



6th July 2016

## BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
<b>Indices</b>			
Dow Jones	17840.62	-0.61%	+2.39%
S&P 500	2088.55	-0.68%	+2.18%
Nasdaq	4822.9	-0.82%	-3.68%
Nikkei	15669.33	-0.67%	-17.68%
Stoxx 600	324.174	-1.70%	-11.38%
CAC 40	4163.42	-1.69%	-10.21%
<b>Oil /Gold</b>			
Crude WTI	48.76	0.00	+31.08%
Gold (once)	1345.34	-0.43%	+26.63%
<b>Currencies/Rates</b>			
EUR/USD	1.1109	-0.26%	+2.26%
EUR/CHF	1.0821	+0.01%	-0.49%
German 10 years	-0.179	+33.16%	-128.25%
French 10 years	0.137	-22.58%	-86.03%
Euribor	-	+-%	+-%

### Economic releases :

Date	
6th-Jul	DE - Factory orders (0.9% E y/y) 9:00 ECB - Draghi speaks in Frankfurt DE - Markit retail PMI Jun US - ISM non manufacturing composite Jun (53.3E)

### Upcoming BG events :

Date	
6th-Jul	Zealand Pharma (BG Zurich roadshow with CEO & 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	
1st-Jul	UBISOFT Same player shoot again?
29th-Jun	ORANGE : Lights are turning green.
24th-Jun	Back from ADA 2016: Update on T2D treatments
22nd-Jun	INFINEON Underestimated potential
22nd-Jun	ELIOR On track with 2020 Ambitions
22nd-Jun	AXA Ready for the next run

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



### CASINO GUICHARD

BUY, Fair Value EUR57 (+13%)

*A mixed second quarter trading statement on the cards*

A mixed second quarter trading statement on the cards. At this stage, Casino could struggle to reassure investors as to its capacity to deliver its main guidance for EUR500m in underlying operating profit in France in 2016. On the other hand, we foresee positive signs at Via Varejo, which should have bottomed out. Forex (+) and a difficult momentum at Cnova (-) were the main reasons why we adjusted our 2016/17 EPS (-6.7% for 2015, +5.8% in 2017 and +3.7% in 2018).

### ILIAD

BUY, Fair Value EUR212 (+16%)

*Network agreement to enter Italian market*

Iliad has signed a network agreement with Hutchison and VimpelCom that would enable the group to enter the Italian market. The agreement is subject to the EU's approval. We believe the conditions disclosed are fairly good, although 800MHz 4G frequencies are missing. The operation would moderately increase Free's risk profile, and entering a new market from scratch will be challenging for Iliad. But based on the company's track record and waiting for further information on Iliad's plans in Italy, we still remain confident, at this stage, on Iliad's capacity to create value in the market.

### SANOFI

NEUTRAL, Fair Value EUR83 (+11%)

*Medivation in confidentiality agreements with companies including Sanofi*

Pressure on Medivation's Board and the increased offer by Sanofi – although once again rejected – have prompted the US company to enter into confidentiality agreements with several parties having expressed interest in considering the acquisition of Medivation, including Sanofi. As a consequence, the latter has decided to terminate its consent solicitation. In short, we are coming to the end of this story and should shortly see if anybody comes up with a better offer for the target. Obviously, recently-published phase III data with another PARP inhibitor may have increased appetite for similar compounds from competition, all the more so that talazoparib is often considered as a potential best-in-class. We still see a final offer in the USD65-70 range.

### TOD'S GROUP

SELL, Fair Value EUR53 vs. EUR60 (+11%)

*Disappointment likely in Q2*

Ahead of the Q2 sales release, we prefer to remain cautious given the challenging current environment in Europe (55% of sales) and we expect a further deterioration in sales momentum with a 5.5% organic sales decline in Q2 following -4% in Q1. We expect a 3% sales decline for FY 2016 vs +1% previously anticipated. Consequently, we are lowering our 2016-17 EBIT by 9%. Hence our new EUR53 FV (EUR60 previously). Sell recommendation reiterated.

### BUSINESS SERVICES

*Top picks: We are maintaining Elixor*

### LUXURY & CONSUMER GOODS

*Q3 2016 TOP PICKS: We remove Essilor, add Moncler and LVMH and continue with Ahold!*

### In brief...

**BIOMÉRIEUX, Significant broadening of VITEK MS' offer in Europe**  
**ACTELION, Start of phase III for macitentan in paediatrics is no anecdote**

### M2i Vers un monde sans pesticides (VE EUR53m-EUR66m, CORPORATE)

M2i propose des solutions durables, substitués aux insecticides et antibiotiques, répondant aux enjeux actuels d'accompagnement de la production alimentaire mondiale dans les domaines de l'agriculture et de la santé animale. Positionné sur le marché des phéromones, en croissance de +20% par an et qui s'élève à USD1bn, la société est à un point d'inflexion avec des lancements prometteurs dans l'agriculture et des partenariats majeurs traduisant un intérêt certain pour ses solutions. Nous valorisons M2i entre EUR53m et EUR66m.

M2i - Termes de l'Offre - IPO  
M2i\_CP\_lancement-IPO\_FR\_def  
M2i\_Fiche Modalites\_vdef

### M2i Heading for a world without pesticides(EV EUR53m- EUR66m CORPORATE)

M2i offers lasting solutions in insecticide and antibiotic substitutes that are an answer to current challenges in accompanying global food production in the farming and animal health sectors. Positioned in the pheromones market that is growing by more than 20% a year and is valued at EUR1bn, the company is at a turning point with promising launches in farming and major partnerships reflecting a certain interest in its solutions. We value M2i at between EUR53m and EUR66m.

M2i - Offer terms - IPO  
M2i\_PR\_IPO-launch\_EN\_def  
M2i - Prospectus - IPO

Food retailing

Casino Guichard

Price EUR50.27

A mixed second quarter trading statement on the cards

Fair Value EUR57 (+13%)

BUY

Bloomberg	CO FP
Reuters	CASP.PA
12-month High / Low (EUR)	71.8 / 35.2
Market Cap (EURm)	5,655
Ev (BG Estimates) (EURm)	10,285
Avg. 6m daily volume (000)	648.0
3y EPS CAGR	6.0%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-4.9%	-0.5%	25.5%	18.5%
Food Retailing	-3.8%	-5.7%	-1.2%	-3.4%
DJ Stoxx 600	-3.4%	-1.4%	-7.5%	-9.9%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	46,145	41,275	41,815	43,691
% change		-10.6%	1.3%	4.5%
EBITDA	2,343	2,063	2,175	2,384
EBIT	968.0	1,261	1,309	1,423
% change		30.3%	3.8%	8.7%
Net income	412.0	358.6	412.2	472.5
% change		-13.0%	15.0%	14.6%

	2015	2016e	2017e	2018e
Operating margin	3.1	3.1	3.1	3.3
Net margin	0.9	0.9	1.0	1.1
ROE	NM	NM	NM	NM
ROCE	5.2	5.6	5.8	6.2
Gearing	48.9	18.5	18.5	18.1

(EUR)	2015	2016e	2017e	2018e
EPS	2.80	2.32	2.80	3.33
% change	-	-16.9%	20.4%	19.0%
P/E	18.0x	21.6x	18.0x	15.1x
FCF yield (%)	NM	5.2%	10.4%	11.0%
Dividends (EUR)	3.12	3.12	3.12	3.12
Div yield (%)	6.2%	6.2%	6.2%	6.2%
EV/Sales	0.3x	0.2x	0.2x	0.2x
EV/EBITDA	5.8x	5.0x	4.8x	4.4x
EV/EBIT	14.1x	8.2x	7.9x	7.4x

A mixed second quarter trading statement on the cards. At this stage, Casino could struggle to reassure investors as to its capacity to deliver its main guidance for EUR500m in underlying operating profit in France in 2016. On the other hand, we foresee positive signs at Via Varejo, which should have bottomed out. Forex (+) and a difficult momentum at Cnova (-) were the main reasons why we adjusted our 2016/17 EPS (-6.7% for 2015, +5.8% in 2017 and +3.7% in 2018).

ANALYSIS

- **France (48% of sales):** momentum is likely to be somewhat under pressure, penalised by: 1/ very poor weather (which was evidently detrimental to the seasonal apparel products at Monoprix); 2/ a difficult social climate (strikes, demonstrations, floods etc...). As such (see page 2 of this report), LFL sales growth excl. fuel and calendar effects should reach 2.0% at Géant (vs +3.8% in Q1 and +1.7 in 2015), 0.5% at Casino Supermarchés (in line with Q1 and -2.3% in 2015), 0.4% at FP/LP (vs +2.7% in Q1 and -1.8% in 2015) and drop 1.5% at Monoprix (vs -0.4% in Q1 and +0.7% in 2015).
- **LatAm Retail (34% of sales):** consistent with Q1 which was already quite reassuring sequentially, LFL sales growth excl. fuel and calendar should work out at 2.9% (+3.7% in Q1 and +2.4% in 2015). The good news of the publication should come from **LatAm electronics (11% of sales)** which is obviously gaining momentum with an expected flat LFL rate (vs -11.8% in Q1 and -23.6% in 2015). On the contrary, **E-commerce (7% of sales)** is likely to show very poor momentum with an estimate LFL decline of 15% (vs -8.3% in Q1 and +15.7% in 2015).

VALUATION

- At current levels, Casino shares are trading at a 10% discount vs spot SOTP (EUR53) 1/ whereas the 5Y historical average displays a ~15% premium, and 2/ despite strong measures to restore investor confidence. It is also worth remembering that for a Rallye share price at EUR15.2, Casino is implicitly valued at EUR61 (i.e. reversed NAV calculation).
- We believe the stock deserves a re-rating once the street is convinced that FY guidance for EUR500m in underlying operating profit in France is achievable. In this regard, the publication of H2 2016 results will be key. And at this stage, the trading statement should not allow to reassure that much.

Premium / discount of Casino share price vs spot SOTP (Datastream, BG estimates)



NEXT CATALYSTS

- Trading statement (13th July) and H1 results (end of July)



BG topline estimates

	2015	Q1 16	Q2 16 e	H1 16 e
<b>France Retail sales</b>	<b>18 889</b>	<b>4 549</b>	<b>4 695</b>	<b>9 244</b>
(1) LFL excl. fuel and calendar	0,6%	1,6%	0,4%	1,0%
(2) Expansion	0,4%	1,4%	0,6%	1,0%
(1)+(2) = Organic excl. fuel and calendar	1,1%	3,0%	1,1%	2,0%
(3) Calendar	-0,1%	0,9%	0,1%	0,5%
(4) Fuel	-1,0%	-0,8%	-0,8%	-0,8%
(5) Acquisitions	0,2%	-0,3%	-0,7%	-0,5%
(1)+(2)+(3)+(4)+(5) = Total	0,2%	2,8%	-0,3%	1,2%
<b>Latam Retail sales</b>	<b>14 714</b>	<b>3 338</b>	<b>3 347</b>	<b>6 685</b>
(1) LFL excl. fuel and calendar	2,1%	3,7%	2,9%	3,3%
(2) Expansion	3,6%	1,4%	2,0%	1,7%
(1)+(2) = Organic excl. fuel and calendar	5,8%	5,1%	4,9%	5,0%
(3) Calendar	0,3%	2,8%	-2,3%	0,2%
(4) Fuel	0,0%	0,0%	0,0%	0,0%
(5) Acquisitions	4,7%	6,4%	0,0%	3,2%
(6) Forex	-15,3%	-28,0%	-17,5%	-22,7%
(1)+(2)+(3)+(4)+(5)+(6) = Total	-4,6%	-13,7%	-14,9%	-14,3%
<b>Latam Electronics sales</b>	<b>5 188</b>	<b>1 090</b>	<b>1 054</b>	<b>2 144</b>
(1) LFL excl. fuel and calendar	-16,7%	-11,8%	0,0%	-6,7%
(2) Expansion	1,3%	-0,9%	-2,5%	-1,6%
(1)+(2) = Organic excl. fuel and calendar	-15,3%	-12,7%	-2,5%	-8,3%
(3) Calendar	0,0%	0,0%	0,0%	0,0%
(4) Fuel	0,0%	0,0%	0,0%	0,0%
(5) Acquisitions	0,0%	0,0%	0,0%	0,0%
(6) Forex	-13,0%	-21,9%	-13,7%	-18,4%
(1)+(2)+(3)+(4)+(5)+(6) = Total	-28,4%	-34,6%	-16,2%	-26,7%
<b>E-commerce sales</b>	<b>3 381</b>	<b>731</b>	<b>648</b>	<b>1 379</b>
(1) LFL excl. fuel and calendar	6,5%	-8,3%	-15,0%	-11,5%
(2) Expansion	0,1%	0,0%	0,0%	0,0%
(1)+(2) = Organic excl. fuel and calendar	6,6%	-8,3%	-15,0%	-11,5%
(3) Calendar	0,0%	0,0%	0,0%	0,0%
(4) Fuel	0,0%	0,0%	0,0%	0,0%
(5) Acquisitions	0,0%	0,0%	0,0%	0,0%
(6) Forex	-9,0%	-11,0%	-6,4%	-8,8%
(1)+(2)+(3)+(4)+(5)+(6) = Total	-2,5%	-19,3%	-21,4%	-20,3%
<b>TOTAL GROUP sales</b>	<b>46 145</b>	<b>9 708</b>	<b>9 744</b>	<b>19 452</b>
(1) LFL excl. fuel and calendar	-1,3%	-0,9%	0,1%	-0,4%
(2) Expansion	1,7%	1,1%	0,7%	0,9%
(1)+(2) = Organic excl. fuel and calendar	0,4%	0,1%	0,7%	0,4%
(3) Calendar	0,1%	1,2%	-0,7%	0,3%
(4) Fuel	-0,4%	-0,3%	-0,3%	-0,3%
(5) Acquisitions	1,6%	-6,1%	-9,1%	-7,5%
(6) Forex	-6,4%	-13,5%	-7,8%	-10,7%
(1)+(2)+(3)+(4)+(5)+(6) = Total	-4,8%	-18,5%	-17,1%	-17,8%

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TMT

**Iliad**

Price EUR182.15

**Network agreement to enter Italian market**

Fair Value EUR212 (+16%)

BUY

Bloomberg	ILD.FP
Reuters	ILD.PA
12-month High / Low (EUR)	236.3 / 170.2
Market Cap (EURm)	10,694
Ev (BG Estimates) (EURm)	12,253
Avg. 6m daily volume (000)	115.0
3y EPS CAGR	20.5%

Iliad has signed a network agreement with Hutchison and VimpelCom that would enable the group to enter the Italian market. The agreement is subject to the EU's approval. We believe the conditions disclosed are fairly good, although 800MHz 4G frequencies are missing. The operation would moderately increase Free's risk profile, and entering a new market from scratch will be challenging for Iliad. But based on the company's track record and waiting for further information on Iliad's plans in Italy, we still remain confident, at this stage, on Iliad's capacity to create value in the market.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-6.0%	-4.1%	-17.6%	-17.2%
Telecom	-6.0%	-5.1%	-11.0%	-13.3%
DJ Stoxx 600	-3.4%	-1.4%	-7.5%	-9.9%

**ANALYSIS**

- Yesterday Iliad announced it had signed an agreement with Hutchison and VimpelCom as part of the plan to merge their Italian subsidiaries, to acquire the assets constituting the remedy package proposed to the EU. The agreement is subject to the EU's approval as well as to the EU's approval of the merger transaction. At this point, we have no certainty the transaction will get approval, although we believe it has more chances of going through than in the UK.
- The agreement involves the transfer of 3G and 4G frequencies for EUR450m, an undertaking of several thousand sites in dense areas, an undertaking to bring into force the RAN-sharing agreement or to acquire several thousand sites in rural areas, and a 2G/3G/4G roaming agreement on the merged network, for a period of five years renewable for one further five-year period at the initiative of Iliad.
- The frequencies transferred to Iliad represent between 10% and 15% of all available frequencies on the market, and should allow Iliad to aim for significant market share, together with roaming. Nevertheless, the portfolio does not include golden 800MHz 4G frequencies, which is a drawback. In France, Iliad spent more than EUR900m to acquire low 700MHz frequencies. The combination of owned sites with RAN-sharing and roaming agreement will allow Iliad to benefit from a national coverage from the start. Iliad's 4G coverage should be close to the one of Tre, ie around 65% at start, vs 92% for TIM and 95% for VF.
- Licence payments are to be phased between between 2017 and 2019, and Iliad plans to carry out investments over a period of 5-7 years, entirely financed by the group's cash and available facilities. Iliad's cash position was EUR720m at the end of 2015, most of which should be used for the 700Mhz frequencies 2016 payment of EUR466m. Iliad's undrawn credit facilities, close to EUR2bn should be enough to finance the buy out of more than 5,000 sites. Leverage would then be increased to only slightly above 2x 2016e EBITDA.
- We think Iliad's plan in Italy moderately increases the company's risk profile. We view the network agreements as fairly good to enter the market, thanks to a decent portfolio of frequencies and to a mix of network sharing agreements and owned sites which could enable Iliad to offer qualitative and extensive coverage from the start, with long visibility. As reported in our note on 5th July, entering the Italian market should be more challenging than launching Free mobile in France, but we are rather confident the group should be able to generate value on the Italian market, based on its track record in France.

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	4,414	4,671	4,931	5,159
% change		5.8%	5.6%	4.6%
EBITDA	1,490	1,668	1,886	2,094
EBIT	0.0	0.0	0.0	0.0
% change		NM	NM	NM
Net income	335.0	358.3	456.7	587.2
% change		6.9%	27.4%	28.6%

	2015	2016e	2017e	2018e
Operating margin	15.1	15.3	18.0	20.9
Net margin	7.6	7.7	9.3	11.4
ROE	12.7	12.1	13.4	14.8
ROCE	9.8	9.5	10.9	12.8
Gearing	45.2	52.4	43.2	27.9

(EUR)	2015	2016e	2017e	2018e
EPS	5.58	5.95	7.59	9.76
% change	-	6.7%	27.5%	28.6%
P/E	32.7x	30.6x	24.0x	18.7x
FCF yield (%)	NM	NM	1.0%	3.6%
Dividends (EUR)	0.38	0.38	0.38	0.38
Div yield (%)	0.2%	0.2%	0.2%	0.2%
EV/Sales	2.7x	2.6x	2.5x	2.3x
EV/EBITDA	8.0x	7.3x	6.5x	5.6x
EV/EBIT	NS	NS	NS	NS



**VALUATION**

- At this stage, given the uncertainty about the EU's decision on the deal and the lack of visibility in terms of commercial ambitions from Iliad on the Italian market, we are sticking to our Fair value of EUR212, and maintaining our Buy rating.

**NEXT CATALYSTS**

- Decision from EU before 8th September
- H1 results end of August.



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Healthcare

**Sanofi**

Price EUR74.59

**Medivation in confidentiality agreements with companies including Sanofi**

Fair Value EUR83 (+11%)

NEUTRAL

Bloomberg	SAN.FP
Reuters	SASY.PA
12-month High / Low (EUR)	100.7 / 67.3
Market Cap (EURm)	95,996
Ev (BG Estimates) (EURm)	103,391
Avg. 6m daily volume (000)	3 129
3y EPS CAGR	2.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	2.9%	3.2%	-5.0%	-5.1%
Healthcare	1.4%	8.2%	-5.2%	-5.4%
DJ Stoxx 600	-5.0%	-1.2%	-9.7%	-11.4%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	36,575	35,970	36,779	38,358
% change		-1.7%	2.2%	4.3%
EBITDA	11,237	10,722	10,472	10,731
EBIT	9,948	9,595	9,620	9,942
% change		-3.5%	0.3%	3.3%
Net income	7,371	6,995	7,080	7,796
% change		-5.1%	1.2%	10.1%

	2015	2016e	2017e	2018e
Operating margin	27.2	26.7	26.2	25.9
Net margin	20.2	19.4	19.3	20.3
ROE	12.9	12.0	11.9	12.6
ROCE	11.9	11.2	11.0	11.2
Gearing	12.7	12.7	9.8	6.1

(EUR)	2015	2016e	2017e	2018e
EPS	5.64	5.47	5.54	6.10
% change		-3.0%	1.2%	10.1%
P/E	13.2x	13.6x	13.5x	12.2x
FCF yield (%)	4.6%	6.1%	5.6%	6.5%
Dividends (EUR)	2.93	3.00	3.15	3.50
Div yield (%)	3.9%	4.0%	4.2%	4.7%
EV/Sales	2.8x	2.9x	2.8x	2.6x
EV/EBITDA	9.2x	9.6x	9.7x	9.3x
EV/EBIT	10.4x	10.8x	10.6x	10.0x

Pressure on Medivation's Board and the increased offer by Sanofi – although once again rejected – have prompted the US company to enter into confidentiality agreements with several parties having expressed interest in considering the acquisition of Medivation, including Sanofi. As a consequence, the latter has decided to terminate its consent solicitation. In short, we are coming to the end of this story and should shortly see if anybody comes up with a better offer for the target. Obviously, recently-published phase III data with another PARP inhibitor may have increased appetite for similar compounds from competition, all the more so that talazoparib is often considered as a potential best-in-class. We still see a final offer in the USD65-70 range.

**ANALYSIS**

- Sanofi yesterday confirmed that it has entered into a confidentiality agreement with Medivation, an opportunity that has been given to other companies too that had previously expressed an interest in exploring a transaction. As a consequence, considering that Sanofi previously told Medivation that upon signing such an agreement and being provided information it would increase its offer to USD58 in cash + USD3 in the form of a contingent value right (CVR) based on talazoparib sales performance, this new offer is now fully valid. That said, Medivation's Board already rejected it as "not in the best interests of the company and its shareholders". Medivation's press release adds that Sanofi's part of the offer related to the CVR actually links the maximum USD3 per share additional value to a payment in 2022. It has been Sanofi's attempt to sweeten its offer and open the door to negotiations, which delivered a successful outcome, but it is not delivering full value in our view as it is still not based on internal information. This is why we believe that it is not the final price offered for Medivation by any company that is likely to get a majority of shareholders' support. After meeting with US-based investors last week, we confirm that the final price should be in the USD65-70 range to get shares tendered and up to USD80 should a battle start since this is roughly the maximum price to pay to keep the deal value-creative.
- We must say that last week's release from Tesaro helped Medivation a lot and not bidders. Tesaro unveiled simply outstanding phase III data for its PARP inhibitor niraparib in BRCA mutated ovarian cancer. Although Tesaro determined a high level for statistical significance, all endpoints were easily reached with p values below 0.0001 and HR ranking between 0.27 and 0.45. Presented in the number of months, median PFS was almost quadrupled from 5.5 to 21 months in gBRCA ovarian cancer patients whereas in not-gBRCA it was brought from 3.8-3.9 months up to between 9.3 and 12.9 months. As in previously disclosed studies, NOVA showed similar safety concerns i.e. of an hematological nature with thrombocytopenia, anemia and neutropenia being most frequently reported grade 3-4 side effects with incidences of 28%, 25% and 11% respectively. The discontinuation rate was 14.7% for niraparib compared to 2.2% with placebo. These results are indeed highly supportive of the class overall, all the more so that the initial clinical data comparing all the PARP inhibitors currently in development suggest comparability between olaparib (first-in-class, AstraZeneca) and niraparib (Tesaro) but maybe superiority and best-in-class status for Medivation's talazoparib. So, for other contenders for Medivation, the main interest is talazoparib more than Xtandi probably although it helps make the deal rapidly accretive. Of course, calculation of accretion will depend on sales expectations for Xtandi and talazoparib but also on synergies to be extracted from a combination.

**VALUATION**

- In our recent note on Sanofi ([Click here to download \(full report\)](#)), we highlighted that Sanofi was engaged in a transformation of its three key pillars (CHC, vaccines, Genzyme). Medivation is a key component to make Genzyme bigger and better positioned for the future in oncology. Should this acquisition come reality and it would be a major step forward for new Sanofi.

**NEXT CATALYSTS**

- 29th July 2016: First-half results (and lixisenatide PDUFA date ?)

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Luxury & Consumer Goods

**Tod's Group**

Price EUR47.68

Disappointment likely in Q2

Fair Value EUR53 vs. EUR60 (+11%)

SELL

Bloomberg	TOD IM
Reuters	TOD.MI
12-month High / Low (EUR)	94.8 / 47.7
Market Cap (EUR)	1,578
Ev (BG Estimates) (EUR)	1,590
Avg. 6m daily volume (000)	101.3
3y EPS CAGR	4.4%

Ahead of the Q2 sales release, we prefer to remain cautious given the challenging current environment in Europe (55% of sales) and we expect a further deterioration in sales momentum with a 5.5% organic sales decline in Q2 following -4% in Q1. We expect a 3% sales decline for FY 2016 vs +1% previously anticipated. Consequently, we are lowering our 2016-17 EBIT by 9%. Hence our new EUR53 FV (EUR60 previously). Sell recommendation reiterated.

**ANALYSIS**

- Given the likely deterioration in the environment in Europe as tourists are still lacking, we prefer to remain cautious for Q2 and expect a more significant sales decline in Q2 than in Q1. Indeed, we expect Q2 sales to fall 5.5% following -4.2% in Q1. While Wholesale sales should be flattish in Q2 after -7% in Q1 (early deliveries negative impact), Retail sales (63% of Group sales) momentum is set to deteriorate further following -1.4% in Q1, hence our 7.5% sales decline forecast with a worse trend in Western Europe and in the Americas. This therefore implies a fresh deterioration for same-store sales performance. After -12% in Q1, we expect -15% in Q2 with a lower positive impact from space as only two stores were opened during the quarter (a Tod's one in a T3 city in Mainland China and a new small Hogan), while four stores were opened in Q1.

- Furthermore, Leather Goods sales (15% of Group sales) were likely to have been under pressure again, with a worse trend than in Q1 (-12%) and we guess that the Q2 deterioration has affected the shoes activity as well (-2.8% in Q1). We therefore expect a 15% LG sales decrease and a 4% decline in footwear sales. It seems that for shoes, consumers were more focused on classic products (at a lower price) and less on more sophisticated ones (at a higher price). Concerning Leather goods, Tod's management wants to focus more on entry price items (around EUR1,000 for leather bag) and less on very high-end pieces. Following Alessandra Facchinetti's departure, the product offer will be less fashion oriented (no more fashion shows for instance).

- Following the deterioration in Q2 sales, H1 margin is expected narrow 250bp to 12.5%. Alessandra Facchinetti's departure should have a positive impact on costs but much more in 2017 (around EUR15m impact) than in 2016 (EUR7m and mainly in H2).

- Following our cautious view for Q2, we lower our 2016 and 2017 EBIT estimates by 9% (see table below). We expect a 3% organic sales decline in 2016 (+1% previously) of which -7% in Greater China and -2% in Europe. Consequently, EBIT is expected to fall by 11% in FY 2016, implying a new profitability erosion (-150bp to 12.8%). This means that between 2011 and 2016, Tod's margin should lose 900bp!

**Sales and EBIT adjustments**

	prev 2016	new 2016	prev 2017	new 2017
Sales (EURm)	1,057	1,015	1,112	1,070
Org sales chge %	1	-3	5	4
EBIT (EURm)	148	130	165	148
EBIT margin %	14.0	12.8	14.8	13.8

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

**VALUATION**

- Following our estimates adjustments, we have lowered our Fair Value from EUR60 to EUR53 and, unsurprisingly, we are reiterating our Sell recommendation on the stock which is trading at 12.2x on 2016 EV/EBIT (8% premium vs peers average not deserved). Despite the recent share price decline (-21% on 3m), we are maintaining a very cautious view as visibility remains too uncertain.

**NEXT CATALYSTS**

- H1 sales to be reported on 21st July (after market closure)

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	1 M	3 M	6 M	31/12/15
Absolute perf.	-11.0%	-21.0%	-33.0%	-34.7%
Pers & H/H Gds	-0.4%	3.1%	3.2%	0.7%
DJ Stoxx 600	-5.0%	-1.2%	-9.7%	-11.4%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	1,037	1,015	1,070	1,120
% change		-2.1%	5.4%	4.7%
EBITDA	203	185	205	225
EBIT	148.7	130.0	148.0	168.0
% change		-12.6%	13.8%	13.5%
Net income	92.8	82.0	100.0	114.0
% change		-11.6%	22.0%	14.0%

	2015	2016e	2017e	2018e
Operating margin	14.3	12.8	13.8	15.0
Net margin	8.9	8.1	9.3	10.2
ROE	13.6	12.2	13.8	15.7
ROCE	17.9	16.1	18.3	20.7
Gearing	-15.2	1.7	-1.1	-5.2

(EUR)	2015	2016e	2017e	2018e
EPS	3.03	2.48	3.03	3.45
% change	-	-18.0%	22.0%	14.0%
P/E	15.7x	19.2x	15.7x	13.8x
FCF yield (%)	3.2%	6.2%	6.0%	7.1%
Dividends (EUR)	2.00	2.20	2.30	3.30
Div yield (%)	4.2%	4.6%	4.8%	6.9%
EV/Sales	1.4x	1.6x	1.5x	1.4x
EV/EBITDA	7.1x	8.6x	7.7x	6.8x
EV/EBIT	9.7x	12.2x	10.6x	9.2x



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## Sector View

## Business services

## Top picks: We are maintaining Elixir

	1 M	3 M	6 M	31/12/15
Inds Gds & Svs	-6.6%	-2.6%	-4.6%	-6.9%
DJ Stoxx 600	-5.0%	-1.2%	-9.7%	-11.4%

\*Stoxx Sector Indices

## Companies covered

<b>BUREAU VERITAS</b>	<b>NEUTRAL</b>	<b>EUR21</b>
Last Price	EUR18.535	Market Cap. EUR8,192m
<b>COMPASS GROUP</b>	<b>NEUTRAL</b>	<b>1200p</b>
Last Price	1445p	Market Cap. GBP23,737m
<b>EDENRED</b>	<b>NEUTRAL</b>	<b>EUR19</b>
Last Price	EUR19.07	Market Cap. EUR4,457m
<b>ELIOR</b>	<b>BUY</b>	<b>EUR23</b>
Last Price	EUR19.57	Market Cap. EUR3,372m
<b>EUROFINS SCIENTIFIC</b>	<b>SELL</b>	<b>EUR340</b>
Last Price	EUR329.75	Market Cap. EUR5,275m
<b>SGS SA</b>	<b>BUY</b>	<b>CHF2400</b>
Last Price	CHF2204	Market Cap. CHF17,240m
<b>SODEXO</b>	<b>NEUTRAL</b>	<b>EUR88</b>
Last Price	EUR96.9	Market Cap. EUR14,898m



## LOOKING BACK ON Q2 2016

**Bureau Veritas** was the only group to report negative performances in Q2 with a share price down 2.9% in absolute terms and -0.7% vs. the DJ Stoxx i.e. consolidating after a strong Q1 up respectively 6.4% and 14.1%. Main competitor **SGS** maintained its Q1 positive trend in Q2, up 10.5% in absolute terms (+5.7% in Q1) and 13% in Euros vs. the DJ Stoxx (+13.3% in Q1). **Eurofins Scientific** (coverage initiated on 27th May, 2016 at Sell with a FV of EUR340) was up 3.5% in absolute terms and 5.9% vs. the DJ Stoxx.

The picture was mixed again in **Foodservices**. After the best performance in Q1 due to positive newsflow, some consolidation was seen on **Sodexo**, up 2.1% in absolute terms and 4.5% vs. the DJ Stoxx. For **Elixir**, our top pick, stock price consolidation continued in Q2 (+1.8% in absolute terms) as was the case in Q1 after the strong outperformance in 2015 (up 56.9%) and despite positive newsflow, which makes us increasingly confident in management's expectations. The best performances stemmed from **Compass Group** and **Edenred** (after the worst ones in Q1), up respectively 10.5% and 8.3% in absolute terms and in euros (+13% and 10.9% vs. DJ Stoxx) with **Edenred** benefiting notably from the re-appreciation of BRL/EUR exchange rate.

## WHAT WE SEE FOR Q3 2016

In **Foodservices**, **Sodexo** is due to report 9m revenue on Friday 8th July for which we forecast total revenue of EUR15.603bn up 3.4% in reported terms implying -1.3% in Q3 (after +3.6% in Q2 and +9.6% in Q1) impacted by negative currencies of -3.7%. lfl growth should be largely in line with FY guidance (3% after RWC) estimated at 3.4% implying 2.3% in Q3 after 2.7% in Q2 and 4.7% in Q1. Visibility on **Edenred** remains limited and the current main driver i.e. the BRL parity difficult to anticipate. For H1 results, we do not expect many surprises pending the investor day in October. Regarding H1 results, we anticipate EUR524m in total revenue down 2.7% in reported terms with lfl growth of 5.4% implying 5.5% in Q2 and an EBIT of EUR153m vs. EUR165m last year. Management will guide on FY results (our estimate is EUR372m). No major surprises are anticipated for **Compass Group** Q3 IMS after the recent investor day: we anticipate lfl growth of 5.5% slightly lower in H1 at 5.7% mainly due to RoW. During the investor day, management confirmed its medium-term guidance for lfl revenue growth of between 4% and 6% with some margin improvement albeit "modest" and further cash returns. In fact, we estimate that between 2 to 3% of the group's equity capital can be bought back each year when net debt/EBITDA will be back to below 1.5x i.e. in 2016 based on our forecast of 1.3x.

Regarding **TIC**, having downgraded our estimates on **Bureau Veritas** (see our note on 1st July), we confirm that H1 numbers (especially lfl revenue growth down 0.6%) will greatly contrast with those of **SGS** with more FY guidance that could be at risk. Remember that for **SGS** we anticipate lfl revenue growth of 2.6% in H1 and 3.3% for the FY. Following the conference call on private equity issuance, no major surprises on **Eurofins Scientific's** H1 results are expected, management having confirmed that Q2 was robust even if lfl growth should be lower than in Q1 up over 10%.

## CONCLUSIONS AND TOP PICKS

We are maintaining **Elixir** as our top pick. (see our note on 22<sup>nd</sup> June : *On track with 2020 Ambitions*)

Actually, following H1 2015-16 results on 27th May, management is clearly stepping up the roll-out of its 2020 Ambitions plan. It is particularly focused on the group's expansion via acquisitions, which is gaining momentum with around EUR400m in annualised revenue added since the beginning of the year, 50% of which stemming from Preferred Meals in the US acquired at the end of last May.

Having reported H1 revenue growth of 3.5% with organic growth of 1.5% taking into account the 1.9% negative effect of voluntary contract exits (vs. 1.5% initially anticipated) with an EBITDA margin up 20bp to 7.4%, management confirmed its full year objectives with: 1) organic growth of "more than 3%" excluding the impact of voluntary contract exits which is expected to be less than 200bp vs. 150bp previously announced, 2) EBITDA margin of over 8.6% i.e. at least a 20bp improvement taking into account some penalties from contract cancellations or the negative impact of acquisitions on margin. The full benefits, especially from contract exits, is expected in 2016-17 and management has confirmed its target for a 40bp EBITDA margin improvement to reach 9%.

In addition, early last May, the group undertook the early redemption of all the outstanding high yield 6.5% May 2020 Senior Secured Notes for a total amount of EUR186m. Simultaneously, the group raised the same amount from investors via a seven-year private placement at a variable rate plus 250bp. In all, taking into account recent M&A, we estimate net debt 2015-16 at around EUR1.6bn up EUR150m vs. last year with an average cost of 2.8% (vs. 3.3%).

In all, these actions make us increasingly confident in management's short and medium-term guidance. Our DCF valuation using a leverage beta of 1.3x yields our FV of EUR23. Our SOTP yields a valuation of EUR24 per share.

**NEXT CATALYSTS**

**Sodexo:** 9m 2015-16 Revenue on 8th July (before market)

**SGS:** H1 results on 18th July (before market). Capital market days on 27 & 28 October (Geneva)

**Edenred:** H1 results on 22nd July (before market). Capital market day on 19th October (London)

**Bureau Veritas:** H1 results on 28th July (before market)

**Compass Group:** 9m 2015-16 Trading update on 28th July (before market)

**Elior:** 9m 2015-16 Revenue on 28th July (before market)

**Eurofins Scientific:** H1 results on 2nd August (before market)

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## Sector View

## Luxury &amp; Consumer Goods

## Q3 2016 TOP PICKS: We remove Essilor, add Moncler and LVMH and continue with Ahold!

	1 M	3 M	6 M	31/12/15
Pers & H/H Gds	0.8%	4.0%	1.9%	1.9%
DJ Stoxx 600	-3.5%	-0.3%	-9.2%	-9.2%

\*Stoxx Sector Indices

## Companies covered

Company	Rating	Price	Market Cap.
<b>ADIDAS GROUP</b>	<b>BUY</b>	EUR128,2	EUR26,821m
<i>Last Price</i>			
<b>BEIERSDORF</b>	<b>NEUTRAL</b>	EUR84	EUR19,051m
<i>Last Price</i>			
<b>BIC</b>	<b>NEUTRAL</b>	EUR128	EUR6,136m
<i>Last Price</i>			
<b>BURBERRY</b>	<b>NEUTRAL</b>	1166p	GBP5,189m
<i>Last Price</i>			
<b>CHRISTIAN DIOR</b>	<b>BUY</b>	EUR145,3	EUR26,405m
<i>Last Price</i>			
<b>ESSILOR</b>	<b>BUY</b>	EUR119,55	EUR26,069m
<i>Last Price</i>			
<b>GRANDVISION</b>	<b>BUY</b>	EUR23,91	EUR6,084m
<i>Last Price</i>			
<b>GROUPE SEB</b>	<b>BUY</b>	EUR111,1	EUR5,574m
<i>Last Price</i>			
<b>HERMES Intl</b>	<b>BUY</b>	EUR340,8	EUR35,978m
<i>Last Price</i>			
<b>HUGO BOSS</b>	<b>NEUTRAL</b>	EUR50,21	EUR3,535m
<i>Last Price</i>			
<b>KERING</b>	<b>BUY</b>	EUR148,2	EUR18,713m
<i>Last Price</i>			
<b>L'OREAL</b>	<b>BUY</b>	EUR172,45	EUR96,572m
<i>Last Price</i>			
<b>LUXOTTICA</b>	<b>BUY</b>	EUR44,61	EUR21,583m
<i>Last Price</i>			
<b>LVMH</b>	<b>BUY</b>	EUR136,15	EUR69,116m
<i>Last Price</i>			
<b>MONCLER</b>	<b>BUY</b>	EUR14,64	EUR3,663m
<i>Last Price</i>			
<b>PRADA</b>	<b>NEUTRAL</b>	EUR23,95	EUR61,284m
<i>Last Price</i>			
<b>RICHEMONT</b>	<b>NEUTRAL</b>	CHF57,35	CHF32,116m
<i>Last Price</i>			
<b>SAFILO</b>	<b>NEUTRAL</b>	EUR6,77	EUR424m
<i>Last Price</i>			
<b>SALVATORE FERRAGAMO</b>	<b>BUY</b>	EUR18,34	EUR3,096m
<i>Last Price</i>			
<b>THE SWATCH GROUP</b>	<b>NEUTRAL</b>	CHF286,1	CHF15,788m
<i>Last Price</i>			
<b>TOD'S GROUP</b>	<b>SELL</b>	EUR49,66	EUR1,643m
<i>Last Price</i>			

## Companies covered

Company	Rating	Price	Market Cap.
<b>AB INBEV</b>	<b>NEUTRAL</b>	EUR115.85	EUR186,315
<i>Last Price</i>			
<b>CAMPARI</b>	<b>BUY</b>	EUR8.81	EUR5,117m
<i>Last Price</i>			
<b>CARLSBERG</b>	<b>NEUTRAL</b>		DKK600

## LOOKING BACK ON Q2 2016

Our **Consumer** "Top Picks" encompass all our global Consumer franchises: **Luxury, Consumer goods, Retail, Spirits & Brewers** and **Food**. In Q2, our Consumer sample was slightly down (-4% globally in line with DJ Stoxx) but again with a mixed situation with -11% for our luxury goods sample while the HPC segment was more resilient (+3%) as was the case for beverages (+4%). In all, Retail stocks remained almost stable.

**Luxury goods** stocks were again strongly penalised (-11% on 3m) among others factors by still poor activity in Hong Kong, a slowdown in US, the lack of tourists in Europe and especially in France. Nevertheless, the best performer was **Hermès** (+6%) thanks to its fairly resilient status among peers (Q1 sales up 6% vs no growth for the sector average), while **Tod's** was the worst (-25%), due to very poor Q1 results with same-store sales down 12%. **LVMH** and **Kering** achieved the same kind of performance (around -10%).

Our **Optical & Eyewear** sample had a mixed performance: on the negative side **Luxottica** and **Safilo** fell by 13% and 15% respectively as both groups posted unhelpful Q1 numbers. As highlighted recently in our latest comment on **Luxottica**, the second quarter should be affected by rainy weather conditions across Europe during the sun peak season and **Safilo** should still be partly impacted by production bottlenecks that already played negatively in Q1. Consequently we believe that investors still prefer to "wait-and-see" ahead of H1 results. The **GrandVision** share price only contracted ~7% in the absence of any major catalyst but we do not think that the consensus has factored in the dilutive impact from M&A. Last but not least, **Essilor** remained the best-performer in our sample with a 9% increase over the quarter. Indeed, in a volatile environment, Essilor's defensive profile was sought after by the market given a solid Q1 publication combined with a reassuring MT outlook, confirming the group's strong fundamentals.

Among the **HPC/Consumer goods** stocks, we would highlight the relative outperformance of this segment with a particularly good move for **L'Oréal** (+7% or +11% vs the DJ Stoxx). Once again **adidas Group** led our **HPC/Consumer** sample with a rally of 23% over the quarter, fuelled by an astonishing Q1 publication (+22% FX-n), FY guidance that was revised up and a healthy global sporting goods market. **Groupe SEB** increased by 20% following better-than-expected Q1 results but also after the game-changing acquisition of WMF Group that was announced at the end of May.

**Food & Beverages:** In Q2, our Food & Beverage stocks rose 6.9% vs the DJ Stoxx as investors favoured their defensive profile. The best performers were Rémy Cointreau (+19% vs DJ Stoxx) which guided for a return to growth in China in 2016/17 and Diageo (+14% vs DJ Stoxx), which benefited from the weaker GBP. Given their defensive qualities (high cash generation, steady top line growth, self-help restructuring and efficiency improvements) share prices of the brewers held up very well over the quarter. AB InBev was the best performer over the quarter with a 7.6% increase in the share price outperforming the DJ Stoxx by 10.1% and Royal Unibrew was the worst performer with a 5.7% decline.

**Retail:** Over the last quarter, newsflow was rather poor in food retailing. There was no good news, except for Dia (+9%) whose message turned out to be more positive following its latest publication (hence our new Buy rating), which would have allowed us to amend our conviction that the sector is not attractive, both in absolute (16x average PE for 2017 and anorexic growth vs 14x 10Y average) and relative terms (~20% premium vs stoxx 600). On the contrary, the profit warning from TESCO (mid-April) along with CARREFOUR being punished by the market (-9% in absolute terms in Q2) for not having a clear post-turnaround commercial strategy, does not allow us to amend our view. At this stage, we also believe that the upcoming trading statements will be rather febrile.

## WHAT WE SEE FOR Q3 2016

Concerning **Luxury groups**, we remain cautious on Q2 and H1 results publications. Actually, after no organic sales growth in Q1, we argue that the trend should be almost the same despite a likely improvement in Asia-Pacific, thanks to a better Mainland China (8 to 10% of sales) and Korea, but not yet in Hong Kong (8% of luxury sales), but clearly affected in Western Europe as tourists are still lacking. For instance, in April Duty Free shopping by Chinese clientele in Europe fell 18% and in Q1 the number of Japanese tourists in Paris was down around 50% and we do not expect any clear improvement in Q2. France accounts for 7% of luxury sales (and 5% in Paris alone). Moreover, comps in Q2 were slightly more demanding than in Q1. Actually, for LVMH, we expect 2-3% organic sales growth in Q2 following +3% in Q1 (no growth at F&L). LVMH's H1 EBIT margin should be slightly under pressure (-30bp of which -70bp for F&L). Concerning Kering, for Q2 we anticipate 4% organic sales growth including +1% for the Luxury division. Gucci brand sales are expected to grow slightly in Q2 (+1.5%) after +3% in Q1 despite much more demanding comparison (-8% in Q1 15 but +4.6% in Q2 15). Gucci brand recovery is underway despite a challenging environment. Furthermore, Puma should achieve a very significant sales increase (close to 10%) partly thanks to the positive EUR impact.

**Food retail:** We continue to think the commercial equation of retailers remains somewhat

## BG's Wake Up Call

Last Price	DKK632.5	Market Cap.	DKK96,711m
<b>DANONE</b>	<b>BUY</b>		<b>EUR71</b>
Last Price	EUR63.83	Market Cap.	EUR41,866m
<b>DIAGEO</b>	<b>NEUTRAL</b>		<b>1840p</b>
Last Price	2139.5p	Market Cap.	GBP53,861m
<b>HEINEKEN</b>	<b>BUY</b>		<b>EUR83</b>
Last Price	EUR83.38	Market Cap.	EUR48,027m
<b>MOLSON COORS</b>	<b>NEUTRAL</b>		
Last Price	USD100.44	Market Cap.	USD21,562m
<b>NESTLE</b>	<b>BUY</b>		<b>CHF80</b>
Last Price	EUR75.6	Market Cap.	EUR235,279
<b>PERNOD RICARD</b>	<b>NEUTRAL</b>		<b>EUR107</b>
Last Price	EUR99.68	Market Cap.	EUR26,457m
<b>REMY COINTREAU</b>	<b>BUY</b>		<b>EUR80</b>
Last Price	EUR77.45	Market Cap.	EUR3,775m
<b>ROYAL UNIBREW</b>	<b>BUY</b>		<b>DKK325</b>
Last Price	DKK295.8	Market Cap.	DKK16,003m
<b>SABMILLER</b>	<b>NEUTRAL</b>		<b>4400p</b>
Last Price	4353p	Market Cap.	GBP70,612m
<b>UNILEVER</b>	<b>NEUTRAL</b>		<b>EUR43</b>
Last Price	EUR42.14	Market Cap.	EUR121,263
<b>UNILEVER Plc</b>	<b>NEUTRAL</b>		<b>3350p</b>
Last Price	3678.5p	Market Cap.	GBP47,212m

### Companies covered

<b>AHOLD</b>	<b>BUY</b>		<b>EUR22</b>
Last Price	EUR20.465	Market Cap.	EUR17,075m
<b>CARREFOUR</b>	<b>BUY</b>		<b>EUR30</b>
Last Price	EUR22.02	Market Cap.	EUR16,652m
<b>CASINO GUICHARD</b>	<b>BUY</b>		<b>EUR57</b>
Last Price	EUR48.55	Market Cap.	EUR5,462m
<b>DELHAIZE</b>	<b>BUY</b>		<b>EUR104.5</b>
Last Price	EUR96.88	Market Cap.	EUR10,132m
<b>DIA</b>	<b>BUY</b>		<b>EUR6.5</b>
Last Price	EUR5.15	Market Cap.	EUR3,206m
<b>JERONIMO MARTINS</b>	<b>NEUTRAL</b>		<b>EUR13.5</b>
Last Price	EUR14.27	Market Cap.	EUR8,980m
<b>METRO AG</b>	<b>SELL</b>		<b>EUR26</b>
Last Price	EUR26.84	Market Cap.	EUR8,699m
<b>RALLYE</b>	<b>BUY</b>		<b>EUR18.5</b>
Last Price	EUR15.08	Market Cap.	EUR736m
<b>TESCO</b>	<b>SELL</b>		<b>166p</b>
Last Price	175.75p	Market Cap.	GBP14,366m

weakened in Continental Europe and in the UK, in view of: **1/** apathetic demographical factors, **2/** the de(dis)inflationary backdrop and **3/** the strong penetration of modern retail. In this context, it has become challenging for retailers to generate a sufficient LFL growth to cover natural cost inflation, amortise their fixed costs base and increase their cash margin.

**Food & Beverages.** Despite a tough trading environment with weak pricing power and pressure on volumes in emerging countries, food companies should report solid organic sales growth in Q2 partly thanks to easy comps. We are also confident in the reporting of spirits groups as momentum remains healthy in the US and China is improving on the back of a return to normal in private consumption.

**Consumer Groups. Play the "feel good" factor...** Indeed, given this volatile environment, we believe that investors will continue to favour groups that enjoy old momentum (=> hence a low risk of disappointing H1 results) such as **adidas Group**, **Essilor** or **Groupe SEB**. As mentioned above, we remain cautious ahead of **Luxottica's** H1 results given poor current trading and significant capex investments to launch the 2018 Strategic Plan although the stock is currently at a very attractive entry point.

### CONCLUSIONS AND TOP PICKS

**We have removed Essilor...** Let's be clear, our decision has nothing to do with potential concerns on H1 results or on the group's sound fundamentals but the decision to remove Essilor is based on two main reasons: **(i)** securing the capital gain following a very satisfying quarter (+9%) and **(ii)** playing a more aggressive scenario with more "cyclical stocks" and more attractive upside. Fundamentally, Essilor remains one of our favorite buy ideas for a MT/LT investment horizon.

... **and added Moncler.** In a context of a subdued organic growth in our luxury goods sample, Moncler clearly outpaces its peers as we anticipate 13% FX-n growth for Q2. Moncler's strong brand appeal enables it to outperform the fragmented and dynamic outerwear segment (~5% growth per year) and its selective retail expansion limits the risks of overexposure (= brand dilution) despite an expected 10% sales CAGR during 2015-18. The group should maintain its high margin level (34.1% adj. EBITDA margin in 2015e) thanks to its "Retail Excellence" (one of the highest sales/m<sup>2</sup> ratio in the sector with EUR30k/m<sup>2</sup>, focus on SSSG, limited store size formats, etc.) and improve its FCF generation in the MT. The stock proved to be more resilient than our luxury sample in Q2 (flat vs. -11%) but was affected by Brexit (-14% over 24-27th June). Any easing of these concerns implies attractive rebound potential given these strong fundamentals, this is why we add Moncler in our Top Picks list.

**Food retailing: Ahold (Buy, FV: EUR22):** In this apathetic environment and post Brexit, we continue to favour AHOLD (Buy, FV @EUR22) which boasts a very defensive profile and attractive comparative edges for scalded investors: **1/** strong exposure to the US (~60% of EBIT) and no exposure to the UK, **2/** best FCF generation within the panel (~7% FCF yield vs ~3.5% on average for the sector); **3/** the upcoming merger with Delhaize (mid-July) that will allow the Dutch retailer to share its costs with the Belgian banner; **4/** as a general rule, very strong momentum. As such, we believe that Ahold deserves to remain on BG's top pick list.

**Food & Beverages:** Despite the upcoming good reporting season, we have not chosen a top pick as many of our stocks are trading at an historical high and we have limited upside.

**Luxury goods: We add LVMH (Buy- FV: EUR170).** Despite a clearly challenging environment for luxury goods industry (lack of tourists in Europe) and a potentially risky H1 publication (no sales growth at LV in Q2, likely Fashion & Leather margin erosion including for LV), we have added LVMH in our Q3 Top Picks given i/ attractive valuation (10.6x 16 EV/EBIT or 8% discount vs peers) and ii/ recent underperformance (-9% vs DJ Stoxx on 3m). Actually, we argue that poor expectations for H1 are already, at least partly, taken into account by investors, hence the current share price that dropped 1% on last month vs +3% for our luxury stocks sample average. Furthermore, we are convinced that other divisions such as W&S, P&C and W&J should report better trends that could offset potential disappointments at F&L.

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## Healthcare

**bioMérieux**

Price EUR119.50

**Significant broadening of VITEK MS' offer in Europe**

Fair Value EUR122 (+2%)

BUY

Bloomberg	BIM.FP
Reuters	BIOX.PA
12-month High / Low (EUR)	122.3 / 93.7
Market Cap (EURm)	4,715
Avg. 6m daily volume (000)	48.40

	1 M	3 M	6 M	31/12/15
Absolute perf.	1.1%	16.6%	10.3%	8.7%
Healthcare	1.4%	8.2%	-5.2%	-5.4%
DJ Stoxx 600	-5.0%	-1.2%	-9.7%	-11.4%

	2015	2016e	2017e	2018e
P/E	42.7x	28.8x	24.3x	20.5x
Div yield (%)	0.8%	0.9%	1.0%	1.2%

**ANALYSIS**

- BioMérieux has announced the broadening of its offer for VITEK MS (mass spectrometry instrument) in Europe with the launch of the first CE-marked database and reagent kits for the identification of mycobacterium tuberculosis (BK), non-TB mycobacteria (NTM; MOTT) and most important medical moulds. The platform can now identify more than 1,000 microorganisms (297 additional species), up from 800 before this announcement and from 200 at the European launch in 2011.
- While no CE-approved kits were so far commercially available for identifying the above mentioned microorganisms, BIM now enables clinical laboratories to identify them in a 1hour run on its VITEK MS instrument. Note that the use of traditional tests was limited to research applications, took around one week to process the sample and only had a few automated steps. Moreover, we do not see any overlap with QIAGEN's QUANTIFERON TB offer which focuses on the diagnostic of latent TB while bioMérieux focuses on the diagnostic of acute-TB.
- We believe that 1/ this should allow BIM to strengthen its 42% market share in the clinical microbiology field and 2/ necessary steps have already been taken by BioMérieux to broaden the offer in the US as well where the instrument was approved in 2013.

**VALUATION**

- We reiterate our BUY rating

**NEXT CATALYSTS**

- 18th July: H1 sales
- 31st August: H1 results

[Click here to download](#)[Hugo Solvvet, hsolvvet@bryangarnier.com](mailto:Hugo.Solvvet@bryangarnier.com)

## Healthcare

**Actelion**

Price CHF164.90

**Start of phase III for macitentan in paediatrics is no anecdote**

Fair Value CHF173 (+5%)

BUY

Bloomberg	ATLN.VX
Reuters	ATLN.VX
12-month High / Low (CHF)	166.5 / 115.9
Market Cap (CHFm)	18,820
Avg. 6m daily volume (000)	398.0

**ANALYSIS**

- Today's announcement by Actelion that following agreements with the FDA and the EMA, it will be initiating phase III clinical trials with macitentan (Opsumit) in children, is much more significant than it may look.
- The study called TOMORROW will test a new and specific formulation round dispersible in water, taste-neutral in dosage strengths of 0.5, 2.5 and 5 mg. It will first be tested in children aged 2 to 18 and based on data collected on the first 40 patients be expanded to a younger population with the right dose. The study requires 187 primary endpoint events. It is expected to last up to six years.
- The study is important because it is estimated that about half of remaining patients under Tracleer in the US are children and they are likely to stay on Tracleer even once generics are available. This is a population Opsumit will not be able to capture until it obtains data. This might represent a meaningful part of the remaining sales of Tracleer and we think it could prove difficult for Opsumit to exceed Tracleer's peak sales without it notably in Europe where digital ulcer and France are also missing. We are not fully comfortable with the consensus figure of USD2bn for Opsumit at peak under the existing scope of indications.

**VALUATION**

- No change. Our own peak sales for Opsumit are CHF1.8bn in 2024

**NEXT CATALYSTS**

- 21st July 2016: First-half results

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## 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 56.8%

NEUTRAL ratings 33.8%

SELL ratings 9.5%

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