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14th October 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	18098.94	-0.25%	+3.87%
S&P 500	2132.55	-0.31%	+4.34%
Nasdaq	5213.33	-0.49%	+4.11%
Nikkei	16856.37	+0.49%	-11.87%
Stoxx 600	335.621	-0.87%	-8.25%
CAC 40	4405.17	-1.06%	-5.00%
Oil /Gold			
Crude WTI	50.18	0.00	+34.89%
Gold (once)	1257.76	+0.47%	+18.39%
Currencies/Rates			
EUR/USD	1.10305	+0.16%	+1.54%
EUR/CHF	1.0899	-0.06%	+0.23%
German 10 years	-0.036	+282.44%	-105.65%
French 10 years	0.265	-13.10%	-73.03%
Euribor	-	+-%	+-%

Economic releases :

Date	
14th-Oct	14h30 US - Advance retail sales Sep. (0.6% E) 14h30 US - retail sales control group 16h00 US- Michigan Confidence Oct. (92E) 18h00 US - Fed J. Yellen Speaks at Boston Confidence 19h00 US - Baker Hughes rig Count

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	
13th-Oct	TEMENOS Success breeds success
12th-Oct	BOUYGUES Do not forget construction!
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	ALTICE Lower risk profile

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

EDENRED — NEUTRAL, Fair Value EUR22 (+7%)

Conference call Q3 revenue: Scalded cat fears cold water but…

Positive numbers in Q3, with all parameters outpacing the consensus. In fact, and despite negative calendar effects compared with previous quarters, Ifl growth in Q3 gathered pace with a positive contribution from all regions and all families of services. Nevertheless and despite sustained positive dynamics in Q4, management simply confirmed its FY 2016 guidance, notably EBIT between EUR350m and EUR370m compared with EUR341m in 2015. Again, caution is mainly due to currency volatility bearing in mind that group guidance takes into account a EUR35m negative currency effect, which sounds a bit excessive to us based on current forex.

FAURECIA — BUY, Fair Value EUR47 (+38%)

A poor Q3 as expected, affected by decline in Europe & unfavourable FX/scope effects

As expected, Faurecia posted poor Q3 sales yesterday after market, with group business affected by production decline in Europe and by unfavourable FX/scope effects. All targets were reiterated, yet we negatively adjusted our 2016 sales and EBIT estimates by respectively 2% and 1%. We continue to play Faurecia for its margin and EPS improvement, thanks notably to self-help measures, and not for its ability to outperform automotive production.

SOFTWARE AG — BUY, Fair Value EUR40 (+8%)

Preliminary Q3 2016 results below estimates due to late deals; FY16 guidance reiterated

This morning, Software AG pre-announced Q3 2016 results with revenues 7% below the consensus average and non-IFRS operating profit only 2% below thanks to a non-IFRS op. margin up 1.2ppt to 33.7% vs BGe 31.7% (consensus: 32%), while EUR7.3m of DBP licence sales slipped to early October. Management considers that the sales pipeline remains promising, and reiterates FY16 guidance. As Software AG reports its first quarterly miss after 6 consecutive quarters above consensus, we expect the share price to react negatively short-term.

UNILEVER — NEUTRAL, Fair Value EUR43 (+9%) UNILEVER PLC (3890p vs. 3590p)

A mixed bag

The negative share price reaction appears to be excessive.The market reacted very negatively to the slowdown in volumes and the Tesco news. But there were some positives. The rate of decline of spreads in North America slowed down over the quarter and the pricing environment is expected to become more favourable as commodity prices are now stable/slightly up. The release has a roughly neutral impact on figures. Unilever confirmed that the underlying growth rate remains around 4%, in the middle of the sales guidance for 2016 (3-5%) and in line with our estimate. It also reiterated that the EBIT margin should increase 30-40bps this year, in line with the historical performance.

In brief...

ALTICE, *Increase in stake in SFR Group to 82.94% of the capital*

ENGIE, *Neptune O&G said to be in talks to buy company's E&P assets*

LAFARGEHOLCIM, *Ahead of the Capital Market Day (18 November)*

TELECOM SERVICES, *ARCEP awards 4G frequencies in French overseas territories.*

Business Services

Edenred

Price EUR20.53

Conference call Q3 revenue: Scalded cat fears cold water but...

Fair Value EUR22 (+7%) **NEUTRAL**

Bloomberg	EDEN FP
Reuters	EDEN.PA
12-month High / Low (EUR)	21.5 / 13.9
Market Cap (EUR)	4,799
Ev (BG Estimates) (EUR)	5,664
Avg. 6m daily volume (000)	746.1
3y EPS CAGR	11.1%

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.1%	3.7%	16.3%	17.7%
Travel&Leisure	-5.3%	-5.1%	-11.6%	-19.5%
DJ Stoxx 600	-0.9%	-0.1%	-2.2%	-8.3%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	1,069	1,128	1,239	1,313
% change		*5.5%*	*9.8%*	*6.0%*
EBITDA	388	421	485	525
EBIT	341.0	372.1	431.5	467.7
% change		*9.1%*	*16.0%*	*8.4%*
Net income	206.0	220.2	255.3	278.9
% change		*6.9%*	*16.0%*	*9.3%*

	2015	2016e	2017e	2018e
Operating margin	31.9	33.0	34.8	35.6
Net margin	16.6	19.0	20.1	20.7
ROE	-12.2	-12.2	-13.6	-14.8
ROCE	-44.8	-44.2	-46.7	-49.5
Gearing	NM	NM	NM	NM

(EUR)	2015	2016e	2017e	2018e
EPS	0.87	0.94	1.09	1.19
% change	-	*8.3%*	*16.0%*	*9.3%*
P/E	23.6x	21.8x	18.8x	17.2x
FCF yield (%)	6.0%	8.7%	10.4%	9.4%
Dividends (EUR)	0.84	0.89	1.04	1.13
Div yield (%)	4.1%	4.4%	5.1%	5.5%
EV/Sales	5.1x	5.0x	4.6x	4.3x
EV/EBITDA	14.0x	13.5x	11.6x	10.7x
EV/EBIT	15.9x	15.2x	13.1x	12.0x

Positive numbers in Q3, with all parameters outpacing the consensus. In fact, and despite negative calendar effects compared with previous quarters, Ifl growth in Q3 gathered pace with a positive contribution from all regions and all families of services. Nevertheless and despite sustained positive dynamics in Q4, management simply confirmed its FY 2016 guidance, notably EBIT between EUR350m and EUR370m compared with EUR341m in 2015. Again, caution is mainly due to currency volatility bearing in mind that group guidance takes into account a EUR35m negative currency effect, which sounds a bit excessive to us based on current forex.

ANALYSIS

Higher Q3 Ifl growth despite negative calendar effect: Stronger than anticipated Ifl growth in Q3 with an acceleration vs. previous quarters despite negative calendar effect of one day vs. +2 days in Q2 and none in Q1:

- Issue volume was up 10.2% on Ifl vs. 8.5% from consensus at EUR4,833m o/w 8.2% in Employee Benefits and 17.2% in Expense Management. All in all for the first 9m, IV was up 8.9% on Ifl (+7.4% in Q1, 9.3% in Q2 and 10.2% in Q3). Note that currencies impacted negatively IV of 9.1% despite positive trend of Brazilian real of 8.7% in Q3. By geography, **France** (16.5% of IV) was up 4.6% in 9m after 3.4% in Q3, **Rest of Europe** (31%) +9.2% after 7.7% in Q3, **Latam** (48.5%) +10% after 14.3% in Q3 (**Brazil** was up 4.5% after same number in Q3) and **RoW** (4%) +9.8% after 6% in Q3.
- Revenue also grew at a sustainable pace, up 9.1% in Q3 vs. 6.4% from consensus at EUR278m. In the first 9m, Ifl reached 7% on Ifl (+5.2% in Q1, 6.9% in Q2 and 9.1% in Q3). Note that financial revenue was down 1.9% in 9m after -2.5% in Q3. By region, revenue growth (with IV) was sustained in all regions with **Europe** up 7.1% in 9m after 7.3% in Q3, **Latam** +8.3% after 12.5% in Q3 and **RoW** up 6.4% after 2.4% in Q3.

Nevertheless, FY guidance was simply confirmed: Management confirmed all its targets for FY 2016 i.e. organic growth in issue volume at the lower end of the historical target of 8-14% (our forecast is 8.6% after 8.9% at the end of 9m), an operating flow-through ratio of more than 50% (60.2%), Ifl FFO growth of over 10% (18.6%) and an EBIT between EUR350 and EUR370m taking into account an estimated negative currency effect of EUR35m. We are confirming our EBIT of EUR372m (consensus at EUR364m), including a negative currency effect of EUR19m.

VALUATION

At the current share price, the stock is trading at 15.2x EV/EBIT 2016e and 13.1x 2017e which compares with CAGR EBIT 2015-2018 of 11%.

NEXT CATALYSTS

CMD (London) on 19th October

FY 2016 results on 23rd February

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Automotive

Faurecia

Price EUR34.05

A poor Q3 as expected, affected by decline in Europe & unfavourable FX/scope effects

Fair Value EUR47 (+38%) **BUY**

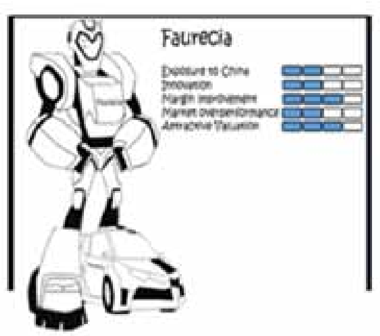
Bloomberg	EO FP
Reuters	EPED.PA
12-month High / Low (EUR)	37.3 / 27.2
Market Cap (EUR)	4,694
Ev (BG Estimates) (EUR)	5,502
Avg. 6m daily volume (000)	556.3
3y EPS CAGR	20.2%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-3.9%	8.0%	-1.1%	-4.9%
Auto & Parts	0.3%	7.0%	-1.2%	-14.7%
DJ Stoxx 600	-0.9%	-0.1%	-2.2%	-8.3%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	18,770	18,804	19,591	20,433
% change		*0.2%*	*4.2%*	*4.3%*
EBITDA	1,442	1,547	1,588	1,769
EBIT	830.0	928.7	1,034	1,146
% change		*11.9%*	*11.4%*	*10.9%*
Net income	371.8	497.2	536.2	623.6
% change		*33.7%*	*7.8%*	*16.3%*

	2015	2016e	2017e	2018e
Operating margin	4.4	4.9	5.3	5.6
Net margin	2.0	2.6	2.7	3.1
ROE	14.2	23.1	15.7	16.0
ROCE	12.6	16.6	17.0	17.5
Gearing	36.2	4.2	1.5	-3.5

(EUR)	2015	2016e	2017e	2018e
EPS	2.60	3.60	3.88	4.52
% change	-	*38.4%*	*7.8%*	*16.3%*
P/E	13.1x	9.5x	8.8x	7.5x
FCF yield (%)	4.5%	5.3%	4.6%	7.2%
Dividends (EUR)	0.65	1.01	1.09	1.27
Div yield (%)	1.9%	3.0%	3.2%	3.7%
EV/Sales	0.4x	0.3x	0.3x	0.3x
EV/EBITDA	4.6x	3.6x	3.4x	2.9x
EV/EBIT	8.0x	5.9x	5.2x	4.5x



As expected, Faurecia posted poor Q3 sales yesterday after market, with group business affected by production decline in Europe and by unfavourable FX/scope effects. All targets were reiterated, yet we negatively adjusted our 2016 sales and EBIT estimates by respectively 2% and 1%. We continue to play Faurecia for its margin and EPS improvement, thanks notably to self-help measures, and not for its ability to outperform automotive production.

ANALYSIS

Main Q3-16 metrics: Total sales for Q3 came out at **EUR4.24bn**, **down 1.9%** YoY and **up 1.6%** LfL while its value added sales were almost flat at EUR3.53bn compared with last year, but up **3.7%** on a LfL basis. This should be compared with **+3.4%** and **+5%** LfL sales growth posted by the group during first semester. Consensus stood at **EUR4.374bn** in line with our estimates (*BG @ EUR4.38bn*). Over this quarter, the group suffered from lower precious metal (-9%) affecting its monolith (*pass-through*) revenues, from negative FX effect (*-1.9%)* and from negative scope effect *(-1.5%)* following the disposal of the Foutain Inn plant.

What to retain from this publication? **1/**European sales (*-3% YoY and -1.9% LfL*) were hit by lower output from VW and Ford (*Ford Focus & Ford Fiesta*). Market production fall by **2%** over the quarter. The group indicated that the region should not be better in Q4 (*stability of production due to one working day less and production adjustment of key customer (Daimler and Ford)*). **2/**Group's North American sales was almost flat organically while market production was up **2%**. This underperformance was mainly due to the **Chrysler 200** production cut, as well as the **F-150** lower output. **3/**Group's performance in Asia was impressive at **+18% LfL** (*vs. only +3.8% in published in H1-16*) yet the group indicated that it has underperformed Chinese LV production, still penalized by its exposure to PSA. Interestingly Faurecia indicated its sales to Chinese OEMs increased by **40%** and now represented **14%** of group's Chinese business, vs. 13% previously. On a more mid-term view, the group indicated that **4/**it saw a strong order intake acceleration since 2015 (*contrasting with 2013 & 2014*) for which impact on sales will be visible from H2 2017. H1 2017 will be driven by JVs activity launch/ramp-up in China and Brazil. It also indicated that **5/**LatAm seems to stabilize and a change of trend in Brazil should positively impact production in the next quarter. Its JV in Brazil should be close to breakeven by H1 2017 *(-EUR20m FY2016e*). Finally the group confirmed its 2016 guidance (*total LfL sales growth of +1/+3%, operating margin of 5% minimum and minimum net cash flow of EUR300m*) while indicated its 2016 group's sales will be affected by -2% on FX effect and by -1% on scope effect. It also upgraded its restructuring costs in US linked to FCA issue by EUR10m to EUR70m.

We adjust our 2016 estimates by 2%: We adjusted our 2016 estimated with more unfavourable FX and scope effect and integrated now expect the group to post LfL sales growth of 2.5% vs. +3% previously. **We then adjusted our 2016 sales estimates by 2% and our 2016 EBIT estimates by less than 1%.**

Conclusion: This poor third quarter is not a surprise given that we knew the group would be negatively affected by a production decline in Europe. Despite these negative adjustments to our sales estimates, we keep our FV unchanged at **EUR47/share**. Faurecia is not an equity story based on sales growth, but on margin and EPS improvement, thanks notably to self-help measures.

VALUATION

At current share price Faurecia is trading at **5.2x** its 2017e EBITDA and at **8.8x** its 2017e EPS

Buy, FV @ EUR47

NEXT CATALYSTS

02nd November – Faurecia – Breakfast with IR @ Bryan Garnier Paris

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Software AG

Price EUR37.03

Preliminary Q3 2016 results below estimates due to late deals; FY16 guidance reiterated

Fair Value EUR40 (+8%) **BUY**

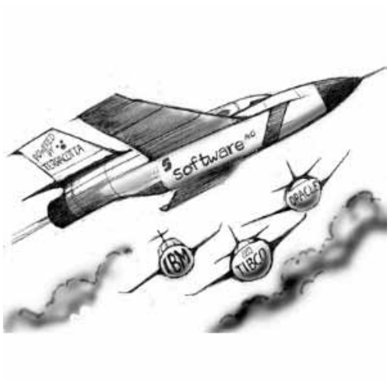
Bloomberg	SOW GR
Reuters	SOWG.DE
12-month High / Low (EUR)	38.9 / 23.8
Market Cap (EUR)	2,925
Ev (BG Estimates) (EUR)	2,794
Avg. 6m daily volume (000)	188.0
3y EPS CAGR	4.9%

	1 M	3 M	6 M	31/12/15
Absolute perf.	2.6%	18.7%	8.8%	40.1%
Softw.& Comp.	-0.5%	10.7%	9.3%	5.3%
DJ Stoxx 600	-0.9%	-0.1%	-2.2%	-8.3%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	873.1	887.6	916.7	958.8
% change		*1.7%*	*3.3%*	*4.6%*
EBITDA	278	289	304	325
EBIT	209.4	237.7	258.2	280.4
% change		*13.5%*	*8.6%*	*8.6%*
Net income	188.0	191.7	201.5	217.0
% change		*1.9%*	*5.1%*	*7.7%*

	2015	2016e	2017e	2018e
Operating margin	30.2	31.0	31.5	32.4
Net margin	16.0	17.7	18.8	19.7
ROE	12.8	13.0	13.0	12.9
ROCE	17.7	18.4	19.7	21.8
Gearing	1.3	-10.9	-21.8	-31.5

(€)	2015	2016e	2017e	2018e
EPS	2.33	2.38	2.50	2.69
% change	-	*1.9%*	*5.1%*	*7.7%*
P/E	15.9x	15.6x	14.8x	13.8x
FCF yield (%)	5.9%	6.6%	7.0%	7.6%
Dividends (€)	0.55	0.60	0.65	0.70
Div yield (%)	1.5%	1.6%	1.8%	1.9%
EV/Sales	3.4x	3.1x	2.9x	2.6x
EV/EBITDA	10.6x	9.7x	8.7x	7.6x
EV/EBIT	11.2x	10.2x	9.1x	7.9x



This morning, Software AG pre-announced Q3 2016 results with revenues 7% below the consensus average and non-IFRS operating profit only 2% below thanks to a non-IFRS op. margin up 1.2ppt to 33.7% vs BGe 31.7% (consensus: 32%), while EUR7.3m of DBP licence sales slipped to early October. Management considers that the sales pipeline remains promising, and reiterates FY16 guidance. As Software AG reports its first quarterly miss after 6 consecutive quarters above consensus, we expect the share price to react negatively short-term.

ANALYSIS

- **Q3 2016 results below expectations due to late deal closings**. Based on preliminary figures, Q3 2016 sales were down 8.1% (-7.1% lfl) to EUR198.3m, or 8% below our forecast (EUR215.3) and 7% behind the consensus (EUR212.6m), due to EUR7.3m of DBP licence sales that slipped from Q3 to the first days of October. Non-IFRS operating profit was down 4.8% to EUR66.8m or 33.7% of sales (+1.2ppt) or only 2% below our estimate (EUR68.3m or 31.7%) and the consensus (EUR68m or 32%). IFRS EBIT was down 25% to EUR50.1m (BG est.: EUR57.1m; consensus: EUR56.4m) after a EUR5.4m one-time charge related to a lawsuit in the US. Licence sales were down an est. 32% lfl to EUR46.9m or 27% below our est. (EUR64.6m) and 25% behind the consensus (EUR62.5m), while maintenance was up 4% lfl to EUR104m (BG est.: EUR104.2m; consensus: EUR102.9m). Finally, the management estimates that free cash flow was up 25-35% in Q3 2016 (up 10-13% year-to-date). Restated from the EUR7.3m that slipped, pro forma Q3 revenues would have been down 4% lfl to EUR205.5m, or 3% below consensus however due to a weak quarter for Adabas & Natural (A&N) on licence sales - probably in relation with licence revenue seasonality.
- **Details by division**. 1). **For the Digital Business Platform (DBP) division**, Product sales were down 1.2% (est. +1% lfl) to EUR101.9m (BG est.: EUR110.8m, consensus: EUR109.9m), of which EUR37.5m (est. -8% lfl) in licences and +6% lfl on maintenance, while the business line margin was up 7.3ppt to 35.4% (BG est.: 32.7%) thanks to sales and marketing costs down 20%; 2). **For the A&N (Adabas & Natural) division**, Product sales were down 26.6% (-26% lfl) to EUR49.1m (BG est.: EUR58.2m; consensus: EUR55.5m), of which EUR9.3m (-66% lfl) in licences and +1% lfl on maintenance, while the business line margin was down 2.5ppt to 73.7% (BG est.: 71.1%); 3). **For Consulting**, sales were up 3.2% (+5% lfl) to EUR447.3m (BG est.: EUR46.3m; consensus: EUR47.2m) with a business line margin 1.4ppt to 15.5% (BG est.: 9.4%) with a gross margin up 0.7ppt to 25.8%.
- **FY16 guidance reiterated**. For FY16, Software AG still expects DBP Product sales up 5-10% at cc, A&N Product sales down 2-6% at cc, and a non-IFRS operating margin of 30.5-31.5%. These figures are roughly in line with our forecasts, as we expect +6.3% for DBP, -1.5% for A&N, and a non-IFRS operating margin of 31.5% (consensus: 31.9%). DBP revenues year-to-date as of 11th October, up 5% lfl, are at the low-end of the guidance range, but the management in the press release talks about a promising project pipeline. On their side, A&N revenues were down 5% lfl year-to-date, or at the low-end of full-year guidance, but Q4 2015 was down 15% lfl.

VALUATION

- Software AG's shares are trading at est. 10.2x 2016 and 9.1x 2017 EV/EBIT multiples.
- Net cash position on 30th June 2016 was EUR65.8m (net gearing: -6%).

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Conference call today at 10am CET / 9am BST / 10am EDT (UK: +44 20 30 59 81 28; USA: +1 631 302 65 47).

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Food & Beverages

Unilever

Price EUR39.47

A mixed bag

Fair Value EUR43 (+9%) UNILEVER PLC (3890p vs. 3590p) **NEUTRAL**

Bloomberg	UNA NA
Reuters	UNc.AS
12-month High / Low (EUR)	42.9 / 36.7
Market Cap (EURm)	112,658
Ev (BG Estimates) (EURm)	100,856
Avg. 6m daily volume (000)	3,893
3y EPS CAGR	6.3%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-2.5%	-5.6%	-2.3%	-1.6%
Food & Bev.	-1.1%	-3.4%	0.6%	-3.0%
DJ Stoxx 600	-0.9%	-0.1%	-2.2%	-8.3%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	53,272	52,877	55,625	58,288
% change		*-0.7%*	*5.2%*	*4.8%*
EBITDA	9,235	9,340	10,092	10,863
EBIT	7,865	7,965	8,590	9,231
% change		*1.3%*	*7.8%*	*7.5%*
Net income	5,210	5,320	5,785	6,261
% change		*2.1%*	*8.7%*	*8.2%*

	2015	2016e	2017e	2018e
Operating margin	14.8	15.1	15.4	15.8
Net margin	9.8	10.1	10.4	10.7
ROE	NM	NM	NM	NM
ROCE	18.9	18.8	20.5	22.1
Gearing	NM	NM	NM	NM

(EUR)	2015	2016e	2017e	2018e
EPS	1.82	1.86	2.03	2.19
% change	-	*2.1%*	*8.7%*	*8.2%*
P/E	21.6x	21.2x	19.5x	18.0x
FCF yield (%)	4.3%	3.8%	4.3%	4.4%
Dividends (EUR)	1.21	1.30	1.41	1.52
Div yield (%)	3.1%	3.3%	3.6%	3.9%
EV/Sales	1.9x	1.9x	1.8x	1.8x
EV/EBITDA	11.0x	10.8x	10.1x	9.5x
EV/EBIT	12.9x	12.7x	11.9x	11.2x

The negative share price reaction appears to be excessive.The market reacted very negatively to the slowdown in volumes and the Tesco news. But there were some positives. The rate of decline of spreads in North America slowed down over the quarter and the pricing environment is expected to become more favourable as commodity prices are now stable/slightly up. The release has a roughly neutral impact on figures. Unilever confirmed that the underlying growth rate remains around 4%, in the middle of the sales guidance for 2016 (3-5%) and in line with our estimate. It also reiterated that the EBIT margin should increase 30-40bps this year, in line with the historical performance.

ANALYSIS

- Unilever reported Q3 sales of EUR13.4bn, globally stable YoY. The organic sales growth came out at +3.2%, ahead of expectations (consensus: +2.8% vs our estimate: +3.2%). Pricing was up 3.6% but volumes decreased 0.4%, slowing down vs H1 (+2.2%). This is the worst performance since Q4 2014 and is mainly due to LATAM (16% of total sales) where the volumes trend decelerated from -0.4% in H1 to -5% in Q3 as a result of lower consumer disposable income. Market volumes were down by 10% in Brazil and 7% in Argentina in the quarter. Asia/AMET/RUB (42% fo total sales) also deteriorated. Volumes in Q3 increased 0.6% while they were up 4% in H1. The region was penalized by 1/ India (8% of total sales) where volumes of skin cleansing products suffered from prices that were increased to recover rising commodity costs and 2/ China, impacted by the rapid shift to e-commerce (now 10% of the group's sales vs 3% two years ago) which is causing destocking and intense price competition from local players (not sustainable according to the group). Finally, in Europe (25% of total sales), volumes were stable in Q3, decelerating vs H1 (+1.8%) because of the UK where tea and laundry suffered from tough price competition and spreads continued to drop.
- Market has been greatly disappointed by the slowdown in volumes. It also probably reacted negatively to the Tesco news. Yesterday morning the press reported that Unilever's products including Marmite, Ben & Jerry's and Pot Noodles have been disappearing from Tesco shelves amid a dispute between the supermarket and the company. The row developed when Unilever, which faces higher costs after the fall in value of the pound, attempted to pass them on in higher wholesale prices. Yesterday evening, Unilever said that this disagreement has ended.
- The negative share price reaction appears to be excessive. The rate of decline of spreads in North America slowed down over the quarter. Additional good news is that the pricing environment is expected to become more favourable as commodities prices are now stable/slightly up. Yesterday's release was broadly neutral for figures. Unilever confirmed that the underlying growth rate remains around 4%, in the middle of the sales guidance for 2016 (3-5%) and in line with our estimate. The Q4 sales trend should remain weak because of tough market conditions in LATAM and destocking in China. The group has also reiterated that the EBIT margin should increase 30-40bps this year, in line with the historical performance. Our estimate now calls for +30bps to 15.1% (15.2% previously). It expects FX to impact sales by >5% and EPS by 3-4%.

VALUATION

- Our DCF points to a Fair Value of EUR43 for Unilver NV and 3890p for Unilever PLC (3590p previously).

NEXT CATALYSTS

- Q3 2016 sales: Danone on October 18th and Nestlé on October 20th

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Altice

Price EUR15.96

Bloomberg	ATC NA
Reuters	ATCA.AS
12-month High / Low (EUR)	19.9 / 10.0
Market Cap (EURm)	17,459
Avg. 6m daily volume (000)	1 497

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.8%	19.0%	13.6%	20.4%
Telecom	-3.2%	-6.6%	-12.4%	-18.8%
DJ Stoxx 600	-0.9%	-0.1%	-2.2%	-8.3%

	2015	2016e	2017e	2018e
P/E	NS	NS	32.8x	12.3x
Div yield (%)	NM	NM	NM	NM

Increase in stake in SFR Group to 82.94% of the capital

Fair Value EUR19 (+19%) **BUY**

ANALYSIS

- Altice announced this morning it has **increased its stake** in SFR Group **from 77.75% to 82.94%.** It has acquired SFR shares in **private off-market transactions**. In consideration for these acquisitions, Altice NV will deliver to the sellers common A shares which it held previously as **treasury shares**, reflecting an exchange ratio of **8 Altice common shares A for 5 SFR Group shares**.
- After failing to launch their exchange offer on SFR due to a no go from the AMF, Altice is buying shares off market under the **same scheme and parity** as in the planned initial offer. As of yesterday evening's closing stock price, the offer would represent a **12%** premium on SFR.
- We believe this type of move could fuel speculation on SFR. Nevertheless, as Altice gains more and more control over SFR, we still **favour being a shareholder of Altice rather than SFR**, for operational and financial concerns. In particular, we believe the remuneration agreement which could be put in place between Altice and SFR could be **detrimental** to the interests of SFR shareholders.

VALUATION

- We stick to our Fair value of EUR19 for Altice, with a Buy recommendation.

NEXT CATALYSTS

- Q3 results on 10th November.

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Utilities

ENGIE

Price EUR12.92

Neptune O&G said to be in talks to buy company's E&P assets

Fair Value EUR16.5 (+28%) **BUY**

Bloomberg	ENGI FP
Reuters	ENGIE.PA
12-month High / Low (EUR)	16.6 / 12.9
Market Cap (EURm)	31,452
Avg. 6m daily volume (000)	5 413

	1 M	3 M	6 M	31/12/15
Absolute perf.	-8.1%	-13.3%	-6.4%	-20.9%
Utilities	-4.2%	-8.6%	-6.2%	-10.3%
DJ Stoxx 600	-0.9%	-0.1%	-2.2%	-8.3%

	2015	2016e	2017e	2018e
P/E	6.3x	12.0x	12.2x	11.4x
Div yield (%)	7.7%	7.7%	5.4%	5.4%

ANALYSIS

According to Bloomberg, Neptune Oil & Gas Ltd, the energy acquisition company backed by Carlyle Group and CVC Partners, is in **talks to buy Engie's E&P business**. The investment vehicle is said to have made an **initial offer** for the company's assets that span the UK, Norway, Algeria, Egypt, Germany and Asia. Neptune is planning about USD5bn of investments by taking advantage of a large number of assets sales particularly by industry giants.

No final decision has been made yet and Neptune is not close to an agreement at the moment, according to people familiar with the matter. This is however **positive** for Engie which **maintains the positive momentum from disposal of non-strategic assets.** On top of current talks over the E&P business, Engie is also said to be in negotiations regarding potential disposals of **1/** its Polaniec thermal power plants in Poland; **2/** its port project in northern Chile; **and 3/** its 2nd power plant project in Mejillones (375MW) in Chile called IEM2.

Higher oil prices, on the back of the potential OPEC agreement, **improved prospects** for the sale of these E&P assets. Engie is however still hammering home that **it would hold out for the right price** in order to maximize the valuation of these assets.

As a reminder, we valued the E&P business at c. **EUR5.4bn** in our SOTP. As Engie owns 70% of the business, this would represent a c. **EUR3.8bn** cash-in for the company i.e. about 25% of the company's disposals target by 2020 (**EUR15bn**).

VALUATION

At current share price, Engie is trading at **6.4x** its 2016e EV/EBITDA multiple

Buy, FV @ EUR16.5

NEXT CATALYSTS

10th November: Q3-16 results

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Construction & Building Materials

LafargeHolcim

Price CHF49.70

Ahead of the Capital Market Day (18 November)

Fair Value CHF60 (+21%) **BUY-Top Picks**

Bloomberg	LHN VX
Reuters	LHN.VX
12-month High / Low (CHF)	57.7 / 34.1
Market Cap (CHFm)	30,163
Avg. 6m daily volume (000)	1,717

	1 M	3 M	6 M	31/12/15
Absolute perf.	0.0%	14.1%	2.5%	-1.2%
Cons & Mat	0.4%	5.5%	3.2%	2.8%
DJ Stoxx 600	-0.9%	-0.1%	-2.2%	-8.3%

	2015	2016e	2017e	2018e
P/E	38.2x	21.4x	15.0x	10.9x
Div yield (%)	3.0%	3.3%	3.6%	3.9%

ANALYSIS

CEO Eric Oslen gave an interview in the French Daily *Les Echos*. Numerous subjects have been raised. In particular, the group wants to optimise its logistic networks in the Emerging Markets, which represents more than 60% of LHN EBITDA, according to our calculations. This focus is explained by the distribution structure of EM, where cement players are mostly selling cement in bags, while in mature countries it is more sold in bulk and directly to final customers, i.e. contractors. Hence the importance of wholesalers in EM, as well as brands. But this distribution system has a cost, and Eric Olsen explains that he wants to better control the distribution in order to reintegrate the margin lost through wholesalers. We understand the group is likely to set up some franchise networks for instance and develop digital distribution. More on 18 November.

As was suggested by the Chairman Beat Hess last September in the Swiss press, we understand the name of the company might change. In our view, this could be a way to help to get over the recent difficulties of the company and perhaps strengthen the brand, a key issue in EM.

Finally, Mr Olsen said details regarding the new cost cutting plan recently announced, as well as the strategy to manage energy prices increase, will be disclosed on the 18 Nov. Market Day. While higher energy costs will impact 2017 figures, a bit of inflation might be welcome to increase prices.

VALUATION

CHF60 FV derived from the application of historical multiples to of 2018 estimates, discounted back

NEXT CATALYSTS

Q3 results on 4 November. Capital Market Day on 18 November 2016.

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Sector View

Telecom services

	1 M	3 M	6 M	31/12/15
Telecom	-3.2%	-6.6%	-12.4%	-18.8%
DJ Stoxx 600	-0.9%	-0.1%	-2.2%	-8.3%

*Stoxx Sector Indices

Companies covered

ALTICE	BUY	EUR19
BOUYGUES	BUY	EUR35
ILIAD	BUY	EUR212
NUMERICABLE SFR	NEUTRAL	EUR29,7
ORANGE	BUY	EUR17,1

ARCEP awards 4G frequencies in French overseas territories.

Arcep has selected successful candidates for new frequencies in overseas territories. As a result, Free mobile will be a new entrant in Guadeloupe/Martinique, Barthélemy/St Martin and French Guiana, bringing new strong competition to Orange in particular.

ANALYSIS

- Arcep announced yesterday that it has selected the **successful candidates for new frequencies in overseas territories**. Orange has been awarded frequencies for all regions (Guadeloupe/Martinique, Barthélemy/St Martin, French Guiana, La Reunion and Mayotte), where the group is already present. SFR was awarded frequencies in La Reunion and Mayotte, where the group is also already present. Free was awarded frequencies for all regions. Licenses are awarded for free.
- As a result of the allocation process, **Free mobile will be a new entrant** in Guadeloupe, Martinique, Barthélemy, St Martin, French Guiana. Free is already present in La Reunion and Mayotte through Telco OI (JV with Axian). As already announced, Free plans to invest **EUR100m** in this project. The group announced it plans to "put **an end to discriminatory tariffs** that exist today between overseas and the mainland, for which there is no justification".
- Free mobile's entry into the market is clearly a **threat to existing players such as Orange**, although the global impact on the group should **not be material**.

VALUATION

- We stick to our fair values and recommendations for all companies we cover on the sector.

NEXT CATALYSTS

- Q3 results: Orange on 25th October, Altice/SFR on 10th November, Iliad in mid November.

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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 57.4% NEUTRAL ratings 31% SELL ratings 11.6%

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