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15th September 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	18034.77	-0.18%	+3.50%
S&P 500	2125.77	-0.06%	+4.00%
Nasdaq	5173.77	+0.36%	+3.32%
Nikkei	16405.01	-1.26%	-12.71%
Stoxx 600	338.421	-0.09%	-7.49%
CAC 40	4370.26	-0.39%	-5.75%
Oil /Gold			
Crude WTI	43.58	-2.94%	+17.15%
Gold (once)	1323.45	-0.11%	+24.57%
Currencies/Rates			
EUR/USD	1.1248	+0.05%	+3.54%
EUR/CHF	1.09475	+0.04%	+0.68%
German 10 years	-0.038	+86.69%	-105.95%
French 10 years	0.259	-2.51%	-73.56%
Euribor	-	+-%	+-%

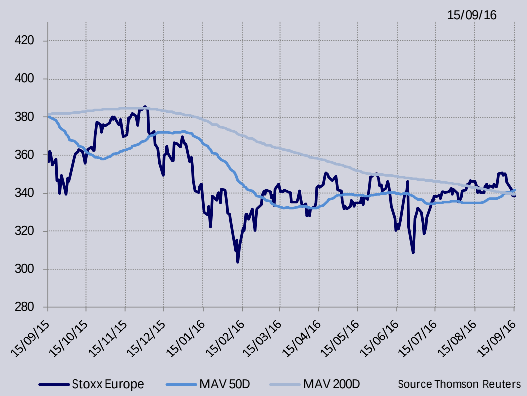
Upcoming BG events :

Date	
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



BAYER — NEUTRAL, Fair Value EUR98 vs. Under Review (+5%)

Agreement to buy Monsanto at USD128 per share

Bayer has reached an agreement with Monsanto, while slightly increasing its offer to USD128. Largely because the process should take at least 12 months to complete, we keep a NEUTRAL rating on the stock. The deal is not value-creative until 2022. An ex-Monsanto FV of EUR98 is reinstalled.

HERMÈS INTL. — BUY, Fair Value EUR370 (+5%)

Share price decline offers a buy opportunity!

H1 results were quite reassuring, with a 140bp EBIT margin gain to 33.9%. Nevertheless, management still anticipates a "slight" FY EBIT margin improvement. We are slightly more optimistic and we expect a 80bp profitability improvement to 32.6%, implying +30bp in H2 as positive FX impact will be less positive than in H1. We leave unchanged our estimates, our EUR370 FV and our Buy recommendation. Yesterday's share price decline (-9%) is, in our view, a good buying opportunity for medium term.

KORIAN — NEUTRAL, Fair Value EUR29 (-12%)

First take: H1 results beat consensus…waiting Capital Market day

Following H1 revenue released on 21st July (organic revenue growth of 3.5% excluding calendar effect), H1 results were slightly better than anticipated excluding non recurring items. FY 2016 management expectations has been confirmed regarding top line with an improvement on EBITDA margin to around 13.7% excluding non-recurring items (our forecast was 13.4% as consensus) from previously around the same level as in 2015 i.e. 13.3%. Reflecting Casa Reha acquisition net debt increase by EUR687m to EUR2.332m representing restated financial leverage of 3.9x (3.1x at the end of December).

RÉMY COINTREAU — BUY, Fair Value EUR84 vs. EUR80 (+13%)

It keeps getting better (full report published today)

The stock had a very strong performance over the past six months (+17% vs DJ Stoxx) but should continue to benefit from the positive momentum. The United States shows no signs of a slowdown and China keeps recovering. Besides, the premiumisation strategy is a success, with the weight of exceptional spirits increasing 400bps in 2015/16 to 49%. We maintain our Buy recommendation and raise our Fair Value to EUR84.

TOD'S GROUP — SELL, Fair Value EUR53 (+3%)

Profitability still under pressure

Again, Tod's results are below market expectations. In H1, EBITDA reached EUR86.3m while consensus was anticipating EUR87.6m. Profitability declined 270bp to 17.3%. Furthermore, sales momentum did not likely improve during the summer as same stores sales declined in line with almost the same trend as H1. Nevertheless, management estimates that FY consensus is still feasible, although "challenging".

AUTOMOTIVE

European auto demand accelerates in August, helped notably by favourable calendar effect

This morning, ACEA posted solid growth figures for the EU PC market, with registrations up 10% at 819.1k units after a 1.4% decline in July and a +6.9% rise in June. Despite being slightly boosted by favourable calendar effect, we view this performance as quite impressive and reassuring. On a YTD basis, the market is up 8.1% ahead of ACEA expectations for the year (+5%) and ahead our estimates (+4.5%), notably due to the high uncertainties linked to UK demand in September following the Brexit.

In brief...

SAINT GOBAIN, *A EUR1bn bond at 0% coupon*

SAFILO, *New license: welcome to Moschino!*

Healthcare

Bayer

Price EUR93.55

Bloomberg	BAY GY
Reuters	BAYG.F
12-month High / Low (EUR)	126.9 / 84.4
Market Cap (EURm)	77,361
Ev (BG Estimates) (EURm)	95,098
Avg. 6m daily volume (000)	2 562
3y EPS CAGR	6.9%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-4.6%	7.3%	-6.7%	-19.2%
Healthcare	-3.0%	4.2%	1.1%	-8.7%
DJ Stoxx 600	-2.2%	5.6%	-1.8%	-7.5%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	46,325	46,514	46,189	47,890
% change		*0.4%*	*-0.7%*	*3.7%*
EBITDA	10,334	10,947	10,850	11,435
EBIT	8,851	9,641	9,864	10,421
% change		*8.9%*	*2.3%*	*5.6%*
Net income	5,687	6,085	6,483	6,944
% change		*7.0%*	*6.5%*	*7.1%*

	2015	2016e	2017e	2018e
Operating margin	19.1	20.7	21.4	21.8
Net margin	12.3	13.1	14.0	14.5
ROE	25.6	23.9	23.1	22.4
ROCE	11.6	12.9	13.3	14.1
Gearing	71.0	51.8	37.1	23.3

(EUR)	2015	2016e	2017e	2018e
EPS	6.88	7.36	7.84	8.40
% change	-	*7.0%*	*6.5%*	*7.1%*
P/E	13.6x	12.7x	11.9x	11.1x
FCF yield (%)	5.6%	7.7%	7.9%	8.5%
Dividends (EUR)	2.50	2.60	2.70	2.80
Div yield (%)	2.7%	2.8%	2.9%	3.0%
EV/Sales	2.1x	2.0x	2.0x	1.8x
EV/EBITDA	9.5x	8.7x	8.5x	7.7x
EV/EBIT	11.1x	9.9x	9.3x	8.5x

Agreement to buy Monsanto at USD128 per share

Fair Value EUR98 vs. Under Review (+5%) NEUTRAL

Bayer has reached an agreement with Monsanto, while slightly increasing its offer to USD128. Largely because the process should take at least 12 months to complete, we keep a NEUTRAL rating on the stock. The deal is not value-creative until 2022. An ex-Monsanto FV of EUR98 is reinstalled.

ANALYSIS

- As rumoured in the last few days, Bayer and Monsanto reached an agreement on September 14th at a final price of USD128 for each Monsanto share to be offered by Bayer in an all-cash transaction. At this level, the offer received full support from Monsanto's Board members and so we now expect the proposed transaction to proceed and to have only one meaningful agreement left to reach: the one from antitrust authorities.
- This aspect was one of the more lengthy addressed during the conference call yesterday. This is in resonance with the current share price of Monsanto that is still, even after yesterday's announcement, far below the offer price (USD106-107 vs USD128). It has not even adjusted by the last increase in the offer price i.e. USD3 per share. It suggests that in investors' mind, the likelihood of a consumated merger has not increased. Of course, it has to be remembered that the share price of Monsanto before the start of the negociations with Bayer was USD89 and that earnings estimates have been severely cut since then. Considering a break-up fee of USD4 per share, it is like giving the merger a probability of success of no more than 50% still. First very initial feedbacks from discussions with regulators have been described as "encouraging" by Bayer's management, who reiterated several times two reasons to believe in the deal: (i) the strong support to innovation and commitment to invest massively in R&D is perceived very positively; (ii) there is little overlap between the two entities and where there are some (obvious ones), there is a clear commitment to divest anything that is required to get approval.

VALUATION

- This will remain a clear overhang over the two companies and their stocks at least until formal discussions have taken place, starting with European authorities. We have no example of such a big and complex deal not having affected negatively the involved companies and their referenced stock prices. It is hard to see Bayer performing during that long period of time until antitrust authorities give (or not) their green light. This is enough to keep a NEUTRAL rating.
- How should we value this company now and for the year to come? Already a couple years ago, we decided to value it as a pure play company in healthcare because we expected Bayer to come out of Covestro pretty quickly. That's not what has happened. Yet what came out of the conference call yesterday is that the deal should be value accretive as of … 2022 considering a cost of capital of around 7.7-7.8%.
- In terms of accretion, we lack some pieces of information about financing to challenge Bayer's declared impacts of a small positive in year 1 post-closing (2018) and in double digits in year3 (2020). In particular, the equity part (USD19bn) is unclear. It will be composed of a convertible bond (maturity? coupon? size?) and a subscription right (size? discount to last price?). On the debt side, Bayer will benefit from extraordinary conditions and we expect Co. to be able to raise debt at no more than 3%, which would give an EPS accretion of 1% in 2018 and 13% in 2020, in line with Bayer's guidance. On the same base, EPS would grow 9% on average from 2016 to 2020.
- In terms of valuation, we have decided to move WACC from our so far 7.24% (with beta of 0.95) to 7.53% (beta of 1), closer to Bayer's internal calculation. No reason to be below Co.'s own assumptions. On that base, with 1.8% average LT growth rate and Covestro at market value, with no influence yet of Monsanto, the FV is EUR98. Considering the length of the merger process and some kind of scepticism yet in the market, we decide to reinstall this FV for the time being.

NEXT CATALYSTS

- 19-20 September 2016: Meet The Management meeting in Germany

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Luxury & Consumer Goods

Hermès Intl.

Price EUR353.00

Share price decline offers a buy opportunity!

Fair Value EUR370 (+5%) **BUY**

Bloomberg	RMS FP
Reuters	HRMS.PA
12-month High / Low (EUR)	398.6 / 291.6
Market Cap (EURm)	37,266
Ev (BG Estimates) (EURm)	35,494
Avg. 6m daily volume (000)	56.10
3y EPS CAGR	13.4%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-11.3%	9.6%	7.5%	13.2%
Pers & H/H Gds	-4.3%	4.4%	-0.4%	-0.3%
DJ Stoxx 600	-2.2%	5.6%	-1.8%	-7.5%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	4,841	5,165	5,630	6,100
% change		*6.7%*	*9.0%*	*8.3%*
EBITDA	1,605	1,746	2,040	2,265
EBIT	1,541	1,683	1,880	2,095
% change		*9.2%*	*11.7%*	*11.4%*
Net income	973.0	1,106	1,255	1,418
% change		*13.7%*	*13.5%*	*13.0%*

	2015	2016e	2017e	2018e
Operating margin	31.8	32.6	33.4	34.3
Net margin	20.1	21.4	22.3	23.2
ROE	26.0	25.9	24.2	22.7
ROCE	43.8	43.4	43.0	43.2
Gearing	4.3	3.7	3.1	2.6

(EUR)	2015	2016e	2017e	2018e
EPS	9.26	10.52	11.94	13.49
% change	-	*13.7%*	*13.5%*	*13.0%*
P/E	38.1x	33.5x	29.6x	26.2x
FCF yield (%)	2.5%	2.4%	2.7%	3.0%
Dividends (EUR)	3.35	3.80	9.00	4.80
Div yield (%)	0.9%	1.1%	2.5%	1.4%
EV/Sales	7.4x	6.9x	6.2x	5.6x
EV/EBITDA	22.3x	20.3x	17.1x	15.1x
EV/EBIT	23.2x	21.1x	18.6x	16.3x

H1 results were quite reassuring, with a 140bp EBIT margin gain to 33.9%. Nevertheless, management still anticipates a "slight" FY EBIT margin improvement. We are slightly more optimistic and we expect a 80bp profitability improvement to 32.6%, implying +30bp in H2 as positive FX impact will be less positive than in H1. We leave unchanged our estimates, our EUR370 FV and our Buy recommendation. Yesterday's share price decline (-9%) is, in our view, a good buying opportunity for medium term.

ANALYSIS

- H1 16 sales grew 7% organically, of which +8% in Q2. The most important information was the strong revenue increase in leather goods (+16% in H1 of which +17% in Q2). Silk sales were affected by poor activity in Hong Kong and less tourists in Franc,e despite a less negative trend in Q2 vs Q1 (-4.3% vs -9.2%). By geographical area, Hermès achieved a reassuring performance in France versus its peers with a 8.8% sales increase in Q2. Paris stores were slightly up despite lower traffic, as a higher average basket offsett fewer tourists. In H1, we highlight that sales in Mainland China were still growing while they remained stable in HK and down HSD in Macau, which again means an outperformance versus peers. Furthermore, Hermès saw more activity in the UK in Q2 and even in recent months, thanks to GBP erosion (consequence of Brexit).
- H1 2016 results were slightly above market expectations, with an EBIT margin up 140bp to 33.9% with a EUR827m EBIT (consensus was at EUR820m). The profitability improvement comes mainly from gross margin, which gained 200bp to 68.4%. This positive trend has been achieved thanks to a hedging gain, of which 100bp is one off and will not recur in H2. Beyond FX effect, Hermès benefited from favourable distribution mix (outperformance of retail sales which grew 8% versus +3% for wholesale) and more importantly from positive product mix thanks to 16% Leather Goods sales increase. On the other hand, upstream activity integration in Leather Goods affected group gross margin, as this business is not yet profitable. In H1, communication costs grew no more than 3%, which implies 4.1% of sales vs 4.2% in H1 2015.
- For full year 2016, Hermès management expects sales to grow slightly below 8%. We anticipate a 7% increase, in line with H1 performance and Hermès CEO added during yesterday's analysts meeting that he is quite optimistic on Q3 sales momentum, despite some uncertainties. Concerning profitability, management expects a "slight" EBIT margin improvement adding that in H2, the group will spend more on communication than in H1 as more stores will open or reopen (after renovation and extension) in the coming months and particularly in Q4. FY 16 Cap ex will reach around EUR280m (5.5% of sales) versus EUR250m last year, of which half will be dedicated to stores renovation or openings. For instance, a flagship store will be opened in October in Rome after the one in Singapore (Liat Towers) in H1. Each year, Hermès opens on average three to four stores including one in Mainland China, but renovates and extends around 15 stores.
- Hermès management does not want to quantify anymore its goal of annual sales growth, adding that it will remain ambitious. Furthermore, target for internal purpose has not been changed. Therefore, we do not change our expecations both for 2016 and 2017. Furthermore, leather goods volume annual growth target remains at 8% thanks to production capacity increase. This implies around 10% sales increase for this activity which accounts for 49% of group sales.

VALUATION

- Despite yesterday's 9% share price decline, the stock has gained 14% YTD, but has lost more than 10% versus its mid-August peak (EUR399). We remain at Buy on the stock with an unchanged EUR370 FV and we still see RMS as one of the best investments among our luxury stocks sample. Take the opportunity of yesterday share price decline to buy the share with a medium-term view.

NEXT CATALYSTS

- Q3 sales to be reported on 3rd of November.

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Healthcare

Korian

Price EUR32.91

First take: H1 results beat consensus...waiting Capital Market day

Fair Value EUR29 (-12%) **NEUTRAL**

Bloomberg	KORI FP
Reuters	KORI.PA
12-month High / Low (EUR)	36.3 / 23.2
Market Cap (EURm)	2,639
Ev (BG Estimates) (EURm)	4,852
Avg. 6m daily volume (000)	98.90
3y EPS CAGR	20.7%

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.1%	20.2%	24.7%	-2.3%
Healthcare	-3.0%	4.2%	1.1%	-8.7%
DJ Stoxx 600	-2.2%	5.6%	-1.8%	-7.5%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	2,579	2,994	3,133	3,278
% change		*16.1%*	*4.6%*	*4.6%*
EBITDA	342	401	439	484
EBIT	218.2	256.9	288.5	326.3
% change		*17.7%*	*12.3%*	*13.1%*
Net income	85.0	112.4	130.5	153.4
% change		*32.3%*	*16.1%*	*17.6%*

	2015	2016e	2017e	2018e
Operating margin	6.9	8.2	8.9	9.6
Net margin	2.3	3.5	4.0	4.5
ROE	4.4	5.6	6.1	6.7
ROCE	2.4	2.7	3.0	3.4
Gearing	85.1	107.2	94.4	81.3

(EUR)	2015	2016e	2017e	2018e
EPS	1.06	1.39	1.60	1.86
% change	-	*31.1%*	*15.0%*	*16.5%*
P/E	31.1x	23.7x	20.6x	17.7x
FCF yield (%)	7.3%	9.9%	10.4%	11.5%
Dividends (EUR)	0.60	0.60	0.60	0.60
Div yield (%)	1.8%	1.8%	1.8%	1.8%
EV/Sales	1.7x	1.6x	1.5x	1.4x
EV/EBITDA	12.5x	12.1x	10.8x	9.5x
EV/EBIT	19.6x	18.9x	16.4x	14.0x

Following H1 revenue released on 21st July (organic revenue growth of 3.5% excluding calendar effect), H1 results were slightly better than anticipated excluding non recurring items. FY 2016 management expectations has been confirmed regarding top line with an improvement on EBITDA margin to around 13.7% excluding non-recurring items (our forecast was 13.4% as consensus) from previously around the same level as in 2015 i.e. 13.3%. Reflecting Casa Reha acquisition net debt increase by EUR687m to EUR2.332m representing restated financial leverage of 3.9x (3.1x at the end of December).

ANALYSIS

- **H1 EBITDA ahead consensus and our expectation...:** Recurring EBITDA reached c. EUR198m compared with EUR194m for consensus and our forecast of EUR193m representing an EBITDA margin of 13.5% down only 10bps vs. last year (consensus was at 13.2%). The spread compared with anticipations was fully explained by positive impact from IAS 17 while EBITDAR margin was down 30bps vs. 2015 at 26.7%. By geography, France EBITDAR margin was up 60bps, Germany was down to 26.9% from 30.4%, Italy was down 60bps and Belgium improved to 26.1% from 24.6%.
- **...with FY target upgraded on EBITDA margin:** Following H1 results, management increased its expectation on recurring EBITDA margin to around 13.7% up 40 bps vs. flat previously. EBITDA margin improvement was totally due to a greater than expected impact of the IAS17 on German acquisitions. FY target top line has been confirmed to almost EUR3bn in line with our expectation and consensus (EUR2,987m).
- **Net debt significantly higher but largely refinanced:** As anticipated and mainly due to Casa Reha, net debt reach EUR2,332m representing a restated financial leverage of 3.9x compared with 3.1x at the end of 2015 and a covenant of 4.5x. Management that the syndicated loan (EUR1.3bn) was totally renegociated at the same interest rate margin with 5-year maturity. More, the group launched a programme to issue up to EUR300m in short-term negotiable securities not yet used.

VALUATION

- At the current share price, the stock is trading at 12.1x 2016e EV/EBITDA and 10.8x 2017e, which compares with historical average of 9.3x.

NEXT CATALYSTS

- Capital Market day on 15th September (starting at 10:00am)
- Q3 revenue on 26th October

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Food & Beverages

Rémy Cointreau

Price EUR74.35

Bloomberg	RCO FP
Reuters	RCOP.PA
12-month High / Low (EUR)	80.4 / 50.9
Market Cap (EURm)	3,623
Ev (BG Estimates) (EURm)	4,077
Avg. 6m daily volume (000)	89.30
3y EPS CAGR	13.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-5.5%	3.4%	15.3%	12.6%
Food & Bev.	-3.5%	3.6%	1.8%	-1.9%
DJ Stoxx 600	-2.1%	3.6%	-1.0%	-7.4%

YEnd Mar. (EURm)	03/16	03/17e	03/18e	03/19e
Sales	1,051	1,076	1,140	1,232
% change		*2.4%*	*6.0%*	*8.1%*
EBITDA	200	227	252	284
EBIT	178.4	206.6	229.4	258.4
% change		*15.8%*	*11.0%*	*12.6%*
Net income	110.4	127.9	150.4	171.2
% change		*15.9%*	*17.6%*	*13.8%*

	03/16	03/17e	03/18e	03/19e
Operating margin	17.0	19.2	20.1	21.0
Net margin	10.5	11.9	13.2	13.9
ROE	9.9	12.0	14.4	16.0
ROCE	16.5	17.3	18.0	18.3
Gearing	41.2	42.4	40.2	34.0

(EUR)	03/16	03/17e	03/18e	03/19e
EPS	2.27	2.50	2.94	3.35
% change	-	*10.2%*	*17.6%*	*13.8%*
P/E	32.8x	29.7x	25.3x	22.2x
FCF yield (%)	2.1%	2.6%	3.1%	3.6%
Dividends (EUR)	1.60	1.60	1.60	1.60
Div yield (%)	2.2%	2.2%	2.2%	2.2%
EV/Sales	3.9x	3.8x	3.5x	3.2x
EV/EBITDA	20.4x	18.0x	16.0x	14.0x
EV/EBIT	22.9x	19.7x	17.6x	15.4x

It keeps getting better (full report published today)

Fair Value EUR84 vs. EUR80 (+13%) **BUY**

The stock had a very strong performance over the past six months (+17% vs DJ Stoxx) but should continue to benefit from the positive momentum. The United States shows no signs of a slowdown and China keeps recovering. Besides, the premiumisation strategy is a success, with the weight of exceptional spirits increasing 400bps in 2015/16 to 49%. We maintain our Buy recommendation and raise our Fair Value to EUR84.

ANALYSIS

- **An attractive category.** Despite the anti-extravagance policy in China, global cognac sales posted a 10-year CAGR of 6.1%, vs +4.7% for the spirits market. Rémy Cointreau is close to being a pure player, with the category representing 62% of its sales. Growth in the US shows no sign of a slowdown. According to our estimate, cognac value depletions were running at +20% in Q1, ahead of the 2015/16 trend of 18%. China is recovering. In Q1, the improvement in value depletions was strong and surprised us positively. They were up mid single-digit in Q1 after a stabilisation in 2015/16.
- **Successful premiumisation strategy.** The group has indicated that its goal is to become the leader in exceptional spirits (retail price over USD50). This segment should account for 60-65% of its sales by 2019-2020. To reach this weight, it can improve price/mix organically or make some changes in its portfolio via acquisitions/disposals/end of distribution contracts. 2015/16 was a successful first step as the weight of exceptional spirits rose 400bps to 49%.

VALUATION

- **Fair Value lifted to EUR84.** The stock has been one of the best performers in our coverage universe. It outperformed the DJ Stoxx by 17% over the past six months. It is trading at 19.7x EV/EBIT 2016/17e and 17.6x EV/EBIT 2017/18e, 16% and 14% above the peers' average. This compares to a 10-year historical premium vs its peers of 18%. We have increased our EBIT forecasts by 4% on average over the next three years. Our Fair Value is adjusted upwards to EUR84 from EUR80.

NEXT CATALYSTS

- Q2 2016/17 sales on October 18th

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Luxury & Consumer Goods

Tod's Group

Price EUR51.30

Bloomberg	TOD IM
Reuters	TOD.MI
12-month High / Low (EUR)	82.0 / 46.0
Market Cap (EUR)	1,698
Ev (BG Estimates) (EUR)	1,710
Avg. 6m daily volume (000)	73.70
3y EPS CAGR	4.4%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-5.5%	-1.1%	-30.1%	-29.8%
Pers & H/H Gds	-4.3%	4.4%	-0.4%	-0.3%
DJ Stoxx 600	-2.2%	5.6%	-1.8%	-7.5%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	1,037	1,015	1,070	1,120
% change		*-2.1%*	*5.4%*	*4.7%*
EBITDA	203	185	205	225
EBIT	148.7	130.0	148.0	168.0
% change		*-12.6%*	*13.8%*	*13.5%*
Net income	92.8	82.0	100.0	114.0
% change		*-11.6%*	*22.0%*	*14.0%*

	2015	2016e	2017e	2018e
Operating margin	14.3	12.8	13.8	15.0
Net margin	8.9	8.1	9.3	10.2
ROE	13.6	12.2	13.8	15.7
ROCE	17.9	16.1	18.3	20.7
Gearing	-15.2	1.7	-1.1	-5.2

(EUR)	2015	2016e	2017e	2018e
EPS	3.03	2.48	3.03	3.45
% change	-	*-18.0%*	*22.0%*	*14.0%*
P/E	16.9x	20.6x	16.9x	14.9x
FCF yield (%)	3.0%	5.8%	5.6%	6.6%
Dividends (EUR)	2.00	2.20	2.30	3.30
Div yield (%)	3.9%	4.3%	4.5%	6.4%
EV/Sales	1.5x	1.7x	1.6x	1.5x
EV/EBITDA	7.7x	9.2x	8.2x	7.4x
EV/EBIT	10.5x	13.2x	11.4x	9.9x

Profitability still under pressure

Fair Value EUR53 (+3%) **SELL**

Again, Tod's results are below market expectations. In H1, EBITDA reached EUR86.3m while consensus was anticipating EUR87.6m. Profitability declined 270bp to 17.3%. Furthermore, sales momentum did not likely improve during the summer as same stores sales declined in line with almost the same trend as H1. Nevertheless, management estimates that FY consensus is still feasible, although "challenging".

ANALYSIS

- **On July 21st, the Italian group reported H1 2016 sales of EUR498m (cs:EUR493m)**, slightly above very cautious investors expectations. Sales were down 4.3% at same forex in H1, implying a 4.2% decline in Q2 alone following -4.2% in Q1. This very poor performance was no major surprise but nevertheless highlighted that Tod's Group is underperforming peers. Retail sales (63% of sales) were quite soft with a further decline in momentum in Q2 (-9%) after -1.4% in Q1. Even same-store retail sales fell 16.2% in Q2 2016 following -12.4% in Q1 (-14.3% in H1). Over the past 12 months, the group has opened 10 DOS. On the other hand, wholesale sales were down 1.9% in H1 implying some clear improvement in Q2 (+1.8% vs -7% in Q1). And more importantly, Tod's CFO added at the yesterday's conference call that the trend in July and August was not very different from the H1 performance. It is only in Q4 that management expects some improvement, as the last querter will benefit from a new bags collection.

- **EBIT in H1 2016 declined 20% to EUR62m**, implying a significant profitability decrease (-260bp to 12.5%). EBITDA is down 16.2% to EUR86.3m (consensus: EUR87.6m) with an EBITDA margin down 270bp to 17.3%.

Half Year P&L

EURm	H1 2015	H1 2016	chge %
Sales	515	498	-3,4
EBITDA	103	86	-16,2
as % of sales	*20,0*	*17,3*	*-270bp*
EBIT	77,7	61,9	-20,1
as % of sales	*15,1*	*12,5*	*-260bp*

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

- Since the departure of Allessandra Facchinetti, the Tod's brand is very clear: be less fashion (no more fashion shows), be more entry price or mid range focused and less high end, be more classic both in shoes and bags. And this will lead also to cost savings that we can estimate at EUR10-20m.

- **Tod's CFO, M. Emilio Maccelari, added that he was confortable with the current sales consensus** (-1 to -2%) but said that EBITDA margin consensus was perhaps challenging, but still feasible despite likely poor sales performance in Q3. Therefore, all will depend on the Q4 trend which means that visibility the on FY2016 performance remains very weak. Consequently, we leave our FY 2016 estimates unchanged.

VALUATION

- Tod's share price has lost 30% YTD and even 5% vs last month, but the stock is still trading at a small 3% premium versus our luxury groups sample average. Given the still weak visibility on short term prospects and a weak track record in recent quarters, we prefer to keep our Sell recommendation with an unchanged EUR53 FV.

NEXT CATALYSTS

- Q3 sales to be reported on October 24th.

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Sector View

Automotive

European auto demand accelerates in August, helped notably by favourable calendar effect

	1 M	3 M	6 M	31/12/15
Auto & Parts	-2.5%	7.5%	-3.3%	-15.2%
DJ Stoxx 600	-2.2%	5.6%	-1.8%	-7.5%

*Stoxx Sector Indices

Companies covered

FAURECIA		**BUY**	**EUR47**
Last Price	EUR35,52	*Market Cap.*	EUR4,898m
HELLA		**BUY**	**EUR45**
Last Price	EUR36,18	*Market Cap.*	*EUR4,020m*
PLASTIC OMNIUM		**BUY**	**EUR36**
Last Price	EUR28,25	*Market Cap.*	*EUR4,307m*
VALEO		**NEUTRAL**	**EUR49**
Last Price	EUR49,4	*Market Cap.*	*EUR11,776m*

This morning, ACEA posted solid growth figures for the EU PC market, with registrations up 10% at 819.1k units after a 1.4% decline in July and a +6.9% rise in June. Despite being slightly boosted by favourable calendar effect, we view this performance as quite impressive and reassuring. On a YTD basis, the market is up 8.1% ahead of ACEA expectations for the year (+5%) and ahead our estimates (+4.5%), notably due to the high uncertainties linked to UK demand in September following the Brexit.

ANALYSIS

- **Demand in August is accelerating compared with June & July**: According to ACEA statistics, the EU PC market posted solid growth figures with registrations up **10%** at **819.1k** units after observing a **1.4%** decline in July and a **+6.9%** rise in June. As a reminder, August is the weakest month of the year in volumes terms due to summer holidays implying this good growth will not alter ACEA's annual expectations for 2016 PC market. By market, the growth in demand was driven by **Italy** *(+20%)* and **Spain** *(+14.6%),* but also by **Germany** *(+8.3%)* and **France** *(+6.7%)* while for OEM it was driven by **FCA group** *(+20.6%),* by **Daimler** & **Toyota** *(+18% each*) and by **Renault group** *(+14.4%).* This growth, which seems at first glance quite impressive compared with previous months, can also be explained **notably by a favourable calendar effect** *(22 business day in most of European countries in August 2016 vs. 21 in August 21).*
- **Market is up 8% in European Union on an YTD basis**: Thanks to this good performance in August, the YTD growth rate for EU is surging to **8.1%** vs. **7.7%** in July, lending weight to the **+5%** ACEA sales forecast for 2016. In our model, we currently stand at +**4.5%** demand growth for the year, lower than ACEA forecast and lower than current YTD market growth, notably due to uncertainties regarding the development potential (*or lack thereof*) of the UK market in September following the Brexit (*an important month for this market given it represents 17% of the annual demand vs. 10% for European market*).
- **As a reminder, within our BG auto universe, Plastic Omnium** is the supplier that is most exposed to European production when integrating the acquisition of FAE with 59% of its sales being made in Europe, ahead of Hella (54%) and Faurecia post disposal of FAE (49%).

VALUATION

- At current share price, the sector is trading at **12x** its 2017e EBIT & **14x** its 2017e EPS
- 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**.

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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Construction & Building Materials

Saint Gobain

Price EUR37.50

A EUR1bn bond at 0% coupon

Fair Value EUR46 (+23%) BUY

Bloomberg	SGO FP
Reuters	SGOB.PA
12-month High / Low (EUR)	41.8 / 32.1
Market Cap (EUR)	20,808
Avg. 6m daily volume (000)	1,717

	1 M	3 M	6 M	31/12/15
Absolute perf.	-5.0%	2.2%	-1.4%	-5.9%
Cons & Mat	-1.8%	9.6%	4.9%	2.8%
DJ Stoxx 600	-2.2%	5.6%	-1.8%	-7.5%

	2015	2016e	2017e	2018e
P/E	18.2x	17.7x	13.9x	11.6x
Div yield (%)	3.3%	3.5%	3.5%	3.5%

ANALYSIS

- Last night, Saint-Gobain announced that it is issuing a EUR1bn 3.5-year bond with a 0% coupon. The order book stood at EUR2.6bn. S&P rating stands at BBB (for the long-term senior debt).
- EUR1bn represents approx. 10% of the gross debt at end June 2016 (EUR6.6bn net debt includes EUR9.5bn of gross debt and EUR2.9bn of cash). Saint-Gobain repays EUR0.5bn of debt in September 2016, EUR0.4bn in December 2016 and EUR1.3bn (two tranches) in April 2017.
- Impact is obviously positive on our interest cost estimates, by approx. EUR15m in 2016 (to ~EUR385m), EUR50m in 2017 (to EUR325m) and EUR55m in 2018 (to ~EUR295), pre-tax. According to our calculation, cost of the gross debt in 2017 falls by c50bps to 3.4% vs 3.9% previously.
- EPS enhancement is modest in 2016 and north of 2% in 2017 and 2018. Impact is not that significant then, but this is of course positive for market sentiment. After all, Saint-Gobain is still a cyclical company.

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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Luxury & Consumer Goods

Safilo

Price EUR8.17

New license: welcome to Moschino!

Fair Value EUR11 (+35%) **NEUTRAL**

Bloomberg	SFL IM
Reuters	SFLG.MI
12-month High / Low (EUR)	11.8 / 6.3
Market Cap (EURm)	512
Avg. 6m daily volume (000)	105.7

	1 M	3 M	6 M	31/12/15
Absolute perf.	0.9%	23.7%	-6.0%	-23.8%
Consumer Gds	-3.7%	5.1%	0.2%	-3.3%
DJ Stoxx 600	-2.2%	5.6%	-1.8%	-7.5%

	2015	2016e	2017e	2018e
P/E	73.7x	19.3x	41.3x	22.1x
Div yield (%)	NM	1.2%	1.8%	2.4%

ANALYSIS

- The positive newsflow about the licensed brand portfolio continues: following the early renewal of its licensing agreement with Max Mara last week, Safilo announced this morning a new licensing agreement with the Italian luxury fashion house **Moschino**. This contract will be carried out over the LT as the Italian luxury fashion house will partner with Safilo from January 2018 until December 2025 (eight years), with an optional extension for a further eight years! The Moschino licensing agreement is currently held by the Italian group Allison SpA.
- From January 2018, Safilo will produce two distinctive eyewear collections of optical frames and sunglasses: *Moschino* and *Love Moschino*. This licence is positioned in the Fashion Luxury segment, (retail price >EUR200 for *Moschino* and >EUR160 for *Love Moschino*) and will be distributed in selective optical stores, department stores and Moschino Boutiques. It is worth noting that Moschino, which belongs to Aeffe Group, generated revenue of EUR95.4m in H1 16, up 9.6% FX-n.

VALUATION

- In our opinion, the market should welcome this announcement. The licensed brand PF was almost the sole growth driver in Q2 (+9% FX-n adj.) while the proprietary brand portfolio was on the sidelines. We remain cautious in the ST because of the Gucci transition at the end of this year (coupled with underperformance of proprietary brands), but the actions implemented over the past two years are starting to bear fruits.

NEXT CATALYSTS

- Safilo will release its Q3 Sales and KPIs on 9th November 2016.

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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 55.8%　　NEUTRAL ratings 33.1%　　SELL ratings 11%

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