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2nd November 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	18037.1	-0.58%	+3.51%
S&P 500	2111.72	-0.68%	+3.32%
Nasdaq	5153.58	-0.69%	+2.92%
Nikkei	17134.68	-1.76%	-8.36%
Stoxx 600	335.332	-1.07%	-8.33%
CAC 40	4470.28	-0.86%	-3.60%
Oil /Gold			
Crude WTI	46.67	-0.41%	+25.46%
Gold (once)	1288.8	+1.17%	+21.31%
Currencies/Rates			
EUR/USD	1.10435	+0.74%	+1.66%
EUR/CHF	1.08115	-0.27%	-0.57%
German 10 years	0.097	+15.80%	-84.68%
French 10 years	0.51	+20.44%	-48.04%

Economic releases :

Date	
2nd-Nov	9h55 DE Unemployment change Oct. (-1K) 10h30 GB Markit UK construction PMI Oct. (51.8E) 13h15 US - ADP employment change(165K) 15h30 US DoE Inventories 19h00 FOMC rate decision (0.5%E =)

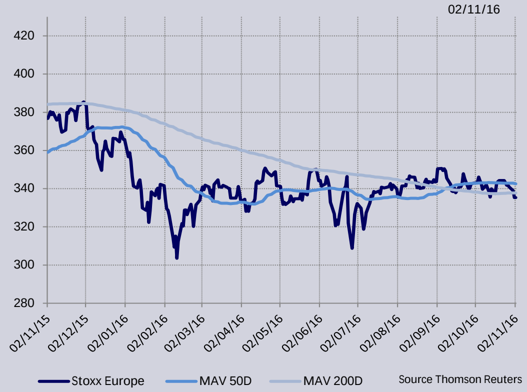
Upcoming BG events :

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



HUGO BOSS — NEUTRAL, Fair Value EUR74 (+31%)

Q3 results: sequential earnings improvement, FY outlook confirmed

Sales reached EUR703m in Q3 (CS: EUR704m), down 6% as reported and 3% FX-n (CS: -3%) after -2% FX-n in H1. Adjusted EBITDA dropped by 14% to EUR144.5m ahead of CS forecast (EUR136m), representing a 200bp-margin decline to 20.6%. Hugo Boss confirmed its FY16 sales and earnings targets. Conference call today at 2:00pm (CET).

SHIRE PLC — BUY, Fair Value 6800p vs. 6900p (+50%)

Q3 2016: Baxalta doing less than expected… but overall growth momentum remains solid

Q3 2016 revenues and EBIT significantly disappointed, especially concerning BXLT's Hematology franchise… But the miss was due to the unfavourable timing of large orders rather than a decrease in demand for FVIII or bypassing therapies. We believe that Q4 should be a more dynamic quarter, and for this reason have barely reduced our EPS estimates. That said, 1/ our FV is trimmed to GBp6,800 following this publication, and 2/ we have removed the stock from our top pick list as all the major catalysts we see are likely to emerge in H1 2017.

SUEZ — BUY-Top Picks, Fair Value EUR17,5 (+24%)

Reorganisation in China

NWS Holding announced this morning that it has reached an agreement with Suez regarding their 50/50 JV in SFH, the Chinese water subsidiary of Suez. Under this agreement, NWS and Suez will group together their respective waste and wastewater businesses in a unique subsidiary. Following the operation, Suez will own a 58% stake in the new structure, which will be fully consolidated by the group. Positive for Suez.

FOOD INDUSTRY

Decelerating sales trend

On average, our groups posted 2.8% organic sales growth in Q3 vs +4% in the first half of the year. The slowdown reflected a weakness in volumes mainly due to China where the food market has now stabilised. Q4 2016 should show a slight acceleration but the prospects for 2017 appear gloomy. Nevertheless, we have revised our Fair Value for Nestlé and Unilever upwards due to the roll-over and for Danone in view of more favourable conditions for the WhiteWave acquisition.

In brief...

MORPHOSYS, *Inking of a collaboration agreement with LEO Pharma to address the skin disease field*

TEMENOS GROUP, *Launch of a CHF99m share buy-back programme*

PHARMACEUTICALS, *PCSK9: Pfizer ends development of bococizumab*

Luxury & Consumer Goods

Hugo Boss

Price EUR56.69

Bloomberg	BOSS GR
Reuters	BOSG_p.DE
12-month High / Low (EUR)	93.7 / 46.4
Market Cap (EURm)	3,991
Ev (BG Estimates) (EURm)	4,073
Avg. 6m daily volume (000)	402.0
3y EPS CAGR	-7.7%

	1 M	3 M	6 M	31/12/15
Absolute perf.	15.2%	6.5%	1.8%	-26.0%
Pers & H/H Gds	-3.9%	-4.0%	-0.5%	-2.0%
DJ Stoxx 600	-2.2%	-1.3%	-1.8%	-8.3%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	2,572	2,809	2,689	2,785
% change		*9.2%*	*-4.3%*	*3.6%*
EBITDA	571	590	409	504
EBIT	448.7	447.7	258.9	359.5
% change		*-0.2%*	*-42.2%*	*38.9%*
Net income	333.3	319.3	189.8	269.5
% change		*-4.2%*	*-40.6%*	*42.0%*

	2014	2015e	2016e	2017e
Operating margin	17.4	15.9	9.6	12.9
Net margin	13.0	11.4	7.1	9.7
ROE	39.5	34.0	20.5	25.3
ROCE	33.2	29.1	16.3	21.7
Gearing	5.1	8.8	14.8	5.0

(EUR)	2014	2015e	2016e	2017e
EPS	5.04	4.67	3.42	3.96
% change	-	*-7.3%*	*-26.9%*	*15.9%*
P/E	11.2x	12.1x	16.6x	14.3x
FCF yield (%)	7.1%	7.3%	5.3%	7.6%
Dividends (EUR)	3.62	3.62	2.90	3.40
Div yield (%)	6.4%	6.4%	5.1%	6.0%
EV/Sales	1.6x	1.5x	1.5x	1.5x
EV/EBITDA	7.1x	6.9x	10.1x	8.0x
EV/EBIT	9.0x	9.1x	15.9x	11.3x

Q3 results: sequential earnings improvement, FY outlook confirmed

Fair Value EUR74 (+31%) **NEUTRAL**

Sales reached EUR703m in Q3 (CS: EUR704m), down 6% as reported and 3% FX-n (CS: -3%) after -2% FX-n in H1. Adjusted EBITDA dropped by 14% to EUR144.5m ahead of CS forecast (EUR136m), representing a 200bp-margin decline to 20.6%. Hugo Boss confirmed its FY16 sales and earnings targets. Conference call today at 2:00pm (CET).

ANALYSIS

- **Q3 sales contracted 3% FX-n, with Retail up 2% (H1: +1%).** This channel suffered from a slowdown in Europe, leading to comparable growth down 6% this quarter, a touch better than Q2 (-8%) and H1 (-7%) though. As expected, the **wholesale** channel dropped by 11% (Q2: -1% / H1: -6%) after the positive phasing effect that occurred in Europe in Q2 (+15% FX-n) and the distribution clean-up in the US.
- By region and in Q3 alone: as expected, growth in **Europe** decelerated to -2% from +7% in Q2 (H1: +3%) enjoying the positive timing of wholesale deliveries. Sales in the **UK** grew 5%, offset by mid to high single-digit declines in **Benelux** and **France**. Unsurprisingly the performance in the **Americas** remained in negative territory (-9% FX-n vs. -11% in H1), mostly due to the US market (-14% vs. -19% in H1) following a combination of the group's own initiatives (category migration and distribution upgrade) and poor traffic trends. **Asia-Pacific** only fell by 3% after -5% in H1 with a promising improvement in China (-4% vs. -14% in H1). Sales in Mainland China were certainly positive but HK and Macau continued drag (Hugo Boss mentioned some store closures there).
- **Adj. EBITDA topped expectations (EUR144.5m vs. CS of EUR136m) thanks to effective cost reductions.** GM improved 20bp to 64.7% (lower share of markdowns) and SG&A remained broadly flat in Q3 thanks to tight opex cost management. As such, adj. EBITDA margin "only" narrowed by 14% after -21% in H1, representing a 200bp-contraction in the margin to 20.6% (CS: 19.3%) but marking a sequential improvement vs. H1 (-350bp).

Hugo Boss Q3 and 9M 2016 results:

EURm	Q3 2016	*% change*	9M 2016	*% change*
Sales	703.0	*-6*	1,967.7	*-4*
Gross Profit	454.6	*-5*	1,286.8	*-4*
Gross Margin (%)	64.7	*+20bp*	65.4	*=*
Adjusted EBITDA	144.5	*-14*	345.7	*-18*
Adjusted EBITDA margin (%)	20.6	*-200bp*	17.6	*-290bp*
EBIT	109.5	*-17*	178.6	*-46*
EBIT margin (%)	15.6	*-220bp*	9.1	*-690bp*

Source: Company Data

- **FY16 outlook confirmed.** Hugo Boss expects: **(i)** sales to decrease between 0 and 3% vs. -2% in 9M (BG and CS: ~-2%e) and **(ii)** adj. EBITDA to decline between 17% and 23% after -18% over 9M, the CS and ourselves are expecting a 20% decrease for 2016 prior to today's publication.

VALUATION

- In our view, this reassuring publication (i.e. sales performance in line, profitability above expectations and FY outlook reconfirmed) should validate the share price rally seen over the past month (+15%).
- Investor attention will now mostly focus on the Investors' Day (16th Nov) where the group's management will present more details on the re-set strategy and set new MT-LT targets that take into account the new apparel market paradigm.

NEXT CATALYSTS

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Healthcare

Shire PLC

Price 4,528p

Q3 2016: Baxalta doing less than expected... but overall growth momentum remains solid

Fair Value 6800p vs. 6900p (+50%) **BUY**

Bloomberg	SHP LN
Reuters	SHP.L
12-month High / Low (p)	5,323 / 3,480
Market Cap (GBPm)	40,906
Ev (BG Estimates) (GBPm)	58,471
Avg. 6m daily volume (000)	2,643
3y EPS CAGR	14.0%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-9.4%	-8.1%	6.3%	-3.6%
Healthcare	-7.5%	-13.5%	-6.3%	-16.1%
DJ Stoxx 600	-2.2%	-1.3%	-1.8%	-8.3%

YEnd Dec. (USDm)	2015	2016e	2017e	2018e
Sales	6,100	10,953	14,821	15,765
% change		*79.6%*	*35.3%*	*6.4%*
EBITDA	2,924	4,609	6,695	7,371
EBIT	2,785	4,334	6,250	6,851
% change		*55.6%*	*44.2%*	*9.6%*
Net income	2,310	3,305	4,646	5,321
% change		*43.1%*	*40.6%*	*14.5%*

	2015	2016e	2017e	2018e
Operating margin	45.7	39.6	42.2	43.5
Net margin	37.9	30.2	31.4	33.8
ROE	23.5	11.0	14.0	14.3
ROCE	16.2	5.1	7.2	8.2
Gearing	14.7	71.6	55.1	37.6

(USD)	2015	2016e	2017e	2018e
EPS	3.89	4.25	5.04	5.77
% change	-	*9.0%*	*18.7%*	*14.5%*
P/E	14.2x	13.0x	11.0x	9.6x
FCF yield (%)	6.8%	NM	6.6%	9.0%
Dividends (USD)	0.23	0.20	0.22	0.30
Div yield (%)	0.4%	0.4%	0.4%	0.5%
EV/Sales	8.4x	6.5x	4.6x	4.1x
EV/EBITDA	17.6x	15.5x	10.2x	8.7x
EV/EBIT	18.5x	16.5x	10.9x	9.3x

Q3 2016 revenues and EBIT significantly disappointed, especially concerning BXLT's Hematology franchise... But the miss was due to the unfavourable timing of large orders rather than a decrease in demand for FVIII or bypassing therapies. We believe that Q4 should be a more dynamic quarter, and for this reason have barely reduced our EPS estimates. That said, 1/ our FV is trimmed to GBp6,800 following this publication, and 2/ we have removed the stock from our top pick list as all the major catalysts we see are likely to emerge in H1 2017.

ANALYSIS

- **Disappointing Q3 revenues... Especially concerning Baxalta.** Non-GAAP revenues and operating profit were much lower than expected (-3% and –6% respectively compared to consensus' figures); most of the mismatch being due to a poor performance by Baxalta products, and especially in Hematology (impacted by quite unfavourable timing of international large orders).

Fig. 1: Q3 16 published vs estimates

(in USDm)	Q3 2016	BG	CS	Published vs CS
Product sales	3,315	3,485	3,427	-3%
% growth y-o-y	110%	121%	117%	
Non GAAP operating income	1,254	1,337	1,335	-6%
Non GAAP net income	962	969	974	-1%
% growth y-o-y	50%	51%	52%	
Non GAAP diluted earnings per ADS	3.17	3.17	3.29	-4%
% growth y-o-y	-2%	-2%	1%	

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

- **Q4 should be more dynamic** as Hematology should hopefully be less impacted by some sort of volatility in sales from tenders; especially since underlying demand for FVIII remains strong on a global basis (and the trend has been confirmed by comments from competitors, including BAY, which incidentally also suffered from fluctuations in order volumes. This is probably why the FY revenue guidance (USD10.8-11.0Bn) was reiterated yesterday.
- **Synergies are said to be ahead of internal targets**, and explain why the company is now anticipating higher restructuration/integration costs by year end (hence the reduction in FY GAAP guidance from -0.4/0.0 to -1.1/-0.7). Obviously, this reinforces our belief that the streamlining could be faster than the latest guidance provided (USD300m in 2017, USD550m in 2018, and at least USD700m in 2019)... See our previous note here for further details.
- **Xiidra: an incredible uptake**. On 21st October, the drug had market share of 16%, bearing in mind it was launched at the end of August, thereby confirming its best-in-class profile as well as its blockbuster potential in our view. Overall sales expectations have been revised up over the past few weeks, but we believe that the last quarter could well surprise as 1/ the molecule now has a Tier2/3 coverage for more than 75% of patients; 2/ the signs and symptoms of dry eye disease are known to be exacerbated during the winter season, thus facilitating its marketing...
- **De-listing fears are overdone in our view**. At the beginning of the week, SHP's stock was under pressure because of an interview by Express Scripts' CMO (Steven Miller). No specific treatments were mentioned, but Mr Miller put a particular emphasis on 1/ the rising cost of haemophilia drugs (+22% this year, driven "almost entirely by price increases"), and 2/ how expensive it could be to treat a patient developing inhibitors against coagulation factors (whether thanks to an immune tolerance induction strategy or bypassing therapies).
- This figure of +22% is a bit surprising in our view, especially since the YTD trends reported by SHP, BAY, BIIB, NOVO and SOBI are not that aggressive. And even more when turning to SHP as Advate, Adynovate and Feiba have benefitted from very low single price increases pa over the past few years. We cannot rule out that one of these options could be downgraded / less well-reimbursed by the payors, but a complete de-listing (notably for a key product like Advate) as well as a significant price pressure sound very unlikely.

VALUATION

- **We have trimmed our FV from GBp6,900 to GBp6,800** as we have slightly reduced our EPS estimates following these disappointing Q3 2016 results. But we reiterate our BUY rating in light of an attractive valuation (P/E 2017e: 11x) along with the key catalysts we have identified (take-up of lifitegrast, Phase III results of DX2930 in Q2 17, earnings improvement in Q4, etc.).
- **While we stick to our positive stance, we have decided to remove the stock from our BG top pick list** as 1/ we believe the Capital Market Day is unlikely to add more positive momentum (no guidance/details on revenue synergies to be given, etc.) while fears over a potential price pressure are likely to remain; 2/ all the other catalysts will emerge more in H1 2017.

NEXT CATALYSTS

- 10th November: Capital Market Day.

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Utilities

Suez

Price EUR14.15

Reorganisation in China

Fair Value EUR17,5 (+24%)

BUY-Top Picks

Bloomberg	SEV FP
Reuters	SEVI.PA
12-month High / Low (EUR)	18.0 / 12.9
Market Cap (EUR)	7,986
Ev (BG Estimates) (EUR)	19,048
Avg. 6m daily volume (000)	1 141
3y EPS CAGR	0.0%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-3.7%	-1.4%	-12.1%	-18.0%
Utilities	-3.7%	-6.8%	-6.5%	-8.7%
DJ Stoxx 600	-2.2%	-1.3%	-1.8%	-8.3%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	15,135	15,427	16,064	16,535
% change		*1.9%*	*4.1%*	*2.9%*
EBITDA	2,751	2,676	2,866	2,994
EBIT	1,381	1,292	1,396	1,489
% change		*-6.4%*	*8.1%*	*6.6%*
Net income	559.8	435.3	526.0	581.4
% change		*-22.2%*	*20.8%*	*10.5%*

	2015	2016e	2017e	2018e
Operating margin	9.1	8.4	8.7	9.0
Net margin	3.7	2.8	3.3	3.5
ROE	8.2	6.1	7.4	8.1
ROCE	8.0	7.3	7.7	8.1
Gearing	121.6	118.0	121.7	124.1

(EUR)	2015	2016e	2017e	2018e
EPS	1.04	0.78	0.94	1.04
% change	-	*-25.0%*	*20.8%*	*10.5%*
P/E	13.6x	18.2x	15.0x	13.6x
FCF yield (%)	3.3%	4.9%	5.0%	5.4%
Dividends (EUR)	0.65	0.65	0.65	0.70
Div yield (%)	4.6%	4.6%	4.6%	5.0%
EV/Sales	1.3x	1.2x	1.2x	1.2x
EV/EBITDA	7.0x	7.1x	6.8x	6.6x
EV/EBIT	13.9x	14.7x	13.9x	13.2x

NWS Holding announced this morning that it has reached an agreement with Suez regarding their 50/50 JV in SFH, the Chinese water subsidiary of Suez. Under this agreement, NWS and Suez will group together their respective waste and wastewater businesses in a unique subsidiary. Following the operation, Suez will own a 58% stake in the new structure, which will be fully consolidated by the group. Positive for Suez.

ANALYSIS

Suez has reached an agreement with NWS Holding for the restructuring of their 50/50 joint-venture in the water business, SFH (*Sino-French Holding*). Under this agreement, NWS and Suez will group together their respective waste and wastewater businesses in SFH as a unique subsidiary. **Following the operation, Suez will own a 58% stake in the new structure**, the remaining 42% being held by NWS. The operation is expected to close by the end of the year.

Both companies will inject their respective effective interests of 24 business entities into SFH. NWS will also make a cash contribution of about **EUR50m** for the expanded business portfolio and market footprint.

As a reminder, SFH was consolidated by the equity method while waste activities, 100% owned by Suez, were fully consolidated by the group. **Following the operation, both activities will be fully consolidated by Suez.** However, **no accounting details have been disclosed by the group**.

We estimate that Suez generates around EUR1bn in revenues in China on a yearly basis. About **EUR400m were fully consolidated by the group in FY2015**. Considering 2015 figures, we estimate the operation would add about **EUR70m** to the company's revenues, **EUR40m** to the company's EBITDA and **EUR30m** to the company's EBIT, **on a full-year basis**. We however consider the impact to be rather **marginal** at the company's net income level.

Positive for Suez, although more financial and accounting details are awaited, as it enables the company to **strengthen its activities in China where the Group already has a strong footprint in the fast-growing hazardous waste and industrial water segments**. We also believe **the Chinese market is quite resilient** as it is currently driven by harsher environmental regulations implying that a macro downturn would not hugely impact the company's businesses in the area. Over the first nine months of the year, Suez reported around **25% organic growth** in its Asian sub-division's revenues, well above the 6-8% organic growth target for its overall international division.

VALUATION

At the current share price, the stock trades at **7.1x** its 2016e EV/EBITDA multiple

Buy, FV @ EUR17.5

NEXT CATALYSTS

1st March: FY16 results

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Sector View

Food industry

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

*Stoxx Sector Indices

Companies covered

DANONE		NEUTRAL	**EUR71**
Last Price	*EUR63,5*	*Market Cap.*	*EUR41,649m*
NESTLE		BUY	**CHF86**
Last Price	CHF73,2	*Market Cap.*	*CHF227,810*
UNILEVER		NEUTRAL	**EUR44**
Last Price	EUR38,325	*Market Cap.*	*EUR99,430m*

Decelerating sales trend

On average, our groups posted 2.8% organic sales growth in Q3 vs +4% in the first half of the year. The slowdown reflected a weakness in volumes mainly due to China where the food market has now stabilised. Q4 2016 should show a slight acceleration but the prospects for 2017 appear gloomy. Nevertheless, we have revised our Fair Value for Nestlé and Unilever upwards due to the roll-over and for Danone in view of more favourable conditions for the WhiteWave acquisition.

ANALYSIS

- **A decelerating trend**. **On average, our groups posted 2.8% organic sales growth in Q3 vs +4% in the first half of the year**. This came as a surprise at Nestlé as the group had guided for an acceleration in H2 supposedly driven by 1/ a favourable comparison base as H2 2015 was affected by a rebate adjustment on skin health products in the US and the Maggi noodles recall, and 2/ a recovery in the pricing effect due to price increases made to offset currency depreciation. **The slowdown in the sector reflected a weakness in volumes. Unilever's volumes decreased 0.4%, which was below expectations (+0.6%) and the H1 trend (+2.2%).** This performance was the worst since Q4 2014. **Danone's volumes were also disappointing**. They dropped 0.7% over the quarter (+0.9% in H1) while the consensus was expecting them to be broadly flat. **Nestlé's volumes compare favourably**. Their growth decelerated from 2.8% in H1 to 1.9% in Q3 but remains better than for peers.

- **Slowdown in the Chinese market. The Chinese infant nutrition market has been disrupted by new regulations, leading to tough price competition, mainly in the mainstream and premium segments.** This is why Nestlé reported only 1.4% organic sales growth in its Nutrition division in Q3. Danone's sales of Early Life Nutrition grew 1.7% over the last quarter, which was a strong deterioration vs H1 (+6%). The group's indirect sales (2/3 of Chinese activities LY) decreased 25% in Q3 because of the destocking of traders operating in cross border e-commerce. **More generally speaking, the Chinese food market has now stabilised as a result of 1/ the deteriorated macro background with some reverse migration of workers going back to rural areas and 2/ a shift between channels with the rapid growth of e-commerce**. Excluding Nutrition, Nestlé's sales in China have been in negative territory since the beginning of 2016 and the trend is worsening. Danone continued to suffer from the deceleration in the non-alcoholic beverages market, which is now flat whereas it was running at 5-10% nine months ago. The group's water brand Mizone is being destocked. Finally, China was partly responsible for the poor volume trend registered by Unilever in Q3 in Asia/AMET/RUB, with volumes up 0.6% after 4% in H1.

- **The outlook for 2016 is broadly unchanged but prospects for 2017 appear gloomy**. **Only Nestlé has revised its organic sales growth guidance for 2016 downwards from +4.2% to +3.5%. The impact on our estimates is very limited as we were forecasting 3.7% annual organic sales growth**. 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 volume 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. **Danone reiterated its full year guidance for organic sales to increase 3-5% but said that it should reach the low-end of this range**. Q4 should show an improvement driven by Yoghurts and Waters. **The Anglo-Dutch company indicated that the underlying trend remains around 4%, in the middle of its sales target (3-5%)**, which implies a globally unchanged trend in Q4 vs Q3.

VALUATION

- Over the past three months, the food & beverage sector has underperformed the DJ Stoxx by 5.6%.
- We have revised upwards our Fair Value for Nestlé and Unilever to respectively CHF86 and EUR44 (3,990p for PLC) as we have rolled over our estimates by one year.
- We have also adjusted our Fair Value for Danone upwards to EUR71 to take into account more favourable financing conditions for the WhiteWave acquisition

NEXT CATALYST

- 2016 results: Danone on 15th February, Nestlé on 16th February and Unilever on 26th January.

Comparative data

	Danone	Nestlé	Unilever
2016e			
Organic sales growth	3.1%	3.5%	4.0%
Reported EBIT margin increase	73	25	30
2017e			
Organic sales growth	4.1%	4.4%	4.4%
Reported EBIT margin increase	-17	47	40
EPS growth 2015-2018e	9.0%	7.0%	6.0%

Fair Values and recommendations

	Danone	Nestlé	Unilever NV	Unilever PLC
Fair Value				
Before	70	83	43	3590
After	71	86	44	3990
Recommendation	Neutral	Buy	Neutral	Neutral

Source of all charts: Bryan, Garnier & Co

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Healthcare

Morphosys

Price EUR39.79

Bloomberg	MOR GR
Reuters	MORG.DE
12-month High / Low (EUR)	60.8 / 33.2
Market Cap (EURm)	1,056
Avg. 6m daily volume (000)	106.2

	1 M	3 M	6 M	31/12/15
Absolute perf.	6.9%	0.1%	-8.9%	-31.0%
Healthcare	-7.5%	-13.5%	-6.3%	-16.1%
DJ Stoxx 600	-2.2%	-1.3%	-1.8%	-8.3%

	2015	2016e	2017e	2018e
P/E	69.8x	NS	NS	NS
Div yield (%)	NM	NM	NM	NM

Inking of a collaboration agreement with LEO Pharma to address the skin disease field

Fair Value EUR64 (+61%) **BUY**

ANALYSIS

- Morphosys has announced the inking of a collaboration agreement with LEO Pharma, the objective being to develop and potentially commercialise several treatments for skin diseases using MOR's Ylantha platform (which among others is said to generate more cost-effective antibodies against hard-to-access antigens).
- MOR will receive R&D funding as well as milestone payments (up to EUR111.5m per programme) and royalties on sales (which we believe are likely to be mid/high-single digit). But note that the company 1/ will have options to co-develop and co-promote candidates in skin cancers (e.g. melanoma?), and 2/ will have certain options to develop/commercialise further molecules in other cancer indications.

VALUATION

- We leave our FV unchanged at EUR64 pending clinical data from the different projects that might emerge from this new agreement. BUY reiterated.

NEXT CATALYSTS

- 7th November: Q3 2016 results.
- Q4 2016: Further Phase III data involving guselkumab for the treatment of plaque psoriasis.

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TMT

Temenos Group

Price CHF62.25

Launch of a CHF99m share buy-back programme

Fair Value CHF77 (+24%) **BUY**

Bloomberg	TEMN SW
Reuters	TEMN.SW
12-month High / Low (CHF)	68.2 / 42.0
Market Cap (CHFm)	4,331
Avg. 6m daily volume (000)	210.8

	1 M	3 M	6 M	31/12/15
Absolute perf.	1.7%	3.8%	25.1%	19.8%
Softw.& Comp. SVS	-6.0%	-2.1%	7.4%	1.8%
DJ Stoxx 600	-2.2%	-1.3%	-1.8%	-8.3%

	2015	2016e	2017e	2018e
P/E	35.0x	27.2x	23.9x	20.6x
Div yield (%)	0.7%	0.8%	0.9%	0.9%

ANALYSIS

- **This morning Temenos announced the launch of a new share buyback programme**, starting from 3rd November 2016. It has received approval from the Swiss takeover authorities to purchase up to 1.6m of its shares for a maximum amount of CHF99m (c. USD100m). This maximum amount of shares is equivalent to 2.4% of the company's share capital. The shares will be purchased between 3rd November 2016 and no later than 29th December 2017, and are intended to be used to cover future employee stock ownership plans and/or for potential acquisitions.
- **Still financial flexibility**. Temenos' last share buy-back programmes were implemented in 2013 (USD54m, 3% of the share capital at CHF23.4/share) and 2014 (USD120m, 4.7% at CHF34.1/share), and both led to share cancellation. This one is no surprise as management pre-announced it for Q3 2016 results on 19th October. As of 30th September 2016, Temenos had leverage of 1.2x EBITDA and we estimate that this would have been at 0.4x as of end 2016 before share buy-backs, and at 0.8x after share buy-backs - which offers financial flexibility for acquisitions.

VALUATION

- Temenos' shares are trading at est. 21.6x 2016 and 18.6x 2017 EV/EBIT multiples.
- Net debt on 30th September 2016 was USD273.1m (net gearing: 67%).

NEXT CATALYSTS

FY16 results on 14th February 2017 after markets close.

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Sector View

Pharmaceuticals

PCSK9: Pfizer ends development of bococizumab

	1 M	3 M	6 M	31/12/15
Healthcare	-7.5%	-13.5%	-6.3%	-16.1%
DJ Stoxx 600	-2.2%	-1.3%	-1.8%	-8.3%

*Stoxx Sector Indices

Companies covered

ACTELION	NEUTRAL	CHF180
ASTRAZENECA	BUY	5220p
BAYER	NEUTRAL	EUR98
GLAXOSMITHKLINE	BUY	1930p
GRIFOLS	NEUTRAL	EUR20
IPSEN	BUY	EUR72
NOVARTIS	NEUTRAL	CHF81
NOVO NORDISK	NEUTRAL	DKK270
ROCHE HOLDING	BUY	CHF285
SANOFI	NEUTRAL	EUR84
SHIRE PLC	BUY	6900p
SOBI	SELL	SEK90
UCB	NEUTRAL	EUR80

Considering the reasons behind it, the decision to end the clinical development of bococizumab by Pfizer is good news for Amgen and Regeneron/Sanofi because it takes a third player in this field out of the race, which should result in less pricing pressure by payers. Now clinical data from the outcome studies will tell how big the opportunity could be.

ANALYSIS

In connection with the third-quarter results, Pfizer took the market by surprise by announcing that it would take the appropriate provisions to end the clinical development of its PCSK9 inhibitor bococizumab. Earlier in the year Pfizer released new positive data though but recently it demonstrated that its candidate, due to be the third in the class after already-marketed Repatha (Amgen) and Praluent (Regeneron/Sanofi), was not only showing no differentiation but also had two potential drawbacks: a lack of efficacy – on LDL-c reduction – over time (due to neutralizing antibodies?) but also "a higher level of immunogenicity and higher rate of injection-site reactions" than shown with other members in the class.

In short, Pfizer sees no value in bococizumab compared to more advanced compounds in the class and has therefore decided to stop investing in it. The good thing for competitors is that concerns are drug-related. When assessing the impact for Amgen and Sanofi/RGN, we see more positive than negative factors. Indeed, while Pfizer would have helped create a larger market, this will be permitted by good cv outcome data mainly whereas the absence of a third player is likely to ease pressure on prices by payers.

VALUATION

No change to our numbers.

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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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