Please find our Research on Bloomberg BRYG <GO>)

29th September 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	18339.24	+0.61%	+5.25%
S&P 500	2171.37	+0.53%	+6.23%
Nasdaq	5318.55	+0.24%	+6.21%
Nikkei	166393.71	+1.39%	-13.49%
Stoxx 600	342.57	+0.70%	-6.35%
CAC 40	4432.45	+0.77%	-4.41%
Oil /Gold			
Crude WTI	47.05	+5.33%	+26.48%
Gold (once)	1319.86	-0.55%	+24.24%
Currencies/Rates			
EUR/USD	1.1191	-0.05%	+3.02%
EUR/CHF	1.089	+0.04%	+0.15%
German 10 years	-0.216	+5.10%	-134.01%
French 10 years	0.102	+5.62%	-89.59%

Economic releases :

Date	
29th-Sept	9h55 DE - Unemployment rate (6.1% E) 10h30 GB Net Consumer Credit 14h00 DE - CPI Sep (+0.6%E y/y) 14h30 US - Wholesale inventories 14h30 US- GDP annualized 2Q (+1.5% E) 14h30 US - Personal Consumption (4.4% E)

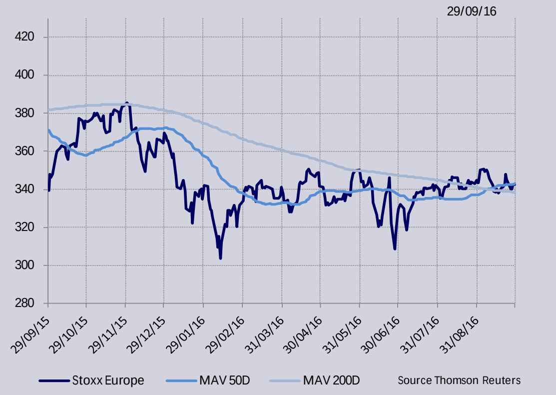
Upcoming BG events :

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 (+11%)

US Field Trip Day 1: Unlocking US market potential

Essilor hosted the first day of its US Field Trip in Dallas (TX) to present its strategy for North America. Although this region already accounts for 48% of total sales, it harbours growth potential of "an emerging market" according to CEO Hubert Sagnières. In terms of LFL growth, the group intends to outperform the market by at least 1.5x thanks to: (i) an increasing engagement with consumers, (ii) deepened relationships with independent ECPs and optical chains and (iii) fast-growing segments such as online and sunglasses, the latter being presented more in detail on Friday.

VALEO — NEUTRAL, Fair Value EUR49 (-3%)

Innovation as DNA

Yesterday afternoon, on the sidelines of the Paris Auto Show, Valeo hosted a "TECH" event focusing specifically on its two businesses offering the biggest sales growth potential: Comfort & Driving Assistance and Powertrain Systems, notably in view of the market transformation affecting the automotive industry (greener vehicles and self-driving vehicles). The general tone was very positive while figures/metrics unveiled were quite interesting, making us comfortable with our 2016-20 estimates.

HEALTHCARE

Top Picks Q4, favouring Medtech and Specialty ahead of US presidential elections

UTILITIES

Top Picks Q4 -2016: SUEZ

In brief...

ACTELION, *Actelion clarifies its strategy with ponesimod*

INDRA SISTEMAS, *Final terms and conditions of the EUR250m convertible bond issue*

INNATE PHARMA, *Liri/nivo is a very safe regimen... As expected!*

LAFARGEHOLCIM, *China cement capacities reduction: positive news*

SAP, *Acquisition of Plat.One, strengthening presence in the Internet of Things*

Luxury & Consumer Goods

Essilor

Price EUR116.75

Bloomberg	EF FP
Reuters	ESSI.PA
12-month High / Low (EUR)	123.6 / 103.0
Market Cap (EURm)	25,463
Ev (BG Estimates) (EURm)	27,132
Avg. 6m daily volume (000)	446.6
3y EPS CAGR	10.1%

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.4%	0.5%	10.6%	1.5%
Consumer Gds	-0.2%	6.7%	3.9%	-1.1%
DJ Stoxx 600	-0.3%	8.2%	2.2%	-6.4%

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	32.7x	29.5x	27.0x	24.5x
FCF yield (%)	3.4%	3.7%	4.0%	4.2%
Dividends (€)	1.15	1.30	3.15	4.15
Div yield (%)	1.0%	1.1%	2.7%	3.6%
EV/Sales	4.1x	3.8x	3.5x	3.3x
EV/EBITDA	21.8x	20.2x	18.4x	17.0x
EV/EBIT	23.3x	21.4x	19.3x	17.7x

US Field Trip Day 1: Unlocking US market potential

Fair Value EUR130 (+11%) **BUY**

Essilor hosted the first day of its US Field Trip in Dallas (TX) to present its strategy for North America. Although this region already accounts for 48% of total sales, it harbours growth potential of "an emerging market" according to CEO Hubert Sagnières. In terms of LFL growth, the group intends to outperform the market by at least 1.5x thanks to: (i) an increasing engagement with consumers, (ii) deepened relationships with independent ECPs and optical chains and (iii) fast-growing segments such as online and sunglasses, the latter being presented more in detail on Friday.

- **The US remains the world's largest optical market.** As highlighted in our comment ahead of the Field Trip, the US vision care market is worth ~USD40bn (or ~EUR36bn), **representing approx. 40% of the global market.** All categories included, Essilor has a market share of 8% (USD3.2bn) but even in the lens business (~40% market share), the group has significant growth potential thanks to: **(i)** favourable demographics (growing and ageing population), **(ii)** evolving consumer needs (i.e. protection vs. harmful blue light as consumers spend more and more time in front of digital devices) and **(iii)** under-penetration of value added categories such as progressive lenses (~60% vs. ~78% in Canada or ~90-95% in France and China) or anti-reflective lenses (39% of US wearers vs. 65% in Canada and 83% in Germany).
- **Essilor can leverage this growth potential and outperform market growth by at least 1.5x.** Except for an unusually soft Q2 (+1.5% LFL) marked by temporary issues at Transitions, the US growth strategy relies on three key pillars: **(i)** innovation deployment in all price points, **(ii)** consumer focus through media push and education and **(iii)** leverage opportunities in all channels thanks to tight relationships with independent ECPs and optical chains, but also helping them to promote in-store education and increase the customer experience, leading to higher revenues.
- **All channels harbour growth opportunities.** Following Essilor's three acquisitions in the **independent ECP channel**, the group now covers over 8,000 doctors (or ~30% of the 25,000 independent ECPs). This channel has gained market share (2015: ~53% vs. 50% in 2005) thanks to a high level of expertise and service. Yet, Essilor is also developing turn-key solutions for **optical chains** (supply chain, IT, commercial proposition) and it is interesting to note that value players such as Walmart or Costco are partnering with Essilor to bring added-value to their offering (i.e. NikonEyes for WM, Transitions and antirelective lenses at Costco).
- **Online business: a small but fast-growing channel.** Last year this channel generated sales of USD96m (+11%), or ~EUR86m, representing approx. 39% of global online sales (EUR220). **Online retail only has a penetration rate of 5% in the US (4% worldwide)**, o/w 18% for contact lenses, 6% for sunglasses and 4% for Rx lenses. Two of the group's main platforms experienced a double-digit growth: **EyeBuyDirect** (~29% of US online sales; value Rx eyeglasses and frames) and **FramesDirect (**~28%, premium eyeglasses and sunglasses), whilst it took one year longer-than-expected for **Coastal** (~29% of sales) to find its new customer proposition, which is now well in place. In our opinion the 2018 profitability target of 10-12% might now appear difficult to reach given the painful integration and relaunch of Coastal
- **Supply chain: maintaining this best-in-class execution to capture growth potential.** Management's presentation and the visit to Essilor's largest US Rx lab (Omega Dallas) gave us a good overview of the group's key competitive advantages in terms of supply chain and level of service to address all the channels (independent ECPs, optical chains, online). Whilst Essilor has currently 125 Rx labs in the US, we understood that this network might be streamlined further given the increasing importance of the four export labs that serve the US market (~15-20% of total volumes) and efficiency gains released from the consolidation of this Rx lab network.

VALUATION

- In spite of the temporary "air bumps" possible in the ST, this first day provided a good overview of Essilor's strategy to conquer further market share in the US market, which would remain a key driver for the group in the MT-LT. Buy recommendation and FV of EUR130 confirmed.

NEXT CATALYSTS

- Essilor will release its Q3 results on 21st October.

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Automotive

Valeo

Price EUR50.28

Bloomberg	FR FP
Reuters	VLOF.PA
12-month High / Low (EUR)	50.3 / 34.9
Market Cap (EUR)	11,986
Ev (BG Estimates) (EUR)	14,091
Avg. 6m daily volume (000)	823.3
3y EPS CAGR	14.2%

	1 M	3 M	6 M	31/12/15
Absolute perf.	9.6%	26.0%	16.3%	-64.2%
Auto & Parts	-0.7%	13.3%	-2.6%	-15.1%
DJ Stoxx 600	-0.3%	8.2%	2.2%	-6.4%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	14,544	15,996	17,602	18,716
% change		*10.0%*	*10.0%*	*6.3%*
EBITDA	1,847	2,036	2,341	2,504
EBIT	1,060	1,225	1,402	1,520
% change		*15.5%*	*14.5%*	*8.4%*
Net income	729.0	853.2	996.6	1,092
% change		*17.0%*	*16.8%*	*9.6%*

	2015	2016e	2017e	2018e
Operating margin	7.3	7.7	8.0	8.1
Net margin	5.0	5.3	5.7	5.8
ROE	21.0	21.2	21.2	20.1
ROCE	23.7	19.6	20.8	21.3
Gearing	0.5	27.7	17.5	8.5

(EUR)	2015	2016e	2017e	2018e
EPS	3.11	3.62	4.23	4.64
% change	-	*16.4%*	*16.8%*	*9.6%*
P/E	16.2x	13.9x	11.9x	10.8x
FCF yield (%)	4.6%	4.0%	4.5%	5.5%
Dividends (EUR)	1.00	1.09	1.27	1.39
Div yield (%)	2.0%	2.2%	2.5%	2.8%
EV/Sales	0.9x	0.9x	0.8x	0.7x
EV/EBITDA	7.0x	6.9x	5.9x	5.3x
EV/EBIT	12.2x	11.5x	9.8x	8.8x

Innovation as DNA

Fair Value EUR49 (-3%) NEUTRAL

Yesterday afternoon, on the sidelines of the Paris Auto Show, Valeo hosted a "TECH" event focusing specifically on its two businesses offering the biggest sales growth potential: C*omfort & Driving Assistance* and *Powertrain Systems,* notably in view of the market transformation affecting the automotive industry (greener vehicles and self-driving vehicles). The general tone was very positive while figures/metrics unveiled were quite interesting, making us comfortable with our 2016-20 estimates.

ANALYSIS

- **Financial targets reiterated:** While the afternoon was dedicated to technology, and to high growth potential markets, Valeo's CEO Jacques Aschenbroich took the opportunity to restate his 2020 financial targets. The previous 2020 **EUR20bn sales objective** was logically revised up (*from EUR20bn before to >EUR20bn today*) especially in view of the positive scope effect following acquistions of Peiker, Spheros and LTE (*EUR1bn additional sales*) in 2016, while the profitability target was unchanged (*EBIT margin between 8 and 9%).* For the business unit targets, the management team indicated the group was ahead of the plan. As a reminder, we were already expecting Valeo to post 2020 sales of **EUR21.2bn**, and to generate **8.8%** EBIT margin (*Valeo definition*). **The confirmations and positive comments are clearly welcome but do not alter at all our 2016-20 estimates. As a reminder, the group's guidance is still based on a 3% YoY market growth assumption while at BG we are more cautious with a +1.7% YoY market assumption over 2016-18 and then +1.5% afterwards.**

- **Focus on Confort & Driving Assistance business:** From the presentation, we mainly retained the fact that Valeo should benefit from the progressive development of self-driving vehicles within new registrations thanks to its expertise in sensors. The group indicated it delivered **560m ADAS sensors** (*ultrasonic systems, rain sensor, front camera, laser scanners…*) between 1990 and 2015 (*implying an average of >22m per year*) and unveiled it will deliver **140m in 2016**. With a **45%** market share (*MS*) within ultrasonic systems market last year and a **30%** MS within viewing camera market, Valeo is clearly well established in this market. Its partnerships with **Safran**, **Mobileye** and **IAV**, combined its internal expertise on this market should allow Valeo to benefit over coming years from the rise in **content per car value** linked to the deployment of **Level 2/Level 3** and **Level 4/5 self-driving car equipment** within new vehicles. According to the group, **Level 4/5 ADAS** equipment could represent up to **EUR5k** vs. only **EUR0.5k** for **Level 2 vehicles** (*for Valeo*). As a reminder, for its CDU business (*18% of group's sales and 26% of group's EBITDA*) the group is targeting a sales CAGR of **8%** leading **to EUR4bn**, and growth in **EBITDA margin of 300bp to 17.5%**.

- **Focus on Powertrain Systems business**: Through this presentation, the group elaborated on the growth potential in this business unit that should benefit from a **higher penetration rate of electrification** within new car registrations (*trend driven by stricter regulations on CO_2 / NOx emissions but also the VW scandal*). First, Valeo through its historical presence in transmissions components for ICE should continue to benefit from higher ICE vehicle demand (*notably for automatic transmission where value is twice more important compared with manual transmission*) while its expertise on **12V** and **48V** and now on **60V** electrical systems (*through its new JV with Siemens*) would allow it to enjoy the rising share of **BEV** (*Battery Electric Vehicle*) and **PHEV** (*Plug-in Hybrid Vehicle)* with new car demand. The group's current base scenario implies that by 2026 **conventional ICE vehicles** (*including Stop & Start*) will still represent **57%** of car production, while **Mild Hybrid** (*equipped with 12V & 48V electrical systems*) will represent roughly **20%** of the market and full hybrid/PHEV and HP BEV will represent respectively **18%** and **4%** of the market. Given the higher average content per car for Valeo between PHEV/BEV vehicles and traditional ICE vehicles in electronics and transmission components (*see table page 2*) the group expects to easily outperform global automotive production over coming years in this business unit. Valeo indicated it is targeting a **40%** MS in 2020 on **48V Mild Hybrids** vehicles market thanks notably to its **25 contracts signed** in China and in Europe, and a **60%** MS when including superchargers. On this business which represents **26%** of group's sales and **26%** of group's EBITDA, Valeo aims to post a **sales CAGR of 9.5%** while boosting its EBITDA margin by **70bp** to **13.5%.**

(to be continued next page)

- **Conclusion:** The group's presentation was very clear and detailed, allowing us to better understand the different market potentials the group is currently positioned on. We appreciated the transparency of management on the assumptions used for 2026 automotive production (*on the mix between ICE and non-ICE vehicles*) as well as the data unveiled on the potential impact on content per value. Valeo is clearly one of the most innovative companies within the automotive sector with Continental, Bosh or Delphi, and is definitively the most innovative stock within our coverage. We appreciate the group's positioning as well as its strategy, bt see very limited upside in the short term relative to the latest share price despite being already above the group's middle range guidance on EBIT (*we are at 8.8% vs. 8-9% targeted by the group*). We believe at some point the group will have difficulties maintaining its R&D expenses under control.
- **At this stage we confirm our Neutral rating with FV unchanged at EUR49/share**.

VALUATION

- At the current share price Valeo is trading at **9.7x** its 2017e EBITDA and at **11.7x** its 2017e EPS.
- **Neutral**, with **FV @ EUR49/share**.

NEXT CATALYSTS

- 20th October – Q3 2016 sales

Fig. 1: Valeo powertrain – MS of technology in 2026 compared with average content per car compared with ICE

Electronic systems	Vehicle type	Market today in volumes	Market in volumes in 2026	MS Today	MS 2026	Valeo powetrain content
Stop & Start	ICE	83,7	66,5	94%	57%	x1
Low Voltage solutions (12V & 48V)	Low power BEV	0,8	3	1%	3%	x2
	12V Mild Hybrid	0,8	8	1%	7%	x3
	48V Mild Hybrid	0,2	12,5	0%	11%	x2
High Voltage solutions (>60V)	PHEV	2,6	21	3%	18%	x9
	High Power BEV	0,5	5	1%	4%	x7

Source: Valeo

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Sector View

Healthcare

Top Picks Q4, favouring Medtech and Specialty ahead of US presidential elections

	1 M	3 M	6 M	31/12/15
Healthcare	0.8%	1.6%	6.4%	-7.5%
DJ Stoxx 600	-0.3%	8.2%	2.2%	-6.4%

*Stoxx Sector Indices

Companies covered

ABLYNX		**BUY**	**EUR18**
Last Price	EUR11.45	*Market Cap.*	EUR697m
ACTELION		**NEUTRAL**	**CHF180**
Last Price	CHF169.9	*Market Cap.*	CHF18,309m
ADOCIA		**BUY**	**EUR90**
Last Price	EUR50	*Market Cap.*	EUR342m
ASTRAZENECA		**BUY**	**5400p**
Last Price	5122p	*Market Cap.*	GBP64,792m
BAYER		**NEUTRAL**	**EUR98**
Last Price	EUR89.26	*Market Cap.*	EUR73,813m
BIOMERIEUX		**NEUTRAL**	**EUR130**
Last Price	EUR135.7	*Market Cap.*	EUR5,354m
BONE THERAPEUTICS		**BUY**	**EUR30**
Last Price	EUR11.54	*Market Cap.*	EUR79m
CELLECTIS		**BUY**	**EUR37**
Last Price	EUR21.87	*Market Cap.*	EUR773m
CELYAD		**NEUTRAL**	**EUR21**
Last Price	EUR19	*Market Cap.*	EUR177m
DBV TECHNOLOGIES		**BUY**	**EUR91**
Last Price	EUR66.68	*Market Cap.*	EUR1,607m
ERYTECH		**BUY**	**EUR47**
Last Price	EUR19.1	*Market Cap.*	EUR152m
FRESENIUS MED.CARE		**BUY**	**EUR94**
Last Price	EUR78.16	*Market Cap.*	EUR24,313m
FRESENIUS SE		**BUY**	**EUR78**
Last Price	EUR71.35	*Market Cap.*	EUR38,982m
GALAPAGOS		**BUY**	**EUR64**
Last Price	EUR57.95	*Market Cap.*	EUR2,676m
GENEURO		**BUY**	**EUR18.2**
Last Price	EUR7.44	*Market Cap.*	EUR109m
GENMAB		**BUY**	**DKK1600**
Last Price	DKK1142	*Market Cap.*	DKK68,728m
GLAXOSMITHKLINE		**BUY**	**1810p**
Last Price	1655p	*Market Cap.*	GBP80,690m
INNATE PHARMA		**BUY**	**EUR18**
Last Price	EUR10.95	*Market Cap.*	EUR590m
IPSEN		**BUY**	**EUR67 vs. 66**
Last Price	EUR61.68	*Market Cap.*	EUR5,136m
KORIAN		**NEUTRAL**	**EUR28**
Last Price	EUR29.41	*Market Cap.*	EUR2,358m
MORPHOSYS		**BUY**	**EUR62**
Last Price	EUR36.07	*Market Cap.*	EUR957m
NOVARTIS		**NEUTRAL**	**CHF87**
Last Price	CHF78.55	*Market Cap.*	CHF206,360
NOVO NORDISK		**NEUTRAL**	**DKK360**
Last Price	DKK290	*Market Cap.*	DKK583,644
ORPEA		**BUY**	**EUR85**
Last Price	EUR80.52	*Market Cap.*	EUR4,836m
QIAGEN		**BUY**	**EUR26**
Last Price	EUR24.1	*Market Cap.*	EUR5,777m
ROCHE HOLDING		**BUY**	**CHF293**
Last Price	CHF244.6	*Market Cap.*	CHF171,847

LOOKING BACK ON Q3 2016

After the rally that followed the Brexit vote at the end of Q2 2016, the STOXX Healthcare paused for breath in July to end Q3 down -2.44%, underperforming the STOXX EUROPE 600 (up +3.85% over the period) by over 600bp. Two major events/trends were at the root of this poor performance. Firstly, the forthcoming US elections alongside statements on drug pricing from both parties, muted the overall sector performance. Secondly we saw large US Pharmacy Benefit Managers excluding drugs to favour cheaper alternatives which put further pressure on large cap pharmas, starting with companies involved in the diabetes field (Novo Nordisk –19.2% and Sanofi –8.8%).

As Q3 2016 was quite hard to predict following the Brexit vote and ahead of a potential shake-up in the US, we decided to include three companies in our Q3 top pick list that 1/ benefit from good momentum and 2/ have limited binary events over the period, namely Shire, Ipsen and Fresenius SE, which outperformed the STOXX Healthcare by 8.8%, 14.4% and 11.1% respectively and the STOXX EUROPE 600 by 2.2%, 7.2% and 4.4% respectively (performances reported in EUR terms). We also decided to play the outcome of Ablynx' phase IIb results for vobarilizumab in RA. While these results position the drug as a best-in-class IL-6R in our view, the Street is waiting for AbbVie's opt-in decision which is expected sometimes in Q4 and is likely to mute the share price performance until then.

To note also in our coverage universe Bayer's sweetened bid for Monsanto at EUR128/share (total deal of USD66bn) which has been approved by the two Boards. While the combination of the two companies is expected to create a leader in the Crop Science field, we still see hurdles ahead such as an increased regulatory scrutiny, the need to divest some assets to finance the deal or some misunderstanding with regards to the shift in strategy (weakened pharma division despite optimistic long-term targets).

WHAT WE SEE FOR Q4 2016

Turning to Q4, the quarter should be divided into two halves with the inflexion point being the US presidential elections on 8th November. Before the election day, we would expect large cap pharma stocks to be under pressure. Indeed, both candidates have been vocal about their ambition to either cap drug price hikes or give the opportunity to Medicare to negotiate higher rebates. Moreover, with the intensity of the campaign increasing, such topics might return to the front stage in coming weeks. If the Democrats' candidate is elected, we would anticipate a period of uncertainty, to be exacerbated on large cap pharmaceutical stocks. Note that this might also mute the performance of biotech companies. Should the balance weigh in favour of the Republicans, we would expect the party line to be toed with no significant shift and hence, do not rule out a rally in the pharmaceutical sector as freedom to operate for the healthcare industry will remain a dogma and limit the influence of a reform.

As far as the beginning of Q4 is concerned, we have decided not to include any large cap pharma or biotech stocks in our Top Pick list. Entering the quarter, we would favour Medtech and Specialty pharma stocks. Medtechs because we believe they offer more visibility in the current environment of market turmoil and for some of them, harbour a strong newsflow in Q4; Specialty pharma because their growth profile and pipeline mainly focused on innovative drugs should keep them away from background noise around reimbursement concerns. The transformative nature of their business should more than overcome the tough conditions in the healthcare industry.

CONCLUSIONS AND TOP PICKS

As such, we are maintaining our exposure to the Healthcare sector unchanged and maintain four names in our list for the coming quarter. Three of these are left unchanged, namely Fresenius SE, Ipsen and Shire which are still in our top pick list for Q4 whereas QIAGEN jumps in to the expense of Ablynx.

SANOFI		**NEUTRAL**	**EUR83**
Last Price	EUR68.32	*Market Cap.*	*EUR88,067m*
SHIRE PLC		**BUY**	**6900p**
Last Price	5108p	*Market Cap.*	*GBP46,075m*
UCB		**NEUTRAL**	**EUR80**
Last Price	EUR70.4	*Market Cap.*	*EUR13,693m*
ZEALAND		**BUY**	**DKK172**
Last Price	DKK105	*Market Cap.*	*DKK2,582m*

IPSEN (BUY – Fair Value EUR67 from EUR66) has already performed well during Q3 on the back of another strong quarter characterised by a strong and resilient performance by Somatuline, an upgrade in guidance for specialty care growth in 2016 and the CHMP positive opinion and then final EU approval for Cabometyx in 2L renal cell carcinoma. To some extent also, the announcement of the arrival of David Meek as new CEO from Baxalta was welcome and first feedbacks from his first meetings with investors look positive.

On the back of this, we see another strong quarter ahead with almost the same recipe: a strong quarter driven by Somatuline (we have notched up our forecast for the full-year from 27% to 30% growth for the product and also the subsequent years) and a positive news flow around Cabometyx starting with the presentation of a lot of clinical stuff at the ESMO congress in Copenhagen (including the highly-awaited CABOSUN phase II data in 1L RCC on 8th October) but also with the first meaningful launches in Europe, including Germany and the UK. Because it is our understanding that it has been David Meek's priority since his arrival at Ipsen, another move in the field of BD cannot be ruled out. The Board gave the Executive Committee some freedom to operate and we would be curious to see what can be done to leverage some of the existing infrastructures in endocrinology and in oncology.

For those reasons, we see opportunities to adjust our FV upwards in the coming weeks and months. Hence the limited upside to the FV today does not prevent a presence of Ipsen in the list for Q4.

SHIRE (BUY – Fair Value GBP6,900). We still believe SHP offers an attractive risk-reward despite the recent rally as the stock is trading at a c.20% discount vs its European peers based on our P/E 2017e (and even c.45% vs CSL). We expect the upcoming Capital Market Day (10th November) to reassure the street regarding the resilience of the Haemophilia franchise (e.g. with a deep-dive on some early-stage candidates like BAX826). Lifitegrast is also likely to be a strong catalyst as we believe the next weekly/monthly figures will confirm a strong uptake in the US. This will be of importance as we see "lifi" as the most significant buffer along with DX2930 against a declining Feiba by 2018e.

FRESENIUS SE (BUY – Fair Value EUR78). The company recently acquired Quironsalud and reinforced its hospital business (HELIOS), thereby bringing stability and visibility to both sales and earnings at a time when visibility at KABI could be seen as decreasing due to an easing of the IV generic drug shortage situation in the US.

Regarding the Quironsalud acquisition, we believe that sales growth rate in the highly attractive Spanish hospital market could help the Spanish business deliver above 5% CER growth rate guidance and that targeted synergies from the integration could top the EUR50m announced.

Turning to KABI, we would remind that management has a track record in targeting key IV generic drug which should help maintaining high profitability, as highlighted by the recent launch of daptomycin (generic of Cubicin) which is likely to grab a significant share of this USD1bn market over the coming weeks.

QIAGEN (BUY – Fair Value EUR26). After a difficult start to the year, QIAGEN's management delivered well in Q2 and QIAGEN shares started to regain investor interest. On top of a good momentum for the Medtech sector in Q4, we identify several catalysts that are likely to drive the share price over the quarter.

Qiagen should roll-out several products in Life Science and help the business end the year in the high single-digit growth rate. An investor day on 15th November should offer an in-depth review of the company's strongest growth driver, the GeneReader, as well as its innovative reimbursement. Note that this event should also be the occasion for the company to update on its R&D activities and mainly where it stands on the upgrade of the GeneReader as one sequencing step it includes might be infringing one of Illumina's patents. Moreover, we do not rule out that long term guidance might be updated, which should offer the consensus the opportunity to reassess QIAGEN's growth prospects which we believe are undervalued.

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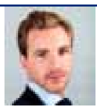

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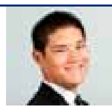

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Sector View

Utilities

Top Picks Q4 -2016: SUEZ

	1 M	3 M	6 M	31/12/15
Utilities	-0.6%	3.6%	0.5%	-5.6%
DJ Stoxx 600	-0.3%	8.2%	2.2%	-6.4%

*Stoxx Sector Indices

Companies covered

ALBIOMA		**BUY**	**EUR16**
Last Price	EUR15,43	*Market Cap.*	EUR466m
E.ON		**BUY**	**EUR10,2**
Last Price	EUR6,275	*Market Cap.*	*EUR12,556m*
EDF		**BUY**	**EUR13,6**
Last Price	EUR10,825	*Market Cap.*	*EUR21,793m*
EDP RENOVAVEIS		**NEUTRAL**	**EUR7,65**
Last Price	EUR7,115	*Market Cap.*	*EUR6,206m*
ENGIE		**BUY**	**EUR16,5**
Last Price	EUR13,71	*Market Cap.*	*EUR33,388m*
PENNON GROUP		**SELL**	**830p**
Last Price	896p	*Market Cap.*	*GBP3,699m*
RWE		**NEUTRAL**	**EUR9,5**
Last Price	EUR14,935	*Market Cap.*	*EUR9,027m*
SUEZ		**BUY**	**EUR17,5**
Last Price	EUR14,77	*Market Cap.*	*EUR8,336m*
VEOLIA ENVI		**BUY**	**EUR23,5**
Last Price	EUR20,47	*Market Cap.*	*EUR11,532m*
VOLTALIA		**BUY**	**U.R.**
Last Price	EUR9,1	*Market Cap.*	*EUR239m*

LOOKING BACK ON Q3 2016

The Utilities sector performed worse than the Stoxx 600 during Q3 2016 (-3.7% for SX6P vs. 3.1% for the Euro Stoxx 600). Since the beginning of the year, the Stoxx 600 Utilities has dropped 5.6% vs. a 6.4% decline for the Euro Stoxx 600. Since our initiation of coverage in July 2014, we have recommended staying out of the sector as a whole and playing it safe through stocks offering strong earnings growth stories based on restructuring efforts. As a reminder, **we played Veolia in Q3 2016** as we were notably convinced by **1/** the resilience of the company's EBITDA margin thanks to **strong costs-savings and 2/** a potential catalyst with the **expected disposal of Transdev**. In the end, **Veolia performed well during the quarter (+3.9%)**, outpacing both the Stoxx 600 utilities (-3.7%) and the Euro Stoxx 600 (+3.1%). **Veolia's H1 2016 cost-savings were higher than expected** (EUR121m vs. EUR100m) while **the disposal of Transdev was initiated** with a 20% disposal out of the 50% stake Veolia owned (*with a c. 20% premium vs. book value which partly led us to slightly increase our FV by EUR0.5 last August*). Note that the 22.5m shares sold by the CDC (*i.e. c. 4% of Veolia's share capital*) last Thursday has logically exercised **downward pressure on the stock** following the **1.7% implied discount** in the operation. Inside the BG universe, the **top performers** were **Albioma** (+10.8%) and **EDPR** (+5.1%) while the **worst performers** were **Pennon** (-6.3%) and **Engie** (-6.1%). **We excluded E.ON** (-29.5%) whose absolute performance was logically impacted by the spin-off of its Uniper subsidiary in September. **During the quarter, European power prices surged by 6.4%** on average while **gas (TTF) and coal prices respectively decreased by 4.5% and increased by 10% over the period**.

WHAT WE SEE FOR Q4 2016

We still do not expect any short-term recovery in commodity prices in Europe. As a reminder, our models are marked-to-market and therefore integrate no upside from any price recovery as yet. **In Q4 2016, we see two main catalysts** in the sector with **1/** the unveiling of **Suez's transformation plan** during its Q3 2016 results and **2/** the upcoming **listing of Innogy**, RWE's subsidiary, which could trigger fresh appetite for utilities' companies. However, we are **still cautious** on the sector given the **lack of visibility** we have on both the macro and commodity prices environment.

At this stage, we remain Neutral on the sector.

CONCLUSIONS AND TOP PICKS

We have chosen to put Suez (*Buy, FV @ EUR17.5*) **on our BG Top Pick list for Q4 2016** as we believe the upcoming **speeding-up of the company's transformation plan** (whose details are expected to be unveiled during Q3 2016 results on October 27th) could reinsure investors over the **resilience of the company's margins** and trigger a **potential rerating** following **poor performance of the stock YTD** (-14.7% vs. -5.6% for the SX6P and -7.5% for Veolia). With this plan, we understand that **additional savings could be implemented – on top of the current Compass plan** whose targets were already upgraded during H1 2016 results with a EUR180m savings' target for 2016 vs. EUR150m initially forecasted – within Suez's French activities, especially for support functions. We estimated a c. 3% cut in French full-time employees - in line with recent job cuts announced by Veolia - could **save about EUR50-60m**. After having put aside its 2017 EUR3bn EBITDA ambition (inc. M&A), **we believe Suez will now keep focusing on delivering cost-savings in which the Group has a strong track record**: we calculated that since 2010 the Group has exceeded its initial savings' target by c.**25%** on average. We also expect the group to provide an update on its **asset rotation strategy**. We do not think any major move will be announced or even considered for now. **Fine-tuning is more likely to be unveiled**. Suez has already started the **disposal process for its Finnish waste subsidiary** which could amount to **EUR60m**, according to our estimates (*assumptions: EUR70m of revenues and 8.9x EV/EBITDA i.e. a 15% discount – due to lower EBITDA margin - vs. multiple paid by Fortum for the acquisition of Finnish waste company Ekokem earlier this year*). In all, we expect the new plan to give **more visibility on 2017 but also on 2018** which would be well-appreciated as the group, just like Veolia, is still facing a **challenging macro environment** (low inflation in mature economies, spluttering European industrial production).

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Healthcare

Actelion

Price CHF169.90

Bloomberg	ATLN VX
Reuters	ATLN.VX
12-month High / Low (CHF)	173.8 / 115.9
Market Cap (CHFm)	18,309
Avg. 6m daily volume (000)	344.4

	1 M	3 M	6 M	31/12/15
Absolute perf.	2.8%	10.4%	19.6%	21.7%
Healthcare	0.8%	1.6%	6.4%	-7.5%
DJ Stoxx 600	-0.3%	8.2%	2.2%	-6.4%

	2015	2016e	2017e	2018e
P/E	27.6x	22.2x	25.9x	23.5x
Div yield (%)	0.9%	0.9%	0.9%	0.9%

Actelion clarifies its strategy with ponesimod

Fair Value CHF180 (+6%) **NEUTRAL**

ANALYSIS

- Despite signs of confidence, Actelion has so far remained fairly secret about the full package of clinical trials it intended to conduct to try to bring ponesimod to the market. However, management clearly stated several times that it did not want to carry on with me-too drugs. That said, and although it may have some differentiating properties compared to Gilenya, ponesimod is an S1P agonist that should come third or fourth to market (considering the recent surprise from BAF312).
- A shorter half-life, a better safety profile, a different selectivity for S1P receptor sub-units can offer differentiation but may not be enough to position ponesimod as a better drug than Gilenya and a differentiated label is uncertain too. So the only way to try making an inroad into this segment of the MS market is through trial design. A head-to-head trial would have been too costly and too risky.
- So, last year, Actelion announced that it was starting the recruitment of a first phase III trial called OPTIMUM that planned to enrol 1,100 patients with RRMS to compare ponesimod to an oral drug and recently-approved drug i.e. Sanofi's Aubagio. Although efficacy is not impressive, the drug is safe and commercially very successful and so is a good comparator for ponesimod in our view. The second study, required by regulators, was more intriguing and was kept secret until today although our understanding was that it could be a first try in combination in order to take advantage from the good safety profile of ponesimod.
- Actelion is today presenting the design of a phase III study agreed under an SPA with the FDA (called POINT). The trial will start recruiting by year-end and targets 600 patients with RMS under Tecfidera, one of the most popular oral drugs, notably in the US. The objective is to test ponesimod as an add-on therapy to Tecifdera and measure efficacy based primarily on ARR (primary endpoint) and then on disability. Of course, as a first study combining two oral drugs, safety will be key too. If successful, it could then open a new paradigm in MS treatment although the cost might limit use of combinations. Hopefully data will be able to offer subgroup analysis.

VALUATION

- Actelion announces POINT will last at least two years and as recruitment starts end of 2016, we see no filing for ponesimod before early 2019. We are therefore delaying launch by one year although this has no impact on our FV (ponesimod accounts for CHF8/share).
- We think Q3 numbers will be strong. However, we are cautious about CS numbers for Opsumit and Uptravi and would like to see our payers react to Tracleer's generics still expected in 2017.

NEXT CATALYSTS

- 20th October 2016: Third-quarter results

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TMT

Indra Sistemas

Price EUR11.80

Bloomberg	IDR SM
Reuters	IDR.MC
12-month High / Low (EUR)	12.3 / 7.7
Market Cap (EURm)	1,937
Avg. 6m daily volume (000)	703.3

	1 M	3 M	6 M	31/12/15
Absolute perf.	0.9%	30.5%	13.7%	36.1%
Softw.& Comp. SVS	3.5%	20.4%	12.4%	8.7%
DJ Stoxx 600	-0.3%	8.2%	2.2%	-6.4%

	2015	2016e	2017e	2018e
P/E	NS	25.7x	14.9x	11.7x
Div yield (%)	NM	NM	NM	NM

Final terms and conditions of the EUR250m convertible bond issue

Fair Value EUR12 vs. EUR11 (+2%) **NEUTRAL**

ANALYSIS

- **Final terms and conditions**. Yesterday afternoon, Indra announced the final terms and conditions of its EUR250m issuance of bonds convertible into and/or exchangeable for ordinary shares and maturing in October 2023: 1) the bonds will bear a nominal annual fixed interest of 1.25%, at the top end of the initial 0.5-1.25% range; 2) the initial conversion price is EUR14.63 per share or a premium of 25% over the closing price as of 26th September, at the bottom end of the initial 25-30% range; 3) the proceeds of this bond issue will be used for repurchasing EUR95m or 38% of the 1.75% convertible bonds maturing in October 2018 at 105% of its principal, or EUR100m.
- **Adjusting our fair value from the issuance and better cost of debt assumptions**. We raise our DCF-derived fair value to EUR12 from EUR11 as we reduce our WACC to 11.2% from 11.6% given our new cost of debt assumption of 3.1% (vs. 4.2%) - which has a net effect of +EUR2 to our fair value. This offsets the dilutive effect to our EPS ests. from the new convertible bond issue (-EUR1/share), net from repurchase of the old convertible bonds (6%, i.e. 10% minus 4%). We estimate that from October 2018 onwards Indra will reduce its annual interest charge by EUR1.3m.

VALUATION

- Indra's shares are trading at est. 16.4x 2016 and 10.4x 2017 EV/EBIT multiples.
- Net debt on 30th June 2016 was EUR659.4m (net gearing: 199%).

NEXT CATALYSTS

Q3 2016 results in November.

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Healthcare

Innate Pharma

Price EUR10.95

Bloomberg	IPH FP
Reuters	IPH.PA
12-month High / Low (EUR)	14.5 / 9.5
Market Cap (EURm)	590
Avg. 6m daily volume (000)	246.6

	1 M	3 M	6 M	31/12/15
Absolute perf.	4.8%	8.7%	-9.2%	-19.1%
Healthcare	0.8%	1.6%	6.4%	-7.5%
DJ Stoxx 600	-0.3%	8.2%	2.2%	-6.4%

	2015	2016e	2017e	2018e
P/E	NS	18.8x	10.8x	54.9x
Div yield (%)	NM	NM	NM	NM

Liri/nivo is a very safe regimen... As expected!

Fair Value EUR18 (+64%) **BUY**

ANALYSIS

- Yesterday, we got some colour from the Phase I evaluating lirilumab (anti-KIR) in combination with nivolumab (anti-PD-1) in a range of different solid tumours (including lung, liver and head & neck). As expected, the regimen was very well tolerated as Grade III-IV treatment-related adverse events were observed in solely 13% cases, which compared very favourably with the rates of 55% and 19-30% generated by nivolumab/ipilimumab respectively in 1L metastatic melanoma (Weber et al, 2016) and 2L NSCLC (Antonia et al, 2016). Note also that no severe cases of colitis were observed, and significant increases in liver enzymes (lipase) were quite limited.

(n=136)	All grades, n (%)	Grades III-IV, n (%)
Any TRAE	**97 (71.3%)**	**18 (13.2%)**
Pruritus	25 (18.4%)	0 (0%)
Fatigue	25 (18.4%)	0 (0%)
Infusion-related reaction	25 (18.4%)	0 (0%)
Rash, other	18 (13.2%)	0 (0%)
Diarrhea	12 (8.8%)	1 (0.7%)
Rash maculopapular	11 (8.1%)	2 (1.5%)
Amylase increase	10 (7.4%)	3 (2.2%)
Nausea	8 (5.9%)	0 (0%)
Dry mouth	7 (5.1%)	0 (0%)
Pyrexia	7 (5.1%)	0 (0%)
Arthralgia	7 (5.1%)	0 (0%)
Lipase increased	6 (4.4%)	4 (2.9%)
Leukopenia	4 (2.9%)	1 (0.7%)
Hypophosphatemia	3 (2.2%)	2 (1.5%)

- **So safety-wise, "liri" kept all its promises**; and as said in our BG Oncology Day Feedback (here), we believe this will be a key differentiating factor as many other combinations with PD-1 as a backbone are known/expected to be quite toxic, like the ones involving mAbs targeting CTLA-4, 4-1BB or OX40.
- **But efficacy is of essence... And we'll probably have to wait for the SITC congress to get a better view on this**. For now, we can only reiterate our positive view on the theoretical synergies between liri and nivo (NK cells being known to participate in the proliferation of CD8+ T lymphocytes through the generation of pro-inflammatory cytokines, as well as for their direct-killing capacities, among others).

VALUATION

- BUY reiterated with a FV of EUR18.

NEXT CATALYSTS

- SITC congress (10-13th November): Efficacy data of liri/nivo in solid tumours.
- H2 2016: Lirilumab Phase II data as a single-agent for the maintenance treatment of AML.

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Construction & Building Materials

LafargeHolcim

Price CHF52.65

Bloomberg	LHN VX
Reuters	LHN.VX
12-month High / Low (CHF)	57.7 / 34.1
Market Cap (CHFm)	31,954
Avg. 6m daily volume (000)	1,808

	1 M	3 M	6 M	31/12/15
Absolute perf.	1.6%	37.8%	23.2%	4.7%
Cons & Mat	0.4%	17.0%	8.8%	5.7%
DJ Stoxx 600	-0.3%	8.2%	2.2%	-6.4%

	2015	2016e	2017e	2018e
P/E	40.5x	22.0x	14.4x	12.2x
Div yield (%)	2.8%	3.1%	3.4%	3.7%

China cement capacities reduction: positive news

Fair Value CHF50 (-5%) **BUY**

ANALYSIS

- French daily Les Echos (citing the "South China Morning Post") reports this morning that Chinese cement players are requesting the help of the government to accelerate the sector restructuring. 390 mt of capacity would have to be shut down.
- This is certainly not surprising. The Chinese cement market is notoriously in an overcapacity situation. Annual consumption is presumably around 2.5 billion tons while capacity is at around 3 bn. This is translated into modest prices (USD35-45 per ton).
- Any further closure or restructuring is also positive news (390 mt might not be sufficient), as it would rebalance offer vs demand. Actually, LafargeHolcim's management said this year some plants closures have started. Reduced offer combined with better volumes (last August LHN mentioned some "signs of recovery" in China), might be translated into a less painful price impact (-CHF31m in Q1 2106 and CHF-21m in Q2 2016 from China).
- Following several reorganisations, LHN has approximately 3 mt of cement capacity in China only but roughly 80 mt including associates.

VALUATION

- CHF50 FV from the application of historical multiples to our 2017 estimates, discounted back.

NEXT CATALYSTS

- Capital Markets Day on 18th November

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TMT

SAP

Price EUR81.36

Acquisition of Plat.One, strengthening presence in the Internet of Things

Fair Value EUR79 (-3%) **NEUTRAL**

Bloomberg	SAP GR
Reuters	SAPG.DE
12-month High / Low (EUR)	82.4 / 56.8
Market Cap (EUR)	99,951
Avg. 6m daily volume (000)	2 395

	1 M	3 M	6 M	31/12/15
Absolute perf.	4.2%	22.5%	14.9%	10.9%
Softw.& Comp. SVS	3.5%	20.4%	12.4%	8.7%
DJ Stoxx 600	-0.3%	8.2%	2.2%	-6.4%

	2015	2016e	2017e	2018e
P/E	21.5x	21.0x	18.4x	17.3x
Div yield (%)	1.4%	1.5%	1.6%	1.7%

ANALYSIS

- **Yesterday SAP announced the acquisition of Plat.One for an undisclosed sum**. Based in Palo Alto, CA, and Genoa, Plat.One is a spin-off in 2015 from the Italian consulting firm Abo Data. Plat.One employs less than 50 staff and provides an IoT application platform which simplifies the creation, deployment and management of complex IoT solutions. Since 2011 Plat.One has been deployed at three major Telco and 25 enterprise customers, and manages 200,000+ devices. The start-up will accelerate the availability of IoT capabilities in the HANA Cloud Platform: device lifecycle management and connectivity, role-based security, rapid development tools for IoT apps...
- **EUR2bn planned investment over 5 years in IoT**. SAP also announced investment plans of EUR2bn over five years to help customers benefiting from the IoT wave. SAP plans to accelerate innovation in its IoT solution portfolio, increase sales and marketing, scale service, support and co-innovation, and grow its ecosystem of partners in IoT. This implies acquisitions, like that of Plat.One (and Fedem in June). This includes the launch of SAP IoT (IoT solutions that apply machine learning and integrate with core solutions of SAP S/4HANA), Industry 4.0/IoT solution packages, and at least six SAP IoT Labs (2 in Germany, 1 in South Africa, 1 in the US, 1 in Brazil and 1 in China).

VALUATION

- SAP's shares are trading at est. 15.5x 2016 and 14.0x 2017 EV/EBIT multiples.
- Net debt on 30th June 2016 was EUR4,436m (net gearing: 19%).

NEXT CATALYSTS

Q3 2016 results on 21st October before markets open. 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 32.5%   SELL ratings 11.7%

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