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10th August 2016

## BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
<b>Indices</b>			
Dow Jones	18533.05	+0.02%	+6.36%
S&P 500	2181.74	+0.04%	+6.74%
Nasdaq	5225.48	+0.24%	+4.35%
Nikkei	closed	-	-11.92%
Stoxx 600	344.674	+0.92%	-5.78%
CAC 40	4468.07	+1.19%	-3.64%
<b>Oil /Gold</b>			
Crude WTI	42.77	-0.58%	+14.97%
Gold (once)	1335.57	0.00	+25.71%
<b>Currencies/Rates</b>			
EUR/USD	1.1112	+0.34%	+2.29%
EUR/CHF	1.09145	+0.21%	+0.37%
German 10 years	-0.141	+15.45%	-122.22%
French 10 years	0.137	-13.27%	-86.08%
Euribor	-	+%	+%

### Economic releases :

Date	
10th-Aug	CNY - aggregate Financing Jul. (1024.0b E) CNY - New Yuan Loans CNY Jul. (900.0b E) US - DOE US Crude Oil Inventories NZD - NZD Reserve Bank of New Zealand Rate Decision (2% 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



### ABLYNX

**BUY, Fair Value EUR18 (+46%)**

*"Voba": still a best-in-class in our view*

Share price reaction came as a surprise yesterday (down 5.3%) in the light of the dataset underlying differentiated efficacy and safety profile. High placebo rate affected primarily ACR20 at 12 week. Results from more stringent criteria such as remission and ACR50 and 70 responder rates bodes well with best-in class profile. We see no reason why ABLX would have to look for a back-up partner yet. BUY reiterated.

### E.ON

**BUY, Fair Value EUR10.2 (+8%)**

*FY 2016 outlook confirmed as core businesses drive company's earnings*

E.ON unveiled its H1-16 results this morning with adjusted EBIT down 6% yoy despite a solid performance reached in the company's core businesses. The EUR2.9 impairment charges on power stations and gas-storage facilities penalized the company's net income which fall to EUR-3,034m. The company finally confirmed its FY-16 objectives as well as the expected schedule for Uniper's spin-off. Buy rating maintained and FV unchanged at EUR10.2.

### GENMAB

**BUY, Fair Value DKK1600 (+30%)**

*Q2 2016 results in line expectations and slightly improved financial guidance*

We stick to our BUY rating as well as our FV of DKK1,600 following the publication of Q2 2016 results (which admittedly are broadly in line with estimates), and especially since the company did raise its financial guidance for the full year in light of recent daratumumab's sales trends (including July) and European pricing.

Healthcare

**Ablynx**

Price EUR12.30

**"Voba": still a best-in-class in our view**

**Fair Value EUR18 (+46%)**

**BUY**

Bloomberg	ABLX.BB
Reuters	ABLX.BR
12-month High / Low (EUR)	16.1 / 10.4
Market Cap (EURm)	749
Ev (BG Estimates) (EURm)	901
Avg. 6m daily volume (000)	181.8
3y EPS CAGR	15.0%

Share price reaction came as a surprise yesterday (down 5.3%) in the light of the dataset underlying differentiated efficacy and safety profile. High placebo rate affected primarily ACR20 at 12 week. Results from more stringent criteria such as remission and ACR50 and 70 responder rates bodes well with best-in class profile. We see no reason why ABLX would have to look for a back-up partner yet. BUY reiterated.

**ANALYSIS**

- Following voba's phase IIb data released yesterday, we were surprised to see the share price down 5.3% at the end of the trading session. During the conference call, management reviewed the data available with some more colours on what could have drive such a high placebo rate (ACR20 placebo rate of 74%), leading to only one active arm reaching statistical significance vs. placebo on primary endpoint at 12week (150mg/Q4W dose with 81% responder rate; p<0.01). Firstly, it is important to note that across all groups, patients that did not report a 20% improvement in swollen/tender at week 12, 16 and 20 have been forced to discontinue the trial. This criteria has been jointly decided by ABLX and ABBV in 2014 as only bioequivalence data on the SC version was available at the time (phase IIa carried out with the IV version). While carrying out a 24w trial with no crossover, it would have been non-ethical to keep patients away from any effective treatment. Hence, patients knew at the beginning of the trial that if they did not show an improvement in the criteria mentioned above by week 12, maintained through week 20, they would not be eligible for open label extension (during which they are offered an additional 104 month of treatment). As a consequence, 1/ a part of patients assigned to the placebo group that would have been supposed to drive down placebo rate have been excluded; 2/ some patients assigned to the latter group could have nuanced their disease activity state, knowing that they would be eligible for extension study. Hence, 87% of patients in the placebo group completed week 24 visit (only 3 forced discontinuation due to low results during visits at week 12, 16 and 20. Moreover, geographical criteria might have played a role (proportion of patients recruited in LatAm which are more reactive to MTX).
- Physicians are more looking at stringent measures such as ACR50 and ACR70 as well as DAS28 remission rate, and we were pleased to see that these results came higher than other IL-6 currently in development or commercialised, underlying voba's best-in class profile.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-3.4%	-10.2%	18.3%	-22.7%
Healthcare	0.3%	7.6%	14.8%	-4.5%
DJ Stoxx 600	5.3%	3.4%	11.4%	-5.8%

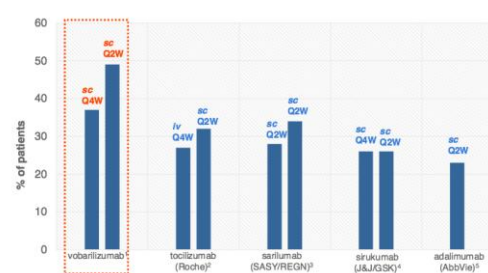
YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	77.5	81.6	39.6	54.2
% change		5.2%	-51.4%	36.7%
EBITDA	-15.6	-21.9	-64.3	-44.4
EBIT	-17.0	-23.3	-65.0	-45.4
% change		-37.6%	NS	30.2%
Net income	-54.5	-60.9	-102.6	-83.0
% change		-11.7%	-68.4%	19.1%

	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	8.6x	11.0x	22.5x	16.5x
EV/EBITDA	NS	NS	NS	NS
EV/EBIT	NS	NS	NS	NS

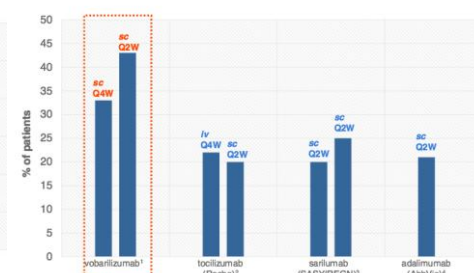
**Remission (DAS28<sub>CRP</sub><2.6) at week 24 – RA combination th**

Note: data reported in listed publications, not resulting from head-to-head studies



**ACR70 scores at week 24 – RA combination therapy**

Note: data reported in listed publications, not resulting from head-to-head studies



- Turning to safety, voba's profile is clean and here again stands out from other compounds with treatment related SAEs lower in voba groups vs placebo. Note that 1/ serious infection rate was 2.9% in placebo vs 1.4% across all voba groups; and 2/ one death occurred over the course of the trial but was not related to the administration of voba.

**Safety results through week 24**

Number of subjects (%) with treatment-emergent adverse events (TEAE)	placebo N=69	vobarilizumab 75mg, Q4W N=69	vobarilizumab 150mg, Q4W N=70	vobarilizumab 150mg, Q2W N=68	vobarilizumab 225mg, Q2W N=69
Any TEAE	36 (52.2%)	42 (60.9%)	44 (62.9%)	43 (63.2%)	44 (63.8%)
- treatment-related	18 (26.1%)	26 (37.7%)	25 (35.7%)	25 (36.8%)	25 (36.2%)
- leading to study drug discontinuation	3 (4.3%)	4 (5.8%)	5 (7.1%)	5 (7.4%)	4 (5.8%)
Any serious TEAE	4 (5.8%)	5 (7.2%)	4 (5.7%)	0	1 (1.4%)
- treatment-related	2 (2.9%)	1 (1.4%)	3 (4.3%)	0	1 (1.4%)
- leading to death (not treatment-related)			1 (0.3%)		

- We believe that voba 1/ offers compelling results we deem differentiated from competition;

and 2/ it would be a nice fit in ABBV's post-Humira portfolio (synergistic effect, combination strategy with the platform). Recall that ABBV has no in-house competitors with ABT-122 (bi-specific anti-TNF/IL-17) now discontinued in RA. Considering that the IL-6 class is likely to grab a 10-15% of the RA market by 2020e, we do not see ABBV overlooking this class. Management stated that they are not conducting parallel discussions. We do not view this as surprising as no available data prompted the group to potentially look for a "back-up" partner so far. It appears normal in our view that Ablynx did not initiate parallel discussions 1/ to preserve its relationship with ABBV which has a right of first-review; and 2/ because such parallel talks cannot be done in the absence of a full data set. Recall that GLPG initiated parallel discussions following the communication of full phase IIb program results.

**VALUATION**

- We reiterate our BUY rating and EUR18 fair value. ABLYNX is in our Q3 top-picks list.
- Vobarilizumab would be a nice strategic fit into ABBV's post-Humira portfolio in our view. Should ABBV decides to opt-in, it would trigger a USD75m milestone payment for ABLX. Upon such decision for which we see as the most likely scenario at this stage, we would include the milestone payment and increase PoS from 40% to 60%, hence adding EUR3 to our fair value.

**NEXT CATALYSTS**

- September 13<sup>th</sup>: Paris Roadshow
- H2 2016: ABBV's decision on whether to opt-into the program.

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Utilities

**E.ON** **FY 2016 outlook confirmed as core businesses drive company's earnings**  
 Price EUR9.43 **Fair Value EUR10.2 (+8%)**

**BUY**

**E.ON unveiled its H1-16 results this morning with adjusted EBIT down 6% yoy despite a solid performance reached in the company's core businesses. The EUR2.9 impairment charges on power stations and gas-storage facilities penalized the company's net income which fall to EUR-3,034m. The company finally confirmed its FY-16 objectives as well as the expected schedule for Uniper's spin-off. Buy rating maintained and FV unchanged at EUR10.2.**

Bloomberg	EOA GY
Reuters	EONGn.DE
12-month High / Low (EUR)	12.0 / 7.1
Market Cap (EUR)	18,873
Ev (BG Estimates) (EUR)	54,005
Avg. 6m daily volume (000)	11,033
3y EPS CAGR	

**ANALYSIS**

	1 M	3 M	6 M	31/12/15
Absolute perf.	2.7%	12.3%	8.1%	5.6%
Utilities	0.9%	2.1%	7.0%	-2.9%
DJ Stoxx 600	5.3%	3.4%	11.4%	-5.8%

- H1-16 main metrics:** The Group's **adjusted EBIT reached EUR2,001m** down 6% yoy but c. 7% above consensus' expectations (at EUR1,867m). This is mainly due to the strong growth in the company's core businesses (Energy Networks, Customer Solutions and Renewables) with adjusted EBIT of these three divisions **up 15% yoy to EUR1.7bn. Company's net income fall to EUR-3,034m** (from EUR1,149m last year) bearing the brunt of **1) EUR2.9bn impairment charges** on power stations and gas-storage facilities and **2) provisions for contingent losses at Uniper for EUR0.9bn**. Net income adjusted from extraordinary effects reached **EUR604m down c. 28% yoy** and slightly below consensus' expectations (at EUR615m) mainly due to higher tax payments and a rather high comparable base which included businesses that have been divested since then. Additionally, **the company confirms the Uniper spin-off is right on schedule with a stock-market listing still expected for September 2016** with a 10:1 allocation ratio.

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	116,218	110,095	112,801	124,326
% change		-5.3%	2.5%	10.2%
EBITDA	7,557	6,595	6,640	6,511
EBIT	4,369	3,003	3,815	3,693
% change		-31.3%	27.0%	-3.2%
Net income	-6,999	1,401	2,004	1,948
% change		NS	43.1%	-2.8%

- The rather **solid performance in company's three core businesses** (Energy Networks, Customer Solutions and Renewables) is rather reassuring in our view with customers solutions adjusted EBIT notably **up c. 25%**. Renewables adjusted EBIT has been **up c. 26% yoy** as Amrunbank West and Humber Gateway wind farms are now operational. This validates the company's strategy to spin-off its old businesses (power generation and energy trading) whose **adjusted EBIT declined by c. 32%** notably due to the decommissioning of the Grafenrheinfeld nuclear power station and the drop in market prices.

	2015	2016e	2017e	2018e
Operating margin	3.8	2.7	3.4	3.0
Net margin	-6.0	1.3	1.8	1.6
ROE	-36.7	7.3	10.0	9.3
ROCE	9.5	6.7	8.1	7.7
Gearing	50.1	53.3	51.3	50.1

- The company confirmed its FY-16 objectives** with adjusted EBIT expected to be between **EUR2.7bn and EUR3.1bn** and adjusted net income to reach **EUR0.6bn-EUR1.1bn**.

(EUR)	2015	2016e	2017e	2018e
EPS	-3.67	0.74	1.05	1.02
% change		NS	43.1%	-2.8%
P/E	NS	12.8x	9.0x	9.2x
FCF yield (%)	10.9%	0.7%	6.8%	8.7%
Dividends (EUR)	0.50	0.39	0.38	0.32
Div yield (%)	5.3%	4.2%	4.0%	3.4%
EV/Sales	0.5x	0.5x	0.5x	0.4x
EV/EBITDA	7.0x	8.2x	8.2x	8.5x
EV/EBIT	12.2x	18.0x	14.3x	15.0x

**VALUATION**

- At current share price, E.ON is trading at **8.2x its 2016e EV/EBITDA multiple**
- Buy, FV @ EUR10.2**

**NEXT CATALYSTS**

- 9<sup>th</sup> November 2016: Q3-16 results

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Healthcare

**Genmab**

Price DKK1,233

**Q2 2016 results in line expectations and slightly improved financial guidance**

Fair Value DKK1600 (+30%)

**BUY**

Bloomberg	GEN DC
Reuters	GEN.CO
12-month High / Low (DKK)	1,266 / 548.0
Market Cap (DKK)	73,775
Ev (BG Estimates) (DKK)	70,205
Avg. 6m daily volume (000)	470.7
3y EPS CAGR	28.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	2.6%	24.9%	93.3%	34.4%
Healthcare	0.3%	7.6%	14.8%	-4.5%
DJ Stoxx 600	5.3%	3.4%	11.4%	-5.8%

YEnd Dec. (DKKm)	2015	2016e	2017e	2018e
Sales	1,133	1,042	1,250	2,520
% change		-8.1%	20.0%	101.7%
EBITDA	554	240	226	1,350
EBIT	730.4	240.3	225.9	1,350
% change		-67.1%	-6.0%	
Net income	587.3	275.3	239.3	1,255
% change		-53.1%	-13.1%	

	2015	2016e	2017e	2018e
Operating margin	64.5	23.1	18.1	53.6
Net margin	67.4	26.4	19.1	49.8
ROE	21.9	7.3	6.0	23.9
ROCE	-15,400	142.8	62.1	219.4
Gearing	-100.2	-94.9	-90.4	-89.1

(DKK)	2015	2016e	2017e	2018e
EPS	9.71	4.53	3.94	20.66
% change		-53.4%	-13.1%	
P/E	NS	NS	NS	59.7x
FCF yield (%)	NM	NM	NM	NM
Dividends (DKK)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	62.0x	67.4x	56.1x	27.4x
EV/EBITDA	126.8x	292.2x	310.5x	51.2x
EV/EBIT	96.2x	292.2x	310.5x	51.2x

**We stick to our BUY rating as well as our FV of DKK1,600 following the publication of Q2 2016 results (which admittedly are broadly in line with estimates), and especially since the company did raise its financial guidance for the full year in light of recent daratumumab's sales trends (including July) and European pricing.**

**ANALYSIS**

- **Q2 2016 results are broadly in line with expectations with a DKK168m net income** (vs BG: DKK170m; consensus: DKK154m). Without entering into too much details, we note that 1/ revenues grew by 104% to DKK354m, notably thanks to daratumumab's commercial ramp-up (with c.USD107m in sales over the period) as well as a milestone payment of DKK200m triggered by its very first commercial sale in Europe; 2/ operating expenses were up by 58% as the company is increasing its R&D investments/accelerating some key programs (e.g. tisotumab vedotin, HuMax-AXL-ADC).

**Fig. 1: Q2 2016 results vs BG and consensus' estimates**

DKKm	Q2 15	Q2 16	BG estimates	Consensus
Revenues (including milestones)	174	354	330	341
Operating expenses	134	212	175	198
Operating income	39	142	155	143
Net result	16	168	170	154

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

- **The financial guidance for the full year has been slightly revised up**, as the company is now anticipating an operating result in a DKK150-200m range (vs DKK125-175m), and especially higher sales from "dara" this year (USD440-490m vs USD400-450m previously – thus leading to more royalties to Genmab) in light of recent prescription trends, including the month of July (which by the way is said to be to the strongest month since the launch in November...).
- **We already assumed higher figures for "dara" before the publication... And overall, we are still comfortable with our above-consensus estimates.** We still believe that WW revenues should even exceed USD500m thanks to 1/ an increased off-label use in the US following the presentation of POLLUX and CASTOR studies (which is likely not fully discounted in the current guidance in our view); 2/ a quick reallocation of JNJ's marketing efforts from Velcade to dara. Plus, we understand that prices in Germany and Denmark are not too far from the US ones, whereas we assumed (and still assume) a 20-30% discount (and the other analysts probably did too).

**Fig. 2: BG estimates vs GEN's revised guidance**

DKKm	Previous guidance	Revised guidance	BG estimates
Revenues (including milestones)	925 - 975	975 - 1,025	1,042
Operating expenses	775 - 825	800 - 850	801
Operating income	125 - 175	150 - 200	240
Cash position at year end	3,400 - 3,500	3,550 - 3,650	3,571

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

**VALUATION**

- **BUY rating reiterated with a FV of DKK1,600...** Knowing that our valuation could be increased to DKK2,050 in a best-case scenario (see our recent note [here](#) for further details).

**NEXT CATALYSTS**

- November 10: Capital Markets Day.
- Q4 2016: Dara's label expansion (multiple myeloma, second-line as part of a combination regimen).
- 2016 ASH meeting (December 3-6): Follow-up data from the CASTOR and POLLUX studies + Dara's Phase II data in NHL (non-Hodgkin Lymphomas).

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## BG's Wake Up Call

# 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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## BRYAN, GARNIER & CO

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