



7th October 2016

## BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
<b>Indices</b>			
Dow Jones	18268.5	-0.07%	+4.84%
S&P 500	2160.77	+0.05%	+5.72%
Nasdaq	5306.85	-0.17%	+5.98%
Nikkei	16860.09	-0.23%	-11.21%
Stoxx 600	342.816	-0.40%	-6.29%
CAC 40	4480.1	-0.22%	-3.38%
<b>Oil /Gold</b>			
Crude WTI	50.44	+1.22%	+35.59%
Gold (once)	1251.44	-1.44%	+17.80%
<b>Currencies/Rates</b>			
EUR/USD	1.11685	-0.28%	+2.81%
EUR/CHF	1.09455	+0.02%	+0.66%
German 10 years	-0.076	-3.74%	-112.01%
French 10 years	0.241	-8.21%	-75.43%

### Economic releases :

Date	
7th-Oct	9h45 FR Industrial Production 10h30 GB Industrial Prod. Aug. (1.3% E) 14h30 US unemployment rate (4.9% E) 14h30 US Change in Household employment Sep. 16h00 US Wholesale inventories aUG. 19h00 US Baker Hughes Rig count Oct.

### Upcoming BG events :

Date	
7th-Oct	ASTRAZENECA (BG Breakfast with CEO CFO)
21st-Oct	KORIAN (BG Geneva roadshow with CFO)
28th-Oct	IMERYS (Paris roadshow)
8th-Nov	LVMH (BG Luxembourg roadshow with IR)
14th-Nov/ 15th-Nov	4th Paris Healthcare Conference
18th-Nov	ENGIE (BG Luxembourg roadshow with IR)

### 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



### ALTICE

**BUY, Fair Value EUR19 vs. EUR16,5 (+17%)**

*Lower risk profile (UPDATE released today)*

We believe the company's risk profile has lowered over the past two quarters given the conjunction of three factors: market conditions on the debt side, confirmation of a positive outlook at the US and international levels, an expected return to EBITDA growth in France and enhanced cost-cutting initiatives offsetting medium term topline pressure. We maintain our Buy recommendation and increase our Fair Value to EUR19 from EUR16.5.

### SAINT-GOBAIN

**BUY, Fair Value EUR46 (+18%)**

*Endless sluggishness is not our scenario (FOCUS released today)*

Earlier this week, we organised a roadshow with Saint-Gobain. The company remains cautious regarding France, but admits new builds have started to positively impact the business and this underlies craftsmen's order books which have increased in 2016. The comparison basis should improve in Pipes, while Emerging Markets are remarkably resilient. Q3 on 27/10.

### SEMICONDUCTORS

*Semiconductor sales momentum continues to improve through the year, as expected*

Worldwide semiconductor sales growth for August came out above the usual seasonal average growth. According to WSTS data, unadjusted global semiconductor sales stood at USD28.6bn, up 4.9% on a sequential basis and up 4.5% on a yearly basis. This was about 350bps above our 5-y historical benchmark pointing to a sequential uptick of 1.4% in August. Computer processors, DRAM and flash memory were strong in August while analogue was helped by a low comparison basis. Overall, eight-month aggregated sales have dropped 3.7% yoy so far in 2016 but continued to improve as expected (YTD sales were down 6.5% in May). We continue to see an improvement in momentum through H2 thanks to an easier comparison basis.

### In brief..

**SFR GROUP, Cost cutting to offset pressured top line**

TMT

**Altice**

Price EUR16.30

Lower risk profile (UPDATE released today)

Fair Value EUR19 vs. EUR16,5 (+17%)

BUY

Bloomberg	ATC NA
Reuters	ATCA.AS
12-month High / Low (EUR)	20.3 / 10.0
Market Cap (EURm)	17,837
Ev (BG Estimates) (EURm)	66,417
Avg. 6m daily volume (000)	1 491
3y EPS CAGR	

We believe the company's risk profile has lowered over the past two quarters given the conjunction of three factors: market conditions on the debt side, confirmation of a positive outlook at the US and international levels, an expected return to EBITDA growth in France and enhanced cost-cutting initiatives offsetting medium term topline pressure. We maintain our Buy recommendation and increase our Fair Value to EUR19 from EUR16.5.

**ANALYSIS**

- Current **debt market conditions** are very good and Altice has proven lately its ability to **lead successful refinancing operations**. Moreover Altice has **no major maturity until 2022**, and we expect net debt to fall to **4.5x EBITDA by 2018**. As such, we see no reason to place additional stress on refinancing issues and are removing part of the refinancing risk **penalty** we included in our beta at initiation: we are therefore lowering our beta to **1.23** from 1.33.
- The first outlook on the US side since Altice closed the acquisition of Suddenlink and Cablevision is **very good**. We now have strong tangible signs of **significant value creation potential**, and we are confident Altice can deliver **revenue and EBITDA growth at the same time** in the region. The revenue trend is also improving in Portugal and EBITDA is enjoying **double digit growth**. In the US and Portugal, we are getting confirmation that the difficult situation faced in France should **not be extrapolated** to other perimeters in the group.
- Regarding France, although risks around operational efficiency remain unchanged at this time, the full-year effect of 2016 cost-cutting initiatives in 2017, as well as significant savings expected from the redundancy plan will help offset top-line pressure and leave time for investments and the operational turnaround to kick in.

**VALUATION**

- We maintain our Buy recommendation and increase our Fair Value to **EUR19 from EUR16.5**.

**NEXT CATALYSTS**

- Q3 results on 10th November.

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	1 M	3 M	6 M	31/12/15
Absolute perf.	6.5%	27.8%	20.1%	23.0%
Telecom	-4.9%	-0.1%	-8.1%	-17.2%
DJ Stoxx 600	-1.9%	7.5%	3.7%	-6.3%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	14,550	20,417	23,344	23,592
% change		40.3%	14.3%	1.1%
EBITDA	5,494	8,139	9,577	9,960
EBIT	0.0	0.0	0.0	0.0
% change		NM	NM	NM
Net income	-219.7	-848.0	990.3	1,969
% change		NS	NS	98.8%

	2015	2016e	2017e	2018e
Operating margin	8.4	15.1	18.1	22.9
Net margin	-1.5	-4.2	4.2	8.3
ROE	-11.1	181.6	850.8	95.8
ROCE	2.1	3.3	4.6	6.0
Gearing	693.0	10,727	3,303	1,338

(EUR)	2015	2016e	2017e	2018e
EPS	-0.28	-0.78	0.49	1.29
% change	-	NS	NS	NM
P/E	NS	NS	33.5x	12.6x
FCF yield (%)	0.2%	1.9%	4.9%	11.0%
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	3.7x	3.3x	2.8x	2.7x
EV/EBITDA	9.7x	8.2x	6.8x	6.4x
EV/EBIT	NS	NS	NS	NS



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Construction & Building Materials

**Saint-Gobain**

Price EUR38.91

Endless sluggishness is not our scenario (FOCUS released today)

Fair Value EUR46 (+18%)

BUY

Earlier this week, we organised a roadshow with Saint-Gobain. The company remains cautious regarding France, but admits new builds have started to positively impact the business and this underlies craftsmen's order books which have increased in 2016. The comparison basis should improve in Pipes, while Emerging Markets are remarkably resilient. Q3 on 27/10.

**ANALYSIS**

- France: the trend has clearly changed since last year. In H1 2016, organic growth stood at only 0.6%, but this would have exceeded 2% when adjusted for the difficult Pipes business. Adjusted for a positive 1% calendar effect, the growth is still positive and much better than the 2015 trend (-4.1%), despite various strikes (and floods) in France in May-June. We expect better trends in H2, with a further new-build positive impact, a better comp base for Pipes and a gradual recovery in renovation, which has been sluggish so far.
- The Rest of Europe is doing fine (4.3% organic growth in H1), in particular the Nordics (Sweden and Norway) with the distribution business, Germany (while 2015 was disappointing) and the UK (mostly distribution), where the group is not worried today despite Brexit. North America's (3.6%) performance has benefited from a healthy roofing business and from a positive construction environment so far. Industrial markets (~40% of US sales) are more complicated but Saint-Gobain is exposed to dynamic niches as well (medical, aerospace, high tech...). Finally, EM are remarkably strong (+4.9%), despite Brazil and China.
- Sika: the next step will in the first instance be the decision made by the Court of Zug (regarding the voting rights' limitation of the Burkard family) which is now expected in Q4 (said the Court). With appeals, legal delays may add up to 2 years. The current deal between SGO and the family ends in June 2017 but with an option to extend it until end 2018. EUR2.4bn is totally fixed, whatever the performance of Sika or CHF exchange rate.
- We are buyers of Saint-Gobain at the current share price. We believe the company will eventually benefit from the recovery in the French renovation market. Thanks to a strong 20-30% operating leverage in building distribution, this should be translated into stronger results.

**VALUATION**

- EUR46 with the application of historical EV/EBIT to our 2018 estimates, discounted back.

**NEXT CATALYSTS**

- Q3 revenues on 27th October 2016

Bloomberg	SGO FP
Reuters	SGOB.PA
12-month High / Low (EUR)	41.8 / 32.1
Market Cap (EURm)	21,590
Ev (BG Estimates) (EURm)	27,927
Avg. 6m daily volume (000)	1,690
3y EPS CAGR	16.8%

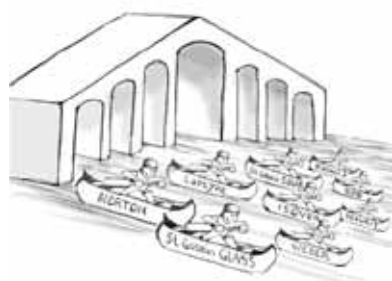
	1 M	3 M	6 M	31/12/15
Absolute perf.	-1.5%	19.5%	3.7%	-2.4%
Cons & Mat	-1.1%	15.6%	8.4%	5.2%
DJ Stoxx 600	-1.9%	7.5%	3.7%	-6.3%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	39,623	39,343	40,661	42,120
% change		-0.7%	3.4%	3.6%
EBITDA	3,844	4,027	4,533	4,959
EBIT	2,636	2,827	3,283	3,709
% change		7.2%	16.2%	13.0%
Net income	1,165	1,189	1,520	1,817
% change		2.0%	27.9%	19.5%

	2015	2016e	2017e	2018e
Operating margin	6.7	7.2	8.1	8.8
Net margin	1.1	3.2	3.9	4.5
ROE	6.1	6.2	7.6	8.7
ROCE	5.9	6.7	7.6	8.4
Gearing	24.8	24.7	21.7	17.6

(EUR)	2015	2016e	2017e	2018e
EPS	2.06	2.13	2.75	3.28
% change	-	3.7%	28.6%	19.5%
P/E	18.9x	18.2x	14.2x	11.9x
FCF yield (%)	5.6%	4.9%	6.0%	7.2%
Dividends (EUR)	1.24	1.30	1.30	1.30
Div yield (%)	3.2%	3.3%	3.3%	3.3%
EV/Sales	0.7x	0.7x	0.7x	0.6x
EV/EBITDA	7.3x	6.9x	6.0x	5.3x
EV/EBIT	10.7x	9.9x	8.3x	7.1x

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Sector View

**Semiconductors**

Semiconductor sales momentum continues to improve through the year, as expected

	1 M	3 M	6 M	31/12/15
Semiconductors	4.6%	33.2%	28.7%	25.3%
DJ Stoxx 600	-1.9%	7.5%	3.7%	-6.3%

\*Stoxx Sector Indices

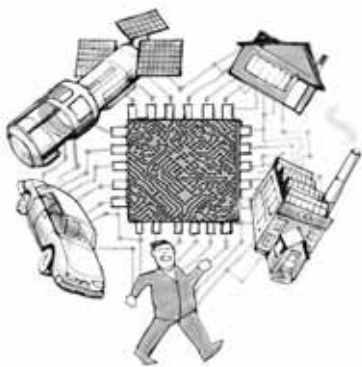
Companies covered

ams		NEUTRAL	CHF29
Last Price	CHF33.75	Market Cap.	CHF2,478m
ASML		SELL	EUR81
Last Price	EUR96.76	Market Cap.	EUR41,929m
DIALOG		BUY	EUR37
Last Price	EUR36.694	Market Cap.	EUR2,808m
INFINEON		BUY	EUR17.5
Last Price	EUR16.19	Market Cap.	EUR18,338m
MELEXIS		SELL	EUR48
Last Price	EUR64.7	Market Cap.	EUR2,614m
SOITEC		NEUTRAL	EUR0.5
Last Price	EUR0.86	Market Cap.	EUR521m
STMICROELECTRONICS		NEUTRAL	EUR6.5
Last Price	EUR7.335	Market Cap.	EUR6,682m
u-blox		BUY	CHF255
Last Price	CHF216.4	Market Cap.	CHF1,474m

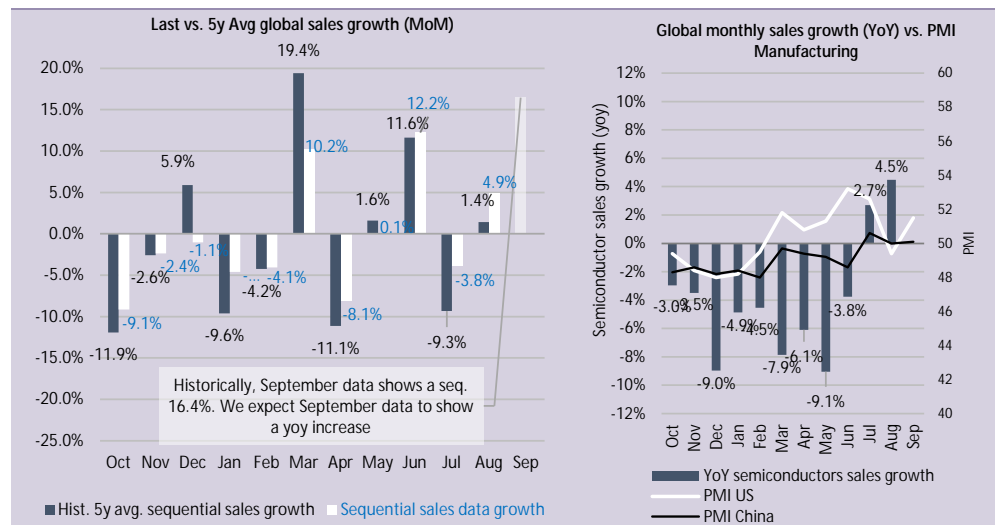
Worldwide semiconductor sales growth for August came out above the usual seasonal average growth. According to WSTS data, unadjusted global semiconductor sales stood at USD28.6bn, up 4.9% on a sequential basis and up 4.5% on a yearly basis. This was about 350bps above our 5-y historical benchmark pointing to a sequential uptick of 1.4% in August. Computer processors, DRAM and flash memory were strong in August while analogue was helped by a low comparison basis. Overall, eight-month aggregated sales have dropped 3.7% yoy so far in 2016 but continued to improve as expected (YTD sales were down 6.5% in May). We continue to see an improvement in momentum through H2 thanks to an easier comparison basis.

ANALYSIS

- Strong August data showed a continuous uptick in worldwide sales.** Unadjusted global semiconductor sales increased by 4.5% on a yearly basis to USD28.6bn in August. On a sequential basis, August sales were up 4.9% compared to July. This was above our 5-y historical benchmark showing a historical seasonal uptick of 1.4% in August compared to July. As a result, 2016 8-month sales declined by 3.7% compared to 2015. Indeed, note that based on the visibility we now have, we expect 2016 worldwide semiconductor sales to fall slightly (in the range of -2% to 0%). The environment in the Automotive and Industrial sectors remains healthy despite volumes sustainability being a potential threat. Regarding smartphones, momentum bounced back thanks to the good start of the iPhone 7.
- September and beyond: We expect September data to show a yoy increase.** August sales growth came out above the usual seasonal average growth, but in line with our expectations. In view of current visibility, we expect September sales momentum to also be slightly better than historical seasonality (i.e. a sequential uptick of 16.4%, +/-300bp). Thanks to the good start to the iPhone 7, the Smartphone segment's momentum bounced back but we are cautious regarding the sustainability of this trend over coming quarters. Eight-month vehicle production remains healthy overall, with production of light vehicles up 8.6% yoy (of which down 0.8% in China, up 9.6% in Europe and up 28.4% in the US). Over the mid-term, we continue to expect better momentum in H2 2016 (vs. H1) thanks to easier comparison in Automotive and Smartphones. Regarding PMI Manufacturing, we note that US ISM data for September was encouraging with the US PMI Manufacturing index at 51.5 compared with 49.4 in August. Note that we started the year with US PMI at 48.2 in January. Finally, Chinese and Eurozone PMI Manufacturing data were down 0.6ppt and down 0.3ppt respectively in September (to 50.1 and 52.6) while the German Industrial production (IFO) index increased by 0.1ppt to 106.3.



We expect September data to show a yoy increase



Sources: WSTS; ISM; Markit; Bryan, Garnier & Co ests.

## VALUATION

- **Semiconductor average valuation metrics decreased in September.** Our semiconductor valuation table shows that the overall valuation of the six main sub-sectors decreased in September. As of today, Intellectual Property & EDA and Fabless groups have the highest valuation metrics with average 2016e P/E ratios of 23.6x (down from 24.7x a month ago) and 23.5x (up from 23.0x a month ago) respectively. Conversely, Memory IDM and Foundry groups have the lowest valuation metrics with average 2016e P/E ratios of 11.8x (down from 16.2x a month ago) and 13.1x (stable) respectively. Currently, Logic & Analog IDM and Semi Equipment & Materials shows P/E ratios of 18.0x (up from 17.3x a month ago) and 16.2x (up from 15.9x a month ago) respectively.

## BG semiconductor sub-sector valuation table

Subsector average (# of comp.)	YTD price return		2016e			
	Avg. / Median	High / Low	EV/Sales	EV/EBITDA	EV/EBIT	P/E
Fabless (14)	24.4% / 11.6%	107.2% / -28.2%	2.8x	11.4x	15.6x	23.5x
Logic & Analog IDM (16)	18.6% / 17.8%	73.1% / -16.9%	3.4x	10.0x	13.0x	18.0x
Memory IDM (4)	31.7% / 32.0%	37.1% / 25.7%	1.0x	3.8x	6.2x	11.8x
Foundry (5)	15.8% / 12.7%	33.6% / -4.1%	1.6x	4.3x	13.2x	13.1x
Semi Equipmt & Materials (11)	15.8% / 12.3%	58.6% / -6.3%	2.3x	9.0x	11.3x	16.2x
Intellectual Property & EDA (9)	50.1% / 51.4%	89.7% / 21.8%	4.5x	16.2x	22.3x	23.6x

Numbers between brackets represent the number of companies in each category; green/red numbers are higher/lower per group.

Sources: valuation metrics based on consensus ests from Thomson Reuters; updated on 06/10/16

## NEXT CATALYSTS

- September 2016 WSTS global billing reports, expected for early November.

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TMT

**SFR Group**

Price EUR24.85

**Cost cutting to offset pressured top line**

Fair Value EUR29,7 vs. EUR28,7 (+20%)

NEUTRAL

Bloomberg	SFR FP
Reuters	SFRGP.PA
12-month High / Low (EUR)	38.1 / 20.0
Market Cap (EUR)	10,890
Avg. 6m daily volume (000)	346.8

	1 M	3 M	6 M	31/12/15
Absolute perf.	-1.8%	19.5%	-15.0%	-25.8%
Telecom	-4.9%	-0.1%	-8.1%	-17.2%
DJ Stoxx 600	-1.9%	7.5%	3.7%	-6.3%

	2015	2016e	2017e	2018e
P/E	17.1x	61.3x	29.1x	10.3x
Div yield (%)	21.7%	NM	NM	NM

**ANALYSIS**

- Although risks concerning operating efficiency remain **unchanged** at this time, the **full year effect of 2016 cost-cutting initiatives** in 2017, as well as **significant savings expected from the redundancy plan** should help **offset top line pressure** and leave time for investments and the operational turnaround to kick in.
- The challenge of **combining top line recovery and strong cost cutting** remains intact. Accordingly, we have downgraded our assumptions for mobile and fixed net adds over 2017, but we have impacted our model for France with a run-rate of **EUR335m in OPEX savings in 2018**, of which **EUR202m** in 2017, and associated restructuring costs of **EUR800m** spread over 2016 and 2017.
- We have also included in our model the **new media assets** acquired by SFR (Altice Media Group and NextRadioTV), accounting for an extra **EUR80m** in annual EBITDA post synergies.
- At this point, we have **not included** any new specific remuneration model between SFR and Altice which could **negatively** impact SFR.
- More detailed information is provided in our Altice update "Lower risk profile" published today.

**VALUATION**

- We have upgraded our Fair Value to EUR29.7 vs EUR 28.7, and are sticking to our Neutral recommendation.

**NEXT CATALYSTS**

- Q3 results on 10th November.

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## BG's Wake Up Call

# 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%

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## BRYAN, GARNIER & Co

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