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20th July 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	18559.01	+0.14%	+6.51%
S&P 500	2163.78	-0.14%	+5.86%
Nasdaq	5036.37	-0.38%	+0.58%
Nikkei	16681.89	-0.25%	-12.14%
Stoxx 600	337.321	-0.41%	-7.79%
CAC 40	4330.13	-0.63%	-6.62%
Oil /Gold			
Crude WTI	44.65	-1.30%	+20.03%
Gold (once)	1330.74	+0.09%	+25.26%
Currencies/Rates			
EUR/USD	1.10115	-0.49%	+1.37%
EUR/CHF	1.08465	-0.40%	-0.25%
German 10 years	-0.087	+9.76%	-113.69%
French 10 years	0.219	+3.80%	-77.72%
Euribor	-	+-%	+-%

Economic releases :

Date	
20th-Jul	GB - ILO unemployment rate May (5% E) CH - ZEW survey expectations Jul US - DoE inventories

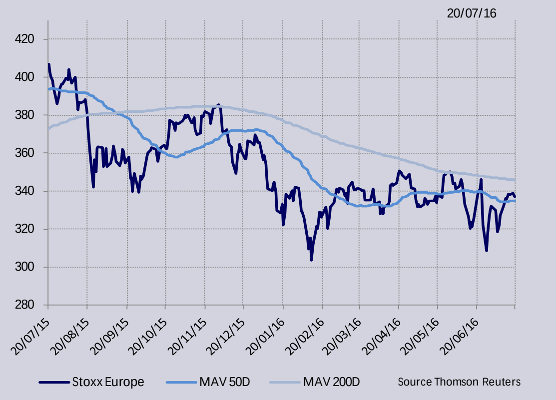
Upcoming BG events :

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



AB INBEV — NEUTRAL, Fair Value EUR109 (-4%)

Higher SABMiller cash bid unlikely

ASML — SELL, Fair Value EUR81 (-14%)

Q2 is 4% above expectations; Q3 guidance in line at EBIT level, but the devil is in the details

CASINO GUICHARD — BUY, Fair Value EUR57 (+8%)

Preview H1 2016: quid of the FY guidance in France?

EDF — BUY, Fair Value EUR13,8 (+24%)

2016 nuclear output target revised down, but 2016 EBITDA guidance confirmed

NOVARTIS — NEUTRAL, Fair Value CHF87 vs. CHF89 (+8%)

Conference call focused on new drugs and M&A

ORPEA — BUY, Fair Value EUR85 vs. EUR79 (+14%)

Strong Q2 revenues; FY 2016 guidance upgraded (contact)

RÉMY COINTREAU — BUY, Fair Value EUR80 (+4%)

Soft performance in a small quarter

SAP — NEUTRAL, Fair Value EUR74 (+3%)

Q2 16 results above expectations; FY16 guidance reiterated.

UBISOFT — BUY, Fair Value EUR34 (-4%)

Good fundamentals; the stock is starting to reflect its speculative premium

In brief...

SOFTWARE AG, *Final Q2 16 results fully in line with initial estimates and FY16 guidance confirmed*

UNILEVER, *Acquisition of Dollar Shave Club*

Food & Beverages

AB InBev

Price EUR113.45

Bloomberg	ABI BB
Reuters	ABI.BR
12-month High / Low (EUR)	123.3 / 91.3
Market Cap (EURm)	182,455
Ev (BG Estimates) (EURm)	260,395
Avg. 6m daily volume (000)	1,695
3y EPS CAGR	5.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.1%	-1.7%	3.3%	-0.8%
Food & Bev.	6.6%	0.5%	5.7%	0.3%
DJ Stoxx 600	3.5%	-3.4%	1.3%	-7.8%

YEnd Dec. (USDm)	2015	2016e	2017e	2018e
Sales	43,604	43,076	56,939	59,623
% change		*-1.2%*	*32.2%*	*4.7%*
EBITDA	16,921	16,885	23,377	25,309
EBIT	13,768	13,842	19,510	21,327
% change		*0.5%*	*40.9%*	*9.3%*
Net income	8,513	7,712	10,875	11,992
% change		*-9.4%*	*41.0%*	*10.3%*

	2015	2016e	2017e	2018e
Operating margin	31.6	32.1	34.3	35.8
Net margin	19.5	17.9	19.1	20.1
ROE	20.2	17.9	12.6	13.3
ROCE	10.1	10.3	10.2	8.5
Gearing	98.7	101.3	97.2	91.2

(USD)	2015	2016e	2017e	2018e
EPS	5.10	4.62	5.45	6.01
% change	-	*-9.4%*	*18.0%*	*10.3%*
P/E	24.5x	27.0x	22.9x	20.8x
FCF yield (%)	3.7%	3.2%	5.4%	5.0%
Dividends (USD)	2.68	2.43	2.86	3.16
Div yield (%)	2.1%	1.9%	2.3%	2.5%
EV/Sales	6.5x	6.7x	5.8x	5.5x
EV/EBITDA	16.9x	17.0x	14.0x	12.8x
EV/EBIT	20.7x	20.7x	16.8x	15.2x

Higher SABMiller cash bid unlikely

Fair Value EUR109 (-4%) **NEUTRAL**

With the partial share offer for SABMiller now worth 15% more than the cash offer (i.e. GBP50 in stead of GBP44), there is specultation that some shareholders have approached to board of SABMiller to press AB InBev for a higher cash bid. We believe that is a very unlikely outcome as it will need the approval of both Altria and Bevco (together owning 40.45% of the shares). Furthermore the financial leeway at AB InBev is limited, having covered the GBP at a much higher rate of 1.55 to the USD (current exchange rate of USD1.31).

ANALYSIS

- AB InBev made to the SABMiller shareholders a cash offer of GBP44 per share or a partial share offer of 0.483969 Restricted Shares AB InBev (i.e. can not sell them for 5 years) + GBP3.7788 in cash. (with the restriction that max 326m AB InBev shares will be issued and otherwise those who elect for the shares will be scaled back pro rata). At the time of the offer, the value of the partial share offer was GBP41.85, i.e. well below the cash offer of GBP44. However, with AB InBev shares being up and the GBP being down, the current value of the partial share offer is GBP50, which is a premium of 14%.
- Hence some shareholders (instigated by some hedge funds) are trying to push AB InBev to increase its cash offer. That is driving the shares over the GBP44 offer price. The downside risk for such hedge funds is pretty close to 0 given that on 12 august SABMiller shareholders will receive a dividend of USD cents 93.75 which is about 72 pence per share. Hence if the acquisition goes ahead shareholders opting for the cash offer will get at least GBP44.72. At the current share price of GBP44.17 that is still an upside of 1.2%. It indicates also that the sharehodlers concerned are not really taking on board any risk but rather are try to get something for free (for me that is indicative of their own conviction that the approach will not be succesful)
- But what will happen if things are not going as planned? 1) AB InBev's acquisition of SABMiller is currently structured as a **take-over under a UK Scheme of Arrangement**. There are different conditions attached to such a proceeding but from the shareholders' approval it needs 50% of the votes from shareholders who represent at least 75% of all shares. Once that approval is there ALL shareholders are receiving shares of the Newco and the Newco becomes the 100% shareholder of SABMiller and AB InBev than buys Newco and as such gains immediate 100% control of the SABMiller. 2) However if gaining that approval seems difficult in case the Board of SABMiller withdraws its recommendation of the transaction (which is what some of these hedgefunds are rumoured to press for) than AB InBev can switch its proposed structure to a **UK Offer**, where it will than need the approval of 50% of the shareholders present at the general meeting. The disadvantage of this structure is that it will take longer for AB InBev to gain full control of the company. It will need 75% of the shareholders to agree a delisting and 90% before it can squeeze out the minorities. In order to proceed to a UK Offer)or to increase the cash part of the transaction), AB InBev needs the blessing of Altria and Bevco who own respectively 26.5% and 13.9% of the shares and who have given irrevocable support for the AB InBev offer).

VALUATION

- DCF based fair value of EUR109 per share using a 1.6% risk free rate, a 7% equity risk premium and a long term growth rate of 3.7%

NEXT CATALYSTS

- SABMiller AGM of 21 July 2016
- AB InBev Q2 results 29 July 2016

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ASML

Price EUR94.52

Q2 is 4% above expectations; Q3 guidance in line at EBIT level, but the devil is in the details

Fair Value EUR81 (-14%) **SELL**

Bloomberg	ASML NA
Reuters	ASML.AS
12-month High / Low (EUR)	94.5 / 71.8
Market Cap (EUR)	40,959
Ev (BG Estimates) (EUR)	39,005
Avg. 6m daily volume (000)	1,272
3y EPS CAGR	21.7%

	1 M	3 M	6 M	31/12/15
Absolute perf.	13.4%	7.1%	28.1%	14.5%
Semiconductors	23.0%	18.7%	30.5%	15.7%
DJ Stoxx 600	3.5%	-3.4%	1.3%	-7.8%

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

	2015	2016e	2017e	2018e
Operating margin	24.9	22.7	27.2	30.5
Net margin	22.1	19.5	23.7	26.9
ROE	16.5	15.5	20.0	23.8
ROCE	22.9	20.7	27.7	35.4
Gearing	-27.2	-24.0	-27.3	-32.3

(EUR)	2015	2016e	2017e	2018e
EPS	3.21	3.01	4.24	5.79
% change	*-*	*-6.2%*	*41.0%*	*36.4%*
P/E	29.5x	31.4x	22.3x	16.3x
FCF yield (%)	3.6%	3.0%	4.0%	5.4%
Dividends (EUR)	0.70	1.05	1.21	1.39
Div yield (%)	0.7%	1.1%	1.3%	1.5%
EV/Sales	6.2x	6.0x	5.2x	4.3x
EV/EBITDA	20.7x	22.0x	16.5x	12.5x
EV/EBIT	24.7x	26.5x	19.1x	14.2x

ASML benefited from 10nm ramp up during Q2-16, a catalyst allowing the group to beat Q2 expectations by 4% (at EPS level). Sales came out at EUR1.740bn, up 30.5% on a sequential basis and up 5.2% year on year. This was above the company's guidance for Q2 sales of about EUR1.7bn and consensus forecasts of EUR1.704bn. Q2 EPS stood at EUR0.83, or EUR0.03 above consensus expectations of EUR0.80. Q3-16 guidance highlights the uneven nature of the current business of ASML due to EUV revenue recognition system. As a result, Q3-16 sales outlook came out below expectations but margin are higher, as such EBIT group's forecast appears to be broadly in line.

ANALYSIS

- **ASML has reported Q2 results 4% above consensus expectations.** The company reported Q2 sales of EUR1.740bn, up 5.2% yoy (up 30.5% seq.), above group's guidance for sales of EUR1.7bn and consensus expectations at EUR1.704bn (BG ests. EUR1.734bn). We note that Q2-16 revenue includes around EUR100m from EUV. As expected, the gross margin remained stable at 42.6% (vs. 42.6% in Q1-16). As such, operating result came in at EUR404m or a 23.2% margin to be compared to 17.1% achieved in Q1-16 thanks to higher volume due to 10nm ramp-up. Adjusted EPS of EUR0.83 was EUR0.03 (or 4%) above consensus expectations at EUR0.80 and our own estimates at EUR0.80.
- **Thanks to 10nm ramp, bookings improved significantly to EUR1.56bn (from the low level of EUR835m in Q1).** Both net bookings and the systems backlog increased during Q2-16 to EUR1,566bn and EUR3,371m (from EUR835m and EUR3,018m in Q1-16). Note that ASML received 4 new orders for EUV systems but we believe most of them are part of the deal with Intel and it also highlights that without these EUV orders, 10nm ramp demand remains soft. We estimate that bookings without EUV would be slightly above EUR1,100m, which appears to be a medium level for ASML while the group should benefit from the adoption of a new node.
- **The group is maintaining its target of six to seven EUV system shipments for 2016**. As mentioned before, EUV keeps improving with availability of more than 80% and productivity achieved a peak performance of 1,488 wafers per day (wpd) achieved on one NXE:3350B in-house (note that the group aims to achieve a 1,500 wpd performance by the end of the year). Today, the group confirms again that it expects to ship six to seven NXE:3350B during 2016. Note that three EUV systems were shipped during 2015, one system was shipped during Q1 and 1 system during Q2. Note that due to a delay in revenue recognition caused by the performance benchmark to be achieved before triggering tools' payment, revenue from these tools should be partially recorded over 2016.
- **ASML benefits from 10nm ramp but sales and margin remains rugged due to EUV.** Q3 guidance is for sales of approximately EUR1.7bn which is below consensus expectations of EUR1.76bn. However the group foresees a gross margin improvement and guide for 47% compared to the Street's 44%. In addition, the group says it expects R&D expense at about EUR275m (slightly up from Q2 level of EUR270m), SG&A at about EUR90m, while co-investment programme should help by EUR23m, such that EBIT is expected to be close to EUR455m, i.e. broadly in line with consensus expectations at EUR451m. Including 12% corporate tax, the EPS would be around EUR0.95, i.e. in line with expectations of EUR0.95 but we recall that the debt raised to acquire Hermes Microvision (about EUR1.5bn) could impact negatively the result. Today's results and Q3 guidance highlights the lumpiness nature of the results of AMSL, indeed Q2 sales included the recognition of revenue of a EUV system which impacted significantly the margins. Indeed, Q3 sales forecasts came out below expectations but as the margin is boosted by no EUV revenue recognition, finally guidance appears to be in line at EBIT level.

VALUATION

- We are making no change to our estimates at this point. Based on our estimates, ASML's shares trade at a 2016e P/E ratio of 31.4x and a 2016e PEG ratio of 1.4x.

NEXT CATALYSTS

- Today: Q2 results conference call (3:00pm CET, Personal ID required: registration here).
- 19th October 2016: Q3-16 results.

Q2-16 Actual vs. estimates

[EURm]	BG ests. 2Q16e	Consensus 2Q16e	2Q16 Actual	Actual vs. Cons.
Net revenue	1,734	1,704	1,740	2.1%
% change (seq)	*30.1%*	*27.8%*	*30.5%*	267bp
% change (yoy)	*4.9%*	*3.0%*	*5.2%*	215bp
Gross Margin	42%	41.4%	42.6%	120bp
Adj. EBIT	393	391	404	3.4%
% of revenue	*22.7%*	*22.9%*	*23.2%*	29bp
Adj. EPS (in EUR)	0.80	0.80	0.83	3.7%

Sources: Thomson Reuters I.B.E.S; Bryan, Garnier & Co ests.

Q3-16 Guidance vs. estimates

[EURm]	BG ests. 3Q16e	Consensus 3Q16e	3Q16e Guidance	Guid. vs. Cons.
Net revenue	1,652	1,757	1,700	-3.2%
% change (seq)	*-4.8%*	*3.1%*	*-2.3%*	-538bp
% change (yoy)	*6.6%*	*13.4%*	*9.7%*	-368bp
Gross Margin	45%	43.7%	47.0%	330bp
Adj. EPS (in EUR)	0.81	0.95	-	-

Sources: Thomson Reuters I.B.E.S; Bryan, Garnier & Co ests.

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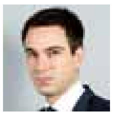

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Food retailing

Casino Guichard

Price EUR52.54

Preview H1 2016: quid of the FY guidance in France?

Fair Value EUR57 (+8%) **BUY**

Bloomberg	CO FP
Reuters	CASP.PA
12-month High / Low (EUR)	71.8 / 35.2
Market Cap (EUR)	5,911
Ev (BG Estimates) (EUR)	9,401
Avg. 6m daily volume (000)	578.6
3y EPS CAGR	7.9%

	1 M	3 M	6 M	31/12/15
Absolute perf.	6.7%	-1.0%	43.9%	23.9%
Food Retailing	4.3%	-6.0%	4.7%	-2.1%
DJ Stoxx 600	3.5%	-3.4%	1.3%	-7.8%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	46,145	41,237	42,725	44,156
% change		*-10.6%*	*3.6%*	*3.4%*
EBITDA	2,343	1,997	2,204	2,403
EBIT	968.0	1,195	1,319	1,432
% change		*23.5%*	*10.4%*	*8.6%*
Net income	412.0	284.3	379.5	433.0
% change		*-31.0%*	*33.5%*	*14.1%*

	2015	2016e	2017e	2018e
Operating margin	3.1	2.9	3.1	3.2
Net margin	0.9	0.7	0.9	1.0
ROE	NM	NM	NM	NM
ROCE	5.2	5.3	5.9	6.3
Gearing	48.9	20.2	20.5	21.6

(EUR)	2015	2016e	2017e	2018e
EPS	2.80	2.09	3.04	3.51
% change	*-*	*-25.1%*	*44.9%*	*15.8%*
P/E	18.8x	25.1x	17.3x	15.0x
FCF yield (%)	NM	2.1%	9.5%	7.9%
Dividends (EUR)	3.12	3.12	3.12	3.12
Div yield (%)	5.9%	5.9%	5.9%	5.9%
EV/Sales	0.3x	0.2x	0.2x	0.2x
EV/EBITDA	5.9x	4.7x	4.5x	4.3x
EV/EBIT	14.3x	7.9x	7.5x	7.2x

Ahead of H1 2016, adjustments to financial costs (-) and minority interests (+) were the main reasons why we adjusted our 2016/17 EPS (-9.8% for 2016, -0.2% in 2017 and -2.1% in 2018). On the whole, we expect the underlying operating profit to reach EUR1,188m in 2016 (EUR301m in H1). 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 (EUR470m in our own estimates). In this regard, the publication of H1 2016 results will be a key first step. At this stage, our preview will not reassure readers all that much. Stay tuned.

1/ France (~26% of EBIT in H1): taking into account the impact of the so called "Tascom" (tax on selling area) which, from now on, will be spread over the FY vs H1 previously (i.e. impact of around EUR10-15m in H1 2016), we expect the underlying operating profit to work out at EUR77m (margin up +141bp to 0.8%). **2/ LatAm retail (~68% of EBIT in H1):** we expect strong price investments in Brazil to have quite a significant impact on the current EBIT which should reach EUR204m (margin down 84bp to 3.0%). But we do not stigmatize this performance insofar as the focus of the group on the topline seems rather healthy to us. **3/ LatAm electronics (~31% of EBIT in H1):** Latam electronics (11% of sales) showed a sequential improvement (+2.6% vs -11.8% in Q1 16 / -5.6% overall in H1) which, along with strong cost cuttings, should limit the margin erosion to -230 bp (underlying EBIT of EUR92m e). **4/ E-Commerce (~-24% of EBIT in H1):** unsurprisingly, given very poor commercial performances (-10.8% LFL in H1) in Brazil especially, losses at Cnova remain very significant and should work out at EUR72m (margin down -200 bp).

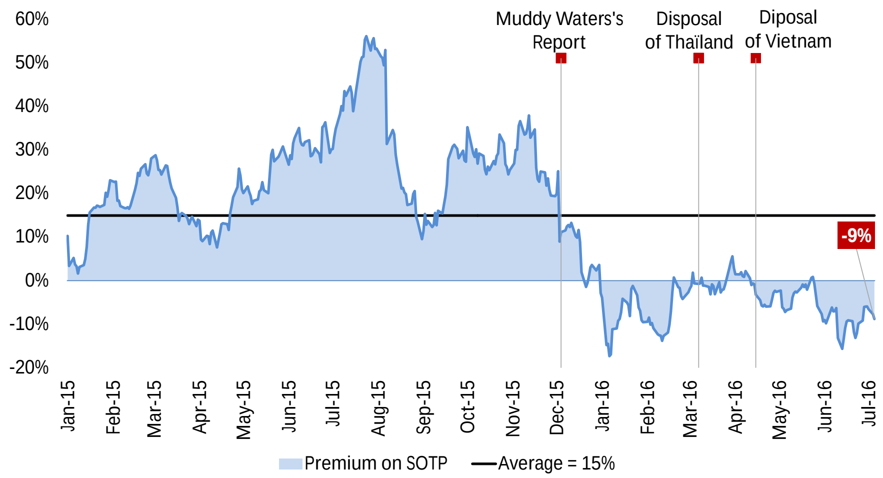
ANALYSIS

- It does seem that Casino's rather resilient commercial performances deserve to be emphasized in a circumstantially poor consumption environment in France. Moreover, outside France, we see positive signs in LatAm both at Via Varejo (which seems to have bottomed out) and Food Retail.
- Obviously, these commercial performances have been achieved at the expense of margins. But in the end, we appreciate management's wise focus on topline, something it has been critized for not doing enough in the past.

VALUATION

- At current levels, Casino shares are trading at a 9% discount vs spot SOTP (EUR57) **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 EUR16, Casino is implicitly valued at EUR62 (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 H1 2016 results publication will be key first step.

Premium / disount of Casino share vs the sacrosanct spot SOTP



NEXT CATALYSTS

- H1 2016 on July 29th

H1 2016 estimates

	H1 15	H2 15	2015	H1 16e
France Retail sales	**9 135**	**9 754**	**18 889**	**9 264**
(1) LFL excl. fuel and calendar	-0,8%	2,0%	0,6%	0,9%
(2) Expansion	0,3%	0,6%	0,4%	1,2%
(3) Calendar	-0,1%	0,0%	-0,1%	0,5%
(4) Fuel	-1,0%	-1,0%	-1,0%	-0,8%
(5) Acquisitions	0,4%	0,0%	0,2%	-0,4%
(1)+(2)+(3)+(4)+(5) = Total	-1,2%	1,5%	0,2%	1,4%
Underlying EBIT	-53	390	337	77
As a % of sales	-0,6%	4,0%	1,8%	0,8%
bps var.	-236 bp	159 bp	-32 bp	141 bp
Latam Retail sales	**7 803**	**6 911**	**14 714**	**6 836**
(1) LFL excl. fuel and calendar	2,5%	1,8%	2,1%	5,4%
(2) Expansion	3,6%	3,7%	3,6%	4,7%
(3) Calendar	0,2%	0,4%	0,3%	0,2%
(4) Fuel	0,0%	0,0%	0,0%	0,0%
(5) Acquisitions	4,6%	4,8%	4,7%	0,0%
(6) Forex	-4,0%	-25,4%	-15,3%	-22,7%
(1)+(2)+(3)+(4)+(5)+(6) = Total	6,8%	-14,8%	-4,6%	-12,4%
Underlying EBIT	299	404	703	204
As a % of sales	3,8%	5,8%	4,8%	3,0%
bps var.	-85 bp	-97 bp	-103 bp	-85 bp
Latam Electronics sales	**2 924**	**2 264**	**5 188**	**2 182**
(1) LFL excl. fuel and calendar	-13,5%	-19,6%	-16,7%	-5,6%
(2) Expansion	1,6%	1,1%	1,3%	-1,5%
(3) Calendar	0,0%	0,0%	0,0%	0,0%
(4) Fuel	0,0%	0,0%	0,0%	0,0%
(5) Acquisitions	0,0%	-0,1%	0,0%	0,1%
(6) Forex	-4,0%	-21,3%	-13,0%	-18,4%
(1)+(2)+(3)+(4)+(5)+(6) = Total	-15,9%	-39,9%	-28,4%	-25,4%
Underlying EBIT	191	80	271	92
As a % of sales	6,5%	3,5%	5,2%	4,2%
bps var.	-141 bp	-710 bp	-412 bp	-230 bp
E-commerce sales	**1 730**	**1 651**	**3 381**	**1 391**
(1) LFL excl. fuel and calendar	16,4%	-1,2%	6,5%	-10,8%
(2) Expansion	0,2%	0,0%	0,1%	0,0%
(3) Calendar	0,0%	0,0%	0,0%	0,0%
(4) Fuel	0,0%	0,0%	0,0%	0,0%
(5) Acquisitions	0,1%	-0,1%	0,0%	0,2%
(6) Forex	-3,2%	-13,5%	-9,0%	-8,8%
(1)+(2)+(3)+(4)+(5)+(6) = Total	13,4%	-14,8%	-2,5%	-19,3%
Underlying EBIT	-55	-87	-142	-72
As a % of sales	-3,2%	-5,3%	-4,2%	-5,2%
bps var.	-261 bp	-608 bp	-440 bp	-200 bp
TOTAL GROUP sales	**23 667**	**22 478**	**46 145**	**19 673**
(1) LFL excl. fuel and calendar	-0,6%	-2,1%	-1,3%	0,7%
(2) Expansion	1,7%	1,7%	1,7%	2,0%
(3) Calendar	0,0%	0,1%	0,1%	0,3%
(4) Fuel	-0,4%	-0,4%	-0,4%	-0,3%
(5) Acquisitions	1,6%	1,5%	1,6%	-1,5%
(6) Forex	-0,5%	-11,9%	-6,4%	-11,5%
(1)+(2)+(3)+(4)+(5)+(6) = Total	1,8%	-11,0%	-4,8%	-10,3%
Underlying EBIT	520	926	1 446	301
As a % of sales	2,4%	4,1%	3,3%	1,5%
bps var.	-142 bp	-122 bp	-134 bp	-84 bp

Sources: Casino, Bryan Garnier

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Utilities

EDF

Price EUR11.11

2016 nuclear output target revised down, but 2016 EBITDA guidance confirmed

Fair Value EUR13,8 (+24%) **BUY**

Bloomberg	EDF FP
Reuters	EDF.PA
12-month High / Low (EUR)	21.3 / 9.2
Market Cap (EUR)	22,357
Ev (BG Estimates) (EUR)	85,325
Avg. 6m daily volume (000)	2 666
3y EPS CAGR	-25.3%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-0.7%	-4.3%	-5.2%	-18.2%
Utilities	4.7%	0.7%	3.8%	-2.1%
DJ Stoxx 600	3.5%	-3.4%	1.3%	-7.8%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	75,006	75,527	76,716	77,948
% change		*0.7%*	*1.6%*	*1.6%*
EBITDA	17,601	16,164	15,822	16,349
EBIT	4,280	7,135	6,341	6,299
% change		*66.7%*	*-11.1%*	*-0.7%*
Net income	4,231	2,437	1,918	1,903
% change		*-42.4%*	*-21.3%*	*-0.8%*

	2015	2016e	2017e	2018e
Operating margin	5.7	9.4	8.3	8.1
Net margin	5.6	3.2	2.5	2.4
ROE	10.5	6.1	4.9	4.9
ROCE	2.0	2.9	2.6	2.6
Gearing	167.6	178.8	188.7	190.0

(EUR)	2015	2016e	2017e	2018e
EPS	2.27	1.21	0.96	0.95
% change	-	*-46.6%*	*-21.3%*	*-0.8%*
P/E	4.9x	9.1x	11.6x	11.7x
FCF yield (%)	NM	NM	NM	11.2%
Dividends (EUR)	1.10	0.91	0.75	0.75
Div yield (%)	9.9%	8.2%	6.8%	6.7%
EV/Sales	1.1x	1.1x	1.2x	1.1x
EV/EBITDA	4.7x	5.3x	5.6x	5.4x
EV/EBIT	19.2x	12.0x	13.9x	14.0x

Yesterday after market, EDF revised down its nuclear output target for 2016 from 408-402TWh to 395-400TWh, in order to conduct controls during H2-16 to respect the new ASN examination schedule. The group's EBITDA target (*EUR16.3-16.8bn*) was confirmed, however, thanks to the integration of the retrospective tariff order which should be published by the end of Q3-16.

ANALYSIS

- **2016 nuclear output targets revised down…** While the group had already reduced its target following a poor start to the year, EDF unveiled yesterday after market that it **has to conduct additional controls during H2-16** in order to demonstrate that some components, mainly steam generators such as those referred to in the information notice published by the ASN on 23rd 2016, can operate in a fully safe mode. Taking into account ASN's examination schedule, extensions of part of the outages are expected over the second semester and should then weigh on group's total nuclear outage for the year. EDF then indicated that it is revising down its **408-412 TWh target to 395-400 TWh. We estimate the negative impact at around EUR250-400m (***depending on the price used in the calculation)***.**
- **…But the group's 2016 targets were reiterated, thanks to retrospective tariff order**: Despite these negative adjustments for EDF French activities, the group reiterated its 2016 EBITDA and debt and pay-out ratio targets, thanks to the integration of the retrospective tariffs order which should be published by the end of Q3-16 following the *Conseil* d'Etat decision of June 15, 2016. The group still expect to generate **EBITDA between EUR16.3bn** and **EUR16.8bn** while also reiterating its net financial **debt/EBITDA ratio target of 2-2.5x** and its **pay-out ratio of 55-65%** for 2016. The tariff catch-up effect could boost group's EBITDA by **around EUR800m**, assuming the impact is fully integrated into group's 2016 accounts.
- **2016 model adjusted, but only negatively**: Given the lack of visibility on the real impact and timing of the retrospective tariff order the group is expecting on 2014-15 tariffs we decided to only integrate the negative effect from lower nuclear output in our model. We then cut our 2016 EBITDA from **EUR16.4bn** to **EUR16.16bn** (-2%) and are now below group guidance for 2016. As a reminder, we were already at the low end range of the group's guidance.
- **Conclusion**: This news is negative given the positive effect from potential tariff catch-up was already well appreciated by investors (*although less by consensus*) while the larger than expected outputs linked to ASN's examination schedule is new. **Negative.**

VALUATION

- At current share price EDF is trading at 5.2x its 2016e EBITDA and offers a 8.5% yield
- Buy, FV @ EUR13.8

NEXT CATALYSTS

- July 29th 2016: H1-2016 earnings

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Healthcare

Novartis

Price CHF80.25

Conference call focused on new drugs and M&A

Fair Value CHF87 vs. CHF89 (+8%) **NEUTRAL**

Bloomberg	NOVN VX
Reuters	NOVN.VX
12-month High / Low (CHF)	102.3 / 68.5
Market Cap (CHFm)	210,826
Ev (BG Estimates) (CHFm)	203,831
Avg. 6m daily volume (000)	5 805
3y EPS CAGR	5.3%

	1 M	3 M	6 M	31/12/15
Absolute perf.	7.2%	8.2%	-1.9%	-7.5%
Healthcare	8.7%	2.9%	3.1%	-4.5%
DJ Stoxx 600	3.5%	-3.4%	1.3%	-7.8%

YEnd Dec. (USDm)	2015	2016e	2017e	2018e
Sales	49,414	48,381	50,435	53,536
% change		*-2.1%*	*4.2%*	*6.1%*
EBITDA	13,119	12,183	13,441	14,892
EBIT	7,544	6,683	7,941	9,392
% change		*-11.4%*	*18.8%*	*18.3%*
Net income	6,017	6,077	7,492	8,929
% change		*1.0%*	*23.3%*	*19.2%*

	2015	2016e	2017e	2018e
Operating margin	15.3	13.8	15.7	17.5
Net margin	12.2	12.6	14.9	16.7
ROE	8.1	7.9	9.8	11.5
ROCE	14.4	12.6	14.2	16.4
Gearing	21.4	23.4	21.7	17.2

(USD)	2015	2016e	2017e	2018e
EPS	5.01	4.79	5.25	5.85
% change	-	*-4.4%*	*9.5%*	*11.4%*
P/E	16.3x	17.0x	15.5x	13.9x
FCF yield (%)	0.6%	2.8%	4.4%	4.8%
Dividends (USD)	2.75	3.00	2.62	2.92
Div yield (%)	3.4%	3.7%	3.2%	3.6%
EV/Sales	4.2x	4.3x	4.1x	3.8x
EV/EBITDA	15.7x	17.0x	15.3x	13.6x
EV/EBIT	27.3x	31.0x	25.9x	21.6x

There was no breaking news during the conference call held yesterday afternoon to discuss the half-year results, but it was interesting to note that most of the questions concerned M&A opportunities for the company. Novartis repeatedly said that it was not compelled to do anything big including in I.O. and would prioritize bolt-on acquisitions unless a bigger deal that makes sense for everyone arises. That said, it could be outside of oncology and, for instance, the presence in Respiratory is being reassessed by new Head of Innovative Medicines. Our impression remains that the transformation phase is not over, which makes it difficult to fully endorse a turnaround scenario.

ANALYSIS

- We did not learn a lot from the discussion about the numbers per se and the interesting parts of the conference call were those referring to new or yet-to-come products and to BD and M&A.
- Several times, management said that its objective was to design differentiated drugs and with each meaningful opportunity, it is the intention to work on differentiation. It was in particular asked about two late-stage assets, namely LEE011 in the CDK4/6 inhibitor class where Imbruvica (Pfizer) is already marketed in the US and AMG334 in migraine with, in both cases, significant competition around. The CDK4/6 inhibitor market is one that Novartis believes can exceed USD10bn, but beyond that it is starting trials that are "pretty unique" like MONALEESA-7 in post-menopausal women in combination with different drugs including aromatase inhibitors. The company is still evaluating the opportunity to start trials in the neo-adjuvant and adjuvant settings. For AMG-334, Novartis believes it can be first-to-market and have specific mode of action (by targeting the receptor instead of the ligand), broader label and advantageous sc delivery form.
- Of course, Cosentyx and Entresto were also addressed, first with conviction that it belongs to a class that should become leader in the targeted indications including psoriasis and also with mention that 4-year data anticipated next year might bring differentiating arguments vs Taz (Lilly) in terms of duration of response. As for Entresto, Novartis argued about the logics behind an increase in the commercial and marketing support decided for H2 in the US and resulting in an extra USD200m investment in the GP sales force. This was very much the consequence of quicker and better-than-anticipated guidelines obtained by the drug from ESC, AHA and others. The recommendation to use Entresto in the US is broad and also supported by pharmaco-economic studies saying that Entresto saves lives at an affordable price.
- But the central theme of questions was M&A. Several targeted the oncology franchise and more specifically the need for Novartis to strengthen its presence in I.O. Perhaps not very convincingly, management answered that they don't feel they have to do something in I.O because it is a long run and they have enough to compete with second-generation products. But actually it was also clear that cardiology or immunology are fields of equal interest for Novartis to do deals or transactions. And new Head of Innovative Medicines Paul Hudson, who comes from AstraZeneca, made it clear that he wants to personally assess the strenghs of Novartis in the Respiratory field to decide what to do here, meaning confirm a partnering route or invest, including in the US to launch Ultibro for instance, and in R&D to leverage some opportunities like the triple combination QVM or the CRTh2 antagonist in asthma.

VALUATION

- Although we make a slight downward adjustment to numbers that drives a small cut to our FV to CHF87 (from CHF89), we believe that Novartis is coming closer to the exit door of its transition period that started a year ago. That said, some strategic decisions might have implications in terms of earnings and growth for the years to come. NEUTRAL still looks like the adequate rating.

NEXT CATALYSTS

- Early October 2016: MONALEESA-2 phase III study results presented at ESMO

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Healthcare

Orpea

Price EUR74.27

Bloomberg	ORP FP
Reuters	ORP.PA
12-month High / Low (EUR)	76.7 / 65.0
Market Cap (EUR)	4,461
Ev (BG Estimates) (EUR)	7,454
Avg. 6m daily volume (000)	111.4
3y EPS CAGR	16.5%

	1 M	3 M	6 M	31/12/15
Absolute perf.	8.4%	-0.1%	4.4%	0.7%
Healthcare	8.7%	2.9%	3.1%	-4.5%
DJ Stoxx 600	3.5%	-3.4%	1.3%	-7.8%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	2,392	2,813	2,999	3,140
% change		*17.6%*	*6.6%*	*4.7%*
EBITDA	400	484	535	572
EBIT	303.3	380.1	417.8	443.4
% change		*25.3%*	*9.9%*	*6.1%*
Net income	153.3	183.4	212.7	236.7
% change		*19.7%*	*16.0%*	*11.3%*

	2015	2016e	2017e	2018e
Operating margin	12.7	13.5	13.9	14.1
Net margin	6.4	6.5	7.1	7.5
ROE	8.5	10.1	11.8	13.1
ROCE	3.6	4.3	4.8	5.1
Gearing	166.5	165.3	158.6	150.5

(EUR)	2015	2016e	2017e	2018e
EPS	2.42	2.99	3.45	3.82
% change	-	*23.6%*	*15.3%*	*10.8%*
P/E	30.7x	24.8x	21.5x	19.4x
FCF yield (%)	NM	5.3%	7.0%	7.5%
Dividends (EUR)	0.90	1.05	1.21	1.34
Div yield (%)	1.2%	1.4%	1.6%	1.8%
EV/Sales	3.1x	2.6x	2.4x	2.3x
EV/EBITDA	18.7x	15.4x	13.7x	12.6x
EV/EBIT	24.6x	19.6x	17.6x	16.2x

Strong Q2 revenues; FY 2016 guidance upgraded (contact)

Fair Value EUR85 vs. EUR79 (+14%) BUY

After strong organic revenue growth in Q1 (+4.7% excluding the 1.2% positive impact of the 2016 leap year), Q2 was even better having risen 6.6% with total revenue of EUR700m (+19.8% on reported). So, revenue in H1 reached EUR1,381m, up 23% reported driven by acquisitions, with organic up 5.7%. Taking into account those numbers and the recent acquisition of the Sanyres group which will be consolidated in H2 2016 and accretive for EPS from this year, Management upgraded its FY2016 guidance to EUR2,810m from EUR2,720m. Our estimates move to EUR2,813m from EUR2,772m on revenue and to EUR484m from EUR473m on EBITDA. Using a DCF, we increase our FV to EUR85.

ANALYSIS

- **Better revenue growth driven by acquisitions….:** Total revenue reached EUR700.4m in Q2 which was higher than our estimate and consensus of respectively EUR694m and EUR687m taking into account the consolidation of companies acquired in the course of 2015 bringing EUR78m in Q2 after EUR110m in Q1.
- **…and stronger organic than expected:** Organic growth was stronger than anticipated in Q2, up 6.6% after 4.7% in Q1 and compares with our forecast of 4.9% and 4.6% from consensus. All regions registered higher growth, with **France** up 5% after 4.1% in Q1 and **International** (40% of consolidated revenue) up 9% after 6.2% in Q1. Growth was strong in **Belgium** (up 8.2% in Q2 after 1.2% in Q1), thanks to the ramp-up of new facilities; **Austria was** up 13.8% (SeneCura), **Germany** was up 7.8%, **Spain** +3.8%, **Switzerland** +14% and **Italy** +6%.
- **FY guidance upgraded, like our estimates:** Following those numbers and the acquisition of the Sanyres group in Spain which will be consolidated in H2 2016 with a revenue contribution of EUR28m, management raised its guidance to EUR2,810m up EUR90m vs. previous guidance which represents growth of 17.5% vs. 2015. Regarding our estimates, our total revenue moves to EUR2,813m from EUR2,772m with an EBITDA at EUR484m from EUR473m.

Main changes to our estimates

	2016e			2017e			2018e		
	Old	New	Change%	Old	New	Change%	Old	New	Change%
SALES	2 772	2 813	1,5%	2 920	2 999	2,7%	3 069	3 140	2,3%
EBITDA	473	484	2,4%	513	535	4,2%	553	572	3,5%
	17,1%	17,2%	15 bp	17,6%	17,8%	25 bp	18,0%	18,2%	21 bp
EBIT	370	380	2,6%	399	418	4,6%	427	443	3,9%
	13,4%	13,5%	15 bp	13,7%	13,9%	25 bp	13,9%	14,1%	21 bp
EPS	2,89	2,99	3,5%	3,26	3,45	5,9%	3,65	3,82	4,8%

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

VALUATION

- Based on our new estimates and using a DCF with a WACC of 6.2%, long-term growth of 2.5%, our FV move to EUR85 from EUR79.
- At the current share price, the stock is trading at 15.4x EV/EBITDA 2016e and 13.7x 2017e which compares with an historical average of 13.1x and an EBITDA CAGR 2015-2018 of 12.7%

NEXT CATALYSTS

- H1 2016 results on 28th August

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Food & Beverages

Rémy Cointreau

Price EUR76.92

Bloomberg	RCO FP
Reuters	RCOP.PA
12-month High / Low (EUR)	78.5 / 50.9
Market Cap (EUR)	3,749
Ev (BG Estimates) (EUR)	4,210
Avg. 6m daily volume (000)	101.7
3y EPS CAGR	14.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	8.0%	11.6%	28.6%	16.5%
Food & Bev.	6.9%	2.8%	7.6%	0.6%
DJ Stoxx 600	4.0%	-1.6%	3.1%	-7.4%

YEnd Mar. (EURm)	03/15	03/16	03/17e	03/18e
Sales	965.1	1,051	1,101	1,167
% change		*8.9%*	*4.8%*	*6.0%*
EBITDA	178	196	220	243
EBIT	156.0	178.4	201.4	223.1
% change		*14.4%*	*12.9%*	*10.8%*
Net income	94.6	110.4	123.1	142.4
% change		*16.7%*	*11.5%*	*15.6%*

	03/15	03/16	03/17e	03/18e
Operating margin	16.2	17.0	18.3	19.1
Net margin	18.0	10.5	11.2	12.2
ROE	8.8	9.9	12.0	14.1
ROCE	15.6	16.5	17.3	18.0
Gearing	43.4	41.2	40.3	35.8

(EUR)	03/15	03/16	03/17e	03/18e
EPS	1.95	2.28	2.54	2.94
% change	-	*16.8%*	*11.5%*	*15.6%*
P/E	39.4x	33.8x	30.3x	26.2x
FCF yield (%)	0.2%	2.9%	2.7%	3.1%
Dividends (EUR)	1.53	1.40	1.40	1.40
Div yield (%)	2.0%	1.8%	1.8%	1.8%
EV/Sales	4.4x	4.0x	3.8x	3.5x
EV/EBITDA	23.7x	21.5x	19.0x	17.0x
EV/EBIT	27.0x	23.6x	20.7x	18.5x

Soft performance in a small quarter

Fair Value EUR80 (+4%) **BUY**

Q1 2016/17 sales amounted to EUR218.6m, down 2.1% reportedly and flat on an organic basis. This is slightly below market expectations and is due to advance shipments in Q4 2015/16 before a global hike in prices at the beginning of 2016/17. The group highlighted that the underlying trend remained solid. A conference call will be held at 9am CET.

ANALYSIS

- Q1 2016/17 (end-June) sales amounted to EUR218.6m (consensus: EUR220m and our estimate: EUR221.3m), down 2.1% on a reported basis. Organic sales were flattish. This performance is below market expectations (consensus and our estimate: +1.1%) and is due to advance shipments in Q4 2015/16 before a global hike in prices at the beginning of the fiscal year 2016/17. The group confirmed its objective of achieving growth in its 2016/17 EBIT at constant FX and scope. By division:
- **Cognac (62% of group's sales):** Q1 organic sales declined 0.5% (consensus: +0.2% and our estimate: +0.5%). This implies a deceleration vs Q4 2015/16 (+12.3% org) which is driven by an increase in prices at the beginning of the fiscal year. The group indicated that the underlying trend was solid (even improving for high end qualities) as the momentum remained very good in the US and the environment continued to improve in China.
- **Liqueurs & Spirits (26% of group's sales):** Sales dropped 0.8% organically (consensus: +2.6% and our estimate: +1.5%) following +6.9% in Q4 2015/16. Cointreau and Mount Gay sales declined due to early orders in Q4 ahead of Q1 price increases. The timing of Easter was also not helping (in Q4 this year vs in Q1 the year before). Some positive came from Metaxa which returned to growth thanks to easy comps and marketing initiatives.
- **Partner Brands (12% of group's sales):** Sales increased 4.3% on an organic basis (consensus:+2.0% and our estimate: +3%). The good performance of the EMEA region offset the decline in champagne sales.

VALUATION

- Our DCF points to a Fair Value of EUR80. At yesterday's share price, the stock is trading at 20.7x EV/EBIT 2016/17e and 18.5x EV/EBIT 2017/18e, 14% and 11% above the peers' average.

NEXT CATALYSTS

- July 26th: Shareholders' meeting of Rémy Cointreau and H1 2016 results of LVMH
- September 1st: 2015/16 results of Pernod Ricard

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TMT

SAP

Price EUR71.73

Q2 16 results above expectations; FY16 guidance reiterated.

Fair Value EUR74 (+3%) **NEUTRAL**

Bloomberg	SAP GR
Reuters	SAPG.DE
12-month High / Low (EUR)	74.9 / 55.9
Market Cap (EUR)	88,121
Ev (BG Estimates) (EUR)	90,809
Avg. 6m daily volume (000)	2 773
3y EPS CAGR	6.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	5.8%	2.4%	0.7%	-2.2%
Softw.& Comp.	4.3%	0.6%	3.9%	-3.0%
DJ Stoxx 600	4.0%	-1.6%	3.1%	-7.4%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	20,798	21,832	23,364	24,972
% change		*5.0%*	*7.0%*	*6.9%*
EBITDA	6,884	7,112	7,529	8,136
EBIT	4,251	5,123	5,713	6,280
% change		*20.5%*	*11.5%*	*9.9%*
Net income	4,660	5,027	5,317	5,683
% change		*7.9%*	*5.8%*	*6.9%*

	2015	2016e	2017e	2018e
Operating margin	30.5	30.0	29.7	30.0
Net margin	14.8	17.7	18.3	18.6
ROE	13.2	15.0	15.0	14.7
ROCE	18.5	18.8	19.8	21.5
Gearing	24.7	10.4	-2.4	-13.6

(€)	2015	2016e	2017e	2018e
EPS	3.69	3.99	4.22	4.51
% change	-	*7.9%*	*5.8%*	*6.9%*
P/E	19.4x	18.0x	17.0x	15.9x
FCF yield (%)	3.4%	5.4%	5.7%	6.1%
Dividends (€)	1.15	1.20	1.30	1.40
Div yield (%)	1.6%	1.7%	1.8%	2.0%
EV/Sales	4.5x	4.2x	3.7x	3.4x
EV/EBITDA	13.6x	12.8x	11.6x	10.3x
EV/EBIT	14.8x	13.9x	12.6x	11.2x

Amidst strong licence revenue growth (+10% lfl), SAP announced Q2 16 results above expectations this morning, with non-IFRS operating profit 5% above consensus. FY16 guidance is confidently reiterated by the management. As such, we expect a positive reaction in the near term.

ANALYSIS

- **Q2 16 results above expectations**. For Q2 16, on a non-IFRS basis, SAP announced sales up 9% lfl to EUR5,239m (BG est.: EUR5,137m; consensus: EUR5,228m), Cloud & Software revenues up 11% lfl to EUR4,361m (BG est.: EUR4,236m or +8.3% lfl; consensus: EUR4,317m or +7.7% lfl), cloud subscriptions revenues up 33% lfl to EUR721m (BG est.: EUR713m or +34.1% lfl; consensus: EUR720m or +31.2% lfl), licence sales up 10% lfl to EUR1,042m (BG est.: EUR941m; consensus: EUR981m), and an operating profit of EUR1,516m (28.9% of sales vs. 28% in Q2 15) vs. BG est. of EUR1,397m (27.2% of sales) and consensus of EUR1,448m (27.7%). At cc, non-IFRS op. profit was up 11% to EUR1,543m (margin 28.6% or +0.6ppt). IFRS operating profit was up 81% to EUR1,269m, while we expected EUR1,109m (consensus: EUR1,110m). Non-IFRS EPS was up 2% to EUR0.82, while we forecasted EUR0.94 and consensus was EUR0.88, due to a tax rate of 29.6% (BG est. 23.5%). Free cash flow for H1 16 was up 1% to EUR2.52bn or 25.3% of sales (vs. 25.1% in H1 15).
- **Other Q2 16 details**. 1). Q2 16 sales growth was driven by Japan (+19% lfl), followed by the Rest of America (+12% lfl), the Rest of EMEA (+10%), Germany (+8% lfl), the US (+7% lfl) and the rest of Asia Pacific (+4% lfl); 2) Cloud & Software sales were up 11% lfl in EMEA and America, and up 9% lfl in Asia Pacific; 3) Cloud subscriptions were up 29% lfl in America, up 41% lfl in EMEA, and up 47% lfl in Asia Pacific, and, by segment, were up 50% lfl in Applications & Technology (SuccessFactors, CEC, etc.) and up 21% for SAP Business Network (Ariba, Concur, Fieldglass); 4). S/4HANA customers reached 3,700 at the end of Q2 16 (+500 in the quarter), Employee Central has more than 1,250 customers (+150 in the quarter, and vs. 730 as of end of June 2015), and Customer Engagement & Commerce (CEC) saw strong double-digit growth; 5). 29% of the on-premise licence deals were above EUR5m, up from 24% in Q2 15; 6). New cloud bookings were up 31% at cc in Q2 16; 7). The gross margin of cloud subscriptions was down 0.5ppt to 65.2% due to a mix effect (Applications & Technology was up 1ppt to 52%, SAP Business Network was up 1ppt to 76%).
- **FY16 guidance reiterated**. On a non-IFRS basis, SAP reiterates FY16 guidance, i.e. Cloud & Software revenues up 6-8% at cc, Cloud subscriptions up 28-33% at cc to EUR2.95-3.05bn, and a non-IFRS operating profit of EUR6.4-6.7bn at cc (est. 29.5-31% of sales). Based on the rates at the end of June 2016, management now expects impact from fx of -1ppt/+1ppt (-2ppt/0ppt for Q3) on Cloud & Software revenues and operating profit, which would give an operating profit of EUR6.34-6.76bn. The consensus is, at this stage, in line with these assumptions: Cloud & Software sales up 6.5% at cc (BG est.: +7%), Cloud subscriptions up 31.6% at cc to EUR3,012m (BG est.: +32.8% at cc to EUR3,003m), non-IFRS operating profit of EUR6,622m or 29.9% of sales (BG est.: EUR6,547m or 30% of sales). Finally, SAP lowered guidance for FY16 non-IFRS adjustments (EUR560-610m vs. EUR650-690m for share-based compensation, EUR30-50m vs. EUR40-60m for restructurings).

VALUATION

- SAP's shares are trading at est. 13.9x 2016 and 12.6x 2017 EV/EBIT multiples.
- Net debt on 30th June 2016 was EUR4,245m (net gearing: 18%).

NEXT CATALYSTS

Conference call today at 2pm CET / 1pm BST / 8am EDT (France: +33 3 59 81 40 54; Switzerland: +41 91 261 14 51; UK: +44 20 30 59 81 31; USA: +1 213 536 40 59).

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TMT

Ubisoft

Price EUR35.54

Good fundamentals; the stock is starting to reflect its speculative premium

Fair Value EUR34 (-4%) **BUY**

Bloomberg	UBI.FP
Reuters	UBIP.PA
12-month High / Low (EUR)	35.5 / 15.8
Market Cap (EUR)	3,953
Ev (BG Estimates) (EUR)	3,746
Avg. 6m daily volume (000)	305.2
3y EPS CAGR	37.1%

	1 M	3 M	6 M	31/12/15
Absolute perf.	14.1%	30.3%	45.0%	33.3%
Softw.& Comp.	4.3%	-0.9%	1.8%	-3.0%
DJ Stoxx 600	3.5%	-3.4%	1.3%	-7.8%

YEnd Mar. (EURm)	03/16	03/17e	03/18e	03/19e
Sales	1,394	1,706	1,945	2,200
% change		*22.4%*	*14.0%*	*13.1%*
EBITDA	600	731	903	1,089
EBIT	156.1	219.0	319.0	429.0
% change		*40.3%*	*45.7%*	*34.5%*
Net income	116.0	148.9	221.6	301.5
% change		*28.3%*	*48.8%*	*36.1%*

	03/16	03/17e	03/18e	03/19e
Operating margin	11.2	12.8	16.4	19.5
Net margin	6.7	8.7	11.4	13.7
ROE	9.2	12.8	16.0	17.8
ROCE	11.0	15.7	23.3	31.6
Gearing	4.3	-17.7	-31.1	-43.6

(EUR)	03/16	03/17e	03/18e	03/19e
EPS	1.02	1.29	1.92	2.62
% change	-	*27.2%*	*48.8%*	*36.1%*
P/E	35.0x	27.5x	18.5x	13.6x
FCF yield (%)	NM	6.1%	5.5%	7.5%
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	2.9x	2.2x	1.8x	1.5x
EV/EBITDA	6.7x	5.1x	3.9x	3.0x
EV/EBIT	25.6x	17.1x	11.0x	7.5x

Ubisoft's fiscal Q1 sales came out 6% above our estimate and 11% above the guidance. With no major releases scheduled (same pattern as last year), H1 revenue is set to be weak in absolute terms but will be up Y/Y thanks to strong back-catalogue and digital revenue. Unsurprisingly, the FY16-17 guidance is unchanged (back-end-loaded year: fiscal H1 should represent ~15% of FY sales, like last year). The visibility remains high (the 5 AAA games are known and we expect no delays in games since Ubisoft needs to prove that it can remain independent). We maintain our Buy rating and FV of EUR34. Even if we consider that UBI share price is valuing the fundamentals over the current FY, we are not surprised it now starts to reflect its speculative premium. As a reminder, we estimate a valuation in the event of a takeover bid between EUR40 (the very minimum) and EUR51 (maximum).

ANALYSIS

- **Ubisoft's fiscal Q1 sales came in at EUR139m (+44.0% Y/Y, +46.6% at cc)**, i.e. above our estimate of EUR131m (+35.6% Y/Y) and the company guidance of ~EUR125m (+29%). There were no major releases in Q1 (only digital titles as last year) but the back-catalogue (91% of its quarterly revenue, +36.3% Y/Y) and digital revenue (75% of its revenue vs. 56% last year; 46% are coming from recurring player investment, +114% Y/Y) were particularly strong, notably thanks to *Far Cry Primal* and *The Division* (both released in fiscal Q4). **Ubisoft was by far the number one game publisher for calendar H1 16 in the retail console market** (both in North America and EMEA).
- **As expected, fiscal Q2 guidance is cautious i.e. ~EUR100m** (only *Champions of Anteria* on PC and digital titles). With no big games scheduled (same pattern as last year), H1 revenue should however be up +15% Y/Y thanks to the back-catalogue and the ramp up of digital revenue. **Unsurprisingly, the FY 16/17 guidance is unchanged (Q1 is not a significant quarter)**, namely EUR1,700m in sales, ~EUR230m in non-IFRS EBIT and strong FCF generation (back-end-loaded year: H1 should represent only ~15% of FY sales, as in FY15/16). *See our estimates on page 2.*
- **What we have seen recently from Ubisoft at E3 completely validates the group's full-year.** This scenario is backed by: **1/** the launch of five AAA games (vs four last year), **2/** further high growth in digital revenues (35% of sales) and **3/** robust growth in the back-catalogue (around 30% of sales, especially thanks to *The Division* and *Far Cry Primal,* and to a lesser extent *Assassin's Creed Syndicate* and *Rainbow Six Siege*). Moreover, the group is to launch its *Assassin's Creed* franchise in cinemas (on 21st December 2016), thereby further promoting the brand on a global level. **Finally, Ubisoft is set to reach its FY targets without launching an *Assassin's Creed* game which has to be seen as a genuine performance** (it has totally made up for its historical dependence to this franchise). As a reminder, we expect no delays in games since Ubisoft needs to prove that it can remain independent (in this respect, Vivendi is exerting a positive pressure).
- **Management is therefore well on its way to delivering its strategic plan (FY18-19):** sales of EUR2.2bn (CAGR of 16.4%), underlying EBIT margin before stock options of 20% (around 800bp vs. 2014/15) and FCF generation of EUR300m. **Ubisoft has two major assets to reach its medium-term guidance: 1/** there is no reason why one of the group's games could not reach 15m units in its first year on the market in a relatively near future (*The Division* and/or *Watch Dogs 2* could be the first); **2/** the group is now capable of managing large online games, namely attracting a wide community of players with a high level of quality. This also enables it to conquer new territories such as Russia, Brazil and a few Asian countries (for example China, Taiwan and Hong Kong).

VALUATION

- **We maintain our Buy rating and Fair value of EUR34 (based on fundamentals).** We therefore consider that yesterday's share price is valuing the group's earnings results over the current FY.
- **As noted throughout our recent research report** *"Same player shoot again"?*, we are not surprised that the share price now starts to reflect its speculative premium, i.e. trading above our FV. As a reminder, we estimated in the same report a valuation between EUR40 (the very minimum, and EUR45 to avoid counterbids as far as possible) and EUR51 (maximum) in the event of a takeover bid. From an investment standpoint, we still consider UBI as a "safe haven stock".

NEXT CATALYSTS

- **AGM:** 29th September, 2016.

Our impressions on the 5 AAA games (to be released this FY16/17) shown recently by Ubisoft at E3

Games	Launch date	Target audience	Our impression at E3	Our comments
Watch Dogs 2	15/11/16	Core gamers	PPP	Massive fan base (16m unique players LTD), 85% of players will by the sequel. 2.5x bigger world and 50 co-op missions to drive retention. The game (for PS4, Xbox One and PC) has the potential to sell 15m units on its 1st FY. PS4 players will receive all DLC 30 days before everyone else.
South Park : The Fractured But Hole	06/12/16	Core/casual gamers	PP	A follow-up to *The Stick of Truth*, we don't see it as an AAA. Powerhouse brand with a lot of Facebook fans. It will be available for PC, PS4, and Xbox One.
Steep	Dec. 2016	Mostly core gamers	P	New AAA IP revealed (for PS4, Xbox One and PC). This is an open-world action sports game. Few competition on that segment. First class live services (great potential for digital content sales), as *The Crew* last year. It originally started as a demo for *Wildlands*.
For Honor	14/02/17	Mostly core gamers	PP	New IP and fresh concept, low competition. The solo campaign is convincing and completes last year's multiplayer mode. It will be available for PS4, Xbox One and PC.
Ghost Recon: Wildlands	07/03/17	Core gamers	PPP	First open-world military shooter. Fully coop enabled. UBI's largest action adventure open world game, for PS4, Xbox One and PC.

Source: Bryan, Garnier & Co (P Weak; PP Good; PPP Excellent).

Fig. 1: Main financial items from FY 2014/15 to 2018/19

EURm	14/15 reported	15/16 reported	Cons. 16/17e	BG 16/17e	Cons. 17/18e	BG 17/18e	BG 18/19e
Sales	**1,463.8**	**1,394.0**	**1,706.4**	**1,706.3**	**1,833**	**1,945.1**	**2,200.0**
Y/Y change (%)	*45.3%*	*-4.8%*	*22.4%*	*22.4%*	*7.4%*	*14.0%*	*13.1%*
Non-IFRS EBIT	**170.7**	**169.0**	**234.8**	**235.0**	**296.9**	**335.0**	**445.0**
As % of sales	*11.7%*	*12.1%*	*13.8%*	*13.8%*	*16.2%*	*17.2%*	*20.2%*
IFRS EBIT after SO	**139.4**	**136.8**		**219.0**		**319.0**	**429.0**
As % of sales	*9.5%*	*9.8%*		*12.8%*		*16.4%*	*19.5%*
Net profit after SO	**87.0**	**93.4**	**145.8**	**148.9**	**195.3**	**221.6**	**301.5**
As % of sales	*5.9%*	*6.7%*	*8.5%*	*8.7%*	*10.7%*	*11.4%*	*13.7%*
Adj. net profit after SO	**103.1**	**116.0**		**148.9**		**221.6**	**301.5**
As % of sales	*7.0%*	*8.3%*		*8.7%*		*11.4%*	*13.7%*
FCF	**176.3**	**-191.5**		**250.4**		**226.1**	**305.3**
Net debt	**-197.7**	**44.2**		**-206.2**		**-432.3**	**-737.6**
Gearing	*-20.2%*	*4.3%*		*-17.7%*		*-31.1%*	*-43.6%*

Sources: company consensus (03/06/16); Bryan, Garnier & Co ests.

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Software AG

Price EUR33.27

Bloomberg	SOW GR
Reuters	SOWG.DE
12-month High / Low (EUR)	34.9 / 23.8
Market Cap (EUR)	2,628
Avg. 6m daily volume (000)	250.2

	1 M	3 M	6 M	31/12/15
Absolute perf.	4.7%	-1.7%	14.9%	25.9%
Softw.& Comp. SVS	4.3%	-0.9%	1.8%	-3.0%
DJ Stoxx 600	3.5%	-3.4%	1.3%	-7.8%

	2015	2016e	2017e	2018e
P/E	14.3x	13.9x	13.2x	12.3x
Div yield (%)	1.7%	1.8%	2.0%	2.1%

Final Q2 16 results fully in line with initial estimates and FY16 guidance confirmed

Fair Value EUR40 (+20%) **BUY**

ANALYSIS

- **Software AG has confirmed the preliminary Q2 16 results announced on 14th July**. The figures are fully in line with those pre-announced: revenues down 1.1% to EUR203.4m (+2.1% lfl), a non-IFRS op. margin of 27.4% (+3.8ppt), EBIT up 30.4% to EUR43.3m, and net profit up 41.7% to EUR28.2m. By division, figures were also confirmed, with DBP (Digital Business Platform) sales up 4% cc, A&N (Adabas & Natural) sales down 5% lfl, and Consulting up 7% lfl. The new figure announced today was free cash flow, which was up 8% year-to-date to EUR114.3m (27.9% of sales, +1.3ppt).
- **FY16 guidance confirmed**. Software AG confirmed the FY16 guidance raised on 14th July, i.e. DBP product sales up 5-10% lfl, A&N product sales down 2-6% lfl, and a non-IFRS operating margin of 30.5-31.5%. Thanks to the improving trend in the DBP division and the strong Q1 16 in the A&N division we expect 3.4% lfl sales growth and a non-IFRS operating margin of 31.5% - which implies that the margin should widen by only 0.4ppt (vs. +3.9ppt for H1 16) over H2 16.

VALUATION

- Software AG's shares are trading at est. 9.0x 2016 and 8.0x 2017 EV/EBIT multiples.
- Net cash position on 30th June 2016 was EUR65.8m (net gearing: -6%).

NEXT CATALYSTS

Q3 16 results on 20th October before markets open.

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Food & Beverages

Unilever

Price EUR41.98

Bloomberg	UNA NA
Reuters	UNc.AS
12-month High / Low (EUR)	42.5 / 33.9
Market Cap (EURm)	103,811
Avg. 6m daily volume (000)	4 614

	1 M	3 M	6 M	31/12/15
Absolute perf.	10.0%	3.8%	12.0%	4.7%
Food & Bev.	6.9%	2.8%	7.6%	0.6%
DJ Stoxx 600	4.0%	-1.6%	3.1%	-7.4%

	2015	2016e	2017e	2018e
P/E	23.0x	22.5x	20.7x	19.1x
Div yield (%)	2.9%	3.1%	3.4%	3.6%

Acquisition of Dollar Shave Club

Fair Value EUR43 (+2%) NEUTRAL

ANALYSIS

- This morning Unilever has announced that it has signed an agreement to acquire Dollar Shave Club for an undisclosed sum. This company specializes in the male grooming segment and had a turnover of USD152m in 2015 which is expected to exceed USD200m in 2016. It was said that Mr Michael Dublin will continue to be the CEO of Dollar Shave Club.

VALUATION

- Our DCF points to a Fair Value of EUR43. At yesterday's share price, the stock is trading at 22.5x P/E 2016e vs 21.6x for Danone and 23.0x for Nestlé.

NEXT CATALYSTS

- H1 2016 results due tomorrow

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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 55.8% NEUTRAL ratings 34% SELL ratings 10.2%

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