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26th September 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	18261.45	-0.71%	+4.80%
S&P 500	2164.69	-0.57%	+5.91%
Nasdaq	5305.75	-0.63%	+5.96%
Nikkei	16754.02	-0.32%	-11.98%
Stoxx 600	345.34	-0.73%	-5.60%
CAC 40	4488.69	-0.47%	-3.20%
Oil /Gold			
Crude WTI	44.28	-4.09%	+19.03%
Gold (once)	1339.71	+0.01%	+26.10%
Currencies/Rates			
EUR/USD	1.12195	-0.19%	+3.28%
EUR/CHF	1.08935	+0.21%	+0.18%
German 10 years	-0.147	-7.89%	-123.15%
French 10 years	0.15	+6.20%	-84.68%
Euribor	-0.302	+0.33%	+130.53%

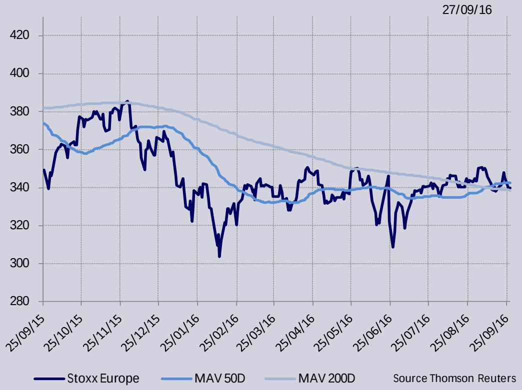
Upcoming BG events :

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



CASINO GUICHARD — BUY, Fair Value EUR57 (+30%)

Real Estate in Colombia (first take comment)

Éxito, Casino's subsidiary in Colombia (54,8% equity owned), and the private equity fund Fondo Inmobiliario Colombia have signed a memorandum of understanding for the capitalisation of Viva Malls by FIC. Éxito is to hold 51% of Viva Malls, while FIC is to have a 49% stake from a total cash contribution to the vehicle of over COP$770 billion (EUR230m). FIC is to contribute with over half its total investment to the vehicle upon closing. At this stage, we estimate that a good bet could be that Exito increases its stake in GPA (which is still trading on very low multiples of around ~0.3x EV/sales).

L'ORÉAL — BUY, Fair Value EUR177 (+4%)

L'Oréal still gaining market share in the UK!

Last week, L'Oréal hosted its Capital Market Days in the UK where it is the market leader with an 18.5% share after making constant market share gains (14.6% in 2006). In our view, L'Oréal UK has what it takes to reduce the gap with its market share in WE (20.5%). Buy and EUR177 FV maintained.

NESTLÉ — BUY, Fair Value CHF83 vs. CHF84 (+8%)

Deteriorating trends in China and Brazil

We revise downwards our Q3 estimate for Nestlé's organic sales growth from +5.5% to +3.5%. China is suffering from a deceleration in the food & beverage market and regulations in the infant nutrition sector, while Brazil has been penalised by a drop in volumes as a result of the group's increase in prices. Over the year, we now expect 3.7% organic sales growth, which compares to the consensus forecast for 4.2%. Our Fair Value is adjusted to CH83.

U-BLOX — BUY, Fair Value CHF255 (+14%)

Feedback from 2016 analysts' day: opportunities remain solid

On Friday, u-blox hosted an analysts' day during which the group did not spend much time on figures but was particularly talkative about technology and market opportunities. u-blox was particularly convincing about the advantages of maintaining its own proprietary LTE chip IP and investing in IoT dedicated chip designs. Discussions with management led us to believe that the group has the right position to benefit from 1/ autonomous driving and connected vehicles thanks to its leading position in this area, 2/ smart industries (professional drones, asset tracking…), 3/ smart cities with applications such as parking meters or road pricing. Overall, the presentation was convincing and perfectly in line with our main scenario. We reiterate our Buy recommendation and our FV of CHF255.

In brief...

ERYTECH, *Phase II data for GRASPA in pancreatic cancer set to be released in Q1 2017*

GALAPAGOS, *FITZROY detailed results put the bar high*

UBISOFT, *Ubisoft acquires the stake held by Bpifrance (3.2% of the capital, 5.7% of the voting rights)*

Food retailing

Casino Guichard

Price EUR43.77

Real Estate in Colombia (first take comment)

Fair Value EUR57 (+30%) **BUY**

Bloomberg	CO FP
Reuters	CASP.PA
12-month High / Low (EUR)	56.5 / 35.2
Market Cap (EURm)	4,901
Ev (BG Estimates) (EURm)	8,391
Avg. 6m daily volume (000)	434.8
3y EPS CAGR	7.9%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-4.4%	-14.8%	-12.5%	3.2%
Food Retailing	1.0%	-0.7%	-3.9%	-1.3%
DJ Stoxx 600	0.5%	-0.3%	1.5%	-5.6%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	46,145	41,237	42,725	44,156
% change		*-10.6%*	*3.6%*	*3.4%*
EBITDA	2,343	1,997	2,204	2,403
EBIT	968.0	1,195	1,319	1,432
% change		*23.5%*	*10.4%*	*8.6%*
Net income	412.0	284.3	379.5	433.0
% change		*-31.0%*	*33.5%*	*14.1%*

	2015	2016e	2017e	2018e
Operating margin	3.1	2.9	3.1	3.2
Net margin	0.9	0.7	0.9	1.0
ROE	NM	NM	NM	NM
ROCE	5.2	5.3	5.9	6.3
Gearing	48.9	20.2	20.5	21.6

(EUR)	2015	2016e	2017e	2018e
EPS	2.80	2.09	3.04	3.51
% change	*-*	*-25.1%*	*44.9%*	*15.8%*
P/E	15.7x	20.9x	14.4x	12.5x
FCF yield (%)	NM	2.6%	11.4%	9.5%
Dividends (EUR)	3.12	3.12	3.12	3.12
Div yield (%)	7.1%	7.1%	7.1%	7.1%
EV/Sales	0.3x	0.2x	0.2x	0.2x
EV/EBITDA	5.5x	4.2x	4.0x	3.9x
EV/EBIT	13.3x	7.0x	6.7x	6.5x

Éxito, Casino's subsidiary in Colombia (54,8% equity owned), and the private equity fund Fondo Inmobiliario Colombia have signed a memorandum of understanding for the capitalisation of Viva Malls by FIC. Éxito is to hold 51% of Viva Malls, while FIC is to have a 49% stake from a total cash contribution to the vehicle of over COP$770 billion (EUR230m). FIC is to contribute with over half its total investment to the vehicle upon closing. At this stage, we estimate that a good bet could be that Exito increases its stake in GPA (which is still trading on very low multiples of around ~0.3x EV/sales).

Éxito, Casino's subsidiary in Colombia, and the private equity fund Fondo Inmobiliario Colombia (FIC, one of the largest private equity funds in Colombia focus on commercial real estate) have signed a memorandum of understanding for the capitalisation of Viva Malls by FIC. Viva Malls is dedicated to the development and operation of commercial real estate in Colombia under the Viva brand.

By 2016, Viva Malls will hold 320,000 sqm of GLA consisting of 10 assets currently operating and two other shopping centers scheduled to open this year. With another two assets currently under development, the vehicle will have 440,000 sqm of GLA (Gross Leasable Area) our of a total portfolio of approximately COP1.6 billion by the end of 2018

Éxito is to hold 51% of Viva Malls, while FIC is to hold a 49% stake from a total cash contribution to the vehicle of over COP$770 billion (EUR230m). FIC would contribute, with over half its total investment to the vehicle upon closing.

ANALYSIS

- From a proportional accounting viewpoint (first take), the impact of this operation on Casino's fully loaded proportionate Net Debt / EBITDAR ratio should be limited (less than 10 bp we believe).
- From a full consolidation viewpoint (first take), this operation should have a neutral/positive impact on Éxito's EPS: **1/** the retailer will keep consolidating 100% of EBITDA (as it will own 51% of the vehicle); **2/** the minorities line of the P&L shoud increase; however **2/** the cash in (EUR230m) should help reduce financial costs by ~EUR16m in 2017 (10,5% estimated cost of debt) and more than compensate for the increase in minorities.
- At this stage, we estimate that a good bet could be that Exito increases its stake in GPA (which is still trading on very low multiples around 0.3x EV/sales). On the whole, we would see this operation as a good pair trade (sell real estate which yields perhaps 10/12% in favour of GPA whose upturn could offer yields well above that hopefully), which is perhaps a premise of a wider reorganisation in LatAm (see our latest report on the subject: With hindsight: a real Catch-22!).

VALUATION

- Our SOTP currently stands at EUR53 per share (i.e. 21% premium on Casino share) when taking into account EUR3011m in holding net debt (excl. seasonality), an amount which does not include any other non-cash items which, according to slide no. 11 of the latest corporate presentation, will have an impact (the point here is that the group neither defines nor quantifies these non-cash items, thus creating an uncomfortable zone of uncertainty). Should these non-cash items reach EUR500m, our spot SOTP would work out at EUR48 (10% premium on Casino share).

NEXT CATALYSTS

- Further reorganisaiton in LatAm

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Luxury & Consumer Goods

L'Oréal

Price EUR169.70

L'Oréal still gaining market share in the UK!

Fair Value EUR177 (+4%) **BUY**

Bloomberg	OR FP
Reuters	OREP.PA
12-month High / Low (EUR)	176.2 / 143.9
Market Cap (EURm)	95,032
Ev (BG Estimates) (EURm)	93,372
Avg. 6m daily volume (000)	562.0
3y EPS CAGR	6.0%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-0.7%	0.7%	9.8%	9.3%
Pers & H/H Gds	-0.1%	0.9%	5.1%	2.6%
DJ Stoxx 600	2.2%	1.9%	2.2%	-4.9%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	25,257	26,030	27,332	28,561
% change		*3.1%*	*5.0%*	*4.5%*
EBITDA	5,248	5,490	5,782	6,141
EBIT	4,388	4,610	4,882	5,211
% change		*5.1%*	*5.9%*	*6.8%*
Net income	3,491	3,665	3,889	4,156
% change		*5.0%*	*6.1%*	*6.9%*

	2015	2016e	2017e	2018e
Operating margin	17.4	17.7	17.9	18.2
Net margin	13.8	14.1	14.2	14.6
ROE	13.7	14.2	13.9	13.8
ROCE	22.4	22.6	22.9	23.3
Gearing	-2.3	-6.7	-10.5	-13.6

(EUR)	2015	2016e	2017e	2018e
EPS	6.18	6.49	6.88	7.36
% change	-	*5.0%*	*6.1%*	*6.9%*
P/E	27.5x	26.2x	24.7x	23.1x
FCF yield (%)	3.1%	3.2%	3.4%	3.5%
Dividends (EUR)	3.10	3.35	3.60	3.90
Div yield (%)	1.8%	2.0%	2.1%	2.3%
EV/Sales	3.7x	3.6x	3.4x	3.2x
EV/EBITDA	18.0x	17.0x	16.0x	14.8x
EV/EBIT	21.5x	20.3x	18.9x	17.5x

Last week, L'Oréal hosted its Capital Market Days in the UK where it is the market leader with an 18.5% share after making constant market share gains (14.6% in 2006). In our view, L'Oréal UK has what it takes to reduce the gap with its market share in WE (20.5%). Buy and EUR177 FV maintained.

ANALYSIS

- On Thursday and Friday, L'Oréal hosted its Capital Market Days dedicated to the UK cosmetics market and the group's market share gains in the country. The UK is the world's sixth-largest cosmetics market with a value of close to GBP5m, or around 3% of the worldwide market, on our estimates. Last year, in 2015, it grew by 2.5% compared with 3.8% for the world cosmetics market. Nevertheless, it clearly outperformed the western European market that remained almost unchanged with a poor 1% increase, implying that the UK grew more than 3x faster than WE. At this point, it is worth noting that 40% of the London population is non Caucasian. The UK cosmetics market is split by 45% for the mass market, with a clear domination of Boots that together with others drugstores has a 43% market share and is still well oriented, while the classic retailers (Tesco, Sainsbury…) have a 35% market share and showed sales down 3% last year.
- **In this growing market, L'Oréal is the country leader with an 18.5% market share, which is far higher than the group average (12.5%) but also lower than in western Europe (20.5%).** Market share stood at 16.9% in 2014, but no more than 14.6% in 2006, thereby highlighting L'Oréal's ability to improve its competitive advantage. On average, the UK has accounted for one third of WE growth over the last five years. The UK is the group's fourth-largest country after the US, China and France. In the UK, 50% of the population has already used a L'Oréal group product, while this figure stands at 90% in France and 70% in Italy, thereby highlighting the fact that the French group still harbours upside for market share gains. In 2015, L'Oréal sales in the UK grew by 5.6% and the country was one of the best performers in this area along with Germany (+3.1%) and Spain (+3.6%). Positive momentum is still accelerating with 8% growth in H1 2016, with the upswing in performance stemming mainly from the huge success of make-up brand Nyx.
- **L'Oréal's 18.5% market share in the UK is particularly strong in the mass market (20%),** while it is slightly dispointing in the luxury division (17%) in which L'Oréal is the challenger as Estée Lauder is by far the leader with a 23% market share. Nevertheless, the gap between the leader is narrowing having stood at 11 points in 2006 and was no more than six points last year. In the professional products division, L'Oréal also has a very significant market share (33% which was 26% in 2006).
- **E-commerce is a clear driver of L'Oréal growth in the UK**. In 2015, e-commerce sales grew 24% and accounted for 7.5% of group sales but in H1 2016 (globally in 2015, e-commerce sales accounted for 5% of total group sales with a 38% increase), this segment momentum has even accelerated (there also partly thanks to Nyx) with a 33% increase and accounted for close to 9% of sales. In H1, e-commerce sales growth was even stronger in the consumer products division (+59%). This allowed the division to grow by 4.5%, 1.7x faster than the market. L'Oréal Paris is the first cosmetics brand in the UK and, paradoxically, the brand's sales in the UK are even higher than the level achieved by the brand in France! In this division, L'Oréal has grown 2.2x faster than the market on average and over the past 10 years.

VALUATION

- **L'Oréal has gained 9% YTD** (BDF share price remained almost unchganged) or +15% vs the DJ Stoxx. We are maintaining our Buy recommendation as we are convinced that sales momentum should accelerate in H2 (+4.9%) vs H1 (+4.4%).

NEXT CATALYSTS

- Q3 sales to be reported on 3rd November.

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Food & Beverages

Nestlé

Price CHF76.80

Bloomberg	NESN VX
Reuters	NESZn.VX
12-month High / Low (CHF)	79.9 / 69.4
Market Cap (CHF)	239,014
Ev (BG Estimates) (CHF)	250,264
Avg. 6m daily volume (000)	5 141
3y EPS CAGR	7.9%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-1.5%	6.2%	7.3%	3.0%
Food & Bev.	0.1%	2.3%	3.4%	0.4%
DJ Stoxx 600	0.5%	-0.3%	1.5%	-5.6%

YEnd Dec. (CHFm)	2015	2016e	2017e	2018e
Sales	88,785	89,833	93,168	98,419
% change		*1.2%*	*3.7%*	*5.6%*
EBITDA	17,210	17,765	18,889	20,501
EBIT	13,382	13,916	14,958	16,302
% change		*4.0%*	*7.5%*	*9.0%*
Net income	10,353	10,839	11,669	12,815
% change		*4.7%*	*7.7%*	*9.8%*

	2015	2016e	2017e	2018e
Operating margin	15.1	15.5	16.1	16.6
Net margin	11.7	12.1	12.5	13.0
ROE	16.6	16.7	17.4	18.1
ROCE	12.5	12.9	14.3	15.8
Gearing	0.9	0.6	0.3	0.0

(CHF)	2015	2016e	2017e	2018e
EPS	3.30	3.51	3.77	4.14
% change	-	*6.2%*	*7.7%*	*9.8%*
P/E	23.3x	21.9x	20.4x	18.5x
FCF yield (%)	4.2%	4.2%	5.0%	5.4%
Dividends (CHF)	2.25	2.30	2.35	3.35
Div yield (%)	2.9%	3.0%	3.1%	4.4%
EV/Sales	2.9x	2.8x	2.6x	2.4x
EV/EBITDA	14.8x	14.1x	13.0x	11.7x
EV/EBIT	19.0x	18.0x	16.4x	14.7x

Deteriorating trends in China and Brazil

Fair Value CHF83 vs. CHF84 (+8%) **BUY**

We revise downwards our Q3 estimate for Nestlé's organic sales growth from +5.5% to +3.5%. China is suffering from a deceleration in the food & beverage market and regulations in the infant nutrition sector, while Brazil has been penalised by a drop in volumes as a result of the group's increase in prices. Over the year, we now expect 3.7% organic sales growth, which compares to the consensus forecast for 4.2%. Our Fair Value is adjusted to CH83.

ANALYSIS

- **Weakness in Q3. We expect 3.5% organic sales growth, in line with the H1 trend, but well below our previous estimate (+5.5%).** This performance is likely to disappoint. **At its H1 results publication, Nestlé indicated that organic sales growth should accelerate over the rest of the year,** supposedly driven by a 1/ favourable comparison base as H2 2015 was affected by a rebate adjustment on skin health products in the US and the Maggi noodles recall, and 2/ a recovery in the pricing effect due to price increases made to offset currency depreciation. **Over the year, we now expect 3.7% organic sales growth vs 4.2% previously. The group's 2016 guidance is for organic sales growth in line with 2015 (+4.2%).**

- **Deteriorating trends in China (8% of sales) and Brazil (4% of sales). The slowdown in the food & beverage market in China is significant** and is a result of economic slowdown, reverse migration, the change in channel dynamics and very tough competition from local players. The stabilisation of Yinlu is an objective for the end of 2017. The Chinese infant nutrition market has been disrupted by new regulations, which are inducing tough price competition, mainly in the mainstream and premium segments. **In Brazil, price increases in a tough economic background have caused a significant drop in volumes** that was not well anticipated by the group.

- **A challenged food industry. On 16th September, we trimmed our estimates for Danone due to China**. Its total sales are expected to rise only 1.4% in Q3, after +4.1% in Q2, primarily due to 1/ the Water division, impacted by the deceleration in the non-alcoholic beverages market, which is now growing 0-3% vs 5-10% previously and 2/ Early Life Nutrition, with destocking of traders operating in cross border ecommerce ahead of regulatory changes.

VALUATION/RECOMMENDATION

- **Our DCF now points to a Fair Value of CHF83 (CHF84 previously) as we cut our EPS estimates by 1% on average over the next three years.** At yesterday's share price, the stock is trading at 21.9x P/E 2016e and 20.4x P/E 2017e, in line with the peer average.

- **Nestlé was the best performing stock in our food coverage universe over the past six months**. It outperformed the DJ Stoxx by 6% vs +3% for Danone and +2% for Unilever. **We expect some weakness in the coming days** because of consensus adjustments.

- **The group's diversified profile is an asset in a challenging environment.** We estimate that Chinese baby food only accounts for 3% of the group's EBIT vs 12% at Danone. **In addition, the arrival of Mr Schneider should trigger a more active acquisitions policy. We maintain our Buy recommendation**.

NEXT CATALYSTS

- Q3 2016 sales: Unilever on 13th October, Danone on 18th October, Nestlé on 20th October,

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TMT

u-blox

Price CHF224.00

Feedback from 2016 analysts' day: opportunities remain solid

Fair Value CHF255 (+14%) **BUY**

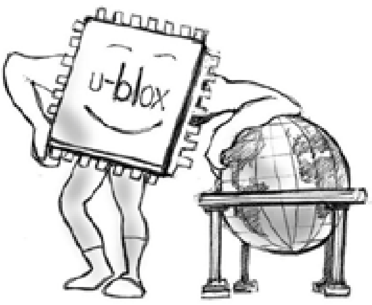
Bloomberg	UBXN SW
Reuters	UBXN.S
12-month High / Low (CHF)	246.4 / 164.0
Market Cap (CHFm)	1,525
Ev (BG Estimates) (CHFm)	1,450
Avg. 6m daily volume (000)	24.30
3y EPS CAGR	26.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-6.9%	6.8%	20.9%	4.4%
Semiconductors	3.3%	23.5%	26.2%	23.8%
DJ Stoxx 600	0.5%	-0.3%	1.5%	-5.6%

YEnd Dec. (CHFm)	2015	2016e	2017e	2018e
Sales	338.3	380.9	469.1	591.3
% change		*12.6%*	*23.1%*	*26.0%*
EBITDA	76.0	86.9	106	129
EBIT	51.3	59.5	71.7	92.5
% change		*16.0%*	*20.5%*	*29.0%*
Net income	37.1	44.8	57.4	75.6
% change		*20.9%*	*27.9%*	*31.8%*

	2015	2016e	2017e	2018e
Operating margin	15.2	15.6	15.3	15.6
Net margin	11.0	11.8	12.2	12.8
ROE	14.9	15.9	17.7	20.0
ROCE	21.8	22.4	23.2	24.7
Gearing	-26.1	-26.3	-25.1	-22.0

(CHF)	2015	2016e	2017e	2018e
EPS	5.45	6.59	8.43	11.10
% change	-	*20.9%*	*28.0%*	*31.8%*
P/E	41.1x	34.0x	26.6x	20.2x
FCF yield (%)	2.1%	1.5%	1.4%	1.3%
Dividends (CHF)	1.57	1.90	2.11	2.78
Div yield (%)	0.7%	0.8%	0.9%	1.2%
EV/Sales	4.3x	3.8x	3.1x	2.4x
EV/EBITDA	19.2x	16.7x	13.6x	11.2x
EV/EBIT	28.5x	24.4x	20.1x	15.6x



On Friday, u-blox hosted an analysts' day during which the group did not spend much time on figures but was particularly talkative about technology and market opportunities. u-blox was particularly convincing about the advantages of maintaining its own proprietary LTE chip IP and investing in IoT dedicated chip designs. Discussions with management led us to believe that the group has the right position to benefit from 1/ autonomous driving and connected vehicles thanks to its leading position in this area, 2/ smart industries (professional drones, asset tracking...), 3/ smart cities with applications such as parking meters or road pricing. Overall, the presentation was convincing and perfectly in line with our main scenario. We reiterate our Buy recommendation and our FV of CHF255.

ANALYSIS

- **Overview of the company's main focus: industry, smart cities and automotive markets**. Most of the day concerned three applications on which u-blox is focusing: automotive, smart-cities and industry. The group shared details about three product categories: Positioning, Cellular and Short Range Connectivity.
- **Positioning: the group maintains its technology leadership.** In this field, the group maintains a leading position in GNSS for in-car navigation systems, asset tracking (fixed or moving) and high precision GNSS solutions for drones. While these markets remain dynamic, we also see the u-blox technology perfectly fitting other applications such as agriculture, machine control, high precision mapping or even professional sport applications. The group continues to outstrip the market with innovations such as cm-level precision (the industry's first low-power and cost-efficient product) or untethered dead-reckoning (also an industry first) that fits perfectly growing applications such as Autonomous driving. Beyond the official presentation, we are particularly positive regarding u-blox' product portfolio and strategy. In our view, the group is the only player that offers both automotive and industry dedicated chips (reliability, efficiency, form-factor...) that are cost-efficient (at a >USD100 price tag). As a result, the group has a product portfolio that serves as a reference in these two growing market segments. This is not particularly new, but it worth recalling while it is also interesting to see that the group continues to maintain a technology leadership here.
- **Cellular connectivity: a right move into IoT dedicated network.** While most Cellular chip makers focus on the next moves by Apple and Samsung in the Cellular field, u-blox runs in another direction: the IoT dedicated network. 2G networks are being unplugged really soon in some avant-gardist countries (U., Finland...), we might expect other countries to follow in coming years. However, 2G networks were a good support for industry connected tools (gas/water meters, payment devices and vending machines, industrial automation,...) and also automotive. So the main point is what will come next to fill the empty room. Rather than focus on high-volume, low-price and low-margin markets such as consumer applications, u-blox has a similar strategy to its positioning segment, i.e. to focus on lower volumes, high quality and high-margin markets and this explains why the group now invests in the very specific field of cellular connectivity: narrowband (low bandwith), low power chips. As a result, u-blox is highly involved in IoT dedicated LTE category: Cat 1, Cat M1 and Cat NB1. The group developed its own IP for these categories, which should provide a mid-term boost to margins (not to be expected before 2018 in our view). With this unique approach, u-blox 1/ responds to industrial clients' needs and 2/ stands out from peers such as Telit or Sierra, which use tweaked consumer chips and are dependent on technology choices of bigger cellular chip suppliers since they do not have capabilities to design and produce their own chipset, and ensure long-term support and production of each chipset (because of the dependence on their suppliers roadmap, focusing on consumer market). And, as for GNSS, the market offers multiple opportunities such as connected health, insurance, autonomous cars or asset tracking.
- **Short-range connectivity: this product familly comes under the spotlight**. Finally, the group spent some time on opportunities concerning short-range connectivity, namely Wi-Fi and Bluetooth. Currently, u-blox offers SR connectivity options using chips from another chip maker (we believe Nordic Semi.) but we understand that the group tries to develop its own SR connectivity IP. As for GNSS and LTE chips, u-blox will then be able to improve its margin but in the meantime, it must invest in R&D. Also, being able to integrate its own chip, the group is then able to offer a better product (stability, reliability, scalability and flexibility). Again, the group will not compete with most of the BT and Wi-Fi giants, since it will not focus on the consumer market.
- **Overall, during the analysts' day, the group was particularly convincing regarding its strategy**

and market opportunities. Focusing on the industry and automotive markets is really important in our view since the group manages to maintain a great stabiltity in margins thanks to this specialisation. Following this day, we remain very confident in the group's outlook both in the short and long term. What we see in the current R&D pipeline and u-blox roadmap is really encouraging and we do not see any equivalent player in the industry. In addition, the group benefits from a unique proprietary IP, which allows it to control the evolution of the core devices used to build its modules and offers potential for margin improvement over the mid-term. Note that we expect a slight improvement in EBIT margin from 2018e (2018e EBIT margin: 16% vs. 15% in 2015).

VALUATION

- Based on our estimates, u-blox shares trade at a 2016e-2017e P/E ratio of 33.5x-26.2x respectively and a 2016e-2017e PEG ratio of 1.3x-1.0x.

NEXT CATALYSTS

- 16th March 2017: Annual Results 2016

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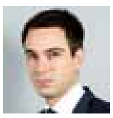

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Healthcare

ERYTech

Price EUR18.82

Phase II data for GRASPA in pancreatic cancer set to be released in Q1 2017

Fair Value EUR47 (+150%) **BUY**

Bloomberg	ERYP FP
Reuters	ERYP.PA
12-month High / Low (EUR)	34.5 / 18.2
Market Cap (EURm)	149
Avg. 6m daily volume (000)	19.10

	1 M	3 M	6 M	31/12/15
Absolute perf.	-12.7%	-8.9%	-25.8%	-26.5%
Healthcare	0.2%	1.7%	5.9%	-6.9%
DJ Stoxx 600	0.5%	-0.3%	1.5%	-5.6%

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

ANALYSIS

- Erytech announced that the last patient has been enrolled in its Phase II study evaluating ERY-ASP as a second-line treatment for pancreatic cancer in combination with gemcitabine/FOLFOX. Given that the primary endpoint is an improvement in progression-free survival (PFS) at four months, we understand that the readout is now expected in Q1 2017.
- The stock is likely to react positively in our view… Especially since the timing of this catalyst is confirmed, and the stock has been under pressure lately. But we would like to reiterate our cautious stance *vis-à-vis* this development: 1/ apart from the simple fact that the role of asparaginase has not been established for the treatment of solid tumours, and pancreatic cancer is known to be a quite challenging one; 2/ we believe that the therapeutic landscape has become more competitive in recent years (SHP's Onivyde currently setting the bar for the second-line, while CELG's Abraxane is getting a large share of the first-line). In other words, we would recommend playing this catalyst with some caution.

VALUATION

- BUY reiterated with a FV of EUR47, bearing in mind that we (still) give no value to ERY-ASP as a potential treatment for pancreatic cancer.

NEXT CATALYSTS

- Q1 2017: Phase II results of ERY-ASP as a 2L treatment for pancreatic cancer.
- H2 2017: Phase II results of GRASPA in AML + approval in refractory/relapse ALL.

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Healthcare

Galapagos

Price EUR63.78

Bloomberg	GLPG BB
Reuters	GLPG.BR
12-month High / Low (EUR)	63.8 / 32.7
Market Cap (EURm)	2,945
Avg. 6m daily volume (000)	233.0

	1 M	3 M	6 M	31/12/15
Absolute perf.	31.5%	34.9%	66.8%	12.4%
Healthcare	0.2%	1.7%	5.9%	-6.9%
DJ Stoxx 600	0.5%	-0.3%	1.5%	-5.6%

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

FITZROY detailed results put the bar high

Fair Value EUR64 (0%) **BUY**

ANALYSIS

- Galapagos has released detailed FITZROY phase II results (filgotinib in Crohn's disease). At week 10, 25% of patients achieved at least a 50% improvement in Simple Endoscopic Score for Crohn's disease (SES-CD). This compares with 13.6% for the placebo arm. These results and the timing of the release should not be overlooked.
- More physicians are considering the SES-CD score, which helps to assess mucosal healing. While the study was not powered to show statistical significance on this endpoint, we are pleased with the results as Galapagos put the bar at 50% improvement. Indeed, several companies such as Celgene set a lower threshold i.e. a 25% improvement in SES-CD score. Moreover, note that the FITZROY population was a hard one to treat with 60% of patients recruited non-responders to anti-TNF.
- Galapagos' results might put pressure on CELGENE, which stated earlier this month that only a proportion of patients had an endoscopic improvement. No data enables us to compare the two compounds on this criteria so far. However, we would note that the CELGENE trial has a 25% threshold and that 64 patients enrolled might be short to show a meaningful clinical improvement.

VALUATION

- We reiterate our BUY rating

NEXT CATALYSTS

- Today 2.00pmCET: conference call on detailed results (US +1 719 457 2086, UK +44 330 336 9411, FR +331 76 77 22 57; access code 8889838).

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TMT

Ubisoft

Price EUR34.31

Ubisoft acquires the stake held by Bpifrance (3.2% of the capital, 5.7% of the voting rights)

Fair Value EUR34 (-1%) **BUY**

Bloomberg	UBI.FP
Reuters	UBIP.PA
12-month High / Low (EUR)	38.3 / 18.0
Market Cap (EURm)	3,855
Avg. 6m daily volume (000)	249.0

	1 M	3 M	6 M	31/12/15
Absolute perf.	-3.2%	2.3%	24.3%	28.6%
Softw.& Comp. SVS	4.3%	10.6%	11.7%	8.9%
DJ Stoxx 600	0.5%	-0.3%	1.5%	-5.6%

	03/16	03/17e	03/18e	03/19e
P/E	33.8x	28.3x	18.6x	13.5x
Div yield (%)	NM	NM	NM	NM

FACTS

- Friday after trading, Ubisoft announced the signing of an agreement with Bpifrance (the Banque Publique d'Investissement) for the **purchase of the 3,625,178 Ubisoft shares held by Bpifrance (3.2% of the capital), at a price of EUR33.80/share i.e. a total amount of EUR122.5m**. The transaction **fits into Ubisoft's share buyback programme and will close by the beginning of November**. The shares are to be allocated to the employee shareholding plans, the convertible bond issued through a private placement on 21st September and/or to potential external growth operations (likely in the mobile segment in our view).

ANALYSIS

- Note that Bpifrance had double voting rights, so the 3.2% stake in UBI's share capital is equivalent to 5.7% of voting rights. **The Guillemot family will continue to hold 12.84% of UBI's capital and 18.91% of the voting rights, and** it seems to have the support of Fidelity ~10% and Blackrock ~5%). This compares with Vivendi 22.8% and 20.2% respectively.

- **The transaction is accretive to UBI's shareholders and avoids the block having to be sold on the market** (i.e. no pressure on the price and no volatility). **Bpifrance wanted to sell its stake but also to support Ubisoft's management until the AGM next week**. The agreement signed has met these needs. As a result, nothing will happen before the shareholder's meeting (29th September), in order that Bpifrance can vote.

VALUATION

- **We maintain our Buy recommendation and FV of EUR34** (only based on fundamentals). The share price fully values the group's earnings over the current fiscal year (to 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

- **Ubisoft's AGM:** on Thursday 29th September. Click here to download

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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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