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21st October 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	18162.35	-0.22%	+4.23%
S&P 500	2141.34	-0.14%	+4.77%
Nasdaq	5241.83	-0.09%	+4.68%
Nikkei	17184.59	-0.3%	-9.45%
Stoxx 600	344.29	+0.19%	-5.88%
CAC 40	4540.12	+0.44%	-2.09%
Oil /Gold			
Crude WTI	50.38	-2.36%	+35.43%
Gold (once)	1266.51	-0.44%	+19.21%
Currencies/Rates			
EUR/USD	1.0926	-0.38%	+0.58%
EUR/CHF	1.08365	-0.12%	-0.34%
German 10 years	-0.07	+47.04%	-111.11%
French 10 years	0.23	-10.84%	-76.58%
Euribor	-	+-%	+-%

Economic releases :

Date	
21st-Oct	10h30 GB - Public finances 16h00 EUZ - Consumer Confidence (-8 E) 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	
19th-Oct	IPSEN Cabometyx AND Somatuline to transform Ipsen
19th-Oct	Back from ESMO 2016: What's hot in oncology
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

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

ABLYNX — **BUY, Fair Value EUR16 vs. EUR18 (+68%)**

We are supportive of a re-partnering scenario... but this might take up to 18months

ATOS — **BUY, Fair Value EUR104 vs. EUR102 (+8%)**

Q3 2016 conference call feedback: more positive trends confirmed

BIOMÉRIEUX — **NEUTRAL, Fair Value EUR130 (-7%)**

FilmArray on track but fairly valued

ESSILOR — **BUY, Fair Value EUR130 (+17%)**

Q3 LFL growth miss mainly due to North America

NESTLÉ — **BUY, Fair Value CHF83 (+11%)**

Further proof that prospects in the food industry have deteriorated

PERNOD RICARD — **NEUTRAL, Fair Value EUR114 vs. EUR112 (+4%)**

Improving momentum

ROCHE — **BUY, Fair Value CHF285 vs. CHF293 (+23%)**

APHINITY more than ever needed

SAP — **NEUTRAL, Fair Value EUR79 (0%)**

Q3 2016 results slightly below expectations, but FY16 guidance marginally raised

VALEO — **NEUTRAL, Fair Value EUR49 (-6%)**

Solid Q3 performance, reassuring outlook on 2016 but already priced in

In brief...

ALTICE, ***Group said to be planning IPO of Altice USA***

EIFFAGE, ***EUR1 more to our FV as APRR traffic assumption is raised after good Q3 performance***

ENGIE, ***France said to drop carbon tax project***

INTERCONTINENTAL HOTELS, ***IMS Q3: RevPAR growth continues to slow***

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Healthcare

Ablynx

Price EUR9.50

Bloomberg	ABLX BB
Reuters	ABLX.BR
12-month High / Low (EUR)	16.1 / 9.5
Market Cap (EURm)	579
Ev (BG Estimates) (EURm)	731
Avg. 6m daily volume (000)	198.3
3y EPS CAGR	19.2%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-16.5%	-24.8%	-28.8%	-40.3%
Healthcare	-4.0%	-7.5%	-2.9%	-10.4%
DJ Stoxx 600	1.0%	1.0%	-1.8%	-5.9%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	77.5	81.6	39.6	48.8
% change		*5.2%*	*-51.4%*	*23.3%*
EBITDA	-15.6	-21.9	-72.5	-53.9
EBIT	-17.0	-23.3	-73.2	-54.7
% change		*-37.6%*	*NS*	*25.2%*
Net income	-54.5	-60.9	-110.8	-92.3
% change		*-11.7%*	*-81.8%*	*16.6%*

	2015	2016e	2017e	2018e
Operating margin	-21.9	-28.6	-184.6	-112.1
Net margin	-70.3	-74.7	-279.5	-189.0
ROE	-195.4	184.5	77.0	39.1
ROCE	NM	NM	NM	NM
Gearing	NM	NM	NM	NM

(EUR)	2015	2016e	2017e	2018e
EPS	-1.01	-1.13	-2.05	-1.71
% change	-	*-11.7%*	*-81.8%*	*16.6%*
P/E	NS	NS	NS	NS
FCF yield (%)	NM	NM	NM	NM
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	6.4x	9.0x	18.2x	14.8x
EV/EBITDA	NS	NS	NS	NS
EV/EBIT	NS	NS	NS	NS

We are supportive of a re-partnering scenario… but this might take up to 18months

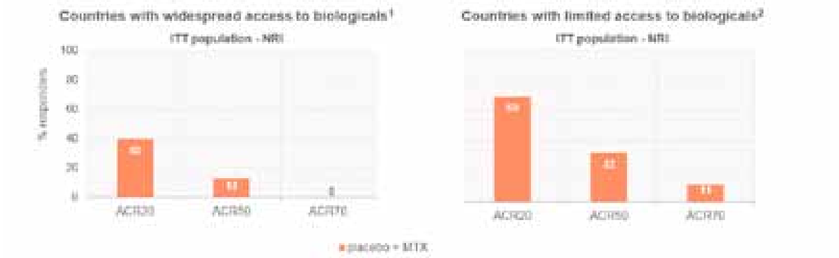
Fair Value EUR16 vs. EUR18 (+68%) **BUY**

Ablynx held a conference call following the opt-out decision from ABBVIE on vobarilizumab IL-6R Nanobody. Looking at detailed data, as the company now has an increased latitude of communication, we believe that 1/ a new partner could be found (BGe 2018) and that 2/ the ability of inking a new deal is not diminished by the ongoing SLE trial, whose indication is still partnered to ABBVIE.

ANALYSIS

- Looking at data, the localisation of sites clearly played a role on the placebo effect. ACR50 placebo rate is three times higher in countries with limited access to biologics (eastern Europe and LatAm). The forced discontinuation at 12, 16 and 20 weeks in the vobarilizumab+MTX vs. placebo trial as well as the opportunity of participating in open-label extension being the main drivers.

Voba+MTX vs. placebo+MTX phase IIb trial - Placebo+MTX arm ACR20/50/70 scores at 12w



- The emergence of anti-vobarilizumab antibodies in 31% of patients could have prompted ABBVIE to opt-out. However, we would highlight that over the duration of the study, both companies did not record an effect of these “non neutralising” anti-voba antibodies on PK, safety or efficacy. This will certainly be monitored by a potential future partner in a phase III trial, which is likely to ask for longer term data to see if they become neutralizing anti-voba antibodies.
- DAS28 remission rate was the highest we have seen for an anti-IL-6 reinforcing the best in class efficacy profile of the drug. Note that to insist on this aspect of the drug which is key when it comes to prescription and gaining KOL’s traction, analysis of the DAS28 remission rate with the ESR score confirms findings communicated earlier (ie. CRP). As a reminder, ESR (erythrocyte sedimentation rate) is a more stringent criteria as an increase in CRP levels could also be triggered by infection or trauma.

Voba vs. tocilizumab (Top; 12w) and voba+MTX vs placebo (Bottom; 24w)– DAS remission rates

- The group's CEO stated the team has been working on a phase III design for quite some time. However he was not willing to communicate on the latter as the end of phase II meeting has not been held yet. The end of phase II meeting is expected in H1 2017. Note that during the roadshow in Paris, the CEO stated that in order to re-attract a parter should abbvie decids to opt-out, he would 1/ favour DAS remission rate as a primary endpoint and 2/ include H2H arms (adalimumab, tocilizumab?). Should the company decide to move alone for a phase III trial and partner voba afterwards, we believe that 1/ choosing the DAS remission rate could help to further differentiate its product and limit the size of phase II trial but would limit potential partners to new entrants in the RA field; 2/ significant capital would need to be deployed and scientific and regulatory teams would need to be reinforced. We estimate the cost of a global phase III programme at around EUR250-300m, of which EUR100-150m to be financed by ABLYNX should management decide to move alone before finding a new partner. Note that this also raises the issue of opening centers to be able to recruit over 1,000 patients. In all, we are not favouring this scenario but think that a new partner would be found before the initiation of a phase III trial. A co financing/profit sharing deal would be the most likely in our view.
- Note that the Lupus indication, still partnered with ABBV is on track with recruitment to be ended in late 2016/early 2017 and readout expected in H1 2018. ABBV has the right to opt-in for this indication. We would not expect this partnership to have any impact on other discussions.
- The CEO stated that discussions with other partners could be engaged at this time. While further information should be handed to ABBV, Ablynx has all the data in hand at the moment. The biotech is also managing and outsourcing manufacturing and our understanding is that previous discussions with regulatory agencies on the validation of the manufacturing process ahead of phase III should not be an issue.
- Another reason than the clinical package on which we see no particular black spot and that might have prompted ABBV to opt out, is the conflict of interest. Indeed, It would have been costly for AbbVie to initiate a large phase III trial for vobarilizumab in a 1L setting and with H2H comparison trial when it already has its own JAK developed in the same setting.

VALUATION

- We reiterate our BUY rating as 1/ we believe that another partner could be found and 2/ other ongoing partnerships should deliver newsflow in upcoming quarters. While a co-financing co-profit deal is the most likely, we have chosen to remain conservative for now and have assumed a a 75% chance to repartner in the same conditions in 2018. Our SotP for vobvarilizumab points to EUR4/share vs EUR6/share previously. Renegociation of the ABBV deal could help the share price to recover at a faster pace.
- Fair Value down from EUR18 to EUR16.

NEXT CATALYSTS

- Q4 2016/Q1 2017: IND to be filed to the FDA for I-O candidate in the Merck & Co partnership.

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TMT

Atos

Price EUR96.11

Q3 2016 conference call feedback: more positive trends confirmed

Fair Value EUR104 vs. EUR102 (+8%) **BUY**

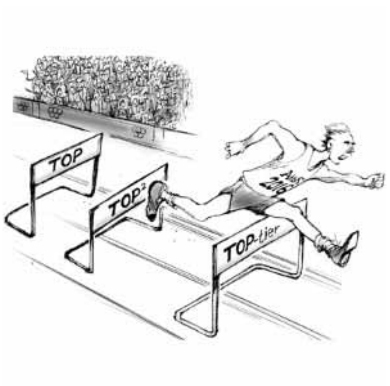
Bloomberg	ATO FP
Reuters	ATOS.PA
12-month High / Low (EUR)	97.8 / 62.7
Market Cap (EUR)	10,068
Ev (BG Estimates) (EUR)	9,335
Avg. 6m daily volume (000)	290.9
3y EPS CAGR	15.1%

	1 M	3 M	6 M	31/12/15
Absolute perf.	4.3%	22.5%	28.5%	24.1%
Softw.& Comp.	-1.5%	4.9%	8.6%	5.9%
DJ Stoxx 600	1.0%	1.0%	-1.8%	-5.9%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	10,686	11,719	12,322	12,670
% change		*9.7%*	*5.1%*	*2.8%*
EBITDA	1,334	1,536	1,719	1,816
EBIT	589.0	826.0	919.0	1,017
% change		*40.2%*	*11.3%*	*10.7%*
Net income	610.0	730.0	867.0	952.0
% change		*19.7%*	*18.8%*	*9.8%*

	2015	2016e	2017e	2018e
Operating margin	8.6	9.3	10.1	10.5
Net margin	4.0	5.1	5.6	6.2
ROE	9.9	13.2	13.3	13.4
ROCE	22.9	25.9	42.2	48.3
Gearing	-14.0	-17.0	-49.0	-58.0

(€)	2015	2016e	2017e	2018e
EPS	5.83	6.89	8.15	8.88
% change	-	*18.2%*	*18.3%*	*9.0%*
P/E	16.5x	13.9x	11.8x	10.8x
FCF yield (%)	4.0%	5.5%	6.3%	8.2%
Dividends (€)	0.90	1.10	1.40	1.55
Div yield (%)	0.9%	1.1%	1.5%	1.6%
EV/Sales	0.9x	0.8x	0.6x	0.5x
EV/EBITDA	7.1x	6.1x	4.5x	3.8x
EV/EBIT	10.3x	8.5x	6.2x	5.1x



We reiterate our Buy recommendation and increase our DCF-derived Fair Value to EUR104 from EUR102 following the conference call held yesterday, as we marginally increase our adj. EPS and working capital assumptions. The improvement in growth momentum was confirmed, driven by the US, Germany, the UK and France. The integration of Unify is ahead of schedule, which puts Atos in a good position to sell the Software & Platform business...or keep it.

ANALYSIS

- **Growth momentum confirmed**. Management is pretty confident in a potential acceleration of lfl revenue growth going forward. Restated for the terminated contracts at Worldline, lfl growth in Q3 2016 would have been above 2%. The IT Services business was up 2% lfl with trends gradually improving in both Managed Services and Consulting & Systems Integration. The 19% lfl growth seen in Big Data & Cybersecurity was not due to "one-offs", but there can be some variability from one quarter to another as deals may be lumpy, while sticking to a double-digit lfl growth trend. The recovery in Germany and France is confirmed, the UK is back to growth with low exposure to Financial Services and additional business in Managed Services. The 5.2% lfl growth in North America proved the success of the integration of Xerox ITO (hybrid cloud deals) as well the start of cross-selling in Big Data & Cybersecurity, while there is virtually no revenue exposure to Financial Services in the country and Consulting & Systems Integration is very small. In Benelux & The Nordics, revenues are falling due to the ramp down and termination of some contracts in Financial Services (including ING), but trends looks set to reverse with GasTerra, the first significant outsourcing contract signed by the new local management.
- **Unify integration ahead of schedule**. AT Unify, the restructuring plan was executed ahead of plan with 988 staff exits year-to-date vs. a full-year target of 792, and non-personnel cost reductions (real estate, procurement, IT) of EUR50m fully achieved. The sales dynamic in the Software & Platforms (S&P) business is headed in the right direction: the number of partners in indirect channels +30% YTD to 2,517, number of cloud-based communication users +24% YTD to 251k, while the number of Circuit users is only 66k as of 30th September 2016 while the target for December 2016 is 500k but deployments at Siemens and Atos are under way to reach that target soon.
- **Selling Unify S&P is not the sole option**. Management confirmed the target to generate EUR100m in EBITDA for 2017 for the S&P business. CEO Thierry Breton indicated during the call that some members of Atos' Board support the scenario of keeping the S&P business in house instead of selling it given this turnaround. The final decision is set to be made within the next few weeks, also depending on the attractiveness of the value-creation proposal to be made by potential acquirers compared to a 'keep-it-in-house' scenario. When the acquisition of Unify was announced, the management estimated EPS accretion from Unify in 2017 would have been 15% if S&P was sold, vs. 20% if S&P was retained.

VALUATION

- Atos' shares are trading at est. 8.5x 2016 and 6.2x 2017 EV/EBIT multiples.
- Net cash position on 30th June 2016 was EUR412.3m (net gearing: -10%).

NEXT CATALYSTS

- Capital Markets Day on 8th November in Bezons (France).
- FY16 results on 22nd February 2017 before markets open.

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Healthcare

bioMérieux

Price EUR139.65

FilmArray on track but fairly valued

Fair Value EUR130 (-7%) **NEUTRAL**

Bloomberg	BIM FP
Reuters	BIOX.PA
12-month High / Low (EUR)	140.5 / 98.0
Market Cap (EURm)	5,510
Ev (BG Estimates) (EURm)	5,910
Avg. 6m daily volume (000)	31.80
3y EPS CAGR	29.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	1.6%	15.1%	27.6%	27.1%
Healthcare	-3.6%	-6.3%	-3.5%	-10.5%
DJ Stoxx 600	0.7%	1.9%	-1.6%	-6.1%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	1,965	2,096	2,267	2,433
% change		*6.7%*	*8.2%*	*7.3%*
EBITDA	380	427	470	547
EBIT	260.0	290.4	323.1	389.2
% change		*11.7%*	*11.3%*	*20.5%*
Net income	110.3	164.3	195.2	241.3
% change		*49.0%*	*18.8%*	*23.6%*

	2015	2016e	2017e	2018e
Operating margin	13.2	13.9	14.3	16.0
Net margin	5.6	7.8	8.6	9.9
ROE	7.3	10.1	11.0	12.4
ROCE	8.2	8.5	9.2	10.9
Gearing	14.9	24.6	19.0	10.9

(EUR)	2015	2016e	2017e	2018e
EPS	2.80	4.17	4.95	6.12
% change	-	*49.0%*	*18.8%*	*23.6%*
P/E	50.0x	33.5x	28.2x	22.8x
FCF yield (%)	1.3%	NM	2.3%	3.6%
Dividends (EUR)	1.00	1.04	1.24	1.53
Div yield (%)	0.7%	0.7%	0.9%	1.1%
EV/Sales	2.9x	2.8x	2.6x	2.4x
EV/EBITDA	15.1x	13.9x	12.4x	10.5x
EV/EBIT	22.1x	20.4x	18.1x	14.7x

BioMérieux hosted its conference call on Q3 sales. Management seemed confident in growth prospects for FilmArray, which we estimate should contribute 510bp to our 10.2% revised organic growth rate for the year (vs 9.4% previously). FilmArray's application in PoC is expected to be tested in the upcoming quarters. Slight changes to our estimates prompt no FV change. We see no major catalysts ahead and hence reiterate our NEUTRAL rating.

ANALYSIS

- FilmArray has been driving growth since the beginning of the year and contributued to 480bp of the group's 10.3% organic over the first 9 months. The company invested heavily in its sales force in H1 and the number of modules sold continued to increase sharply (200 in Q1, 400 in Q2 and another 400 in Q3 2016). Although 10% of sales is now derived from outside the US (approval by the China FDA earlier in the quarter), note that the utilisation rate remains low at the moment as over 90% of panels sold are for US customers. Competition from Genmark and Danahaer (following the acquisition of Cepheid for USD4bn in early Septemeber) is coming. However, BioMérieux' management seemed confident in maintining its leadership position mentioning the ease of use of its platform as a key advantage for penetration.
- Having received the CLIA waiver for its FilmArray respiratory EZ panel, BioMérieux is now able to test the water in the Point-of Care market. The instrument features a simplified respiratory panel directed towards Integrated Delivery Network (IDN) which treats patients at different levels (e.g. urgent care centres, outpatient centres and community clinics) and might be willing to integrate multiplexing in their offering. BioMérieux sees sales synergies with these IDN structures that are already addressed by key account managers. Hence no significant sales force expansion is on the agenda. Note that a reimbursement rate as high as the one for the full FilmArray respiratory panel should be ruled out (simplified panel). Another reason for BioMérieux to share its excitement about new prospects with conservatism is Roche's competition. Indeed, Roche is launching its COBAS Liat system with should feature a lighter panel (influenza A/B) than BioMérieux FilmArray EZ' one but is expected to be broadened with the addition of the MRSA and C difficile. RSV and Strep A being already included. Roceh is currently ramping up manufacturing.

VALUATION

- We reiterate our NEUTRAL recommendation. Minor changes to our estimates prompt no change in our EUR130 Fair Value.
- What to expect for Q4 2016 with organic sales growth guidance raised (exceed 8%):
  - FilmArray should contribute 510bp to FY2016 organic growth according to our estimates, with organic sales growth keeping up with the same trajectory i.e. 50% in Q4. Indeed, the flu season usually peaks in late Q4. Note that the intensity is hard to predict however.
  - We believe that momentum in China should slowdown with high comp basis. Also, reason for dynamic Q4 in APAC which benefited from previous price increases might be hard to maintain.
- Adjustments to our FY2016 estimates imply organic growth of 10.2% vs. 9.4% previously. A higher FX effect anticipated for the year offsets the increase in absolute numbers.

NEXT CATALYSTS

- 19th January 2017: Q4 and FY2016 sales

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Luxury & Consumer Goods

Essilor

Price EUR111.10

Q3 LFL growth miss mainly due to North America

Fair Value EUR130 (+17%) **BUY**

Bloomberg	EF FP
Reuters	ESSI.PA
12-month High / Low (EUR)	123.6 / 103.0
Market Cap (EURm)	24,230
Ev (BG Estimates) (EURm)	25,900
Avg. 6m daily volume (000)	438.5
3y EPS CAGR	10.1%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-3.8%	-9.2%	-0.6%	-3.4%
Consumer Gds	-0.1%	-0.8%	-1.2%	-2.4%
DJ Stoxx 600	1.0%	1.0%	-1.8%	-5.9%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	6,716	7,132	7,625	8,157
% change		*6.2%*	*6.9%*	*7.0%*
EBITDA	1,263	1,341	1,449	1,566
EBIT	1,183	1,271	1,379	1,501
% change		*7.5%*	*8.5%*	*8.9%*
Net income	757.1	846.6	923.3	1,017
% change		*11.8%*	*9.1%*	*10.1%*

	2015	2016e	2017e	2018e
Operating margin	17.6	17.8	18.1	18.4
Net margin	11.3	11.9	12.1	12.5
ROE	13.3	13.2	12.9	13.4
ROCE	20.0	20.1	20.9	21.5
Gearing	34.7	24.5	15.9	13.7

(€)	2015	2016e	2017e	2018e
EPS	3.57	3.96	4.32	4.76
% change	-	*11.0%*	*9.1%*	*10.1%*
P/E	31.1x	28.1x	25.7x	23.4x
FCF yield (%)	3.6%	3.9%	4.2%	4.4%
Dividends (€)	1.15	1.30	3.15	4.15
Div yield (%)	1.0%	1.2%	2.8%	3.7%
EV/Sales	3.9x	3.6x	3.3x	3.1x
EV/EBITDA	20.9x	19.3x	17.6x	16.2x
EV/EBIT	22.3x	20.4x	18.4x	16.9x

Q3 sales came in at EUR1,723m (+6.4%), just 1% shy of CS expectations at EUR1,738m. This was due to another miss by LFL growth at only 3.2% (CS: 4.4%) caused by a weaker-than-expected performance in North America and softness in some markets (Brazil, Turkey). These headwinds partly overshadowed the rebound in R&S (+6.9% vs. -5.8% in Q2). However, Essilor confirmed its objective to be as close as possible to FY targets ("around +4.5% LFL" / "above 8% FX-n") implying a sharp acceleration in Q4. Conference call today at 10.00am (CET).

ANALYSIS

Q3 sales grew 6.4% in reported terms (H1: +8.1%). LFL growth of 3.2% was bang in line with Q2, which was already marked by a weak performance in North America. The scope effect amounted to 4% (H1: +4%) and should remain high in Q4, especially with the consolidation of MyOptique Group that was acquired in August. FX had a less negative impact than in H1 (-0.9pp vs. -3pp).

Normalisation in Europe, several headwinds weighed on North America. Trends in **Europe** moderated to 3% after strong 4.6% growth in H1. This performance was driven by innovation (*EyeZen*) and the Instruments division, offsetting the slowdown in the UK and Central Europe. The modest sales increase in **North America** (1.5%) was again due to Transitions ("TOI") that was affected by a cancelled order from one of its customers (~1-1.5pp impact on NA LFL growth) and some government supply programmes, but also by the slow relaunch of Coastal (online).

LatAm growth hampered by Brazil. Indeed, activity in **Brazil** decreased slightly in Q3 (vs. mid single-digit growth in H1) while momentum remained strong in **Mexico** (>30%), **Colombia** and **Central America**. Sales in the **AMEA** region increased by 6.6% (H1: +8.7%) driven by India, S-K and China, partly offset by weak trends in the Middle-East and Turkey.

Recovery in the Sunwear division: +6.9% vs. -3.9% in H1, on top of a demanding comparison base (Q3 15: +9.9%). After a weak Q2 (-5.8%), weather conditions across Europe and the US were clearly more favourable in Q3 than over the previous quarter, while Bolon (China) is rebounding gradually after a difficult start to the year because of the implementation of the new ARTEMIS dealer fulfilment system at Bolon (China).

LFL Quarterly Sales (%):

% change	Q1 15	Q2 15	Q3 15	Q1 16	Q2 16	Q3 16	CS *
North America	4.5	3.7	4.4	4.7	1.5	1.3	*2.5*
Europe	2.5	5.0	4.0	4.7	4.5	3.0	*3.7*
Asia-Pacific & MEA	5.6	5.2	5.9	8.9	8.5	6.6	*8.6*
Latin America	10.0	10.5	7.4	9.0	11.4	4.5	*10.0*
Lenses & Optical Instruments	**4.4**	**4.9**	**4.8**	**5.7**	**4.4**	**2.9**	***4.5***
Equipment	-2.1	-7.1	-6.4	3.5	4.3	5.4	*3.0*
Readers & Sun	1.8	3.2	9.9	-1.5	-5.8	6.9	*2.8*
Total group	**4.0**	**4.4**	**4.8**	**5.0**	**3.2**	**3.2**	***4.4***

** Consensus median Data*

Source: Company

What to expect by the end of the year? Despite this new LFL growth miss, EI confirmed its ambition to be as close as possible to its FY guidance ("around +4.5%") thanks to several initiatives in Q4. Prior to this publication we believe the CS had already anticipated that 2016 LFL growth (4.2-4.3%e / BG: +4.2%) would be slightly below the guidance of "around 4.5%", but these forecasts now imply at least 5% growth in Q4. We assume that the CS would now adjust to 3.8-3.9%, representing a 4% LFL growth in Q4, which is a less challenging performance given the mixed macro environment and ongoing headwinds in North America.

VALUATION

Despite the recent share price correction, we expect the share to be under pressure today in light of a prospective downward revision to consensus figures as mentioned above. As is often the case for Essilor, any weakness represents an attractive entry point to play the group's structural drivers and improving momentum in Q4. At 18.5x 2017e EV/EBIT, the stock trades at a 10% premium to its 2004-16 average.

NEXT CATALYSTS: Conference call today at 10.00am (CET). ***Click here to download***

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Food & Beverages

Nestlé

Price CHF74.65

Further proof that prospects in the food industry have deteriorated

Fair Value CHF83 (+11%) **BUY**

Bloomberg	NESN VX
Reuters	NESZn.VX
12-month High / Low (CHF)	79.9 / 69.4
Market Cap (CHFm)	232,323
Ev (BG Estimates) (CHFm)	245,705
Avg. 6m daily volume (000)	4 959
3y EPS CAGR	7.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-3.2%	-4.0%	0.9%	0.1%
Food & Bev.	-0.6%	-1.8%	-1.3%	-1.6%
DJ Stoxx 600	0.7%	1.9%	-1.6%	-6.1%

YEnd Dec. (CHFm)	2015	2016e	2017e	2018e
Sales	88,785	89,699	92,903	98,141
% change		*1.0%*	*3.6%*	*5.6%*
EBITDA	17,210	17,738	18,835	20,444
EBIT	13,382	13,748	14,768	16,097
% change		*2.7%*	*7.4%*	*9.0%*
Net income	10,353	10,824	11,637	12,780
% change		*4.5%*	*7.5%*	*9.8%*

	2015	2016e	2017e	2018e
Operating margin	15.1	15.3	15.9	16.4
Net margin	11.7	12.1	12.5	13.0
ROE	16.6	17.3	18.7	20.0
ROCE	12.5	12.7	14.1	15.7
Gearing	0.9	0.8	0.6	0.4

(CHF)	2015	2016e	2017e	2018e
EPS	3.30	3.50	3.76	4.13
% change	-	*6.0%*	*7.5%*	*9.8%*
P/E	22.6x	21.3x	19.8x	18.1x
FCF yield (%)	4.3%	4.3%	5.0%	5.5%
Dividends (CHF)	2.25	2.30	2.35	3.35
Div yield (%)	3.0%	3.1%	3.1%	4.5%
EV/Sales	2.8x	2.7x	2.6x	2.4x
EV/EBITDA	14.4x	13.9x	12.9x	11.7x
EV/EBIT	18.5x	17.9x	16.5x	14.9x

The 30bps slowdown in Q3 organic sales growth vs H1 was disappointing given a comparator that was 80bps easier. But the revision in guidance did not really come as a surprise given the weakness seen at peers (Danone/Nestlé). The global food market is now stable in volumes, with a strong deceleration in China. Our estimates are broadly unchanged. We now expect 3.5% organic sales growth vs +3.7% previously. Nestlé remains our favourite stock in a challenging food industry due to its balanced growth drivers coupled with potential self-help (with the arrival of the new CEO).

ANALYSIS

- **Pricing remained soft but accelerated**. In Q3 prices rose 1.4%, which was still well below 2015 (+1.9%) but slightly better than H1 2016 (+0.7%). The improvement in the last quarter reflected 1/ some price increases in Brazil, Russia and 2/ easy comps (price of Other Businesses dropped 2.4% in Q3 2015). Commodities prices have started to increase in the past few quarters but this is not reflected in pricing because of inventories and some hedging in place. Management refused to commit itself to an acceleration in the pricing effect going forward.
- **Volumes weakened over the quarter**. Volumes rose 1.9% in Q3, decelerating vs H1 (+2.8%). This was due to 1/ price increases, especially in Brazil and 2/ a tough consumer environment, with the global food market roughly flat in volumes. The situation in China has deteriorated sharply because of growth in ecommerce, some reverse migration of workers going back to rural areas and competition from local players. The Chinese food market has now stabilised. Excluding Nestlé Nutrition, sales in China are in negative territory since the beginning of 2016 and the trend is worsening. Yinlu is penalising but Nescafé and confectionary are solid.
- **Outlook.** The group revised downwards its organic sales growth guidance for 2016 from 4.2% to 3.5%. This did not really come as a surprise given the weakness seen at peers (Danone/Nestlé). The impact on our estimates was very limited as we were forecasting 3.7% organic sales growth (consensus: +3.8%). The new guidance implies an acceleration in Q4, which should be driven by Brazil and Nestlé Nutrition. Brazil should recover next quarter as most of the volumes impact has now been felt. The group mentioned that it started to return to volume growth at the end of Q3 in the country. Q3 sales in the Nestlé Nutrition division were impacted by negative pricing and inventory adjustments ahead of the change in regulations in China. In Q4 this should be partly offset by the launch of a new SKU on the Illuma brand. The end of supply chain constraints related to the packaging transition in the US should also help. We understand that the group is progressing faster than it thought in its cost savings programme. This should cause higher restructuring costs in H2, limiting the margin progression.

VALUATION

- Our DCF still points to a Fair Value of CHF83.

NEXT CATALYSTS

- Nestlé: 2016 results on 16th February

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Food & Beverages

Pernod Ricard

Price EUR109.75

Bloomberg	RI FP
Reuters	PERP.PA
12-month High / Low (EUR)	109.8 / 91.6
Market Cap (EUR)	29,130
Ev (BG Estimates) (EUR)	37,415
Avg. 6m daily volume (000)	480.6
3y EPS CAGR	7.3%

	1 M	3 M	6 M	31/12/15
Absolute perf.	5.3%	9.4%	5.8%	4.3%
Food & Bev.	-1.2%	-2.4%	-1.4%	-1.7%
DJ Stoxx 600	1.0%	1.0%	-1.8%	-5.9%

YEnd Jun. (EURm)	06/16	06/17e	06/18e	06/19e
Sales	8,682	8,863	9,199	9,616
% change		*2.1%*	*3.8%*	*4.5%*
EBITDA	2,494	2,597	2,725	2,872
EBIT	2,277	2,376	2,495	2,632
% change		*4.3%*	*5.0%*	*5.5%*
Net income	1,380	1,476	1,592	1,706
% change		*6.9%*	*7.9%*	*7.2%*

	06/16	06/17e	06/18e	06/19e
Operating margin	26.2	26.8	27.1	27.4
Net margin	14.2	15.9	16.6	17.1
ROE	9.3	10.0	10.1	10.2
ROCE	6.7	11.4	11.7	12.0
Gearing	64.5	57.9	51.3	44.9

(EUR)	06/16	06/17e	06/18e	06/19e
EPS	5.20	5.56	5.99	6.42
% change	-	*6.9%*	*7.9%*	*7.2%*
P/E	21.1x	19.8x	18.3x	17.1x
FCF yield (%)	4.1%	4.5%	4.8%	5.0%
Dividends (EUR)	1.88	2.01	2.16	8.74
Div yield (%)	1.7%	1.8%	2.0%	8.0%
EV/Sales	4.4x	4.2x	4.0x	3.8x
EV/EBITDA	15.2x	14.4x	13.6x	12.7x
EV/EBIT	16.6x	15.7x	14.8x	13.9x

Improving momentum

Fair Value EUR114 vs. EUR112 (+4%) **NEUTRAL**

Yesterday Pernod Ricard published pretty solid results, even though they may have been somewhat inflated by easy comps in LATAM and France. The group confirmed it expects an improvement in China and further healthy growth in the United States. We revise upwards our EBIT estimates by 2% on average over the next three years due to FX. Our Fair Value is adjusted to EUR114. Neutral recommendation maintained.

ANALYSIS

- **Improvement in China. Sales in the country dropped 1% in Q1 after -9% in 2015/16. This reflected the good performance of the cognac portfolio which grew 3%.** It remained driven by Noblige (VSOP) but Cordon Bleu (XO) showed a nice improvement, with sales now stable vs a double digit decline in Q4 2015/16. Pernod Ricard said that the first feedback from the Mid-Autumn festival was good but did not provide any figures. During its conference call, Rémy Cointreau reported that value depletions in the cognac market were up double digit during this event. **Whiskies continued to decline double digit in Q1** and are not expected to return to positive territory in 2016/17. **CFO said that he did not promise a return to growth in China this year (our estimate is for flat sales) but the country should definitely improve**. He targets mid single digit growth in the medium term.
- **India slowing down. The country only increased 8% in Q1 2016/17 (+18% in 2014/15 and +12% in 2015/16) and, according to management, this is the pace of growth we should expect for the full year. The company is facing many regulatory challenges**: tax increase in Maharastra, distributor change in Punjab, Bihar prohibition… The GST system due to come into force in April 2017 is a risk for 2017/18. Spirits have been excluded, but not their inputs. Consequently, Pernod Ricard and its competitors in India will continue to suffer from tax inefficiencies, while facing an increase in input costs. The group is currently lobbing for 1) input costs to be excluded from the GST and/or 2) its prices to be increased. The group said its is confident in its ability to return to a double digit top line growth in India in the long term.
- **Solid trend in the US**. The group posted 5% organic sales growth in the US in Q1. This was globally in line with underlying consumption which is at +4.8% according to Nielsen (52 weeks to September 2016). Jameson continued to grow double digit while the slight decline of Absolut (-1/2%) was consistent with the 2015/16 trend. The group confirmed its goal to stabilize the brand in the medium term. It has stepped up its investments behind it and reduced the number of flavours. The lifting of the US embargo remains a catalyst. The US represents 40% in value of the worldwide rum market.
- **Outlook.** We expect 2.5% organic sales growth in 2016/17, accelerating vs last year (+1.8%). This takes into account an improvement in China, not completely offset by a slowdown in India and a deteriorated business environment in Africa/Middle East. The United States should continue to post solid growth at +4%. At the EBIT level, we expect 3.3% organic EBIT growth, in line with the group's guidance (2-4%). We have revised upwards our EBIT estimates over the next three years by 2% because of FX. The group's guidance is for a positive FX impact of EUR30m on EBIT in 2016/17.

VALUATION

- We revise upwards our Fair Value from EUR112 to EUR114.

NEXT CATALYST

- The group will hold its shareholders' meeting on 17th November

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Healthcare

Roche

Price CHF232.50

APHINITY more than ever needed

Fair Value CHF285 vs. CHF293 (+23%) **BUY**

Bloomberg	ROG VX
Reuters	ROG.VX
12-month High / Low (CHF)	279.3 / 232.5
Market Cap (CHF)	163,346
Ev (BG Estimates) (CHF)	176,125
Avg. 6m daily volume (000)	1 194
3y EPS CAGR	6.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-4.9%	-8.1%	-8.3%	-15.9%
Healthcare	-4.0%	-7.5%	-2.9%	-10.4%
DJ Stoxx 600	1.0%	1.0%	-1.8%	-5.9%

YEnd Dec. (CHFm)	2015	2016e	2017e	2018e
Sales	48,145	50,188	51,143	52,070
% change		*4.2%*	*1.9%*	*1.8%*
EBITDA	19,430	19,685	21,937	22,014
EBIT	13,821	16,454	17,937	18,614
% change		*19.1%*	*9.0%*	*3.8%*
Net income	11,626	13,459	14,073	14,166
% change		*15.8%*	*4.6%*	*0.7%*

	2015	2016e	2017e	2018e
Operating margin	28.7	32.8	35.1	35.7
Net margin	24.1	26.8	27.5	27.2
ROE	43.7	48.8	45.6	41.1
ROCE	28.1	29.4	29.4	29.0
Gearing	60.4	46.1	33.7	21.0

(CHF)	2015	2016e	2017e	2018e
EPS	13.49	15.61	16.33	16.43
% change	-	*15.8%*	*4.6%*	*0.7%*
P/E	17.2x	14.9x	14.2x	14.1x
FCF yield (%)	5.9%	4.8%	5.5%	6.2%
Dividends (CHF)	8.10	9.38	9.80	9.87
Div yield (%)	3.5%	4.0%	4.2%	4.2%
EV/Sales	3.7x	3.5x	3.4x	3.3x
EV/EBITDA	9.1x	8.9x	7.9x	7.8x
EV/EBIT	12.8x	10.7x	9.7x	9.2x

It came out very clearly from the conference call discussing Q3 sales numbers that APHINITY would make a major difference to investor mindsets about Roche's ability to stay on a growth trajectory although it has other innovative drugs to launch. But pricing pressure on oncology drugs is also increasing and competition is getting fiercer even before the entry of biosimilars. This is why it is still difficult to see Roche performing until we see the data, now sometime in Q1 2017.

ANALYSIS

- As could have been expected, Roche addressed the slowdown in the oncology franchise's growth in the US by mentioning two key factors: firstly, there was a catch-up impact on the 340B programme in the US that resulted in a more significant impact on the single third quarter, which should then be partially a one-off. Roche is expecting the impact to level off in Q4. That said, the group agreed to say that more institutions are claiming for 340B inclusion and so it now represents about 18% of Genentech volumes, a level that is increasing steadily. Put in the context of the overall pricing issue for oncology drugs in the US, discounts are also on the rise in specialty care, as also illustrated by ongoing discussions around Medicare Part B for which a new pilot draft is expected in early 2017. Now, when comparing growth rates of HER2+ franchise with Avastin or Rituxan, the difference is probably for the last couple of drugs that they are also feeling some competitive pressure, Rituxan from Imbruvica and Avastin from IO drugs especially in lung cancer (about 15% of Avastin total sales).
- Because IO is becoming an issue for players in oncology as they feel increased pressure on their old products, the discussion then shifted towards Roche's own IO pipeline to get an update. Obviously, the two indications Tecentriq obtained until the beginning of 2016 are good news but 1L bladder and 2L/3L lung do not appear as the more attractive settings for PD1-PDL1 agents. But it was more difficult for Roche here to make definitive statements and claims because key data is still expected in 2017 and 2018 from the whole industry that will help understand where and how IO could play a role, in particular in 1L lung cancer. The first trial IMpower150 is due to report in H2 2017 for PFS and if positive (this is a co-primary endpoint) could be able to file whereas all others are expected in 2018 (including OS data). Some OS data should be available from the follow-up of phase I with IO/CT combo in early 2017. Beyond lung, we note that Roche is expecting the phase II trial in combination with Avastin in mRCC to report by year-end 2016 and to be presented at GI-ASCO 2017. This is several months ahead of schedule and will be interesting to read and compare with the CABOSUN data reported at ESMO, both efficacy and safety-wise.
- Lastly, we would note that during the course of the call Daniel O'Day reported that the McCave phase II trial failed to reach its primary endpoint. The study was comparing Roche's bispecific antibody (Ang2+VEGF-A) to Avastin in 1L colorectal cancer and although the bar was high, the rationale expecting it to succeed was strong. If anything, the consensus was not expecting much but we highlighted recently that if successful it could be a decent upside to numbers because it would have been a next-gen Avastin. So it won't be.

VALUATION

- There was not so much to change in our numbers after Q3 although we reduced expected growth for Avastin and Rituxan in the US for the upcoming quarters but the magnitude is limited and so the impact on the FV is only CHF8 (less than 4%).
- Bear in mind that we have PS for Perjeta of CHF3.8bn in 2022 of which less than CHF1.5bn is in adjuvant. This offers more upside than downside. However, if negative, valuation would be attractive but the growth profile would likely not.

NEXT CATALYSTS

- By year-end: ASH congress, mRCC phase II data, US approval for Ocrevus (MS)

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SAP

Price EUR79.31

Q3 2016 results slightly below expectations, but FY16 guidance marginally raised

Fair Value EUR79 (0%) **NEUTRAL**

Bloomberg	SAP GR
Reuters	SAPG.DE
12-month High / Low (EUR)	82.4 / 64.9
Market Cap (EURm)	97,433
Ev (BG Estimates) (EURm)	100,552
Avg. 6m daily volume (000)	2 287
3y EPS CAGR	7.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-0.6%	4.7%	11.6%	8.1%
Softw.& Comp.	-1.5%	4.9%	8.6%	5.9%
DJ Stoxx 600	1.0%	1.0%	-1.8%	-5.9%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	20,798	21,861	23,305	24,920
% change		*5.1%*	*6.6%*	*6.9%*
EBITDA	6,884	7,210	7,695	8,286
EBIT	4,251	5,336	5,879	6,430
% change		*25.5%*	*10.2%*	*9.4%*
Net income	4,639	4,758	5,420	5,773
% change		*2.6%*	*13.9%*	*6.5%*

	2015	2016e	2017e	2018e
Operating margin	30.5	30.4	30.4	30.7
Net margin	14.8	16.9	18.9	19.0
ROE	13.2	14.4	15.4	15.0
ROCE	18.5	18.1	20.0	21.6
Gearing	24.7	12.2	-1.1	-12.6

(€)	2015	2016e	2017e	2018e
EPS	3.78	3.87	4.41	4.70
% change	-	*2.6%*	*13.9%*	*6.5%*
P/E	21.0x	20.5x	18.0x	16.9x
FCF yield (%)	3.2%	4.7%	5.3%	5.7%
Dividends (€)	1.15	1.20	1.30	1.40
Div yield (%)	1.5%	1.5%	1.6%	1.8%
EV/Sales	5.0x	4.6x	4.2x	3.8x
EV/EBITDA	15.0x	13.9x	12.6x	11.3x
EV/EBIT	16.3x	15.1x	13.7x	12.2x

This morning SAP announced Q3 2016 non-IFRS operating profit 2% below consensus despite revenues 1% above, due to a lower gross margin in cloud subscriptions (-3.7ppt) and a 16% cc increase in sales and marketing costs. Higher financial expenses had a negative impact on non-IFRS EPS. Based on a robust pipeline for Q4, management has marginally raised FY16 guidance. In our view, this is not enough to make the share price move significantly in the near term.

ANALYSIS

- **Q3 2016 non-IFRS operating profit 2% below consensus**. For Q3 2016, on a non-IFRS basis, SAP announced sales up 8% lfl to EUR5,375m (BG est.: EUR5,287m; consensus: EUR5,319m), Cloud & Software revenues up 9% lfl to EUR4,456m (BG est.: EUR4,406m or +7.7% lfl; consensus: EUR4,443m or +7.7% lfl), cloud subscription revenues up 29% lfl to EUR769m (BG est.: EUR787m or +32.8% lfl; consensus: EUR783m or +30.9% lfl), licence sales up 2% lfl to EUR1,034m (BG est.: EUR1,009m; consensus: EUR1,014m), and an operating profit up 1% to EUR1,638m (30.5% of sales vs. 32.4% in Q3 2015) vs. BG est. of EUR1,711m (32.4% of sales) and consensus of EUR1,671m (31.4%). At cc, non-IFRS operating profit was up 1% to EUR1,625m (margin 30.1% or -2.3ppt). IFRS operating profit was down 9% to EUR1,103m (BG est.: EUR1,429m; consensus: EUR1,342m), due to a higher level of stock-based compensation expense (EUR368m vs. BG est. of EUR100m). Non-IFRS EPS was down 7% to EUR0.91 (BG est.: EUR0.99; consensus: EUR0.98), due to higher financial expenses. YTD free cash flow was up 5% to EUR2.96bn or 19.3% of sales (vs. 19.5%).
- **Other Q3 2016 details**. 1). Q3 2016 sales growth was driven by the Rest of America region (+25% lfl, driven by Brazil and Mexico), followed by Germany (+9% lfl, with double-digit licence sales), the Rest of EMEA and the US (+7% lfl), and Asia Pacific (+6% lfl); 2) Cloud & Software sales were up 8% lfl in EMEA, up 9% lfl in America, and up 8% lfl in Asia Pacific; 3) Cloud subscriptions were up 24% lfl in America, up 38% lfl in EMEA, and up 46% lfl in Asia Pacific, and, by segment, were up 47% lfl in Applications & Technology (SuccessFactors, CEC, etc.) and up 17% for SAP Business Network (Ariba, Concur, Fieldglass); 4). S/4HANA customers reached 4,100+ at the end of Q3 2016 (+400 in the quarter), o/w 40% are net new, Employee Central has more than 1,350 customers (+100 in the quarter), and Customer Engagement & Commerce (CEC) saw double-digit customer growth; 5). 26% of the on-premise licence deals were above EUR5m (+2ppt); 6). New cloud bookings were up 24% at cc; 7). The gross margin of cloud subscriptions was down 3.7ppt to 64.9% due to a mix effect (Applications & Technology -4.2ppt to 51.6%, SAP Business Network -0.5ppt at 76.7%).
- **FY16 guidance marginally raised**. On a non-IFRS basis, SAP raises FY16 guidance, and now forecasts Cloud & Software revenues up 6.5-8.5% at cc (vs. 6-8% at cc), Cloud subscriptions up 28-33% at cc to EUR3-3.05bn (vs. EUR2.95-3.05bn), and a non-IFRS operating profit of EUR6.5-6.7% at cc (vs. EUR6.4-6.7bn at cc). Based on the rates at the end of September 2016, management now expects an impact from forex for FY16 of -3ppt/-1ppt on Cloud & Software sales and of -2ppt/0ppt on operating profit, which would give an op. profit of EUR6.38-6.7bn. The consensus is, at this stage, within the range: Cloud & Software sales up 7.2% at cc (BG est.: +7.5%), Cloud subscriptions up 31.7% at cc to EUR3,012m (BG est.: +32.8% at cc to EUR3,009m), non-IFRS op. profit of EUR6,670m or 30.4% of sales (BG est.: EUR6,645m or 30.4% of sales). Finally, SAP upped guidance for FY16 non-IFRS adjustments (EUR770-840m vs. EUR560-610m for share-based compensation).

VALUATION

- SAPs shares are trading at est. 15.1x 2016 and 13.7x 2017 EV/EBIT multiples.
- Net debt on 30th December 2016 was EUR3,904m (net gearing: 16%).

NEXT CATALYSTS

Conference call at 2pm CET / 1pm BST / 8am EDT (UK: +44 20 71 53 89 44; USA: +1 817 391 40 59 43).

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Automotive

Valeo

Price EUR52.11

Solid Q3 performance, reassuring outlook on 2016 but already priced in

Fair Value EUR49 (-6%) **NEUTRAL**

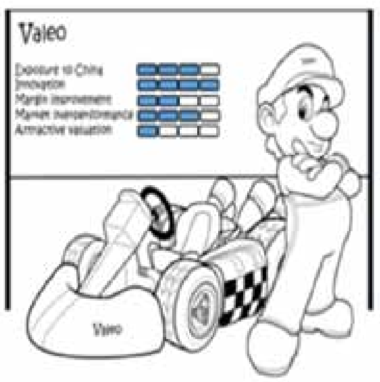
Bloomberg	FR FP
Reuters	VLOF.PA
12-month High / Low (EUR)	52.8 / 34.9
Market Cap (EUR)	12,422
Ev (BG Estimates) (EUR)	14,505
Avg. 6m daily volume (000)	792.9
3y EPS CAGR	14.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	6.3%	23.4%	16.4%	-62.9%
Auto & Parts	4.4%	6.6%	-2.4%	-12.0%
DJ Stoxx 600	1.0%	1.0%	-1.8%	-5.9%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	14,544	16,372	17,942	19,045
% change		*12.6%*	*9.6%*	*6.2%*
EBITDA	1,847	2,071	2,364	2,523
EBIT	1,060	1,260	1,421	1,532
% change		*18.8%*	*12.8%*	*7.8%*
Net income	729.0	880.4	1,011	1,102
% change		*20.8%*	*14.9%*	*8.9%*

	2015	2016e	2017e	2018e
Operating margin	7.3	7.7	7.9	8.0
Net margin	5.0	5.4	5.6	5.8
ROE	21.0	21.7	21.3	20.1
ROCE	23.7	20.1	21.0	21.2
Gearing	0.5	27.0	17.4	8.6

(EUR)	2015	2016e	2017e	2018e
EPS	3.11	3.74	4.29	4.68
% change	-	*20.1%*	*14.9%*	*8.9%*
P/E	16.8x	13.9x	12.1x	11.1x
FCF yield (%)	4.4%	4.0%	4.3%	5.2%
Dividends (EUR)	1.00	1.12	1.29	1.40
Div yield (%)	1.9%	2.2%	2.5%	2.7%
EV/Sales	0.9x	0.9x	0.8x	0.7x
EV/EBITDA	7.3x	7.0x	6.0x	5.5x
EV/EBIT	12.6x	11.5x	10.0x	9.0x



Yesterday after market Valeo posted a solid Q3 sales performance leading the group to be more confident in its EBIT margin guidance for 2016 *(margin of around 8% vs. >7.7% targeted before*), as already anticipated by the market. Valeo continued to outperform the global auto market (+7pp) but at a slower pace than in Q1 and Q2 and compared with Plastic Omnium, confirming our preference for the latter in the short-term. We have lifted our 2016 sales and earnings estimates by respectively 2.3% and 2.9% notably on the back of a less unfavourable FX effect. At this stage, we are making no change to our EUR49/share FV and Neutral recommendation for valuation reasons.

ANALYSIS

Main Q3 2016 metrics: Total Q3 sales came out at **EUR4bn** up **16%** compared with last year, thanks to a positive scope effect *(+4pp*) following the integration of **Spheros & Peiker** and thanks to a solid LfL performance *(+12%)* in the group's OE business, leading to **7pp of outperformance vs. the market**. **However, despite being quite impressive, this outperformance was slightly below the +8pp reported by Plastic Omnium yesterday and below what Valeo reported in Q1 and Q2.** Despite this lower outperformance, Q3 sales came out **4%** above consensus and BG estimates (*BGe @ EUR3.85bn*) with the FX effect the main contributor as we were anticipating a negative FX effect as seen during the first quarters, whereas the group benefited from a neutral FX effect in Q3 (*thanks notably to its exposure to Japan*). Unexpected sales growth from Miscellaneous business also contributed positively. By region, the group's sales performance came from **all main markets except Japan** (*due to Nissan*) with **European sales up 9% LfL**, while sales in **North America** and in **Asia** were rose **7%** and **23%** respectively. The performance in Asia was notably helped by favourable comparison with low production in China in Q3 2015. By business, sales growth was mostly generated by the Powertrain and Visibility segments (*sales growth accelerating in Q3 vs. H1 at respectively +11% and +16%).*

What to retain from this publication? **1/**Q3 metrics came **out 4% above** our expectations thanks to a better than expected FX effect and an unexpected higher than average contribution from the group's "Miscellaneous" business (*higher prototype contracts re-invoiced to final customers*). Excluding these two specific effects, metrics were in line with our expectations. **2/** the group's outperformance during Q3 in the OE segment softened compared with Q1 and Q2 at **+7%** vs. respectively **+9% and +11% mainly** due to its country mix. **3/**In view of better visibility on the rest of the year in Europe and in China, the group slightly upgraded its EBIT margin guidance for 2016 from **>7.7%** to around **8%** despite higher R&D expenses than initially anticipated. **This was not a surprise given that the consensus was already at 7.9% like BG.**

Conclusion: While these metrics were quite reassuring, at the end of the day, they were no a surprise and were in line with market expectations. **We have lifted our 2016 sales and earnings estimates by +2.3% and +2.9% respectively** on the back notably of a less unfavourable FX effect than previously modelled. We are making no change to our **EUR49/share FV** and our **Neutral recommendation**. Valeo currently trades with an average (*EV/EBIT & P/E for 2017)* **20% premium** compared with Plastic Omnium despite lower LfL sales growth and a lower EBIT margin.

VALUATION

At the current share price the stock is trading at **6.1x** its 2017e EBITDA & at **12.4x** its 2017e earnings

Neutral, FV @ **EUR49**

NEXT CATALYSTS

30th November – Valeo – Lunch with IR @ Bryan Garnier Paris

16th February 2017 – 2016 annual results

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TMT

Altice

Price EUR16.92

Bloomberg	ATC NA
Reuters	ATCA.AS
12-month High / Low (EUR)	18.3 / 10.0
Market Cap (EURm)	18,510
Avg. 6m daily volume (000)	1 498

	1 M	3 M	6 M	31/12/15
Absolute perf.	6.4%	30.1%	18.7%	27.7%
Telecom	-0.9%	-3.6%	-12.1%	-16.6%
DJ Stoxx 600	1.0%	1.0%	-1.8%	-5.9%

	2015	2016e	2017e	2018e
P/E	NS	NS	34.8x	13.1x
Div yield (%)	NM	NM	NM	NM

Group said to be planning IPO of Altice USA

Fair Value EUR19 (+12%) **BUY**

ANALYSIS

- Reuters reports that Altice is planning to **IPO its US subsidiary Altice USA**, according to people familiar with the matter. The company may hire underwriters by January and list in **2017**, subject to **market conditions**, raising **USD2bn** in the process. Plans remain **preliminary** at this point, and Patrick Drahi may still decide to keep Altice USA private.
- The sources say that going public would allow the company to **continue expanding by buying midsize players**. As a reminder, in France, Numericable went public in November 2013 in order to **finance the future acquisition of SFR**. Indeed, we think an IPO would **make sense** for Altice, as we believe Altice USA has **great value-creation potential**, and Altice has **development opportunities** in the country. We do not believe the interest of the operation would lie in deleveraging, which should be achieved through the delivery of operational synergies and cost cutting.
- One source says that Altice's founder Patrick Drahi is not considering giving up control of Altice USA. Based on our 2017 estimates, Altice USA could be valued at around **EUR26bn**, with net debt of **EUR18bn.** Taking Altice USA public would also allow its other shareholders, BC Partners Ltd and Canada Pension Plan Investment Board, who own about 30% of Altice USA to cash out sources said.

VALUATION

- We stick to our Buy recommendation with Fair Value of EUR19.

NEXT CATALYSTS

- Q3 results on 10th November.

Thomas Coudry, tcoudry@bryangarnier.com

Construction & Building Materials

Eiffage

Price EUR67.51

EUR1 more to our FV as APRR traffic assumption is raised after good Q3 performance

Fair Value EUR78 vs. EUR77 (+16%) **BUY**

Bloomberg	FGR FP
Reuters	FOUG.PA
12-month High / Low (EUR)	71.8 / 54.7
Market Cap (EUR)	6,622
Avg. 6m daily volume (000)	332.8

	1 M	3 M	6 M	31/12/15
Absolute perf.	-2.6%	2.8%	0.2%	13.4%
Cons & Mat	2.1%	7.5%	4.6%	5.9%
DJ Stoxx 600	1.0%	1.0%	-1.8%	-5.9%

	2015	2016e	2017e	2018e
P/E	20.0x	15.9x	14.3x	11.9x
Div yield (%)	2.2%	2.2%	2.2%	2.2%

ANALYSIS

- Eiffage's 50% owned toll road entity has reported Q3 sales at EUR665m, up 4.6%, with traffic up +3.5% (3.6% for light vehicles and 2.7% for heavy vehicles). HVs were penalised by a negative calendar effect in Q3. Top line benefited from the tariff hike last February (approx. 1.25% for cars). YTD sales rose by 5.3% to EUR1782m and traffic by 3.8% (3.6% LV, 4.9% HV).
- Note that the Q1 performance for light vehicles was exceptionally strong, thanks to a positive calendar effect (leap year, Easter week-end). In Q2, heavy vehicle traffic benefited from more working days in May. Mix effect was strong in Q2 on the revenues line, but not in Q3.
- We have upgraded our FY 2016 traffic increase assumptions from 2.5% to 3.5%, which implies a 2.4% increase in Q4. 2017 traffic assumptions unchanged (2.4% fading to 1% on the long term).

APRR quaterly performance	Q115	Q215	Q315	Q415	Q116	Q216	Q316
Light vehicles traffic (y/y %=	1.8	2.7	3.1	2.7	7.1	0.7	3.6
Heavy vehicles traffic (y/y	2.0	2.1	3.5	4.1	3.9	8.0	2.7
Total traffic (y/y %)	1.8	2.6	3.1	2.9	6.5	1.8	3.5
Revenues increase (y/y %)	2.4	3.0	3.3	3.3	6.8	4.6	4.6

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

VALUATION

- New traffic assumption adds EUR0.80 to our EUR77 SOTP, which increases to EUR78 (rounded).

NEXT CATALYSTS

- Eiffage Q3 revenues on 7th November 2016

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Eric Lemarié, elemarie@bryangarnier.com

Utilities

ENGIE

Price EUR13.38

France said to drop carbon tax project

Fair Value EUR16,5 (+23%) **BUY**

Bloomberg	ENGI FP
Reuters	ENGIE.PA
12-month High / Low (EUR)	16.6 / 12.9
Market Cap (EURm)	32,572
Avg. 6m daily volume (000)	5 384

	1 M	3 M	6 M	31/12/15
Absolute perf.	-2.1%	-10.4%	-7.0%	-18.1%
Utilities	-0.3%	-5.7%	-4.5%	-6.8%
DJ Stoxx 600	1.0%	1.0%	-1.8%	-5.9%

	2015	2016e	2017e	2018e
P/E	6.6x	12.4x	12.6x	11.8x
Div yield (%)	7.5%	7.5%	5.2%	5.2%

ANALYSIS

According to French newspaper *Les Echos*, the **French government is likely to drop its initial plan to introduce a carbon tax.** The project is said not to be included in the 2016 budget update currently being discussed by the government. The measure is also said to be too complicated to put in place and might be unconstitutional. **A final decision is expected in mid-November**.

As a reminder, earlier this year, French Energy minister, Ségolène Royal, announced that a French carbon floor could come into force as early as **January 2017**. A figure of around **EUR30/tonne** for carbon prices had been initially put forward in order to **promote switching from coal to gas in France**.

We previously stated that **EDF's strong exposure to non CO2 emitting technologies** (nuclear, hydro and other renewables in France) **would have made it the most positively impacted** by such a mechanism. Assuming a EUR30/tonne carbon price floor was implemented in France, **this would have implied a near doubling in our restated 2018e EPS for EDF**, on our estimates.

As for **Engie**, we estimated a **much lower impact** with **a c. 0.8% EPS increase for a EUR1/MWh increase in power prices** (triggered by the carbon floor implementation). However, the tax could have made the company's gas-fired power plants **less competitive** than similar plants in other European countries as **France initially planned to introduce this carbon floor unilaterally**.

Conclusion: we knew that this measure was highly **sensitive to the French political context** as 2017 will be an electoral year (coal plants would have been hurt by the measure with potential job cuts). This explains why the implementation of the carbon tax was not included in our model. **However, as we flagged this measure to be a potential earnings growth driver, this about-turn is clearly negative for EDF and to a lesser extent for Engie.**

VALUATION

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

Buy, FV @ EUR16.5

NEXT CATALYSTS

10th November 2016: Q3 2016 results

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Pierre-Antoine Chazal, pachazal@bryangarnier.com

Hotels

InterContinental Hotels

Price 3,225p

Bloomberg	IHG LN
Reuters	IHG.L
12-month High / Low (p)	3,365 / 2,192
Market Cap (GBPm)	6,370
Avg. 6m daily volume (000)	778.4

	1 M	3 M	6 M	31/12/15
Absolute perf.	-1.7%	9.9%	11.8%	21.3%
Travel&Leisure	-3.2%	-2.7%	-8.8%	-17.1%
DJ Stoxx 600	1.0%	1.0%	-1.8%	-5.9%

	2014	2015e	2016e	2017e
P/E	24.9x	22.6x	20.7x	17.7x
Div yield (%)	2.0%	2.2%	2.4%	2.8%

IMS Q3: RevPAR growth continues to slow

Fair Value 2950p (-9%) **SELL**

ANALYSIS

- **RevPAR is still growing but at a slower pace:** Q3 RevPAR was up 1.3% after 2.0% at the end of H1, bringing the YTD rise to 1.8%. In Q3, all geographies reported lower RevPAR growth vs. previous quarters: **Americas** (64.3% of total number of rooms) was up 1.9% in Q3 and 2.2% YTD particularly still impacted by the group's concentration in oil producing markets, **Europe** (14.2%) reported flat RevPAR and was up 1.3% YTD vs. 2% in H1, **AMEA** (9.8%) was again slightly down 0.1% in Q3 and YDT -0.2% and **Greater China** (11.6%) was up 0.9% in Q3 and 1.8% YTD continuing to be affected by HK, Macau. Note that mainland China RevPAR was up 2.2% in Q3 after 4.7% in Q2 and 6.2% in Q1.
- **Sustained increase of system size and pipeline:** Net System size growth was sustained in Q3 and up 3.8% yoy (+3.6% in Q2 yoy), while the group also announced the signature of 19k rooms in Q3 (highest Q3 since 2008…) bringing the total pipeline to 230k rooms (4% share of industry room supply, 14% share of active industry room pipeline).

VALUATION

- At the current share price, the stock is trading at 13.1x EV/EBITDA 2016e and 12.3x 2017e which compares with the 10y median historical of 11.6x. The average EV/EBIT 2016e and 2017e for European are respectively 10.3x and 9.3x and 11.6x and 10.3x for US hoteliers.

NEXT CATALYSTS

- Conference call at 09.00am London time

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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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