BRYAN, GARNIER & CO

LONDON • PARIS • MUNICH • NEW YORK • GENEVA • NEW DELHI

Please find our Research on Bloomberg BRYG <GO>)

29th August 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	18395.4	-0.29%	+5.57%
S&P 500	2169.04	-0.16%	+6.12%
Nasdaq	5218.92	+0.13%	+4.22%
Nikkei	16737.49	+2.3%	-14.04%
Stoxx 600	343.718	+0.50%	-6.04%
CAC 40	4441.87	+0.80%	-4.21%
Oil /Gold			
Crude WTI	47.64	+1.51%	+28.06%
Gold (once)	1334.07	+0.83%	+25.57%
Currencies/Rates			
EUR/USD	1.12805	-0.01%	+3.84%
EUR/CHF	1.09235	+0.05%	+0.46%
German 10 years	-0.154	+11.79%	-124.22%
French 10 years	0.147	-11.03%	-85.03%
Euribor	-0.298	0.00	+127.48%

Economic releases :

Date	
29th-Aug	UK - Summer Bank Holiday US - Personal Income Jul. (0.4% E) US - Real Personal Spending US - Personal Cons. Exp. Core Jul. (1.5% E y/y)

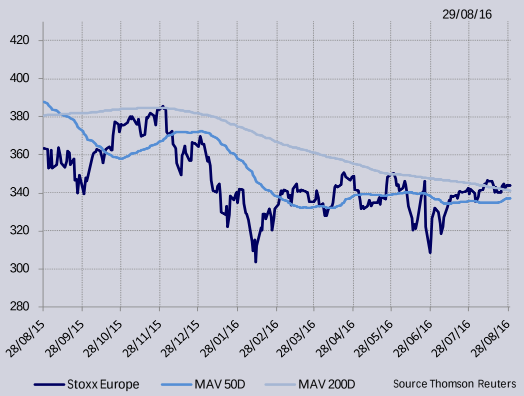
Upcoming BG events :

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	
24th-Aug	AMS Catching the ball when it bounces - all a question of timing
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?

List of our Reco & Fair Value : Please click here to download



ACCORHOTELS — BUY, Fair Value EUR42 vs. EUR45 (+23%)

FY RevPAR trend closer to our "Stress" scenario rather than our "Base" case.

July RevPAR in France was again harshly impacted by the current turbulent environment such that FY 2016 RevPAR for AccorHotels should be closer to our "Stress" scenario rather than our "Base" case. Nevertheless, despite AccorHotels' exposure to France and to a lesser extent Brazil, EBIT from operations excluding digital opex, rose by more than 5% in H1 and this should also be the case in H2. In addition, we are convinced that the group's transformation and strategic development will bear fruit even if some acquisitions are currently weighing on results. Finally, pending a new GAV for HotelInvest, we continue to estimate that fully owned and leased contracts are undervalued. Buy recommendation confirmed with a FV adjusted to EUR42.

PRADA — NEUTRAL, Fair Value HKD31 vs. HKD35 (+43%)

Unhelpful sales trends partly offset by cost-cutting actions

Last Friday Prada reported H1 2016 results. Revenues were significantly below expectations (EUR1.55bn vs. CS of EUR1.65bn), down 13% FX-n due to very poor retail trends (SSSG and FX-n: -16%) but margins topped the CS forecasts thanks to industrial efficiencies and cost-cutting measures. Although management witnessed some signs of improvement in Greater China over July and August, visibility on the tipping point remains quite low. We revise down our FY estimate by 6% to reflect the H1 sales performance, hence our new FV of HKD31 vs. HKD35. Neutral recommendation reiterated.

Hotels

AccorHotels

Price EUR34.10

Bloomberg	AC FP
Reuters	ACCP.PA
12-month High / Low (EUR)	46.1 / 30.0
Market Cap (EUR)	9,708
Ev (BG Estimates) (EUR)	9,513
Avg. 6m daily volume (000)	1 201
3y EPS CAGR	10.0%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-8.7%	-14.8%	-10.0%	-14.8%
Travel&Leisure	1.5%	-7.3%	-6.5%	-13.6%
DJ Stoxx 600	0.7%	-1.5%	3.7%	-6.0%

YEnd Dec. (€m)	2014	2015	2016e	2017e
Sales	5,454	5,581	5,736	6,277
% change		*2.3%*	*2.8%*	*9.4%*
EBITDA	923	987	1,040	1,205
EBIT	602.0	665.0	695.5	828.1
% change		*10.5%*	*4.6%*	*19.1%*
Net income	386.0	441.8	441.2	514.2
% change		*14.5%*	*-0.1%*	*16.5%*

	2014	2015	2016e	2017e
Operating margin	11.0	11.9	12.1	13.2
Net margin	4.1	4.4	6.6	7.9
ROE	6.2	6.8	10.2	14.5
ROCE	12.4	14.5	11.5	15.1
Gearing	4.1	-4.9	20.0	19.7

(€)	2014	2015	2016e	2017e
EPS	1.52	1.59	1.70	2.03
% change	-	*4.6%*	*6.5%*	*19.4%*
P/E	22.4x	21.4x	20.1x	16.8x
FCF yield (%)	6.3%	6.4%	6.2%	7.7%
Dividends (€)	0.95	1.00	1.00	1.10
Div yield (%)	2.8%	2.9%	2.9%	3.2%
EV/Sales	1.8x	1.7x	1.8x	1.7x
EV/EBITDA	10.7x	9.6x	10.1x	8.6x
EV/EBIT	16.4x	14.3x	15.1x	12.6x

FY RevPAR trend closer to our "Stress" scenario rather than our "Base" case.

Fair Value EUR42 vs. EUR45 (+23%) **BUY**

July RevPAR in France was again harshly impacted by the current turbulent environment such that FY 2016 RevPAR for AccorHotels should be closer to our "Stress" scenario rather than our "Base" case. Nevertheless, despite AccorHotels' exposure to France and to a lesser extent Brazil, EBIT from operations excluding digital opex, rose by more than 5% in H1 and this should also be the case in H2. In addition, we are convinced that the group's transformation and strategic development will bear fruit even if some acquisitions are currently weighing on results. Finally, pending a new GAV for HotelInvest, we continue to estimate that fully owned and leased contracts are undervalued. Buy recommendation confirmed with a FV adjusted to EUR42.

ANALYSIS

- **FY RevPAR lowered due to AccorHotels' exposure to France and Brazil:** In number of rooms, AccorHotels' offer reaches 28% in France and 7% in Brazil. Regarding **France**, July RevPAR was down 6% after -1.3% in June and -3.6% over the first six months and was harshly impacted by lower numbers of international travellers. The upscale segment was the most affected (RevPAR down 11% in July) as it was in H1, while the midscale segment was down 5.8% and economy confirmed its resilience with RevPAR down only 1.4%. Nevertheless, as was the case in H1 with RevPAR down 2.2% in France compared with -3.6% for the hotels segment, AccorHotels should remain less affected than the sector given its lower exposure to the upscale segment representing less than 5% of the group's offer in France. AccorHotels economy segment represents c.65% of the group's offer in France and the midscale segment 30%. As such, we have moved our FY RevPAR estimate to 1.2% for the group vs. 3.5% previously (H1 was up 1%) o/w -1.5% in France vs. flat (H1 was down 2.2% and H2 will benefit from major events such as the Maison & Objets trade fair and the Paris Motor show, as well as positive comps especially in Q4). (See our RevPAR forecasts by geography below).

- **2016 EBIT adjusted to EUR695m from EUR715m:** After H1 results on 28th July and taking into account ongoing uncertainty regarding H2 due to the main recent events i.e. Brexit, attacks in France & Germany, the aborted coup in Turkey, management's FY 2016 EBIT guidance is between EUR670m and EUR720m implying RevPAR growth of between 0% and 3%. Based on our new RevPar estimate of 1.2% for 2016, our EBIT moves to EUR695m. This number takes into account the impact of the digital plan of EUR45m in opex (broadly same amount in capex), the acquisition of startups notably onfinestay, which weigh on the group's EBIT by about EUR1.5m per month (EUR10m in H2 2016) and FRHI contribution of EUR40m in H2 (management announced between EUR40m and EU50m).

Main changes

	2015	2016e			2017e		
		Old	New	Change %	Old	New	Change
SALES	5 581	6 063	5 736	-5,4%	6 616	6 277	-5,1%
EBITDA	987	1 079	1 040	-3,6%	1 261	1 205	-4,4%
	17,7%	17,8%	18,1%	33 bp	19,1%	19,2%	15 bp
EBIT	665	715	695	-2,7%	878	828	-5,7%
	11,9%	11,8%	12,1%	34 bp	13,3%	13,2%	-8 bp

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

- **Speculative appeal which remains intact for the HotelInvest valuation:** Confirming the potential prospect of **HotelInvest** being transformed into a subsidiary before the end of H1 2017, management is set to provide a new estimate of the HotelInvest portfolio (331 fully owned hotels, 304 hotels under fixed leased contracts and 653 hotels under variable leased). As a reminder, GAV (gross asset value) was EUR6.9bn at the end of 2015 (EUR5.5bn in 2013 representing a cap rate of 4.9%), which still sounds conservative to us, representing a cap rate of 6.3%. Since 2013, HotelInvest's performance has improved considerably with EBIT margin up to 7.9% in 2015 from 4.6% in 2013 on the back of sustained hotel business but also the group's asset strategy with fully-owned hotels now contributing 61% in 2015 to HotelInvest NOI vs. 54% in 2013. Management's forecast is for more than 75%, implying an NOI of HotelInvest of c.EUR680m (vs. EUR437m in 2015 and EUR270m in 2013) and a GAV of EUR10.8bn based on a cap rate of 6.3%.

(continued next page)

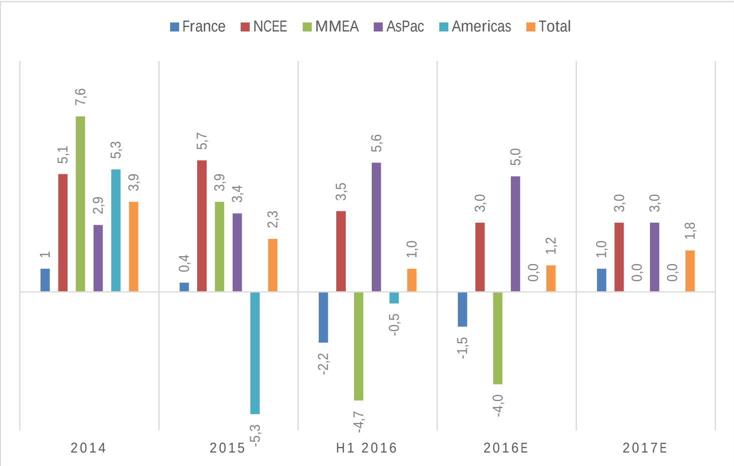
VALUATION

- Since the H1 results release on 28th July, the share price has dropped around 10% in absolute terms and relative to the Stoxx 600 (Melia Hotels is up 6% and IHG 9%). Largely due to AccorHotels exposure to France, this underperformance looks excessive to us bearing in mind that the H1 EBIT decrease was above all linked to the group's transformation rather than the current business environment (group EBIT from operations was up 5.1% on a lfl basis taking into account -4.2% lfl in France and -54.5% in Americas due to Brazil).
- At the current share price, based on consensus estimates (consensus EBIT 2016e of EUR689m and EUR850m on 2017e), the share is trading at 15.1x EV/EBIT 2016e and 12.6x 2017e compared with average European peer valuations of respectively 15.9x and 13.5x.

NEXT CATALYSTS

- Capital market day on 5th October
- Q3 revenue on 18th October

2016e and 2017e RevPAR by geography



Click here to download

Analyst :
Bruno de La Rochebrochard
33(0) 1 56 68 75 88
bdelarochebrochard@bryangarnier.com

Luxury & Consumer Goods

Prada

Price HKD21.75

Unhelpful sales trends partly offset by cost-cutting actions

Fair Value HKD31 vs. HKD35 (+43%) **NEUTRAL**

Bloomberg	1913 HK
Reuters	1913.HK
12-month High / Low (HKD)	34.3 / 20.4
Market Cap (HKD)	55,654
Ev (BG Estimates) (HKD)	55,700
Avg. 6m daily volume (000)	693.4
3y EPS CAGR	0.4%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-7.4%	-18.5%	-8.6%	-9.8%
Pers & H/H Gds	0.9%	1.0%	5.8%	3.1%
DJ Stoxx 600	0.7%	-1.5%	3.7%	-6.0%

YEnd Jan. (EURm)	01/16	01/17e	01/18e	01/19e
Sales	3,548	3,177	3,237	3,349
% change		*-10.5%*	*1.9%*	*3.5%*
EBITDA	803	689	722	760
EBIT	502.9	435.2	463.0	492.4
% change		*-13.5%*	*6.4%*	*6.4%*
Net income	330.9	291.5	312.9	334.5
% change		*-11.9%*	*7.3%*	*6.9%*

	01/16	01/17e	01/18e	01/19e
Operating margin	14.2	13.7	14.3	14.7
Net margin	9.3	9.2	9.7	10.0
ROE	10.7	9.5	10.2	10.9
ROCE	11.3	10.1	11.0	11.9
Gearing	3.6	0.2	-2.0	-4.2

(EUR)	01/16	01/17e	01/18e	01/19e
EPS	0.13	0.11	0.12	0.13
% change	-	*-11.9%*	*7.4%*	*6.9%*
P/E	19.2x	21.8x	20.3x	19.0x
FCF yield (%)	NM	6.3%	5.7%	6.1%
Dividends (EUR)	0.11	0.11	0.12	0.13
Div yield (%)	4.4%	4.4%	4.8%	5.1%
EV/Sales	1.8x	2.0x	1.9x	1.9x
EV/EBITDA	8.1x	9.2x	8.7x	8.2x
EV/EBIT	12.9x	14.6x	13.6x	12.7x

Last Friday Prada reported H1 2016 results. Revenues were significantly below expectations (EUR1.55bn vs. CS of EUR1.65bn), down 13% FX-n due to very poor retail trends (SSSG and FX-n: -16%) but margins topped the CS forecasts thanks to industrial efficiencies and cost-cutting measures. Although management witnessed some signs of improvement in Greater China over July and August, visibility on the tipping point remains quite low. We revise down our FY estimate by 6% to reflect the H1 sales performance, hence our new FV of HKD31 vs. HKD35. Neutral recommendation reiterated.

ANALYSIS

- **H1 2016 net revenues dropped by 15% to EUR1.55bn (CS: EUR1.65bn).** The sales miss was attributed to a very poor performance in the **retail channel**, with sales down 16% FX-n and comparable growth fell by the same order of magnitude (CS: -11%). The decline was particularly significant in: **1/ Europe** (-18% FX-n including Italy), where lower tourist flows seemed to be more harmful for Prada than its peers and **2/ in Asia-Pacific** (-18% FX-n o/w -21% in Greater China) with a double-digit decline in HK-Macau while there were some very first signs of improvement in Mainland China. Sales in **Americas** decreased by 15% FX-n (LatAm was positive) and the **Middle-East** was the only region not to be in negative territory (+0.2%). **Wholesale** sales were up 3% FX-n thanks to new partnerships with online retailers (Net-A-Porter and mytheresa.com).

- **First positive impacts from cost-cutting measures.** Gross margin narrowed by 50bp to 72.2% (CS: 72.6%) as the negative channel- and geographic-mix were only partly offset by industrial efficiencies. However, the group's actions to reduce costs (labour costs reduction, rent renegotiations, etc.) led to a 12%-decrease in opex expenses, also helped by a positive phasing effect on marketing expenses (catch-up expected in H2). As a consequence, **EBITDA** reached EUR330m (CS: EUR328m), representing **EBITDA margin** of 21.2% (-290bp) vs. CS of 19.9%e. Below, it is worth noting that Prada benefited from a new method of depreciation (+EUR26.1m at the opex level). **Net income** came in at EUR188.6m vs. CS of EUR126m.

- **Sharp reduction in capex investments (-39% to EUR108m).** First of all, there were only four net openings to 622 DOS (+16 vs. H1 15) since the group now focuses on improving the shopping experience through renovation and relocations (19 in H1).

Prada H1 16 Results:

EURm	H1 2015	H1 2016	*% change*
Net revenues	1,824.4	1,554.2	*-14.8*
Gross Profit	1,325.9	1,121.9	*-25.0*
Gross Margin (%)	72.7	72.2	*-50bp*
EBITDA	440.0	330.0	*-27.1*
EBITDA margin (%)	24.1	21.2	*-290bp*
Net income	188.6	141.9	*-24.7*

Source: Company Data

- **Outlook: visibility is still limited.** At the **top line level**, we remain cautious given the challenging market conditions in Europe, US and Asia-Pacific although Prada, like most of its peers, witnessed improving trends in Mainland China and signs of stabilisation in HK-Macau over July and August. Prada is accelerating the implementation of its e-commerce strategy, internally (launch of its own e-commerce platform in China, H-K and Singapore) as well as externally (partnerships with N-A-P and mytheresa.com). As for **profitability**, cost-cutting actions should continue to bear fruit over H2 even if marketing expenses should be higher than in H1 (stable over FY16 as a % of sales). Management specified that an EBITDA margin of approx. 22% was "reachable".

VALUATION

- We have lowered our FY16 estimates by 6% following the weak top line performance in H1. In our view, visibility on Prada's turnaround remains low, especially since the group is more affected by challenging market conditions than most of its peers. FV adjusted to HKD31 vs. HKD35 and Neutral recommendation reiterated. *Click here to download*

Analyst:
Cédric Rossi
33(0) 1 70 36 57 25
crossi@bryangarnier.com

Consumer Analyst Team:
Nikolaas Faes
Loïc Morvan
Antoine Parison
Virginie Roumage

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 55.3% NEUTRAL ratings 33.3% SELL ratings 11.3%

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