



14th November 2016

## BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
<b>Indices</b>			
Dow Jones	18847.66	+0.21%	+8.16%
S&P 500	2164.45	-0.14%	+5.90%
Nasdaq	5237.11	+0.54%	+4.59%
Nikkei	17374.79	+0.18%	-8.72%
Stoxx 600	337.497	-0.41%	-7.74%
CAC 40	4489.27	-0.92%	-3.19%
<b>Oil /Gold</b>			
Crude WTI	43.41	-2.80%	+16.69%
Gold (once)	1228.5	-2.91%	+15.64%
<b>Currencies/Rates</b>			
EUR/USD	1.0855	-0.22%	-0.07%
EUR/CHF	1.07235	-0.21%	-1.38%
German 10 years	0.227	+12.41%	-64.18%
French 10 years	0.735	+6.48%	-25.09%
Euribor	-0.312	0.00	+138.17%

### Economic releases :

Date	
14th-Nov	11h00 EUZ - Industrial Prod. Sep. (m/m)

### Upcoming BG events :

Date	
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)
8th-Dec	Reverse roadshow Brewers Netherlands, Belgium

### 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



### BUREAU VERITAS

**NEUTRAL, Fair Value EUR20 (+16%)**

*Consensus now in line with management's new guidance: Still too early to revisit the stock*  
Consensus is now perfectly in line with 2016 guidance lowered following Q3 release on 19th October. In the last month, the share price has come down around 8% in absolute terms and relative to Stoxx. Even if we can now rule out new downgrades, no significant short-term rebound can be anticipated. Still too early to revisit the stock.

### DIALOG SEMICONDUCTOR

**NEUTRAL vs. BUY, Fair Value EUR40 (+15%)**

*Feedback from Technology Day – It is time to take a break*

Last Friday, Dialog held a Technology Day dedicated to “charging”. While we often only speak about Apple and PMIC when it comes to Dialog, the group has strong expertise in overall power management and proved that it will leverage on this expertise to expand its serviceable available market over the coming year. Fast charging offers a unique opportunity for Dialog to diversify through new customers, especially in China. As such, the overall message of the day was convincing regarding the LT. Nevertheless, Dialog stock remains largely tied to Apple's evolution and reacts rapidly to ST newsflow. We have already highlighted our concern regarding possible overheating in the smartphone space due to a strong start by the iPhone 7, which, by the way, helped DLG stock to jump by 30% over the last 6m. As such, we prefer to adopt a more cautious approach on the stock and downgrade from Buy to Neutral.

### HEIDELBERGCEMENT

**NEUTRAL vs. BUY, Fair Value EUR95 vs. EUR86 (+9%)**

*A more cautious view; downgrade to Neutral.*

HEI has reacted positively to the US Elections. With 25% of its EBITDA in the US, the German player is well placed to benefit from the D. Trump' USD1trillion infrastructure plan. New FV at EUR95 (rollover, new estimates). Share price still offer some upside, but we prefer LHN. We see reasons to be more cautious: uncertainty surrounding the Trump plan, the possible difficulties in the last phase of ITC negotiation and a very decent share price performance (15% YTD, 22% 12M). Downgrade to Neutral.

### INNATE PHARMA

**BUY, Fair Value EUR23 vs. EUR21 (+73%)**

*“Liri” indeed shines at the SITC... and it's just the beginning; our FV revised up*

BMS presented more detailed data from its Phase I/II testing lirilumab/nivolumab in refractory/relapsed patients with HNSCC (head & neck squamous cell carcinoma) last Saturday. Overall, they were much better than we anticipated as 1/ the involved population was more heavily pre-treated than the one seen in Checkmate-141 that tested nivolumab alone in this disease; 2/ the 1-year OS stood at 60% (vs 36% for nivo alone). As such, we raise our FV from EUR21 to EUR23 after having raise some of our PoS.

### RWE

**NEUTRAL, Fair Value EUR9.5 (-23%)**

*9M-16 results – first take: results below expectations, guidance confirmed*

RWE reported its 9M-16 results this morning. Q3-16 EBITDA reached EUR810m down about 33% yoy and around 10% below consensus' expectations, mainly due to a poor performance in the company's conventional power generation business and its grid business. The company's adjusted net income has been negatively impacted by lower capital gains vs. Q3-15, notably due to the conversion of long-term investments in securities to short-term liquidity investments in order to fund the company's contribution to the nuclear energy fund. Negative.

### In brief...

**BIC, US shavers market: “traditional” brands are feeling the pressure from online players**

**MORPHOSYS, Urelumab got very promising data in melanoma. Positive read-across for utomilumab**

**ZEALAND, Suliqua recommended for approval by the CHMP**

Business Services

**Bureau Veritas**

Price EUR17.21

Consensus now in line with management's new guidance: Still too early to revisit the stock

Fair Value EUR20 (+16%)

NEUTRAL

Bloomberg	BVI.FP
Reuters	BVI.PA
12-month High / Low (EUR)	21.0 / 16.1
Market Cap (EUR)	7,605
Ev (BG Estimates) (EUR)	9,448
Avg. 6m daily volume (000)	700.5
3y EPS CAGR	3.8%

Consensus is now perfectly in line with 2016 guidance lowered following Q3 release on 19th October. In the last month, the share price has come down around 8% in absolute terms and relative to Stoxx. Even if we can now rule out new downgrades, no significant short-term rebound can be anticipated. Still too early to revisit the stock.

**ANALYSIS**

Following Q3 revenue (19<sup>th</sup> October), Management has lowered its FY 2016 guidance and is now expecting "slightly" negative lfl revenue growth (i.e. first negative FY number since the IPO) vs. previously positive between 1-3%. Adjusted operating margin was also lowered between 16-16.5% compared with 16.5-17% previously and 16.7% in 2015. Consensus is now perfectly in line with 2016 guidance and been reduced drastically its 2017 anticipations.

**Consensus changes**

	2016e			2017e			2018e		
	On 14th Oct. 2016	On 9th Nov.	Change	On 14th Oct. 2016	On 9th Nov. 2016	Change	On 14th Oct. 2016	On 9th Nov. 2016	Change
Revenue	4 598	4 555	-0,9%	4 776	4 726	-1,0%	4 955	4 908	-0,9%
Organic growth	0,40%	-0,60%	-100bps	2,50%	1,50%	-100bps	3,50%	3,70%	+20bps
Adjusted operating profit	763	741	-2,9%	795	771	-3,0%	829	829	0,0%
Adjusted operating margin	16,60%	16,30%	-30bps	16,60%	16,30%	-30bps	16,70%	16,40%	-30bps
Adjusted net profit	431	441	2,3%	452	431	-4,6%	482	461	-4,4%
Adjusted EPS	0,98	0,94	-4,1%	1,02	0,99	-2,9%	1,07	1,06	-0,9%

Source : Company Data.

**Does it make sense to come back on the stock?** We still think that it is too early. Firstly, visibility remains limited in **Industry** segment (20% consolidated revenue) with the persistently challenging oil & gas markets with an earlier and sharp reversal in **Marine** (8.5%) and still negative number on **Construction** (13% o/w 50% from France) even if leading indicators sound better. Secondly, we see no catalyst before end of February (FY results) and no positive news is anticipated. Thirdly, poor organic growth won't be offset by higher M&A contribution, having notably in mind that net debt reached EUR2.2bn at the end of H1 2016 representing a leverage of c.2.5x (covenant at 3.25x). Finally, taking into account short-term trends, the valuation looks high.

**VALUATION**

At the current share price, the stock is trading at 2016e and 2017e EV/EBIT of 12.7x and 12.1x respectively, compared with and historical median of 14.3x and CAGR EBIT 2015-2018 of 2% (CAGR 2016-2019 of 5%).

**NEXT CATALYSTS**

FY 2016 results on 27<sup>th</sup> February 2017

[Click here to download](#)



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## TMT

## Dialog Semiconductor

Price EUR34.85

## Feedback from Technology Day – It is time to take a break

Fair Value EUR40 (+15%)

NEUTRAL vs. BUY

Bloomberg	DLG GR
Reuters	DLGS.DE
12-month High / Low (EUR)	38.8 / 24.4
Market Cap (EURm)	2,713
Ev (BG Estimates) (EURm)	1,943
Avg. 6m daily volume (000)	4.50
3y EPS CAGR	9.2%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-8.0%	11.7%	30.1%	11.6%
Semiconductors	-2.5%	-1.1%	31.7%	19.5%
DJ Stoxx 600	-0.8%	-2.6%	0.8%	-7.7%

YEnd Dec. (USDm)	2015	2016e	2017e	2018e
Sales	1,355	1,197	1,374	1,631
% change		-11.7%	14.7%	18.7%
EBITDA	360	285	366	455
EBIT	317.7	216.3	293.8	382.7
% change		-31.9%	35.8%	30.3%
Net income	238.4	163.0	228.2	305.6
% change		-31.6%	40.0%	33.9%

	2015	2016e	2017e	2018e
Operating margin	23.4	18.1	21.4	23.5
Net margin	17.6	13.6	16.6	18.7
ROE	17.3	20.3	12.9	14.6
ROCE	46.9	40.4	48.6	63.4
Gearing	-54.0	-62.6	-66.7	-70.8

(USD)	2015	2016e	2017e	2018e
EPS	3.02	2.09	2.94	3.94
% change		-30.7%	40.5%	33.9%
P/E	11.5x	16.7x	11.9x	8.9x
FCF yield (%)	8.9%	9.4%	6.4%	8.4%
Dividends (USD)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	1.6x	1.6x	1.3x	1.0x
EV/EBITDA	6.0x	6.8x	4.8x	3.4x
EV/EBIT	6.8x	9.0x	6.0x	4.1x

Last Friday, Dialog held a Technology Day dedicated to “charging”. While we often only speak about Apple and PMIC when it comes to Dialog, the group has strong expertise in overall power management and proved that it will leverage on this expertise to expand its serviceable available market over the coming year. Fast charging offers a unique opportunity for Dialog to diversify through new customers, especially in China. As such, the overall message of the day was convincing regarding the LT. Nevertheless, Dialog stock remains largely tied to Apple's evolution and reacts rapidly to ST newsflow. We have already highlighted our concern regarding possible overheating in the smartphone space due to a strong start by the iPhone 7, which, by the way, helped DLG stock to jump by 30% over the last 6m. As such, we prefer to adopt a more cautious approach on the stock and downgrade from Buy to Neutral.

## ANALYSIS

- **A positive message for the LT, but the stock mostly reacts to ST.** Last Friday, Dialog held a Technology conference for analysts and investors. Overall, we think that the message and details given by the company about its markets and opportunities were positive: an expansion of its serviceable available market thanks to its expertise in fast charging and a possible reduction of exposure to its first customer thanks to higher demand for DLG chips from Chinese OEMs. Here are the main takeaways:
  - **Working hard to expand its SAM in Mobile Systems (80% of sales): from USD3.4bn to USD6.0bn by 2019e.** So far, Dialog benefited from strong momentum, driven by increasing complexity of PMIC (and the introduction of sub-PMIC), but new supportive trends are coming. First, the market for power management in mobile devices is moving fast to rapid charge solutions. It is now clear that most of the smartphones should have such a solution in the coming years, while only 250m smartphones should be shipped with such a technology this year, or only about 17% of smartphones sold, data from IHS and IDC points to an accelerating adoption rate and a 2015/2019e CAGR of 68% for fast charging solutions. Let's not forget that this has been mostly driven by Chinese OEMs so far. This is particularly important for Dialog since the group holds a 70% market share in the rapid charging market, with a unique offering including the support of most of the market standards including the two most important from Qualcomm and MediaTek. This evolution appears natural to us, since new smartphones have higher energy needs. As such, increased battery capacity which take longer to charge using standard charging technologies. This triggers the need for more efficient power management ICs and charging solutions. Here, Dialog introduces battery and charging management chips solution in addition to its current PMIC portfolio and stands out of the crowd with the introduction of a new “one-chip” solution able to support up to 15W energy supply (vs. current standard at 7.5W) with no heat issue and an efficiency increased to 96% (vs. 89% for standard PMIC today). Thanks to this new IC design, the group is able to reduce by 50% the Build of Materials (BOM) and PCB area (particularly important for OEMs constantly changing PCB area). If PCB area is less a problem (we think about tablets for examples), Dialog proposes a second chip which supports a 30W input (available from H1-2017). In addition to that, the group will also bring its product to new segments such as premium wearable, DSLR and Mobile computing, also contributing to SAM expansion.
  - **Power conversion: rapid charging also provides another boost here.** To enable more efficient fast charging capabilities, Dialog is also expanding its product portfolio to new AC/DC controllers to be embedded directly in Chargers (vs. in the Smartphone for PMICs). Dialog's new ICs propose a new way of controlling and transforming energy from the power source to the smartphone. Working with ICs, Dialog is able to reduce significantly 1/ the number of discrete component used in a Charger, 2/ the size of the charger (1 small chips vs. multiples discrete components), 3/ reduce costs of manufacturing thanks to a smaller amount of chip, and 4/ a more efficient and reliable circuit. In addition to that, Dialog's ICs allows a direct compatibility with Fast Charging chips embedded in Smartphones. Fast Charging capabilities, on the charger side, is particularly tough to support using discrete components since power density tends to be too high for these components (causing over-heating problems and then limitations). As such, while a standard travel adapter contains one Dialog IC today (a primary side control IC), it should gradually increase to 3 due to the more intelligent features embedded in Travel Adapters (a primary side control IC, a rapid charge IC, and a sync rec control IC). To sum up, Dialog should also benefit from rapid charging feature adoption in chargers as for smartphones. We believe that the unique expertise of Dialog in this field (we see no other company in the semi landscape with a similar expertise in fast charging) and its current market portfolio should help the group to expand its SAM. As for chips embedded in smartphones,



Dialog anticipates that, from <100m units chipsets for chargers that have been shipped in 2015 (c. 250m in 2016e), the market should expand to >600m units in 2019 or a CAGR of 68% over the period and target a LT market share of 50% which appears to be achievable. In addition to these new products, Dialog also reminds us that it has a strong R&D pipe when it comes to Gallium Nitride (enabling higher-efficiency). The group will use this technology to retain leadership in the Power management market and accelerate the transition from discrete components to ICs.

**VALUATION**

- **Overall, we believe that most of the positive news is already included in the consensus and adopt a Neutral recommendation.** We recall that management's guidance is for market share gain in the next iPhone since several months and consensus (BG included) expectations already embrace such an impact (FY17e sales growth: cs. +14.0% / BG +14.7%). In addition, we stress that Dialog stock mostly reacts to short-term momentum and especially Apple's. We have already highlighted our concern regarding possible overheating in the smartphone space due to the good start of the iPhone 7, which, by the way, helped DLG stock to jump by 35% over the last 6m. As such, we prefer to adopt a more cautious approach on the stock and **downgrade from Buy to Neutral**.
- Based on our estimates, Dialog' shares are trading on 2017e P/E and PEG ratios of 11.9x and 1.4x respectively.

**NEXT CATALYSTS**

- Late February/Early March 2017: Q4 and FY16 results (not confirmed yet)

*[Click here to download](#)*



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Construction & Building Materials

**Heidelbergcement**

Price EUR87.12

**A more cautious view; downgrade to Neutral.**

**Fair Value EUR95 vs. EUR86 (+9%)**

**NEUTRAL vs. BUY**

Bloomberg	HEI GY
Reuters	HEIG.F
12-month High / Low (EUR)	92.1 / 60.1
Market Cap (EUR)	17,286
Ev (BG Estimates) (EUR)	27,905
Avg. 6m daily volume (000)	560.8
3y EPS CAGR	17.8%

HEI has reacted positively to the US Elections. With 25% of its EBITDA in the US, the German player is well placed to benefit from the D. Trump' USD1trillion infrastructure plan. New FV at EUR95 (rollover, new estimates). Share price still offer some upside, but we prefer LHN. We see reasons to be more cautious: uncertainty surrounding the Trump plan, the possible difficulties in the last phase of ITC integration and a very decent share price performance (15% YTD, 22% 12M). Downgrade to Neutral.

**ANALYSIS**

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.0%	10.6%	14.7%	15.2%
Cons & Mat	0.9%	-0.1%	6.7%	4.5%
DJ Stoxx 600	-0.8%	-2.6%	0.8%	-7.7%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	13,465	15,493	19,288	20,633
% change		15.1%	24.5%	7.0%
EBITDA	2,412	2,911	3,567	4,036
EBIT	1,645	1,924	2,300	2,669
% change		17.0%	19.5%	16.0%
Net income	800.2	937.3	1,008	1,380
% change		17.1%	7.5%	36.9%

	2015	2016e	2017e	2018e
Operating margin	12.2	12.4	11.9	12.9
Net margin	7.3	7.7	6.8	8.7
ROE	5.4	5.9	6.2	8.1
ROCE	5.6	5.4	6.5	7.4
Gearing	33.1	50.6	43.9	37.9

(EUR)	2015	2016e	2017e	2018e
EPS	4.27	4.73	5.09	6.97
% change	-	10.9%	7.5%	36.9%
P/E	20.4x	18.4x	17.1x	12.5x
FCF yield (%)	4.2%	5.2%	7.9%	7.5%
Dividends (EUR)	1.30	1.70	2.00	3.10
Div yield (%)	1.5%	2.0%	2.3%	3.6%
EV/Sales	1.8x	1.8x	1.4x	1.2x
EV/EBITDA	10.1x	9.6x	7.6x	6.3x
EV/EBIT	14.9x	14.5x	11.7x	9.5x

- HEI is well placed to benefit from D. Trump's ambitions in infrastructures. At end September 2016, the German group generates 25% of its revenues and c30% of its EBITDA in North America (approx. 25% in the US only), on a proforma basis. Besides, in relative terms, there are more revenues generated by the aggregates business in North America than for the group as a whole (35% vs 20%), while aggregates are firstly used in infrastructures. Plus, HeidelbergCement, like CRH, has some asphalt business in North America too. Hence, the share price has positively reacted to the US election, and was up 4.4% last Wednesday. However, some uncertainty remains, in particular how the plan will be financed, although we know tolls roads are one possibility.

- As underlined at its Capital Market Day of 10<sup>th</sup> November, the group is now on track to finalise the integration of Italcementi assets within the HeidelbergCement organisation. The German player has increased several if its targets: higher synergies than initially expected (more than EUR400m vs EUR175m, but this was often mentioned previously), greater reduction of staff (FTE down by 1500 vs 460 inially planned) and a bit more cash from disposals than targeted (EUR1140m vs at least EUR1.0bn). All in all, this not fresh news for the market, and is already priced in.

- The group has reiterated its ambition to return cash to shareholders though dividends (40% to 45% payout vs 31% in 2015). Based on the 2019 EPS target of EUR11, the dividend per share could jump from EUR1.30 in 2015 to cEUR4.5 to cEUR5.0; excluding any additional share-buy-back. The group is confident it can achieve more than EUR20bn of revenues by 2019 (we have EUR22bn) and more than EUR5bn in EBITDA (EUR4.8bn expected). The IBES consensus stands below our estimates.

- Downgrade to Neutral vs Buy. HEI did not react positively following the CMD (-4,36% on Friday – the sector as a whole was down though), but it had previously benefited from the election of D. Trump. Admittedly, the company is well placed to benefit from any infrastructure plan in the US, but at the current share price level, we prefer to be more cautious: Firstly, the share price performance is very good (+ 15% YTD, + 22% on 12M) and the multiples are not that far from historical level (EV/EBITDA 2017e at 7.3x vs 7.5x). Secondly, the Trump infrastructure plan needs to be financed (federal gas tax has not been increased since Clinton was president, toll acceptance is not self-evident etc...) and passed by Congress. Thirdly, we can't exclude unexpected difficulties from the Italcementi acquisition. After all, a deal of that size is not supposed to be nice and easy.

- We have updated our estimates, unchanged for a long time and too aggressive. We have decreased our EBITDA estimates by c8% in 2017e and 2018e. We are still a bit higher than the consensus, especially in 2018. We have updated our valuation with a roll-over to 2018 (vs 2017) but we continue to apply the similar historical 7.5x EV/EBITDA. Our new Fair Value stand at EUR95. Upside is not negligible, but we think LHN should benefit from a more favourable momentum in the near future (share price status improvement, EM macro improvement, CMD on 18<sup>th</sup> November).

**VALUATION**

- EUR95 derived from the application of historical multiples to our 2018 estimates, discounted back.

**NEXT CATALYSTS**

- FY results to be released on 16<sup>th</sup> March 2017.

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**Innate Pharma**

Price EUR13.33

"Liri" indeed shines at the SITC... and it's just the beginning; our FV revised up

Fair Value EUR23 vs. EUR21 (+73%)

BUY

Bloomberg	IPH.FP
Reuters	IPH.PA
12-month High / Low (EUR)	14.5 / 9.5
Market Cap (EURm)	719
Ev (BG Estimates) (EURm)	515
Avg. 6m daily volume (000)	290.9
3y EPS CAGR	

	1 M	3 M	6 M	31/12/15
Absolute perf.	22.3%	22.6%	8.6%	-1.6%
Healthcare	-3.5%	-8.5%	-2.6%	-13.3%
DJ Stoxx 600	-0.8%	-2.6%	0.8%	-7.7%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	25.1	69.6	112.9	81.4
% change		NM	62.1%	-27.9%
EBITDA	-8.1	24.3	53.4	6.9
EBIT	-10.8	21.3	49.9	2.9
% change		NS	134.3%	-94.3%
Net income	-6.7	26.3	53.9	5.9
% change		NS	104.9%	-89.1%

	2015	2016e	2017e	2018e
Operating margin	-42.8	30.6	44.2	3.5
Net margin	-26.7	37.7	47.7	7.2
ROE	-9.3	26.7	35.4	3.7
ROCE	4.2	-25.3	-185.9	6.5
Gearing	-322.1	-207.3	-120.2	-44.3

(EUR)	2015	2016e	2017e	2018e
EPS	-0.12	0.49	1.00	0.11
% change	-	NS	105.0%	-89.1%
P/E	NS	27.3x	13.3x	NS
FCF yield (%)	27.9%	NM	NM	NM
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	19.4x	7.4x	4.7x	8.0x
EV/EBITDA	NS	21.2x	10.0x	94.7x
EV/EBIT	NS	24.2x	10.7x	227.5x

BMS presented more detailed data from its Phase I/II testing lirilumab/nivolumab in refractory/relapsed patients with HNSCC (head & neck squamous cell carcinoma) last Saturday. Overall, they were much better than we anticipated as 1/ the involved population was more heavily pre-treated than the one seen in Checkmate-141 that tested nivolumab alone in this disease; 2/ the 1-year OS stood at 60% (vs 36% for nivo alone). As such, we raise our FV from EUR21 to EUR23 after having raise some of our PoS.

**ANALYSIS**

**Stellar data in a heavily pre-treated population.** We see the efficacy data presented this Saturday as highly encouraging when compared with those from the Checkmate-141 (nivolumab alone in HNSCC). Firstly, the patients involved in the liri/nivo study 1/ overall had the same ECOG performance status, but 2/ received more prior lines of systemic therapy... And thus had a more negative prognosis. Secondly, the one-year Overall Survival (OS) stood at 60% irrespectively of PD-L1's level of expression, while nivo alone displayed a 36% rate within this same timeframe (see Fig. below).

	Liri/Nivo (n=41)	Nivo - Checkmate-141 (n=240)
<b>Patients - Characteristics at baseline</b>		
<u>ECOG performance status</u>		
0	22%	20%
1	78%	79%
≥ 2	0%	0%
<u>Prior therapies</u>		
1	32%	44%
2	42%	33%
≥ 3	27%	23%
HPV-positivity oropharynx	20%	27%
<u>Efficacy data</u>		
ORR	24%	13%
Complete response	10%	3%
Partial response	14%	11%
DCR	52%	NR
<u>ORR by PD-L1 expression</u>		
< 1%	0%	12%
≥ 1%	41%	17%
≥ 5%	55%	22%
≥ 50%	57%	37%
<u>Overall survival in all patients</u>		
At 6 months	90%	56%
At 12 months	60%	36%

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

Surprisingly, no responses were observed in PD-L1-negative and even HPV-positive patients; although PD-1/PD-L1 blockers as single agents have induced some in other trials (Seiwart et al, 2016, Segal et al, 2015). That said, we believe it is premature to draw conclusions, especially since the involved population was quite small.

**A Phase III is very likely, in our view.** Such advancement was not explicitly promised, but we would be very surprised if BMS does initiate a pivotal trial especially since 1/ there is no other checkpoint blocker targeting NK cells within its portfolio; 2/ apart from nivo/ipilimumab, there is no significant late-stage development in HNSCC (see Fig. below).

**Good news never comes alone: positive read-across for monalizumab.** Such dataset confirms the significant role NK cells might have in the cancer immune response, as well as the synergies with PD-1/PD-L1 blockers... And thus partially de-risks 1/ the mechanism of action of monalizumab (an anti-NKG2A acting both NK cells along with some CD8+ T lymphocytes), and 2/ its development with durvalumab (AZN's anti-PD-L1) in this very same indication.



Phase I		Phase II		Phase III		Approved Indications	
Anti-GITR Mono & IO Combo Solid Tumors	Mesothelin-ADC Solid Tumors	OPDIVO* RHL (FL)	Lirilumab* Hematologic Mal.	OPDIVO* Adjuvant Melanoma	OPDIVO* 2L Head & Neck	OPDIVO* Previously treated Met Melanoma	OPDIVO* + YERVOY BRAF wild-type Met Melanoma
Carbimazole* Mono & IO Combo Solid Tumors	Anti-HER3** Breast Cancer	OPDIVO* RHL (DL/CLL)	Urelumab* + OPDIVO* Solid Tumors & Hematologic Mal.	OPDIVO* 2L SCLC	OPDIVO* 1L Head & Neck	OPDIVO* 1L BRAF wild-type Met Melanoma	OPDIVO* + YERVOY Melanoma across BRAF status
Anti-COT3 IO Combo Solid Tumors	Lirilumab* Solid Tumors	OPDIVO* MSI+ Colon	Anti-Pd-1/4-1B1 Lung Cancer	OPDIVO* + YERVOY 1L SCLC	OPDIVO* + YERVOY 1L Head & Neck	OPDIVO* Metastatic adjuv BRAF status	YERVOY Metastatic Melanoma
Anti-CK40 Mono & IO Combo Solid Tumors	Lirilumab* + EMPLACITF* MSI	OPDIVO* 2L Bladder	Anti-Pd-1/4-1B1 + OPDIVO* Lung Cancer	OPDIVO* + YERVOY 1L NSCLC	OPDIVO* 3L Gastric	OPDIVO* Previously treated Met Squamous NSCLC	YERVOY Adjuvant Melanoma
Anti-LAG3* Mono & IO Combo Hematologic Mal.	Urelumab* + EMPLACITF* MSI	OPDIVO* Ovarian	EMPLACITF 1L MSI Pomalidomide Combo	OPDIVO* + YERVOY 1L RCC	OPDIVO* 2L Esophageal	OPDIVO* Previously treated Met Non-squamous NSCLC	EMPLACITF* Relapsed/Refractory MSI Ravelumid Combo
IDO Inhibitor IO Combo Solid Tumors	OPDIVO* + SPRYCEL* CML	OPDIVO* 2L HCC	YERVOY Adolescent Met.	OPDIVO* 1L Glioblastoma	OPDIVO* Adjuvant Esophageal (2nd/3rd/4th stage)	OPDIVO* Previously treated Met Non-squamous NSCLC	EMPLACITF* Relapsed/Refractory MSI Ravelumid Combo
HuMax-IL3 Solid Tumors	OPDIVO* Solid Tumors & Hematologic Mal.	Anti-LAG3* + OPDIVO* Solid Tumors	SPRYCEL* Pediatric	OPDIVO* 2L Glioblastoma	OPDIVO* + EMPLACITF* Multiple Myeloma	OPDIVO* Previously treated advanced RCC	SPRYCEL* 1L CML
Uroguzumab + OPDIVO* Solid Tumors	OPDIVO* + YERVOY Solid Tumors			OPDIVO* 1L HCC	EMPLACITF* 1L MM Ravelumid Combo	OPDIVO* Advanced Hodgkin Lymphoma	SPRYCEL* Refractory CML
BET Inhibitor Solid Tumors	OPDIVO* Pediatric			OPDIVO* Adjuvant Bladder	PROSTACIN** Met CRPC		

\* Developmental Partnership  
 EMPLACITF: Adjuv.  
 SPRYCEL: Chronic  
 OPDIVO: One Pharmacological  
 Prostac: Gleason Node  
 Lirilumab: Single Phase, One Pharmacological  
 Urelumab, Anti-LAG3: One Pharmacological  
 Anti-HER3: V-type Alpha Lig  
 Carbimazole: First Phase Therapeutic

\*\* Patient non-Heads  
 \*\* Option rights

CML: Chronic Myelogenous Leukemia  
 CRPC: One Cell-line/Prostate  
 DLCL: Diffuse Large B-cell Lymphoma  
 FL: Follicular Lymphoma  
 HCC: Hepatocellular Carcinoma  
 Met: Metastatic  
 MSI: Microsatellite Instability  
 MM: Multiple Myeloma  
 Non: Non-Hodgkin's Lymphoma  
 NSCLC: Non-Small Cell Lung Cancer  
 SCLC: Small Cell Lung Cancer  
 RCC: Renal Cell Carcinoma

**VALUATION**

We raise our FV from EUR21 to EUR23, having our PoS for both liri/nivo (50% vs 20%) and mona/durvalumab (45% vs 30%) in HNSCC. And it goes without saying that we stick to our BUY rating.

Note that we may reconsider some ongoing development (e.g. liri/nivo in Hodgkin's lymphoma or gastric cancers) following this publication.

**NEXT CATALYSTS**

Q4 16: Phase II results for lirilumab as a single-agent for the maintenance therapy of acute myeloid leukemia.

[Click here to download](#)



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Utilities

**RWE**

Price EUR12.33

9M-16 results – first take: results below expectations, guidance confirmed

Fair Value EUR9.5 (-23%)

NEUTRAL

Bloomberg	RWE GR
Reuters	RWEG.DE
12-month High / Low (EUR)	15.9 / 10.2
Market Cap (EURm)	7,450
Ev (BG Estimates) (EURm)	44,985
Avg. 6m daily volume (000)	4 245
3y EPS CAGR	

RWE reported its 9M-16 results this morning. Q3-16 EBITDA reached EUR810m down about 33% yoy and around 10% below consensus' expectations, mainly due to a poor performance in the company's conventional power generation business and its grid business. The company's adjusted net income has been negatively impacted by lower capital gains vs. Q3-15, notably due to the conversion of long-term investments in securities to short-term liquidity investments in order to fund the company's contribution to the nuclear energy fund. Negative.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-9.3%	-21.2%	7.7%	5.3%
Utilities	-4.6%	-11.9%	-9.3%	-14.4%
DJ Stoxx 600	-0.8%	-2.6%	0.8%	-7.7%

**ANALYSIS**

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	48,599	48,259	48,337	48,416
% change		-0.7%	0.2%	0.2%
EBITDA	7,017	5,461	5,543	5,234
EBIT	3,837	3,002	3,095	2,820
% change		-21.8%	3.1%	-8.9%
Net income	-170.0	483.0	533.8	361.4
% change		NS	10.5%	-32.3%

RWE reported this morning its 9M-16 results. 9M-16 EBITDA reached EUR3,821m which implies Q3-16 EBITDA at EUR810m down 33% yoy and 10% below consensus' expectations. Main declines have been reported in the conventional power generation business (Q3-16 EBITDA down 30.5% yoy), in the grids business (-29%) and in the supply business (from EUR17m to EUR(47)m). The grids business has been notably penalized by 1/one-offs in 2015 linked to the revaluation of the company's investment in VSE; and 2/increased expenses for grid infrastructure maintenance. Q3-16 operating result reached EUR232m well below consensus' expectations at EUR281m. Finally, Q3-16 adjusted net income reached EUR(371)m vs. consensus' expectations at EUR(192)m. The company notably bore the brunt of higher capital gains achieved in 2015 (high gains on the sale of securities in 2015 vs. losses from similar transactions in 2016). Sales of long-term securities have been completed in order to finance the company's contribution to a state nuclear-waste fund.

	2015	2016e	2017e	2018e
Operating margin	7.9	6.2	6.4	5.8
Net margin	-0.3	1.0	1.1	0.7
ROE	-19.0	8.3	9.3	7.7
ROCE	6.4	5.0	5.2	4.9
Gearing	186.2	200.8	206.8	217.3

Despite this performance, RWE confirmed its full-year guidance with EBITDA expected to be between EUR5.2bn and EUR5.5bn, operating result between EUR2.8bn and EUR3.1bn and adjusted net income between EUR500m and EUR700m. Despite the poor performance posted by the conventional power generation business in Q3-16 with an operating result down c. 60% yoy, RWE now expects the division's FY16 operating result to be at the level recorded in 2015 (i.e. EUR596m which would however imply a c. 15% decline yoy in Q4-16) vs. a significant decline previously expected.

(EUR)	2015	2016e	2017e	2018e
EPS	-0.28	0.79	0.87	0.59
% change	-	NS	10.5%	-32.3%
P/E	NS	15.7x	14.2x	21.0x
FCF yield (%)	NM	NM	11.8%	12.8%
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	0.9x	0.9x	0.9x	0.9x
EV/EBITDA	6.3x	8.2x	8.1x	8.6x
EV/EBIT	11.5x	15.0x	14.5x	16.0x

**Conclusion:** RWE results are clearly below consensus' expectations on almost all the company's metrics. This has mainly been triggered by higher maintenance expenses in the company's infrastructure business as well as by lower capital gains at the bottom line level. **Negative.**

**Neutral rating confirmed.**

**VALUATION**

At current share price, the stock trades at 8.2x its 2016e EV/EBITDA multiple

Neutral, FV @ EUR9.5

**NEXT CATALYSTS**

March 14<sup>th</sup> 2017: FY16 results

[Click here to download](#)



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Luxury & Consumer Goods

**BIC**

Price EUR120.25

**US shavers market: "traditional" brands are feeling the pressure from online players**

Fair Value EUR124 (+3%)

NEUTRAL

Bloomberg	BB FP
Reuters	BICP.PA
12-month High / Low (EUR)	156.4 / 114.4
Market Cap (EURm)	5,764
Avg. 6m daily volume (000)	56.60

	1 M	3 M	6 M	31/12/15
Absolute perf.	-6.9%	-9.8%	-3.0%	-20.7%
Consumer Gds	-6.0%	-7.8%	-5.0%	-8.7%
DJ Stoxx 600	-0.9%	-1.5%	0.8%	-7.4%

	2015	2016e	2017e	2018e
P/E	17.7x	19.9x	18.1x	16.9x
Div yield (%)	4.9%	2.9%	3.1%	3.3%

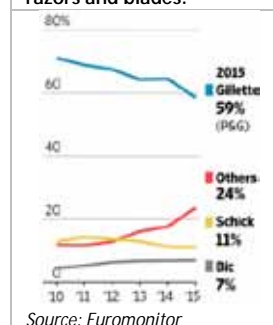
**ANALYSIS**

As highlighted in our previous comment, during the Q3 16 results conference call, BIC mentioned that it was facing increasing competitive pressure, particularly from online shaving clubs such as Dollar Shave Club (acquired by Unilever) and Harry's, which are clearly gaining market share. Indeed, in 2015 online sales already accounted for ~10% of the US men's razor market (~USD3bn) and DSC had a ~6% share of this market, Harry's owned ~2%.

Harry's is also expanding its presence offline: in August, Harry's signed a partnership with Target to put up displays in its approx. 1,800 stores. In just one month, Nielsen data showed that Harry's took a 10% share of Target's cartridge sales and 50% of razor sales, whilst Gillette sales in Target stores declined in September. Overall, the rhs graph shows that Gillette's and Schick's market shares have both tumbled to 59% and 11% respectively, in response to this online competition, Gillette has launched its own online service (Gillette Shave Club).

**What about BIC?** Over the past years, the French brand has increased its positions (7% in 2015) and this trend continued this year (ytd as of September '16: +1.9pt to 28.6% of the one-piece shaver segment) thanks to brand support, new product launches and its notorious "value-for-money" image (see below). However, this favourable momentum might be called into question by the attractive shopping experience offered by these online players (i.e. free delivery, flexible plans to adjust the frequency of automatic reorders, etc.), their aggressive pricing strategy, and new consumer shopping behaviours (buy online vs. offline) threaten the in-store traffic of traditional retailers, which are BIC's customers.

US market share of men's razors and blades:



The table below shows that BIC retains a very competitive offering in four to five-blade disposable razor category, matching its value-for-money positioning. It is worth noting that Gillette's disposable razors only have two or three blades, the 4+blade razors are non-disposable (e.g.: Gillette Fusion five-blade razor at USD8.99).

**4- to 5-blade disposable razors vs. Harry's razor at Target.com:**

			
BIC Flex 4 (4 blades) Price: USD5.39	Schick Hydro 5 (5 blades) Price: USD8.19	BIC Flex 5 (5 blades) Price: USD8.49	Harry's (5 blades) Price: USD9.99

Source: Target.com

**VALUATION**

This fiercer competitive environment explains why BIC has increased brand support for its Shavers business (2016e: ~20% of sales and ~17% of NIFO). Although the Group continues to invest in marketing and innovation, it must anticipate the significant shift in consumer behaviour, from offline to online shopping.

At 12.1x 2017e EV/EBIT, the stock trades at 17% premium to its 2004-16 historical average.

**NEXT CATALYSTS**

BIC will report its FY16 Results on 15th February 2017.

[Click here to download](#)

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## Healthcare

**Morphosys**

Price EUR45.82

**Urelumab got very promising data in melanoma. Positive read-across for utomilumab****Fair Value EUR64 (+40%)****BUY**

Bloomberg	MOR GR
Reuters	MORG.DE
12-month High / Low (EUR)	60.8 / 33.2
Market Cap (EURm)	1,216
Avg. 6m daily volume (000)	110.9

	1 M	3 M	6 M	31/12/15
Absolute perf.	6.5%	14.4%	4.1%	-20.5%
Healthcare	-3.5%	-8.5%	-2.6%	-13.3%
DJ Stoxx 600	-0.8%	-2.6%	0.8%	-7.7%

	2015	2016e	2017e	2018e
P/E	80.4x	NS	NS	NS
Div yield (%)	NM	NM	NM	NM

**ANALYSIS**

- Among the numerous presentations BMS made, the liri/nivo combination obviously caught out attention... But we believe the one involving urelumab (CD137/4-1BB agonist) with nivo in relapsed/refractory patients with advanced melanoma was also one to keep in mind. Firstly because of the responses induced were very similar in PD-L1 negative and positive patients. Secondly because its safety profile was much better than what we anticipated.
- Without going into too much details, we noted that 1/ the objective response rate stood at 50% (23/46, with 5 of them being unconfirmed) in patients with  $\geq$  1% PD -L1 expression, while it mounted to 47% in those with a < 1% level. More surprisingly, the rate of Grade III-IV was 17% (while we thought the mechanism of action would induce a quite toxic profile). That said, the reported ORR in other solid tumours are not so spectacular (5% in NSCLC and HNSCC patients not previously treated with an anti-PD-1/PD-L1).
- These data are likely to put the 4-1BB agonists under the spotlights; and that would include MOR/PFE's utomilumab. Obviously, OS data are needed before drawing more conclusions... But such dataset is already very competitive with PD-1/PD-L1 blockers in combo with anti-CTLA-4. So we believe the street will pay an increasing attention to this therapeutic class in the months (and might even revise up its expectations).

**VALUATION**

- We stick to our BUY rating with a FV of EUR64 (knowing that so far, we do not include utomilumab in our calculations).

**NEXT CATALYSTS**

- Q4 16: Guselkumab in plaque psoriasis - Janssen filing for approval.

[Click here to download](#)Mickael Chane Du, [mchannedu@bryangarnier.com](mailto:mchannedu@bryangarnier.com)

## Healthcare

## Zealand

Price DKK98.50

Suliqua recommended for approval by the CHMP

Fair Value DKK172 (+75%)

BUY

Bloomberg	ZEAL DC
Reuters	22Z.F
12-month High / Low (DKK)	155.0 / 87.0
Market Cap (DKK)	2,567
Avg. 6m daily volume (000)	119.3

	1 M	3 M	6 M	31/12/15
Absolute perf.	-4.4%	-20.2%	-16.2%	-35.0%
Healthcare	-3.5%	-8.5%	-2.6%	-13.3%
DJ Stoxx 600	-0.8%	-2.6%	0.8%	-7.7%

	2015	2016e	2017e	2018e
P/E	NS	NS	NS	8.7x
Div yield (%)	NM	NM	NM	NM

## ANALYSIS

Last week the CHMP had its monthly meeting for November and issued on Friday the list of its decisions, including the recommendations for approval to the EMA. This included a series of products to treat diabetes (second biosimilar glargine, first ultra-fast-acting insulin), among which was Suliqua, the brand name for Europe of the fixed-ratio combination of insulin glargine and lixisenatide. The sponsor responsible for the filing is Sanofi, which will market the drug in Europe, but we include this piece of news in a Zealand short note because the Danish company will receive milestone and royalty payments on sales from Sanofi and this represents a much bigger opportunity relative to its size than for Sanofi.

Obviously Europe should not be a major opportunity market-wise because if we refer to the GLP1 market, about 60% of the market is in the US, where prices are much higher for the class. Some GLP1s have even found it tough to get good market access in some European countries and adoption is low. Could a combination with insulin change the paradigm? We doubt but maybe for intensification of treatment (the indication is limited to patients that have failed on metformin, any oral combination and basal insulin). That said, Xultophy from Novo-Nordisk is already approved in Europe and it does not seem to be a major success.

What is more important than anything else for Zealand is to be one step closer to the market with the combination that represents the vast majority of the valuation of the whole company.

## VALUATION

Suliqua/Soliqua represents two-thirds of our FV. However Europe is only 14% of 2024 estimated sales for the drug. Now, with this CHMP recommendation, the door is more widely open for an approval in January 2017 and a launch in the first European markets shortly thereafter.

Of course, it says little about the decision in the US because the FDA is not bound to European advice. It simply provides some confidence for the market by then.

## NEXT CATALYSTS

Around 21st November 2016: PDUFA date for Soliqua in the US - [Click here to download](#)

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## BG's Wake Up Call

# 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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