



31st August 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	18454.3	-0.26%	+5.91%
S&P 500	2176.12	-0.20%	+6.47%
Nasdaq	5222.99	-0.18%	+4.31%
Nikkei	16887.4	+0.97%	-12.13%
Stoxx 600	344.75	+0.45%	-5.76%
CAC 40	4457.49	+0.75%	-3.87%
Oil /Gold			
Crude WTI	46.35	-1.34%	+24.60%
Gold (once)	1318.11	-0.33%	+24.07%
Currencies/Rates			
EUR/USD	1.11515	-0.14%	+2.66%
EUR/CHF	1.0948	+0.09%	+0.68%
German 10 years	-0.157	+33.42%	-124.71%
French 10 years	0.148	-8.57%	-84.96%
Euribor	-	+-%	+-%

Economic releases :

Date	
31st-Aug	GB - Gfk Consumer confidence Aug. (-7A -8E) JP -Industrial production Jul. (-3.8%A, -3.0%E) DE - Retails Sales Jul. (0.3%E) US - Fed's Evans speaks on Eco Policy in Beijing DE - Unemployment change (-4K E) EUZ - CPI Core Aug. (0.9%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	
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



BIOMÉRIEUX

NEUTRAL, Fair Value EUR127 (+1%)

H1 results topped expectations. Slight guidance stretch leaving limited upward revision.

After having released H1 2016 sales on July 18th, BIM published its H1 2016 results with Contributive Operating margin and Net result significantly ahead of CSS expectations. We welcome these strong set of numbers. However, new sales and contributive EBIT guidances (i.e. at or above 6-8% CER topline growth and high range of EUR265-290 contrib. EBIT) prompt for limited upward revision in CSS numbers in our view.

ILIAD

BUY, Fair Value EUR212 (+19%)

H1 results: still delivering growth in a very competitive market

This morning, Iliad published H1 2016 results, in line with expectations, still delivering high growth, with free cash flow improving. Q2 revenues reached EUR1.151bn, up 6.1% yoy and H1 EBITDA reached EUR809m, up 11.5% yoy, both in line with the consensus. Weaker mobile net adds were offset by growing mobile ARPU, whereas fixed ARPU again suffered from high promotional levels. Elements of guidance are confirmed. We maintain our FV of EUR212 and our Buy recommendation.

U-BLOX

BUY, Fair Value CHF255 vs. CHF265 (+14%)

More a one-time effect than a change in long-term trends

Following H1 2016 results and a contact with management, we understand that the slower than expected growth was due to wait-and-see attitudes regarding the adoption of wireless modules. Nevertheless, the group has rapidly tuned its commercial strategy to focus on higher margin products and, hence, maintain its operating result target. The lesson we learnt from the H1 publication is that u-blox might be affected by volatility, however the group has the tools it needs to rapidly focus on higher margin products and temporarily offset the impact of lower volumes with higher margins. We have fine-tuned our model with a 4% average cut in our EPS. Our new FV is CHF255 pointing to upside of 15%.

In brief..

NOVARTIS, Sandoz's biosimilar drug to Amgen's Enbrel approved in the US

SANOFI, Express Scripts acts slightly differently than CVS on glargine

CONSTRUCTION-INFRASTRUCTURES, Decent H1 2016 results for Bouygues construction businesses

INSURANCE, Italian earthquake likely to have a limited impact on the insurance industry

TELECOM SERVICES, Bouygues Telecom H1 results: on the way to standalone recovery so far

BG Healthcare CHART #31

Focus on SHIRE cost savings

Healthcare

bioMérieux

Price EUR125.80

H1 results topped expectations. Slight guidance stretch leaving limited upward revision.

Fair Value EUR127 (+1%)

NEUTRAL

Bloomberg	BIM FP
Reuters	BIOX.PA
12-month High / Low (EUR)	127.9 / 93.7
Market Cap (EURm)	4,963
Ev (BG Estimates) (EURm)	5,366
Avg. 6m daily volume (000)	41.00
3y EPS CAGR	28.9%

	1 M	3 M	6 M	31/12/15
Absolute perf.	1.7%	4.6%	7.3%	14.5%
Healthcare	-5.1%	-2.6%	2.6%	-8.0%
DJ Stoxx 600	0.4%	-1.8%	2.8%	-6.2%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	1,965	2,099	2,264	2,424
% change		6.8%	7.9%	7.1%
EBITDA	388	420	475	539
EBIT	260.0	283.4	328.3	381.8
% change		9.0%	15.9%	16.3%
Net income	110.3	161.2	198.7	236.2
% change		46.1%	23.3%	18.9%

	2015	2016e	2017e	2018e
Operating margin	13.2	13.5	14.5	15.8
Net margin	5.6	7.7	8.8	9.7
ROE	7.3	9.9	11.2	12.1
ROCE	8.2	8.4	9.4	10.7
Gearing	14.9	24.8	19.0	11.0

(EUR)	2015	2016e	2017e	2018e
EPS	2.80	4.09	5.04	5.99
% change	-	46.1%	23.3%	18.9%
P/E	45.0x	30.8x	25.0x	21.0x
FCF yield (%)	1.4%	NM	2.6%	3.9%
Dividends (EUR)	1.00	1.02	1.26	1.50
Div yield (%)	0.8%	0.8%	1.0%	1.2%
EV/Sales	2.6x	2.6x	2.3x	2.1x
EV/EBITDA	13.4x	12.8x	11.1x	9.6x
EV/EBIT	19.9x	18.9x	16.1x	13.6x

After releasing H1 2016 sales on 18th July, BIM published its H1 2016 results with contributive operating margin and net result significantly ahead of CSS expectations. We welcome this strong set of numbers. However, new sales and contributive EBIT guidance (i.e. at or above 6-8% CER topline growth and high range of EUR265-290 contrib. EBIT) point to a limited upward revision in CSS numbers in our view.

ANALYSIS

As a reminder, BIM's sales kept up with the strong start to the year, rising 10.9% CER in H1 2016 (100bp ahead of CSS expectations) driven by NA (36% of sales) up 22.1% CER. NA sales were boosted by FilmArray (600 placements in H1 or 400 and 200 in Q1 and Q2 respectively) and an increasing ramp-up of VIDAS BRAHMS PCT test before competition kicks in during H2 2016. APAC sales accelerated on a sequential basis to end the semester at 12.5% CER growth (10.7% CER and 13.9% CER in Q1 and Q2 respectively). European sales were mixed, up 2.1% CER. In all, this strong set of results prompted an upgrade to the 6-8% CER FY2016 sales guidance announced today, as BIM revises its FY 2016 sales guidance which "could end the year at or above" the higher end of the previously targeted 6.0%-8.0% CER range (vs. BGe 9.4%). This revision could be viewed as shy and finds its source in numerous swing factors entering H2: 1/ high comparison basis, 2/ intensity of the flu season unknown with BIM's FilmArray sales relying on the respiratory panel, 3/ Roche's strategy in the US PCT space and 4/ uncertainty in China despite increase in reagent sales pointing toward a stabilisation in the region.

BIM (EURm ex /share)	H1 2015	H1 2016	y/y	H1 2016 CSS	Delta
Sales	933	1 001	7,3%	na	na
contributive EBIT	122	149	22,5%	132	13,2%
EBIT margin %	13,1%	14,9%		13,2%	
Net result	59	86	45,1%	76	12,6%

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

- From a profitability standpoint, higher sales of reagents and increasing sales of FilmArray alongside the end to the US Medical Device Excise tax and a drop in expenditure incurred at Durham to a lesser extent led to a higher gross margin. The latter came in at 51.8% of sales vs 50.8% in H1 2015. Note that this improvement is even more important as reallocation of IT costs weighed for EUR11m on gross profit. SG&A expenses (with BIM having boosted its sales effort to increase the penetration of FilmArray) were overestimated by the consensus and us as they came in at EUR265m (26.5% of sales vs. BGe 28.8%) which compared to EUR254m last year. R&D expenses with studies ongoing that aim to demonstrate the clinical value added of FilmArray to increase adoption stood at EUR125m vs EUR116m i.e. stable as a percentage of sales (12.5% vs. 12.4% YoY). Contributive EBIT margin came in at EUR149m or 14.9% of sales vs 13.1% last year and 13.2% as expected by the consensus. Bottom line, Net Income stood at EUR86m, helped by an EUR11 exceptional gain resulting from provision writebacks for biotheranostic. Diluted EPS stood at EUR2.17 per share
- Theres results prompt BIM's management to now target the high range of FY2016 EBIT guidance of EUR265-290m. With the consensus being already in the high range of this guidance, we see limited upward revision to numbers. Turning to H2, rebalancing of the reagent/instrument sales mix (lower margin) as well as the effect on two full quarters from increased SG&A and R&D efforts should negatively impact margins (please see [here](#)).

VALUATION

- We are reiterating our Neutral recommendation and EUR127 Fair Value. Our sales are already above the 6-8% CER range at 9.4% CER while our contributive EBIT ests. for the year stand at the high end of the previously communicated guidance, hence in line with the company's revised expectations.

NEXT CATALYSTS

- Today 2.00pmCET: conference call on H1 2016 results (FR +33 1 76 77 22 25, UK +44 20 3427 1905, US +1 646 254 3365; ID 108 344)
- Oct 20th: Q3 sales

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Iliad

Price EUR177.50

H1 results: still delivering growth in a very competitive market

Fair Value EUR212 (+19%)

BUY

Bloomberg	ILD FP
Reuters	ILD.PA
12-month High / Low (EUR)	236.3 / 168.4
Market Cap (EUR)	10,425
Ev (BG Estimates) (EUR)	11,984
Avg. 6m daily volume (000)	105.1
3y EPS CAGR	20.5%

This morning, Iliad published H1 2016 results, in line with expectations, still delivering high growth, with free cash flow improving. Q2 revenues reached EUR1.151bn, up 6.1% yoy and H1 EBITDA reached EUR809m, up 11.5% yoy, both in line with the consensus. Weaker mobile net adds were offset by growing mobile ARPU, whereas fixed ARPU again suffered from high promotional levels. Elements of guidance are confirmed. We maintain our FV of EUR212 and our Buy recommendation.

ANALYSIS

- **Q2 revenues came out at EUR1.151bn** (vs. consensus: EUR1,149bn), **up 6.1% yoy** vs +6.6% in Q1. **Fixed sales reached EUR664m** (vs. consensus: EUR666m), **up 2.9% yoy** vs +3.9% in Q1. **Mobile sales reached EUR490m** (vs. consensus: EUR486m), **up 10.7% yoy** vs +10.4% in Q1. Mobile services revenues rose 13.2% yoy, vs +14% in Q1 and +11.4% in Q4 2015.
- **H1 EBITDA reached EUR809m** (vs cons EUR806m), **up 11.5% yoy**, at a margin of 35.2% up 160 bps vs H1 2015. Current operating profit reached **EUR360m**, vs cons EUR362m, and net profit reached **EUR190m**, vs the cons figure of EUR193m. CAPEX reached EUR622m, vs cons at EUR628m, up 1.5% vs 2014. FCF (excl. frequencies) reached **EUR46.1m**, vs **EUR-67.2m** in H1 2015.
- **Mobile Net adds reached 180k** in Q2, vs 215k in Q1 and 400k in Q2 2015. Our estimate for mobile services ARPU is **up +1.3% yoy** vs -0.3% in Q1. Commercial performance is **below consensus** expectations at 231k. but Free is still ahead of its competitors on the semester, and **ARPU is on a positive trend**, which is very positive. Q2 confirms that we might be seeing the early signs of a **transition from a volume-based business model, to a more value-based one**.
- **Broadband net adds reached 45k** in Q2, in line with consensus, vs 78k in Q1 and 46k in Q2 2015. Broadband ARPU was EUR33.9 in Q2, **down -1.7% yoy** vs -0.9% in Q1. ARPU was a little **disappointing**, Free needs a **high promotional level** to sustain high positive net adds. We expect the launch of the Freebox v7 before the end of the year to help on this item.
- **As a reminder**, Orange SFR and Bouygues posted mobile postpaid net adds of resp. +152k, -245k and +171k. Orange, SFR and Bouygues posted fixed net adds of resp. +93k, -57k and +51k.

VALUATION

- We reiterate our BUY rating on Iliad, with FV of EUR212

NEXT CATALYSTS

- Q3 revenues in November 2016.

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(EUR)	2015	2016e	2017e	2018e
EPS	5.58	5.95	7.59	9.76
% change	-	6.7%	27.5%	28.6%
P/E	31.8x	29.8x	23.4x	18.2x
FCF yield (%)	NM	NM	1.0%	3.6%
Dividends (EUR)	0.38	0.38	0.38	0.38
Div yield (%)	0.2%	0.2%	0.2%	0.2%
EV/Sales	2.6x	2.6x	2.4x	2.2x
EV/EBITDA	7.8x	7.2x	6.3x	5.5x
EV/EBIT	NS	NS	NS	NS

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u-blox

Price CHF223.40

More a one-time effect than a change in long-term trends

Fair Value CHF255 vs. CHF265 (+14%)

BUY

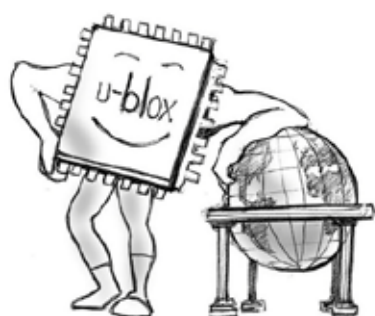
Bloomberg	UBXN SW
Reuters	UBXN.S
12-month High / Low (CHF)	246.4 / 164.0
Market Cap (CHFm)	1,520
Ev (BG Estimates) (CHFm)	1,446
Avg. 6m daily volume (000)	23.20
3y EPS CAGR	26.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-9.0%	11.1%	13.4%	4.1%
Semiconductors	0.3%	20.7%	27.5%	20.4%
DJ Stoxx 600	0.8%	-1.5%	3.2%	-5.8%

YEnd Dec. (CHFm)	2015	2016e	2017e	2018e
Sales	338.3	380.9	469.1	591.3
% change		12.6%	23.1%	26.0%
EBITDA	76.0	86.9	106	129
EBIT	51.3	59.5	71.7	92.5
% change		16.0%	20.5%	29.0%
Net income	37.1	44.8	57.4	75.6
% change		20.9%	27.9%	31.8%

	2015	2016e	2017e	2018e
Operating margin	15.2	15.6	15.3	15.6
Net margin	11.0	11.8	12.2	12.8
ROE	14.9	15.9	17.7	20.0
ROCE	21.8	22.4	23.2	24.7
Gearing	-26.1	-26.3	-25.1	-22.0

(CHF)	2015	2016e	2017e	2018e
EPS	5.45	6.59	8.43	11.10
% change	-	20.9%	28.0%	31.8%
P/E	41.0x	33.9x	26.5x	20.1x
FCF yield (%)	2.1%	1.5%	1.4%	1.3%
Dividends (CHF)	1.57	1.90	2.11	2.78
Div yield (%)	0.7%	0.8%	0.9%	1.2%
EV/Sales	4.3x	3.8x	3.1x	2.4x
EV/EBITDA	19.2x	16.6x	13.6x	11.1x
EV/EBIT	28.4x	24.3x	20.1x	15.5x



Following H1 2016 results and a contact with management, we understand that the slower than expected growth was due to wait-and-see attitudes regarding the adoption of wireless modules. Nevertheless, the group has rapidly tuned its commercial strategy to focus on higher margin products and, hence, maintain its operating result target. The lesson we learnt from the H1 publication is that u-blox might be affected by volatility, however the group has the tools it needs to rapidly focus on higher margin products and temporarily offset the impact of lower volumes with higher margins. We have fine-tuned our model with a 4% average cut in our EPS. Our new FV is CHF255 pointing to upside of 15%.

ANALYSIS

- **Last Friday, u-blox posted H1 2016 results below expectations however the group maintained its FY16 operating result guidance.** As a reminder, H1 2016 sales came out at CHF180m, up 11% yoy vs. consensus expectations for CHF191m. Nevertheless, thanks to a tight control on commercial strategy and then on the mix, the group delivered operating result of CHF27.8m in line with the street's expectations. This also means that margin improved significantly in H1 2016. Finally, net profit came out at CHF18.7m, up 24% yoy, below consensus mainly due to a negative FX impact on cash translation that we believe was triggered by Brexit (BG ests. about CHF2.4m in H1 2016). In addition, the group has updated its FY16 guidance at the sales level (CHF375/385m vs. CHF395/405m before), but surprisingly u-blox reiterated its FY16 guidance regarding operating result at CHF56/60m.
- **As a result, following the publication of H1 2016 results, updated FY16 guidance and a contact with management we have fine-tuned our model.** Overall, we understand that the group was affected by a wait-and-see attitude in wireless modules. Some customers might have reported the adoption of wireless products in order to assess ongoing changes in the environment in view of the US 4G network before launching their own new products. As a result, the group incurred a temporary slowdown and has tuned its commercial strategy to focus on higher margin products. Thanks to its flexible business model, the group managed to generate higher operating margin as of H1 2016 (15.5% vs. 15.0% on previous semester). This positive impact on margin should also be seen in H2, such that FY16 operating profit should be in the guidance range of CHF56/60m.
- **A word about 2017e and 2018e.** With H1 growth and margins proving to be very different to what has been observed previously, the main question is what impact H1 results could have on the mid and long term trends. On Friday, we highlighted that the group was reassuring regarding the achievement of LT growth similar to the one observed in the past (note that average sales growth over the last 3y was 23%). Following a contact with management, we are still convinced that this level of growth is achievable over the mid and long terms. The group is perfectly positioned to benefit from numerous growth drivers such as eCall, ADAS, smart industry (Gas metering for example), or some high growing customer applications such as the drones or sub-meter positioning. In addition, H1 results are an example of the flexibility available at u-blox to maintain operating result growth if top-line momentum slows down temporarily. Among companies we cover, this is clearly the highest level of flexibility observed so far. Finally, when thinking about 2017, and especially margins, we must take into account that the arbitrage between growth opportunities and margin will gradually disable margin gains achieved in 2016 and lead u-blox to post "normative" operating margin levels closer to 15%.

VALUATION

- **Overall, we have adjusted our FV to CHF255 vs. CHF265 previously and reiterate our Buy recommendation.** After fine-tuning our model to take account of H1 2016 results and the adjustments to FY17 and FY18 described above, we have trimmed our EPS by 4% on average over the next three years. As such, 2015/2018e top line CAGR is 20.5% (vs. 23.4%) and our 3y EPS CAGR is now 26.8% (vs. 29.5%). **Our new FV of CHF255 now points to upside potential of 15%.**
- **Based on our forecasts, u-blox' shares are trading on a 2016e P/E ratio of 32.7x and a 2016e PEG ratio of 1.3x.**

NEXT CATALYSTS

- 23rd September 2016: Investor and Analyst Day

Detailed P&L

[in CHFm]	2015	1H16	2H16e	2016e	2017e	2018e	CAGR 15/18e
Sales	338	180	201	381	469	591	20.5%
Seq. growth	25%	2%	12%	13%	23%	26%	
Gross profit	155	82	93	176	213	265	
Gross margin	46%	46%	46%	46%	45%	45%	
R&D	-65	-32	-37	-69	-85	-103	
% of sales	-19%	-18%	-18%	-18%	-18%	-18%	
G&A	-14	-8	-8	-16	-19	-24	
% of sales	-4%	-4%	-4%	-4%	-4%	-4%	
S&M	-28	-16	-18	-34	-40	-48	
% of sales	-8%	-9%	-9%	-9%	-9%	-8%	
EBIT	51	28	32	60	72	92	21.7%
Operating margin	15%	15%	16%	16%	15%	16%	
Financial result	-4	-3	1	-2	1	4	
% of sales	-1%	-2%	0%	-1%	0%	1%	
Income Tax	-11	-6	-6	-12	-16	-21	
Income tax rate	-22%	-26%	-18%	-21%	-22%	-22%	
Net Profit	37	18	26	45	57	76	26.8%
Net margin	11%	10%	13%	12%	12%	13%	
Dil. EPS	5.45	2.72	3.87	6.59	8.43	11.10	26.8%
EPS seq. growth	8%	-16%	42%	21%	28%	32%	

Source: Bryan Garnier & Co. ests.

P&L changes highlights

[CHFm]	Old			New			Old vs. New
	2016e	2017e	2018e	2016e	2017e	2018e	avg. Δ%
Net revenue	405	501	635	381	469	591	-6%
% change	19.6%	23.8%	26.9%	12.6%	23.1%	26.0%	
Adj. EBIT	60	73	98	60	72	92	-3%
Adj. operating margin	14.8%	14.6%	15.5%	15.6%	15.3%	15.6%	
Adj. net profit	47	59	81	45	57	76	-4%

Source: Bryan Garnier & Co. ests.

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Healthcare

Novartis

Price CHF78.10

Sandoz's biosimilar drug to Amgen's Enbrel approved in the US

Fair Value CHF87 (+11%)

NEUTRAL

Bloomberg	NOVN.VX
Reuters	NOVN.VX
12-month High / Low (CHF)	94.8 / 68.5
Market Cap (CHFm)	205,178
Avg. 6m daily volume (000)	4 876

	1 M	3 M	6 M	31/12/15
Absolute perf.	-2.7%	-1.8%	9.0%	-10.0%
Healthcare	-4.7%	-2.2%	3.0%	-7.7%
DJ Stoxx 600	0.8%	-1.5%	3.2%	-5.8%

	2015	2016e	2017e	2018e
P/E	15.9x	16.6x	15.2x	13.6x
Div yield (%)	3.5%	3.8%	3.3%	3.7%

ANALYSIS

- Sandoz received very good news from the FDA yesterday when it saw its version and first-of-its-kind biosimilar of Amgen's etanercept (Enbrel) approved by the agency (as Erelzi) in all targeted indications in rheumatology and in dermatology (RA, PsA, psoriasis etc...). It has been approved as a non-interchangeable product however but which was highly expected considering the pathway in place to approve biosimilars in the US.
- Sandoz will be first to compete against Enbrel, after a few biosimilars already attacked one its peers i.e. the other anti-TNF drug infliximab (Remicade). Recently, Sandoz showed examples of pricing for this biosimilar in various markets, suggesting it would price Enbrel's copy in a similar way i.e. with a circa 20% discount. Enbrel achieved USD1.4bn in sales in Q2 2016 which makes it almost a USD6bn drug in the US only for Amgen.

VALUATION

- Should a 20% discount be applied on prices, the net market value of etanercept in the US is likely to be somewhere between USD4bn and USD5bn and it is fair to assume that Sandoz can take a 20% of it. It is uncertain whether Novartis Pharma will play a role on the marketing and commercial side with Erelzi (it is in charge of its manufacturing) but there might be some synergies with Cosentyx as the targeted physicians are identical. Those who might not be convinced by the value of the anti-IL17 could be offered biosimilar Enbrel.
- Anyway, this opportunity for Sandoz might be somewhere around USD1bn i.e. a sizeable one considering that Sandoz in totality is around USD10bn. Together with other like peg-filgrastim, adalimumab or rituximab, this should significantly expand Co.'s biosimilar portfolio with a very likely meaningful positive impact on margins for Sandoz, not necessarily reflected in the consensus.
- After the positive news from BAF312 in SPMS and before phase III data of LEE011 are presented at ESMO in October, this approval is another positive for Novartis, which might recover progressively. Only speculation around a major acquisition could play in the other direction.

NEXT CATALYSTS

- 7-11 October 2016: ESMO congress in Copenhagen (LEE011 phase III to be presented)

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Healthcare

Sanofi

Price EUR69.69

Express Scripts acts slightly differently than CVS on glargine

Fair Value EUR83 (+19%)

NEUTRAL

Bloomberg	SAN FP
Reuters	SASY.PA
12-month High / Low (EUR)	93.3 / 67.3
Market Cap (EURm)	89,831
Avg. 6m daily volume (000)	2 618

	1 M	3 M	6 M	31/12/15
Absolute perf.	-8.5%	-5.7%	-4.8%	-11.3%
Healthcare	-4.7%	-2.2%	3.0%	-7.7%
DJ Stoxx 600	0.8%	-1.5%	3.2%	-5.8%

	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

- One month after ESI and CVS issued a first draft about medication exclusions to reimbursement for 2017, ESI has come back to clarify its position re the diabetes market and the situation with glargine in particular.
- Diabetes is actually becoming the fifth specific programme for ESI in which the largest US private insurer has decided to pay particular attention in order to balance the greatest possible service to patients suffering from the disease with the need to keep costs under control.
- In a dedicated press release, ESI details its new Diabetes Care Value Program by first saying that it intends to cap spending and drive diabetes drug costs down. The aim is to cut the anticipated growth rate by half in 2017 (ESI was anticipating spending for diabetes drugs to grow 17%). Among initiatives, ESI plans to improve logistics for the delivery of drugs, compliance (reduce burden linked to poor adherence to treatment) and also introduce new competing drugs. Here, unlike CVS that has decided to ban Lantus and Toujeo in favour of Basaglar, ESI has decided to cover both Basaglar and Lantus (there is no mention of Toujeo) in the glargine family. No doubt this is a way to have maximum pressure on prices for both.

VALUATION

- Although it is easy to imagine that Sanofi has been compelled to agree on massive discounts to keep Lantus on ESI formularies, the outcome is best than with CVS where volumes are completely lost. That said, the battle around Lantus will be fierce in 2017 in the US. We are not sure at all that Sanofi will be able to keep the Diabetes franchise as a whole in the -4/8% guided range.

NEXT CATALYSTS

- September 2016: Filing of dupilumab in moderate-to-severe psoriasis

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Sector View

Construction-Infrastructures

Decent H1 2016 results for Bouygues construction businesses

	1 M	3 M	6 M	31/12/15
Cons & Mat	4.6%	3.8%	11.0%	5.6%
DJ Stoxx 600	0.8%	-1.5%	3.2%	-5.8%

*Stoxx Sector Indices

Companies covered

EIFFAGE	BUY	EUR73
VINCI	BUY	EUR72

Decent performance for Bouygues Construction in H1 2016. Revenues are slightly down -2% at EUR11.4bn but Colas French sales are down by 2% only following two years of double-digit decline. Current EBIT margin increases by c40bps at 1.1%, with an improvement within every divisions. Order book is slight up 1% I-f-I, with a positive performance in France (+3%). Order intake is very strong in H1 for Bouygues Construction (+29%).

Key figures for Bouygues construction businesses in H1 2016

EURm	Sales	I-f-I %	c. EBIT	Mrg%	Δbps
Bouygues Construction	5800	0	151	2.6	7
Bouygues Immobilier	1047	-1	59	5.6	6
Colas	4678	-6	-85	-1.8	47
Construction businesses	11383	-2	125	1.1	36

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

ANALYSIS

- Revenues are almost flat in H1 for the construction businesses. It worths underlying the gradual improvement of the top line for the roadworks business Colas in France (-6%) following -11% in 2015 and -14% in 2014. Margins look resilient too, but the Colas margin improvement is apparently mostly explained by the end of activity of the Dunkirk refinery.
- Order book looks fine, roughly flat on a like-for-like basis, at EUR29.5bn. It doesn't include the first tranche (a massive EUR842m) of the Monaco offshore extension project.

NEXT CATALYSTS

- Bouygues analysts meeting at 11h today.

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Sector View

Insurance

Italian earthquake likely to have a limited impact on the insurance industry

	1 M	3 M	6 M	31/12/15
Insurance	2.3%	-10.4%	-5.0%	-19.5%
DJ Stoxx 600	0.8%	-1.5%	3.2%	-5.8%

*Stoxx Sector Indices

Companies covered

AEGON	NEUTRAL	EUR6
ALLIANZ	BUY	EUR180
AXA	BUY	EUR29
CNP ASSURANCES	NEUTRAL	EUR15
COFACE	NEUTRAL	EUR5.4
EULER HERMES	BUY	EUR89
HANNOVER RE	SELL	EUR110
MUNICH RE	SELL	EUR185
SCOR	BUY	EUR38
SWISS RE	NEUTRAL	CHF100
ZURICH INSURANCE	NEUTRAL	CHF270

The Italian earthquake is likely to have a limited impact on the insurance industry as there is a low density of infrastructures and industrial plants in the affected area, and only c. 44% of the Italian population has house insurance (it is not compulsory to have one in Italy), o/w only 3-4% of these contracts have an earthquake cover extension.

ANALYSIS

- Last week's earthquake in central Italy should have a limited impact on the insurance industry. According to Moody's, the insured losses should be lower than for the 2009 earthquake, which cost EUR383m.
- The main reasons for this are: 1/ the low density of infrastructure and industrial plants in the affected area, 2/ only c. 44% of the Italian population has house insurance (it is not compulsory to in Italy), and only 3-4% of these contracts have an earthquake cover extension.
- Based on market share, Generali (26%), UnipolSai (22%) and Allianz (11%) are likely to suffer the most.
- Reinsurers should only be marginally impacted, as insured losses are likely to be too low to activate many reinsurance transfers (high triggering point).

VALUATION

- The insurance industry is currently trading on a 0.9x P/NAV, with AXA suffering the strongest discount (0.6x P/NAV) relative to the quality of its fundamentals.

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Sector View

Telecom services

Bouygues Telecom H1 results: on the way to standalone recovery so far

	1 M	3 M	6 M	31/12/15
Telecom	-0.6%	-9.1%	-6.6%	-13.5%
DJ Stoxx 600	0.7%	-1.5%	3.7%	-6.0%

*Stoxx Sector Indices

Companies covered

ALTICE	BUY	EUR16,5
ILIAD	BUY	EUR212
NUMERICABLE SFR	NEUTRAL	EUR28,7
ORANGE	BUY	EUR17,1

This morning Bouygues Telecom published good Q2 2016 results. Revenues from the network rose 5.5% and EBITDA was up 27.8%. Commercial performances were good on the mobile side, whereas the fixed performance is still undergoing heavy promotional intensity. The recovery plan appears well underway.

ANALYSIS

- Q2 revenues came out at EUR1,160bn, up +6.1% yoy (of which +5.5% on sales from network), compared with +6.4% yoy in Q1 (of which +4.2% on sales from network). Q2 EBITDA reached EUR262m, up 27.8% yoy. Current operating profit was positive at EUR71m vs EUR8m in 2015.
- Mobile contacts net adds (excl. M2M) reached 171k in Q2 vs 151k in Q1, and 147k in Q2 2015. Mobile ARPU was EUR22.4 in Q2, stable QoQ, down -1.3% yoy vs -1.3% in Q1. Broadband net adds reached 51k in Q2, vs 71k in Q1, and 78k in Q2 2015. Broadband ARPU was EUR28.3 in Q2, up vs Q1 but down -3.4% yoy vs -3.1% in Q1.
- In our opinion, Bouygues Telecom's mobile results are very good, with high commercial performances, although ARPU is still under pressure. Things still look more difficult on the broadband side, where ARPU and commercial activity are still suffering from heavy promotional activity in the market. Bouygues Telecom's recovery plan is still well underway.

VALUATION

- No impact on our Fair Values and recommendations for the companies we cover.

NEXT CATALYSTS

- Q3 results in November 2016.

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BG's Wake Up Call

Bryan Garnier stock rating system

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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%

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