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11th August 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	18495.66	-0.20%	+6.14%
S&P 500	2175.49	-0.29%	+6.44%
Nasdaq	5204.58	-0.40%	+3.94%
Nikkei	16735.12	-0.18%	-12.08%
Stoxx 600	343.978	-0.20%	-5.97%
CAC 40	4452.01	-0.36%	-3.99%
Oil /Gold			
Crude WTI	41.71	-2.48%	+12.12%
Gold (once)	1344.7	+0.34%	+26.57%
Currencies/Rates			
EUR/USD	1.1163	+0.46%	+2.76%
EUR/CHF	1.0906	-0.08%	+0.29%
German 10 years	-0.168	+19.29%	-126.51%
French 10 years	0.106	-22.21%	-89.17%
Euribor	-	+-%	+-%

Economic releases :

Date	
11th-Aug	US - Initial Jobless Claims Aug. (265K E) US - Continuing Claims Jul. (2130K E) CAD - New Housing Price Index Jun.

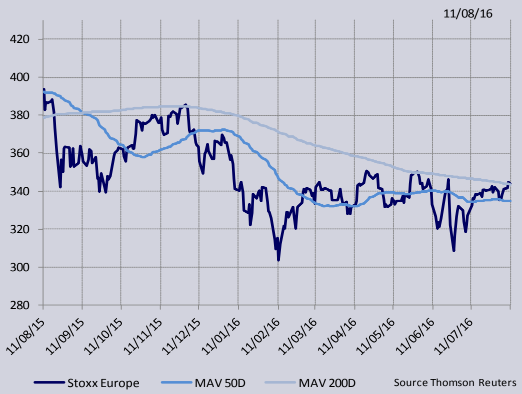
Upcoming BG events :

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



RWE — NEUTRAL, Fair Value EUR9.5 (-37%)

A H1-16 EBITDA down 5% YoY and 5.4% below market expectations

RWE posted this morning poor H1-16 metrics as expected, despite solid growth coming from regulated activities and despite recovery on its UK supply activities. On almost all metrics, consensus was too high by around 5-6% putting potentially current market expectations for 2016 at risk. Despite that, 2016 targets have been reiterated for the group, as well as for Innogy. We maintain our Neutral rating with FV unchanged at EUR9.5 and still see as unjustified the recent share price surge.

In brief...

AEGON, ***Disappointing Q2 operating numbers but ongoing efforts on capital mgt. and dividend***

GENMAB, ***An ex-oncology deal with Gilead further validating the bispecific platform***

ZURICH INSURANCE GROUP, ***Strong Q2, driven by P&C. Waiting for 17th Nov. Investors' Day***

Utilities

RWE

Price EUR15.05

A H1-16 EBITDA down 5% YoY and 5.4% below market expectations

Fair Value EUR9.5 (-37%) **NEUTRAL**

Bloomberg	RWE GR
Reuters	RWEG.DE
12-month High / Low (EUR)	18.6 / 9.2
Market Cap (EUR)	9,092
Ev (BG Estimates) (EUR)	46,626
Avg. 6m daily volume (000)	4,749
3y EPS CAGR	

	1 M	3 M	6 M	31/12/15
Absolute perf.	1.1%	26.9%	33.6%	28.5%
Utilities	-0.1%	0.1%	5.9%	-3.8%
DJ Stoxx 600	5.1%	2.3%	9.1%	-6.0%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	48,599	48,259	48,337	48,416
% change		*-0.7%*	*0.2%*	*0.2%*
EBITDA	7,017	5,461	5,543	5,234
EBIT	3,837	3,002	3,095	2,820
% change		*-21.8%*	*3.1%*	*-8.9%*
Net income	-170.0	483.0	533.8	361.4
% change		*NS*	*10.5%*	*-32.3%*

	2015	2016e	2017e	2018e
Operating margin	7.9	6.2	6.4	5.8
Net margin	-0.3	1.0	1.1	0.7
ROE	-19.0	8.3	9.3	7.7
ROCE	6.4	5.0	5.2	4.9
Gearing	186.2	200.8	206.8	217.3

(EUR)	2015	2016e	2017e	2018e
EPS	-0.28	0.79	0.87	0.59
% change	*-*	*NS*	*10.5%*	*-32.3%*
P/E	NS	19.1x	17.3x	25.6x
FCF yield (%)	NM	NM	9.7%	10.5%
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	0.9x	1.0x	1.0x	1.0x
EV/EBITDA	6.5x	8.5x	8.4x	8.9x
EV/EBIT	11.9x	15.5x	15.1x	16.5x

RWE posted this morning poor H1-16 metrics as expected, despite solid growth coming from regulated activities and despite recovery on its UK supply activities. On almost all metrics, consensus was too high by around 5-6% putting potentially current market expectations for 2016 at risk. Despite that, 2016 targets have been reiterated for the group, as well as for Innogy. We maintain our Neutral rating with FV unchanged at EUR9.5 and still see as unjustified the recent share price surge.

ANALYSIS

- **Main H1-16 metrics:** EBITDA came out at **EUR3bn** down 5% compared with last year and **missed by 5.4% consensus expectations** while adjusted operating income is down 7% and is 5.8% below market expectations. As expected most of the earnings drop is coming from **1/**lower earning from trading activities, **2/**from increased costs to operate and maintain the distribution grid at group's infrastructure business, and **3/**from lower revenues at group's renewables business due to lower wholesale prices and to negative base effect with last year (book gain from disposals). The group benefited also from positive earnings growth generated by its power and gas supply division thanks notably to the recovery of the UK business. All in all group' adjusted net income (restated from provisions and negative non operating elements) is up 10% to **EUR598m** while consensus was expecting EUR634m. Net debt is up compared with end 2015, by **EUR2.8bn** to **EUR28.3bn** due notably to lower operating cash flow generation and to a EUR2bn surge in pension, nuclear and mining provisions (change in interest/discount rates).
- **What to retain from this publication**? **1/**H1-16 metrics are **5-6%** below market expectations, all almost all metrics, **2/**Despite this poor year's start **the group confirmed its guidance for 2016** and then still targets to generate an EBITDA between **EUR5.2bn** and **EUR5.5bn** (consensus is currently at EUR5.4bn) and an operating result of **EUR2.8bn-3.1bn** (consensus is at EUR3bn). The guidance implies a lower H2 compared with H1. **3/**Targets for new entity Innogy was also reiterated with the group targeting to generate an EBITDA of around **EUR4.1-4.4bn** fueled mainly by the solid performance coming from grid business. Group's management indicated the preparation for the IPO is well on track. **4/**Despite all discussions, a consensus has not been found yet between German government and RWE and other utilities about the way to finance the nuclear exit, putting in our view group's current EV at risk.
- **Conclusion:** As for E.ON, group's performance for the first semester is poor, yet is not poor enough to put group's guidance at risk. Yet given the 5-6% miss compared with market expectations we expect a negative earnings adjustment on 2016 market expectations. As of today the risk on nuclear dismantling costs remain important, and could still alter significantly group's balance sheet despite all investors's recent attractiveness for Innogy. At this stage we confirm the Hold rating with FV unchanged at EUR9.5 per share. The recent share price surge is in our view not justified.

VALUATION

- At current share price, RWE is trading at 8.5x its 2016e EV/EBITDA multiple
- Neutral, FV @ EUR9.5

NEXT CATALYSTS

- 14th November 2016: Q3-16 results:

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Analyst :
Xavier Caroen
33(0) 1.56.68.75.18
xcaroen@bryangarnier.com

Sector Team :
Pierre-Antoine Chazal

Insurance

Aegon

Price EUR3.85

Disappointing Q2 operating numbers but ongoing efforts on capital mgt. and dividend

Fair Value EUR6 (+56%) **NEUTRAL**

Bloomberg	AGN NA
Reuters	AEGN.AS
12-month High / Low (EUR)	6.9 / 3.0
Market Cap (EUR)	8,303
Avg. 6m daily volume (000)	10,063

	1 M	3 M	6 M	31/12/15
Absolute perf.	16.6%	-21.1%	-12.3%	-26.4%
Insurance	10.4%	-3.0%	0.9%	-18.0%
DJ Stoxx 600	5.1%	2.3%	9.1%	-6.0%

	2015	2016e	2017e	2018e
P/E	5.3x	5.3x	5.0x	
Div yield (%)	6.5%	7.1%	7.9%	

ANALYSIS

- Q2 2016 net income is –EUR385m, pretty much in line with consensus (-EUR355m), mainly driven by the expected book loss on divestment of UK annuity book and fair value items.
- Q2 operating profit is EUR435m, down 14% yoy, below consensus (EUR481m), with higher earnings from Europe (up 15%, in line with consensus) more than offset by the Americas (down 24% on adverse claims experience, low interest rates and lower variable annuity earnings).
- The Americas will experience a new set of restructuring actions to deal with this recurring disappointing operating performance, including cost discipline, portfolio review and disposal of non-core assets.
- Q2 new life sales down 11% considering the current rate environment is not favourable to grow the business. Q2 NBV is EUR100m, down 46% yoy, mainly driven by lower interest rates on both sales and margins.
- Solvency II margin at end-June is 158% (consensus 154%) vs. 155% at end-March and 160% at end-2015, as strong management actions (including the UK annuity book divestment) offset adverse market impacts.
- The interim dividend is up 8% to EUR0.13 (i.e. 6.8% annualised yield at current share price). The dilutive effect of stock dividend will be neutralize.

VALUATION

- Based on our current estimates, our SOTP valuation is EUR6.

NEXT CATALYSTS

- Q3 2016 numbers on November 10th.

Olivier Pauchaut, opauchaut@bryangarnier.com

Healthcare

Genmab

Price DKK1,167

Bloomberg	GEN DC
Reuters	GEN.CO
12-month High / Low (DKK)	1,266 / 548.0
Market Cap (DKKm)	69,826
Avg. 6m daily volume (000)	466.2

	1 M	3 M	6 M	31/12/15
Absolute perf.	-2.9%	16.9%	73.1%	27.2%
Healthcare	-0.7%	6.0%	10.9%	-5.5%
DJ Stoxx 600	5.1%	2.3%	9.1%	-6.0%

	2015	2016e	2017e	2018e
P/E	NS	NS	NS	56.5x
Div yield (%)	NM	NM	NM	NM

An ex-oncology deal with Gilead further validating the bispecific platform

Fair Value DKK1600 (+37%) **BUY**

ANALYSIS

- **Genmab has inked a collaboration agreement with Gilead to create a DuoBody (bispecific antibody) to treat HIV**. Under the terms of the agreement, 1/ GEN will receive an upfront payment of USD5m, as well as up to USD277m milestones payments and single-digit royalties; 2/ Gilead has an option to obtain a second exclusive option (and we believe this might involve another therapeutic field, e.g. NASH, inflammation).
- **The potential targeted antigens were not disclosed**, but we note that gp120, gp41 and CD4 are targets for which the industry has paid a particular attention recently.
- **We see this as another strong validation of the attractiveness of GEN's bispecific platform**… Knowing that several other collaborations have been concluded over the past few years, in oncology and potentially other fields (e.g. inflammation, and perchance haemophilia).

VALUATION

- **BUY rating reiterated with a FV of DKK1,600.**

NEXT CATALYSTS

- November, 10: Capital market day
- Q4: ASH meeting + Daratumumab's label expansion to the second-line of myeloma as part of a combination regimen.

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Mickael Chane Du, mchanedu@bryangarnier.com

Insurance

Zurich Insurance Group

Price CHF242.90

Bloomberg	ZURN VX
Reuters	ZURN.VX
12-month High / Low (CHF)	291.6 / 196.0
Market Cap (CHF)	36,564
Avg. 6m daily volume (000)	685.9

	1 M	3 M	6 M	31/12/15
Absolute perf.	6.1%	12.9%	18.2%	-6.0%
Insurance	10.4%	-3.0%	0.9%	-18.0%
DJ Stoxx 600	5.1%	2.3%	9.1%	-6.0%

	2015	2016e	2017e
P/E	18.9x	10.4x	9.8x
Div yield (%)	6.8%	6.8%	6.8%

Strong Q2, driven by P&C. Waiting for 17th Nov. Investors' Day

Fair Value CHF270 (+11%) **NEUTRAL**

ANALYSIS

- Q2 2016 net income came at USD739m, down 12% yoy, consensus (USD710bn), mainly driven by lower capital gains, restructuring charges and a higher tax rate. Q2 operating profit came at USD1,107m, up 17% yoy, way above consensus (USD0.9bn), driven by P&C.
- Operating profit in P&C was USD663m, up 44% yoy, driven by the underwriting performance and FX gains. The reported combined ratio is 99.0% vs. 100.0% in Q2 2015, but excluding natcats (5.8 points vs. 3.4 points) and run-offs (1.5 point vs. 1.3 point), the underlying combined ratio was 94.7% vs. 97.9% in Q2 2015, which is more in line with competition following a terrible 2015.
- Operating profit in Life was down 2% yoy to USD349m. NBV margin was 24.0% vs. 18.7% in Q2 2015. Inflows were USD2.2bn vs. USD1.6bn in Q2 2015.
- Operating profit at Farmers was up 2% to USD335m, mainly driven by the Management Services (up 6% to USD350m) whereas Reinsurance is slightly negative (108.4% combined ratio).
- Annualised H1 RoI was 3.8% vs. 4.0% in H1 2015.
- Solvency (internal model) at end-June was 107% vs. 108% at end-March and 121% at end-2015, driven by poor financial markets, and still within the 100-120% targeted range. Total cash remittances for the 2014-2016 are still on track to exceed USD10bn, which is good news for the dividend.

VALUATION

- Based on our current estimates, our SOTP valuation is CHF270.

NEXT CATALYSTS

Olivier Pauchaut, opauchaut@bryangarnier.com

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%

Bryan Garnier Research Team

Healthcare Team	**Pharmaceuticals**	**Eric Le Berrigaud** ***(Head of Equities)***	33 (0) 1 56 68 75 33	eleberrigaud@bryangarnier.com
	Biotech/Medtech	**Mickael Chane-Du**	33 (0) 1 70 36 57 45	mchanedu@bryangarnier.com
	Medtech/Biotech	**Hugo Solvet**	33 (0) 1 56 68 75 57	hsolvet@bryangarnier.com
Consumer Team	**Luxury/Consumer Goods**	**Loïc Morvan**	33 (0) 1 70 36 57 24	lmorvan@bryangarnier.com
	Beverages	**Nikolaas Faes**	33 (0) 1 56 68 75 72	nfaes@bryangarnier.com
	Retailing	**Antoine Parison**	33 (0) 1 70 36 57 03	aparison@bryangarnier.com
	Luxury /Consumer Goods	**Cedric Rossi**	33 (0) 1 70 36 57 25	crossi@bryangarnier.com
	Food & Beverages	**Virginie Roumage**	33 (0) 1 56 68 75 22	vroumage@bryangarnier.com
TMT	**Video Games / Payments**	**Richard-Maxime Beaudoux**	33 (0) 1 56 68 75 61	rmbeaudoux@bryangarnier.com
	Telecom	**Thomas Coudry**	33(0) 1 70 36 57 04	tcoudry@bryangarnier.com
	Software & IT Services	**Gregory Ramirez**	33 (0) 1 56 68 75 91	gramirez@bryangarnier.com
	Semiconductor	**Dorian Terral**	33 (0) 1 56 68 75 92	dterral@bryangarnier.com
Utilities		**Xavier Caroen**	33 (0) 1 56 68 75 18	xcaroen@bryangarnier.com
		Pierre-Antoine Chazal	33 (0) 1 56 68 75 06	pachazal@bryangarnier.com
Insurance		**Olivier Pauchaut** ***(Head of Research)***	33 (0) 1 56 68 75 49	opauchaut@bryangarnier.com
Hotels/Business Services		**Bruno de La Rochebrochard**	33 (0) 1 56 68 75 88	bdelarochebrochard@bryangarnier.com
Construction/ Infrastructures Building Materials		**Eric Lemarié**	33 (0) 1 70 36 57 17	elemarie@bryangarnier.com
Marketing		**Sophie Braincourt**	33(0) 1 56 68 75 36	sbraincourt@bryangarnier.com
Market Data & Information Systems Manager		**Eric Monnier**	33(0) 1 56 68 75 63	emonnier@bryangarnier.com

London
Beaufort House
15 St. Botolph Street
London EC3A 7BB
Tel: +44 (0) 207 332 2500
Fax: +44 (0) 207 332 2559
Authorised and regulated by the Financial Conduct Authority (FCA)

Paris
26 Avenue des Champs Elysées
75008 Paris
Tel: +33 (0) 1 56 68 75 00
Fax: +33 (0) 1 56 68 75 01
Regulated by the Financial Conduct Authority (FCA) and the Autorité de Contrôle prudential et de resolution (ACPR)

New York
750 Lexington Avenue
New York, NY 10022
Tel: +1 (0) 212 337 7000
Fax: +1 (0) 212 337 7002
FINRA and SIPC member

Munich
Widenmayerstrasse 29
80538 Munich
Germany
+49 89 2422 62 11

New Delhi
The Imperial Hotel Janpath
New Delhi 110 001
Tel +91 11 4132 6062
+91 98 1111 5119
Fax +91 11 2621 9062

Geneva
rue de Grenus 7
CP 2113
Genève 1, CH 1211
Tel +4122 731 3263
Fax+4122731 3243
Regulated by the FINMA

BRYAN, GARNIER & CO