BRYAN, GARNIER & CO

LONDON • PARIS • MUNICH • NEW YORK • GENEVA • NEW DELHI

Please find our Research on Bloomberg BRYG <GO>)

6th October 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	18281.03	+0.62%	+4.91%
S&P 500	2159.73	+0.43%	+5.67%
Nasdaq	5316.02	+0.50%	+6.16%
Nikkei	16899.1	+0.47%	-11.63%
Stoxx 600	344.197	-0.55%	-5.91%
CAC 40	4489.95	-0.29%	-3.17%
Oil /Gold			
Crude WTI	49.83	+2.34%	+33.95%
Gold (once)	1269.72	-1.08%	+19.52%
Currencies/Rates			
EUR/USD	1.12	+0.38%	+3.10%
EUR/CHF	1.09435	-0.01%	+0.64%
German 10 years	-0.079	-51.16%	-112.48%
French 10 years	0.263	+56.39%	-73.23%

Economic releases :

Date	
6th-Oct	08h00 DE Factory orders (+1.6% y/y E) 09h15 CH - CPI EU harmonized Sep. (0.0% y/yE) 10h10 EUZ retail PMI Sep. 14h30 US Initial Jobless claims Oct. 14h30 US - continuing Claims. 14h45 EIA Natural Gas report

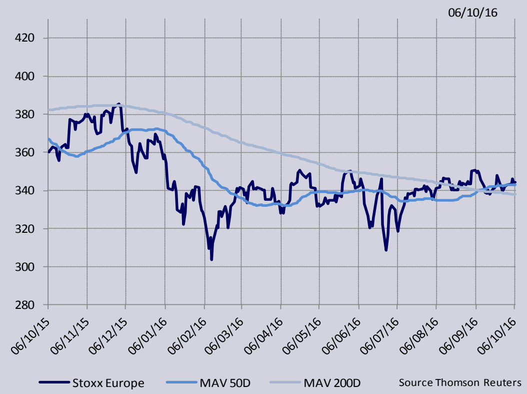
Upcoming BG events :

Date	
28th-Oct	IMERYS (Paris roadshow)
14th-Nov/ 15th-Nov	4th Paris Healthcare Conference
28th-Nov/ 29th-Nov	2nd Paris Consumer Conference

Recent reports :

Date	
4th-Oct	LAFARGE HOLCIM This is still a Buy
4th-Oct	CASINO We are cautious ahead of Q3 figures
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!

List of our Reco & Fair Value : Please click here to download



ACCORHOTELS — BUY, Fair Value EUR42 (+22%)

CMD feedback: Booster project on track with tools for growth acceleration

First of all, the booster project i.e. the HotelInvest demerger, is definitely well on track with the creation of an independent legal entity and opening of the structure to investors. The project is due to be completed by mid-2017. In this context, management has updated HotelInvest GAV with the value increased to EUR7.3bn vs. EUR6.9bn at the end of 2015. Secondly, AccorHotels' mid-term expansion has been significantly increased based on the current pipeline and tools put in place under the digital plan and AccorHotels' developments in disruptive businesses. In an uncertain environment, but with no-profit warning on FY2016 results, the group's huge transformation should deliver results. We are confirming our positive viex on the stock, notably with a current standalone valuation of the asset light business significantly lower than comparable peers.

KERING — BUY, Fair Value EUR193 vs. EUR185 (+4%)

Gucci momentum should accelerate in Q3

Kering is due to release Q3 sales on 25th October (after market closure). Revenues should grow 7% organically of which +6.6% for the luxury division, highlighting an acceleration versus Q2 (+5.2%) and H1 (+4%). Gucci momentum should again accelerate in Q3. Ahead of this publication, we revise up our EBIT estimates by almost 3% and consequently our Fair Value from EUR185 to EUR193.

TESCO — SELL, Fair Value 170p vs. 166p (-18%)

Guidance already looks priced in

We were impressed by Tesco's management whose strategic options were fully validated in H1, judging from operating results (+104bp improvment in the UK&ROI margin!). This performance deserves applause! However, until the upcoming investor day (16th November), when the plan will be detailed, it is difficult to form a solid opinion on Tesco's ability to deliver a 3.5-4% group margin by 2019/20. And at this stage, with all due respect, we can only conclude that promises only bind those who believe in them.

CAR PART MANUFACTURERS

Limited Brexit impact on auto demand in UK with registrations up 1.6% in September

UK auto association SMMT has unveiled reassuring statistics for UK auto demand in September. The global market was up 1.6% YoY to 470k vehicles driven primarily by commercial fleets (+7.3%) while demand from private households declined by 1.7%. On an YTD basis the market was still up 2.6% making us confident with our 3.5% growth estimate for 2016. Comparison bases in October and November should be more favourable.

In brief...

ALTICE, ***Exchange offer on SFR too imprecise according to AMF***

DIALOG SEMICONDUCTOR, ***Preliminary Q3 revenue well above the Street's expectations***

SPIRITS, ***Constellation acquires High West Distillery***

Hotels

AccorHotels

Price EUR34.46

CMD feedback: Booster project on track with tools for growth acceleration

Fair Value EUR42 (+22%) **BUY**

Bloomberg	AC FP
Reuters	ACCP.PA
12-month High / Low (EUR)	46.1 / 30.0
Market Cap (EUR)	9,809
Ev (BG Estimates) (EUR)	9,614
Avg. 6m daily volume (000)	1 143
3y EPS CAGR	10.0%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-4.0%	-0.8%	-5.3%	-13.9%
Travel&Leisure	-4.7%	5.5%	-6.1%	-15.9%
DJ Stoxx 600	-1.8%	6.2%	4.9%	-5.9%

YEnd Dec. (€m)	2014	2015	2016e	2017e
Sales	5,454	5,581	5,736	6,277
% change		*2.3%*	*2.8%*	*9.4%*
EBITDA	923	987	1,040	1,205
EBIT	602.0	665.0	695.5	828.1
% change		*10.5%*	*4.6%*	*19.1%*
Net income	386.0	441.8	441.2	514.2
% change		*14.5%*	*-0.1%*	*16.5%*

	2014	2015	2016e	2017e
Operating margin	11.0	11.9	12.1	13.2
Net margin	4.1	4.4	6.6	7.9
ROE	6.2	6.8	10.2	14.5
ROCE	12.4	14.5	11.5	15.1
Gearing	4.1	-4.9	20.0	19.7

(€)	2014	2015	2016e	2017e
EPS	1.52	1.59	1.70	2.03
% change	-	*4.6%*	*6.5%*	*19.4%*
P/E	22.6x	21.6x	20.3x	17.0x
FCF yield (%)	6.3%	6.3%	6.1%	7.6%
Dividends (€)	0.95	1.00	1.00	1.10
Div yield (%)	2.8%	2.9%	2.9%	3.2%
EV/Sales	1.8x	1.7x	1.8x	1.7x
EV/EBITDA	10.8x	9.7x	10.2x	8.7x
EV/EBIT	16.6x	14.5x	15.3x	12.7x

First of all, the booster project i.e. the HotelInvest demerger, is definitely well on track with the creation of an independent legal entity and opening of the structure to investors. The project is due to be completed by mid-2017. In this context, management has updated HotelInvest GAV with the value increased to EUR7.3bn vs. EUR6.9bn at the end of 2015. Secondly, AccorHotels' mid-term expansion has been significantly increased based on the current pipeline and tools put in place under the digital plan and AccorHotels' developments in disruptive businesses. In an uncertain environment, but with no-profit warning on FY2016 results, the group's huge transformation should deliver results. We are confirming our positive viex on the stock, notably with a current standalone valuation of the asset light business significantly lower than comparable peers.

ANALYSIS

- **Booster project well engaged…:** Launched mid-July, management has confirmed the target of mid-2017 for completion of the demerger with a next update due on 22nd February 2017 (FY 2016 results). In terms of financial implementation, assets have been revalued with a GAV of EUR7.3bn as of 30th June 2016 vs. EUR6.9bn at the end of 2015 with an overall limited tax friction estimated below 5% of GAV transferred to the new HotelInvest structure. In fact, the new structure will receive around 90% of current GAV i.e. c.EUR6.5bn, with 10% remaining in AccorHotels and linked to Orbis (53% stake). The GAV fully reflects market reality, with management confirming that with the repositioning of HotelInvest's portfolio, all hotels were sold in a range of 95% to 110% of GAV.
- **…with a positive financial impact on AccorHotels:** Assuming that Accorhotels sells off 70% of HotelInvest for EUR6.5bn in GAV (management's guidance is between 50% and 80%), AccorHotels will receive EUR4.5bn. Taking into account current net debt amounting to EUR1.4bn (gross debt of EUR3bn with cash of EUR1.6bn), this should represent financial leverage of 2.8x based on an EBITDA 2017e of c. EUR500m. As such, most of the cash received from the disposal will be free to use. Management is not ruling out any options (organic growth, return to shareholders, selective M&A, balance sheet optimisation).
- **New mid-term expansion objective with a significant change in revenue and profit mix:** As seen in H1, AccorHotels' expansion accelerated. Confirming a pipeline stronger than ever, management announced that potential for growth is sustainable over the long term with a new mid-term annual guidance of between 40-45krooms compared with 30-35krooms between 2010-2015. Moreover, and following the FRHI acquisition, new openings will concern 25% luxury segment (vs.20%), 30% midscale and 45% economy (vs.50%), which will increase part of the fees generated by the luxury segment to around 50% vs. 30% today. As a reminder, AccorHotels+FRHI is now no. 2 in terms of the number of hotels in luxury (193 vs. 227 for Marriott-Starwood and 183 for IHG).
- **Digital plan which continues to deliver results:** Launched in October 2014 with total investment of EUR250m (55% capex and 45% opex) including Fastbooking MarketPlace, the digital plan is delivering clearly concrete results notably with an increase of 68% in properties distributed with the market place (6,300 hotels vs. 3,717 in 2014), of 60% in rooms booked via AccorHotels central reservation system (TARS) or today, Le Club AccorHotels totalling 28m members ticking 9 boxes out of 14 att he Freddie awards in 2015 and 2016. To sum-up, the plan is bearing fruit with technology foundation fully in place.

VALUATION

- **FY 2016 guidance implicitly confirmed:** Without any news during yesterday's capital market day, management implicitly confirmed FY guidance ahead of the Q3 revenue release on 18th October i.e. EBIT between EUR670m/EUR720m. Our forecast is EUR695m vs. consensus at EUR684m.
- At the current share price, the stock is trading on EV/EBITDA multiples of 10.2x for 2016e and 8.7x for 2017e. Assuming a HotelInvest valuation of EUR7.3bn, the implied valuation of HotelServices is c. EUR3.9bn i.e. 2017e EV/EBITDA of 7.8x vs. an asset-light comparable valuation of c.12x for IHG or Marriott/Starwood.

NEXT CATALYSTS

- Q3 revenue on 18th October 2016
- FY results on 22nd February 2017 *Click here to download*

Analyst :
Bruno de La Rochebrochard
33(0) 1 56 68 75 88
bdelarochebrochard@bryangarnier.com

Luxury & Consumer Goods

Kering

Price EUR185.90

Bloomberg	PP FP
Reuters	PRTP.PA
12-month High / Low (EUR)	186.6 / 138.6
Market Cap (EUR)	23,473
Ev (BG Estimates) (EUR)	26,273
Avg. 6m daily volume (000)	231.7
3y EPS CAGR	14.1%

	1 M	3 M	6 M	31/12/15
Absolute perf.	6.3%	28.9%	22.5%	17.7%
Pers & H/H Gds	-3.1%	0.6%	3.7%	1.3%
DJ Stoxx 600	-1.8%	6.2%	4.9%	-5.9%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	11,584	12,160	12,955	13,630
% change		*5.0%*	*6.5%*	*5.2%*
EBITDA	2,056	2,270	2,530	2,710
EBIT	1,646	1,850	2,090	2,270
% change		*12.4%*	*13.0%*	*8.6%*
Net income	1,017	1,183	1,383	1,534
% change		*16.3%*	*16.9%*	*10.9%*

	2015	2016e	2017e	2018e
Operating margin	14.2	15.2	16.1	16.7
Net margin	8.8	9.7	10.7	11.3
ROE	8.7	9.2	10.1	10.8
ROCE	5.8	6.6	7.3	7.9
Gearing	37.7	27.1	21.9	21.2

(EUR)	2015	2016e	2017e	2018e
EPS	8.05	9.36	10.86	11.95
% change	-	*16.3%*	*16.0%*	*10.1%*
P/E	23.1x	19.9x	17.1x	15.6x
FCF yield (%)	1.2%	2.8%	3.7%	4.3%
Dividends (EUR)	4.00	4.30	4.70	5.20
Div yield (%)	2.2%	2.3%	2.5%	2.8%
EV/Sales	2.4x	2.2x	2.0x	1.9x
EV/EBITDA	13.3x	11.6x	10.2x	9.5x
EV/EBIT	16.6x	14.2x	12.3x	11.4x

Gucci momentum should accelerate in Q3

Fair Value EUR193 vs. EUR185 (+4%) **BUY**

Kering is due to release Q3 sales on 25th October (after market closure). Revenues should grow 7% organically of which +6.6% for the luxury division, highlighting an acceleration versus Q2 (+5.2%) and H1 (+4%). Gucci momentum should again accelerate in Q3. Ahead of this publication, we revise up our EBIT estimates by almost 3% and consequently our Fair Value from EUR185 to EUR193.

ANALYSIS

- **Kering is due to report its Q3 and 9m sales on 25th October** (after market closure). For Q3, we expect sales to reach EUR3.09bn, up 6.7% and +7% organically. For **Kering Luxury** alone, we expect sales to accelerate slightly at +6.6% vs +5.2% in Q2 and +4% in H1, while **Puma** revenues are expected to show further strong gains (+10.3%).

- **Encouraging growth at Kering Luxury is set to be driven by the revival of the Gucci brand** (60% of Kering EBIT) that should confirm and even amplify the trend seen since Q1 2016. For Q3 2016, we argue that new collections from Alessandro Michele have accounted for around 80% of the brand's sales versus 70% in Q2. Momentum remained very well oriented for shoes and ready to wear but also for leather goods, which was not so much the case in H1. The impact of the new Gucci handbag, *Marmont*, sold for close to EUR1,400 has had a positive impact in Q3 as it was launched during the summer. Gucci retail sales (82% of Gucci sales) should clearly accelerate after +7% in Q2 while wholesale sales momentum would remain strong despite some slowdown vs +15% in Q2.

- On the other hand, **Bottega Veneta (17% of Kering EBIT)** revenues are still expected to be down after -9.8% in Q2, and could even shown a deterioration. At this point, we would underscore the appointment of Claus Dietrich Lars as the brand's new CEO. **YSL** sales momentum is expected to remain very strong after a robust H1 (+24.2%) and Q2 (+22%). We also expect a very dynamic Q3 at **Puma**, albeit probably slightly lower than the terrific Q2 (+13.2%) helped by the positive impact of the EURO 2016 football tournament.

Quarterly organic sales growth

in %	FY 15	Q1 16	Q2 16	H1 16	Q3 16e	9M 16e
Gucci	0.4	3.1	7.4	5.4	10.0	7.0
Bottega Veneta	3.2	-8.3	-9.8	-9.1	-10.3	-9.5
YSL	25.8	26.5	22.0	24.2	20.9	23.0
Others	3.1	-3.3	2.9	0.0	3.0	1.0
Total Luxury	**4.1**	**2.7**	**5.2**	**4.0**	**6.6**	**5.0**
PUMA	6.8	8.1	13.2	10.6	10.3	10.5
Kering Group	**4.6**	**4.0**	**3.7**	**3.9**	**7.3**	**6.3**

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

- In **Western Europe** (33% Kering Luxury sales), we estimate that Q3 momentum should globally remain the same as in Q2 (+5%), with a soft French market (7% of sales) but other European countries are well oriented. On the other hand, we could expect momentum to improve in **North America** (20% of Kering Luxury sales) and in **APAC** (30% of Kering Luxury revenues). In NA, the acceleration should be driven by better tourist flows from Japan to Hawaii (stronger JPY) and from Brazil to Florida (stronger BRL). Nevertheless, activity in **Japan** (10% of sales) is likely to remain under pressure (less Chinese tourists and less purchases from locals as they travel more).

- **Ahead of Q3 sales release**, we revise up our FY 2016 estimates by almost 3% with sales up 6% organically vs +5.4% previously and EBIT margin up 100bp to 15.2% (14.9% previously).

VALUATION

- **The Kering share has been one of the best performers YTD (+18%) and over 3m (+28%)**. The stock is trading on a limited 2% premium vs the luxury goods sector average.

NEXT CATALYSTS

- Q3 sales to be reported on 25th October.

Click here to download

Analyst :
Loïc Morvan
33(0) 1 70 36 57 24
lmorvan@bryangarnier.com

Sector Team :
Nikolaas Faes
Antoine Parison
Cédric Rossi
Virginie Roumage

Food retailing

Tesco

Price 207.10p

Guidance already looks priced in

Fair Value 170p vs. 166p (-18%) **SELL**

Bloomberg	TSCO LN
Reuters	TSCO.L
12-month High / Low (p)	207.1 / 139.2
Market Cap (GBP)	16,929
Ev (BG Estimates) (GBP)	28,741
Avg. 6m daily volume (000)	28 924
3y EPS CAGR	103.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	22.2%	17.8%	10.4%	38.5%
Food Retailing	0.1%	4.6%	-1.0%	-0.1%
DJ Stoxx 600	-1.8%	6.2%	4.9%	-5.9%

YEnd Feb. (GBPm)	02/16	02/17e	02/18e	02/19e
Sales	54,433	55,871	57,023	58,259
% change		*2.6%*	*2.1%*	*2.2%*
EBITDA	2,278	2,378	2,592	2,876
EBIT	1,046	1,140	1,412	1,669
% change		*8.9%*	*23.9%*	*18.3%*
Net income	103.5	550.6	667.5	868.9
% change			*21.2%*	*30.2%*

	02/16	02/17e	02/18e	02/19e
Operating margin	1.7	2.2	2.5	2.9
Net margin	0.2	1.0	1.2	1.5
ROE	NM	NM	NM	NM
ROCE	4.5	5.9	6.8	8.0
Gearing	59.3	111.8	102.3	90.8

(p)	02/16	02/17e	02/18e	02/19e
EPS	1.27	6.79	8.23	10.72
% change	-		*21.2%*	*30.2%*
P/E	NS	30.5x	25.2x	19.3x
FCF yield (%)	0.1%	0.0%	0.0%	0.0%
Dividends (p)	0.00	0.00	2.47	4.29
Div yield (%)	NM	NM	1.2%	2.1%
EV/Sales	0.5x	0.5x	0.5x	0.5x
EV/EBITDA	11.3x	12.1x	11.0x	9.8x
EV/EBIT	24.6x	25.2x	20.2x	16.9x

We were impressed by Tesco's management whose strategic options were fully validated in H1, judging from operating results (+104bp improvment in the UK&ROI margin!). This performance deserves applause! However, until the upcoming investor day (16th November), when the plan will be detailed, it is difficult to form a solid opinion on Tesco's ability to deliver a 3.5-4% group margin by 2019/20. And at this stage, with all due respect, we can only conclude that promises only bind those who believe in them.

There is no denying that Tesco's management was rather impressive in explaining its mid-term ambitions yesterday. As a reminder, it expects to deliver a group operating margin of between 3.5% and 4.0% by 2019/20, which is a very encouraging assumption when looking at the current consensus level (+2.8% for 2018/19). The guidance is all the more appealing in that it does not seem to take into account any return to inflation in the UK. Hence the very positive share price reaction yesterday (+10%), unhampered by the GBP3bn increase in the pension deficit.

The group's ambition is underpinned by drivers including GBP1.5bn in operating cost reductions to further invest in the offer, offset natural cost inflation and enhance profitability. Alongside these cost reductions, Tesco will be looking to further differentiate its brand, focus on cash generation, optimise the margin mix and maximise the value of property. Some of these initiatives will require investment and hence Tesco expects capex to average GBP1.4bn per annum out to 2019/20.

Management notably expects to reduce operating costs by a further GBP1.5bn through **1/** operational improvements (change in trading hours, single customer service desks, replenishment savings, scan as you shop services…), **2/** logistics and distribution (sales forecasting and lower stock holding, lower fulfilment costs, integration of supply and logistical systems, common international systems…) and **3/** scale (single procurement policy, IT systems…).

ANALYSIS

- We have to admit that we were impressed by Tesco's management whose strategic options (notably in favour of fresh products) were fully validated in H1, judging from operating results (+104bp improvment in the UK&ROI margin!). This performance deserves applause!
- That said, in view of the share price reaction, it seems that the market is also betting on an acceleration in the recovery in a context that remains highly uncertain, especially as regards how competitors (notably discounters and Asda) will behave going forward.
- Whatever the case, management will have to be more specific about the levers set to make its guidance feasible at the analysts' day scheduled for 16th November. Until then, it is difficult to form a solid opinion and we would almost conclude that promises only bind those who believe in them.
- At this stage, we can only assess what a margin ranging from 3.5% to 4.0% implies in terms of valuation (with a 100bp margin gap in favour of international business vs the UK). We base our DCF on a 7.22% WACC (risk free rate of 1.6% and risk premium of 7.0%), growth to infinity of 1.2%, while restating our EV for the pension deficit.
- By doing so, we conclude that a valuation for Tesco could range from 170p per share to 210p per share, which is actually the current share price. Hence we struggle to buy into news which, at this stage, could be considered pretty much as wishful thinking.

VALUATION

- We base our Fair Value (170p) on a DCF with a 3.5% normative margin rate at the low end of the mid-term guidance range.

NEXT CATALYSTS

- Investor day on 16th November.

Click here to download

Analyst :
Antoine Parison
33(0) 1 70 36 57 03
aparison@bryangarnier.com

Sector Team :
Nikolaas Faes
Loïc Morvan
Cédric Rossi
Virginie Roumage

Sector View

Car Part Manufacturers

Limited Brexit impact on auto demand in UK with registrations up 1.6% in September

	1 M	3 M	6 M	31/12/15
Auto & Parts	1.1%	19.5%	6.3%	-12.0
DJ Stoxx 600	-1.8%	6.2%	4.9%	-5.9

*Stoxx Sector Indices

Companies covered

FAURECIA		**BUY**	**EUR47**
Last Price	EUR35.33	*Market Cap.*	EUR4,871m
HELLA		**BUY**	**EUR45**
Last Price	EUR35.45	*Market Cap.*	*EUR3,939m*
PLASTIC OMNIUM		**BUY**	**EUR36**
Last Price	EUR29.88	*Market Cap.*	*EUR4,556m*
VALEO		**NEUTRAL**	**EUR49**
Last Price	EUR52.44	*Market Cap.*	*EUR12,501m*

UK auto association SMMT has unveiled reassuring statistics for UK auto demand in September. The global market was up 1.6% YoY to 470k vehicles driven primarily by commercial fleets (+7.3%) while demand from private households declined by 1.7%. On an YTD basis the market was still up 2.6% making us confident with our 3.5% growth estimate for 2016. Comparison bases in October and November should be more favourable.

ANALYSIS

- **A market up in September, driven by solid demand from professionals:** According to the SMMT figures unveiled yesterday, British automotive registrations *(PC+LCV)* were up **1.6% YoY in September** with **469.7k** registered vehicles on an already tough comparable basis. This growth was mainly **driven by commercial fleets**, as has been the case since Q2 2016, for which demand rose by **7.3%** YoY this month while demand from private households declined by **1.7%**. On a YTD basis, the UK market *(PC+LCV)* was still up **2.6%** with LCV *(commercial fleets and business vehicles)* up **4.5%** as the sole driver and demand for PC stabilising at **+0.4%**. As a reminder, the UK market is historically turned towards the professionals segment representing around **55%** of registrations (*with commercial fleets representing 50-52% of British registrations)*.

- **More demand for greener vehicles:** The share of diesel engines continued to decline among new registrations but in line with the fall in demand for petrol heat engines. Since January, diesel motorisations have represented **47.6%** of new sold cars *(vs. 48% on the same period in 2015 and 50% in 2014)* while petrol heat engines represented **49.1%** vs. **49.4%** a year ago. These motorisation changeovers were made to the benefit of hybrid/EV models (*3.3% market share since January 2016 vs. 2.7% for similar period in 2015*).

- **Strong demand for premium models:** The top three leading OEMs in the market strongly outperformed global demand in September with **Volkswagen** *(-4% YoY*), **Ford** *(-11% YoY*) and **GM** *(-5% YoY*) the worst performers. On the contrary, premium brands performed well with **Daimler** *(+17% YoY*) and **BMW** *(+12% YoY*) gaining market share. Even **Audi** *(+9% YoY)* does not seem to have suffered from the VW emissions scandal. The situation is more mixed among French OEMs, as observed in other European markets. Thanks to a more favourable product mix (*new Scenic, new Megane…),* Renault performed impressively compared with its main French peer PSA (*+15% vs. -13% in September YoY, +12% vs. -4% YTD*). Citroën is trimming PSA's growth while Dacia is driving Renault's.

- **Conclusion:** We still expect the UK market (*PC+LCV*) to gain **3.5%** in 2016 despite a tough summer and the weak growth rate observed in September. The low growth noted during the month proves that at this stage the impact of Brexit remains limited *(+1.6% vs. high single to double-digit percentage decline estimated by business intelligences*), or at least contained to individual buyers. Moreover, the recent removal of some uncertainties linked to Brexit (*activation of EU Article 50 by UK by March 2017, the UK Prime Minister's aim for a maximum trade freedom post-Brexit imply low or no import duties*) should encourage OEMs to maintain their commercial efforts and British consumers not to postpone their vehicle purchases.

VALUATION

- At the current share price, the automotive sector is trading at **12x** 2017e EBIT and at **14x** 2017 earnings

- **BG Auto Top pick**: **Faurecia** (*Buy, FV @ EUR47*) and **BG Q4 Top pick**: **Plastic Omnium** (*Buy, FV @ EUR36*)

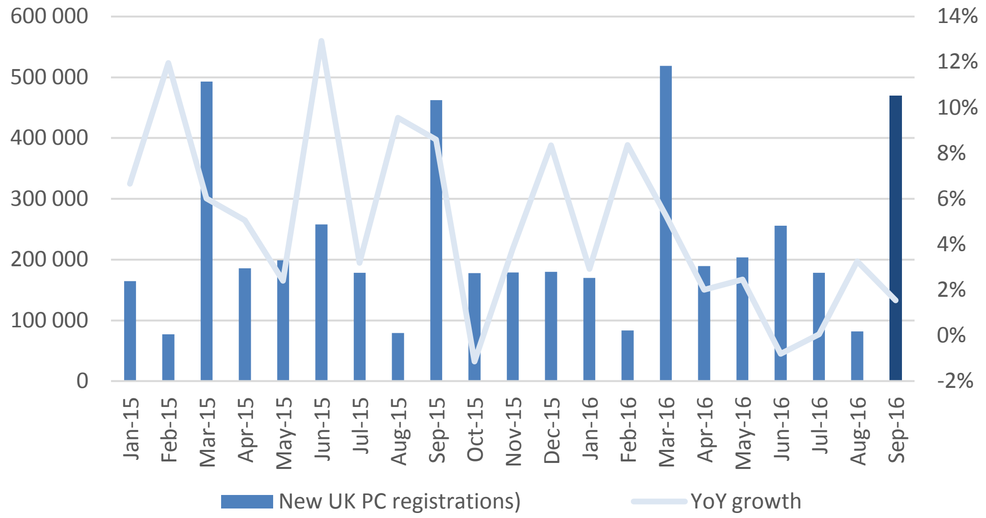
NEXT CATALYSTS

- 13rd October – Faurecia // Q3-16 sales

- 20th October – Plastic Omnium // Q3-16 sales

- 20th October – Valeo // Q3-16 sales

Chart1: British PC+LCV monthly market evolution



Click here to download

Analyst :
Xavier Caroen
33(0) 1.56.68.75.18
xcaroen@bryangarnier.com

Research Assistant :
Clément Genelot

TMT

Altice

Price EUR16.38

Bloomberg	ATC NA
Reuters	ATCA.AS
12-month High / Low (EUR)	20.3 / 10.0
Market Cap (EURm)	17,924
Avg. 6m daily volume (000)	1 495

	1 M	3 M	6 M	31/12/15
Absolute perf.	6.1%	23.3%	19.9%	23.6%
Telecom	-3.6%	-1.5%	-5.7%	-15.9%
DJ Stoxx 600	-1.8%	6.2%	4.9%	-5.9%

	2015	2016e	2017e	2018e
P/E	NS	NS	19.5x	13.2x
Div yield (%)	NM	NM	NM	NM

Exchange offer on SFR too imprecise according to AMF

Fair Value EUR16,5 (+1%) **BUY**

ANALYSIS

- After blocking Altice's exchange offer on SFR on Tuesday, AMF said on Wednesday it had blocked the operation because it **lacked information** for minority shareholders to make an appropriate and informed judgment.
- The AMF pointed out that the parity was at a **low point**, but **did not reject the offer for that reason**. It said that Altice had provided "**imprecise**" information about the planned remuneration model between SFR and Altice, it could not be taken into account in the analysis of the proposed parity and minority shareholders **needed more information** to analyse the offer.
- "In this context, it is therefore not possible to consider that the information provided to the minority shareholders, including the basis of the selected exchange ratio, is **complete, intelligible and consistent**" the AMF said.
- We indeed believe the planned remuneration model, which could represent **between 2% and 3% of SFR revenues**, could have a **negative impact** on SFR, benefiting Altice, and therefore **influencing decisions by SFR's minority shareholders**.

VALUATION

- We stick to our Fair Value of EUR16.5 with a Buy recommendation.

NEXT CATALYSTS

- Q3 results on 10th November

Click here to download

Thomas Coudry, tcoudry@bryangarnier.com

TMT

Dialog Semiconductor

Price EUR34.36

Preliminary Q3 revenue well above the Street's expectations

Fair Value EUR37 (+8%) **BUY**

Bloomberg	DLG GR
Reuters	DLGS.DE
12-month High / Low (EUR)	40.7 / 24.4
Market Cap (EURm)	2,630
Avg. 6m daily volume (000)	5.50

	1 M	3 M	6 M	31/12/15
Absolute perf.	11.9%	33.2%	-1.8%	10.1%
Semiconductors	4.1%	28.8%	28.1%	24.6%
DJ Stoxx 600	-1.8%	6.2%	4.9%	-5.9%

	2015	2016e	2017e	2018e
P/E	12.7x	18.5x	12.6x	9.6x
Div yield (%)	NM	NM	NM	NM

ANALYSIS

- **Late yesterday, Dialog published a short press release to announce preliminary Q3 2016 revenue of USD345m, i.e. 13% above consensus expectations at USD305m** (BG ests. Q3 2016 revenue of USD304.7m). This revenue level is also 13% above the mid-range of Dialog's July guidance for Q3 revenue in the range of USD290m and USD320m, and represents a sequential revenue increase of 40.5% (+4.5% yoy). The group explained that the higher than expected revenue in Q3 was partially the result of a delivery date pulled forward to Q3 but originally expected to be shipped in Q4. This was to accommodate a customer ordering Mobile Systems (we immediately think "Apple") as there is a public holiday in China during the first week of October.

- **The group adds it will review its Q4 2016 and full year guidance** (Dialog expects FY16 revenue to be down 15% compared to FY15) **during the coming weeks. With no further details, we understand that Q4 expectations** (BG ests. Q4 2016 revenue of USD361.4m) **should be adjusted lower to take into account the order that moved into Q3**. As a result, there should be no impact on FY16 expectations, nevertheless a positive surprise might come given the supportive environment. Better than expected iPhone 7 traction (note that Apple represents about 80% of Dialog's revenue) and the cautious approach adopted by management during the Q2 results conference call lead us to believe that FY16 results could be higher than the latest July guidance for FY revenue down about 15% (i.e. about USD1,150m).

VALUATION

- **We believe the stock is poised to react positively today. However, note also that over a 3-month period, the stock performance was up 33% leading us to believe that part of the positive newsflow has been priced in already.** Based on our estimates, Dialog's shares trade at 2016e/2017e P/E ratios of 18.5x/12.6x respectively and 2016e/2017e PEG ratios of 1.8x/1.2x.

NEXT CATALYSTS

- 3rd November 2016: Q3 2016 results

Click here to download

Dorian Terral, dterral@bryangarnier.com

Sector View

Spirits

Constellation acquires High West Distillery

	1 M	3 M	6 M	31/12/15
Food & Bev.	-1.1%	1.1%	4.8%	0.9%
DJ Stoxx 600	-1.2%	4.9%	3.5%	-5.4%

*Stoxx Sector Indices

Companies covered

CAMPARI	**BUY**	**EUR10,5**
DIAGEO	**NEUTRAL**	**2100p**
PERNOD RICARD	**NEUTRAL**	**EUR112**
REMY COINTREAU	**BUY**	**EUR84**

ANALYSIS

- Yesterday Constellation announced it had agreed to purchase Utah craft whiskey producer High West Distillery, beating rivals such as Moet Hennessy and Pernod Ricard. The price was not disclosed but was rumoured to be around USD150m. Constellation has been an aggressive acquirer over the past 18 months, adding nearly USD2bn worth of new business.
- High West Distillery has shown double digit volume growth year on year for the past three years. It currently sells around 70,000 cases a year, across a portfolio including four core products: American Prairie Bourbon, Double Rye!, Rendezvous Rye and Campfire. The company was founded in 2004 by David and Jane Perkins and now has four locations. In 2015, it opened its own distillery, which strengthened its craft credentials.
- Craft spirits launches increased by 265% between 2011 and 2015, according to Mintel. Today, one in seven launches is positioned as craft. Faced with this phenomenon, spirits groups are revamping their communication, creating limited editions/new brands and trying to acquire some of these craft brands. The last deals were Angel's Envy by Bacardi in 2015 and Monkey 47 by Pernod Ricard at the beginning of 2016. They have also created corporate venture capital firms to identify the opportunities (Distill Ventures of Diageo or Constellation Ventures)

NEXT CATALYSTS

- Rémy Cointreau: Q2 2016/17 sales on 18th October
- Pernod Ricard: Q1 2016/17 sales on 20th October

Click here to download

Virginie Roumage, vroumage@bryangarnier.com

Bryan Garnier stock rating system

For the purposes of this Report, the Bryan Garnier stock rating system is defined as follows:

Stock rating

BUY	Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
NEUTRAL	Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
SELL	Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

Distribution of stock ratings

BUY ratings 56.5% NEUTRAL ratings 31.8% SELL ratings 11.7%

Bryan Garnier Research Team

Healthcare Team	**Pharmaceuticals**	**Eric Le Berrigaud** ***(Head of Equities)***	33 (0) 1 56 68 75 33	eleberrigaud@bryangarnier.com
	Biotech/Medtech	**Mickael Chane-Du**	33 (0) 1 70 36 57 45	mchanedu@bryangarnier.com
	Medtech/Biotech	**Hugo Solvet**	33 (0) 1 56 68 75 57	hsolvet@bryangarnier.com
Consumer Team	**Luxury/Consumer Goods**	**Loïc Morvan**	33 (0) 1 70 36 57 24	lmorvan@bryangarnier.com
	Beverages	**Nikolaas Faes**	33 (0) 1 56 68 75 72	nfaes@bryangarnier.com
	Retailing	**Antoine Parison**	33 (0) 1 70 36 57 03	aparison@bryangarnier.com
	Luxury /Consumer Goods	**Cedric Rossi**	33 (0) 1 70 36 57 25	crossi@bryangarnier.com
	Food & Beverages	**Virginie Roumage**	33 (0) 1 56 68 75 22	vroumage@bryangarnier.com
TMT	**Video Games / Payments**	**Richard-Maxime Beaudoux**	33 (0) 1 56 68 75 61	rmbeaudoux@bryangarnier.com
	Telecom	**Thomas Coudry**	33(0) 1 70 36 57 04	tcoudry@bryangarnier.com
	Software & IT Services	**Gregory Ramirez**	33 (0) 1 56 68 75 91	gramirez@bryangarnier.com
	Semiconductor	**Dorian Terral**	33 (0) 1 56 68 75 92	dterral@bryangarnier.com
Utilities		**Xavier Caroen**	33 (0) 1 56 68 75 18	xcaroen@bryangarnier.com
		Pierre-Antoine Chazal	33 (0) 1 56 68 75 06	pachazal@bryangarnier.com
Insurance		**Olivier Pauchaut** ***(Head of Research)***	33 (0) 1 56 68 75 49	opauchaut@bryangarnier.com
Hotels/Business Services		**Bruno de La Rochebrochard**	33 (0) 1 56 68 75 88	bdelarochebrochard@bryangarnier.com
Construction/Infrastructures/Building Materials		**Eric Lemarié**	33 (0) 1 70 36 57 17	elemarie@bryangarnier.com
Automotive & Parts		**Xavier Caroen**	33 (0) 1 56 68 75 18	xcaroen@bryangarnier.com
Marketing		**Sophie Braincourt**	33(0) 1 56 68 75 36	sbraincourt@bryangarnier.com
Market Data & Information Systems Manager		**Eric Monnier**	33(0) 1 56 68 75 63	emonnier@bryangarnier.com

A copy of the Bryan Garnier & Co Limited conflicts policy in relation to the production of research is available at www.bryangarnier.com

London
Beaufort House
15 St. Botolph Street
London EC3A 7BB
Tel: +44 (0) 207 332 2500
Fax: +44 (0) 207 332 2559
Authorised and regulated by the Financial Conduct Authority (FCA)

Paris
26 Avenue des Champs Elysées
75008 Paris
Tel: +33 (0) 1 56 68 75 00
Fax: +33 (0) 1 56 68 75 01
Regulated by the Financial Conduct Authority (FCA) and the Autorité de Contrôle prudential et de resolution (ACPR)

New York
750 Lexington Avenue
New York, NY 10022
Tel: +1 (0) 212 337 7000
Fax: +1 (0) 212 337 7002
FINRA and SIPC member

Munich
Widenmayerstrasse 29
80538 Munich
Germany
+49 89 2422 62 11

BRYAN, GARNIER & CO