Please find our Research on Bloomberg BRYG <GO>)

14th September 2016

# BG's Wake Up Call

| | Last close | Daily chg (%) | Chg YTD (%) |
|---|---|---|---|
| **Indices** | | | |
| Dow Jones | 18066.75 | -1.41% | +3.68% |
| S&P 500 | 2127.02 | -1.48% | +4.06% |
| Nasdaq | 5155.25 | -1.09% | +2.95% |
| Nikkei | 16614.24 | -0.69% | -12.11% |
| Stoxx 600 | 338.717 | -1.03% | -7.41% |
| CAC 40 | 4387.18 | -1.19% | -5.39% |
| **Oil /Gold** | | | |
| Crude WTI | 44.9 | -3.00% | +20.70% |
| Gold (once) | 1324.95 | +0.03% | +24.72% |
| **Currencies/Rates** | | | |
| EUR/USD | 1.1242 | +0.20% | +3.49% |
| EUR/CHF | 1.09435 | +0.16% | +0.64% |
| German 10 years | -0.02 | -12.02% | -103.19% |
| French 10 years | 0.266 | -1.41% | -72.88% |
| Euribor | - | +-% | +-% |

**Economic releases :**

| Date | |
|---|---|
| 14th-Sept | GB - Jobless claims change (1.8K E)<br>EUZ - Industrial Prod. Jul. (-0.8%E)<br>FR - CPI Aug. (+0.2% E y/y)<br>US - DOE Crude Oil inventories |

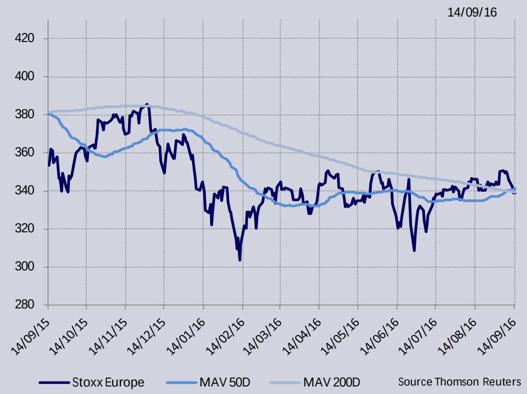
**Upcoming BG events :**

| Date | |
|---|---|
| 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 |
| 28th-Nov/ 29th-Nov | 2nd Paris Consumer 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




## ABLYNX — BUY, Fair Value EUR18 (+60%)

*Feedback from roadshow with CEO*

We remain positive on Ablynx and reiterate our favoured scenario of ABBV's opt-in by year-end. Almost all data from phase IIb program should be transferred by the end of September, enabling ABBV to take a decision by year-end. In an effort to achieve maximum transparency, the CEO shared his strategy upon opt-out which could move the game-up in the RA space in our view.

## IPSEN — BUY-Top Picks, Fair Value EUR66 (+14%)

*Cabometyx approved in Europe*

Having being recommended for approval in July by the CHMP, Cabometyx is now being approved by the EC as a treatment for 2L RCC. Launch in first EU countries should take place in Q4.

## RICHEMONT — NEUTRAL, Fair Value CHF63 (+5%)

*13% sales decline in first 5m*

Over the first five months (April to August 2016), Richemont sales declined 13% at same forex, versus -10% expected by consensus, following -6% in Q4 March 2016 and -15% in April 2016 alone. H1 recurring EBIT should be down around 37%. Given this release and poor short-term prospects, we remain Neutral on the stock with an unchanged CHF63 FV.

## CAR PART MANUFACTURERS

*Innovation: the only way to stand out! (full report released today)*

We are initiating coverage of the automotive sector with car components manufacturers Faurecia, Hella, Plastic Omnium and Valeo, four players present on high growth potential markets. Previously considered to be ageing and with low value added, the sector is currently entering a structurally transforming cycle for historical players in favour of more innovative and more technological groups and in favour of their "pricing power" and their margins.

## INSURANCE

*Motor insurance in a (semi)autonomous car world: the distant menace*

We take the opportunity of the publication of an initiation report on Car Part Manufacturers (full report out today) to highlight the potentially disruptive nature of the advent of fully-autonomous vehicles. However, this is not for tomorrow, and in the short/mid term the likely long phase of ramp-up for semi-autonomous vehicles should leave insurance groups enough time to adapt.

## SEMICONDUCTORS

*Automotive sector remains a catalyst for semiconductor industry*

On the back of the initiation of coverage of Car Part Manufacturers (full report out today), we note that in our semiconductors reports, we regularly point out that the automotive sector is a growth sector. Global sales of semiconductors for automotive amounted to c. USD30bn in 2015 or about 10% of total semiconductor sales. While we expect a slow growth rate for the semiconductor industry (CAGR 15/18e of +0.6%), we see the content increase per car as a long term driver for growth and expect the automotive segment to enjoy a CAGR of +6.8% over the same period. Both, autonomous and electric vehicles are well-identified catalysts for semiconductors manufacturers. Among our Semiconductor coverage, we believe Infineon (Buy, FV EUR16) and u-blox (Buy, FV CHF255) are the best stocks to play these two catalysts.

## *In brief...*

**ALTICE,** ***SFR faces heavy fine from the French competition authority***

**GENEURO,** ***Recruitment in CHANGE-MS phase IIb trial goes faster than expected***

**HERMÈS INTL.,** ***EBIT margin gained 140bp to 33.9%***

**SAP,** ***Acquisition of the online travel booking startup Hipmunk***

**SEMICONDUCTORS,** ***iPhone 7 pre-orders at T-Mobile and Sprint set new record high***

Healthcare

# Ablynx

Price EUR11.23

## Feedback from roadshow with CEO

**Fair Value EUR18 (+60%)** **BUY**

| | |
|---|---|
| Bloomberg | ABLX BB |
| Reuters | ABLX.BR |
| 12-month High / Low (EUR) | 16.1 / 10.4 |
| Market Cap (EUR) | 684 |
| Ev (BG Estimates) (EUR) | 836 |
| Avg. 6m daily volume (000) | 183.2 |
| 3y EPS CAGR | 15.0% |

| | 1 M | 3 M | 6 M | 31/12/15 |
|---|---|---|---|---|
| Absolute perf. | -1.5% | -5.7% | -6.9% | -29.4% |
| Healthcare | -3.7% | 1.5% | 1.5% | -9.3% |
| DJ Stoxx 600 | -2.1% | 3.6% | -1.0% | -7.4% |

| YEnd Dec. (EURm) | 2015 | 2016e | 2017e | 2018e |
|---|---|---|---|---|
| Sales | 77.5 | 81.6 | 39.6 | 54.2 |
| *% change* | | *5.2%* | *-51.4%* | *36.7%* |
| EBITDA | -15.6 | -21.9 | -64.3 | -44.4 |
| EBIT | -17.0 | -23.3 | -65.0 | -45.4 |
| *% change* | | *-37.6%* | *NS* | *30.2%* |
| Net income | -54.5 | -60.9 | -102.6 | -83.0 |
| *% change* | | *-11.7%* | *-68.4%* | *19.1%* |

| | 2015 | 2016e | 2017e | 2018e |
|---|---|---|---|---|
| Operating margin | -21.9 | -28.6 | -164.1 | -83.8 |
| Net margin | -70.3 | -74.7 | -258.9 | -153.1 |
| ROE | -195.4 | 184.5 | 75.7 | 38.0 |
| ROCE | NM | NM | NM | NM |
| Gearing | NM | NM | NM | NM |

| (EUR) | 2015 | 2016e | 2017e | 2018e |
|---|---|---|---|---|
| EPS | -1.01 | -1.13 | -1.90 | -1.53 |
| *% change* | *-* | *-11.7%* | *-68.4%* | *19.1%* |
| P/E | NS | NS | NS | NS |
| FCF yield (%) | NM | NM | NM | NM |
| Dividends (EUR) | 0.00 | 0.00 | 0.00 | 0.00 |
| Div yield (%) | NM | NM | NM | NM |
| EV/Sales | 7.7x | 10.2x | 20.9x | 15.3x |
| EV/EBITDA | NS | NS | NS | NS |
| EV/EBIT | NS | NS | NS | NS |


**We remain positive on Ablynx and reiterate our favoured scenario of ABBV's opt-in by year-end. Almost all data from phase IIb program should be transferred by the end of September, enabling ABBV to take a decision by year-end. In an effort to achieve maximum transparency, the CEO shared his strategy upon opt-out which could move the game-up in the RA space in our view.**

### ANALYSIS

- Following the roadshow with CEO, Edwin Moses, we reiterate our confidence on the best-in-class profile of vobarilizumab (efficacy/safety/administration). AbbVie should have almost all of the data package by the end of September 2016 which should enable the partner to take a decision on whether or not it will in-license vobarilizumab by year-end. An opt-in which would trigger a USD75m milestone payment remains our favoured scenario. We would recall that this summer, AbbVie discontinued ABT-122, its bi-specific IL-17/anti-TNF which was the only "in-house competitor" to vobarilizumab, in our view. In an opt-in scenario and in order to further differentiate vobarilizumab and widen the gap with other IL-6, one should not forget that Ablynx' IL-6R is a Nanobody. Hence, we do not rule out that this should be emphasised by the potential future partner to position the product as a breakthrough drug instead of an IL-6R.

- The other scenario, although unlikely in our view, is an opt-out. Should it materialize, we would expect the partner's communication to be somewhat smoother than what we saw last year with GLPG, considering the introduction of interactions in between Ablynx's management and AbbVie's board. Beyond that topic on which we have little visibility, we welcomed Edwin Moses' comments on the company's strategy upon an opt-out. Ablynx would then conduct the end-of-phase II meeting with the FDA on its own and initiate the phase III trial on a standalone basis. Regarding the design of the phase III and keeping in mind the goal of "re-"attracting a commercial partner, the CEO mentioned his ambition to 1/ favour the DAS28 remission score as a primary endpoint and include H2H comparision with Actemra and Humira. While we believe that this could help to move the game-up in the RA space (see phase IIb results here), it worth noting that the ACR score is still the preferred way to look at RA compound in the US (vs. DAS28 in European guidelines). Hence, the end-of-phase II meeting with the FDA would be crucial. Note that upon an opt-in decision, AbbVie is likely to favour ACR as a primary endpoint to maintain a continuity with its JAK inhibitor phase III program. Moreover. Such trial would come at a cost of EUR200-250m which could be viewed as low. However, it could be enabled by a reduced number of patients to be enrolled. Indeed DAS28 is a more stringent criteria than the ACR20 (reduction of background noise).

- The Merck&Co partnership is the most promising in our view and mobilizes around one-fourth of the biotech discovery people (40FTEs, funded by Merck&Co). We believe that Ablynx' Nanobody platform might be key in helping the US Pharma to prepare for the after Keytruda. Several combination projects are underway (up to pentaspecific) and preclinical activities should intensify in the upcoming months with the first INDs expected towards late 2016/early2017.

- RSV phase II trial preparation are ongoing with first patient in expected in late 2016. The conservative 18 months recruitment period set by the company has been prompted by the high number of patients expected to be screened but not included (no flu concomitant to RSV as well as symptoms for less than three days). Results are expected in H2 2018. In the longer run, CEO sees application in COPD and other segments of the RSV market (elderly and at-home setting). Turning to Capalacizumab's phase III trial, recall that the recruitment target has been increased by 40% (from 92 to 132 patients) and that the the data are still expected to be reported in late 2017. Recruitment is key and well on track as recruitment target for the year has already been achieved helped by increased contacts with KOL and the introduction of consent forms.

*(to be continued next page)*

### VALUATION

- We reiterate our BUY rating. ABLYNX is in our Q3 Top-Picks list.
- Current share price of EUR11.2 only takes into account Caplacizumab (EUR8/share) RSV-program (EUR1/share) and cash (EUR3) leaving vobarilizumab (EUR6) and AbbVie's opt-in as a free option.

### NEXT CATALYSTS

- H2 2016: AbbVie's decision on whether it will opt-in for vobarilizumab.
- Nov 14th&15th : ABLYNX to attend BG&Co Healthcare conference

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Healthcare

# Ipsen

Price EUR57.92

## Cabometyx approved in Europe

**Fair Value EUR66 (+14%)** **BUY-Top Picks**

| | |
|---|---|
| Bloomberg | IPN FP |
| Reuters | IPN.PA |
| 12-month High / Low (EUR) | 61.9 / 47.1 |
| Market Cap (EURm) | 4,823 |
| Ev (BG Estimates) (EURm) | 4,911 |
| Avg. 6m daily volume (000) | 80.40 |
| 3y EPS CAGR | 13.8% |

| | 1 M | 3 M | 6 M | 31/12/15 |
|---|---|---|---|---|
| Absolute perf. | -2.8% | 7.4% | 21.7% | -5.0% |
| Healthcare | -3.7% | 1.5% | 1.5% | -9.3% |
| DJ Stoxx 600 | -2.1% | 3.6% | -1.0% | -7.4% |

| YEnd Dec. (€m) | 2015 | 2016e | 2017e | 2018e |
|---|---|---|---|---|
| Sales | 1,444 | 1,566 | 1,714 | 1,866 |
| *% change* | | *8.5%* | *9.4%* | *8.9%* |
| EBITDA | 366 | 407 | 462 | 544 |
| EBIT | 322.5 | 340.9 | 390.0 | 466.3 |
| *% change* | | *5.7%* | *14.4%* | *19.5%* |
| Net income | 228.0 | 237.3 | 278.0 | 335.6 |
| *% change* | | *4.1%* | *17.2%* | *20.7%* |

| | 2015 | 2016e | 2017e | 2018e |
|---|---|---|---|---|
| Operating margin | 22.3 | 21.8 | 22.8 | 25.0 |
| Net margin | 12.5 | 14.0 | 14.1 | 15.9 |
| ROE | 15.5 | 16.9 | 16.7 | 17.8 |
| ROCE | 22.6 | 17.6 | 19.6 | 22.8 |
| Gearing | -8.3 | 6.4 | -0.2 | -9.2 |

| (€) | 2015 | 2016e | 2017e | 2018e |
|---|---|---|---|---|
| EPS | 2.78 | 2.89 | 3.39 | 4.09 |
| *% change* | - | *4.1%* | *17.2%* | *20.7%* |
| P/E | 20.8x | 20.0x | 17.1x | 14.2x |
| FCF yield (%) | 3.7% | 4.1% | 4.9% | 6.0% |
| Dividends (€) | 0.85 | 0.85 | 1.10 | 1.20 |
| Div yield (%) | 1.5% | 1.5% | 1.9% | 2.1% |
| EV/Sales | 3.3x | 3.1x | 2.8x | 2.5x |
| EV/EBITDA | 12.9x | 12.1x | 10.4x | 8.6x |
| EV/EBIT | 14.6x | 14.4x | 12.4x | 10.0x |


**Having being recommended for approval in July by the CHMP, Cabometyx is now being approved by the EC as a treatment for 2L RCC. Launch in first EU countries should take place in Q4.**

### ANALYSIS

- Although it was highly expected, in particular since the drug obtained a positive CHMP opinion in July, Ipsen announces that Cabometyx has just been approved by the European Commission as a treatment for renal cell carcinoma in second-line, after failure or resistance with a VEGF targeting agent like Pfizer's Sutent or Novartis' Votrient.
- As a reminder, Ipsen acquired ex-US and ex-Japanese rights of cabozantinib from Exelixis at the beginning of the year for an upfront payment of USD200m and will now pay another USD60m in connection with the UE approval in 2L RCC. It is also estimated that about EUR50m will be invested to set up a commercial sales force in Europe to support the launch of the drug in the field of oncology that is new to Ipsen. Despite a very competitive oncology market, it has proven not too difficult for Ipsen to recruit high-level people in key European countries, since the drug has delivered a very strong set of clinical data, not only in phase III in 2L RCC (METEOR, presented at ASCO) but also in 1L with the initial data for the CABOSUN phase II trial (to be detailed at ESMO in October). As a consequence, first launches are expected in Q4 2016 in Germany and in the UK.
- In the US, where Exelixis has kept all rights, the drug is set to enjoy a good start since its originator reported USD32m in sales in Q2, including an inventory effect however.

### VALUATION

- While Somatuline in the US is game-changing for Ipsen, Cabometyx makes it a different story and places Ipsen in the right seat to become a fast-growing specialty care pharma company.
- We recognize the competition from Opdivo (BMS) as fierce, but we actually expect the two drugs to progressively transform the standard of care in RCC, not only in 2L but also in 1L and to take the lion's share of this market over time. Cabometyx is competitive in terms of clinical data and might have a price advantage over Opdivo. We have considered an annual price of EUR60,000 on average in Europe which results in a EUR300m peak sales for the drug in 2027, which is highly meaningful for Ipsen in terms of top-line boost and to help increase margins (despite an average 18% royalty rate on sales paid to Exelixis).

| EURm | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|---|---|---|
| Prevalence Europe RCC | 110000 | 111100 | 112211 | 113333 | 114466 | 115611 | 116767 | 117935 | 119114 | 120305 |
| 5% extra prevalence for ROW | 5500 | 5555 | 5611 | 5667 | 5723 | 5781 | 5838 | 5897 | 5956 | 6015 |
| Addressable patients (20%) | 23100 | 23331 | 23564 | 23800 | 24038 | 24278 | 24521 | 24766 | 25014 | 25264 |
| Market share | 0,2% | 2% | 6% | 10% | 14% | 17% | 20% | 23% | 25% | 25% |
| Volume | 46 | 467 | 1414 | 2380 | 3365 | 4127 | 4904 | 5696 | 6253 | 6316 |
| PFS median | 0,75 | 0,75 | 0,75 | 0,75 | 0,75 | 0,75 | 0,75 | 0,75 | 0,75 | 0,75 |
| Annual price | 60 000 | 60 000 | 60 000 | 60 000 | 60 000 | 60 000 | 60 000 | 60 000 | 60 000 | 60 000 |
| Price x PFS | 45 000 | 45 000 | 45 000 | 45 000 | 45 000 | 45 000 | 45 000 | 45 000 | 45 000 | 45 000 |
| Sales in MTC | 750 | 4 000 | 4 500 | 5 000 | 5 000 | 5 000 | 5 000 | 5 000 | 5 000 | 5 000 |
| Total Sales MTC+RCC | 2 829 | 24 998 | 68 124 | 112 100 | 156 439 | 190 729 | 225 690 | 261 331 | 286 407 | 289 221 |

### NEXT CATALYSTS

- 8 October 2016: Investor Event from ESMO - Copenhagen

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Luxury & Consumer Goods

# Richemont

Price CHF59.80

## 13% sales decline in first 5m

**Fair Value CHF63 (+5%)** **NEUTRAL**

| | |
|---|---|
| Bloomberg | CFR VX |
| Reuters | CFR.VX |
| 12-month High / Low (CHF) | 86.6 / 53.5 |
| Market Cap (CHF) | 33,488 |
| Ev (BG Estimates) (CHF) | 23,489 |
| Avg. 6m daily volume (000) | 1 845 |
| 3y EPS CAGR | 0.6% |

| | 1 M | 3 M | 6 M | 31/12/15 |
|---|---|---|---|---|
| Absolute perf. | -1.1% | 3.7% | -10.0% | -17.1% |
| Pers & H/H Gds | -3.4% | 3.3% | 1.4% | 0.6% |
| DJ Stoxx 600 | -2.1% | 3.6% | -1.0% | -7.4% |

| YEnd Mar. (EURm) | 03/16 | 03/17e | 03/18e | 03/19e |
|---|---|---|---|---|
| Sales | 11,076 | 10,540 | 11,100 | 11,700 |
| *% change* | | *-4.8%* | *5.3%* | *5.4%* |
| EBITDA | 2,471 | 2,110 | 2,460 | 2,720 |
| EBIT | 2,158 | 1,705 | 2,050 | 2,310 |
| *% change* | | *-21.0%* | *20.2%* | *12.7%* |
| Net income | 1,688 | 1,310 | 1,550 | 1,720 |
| *% change* | | *-22.4%* | *18.3%* | *11.0%* |

| | 03/16 | 03/17e | 03/18e | 03/19e |
|---|---|---|---|---|
| Operating margin | 19.5 | 16.2 | 18.5 | 19.7 |
| Net margin | 15.2 | 12.4 | 14.0 | 14.7 |
| ROE | 9.8 | 6.6 | 6.8 | 6.6 |
| ROCE | 18.6 | 12.9 | 13.8 | 14.3 |
| Gearing | -42.6 | -45.8 | -48.6 | -51.0 |

| (EUR) | 03/16 | 03/17e | 03/18e | 03/19e |
|---|---|---|---|---|
| EPS | 3.01 | 2.34 | 2.77 | 3.07 |
| *% change* | - | *-22.4%* | *18.3%* | *11.0%* |
| P/E | 18.1x | 23.4x | 19.7x | 17.8x |
| FCF yield (%) | 8.1% | 8.9% | 10.1% | 11.4% |
| Dividends (EUR) | 1.85 | 1.55 | 1.90 | 2.00 |
| Div yield (%) | 3.4% | 2.8% | 3.5% | 3.7% |
| EV/Sales | 2.1x | 2.0x | 1.8x | 1.5x |
| EV/EBITDA | 9.4x | 10.2x | 7.9x | 6.4x |
| EV/EBIT | 10.8x | 12.6x | 9.5x | 7.5x |

**Over the first five months (April to August 2016), Richemont sales declined 13% at same forex, versus -10% expected by consensus, following -6% in Q4 March 2016 and -15% in April 2016 alone. H1 recurring EBIT should be down around 37%. Given this release and poor short-term prospects, we remain Neutral on the stock with an unchanged CHF63 FV.**

### ANALYSIS

- The Swiss Group achieved a 14% sales decline for the first 5m of FY March 2017 (April to August). At same forex, sales were down 13% (consensus: -10%) versus -6% in Q4 March 2016. In April alone sales were down 15% on an undemanding comparison basis. We want to highlight the steep revenue decrease in **Europe** (-18%) following -8% in Q4 2016 which is the consequence of significantly lower tourists flows, particularly in **France** where we estimate that CFR achieves 7% of its sales. In the UK, sales growth was driven by GBP weakness. Even **Middle East** sales declined during the period (-10%). It is also worth noting that Asia-Pacific is still suffering with a 9% decline following sales -7% in Q4 March 2016. This is the consequence of buying back inventories in Hong Kong and Macau despite better momentum in **Mainland China** which accounts for 9% of CFR sales, as Chinese clients are buying more at home than last year (terrorist attacks in France, stronger JPY, more customs checks). Japan suffered from a very demanding comparison basis and higher JPY (less Chinese tourists).

**Organic sales growth by geographical area**

| Ifl chge % | Q3 16 | Q4 16 | 5m 17 |
|---|---|---|---|
| Europe | -3 | -8 | -18 |
| Middle East | 0 | 2 | -10 |
| Asia Pacific | -9 | -7 | -9 |
| America | -3 | -1 | -6 |
| Japan | 9 | -8 | -25 |
| **Group** | **-4** | **-6** | **-13** |

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

- By business, **Jewelry Maisons** revenues sales declined 15% during the period, particularly affected by poor Cartier watch sales as the brand bought back some high-end sku's inventories in the retail in US, Hong Kong and in Europe, while jewelry sales wer more resilient. **Watchmakers** sales decreased 18% during the period. Retail sales were down 6%, consequence of lower sales in France and in Japan, despite positive momentum for jewellery in other regions. Wholesale sales were even more affected by the current environment (overall negative trend and watch inventory buy backs) with a 21% decrease.

- H1 EBIT should be down approximately 45% due to the sales decline and a EUR65m one-off restructuring charge. Recurring EBIT should therefore be down around 37%.

### VALUATION

- CFR share price has declined 19% YTD (13% underperformance vs the DJ Stoxx) and remained almost unchanged over the last three months. The stock is trading at 13.8x on 2016 EV/EBIT, implying a 7% premium vs peers average. We remain Neutral on the stock with an unchanged CHF63 FV.

### NEXT CATALYSTS

- H1 results to be reported on November 4th.

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Sector View

# Car Part Manufacturers

## Innovation: the only way to stand out! (full report released today)

| | 1 M | 3 M | 6 M | 31/12/15 |
|---|---|---|---|---|
| Auto & Parts | -2.2% | 5.8% | -1.5% | -14.9% |
| DJ Stoxx 600 | -2.1% | 3.6% | -1.0% | -7.4% |

*Stoxx Sector Indices

**Companies covered**

| | | | |
|---|---|---|---|
| **FAURECIA** | | **BUY** | **EUR47** |
| *Last Price* | EUR35.425 | *Market Cap.* | EUR4,885m |
| **HELLA** | | **BUY** | **EUR45** |
| *Last Price* | EUR36 | *Market Cap.* | *EUR4,000m* |
| **PLASTIC OMNIUM** | | **BUY** | **EUR36** |
| *Last Price* | EUR28.375 | *Market Cap.* | *EUR4,327m* |
| **VALEO** | | **NEUTRAL** | **EUR49** |
| *Last Price* | EUR48.895 | *Market Cap.* | *EUR11,656m* |

**We are initiating coverage of the automotive sector with car components manufacturers Faurecia, Hella, Plastic Omnium and Valeo, four players present on high growth potential markets. Previously considered to be ageing and with low value added, the sector is currently entering a structurally transforming cycle for historical players in favour of more innovative and more technological groups and in favour of their "pricing power" and their margins.**

### ANALYSIS

- **Heading for a slowdown in the cycle...** Although the automotive sector is entering a period of slowdown after delivering a CAGR in volumes of **3%** over 2007-15, we estimate that the market should continue to grow over the next three years, albeit at a slower pace *(+1.9%*). This growth should primarily be driven by the **expansion of middle classes in emerging markets**, whereas mature markets are set to suffer gradually from the cultural change in mind-set relative to car travel (*ride sharing, car-sharing*), after enjoying a catch-up phase since the crisis.
- **...but more contents and more technology ...** After entertainment, information and services, the auto industry is now set to suffer from **the digital era**, which is altering the way cars are used and the sector business model. Carmakers now have no other choice but to invest alongside components suppliers in connected and autonomous vehicles implying **more contents and more technology** per vehicle than previously (*more cameras, sensors, radars and driver assistance systems)*. The development of **lower carbon or carbon-free vehicles** should also play in favour of car parts suppliers offering **weight-reduction solutions** and/or lower **$CO_2$/ particle emissions**.
- **...In favour of parts manufacturers:** As such, we believe certain components makers should benefit from the **higher value of contents per vehicle** enabling them to outstrip market growth and widen margins. With prospective sales CAGR of **7.4%** and margin improvement of **30bp** over 2016-2018, **Faurecia, Hella, Plastic Omnium** and **Valeo** fit perfectly into this category. In this report we initiate coverage of **Faurecia** (*FV of EUR47*), **Plastic Omnium** (*FV of EUR36*) and **Hella** (*FV of EUR45*) with **Buy** recommendations and **Valeo** (*FV of EUR49*) with **Neutral** recommendation**.**

### VALUATION

- At current share price the sector is trading at **12x** its 2017e EBIT & **14x** its 2017e EPS
- We initiate the coverage of **Faurecia** (*FV of EUR47),* **Plastic Omnium** (*FV of EUR36*) and **Hella** (*FV of EUR45*) with **Buy recommendations** and **Valeo** (*FV of EUR49)* with **Neutral recommendation**.

### NEXT CATALYSTS

- 26th September – Renault // Renault Scenic Test Drive
- 28th September – Hella // Q1-16/17 earnings
- 28th September – Valeo // Driving assistance & powertrain electrification presentation

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Sector View

# Insurance

## Motor insurance in a (semi)autonomous car world: the distant menace

| | 1 M | 3 M | 6 M | 31/12/15 |
|---|---|---|---|---|
| Insurance | -1.0% | 1.2% | -9.4% | -19.0% |
| DJ Stoxx 600 | -2.1% | 3.6% | -1.0% | -7.4% |

*Stoxx Sector Indices

**Companies covered**

| | | | |
|---|---|---|---|
| **AEGON** | | **NEUTRAL** | **EUR6** |
| *Last Price* | EUR3.419 | *Market Cap.* | EUR7,372m |
| **ALLIANZ** | | **BUY** | **EUR180** |
| *Last Price* | EUR132.45 | *Market Cap.* | *EUR60,530m* |
| **AXA** | | **BUY** | **EUR29** |
| *Last Price* | EUR18.66 | *Market Cap.* | *EUR45,237m* |
| **CNP ASSURANCES** | | **NEUTRAL** | **EUR15** |
| *Last Price* | EUR14.14 | *Market Cap.* | *EUR9,709m* |
| **COFACE** | | **NEUTRAL** | **EUR5.4** |
| *Last Price* | EUR5.23 | *Market Cap.* | *EUR822m* |
| **EULER HERMES** | | **BUY** | **EUR89** |
| *Last Price* | EUR74.69 | *Market Cap.* | *EUR3,185m* |
| **HANNOVER RE** | | **SELL** | **EUR110** |
| *Last Price* | EUR92.81 | *Market Cap.* | *EUR11,193m* |
| **MUNICH RE** | | **SELL** | **EUR185** |
| *Last Price* | EUR162.6 | *Market Cap.* | *EUR26,187m* |
| **SCOR** | | **BUY** | **EUR35** |
| *Last Price* | EUR27.355 | *Market Cap.* | *EUR5,252m* |
| **SWISS RE** | | **NEUTRAL** | **CHF100** |
| *Last Price* | CHF84.85 | *Market Cap.* | *CHF30,552m* |
| **ZURICH INSURANCE GROUP** | | **NEUTRAL** | **CHF270** |
| *Last Price* | CHF255.1 | *Market Cap.* | *CHF38,401m* |

**We take the opportunity of the publication of an initiation report on Car Part Manufacturers (*full report out today*) to highlight the potentially disruptive nature of the advent of fully-autonomous vehicles. However, this is not for tomorrow, and in the short/mid term the likely long phase of ramp-up for semi-autonomous vehicles should leave insurance groups enough time to adapt.**

**ANALYSIS**

- Motor insurance premiums represent 40% of total P&C insurance activities, making it one of the largest branches of the insurance scope. And 90% of road accidents are caused by human error. These two figures are enough to highlight the potentially disruptive nature of the advent of fully-autonomous vehicles. At this stage, visibility is lacking as to how car insurance would look in the autonomous vehicle era, but the first studies suggest an 80% decline in claims and a 60% decline in the cost of claims (increase in average claim due to more complicated and costly repair work). Is this excellent news for insurance groups? Not really, since the decline in risk in a branch as competitive as car insurance is automatically set to result in a decline in insurance premiums, thereby making fixed cost structures unsustainable in a segment that is already structurally loss-making (combined ratio > 100%). In all, there is little doubt that consumers should come off better, but this is not necessarily the case for insurers.

- In addition to potentially massive financial impacts, the very way of apprehending car insurance could be thrown into question. Today, car insurance is essentially (85%) a retail business, in which the notion of the driver's responsibility is central (1968 Vienna Convention). In the future, with the inevitable extension in the notion of responsibility (to carmakers, suppliers of embedded technology, algorithm designers, companies responsible for transmitting data, users?) the market physiognomy could change. We could imagine that autonomous carmakers might insure the cars they sell or rent themselves, thereby transforming car insurance into a wholesale business based on the notion of product responsibility.

- The advent of fully autonomous vehicles is nevertheless not for tomorrow. In the shorter term, the reality is more likely to resemble a long phase of ramp-up for semi-autonomous vehicles. However, the development of this type of vehicle does not require a change in the regulatory framework and the notion of responsibility since the semi-autonomous vehicle must by nature remain permanently under the driver's control. The implications for car insurance are therefore more limited, albeit not zero, and insurance companies are currently looking for an experience curve that would enable them to better assess changes in risk, and hence in pricing. For example, Allianz, whose European research centre on automotive risks has shown the efficacy of certain systems, has just launched a contract in France for vehicles equipped with at least one emergency braking system, an automatic parking system (management of steering, acceleration and braking) or an adaptive speed regulator (enabling safety distances to be respected), which notably plans for a 25% cut in the insurance premium. A similar offer is thought to be in preparation for Germany. It would nevertheless be mistaken to conclude that car insurance is set to witness sharp deflationary pressure in the short term. Indeed, French insurance groups estimate that semi-autonomous vehicles currently represent 3-4% of vehicle sales but < 0.5% of vehicles in circulation. Assuming that the share of semi-autonomous vehicles rises rapidly in terms of sales (30% out to 2020?), their share in the overall stock is unlikely to exceed 5% by this date. As such, while the ramp-up is unavoidable, it is set to be very slow and will leave insurance groups enough time to adapt. In short, this again testifies to the fact that in insurance, the notion of stock is stronger than that of flows.

- In the majority of major European countries, mutuals traditionally boast high market shares that can exceed 50%. This is notably the case in France, where *bancassurers* are also sizeable rivals. For the composite insurance companies we cover (Allianz, AXA, Zurich), motor insurance represents 25-40% of P&C premiums.

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Sector View

# Semiconductors

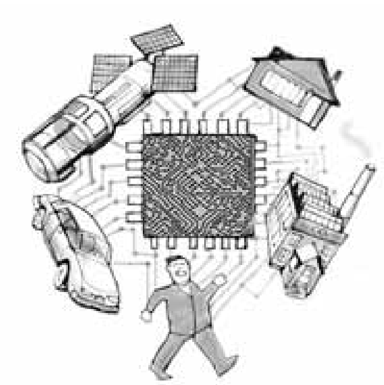
## Automotive sector remains a catalyst for semiconductor industry

| | 1 M | 3 M | 6 M | 31/12/15 |
|---|---|---|---|---|
| Semiconductors | -4.9% | 19.6% | 19.0% | 14.8% |
| DJ Stoxx 600 | -1.1% | 2.8% | 0.0% | -6.4% |

*Stoxx Sector Indices

**Companies covered**

| | | | |
|---|---|---|---|
| **ams** | | **NEUTRAL** | **CHF29** |
| *Last Price* | CHF30.2 | *Market Cap* | *CHF2,217m* |
| **ASML** | | **SELL** | **EUR81** |
| *Last Price* | EUR90.94 | *Market Cap* | *EUR39,407m* |
| **DIALOG SEMICONDUCTOR** | | **BUY** | **EUR37** |
| *Last Price* | EUR30.845 | *Market Cap* | *EUR2,402m* |
| **INFINEON** | | **BUY** | **EUR16** |
| *Last Price* | EUR14.315 | *Market Cap* | *EUR16,211m* |
| **MELEXIS** | | **SELL** | **EUR48** |
| *Last Price* | EUR58.22 | *Market Cap* | *EUR2,352m* |
| **SOITEC** | | **NEUTRAL** | **EUR0.5** |
| *Last Price* | EUR0.8 | *Market Cap* | *EUR485m* |
| **STMICROELECTRONICS** | | **NEUTRAL** | **EUR6.5** |
| *Last Price* | EUR6.684 | *Market Cap* | *EUR6,089m* |
| **u-blox** | | **BUY** | **CHF255** |
| *Last Price* | CHF212 | *Market Cap* | *CHF1,443m* |



**On the back of the initiation of coverage of Car Part Manufacturers (*full report out today*), we note that in our semiconductors reports, we regularly point out that the automotive sector is a growth sector. Global sales of semiconductors for automotive amounted to c. USD30bn in 2015 or about 10% of total semiconductor sales. While we expect a slow growth rate for the semiconductor industry (CAGR 15/18e of +0.6%), we see the content increase per car as a long term driver for growth and expect the automotive segment to enjoy a CAGR of +6.8% over the same period. Both, autonomous and electric vehicles are well-identified catalysts for semiconductors manufacturers. Among our Semiconductor coverage, we believe Infineon (Buy, FV EUR16) and u-blox (Buy, FV CHF255) are the best stocks to play these two catalysts.**

### ANALYSIS

- **In our semi-conductors reports** (see our latest sector report)**, we regularly point out that the automotive sector is a growth sector.** The role of semi players in the automotive value chain is changing. For a few years now, we have noted that chip manufacturers are regularly consulted by carmakers and car parts suppliers during the development phases for new car models. This makes sense since the technologies developed in R&D centres at Infineon, NXP, STMicroelectronics and others are set to determine the technological change provided by each car model, especially with two strong long term trends: electronic vehicles (HEV/EV) and autonomous driving (ADAS).
- **Electric vehicles:** on average, a vehicle sold in 2016 has more than USD350 worth of electronic components on-board. In a hybrid or electric vehicle, the components bill is closer to USD720. This is primarily due to an increase in the number of power semi-conductors, namely the components responsible for management of electric engines and batteries (charging, discharging, conversion etc.).
- **Autonomous vehicles**: in the average price per vehicle described above, the share of electronic components associated with autonomous driving remains marginal in 2016. As such, in order to assess the opportunity, we should bear in mind that a vehicle currently sold as being "partly autonomous" (such as the Tesla Model S), only has USD100 worth of sensors on-board. A fully autonomous vehicle embeds more than USD550 worth of components for its ADAS systems or more than 5x more components. Similarly, for the electric vehicle, we have noted a degree of caution in messages from components manufacturers concerning the rise in momentum and delivery of significant production volumes (post-2020).
- **Semiconductor manufacturers should benefit from two positive sources of leverage**: that of an increase in contents per vehicle and hence the average price-tag and that of market share gains in electric and autonomous vehicles in coming years. In all, we value the additional opportunity created by this wave of innovation at almost USD4bn out to 2020.

### VALUATION

- Within the Bryan Garnier semi-conductors universe, the stocks most exposed to the auto sector are **Infineon (Buy, FV of EUR16), Melexis (Sell, FV of EUR48), STMicroelectronics (Neutral, FV of EUR6.5) and u-blox (Buy, FV of CHF255)**. Note that IFX and STM are among the Top Five global players with market share of 11% and 8% respectively and ranking no. 3 and no. 4 respectively. Among this list, our key investment ideas would be Infineon and u-blox, as both enjoy strong momentum and trade at attractive valuations (2016e PEG ratio of 1.1x and 1.2x respectively).

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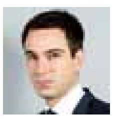

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TMT

# Altice

Price EUR15.37

| | |
|---|---|
| Bloomberg | ATC NA |
| Reuters | ATCA.AS |
| 12-month High / Low (EUR) | 24.5 / 10.0 |
| Market Cap (EURm) | 16,814 |
| Avg. 6m daily volume (000) | 1 625 |

| | 1 M | 3 M | 6 M | 31/12/15 |
|---|---|---|---|---|
| Absolute perf. | 6.0% | 6.4% | -3.6% | 16.0% |
| Telecom | -4.7% | -2.8% | -12.5% | -16.1% |
| DJ Stoxx 600 | -2.1% | 3.6% | -1.0% | -7.4% |

| | 2015 | 2016e | 2017e | 2018e |
|---|---|---|---|---|
| P/E | NS | NS | 18.3x | 12.4x |
| Div yield (%) | NM | NM | NM | NM |

## SFR faces heavy fine from the French competition authority

**Fair Value EUR16.5 (+7%)** **BUY**

### ANALYSIS

- Numericable could face a fine of up to EUR500m for taking over SFR before being authorised to do so by competition authorities, *Les Echos* said on Tuesday. "There is a lot of evidence that Numericable took control of SFR before it should have," the daily quoted. A spokesman for the telecoms group declined to comment. France's competition authority could not be reached.
- French competition authority raided the operator's premises in early 2015, and watchdog chief said in July that he expected the probe into whether the two companies coordinated their commercial strategies before the merger got the green light would conclude in the fourth quarter.
- The case is indeed not a surprise, but *Les Echos* said the preliminary report from the watchdog is very negative towards SFR. As an example, it questions how SFR managed to launch a cable offer only a few weeks after the takeover was formally validated by the competition authority. Also, many e-mails would show that instructions were given directly by Patrick Drahi. The probe is not over, SFR will now respond to the report, and the final decision is expected by the end of the year.
- As reminder, Altice faces a similar probe from the European competition authorities, with regards to its takeover of Portugal Telecom.

### VALUATION

- We stick to our fair value of EUR16.5 with a Buy recommendation.

### NEXT CATALYSTS

- Decision from the competition authority expected before the end of the year.

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Healthcare

# GENEURO

Price EUR7.28

| | |
|---|---|
| Bloomberg | GNRO FP |
| Reuters | GNRO.PA |
| 12-month High / Low (EUR) | 13.0 / 7.3 |
| Market Cap (EURm) | 107 |
| Avg. 6m daily volume (000) | 3.40 |

| | 1 M | 3 M | 6 M | 31/12/15 |
|---|---|---|---|---|
| Absolute perf. | -4.3% | -26.5% | ns | -44.0% |
| Healthcare | -3.7% | 1.5% | 1.5% | -9.3% |
| DJ Stoxx 600 | -2.1% | 3.6% | -1.0% | -7.4% |

| | 2015 | 2016e | 2017e | 2018e |
|---|---|---|---|---|
| P/E | x | x | x | x |
| Div yield (%) | % | % | % | % |

## Recruitment in CHANGE-MS phase IIb trial goes faster than expected

**Fair Value EUR18.2 (+150%)** **BUY**

### ANALYSIS

- This morning GeNeuro has reported a very good piece of news indeed. In the context of the ECTRIMS congress that takes place in London this year, GeNeuro is proud to announce that more than half of the patients required for its phase IIb trial CHANGE-MS have already been enrolled. The recruitment has progressed ahead of schedule, which is a very good sign of interest from the medical community that is in charge of recruiting patients in 69 clinical centres in 13 European countries. At the time of the IPO, management said that read-out for the phase IIb trial would take place around the turn of the 2017 year and thanks to the speed of the recruitment it can now confirm that it is going to be sometimes in Q4 2017 for the primary endpoint, which corresponds to the end of the first period i.e. the first 6-months when three different doses will be compared to placebo on the number of new T1 enhancing lesions on MRI after 6 doses.
- GNbAC1 is a humanised antibody that targets a protein called MRSV-ENV which is found in high quantity on sites of active lesions of MS and that is highly suspected to play a causal role in the emergence and the development of MS, both in the inflammatory and in the neuro-degenerative processes of the disease.
- Although the MS market has already developed very quickly over the last few years and is now exceeding USD20bn, and although further innovative therapies are still announced like ocrelizumab for RRMS and PPMS or BAF312 in SPMS, none has the potential to be as disruptive as GNbAC1 can be, so proof of concept is established. In about a year, the jury in part will be out.

### VALUATION

- Little should move in our model until we get the results of CHANGE-MS although the level of operating expenses will be closely monitored. We expect the group to be ambitious but also financially disciplined. Moreover the financing of the phase IIb study is set since a partnership with Servier is covering all costs. GeNeuro might have to finance a few other smaller studies outside MS and also potentially a limited extension of the CHANGE-MS study to include a small number of US centers (an IND was expected sometimes in Q4 2016).
- So, GeNeuro is well on track with its key lead compound. We therefore maintain our assumptions and our FV. Lack of newsflow has weighed on the stock price. We now expect a turnaround. BUY.

### NEXT CATALYSTS

- Q4 2016: IND in the US to open US centres in the CHANGE-MS phase IIb trial

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Luxury & Consumer Goods

## Hermès Intl.

Price EUR383.90

| | |
|---|---|
| Bloomberg | RMS FP |
| Reuters | HRMS.PA |
| 12-month High / Low (EUR) | 398.6 / 291.6 |
| Market Cap (EURm) | 40,528 |
| Avg. 6m daily volume (000) | 54.00 |

| | 1 M | 3 M | 6 M | 31/12/15 |
|---|---|---|---|---|
| Absolute perf. | -3.5% | 17.6% | 17.5% | 23.1% |
| Pers & H/H Gds | -2.8% | 2.1% | 2.0% | 1.2% |
| DJ Stoxx 600 | -1.1% | 2.8% | 0.0% | -6.4% |

| | 2015 | 2016e | 2017e | 2018e |
|---|---|---|---|---|
| P/E | 41.5x | 35.8x | 31.6x | 28.5x |
| Div yield (%) | 0.9% | 1.0% | 1.1% | 1.3% |

### EBIT margin gained 140bp to 33.9%

**Fair Value EUR370 (-4%)** **BUY**

**ANALYSIS**

- Hermès International reported in July very dynamic H1 sales, with a 7.2% increase of which +8.1% in Q2 with particularly strong leather goods revenues 16.3% increase of which +17.1% in Q2. It is also worth noting the very positive momentum in Europe with an 8% sales increase while activity in APAC was also better oriented in Q2 (+6.7%) than in Q1 (+3.9%).
- This morning, Hermès issued a very strong H1 EBIT which reached EUR827m (consensus: EUR820m), implying a 140bp profitability improvement to 33.9% (group was guiding for around a 100bp gain), thanks to forex positive impact (hedging gain) and also to the positive distribution and above all product mix (leather goods sales grew 16% in H1). In H1, Cash Flow increased 22%.
- For the full year, sales should grow lower than 8% (we expect +7%) and EBIT margin should slightly increase (we anticipate a 100bp gain which implies a smoother H2). Furthermore, management no longer wants to report medium-term sales growth (before it was expecting +8%) due to rising macroeconomic, geopolitical and currencies uncertainties.

**VALUATION**

- Hermès is the top luxury group performer as the share price gained 18.4% over the last three months versus +6% for our luxury sample average. YTD it gained 24% or +34% versus the DJ Stoxx. Hermes is trading 22.8x on 2016 EV/EBIT vs 14x for sector average.

**NEXT CATALYSTS**

- Analysts meeting at 9am.

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TMT

## SAP

Price EUR78.23

| | |
|---|---|
| Bloomberg | SAP GR |
| Reuters | SAPG.DE |
| 12-month High / Low (EUR) | 80.7 / 55.9 |
| Market Cap (EURm) | 96,106 |
| Avg. 6m daily volume (000) | 2,407 |

| | 1 M | 3 M | 6 M | 31/12/15 |
|---|---|---|---|---|
| Absolute perf. | -0.4% | 14.7% | 11.8% | 6.6% |
| Softw.& Comp. SVS | 1.2% | 12.3% | 11.2% | 5.9% |
| DJ Stoxx 600 | -2.1% | 3.6% | -1.0% | -7.4% |

| | 2015 | 2016e | 2017e | 2018e |
|---|---|---|---|---|
| P/E | 20.7x | 20.2x | 17.7x | 16.6x |
| Div yield (%) | 1.5% | 1.5% | 1.7% | 1.8% |

### Acquisition of the online travel booking startup Hipmunk

**Fair Value EUR75 (-4%)** **NEUTRAL**

#### ANALYSIS

- **Yesterday evening, SAP announced the acquisition of Hipmunk, for an undisclosed sum.** Founded in 2010 and based in San Francisco, Hipmunk is a consumer-oriented online travel booking company which competes with Kayak, TripAdvisor and Trivago. Hipmunk ranks flights by price, schedule, duration and number of stops. It also ranks hotels by price, reviews, and "ecstasy". Its business model is based on collecting commissions for directing flight and hotel purchase traffic to airlines, hotels, and other travel-search sites. Hipmunk had previously raised c. USD55m in funding.
- **A 'tuck-in' acquisition for Concur. The deal is expected to close in October.** Given the staff number it has (50+ staff will stay after the acquisition), we doubt Hipmunk will have some impact to our forecasts (maybe less than EUR10m revenues in our view). As part of Concur, SAP's cloud-based offering dedicated to Travel & Expense management, Hipmunk is very likely to shift more of its focus toward business travelers, for instance through helping them finding hotels near their scheduled meetings. We also think some synergies may happen with SAP's online trip planner TripIt.

#### VALUATION

- SAP's shares are trading at est. 14.9x 2016 and 13.5x 2017 EV/EBIT multiples.
- Net debt on 30th June 2016 was EUR4,436m (net gearing: 19%).

#### NEXT CATALYSTS

- Q3 2016 results on 21st October before markets open.

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Sector View

# Semiconductors

## iPhone 7 pre-orders at T-Mobile and Sprint set new record high

| | 1 M | 3 M | 6 M | 31/12/15 |
|---|---|---|---|---|
| Semiconductors | -4.5% | 21.9% | 19.4% | 15.2% |
| DJ Stoxx 600 | -2.1% | 3.6% | -1.0% | -7.4% |

*Stoxx Sector Indices

**Companies covered**

| | | |
|---|---|---|
| **ams** | **NEUTRAL** | **CHF29** |
| **ASML** | **SELL** | **EUR81** |
| **DIALOG** | **BUY** | **EUR37** |
| **INFINEON** | **BUY** | **EUR16** |
| **MELEXIS** | **SELL** | **EUR48** |
| **SOITEC** | **NEUTRAL** | **EUR0.5** |
| **STMICROELECTRONICS** | **NEUTRAL** | **EUR6.5** |
| **u-blox** | **BUY** | **CHF255** |

**According to both, T-Mobile and Sprint, iPhone 7 pre-orders are almost 4x higher than previous iPhone models (including the most successful iPhone 6). Other US carriers have not communicated any figures yet, meaning that we still have no data regarding about two-thirds of the US market so far. Nevertheless, there appears to be positive signs concerning the new iPhone 7 traction. In our coverage, Dialog (Buy, FV EUR37) and ams (Neutral, FV CHF29) are the most exposed to Apple, which generates c. 80% and 20% of respective revenues.**

### ANALYSIS

- **According to Sprint and T-Mobile, pre-orders of iPhone 7 and iPhone 7 Plus are nearly 4 times higher than previous models.** In two distinct press releases, Sprint (~14% of U.S. Wireless market) and T-Mobile (~17% of US Wireless market) announce a similar figure of pre-orders for the new iPhone 7 (including iPhone 7 Plus): +375% over the first three days compared to iPhone 6S at Sprint and 4x greater than iPhone 6 (the most successful iPhone model so far) at T-Mobile over the first four days. Note that in the first week-end iPhone 6 (not 6S) sold 10 million units in September 2014.

- **At first take, this is positive for Dialog which realizes about 80% of its revenue with Apple**. During Q2 results in July, Dialog management was pessimistic regarding the success of the new model of iPhone. As such, we understood that the group is expecting lower volume of iPhone 7 in Q4 2016 than iPhone 6S in Q4 2015. Also, this might be seen as positive for ams, which realize about 20% of its business with Apple (about 10% with Samsung). We note that the warm welcome of the iPhone 7 might also be boosted by Samsung troubles with its latest Galaxy Note 7.

- **Just a word of caution**. While we are impressed by Sprint and T-Mobile figures, we note that other US carriers have not communicated any figures, meaning that we still have no data regarding about two thirds of the US market so far. Furthermore, we would not use this 4x figure as a long-term data since the strong pre-orders momentum is probably driven by early-adopters and upcoming sales might not enjoy a similar momentum. Finally, we recall that demand and supply might be different due to complex manufacturing process, slowing down production.

### VALUATION

- Based on our estimates, Dialog and ams's shares trade at 2016e P/E ratios of 16.3x and 24.3x respectively and 2016e PEG ratios of 1.6x and 2.6x respectively.

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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%

# Bryan Garnier Research Team

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