BRYAN, GARNIER & CO

INDEPENDENT RESEARCH

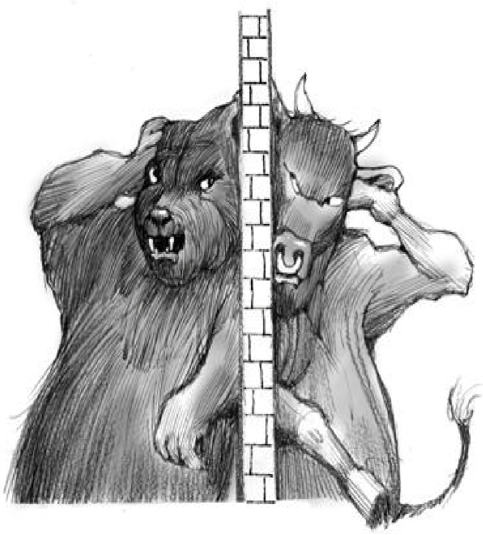
Top Picks

3rd October 2016

Top Picks Q4 2016

Top Picks

CARREFOUR		**BUY**	**EUR30**
Last Price	EUR23.065	*Market Cap.*	EUR17,443m
ELIOR		**BUY**	**EUR24**
Last Price	EUR20.38	*Market Cap.*	EUR3,514m
FRESENIUS SE		**BUY**	**EUR78**
Last Price	EUR71.01	*Market Cap.*	EUR38,797m
HERMES Intl		**BUY**	**EUR370**
Last Price	EUR362.25	*Market Cap.*	EUR38,242m
IMERYS		**BUY**	**EUR72**
Last Price	EUR64.29	*Market Cap.*	EUR5,116m
IPSEN		**BUY**	**EUR67**
Last Price	EUR62.49	*Market Cap.*	EUR5,204m
LAFARGEHOLCIM		**BUY**	**CHF60**
Last Price	CHF52.5	*Market Cap.*	CHF31,863m
MELIA HOTELS		**BUY**	**EUR15**
Last Price	EUR11.1	*Market Cap.*	EUR2,550m
MONCLER		**BUY**	**EUR17.5**
Last Price	EUR15.19	*Market Cap.*	EUR3,800m
PLASTIC OMNIUM		**BUY**	**EUR36**
Last Price	EUR29.52	*Market Cap.*	EUR4,501m
QIAGEN		**BUY**	**EUR26**
Last Price	EUR24.505	*Market Cap.*	EUR5,874m
REMY COINTREAU		**BUY**	**EUR84**
Last Price	EUR75.97	*Market Cap.*	EUR3,702m
SHIRE PLC		**BUY**	**6900p**
Last Price	4998p	*Market Cap.*	GBP45,083m
SUEZ		**BUY**	**EUR17.5**
Last Price	EUR14.695	*Market Cap.*	EUR8,294m
WIRECARD		**BUY**	**EUR58**
Last Price	EUR46.25	*Market Cap.*	EUR5,715m



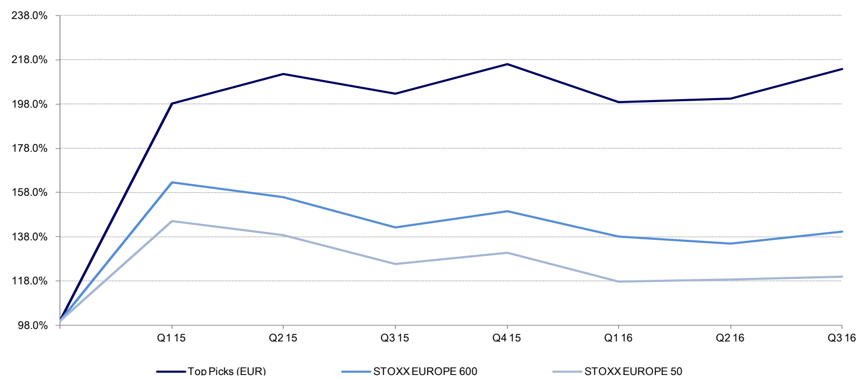
This is the last volume of our quarterly 'Top Picks' for 2016. This list is not intended to be a model portfolio, but simply reflects a pure stock-picking exercise in our coverage universe. It reflects a bias towards themes that we believe fit best with the current very uncertain, volatile market environment: self-helped businesses, robust organic growth, limited outside interference, earnings momentum and/or secure shareholders' returns.

- Our Q3 list produced a satisfactory performance of +6.65%, which compares favourably to DJ Stoxx600 (+3.95%). It is our 7th best quarterly performance vs. market since the creation of our list in Q1 2012. Our cumulative performance is now +113% vs. +40% for the Stoxx600.

- As we enter into Q4 2016, we deal with a few black and white events, which could have material impacts on financial markets. Let's mention Portugal on 21st October when rating agency DBRS will state whether Portugal is still Investment Grade, i.e. eligible for ECB refinancing, the US presidential elections on 8th November and the Italian referendum on 4th December. Concerns also lie around the banking sector (NPL issue in Italy + Deutsche Bank and Italian banks' capital positions). Bottom line, we may see some volatility in the market.

- When determining our Q4 Top Pick list in that context, we have decided to remain selective inside our ongoing growing coverage (15 top picks out of 147 stocks), and focus on companies that offer better-than-average, short-term visibility: self-helped drivers, robust organic growth, limited outside interference, earnings momentum and/or secure shareholders' returns.

This document is a compilation of the notes written to update our Top Pick list



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Our top picks for 4Q 2016 are

Changes :

+CARREFOUR
+HERMES
+LAFARGEHOLCIM
+MONCLER
+PLASTIC OMNIUM
+QIAGEN
+REMY COINTREAU
+SUEZ

-AHOLD DELHAIZE
-VEOLIA ENV.
-VINCI
-ABLYNX

Fig. 1: Valuation ratios: 4Q 2016 Top Picks

	Market Cap.	EV/EBIT(x)		PER (x)		RDT (%)	
	(EUR)	2015e	2016e	2015e	2016e	2015e	2016e
CARREFOUR	17 443	9.7	8.5	14.6	12.3	4.5%	4.9%
ELIOR	3 514	14.7	13.1	20.1	15.0	1.7%	2.4%
FRESENIUS SE	38 797	12.7	12.4	23.9	21.0	2.7%	3.1%
HERMES Intl	38 242	21.7	19.1	34.4	30.3	1.0%	2.5%
IMERYS	5 116	13.3	12.3	16.2	14.7	2.9%	3.1%
IPSEN	5 204	15.5	13.3	21.6	18.4	1.4%	1.8%
LAFARGEHOLCIM	31 863	14.7	11.9	22.6	15.9	3.1%	3.4%
MELIA HOTELS	2 550	18.0	15.6	34.3	23.0	0.5%	0.5%
MONCLER	3 800	13.5	11.8	20.3	18.3	1.1%	1.3%
PLASTIC OMNIUM	4 501	9.3	7.3	13.9	11.3	1.8%	2.2%
QIAGEN	5 874	22.6	19.1	25.3	21.9	0.0%	0.0%
REMY COINTREAU	3 702	20.1	18.0	30.4	25.9	2.1%	2.1%
SHIRE PLC	45 083	19.1	13.2	17.3	14.7	0.3%	0.3%
SUEZ	8 294	15.0	14.3	18.2	15.4	4.4%	4.4%
WIRECARD	5 715	19.2	14.3	25.3	19.5	0.3%	0.3%

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

Top picks for 3Q 2016 performances

	3Q 2016 perf.		incl. Div.	
	Euro	Local Ccy	Euro	Local Ccy
ABLYNX	-4.5%	-4.5%		
AHOLD DELHAIZE	1.8%	1.8%	7.9%	7.9%
ELIOR GROUP	3.8%	3.8%		
FRESENIUS	7.9%	7.9%		
IMERYS	11.8%	11.8%		
INFINEON TECHS.	7.5%	7.5%		
IPSEN	12.7%	12.7%		
LVMH	1.5%	1.5%		
MELIA HOTELS INTL.	14.8%	14.8%	15.2%	15.2%
MONCLER	2.8%	2.8%		
SHIRE	3.44%	7.69%	7.7%	3.4%
VEOLIA ENVIRONNEMENT	5.29%	5.29%		
VINCI	6.96%	6.96%		
WIRECARD	17.21%	17.21%		
3Q 2016* Top picks average Perf.	6.65%	6.95%	7.11%	8.49%
STOXX EUROPE 600	3.95		4.43	
STOXX EUROPE 50	1.06		1.71	

MONCLER, LVMH : Out 15th July
INFINEON : Out 2nd August

Car Part Manufacturers : Q4 2016 auto & parts Top Picks: Plastic Omnium

	1 M	3 M	6 M	31/12/15
Auto & Parts	0.8%	0.7%	-3.2%	-15.7%
DJ Stoxx 600	0.5%	-0.3%	1.5%	-6.8%

*Stoxx Sector Indices

Companies covered

FAURECIA	**BUY**	**EUR47**
EUR34.6	*EUR4.8bn*	
HELLA	**BUY**	**EUR45**
EUR35.45	*EUR3.9bn*	
PLASTIC OMNIUM	**BUY**	**EUR36**
EUR29	*EUR4.44bn*	
VALEO	**NEUTRAL**	**EUR49**
EUR49	*EUR11.9bn*	

LOOKING BACK ON Q3 2016

Over Q3 2016, the Stoxx 600 Automotive Index performed strongly, outpacing the Stoxx 600 Index by **7.7pp** (+11% vs. +3.1%) after having disappointed in Q1 (-11.2% vs. -7.7%) and in Q2 *(-15.5% vs. -2.3%)*. The solid H1 2016 earnings released by almost all automotive players, OEMs as well as suppliers, reassured investors. **All 2016 targets were confirmed**, despite fears of a slowdown stemming from the European and North American automotive markets since the beginning of the year. Interestingly, this solid performance was driven predominantly by suppliers, while OEMs continued to lag despite impressive earnings performances over the first semester (even from European mass makers such as Renault or Peugeot). Within our BG Auto & Parts coverage, **Hella** was the best performer over Q3 2016 (+24%), followed by **Valeo** (+22%), **Faurecia** (+20%) and **Plastic Omnium** (+15%).

WHAT WE SEE FOR Q4 2016

Despite the risk linked to Brexit that could alter both auto demand and production in Europe over Q4 2016, we remain confident that full year guidance for the four stocks we recently initiated (*see report: Car parts manufacturers: Innovation the only way to stand out!*) will be maintained during Q3 2016 earnings publications (Faurecia will set the ball rolling on 13th October). We then still expect global auto demand and production to rise **2.4% globally** after dropping **1.7% in 2015**. Recent comments made by some European suppliers confirm a potential slowdown in Europe is possible during the second half, a slowdown that should be partially offset by still ongoing solid output in the North American market. Investor attention is set to focus on SMMT UK statistics for September (first week of October) given the weight of this month for the UK automotive market (17% vs. 10% on average for all other European markets) and given the weight of the UK market within the European market (>17%).

CONCLUSIONS AND TOP PICKS

Despite our solid positive view on Faurecia, we have decided to place **Plastic Omnium** on the BG Q4 2016 Top Pick list as we believe the group should be able to post solid Q3 2016 sales growth as in H1 2016, boosted by a positive scope effect (FAE) and as the group should benefit from positive share price recovery effect compared with its other French peers (-6pp). We see recent investor concerns over Dieselgate as exaggerated, especially given the group's still limited sales exposure to SCR tank systems (5% of 2016e sales). We recently initiated **Plastic Omnium** with a **Buy rating** and a **FV of EUR36** (Playing in the big league – Buy FV @ EUR36 – Coverage initiation). However, **Faurecia remains our LT favourite within our coverage.**

Auto Top pick

Stock	Init. date	Price @ init.	Last price	Perf.	Rating	FV	Upside
Faurecia	**15/09/2016**	**36,2**	**34,6**	**-4,4%**	**Buy**	**47**	**35,8%**
Hella	15/09/2016	36,9	35,7	-3,3%	**Buy**	45	26,1%
Plastic Omnium	15/09/2016	29,5	29,0	-1,7%	**Buy**	36	24,1%
Valeo	15/09/2016	48,7	49,0	0,6%	**Neutral**	49	0,0%

BG Q4 Top pick

BG auto and parts – Valuation table

Yield	Faurecia	Hella	Plastic Omnium	Valeo	Average suppliers
FCF yield 2015	4,4%	1,1%	4,8%	5,2%	3,9%
FCF yield 2016e	5,5%	3,4%	2,7%	4,1%	3,9%
FCF yield 2017e	4,4%	4,6%	6,1%	4,7%	4,9%
FCF yield 2018e	6,9%	5,8%	6,6%	5,7%	6,3%
Average 16-18	**5,6%**	**4,6%**	**5,1%**	**4,8%**	**5,0%**
Dividend Yield 2015	1,9%	2,2%	1,4%	2,3%	1,9%
Dividend Yield 2016e	3,0%	2,7%	1,8%	2,2%	2,4%
Dividend Yield 2017e	3,2%	2,9%	2,3%	2,6%	2,7%
Dividend Yield 2018e	3,7%	3,3%	2,6%	2,8%	3,1%
Average 16-18	**3,3%**	**3,0%**	**2,2%**	**2,5%**	**2,8%**
Valuation	**Faurecia**	**Hella**	**Plastic Omnium**	**Valeo**	**Average suppliers**
EV/EBIT 2015	9,1x	11,1x	11,6x	12,0x	11,0x
EV/EBIT 2016e	6,3x	8,9x	10,9x	11,6x	9,4x
EV/EBIT 2017e	5,5x	8,0x	8,1x	9,9x	7,9x
EV/EBIT 2018e	4,7x	6,9x	6,9x	8,8x	6,8x
Average 16-18	**5,5x**	**7,9x**	**8,6x**	**10,1x**	**8,0x**
Premium/Discount	-31,8%	-1,3%	7,6%	25,5%	-
P/E 2015	13,3x	14,7x	17,2x	14,2x	14,9x
P/E 2016e	9,4x	11,1x	13,7x	13,5x	11,9x
P/E 2017e	8,8x	10,2x	11,1x	11,6x	10,4x
P/E 2018e	7,5x	9,0x	9,8x	10,6x	9,2x
Average 16-18	**8,6x**	**10,1x**	**11,5x**	**11,9x**	**10,5x**
Premium/Discount	-18,6%	-3,9%	9,5%	13,1%	-
PEG 2015-18					
PEG 2015	0,14x	-2,28x	1,09x	0,49x	-0,14x
PEG 2016e	0,22x	0,34x	0,53x	0,82x	0,48x
PEG 2017e	1,33x	1,22x	0,47x	0,69x	0,93x
PEG 2018e	0,46x	0,69x	0,74x	1,10x	0,75x
Average 17-18	**0,67x**	**0,75x**	**0,58x**	**0,87x**	**0,72x**
Premium/Discount	-6,4%	4,4%	-19,3%	21,3%	-

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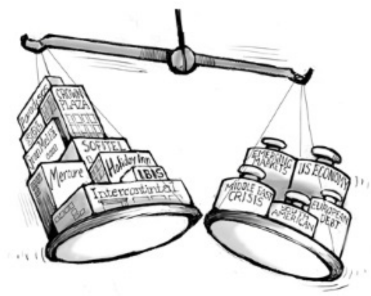
Hotels & Tourism : Top picks: …and the winner is Melia.

	1 M	3 M	6 M	31/12/15
Travel&Leisure	-3.2%	-0.7%	-6.3%	-16.3%
DJ Stoxx 600	-1.1%	5.6%	1.5%	-7.1%

*Stoxx Sector Indices

Companies covered

ACCORHOTELS		**BUY**	**EUR42**
Last Price	EUR34.98	*Market Cap.*	EUR9,959m
InterContinental Hotels		**SELL vs. NEUTRAL**	**2950p vs. 2650p**
Last Price	3098p	*Market Cap.*	*GBP6,119m*
MELIA		**BUY**	**EUR15**
Last Price	EUR11.23	*Market Cap.*	*EUR2,580m*



LOOKING BACK ON Q3 2016

With c. 28% of the total number of rooms in France and despite a degree of resilience compared with the sector, **AccorHotels'** valuation was harshly impacted by the current turbulent environment in the country. In fact, **Accorhotels** only gained 2.3% in Q3 in absolute terms after losing 13.3% in H1 and lagging the DJ Stoxx by 2.9% (-3.8% in H1). On the other hand and benefitting from a better environment in their respective main geographies, **Melia** reported a strong outperformance of 17.6% in absolute terms (the stock was down 20.6% in H1) and 11.6% vs. the DJ Stoxx (-12% in H1) ahead of **IHG**, up 14.7% in absolute term and in euro (-8.5% in H1) and 8.7% vs. DJ Stoxx (+14.4% in H1).

In **dependence care**, share price volatility remained on **Korian** in Q3, up 0.8% in absolute terms (-13.6% in H1 o/w -23.1% in Q1 and +12.4% in Q2) and down 2.9% vs. DJ Stoxx. In Q3, **Orpea** was up 6.5% (+0.4% in H1) in absolute terms and 2.6% vs. the DJ Stoxx (+11.3% in H1).

WHAT WE SEE FOR Q4 2016

Q3 releases are set to be mixed be again between hoteliers.

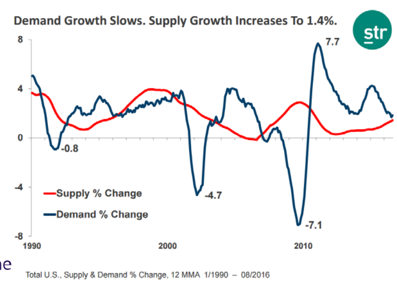
AccorHotels results will again be affected by the group's exposure to France bearing in mind that RevPAR in July and August was respectively down 6% and 13.4%. Despite this trend, at the road show we organised early September in Paris, the group confirmed that FY guidance is still valid with an EBIT now in the low range of the EUR670/EUR720m (our current expectation is EUR695m and consensus at EUR685m). Nevertheless, September and October, the last two significant months of the year, need to be more favourable to valid this FY guidance!...

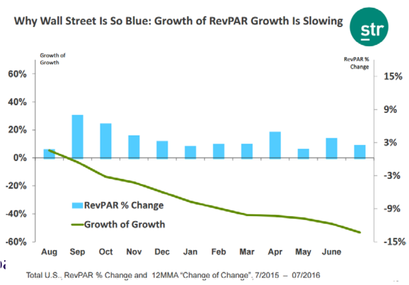
Meanwhile, **Melia Hotels** and **IHG** should deliver sustained numbers benefiting from positive RevPAR trends in Spain (51% of Melia offer in number of rooms) and in the Americas (64% of IHG offer mainly from NA).

In Spain, after RevPAR growth of 17.6% and 14% in July and August respectively, **Melia Hotels** confirmed that September looked pretty good in Spain Resort (33% of group offer) with occupancy in line with the August level, Q3 RevPAR growth in Spain City (18% of group offer) was in line with Q2 i.e. up 10% and RevPAR growth in the Americas (29%) will return to positive territory benefiting notably from better comps.

Regarding **IHG**, despite high comps, RevPAR growth continues in the US with July and August up 2.5% and 2.1%. Nevertheless, growth is slowing month after month with reported occupancy regularly in negative numbers (-0.4% in August after -1% in July). Moreover, with favourable financial conditions, room supply has increased while demand has decreased. Taking into account these numbers, STR from HNN estimates that US RevPAR should be up 3.2% in 2016e (compared with RevPAR up 6.3% in 2015) with no growth in occupancy and ADR up 3.2%. US RevPAR is expected to rise 2.8% in 2017e (occupancy down 0.3% with ADR up 3.1%).

US market trends





Confirming our FY 2016 forecasts based on RevPAR growth for the group of 2.3% after 2% in H1 o/w 2.5% in Q2 (2016e total revenue of USD1,773m down 1.6% vs. consensus USD1,743m with EBIT of USD685m and consensus of USD695m), **we move our recommendation to Sell vs. Neutral with a FV adjusted to 2,950p** using a DCF with WACC of 7.75% taking into account **1)** current market trends especially in the US, **2)** no more significant cash returns to shareholders due to disposals after the sale of InterContinental Hong Kong the last main fully-owned asset (the group returned US$1.5bn in May 2016 bearing in mind that since 2003, the cash returned to shareholders including ordinary dividends amounted to US$12,1bn with seven hotels fully owned today on a system size total number of 5,070). Note that at the end of H1 2016, net debt/EBITDA was at 2.3x vs. the group's guidance of 2-2.5x (our estimate is over 2x for the next three years) and **3)** valuation with, based on consensus estimates, EV/EBITDA 2016e at 13.3x and 12.5x 2017e which compares with historical median of 11.6x.

CONCLUSIONS AND TOP PICKS

Despite the strong outperformance in Q2, we are maintaining **Melia Hotels** as our top pick pending positive Q3 numbers mainly driven by Spain and despite the potential negative impacts of Brexit since British Citizens represented 12% of total room nights.

With sustained Q3 results, we remain confident on 2016e earnings in particular with EBITDA w/o capital gains of EUR274m compared with a consensus average of EUR269m (estimates from EUR266m and EUR274m).

Thereafter, as stated in our last note, there is room for improvement in operating results over three years (EBITDA w/o asset rotation 2015-2018 CAGR of c. 13%) primarily driven by Spanish city (EUR30m), Asia (EUR10m) and the Americas (EUR10m from Cuba).

Regarding **Spanish cities**, with 18% of the total group's number of rooms, the EBIT contribution is only 8%. In 2015, RevPAR was about 12% lower than in 2007, previous RevPAR highs. In 2016, RevPAR is likely to be not far off previous RevPAR highs but EBIT will again be lower by around EUR30m (i.e. representing 18% of 2015's consolidated EBIT of EUR164m) compared to 2007 with a still less favourable split between occupancy and daily rate.

AccorHotels' highlight: Short term positive news flow.
The group will hold a CMD on 5th October in Paris. Following the go-ahead given by the Board of Directors in mid-July for the project to turn HotelInvest into a subsidiary, **a new GAV will be given which should be higher than at the end of 2015.** Moreover, and as we understood during our recent road show in Paris with CFO and IRs, management should also detail what could be the use of the cash received i.e. EUR5bn based on 70% of HotelInvest sold.

In our view, we estimate that without specific needs (HotelServices being an asset light business), except new investment in discrepancy businesses, a significant sum (EUR3bn) could be returned to shareholders. In our view, the only reason for AccorHotels to retain the cash would be in anticipation of a mega consolidation in order to have the best assets to manage such a deal.

NEXT CATALYSTS

IHG: Commercial Strategy (London) on 29th September; Q3 US RevPAR on 21st October
AccorHotels: Capital Market day (Paris) on 5th October; Q3 Revenue on 18th October
Melia Hotels: Q3 results on 7th November
Orpea: H1 Full results on 28th September;
Korian: Q3 Revenue on 26th October

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Consumer : Q4 2016 Top Picks: we remove Ahold and add Moncler, Hermès, Carrefour and Remy Cointreau

	1 M	3 M	6 M	31/12/15
Pers & H/H Gds	-1.3%	7.7%	4.1%	1.8%
DJ Stoxx 600	-1.0%	10.2%	1.5%	-7.0%

*Stoxx Sector Indices

Companies covered

ADIDAS GROUP		**NEUTRAL**	**EUR136**
Last Price	EUR152,3	*Market Cap.*	*EUR31,864m*
BEIERSDORF		**NEUTRAL**	**EUR80**
Last Price	EUR84,143	*Market Cap.*	*EUR19,084m*
BIC		**NEUTRAL**	**EUR123**
Last Price	EUR130,75	*Market Cap.*	*EUR6,267m*
BURBERRY		**NEUTRAL**	**1200p**
Last Price	1403p	*Market Cap.*	*GBP6,211m*
CHRISTIAN DIOR		**BUY**	**EUR175**
Last Price	EUR158,9	*Market Cap.*	*EUR28,876m*
ESSILOR		**BUY**	**EUR130**
Last Price	EUR116,55	*Market Cap.*	*EUR25,419m*
GRANDVISION		**BUY**	**EUR28**
Last Price	EUR25,065	*Market Cap.*	*EUR6,378m*
GROUPE SEB		**BUY**	**EUR132**
Last Price	EUR124,4	*Market Cap.*	*EUR6,241m*
HERMES Intl		**BUY**	**EUR370**
Last Price	EUR362,1499	*Market Cap.*	*EUR38,232m*
HUGO BOSS		**NEUTRAL**	**EUR74**
Last Price	EUR49,18	*Market Cap.*	*EUR3,462m*
KERING		**BUY**	**EUR185**
Last Price	EUR178,95	*Market Cap.*	*EUR22,596m*
L'OREAL		**BUY**	**EUR177**
Last Price	EUR167,55	*Market Cap.*	*EUR93,828m*
LUXOTTICA		**NEUTRAL**	**EUR54**
Last Price	EUR44,39	*Market Cap.*	*EUR21,480m*
LVMH		**BUY**	**EUR171**
Last Price	EUR151,85	*Market Cap.*	*EUR77,100m*
MONCLER		**BUY**	**EUR17,5**
Last Price	EUR14,98	*Market Cap.*	*EUR3,748m*
PRADA		**NEUTRAL**	**HKD31**
Last Price	EUR26,6	*Market Cap.*	*EUR68,065m*
RICHEMONT		**NEUTRAL**	**CHF63**
Last Price	CHF58,75	*Market Cap.*	*CHF32,900m*
SAFILO		**NEUTRAL**	**EUR11**
Last Price	EUR8,54	*Market Cap.*	*EUR535m*
SALVATORE FERRAGAMO		**BUY**	**EUR23**
Last Price	EUR22,59	*Market Cap.*	*EUR3,813m*
THE SWATCH GROUP		**SELL**	**CHF270**
Last Price	CHF272,4	*Market Cap.*	*CHF15,068m*
TOD'S GROUP		**SELL**	**EUR53**
Last Price	EUR46,62	*Market Cap.*	*EUR1,543m*

LOOKING BACK ON Q3 2016

Our **Consumer** "Top Picks" encompass all our global consumer franchises: **Luxury**, **Consumer goods**, **Retail**, **Spirits** & **Brewers** and **Food**. In Q3, our global consumer sample was up slightly (+5%) but again with a mixed situation with +4% for our luxury goods sample while the HPC and consumer goods segments were better oriented (respectively +7% and +8%) as was food-beverages (+5%). In all, retail stocks were also well oriented (+4%).

Luxury goods stocks rebounded by 4% (-11% in Q2) on top of challenging market trends (fewer tourist flows in Europe, softness in the US and Japan, weak performance in H-K), only partly offset by a sequential improvement in MC. This performance highlights the fact that investors are more and more mature. Among our sample, the best performer was **Kering** (+18%) thanks to the rebound of **Gucci** (sales up 7.4% in Q2) despite demanding comps. The rejuvenation of the brand is clearly a success (new collections accounted for 70% of Gucci sales in Q2). **Hermès** also fared well (+9%) despite withdrawing its 8% MT sales growth target. **Swatch group** (-6%) and **Tod's** (-12%) were again, but unsurprisingly, the worst luxury sector performers. Meanwhile, the **Moncler** share price increased by 4% in Q3 (+18% ytd) on the back of solid top line momentum in H1 (+17% FX-n), especially in difficult markets such as Asia-Pacific (+30%) and North America (+20%), which account respectively for 34% and 15% of group sales.

With a 26% rally over Q3, **Safilo** was the best-performing stock in our **Optical & Eyewear sample** thanks to better-than-expected Q2 results and positive recent newsflow (early renewal of Max Mara, new licensing agreement with Moschino). Our cautiousness is explained by the lack of traction by the proprietary brand portfolio and the Gucci transition. **GrandVision** was up a slight 4% despite solid Q2 results, but we still consider it as the safest choice within the sector combined with attractive upside potential. After two successive quarters of outperformance, the **Essilor** share remained flat, offsetting some profit-taking moves after the LFL growth miss in Q2 (+3.2% vs. +5%e). Momentum should pick up again in H2 and any share price weakness should be viewed as a good entry point for a MT-LT investment horizon. Last but not least, **Luxottica** lost 6% as the group continued to suffer from its initiatives, but H2 should be marked by a gradual acceleration, as highlighted by the current trading.

Among the **HPC/Consumer goods** stocks, we highlight the amazing performance by **adidas Group** (+25%, +72% ytd!) and **Groupe SEB** (+12%, +33% ytd), the latter being supported by the largest acquisition in its history (WMF) and H1 results that topped expectations. **BIC** increased by 4%, driven by a better-than-expected margin performance in Q2.

Food & Beverages: Spirits posted a good performance. Campari was the winner, up 8.4%. The group continued to benefit from its good portfolio positioning and, at the beginning of August, published H1 results which were pretty solid and above market expectations. Food stocks were sluggish as the sector is affected by continued pressure on prices and the deterioration in China. All the main brewers were weak during the third quarter with AB InBev and Carlsberg down 1% and Heineken down 6%. Not only were they fully valued at the start of the quarter, but also the trends that the companies have been highlighting suggest a difficult Q3 results season, driven by tough comparables in WE. At Carlsberg, WE represents about half of operating profits and at Heineken one quarter (and at AB InBev it is less than 5%). But Heineken not only has tough comps in WE. In Q3 2015, the group delivered organic sales growth of 7.5%, driven by levels of 7% in WE, 7.5% in Africa and 12% in Americas. Against such a tough comps, Q3 of this year has to disappoint, especially in WE, where the weather has been far less good than last year.

Companies covered

AB INBEV		**NEUTRAL**		**EUR109**
Last Price	EUR116.15	*Market*		EUR186,797
CAMPARI		**BUY**		**EUR10,5**
Last Price	EUR9.92	*Market*		*EUR5,762m*
CARLSBERG		**SELL**		**DKK600**
Last Price	DKK628.5	*Market*		*DKK96,084m*
DANONE		**NEUTRAL**		**EUR65**
Last Price	EUR65.55	*Market*		*EUR42,994m*
DIAGEO		**NEUTRAL**		**2100p**
Last Price	2211p	*Market*		*GBP55,639m*
HEINEKEN		**BUY**		**EUR88**
Last Price	EUR77.89	*Market*		*EUR44,865m*
MOLSON COORS		**BUY**		
Last Price	USD104.26	*Market*		*USD22,393m*
NESTLE		**BUY**		**CHF83**
Last Price	CHF76.1	*Market*		*CHF236,835*
PERNOD RICARD		**NEUTRAL**		**EUR112**
Last Price	EUR105.8	*Market*		*EUR28,082m*
REMY COINTREAU		**BUY**		**EUR84**
Last Price	EUR76.43	*Market*		*EUR3,725m*
ROYAL UNIBREW		**BUY**		**DKK325**
Last Price	DKK321.3	*Market*		*DKK17,382m*
SABMILLER		**NEUTRAL**		**4400p**
Last Price	4439p	*Market*		*GBP72,106m*
UNILEVER		**NEUTRAL**		**EUR43**
Last Price	EUR40.6	*Market*		*EUR116,595*
UNILEVER Plc		**NEUTRAL**		**3590p**
Last Price	3599.5p	*Market*		*GBP46,198m*

Companies covered

AHOLD DELHAIZE		**BUY**		**EUR25,8**
Last Price	EUR20.52	*Market*		EUR26,292m
CARREFOUR		**BUY**		**EUR30**
Last Price	EUR23.015	*Market*		*EUR17,405m*
CASINO GUICHARD		**BUY**		**EUR57**
Last Price	EUR43.265	*Market*		*EUR4,845m*
DELHAIZE		**BUY**		**EUR104,5**
Last Price	EUR102.8	*Market*		*EUR10,751m*
DIA		**BUY**		**EUR6,5**
Last Price	EUR5.621	*Market*		*EUR3,499m*
JERONIMO MARTINS		**NEUTRAL**		**EUR13,5**
Last Price	EUR15.33	*Market*		*EUR9,647m*
METRO AG		**SELL**		**EUR26**
Last Price	EUR26.59	*Market*		*EUR8,618m*
RALLYE		**BUY**		**EUR18,5**
Last Price	EUR14.62	*Market*		*EUR713m*
TESCO		**SELL**		**166p**
Last Price	176.45p	*Market*		*GBP14,423m*

Food Retail: Dia (+17%) was the best performer in the food retail segment and Casino the worst (-9%). The relationship between the top line (declining LFL rates) and the bottom line (growing margin rate) of Dia in Iberia has long appeared unhealthy. But finally, the ~30bp estimated decline in Q2 underlying margin in Iberia was not interpreted as a margin restatement, while the relationship between the top line (+2.9% LFL) and the bottom line looked much healthier to the market. Hence the relief… As far as Casino is concerned, some operators started undertaking a short read-across between Dia and Casino, arguing that the transfer of FP/LP stores to franchise has no other goal than to boost margin at the expense of pressured franchises. The same catchphrase was used by short sellers against Dia…

WHAT WE SEE FOR Q4 2016

Luxury goods: We do not expect any recovery in the Q3 performance versus Q2 (around 0% organic growth), given tough conditions in Europe and especially in France, due to significantly lower tourist flows following the Nice attacks last July (occupancy rate for Paris Hotels was 30% lower and even worse for 4 and 5* hotels), despite some clear improvement in Mainland China even if the situation remains quite tough in Hong Kong and in Macau. We think that in Q3 and in Q4, **Hermès** (success of leather goods collection and lower weight of tourists than peers on France sales) and **Gucci** (undemanding comps and higher weight of new Alessandro collections) should be able to outperform its main peers. We are more cautious on Louis Vuitton which is highly dependent of tourists flows for its French business that explains a double digit sales decline in Paris in Q2 and +1/2% organic sales growth in Q2.

Consumer: The "feel good" factor still sought by investors. There is almost no rotation within this sector, as investors continue to favour groups with solid momentum/limited risks such as **adidas Group**, **Groupe SEB**, **Essilor** or **L'Oréal**. At this stage, the market is not willing to anticipate possible improvements at groups that struggled in H1 (i.e. **Hugo Boss**, **Luxottica**) although it fuelled the significant rebound of **Safilo** following the first positive results of painful actions implemented last year.

Food & Beverages: Food companies should be impacted by a strong deceleration in China. The slowdown in the food & beverage sector is significant and is a result of economic issues, reverse migration, change in channel dynamics and tough competition from local players. The Chinese infant nutrition market has been disrupted by new regulations which are inducing tough price competition, mainly in the mainstream and premium segments. In contrast, we expect spirits companies to post a solid set of results driven by continued good dynamism in the US and improving trends in China.

Food Retail: The food retail sector remains penalised by deflation. This trend exacerbates a fundamental issue which is the dilution of growth in a fixed costs industry (sluggish demography, deflation and high penetration rate of modern food retail). We do not foresee any reversing trend: **1/** deflation is still there in several major markets while **2/** there is no obvious thinning on the horizon in emerging markets. In this context, positions could be set in favour of "safe heavens" (i.e. Ahold Delhaize), which could trigger an opportunity cost.

CONCLUSIONS AND TOP PICKS

Let's try again with Moncler (Buy – FV: EUR17.5). We had removed Moncler following the Nice terror attacks (July 14th) but admittedly the share performed quite well over the summer. As stated above, one of the main downside risks for Q4 would be the slowdown in tourist flows to Europe and Japan (safety issues, less favourable FX rates). Note that management specified that activity with local customers was robust, offsetting lower tourist flows in France and these positive trends should continue in H2. We continue to appreciate the Italian brand's strong momentum (+17% FX-n in H1), driven by its strong brand equity and legitimacy to grow market share in a dynamic outerwear segment. We expect a CAGR in 2015-18e sales of 10.6% and the group should maintain its high margin level (33.5% adj. EBITDA margin in 2016e) thanks to its "Retail Excellence" (one of the highest sales/m² ratio in the sector with EUR30k/m², focus on SSSG). H2 accounts for ~66% of FY sales and ~80% of FY adj. EBITDA.

We remove **Ahold Delhaize (Buy-FV: EUR25.8)** since we believe that the group could face issues in Q3, bearing in mind the profit warning from Supervalu beginning of September and the upcoming teach-in (beginning of October) during which management will present pro-forma accounts (we fear this kind of exercise as 1+1 does not always equal 2!).

We add **Carrefour (Buy-FV: EUR30)**, which could positively surprise. As a reminder, the French hypermarket's market share was down 20bp in August (a performance sanctioned by the market). We believe that future market shares could be better thanks to a very aggressive promotional campaign undertaken by Carrefour in September, which left Leclerc without obvious reaction. Admittedly, this is a bet, but we were definitely impressed by the magnitude of promotions. Given the valuation (2017 P/E of 12,5x), we believe Carrefour deserves to replace Ahold as a Top Pick.

We add **Rémy Cointreau (Buy-FV: EUR84).** We expect sales to rise 3% in Q2 16/17, strongly improving vs Q1 (flat). China should return to positive territory driven by a normalisation of private consumption and the lack of negative technical effect (destocking last quarter). The US should continue to grow strongly on the back of the success of brown spirits. In addition, the group's premiumisation strategy is working so far as the weight of exceptional spirits (retail price higher than USD50) rose 400bps to 49% in 2015/16.

We add **Hermès (Buy-FV: EUR370).** We take the opportunity of the recent share price decline to add RMS as we are convinced that the group will continue to outperform its luxury peers, including in Q3, as it is least affected by lower tourist's flows. Furthermore, management has maintained its MT target of 8% sales growth on internal purpose. It has lost 10% from the highest summer share price.

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Insurance : No Q4 Top Pick as there are too many risk factors

	1 M	3 M	6 M	31/12/15
Insurance	2.1%	13.1%	-6.0%	-18.8%
DJ Stoxx 600	-1.0%	10.2%	1.5%	-7.0%

*Stoxx Sector Indices

Companies covered

AEGON		**NEUTRAL**	**EUR6**
Last Price	EUR3.362	*Market Cap.*	EUR7,254m
ALLIANZ		**BUY**	**EUR180**
Last Price	EUR130.2	*Market Cap.*	*EUR59,501m*
AXA		**BUY**	**EUR29**
Last Price	EUR18.64	*Market Cap.*	*EUR45,188m*
CNP ASSURANCES		**NEUTRAL**	**EUR15**
Last Price	EUR14.76	*Market Cap.*	*EUR10,134m*
COFACE		**NEUTRAL**	**U.R.**
Last Price	EUR6.301	*Market Cap.*	*EUR991m*
EULER HERMES		**BUY**	**EUR89**
Last Price	EUR75.73	*Market Cap.*	*EUR3,229m*
HANNOVER RE		**SELL**	**EUR110**
Last Price	EUR94.76	*Market Cap.*	*EUR11,428m*
MUNICH RE		**SELL**	**EUR185**
Last Price	EUR165.85	*Market Cap.*	*EUR26,711m*
SCOR		**BUY**	**EUR35**
Last Price	EUR27.485	*Market Cap.*	*EUR5,277m*
SWISS RE		**NEUTRAL**	**CHF100**
Last Price	CHF87.15	*Market Cap.*	*CHF31,380m*
ZURICH INSURANCE GROUP		**NEUTRAL**	**CHF270**
Last Price	CHF248.8	*Market Cap.*	*CHF37,452m*

LOOKING BACK ON Q3 2016

The insurance sector slightly outperformed the market in Q3 after a terrible Q2. Yet only three companies we cover outperformed the sector in Q3: CNP (+4% vs. sector, partially driven by BRL), Munich Re (+2% vs. sector, as it partially recovered from a poor Q2 following a profit warning in May) and AXA (terrible performance post Brexit vote). Aegon was by far the worst performer (down 16% vs. sector).

Fears associated with Brexit did not materialise in Q3, because so far i/ there has been no Brexit!, and ii/ political management has been pretty satisfactory. Yet the hard work will come in due time…

H1 2016 insurance numbers were pretty much in line with expectations, down 6% on average for primary insurers (lower investment income, some pressure on underwriting results) and down 18% on average for reinsurers (lower investment income, higher natcats). FY guidance has been reaffirmed. As expected, and despite the negative impact of end-Q2 flight to quality, solvency margins remained very comfortable across the board. Investors should expect 2016 dividends (due spring 2017) to be stable in most cases.

The European bond market performed well in Q3, with rates and spreads going down (8bps for the 10Y Euro, 18bps for the iTraxx Main, 54bps for the iTraxx Xover, 25bps for the iTraxx Senior Financials, 26bps for the iTraxx Sub. Financials). The European equity market also rose slightly (3%). US rates have notched up (10bps) as most players expect the FED to raise interest rates in December. Bottom line, we can expect insurers' NAVs to be slightly higher at end-September vs. their June level.

WHAT WE SEE FOR Q4 2016

We expect a volatile market environment in Q4, as illustrated by the rise of volatility indexes in recent days. More specifically, we will deal with some critical events that may have major impacts on financial markets. For a start, Portugal on 21st October when rating agency DBRS will state whether Portugal is still Investment Grade, i.e. eligible for ECB refinancing, the US presidential elections on 8th November and the Italian referendum on 4th December. Current uncertainties in the banking sector (i.e. NPL issue in Italy + Deutsche Bank and Italian banks' weak capital positions) are also a concern as banking debt represents c. 12.5% of insurers' total investment portfolios.

Higher volatility and potential flight to quality due to these economic/political issues represent concrete risks for the insurance sector in the short term. Remember stress scenarios such as the Chinese crash at the beginning of the year and Brexit vote at end-June have had major negative impacts on the sector.

We do not expect Q3 results (due beginning of November) to provide any specific trigger for the sector, with ongoing pressure on investment income, lower commissions on asset management and unit-linked products (Stoxx50 down 12% yoy on average) as well as potential hedging losses.

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

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.

QIAGEN		**BUY**	**EUR26**
Last Price	EUR24.1	*Market*	*EUR5,777m*
ROCHE HOLDING		**BUY**	**CHF293**
Last Price	CHF244.6	*Market*	*CHF171,847*
SANOFI		**NEUTRAL**	**EUR83**
Last Price	EUR68.32	*Market*	*EUR88,067m*
SHIRE PLC		**BUY**	**6900p**
Last Price	5108p	*Market*	*GBP46,075m*
UCB		**NEUTRAL**	**EUR80**
Last Price	EUR70.4	*Market*	*EUR13,693m*
ZEALAND		**BUY**	**DKK172**
Last Price	DKK105	*Market*	*DKK2,582m*

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.

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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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). *Click here to download*

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

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

*Stoxx Sector Indices

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*

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.

STMICROELECTRONICS		**NEUTRAL**	**EUR6,5**
Last Price	EUR7,145	*Market Cap.*	*EUR6,509m*
SWORD GROUP		**BUY**	**EUR31**
Last Price	EUR26,75	*Market Cap.*	*EUR252m*
TEMENOS GROUP		**NEUTRAL**	**CHF54**
Last Price	CHF61,9	*Market Cap.*	*CHF4,305m*
UBISOFT		**BUY**	**EUR35**
Last Price	EUR33,6	*Market Cap.*	*EUR3,776m*
u-blox		**BUY**	**CHF255**
Last Price	CHF213,7	*Market Cap.*	*CHF1,455m*
WIRECARD		**BUY**	**EUR58**
Last Price	EUR45,59	*Market Cap.*	*EUR5,633m*
WORLDLINE		**BUY**	**EUR31**
Last Price	EUR27,005	*Market Cap.*	*EUR3,569m*
WORLDPAY		**NEUTRAL**	**278p**
Last Price	296,6p	*Market Cap.*	*GBP5,932m*

BG TMT Club

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 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 **Infineon (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 Infineon 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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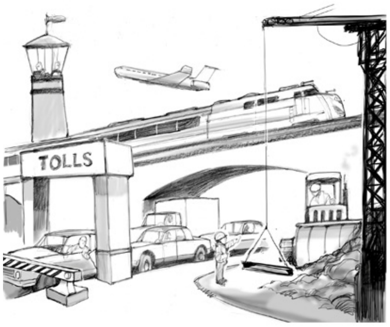
Construction & Materials : LafargeHolcim ahead of the capital market day, Imerys ahead of decent Q3.

	1 M	3 M	6 M	31/12/15
Cons & Mat	0.6%	12.3%	6.8%	5.7%
DJ Stoxx 600	-0.2%	4.0%	1.6%	-6.3%

*Stoxx Sector Indices

Companies covered

CRH		**BUY**	**EUR30**
Last Price	EUR29.76	*Market Cap.*	EUR24,709m
EIFFAGE		**BUY**	**EUR77**
Last Price	EUR69.16	*Market Cap.*	*EUR6,783m*
HEIDELBERGCEMENT		**BUY**	**EUR86**
Last Price	EUR84.09	*Market Cap.*	*EUR16,685m*
IMERYS		**BUY**	**EUR72**
Last Price	EUR64.29	*Market Cap.*	*EUR5,116m*
LAFARGEHOLCIM		**BUY**	**CHF60 vs. 50**
Last Price	CHF52.5	*Market Cap.*	*CHF31,863m*
SAINT GOBAIN		**BUY**	**EUR46**
Last Price	EUR38.47	*Market Cap.*	*EUR21,349m*
VICAT		**NEUTRAL**	**EUR56**
Last Price	EUR57.48	*Market Cap.*	*EUR2,581m*
VINCI		**BUY**	**EUR72**
Last Price	EUR68.12	*Market Cap.*	*EUR40,650m*



LOOKING BACK ON Q3 2016

The third quarter was a very good one for cyclical, risky, large cap heavy materials stocks, LafargeHolcim leading the herd with an impressive +30% performance, followed by Heidelberg (+24%) and CRH (+17%). Other building materials stocks also performed well though, with a double-digit performance for Vicat (13%), Saint-Gobain (+12%) and Imerys (+12%), all in line with the sector. Vinci and Eiffage share prices made positive absolute gains (+6% and 8%, resp.) but underperformed versus the sector. The US Construction market has been very strong so far this year and combined with better sentiment towards Emerging Markets, probably explain theses Q3 performances.

WHAT WE SEE FOR Q4 2016

We are not especially worried regarding Q4. Toll roads traffic in France is likely to be healthy, in line with the H1 performance, while French Construction should be fairly good, with some positive news on the roadworks side (the sector reported a 15% increase of revenues in August), strong new residential and positive momentum (Grand Paris). Public infrastructure investment should start to strengthen in Indonesia, while India has benefited from a very good Monsoon apparently. Of course, everything is not rosy. LatAM is still complicated.

Besides, corporates will be busy this Q3. HeidelbergCement organises it Capital Market day on 10th November and LafargeHolcim on 18th November.

CONCLUSIONS AND TOP PICKS

We have selected two cyclical stocks for our top picks in Q4. Imerys as in Q3 and LafargeHolcim.

We believe Imerys will continue to benefit from decent positive momentum. Q3 results, expected on 28th October, are likely to be satisfactory again. Reported Q1 EBIT margin improved by 30bps and by 70bps in H1. Additionally, comparison bases should improve a lot, with top line organic growth starting to deteriorate beyond -5% in Q3 and Q4 last year (-5.6% and -5.1%, resp.). In addition, proppant sales in 2015 were mostly generated in Q1 and losses were mostly reported as of Q2 last year. Finally, we might get some positive news on the oil price side – maybe – although we don't include any improvement in our Imerys forecast and valuation model.

LafargeHolcim is our second top pick. Contrary to last year, we think the Capital day is likely to be a positive catalyst. However, management's guidance is not expected to change a lot, but the macro background has changed. First, Emerging Markets macro sentiment has improved a lot (it is worth underlying that flows invested in the EM Equities have returned since last February). The outlook for India is solid (the good monsoon impact will be positive but more in 2017 though), China's hard landing doesn't seem to be a hot subject anymore, even if the cement market still needs to be downsized and Indonesia investments into public infrastructures might kick-off eventually. Of course, not all macro situations in EM are rosy, but at least LHN provides the highest degree of geographical diversification in the sector. The risk is still there, but diluted. Secondly, the group has been particularly busy: efforts on prices, costs and synergies were reflected in stronger Q2 earnings (Adj. EBITDA margin +210 bps); multiple divestments deals have been secured, which will lower debt and the influence of China (a complicated cement market) and streamline the organisation. The group has set up a new CHF5bn target by end 2017 (CHF3.5bn 2016 target exceeded). Last but not least, the group has received the green light to restructure its Indian operations. This means additional synergies, which has prompted us to fully take into account the CHF1.1bn synergies target (vs 88% previously). Finally, helped by a more promising outlook on EM, combined with intense reorganisation at the moment, we consider confidence is likely to return on the stock. In this context, we have decided to be more aggressive in our valuation approach with a roll-over to 2018. Our new FV stands at CHF60 Vs CHF50. See our note issued today for additional details.

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Business services : Top picks: Elior maintained

	1 M	3 M	6 M	31/12/15
Inds Gds & Svs	-1.4%	8.2%	6.0%	2.8%
DJ Stoxx 600	-1.1%	5.6%	1.5%	-7.1%

*Stoxx Sector Indices

Companies covered			
BUREAU VERITAS		**NEUTRAL**	**EUR21**
Last Price	19.10	*Market*	*EUR8,440m*
EUROFINS SCIENTIFIC		**SELL**	**EUR400**
Last Price	404.35	*Market*	*EUR6,818m*
SGS SA		**BUY**	**CHF2360**
Last Price	2,275	*Market*	*CHF17,014m*

Companies covered			
COMPASS GROUP		**NEUTRAL**	**1450p vs.1200p**
Last Price	1,495p	*Market*	*GBP24,592m*
EDENRED		**NEUTRAL**	**EUR22**
Last Price	EUR20.81	*Market*	*EUR4,866m*
ELIOR		**BUY**	**EUR24 vs.EUR23**
Last Price	EUR20.38	*Market*	*EUR3,514m*
SODEXO		**NEUTRAL**	**EUR92 vs.EUR88**
Last Price	EUR106	*Market*	*EUR16,297m*

LOOKING BACK ON Q3 2016

In the TIC sector, **Eurofins Scientific** reported the best performance in Q3, up 20.5% in absolute terms (after 0.2% in Q1 and 3.5% in Q2) and 17% vs. the DJ Stoxx. At the same time, **Bureau Veritas** was again down 0.2% in absolute terms (after -2.9% in Q2 and -0.7% in Q1) and 3.2% vs. the DJ Stoxx and **SGS** consolidated down 3.5% in Q3 (after 9.5% in Q2 and 6.3% in Q1 6.3%).

In Foodservices, **Compass Group** was the only group to report a negative performance, down 1% in Q3 and -4% vs. the DJ Stoxx, after one of the best performances in H1 (+7.3% in absolute terms and 19% vs. DJ Stoxx). **Elior**, our Q3 top pick was up 4.5% in absolute terms and slightly positive vs. the DJ Stoxx (+1.4%). **Edenred**, as in Q2, continued to benefit from the re-appreciation in the BRL/EUR exchange rate and was up 5.1% and 2% vs. the DJ Stoxx during Q3. **Sodexo** reported the best performance in Q3 up 7.2% in absolute terms and 4% vs. the DJ Stoxx.

WHAT WE SEE FOR Q4 2016

For **Foodservices**, we have upgraded our FV on **Sodexo**, **Elior** and **Compass Group** due to the roll-over to 2017 numbers with **Sodexo's** FV moved to EUR92 vs. EUR88 and **Elior** to EUR24 from EUR23.

Regarding **Compass Group**, our FV moves to 1,450p mainly boosted by positive currency impacts after Brexit, ahead of a slightly positive impact from roll-over, bearing in mind that revenue outside the UK represents c.90% of consolidated revenue. At the end of July (Q3 IMS), management announced that if current spot rates continue for the remainder of the year, foreign exchange translation is expected to benefit 2015 reported revenue and underlying EBIT by around GBP700m (4% of consolidated revenue) and GBP60m (4.5%) respectively. But, the main positive effect will be on 2016-17 numbers, with a boost of around GBP1,800m (9.2%) to revenue and GBP140m (9.5%) to underlying EBIT at the current spot rate.

Finally, remember that our FVs for **Sodexo** and **Compass Group** are derived from the average between a DCF and historical median multiples as the exit multiple on FY+3 (Sodexo: DCF=EUR102 & exit multiple=EUR82; Compass Group: DCF=1,700p & exit multiple=1,205p).

For **Edenred**, we are confirming our FV upgrade after better than anticipated H1 results, with a positive trend, which should continue in H2 and management's guidance for FY, which should be exceeded (our forecast is for EUR372m compared with management's guidance for between EUR350m/EUR370m and consensus at EUR364m). Moreover, newsflow in October should be sustained with the capital market day scheduled for 19th October (London) after Q3 revenue on 13th October.

In the **TIC** sector, newsflow will be limited on **SGS** and **Bureau Veritas** as for **Eurofins**, having recently increased its FY 2016 guidance with the first indications for 2017 expectations. Nevertheless, Eurofins is to hold an investor day in Hamburg on 20th October and in Lancaster on 7th November.

CONCLUSIONS AND TOP PICKS

We are maintaining **Elior** as our top pick.

After 9m results (29th July), slightly above expectations, management confirmed its FY guidance anticipating organic growth at or above 3%, excluding the impact of voluntary contract exits which is expected to be less than 200bps. EBITDA margin should improve by 20bp or more to 8.6%. With the consolidation of Preferred meals in Q4, adding a USD50m contribution to revenue with no contribution to EBITDA due to the seasonal nature of the business in the education segment, the integration will be slightly negative by 10bp on margin.
In all, a significant rise is still expected in reported and adjusted EPS (we expect an improvement of respectively c.35% and 27%).

After 2015-16, we remain confident that at least the mid-range of management's 2020 targets could be reached i.e. total revenue of EUR7.5bn with an EBITDA margin of 9.4%, bearing in mind that the group confirmed its expectation of 9% by the end of 2016-17. For EPS, our forecasts point to a 3y CAGR of c.25% compared with the current P/E of 16.7x 2016-17e and 14.5x 2017-18e.

NEXT CATALYSTS

Edenred: Q3 Revenue on 13th October 2016; Capital Market Day on 19th October 2016 (London)

Eurofins: Capital Market Day on 20th October (Hamburg) and on 7th November (Lancaster)

SGS: Investor days on 27th & 28th October 2016 (Poland)

Bureau Veritas: Q3 Trading update on 4th November 2016

Sodexo: FY 2015-16 Results on 17th November 2016

Compass Group: FY 2015-16 Results on 24th November 2016

Elior: FY 2015-16 Results on 9th December

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