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18th August 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	18552.02	-0.45%	+6.47%
S&P 500	2178.15	-0.55%	+6.57%
Nasdaq	5227.11	-0.66%	+4.39%
Nikkei	16486.01	-1.55%	-12.80%
Stoxx 600	343.318	-0.79%	-6.15%
CAC 40	4460.44	-0.83%	-3.81%
Oil /Gold			
Crude WTI	45.74	0.00	+22.96%
Gold (once)	1348.07	+0.45%	+26.89%
Currencies/Rates			
EUR/USD	1.126	+0.56%	+3.65%
EUR/CHF	1.08495	-0.32%	-0.23%
German 10 years	-0.089	-30.51%	-114.08%
French 10 years	0.19	+25.27%	-80.63%
Euribor	-	+-%	+-%

Economic releases :

Date	
18th-Aug	GBP - Retail Sales Jul. (3.9% YOY E) EUR - Euro-Zone Consumer Price Index (0.1% YOY E) USD - Initial Jobless Claims Aug. (265k E) USD - Continuing Claims Aug. (2,141k E)

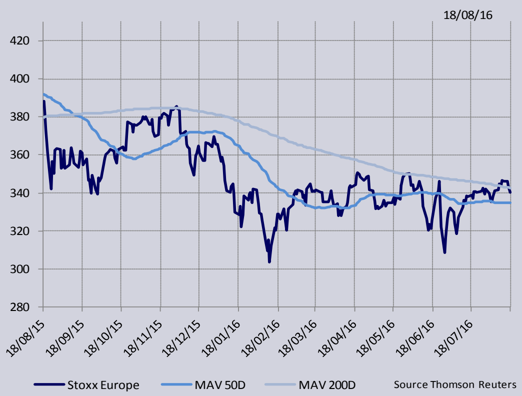
Upcoming BG events :

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



NESTLÉ — BUY, Fair Value CHF80 (+1%)

Pricing slowing down

This morning, Nestlé reported Q2 sales in line with consensus in reported and slightly below in organic. Sales amounted to CHF22,221m (consensus: CHF22,294m and our estimate: CHF22,059m), up 1.4% in reported and 3.1% in organic. The EBIT margin increased 30bps both in reported and in constant currencies to 15.3% (consensus and our estimate: 15.2%), reflecting a tailwind coming from input costs. The group confirmed its full year outlook and said that pricing should recover in the coming months from the historically low level in H1. It seemed to be confident, excluding for China which was reported to have slowed down in Q2.

CONSTRUCTION & MATERIALS

Q2 earning seasons review - Where is my upside gone?

Earning season for the sector has been positive, so far, for our coverage. Companies appeared to be properly managed, with usually improved profitability. Difficulties have not disappeared though, like macro uncertainties in Europe, a deflationist environment and sometimes poor volumes – but companies can deal with them. While French Contractors remain safe harbour, cement majors might benefit from a better momentum from some Emerging Markets. Saint-Gobain offers the most upside.

ENVIRONMENTAL SERVICES

Q2 earning season review: toward strategies' convergence…again

As expected, both Suez and Veolia are still bearing the brunt of a challenging macro environment which has negatively impacted their traditional water and waste businesses in H1-16. We however still appreciate the resilience of the company's margins whose main driver remains companies' abilities to deliver their respective cost-savings programme. We believe these savings combined with strong international developments will be the two pillars of a new strategies' convergence between both companies. We maintain our Buy rating on both stocks while leaving our FV unchanged (EUR17.5 for Suez and EUR23.5 for Veolia).

Food & Beverages

Nestlé

Price CHF78.95

Bloomberg	NESN VX
Reuters	NESZn.VX
12-month High / Low (CHF)	79.9 / 68.4
Market Cap (CHF)	245,705
Ev (BG Estimates) (CHF)	256,575
Avg. 6m daily volume (000)	5 579
3y EPS CAGR	7.0%

	1 M	3 M	6 M	31/12/15
Absolute perf.	1.4%	8.2%	8.1%	5.9%
Food & Bev.	0.4%	4.4%	7.0%	0.8%
DJ Stoxx 600	1.6%	2.6%	7.2%	-6.1%

YEnd Dec. (CHFm)	2015	2016e	2017e	2018e
Sales	88,785	89,899	93,836	99,476
% change		*1.3%*	*4.4%*	*6.0%*
EBITDA	17,210	17,958	19,023	20,316
EBIT	13,382	13,968	14,902	16,083
% change		*4.4%*	*6.7%*	*7.9%*
Net income	10,351	10,901	11,701	12,631
% change		*5.3%*	*7.3%*	*7.9%*

	2015	2016e	2017e	2018e
Operating margin	15.1	15.5	15.9	16.2
Net margin	11.7	12.1	12.5	12.7
ROE	16.6	16.7	17.5	18.0
ROCE	12.5	12.9	14.1	15.4
Gearing	0.9	0.6	0.4	0.1

(CHF)	2015	2016e	2017e	2018e
EPS	3.30	3.49	3.75	4.05
% change	-	*5.9%*	*7.3%*	*7.9%*
P/E	23.9x	22.6x	21.1x	19.5x
FCF yield (%)	4.0%	4.2%	4.5%	4.8%
Dividends (CHF)	2.25	2.30	2.35	3.35
Div yield (%)	2.8%	2.9%	3.0%	4.2%
EV/Sales	2.9x	2.9x	2.7x	2.5x
EV/EBITDA	15.2x	14.3x	13.3x	12.2x
EV/EBIT	19.5x	18.4x	17.0x	15.4x

Pricing slowing down

Fair Value CHF80 (+1%) **BUY**

This morning, Nestlé reported Q2 sales in line with consensus in reported and slightly below in organic. Sales amounted to CHF22,221m (consensus: CHF22,294m and our estimate: CHF22,059m), up 1.4% in reported and 3.1% in organic. The EBIT margin increased 30bps both in reported and in constant currencies to 15.3% (consensus and our estimate: 15.2%), reflecting a tailwind coming from input costs. The group confirmed its full year outlook and said that pricing should recover in the coming months from the historically low level in H1. It seemed to be confident, excluding for China which was reported to have slowed down in Q2.

ANALYSIS

- **Pricing growth decelerating.** In Q2 sales were up 1.4% to CHF22,221m (consensus: CHF22,294m and our estimate: CHF22,059m). In organic, they rose 3.1% (consensus: +3.6% and our estimate: +3.7%), below the Q1 trend (+3.9%) and mainly driven by volumes/mix (+2.6% in Q2). The pricing continued to slow down, only up 0.7% after +0.9% in Q1. This is contrary to Nestlé's comments at the release of the Q1 sales but is not surprising given the deflationary environment in a number of markets, the tough comparison base (price increases in Latam and Eastern Europe) and the lack of rebound in commodity prices.
- **EBIT margin up 30bps.** The H1 EBIT came out in line with market expectations. It increased 2.6% to CHF6,603m (consensus: CHF6,554m and our estimate: CHF6,548m), implying a margin of 15.3%, (consensus and our estimate: 15.2%), up 30bps both in reported and in constant currencies thanks to a tailwind coming from input costs. Underlying EPS rose 5.8% in reported and 5.7% ex-FX to CHF1.65.
- **No change in trend in Americas despite negative technical effects.** This division (29% of group's sales) posted 5.2% organic sales growth in Q2 (after +5% in Q1) driven by frozen meals, Coffee-mate and petcare. Latin America was resilient despite the poor macro background and the low dairy prices in Brazil.
- **Q2 organic sales in Europe/Middle East/North Africa (18% of group's sales) slowed down.** Q2 sales increased 2.0% organically, impacted by the pressure from retailers in Europe, the low commodity prices (coffee and dairy) and the political instability in countries of the Middle East.
- **China still weighing on Asia/Oceania/Sub-Saharan Africa (17% of group's sales).** Q2 organic sales were up 2.5% after +2.1% in Q1. The group reported a significant slowdown in the food and beverage market in China and said it remained focused in improving its Yinlu business. The comparison base remains difficult in India as Maggi noodles were recalled in mid Q2.
- **In the other divisions.** Sales of Nestlé Nutrition (13% of groups's sales) were flat in Q2 due to China and the US. Waters (9% of group's sales) continued to be solid, with organic sales up 3.3%. Finally, sales of Other Businesses (16% of group's sales) rose 3.3% driven by double digit growth at Nestlé Health Science.
- **2016 guidance confirmed.** The group aims to achieve organic sales growth in 2016 in line with 2015, that-is-to-say +4.2%, with improvement in margin and underlying earnings per share in constant currencies. The company also indicated that pricing should recover somewhat in the coming months.

VALUATION

- We maintain our estimates before the conference call at 8h30 am CEST. Our DCF currently points to a Fair Value of CHF80.

NEXT CATALYSTS

- Q3 2016 sales in October: Unilever on 13th, Danone on 18th and Nestlé on 20th

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Sector View

Construction & Materials

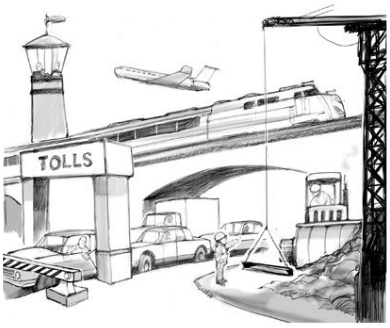
Q2 earning seasons review - Where is my upside gone?

	1 M	3 M	6 M	31/12/15
Cons & Mat	6.9%	6.4%	16.5%	4.5%
DJ Stoxx 600	1.6%	2.6%	7.2%	-6.1%

*Stoxx Sector Indices

Companies covered

CRH		**BUY**	**EUR30**
Last Price	EUR29.06	*Market Cap.*	EUR24,112m
EIFFAGE		**BUY**	**EUR73**
Last Price	EUR69.89	*Market Cap.*	*EUR6,855m*
HEIDELBERGCEMENT		**BUY**	**EUR86**
Last Price	EUR81.14	*Market Cap.*	*EUR16,099m*
IMERYS		**BUY**	**EUR72**
Last Price	EUR64.05	*Market Cap.*	*EUR5,097m*
LAFARGEHOLCIM		**BUY**	**CHF50**
Last Price	CHF51.4	*Market Cap.*	*CHF31,195m*
SAINT GOBAIN		**BUY**	**EUR46**
Last Price	EUR39.035	*Market Cap.*	*EUR21,661m*
VICAT		**NEUTRAL**	**EUR56**
Last Price	EUR57	*Market Cap.*	*EUR2,559m*
VINCI		**BUY**	**EUR72**
Last Price	EUR67.6	*Market Cap.*	*EUR40,262m*



Earning season for the sector has been positive, so far, for our coverage. Companies appeared to be properly managed, with usually improved profitability. Difficulties have not disappeared though, like macro uncertainties in Europe, a deflationist environment and sometimes poor volumes – but companies can deal with them. While French Contractors remain safe harbour, cement majors might benefit from a better momentum from some Emerging Markets. Saint-Gobain offers the most upside.

ANALYSIS

- French contractors remain a specific type of investment within the sector, with a significant exposure to toll roads (two thirds of EBIT) and infrastructures (half of sales or more). Toll roads traffic at end June is strong (+3.3% for Vinci Autoroutes, +4.1% for APRR) and Vinci has recently lift its FY guidance to 2.5% (vs less than 2% implicit previously). Even with limited price effect (less than 1.5%e for cars on 1st February 2016), EBITDA margin are likely to continue to improve. On the Contracting side, Vinci said to stand now at the trough of the cycle for French roadworks, while it might appear relatively soon for the other segments. On the valuation side, upsides are more limited but Vinci newsflow is likely to be filled with new M&A in energy and new concession projects. All in all, French Contractors remain safe harbours in difficult times.

- Unlike most of the cement players, CRH has not reported interim figures yet but has already indicated H1 2016 EBITDA should be close to cEUR1.1bn vs EUR1bn previously guided, presumably benefited from its unique exposure to North America (c60% of the EBITDA PF). Recent rumours regarding the possible inclusion of CRH into the EuroStoxx50 index has helped too. Hence share price has been strong this year (+9%), significantly reducing the upside. The three other cement players under coverage have all reported good Q2 figures, with usually significant EBITDA margin improvement. Comments on the US markets are usually positive (cement shipments up 7.3% at end June, housing starts up 5.6% y/y at end July), with good momentum for prices. In LatAm, situation is more contrasted, with some positive trends in Mexico and some prices increase in Colombia or Argentina but of course situation is complicated for Brazil. Africa-Middle East region trends are mixed, with some difficulties in Nigeria (currency, security), illustrated by very poor figure for Dangote Cement in Q2 2016 (EBITDA margin at 40% vs 59% in Q2 2015) but better trends in some country like Egypt or Algeria. Finally, in Asia, India market continue to recover with good volumes in H1 for Vicat (+28%) but more subdued for LHN (+1.5%) due to pricing policy, and overall decent outlook. Indonesia looks more complicated with volumes increase but not everywhere (not within the Heidelberg footprint for instance). It worth underlying Italcementi H1 2016 EBITDA performance was poor, down 7.6% at EUR300m, which is a negative read-across for HEI. It worth underlying however than HEI has announced this morning the disposal of the Martinsburg Cement Plant in the US, in order to comply with anti-trust demands and its EUR1bn disposal target has been now exceeded.

- Both Saint-Gobain and Imerys have reported well-oriented Q2 results, although Imerys is still penalised by very modest volumes trends (-3.3% in Q2). We have been reassured by comments of SGO regarding the new-built activity in France, which "showed the first signs of improvement" (Nexity has reported reservations up +38% in H1 2016, housing starts are up 5% rolling-12 months at end June), but the share price reaction has been limited (1.7% on 29 July), probably penalised by unchanged comments for the French renovation and a disappointing publication for the French GDP in Q2 (0%) on the same day. France represents a quarter of SGO sales. SGO and NK are the two stocks for which we still got some decent upside.

Revenues organic growth and operating margin in the first two quarters

y/y	HEI	NK	LHN	SGO	VCT	DG
Q1 sales organic growth (%)	1.0%	-1.8%	0.1%	1.8%	6.5%	-3.3%
Q2 sales organic growth (%)	1.0%	-2.6%	-2.1%	3.8%	2.5%	-1.9%
Q1 EBITDA/EBIT margin (bps)*	70	30	-280	nc	nc	nc
Q2 EBITDA/EBIT margin (bps)*	140	100	210	nc	nc	nc
H1 EBITDA/EBIT margin (bps)*	110	70	-10	60	50	120

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

NEXT CATALYSTS

- CRH to report interim results on 25 August and Eiffage on 31th August.

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Sector View

Environmental Services

Q2 earning season review: toward strategies' convergence…again

	1 M	3 M	6 M	31/12/15
Utilities	-2.7%	0.4%	4.3%	-4.5%
DJ Stoxx 600	1.6%	2.6%	7.2%	-6.1%

*Stoxx Sector Indices

Companies covered

AMOEBA			
Last Price	EUR29,6	*Market Cap.*	EUR177m
PENNON GROUP		**SELL**	**830p**
Last Price	890,5p	*Market Cap.*	*GBP3,676m*
SUEZ		**BUY**	**EUR17,5**
Last Price	EUR13,945	*Market Cap.*	*EUR7,592m*
VEOLIA ENVIRONNEMENT		**BUY**	**EUR23,5**
Last Price	EUR19,685	*Market Cap.*	*EUR11,090m*

As expected, both Suez and Veolia are still bearing the brunt of a challenging macro environment which has negatively impacted their traditional water and waste businesses in H1-16. We however still appreciate the resilience of the company's margins whose main driver remains companies' abilities to deliver their respective cost-savings programme. We believe these savings combined with strong international developments will be the two pillars of a new strategies' convergence between both companies. We maintain our Buy rating on both stocks while leaving our FV unchanged (EUR17.5 for Suez and EUR23.5 for Veolia).

ANALYSIS

- **Cost-savings as main growth driver**: as expected, cost-savings remain the main driver for both companies' EBITDA growth. We have been quite impressed by **Veolia**'s performance over the first half of the year as the company reached EUR121m of costs-savings, ahead of its annual objective (EUR200m per year in 2016, 2017 and 2018). As for **Suez**, we appreciate the additional EUR30m cost-savings announced by the company which increases the company's annual objective upgrade to EUR180m for 2016 (still EUR150m for 2017). Suez also announced it aims to **speed up its transformation plan** whose details should be unveiled during Q3 2016 results, which could create a **positive momentum** on the stock. We understand from management that mobility and formation actions could be envisaged without any additional details disclosed for now.
- **Strong international developments**: Both companies are on their way to offset the rather challenging macro environment in their traditional European water (low inflation) and waste (still flattish industrial production) businesses by strong international developments. **We bet on a stronger growth for Veolia in H2-16 and in 2017** as the company will benefit from new international revenues' sources from **a mix of bolt-on acquisitions** (Chemours assets, Kurion) **and contracts** (industrial water with Sinopec) which should represent c. 2.0% of the company's 2017e revenues. Suez still expects to annually grow by 6% to 8% in its international businesses between 2016 and 2018. The company posted a 11.6% organic growth in the division in H1-16, which led us to revise upward our estimates (+9.7% and +7.5% organically in 2016 and 2017 in the division vs. + 6.7% and +6.8% before) in our previous note.
- **Conclusion**: As Suez put aside its 2017 EBITDA ambition – which were based on M&A – **we believe both companies' strategies will now converge again through self-help measures and strong international developments**. Additionally, we remain confident over the ability of both companies to **reach their respective guidance for 2016**: (EUR600m of adjusted net income for Veolia; revenues' organic growth higher than 2% and EBIT's organic growth higher than revenues' growth for Suez). **We maintain therefore our Buy rating on Suez** (FV @ EUR17.5) **and Veolia** (FV @ EUR23.5). **Veolia remains our Top Pick within the sector for Q3-16.**

VALUATION

- At current share price, **Suez** and **Veolia** are respectively trading at **7.0x** and **6.6x 2016e EV/EBITDA**.
- **Suez**: Buy, FV @ EUR17.5
- **Veolia**: Buy, FV @ EUR23.5 – Top Picks

NEXT CATALYSTS

- **27th October:** Suez's Q3 2016 results
- **3rd November:** Veolia's Q3 2016 results

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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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