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7th September 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	18538.12	+0.25%	+6.39%
S&P 500	2186.48	+0.30%	+6.97%
Nasdaq	5275.91	+0.50%	+5.36%
Nikkei	17012.44	-0.41%	-10.25%
Stoxx 600	349.461	-0.33%	-4.47%
CAC 40	4529.96	-0.24%	-2.31%
Oil /Gold			
Crude WTI	44.83	-0.75%	+20.51%
Gold (once)	1340.74	+1.06%	+26.20%
Currencies/Rates			
EUR/USD	1.1239	+0.84%	+3.46%
EUR/CHF	1.09285	+0.01%	+0.50%
German 10 years	-0.167	+45.20%	-126.37%
French 10 years	0.119	-31.88%	-87.83%

Economic releases :

Date	
7th-Sept	JP - Leading index Jul. (100A 98.6E) DE - Industrial Prod. N.s.A. Jul (0.2% E) UK - Industrial Prod. (1.7%E) US - Beige Book

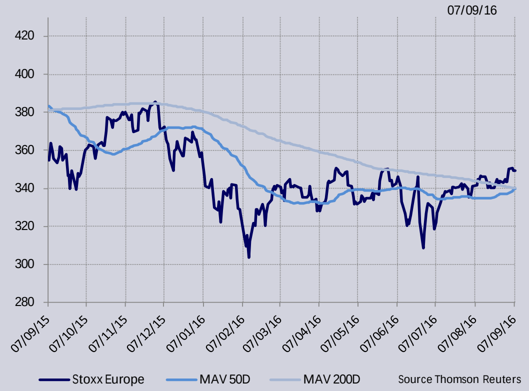
Upcoming BG events :

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	
6th-Sept	WIRECARD Ready to reconnect with the fundamentals
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

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



BAYER — NEUTRAL, Fair Value Under Review

Bayer and Monsanto said to be close to an agreement

Every day press reports claim that the Bayer-Monsanto deal is getting closer and even that a Board could meet on 14th September to discuss the final terms. In order to prepare for this outcome, here are a few elements to assess the move, ahead of the "Meet The Management" meeting on 19-20th September.

FRESENIUS SE — BUY-Top Picks, Fair Value EUR78 vs. EUR73 (+11%)

¡Salud! (full report published today)

Management's review of the growth prospect for Quirónsalud reinforce our sentiment on a perfect fit with Helios. Diluting KABI by bringing both stability and visibility to sales and earning ramps should be much appreciated in a difficult environment for the Pharmaceutical sector. Having integrated Quirónsalud in our model lift our 2017e EPS by 8.5%. We reiterate our BUY rating and raise our Fair Value from EUR73 to EUR78.

SAINT GOBAIN — BUY, Fair Value EUR46 (+16%)

Follow-up on existing-home transactions impact

We continue to see the current share price as a decent entry point. Despite promising pre-indicators for the French construction sector, and positive comments from management regarding the new residential market in France, the share price is still under pressure. In this note, we present a view on the correlation between SGO distribution trends and existing-home transactions. We clearly expect recent improvements to strengthen in the near future. Buy reiterated.

SWORD GROUP — BUY, Fair Value EUR31 vs. EUR26 (+20%)

H1 2016 analysts' meeting feedback: the horizon remains clear…

We reiterate our Buy recommendation and raise our DCF-derived Fair Value to EUR31 from EUR26 as we reduce our company beta to 2 from 2.2 given the solid results over the past quarters (+EUR4/share) and increase our adj. EPS ests. by 2-3% on updated fx assumptions (+EUR1). The analysts' meeting held yesterday confirmed rosy prospects both for Software (driven by Apak) and IT Services (thanks to EU contracts). We consider the 'Horizon 2020' plan is not aggressive on Ifl sales growth, while the acquisition plan offers flexibility for a larger purchase if the opportunity arises.

TELECOM SERVICES

Q2 earnings review: the worst did not happen

With the Q2 earnings season coming to an end, the French telecoms market still appears very much under promotional pressure, but the worst case scenario we could have feared following the breakdown of consolidation talks did not happen. The market is showing some small signs of recovery and H2 might confirm that trends are globally improving. In this context, we continue to favour Iliad, but Orange and Altice should continue to benefit from international diversification. While we remain cautious on the near term outlook at SFR, we believe the stock should be driven by Altice's exchange offer parity of 1.6.

In brief...

ERYTECH, *H1 2016 results in line... But GRASPA approval further delayed*

HUGO BOSS, *New CEO at the helm of Hugo Boss Americas*

SCOR , *New strategic plan: solid fundamentals, yet tricky momentum*

WORLDPAY, *Ship Global has sold an aggregate of 350m shares, i.e. a 17.5% stake at 282p*

Healthcare

Bayer

Price EUR95.92

Bayer and Monsanto said to be close to an agreement

Fair Value Under Review **NEUTRAL**

Bloomberg	BAY GY
Reuters	BAYG.F
12-month High / Low (EUR)	126.9 / 84.4
Market Cap (EURm)	79,321
Ev (BG Estimates) (EURm)	96,950
Avg. 6m daily volume (000)	2 578
3y EPS CAGR	7.4%

	1 M	3 M	6 M	31/12/15
Absolute perf.	0.1%	7.6%	-2.6%	-17.2%
Healthcare	-3.6%	-1.1%	3.8%	-7.5%
DJ Stoxx 600	2.4%	2.1%	2.2%	-4.5%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	46,325	46,586	46,895	48,626
% change		*0.6%*	*0.7%*	*3.7%*
EBITDA	10,334	10,949	11,025	11,619
EBIT	8,851	9,659	9,980	10,546
% change		*9.1%*	*3.3%*	*5.7%*
Net income	5,687	6,099	6,569	7,039
% change		*7.2%*	*7.7%*	*7.1%*

	2015	2016e	2017e	2018e
Operating margin	19.1	20.7	21.3	21.7
Net margin	12.3	13.1	14.0	14.5
ROE	25.6	23.9	23.4	22.6
ROCE	11.6	12.9	13.4	14.3
Gearing	71.0	51.8	36.6	22.6

(EUR)	2015	2016e	2017e	2018e
EPS	6.88	7.37	7.94	8.51
% change	-	*7.2%*	*7.7%*	*7.1%*
P/E	13.9x	13.0x	12.1x	11.3x
FCF yield (%)	5.5%	7.5%	7.8%	8.4%
Dividends (EUR)	2.50	2.60	2.70	2.80
Div yield (%)	2.6%	2.7%	2.8%	2.9%
EV/Sales	2.2x	2.1x	2.0x	1.9x
EV/EBITDA	9.7x	8.9x	8.5x	7.8x
EV/EBIT	11.3x	10.0x	9.4x	8.6x

Every day press reports claim that the Bayer-Monsanto deal is getting closer and even that a Board could meet on 14th September to discuss the final terms. In order to prepare for this outcome, here are a few elements to assess the move, ahead of the "Meet The Management" meeting on 19-20th September.

ANALYSIS

- Over the week-end and again early this week, press reports stated that the management teams of Bayer and Monsanto had met again and were one step closer to an agreement. In particular, at the price of another small increase to its offer from USD125 to USD127.50 per Monsanto share, Bayer has obtained exclusive access to the data room to conduct in-depth due diligence. It was been reported that Monsanto would like Bayer to articulate a final offer somewhere between USD130 and USD135 per share.
- All this makes sense and sounds very likely. Unlike what we initially thought (and some of Bayer's shareholders too), after the very negative reactions from the market to the initial sudden offer, Bayer will not walk away from Monsanto at the first opportunity because management is convinced it can do well and wants to bring this deal to completion, barring any unexpected event.
- As a consequence, the base-case scenario is now that Bayer will become a life company whose mix is either balanced between healthcare and agro-chemicals or even slightly in favour of the latter depending on how exactly the deal is financed. Because, indeed, what is still missing to fully calculate the various impacts is not only the final price, which is now unlikely to be very different from USD130, but how the deal is going to be financed by Bayer. Initially, the group said that it would not require any asset disposals but since then, rumours have suggested that contrasting agents and animal healthcare could be put up for sale to help finance the transaction. Of course, selling another part of Covestro would also make sense. Mid-May, Bayer already signed an agreement with SBM Development to sell Bayer Garden and Bayer Advanced Businesses for an undisclosed amount but an estimated amount that is close to EUR1bn (EUR239m of turnover in 2015). Some other small divestments can be expected as part of the antitrust requirements. So in the end, we do not know for sure how much Bayer will need to raise to complete the financing of the transaction and how much it is going to impact the product mix.

VALUATION

- In order to make a calculation anyway, we have assumed that the 75% debt/25% right issue would be maintained. We have taken a 3% gross rate for debt issuance considering a BBB rating and a 5% discount to a EUR95 share price for the equity component. We have also assumed that the USD1.5bn in synergies are reached in 2020 and we have used new consensus estimates for Monsanto (cut from high-single to high-double digits in EBITDA, EBIT and net income from 2016 to 2019 since the first offer was formulated). From our initial calculations, the deal is no longer accretive in year 1 (neutral to slightly dilutive) and accretive by 7.5% in 2019 (vs 13%). Core EPS CAGR over the [2016-2019] period would therefore jump from 6.7% to 9.3%, making it one of the fastest growing companies in our universe although, admittedly, not with a standard healthcare profile.
- In terms of FV, it is still difficult to communicate on a new one right now because of the above-mentioned limitations to the financing of the deal. As a consequence, we are maintaining our FV under review while mentioning that the "old Bayer" would carry a FV of EUR106.
- Note that Bayer will hold a "Meet the Management" meeting on 19-20th September, when it is very likely to share the details of the final transaction with the investment community but also to update the group's medium-term targets, including sales figures for the five "new" flagships.

NEXT CATALYSTS

- 14th September 2016 (?): Board meeting to discuss Monsanto transaction (?)

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Healthcare

Fresenius SE

Price EUR70.43

¡Salud! (full report published today)

Fair Value EUR78 vs. EUR73 (+11%) **BUY-Top Picks**

Bloomberg	FRE GR
Reuters	FREG.DE
12-month High / Low (EUR)	70.4 / 53.1
Market Cap (EURm)	38,480
Ev (BG Estimates) (EURm)	53,729
Avg. 6m daily volume (000)	1 068
3y EPS CAGR	12.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	4.8%	6.1%	16.7%	6.8%
Healthcare	-3.6%	-1.1%	3.8%	-7.5%
DJ Stoxx 600	2.4%	2.1%	2.2%	-4.5%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	27,626	28,927	33,694	36,132
% change		*4.7%*	*16.5%*	*7.2%*
EBITDA	4,990	5,407	6,213	6,756
EBIT	3,875	4,250	4,865	5,311
% change		*9.7%*	*14.5%*	*9.2%*
Net income	1,358	1,623	1,864	2,064
% change		*19.5%*	*14.9%*	*10.7%*

	2015	2016e	2017e	2018e
Operating margin	14.0	14.7	14.4	14.7
Net margin	4.9	5.6	5.5	5.7
ROE	7.2	7.9	8.3	8.4
ROCE	3.8	4.3	4.8	5.1
Gearing	118.4	107.2	101.0	91.6

(EUR)	2015	2016e	2017e	2018e
EPS	2.62	2.97	3.38	3.74
% change	-	*13.6%*	*13.6%*	*10.7%*
P/E	26.9x	23.7x	20.9x	18.8x
FCF yield (%)	1.9%	4.1%	1.9%	4.4%
Dividends (EUR)	1.69	1.93	2.21	2.45
Div yield (%)	2.4%	2.7%	3.1%	3.5%
EV/Sales	1.9x	1.9x	1.8x	1.7x
EV/EBITDA	10.4x	9.9x	9.6x	8.9x
EV/EBIT	13.4x	12.6x	12.3x	11.3x

Management's review of the growth prospect for Quirónsalud reinforce our sentiment on a perfect fit with Helios. Diluting KABI by bringing both stability and visibility to sales and earning ramps should be much appreciated in a difficult environment for the Pharmaceutical sector. Having integrated Quirónsalud in our model lift our 2017e EPS by 8.5%. We reiterate our BUY rating and raise our Fair Value from EUR73 to EUR78.

ANALYSIS

- **Fresenius SE acquired Spain's leading hospital network, Quirónsalud, for EUR5.76bn**. This acquisition which is the largest conducted by Fresenius SE is a perfect fit into its portfolio. Indeed, it should bring both stability and visibility to the PnL at a time 1/ KABI NA long term growth might have cast doubt.

- **The Spanish hospital Market is highly attractive** with 1/ an increased proportion of the population benefiting from a private insurance and 2/ lower hospital coverage leaving room for new projects. Quirónsalud's EUR2.7bn revenues which are expected to growth by 5% in the long term comes from both private and public payers and should offer to Fresenius a strong footprint in the country before taking a role into the consolidation of the market.

- **On top of embedded synergies, the groups communicated on an additional EUR50m synergies** that should be reached in the mid-term. Considering 1/ comments from the CEO during the conference call and 2/ the groups excellent track record in integrating and over delivering on synergies, we do not rule out that they could go higher, further enhancing the accretion of the deal.

VALUATION

- Integrating Quirónsalud to our estimates with synergies of EUR50m as a base scenario **lift our EPS by 8.5%, 10% and 10.7% in 2017e, 2018e and 2019e respectively.**

- We reiterate our BUY rating for Fresenius which is included in our Q3 top picks list. Our new Fair Value is increased by EUR5 to EUR78 offering an upside of 11%.

NEXT CATALYSTS

- Oct 27th: Q3 2016 results
- Nov. 15th:Fresenius SE to attend BG Healthcare conference
- Feb. 2017: FY 2016 results with new mid-term targets

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Construction & Building Materials

Saint Gobain

Price EUR39.50

Follow-up on existing-home transactions impact

Fair Value EUR46 (+16%) **BUY**

Bloomberg	SGO FP
Reuters	SGOB.PA
12-month High / Low (EUR)	41.8 / 32.1
Market Cap (EUR)	21,919
Ev (BG Estimates) (EUR)	28,243
Avg. 6m daily volume (000)	1,748
3y EPS CAGR	16.2%

	1 M	3 M	6 M	31/12/15
Absolute perf.	4.2%	1.0%	4.9%	-0.9%
Cons & Mat	5.8%	6.7%	9.5%	6.4%
DJ Stoxx 600	2.4%	2.1%	2.2%	-4.5%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	39,623	39,551	41,048	42,520
% change		*-0.2%*	*3.8%*	*3.6%*
EBITDA	3,844	4,040	4,559	4,989
EBIT	2,636	2,840	3,309	3,739
% change		*7.7%*	*16.5%*	*13.0%*
Net income	1,165	1,189	1,511	1,811
% change		*2.1%*	*27.1%*	*19.8%*

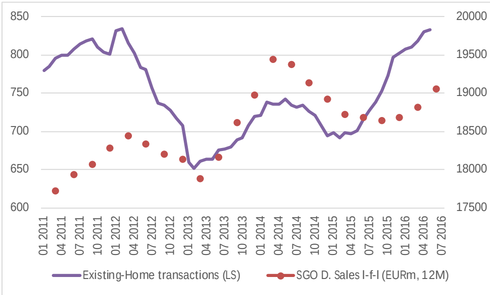
	2015	2016e	2017e	2018e
Operating margin	6.7	7.2	8.1	8.8
Net margin	1.1	3.1	3.8	4.4
ROE	6.1	6.1	7.5	8.5
ROCE	5.9	6.7	7.6	8.4
Gearing	24.8	22.7	19.1	14.3

(EUR)	2015	2016e	2017e	2018e
EPS	2.06	2.12	2.69	3.23
% change	-	*3.0%*	*27.1%*	*19.8%*
P/E	19.2x	18.6x	14.7x	12.2x
FCF yield (%)	5.5%	5.3%	6.7%	7.8%
Dividends (EUR)	1.24	1.30	1.30	1.30
Div yield (%)	3.1%	3.3%	3.3%	3.3%
EV/Sales	0.7x	0.7x	0.7x	0.6x
EV/EBITDA	7.4x	7.0x	6.1x	5.4x
EV/EBIT	10.8x	9.9x	8.4x	7.2x

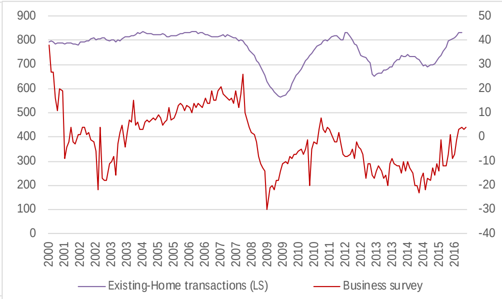
We continue to see the current share price as a decent entry point. Despite promising pre-indicators for the French construction sector, and positive comments from management regarding the new residential market in France, the share price is still under pressure. In this note, we present a view on the correlation between SGO distribution trends and existing-home transactions. We clearly expect recent improvements to strengthen in the near future. Buy reiterated.

We have been frustrated by the market reaction following the publication of H1 results, which were robust with operating income up 10% lfl and a 60bp improvement in margin. Most businesses reported decent figures, in particular flat glass. Additionally, we pointed out that **1)** distribution sales showed a clear rebound in Q2 at +4.6% compared with a decline or poor growth over the past five quarters and margin was up 20bp, **2)** France top line was up 1.3%, vs a decline for the last five quarters, while the margin decline was due to the pipes business, not distribution. This could be a turning point in our view. Admittedly, while comments on the French residential market have not changed ("renovation market remains sluggish for the time being"), management has made positive comments on France ("new-build activity showed the first signs of improvement"), bearing in mind that Saint-Gobain is more exposed to the French renovation sector (12% est of consolidated sales) than French new residential (6%) however.

Existing-home transactions vs distribution sales - segment*



Transactions vs business survey in RMI



*(*transactions in thousand). Source : Saint-Gobain, CGEDD/Fr. Minister of Environment, INSEE, Bryan, Garnier & co*

The left-hand chart compares existing home transactions in France with revenues at Saint-Gobain Distribution. We have recalculated annual revenues based on organic top line growth. Approx. 40% of SGO distribution is generated in France, while 75% of France sales are generated by the distribution business. France remains a pretty good proxy for the distribution business. The Business Survey is actually a monthly survey on French craftsmen measuring the trend of planned activity for the RMI (renovation, maintenance, improvement) segment. These numbers are collected by INSEE.

ANALYSIS

- Firstly, as shown in the right-hand chart, we can see some correlation between transactions and the confidence of craftsmen in the future. Secondly, there is a decent correlation between existing-home transactions and Saint-Gobain revenues within the distribution segment. However, there has been a lag recently, that we estimate at around two quarters roughly.
- We think the improvement seen in Q2 (in France and distribution) is likely to strengthen in H2. We view it as a positive catalyst for the SGO share price, as distribution benefits from genuine operating leverage, around 20-30% (less than industrial businesses at 35-55%).

VALUATION

- EUR46 derived from the application of historical EV/EBIT to our 2018 forecast, discounted back.

NEXT CATALYSTS

- 9 month revenues on 27th October 2016, after market

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TMT

Sword Group

Price EUR25.87

Bloomberg	SWP FP
Reuters	SWP.PA
12-month High / Low (EUR)	25.9 / 21.7
Market Cap (EUR)	244
Ev (BG Estimates) (EUR)	206
Avg. 6m daily volume (000)	8.30
3y EPS CAGR	11.9%

	1 M	3 M	6 M	31/12/15
Absolute perf.	10.1%	12.7%	13.1%	6.5%
Softw.& Comp.	3.7%	9.2%	13.0%	7.4%
DJ Stoxx 600	2.4%	2.1%	2.2%	-4.5%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	138.0	160.0	181.0	205.0
% change		*15.9%*	*13.1%*	*13.3%*
EBITDA	22.0	25.0	29.0	33.0
EBIT	11.0	16.0	23.0	27.0
% change		*45.5%*	*43.8%*	*17.4%*
Net income	16.0	16.0	19.0	23.0
% change		*0.0%*	*18.8%*	*21.1%*

	2015	2016e	2017e	2018e
Operating margin	13.8	13.3	14.0	14.5
Net margin	7.2	7.5	9.4	9.8
ROE	6.2	7.4	10.1	11.2
ROCE	13.8	13.0	13.9	16.4
Gearing	-26.0	-23.0	-21.0	-23.0

(€)	2015	2016e	2017e	2018e
EPS	1.72	1.74	2.05	2.41
% change	-	*1.2%*	*17.8%*	*17.6%*
P/E	15.0x	14.9x	12.6x	10.7x
FCF yield (%)	3.3%	3.7%	4.1%	7.7%
Dividends (€)	1.20	1.20	1.20	1.20
Div yield (%)	4.6%	4.6%	4.6%	4.6%
EV/Sales	1.5x	1.3x	1.1x	1.0x
EV/EBITDA	9.2x	8.2x	7.2x	6.1x
EV/EBIT	10.6x	9.8x	8.3x	6.7x

H1 2016 analysts' meeting feedback: the horizon remains clear...

Fair Value EUR31 vs. EUR26 (+20%) **BUY**

We reiterate our Buy recommendation and raise our DCF-derived Fair Value to EUR31 from EUR26 as we reduce our company beta to 2 from 2.2 given the solid results over the past quarters (+EUR4/share) and increase our adj. EPS ests. by 2-3% on updated fx assumptions (+EUR1). The analysts' meeting held yesterday confirmed rosy prospects both for Software (driven by Apak) and IT Services (thanks to EU contracts). We consider the 'Horizon 2020' plan is not aggressive on lfl sales growth, while the acquisition plan offers flexibility for a larger purchase if the opportunity arises.

ANALYSIS

- **Rosy prospects for Services thanks to EU contracts**. Sword has 9 multi-year framework agreements with EU agencies with an average contract value of c. EUR15m and an average duration of 4.4 years, and a backlog of EUR100m+ for the next 5 years. Management expects 25% sales growth with EU agencies for 2016 (to EUR21m) after +42% in 2015, and is committed to EUR40m+ sales by 2020, i.e. 17% sales CAGR. Many new contracts (for up to EUR50m each) are in preparation for the next 2 years. Due to the investments necessary to keep growing, Sword does not expect the EBITDA margin in Benelux to exceed 8% (vs. 6% in H1 2016). In the UK, it is satisfied with the 4.7% EBITDA margin posted for H1 as it was at break even in 2015 and sales rose 25% lfl.

- **Software: Apak remains the driver**. Sword is pursuing strong growth in AFS (Asset Finance) with Apak, with the continuous ramp-up of BMW (initial contract value of EUR17m with three countries already deployed - o/w the UK and Ireland -, Italy and Germany in preparation, with a final target of 25+ European countries) after that of Daimler. Intellectual Property (IP) benefits from the gain of PTOs in Colombia and New Zealand in 2015, while another PTO is in prospect. Sword intends to boost its Apak R&D plan, with an additional spend of EUR7.5m over 2017-18 on top of EUR3.5m to be spent by end 2016 (EUR2.2m as of June 2016), and an additional budget of EUR10m over 2018-20 in order to develop the North American branch and out of the commercial finance area.

- **'Horizon 2020' plan: not so aggressive**. For 2020, Sword aims to deliver EUR300m in revenues (o/w 70% in Services and 30% in Software like today, and o/w 15% in France and 85% overseas vs. 19%-81% today) - vs. c. EUR160m for 2016 - with an EBITDA margin of 14-15% (vs. 15.5% today). Management considers the GBP is a headwind of only EUR5m for sales or a 3-month delay. Lfl sales growth is anticipated above 10%, and Sword has not been aggressive in forecasting in order to keep the 'right balance' between revenue growth and profitability. Organic growth will be driven by the increase in backlog (large projects with customers such as the EU), increase in recurrence (long-term contracts using the on-demand model such as Apak), and an increase in offerings (projects underpinned by products or software components developed internally).

- **How to solve the acquisition puzzle?** For EUR40m sales to be bought by end 2020, Sword intends to buy Software and Services firms, and remain strict on criteria. In Software, the priority remains the UK with adjacent products with the aim of participating in market consolidation - a myriad of vendors exists in GRC (Governance, Risk & Compliance). In Services, acquiring in Germany is driven by the presence of customers (Daimler, BMW, Airbus). Management is conscious about the scarcity of quality targets in Germany, and is targeting companies with a mid-single digit EBITDA margin which could be raised to 11%. Assuming a price-tag of EUR40-50m for EUR40m in sales and at least EUR11m dividend, Sword considers end 2020 net debt could be EUR17m.

VALUATION

- Sword's shares are trading at est. 9.8x 2016 and 8.3x 2017 EV/EBIT multiples.

- Net cash position on 30th June 2016 was EUR27.9m (net gearing: -19%).

NEXT CATALYSTS

Q3 2016 sales on 24th October after markets close.

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Sector View

Telecom services

Q2 earnings review: the worst did not happen

	1 M	3 M	6 M	31/12/15
Telecom	-0.1%	-5.6%	-8.4%	-13.0%
DJ Stoxx 600	2.4%	2.1%	2.2%	-4.5%

*Stoxx Sector Indices

Companies covered			
ALTICE		**BUY**	**EUR16,5**
Last Price	EUR15,3	*Market Cap.*	EUR16,743m
ILIAD		**BUY**	**EUR212**
Last Price	EUR185,2	*Market Cap.*	*EUR10,877m*
NUMERICABLE SFR		**NEUTRAL**	**EUR28,7**
Last Price	EUR25,295	*Market Cap.*	*EUR11,085m*
ORANGE		**BUY**	**EUR17,1**
Last Price	EUR13,595	*Market Cap.*	*EUR36,163m*

With the Q2 earnings season coming to an end, the French telecoms market still appears very much under promotional pressure, but the worst case scenario we could have feared following the breakdown of consolidation talks did not happen. The market is showing some small signs of recovery and H2 might confirm that trends are globally improving. In this context, we continue to favour Iliad, but Orange and Altice should continue to benefit from international diversification. While we remain cautious on the near term outlook at SFR, we believe the stock should be driven by Altice's exchange offer parity of 1.6.

ANALYSIS

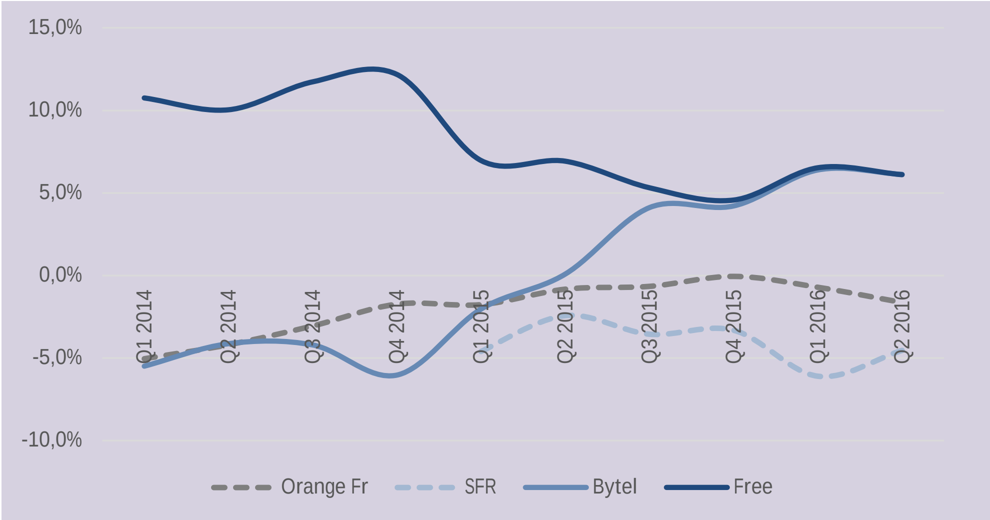
- **Following the breakdown of consolidation talks** at the beginning of April, we could have **feared a reinforced price war on the market. This did not happen**, even if **promotional intensity remains strong** with ARPUs under pressure and a telecoms market which remains very nervous. On the contrary, we saw some **positive weak signals**, in particular on the fixed side, with price **increases** from Orange, SFR, and most notably from Bouygues Telecom. All results were **in line or slightly above consensus**, stocks reacted positively, expect for Orange due to a disappointment on BtoC mobile ARPU. As shown in the figure below, the sector is showing a **very gradual improvement trend in turnover**. Iliad is still delivering **high growth** with H1 EBITDA **up 11.5% yoy,** Bouygues Telecom's recovery is well underway, with Q2 EBITDA **up 27.8% yoy,** and Orange managed to **stabilise its EBITDA in Q2**, offsetting French disappointments by good results at the international level. SFR is still struggling, with Q2 EBITDA **down 6.4% yoy**, due to operational and commercial weaknesses, but this has now been correctly priced-in by the market since Q1. Altice, delivering a **2.7% yoy EBITDA growth in Q2**, is showing good results outside of France, in particular in the US with 11.2% yoy EBITDA growth, helping to offset French pressure.

- **As far as H2 2016 is concerned**, a **return to reason seems possible in the French market**, prompted by dire need for investments. Promotional levels, which have been especially high since Q3 2015 should **progressively stabilise**, with no incremental negative impact on ARPUs, and we think Iliad might **follow the price increase path in fixed services**, thanks to the future launch of its new premium Freebox v7. **Cost cutting plans** should also continue to deliver at SFR, Bouygues Telecom and Orange, in order to offset top line pressure, help generate margins for investment and continue to adapt the business to market changes (digitalisation, offers simplification…). Nevertheless, the market will remain **quite unstable** with competitors still benefitting from SFR's lack of commercial efficiency, and **heavy promotions**.

- **In this context, we continue to favor Iliad**: strong catalysts exist including the **upcoming launch in Italy,** which has not been priced into the consensus in our view, **Q3 commercial trend is good** according to management's latest declarations, and we expect the **launch of the new Freebox v7** before the end of year. We remain positive on Orange, which has the required fundamentals to **consolidate its leadership position** in France (still benefitting for some time from the underperformance of SFR), and also has significant **growth opportunities outside of France**, such as in Spain and Africa. At this point in time we are still **cautious on the operational and financial outlook at SFR**, which has yet to **demonstrate its ability to turnaround the business**, restore its fundamentals and deliver monetisation of its content-based strategy, but the stock should now be driven by the 1.6 parity of the proposed Altice exchange offer. Despite SFR's current weaknesses, **Altice's positive diversification**, with the US now account for **a third of the group's EBITDA**, should continue to materialise positively and help drive a healthy stock performance.

(to be continued next page)

Total revenues in France: YoY historical Growth.



Source: Company Data, Bryan Garnier & Co ests.

VALUATION

- All the stocks we cover were severely impacted by the breakdown of consolidation talks on 1st April. Since then, Iliad has been globally stable, Orange has lost 4.9% mainly due to Q2 disappointments, SFR has been greatly impacted by the consensus adjustment following Q1 figure and had dropped 19.6% before Altice's exchange offer, whereas Altice benefited from positive diversifications gaining 10.6%.
- We are sticking to our current recommendations and fair values for our coverage.

BG Telecom valuation table

	Stocks performance		Multiples (consensus)	
Company	From Apr. 1st to Apr. 5th.	From Apr. 5th to Sept. 1st.	EV/EBITDA 2016	EBITDA CAGR 2016-2018
Orange	-8%	-5%	4,7	2,2%
Iliad	-17%	0%	7,5	10,7%
Altice	-11%	11%		
SFR	-19%	-20%	6,4	7,8%
STOXX EUR 600 TELCO	-3%	-4%		
CAC40	-2%	4%		

Source: Thomson Reuters, Bryan Garnier & Co ests.

NEXT CATALYSTS

- Launch of Altice exchange offer on SFR shares on 22nd September
- Q3 publications in October and November.

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Healthcare

ERYTech

Price EUR23.79

H1 2016 results in line... But GRASPA approval further delayed

Fair Value EUR47 vs. EUR48 (+98%) **BUY**

Bloomberg	ERYP FP
Reuters	ERYP.PA
12-month High / Low (EUR)	36.8 / 18.2
Market Cap (EUR)	189
Avg. 6m daily volume (000)	20.70

	1 M	3 M	6 M	31/12/15
Absolute perf.	17.4%	1.1%	12.0%	-7.1%
Healthcare	-3.6%	-1.1%	3.8%	-7.5%
DJ Stoxx 600	2.4%	2.1%	2.2%	-4.5%

	2014	2015e	2016e	2017e
P/E	NS	NS	NS	NS
Div yield (%)	NM	NM	NM	NM

ANALYSIS

- **H1 2016 results were in line with our estimates** with the net loss at –EUR10.3m (vs BG: -EUR10.0m). Note that, 1/ R&D expenses increased by 68% to EUR8.8m due to progress in the various clinical projects, as well as an increase in headcount; 2/ the company had cash & cash equivalents of EUR36.5m at the end of June (vs EUR45.6m at the end of 2015).
- More importantly, we understand that **discussions with the CHMP might be longer than what management previously anticipated (Q1 2017)**. On the positive side, some issues have been "resolved"... But it might take more time for others (and unfortunately, management could not give us more details due to the embargo imposed by the regulator).
- **We now expect an approval in H2 2017**. No clear guidance has been given by the company... But we note that Shire's Oncaspar (PEGylated asparaginase) was approved just one year and a half after the filing of the application. Should we retain a similar timeframe, a positive opinion could be considered in Q2 2017... However, we choose to retain a more conservative scenario.

VALUATION

- **Our Fair Value has been trimmed from EUR48 to EUR47** after having delayed our first sales estimates to the very beginning of 2018... But note that our previous anticipation was very conservative (EUR3m in 2016e). We nonetheless reiterate our BUY rating as we still believe that GRASPA will be approved in light of the quality of the clinical package (see our previous comments for further details).

NEXT CATALYSTS

- H1 2017: Results from the Phase II study evaluating GRASPA in pancreatic cancer.
- 2017: European approval of GRASPA for the treatment of relapsing/refractory patients with ALL.

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Luxury & Consumer Goods

Hugo Boss

Price EUR54.29

New CEO at the helm of Hugo Boss Americas

Fair Value EUR74 (+36%) **NEUTRAL**

Bloomberg	BOSS GR
Reuters	BOSG_p.DE
12-month High / Low (EUR)	106.5 / 46.4
Market Cap (EUR)	3,822
Avg. 6m daily volume (000)	427.6

	1 M	3 M	6 M	31/12/15
Absolute perf.	-3.3%	-2.9%	1.5%	-29.1%
Pers & H/H Gds	1.6%	2.9%	5.7%	4.3%
DJ Stoxx 600	2.4%	2.1%	2.2%	-4.5%

	2014	2015e	2016e	2017e
P/E	10.8x	11.6x	15.9x	13.7x
Div yield (%)	6.7%	6.7%	5.3%	6.3%

ANALYSIS

- Yesterday evening Hugo Boss announced the departure of Gerrit Ruetzel, President & CEO of the Americas region since January 2015 and within the group since 2006, effective September 30th. He will be replaced by Anthony Lucia, effective as of 15th October.
- Mr Lucia has a very strong experience and knowledge of the US apparel market as he led the US business Escada (2008-12) and G-Star (2012-16). More importantly, he was President & CEO of Hugo Boss US from 1998 to 2008.
- His expertise is more than welcome since the German brand, like almost all its peers, is facing very tough market conditions (deflationary trends, declining store traffic, lack of traction with tourists, etc.). Moreover, Hugo Boss implemented some painful, but necessary initiatives to regain some momentum in the MT: **(i)** the **category migration** that reduces the presence of the BOSS core brand within the wholesale channel, the latter being also affected by **(ii)** the **distribution upgrade** that implies a rationalisation of the wholesale network. As a consequence, US sales were down 19% FX-n in H1 but note that Ralph Lauren's revenue in North America declined by 11% in Q1 FY17 ending 2nd July.

VALUATION

- This management change shows that Hugo Boss continues to implement new actions, especially in challenging markets like the US. Although some very first positive signs from these initiatives are starting to appear, overall visibility remains quite poor in our view. Neutral recommendation and FV of EUR74 confirmed.

NEXT CATALYSTS

- Q3 2016 Results on 2nd November // Investor Day in London on 16th November.

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Insurance

Scor

Price EUR26.84

Bloomberg	SCR FP
Reuters	SCOR.PA
12-month High / Low (EUR)	37.2 / 24.9
Market Cap (EUR)	5,153
Avg. 6m daily volume (000)	429.6

	1 M	3 M	6 M	31/12/15
Absolute perf.	4.5%	-8.4%	-17.3%	-22.2%
Insurance	4.8%	-3.9%	-5.3%	-16.8%
DJ Stoxx 600	2.4%	2.1%	2.2%	-4.5%

	2015	2016e	2017e
P/E	7.8x	9.3x	8.9x
Div yield (%)	5.6%	5.6%	5.6%

New strategic plan: solid fundamentals, yet tricky momentum

Fair Value EUR38 (+42%) **BUY**

ANALYSIS

- Scor has presented its new three-year strategic plan called "Vision in Action".
- The main objectives are: i/ an ROE of 800bps over the 5-year risk-free rate over the cycle (vs. 1,000 bp above the 3-month risk-free rate in the last plan); and ii/ a Solvency II ratio in the 185-220% range (same as in the last plan, vs. 210% at end-June).
- In P&C, Scor expects a 3-8% CAGR for premiums and a 95-96% combined ratio (worse than the last 93-94% target).
- In Life, the goal is to grow premiums by 5-6% annually and to generate a 6.8-7.0% technical margin (slightly below the 7% target in the last plan).
- RoI is expected to be in the 2.5-3.2% area (vs. >3.0% in the last plan), including a 5% cash position (vs. 14% at end-June).
- -> The targets presented today are broadly in line with market expectations, and are another illustration of the deflationary forces currently at play in the insurance/reinsurance industry. However fundamentals remain strong, and so does visibility on the dividend.

VALUATION

- Based on our current estimates, our SOTP valuation is EUR38.

NEXT CATALYSTS

- Detailed presentation of the plan today. Q3 2016 numbers to be reported on 27th October.

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TMT

Worldpay

Price 294.40p

Bloomberg	WPG LN
Reuters	WPG.L
12-month High / Low (p)	316.8 / 240.0
Market Cap (GBPm)	5,888
Avg. 6m daily volume (000)	6,809

	1 M	3 M	6 M	31/12/15
Absolute perf.	-1.3%	5.2%	-1.9%	-4.2%
Softw.& Comp. SVS	3.7%	9.2%	13.0%	7.4%
DJ Stoxx 600	2.4%	2.1%	2.2%	-4.5%

	2015	2016e	2017e	2018e
P/E	42.5x	26.0x	22.1x	18.3x
Div yield (%)	NM	1.0%	0.9%	1.2%

Ship Global has sold an aggregate of 350m shares, i.e. a 17.5% stake at 282p

Fair Value 278p (-6%) **NEUTRAL**

FACTS

- Ship Global 2 & Cy (a company jointly-owned by funds managed by Advent International and Bain Capital) has just announced it has sold an aggregate of 350m ordinary Worldpay shares at a price of 282p/share (a discount of 4.2% vs. yesterday's closing price), namely c.17.5% of the company's issued ordinary share capital (c. GBP987m). Any of the shares held by Ship Global 2 which are not sold in the placing will be subject to a 90-day lock-up period. Ship Global 2 will cease to be entitled to appoint directors to the board of the company on completion of the sale of the Placing Shares.
- As a reminder, the last stake sold by Advent International and Bain Capital was last April (a 13.8% stake for GBP740m, at a price of 269p/share)

ANALYSIS

- As we wrote in our last report, it was likely that the two private equity funds (564.5m shares, i.e. 28.2% of Worldpay share capital with a lock-up period ended on 10th July) sell part of or their entire stake during autumn (September/December). We now know that Ship Global 2 will continue to hold c.10.7% of the issued share capital of Worldpay (c.214.5m ordinary shares).

VALUATION

- We maintain our **Neutral recommendation and our FV at 278p**. Despite our far-from-pessimistic estimates, the share is not cheap, even taking into account only EV/EBITDA (it trades at 18.0x in FY16e whereas in our SOTP it deserves 16.1x taking into account a 12.5% premium on the UK).

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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%

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