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15th July 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	18506.41	+0.73%	+6.21%
S&P 500	2163.75	+0.53%	+5.86%
Nasdaq	5034.06	+0.57%	+0.53%
Nikkei	16497.85	+0.68%	-13.91%
Stoxx 600	338.5	+0.80%	-7.47%
CAC 40	4385.52	+1.16%	-5.42%
Oil /Gold			
Crude WTI	45.68	+2.08%	+22.80%
Gold (once)	1329.41	-0.81%	+25.14%
Currencies/Rates			
EUR/USD	1.11045	+0.01%	+2.22%
EUR/CHF	1.0906	-0.18%	+0.29%
German 10 years	-0.101	-28.23%	-115.96%
French 10 years	0.183	+23.70%	-81.33%

Economic releases :

Date	
15th-Jul	EUZ - CPI Jun (0.1% E) EUZ - CPI CORE 0.9%E USD - Advance retail sales Jun. (0.1% E) US - CPI Jun. (1.1% E) US - Industrial Prod. Jun (0.2%E) US - U. of Michigan Confidence

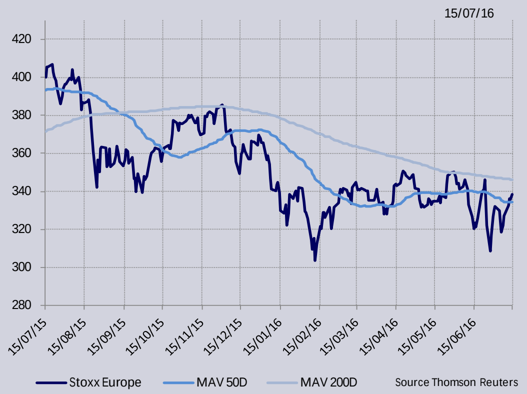
Upcoming BG events :

Date	
1st-Sept	L'OREAL (BG Paris roadshow with CFO)
8th-Sept	ACCOR (BG Roadshow with CFO)
13th-Sept	Thematic Breakfast with ARCEP
14th-Sept	SAINT GOBAIN (BG Luxembourg roadshow)
22nd-Sept	Thematic Lunch with HC specialist
28th-Oct	IMERYS (Paris roadshow)

Recent reports :

Date	
13th-Jul	Oncology is an increased focus
12th-Jul	DANONE No redemption
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	AXA Ready for the next run

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



GALAPAGOS — BUY, Fair Value EUR64 (+33%)

Feedback from roadshow

We hosted Galapagos' roadshow in Paris with CFO, Bart Filius and reiterate our confidence in clinical prospects. Investor interest is increasingly directed towards 1/ commercial opportunities and positioning of filgotinib (safety overhang now behind) with Gilead eager to develop the compound in a wide range of indications not included in current expectations and 2/ the CF program with several readouts expected towards the end of the year and a phase II to be initiated in H1 2017

INFINEON — BUY-Top Picks, Fair Value EUR15 (+13%)

A stronger Automotive offering with the acquisition of Wolfspeed

Yesterday, Infineon announced the acquisition of Wolfspeed for USD850m (o/w USD720m debt and USD130m cash on hand). It is a branch of Cree, which specialises in power semiconductors for automotive, industrial and cellular infrastructure applications. With this acquisition expected to be closed by year end, we believe IFX is looking to strengthen its expertise in Silicon Carbide seen as a key differentiator technology for semiconductor devices for xEV and industrial sector over the next few years. As a result, the group anticipates revenue CAGR of 20% from 2015 to 2020e on Wolfspeed business. Overall, we estimate this deal will be accretive from day 1 (BG ests. ~1% at EPS level).

SOFTWARE AG — BUY, Fair Value EUR40 (+20%)

Q2 16 conference call feedback: and six!

We reiterate our Buy rating following Software AG's sixth consecutive quarter of results that exceed consensus expectations. We raise our non-IFRS operating margin forecast to 31.5% from 31.3% for 2016 in order to reflect the company guidance upgrade (30.5-31.5% vs. 30-31%): 1). Management seems confident growth will accelerate for the Digital Business Platform in H2 16; 2). While additional upside is possible, the company refrains from being bullish on H2 margins - basically flattish given fading benefits from restructuring undertaken in H2 15. NB. Brexit had no impact so far.

STMICROELECTRONICS — NEUTRAL, Fair Value EUR6.3 (+16%)

Apple could be working with ST to develop the next generation of camera image sensors

According to Le Dauphiné, Apple and STMicroelectronics could be collaborating to develop the next generation of camera image sensors. Apple is said to be expanding a research center in Grenoble and seeking to build a cleanroom with ST. This collaboration make sense as STMicroelectronics has considerable expertise in development (despite the wind down of this business in 2014) and production of such devices, and Apple has made camera modules a key focus and acquired camera technologies recently. With few details available so far, an impact on ST is hard to quantify. However, a design win for ST in the iPhone would be clearly positive.

In brief...

CELYAD, *CAR-T program advancing well, with ONO backing it all*

THE SWATCH GROUP, *H1 preliminary results far worse than expected*

LUXURY GOODS, *Terror Attack in Nice: we remove LVMH and Moncler from the "Top Picks" list*

Healthcare

Galapagos

Price EUR48.25

Feedback from roadshow

Fair Value EUR64 (+33%) **BUY**

Bloomberg	GLPG BB
Reuters	GLPG.BR
12-month High / Low (EUR)	58.5 / 32.7
Market Cap (EURm)	2,225
Ev (BG Estimates) (EURm)	0
Avg. 6m daily volume (000)	225.2
3y EPS CAGR	

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.0%	23.9%	0.6%	-15.0%
Healthcare	8.9%	4.4%	1.9%	-4.6%
DJ Stoxx 600	5.6%	-1.6%	-0.3%	-7.5%

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

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

(EUR)	2014	2015e	2016e	2017e
EPS	-1.24	-0.34	0.81	1.19
% change	-	*72.3%*	*NS*	*47.7%*
P/E	NS	NS	59.7x	40.4x
FCF yield (%)	NM	NM	NM	NM
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	0.0x	0.0x	0.0x	0.0x
EV/EBITDA	x	x	x	x
EV/EBIT	0.0x	0.0x	0.0x	0.0x

We hosted Galapagos' roadshow in Paris with CFO, Bart Filius and reiterate our confidence in clinical prospects. Investor interest is increasingly directed towards 1/ commercial opportunities and positioning of filgotinib (safety overhang now behind) with Gilead eager to develop the compound in a wide range of indications not included in current expectations and 2/ the CF program with several readouts expected towards the end of the year and a phase II to be initiated in H1 2017

ANALYSIS

- Filgotinib phase III initiation this quarter. Galapagos should finance around USD200m of the program, which is expected to be spread over ~4 years (20% financed by GLPG). Three indications have already been included in the development program (RA, CD and UC) and should represent the majority of filgotinib's revenue stream, in our view. Note that at this stage, we only include revenues from RA and CD. Bart Filius was confident on the ability of both companies to offer the first JAK1 inhibitor as a therapeutic alternative to IL-6 and TNF in CD patients. Turning to RA, JAK inhibitors have a strong onset of action, while baricitinib might well benefit from a 1L label, it might take some time before the 1L market effectively opens for small oral molecules as 1/ prescribers are more used to biologics and 2/ the impact of biosimilar for both anti-TNF and IL-6 (Actemra) is likely to maintain these two class of drugs as a preferred 1L option. Hence we would anticipate that sales of anti-TNFs indicated in a 2L or 3L setting to be pressured by the JAK class. Bottom line, we believe that our EUR1.5bn in sales at peak (BGe RA and CD) for filgotinib leaves room for upward revision with the inclusion of new indications.

  New indications (exc. the three above mentionned) in which we would likely see filgotinib to be developed includes PsA (among other) with tofacitinib having recently released positive phase III results in this indication. Note that combination strategies have also been mentioned by Gilead as key (SYK and MMP9) with filgotinib as a backbone. Seen as a challenger in the auto-immune space, filgotinib has all Gilead's attention and is a strategic component of what is expected to become a strong growth leg of the US biotech. Regarding the co-commercialisation strategy, we would expect GLPG to exercise its option in 2017. This should be followed by gradual ramp-up of the sales force. First newsflow regarding the later development should be the appointment a director of commercial activities by the joint steering commercialisation committee.

- CF should be in the spotlight from H2 2016 onwards. While GLPG is 6 months behind Vertex, which should initiate phase II study with its triple combo this semester, the race is ongoing. Although not running its multiple trials in the US, GLPG has no difficulties in either switching patients from Orkambi (despite 7 days washout period) or recruiting naïve ones for its SAPHIRA phase II trial. This underlines 1/ physicians interest in having multiple therapeutic options and 2/ attractive profile of the biotech compounds which features benign safety profile. It might be too early to differentiate the efficacy profile of the two triple combo has all components on both VRTX or GLPG's side have not been clearly identified yet. However, we do not believe at the moment that a H2H phase III trials would be necessary as GLPG is not lagging enough behind VRTX. On the latter point, strong cash situation comes as a support to increase either the ability to screen more patients (keep up with fast recruitment pace) or help to get ahead in terms of superiority of triple combo with external development (bolt-on acquisition).

  We have identified below four biotech companies with compound that should be ready for phase IIb in H2 2016/H1 2017. We do not rule out that they could be a strategic fit into ABBV/GLPG's portfolio of candidate molecules.

Company	MCAP	Drug Name	Ph	Readout	Comment(s)
Proteostasis	USD230m	PTI-428	I	H2 2016	F508del; phase IIa results H1 2017
ProQR	USD110m	QR-010	Ib	H2 2016	F508del; inhalation
Nivalis	USD70m	N91115/cavosonstat	II	late 2016	F508del; evaluated on top of Orkambi
Concert Pharma	USD260m	CTP-656	II	H2 2017	G551D; deuterium ivacaftor for improved

Source : StreetAccount; Bryan Garnier & Co. ests.

- GLPG1690 in IPF could well prompt GLPG to opt for its first full standalone strategy. While the primary endpoint of the phase IIa trial aims at assessing the safety/tolerability and PK/PD of the product candidate, 12 week treatment course might be too short to start seeing an improvement in lung function as it took a 52w study to pirfenidone (Roche Esbret) too show meaningful clinical improvement (efficacy trend emerged at week 24). 75k patients diagnosed with IPF allows for a standalone strategy with GLPG capitalizing on first direct sales experience in the fibrosis space (CF).

- GLPG1972 could trigger pharma's interest. The product has shown preclinical efficacy in OA of the knee with both effect on serum biomarker at 14 days (~60% decrease in residual for cartilage destruction found in blood.

VALUATION

- We reiterate our BUY rating and EUR64 fair value.
- EUR64 fair value includes EUR21 of cash/share, enabling GLPG to bridge the gap until first filgotinib's sales while ramping up sales capabilities and advancing its pipeline. Note that more than 20 programs are currently being evaluated at all preclinical stages
- Cash burn guidance of EUR100-120m. We do not rule out that GLPG might recognised milestones from Gilead should an additional clinical trial be initiated with filgotinib in indications that are not yet disclosed.

NEXT CATALYSTS

- July 21st: HY results
- Q3 2016: filgotinib phase II program, first patient in (RA and Crohn's). phase II/III start in UC
- H2 2016: CF program (GLPG1837 phase 2 results, GLPG2451 phase I results)

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Infineon

Price EUR13.29

A stronger Automotive offering with the acquisition of Wolfspeed

Fair Value EUR15 (+13%) **BUY-Top Picks**

Bloomberg	IFX GY
Reuters	IFXGn.DE
12-month High / Low (EUR)	14.0 / 8.7
Market Cap (EURm)	15,046
Ev (BG Estimates) (EURm)	14,487
Avg. 6m daily volume (000)	5,648
3y EPS CAGR	15.7%

	1 M	3 M	6 M	31/12/15
Absolute perf.	4.7%	4.9%	9.3%	-1.6%
Semiconductors	8.1%	1.9%	12.1%	2.1%
DJ Stoxx 600	2.8%	-2.1%	-2.6%	-8.2%

YEnd Sept. (EURm)	09/15	09/16e	09/17e	09/18e
Sales	5,795	6,508	6,909	7,274
% change		*12.3%*	*6.2%*	*5.3%*
EBITDA	1,658	1,877	2,064	2,241
EBIT	898.0	1,031	1,166	1,296
% change		*14.8%*	*13.1%*	*11.2%*
Net income	680.0	906.4	942.0	1,056
% change		*33.3%*	*3.9%*	*12.1%*

	09/15	09/16e	09/17e	09/18e
Operating margin	15.5	15.8	16.9	17.8
Net margin	11.7	13.9	13.6	14.5
ROE	13.3	13.2	13.1	13.8
ROCE	18.5	16.4	16.6	18.3
Gearing	-4.7	-10.9	-18.3	-26.0

(EUR)	09/15	09/16e	09/17e	09/18e
EPS	0.60	0.80	0.83	0.94
% change	-	*32.8%*	*3.9%*	*12.1%*
P/E	22.0x	16.6x	15.9x	14.2x
FCF yield (%)	0.6%	3.7%	4.7%	5.5%
Dividends (EUR)	0.18	0.20	0.20	0.20
Div yield (%)	1.4%	1.5%	1.5%	1.5%
EV/Sales	2.6x	2.2x	2.0x	1.8x
EV/EBITDA	8.9x	7.7x	6.8x	6.0x
EV/EBIT	16.5x	14.1x	12.0x	10.3x

Yesterday, Infineon announced the acquisition of Wolfspeed for USD850m (o/w USD720m debt and USD130m cash on hand). It is a branch of Cree, which specialises in power semiconductors for automotive, industrial and cellular infrastructure applications. With this acquisition expected to be closed by year end, we believe IFX is looking to strengthen its expertise in Silicon Carbide seen as a key differentiator technology for semiconductor devices for xEV and industrial sector over the next few years. As a result, the group anticipates revenue CAGR of 20% from 2015 to 2020e on Wolfspeed business. Overall, we estimate this deal will be accretive from day 1 (BG ests. ~1% at EPS level).

ANALYSIS

- **Yesterday, Infineon announced the acquisition of Wolfspeed**, the branch of Cree (U.S. company, USD2.8bn mkt cap) which specialises in Power semiconductors and RF power components (power semi dedicated to RF applications such as cellular infrastructure). The transaction of USD850m will be financed with debt for USD720m and USD130m cash-on-hand and closure is expected by the end of calendar year 2016 (Fiscal Q1-17). It appears to us that the acquisition of Wolfspeed is mostly conducted to reinforce group's expertise in the Silicon Carbide (SiC) area. This material is used to enhance properties of traditional semiconductor devices (faster switching, lower losses, higher stability…) used in electric vehicles (e.g. charging infrastructure, on-board charger, inverters) or industrial applications such as cellular infrastructures. At Cree, it appears that Wolfspeed growth was negative over the last couple of quarters, nevertheless Infineon expects to see Wolfspeed's business to return to growth from calendar Q2-16 and enjoy stronger momentum in the MT.

- **Low revenues, high margins, low interest rate, high price - overall accretive!** Wolfspeed generated revenues of USD173m on a one year period (ending March) which means a high purchase price to sales ratio of 4.9x. However, Infineon sees a strong opportunity in SiC devices that could translate into a revenue 2015-2020e CAGR of about 20% and a 55% gross margin (the group expects to activate synergies at GM level thanks to insource SiC wafers production, backend, general purchases…). We understand that the operating margin is higher than current IFX segment result (15.5% in FY15), probably in the range of 20-25% (no synergies expected). **As a result, the deal is said to be accretive from day 1 at EPS level. At very first take and with limited information we have today, we estimate a positive impact of about 1%-1.5% on 2017e/2018e EPS.** This includes interest costs on debt with an interest rate of 1% spread to Euribor/Libor (debt maturity 2019-2021). Finally, we do not anticipate a significant impact on capex.

- **Buying growth and expertise.** Overall, the acquisition appears expensive given a purchase price to sales ratio of 4.9x (multiples are probably more reasonable at the lower level) but the deal is accretive from day 1 as the group benefits from very low interest rate conditions. Given that the cash generation of Infineon is higher in FQ3 and FQ4, we believe the group will rapidly get back to a net cash position. Indeed, IFX currently has a net cash position of EUR27m and on a pro-forma basis, the acquisition would set the group in a net debt position of EUR743m. However, we recall that in 2015, Infineon generated about EUR400m of FCF over Q3/Q4-16.

VALUATION

- Based on our estimates, Infineon's share trades on 2016e P/E of 16.6x and a 2016e PEG of 1.0x.

NEXT CATALYSTS

- 2 August 2016: Fiscal Q3-16 results.

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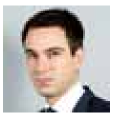

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Software AG

Price EUR33.36

Q2 16 conference call feedback: and six!

Fair Value EUR40 (+20%) BUY

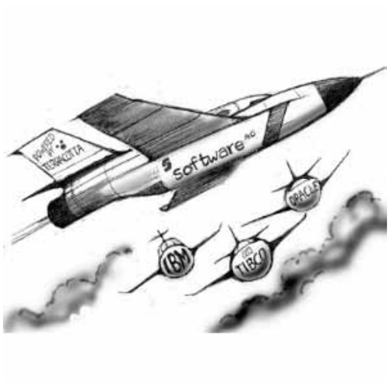
Bloomberg	SOW GR
Reuters	SOWG.DE
12-month High / Low (EUR)	34.9 / 23.8
Market Cap (EUR)	2,635
Ev (BG Estimates) (EUR)	2,514
Avg. 6m daily volume (000)	251.3
3y EPS CAGR	5.2%

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.8%	-0.4%	26.0%	26.2%
Softw.& Comp.	4.1%	0.1%	0.6%	-3.2%
DJ Stoxx 600	5.6%	-1.6%	-0.3%	-7.5%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	873.1	889.7	922.4	964.7
% change		*1.9%*	*3.7%*	*4.6%*
EBITDA	278	291	307	328
EBIT	209.4	239.2	261.6	283.3
% change		*14.2%*	*9.4%*	*8.3%*
Net income	188.0	192.7	203.8	219.0
% change		*2.5%*	*5.8%*	*7.5%*

	2015	2016e	2017e	2018e
Operating margin	30.2	31.1	31.7	32.5
Net margin	16.0	17.8	19.0	19.8
ROE	12.8	13.1	13.1	13.0
ROCE	17.7	18.4	19.8	21.8
Gearing	1.3	-10.1	-21.2	-31.0

(€)	2015	2016e	2017e	2018e
EPS	2.33	2.39	2.53	2.71
% change	*-*	*2.5%*	*5.8%*	*7.5%*
P/E	14.3x	14.0x	13.2x	12.3x
FCF yield (%)	6.5%	7.3%	7.9%	8.6%
Dividends (€)	0.55	0.60	0.65	0.70
Div yield (%)	1.6%	1.8%	1.9%	2.1%
EV/Sales	3.0x	2.8x	2.6x	2.3x
EV/EBITDA	9.5x	8.6x	7.7x	6.6x
EV/EBIT	10.1x	9.1x	8.0x	7.0x



We reiterate our Buy rating following Software AG's sixth consecutive quarter of results that exceed consensus expectations. We raise our non-IFRS operating margin forecast to 31.5% from 31.3% for 2016 in order to reflect the company guidance upgrade (30.5-31.5% vs. 30-31%): 1). Management seems confident growth will accelerate for the Digital Business Platform in H2 16; 2). While additional upside is possible, the company refrains from being bullish on H2 margins - basically flattish given fading benefits from restructuring undertaken in H2 15. NB. Brexit had no impact so far.

ANALYSIS

- **KPIs continue to improve, Digital may accelerate over H2**. The transformation of the sales approach continues to pay off, yet Q2 16 was not as strong as we expected due to the slippage of 1-2 deals in North America. However, management appears confident DBP's sales growth will accelerate in H2 15, from the +5% lfl reported for H1. The DBP licence pipeline for deals above EUR3m is twice as big as that of one year ago (1.2x bigger for deals above EUR1m), sales productivity surged by 28% in Q2 16, the conversion rate of the pipeline into deals continues to improve, the average deal size was up only 5% in Q2 but rose by 11% for deals above EUR1m – which reflects Software AG's increased emphasis on large complex deals rather than smaller feature-oriented deals. By geography, in Q2 16, DBP licence sales were up 19% with +79% for Germany, +26% for the UK, +39% for France, and a solid performance in Spain, while the US was flat after a stronger Q1 (+11%) due to the slippage of 1-2 deals onto Q3 16, Latin America was still down, and Asia Pacific surged by 56%. The partner ecosystem is progressing well, with 35% more active partners than in Q1 16. On its side, A&N is expected to deliver declining licence revenues over H2 16 as expected, with a trend of flattish maintenance revenues.
- **Are non-IFRS operating margin targets conservative?** We increase our non-IFRS operating margin forecast to 31.5% from 31.3% for 2016. With FY16 guidance upped to 30.5-31.5% from 30-31%, Software AG is now very close to the low-end of its 2020 target, i.e. 32-35%. Management has refrained from being bullish as some investment may be needed to fuel growth acceleration, i.e. increasing the sales coverage on geographies and channels, as the benefit of sales productivity measures implemented for the last 18 months will slow down over time, but it considers sales and marketing costs will grow at a slower pace than revenues. For FY16, while the non-IFRS operating margin was up 3.9ppt in H1 16, company guidance for the full-year (+0.8ppt/+1.8ppt) may be seen as conservative as it would imply a flattish margin for H2 16. However, this has to be analysed in the light of 3 elements: A&N licence sales are planned to be down in H2, the benefit of the sales force restructuring undertaken in H2 15 will fade, and the gross margin of Consulting will be hit by tough comps - positive one-offs in Q3 15 due to the closing of an overdue payment.
- **Reiterated comments on M&A**. Software AG reiterates its commitment on its use of cash, through M&A, dividends and/or share buy-backs. There is still no deal on the table immediately, but management remains opportunistic on M&A as its confirms prices are coming down for unlisted companies, and banks are more than ever willing to lend money to corporates.

VALUATION

- Software AG's shares are trading at est. 9.1x 2016 and 8.0x 2017 EV/EBIT multiples.
- Net cash position on 31st March 2016 was EUR49.1m (net gearing: -4%).

NEXT CATALYSTS

Final Q2 16 results on 20th July before markets open.

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TMT

STMicroelectronics

Price EUR5.41

Apple could be working with ST to develop the next generation of camera image sensors

Fair Value EUR6.3 (+16%) **NEUTRAL**

Bloomberg	STM FP
Reuters	STM.FR
12-month High / Low (EUR)	7.5 / 4.6
Market Cap (EURm)	4,930
Ev (BG Estimates) (EURm)	4,322
Avg. 6m daily volume (000)	2,573
3y EPS CAGR	30.5%

	1 M	3 M	6 M	31/12/15
Absolute perf.	9.8%	10.5%	-2.2%	-12.4%
Semiconductors	11.4%	5.2%	15.0%	3.4%
DJ Stoxx 600	5.6%	-1.6%	-0.3%	-7.5%

YEnd Dec. (USDm)	2015	2016e	2017e	2018e
Sales	6,897	6,882	6,998	7,151
% change		*-0.2%*	*1.7%*	*2.2%*
EBITDA	910	972	1,083	1,245
EBIT	174.0	256.7	355.0	500.9
% change		*47.5%*	*38.3%*	*41.1%*
Net income	175.0	178.1	262.2	386.0
% change		*1.8%*	*47.2%*	*47.2%*

	2015	2016e	2017e	2018e
Operating margin	2.5	3.7	5.1	7.0
Net margin	2.5	2.6	3.7	5.4
ROE	2.2	3.8	5.6	8.2
ROCE	5.1	4.7	7.1	10.9
Gearing	-10.5	-14.5	-18.2	-22.4

(USD)	2015	2016e	2017e	2018e
EPS	0.20	0.20	0.30	0.44
% change	*-*	*2.0%*	*46.4%*	*49.0%*
P/E	30.2x	29.6x	20.3x	13.6x
FCF yield (%)	4.9%	7.4%	8.2%	10.4%
Dividends (USD)	0.40	0.24	0.30	0.39
Div yield (%)	6.6%	4.0%	5.0%	6.6%
EV/Sales	0.7x	0.7x	0.7x	0.6x
EV/EBITDA	5.5x	4.9x	4.3x	3.6x
EV/EBIT	28.6x	18.7x	13.0x	8.8x

According to Le Dauphiné, Apple and STMicroelectronics could be collaborating to develop the next generation of camera image sensors. Apple is said to be expanding a research center in Grenoble and seeking to build a cleanroom with ST. This collaboration make sense as STMicroelectronics has considerable expertise in development (despite the wind down of this business in 2014) and production of such devices, and Apple has made camera modules a key focus and acquired camera technologies recently. With few details available so far, an impact on ST is hard to quantify. However, a design win for ST in the iPhone would be clearly positive.

ANALYSIS

- **According to French local newspaper, Le Dauphiné, Apple plans to open a cleanroom in Grenoble to develop a camera module for smartphones and tablets.** The newspaper adds that the cleanroom will be built in collaboration with STMicroelectronics. Indeed, the camera image sensors would be developed using STMicroelectronics's technology (developed at ST's R&D site in Grenoble).
- **Note that STMicroelectronics had a camera image sensors division, but the group took the decision to exist camera module business in October 2014.** However, while the group has discontinued its camera module business (at least at the low-end), we know it has expertise in production of high-end camera image sensors. Indeed, it produces camera module as a foundry - at least for one customer, CMOSIS (now a part of ams). CMOSIS develops high performance camera image sensors for industrial or medial applications, and also for high-end camera makers such as Leica. At least until the acquisition of CMOSIS by ams in November 2015, CMOSIS was a fabless semiconductor company and used to outsource production to ST. As a result, ST has both development and manufacturing expertise in camera image sensor.
- **Overall, a collaboration of Apple and STMicroelectronics in the field of camera image sensors make sense.** Both group know each other as ST was the supplier of gyroscope and accelerometers for the iPhone until the 5S (replaced by Invensense and Bosch sensors) but remains supplier of the inertial measurement unit (IMU) of the Apple Watch. If this rumor is correct, a design win of ST in the iPhone would be a tailwind for group's sales however the impact would depend on the type of sensor (main camera, front camera, auxiliary cameras, ambient light sensors… all have very difference price) and the timing of the design win.

VALUATION

- Based on our estimates, STMicroelectronics' share trades on 2016e P/E of 29.6x and a 2016e PEG of 0.9x.

NEXT CATALYSTS

- 27 July 2016: Q2-16 results.

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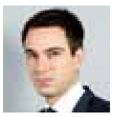

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Healthcare

Celyad

Price EUR23.41

Bloomberg	CARD.BB
Reuters	CARD BB
12-month High / Low (EUR)	57.0 / 21.8
Market Cap (EUR)	218
Avg. 6m daily volume (000)	32.50

	1 M	3 M	6 M	31/12/15
Absolute perf.	-45.6%	-43.6%	-36.7%	-51.6%
Healthcare	7.1%	5.6%	0.9%	-4.3%
DJ Stoxx 600	2.8%	-2.1%	-2.6%	-8.2%

	2015	2016e	2017e	2018e
P/E	x	x	x	x
Div yield (%)	%	%	%	%

CAR-T program advancing well, with ONO backing it all

Fair Value EUR21 vs. EUR20 (-10%) **NEUTRAL**

ANALYSIS

- Celyad announced yesterday that the 1st patient from the 4th cohort infused with its autologous CAR NKG2D completed safety follow-up with no safety issues. Results from the first low dose cohort enrolled in the NKR-2-T phase Ib trial should be available shortly. Recall however that low product's dose used in these first cohorts might not be enough to show efficacy. Hence we would focus on the safety of the product which has been proven good so far (1 month follow up in each and every patients infused) and would welcome any positive efficacy trend. Complete results are expected in late 2016.
- Earlier this week, Celyad announced a collaboration agreement with ONO for the development and future commercialization of its allogeneic anti-NKG2D CAR-T in Japan, Korea and Taiwan. Under the terms of the agreement, Celyad will receive an upfront of EUR11.25m and is eligible to up to EUR270.75m milestones payments.
- This is a good news all the more so as we and the consensus gave no value to this early-stage compound which is set to enter the clinic in H2 2017 and 2/ ONO is a quite interesting partner in our view, as they have developed a good knowledge of the immune-oncology field with the acquisition of Asian rights of several compounds like BMS' Opdivo and Amgen's Kyprolis. We believe that what interested ONO beyond the platform is Celyad's manufacturing capabilities. Recall that it only takes around eight days for the company to produce its autologous product candidate while other players in the CAR-T space have a manufacturing period of up to 2 to 4 weeks.
- With ONO backing Celyad's platform and having solely acquired the rights in some Asian countries, we do not rule out that this Pharma's interest for the platform in either the US or in Europe. Remember that Cellectis (BUY – FV EUR37) proved that the industry is quite interested in allogeneic approaches for CAR-T. Should a broader (US and/or Europe) agreement be reached, a payments package in the USD300-600m range looks fairly achievable, above all if further clinical data for the autologous product candidate expected towards the second half of the year be positive.

VALUATION

- We reiterated our NEUTRAL rating with C-CURE overhang and lack of visibility on EMA's decision regarding conditional approval.
- Integrating the EUR11.2m upfront paid by ONO to the biotech raises cash /share from EUR8 to EUR9 and hence our fair value from EUR20 to EUR21.

NEXT CATALYSTS

- 28th August: ESC congress complete CHART-1 phase III data
- Late 2016: phase Ib readout for CAR-NKG2D platform

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Luxury & Consumer Goods

The Swatch Group

Price CHF289.50

H1 preliminary results far worse than expected

Fair Value CHF270 vs. CHF370 (-7%) **SELL vs. NEUTRAL**

Bloomberg	UHR VX
Reuters	UHR.VX
12-month High / Low (CHF)	432.9 / 269.7
Market Cap (CHFm)	15,962
Avg. 6m daily volume (000)	260.2

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.6%	-13.3%	-11.9%	-17.3%
Pers & H/H Gds	6.7%	2.2%	8.5%	1.9%
DJ Stoxx 600	5.6%	-1.6%	-0.3%	-7.5%

	2014	2015e	2016e	2017e
P/E	11.3x	14.4x	26.2x	22.3x
Div yield (%)	2.6%	2.6%	2.7%	2.9%

ANALYSIS

- The Swatch Group will release its H1 profits on July 21st. However, this morning the group has issued a press release highlighting that sales should be down 12% (we were expecting -5%) during this first semester to close to CHF3.7bn with very severe EBIT deterioration (expected to be down 50%). This implies EBIT at around CHF410m (CS:CHF550m) and an EBIT margin at 11.2% or 700bp decline. There is no more information in the press release except that, unsurprisingly, management rules out any job cuts despite the very challenging environment, in line with its long-term philosophy of considering employees as "investments".
- Consequently, we lower our FY 16 earnings by 25%, and currently expect FY sales to decline 8% vs a slight decrease previously. More importantly, while we were expecting FY profitability to be down by 170bp, we expect the EBIT margin to be down 450bp to 12.9%. These figures highlight again the clear operating impact on Swatch group of any sales reduction given the group policy of not adjusting costs even in a very difficult period as it is the case this year (and the situation in Europe will certainly not improved given last night's attack in Nice). Furthermore, we also question the group's communication policy as the CEO, Mr Hayek, was, even last March, expecting at least 5% organic sales growth in 2016 and was optimistic about the group's FY performance.

VALUATION

- Given these earning adjustments, we lower our FV from CHF370 to CHF270 and we downgrade our recommendation to Sell from Neutral.

NEXT CATALYSTS

- H1 release on July 21st.

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Sector View

Luxury Goods

Terror Attack in Nice: we remove LVMH and Moncler from the "Top Picks" list

	1 M	3 M	6 M	31/12/15
Pers & H/H Gds	6.7%	2.2%	8.5%	1.9%
DJ Stoxx 600	5.6%	-1.6%	-0.3%	-7.5%

*Stoxx Sector Indices

Companies covered

BURBERRY	NEUTRAL	1200p
CHRISTIAN DIOR	BUY	EUR175
HERMES Intl	BUY	EUR355
HUGO BOSS	NEUTRAL	EUR77
KERING	BUY	EUR170
LVMH	BUY	EUR171
MONCLER	BUY	EUR17
PRADA	NEUTRAL	HKD35
RICHEMONT	NEUTRAL	CHF63
SALVATORE	BUY	EUR23
THE SWATCH GROUP	NEUTRAL	CHF270 vs.370
TOD'S GROUP	SELL	EUR53

Following the Bastille Day attack in Nice (France) yesterday evening, we remove our two luxury groups (LVMH and Moncler) from BG's "Top Picks List" as tourist flows to France and Western Europe will certainly remain affected in the coming weeks. Lastly, the disappointing publication of Swatch H1 results this morning will also play negatively for the luxury sector.

ANALYSIS

- **We were already anticipating a weak H1 in Europe...** Indeed we were expecting Europe, which accounts for approx. 33% of the global personal luxury goods market, to be slightly negative over H1 16 because of the terrorist attacks in Paris (Nov '15) and in Brussels (Mar '16), leading to much lower tourist flows from the U.S, China and Japan (e.g.: Japanese customers were down 50% in Q1 in Paris). Moreover, a less attractive pricing gap between Europe and Mainland China and stricter customs controls from Chinese authorities to reduce the "daigou" trade are additional headwinds.
- **... but this new attack should affect Q3 as well!** We note that, on average, France represents ~7% of sales generated by our luxury sample and the French Riviera is France's second busiest luxury market after Paris (~3-4% of sales). Furthermore, French President also announced that State of Emergency was extended by three months at least, which means that Japanese and Asian tour operators would not visit France for insurance/safety reasons.
- **Hence we remove LVMH and Moncler from BG's "Top Picks" list.** Even though the environment was already challenging for the luxury, we were favouring **LVMH** (defensive and diversified profile, attractive valuation) and **Moncler** (strongest top line momentum in the industry, attractive valuation too). However, we now believe that this new terrorist attack would cast another dark shadow over the luxury sector even if it does not call into question their fundamentals over the MT/LT.

VALUATION

- Whilst our luxury sample (excl. Hermès) is trading at 10.7x 2017e EV/EBIT on average, **LVHM** is at 9.8x (~9% discount) and **Moncler** (10.9x) trades fairly in line with the sector average.

NEXT CATALYSTS

- H1 16 Results: LVMH on 26 July // Moncler on 27 July // Kering on 28 July.

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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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