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1st August 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	18432.24	-0.13%	+5.78%
S&P 500	2173.6	+0.16%	+6.34%
Nasdaq	5162.13	+0.14%	+3.09%
Nikkei	16569.27	+0.56%	-12.95%
Stoxx 600	341.894	+0.71%	-6.54%
CAC 40	4439.81	+0.44%	-4.25%
Oil /Gold			
Crude WTI	41.6	+1.12%	+11.83%
Gold (once)	1349.09	+0.84%	+26.99%
Currencies/Rates			
EUR/USD	1.11825	+0.89%	+2.94%
EUR/CHF	1.08075	-0.68%	-0.61%
German 10 years	-0.178	+24.55%	-128.00%
French 10 years	0.112	-20.96%	-88.60%
Euribor	-0.297	+0.34%	+126.72%

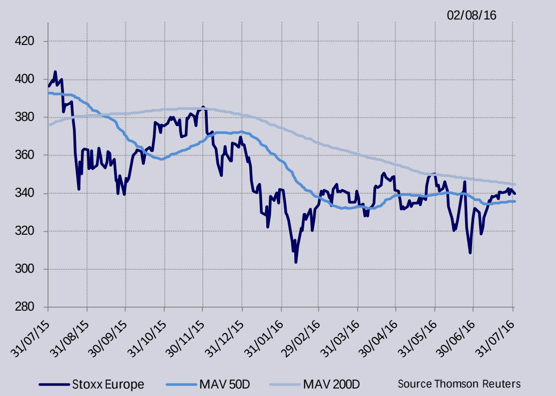
Upcoming BG events :

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



ESSILOR — **BUY, Fair Value EUR130 (+13%)**

After the temporary slowdown in Q2 we believe in the rebound in H2

CASINO GUICHARD — **BUY, Fair Value EUR57 (+18%)**

Detractors will have ammunition to back up their stance

INDRA SISTEMAS — **NEUTRAL, Fair Value EUR11 vs. EUR10 (+1%)**

Q2 2016 conference call feedback: encouraging order intake

L'ORÉAL — **BUY, Fair Value EUR177 (+4%)**

Sales momentum acceleration expected in H2

QIAGEN — **BUY, Fair Value EUR26 vs. EUR22 (+11%)**

Dense newsflow in H2

HEINEKEN — **BUY, Fair Value EUR90 vs. EUR83 (+7%)**

A superbe H1, but warning that H2 will be softer

VEOLIA ENVIRONNEMENT — **BUY-Top Picks, Fair Value EUR23 (+16%)**

H1-16 results – first take: strong costs-cutting drove EBITDA increase, as expected

In brief...

IPSEN, *Dysport approved by the FDA in new medical indications*

MORPHOSYS, *H1 2016 results below estimates due to corporate tax, but FY guidance reiterated*

Luxury & Consumer Goods

Essilor

Price EUR114.55

After the temporary slowdown in Q2 we believe in the rebound in H2

Fair Value EUR130 (+13%) **BUY**

Bloomberg	EF FP
Reuters	ESSI.PA
12-month High / Low (EUR)	123.6 / 100.4
Market Cap (EURm)	24,983
Ev (BG Estimates) (EURm)	26,652
Avg. 6m daily volume (000)	503.6
3y EPS CAGR	10.1%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-3.7%	1.3%	0.2%	-0.4%
Consumer Gds	4.5%	4.2%	2.8%	-0.7%
DJ Stoxx 600	4.7%	0.1%	-0.1%	-6.5%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	6,716	7,132	7,625	8,157
% change		*6.2%*	*6.9%*	*7.0%*
EBITDA	1,263	1,341	1,449	1,566
EBIT	1,183	1,271	1,379	1,501
% change		*7.5%*	*8.5%*	*8.9%*
Net income	757.1	846.6	923.3	1,017
% change		*11.8%*	*9.1%*	*10.1%*

	2015	2016e	2017e	2018e
Operating margin	17.6	17.8	18.1	18.4
Net margin	11.3	11.9	12.1	12.5
ROE	13.3	13.2	12.9	13.4
ROCE	20.0	20.1	20.9	21.5
Gearing	34.7	24.5	15.9	13.7

(€)	2015	2016e	2017e	2018e
EPS	3.57	3.96	4.32	4.76
% change	-	*11.0%*	*9.1%*	*10.1%*
P/E	32.1x	28.9x	26.5x	24.1x
FCF yield (%)	3.5%	3.8%	4.0%	4.3%
Dividends (€)	1.15	1.30	3.15	4.15
Div yield (%)	1.0%	1.1%	2.7%	3.6%
EV/Sales	4.0x	3.7x	3.4x	3.2x
EV/EBITDA	21.5x	19.9x	18.1x	16.7x
EV/EBIT	22.9x	21.0x	19.0x	17.4x

Although we felt that management's tone was a bit more cautious in light of the poor performance in R&S and a difficult macro environment, it is committed to accelerating LFL growth in H2 (+5%e) thanks to numerous initiatives in all businesses and across all geographies while Q2 headwinds should have a lesser impact throughout the remainder of the year. We have notched down our FY16 estimates by only 1.5% (lower FY16 LFL target, FX) but FV is unchanged at EUR130 and our Buy recommendation confirmed as the ST/MT growth story is solid.

ANALYSIS

- **Why this slowdown in North America (+1.5% vs. +4.7% in Q1)?** Following Luxottica's soft H1 numbers in North America (+0.5% FX-n), Essilor's disappointing performance (CS: +5%e) might have caused concern last Friday. According to COO Laurent Vacherot, three main headwinds impacted Q2: **(i) Transitions ("TOI"):** a more significant sales decline to third parties than expected, due to a key customer that did not renew its order (impact: ~1pp on NA LFL growth), **(ii) Coastal:** whilst the other online platforms grew in double-digits, Coastal still struggled to rebound and **(iii) a soft month of June:** the overall market had a slow start before accelerating towards the end of the month.

- **Is this deceleration structural or just temporary?** In our view it is only a temporary softness**: (i) Transitions:** Essilor launched several initiatives (marketing campaigns, innovation) to boost internal sales and offset the structural decline in actitivity with 3rd parties (lesser impact expected over the next quarters though), **(ii) the further integration of the alliance groups**, which is a fast-growing channel, will also fuel LFL growth over H2 and beyond, **(iii)** the **US optical market** was better-oriented in July.

- **What happened to the Sunwear division?** Although we were expecting the unfavourable weather conditions to affect the R&S division, we were surprised by the magnitude of the sales drop (-5.8% LFL vs. CS: +5.5%): **(i)** the expected rebound at **Bolon** in **China** was eventually lower-than-expected (HSD decline vs. -33% in Q1) because of a soft Chinese sunglass market, **(ii) the bad weather in Europe/US** affected **FGX** and **Costa** (still positive).

- **R&S: Essilor is guiding for a rebound in H2. Bolon** should return to growth in H2 as the brand is penetrating new channels (travel retail) and new markets (Southeast Asia), especially since the inventory software is now fully operational in China. As the weather improves in Europe/US, **Costa** and **FGX** should accelerate, the former is also expanding in travel retail and outside the US Essilor and expects a modest LFL growth for 2016 (BG: +0.5%e), implying a rebound in H2 (BG: +5%e).

- **Impact of lower FY16 sales guidance on our EPS estimate: -1.5% only.** Our LFL growth assumption is now aligned with the revised target (BG: +4.5%e vs. +5% previously), leading to "combined growth" of 8.2% (guidance:>8%). We have retained a more negative FX impact (~2%). As for CM, we are leaving our forecast unchanged at 18.9% (target: "at least 18.8%") after having achieved 18.9% in H1. On the positive side, Laurent Vacherot confirmed that the tax rate should be around 26.5% (vs. 27.5% in 2015), which is lower than our initial forecast (27%).

VALUATION

- In our view the significant market correction last Friday was more due to profit-taking moves triggered by the Q2 miss and the stock outperformance (+10% ytd vs. CAC40 prior the publication) than concrete concerns about the group's MT growth story. As a reminder, the lower FY16 sales guidance still requires 5% LFL growth over H2, which is feasible in our view given the sound fundamentals of the Lenses & Optical core business – 87% of sales (+5% in H1 despite a weak North America in Q2), representing one of the highest top line momentums in the optical & eyewear industry. Buy recommendation and FV of EUR130 confirmed.

NEXT CATALYSTS

- US Field Trip: 28-30th September // Q3 2016 Sales on 21st October 2016.

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Food retailing

Casino Guichard

Price EUR48.45

Detractors will have ammunition to back up their stance

Fair Value EUR57 (+18%) BUY

Bloomberg	CO FP
Reuters	CASP.PA
12-month High / Low (EUR)	69.3 / 35.2
Market Cap (EUR)	5,451
Ev (BG Estimates) (EUR)	8,941
Avg. 6m daily volume (000)	557.1
3y EPS CAGR	7.9%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-1.8%	-6.8%	16.1%	14.2%
Food Retailing	1.4%	-3.2%	-4.6%	-3.4%
DJ Stoxx 600	4.7%	0.1%	-0.1%	-6.5%

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	17.3x	23.1x	16.0x	13.8x
FCF yield (%)	NM	2.3%	10.3%	8.6%
Dividends (EUR)	3.12	3.12	3.12	3.12
Div yield (%)	6.4%	6.4%	6.4%	6.4%
EV/Sales	0.3x	0.2x	0.2x	0.2x
EV/EBITDA	5.7x	4.5x	4.3x	4.1x
EV/EBIT	13.9x	7.5x	7.1x	6.9x

We believe the stock deserves a re-rating, given the current discount in terms of MtM SOTP (EUR55). In this respect, and unsurprisingly given the sector's seasonal nature, management's message during the H1 analysts' meeting should not yet help convince the market that key guidance (for underlying operating profit of EUR500m in France) is achievable (the consensus currently stands at around EUR460). Not to mention more caution (?) in the tone.

ANALYSIS

- Today, the key issue is whether the group is objectively able to deliver its full year guidance in France, this remaining unchanged at EUR500m for current operating profit (vs EUR337m in 2015) incl. EUR66m profit from real estate promotion (vs EUR167m in 2015 and EUR162m in 2014). Formulated in EBITDA terms, guidance is for around EUR900m (also confirmed by management).
- The group indeed confirmed this EUR500m target in 2016 but "subject to consumption trends remaining intact". Detractors may identify some caution in the wording (management added that July was pretty luch in line with the month of June as a whole, ie better than the exit trend of June which was strongly impacted by circumstantial events). Moreover, note that profit from real estate development reached EUR49m in H1 2016 (vs EUR33m e) and that it should finally be as much as EUR70-75m in 2016 according to management.
- As a reminder, management also provided guidance (21st December) for French FCF (i.e. "in 2016, Casino expects a solid generation of free cash flow after financial expenses and dividends above EUR200m in France). However our understanding is that: 1/ Capex should be higher in 2016 than initially expected (~EUR400/450m vs ~EUR300m in our previous estimates); 2/ The board of directors also decided to pay an interim dividend of EUR1.56 per share (~EUR170m) for the year of 2016.
- Excl. the interim dividend, but taking into account increased capex, management now says that FCF should be positive (~EUR50m e / i.e. EUR200m - EUR150m additional capex). As a consequence, our understanding is that FCF after financial expenses and dividends in France, rather than EUR200m should in fact end up negative in 2016 (~ -EUR120m e / i.e. EUR200m – EUR150m additional capex – EUR170m interim dividend) when taking into account these two elements (vs the EUR200m initial guidance).
- Going forward, in terms of profitability in France, note that at end-June 2015, 22% of the FP portfolio was franchised and today the proportion is around 50%. Basically, the deployment of a franchise concept is low in capital intensity and structurally more profitable than the integrated business, insofar as the franchised stores are responsible for their own cost base and capex. To a lesser extent than Dia in Spain, *ceteris paribus*, changes in the mix in favour of franchisees should therefore enhance the overall margin.
- In terms of estimates, our understanding is that financial costs at the group level should be as much as EUR600m in 2016 (in line with our estimates) given notably increased interest rates in Colombia. However, it seems that the consensus is currently well below that level. Admittedly, the consensus is also likely to adjust its estimates downward for minority interests, but all in all, there is probably room for an EPS downgrade in coming weeks. Stay tuned.

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Return to front page

TMT

Indra Sistemas

Price EUR10.85

Q2 2016 conference call feedback: encouraging order intake

Fair Value EUR11 vs. EUR10 (+1%) **NEUTRAL**

Bloomberg	IDR SM
Reuters	IDR.MC
12-month High / Low (EUR)	10.9 / 7.7
Market Cap (EUR)	1,780
Ev (BG Estimates) (EUR)	2,415
Avg. 6m daily volume (000)	882.6
3y EPS CAGR	

	1 M	3 M	6 M	31/12/15
Absolute perf.	18.6%	6.0%	19.9%	25.1%
Softw.& Comp. SVS	13.2%	10.1%	6.8%	4.3%
DJ Stoxx 600	4.7%	0.1%	-0.1%	-6.5%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	2,850	2,719	2,774	2,880
% change		*-4.6%*	*2.0%*	*3.8%*
EBITDA	107	221	298	360
EBIT	-641.0	159.0	232.0	290.0
% change		*NS*	*45.9%*	*25.0%*
Net income	-73.0	86.0	147.0	189.0
% change		*NS*	*70.9%*	*28.6%*

	2015	2016e	2017e	2018e
Operating margin	1.6	5.9	8.4	10.1
Net margin	-22.5	3.1	5.2	6.5
ROE	-208.1	21.3	27.0	25.8
ROCE	-11.7	12.2	18.3	22.6
Gearing	227.0	163.0	88.0	35.0

(€)	2015	2016e	2017e	2018e
EPS	-0.40	0.47	0.81	1.04
% change	*-*	*NS*	*72.3%*	*28.4%*
P/E	NS	23.1x	13.4x	10.4x
FCF yield (%)	NM	0.8%	8.4%	10.9%
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	23.2x	10.9x	7.5x	5.7x
EV/EBIT	53.9x	15.2x	9.7x	7.0x

We reiterate our Neutral recommendation and raise our DCF-derived Fair Value from EUR10 to EUR11, after increasing our estimates for medium-term lfl revenue growth (+4% vs. +3%) and adj. EBIT margin (10.5% vs. 10%). While management remains cautious for the rest of the year due the current political and economic environment in Spain and LatAm and free cash flow remains low, we consider Indra is paving the way for future growth with strong order intake. Brazil has started to turn around with opex slashed by 30% and a bouncing book-to-bill ratio.

ANALYSIS

- **Realistic cautiousness for H2**. Q2 2016 was good, helped by a strong performance in Defence & Security in Spain (+42%) and sales related to Eurofighter with management acknowledging that revenues were slightly higher than expected. Despite solid order intake with a book-to-bill ratio of 1.2x for H1 2016 vs. 1.12x for H1 2015 essentially driven by Spain (order intake +7% lfl) and America (order intake +13% lfl), management refrained from being too optimistic for the full-year as it remains concerned by the absence of a government in Spain for nine months, oil prices, the economy in Latin America, and more deal selectiveness. In addition, although order intake is growing faster than revenues, sales cycles and transformation times between orders and sales are longer. Finally, growth in Defence & Security is unlikely to be as high in H2 2016 as it was in H2 2015 and H1 2016 due to the start of tougher comps. As such, the company reiterated its guidance for a slight lfl revenue decline - we expect -3% lfl for 2016, including -11.9% lfl for Q3 with tough comps in Government & Healthcare, Financial services and Defence, and +2.7% lfl for Q4 -, but the trends looks more encouraging going forward - we estimate +1.4% lfl for 2017 and +3.8% for 2018.

- **Brazil starting to turn around**. H1 2016 revenues in Brazil were down 16% lfl to EUR410m, but order intake was up 11% lfl to EUR436m (+50% lfl in Q2 to EUR252m) pointing to a surge in the book-to-bill ratio to 1.06x from 0.8x (1.21x in Q2 2016 vs. 0.67x in Q2 2015). In addition, operating costs were slashed by 30%, leading to a non-IFRS operating loss of EUR15m vs. EUR118m a year ago, and the margin reached -4% (and even a positive 4% excluding labour contingencies) vs. -24% a year ago. Four out of the seven loss-making projects that were identified have been terminated or finished, and the three remaining ones are on track to be resolved by end 2016.

- **Free cash flow to remain negative in Q3**. Free cash flow in Q2 was not a surprise as the EUR2m generated in the quarter was done by using the factor (EUR25m increase). As indicated in the press release, assuming the same level of factoring as in Q1, free cash flow would have been a negative EUR23m. As such, management reiterated guidance for negative free cash flow in Q3 and a positive level in Q4. That said, with net working capital representing 24 days of sales, Indra continues its efforts on cash collection regarding receivables and expects further improvement regarding suppliers. Finally, capex appeared to be low in H1 (EUR9m), but they are in line with the EUR35-40m projected for the full-year as some investments are planned on Defence projects.

VALUATION

- Indra's shares are trading at est. 15.2x 2016 and 9.7x 2017 EV/EBIT multiples.
- Net debt on 30th June 2016 was EUR659.4m (net gearing: 199%).

NEXT CATALYSTS

Q3 2016 results in November.

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Luxury & Consumer Goods

L'Oréal

Price EUR170.25

Sales momentum acceleration expected in H2

Fair Value EUR177 (+4%) **BUY**

Bloomberg	OR FP
Reuters	OREP.PA
12-month High / Low (EUR)	178.2 / 143.9
Market Cap (EURm)	95,340
Ev (BG Estimates) (EURm)	93,680
Avg. 6m daily volume (000)	681.8
3y EPS CAGR	6.0%

	1 M	3 M	6 M	31/12/15
Absolute perf.	0.1%	7.4%	8.1%	9.6%
Pers & H/H Gds	2.6%	4.2%	3.5%	2.6%
DJ Stoxx 600	4.7%	0.1%	-0.1%	-6.5%

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	27.5x	26.2x	24.7x	23.1x
FCF yield (%)	3.1%	3.2%	3.4%	3.5%
Dividends (EUR)	3.10	3.35	3.60	3.90
Div yield (%)	1.8%	2.0%	2.1%	2.3%
EV/Sales	3.8x	3.6x	3.4x	3.2x
EV/EBITDA	18.1x	17.1x	16.0x	14.9x
EV/EBIT	21.6x	20.3x	19.0x	17.6x

During Friday's conference call, L'Oréal CEO, Jean-Paul Agon, was quite confident in the group's prospects with an acceleration in sales momentum in H2 and a likely profitability improvement over the FY. We remain at Buy on the stock with an unchanged EUR177 FV.

ANALYSIS

- On Friday, L'Oréal's CEO and CFO hosted a conference call during which they reviewed H1 results. First of all, the cosmetic market remains quite dynamic with estimated world market growth between 3.5% and 4%, an estimation also valid over the full year, which is slightly better than the previous estimates of around 3.5%. Therefore, in H1, L'Oréal gained market shars as it grew 1.1x the market. This is good news after the market share loss registered in 2015. Market share gains were particularly significant in WE (+1.7% versus +0.5% for the market) and in New Markets (+6.8% versus +5% for the market). By division, L'Oréal outperformed the mass market (+4.3% vs 4% for the market), which confirmed the Q1 trend and is also clearly good news after almost two years of underperformance. The luxury products division (+5.6%) continued to outperform its market (+5%). We would highlight the very buoyant e-commerce segment (+20% for the market but +33% for L'Oréal) which accounts for 6% of the group's sales. 30% of media investments were dedicated to digital (25% in H1 2015). By segment, again in H1 2016, sales growth was driven by make-up (25% of sales) thanks to a 12.4% revenue increase while skin care (30%) remained almost stable (+0.6%). The make-up market was particulary dynamic in the US, in Russia and in China. L'Oréal leads the global make-up mass market particularly thanks to Maybelline and L'Oréal Paris.
- In **Western Europe**, sales growth was clearly penalised by France (25% of WE sales or 7% of group sales) where sales fell 2.8%, while the UK and Spain were much more dynamic with sales respectively up 8% and 7%. In Q2, France was affected by strikes, bad weather conditions, the impact of terrorist attacks, and more importantly, the price war led by retailers (with no positive impact on volumes). YTD, mass market declined 3% in France. Excluding France, L'Oreal outperformed the WE market. **In North America**, L'Oréal gained clear market share in the mass market and in luxury (thanks to Urban Decay, Armani and Kielh's). Performance in **Asia-Pacific** (+4.6% in H1) was penalised by HK (sales down 16%), despite very buoyant Korea (+10%) and Indonesia (+22%). Mainland China registered a 2.5% sales growth but up 5% excluding the **Magic** brand in a slowing market (mass and luxury markets were up respectively 3% and 5%). L'Oréal Luxe (up HSD) clearly outperformed the market in MC with a clear revenues increase at L'Oréal Paris, the first beauty brand there.
- **For the full year**, we are making no change to our estimates with 4.5% organic sales growth. Our view is also confirmed by the acceleration expected by L'Oréal's CEO in H2. For the FY, L'Oréal's CEO expects for market growth of between 3.5% and 4% (even perhaps closer to 4%). Our 4.5% organic sales increase estimate assumes further market share gains as L'Oreal should grow by close to 1.2x the market. We have also left unchanged our EBIT margin estimates with a 30bp improvement to 17.7%, driven by higher gross margin (+60bp to 71.8%) as was the case in H1 (+70bp to 72.4%, including +40bp due to FX effect). The group's strategic focus is clearly the top line and market share gains. Profitability improvement is the logical consequence of a sales increase but it is not management's target.

VALUATION

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

NEXT CATALYSTS

- Q3 sales to be reported mid October.

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Healthcare

QIAGEN

Price EUR23.48

Dense newsflow in H2

Fair Value EUR26 vs. EUR22 (+11%) **BUY**

Bloomberg	QIA GR
Reuters	QGEN.DE
12-month High / Low (EUR)	26.0 / 17.8
Market Cap (EURm)	5,627
Ev (BG Estimates) (EURm)	6,196
Avg. 6m daily volume (000)	431.2
3y EPS CAGR	9.7%

	1 M	3 M	6 M	31/12/15
Absolute perf.	22.5%	20.0%	12.2%	-6.5%
Healthcare	3.4%	8.1%	3.9%	-3.1%
DJ Stoxx 600	4.7%	0.1%	-0.1%	-6.5%

YEnd Dec. (USDm)	2015	2016e	2017e	2018e
Sales	1,281	1,347	1,433	1,535
% change		*5.1%*	*6.4%*	*7.1%*
EBITDA	438	442	492	531
EBIT	314.5	318.7	369.2	407.9
% change		*1.3%*	*15.9%*	*10.5%*
Net income	249.3	257.2	295.5	325.5
% change		*3.2%*	*14.9%*	*10.2%*

	2015	2016e	2017e	2018e
Operating margin	24.6	23.7	25.8	26.6
Net margin	19.5	19.1	20.6	21.2
ROE	5.0	4.5	5.5	6.1
ROCE	23.0	19.6	19.1	24.7
Gearing	38.8	22.3	15.4	8.4

(USD)	2015	2016e	2017e	2018e
EPS	1.05	1.09	1.25	1.39
% change	*-*	*3.4%*	*15.3%*	*10.6%*
P/E	25.0x	24.2x	21.0x	19.0x
FCF yield (%)	6.3%	6.3%	5.9%	6.3%
Dividends (USD)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	5.7x	5.1x	4.7x	4.3x
EV/EBITDA	16.7x	15.7x	13.7x	12.4x
EV/EBIT	23.2x	21.7x	18.3x	16.1x

Last Friday we upgraded QIAGEN from Neutral to Buy. Following the conference call on Q2 results, we have reviewed the investment case which now features a higher level of confidence and raised our Fair Value from EUR22 to EUR26. The main points of interest during the call were 1/ the margin ramp-up, 2/ growth drivers and 3/ NGS. We welcomed management's confidence in all of these topics. Note that an Investor Day on 15th November (right after the AMP), should provide us with more details on the GeneReader.

ANALYSIS

- Management was pleased with the results, which were higher than internal targets and reiterated its commitment to deliver on operational leverage in H2 2016. Looking at Q3 guidance, which was ahead of expectations in terms of sales (8-9% sales growth at CER) but slightly lower in terms of EPS (USD0.28 at CER) confirms our sentiment on significantly back-end loaded leverage in Q4. We estimate a USD27m increase in absolute sales in Q4, which should be leveraged to enable QIAGEN to post a minimum of 30.6% in adj. operating income in Q4. We prefer to speak of a "minimum" as this should bring us to a 23.7% adj. operating margin for the year (BGe), 90bp below the FY2015 level of 24.6% while CFO, Roland Sackers, seems confident in the group's ability to catch-up FY 2015 levels. Apart from adding further upside, we do not rule out that this might enable the company to beat its FY2016 guidance.
- Growth drivers accounted for 35% of revenues in Q2 2015 and management expects strong double-digit growth in sales in the upcoming year. Note that our CER growth rates for QIA's growth drivers (combined) are 22%, 19.5% and 18.5% for 2016, 2017 and 2018 respectively. Across all divisions, volume expansion was solid and also ahead of management's internal projections. QuantiFERON grew >25% and even faster in the US. We do not expect this trend to change as a grade "B" recommendation is expected to be granted by the USPSTF this semester. Note that sales are not expected to be impacted by the warning letter issued in May 2016, since QIAGEN has answered the regulators points. The Life Sciences business benefited from a good macro trend. Academia (20% of sales) and Pharma (20% of sales) grew 6% and 9% at CER over Q2 on the back of marketing initiatives and a sales rep added. Note that we expected an acceleration in Academia as a result of a budget increase for 2016. With even more US research labs having cash in their hands entering H2, we would expect growth levels in this division to be at least maintained in Q3. Rebound in Applied Testing was helped by QIAsymphony among others. Management pointed out to an attractive pipeline with new solutions to be rolled-out in the Life Sciences businesses in H2 2016 and transferred to the GeneReader.
- Another point of interest during the call was QIAGEN's commitment to return cash to shareholders. While our numbers do not include the newly disclosed USD200m share buy-back programme (excluded in the group's guidance, no dividend anticipated), the latter will come on top of the existing USD100m programme which has not been initiated yet because of volatile market conditions. Out of this progamme, which accounts for USD300m, USD200m should be completed by early-2017. Note that this should be a major support to the share price as it represents around 22 days of trading.

VALUATION

- Our Fair Value is raised from EUR22 to EUR26. EUR1 stems from slight adjustments in our sales estimates for 2016e and 2017e. With increased confidence in the company's ability to achieve its FY2016 guidance, we have lowered our Beta from 1.0 to 0.9 such that it is now aligned with the Beta we use for other Dx Cies in our coverage universe and consistent with Bloomberg's 5yr adj. Beta. This latter change triggers a EUR3 increase in our Fair Value.

NEXT CATALYSTS

- H2 2016: Roll-out of novel products in the LS division // IR Day (15th Nov.) // expected "B" grade from the USPSTF.

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Food & Beverages

Heineken

Price EUR84.44

A superbe H1, but warning that H2 will be softer

Fair Value EUR90 vs. EUR83 (+7%) **BUY**

Bloomberg	HEIA NA
Reuters	HEIN.AS
12-month High / Low (EUR)	85.2 / 67.9
Market Cap (EURm)	48,638
Ev (BG Estimates) (EURm)	63,024
Avg. 6m daily volume (000)	659.2
3y EPS CAGR	9.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.9%	3.2%	5.5%	7.2%
Food & Bev.	3.7%	6.3%	2.2%	1.5%
DJ Stoxx 600	4.7%	0.1%	-0.1%	-6.5%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	20,511	21,053	21,891	22,572
% change		*2.6%*	*4.0%*	*3.1%*
EBITDA	4,975	5,184	5,587	5,979
EBIT	3,381	3,590	3,869	4,146
% change		*6.2%*	*7.8%*	*7.2%*
Net income	2,048	2,248	2,470	2,698
% change		*9.8%*	*9.9%*	*9.2%*

	2015	2016e	2017e	2018e
Operating margin	16.5	17.1	17.7	18.4
Net margin	10.0	10.7	11.3	12.0
ROE	15.1	15.3	15.4	15.4
ROCE	8.2	8.6	9.2	9.8
Gearing	86.0	73.7	60.3	47.4

(EUR)	2015	2016e	2017e	2018e
EPS	3.57	3.92	4.31	4.71
% change	-	*9.8%*	*9.9%*	*9.2%*
P/E	23.6x	21.5x	19.6x	17.9x
FCF yield (%)	3.5%	3.9%	5.0%	5.6%
Dividends (EUR)	1.11	1.17	1.28	1.40
Div yield (%)	1.3%	1.4%	1.5%	1.7%
EV/Sales	3.1x	3.0x	2.8x	2.6x
EV/EBITDA	12.7x	12.2x	11.0x	9.9x
EV/EBIT	18.7x	17.6x	15.9x	14.3x

Heineken deliver 4.7% organic revenue growth and 12.6% organic operating profit growth in H1. That implies a margin expansion of 124bps. Nevertheless the company is holding its full year forecast of 40bps margin expansion which is indicative of tougher comparables and currency headwinds. However, because of the strong first half figures we are increasing our fair price for the stock to EUR90 from EUR83.

Heineken published this morning first half figures, delivering net revenues of EUR10,094m which was up 2% and organic 4.7%. It made an operating profit of EUR1,705m which was an increase of 10.1% compared to last year (orgnanic growth of 12.6%).

ANALYSIS

- The figures were a little weak on revenue (-2%) given a consensus forecast of EUR10,297 but much better on operating profits beating by 2.6% (consensus was EUR1,661m). However, they were significantly better than the ones that AB InBev published last weak (organic revenue growth of 3.6% and organic EVIT growth of 1.2% and published figures of respectively -6% and -10.3%)
- Compared to the consensus expectations on revenue, the two regions that did not meet expectations was America and Europe, falling short by about 2-3% but Asia Pacific over delivered by about 5% (and Africa being more or less in line).
- IndeedAsia Pacific with 11.6% organic revenue growth and 30.9% organic operating profit growth was the strongest area for Heineken in the first half. The underluing momentum continued to be strong in Viernam, Cambodja and China and in Indonesia, Heineken was up against weak comps as last year was adversely impacted by the minimart regulation change (no alcohol sale in minimarts).
- The weakest region was Africa Middle East and Eastern Europe (organic revenue growth of 1% and operating profit growth of -14.3%) were weak macro-economics (Nigeria, DRC, Russia) and tourisme (Egypt) impact beer consumption.
- In the Americas organic revenue growth of 7.3% and operating profit growth of 20% were driven by high single digit volume growth in Mexico but also in the US depletions were positive (slightly for Heineken and Dos Equis but double digit for Tecate Light). US operating profit benefited from the lower import costs of the Mexcian and Dutch brands.
- In Europe organic revenue growth was 2.4%, with revenue per hectolitre up 0.8%, following a strong innovation and premiumisation agenda. However, deflationary pressure and off trade pricing pressure resulted in limited pricing for the region. With higher priced innovation and premium products coupled with strong cost decipline resulted in an operating profit growth of 15.7%.
- For the full year 2016 Heineken confirms its expectation to deliver further organic revenue and profit growth, with margin expansion in line with the medium term margin guidance of a year on year improvement in operating profit (beia) margin of around 40bps. Given that margin expanded by 124bps in the first half, this does does take into account that comparatives in the second half will get tougher and that currency headwinds will increase.

VALUATION

- Our fair value of EUR90 is based on a risk free rate of 1.6% and an equity risk premium of 7%.

NEXT CATALYSTS

- 26 October 2016: trading update Q3

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Utilities

Veolia Environnement

Price EUR19.86

H1-16 results – first take: strong costs-cutting drove EBITDA increase, as expected

Fair Value EUR23 (+16%) **BUY-Top Picks**

Bloomberg	VIE FP
Reuters	VIE.PA
12-month High / Low (EUR)	22.9 / 18.1
Market Cap (EURm)	11,188
Ev (BG Estimates) (EURm)	18,900
Avg. 6m daily volume (000)	1,924
3y EPS CAGR	27.4%

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.7%	-7.4%	-10.5%	-9.2%
Utilities	3.9%	1.0%	0.5%	-1.3%
DJ Stoxx 600	4.7%	0.1%	-0.1%	-6.5%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	24,965	24,927	25,821	26,471
% change		*-0.2%*	*3.6%*	*2.5%*
EBITDA	2,997	3,135	3,336	3,516
EBIT	1,060	1,419	1,551	1,685
% change		*33.9%*	*9.3%*	*8.7%*
Net income	380.2	559.3	679.6	786.7
% change		*47.1%*	*21.5%*	*15.8%*

	2015	2016e	2017e	2018e
Operating margin	4.5	5.7	6.0	6.4
Net margin	1.8	2.5	2.9	3.2
ROE	4.0	5.7	6.8	7.7
ROCE	6.4	8.2	8.7	9.2
Gearing	82.6	83.2	82.5	79.7

(EUR)	2015	2016e	2017e	2018e
EPS	0.68	0.99	1.21	1.40
% change	-	*47.1%*	*21.5%*	*15.8%*
P/E	29.4x	20.0x	16.4x	14.2x
FCF yield (%)	9.5%	NM	5.9%	7.1%
Dividends (EUR)	0.73	0.85	0.87	0.99
Div yield (%)	3.7%	4.3%	4.4%	5.0%
EV/Sales	0.7x	0.8x	0.7x	0.7x
EV/EBITDA	6.0x	6.0x	5.7x	5.4x
EV/EBIT	17.1x	13.3x	12.2x	11.2x

Veolia posted this morning H1-16 results that came slightly above consensus expectations with company's EBITDA reaching EUR1,580m (vs. consensus at EUR1,575m and BG at EUR1,574m) principally spurred by strong costs-savings achieved (EUR121m over the semester) and despite the still challenging macro environment. The 20% stake disposal of Transdev should be positively received as the valuation appears rather attractive. Buy rating and EUR23 FV maintained.

ANALYSIS

- **Main H1-16 metrics:** Revenues reached **EUR11,956m** down **2.9%** organically notably due the unsupportive impact of lower energy prices, the downsizing of **Veolia Water Technologies** and poor performance in the US (-9.4%). In France, revenues are rather stable (-0.2%) despite the decline in waste revenues (-1.6%). Globally, waste volumes remain resilient with a 1.3% positive impact spurred by **stong growth, as expected, in hazardous waste (+4.2%). Group's EBITDA reached EUR1,580m**, broadly in line with consensus' expectations (EUR1,575m), with a **3.2% organic growth** boosted by EUR121m achieved in costs-savings and good commercial development. **EBITDA margin is up to 13.2%** from 12.4%. **In France, EBITDA declined by 10.7%** organically mainly due to the fall in price of scrap metal and a 2015 non-recurring item. Current net income, excluding capital gains, reached **EUR301m** up **15.7%** YoY and **5% higher than consensus' expectations**, driven mainly by the strong EBIT growth and lower than expected cost of debt. **Net financial debt reached EUR8,678** down 6.0% YoY with a c. EUR350m FX tailwind.
- **Disposal of 20% of Transdev:** In parallel, Veolia announced an agreement have been reached with French State-owned bank CDC for **the disposal of a 20% stake in Transdev** (out of Veolia's current stake at 50%). The 20% stake is valued at EUR220m, which implies **a c. 20% premium vs. current Transdev's book value** (EUR466m for the 50% owned by Veolia). The operation is expected to be **completed by the end of the year.** Both Veolia and the CDC will then look for a new shareholder for the remaining 30% hold by Veolia. At the end of a two-year period, Veolia could exercise its put option with CDC at the same valuation. We expect this operation to be **positively received** by investors as **1/ the valuation appears rather attractive 2/** this is a long-lasting story. **The impact on Veolia's current EPS and net income** (guidance at EUR600m for 2016e) **is neutral** as both Veolia's metrics do not include Transdev's contribution (EUR46m in 2015) and any potential capital gain.
- **Conclusion:** While the 3.2% organic growth in EBITDA appears a bit disappointing regarding Veolia's mid-term objective (5.0%), **we appreciate the resilience of the company's margins** (EBITDA up 80bp) **as well as the company's strong ability to deliver costs-savings**. **The 20% disposal of Transdev should be well-received by investors**. **Finally, the Group confirms its FY-16 objectives** with **1/** Revenues and EBITDA growth **2/** Net Free Cash Flow before divestments and acquisitions of at least EUR650m **3/** Current net income of at least EUR600m.
- **Buy rating and FV at EUR23 maintained.**

VALUATION

- At current share price, Veolia is trading at **6.0x** its 2016e EV/EBITDA multiple
- Buy, FV @ EUR23

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Healthcare

Ipsen

Price EUR58.35

Bloomberg	IPN FP
Reuters	IPN.PA
12-month High / Low (EUR)	62.0 / 47.1
Market Cap (EURm)	4,863
Avg. 6m daily volume (000)	90.00

	1 M	3 M	6 M	31/12/15
Absolute perf.	7.7%	10.4%	9.8%	-4.3%
Healthcare	3.4%	8.1%	3.9%	-3.1%
DJ Stoxx 600	4.7%	0.1%	-0.1%	-6.5%

	2015	2016e	2017e	2018e
P/E	21.0x	20.2x	17.2x	14.3x
Div yield (%)	1.5%	1.5%	1.9%	2.1%

Dysport approved by the FDA in new medical indications

Fair Value EUR66 (+13%) **BUY-Top Picks**

ANALYSIS

- When it presented its half-year results last week, Ipsen said that it was expecting FDA approval for its botulinum toxin Dysport in a new medical indication, this time for treatment of lower limb spasticity in children (PLL), any day soon. The new indication granted in the US was confirmed this morning and adds to the list of indications already included in Dysport's prescribing information, making the drug the first to carry this one.
- Within the space of a year, Dysport has added two important new indications, with AUL (adult upper limb spasticity) the previous one, obtained about a year ago. Our understanding is that, taking the opportunity of stronger growth in the first half and for the entire year, Ipsen intends to capture excess profits to reinvest behind new drugs rather than increase guidance for this year. However, this will not only benefit Somatuline and cabozantinib, as expected, but also Dysport to some extent.
- Although the general statement over Dysport remains largely unchanged i.e. it is still difficult to take share from well-installed Botox, Ipsen aims to take advantage of the two new indications, including this first one granted in PLL, to benefit from healthy momentum and grab some market share from direct competitor, considering also additional indication yet to come in 2017 (ALL).

VALUATION

- We forecast low double-digit growth for Dysport in 2016-2018 and peak sales of close to EUR500m in 2022 in indications and territories booked by Ipsen i.e. excluding Galderma's contribution.
- We are making no change to our numbers.

NEXT CATALYSTS

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Healthcare

Morphosys

Price EUR39.60

H1 2016 results below estimates due to corporate tax, but FY guidance reiterated

Fair Value EUR62 (+57%) **BUY**

Bloomberg	MOR GR
Reuters	MORG.DE
12-month High / Low (EUR)	74.8 / 33.2
Market Cap (EURm)	1,051
Avg. 6m daily volume (000)	140.8

	1 M	3 M	6 M	31/12/15
Absolute perf.	6.6%	-9.4%	-9.6%	-31.3%
Healthcare	3.4%	8.1%	3.9%	-3.1%
DJ Stoxx 600	4.7%	0.1%	-0.1%	-6.5%

	2015	2016e	2017e	2018e
P/E	69.5x	NS	NS	NS
Div yield (%)	NM	NM	NM	NM

ANALYSIS

- H1 2016 results were below estimates with net income at –EUR19.2m (vs BG: -EUR16m and consensus: -EUR-16m). Note however that 1/ the mismatch with anticipations was largely associated with the payment of EUR2.4m during Q2 2016 (vs BG: -EUR3.7m); 2/ more importantly, the company has reiterated its FY 2016 guidance for 1/ revenues in a range of EUR47-52m along with EBIT of –EUR58/68m (vs BG: -67m).
- Revenues fell from EUR82.6m to EUR24.3m on a year-on-year basis (vs BG: 24m), bearing in mind that Morphosys benefited from a significant non-recurrent effect last year (EUR59m associated with the termination of the collaboration agreement with Celgene that aimed to co-develop/promote MOR202).
- OPEX were widely in line with our expectations as 1/ R&D expenses increased from EUR33.9m to EUR36.7m (vs BG: 38m) as the company has made more efforts in developing certain proprietary compounds (e.g. MOR208), while 2/ G&A stood at EUR6.9m (vs BG: 8m).
- Note that cash & cash equivalents amounted to EUR279.7m (vs 298.4m at the end of 2015).

VALUATION

- BUY recommendation reiterated with a FV of EUR62.

NEXT CATALYSTS

- Conference call and webcast today at 02:00 p.m. CEST (01:00 p.m. BST, 08:00 a.m. EDT).
- H2 2016: Phase III results of Guselkumab (anti-IL23p19) for the treatment of moderate-to-severe plaque psoriasis.

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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 56.4% NEUTRAL ratings 32.9% SELL ratings 10.7%

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