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2nd September 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	18419.3	+0.10%	+5.71%
S&P 500	2170.86	0.00	+6.21%
Nasdaq	5227.21	+0.27%	+4.39%
Nikkei	16925.68	-0.01%	-11.07%
Stoxx 600	343.658	+0.04%	-6.06%
CAC 40	4439.67	+0.03%	-4.26%
Oil /Gold			
Crude WTI	43.16	-3.45%	+16.02%
Gold (once)	1312.72	+0.37%	+23.56%
Currencies/Rates			
EUR/USD	1.1193	+0.50%	+3.04%
EUR/CHF	1.09715	+0.26%	+0.90%
German 10 years	-0.129	+1.78%	-120.31%
French 10 years	0.183	+12.93%	-81.33%

Economic releases :

Date	
2nd-Sept	JP - consumer Conf Index (42A, 41.8 E) GB - UK construction PMI (46.5E) US - Trade balance Jul. US - factory Orders Jul. (2.% E) US - Durable goods orders Jul. (4.4% E) US - Baker Hughes Rig count

Upcoming BG events :

Date	
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
28th-Oct	IMERYS (Paris roadshow)

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



ILIAD

BUY, Fair Value EUR212 (+14%)

Heading to Italy!

Following the European Commission's approval of the merger between Hutchison and Vimpelcom in Italy, Iliad will soon enter the Italian market. Although facing many new challenges in a competitive environment, we believe Iliad has the right assets to seize opportunities in the Italian market and be successful. Moreover, the necessary investments should be spread over time, which would limit the increase in the company's risk profile. We reiterate our Buy recommendation, and stick to our Fair Value of EUR212 pending further comments and guidance from management.

PERNOD RICARD

NEUTRAL, Fair Value EUR112 vs. EUR107 (+6%)

Better year to come

2016/17 should show an acceleration in organic sales growth mainly driven by China. However, operating leverage is expected to remain limited as the negative mix will only be partly offset by cost savings. We now expect organic sales and EBIT to grow 2.9% and 3.2% respectively compared with previous forecasts for 2.6% and 3.5%. We also adjust for FX. Overall we have revised our EBIT estimates upwards by 3% on average over the next three years. We roll forward by one year and increase our Fair Value to EUR112. Neutral recommendation maintained.

TMT

Iliad

Price EUR186.55

Heading to Italy!

Fair Value EUR212 (+14%)

BUY

Bloomberg	ILD FP
Reuters	ILD.PA
12-month High / Low (EUR)	236.3 / 168.4
Market Cap (EUR)	10,956
Ev (BG Estimates) (EUR)	12,515
Avg. 6m daily volume (000)	106.7
3y EPS CAGR	20.5%

Following the European Commission's approval of the merger between Hutchison and Vimpelcom in Italy, Iliad will soon enter the Italian market. Although facing many new challenges in a competitive environment, we believe Iliad has the right assets to seize opportunities in the Italian market and be successful. Moreover, the necessary investments should be spread over time, which would limit the increase in the company's risk profile. We reiterate our Buy recommendation, and stick to our Fair Value of EUR212 pending further comments and guidance from management.

ANALYSIS

- The European Commission yesterday approved the joint venture between Hutchison and VimpelCom in Italy, conditional on the structural remedies offered by Hutchison and VimpelCom, which fully address the Commission's competition concerns. This decision ensures the market entry of Iliad as a new mobile network operator in Italy.

- As a reminder, the agreement involves the transfer of 3G and 4G frequencies for EUR450m, an undertaking of several thousand sites in dense areas, an undertaking to bring into force the RAN-sharing agreement or to acquire several thousand sites in rural areas, and a 2G/3G/4G roaming agreement on the merged network, for a period of five years renewable for a further five-year period at the initiative of Iliad. In our view, this great set of network and license agreements should clearly facilitate Iliad's entry and development in the market from an operational and technical standpoint. Iliad said the roaming pricing conditions are "way more favourable" than those in France with Orange, and the contract is "fully variable". Moreover, Iliad is confident there is no further threat from the regulator hanging over the roaming agreement.

- Opportunities also exist from a marketing standpoint. The Italian mobile market is large (85m lines) and a mostly prepaid market, with growth opportunities from the development of unlimited calls, data usage, 3P offers and fixed/mobile convergence. We believe Iliad should be able to deal fixed wholesale agreements with Fastweb, TI or Enel on DSL and Fiber to develop Triple Play offers and fixed/mobile convergence. Nevertheless, challenges exist: firstly, Iliad will start from scratch, with no existing customer base for cross selling lever and no brand image in the country, which is likely to lead to higher acquisition costs. Secondly, the mobile penetration rate is already very high (~140%) and decreasing, and mobile arpu is already very low (~EUR12), with limited economic space for a fall in prices.

- In all cases, we believe one should not underestimate Iliad's pricing creativity and innovation capacity, as well as its leadership in terms of cost efficiency and know-how in terms of direct distribution and viral marketing. As a reminder, no French operator was able to anticipate Free Mobile's major breakthrough in 2012. We believe Iliad's mobile market share target should be around 15%, with long term revenue expectations between EUR1.5bn and EUR2bn (excluding opportunities in fixed), and EBITDA breakeven to be reached within three years.

- Licence payments are to be phased between between 2017 and 2019, and Iliad plans to carry out investments over a period of 5-7 years, entirely financed by the group's cash and available facilities. We believe network CAPEX should be quite progressive, along with commercial growth. As such, we think the leverage impact at the group level should be quite limited: we believe it should not exceed 1.1x or 1.2x EBITDA, and thus we see Iliad's plan in Italy as only moderately increasing the company's risk profile.

VALUATION

- We reiterate our Buy recommendation, and pending further comments and guidance from management we are sticking to our Fair Value of EUR212.

NEXT CATALYSTS

- Q3 results in November 2016.

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	1 M	3 M	6 M	31/12/15
Absolute perf.	8.1%	-4.1%	-18.7%	-15.2%
Telecom	-1.2%	-7.9%	-10.4%	-14.4%
DJ Stoxx 600	1.1%	-0.1%	1.5%	-6.1%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	4,414	4,671	4,931	5,159
% change		5.8%	5.6%	4.6%
EBITDA	1,490	1,668	1,886	2,094
EBIT	0.0	0.0	0.0	0.0
% change		6.9%	27.4%	28.6%
Net income	335.0	358.3	456.7	587.2
% change		6.9%	27.4%	28.6%

	2015	2016e	2017e	2018e
Operating margin	15.1	15.3	18.0	20.9
Net margin	7.6	7.7	9.3	11.4
ROE	12.7	12.1	13.4	14.8
ROCE	9.8	9.5	10.9	12.8
Gearing	45.2	52.4	43.2	27.9

(EUR)	2015	2016e	2017e	2018e
EPS	5.58	5.95	7.59	9.76
% change	-	6.7%	27.5%	28.6%
P/E	33.4x	31.3x	24.6x	19.1x
FCF yield (%)	NM	NM	1.0%	3.5%
Dividends (EUR)	0.38	0.38	0.38	0.38
Div yield (%)	0.2%	0.2%	0.2%	0.2%
EV/Sales	2.8x	2.7x	2.5x	2.3x
EV/EBITDA	8.2x	7.5x	6.6x	5.8x
EV/EBIT	NS	NS	NS	NS



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Food & Beverages

Pernod Ricard

Price EUR105.30

Better year to come

Fair Value EUR112 vs. EUR107 (+6%)

NEUTRAL

2016/17 should show an acceleration in organic sales growth mainly driven by China. However, operating leverage is expected to remain limited as the negative mix will only be partly offset by cost savings. We now expect organic sales and EBIT to grow 2.9% and 3.2% respectively compared with previous forecasts for 2.6% and 3.5%. We also adjust for FX. Overall we have revised our EBIT estimates upwards by 3% on average over the next three years. We roll forward by one year and increase our Fair Value to EUR112. Neutral recommendation maintained.

Bloomberg	RI FP
Reuters	PERP.PA
12-month High / Low (EUR)	108.9 / 88.3
Market Cap (EUR)	27,949
Ev (BG Estimates) (EUR)	36,260
Avg. 6m daily volume (000)	496.4
3y EPS CAGR	6.0%

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.5%	7.6%	4.9%	0.1%
Food & Bev.	-1.0%	1.5%	3.4%	-0.1%
DJ Stoxx 600	1.1%	-0.1%	1.5%	-6.1%

YEnd Jun. (EURm)	06/16	06/17e	06/18e	06/19e
Sales	8,682	8,855	9,168	9,556
% change		2.0%	3.5%	4.2%
EBITDA	2,494	2,571	2,680	2,823
EBIT	2,277	2,350	2,451	2,584
% change		3.2%	4.3%	5.4%
Net income	1,380	1,444	1,537	1,642
% change		4.6%	6.4%	6.8%

	06/16	06/17e	06/18e	06/19e
Operating margin	26.2	26.5	26.7	27.0
Net margin	14.2	15.6	16.1	16.5
ROE	9.3	9.7	9.8	9.8
ROCE	6.7	11.3	11.5	11.8
Gearing	64.5	57.8	51.6	45.5

(EUR)	06/16	06/17e	06/18e	06/19e
EPS	5.20	5.44	5.79	6.18
% change	-	4.6%	6.4%	6.8%
P/E	20.3x	19.4x	18.2x	17.0x
FCF yield (%)	4.3%	4.7%	4.8%	4.9%
Dividends (EUR)	1.88	1.97	2.08	2.17
Div yield (%)	1.8%	1.9%	2.0%	2.0%
EV/Sales	4.2x	4.1x	3.9x	3.7x
EV/EBITDA	14.7x	14.1x	13.4x	12.5x
EV/EBIT	16.1x	15.4x	14.6x	13.7x

ANALYSIS

- **Acceleration in organic sales growth in 2016/17...** We expect organic sales to rise 2.9% next year, which is slightly better than our previous estimate (+2.6%), implying an improving trend vs 2015/16 (+1.8%) which should be mainly driven by China. Organic sales in the country are now expected to be flat next year (-5% previously). This compares to a 9% decline in 2015/16. Pernod Ricard was penalised by Scotch whiskeys (20% of its Chinese sales), which continued to drop double digit. The group's value depletions in China have decreased 7% over the past year. **We also factor into our estimates a deceleration in India**, which is the now the no. 2 market (an estimated 10% of group's sales). Organic sales in the country should increase 12% next year, in line with the 2015/16 trend. **We think there is limited room for acceleration in the no. 1 market, the United States.** Sales should rise 4.5% organically in 2016/17 after a 4% increase in 2015/16 and a flattish trend in 2014/15. Jameson and The Glenlivet continued to be the growth drivers. According to Nielsen data, their value depletions were respectively up 23% and 9% last year. The trend of Absolut improved in 2015/16, but sales remained in negative territory. Stabilising the brand is a medium-term objective.
- **...but limited operating leverage.** We now expect 3.2% organic EBIT growth in 2016/17 vs +3.5% previously. This is in the mid-range of the group's guidance (2-4%) and implies a margin improvement of 9bp in organic terms after +7bp in 2015/16. Pernod Ricard is set to remain penalised by the negative mix (stronger growth in India...), only partly offset by the first benefits of the cost savings programme. The company expects to generate savings of EUR200m over the 2016-2020 period mainly impacting A&P and costs of goods sold, and to a lesser extent structural costs. Half of these are set to be reinvested, implying a 4% boost to EBIT.
- **EBIT estimates lifted by 3% on average over the next three years.** This move takes into account a change in our FX forecast for 2016/17. CFO said that the impact on EBIT should be modestly positive. The GST system voted in August and due to come into force in April 2017 is a downside risk. Spirits have been excluded, but not their inputs. Consequently, Pernod Ricard and its competitors in India will continue to suffer from tax inefficiencies, while facing an increase in input costs. A drop in margin by 200bp cannot be excluded. The group is currently lobbying for 1) input costs to be excluded from the GST and/or 2) its prices to be increased.

VALUATION

- We roll forward by one year and increase our Fair Value to EUR112. Our Neutral recommendation remains unchanged.

NEXT CATALYSTS

- Rémy Cointreau: Q2 sales on 18th October
- Pernod Ricard: Q1 sales on 20th October

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BG's Wake Up Call

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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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