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4th August 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	18355	+0.23%	+5.34%
S&P 500	2163.79	+0.31%	+5.86%
Nasdaq	5159.74	+0.43%	+3.04%
Nikkei	16254.89	+1.07%	-15.50%
Stoxx 600	335.578	+0.03%	-8.27%
CAC 40	4321.08	-0.16%	-6.81%
Oil /Gold			
Crude WTI	40.83	+3.34%	+9.76%
Gold (once)	1357.29	-0.74%	+27.76%
Currencies/Rates			
EUR/USD	1.1173	-0.45%	+2.85%
EUR/CHF	1.08555	+0.31%	-0.17%
German 10 years	-0.097	+9.90%	-115.29%
French 10 years	0.196	+5.39%	-80.05%

Economic releases :

Date	
4th-Aug	DE – Markit Construction PMI Jul GB – BoE rate Decision (0.25% vs. 0.5% E) GB – BoE inflation report US – Initial Jobless claims 265K E US – Continuing claims (2130K E) US – Factory orders Jun (-1.9% 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



SAFILO

NEUTRAL, Fair Value EUR11 (+57%)

H1 16 results above expectations thanks to a robust performance in Q2

In Q2 sales came in at EUR349.5m and topped the CS forecast (EUR336.5m), thanks to a sharp acceleration in the adj. FX-n (+9% vs. +1% in Q1), as Safilo addressed the production bottlenecks (-3-3.5pp positive contribution) and the licensed brand PF performed strongly. This top line growth acceleration and some cost-saving initiatives led to a 90bps-expansion in the adj. EBITDA margin to 9.5% (H1: -40bp to 8.9%), close to CS (9.5%). All the painful initiatives implemented over the past two years seem to start reaping fruits even if the Gucci transition remains a key headwind for H2.

VICAT

NEUTRAL, Fair Value EUR56 (+6%)

Decent H1 performance. Guidance roughly unchanged

Fine performance for Vicat in H1, with a 4.3% I-f-I revenues growth at EUR1.2bn and a 7.7% I-f-I increase of EBITDA at EUR208m (margin is up 50bps at 16.8%). Volume are up 12%, with good performance in the US, India, Egypt, Turkey and France. Prices effect is negative though, notably in India. FCF is very strong (EUR92m before WCR vs. EUR53m). Guidance roughly unchanged.

In brief..

HANNOVER RE, Q2 numbers below consensus, FY guidance reiterated

**Due to a technical problem, today's publication has been delayed.
Sorry for the inconvenience.**

Luxury & Consumer Goods

Safilo

Price EUR7.00

H1 16 results above expectations thanks to a robust performance in Q2

Fair Value EUR11 (+57%)

NEUTRAL

Bloomberg	SFL IM
Reuters	SFLG.MI
12-month High / Low (EUR)	11.8 / 6.3
Market Cap (EUR)	438
Ev (BG Estimates) (EUR)	477
Avg. 6m daily volume (000)	102.5
3y EPS CAGR	49.3%

In Q2 sales came in at EUR349.5m and topped the CS forecast (EUR336.5m), thanks to a sharp acceleration in the adj. FX-n (+9% vs. +1% in Q1), as Safilo addressed the production bottlenecks (-3-3.5pp positive contribution) and the licensed brand PF performed strongly. This top line growth acceleration and some cost-saving initiatives led to a 90bps-expansion in the adj. EBITDA margin to 9.5% (H1: -40bp to 8.9%), close to CS (9.5%). All the painful initiatives implemented over the past two years seem to start reaping fruits even if the Gucci transition remains a key headwind for H2.

ANALYSIS

Q2 sales of EUR349.5m (CS: EUR336.5m). Like in the Q1, this top line decline in organic terms was caused by the discontinuation of small Kering licenses at the end of H1 15 (AMQ, Bottega Veneta and Saint Laurent) and the gradual exit of Gucci this year (~16-17% of total sales). Stripping out these headwinds, the "going-forward brand PF" accelerated strongly to 9% vs. +1% in Q1, driven by a catch up effect following the production bottlenecks encountered in Q1 (-3-3.5pp positive impact) and a broad-based performance amid the licensed brand PF (Dior, Jimmy Choo, Céline, etc.). The management was also very happy with the first results of Givenchy and Swatch. On the negative side, the proprietary brand PF remains a bit on the sidelines: whilst Polaroid improved in Q2, Carrera was still weak and Smith was affected by sluggish trends within the U.S. sports channel.

By region, focusing on "going-forward brand PF", Europe had an impressive acceleration with 18.6% adj. FX-n (Q1: +3.6%), driven by double-digit growths in France, Italy or Germany and a rebound in Russia in Q2 also played positively. In North America the wholesale channel grew 7.6% (Q1: +3.1%) but it was partly dented by a 18% decline at Solstice (Q1: -17%) that suffers from the negative impact from store closures (118 DOS vs. 129 at the end of H1 15) and a tough retail environment. Unsurprisingly, sales in Asia continued to decline by 14.4% (Q1: -14.6%) given challenging market conditions in Greater China (especially in H-K) and the reorganization of its distribution network.

Quarterly FX-n sales growth of the "going-forward brand PF **" by region:

EURm	Q1 16	Q2 16	H1 16
Europe	3.6	18.6	11.8
North America	0.8	3.1	2.0
Asia-Pacific	-14.6	-14.2	-14.4
ROW (incl. Latin America)	2.8	12.3	7.6
Total	1.0	9.0	5.3

* = excluding the Kering licences that were/will be discontinued
Data

Source: Company

Q2 adj. EBITDA margin up 90bps to 9.5% (H1: -40bps). This rebound is entirely derived from the cost-cutting measures and the positive operating leverage, consequently opex costs only accounted for 50.7% of sales (-160bps) whilst the GM contracted 70bps to 60.2% (Gucci, retail, FX), leading to a 90bps-increase in the adj. EBITDA margin to 9.5%, in line with the CS forecast. It is also worth mentioning the more favourable financial result (EUR0.8m vs. -EUR22.7m), enabling Safilo to more than double its adj. net income to EUR22.9m.

Group net debt down 6% to -EUR103m. Safilo had a negative FCF of EUR9.3m vs. EUR51.6m in H1 15, as Safilo benefited from the first EUR30m compensation payment from Kering the prior year. In H1 16, the Group had to deal with an increase in trade receivables that should be collected in Q3 but also due to a higher inventory level, justified by the strong organic growth and the gradual exit of Gucci, which might imply higher obsolescence costs in H2 (=> impact on GM). Last but not least, capex increased EUR7m to EUR22m (plant investments + EYEWAY IT transformation plan).

Safilo H1 16 Results:

EURm	H1 15	H1 16	% change
Net sales	674.9	651.1	-3.5
Gross profit	409.9	394.6	-3.7
% of sales	60.7	60.6	-10bp
Adjusted EBITDA	62.7	58.3	-7.0
Adj. EBITDA margin (%)	9.3	8.9	-40bp
Adj. Net income	9.9	22.9	130.6

Source: Company Data

(To be continued next page)



- **The management is reasonably optimistic about H2.** This confidence is explained by the strong performance of the licensed-brand PF and the promising start of the new licenses, all the more since Havaianas will contribute in H2. Yet, two issues remain: **(i)** a lack of traction from the proprietary brand that already disappointed in 2015 (-2.5% FX-n) and **(ii)** the gradual exit of Gucci should have a higher negative impact in H2 than in H1 (-7.4pp incl. the three other small Kering brands), which is factored in our FY assumptions.
- **We leave our FY16 assumptions unchanged.** We expect 8% FX-n growth for the “going-forward brand PF”, which should be offset by a ~9pp negative impact from the discontinuation of the Kering licenses. In our view, the negative impact on the profitability (unfavorable product/price mix, lower cost absorption) should be mostly offset by the ramp up in the cost-cutting initiatives and the robust organic growth of the “going-forward brand PF”. We still expect a 60bps-decline in the adj. EBITDA margin (to 7.4%), which might appear cautious in light of the H1 performance (-40bps) but the Gucci headwind limits the visibility at this stage.

VALUATION

- We were clearly pleased by the strong organic growth achieved by the “going-forward brand PF” (+9% vs. +1% in Q1) on top of a weak performance from the proprietary brands and a more difficult environment (e.g. in Asia). The first positive results from the painful and longstanding actions implemented over the last two years are starting to deliver positive results at the top line and margin level but again, the Gucci transition remains a key issue for H2 given its size (still 16-17% of total sales). Nevertheless, the Q2 results show that Safilo goes in the right direction.

NEXT CATALYSTS

- Safilo will release its Q3 16 Trading Update on 9th November 2016.

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Construction & Building Materials

Vicat

Price EUR52.77

Decent H1 performance. Guidance roughly unchanged

Fair Value EUR56 (+6%)

NEUTRAL

Bloomberg	VCT.FP
Reuters	VCT.PA
12-month High / Low (EUR)	68.4 / 46.2
Market Cap (EUR)	2,369
Ev (BG Estimates) (EUR)	3,506
Avg. 6m daily volume (000)	29.10
3y EPS CAGR	21.2%

	1 M	3 M	6 M	31/12/15
Absolute perf.	1.0%	-10.9%	9.3%	-4.6%
Cons & Mat	3.5%	0.1%	6.4%	-1.3%
DJ Stoxx 600	1.0%	0.0%	1.9%	-8.3%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	2,458	2,466	2,598	2,751
% change		0.3%	5.3%	5.9%
EBITDA	448	462	521	586
EBIT	250.5	272.1	331.5	396.4
% change		8.6%	21.8%	19.6%
Net income	122.0	141.9	180.2	217.2
% change		16.3%	27.0%	20.6%

	2015	2016e	2017e	2018e
Operating margin	10.2	11.0	12.8	14.4
Net margin	5.8	6.8	8.1	9.3
ROE	5.4	6.1	7.5	8.5
ROCE	5.1	5.7	7.0	8.4
Gearing	40.0	34.1	27.5	20.0

(EUR)	2015	2016e	2017e	2018e
EPS	2.78	3.23	4.10	4.94
% change		16.3%	27.0%	20.6%
P/E	19.0x	16.4x	12.9x	10.7x
FCF yield (%)	5.7%	8.6%	9.3%	10.9%
Dividends (EUR)	1.50	1.50	1.50	1.50
Div yield (%)	2.8%	2.8%	2.8%	2.8%
EV/Sales	1.5x	1.4x	1.3x	1.2x
EV/EBITDA	8.1x	7.6x	6.5x	5.5x
EV/EBIT	14.4x	12.9x	10.2x	8.1x

Fine performance for Vicat in H1, with a 4.3% I-f-I revenues growth at EUR1.2bn and a 7.7% I-f-I increase of EBITDA at EUR208m (margin is up 50bps at 16.8%). Volume are up 12%, with good performance in the US, India, Egypt, Turkey and France. Prices effect is negative though, notably in India. FCF is very strong (EUR92m before WCR vs. EUR53m). Guidance roughly unchanged.

Vicat has reported H1 revenues at EUR1237m, down -0.4% (+4.3% organic, -4.7% forex), EBITDA at EUR208m (+7.7% organic), EBIT at EUR103m (+16.5% organic) and a net profit group share at EUR49m (+51% organic). Cash Flow (before WCR) stands at EUR153m (+15% organic). After EUR61m of industrial capex, FCF stand at EUR92m vs. EUR53m in H1 2015. Net debt / EBITDA at 2.3x (2.7x in H1 2015).

Key figures

EURm	H1 sales	Split %	Q1% I/I	Q2% I/I	H1% I/I	EBITDA	H1 mg %	Δbps
France	405	33	8.9	0.9	4.4	51.0	12.6	-4
Europe (Italy, Swiss)	198	16	3.6	-3.3	-0.6	45.0	22.7	-106
US	176	14	7.1	8.1	7.7	22.0	12.5	452
Turkey, India&Kazakh.	268	22	10.8	7.1	8.7	52.0	19.4	-228
o/w Turkey	109	9	23.0	5.2	11.7	21.0	19.3	44
o/w India	140	11	4.8	12.7	8.7	27.7	19.8	-226
o/w Kazakhstan	20	2	1.5	-1.1	-0.5	3.6	17.8	-1109
Africa & Middle-East	190	15	-0.7	1.2	0.3	38.0	20.0	492
o/w Egypte	67	5	14.5	9.2	11.6	12.0	17.9	-
o/w West Africa	123	10	-7.4	-3.5	-5.5	26.1	21.2	-151
Total	1237	100	6.5	2.5	4.3	208.0	16.8	47

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

ANALYSIS

- Double-digit growth for cement volumes in H1 (12.1% vs. 13.8% in Q1), with in particular an acceleration in India (+38% vs. +19% in Q1) and Turkey (not disclosed), a good resilience in France (6% in Q2 vs. 15% in Q1) despite a more complicated environnement in Q2 (strikes, weather) and a further steady performance in the US (+10% in H1). Switzerland is difficult, though, due to the lack of major projects currently (-4% in H1). Price effect is negative, except in the US. Two countries have reported double-digit organic growth in H1 : Turkey (+11.7%) and Egypt (11.6%).
- EBITDA margin is particularly strong in the US (+450bps est. at 12.5%) and in Egypt (17.9% vs. breakeven), thanks to the start-up of two coal grinders (positive impact on energy costs) and good volumes. Unfortunate, due to pricing pressure, margin is down in India (-225bps est. at 19.8%).
- Guidance are roughly unchanged ("further improvement in its performance" expected). We have nevertheless noticed slightly better prices environment expected in France (possible improvement) and West Africa (possible stabilisation). Comments look more cautious on prices in India, though.
- All in all, this is a decent performance for Vicat and outlook is not bad actually. We believe better volumes in India will eventually be translated into stronger prices and better margins. In West Africa, comments on prices are more positive (while we suspect Dangote is likely to be less aggressive, after a poor publication in H1). Finally, Egypt is benefited from a lower cost base and France should gradually continue to recover. On contrary, Switzerland is unlikely to be very strong this year, while Turkey recent political turmoil could penalise the business climate. But overall, we see more positives than negatives for Vicat.
- Forecast and Fair value unchanged. We stay Neutral, mostly due to a lack of upside.

VALUATION

- EUR56 FV derived from the application of historical multiples to our 2017 estimates, disc'td. back.

NEXT CATALYSTS

- Q3 sales on 3rd November 2016 [Click here to download](#)



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Insurance

Hannover Re

Price EUR91.14

Q2 numbers below consensus, FY guidance reiterated**Fair Value EUR110 (+21%)****SELL**

Bloomberg	HNR1 GY
Reuters	HNRGn.DE
12-month High / Low (EUR)	111.5 / 84.1
Market Cap (EUR)	10,991
Avg. 6m daily volume (000)	164.5

ANALYSIS

- Q2 net income is EUR215m, down 15% yoy, below consensus (EUR245m). Q2 EBIT is EUR339m, down 6% yoy, below consensus (EUR368m).
- In P&C, the Q2 combined ratio is 96.1% (vs. 95.0% last year) vs. consensus 96.5%, but the Q2 EBIT is EUR261m (down 21% yoy) vs. consensus EUR282m, which suggest a miss in investment income.
- In Life&Health, the Q2 EBIT is EUR74m (vs. EUR27m last year) vs. consensus EUR85m.
- FY guidance (net income > EUR950m) has been confirmed and is achievable (H1 net income EUR486m), but current consensus is EUR1,035m, suggesting there is no room at this stage for upwards estimate revision. Hannover Re is a great company, but the momentum is pretty poor.

NEXT CATALYSTS

- Q3 2016 numbers on 10th November.

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	1 M	3 M	6 M	31/12/15
Absolute perf.	-4.9%	-8.3%	-0.1%	-13.7%
Insurance	-1.1%	-9.8%	-9.1%	-22.7%
DJ Stoxx 600	1.0%	0.0%	1.9%	-8.3%
	2015	2016e	2017e	
P/E	9.6x	10.9x	10.3x	
Div yield (%)	5.2%	4.7%	4.7%	

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BG's Wake Up Call

Bryan Garnier stock rating system

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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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