put in the light of a combined USD7bn estimated peak sales for Orkambi and VX-661/VX-770).



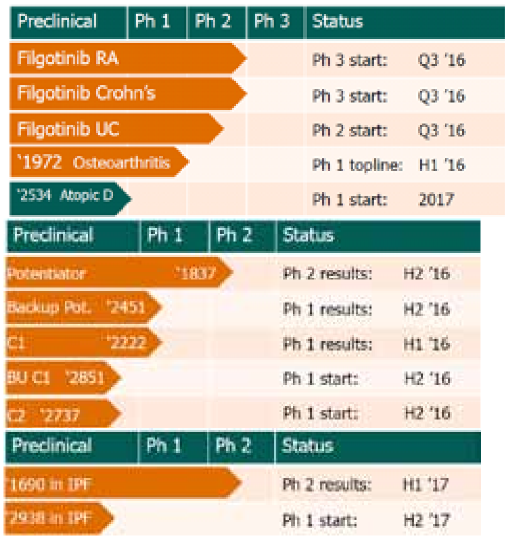
- **Focus on early/mid-stage assets**. While the investing community has been focused on filgotinib in 2015 and should have all eyes on the CF program in 2016e/2017e, early/mid stage assets should not be overlooked. Recall that the development target that Galapagos communicated at the R&D day (i.e. one phase III program every two years alongside three PoC per year) implies a dense pipeline (...as well as in-licensing deals, cf. below).

  Alongside late-stage filgotinib (phase III program to start in Q3), Galapagos management put emphasis on GLPG1972 within its inflammation portfolio. Developed in osteoarthritis (OA), this molecule showed strong efficacy on cartilage breakdown biomarkers as soon as day 14 and inhibited cartilage breakdown in healthy volunteers. Developping molecules in OA is challenging as highlighted by a high failure rate. Hence, we believe this could be a good candidate for a partnering in the US (Servier retains European rights).



Within its Fibrosis portfolio, GLGP1690 FLORA phase II trial is on track with results expected in H1 2017 in IPF. We previously mentionned that this molecule, which features a novel mode of action (autotaxin inhibitor), could be a good partnered program too (please see our note here).

- **In and out-licensing will be key for GLPG in its goal to evolve towards an integrated biopharmaceutical company**. Out-licensing has been mentionned by management as an option, for molecules that would not fit within what should become the company's "core marketing" area i.e. Inflamation and orphan/niche fibrosis indication in our view. On the other hand, keeping up with the ambitious development targets implies in-licensing. With EUR1bn in cash and cash equivalent, GLPG should hence engage into in-licensing deals.



VALUATION

- We reiterate our BUY rating and EUR64 fair value
- Filgotinib EUR32/share; Cash EUR21/share; CF program EUR9/share; GLPG1972+GLPG1690 EUR2/share

NEXT CATALYSTS

- July 13th: Paris Roadshow with CFO and Dir. Business Development
- July 29th: HY results

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Soitec

Price EUR0.49

Audited FY16 results contain no material surprise; FQ1-17 guidance confirmed

Fair Value EUR0.45 (-8%) **NEUTRAL**

Bloomberg	SOI FP
Reuters	SOIT.PA
12-month High / Low (EUR)	0.6 / 0.4
Market Cap (EURm)	297
Ev (BG Estimates) (EURm)	474
Avg. 6m daily volume (000)	1,058
3y EPS CAGR	

	1 M	3 M	6 M	31/12/15
Absolute perf.	-7.2%	-1.2%	-7.2%	-23.4%
Semiconductors	3.1%	-4.5%	-4.1%	-7.2%
DJ Stoxx 600	-4.2%	-7.0%	-8.3%	-12.4%

YEnd Mar. (EURm)	03/15	03/16e	03/17e	03/18e
Sales	222.9	237.5	252.8	270.6
% change		*6.5%*	*6.4%*	*7.1%*
EBITDA	-67.9	45.7	38.7	42.7
EBIT	-125.9	12.0	10.9	13.6
% change		*NS*	*-9.2%*	*24.5%*
Net income	-107.8	-16.0	4.3	6.6
% change		*85.1%*	*NS*	*51.5%*

	03/15	03/16e	03/17e	03/18e
Operating margin	NM	5.1	4.3	5.0
Net margin	NM	NM	1.5	2.4
ROE	-516.1	334.1	3.2	4.6
ROCE	-63.0	7.8	6.4	9.3
Gearing	300.4	NM	NM	3.7

(EUR)	03/15	03/16e	03/17e	03/18e
EPS	-0.51	-0.07	0.01	0.01
% change	*-*	*86.9%*	*NS*	*4.9%*
P/E	NS	NS	47.6x	45.4x
FCF yield (%)	NM	NM	NM	14.1%
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	2.0x	2.0x	1.3x	1.1x
EV/EBITDA	NS	10.4x	8.6x	7.1x
EV/EBIT	NS	39.5x	30.4x	22.3x

Today, Soitec reports audited FY16 results in line with previously reported expected FY16 results. Note that, in the context of the latest capital increases, Soitec already reported FY16 data. For FY16, sales were up to EUR237.5m (+6.5%; +17% at constant exchange rates), current operating income improved significantly from -EUR126m in FY15 to EUR22.4m in FY16 (vs. EUR10m previously announced as an estimate by Soitec) and net result remains in negative territory, but losses have been reduced from EUR259m to EUR72m or EUR0.30 per share.

ANALYSIS

- **The group confirms previously announced FY16 results.** Indeed, in the context of the capital increases made in May, Soitec reported estimates of FY16 results. Over FY16 (FYE 31/03), the group generated revenue of EUR237.5m, up +6.5% from EUR223m in FY15 or up +17% at constant exchange rates. Gross margin jumps from negative in FY15 to positive at 26.7%. Current operating income improved significantly from -EUR126m in FY15 to EUR22.4m in FY16 and net result remains in negative territory, but losses have been reduced from EUR259m to EUR72m or EUR0.30 per share. This performance is due to strong momentum on 200mm products (about 72% of total sales) which drive higher margin (we estimate GM of 200mm products >30%). We note that, compared to the previously announced unaudited results, there is only a difference in current operating result (EUR22.4m vs. EUR10m previously announced) – no change in net result.
- **A positive operating cash flow generation offset by negative cash flow due to the wind-down of Solar activities.** For FY16, Soitec generated a negative operating cash flow of EUR12.5m of which positive EUR20.4m have been generated through the Electronic activities, but the wind-down of the Solar activities generated a negative cash flow of EUR32.9m.
- **Hopefully, the two capital increases helped to improve the financial structure.** By the end of March 2016, the group had a gross cash position of EUR49.1m and a gross debt position of EUR218.9m. As a result, by the end of FY16, the group had a net debt of EUR170m. However, note that during the current quarter, the group raised an overall amount of EUR151.9m through two successive capital increases.
- **FQ1-17 guidance has also been confirmed:** Soitec expects to see a flat growth (yoy) also implying a 15% sequential decline. Again, this is not a surprise in the guidance since FD-SOI sales are not expected to be significant in H1-17. For FY17, we expect a similar increase in sales to that of FY16, i.e. 6.4% growth. We see limited potential growth on 200mm wafers (BG ests. EUR176m; +3.3% yoy) since the Bernin 1 fab has been running at full capacity for several quarters and the group has little room to expand the production. However, we expect 300mm wafers revenue to grow with first material orders of FD-SOI products in H2-17. Including royalties, this should add another 3.6ppts to Electronics sales foreseen at EUR248m. In addition, the group expects to achieve a similar EBITDA margin for FY17 than the level achieved in FY16.

VALUATION

- Soitec shares are trading on FY17e EV/Sales of 1.4x and FY17e EV/EBIT of 32.1x.

NEXT CATALYSTS

- 20 July 2016: Q1-17 sales

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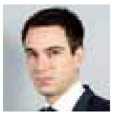

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Sector View

Environmental Services

Haste makes waste, it's upside time! (report released today)

	1 M	3 M	6 M	31/12/15
Utilities	-4.4%	-3.8%	-4.8%	-8.6%
DJ Stoxx 600	-4.2%	-7.0%	-8.3%	-12.4%

*Stoxx Sector Indices

Companies covered

AMOEBA			
Last Price	EUR26,96	*Market Cap.*	EUR161m
PENNON GROUP		**SELL**	**830p vs.825p**
Last Price	807p	*Market Cap.*	*GBP3,330m*
SUEZ		**BUY**	**EUR17.5 vs18,5**
Last Price	EUR13,885	*Market Cap.*	*EUR7,559m*
VEOLIA ENVIRONNEMENT		**BUY vs.NEUTRAL**	**EUR23 vs.22**
Last Price	EUR19,265	*Market Cap.*	*EUR10,853m*

Ahead of the H1-16 results (and after the FY15/16 results for Pennon), we update our models and review our investment case on environmental services companies. Despite the still challenging macro environment, we remain confident of the resilience of the companies' margins and the cost-reduction measures being implemented. We upgrade our rating on Veolia from Neutral to Buy and maintain our Buy rating on Suez as we believe current and potential additional cost-cutting measures could, at least, partly offset macro headwinds and M&A shortfall for Suez. We also maintain our Sell rating on Pennon.

ANALYSIS

- We take the opportunity of this note to transfer the coverage of Veolia Environnement and Suez to Pierre-Antoine Chazal.
- **As expected, the beginning of the year has been tough for environmental services companies**. All the three stocks we cover suffered from tepid European industrial production recovery, low inflation in the Eurozone, the drop in energy and raw materials prices as well as commercial pressure in their respective water businesses. This leads us to lower our estimates on their traditional activities. **Mid-term targets could be at risk at different levels** (*FY-18e top line for Veolia, FY-17e EBITDA, which includes M&A, for Suez*).
- **Despite this challenging environment and unsupportive macro outlook, we remain confident of the resilience of the companies' margins.** Both Suez and Veolia will mainly rely on their cost-reduction measures in the years to come (*EUR600m over 2016-2018 for Veolia vs. EUR300m over 2016-2017 for Suez*). **We believe Suez is likely to announce additional cost-cutting measures in its upcoming H1-16 results** as the macro outlook has deteriorated. As for Pennon, we still expect solid EBITDA growth thanks to the Viridor business's ramp-up.
- **We upgrade Veolia to Buy & maintain our ratings on Suez (*Buy*) and Pennon (*Sell*):** As we now consider cost-cutting part of Veolia's DNA and as we appreciate the company's new financial flexibility, we upgrade **Veolia from Neutral to Buy** and increase our FV to EUR23 (*vs. EUR22*). We maintain our **Buy rating on Suez** (*FV down to EUR17.5 vs. EUR18.5*) as we believe additional costs measures which could be implemented could partly offset a too short M&A timing in order to reach the **FY-17e EUR3bn EBITDA ambition.** We remain confident of management's strong commitment to increase EPS growth and we see substantial upside to our valuation through various topics. As for Pennon, after updating our model, we continue to find downside, justifying our Sell rating.

VALUATION

- At current share price the water & waste management sector is trading at **10.3x** its 2017e EBITDA and offers a 2017e yield of **4.3%.**
- We upgrade on rating on Veolia to Buy (FV @ EUR23); we keep our Buy rating on Suez (FV @ EUR17.5) & keep our Sell rating on Pennon (FV @ 830p)

NEXT CATALYSTS

- 28th July – Suez // H1-16 earnings
- 01st August – Veolia // H1-16 earnings
- 06st September – Pennon // Q1-2016/17 Trading statement

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TMT

Altice

Price EUR13.91

Wins regulatory approval to acquire Cablevision

Fair Value EUR16,3 (+17%) **BUY**

Bloomberg	ATC NA
Reuters	ATCA.AS
12-month High / Low (EUR)	32.2 / 10.0
Market Cap (EURm)	15,222
Avg. 6m daily volume (000)	1 953

	1 M	3 M	6 M	31/12/15
Absolute perf.	-0.8%	-11.0%	28.5%	5.0%
Telecom	-7.8%	-10.6%	-13.7%	-14.8%
DJ Stoxx 600	-3.3%	-5.1%	-10.0%	-11.5%

	2015	2016e	2017e	2018e
P/E	NS	NS	18.7x	12.3x
Div yield (%)	NM	NM	NM	NM

ANALYSIS

- New York state regulators on Wednesday approved Altice's acquisition of Cablevision. The unanimous approval, with conditions, means the company has cleared the regulatory process to complete the transaction.
- New York regulators agreed to approve the deal if Altice agreed to pass 25 percent of the estimated USD450m in cost savings from the deal to subscribers over five years. In addition, the company is barred from laying off workers for four years in any customer-facing jobs in New York.
- Altice said it was pleased with the approval and expects to close the deal by the end of the month.
- The decision, as well as the remedies, were expected. Altice's expansion in US is very positive in our view: there is a great potential for synergies, diversification is positive and the weight of France will drop below 50%.

VALUATION

- We stick to our EUR16.3 fair value, with Buy recommendation.

NEXT CATALYSTS

- Closing of the transaction before the end of June
- Altice H1 results on August 9th.

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TMT

Iliad

Price EUR177.55

Bloomberg	ILD FP
Reuters	ILD.PA
12-month High / Low (EUR)	236.3 / 175.5
Market Cap (EURm)	10,424
Avg. 6m daily volume (000)	110.1

	1 M	3 M	6 M	31/12/15
Absolute perf.	-7.5%	-24.1%	-17.2%	-19.3%
Telecom	-7.8%	-10.6%	-13.7%	-14.8%
DJ Stoxx 600	-3.3%	-5.1%	-10.0%	-11.5%

	2015	2016e	2017e	2018e
P/E	31.8x	30.0x	23.2x	18.0x
Div yield (%)	0.2%	0.2%	0.2%	0.2%

Signs addendum to roaming agreement with Orange; ARCEP reaction expected

Fair Value EUR212 (+19%) **NEUTRAL**

ANALYSIS

- Yesterday, Iliad and Orange signed an addendum to their 2G/3G roaming agreement which runs until the end of 2020. The addendum provides for Free Mobile to gradually (from January 17th) stop using the Orange network for national roaming services in France.
- Orange said Free will gradually decrease the speed available for its customers transiting on the Orange network. The speed will reach 2G+ ("Edge") quality by 2020. Financial terms were not disclosed.
- Although expected, this addendum is good news for Iliad, as a roaming agreement is crucial for its activity. The terms of the agreement maintain strong pressure on Iliad's 3G roll out, their network currently covers 85% of the population. But Iliad seems to favour coverage promise over quality promise.
- The main question remaining is whether ARCEP will accept the contract. We believe it should, although the extinction is not planned by geography, but by speed.

VALUATION

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

NEXT CATALYSTS

- ARCEP's reaction to the contract expected by July 15th
- Iliad H1 results in late August 2016.

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Sector View

Food industry

	1 M	3 M	6 M	31/12/15
Food & Bev.	-2.3%	-1.7%	-4.6%	-5.4%
DJ Stoxx 600	-3.3%	-5.1%	-10.0%	-11.5%

*Stoxx Sector Indices

Companies covered

DANONE	BUY	EUR71
NESTLE	BUY	CHF80
UNILEVER	NEUTRAL	EUR43
UNILEVER Plc	NEUTRAL	3350p

What Mead Johnson said at the DB conference?

Yesterday, Mead Johnson attended the DB conference in Paris. The transcript has been released and we think that it provides useful hindsight for baby food players, including Danone which generates 22% of sales and 33% of EBIT in the category.

ANALYSIS

- Yesterday, Mead Johnson attended the DB conference. Our main takeaways are:

  1. **Slowdown of the market.** Management said that while the category was growing 6-7% five years ago, the growth should not exceed 4-5% over the coming five-year period. This results from a deceleration in China.
  2. **Tightening regulation in China.** Management mentioned 1/ tax hikes covering cross border e-commerce and 2/ a tightening of product testing recently. He also indicated that more regulations will come into play over the next 18 months and the full new regulatory framework will be completed before the beginning of 2018.

NEXT CATALYSTS

- Danone will release its H1 results on July 28th

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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 55.8% NEUTRAL ratings 34.7% SELL ratings 9.5%

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