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13th September 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	18325.07	+1.32%	+5.17%
S&P 500	2159.04	+1.47%	+5.63%
Nasdaq	5211.89	+1.68%	+4.08%
Nikkei	16729.04	+0.34%	-12.40%
Stoxx 600	342.232	-0.95%	-6.45%
CAC 40	4439.8	-1.15%	-4.25%
Oil /Gold			
Crude WTI	46.29	+0.89%	+24.44%
Gold (once)	1324.57	-0.70%	+24.68%
Currencies/Rates			
EUR/USD	1.122	+0.08%	+3.29%
EUR/CHF	1.0926	-0.22%	+0.48%
German 10 years	-0.023	-54.99%	-103.63%
French 10 years	0.27	+15.94%	-72.49%
Euribor	-	+-%	+-%

Economic releases :

Date	
13th-Sept	GB - CPI Aug. (0.7%E) GB - Core CPI (1.4% E y/y) DE - CPI (0.4% E y/y) DE - ZEW current situation Sep. (56E) EUZ - ZEW Eco Sentiment Sep.

Upcoming BG events :

Date	
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)
14th-Nov/ 15th-Nov	4th Paris Healthcare Conference

Recent reports :

Date	
9th-Sept	ENGIE The twelve labours of Engie
7th-Sept	FRESENIUS : ¡Salud!
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

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

ATOS — BUY, Fair Value EUR102 vs. EUR93 (+13%)

Acquisition of Anthelio Healthcare Solutions in the US

We reiterate our Buy rating and increase our DCF-derived fair value to EUR102 from EUR93 on updated assumptions for medium-term Ifl sales growth (3% vs. 2% = +EUR5/share), WCR (-6% of sales vs. -3% = +EUR4) and fx (-EUR1), and our increased EPS ests. (+EUR1). Yesterday evening, Atos announced the acquisition of Anthelio for USD275m in cash or an 8.5x 2017 post-synergies EV/EBIT multiple. This acquisition, which we consider as 2% accretive to our adj. EPS ests. for 2017-18, allows Atos to enlarge its customer base in Healthcare in the US.

CAST — NEUTRAL, Fair Value EUR3.6 (+3%)

H1 2016 results below our expectations, but FY16 guidance reiterated

Yesterday evening, Cast reported H1 2016 results below our expectations, but confirmed its FY 16 target to post revenue growth above 10% while staying profitable. The deal flow remains promising and the large contract postponed in June with a US bank is still on the cards. We expect no significant share price reaction on the back of these numbers.

KERING — BUY, Fair Value EUR185 vs. EUR175 (+6%)

Gucci momentum should remain positive short term

After a strong performance by Kering Group in Q2, particularly at Gucci brand, we remain very confident for H2 and 2017, both for Gucci brand and Kering Group. Consequently, we revise up our 2016 and 2017 expectations by 3% and we upgrade our Fair Value from EUR175 to EUR185 and remain at Buy on the stock, as we anticipate sales momentum remaining positive in coming quarters.

LUXOTTICA — NEUTRAL, Fair Value EUR54 (+27%)

Recent trends confirm our scenario for H2 16

In Q2 Luxottica's own initiatives (MAP policy at Ray-Ban, direct go-to-market approach in mainland China, etc.) proved to be more harmful than expected, this headwind being exacerbated by a challenging macro environment. Although the Group's actions will still weigh in H2, we understand that the end of the summer showed that some drivers could help LUX to post a slight and sequential acceleration throughout H2 (+3%e vs. +1.6% in H1) to match FY guidance.

INSURANCE

Pretty satisfactory "Rendez-Vous de Septembre"

It should be a pretty satisfactory "Rendez-Vous de Septembre" this year, driven by a slightly better price environment and short/mid-term business opportunities (Solvency II, big data, cyber…). In the current environment, reinsurers deserve their premium to primary insurers, even if the current 15-20% premium seem a little high to us. So look for entry points!

TMT

Atos

Price EUR90.27

Acquisition of Anthelio Healthcare Solutions in the US

Fair Value EUR102 vs. EUR93 (+13%) BUY

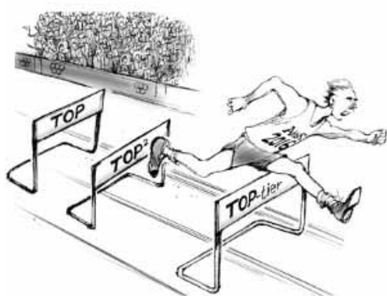
Bloomberg	ATO FP
Reuters	ATOS.PA
12-month High / Low (EUR)	90.4 / 62.7
Market Cap (EUR)	9,457
Ev (BG Estimates) (EUR)	8,768
Avg. 6m daily volume (000)	309.7
3y EPS CAGR	14.9%

	1 M	3 M	6 M	31/12/15
Absolute perf.	1.3%	14.2%	32.2%	16.6%
Softw.& Comp.	1.3%	10.6%	11.3%	6.0%
DJ Stoxx 600	-1.1%	2.8%	0.0%	-6.4%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	10,686	11,803	12,341	12,634
% change		*10.5%*	*4.6%*	*2.4%*
EBITDA	1,334	1,545	1,722	1,809
EBIT	589.0	834.0	922.0	1,010
% change		*41.6%*	*10.6%*	*9.5%*
Net income	609.0	736.0	870.0	947.0
% change		*20.9%*	*18.2%*	*8.9%*

	2015	2016e	2017e	2018e
Operating margin	8.6	9.3	10.1	10.5
Net margin	4.0	5.1	5.6	6.2
ROE	9.9	13.3	13.4	13.3
ROCE	22.9	25.7	41.3	46.8
Gearing	-14.0	-16.0	-48.0	-57.0

(€)	2015	2016e	2017e	2018e
EPS	5.83	6.95	8.18	8.84
% change	-	*19.2%*	*17.7%*	*8.1%*
P/E	15.5x	13.0x	11.0x	10.2x
FCF yield (%)	4.2%	5.6%	6.7%	8.7%
Dividends (€)	0.90	1.10	1.40	1.55
Div yield (%)	1.0%	1.2%	1.6%	1.7%
EV/Sales	0.8x	0.7x	0.6x	0.5x
EV/EBITDA	6.6x	5.7x	4.1x	3.5x
EV/EBIT	9.7x	8.0x	5.7x	4.8x



We reiterate our Buy rating and increase our DCF-derived fair value to EUR102 from EUR93 on updated assumptions for medium-term lfl sales growth (3% vs. 2% = +EUR5/share), WCR (-6% of sales vs. -3% = +EUR4) and fx (-EUR1), and our increased EPS ests. (+EUR1). Yesterday evening, Atos announced the acquisition of Anthelio for USD275m in cash or an 8.5x 2017 post-synergies EV/EBIT multiple. This acquisition, which we consider as 2% accretive to our adj. EPS ests. for 2017-18, allows Atos to enlarge its customer base in Healthcare in the US.

ANALYSIS

- **Strategic rationale of the deal**. Atos signed an agreement to acquire Anthelio Healthcare Solutions, which is the largest independent provider of healthcare technology solutions in North America, for an enterprise value of USD275m, or an 8.5x EV/EBIT multiple, post-synergies, for 2017. This deal, to be fully financed by cash and expected to close late September, strengthens Atos' presence in Healthcare in the US with est. USD0.4bn revenue in Healthcare IT and est. USD2.5bn revenues in North America. Founded in 1999 in Dallas (Texas), Anthelio generates c.USD200m revenues (growing at 8%) with 1,700 staff (1,300 in the US and 400 in India), essentially in Managed Services (IT management, BPO services such as medical coding, revenue cycle management, patient financial services, clinical documentation, cancer registry services, electronic medical records). Its largest customer is McLaren Health Care, which had a 26% stake in Anthelio and signs a partnership with Atos through a 5-year renewed outsourcing contract.
- **A bit of synergies ahead**. We understand that this year Anthelio will generate an operating margin around 11-12% for revenues at c. USD200m. Based on the 8.5x post-synergies EV/EBIT multiple expected for 2017, we estimate 2017 EBIT around USD32m. These synergies are expected to be primarily on revenues. Based on a 2017 revenue assumption above USD220m - taking into account at least 8% growth - we consider Anthelio's operating margin would reach 14%, notwithstanding the assumption that the remaining synergies will materialise in 2018. In total, we estimate the synergies between Anthelio and Atos will be around USD10m, or c. 4% of sales, by end 2018.
- **We estimate adj. EPS accretion at 2% by 2018**. Based on an operating margin of 11% for 2016, 14% for 2017 and 16% for 2018, synergies around USD10m by 2018 and a first consolidation date at 1st October 2016, we estimate Anthelio will be accretive to EPS by 1% for 2016 and 2% for 2017-18. We calculate that Atos will enhance its non-IFRS operating margin by 0.1ppt from 2017 onwards. We consider the deal is too small to have an impact on free cash flow, which explains why Atos has not changed FY16 company guidance regarding free cash flow above EUR550m. However, we understand Anthelio generates a free cash flow around 50% of EBIT.
- **Capital Markets Day in sight**. While Anthelio has a negligible impact to our DCF-derived fair value (+EUR1), we increase it to EUR102 lies in the run-up the next Capital Markets Day scheduled on 8th November. We consider that, while organic growth tends to accelerate on the back of some acceleration at Worldline, solid growth in Big Data & Cybersecurity and the turnaround in Systems Integration thanks to the focus made on digital transformation, management will be able to achieve at least 2-3% lfl sales growth and a double-digit operating margin by 2020.

VALUATION

- Atos' shares are trading at est. 8.0x 2016 and 5.7x 2017 EV/EBIT multiples.
- Net cash position on 30th June 2016 was EUR412.3m (net gearing: -10%).

NEXT CATALYSTS

Q3 2016 sales on 20th October before markets open.

Click here to download

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TMT

Cast

Price EUR3.50

H1 2016 results below our expectations, but FY16 guidance reiterated

Fair Value EUR3.6 (+3%) NEUTRAL

Bloomberg	CAS.PA
Reuters	CAS FP
12-month High / Low (EUR)	3.6 / 3.0
Market Cap (EUR)	57
Ev (BG Estimates) (EUR)	41
Avg. 6m daily volume (000)	7.40
3y EPS CAGR	ns

	1 M	3 M	6 M	31/12/15
Absolute perf.	0.6%	1.4%	6.1%	15.9%
Softw.& Comp. SVS	1.3%	10.6%	11.3%	6.0%
DJ Stoxx 600	-1.1%	2.8%	0.0%	-6.4%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	36.3	40.1	45.3	50.7
% change		*10.3%*	*13.0%*	*12.0%*
EBITDA	1.3	3.4	4.6	6.3
EBIT	0.8	0.6	1.9	3.7
% change		*-14.5%*		*94.9%*
Net income	0.1	0.6	1.5	2.8
% change			*147.6%*	*87.4%*

	2015	2016e	2017e	2018e
Operating margin	2.4	1.9	4.5	7.6
Net margin	0.1	1.4	3.2	5.4
ROE	0.4	4.2	9.6	15.3
ROCE	139.6	-27.3	-42.2	-56.9
Gearing	-99.3	-114.3	-121.7	-125.6

(EUR)	2015	2016e	2017e	2018e
EPS	0.00	0.04	0.10	0.18
% change	-		*147.8%*	*87.4%*
P/E	NS	90.4x	36.5x	19.5x
FCF yield (%)	0.8%	4.9%	5.2%	7.5%
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	1.2x	1.0x	0.8x	0.7x
EV/EBITDA	33.2x	11.9x	8.3x	5.4x
EV/EBIT	50.8x	54.7x	18.9x	8.9x

Yesterday evening, Cast reported H1 2016 results below our expectations, but confirmed its FY 16 target to post revenue growth above 10% while staying profitable. The deal flow remains promising and the large contract postponed in June with a US bank is still on the cards. We expect no significant share price reaction on the back of these numbers.

ANALYSIS

- **H1 2016 results below our expectations but in line with management's anticipations**. For H1 2016, Cast reported sales down 1.6% to EUR14.6m (-0.9% lfl), an operating loss of EUR3.9m (vs. a EUR2.4m operating loss in H1 2015) below than our EUR2.9m forecast, and a net loss of EUR4.1m (vs. a net loss of EUR2.5m in H1 2015). These results are in line with the management's anticipation that the operating loss would deteriorate due to the slippage of two large transactions in Q2. Operating expenses were up 7.6% to EUR18.5m, which is a deceleration compared to the +14% reported for 2015 in H1 and H2 due to lower sales commissions due to the revenue miss in Q2.
- **Net cash increase**. During the period, free cash improved by EUR1.3m, leading to a net cash position of EUR14.3m on 30th June 2016. This increase stemmed from working capital improvement (EUR4m) - primarily on accounts receivable (EUR5m), while the operating cash flow was EUR0.3m, capex were EUR0.3m and Cast bought back EUR0.1m shares.
- **FY16 guidance reiterated**. Cast reiterates FY16 guidance, i.e. sales up above 10% and a positive operating profit, based on the reiteration of a strong sales pipeline and confidence that the large deal which slipped with a US bank in June will be signed in the coming weeks or months. Investments planned for this year are a bit behind schedule due to delayed hiring. While management remains comfortable with a EUR40m revenue scenario, the operating profit would be, as mentioned previously, close to the level of 2015 (EUR0.8m), based on our scenario of an opex increase of 10% (o/w +14% for H2 2016).
- **Update on partnerships**. Management considers the alliance with BCG is promising, but still slow to ramp-up revenues as no shortening of the sales cycle has been noticed so far. With McKinsey, Cast is essentially on 'tactical' deals with a small size. With IT Services companies, the most buoyant revenue prospects are with Cognizant, Accenture and IBM.

VALUATION

- Cast's shares are trading at est. 54.7x 2016 and 18.9x 2017 EV/EBIT multiples.
- Net cash position on 30th June 2016 was EUR14.3m.

NEXT CATALYSTS

Q3 2016 sales on 31st October after markets close.

Click here to download

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Luxury & Consumer Goods

Kering

Price EUR174.90

Gucci momentum should remain positive short term

Fair Value EUR185 vs. EUR175 (+6%) BUY

Bloomberg	PP FP
Reuters	PRTP.PA
12-month High / Low (EUR)	177.6 / 138.6
Market Cap (EURm)	22,084
Ev (BG Estimates) (EURm)	24,884
Avg. 6m daily volume (000)	239.2
3y EPS CAGR	13.7%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-1.1%	15.5%	5.2%	10.7%
Pers & H/H Gds	-2.8%	2.1%	2.0%	1.2%
DJ Stoxx 600	-1.1%	2.8%	0.0%	-6.4%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	11,584	12,060	12,800	13,450
% change		*4.1%*	*6.1%*	*5.1%*
EBITDA	2,056	2,225	2,490	2,695
EBIT	1,646	1,805	2,050	2,255
% change		*9.7%*	*13.6%*	*10.0%*
Net income	1,017	1,138	1,343	1,519
% change		*11.9%*	*18.0%*	*13.1%*

	2015	2016e	2017e	2018e
Operating margin	14.2	15.0	16.0	16.8
Net margin	8.8	9.4	10.5	11.3
ROE	8.7	8.8	9.8	10.7
ROCE	5.8	6.3	7.1	7.8
Gearing	37.7	27.1	21.9	21.2

(EUR)	2015	2016e	2017e	2018e
EPS	8.05	9.00	10.54	11.83
% change	-	*11.9%*	*17.1%*	*12.2%*
P/E	21.7x	19.4x	16.6x	14.8x
FCF yield (%)	1.3%	2.7%	3.8%	4.5%
Dividends (EUR)	4.00	4.30	4.70	5.20
Div yield (%)	2.3%	2.5%	2.7%	3.0%
EV/Sales	2.2x	2.1x	1.9x	1.8x
EV/EBITDA	12.6x	11.2x	9.8x	9.0x
EV/EBIT	15.7x	13.8x	11.9x	10.8x

After a strong performance by Kering Group in Q2, particularly at Gucci brand, we remain very confident for H2 and 2017, both for Gucci brand and Kering Group. Consequently, we revise up our 2016 and 2017 expectations by 3% and we upgrade our Fair Value from EUR175 to EUR185 and remain at Buy on the stock, as we anticipate sales momentum remaining positive in coming quarters.

ANALYSIS

- **After the very encouraging H1 performance (+5.2% for Luxury division in Q2 following +2.7% in Q1), particularly for Gucci brand (+7.4% in Q2 despite a demanding comparison basis after +3.1% in Q1), we remain very confident on H2 prospects**. We are convinced that Gucci brand is currently one of the most successful luxury brand. Alessandro Michele collections are still enjoying considerable success. Shoes and ready-to-wear have already convinced consumers since Q1 and even more in Q2. This positive trend is likely to continue in Q3 and we think even in Europe as was the case in Q2 (+20%), while all others luxury brands were hit by reduced tourists flows. Furthermore, leather goods are beginning to gain market share too, and the brand is launching fall a new leather goods line this: the *Marmont* with leather matelassé shoulder bag sold at EUR1,400. The segment around EUR1,500 is the most dynamic leather goods segment after small leather goods. It is worth noting that this line is sold with the **GG** logo which highlights the comeback of logo lines, in line with Alesandro Michele's view. According to him, logo is part of the brand's DNA. The former brand artistic director, Frida Giannini, was less focused on the logo. Furthermore, it is worth noting that the comps in Q3 are far less demanding than in Q2, as Gucci's Q3 2015 sales were down 0.4% (+4.6% in Q2 2015).
- **Even if Bottega Veneta is the only sore point for the group with sales down 9.1% in H1,** particularly affected by high exposure to Asian tourists (70% of brand's sales, of which 15% generated in HK/Macau), **YSL** remained very well oriented thanks to 24% revenues growth with strong momentum in all geographical areas and in all segments. BV will also benefit from an easier comparison basis (in Q3 2015, sales were up 4% vs +9% in Q2 and Q4 will be even easier with a 4% decline). Furthermore, **Puma** is regaining strong momentum with sales up 10.6% in H1 of which +13.2% in Q2, partly thanks to the EURO football tournement in France in June. In line with company guidance, FY 2016 sales should be up HSD (+9.5% in our model).
- **For the whole group, we anticipate 5.5% organic sales growth for 2016** vs +5% previously implying +5.2% in Q3 and +4.9% in Q4. For Kering Luxury alone, sales should grow 4.6% organically, of which +6% for Gucci brand (+5% previously). In 2017, we expect sales to increase 6% of which +5.5% for Luxury division and +6% for Gucci. H1 EBIT margin was up 20bp to 14.2% of which +80bp for Gucci. For FY 2016, we expect profitability to gain 70bp to 14.9% (+50bp previously), implying +100bp in H2 alone. For 2017, profitability improvement is expected to continue and we anticipate a 100bp gain, mainly from Gucci (+130bp to 28.4%). Gucci management has ambition plans to improve brand profitability.

VALUATION

- **Kering's share price has been one of the best performers among luxury stocks over the last three months** with a 15% increase while our luxury sample average is up 4%. Furthermore, Kering stock outperformed DJ Stoxx by 12% and is trading globally in line with sector average on 2016 EV/EBIT. Given our new earnings prospects, we upgrade our Fair Value from EUR175 to EUR185 and we reiterate our Buy recommendation as we are convinced that the group's sales momentum should remain quite positive in the following quarters, hence our positive view despite the recent strong share price rally.

NEXT CATALYSTS

- Q3 sales are expected to be reported on October25th.

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Luxury & Consumer Goods

Luxottica

Price EUR42.41

Recent trends confirm our scenario for H2 16

Fair Value EUR54 (+27%) NEUTRAL

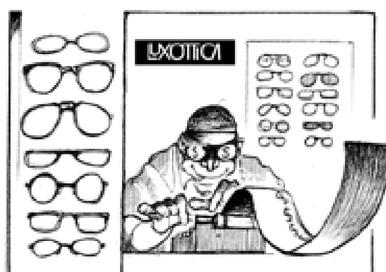
Bloomberg	LUX IM
Reuters	LUX.MI
12-month High / Low (EUR)	65.6 / 42.3
Market Cap (EUR)	20,522
Ev (BG Estimates) (EUR)	21,286
Avg. 6m daily volume (000)	884.3
3y EPS CAGR	10.0%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-4.5%	-7.3%	-16.2%	-29.8%
Consumer Gds	-2.6%	2.8%	2.2%	-2.2%
DJ Stoxx 600	-1.1%	2.8%	0.0%	-6.4%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	8,837	9,135	9,633	10,207
% change		*3.4%*	*5.5%*	*6.0%*
EBITDA	1,853	1,896	2,135	2,305
EBIT	1,376	1,388	1,600	1,738
% change		*0.9%*	*15.2%*	*8.6%*
Net income	804.1	826.7	977.6	1,072
% change		*2.8%*	*18.3%*	*9.7%*

	2015	2016e	2017e	2018e
Operating margin	15.6	15.2	16.6	17.0
Net margin	9.1	9.1	10.1	10.5
ROE	14.6	14.1	15.5	15.9
ROCE	12.0	12.0	13.9	15.3
Gearing	18.2	13.0	6.0	-2.7

(€)	2015	2016e	2017e	2018e
EPS	1.68	1.72	2.04	2.23
% change	*-*	*2.7%*	*18.3%*	*9.7%*
P/E	25.3x	24.6x	20.8x	19.0x
FCF yield (%)	3.6%	3.9%	5.0%	6.1%
Dividends (€)	0.89	1.00	1.10	1.22
Div yield (%)	2.1%	2.4%	2.6%	2.9%
EV/Sales	2.4x	2.3x	2.2x	2.0x
EV/EBITDA	11.6x	11.2x	9.8x	8.8x
EV/EBIT	15.6x	15.3x	13.1x	11.7x

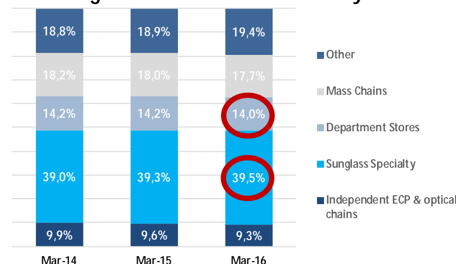


In Q2 Luxottica's own initiatives (MAP policy at Ray-Ban, direct go-to-market approach in mainland China, etc.) proved to be more harmful than expected, this headwind being exacerbated by a challenging macro environment. Although the Group's actions will still weigh in H2, we understand that the end of the summer showed that some drivers could help LUX to post a slight and sequential acceleration throughout H2 (+3%e vs. +1.6% in H1) to match FY guidance.

ANALYSIS

- **MAP policy at Ray-Ban in North America: too early to expect the tipping point in the short term.** Overall, Ray-Ban grew at a low-single-digit rate, but the U.S sun business declined by ~5%e mainly due to the implementation of the "**Minimum Advertised Price**" policy, which had a direct impact on online sales (-50% in Q2). Given its recent implementation in July, the Group cannot communicate on a precise tipping point in the ST. Our forecast factors in the same negative impact as in Q2, as the weight of sun within the category mix should be lower throughout the remainder of the year (Rx remains buoyant).
- **North America: where the sun did not shine in Q2.** Besides this necessary initiative at Ray-Ban, Oakley was affected by the **complicated sport sunglass channel**, as highlighted by the bankruptcy of a leading sporting goods retailer, Sports Authority (450 stores). Other brands such as Costa (Essilor) and Smith (Safilo) have also experienced these challenging market conditions, aggravated by a poor sun season. For H2, we expect a consolidation (U.S. Wholesale: flat vs. -1.7% FX-n) thanks to more favourable weather conditions over July and August and easier comparison bases, whilst Oakley will reorganize its Apparel-Footwear-Accessories business.
- **Macy's is closing 100 stores in 2017; not a major issue for Luxottica.** There are two agreements currently under way between Macy's and LUX: **(i) Sunglass Hut** (signed in 2009) has approx. 670 locations within Macy's stores and **(ii) LensCrafters** (signed in November 2015) will open up to 500 stores by 2018, of which around 80 should be opened this year. Macy's has not specified the 100 branches that will close but, in our view, this decision should only marginally affect some SGH corners. On our estimates, **SGH @ Macy's accounts for ~25% of SGH US and not more than 5% of total U.S. Retail**. Moreover, the future CEO of Macy's next year Jeff Gennette repeated several times that key collaborations such as Apple, LC or SGH were key in Macy's plans to offer an expanded assortment and new customer experiences. As shown in the graph below, department stores and sunglass specialty channels continued to gain market share over 2014-16.

U.S. sunglass market: retail sales by channel (12m ending March):



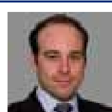
Source: VisionWatch

VALUATION

- **Slight acceleration in H2: first step towards a gradual rerating?** Whilst we expect these initiatives to remain a drag on performance, July and August seemed to confirm that LUX could benefit from three catalysts to achieve a slight acceleration over H2 (+3%e) and meet FY guidance (BG: +2.5%e vs. guidance of +2-3%): **1/** more favourable weather conditions across the U.S and Europe, **2/** the positive contribution from the opening of LensCrafters and Target Optical locations (+80 and +40 DOS respectively) and **3/** a less demanding comparison base (H2 15: +4.1% vs. +6.9% in H1).

NEXT CATALYSTS

- Luxottica will release Q3 16 Sales on 24th October. *Click here to download*



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Sector View

Insurance

Pretty satisfactory "Rendez-Vous de Septembre"

	1 M	3 M	6 M	31/12/15
Insurance	1.0%	0.5%	-7.5%	-17.4%
DJ Stoxx 600	-1.1%	2.8%	0.0%	-6.4%

*Stoxx Sector Indices

Companies covered			
AEGON		NEUTRAL	EUR6
Last Price	EUR3.531	*Market Cap.*	EUR7,613m
ALLIANZ		BUY	EUR180
Last Price	EUR134.9	*Market Cap.*	*EUR61,649m*
AXA		BUY	EUR29
Last Price	EUR19.265	*Market Cap.*	*EUR46,704m*
CNP ASSURANCES		NEUTRAL	EUR15
Last Price	EUR14.465	*Market Cap.*	*EUR9,932m*
COFACE		NEUTRAL	EUR5.4
Last Price	EUR5.163	*Market Cap.*	*EUR812m*
EULER HERMES		BUY	EUR89
Last Price	EUR74.88	*Market Cap.*	*EUR3,193m*
HANNOVER RE		SELL	EUR110
Last Price	EUR92.6	*Market Cap.*	*EUR11,167m*
MUNICH RE		SELL	EUR185
Last Price	EUR164.15	*Market Cap.*	*EUR26,437m*
SCOR		BUY	EUR35
Last Price	EUR27.77	*Market Cap.*	*EUR5,331m*
SWISS RE		NEUTRAL	CHF100
Last Price	CHF85.75	*Market Cap.*	*CHF30,876m*
ZURICH INSURANCE GROUP		NEUTRAL	CHF270
Last Price	CHF256.4	*Market Cap.*	*CHF38,596m*

It should be a pretty satisfactory "Rendez-Vous de Septembre" this year, driven by a slightly better price environment and short/mid-term business opportunities (Solvency II, big data, cyber…). In the current environment, reinsurers deserve their premium to primary insurers, even if the current 15-20% premium seem a little high to us. So look for entry points!

ANALYSIS

- At the 60th anniversary of the Insurance/Reinsurance "Rendez-Vous de Septembre" in Monte Carlo, industry players continue to highlight the critical issue of low interest rates, which has put pressure on the overall underlying profitability, the necessity of renewed strong underwriting discipline and the overall positive impact of Solvency II.
- The "tiering" of the market, with 5-10 global players and 5-10 specialists capturing a growing part of the market, is now a reality and will continue to develop. These companies do not just offer capacity, they offer a broad range of knowledge (risk analysis, intra-group risk transfer pricing…) and services, so that reinsurance is not just a cost for ceding companies, but a way to optimise their own risk management and capital position. M&A activity is possible between Tier 2 and/or Tier 3 players as they need to adapt to the new environment, but Tier 1 players are not expected to be a part of it.
- Major players expect greater stability in prices and conditions at January 2017 renewals. Unsurprisingly, some loss-free segments are likely to see slight ongoing price erosion, but the sharply increased burden of attritional losses in 2016 (e.g. natcats in Germany or Canada) offer some price opportunities. The strong price pressure on US natcats has eased. Bottom line, the market has not turned hard, but the global picture is better than in previous years.
- In this moving environment, innovation and cycle management remain key. Reinsurers continue to express a growing interest for proportional business, as it enables them to be closer to primary markets' trends where the pricing environment is better. They are also aiming at developing their direct business relationship with corporates. Whatever the case, competition between players is tough.
- Opportunities also exit with new risk pools from the integration of data, analytics and technology that addresses the insurance protection gap. Cyber is still small as most players first need to build the learning curve, but the size of the market should triple by 2020 (USD8-10bn vs. USD3bn currently).
- Solvency II remains also a business opportunity: capital relief of course for companies that will find it hard to comply, but also more generally the fact that capital management has become the cornerstone of the management of all companies. The benefits of Solvency II for major reinsurers and primary insurers will gradually be seen in the next few years.
- Following four strong years, reinsurers' results are expected to return to more normalised levels in 2016, mainly driven by a higher natcat environment. But their capital positions are very strong and so are their ratings (AA- with stable outlook for the four reinsurers we cover), so capital returns are safe.

VALUATION

- On average, reinsurers are currently trading at a 15%-20% premium to primary insurers, which seems a little high to us but not fully unjustified given the resilience of their business model and their favourable position as regards Solvency II. So look for attractive entry points!

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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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