Please find our Research on Bloomberg BRYG <GO>)

29th July 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	18456.35	-0.09%	+5.92%
S&P 500	2170.06	+0.16%	+6.17%
Nasdaq	5154.98	+0.30%	+2.95%
Nikkei	16529.27	+0.56%	-13.43%
Stoxx 600	339.473	-0.95%	-7.20%
CAC 40	4420.58	-0.59%	-4.67%
Oil /Gold			
Crude WTI	41.14	-1.86%	+10.59%
Gold (once)	1337.79	+0.73%	+25.92%
Currencies/Rates			
EUR/USD	1.10835	+0.86%	+2.03%
EUR/CHF	1.0881	-0.33%	+0.06%
German 10 years	-0.143	+2.94%	-122.48%
French 10 years	0.142	+0.14%	-85.57%
Euribor	-	+-%	+-%

Economic releases :

Date

29th-Jul
- EUZ - GDP 2Q (1.5% y/y)
- JP - National CPI (-0.4%A as Exp.)
- JP Housing Starts (-2.5%A, -2.7%E)
- FR - GDP 2Q (1.4% E, 1.6%A)
- US - U. of Michigan Confidence index Jul (90.2E)
- US - Baker Hughes Rig Count

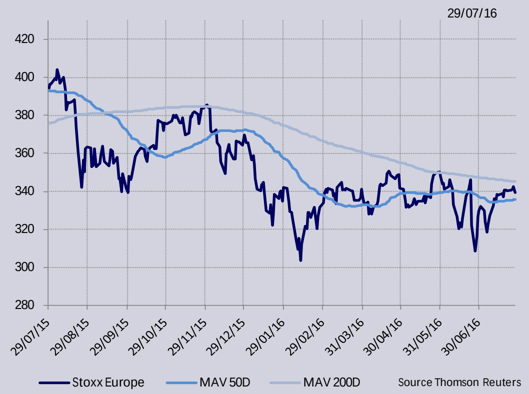
Upcoming BG events :

Date	
1st-Sept	L'OREAL (BG Paris roadshow with CFO)
8th-Sept	ACCOR (BG Roadshow with CFO)
13th-Sept	Thematic Breakfast with ARCEP
14th-Sept	SAINT GOBAIN (BG Luxembourg roadshow)
22nd-Sept	Thematic Lunch with HC specialist
30th-Sept	Thematic Breakfast with Vimpelcom

Recent reports :

Date	
26th-Jul	NICOX Don't turn a blind eye to opportunities
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.

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



AB INBEV — **NEUTRAL, Fair Value EUR109 (-1%)**

A small profit warning on Brazil

ACCORHOTELS — **BUY, Fair Value EUR45 (+21%)**

H1 EBIT reflects group transformation rather than current environment; guidance in line with our scenarii.

ASTRAZENECA — **BUY, Fair Value 5400p vs. 5370p (+7%)**

What could be behind yesterday's call tone?

ADIDAS GROUP — **BUY, Fair Value Under Review**

adidas Group runs over the clouds

ALTRAN TECHNOLOGIES — **BUY vs. NEUTRAL, Fair Value EUR14 vs. EUR13 (+9%)**

Q2 2016 conference call feedback: growth momentum becoming more positive

CARREFOUR — **BUY, Fair Value EUR30 (+34%)**

A few thoughts following the H1 2016 analysts' meeting

CASINO GUICHARD — **BUY, Fair Value EUR57 (+11%)**

H1 (first take): Food Retail in France in line / some caution in the wording of the guidance?

CAST — **NEUTRAL, Fair Value EUR3.6 (+2%)**

Q2 2016 sales below expectations, but full-year growth target reiterated

DANONE — **NEUTRAL, Fair Value EUR67 (-1%)**

Good H1 results, but weak visibility going forward

DIAGEO — **NEUTRAL, Fair Value 2100p vs. 1840p (-4%)**

Entering 2016/17 in a better position

DIALOG SEMICONDUCTOR — **BUY, Fair Value EUR37 (+23%)**

(Too much) cautiousness for Q4 and reiterated confidence for 2017 and 2018

EDF — **BUY, Fair Value EUR13.8 (+25%)**

Resilient set of H1-16 results and speeding up in company's transformation plan

ENGIE — **BUY, Fair Value EUR16,8 (+13%)**

H1-16 EBITDA down 3% LfL as expected; 2016 guidance confirmed

ESSILOR — **BUY, Fair Value EUR130 (+7%)**

Q2 LFL growth miss due to very weak trends in sun and photochromic lenses

INDRA SISTEMAS — **NEUTRAL, Fair Value EUR10 (-5%)**

Q2 2016 results above consensus, 2016 targets confirmed but caution for H2

IPSEN — **BUY-Top Picks, Fair Value EUR66 vs. EUR64 (+11%)**

Decision to prioritise mid-term growth over 2016 operating margin makes sense

KERING — **BUY, Fair Value EUR175 vs. EUR170 (+9%)**

H1 beat expectations with strong recovery at Gucci in Q2 (sales up 7%)

L'ORÉAL — **BUY, Fair Value EUR177 (+1%)**

H1 results slightly below expectations due to poor Body Shop performance

MONCLER — **BUY, Fair Value EUR17,5 (+12%)**

Two new strategic investors to support Moncler's LT development

QIAGEN — **BUY vs. NEUTRAL, Fair Value EUR22 (+5%)**

Top to bottom beat! Upgrade to BUY on strong growth prospect now set free

SANOFI — **NEUTRAL, Fair Value EUR83 (+9%)**

In-line Q2 reporting and reiterated FY guidance

SAINT GOBAIN — **BUY, Fair Value EUR46 (+23%)**

A good publication with decent figures in H1 and a reassuring outlook

SOPRA STERIA GROUP — **BUY, Fair Value EUR125 vs. EUR127 (+20%)**

H1 2016 analysts' meeting feeedback: delivering on promise

SUEZ — **BUY, Fair Value EUR17.5 (+21%)**

Strong international growth to support the company's guidance for 2016

VINCI — **BUY-Top Picks, Fair Value EUR72 (+7%)**

Strong H1 2016 EBIT; guidance reiterated.

In brief...

BUREAU VERITAS, *Feedback: Positive impact from BV 2020 ambition but short term remains really challenging*
ELIOR, *9m revenue (contact): Some improvement in lfl growth. FY guidance confirmed*
GALAPAGOS, *HY 2016 in-line, looking forward to CF*
HEIDELBERGCEMENT, *Q2 top-line in line. EBITDA slightly better than consensus. Guidance reiterated.*
STMICROELECTRONICS, *ST acquires ams' NFC and RFID division in a USD78m deal*
SWISS RE, *Q2 numbers: underwriting pressure compensated by high investment returns*

Food & Beverages

AB InBev

Price EUR110.25

A small profit warning on Brazil

Fair Value EUR109 (-1%) **NEUTRAL**

Bloomberg	ABI BB
Reuters	ABI.BR
12-month High / Low (EUR)	123.3 / 91.3
Market Cap (EUR)	177,309
Ev (BG Estimates) (EUR)	254,686
Avg. 6m daily volume (000)	1,642
3y EPS CAGR	4.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	0.0%	-2.1%	-1.6%	-3.6%
Food & Bev.	4.8%	3.0%	3.4%	0.0%
DJ Stoxx 600	7.2%	-2.7%	1.4%	-7.2%

YEnd Dec. (USDm)	2015	2016e	2017e	2018e
Sales	43,604	43,637	57,450	60,128
% change		*0.1%*	*31.7%*	*4.7%*
EBITDA	16,921	16,654	23,048	24,900
EBIT	13,768	13,575	19,148	20,886
% change		*-1.4%*	*41.1%*	*9.1%*
Net income	8,513	7,577	10,667	11,729
% change		*-11.0%*	*40.8%*	*10.0%*

	2015	2016e	2017e	2018e
Operating margin	31.6	31.1	33.3	34.7
Net margin	19.5	17.4	18.6	19.5
ROE	20.2	17.6	12.4	13.0
ROCE	10.1	10.1	10.0	8.3
Gearing	98.7	101.4	97.7	91.7

(USD)	2015	2016e	2017e	2018e
EPS	5.10	4.54	5.35	5.88
% change	-	*-11.0%*	*17.8%*	*10.0%*
P/E	23.9x	26.9x	22.8x	20.8x
FCF yield (%)	3.8%	3.2%	5.5%	4.9%
Dividends (USD)	2.68	2.38	2.81	3.09
Div yield (%)	2.2%	2.0%	2.3%	2.5%
EV/Sales	6.4x	6.5x	5.6x	5.3x
EV/EBITDA	16.6x	17.0x	14.0x	12.9x
EV/EBIT	20.4x	20.8x	16.9x	15.4x

AB InBev has published slightly disappointing revenue and profit figures this morning, with organic revenue growth of 4% below consensus of 5.7% as both Brazil and Argentina continued to weigh on the group's performance. AB InBev also sharply revised downwards its guidance for organic revenue growth in Brazil from mid/high single digit to flat. As a result, we are lowering our forecasts for EBIT and EPS for this and next year by about 2%. On the positive side, the challenge for some shareholders to obtain a higher cash offer came to an end overnight after AB InBev agreed to pay GBP45 compared with GBP44 before.

AB InBev has published a mixed bag of Q2 2016 figures this morning although the overriding impression is of a miss compared to consensus. Furthermore, the group implemented a downward revision to 2016 revenue expectations in Brazil.

ANALYSIS

- The big negative was continued weakness in Brazil due to macro-economic and political uncertainties with volumes down 4.5% in organic terms and net revenues up 2.0%. Both figures were an improvement on Q1 2016 (volumes -8.5% and revenue -4%), but not at all to the extent that AB InBev was hoping for. As a consequence, the company has slashed its FY 2016 organic net revenue guidance from mid/high single digit growth to flat. This will definitively lead to a significant downward revision for Latin America but also for the group (with Brazil still accounting for 20% of group revenues). Also in Argentina, business remained weak with volumes declining high single digit.
- The big positive was again Mexico, which benefited from a spill-over from the strong US economy. Organic revenue growth was 9.5% in the country with volumes increasing 7.2%. In the US itself, AB InBev continued to lose share (90 bp in Q2) due to its under-representation in the strong growing high-end segment. However, the company has started gaining share in the high-end segment and volumes of Michelob ULTRA were up 20%. In mainstream brands, Bud Light lost 40bp market share and Budweiser 15bp, although both continued their trend improvement (albeit still down).
- Other areas were more or less in line with recent trends, with China down 2.3% in volumes in a market down 8%. In Canada, volumes fell low single digit, while Europe was flat but with net revenue growth of 4.6% (!!!) driven by growth in premium.
- The challenge from some shareholders wanting AB InBev to up its offer for SABMiller came to an end overnight. Some of these challengers including Allan Gray, Davidson Kempner Capital Management and Elliott Management Corp are among those prepared to back the revised offer for GBP45 per share (compared to GBP44 before).

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

- News on regulatory approval in China and progress of the SABMiller offer

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Hotels

AccorHotels

Price EUR37.23

H1 EBIT reflects group transformation rather than current environment; guidance in line with our scenarii.

Fair Value EUR45 (+21%) **BUY**

Bloomberg	AC FP
Reuters	ACCP.PA
12-month High / Low (EUR)	46.1 / 30.0
Market Cap (EURm)	10,593
Ev (BG Estimates) (EURm)	10,398
Avg. 6m daily volume (000)	1 449
3y EPS CAGR	4.7%

	1 M	3 M	6 M	31/12/15
Absolute perf.	9.0%	-6.6%	7.4%	-6.9%
Travel&Leisure	7.7%	-6.8%	-7.0%	-15.3%
DJ Stoxx 600	7.2%	-2.7%	1.4%	-7.2%

YEnd Dec. (€m)	2014	2015	2016e	2017e
Sales	5,454	5,581	6,063	6,616
% change		*2.3%*	*8.6%*	*9.1%*
EBITDA	923	986	1,079	1,261
EBIT	602.0	665.0	714.7	877.8
% change		*10.5%*	*7.5%*	*22.8%*
Net income	386.0	441.8	435.1	541.3
% change		*14.5%*	*-1.5%*	*24.4%*

	2014	2015	2016e	2017e
Operating margin	11.0	11.9	11.8	13.3
Net margin	4.1	4.4	7.2	8.2
ROE	6.2	6.8	11.1	15.2
ROCE	12.4	14.5	11.4	15.4
Gearing	4.1	-4.9	18.7	18.5

(€)	2014	2015	2016e	2017e
EPS	1.68	1.88	1.69	1.93
% change	-	*12.4%*	*-10.4%*	*14.1%*
P/E	22.2x	19.8x	22.1x	19.3x
FCF yield (%)	6.9%	7.0%	7.3%	8.6%
Dividends (€)	0.95	1.00	1.10	1.25
Div yield (%)	2.6%	2.7%	3.0%	3.4%
EV/Sales	2.0x	1.9x	2.0x	1.7x
EV/EBITDA	11.6x	10.5x	11.4x	8.9x
EV/EBIT	17.9x	15.6x	17.3x	12.8x

Group transformation is well advanced, while maintaining significant room for expansion despite a turbulent environment. H1 results were definitely impacted by that situation with notably an EBIT down 8.9% on reported and -4% on lfl basis, but this is largely due to the group transformation (digital plan, market place, acquisitions), rather than current business environment. Uncertainty remains and was reflected in management guidance which is perfectly in line with our scenario. We confirm our numbers derived from our "Base Case" scenario, retaining notably a RevPAR growth of 3.5% with an EBIT 2016e of EUR715m. Remember that our "stress" scenario which defines an EBIT 2016 of EUR663m based on a flat RevPAR growth, our DCF will point to a FV of EUR38.

ANALYSIS

- **EBIT lower than expected but...:** Despite the group's exposure to France (28% of total number of rooms) and Brazil (7%) having reported negative lfl revenue growth of respectively -2.6% in H1 (i.e. broadly the same level between Q1 and Q2) and -5.5%, **group EBIT from operation was up 5.1% on lfl basic** taking into account -4.2% lfl in **France** and -54.5% in **Americas** mainly due to **Brazil**. **In H1, excluding digital opex, EBIT margin would have been 10.4% vs. 10.1% in H1 2015.**
- **...largely due to group transformation:** Actually, main impacts on consolidated EBIT (lfl down 4%) came from **Worlwide structure** reflecting the impact of **the digital plan** and **the acquisitions** (onefinestay + FastBooking).
  - **The digital plan:** Launched at the end of 2014, HotelServices **digital plan** represents a total amount of **EUR250m in 5 years** (2014/2018), o/w **EUR225m to foster growth** (EUR5m in 2014, EUR73m in 2015, EUR74m in 2016, EUR48m in 2017 and EUR25m in 2018) o/w 55% on capex and 45% opex and EUR25m for the market place (mostly opex) o/w EUR13m in 2015 and EUR12m in 2016.After EUR5m in **2014** (opex), AccorHotels spent EUR66m (EUR34m capex and EUR32m opex) in **2015** to foster growth and EUR12m for the market place. **Digital opex** had a negative impact on EBIT margin by 70bps in 2015, same negative impact was expected in 2016.

    In H1 2016, AccorHotels spent EUR43m (EUR11m capex and EUR32m opex) o/w EUR6m for market place. For H2, AccorHotels announced total amount of EUR45m (EUR32m capex and EUR12m opex).Total amount for the FY 2016 should represent c. EUR90m i.e. slightly higher vs. initially announced (EUR85m for digital plan). Opex for market place (1,600 independent hotels added in H1) will represent EUR12m as anticipated.
  - **Acquisitions**: CEO confirmed that notably that **onefinestay** weigh on the group EBIT of about EUR1.5m per month (EUR10m negative impact anticipated in H2 2016).
- **FRHI, a contribution on 2016 EBIT of between EUR40 and EUR50m:** As expected, FRHI will be consolidated in H2 with a contribution on consolidated EBIT between EUR40m and EUR50m with sustain current trading especially in North America. Moreover, including FRHI portfolio, AccorHotels network in better balanced between geography with Americas representing 13% of group offer in number of rooms vs. 10% before, MMEA 12% vs. 11% and France moves to 26% vs. 28%.
- **EBIT guidance implicit RevPAR growth of between 0% and 3% in line with our scenarii:** Taking into account ongoing uncertainty regarding H2 due to recent events i.e. Brexit, attacks in France & Germany, aborted Coup in Turkey…), management FY 2016 EBIT guidance is between EUR670m and EUR720m which compared with our current forecast of EUR715m and EUR716m from consensus. As confirmed by the management, top end of the range implies RevPAR growth of about 3% i.e. in line with our estimate of 3.5%. The low range of the bracket will imply flat RevPAR vs. last year which is also perfectly in line with our forecast (on our stress scenario our EBIT amounts to EUR663m with a RevPAR growth of 0.2%).

VALUATION

- At the current share price, the stock is trading 11.4x EV/EBITDA 2016e and 8.9x 2017e compares with average European peer valuation of respectively 10.1x and 9.2x
- Remember that mid-July, the Board of Directors has given the go-ahead for the project to turn HotelInvest into a subsidiary. A new assets valuation will be given in September having in mind that HotelInvest assets were valued at c.EUR7bn at the end of December 2015 representing a

cap rate of 6.2%.

NEXT CATALYSTS

- Capital market day on 5th October
- Q3 revenue on 18th October

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Healthcare

AstraZeneca

Price 5,027p

What could be behind yesterday's call tone?

Fair Value 5400p vs. 5370p (+7%) **BUY**

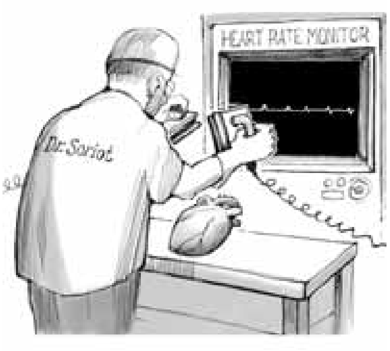
Bloomberg	AZN LN
Reuters	AZN.L
12-month High / Low (p)	5,027 / 3,774
Market Cap (GBPm)	63,572
Ev (BG Estimates) (GBPm)	75,404
Avg. 6m daily volume (000)	2,900
3y EPS CAGR	-2.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	17.6%	27.0%	15.6%	8.9%
Healthcare	6.1%	5.3%	5.5%	-3.5%
DJ Stoxx 600	7.2%	-2.7%	1.4%	-7.2%

YEnd Dec. (USDm)	2015	2016e	2017e	2018e
Sales	23,641	21,387	20,512	21,581
% change		*-9.5%*	*-4.1%*	*5.2%*
EBITDA	5,937	3,997	6,165	6,590
EBIT	4,114	2,796	5,311	5,357
% change		*-32.0%*	*90.0%*	*0.9%*
Net income	5,390	4,733	4,904	4,952
% change		*-12.2%*	*3.6%*	*1.0%*

	2015	2016e	2017e	2018e
Operating margin	17.4	13.1	25.9	24.8
Net margin	6.8	0.3	9.8	11.1
ROE	8.6	0.5	14.2	18.6
ROCE	16.2	13.7	12.3	12.2
Gearing	47.7	103.1	129.1	158.9

(USD)	2015	2016e	2017e	2018e
EPS	4.26	3.74	3.88	3.92
% change	-	*-12.2%*	*3.6%*	*1.0%*
P/E	15.5x	17.6x	17.0x	16.8x
FCF yield (%)	NM	NM	2.7%	2.5%
Dividends (USD)	2.80	2.80	2.80	2.80
Div yield (%)	4.2%	4.2%	4.2%	4.2%
EV/Sales	3.9x	4.6x	4.9x	4.8x
EV/EBITDA	15.5x	24.8x	16.4x	15.7x
EV/EBIT	22.4x	35.4x	19.0x	19.3x



AstraZeneca is obviously approaching the end of the transition period, as Crestor starts to collapse under the influence of initial generics in the US. Although it will accelerate in H2, this will be more than offset by significantly higher inflows from milestones and royalties paid by third-parties on externalisation deals, most of which have already been signed. Management expressed both gratitude and confidence to its shareholders during the call. This has left curious impression. Speculative interest may have been revived – and even become strong as we approach 2017. We keep our BUY rating as our new and still speculation-free FV (5400p) remains above the share price.

ANALYSIS

- First questions during the Q&A section of yesterday's call and market reaction afterwards (which has nothing to do with Q2 numbers for sure) were the unsurprising reflection of the overall tone of the conference call, of some introductory comments made by Pascal Soriot and Marc Dunoyer and also of one or two slides included in the slide deck. Unlike usual quarterly conference calls, this one was very focused on philosophy, strategy, future and also included a couple of strange comments to thank shareholders for their patience and debtors for the restructuring of debt in good conditions. When the questions were asked, management said that there was nothing to read behind these comments, but as AstraZeneca approaches the end of its transition period, it was good time to reiterate confidence in the future and in the value of the pipeline. Pascal Soriot added that this value was clear to the management team, hopefully clear to shareholders and so likely clear to other parties as well. Did he mean to predators? As the comment comes a few weeks after Novartis suggested that it might be preparing something big, and a few days after brokers elaborated on this scenario, that's probably how investors are reading the comment.
- We would advise investors to listen to feedback from all upcoming roadshows, because it is difficult otherwise to say for sure if the comments made during the conference call reflected any ongoing discussion with other parties for a merger, or preparation for a defense strategy.
- That said, how are we now supposed to behave in light of these comments and also after yesterday's share price rise of more than 5% (i.e. with stock back to its 5-year price highs), which likely reflects some renewed speculative interest in the stock ?
- Well, until our FV – which is, of course, only based on DCF and EVA – exceeds the current share price, we see no reason to change our approach to the investment case. Hence, since Q2 numbers influenced some of our revenue estimates positively (we increased the sequence of annual sales for Farxiga, Tagrisso, Faslodex and Nexium), this is indeed the case as our new FV is GBp5,400 which implies 8% upside to yesterday's closing price. Therefore we keep our BUY rating.
- It is also fair to say that H2 2016 is full of potential catalysts for the stock with a lot of regulatory activity (approvals expected for saxa-dapa in the US after resubmission, for brodalumab in the US, for benralizumab in severe asthma globally, resubmission of ZS-9 in the US after CRL) and clinical newsflow including key data from phase III trials with Brilinta (PEGASUS), Lynparza (in ovarian cancer), for acalabrutinib in CLL and for durvalumab (HAWK study in head and neck cancer).

VALUATION

- Our change in FV mainly derives from stronger-than-expected ramp-up for Farxiga and Tagrisso and better-than-expected resilience of Nexium in the US.

NEXT CATALYSTS

- Q3 2016: Lynparza data in ovarian cancer, acalabrutinib data in CLL

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Luxury & Consumer Goods

adidas Group

Price EUR144.10

adidas Group runs over the clouds

Fair Value Under Review

BUY

Bloomberg	ADS GY
Reuters	ADSG.F
12-month High / Low (EUR)	144.1 / 63.7
Market Cap (EURm)	30,148
Ev (BG Estimates) (EURm)	31,070
Avg. 6m daily volume (000)	877.0
3y EPS CAGR	19.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	17.5%	26.5%	54.1%	60.3%
Consumer Gds	6.1%	1.1%	4.2%	-1.7%
DJ Stoxx 600	7.2%	-2.7%	1.4%	-7.2%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	16,915	18,877	20,169	21,697
% change		*11.6%*	*6.8%*	*7.6%*
EBITDA	1,442	1,766	2,000	2,239
EBIT	1,059	1,332	1,516	1,718
% change		*25.8%*	*13.8%*	*13.3%*
Net income	630.0	888.3	1,030	1,170
% change		*41.0%*	*15.9%*	*13.7%*

	2015	2016e	2017e	2018e
Operating margin	6.3	7.1	7.5	7.9
Net margin	3.7	4.7	5.1	5.4
ROE	11.1	15.8	16.5	16.8
ROCE	10.0	12.5	13.9	15.2
Gearing	8.1	16.5	8.8	2.1

(EUR)	2015	2016e	2017e	2018e
EPS	3.32	4.10	5.03	5.71
% change	-	*23.6%*	*22.6%*	*13.6%*
P/E	43.4x	35.1x	28.6x	25.2x
FCF yield (%)	2.0%	1.5%	2.5%	2.8%
Dividends (EUR)	1.60	1.85	2.15	2.40
Div yield (%)	1.1%	1.3%	1.5%	1.7%
EV/Sales	1.8x	1.6x	1.5x	1.4x
EV/EBITDA	21.2x	17.6x	15.3x	13.5x
EV/EBIT	28.9x	23.3x	20.2x	17.6x

Yesterday morning adidas pre-released some of its Q2 numbers given the significant discrepancy with consensus estimates. Following an impressive operating performance in Q2 (sales up 21% FX-n, op profit up 77% and ~47% excl. one-time gain related to the early termination of the Chelsea contract), the group has revised its FY 2016 sales and earnings targets upwards for the third time in a row since March. We will adjust our FY16-18 expectations after the H1 results conference call next week (4th August), hence we are placing our FV under review.

ANALYSIS

- **Group sales reached EUR4.4bn (+13%)** close to the consensus' expectations (EUR4.4bn) as reported but once again **organic growth beat estimates (+21% FX-n vs. +19%e)**, hence no deceleration vs. the first quarter (+22% FX-n). In our view, this performance should be more balanced between **Sport Performance** and **Lifestyle** (+22% FX-n and +45% respectively in Q1) as the former was boosted by major sporting events in **Football** (Copa America, EURO Championship) and ahead of the Rio Olympic Games that kick off next week. Naturally other categories like **Training** or **Running** should also grow in double-digits. All key regions have grown at double-digit growth rates but the performance from **North America** will be interesting to track (BG: +20%e) as it would be a symbol of the success of ADS' new strategy.
- **Group operating profit soared 77% to EUR414m (CS: EUR330m).** This implies an approx. 340bp-improvement in operating margin to 9.4%. Even if this performance was partly helped by a one-off gain of ~EUR70m (~+160bp, *see below*), we believe that ADS' GM benefited from: **(i)** a positive price/product/geo mix that offset the negative FX impact and **(ii)** significant operating leverage, helped by strong organic growth.
- **A one-time gain of EUR70m (BG ests) registered in Q2.** Last May, the Group announced the early termination by mutual consent of its existing partnership agreement with Chelsea Football Club (started in 2006), which will now end on 30th June 2017 instead of 30th June 30 2023 initially. As a result, the German group has received a compensation payment that we initially estimated at EUR60m but in light of the announcement yesterday, we now assume a EUR70m one-off gain that plays positively in Q2 (+160bp) and in 2016 (~40bp).
- **Third sales and earnings guidance upgrade this year.** Beside the sales target upgrade in February ("double-digit growth vs. "high single digit"), the Group has increased its sales and earnings guidance three times in a row, as highlighted in the table below. ADS now expects top line growth in the high teens and considering the above-mentioned margin tailwinds, ADS is targeting a 35-39% increase in net income from continuing operations to EUR975-1,000m.

Main FY16 guidance:

	March '16	April '16	May '16	July '16
Sales FX-n growth	+10-12%	"Around 15%"	"Around 15%"	"High teens"
Operating margin	6.5%	6.6-7%	"Around 7%"	"Up to 7.5%"
Net income * growth	+10-12%	+15-18%	"Around +25%"	+35-39%

** Net income from continuing operations*

Source: Company Data

VALUATION

- No time to stop! After a 56% rally in 2015, the share price has soared 60% ytd to record levels. Pending the H1 results conference call that will provide more details about H2 and beyond (e.g.: operating leverage, future divestiture of TMaG, etc.), we place our FV under review.

NEXT CATALYSTS

- adidas Group is due to report H1 2016 earnings on 4th August.

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TMT

Altran Technologies

Price EUR12.85

Q2 2016 conference call feedback: growth momentum becoming more positive

Fair Value EUR14 vs. EUR13 (+9%) **BUY vs. NEUTRAL**

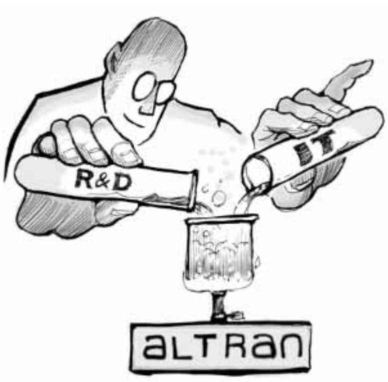
Bloomberg	ALT FP
Reuters	ALTR.PA
12-month High / Low (EUR)	13.4 / 9.6
Market Cap (EUR)	2,259
Ev (BG Estimates) (EUR)	2,416
Avg. 6m daily volume (000)	233.6
3y EPS CAGR	16.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	9.4%	0.4%	13.7%	4.1%
Softw.& Comp.	15.2%	7.2%	9.3%	4.0%
DJ Stoxx 600	7.2%	-2.7%	1.4%	-7.2%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	1,945	2,129	2,322	2,485
% change		*9.5%*	*9.1%*	*7.0%*
EBITDA	208	238	276	319
EBIT	155.0	186.0	222.0	261.0
% change		*20.0%*	*19.4%*	*17.6%*
Net income	123.0	142.0	168.0	195.0
% change		*15.4%*	*18.3%*	*16.1%*

	2015	2016e	2017e	2018e
Operating margin	9.6	10.1	10.8	11.7
Net margin	5.2	5.6	6.2	6.9
ROE	12.6	13.6	15.0	16.0
ROCE	15.0	15.2	17.3	20.1
Gearing	18.0	18.0	7.0	-5.0

(€)	2015	2016e	2017e	2018e
EPS	0.70	0.81	0.96	1.11
% change	-	*15.7%*	*18.5%*	*15.6%*
P/E	18.4x	15.9x	13.4x	11.6x
FCF yield (%)	3.6%	4.9%	6.5%	7.7%
Dividends (€)	0.20	0.25	0.30	0.30
Div yield (%)	1.6%	1.9%	2.3%	2.3%
EV/Sales	1.2x	1.1x	1.0x	0.9x
EV/EBITDA	11.5x	10.2x	8.4x	6.9x
EV/EBIT	12.9x	11.2x	9.3x	7.6x



We upgrade our rating to Buy from Neutral and raise our DCF-derived fair value to EUR14 from EUR13 as we increase our medium-term lfl revenue growth rate to 7% from 6%. As for Alten, Altran sees growth momentum becoming increasingly solid, beyond the calendar effect in our view. Net staff hiring is accelerating, reflecting stronger demand for High-tech consulting services.

ANALYSIS

- **Still targeting flat revenues in Germany for 2016**. Management admits that Germany, at +0.1% lfl in Q2, was not exactly at the level it initially expected (+8%). In fact, the +0.1% reported for Q2 (-5.1% restated from calendar effects) was negatively impacted by the shutdown of a low added-value training business (EUR2-3m revenues) and the subcontracting of some contracts in Spain due to the lack of local resources in Germany (EUR2-3m revenues). That said, management remains still expects it to be flattish for the full year, which implies 5% growth restated for the calendar effect. This lack of resources is concentrated in Automotive, while other industries are growing. Hiring is in progress in Germany (+100 staff) while restructuring should be broadly complete in H2. Small acquisitions are planned to rebuild capacity and accelerate the ability to provide resources to customers, as the pipeline is growing. The invoicing rate in Germany remains below target, but is progressing (+3ppt over Q2, +2ppt over H1).
- **Performance by geography in Q2**. On a lfl basis, France was up 10.6% (+5.9% ex-calendar effects), Germany up 0.1%, Benelux up 1% (still impacted by the historical business in the Netherlands and Banking in Belgium), the UK up 11.9%, Scandinavia up 14.7%, Switzerland up 26.3%, Italy up 6.9%, Iberia up 19.5% (benefiting from the business subcontracted from Germany) , the US up 4.7% (less revenues on the historical business in Energy), India up 31.2% and China up 22.1%. In France, almost all the industries are growing (except Telecoms which remains tough), and growth was above 20% in Automotive, Civil aviation, Space and Life Sciences, while Banking grew by a high single-digit, and Energy was up almost +5%. Finally, revenues with Airbus were up 10%.
- **Update on hirings and World Class Centres**. The 459 net staff hirings in Q2 were purely organic, o/w half of them in France – the rest spread between Spain, Morocco and India. The pace of recruitment will remain aggressive, which puts some pressure on the invoicing rate without pushing it down. H2 hiring activity is expected to be as dynamic as in H1. World Class Centres are now 5, and 8 are planned by the end of this year. Of the 5 that are up and running, 3 are working well and 2 have been reworked. Of the 4,000 staff based in low-cost countries, 2,000 are based in India, 800 in Eastern Europe, 1,000 in Morocco, and 300 in Portugal.

VALUATION

- Altran's shares are trading at est. 11.2x 2016 and 9.3x 2017 EV/EBIT multiples.
- Net debt on 31st December 2015 was EUR138.3m (net gearing: 19%).

NEXT CATALYSTS

H1 2016 results on 8th September before markets open.

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Food retailing

Carrefour

Price EUR22.40

A few thoughts following the H1 2016 analysts' meeting

Fair Value EUR30 (+34%) **BUY**

Bloomberg	CA FP
Reuters	CARR.PA
12-month High / Low (EUR)	32.0 / 21.3
Market Cap (EURm)	16,940
Ev (BG Estimates) (EURm)	23,153
Avg. 6m daily volume (000)	3,317
3y EPS CAGR	10.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.6%	-13.1%	-11.5%	-15.9%
Food Retailing	4.8%	-5.3%	-2.0%	-3.6%
DJ Stoxx 600	7.2%	-2.7%	1.4%	-7.2%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	76,945	75,732	79,736	82,927
% change		*-1.6%*	*5.3%*	*4.0%*
EBITDA	3,914	3,895	4,286	4,593
EBIT	2,187	2,449	2,764	3,010
% change		*12.0%*	*12.8%*	*8.9%*
Net income	1,113	1,162	1,370	1,536
% change		*4.4%*	*18.0%*	*12.1%*

	2015	2016e	2017e	2018e
Operating margin	3.2	3.2	3.5	3.6
Net margin	1.4	1.5	1.7	1.9
ROE	NM	NM	NM	NM
ROCE	9.6	8.8	9.7	10.2
Gearing	42.6	43.4	38.4	33.5

(EUR)	2015	2016e	2017e	2018e
EPS	1.54	1.58	1.87	2.09
% change	-	*2.9%*	*18.0%*	*12.1%*
P/E	14.6x	14.1x	12.0x	10.7x
FCF yield (%)	NM	0.3%	5.7%	6.6%
Dividends (EUR)	0.93	1.05	1.14	1.24
Div yield (%)	4.2%	4.7%	5.1%	5.5%
EV/Sales	0.3x	0.3x	0.3x	0.3x
EV/EBITDA	5.7x	5.9x	5.4x	5.0x
EV/EBIT	10.3x	9.5x	8.3x	7.6x

Yesterday, in our first take comment, we wrote that Carrefour's equity story (12,4x 2017 P/E vs 16,5x for peers) could appear to be an endless prelude and that we could start running out of patience. We added that the share price direction was not clear because, at some point, we struggle to understand the post-turnaround commercial strategy. If investors are not supposed to focus on "short-term market share monitoring", as the saying goes, then we should try to clarify the long-term aim (i.e. omnichannel and premiumisation).

We hoped management would shed more light on this subject at the analysts' meeting. Following a difficult communication exercise during the last FY, the share's reaction depended on management's message, which we found quite clear, or, at least, clearer than during the last FY. The outline of the omni/multi-channel strategy is taking shape in France (46% of EBIT excl. central costs) and is being distilled by management:

1/ The logistical overhaul (a prerequisite to any retail initiative / EUR360m in potential gains of which around 40% already delivered / notably a 20% cut in transportation costs since the Caravelle project was launched, we understand), **2/** work on the offer (i.e. premiumisation to build up niche growth), **3/** conversion of Dia France following the takeover (densification of the network from a click & collect perspective), **4/** design of a future connected ecosystem in malls. Abroad (54%), the country and format mix should help maintain the conditions for growth. All these points are only a link in a real digital and multi-channel strategy.

As far as FCF is concerned, management admits that the current level is not satisfying but that it should increase going forward especially thanks to the dilution on circumstantial capex. Indeed, over the past two years, Carrefour has revamped its hypermarkets in Europe (i.e. ~EUR300/400m pa) and is currently converting Dia stores to Carrefour's banners (i.e. ~EUR100m pa). On the whole, around EUR400-500m in one-off capex was spent in 2015 and this should progressively be diluted and help boost FCF.

Italy should also return to profit from 2016 while Dia France should be at breakeven in 2017. Last but not least, even if the statement was not very clear, the CEO nevertheless indicated that, following cost cutting moves, potential for operating margin appreciation would be around 0.5% going forward (i.e. 2018?), whether in France or abroad. Previously, management was blamed for not providing any guidance and today, seems to be punished (share currently down 5%) for providing an encouraging target. We believe the market must be aware of what it wants!

So far 412 out of 648 Dia stores have been converted. Out of the 412 renovations (115 in Q1, 145 in Q2 => Clearly a strong ramp-up). All of the network should be renovated by the end of the year. In our view, Dia should help to reinforce Carrefour's multi-format strategy with a differentiated offer (organic food notably), more convenience stores (especially in the Paris area) and a densification of the network (from an omni- channel perspective)! Our understanding is that stores converted to Carrefour City and Carrefour Contact banners are showing a +7-8% sales hike and growth seems to be even higher when it comes to Carrefour Market.

Ultimately, the CFO commented on current consensus expectations. At this stage of the year and bearing forex in mind, the EUR2.470m in operating profit currently expected by the consensus (vs EUR2.45 BG estimates) seems to be a reasonable assumption. It is worth remembering that in 2015, Carrefour was able to maintain its FY guidance throughout the year. Several events could now shake up the equity story and especially the Carmila IPO in a low rates environment and that of Brazil (the prospect of which has been confirmed by management, potentially in 2017).

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Food retailing

Casino Guichard

Price EUR51.49

H1 (first take): Food Retail in France in line / some caution in the wording of the guidance?

Fair Value EUR57 (+11%) **BUY**

Bloomberg	CO FP
Reuters	CASP.PA
12-month High / Low (EUR)	69.3 / 35.2
Market Cap (EURm)	5,793
Ev (BG Estimates) (EURm)	9,283
Avg. 6m daily volume (000)	553.2
3y EPS CAGR	7.9%

	1 M	3 M	6 M	31/12/15
Absolute perf.	12.3%	0.0%	31.3%	21.4%
Food Retailing	9.4%	-3.6%	0.6%	-1.7%
DJ Stoxx 600	11.0%	-1.6%	0.7%	-6.3%

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

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

(EUR)	2015	2016e	2017e	2018e
EPS	2.80	2.09	3.04	3.51
% change	-	*-25.1%*	*44.9%*	*15.8%*
P/E	18.4x	24.6x	17.0x	14.7x
FCF yield (%)	NM	2.2%	9.7%	8.1%
Dividends (EUR)	3.12	3.12	3.12	3.12
Div yield (%)	6.1%	6.1%	6.1%	6.1%
EV/Sales	0.3x	0.2x	0.2x	0.2x
EV/EBITDA	5.9x	4.6x	4.4x	4.2x
EV/EBIT	14.2x	7.8x	7.4x	7.1x

Most of Casino's subsidiaries have already released their own statement. Hence, today's focus is more on France where underlying operating margin was up 150bp (vs +131bp expected by the consensus), resulting in operating profit of EUR85m (vs EUR67m e / but in line when excluding profit from property development). On the whole, underlying net loss worked out to EUR3m vs a EUR20m loss expected by the consensus. The group confirmed the EUR500m target for annual trading profit in France in 2016 (vs ~EUR460m for the consensus), "subject to consumption trends remaining intact" (stay tuned...). Ahead of the analysts' meeting we maintain our Buy recommendation.

1/ France (~27% of EBIT in H1 / +0.9% LFL excl. fuel and calendar in H1): taking into account the impact of the so called "Tascom" (tax on selling area) which, from now on, will be spread over the FY vs H1 previously (i.e. impact of around EUR10-15m in H1 2016), underlying operating profit worked out at EUR85m (vs EUR67me), which translated into a 150bp increase in margin (vs +131bpe) to 0.9%. Excluding property development (EUR49m vs EUR81m in 2015), trading profit from the food retail business worked out to EUR36m (+EUR170m vs 2015), i.e. +186 bp increase in margin.

2/ LatAm retail (~67% of EBIT in H1 / +5.4% LFL in H1): strong price investments in Brazil had quite a significant impact on current EBIT, which reached EUR212m (vs EUR205me) and triggered a 73bp decline in margin (-84bpe) to 3.1%. However, we do not view this performance negatively insofar as the group's focus on the topline seems quite healthy to us.

3/ LatAm electronics (~32% of EBIT in H1 / -5.6% LFL in H1): Latam electronics showed a sequential improvement (+2.6% in Q2 vs -11.8% in Q1 16) which, along with strong cost cutting moves, limited margin erosion to 195bp vs -239bp e (underlying EBIT of EUR100m vs EUR90m e). **4/ E-Commerce (~-25% of EBIT in H1 / -10.8% LFL):** unsurprisingly, given poor commercial performances (-10.8% LFL in H1) in Brazil especially, losses at Cnova remained significant at -EUR80m (vs EUR72m e).

In terms of outlook, in France, the group will pursue sales growth and profitability improvement. The group confirmed the EUR500m target for annual trading profit in France in 2016, subject to ongoing consumption trends (doomsayers may identify a kind of reservation in the wording). At this stage of the year, it seems that the consensus has taken ~EUR460m into account in its estimates.

ANALYSIS

- Casino's rather resilient performances deserve to be emphasized in a circumstantially poor consumption environment in France. Moreover, outside France, we see positive signs in LatAm both at Via Varejo (which seems to have bottomed out) and Food Retail.
- Obviously, these commercial performances have been achieved at the expense of margins. But in the end, we appreciate management's wise focus on topline, something it has been criticised for not doing enough in the past.
- Today, the key issue is whether the group is objectively able to deliver its full year guidance. The group confirmed the EUR500m target for annual trading profit in France in 2016, subject to consumption trends remaining intact. Detractors may identify some caution in the wording.

VALUATION

- At current levels, Casino shares are trading at a 9% discount vs spot SOTP (EUR55) **1/** whereas the 5Y historical average displays a ~15% premium, and **2/** despite strong measures to restore investor confidence. It is also worth remembering that for a Rallye share price at EUR16, Casino is implicitly valued at EUR62 (i.e. reversed NAV calculation).
- We believe the stock deserves a re-rating once the street is convinced that FY guidance for EUR500m in underlying operating profit in France is achievable. In this regard, the H1 2016 results publication will be key first step.

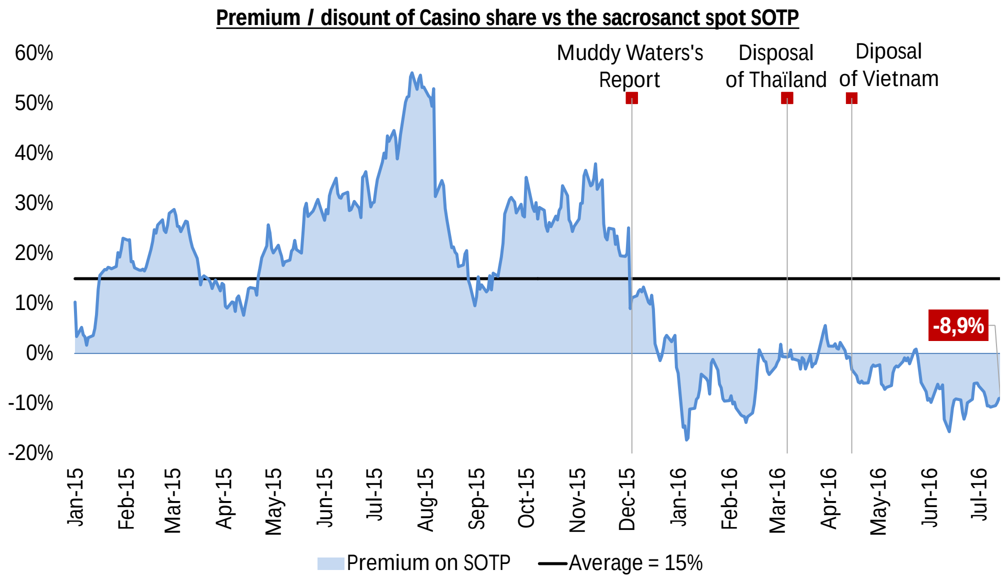
NEXT CATALYSTS

- Guidance achieved in France in 2015

H1 results

	H1 2015	H1 2016	Consensus
Sales			
France Retail	9 136	9 264	9 264
LatAm Retail	7 803	6 836	6 836
LatAm Electronics	2 924	2 182	2 182
E-commerce	1 719	1 391	1 391
Group	**21 582**	**19 673**	**19 673**
ROC			
France Retail	-53	85	67
Excl. Property	*-134*	*36*	*37*
LatAm Retail	299	212	205
LatAm Electronics	191	100	90
E-commerce	-50	-80	-72
Group	**387**	**317**	**290**
Margin			
France Retail	-0,6%	0,9%	0,7%
Excl. Property	*-1,5%*	*0,4%*	*na*
LatAm Retail	3,8%	3,1%	3,0%
LatAm Electronics	6,5%	4,6%	4,1%
E-commerce	-2,9%	-5,8%	-5,2%
Group	**1,8%**	**1,6%**	**1,5%**
Margin evolution			
France Retail	-175 bp	150 bp	131 bp
Excl. Property	*na*	*186 bp*	*na*
LatAm Retail	-78 bp	-73 bp	-84 bp
LatAm Electronics	-141 bp	-195 bp	-239 bp
E-commerce	-253 bp	-284 bp	-227 bp
Group	**-138 bp**	**-18 bp**	**-32 bp**

Sources: Casino, Bryan Garnier estimates



Source: Casino, Datastream, Bryan Garnier estimates

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Cast

Price EUR3.54

Q2 2016 sales below expectations, but full-year growth target reiterated

Fair Value EUR3.6 (+2%) **NEUTRAL**

Bloomberg	CAS.PA
Reuters	CAS FP
12-month High / Low (EUR)	3.7 / 3.0
Market Cap (EUR)	57
Ev (BG Estimates) (EUR)	42
Avg. 6m daily volume (000)	8.60
3y EPS CAGR	ns

	1 M	3 M	6 M	31/12/15
Absolute perf.	5.7%	5.4%	6.0%	17.2%
Softw.& Comp.	15.2%	7.2%	9.3%	4.0%
DJ Stoxx 600	7.2%	-2.7%	1.4%	-7.2%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	36.3	40.1	45.3	50.7
% change		*10.3%*	*13.0%*	*12.0%*
EBITDA	1.3	3.4	4.6	6.3
EBIT	0.8	0.6	1.9	3.7
% change		*-14.5%*		*94.9%*
Net income	0.1	0.6	1.5	2.8
% change			*147.6%*	*87.4%*

	2015	2016e	2017e	2018e
Operating margin	2.4	1.9	4.5	7.6
Net margin	0.1	1.4	3.2	5.4
ROE	0.4	4.2	9.6	15.3
ROCE	139.6	-27.3	-42.2	-56.9
Gearing	-99.3	-114.3	-121.7	-125.6

(EUR)	2015	2016e	2017e	2018e
EPS	0.00	0.04	0.10	0.18
% change	-		*147.8%*	*87.4%*
P/E	NS	91.5x	36.9x	19.7x
FCF yield (%)	0.8%	4.8%	5.1%	7.4%
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	1.2x	1.0x	0.9x	0.7x
EV/EBITDA	33.7x	12.1x	8.4x	5.5x
EV/EBIT	51.5x	55.5x	19.2x	9.0x

Yesterday evening, Cast reported Q2 2016 sales 12% below our forecast, due to the slippage of two large transactions, of which one with a US bank based in London after the referendum for Brexit. However, management is confident that it deliver on its commitment for at least 10% revenue growth in 2016 as this deal is likely to be closed in Q3 and the deal flow is promising. We cannot rule out a negative share price reaction in the short-term, but Q3 sales may engender a catch-up.

ANALYSIS

- **Q2 2016 below expectations due to two deal slippages**. For Q2 2016, Cast reported sales down 11.4% to EUR7.9m, or 12% below our EUR9m estimate. Excluding fx headwinds of EUR0.1m (USD), we estimate the Q2 decline at -10.2%. For H1 2016, sales totalled EUR14.6m, down 1.6% (-0.9% excl. fx headwinds of EUR0.1m). During the quarter, the company suffered from the slippage of two large transactions at the end of June: one with a US bank based in London just after the referendum on Brexit, the other with a large IT Services firm which was recently acquired by a Japanese competitor - we understand this is Dell Services, sold to NTT Data. Management estimates the gap between actual revenues and the budget was EUR2.5m, which means that, excluding these slippages, Q2 2016 revenues would have been up 16-17% to c. EUR10.5m.
- **2016 guidance reiterated**. Despite the transactions postponed, management reiterates 2016 guidance, i.e. sales up above 10% and a positive operating profit. Their confidence is underpinned by three elements: 1) a strong sales pipeline, whether it is direct and indirect, and well-balanced across geographies (Europe, US, India); 2) pre-closing discussions with the US bank resumed three weeks later and, excluding unpredictable events, the transaction should be signed in Q3; 3) the deal with the large IT Services company is unlikely to be closed before 2017, as the buyer plans to resume talks once the merger is complete, but Cast's management estimates the deal flow is big enough elsewhere to offset this delay. Finally, due to the deals that slipped, the management considers the operating loss in H1 2016 will deteriorate compared to H1 2015 (-EUR2.4m).
- **Update on partnerships**. Management considers the ramp-up of the partnerships Cast has with systems integrators and management consulting firms continues to provide new revenue opportunities. In particular, the alliance with BCG, which has been slow to ramp up so far, entered the next stage with the appointment of four 'sponsor' consultants at BCG dedicated to Cast, and a dozen deals are in the pipeline, but still for modest amounts (EUR50-100k each for audits).

VALUATION

- Cast's shares are trading at 55.5x 2016e and 19.2x 2017e EV/EBIT multiples.
- Net cash position on 31st December 2015 was EUR13m (net gearing: -99%).

NEXT CATALYSTS

H1 16 results on 12th September after markets close.

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Food & Beverages

Danone

Price EUR67.93

Bloomberg	BN FP
Reuters	DANO.PA
12-month High / Low (EUR)	67.9 / 53.1
Market Cap (EUR)	44,555
Ev (BG Estimates) (EUR)	62,954
Avg. 6m daily volume (000)	1 669
3y EPS CAGR	8.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	11.5%	8.5%	10.9%	9.1%
Food & Bev.	4.8%	3.0%	3.4%	0.0%
DJ Stoxx 600	7.2%	-2.7%	1.4%	-7.2%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	22,412	21,911	26,315	27,678
% change		*-2.2%*	*20.1%*	*5.2%*
EBIT	2,892	2,985	3,631	3,982
% change		*3.2%*	*21.7%*	*9.7%*
Net income	1,791	1,874	2,061	2,323
% change		*4.6%*	*10.0%*	*12.7%*

	2015	2016e	2017e	2018e
Operating margin	12.9	13.6	13.8	14.4
Net margin	8.0	8.6	7.8	8.4
ROE	10.2	14.7	16.0	16.6
ROCE	11.0	12.4	14.5	15.5
Gearing	61.6	141.8	127.9	113.7

(EUR)	2015	2016e	2017e	2018e
EPS	2.93	3.04	3.35	3.77
% change	-	*3.8%*	*10.0%*	*12.7%*
P/E	23.2x	22.3x	20.3x	18.0x
FCF yield (%)	3.7%	3.8%	4.1%	4.5%
Dividends (EUR)	1.60	1.66	1.83	2.06
Div yield (%)	2.4%	2.4%	2.7%	3.0%
EV/Sales	2.3x	2.9x	2.4x	2.2x
EV/EBIT	18.1x	21.1x	17.2x	15.5x

Good H1 results, but weak visibility going forward

Fair Value EUR67 (-1%) **NEUTRAL**

Yesterday, Danone posted a good set of results that showed strong improvement in the EBIT margin and gradual recovery of Dairy. However, we think the visibility remains weak. We have doubts about Water and Baby food in China and the rationale of the WhiteWave acquisition. We fine tune our estimates, but maintain our Neutral recommendation and our Fair Value of EUR67.

ANALYSIS

- **A good set of results, helped by one offs.** Q2 organic sales were up 4.1%, above the Q1 trend (+3.5%) mainly thanks to an acceleration by Dairy and Early life nutrition. The EBIT margin increased 125bps in reported terms and 93bps organically to 13.37%. This was above forecasts (consensus: 12.92% and our estimate: 13.15%), thanks to the Early Life Nutrition division (+353bps in organic) which benefitted from easy comps (a fire in a factory and the dumex adaptation costs in H1 2015) and the decline in prices of milk powder.
- **Dairy on the right track. Yoghurts posted 3% organic sales growth in Q2, above the Q1 trend** (+2.3%). Surprisingly, volumes dropped 2.2%, in line with Q1 (-2.1%), due to the decline in low value-added segments in CIS as part of the group's strategy to premiumise its portfolio. **The acceleration in OSG was driven by Europe which dropped low single digit, improving vs Q1.** The group said that the relaunch of Actimel and Danonino have started to pay off. Both brands were back to positive sales growth in H1. Danone will relaunch Activia at the end of Q3. The United States enjoyed very good momentum, with organic sales up mid single in Q2 and in Q1, partly thanks to successful innovations and investments behind the brands.
- **Continuing difficulties for Mizone in China. Destocking of Mizone in China (7% of the group's EBIT) is not over at the end of H1**. We had flagged that risk in our paper dated June 15th. **The company said that growth in the market for non-alcoholic beverages in the country is now flat to low single digit.** When it released its 2015 results, the market's growth was running at 5-10% and Mizone was expecting to return to this pace of growth.
- **Regulatory issues on Baby Food in China.** Danone said that, as a result of the regulation of cross border ecommerce, traders are currently in a wait-and-see mode and may be transferring part of their business from Europe to Oceania. The group is accelerating the conversion from indirect to direct sales. **It indicated that the baby food market in China is up low to mid single digit.** In July **2015** when we initiated the coverage of the company, **Euromonitor was expecting the market to grow annually by 22% on average (16% on average in volume).**
- **Fine tuning estimates.** We **now expect 3.4% organic sales growth in 2016 (vs 3.2% previously). In Q3, organic sales should decelerate vs H1.** Our estimate calls for +2.6%. This should be driven by 1/ Yoghurts impacted by tough comps and weak momentum in CIS and ALMA and 2/ regulation in Chinese Early life nutrition. In Q3, Waters should continue to grow around 3% due to tough comps, flooding in China and ongoing destocking of Mizone. **We expect the EBIT margin to rise 66bps to 13.6%, with +51bps in organic**, +6bps due to FX and +10bps due to perimeter.

VALUATION

- At yesterday's share price, the stock is trading at 22.3x P/E 16e and 20.3x P/E 17e, +2% and -1% vs the peers' average.

NEXT CATALYSTS

- Nestlé: H1 2016 results due on August 18th

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Food & Beverages

Diageo

Price 2,192p

Bloomberg	DGE LN
Reuters	DGE.L
12-month High / Low (p)	2,192 / 1,640
Market Cap (GBP)	55,182
Ev (BG Estimates) (GBP)	63,817
Avg. 6m daily volume (000)	4 588
3y EPS CAGR	7.2%

	1 M	3 M	6 M	31/12/15
Absolute perf.	13.3%	16.8%	19.0%	18.1%
Food & Bev.	4.8%	3.0%	3.4%	0.0%
DJ Stoxx 600	7.2%	-2.7%	1.4%	-7.2%

YEnd Jun. (GBPm)	06/15	06/16	06/17e	06/18e
Sales	10,813	10,485	11,718	12,261
% change		*-3.0%*	*11.8%*	*4.6%*
EBITDA	3,390	3,323	3,893	4,181
EBIT	3,066	3,008	3,483	3,691
% change		*-1.9%*	*15.8%*	*6.0%*
Net income	2,225	2,304	2,549	2,743
% change		*3.6%*	*10.6%*	*7.6%*

	06/15	06/16	06/17e	06/18e
Operating margin	28.4	28.7	29.7	30.1
Net margin	22.8	22.0	23.5	23.4
ROE	24.0	19.0	14.5	14.6
ROCE	12.3	12.7	11.4	11.8
Gearing	17.7	16.0	13.4	11.9

(p)	06/15	06/16	06/17e	06/18e
EPS	88.40	91.50	101.24	108.95
% change	-	*3.5%*	*10.6%*	*7.6%*
P/E	24.8x	24.0x	21.7x	20.1x
FCF yield (%)	3.6%	3.8%	4.0%	4.3%
Dividends (p)	56.40	59.22	62.77	67.17
Div yield (%)	2.6%	2.7%	2.9%	3.1%
EV/Sales	6.0x	6.1x	5.4x	5.1x
EV/EBITDA	19.1x	19.2x	16.2x	14.9x
EV/EBIT	21.1x	21.2x	18.1x	16.9x

Entering 2016/17 in a better position

Fair Value 2100p vs. 1840p (-4%) NEUTRAL

Diageo thinks momentum will improve next year. We still expect organic sales and EBIT to grow respectively 3.8% and 4.9%. The company reiterated its medium term guidance for mid single digit sales growth and a 100bp margin improvement between 2016/17 and 2018/19. We have revised our EBIT estimates upwards by 10% on average over the next three years to take into account the decrease in the GBP following Brexit. Our Fair Value is adjusted from 1840p to 2100p. Neutral recommendation maintained.

ANALYSIS

- **Growing the scotch business is one of Diageo's point of emphasis**. In 2015/16, scotch showed an improvement that should continue in 2016/17. Last year, Buchanan's grew double digit and Johnnie Walker was back in growth led by the reserve offerings up 10%. In the US, the strong multi-cultural dynamic should support scotch growth as Hispanic and Asian consumers have an affinity with the category.
- **Strengthening the US spirits business is also a priority.** In 2015/16, Diageo's fastest growing brands in the country were Buchanan's, Crown Royal, Don Julio and Bulleit. Sales of Smirnoff rose 2% against a decline of 4% in 2014/15. Captain Morgan was also back in growth (+2%). More price adjustments should be made on Smirnoff and Captain Morgan next year. The group will also 1/ increase marketing effectiveness by building an integrated approach across digital and traditional platforms, 2/ be more disciplined in how it measures and evaluates the brand spend, 3/ use time limited innovations to meet specific consumer opportunities and 4/ focus on productivity.
- **Diageo will also focus on continuing to expand the Indian business.** The country accounts for 10% of the group's sales. Organic sales in India grew 5% in 2015/16, helped by the relaunches in the prestige segment of Royal Challenge, McDowell's No. 1 and Signature. Diageo said that USL is now a business in good shape to grow share. The indian company is well placed to capture growth in the market given its brand range across categories and price points.
- **The group's objective remains mid single digit organic sales growth and a 100bp margin improvement between 2016/17 and 2018/19.** Diageo thinks momentum will improve next year. We maintain our estimate of 3.8% organic sales growth, accelerating vs last year (+2.8%). EBIT should grow 4.9% organically, implying a 30bp margin improvement. The company indicated that the exchange rate movement in 2016/17 should positively impact net sales by around GBP11bn and operating profit by GBP370m. This is the result of the weakness of GBP following the Brexit. We revise upwards our EBIT estimates by 10% on average over the next three years.

VALUATION

- Our DCF now points to a Fair Value of 2100p. At yesterday's share price, the stock is trading at 18.1x EV/EBIT 2016/17e, 9% above the peer average.

NEXT CATALYSTS

- Campari is due to release H1 2016 results on 2nd August

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Dialog Semiconductor

Price EUR30.08

Bloomberg	DLG GR
Reuters	DLGS.DE
12-month High / Low (EUR)	47.6 / 24.4
Market Cap (EURm)	2,342
Ev (BG Estimates) (EURm)	1,647
Avg. 6m daily volume (000)	6.80
3y EPS CAGR	10.1%

	1 M	3 M	6 M	31/12/15
Absolute perf.	13.6%	-5.7%	11.8%	-3.7%
Semiconductors	26.9%	23.1%	29.4%	20.2%
DJ Stoxx 600	7.2%	-2.7%	1.4%	-7.2%

YEnd Dec. (USDm)	2015	2016e	2017e	2018e
Sales	1,355	1,153	1,382	1,642
% change		*-14.9%*	*19.8%*	*18.9%*
EBITDA	360	276	373	457
EBIT	317.7	207.0	301.0	385.5
% change		*-34.8%*	*45.4%*	*28.1%*
Net income	238.4	162.0	234.7	309.0
% change		*-32.0%*	*44.8%*	*31.7%*

	2015	2016e	2017e	2018e
Operating margin	23.4	18.0	21.8	23.5
Net margin	17.6	14.0	17.0	18.8
ROE	17.3	21.1	13.0	14.7
ROCE	46.9	38.7	49.8	63.8
Gearing	-54.0	-62.6	-66.7	-70.8

(USD)	2015	2016e	2017e	2018e
EPS	3.02	2.08	3.06	4.03
% change	-	*-31.2%*	*47.2%*	*31.7%*
P/E	11.0x	16.0x	10.9x	8.3x
FCF yield (%)	9.3%	10.4%	6.8%	9.0%
Dividends (USD)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	1.5x	1.6x	1.2x	0.9x
EV/EBITDA	5.7x	6.6x	4.4x	3.1x
EV/EBIT	6.4x	8.8x	5.5x	3.7x

(Too much) cautiousness for Q4 and reiterated confidence for 2017 and 2018

Fair Value EUR37 (+23%) **BUY**

Following yesterday's guidance update (FY16 growth of -15% vs. high single digit before), we think that management's message and tone was reassuring during the conference call. Overall, we understand that Dialog prefers to adopt an (overly) cautious scenario regarding iPhone production in Q4 2016, creating room for a good surprise. The group believes that Apple will be prudent in its orders given what happened last year. In addition, Dialog confirmed that this adjustment had no impact on the strong momentum expected to be seen in 2017 and 2018. As a result, despite yesterday's adjustment, we continue to see improving momentum ahead and reiterate our Buy recommendation.

ANALYSIS

- **Regarding the guidance adjustment, the group clarified that this was not a problem of price pressure which is seen to remain flat.** The adjustment was apparently more what we consider as a high level of cautiousness regarding orders from Apple during the December quarter given 1/ a sluggish smartphone market and 2/ a lesson learnt last year by Apple regarding inventory build (which were so strong that inventories needed to be trimmed during Q1 and Q2). We also understand that the mix is unfavourable with a continuous decrease in tablets (in volume terms) which embed PMIC with a higher ASP compared to smartphones.
- **A reassuring message regarding 2017 and 2018.** So far, management has been very confident regarding growth over the two next years and, following yesterday's guidance adjustment, the risk was that the group would also announce lower expectations for 2017 and 2018. Without giving any details and without quantifying growth, the group stated that it is very confident regarding a content increase to materialise in 2017 and 2018. This will come from 1/ a more complex PMIC in flagship smartphones from Tier 1 OEMs (i.e. iPhone) and 2/ market share gains thanks to new product design wins (also a mixed signal chip but non-power so different from PMIC).
- **Don't forget China!** As we already highlighted in 2015, Chinese OEMs tend to go vertical regarding Application Processor design. As a result, we see this trend as positive for Dialog since they will be in a similar situation as Apple as they will need a high level of expertise regarding Power management. This was commented on today as a potential source of growth. In addition, we understand that the relationship between Dialog and the Chinese OEMs continues to strengthen. This market can also be a part of the group's confidence that management shared with investors regarding 2017/2018 growth.
- **Following yesterday's guidance adjustment, we have updated our model and trim our estimates.** We have applied a decrease of 14.8% to FY16 sales and an underlying gross margin of 46.1% (vs. 46.6% a year ago). We have also frozen the level of opex for the next two quarters, we still anticipate an acceleration in R&D investments but we believe it will be offset by more cautious SG&A expenses given the sluggish environement. In addition, we have fine-tuned our 2017 and 2018 estimates. Overall, our adjustments lead to an impact of -4% on EPS over the next three-year sequence. These adjustments are partly offset by an update to the FX rate (the group reports in USD and the share price is in EUR) with EUR/USD now at 1.10 vs. 1.11 before. As a result, the update has no impact on our FV.

VALUATION

- Although yesterday's guidance adjustment impacted negatively our short term expectations, we continue to believe that Dialog remains attractive. The share trades at low valuation ratios (2016e P/E ratios of 16.0x to be compared to fabless peers trading at 23x) and the new guidance now offers room for a good surprise during Q4 (i.e. at the Q3 publication, the group could communicate Q4 guidance). Looking beyond 2016, we see a rebound in momentum in both sales and margins (given the pressure on margin observed today), that should also provide a tailwind to for the share price. As a result, with attractive valuation metrics and short-term and mid-term catalyst ahead, we reiterate our Buy recommendation.

NEXT CATALYSTS

- 3rd November 2016: Q3 2016 results

Detailed P&L

[USDm]	1Q16	2Q16	3Q16e	4Q16e	FY16e	FY17e	FY18e
Total Group	**241**	**246**	**305**	**361**	**1153**	**1382**	**1642**
Q/Q growth	*-39.2%*	*1.8%*	*24.0%*	*18.6%*	*-14.9%*	*19.8%*	*18.9%*
Y/Y growth	*-22.4%*	*-22.4%*	*-7.8%*	*-9.0%*	*-14.9%*	*19.8%*	*18.9%*
Cost of goods sold	-134	-132	-166	-197	-629	-752	-893
Gross margin	**44.6%**	**46.3%**	**45.6%**	**45.5%**	**45.5%**	**45.6%**	**45.6%**
SG&A	-36	-31	-36	-28	-131	-144	-154
R&D	-58	-60	-56	-57	-231	-253	-294
Other operating income	16	9	9	4	39	55	51
Adj. EBIT	**30**	**33**	**59**	**84**	**207**	**301**	**385**
adj. operating margin	*12.4%*	*13.5%*	*19.5%*	*23.4%*	*18.0%*	*21.8%*	*23.5%*
EBIT	151	23	47	80	301	235	302
operating margin	*62.6%*	*9.3%*	*15.4%*	*22.1%*	*26.1%*	*17.0%*	*18.4%*
Net financial result	-2	1	1	1	1	3	3
Income tax	-4	-9	-11	-19	-42	-53	-62
tax rate	*-2.7%*	*-34.0%*	*-23.0%*	*-23.0%*	*-14.1%*	*-22.5%*	*-20.5%*
Adj. Net income (loss)	**22**	**27**	**47**	**67**	**162**	**235**	**309**
Net income (loss)	143	17	37	63	259	183	242
Dil. Adj. EPS (in USD)	**0.28**	**0.34**	**0.60**	**0.85**	**2.08**	**3.06**	**4.03**

Source: Bryan Garnier & Co. ests.

P&L changes highlights

[USDm]	Old			New			Old vs. New
	FY16e	FY17e	FY18e	FY16e	FY17e	FY18e	avg. Δ%
Net revenue	**1250**	**1467**	**1754**	**1153**	**1382**	**1642**	**-7%**
% change	*-7.8%*	*17.4%*	*19.6%*	*-14.9%*	*19.8%*	*18.9%*	
Adj. EBIT	243	314	384	207	301	385	-6%
Adj. operating margin	*19.5%*	*21.4%*	*21.9%*	*18.0%*	*21.8%*	*23.5%*	
Dil. Adj. EPS (in USD)	**2.38**	**3.12**	**3.96**	**2.08**	**3.06**	**4.03**	**-4%**

Source: Bryan Garnier & Co. ests.

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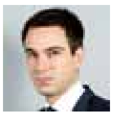

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Utilities

EDF

Price EUR11.00

Resilient set of H1-16 results and speeding up in company's transformation plan

Fair Value EUR13.8 (+25%) **BUY**

Bloomberg	EDF FP
Reuters	EDF.PA
12-month High / Low (EUR)	21.3 / 9.2
Market Cap (EURm)	22,146
Ev (BG Estimates) (EURm)	85,113
Avg. 6m daily volume (000)	2,612
3y EPS CAGR	-25.3%

	1 M	3 M	6 M	31/12/15
Absolute perf.	10.0%	-11.1%	-7.5%	-19.0%
Utilities	8.2%	0.0%	1.7%	-1.5%
DJ Stoxx 600	7.2%	-2.7%	1.4%	-7.2%

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

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

(EUR)	2015	2016e	2017e	2018e
EPS	2.27	1.21	0.96	0.95
% change	-	*-46.6%*	*-21.3%*	*-0.8%*
P/E	4.8x	9.1x	11.5x	11.6x
FCF yield (%)	NM	NM	NM	11.3%
Dividends (EUR)	1.10	0.91	0.75	0.75
Div yield (%)	10.0%	8.2%	6.8%	6.8%
EV/Sales	1.1x	1.1x	1.1x	1.1x
EV/EBITDA	4.6x	5.3x	5.6x	5.4x
EV/EBIT	19.1x	11.9x	13.9x	14.0x

EDF reported resilient results this morning with Group's EBITDA reaching EUR8.9b down 0.7% organically but 3% above consensus' expectations. Besides, the company appears to speeding up its transformation plan as shown by the extension to 50 years of c. 50% of company's nuclear assets and the sale of half of its stake in grid operator RTE at an attractive valuation. We confirm our Buy rating and maintain our FV to EUR13.8. Positive.

ANALYSIS

- **Main H1-16 metrics:** H1-16 revenues reached **EUR36.7bn**, down 4.6% organically. Group's EBITDA reached **EUR8.9bn** down 0.7% organically but **3% above consensus expectations**. The 2.8% organic decline in France (*as a consequence of the decline in the electricity prices and the end of Yellow and Green regulated tariffs*) and the **8.9%** organic decline in the UK have been offset by the strong performance in Italy *(+36.2% organically on the back on margins recovery from renegotiations of the Libyan gas contracts*) and in the Group's International division (*+11.6%).* Net income excluding non-recurring items amounted to **EUR2,968m**, up **1.4%** YoY. This has been notably spurred by the **EUR310m positive impact inherent to the extension to 50 years of the depreciation of company's nuclear reactors**. We estimate this should concern around 29GW of installed capacities out of Group's current 63GW nuclear capacities (excluding Fessenheim). Full-year impact on net income should reach c. EUR600m. Net financial debt reached **EUR36.2bn** while net debt/EBITDA ratio is at **2.1x**, in line with EDF's objective (2.0x-2.5x).
- On top of this resilient set of results, **the Group is speeding up its transformation plan** with **1/** Final Investment Decision on Hinkley Point C **2/** exclusive negotiations started for the sale of 50% of company's stake in grid operator RTE which could be completed by Q1-17 and whose impact on our FV could reach **EUR1.6 per share 3/** progress of discussions related to the compensation package over the closure of the Fessenheim plant. As for Areva's acquisition, the group indicated the signature of binding agreements between both groups will occur before the end of November 2016 (EV of EUR2.5bn for 100% with EDF still expected to take 51% to 75%).
- **Outlook confirmed**: As expected, EDF confirmed its objectives for 2016 (*which has been updated on 19th July and now includes the expected tariff adjustment as well as the revision of the nuclear output target*) with **1/** EBITDA between **EUR16.3bn and EUR16.8bn 2/** Net financial debt/EBITDA ratio between **2x** and **2.5x** and **3/** Payout ratio of net income excluding non-recurring items between **65%** and **75%.** The target to generate positive FCF post dividend and excluding investments on Linky was also confirmed.
- **Conclusion**: H1-16 operating metrics are reassuring despite the difficulties the group is facing in France following the opening of the Green and Yellow regulated tariffs to competition making us confortable with our 2016 estimates (*low range of group's guidance*). **All together, all news combined are quite positive for the investment case.** Conference call starts at 9.00 am.

VALUATION

- At current share price, EDF is trading at **5.3x** its 2016e EV/EBITDA multiple.
- Buy, FV @ **EUR13.8**

NEXT CATALYSTS

- 8th November 2016: Q3-16 earnings

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Utilities

Engie

Price EUR14.86

H1-16 EBITDA down 3% LfL as expected; 2016 guidance confirmed

Fair Value EUR16,8 (+13%) **BUY**

Bloomberg	GSZ FP
Reuters	GSZ.PA
12-month High / Low (EUR)	17.9 / 13.1
Market Cap (EUR)	36,176
Ev (BG Estimates) (EUR)	79,023
Avg. 6m daily volume (000)	6 126
3y EPS CAGR	-21.1%

	1 M	3 M	6 M	31/12/15
Absolute perf.	9.9%	3.1%	2.1%	-9.0%
Utilities	8.2%	0.0%	1.7%	-1.5%
DJ Stoxx 600	7.2%	-2.7%	1.4%	-7.2%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	69,883	70,944	67,779	68,851
% change		*1.5%*	*-4.5%*	*1.6%*
EBITDA	11,261	10,806	10,235	10,575
EBIT	-3,243	6,315	5,768	6,063
% change		*NS*	*-8.7%*	*5.1%*
Net income	4,950	2,516	2,348	2,507
% change		*-49.2%*	*-6.6%*	*6.8%*

	2015	2016e	2017e	2018e
Operating margin	-4.6	8.9	8.5	8.8
Net margin	7.1	3.5	3.5	3.6
ROE	10.2	5.2	4.9	5.2
ROCE	6.8	4.4	4.0	4.2
Gearing	61.5	57.8	60.6	61.2

(EUR)	2015	2016e	2017e	2018e
EPS	2.04	1.01	0.93	1.00
% change	-	*-50.7%*	*-7.1%*	*7.2%*
P/E	7.3x	14.8x	15.9x	14.8x
FCF yield (%)	0.7%	5.3%	4.8%	7.2%
Dividends (EUR)	1.00	1.00	0.70	0.70
Div yield (%)	6.7%	6.7%	4.7%	4.7%
EV/Sales	1.1x	1.1x	1.2x	1.2x
EV/EBITDA	6.6x	7.3x	7.8x	7.6x
EV/EBIT	NS	12.5x	13.9x	13.3x

Yesterday after market, Engie posted poor H1-16 EBITDA and net income growth, impacted by a negative comparison base and the ongoing decline in power and commodity prices. As expected, the first semester of the year will be more negatively impacted than the second, allowing the group to feel comfortable with its 2016 targets. The group's strategic change seems well advanced, making us comfortable with our Buy rating. Positive.

ANALYSIS

- **Main H1-16 metrics**: H1-16 sales came out at **EUR33.5bn**, down **13%** YoY and down **12%** LfL with most of the underperformance coming from depressed commodity prices. EBITDA came out in line with expectations at **EUR5.65bn** (*BG at EUR5.75bn*) reflecting a **4.1%** LfL decline compared with last year, vs. **+2.3%** posted in Q1-16. Most of the EBITDA decline came from Latam *(-12.5% YoY*), E&P *(-16%*) and most importantly from GEM-LNG business (*negative EBITDA contribution*) which more than offset the rise in nuclear volumes. Despite this significant margin deterioration, the group was able to post an **11.3% YoY** rise in net profit to **EUR1.24bn** thanks to **1/** lower impairment charges, **2/** positive perimeter effects and **3/** lower financial charges. Net recurring income (*Engie definition*) is, however, down **7%** to **EUR1.5bn,** in line with group's annual guidance. Net debt is down **EUR1.7bn** despite dividends, mainly thanks to the **EUR1.2bn** cash-in generated by the sale of the hydro merchant US activities and thanks to favourable FX effect, putting net debt/EBITDA ratio under the **2.5x** limit at **2.41x**.
- **What to retain from this publication: 1/**H1-16 EBITDA is affected by a negative base effect on the LNG business compared with last year, but this will not affect H2-16 earnings; **2/**Of the **EUR15bn** growth capex program, Engie has already spent **EUR2.1bn** while **EUR9bn** is commited to future projects, implying **EUR4bn** of capex remains earmarked for unknown projects. **3/**Lean 2018 program contributed positively to **EUR200m** on EBITDA, in line with the group's annual target of **EUR500m**. **4/**2016 targets have been confirmed despite this poor start to the year. As a reminder, the group still targets **EBITDA** of **EUR10.8-11.4bn** and a **NRI** at **EUR2.4-2.7bn,** implying H2-16 EBITDA growth of **0%** at the low-end of the guidance and at **+12%** at high-end.
- **Conclusion**: Given the ongoing transition phase the group is currently working on, 2016 metrics do, in our view, not reflect the growth potential of the group for long term investors. However, comments by management on costs-cutting, disposals and capex growth plans were reassuring, making the transformation more credible. At this stage, we keep our 2016-17 estimates unchanged as well as our **EUR16.8/share FV,** reflecting **12%** potential upside. As a reminder, our base case scenario, which assumes all group's targets will be reached by 2018, implies **EUR18/share FV** for Engie. **Buy.**

VALUATION

- At the current share price, Engie trades at **7.3x** its 2016e EBITDA and offers a **6.7%** yield
- Buy, FV @ EUR16.8

NEXT CATALYSTS

- November 10th 2016: Q3-16 earnings

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Luxury & Consumer Goods

Essilor

Price EUR121.60

Q2 LFL growth miss due to very weak trends in sun and photochromic lenses

Fair Value EUR130 (+7%) **BUY**

Bloomberg	EF FP
Reuters	ESSI.PA
12-month High / Low (EUR)	123.6 / 100.4
Market Cap (EUR)	26,520
Ev (BG Estimates) (EUR)	28,239
Avg. 6m daily volume (000)	497.1
3y EPS CAGR	10.7%

	1 M	3 M	6 M	31/12/15
Absolute perf.	4.7%	5.7%	9.3%	5.7%
Consumer Gds	6.1%	1.1%	4.2%	-1.7%
DJ Stoxx 600	7.2%	-2.7%	1.4%	-7.2%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	6,716	7,187	7,688	8,229
% change		*7.0%*	*7.0%*	*7.0%*
EBITDA	1,263	1,358	1,461	1,580
EBIT	1,183	1,288	1,391	1,515
% change		*8.9%*	*7.9%*	*8.9%*
Net income	757.1	844.5	932.1	1,027
% change		*11.5%*	*10.4%*	*10.2%*

	2015	2016e	2017e	2018e
Operating margin	17.6	17.9	18.1	18.4
Net margin	11.3	11.8	12.1	12.5
ROE	13.3	13.2	13.3	13.9
ROCE	20.0	20.4	20.9	21.6
Gearing	34.7	25.3	19.3	16.7

(€)	2015	2016e	2017e	2018e
EPS	3.57	3.98	4.39	4.84
% change	-	*11.5%*	*10.4%*	*10.2%*
P/E	34.1x	30.6x	27.7x	25.1x
FCF yield (%)	3.3%	3.4%	3.9%	4.1%
Dividends (€)	1.15	2.15	3.15	4.15
Div yield (%)	0.9%	1.8%	2.6%	3.4%
EV/Sales	4.3x	3.9x	3.6x	3.4x
EV/EBITDA	22.7x	20.8x	19.1x	17.6x
EV/EBIT	24.2x	21.9x	20.1x	18.4x

Essilor unveiled H1 sales of EUR3,583m (CS: EUR3,645m), up 5.1% reported and 4.1% LFL (CS: +5%). In Q2 alone, LFL growth was only 3.2% (CS: +5%) given a poor performance of the sunglasses business (-5.8% vs. +5.5%e => -1.3pp impact on LFL growth) and in North America (only Transitions is affected). In H1 the contribution margin contracted 20bp to 18.9% (CS: 19%). Ahead of the conference call today at 10.30am (CET), FY LFL growth target has been adjusted slightly to 4.5% vs. "around 5%" but the CM guidance is untouched ("at least 18.8"%).

ANALYSIS

- **Q2 sales grew 2.9% in reported terms (Q1: +7.5%).** The deceleration vs. Q1 firstly comes from a lower-than-expected LFL growth (+3.2% vs. +5%e vs. +5% in Q1), but also due to a more harmful FX impact (-4% in Q2 vs. -1.9% in Q1). The scope effect contributed for +3.7% (Q1: +4.4%).
- **Slowdown in North America but solid Europe.** Apparently this weak performance in **North America** (+1.5% LFL vs. +4.7% in Q1) is mainly explained by the significant sales decline to third parties at Transitions (photochromic lenses = affected by the bad weather?) since the other categories remain were well-oriented in Q2. On the positive side, **Europe** was strong again with +4.5% LFL (Q1: +4.7%), driven by the Nordic countries and Russia, whilst the Benelux countries returned to growth. The slight deceleration in the UK and Spain only due to demanding comparison bases.
- **Robust trends in LatAm and in Asia-Pacific.** Sales in **Latin America** were up 11.4% LFL (Q1: +9%) as sales in **Brazil** have picked up in Q2 (drivers: mid-tier Kodak brand, online business) whilst the activity in **Mexico**, **Colombia** and **Central America** remained strong. Sales in the **AMEA** region increased by 8.7% (Q1: +8.9%) driven by strong domestic demand in China and in India but also across S-K and Southeast Asia.
- **Bad weather conditions have significantly affected the S&R division (-5.8%).** In North America the unfavourable weather conditions have cleary impacted the sales of **Costa** and **FGX** (readers), the latter being also affected by the same headwind in Europe. Moreover the expected rebound of **Bolon** in China was longer-than-expected after the 33% sales drop in Q1 because of the implementation of the new ARTEMIS dealer fulfilment system at Bolon. Although we were anticipating a negative impact from the bad weather conditions, especially after the publication of Luxottica earlier this week, the magnitude is clearly more significant than we thought, causing almost a 1.3pp deviation on LFL growth (reported LFL growth vs. CS expectations). Sales in **Equipment** posted a second consecutive quarter of growth (+4.3% vs. +3.5%).
- **The contribution from operations came in at EUR677m (CS: EUR694.5m) in H1 (cf. *details overleaf*).** The product-mix (innovation, media push on the most profitable brands) and efficiency gains continued to play positively but the GM was impacted by the weak performance of Transitions (higher margins) as well as the dilutive impact from acquisitions, causing a 30bp contraction in the GM to 59.6%. Thanks to a tight opex cost control, **the CM only narrowed 20bp to 18.9% (CS: 19%)**. EPS increased by 6.4% to EUR1.95, driven by a favourable tax rate (26.1% vs. 29% the prior year).
- **FY16 LFL growth target slightly revised down to 4.5% vs. "around +5%".** Against the miss in Q2 caused by the disappointing performance in sunwear and a significant sales drop at Transitions, the Group **has decided to adjust moderately the LFL growth target to +4.5% vs. "around +5%" previously, which still implies a 5% LFL growth over H2.** As for the profitability, the group reiterates the CM target of "around 18.8%", hence a possible stable margin vs. 2015 (BG ests: +10bp to 18.9%).

VALUATION

- Following a good outperformance ytd (+10% vs. the CAC40 index) and in light of this Q2 miss/LFL growth target adjustment, we expect the share price to be under pressure today. However we would consider it as a buy opportunity over the MT since: **(i)** the miss is mostly due to temporary factors (bad weather), **(ii)** the lowered guidance still requires a 5% LFL growth in H2, representing an acceleration vs. H1 (+4.1%) and (iii) Group fundamentals are intact.

NEXT CATALYSTS

- Conference call today at 10.30am (CET) // Q3 sales on 22 October.

(To be continued next page)

LFL Quarterly Sales:

% change	Q1 15	Q2 15	Q1 16	Q2 16	Q2 16 - CS
North America	4.5	3.7	4.7	1.5	*5.0*
Europe	2.5	5.0	4.7	4.5	3.5
Asia-Pacific-Middle-East- Africa	5.6	5.2	8.9	8.5	8.7
Latin America	10.0	10.5	9.0	11.4	7.4
Lenses & Optical Instruments	**4.4**	**4.9**	**5.7**	**4.4**	**5.2**
Equipment	-2.1	-7.1	3.5	4.3	1.0
Readers & Sun	1.8	3.2	-1.5	-5.8	5.5
Total group	**4.0**	**4.4**	**5.0**	**3.2**	**5.0**

Source: Company Data

H1 16 Results:

EURm	H1 15	H1 16	*% change*
Sales	3,408	3,583	*5.1*
Gross Profit	2,041	2,135	*4.6*
Gross Margin (%)	59.9	59.6	*-30bp*
Contribution from operations	651	677	*4.0*
As a % of sales	19.1	18.9	*-20bp*
Operating Profit	614	646	*5.3*
Net result attributable to shareholders	388	416	*7.3*
EPS	1.83	1.95	*6.4*

Source: Company Data

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Indra Sistemas

Price EUR10.55

Q2 2016 results above consensus, 2016 targets confirmed but caution for H2

Fair Value EUR10 (-5%) **NEUTRAL**

Bloomberg	IDR SM
Reuters	IDR.MC
12-month High / Low (EUR)	10.9 / 7.7
Market Cap (EURm)	1,732
Ev (BG Estimates) (EURm)	2,356
Avg. 6m daily volume (000)	888.9
3y EPS CAGR	

	1 M	3 M	6 M	31/12/15
Absolute perf.	16.7%	0.5%	18.1%	21.7%
Softw.& Comp.	15.2%	7.2%	9.3%	4.0%
DJ Stoxx 600	7.2%	-2.7%	1.4%	-7.2%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	2,850	2,717	2,768	2,874
% change		*-4.7%*	*1.9%*	*3.8%*
EBITDA	131	221	297	359
EBIT	-642.0	159.0	231.0	289.0
% change		*NS*	*45.3%*	*25.1%*
Net income	-74.0	86.0	146.0	188.0
% change		*NS*	*69.8%*	*28.8%*

	2015	2016e	2017e	2018e
Operating margin	1.6	5.9	8.4	10.1
Net margin	-22.5	3.1	5.2	6.4
ROE	-208.1	21.2	26.9	25.7
ROCE	-21.5	12.4	18.4	22.6
Gearing	227.0	160.0	86.0	34.0

(€)	2015	2016e	2017e	2018e
EPS	-0.41	0.47	0.81	1.04
% change	-	*NS*	*72.3%*	*28.4%*
P/E	NS	22.4x	13.0x	10.1x
FCF yield (%)	NM	1.1%	8.6%	11.1%
Dividends (€)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	0.9x	0.9x	0.8x	0.7x
EV/EBITDA	18.6x	10.7x	7.4x	5.5x
EV/EBIT	54.0x	14.8x	9.5x	6.8x

This morning Indra reported Q2 2016 above consensus. Restructuring is advancing according to plan, net debt is flat. The management reiterates 2016 expectations but indicates that for H2 the economic, business and sector environment could cause some delays in certain projects. We expect the share price to react negatively short-term.

ANALYSIS

- **Q2 2016 results above consensus**. For Q2 2016, Indra has reported sales down 0.4% (+3% lfl) to EUR703.6m, or fully in line with our EUR703.4m estimate and 6% above consensus (EUR664.1m). Non-IFRS operating profit was EUR41.3m (5.9% of sales, +9.9ppt) while we expected EUR44.5m or 6.3% of sales (consensus: EUR37.3m or 5.6% of sales). Net profit was EUR18.9m (vs. a net loss of EUR416.1m in Q2 2015) or 22% below our EUR24.3m estimate (consensus: EUR17.9m). The IT business was down 4% lfl but was offset by a 15% lfl increase in the T&D (Transport & Traffic + Defence & Security) business. The sharp improvement in profitability, in line with that of Q1 2016, was the result of higher direct margins on projects, efficiency plans and fewer onerous projects.

- **Net debt stable**. Net debt on 30th June 2016 was EUR659m (net gearing: 198%) or 3.1x EBITDA, in line with the level as of 31st March. Free cash flow in Q2 2016 was EUR2m (vs. a negative EUR85m in Q2 2015). Excluding restructuring cash-outs (EUR9m) and onerous projects (EUR12m), net debt would have reached EUR633m and free cash flow EUR23m. Assuming the same level of factoring (non-recourse) as in Q1 2016, free cash flow would have been a negative EUR23m. Net working capital fell to EUR48m from EUR154m in March 2016, or to 24 days of sales from 20, o/w 0 day on inventory, +7 days for accounts receivables, and -4 days for accounts payables.

- **Details on Q2 2016 lfl growth**. **By geography**, Spain (45% of sales) was down 2% with strong performance in Defence & Security (+42%), Energy & Industry (+6%) and Financial Services (+3%) but a double-digit fall in Telecom & Media, Government & Healthcare and Transport & Traffic; America (24%) +1% with growth in The Dominican Republic (elections), Chile and Peru and in T&D and but fall in all IT verticals; Europe (18%) +20% thanks to a higher contribution of the Eurofighter project, but also growth in airborne surveillance systems and air defence; AMEA (13%) +8% thanks to the execution of the transport ticketing project in Ryadh. **By vertical**, Transport/Traffic (23%) +6%, Defence/Security (20%) +27%, Energy/Industry (15%) -5%, Financial Services (18%) flat, Government/Healthcare (15%) -7%, and Telecom/Media (8%) -3%.

- **2016 expectations unchanged, but management is cautious vers H2**. Indra reiterates expectations on sales (a decline), margins (significant improvement) and free cash flow (significant improvement as well) for 2016. For H2, the management indicates the sames challenges remain, i.e. the economic, business and sector environment, which could cause some delays in certain projects. On costs, 80% of 1,750 layoffs planned within the efficiency plan have been completed in Spain (Brazil completed in Q4 2015 with 1,721 layoffs), Indra is in line with the EUR90m additional cost savings expected for 2016, and restructuring cash-outs in H1 2016 (EUR26m) are on track with the EUR45-55m projected for the year.

VALUATION

- Indra's shares are trading at est. 14.8x 2016 and 9.5x 2017 EV/EBIT multiples.
- Net debt on 30th June 2016 was EUR659m (net gearing: 198%).

NEXT CATALYSTS

Conference call at 11am CET / 10am BST / 5am EDT (UK: +44 20 31 47 46 00; USA: +1 866 388 19 27).

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Healthcare

Ipsen

Price EUR59.44

Decision to prioritise mid-term growth over 2016 operating margin makes sense

Fair Value EUR66 vs. EUR64 (+11%) **BUY-Top Picks**

Bloomberg	IPN FP
Reuters	IPN.PA
12-month High / Low (EUR)	62.0 / 47.1
Market Cap (EURm)	4,954
Ev (BG Estimates) (EURm)	5,042
Avg. 6m daily volume (000)	89.50
3y EPS CAGR	13.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	12.4%	12.4%	11.3%	-2.6%
Healthcare	6.1%	5.3%	5.5%	-3.5%
DJ Stoxx 600	7.2%	-2.7%	1.4%	-7.2%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	1,444	1,566	1,714	1,866
% change		*8.5%*	*9.4%*	*8.9%*
EBITDA	366	407	462	544
EBIT	322.5	340.9	390.0	466.3
% change		*5.7%*	*14.4%*	*19.5%*
Net income	228.0	237.3	278.0	335.6
% change		*4.1%*	*17.2%*	*20.7%*

	2015	2016e	2017e	2018e
Operating margin	22.3	21.8	22.8	25.0
Net margin	12.5	14.0	14.1	15.9
ROE	15.5	16.9	16.7	17.8
ROCE	22.6	17.6	19.6	22.8
Gearing	-8.3	6.4	-0.2	-9.2

(€)	2015	2016e	2017e	2018e
EPS	2.78	2.89	3.39	4.09
% change	-	*4.1%*	*17.2%*	*20.7%*
P/E	21.4x	20.5x	17.5x	14.5x
FCF yield (%)	3.6%	4.0%	4.8%	5.9%
Dividends (€)	0.85	0.85	1.10	1.20
Div yield (%)	1.4%	1.4%	1.9%	2.0%
EV/Sales	3.4x	3.2x	2.9x	2.6x
EV/EBITDA	13.3x	12.4x	10.7x	8.8x
EV/EBIT	15.0x	14.8x	12.7x	10.3x

Ipsen has decided to use the excess of profits generated by stronger-than-expected growth in Specialty Care this year to reinvest in its fastest growing products Somatuline and Dysport and also to prepare for the launch of cabozantinib that may take place in first markets by year-end. This is a very sensible choice that should bring more value to shareholders over the medium term. We have revised some of our numbers including Somatuline's peak sales, up from EUR700m to EUR800m and this is what drives our FV up to EUR66, hence our reiterated BUY recommendation.

ANALYSIS

- From our discussions in Boulogne yesterday, we emerged with the conviction that the decision not to increase operating margin guidance of 21% for 2016 despite an upward revision in Specialty Care sales (80% of Ipsen's total sales) is related to the aim to maximze the value of growth assets, starting with Somatuline of course, but also Dysport and indeed newcomer cabozantinib. And so there is no question that giving priority to drugs that are still highly sensitive to promotional and marketing efforts and represent significant value ahead of shareholders over several years is what can be expected from a management that thinks long-term rather than short-term.
- Starting with Somatuline, Marc de Garidel clearly stressed that the drug was now addressing a NET market that in the US alone represents about USD1bn, therefore leaving a sizeable opportunity for Ipsen that has only captured about 10-15% market share. The aim is to capture a growing part of a growing market and for that, Ipsen needs to invest more to be present in an increasing number of centers. Because it is also growing double-digit outside the US, Somatuline could now think of approaching USD1bn in sales globally, including acromegaly of course. Given the very favorable mix effect of the product, this would represent an outstanding profit and margin opportunity for Ipsen. It very much supports the case for investing in the drug.
- Moving to Dysport, the underlying market is also growing nicely here, in both indications and Ipsen is arriving with two new medical indications in AUL (launched recently) and PLL (excepted by tomorrow) and with these, it expects to close the gap with Botox somewhat if some support is also provided to the product.
- Lastly and maybe more importantly: cabozantinib. The opportunity is also significant for Ipsen since data presented in 2L and 1L RCC suggest a meaningful role to play for the drug in this disease. But, Ipsen knows also that competition will be fierce from I.O. compounds, starting with Opdivo from BMS but also from other players to come in the coming years. Because Ipsen wants to attract the more talented people as quickly as possible, this has a cost. If possible, the company is not completely ruling out the possibility of launching cabozantinib earlier than originally expected i.e. in Q4 2016 in Germany or in the UK as the drug is expected to be approved in Europe in September. And time matters.

VALUATION

- We fully back the decision to invest any extra benefit earned in 2016 behind new drugs to fuel mid and long-term growth. This has a lower impact on our FV because it is difficult to say how much and how profoundly it will impact sales and profits going forward, but it is nevertheless revised slightly upwards as we believe Somatuline can reach EUR800m at peak (vs EUR700m so far). We are maintaining our BUY recommendation and maintain Ipsen in our Top Pick List.

NEXT CATALYSTS

- 30th July 2016: PDUFA date for Dysport in PLL

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Kering

Price EUR160.00

H1 beat expectations with strong recovery at Gucci in Q2 (sales up 7%)

Fair Value EUR175 vs. EUR170 (+9%) **BUY**

Bloomberg	PP FP
Reuters	PRTP.PA
12-month High / Low (EUR)	181.5 / 138.6
Market Cap (EUR)	20,203
Ev (BG Estimates) (EUR)	23,003
Avg. 6m daily volume (000)	271.5
3y EPS CAGR	12.3%

	1 M	3 M	6 M	31/12/15
Absolute perf.	13.4%	6.1%	5.7%	1.3%
Pers & H/H Gds	5.6%	1.9%	6.0%	2.2%
DJ Stoxx 600	7.2%	-2.7%	1.4%	-7.2%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	11,584	12,060	12,620	13,500
% change		*4.1%*	*4.6%*	*7.0%*
EBITDA	2,056	2,245	2,440	2,640
EBIT	1,646	1,825	2,000	2,200
% change		*10.9%*	*9.6%*	*10.0%*
Net income	1,017	1,158	1,293	1,464
% change		*13.9%*	*11.7%*	*13.2%*

	2015	2016e	2017e	2018e
Operating margin	14.2	15.1	15.8	16.3
Net margin	8.8	9.6	10.2	10.8
ROE	8.7	9.0	9.4	10.3
ROCE	5.8	6.4	6.8	7.5
Gearing	37.7	27.1	21.9	21.2

(EUR)	2015	2016e	2017e	2018e
EPS	8.05	9.16	10.15	11.40
% change	-	*13.9%*	*10.8%*	*12.3%*
P/E	19.9x	17.5x	15.8x	14.0x
FCF yield (%)	1.4%	3.1%	3.9%	4.6%
Dividends (EUR)	4.00	4.30	4.70	5.20
Div yield (%)	2.5%	2.7%	2.9%	3.3%
EV/Sales	2.1x	1.9x	1.8x	1.7x
EV/EBITDA	11.7x	10.2x	9.2x	8.5x
EV/EBIT	14.6x	12.6x	11.3x	10.2x

Kering H1 2016 results were globally in line with estimates. Sales grew 5.5% organically to EUR7.2bn (consensus: EUR5.6bn), including +6.9% in Q2 (cs:+3.5%), while EBIT increased 5% to EUR811m (consensus: EUR795m), implying a 14.2% EBIT margin (20bp). Gucci's strong performance in Q2 (+7%) confirms our view that the brand repositioning is well on track, hence our reiterated Buy recommendation on the stock. FV raised to EUR175 vs EUR170.

ANALYSIS

- **Kering revenues grew 3.3% in H1 2016 to EUR5.7bn (consensus: EUR5.6bn). Organically, sales were up 5.5% in H1**, impying +6.9% in Q2 (consensus: +3.5%) following +4% in Q1. Luxury division (65% of Kering sales) was up 4% in H1, but +5.2% in Q2 versus +2.7% for Q1. The surprising momentum Q2 acceleration is mainly due to **Gucci** (+7.4% vs +3.1%). Consensus was at +1.5%. In Q2, retail sales grew 7% vs +3%, with a rebound in APAC (+3% vs -2%). We view this strong performance as very encouraging. Brand recovery is clearly on track in our view, with new products accounting for 70% of sales in Q2 vs 50% in Q1 2016. By year-end, this figure should be close to 90-100%. Fully-priced products performed very well, particularly shoes and RTW, but also new leather goods such as *Dyonisus* bags registered a double-digit increase. On the other hand, **Bottega Veneta**'s performance was poor (in line with expectations), with a 9.8% sales decline in Q2 (-8.3% in Q1). Retail sales were down 10% in Q2. This is partly the consequence of high exposure to Asian tourists (close to 75% of sales) and poor performance for LG. Only **YSL** did very well during H1, with a 24.2% sales increase after +27.5% in Q1. The French brand is performing very well (up double digit) in all products segments and in geographic areas. The '**Others brands'** division posted sales up 2.9% in Q2 following -3.3% in Q1 and has been penalised by watches while most soft brands (particularly Stella McCartney and McQueen) did well. Lastly, **Puma** momentum was buoyant in H1 (+10.6% of which +13.2% in Q2) on the back of a very dynamic sporting goods market thanks to EURO Cup (see adidas yesterday release), but also some market share gains for the Kering brand. The brand recovery is clearly under way.
- **By geographic area, and for the luxury division Retail,** it is worth noting the slight recovery in **Asia-Pacific** (+6% in Q2 vs stability in Q1) thanks to MC, while in **Western Europe**, momentum unsurprisingly slowed in Q2 (+5% vs +10% in Q1), consequence of fewer tourists even if activity with locals was relatively strong. In WE, Gucci sales were up 20%! In **Japan** too, sales were slightly under pressure in Q2 (+2%) after +5% in Q1, again due to fewer Chinese tourists given recent JPY strength, but thanks to Gucci recovery which helped to limit the negative impact of fewer Chinese tourists. **North America** did not register a clear recovery in Q2 (-1% vs -5% in Q1) as Gucci sales did not grow in this region (the only one that did not grow!) during the quarter.
- **H1 EBIT reached EUR811m (consensus: EUR791m) and the margin was up 20bp to 14.2%.** The slight improvement in profitability was driven by both the Luxury division and Sport & Lifestyle. Luxury's EBIT margin increased 30bp to 21.7% (EUR840m vs consensus at EUR812m). This move is mainly attributable to Gucci whose margin is up 70bp to 27.6%, thanks to less negative FX negative impact than in H1 2015, a higher weighting for fully-priced products despite a negative product mix (outperformance of shoes and ready to wear), and some marketing investments. On the other hand, **Bottega Veneta**'s margin was down 320bp to 25.4% (in line with market expectations), consequence of deleveraging following the revenue decrease and also of investments to refocus the brand on more a local clientele (store expansion, for instance) and on shoes and RTW. **YSL** margin increased sharply (+620bp to 19.9%) thanks to a highly positive like-for-like top-line growth. **Puma's** H1 profitability rose 80bp to 3.2%, which is an encouraging performance.
- **Following H1 results that are better than expected, we raise our FY 2016 EBIT by 2.5%** and we expect organic sales +5% vs +4.4% previously (of which +4.1% vs +3.2% for Luxury division alone).

VALUATION

- We reiterate our Buy recommendation with a new EUR175 FV vs EUR170.

NEXT CATALYSTS

- Q3 sales to be reported mid October.

Quarterly organic sales increase

in %	Q4 15	FY 15	Q1 16	Q2 16	H1 16
Gucci	4,8	0,4	3,1	7.4	5.4
Bottega Veneta	-3,1	3,2	-8,3	-9.8	-9.1
YSL	27,5	25,8	26,5	22.1	24.2
Others	10,6	3,1	-3,3	2.9	0.0
Total Luxury	**7,2**	**4,1**	**2,7**	**5.2**	**4.0**
PUMA	11,5	6,8	8,1	13.2	10.6
Kering Group	**8,0**	**4,6**	**4,0**	**6.9**	**5.5**

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

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Luxury & Consumer Goods

L'Oréal

Price EUR174.95

H1 results slightly below expectations due to poor Body Shop performance

Fair Value EUR177 (+1%) **BUY**

Bloomberg	OR FP
Reuters	OREP.PA
12-month High / Low (EUR)	178.2 / 143.9
Market Cap (EUR)	97,972
Ev (BG Estimates) (EUR)	96,312
Avg. 6m daily volume (000)	676.5
3y EPS CAGR	6.0%

	1 M	3 M	6 M	31/12/15
Absolute perf.	5.8%	5.5%	14.5%	12.7%
Pers & H/H Gds	5.6%	1.9%	6.0%	2.2%
DJ Stoxx 600	7.2%	-2.7%	1.4%	-7.2%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	25,257	26,030	27,332	28,561
% change		*3.1%*	*5.0%*	*4.5%*
EBITDA	5,248	5,490	5,782	6,141
EBIT	4,388	4,610	4,882	5,211
% change		*5.1%*	*5.9%*	*6.8%*
Net income	3,491	3,665	3,889	4,156
% change		*5.0%*	*6.1%*	*6.9%*

	2015	2016e	2017e	2018e
Operating margin	17.4	17.7	17.9	18.2
Net margin	13.8	14.1	14.2	14.6
ROE	13.7	14.2	13.9	13.8
ROCE	22.4	22.6	22.9	23.3
Gearing	-2.3	-6.7	-10.5	-13.6

(EUR)	2015	2016e	2017e	2018e
EPS	6.18	6.49	6.88	7.36
% change	-	*5.0%*	*6.1%*	*6.9%*
P/E	28.3x	27.0x	25.4x	23.8x
FCF yield (%)	3.0%	3.1%	3.3%	3.4%
Dividends (EUR)	3.10	3.35	3.60	3.90
Div yield (%)	1.8%	1.9%	2.1%	2.2%
EV/Sales	3.9x	3.7x	3.5x	3.3x
EV/EBITDA	18.6x	17.5x	16.5x	15.3x
EV/EBIT	22.2x	20.9x	19.5x	18.1x

L'Oréal's H1 2016 results were slightly below expectations with 4.2% organic sales growth (consensus: +4.5%), even if the Cosmetics branch performance (+4.4%) was much more in line with expectations. EBIT grew 1.7% to EUR2.36bn (consensus: EUR2.39bn), implying a 20bp profitability gain to 18.3%. Cosmetics branch margin improved 30bp.

ANALYSIS

- **The world Cosmetics market leader (12.5% world market share) has reported sales at EUR12.9bn (consensus: EUR12.93bn) with 4.2% organic growth (consensus: +4.5%)**. This implies a 4.3% increase in Q2 alone following +4.2% in Q1. Cosmetics branch sales grew 4.4% organically in H1 (of which +4.6% in Q2 alone), Cosmetics branch performance was in line with the consensus. On the other hand, Body Shop revenues were down 3.2% in Q2 and again disappointed. Among the Cosmetics branches and by geographical area, we would highlight the slight slowdown in **western Europe** (33% of sales) which recorded a 1.7% sales increase in H1, of which +1.4% in Q2 (+2%), particularly penalised by the French market which has been difficult in all distribution channels while others countries were well oriented. In **North America** (27% of sales), revenues grew 4.6% in H1 including +4.9% in Q2 alone vs +4.3% in Q1. Note the outperformance in the mass market segment vs the market itself (particularly in the colour segment). Finally for **New Markets** (40% of sales), momentum picked up with a 6.8% revenues increase in H1 including +7.4% in Q2. Among the New Markets, we would highlight the LATAM performance (+13.3% in Q2), which confirmed the recovery seen in Q1 (+8.5%), thanks to Brazil which returned to positive territory. Asia-Pacific was well oriented (+4.8% in Q2)
- **By division, we would highlight the confirmation of the recovery in the Consumer Products** division (50% of Cosmetics sales) with a 4.7% organic sales increase in Q2 following +3.9% in Q1. In 2015, this division grew no more than 2.5%! Momentum was particularly strong in North America and New Markets while it remained challenging in WE. The Luxury Products division was penalised by France and lower Travel Retail.

Quarterly organic sales growth (%)

Chge in %	9M 2015	Q4 2015	2015	Q1 2016	Q2 2016	H1 2016
Western Europe	2,1	2.7	2.3	2.0	1.4	1.7
North America	3,0	4.9	3.5	4.3	4.9	4.6
New markets	5,8	6.6	6.0	6.1	7.4	6.8
Professionnal Products	3,2	4.0	3.4	2.5	1.8	2.2
Consumer Products	2,3	3.1	2.5	3.9	4.7	4.3
Luxury Products	5,8	6.8	6.1	4.5	5.6	5.6
Active Cosmetics	7..3	9.9	7.8	5.5	5.7	5.0
Cosmetics branch	**3,8**	**4.8**	**4.1**	**4.2**	**4.6**	**4.4**

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

- **H1 2016 EBIT increased 1.7% to EUR2.36bn (consensus: EUR2.39bn). Profitability gained 20bp to 18.3% (+30bp for Cosmetics alone while TBS registered losses of EUR22m vs -EUR7m in H1 2015).** Margin improvement was driven by gross margin gains (+70bp to 72.4%) thanks to a positive forex impact, and better production efficiency. Beyond GM, it is worth noting higher A&P costs as a % of sales (29.4% vs 29.3% in H1 2015) and higher research investments (3.2% of sales vs 3% in H1 2015).
- Ahead of the conference call scheduled for this morning at 9am, we leave unchanged our FY 2016 estimates (+4.5% organic sales). Furthermore, we expect FY EBIT margin to gain 30bp to 17.7%.

VALUATION

- We remain at Buy on the stock with an unchanged FV of EUR177.

NEXT CATALYSTS

- Conference call at 9am.

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Luxury & Consumer Goods

Moncler

Price EUR15.66

Two new strategic investors to support Moncler's LT development

Fair Value EUR17,5 (+12%) **BUY**

Bloomberg	MONC IM
Reuters	MONC.MI
12-month High / Low (EUR)	18.9 / 12.2
Market Cap (EURm)	3,918
Ev (BG Estimates) (EURm)	3,876
Avg. 6m daily volume (000)	1 081
3y EPS CAGR	10.2%

	1 M	3 M	6 M	31/12/15
Absolute perf.	10.7%	11.4%	18.8%	21.2%
Pers & H/H Gds	5.6%	1.9%	6.0%	2.2%
DJ Stoxx 600	7.2%	-2.7%	1.4%	-7.2%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	880.4	986.0	1,090	1,191
% change		*12.0%*	*10.6%*	*9.2%*
EBITDA	300	331	363	399
EBIT	252.7	279.1	309.0	340.3
% change		*10.5%*	*10.7%*	*10.1%*
Net income	163.8	182.2	203.9	225.9
% change		*11.3%*	*11.9%*	*10.8%*

	2015	2016e	2017e	2018e
Operating margin	28.7	28.3	28.3	28.6
Net margin	18.6	18.5	18.7	19.0
ROE	30.0	27.2	25.3	23.7
ROCE	40.9	42.5	44.7	47.6
Gearing	9.1	-6.2	-18.5	-28.5

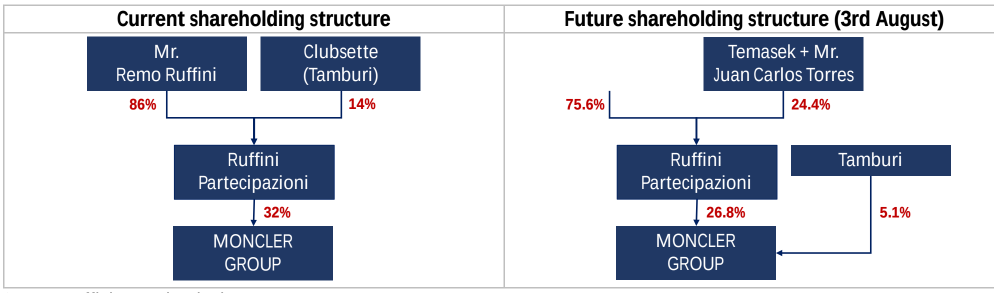
(EUR)	2015	2016e	2017e	2018e
EPS	0.69	0.75	0.83	0.92
% change	-	*9.5%*	*10.5%*	*10.6%*
P/E	22.9x	20.9x	18.9x	17.1x
FCF yield (%)	3.3%	3.9%	4.5%	5.1%
Dividends (EUR)	0.14	0.17	0.20	0.23
Div yield (%)	0.9%	1.1%	1.3%	1.4%
EV/Sales	4.5x	3.9x	3.5x	3.1x
EV/EBITDA	13.2x	11.7x	10.4x	9.1x
EV/EBIT	15.7x	13.9x	12.2x	10.7x

Yesterday morning Ruffini Partecipazioni ("RP"), the holding company belonging to Remo Ruffini that in turn owns 86% of Moncler, announced it had entered into an agreement with two investors 1/ Singapore's sovereign fund Temasek and 2/ Dufry Chairman Juan Carlos Torres, who are acquiring 24.4% of RP. While Mr Ruffini's stake in RP is set to decrease to 75.6%, he will still play a key role within the group that should benefit from the respective expertise of Temasek and Mr Juan Carlos Torres to support the development of Moncler. Buy recommendation and FV of EUR17.5 confirmed.

ANALYSIS

- **What is the current shareholding structure?** Ownership of the RP holding company (31.9% stake in Moncler) encompasses two shareholders: **(i) Remo Ruffini** who has a majority stake of 86% and **(ii) Clubsette** an investment vehicle controlled by an Italian independent investment bank **Tamburi,** which acquired 14% of RP in August 2013, before the IPO of the Italian brand in December 2013. Note that Tamburi has numerous participations in Italian companies (e.g.: Ferrari, Amplifon, Furla, etc.) and also in Hugo Boss (~1% stake).

- **Future ownership structure of RP and Moncler.** The Investment Agreement is effective on 3rd August. First of all, **Tamburi** will exit from RP and instead receive a 5.1% direct equity holding in Moncler. In a separate statement, Tamburi announced its shares would be distributed in September among the various shareholders in Clubsette that will be liquidated. RP will own 26.8% of Moncler vs. 32% currently. Simultaneously, **Temasek** and **Juan Carlos Torres** will acquire a combined 24.4% equity stake in RP, while the equity stake of **Remo Ruffini** is to be reduced to 75.6% vs. 86%. The two new shareholders will commit to a three-year lock-up period in RP but in certain circumstances, they will have the right to terminate this partnership before the deadline. Meanwhile Remo Ruffini is to commit to a two-year lock-up period.



Source: Ruffini Partecipazioni

- **What is the rationale behind these changes?** Moncler welcomes two new strategic investors with a LT investment horizon, which are also bringing interesting expertise for the future development of Moncler: **1/ Temasek has a deep knowledge of the Asian region** that already accounts for 38% of sales and is a key growth driver for the group (+30% FX-n in H1), but still harbours promising growth opportunities; **2/ Mr Juan Carlos Torres:** the Executive Chairman of the leading travel retail group **Dufry will naturally** help Moncler to increase its exposure to this fast-growing channel (five stores at the end of H1, only ~2% of sales vs. ~6% of the luxury industry).

VALUATION

- We firmly believe that Remo Ruffini will remain committed to Moncler over the LT, all the more so since the two new investors have certainly ensured that he continues to play a key role within the Italian Group! In our view, higher-than-expected opex inflation caused by a negative timing effect of EUR3m and (unjustified) concerns about these changes in shareholding structure might have triggered some profit-taking moves after the 24% rally in the share price. However, we reiterate our Buy recommendation and our FV of EUR17.5.

NEXT CATALYSTS

- Moncler is due to release its Q3 2016 sales on 8th November 2016. *Click here to download*

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Healthcare

QIAGEN

Price EUR20.92

Bloomberg	QIA GR
Reuters	QGEN.DE
12-month High / Low (EUR)	26.0 / 17.8
Market Cap (EURm)	5,013
Ev (BG Estimates) (EURm)	5,587
Avg. 6m daily volume (000)	423.7
3y EPS CAGR	8.7%

	1 M	3 M	6 M	31/12/15
Absolute perf.	12.6%	3.1%	2.1%	-16.7%
Healthcare	6.1%	5.3%	5.5%	-3.5%
DJ Stoxx 600	7.2%	-2.7%	1.4%	-7.2%

YEnd Dec. (USDm)	2015	2016e	2017e	2018e
Sales	1,281	1,331	1,412	1,517
% change		*3.9%*	*6.1%*	*7.4%*
EBITDA	438	440	482	520
EBIT	314.5	317.4	359.3	397.0
% change		*0.9%*	*13.2%*	*10.5%*
Net income	249.3	255.5	286.5	315.5
% change		*2.5%*	*12.1%*	*10.1%*

	2015	2016e	2017e	2018e
Operating margin	24.6	23.9	25.5	26.2
Net margin	19.5	19.2	20.3	20.8
ROE	5.0	4.4	5.2	5.8
ROCE	23.0	19.5	18.7	24.3
Gearing	38.8	22.4	15.8	9.0

(USD)	2015	2016e	2017e	2018e
EPS	1.05	1.08	1.22	1.35
% change	-	*3.0%*	*12.7%*	*10.7%*
P/E	22.1x	21.4x	19.0x	17.2x
FCF yield (%)	7.1%	7.1%	6.5%	7.0%
Dividends (USD)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	5.1x	4.7x	4.3x	3.9x
EV/EBITDA	15.0x	14.1x	12.5x	11.2x
EV/EBIT	20.8x	19.5x	16.8x	14.7x

Top to bottom beat! Upgrade to BUY on strong growth prospect now set free

Fair Value EUR22 (+5%) **BUY vs. NEUTRAL**

QIAGEN released strong Q2 numbers beating the consensus all the way down the PnL. US HPV headwinds are fading and will marginally impact MDx sales going forward while Life Sciences sales benefited from improving trends that should be sustained. Profitability should continue to improve sequentially throughout the year. A USD200m share buy-back programme expected by early-2017 represents ~22 days of trading. We upgrade QIAGEN from NEUTRAL to BUY.

QIA (USDm exc. PS)	Q2 2015	Q2 2016	Q2 2016 cs	Δ	Q3 2016	Q3 2016 cs	Δ
Revenue	**319,5**	**334,4**	**326,9**	**2%**	**338,2**	**333,8**	**1%**
% growth		*5%*	*2%*			*0%*	
Operating Income (adj.)	**78,9**	**69,2**	**66,6**	**4%**			
% margin	*24,7%*	*20,7%*	*20,4%*				
EPS	**0,26**	**0,24**	**0,22**	**9%**	**0,27**	**0,29**	**-7%**

Source : Company Data; Vara Research.

ANALYSIS

- QIAGEN released strong Q2 numbers. N**et sales growth came in at 6%CER (5% reported) to USD326.9m, ahead of 1/ consensus by 2pp and 2/ the group's guidance (4%CER anticipated)**. Excluding the US HPV sales decrease, which had a 2pp and 4pp negative impact on total turnover and sales from the MDx division, all divisions contributed to growth. **MDx (50% of sales) grew 4% CER (8%CER exc. US HPV)** driven by 1/ dynamic QuantiFERON TB sales which reported a >25%CER growth rate (despite the warning letter) and 2/ strong QIAsymphony demand for both placements and test sales. Personnalised Healthcare sales within MDx declined due to volatility on recognition of milestones from Pharma Cie. On the Life Science Side, improving trend benefitted to QIAGEN's which has intensified its commercialisation operations. **Applied testing sales (9% of sales) grew 9% CER** with NA recovering after a weak Q1. Positive **Pharma division (20% of sales) which grew 9% at CER.** The budget increase started to kick-in and positively impacted consumable sales in **Academia (21% of sales) which grew 6%.** We would expect this trend to persist in H2. From a geographic standpoint, all regions performed well with the growth rate improving sequentially. Americas grew 3% CER or 6% CER excluding US HPV, EMEA sales are up 13%CER and APAC sales are up 7%CER. Note that top EM grew at 20%CER.

  Profitability-wise, Q2 is a cornerstone for QIAGEN and we are pleased to see the company delivering. On a sequential basis, **adj. operating margin rose from 17.9% to 20.7% at USD69.2m, 4% ahead of consensus expectations, despite the increase in both R&D and S&M expenses**. EPS comes at USD0.24/share.

- The main point of interest is Q3 guidance, which was slightly ahead of expectations as management is guiding for 8-9% sales growth at CER (7-8% reported) while EPS is expected to stand at USD0.28 at CER (USD0.27 as reported), slightly below consensus. Having proven its ability to accelerate growth, Q2 over Q1, we would give the benefit of the doubt to the company in its ability to deliver the announced back-end loaded leverage with a FY EPS guidance reiterated. Note that 1/ increased sales force, 2/ roll-out of new products expected in H2 and a higher YoY sales increase in terms of absolute numbers in Q4 should provide further leverage.

- FY 2016 guidance sales is upgraded from 6% at CER to 6-7% at CER to reflect the consolidation of Exiqon, EPS is still expected in the EUR1.08-1.09 range inc. USD0.02 negative FX effect (Exiqon not profitable yet). Moreover, QIA fuels its initial USD100m share buy-back program not initiated yet with another USD200m. Hence **USD200m of share are expected to be bought by early 2017, i.e. 22days of trading**, while another USD100m should be bought 2017 year-end.

VALUATION

- We have upgraded our recommendation from NEUTRAL to BUY but would wait for the conference call before adjusting our estimates.

NEXT CATALYSTS

- Today 9.30amET/3.30pmCET : Confcall on Q2 results (US +1 631 302 6547, UK +44 203 059 8128)

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Price EUR76.29

In-line Q2 reporting and reiterated FY guidance

Fair Value EUR83 (+9%) **NEUTRAL**

Bloomberg	SAN FP
Reuters	SASY.PA
12-month High / Low (EUR)	100.7 / 67.3
Market Cap (EURm)	98,331
Ev (BG Estimates) (EURm)	105,726
Avg. 6m daily volume (000)	2 903
3y EPS CAGR	2.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	4.8%	0.1%	1.7%	-2.9%
Healthcare	6.1%	5.3%	5.5%	-3.5%
DJ Stoxx 600	7.2%	-2.7%	1.4%	-7.2%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	36,575	35,970	36,779	38,358
% change		*-1.7%*	*2.2%*	*4.3%*
EBITDA	11,237	10,722	10,472	10,731
EBIT	9,948	9,595	9,620	9,942
% change		*-3.5%*	*0.3%*	*3.3%*
Net income	7,371	6,995	7,080	7,796
% change		*-5.1%*	*1.2%*	*10.1%*

	2015	2016e	2017e	2018e
Operating margin	27.2	26.7	26.2	25.9
Net margin	20.2	19.4	19.3	20.3
ROE	12.9	12.0	11.9	12.6
ROCE	11.9	11.2	11.0	11.2
Gearing	12.7	12.7	9.8	6.1

(EUR)	2015	2016e	2017e	2018e
EPS	5.64	5.47	5.54	6.10
% change	*-*	*-3.0%*	*1.2%*	*10.1%*
P/E	13.5x	13.9x	13.8x	12.5x
FCF yield (%)	4.5%	6.0%	5.5%	6.4%
Dividends (EUR)	2.93	3.00	3.15	3.50
Div yield (%)	3.8%	3.9%	4.1%	4.6%
EV/Sales	2.9x	2.9x	2.8x	2.7x
EV/EBITDA	9.4x	9.9x	10.0x	9.5x
EV/EBIT	10.6x	11.0x	10.8x	10.3x

Sanofi has reported a set of numbers for Q2 that was very much in line with CS estimates with sales coming in a touch lower than expected on the back of a weak quarter in CHC and Gx, which was offset lower in the P&L by lower financial costs and tax rate. In the end, core EPS was in line with CS estimates at EUR1.31. Our guess is that investors should be more interested in capturing upcoming newsflow rather than discussing in-line Q2 numbers. In our view we are approaching better times.

ANALYSIS

- To summarise Sanofi's second-quarter we would say it was very much as expected with the same ingredients as in Q1 playing out and characterising the period i.e. pressure on Lantus and on the Diabetes franchise overall, very strong growth for Genzyme and solid growth for Vaccines as well, despite a disappointing ramp-up for Dengvaxia due to difficult macro-economic conditions in emerging markets where first tenders and sales should come from. Note however that the vaccine was launched in El Salvador in July and that a first vaccination programme was also implemented in July in Brazil. With only EUR1m booked in the quarter for DengVaxia, the reported 6.3% increase was remarkable and mainly reflected a 29% increase for paediatric vaccines, largely driven by Pentaxim and Hexaxim in emerging markets, up 44%
- However, it is fair to stress that CHC suffered even more than in Q1 and reported a 4.3% decline that, when restated for the specific situation in Venezuela and for a few asset disposals, would have been an increase of 2.7%. But overall the performance was poor, including for the US, which was not specific to Sanofi and also reflected a low cough & cold and allergy season.
- We would also like to highlight another spectaculor performance from Genzyme in Q2. More specifically, the MS franchise expectations again time and grew another 67% although the comparison basis itself increased. Over the full year, it is now fair to expect Aubagio to approach EUR1.3bn in sales.
- A word also about Diabetes, down 3.2% in the quarter and so well within the guided range and even slightly above as the glargine franchise was very well under control with Toujeo able to offset most of Lantus decline so far. Toujeo reached EUR141m in the quarter, of which EUR106m were in the US which confirms the good sentiment we had back from ADA about how the drug was received on the back of a strong marketing support. The drug looks on track to reach blockbuster status towards the end of 2017/early 2018, although we will see how it will react once Basaglar is launched later this year and how payers behave.
- Moving to earnings, the main blocks are as expected with R&D expenses growing 4.6% in CER terms, in line with guidance and increased investments in oncology in particular, whereas other expenses were more or less stable. Marketing and selling expenses also grew slightly in light of the support needed by Praluent, Toujeo or the MS franchise.
- The small miss to business operating income with consensus was offset by reduced financial expenses (a line that includes a capital gain on a minor asset sale) and by a lower-than-expected tax rate of 24%. In the end, core EPS of EUR1.31 was in line with estimates.
- In R&D, Jevtana missed the endpoint in 1L prostate cancer and glucagon analog was discontinued. PD-1 inhibitor entered phase II as expected in cutaneous SCC.

VALUATION

- There should be no meaningful change in numbers. We would simply note that stable EPS together with -4% Fx impact leads to an EPS of about EUR5.40 when CS is closer to EUR5.50-5.55.

NEXT CATALYSTS

- End of August: PDUFA date for iGlarLixi

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Construction & Building Materials

Saint Gobain

Price EUR37.28

Bloomberg	SGO FP
Reuters	SGOB.PA
12-month High / Low (EUR)	44.5 / 32.1
Market Cap (EURm)	20,687
Ev (BG Estimates) (EURm)	27,011
Avg. 6m daily volume (000)	1,941
3y EPS CAGR	16.2%

	1 M	3 M	6 M	31/12/15
Absolute perf.	11.3%	-8.4%	0.5%	-6.4%
Cons & Mat	10.4%	-2.1%	5.2%	-0.3%
DJ Stoxx 600	7.2%	-2.7%	1.4%	-7.2%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	39,623	39,551	41,048	42,520
% change		*-0.2%*	*3.8%*	*3.6%*
EBITDA	3,844	4,040	4,559	4,989
EBIT	2,636	2,840	3,309	3,739
% change		*7.7%*	*16.5%*	*13.0%*
Net income	1,165	1,189	1,511	1,811
% change		*2.1%*	*27.1%*	*19.8%*

	2015	2016e	2017e	2018e
Operating margin	6.7	7.2	8.1	8.8
Net margin	1.1	3.1	3.8	4.4
ROE	6.1	6.1	7.5	8.5
ROCE	5.9	6.7	7.6	8.4
Gearing	24.8	22.7	19.1	14.3

(EUR)	2015	2016e	2017e	2018e
EPS	2.06	2.12	2.69	3.23
% change	-	*3.0%*	*27.1%*	*19.8%*
P/E	18.1x	17.6x	13.8x	11.5x
FCF yield (%)	5.9%	5.6%	7.1%	8.3%
Dividends (EUR)	1.24	1.30	1.30	1.30
Div yield (%)	3.3%	3.5%	3.5%	3.5%
EV/Sales	0.7x	0.7x	0.6x	0.6x
EV/EBITDA	7.1x	6.7x	5.8x	5.2x
EV/EBIT	10.3x	9.5x	8.0x	6.9x

A good publication with decent figures in H1 and a reassuring outlook

Fair Value EUR46 (+23%) **BUY**

Acceleration in organic sales growth in Q2: +3.8% after +1.8% in Q1, with sales at EUR10413m (in line). H1 2016 operating income stood at EUR1.368bn (c2% above consensus) up 10% on lfl, with a 7% margin, up 60bp y/y. Most of the businesses were well-oriented except pipes, while organic growth in France was finally positive at 1.3% in Q2. The outlook is fine with promising comments for France in particular. Guidance for lfl growth in operating income in H2. Positive.

Saint-Gobain reported H1 results last night. H1 revenues came in at EUR19.549bn, with 2.9% organic growth and an acceleration in Q2 (+3.8%). The group benefited from a positive calendar effect (1% effect on H1). Forex was clearly negative at -3.5% and the scope effect was limited at -1%. Operating income rose by +10.2% to EUR1368m roughly 2% above consensus (EUR1345m). Current net income was up 13% to EUR624m. Net debt dropped 17% to EUR6.6bn (ie 1.7x EBITDA.

Quarterly organic growth in revenues and H1 operating margins

%	Q115	Q215	Q315	Q415	Q116	Q216	H115 mg	H116 mg
Flat Glass	5.8	5.5	5.5	3.3	4.9	8.0	7.4	8.8
HPM	-2.2	0.3	-1.3	-1.0	3.6	0.4	13.5	14.0
Interior	0.9	3.4	1.3	2.3	5.8	4.8	9.0	10.2
Exterior	-7.2	5.7	-0.6	-3.5	-4.4	0.1	8.3	8.3
Distrib.	-2.6	0.1	-1.0	0.7	1.4	4.6	2.6	2.8
France	-4.7	-3.3	-4.8	-3.1	-0.2	1.3	2.6	2.4
Europe	0.9	2.4	1.4	3.5	2.0	6.3	5.4	5.9
NAM	-9.7	4.9	-1.5	-2.4	3.2	4.3	9.5	11.6
EM&Asia	4.0	5.8	4.9	1.3	4.5	3.9	10.0	10.6
Total	**-1.2**	**2.1**	**0.2**	**0.4**	**1.8**	**3.8**	**6.4**	**7.0**

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

ANALYSIS

- By business, flat glass margin continued to improve significantly in H1 with 8.8% vs 7.4% last year, thanks to the automotive and construction markets. Roofing volumes accelerated and distribution benefited from favourable trends in construction in western Europe. Pipes remained difficult and explained the 2% organic decline in exteriors solutions in H1.
- By zone, apart from Brazil and China, comments were positive, in particular for India, the US (construction) and western Europe. Note that France stabilised in H1, with renovation still "sluggish"although the SGO stated that "new-build activity showed the first signs of improvement".
- Outlook is fine in our view. Growth is expected in H2 in western Europe (the Brexit effect remains a question mark, though), in North America (despite uncertainty for the industrials segment) and Asia/Emerging (apart from Brazil). Regarding France (a quarter of sales), Saint-Gobain stated "France should gradually benefit from the recovery in new-builds after stabilising over the six months to 30th June". As far as we know, this is the first time the SGO has mentioned growth for its core country.
- Guidance: management "expects a like-for-like improvement in operating income in the second half versus the second-half of 2015", which is achievable in view of double-digit growth in H1. We are forecasting around 12% organic growth for H2 in our model today. Comparaison bases are ok (organic growth in operating income was +1.2% in H1 2015 and around 3% in H2 2015 according to our calculations). We stand 3% above the consensus however.
- H1 2016 results were satisfying and outlook promising with, at last, some hope of a gradual recovery in France for Saint-Gobain businesses. This is definitely positive for sentiment as it is viewed as a key catalyst for the stock. Hopefully the 8h30 meeting will reinforce this positive sentiment.

VALUATION

- EUR46 derived from the application of historical EV/EBIT to our 2018 forecast, discounted back.

NEXT CATALYSTS

- Analyst meeting at 8.30today. Q3 sales at end September on 27th October 2016

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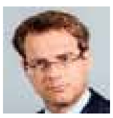

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TMT

Sopra Steria Group

Price EUR104.00

H1 2016 analysts' meeting feeedback: delivering on promise

Fair Value EUR125 vs. EUR127 (+20%) **BUY**

Bloomberg	SOP FP
Reuters	SOPR.PA
12-month High / Low (EUR)	119.0 / 84.5
Market Cap (EUR)	2,130
Ev (BG Estimates) (EUR)	2,651
Avg. 6m daily volume (000)	28.30
3y EPS CAGR	15.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	10.5%	2.0%	5.3%	-4.0%
Softw.& Comp.	15.2%	7.2%	9.3%	4.0%
DJ Stoxx 600	7.2%	-2.7%	1.4%	-7.2%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	3,584	3,743	3,907	4,108
% change		*4.4%*	*4.4%*	*5.1%*
EBITDA	295	340	385	417
EBIT	152.6	239.9	284.8	315.8
% change		*57.2%*	*18.7%*	*10.9%*
Net income	150.9	181.0	213.0	233.8
% change		*20.0%*	*17.6%*	*9.8%*

	2015	2016e	2017e	2018e
Operating margin	6.8	7.8	8.5	8.9
Net margin	2.4	4.0	4.6	4.9
ROE	6.8	11.9	13.0	13.0
ROCE	11.0	11.6	13.2	14.2
Gearing	43.0	42.0	28.1	16.8

(€)	2015	2016e	2017e	2018e
EPS	7.38	8.84	10.40	11.41
% change	-	*19.8%*	*17.6%*	*9.8%*
P/E	14.1x	11.8x	10.0x	9.1x
FCF yield (%)	2.3%	4.6%	7.4%	8.5%
Dividends (€)	1.70	1.90	2.10	2.30
Div yield (%)	1.6%	1.8%	2.0%	2.2%
EV/Sales	0.7x	0.7x	0.6x	0.6x
EV/EBITDA	9.0x	7.8x	6.5x	5.7x
EV/EBIT	10.8x	9.1x	7.6x	6.5x

We reiterate our Buy rating, but trim our DCF-derived fair value to EUR125 from EUR127. We increase our adj. EPS ests. by 1% for 2016, 3% for 2017 and 4% for 2018 (+EUR3/share), but the EUR98m increase in the net pension provision in H1 2016 has a negative impact of -EUR5/share. Brexit is expected to have virtually no impact this year, and Sopra Steria is confident that it can reach the high-end of company guidance on Ifl sales growth (+3%/+5%). Finally, the restructuring of Germany and the French infrastructure business is bearing fruit.

ANALYSIS

- **2016 revenues confirmed at the high-end of company guidance**. Based on the 6.3% Ifl revenue growth posted for H1, management remains committed to the high-end of company guidance (+3%/+5%) for Ifl growth for 2016. In France, Consulting & Systems Integration, which were helped by calendar effects in Q2, are still on a normative trend of +5%/+6% excluding calendar effects, while I2S is in line to grow again in 2017 and maybe end 2016 thanks to completion of the reorganisation. In the UK, while 68% of revenues are from the government (32% in the commercial sector), Brexit is deemed to have no impact in 2016. The Cabinet Office reaffirmed its commitment to pursuing the transformation of government services and public agencies through shared services centers (SSCL, NHS SBS), but the Metropolitan Police is unlikely to join SSCL before H2 2017 for technical reasons. In the UK commercial sector, Sopra Steria has returned to growth in Banking, while the appointment of new management will facilitate a return to growth in Q4 2016 or H1 2017 in the other industries. For Sopra Banking Software, the momentum is good with 6 new customers and 11 'go-lives' on Amplitude and good progress with La Banque Postale (partnership with Transactis which is expected to generate revenues by 2018). Growth in Other Solutions is set to accelerate in H2 2016, following the late signing in Q2 of several sizeable deals in HR.

- **Still room for improvement on the margins**. We estimate the bulk of the margin improvement in 2016 will stem from Germany and I2S, which significantly improved their situation in H1 2016. The plan is still to bring back I2S to an operating margin above 5% in 2017 vs. 0.5% in H1 2016 with restructuring under way. In the UK, the margin is pretty encouraging and should grow again in 2017. In 'Other Europe', the improvement in Germany is spectacular and most countries are in line for 7% margin in 2017. For Sopra Banking Software, the margin in 2016 will be hampered by the acceleration of R&D investments in order to accelerate the delivery of the products, and this investment will remain constant in 2017 in order to reach an operating margin of c. 10%.

- **Other topics**. 1) In H1 2016 the net pension provision for the UK increased to EUR222m from EUR125m, but this was equivalent to that of end 2014 and June 2015; 2) with net gearing of 69% and leverage of 2.2x EBITDA at the end of June, Sopra Steria intends to make a break in acquisitions for the rest of 2016, but may resume in 2017 in a more significant way as it has EUR1bn available credit lines maturing in 2019 and 2021; 3) the company has put in place a groupwide employee shareholding plan (100,000 shares sold to employees + 100,000 shares as employer contribution), which makes that Sopra Steria has 8-9% of its share capital owned by employees.

VALUATION

- Sopra Steria's shares are trading at est. 9.1x 2016 and 7.6x 2017 EV/EBIT muliples.
- Net debt on 30th June 2016 was EUR719.6m (net gearing: 69%).

NEXT CATALYSTS

Q3 16 sales on 3rd November after markets close.

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Utilities

Suez

Price EUR14.47

Strong international growth to support the company's guidance for 2016

Fair Value EUR17.5 (+21%) **BUY**

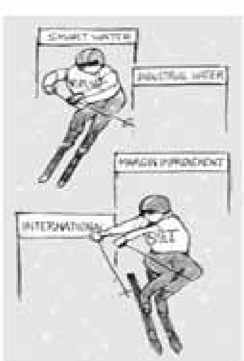
Bloomberg	SEV FP
Reuters	SEVI.PA
12-month High / Low (EUR)	18.0 / 12.9
Market Cap (EURm)	7,875
Ev (BG Estimates) (EURm)	18,938
Avg. 6m daily volume (000)	1,262
3y EPS CAGR	-0.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	7.2%	-10.0%	-14.3%	-16.2%
Utilities	8.2%	0.0%	1.7%	-1.5%
DJ Stoxx 600	7.2%	-2.7%	1.4%	-7.2%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	15,135	15,550	16,191	16,685
% change		*2.7%*	*4.1%*	*3.0%*
EBITDA	2,751	2,681	2,848	2,977
EBIT	1,381	1,286	1,380	1,471
% change		*-6.9%*	*7.3%*	*6.6%*
Net income	559.8	431.0	513.1	567.0
% change		*-23.0%*	*19.0%*	*10.5%*

	2015	2016e	2017e	2018e
Operating margin	9.1	8.3	8.5	8.8
Net margin	3.7	2.8	3.2	3.4
ROE	8.2	6.1	7.3	8.0
ROCE	8.0	7.2	7.6	8.0
Gearing	121.6	118.1	122.4	125.4

(EUR)	2015	2016e	2017e	2018e
EPS	1.04	0.77	0.92	1.02
% change	-	*-25.8%*	*19.1%*	*10.5%*
P/E	13.9x	18.7x	15.7x	14.2x
FCF yield (%)	3.3%	4.8%	4.5%	5.0%
Dividends (EUR)	0.65	0.65	0.65	0.68
Div yield (%)	4.5%	4.5%	4.5%	4.7%
EV/Sales	1.3x	1.2x	1.2x	1.2x
EV/EBITDA	6.9x	7.1x	6.8x	6.6x
EV/EBIT	13.8x	14.7x	14.0x	13.3x



Following yesterday's H1 2016 results, we have updated our model to include the increase in cost-savings measures and the expected increase in stake in ACEA. We have also slightly reviewed our estimates for 2016/2017/2018 reflecting a tougher than expected environment in the water business but a stronger than expected performance in the International division, which should support the company's guidance and organically increase Suez' EBIT by 2.8% in 2016. In all, we are maintaining our Buy recommendation and our FV at EUR17.5 per share.

ANALYSIS

- **Estimates update:** Following the company's H1 2016 results reported yesterday, we have updated our model to include our new assumptions. We now expect **2016e EBITDA to reach EUR2,681m (+1.1% vs. our previous estimats)**, EUR2,848m in 2017e (+2.0% vs. our previous estimate) and EUR2,978 in 2018e (+1.5% vs. our previous estimate). We expect **higher growth in the International division** (+9.7% and +7.5%, organically in 2016 and 2017 vs. +6.7% and +6.8% before) following the company's strong performance and the division's solid backlog. **This should spur the company's EBITDA for 2016 and beyond and then more than offset the continuous decline in Water Europe** for which we now expect 2016e EBITDA to drop 1.3% to EUR1,290m vs. our previous estimates due to **lower volumes, notably in France** (-1.0% expected YoY vs. -0.5% before), and still weak tariffs increases. **We are making virtually no changes to our estimates for the Waste Europe division** (EBITDA at EUR771m for 2016e vs. EUR772m before) as weak volumes and the EUR30m expected impact from electricity prices broadly offset the new cost-reduction measures announced.

- **A new catalyst:** On top of the **additional EUR30m in cost-measures** announced yesterday (to EUR180m in 2016), Suez announced it aims to **speed up its transformation plan** the details of which should be unveiled during Q3 2016 results, which could imply **positive momentum** on the stock as well as a potential rerating following the poor performance YTD (-16.2%). **We understand from management that mobility and formation actions could be taken** without any additional details disclosed for now.

- **Increased stake in ACEA: The company finally announced that it has put aside its EUR3bn EBITDA ambition for 2017** – as expected – due to the lack of potential targets to be acquired. However, **Suez intends to increase its share in Italian environmental services company ACEA to 23.3%** (vs. 12.5% before) – which has been integrated in our model – **through a capital increase that could amount to c. EUR265m** according to our estimates. **This leads to a 1.9% negative impact on our 2016e adjusted EPS but a 1.5% positive impact on our 2017e metrics**. The transaction is expected to be completed by Q3 2016.

- **Conclusion:** Despite the still challenging macro-environment, Suez has been able to generate solid organic growth (+2.2% in H1-16) principally through an outstanding performance in its international business. **We believe this should underpin** - along with the additional cost-cutting measures also announced - the **company's ability to deliver its guidance** to organically increase 2016 EBIT by at least 2.0% (we stand at 2.8%). **All in all, we are maintaining our Buy recommendation and our FV at EUR17.5 per share.**

VALUATION

- At the current share price, Suez is trading at **7.1x its 2016e EV/**EBITDA multiple
- **Buy, FV @ EUR17.5**

NEXT CATALYSTS

- 27th October: Q3 2016 results

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Table 1: New estimates (2015-2018e)

	-	New	Old	Estimates change (%)	New	Old	Estimates change (%)	New	Old	Estimates change (%)
Revenues	**15,135**	**15,550**	**15,456**	**0.6%**	**16,191**	**16,066**	**0.8%**	**16,685**	**16,557**	**0.8%**
o/w Water Europe	4,677	4,720	4,728	(0.2%)	4,825	4,824	0.0%	4,960	4,950	0.2%
o/w Waste Europe	6,357	6,345	6,357	(0.2%)	6,552	6,579	(0.4%)	6,638	6,665	(0.4%)
o/w International	3,997	4,382	4,267	2.7%	4,711	4,559	3.3%	4,984	4,837	3.0%
EBITDA	**2,751**	**2,681**	**2,653**	**1.1%**	**2,848**	**2,791**	**2.0%**	**2,977**	**2932**	**1.5%**
o/w Water Europe	1321	1290	1,307	(1.3%)	1,338	1,337	0.1%	1,373	1,371	0.2%
o/w Waste Europe	766	771	772	(0.1%)	819	824	(0.6%)	854	870	(1.9%)
o/w International	797	751	705	6.5%	822	762	7.9%	881	822	7.2%
EBIT reported	**1,381**	**1,286**	**1,287**	**(0.1%)**	**1,380**	**1,355**	**1.8%**	**1,471**	**1,459**	**0.8%**
Net income reported	407	452	449	0.7%	534	511	4.5%	588	575	2.3%
EPS reported	**0.76**	**0.81**	**0.83**	**(2.5%)**	**0.96**	**0.95**	**1%**	**1.05**	**1.07**	**(1.6%)**
Dividend	0.65	0.65	0.65	0.0%	0.65	0.65	0%	0.68	0.69	(0.8%)

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

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Construction & Building Materials

VINCI

Price EUR67.08

Strong H1 2016 EBIT; guidance reiterated.

Fair Value EUR72 (+7%) **BUY-Top Picks**

Bloomberg	DG FP
Reuters	SGEF.PA
12-month High / Low (EUR)	68.2 / 52.9
Market Cap (EURm)	39,929
Ev (BG Estimates) (EURm)	50,708
Avg. 6m daily volume (000)	1,788
3y EPS CAGR	7.1%

	1 M	3 M	6 M	31/12/15
Absolute perf.	11.1%	1.6%	8.5%	13.4%
Cons & Mat	10.4%	-2.1%	5.2%	-0.3%
DJ Stoxx 600	7.2%	-2.7%	1.4%	-7.2%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	38,518	38,272	39,607	40,984
% change		*-0.6%*	*3.5%*	*3.5%*
EBITDA	5,664	5,772	6,074	6,281
EBIT	3,758	3,972	4,273	4,494
% change		*5.7%*	*7.6%*	*5.2%*
Net income	2,109	2,258	2,469	2,597
% change		*7.1%*	*9.3%*	*5.2%*

	2015	2016e	2017e	2018e
Operating margin	9.8	10.4	10.8	11.0
Net margin	5.4	6.0	6.3	6.4
ROE	13.9	14.2	14.7	14.5
ROCE	7.4	7.8	8.4	8.8
Gearing	81.5	72.4	59.8	47.9

(EUR)	2015	2016e	2017e	2018e
EPS	3.58	3.83	4.19	4.41
% change	-	*6.9%*	*9.3%*	*5.2%*
P/E	18.7x	17.5x	16.0x	15.2x
FCF yield (%)	7.6%	7.0%	7.4%	8.0%
Dividends (EUR)	1.84	2.03	2.22	2.34
Div yield (%)	2.7%	3.0%	3.3%	3.5%
EV/Sales	1.3x	1.3x	1.2x	1.2x
EV/EBITDA	9.1x	8.8x	8.1x	7.6x
EV/EBIT	13.8x	12.8x	11.5x	10.6x

Revenues are in line with consensus at EUR17,619m in H1, with stronger organic growth in Q2 (-1.9%) than in Q1 (-3.3%). H1 EBIT is good, c4.5% above consensus at EUR1720m, with a 9.8% margin (+c115bps y/y), with better performance for both Concessions (+c30bps at 47.2%) and Contracting (+c20bps at 2.3%). Order book up 1.8%. Guidance unchanged, but tone of the press release suggests Vinci is more confident about the future. Interim dividend at EUR0.63. Positive.

Key figures

EURm	Q216	org%	H116	org%	H1 vs CS (%)	H1 vs BG (%)
Sales Concessions	1,575	3.5	2,882	5.8	-	-0.2
Sales Contracting	7,983	-4.1	14,695	-4.7	-	-0.8
Consolidated sales	**9,594**	**-1.9**	**17,619**	**1.5**	**-0.2**	**-0.2**
EBIT Concessions	-	-	1,361	-	-	6.4
EBIT Contracting	-	-	338	-	-	7.6
Consolidated EBIT	**-**	**-**	**1,720**	**-**	**4.4**	**5.6**

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

ANALYSIS

- Strong performance by Vinci in the first semester. Toll roads EBIT margin continue to increase (sales increase, cost control, lower depreciation due to the concession life extension). Other Concessions losses have been reduced. In Contracting, Eurovia in Roadworks and Vinci Energies EBIT margin are better (+c10bps at 5.5% and +c50bps at -0.9%, resp.), but margin is slightly down in Construction (-c10bps at 1.4%) despite breakeven in the UK, due to lower activity in France and Africa.
- Vinci's Consortium (with CDC and Crédit Agricole Assurances) has been named preferred bidder for a 60% stake in ADL (Aéroports de Lyon), which hold the concession contract (ending in 2047) of the two airports in Lyon Airport (Saint-Exupery and Bron). The press mentions a transaction price of EUR533m. Combined with a net debt at EUR108.5m at end 2014 and EUR53m of EBITDA (2015), the EV/EBITDA of the transaction would stand at 19x (the press mentions 21x). This could sound expensive, but multiples are certainly not the proper approach to value a concession. In any case, with 8.7 millions passengers, the Vinci Airport Portfolio will not change dramatically. But of course this is a step in the right direction, as airports are clearly a priority in the strategy of the group today. The press says Vinci Airports got a 51% stake in the consortium.

VALUATION

- FV at EUR72 derived from the SOTP

NEXT CATALYSTS

- 25th October 2016 : Q3 sales at end September

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Business Services

Bureau Veritas

Price EUR19.69

Feedback: Positive impact from BV 2020 ambition but short term remains really challenging

Fair Value EUR21 (+7%) **NEUTRAL**

Bloomberg	BVI FP
Reuters	BVI.PA
12-month High / Low (EUR)	21.8 / 16.1
Market Cap (EURm)	8,703
Avg. 6m daily volume (000)	774.9

	1 M	3 M	6 M	31/12/15
Absolute perf.	8.8%	-6.1%	11.8%	7.1%
Inds Gds & Svs	12.8%	-0.2%	7.8%	0.8%
DJ Stoxx 600	11.0%	-1.6%	0.7%	-6.3%

	2015	2016e	2017e	2018e
P/E	20.5x	19.8x	18.7x	17.7x
Div yield (%)	2.6%	2.7%	2.8%	3.0%

ANALYSIS

- **Growth initiative well engaged**...: BV 2020 ambition and 8 growth initiatives are well engaged and started to bear fruits added 2.2pts to group organic revenue growth in H1 which is definitely a good news. Remember that Management expects that the eight key initiatives, i.e. which concern 60% of the current portfolio, should generate EUR2bn incremental revenue in 2020 vs. 2015, equally balanced between organic and acquisitions. Regarding acquisitions, H1 was again active with 6 new deals representing EUR105m of annualized revenues or 2.3% of 2015 consolidated revenue.
- **...but short term remains really challenging:** After -0.6% organic growth in H1, Management confirmed its FY guidance of between 1% to 3% adding that it will be at the low end of the bracket with compares with our estimate of 0.9% and consensus 0.7%. Comps in H2 will be better (Q3 2015 lfl growth was 0.9% and 0% in Q4 after Q1 2015 up 4.4% and 3% in Q2) but current economic situation still really challenging with notably negative impact on **Marine** (9% consolidated revenue) with order book at low point and negative trend in new construction, no recovery in **Commodities** (18% of revenue), **Industry** (20%) still significantly impacted by drag from oil & gas capex, or rebound in **Construction** (13%) which should be rather in 2017 than in H2 2016. Regarding adjusted operating margin is again expected to be between 16.5% and 17% (after 16.7% in 2015) compared with a consensus of 16.6% as our estimate, which should be again a bit too optimistic.

VALUATION

- At the current share price, the stock is trading at 2016e and 2017e EV/EBIT of 13.6x and 12.8x respectively, compared with an historical median of 14.3x and CAGR EBIT 2015-2018 of 3.1%

NEXT CATALYSTS

- Q3 trading update on 7th November

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Business Services

ELIOR

Price EUR20.00

9m revenue (contact): Some improvement in lfl growth. FY guidance confirmed

Fair Value EUR23 (+15%) **BUY-Top Picks**

Bloomberg	ELIO FP
Reuters	ELIO.PA
12-month High / Low (EUR)	20.6 / 16.7
Market Cap (EUR)	3,447
Avg. 6m daily volume (000)	232.6

	1 M	3 M	6 M	31/12/15
Absolute perf.	4.6%	6.2%	9.9%	3.6%
Travel&Leisure	7.7%	-6.8%	-7.0%	-15.3%
DJ Stoxx 600	7.2%	-2.7%	1.4%	-7.2%

	09/15	09/16e	09/17e	09/18e
P/E	25.1x	18.4x	14.7x	13.0x
Div yield (%)	1.6%	1.9%	2.5%	2.8%

ANALYSIS

- **Slightly ahead of expectations:** Total 9m revenue reached EUR4,421m up 3.3% in reported terms and 1.8% on a lfl basis taking into account a 1.7% negative effect from voluntary contract exits. The numbers were slightly better than anticipated by the consensus (EUR4,412m with 1.5% lfl growth) and our estimates of EUR4,402m with lfl of 1.6%. In Q3 alone, revenue was EUR1,506m up 3.3% in reported terms with lfl growth of 2.4% after 1.9% in Q2 and 1.1% in Q1. By segment:
  - **Contract catering (74% of consolidated revenue)** was up 5.1% at EUR3,278m with lfl growth of 1.7% after 4% in Q3 (positive calendar effect of 1%) i.e. accelerating quarter after quarter (Q2 was up 1% and Q1 0.2%). **France** was up 2.2% ona lfl basis over 9m after 3.9% in Q3 (1.8% in Q2 and 1% in Q1) driven by strong business development, a calendar effect and average customer spend. **International** (48.5% of consolidated revenue) was up 1.1% in 9m after 4.2% in Q3 (0.1% in Q2 and -0.9% in Q1).
  - **Concession revenue** fell 1.6% in reported terms as expected to EUR1,143m, entirely due to France which was down 8.8% in reported terms with the impact of Roissy, termination of motorway contracts and the effect of flooding, and the current global environment (terrorist attacks, strikes). Lfl was 2.1% after -1.3% in Q3 (4.8% in Q2 and 3.6% in Q1) o/w -5.5% in **France** after 9.3% in Q3 (-3% in Q2 and -3.3% in Q1) and a strong 7.7% **abroad** after 4.5% in Q3 (10.5% in Q2 and 9.2% in Q1).
- **FY guidance confirmed:** In all, management confirmed positive trends, anticipating **organic growth** at or above 3%, excluding the impact of voluntary contract exits which is expected to be less than 200bps. **EBITDA margin** should improve by 20bp or more to 8.6%. With the consolidation of Preferred meals in Q4, adding a $50m contribution to revenue with no contribution to EBITDA due to the seasonal nature of the business in the education segment, the integration will be slightly negative by 10bp on margin. Finally, a significant rise is still expected in **reported and adjusted EPS** (our estimates is an improvement of respectively c.35% and 27%).

VALUATION

- At the current share price, the stock is trading at 10x EV/EBITDA 2015-2016e and 9x 2016-17e compared with EBITDA CAGR 2015-2018 of 8.5%

NEXT CATALYSTS

- FY results on 9th December (before market)

Bruno de La Rochebrochard, bdelarochebrochard@bryangarnier.com

Healthcare

Galapagos

Price EUR49.02

HY 2016 in-line, looking forward to CF

Fair Value EUR64 (+31%) **BUY**

Bloomberg	GLPG BB
Reuters	GLPG.BR
12-month High / Low (EUR)	58.5 / 32.7
Market Cap (EURm)	2,260
Avg. 6m daily volume (000)	219.5

	1 M	3 M	6 M	31/12/15
Absolute perf.	8.8%	22.5%	1.0%	-13.6%
Healthcare	9.3%	6.0%	2.5%	-3.0%
DJ Stoxx 600	11.0%	-1.6%	0.7%	-6.3%

	2014	2015e	2016e	2017e
P/E	NS	NS	60.6x	41.1x
Div yield (%)	NM	NM	NM	NM

ANALYSIS

- Galapagos reported H1 2016 revenues of EUR48.8m (vs. CSS EUR48m) driven primarily by milestone payments and costs recharges on partnered programs (EUR38.8m vs EUR26.7m in H2 2015). Operational expenses of EUR73.1m are comparable to last year levels of EUR72.5m and in line with expectations (CSS EUR74m). Net profit of EUR32.2m is the result of the fair value adjustment of the Gilead share subscription agreement.
- Management reiterates its FY 2016 cash burn guidance of EUR100-120m. Note that the latter excludes any additional milestone from Gilead. Cash situation at the end of June 2016 stands at EUR968.5m and bodes well with the company's strategy to develop its own pipeline.
- Clinical programs are well on-track. Two phase III in RA and CD and one phase IIb in UC are expected to start in Q3 for filgotinib. Interestingly, a ruling from the minister of finance should exonerate 80% of filgotinib's revenues from taxes. Turning to the CF deal recall that 1/ ABBV which has seen its metrics raised this semester to include the triple combo, and that 2/ GLPG increased by two-fold the patients it aims at recruiting in its SAPHIRA phase II trial in which underlines strong interactions and enthusiasm from KOL.

VALUATION

- We reiterate our BUY rating and EUR64 fair value

NEXT CATALYSTS

- Today 8.00amET/2.00pmCET: conference call on HY 2016 results (+32 2 404 0659, access code 4067587)
- H2 2016 filgotinib: phase III program start, first patient in (RA in Q3 and Crohn's in Q4). phase II/III start in UC in Q4
- H2 2016 CF program: GLPG1837 phase 2 results, GLPG2451 phase I results.

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Construction & Building Materials

Heidelbergcement

Price EUR73.40

Q2 top-line in line. EBITDA slightly better than consensus. Guidance reiterated.

Fair Value EUR86 (+17%) **BUY**

Bloomberg	HEI GY
Reuters	HEIG.F
12-month High / Low (EUR)	79.9 / 60.1
Market Cap (EURm)	13,793
Avg. 6m daily volume (000)	615.7

	1 M	3 M	6 M	31/12/15
Absolute perf.	8.5%	-7.1%	10.8%	-2.9%
Cons & Mat	10.4%	-2.1%	5.2%	-0.3%
DJ Stoxx 600	7.2%	-2.7%	1.4%	-7.2%

	2015	2016e	2017e	2018e
P/E	17.2x	15.6x	9.8x	8.2x
Div yield (%)	1.8%	2.3%	4.1%	5.4%

ANALYSIS

- Stable organic growth for revenues in Q2 (1% after 1% in Q1), 2% below consensus at EUR3575m. EBITDA ("OIBD") was fine at EUR791m (+9% like-for-like after +13% in Q1), in line with our figure but 3% above consensus. EBITDA margin stood at 22.1% (vs 20.7% last year).
- Guidance is apparently unchanged but less precise. HeidelbergCement now expects to report a "moderate to significant increase" (instead of a "high single to double digit increase") in operating income and profit.

VALUATION

- EUR86 derived from the application of historical multiples to our estimates.

NEXT CATALYSTS

- Q3 2016 results on 9th November 2016

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TMT

STMicroelectronics

Price EUR6.44

ST acquires ams' NFC and RFID division in a USD78m deal

Fair Value EUR6.5 (+1%) **NEUTRAL**

Bloomberg	STM FP
Reuters	STM.FR
12-month High / Low (EUR)	7.1 / 4.6
Market Cap (EURm)	5,869
Avg. 6m daily volume (000)	2,583

	1 M	3 M	6 M	31/12/15
Absolute perf.	26.2%	14.4%	5.7%	4.2%
Semiconductors	26.9%	23.1%	29.4%	20.2%
DJ Stoxx 600	7.2%	-2.7%	1.4%	-7.2%

	2015	2016e	2017e	2018e
P/E	35.9x	35.1x	20.8x	15.2x
Div yield (%)	5.6%	3.4%	4.2%	5.5%

ANALYSIS

- **Today, ST announced that it is acquiring ams' IP, technologies and assets related to NFC and RFID business in a deal worth USD77.8m.** From ST's perspective, this deal is expected to strengthen its secure microcontroller solutions dedicated for consumer devices, banking, industrial and automotive applications. We believe it is mainly part of ST's strategy to extend its offering as the group's strategy is to be a one-stop shop for IoT designer. According to ST, the first NFC controller leveraging expertise of both companies is already sampling to lead customers. While we are not always positive when it comes to M&A in the semiconductor industry (see our latest sector report), nevertheless, given the small size of this one and the fit with ST's current portfolio (vs. ams one), it appears to be a smart move from both groups' perspective. Note that this business allowed ams to gain important design wins in the past, especially the NFC-booster embedded in the iPhone 6 (but not the iPhone 6S) and the Apple Watch.
- **According to ams, this division accounts for about 50 people, which have been transferred to ST** compared with >30,000 employees currently working at ST.
- **The acquisition will be paid cash**. Note that, at the end of H1 2016, STMicroelectronics had a net cash position of USD426m.

VALUATION

- Based on our estimates, STMicroelectronics' shares are trading on 2016e P/E and PEG ratios of 30.8x and 0.9x respectively.

NEXT CATALYSTS

- Late in October 2016: Q3 results

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Dorian Terral, dterral@bryangarnier.com

Insurance

Swiss Re

Price CHF82.25

Q2 numbers: underwriting pressure compensated by high investment returns

Fair Value CHF100 (+22%) **NEUTRAL**

Bloomberg	SREN VX
Reuters	SREN.VX
12-month High / Low (CHF)	99.7 / 78.9
Market Cap (CHF)	29,616
Avg. 6m daily volume (000)	1,366

	1 M	3 M	6 M	31/12/15
Absolute perf.	1.5%	-7.0%	-11.3%	-16.2%
Insurance	4.1%	-12.3%	-12.2%	-22.5%
DJ Stoxx 600	7.2%	-2.7%	1.4%	-7.2%

	2015	2016e	2017e	2018e
P/E	6.4x	9.6x	9.3x	
Div yield (%)	5.5%	5.5%	5.5%	

ANALYSIS

- Q2 2016 net income is USD637m, down 32% but slightly ahead of consensus (USD597m).
- In P&C, Q2 net income (USD283m, down 39%) is pretty close to expectations, driven by higher large losses. The reported combined ratio is 101.0% vs. 92.9% last year. Adjusted for natcats (9.4 pt vs. 2.4 pt) and PYD (5.5 pts, stable), the underlying combined ratio is 97.1% vs. 96.0% last year, which highlights the continued challenging environment in P&C Re. Satisfactory June-July renewals, with premiums up 10%.
- In Life, Q2 net income is USD173m (consensus USD190m), penalised by valuation updates in the US and EMEA and adverse experience in the Americas. Net income at Corporate Solutions is -USD25m (consensus +USD48m), mainly driven by man-made losses. At Capital Life, net income is USD248m (consensus USD115m), supported by the investment result.
- Annualised Q2 RoI is 3.7% vs. 4.2% last year (consensus 2.9%), which is a very decent performance in the challenging financial market environment.

VALUATION

- Based on our current estimates, our SOTP valuation is CHF100.

NEXT CATALYSTS

- Q3 numbers on 3rd November.

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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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