Please find our Research on Bloomberg BRYG <GO>)

12th October 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	18128.66	-1.09%	+4.04%
S&P 500	2136.73	-1.24%	+4.54%
Nasdaq	5246.79	-1.54%	+4.78%
Nikkei	16840	-1.09%	-10.55%
Stoxx 600	340.166	-0.53%	-7.01%
CAC 40	4471.74	-0.57%	-3.57%
Oil /Gold			
Crude WTI	50.79	-1.09%	+36.53%
Gold (once)	1256.73	-0.24%	+18.29%
Currencies/Rates			
EUR/USD	1.10585	-0.88%	+1.80%
EUR/CHF	1.0927	-0.41%	+0.49%
German 10 years	-0.046	+329.79%	-107.26%
French 10 years	0.265	-9.55%	-73.01%
Euribor	-	+-%	+-%

Economic releases :

Date	
12th-Oct	8h00 JP - Machine Tool orders Sep. 11h00 EUZ - Industrial Prod. Aug.(1.0% E) 11h00 CH - Zew Survey 20h00 US - Fed releases minutes from Sept. 20-21 FOMC Meeting 14h00 US - Fed's W. Dudley speaks on U.S. Eco

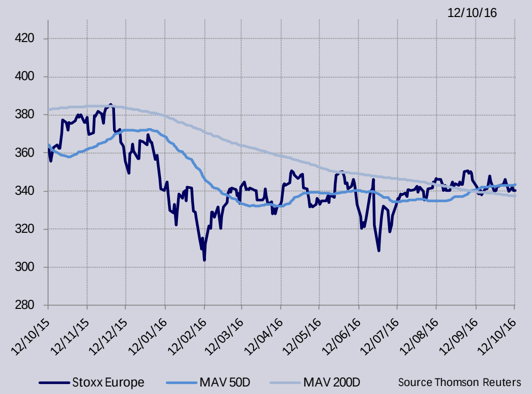
Upcoming BG events :

Date	
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)
24th-Nov	IMERYS (BG London roadshow with IR)

Recent reports :

Date	
11th-Oct	A INBEV Fox in the Hen House
7th-Oct	SAINT GOBAIN : Endless sluggishness is not our scenario (report released today)
7th-Oct	ALTICE Lower risk profile
7th-Oct	SAINT GOBAIN : Endless sluggishness is not our scenario (report released today)
7th-Oct	ALTICE Lower risk profile
4th-Oct	LAFARGE HOLCIM This is still a Buy

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



BOUYGUES — BUY Coverage initiated, Fair Value EUR35 (+19%)

Do not forget construction! (full report released today)

We are initiating coverage of Bouygues with a BUY recommendation and a fair value of €35. In our view the current share price factors in the reassuring outlook for Bouygues Telecom but under-estimates the positive trends linked to the construction activities. Supported by these two activities, Bouygues should return to FCF generation of around €900m by 2019. Without taking into account a possible consolidation move for the telecoms market in France.

INFINEON — BUY, Fair Value EUR17.5 (+8%)

Infineon product portfolio to foster market share gains in dynamic automotive market

Yesterday, Infineon hosted a conference call focusing on opportunities in the Automotive market (c. 40% of group's sales). We found the group's vision and strategy particularly convincing. We have already highlighted the strong momentum of autonomous driving and electric vehicles, and Infineon proved yesterday that it is perfectly positioned to take full advantage of these two megatrends. As a result, this conference strengthened our conviction that the group will reap the full benefits of its current portfolio and pipeline to growth faster than its competitors over the coming years. Overall, Infineon expects to grow by 8% on average through the cycle in Automotive, a forecast that is achievable in our view. We reiterate our Buy rating with a FV of EUR17.5.

TRANSGENE — CORPORATE, Fair Value EUR5 vs. EUR4.5 (+55%)

TG4001 to be tested in combination with avelumab in HPV+ head and neck cancer

The company announced yesterday the inking of a collaboration agreement with PFE/MRK to evaluate TG4001 in combination with their anti-PD-L1 (avelumab) in patients suffering from HPV+ head and neck cancer. We are cautiously optimistic (we see strong theoretical synergies between the two approaches, but many other promising cocktails are being evaluated). We raise our FV from EUR4.5 to EUR5.0 after having included the outlook associated with this novel combo.

LVMH — BUY, Fair Value EUR180 vs. EUR171 (+10%)

10% sales increase in Asia Pacific in Q3!

During yesterday's conference call, LVMH management provided more information on the 9m sales performance, The most important information was a 10% revenue increase in Asia Pacific in Q3 alone (vs +3% in Q2), and a 7% increase in Louis Vuitton sales during the quarter. All this leads us to revise up our 2016 EBIT by 4%. Hence our new EUR 180 Fair Value, vs EUR171 previously.

SAGE GROUP — SELL, Fair Value 690p vs. 600p (-6%)

Pound story

We reiterate our Sell rating, but increase our DCF-derived fair value to 690p from 600p on an upward revision of our adj. EPS ests. due to changes in our fx assumptions (+40p), and the roll-over of our DCF model to FY17 (+50p). Sage, which generates an est. 78% of its sales in foreign currencies, has benefited from the depreciation of the GBP since June. However, we consider a Neutral or a Buy rating could be justified only if the GBP drifts further, notwithstanding the fact we do not expect other catalysts short-term.

In brief...

BONE THERAPEUTICS, *Enrico Bastianelli resigns; Thomas Lienard (CBO) named interim CEO*

SPIRITS, *Feedback from the LVMH conference call*

TMT

Bouygues

Price EUR29.52

Do not forget construction! (full report released today)

Fair Value EUR35 (+19%)

BUY

Coverage initiated

Bloomberg	EN FP
Reuters	BOUY.PA
12-month High / Low (EUR)	37.3 / 25.0
Market Cap (EURm)	10,246
Ev (BG Estimates) (EURm)	12,491
Avg. 6m daily volume (000)	872.8
3y EPS CAGR	27.1%

	1 M	3 M	6 M	31/12/15
Absolute perf.	2.6%	12.3%	-0.2%	ns
Telecom	-4.5%	-4.2%	-9.6%	-17.5%
DJ Stoxx 600	-1.5%	2.2%	2.2%	-7.0%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	32,428	31,906	32,822	34,018
% change		*-1.6%*	*2.9%*	*3.6%*
EBITDA	2,411	2,637	2,888	3,136
EBIT	688	748	1,145	1,387
% change		*NM*	*NM*	*NM*
Net income	480.0	400.6	741.8	913.0
% change		*-16.5%*	*85.2%*	*23.1%*

	2015	2016e	2017e	2018e
Operating margin	2.1	2.3	3.5	4.1
Net margin	1.5	1.3	2.3	2.7
ROE	5.1	4.8	8.8	10.8
ROCE	3.1	2.9	5.3	6.5
Gearing	81.4	87.7	86.7	84.2

(EUR)	2015	2016e	2017e	2018e
EPS	1.18	1.04	1.93	2.42
% change	-	*-11.7%*	*84.8%*	*25.8%*
P/E	25.0x	28.3x	15.3x	12.2x
FCF yield (%)	NM	4.5%	6.8%	7.8%
Dividends (EUR)	1.60	1.60	1.60	1.60
Div yield (%)	5.4%	5.4%	5.4%	5.4%
EV/Sales	0.4x	0.4x	0.4x	0.4x
EV/EBITDA	5.2x	4.7x	4.3x	4.0x
EV/EBIT	NS	NS	NS	NS

We are initiating coverage of Bouygues with a BUY recommendation and a fair value of €35. In our view the current share price factors in the reassuring outlook for Bouygues Telecom but under-estimates the positive trends linked to the construction activities. Supported by these two activities, Bouygues should return to FCF generation of around €900m by 2019. Without taking into account a possible consolidation move for the telecoms market in France.

ANALYSIS

- In **construction**, the Bouygues Group should benefit from the **combination of several favourable factors**: a gradual **improvement in road works in France**, whose cycle seems to have bottomed out (market down by -1% YTD, August up by 15%), together with the **positive effect of FAST** in the United States; the **ramp-up of Grand Paris infrastructure project** (EUR30bn of works by 2030) for the Construction division; and the prevailing **very strong trends for property development** (Bouygues H1 2016 reservations +22% in France), for which the Group is the co-leader in France. Almost all the entities should report higher operating margins as of 2016, for an overall solid top line.
- In **telecoms**, Bouygues Telecom could prove capable of **exceeding its EBITDA margin target of 25%** by 2017 in our view, driven by a **positive trading backdrop and strong sales growth**, enabling FCF generation of around **EUR300m by 2019**. However, constrained by a net annual capex budget limited to €800m, Bouygues Telecom will continue to suffer from a long-term **structural deficit in the optical fibre market**, and thus **profitability under pressure**, limiting the EBITDA margin below **30%** by 2020.
- Furthermore, in our view the stock is no longer pricing in the real **opportunity for telecoms consolidation** in France despite the fact that this still remains **possible over the medium term.**

VALUATION

- We are initiating coverage of Bouygues with a BUY recommendation and a fair value of EUR35.

NEXT CATALYSTS

- Bouygues Q3 results on 16th November.

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TMT

Infineon

Price EUR16.22

Infineon product portfolio to foster market share gains in dynamic automotive market

Fair Value EUR17.5 (+8%) **BUY**

Bloomberg	IFX GY
Reuters	IFXGn.DE
12-month High / Low (EUR)	16.2 / 10.4
Market Cap (EURm)	18,366
Ev (BG Estimates) (EURm)	18,610
Avg. 6m daily volume (000)	4,398
3y EPS CAGR	17.4%

	1 M	3 M	6 M	31/12/15
Absolute perf.	12.5%	26.8%	30.7%	20.1%
Semiconductors	8.2%	27.8%	27.4%	25.7%
DJ Stoxx 600	-1.0%	4.5%	3.1%	-6.5%

YEnd Sept. (EURm)	09/15	09/16e	09/17e	09/18e
Sales	5,795	6,496	7,045	7,622
% change		*12.1%*	*8.4%*	*8.2%*
EBITDA	1,658	1,840	2,114	2,331
EBIT	898.0	995.4	1,199	1,341
% change		*10.8%*	*20.4%*	*11.9%*
Net income	680.0	912.0	991.8	1,105
% change		*34.1%*	*8.7%*	*11.4%*

	09/15	09/16e	09/17e	09/18e
Operating margin	15.5	15.3	17.0	17.6
Net margin	11.7	14.0	14.1	14.5
ROE	13.3	14.1	14.1	14.7
ROCE	18.6	14.4	15.3	16.7
Gearing	-4.7	4.8	-4.6	-14.2

(EUR)	09/15	09/16e	09/17e	09/18e
EPS	0.60	0.81	0.88	0.98
% change	-	*33.6%*	*8.8%*	*11.4%*
P/E	26.8x	20.1x	18.5x	16.6x
FCF yield (%)	0.5%	3.2%	4.0%	4.7%
Dividends (EUR)	0.18	0.20	0.20	0.20
Div yield (%)	1.1%	1.2%	1.2%	1.2%
EV/Sales	3.1x	2.9x	2.6x	2.3x
EV/EBITDA	10.9x	10.1x	8.6x	7.5x
EV/EBIT	20.2x	18.7x	15.1x	13.0x

Yesterday, Infineon hosted a conference call focusing on opportunities in the Automotive market (c. 40% of group's sales). We found the group's vision and strategy particularly convincing. We have already highlighted the strong momentum of autonomous driving and electric vehicles, and Infineon proved yesterday that it is perfectly positioned to take full advantage of these two megatrends. As a result, this conference strengthened our conviction that the group will reap the full benefits of its current portfolio and pipeline to growth faster than its competitors over the coming years. Overall, Infineon expects to grow by 8% on average through the cycle in Automotive, a forecast that is achievable in our view. We reiterate our Buy rating with a FV of EUR17.5.

ANALYSIS

- **Infineon is best positioned to benefit from the two megatrends in Automotive: autonomous driving and electric vehicles**. Yesterday, Infineon's conference call dedicated solely to Automotive. This provided an ideal opportunity to remind us that the group boasts a #2 position in the automotive space (behind NXP, before Renesas), with market share of 10.4%. In detail, Infineon is #2 in Sensors (~15% of semi for automobile market; IFX market share of 11.9%), #3 in Microcontrollers (~20% of semi for automobile market; IFX market share of 8.6%) and well established #1 in Power semiconductors (~25% of semi for automobile market; IFX market share of 25.2%). In all these numbers, we stronger exposure to megatrends (electric vehicles and autonomous driving) than any of its competitors which should lead to **market share gains in the coming years**.

- **Autonomous driving: redundancy requirements drive demand for more sensors per cars and the multiplication of technologies – an opportunity for Infineon**. In this context, IFX announced yesterday the acquisition of a small Dutch company named Innoluce. Financial details of the deal have been kept confidential and we believe that this acquisition is more about technology and IP acquisition than revenue or customer portfolio. This company is specialised in MEMS based laser scanning modules which allows Infineon to enter LIDAR business. As a result, Infineon now has a complete solution for ADAS system as the group is also #1 in RADAR with a 43% market share (there are only 3 players in this market, ST is #2 w/ 36% mkt.sh. and NXP is #3 w/ 21% mkt.sh.). We share Infineon's view that car makers will use at least three different types of detection devices per car, namely cameras (for object recognition and classification), radars and lidars (for quick distance evaluation in any circumstances). So far, a level 2 vehicle (parking assist, emergency brake) uses only 3 radars and 1 camera on average while a level 5 vehicle (fully autonomous vehicle) might use a complex set of 10 radars, 8 cameras and 1 lidar creating further opportunity for Infineon. In terms of technologies, 77/79 GHz SiGe and 24 GHz SiGe radars today cohabit. However, for regulation reasons, 24 GHz might disappear for the benefit of 77/79 GHz SiGe and 77/79 GHz RF CMOS. A positive point for IFX, leader in 77/79 GHz SiGe and starts the development of RF CMOS radars. Infineon uses IHS data and foresees production of about 20m Level 2 vehicles per year by 2020 and 10m Level 3 vehicles per year by 2025.

- **Clean cars: first higher efficiency then electrification of the drivetrain – also an opportunity for Infineon.** Again, Infineon shares our view that hybrid vehicle (HEV) will come first then full electric vehicle (EV) will follow with a few years delay. IHS data points to a production of 5.5m HEV p.a. and 1.4m EV p.a. by 2020. HEV and EV use for about USD400 of power semiconductors (DC-DC converters, inverters, on-board charger) vs. USD100 for a traditional vehicle. Let's not forget that Infineon is a clear leader in power semiconductors and has developed a full product portfolio including hybrid solutions, discrete components (mainly IGBTs and Si(C) MOSFETs) and even bare die products. The group has already a strong footprint in this area and says that, in 2015, 7 out of 10 selling EVs were powered by Infineon (including EVs from Tesla, BMW, Renault, and VW…). Finally, given the current leading position of IFX in power semiconductors, we see an additional opportunity in Mild-Hybrid/48V vehicles that are limited hybrid vehicles (<100Km range). Due to the limited electrification, the bill of materials is reduced for OEMs. As such, their penetration could be rapid over the next few years (a production of 3.4m vehicle p.a. by 2020 according to HIS vs. 0.2m in 2015). The opportunity is an incremental USD47 per car on top of the USD100 of power semiconductors already embedded in a traditional vehicle.

- **We found the group's vision and strategy particularly convincing.** We have already highlighted the strong momentum of autonomous driving and electric vehicles, and Infineon proved yesterday that it is perfectly positioned to take full advantage of these two megatrends. As a result, this conference strengthened our conviction that the group will reap the full benefits of its current portfolio and pipeline to grow faster than its competitors over the coming years. While we are hearing very similar comments from the competition, IFX's product portfolio is the one that fits the best OEMs and car parts makers so far. Overall, Infineon expects to grow by 8% on average through the cycle in Automotive – a forecast that is achievable, in our view.

VALUATION

- Based on our estimates, Infineon's shares trade at a 2016e/2017e P/E ratios of 20.1x/18.5x respectively and a 2016e/2017e PEG ratios of 1.2x/1.1x.

NEXT CATALYSTS

- 23 November 2016: FY16 results

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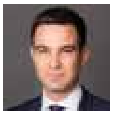

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Return to front page

Healthcare

Transgene

Price EUR3.23

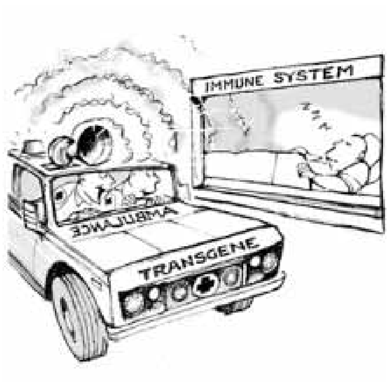
Bloomberg	TNG.FP
Reuters	TRNG PA
12-month High / Low (EUR)	3.9 / 2.4
Market Cap (EUR)	125
Ev (BG Estimates) (EUR)	182
Avg. 6m daily volume (000)	77.40
3y EPS CAGR	-8.4%

	1 M	3 M	6 M	31/12/15
Absolute perf.	16.2%	23.8%	17.0%	27.7%
Healthcare	-1.3%	-6.3%	0.3%	-10.2%
DJ Stoxx 600	-1.5%	2.2%	2.2%	-7.0%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	0.0	0.0	0.0	0.0
% change				
EBITDA	-33.2	-25.8	-23.8	-26.0
EBIT	-35.8	-35.1	-26.0	-28.1
% change		*2.1%*	*25.8%*	*-8.2%*
Net income	-37.9	-36.1	-27.0	-29.1
% change		*4.9%*	*25.1%*	*-7.9%*

	2015	2016e	2017e	2018e
Operating margin	NM	NM	NM	NM
Net margin	NM	NM	NM	NM
ROE	-142.8	379.2	74.0	44.4
ROCE	-73.1	-70.5	-53.5	-58.6
Gearing	83.4	-604.3	-229.4	-170.9

(EUR)	2015	2016e	2017e	2018e
EPS	-0.98	-0.94	-0.70	-0.76
% change	-	*4.9%*	*25.1%*	*-7.9%*
P/E	NS	NS	NS	NS
FCF yield (%)	NM	NM	NM	NM
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	NS	NS	NS	NS
EV/EBITDA	NS	NS	NS	NS
EV/EBIT	NS	NS	NS	NS



TG4001 to be tested in combination with avelumab in HPV+ head and neck cancer

Fair Value EUR5 vs. EUR4.5 (+55%) **CORPORATE**

The company announced yesterday the inking of a collaboration agreement with PFE/MRK to evaluate TG4001 in combination with their anti-PD-L1 (avelumab) in patients suffering from HPV+ head and neck cancer. We are cautiously optimistic (we see strong theoretical synergies between the two approaches, but many other promising cocktails are being evaluated). We raise our FV from EUR4.5 to EUR5.0 after having included the outlook associated with this novel combo.

ANALYSIS

- **Transgene inked an exclusive collaboration agreement with PFE/MRK to evaluate the potential of TG4001 (HPV16 + IL-2 cancer vaccine) in combination with avelumab (PD-L1 blocker)** in patients who 1/ developed a head & neck cancer following an infection with the Human Papilloma Virus type 16; 2/ failed to respond to the current standard of care. Of note, TNG will be the sponsor of the upcoming Phase I/II study (to be initiated in H1 17).

- **Admittedly, generating efficacy and safety data are strong prerequisite before adopting a more bullish stance. But we see three reasons to be quite optimistic**. First, there are strong theoretical synergies between the two approaches in our view… Cancer vaccines like TG4001 are known to boost the anti-tumour immune attack against one or numerous antigen(s) (and might participate in the upregulation of PD-L1); while checkpoint blockers disinhibit the downstream response. Second, although nivo, pembro and others managed to yield very promising responses (see Fig. below), those were slightly less impressive in HPV+ patients. Third, TG4001 could be a quite differentiated approach within PFE/MRK's immune-oncology portfolio; and H&N seems to be one these few indications the big pharmas are willing to target. So we believe the current deal could be turned into a licensing one in case of very positive results.

Keynote-012 - HNSCC overall response rate

Best overall response	Total (n=117)	HPV+ (n=34)	HPV- (n=80)
ORR	29 (24,8%)	7 (20,6%)	21 (26,3%)
Complete response	1 (0,9%)	1 (2,9%)	0 (0%)
Partial response	28 (23,9%)	6 (17,6%)	21 (26,3%)
Stable disease	29 (24,8%)	9 (26,5%)	20 (25,0%)
Progressive disease	48 (41,0%)	13 (38,2%)	33 (41,3%)

- **This is obviously good news for the company but we also urge "cautious optimism" in the light of the current competitive landscape** (although TG4001 has already demonstrated its ability to induce a viral clearance in other HPV-associated cancers). Apart from the "classic" PD-1/CTLA-4 combo, many other promising candidates are already being tested as add-on to PD-1/PD-L1 in this indication. AZN for instance is developing durvalumab with a range of different molecules including Inovio's HPV vaccine and IPH's monalizumab… And we note that IDO inhibitors and antibodies targeting activating receptors (e.g. OX40, CD137) are also in the ranks.

VALUATION

- **We have raised our Fair Value from EUR4.5 to EUR5.0** to include the potential associated with this new development (main BG assumptions: inking of an licensing deal with a big pharma (be it MRK/PFE or another one) + double-digit royalties on a peak sales of EUR250m in a conservative approach + no milestone payments at this time + applied probability of success of 20%).

NEXT CATALYSTS

- 2017: TG4010 data in combination with BMS' Opdivo in 2L NSCLC (non-small cell lung cancer).

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Luxury & Consumer Goods

LVMH

Price EUR164.10

10% sales increase in Asia Pacific in Q3!

Fair Value EUR180 vs. EUR171 (+10%) BUY

Bloomberg	MC FP
Reuters	LVMH.PA
12-month High / Low (EUR)	173.5 / 131.4
Market Cap (EUR)	83,320
Ev (BG Estimates) (EUR)	86,350
Avg. 6m daily volume (000)	780.4
3y EPS CAGR	12.1%

	1 M	3 M	6 M	31/12/15
Absolute perf.	7.8%	19.3%	12.4%	13.3%
Pers & H/H Gds	-0.8%	-1.2%	2.7%	0.4%
DJ Stoxx 600	-1.5%	2.2%	2.2%	-7.0%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	35,664	37,200	39,330	41,620
% change		*4.3%*	*5.7%*	*5.8%*
EBITDA	7,505	7,890	8,620	9,380
EBIT	6,605	6,940	7,620	8,330
% change		*5.1%*	*9.8%*	*9.3%*
Net income	3,573	4,100	4,560	5,032
% change		*14.7%*	*11.2%*	*10.4%*

	2015	2016e	2017e	2018e
Operating margin	18.5	18.7	19.4	20.0
Net margin	10.0	11.0	11.6	12.1
ROE	12.7	13.3	13.5	13.6
ROCE	10.1	10.2	10.8	11.2
Gearing	13.4	9.9	5.9	2.7

(EUR)	2015	2016e	2017e	2018e
EPS	7.11	8.16	9.08	10.02
% change	-	*14.7%*	*11.2%*	*10.4%*
P/E	23.1x	20.1x	18.1x	16.4x
FCF yield (%)	2.8%	3.2%	3.8%	4.0%
Dividends (EUR)	3.55	3.90	4.30	4.70
Div yield (%)	2.2%	2.4%	2.6%	2.9%
EV/Sales	2.4x	2.3x	2.2x	2.0x
EV/EBITDA	11.6x	10.9x	9.9x	9.0x
EV/EBIT	13.2x	12.4x	11.2x	10.1x

During yesterday's conference call, LVMH management provided more information on the 9m sales performance, The most important information was a 10% revenue increase in Asia Pacific in Q3 alone (vs +3% in Q2), and a 7% increase in Louis Vuitton sales during the quarter. All this leads us to revise up our 2016 EBIT by 4%. Hence our new EUR 180 Fair Value, vs EUR171 previously.

ANALYSIS

- Q3 sales grew 6% organically in Q3 versus +4% in Q2, with a clear acceleration for **Fashion & Leather** thanks to a 5% sales increase following +1% in Q2. **Louis Vuitton sales grew around 7%** with almost no price impact. And the price impact was no more than 1-2% in Q2, thanks to iconic lines and new models success such as the promising start for the new fragrances collection. Donna Karan had a negative impact of close to 2%. Fendi maintained its very dynamic momentum while Celine sales were still growing, particularly for shoes and accessories lines. **Louis Vuitton** sales with its Chinese clientele (slightly less than one third of brand sales) increased by low-double-digits in Q3 after a flattish H1. LVMH management also highlighted that, after very efficient measures in H1, cost control should continue in H2.
- The table below highlights the significant acceleration during Q3 in **Asia-Pacific** with a 3% increase on 9m, implying +10% in Q3 alone versus +3% in Q2 and +0% in H1. It is worth noting the much better trend both in Mainland China and in Hong Kong. Actually, in Mainland China, LVMH sales increased around +15% in Q3, while momentum was in mid-single-digits in H1. In Hong Kong, revenues were down mid-single-digit in Q3 versus -15% in H1. This performance has been achieved despite a slight loss of momentum at Hennessy in Greater China, but driven by a clear improvement at Fashion & Leather (and particularly at Louis Vuitton) and even at DFS (HK and Macao). Bulgari did also quite well in Mainland China, particularly for the traditional lines, which were up double digits.
- Even in **Europe,** momentum accelerated slightly during the period (+6% vs +3% in Q2), despite a negative trend in France (10% of LVMH sales). The latter was less negative than in H1, and the region's performance was spurred by UK, Germany and Italy. Europe up low double digits in Q3, with even some improvement in France where the performance was positive in September. **US** remained very well oriented and achieved a 7% sales growth on 9m and 6% in Q3 alone, driven by Hennessy, Sephora (double digit increase) and even by LV. Lastly, **Japan** revenues declined 3% on 9m or -9% in Q3, following -5% in Q2.

Organic sales growth by geographical area

Ifl chge	Q3 15	Q4 15	Q1 16	Q2 16	H1 16	Q3 16	9M 16
US	12	5	6	7	7	6	7
Japan	24	12	6	-5	0	-9	-3
Asia	-8	-2	-2	3	0	10	3
Europe	12	6	7	3	5	6	5
Group	**7**	**5**	**3**	**4**	**4**	**6**	**5**

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

- Given the 7% revenue increase at Louis Vuitton in Q3, far above the 3% breakeven level, we are more optimistic on LV's FY profitability (LV accounts for 50% of Group EBIT) and therefore, we revise up our FY LVMH EBIT by 4% and we expect EBIT margin to be up 10bp to 18.6% vs -20bp previously.

VALUATION

- LVMH share price grew 13% YTD (+21% vs DJ Stoxx) and is trading at a 8% discount vs peers. We upgrade our FV from EUR171 to EUR180 and maintain our Buy recommendation.

NEXT CATALYSTS

- FY 2016 results to be released last week of January 2017.

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Sage Group

Price 737.00p

Pound story

Fair Value 690p vs. 600p (-6%) SELL

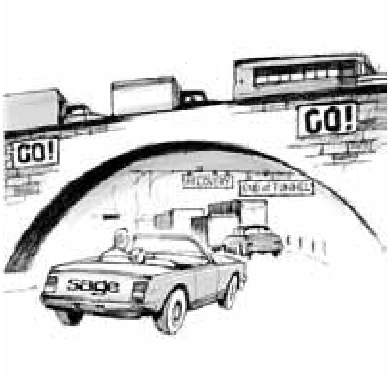
Bloomberg	SGE L
Reuters	SGE.LN
12-month High / Low (p)	756.0 / 520.0
Market Cap (GBP)	7,959
Ev (BG Estimates) (GBP)	8,089
Avg. 6m daily volume (000)	2 666
3y EPS CAGR	13.3%

	1 M	3 M	6 M	31/12/15
Absolute perf.	1.7%	12.5%	17.8%	22.1%
Softw.& Comp.	0.1%	12.2%	13.3%	6.7%
DJ Stoxx 600	-1.5%	2.2%	2.2%	-7.0%

YEnd Sept. (£m)	09/15	09/16e	09/17e	09/18e
Sales	1,436	1,576	1,889	2,028
% change		*9.8%*	*19.8%*	*7.3%*
EBITDA	418	461	554	606
EBIT	297.2	314.7	503.9	555.9
% change		*5.9%*	*60.1%*	*10.3%*
Net income	286.7	310.6	383.5	423.6
% change		*8.3%*	*23.5%*	*10.5%*

	09/15	09/16e	09/17e	09/18e
Operating margin	27.1	27.8	28.1	28.7
Net margin	13.5	13.7	18.9	19.6
ROE	22.5	23.5	32.3	30.1
ROCE	25.2	33.8	42.5	49.9
Gearing	39.6	14.1	-15.8	-34.1

(p)	09/15	09/16e	09/17e	09/18e
EPS	25.59	27.57	33.86	37.23
% change	-	*7.7%*	*22.8%*	*9.9%*
P/E	28.8x	26.7x	21.8x	19.8x
FCF yield (%)	3.6%	4.2%	5.7%	5.5%
Dividends (p)	13.10	14.15	15.28	16.50
Div yield (%)	1.8%	1.9%	2.1%	2.2%
EV/Sales	5.8x	5.1x	4.1x	3.7x
EV/EBITDA	19.9x	17.5x	14.0x	12.4x
EV/EBIT	21.3x	18.5x	14.7x	12.9x



We reiterate our Sell rating, but increase our DCF-derived fair value to 690p from 600p on an upward revision of our adj. EPS ests. due to changes in our fx assumptions (+40p), and the roll-over of our DCF model to FY17 (+50p). Sage, which generates an est. 78% of its sales in foreign currencies, has benefited from the depreciation of the GBP since June. However, we consider a Neutral or a Buy rating could be justified only if the GBP drifts further, notwithstanding the fact we do not expect other catalysts short-term.

ANALYSIS

- **Significant fx tailwinds since late July**. We increase our adj. EPS ests. by 1% for FY16 and 6% for FY17 and FY18 (FYE 30th September) given an update to our forward fx assumptions - which had not been changed since 27th July: 1.11 vs. 1.19 on GBP/EUR, 1.24 vs. 1.31 on GBP/USD, 17.1 vs. 19.0 on GBP/ZAR, 1.64 vs. 1.74 on GBP/CAD, 3.99 vs. 4.31 on GBP/BRL, and 1.63 vs. 1.74 on GBP/AUD. We estimate fx tailwinds to revenue growth at 3.5ppt (vs. 3.4ppt previously) for FY16 and an impressive 13.3ppt (vs. 7.3ppt previously) to FY17. We estimate that Sage generates 22% of its revenues in GBP while 78% is billed in foreign currencies (est. 31% in EUR, 30% in USD, 6% in ZAR, 5% in CAD, 3% in BRL, 3% in AUD).
- **A Neutral or a Buy rating could be justified only if the British pounds drifts further**. We simulate that if the British pound depreciates further against other currencies and reaches a GBP/EUR rate of 1.00 – in that case we would obtain the following fx rates: GBP/USD of 1.12, GBP/ZAR of 15.4, GBP/CAD of 1.48, GBP/BRL of 3.59, and GBP/AUD of 1.47 -, fx tailwinds to revenue growth would rocket to 23.6ppt for FY17 our adj. EPS forecasts for FY17 and FY18 would have been raised by an additional 9% and our DCF-derived fair value would reach 760p – i.e. only in that case this could justify a Neutral rating on the stock. We deem that in order to justify a Buy rating, we need to assume the British pound falls to the point it reached a GBP/EUR rate of 0.90 – in that severe (and surely unlikely) case our DCF-derived fair value would reach 840p.
- **No significant catalyst to expect until FY16 results**. Sage will report FY16 results on 30th November, and we do not expect any deviation from company guidance, which assumes revenues up at least 6% lfl (+6.1% year-to-date as of 30th June) and an organic operating margin of at least 27% vs. 27.5% in FY15 - this assumes a strong rebound in H2 above 28.5% from 25.4% reported for H1. We expect 6.3% lfl revenue growth for the year, which implies some acceleration in the September quarter, and the reaction of British SMBs to the Brexit is still uncertain. The GBP17m cost savings secured in H1 are in line with the GBP50m expected for FY16 (GBP33m expected for H2), which secures our 27.1% organic op. margin forecast for FY16. Finally, while it keeps reducing its net debt position over time, we consider that if Sage does not find any suitable acquisition target in the coming months, significant share buy-backs look unlikely due to the currently high share price level.

VALUATION

- Sage's shares are trading at est. 18.5x FY16, 14.7x FY17 and 12.9x FY18 EV/EBIT multiples.
- Net debt on 31st March 2016 was GBP270.9m (net gearing: 30%).

NEXT CATALYSTS

FY16 results on 30th November before markets open.

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Healthcare

Bone Therapeutics

Price EUR9.60

Bloomberg	BONE FP
Reuters	BONE.PA
12-month High / Low (EUR)	21.1 / 9.6
Market Cap (EURk)	65,760
Avg. 6m daily volume (000)	5.30

	1 M	3 M	6 M	31/12/15
Absolute perf.	-19.4%	-41.8%	-45.5%	-50.7%
Healthcare	-1.3%	-6.3%	0.3%	-10.2%
DJ Stoxx 600	-1.5%	2.2%	2.2%	-7.0%

	2014	2015e	2016e	2017e
P/E	x	x	x	x
Div yield (%)	NM	NM	NM	NM

Enrico Bastianelli resigns; Thomas Lienard (CBO) named interim CEO

Fair Value EUR30 (+213%) **BUY**

ANALYSIS

- Bone Therapeutics announced yesterday that CEO, Enrico Bastianelli will stand down from his position for personal reasons and will be replaced temporarily by Thomas Lienard, currently Chief Business Officer.
- Thomas Lienard joined Bone Therapeutics one year ago in November 2015 and has participated alongside the company's management team in the refocusing on the allogeneic technology platform (ALLOB). As such, we would expect the transition to be seamless for the company. Moreover, it worth noting that Thomas Lienard has considerable experience in the pharma space, having held key Management and Marketing positions at Lundbeck and Eli Lilly. This bodes well for the company's maturing pipeline and necessary reflexions around commercialisation strategy and deals that may be penned soon (e.g. osteoporosis and spine indications). In the medium term, we do not rule out that both the company's management and board opt for someone with a more scientific profile to lead the company and interact with KOL.

VALUATION

- We reiterate our BUY recommendation and EUR30 fair value.

NEXT CATALYSTS

- Q4 2016/Q1 2017: initiation of Osteonecrosis US trial and Osteoporosis phase II trial with ALLOB.
- H1 2017: interim efficacy results for 16 patients in the Delayed-Union phase II trial. Should 12 patients be qualified as responders, the study could be prematurely stopped and move onto phase III. Seven patients out of the eight for whom results have been reported have already responded.

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Sector View

Spirits

	1 M	3 M	6 M	31/12/15
Food & Bev.	-1.4%	-1.7%	2.2%	-1.8%
DJ Stoxx 600	-1.0%	4.5%	3.1%	-6.5%

*Stoxx Sector Indices

Companies covered

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

Feedback from the LVMH conference call

ANALYSIS

- Yesterday LVMH announced during its conference call that sales of cognac & spirits were up 2% in Q3, implying a strong deterioration vs Q2 (+16%) and Q1 (+7%). This was mainly driven by the US which decelerated strongly over the quarter to basically zero (vs +20% in H1). The comparison base was unfavourable and the end of the Grand Marnier distribution contract represented a loss of 12%. In China, the group's VSOP depletions continued to enjoy single-digit growth, globally in line with H1, but XO moderated.
- This release confirms the recovery of the Chinese cognac market. On July 20th, Rémy Cointreau reported an improvement in underlying consumption that surprised us positively. Value depletions were up mid single digits in Q1 2016/17, whereas they were flat in 2015/16. Sales were posting double-digit declines, but this was only due to some destocking after price increases. They should return to growth in Q2. Pernod Ricard's cognac value depletions were roughly stable in 2015/16. But Scotch continue to experience double-digit declines, dragging down the group's performance in China.

NEXT CATALYSTS

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

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Bryan Garnier stock rating system

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

Stock rating

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

Distribution of stock ratings

BUY ratings 57.1% NEUTRAL ratings 31.2% SELL ratings 11.7%

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