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23rd June 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	17780.83	-0.27%	+2.04%
S&P 500	2085.45	-0.17%	+2.03%
Nasdaq	4833.32	-0.22%	-3.48%
Nikkei	16238.35	+1.07%	-15.59%
Stoxx 600	341.325	+0.38%	-6.69%
CAC 40	4380.03	+0.29%	-5.54%
Oil /Gold			
Crude WTI	48.38	-1.25%	+30.05%
Gold (once)	1266.97	-0.28%	+19.26%
Currencies/Rates			
EUR/USD	1.1282	+0.10%	+3.86%
EUR/CHF	1.08275	+0.24%	-0.43%
German 10 years	0.06	+25.70%	-90.52%
French 10 years	0.428	+0.25%	-56.42%
Euribor	-	+-%	+-%

Economic releases :

Date	
23rd-Jun	GB - Brexit Referendum DE - Markit Services PMI (55E) US - Initial Jobless claims (270K E) US- New Home Sales May (-9.5%) US - Leading indicators May (0.2% E)

Upcoming BG events :

Date	
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	
22nd-Jun	ELIOR On track with 2020 Ambitions
22nd-Jun	AXA Ready for the next run
22nd-Jun	INFINEON Underestimated potential
21st-Jun	GENMAB The saga goes on!
21st-Jun	GENMAB The saga goes on!
16th-Jun	UTILITIES Haste makes waste, it's upside time!

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

MONCLER — BUY, Fair Value EUR17 (+10%)

Moncler keeps up the momentum

Given Moncler's highly seasonal business (F/W collections: 75% of sales), Q2 is the smallest quarter of the year accounting for ~10% of FY revenues on average over the 2013-15 period. However, this does not prevent the group from delivering further robust momentum that clearly outpaces its luxury peers, and we anticipate 13% FX-n growth for Q2, vs. -1-0% on average for our luxury sample. Buy recommendation and FV of EUR17 confirmed.

TESCO — SELL, Fair Value 166p (+1%)

A first take on Q1 sales prompts no change to our view on the stock (sell)

UK LFL sales growth came in at 0.3% in Q1 vs +0.2% expected by the consensus (volumes and tansactions up 2.2% and 1.7% respectively). International LFL sales growth worked out at 3.0% in Q1 vs +2.8% expected by the consensus (volumes and tansactions up 2.7% and 1.5% respectively). On the whole, the statement was pretty much in line with expectations and at this stage, does not allow us to amend our mitigated view on the stock. Sell maintainted.

BREMAIN or BREXIT

Bremain or Brexit: moment of truth

Luxury & Consumer Goods

Moncler

Price EUR15.43

Bloomberg	MONC IM
Reuters	MONC.MI
12-month High / Low (EUR)	18.9 / 12.2
Market Cap (EUR)	3,860
Ev (BG Estimates) (EUR)	3,815
Avg. 6m daily volume (000)	1 194
3y EPS CAGR	10.3%

	1 M	3 M	6 M	31/12/15
Absolute perf.	2.9%	6.4%	22.3%	19.4%
Pers & H/H Gds	2.1%	4.2%	4.7%	1.8%
DJ Stoxx 600	1.0%	0.3%	-4.4%	-6.7%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	880.4	978.1	1,081	1,181
% change		*11.1%*	*10.5%*	*9.2%*
EBITDA	300	331	365	399
EBIT	252.7	282.6	311.8	340.9
% change		*11.8%*	*10.4%*	*9.3%*
Net income	163.8	185.2	205.8	226.3
% change		*13.1%*	*11.1%*	*10.0%*

	2015	2016e	2017e	2018e
Operating margin	28.7	28.9	28.8	28.9
Net margin	18.6	18.9	19.0	19.2
ROE	30.0	27.5	25.4	23.7
ROCE	40.9	42.8	45.2	47.8
Gearing	9.1	-6.7	-19.0	-28.9

(EUR)	2015	2016e	2017e	2018e
EPS	0.69	0.75	0.84	0.92
% change	-	*10.0%*	*10.9%*	*9.8%*
P/E	22.5x	20.5x	18.4x	16.8x
FCF yield (%)	3.4%	4.0%	4.6%	5.2%
Dividends (EUR)	0.14	0.17	0.21	0.23
Div yield (%)	0.9%	1.1%	1.3%	1.5%
EV/Sales	4.4x	3.9x	3.4x	3.0x
EV/EBITDA	13.0x	11.5x	10.1x	9.0x
EV/EBIT	15.5x	13.3x	11.7x	10.4x

Moncler keeps up the momentum

Fair Value EUR17 (+10%) **BUY**

Given Moncler's highly seasonal business (F/W collections: 75% of sales), Q2 is the smallest quarter of the year accounting for ~10% of FY revenues on average over the 2013-15 period. However, this does not prevent the group from delivering further robust momentum that clearly outpaces its luxury peers, and we anticipate 13% FX-n growth for Q2, vs. -1-0% on average for our luxury sample. Buy recommendation and FV of EUR17 confirmed.

ANALYSIS

- **A lack of tourists in Europe partly offset by local customers.** Like other luxury groups, Moncler has witnessed a decline in tourist flows in Italy, France and Belgium, mostly Asian travellers, following the terror attacks in Brussels and a less attractive price gap between Europe and Greater China. However, we understand that demand from the local clientele was good and that the group was not affected by unfavourable weather conditions.

- **Solid performances expected in Asia-Pacific...** In Q2, Moncler's key markets (**Greater China**, **South Korea**) should continue to drive the group's growth in Asia-Pacific, even in **Japan** (~15% of sales) where the Italian brand still enjoys the positive impact from the opening of the flagship store in Ginza last October (=> higher share of Chinese customers there). Moreover, Moncler's operations in **Greater China** may have benefited from a pick-up in domestic consumption since Chinese clients travelled less during the quarter.

- **... and in North America.** After a strong first quarter (+21% FX-n), the Italian group maintained robust growth in the region (+17%e). This performance was balanced between Retail and Wholesale, thanks to a selective approach with these wholesalers, its upscale positioning (no discounts) and a cautious replenishment management (low risks of excess inventory).

Moncler's organic growth by quarter (%):

FX-n growth	Q1 2015	Q2 2015	Q1 2016	Q2 2016e
Italy	7	11	5	2
EMEA excl. Italy	19	15	5	4
Asia & RoW	48	10	30	27
Americas	61	83	21	17
Total Revenues	**30**	**20**	**17**	**13**

Source: Company Data, BG ests

- **Limited decline in adj. EBITDA margin in H1 (-30bp to 23.7%).** This forecast is consistent with our FY assumption (-30bp to 33.8%). We expect a 10bp-improvement in the GM (to 72.8%) driven by the positive channel-mix while the integration of a second Romanian supplier (March 2016) might imply a slight dilutive impact. We anticipate a 60bp increase in opex (to 55.1%) given retail expansion (+3 stores in Q2) and start-up costs implied by the (soft) opening of the flagship store in London and the future new flagship store in NYC (Madison Ave. in Q3 2016).

- **Investment case confirmed so far.** We favour Moncler for its heritage and strong legitimacy that enables the brand to outperform the highly fragmented and dynamic outerwear segment (~+5%/year). The growth story is about top line (~10% CAGR during 2015-18), driven by the group's excellent control of the retail channel (~70% of 2015 sales). As a reminder, during the Q1 conference call CCO Luciano Santel was pleased by KPIs at the new stores, some of them even delivered results above expectations. Yet, Moncler is focusing on improving efficiency further (CRM, relocations and refurbishments).

VALUATION

- The stock has soared 19% ytd vs. -6% on average for our luxury sample. It now trades at 11.7x 2017e EV/EBIT vs. 11.5x for the peer group. Ahead of Brexit results, it is worth noting that the UK only accounts for 4-5% of Moncler's sales and the vast majority of its costs are denominated in EUR.

NEXT CATALYSTS

- Moncler will report its H1 2016 results on 27th. Click here to download

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Food retailing

Tesco

Price 164.15p

A first take on Q1 sales prompts no change to our view on the stock (sell)

Fair Value 166p (+1%) **SELL**

Bloomberg	TSCO LN
Reuters	TSCO.L
12-month High / Low (p)	223.7 / 139.2
Market Cap (GBPm)	13,418
Ev (BG Estimates) (GBPm)	21,346
Avg. 6m daily volume (000)	29 356
3y EPS CAGR	103.4%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-0.1%	-16.9%	13.0%	9.8%
Food Retailing	-0.7%	-3.5%	-0.2%	-1.3%
DJ Stoxx 600	0.6%	-0.2%	-4.8%	-7.0%

YEnd Feb. (GBPm)	02/16	02/17e	02/18e	02/19e
Sales	54,433	56,245	57,696	58,948
% change		*3.3%*	*2.6%*	*2.2%*
EBITDA	2,278	2,225	2,437	2,581
EBIT	1,046	1,069	1,252	1,370
% change		*2.2%*	*17.1%*	*9.4%*
Net income	103.5	473.0	606.7	866.2
% change		*NM*	*28.3%*	*42.8%*

	02/16	02/17e	02/18e	02/19e
Operating margin	1.7	1.9	2.2	2.3
Net margin	0.2	0.8	1.1	1.5
ROE	NM	NM	NM	NM
ROCE	4.5	5.2	6.1	6.8
Gearing	59.3	48.5	38.5	30.6

(p)	02/16	02/17e	02/18e	02/19e
EPS	1.27	5.83	7.48	10.68
% change	-	*NM*	*28.3%*	*42.8%*
P/E	NS	28.1x	21.9x	15.4x
FCF yield (%)	0.1%	0.1%	0.1%	0.1%
Dividends (p)	0.00	0.88	2.24	4.27
Div yield (%)	NM	0.5%	1.4%	2.6%
EV/Sales	0.4x	0.4x	0.4x	0.3x
EV/EBITDA	9.7x	9.6x	8.5x	6.1x
EV/EBIT	21.2x	20.0x	16.5x	11.5x

UK LFL sales growth came in at 0.3% in Q1 vs +0.2% expected by the consensus (volumes and tansactions up 2.2% and 1.7% respectively). International LFL sales growth worked out at 3.0% in Q1 vs +2.8% expected by the consensus (volumes and transactions up 2.7% and 1.5% respectively). On the whole, the statement was pretty much in line with expectations and at this stage, does not allow us to amend our mitigated view on the stock. Sell maintainted.

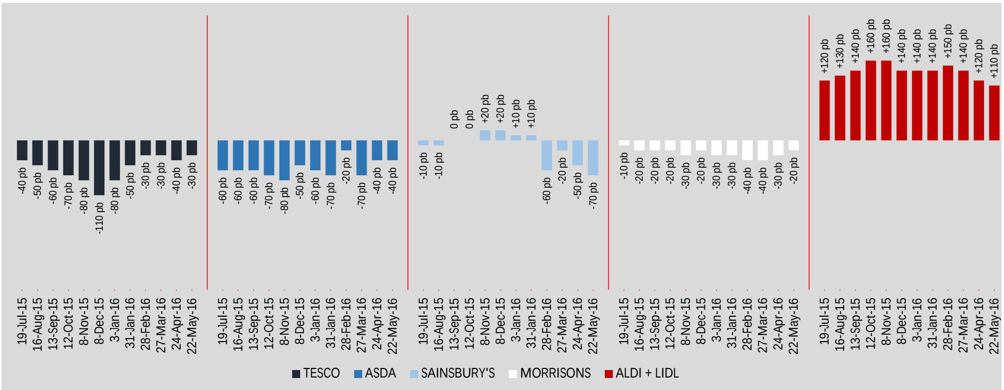
In the UK (~75% of revenues), Q1 2016/17 LFL sales growth excl. fuel and VAT (main kpi) came in at 0.3% (vs +0.9% in Q4 and -1.5% Q3 LY) vs +0.2%e. Beyond the figures, management indicates that new exclusive fresh food brands (deflationary impact of 0.7% on total UK LFL) are performing well in the UK.

In ROI (~4% of revenues), Q1 LFL sales growth excl. fuel and VAT worked out to 0.3% (vs +1.0% in Q4 and -1.2% Q3 LY) vs +0.7%e.

Overseas (~19% of revenues), sales momentum remained healthy with a 3.0% LFL rate (+3.8% in Q4 and +2.7% in Q3 LY) vs +2.8%e.

In detail concerning international activities, LFL sales growth worked out to 3.3% **in Asia** (~8% of revenues) vs +2.8%e and +2.8% **in Europe** (~11% of revenues) vs +2.9%e.

Market share in the UK (Kantar / 12 weeks moving average)



Source: Kanrat worldpanel

ANALYSIS & REMINDER OF OUR INVESTMENT CASE

- An improvement in the major balances (ND/EBITDA ratio of ~5.0x) depends on a recovery in lfl growth in the UK (+0.2% LFL currently vs ~2% needed, *ceteris paribus*, to cover natural cost inflation). There is still a long way to go in an environment that remains disrupted by discounters.
- Given the sluggishness specific to the sector, Tesco's commercial resolutions could take time to produce their effects. Growth is at a standstill (a disruptive factor in a fixed-cost industry, as Tesco's CEO Dave Lewis hinted at when he spoke of a "lethal cocktail of costs" in the UK).
- Note that the CEO stated that it would be "a significant, significant achievement" to meet analysts' estimates for operating profit of GBP1.25bn this year. So in the end, even if we do not question the ongoing commercial recovery, we are sticking to our cautious stance.

VALUATION

- NM

NEXT CATALYSTS

- Significant improvement in LFL sales growth in the UK & in ROI (i.e. > 2%)

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Main View

[redacted]

Bremain or Brexit: moment of truth

- A Brexit would open the door for tons of negotiations, implying increased uncertainty and risk. However, we prefer not to speculate on the potential mid-term business implications as these would mainly depend on the future rules the UK would be able to negotiate with its "partners".
- At this stage, we are focusing only on the relative sensitivities to FX issues for stocks we cover. Our FX assumptions are: GBP down vs. main currencies, CHF and USD up vs. main currencies inc. EUR.
- Below we highlight the companies we cover that show some degree of sensitivity to this issue from a P&L standpoint, depending on their currency-mix and the currency they report in.

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Company type	Reporting in	Impact on P&L in case of Brexit	Names
UK companies	GBP	**+** (business outside of the UK will translate into more GBP)	ARM, Burberry, Compass, Diageo, GSK, Sage, Tesco, Worldpay
	USD	**-** (business in EUR/GBP will translate into less USD)	Astra, Intercontinental, Shire
UK "pure domestic"	GBP	**=** (no FX issue)	Pennon
Non-UK companies	EUR	**-** (business in GBP will translate into less EUR)	Accor, Atos, Carlsberg, Heineken, Sopra, Sword, Unilever

FX event	Accounts in	Impact on P&L in case of Brexit	Names
CHF up	CHF	**-** (business out of Switzerland will translate into less CHF)	Actelion, LafargeHolcim, Nestlé, Roche, SGS, Swatch
	EUR	**-** (in case of high portion of costs in CHF)	Richemont (but less negative than Swatch)
USD up	EUR	**+** (business in USD will translate into more EUR)	Ahold/Delhaize, Altice, Axway, BIC, Bureau Veritas, Capgemini, Cast, CRH, Dassault Systèmes, Essilor, Fresenius Med. Care, Heidelberg, Heineken, Infineon, Luxottica, LVMH, Melia, Pernod, Rémy Cointreau, Sanofi, SAP, Sodexo, Software AG, Soitec, St Gobain
	EUR	**-** (due to a high portion of costs in USD)	Adidas, SEB
	USD	**-** (business in EUR/GBP will translate into less USD)	AB Inbev, Temenos
	USD	**+** (thanks to a high portion of costs in EUR)	Dialog, STM

Specific comments on Financials	
Potential end of the "European passport"	A major legal/operating/financial issue for banks with significant CIB activities located in the UK: US bulge brackets, HSBC (reporting in USD), Deutsche Bank + BNPP/SG to a lesser extent. Also a major issue for UK located insurers with major activities outside of the UK (Prudential, Aviva, Lloyd's affiliates...).
Concerning companies we cover	Basically the prospect is negative for all insurers as Brexit would favour a flight to quality -> bad news for investment returns and solvency II margins. AXA, Allianz and Aegon have limited UK activities (5-6% of operating profit). Allianz would benefit from higher a USD and lower US rates thanks to Pimco's business. Aegon and AXA would benefit from a higher USD but would suffer from lower US rates. Zurich is a little more exposed to the UK (8%) and would suffer from a higher USD (accounts are in USD). Reinsurers are usually seen as safe havens within the financial sector and would benefit from a higher USD (excluding Swiss Re which reports in USD), but bear in mind that reinsurers have a higher UK exposure (15%) compared to primary insurers.

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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 56.5% NEUTRAL ratings 34% SELL ratings 9.5%

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