



2nd August 2016

## BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
<b>Indices</b>			
Dow Jones	18404.51	-0.15%	+5.62%
S&P 500	2170.84	-0.13%	+6.21%
Nasdaq	5184.2	+0.43%	+3.53%
Nikkei	16391.45	-1.47%	-12.60%
Stoxx 600	339.859	-0.60%	-7.10%
CAC 40	4409.17	-0.69%	-4.91%
<b>Oil /Gold</b>			
Crude WTI	40.06	-3.70%	+7.69%
Gold (once)	1349.98	+0.07%	+27.07%
<b>Currencies/Rates</b>			
EUR/USD	1.11715	-0.10%	+2.84%
EUR/CHF	1.08005	-0.06%	-0.68%
German 10 years	-0.15	-15.79%	-123.58%
French 10 years	0.128	+14.66%	-86.93%
Euribor	-	+-%	+-%

### Economic releases :

Date	
2nd-Aug	GB - Markit Construction PMI Jul . (44 E, 46 P) US - Personal income Jun. (0.3% E) US - Personal consumption exp. (1.6% E)

### 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



### FRESENIUS MED. CARE

**BUY, Fair Value EUR94 (+15%)**

#### Q2 results delivering in the US

FMC's results were in line with expectations for the top line (7% CC growth) and outperformed profitability forecasts (EBIT at 14.5% of sales, 40bp ahead of consensus and net income at USD294m, 4% ahead of consensus). North America (72% of sales) drove the performance top to bottom line, with sales in the region benefitting from 1/ increased DSO and 2/ revenues per tx while EBIT was boosted by 1/ higher volumes and 2/ lower cost per tx. FY guidance reiterated.

### FRESENIUS SE

**BUY-Top Picks, Fair Value EUR73 (+9%)**

#### Meet and beat! FY Net Income Guidance increased

Fresenius SE reported Q2 results which came in-line with estimates. KABI continues to drive performance and notably in North America where EBIT margins are up 210bp despite a -2% decrease in organic growth due to high comparison basis and easing drug shortage situation. This enables the group to revise 1/ KABI guidance up with sales and EBIT growth now expected to be up 3-5% and 2/ Goup's net income guidance now expected to growth 11-14% vs (8-12% previously)

### INFINEON

**BUY, Fair Value EUR16 (+9%)**

#### FQ3 2016 results above estimates but the group is maintaining FY16 guidance

Infineon has reported fiscal Q3 2016 results above consensus expectations. Fiscal Q2 sales came in at EUR1.632bn up 1.3% sequentially (+2.9% yoy), current operating result at EUR254m pointing to a 15.6% operating margin and yielding EPS of EUR0.19. As a result, sales come out below consensus expectations with estimates at EUR1.649bn, but current operating result at EUR258m was in line (current operating margin of 15.6%) and adjusted EPS at EUR0.19 was 6% above the consensus figure. For Q4, the group expects a sequential increase in sales of 3%, yielding a 12% annual increase for the full year, in line with the preceding quarter forecast. Given the good performance of the share so far, we withdraw Infineon from our Top Picks list."

### METRO AG

**SELL, Fair Value EUR26 (-9%)**

#### Q3 sales and results (first take): still in an uncomfortable zone of uncertainty

Metro has released Q3 sales and results below expectations at the sales/EBIT levels and in line at the NR level. Adjusted EBIT worked out to EUR154m vs EUR190m expected by the consensus, while underlying EPS reached EUR0.24 (vs EUR0.23). The favourable tax lever (shifting of costs out of Germany, in a bid to boost domestic operating result at C&C and thus activate the loss of carry forwards) should not mask soft commercial trends. So far, and ahead of the conference call, management has refused to answer the question of whether we can rule out a rights issue in order to address the post spin-off capital structure problem. Stay tuned... Sell maintained.

### VEOLIA ENVIRONNEMENT

**BUY-Top Picks, Fair Value EUR23.5 vs. EUR23 (+18%)**

#### Strong commercial developments and accretive acquisitions to boost H2-16 earnings

Following yesterday's H1 2016 results, we have updated our model on Veolia and adjusted some of our figures. While the macro environment remains challenging, notably in France, we were pretty impressed by the company's solid commercial development over the past six months. This should spur robust growth in H2 on top of the extensive cost-reduction measures already implemented. This leads us to maintain our Buy recommendation and slightly increase our FV to EUR23.5 (vs. EUR23) implying upside of c. 18% vs. last closing price.

### In brief...

EUROFINS SCIENTIFIC, H1 results first take: Good shape

HEIDELBERGCEMENT, Poor Italcementi H1 figures

LAFARGEHOLCIM, Divestment in China

Healthcare

**Fresenius Med. Care**

Price EUR81.76

**Q2 results delivering in the US**

Fair Value EUR94 (+15%)

**BUY**

Bloomberg	FME GR
Reuters	FMEG.DE
12-month High / Low (EUR)	83.1 / 65.3
Market Cap (EURm)	25,405
Ev (BG Estimates) (EURm)	32,464
Avg. 6m daily volume (000)	563.5
3y EPS CAGR	12.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	4.9%	7.9%	0.1%	5.2%
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	16,736	17,877	19,203	20,736
% change		6.8%	7.4%	8.0%
EBITDA	3,044	3,482	3,709	4,029
EBIT	2,327	2,695	2,864	3,117
% change		15.8%	6.3%	8.8%
Net income	1,030	1,224	1,298	1,470
% change		18.8%	6.1%	13.3%

	2015	2016e	2017e	2018e
Operating margin	13.9	15.1	14.9	15.0
Net margin	6.2	6.8	6.8	7.1
ROE	10.4	11.0	10.4	10.6
ROCE	7.4	8.2	8.6	9.2
Gearing	79.9	70.9	60.1	49.2

(USD)	2015	2016e	2017e	2018e
EPS	3.38	4.02	4.26	4.83
% change	-	18.8%	6.1%	13.3%
P/E	27.0x	22.7x	21.5x	18.9x
FCF yield (%)	4.2%	5.0%	7.0%	6.9%
Dividends (USD)	1.08	1.15	1.30	1.42
Div yield (%)	1.2%	1.3%	1.4%	1.6%
EV/Sales	2.2x	2.0x	1.9x	1.7x
EV/EBITDA	11.9x	10.4x	9.7x	8.8x
EV/EBIT	15.6x	13.5x	12.5x	11.3x

FMC's results were in line with expectations for the top line (7% CC growth) and outperformed profitability forecasts (EBIT at 14.5% of sales, 40bp ahead of consensus and net income at USD294m, 4% ahead of consensus). North America (72% of sales) drove the the performance top to bottom line, with sales in the region benefitting from 1/ increased DSO and 2/ revenues per tx while EBIT was boosted by 1/ higher volumes and 2/ lower cost per tx. FY guidance reiterated.

FME (USDm exc PS)	Q2 2015	Q2 2016	YoY %	Q2 2016 CS	Delta
FMC - Revenues	4 199	4 420	5%	4 447	-0,6%
FMC - EBIT	547	641	17%	628	2,1%
EBIT margin %	13,0%	14,5%		14,1%	
FMC - Net Income	241	294	22%	283	3,9%
FMC - EPS Adj.	0,79	0,96	22%	0,92	4,3%
FMC HC - Revenues	3 345	3 571	7%	3 574	-0,1%
FMC Products - Revenues	854	849	-1%	865	-1,8%
Revenue per Dialysis	346	352	2%	350	0,6%
Cost per Treatment	286	282	-1%	279	1,1%

Source : Company Data; Vara Research.

**ANALYSIS**

- Fresenius MC has released H1 sales in line with estimates at USD4.42bn, up 7% CC (5% reported) driven by a strong 8% CC increase in HC services revenues (7% reported). Dialysis product sales were weaker (affected by a demanding comparison basis in 2015) and grew 2% CC (-0.5% reported). US revenues which account for 72% of the group's turnover rose 7.5% CC (7.5% reported). Dialysis revenues benefited from 1/ three more days of sales (54 DSO vs 51 in Q2 2015) increases 5.3% at CC (5.3%reported) and 2/ an increase in revenue par treatment (up 1.7% to USD352). US organic growth mainly benefitted from further positive trends in Care Coordination. Care Coordination revenues increased 21% CC (21% reported). EMEA sales were mixed. The 3% CC growth was positively impacted by Dialysis treatments up 9.4% CC on the back of a 4% CC drop in product revenues. Note that 7pp of EMEA's Dialysis revenue increase stemmed from acquisitions. APAC revenue grew 6% CC (5% reported) driven by dialysis products. Note that the company intensified its marketing activities, which started to pay in China notably. FMC recorded an 8.6%CC growth in LatAm totally offset by FX impact (-14% reported). Following the divestment of clinics in Venezuela, Dialysis treatments decreased 7% in the region.
- From a profitability standpoint, EBIT stood at USD641m or 14.5% of sales, 2% ahead of expectations. Again, the US region came as a support with operating income up 20% to USD513m or 16.2% of sales (14.5% in Q2 2015). The latter benefitted from 1/ a decline in cost per treatment (USD282 vs USD286 YoY) with 80% of patients now switched to Roche's Mircera and 2/ higher volumes with commercial payors. We would note that high cost of hospitalist and intensivist services in the Care Coordination business weighed on margins in the division, which were down 350bp to 4.4%. Net income increased 22% (within the company's guidance range) and 4% ahead of expectations while EPS stood at USD0.96/share, also 4% ahead of consensus numbers.
- All FY2016 guidance has been reiterated. Revenues are expected to increase in the 7-10% range at CC while an increase in operating income higher than revenues is expected to drive a 15-20% increase in net income.

**VALUATION**

- We reiterate our BUY recommendation and EUR94 Fair Value.

**NEXT CATALYSTS**

- Today 9.30amEDT/3.30pmCET: Conference call on Q2 results (UK +44 203 059 5869, US +1 855 272 3518; ID Fresenius Medical Care)

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Healthcare

**Fresenius SE**

Price EUR66.79

**Meet and beat! FY Net income guidance increased**

**Fair Value EUR73 (+9%)**

**BUY-Top Picks**

Bloomberg	FRE GR
Reuters	FREG.DE
12-month High / Low (EUR)	69.8 / 53.1
Market Cap (EURm)	36,476
Ev (BG Estimates) (EURm)	51,774
Avg. 6m daily volume (000)	1 210
3y EPS CAGR	9.0%

	1 M	3 M	6 M	31/12/15
Absolute perf.	2.4%	5.1%	9.6%	1.2%
Healthcare	3.4%	8.1%	3.9%	-3.1%
DJ Stoxx 600	4.7%	0.1%	-0.1%	-6.5%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	27,626	29,070	30,963	33,250
% change		5.2%	6.5%	7.4%
EBITDA	4,990	5,432	5,799	6,287
EBIT	3,875	4,269	4,561	4,957
% change		10.2%	6.8%	8.7%
Net income	1,358	1,576	1,681	1,843
% change		16.1%	6.6%	9.6%

	2015	2016e	2017e	2018e
Operating margin	14.0	14.7	14.7	14.9
Net margin	4.9	5.4	5.4	5.5
ROE	7.2	7.6	7.5	7.6
ROCE	3.8	4.2	4.3	4.6
Gearing	118.4	107.5	99.2	90.1

(EUR)	2015	2016e	2017e	2018e
EPS	2.62	2.90	3.09	3.39
% change	-	10.8%	6.6%	9.6%
P/E	25.5x	23.0x	21.6x	19.7x
FCF yield (%)	2.0%	4.2%	4.2%	4.5%
Dividends (EUR)	1.69	1.87	2.00	2.19
Div yield (%)	2.5%	2.8%	3.0%	3.3%
EV/Sales	1.8x	1.8x	1.7x	1.6x
EV/EBITDA	10.0x	9.5x	8.9x	8.3x
EV/EBIT	12.9x	12.1x	11.4x	10.6x

Fresenius SE has reported Q2 results in line with estimates. KABI continued to drive performance especially in North America where EBIT margins widened 210bp despite a 2% decrease in organic growth due to a demanding comparison basis and an easing drug shortage situation. This enabled the group to revise 1/ KABI guidance upwards with sales and EBIT growth now expected to stand at 3-5% and 2/ group net income guidance now expected to grow 11-14% vs (8-12% previously)

FRE (EURm exc PS)	Q2 2015	Q2 2016	YoY %	Q2 2016 CS	Delta	FY16 Guid.	NEW
FRE - Revenues	6 946	7 100	2%	7 221	-1,7%	6-8%	na
FRE - EBIT	971	1051	8%	1 049	0,2%		
EBIT margin %	14,0%	14,8%		14,5%			
FRE - Net Income Adj.	350	393	12%	389	1,0%	8-12%	11-14%
FRE - EPS Adj.	0,64	0.72	13%	0,71	1.4%		
KABI - Sales	1538	1476	-4%	1555	-5,1%	low single	3-5%
KABI - EBIT	314	307	-2%	309	-0,6%	roughly flat	3-5%
EBIT margin %	20,4%	20,8%		19,9%			
HELIOS - Sales	1383	1477	7%	1451	1,8%	3-5%	na
HELIOS - EBIT	160	173	8%	173	0,0%	EUR670-	na
EBIT margin %	11,6%	11,7%		11,9%			
VAMED - Sales	155	254	64%	264	-3,8%	5-10%	na
VAMED - EBIT	9	9	0%	12	-25,0%	5-10%	na

**ANALYSIS**

- Fresenius reported Q2 results in line with expectations at the group level. Sales rose 5% organic (2% reported) driven by North America (+5% organic, 46% of sales) and Emerging Markets (14% of sales) where APAC and LatAm reported 9% and 14% organic growth rates respectively. In the latter regions however, FX effect significantly impaired reported results which were 1.7% below expectations. EBIT grew +11% organically to 14.8% of sales while Net Income grew 12% to EUR393m. EPS stands at EUR0.72/share.
- KABI is the main point of interest of this publication. Sales rose 3% organic. North American sales decreased 6% organic as a result of a high comparison basis marked by product launches. However, back-end loaded launches of products and the confirmation of FY2016 guidance enables the group to raise its forecast for the region from roughly flat sales to low single digit-growth. Emerging markets performed well at KABI (+8% organic exc. China where tender are progressing slowly than expected and +22% organic in LatAm/Africa). Hence, In this region too, management now expects a low double-digit sales increase in both regions vs mid/high single-digit growth previously. Hence FY2016 sales guidance has been lifted slightly from low single-digit organic growth to 3-5% range. We were pleased to see KABI's EBIT margin progressing 40bp to 20.8%. Note that management successfully increased margin in North America by 210bp to 43.1% while we and the consensus would have expected flat margins. KABI's EBIT margin growth guidance was also revised upwards from roughly flat to the 3-5% range.
- FY2016 outlook is confirmed at Helios and Vamed. Note that Helios grew 6% organically in Q2 2016 and that margins continued to progress (+60bp)
- A good set of results at KABI and maintained trends at FMC enables the group to revise its FY2016 net income guidance upwards from 8-12% to 11-14%.

**VALUATION**

- We reiterate our BUY recommendation and EUR73 Fair Value. On the back of this good set of results and improved FY2016 guidance, we are not rule out profit taking moves.

**NEXT CATALYSTS**

- Today 8.00amEDT/2.00pmCET: Conference call on Q2 results (UK +44 161 250 8212, US +1 347 549 4091; ID: Fresenius)

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TMT

**Infineon**

Price EUR14.70

**FQ3 2016 results above estimates but the group is maintaining FY16 guidance**

Fair Value EUR16 (+9%)

**BUY**

Bloomberg	IFX GY
Reuters	IFXGn.DE
12-month High / Low (EUR)	14.9 / 8.7
Market Cap (EUR)	16,637
Ev (BG Estimates) (EUR)	16,078
Avg. 6m daily volume (000)	5,370
3y EPS CAGR	16.8%

Infineon has reported fiscal Q3 2016 results above consensus expectations. Fiscal Q2 sales came in at EUR1.632bn up 1.3% sequentially (+2.9% yoy), current operating result at EUR254m pointing to a 15.6% operating margin and yielding EPS of EUR0.19. As a result, sales come out below consensus expectations with estimates at EUR1.649bn, but current operating result at EUR258m was in line (current operating margin of 15.6%) and adjusted EPS at EUR0.19 was 6% above the consensus figure. For Q4, the group expects a sequential increase in sales of 3%, yielding a 12% annual increase for the full year, in line with the preceding quarter forecast. Given the good performance of the share so far, we withdraw Infineon from our Top Picks list."

	1 M	3 M	6 M	31/12/15
Absolute perf.	12.4%	18.3%	18.1%	8.8%
Semiconductors	20.3%	26.9%	23.4%	19.3%
DJ Stoxx 600	2.3%	-0.5%	-0.5%	-7.1%

**ANALYSIS**

• **Infineon's Q3 results came out above consensus expectations.** Fiscal Q3 sales of EUR1.632bn were up 1.3% seq., broadly in line with the company's guidance and consensus expectations for a sequential increase of 2.0% and 2.4% (+/-2%) respectively (BG ests. EUR1.677bn, +4.1% seq.). FQ3 segment result came in at EUR224m, pointing to a 15.6% margin, in line with the street's expectations (cs. 15.6%). However, adjusted FQ3 EPS of EUR0.19 was 6% or EUR0.01 above consensus' expectations at EUR0.18 (BG ests. EUR0.20). The net cash position at the end of the first quarter was a positive EUR299m vs. EUR27m at the end of the FQ2-16. Finally, Inventory increased slightly by EUR33m over FQ3.

• **During FQ3, Industrial Power Control (IPC) performed nicely (+6% seq.).** Automotive (ATV), Industrial Power Control (IPC), Power Management and Multimarket (PMM) and Chip Card & Security (CCS) revenues moved respectively by +1%, +6%, +3 % and -4% on a sequential basis. The automotive division (Q3 sales: EUR676m, segment result: EUR94m or 14.0%) benefited from globally high demand for premium vehicle. IPC's revenue grew by 6% (Q3 sales: EUR280m, segment result: EUR42m or 15%), in line with seasonal factors as for PMM which increased by 3% seq. (Q3 sales: EUR509m, segment result: EUR79m or 15.5%). Demand in PMM remained strong, especially for AC/DC converter despite demand for mobile communication devices remained flat. Finally, CCS revenue decreased by 4% sequentially (Q3 sales: EUR172m, segment result: EUR32m or 18.6%) due to soft market condition in payment cards.

• **Infineon forecasts a soft growing Fiscal Q3 and keeps its FY16 guidance.** The group expects sales to increase by +3.0% (+/- 2pts) sequentially in FQ4 or sales at EUR1.68bn, namely in line with the EUR1.68bn expected by the consensus. This guidance is based on a EUR/USD exchange rate of 1.10 (vs. 1.15 previously). Regarding margin, the group expects to see current operating margin of 17.0% over the third quarter, leading to a current operating result of EUR286m which is 3.3% below the EUR295m expected by the Street. As a result, the group maintains its FY16 guidance for sales growth of 12% (+/- 2pts) and current operating margin in the range of 15% to 16%.

YEnd Sept. (EURm)	09/15	09/16e	09/17e	09/18e
Sales	5,795	6,540	7,003	7,432
% change		12.9%	7.1%	6.1%
EBITDA	1,658	1,894	2,106	2,302
EBIT	898.0	1,044	1,195	1,335
% change		16.3%	14.5%	11.7%
Net income	680.0	918.1	966.6	1,089
% change		35.0%	5.3%	12.7%

	09/15	09/16e	09/17e	09/18e
Operating margin	15.5	16.0	17.1	18.0
Net margin	11.7	14.0	13.8	14.7
ROE	13.3	13.3	13.3	14.0
ROCE	18.5	16.6	17.0	18.8
Gearing	-4.7	-10.9	-18.2	-26.1

(EUR)	09/15	09/16e	09/17e	09/18e
EPS	0.60	0.81	0.86	0.96
% change	-	34.5%	5.3%	12.7%
P/E	24.3x	18.1x	17.2x	15.2x
FCF yield (%)	0.5%	3.3%	4.2%	5.1%
Dividends (EUR)	0.18	0.20	0.20	0.20
Div yield (%)	1.2%	1.4%	1.4%	1.4%
EV/Sales	2.8x	2.5x	2.2x	2.0x
EV/EBITDA	9.9x	8.5x	7.4x	6.5x
EV/EBIT	18.3x	15.4x	13.1x	11.2x

**VALUATION**

- We are making no change to our estimates at this point and will wait for further details from today's conference call (see details below).
- Given the good performance of the share so far, we withdraw Infineon from our Top Picks list. We remain highly confident about Infineon performance on the long term. Nevertheless after the publication of FQ3 2016 results, we do not expect to see a high outperformance of the stock over the coming weeks
- Based on our estimates, Infineon's shares are trading on 2016e P/E of 155.4 and 2016e PEG of 1.2x.

**NEXT CATALYSTS**

- Today: Fiscal third quarter results conference call (9:30am CET, +44 20 3427 1902).
- 22nd November 2016: Fiscal fourth quarter results.



## FQ3-16: Actual vs. consensus' estimates

[EURm]	BG ests. 3Q16	Consensus 3Q16	3Q16 Actual	Actual vs. cons.
Net revenue	1677	1649	1632	-1,0%
% change (seq)	+4,1%	+2,4%	+1,3%	-106bp
% change (yoy)	+5,7%	+4,0%	+2,9%	-107bp
Gross Margin	35,3%	37,2%	38,1%	90bp
Adj. EBIT	283	258	254	-1,4%
% of revenue	16,9%	15,6%	15,6%	-6bp
Adj. EPS (in EUR)	0,20	0,18	0,19	5,6%

Sources: Thomson Reuters I.B.E.S.; Bryan Garnier & Co. ests.

## FQ4-16 : Guidance vs. consensus' estimates

[EURm]	BG ests. 4Q16	Consensus 4Q16	4Q16 Guidance	Guid. vs. cons.
Net revenue	1696	1683	1681	-0,1%
% change (seq)	+1,1%	+2,1%	+3,0%	94bp
% change (yoy)	+6,1%	+6,1%	+6,0%	-13bp
Adj. EBIT	313	295	286	-3,2%
% of revenue	18,4%	17,5%	17,0%	-53bp
Adj. EPS (in EUR)	0,26	0,21	-	-

Sources: Thomson Reuters I.B.E.S.; Bryan, Garnier & Co ests.

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Food retailing

**Metro AG**

Price EUR28.64

**Q3 sales and results (first take): still in an uncomfortable zone of uncertainty**

Fair Value EUR26 (-9%)

**SELL**

Bloomberg	MEO GY
Reuters	MEOG.DE
12-month High / Low (EUR)	31.6 / 21.9
Market Cap (EURm)	9,282
Ev (BG Estimates) (EURm)	12,161
Avg. 6m daily volume (000)	1 090
3y EPS CAGR	12.3%

Metro has released Q3 sales and results below expectations at the sales/EBIT levels and in line at the NR level. Adjusted EBIT worked out to EUR154m vs EUR190m expected by the consensus, while underlying EPS reached EUR0.24 (vs EUR0.23). The favourable tax lever (shifting of costs out of Germany, in a bid to boost domestic operating result at C&C and thus activate the loss of carry forwards) should not mask soft commercial trends. So far, and ahead of the conference call, management has refused to answer the question of whether we can rule out a rights issue in order to address the post spin-off capital structure problem. Stay tuned... Sell maintained.

**ANALYSIS**

- Q3 2015/16 sales grew +0.6% LFL (down 2.7% on the whole, on account of a 3.1% negative forex effect) to EUR13.589bn (vs EUR13.770bne). As a whole, the business seems to have been better in Germany than in other regions. In detail, LFL sales rose +0.1% in C&C (52% of sales), +1.2% at MMS (34% of sales) and decline -3.5% at Real (13% of sales). Very sparse details provided by geographies, but it seems that LFL developed positively in Russia C&C (better in Q3 than in 9M), rather in line with management previous statement according to which the country may gradually bottom out during Q4. But the fact remains that the C&C BU as a whole is up +0.1% LFL only... Hence, should the situation improve in Russia, it would mean that the rest is not moving in the right direction (?).
- EBIT before special items (BSI) worked out below expectations at EUR151m (vs EUR190m e) i.e. a 39bp decline in margin. In detail, EBIT BSI came out at EUR241m at Metro C&C vs EUR246m e (i.e. a 13bp decline in margin), minus EUR77m at Media Saturn vs -EUR49m e (i.e. 34bp decline in margin), EUR7m at Real vs EUR6m e (i.e. +7bp improvement in margin). The margin at MMS was penalised by 1/ an unfavourable product and margin mix, 2/ implementation costs related to Media Markt customer club and 3/ higher IT costs. Other activities worked out at minus EUR19m (vs -EUR12m e).
- On the whole, Q3 2015/16 EPS BSI worked out at EUR0.24 (vs EUR0.23 e), on account of a 42.5% tax rate BSI in 9M (vs 56.6% in LY). For FY15/16, Metro continues to expect a slight increase in overall sales, in a persistently challenging environment. In LFL terms, management foresees a slight increase (vs +1.5% in the previous year). It expects EBIT before special items to rise slightly above the EUR1,511m (vs EUR 1,497m in our own estimates) achieved in financial year 2014/15, including income from real estate sales. This guidance may appear challenging.
- The favourable tax lever (shifting of costs out of Germany, in a bid to boost the domestic operating result at C&C and thus activate the loss carry forward) should not eclipse soft commercial trends (+0.6% in Q3 after +0.6% in Q2; certainly below the normative natural cost inflation).
- Hype surrounding the spin-off (details on which would be very much appreciated especially regarding the ex-post credit situation of both separately listed entities) has underpinned the share price rather than a commercial recovery whose strength remains unproven.
- The precedent of Casino (which has proved that beyond the ratio, a diversified profile is key to maintain a rating) leads us to believe that the situation at MMS (undiversified cyclical profile and in the front row concerning the ramp-up in e-commerce) is stretched (Net/EBITDAR of ~3.5x).
- So far, management has refused to answer the question of whether we can rule out a rights issue in order to address the capital structure problem. As such, in view of the positive buzz surrounding the spin-off, we believe that the market will start to look at the capital structure more in depth.

**VALUATION**

- Metro is currently showing a 14x 2017 P/E vs 16,5x on average for the sector.

**NEXT CATALYSTS**

- Details regarding the ex-post credit situation of both separately listed entities.

[Click here to download](#)

*(Tables next page)*

	1 M	3 M	6 M	31/12/15
Absolute perf.	7.6%	0.2%	12.4%	-3.1%
Food Retailing	4.8%	-5.3%	-2.0%	-3.6%
DJ Stoxx 600	7.2%	-2.7%	1.4%	-7.2%

YEnd Sept. (EURm)	09/15	09/16e	09/17e	09/18e
Sales	59,220	58,320	59,835	61,396
% change		-1.5%	2.6%	2.6%
EBITDA	2,457	2,460	2,544	2,631
EBIT	711.0	1,497	1,557	1,618
% change		110.6%	4.0%	3.9%
Net income	502.3	597.5	652.5	711.0
% change		18.9%	9.2%	9.0%

	09/15	09/16e	09/17e	09/18e
Operating margin	2.6	2.6	2.6	2.6
Net margin	0.8	1.0	1.1	1.2
ROE	NM	NM	NM	NM
ROCE	10.5	10.2	9.8	9.6
Gearing	48.9	44.4	45.9	46.4

(EUR)	09/15	09/16e	09/17e	09/18e
EPS	1.54	1.83	2.00	2.18
% change	-	18.9%	9.2%	9.0%
P/E	18.6x	15.7x	14.3x	13.2x
FCF yield (%)	NM	NM	NM	NM
Dividends (EUR)	1.00	0.98	1.02	1.05
Div yield (%)	3.5%	3.4%	3.6%	3.7%
EV/Sales	0.2x	0.2x	0.2x	0.2x
EV/EBITDA	5.0x	4.9x	4.9x	4.8x
EV/EBIT	17.2x	8.1x	8.0x	7.9x



## Q3 15/16 Results:

Sales (EURm):	Q3 14/15	Q3 15/16e	Q3 15/16p
METRO Cash & Carry	7 449	7 201	7 113
Media-Saturn	4 620	4 708	4 689
Real	1 885	1 848	1 771
Others	14	14	17
<b>METRO GROUP</b>	<b>13 968</b>	<b>13 771</b>	<b>13 590</b>
<b>EBIT before special items</b>			
METRO Cash & Carry	262	246	241
Media-Saturn	-60	-49	-77
Real	5	6	6
Others	1	-12	-19
Consolidation	1	0	0
<b>METRO GROUP</b>	<b>209</b>	<b>191</b>	<b>151</b>
<b>Margin BSI (%)</b>			
METRO Cash & Carry	3,5%	3,4%	3,4%
Media-Saturn	-1,3%	-1,0%	-1,6%
Real	0,3%	0,3%	0,3%
<b>METRO GROUP</b>	<b>1,5%</b>	<b>1,4%</b>	<b>1,1%</b>

Source: BG ests



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Utilities

**Veolia Environnement**

Price EUR19.89

**Strong commercial developments and accretive acquisitions to boost H2-16 earnings**

**Fair Value EUR23.5 vs. EUR23 (+18%)**

**BUY-Top Picks**

Bloomberg	VIE.FP
Reuters	VIE.PA
12-month High / Low (EUR)	22.9 / 18.1
Market Cap (EURm)	11,205
Ev (BG Estimates) (EURm)	18,626
Avg. 6m daily volume (000)	1,926
3y EPS CAGR	27.0%

Following yesterday's H1 2016 results, we have updated our model on Veolia and adjusted some of our figures. While the macro environment remains challenging, notably in France, we were pretty impressed by the company's solid commercial development over the past six months. This should spur robust growth in H2 on top of the extensive cost-reduction measures already implemented. This leads us to maintain our Buy recommendation and slightly increase our FV to EUR23.5 (vs. EUR23) implying upside of c. 18% vs. last closing price.

	1 M	3 M	6 M	31/12/15
Absolute perf.	2.6%	-7.3%	-12.3%	-9.0%
Utilities	0.5%	0.3%	-0.9%	-2.1%
DJ Stoxx 600	2.3%	-0.5%	-0.5%	-7.1%

**ANALYSIS**

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	24,965	25,080	26,116	26,801
% change		0.5%	4.1%	2.6%
EBITDA	2,997	3,147	3,386	3,554
EBIT	1,060	1,404	1,584	1,713
% change		32.5%	12.8%	8.1%
Net income	378.7	528.1	696.1	784.9
% change		39.4%	31.8%	12.8%

	2015	2016e	2017e	2018e
Operating margin	4.5	5.6	6.1	6.4
Net margin	1.8	2.4	2.9	3.2
ROE	4.0	6.3	7.1	7.8
ROCE	6.4	6.4	7.0	7.4
Gearing	82.6	79.8	77.8	74.0

(EUR)	2015	2016e	2017e	2018e
EPS	0.68	0.93	1.23	1.39
% change	-	37.9%	31.8%	12.8%
P/E	29.4x	21.3x	16.2x	14.3x
FCF yield (%)	9.5%	1.8%	7.8%	8.9%
Dividends (EUR)	0.73	0.85	0.84	0.97
Div yield (%)	3.7%	4.3%	4.2%	4.9%
EV/Sales	0.7x	0.7x	0.7x	0.7x
EV/EBITDA	6.0x	5.9x	5.4x	5.2x
EV/EBIT	17.1x	13.3x	11.6x	10.7x

- As expected, Veolia posted rather **weak H1 revenues** yesterday at EUR11.956bn, down 1.0% at constant exchange rates despite the improvement in Q2 (+0.1% vs. -2.1% in Q1-16). We nevertheless believe that Veolia will **benefit from new revenue sources in H2 and beyond**, which should more than offset headwinds in France. We estimate the five key international developments highlighted by the group (Prague district heating network, Pedreira landfill in Brazil, giant contract with Chinese Sinopec and acquisitions of Kurion and Chemours' sulfuric acid division) should generate **additional revenues of EUR536m on a full-year basis** i.e. c. **2.0% of the company's 2017e revenues**. Management indicated these contracts and acquisitions will generate EBITDA margin at least equal to the group's average margin, which would imply an **additional contribution of at least EUR65m per year**. We consider this fairly **conservative** as we expect Kurion and Chemours' asset acquisitions to generate respectively **EUR20m and EUR40m of additional EBITDA per year**. As we already integrated Kurion and Chemours' asset acquisitions into our previous estimates, we have "only" **increased our revenues' estimates by 0.6% and 1.1% for 2016e and 2017e respectively**. We also believe higher than expected growth in the rest of Europe and global businesses divisions would be partly offset by lower than expected growth in France, which still bears the brunt of low inflation and an unsupportive climate.

- We have also included the **upcoming disposal of Veolia's 20% stake in Transdev for EUR220m**. This has a **positive impact of EUR0.2 per share** on our estimates and assuming the disposal is completed by the end of the year as 1/ the company's net debt is reduced by **EUR220m** and 2/ the remaining 30% stake in Transdev is now valued at **EUR330m** vs. the initial EUR280m at book value implying a c. **18% premium**. Note that an **option to sell the remaining 30% stake is exercisable in two years under the same valuation**. Additionally, Veolia announced it has ended the divestment process of its construction subsidiary SADE as no satisfying bids have been received. **We believe further cost-cutting could be implemented within the subsidiary**, which would imply a similar gradual downsizing as for Veolia Water Technologies.

- The group generated EUR121m in cost-savings in H1, which seems rather impressive in our view** – despite the fairly high inherent EUR100m restructuring charges – as we expected this figure to reach EUR100m. **We remain however cautious for now and keep our EUR200m assumption** for cost-savings achieved, per year, between 2016 and 2018, in line with Veolia's objective.

- In all, **we have increased our EBITDA estimates by 0.4%, 1.5% and 1.1% for 2016e, 2017e and 2018e respectively**. We now stand at EUR3,147m for 2016 implying a 12.5% EBITDA margin (50bps up yoy). **As for 2016 adjusted net income** (company definition), we now expect Veolia to reach **EUR635m** (up 2.4% vs. our previous estimates) - on the back of higher than expected capital gains – and therefore **to beat its EUR600m guidance** (which includes a capital gain of just EUR10m).

- This leads us to maintain our **Buy recommendation** and to slightly increase our **Fair Value by 2.2% to EUR23.5** (vs. EUR23) implying upside of c. 18% vs. yesterday's closing price.

**VALUATION**

- At the current share price, Veolia is trading at 5.9x its 2016e EV/EBITDA multiple.
- Buy, FV @ EUR23.5**





## NEXT CATALYSTS

3rd November 2016: Q3 2016 results

[Click here to download](#)**Table 1: Main changes in estimates (2016e-2018e)**

	2016e			2017e			2018e		
	New	Old	Estimates change (%)	New	Old	Estimates change (%)	New	Old	Estimates change (%)
Revenues	25,080	24,927	0.6%	26,116	25,821	1.1%	26,801	26,471	1.2%
<b>EBITDA</b>	<b>3,147</b>	<b>3,135</b>	<b>0.4%</b>	<b>3,386</b>	<b>3,336</b>	<b>1.5%</b>	<b>3,554</b>	<b>3,516</b>	<b>1.1%</b>
EBITDA margin	12.5%	12.6%	-	13.0%	12.9%	-	13.3%	13.3%	-
<b>Net income adjusted Veolia def.</b>	<b>635</b>	<b>620</b>	<b>2.4%</b>	<b>733</b>	<b>730</b>	<b>0.4%</b>	<b>835</b>	<b>820</b>	<b>1.9%</b>
EPS adjusted - Veolia def.	1.12	1.10	1.9%	1.29	1.30	-0.5%	1.48	1.46	1.0%

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

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## Business Services

**Eurofins Scientific**

Price EUR335.45

**H1 results first take: Good shape****Fair Value EUR340 (+1%)****SELL**

Bloomberg	ERF FP
Reuters	EUFI.PA
12-month High / Low (EUR)	359.8 / 268.8
Market Cap (EURm)	5,366
Avg. 6m daily volume (000)	15.40

	1 M	3 M	6 M	31/12/15
Absolute perf.	1.8%	3.5%	10.8%	4.2%
Insd Gds & Svs	6.8%	1.9%	6.9%	0.7%
DJ Stoxx 600	4.7%	0.1%	-0.1%	-6.5%

	2015	2016e	2017e	2018e
P/E	38.2x	37.4x	31.8x	27.3x
Div yield (%)	0.4%	0.4%	0.5%	0.6%

**ANALYSIS**

- **Ahead of expectations:** Strong H1 results ahead of our estimates and the consensus. Actually, total revenue reached EUR1,208m vs. consensus of EUR1,188m up 43.5% with +11% in organic terms (Q1 was up 10%) which is the highest level since 2008/2009. As such, adjusted EBITDA grew by 52.3% at EUR216.6m (consensus at EUR203m and our estimate of EUR205m), which implies a margin of 17.9% i.e. 100bps over last year with the improvement of both mature businesses and start-up. Reported EBITDA was EUR211m (consensus EUR193m and our estimate of EUR205m) after only EUR5.6m costs in SDI (Separately disclosed) confirming the group ability to better integrate acquisitions.
- **FY guidance confirmed like medium term objectives:** Despite these results, management simply confirmed its FY guidance (H1 is traditionally lower than H2) with a target of EUR2.5bn in consolidated revenue (consensus at EUR2,482m and our forecast of EUR2,491m) and an adjusted EBITDA of above EUR460m (consensus at EUR461m and our estimate of EUR457m). The mid-term target was confirmed with total revenue of around EUR4bn with an adjusted EBITDA of EUR800m.

**VALUATION**

- At the current share price, the stock is valued at 13.9x EV/EBITDA 2016e and 12.6x 2017e compared with CAGR EBIT 2015-2018 of 19.4%.

**NEXT CATALYSTS**

- Conference call at 3.00pm (CET)

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## Construction &amp; Building Materials

**Heidelbergcement**

Price EUR75.05

**Poor Italcementi H1 figures**

Fair Value EUR86 (+15%)

**BUY**

Bloomberg	HEI.GY
Reuters	HEIG.F
12-month High / Low (EUR)	79.9 / 60.1
Market Cap (EURm)	14,891
Avg. 6m daily volume (000)	616.4

	1 M	3 M	6 M	31/12/15
Absolute perf.	9.8%	-3.3%	12.4%	-0.8%
Cons & Mat	5.0%	-0.1%	3.6%	0.1%
DJ Stoxx 600	2.3%	-0.5%	-0.5%	-7.1%

	2015	2016e	2017e	2018e
P/E	17.6x	15.9x	10.0x	8.4x
Div yield (%)	1.7%	2.3%	4.0%	5.3%

**ANALYSIS**

- Italcementi has reported modest results at end June: On a like-for-like basis, cement volumes were down 0.1% in H1 2016 and revenues flat (+0.4%) at EUR2,123m. Recurring EBITDA down 7.6% (apparent) at EUR300m (vs EUR325m last year). Q2 performance is not disclosed as Q1 2016 was not released this year.
- By zone, it is worth underlying the only zone positively oriented is North America, with 14.4% apparent growth in revenues in H1 at EUR276m, while recurring EBITDA stood at EUR16.4m (EUR1.9m last year).
- The outlook is mixed, with further positive trends expected in North America, lower growth in some Emerging markets and uncertainty in the Eurozone. Guidance is an increase y/y of the operating results in H2, which doesn't look very challenging.
- In all, not a very strong performance in H1 and we would not be surprised by a negative impact on the HeidelbergCement share price in the short term.
- Note that Heidelberg has recently acquired 45% of Italcementi and announced an offer for the remaining 55% at EUR10.6 per share (the acceptance offer begins at the end of August).

**VALUATION**

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

**NEXT CATALYSTS**

- Q3 2016 results on 9th November 2016

[Click here to download](#)Eric Lemarié, [elemarie@bryangarnier.com](mailto:elemarie@bryangarnier.com)

## Construction &amp; Building Materials

**LafargeHolcim**

Price CHF46.12

**Divestment in China**

Fair Value CHF50 (+8%)

BUY

Bloomberg	LHN.VX
Reuters	LHN.VX
12-month High / Low (CHF)	66.3 / 34.1
Market Cap (CHFm)	27,991
Avg. 6m daily volume (000)	2,232

	1 M	3 M	6 M	31/12/15
Absolute perf.	15.9%	-5.0%	7.5%	-8.3%
Cons & Mat	8.2%	0.7%	4.4%	0.9%
DJ Stoxx 600	4.7%	0.1%	-0.1%	-6.5%

	2015	2016e	2017e	2018e
P/E	35.5x	19.2x	12.6x	10.7x
Div yield (%)	3.3%	3.6%	3.9%	4.2%

**ANALYSIS**

- LafargeHolcim has signed an agreement with Tianjin Circle for the sale of a 55.93% stake in its Chinese subsidiary Shuangma for CHF507m. The sale should be completed in Q4 2016, while Tianjin Circle also has an option to purchase LafargeHolcim's remaining stake in Shuangma (19.37% according to our calculation) for CHF159m.
- The immediate impact on LafargeHolcim's net debt looks very limited at only CHF121m according to the press release published yesterday. This is however another step towards reaching the CHF3.5bn divestment target by end 2016 (three quarters of it recently secured).
- In any case, this will reduce LafargeHolcim's cement capacity in China by 11 mt, compared with 38 mt reported at end 2015. This is positive news, as the Chinese cement market is massively oversupplied, while volumes are expected to fall 4-6% in 2016 in LHN's markets with prices notoriously low. In Q1 2016, out of the negative CHF169m price impact on EBITDA (CHF1049m), CHF31m was due to China (despite the small relative size of this country within the LHN group: 3% of sales and 1% of EBITDA).
- Any reduction in the Chinese cement market is probably also positive news for LafargeHolcim.

**VALUATION**

- CHF50 FV derived from the application of historical ratios to our 2017 estimates, discounted back.

**NEXT CATALYSTS**

- Q2 2016 to be released on 5th August 2016

[Click here to download](#)Eric Lemarié, [elemarie@bryangarnier.com](mailto:elemarie@bryangarnier.com)



## BG's Wake Up Call

# Bryan Garnier stock rating system

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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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## BRYAN, GARNIER & Co

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