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22nd July 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
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	16627.25	-1.09%	-11.68%
Stoxx 600	340.584	-0.07%	-6.90%
CAC 40	4376.25	-0.08%	-5.62%
Oil /Gold			
Crude WTI	44.94	0.00	+20.81%
Gold (once)	1322.53	+0.33%	+24.49%
Currencies/Rates			
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

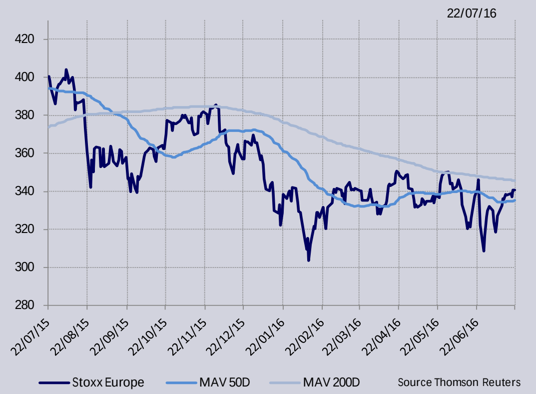
Upcoming BG events :

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

EDENRED — NEUTRAL, Fair Value EUR19 (-5%)

H1 ahead expectation. FY guidance on line with estimates after again strong negative forex.

EIFFAGE — BUY, Fair Value EUR73 (+11%)

Q2 APRR traffic in line and still healthy

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

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

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

Analyst :
Eric Le Berrigaud
33(0) 1 56 68 75 33
eleberrigaud@bryangarnier.com

Sector Team :
Mickael Chane Du
Hugo Solvet

TMT

Dassault Systèmes

Price EUR70.18

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

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

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%

	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%

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%*

	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

(€)	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

We reiterate our Sell rating. Although management basically reiterated 2016 company guidance with some marginal adjustments related to currencies, mixed market conditions in Asia has caused Dassault Systèmes to drop its target of generating double-digit new licence growth over the full-year, prompting the share price to fall 3%. As quarter after quarter Dassault Systèmes no longer exceeds quarterly company guidance, we consider the share price will remain under pressure.

ANALYSIS

- **Double-digit new licence revenue growth only for H2 2016, not for the full-year anymore**. With new licence sales up only 2% lfl in H1 2016 (o/w +6% lfl for Q2), management is no longer banking on double-digit lfl growth in this revenue line for the full-year and now expects this double-digit growth rate to be possible only for H2. Based on a solid pipeline, DS anticipates a 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 on 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.

- **Investment plans unchanged, so operating margin growth will slow in H2**. Non-IFRS operating margin was up 0.7ppt in H1 (+0.9ppt at cc) but 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).

- **A closer look at marginal changes made to full-year guidance**. The marginal change to the full-year revenue guidance (EUR5m for the low-end) was 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 has 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 management is confident they will close.

- **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 30th June 2016 was EUR1,636.2m (net gearing: -46%).

NEXT CATALYSTS

Q3 16 results on 21st October before markets open.

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Analyst :
Gregory Ramirez
33(0) 1 56 68 75 91
gramirez@bryangarnier.com

Sector Team :
Richard-Maxime Beaudoux
Thomas Coudry
Dorian Terral

Business Services

Edenred

Price EUR19.93

H1 ahead of expectations. FY guidance in line with estimates after another negative forex effect.

Fair Value EUR19 (-5%) **NEUTRAL**

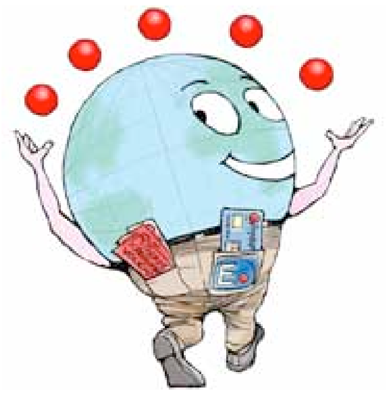
Bloomberg	EDEN FP
Reuters	EDEN.PA
12-month High / Low (EUR)	23.8 / 13.9
Market Cap (EUR)	4,657
Ev (BG Estimates) (EUR)	5,270
Avg. 6m daily volume (000)	958.0
3y EPS CAGR	9.2%

	1 M	3 M	6 M	31/12/15
Absolute perf.	17.1%	8.6%	28.5%	14.2%
Travel&Leisure	-6.6%	-5.3%	-4.6%	-15.1%
DJ Stoxx 600	0.2%	-2.6%	3.7%	-6.9%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	1,069	1,117	1,202	1,272
% change		*4.5%*	*7.6%*	*5.8%*
EBITDA	388	410	457	494
EBIT	341.0	363.6	406.5	439.9
% change		*6.6%*	*11.8%*	*8.2%*
Net income	206.0	214.5	243.1	264.9
% change		*4.1%*	*13.3%*	*9.0%*

	2015	2016e	2017e	2018e
Operating margin	31.9	32.5	33.8	34.6
Net margin	16.6	18.7	19.7	20.3
ROE	-12.2	-14.2	-15.7	-17.4
ROCE	-44.8	-45.2	-47.6	-51.9
Gearing	NM	NM	NM	NM

(EUR)	2015	2016e	2017e	2018e
EPS	0.87	0.92	1.04	1.13
% change	-	*5.5%*	*13.3%*	*9.0%*
P/E	22.9x	21.7x	19.2x	17.6x
FCF yield (%)	6.2%	7.7%	9.4%	8.4%
Dividends (EUR)	0.84	0.87	0.99	1.08
Div yield (%)	4.2%	4.4%	5.0%	5.4%
EV/Sales	5.0x	4.7x	4.4x	4.1x
EV/EBITDA	13.6x	12.8x	11.5x	10.6x
EV/EBIT	15.5x	14.5x	12.9x	11.9x



Lfl growth in Issue Volume improved slightly, rising 8.4% (BG and consensus at 8%) as did total revenue up 6.1% (BG at 5.4% and consensus 5.5%) reflecting continued acceleration in Europe and not so bad growth in Latam despite the challenging economic environment in Brazil and high comps in Mexico. EBIT reached EUR161m, up 13%, compared with our estimate of EUR153m and the consensus at EUR154m. The negative impact from currencies was EUR28m. FY guidance is in line with our estimates and the historical trend notably with EBIT between EUR350m and EUR370m (our estimate of EUR364m and consensus EUR360m) taking into account EUR35m. Another mixed picture albeit with a better lfl trend compared with FY start, with results largely impacted by forex. Neutral.

ANALYSIS

- **Better lfl growth with improvement in Q2 vs. Q1:** H1 total IV reached EUR9,079m, ahead of our forecast of EUR8,962m and the consensus of EUR8,876m with lfl growth of 8.4% (BG and consensus at 8%) after 7.4% in Q1 thanks to a sustained trend in Europe up 8.3% (8.4% in Q1) and better in Latam, up 8.1% after 7.5% in Q1. Total revenue was up 6.1% on lfl at EUR526m (BG at EUR525m and consensus at EUR522m).

- **Higher EBIT than forecasted but again largely impacted by forex:** In fact**,** EBIT at EUR161m (BG at EUR153m and consensus EUR154m) was down 2.2% on reported and up 13% on lfl (Europe +27.7% and Latam 10.8%) after another significant negative currency effect of EUR28m. Operating EBIT reached EUR129m, up 0.7% on reported with lfl growth of 17.1% and financial revenue of EUR32m vs. EUR36m last year was down respectively 12.6% on reported and 1.6% on lfl.

- **Nevertheless, FY guidance is in line with the current consensus and the historical trend:** Management expects "solid" Issue Volume growth in H2 and FY lfl growth of between 8% and 14% (our FY estimate at 8% vs. consensus 8.4%) taking into account unfavourable calendar effects in Europe, improvement in Latam mainly from Mexico and expansion in expense management in Brazil. As such, FY 2016 EBIT should be between EUR350m and EUR370m compared with EUR341m in 2015 and our estimate of EUR364m (consensus at EUR360m), with again an estimated negative currency impact of EUR35m. Lfl growth in FFO is expected to be in line with the historical guidance of more than 10% (our estimate is 12%).

VALUATION

- At the current share price, the stock is trading at 14.5x EV/EBIT 2016e and 12.9x 2017e, which compares with a 2015-2018 CAGR in EBIT of 8.9%.

Main currency impacts

Exchange rates: +/-5% change in:	Impact on EBIT (€m)	Implicit group EBIT	Implicit LatAm EBIT
Brazil	7,6	44,6%	75,2%
Venezuela	0,4	2,3%	4,0%
Mexico	1,5	8,8%	14,9%

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

NEXT CATALYSTS

- Conference call at 8.00am (CET)
- Q3 revenue on 13th October
- Capital market day on 19th October (London)

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Analyst :
Bruno de La Rochebrochard
33(0) 1 56 68 75 88
bdelarochebrochard@bryangarnier.com

Construction & Building Materials

Eiffage

Price EUR65.55

Q2 APRR traffic in line and still healthy

Fair Value EUR73 (+11%) **BUY**

Bloomberg	FGR FP
Reuters	FOUG.PA
12-month High / Low (EUR)	70.1 / 50.1
Market Cap (EURm)	6,429
Ev (BG Estimates) (EURm)	20,380
Avg. 6m daily volume (000)	387.5
3y EPS CAGR	17.1%

	1 M	3 M	6 M	31/12/15
Absolute perf.	1.6%	-1.0%	15.8%	10.1%
Cons & Mat	-0.2%	-2.0%	7.9%	-1.7%
DJ Stoxx 600	0.2%	-2.6%	3.7%	-6.9%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	13,909	13,810	14,055	14,321
% change		*-0.7%*	*1.8%*	*1.9%*
EBITDA	2,074	2,089	2,171	2,286
EBIT	1,431	1,505	1,581	1,691
% change		*5.1%*	*5.1%*	*7.0%*
Net income	312.0	384.1	427.9	523.5
% change		*23.1%*	*11.4%*	*22.4%*

	2015	2016e	2017e	2018e
Operating margin	10.3	10.9	11.2	11.8
Net margin	3.3	4.1	4.5	5.4
ROE	13.2	14.1	14.0	15.0
ROCE	5.1	5.3	5.6	6.0
Gearing	351.2	295.3	255.9	214.2

(EUR)	2015	2016e	2017e	2018e
EPS	3.37	4.00	4.46	5.40
% change	-	*18.8%*	*11.4%*	*21.2%*
P/E	19.5x	16.4x	14.7x	12.1x
FCF yield (%)	7.9%	5.8%	7.9%	10.9%
Dividends (EUR)	1.50	1.50	1.50	1.50
Div yield (%)	2.3%	2.3%	2.3%	2.3%
EV/Sales	1.5x	1.5x	1.4x	1.3x
EV/EBITDA	10.0x	9.8x	9.2x	8.4x
EV/EBIT	14.5x	13.5x	12.7x	11.3x

Eiffage's 50%-owned toll road subsidiary has reported decent 1.8% traffic growth for Q2, in line with our expectations, but lower than Q1, which was exceptionally strong at +6.5%. Don't be disappointed: calendar discrepancies between Q1 and Q2 explain a lot and H1 2016 traffic growth was still steady with a 4.1% increase, to be compared with our FY forecast of 2.5%. Besides, heavy vehicle traffic is very healthy with an 8% increase in Q2. Consensus certainly not at risk.

ANALYSIS

- Following an exceptional Q1 2016, with 6.5% traffic growth, the Q2 2016 volume increase looks obviously less exciting with an 1.8% increase only. However, this was mostly explained by light vehicle traffic (+7.1% in Q1, +0.7% in Q2), positively impacted by the positive calendar effect in Q1 in particular (leap year and the Easter week-end); while of course Q2 was penalised on the contrary. In addition, truck traffic accelerated in Q2, with an impressive +8%, following an already decent +3.9% in Q1. Heavy vehicle traffic benefited from more working days in May this year. Eiffage said some truck volumes also benefited from some traffic reports due to bad weather.
- Note that heavy vehicle traffic growth was finally very steady in H1 2016 with a 6% increase (vs 3.7% for light vehicles). This has been translated into a positive price mix effect, as trucks pay more than cars (in 2015, trucks weighted 15% of traffic but 32% of revenues fo APRR).
- APRR H1 2016 revenues increased by 5.6% to EUR1.116m, with toll revenues representing 97% of this figure. Note that in February, APRR benefited from a tariff hike of approx. 1.25% for cars.

Quarterly traffic - APRR

	Q114	Q214	Q314	Q414	Q115	Q215	Q315	Q415	Q116	Q216
m-km travelled										
Cars	4026	4551	5720	4126	4099	4674	5896	4236	4388	4709
Trucks	813	826	788	810	829	843	815	844	861	910
Total	4839	5377	6508	4936	4928	5517	6712	5080	5249	5619
y/y change (%)										
Cars	0.5	3.2	0.6	2.6	1.8	2.7	3.1	2.7	7.1	0.7
Trucks	1.9	2.5	1.3	0.4	2.0	2.1	3.5	4.1	3.8	8.0
Total	0.7	3.1	0.7	2.2	1.8	2.6	3.1	2.9	6.5	1.8
YTD y/y change (%)										
VL	0.5	1.9	1.4	1.6	1.8	2.3	2.6	2.6	7.1	3.7
PL	1.9	2.2	1.9	1.5	2.0	2.0	2.5	2.9	3.9	6.0
Total	0.7	2.0	1.4	1.6	1.8	2.2	2.6	2.7	6.5	4.1

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

VALUATION

- EUR73 FV derived from a SOTP

NEXT CATALYSTS

- Eiffage Q2 2016 on 31st August 2016

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Analyst :
Eric Lemarié
33(0) 1.70.36.57.17
elemarie@bryangarnier.com

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%

	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

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.

Organic sales growth by geographical area

Ifl 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
Total Group	**8,9**	**7,1**	**8,1**	**6,2**	**8,1**	**7,2**

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. Byeond 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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Analyst :
Loïc Morvan
33(0) 1 70 36 57 24
lmorvan@bryangarnier.com

Sector Team :
Nikolaas Faes
Antoine Parison
Cédric Rossi
Virginie Roumage

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Luxury & 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 dettoriated 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
Total	**5.9**	**1.8**	**-4.2**	**-4.2**	**-4.3**

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.

Click here to download

Analyst :
Loïc Morvan
33(0) 1 70 36 57 24
lmorvan@bryangarnier.com

Sector Team :
Nikolaas Faes
Antoine Parison
Cédric Rossi
Virginie Roumage

Luxury & Consumer Goods

The Swatch Group

Price CHF261.00

Hopes for better 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%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-10.9%	-21.9%	-18.3%	-25.5%
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. (CHFm)	2015	2016e	2017e	2018e
Sales	8,451	7,760	7,860	8,080
% change		*-8.2%*	*1.3%*	*2.8%*
EBITDA	1,817	1,410	1,510	1,680
EBIT	1,451	1,035	1,130	1,301
% change		*-28.7%*	*9.2%*	*15.1%*
Net income	1,089	790.0	850.0	993.0
% change		*-27.5%*	*7.6%*	*16.8%*

	2015	2016e	2017e	2018e
Operating margin	17.2	13.3	14.4	16.1
Net margin	12.9	10.2	10.8	12.3
ROE	10.0	7.0	7.4	8.1
ROCE	12.2	8.1	8.3	8.8
Gearing	-14.4	-12.6	-10.8	-8.2

(CHF)	2015	2016e	2017e	2018e
EPS	20.11	13.34	14.35	16.76
% change	*-*	*-33.7%*	*7.6%*	*16.8%*
P/E	13.0x	19.6x	18.2x	15.6x
FCF yield (%)	4.5%	2.3%	2.3%	2.3%
Dividends (CHF)	7.50	7.88	8.27	8.68
Div yield (%)	2.9%	3.0%	3.2%	3.3%
EV/Sales	1.5x	1.7x	1.7x	1.7x
EV/EBITDA	7.0x	9.2x	8.7x	7.9x
EV/EBIT	8.8x	12.5x	11.6x	10.3x

During yesterday's conference call, Swatch Group's CEO, Nick Hayek, highlighted that he was more confident in H2 2016 sales momentum but prefered to give no 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 the short term, we remain at Sell on the stock with an unchanged FV of CHF270.

ANALYSIS

- During the conference call held yesterday afternoon by The Swatch Group's management, CEO, Nick Hayek was confident that H2 sales momentum should be far less negative than in H1. Nevertheless, he was much more confused concerning EBIT margin for which he gave no guidance, stating that, for him, the most important thing is market share gains (hence very limited price increases) and volumes, and clearly not profitability levels. The Swatch Group is and will remain a verticalised company with a high proportion of fixed costs. Even if the strategy is only a long term one, management also tried to optimise costs and production processes without cutting any jobs. Furthermore, retail sales (25 to 30% of total sales) were globally well oriented (up slightly), while wholesale sales were clearly negative, particularly in HK.
- The Swatch Group was clearly penalised by three countries in H1, Hong Kong (#2 world market), Switzerland (#3) and France (7#), which together account for around one third of group sales. We estimate that revenues in these three countries were down by around 20%. In other countries, the situation was better, even in some European countries, and more importantly in Mainland China. For instance, Omega's 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. Nevetheless, retailers are far more cautious and are not ordering as they are afraid the products will not be sold in their stores. One of the catalysts for MC is the still growing middle class. On the other hand, in the US, the middle class is clearly suffering and did not benefit from positive GDP momentum. In H1, the situation in the US was mixed and remains so. While the West Coast is faring well, New York is suffering due to a lack of tourists as is the case for Las vegas. The US remains a volatile market. All group brand sales suffered 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 the 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 the 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, a further deterioration can be expected in France and even in Germany in late July and in August. Nevertheless, H2 profitability should remain under pressure albeit to a lesser extent than in H1. 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, Mr Hayek prefered not to give any forecast or guidance for FY profitability, as he wants to keep higher flexibility to invest 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 at Sell on The Swatch Group which is trading at a 5% premium (unwarranted) vs the peer average.

NEXT CATALYSTS

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

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Analyst :
Loïc Morvan
33(0) 1 70 36 57 24
lmorvan@bryangarnier.com

Sector Team :
Nikolaas Faes
Antoine Parison
Cédric Rossi
Virginie Roumage

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 releases 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.

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

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

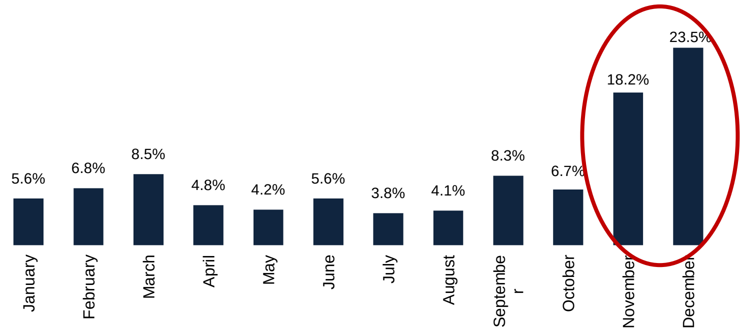
%	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
January	2	16	4	0	18	0	-5	53	12	10	-12	-5	-38	1	-25	6	-10
February	5	-11	45	-5	5	13	-12	32	48	9	-15	-5	-23	-36	-9	7	-10
March	20	-15	33	8	-6	31	-8	16	64	-17	10	-16	-25	-1	-27	-3	8
April	27	-13	11	39	-3	9	16	-1	69	-22	-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	
Septembe	-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.

- Software sales were down 20% in June (vs. BG est.: -27%).
- Physical sales account for 50%e of the US consumer spend on the industry (35-40%e 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*

Analyst :
Richard-Maxime Beaudoux
33(0) 1.56.68.75.61
rmbeaudoux@bryangarnier.com

Sector Team :
Thomas Coudry
Gregory Ramirez
Dorian Terral

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Food & Beverages

Unilever

Price EUR41.78

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

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 expenditure and restructuring charges. We maintain our full-year estimates for 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 fact that Easter was 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 remained 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 impressive performance 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 slightly.

- **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 20th, 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 28th and Nestlé on August 18th

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Analyst :
Virginie Roumage
33(0) 1.56.68.75.22
vroumage@bryangarnier.com

Sector Team :
Nikolaas Faes
Loïc Morvan
Antoine Parison
Cédric Rossi

Healthcare

Nicox

Price EUR12.66

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

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

Fair Value Under Review **CORPORATE**

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

- 21st of October: Potential approval of AC-170 for the treatment of allergic

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Mickael Chane Du, mchanedu@bryangarnier.com

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

ANALYSIS

- Nexity sales ("réservations") for the residential segment rose 38% in H1 2016 in volume terms. This was pretty similar to the very good performance of Q1 2016 (+35%) and still much stronger than 2015 (+13%), suggesting the French new residential market remained very strong, as Nexity (the market leader) is presumably a decent proxy.
- In addition, 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 to the success of the Pinel buy-to-let scheme (recently extended until end 2017).
- Nexity's guidance of 120,000 sales (15% to 20% y/y) for the French market as a whole in 2016 has been reiterated.
- In all, this is positive for Saint-Gobain, as the new French residential market represents approx. 6% of consolidated sales. It is positive for Contractors too: this segment accounts for approx. 10% of Eiffage sales and 4% for Vinci.

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Eric Lemarié, elemarie@bryangarnier.com

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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%

Bryan Garnier Research Team

Healthcare Team	Pharmaceuticals	Eric Le Berrigaud *(Head of Equities)*	33 (0) 1 56 68 75 33	eleberrigaud@bryangarnier.com
	Biotech / Medtech	Mickael Chane-Du	33 (0) 1 70 36 57 45	mchanedu@bryangarnier.com
	Medtech / Biotech	Hugo Solvet	33 (0) 1 56 68 75 57	hsolvet@bryangarnier.com
Consumer Team	Luxury / Consumer Goods	Loïc Morvan	33 (0) 1 70 36 57 24	lmorvan@bryangarnier.com
	Beverages	Nikolaas Faes	33 (0) 1 56 68 75 72	nfaes@bryangarnier.com
	Retailing	Antoine Parison	33 (0) 1 70 36 57 03	aparison@bryangarnier.com
	Luxury / Consumer Goods	Cedric Rossi	33 (0) 1 70 36 57 25	crossi@bryangarnier.com
	Food & Beverages	Virginie Roumage	33 (0) 1 56 68 75 22	vroumage@bryangarnier.com
TMT	Video Games / Payments	Richard-Maxime Beaudoux	33 (0) 1 56 68 75 61	rmbeaudoux@bryangarnier.com
	Telecom	Thomas Coudry	33(0) 1 70 36 57 04	tcoudry@bryangarnier.com
	Software & IT Services	Gregory Ramirez	33 (0) 1 56 68 75 91	gramirez@bryangarnier.com
	Semiconductor	Dorian Terral	33 (0) 1 56 68 75 92	dterral@bryangarnier.com
Utilities		Xavier Caroen	33 (0) 1 56 68 75 18	xcaroen@bryangarnier.com
		Pierre-Antoine Chazal	33 (0) 1 56 68 75 06	pachazal@bryangarnier.com
Insurance		Olivier Pauchaut *(Head of Research)*	33 (0) 1 56 68 75 49	opauchaut@bryangarnier.com
Hotels / Business Services		Bruno de La Rochebrochard	33 (0) 1 56 68 75 88	bdelarochebrochard@bryangarnier.com
Construction / Infrastructures Building Materials		Eric Lemarié	33 (0) 1 70 36 57 17	elemarie@bryangarnier.com
Marketing		Sophie Braincourt	33(0) 1 56 68 75 36	sbraincourt@bryangarnier.com
Market Data & Information Systems Manager		Eric Monnier	33(0) 1 56 68 75 63	emonnier@bryangarnier.com

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London
Beaufort House
15 St. Botolph Street
London EC3A 7BB
Tel: +44 (0) 207 332 2500
Fax: +44 (0) 207 332 2559
Authorised and regulated by the Financial Conduct Authority (FCA)

Paris
26 Avenue des Champs Elysées
75008 Paris
Tel: +33 (0) 1 56 68 75 00
Fax: +33 (0) 1 56 68 75 01
Regulated by the Financial Conduct Authority (FCA) and the Autorité de Contrôle prudential et de resolution (ACPR)

New York
750 Lexington Avenue
New York, NY 10022
Tel: +1 (0) 212 337 7000
Fax: +1 (0) 212 337 7002
FINRA and SIPC member

Munich
Widenmayerstrasse 29
80538 Munich
Germany
+49 89 2422 62 11

New Delhi
The Imperial Hotel Janpath
New Delhi 110 001
Tel +91 11 4132 6062
+91 98 1111 5119
Fax +91 11 2621 9062

Geneva
rue de Grenus 7
CP 2113
Genève 1, CH 1211
Tel +4122 731 3263
Fax+4122731 3243
Regulated by the FINMA

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