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19th October 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	18161.94	+0.42%	+4.23%
S&P 500	2139.6	+0.62%	+4.68%
Nasdaq	5243.84	+0.85%	+4.72%
Nikkei	16998.91	+0.21%	-10.88%
Stoxx 600	342.479	+1.50%	-6.38%
CAC 40	4508.91	+1.32%	-2.76%
Oil /Gold			
Crude WTI	50.29	+0.70%	+35.19%
Gold (once)	1261.74	+0.40%	+18.77%
Currencies/Rates			
EUR/USD	1.0974	-0.16%	+1.02%
EUR/CHF	1.08775	-0.06%	+0.03%
German 10 years	-0.037	+146.03%	-105.91%
French 10 years	0.265	-7.34%	-73.01%
Euribor	-	+-%	+-%

Economic releases :

Date	
19th-Oct	CNY - GDP 3Q (6.7% =) 10h30 GB - Jobless claims change Sep. 14h30 US - Housing Starts Sep. (2.9%) 14h30 US - Building permits Sep. (1.1%) 16h30 US - DOE oil inventories

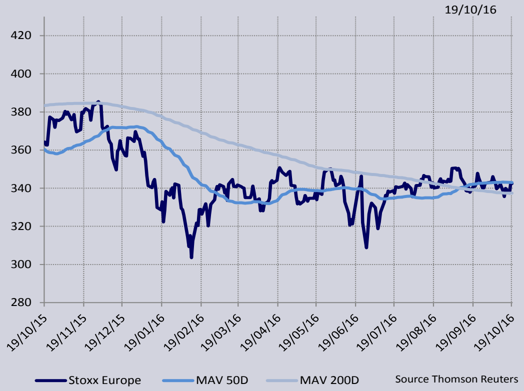
Upcoming BG events :

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	
17th-Oct	Haemophilia: « Stemming the bleed »
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

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



ACCORHOTELS — **BUY, Fair Value EUR42 (+27%)**

Conference call Q3 revenue: stronger than anticipated. FY guidance narrowed as expected.

ASML — **SELL, Fair Value EUR81 (-13%)**

Revenue and margins remain rugged due to EUV. Strong Q4 guidance makes up for low Q3.

BURBERRY — **NEUTRAL, Fair Value 1260p vs. 1200p (-10%)**

GBP weakness helps!

BUREAU VERITAS — **NEUTRAL, Fair Value EUR20 vs. EUR21 (+12%)**

Feed back conference call: No significant recovery expected in FY 2016. FV reduced.

CARREFOUR — **BUY-Top Picks, Fair Value EUR30 (+30%)**

Q3 sales (first take): hypers are doing better; let's enjoy it!

CASINO GUICHARD — **BUY, Fair Value EUR57 (+30%)**

Via Varejo

DANONE — **NEUTRAL, Fair Value EUR70 vs. EUR65 (+10%)**

Difficulties of Chinese Water and Baby Food to continue

GEMALTO — **NEUTRAL, Fair Value EUR60 vs. EUR62 (+6%)**

We have cut our estimates again to feel more comfortable for the next few years

METRO AG — **SELL, Fair Value EUR26 (-3%)**

Q4 trading statement (first take): topline remains weak

RÉMY COINTREAU — **BUY-Top Picks, Fair Value EUR84 (+10%)**

A good set of results

ROCHE — **BUY, Fair Value CHF293 (+25%)**

Tecentriq approved in the US in 2L/3L NSCLC

In brief...

GALAPAGOS, *Detailed GED-0301 results... filgotinib appears better in a more difficult to treat population*

Hotels

AccorHotels

Price EUR33.04

Conference call Q3 revenue: stronger than anticipated. FY guidance narrowed as expected.

Fair Value EUR42 (+27%) **BUY**

Bloomberg	AC FP
Reuters	ACCP.PA
12-month High / Low (EUR)	46.1 / 30.0
Market Cap (EUR)	9,405
Ev (BG Estimates) (EUR)	9,210
Avg. 6m daily volume (000)	1,142
3y EPS CAGR	10.0%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-5.4%	-11.9%	-13.7%	-17.4%
Travel&Leisure	-4.5%	-3.2%	-9.3%	-17.9%
DJ Stoxx 600	1.4%	1.1%	-0.5%	-6.4%

YEnd Dec. (€m)	2014	2015e	2016e	2017e
Sales	5,454	5,581	5,711	6,277
% change		*2.3%*	*2.3%*	*9.9%*
EBITDA	923	987	1,040	1,205
EBIT	602.0	665.0	686.5	828.1
% change		*10.5%*	*3.2%*	*20.6%*
Net income	386.0	441.8	435.0	514.2
% change		*14.5%*	*-1.5%*	*18.2%*

	2014	2015e	2016e	2017e
Operating margin	11.0	11.9	12.0	13.2
Net margin	4.1	4.4	6.6	7.9
ROE	6.2	6.8	10.2	14.7
ROCE	12.4	14.5	11.4	15.2
Gearing	4.1	-4.9	20.1	19.9

(€)	2014	2015e	2016e	2017e
EPS	1.52	1.59	1.67	2.03
% change	-	*4.6%*	*5.0%*	*21.1%*
P/E	21.7x	20.7x	19.7x	16.3x
FCF yield (%)	6.5%	6.6%	6.4%	7.9%
Dividends (€)	0.95	1.00	1.00	1.10
Div yield (%)	2.9%	3.0%	3.0%	3.3%
EV/Sales	1.8x	1.7x	1.8x	1.6x
EV/EBITDA	10.4x	9.3x	9.8x	8.4x
EV/EBIT	15.9x	13.8x	14.9x	12.2x

Q3 numbers were higher than expected with total revenue reaching EUR1.538bn (consensus at EUR1.502bn and BG at EUR1.509bn) up 3% in reported terms with lfl revenue growth of 1.8% while the consensus was forecasting 0.4% (BG at 1.3%). Q3 performance was even more remarkable given summer season headwinds especially in France and Belgium. After 9m, management narrowed its FY guidance as expected to EUR670m-EUR690m vs. EUR670m-EUR720m previously (consensus at EUR675m) reflecting uncertainties in France. Positive.

ANALYSIS

- **Ahead of expectations with Q3 trend in line with previous quarters:** Definitely positive numbers in Q3 up 1.8% on a lfl basis, after 1.9% in Q2 and 2% in Q1, with robust growth in all regions except in France and Belgium:
    - **Americas** (12.5% Q3 consolidated revenue) was up 19% lfl basis largely sustained by the Olympic Games, **Asia-Pacific** (14.4%) up 6.9%, **MMEA** (10.9%) up 4.1% mainly driven by double-digit growth in Spain and Portugal (+10.1%).
    - **NCEE** (42.1%) was up 2.4% after 5.1% in Q2 and 2.5% in Q1 affected by a significant decline of 14.3% in <u>Belgium</u> while <u>Germany</u> was up 3% and <u>UK</u> 2.2%.
    - Finally regarding **France** (28.4%) revenue declined by 4.7% on lfl basis largely affected by leisure travel in Paris.

  By business, **HotelServices** revenue (EUR442m) was up 6.7% lfl with notably <u>France</u> stable (+0.3%) due to a positive summer season in the provinces. <u>FRHI</u> consolidated since Q3 contributed EUR65m to HotelServices. **HotelInvest** revenue (EUR1,247m) was down 0.1% on lfl basis largely impacted by France (-6.9% on lfl basis) due to HotelInvest exposure to Paris. FRHI contribution was EUR87m to HotelInvest.
- **RevPAR still positive despite France:** Q3 RevPAR was up 1.1% after 1.6% in Q2 and 0.4% in Q1 taking into account -5.8% in France after -2.2% in Q2 and -2.5% in Q1. In fact, RevPAR in France was largely affected by leisure travel slowdown in Paris with RevPAR down 17.9% in Q3 while provinces was up by 1%.
- **As seen in H1, AccorHotels' expansion accelerated with FRHI integration:** The system size has increased by over 51,000 rooms and 167 hotels of which 116 hotels and over 43,000 from FRHI in the luxury & upscale segment. <u>On an organic basis, this means over 27,700 rooms opened YTD, up 18% vs. 2015.</u> As a reminder, during CMD, management confirmed the pipeline was stronger than ever, which could give the group sustainable growth over the long term with a new mid-term annual guidance of between 40-45k rooms compared with 30-35k rooms 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 some of the fees generated by the luxury segment to around 50% vs. 30% today.

VALUATION

- Confirming our estimate, at the current share price, the stock is trading 9.8x EV/EBITDA 2016e and 8.4x 2017e.
- Assuming a HotelInvest valuation of EUR7.3bn, the implied valuation of HotelServices is c. EUR3.7bn i.e. 2017e EV/EBITDA of 7.3x vs. an asset-light comparable valuation of c.12x for IHG or Marriott/Starwood.

NEXT CATALYSTS

- FY results on 22nd February 2017

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TMT

ASML

Price EUR92.82

Revenue and margins remain rugged due to EUV. Strong Q4 guidance makes up for low Q3.

Fair Value EUR81 (-13%) **SELL**

Bloomberg	ASML NA
Reuters	ASML.AS
12-month High / Low (EUR)	99.4 / 71.8
Market Cap (EUR)	40,222
Ev (BG Estimates) (EUR)	38,269
Avg. 6m daily volume (000)	1,100
3y EPS CAGR	21.7%

	1 M	3 M	6 M	31/12/15
Absolute perf.	2.0%	-0.2%	5.9%	12.4%
Semiconductors	5.0%	6.1%	27.2%	22.2%
DJ Stoxx 600	1.4%	1.1%	-0.5%	-6.4%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	6,287	6,487	7,415	8,742
% change		*3.2%*	*14.3%*	*17.9%*
EBITDA	1,864	1,774	2,337	3,031
EBIT	1,565	1,469	2,017	2,666
% change		*-6.1%*	*37.3%*	*32.2%*
Net income	1,387	1,266	1,758	2,353
% change		*-8.7%*	*38.8%*	*33.8%*

	2015	2016e	2017e	2018e
Operating margin	24.9	22.7	27.2	30.5
Net margin	22.1	19.5	23.7	26.9
ROE	16.5	15.5	20.0	23.8
ROCE	22.9	20.7	27.7	35.4
Gearing	-27.2	-24.0	-27.3	-32.3

(EUR)	2015	2016e	2017e	2018e
EPS	3.21	3.01	4.24	5.79
% change	-	*-6.2%*	*41.0%*	*36.4%*
P/E	28.9x	30.8x	21.9x	16.0x
FCF yield (%)	3.7%	3.0%	4.0%	5.5%
Dividends (EUR)	0.70	1.05	1.21	1.39
Div yield (%)	0.8%	1.1%	1.3%	1.5%
EV/Sales	6.0x	5.9x	5.1x	4.2x
EV/EBITDA	20.4x	21.6x	16.2x	12.2x
EV/EBIT	24.2x	26.0x	18.8x	13.9x

ASML has announced a surprising Q3 revenue level but results 4% below expectations due to the unexpected partial recognition of revenue from an EUV system (sold at a low margin) and the negative impact on financial results of the HMI acquisition. Indeed, sales came out at EUR1.815bn, up 4.3% on a sequential basis and up 17.2% year on year. This was above the company's guidance for Q3 sales of about EUR1.7bn and consensus forecasts of EUR1.732bn. However, Q3 EPS stood at EUR0.93, or EUR0.04 below consensus expectations of EUR0.97. For Q4 2016, the forecast is for sales of between EUR1.7bn and EUR1.8bn, slightly below estimates for EUR1.778bn at mid-point but with higher margin, as such EPS should come out about 9% above expectations.

ANALYSIS

- **ASML has reported Q3 results 4% below consensus expectations.** The company reported surprising Q3 sales of EUR1.815bn, up 17.2% yoy (up 4.3% seq.), above the group's guidance for sales of EUR1.7bn and consensus expectations at EUR1.732bn (BG ests. EUR1.683bn). This stemmed from the partial recognition of revenue from one EUV system at shipment which was not expected nor included in the group's guidance. As such, the gross margin widened to 46.0% (vs. 42.6% in Q2 2016), although it was lower than group's forecast and the consensus estimate at 47% (the EUV system is said to cost about 1.4ppt at gross margin level). Operating result came in at EUR496m or a 27.3% margin compared with 23.2% achieved in Q2 2016 thanks to higher volume. However, and as we already warned, we understand that the HMI acquisition negatively impact the financial result (of EUR34m vs. usual level around EUR4m). Hence, EPS came out at EUR0.93 which is EUR0.04 (or 4%) below consensus expectations at EUR0.97 and closer to our own estimates at EUR0.91. Once again, **today's results highlight the bumpy nature of ASML's results due to high uncertainty regarding the recognition of revenue of EUV systems, which also significantly impacted margins.**
- **This time again and as expected, the group benefited from the 10nm ramp at logic customers – bookings slightly decreased to EUR1.415bn** (up from the low level of EUR835m in Q1 but down EUR1.57bn in Q2). Indeed, logic customers are said to represent more than 80% of net system sales in Q3. During Q3, net bookings decreased from EUR1.566bn in Q2 to 1.415. However, the systems backlog increased to EUR3.462bn from EUR3.371m in Q2 2016.
- **The group has changed its target for EUV system shipments for 2016**. The group expects the shipment of one additional NXE:3350B during Q4 2016. However, two additional systems will be delayed into early 2017. Again, note that due to a delay in revenue recognition caused by the performance benchmark to be achieved before triggering full tools' payment, we believe revenue from these tools was not included in the street's expectations and a delay in the shipment of these tools should not impact 2016 expectations.
- ASML should continue to benefit from the 10nm ramp-up but sales and margin remains rugged due to EUV. Q4 guidance is for sales in the range of EUR1.7bn to EUR1.8bn which, at mid-point, is below consensus expectations of EUR1.78bn. However, the group also foresees a gross margin between 47% and 48% compared to the street's 44%. At this level, we understand ASML does not include any EUV revenue in its guidance. The group also says it expects R&D expense at about EUR275m, SG&A at about EUR100m, while the co-investment programme should help by EUR23m, such that at mid-point of the guidance EBIT is expected to stand at around EUR480m, i.e. above consensus expectations at EUR433m. Including 13% corporate tax, EPS would be around EUR0.98, i.e. about 9% above the street's expectations of EUR0.90 however this does not include any new negative impact from the HMI acquisition at the financial results level. The acquisition however impacts the share buyback program (EUR400m purchased YTD) which is said to be paused while ASML is in the midst of the HMI acquisition process (acquisition expected to be closed during Q4).

VALUATION

- We are making no change to our estimates at this point. Based on our estimates, ASML's shares trade at a 2016e P/E ratio of 30.8x and a 2016e PEG ratio of 1.4x.

NEXT CATALYSTS

- Today: Q3 results conference call (3:00pm CET, Personal ID required: registration here).
- 17th January 2016: FY16 and Q4 2016 results.

Q3-16 Actual vs. estimates

[EURm]	BG ests. 3Q16e	Consensus 3Q16e	3Q16 Actual	Actual vs. Cons.

Return to front page

Net revenue	1,683	1,732	1,815	4.8%
% change (seq)	*-3.3%*	*-0.5%*	*4.3%*	479bp
% change (yoy)	*8.6%*	*11.8%*	*17.2%*	538bp
Gross Margin	47.1%	46.9%	46.0%	-90bp
Adj. EBIT	446	464	496	6.8%
% of revenue	*26.5%*	*26.8%*	*27.3%*	51bp
Adj. EPS (in EUR)	0.91	0.97	0.93	-4.1%

Sources: Thomson Reuters I.B.E.S; Bryan, Garnier & Co ests.

Q4-16 Guidance vs. estimates

[EURm]	**BG ests. 4Q16e**	**Consensus 4Q16e**	**4Q16e Guidance**	**Guid. vs. Cons.**
Net revenue	1,731	1,778	1,750	-1.6%
% change (seq)	*2.9%*	*2.7%*	*-3.6%*	-627bp
% change (yoy)	*20.7%*	*24.0%*	*22.0%*	-197bp
Gross Margin	42%	44%	48%	340bp
Adj. EPS (in EUR)	0.80	0.90	-	-

Sources: Thomson Reuters I.B.E.S; Bryan, Garnier & Co ests.

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Luxury & Consumer Goods

Burberry

Price 1,403p

GBP weakness helps!

Fair Value 1260p vs. 1200p (-10%) **NEUTRAL**

Bloomberg	BRBY LN
Reuters	BRBY.L
12-month High / Low (p)	1,530 / 1,041
Market Cap (GBP)	6,203
Ev (BG Estimates) (GBP)	5,431
Avg. 6m daily volume (000)	2 538
3y EPS CAGR	8.4%

	1 M	3 M	6 M	31/12/15
Absolute perf.	7.8%	10.8%	9.8%	17.4%
Pers & H/H Gds	0.6%	-1.5%	0.4%	0.5%
DJ Stoxx 600	1.4%	1.1%	-0.5%	-6.4%

YEnd Mar. (GBPm)	03/16	03/17e	03/18e	03/19e
Sales	2,515	2,650	2,770	2,875
% change		*5.4%*	*4.5%*	*3.8%*
EBITDA	550	585	620	660
EBIT	417.8	445.0	475.0	510.0
% change		*6.5%*	*6.7%*	*7.4%*
Net income	309.5	339.0	364.0	395.0
% change		*9.5%*	*7.4%*	*8.5%*

	03/16	03/17e	03/18e	03/19e
Operating margin	16.6	16.8	17.1	17.7
Net margin	12.3	12.8	13.1	13.7
ROE	19.7	19.7	19.3	19.4
ROCE	41.4	42.5	44.3	47.3
Gearing	-40.7	-43.5	-47.1	-50.2

(p)	03/16	03/17e	03/18e	03/19e
EPS	69.90	77.45	83.04	89.08
% change	*-*	*10.8%*	*7.2%*	*7.3%*
P/E	20.1x	18.1x	16.9x	15.7x
FCF yield (%)	0.0%	0.0%	0.1%	NM
Dividends (p)	37.00	37.00	37.00	38.00
Div yield (%)	2.6%	2.6%	2.6%	2.7%
EV/Sales	2.2x	2.0x	1.9x	1.8x
EV/EBITDA	10.1x	9.3x	8.5x	7.8x
EV/EBIT	13.3x	12.2x	11.1x	10.1x

H1 sales were globally in line with expectations with a retail sales rebound in Q2, mainly driven by Europe and particularly by the UK. Given recent GBP weakness, we have adjusted our FY 2016 expectations (revising up EBIT by 5%). As such, we have lifted our FV from p1,200 to p1,250. Nevertheless, we keep our Neutral recommendation.

ANALYSIS

- **H1 Burberry sales were globally in line with expectations. Sales reached GBP1.16bn**, **up 5% in reported terms but down 4% underlying or at same FX**. This underlying sales decrease was the consequence of two different trends. **Retail sales** (73% of group sales) were up 11% in reported terms at GBP859m but grew no more than 2% at same-FX. More importantly, same-store retail sales remained unchanged during the first six months. This implies, nevertheless, a 3% increase in Q2 after -3% in Q1. On the other hand, **wholesale sales** were down 6% to GBP287m or -14% at same forex. This significant decrease stemmed from the Americas and particularly from the US. Actually, this reflected tighter inventory control by wholesale customers (namely Department stores chains) who are working hard to reduce their WCR given less traffic in their stores. Beyond this, Burberry's management has implemented a brand elevation strategy cutting some clients. In other regions (EMEIA and Asia-Pacific), wholesale sales remained unchanged excluding Beauty. Beauty sales declined by 20%, due to cautious ordering and strategic brand control including the streamlining of distribution (particularly in UK), despite market share gains in key markets.

- **Concerning Retail sales**, same-store trends in Q2 (+2%) recovered vs Q1 (-3%). In the **Americas** (24% of sales), the negative trend (down low single digit, as in Q1) was the combination of uneven demand from domestic clientele and of sales with tourists still down double digit. In **APAC** (36% of sales), the Q2 trend (low single digit but up exc HK) was the same as in Q1. Nevertheless, it is worth noting that **Mainland China** sales (close to 12% of group sales) were up mid single-digit in Q2 (despite stores portfolio adjustment in Beijing) after being stable in Q1. This confirms the momentum recently highlighted by some competitors. In **Hong Kong**, revenues were still down double digit in Q2 (close to -15%), despite some slight improvement versus Q1 (around -20%), and Macau registered the same negative trend. On the other hand, **EMEIA** (40% of sales) enjoyed a clear rebound in Q2 (up high single digit) versus Q1 (down low single digit). Nevertheless, this recovery is coming from UK alone whose sales were up 30% in Q2 (up mid single digit in Q1). **UK** accounts for 40% of this region retail sales and close to 15% of total retail sales. In others European countries, trend remains almost the same thanks to good growth with domestic cluster (despite slight slowdown in Q2) and better trend for intra-European tourism.

Comparable stores retail sales growth

in %	Q3 15	Q4 15	Q1 16	Q2 16	H1 16
APAC	down msd	down msd	down lsd	down lsd	down lsd
AMEIA	up msd	down msd	down lsd	up hsd	up lsd
Americas	stable	down msd	down lsd	down lsd	down lsd
Total Retail	**0**	**-5**	**-3**	**2**	**2**

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

- Given GBP weakness, Burberry management also pointed out that FX positive impact on FY 2016 should be close to GBP125m versus GBP90m previously expected. Hence, our 2016 results estimates upgrade (+5%) to reach a PBT at GBP445m. Nevertheless, the decline in wholesale sales in H1 (-14% underlying) should continue in H2 (mid-teens decline), partly driven by US Dpt stores.

VALUATION

- Following our earnings upgrade, our new FV is p 1,260 vs p 1,200 previously. Neutral recommendation unchanged.

NEXT CATALYSTS

- H1 2016/17 results to be reported on November 9th.

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Business Services

Bureau Veritas

Price EUR17.90

Feed back conference call: No significant recovery expected in FY 2016. FV reduced.

Fair Value EUR20 vs. EUR21 (+12%) **NEUTRAL**

Bloomberg	BVI FP
Reuters	BVI.PA
12-month High / Low (EUR)	21.0 / 16.1
Market Cap (EUR)	7,910
Ev (BG Estimates) (EUR)	9,753
Avg. 6m daily volume (000)	655.8
3y EPS CAGR	3.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-5.6%	-6.9%	-13.2%	-2.7%
Inds Gds & Svs	0.6%	4.9%	4.2%	3.1%
DJ Stoxx 600	1.4%	1.1%	-0.5%	-6.4%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	4,635	4,563	4,700	4,909
% change		*-1.6%*	*3.0%*	*4.5%*
EBITDA	782	846	902	962
EBIT	775.2	745.7	770.8	821.2
% change		*-3.8%*	*3.4%*	*6.5%*
Net income	420.3	421.3	436.6	470.0
% change		*0.2%*	*3.6%*	*7.7%*

	2015	2016e	2017e	2018e
Operating margin	16.7	16.3	16.4	16.7
Net margin	9.1	9.2	9.3	9.6
ROE	38.4	39.4	34.3	30.3
ROCE	15.2	14.9	14.9	15.2
Gearing	166.0	167.8	132.6	100.0

(EUR)	2015	2016e	2017e	2018e
EPS	0.96	0.96	1.00	1.07
% change	-	*0.3%*	*3.6%*	*7.7%*
P/E	18.6x	18.6x	17.9x	16.7x
FCF yield (%)	6.8%	6.5%	7.0%	7.5%
Dividends (EUR)	0.51	0.51	0.53	0.57
Div yield (%)	2.8%	2.9%	3.0%	3.2%
EV/Sales	2.1x	2.1x	2.1x	1.9x
EV/EBITDA	12.5x	11.5x	10.7x	9.9x
EV/EBIT	12.6x	13.1x	12.5x	11.6x

Following Q3 revenue, management has lowered its FY 2016 guidance and is now expecting "slightly" negative lfl revenue growth (i.e. first negative FY number since the IPO) with adjusted operating margin of 16-16.5% compared with 16.5-17% previously and 16.7% last year. We have lowered our estimates for lfl revenue growth from 0.9% to -0.3% (consensus was at 0.4%) maintaining our adjusted operating margin at 16.3% (consensus was at 16.6%). Based on our new numbers, our FV moves to EUR20 vs. EUR21 based on a DCF and historical multiple EV/EBIT on FY+3. Too early to revisit the stock.

ANALYSIS

Lfl revenue growth now expected to be "slightly" negative in FY 2016…: Despite positive trends in some segments i.e. Certification (7.6% consolidated revenue), Consumer product (14.2%), a rebound in Metals & Minerals (33% of commodities representing 16.7% of consolidated revenue), the persistently challenging oil & gas markets with an earlier and sharp reversal in Marine, have definitely delayed the group's lfl recovery expected in H2 2016. As such, taking into account favourable comps in Q4 with no speficific changes vs. Q3, management now expects "slightly" negative lfl revenue growth vs. between 1% and 3% previously (consensus was at +0.4% and our forecast at 0.9%). We move our **2016e** to -0.3% and reduce **2017e** to 1.4% vs. 2.9% previously (consensus was at 2.5%).

LFL revenue growth trend

	Q1 16	Q2 16	Q3 16	Q4 16e	FY 2016e	FY 2017e	FY 2018e
Marine	1,2%	4,8%	-9,8%	-10,0%	-3,4%	-4,0%	4,0%
Industry	-8,1%	-11,4%	-9,0%	-8,0%	-9,1%	-5,0%	2,0%
In-Service Inspection &	5,1%	5,4%	3,7%	3,0%	4,3%	4,0%	4,0%
Construction	0,8%	0,1%	-1,6%	0,0%	-0,2%	3,0%	3,0%
Certification	3,6%	6,9%	7,6%	7,0%	6,3%	5,0%	5,0%
Commodities (Inspectorate)	1,6%	0,8%	3,9%	4,0%	2,6%	3,0%	3,0%
Consumer products	1,6%	3,1%	4,5%	5,0%	3,5%	5,0%	5,0%
GSIT	-5,2%	-3,2%	-4,1%	-3,0%	-3,9%	3,0%	3,0%
Total group	**-0,6%**	**-0,6%**	**-1,0%**	**0,0%**	**-0,3%**	**1,4%**	**3,5%**

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

…which will weigh on operating margin: Adjusted operating margin guidance has been reduced to 16-16.5% vs. 16.5-17% previously and compared to 16.7% in 2015. Already anticipating lower numbers than management with operating margin of 16.3%, we are maintaining our current forecast. In all, our top line adjustment will impact our 2016 EBIT by EUR10m.

Main changes

	2016e			2017e			2018e		
	Old	New	Change %	Old	New	Change %	Old	New	Change %
SALES	4 632	4 563	-1,5%	4 810	4 700	-2,3%	5 011	4 909	-2,0%
EBITDA	859	846	-1,5%	923	902	-2,3%	982	962	-2,0%
	18,5%	18,5%	-0 bp	19,2%	19,2%	0 bp	19,6%	19,6%	-0 bp
EBIT	755	746	-1,3%	787	771	-2,1%	837	821	-1,9%
	16,3%	16,3%	3 bp	16,4%	16,4%	4 bp	16,7%	16,7%	3 bp
EPS	0,98	0,96	-1,5%	1,02	1,00	-2,4%	1,10	1,07	-2,1%

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

VALUATION

At the current share price, the stock is trading at 2016e and 2017e EV/EBIT of 13.1x and 12.5x respectively, compared with an historical median of 14.3x and CAGR EBIT2015-2018 of c.2%.

NEXT CATALYSTS

FY results on 24th February 2017

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Food retailing

Carrefour

Price EUR23.06

Q3 sales (first take): hypers are doing better; let's enjoy it!

Fair Value EUR30 (+30%) **BUY-Top Picks**

Bloomberg	CA FP
Reuters	CARR.PA
12-month High / Low (EUR)	30.7 / 21.3
Market Cap (EURm)	17,435
Ev (BG Estimates) (EURm)	23,648
Avg. 6m daily volume (000)	3 163
3y EPS CAGR	10.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	4.2%	-0.5%	-11.7%	-13.5%
Food Retailing	0.6%	-1.3%	-5.8%	-3.1%
DJ Stoxx 600	-0.1%	-0.1%	-1.6%	-7.8%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	76,945	75,732	79,736	82,927
% change		*-1.6%*	*5.3%*	*4.0%*
EBITDA	3,914	3,895	4,286	4,593
EBIT	2,187	2,449	2,764	3,010
% change		*12.0%*	*12.8%*	*8.9%*
Net income	1,113	1,162	1,370	1,536
% change		*4.4%*	*18.0%*	*12.1%*

	2015	2016e	2017e	2018e
Operating margin	3.2	3.2	3.5	3.6
Net margin	1.4	1.5	1.7	1.9
ROE	NM	NM	NM	NM
ROCE	9.6	8.8	9.7	10.2
Gearing	42.6	43.4	38.4	33.5

(EUR)	2015	2016e	2017e	2018e
EPS	1.54	1.58	1.87	2.09
% change	-	*2.9%*	*18.0%*	*12.1%*
P/E	15.0x	14.6x	12.3x	11.0x
FCF yield (%)	NM	0.3%	5.5%	6.4%
Dividends (EUR)	0.93	1.05	1.14	1.24
Div yield (%)	4.1%	4.5%	4.9%	5.4%
EV/Sales	0.3x	0.3x	0.3x	0.3x
EV/EBITDA	5.9x	6.1x	5.5x	5.1x
EV/EBIT	10.5x	9.7x	8.5x	7.8x

Carrefour has just released a Q3 trading statement slightly above expectations. Total group sales worked out at EUR21.8bn (ve EUR21.67bn e), up +3.2% LFL (vs +2.6% e). This publication is all the more satisfying in that the aggressiveness of Carrefour in September in France, translated into the first market share gain for hypermarkets (-1.0% LFL in Q3 vs -1.2% e) in 2016 (i.e. +30bp during the latest Kantar period) and proved that Carrefour is able to surprise Leclerc! Admittedly, "one swallow does not make a summer", but let's enjoy it! On top of that, according to Reuters, Carrefour is comfortable with the current level of EBIT consensus (EUR2.45bn). Buy.

1/ Carrefour supermarkets in France were well above expectations (LFL reached +3.7% vs +2.8%e) on high comps, which tends to prove that recent price efforts are bearing fruit; **2/** the performance by hypermarkets is improving (-1% LFL) especially towards the end of the quarter obviously (+30bp market share gains in september); **3/** In Europe momentum remained decent (+1.0% LFL), decelerating sequentially but on high comps; **4/** So far so good in LatAm (+14.2%) and in line in Asia.

g. 1:	LFL (excl. fuel & calendar)	Q1 15	Q2 15	Q3 15	Q4 15	2015	Q1 16	Q2 16	Q3 e	Q3 p
g. 3:	Total group	2.3%	1.7%	+3.5%	+2.1%	2.4%	+3.1%	+2.7%	+2.6%	+3.2%
g. 4:	**France (47% of sales)**	+2.5%	+0.9%	+1.6%	+0.2%	+1.3%	+0.0%	-0.9%	+0.6%	+1.2%
g. 5:	*- ow Hypers*	*+2.1%*	*+0.5%*	*+0.7%*	*-0.7%*	*+0.6%*	*-0.6%*	*-3.1%*	*-1.2%*	*-1.0%*
g. 6:	*- ow Supers*	*+2.5%*	*+1.2%*	*+2.5%*	*+1.5%*	*+1.9%*	*+0.7%*	*+2.5%*	*+2.8%*	*+3.7%*
g. 7:	**Europe (26% of sales)**	+0.9%	-0.4%	+4.2%	+2.2%	+1.8%	+3.2%	+1.2%	+1.0%	+1.0%
g. 8:	*- ow Spain*	*+0.3%*	*+2.8%*	*+4.6%*	*+2.5%*	*+2.6%*	*+3.4%*	*+0.7%*	*+0.9%*	*+1.0%*
g. 9:	*- ow Italy*	*-1.0%*	*-5.0%*	*+5.9%*	*+3.5%*	*+0.8%*	*+4.5%*	*+1.4%*	*+1.4%*	*+2.2%*
g. 10:	*- ow Belgium*	*+2.1%*	*+0.0%*	*+2.7%*	*-0.4%*	*+1.0%*	*+1.0%*	*-0.5%*	*-0.2%*	*+0.0%*
g. 11:	**LatAm (19% of sales)**	+12.5%	+10.7%	+11.7%	+11.9%	+11.7%	+13.5%	+15.5%	+14.4%	+14.2%
g. 12:	*- ow Brazil*	*+8.4%*	*+7.1%*	*+7.4%*	*+8.5%*	*+7.9%*	*+9.9%*	*+13.1%*	*+12.6%*	*+12.4%*
g. 13:	**Asia (8% of sales)**	-11.3%	-9.2%	-7.5%	-12.9%	-10.3%	-4.9%	-6.0%	-5.3%	-5.0%
g. 14:	*- ow China*	*-14.0%*	*-12.3%*	*-11.2%*	*-16.7%*	*-13.5%*	*-8.4%*	*-9.3%*	*-8.4%*	*-7.8%*

ANALYSIS

Carrefour has long been suffering a decline in market share at its French hypers, momentum at which remains key to the equity story. In this respect, the post-summer promotional compaign in France (which was not successful in 2015) was a challenge Carrefour had to cope with in 2016. Judging by the lack of strong reaction by Leclerc, it seems that Carrefour has taken the group by surprise during an extremely agressive month in September. **Ultimately, this translated into the first market share gain for hypermarkets in 2016 (i.e. +30bp during the latest Kantar period)** and proved that Carrefour is able to surprise Leclerc! Admittedly, "one swallow does not make a summer", but let's enjoy it!

In a sector that is suffering an obvious lack of growth (with apathetic LFL rates for most retailers), it is worth emphazising the +3.2% LFL rate at Carrefour (above the natural cost inflation). Beyond this publication, we believe that Carrefour's way of fine-tunning the offer (notably through the triptych **1/** fresh, **2/** local and **3/** organic) is the right answer to cope with the endemic challenge of growth (which, today, is exacerbated by the irruption of e-commerce).

On the whole, **1/** we are convinced by the structural measures implemented by Carrefour to cope with the long-term challenge of growth (see: Tending towards premiumisation?). The outline of this omni-channel strategy is taking shape in France: logistical overhaul; premiumisation; **3/** acquisition of malls (design of a connected ecosystem). On top of that, **2/** the short term momentum turned out to be satisfying. Along with **3/** an attractive valuation (2017 P/E of 12x vs 16.5x for peers), we see no reason why we could not maintain our Buy rating.

VALUATION

2017 P/E of 12x vs 16.5 on average for the sector

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Food retailing

Casino Guichard

Price EUR43.76

Bloomberg	CO FP
Reuters	CASP.PA
12-month High / Low (EUR)	56.5 / 35.2
Market Cap (EURm)	4,899
Ev (BG Estimates) (EURm)	9,430
Avg. 6m daily volume (000)	408.5
3y EPS CAGR	8.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	2.6%	-17.4%	-17.2%	3.2%
Food Retailing	2.8%	0.7%	-4.0%	-1.0%
DJ Stoxx 600	1.4%	1.1%	-0.5%	-6.4%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	46,145	41,860	45,300	47,261
% change		*-9.3%*	*8.2%*	*4.3%*
EBITDA	2,343	1,943	2,301	2,543
EBIT	968.0	596.8	1,362	1,503
% change		*-38.3%*	*128.3%*	*10.4%*
Net income	412.0	233.1	364.3	435.1
% change		*-43.4%*	*56.3%*	*19.4%*

	2015	2016e	2017e	2018e
Operating margin	3.1	2.7	3.0	3.2
Net margin	0.9	0.6	0.8	0.9
ROE	NM	NM	NM	NM
ROCE	5.2	4.9	6.0	6.5
Gearing	48.9	30.0	28.8	29.5

(EUR)	2015	2016e	2017e	2018e
EPS	2.80	1.65	2.94	3.58
% change	-	*-40.9%*	*78.0%*	*21.8%*
P/E	15.7x	26.5x	14.9x	12.2x
FCF yield (%)	NM	NM	15.3%	10.8%
Dividends (EUR)	3.12	3.12	3.12	3.12
Div yield (%)	7.1%	7.1%	7.1%	7.1%
EV/Sales	0.3x	0.2x	0.2x	0.2x
EV/EBITDA	5.5x	4.9x	4.4x	4.1x
EV/EBIT	13.3x	15.8x	7.4x	7.0x

Via Varejo

Fair Value EUR57 (+30%) **BUY**

Yesterday, the Casino share price suddenly jumped 2% as Steinhoff was reported (source: Globo / the information was obviously denied) to be in talks to buy the Klein family stake in Via Varejo (Casino's electro-domestic subsidiary in Brazil / EI 14%). Beyond the modest impact on Casino's SOTP (EUR0.65), the message is the key factor. Casino had to mourn the valuation of Via Varejo (which, in 2014, was valued three times its current market cap). Today, we believe that Casino is ready to sell the asset.

As a reminder, we recently wrote (we are cautious ahead of Q3) that: "the option of a disposal of Via Varejo (43% equity owned by GPA) should not be ruled out as it would help deconsolidate ~EUR65m in net losses generated by Via Varejo and Nova Pontocom in 2015. And we believe some potential buyers exist (such as Steinhoff, owner of Conforama with whom Casino just signed a purchasing agreement in France?). With the cash proceeds, GPA could buy back its own share, thus increasing Casino's equity stake in its Brazilian subsidiary".

Yesterday, Casino share price suddenly jumped 2% as Steinhoff was reported (source: Globo / the information was obviously denied) to be in talks to buy Klein family stake in Via Varejo (Casino's electro-domestic subsidiary in Brazil / EI 14%). As a reminder, the Klein family owns 27.3% of VV's equity, a stake which would be worth BRL1.5bn (i.e. a 48% premium on yesterday's "undisturbed" share price) and which would value 100% of Via Varejo at BRL5.5bn. At this level of valuation, the impact on Casino's spot SOTP would be EUR0.65 per share.

ANALYSIS

- Beyond the modest impact on Casino's SOTP (EUR0.65), the message is the key factor. Casino had to mourn the valuation of Via Varejo (which, in 2014, was valued three times its current market cap). Today, we believe that Casino is ready to sell the asset.
- To compensate for the opportunity cost in terms of valuation, we also believe a buyback of undervalued Brick & Mortar assets could be on the cards. Hence, short-term uncertainties should not wipe out longer-term incentives linked to a potential reorganisation of LatAm (i.e. buyback of minorities - see: "With hindsight: a real Catch-22!").
- That said, the question is why nothing has been undertaken so far. There is an obvious window of opportunity, especially on Exito (55% equity owned by Casino), whose minority interests (worth around ~EUR1.1bn with a 20% premium) could be bought back by Casino with, as a result, a decisive simplification of the structure.
- On the whole, we are looking forward to seeing a reorganisation in LatAm (which was the subject of a big report in February). Do not understand what Casino is waiting for. And this latency may be a matter of concern. Stay tuned.

VALUATION

- The spot SOTP currently stands at EUR54

NEXT CATALYSTS

- Reorganisation in LatAm

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Food & Beverages

Danone

Price EUR63.69

Bloomberg	BN FP
Reuters	DANO.PA
12-month High / Low (EUR)	70.3 / 58.1
Market Cap (EUR)	41,774
Ev (BG Estimates) (EUR)	60,073
Avg. 6m daily volume (000)	1 568
3y EPS CAGR	7.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-0.4%	-2.4%	2.2%	2.3%
Food & Bev.	-0.3%	-2.5%	0.2%	-1.9%
DJ Stoxx 600	1.4%	1.1%	-0.5%	-6.4%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	22,412	21,940	26,152	27,532
% change		*-2.1%*	*19.2%*	*5.3%*
EBIT	2,892	3,005	3,537	3,822
% change		*3.9%*	*17.7%*	*8.1%*
Net income	1,791	1,888	2,025	2,251
% change		*5.4%*	*7.3%*	*11.2%*

	2015	2016e	2017e	2018e
Operating margin	12.9	13.7	13.5	13.9
Net margin	8.0	8.6	7.7	8.2
ROE	10.2	14.8	15.8	16.2
ROCE	11.0	12.5	14.2	15.0
Gearing	61.6	141.1	126.7	112.3

(EUR)	2015	2016e	2017e	2018e
EPS	2.93	3.06	3.29	3.65
% change	-	*4.6%*	*7.3%*	*11.2%*
P/E	21.7x	20.8x	19.4x	17.4x
FCF yield (%)	3.9%	4.3%	4.5%	4.9%
Dividends (EUR)	1.60	1.67	1.80	2.00
Div yield (%)	2.5%	2.6%	2.8%	3.1%
EV/Sales	2.2x	2.7x	2.3x	2.1x
EV/EBIT	17.1x	20.0x	16.8x	15.3x

Difficulties of Chinese Water and Baby Food to continue

Fair Value EUR70 vs. EUR65 (+10%) **NEUTRAL**

Danone has currently lost its organic growth engines. In China, the non-alcoholic beverages market has slowed significantly while the infant nutrition industry is being regulated. Visibility on the group's outlook in 2017 is very weak. Nevertheless, our Fair Value is revised upwards to EUR70 as we have rolled over our estimates by one year. We maintain our Neutral recommendation.

ANALYSIS

- **Weak Q3 sales**. Organic sales were up 2.1% in Q3, deteriorating strongly vs H1 (+3.8%). Volumes proved to be very weak, dropping 0.7% over the quarter while the consensus was expecting them to be broadly flat. This reflected 1/ the tough macro environment for dairy in CIS and Brazil and 2/ the Chinese destocking for water and baby food. Danone indicated that organic sales growth would have been >4% without destocking in China. The performance in this country was penalised by the slowdown in the non-alcoholic beverages market and the regulation of the infant nutrition industry.
- **Yoghurts**. The group continues to target a stabilisation of its European sales by the end of the year. Activia was relaunched in mid-September in this region with a new packaging and marketing campaign, change in recipes etc. It is too soon to see the first results. Actimel and Danonino were relaunched in Q2 2016. The US was impacted by a very tough pricing environment during the summer. But the situation should normalise. Going forward, 5% organic sales growth in the country seems achievable.
- **Waters.** Chinese brand Mizone was in decline in Q3, impacted by 1/ flooding during the summer and 2/ destocking caused by the slowdown in the non-alcoholic beverages market. Danone's priority is to protect its 5% market share. The transition of Mizone should continue for a few quarters but should not impact Q4 to the same extent as Q3. The group's CFO indicated that the Waters division should post high single digit organic sales growth in Q4 thanks to easy comps.
- **Baby food**. Indirect sales (2/3 of Chinese activities) decreased 25% in Q3 while direct sales were up double digit. The division should continue to be impacted by the destocking of traders operating in cross border e-commerce and for this reason, management expects it to be in slight decline in Q4. The group has confirmed that business related to traders will disappear. It also said it is confident that the transition from indirect to direct will not impact its margin.
- **Outlook**. The group confirmed its full year guidance for: 1/ organic sales to increase 3-5% and 2/ EBIT margin to improve 50-60bps in organic. But it said that it should reach the low-end of its top line target and the high-end of its bottom line target. Our estimate calls for 3.1% organic sales growth over the year. This implies an improving trend in Q4, which should be driven by Yoghurts and Waters. We now expect EBIT margin to rise 60bps in organic (+50bps previously).

VALUATION

- Our DCF now points to a Fair Value of EUR70 as we have rolled over our estimates by one year. At yesterday's share price, the stock is trading at 20.8x P/E 2016e and 19.4x P/E 2017e, 1% and 1% below the peer average.

NEXT CATALYST

- Nestlé will release its Q3 sales on 20th October.

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TMT

Gemalto

Price EUR56.73

We have cut our estimates again to feel more comfortable for the next few years

Fair Value EUR60 vs. EUR62 (+6%) **NEUTRAL**

Bloomberg	GTO FP
Reuters	GTO.PA
12-month High / Low (EUR)	65.5 / 49.8
Market Cap (EUR)	5,100
Ev (BG Estimates) (EUR)	5,240
Avg. 6m daily volume (000)	359.6
3y EPS CAGR	21.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-9.5%	-0.7%	-1.8%	2.6%
Softw.& Comp.	0.6%	9.8%	10.5%	6.6%
DJ Stoxx 600	1.4%	1.1%	-0.5%	-6.4%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	3,122	3,184	3,311	3,477
% change		*2.0%*	*4.0%*	*5.0%*
EBITDA	345	499	592	652
EBIT	313.3	430.8	514.3	566.7
% change		*37.5%*	*19.4%*	*10.2%*
Net income	226.3	308.5	372.6	409.7
% change		*36.3%*	*20.8%*	*10.0%*

	2015	2016e	2017e	2018e
Operating margin	10.0	13.5	15.5	16.3
Net margin	4.2	8.3	10.1	10.9
ROE	5.4	9.8	11.1	11.4
ROCE	7.1	9.7	11.6	12.8
Gearing	13.4	5.2	-5.0	-14.3

(EUR)	2015	2016e	2017e	2018e
EPS	2.53	3.43	4.14	4.55
% change	-	*35.3%*	*20.8%*	*10.0%*
P/E	22.4x	16.6x	13.7x	12.5x
FCF yield (%)	3.4%	4.9%	6.8%	8.0%
Dividends (EUR)	0.47	0.51	0.55	0.59
Div yield (%)	0.8%	0.9%	1.0%	1.0%
EV/Sales	1.7x	1.6x	1.5x	1.3x
EV/EBITDA	15.7x	10.5x	8.4x	7.1x
EV/EBIT	17.3x	12.2x	9.6x	8.2x

We were not comfortable with our estimates prior to the Q3 revenue release (on 28th October, before trading), both for H2 2016e and FY 2017e. We have therefore reduced our 2016-18e EPS sequence by 6% on average (-6.4% in 2016e, -6.1% in 2017e and -5.3% in 2018e). We maintain our Neutral recommendation and have lowered our FV from EUR62 to EUR60. The stock is often a "value trap" and we advise investors to remain cautious as we expect the company to warn sooner or later.

ANALYSIS

Gemalto is due to release its Q3 revenue on 28th October (before trading). We have not yet received the consensus. To be consistent with the FY 2016 estimates we had, the company should have to post Q3 revenue of EUR819m (+7.1% lfl) which will be extremely difficult to achieve given that the SIM segment should drop by 10-15% and that the payment segment is set to slow down (high comps). For FY 2017, we had a PFO of EUR580.1m (+20% Y/Y, and 12% below the guidance), and note that to reach the company guidance of "over EUR660m" the PFO should have to increase by over 37% in 2017, which we consider totally impossible (the SIM market is difficult and the payment division is dilutive). As a result, **we have again cut our estimates to feel more comfortable both for 2016e and 2017e.**

For 2016e, we now expect: 1/ revenue of EUR3,184m i.e.+2% Y/Y and +2.5% lfl (vs. EUR3,243.8m, +4.5% lfl); **2/** profit from operations of EUR475.2m i.e. +12.4% Y/Y and a margin of 14.9% (vs. EUR483.3m, +14.4% Y/Y) compared to the vague guidance of "accelerating its PFO expansion towards its 2017 objectives" meaning above the +10.4% growth reported last year; **3/** underlying EBIT of EUR430.7m i.e. a margin of 13.5% (vs. EUR438.9m); **and 4/** net profit of EUR264.9m i.e. a margin of 8.3% (vs. EUR288.7m). Thus, **we see Q3 revenue of EUR787.1m (+2.4% Y/Y and +3% lfl).**

In 2017e, we now expect: 1/ revenue of EUR3,311.3m i.e.+4.0%% lfl (vs. EUR3,406m, +5.0% lfl); **2/** PFO of EUR565.3m i.e. +19.0% Y/Y and a margin of 17.1% (vs. EUR580.1m, +20.0% Y/Y), namely ~14% below the company guidance of "over EUR660m"; **3/** underlying EBIT of EUR514.3m i.e. a margin of 15.5% (vs. EUR529.0m); **and 4/** net profit of EUR333.6m i.e. a net margin of 10.1% (vs. EUR356.7m).

We expect the company to warn sooner or later: both on FY 2016e (vs. consensus) and FY 2017e (vs. the PFO guidance). The appointment of the new CEO as of 1st September (Philippe Vallée, former COO) could help the group to do so by the end of this year.

VALUATION

We have cut our 2016-2018 EPS sequence by 6% on average (-6.4% in 2016e, -6.1% in 2017e and -5.3% in 2018e). As a result, **we have lowered our FV from EUR62 to EUR60** (average of 3 methods: a DCF of EUR61.0, a SOTP of EUR61.3 and 2-year historical multiples of EUR56.6). **The stock is often a "value trap".**

We advise investors to closely monitor the EUR52/share threshold because both the SIM and mobile Platforms & Services divisions would be valued at zero in our SOTP (i.e. no risk in the Mobile segment).

2016 is very back-end loaded, visibility is poor, and we expect the company to warn regarding FY 2016e (vs. current consensus) and FY 2017e (vs. the PFO guidance). And finally, short positions have been reduced (~6% declared but probably ~8% of the capital incl. positions under 0.5%) since a peak in October 2014 (21-22% of the capital incl. positions under 0.5%) but without a rally in the share price. As such, **we believe any disappointment could lead short-sellers to attack the stock again**.

NEXT CATALYSTS

Gemalto Q3 revenue: on 28th October (before trading).

Consensus and BG estimates (new vs. old) for 2016 and 2017e

Fig. 15:	EURm	2015	BG	BG	Cons.	BG	BG	Cons.
Fig. 16:		(reported)	2016e (old)	2016e (new)	2016e	2017e (old)	2017e (new)	2017e
Fig. 17:	**Sales**	**3,121.6**	**3,243.8**	**3,184.0**	**3,202**	**3,406.0**	**3,311.3**	**3,410**
Fig. 18:	*Y/Y*	*26.6%*	*3.9%*	*2.0%*	*2.6%*	*5.0%*	*4.0%*	*6.5%*
Fig. 19:	*Y/Y*	*4.0%*	*4.5%*	*2.5%*		*5.0%*	*4.0%*	
Fig. 20:	**PFO**	**422.6**	**483.3**	**475.2**		**580.1**	**565.3**	
Fig. 21:	*Margin*	*13.5%*	*14.9%*	*14.9%*		*17.0%*	*17.1%*	
Fig. 22:	**EBIT**	**203.3**	**386.7**	**379.4**		**476.7**	**463.2**	
Fig. 23:	*Margin*	*6.5%*	*11.9%*	*11.9%*		*14.0%*	*14.0%*	
Fig. 24:	**Current**	**313.3**	**438.9**	**430.8**	**439**	**529.0**	**514.3**	**525**
Fig. 25:	*Margin*	*10.0%*	*13.5%*	*13.5%*	*13.7%*	*15.5%*	*15.5%*	*15.4%*
Fig. 26:	**Net**	**136.9**	**288.7**	**264.9**	**284**	**356.7**	**333.6**	**354**
Fig. 27:	*Margin*	*4.4%*	*8.9%*	*8.3%*	*8.7%*	*10.5%*	*10.1%*	*10.1%*
Fig. 28:	**Attrib.**	**134.1**	**288.5**	**264.7**		**356.4**	**333.3**	
Fig. 29:	*Margin*	*4.3%*	*8.9%*	*8.3%*		*10.5%*	*10.1%*	
Fig. 30:	**Rest.**	**226.3**	**329.7**	**308.5**	**341.5**	**396.7**	**372.6**	**405**
Fig. 31:	*Margin*	*7.3%*	*10.2%*	*9.7%*	*10.7%*	*11.6%*	*11.3%*	*11.9%*
Fig. 32:	**Net debt**	**334.7**	**80.0**	**140.8**	**148**	**-228.7**	**-151.0**	**-22**
Fig. 33:	*Gearing*	*13.4%*	*2.9%*	*5.2%*		*-7.5%*	*-5.0%*	

PFO (Profit From Operations) is an underlying EBIT before stock options

Sources: Bryan, Garnier & Co ests; Thomson Reuters consensus.

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Food retailing

Metro AG

Price EUR26.67

Q4 trading statement (first take): topline remains weak

Fair Value EUR26 (-3%) **SELL**

Bloomberg	MEO GY
Reuters	MEOG.DE
12-month High / Low (EUR)	31.6 / 21.9
Market Cap (EURm)	8,644
Ev (BG Estimates) (EURm)	11,522
Avg. 6m daily volume (000)	848.4
3y EPS CAGR	12.3%

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.2%	-7.6%	-9.2%	-9.8%
Food Retailing	0.6%	-1.3%	-5.8%	-3.1%
DJ Stoxx 600	-0.1%	-0.1%	-1.6%	-7.8%

YEnd Sept. (EURm)	09/15	09/16e	09/17e	09/18e
Sales	59,220	58,320	59,835	61,396
% change		*-1.5%*	*2.6%*	*2.6%*
EBITDA	2,457	2,460	2,544	2,631
EBIT	711.0	1,497	1,557	1,618
% change		*110.6%*	*4.0%*	*3.9%*
Net income	502.3	597.5	652.5	711.0
% change		*18.9%*	*9.2%*	*9.0%*

	09/15	09/16e	09/17e	09/18e
Operating margin	2.6	2.6	2.6	2.6
Net margin	0.8	1.0	1.1	1.2
ROE	NM	NM	NM	NM
ROCE	10.5	10.2	9.8	9.6
Gearing	48.9	44.4	45.9	46.4

(EUR)	09/15	09/16e	09/17e	09/18e
EPS	1.54	1.83	2.00	2.18
% change	-	*18.9%*	*9.2%*	*9.0%*
P/E	17.3x	14.6x	13.4x	12.3x
FCF yield (%)	NM	NM	NM	NM
Dividends (EUR)	1.00	0.98	1.02	1.05
Div yield (%)	3.7%	3.7%	3.8%	3.9%
EV/Sales	0.2x	0.2x	0.2x	0.2x
EV/EBITDA	4.7x	4.7x	4.6x	4.6x
EV/EBIT	16.3x	7.7x	7.6x	7.5x

The negative and salient point of the publication was the poor performance at MMS (-2.0% LFL vs +0.4%e), notably penalised by difficult momentum at Redcoon. Even if management confirmed the FY EBIT BFI guidance, we continue to consider that topline performances remain weak (flat LFL in Q4) and do not allow talk of a commercial recovery, not to mention the credit situation, which remains a source of concern going forward. Sell maintained at this stage.

Q4 2015/16 sales decreased 0.5% to EUR14.2bn (vs EUR14.25bn e), up +0.1% LFL (vs +0.4%e). Again, very sparse details were provided by geography, but it seems that LFL developed positively in Russia C&C (slight LFL growth in Q4), rather in line with management's previous statement according to which the country may gradually bottom out during Q4.

The negative and salient point of the publication was the poor performance of MMS (-2.0% LFL vs +0.4%e), notably penalised by difficult momentum at Redcoon (over recent months, it seems that the e-commerce activity as been under pressure in Europe, judging from the poor performances of both Redcoon and Cdiscount notably).

In detail, LFL sales rose +1.4% in C&C (~49% of sales) vs +0.8% e, declined 2.0% at MMS (~38% of sales) vs +0.4%e and grew by +0.3% at Real (~13% of sales) vs -1.0%.

ANALYSIS & INVESTMENT CASE

- The group's advantageous tax lever (shifting costs out of Germany in a bid to boost domestic operating result at Metro C&C and thus activate tax loss carry forwards) should not eclipse soft commercial trends. LFL performances (+0.1% in Q4 - below normative natural cost inflation) remain soft and prevent us from talking about a commercial recovery.

	Q4 15/16	Q1 15/16	Q2 15/16	Q3 15/16	Q4 15/16 e	Q4 15/16 p
C&C	+1.1%	+0.2%	+0.5%	+0.1%	+0.8%	+1.4%
MMS	+2.9%	+0.4%	+0.7%	+1.2%	+0.4%	-2.0%
Real	-1.6%	-1.6%	+0.5%	-3.5%	-1.0%	+0.3%

- Until september, management had refused to answer the question of whether we can rule out a rights issue in order to address the capital structure problem ahead of the spin-off. We believe that this latency period (five months!), during which management finally managed to find a solution, reflects what remains a precarious credit situation.

- Whether the optimists admit it or not, the precedent of Casino (which has proved that beyond the ratio, a diversified profile is key to maintaining a rating) leads us to believe that the situation at MMS (undiversifed cyclical profile and in the front row concerning the ramp-up of e-commerce) remains very stretched, especially in view of weak commercial trends.

VALUATION

- 2017 P/E of 13.5x vs 16.5x on average for peers

NEXT CATALYSTS

- Spin-off

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Food & Beverages

Rémy Cointreau

Price EUR76.16

Bloomberg	RCO FP
Reuters	RCOP.PA
12-month High / Low (EUR)	80.4 / 58.1
Market Cap (EUR)	3,785
Ev (BG Estimates) (EUR)	4,239
Avg. 6m daily volume (000)	92.50
3y EPS CAGR	13.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.6%	-1.0%	10.5%	15.4%
Food & Bev.	-0.3%	-2.5%	0.2%	-1.9%
DJ Stoxx 600	1.4%	1.1%	-0.5%	-6.4%

YEnd Mar. (EURm)	03/16	03/17e	03/18e	03/19e
Sales	1,051	1,074	1,138	1,230
% change		*2.2%*	*6.0%*	*8.0%*
EBITDA	200	226	251	283
EBIT	178.4	205.4	228.0	256.9
% change		*15.1%*	*11.0%*	*12.6%*
Net income	110.4	127.1	149.4	170.1
% change		*15.1%*	*17.6%*	*13.8%*

	03/16	03/17e	03/18e	03/19e
Operating margin	17.0	19.1	20.0	20.9
Net margin	10.5	11.8	13.1	13.8
ROE	9.9	11.9	14.4	15.9
ROCE	16.5	17.3	18.0	18.3
Gearing	41.2	42.5	40.4	34.3

(EUR)	03/16	03/17e	03/18e	03/19e
EPS	2.27	2.48	2.92	3.32
% change	-	*9.5%*	*17.6%*	*13.8%*
P/E	33.6x	30.7x	26.1x	22.9x
FCF yield (%)	2.0%	2.5%	3.0%	3.5%
Dividends (EUR)	1.60	1.60	1.60	1.60
Div yield (%)	2.1%	2.1%	2.1%	2.1%
EV/Sales	4.0x	3.9x	3.7x	3.4x
EV/EBITDA	21.3x	18.8x	16.8x	14.7x
EV/EBIT	23.8x	20.6x	18.4x	16.2x

A good set of results

Fair Value EUR84 (+10%) **BUY-Top Picks**

The group reported a good set of results yesterday. The United States continued to grow strongly and China confirmed its improvement. Value depletions in the country were up mid single digit in Q2, in line with Q1. However this has triggered no upwards revisions to estimates. We maintain our Buy recommendation and our Fair Value of EUR84.

ANALYSIS

- The solid H1 trend reflected strong momentum in the US and improvement in Greater China and Russia. Western Europe proved to be broadly unchanged, while travel retail remained weak and Africa deteriorated. Rémy Cointreau warned that the Q2 performance should not be extrapolated to H2. We expect 3.7% organic sales growth in 2016/17 (+4.1% in H1). The group reiterated its guidance for EBIT growth at constant FX and scope. Our estimate calls for +9.5%.
- Sales in China returned to positive territory in Q2 after some destocking in Q1. Value depletions were up mid single digit in the quarter (no change in trend since the beginning of the fiscal year) thanks to better consumer confidence. Mainland China and Taiwan continued to drive the improvement, while Hong Kong and Macau remained soft. Rémy Cointreau reported that it gained share in Greater China. Club continued to outperform the group's other products but XO/XO+ showed some nice improvement. The Mid-Autumn festival appeared to be good. The company confirmed that both sell-in and depletions will be positive in China in 2016/17. The Chinese New Year is a bit earlier than last year, which could cause some sales transfer from Q4 to Q3. Note that growth in China was offset by some weakness in other Asian markets: Travel Retail (less spend per capita and more checks at Chinese border) and Japan (strong yen).
- The United States continued to grow strongly. The group's value depletions were up 13% over 6M and 12M. Weakness in the 3M trend (+6.7%) largely reflected destocking by retailers post price increases. The performance continued to be driven by cognac, with good momentum for 1738 and a recovery for Louis XIII. Growth in Cointreau and the Islay spirits remained sustained. But Mount Gay suffered from a drop in volumes of Eclipse following a new round of price increases.
- Europe, Middle East and Africa were a bit of a mixed bag. Russia/CIS had a good start to the year thanks to easy comps and an improvement in the consumer environment. Travel Retail moved into positive territory but this was mainly driven by the positive performance of partner brands. Trends were broadly unchanged in Western Europe and Eastern Europe, with the former broadly flat and the latter growing strongly. The deterioration in the environment in Africa was significant. The region moved into negative territory in H1, due to challenging macroeconomic factors in Nigeria not completely offset by strong business trends in South Africa.

VALUATION

- Our DCF still points to a Fair Value of EUR84. At yesterday's share price, the stock is trading at 20.6x EV/EBIT 2016/17e and 18.4x EV/EBIT 2017/18e, 15% and 15% above the peer average.

NEXT CATALYSTS

- Pernod Ricard will release its Q1 sales on 20th October

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Healthcare

Roche

Price CHF233.60

Tecentriq approved in the US in 2L/3L NSCLC

Fair Value CHF293 (+25%) **BUY**

Bloomberg	ROG VX
Reuters	ROG.VX
12-month High / Low (CHF)	279.3 / 232.7
Market Cap (CHFm)	164,119
Ev (BG Estimates) (CHFm)	176,784
Avg. 6m daily volume (000)	1 192
3y EPS CAGR	7.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-2.7%	-7.7%	-6.4%	-15.5%
Healthcare	-2.8%	-6.6%	-2.7%	-10.5%
DJ Stoxx 600	1.4%	1.1%	-0.5%	-6.4%

YEnd Dec. (CHFm)	2015	2016e	2017e	2018e
Sales	48,145	50,441	51,591	52,784
% change		*4.8%*	*2.3%*	*2.3%*
EBITDA	19,430	19,890	22,218	22,452
EBIT	13,821	16,659	18,218	19,052
% change		*20.5%*	*9.4%*	*4.6%*
Net income	11,626	13,613	14,282	14,492
% change		*17.1%*	*4.9%*	*1.5%*

	2015	2016e	2017e	2018e
Operating margin	28.7	33.0	35.3	36.1
Net margin	24.1	27.0	27.7	27.5
ROE	43.7	49.3	46.0	41.7
ROCE	28.1	29.7	29.9	29.7
Gearing	60.4	45.5	32.2	19.4

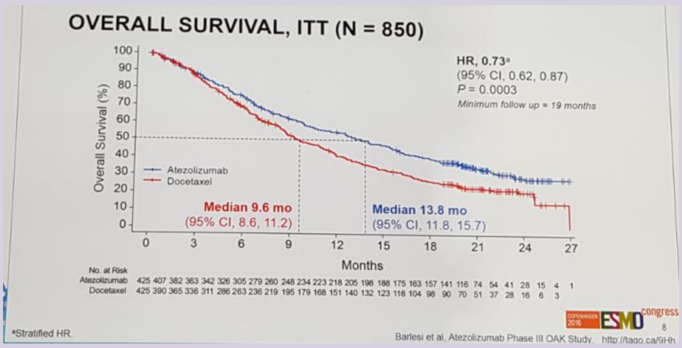
(CHF)	2015	2016e	2017e	2018e
EPS	13.49	15.79	16.57	16.81
% change	-	*17.1%*	*4.9%*	*1.5%*
P/E	17.3x	14.8x	14.1x	13.9x
FCF yield (%)	5.9%	4.8%	5.7%	6.3%
Dividends (CHF)	8.10	9.48	9.95	10.10
Div yield (%)	3.5%	4.1%	4.3%	4.3%
EV/Sales	3.7x	3.5x	3.4x	3.2x
EV/EBITDA	9.2x	8.9x	7.9x	7.6x
EV/EBIT	12.9x	10.6x	9.6x	9.0x

We have referred a lot to the OAK trial in our ESMO report that is out today because it was one of the most significant presentations that took place during the widely-attended Presidential session on the Sunday. So yesterday evening's approval of Tecentriq in 2L/3L NSCLC by the FDA, based on the POPLAR and OAK results, is the logical conclusion of undisputed good data for the drug in the advanced setting of NSCLC across the various subgroups. This is the second approval for Tecentriq after 1L bladder cancer and we are very comfortable with our PS of CHF3.1bn in 2024.

ANALYSIS

- Atezolizumab clearly showed superiority over docetaxel across the board in OAK, i.e. irrespectively of patient characteristics and subgroup analysis, notably between squamous and non-squamous NSCLC, with or without CNS mets, whatever the smoking status and between PD-L1 + and -.

OS results from first OAK phase III data analysis – source: ESMO 2016



- Curves separated early and in the end atezolizumab demonstrated a median OS of 13.8 months vs 9.6 months for docetaxel (HR=0.73, p=0.0003) and this came with an overall good safety profile with 15% grade 3-4 adverse events related to the treatment vs 43% for the taxane. We would note that, like other PD-1 drugs previously, PFS did not show statistical difference between arms.
- As said, the benefit was seen across all subgroups irrespective of the level of PD-L1 expression. It may come as a surprise to see how well patients with TC0 and IC0 responded with monotherapy PD-L1 but Roche was firm in saying that this did not come from the assay used and that 0.0 were true 0.0. So, in a context when, in real life, patients are unlikely to be tested several times for the PD-L1 status of their tumour across the treatment lines, having a drug that works irrespective of the PD-L1 level of expression in 2L/3L is a key advantage.
- When looking at the other end of the spectrum, i.e. the highest PD-L1 expressers, this is however where atezo delivered the strongest efficacy results with a median OS of 20.5 months and an HR of 0.41. And here, it is interesting to make a comparison with what Merck reported with pembro earlier this year in *The Lancet* from the KEYNOTE-010 trial. Although stratification based on PD-L1 expression is not identical, median OS was 14.9 and 17.3 months in the 2mg/kg and 10mg/kg arms respectively in high expressers compared to 8.2 months in the docetaxel arm. In OAK, the docetaxel arm reported a median survival of 8.9 months, which is close, but atezo did better.
- In conclusion, we would say that atezolizumab appears to be at least as effective as PD-1 drugs already approved in the same setting of 2L/3L NSCLC with maybe a clearer advantage in terms of persistence of efficacy (interaction with B7.1?), across various populations (including 0.0 and high expressers), obtained from one large trial with 1,225 patients and with a Q3w treatment interval scheme (vs Q2W for nivo).

NEXT CATALYSTS

- 20th October 2016 : Third-quarter sales - *Click here to download*

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Healthcare

Galapagos

Price EUR60.69

Detailed GED-0301 results... filgotinib appears better in a more difficult to treat population

Fair Value EUR64 (+5%) **BUY**

Bloomberg	GLPG BB
Reuters	GLPG.BR
12-month High / Low	63.8 / 32.7
Market Cap (EURm)	2,802
Avg. 6m daily volume	256.8

	1 M	3 M	6 M	31/12/15
Absolute	12.6%	26.0%	53.5%	6.9%
Healthcare	-2.8%	-6.6%	-2.7%	-10.5%
DJ Stoxx 600	1.4%	1.1%	-0.5%	-6.4%

	2014	2015e	2016e	2017e
P/E	NS	NS	NS	96.8x
Div yield (%)	NM	NM	NM	NM

ANALYSIS

- Celgene presented yesterday at the United European Gastroenterology Week detailed Phase Ib results for GED-0301 in Crohn's disease. Population details at baseline and subgroup analysis reinforces our sentiment that Galapagos/Gilead's filgotinib has a better efficacy profile in a more difficult to treat patients population. Acknowledging that it is always difficult to compare two different studies in which compounds have not been evaluated head-to-head, we can nonetheless make a few comments.
- Results from the two trials are similar when it comes to clinical response (CDAI decrease ≥100) and remission (CDAI <100) rates (see below). Regarding the SED-CD score (endoscopic score) which is increasingly considered by physicians, Galapagos' filgotinib has significantly higher results. 25% of patients showed an improvement by at least 50% after 10weeks on filgotinib while 15% showed the same magnitude of improvement when treated with Gelgene's GED-0301.

	GED-0301	filgotinib
Timeframe	12w	10w
dose	160mg/QD	200mg
All evaluable patient (n=)	*63*	*130*
clinical response (CDAI decrease ≥100)	67%	59%
clinical remission (CDAI <100)	**48%**	**47%**
All evaluable patient (n=)	*52*	*68*
SES-CD reduction (≥50%)	**15%**	**25%**

Source : Celgene, Galapagos.

- Looking at patients population at baseline, the one included in the filgotinib trial was a harder to treat one in our view i.e. 56% of anti-TNF failure vs 46% for GED-0301, 48% on concomitant corticosteroid for vs. 25% for GED-0301 as well as a mean SES-CD score of 14.2% (active group) vs. 11.2 for GED-0301. This 1/ somewhat nuanced the slightly lower clinical response rate (CDAI decrease ≥100) of 59% reported by filgotinib added to the fact that the CDAI is based on more subjective criteria compared to the SES-CD score where the compound appears superior to GED-0301 and 2/ confirm previously communicated data from the Fitzroy trial of a 61% clinical remission rate at 10w in anti-TNF naives.

VALUATION

- We reiterate our BUY rating

NEXT CATALYSTS

- Oct. 27th: Q3 results

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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 56.7% NEUTRAL ratings 31.2% SELL ratings 12.1%

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