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17th June 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	17733.1	+0.53%	+1.77%
S&P 500	2077.99	+0.31%	+1.67%
Nasdaq	4844.91	+0.21%	-3.25%
Nikkei	15621.52	+1.21%	-18.91%
Stoxx 600	321.286	-0.72%	-12.17%
CAC 40	4153.01	-0.45%	-10.44%
Oil /Gold			
Crude WTI	46.05	-3.82%	+23.79%
Gold (once)	1310.47	+2.11%	+23.35%
Currencies/Rates			
EUR/USD	1.11465	-0.79%	+2.61%
EUR/CHF	1.07825	-0.25%	-0.84%
German 10 years	-0.021	+34.57%	-103.35%
French 10 years	0.402	-1.73%	-59.01%
Euribor	-	+-%	+-%

Economic releases :

Date	
17th-Jun	US - Housing Starts MAY (-1.9% E) US - Building permits May (0.5% E) US - Baker Hughes Rig Count

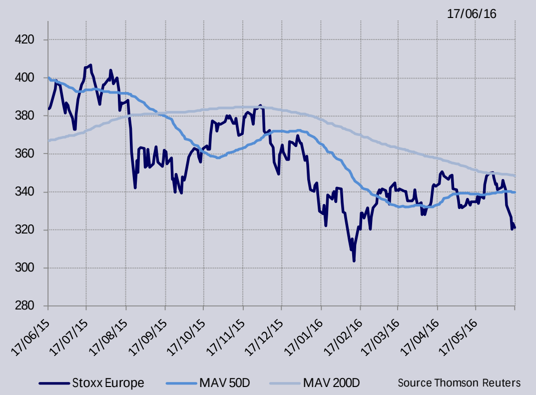
Upcoming BG events :

Date	
17th-Jun	Oncology day @institut Curie
27th-Jun	IMERYS (BG Luxembourg with CFO)
13th-Jul	Galapagos (BG Paris Roadshow with CFO)
14th-Nov/ 15th-Nov	4th Paris Healthcare Conference
28th-Nov/ 29th-Nov	2nd Paris Consumer Conference

Recent reports :

Date	
16th-Jun	UTILITIES Haste makes waste, it's upside time!
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

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



ADIDAS GROUP — BUY, Fair Value EUR124 (+7%)

Towards new record sales for the football category (EUR2.5bn)

As the Copa America and the EURO 2016 Championship unfold, adidas announced yesterday that its football category should achieve record sales of EUR2.5bn in 2016, representing a ~15% increase over 2014. Thanks to solid momentum, this category reinforces its global leadership vs. Nike and remains a key growth driver for the German brand in 2016.

ALTRAN TECHNOLOGIES — NEUTRAL, Fair Value EUR13 (+10%)

Acquisition of Synapse: increasing Innovative Product Development revenues by 50%

Yesterday evening, Altran announced the acquisition of Synapse, an innovative product development company based in the US, for an undisclosed sum. This deal, which is expected to close in Q3 16, is poised to increase Altran's Innovative Product Development business inherited from Cambridge Consultants by c. 50% on a pro forma basis for 2016. If we consider that such a business is likely to generate a low double-digit margin, we deem Synapse will be accretive to adj. EPS by 1% for 2016 and 2% for 2017 and beyond.

ASML — SELL, Fair Value EUR81 (-3%)

Additional proof that potential upside is currently limited

Yesterday, ASML announced the acquisition of Hermes Microvision for EUR2.75bn cash (see our previous comment here). The deal is expected to close by Q4-16 and is said to be immediately accretive. From a business point of view, the acquisition also makes sense, adding a new asset to the offering of ASML in holistic lithography and expanding the TAM. However, despite this positive news, the share reaction has been very limited and, somehow, it confirms our view that the potential upside is limited.

LVMH — BUY, Fair Value EUR171 vs. EUR174 (+24%)

Slight 2016 EBIT adjustment

LVMH will release its H1 2016 results end of July and we expect sales to be up 3% organically with 20bps EBIT margin erosion (17.5%). We have also adjusted our FY 2016 prospects slightly. We have marginally reduced our top line estimates and we cut our FY 16 EBIT by 2%. Nevertheless, we maintain our Buy recommendation with a new EUR171 FV versus EUR174 previously.

SOITEC — NEUTRAL, Fair Value EUR0.45 (-10%)

Still waiting for tangible proof of FD-SOI take-off

Yesterday, we hosted Soitec for an investor event following publication of its FY16 results. In addition, the group also came back on the recent capital increases. It has been a long time since Soitec presented such a solid balance sheet. However, the focus was more on opportunities while 200mm wafer production now looks stable and healthy. Although we believe FD-SOI is a great technology, we continue to eagerly await tangible proofs of an FD-SOI take-off. We reiterate our Neutral rating.

SOFTWARE AND IT SERVICES

Oracle Q4 FY16 results: positive read-across for European Software vendors

Yesterday evening, Oracle reported Q4 FY16 sales (FYE 31st May) in line with expectations both on cloud SaaS/PaaS sales growth and non-GAAP EPS. FY17 outlook continues to reflect Oracle's accelerated positive momentum in the cloud, helped by an aggressive strategy. We view these numbers as a positive read-across for European software vendors.

In brief...

PHARMACEUTICALS, *Merck reports positive KEYNOTE-024 phase III results in 1L lung cancer*

Luxury & Consumer Goods

adidas Group

Price EUR115.50

Towards new record sales for the football category (EUR2.5bn)

Fair Value EUR124 (+7%) **BUY**

Bloomberg	ADS GY
Reuters	ADSG.F
12-month High / Low (EUR)	119.6 / 63.7
Market Cap (EURm)	24,164
Ev (BG Estimates) (EURm)	25,087
Avg. 6m daily volume (000)	946.8
3y EPS CAGR	19.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	5.1%	12.7%	29.5%	28.5%
Consumer Gds	-3.2%	-3.7%	-6.5%	-7.5%
DJ Stoxx 600	-4.0%	-5.8%	-10.9%	-12.2%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	16,915	18,877	20,169	21,697
% change		*11.6%*	*6.8%*	*7.6%*
EBITDA	1,442	1,766	2,000	2,239
EBIT	1,059	1,332	1,516	1,718
% change		*25.8%*	*13.8%*	*13.3%*
Net income	630.0	888.3	1,030	1,170
% change		*41.0%*	*15.9%*	*13.7%*

	2015	2016e	2017e	2018e
Operating margin	6.3	7.1	7.5	7.9
Net margin	3.7	4.7	5.1	5.4
ROE	11.1	15.8	16.5	16.8
ROCE	10.0	12.5	13.9	15.2
Gearing	8.1	16.5	8.8	2.1

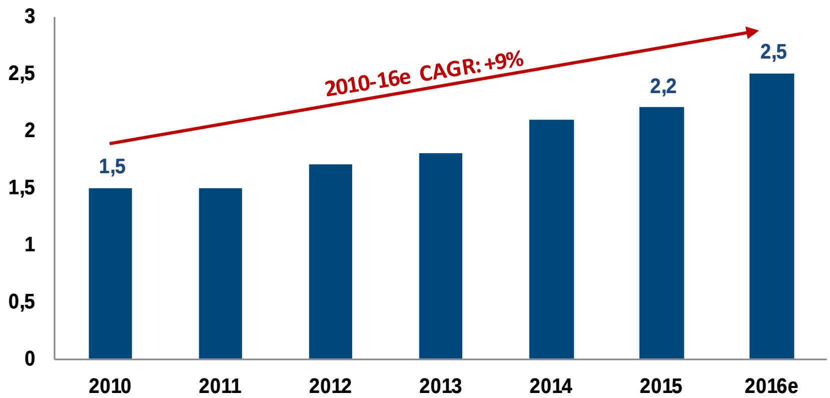
(EUR)	2015	2016e	2017e	2018e
EPS	3.32	4.10	5.03	5.71
% change	*-*	*23.6%*	*22.6%*	*13.6%*
P/E	34.8x	28.2x	23.0x	20.2x
FCF yield (%)	2.5%	1.9%	3.1%	3.5%
Dividends (EUR)	1.60	1.85	2.15	2.40
Div yield (%)	1.4%	1.6%	1.9%	2.1%
EV/Sales	1.5x	1.3x	1.2x	1.1x
EV/EBITDA	17.1x	14.2x	12.4x	10.9x
EV/EBIT	23.3x	18.8x	16.3x	14.1x

As the Copa America and the EURO 2016 Championship unfold, adidas announced yesterday that its football category should achieve record sales of EUR2.5bn in 2016, representing a ~15% increase over 2014. Thanks to solid momentum, this category reinforces its global leadership vs. Nike and remains a key growth driver for the German brand in 2016.

ANALYSIS

- **A strong start to the year (Q1: +25% FX-n) ...** Like in other categories, the momentum was fuelled by ADS' key footwear franchises (i.e. "Ace" and "X"), but apparel also posted double-digit growth thanks to federation kits (jerseys). It is worth noting that the H1 performance of the football business is helped by favourable comparison bases since: **(i)** "Ace" and "X" footwear franchises were introduced in summer 2015 and **(ii)** the Manchester United and Juventus official partnerships started in H2 15.
- **...and ADS keeps up momentum!** On the back of a probably strong performance in Q2 (more Retail-weighed, in our view), management expects adidas football to post record sales of EUR2.5bn vs. EUR2.2bn last year, implying reported growth of approx. 15%. Consequently, the **football category should account for ~16% of adidas brand sales and ~13% of group sales.** As shown in the graph below, this football business posted a ~9% CAGR during 2010-16e in a global football market that has grown 4% on average since 2006 according to NPD Group. This performance is also slightly ahead of the group's top line growth over the period (~8%).
- **ADS consolidates its global leadership in football.** Having lost some market share in Western Europe in 2013-14, the German brand has completely reversed the trend last year, thanks to its new consumer-centric organisation and the repositioning of its footwear offering on key franchises. As such, adidas is the leading football brand across Western Europe's top five markets (the UK, France, Spain, Italy and Germany), which should be enough to comfort its global leadership.

adidas football sales since 2010 (EURbn):



Source: Company Data, B G ests

VALUATION

- The stock trades at 18.8x 2016e EV/EBIT, which is supported by an adj. EPS CAGR of 19.8% over the 2015-18 period. Buy recommendation and FV of EUR124 confirmed.

NEXT CATALYSTS

- Nike will publish Q4 FY16 results on 28 June. The market is likely to focus on the order backlog, particularly in the US where some analysts have pointed to rising competition (adidas, Under Armour) and a more challenging apparel market environment. As a reminder, adidas brand grew its sales by 31% FX-n in Q1 16.
- adidas Group will report its H1 15 Results on 4 August 2016.

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Altran Technologies

Price EUR11.78

Acquisition of Synapse: increasing Innovative Product Development revenues by 50%

Fair Value EUR13 (+10%) **NEUTRAL**

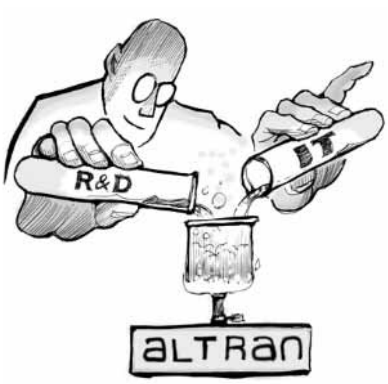
Bloomberg	ALT FP
Reuters	ALTR.PA
12-month High / Low (EUR)	13.4 / 9.3
Market Cap (EURm)	2,071
Ev (BG Estimates) (EURm)	2,161
Avg. 6m daily volume (000)	223.5
3y EPS CAGR	16.3%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-8.9%	1.6%	-6.0%	-4.5%
Softw.& Comp.	-2.6%	-4.4%	-5.8%	-7.7%
DJ Stoxx 600	-4.0%	-5.8%	-10.9%	-12.2%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	1,945	2,120	2,271	2,408
% change		*9.0%*	*7.1%*	*6.0%*
EBITDA	208	240	276	315
EBIT	155.0	189.0	225.0	261.0
% change		*21.9%*	*19.0%*	*16.0%*
Net income	123.0	143.0	167.0	193.0
% change		*16.3%*	*16.8%*	*15.6%*

	2015	2016e	2017e	2018e
Operating margin	9.6	10.2	11.0	11.9
Net margin	5.2	5.7	6.5	7.1
ROE	12.6	13.8	15.3	16.0
ROCE	15.0	16.2	18.2	21.0
Gearing	18.0	10.0	0.0	-11.0

(€)	2015	2016e	2017e	2018e
EPS	0.70	0.82	0.96	1.10
% change	-	*17.1%*	*17.1%*	*14.6%*
P/E	16.8x	14.4x	12.3x	10.7x
FCF yield (%)	3.9%	5.3%	7.0%	8.3%
Dividends (€)	0.20	0.25	0.30	0.30
Div yield (%)	1.7%	2.1%	2.5%	2.5%
EV/Sales	1.1x	1.0x	0.9x	0.8x
EV/EBITDA	10.6x	9.0x	7.5x	6.2x
EV/EBIT	11.9x	10.0x	8.3x	6.8x



Yesterday evening, Altran announced the acquisition of Synapse, an innovative product development company based in the US, for an undisclosed sum. This deal, which is expected to close in Q3 16, is poised to increase Altran's Innovative Product Development business inherited from Cambridge Consultants by c. 50% on a pro forma basis for 2016. If we consider that such a business is likely to generate a low double-digit margin, we deem Synapse will be accretive to adj. EPS by 1% for 2016 and 2% for 2017 and beyond.

ANALYSIS

- **Synapse and innovative product development**. Cambridge Consultants, Altran's innovative product development business, announced an agreement to acquire Synapse, for an undisclosed sum. Founded in 2002 and headquartered in Seattle with offices in San Francisco, Orlando and Hong Kong, Synapse specialises in solving complex engineering and developing products that transform its clients' brands and accelerate advances in technology. Its services enable complex solutions in product development. Its expertise ranges from design to engineering and manufacturing on disciplines like electrical, RF, mechanical, systems and firmware engineering. On its website, the company says it employs more than 150 consultants and engineers. Synapse has a nice track record in the development of products aimed directly at the consumer market and has recently delivered projects for clients such as Nike, Microsoft and Samsung.

- **Strategic fit for Cambridge Consultants**. The combination of Synapse and Cambridge Consultants will allow Altran to create one of the largest innovative product development companies with significant presence on the US east and west coasts, and complementary industry expertise (Cambridge Consultants in Life Sciences and Synapse in Consumer Goods). According to management, it will grow Altran's Innovative Product Development activity revenues of Altran by 50% by the end of 2016 (on a pro forma basis), and fits within 'Altran's 2020 Ignition' strategic plan under which Cambridge Consultants is doubling its scale and enhancing its geographic reach in the US and Asia. Over the past 4 years, Cambridge Consultants has doubled its size and, to keep up with market demand, has set a target to double again by 2020 with a global workforce of over 1,000 product development and technology specialists.

- **We estimate adj. EPS accretion at 2% from 2017**. The acquisition is subject to customary closing conditions and is expected to be completed in Q3 16. While we estimate Cambridge Consultants's revenues are around EUR70m with a c. 15% operating margin before profit sharing, we deem Synapse generates c. EUR35m revenues with a low double-digit operating margin. As such, we calculate Synapse is slightly accretive to adj. EPS: an est. 1% for 2016 (based on a consolidation from 1st August) and 2% for 2017 and beyond.

VALUATION

- Altran's shares are trading at est. 10.0x 2016 and 8.3x 2017 EV/EBIT multiples.
- Net debt on 31st December 2015 was EUR138.3m (net gearing: 19%).

NEXT CATALYSTS

Q2 16 sales on 28th July before markets open.

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TMT

ASML

Price EUR83.91

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

Additional proof that potential upside is currently limited

Fair Value EUR81 (-3%) **SELL**

Yesterday, ASML announced the acquisition of Hermes Microvision for EUR2.75bn cash (see our previous comment here). The deal is expected to close by Q4-16 and is said to be immediately accretive. From a business point of view, the acquisition also makes sense, adding a new asset to the offering of ASML in holistic lithography and expanding the TAM. However, despite this positive news, the share reaction has been very limited and, somehow, it confirms our view that the potential upside is limited.

ANALYSIS

- **In April, we downgraded ASML to Sell and we highlighted some risks regarding 1/ the timing of the 7nm ramp** (expected to start from H2-17) given that orders for 10nm are expected to ramp by Q2-16 (i.e. about 1.5 years later) and **2/ the interest and readiness to start 7nm production with EUV tools** given that the output would be significantly reduced with EUV and that 10nm DUV tools could be reused (upgraded) for 7nm. Indeed, there is a risk that 10nm overall capacity remains limited after 7nm introduction given the declining number of customers able to afford leading edge production while the industry would then focus on 7nm. As a result, there are some risks that foundries reuse 10nm tools to ramp 7nm production, while keeping a tight control on capex and moving slowly production (and capex) to EUV. In addition, during the Q1 conference call, we understood that ASML saw rising interest in reuse. In our view, this adds pressure on the 2020 plan (targeting revenues of EUR10bn), although management said it has been factored in so far.
- **Note that industry habits regarding new node ramp are changing.** During the Q1 conference call (May 2016), the group highlighted a change in customer habits regarding new node ramp. Management noted that 28nm capacity is still increasing and generating orders of DUV systems, while only a few customers plan to adopt 10nm in the near term. As a result, we believe this should result in a rapid but short increase in orders, compared to a longer wave of orders seen in the past (bear in mind that 10nm ramp-up started in Q2-16).
- **EUV systems revenue recognition mechanism adds lumpiness to results for the coming quarters.** We recall that we are entering a period (1-2 years) of revenue uncertainty. Indeed, we should expect revenue from EUV systems already shipping for tests (at a c. EUR100m tag price), however revenue are recorded on performance achievement (not on shipment). As 1/ neither ASML, nor customers have full control over performance achievement of EUV tools and 2/ the group does not communicate on the performance milestone, investors and analysts lack visibility on the revenue for the coming quarters.
- **Margin pressure due to EUV.** In addition to that, shipments of EUV (even if it remains limited currently, with few systems shipped annually) add to pressure on margin. We estimate EUV systems are sold with a gross margin of about 25-30% vs. >50% for latest DUV systems.
- **Finally, while we agree that this deal is a good fit, it might also be seen as an admission by ASML that its 2020 target will be hard to achieve** (at least the group is less confident) and that it needs external growth to succeed. Note that current Street expectations for HMI's 2018e revenue are around EUR327m.

VALUATION

- Overall, we continue to see a lot of uncertainty while current valuation metrics offer no room for a disappointment (2016e P/E ratio of 27.8x; PEG of 1.3x).
- We reiterate our Sell rating and would favour stocks with higher potential upside such as ARM (Buy, FV 1,340p), Dialog (Buy, FV EUR35) or Infineon (Buy, FV EUR15).

NEXT CATALYSTS

- 20th July 2016: FQ2-16 results.

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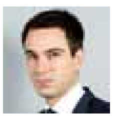

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Luxury & Consumer Goods

LVMH

Price EUR137.60

Slight 2016 EBIT adjustment

Fair Value EUR171 vs. EUR174 (+24%) BUY

Bloomberg	MC FP
Reuters	LVMH.PA
12-month High / Low (EUR)	175.6 / 134.7
Market Cap (EUR)	69,852
Ev (BG Estimates) (EUR)	72,972
Avg. 6m daily volume (000)	913.0
3y EPS CAGR	11.2%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-5.1%	-11.3%	-7.4%	-5.0%
Pers & H/H Gds	-3.0%	-2.9%	-3.2%	-3.8%
DJ Stoxx 600	-4.0%	-5.8%	-10.9%	-12.2%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	35,664	36,960	39,070	41,380
% change		*3.6%*	*5.7%*	*5.9%*
EBITDA	7,505	7,800	8,530	9,260
EBIT	6,605	6,850	7,530	8,210
% change		*3.7%*	*9.9%*	*9.0%*
Net income	3,573	4,010	4,470	4,912
% change		*12.2%*	*11.5%*	*9.9%*

	2015	2016e	2017e	2018e
Operating margin	18.5	18.5	19.3	19.8
Net margin	10.0	10.8	11.4	11.9
ROE	12.7	13.1	13.4	13.4
ROCE	10.1	10.0	10.6	11.0
Gearing	13.4	10.2	6.5	3.6

(EUR)	2015	2016e	2017e	2018e
EPS	7.11	7.98	8.90	9.78
% change	-	*12.2%*	*11.5%*	*9.9%*
P/E	19.3x	17.2x	15.5x	14.1x
FCF yield (%)	3.3%	3.7%	4.4%	4.6%
Dividends (EUR)	3.55	3.90	4.30	4.70
Div yield (%)	2.6%	2.8%	3.1%	3.4%
EV/Sales	2.1x	2.0x	1.8x	1.7x
EV/EBITDA	9.8x	9.4x	8.4x	7.7x
EV/EBIT	11.1x	10.7x	9.6x	8.7x

LVMH will release its H1 2016 results end of July and we expect sales to be up 3% organically with 20bps EBIT margin erosion (17.5%). We have also adjusted our FY 2016 prospects slightly. We have marginally reduced our top line estimates and we cut our FY 16 EBIT by 2%. Nevertheless, we maintain our Buy recommendation with a new EUR171 FV versus EUR174 previously.

ANALYSIS

- Given the current challenging environment for the luxury goods industry, we have adjusted LVMH prospects for 2016. We have cut our 2016 EBIT by 2% and we expect the EBIT margin to remain stable at 18.6% (+20bp previously). We have adjusted our sales momentum slightly and we expect 4% organic sales growth in 2016 (+3% in H1 followed by +6% in H2), partly driven by a less demanding comparison basis, particularly in Q4 (+5%) vs +6% in H1 15.
- For H1 2016, we anticipate a 3% organic sales increase, ie the same as in Q1. The most significant sales growth driver will be the **Wines & Spirits** division with an expected 5% revenues increase particularly thanks to **Hennessy** (+6%), driven by a still-dynamic trend in the US and positive momentum in Mainland China despite flattish sell-out. **Champagne** sales should be up 4%, implying a rebound in Q2 (+5%) after a relatively poor Q1 (+3%), due to more demanding comps (pricing increase impact last year). **Fashion & Leather** revenues are expected to be stable in H1 with a 1% decline in Q2 alone. **Louis Vuitton** sales are expected to be slightly up in H1 including almost no growth in Q2 alone after around +2% in Q1. The expected Q2 slowdown should be partly a consequence of lower tourists flows in Europe (in Q1, visitors to Paris declined 13% and we anticipate a similar trend in Q2). We also want to highlight that on two years, Q2 comps are in line with Q1 (almost +5% for both quarters). Furthermore, as in Q1, **Marc Jacobs** and **Donna Karan** sales are expected to be down while **Fendi** and (to a lesser extent) **Céline** should continue to enjoy positive trends.
- **Perfumes & Cosmetics** and **Watches & Jewelry** in Q2**:** despite some slowdown vs Q1, these divisions should be buoyant again with mid-single-digit increases, implying new market share gains at Tag Heuer and Christian Dior Parfums. Lastly in the **Selective Retail** division, Sephora momentum will remain solid while DFS is clearly suffering from lower tourists flows particularly in Hong Kong.
- **Consequently, we expect H1 EBIT to be almost stable (+2%) at EUR3bn with a very slight EBIT margin erosion (17.5% vs 17.7%)** including a 50bp decline for the Fashion & Leather division as Louis Vuitton should experience slight operating deleveraging, but Marc Jacobs and Donna Karan losses should be reduced. In our view, LV needs at least a 3% organic sales increase to maintain profitability. Selective retail should also report a decline in profitability (-70bp to 7.6%) due to DFS. On the other hand, all the others divisions should register margin improvement of which +60bp to 12.1% at Perfumes & Cosmetics and +50bp to 13.7% at Watches & Jewelry.
- **For FY 2016, we lowered our FY EBIT by 2%** and we expect margin stability (18.5%) versus +20bp previously. This adjustment comes mainly from the F&L division (-50bp versus -10bp previously) and also marginally from Selective Retail (-70bp vs -40bp), while we have not changed our assumptions for others businesses, which should report higher profitability including +80bp at Wines & Spirits (30.4%) and +60bp at Watches & Jewelry.

VALUATION

- **LVMH's share price is down 5% both YTD and over the past month** (versus -10% and -5% respectively for our luxury sample). On 2016 EV/EBIT (10.8x), the stock is trading on a 7% discount versus the average for luxury peers. **Even though we lower our FV from EUR174 to EUR171 (following our EBIT prospects), we maintain our Buy recommendation with 23% upside, as we argue that LVMH should nevertheless be one of the best performing luxury groups.**

NEXT CATALYSTS

- H1 results to be reported end of July.

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Soitec

Price EUR0.50

Still waiting for tangible proof of FD-SOI take-off

Fair Value EUR0.45 (-10%) **NEUTRAL**

Bloomberg	SOI FP
Reuters	SOIT.PA
12-month High / Low (EUR)	0.6 / 0.4
Market Cap (EURm)	303
Ev (BG Estimates) (EURm)	328
Avg. 6m daily volume (000)	1,065
3y EPS CAGR	

	1 M	3 M	6 M	31/12/15
Absolute perf.	-5.3%	2.5%	-6.7%	-21.9%
Semiconductors	4.1%	-2.8%	-6.4%	-6.2%
DJ Stoxx 600	-3.3%	-5.1%	-10.0%	-11.5%

YEnd Mar. (EURm)	03/16	03/17e	03/18e	03/19e
Sales	233.2	253.8	271.7	360.1
% change		*8.8%*	*7.1%*	*32.5%*
EBITDA	36.3	41.6	51.5	63.5
EBIT	22.4	26.6	31.5	36.5
% change		*19.0%*	*18.3%*	*15.9%*
Net income	-3.9	20.1	24.5	27.3
% change		*NS*	*22.1%*	*11.4%*

	03/16	03/17e	03/18e	03/19e
Operating margin	9.6	10.5	11.6	10.1
Net margin	NM	6.6	9.0	7.6
ROE	1,009	12.2	12.9	12.6
ROCE	15.4	14.0	18.7	21.1
Gearing	NM	NM	-6.5	-23.4

(EUR)	03/16	03/17e	03/18e	03/19e
EPS	-0.02	0.05	0.04	0.05
% change	-	*NS*	*-15.7%*	*11.4%*
P/E	NS	10.4x	12.4x	11.1x
FCF yield (%)	1.9%	NM	17.9%	18.4%
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	2.0x	1.3x	1.1x	0.7x
EV/EBITDA	13.0x	7.9x	5.6x	4.0x
EV/EBIT	21.1x	12.3x	9.2x	6.9x

Yesterday, we hosted Soitec for an investor event following publication of its FY16 results. In addition, the group also came back on the recent capital increases. It has been a long time since Soitec presented such a solid balance sheet. However, the focus was more on opportunities while 200mm wafer production now looks stable and healthy. Although we believe FD-SOI is a great technology, we continue to eagerly await tangible proofs of an FD-SOI take-off. We reiterate our Neutral rating.

ANALYSIS

- **The Electronics activity achieved profitable growth.** Yesterday, focus was on the profitability of the Electronics division. Indeed, the group achieved a 29% gross margin in FH2-16, which is to be compared to a bottom of -1% during FH2-14. This has been achieved thanks to higher volumes (almost double vs. bottom) and the effect of the cost-cutting strategy. Bernin 1 fab, in charge of the production of 200mm wafers, is now running at full capacity (with GM in the range of 30% to 35%), but Bernin 2 offers significant upside since it only runs at 25% on average over FY16. At full capacity, Bernin 2 should also generate a GM >30%. As a result of a higher GM in Electronics, Soitec has been able to achieve a positive current operating result of EUR22m. Including the positive impact of divesting the Solar and Lighting activity, the group was able to lower its net losses significantly, from EUR259m in FY15 to EUR72m in FY16.
- **Soitec is almost clean from the past.** During the presentation, management explained that the group is now cleaner than ever regarding the loss-making divisions. Discontinued activity is now reported under a special line in the P&L and does not impact sales and current operating result. In addition, the reimbursement of the expensive bridge loan and of about 60% of the OCEANE 2018 will help to reduce significantly the financial expenses (BG ests. FY17e financial results - EUR6m). Indeed, for FY16, the financial results was a dead weight of -EUR22.5m in the P&L. The remaining part of the "old Soitec" can be found in the balance sheet, with EUR22m of "assets available for sale" which corresponds to the remaining interests in the Touwsrivier solar plant. This is said to be for sale, but no schedule has been disclosed.
- **Opportunities remain to be seized.** Soitec shared enthusiastic market data. In RF-SOI, the group expects to take advantage of a dynamic LTE-chip market, which is forecast to grow by 25% on average annually over 2014-2019e (volume). We understand that the real growth potential is not from a multiplication of LTE-chips in smartphones, or a growing smartphone market, but rather additional chip capabilities (support of LTE-A) leading to double the size of LTE capable RF-components which are currently produced using RF-SOI wafers (i.e. 2x wafers consumption). In addition to a strong momentum on Power-SOI wafers (also 200mm), this should create strong demand estimated at >2.5m wafers annually (vs. about 950k wafers in 2015) by 2020. We note that the current production capacity of 200mm wafers by Soitec is 850k (unyielded) in Bernin 1 fab, to which we must add targeted 150k wafers production at Simgui and targeted production of 560k wafers in Bernin 2 fab (560k production capacity being the 200mm equivalent of targeted 250k production capacity of 300mm wafers). As a result, we understand that Soitec targets a total production of about 1.56m wafers per year for the next three years or a >60% market share. In addition, Soitec foresees demand for FD-SOI reaching 1 to 3m 300mm wafers annually by 2020 meaning the targeted 400k to 450k production in Bernin 2 will only be a portion of the production. Nevertheless, despite these attractive market anticipations and a stronger ecosystem, we keep a cautious approach and prefer to wait for proof of FD-SOI take-off.

VALUATION

- We have fine-tuned our model and make modifications that have no impact on our FV.
- Soitec's shares trade at a FY17e EV/sales ratio of 1.3x and EV/EBIT of 12.3x.

NEXT CATALYSTS

- 20 July 2016: Q1-17 sales

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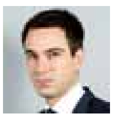

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Sector View

Software and IT Services

Oracle Q4 FY16 results: positive read-across for European Software vendors

	1 M	3 M	6 M	31/12/15
Softw.& Comp. SVS	-2.6%	-4.4%	-5.8%	-7.7%
DJ Stoxx 600	-4.0%	-5.8%	-10.9%	-12.2%

*Stoxx Sector Indices

Companies covered

ALTEN		**SELL**	**EUR48**
Last Price	EUR52,25	*Market Cap.*	*EUR1,759m*
ALTRAN TECHNOLOGIES		**NEUTRAL**	**EUR13**
Last Price	EUR11,78	*Market Cap.*	*EUR2,071m*
ATOS		**BUY**	**EUR93**
Last Price	EUR76,64	*Market Cap.*	*EUR7,952m*
AXWAY SOFTWARE		**NEUTRAL**	**EUR20**
Last Price	EUR20,25	*Market Cap.*	*EUR421m*
CAPGEMINI		**BUY**	**EUR97**
Last Price	EUR81,78	*Market Cap.*	*EUR14,081m*
CAST		**NEUTRAL**	**EUR3,6**
Last Price	EUR3,35	*Market Cap.*	*EUR54m*
DASSAULT SYSTEMES		**SELL**	**EUR63**
Last Price	EUR65,78	*Market Cap.*	*EUR16,903m*
INDRA SISTEMAS		**NEUTRAL**	**EUR10**
Last Price	EUR9,12	*Market Cap.*	*EUR1,497m*
SAGE GROUP		**SELL**	**555p**
Last Price	594p	*Market Cap.*	*GBP6,412m*
SAP		**NEUTRAL**	**EUR73**
Last Price	EUR67,33	*Market Cap.*	*EUR82,715m*
SOFTWARE AG		**BUY**	**EUR40**
Last Price	EUR30,695	*Market Cap.*	*EUR2,425m*
SOPRA STERIA GROUP		**BUY**	**EUR130**
Last Price	EUR104,9	*Market Cap.*	*EUR2,145m*
SWORD GROUP		**BUY**	**EUR26**
Last Price	EUR23	*Market Cap.*	*EUR217m*
TEMENOS GROUP		**NEUTRAL**	**CHF52**
Last Price	CHF53,35	*Market Cap.*	*CHF3,709m*

Yesterday evening, Oracle reported Q4 FY16 sales (FYE 31st May) in line with expectations both on cloud SaaS/PaaS sales growth and non-GAAP EPS. FY17 outlook continues to reflect Oracle's accelerated positive momentum in the cloud, helped by an aggressive strategy. We view these numbers as a positive read-across for European software vendors.

ANALYSIS

- **Revenues and non-GAAP EPS in line with consensus estimates**. For its quarter ended 31st May 2016, Oracle has reported non-GAAP EPS up 9% (+5% at cc) at USD0.81 (i.e. USD0.82 at cc) or at the low-end of company guidance, which was given at cc (USD0.82-0.85), and in line with consensus (USD0.82). Total revenues were flat at cc to USD10.6bn or at the mid-point of the guidance range (-2%/+1% at cc) and 1% above consensus (USD10.46bn). Cloud and on-premise software revenues were up 2% at cc to USD8.44bn (guidance: +1%/+2%; consensus: USD8.37bn). Hardware product sales were down 10 % at cc.
- **Q4 FY16 details**. At cc, on-premise software sales were down 2%, with new licences down 10% and maintenance up 4%, cloud SaaS/PaaS sales rose up an impressive 68% (guidance: +57%/+61% at cc), and cloud IaaS was up 8% (guidance: -1%/+3% at cc). Cloud and on-premise software revenues were down 2% cc (vs. +1% in Q3) in the Americas, up 5% at cc (vs. +2% in Q3) in EMEA, and up 11% at cc (vs. +13% in Q3) in Asia Pacific. In SaaS, Oracle added 1,640 new customers (vs. 942 in Q3) plus 917 customer expansions, of which 318 (vs. 213) in HCM, 700 (vs. 465) in Customer Experience and 808 (vs. 334) in ERP. Its SaaS/PaaS installed based now reaches 12,000 customers. It now has 2,600 Cloud ERP customers on the Oracle public cloud (vs. 230+ for Workday on Financial Management and 3,200 for SAP on S/4HANA including a vast majority of on-premise customers), out of which 1,577 are now live on Fusion. In PaaS, Oracle had 2,005 new customers and has an installed base of 9,000 clients.
- **Q1 FY17 guidance**. For Q1 FY17 (August 2016 quarter), management expects total revenues up 2-5% at cc, with Cloud & On-Premise software guidance up 5-7% at cc (SaaS/PaaS guidance +75%/+80% at cc including acquisitions vs. 'above +59% at cc'), and non-GAAP EPS USD0.56-0.60. Cloud bookings were up 52% at cc and Oracle now ambitions to be the first software company to generate USD10bn revenues in cloud subscriptions. For FY17, Oracle anticipates SaaS/PaaS revenues up above 65% (vs. +62% for FY16). NB. SaaS/PaaS posted a gross margin of 56.6% in Q4 FY16 (+17ppt), should continue to rise over FY17, and Oracle confirms its plan to reach 80% as soon as possible.
- **Positive short-term read-across for European Software vendors**. As such, from a short-term perspective we consider this publication is positive for SAP and other European software vendors. Revenue momentum accelerates in the cloud, and there is no longer reluctance for customers to embrace the cloud whatever the geography. However, with an aggressive strategy, Oracle's cloud SaaS/PaaS revenue growth (+68% lfl) remains way above the cloud subscription growth of SAP (+33% lfl in Q1 16), Workday (+39% in Q1 FY17) and Salesforce (+28% lfl in Q1 FY17).

VALUATION

European software companies: EV/EBIT multiples of 14.8x for 2016e and 13.5x for 2017e.

NEXT CATALYSTS

- Accenture's Q3 FY16 results on 23rd June before US markets open.
- SAP's Q2 16 results on 20th July before markets open.

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Sector View

Pharmaceuticals

Merck reports positive KEYNOTE-024 phase III results in 1L lung cancer

	1 M	3 M	6 M	31/12/15
Healthcare	-1.6%	-1.5%	-10.4%	-12.5%
DJ Stoxx 600	-4.0%	-5.8%	-10.9%	-12.2%

*Stoxx Sector Indices

Companies covered

ACTELION	BUY	CHF173
ASTRAZENECA	BUY	5100p
BAYER	NEUTRAL	U.R.
GLAXOSMITHKLINE	BUY	1740p
IPSEN	BUY	EUR63
NOVARTIS	NEUTRAL	CHF89
NOVO NORDISK	NEUTRAL	DKK400
ROCHE HOLDING	BUY	CHF293
SANOFI	NEUTRAL	EUR83
SHIRE PLC	BUY	6500p
UCB	NEUTRAL	EUR80

Yesterday, Merck reported that its KEYNOTE-024 phase III trial has achieved both primary and secondary endpoints of PFS and OS. DMC has therefore recommended that the trial be stopped to allow cross-over. This is obviously good news for Merck and Keytruda. Will be the magnitude of the benefit. Note that KEYNOTE-024 recruited only PD-L1 positive patients, hence the limited size of the trial (305 patients) and the indication will therefore be limited to these patients. Roche and AstraZeneca are hoping they can achieve more in combination with chemotherapies, or with other IO agents.

ANALYSIS

- As always, we do not have details, but the KEYNOTE-024 phase III trial that was investigating Keytruda (pembrolizumab) in first-line, non-small-cell lung cancer with high expression of PD-L1 (>50% score) met both its primary and key secondary endpoints of PFS and OS. In monotherapy, the selection of PD-L1 positive patients was a reasonable and cautious option made by the sponsors to increase the probability of success, while keeping the size of the trial low. Hence, it recruited only 305 patients who were split into 6 different groups including pembro 200 mg every three weeks or one of five platinum-based chemotherapy regimens.
- Actually the biggest surprise considering the size of the trial is that PFS was met as evidence is growing that IO agents may not be well designed to show benefit on this criteria while being much more suited for OS benefit. So, although Keytruda in any case will be limited to PD-L1 positive NSCLC patients only and will then require a systematic tumour testing before initiation, it is very likely that it is going to take a major part of this market segment. Results will be compared to Opdivo's in this setting that showed 9.2 months median OS vs 6.0 months for docetaxel in the CHECKMATE-017 trial for instance (squamous NSCLC only). Now it remains to be seen if a direct combination with other agents front-line triggers superior efficacy with reasonable toxicity, in which case standard of care will shift again. First results are expected in 2017 for Roche and AstraZeneca's compounds.

NEXT CATALYSTS

- Today: 1st Oncology Day Bryan Garnier-Institut Curie

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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 56.5% NEUTRAL ratings 34% SELL ratings 9.5%

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