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9th August 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	18529.29	-0.08%	+6.34%
S&P 500	2180.89	-0.09%	+6.70%
Nasdaq	5213.14	-0.15%	+4.11%
Nikkei	16650.57	+2.44%	-12.52%
Stoxx 600	341.534	+0.05%	-6.64%
CAC 40	4415.46	+0.11%	-4.78%
Oil /Gold			
Crude WTI	43.02	+2.92%	+15.65%
Gold (once)	1335.57	-0.29%	+25.71%
Currencies/Rates			
EUR/USD	1.10745	+0.04%	+1.95%
EUR/CHF	1.08915	+0.29%	+0.16%
German 10 years	-0.122	-3.85%	-119.25%
French 10 years	0.157	-2.19%	-83.95%
Euribor	-	+-%	+-%

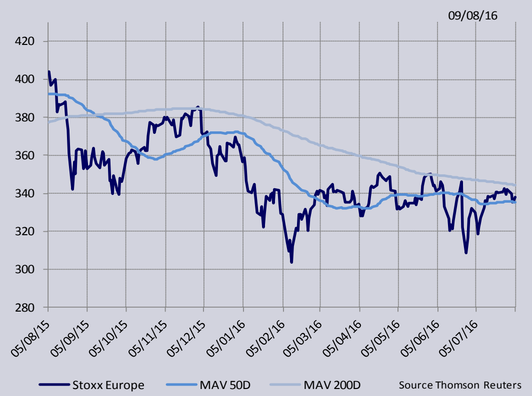
Upcoming BG events :

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



ABLYNX — BUY, Fair Value EUR18 (+39%)

Vobarilizumab differenciate from the crowd (despite study design helping placebo)

Ablynx reported results from its second phase IIb trial comparing voba on top of MTX to placebo. Results bodes well with what we observed in the first phase IIb trial. Primary endpoint is reached with a 81% ACR20 responder rate at 12w. Despite high placebo effect favoured by the study design, continuous improvement is seen in ACR50 and ACR70 with responder rates of up to 59% and 43% at week24. Safety profile looks clean. While surprisingly high placebo effect could make it difficult to assess the benefit of voba, and mute share price reaction, DAS28 remission rate stands out with up to 49% of patients in remission at the end of the study. We believe that voba would be a strategic fit in ABBV post-Humira portfolio. Note that ABBV might opt-in before year-end. We reiterate our BUY rating and EUR18 fair value.

ALTICE — BUY, Fair Value EUR16,5 (+26%)

Q2 results above expectations, USA and international offsetting pressure in France.

This morning Altice published Q2 2016. Revenues and EBITDA are above expectations. Strong results in the US and Portugal in particular allow to offset expected poor performance at the France level. Guidance of improving trend in group revenues and of mid single digit growth in group adjusted EBITDA is confirmed. More than ever, diversification is the key.

SFR — NEUTRAL, Fair Value EUR28,7 (+37%)

Q2 financial results slightly above expectations, but BtoC still struggling.

This morning SFR has published Q2 2016 results. Revenues and EBITDA are slightly above expectations, but the BtoC business is still struggling, in particular on the mobile side. Improving trend in BtoB and very significant improvement in wholesale offset the poor BtoC performance. The BtoC trend is expected to improve in Q3 and Q4. Guidance of better revenue trend vs 2015 is confirmed.

SAP — NEUTRAL, Fair Value EUR75 (-3%)

Feedback from company contact: coping with fast success on S/4HANA

The takeaways from a company contact we had last week and which keeps our non-IFRS operating margin turnaround scenario for 2018 intact, are that: 1) SAP is not concerned by the acquisition of NetSuite by Oracle as NetSuite already has had close links with Oracle; 2) the low number of S/4HANA 'go lives' has nothing to do with the speed of implementation but the fast success of S/4HANA; 3) an overwhelming majority of S/4HANA sales are on-premise as customers are unlikely to run their core processes on a public cloud.

WORLDPAY — NEUTRAL, Fair Value 278p (-8%)

H1 earnings results above expectations but not to extrapolate on H2

Worldpay has posted H1 earnings results higher than expected, but not to extrapolate on H2. Overall, Worldpay's fundamentals are still not very impressive for the payments sector, above all in profitability and financial situation. Management remains confident in its prospects over the medium term (net revenue growth of ~+9-11% CAGR over the medium/long term) which remains unchanged. We see no upside even when looking just at EV/EBITDA until 2017e (i.e. until the end of its investments in platforms). We maintain our Neutral rating and FV of 278p. Conf. call at 8:00am.

In brief...

MUNICH RE, *Q2 numbers way above consensus, driven by non-technical items*

Healthcare

Ablynx

Price EUR12.96

Vobarilizumab differenciate from the crowd (despite study design helping placebo)

Fair Value EUR18 (+39%) **BUY**

Bloomberg	ABLX BB
Reuters	ABLX.BR
12-month High / Low (EUR)	16.1 / 10.4
Market Cap (EURm)	789
Ev (BG Estimates) (EURm)	942
Avg. 6m daily volume (000)	174.4
3y EPS CAGR	15.0%

	1 M	3 M	6 M	31/12/15
Absolute perf.	12.6%	-4.7%	7.6%	-18.5%
Healthcare	1.5%	9.6%	10.2%	-4.0%
DJ Stoxx 600	5.3%	2.6%	4.7%	-6.7%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	77.5	81.6	39.6	54.2
% change		*5.2%*	*-51.4%*	*36.7%*
EBITDA	-15.6	-21.9	-64.3	-44.4
EBIT	-17.0	-23.3	-65.0	-45.4
% change		*-37.6%*	*NS*	*30.2%*
Net income	-54.5	-60.9	-102.6	-83.0
% change		*-11.7%*	*-68.4%*	*19.1%*

	2015	2016e	2017e	2018e
Operating margin	-21.9	-28.6	-164.1	-83.8
Net margin	-70.3	-74.7	-258.9	-153.1
ROE	-195.4	184.5	75.7	38.0
ROCE	NM	NM	NM	NM
Gearing	NM	NM	NM	NM

(EUR)	2015	2016e	2017e	2018e
EPS	-1.01	-1.13	-1.90	-1.53
% change	-	*-11.7%*	*-68.4%*	*19.1%*
P/E	NS	NS	NS	NS
FCF yield (%)	NM	NM	NM	NM
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	9.1x	11.5x	23.5x	17.3x
EV/EBITDA	NS	NS	NS	NS
EV/EBIT	NS	NS	NS	NS

Ablynx reported results from its second phase IIb trial comparing voba on top of MTX to placebo. Results bodes well with what we observed in the first phase IIb trial. Primary endpoint is reached with a 81% ACR20 responder rate at 12w. Despite high placebo effect favoured by the study design, continuous improvement is seen in ACR50 and ACR70 with responder rates of up to 59% and 43% at week24. Safety profile looks clean. While surprisingly high placebo effect could make it difficult to assess the benefit of voba, and mute share price reaction, DAS28 remission rate stands out with up to 49% of patients in remission at the end of the study. We believe that voba would be a strategic fit in ABBV post-Humira portfolio. Note that ABBV might opt-in before year-end. We reiterate our BUY rating and EUR18 fair value.

ANALYSIS

- Vobarilizumab's 2nd phase IIb trial was carried out in 345 moderate to severe RA patients randomized to either SC vobarilizumab + MTX (at the 75mg/Q4W, 150mg/Q4w, 150mg/Q2W or 225mg/Q2W doses) or placebo + MTX. Primary endpoint was reached at 12w with ACR20 reponder rate reaching 81%. At the end of the 24w treatment course, voba reported ACR20, ACR50 and ACR70 reponder rates of up to 79%, 59% and 43% repectively. ACR20 reponder rate plateaued from week 12 to 24. However, we see a continuous improvement in ACR50 and ACR70 responder rates trought week 24 which was expected by management following the results from the first phase IIb trial (please see our comment here). While results at the 225mg/Q2W results are clearly higher than others active arms group, the once-monthly dosing compares well with scores from other IL-6 either commercialized or under development. High placebo rates might be due to ABBV and ABLX's decision to exclude all patients who did not reach a 20% improvement on swollen or tender joints at week 12, 16 and 20. This has been prompted by limited SC data for voba (despite bioequivalence data from IV to SC available).
- Results in terms of DAS28 remission score, less dependant on placebo effect, clearly stands out from the crowd with up to 49% and 68% of patients in remission or with low disease activity/remission at 24w ($p<0.0001$). Note that the roll-over rate in the follow-up stands at 94%.
- Safety-wise, voba profile is clean (voba's AEs 6.5% vs 4.3% for placebo, SAEs of 1.8% vs 2.9% for placebo. We would look forward to infection rates which are not mentionned in the press release.

% responders based on ITT analysis with non-responder imputation

Efficacy parameter	placebo (N=69)		vobarilizumab 75mg, Q4W (N=69)		vobarilizumab 150mg, Q4W (N=70)		vobarilizumab 150mg, Q2W (N=68)		vobarilizumab 225mg, Q2W (N=69)	
	W12	W24	W12	W24	W12	W24	W12	W24	W12	W24
ACR20[1]	62%	74%	75%	74%	81%*	79%	78%	72%	72%	74%
ACR50[1]	28%	39%	29%	48%	44%	56%	41%	54%	45%	59%*
ACR70[1]	9%	17%	14%	23%	21%	33%	19%	22%	17%	43%**
Clinically meaningful improvement in HAQ-DI score (≥ 0.25)[2]	71%	71%	68%	68%	71%	67%	69%	68%	65%	65%
$DAS28_{CRP}$ remission[3]	9%	17%	10%	23%	37%***	37%*	35%***	38%**	25%*	49%***
$DAS28_{CRP}$ low disease activity or remission[3]	23%	29%	25%	38%	53%***	57%**	47%**	60%***	57%***	68%***

*nominal $p<0.05$ vs. placebo; **nominal $p<0.01$ vs. placebo; ***nominal $p<0.001$ vs. placebo

- Having one JAK-inhibitor currently studied in a large phase III program (ABT-494), we do not see particular reasons for ABLX' partner, ABBV, not to opt-in for vobarilizumab at this stage. Indeed, ABLX' compound would be a strategic fit into ABBV's post-Humira RA portfolio in our view.

VALUATION

- We reiterate our BUY rating and EUR18 fair value.
- Upon ABBV's opt-in which decision is expected before year-end (USD75m milestone), we would raise our PoS from 40% to 60%. Indeed, such decision would be the guarantee of the fast progression of the compound in phase III.

NEXT CATALYSTS

- Today 10:00amEST/4:00pmCET : conference call (+32 2 404 06 60: code 3494034)

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Altice

Price EUR13.05

Q2 results above expectations, USA and international offsetting pressure in France.

Fair Value EUR16,5 (+26%) **BUY**

Bloomberg	ATC NA
Reuters	ATCA.AS
12-month High / Low (EUR)	28.9 / 10.0
Market Cap (EURm)	14,280
Ev (BG Estimates) (EURm)	64,152
Avg. 6m daily volume (000)	1 776
3y EPS CAGR	

	1 M	3 M	6 M	31/12/15
Absolute perf.	2.4%	0.4%	10.3%	-1.5%
Telecom	2.0%	-2.9%	-1.5%	-13.1%
DJ Stoxx 600	4.3%	3.0%	8.6%	-6.6%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	14,550	20,068	23,181	23,474
% change		*37.9%*	*15.5%*	*1.3%*
EBITDA	5,494	7,960	9,435	9,810
EBIT	0.0	0.0	0.0	0.0
% change				
Net income	-219.7	25.0	1,392	1,913
% change		*NS*		*37.4%*

	2015	2016e	2017e	2018e
Operating margin	8.4	17.0	20.7	22.7
Net margin	-1.5	0.1	6.0	8.1
ROE	-30.3	-18.4	36.7	31.2
ROCE	0.1	0.2	5.7	6.5
Gearing	1,798	1,653	1,098	733.3

(EUR)	2015	2016e	2017e	2018e
EPS	-0.28	-0.20	0.84	1.24
% change	-	*30.1%*	*NS*	*47.8%*
P/E	NS	NS	15.5x	10.5x
FCF yield (%)	0.3%	0.1%	9.7%	13.6%
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	3.4x	3.2x	2.7x	2.6x
EV/EBITDA	9.1x	8.1x	6.6x	6.2x
EV/EBIT	NS	NS	NS	NS

This morning Altice published Q2 2016. Revenues and EBITDA are above expectations. Strong results in the US and Portugal in particular allow to offset expected poor performance at the France level. Guidance of improving trend in group revenues and of mid single digit growth in group adjusted EBITDA is confirmed. More than ever, diversification is the key.

ANALYSIS

- **Total group revenues** came out at **EUR5.828bn, down 2.6% yoy (-1.7%** on cc basis) vs -2.7% in Q1 2016 excluding Cablevision and Altice Media Group. **Adjusted EBITDA** reached **EUR2.265bn,** up 2.7% yoy (+3.7% on CC basis). EBITDA-CAPEX reached **EUR1.157bn**, **down -7.6% yoy**, vs the consensus at EUR1.100bn.
- **As expected, difficult conditions in France**: **revenues** came out at **EUR2.781bn, down -4.3% yoy,** -4.6% excluding media assets vs -6.1% in Q1 2016, in line with the consensus. **Adjusted EBITDA** stood at **EUR999m, down -6.8% yoy**, **2.8%** above consensus. More detailed information and analysis is provided in our SFR Q2 2016 results report published today.
- **Very good performance in the US**: including Optimum, **revenues** came out at **EUR1.998bn, stable yoy with Suddenlink revenues up 3.0% (5.2% in cc) and Optimum down -1% (up 1.1% in cc)** a little below consensus at EUR2.052bn. **Adjusted EBITDA** reached **EUR729m, up 11.1% yoy, with Suddenlink up 16% and Optimum up 8.7%,** above consensus at EUR673m.
- **In Portugal**, **revenues** came out at **EUR575m, down -3.0% yoy** vs -4.1% in Q1 2016, above consensus at EUR571m. **Adjusted EBITDA** reached **EUR279m, up 22.5% yoy**, above consensus at EUR271m. Overall Altice international adjusted EBITDA is up 14.8%, to EUR545m
- **The positive effects of diversification are now very clear. Very good performance in Portugal and the US allows to offset difficult execution in France.** The group's exposure to the USA is now 41% in Operating Free Cash Flow (EBITDA-CAPEX), 35% in revenues.
- **Altice confirmed guidance** for mid single-digit pro forma adjusted EBITDA growth in 2016.

VALUATION

- We stick to our fair value of EUR16.5 with BUY recommendation.

NEXT CATALYSTS

- Q3 results on November 8^{th}.

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SFR

Price EUR20.93

Q2 financial results slightly above expectations, but BtoC still struggling.

Fair Value EUR28,7 (+37%) **NEUTRAL**

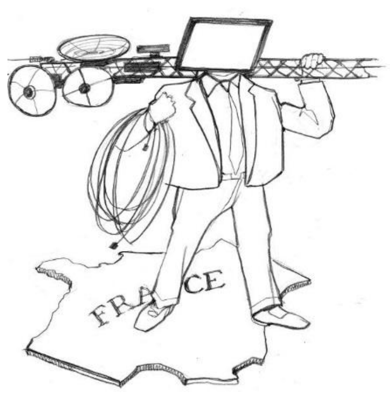
Bloomberg	SFR FP
Reuters	SFRGP.PA
12-month High / Low (EUR)	42.6 / 20.0
Market Cap (EUR)	9,172
Ev (BG Estimates) (EUR)	23,270
Avg. 6m daily volume (000)	289.7
3y EPS CAGR	16.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	2.9%	-22.4%	-31.6%	-37.5%
Telecom	2.0%	-2.9%	-1.5%	-13.1%
DJ Stoxx 600	4.3%	3.0%	8.6%	-6.6%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	11,039	10,553	10,658	10,827
% change		*-4.4%*	*1.0%*	*1.6%*
EBITDA	3,860	3,977	4,266	4,501
EBIT	0.0	0.0	0.0	0.0
% change				
Net income	682.0	441.3	807.5	1,091
% change		*-35.3%*	*83.0%*	*35.1%*

	2015	2016e	2017e	2018e
Operating margin	11.7	14.9	17.7	20.8
Net margin	6.2	4.2	7.6	10.1
ROE	15.9	9.0	14.4	16.3
ROCE	2.8	4.7	5.3	6.7
Gearing	337.5	298.5	242.2	188.9

(EUR)	2015	2016e	2017e	2018e
EPS	1.45	0.91	1.70	2.31
% change	-	*-37.0%*	*86.1%*	*35.8%*
P/E	14.4x	22.9x	12.3x	9.1x
FCF yield (%)	8.2%	0.8%	7.2%	9.1%
Dividends (EUR)	5.40	0.00	0.00	0.00
Div yield (%)	25.8%	NM	NM	NM
EV/Sales	2.1x	2.2x	2.1x	2.0x
EV/EBITDA	6.1x	5.9x	5.3x	4.8x
EV/EBIT	NS	NS	NS	NS



This morning SFR has published Q2 2016 results. Revenues and EBITDA are slightly above expectations, but the BtoC business is still struggling, in particular on the mobile side. Improving trend in BtoB and very significant improvement in wholesale offset the poor BtoC performance. The BtoC trend is expected to improve in Q3 and Q4. Guidance of better revenue trend vs 2015 is confirmed.

ANALYSIS

- **Total NC-SFR revenues** came out at **EUR2.781bn, down -4.3% yoy**. Excluding media assets revenue declined -4.6% to EUR2.655m vs consensus at EUR2.648bn, and vs -6.1% in Q1 2016. **Adjusted EBITDA** reached **EUR999m down -6.8% yoy. Excluding media assets, adjusted EBITDA** reached **EUR993m,** down -6.3% yoy, vs consensus at EUR966m.
- **BtoC is still very much under pressure.** BtoC revenues are down -5.2% yoy vs -4.9% in Q1 2016, **BtoB trend is improving**, with revenues falling -4.5% yoy vs -7.7% in Q1 2016, **wholesale performance is much better**, revenues fell only-1.2% yoy vs -10.1% in Q1 2016.
- **On the mobile side, the business is still very much under pressure in Q2, although trend is expected to improve in Q3 and Q4.** Q2 BtoC postpaid net adds worked out to -199k, vs -28k in Q1 2016 and -314k in Q2 2015. Mobile ARPU is down -1.7% YoY vs stable yoy in Q1, up 2.2% on a sequencial basis, due to seasonality.
- **On the fixed BtoC side, fiber performance is a little disappointing, but ARPU is on good trend**. Q2 net adds stood at -57k, vs -61k in Q1 2016 and -119k in Q2 2015. Fiber net adds reached 44k, vs 66k in Q1 2016 and 70k in Q2 2015. ARPU is up 0.8% yoy vs -1.2% in Q1.

VALUATION

- We stick to our fair value of EUR28.7 with Neutral recommendation.

NEXT CATALYSTS

- Q3 results on November 8th.

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SAP

Price EUR77.43

Feedback from company contact: coping with fast success on S/4HANA

Fair Value EUR75 (-3%) **NEUTRAL**

Bloomberg	SAP GR
Reuters	SAPG.DE
12-month High / Low (EUR)	78.4 / 55.9
Market Cap (EUR)	95,123
Ev (BG Estimates) (EUR)	98,096
Avg. 6m daily volume (000)	2 660
3y EPS CAGR	7.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	11.6%	14.9%	17.4%	5.5%
Softw.& Comp.	10.6%	10.3%	16.9%	3.1%
DJ Stoxx 600	4.3%	3.0%	8.6%	-6.6%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	20,798	21,957	23,551	25,185
% change		*5.6%*	*7.3%*	*6.9%*
EBITDA	6,884	7,217	7,695	8,288
EBIT	4,251	5,343	5,879	6,432
% change		*25.7%*	*10.0%*	*9.4%*
Net income	4,639	4,763	5,420	5,775
% change		*2.7%*	*13.8%*	*6.5%*

	2015	2016e	2017e	2018e
Operating margin	30.5	30.3	30.1	30.4
Net margin	14.8	16.8	18.7	18.9
ROE	13.2	14.4	15.4	15.0
ROCE	18.5	18.2	20.1	21.7
Gearing	24.7	11.6	-1.6	-13.0

(€)	2015	2016e	2017e	2018e
EPS	3.78	3.88	4.41	4.70
% change	-	*2.7%*	*13.8%*	*6.5%*
P/E	20.5x	20.0x	17.5x	16.5x
FCF yield (%)	3.2%	4.8%	5.5%	5.9%
Dividends (€)	1.15	1.20	1.30	1.40
Div yield (%)	1.5%	1.5%	1.7%	1.8%
EV/Sales	4.9x	4.5x	4.0x	3.6x
EV/EBITDA	14.7x	13.6x	12.3x	11.0x
EV/EBIT	15.9x	14.7x	13.3x	11.9x

The takeaways from a company contact we had last week and which keeps our non-IFRS operating margin turnaround scenario for 2018 intact, are that: 1) SAP is not concerned by the acquisition of NetSuite by Oracle as NetSuite already has had close links with Oracle; 2) the low number of S/4HANA 'go lives' has nothing to do with the speed of implementation but the fast success of S/4HANA; 3) an overwhelming majority of S/4HANA sales are on-premise as customers are unlikely to run their core processes on a public cloud.

ANALYSIS

- **Acquisition of NetSuite by Oracle: a non-event for SAP**. On 29th July, Oracle announced an agreement for acquiring the cloud-based ERP and CRM software vendor NetSuite for USD9.3bn. On a strategic standpoint, SAP does not see any competitive change, as NetSuite was a sort of spin-off from Oracle and had maintained close links with Oracle both on a product (NetSuite was running on Oracle databases) and a capital standpoint (Oracle's founder Larry Ellison had a 41% stake in NetSuite). In addition, the fact that NetSuite generates 75% of its revenues in the US does not make it a serious competitor for SAP in other geographies. Over the long term, SAP sees this deal as a way for Oracle to attack more Workday than SAP, by addressing a large spectrum of company sizes. On its side, SAP covers the cloud ERP area through SAP Business One, the recently launched SAP Anywhere and the cloud version of S/4HANA – notwithstanding the fact that 75% of Concur's customer base is made of SMBs -, and made SMBs and subsidiaries of large groups a strategic priority recently with the enlargement of the responsibilities of Steve Singh (ex-CEO of Concur) from Business Networks to Applications.
- **S/4HANA 'go lives': speed of implementation not to blame**. SAP is not really concerned by the number of customers gone live on S/4HANA (220 or "only" 6% of the 3,700 already signed in just 16 months). In fact, the management of SAP is itself surprised by the speed S/4HANA is selling, to the point that more than 10% of the SAP ERP installed base (c. 30,000 clients) is already migrating to S/4HANA – which creates more than a challenge for systems integrators for adding and training resources for implementation. While we take note a less bullish stance from the management on the target of 'go lives' by end 2016 (mid to high hundreds rather than c. 1,000 at the time of Sapphire Now in May), there are 1,200 ongoing or already completed S/4HANA implementation projects, and the Value Assurance programme put in place by SAP with a limited number of systems integrators (Accenture, Capgemini, Deloitte, EY, PwC, IBM, Wipro…) with template-based service packages helps S/4HANA implementations lasting less than one year on average.
- **S/4HANA Cloud Edition: customers' choice is king**. We understand that the number of customers on S/4HANA Cloud Edition (public cloud) represents only a low double-digit. An overwhelming majority of S/4HANA clients has chosen the on-premise version as large companies are unlikely to run their mission-critical processes on a public cloud, and there is an increasing portion of customers buying S/4HANA licences to run them on a private cloud. This fuels both licence sales and cloud subscriptions (HANA Enterprise Cloud hosting revenues), and SAP customers have been offered choice between on-premise and cloud. That said, the management still considers the public cloud version of S/4HANA will start to see the number of users taking off from 2018.

VALUATION

- SAP's shares are trading at est. 14.7x 2016 and 13.3x 2017 EV/EBIT multiples.
- Net debt on 30th June 2016 was EUR4,436m (net gearing: 19%).

NEXT CATALYSTS

Q3 2016 results on 21st October before markets open.

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TMT

Worldpay

Price 301.40p

Bloomberg	WPG LN
Reuters	WPG.L
12-month High / Low (p)	316.8 / 240.0
Market Cap (GBP)	6,028
Ev (BG Estimates) (GBP)	7,315
Avg. 6m daily volume (000)	7,448
3y EPS CAGR	32.4%

	1 M	3 M	6 M	31/12/15
Absolute perf.	12.5%	16.1%	9.4%	-1.9%
Softw.& Comp.	10.6%	10.3%	16.9%	3.1%
DJ Stoxx 600	4.3%	3.0%	8.6%	-6.6%

YEnd Dec. (GBPm)	2015	2016e	2017e	2018e
Sales	3,963	4,240	4,580	4,946
% change		*7.0%*	*8.0%*	*8.0%*
EBITDA	302	392	496	562
EBIT	340.5	366.8	413.1	470.9
% change		*7.7%*	*12.6%*	*14.0%*
Net income	138.4	226.2	266.4	321.5
% change		*63.4%*	*17.8%*	*20.7%*

	2015	2016e	2017e	2018e
Operating margin	8.6	8.7	9.0	9.5
Net margin	-0.8	3.4	4.7	5.9
ROE	-4.4	17.5	21.7	23.7
ROCE	12.1	14.5	15.5	17.2
Gearing	212.4	158.2	112.1	71.7

(p)	2015	2016e	2017e	2018e
EPS	6.92	11.31	13.32	16.08
% change	-	*63.4%*	*17.8%*	*20.7%*
P/E	43.6x	26.7x	22.6x	18.7x
FCF yield (%)	0.5%	1.5%	3.7%	4.6%
Dividends (p)	0.00	1.78	2.69	3.65
Div yield (%)	NM	0.6%	0.9%	1.2%
EV/Sales	1.9x	1.7x	1.6x	1.4x
EV/EBITDA	24.6x	18.6x	14.4x	12.3x
EV/EBIT	21.9x	19.9x	17.3x	14.7x

H1 earnings results above expectations but not to extrapolate on H2

Fair Value 278p (-8%) **NEUTRAL**

Worldpay has posted H1 earnings results higher than expected, but not to extrapolate on H2. Overall, Worldpay's fundamentals are still not very impressive for the payments sector, above all in profitability and financial situation. Management remains confident in its prospects over the medium term (net revenue growth of ~+9-11% CAGR over the medium/long term) which remains unchanged. We see no upside even when looking just at EV/EBITDA until 2017e (i.e. until the end of its investments in platforms). We maintain our Neutral rating and FV of 278p. Conf. call at 8:00am.

ANALYSIS

- **Traps to avoid when analysing figures:** it seems essential to us to **calculate Worldpay's profitability on gross sales and not net sales**, which artificially boost its margin rate and make comparison with other European players in the sector inappropriate. Finally, we prefer **to look at the real EBITDA reported rather than underlying EBITDA**. Worldpay tends to communicate on underlying EBITDA, but in our view, the numerous negative items that this excludes (cost of platform separation, reorganisation, costs linked to acquisitions: 25.5% of 2015 underlying EBITDA and 16.4% in H1 16) should be adjusted for solely at the EBIT level (underlying EBIT). This is what the group's rivals do and what we have been used to for companies in the sector.
- **H1 2016 earnings:** **gross revenue of GBP2,135.6m** (+10.1% Y/Y, lfl not available) vs. our GBP2,075.7m and cons. of GBP2,059.5m, including net revenue of GBP539.7m (+15.9% Y/Y, +14%e at cc and lfl not available) vs. our GBP512.6m and cons. of GBP525.6m. The volume of transactions processed (which is the key indicator for PSPs in our view) rose by 10.5% to GBP217.1m. In terms of profitability, **EBITDA reached GBP182.3m** i.e. a **margin of 8.5%** +90bps Y/Y (BG: GBP169.2m i.e. margin of 8.2%; cons.: GBP178.4m i.e. margin of 8.7%)Worlpay generated a **current EBIT of GBP181.5m i.e. a margin of 8.5%, +10bps** (BG: GBP156.4m, margin of 7.5%; cons.: GBP162.3m, margin of 7.9%), and **EBIT of GBP121m** i.e. a margin of 5.7%, +180bps (BG: GBP99.2m, margin of 4.8%; cons.: GBP106m, margin of 7.9%), still penalised by the technological separation from RBS and reorganisation/restructuring costs (capex at 3.8% of gross sales). In all, its **net profit came in at GBP58.6m** (BG: GBP51.9m; cons.: GBP55.1m). The FCF was GBP82.9m (FCF/underlying EBIT of ~46%) with still a **huge net debt of GBP1,373.2m i.e. a gearing of 187%** (cons.: GBP1,408.1m).
- **For H2, Worldpay: 1/** expects the very strong Global eCom acquiring and treasury management performance seen in H1 to moderate to more normal growth levels in the remainder of the year; **and 2/** doesn't expect an incremental benefit to Worldpay UK from the reduction in interchange costs (these benefits mainly occurred in H2 2015 and H1 2016). **The company maitained its medium-term guidance**, namely **net revenue growth of ~9-11% CAGR** and **stronger operating leverage and cash flow from H2 2017 onwards**. Maiden interim dividend of 0.65p/share.
- **Worldpay's fundamentals are not very impressive for the payments sector** (in terms of lfl sales growth as well as profitability and free cash flow), due to: **1/** its strong positions in physical merchants in the UK and the US (~80% of its 2015 sales and 73% of H1 2016), which are difficult markets, **2/** a lack of critical mass in the US, which prevents it from generating a strong leverage effect (fragmented market), **3/** investments in its proprietary platforms that have over-run for some years and are continuing to weigh on its figures (this should be the case until H1 2017e) and **4/** an ensuing low transformation rate for underlying EBIT into free cash flow compared to European peers. **In contrast, the group's strengths lie in its: 1/** historically resilient organic sales growth (in line with the change in the number of electronic transactions and the high client retention rate), **2/** clear leadership position in physical payments in the UK (size effect enabling it to outperform local GDP growth), **3/** pioneering status in e-commerce with a leadership position in this high-growth market (in Europe and throughout the world) and **4/** focus on innovation and development (investment in the technological platforms, acquisitions and recruitment etc.), which should end up paying off over the medium term (operating leverage and then in terms of FCF).

VALUATION

- We maintain our **Neutral rating and our FV to 278p**. Despite our far-from-pessimistic estimates, the share is not cheap, even taking into account only EV/EBITDA (it trades at 18.6x in FY16e whereas in our SOTP it deserves 16.1x taking into account a 12.5% premium on the UK).
- We believe it will only be reliable **to reason in PEG once investment in the platforms is complete, namely as of 2018e**. The share is currently trading with an EV/EBITDA comparable

to that of a pure-player in ecommerce whereas ecommerce is only 27% of its sales.

NEXT CATALYSTS

- **Advent International and Bain Capital have 564.5m shares, i.e. 8.2% of Worldpay share capital.** The lock-up period ended on 10th July. In our view, it is likely that these private equities **sell their entire stakes in H2.**

Main financial items from 2014 to 2017e

GBPm	2014 (reported)	2015 (reported)	BG 2016e	Cons. 2016e	BG 2017e	Cons. 2017e
Revenue	**3,626.6**	**3,963.0**	**4,240.4**	**4,302.6**	**4,579.6**	**4,650.4**
Y/Y change	*7.3%*	*9.3%*	*7.0%*	*8.6%*	*8.0%*	*8.1%*
Y/Y change (lfl)	*9.2%*	*5.6%*	*7.0%*	-	*8.0%*	-
Net revenue	**863.4**	**981.7**	**1,079.6**	**1,099.6**	**1,187.5**	**1,208.3**
Y/Y change	*7.9%*	*13.7%*	*10.0%*	*12.0%*	*10.0%*	*9.9%*
EBITDA	**286.1**	**302.4**	**392.2**	**393.6**	**495.5**	**492.5**
Margin	*7.9%*	*7.6%*	*9.3%*	*9.1%*	*10.8%*	*10.6%*
Underlying EBITDA	**374.7**	**406.1**	**452.2**	**455.3**	**500.5**	**509.2**
Margin	*10.3%*	*10.2%*	*10.7%*	*10.6%*	*10.9%*	*10.9%*
EBIT	**125.0**	**166.9**	**252.3**	**252.9**	**344.4**	**336.6**
Margin	*3.4%*	*4.2%*	*6.0%*	*5.9%*	*7.5%*	*7.2%*
Underlying EBIT	**296.3**	**340.5**	**366.8**	**362.3**	**413.1**	**400.4**
Margin	*8.2%*	*8.6%*	*8.7%*	*8.4%*	*9.0%*	*8.6%*
Net profit	**-50.0**	**-29.8**	**142.6**	**137.2**	**215.6**	**191.7**
Margin	*-1.4%*	*-0.8%*	*3.4%*	*3.2%*	*4.7%*	*4.1%*
Rest. net profit	**91.7**	**138.4**	**226.2**	**220.3**	**266.4**	**255.7**
Margin	*2.5%*	*3.5%*	*5.3%*	*5.1%*	*5.8%*	*5.5%*
EPS (p)	**-3.1**	**-1.8**	**7.1**	**6.9**	**10.8**	**10.3**
Fully dil. rest. EPS (p)	**5.7**	**8.2**	**11.3**	**11.0**	**13.3**	**12.8**
FCF	**0.7**	**32.4**	**92.3**	**-**	**221.4**	**-**
FCF/underlying EBIT	*0.2%*	*9.5%*	*25.2%*	-	*53.6%*	-
Net debt	**2,254.1**	**1,425.3**	**1,287.2**	**1,345.9**	**1,113.8**	**1,160.5**
Gearing	*-1,173.4%*	*212.4%*	*158.2%*	-	*112.1%*	-

Sources: Company's consensus (08/07/16); Bryan, Garnier & Co ests.

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Price EUR152.60

Bloomberg	MUV2 GR
Reuters	MUVGn.DE
12-month High / Low (EUR)	190.8 / 141.2
Market Cap (EUR)	24,577
Avg. 6m daily volume (000)	699.5

	1 M	3 M	6 M	31/12/15
Absolute perf.	5.2%	-6.2%	-9.9%	-17.3%
Insurance	8.4%	-3.5%	-0.3%	-19.5%
DJ Stoxx 600	4.3%	3.0%	8.6%	-6.6%

	2015	2016e	2017e	2018e
P/E	8.0x	9.8x	8.6x	8.0x
Div yield (%)	5.4%	5.4%	5.4%	5.4%

Q2 numbers way above consensus, driven by non-technical items

Fair Value EUR185 (+21%) **SELL**

ANALYSIS

- Q2 2016 net income is EUR974m, down 9%, but way ahead of consensus (EUR475m). It benefited from EUR340m positive FX gains (long USD, short GBP). Operating profit is EUR1,463m, down 20%, also way above consensus (EUR868m), mainly driven by the investment result.
- In P&C reinsurance, operating profit is EUR788m (down 37% yoy), mainly driven by the underwriting performance (down 55%). The reported combined ratio is 99.8% vs. 93.3% in Q2 2015. Excluding natcats (7.6 pts vs. 0.5 pt) and run-offs (5.1 pts vs. 3.1 pts), the Q2 adjusted combined ratio is 97.3% vs. 95.9% in Q2 2015.
- In primary insurance (Ergo), the operating profit is EUR445m, up 24% yoy, mainly driven by Life/Health.
- Group investment result is EUR2.75bn (consensus EUR1.93bn), up 9% yoy, i.e. a 4.7% annualised total return, driven by derivative result (due to falling interest rates) and high disposal gains.
- FY guidance (net income c. EUR2.3bn) has been confirmed. Given H1 net income is EUR1.4bn, we see this as fairly achievable, and in the end the initial FY guidance (prior to Q1 profit warning the FY guidance was EUR2.3-2.8bn) looks accurate. We expect consensus (currently EUR2.3-2.4bn) to move slightly up.

VALUATION

- Based on our current estimates, our SOTP valuation is EUR185.

NEXT CATALYSTS

- Q3 2016 numbers on 9th November.

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Bryan Garnier stock rating system

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

Stock rating

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

Distribution of stock ratings

BUY ratings 55.7% NEUTRAL ratings 33.6% SELL ratings 10.7%

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