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30th September 2016

## BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
<b>Indices</b>			
Dow Jones	18143.45	-1.07%	+4.12%
S&P 500	2151.13	-0.93%	+5.24%
Nasdaq	5269.15	-0.93%	+5.23%
Nikkei	16449.84	-1.46%	-12.29%
Stoxx 600	342.718	+0.04%	-6.31%
CAC 40	4443.84	+0.26%	-4.17%
<b>Oil /Gold</b>			
Crude WTI	47.05	0.00	+26.48%
Gold (once)	1317.4	-0.19%	+24.00%
<b>Currencies/Rates</b>			
EUR/USD	1.12295	+0.34%	+3.37%
EUR/CHF	1.0863	-0.25%	-0.10%
German 10 years	-0.187	-13.46%	-129.43%
French 10 years	0.126	+22.88%	-87.21%
Euribor	-	+-%	+-%

### Economic releases :

Date	
30th-Sept	JP - National CPI Aug. (-0.5% A)
	11h00 - EUZ CPI Sep. (0.4%)
	14h30 - US Personal Spending Aug. (0.1% E)
	16h00 - US U. of Michigan Conf. Sep. (90E)
	19h00 - Fed's Kaplan speaks in Dallas
	19h00 - Baker Hughes U.S. Rig Count

### 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



### GEMALTO

**NEUTRAL, Fair Value EUR62 (+9%)**

*Safran selects Oberthur/Advent for its Identity and Security arm*

Safran yesterday announced it is entering exclusive negotiations with Advent, associated with Bpifrance, for the sale of its Identity and Security activities (Morpho). Morpho is to be combined with Oberthur Technologies to create a world champion in identification technologies. The EUR2,425m deal is expected to close in 2017. The complementary nature of the business combination was an essential criteria for choice. We maintain our Neutral recommendation and FV of EUR62 on Gemalto.

### UBISOFT

**BUY, Fair Value EUR35 (+3%)**

*Fundamentals are almost valued but speculation remains fully intact*

At yesterday's AGM, Ubisoft's CEO Yves Guillemot was renewed as an administrator on the Board of Directors. Vivendi adopted a low-profile attitude and submitted no resolution. However, it sent a press release after the event demonstrating its motivation for the video games sector and Ubisoft. As a result, we consider that UBI's fundamentals are almost valued but that speculation remains fully intact. We advise investors to play this momentum.

### TMT

*Q3 2016 review and our TMT Top Picks for Q4: Wirecard.*

We include again Wirecard on our Q4 TMT Top Pick list to benefit from extremely good fundamentals (pure player in ePayment, global reach, and exposure to South-East Asia) and a still a good momentum (reconnection with its fundamentals and US funds continuing to cover their short positions with the consolidation of Citi Prepaid Card Services). We see organic sales growth of 20.3% in FY16e with EBITDA of EUR306.3m i.e. a margin of 30.1% (vs. an official guidance of EUR290-310m, but a more likely reachable EUR300-310m). Wirecard's PEG is still very appealing, with a P/E of 25x vs. EPS growth of 38% in 2016.

### SOFTWARE AND IT SERVICES

*Accenture Q4 FY16 results: neutral read-across for European IT Services companies*

Yesterday Accenture reported Q4 FY16 results in line with the consensus, while FY17 guidance (revenues up 5-8% at cc, or up 3-6% IfI) suggest no change in market dynamics compared to one year ago. Large transformation projects driven by Digital and Cloud are still the drivers for growth, and large global IT Services firms like Accenture are able to maintain growth momentum - unlike offshore players which have to pursue transformation. In our view, with no major surprises, the publication is neutral for Capgemini and Atos.

### In brief...

**ATOS, Placement of EUR300m bonds**

**GENEURO, New study to be initiated in the US in SPMS**

**KERING, New CEO at Bottega Veneta**

**SEMICONDUCTORS, Consolidation continues with Qualcomm rumoured to acquire NXP for USD30bn**

### BG Business Services CHART #16

EDENRED (NEUTRAL, FV EUR22) : Currencies: a positive impact finally on the cards

TMT

**Gemalto**

Price EUR56.85

**Safran selects Oberthur/Advent for its Identity and Security arm**

Fair Value EUR62 (+9%)

NEUTRAL

Bloomberg	GTO.FP
Reuters	GTO.PA
12-month High / Low (EUR)	65.5 / 49.8
Market Cap (EUR)	5,110
Ev (BG Estimates) (EUR)	5,190
Avg. 6m daily volume (000)	369.1
3y EPS CAGR	23.8%

Safran yesterday announced it is entering exclusive negotiations with Advent, associated with Bpifrance, for the sale of its Identity and Security activities (Morpho). Morpho is to be combined with Oberthur Technologies to create a world champion in identification technologies. The EUR2,425m deal is expected to close in 2017. The complementary nature of the business combination was an essential criteria for choice. We maintain our Neutral recommendation and Fv of EUR62 on Gemalto.

ANALYSIS

Safran yesterday announced that it had received a firm and irrevocable offer from Advent to acquire its Identity and Security activities (Morpho) for EUR2,425m and has entered into exclusive negotiations on this basis. The industrial project consists of bringing together Safran I&S and Oberthur Technologies with combined revenues of EUR2.8bn. Its headquarters will remain in France, as will its leading R&D activities and key production capacities. Bpifrance will take a stake and join the board. The transaction would result in a pre-tax capital gain for Safran. It is to be submitted to the employee representative bodies and is subject to regulatory approval notably in Europe and in the US. The transaction is expected to close during 2017. According to the information we have, Gemalto is thought to have proposed EUR2.4bn.

This official announcement from Safran is in line with our expectation. We considered that the sale of Morpho to a direct competitor with an industrial background (Gemalto or Oberthur) would make sense. We expected a somewhat better chance for Oberthur Technologies/Advent over Gemalto and had a probability of success rate of 55% for Oberthur/Advent and 45% for Gemalto. The slight advantage in favour of Oberthur/Advent was related to its French roots and its US touch, and also to its high industrial complementarity with Morpho. As a reminder, the US is Morpho's first market in terms of sales (it has served the FBI since 1974, when it first offered the intelligence agency its automated fingerprint identification system). And the French ministry was also closely monitoring the sale (it holds 15.4% of Safran's capital and 24.0% of its voting rights), as the division supplies a critical criminal identification system for police officers that enables terrorism prevention. Philippe Petitcolin (Safran's CEO) expected to sell the whole of Morpho for a minimum of EUR2bn. As such, the EUR2.425bn offered by Oberthur/Advent is far higher (a 21% premium). According to our estimates, the final price means ~1.3x sales and ~19.2x EBIT in 2017e (1.6x and 25.5x respectively in 2015). That's clearly not cheap given the profitability of Morpho (EBIT margin we estimate at only 6%, namely half of that of Gemalto...). However, given the intensity of the competition (there were 12 bidders at the beginning), we were betting on a price above EUR2bn.

We consider that in embedded software & Products, 78% of the market is currently owned by four players (Gemalto 40%, Giesecke & Devrient 15%, Oberthur Technologies 15%, and Morpho 8%) and the remaining 22% breaks down between small local players (especially Asian such as Eastcompeace Technology, Watchdata, Datang Telecom Technology & Industry Group, Wuhan Tianyu Information Industry and Kona). Moreover, the combination of Morpho and Oberthur Technologies will give birth to a strong world competitor to Gemalto in the technology, industrial and commercial domains. Indeed, Morpho's best-in-class technologies and world-leading positions in identification (notably in biometrics) are complementary to Oberthur.

Player trends in each main vertical and their market shares

Sectors	Gemalto	Giesecke & Devrient	Oberthur Tech	Morpho	TOP 4	Local players
Telecoms	PPP	PPP	PP	P		
eGovernment	PPP	P	P	PPP		
Banks	PPP	PP	PPP			
Enterprise	PPP					
M2M	P					
<b>Total market share</b>	<b>40%</b>	<b>15%</b>	<b>15%</b>	<b>8%</b>	<b>78%</b>	<b>22%</b>

PPP Excellent; PP Good; P Weak

Source: Bryan, Garnier & Co ests



**VALUATION**

- We maintain our Neutral recommendation and FV of EUR62 on Gemalto. We do not see a positive risk/reward. The current year is very back-end loaded, visibility is poor, we still see too many risks in the SIM and related services business, Oberthur combined with Morpho will be a serious global competitor. Last but not least, we expect momentum to be unattractive as long as management maintains its unreachable 2017 PFO target.

**NEXT CATALYSTS**

Gemalto's Q3 revenue: on 28th October (before trading). [Click here to download](#)



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TMT

**Ubisoft**

Price EUR33.95

Fundamentals are almost valued but speculation remains fully intact

Fair Value EUR35 (+3%)

BUY

Bloomberg	UBI.FP
Reuters	UBIP.PA
12-month High / Low (EUR)	38.3 / 18.1
Market Cap (EUR)	3,816
Ev (BG Estimates) (EUR)	3,729
Avg. 6m daily volume (000)	251.3
3y EPS CAGR	37.0%

At yesterday's AGM, Ubisoft's CEO Yves Guillemot was renewed as an administrator on the Board of Directors. Vivendi adopted a low-profile attitude and submitted no resolution. However, it sent a press release after the event demonstrating its motivation for the video games sector and Ubisoft. As a result, we consider that UBI's fundamentals are almost valued but that speculation remains fully intact. We advise investors to play this momentum.

ANALYSIS

Yesterday at the AGM (quorum of 76.54%), Ubisoft's CEO Yves Guillemot was renewed as an administrator on the Board of Directors (65.17% agree, 8.92% disagree and 25.91% abstention). UBI's Board gathered after the event and unanimously reappointed Yves Guillemot as Chairman and CEO. The Board now comprises 10 members, incl. five independent directors and four women. No resolution was submitted by Vivendi (it did not even propose a recomposition of UBI's Board, despite previous notifications to the AMF). The latter adopted a low-profile attitude at the AGM. We consider this is a good strategy for a potential future collaboration with Ubisoft.

Note that Vivendi sent a press release just after the AGM saying that: 1) it is the leading UBI shareholder, it has a long-term share ownership and will benefit from double voting rights as of 2017; 2) although it did not ask for a seat yesterday, it considers that it would be good to obtain a coherent representation of its shareholding; 3) it abstained from the vote on the resolutions. As a result, resolutions 22, 23, 24 and 25 presented by the Board failed to pass whereas they are important notably for its talents (related to the allocation of free shares, share subscription and share purchase plans to employees, executive officers, executive directors, and related to the delegation of power granted to the Board for purposes of increasing the share capital to remunerate contributions in kind); 4) having taken full control of Gameloft, it will pursue its strategy in video games. In our view, this demonstrates Vivendi's strong appetite for the video games sector and obviously for Ubisoft. As a result, speculation surrounding UBI stock remains intact (we consider Vivendi as the most motivated player since the acquisition of Gameloft).

As Vivendi has currently no entry into UBI's board (i.e. no risk of a creeping control), it will have to make a formal and correct takeover bid if it really wants to take the control of the company (BG est.: between EUR45 and EUR51 per share, in the event of a takeover bid). We still don't see it before April 2017 at the earliest as a lot of AAA games will be launched between October 2016 and March 2017. The best speculative scenario would be that Vivendi offers a huge premium to shareholders and names Yves Guillemot as head of Vivendi's gaming division (i.e. UBI + GFT). Otherwise, it will be very risky (we see the risk of buying an empty shell). We believe that Vivendi is well aware of what's at stake, especially in a sector where the corporate culture is very strong.

As a reminder, the Guillemot family holds 13.22% of UBI's share capital (it has the support of Fidelity ~10%, Blackrock ~5%, and Bpifrance 3.2% of the capital) and 19.16% of the voting rights. This compares to Vivendi 22.8% and 20.2% respectively.

VALUATION

We maintain our Buy rating and FV of EUR35 (based on its fundamentals). The share price almost fully values the group's earnings results over the current fiscal year (at end-March 2017). We would not be surprised if the share price starts to reflect its speculative premium, i.e. trading above our FV. We estimate a valuation between EUR41 (the very minimum, and EUR45 if Vivendi wants to avoid counterbids as far as possible: in 2017?) and EUR51 (maximum) in the event of a takeover bid. We still consider UBI to be a "safe haven stock".

NEXT CATALYSTS

H1 earnings results: on 3rd November (after trading).

[Click here to download](#)

	1 M	3 M	6 M	31/12/15
Absolute perf.	-3.4%	3.5%	24.7%	27.3%
Softw. & Comp.	3.2%	17.3%	11.3%	8.1%
DJ Stoxx 600	-0.1%	5.0%	1.8%	-6.3%

YEnd Mar. (EURm)	03/16	03/17e	03/18e	03/19e
Sales	1,394	1,719	1,970	2,228
% change		23.3%	14.6%	13.1%
EBITDA	600	731	911	1,100
EBIT	156.1	215.0	320.0	431.3
% change		37.7%	48.8%	34.8%
Net income	116.0	143.5	219.8	300.7
% change		23.7%	53.2%	36.8%

	03/16	03/17e	03/18e	03/19e
Operating margin	11.2	12.5	16.2	19.4
Net margin	6.7	8.3	11.2	13.5
ROE	9.2	12.3	15.9	17.9
ROCE	11.0	13.6	20.8	28.6
Gearing	4.3	-7.5	-23.1	-37.6

(EUR)	03/16	03/17e	03/18e	03/19e
EPS	1.02	1.25	1.91	2.61
% change	-	22.6%	53.2%	36.8%
P/E	33.4x	27.3x	17.8x	13.0x
FCF yield (%)	NM	4.7%	6.0%	8.0%
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	2.8x	2.2x	1.8x	1.4x
EV/EBITDA	6.4x	5.1x	3.8x	2.9x
EV/EBIT	24.7x	17.3x	10.9x	7.4x



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## Sector View

## TMT

## Q3 2016 review and our TMT Top Picks for Q4: Wirecard.

	1 M	3 M	6 M	31/12/15
Softw. & Comp. SVS	3.2%	17.3%	11.3%	8.1%
DJ Stoxx 600	-0.1%	5.0%	1.8%	-6.3%
*Stoxx Sector Indices				

## Companies covered

ALTEN	SELL	EUR54
Last Price	EUR63,49	Market Cap. EUR2,139m
ALTICE	BUY	EUR16,5
Last Price	EUR16	Market Cap. EUR17,509m
ALTRAN TECHNOLOGIES	BUY	EUR15
Last Price	EUR13,665	Market Cap. EUR2,402m
ams	NEUTRAL	CHF29
Last Price	CHF31,85	Market Cap. CHF2,338m
ASML	SELL	EUR81
Last Price	EUR97,29	Market Cap. EUR42,159m
ATOS	BUY	EUR102
Last Price	EUR95,16	Market Cap. EUR9,969m
AXWAY SOFTWARE	BUY	EUR28
Last Price	EUR28	Market Cap. EUR582m
CAPGEMINI	BUY	EUR94
Last Price	EUR87,14	Market Cap. EUR14,950m
CAST	NEUTRAL	EUR3,6
Last Price	EUR3,37	Market Cap. EUR54m
DASSAULT SYSTEMES	SELL	EUR64
Last Price	EUR77,01	Market Cap. EUR19,810m
DIALOG SEMICONDUCTOR	BUY	EUR37
Last Price	EUR33,889	Market Cap. EUR2,639m
GEMALTO	NEUTRAL	EUR62
Last Price	EUR59,08	Market Cap. EUR5,311m
ILIAD	BUY	EUR212
Last Price	EUR185,3	Market Cap. EUR10,883m
INDRA SISTEMAS	NEUTRAL	EUR12
Last Price	EUR12	Market Cap. EUR1,970m
INFINEON	BUY	EUR17,5
Last Price	EUR15,315	Market Cap. EUR17,343m
INGENICO GROUP	BUY	EUR112
Last Price	EUR77,2	Market Cap. EUR4,747m
MELEXIS	SELL	EUR48
Last Price	EUR63,42	Market Cap. EUR2,562m
NUMERICABLE SFR	NEUTRAL	EUR28,7
Last Price	EUR26,325	Market Cap. EUR11,537m
ORANGE	BUY	EUR17,1
Last Price	EUR13,76	Market Cap. EUR36,602m
SAGE GROUP	SELL	600p
Last Price	728,5p	Market Cap. GBP7,867m
SAP	NEUTRAL	EUR79
Last Price	EUR80,85	Market Cap. EUR99,325m
SOFTWARE AG	BUY	EUR40
Last Price	EUR37,175	Market Cap. EUR2,937m
SOITEC	NEUTRAL	EUR0,5
Last Price	EUR0,81	Market Cap. EUR491m
SOPRA STERIA GROUP	BUY	EUR125
Last Price	EUR103,85	Market Cap. EUR2,127m
STMICROELECTRONICS	NEUTRAL	EUR6,5
Last Price	EUR7,145	Market Cap. EUR6,509m

## LOOKING BACK ON Q3 2016

In Q3 2016, the TMT sector had an outstanding performance in bull stock markets amidst the post-Brexit rebound, declining interest rates and a favourable environment for M&A. Over the period, the DJ STOXX Europe Technology index was up 15% and outperformed the DJ STOXX Europe 600 index by 11%.

During the period, the best performers were Soitec (+52%, penny-stock and speculation about a wider adoption of the FD-SOI technology), Axway Software (+35%, H1 2016 results way above expectations), and STMicroelectronics (+33%, rerating and speculation about management transition). The worst performers were Ingenico Group (-26%, post-warning), Iliad (+1%, remained at a low point post Brexit impact before recovering following good Q2 results) and Cast (+2%, Q2 2016 results below expectations due to two deal slippages post-Brexit). Our sector Q3 Top Picks Wirecard (+17%: rebound after fraud allegations by Zatarra, acquisition of Citi Prepaid Card Services and some covering of short positions) was the best-performer of Bryan Garnier's Top Pick-list over the quarter. Note that we removed Infineon from the Top Pick list on 2nd August after the FQ3 2016 results (+7%, FQ3 results above expectations and supportive market environment).

## WHAT WE SEE FOR Q4 2016

The payments sector should continue to benefit fully from the major trend of a gradual disappearance in cash and checks in favour of electronic payments (mainly EMV cards). EMV migration in the US (small and mid-sized merchants still have to migrate) has witnessed a rapid and temporary market decline in the US caused by the change in EMV rules in July, and persistently difficult conditions in Brazil. However, Europe and China are experiencing solid growth, and there is a rising demand for payment services outsourcing (notably e-commerce) and for security in electronic payments. 1) Wirecard (Buy – FV of EUR58, pure player in online payments) is now a global issuing and acquiring payment service provider (since the acquisition of Citi Prepaid Card Services, all continents are now covered). It should post FY16 organic sales growth of over 20% with a 30% Ebitda margin (driven notably by south-east Asia), which should translate into 2016 EPS growth of 38%. Its organic sales growth should continue to accelerate by the end of this year. 2) Ingenico Group (Buy – FV of EUR112, 100% of sales in payment) has the best commercial multi-channel offer available today. To meet its FY 2016 guidance (>=+7% in lfl revenue growth and >=20% in Ebitda margin), the group has to generate a c.+2% organic top-line growth for Q3 and Q4 on average and a minimum of 18.5% in Ebitda margin over H2. 3) Worldline (Buy – FV of EUR31, 78% of 2016 sales in payment) is at last fully considered as a PSP (it is #1 in Europe since the acquisition of Equens and KB vs. #3 before). We expect the group to post -1/0% organic sales growth in Q3 (VOSA and radar contracts losses) and +3% in Q4 (impact of the radar contract), namely almost +4% lfl over FY 2016. 4) Gemalto (Neutral – FV of EUR62; less than 25% of its sales in payment) should again post weak lfl sales growth in Q3 (after 0.5% lfl in H1), still impacted by a decline of between 10% and 15% in the SIM (end of the negative Softcard comparison base but still a double digit decline, lower demand in Latam and Asia, and no software upgrade) and slowdown in payments (comparison base). Shorter term, we did not view the speculation surrounding Morpho as positive for Gemalto both if it was selected (we did not see it as accretive) or if Oberthur/Advent wins the deal (disappointment from the consensus, which is now official). 5) Worldpay (Neutral – FV 278p; 100% of its sales in payment) is struggling in the US (half of group sales), such that the associated poor lfl top-line growth cannot create any leverage to its proprietary platform. We expect 7% organic sales growth and a 9.3% Ebitda margin at best over the FY, so its outperformance in H1 cannot be extrapolated to H2.

For Software & IT Services, based on industry analysts' forecasts, at this stage we are still anticipating stable growth or a slight slowdown in IT spending for 2016, with est. growth of 5-6% for Software (vs. +6% for 2015), still driven by the now established SaaS model, and est. growth of 3-4% for IT Services (vs. +4%) driven by digital transformation projects. In addition, the low interest rate environment remains favourable for both IT projects (a significant part is accounted in capex) and M&A (Oracle acquiring NetSuite for USD9.3bn, Micro Focus acquiring HPE's Software business for GBP6.6bn, CSC merging with HPE's Enterprise Services business for USD8.5bn). At this stage, most of the effects of Brexit are yet to be seen as the referendum's "no" vote had no immediate impact on IT spending, except in a few cases (Infosys was the collateral victim of the abandonment of the spin-off of Williams & Glyn from Royal Bank of Scotland), and, overall, the weakness of the British pound. That said, global and offshore IT Services companies largely exposed to application services (TCS, Infosys, Cognizant, Wipro, Capgemini...), displayed some cautiousness by the end of this year in discretionary IT spending for banks in the UK and even in the US, pending the results of the presidential election in November.

For Semiconductors, the environment is mixed. The environment in the Smartphone market has improved with signs of a good start for the new Apple iPhone 7. We believe that Apple's smartphone

## BG's Wake Up Call

<b>SWORD GROUP</b>	<b>BUY</b>	<b>EUR31</b>
<i>Last Price</i>	EUR26,75	<i>Market Cap.</i> EUR252m
<b>TEMENOS GROUP</b>	<b>NEUTRAL</b>	<b>CHF54</b>
<i>Last Price</i>	CHF61,9	<i>Market Cap.</i> CHF4,305m
<b>UBISOFT</b>	<b>BUY</b>	<b>EUR35</b>
<i>Last Price</i>	EUR33,6	<i>Market Cap.</i> EUR3,776m
<b>u-blox</b>	<b>BUY</b>	<b>CHF255</b>
<i>Last Price</i>	CHF213,7	<i>Market Cap.</i> CHF1,455m
<b>WIRECARD</b>	<b>BUY</b>	<b>EUR58</b>
<i>Last Price</i>	EUR45,59	<i>Market Cap.</i> EUR5,633m
<b>WORLDLINE</b>	<b>BUY</b>	<b>EUR31</b>
<i>Last Price</i>	EUR27,005	<i>Market Cap.</i> EUR3,569m
<b>WORLDPAY</b>	<b>NEUTRAL</b>	<b>278p</b>
<i>Last Price</i>	296,6p	<i>Market Cap.</i> GBP5,932m

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shortage is due to 1/ higher than expected demand, 2/ battery problems with the Samsung Galaxy Note 7, and also 3/ the complexity of the assembly process, especially due to the waterproof feature, causing production slowdown. In addition to an attractive valuation, this explains mainly our recommendation on **Dialog (Buy, FV EUR37)**. Nevertheless, we see the positive impact as a short-term catalyst and expect a real rebound in the smartphone market to take place during mid-2017. The PC also shows signs of improving momentum but, again, it appears to be more a short-term effect than a LT rebound the market. Regarding the other semiconductor end-markets, in which the automotive and industrial sector falls, we note that momentum remains strong. Automotive production remains strong with January to July aggregated production of US+China+Europe up 7.4%. For Q4, momentum in automotive sales might be weaker but we remind that growth for semiconductor players mostly stem from content increase per car. In addition, the industrial sector remains healthy according to industry sources. In this context, we continue to favour companies having a footprint in these two market segments and that are attractively valued, namely **Infinion (Buy, FV EUR17.5)** and **u-blox (Buy, FV CHF255)**. Regarding semi equipment makers, Q3 was the second quarter of the 10nm ramp-up but we remain convinced that most of the positive impact from 10nm investments are already priced in, and particularly for **ASML (Sell, FV EUR81)**.

**For Telecoms**, the French market will remain under high promotional pressure, especially on the mobile side, but the worst case scenario we could have feared following the breakdown of consolidation talks should not happen. The Fixed market is showing some small signs of recovery and H2 should confirm that trends are globally improving. The CAPEX war will remain in full swing in fibre deployment and 4G coverage. Growth at **Iliad (Buy - FV EUR212)**, will continue, with EBITDA expected around +12% yoy in H2, the good trend in mobile services ARPU should continue, the expected launch of Freebox V7 over the quarter as well as the recent launch of a new bundled offer with CanalSat should help boost fixed ARPU and net adds. **SFR (Neutral - FV EUR28.7)** should still struggle commercially for several months, but we should see the first effects of Q2 price hikes and of further cost cutting initiatives, with a return to EBITDA growth expected at low single digit levels in Q3. **Altice (Buy - FV EUR16.5)** should benefit from the return of EBITDA growth at SFR, together with good results at the international level, especially in the US and in Portugal, both expected above 10% yoy EBITDA growth supported by on-going cost rationalisation plans. **Orange (Buy - FV EUR17.1)**, should keep on steaming ahead as the only all-around premium telecom provider on the French market, especially in a X-mas market driven by premium offers and subsidised handsets. Revenue growth in Africa should return to a level around 5% in Q3, and we expect high single digit growth in Spain's EBITDA in H2.

**For Video Games:** We are optimistic on fundamentals (no AAA game delays expected) and momentum for the Ubisoft share price. By taking equity stakes in **Ubisoft (Buy - FV EUR35)**, Vivendi has encouraged investors to change the way they look at the share. For this group, speculation will be the main driver behind the share price. We would therefore not be surprised if the share reflects a speculative premium (a takeover bid in 2017?). As a reminder, we estimate a fair offer in the EUR41-51 range (and EUR45-51 if Vivendi was the bidder).

### CONCLUSIONS AND TOP PICKS

**In Payments**, we expect investors to show an increasing appetite for the rising momentum of eCommerce. As such, **we have maintained Wirecard (Buy, FV EUR58) on our Top Pick list to benefit from** extremely good fundamentals (pure player in ePayment, global reach, and exposure to South-East Asia) and further healthy momentum (reconnection with its fundamentals and US funds continuing to cover their short positions with the consolidation of Citi Prepaid Card Services). As a reminder, we expect organic sales growth of 20.3% in FY16e with EBITDA of EUR306.3m i.e. a margin of 30.1% (vs. an official guidance of EUR290-310m, but a more likely reachable EUR300-310m). **Wirecard's PEG is still very appealing, with a P/E of 25x vs. EPS growth of 38% in 2016e.**

**In Software & IT Services**, as many stocks had a surprisingly strong performance post-Brexit (Atos, Capgemini, SAP...) **without implying significant improvement in IT market conditions, we are reluctant to add a name in the Top Pick list for Q4 2016.**

**In Semiconductors**, following the good performance of the sector during Q3 (the SOX index was up 19% over the period) mainly thanks to the acquisition of ARM Holdings pulling the sector under spotlights, most of the stocks we cover are now close or above our FV except our long-term call, namely **Infinion** and **u-blox**. Regarding these two stocks, and with the visibility we have now, we see no very short-term catalysts that could impact significantly our investment cases in the short-term. As such, **we do not include any semiconductor stocks in our Q4 top-pick list.**

**In Telecoms**, we are **not including any stocks in our Q4 Top pick list.** Regarding **Altice (Buy - FV EUR16.5)**, we believe Q3 results should be good, confirming a rosy outlook in the US and ARPU improvement in France, but uncertainties remain in high-yield markets related to the Fed policy and the US presidential elections, as well as on a possible disappointment on the Altice exchange offer on SFR shares. Regarding **Iliad (Buy, FV EUR212)**, the entry point is not as good as it was a few months ago, the impact of the new deal with CanalSat will not be visible over Q4 and we do not expect significant communication about the Italian project over the quarter. As such, we see no specific catalyst for high short-term performance, besides the probable announcement of the Freebox v7



launch. **Orange (Buy - FV EUR17.1)** should maintain healthy commercial trends in France, with possible positive reactions following Q3 results: markets have now priced in the disappointment in French roaming revenues and Africa should return to growth level around 5%. Nevertheless we see no major catalyst in Q4 justifying adding it to our top pick list.

**In Video Games**, 2016 should be buoyant thanks to speculation surrounding Ubisoft. This main theme is set to drive the share price in 2016e. However, and despite our buy rating, we find it difficult to predict the exact timing of an increase in Ubisoft's capital by Vivendi and/or a formal takeover bid for the whole company (in 2017?). As a result, **we like the name but are not including it in our Q4 2016 Top Pick list.**

#### NEXT CATALYSTS

**Payments:** Worldline's Q3 sales on 19th October (after trading), Ingenico Group's Q3 sales on 26th October (after trading), Gemalto's H1 earnings on 28th October (before trading), Wirecard's Q3 sales on 16th November (before trading), Worldpay's 2016 earnings results in March 2017.

**Software & IT Services:** TCS' Q2 FY17 results on 13th October after the Indian markets close. Infosys' Q2 FY17 results on 14th October before the Indian markets open. IBM's Q3 2016 results on 17th October after US markets close. Q3 2016 sales and results for European companies start on 20th October (Atos, Software AG).

**Semiconductors:** Samsung's Q3 2016 results on 7th October. TSMC's Q3 2016 results on 13th October. Intel's Q3 2016 results on 18th October. Q3 2016 results for European companies start on 19th October with ASML, followed by ams (24th October, after market close), Melexis (26th October), STMicroelectronics (27th October), Dialog (3rd November) and Infineon (23rd November, FY16 results).

**Video Games:** Ubisoft's fiscal H1 earnings on 3rd November (after trading).

**Telecoms:** launch of Altice exchange offer on SFR minority shares expected first week of October. Orange Q3 results on 27th October, Iliad Q3 sales on 12th November (tbc), Altice and SFR Q3 results on 8th November.

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Sector View

Software and IT Services

Accenture Q4 FY16 results: neutral read-across for European IT Services companies

	1 M	3 M	6 M	31/12/15
Softw. & Comp. SVS	3.2%	17.3%	11.3%	8.1%
DJ Stoxx 600	-0.1%	5.0%	1.8%	-6.3%
*Stoxx Sector Indices				

Companies covered

<b>ALTEN</b>	<b>SELL</b>	<b>EUR54</b>
Last Price	EUR62,7	Market Cap. EUR2,112m
<b>ALTRAN TECHNOLOGIES</b>	<b>BUY</b>	<b>EUR15</b>
Last Price	EUR13,495	Market Cap. EUR2,372m
<b>ATOS</b>	<b>BUY</b>	<b>EUR102</b>
Last Price	EUR95,24	Market Cap. EUR9,977m
<b>AXWAY SOFTWARE</b>	<b>BUY</b>	<b>EUR28</b>
Last Price	EUR27,9	Market Cap. EUR580m
<b>CAPGEMINI</b>	<b>BUY</b>	<b>EUR94</b>
Last Price	EUR87,48	Market Cap. EUR15,008m
<b>CAST</b>	<b>NEUTRAL</b>	<b>EUR3,6</b>
Last Price	EUR3,41	Market Cap. EUR55m
<b>DASSAULT SYSTEMES</b>	<b>SELL</b>	<b>EUR64</b>
Last Price	EUR77,07	Market Cap. EUR19,826m
<b>INDRA SISTEMAS</b>	<b>NEUTRAL</b>	<b>EUR12</b>
Last Price	EUR11,845	Market Cap. EUR1,944m
<b>SAGE GROUP</b>	<b>SELL</b>	<b>600p</b>
Last Price	734p	Market Cap. GBP7,926m
<b>SAP</b>	<b>NEUTRAL</b>	<b>EUR79</b>
Last Price	EUR80,74	Market Cap. EUR99,189m
<b>SOFTWARE AG</b>	<b>BUY</b>	<b>EUR40</b>
Last Price	EUR37,42	Market Cap. EUR2,956m
<b>SOPRA STERIA GROUP</b>	<b>BUY</b>	<b>EUR125</b>
Last Price	EUR103,15	Market Cap. EUR2,113m
<b>SWORD GROUP</b>	<b>BUY</b>	<b>EUR31</b>
Last Price	EUR27,11	Market Cap. EUR256m
<b>TEMENOS GROUP</b>	<b>NEUTRAL</b>	<b>CHF54</b>
Last Price	CHF61,3	Market Cap. CHF4,264m

Yesterday Accenture reported Q4 FY16 results in line with the consensus, while FY17 guidance (revenues up 5-8% at cc, or up 3-6% lfl) suggest no change in market dynamics compared to one year ago. Large transformation projects driven by Digital and Cloud are still the drivers for growth, and large global IT Services firms like Accenture are able to maintain growth momentum - unlike offshore players which have to pursue transformation. In our view, with no major surprises, the publication is neutral for Capgemini and Atos.

ANALYSIS

- Q4 FY16 results in line.** For its Q4 FY16 (ending 31st August), Accenture has reported sales of USD8.49bn (+9% at cc, vs. +10% at cc in Q3 FY16), at the top-end of guidance (+6-9% at cc to USD8.25-8.5bn) and in line with the consensus figure (USD8.44bn), and diluted EPS up 14% to USD1.31 (consensus: USD1.30). Consulting was up 13% cc to USD4.61bn (vs. +14% in Q3 FY16), while Outsourcing was up 6% cc to USD3.88bn (vs. +6%). Consulting/Strategy and Operations showed a double digit increase, and Applications mid-single digit growth. North America was up 10% at cc (vs. +11%) with double-digit growth in the US, Europe was up 8% at cc (vs. +12%) with double-digit growth in the UK, Switzerland, Spain, Italy and Germany, and high-single digit growth in France, and growth markets were up 9% at cc (vs. +6%) with double-digit growth in Japan. By industry, the best performers were Products (+18%), Health & Public Services (+11%) and Financial Services (+9%). New bookings were up 2% to USD8.99bn (4% below consensus) or a book-to-bill of 1.06x (+18% in Consulting - book-to-bill 1.04x -, and -12% in Outsourcing - book-to-bill 1.08x).
- FY17 guidance: no change in dynamics.** For FY17, sales are expected to rise 5-8% at cc (+3%/+6% excl. acquisitions), an op. margin of 14.7-14.9%, and an EPS of USD5.75-5.98 (consensus: USD5.82), including high-single digit growth in Consulting and mid- to high-single digit growth in Outsourcing. This also implies mid-single digit growth in Application Services, high-double digit growth in Operations, and strong double-digit growth in Digital & Cloud. For Q1 FY17 (Nov. 2016), Accenture projects sales of USD8.4-8.65bn (+5%/+8% at cc) or in line with consensus (USD8.58bn). Management expects the market to grow at a similar rate in FY17 as for FY16 (+2.5%) and considers Accenture will continue to gain market share while expecting no change in dynamics for the next four quarters. Large transformation projects are still on the agenda, including Financial Services (technology to cut costs), driven by Digital, Cloud and Security.
- Neutral read-across for European IT Services companies.** We consider the publication neutral for Capgemini and Atos in the short term. It indicates that digital transformation remains the key growth driver, and Accenture's investments in Digital, Cloud and Security have been the best way to gain market share so far - both Capgemini and Atos are doing the same. Global IT Services companies now differentiate from offshore competitors (TCS, Infosys, Cognizant...), which have to increase their exposure to Digital & Cloud and raise competitiveness in order to offset the loss of their growth momentum. As such, at this stage we remain comfortable with our lfl sales growth forecasts for 2016 and 2017 on Capgemini (+3.3% and +2.9%) and Atos (+1.7% and +1.9%).

VALUATION

European IT Services companies: EV/EBIT multiples of 11.4x for 2016e and 10.4x for 2017e.

NEXT CATALYSTS

TCS' Q2 FY17 results on 13th October after Indian markets close. Infosys' Q2 FY17 results on 14th October before Indian markets open. IBM's Q3 2016 results on 17th October after US markets close.

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TMT

**Atos**

Price EUR95.24

Placement of EUR300m bonds

Fair Value EUR102 (+7%)

BUY

Bloomberg	ATO FP
Reuters	ATOS.PA
12-month High / Low (EUR)	96.2 / 62.7
Market Cap (EUR)	9,977
Avg. 6m daily volume (000)	297.4

**ANALYSIS**

- **Yesterday evening Atos announced the placement of Euro private placement bonds for EUR300m**, maturing in October 2023 (seven years) and with a 1.444% fixed interest rate. There is no financial covenant related to this issue. Atos and the bonds are unrated.
- **Seizing the low interest rate opportunity.** Atos has decided to seize current favourable European private placement market conditions and will use the proceeds from the issue for general corporate purposes, including acquisitions. The company adds a third financing source on top of two existing ones: a five-year syndicated loan maturing in November 2020 for EUR1.8bn - with an option to extend the maturity until November 2021 -, and EUR600m in bonds maturing in June 2020 and with a 2.375% interest rate. Obviously, Atos is set to marginally lower its average interest rate in the process.

**VALUATION**

- Atos' shares are trading at est. 8.4x 2016 and 6.1x 2017 EV/EBIT multiples.
- Net cash position on 30th June 2016 was EUR412.3m (net gearing: -10%).

**NEXT CATALYSTS**

Q3 2016 sales on 20th October before markets open (Worldline: 19th October after markets close).

[Click here to download](#)

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## Healthcare

**GENEURO**

Price EUR7.44

**New study to be initiated in the US in SPMS**

Fair Value EUR18,2 (+145%)

BUY

Bloomberg	GNRO.FP
Reuters	GNRO.PA
12-month High / Low (EUR)	13.0 / 7.3
Market Cap (EURm)	109
Avg. 6m daily volume (000)	3.50

	1 M	3 M	6 M	31/12/15
Absolute perf.	1.8%	-14.7%	ns	-42.8%
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	x	x	x	x
Div yield (%)	%	%	%	%

**ANALYSIS**

- GeNeuro yesterday released its half-year results that are only interesting in one specific aspect namely the cash burn rate and hence the cash situation at the end of the period (EUR42.4m vs EUR19.6m at the end of December 2015). And from that perspective, there is little to say above and beyond the fact that it is in line with plans since most of the R&D costs are covered by the agreement with Servier on GNBAC1 in MS. But note that 1/ revenues amounted to EUR3.4m and notably included an already-perceived Servier's milestone payment; 2/ R&D expenses grew to EUR7.3m from EUR1.8m a year ago due the launch of the Phase IIb as well as a quick patient recruitment; 3/ G&A costs stood at EUR3.2m (vs EUR0.5m) bearing in mind that EUR1.8m of this amount was related to the IPO.
- So actually the interest of this release was far beyond the numbers and again has to do with GNBAC1 in MS for which, as recently updated when the ECTRIMS congress took place earlier this month, GeNeuro reported quicker-than-expected recruitment to the CHANGE-MS phase IIb study. Out of the expected 260 patients to be recruited mainly in Eastern Europe, more than half are already in. What GeNeuro added yesterday is that it will no longer look for the addition of a US arm to the study because the trial is running too fast and it makes little sense to look for an IND. Instead, GeNeuro has decided to conduct a small independent study to assess two doses of GNBAC1 specifically in SPMS, which will make it possible to assess slightly different endpoints while still having the FDA in the loop with the compound fairly quickly. Although all details are not yet agreed upon with the FDA, it is estimated that the duration of the trial should make it possible to get the data ready around the same time as CHANGE-MS i.e. by mid-2018.
- Instead of having an extension of a trial in the US with no impact on key endpoints, it seems better to have an independent trial fully run in the US with a stronger value of data read-out. Moreover, SPMS is a slightly different target from RRMS which, considering recent developments (i.e. positive data by BAF312 from Novartis in SPMS), may become an interesting and more closely watched new market segment in the future. Anyway it will give more options ahead of the initiation of phase III trials in all geographies.

**VALUATION**

- We make no change to our valuation.

**NEXT CATALYSTS**

- Today 10.30am: Conference Call - [Click here to download](#)

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## Luxury &amp; Consumer Goods

**Kering**

Price EUR177.40

**New CEO at Bottega Veneta**

Fair Value EUR185 (+4%)

**BUY**

Bloomberg	PP FP
Reuters	P RTP.PA
12-month High / Low (EUR)	183.5 / 138.6
Market Cap (EURm)	22,400
Avg. 6m daily volume (000)	233.4

	1 M	3 M	6 M	31/12/15
Absolute perf.	5.1%	22.4%	13.7%	12.3%
Pers & H/H Gds	-1.2%	1.6%	2.7%	1.6%
DJ Stoxx 600	-0.1%	5.0%	1.8%	-6.3%

	2015	2016e	2017e	2018e
P/E	22.0x	19.7x	16.8x	15.0x
Div yield (%)	2.3%	2.4%	2.6%	2.9%

**ANALYSIS**

- Kering has appointed Claus-Dietrich Lahrs as the new Bottega Veneta CEO reporting directly to Mr François-Henri Pinault. He will replace Carlo Alberto Beretta. Claus-Dietrich was previously CEO at Hugo Boss (since 2008). He left the company in February 2016 after several profit warnings on 2015 results. Prior to this job, he was a more successful CEO at Christian Dior from 2004 to 2008 and before this date, was CEO of Louis Vuitton USA (from 2000). He therefore knows the luxury sector well and how to manage a true luxury brand. However, given the recent years at HB, some investors may be surprised by this appointment.
- Bottega Veneta is the only global brand that is in a bad situation at Kering. In H1 2016, BV sales declined by 9%, including -9.8% in Q2 alone and BV EBIT was down 20%, implying a 320bp margin decline. The challenge for the new CEO will be to pursue the new strategy at BV, i.e. to be less tourist oriented (70% of sales are generated by Asian tourists), to develop the brand in non-leather goods lines and also to adjust the store network (renovate and expand).

**VALUATION**

- We are making no change to our Buy recommendation on Kering, despite the recent share price rally (+22% over the last three months) as we are convinced that the positive momentum at Gucci will continue in coming quarters and particularly in Q3, which will be helped by a less demanding comparison basis.

**NEXT CATALYSTS**

- Q3 sales to be reported on 25th October

[Click here to download](#)Loic Morvan, [lmorvan@bryangarnier.com](mailto:lmorvan@bryangarnier.com)

## Sector View

## Semiconductors

## Consolidation continues with Qualcomm rumoured to acquire NXP for USD30bn

	1 M	3 M	6 M	31/12/15
Semiconductors	2.2%	25.3%	24.4%	21.7%
DJ Stoxx 600	-0.1%	5.0%	1.8%	-6.3%

\*Stoxx Sector Indices

## Companies covered

ams	NEUTRAL	CHF29
ASML	SELL	EUR81
DIALOG	BUY	EUR37
INFINEON	BUY	EUR17.5
MELEXIS	SELL	EUR48
SOITEC	NEUTRAL	EUR0.5
STMICROELECTRONICS	NEUTRAL	EUR6.5
u-blox	BUY	CHF255

## ANALYSIS

- **Last night, the WSJ reported that a deal between Qualcomm and NXP could be struck during the next few months.** The deal could be worth more than USD30bn, however following the WSJ article, the NXP market capitalisation is now closer to USD33bn or USD96.12 per share. This now points to FY16e EV/sales of 4.3x and a FY16e P/E ratio of 16.9x. Qualcomm currently has a net cash position close to USD20bn meaning that the deal could be financed with cash but also stock or debt.
- **From a Qualcomm perspective, the acquisition of NXP makes sense.** With smartphone units having slowed, and Qualcomm being mainly exposed to this sector, it might now look for a diversification in other segments. NXP has a stronger exposure to Automotive, Industrial and Security with a group profile close to Infineon (Buy, FV EUR17.5). NXP's network in the Automotive and Industrial sectors might be seen as an opportunity to expand the addressable market for Qualcomm products.
- **In our coverage, we believe this newsflow will lead investors to look closer to similar European stocks and potential targets.** Infineon (Buy, FV EUR17.5) is definitively the one that has a similar profile to NXP with an even stronger footprint in Automotive and Industrial sector. STMicroelectronics (Neutral, FV EUR6.5) also has a similar profile, note however that while Infineon's free float is close to 100%, the French and Italian states are shareholders of STMicroelectronics (c. 14.25% each) making an acquisition of STM more complex. Other players active in the Automotive and Industrial sectors are Melexis (Sell, FV EUR48) and u-blox (Buy, FV CHF255).

## VALUATION

- Based on our estimates, **Infineon's** shares trade at a **2016e/2017e P/E ratios of 19.0x/17.5x** respectively and a 2016e/2017e PEG ratios of 1.1x/1.0x.
- Based on our estimates, **STMicroelectronics'** shares trade at a **2016e/2017e P/E ratios of 39.5x/23.4x** respectively and a 2016e/2017e PEG ratios of 1.2x/0.7x.

## NEXT CATALYSTS

- Samsung's Q3 2016 results on 7th October. TSMC's Q3 2016 results on 13th October. Intel's Q3 2016 results on 18th October. Q3 2016 results for European companies start on 19th October with ASML, followed by ams (24th October, after market close), Melexis (26th October), STMicroelectronics (27th October), Dialog (3rd November) and Infineon (23rd November, FY16 results).

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## BG's Wake Up Call

# Bryan Garnier stock rating system

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### 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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