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10th November 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	18589.69	+1.40%	+6.68%
S&P 500	2163.26	+1.11%	+5.84%
Nasdaq	5251.07	+1.11%	+4.87%
Nikkei	17344.42	+6.72%	-14.62%
Stoxx 600	339.807	+1.46%	-7.11%
CAC 40	4543.48	+1.49%	-2.02%
Oil /Gold			
Crude WTI	45.27	+0.64%	+21.69%
Gold (once)	1288.9	+0.61%	+21.32%
Currencies/Rates			
EUR/USD	1.0947	-0.90%	+0.77%
EUR/CHF	1.0749	-0.17%	-1.15%
German 10 years	0.097	-5.81%	-84.65%
French 10 years	0.5	+3.29%	-49.01%
Euribor	-	+-%	+-%

Economic releases :

Date	
10th-Nov	8h45 - FR Industrial Production 14h30 US Initial Jobless claims 15h45 US - Bloomberg Consumer conmfort Index 16h30 US - EiA Natural Gas

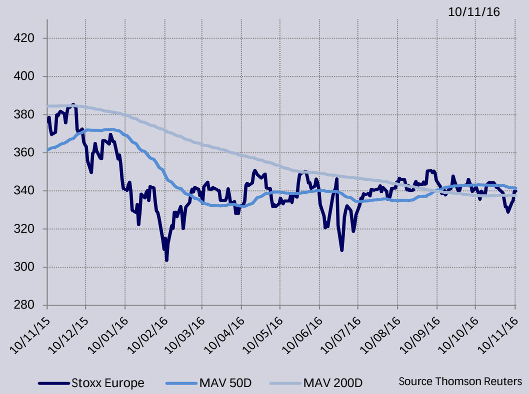
Upcoming BG events :

Date	
9th-Nov/ 10th-Nov	UBISOFT (BG London roadshow with CEO, CFO)
14th-Nov/ 15th-Nov	4th Paris Healthcare Conference
18th-Nov	ENGIE (BG Luxembourg roadshow with IR)
24th-Nov	IMERYS (BG London roadshow with IR)
28th-Nov/ 29th-Nov	2nd Paris Consumer Conference
5th-Dec/ 6th-Dec	ATOS (BG Paris Roadshow)

Recent reports :

Date	
9th-Nov	VOLTALIA Starting to play with the big boys
8th-Nov	FOCUS INNATE Liri to shine at the upcoming SITC congress
7th-Nov	FOCUS ACCORHOTELS On the right track
3rd-Nov	Casino The fat Lady has not sung yet
20th-Oct	Luxury goods :We bet on a rebound in Greater China in 2017
19th-Oct	IPSEN Cabometyx AND Somatuline to transform Ipsen

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



BURBERRY — NEUTRAL, Fair Value 1350p (-7%)

No surprises in H1

H1 2016 results were globally in line with the consensus with adjusted EBIT of GBP146m while FY 2016 management guidance remains unchanged. Hence our unchanged Neutral recommendation with a 1350p Fair Value.

ENGIE — BUY, Fair Value EUR17 (+31%)

9M 2016 results - first take: results in line, full-year guidance confirmed

Engie unveiled its 9M 2016 results this morning. 9M EBITDA reached EUR7,689m down 2.0% yoy on an organic basis on the back of depressed commodity prices and the expected decrease in hydrocarbon production in particular. Q3 EBITDA nevertheless rose 4.5% in organic terms. The transformation plan appears well on-track with EUR6.1bn in disposals signed to date. The group confirmed its full-year guidance but admitted the high-end of this guidance will be hard to achieve, as already been anticipated by the consensus. Buy recommendation and FV at EUR17.0 per share confirmed.

SAFILO — NEUTRAL, Fair Value EUR11 (+16%)

Q3 1206 results above expectations

Safilo has posted Q3 sales of EUR288m (+1.1%) topping CS expectations (EUR280m). Organic growth of the "going-forward portfolio" (i.e. excl. Kering licenses) amounted to 3% (vs. +5.3% in H1), as a lower-than-expected negative impact from the Gucci transition offset a softer US market. The wholesale business was a bit more dynamic with +4.3% in Q3 and +6.1% in 9M. Thanks to the positive impact from some cost-saving initiatives, adj. EBITDA margin expanded 140bp to 6.6%, representing a significant acceleration vs. H1 (-40bp to 8.9%).

HOTELS & TOURISM

US hotel demand: does the Presidential election affect hotel activity?

According to HNN (Hotel News Now), a subsidiary of STR, historical data suggests that a United States president-elect inherits the economy of his or her predecessor, and the election itself has no long-term effects that hoteliers and others need worry about.

In brief...

AEGON, *Lacklustre Q3 adjusted operating numbers, but higher US rates will help*

ASTRAZENECA, *Tax benefit of USD0.36 helps Q3 to come in-line but more importantly is part of FY guidance*

HANNOVER RE, *Q3 numbers above consensus, which is already pricing a FY guidance outperformance*

ZEALAND, *Waiting for the FDA decision on Soliqua*

ZURICH INSURANCE GROUP, *Decent Q3 numbers*

Luxury & Consumer Goods

Burberry

Price 1,451p

No surprises in H1

Fair Value 1350p (-7%) **NEUTRAL**

Bloomberg	BRBY LN
Reuters	BRBY.L
12-month High / Low (p)	1,530 / 1,041
Market Cap (GBP)	6,405
Ev (BG Estimates) (GBP)	5,633
Avg. 6m daily volume (000)	2 767
3y EPS CAGR	8.4%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-0.9%	10.2%	23.4%	21.4%
Pers & H/H Gds	-2.1%	-4.9%	-1.5%	-2.6%
DJ Stoxx 600	0.0%	-1.4%	2.0%	-7.1%

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

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

(p)	03/16	03/17e	03/18e	03/19e
EPS	69.90	77.45	83.04	89.08
% change	-	*10.8%*	*7.2%*	*7.3%*
P/E	20.8x	18.7x	17.5x	16.3x
FCF yield (%)	0.0%	0.0%	0.1%	NM
Dividends (p)	37.00	37.00	37.00	38.00
Div yield (%)	2.5%	2.5%	2.5%	2.6%
EV/Sales	2.3x	2.1x	2.0x	1.9x
EV/EBITDA	10.4x	9.6x	8.9x	8.1x
EV/EBIT	13.8x	12.7x	11.6x	10.5x

H1 2016 results were globally in line with the consensus with adjusted EBIT of GBP146m while FY 2016 management guidance remains unchanged. Hence our unchanged Neutral recommendation with a 1350p Fair Value.

ANALYSIS

- **Yesterday morning Burberry reported H1 results that were globally in line with expectations**. Sales were up 4.9% to GBP1,159m but down 4% underlying. **Retail sales were up 10.9% to GBP859m but were only up 2% at same forex. More importantly, at comparable stores, revenues remained unchanged, implying +2% in Q2 alone after -3% in Q1**. In H1, Burberry closed 13 mainline stores (DOS) with 24 closures and 11 openings with a total of 211 DOS and 205 concessions in department stores. This is due to elevation of the store network in Mainland China, in Korea (four net closures) and in the Middle East (three net closures) along with the relocation of some stores. Net new space contributed 2% of sales growth and digital outperformed retail sales. Retail sales account for 74% of revenues. While, for retail comparable sales, Asia Pacific and Americas were low single digit, in EMEIA, revenues were up low single digit including up high single digit in Q2 only thanks to a 30% increase in the UK. Retail/wholesale Accessories sales (37% of revenues) declined 1% underlying.
- **Wholesale sales (25% of revenues with 49 franchise stores) fell 14% underlying**, penalised by a significant decline in the Americas and particularly the US. Beauty wholesale revenues declined 20% due to streamlingin of distribution in key markets.
- **Burberry adjusted EBIT declined 5% and 24% at same forex to GBP144m**. This implies an EBIT margin at 12.5% vsersus 13.7% in H1 2015, a 80bp decline. This adjusted EBIT includes a forex profit of GBP29m. Concerning Retail/Wholesale activity, Adjusted EBIT margin decreased by no more than 30bp to 11.7%, due to a gross margin decline of around 40bp to 68.3%. This includes a 70bp positive positive impact from FX. Furthermore, apparel and accessories gross margin was unchanged in H1 thanks to a positive distribution mix and regional mix. This implies that Beauty was the main contributor to the gross margin decline. Retail/wholesale OPEX remained almost unchanged (56.6% of sales vs 56.7% in H1 2015), partly thanks to GBP6m in costs savings (of the planned GBP20m expected on FY, offsetting underlying costs pressure and investment in our growth initiatives. Nevertheless, exceptional items were above expectations with a total of GBP44m in expenses of which GBP26m concerning Fragance and Beauty intangible charges and GBP12.8m in restructuring costs (costs and efficiency programme). FY restructuring charges should still amount to GBP20m.
- **FY2016 outlook remains unchanged and management** still expects net new space to contribute low single digit to retail sales (2% in H1). 15 mainline store openings are planned but with a similar amount of closures. Furthermore, H2 wholesale sales are expected to be down mid-teens, penalised by Beauty. We expect total group sales to reach GBP2,650m, up 5% reported and retail underlying sales up 3% (+1% at comparable stores). Adjusted retail and wholesale EBIT shoud benefit a GBP125m forex positive impact (using 31 October exchange rates). **This implies that FY group adjusted PBT guidance remains unchanged at GBP445m. FY capex should reach GBP130m vs GBP150 previously.**

VALUATION

- We leave unchanged our Neutral recommendation and our 1350p Fair Value.

NEXT CATALYSTS

- Q3 trading statement to be released mid January 2017.

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Utilities

ENGIE

Price EUR13.01

9M 2016 results - first take: results in line, full-year guidance confirmed

Fair Value EUR17 (+31%) **BUY**

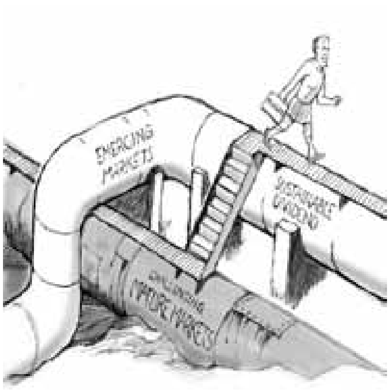
Bloomberg	ENGI FP
Reuters	ENGIE.PA
12-month High / Low (EUR)	16.6 / 12.7
Market Cap (EURm)	31,671
Ev (BG Estimates) (EURm)	70,286
Avg. 6m daily volume (000)	5 251
3y EPS CAGR	-17.1%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-0.5%	-11.1%	-2.8%	-20.3%
Utilities	0.7%	-7.5%	-5.5%	-10.1%
DJ Stoxx 600	-1.4%	-1.9%	1.0%	-8.4%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	69,883	65,523	64,302	65,321
% change		*-6.2%*	*-1.9%*	*1.6%*
EBITDA	11,261	10,852	10,716	11,065
EBIT	-3,243	6,238	6,094	6,362
% change		*NS*	*-2.3%*	*4.4%*
Net income	4,950	3,175	3,215	3,395
% change		*-35.9%*	*1.2%*	*5.6%*

	2015	2016e	2017e	2018e
Operating margin	-4.6	9.5	9.5	9.7
Net margin	7.1	3.9	4.1	4.3
ROE	10.2	5.3	5.5	5.8
ROCE	6.8	4.4	4.4	4.5
Gearing	61.5	55.1	58.8	58.2

(EUR)	2015	2016e	2017e	2018e
EPS	2.04	1.08	1.09	1.16
% change	*-*	*-47.3%*	*1.3%*	*6.7%*
P/E	6.4x	12.1x	11.9x	11.2x
FCF yield (%)	0.8%	26.4%	10.6%	13.2%
Dividends (EUR)	1.00	1.00	0.70	0.70
Div yield (%)	7.7%	7.7%	5.4%	5.4%
EV/Sales	1.1x	1.1x	1.1x	1.1x
EV/EBITDA	6.7x	6.5x	6.6x	6.4x
EV/EBIT	NS	11.3x	11.5x	11.0x



Engie unveiled its 9M 2016 results this morning. 9M EBITDA reached EUR7,689m down 2.0% yoy on an organic basis on the back of depressed commodity prices and the expected decrease in hydrocarbon production in particular. Q3 EBITDA nevertheless rose 4.5% in organic terms. The transformation plan appears well on-track with EUR6.1bn in disposals signed to date. The group confirmed its full-year guidance but admitted the high-end of this guidance will be hard to achieve, as already been anticipated by the consensus. Buy recommendation and FV at EUR17.0 per share confirmed.

ANALYSIS

- Engie unveiled its **9M 2016 results** this morning. 9M revenues amounted to **EUR47,514m** down **10.3%** yoy on an organic basis. **Q3 revenues were down 6%** organically. 9M EBITDA reached **EUR7,689** down 2% organically broadly in line with consensus expectations. This implies **4.5%** growth for Q3 EBITDA. The positive impact from nuclear volumes, new commissionings and the **Lean 2018** cost-savings programme (**EUR0.4bn** 9M-16 positive impact) was notably offset by **depressed commodities prices** and the expected decrease in hydrocarbon production (42.5 Mboe vs. 43.5 Mboe). 9M current operating income (COI) reached **EUR4,441m up 6.6%** yoy, 1.6% above consensus' expectations, mainly due to **1/**the positive impact of reduced D&A as a result of FY15 impairment losses; **and 2/**the impact of reclassifying the US thermal merchant assets as assets held for sale.
- **The Group finally confirmed its FY16 guidance** with the aim of reaching a current net income of between **EUR2.4bn** and **EUR2.7bn** and EBITDA of between **EUR10.8bn** and **EUR11.4bn**. It however admitted **the low-end of the guidance was now targeted** for both the company's current net income and EBITDA. **This had already been anticipated by the consensus and in our FY16 estimates**. As a reminder, our expectation stands at **EUR10,852m** at the EBITDA level, which would imply **0.5%** growth in Q4 2016, and at **EUR2,575m** at the current net income level.
- **Conclusion**: Engie's results were broadly **in line with expectations**. As a reminder, Engie is aiming at deeply transforming its business, we therefore believe 2016 metrics do not necessarily reflect the growth potential for long-term investors. **Engie unveiled today that EUR6.1bn in disposals have already been signed as of today**. This is about EUR300m higher than the last company update in H1 2016. In all, we maintain our **Buy rating** and confirm our **FV at EUR17.0** per share.

VALUATION

- At the current share price, the stock trades at **6.5x** its 2016e EV/EBITDA multiple
- **Buy, FV @ EUR17.0**

NEXT CATALYSTS

- **2nd March:** FY16 results

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Luxury & Consumer Goods

Safilo

Price EUR9.50

Bloomberg	SFL IM
Reuters	SFLG.MI
12-month High / Low (EUR)	11.6 / 6.3
Market Cap (EUR)	595
Ev (BG Estimates) (EUR)	636
Avg. 6m daily volume (000)	112.0
3y EPS CAGR	49.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-0.1%	16.1%	25.9%	-11.3%
Consumer Gds	-2.5%	-4.3%	-0.1%	-5.8%
DJ Stoxx 600	-1.4%	-1.9%	1.0%	-8.4%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	1,279	1,232	1,170	1,241
% change		*-3.7%*	*-5.0%*	*6.0%*
EBITDA (rep.)	82.4	83.2	64.4	81.9
EBIT (rep.)	0.8	46.2	29.3	44.7
% change			*-36.7%*	*52.7%*
Net income (rep.)	-52.3	21.1	7.0	23.2
% change		*NS*	*-66.8%*	

	2015	2016e	2017e	2018e
Operating margin	0.1	3.8	2.5	3.6
Net margin	-4.1	1.7	0.6	1.9
ROE	0.7	2.5	0.7	2.2
ROCE	0.2	5.0	1.1	2.5
Gearing	9.0	3.9	3.1	0.9

(EUR)	2015	2016e	2017e	2018e
EPS	0.11	0.42	0.11	0.37
% change	-		*-73.5%*	
P/E	85.7x	22.5x	84.9x	25.6x
FCF yield (%)	NM	4.3%	3.5%	1.4%
Dividends (EUR)	0.00	0.10	0.15	0.20
Div yield (%)	NM	1.1%	1.6%	2.1%
EV/Sales	0.5x	0.5x	0.5x	0.5x
EV/EBITDA	8.3x	7.6x	9.7x	7.4x
EV/EBIT	823.2x	13.8x	21.4x	13.5x

Q3 1206 results above expectations

Fair Value EUR11 (+16%) **NEUTRAL**

Safilo has posted Q3 sales of EUR288m (+1.1%) topping CS expectations (EUR280m). Organic growth of the "going-forward portfolio" (i.e. excl. Kering licenses) amounted to 3% (vs. +5.3% in H1), as a lower-than-expected negative impact from the Gucci transition offset a softer US market. The wholesale business was a bit more dynamic with +4.3% in Q3 and +6.1% in 9M. Thanks to the positive impact from some cost-saving initiatives, adj. EBITDA margin expanded 140bp to 6.6%, representing a significant acceleration vs. H1 (-40bp to 8.9%).

ANALYSIS

- **Q3 sales reached EUR288m (+1.7% FX-n / +3% adj. FX-n) vs. CS of EUR280m.** As a reminder, the first half was marked by phasing effects due to production bottlenecks in Q1 (+1% FX-n, negative impact of ~5pp) that were fixed during Q2, which benefited from a catch-up effect (+9% FX-n, ~+3-3.5% impact). Hence, the H1 performance gives a more reliable overview of the group's performance. In Q3 alone, the "going-forward brand PF" was up 3%, driven by the licensed brand PF, whilst in the proprietary brand PF, Polaroid outperformed the group's performance, Smith was back to growth but Carrera still struggled. Organic growth incl. Gucci transition was up 1.7% as Safilo started to deliver new collections produced under the partnership agreement.

- By region, focusing on the "going-forward brand PF", **Europe** continued to post a high growth rate (+9.5%) driven by key markets and broad based growth amid the portfolio. In **North America**, sales in the wholesale channel declined 0.6% due to softer trends in the US (also highlighted by Essilor and Luxottica). Revenues of Solstice dropped by 13.4% FX-n caused by negative LFL (-9.1%) and 10 store closures (116 DOS at end-September vs. 126 at the end of Q3 15). **In Asia**, Safilo is gradually recovering with a limited 2.5% decline (H1: -14.4%) despite ongoing challenging market conditions in Greater China (especially in H-K). It is worth noting the healthy trends in **LatAm** (+9%).

FX-n sales growth of the "going-forward brand PF *" by region:

EURm	Q1 16	Q2 16	H1 16	Q3 16	9M 16
Europe	3.6	18.6	11.8	9.5	11.4
North America	0.8	3.1	2.0	-2.2	0.6
Asia-Pacific	-14.6	-14.2	-14.4	-2.5	-10.9
ROW (incl. Latin America)	2.8	12.3	7.6	11.5	9.0
Total	**1.0**	**9.0**	**5.3**	**3.0**	**4.7**

** = excluding the Kering licences that were/will be discontinued* *Source: Company Data*

- **Q3 adj. EBITDA margin down 140bp to 6.6%.** The GM remained stable at 58.8% as the positive price-mix of the going-forward brand PF and favourable fixed cost absorption were offset by the dilutive impact from the Gucci transition and the poor performance of Solstice. However, cost-cutting measures led to a lower impact from overhead costs, enabling the adj. EBITDA margin to improve 140bp to 6.6% (H1: -40bp).

- **Safilo continues to strengthen its go-to-market distribution.** Safilo has muscled up its commercial leadership in Europe and North America. In the US, the turnaround of Solstice by the end of 2017 became the new Group's priority. Last but not least, the roll-out of the SMILE programme (automatic in-store assortment software) is progressing well.

VALUATION

- This Q3 publication confirms the improvements seen in Q2. The group seems to be dealing with the Gucci transition efficiently (sales and earnings impacts guided in March '15 were confirmed yesterday) thanks to the first positive results from the painful actions implemented over the last two years, although the performance of the proprietary brand PF remains below internal expectations. This recovery was also reflected by the rally on the stock (+25% in 6M and +15% in 3M), also helped by the recent news flow (i.e. the early renewal of Max Mara and two new licenses that will be launched in January 2018: Moschino and Rag & Bone).

NEXT CATALYSTS

- FY16 Results to be released in March 2017.

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Sector View

Hotels & Tourism

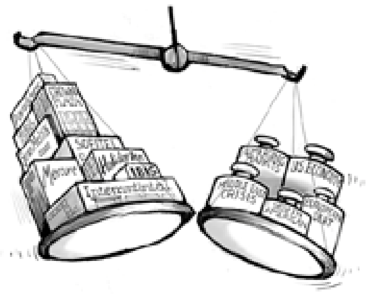
US hotel demand: does the Presidential election affect hotel activity?

	1 M	3 M	6 M	31/12/15
Travel&Leisure	2.3%	-3.5%	-6.1%	-17.1%
DJ Stoxx 600	0.0%	-1.4%	2.0%	-7.1%

*Stoxx Sector Indices

Companies covered

ACCORHOTELS		**BUY**	**EUR42**
Last Price	EUR33.85	*Market Cap.*	EUR9,637m
InterContinental Hotels		**SELL**	**2950p**
Last Price	3100p	*Market Cap.*	*GBP6,123m*
MELIA HOTELS		**BUY**	**EUR15**
Last Price	EUR10.89	*Market Cap.*	*EUR2,501m*



According to HNN (Hotel News Now), a subsidiary of STR, historical data suggests that a United States president-elect inherits the economy of his or her predecessor, and the election itself has no long-term effects that hoteliers and others need worry about.

ANALYSIS

- Looking back at the past seven elections and studying room-demand trends for the 12-month periods before and after the elections, with a particular focus on those that represented a change in administration, **no clear patterns emerge.**
- This is particularly the case after the election of George W. Bush in 2000 and Barack Obama in 2008. The hotel economy was already in a steep, downward slide when both of them were elected.
- Of course, through the specific implementation of policies, the story could be different.

US Hotel demand (monthly % change)

European hoteliers exposure to US (in number of rooms)

IHG: The Americas represent 64% of total room numbers o/w 80% in the USA
AccorHotels: After FRHI, the Americas represent c.13% with USA around 3%
Melia Hotels: 29% in the Americas o/w around 1.5% in the USA. But, NA is the main feeder market for Latam for the leisure segment (40% of total customer).

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Insurance

Aegon

Price EUR4.10

Bloomberg	AGN NA
Reuters	AEGN.AS
12-month High / Low (EUR)	5.9 / 3.0
Market Cap (EUR)	8,506
Avg. 6m daily volume (000)	11,529

	1 M	3 M	6 M	31/12/15
Absolute perf.	11.7%	8.2%	-15.1%	-21.6%
Insurance	4.1%	5.9%	2.6%	-13.8%
DJ Stoxx 600	0.0%	-1.4%	2.0%	-7.1%

	2015	2016e	2017e	2018e
P/E	5.6x	5.6x	5.3x	
Div yield (%)	6.1%	6.6%	7.4%	

Lacklustre Q3 adjusted operating numbers, but higher US rates will help

Fair Value EUR6 (+46%) **NEUTRAL**

ANALYSIS

- Q3 2016 net income was EUR358m, way above the consensus (EUR185m), driven by lower than expected assumption changes and model updates and favourable Fair Value adjustments.
- Q3 2016 operating profit was EUR461m, above consensus (EUR358m), as assumption changes and model updates (expected at -EUR128m) are not reported in other income/charges and no longer impact operating profit. Restated for this, Q3 operating profit was 5% below the consensus, and down 7% yoy, with expense savings and favourable equity markets more than offset by the effects of adverse US mortality experience and lower interest rates.
- Q3 2016 NBV was EUR70m, down 44% yoy due to lower interest rates and VA sales.
- Solvency II margin at end-September was 156% (consensus 155%) vs. 158% at end-June.
- Adjusted operating numbers are still lacklustre, but the prospect of higher interest rates in the US is clearly positive for the equity story.

VALUATION

- Based on our current estimates, our SOTP valuation is EUR6.

NEXT CATALYSTS

- Investors' Day on 8th December. FY 2016 numbers on 17th February 2017.

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Healthcare

AstraZeneca

Price 4,451p

Tax benefit of USD0.36 helps Q3 to come in-line but more importantly is part of FY guidance

Fair Value 5220p (+17%) **BUY**

Bloomberg	AZN LN
Reuters	AZN.L
12-month High / Low (p)	5,220 / 3,774
Market Cap (GBPm)	56,301
Avg. 6m daily volume (000)	2 743

	1 M	3 M	6 M	31/12/15
Absolute perf.	-12.5%	-14.2%	17.2%	-3.6%
Healthcare	-6.8%	-11.6%	-3.4%	-16.1%
DJ Stoxx 600	-1.4%	-1.9%	1.0%	-8.4%

	2015	2016e	2017e	2018e
P/E	12.9x	13.9x	14.1x	14.4x
Div yield (%)	5.1%	5.1%	5.1%	5.1%

ANALYSIS

- AstraZeneca Q3 numbers came out below estimates at the top-line level mainly because of weak sales for Brilinta (stocking in the referenced quarter of 2015 because of new formulation's launch) and even more significantly for the Respiratory franchise and Symbicort more specifically, which suffered from a true-up in 9-month rebates in the US following price negotiations with payers. All in all sales were USD5,025m when consensus was expecting USD300m more.
- This is offset by a good control of SG&A expenses so that core operating income is more or less in line with expectations but margin obviously higher.
- What then makes a big difference is the one-off benefit of USD453m (or USD0.36 per share) resulting from agreements with Canadian, UK and Sweden tax authorities in respect of transfer pricing arrangements over the 2004-2016 period. Restating from that one-off item, core EPS would have been USD0.96 i.e. very close to the USD0.98 anticipated by both the CS and us.
- What is more worrying is that AstraZeneca is not restating this one-off element when reaffirming its full-year core EPS guidance of a low-to-mid single digit decline. After the first 9 months, it is down 10% but Q4 2016 will include a lot of other operating income (as we speak we have already USD1.1bn). It has never been said that such a big one-off would be required to reach that target, meaning that underlying business is probably somewhat below expectations.

VALUATION

- The just-above mentioned element is likely to be the disappointing factor of the quarterly release, together with pressure on Respiratory sales. Although nobody buys AstraZeneca for its 2016 core EPS numbers, this will also make 2017 core EPS guidance difficult in comparison to this inflated 2016 number. Lastly, with data on acalabrutinib and Lynparza breast shifting into 2017, we are afraid that investors will take a rest and wait for more data in 2017 before buying again. We will wait for our interactions with the company in the context of our Conference next week.

NEXT CATALYSTS

- 14 November 2016: 4th BG Healthcare Conference - Click here to download

Eric Le Berrigaud, eleberrigaud@bryangarnier.com

Insurance

Hannover Re

Price EUR100.45

Bloomberg	HNR1 GY
Reuters	HNRGn.DE
12-month High / Low (EUR)	111.5 / 84.1
Market Cap (EURm)	12,114
Avg. 6m daily volume (000)	146.3

	1 M	3 M	6 M	31/12/15
Absolute perf.	8.4%	6.8%	-0.7%	-4.9%
Insurance	4.1%	5.9%	2.6%	-13.8%
DJ Stoxx 600	0.0%	-1.4%	2.0%	-7.1%

	2015	2016e	2017e	2018e
P/E	10.5x	12.0x	11.4x	
Div yield (%)	4.7%	4.2%	4.2%	

Q3 numbers above consensus, which is already pricing a FY guidance outperformance

Fair Value EUR110 (+10%) **SELL**

ANALYSIS

- Q3 2016 net income was EUR304m, above consensus (EUR256m), up 20% yoy. EBIT stood at EUR444m, also above consensus (EUR383m), up 11% yoy.
- In P&C, the Q3 combined ratio was 94.4% (consensus 95.4%) vs. 95.8% in Q3 2015, including EUR41m (i.e. 2 points) of major losses. Excluding major losses, the adjusted combined ratio worked out to 92.4% vs. 84.3% in Q3 2015 and 80.2% in Q2 2016. EBIT was EUR332m (consensus EUR301m), down 6% yoy, mainly driven by lower investment income.
- EBIT in Life/Health is EUR111m (consensus EUR83m), rose 141% yoy, driven by improved technical results and higher investment income.
- 9M RoI totalled 3.0% (annualised) vs. 3.5% last year and 2.9% for H1.
- NAV at end-September is EUR72.8 vs. EUR69.8 at end-June.
- FY guidance (net income >EUR950m) has been confirmed, but is already factored in by the consensus (EUR1037bn), even if there might be some room for further improvement depending on Q4 natcats. Guidance for 2017 (net income >EUR950m) is also in line with current expectations (EUR1015m).

VALUATION

- Based on our current estimates, our SOTP valuation is EUR110.

NEXT CATALYSTS

- January 2017 renewals on 2nd February 2017. FY 2016 numbers on 9th March 2017.

Olivier Pauchaut, opauchaut@bryangarnier.com

Healthcare

Zealand

Price DKK94.00

Bloomberg	ZEAL DC
Reuters	22Z.F
12-month High / Low (DKK)	155.0 / 87.0
Market Cap (DKKm)	2,450
Avg. 6m daily volume (000)	119.1

	1 M	3 M	6 M	31/12/15
Absolute perf.	-10.0%	-25.4%	-22.3%	-38.0%
Healthcare	-2.5%	-8.1%	-1.1%	-12.2%
DJ Stoxx 600	0.0%	-1.4%	2.0%	-7.1%

	2015	2016e	2017e	2018e
P/E	NS	NS	NS	8.3x
Div yield (%)	NM	NM	NM	NM

Waiting for the FDA decision on Soliqua

Fair Value DKK172 (+83%) **BUY**

ANALYSIS

- Of course quarterly numbers in the context of a company like Zealand Pharma do not matter that much and this is all the more true if we consider the upcoming FDA decision on iGlarLixi.
- That said, there were two interesting and pretty new elements in the third-quarter press release: (i) firstly, operating costs were well below estimates and well below the average of the previous quarters too. CFO Mats Blom explained that this was the reflection of a mix of strict control of costs on one hand and of cheaper clinical activity and some work being pushed forward into 2017. This will therefore reduce annual operating costs by 6-8% in 2016 but does not say much about long-term trends as Zealand is expected to increase its clinical activity very significantly in the coming year. We would like this to be the case because it would be good news.
- Actually management said clearly during the call that its proprietary pipeline would grow even faster if iGlarLixi is approved. And if not, then Zealand will adjust accordingly, meaning that it may decide either to delay one of the programmes or maybe to partner it (all three will not be able to be financed by Zealand). Similarly, BD activities will also depend on cash available. On iGlarLixi's approval and launch also depends the opportunity for Zealand to recall and repay part of its royalty bond whose interest rate is high and does not carry penalty for early recall as of 2017.

VALUATION

- So it is no surprise to see how much Zealand is dependent on iGlarLixi's approval in the US, due in a couple of weeks. Taking it at full value (i.e. with a PoS of 100%), iGlarLixi would represent more in terms of NPV than Zealand's full market cap. Sanofi said during its Q3 call that it was ready to launch. Therefore we would rate this outcome is high. Hence our BUY recommendation.

NEXT CATALYSTS

- Around 21st November 2016: PDUFA date for iGlarLixi (Soliqua) in the US

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Insurance

Zurich Insurance Group

Price CHF259.70

Decent Q3 numbers

Fair Value CHF270 (+4%) **NEUTRAL**

Bloomberg	ZURN VX
Reuters	ZURN.VX
12-month High / Low (CHF)	272.1 / 196.0
Market Cap (CHFm)	39,093
Avg. 6m daily volume (000)	579.7

	1 M	3 M	6 M	31/12/15
Absolute perf.	1.3%	7.4%	23.0%	0.5%
Insurance	4.1%	5.9%	2.6%	-13.8%
DJ Stoxx 600	0.0%	-1.4%	2.0%	-7.1%

	2015	2016e	2017e	2018e
P/E	20.1x	11.0x	10.5x	
Div yield (%)	6.4%	6.4%	6.4%	

ANALYSIS

Q3 2016 net income came to USD912m vs. USD207m last year, above consensus (USD772m). Q3 operating profit came to USD1208m vs. USD256m last year, also above consensus (USD1040m).

In P&C, operating profit was USD618m (vs. a USD183m loss last year). The reported combined ratio was 98.5% (consensus 98%) vs. 108.9% in Q3 2015. Excluding catastrophes (1.9 point vs. 6 points) and PYD (1.8 point vs. negative 3.7 points), the underlying combined ratio was 98.4% vs. 99.2% in Q3 2015 and a very strong 94.7% in Q2 3016.

Operating profit in Life was up 11% yoy to USD365m, mainly driven by EMEA and Latam and favourable experience relative to assumptions (EMEA and Apac). NBV margin was 17.1% vs. 23.9% in Q3 2015. Inflows were USD2.2bn vs. USD2.7bn in Q3 2015.

Operating profit at Farmers was up 12% to USD392m, mainly driven by a better fortune at Farmers Re. Operating profit from Management Services rose 2%.

NAV per share was CHF211 vs. CHF207 at end-June. Solvency (Z-ECM model) at end-September was 113% vs. 107% at end-June (remember the comfort range is 100-120%). Net cash remittances for the 2014-2016 period will be >USD10bn vs. target at >USD9bn, making us confidention dividend prospects (no cut).

-> A decent set of numbers, highlighting the fact that Zurich is on the right track.

VALUATION

Based on our current estimates, our SOTP valuation is CHF270.

NEXT CATALYSTS

Investors' Day on 17th November. FY 2016 numbers on 9th February 2017.

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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 31.8% SELL ratings 11.5%

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