



22nd July 2016

## BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
<b>Indices</b>			
Dow Jones	18517.23	-0.42%	+6.27%
S&P 500	2165.17	-0.36%	+5.93%
Nasdaq	5073.9	-0.31%	+1.33%
Nikkei	16810.22	+0.77%	-11.68%
Stoxx 600	340.584	-0.07%	-6.90%
CAC 40	4376.25	-0.08%	-5.62%
<b>Oil /Gold</b>			
Crude WTI	44.94	0.00	+20.81%
Gold (once)	1322.53	+0.33%	+24.49%
<b>Currencies/Rates</b>			
EUR/USD	1.0998	-0.10%	+1.24%
EUR/CHF	1.08745	+0.17%	0.00
German 10 years	-0.066	-2.67%	-110.37%
French 10 years	0.225	-1.05%	-77.04%
Euribor	-	+-%	+-%

### Economic releases :

Date	
22nd-Jul	DE - Markit Manufacturing PMI Jul (53.4E) DE - Markit Composite PMI Jul (53.6E) GB - Markit PMI Manuf Jul (47.5E) US - Markit Manuf PMI US - Baker Hughes Rig couNt

### Upcoming BG events :

Date	
27th-Jul	LVMH (BG Paris Breakfast with CFO)
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

### Recent reports :

Date	
21st-Jul	SEMICONDUCTORS : Looking for lost growth
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

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



### ACTELION

**NEUTRAL vs. BUY, Fair Value CHF180 vs. CHF173 (+6%)**

*Uptravi and R&D expenses questioned during the call*

### DASSAULT SYSTÈMES

**SELL, Fair Value EUR64 (-9%)**

*Q2 2016 analysts' meeting and conference call feedback: the devil is in the details...again*

### HERMÈS INTL.

**BUY, Fair Value EUR370 vs. EUR355 (0%)**

*Hermes still our favourite stock in our luxury sample!*

### TOD'S GROUP

**SELL, Fair Value EUR53 (+12%)**

*H1 sales slightly above expectations but of poor quality. H1 profitability decline very likely.*

### THE SWATCH GROUP

**SELL, Fair Value CHF270 (+3%)**

*Some hopes of less negative sales momentum in H2 but still low visibility on EBIT!*

### UBISOFT

**BUY, Fair Value EUR34 (-6%)**

*US video game sales in June*

### UNILEVER

**NEUTRAL, Fair Value EUR43 (+3%)**

*Solid fundamentals in a challenging environment*

### In brief...

**NICOX, LBN approval might be delayed for several months due to manufacturing issues**

**CONSTRUCTION & MATERIALS, Further steady sales growth for Nexity in H1 2016**

Healthcare

**Actelion**

Price CHF170.00

**Uptravi and R&D expenses questioned during the call**

Fair Value CHF180 vs. CHF173 (+6%)

**NEUTRAL vs. BUY**

**After careful consideration, we believe that momentum is weakening despite the strong numbers reported in Q2. We see limited catalysts for coming months and have therefore adopted a Neutral recommendation, despite a FV increase, although this leaves little upside in any case.**

**ANALYSIS**

- Curiously after publishing such a strong set of quarterly numbers earlier yesterday, Actelion faced a wave of questions addressing two unclear elements: 1) a meaningful rate of discontinuations with Uptravi seen in the US that explains why all patients initiated were not under treatment at the end of June, 2) growth in core R&D expenses of 30% in H1.
- The topic of discontinuations with Uptravi was raised during the call when Otto Schwarz mentioned that the number of patients under treatment at the end of Q1 was corrected downwards from the initial 650 to 600 because of discontinuations. This immediately prompted the question of whether this was a "normal" rate, especially in light of the short timing since initiation. However, Actelion is not in a position to answer this question yet because it is not unusual to see initial discontinuations at the start of a new treatment (this was also the case at the time of Tracleer's launch). The reasons behind discontinuations are not fully known yet either although Otto Schwarz said that up-titration was not unlikely to be the origin. When asking about what happened in GRIPHON, the answer was that the discontinuation rate was 14%, but over the duration of the trial, while the sequence is not available to compare over the same period of time. Lastly, 50 less patients out of 650 would suggest a discontinuation rate of 8%, which is not high, but raises the question of how much it could be over time once the doses have been increased up to the maximum tolerated dose.
- Another topic concerning Uptravi could have played against the drug too namely the recall about the difference in price between the initiation pack and the maintenance pack i.e. respectively USD21,000 and USD14,000.
- As such, the call left us with a quite negative feeling that numbers are not fully extrapolable for Uptravi although they are very strong. Moreover, the first qualitative elements suggesting that 45% of patients would not have been prostacyclins users, that 25% have class II PAH or that only 20% are not simultaneously ERA users are very good indicators for Actelion. In the context of a drug with peak sales of CHF1.7bn in consensus numbers, we understand that any unclear influence like this one could raise questions. Because we are more cautious with PS of CHF1.35bn, we make no change but increase the ramp-up and 2016 sales from CHF135m to CHF171m.
- The second recurring question during the call was about R&D expenses since they grew 30% over the first half of the year while management has always said that it would keep them under control despite anticipations of pipeline progress. It was also reiterated during the call that Actelion would remain disciplined in terms of R&D expenses and that H2 costs would be lower than H1 although this has usually not been the case historically. Instead of considering that Q4 is always a peak, it could be said this time that Q4 2015 was the first quarter at the new level and therefore represents an already more favourable comparison base going forward.

**VALUATION**

- We have increased both our estimates for Opsumit in Japan and ROW after a significant acceleration in revenue recognition in Q2 and for Uptravi in the US, while slightly reducing Tracleer's US and European sales. With no more operating expenses, this points to an upgrade in FV (based on SOTP) to CHF180.
- We are still convinced about the long-term opportunity of having Actelion in the portfolio but momentum looks less strong for the coming quarter. We have therefore adopted a Neutral recommendation.

**NEXT CATALYSTS**

- 20th October 2016: Third-quarter results [Click here to download](#)

Bloomberg	ATLN VX
Reuters	ATLN.VX
12-month High / Low (CHF)	173.8 / 115.9
Market Cap (CHF)	19,402
Ev (BG Estimates) (CHF)	18,483
Avg. 6m daily volume (000)	386.5
3y EPS CAGR	5.5%

	1 M	3 M	6 M	31/12/15
Absolute perf.	9.5%	7.4%	30.9%	21.8%
Healthcare	6.3%	3.9%	5.2%	-3.7%
DJ Stoxx 600	0.2%	-2.6%	3.7%	-6.9%

YEnd Dec. (CHFm)	2015	2016e	2017e	2018e
Sales	2,042	2,345	2,264	2,390
% change		14.9%	-3.5%	5.6%
EBITDA	769	908	766	836
EBIT	655.6	788.5	645.3	713.5
% change		20.3%	-18.2%	10.6%
Net income	693.5	832.5	708.6	773.0
% change		20.0%	-14.9%	9.1%

	2015	2016e	2017e	2018e
Operating margin	40.7	45.7	42.1	45.2
Net margin	34.0	35.5	31.3	32.3
ROE	52.6	45.1	31.4	28.2
ROCE	77.0	88.5	84.7	98.9
Gearing	-30.7	-49.7	-63.5	-72.0

(CHF)	2015	2016e	2017e	2018e
EPS	6.17	7.64	6.57	7.24
% change	-	24.0%	-14.1%	10.2%
P/E	27.6x	22.2x	25.9x	23.5x
FCF yield (%)	3.4%	3.9%	3.9%	4.1%
Dividends (CHF)	1.50	1.50	1.50	1.50
Div yield (%)	0.9%	0.9%	0.9%	0.9%
EV/Sales	9.3x	7.9x	7.9x	7.3x
EV/EBITDA	24.7x	20.4x	23.5x	20.9x
EV/EBIT	29.0x	23.4x	27.8x	24.4x



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**Dassault Systèmes**

Price EUR70.18

**Q2 2016 analysts' meeting and conference call feedback: the devil is in the details...again**

Fair Value EUR64 (-9%)

**SELL**

**We reiterate our Sell rating. The share price was down 3% as although the management basically reiterated 2016 company guidance - some marginal adjustment related to currency in fact -, mixed market conditions in Asia caused Dassault Systèmes to drop its target of generating double-digit new licence growth for the full-year. As quarter after quarter Dassault Systèmes no longer exceeds quarterly company guidance, we consider the share price will remain under pressure.**

Bloomberg	DSY FP
Reuters	DAST.PA
12-month High / Low (EUR)	76.1 / 59.9
Market Cap (EUR)	18,053
Ev (BG Estimates) (EUR)	16,126
Avg. 6m daily volume (000)	275.5
3y EPS CAGR	11.8%

**ANALYSIS**

	1 M	3 M	6 M	31/12/15
Absolute perf.	1.5%	0.4%	4.9%	-4.9%
Softw. & Comp.	4.2%	4.1%	7.2%	1.1%
DJ Stoxx 600	0.2%	-2.6%	3.7%	-6.9%

- Double-digit new licence revenue growth only for H2 2016, not for full-year anymore.** With new licence sales up only 2% lfl in H1 2016 (o/w +6% lfl for Q2), the management no longer banks on double-digit lfl growth on this revenue line for the full-year and now expects such a double-digit growth rate will be possible only for H2. Based on a solid pipeline, DS anticipates growth acceleration in H2, but the weak performance in Q2 in Korea (impact from the new 'industrial policy' in China), India (execution to be improved, volatility of the business) and Australia (weak mining market again) which had a negative impact of Catia sales (up only 1% in Q2) is unlikely to be caught up in H2. Reaching the top-end of total revenue growth guidance for 2016 (+6%/+7% lfl) following +5% in H1 and a guidance of +6%/+8% lfl for Q3, implies +8%/+10% lfl for Q4. Enovia is likely to keep double-digit revenue growth over H2 (after +34% in Q2 and +32% in H1), while Catia is supposed to accelerate again. While services revenues were down 3% lfl in Q2, the management expects them flat for H2. NB. that in H1, 3DEXperience new licence revenues were up 68% lfl and now account for 33% (+13ppt) of new licence revenues ex-SolidWorks and acquisitions.

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	2,839	3,086	3,388	3,706
% change		8.7%	9.8%	9.4%
EBITDA	897	1,019	1,139	1,280
EBIT	633.2	745.3	865.2	1,003
% change		17.7%	16.1%	15.9%
Net income	617.2	724.1	781.2	871.3
% change		17.3%	7.9%	11.5%

- Investment plans unchanged, so operating margin growth will slow down in H2.** The non-IFRS operating margin was up 0.7ppt in H1 (+0.9ppt at cc) but the management has firmly reiterated its full-year guidance of c. +0.2ppt to 31% (+0.5ppt at cc), as it has decided to accelerate investment in R&D and sales channels in order to underpin customer adoption. 2016 non-IFRS EPS guidance remains unchanged, but it is impacted by fx (-EUR0.02) and activity (+EUR0.02).

	2015	2016e	2017e	2018e
Operating margin	29.8	31.2	31.9	32.9
Net margin	14.2	16.5	16.8	17.8
ROE	11.5	13.3	13.3	13.8
ROCE	28.9	37.7	45.5	57.8
Gearing	-38.7	-50.2	-60.0	-68.6

- A closer look on marginal charges made on full-year guidance.** The marginal change in the full-year revenue guidance (EUR5m for the low-end) is underpinned by H1 fx rates (+EUR9m), the British pound (-EUR14m), the Japanese yen (+EUR7m), other currencies (-EUR4m: Swedish krona, Australian dollar, Chinese yuan, Malaysian ringgit...) and Ortems (+EUR2m). Brexit had no noticeable impact so far. Two transactions worth EUR1 each were put on hold in the UK pending the outcome of the referendum, but the management is confident they will close.

(€)	2015	2016e	2017e	2018e
EPS	2.38	2.78	3.00	3.32
% change	-	16.9%	7.7%	10.9%
P/E	29.5x	25.2x	23.4x	21.1x
FCF yield (%)	3.0%	4.2%	4.5%	5.0%
Dividends (€)	0.43	0.50	0.56	0.65
Div yield (%)	0.6%	0.7%	0.8%	0.9%
EV/Sales	5.9x	5.2x	4.6x	4.0x
EV/EBITDA	18.6x	15.8x	13.6x	11.6x
EV/EBIT	19.8x	16.7x	14.3x	12.1x

- CST: slightly accretive to EPS.** Ortems, acquired in June, is specialised in production planning and scheduling software. Based in Lyon (France), it employs 50 staff and posted EUR5m sales in 2015 (50% software, 50% services). It was paid EUR11.2m in cash or 2.2x sales. Ortems' constrain-based production scheduling capabilities complement Delmia Manufacturing Execution Systems (MES) and Manufacturing Operations Management (MOM). CST - Computer Simulation Technology, which is expected to close by early October, is specialised in electromagnetic/electronic simulation software. Based in Darmstadt (Germany), it employs 270 staff, posted EUR47m sales in 2015 (35% new licences, 65% recurring licence fees, almost no service) with a 2010-15 CAGR of c. 10%, and its op. margin was c. 25%. It will be acquired EUR220m in cash or 4.7x sales and 18.7x EBIT. DS considers CST will be immediately accretive to non-IFRS EPS (BG est.: +1%/+2%).

**VALUATION**

- Dassault Systèmes' shares are trading at est. 16.7x 2016 and 14.3x 2017 EV/EBIT multiples.
- Net cash position on 30<sup>th</sup> June 2016 was EUR1,636.2m (net gearing: -46%).

**NEXT CATALYSTS**

Q3 16 results on 21<sup>st</sup> October before markets open.

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Luxury & Consumer Goods

**Hermès Intl.**

Price EUR370.25

**Hermes still our favourite stock in our luxury sample!**

**Fair Value EUR370 vs. EUR355 (0%)**

**BUY**

Bloomberg	RMS FP
Reuters	HRMS.PA
12-month High / Low (EUR)	370.3 / 291.6
Market Cap (EUR)	39,087
Ev (BG Estimates) (EUR)	37,315
Avg. 6m daily volume (000)	55.90
3y EPS CAGR	13.4%

**With a 7.2% increase, Hermes' H1 2016 sales were above market and BG expectations, thanks to an outstanding increase in leather goods sales (+17.1% in Q2). Consequently, Hermès' management added that H1 profitability should be up 100bp (around 33.5%). We have upgraded our 2016 earnings by 2% and as a consequence, our new FV is EUR370 vs EUR355. Buy reiterated as RMS still seems to us to be the best idea in our luxury goods stocks sample.**

**ANALYSIS**

- **Hermès' H1 2016 sales were very encouraging with 7.2% organic growth and above all +8.1% in Q2 alone** vs +6.2% in Q1. Retail sales (82% of sales) grew 8% in Q2 vs +7% in Q1. It is worth noting that the H1 sales increase benefited from no price increase and very limited space effect.
- **The Q2 acceleration was driven by France (14% of total sales) registering an 8.8% revenue increase during the second quarter** versus +5.6%, which was already a strong performance given the lack of tourists. At this time, we would highlight that Hermes' sales in France are less exposed to tourists than others players, we argue that Hermès figure is below 50% while it is closer to 50-60% for Louis Vuitton for instance (BG est). Group CFO added also that Q2 benefited from some exceptional sales with both local and tourists clientele while traffic in Parisian stores was lower. **Americas** sales were also far better oriented in Q2 than in Q1 (+12% vs +4.4%), which is particularly due to retail while wholesale is still more difficult. Management remains cautious for H2 and does not want to extrapolate in H2 the Q2 trend. In **Asia-Pacific** (35% of total sales) enjoyed also a rebound in Q2 (+6.7%) vs Q1 (+3.9%) in Q1 which is fully attributed to Mainland China (as it is the case for some other peers) while momentum remains depressed in Hong Kong and Macau (slight revenues decline). Slight Q2 slowdown in Japan (+7.3% in Q2 after +12.6% in Q1) is mainly due to lower Chinese tourists given JPY strength and this trend should accelerate in H2.

	1 M	3 M	6 M	31/12/15
Absolute perf.	9.9%	18.8%	26.4%	18.8%
Pers & H/H Gds	0.6%	2.2%	10.2%	2.2%
DJ Stoxx 600	0.2%	-2.6%	3.7%	-6.9%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	4,841	5,165	5,650	6,100
% change		6.7%	9.4%	8.0%
EBITDA	1,605	1,761	2,060	2,265
EBIT	1,541	1,698	1,900	2,095
% change		10.2%	11.9%	10.3%
Net income	973.0	1,128	1,275	1,418
% change		15.9%	13.0%	11.2%

	2015	2016e	2017e	2018e
Operating margin	31.8	32.9	33.6	34.3
Net margin	20.1	21.8	22.6	23.2
ROE	26.0	26.5	24.6	22.7
ROCE	43.8	44.1	43.7	43.2
Gearing	4.3	3.7	3.1	2.6

(EUR)	2015	2016e	2017e	2018e
EPS	9.26	10.73	12.13	13.49
% change	-	15.9%	13.0%	11.2%
P/E	40.0x	34.5x	30.5x	27.4x
FCF yield (%)	2.4%	2.3%	2.6%	2.9%
Dividends (EUR)	3.35	3.80	4.30	4.80
Div yield (%)	0.9%	1.0%	1.2%	1.3%
EV/Sales	7.8x	7.2x	6.5x	5.9x
EV/EBITDA	23.4x	21.2x	17.8x	15.9x
EV/EBIT	24.4x	22.0x	19.3x	17.2x

**Organic sales growth by geographical area**

lfl chge (%)	9M 2015	Q4 2015	2015	Q1 2016	Q2 2016	H1 2016
France	8,2	1,2	6,2	5,6	8,8	7,3
Europe	10,6	11,6	10,8	11,6	6,7	9,1
Americas	7,4	5,8	6,8	4,4	12,1	8,3
Japan	19,1	16,2	18,3	12,6	7,3	10
Asia-Pacific	5,1	5,2	5,1	3,9	6,7	5,3
others	-2,7	-0,7	-2,2	-18,2	11,7	-4,9
<b>Total Group</b>	<b>8,9</b>	<b>7,1</b>	<b>8,1</b>	<b>6,2</b>	<b>8,1</b>	<b>7,2</b>

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

- **By business, the most significant information from the H1 release was the outstanding increase in the leather goods division (47% of sales)** thanks to dynamic final demand and more importantly, to higher production capacity. Beyond LG, it is worth noting the slight improvement for silk sales (-4% in Q2 vs -9.2% in Q1).
- **Hermes' management added that the H1 EBIT margin should be up by around 100bp** (33.5%) thanks to forex impact (positive hedging policy on USD,) but also due to a positive product mix (leather goods outperformance) and distribution mix (retail outperformed wholesale). We guess that FY profitability gains should be in line with the H1 performance hence our 2% higher FY 2016 earnings expectations.

**VALUATION**

- **Given our new FY 2016 earnings expectations, we have upgraded our FV from EUR355 to EUR370.** We are making no change to our Buy recommendation. We firmly think that given current luxury goods industry uncertainties, Hermes should continue to outperform its peers hence our Buy recommendation.

**NEXT CATALYSTS**

- H1 results to be reported mid September.

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## Luxury &amp; Consumer Goods

## Tod's Group

Price EUR47.49

H1 sales slightly above expectations but of poor quality. H1 profitability decline very likely.

Fair Value EUR53 (+12%)

SELL

Bloomberg	TOD.IM
Reuters	TOD.MI
12-month High / Low (EUR)	94.8 / 46.0
Market Cap (EUR)	1,572
Ev (BG Estimates) (EUR)	1,583
Avg. 6m daily volume (000)	96.50
3y EPS CAGR	4.4%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-13.5%	-22.8%	-32.5%	-35.0%
Pers & H/H Gds	0.6%	2.2%	10.2%	2.2%
DJ Stoxx 600	0.2%	-2.6%	3.7%	-6.9%

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	19.1x	15.7x	13.7x
FCF yield (%)	3.2%	6.3%	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	7.6x	6.8x
EV/EBIT	9.7x	12.2x	10.6x	9.1x



Tod's Group has reported H1 2016 sales down 4.3% to EUR498m, slightly above market expectations (EUR493m). H1 retail sales were down 5.7% with a same store decline of 14.3%, including -16% in Q2 following -12.4% in Q1. The better than expected performance stemmed from low margin activities such as apparel and ready to wear, such that we expect a profitability deterioration. We remain Sell with an unchanged EUR53 FV.

## ANALYSIS

- **The Italian group has reported H1 2016 sales of EUR498m (cs:EUR493m)**, slightly above very cautious investors expectations. Sales were down 4.3% at same forex in H1, implying a 4.2% decline in Q2 alone following -4.2% in Q1. This very poor performance was no major surprise but nevertheless highlights that Tod's Group is underperforming peers. Retail sales (63% of sales) were quite soft with a further decline in momentum in Q2 (-9%) after -1.4% in Q1. Even same-store retail sales fell 16.2% in Q2 2016 following -12.4% in Q1 (-14.3% in H1). Over the past last 12 months, the group has opened 10 DOS. On the other hand, wholesale sales were down 1.9% in H1 implying some clear improvement in Q2 (+1.8% vs -7% in Q1).
- **By geographical area**, note the significant sales decline in Greater China (22% of sales) with no improvement in Q2 vs Q1 as most of peers have highlighted that momentum in Mainland China improved in Q2. Unsurprisingly, Europe excluding Italy deteriorated in Q2 (-4.1%) vs Q1 already poor performance. Italy sales (-2.7% in H1) has been also penalised by Hogan. In Americas, situation remains difficult with a 8.6% sales decline in H1 (Q2 in line with Q1).

## Organic sales growth by geographical area

same forex chge (%)	Q4 2015	2015	Q1 2016	Q2 2016	H1 2016
Italy	11.0	3.7	-3.0	-2.3	-2.7
Europe	11.4	9.4	0.3	-4.1	-2.0
Americas	10.9	5.3	-8.7	-8.5	-8.6
Greater China	-5.9	-12.0	-12.0	-11.4	-11.7
RoW	3.6	6.3	1.2	6.5	3.9
<b>Total</b>	<b>5.9</b>	<b>1.8</b>	<b>-4.2</b>	<b>-4.2</b>	<b>-4.3</b>

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

- **The other important information from this H1 release is the strong sales decline in Leather Goods** (-12% in H1), while the shoes business (78% of sales) performance was not so good in Q2 (-4% following -2.8% in Q1). On the other hand, apparel was the positive surprise of this release with a 6% increase in Q2 alone. By brand, the Tod's brand (58% of sales) achieved the worst performance in H1 with -8%, as it is the most exposed to tourists flows in Europe and the US. Fay was the good news with an 8.8% revenue increase, implying +18% in Q2 alone thanks to a strong performance on Asian markets where volumes are not very significant yet. Globally the sales mix was not very positive in H1.
- **We expect H1 EBIT (to be released mid September) to be down 12% at EUR69m**, implying -130bp to 13.8% for EBIT margin due to sales decline, negative product mix (Leather Goods down 12%) and distribution mix (retail sales down 5.7%). For FY 2016, we expect revenues to be down 3.5% with a new profitability deterioration (EBIT margin is expected to decline 150bp to 12.8%).

## VALUATION

- We leave unchanged our estimates and our sell recommendation with an unchanged EUR53 FV. The stock has lost 23% over the last three months and is trading on a 4% premium vs the luxury sector average.

## NEXT CATALYSTS

- H1 results to be reported mid September.

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## Luxury &amp; Consumer Goods

## The Swatch Group

Price CHF261.00

Some hopes of less negative sales momentum in H2 but still low visibility on EBIT!

Fair Value CHF270 (+3%)

SELL

Bloomberg	UHR VX
Reuters	UHR.VX
12-month High / Low (CHF)	432.9 / 260.6
Market Cap (CHF)	14,394
Ev (BG Estimates) (CHF)	12,909
Avg. 6m daily volume (000)	270.4
3y EPS CAGR	-5.9%

During yesterday conference call, The Swatch Group CEO, M. Hayek, highlighted that he was more confident for H2 2016 sales momentum while he did want to give any guidance or forecasts for EBIT. We expect 2016 FY sales to decline by 7% (-4% in H2), while 2016 FY EBIT should be down by 560bp (-300bp in H2 alone). Given the lack of visibility on short term, we remain Sell on the stock with an unchanged CHF270 FV.

## ANALYSIS

- During the conference call held yesterday afternoon by The Swatch Group management, group CEO, M. Hayek was confident that in H2 sales momentum should be far less negative than in H1. Nevertheless, he was much more confused concerning the EBIT margin for which he did not give any guidance. The reason for this is that, for him, the most important thing is market share gains (hence very limited pricing increases) and volumes and clearly not profitability level. The Swatch group is and will remain a verticalized company with high proportion of fixed costs. Even if strategy is only a long term one, management tried also to optimize costs and production processes without cutting any jobs. Furthermore, we can add that retail sales (25 to 30% of total sales) were globally well oriented (up slightly), while wholesale sales were clearly negative and particularly in HK.

- Clearly, in H1, The Swatch Group has been penalised by three countries, Hong Kong (#2 world market), Switzerland (#3) and France (7#) which together account for around one third of group sales. We guess that in these three countries, revenues were down by around 20%. In some others, things were better oriented even in some European countries and more importantly in Mainland China. For instance, Omega H1 Retail sales (sell out) in Mainland China were up more than 30% and the trend in July was similar. For Blancpain and Longines, momentum was also very positive. Nevertheless, retailers are far more cautious and are not ordering as they are afraid to not sell the products in their stores. One of the catalyst in MC is the still growing middle class which is growing. On the other hand, in US, middle class is clearly suffering and did not benefit from GDP positive momentum. In H1, situation in US was contrasted and remain contrasted. If West Coast is doing well, New York is suffering due to lack of tourists as it is the case for Las Vegas. US remains a volatile market. All group's brands sales were suffering in H1, except Harry Winston whose sales grew double digit, particularly thanks to an exceptional sale in Mainland China for a piece of jewellery (USD20m).

- We expect FY 2016 to be down 7% at same forex, implying -3% in H2 alone after -12% in H1. The main reason for relatively better trend is a much less demanding comparison basis (-5.6% in H2 2015 vs +3.6% in H1 2015). Despite some encouraging figures in first days of July, in some countries (even in France) and for some brands, management did want to give any global information for this period. Furthermore, following the attacks in Nice, further deterioration can be expected in France and even in Germany in late July and in August. Nevertheless, H2 profitability should be still underpressure even at a less extend than in H1. Actually, FY 2016 EBIT margin should be down 560bp to 11.6% (it was down close to 290 bp in 2015), implying a decline of around 300bp in H2 alone (13.4%). During the conference call, M. Hayek did not want to give any forecast or guidance for FY profitability, as he wants to keep flexibility to invest more than initially expected in marketing. Furthermore, H2 margin should also be affected by investments linked to Rio Olympic games (around CHF60m to CHF70m, implying around CHF100m for FY).

## VALUATION

- We remain Sell on The Swatch Group which is trading with a 5% premium (unwarranted) vs peers average.

## NEXT CATALYSTS

- FY 2016 results to be reported end of January 2017.

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TMT

**Ubisoft**

Price EUR36.11

**US video game sales in June**

Fair Value EUR34 (-6%)

**BUY**

Bloomberg	UBI.FP
Reuters	UBIP.PA
12-month High / Low (EUR)	38.3 / 15.8
Market Cap (EUR)	4,016
Ev (BG Estimates) (EUR)	3,810
Avg. 6m daily volume (000)	306.3
3y EPS CAGR	35.7%

	1 M	3 M	6 M	31/12/15
Absolute perf.	9.1%	33.1%	53.9%	35.4%
Softw. & Comp.	4.2%	4.1%	7.2%	1.1%
DJ Stoxx 600	0.2%	-2.6%	3.7%	-6.9%

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	722	894	1,080
EBIT	156.1	210.0	310.0	420.0
% change		34.5%	47.6%	35.5%
Net income	116.0	139.9	212.6	292.5
% change		20.6%	52.0%	37.6%

	03/16	03/17e	03/18e	03/19e
Operating margin	11.2	12.3	15.9	19.1
Net margin	6.7	8.2	10.9	13.3
ROE	9.2	12.1	15.5	17.6
ROCE	11.0	14.9	22.7	31.5
Gearing	4.3	-17.8	-31.5	-44.3

(EUR)	03/16	03/17e	03/18e	03/19e
EPS	1.02	1.21	1.85	2.54
% change	-	19.5%	52.0%	37.6%
P/E	35.5x	29.7x	19.6x	14.2x
FCF yield (%)	NM	6.0%	5.4%	7.3%
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	6.8x	5.3x	4.0x	3.0x
EV/EBIT	26.0x	18.1x	11.6x	7.8x



The NPD Group has released data for June video games sales in the US. This is the first month both physical and digital sales are factored into the sales list. Hardware sales were down 42% Y/Y (the PS4 was again the top-selling console), due to declines in handheld and last generation consoles. Software sales were down 20% (vs. BG est.: -27%) mainly impacted by a difficult comparison base. *Overwatch* was the #1 game over the month. Ubisoft had no major release in calendar Q2, so it did not place any game in the Top 10 of June (2016 will be another very back-end loaded year). We maintain our Buy rating and FV of EUR34 on UBI (based on its fundamentals). We advise investors to play the speculation as we value the stock between EUR40 (the very minimum, and EUR45 to avoid counterbids as far as possible) and EUR51 (maximum) in the event of a takeover bid.

**ANALYSIS**

- **On Thursday night, the NPD Group released its monthly sales report for June video games in the US** (five-week period ending 2nd July). For a long time, NPD has only included software sales from games bought at physical stores but it has changed. **Digital sales are now finally included** (several years of beta testing) but not every publisher volunteered digital sales data, and the figures still likely lack a huge amount of sales from sources like DLC, mobile and subscription and used game trade. This new tracking service gives a more accurate view of the video game sales. The NPD Group said it is reaching out to more digital content providers to continue to build out the service. **Revenue in the sector was down 26% over one year at USD652.2m: 1) Hardware** -42% Y/Y at USD181.5m (declines in average prices by 15%, coupled with a 32% decline in units). **The PS4 was again the best-selling platform** for the eighth month in a row, despite the Xbox One price cuts (from USD349 to USD299 as of 31st May, and to USD279 from 14th June to 1st October). This should change in two months as Microsoft launches the Xbox One S. **2) Console software** -20% Y/Y at USD322m (-6% YTD), i.e. better than our estimate of -27% (no consensus) and **physical and Steam PC software** -20% Y/Y at USD27.8m. *Overwatch* (Activision Blizzard) was the best-selling game. **And 3) Accessories** -6% Y/Y at USD120.
- **Worth noting on the software side: 1)** an unfavourable base effect (+21% in June 2015) with the release of Warner Bros' *Batman: Arkham Knight* last year; **2)** a lack of big new releases in June, in comparison to the same period last year; **3)** sharp declines in software sales for 7th-gen consoles and handheld software sales; **4)** the growing transition towards digital (games downloads, DLC, mobile and subscription).
- **We are forecasting a 2013/20e console cycle, i.e. two years more than the traditional duration** (one year prompted by the entertainment functions included in the consoles and another year owing to the bumped-up console versions from Microsoft and Sony and the launch of the Nintendo NX in 2017). The previous cycle lasted eight years with no real updating in hardware, which is unlikely to be repeated this time. **We expect a cycle peak forecast for hardware in 2018 (and thus in 2019 for the software)**. So, this would be the last year before an annual slowdown in hardware sales, even if the rising share of digital sales and virtual reality should help publishers cushion a large share of the down-phase before new platforms are launched.
- **We take the opportunity of this paper to make an adjustment on our forecasts for Ubisoft.** We raise our stock-based compensation estimates from EUR16m to EUR25m as of FY16/17e to reflect the impact of the coming stock compensation plans and the recent increase in the share price. **As a result, we cut our EPS sequence for the next three years by 4.4% on average** (-6% in FY16/17e, -4.1% in FY17/18e, -3% in FY18/19e), i.e. less than the share price variation yesterday (-5.7%).

**VALUATION**

- **We maintain our Buy rating and FV of EUR34 for UBI (based on its fundamentals).** The share price fully value the group's earnings results over the current fiscal year (at end-March 2017).
- 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**

- **Ubisoft's AGM:** 29th September.

**Top 10 selling games in June 2016 by platform in the US**

Rank	Games	Publisher
1	<i>Overwatch*</i>	Activision Blizzard
2	<i>GTA V</i>	Take-Two Interactive
3	<i>LEGO Star Wars: The Force Awakens</i>	Electronic Arts
4	<i>DOOM**</i>	Bethesda Softworks
5	<i>Mirror's Edge: Catalyst</i>	Electronic Arts
6	<i>Uncharted 4: A Thief's End**</i>	Sony
7	<i>NBA 2K16</i>	Take-Two Interactive
8	<i>Call of Duty: Black Ops 3</i>	Activision Blizzard
9	<i>Destiny: The Taken King</i>	Activision Blizzard
10	<i>Minecraft**</i>	Microsoft

\* No Battle.net PC sales included \*\* No digital sales included in ranking

Sources: NPD Group; Bryan, Garnier & Co.

- *Overwatch* was the top-selling game in June, even without incorporating its sales from Battle.net.
- Activision Blizzard was the publisher of the month, with 3 games in the TOP10.
- *Doom*, *Uncharted 4* and *Minecraft* didn't include digital sales, but still charted anyway.

**Y/Y % change in retail software sales in the US from 2000 to 2016 (in value)**

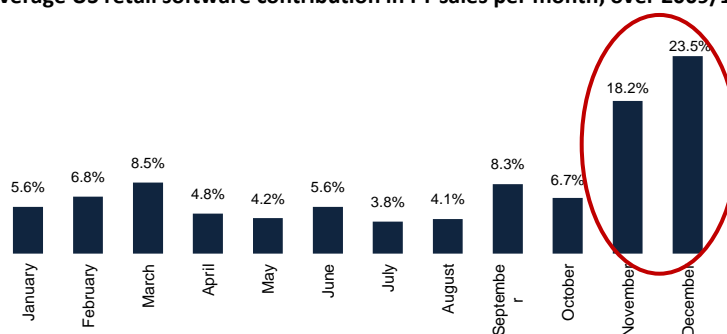
%	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
January	2	16	4	0	18	0	-5	53	12	10	-12	-5	-38	1	-25	6	-10
February	5	-11	45	-5	5	13	-12	32	48	9	-15	-5	-23	-36	-9	7	-10
March	20	-15	33	8	-6	31	-8	16	64	-17	10	-16	-25	-1	-27	-3	8
April	27	-13	11	39	-3	9	16	-1	69	-22	-22	26	-42	-17	-10	13	-21
May	4	10	31	20	-17	30	-10	33	42	-17	4	-19	-32	-31	57	-25	18
June	4	23	27	-9	12	2	15	22	61	-29	-15	-12	-29	-10	-3	21	-20*
July	-1	26	11	4	27	-10	19	11	41	-26	-8	-17	-23	-19	-15	0	
August	-12	18	43	4	1	0	18	23	13	-15	-14	-34	-9	23	-21	-10	
September	-26	-8	50	-10	44	-24	29	47	-6	5	-6	3	-18	52	-36	-3	
October	13	-20	74	-15	35	-24	1	40	36	-18	6	3	-25	12	-27	-3	
November	1	28	7	7	11	-17	14	63	11	-3	3	11	-11	-24	-1	-7	
December	-9	24	7	13	-1	-3	6	37	15	-7	-8	-14	-26	-17	-2	-3	
Total	-1	10	21	5	8	-3	7	34	27	-10	-6	-6	-23	-9	-12	-2	

\* including some digital sales

Sources: NPD Group; Bryan, Garnier & Co.

- Packaged software sales were down 20% in June (vs. BG est.: -27%).
- Physical sales account for 50% of the US consumer spend on the industry (35-40% in Europe).
- The Xbox One and PS4 are trending 40% higher than cumulative sales of the Xbox 360 and PS3, after the same 32-month period.

**Average US retail software contribution in FY sales per month, over 2009/15**



Sources: NPD Group; Bryan, Garnier & Co. [Click here to download](#)



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Food & Beverages

**Unilever**

Price EUR41.78

**Solid fundamentals in a challenging environment**

Fair Value EUR43 (+3%)

**NEUTRAL**

The group confirmed its guidance yesterday. But it said it expects a deceleration in organic sales growth in H2 due to tough comps and a deterioration in the business environment. It also indicated the margin improvement in H2 should be below H1 due to an increase in marketing expenditures and restructuring charges. We maintain our full year estimates of 4% organic sales growth and 40bps margin increase. Unilever's strong fundamentals appear to be pretty well valued. Neutral recommendation unchanged. Fair Value of EUR43 for NV and 3,590p for PLC (adjusted to take into account the decrease in GBP).

**ANALYSIS**

- **A good set of H1 results. Q2 organic sales were up 4.7% in Q2, in line with Q1. This is a satisfactory performance given the unfavourable weather conditions in Europe and the timing of Easter (in Q1 in 2016 vs in Q2 in 2015). Pricing picked up in Q2 to +2.8% after +2% in Q1.** This was driven by less deflation in Europe, an acceleration of inflation in Asia. Pricing in LATAM continued to very strong. The company indicated that Argentina alone contributed around 100bps to the group's pricing growth. Management still expects the pricing effect to grow around 2% in 2016. **The margin of Home care improved by a further 250bps to 9.8% and is now close to the medium term target of double digit.** This is an impressive performance which is driven by margin-accretive innovations.
- **4% organic sales growth expected in 2016.** The group confirmed its guidance of 2016 organic sales growth between 3% and 5%. But **it expects a deceleration in the second half of the year due to tough comps (+5.3% in H2 2015 after +2.9% in H1) and a deterioration in the business environment.** It is due to the political uncertainty (Brexit referendum, presidential impeachment in Brazil, coup attempt in Turkey) and the economic slowdown. LATAM proves to be particularly difficult, especially Brazil and Argentina. The group's volumes were down in Q2, though by less than the market. Management sees low to mid single digit decline in volumes in H2 in the region. Europe could also deteriorate a little bit.
- **EBIT margin to increase between 20-40bps.** This is the guidance of the management and is globally unchanged vs the previous objective. **Our estimate calls for +40bps.** The group confirmed that ZBB and Connected 4 Growth (formerly called New Functional Models) should generate savings of EUR1bn by 2018. They will be partly reinvested to stimulate growth. Management said that ZBB is now in the implementation phase. **The margin improvement in H2 should be below H1 as Unilever should step up its marketing expenditures and restructuring charges.**
- **There is still a drag from spreads.** Foods posted accelerated growth in Q2, with organic sales up +2.7% in Q2 after +1.9% in Q1. **Management said that the rate of decline has slowed down in North America but not in Europe.** Unilever previously indicated that if spreads organic sales decline in 2016 was not better than in 2015, it would think about other alternatives (JV, disposal...). The spreads activities have already been separated from the rest of the business within the Baking, Cooking and Spreads unit.
- **Acquisition of Dollar Shave Club.** On July 20<sup>th</sup>, the group 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 (razors, hairstyling, skin care, skin cleansing) and had a turnover of USD152m in 2015 which is expected to exceed USD200m in 2016. During the conference call, Unilever said that the male grooming category is a USD42bn market, growing faster than Personal Care. This acquisition brings expertise in direct to consumer sales.

**VALUATION/ NEXT CATALYSTS**

- Fair Value of EUR43 for NV and 3,590p for PLC (adjusted to take into account the decrease in GBP). At yesterday's share price, the stock is trading at 22.4x P/E 2016e vs 21.8x for Danone and 23.1x for Nestlé / H1 2016 results: Danone on July 28<sup>th</sup> and Nestlé on August 18<sup>th</sup>

Bloomberg	UNA NA
Reuters	UNC.AS
12-month High / Low (EUR)	42.5 / 33.9
Market Cap (EURm)	102,989
Ev (BG Estimates) (EURm)	91,919
Avg. 6m daily volume (000)	4 534
3y EPS CAGR	6.7%

	1 M	3 M	6 M	31/12/15
Absolute perf.	4.0%	3.1%	8.8%	4.2%
Food & Bev.	3.1%	2.4%	7.2%	0.7%
DJ Stoxx 600	0.2%	-2.6%	3.7%	-6.9%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	53,272	52,919	55,876	58,781
% change		-0.7%	5.6%	5.2%
EBITDA	9,235	9,418	10,227	11,055
EBIT	7,865	8,042	8,718	9,409
% change		2.3%	8.4%	7.9%
Net income	5,210	5,320	5,827	6,329
% change		2.1%	9.5%	8.6%

	2015	2016e	2017e	2018e
Operating margin	14.8	15.2	15.6	16.0
Net margin	9.8	10.1	10.4	10.8
ROE	NM	NM	NM	NM
ROCE	18.9	19.0	20.8	22.5
Gearing	NM	NM	NM	NM

(EUR)	2015	2016e	2017e	2018e
EPS	1.82	1.86	2.04	2.22
% change	-	2.1%	9.5%	8.6%
P/E	22.9x	22.4x	20.5x	18.8x
FCF yield (%)	4.0%	3.7%	4.2%	4.3%
Dividends (EUR)	1.21	1.30	1.41	1.52
Div yield (%)	2.9%	3.1%	3.4%	3.6%
EV/Sales	1.7x	1.7x	1.7x	1.6x
EV/EBITDA	9.9x	9.8x	9.1x	8.5x
EV/EBIT	11.6x	11.4x	10.7x	10.0x



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## Healthcare

**Nicox**

Price EUR12.66

**LBN approval might be delayed for several months due to manufacturing issues****Fair Value Under Review****CORPORATE**

Bloomberg	COX FP
Reuters	NCOX.LN
12-month High / Low (EUR)	13.4 / 6.0
Market Cap (EURm)	290
Avg. 6m daily volume (000)	197.2

	1 M	3 M	6 M	31/12/15
Absolute perf.	13.3%	45.8%	89.7%	38.8%
Healthcare	6.3%	3.9%	5.2%	-3.7%
DJ Stoxx 600	0.2%	-2.6%	3.7%	-6.9%

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

**ANALYSIS**

- **Valeant has received a Complete Response Letter (CRL)** regarding the NDA for latanoprostene bunod (LBN) as a treatment for open-angle glaucoma or ocular hypertension; the very concerns being apparently linked to some manufacturing issues (CGMP) in a very specific facility located in Tampa.
- **The letter did not call into question LBN's clinical package;** be it on the efficacy or the safety side (which confirms our view that the product had per se good chances to be approved)... But we cannot say for how long the approval could be delayed. And obviously it might take months (at least before getting another inspection from the FDA) before the product reaches the market. We'll see how the partner will address all the FDA's concerns...

**VALUATION**

- **We put our FV under review** pending more details (knowing that LBN accounted for roughly EUR9 in our valuation).

**NEXT CATALYSTS**

- 21<sup>st</sup> of October: Potential approval of AC-170 for the treatment of allergic

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## Sector View

**Construction & Materials****Further steady sales growth for Nexity in H1 2016**

	1 M	3 M	6 M	31/12/15
Cons & Mat	-0.2%	-2.0%	7.9%	-1.7%
DJ Stoxx 600	0.2%	-2.6%	3.7%	-6.9%

\*Stoxx Sector Indices

## Companies covered

CRH	BUY	EUR30
EIFFAGE	BUY	EUR73
HEIDELBERGCEMENT	BUY	EUR86
IMERYS	BUY	EUR72
LAFARGEHOLCIM	BUY	CHF50
SAINT GOBAIN	BUY	EUR46
VICAT	NEUTRAL	EUR56
VINCI	BUY	EUR72

Nexity has reported its H1 2016 revenues last night. Sales for the new residential segment continue to be very strong (up +38% in volume), underpinned by very low loan rates in France. The growth is healthy too: home-buyers' sales up 51%, representing 29% of the total sales in volume. Positive read-across for the sector, in particular for Saint-Gobain, Eiffage or in a lesser extent Vinci.

## ANALYSIS

- Nexity sales ("réservations") for the residential segment have increased by 38% in H1 2016 in volume. This is pretty similar to the very good performance of Q1 2016 (+35%) and still much stronger than 2015 (+13%). This suggests the French new residential market continue to be very strong, as Nexity (the market leader) is presumably a decent proxy.
- Besides, the growth is healthy, as home-buyers represent 29% of Nexity sales in H1 (+51% y/y, similar to Q1, while it was declining by -9% last year). Very low loan rates and better household confidence mostly explain this performance.
- Individual investors continue to represent most of the volumes, though (49% in H2 2016), thanks the success of the Pinel buy-to-let scheme (recently extended until end 2017).
- Nexity guidance of 120,000 sales (15% to 20% y/y) for the French market as a whole in 2016 has been reiterated.
- All in all, this is positive for Saint-Gobain, as French new residential market represents approx. 6% of consolidated sales. This is positive for Contractors too: this segment weights approx. 10% of Eiffage sales and 4% for Vinci.

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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 55.7%

NEUTRAL ratings 33.6%

SELL ratings 10.7%

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