



23rd August 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	18529.42	-0.12%	+6.34%
S&P 500	2182.64	-0.06%	+6.79%
Nasdaq	5244.6	+0.12%	+4.74%
Nikkei	16497.36	-0.61%	-12.80%
Stoxx 600	340.434	+0.09%	-6.94%
CAC 40	4389.94	-0.24%	-5.33%
Oil /Gold			
Crude WTI	46.86	-3.42%	+25.97%
Gold (once)	1338.71	-0.50%	+26.01%
Currencies/Rates			
EUR/USD	1.13295	+0.04%	+4.29%
EUR/CHF	1.08935	+0.26%	+0.18%
German 10 years	-0.146	+50.97%	-123.07%
French 10 years	0.142	-21.51%	-85.53%

Economic releases :

Date	
23rd-Aug	JP - PMI Mfg (AUG 49.6A, 49.3P) FR - PMI Services Aug. (50.5E) DE - PMI Services Aug. (54.3E) DE - PMI Mfg Aug. (53.6E) US - Mfg PMI Aug. (52.7E) US - New home sales Jul (580K E, 592K P)

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



HEINEKEN

BUY, Fair Value EUR88 vs. EUR90 (+11%)

On the road with Anna

Heineken's stock has shown some weakness since first half figures were published, with the company guiding towards a tougher second half in terms of comparables and currencies. However, nothing has changed in terms of fundamentals (well diversified, high emerging markets exposure, most premium portfolio) and we believe the current share price is an attractive Buy opportunity.

In brief...

SANOFI, Still looking for a match

In the end, Medivation will fall into Pfizer's hands, the two companies having entered into a definitive merger agreement under which MDVN will be acquired for USD81.50 per share (hence a total value of c.USD14Bn). This is not great news for Sanofi as the acquisition would have 1/ dramatically boosted its lagging oncology franchise; and 2/ boosted EPS and value (even when assuming a USD15bn deal).

Food & Beverages

Heineken

Price EUR79.51

On the road with Anna

Fair Value EUR88 vs. EUR90 (+11%)

BUY

Bloomberg	HEIA NA
Reuters	HEIN.AS
12-month High / Low (EUR)	85.2 / 67.9
Market Cap (EUR)	45,798
Ev (BG Estimates) (EUR)	59,649
Avg. 6m daily volume (000)	631.8
3y EPS CAGR	8.1%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-5.5%	-3.1%	6.5%	0.9%
Food & Bev.	-1.0%	4.0%	5.4%	0.0%
DJ Stoxx 600	0.0%	0.7%	2.6%	-6.9%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	20,511	20,530	21,033	21,595
% change		0.1%	2.4%	2.7%
EBITDA	4,975	5,080	5,412	5,760
EBIT	3,381	3,486	3,694	3,932
% change		3.1%	6.0%	6.4%
Net income	2,048	2,158	2,385	2,586
% change		5.4%	10.5%	8.4%

	2015	2016e	2017e	2018e
Operating margin	16.5	17.0	17.6	18.2
Net margin	10.0	10.5	11.3	12.0
ROE	15.1	14.7	15.0	14.9
ROCE	8.2	8.3	8.8	9.4
Gearing	86.0	74.8	61.9	49.4

(EUR)	2015	2016e	2017e	2018e
EPS	3.57	3.77	4.16	4.51
% change	-	5.4%	10.5%	8.4%
P/E	22.2x	21.1x	19.1x	17.6x
FCF yield (%)	3.7%	3.8%	5.1%	5.7%
Dividends (EUR)	1.11	1.12	1.24	1.34
Div yield (%)	1.4%	1.4%	1.6%	1.7%
EV/Sales	2.9x	2.9x	2.7x	2.6x
EV/EBITDA	12.1x	11.7x	10.7x	9.7x
EV/EBIT	17.8x	17.1x	15.6x	14.2x

Heineken's stock has shown some weakness since first half figures were published, with the company guiding towards a tougher second half in terms of comparables and currencies. However, nothing has changed in terms of fundamentals (well diversified, high emerging markets exposure, most premium portfolio) and we believe the current share price is an attractive Buy opportunity.

On 1st August when Heineken published excellent first half figures (4.2% organic revenue growth and 12.6% organic operating profit growth) we updated provisionally our numbers and increased our Fair Value to EUR90 from EUR83. We have now worked the numbers more in detail and shaved our 2016 and 2017 profit forecasts by about 2% and also lowered our FV to EUR88 (from EUR90). However this is all just fine-tuning and there is no change in the company's underlying strong fundamentals.

ANALYSIS

- Currency drag:** Our forecasts take into account a EUR200m drag on operating profit from adverse currency movements in the Mexican Peso, the Brazilian Real, the British Pound, the Russian Rouble, and the Nigerian Naira. Most of these currency movements should work themselves through by the end of the year, but the impact of the Nigerian Naira, will continue to be felt in 2017 (especially H1). In addition to the impact on operating profit, the Naira devaluation also impacts "Other net financial expenses" by about EUR40m due to its impact on outstanding foreign payables (revaluation of accumulated payables at the floating rate).
- All-in margin expansion of 40bps might prove too conservative:** The company is guiding for operating margin expansion of 40bp (including currency movements and new acquisitions). We are slightly more positive and estimate full year margin expansion at 50bp to 17% from 16.5% as we expect good top-line growth in the high margin Asian business (estimated 31.8% operating margin) and premiumisation in the Americas, to offset margin pressure in the African operations. A 50bp margin expansion over the full year takes into account some margin pressure in the second half (margins were up 124bp in the first half) stemming from 1) tough comps in Europe where volumes surged by 7% in Q3 2015 on the back of excellent weather, 2) tougher comps in the Americas where organic volume growth in Mexico and US started accelerating in the second half of the year, 3) a low single-digit volume decline in Nigeria in the second half compared to mid-single digit growth (as in Q1 2015, volumes declined sharply with the presidential elections). (Of course as Heineken owns only 54% of the Nigerian operations the negative impact of the Naira devaluation and volume weakness is also reflected in lower minorities). Our 50bp growth forecast compares with a 50bp decline in our model for AB InBev and a 10bp decline for Carlsberg.
- Investment thesis confirmed:** Heineken has a well diversified geographic footprint providing balanced growth. For 2016 (and this was also the case in H1), underlying trading conditions in Nigeria (est. 10% of 2015 EBIT) are difficult, but Mexico (est. 11% of 2015 EBIT) is benefiting from a positive economic environment, which high consumer confidence in Vietnam (est. 12% 2015 EBIT) is more than offsetting low consumer confidence in Brazil (est. 1% of 2015 EBIT). The company is also highly geared towards developing markets, which in H1 represented 66% of group volumes, 51% of revenue and 60% of operating profit. Furthermore, the company is number one in high-end beers that account (BG est.) for 36% of volumes and 60% of operating profit compared with 25%/37% at Carlsberg, 17%/30% at AB InBev and 11%/28% at Molson Coors.



VALUATION

- Our Fair Value of EUR88 is based on a risk-free rate of 1.6%, an equity risk premium of 7%, a beta of 0.95x and a long terms growth rate of 3.3%

NEXT CATALYSTS

- 26th October 2016: trading update Q3

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Healthcare

Sanofi

Price EUR69.56

Still looking for a match

Fair Value EUR83 (+19%)

NEUTRAL

Bloomberg	SAN FP
Reuters	SASY.PA
12-month High / Low (EUR)	93.3 / 67.3
Market Cap (EURm)	89,664
Avg. 6m daily volume (000)	2,651

	1 M	3 M	6 M	31/12/15
Absolute perf.	-9.2%	-2.3%	-2.3%	-11.5%
Healthcare	-4.0%	2.8%	4.1%	-7.1%
DJ Stoxx 600	0.0%	0.7%	2.6%	-6.9%

	2015	2016e	2017e	2018e
P/E	12.3x	12.7x	12.6x	11.4x
Div yield (%)	4.2%	4.3%	4.5%	5.0%

ANALYSIS

- In the end, Medivation will fall into Pfizer's hands, the two companies having entered into a definitive merger agreement under which MDVN will be acquired for USD81.50 per share (hence a total value of c.USD14Bn). This is not great news for Sanofi as the acquisition would have 1/ dramatically boosted its lagging oncology franchise; and 2/ boosted EPS and value (even when assuming a USD15bn deal). Obviously, the company won't call it a day and will continue to look for other potential targets in the field (and preferably profitable ones, with a promising development pipeline). And we believe that Regeneron, Incyte or Ariad might attract SAN's interest.
- Rumours have reported interest for Biomarin (market cap of c. USD15Bn) although cancer is not really its main focus... Still, we see some pretty interesting synergies with Genzyme as 1/ BMN's commercial portfolio mainly involves enzyme replacement therapies addressing rare diseases (e.g. Aldurazyme for MPS I); 2/ its development pipeline would give access to some promising early-stage candidates, like BMN 270 (gene therapy developed as a treatment for haemophilia A).
- Note that Shire has been cited as a potential suitor for BMN on numerous occasions... However, we believe management is looking more at smaller targets (< USD5Bn), given its stretched financial ratios following the recent acquisition of Baxalta (2016e net debt/EBITDA: 3.3x).

VALUATION

- Neutral rating reiterated with a FV of EUR83.

NEXT CATALYSTS

- 23rd October: Q3 2016 results.

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BG's Wake Up Call

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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 32.9%

SELL ratings 11.4%

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