



24th August 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	18547.3	+0.10%	+6.44%
S&P 500	2186.9	+0.20%	+6.99%
Nasdaq	5260.08	+0.30%	+5.05%
Nikkei	16597.3	+0.91%	-13.33%
Stoxx 600	343.601	+0.93%	-6.07%
CAC 40	4421.45	+0.72%	-4.65%
Oil /Gold			
Crude WTI	47.65	+1.69%	+28.09%
Gold (once)	1339.69	+0.07%	+26.10%
Currencies/Rates			
EUR/USD	1.13215	-0.07%	+4.22%
EUR/CHF	1.08815	-0.11%	+0.07%
German 10 years	-0.155	+5.64%	-124.37%
French 10 years	0.138	-2.69%	-85.91%

Economic releases :

Date	
24th-Aug	DE - GDP 2Q (1.8%E) GB - Loans for house purchase Jul. US - House price index purchase index US - Existing home sales US - DoE inventories FR - Unemployment rate

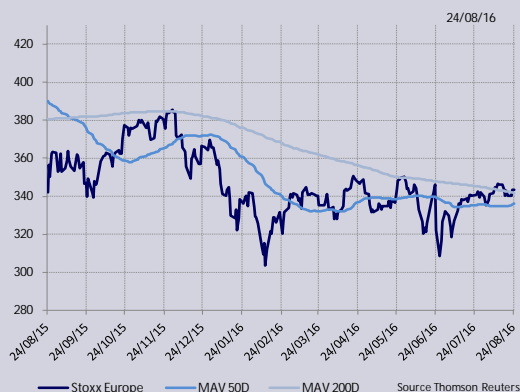
Upcoming BG events :

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



AMS

Coverage initiated, Fair Value CHF29 (-15%)

NEUTRAL

Catching the ball when it bounces - all a question of timing (full report released today)

For ams, 2016 is likely to see a positive upswing in growth momentum. After a difficult H1 (sales down 17.5% yoy), the group is set to restore growth as of H2 while innovation should lead to high growth potential (>15-20%) as of 2017. However, this improvement in momentum already looks fully valued. We advise waiting for a more attractive entry point and are adopting a Neutral recommendation on the share.

DIAGEO

NEUTRAL, Fair Value 2100p (-3%)

Fine-tuning our estimates

On 29th July after Diageo published its full year results, we increased our Fair Value from 1840p to 2100p to take into account the pound devaluation. We now fine-tune our estimates. We expect organic sales and EBIT to grow 3.5% and 4.1% respectively. This compares to previous forecasts of 3.8% and 4.9%. Our Neutral recommendation and Fair Value of 2100p remain unchanged.

In brief...

ASTRAZENECA, Co. continues to divest non-core assets

AstraZeneca announced this morning another significant step in the divestment of non-core assets. It has agreed with Pfizer to sell to the US company its portfolio of small molecules in the field of antibiotics.

GENMAB, Filing for dara's label expansion in the EU... Prepare yourself for further upgrade

Genmab announced that JNJ has submitted a Type II variation application to the EMA to expand daratumumab's use

TMT

ams

Price CHF34.20

Catching the ball when it bounces - all a question of timing (full report released today)

Fair Value CHF29 (-15%)

NEUTRAL

Coverage initiated

For ams, 2016 is likely to see a positive upswing in growth momentum. After a difficult H1 (sales down 17.5% yoy), the group is set to restore growth as of H2 while innovation should lead to high growth potential (>15-20%) as of 2017. However, this improvement in momentum already looks fully valued. We advise waiting for a more attractive entry point and are adopting a Neutral recommendation on the share.

ANALYSIS

- **Return to growth as of H2 2016.** For Q3, the group is forecasting sales of between EUR146 and 153m, or sequential growth of 10-16%, which looks feasible to us (we are forecasting Q3 2016e sales of EUR153m). In addition, we remain confident in the group's ability to generate growth in H2 2016 sales relative to H1 and the previous year (our forecast is for +5.4% yoy). Indeed, ams should benefit from both advantageous comparison with the year-earlier period and positive seasonal factors with the usual recovery in momentum at the end of the year.
- **Environmental, colour and optical sensors to drive growth as of 2017.** In the product portfolio, three components should restore healthy momentum at ams as of 2017: 1/ True Tone sensors (improvement in autonomy and reading comfort for smartphone screens, 2/ optical sensors (enabling connected bracelets/watches to read heart-beats, blood pressure, cholesterol levels and alcohol levels) and 3/ environmental sensors (temperature, humidity, pressure and quality of air, for the automotive, industry and consumer sectors). In all, we believe that these three components should represent additional sales of almost EUR131m by 2018, bringing the group closer to its target for EUR1bn in sales by 2019e.

VALUATION

- **Fully valued.** The share is currently trading on a 2016e P/E multiple of 27.5x (vs peers of 23.5x), and PEG of 2.9x. As such, despite we anticipate a positive change in the group's momentum, we do not consider the current share price a particularly attractive entry point. In view of the share's high volatility, we advise waiting for a better opportunity.
- **We adopt a Neutral recommendation on the share.**

NEXT CATALYSTS

- 24th October 2016: Q3 2016 results

[Click here to download](#)

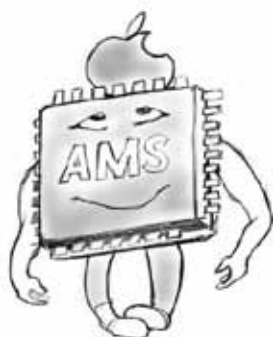
Bloomberg	AMS SW
Reuters	AMS.S
12-month High / Low (CHF)	41.9 / 23.0
Market Cap (CHFm)	2,511
Ev (BG Estimates) (CHFm)	2,711
Avg. 6m daily volume (000)	427.3
3y EPS CAGR	9.4%

	1 M	3 M	6 M	31/12/15
Absolute perf.	22.8%	30.8%	20.4%	1.9%
Semiconductors	2.4%	25.7%	32.0%	19.9%
DJ Stoxx 600	1.0%	2.1%	4.8%	-6.1%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	623.1	582.5	688.2	826.7
% change		-6.5%	18.1%	20.1%
EBITDA	195	146	213	276
EBIT	147.3	86.9	154.8	219.1
% change		-41.0%	78.2%	41.5%
Net income	148.7	83.6	142.3	200.1
% change		-43.8%	70.2%	40.6%

	2015	2016e	2017e	2018e
Operating margin	23.6	14.9	22.5	26.5
Net margin	23.9	14.4	20.7	24.2
ROE	21.8	12.2	17.1	19.4
ROCE	17.0	9.4	16.1	21.5
Gearing	19.3	26.8	1.8	-13.3

(EUR)	2015	2016e	2017e	2018e
EPS	2.08	1.14	1.94	2.73
% change		-45.2%	70.2%	40.6%
P/E	15.1x	27.6x	16.2x	11.5x
FCF yield (%)	3.2%	NM	6.7%	8.0%
Dividends (EUR)	0.31	0.47	0.26	0.44
Div yield (%)	1.0%	1.5%	0.8%	1.4%
EV/Sales	3.9x	4.3x	3.4x	2.6x
EV/EBITDA	12.5x	17.1x	10.9x	7.9x
EV/EBIT	16.6x	28.7x	15.0x	9.9x



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Food & Beverages

Diageo

Price 2,155p

Fine-tuning our estimates

Fair Value 2100p (-3%)

NEUTRAL

On 29th July after Diageo published its full year results, we increased our Fair Value from 1840p to 2100p to take into account the pound devaluation. We now fine-tune our estimates. We expect organic sales and EBIT to grow 3.5% and 4.1% respectively. This compares to previous forecasts of 3.8% and 4.9%. Our Neutral recommendation and Fair Value of 2100p remain unchanged.

ANALYSIS

Diageo's organic sales growth should slightly accelerate next year. Our estimate calls for +3.5% vs +3.8% previously (+2.8% in 2015/16). The group's objective remains to return to a mid single digit growth in the medium term. EBIT margin should increase by only 14 bps organically due to the costs associated with the GBP500m productivity savings. Starting in 2016/17, they will enable a 100bps margin improvement between 2016/17 and 2018/19.

- **Slight acceleration in the United States next year.** We expect organic sales in the US to grow 3.5% in 2016/17, implying a small improvement vs 2015/16 (+2.8%) which should be driven by an increase in marketing expenses and a stronger commercial execution. The trend in H1 is expected to be better than in H2 due to easy comps. Diageo should continue to underperform the market which is running at +4% and should not catch up before 2017/18. Most of the price adjustments have been made on Smirnoff and Captain Morgan and the performance of these two brands is expected to continue to improve.
- **The East penalizing Europe/Russia/Turkey.** Russia should deteriorate due to the weak consumption environment and the lack of price increases that fuelled last year's growth. We think Turkey will be challenging due to the political unrest and the tax hike in January 2016. We expect 2.8% organic sales growth in the region in 2016/17 (+3.9% in 2015/16).
- **Modest growth in Africa.** Sales should increase 4% organically next year. This is a slight improvement vs 2015/16 (+2.6%) but remains well below the historical trend and the group's long term guidance of a high single digit/low double digit growth. The macro environment should remain tough in Nigeria but the country is expected to stabilize by the end of 2017 on the back of easy comps. East Africa should slow down as the Senator Keg brand benefited from a cut in excise duty in 2015/16. Last year, the margin in Africa declined by 740bps. CEO is confident that it will improve in 2016/17 thanks to the increase of local sourcing, cost containment, management of price/mix and the stabilization of Orijin in Nigeria.
- **A better performance in Latin America/Caribbean helped by easy comps.** We expect 4% organic sales growth in 2016/17, implying an acceleration vs last year (+0.6%). This should be driven by a favourable comparison base. In 2015/16 the group had to reclassify Don Julio external sales as intercompany sales following an accounting mistake in 2014/15.
- **China and India driving an improvement in Asia Pacific.** The comparison base should become more favourable in China after a 2% drop in 2015/16. In India, we expect 8% organic sales growth (+5% last year) thanks to the work on local brands and the focus on Diageo's portfolio. Our estimate calls for 4% organic sales growth in the region in 2016/17 after +1.5% in 2015/16.

VALUATION

- Our DCF points to a Fair Value of 2100p. At yesterday's share price, the stock is trading at 17.5x EV/EBIT 2016/17e and 16.2x EV/EBIT 2017/18e, 6% and 4% below the peers' average.

NEXT CATALYSTS

- Pernod Ricard: 2015/16 results (at end-June) on September 1st

[Click here to download](#)

Bloomberg	DGE LN
Reuters	DGE.L
12-month High / Low (p)	2,192 / 1,640
Market Cap (GBP)	54,249
Ev (BG Estimates) (GBP)	61,376
Avg. 6m daily volume (000)	4,354
3y EPS CAGR	9.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	0.7%	17.4%	15.6%	16.1%
Food & Bev.	-0.7%	4.4%	5.6%	0.3%
DJ Stoxx 600	1.0%	2.1%	4.8%	-6.1%

YEnd Jun. (GBPm)	06/16	06/17e	06/18e	06/19e
Sales	10,485	11,820	12,312	12,911
% change		12.7%	4.2%	4.9%
EBITDA	3,323	3,924	4,225	4,539
EBIT	3,008	3,510	3,733	3,958
% change		16.7%	6.4%	6.0%
Net income	2,242	2,567	2,765	2,972
% change		14.5%	7.7%	7.5%

	06/16	06/17e	06/18e	06/19e
Operating margin	28.7	29.7	30.3	30.7
Net margin	22.5	22.9	23.7	24.2
ROE	22.0	19.6	19.4	19.2
ROCE	12.1	13.5	14.2	14.8
Gearing	16.0	13.2	11.4	9.4

(p)	06/16	06/17e	06/18e	06/19e
EPS	89.04	101.93	109.83	118.01
% change	-	14.5%	7.7%	7.5%
P/E	24.2x	21.1x	19.6x	18.3x
FCF yield (%)	3.9%	4.4%	4.7%	5.0%
Dividends (p)	59.20	62.16	65.27	68.53
Div yield (%)	2.7%	2.9%	3.0%	3.2%
EV/Sales	6.0x	5.2x	4.9x	4.6x
EV/EBITDA	18.9x	15.6x	14.3x	13.1x
EV/EBIT	20.9x	17.5x	16.2x	15.0x



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Healthcare

AstraZeneca

Price 5,062p

Co. continues to divest non-core assets

Fair Value 5400p (+7%)

BUY

Bloomberg	AZN LN
Reuters	AZN.L
12-month High / Low (p)	5,220 / 3,774
Market Cap (GBPm)	64,024
Avg. 6m daily volume (000)	2 770

	1 M	3 M	6 M	31/12/15
Absolute perf.	9.7%	29.8%	22.6%	9.7%
Healthcare	-4.0%	2.3%	4.8%	-7.1%
DJ Stoxx 600	1.0%	2.1%	4.8%	-6.1%

	2015	2016e	2017e	2018e
P/E	15.7x	17.8x	17.2x	17.0x
Div yield (%)	4.2%	4.2%	4.2%	4.2%

ANALYSIS

- In the context of its very clear strategic policy of focusing on its key core therapeutic areas, namely oncology, cardio-metabolism (comprising Brilinta and the diabetes franchise) and immune-inflammation (including respiratory), AstraZeneca announced this morning another significant step in the divestment of non-core assets. It has agreed with Pfizer to sell to the US company its portfolio of small molecules in the field of antibiotics. This includes Merrem, Zinforo and Zavicefta and also ATM-AVI and CXL that are still in clinical development.
- Pfizer will pay AstraZeneca USD550m upfront and USD175m conditional upon marketing of all products in all geographies. A series of milestone payments is also included in the agreement for USD250m in commercial and regulatory, USD600m related to sales and double-digit royalties on Zavicefta and ATM-AVI in certain markets.
- The agreement is expected to be completed in Q4 2016. Therefore, Q4 2016 will be impacted accordingly, with "other operating income" reflecting the deal as no meaningful future interest will be kept by AstraZeneca. Antibiotics were highly expected to be part at some point in the policy of externalisation and divestment by the company. To note is that products involved in the deal with Pfizer represented USD250m in annual sales in 2015, mainly on Merrem.

VALUATION

- We are adjusting the revenue base of AstraZeneca by USD250m for 2017. In the opposite direction, we were missing elements to reach a similar level of other operating income compared to 2015, as guided by the company. So we now have the origin of the gap but it is unlikely to add a lot to our numbers as we had forecasted USD1.1bn anyway.

NEXT CATALYSTS

- 5 September 2016: DNA DDR Analyst Science Event (UK)

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Healthcare

Genmab

Price DKK1,156

Filing for dara's label expansion in the EU... Prepare yourself for further upgrade

Fair Value DKK1600 (+38%)

BUY

Bloomberg	GEN DC
Reuters	GEN.CO
12-month High / Low (DKK)	1,266 / 548.0
Market Cap (DKKm)	69,570
Avg. 6m daily volume (000)	447.2

	1 M	3 M	6 M	31/12/15
Absolute perf.	0.7%	-4.1%	45.5%	26.0%
Healthcare	-4.0%	2.3%	4.8%	-7.1%
DJ Stoxx 600	1.0%	2.1%	4.8%	-6.1%

	2015	2016e	2017e	2018e
P/E	NS	NS	NS	56.0x
Div yield (%)	NM	NM	NM	NM

ANALYSIS

- **Genmab announced that JNJ has submitted a Type II variation application to the EMA to expand daratumumab's use 1/ to relapsed patients with multiple myeloma who have received at least one prior therapy, and 2/ as part of a combination regimen with lenalidomide/dexamethasone or bortezomib/dexamethasone. This triggered an USD10m milestone payment to GEN (but note that it was already included in our estimates and the company's latest guidance).**
- **As a reminder, a similar application to the FDA (sBLA) to broaden dara's label in the US and JNJ asked for a Priority Review...** And if accepted, the US regulator's green light should be given in less than six months. In our view, this is very likely given 1/ the quality of the clinical evidence (see our recent report [here](#) for further details), and 2/ the importance of the current medical need (remember that myeloma is still incurable and the current therapeutic arsenal is quite limited). Obviously, the same goes for Europe...
- **We believe that a label expansion in the US should be obtained by year end, or at the beginning of 2017 at the latest...** and this would prompt us to increase our FV by +DKK150. While the PDUFA date is likely to be scheduled for March-April 2017, we expect a much faster process as early approvals are increasingly more frequent (and we would like to remind that dara's first approval was obtained within a two-month timeframe).

VALUATION

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

NEXT CATALYSTS

- 10th of November: Capital market day.
- Q4: ASH meeting + Dara's label expansion in myeloma.

[Click here to download](#)Mickael Chane Du, mchanedu@bryangarnier.com

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 32.9%

SELL ratings 11.4%

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