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31st October 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	18161.19	-0.05%	+4.22%
S&P 500	2126.41	-0.31%	+4.03%
Nasdaq	5190.1	-0.50%	+3.65%
Nikkei	17425.02	-0.19%	-8.34%
Stoxx 600	340.795	-0.27%	-6.84%
CAC 40	4548.58	+0.33%	-1.91%
Oil /Gold			
Crude WTI	48.7	-2.05%	+30.91%
Gold (once)	1270.03	+0.12%	+19.55%
Currencies/Rates			
EUR/USD	1.0929	+0.10%	+0.61%
EUR/CHF	1.08575	+0.12%	-0.15%
German 10 years	0.089	-7.53%	-85.98%
French 10 years	0.413	-1.03%	-57.87%
Euribor	-0.313	+0.32%	+138.93%

Economic releases :

Date	
31st-Oct	11h00 EUZ CPI est. Oct. (0.5% E) 11h00 EUZ - GDP 13h30 US - Personal Income Sep. 13h30 Us - Personal spending Sep. (0.2%E)

Upcoming BG events :

Date	
2nd-Nov	FAURECIA (BG Paris Breakfast with IR)
3rd-Nov	KORIAN (BG Luxembourg roadshow)
8th-Nov	LVMH (BG Luxembourg roadshow with IR)
9th-Nov	SEB (BG Geneva roadshow with CFO)
9th-Nov/ 10th-Nov	UBISOFT (BG London roadshow with CEO, CFO)
14th-Nov/ 15th-Nov	4th Paris Healthcare Conference

Recent reports :

Date	
20th-Oct	Luxury goods :We bet on a rebound in Greater China in 2017
19th-Oct	Back from ESMO 2016: What's hot in oncology
19th-Oct	IPSEN Cabometyx AND Somatuline to transform Ipsen
17th-Oct	Haemophilia: « Stemming the bleed »
13th-Oct	TEMENOS Success breeds success
12th-Oct	BOUYGUES Do not forget construction!

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

AB INBEV — BUY, Fair Value EUR120 (+12%)

Lowering numbers post Q3

Following on from last week Friday's Q3 results and changed outlook, we are lowering our EPS expectations for 2016 by 6% to USD4.4 from USD4.52 and for 2017 by 4% to USD5.34 from 5.58. This results in a fair value for the shares of EUR120 (which we lowered yesterday by 3% from EUR124). The lower earnings are driven by our expectation of 6% lower operating profit in 2016 and 4% in 2017. For 2016 we are now expecting a 17% lower EPS than in 2015, but with the inclusion of SABMiller and the start of the synergy extraction, EPS in 2017 should be 26% higher.

IMERYS — BUY-Top Picks, Fair Value EUR72 (+14%)

Roadshow feedback and follow-up after a harsh market reaction

The share price has been under strong pressure following the publication of the 9 months figures, penalised in particular by tepid volumes and higher non-recurring charges, mostly some Chinese asset write-offs within the refractories activity. We don't deny the environment is tough for Imerys, hence the modest organic growth. But the group doesn't rest on its laurels and continues to generate operating margin improvement and to regularly integrate new acquisitions. We are buyers.

NOVO NORDISK — NEUTRAL, Fair Value DKK270 vs. DKK355 (+14%)

New paradigm is resulting into new status for Novo Nordisk

Since February, environment (payers and competition) has changed so dramatically that Novo Nordisk has been compelled to revise sharply downwards its long-term targets of earnings growth. And from a market perspective, it means that Novo Nordisk is no longer differentiated. With flat earnings growth in 2017 and limited CAGR by 2019 (<4%), there is simply no reason to invest in Novo Nordisk at this time. The current share price implies 0% growth to infinity.

SANOFI — NEUTRAL, Fair Value EUR84 vs. EUR83 (+22%)

How much Q3 2016 says about 2017 and beyond?

Post-Q3 conference call clarified that the very good Q3 performance might not be extrapolable over the coming quarters and year and could be the starting point of a new phase for the company. It does not mean that Sanofi is not doing well on costs, but simply that 2017 core EPS may not have to be meaningfully revised by consensus. Hence a modest overall revision overall.

VEOLIA ENVIRONNEMENT — BUY, Fair Value EUR23.5 (+18%)

Preview Q3-16: tepid performance expected amid difficulties in the US and in French water

Veolia is set to report its Q3-16 results on November 3rd. We expect the company to still bear the brunt of an unsupportive environment in both its US industrial activities and in its French water business. However, we forecast a 3.3% increase in Q3-16 EBITDA yoy as we expect cost-savings, positive scope impact (acquisition of Chemours' sulfuric assets, back in June 2016) and recent contracts awarded to more than offset the double-digit EUR/GBP expected headwind. We expect Q3-16 current EBIT and current net income to be flat and down, respectively, on a reported basis (*exc. capital gains*), but up 6.5% and 8% once adjusted from the EUR15m provision reversal in Q3-15. Despite this tepid quarterly performance, we believe Veolia will confirm its FY-16 guidance which notably includes EBITDA growth and EUR600m of current net income, both at constant exchange rates. Buy rating maintained and FV unchanged at EUR23.5.

PHARMACEUTICALS

Is SOBI or Bioverativ a future target for Novo?

Last Friday, NOVO's CFO explicitly stated there is a potential for M&A in the Haemophilia field. We believe that Eloctate could be a nice fit within the big pharma's portfolio… But BIIB's future spin-off (namely Bioverativ) would be the prime target vs SOBI in our view, given its 1/ pure-player status, and 2/ already strong patient base in the US. We stick to our positive stance on SHP and ROG while we remain quite cautious on NOVO, GFS and SOBI

In brief...

GEMALTO, *Extremely low visibility + unattractive risk/reward = Sell rating maintained*

QIAGEN, *a look ahead of Q3 results*

SAINT GOBAIN, *SWH appeals against unfavourable Court decision on voting rights restriction.*

Food & Beverages

AB InBev

Price EUR107.25

Lowering numbers post Q3

Fair Value EUR120 (+12%) **BUY**

Bloomberg	ABI BB
Reuters	ABI.BR
12-month High / Low (EUR)	123.3 / 100.6
Market Cap (EURm)	181,600
Ev (BG Estimates) (EURm)	264,683
Avg. 6m daily volume (000)	1 466
3y EPS CAGR	4.9%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-9.7%	-2.7%	-4.8%	-6.3%
Food & Bev.	-5.5%	-4.7%	-1.9%	-4.7%
DJ Stoxx 600	-0.5%	0.4%	-2.3%	-6.8%

YEnd Dec. (USDm)	2015	2016e	2017e	2018e
Sales	43,604	42,637	57,957	60,632
% change		*-2.2%*	*35.9%*	*4.6%*
EBITDA	16,921	15,872	23,068	24,921
EBIT	13,768	12,793	19,113	20,842
% change		*-7.1%*	*49.4%*	*9.0%*
Net income	8,513	7,076	10,656	11,762
% change		*-16.9%*	*50.6%*	*10.4%*

	2015	2016e	2017e	2018e
Operating margin	31.6	30.0	33.0	34.4
Net margin	19.5	16.6	18.4	19.4
ROE	20.2	16.9	12.5	13.2
ROCE	10.1	9.6	10.0	8.3
Gearing	98.7	107.7	100.6	93.6

(USD)	2015	2016e	2017e	2018e
EPS	5.10	4.24	5.34	5.90
% change	*-*	*-16.9%*	*26.0%*	*10.4%*
P/E	23.0x	27.6x	21.9x	19.9x
FCF yield (%)	3.9%	3.0%	5.7%	5.1%
Dividends (USD)	2.68	2.68	2.81	3.10
Div yield (%)	2.3%	2.3%	2.4%	2.6%
EV/Sales	6.5x	6.8x	5.7x	5.4x
EV/EBITDA	16.7x	18.2x	14.3x	13.1x
EV/EBIT	20.6x	22.6x	17.3x	15.7x

Following on from last week Friday's Q3 results and changed outlook, we are lowering our EPS expectations for 2016 by 6% to USD4.4 from USD4.52 and for 2017 by 4% to USD5.34 from 5.58. This results in a fair value for the shares of EUR120 (which we lowered yesterday by 3% from EUR124). The lower earnings are driven by our expectation of 6% lower operating profit in 2016 and 4% in 2017. For 2016 we are now expecting a 17% lower EPS than in 2015, but with the inclusion of SABMiller and the start of the synergy extraction, EPS in 2017 should be 26% higher.

Overall revenues for Q3 came in at USD11.11bn which missed consensus of USD11.43bn (3% miss) and EBITDA came in at USD4.03bn vs consensus of USD4.43bn (9% miss). Organic volume decline of 0.9% was slightly better than the expected decline of 1.5%, but organic revenue growth of 2.8% fell short of the consensus of a 3.3% rise. The only comforting point for investors in the release is that the company expects some growth in the dividend for 2016 countering recent speculation that it might cut its dividend

ANALYSIS

- Especially in Brazil, price/mix was poor increasing by only 3.1% (in an inflation environment of 7% ytd). This not only prompted the company to lower its Brazilian revenue expectation for the full year from flat to declining revenue for the full year (which has a knock on to margin expectations). For the group as a whole, the company is now expecting net revenue per hl growth in line with inflation vs prior to grow organically ahead of inflation.
- In terms of cost structure, AB InBev is increasing sales and marketing investments by 15% ytd (and 12.6% in Q3), which does not seem to translate in volume or significant mix price/mix growth (expectation is pricing in line with inflation), which leaves us wondering if this area has been cut to deep in the past and the company need to pull out all registers to keep some kind of topline growth (organic +3.3% after 9 months). Areas where there has been significant increases is Mexico (+25.4%), North America (+15.5%), Latin America South (Brazil) + 12%, Latin America South (Argentina) +28.6%, but even in Europe (+8.2%), sales and marketing costs are ahead of topline (+4%).
- In the bigger regions for AB InBev, the company has been performing poorly. In the smaller reporting regions of Asia Pacific, Europe and Mexico, business is better. In Asia Pacific we are expecting for the year USD120m more operating profit as a combination of 4% organic revenue growth with lower cost of goods drive gross profit. But even in Mexico there is some margin pressure with sales and marketing expenses rising 25% ytd, which is well compensated by faster organic top line growth of +12.4%. Nevertheless with the Mexican peso down on last year, we still expect from Mexico about USD100m lower operating profit than last year. In Europe, top line growth is faster than we previous anticipated (+4% ytd), helped by increased spending on sales and marketing (+8%), but the net result with the devaluation of the EUR against the USD is about USD40m lower operating profit.
- The region with the sharpest downward revision is Latin America North (Brazil) where a 3% price mix is well below the ytd inflation of 7% (and those pricing efforts do not seem enough for the company to lose market share with volumes down 5.1% in a market down 3%). On top of that Q4 comps are very tough with last year a net revenue per hl growing at 10.7%. With the Brazilean real down by about 7% on last year, we are expecting this year USD700m lower operating profit. In Latin America South (Argentina), we are expecting about USD120m lower operating profit mainly because of the 30% decline in the value of the Argentinean peso. In North America, we expect a USD60m uptick in profit compared to 2015, but the absolute number of USD5,478m operating profit is still down on the 2010 number of USD5,546m.
- Food for thought: Without SABMiller, AB InBev's 2016e operating profits (USD12.8bn) would have been only at par of the one in 2011 (USD12.6bn) despite all the cost cutting and the Modelo acquisition. However, the value that investors put on that profit is about 80% more (EV standalone of USD280m v USD150m in 2011). Of course, interest rates have come down…

VALUATION

- Our DCF based fair valuation of AB InBev is based on a risk free rate of 1.6% and equity risk premium of 7%.

NEXT CATALYSTS

- 28 October 15.00 CET: Q3 call
- End of February: full year results *Click here to download*

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Construction & Building Materials

Imerys

Price EUR63.00

Roadshow feedback and follow-up after a harsh market reaction

Fair Value EUR72 (+14%) **BUY-Top Picks**

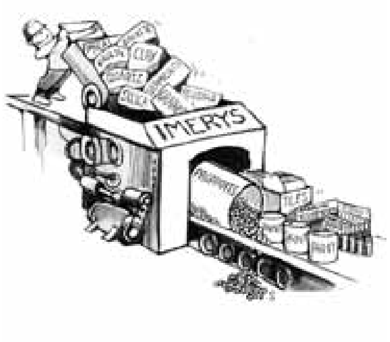
Bloomberg	NK FP
Reuters	IMTP.PA
12-month High / Low (EUR)	68.0 / 51.6
Market Cap (EURm)	5,013
Ev (BG Estimates) (EURm)	6,706
Avg. 6m daily volume (000)	62.80
3y EPS CAGR	9.1%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-1.4%	-1.0%	-1.3%	-2.2%
Cons & Mat	-1.7%	4.2%	2.0%	3.9%
DJ Stoxx 600	-0.5%	0.4%	-2.3%	-6.8%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	4,087	4,141	4,233	4,317
% change		*1.3%*	*2.2%*	*2.0%*
EBITDA	745	791	848	875
EBIT	468.2	511.9	549.8	564.5
% change		*9.3%*	*7.4%*	*2.7%*
Net income	285.9	321.7	349.5	368.5
% change		*12.5%*	*8.6%*	*5.4%*

	2015	2016e	2017e	2018e
Operating margin	11.5	12.4	13.0	13.1
Net margin	1.7	7.0	8.3	8.6
ROE	12.9	13.6	13.4	13.2
ROCE	7.9	7.8	8.2	8.4
Gearing	55.4	53.7	47.6	41.1

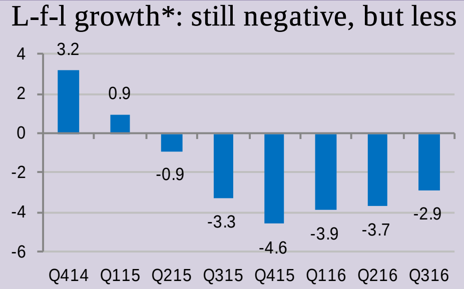
(EUR)	2015	2016e	2017e	2018e
EPS	3.56	4.03	4.39	4.63
% change	-	*13.2%*	*8.9%*	*5.4%*
P/E	17.7x	15.6x	14.3x	13.6x
FCF yield (%)	5.6%	4.1%	5.0%	5.8%
Dividends (EUR)	1.75	1.89	2.00	2.10
Div yield (%)	2.8%	3.0%	3.2%	3.3%
EV/Sales	1.7x	1.6x	1.6x	1.5x
EV/EBITDA	9.1x	8.5x	7.8x	7.4x
EV/EBIT	14.5x	13.1x	12.0x	11.5x

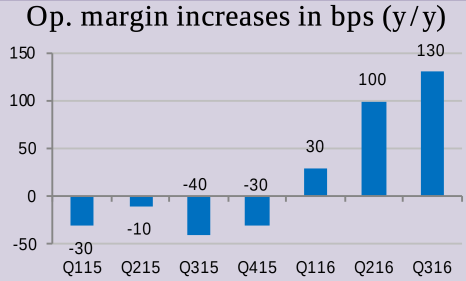


The share price has been under strong pressure following the publication of the 9 months figures, penalised in particular by tepid volumes and higher non-recurring charges, mostly some Chinese asset write-offs within the refractories activity. We don't deny the environment is tough for Imerys, hence the modest organic growth. But the group doesn't rest on its laurels and continues to generate operating margin improvement and to regularly integrate new acquisitions. We are buyers.

ANALYSIS

- Volumes are still under pressure in Q3 despite an easier comparison basis, but rolling 12 months figures suggest trends might start to stabilise progressively. Admittedly, steel markets have been dissapointing in Q3, and were down again as anti-dumping measures in the US start to ease. Paper markets are not dynamic either, although the trend is finally similar to the last quarters. Finally, the France tiles market is down -0.5% YTD. But overall, the negative trends are gradually fading.
- The increase in non-recurring charges is worth mentioning. While they were down in H1, the increase is significant in Q3, with a - EUR30m charge vs –EUR12m last year, post tax. A large part of this is explained by the write-off of some chinese assets within the refractories activity. This is of course always dissapointing, as it reflects lower-than-expected results from this asset. But, contrary to the usual restructuration costs that we consider quite recurring, this write-off should more be seen as a one-off charge, in our view. Also we don't view the deterioration of the non-recurring charges as a warning on Imerys' financial health. Our clean earnings are not impacted.
- Imerys continues to believe the ceramic proppants markets will improve eventually. Actually, the number of rigs has increased in the US since end May. Logically, however, the first rigs to open are the rigs with the lowest cost price, usually located in basins where ceramic proppants are less or not used. Imerys considers oil prices have to reach USD55-USD60 in order to see producers opening rigs that are more demanding (technically speaking) and increase their use of ceramic proppants.
- We are positive on the stock. We recognize volumes are tepid but they are progressively improving and a stabilization in 2017 is not excluded. In any case, with a c50% operating leverage, any improvement on the top line will have a significant impact on the current operating income. Besides, the group has been able to fully compensate negative forex on the 9 months (-0.7%) and negative organic growth (-2.3%) by a significant scope impact (+4.4%). With a net debt/ EBITDA ratio <2x in 2016E, we can not rule out further acquisitions in the near future.





** rolling 12 months in %, Source : Imerys, Bryan Garnier & co*

VALUATION

- Our FV is unchanged at EUR72, which is the average of a DCF and the application of historical EBIT and EBITDA multiples to our 2018 estimates, discounted back.

NEXT CATALYSTS

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Healthcare

Novo Nordisk

Price DKK237.50

New paradigm is resulting into new status for Novo Nordisk

Fair Value DKK270 vs. DKK355 (+14%) **NEUTRAL**

Bloomberg	NOVOB DC
Reuters	NOVOB.CO
12-month High / Low (DKK)	404.2 / 237.5
Market Cap (DKK)	477,984
Ev (BG Estimates) (DKK)	458,055
Avg. 6m daily volume (000)	3 319
3y EPS CAGR	6.0%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-18.1%	-37.2%	-36.0%	-40.6%
Healthcare	-7.6%	-11.5%	-6.8%	-14.6%
DJ Stoxx 600	-0.5%	0.4%	-2.3%	-6.8%

YEnd Dec. (DKKm)	2015	2016e	2017e	2018e
Sales	107,927	110,958	114,588	119,087
% change		*2.8%*	*3.3%*	*3.9%*
EBITDA	52,403	51,619	51,748	53,558
EBIT	49,444	48,719	48,848	50,658
% change		*-1.5%*	*0.3%*	*3.7%*
Net income	34,860	38,014	38,432	40,177
% change		*9.0%*	*1.1%*	*4.5%*

	2015	2016e	2017e	2018e
Operating margin	45.8	43.9	42.6	42.5
Net margin	32.3	34.3	33.5	33.7
ROE	74.2	69.7	50.9	41.1
ROCE	82.0	69.1	63.9	63.3
Gearing	-41.9	-36.5	-47.9	-56.9

(DKK)	2015	2016e	2017e	2018e
EPS	13.56	15.13	15.45	16.16
% change	-	*11.6%*	*2.1%*	*4.5%*
P/E	17.5x	15.7x	15.4x	14.7x
FCF yield (%)	5.4%	5.1%	5.7%	6.3%
Dividends (DKK)	6.40	6.81	6.95	7.27
Div yield (%)	2.7%	2.9%	2.9%	3.1%
EV/Sales	4.2x	4.1x	3.9x	3.5x
EV/EBITDA	8.7x	8.9x	8.5x	7.9x
EV/EBIT	9.3x	9.4x	9.0x	8.3x

Since February, environment (payers and competition) has changed so dramatically that Novo Nordisk has been compelled to revise sharply downwards its long-term targets of earnings growth. And from a market perspective, it means that Novo Nordisk is no longer differentiated. With flat earnings growth in 2017 and limited CAGR by 2019 (<4%), there is simply no reason to invest in Novo Nordisk at this time. The current share price implies 0% growth to infinity.

ANALYSIS

How can things turn so quickly that a major pharmaceutical company halves its long-term operating income growth perspectives from one year to the next? We are hearing that, at Novo Nordisk, it took even less than a year to understand that quickly deteriorating environment in the US would make mid-term targets unachievable. It actually started in February and it has impacted the two components that we said Novo Nordisk was somewhat optimistic about: (i) pricing: they had explained that former price increases would no longer be in practice and that it would neutralize policy; the company now says the price effect will be negative by at least 2.5% on future years; (ii) mix: Novo Nordisk still sees value upgrade through Tresiba and the higher proportion of GLP1 sales in the portfolio, but it is unclear whether innovative products can replace older ones at a premium price as expected. It is interesting to note also that the company is feeling pressure on prices also in the growth hormone market where it has decided not to participate in some negociations when conditions were deemed unacceptable (exclusive contracting).

Of course, when it comes to 2017, when adding the generic competition for Vagifem in the US, the competition for NovoSeven mainly from clinical trial activities and Basaglar's first full-year impact on the basal insulin market in the US, first guidance of flat earnings can be easily understood.

But obviously what was tricky during the call and other interviews from the management is their feeling that the storm has just started to hit the market in the US. Unlike previous situations where Novo Nordisk appeared less surprised by market evolutions than Sanofi, this time it looks like the Danish company was really been taken by surprise. And this is a clear overstatement and reflection of overconfidence to able to drive the diabetes market through innovations as they were used to doing in the past, ignoring some paradigm changes. This relates not only to new pratices among payers, but also to higher-than-expected agressivity from competition (oligopoly in the insulin field had prevented such a scenario from happening before). Both Lilly and Sanofi have played more aggressive because the first was in a recovery phase whereas the second had to defend volumes on glargine. This is clearly a mistake and this is why Novo Nordisk is also implementing some changes at the Corporate level and in commercial operations. How long could it take? The answer given by the new long-term guidance is "several years". This will also translate into new criteria before deciding to move a compound into phase III and in a more opportunistic approach to partnering and acquisitions, including in kidney diseases or haemophilia.

VALUATION

As a consequence, it is fair to say that Novo Nordisk's undisputed status will change and considering its mid-term perspectives, can no longer benefit from specific criteria when approaching DCF or EVA. Not only did we adjust our revenue and margin estimates for the years to come, but we also reduced growth to infinity from 2.5% to 1% (beyond 2022). Hence a new FV of DKK270 vs DKK355. Core EPS CAGR for 2016-2019 is 3.7% which deserves no premium over the sector. 2017 P/E of 16x still looks high. Same for PEG ratio. In relative terms, it also looks poorly placed and so if we think it is too late to adopt a SELL rating, it is worth waiting for better times.

Novo Nordisk illustrates deep new trends in this industry where innovation no longer always pays off. Only major advances will.

NEXT CATALYSTS

December 2016: Xultophy's PDUFA date in the US

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Healthcare

Sanofi

Price EUR68.86

How much Q3 2016 says about 2017 and beyond?

Fair Value EUR84 vs. EUR83 (+22%) **NEUTRAL**

Bloomberg	SAN FP
Reuters	SASY.PA
12-month High / Low (EUR)	93.3 / 67.3
Market Cap (EURm)	88,769
Ev (BG Estimates) (EURm)	96,222
Avg. 6m daily volume (000)	2 431
3y EPS CAGR	2.4%

	1 M	3 M	6 M	31/12/15
Absolute perf.	1.4%	-10.2%	-10.6%	-12.4%
Healthcare	-5.7%	-10.6%	-5.3%	-13.3%
DJ Stoxx 600	0.4%	-0.3%	-1.9%	-6.6%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	36,575	36,197	37,352	38,772
% change		*-1.0%*	*3.2%*	*3.8%*
EBITDA	11,211	10,793	10,317	10,425
EBIT	9,922	9,773	9,514	9,817
% change		*-1.5%*	*-2.6%*	*3.2%*
Net income	7,345	7,163	7,008	7,716
% change		*-2.5%*	*-2.2%*	*10.1%*

	2015	2016e	2017e	2018e
Operating margin	27.1	27.0	25.5	25.3
Net margin	20.1	19.8	18.8	19.9
ROE	12.9	12.3	11.8	12.4
ROCE	11.8	11.4	10.8	11.0
Gearing	12.7	12.7	10.1	6.6

(EUR)	2015	2016e	2017e	2018e
EPS	5.62	5.60	5.48	6.04
% change	-	*-0.3%*	*-2.2%*	*10.1%*
P/E	12.2x	12.3x	12.6x	11.4x
FCF yield (%)	4.9%	6.6%	5.9%	6.9%
Dividends (EUR)	2.93	3.00	3.15	3.50
Div yield (%)	4.3%	4.4%	4.6%	5.1%
EV/Sales	2.6x	2.7x	2.5x	2.4x
EV/EBITDA	8.6x	8.9x	9.2x	8.9x
EV/EBIT	9.7x	9.8x	10.0x	9.5x

Post-Q3 conference call clarified that the very good Q3 performance might not be extrapolable over the coming quarters and year and could be the starting point of a new phase for the company. It does not mean that Sanofi is not doing well on costs, but simply that 2017 core EPS may not have to be meaningfully revised by consensus. Hence a modest overall revision overall.

ANALYSIS

- The Sanofi share price behaved strangely through the trading day on Friday, opening sharply up and rising all morning to peak at +7% but then progressively reducing its gains from the time the conference call started. And this was in spite of a good call in our view, more focused in terms of speakers and overall duration. So, what can explain the intraday stock price evolution?
- In our view, from the beginning of the day when we read the press release, the key question was how much of the performance in Q3 was quarter-specific and how much it was saying about a potential new trend i.e. to be clear about a potential turning point in the story. And it looks like the market assumed at the start of the day that it was maybe the second scenario that was the right one, which we doubted. Indeed Q3 numbers were very good, suggesting flat 2016 core EPS numbers vs a slight decline anticipated. But we were unsure about what it meant for 2017 and whether a take-off in core EPS growth might have started already.
- Actually when Olivier Brandicourt repeated that Sanofi was committed to its flat core EPS guidance over 2015-2017, it was like assuming that if 2016 is slightly ahead, then 2017 might be slightly below the line, so that in the end it leads us to the same final core EPS assumption at the end of 2017. What is surprising then is that Sanofi is not sharing anything that could explain what is now getting worse than expected in 2017 which could reverse the trend seen in Q3. Worsening of the situation in diabetes was anticipated (unlike Novo Nordisk). Cost savings have just started to be delivered and new simplified GBU structure will continue to pay off, so much so that peak numbers have been increased to EUR1.5bn. Now, Sanofi Pasteur's comparison base will be very high, DengVaxia may not be that high in 2017, launch costs will increase and R&D is likely to require also additional investments. So, in the context of a declining Diabetes franchise by high-single to low teens in 2017 (largely depending on what happens with iGlarLixi), it is tough to expect core EPS to stay flat or even improve. Moreover, as expected, most of the share buy backs will either offset dilution from asset swap with B.I. or stock option exercises.
- So, in the end, our numbers are very slightly revised upwards for 2016 (EUR5.60 vs EUR5.47) but stay very close to where they were already for subsequent years, so that FV only moves by EUR1.

VALUATION

- Now, does this give more visibility over the future? We would however say 'yes, at least for the earnings section, because it improves confidence in the fact that savings might come through the bottom-line and/or mitigate requirements for extra investments. But, it does not remove questions over revenues (iGlarLixi take-off, PCSK9 patent litigation, overall diabetes decline, sarilumab et dupilumab launch trajectories etc …). For that reason, we keep our NEUTRAL rating.
- We would add that Sanofi appeared confident in fixing the issues about the manufacturing inspection by the FDA at Le Trait (in France, not in an Irish plant as we previously wrongly stated) but it casts doubts about sarilumab and dupilumab launches anyway. Note that despite a comprehensive corrective action plan submitted to the FDA, Sanofi received a CRL for sarilumab on Friday evening.

NEXT CATALYSTS

- End of November: FDA PDUFA date for iGlarLixi

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Veolia Environnement

Price EUR19.86

Preview Q3-16: tepid performance expected amid difficulties in the US and in French water

Fair Value EUR23.5 (+18%) **BUY**

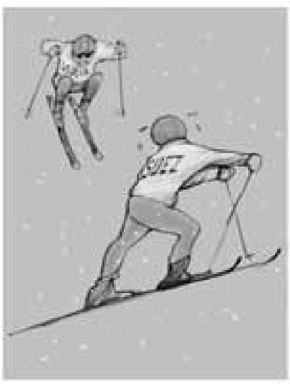
Bloomberg	VIE FP
Reuters	VIE.PA
12-month High / Low (EUR)	22.9 / 18.1
Market Cap (EUR)	11,186
Ev (BG Estimates) (EUR)	18,606
Avg. 6m daily volume (000)	1 776
3y EPS CAGR	27.0%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-1.8%	1.2%	-5.9%	-9.2%
Utilities	-0.8%	-7.0%	-4.7%	-7.4%
DJ Stoxx 600	0.5%	0.1%	-1.6%	-6.6%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	24,965	25,080	26,116	26,801
% change		*0.5%*	*4.1%*	*2.6%*
EBITDA	2,997	3,147	3,386	3,554
EBIT	1,060	1,404	1,584	1,713
% change		*32.5%*	*12.8%*	*8.1%*
Net income	378.7	528.1	696.1	784.9
% change		*39.4%*	*31.8%*	*12.8%*

	2015	2016e	2017e	2018e
Operating margin	4.5	5.6	6.1	6.4
Net margin	1.8	2.4	2.9	3.2
ROE	4.0	6.3	7.1	7.8
ROCE	6.4	6.4	7.0	7.4
Gearing	82.6	79.8	77.8	74.0

(EUR)	2015	2016e	2017e	2018e
EPS	0.68	0.93	1.23	1.39
% change	-	*37.9%*	*31.8%*	*12.8%*
P/E	29.4x	21.3x	16.2x	14.3x
FCF yield (%)	9.5%	1.8%	7.8%	8.9%
Dividends (EUR)	0.73	0.85	0.84	0.97
Div yield (%)	3.7%	4.3%	4.2%	4.9%
EV/Sales	0.7x	0.7x	0.7x	0.7x
EV/EBITDA	6.0x	5.9x	5.4x	5.1x
EV/EBIT	17.1x	13.2x	11.6x	10.7x



Veolia is set to report its Q3-16 results on November 3rd. We expect the company to still bear the brunt of an unsupportive environment in both its US industrial activities and in its French water business. However, we forecast a 3.3% increase in Q3-16 EBITDA yoy as we expect cost-savings, positive scope impact (acquisition of Chemours' sulfuric assets, back in June 2016) and recent contracts awarded to more than offset the double-digit EUR/GBP expected headwind. We expect Q3-16 current EBIT and current net income to be flat and down, respectively, on a reported basis (*exc. capital gains*), but up 6.5% and 8% once adjusted from the EUR15m provision reversal in Q3-15. Despite this tepid quarterly performance, we believe Veolia will confirm its FY-16 guidance which notably includes EBITDA growth and EUR600m of current net income, both at constant exchange rates. Buy rating maintained and FV unchanged at EUR23.5.

ANALYSIS

What to expect from Veolia's Q3-16 publication? We expect Veolia to post a **Q3-16 EBITDA at EUR638m** up 3.3% yoy which would bring company's 9-month EBITDA to **EUR2,218m** up 3.2% yoy. We forecast a **4.5%** organic growth at the Q3-16 EBITDA level, down 90bps vs. H1-16 performance as we believe the company notably suffered from **1/**a still-**weak performance in industrial waste in the US**; **and 2/**an **unsupportive environment in its French water business** with both climate and regulatory headwinds (Brottes law for which we estimate an EUR6m headwind over the quarter). The EUR3.3bn contract with Sinopec as well as the recent acquisition of **Chemours' sulfuric assets** should contribute about **EUR10m** at the EBITDA level. This should, however, be more than offset by an EUR15m FX headwind (GBP mainly) over the quarter. The main driver of the growth in EBITDA should remain the **company's cost-cutting programme** for which we expect a **EUR50m** positive impact over the quarter. **We therefore expect Veolia to confirm its advance on its annual savings' target** (EUR600m over a 3-year period hence EUR200m per year) as the company would have completed about **EUR170m of savings** after the first 9 months of the year.

We expect company's Q3-16 current EBIT to reach **EUR229m** (**EUR978m** for 9-month current EBIT) flat yoy on a reported basis, but up 6.5% once **excluding the EUR15m provision reversal in Q3-15**. Finally, we expect Q3-16 current net income to reach **EUR68m** (**EUR409m** for 9-month) down c. 13% yoy on a reported basis (*exc. capital gains*). Adjusted from the provision reversal, we expect net income to be **up 8% yoy** notably on the back of a lower cost of debt. As a reminder, **the contribution from Transdev is not included in the company's current net income so as the expected capital gain** related to the 20% disposal announced during H1-16 results.

Despite this tepid performance, **we believe Veolia will confirm its FY-16 guidance** which includes **1/**generation of growth at both revenues and EBITDA levels (at constant FX); **2/**EUR650m of FCF (before divestments & acquisitions) and **3/**current net income of at least EUR600m (at constant FX and including no more than EUR10m of capital gains). **We notably expect Q4-16 performance to be positively impacted** by **1/**a full-quarter contribution from the contract with Sinopec (c. EUR3m at the EBITDA level); **2/**the first contribution coming from the Prague district heating network (EUR5-7m expected quarterly contribution to Veolia's EBITDA); **3/**the deconsolidation of Bartin Recycling and the inherent reducing exposure to scrap metals (+/- 10% in scrap metals price implied a +/- EUR4m impact on EBITDA); **and 4/**the cost-cutting programme which should bring its usual **EUR50m** positive contribution.

VALUATION

At current share price, Veolia is trading at **5.9x** its 2016e EV/EBITDA multiple and **5.4x** its 2017e EV/EBITDA multiple

Buy, FV @ EUR23.5

NEXT CATALYSTS

3rd November 2016: Q3-16 results

Table 1: Q3-16 EBITDA Bridge (BG estimates)

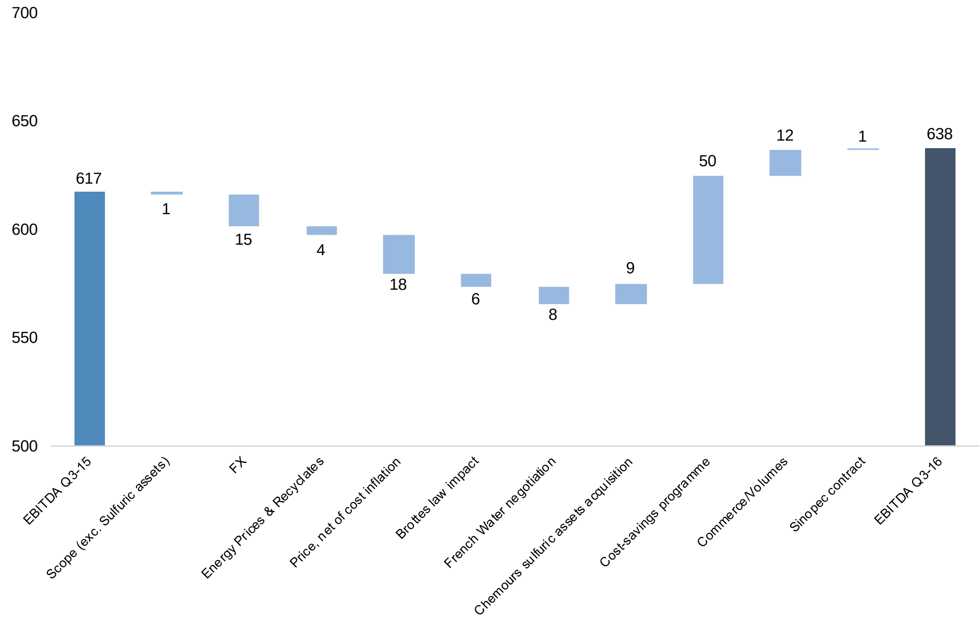


Table 2: Q3-16 and 9-month EBIT (BG estimates)

Veolia - Key metrics	Q3 2016e	9-month 2016e
EBITDA	**638**	**2,218**
Renewal expenses	*(65)*	*(201)*
D&A	*(332)*	*(1,013)*
Reimbursement OFAs	*(37)*	*(141)*
Provisions, fair value adjustment & other	*0*	*47*
Share of current NI of JV & associates	*25*	*68*
Current EBIT	**229**	**978**
Cost of financial debt	*(97)*	*(306)*
Other financial income & expense	*(12)*	*(40)*
Capital gains on financial divestments	*0*	*41*
Income tax expenses	*(32)*	*(169)*
Non-controlling interests	*(20)*	*(95)*
Current net income Group Share	**68**	**409**

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Sector View

Pharmaceuticals

Is SOBI or Bioverativ a future target for Novo?

	1 M	3 M	6 M	31/12/15
Healthcare	-5.7%	-10.6%	-5.3%	-13.3%
DJ Stoxx 600	0.4%	-0.3%	-1.9%	-6.6%

*Stoxx Sector Indices

Companies covered

ACTELION		**NEUTRAL**	**CHF180**
Last Price	CHF143.3	*Market Cap.*	CHF15,442m
ASTRAZENECA		**BUY**	**5220p**
Last Price	4614.5p	*Market Cap.*	*GBP58,374m*
BAYER		**NEUTRAL**	**EUR98**
Last Price	EUR90.73	*Market Cap.*	*EUR75,029m*
GLAXOSMITHKLINE		**BUY**	**1930p**
Last Price	1630.5p	*Market Cap.*	*GBP79,499m*
GRIFOLS		**NEUTRAL**	**EUR20**
Last Price	EUR18.14	*Market Cap.*	*EUR11,255m*
IPSEN		**BUY**	**EUR72**
Last Price	EUR63.48	*Market Cap.*	*EUR5,293m*
NOVARTIS		**NEUTRAL**	**CHF81**
Last Price	CHF71.4	*Market Cap.*	*CHF187,576*
NOVO NORDISK		**NEUTRAL**	**DKK355**
Last Price	DKK279.3	*Market Cap.*	*DKK562,109*
ROCHE HOLDING		**BUY**	**CHF285**
Last Price	CHF230.3	*Market Cap.*	*CHF161,800*
SANOFI		**NEUTRAL**	**EUR83**
Last Price	EUR68.86	*Market Cap.*	*EUR88,769m*
SHIRE PLC		**BUY**	**6900p**
Last Price	4950p	*Market Cap.*	*GBP44,697m*
SOBI		**SELL**	**SEK90**
Last Price	EUR95.85	*Market Cap.*	*EUR25,917m*
UCB		**NEUTRAL**	**EUR80**
Last Price	EUR64.53	*Market Cap.*	*EUR12,551m*

Last Friday, NOVO's CFO explicitly stated there is a potential for M&A in the Haemophilia field. We believe that Eloctate could be a nice fit within the big pharma's portfolio… But BIIB's future spin-off (namely Bioverativ) would be the prime target vs SOBI in our view, given its 1/ pure-player status, and 2/ already strong patient base in the US. We stick to our positive stance on SHP and ROG while we remain quite cautious on NOVO, GFS and SOBI

ANALYSIS

- **Haemophilia as a way to diversify NOVO's portfolio**. Such move would make sense in our view as 1/ NovoSeven is set to lose further shares in the Inhibitor sub-segment, especially once ROG's ACE910 reaches the market (BG: 2018e, knowing that its Phase III results are still expected in Q4 16); 2/ NOVO's R&D pipeline is far from exhaustive when it comes to Haemophilia apart from N8-GP and N9-GP (so far we have solely identified concizumab, a Phase I mAb targeting TFPI).
- **We see BIIB's Bioverativ as a prime target.** BIIB's future spin-off would be a more attractive target in our view especially given 1/ its quasi-exclusive exposure to the US (the largest market with a share of c.40%) along with an already strong patient base there (both products already generating USD700m on an annualized basis); 2/ the to-be-confirmed potential of Eloctate for the desensitization of patients… which by the way may add more than USD1.0Bn to our current worldwide peak sales estimates; and 3/ its pure-player status, and thus the absence of assets deemed as "non-core" in Novo's view.
- **SOBI is probably out of the scope.** Conversely, SOBI is still in its early stages and exposed to the slightly less lucrative European market, and we believe its exposure to other rare diseases could be a blocking factor (not to mention its EBIT margin compared to NOVO's).
- The spinoff is expected to occur by the end of this year or early 2017. We foresee a valuation of USD5-6Bn based upon our combined sales estimates for Eloctate and Alprolix in the US (c.USD800m) and an EV/sales of 5-6x (in line with the average multiple seen with big biotechs). And no doubt that Novo has the means to support an acquisition of this size (the company benefiting from a positive net cash position). Our questions rather deal with the amount of potential cost/sales synergies that could be extracted from such deal.

Life-Cycle Management Initiatives	Next generation long-acting factors	Gene therapy
 **FVIII Fc fusion** • Fc portion of fusion proteins, used in both ELOCTATE and ALPROLIX, may offer additional benefits beyond half-life extension • Investigating immune tolerance induction with ELOCTATE	 **rFVIIIFc-VWF-XTEN** • Long-acting hemophilia product candidate utilizing the XTEN technology to reduce infusion frequency and protection from bleeds	 **Gene Therapy** • Working on gene therapy for the treatment of hemophilia A / B utilizing lentiviral vectors

VALUATION

- **We reiterate our hierarchy within the Haemophilia segment**. So we stick to our positive stance on SHP and ROG while we remain quite cautious on NOVO, GFS and SOBI.

NEXT CATALYSTS

- Q4 16: ROG's ACE910 Phase III results.

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TMT

Gemalto

Price EUR52.35

Extremely low visibility + unattractive risk/reward = Sell rating maintained

Fair Value EUR50 (-4%) SELL

Bloomberg	GTO FP
Reuters	GTO.PA
12-month High / Low (EUR)	65.5 / 49.8
Market Cap (EUR)	4,706
Avg. 6m daily volume (000)	380.6

	1 M	3 M	6 M	31/12/15
Absolute perf.	-12.3%	-10.3%	-12.6%	-5.3%
Softw.& Comp. SVS	-3.7%	0.6%	7.9%	4.6%
DJ Stoxx 600	-0.5%	0.4%	-2.3%	-6.8%

	2015	2016e	2017e	2018e
P/E	20.7x	15.7x	14.4x	13.2x
Div yield (%)	0.9%	1.0%	1.1%	1.1%

ANALYSIS

- **Extremely low visibility: 1)** the group expects an acceleration of Q4 sales growth (compared to the -1% lfl in Q3) but only due to lower comps (-2% lfl in Q4 2015). Indeed, the SIM will continue to decline by 10-15% lfl over the next few quarters, and payments will be marked by soft market environment in Brazil and dual interface cards take-up in the US yet to be confirmed; **2)** there will be an increase of the Opex in H2 2016, and further investments to capture growth beyond 2017 (Mobile P&S, Enterprise, Government Programs); **3)** No M&A to expect in the short term; **4)** GTO does not want to give guidance on revenue and PFO for FY16 whereas we are at the end of October, and is not able to give visibility on the topline to justify its new PFO target of EUR500m-EUR520m in 2017.
- **Whereas the past two multi-year development plans were reached ahead of schedule** (that of 2009 given in October 2006 and that of 2013 given in November 2009), **the 2017 plan is now officially a significant failure** as the new management severely slashed it (from over EUR660m to between EUR500m and EUR520m). **The transition period continues to last long for GTO and we do not see any catalyst in the short or medium term...** Its two main segment (namely the SIM & related services and Payments businesses: respectively 32% and 27% of Q3 revenue) are experiencing difficulties, and we believe these new disappointments could lead short-sellers to attack the stock again.
- **The company will give a new mid-term plan at the end of next year.** The group generally provides targets over a three/four-year period. We believe the management should give a PFO guidance for 2021. **Bear in mind that the first years of a new plan are somewhat sluggish on average** in view of reorganisations, investments in operating expenses and/or M&A, followed by an acceleration when the business is not impacted by a tough environment in its key markets (today GTO's key markets are the SIM and Payments which are currently experiencing difficulties).

VALUATION

- **Risk/reward is unattractive** with a **lack of visibility on the company's key activities** (~60% of its sales) **and an even stronger competition** (the combined Oberthur Technologies and Morpho).
- **We maintain our Sell rating and FV of EUR50**, which is derived from a SOTP (the best way to value GTO's different activities). **We advise investors to closely monitor the EUR48/share threshold** because both the SIM and mobile Platforms & Services divisions would be valued at zero in our SOTP (other things being equal).

NEXT CATALYSTS

- **FY 2016 sales and earnings:** on 3rd March, 2017 (before trading).

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Healthcare

QIAGEN

Price EUR22.58

Bloomberg	QIA GR
Reuters	QGEN.DE
12-month High / Low (EUR)	25.3 / 17.8
Market Cap (EURm)	5,411
Avg. 6m daily volume (000)	393.9

	1 M	3 M	6 M	31/12/15
Absolute perf.	-6.3%	7.9%	11.3%	-10.1%
Healthcare	-7.6%	-11.5%	-6.8%	-14.6%
DJ Stoxx 600	-0.5%	0.4%	-2.3%	-6.8%

	2015	2016e	2017e	2018e
P/E	23.5x	22.7x	19.7x	17.8x
Div yield (%)	NM	NM	NM	NM

A look ahead of Q3 results

Fair Value EUR26 (+15%) **BUY-Top Picks**

ANALYSIS

- QIAGEN is due to release Q3 2016 numbers on Wednesday evening. We anticipate 8.5% growth rate at CER for the quarter (vs. CS at 8.2% CER). Growth over the quarter should be driven by an acceleration from the Academic (20% of group sales) and Molecular Diagnostic businesses (50% of total group sales). Note that the latter should be boosted by QuantiFERON-TB sales (10% of sales) which are expected to continue growing above 25% in Q3, helped by the grade B recommendation recently issue.
- From a profitability standpoint, this quarter should see a sequential improvement in Adj. Operating Income margin which we anticipate at 24.1% of sales (Q1 17.9% and Q2 20.7% of sales). Our EPS for the quarter stands at 0.27/share (vs. 0.28/share for the consensus).

In USDm (exc. per share data)	2015	Q3	Q4	2016e	2017e
Revenues BGe	1281	**339**	375	1346	1432
Revenues CSS	*1291*	***336***	*375*	*1345*	*1428,2*
Delta	-0,8%	**0,7%**	-0,1%	0,1%	0,2%
Operating Profit BGe	314	**81**	115	319	369
Operating Margin BGe %	24,6%	**24,1%**	30,6%	23,7%	25,8%
Operating Margin CSS	*320*	***82***	*112*	*319*	*353*
Operating Margin CSS %	*24,8%*	***24,3%***	*29,9%*	*23,7%*	*24,7%*
Delta	-2%	**0%**	2%	0%	5%
Net Profit BGe	249	**65**	92	257	296
Net Profit CSS	*254*	***66***	*91*	*258*	*283*
Delta	-2%	**-2%**	1%	0%	4%
EPS BGe	1,05	**0,27**	0,39	1,09	1,25
EPS CSS	*1,07*	***0,28***	*0,38*	*1,09*	*1,22*
Delta	-2%	**-1%**	1%	0%	3%

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

- Note that we would expect comments on the GeneReader from the management to be part of a presentation during the IR DAY more than during Q3 results publication.

VALUATION

- We reiterate our BUY rating and EUR26 fair value

NEXT CATALYSTS

- Nov. 2nd, 9.00pm CET : Q3 results, followed by a conference call a 10.00pmCET (US +1 631 302 6547, UK +44 203 059 8128).
- Nov. 15th: IR DAY

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Construction & Building Materials

Saint Gobain

Price EUR40.81

Bloomberg	SGO FP
Reuters	SGOB.PA
12-month High / Low (EUR)	41.8 / 32.1
Market Cap (EURm)	22,648
Avg. 6m daily volume (000)	1,667

	1 M	3 M	6 M	31/12/15
Absolute perf.	6.1%	9.5%	0.3%	2.4%
Cons & Mat	-1.7%	4.2%	2.0%	3.9%
DJ Stoxx 600	-0.5%	0.4%	-2.3%	-6.8%

	2015	2016e	2017e	2018e
P/E	19.8x	19.1x	14.9x	12.4x
Div yield (%)	3.0%	3.2%	3.2%	3.2%

SWH appeals against unfavourable Court decision on voting rights restriction.

Fair Value EUR46 (+13%) **BUY**

ANALYSIS

- The Cantonal Court of Zug has rejected the request of family holding SWH to repeal the resolutions of the AGM of 14/04/15, where the holding voting rights have been restricted. The Court decision says the Article 4 (of Sika's article of association) is applicable to the deal between the Burkard family and Saint-Gobain. This article stipulates a transfer of more than 5% of the registered shares requires the approval of the Board. Although no shares of Sika are actually transferred directly, the Court considers the article applies in the case of an indirect transfer. SWH has already announced its intention to appeal the decision to the High Court of Zug.
- Of course, we have no legal view here, but the Court decision suggests the legal issue is not that straightforward: Saint-Gobain might, or might not, take control of Sika, eventually. Both issues look possible now. The most likely scenario is unchanged, however: a legal battle until end 2018 (we knew that both parties were likely to appeal the decision anyway). This period of uncertainty is not positive news for SGO share price, but it is finally something well known by the market.
- Finally, the Swiss daily *Le Temps* said yesterday the Chairman of Sika Paul Hälg suggests that Sika buys back the family shares. No details have been provided. According to the newspaper, Urs Burkard is open and ready to discuss, but stresses that a deal already exists with Saint-Gobain.

VALUATION

- EUR46 FV with the application of historical multiples to our 2018 forecast, discounted back.

NEXT CATALYSTS

- FY 2016 results 23rd February, after market close

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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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