BRYAN, GARNIER & CO

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21st September 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	18129.96	+0.05%	+4.05%
S&P 500	2139.76	+0.03%	+4.69%
Nasdaq	5241.35	+0.12%	+4.67%
Nikkei	16807.62	+1.91%	-13.35%
Stoxx 600	341.001	-0.08%	-6.78%
CAC 40	4388.6	-0.13%	-5.36%
Oil /Gold			
Crude WTI	43.44	+0.32%	+16.77%
Gold (once)	1315.31	+0.14%	+23.81%
Currencies/Rates			
EUR/USD	1.11705	-0.11%	+2.83%
EUR/CHF	1.0934	-0.20%	+0.55%
German 10 years	-0.083	+64.38%	-113.14%
French 10 years	0.214	-15.81%	-78.15%

Economic releases :

Date	
21st-Sept	8h30 JP - BoJ governor press conference 16h30 US - DOE oil inventories 20h00 US FOMC rate decision

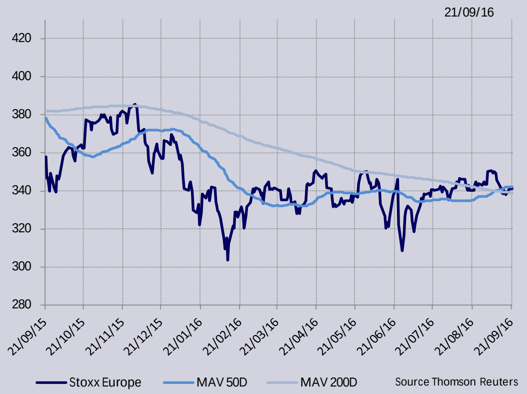
Upcoming BG events :

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	
15th-Sept	Remy Cointreau : It keeps getting better
14th-Sept	Automotive Innovation: the only way to stand out!
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

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



ALTEN — SELL, Fair Value EUR52 (-17%)

H1 2016 results pretty much in line with our expectations, FY16 outlook reiterated

Yesterday evening Alten reported H1 2016 results pretty much in line with our estimates, with a 1.4ppt operating margin jump stemming from a positive calendar effect (+2 days). Free cash flow was down 61% due to seasonality and the 10.6% Ifl sales growth reported for Q2. Finally, the outlook is reiterated for 2016, with management is guiding for a Ifl sales growth acceleration and profitability increase. Although the share price has gained 22% in the last three months, we consider the stock may suffer from profit-taking moves in the short-term.

DIAGEO — NEUTRAL, Fair Value 2100p (-3%)

Positive outlook for Europe

Yesterday, Diageo held a conference call on Europe/Russia/Turkey, which account for 24% of its sales. Management gave a globally positive outlook for the European activities, excluding Russia and Turkey, which are set to remain challenging but represent only 16% of the region's sales. The remaining 84% is expected to grow low single-digit this year according to the group. We are making no change to our estimate for 2.8% organic sales growth in Europe/Russia/Turkey. Our Neutral recommendation and Fair Value of 2100p are maintained. The group's strong exposure to emerging markets (an estimated 48% of total sales) is challenging in the current environment, while its underperformance in its first market, the US (32% of total sales), makes high investments necessary, thereby limiting operating leverage.

KORIAN — NEUTRAL, Fair Value EUR28 vs. EUR29 (-6%)

No urgency to revisit the stock

Following Capital market day end of last week, we have made some adjustments to our forecasts. The main revisions are related to the positive effects of measures in place that should be widely felt during the second part of the five-year plan rather than during the first part. Based on our DCF, our FV moves to EUR28 from EUR29. We confirm our Neutral opinion.

In brief...

AMOÉBA, *H1 2016 results in line, still pending marketing approval by the end of this year*

BAYER, *Only time will tell*

DBV TECHNOLOGIES, *Fast Track Designation for Viaskin Milk*

DIAGEO, *H1 EBIT margin to be impacted by productivity costs*

SFR, *Altice said to delay purchase of SFR stake by two weeks*

SHIRE PLC, *Going further in capital allocation: pacritinib to be dropped off*

UBISOFT, *Issue of convertible bonds maturity 2021 for c.EUR400m*

TMT

Alten

Price EUR62.65

H1 2016 results pretty much in line with our expectations, FY16 outlook reiterated

Fair Value EUR52 (-17%) **SELL**

Bloomberg	ATE FP
Reuters	LTEN.PA
12-month High / Low (EUR)	63.8 / 44.1
Market Cap (EUR)	2,110
Ev (BG Estimates) (EUR)	2,063
Avg. 6m daily volume (000)	29.60
3y EPS CAGR	10.2%

	1 M	3 M	6 M	31/12/15
Absolute perf.	1.1%	22.5%	17.3%	17.3%
Softw.& Comp.	3.4%	15.3%	11.3%	7.2%
DJ Stoxx 600	0.3%	4.8%	-0.1%	-6.7%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	1,541	1,718	1,845	1,976
% change		*11.5%*	*7.4%*	*7.1%*
EBITDA	164	188	206	225
EBIT	147.0	175.0	193.0	212.0
% change		*19.0%*	*10.3%*	*9.8%*
Net income	110.0	121.0	133.0	147.0
% change		*10.0%*	*9.9%*	*10.5%*

	2015	2016e	2017e	2018e
Operating margin	9.9	10.2	10.5	10.7
Net margin	6.8	7.0	7.2	7.4
ROE	16.3	16.3	15.9	15.5
ROCE	16.7	17.7	19.1	20.9
Gearing	-3.0	-6.0	-16.0	-26.0

(€)	2015	2016e	2017e	2018e
EPS	3.26	3.58	3.96	4.36
% change	-	*9.8%*	*10.6%*	*10.1%*
P/E	19.2x	17.5x	15.8x	14.4x
FCF yield (%)	4.7%	4.8%	6.1%	6.7%
Dividends (€)	1.00	1.00	1.00	1.00
Div yield (%)	1.6%	1.6%	1.6%	1.6%
EV/Sales	1.4x	1.2x	1.1x	0.9x
EV/EBITDA	12.8x	11.0x	9.6x	8.3x
EV/EBIT	13.8x	11.7x	10.2x	8.8x

Yesterday evening Alten reported H1 2016 results pretty much in line with our estimates, with a 1.4ppt operating margin jump stemming from a positive calendar effect (+2 days). Free cash flow was down 61% due to seasonality and the 10.6% lfl sales growth reported for Q2. Finally, the outlook is reiterated for 2016, with management is guiding for a lfl sales growth acceleration and profitability increase. Although the share price has gained 22% in the last three months, we consider the stock may suffer from profit-taking moves in the short-term.

ANALYSIS

- **H1 2016 results pretty much in line with our expectations, free cash flow decline**. For H1 2016, Alten has reported sales up 13.9% (+8.1% lfl) to EUR870.5m, operating profit up 31.9% to EUR88.5m or 10.2% of sales (vs. 8.8% of sales in H1 2015), EBIT up 34.1% to EUR86.9m after EUR1.6m in non-recurring costs (restructuring and acquisition-related costs), and net profit up 34.4% to EUR60.9m. These figures are pretty much in line with our estimates, as we expected operating margin of EUR87.1m (10% of sales), EBIT of EUR86.9m, and net profit of EUR59.8m, as well as with the company's "soft guidance" as management previously indicated operating margin would be inflated by the number of billable days and was likely to be at 10% or above. Free cash flow was down 61% to EUR11.1m (free cash flow margin: 1.3%, vs. 3.7% in H1 2015), including operating cash flow up 32% to EUR91.5m, a negative effect from cash taxes (EUR23.6m) and a sharp increase in WCR (EUR56.8m) due to revenue seasonality and strong lfl revenue growth in Q2.
- **Seventh acquisition announced for this year**. On top of the six companies already acquired since January 2016 (Nexse in Italy with EUR8m sales, PVR Technologies in the US with EUR18m sales, ASM Technologies' assets in India with EUR17m sales, another company based in the US with EUR6.3m sales, IST in Germany with EUR10m sales, and a company in Canada with EUR5m sales), Alten announced the acquisition of another company in North America generating EUR13m in revenues on our estimates with around 100 staff.
- **Reiterated outlook for 2016**. As economic conditions improve, management has reiterated its positive outlook for 2016 as stated in July, i.e. lfl revenue growth is set to accelerate compared to the +3.4% reported for 2015, while operating margin is expected to improve slightly from 9.9%. At this stage, we forecast 6.3% lfl revenue growth and operating margin of 10.2% (consensus: 10.1%), implying that operating margin in H2 2016 would be down 0.8ppt to 10.2% (consensus: -1ppt to 10%). In addition, Alten intends to continue deploying its strategy combining organic growth and acquisitions while protecting its margins.

VALUATION

- Alten's shares are trading at an est. 11.7x 2016 and 10.2x 2017 EV/EBIT multiples.
- Net debt on 30th June 2016 was EUR61.3m (net gearing: 9%).

NEXT CATALYSTS

Analysts' meeting today at 10am CET / 9am BST / 4am EDT (Maison des Arts et Métiers, 9bis avenue d'Iéna).

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Food & Beverages

Diageo

Price 2,159p

Bloomberg	DGE LN
Reuters	DGE.L
12-month High / Low (p)	2,192 / 1,714
Market Cap (GBPm)	54,369
Ev (BG Estimates) (GBPm)	61,497
Avg. 6m daily volume (000)	4 337
3y EPS CAGR	9.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-0.9%	21.9%	15.5%	16.3%
Food & Bev.	-1.5%	5.2%	2.6%	-1.0%
DJ Stoxx 600	0.3%	4.8%	-0.1%	-6.7%

YEnd Jun. (GBPm)	06/16	06/17e	06/18e	06/19e
Sales	10,485	11,820	12,312	12,911
% change		*12.7%*	*4.2%*	*4.9%*
EBITDA	3,323	3,924	4,225	4,539
EBIT	3,008	3,510	3,733	3,958
% change		*16.7%*	*6.4%*	*6.0%*
Net income	2,242	2,567	2,765	2,972
% change		*14.5%*	*7.7%*	*7.5%*

	06/16	06/17e	06/18e	06/19e
Operating margin	28.7	29.7	30.3	30.7
Net margin	22.5	22.9	23.7	24.2
ROE	22.0	19.6	19.4	19.2
ROCE	12.1	13.5	14.2	14.8
Gearing	16.0	13.2	11.4	9.4

(p)	06/16	06/17e	06/18e	06/19e
EPS	89.04	101.93	109.83	118.01
% change	-	*14.5%*	*7.7%*	*7.5%*
P/E	24.2x	21.2x	19.7x	18.3x
FCF yield (%)	3.9%	4.4%	4.7%	5.0%
Dividends (p)	59.20	62.16	65.27	68.53
Div yield (%)	2.7%	2.9%	3.0%	3.2%
EV/Sales	6.0x	5.2x	4.9x	4.6x
EV/EBITDA	19.0x	15.7x	14.3x	13.1x
EV/EBIT	20.9x	17.5x	16.2x	15.0x

Positive outlook for Europe

Fair Value 2100p (-3%) **NEUTRAL**

Yesterday, Diageo held a conference call on Europe/Russia/Turkey, which account for 24% of its sales. Management gave a globally positive outlook for the European activities, excluding Russia and Turkey, which are set to remain challenging but represent only 16% of the region's sales. The remaining 84% is expected to grow low single-digit this year according to the group. We are making no change to our estimate for 2.8% organic sales growth in Europe/Russia/Turkey. Our Neutral recommendation and Fair Value of 2100p are maintained. The group's strong exposure to emerging markets (an estimated 48% of total sales) is challenging in the current environment, while its underperformance in its first market, the US (32% of total sales), makes high investments necessary, thereby limiting operating leverage.

ANALYSIS

- **Management gave a globally positive outlook for the European activites. This excludes Russia and Turkey, which should remain challenging, but account for only 16% of the region's sales. The remaining 84% is expected to grow low single-digit this year according to the group. We are making no change to our estimate for 2.8% organic sales growth in Europe/Russia/Turkey.** This is a slight deceleration vs last year due to the lack of price increases in Russia, political tension in Turkey and some uncertainty in the UK with Brexit. We think this performance is respectable in view of economic conditions, the tough retail environment and structurally unfavourable demographics.

- Europe, excluding Russia and Turkey, is dynamic, with sales up 3% last year. **The group has taken a number of initiatives that should drive the region's performance in coming years:**

  ü **Enhancement of the route-to-market.** The group has increased its salesforce by 200 people. It has also improved its effectiveness through training programmes and automation tools. E-commerce is becoming a priority. Diageo generates 3% of its sales in this channel, which was reported to grow in high double digits over the past two years.

  ü **Investments behind premium core brands**. Guinness, Bailey's, Captain Morgan, Smirnoff Johnnie Walker, J&B and Tanqueray are benefiting from more marketing enpenses.

  ü **Innovation**. Diageo derives 10% of its sales from Europe from innovations vs 6% three years ago. Innovations refer to products introduced within the last five years. They are currently growing by 30% a year. The group has innovated in formats by extending some of its brands into premixes.

  ü **Investments in Reserve**. These higher-priced products now represent 18% of the group's spirits sales in Europe and posted double-digit sales growth 2015/16. Half of these consist of malt whiskeys which grew 7% last year.

  ü **Increase in productivity**. The group is implementing zero-based budgeting which should reduce indirect spend by 13% this year and is also improving marketing efficiency though procurement benefits.

VALUATION

- At yesterday's share price, the stock is trading at 17.5x EV/EBIT 2016/17e. This is 3% below the peer average.

NEXT CATALYST

- Pernod Ricard will release its Q1 sales on 20th October.

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Healthcare

Korian

Price EUR29.69

No urgency to revisit the stock

Fair Value EUR28 vs. EUR29 (-6%)

NEUTRAL

Bloomberg	KORI FP
Reuters	KORI.PA
12-month High / Low (EUR)	36.3 / 23.2
Market Cap (EUR)	2,380
Ev (BG Estimates) (EUR)	4,662
Avg. 6m daily volume (000)	107.8
3y EPS CAGR	14.2%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-5.6%	6.2%	14.8%	-11.9%
Healthcare	1.0%	3.8%	7.5%	-6.7%
DJ Stoxx 600	0.3%	1.0%	-0.2%	-6.8%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	2,579	2,987	3,137	3,293
% change		*15.8%*	*5.0%*	*5.0%*
EBITDA	342	409	433	460
EBIT	218.2	265.8	282.1	302.3
% change		*21.8%*	*6.1%*	*7.2%*
Net income	85.0	101.1	113.8	130.4
% change		*18.9%*	*12.6%*	*14.6%*

	2015	2016e	2017e	2018e
Operating margin	6.9	8.6	8.7	8.9
Net margin	2.3	3.2	3.4	3.8
ROE	4.4	5.1	5.4	5.8
ROCE	2.4	2.8	2.9	3.1
Gearing	85.1	111.2	101.3	90.3

(EUR)	2015	2016e	2017e	2018e
EPS	1.06	1.25	1.39	1.58
% change	-	*17.8%*	*11.5%*	*13.5%*
P/E	28.0x	23.8x	21.3x	18.8x
FCF yield (%)	8.1%	10.4%	10.9%	11.8%
Dividends (EUR)	0.60	0.60	0.60	0.60
Div yield (%)	2.0%	2.0%	2.0%	2.0%
EV/Sales	1.6x	1.6x	1.5x	1.4x
EV/EBITDA	11.8x	11.4x	10.6x	9.7x
EV/EBIT	18.4x	17.5x	16.3x	14.8x

Following Capital market day end of last week, we have made some adjustments to our forecasts. The main revisions are related to the positive effects of measures in place that should be widely felt during the second part of the five-year plan rather than during the first part. Based on our DCF, our FV moves to EUR28 from EUR29. We confirm our Neutral opinion.

ANALYSIS

- **Main financial guidance for 2021 attainable but…:** Management's objective is to deliver top-line growth of 5% per annum o/w c.3% in organic terms and c.2% with bolt-on acquisitions, to reach EUR3.8bn by the end of the plan (our forecast is for EUR3.731m in 2021). Based on an **underlying EBITDA margin** of 13.7% expected in 2016, limited improvement is anticipated in the first three years with an objective of 14% in 2019. That situation is mainly due to Germany after significant acquisitions and dysfunctions affecting major cost centres i.e. purchasing and especially human ressources with significant use of interim and limited room for improvement in a tight job market. Note that after a decrease of 350bps in EBITDAR margin in H1 2016, the objective in Germany is to return to 30% by 2021. In all, our numbers are in line with management's expectation i.e. an EBITDA margin of 14% in 2019 and 14.5% in 2021 compared with 13.7% in 2016e.
- **… implemented in a regulatory changes:** Moreover, the German market is set to reshape public financing to be focused more on highly dependent people with new standard rules to be implemented from 2017 to 2020 set to impact the size and organization of facilities and single vs. double room offers (potential reduction for Korian of c.3% of their installed beds). Finally, in a tight job market, the care sector is being structured with new working conditions (minimum and harmonised wages), which will have to be in place by 2020.

Main changes

	2016e			2017e			2018e		
	Old	New	Change %	Old	New	Change %	Old	New	Change %
SALES	2 994	2 987	-0,2%	3 133	3 137	0,1%	3 278	3 293	0,4%
EBITDA	401	409	2,1%	439	433	-1,4%	484	460	-4,8%
	13,4%	13,7%	32 bp	14,0%	13,8%	-22 bp	14,8%	14,0%	-77 bp
EBIT	257	266	3,4%	288	282	-2,2%	326	302	-7,3%
	8,6%	8,9%	32 bp	9,2%	9,0%	-22 bp	10,0%	9,2%	-77 bp
EPS	1,39	1,25	-10,2%	1,60	1,39	-12,9%	1,86	1,58	-15,2%

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

- **Results that could leave cash for bolt on acquisitions:** Based on 2016 EBITDA expectations, we confirm that operating free cash flow should stand at around EUR150m leaving at least EUR100m after dividends (which will be maintained at EUR0.60 per share over the next five years representing c.EUR50m if fully paid in cash) for bolt-on acquisitions, which are included in the strategic plan. Management confirmed its criteria for an IRR after tax between 1.5x and 2x WACC minimum and a ROCE after tax over WACC in year three. Finally, financial leverage would stand at c. 4x (covenant for under 4.5x) during the first part of the plan to reach 3.5x at the end.

VALUATION

- Our FV is based on a DCF valuation with WACC of 6.9% calculated on the basis of leveraged beta of 1.44x.
- At the current share price, the stock is trading at 11.4x 2016e and 10.6x 2017e which compares with historical average of 9.3x and an EBITDA CAGR 2015-2018 of 10.8%.

NEXT CATALYSTS

- Q3 revenue on 26th October

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Utilities

Amoéba

Price EUR30.69

Bloomberg	AMEBA.FP
Reuters	AMEBA.PA
12-month High / Low (EUR)	38.2 / 17.4
Market Cap (EURm)	184
Avg. 6m daily volume (000)	8.10

	1 M	3 M	6 M	31/12/15
Absolute perf.	5.1%	20.8%	-5.3%	-11.3%
Utilities	0.0%	0.4%	-1.5%	-6.1%
DJ Stoxx 600	0.3%	4.8%	-0.1%	-6.7%

	2015	2016e	2017e	2018e
P/E	NS	NS	80.0x	13.3x
Div yield (%)	NM	NM	NM	NM

H1 2016 results in line, still pending marketing approval by the end of this year

Fair Value EUR35 (+14%) **CORPORATE**

ANALYSIS

- French natural biocide producer **Amoeba** released its **H1 2016 results** yesterday evening. Revenues reached **EUR60k** (vs. EUR80k in H1 2015) stemming from the contract with Aquaprox. The company's **net income amounted to -EUR2.7m** vs. -EUR1.5m a year ago. The decrease was mainly explained by **higher marketing expenses** as well as by the **sharp increase in R&D expenses** (EUR1m vs. EUR350k in H1 2015) spurred by the **request for marketing authorisation and patent-linked expenses.** Over H1 2016, the company has also **extended its patent portfolio** in Europe and in the US with potential **new applications to be developed** for its biocide.
- As a reminder, Amoeba signed **two new letters of intent** (LOI) over the first half of the year **in Brazil** with Green Chemicals and **in the USA** with Aqua-Serv for the distribution of the company's solutions and products in these countries. These potential commercial agreements are still **pending marketing authorisation,** which should come **by the end of the year** with the first sales to be generated at the beginning of 2017. The company's first production line in Lyon should also be operational by the end of the year.

VALUATION

- Corporate with FV at EUR35 (+14% vs. current share price)

NEXT CATALYSTS

- By the end of the year: marketing authorisation

Xavier Caroen, xcaroen@bryangarnier.com

Healthcare

Bayer

Price EUR91.60

Bloomberg	BAY GY
Reuters	BAYG.F
12-month High / Low (EUR)	126.9 / 84.4
Market Cap (EURm)	75,748
Avg. 6m daily volume (000)	2 607

	1 M	3 M	6 M	31/12/15
Absolute perf.	-4.9%	4.0%	-7.7%	-20.9%
Healthcare	0.4%	5.6%	6.9%	-7.2%
DJ Stoxx 600	0.3%	4.8%	-0.1%	-6.7%

	2015	2016e	2017e	2018e
P/E	13.3x	12.4x	11.7x	10.9x
Div yield (%)	2.7%	2.8%	2.9%	3.1%

Only time will tell

Fair Value EUR98 (+7%) **NEUTRAL**

ANALYSIS

- Yesterday's "meet the management" meeting unfortunately did not change the perception that Bayer is going to need time to convince investors that it is worth giving the group a chance.
- Despite the first political and regulatory public criticisms, Bayer reiterated that it was confident it could reach an agreement and overcome the three big risks i.e. 1) product overlap as management is ready to divest up to USD1.6bn in volume sales max to comply with antitrust demands; 2) US National security thanks to its long lasting presence in the US; 3) industry consolidation, which is good for innovation. Note that during meetings, management suggested taking 3.5% as cost of debt (in-line with what we have in our model) and indicated that Covestro would be sold over a not too long period of time. Bayer's 64% stake in Covestrois worth close to EUR6bn.
- But beyond Crop, the objective was to convince that other areas were healthy and had bright perspectives. They missed the point with Consumer Care in our view whether Pharma is ok but will see its profitability expansion limited by the low US presence whereas the pipeline is maturing but needs a bit more time to deliver however. The USD6bn in peak sales they talked about still looks highly speculative.

VALUATION

- We will work a touch more on the pipeline to see if we can extract some more value but our NEUTRAL recommendation will remain unchanged.

NEXT CATALYSTS

- 26th October: Q3 results

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Healthcare

DBV Technologies

Price EUR63.94

Bloomberg	DBV FP
Reuters	DBV.PA
12-month High / Low (EUR)	76.3 / 40.6
Market Cap (EURm)	1,541
Avg. 6m daily volume (000)	35.20

	1 M	3 M	6 M	31/12/15
Absolute perf.	4.4%	19.5%	17.1%	-3.7%
Healthcare	1.0%	3.8%	7.5%	-6.7%
DJ Stoxx 600	0.3%	1.0%	-0.2%	-6.8%

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

Fast Track Designation for Viaskin Milk

Fair Value EUR91 (+42%) **BUY**

ANALYSIS

- The FDA granted Fast Track designation to Viaskin Milk, indicated in cow's milk protein allergy and currently investigated in a phase IIb trial (MILES) expected to readout in H2 2017 (also evaluated in Eosinophilic Esophagitis). While the FDA already granted the Fast Track designation as well as the Breakthrough Therapy Designation to Viaskin Peanut, today's news not only highlights the high unmet medical need in cow's milk allergy but also the versatility of DBV's platform and the confidence regulators may have already placed in it with regards to the safety of the delivery route.
- Recall that in Q2 2016, DBV entered into a strategic partnership with Nestlé to develop and bring to paediatric populations a diagnostic test for milk (please see our Note here). We believe that Nestlé might play a key role in the upcoming years to raise public awareness around milk allergy and food allergy more broadly.

VALUATION

- No changes to our estimates as we were already anticipating FDA approval for Viaskin Milk one year head of EMA approval i.e. 2020 and 2021 respectively. We expect a EUR750m peak sales for Viaskin Milk.

NEXT CATALYSTS

- H2 2016
    - 3-years results from the OLFUS VIPES phase IIb trial in Peanut allergy
    - results from phase I feasibility study in pertussis boost vaccine

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Food & Beverages

Diageo

Price 2,181p

Bloomberg	DGE LN
Reuters	DGE.L
12-month High / Low (p)	2,192 / 1,714
Market Cap (GBPm)	54,933
Avg. 6m daily volume (000)	4 337

	1 M	3 M	6 M	31/12/15
Absolute perf.	0.1%	20.4%	16.7%	17.5%
Food & Bev.	-1.0%	3.0%	3.1%	-0.5%
DJ Stoxx 600	0.3%	1.0%	-0.2%	-6.8%

	06/16	06/17e	06/18e	06/19e
P/E	24.5x	21.4x	19.9x	18.5x
Div yield (%)	2.7%	2.9%	3.0%	3.1%

H1 EBIT margin to be impacted by productivity costs

Fair Value 2100p (-4%) **NEUTRAL**

ANALYSIS

- This morning, Diageo issued a trading commentary ahead of its shareholders' meeting. It indicated that 2016/17 has started well thanks to improved marketing, innovation and commercial execution. It also confirmed that organic sales growth over the year should accelerate, fuelled by Scotch, US spirits and India. We expect sales to rise 3.5% organically (2.8% in 2015/16).
- **The company also indicated that the H1 organic EBIT margin should be impacted by productivity- costs** that are linked to the GBP500m savings expected over the next three years. They will no longer be classified as an exceptional item. The trend in H2 should be better due to fewer productivity costs, higher savings and the benefits of the reinvestment of those savings. This will contribute to organic margin expansion for the full year. **We now anticipate EBIT margin to drop 5bps organically in H1. But we are making no change to our FY estimate for an organic increase of 14bps.**

VALUATION

- At yesterday's share price, the stock is trading at 17.5x EV/EBIT 2016/17e. This is 3% below the peer average.

NEXT CATALYST

- Pernod Ricard is to release its Q1 sales on 20th October

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TMT

SFR

Price EUR26.13

Bloomberg	SFR FP
Reuters	SFRGP.PA
12-month High / Low (EUR)	38.9 / 20.0
Market Cap (EUR)	11,451
Avg. 6m daily volume (000)	340.0

	1 M	3 M	6 M	31/12/15
Absolute perf.	18.0%	3.7%	-29.6%	-22.0%
Telecom	-1.7%	-4.9%	-11.2%	-15.8%
DJ Stoxx 600	0.3%	1.0%	-0.2%	-6.8%

	2015	2016e	2017e	2018e
P/E	18.0x	28.6x	15.4x	11.3x
Div yield (%)	20.7%	NM	NM	NM

Altice said to delay purchase of SFR stake by two weeks

Fair Value EUR28,7 (+10%) **NEUTRAL**

ANALYSIS

- Reuters reports that Altice's minority buyout offer for SFR shares will be postponed by at least two weeks because of a delay in regulatory approvals, according to a source close to the matter. AMF is now expected to announce its decision on the offer for the outstanding 22.25% of SFR in the week of 3rd October, the source said.
- Altice had announced its public offer would extend from 22nd September to 20th October. The additional delay needed for the release of the AMF's decision is set to postpone the offer by the same amount of time.
- As of Tuesday, SFR stock is trading 2.5% above the 8/5 exchange offer parity. The initial bid offered a 2.6% premium which is at the lower end of the historical SFR/Altice parity. In a letter sent to the AMF last week, French fund CIAM, an SFR minority shareholder, complained about the terms of the buyout offer. The fund is questioning the independence of two members of the SFR Board of Directors and disagrees with the terms of the offer arguing that the consulting firm Accuracy that advised the deal was biased.

VALUATION

- We stick to our Fair Value of EUR28.7, with a Neutral recommendation.

NEXT CATALYSTS

- Decision from AMF expected in the week of 3rd October.
- Q3 results on 8th November.

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Healthcare

Shire PLC

Price 5,183p

Bloomberg	SHP LN
Reuters	SHP.L
12-month High / Low (p)	5,183 / 3,480
Market Cap (GBPm)	46,752
Avg. 6m daily volume (000)	2,595

	1 M	3 M	6 M	31/12/15
Absolute perf.	2.2%	31.0%	40.4%	10.3%
Healthcare	0.4%	5.6%	6.9%	-7.2%
DJ Stoxx 600	0.3%	4.8%	-0.1%	-6.7%

	2015	2016e	2017e	2018e
P/E	17.4x	16.1x	13.3x	11.5x
Div yield (%)	0.3%	0.3%	0.3%	0.5%

Going further in capital allocation: pacritinib to be dropped off

Fair Value 6900p (+33%) **BUY-Top Picks**

ANALYSIS

- CTIC has filed an 8k form. Among other factors, we would note that **it has received a notice from SHP to terminate the licensing agreement involving their JAK2 inhibitor for the treatment of blood cancers** (e.g. myelofibrosis). On 19th September, the two companies 1/ entered into a non-binding term sheet with respect to the terms of the termination and the return of the asset, and 2/ signed a letter agreement amending the Licensing agreement.
- In our view, **the consensus probably gave little value to this small molecule** as our risk-adjusted sales for the whole Oncology segment is not so different from the consensus (USD393m vs USD416m), and that we gave no value to it. This is probably due to 1/ the worrying safety profile (some patients having died following cardiac arrests, intracranial bleeding) it exhibited in a Phase III trial (namely PERSIST-2); 2/ the subsequent suspension of the trial by the FDA, followed by a withdrawal of a marketing approval request.
- We consider this positive in terms of capital (re)allocation/cost savings. **SHP is likely to divest/sell other non-core assets with low ROI… and we believe the Biosimilar franchise is one of them** as 1/ the field is increasingly crowded when it comes to TNF-α inhibitors; 2/ other drugs with novel mechanisms of action are likely to get a big part of the pie thanks to their strong clinical packages (anti-IL17 or soon IL23p19 in plaque psoriasis, IL-6 and JAKs in RA).
- **By the way, the street should not see any negative read-across for GLPG's filgotinib** as the latter 1/ has a much deeper affinity to JAK1, and 2/ is rather developed in auto-immune disease (rheumatoid arthritis, Crohn's disease).

VALUATION

- BUY reiterated with a FV of GBp6,900.

NEXT CATALYSTS

- Q3 2016 results: 28th October.
- Capital Market Day: 10th November.

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TMT

Ubisoft

Price EUR34.95

Issue of convertible bonds maturity 2021 for c.EUR400m

Fair Value EUR34 (-3%) **BUY**

Bloomberg	UBI.FP
Reuters	UBIP.PA
12-month High / Low (EUR)	38.3 / 17.8
Market Cap (EURm)	3,927
Avg. 6m daily volume (000)	247.8

	1 M	3 M	6 M	31/12/15
Absolute perf.	-1.8%	3.8%	32.6%	31.0%
Softw.& Comp. SVS	3.7%	11.7%	11.6%	7.5%
DJ Stoxx 600	0.3%	1.0%	-0.2%	-6.8%

	03/16	03/17e	03/18e	03/19e
P/E	34.4x	28.8x	18.9x	13.8x
Div yield (%)	NM	NM	NM	NM

ANALYSIS

- Ubisoft has just announced the launch of a private placement with institutional investors of convertible bonds into new shares and/or exchangeable for existing shares (they will be issued on 27th September 2016) for a nominal amount of c.EUR400m due 2021. The bond's nominal value represents a premium of between 50% and 60% compared to the reference share price and bears no interest. The ratio is one share for one bond. The bond's final terms will be determined today after trading.
- Considering a maximum amount of 400m is issued with a nominal value of EUR54.16 (calculated at equal to the closing price reference of 20th September 2016, i.e. EUR34.945 and a 55% premium) dilution would be approximately 6.5% of the current capital if Ubisoft decides to only deliver new shares upon conversion to maturity.
- Ubisoft does not need it in the short term (it was opportunistic). This operation will enable the group to finance general corporate purposes, including in particular, possible future M&A operations (the group is looking mostly for unlisted mobile game companies), stock repurchases and refinancing of existing debts. The company notes a 90-day lockup period.

VALUATION

- We maintain our Buy recommendation and FV of EUR34 (based on its fundamentals). The share price fully values the group's earnings over the current fiscal year (at end-March 2017). As a reminder, in our recent report *"Same player shoot again"?*, we estimated a valuation between EUR40 (the very minimum, and EUR45 if Vivendi wants to avoid counterbids as far as possible) and EUR51 (maximum) in the event of a takeover bid.

NEXT CATALYSTS

- AGM on 29th September.

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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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