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23rd September 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	18392.46	+0.54%	+5.55%
S&P 500	2177.18	+0.65%	+6.52%
Nasdaq	5339.52	+0.84%	+6.63%
Nikkei	16754.02	-0.32%	-11.70%
Stoxx 600	347.864	+1.58%	-4.91%
CAC 40	4509.82	+2.27%	-2.74%
Oil /Gold			
Crude WTI	46.17	+2.28%	+24.11%
Gold (once)	1339.53	+1.03%	+26.09%
Currencies/Rates			
EUR/USD	1.1241	+0.91%	+3.48%
EUR/CHF	1.0871	-0.10%	-0.03%
German 10 years	-0.159	+169.92%	-125.13%
French 10 years	0.142	-40.04%	-85.57%

Economic releases :

Date	
23rd-Sept	8h45 FR GDP (2Q 1.4%E y/y) 9h30 DE Manufacturing PMI Sep. (53.1E) 9h30 DE Composite PMI Sep. (53.6E) 10h00 EUZ -Manuf PMI Sep. (51.5 E) 10h00 EUZ Composite PMI Sep. (52.8E) 15h45 US Manuf. PMI Sep. (52E)

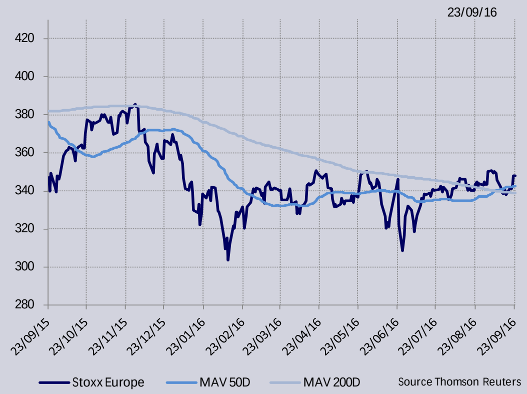
Upcoming BG events :

Date	
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



ESSILOR — BUY, Fair Value EUR130 (+10%)

Short preview of Essilor's US operations ahead of US field trip

Next week Essilor is hosting a field trip in Dallas (TX) and Providence (RI) to present its strategy for North America, which accounts for 48% of total sales. Growth potential for Essilor nevertheless remains significant as the group continues to expand in fast-growing segments (online, sunglasses) and channels (e.g.: independent ECP alliance groups). We should also gain a good overview of the group's best-in-class supply chain (Rx labs, distribution centers) that leverages the group's growth catalysts.

FRESENIUS SE — BUY-Top Picks, Fair Value EUR78 (+7%)

Fresenius KABI diluted but short-term outlook still strong

In an interview given to Manager Magazin, FRE's CEO, Stephan Sturm, said that synergies of more than EUR50m should not be ruled out following the integration of Quironsalud. Also, FRE launched a generic of Cubicin (IV Gx) earlier this week and we believe this could benefit from the short-term outlook for the recently diluted KABI division. This might well enable KABI to keep up with high margin levels (above 40%) despite an easing in the US drug shortage situation.

In brief...

CAMPARI, *Refinancing with favourable conditions*

Yesterday, Campari announced that it has prepaid all US Private Placement Notes, which amount to USD310m and bear an average coupon of 5.82%.

MONCLER, *Eurazeo to sell 6% stake in Moncler*

Yesterday evening, ECIP (Eurazeo) announced its intention to sell 15m Moncler shares, representing a 6% stake, through an accelerated book-building process. Based on yesterday's closing price, this placement would amount to EUR234m.

VEOLIA ENVIRONNEMENT, *Caisse des Dépôts announces its intention to place up to 22.5m shares in Veolia*

French state-owned bank **Caisse des Dépôts** (CDC) announced yesterday evening that it was selling about **22.5 million shares** in the French environmental services company **Veolia** through an **accelerated book building process**.

Luxury & Consumer Goods

Essilor

Price EUR118.45

Short preview of Essilor's US operations ahead of US field trip

Fair Value EUR130 (+10%) **BUY**

Bloomberg	EF FP
Reuters	ESSI.PA
12-month High / Low (EUR)	123.6 / 103.0
Market Cap (EUR)	25,833
Ev (BG Estimates) (EUR)	27,503
Avg. 6m daily volume (000)	450.9
3y EPS CAGR	10.1%

	1 M	3 M	6 M	31/12/15
Absolute perf.	5.6%	1.3%	10.2%	3.0%
Consumer Gds	0.7%	2.6%	4.2%	-0.6%
DJ Stoxx 600	2.2%	1.9%	2.2%	-4.9%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	6,716	7,132	7,625	8,157
% change		*6.2%*	*6.9%*	*7.0%*
EBITDA	1,263	1,341	1,449	1,566
EBIT	1,183	1,271	1,379	1,501
% change		*7.5%*	*8.5%*	*8.9%*
Net income	757.1	846.6	923.3	1,017
% change		*11.8%*	*9.1%*	*10.1%*

	2015	2016e	2017e	2018e
Operating margin	17.6	17.8	18.1	18.4
Net margin	11.3	11.9	12.1	12.5
ROE	13.3	13.2	12.9	13.4
ROCE	20.0	20.1	20.9	21.5
Gearing	34.7	24.5	15.9	13.7

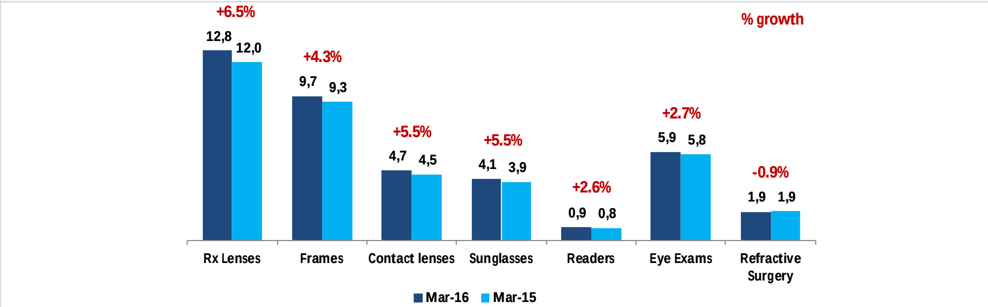
(€)	2015	2016e	2017e	2018e
EPS	3.57	3.96	4.32	4.76
% change	-	*11.0%*	*9.1%*	*10.1%*
P/E	33.2x	29.8x	27.2x	24.7x
FCF yield (%)	3.4%	3.6%	3.9%	4.1%
Dividends (€)	1.15	1.30	3.15	4.15
Div yield (%)	1.0%	1.1%	2.7%	3.5%
EV/Sales	4.2x	3.9x	3.5x	3.3x
EV/EBITDA	22.1x	20.5x	18.7x	17.2x
EV/EBIT	23.6x	21.6x	19.6x	17.9x

Next week Essilor is hosting a field trip in Dallas (TX) and Providence (RI) to present its strategy for North America, which accounts for 48% of total sales. Growth potential for Essilor nevertheless remains significant as the group continues to expand in fast-growing segments (online, sunglasses) and channels (e.g.: independent ECP alliance groups). We should also gain a good overview of the group's best-in-class supply chain (Rx labs, distribution centers) that leverages the group's growth catalysts.

ANALYSIS

- **The US remains the world's largest optical market.** At end-March 2016, the US vision care market was worth around USD40bn (or ~EUR36bn), **representing approx. 40% of the global market.** Growth in the US eyewear market was quite robust at 4.7% (12m ending March 2016) and interestingly, **Rx lenses** was the best-performing segment (+6.5%). We assume this outperformance vs. sunglasses (+5.5%) continued in Q2 since the latter was impacted by unfavourable weather conditions across the country.

US total Vision Care market (annual sales at end-March 2016, in USDbn):

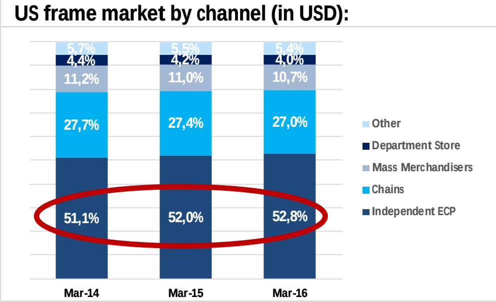


Source: The Vision Council

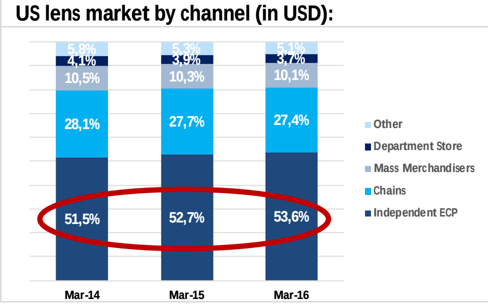
- **North America represents 44% of Lenses & Optical Instruments revenue.** Except for an unusually soft Q2 (+1.5% LFL) marked by temporary issue at Transitions, the US market was a key catalyst for Essilor (+5% in 2014 and +4.4% in 2015) thanks to robust underlying trends as well as a successful combination of media campaigns (*Crizal*, *Varilux*, *Xperio*) and innovation. With its multi-channel/multi-segment approach, Essilor makes sure that it is always present in the most dynamic channels, such as the independent ECP alliances or buying groups.

- **Essilor is consolidating the fast-growing ECP alliance channel.** Last year the group acquired the largest member alliance in the US, **Vision Source** (4,071 doctors) and **PERC/IVA** (respectively 3,141 and 912 doctors), followed by **Opti-Port** (33 members, 400+ offices) in April. Consequently, Essilor now covers **over 8,000 doctors, or >30% of the total channel** (~25,000 independent eye doctors), which represent a significant growth opportunity for Essilor to push its products and services further. As highlighted by the two charts below, the independent ECP channel has constantly gained market share in the frame and lens segments thanks to a high level of expertise and service. Vision Source enjoyed particularly strong momentum with retail sales up ~13.5% in 2015 to USD2.5bn, as the **second-largest optical retailer** in the US according to *Vision Monday*, just behind Luxottica.

US frame market by channel (in USD):



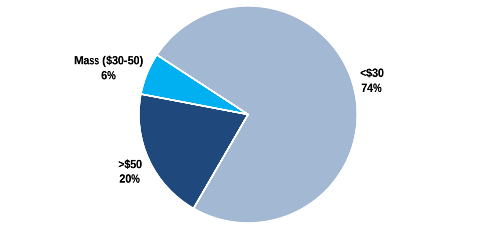
US lens market by channel (in USD):



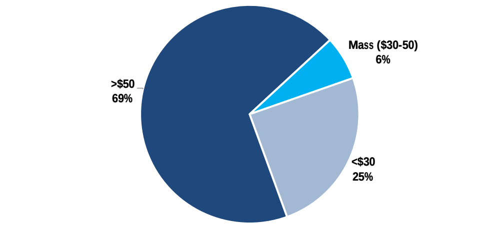
Source: The Vision Council

- **Sunglass & Readers division: US sunglass market still underpenetrated.** The right-hand chart on the next page shows that nearly 74% of sunglasses sold in the US retail for less than USD30, vs. an average retail price of EUR80 in Europe. Essilor favours premiumisation in the US sunglass market by: **(i)** increasing the sun lens standard (higher quality, more innovation), **(ii)** educating customers through media campaigns and **(iii)** developing its proprietary brands (*Foster Grant*, *Costa*, etc.), especially in more selective channels (independent opticians, etc.). The value segment is addressed by **FGX** sun brands (readers) that continues to penetrate new channels and gain new accounts. Despite unfavourable weather conditions and poor trends within the performance segment, **Costa** (retail price: >USD150) remained in positive territory thanks to a media push, distribution gains (doctor alliances, travel retail) and geographical expansion across the US.

Plano sunglass market by segment (units):



Plano sunglass market by segment (USD):

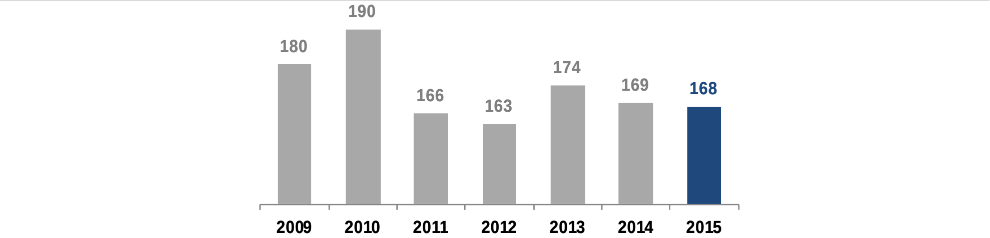


Source: The Vision Council

- **Online business: a small but fast-growing channel.** We believe that Essilor's exposure to the US online business is slighter higher than the industry (online retail = ~5% of US total optical retail) and according to *The Vision Council*, the online channel had a 3.9% market share in the Rx frame segment, especially for entry-level products. As in other segments, Essilor has a multi-channel/multi-segment approach with three main BtoC online platforms: **(i) EyeBuyDirect** that sells value Rx eyeglasses and frames, **(ii) FramesDirect** mostly offers premium eyeglasses and sunglasses and **(iii) Coastal** that sells contact lenses and eyeglasses. Revenue from the first two websites grew in double digits in H1 while Coastal was lagging behind as the group is testing a new commercial proposal/customer experience. This online business will continue to be a key growth catalyst for Essilor, especially in the US.

- **Supply chain: maintaining this best-in-class execution to capture growth potential.** During the field trip, we will visit the **Innovation & Technology Center** for North America (three in the world: Creteil, Dallas and Singapore) that focuses on product quality and consumer/market trends, as well as one of **Essilor's largest Rx labs** in the US (Omega Dallas), giving us a good overview of the group's key competitive advantages (R&D, customer-centric organisation, supply chain). Essilor has extensive coverage with 168 Rx labs, although the network has been streamlined in recent years (2010: 190 Rx labs). In our view, this is a consequence of the increasing importance of the seven export labs, two of them based in Mexico, to address the North American customers.

Rx labs and edging facilities in North America:



Source: Company Data

VALUATION

- Besides having a clearer view on Essilor's operations in North America, this event might be a good opportunity to have more colour on current trading after a soft Q2. Buy recommendation and FV of EUR130 confirmed.

- It is worth noting that presentations concerning the US market might also be of interest for Luxottica shareholders as a read-across, since the Italian group generates 56% of its revenue there.

NEXT CATALYSTS

- US field trip on 27-30th September // Q3 results on 21st October.

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Healthcare

Fresenius SE

Price EUR72.87

Fresenius KABI diluted but short-term outlook still strong

Fair Value EUR78 (+7%) **BUY-Top Picks**

Bloomberg	FRE GR
Reuters	FREG.DE
12-month High / Low (EUR)	72.9 / 53.1
Market Cap (EUR)	39,813
Ev (BG Estimates) (EUR)	55,062
Avg. 6m daily volume (000)	1 033
3y EPS CAGR	12.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	9.9%	11.2%	17.6%	10.5%
Healthcare	0.8%	2.7%	6.8%	-6.4%
DJ Stoxx 600	2.2%	1.9%	2.2%	-4.9%

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

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

(EUR)	2015	2016e	2017e	2018e
EPS	2.62	2.97	3.38	3.74
% change	-	*13.6%*	*13.6%*	*10.7%*
P/E	27.9x	24.5x	21.6x	19.5x
FCF yield (%)	1.8%	4.0%	1.8%	4.3%
Dividends (EUR)	1.69	1.93	2.21	2.45
Div yield (%)	2.3%	2.6%	3.0%	3.4%
EV/Sales	1.9x	1.9x	1.8x	1.7x
EV/EBITDA	10.7x	10.2x	9.8x	9.1x
EV/EBIT	13.8x	13.0x	12.6x	11.6x

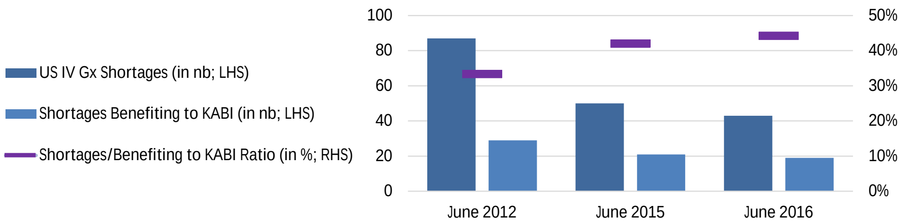
In an interview given to Manager Magazin, FRE's CEO, Stephan Sturm, said that synergies of more than EUR50m should not be ruled out following the integration of Quironsalud. Also, FRE launched a generic of Cubicin (IV Gx) earlier this week and we believe this could benefit from the short-term outlook for the recently diluted KABI division. This might well enable KABI to keep up with high margin levels (above 40%) despite an easing in the US drug shortage situation.

ANALYSIS

- Following the acquisition of Quironsalud by Fresenius SE, we are reiterating our BUY recommendation and raising our Fair Value to EUR78. As a reminder, we were pleased to see Fresenius' management reinforcing its hospital business (HELIOS), thereby bringing stability and visibility to both sales and earnings at a time when visibility at KABI (mainly a US IV generic business) could be decreasing slightly due to an easing in the drug shortage situation in the US.

- Regarding synergies that could be achieved from the integration of Quironsalud i.e. EUR50m announced, we stressed in our note (please see here) that they could be topped. In an interview given yesterday to Manager Magasin, CEO Stephan Sturm pointed out that this amount should be viewed as a minimum threshold. In the same interview, the CEO mentionned that other M&A deals are still on the agenda. Note that with a net debt/EBITDA ratio that we expected to be back at around 2.5x by mid-2017, bolt-on deals should not be ruled out (KABI's turn?).

- Regarding decreasing visibility at KABI, note that this is due to an easing of the drug shortage situation in the US, which impacted NA growth rate during the second quarter (-6%CC), but has to be nuanced, at least in the short term. Indeed, we highlighted management's ability to ***1/*** target key drugs (cf chart below) enabling KABI to ***2/*** increase its EBIT margin in the region i.e. NA EBIT margin +210bp in Q2 to 43.1% of sales. The latter point remains the most important in our view.



- Earlier this week, KABI announced the launch of another IV drug in the US: Daptomycin, an antibiotic indicated in the treatment of serious/complicated blood, skin or bone joint infections. This is the fourth IV drug launch in the US this year (guidance of 6-10 drug launches). As such, we reiterate our view that launch guidance should not be at risk as launches are expected to be back-end loaded towards the end of the year.

  While most of the IV drugs launched in the US by KABI rarely drive more than EUR100m in sales, daptomycin holds greater potential in our view. The drug is marketed under the trade name Cubicin by Merck & Co, following its acquisition of Cubist for USD9.5bn in 2014. US sales of Cubicin amounted to approx. USD1bn in 2015. Now that Cubicin has lost its patent protection in the US (June 2016), TEVA and KABI entered the market on 15th and 20th September respectively. We have identified several other Gx drugmakers that could have an interest in entering this market as they have filed ANDAs (namely Crane, Sagent, Stride, Agila, Hospira, Dr. Reddy and Actavis), KABI and TEVA however should benefit from being the first movers and enjoy a larger market share in coming months. This market share will depend on Merck & Co's defence strategy concerning whether or not it will align with the generic price (~30% discount). Given Merck & Co's statement that it should "lose a significant market share", it is fair to assume that sales are set to decrease by 50-60% in 2017e, due to KABI and TEVA as well as other generic companies, albeit to a lesser extent. Note that GSK's augmentin lost 50% of its sales one year after the introduction of Gx and a further 25% during the second year.

In all, we believe that KABI should derive EUR10-15m and EUR100-125m in sales from daptomycin in Q4 2016 and 2017 respectively (BGe), which should 1/ make the product one of the most important in KABI's portfolio i.e. close to 5% of KABI sales in 2017e and 2/ has the potential to contribute alone to 1/3rd of KABI's 2017e mid-single digit growth.
Once again, this bodes well for our view that FRE's management effectively targets key Gx, which in the short term should continue to benefit KABI margins. As a reminder, KABI's sales and EBIT guidances were raised following Q2 results, from low single digit and roughly flat growth to 3-5% growth for both figures.

VALUATION

- We reiterate our BUY recommendation and EUR78 Fair Value.
- Fresenius SE is in our Q3 Top-Picks list.

NEXT CATALYSTS

- 27th October: Q3 results

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Food & Beverages

Campari

Price EUR10.04

Bloomberg	CPR IM
Reuters	CPR.MI
12-month High / Low (EUR)	10.0 / 6.9
Market Cap (EUR)	5,831
Avg. 6m daily volume (000)	1 234

	1 M	3 M	6 M	31/12/15
Absolute perf.	2.3%	19.0%	15.4%	25.5%
Food & Bev.	1.2%	3.7%	5.3%	1.1%
DJ Stoxx 600	2.2%	1.9%	2.2%	-4.9%

	2015	2016e	2017e	2018e
P/E	31.2x	28.0x	21.5x	19.6x
Div yield (%)	0.9%	0.9%	1.0%	1.0%

Refinancing with favourable conditions

Fair Value EUR10,5 vs. EUR9,7 (+5%) BUY

ANALYSIS

- Yesterday, Campari announced that it has prepaid all US Private Placement Notes, which amount to USD310m and bear an average coupon of 5.82%. The operation was financed via a EUR300m loan maturing in three years and with a coupon of 0.75% over 3 months Euribor. In addition, bonds worth EUR350m are due to mature in October. Their average coupon stands at 5.375%. As a result, we estimate that the average cost of debt has dropped from 4.4% to 2.8%. Our EPS estimates are revised upwards by 4% on average over the next three years.

VALUATION

- Our Fair Value is adjusted to EUR10.5 as we factor 2.8% into our WACC.

NEXT CATALYST

- The group is to release its 9M results on 8th November.

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Virginie Roumage, vroumage@bryangarnier.com

Luxury & Consumer Goods

Moncler

Price EUR15.67

Eurazeo to sell 6% stake in Moncler

Fair Value EUR17,5 (+12%) **BUY**

Bloomberg	MONC IM
Reuters	MONC.MI
12-month High / Low (EUR)	16.2 / 12.2
Market Cap (EURm)	3,920
Avg. 6m daily volume (000)	896.5

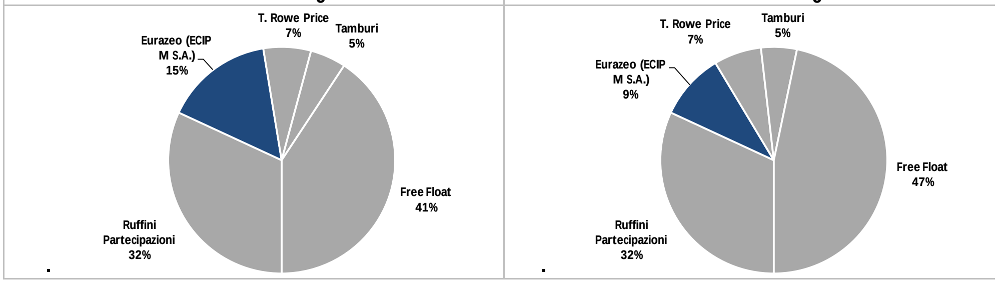
	1 M	3 M	6 M	31/12/15
Absolute perf.	2.2%	2.9%	7.3%	21.3%
Pers & H/H Gds	-2.0%	-0.8%	2.3%	0.7%
DJ Stoxx 600	0.7%	0.7%	0.5%	-6.4%

	2015	2016e	2017e	2018e
P/E	22.9x	20.9x	18.9x	17.1x
Div yield (%)	0.9%	1.1%	1.3%	1.4%

ANALYSIS

- Yesterday evening, ECIP (Eurazeo) announced its intention to sell 15m Moncler shares, representing a 6% stake, through an accelerated book-building process. Based on yesterday's closing price, this placement would amount to EUR234m.
- After the accelerated book building process, Eurazeo's stake will be reduced to 9.5% from 15.5% prior to the operation while the Italian group's free float will increase to approx. 47%, as shown by the two graphs below. Note that Eurazeo currently has two members on the Board of Directors: **1/** Virginie Morgon (Vice Chairman of the BoD) and **2/** Vivianne Akriche (Director).

Current shareholding structure: | **Future shareholding structure:**



Source: Company Data, Bryan Garnier & Co.

- As of 3rd August, the holding company belonging to Remo Ruffini welcomed two new strategic investors: **1/** Singapore's sovereign fund **Temasek** and **2/** Dufry Chairman **Juan Carlos Torres**, who have acquired 24.4% of Ruffini Partecipazioni (75.6% still owned by Mr Remo Ruffini) and bring interesting expertise for the future development of Moncler: **1/ Temasek has a deep knowledge of the Asian region** that already accounts for 38% of sales and is a key growth driver for the group (+30% FX-n in H1), but still harbours promising growth opportunities; **2/ Mr Juan Carlos Torres** is Executive Chairman of the leading travel retail group **Dufry** and **will naturally** help Moncler to increase its exposure to this fast-growing channel (five stores at the end of H1, only ~2% of sales vs. ~6% of the luxury industry).

VALUATION

- After gaining 21% ytd, the Moncler share is the best-performing stock in our luxury sample. However, the valuation remains attractive as the stock trades at 12x 2017e EV/EBIT, in line with our luxury average excl. Hermès at 11.8x.
- **Hence any weakness in the share price is a very interesting entry point in our view,** considering the promising growth prospects (sales CAGR 2015-18e of 10.6% vs. ~4% for our luxury sample).

NEXT CATALYSTS

- Moncler is to release its Q3 2016 sales on 8th November.

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Cédric Rossi, crossi@bryangarnier.com

Utilities

Veolia Environnement

Price EUR20.62

Bloomberg	VIE FP
Reuters	VIE.PA
12-month High / Low (EUR)	22.9 / 18.1
Market Cap (EUR)	11,617
Avg. 6m daily volume (000)	1 778

	1 M	3 M	6 M	31/12/15
Absolute perf.	6.9%	2.5%	0.6%	-5.7%
Utilities	0.9%	-1.9%	0.8%	-5.0%
DJ Stoxx 600	2.2%	1.9%	2.2%	-4.9%

	2015	2016e	2017e	2018e
P/E	30.5x	22.1x	16.8x	14.9x
Div yield (%)	3.5%	4.1%	4.1%	4.7%

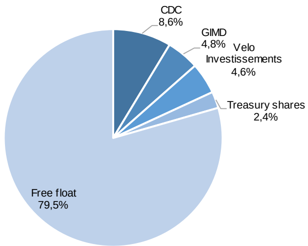
Caisse des Dépôts announces its intention to place up to 22.5m shares in Veolia

Fair Value EUR23,5 (+14%) **BUY-Top Picks**

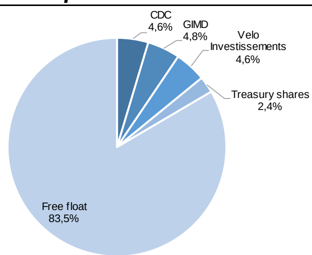
ANALYSIS

- French state-owned bank **Caisse des Dépôts** (CDC) announced yesterday evening that it was selling about **22.5 million shares** in the French environmental services company **Veolia** through an **accelerated book building process**.
- The operation represents about **4%** of the company's share capital. At yesterday's closing price (i.e. EUR20.62), the placement would represent an overall amount of c. **EUR465m.**
- Following the transaction, the Caisse des Dépôts will hold **4.62%** of Veolia's share capital and **8.36%** of the company's voting rights. CDC said it intends to remain a key shareholder in the company and will remain on the Board of Directors, for the time being.
- The company's **free-float** will now amount to c. **83.5%** (vs. 79.5% before the placement).

Shareholding structure before the placement



Shareholding structure following the placement



VALUATION

- **Buy, FV @ EUR23.5**
- At the current share price, Veolia is trading at **6.0x** its 2016e EBITDA multiple.

NEXT CATALYSTS

- 3rd November 2016: Q3 2016 results

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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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