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26th July 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	18493.06	-0.42%	+6.13%
S&P 500	2168.48	-0.30%	+6.09%
Nasdaq	5097.63	-0.05%	+1.80%
Nikkei	16383.04	-1.43%	-12.68%
Stoxx 600	340.927	+0.18%	-6.80%
CAC 40	4388	+0.16%	-5.37%
Oil /Gold			
Crude WTI	42.43	-2.33%	+14.06%
Gold (once)	1317.78	-0.22%	+24.04%
Currencies/Rates			
EUR/USD	1.0974	-0.03%	+1.02%
EUR/CHF	1.08345	-0.15%	-0.36%
German 10 years	-0.095	+14.21%	-115.02%
French 10 years	0.19	-11.89%	-80.63%
Euribor	-	+-%	+-%

Economic releases :

Date	
26th-Jul	US - Consumer confidence Jul . (95.5 E) US - New Home Sales Jun (1.6% E m/m)

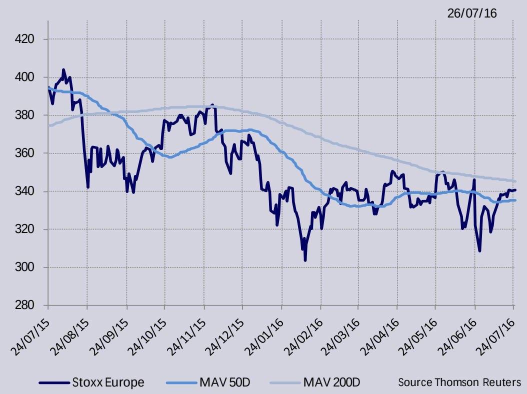
Upcoming BG events :

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



AB INBEV — NEUTRAL, Fair Value EUR109 (-5%)

Hike in offer price for SABMiller

AB inBev announced this morning that it is increasing its offer price for SABMiller to GBP45. We suspect this move was driven by the company's increased insight into cost savings and revenue synergies from the SABMiller acquisition.

EDP RENOVAVEIS — NEUTRAL, Fair Value EUR7.65 (+10%)

H1 2016 metrics in line with expectations thanks to good US performance

EDPR has posted solid H1 2016 operating metrics, helped by a positive scope effect and an outstanding load factor in North America. Sales were up 15% YoY while EBITDA was up 18% during the period, in line with market expectations. The group continues to deliver on its long term strategy to focus on North America and Latam while optimising its ROCE. Positive.

GROUPE SEB — BUY, Fair Value EUR132 vs. EUR125 (+8%)

The success story is not over

At the Analysts' Meeting yesterday, management gave more details about the growth drivers that should play positively not only in H1 but also in H2, despite some weak trends in key markets such as Brazil or the US. Since SEB's stand-alone fundamentals are clearly strong, we believe that all eyes will be on the integration of EMSA (in Q3) and WMF (probably in Q4). We have nudged up our FY16 estimates and updated our beta assumption, leading to our new FV of EUR132 vs. EUR125.

LUXOTTICA — NEUTRAL vs. BUY, Fair Value EUR54 vs. EUR58 (+21%)

Lowered FY16 guidance as initiatives and challenging macro weigh on the Group's ST performance

Yesterday Luxottica unveiled H1 results that were slightly below expectations: sales of EUR4.72bn (CS: EUR4.74bn) and an adj. EBIT of EUR857m (CS: EUR854m), implying a limited 30bp-margin decline to 18.2%. Against this soft Q2 and because of more challenging macro conditions, LUX warned on the FY16 outlook (FX-n growth of 2-3% vs. +5-6% previously / adj. EBIT growth: 1x sales growth vs. 1.5x initially), all the more since the Group is still impacted by internal initiatives (i.e. MAP policy, Oakley reorganisation, etc.). Consequently, we align ourselves to this more cautious stance (BG FY16 estimates: -5.5%) even if we remain convinced that these painful actions will reap fruits in the MT. We downgrade our recommendation to Neutral vs. Buy and reduce our FV to EUR54 vs. EUR58.

NICOX — CORPORATE, Fair Value EUR14

Don't turn a blind eye to opportunities (full report published today)

We reinstate our FV of EUR14.0. We take into account the receipt of complete response letter (CRL) regarding the NDA for latanoprostene bunod (LBN) due to manufacturing issues, and thus a delay in its potential approval. But as the letter made no specific comments on its efficacy and safety profile, we believe it is more likely to be approved… And as such, we have increased our PoS from 80% to 90% for the US-only part of the filing.

ORANGE — BUY, Fair Value EUR17.1 (+18.2%)

H1 results globally in line, high CAPEX but strong commercial performance in France.

This morning Orange SA has published H1 2016 results globally in line with consensus. Revenues and EBITDA are still growing, commercial performance in France was very good and results for Spain were way above expectations, but Poland and AMEA appeared a little disapointing. Operating cash flow was impacted by higher than expected CAPEX in Q2, but said to be in line with the Orange Essentiels 2020 plan. Orange confirms its guidance for 2016 EBITDA above 2015, and a ratio of net debt/EBITDA of around 2x.

In brief...

GENMAB, *Another BTD for "dara" - on the way to a label extension by year end*

SEMICONDUCTORS, *Texas Instruments reports strong results amid supportive auto and industrial environment*

Food & Beverages

AB InBev

Price EUR114.80

Bloomberg	ABI BB
Reuters	ABI.BR
12-month High / Low (EUR)	123.3 / 91.3
Market Cap (EURm)	184,626
Ev (BG Estimates) (EURm)	262,833
Avg. 6m daily volume (000)	1,648
3y EPS CAGR	5.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	4.0%	0.4%	2.0%	0.3%
Food & Bev.	6.0%	3.6%	4.9%	1.1%
DJ Stoxx 600	5.9%	-1.7%	1.4%	-6.8%

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

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

(USD)	2015	2016e	2017e	2018e
EPS	5.10	4.62	5.45	6.01
% change	-	*-9.4%*	*18.0%*	*10.3%*
P/E	24.7x	27.2x	23.1x	20.9x
FCF yield (%)	3.7%	3.2%	5.4%	4.9%
Dividends (USD)	2.68	2.43	2.86	3.16
Div yield (%)	2.1%	1.9%	2.3%	2.5%
EV/Sales	6.6x	6.7x	5.8x	5.5x
EV/EBITDA	17.0x	17.1x	14.1x	12.9x
EV/EBIT	20.9x	20.8x	16.9x	15.3x

Hike in offer price for SABMiller

Fair Value EUR109 (-5%) **NEUTRAL**

AB inBev announced this morning that it is increasing its offer price for SABMiller to GBP45. We suspect this move was driven by the company's increased insight into cost savings and revenue synergies from the SABMiller acquisition.

This morning Anheuser-Busch InBev announced that it had increased its offer for SABMiller with additional cash of GBP1 per share. SABMiller shareholders will now receive GBP45 per share (instead of GBP44) and can elect to receive GBP4.6588 in cash for each SABMiller share (previously GBP3.6588) and 0.483969 restricted shares.

ANALYSIS

- Since the beginning of the battle for SABMiller, we have always maintainted that AB InBev would be determined to get this deal done. Nevertheless, it seems surprising how easily (apparently) they have let go of the very strong European assets of SABMiller. Today, it is even more amazing to see how easily AB InBev's management is giving in to the handful of funds that have been trying to squeeze out some additional cash (withouth taking any risk on their part).
- This prompts questions as to what AB InBev's management knows that we don't. Only time will tell but different options are possible: is the Brazilian business so awful that it desperately needs some diversification? (we'll know by the end of this week how bad Brazil is). Is this the last deal that AB InBev is intending to make so it does not care about accretion? (unlikely, as both Coke and Pepsi are rumoured to be the next targets). Or does the company see far more opportunities for cost savings than it claims (USD 1.9bn) or we expect (USD3bn). This is probably the more likely explanation and consistent with past experiences. But only time will tell.

VALUATION

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

NEXT CATALYSTS

- SABMiller AGM on 21st July 2016
- AB InBev Q2 results on 29th July 2016

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Utilities

Edp Renovaveis

Price EUR6.98

H1 2016 metrics in line with expectations thanks to good US performance

Fair Value EUR7.65 (+10%) **NEUTRAL**

Bloomberg	EDPR LI
Reuters	EDPR.LS
12-month High / Low (EUR)	7.3 / 5.7
Market Cap (EURm)	6,088
Ev (BG Estimates) (EURm)	11,513
Avg. 6m daily volume (000)	371.7
3y EPS CAGR	13.2%

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.1%	1.4%	2.1%	-3.7%
Utilities	2.3%	2.8%	3.8%	-0.9%
DJ Stoxx 600	-0.3%	-2.3%	0.6%	-7.0%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	1,549	1,794	1,973	2,085
% change		*15.9%*	*10.0%*	*5.7%*
EBITDA	1,142	1,252	1,440	1,622
EBIT	577.8	631.8	728.2	808.1
% change		*9.3%*	*15.3%*	*11.0%*
Net income	166.6	156.8	192.6	241.7
% change		*-5.9%*	*22.8%*	*25.5%*

	2015	2016e	2017e	2018e
Operating margin	37.3	35.2	36.9	38.8
Net margin	10.8	8.7	9.8	11.6
ROE	2.4	2.3	2.7	3.4
ROCE	4.4	4.7	5.1	5.5
Gearing	72.4	72.0	73.6	74.3

(EUR)	2015	2016e	2017e	2018e
EPS	0.19	0.18	0.22	0.28
% change	*-*	*-5.9%*	*22.8%*	*25.5%*
P/E	36.5x	38.8x	31.6x	25.2x
FCF yield (%)	NM	NM	NM	NM
Dividends (EUR)	0.00	0.06	0.08	0.10
Div yield (%)	NM	0.9%	1.1%	1.4%
EV/Sales	7.4x	6.4x	5.9x	5.6x
EV/EBITDA	10.1x	9.2x	8.1x	7.2x
EV/EBIT	19.9x	18.2x	16.0x	14.5x

EDPR has posted solid H1 2016 operating metrics, helped by a positive scope effect and an outstanding load factor in North America. Sales were up 15% YoY while EBITDA was up 18% during the period, in line with market expectations. The group continues to deliver on its long term strategy to focus on North America and Latam while optimising its ROCE. Positive.

ANALYSIS

- **Main H1 2016 metrics:** Total H1 sales reached **EUR889m**, up **15% YoY** thanks to higher capacity in operating and outstanding load factor (33% vs 31% in H1 2015), notably in North America (37% vs. 33%), offsetting the negative impact from lower average selling prices (EUR69/MWh vs. EUR64/MWh in H1 2015). EBITDA raised by **18%** to **EUR648m**, reflecting a 300bp rise in EBITDA margin to **73%**, in line with expectations (EUR645m expected by the consensus). EBIT increased to **EUR354m** (+21% YoY), as a result of the EBITDA performance and the 15% YoY increase in depreciation and amortisation costs (including impairment and net of government grants). In all net profit totalled **EUR69m** down 15% compared with last year slightly below market expectations (EUR72m) due notably to higher financial charges and higher minorities. Net debt declined by **EUR400m** to **EUR3.3bn** thanks to a rise in operating cash flow (+17%) and thanks to cash-in from the execution of the asset rotation transaction signed in 2015 and in 2016.
- **What to retain from this publication? 1/** Most of the H1 2016 metrics were in line with market expectations, except net profit, which was affected by higher financial charges and minorities than anticipated, **2/** the group benefited from an outstanding load factor in North America (37% vs. 33%) thanks to very good wind conditions in all US regions the group is present in, **3/** net debt strongly declined thanks to the disposals made by the group as part of its asset rotation programme, despite a rise in capex.
- **Conclusion**: H1 2016 metrics were healthy and in line helped by a positive weather effect in North America and a positive scope effect. The group continues to deliver on its long term strategy to focus on North America and Latam while optimising ROCE. Positive. Conference call at 15.00 CET

VALUATION

- At the current share price EDPR is trading at 9.2x its 2016e EBITDA and offers a 0.9% yield
- Neutral, FV @ EUR7.65

NEXT CATALYSTS

- July 26th 2016: Conference call @ 15.00 CET (UK +44 (0)20 7162 0077)

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Luxury & Consumer Goods

Groupe SEB

Price EUR122.65

The success story is not over

Fair Value EUR132 vs. EUR125 (+8%) BUY

Bloomberg	SK FP
Reuters	SEBF.PA
12-month High / Low (EUR)	122.7 / 79.5
Market Cap (EUR)	6,153
Ev (BG Estimates) (EUR)	8,328
Avg. 6m daily volume (000)	53.00
3y EPS CAGR	25.2%

	1 M	3 M	6 M	31/12/15
Absolute perf.	14.6%	38.5%	37.3%	29.7%
Consumer Gds	6.0%	1.9%	4.9%	-1.3%
DJ Stoxx 600	5.9%	-1.7%	1.4%	-6.8%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	4,770	5,334	6,416	6,732
% change		*11.8%*	*20.3%*	*4.9%*
Adj. EBIT	428	510	664	714
Rep. EBIT	396.6	475.3	622.2	669.3
% change		*19.8%*	*30.9%*	*7.6%*
Net income	205.9	259.9	357.3	403.7
% change		*26.2%*	*37.5%*	*13.0%*

	2015	2016e	2017e	2018e
Rep. EBIT margin	8.3	8.9	9.7	9.9
Net margin	4.3	4.9	5.6	6.0
ROE	13.2	17.9	20.5	19.8
ROCE	12.8	8.8	10.7	11.4
Gearing	16.5	120.5	100.2	75.5

(€)	2015	2016e	2017e	2018e
EPS	4.14	5.23	7.19	8.12
% change	*-*	*26.2%*	*37.5%*	*13.0%*
P/E	29.6x	23.5x	17.1x	15.1x
FCF yield (%)	5.1%	3.6%	4.2%	6.6%
Dividends (€)	1.54	1.65	1.85	2.05
Div yield (%)	1.3%	1.3%	1.5%	1.7%
EV/Sales	1.4x	1.6x	1.3x	1.2x
EV/EBITDA	15.1x	16.3x	12.3x	11.1x
EV/EBIT	16.3x	17.5x	13.2x	11.8x

At the Analysts' Meeting yesterday, management gave more details about the growth drivers that should play positively not only in H1 but also in H2, despite some weak trends in key markets such as Brazil or the US. Since SEB's stand-alone fundamentals are clearly strong, we believe that all eyes will be on the integration of EMSA (in Q3) and WMF (probably in Q4). We have nudged up our FY16 estimates and updated our beta assumption, leading to our new FV of EUR132 vs. EUR125.

ANALYSIS

- **Performances within the group's top 20 markets are more heterogeneous.** Whereas only two countries on the list were down in H1 2015 (Belgium and Germany), this year seven markets were in negative territory, although for two of these (**Italy** and **Mexico**), the sales decline was explained by the non-renewal of loyalty programmes (LPs) this year. This higher volatility did not prevent SEB from posting robust growth in key markets: **China** (+17% LFL), **Germany** (+13.5%), **Japan** (+11%) and **South Korea** showed double-digit growth over H1 and we can also highlight the good performance in France (+5.7% LFL but +9.1% stripping out the LP impact). These solid underlying trends justify the group's confidence in H2, which historically, accounts for ~56% of FY revenue.
- **Some initiatives in the US (~10% of sales) and Brazil (~4% of sales) to cope with a complicated retail environment.** SEB's "traditional customers" in the **US** (Macy's, Sears, etc.) are suffering from the ramp-up at e-retailers (e.g.: Amazon), which now account for ~20-25% of the US SDA market, leading to a destocking phase in cookware in Q1. Thanks to careful inventory management and a good push in the high end cookware segment (All-Clad), trends have gradually improved (overall LFL almost flat vs. double-digit decline in Q1). As announced ealier this year, SEB is relocating its SDA plant in the Northern part of **Brazil** in order to improve its competitiveness there and deal with a challenging macro environment (-15% LFL in Q2 vs. slight decline in Q1). This relocation has implied restructuring costs of EUR16m in H1 but no further costs are expected this year.
- **Fewer LPs in H1 2016: ~1pp impact on LFL growth.** At the FY 2015 results in February, the group's management declared that 2016 would be a "normal year" for LPs (i.e. approx. EUR80m) after a busy 2015 year (EUR130m), representing a delta of **1pp on FY LFL growth**. In H1, this was exactly the negative effect registered by SEB as some LPs in Italy, Mexico and elsewhere were not renewed this year. Consequently we anticipate the same negative impact for H2 2016.
- **EMSA and particularly WMF are the next significant catalysts.** Since the acquisition of WMF is not completed yet, there was not much new said, although the group reiterated all the targets in terms of accretive impacts, adding weight to our assumptions for 2017: we anticipate a positive scope effect of ~21% on the top line, an accretive impact of ~24% on adj. EBITDA and of ~20% on EPS. These estimates are based on a cautious synergy plan of EUR10m for 2017 and EUR40m for 2020 (SEB's guidance).
- **Minor adjustments to our FY16 adjustments (+1% on EPS).** Against better-than-expected LFL growth (+6.9% vs. +5%e) and favourable trends in EMEA and China, we have raised our LFL growth forecast to 5.6% vs. +5% previously (guidance: "above 5%"). This move is partly offset by a more harmful FX impact. We leave our adj. EBIT margin assumption unchanged (+60bp to 9.6%). At the bottom of the P&L, a lower tax rate (24.5% vs. +26% initially, guidance: ~24%) is partly offset by higher one-off charges (restructuring costs, revaluation of property assets in Germany, etc.).

VALUATION

- These small adjustments (EUR1) and an update to our beta assumption (EUR6) lead to our new FV of EUR132 from EUR125. Buy recommendation confirmed to play the robust operating performance of SEB stand-alone that will be combined with the integration of EMSA and WMF. As a reminder, we see limited risks surrounding these deals (excellent track-record with M&A, low cost of financing).

NEXT CATALYSTS

- Analyst Day on 4th October // Q3 2016 Sales on 25th October.

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Luxury & Consumer Goods

Luxottica

Price EUR44.64

Lowered FY16 guidance as initiatives and challenging macro weigh on the Group's ST performance

Fair Value EUR54 vs. EUR58 (+21%) **NEUTRAL vs. BUY**

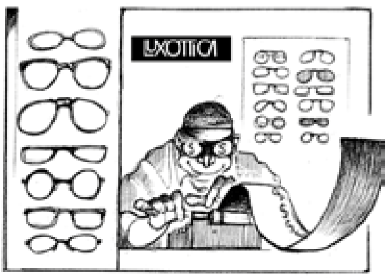
Bloomberg	LUX IM
Reuters	LUX.MI
12-month High / Low (EUR)	67.5 / 42.7
Market Cap (EURm)	21,601
Ev (BG Estimates) (EURm)	22,365
Avg. 6m daily volume (000)	1 028
3y EPS CAGR	10.0%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-3.3%	-7.4%	-21.5%	-26.1%
Consumer Gds	1.6%	1.9%	4.6%	-1.6%
DJ Stoxx 600	-0.3%	-2.3%	0.6%	-7.0%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	8,837	9,135	9,633	10,207
% change		*3.4%*	*5.5%*	*6.0%*
EBITDA	1,853	1,896	2,135	2,305
Rep. EBIT	1,376	1,388	1,600	1,738
% change		*0.9%*	*15.2%*	*8.6%*
Net income	804.1	826.7	977.6	1,072
% change		*2.8%*	*18.3%*	*9.7%*

	2015	2016e	2017e	2018e
Rep. EBIT margin	15.6	15.2	16.6	17.0
Net margin	9.1	9.1	10.1	10.5
ROE	14.6	14.1	15.5	15.9
ROCE	12.0	12.0	13.9	15.3
Gearing	18.2	13.0	6.0	-2.7

(€)	2015	2016e	2017e	2018e
EPS	1.68	1.72	2.04	2.23
% change	-	*2.7%*	*18.3%*	*9.7%*
P/E	26.6x	25.9x	21.9x	20.0x
FCF yield (%)	3.4%	3.7%	4.7%	5.8%
Dividends (€)	0.89	1.00	1.10	1.22
Div yield (%)	2.0%	2.2%	2.5%	2.7%
EV/Sales	2.6x	2.4x	2.3x	2.1x
EV/EBITDA	12.2x	11.8x	10.3x	9.3x
EV/EBIT	16.4x	16.1x	13.7x	12.3x



Yesterday Luxottica unveiled H1 results that were slightly below expectations: sales of EUR4.72bn (CS: EUR4.74bn) and an adj. EBIT of EUR857m (CS: EUR854m), implying a limited 30bp-margin decline to 18.2%. Against this soft Q2 and because of more challenging macro conditions, LUX warned on the FY16 outlook (FX-n growth of 2-3% vs. +5-6% previously / adj. EBIT growth: 1x sales growth vs. 1.5x initially), all the more since the Group is still impacted by internal initiatives (i.e. MAP policy, Oakley reorganisation, etc.). Consequently, we align ourselves to this more cautious stance (BG FY16 estimates: -5.5%) even if we remain convinced that these painful actions will reap fruits in the MT. We downgrade our recommendation to Neutral vs. Buy and reduce our FV to EUR54 vs. EUR58.

ANALYSIS

- **U.S Wholesale (Q2: -5.8% adj. FX-n) impacted by two major headwinds: 1/** the sun business of **Ray-Ban** (-5% decline) was affected by the implementation of the "**Minimum Advertised Price**" (MAP) policy, which prohibits wholesale customers from making deep discounts, especially the online players (-50% in Q2). **2/ Oakley Sport Channel** continued to struggle, mainly due to a poor retail environment (i.e. Sports Authority went bankrupt), justifying the group's reorganisation that is underway and should be completed over the next quarters.
- **U.S. Retail was more resilient (+1.1% adj. FX-n). LensCrafters** posted comps of 0.5% (Q2 15: +6.4%) and **licensed brands** (Sears Optical and Target Optical) achieved SSSG of 6.1%. Despite the bad weather and soft tourist flows, **Sunglass Hut** achieved 0+ comps in Q2 after -1% in Q1 and these trends have accelerated further in July.
- **Asia-Pacific still soft (0.5% adj. FX-n).** Results in **Mainland China** slowed down in Q2 (but still positive) since the Group's is shifting to a direct **go-to-market approach**, i.e. shifting to independent distributors to own distribution, leading to sales disruptions. A good example is the opening of nine **Ray-Ban stores** in MC to enhance the brand's visibility. Like the MAP policy in the U.S., this initiative is key to increase the brand's equity in the MT/LT but it proved to be more harmful than expected in the ST because of a more difficult macro environment. Whilst sales in **H-K** were declining double-digit again, trends in **India**, **Japan** and **S-K** were well-oriented.
- **Good surprises in Europe (+5%) and LatAm (+12.9%).** Once again, in our **view there is a correlation between the robust growths posted by these two regions and the fact that LUX has not implemented any painful initiative there** (e.g.: MAP policy or distribution reorganisation) and both are supported by the precious STARS program. This is particularly true in **Europe** which was also affected by an unusually cold and wet weather in May and June. LUX achieved a double-digit increase in **Mexico** and **Brazil** irrespective of the economic turmoil in the latter.
- **Solid adj. EBIT margin (-30bp to 18.2%)**. Indeed, we consider that the Group's profitability was quite resilient considering: **1/** a poor sun season and a weak FX-n growth in H1 (+1.6% vs. 3% required for a positive operating leverage) and **2/** the numerous self-inflicted initiatives launched this year. These headwinds were partly compensated by efficiency gains (esp. in wholesale: +100bp) and a tight opex cost control (opex were down 100bp). Below, inventory write-downs and the Group's initiatives have led to exceptional costs of EUR69m in H1.
- **PW on 2016 targets: we revised down our estimates by 5.5%**. Since these Group's initiatives were eventually more harmful than expected and would take a bit longer to deliver in a challenging macro environment, LUX has adopted a more cautious stance and lowered its targets: **1/ FX-n sales growth** of 2-3% vs. +5-6% initially (CS was around 4% prior to yesterday's publication) and **2/ Adj. EBIT and income** to grow in line with sales vs. 1.5x faster previously. <u>Consequently, we are now expecting a top line growth of 2.5% FX-n (implying +3% in H2) and an adj. EBIT increase of 1.3% (or 0.6x sales), representing a stable EBIT margin at 16%.</u>

VALUATION

- **Why are we changing our perception in the ST? These initiatives were implemented when the business and the macro have deteriorated, leading to more painful and complicated implementations, all the more since it was exacerbated by a poor sun peak season in the U.S (~56% of sales)**. Hence, we do not feel that the management knows precisely when would be the tipping point for major projects such as the MAP policy or the Oakley integration. As an illustration, the management confirmed it is expecting an acceleration in H2 thanks to well-flagged drivers (i.e. LensCrafters @ Macy's store opening programme, calendar realignment and the easier comparison base) but the positive contribution should be finally lower than anticipated, as reflected by the lowered guidance.

- **Why do we remain confident in the MT/LT?** Let's be clear: we have and we will support these actions (*see graph 1 below*), which are key to: **1/** strengthen the group's business model, **2/** protect Ray-Ban and Oakley's brand equity (~27% and ~11% of sales respectively) and **3/** prepare the next MT/LT growth drivers. We remain convinced that the current top management will successfully implement the main targets of the Strategic Plan (retail expansion, digitalization strategy, ramp-up of its optical business), leading to more dynamic top line and EBIT growth rates in 2017-18 vs. 2016.
- **Pending first tangible signs of a turnaround thanks to the initiatives launched earlier this year, we now adopt a Neutral recommendation (vs. Buy) and a FV of EUR54 (vs. EUR58) that reflect our new estimates.**

Table 1: adj. FX-n by region:

EURm	Q1 16	Q2 16	H1 16
Wholesale	*2.7*	-5.8	*-1.6*
Retail	*0.9*	1.1	*1.0*
North America	***1.3***	**-0.3**	***0.5***
Europe	*4.2*	5.0	*4.6*
Asia-Pacific	*-2.1*	0.5	*-0.8*
Latin America	*13.1*	12.9	*13.0*
ROW	*-5.4*	-7.0	*-6.2*
Total Luxottica	***1.8***	**1.4**	***1.6***

Source: Company Data

Table 2: H1 16 Results:

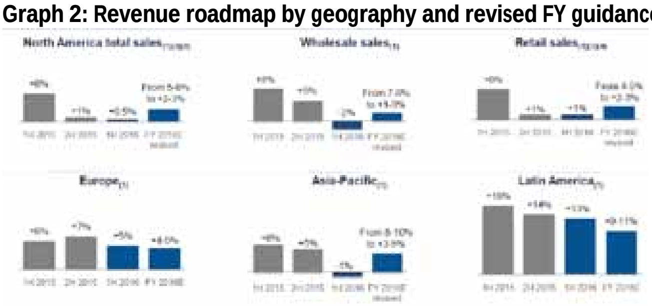
EURm	H1 15	H1 16	% change
Adjusted net sales	**4,752**	**4,719**	***-0.7***
Reported net sales	4,667	4,719	*1.1*
Adjusted operating income	**879**	**857**	**-2.5**
% margin	18.5	18.2	*-30bp*
Reported operating income	859	788	*-8.2*
% margin	18.4	16.7	*-170bp*

Source: Company Data

Graph 1: Summary of the Group's initiatives:

Source: Company Data

Graph 2: Revenue roadmap by geography and revised FY guidance:



Source: Company Data

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Healthcare

Nicox

Price EUR11.58

Don't turn a blind eye to opportunities (full report published today)

Fair Value EUR14 **CORPORATE**

Bloomberg	COX FP
Reuters	NCOX.LN
12-month High / Low (EUR)	13.4 / 6.0
Market Cap (EURm)	265
Ev (BG Estimates) (EURm)	266
Avg. 6m daily volume (000)	209.6
3y EPS CAGR	-19.2%

	1 M	3 M	6 M	31/12/15
Absolute perf.	8.2%	34.0%	67.0%	26.9%
Healthcare	6.2%	4.5%	2.7%	-3.2%
DJ Stoxx 600	-0.3%	-2.3%	0.6%	-7.0%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	9.9	7.0	1.7	9.2
% change		*-29.3%*	*-75.5%*	*NM*
EBITDA	-24.4	-13.8	-17.4	-12.9
EBIT	-24.4	-13.8	-17.4	-12.9
% change		*43.7%*	*-26.9%*	*26.3%*
Net income	-24.4	-13.8	-17.4	-12.9
% change		*43.7%*	*-26.9%*	*26.3%*

	2015	2016e	2017e	2018e
Operating margin	NM	NM	NM	NM
Net margin	NM	NM	NM	NM
ROE	-22.3	-14.4	-22.3	-19.6
ROCE	-19.1	-12.0	-18.0	-15.3
Gearing	-12.0	0.9	18.3	43.7

(EUR)	2015	2016e	2017e	2018e
EPS	-1.07	-0.60	-0.76	-0.56
% change	-	*43.7%*	*-26.9%*	*26.3%*
P/E	NS	NS	NS	NS
FCF yield (%)	NM	NM	NM	NM
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	25.4x	38.0x	162.6x	32.1x
EV/EBITDA	NS	NS	NS	NS
EV/EBIT	NS	NS	NS	NS

We reinstate our FV of EUR14.0. We take into account the receipt of complete response letter (CRL) regarding the NDA for latanoprostene bunod (LBN) due to manufacturing issues, and thus a delay in its potential approval. But as the letter made no specific comments on its efficacy and safety profile, we believe it is more likely to be approved... And as such, we have increased our PoS from 80% to 90% for the US-only part of the filing.

ANALYSIS

- We reinstate our FV of EUR14.0 following LBN's CRL. Admittedly, such news is quite negative, at least because of the delay in the approval of the product (BG assumption: 12 months). But as: 1/ the FDA's letter made no specific comments with regards to the quality of the clinical package (be it on the efficacy or the safety side); and 2/ the very main issues were rather related to the manufacturing process... we believe it is more likely to be approved. And as such, we have increased our PoS to 90% vs 80% for the US part of the filing.
- But our FV would be lifted to EUR17.0 in the case of US approval of LBN. There is a chance that LBN might be approved pretty quickly if: 1/ Valeant manages to resubmit very shortly after having addressed all the deficiencies in the CRL; and 2/ the FDA grants a Class 1 status for the resubmission). And if this proves to be the case, we would add +EUR4.0 to our FV.
- Naproxcinod is a free call option. We are quite conservative in our estimates, as we give no value to naproxcinod ... Although this former figurehead might be revived thanks to the inking of a collaboration agreement with Fera. But should we decide to include it, our FV would be revised up by +EUR7.0 (solely by retaining the US prospects in osteoarthritis, and all other things being equal).

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TMT

Orange

Price EUR14.47

H1 results globally in line, high CAPEX but strong commercial performance in France.

Fair Value EUR17.1 (+18.2%) **BUY**

Bloomberg	ORA FP
Reuters	ORAN.PA
12-month High / Low (EUR)	16.9 / 12.9
Market Cap (EURm)	38,478
Ev (BG Estimates) (EURm)	61,660
Avg. 6m daily volume (000)	7 573
3y EPS CAGR	2.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	1.6%	-3.2%	-8.7%	-6.6%
Telecom	-1.4%	-6.6%	-9.3%	-12.5%
DJ Stoxx 600	-0.3%	-2.3%	0.6%	-7.0%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	40,236	41,220	41,684	41,977
% change		*2.4%*	*1.1%*	*0.7%*
EBITDA	12,426	12,772	12,962	13,197
EBIT	0.0	0.0	0.0	0.0
% change		*NM*	*NM*	*NM*
Net income	2,958	2,894	3,122	3,172
% change		*-2.1%*	*7.9%*	*1.6%*

	2015	2016e	2017e	2018e
Operating margin	11.8	11.8	12.2	12.5
Net margin	7.4	7.0	7.5	7.6
ROE	8.6	7.8	8.3	8.3
ROCE	4.3	4.1	4.4	4.4
Gearing	110.2	105.5	102.6	100.5

(EUR)	2015	2016e	2017e	2018e
EPS	0.98	0.96	1.04	1.06
% change	-	*-2.4%*	*8.8%*	*1.8%*
P/E	14.7x	15.1x	13.9x	13.6x
FCF yield (%)	7.9%	4.3%	6.7%	6.7%
Dividends (EUR)	0.59	0.60	0.70	0.80
Div yield (%)	4.1%	4.1%	4.8%	5.5%
EV/Sales	1.6x	1.5x	1.5x	1.5x
EV/EBITDA	5.2x	4.8x	4.7x	4.6x
EV/EBIT	NS	NS	NS	NS

This morning Orange SA has published H1 2016 results globally in line with consensus. Revenues and EBITDA are still growing, commercial performance in France was very good and results for Spain were way above expectations, but Poland and AMEA appeared a little disapointing. Operating cash flow was impacted by higher than expected CAPEX in Q2, but said to be in line with the Orange Essentiels 2020 plan. Orange confirms its guidance for 2016 EBITDA above 2015, and a ratio of net debt/EBITDA of around 2x.

ANALYSIS

- **Global results: H1 revenues came out at EUR20.079bn** (vs consensus: EUR20.166bn) **up 0.3% yoy,** with **Q2 stable yoy**, compared with +0.6% yoy in Q1. **H1 restated EBITDA came out at EUR5.913bn** (vs consensus: EUR5.921bn) **down -0.6% yoy,** with **Q2 up 0.1% yoy**, compared with -1.6% yoy in Q1. **H1 operating cash flow came out at EUR2.746bn** (vs consensus: EUR2.836bn) **down -8.9% yoy,** with **CAPEX up 7.8% yoy**.
- **France H1 revenues came out at EUR9.376bn** (vs consensus: EUR9.413bn) **down 1.2% yoy,** with **Q2 down 1.7% yoy**, compared with -0.7% yoy in Q1 (in Q2 2016 mobile services revenues were down 3.8% yoy vs -2.4% in Q1, and fixed retail services revenues were down-1.1% yoy vs -0.7% in Q1). **H1 restated EBITDA came out at EUR3.238bn** (vs consensus: EUR3.283bn) **down 2.6% yoy,** compared with **2.7% yoy** in H2 2015.
- **In France,** mobile postpaid net adds reached **152k in Q2**, vs 41k in Q1, and **76k in Q2 2015**. Sosh net adds reached **114k in Q2**, vs 84k in Q1, and 111k in Q2 2015. Postpaid ARPU was EUR25.8 in Q2, down 4.4% yoy vs -4.4% in Q1. Orange delivered **very good commercial performance**, but the **mobile market is still very much under promotional pressure**.
- In France, Orange delivered **very good commercial performance**. Broadband net adds reached **93k in Q2**, vs 96k in Q1, and **76k in Q2 2015**. FTTH net adds reached **106k in Q2**, vs 115k in Q1, and **82k in Q2 2015**. Broadband ARPU was EUR33.1 in Q2, stable **yoy vs -0.6% in Q1**. This is a good sign showing **a gradual stabilisation in the fixed market**.
- **Spain H1 EBITDA came out way above expectations at EUR625m** (vs consensus: EUR589m) **up +15.4% yoy**.
- **Orange confirms** its guidance for 2016 EBITDA above the 2015 level, and net debt/EBITDA of around 2x.

VALUATION

- We are maintaining our BUY recommendation with a Fair Value of EUR17.1.

NEXT CATALYSTS

- Q3 2016 results on 25th October 2016.

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Healthcare

Genmab

Price DKK1,148

Bloomberg	GEN DC
Reuters	GEN.CO
12-month High / Low (DKK)	1,266 / 548.0
Market Cap (DKKm)	68,689
Avg. 6m daily volume (000)	485.6

	1 M	3 M	6 M	31/12/15
Absolute perf.	-0.9%	18.3%	36.4%	25.1%
Healthcare	6.2%	4.5%	2.7%	-3.2%
DJ Stoxx 600	-0.3%	-2.3%	0.6%	-7.0%

	2015	2016e	2017e	2018e
P/E	NS	NS	NS	73.2x
Div yield (%)	NM	NM	NM	NM

Another BTD for "dara" - on the way to a label extension by year end

Fair Value DKK1600 (+39%) **BUY**

ANALYSIS

- Genmab and JNJ have announced that Darzalex (daratumumab) received a breakthrough therapy designation from the FDA. This BTD 1) covers Darzalex' use as part of a combination therapy with lenalidomide/dexamethasone or bortezomib/dexamethasone in myeloma patients who received at least one prior therapy; 2) follows the outstanding publication of the CASTOR and POLLUX studies in March and May this year (please see here and here).
- Obviously this is good news as 1) a BTD is an explicit acknowledgement of the quality of the clinical package by the US regulator and 2) paves the way for a potential priority review (which could be obtained in coming weeks). As such, we reiterate our belief that the compound should obtain a label expansion in 2L patients by the end of the year.
- Note that this is the second designation of this kind that "dara" has received since the beginning of its development, and we are not ruling out that others might be attributed (whether for the first-line of myeloma, or perchance other haematological malignancies such as non-Hodgkin's lymphomas).

VALUATION

- We reiterate our BUY recommendation and DKK1,600 Fair Value.
- While we have not changed our probability of success (80%) linked to the use of daratumumab in this setting (2L) yet, note that potential approval by the FDA towards late 2016/early2017 would add DKK150 to our Fair Value.

NEXT CATALYSTS

- August 2016: Potential FDA priority review given to daratumumab 1) as a treatment for patients with myeloma who received at least one prior therapy, and 2) as part of a combination regimen (bort/dex or len/dex)... which would pave the way for a label expansion by the end of the year.
- Q4 2016: Phase II results involving daratumumab in Non-Hodgkin Lymphomas.
- Q4 2016: Presentation of follow-up data from the POLLUX and CASTOR trials during the ASH meeting.
- Q4 2016: Read-across from the approval of Roche's ocrelizumab (anti-CD20) as a treatment for relapsing-remitting multiple sclerosis (RRMS).

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Sector View

Semiconductors

Texas Instruments reports strong results amid supportive auto and industrial environment

	1 M	3 M	6 M	31/12/15
Semiconductors	21.5%	24.5%	23.1%	18.0%
DJ Stoxx 600	5.9%	-1.7%	1.4%	-6.8%

*Stoxx Sector Indices

Companies covered

ARM HOLDINGS	Tender to the offer	1410p
ASML	SELL	EUR81
DIALOG	BUY	EUR37
INFINEON	BUY	EUR16
MELEXIS	SELL	EUR48
SOITEC	NEUTRAL	EUR0.5
STMICROELECTRONICS	NEUTRAL	EUR6.5
u-blox	BUY	CHF26

Yesterday, Texas Instruments reported strong results in a supportive auto and industrial environment. Q2 2016 results beat expectations and Q3 guidance is also above consensus. In addition, we see the group's comments as a positive read-across for other European companies we coverage, especially Infineon (Buy – Top Pick, FV EUR16).

ANALYSIS

- **Yesterday, Texas Instruments reported Q2 2016 revenue up 1% yoy to USD3.27bn, yielding EPS of USD0.76. This was above the street's expectations for sales of USD3.2bn and EPS of USD0.72.** During the conference call, TI's CEO Rich Templeton said the company saw further strong demand for its products in the automotive market, and higher demand in the industrial and communications equipment markets. This robust environment led the group to forecast revenue of USD3.34bn to USD3.6bn in Q3 2016, yielding EPS of USD0.81 to USD0.91 compared with the consensus of USD3.385bn and USD0.81 respectively.

- **Note that Texas Instruments operates in the same market as Infineon (Buy – Top picks, FV EUR16) and STMicroelectronics (Neutral, FV EUR6.5), but also Melexis (Sell, FV EUR48) and u-blox (Buy, FV CHF265)** although it is far larger than the latter two groups. Regardless of their respective valuation metrics, prompting us to have a Sell recommendation on Melexis for example, these groups have a strong exposure to automotive and/or industrial sector. We expect to see a positive reaction from these stocks today on the back of TI's encouraging comments. In addition, note that TI's comments are perfectly in line with our market perception (see our latest sector report out earlier this month). Indeed, we continue to see the automotive and industrial sectors as the ones with the strongest momentum and recommend focusing on these two segments for a bottom-up approach.

NEXT CATALYSTS

- 27th July: STMicroelectronics - Q2 2016 results

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Bryan Garnier stock rating system

For the purposes of this Report, the Bryan Garnier stock rating system is defined as follows:

Stock rating

BUY	Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
NEUTRAL	Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
SELL	Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

Distribution of stock ratings

BUY ratings 55%   NEUTRAL ratings 34.2%   SELL ratings 10.7%

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