Please find our Research on Bloomberg BRYG <GO>)

25th November 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	19083.18	0.00	+9.52%
S&P 500	2204.72	0.00	+7.87%
Nasdaq	5380.68	0.00	+7.45%
Nikkei	18381.22	+0.26%	-3.68%
Stoxx 600	341.837	+0.31%	-6.55%
CAC 40	4542.56	+0.29%	-2.04%
Oil /Gold			
Crude WTI	46.64	+0.06%	+25.38%
Gold (once)	1186.05	-0.11%	+11.64%
Currencies/Rates			
EUR/USD	1.05635	+0.30%	-2.76%
EUR/CHF	1.07365	+0.17%	-1.26%
German 10 years	0.184	-6.57%	-70.95%
French 10 years	0.783	-1.63%	-20.21%

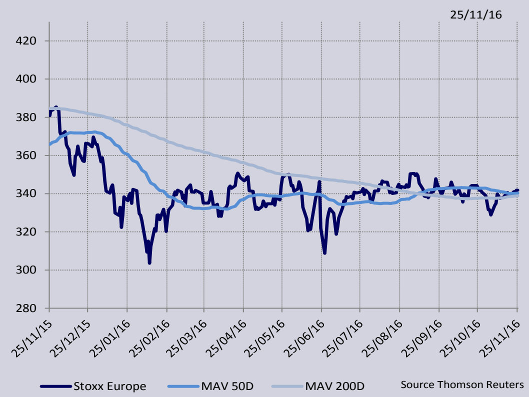
Upcoming BG events :

Date	
28th-Nov/ 29th-Nov	2nd Paris Consumer Conference
30th-Nov	VALEO (BG Lunch with IR)
5th-Dec	Reverse roadshow in Paris / Construction
5th-Dec/ 6th-Dec	ATOS (BG Paris Roadshow CFO & IR)
8th-Dec	Reverse roadshow Brewers Netherlands, Belgium
12th-Dec	Jean-Pierre Petit, Président des Cahiers Verts de l'Economie.

Recent reports :

Date	
23rd-Nov	SPIRITS : Rising to the Generation Y challenge
22nd-Nov	ORPEA More than ever a BUY
21st-Nov	Car Parts -What if market went too far down on auto suppliers?
21st-Nov	Innate - Still time to jump on the bandwagon
18th-Nov	FOCUS FRESENIUS Steady as she goes
18th-Nov	FOCUS ACTELION Several upsides to play in an exciting 2017 year

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



SANOFI — NEUTRAL, Fair Value EUR83 vs. EUR84 (+11%)

Moving to Sanofi post-BI deal makes little change

As we come very close to the final stage of the transaction with Boehringer Ingelheim to swap assets (still expected to close by year-end), it is time for us to shift and use the new Sanofi as a base to value the stock going forward. Although it is going to be a B.U., Consumer Healthcare is unlikely to be as detailed from a P&L perspective as was Merial within Sanofi. So it may prove more difficult to follow its performance. Recent deals in Consumer Healthcare were mixed in terms of delivery on promises of synergies with GSK doing quite well but Bayer struggling to integrate Merck business. Sanofi's objective to increase the B.U.'s profitability to 30% in 2018 looks ambitious. In all, the change is fairly neutral in terms of EPS growth. Our FV is slightly adjusted downwards because industry-wise, we use lower LT growth rates in C.H. compared to animal healthcare.

PENNON GROUP — SELL, Fair Value 830p (+2%)

Solid H1 2016/17 metrics thanks to SWW

Pennon has posted solid H1 2016/17 metrics this morning, ahead of market expectations, thanks to a good performance at SWW and a positive scope effect at Viridor. Landfill businesses continued to suffer but the group benefited from solid costs efficiencies at its recycling business. Positive. We expect a positive share price reaction.

RÉMY COINTREAU — BUY-Top Picks, Fair Value EUR85 vs. EUR84 (+13%)

The premiumisation strategy is working

The H1 2016/17 results are further proof that the group's premiumisation strategy is working. EBIT grew 7% in organic terms thanks to the superior performance of higher qualities. The return to growth in Greater China is also providing some margin upside potential. We maintain our Buy recommendation and slightly revise upwards our Fair Value from EUR84 to EUR85.

BREWERS

Vietnam's brewers go up for sale (Sector report to follow)

As the privatisation of the Vietnamese state owned brewers gets going, Carlsberg seems to be in pool position to acquire Habeco and AB InBev might be keen to add Sabeco to its portfolio. Heineken already has a great position in the country given its focus on the premium segment with the Heineken and Tiger brands. Vietnam is 10% of the company's group operating profit.

In brief...

ACTELION, *Rumoured to have received an offer from J&J*

GLAXOSMITHKLINE, *GSK brings third HIF-PHI into phase III*

Healthcare

Sanofi

Price EUR74.58

Moving to Sanofi post-BI deal makes little change

Fair Value EUR83 vs. EUR84 (+11%) **NEUTRAL**

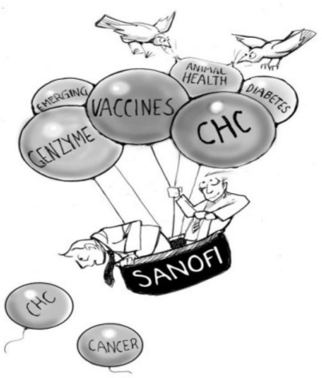
Bloomberg	SAN FP
Reuters	SASY.PA
12-month High / Low (EUR)	84.4 / 67.3
Market Cap (EUR)	96,166
Ev (BG Estimates) (EUR)	103,625
Avg. 6m daily volume (000)	2 574
3y EPS CAGR	1.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	7.8%	7.9%	3.9%	-5.1%
Healthcare	-4.1%	-8.8%	-8.0%	-15.1%
DJ Stoxx 600	-0.7%	-0.9%	-0.7%	-6.6%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	36,575	36,175	36,345	37,645
% change		*-1.1%*	*0.5%*	*3.6%*
EBITDA	11,211	10,773	10,210	10,449
EBIT	9,922	9,754	9,404	9,833
% change		*-1.7%*	*-3.6%*	*4.6%*
Net income	7,345	7,149	6,925	7,338
% change		*-2.7%*	*-3.1%*	*6.0%*

	2015	2016e	2017e	2018e
Operating margin	27.1	27.0	25.9	26.1
Net margin	20.1	19.8	19.1	19.5
ROE	12.9	12.3	11.9	12.3
ROCE	11.8	11.3	10.7	11.0
Gearing	12.7	12.7	14.3	11.0

(EUR)	2015	2016e	2017e	2018e
EPS	5.62	5.59	5.49	5.89
% change	-	*-0.5%*	*-1.9%*	*7.4%*
P/E	13.3x	13.3x	13.6x	12.7x
FCF yield (%)	4.6%	6.1%	5.9%	6.2%
Dividends (EUR)	2.93	3.00	3.15	3.50
Div yield (%)	3.9%	4.0%	4.2%	4.7%
EV/Sales	2.8x	2.9x	2.9x	2.7x
EV/EBITDA	9.2x	9.6x	10.2x	9.8x
EV/EBIT	10.4x	10.6x	11.1x	10.5x



As we come very close to the final stage of the transaction with Boehringer Ingelheim to swap assets (still expected to close by year-end), it is time for us to shift and use the new Sanofi as a base to value the stock going forward. Although it is going to be a B.U., Consumer Healthcare is unlikely to be as detailed from a P&L perspective as was Merial within Sanofi. So it may prove more difficult to follow its performance. Recent deals in Consumer Healthcare were mixed in terms of delivery on promises of synergies with GSK doing quite well but Bayer struggling to integrate Merck business. Sanofi's objective to increase the B.U.'s profitability to 30% in 2018 looks ambitious. In all, the change is fairly neutral in terms of EPS growth. Our FV is slightly adjusted downwards because industry-wise, we use lower LT growth rates in C.H. compared to animal healthcare.

ANALYSIS

During the third-quarter conference call and again in recent meetings, Sanofi indicated that the asset swap with Boehringer Ingelheim (B.I.) was still expected to close by the end of the year, once all regulatory clearances are obtained. Already, several agreements have been reached, including from the EU in August for Sanofi to acquire B.I's OTC business and early in November for B.I. to acquire Merial. The agreement is subordinated to some (modest) divestitures, most of which have already been validated, including vaccines and pharmaceuticals acquired by Ceva Santé Animale to B.I. in October. Sanofi commented on this during the conference call by saying that the value of the assets to be divested represented only about EUR10-15m in annual sales.

So the closure of the transaction will be announced soon and from then on, Sanofi will operate under a different structure. In 2016, Merial will generate about EUR2.6bn in revenues with a core operating margin of 25%. Top-line growth was exceeding the double-digit mark in 2015 and in H1 2016 but has significantly slowed-down in Q3, maybe in part because of some disturbance from the transaction. B.I.'s CH business posted more modest growth in the recent past but compared to the industry did quite well with 5% average growth, which was again the case in H1 2016 (-4% in reported terms, after currencies), with profitability said to be around 20%. It is Sanofi's objective to bring the overall CHC operating profitability back to 30% by 2018 and we look at this target as very ambitious. Although it is largely composed of OTC brands (therefore of assets with good profitability), we see few businesses able to reach this level of margins in this demanding industry.

As a reminder, the difference in value between the two businesses will make B.I. pay Sanofi a true-up cash adjustment of EUR4.7bn. Sanofi will use it in big part to finance a EUR3.5bn share buy-back programme that will offset the core EPS dilution incurred by the transaction in year 1. Beyond 2017 and thanks to the synergies extracted in CHC, the deal is expected to be accretive. This of course is based on internal perspectives for the two businesses.

VALUATION

As we implement the changes into our model, we are lowering the base of business for the group by about EUR1bn in sales and by close to EUR350m in core operating profit.

Conversely, Sanofi has already started buying back shares (4 million in the first two weeks after it announced the start of a new SBB programme or EUR300m). Therefore, we expect the number of shares used to compute core EPS to fall by close to 30m between Q3 2016 and 2017 on average. We also take the opportunity of this update to refresh our asumptions on Soliqua following US approval (PoS to 100%) and on FX (USD/EUR now offering 5% +ve impact in 2017). In all, Core EPS is modestly impacted (slight increase in 2017 in reported terms). Our FV is down by EUR1 due to a small decrease in LT growth rates (CHC: 1.5% - AH: 2%).

Looking beyond 2017, we see a fairly attractive CAGR for Sanofi should everything go according to plan. It is worth mentioning in particular that our numbers factor in positive ODYSSEY OUTCOMES data and EUR1bn in sales for Praluent in 2018. It is still a bit premature to BUY.

NEXT CATALYSTS

By year-end: closing of the asset swap with B.I. - Click here to download

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Utilities

Pennon Group

Price 810.00p

Solid H1 2016/17 metrics thanks to SWW

Fair Value 830p (+2%) **SELL**

Bloomberg	PNN LN
Reuters	PNN.L
12-month High / Low (p)	945.5 / 769.0
Market Cap (GBPm)	3,352
Ev (BG Estimates) (GBPm)	6,177
Avg. 6m daily volume (000)	1 128
3y EPS CAGR	8.3%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-2.2%	-8.2%	-3.7%	-5.9%
Utilities	-8.3%	-10.6%	-12.2%	-15.4%
DJ Stoxx 600	-0.7%	-0.9%	-0.7%	-6.6%

YEnd Mar. (GBPm)	03/16	03/17e	03/18e	03/19e
Sales	1,352	1,403	1,466	1,564
% change		*3.8%*	*4.5%*	*6.7%*
EBITDA	448	464	496	552
EBIT	251.6	267.6	285.5	315.3
% change		*6.3%*	*6.7%*	*10.4%*
Net income	152.1	155.3	169.4	193.0
% change		*2.1%*	*9.1%*	*13.9%*

	03/16	03/17e	03/18e	03/19e
Operating margin	18.6	19.1	19.5	20.2
Net margin	11.2	11.1	11.6	12.3
ROE	10.2	10.3	11.1	12.4
ROCE	5.5	5.3	5.6	6.1
Gearing	167.0	175.3	175.9	170.6

(p)	03/16	03/17e	03/18e	03/19e
EPS	36.97	37.75	41.17	46.91
% change	-	*2.1%*	*9.1%*	*13.9%*
P/E	21.9x	21.5x	19.7x	17.3x
FCF yield (%)	NM	NM	3.2%	5.5%
Dividends (p)	33.58	35.53	37.84	40.30
Div yield (%)	4.1%	4.4%	4.7%	5.0%
EV/Sales	4.5x	4.4x	4.2x	3.8x
EV/EBITDA	13.5x	13.3x	12.5x	10.9x
EV/EBIT	24.0x	23.1x	21.8x	19.1x

Pennon has posted solid H1 2016/17 metrics this morning, ahead of market expectations, thanks to a good performance at SWW and a positive scope effect at Viridor. Landfill businesses continued to suffer but the group benefited from solid costs efficiencies at its recycling business. Positive. We expect a positive share price reaction.

ANALYSIS

- **Main metrics**: H1 2016/17 sales decline of **0.5%** to **GBP685m** with the group benefiting from solid growth at its water business *(+3.1% to GBP288m*) as a result of **1.3%** higher demand, tariff increases of **1.4%** (*with RPI of 1.1%)* and increased new connections but is within regulatory tolerances for revenue controls. On the contrary Viridor's revenue decreased by **3.0% to GBP398m** due to the expected decrease in construction spend on service concession arrangements as plants come onstream and lower landfill volumes, partly offset by the growing contribution of operational ERFs. EBITDA surged by **5.9%** to **GBP245m** driven mainly by the SWW business *(+5.4% on EBITDA*) while Viridor's EBITDA was only up by **3.8%.** Costs efficiencies combined with higher revenues allowed the group to post solid EBITDA growth at SWW, while EBITDA at Viridor benefited mainly from the ramp-up of ERFs. As a reminder, the group still has three further ERFs under construction. EBITDA contribution from Landfill and Landfill gas continued to decline *(-29% and -19% respectively*) while contribution from Recycling strongly surged *(+53%)* due to the significant progress made by the group on reducing costs base and improving assets utilisation. All in all group's operating profit was up **14%** to GBP154m, ahead of consensus (*GBP145m*) while EPS was only up **1.7%** ahead also of market expectation *(-7.7% expected by the market*).

- **What to retain from this publication? 1/** The group's performance for H1 was driven mainly by SWW business, which outperformed as usual the regulatory contract while Viridor's earnings were only up thanks to a scope effect. **2/** Metrics came out above market expectations *(+3.6%)* on EBITDA and EBIT with a good surprise coming from SWW business. **3/** Cost efficiency continued to deliver solid earnings growth with Totex' outperformance resulting from cumulative savings of GBP80m and financing outperformance of **GBP48m** in the first 18 months of K6. As a reminder SWW is targeting **GBP27m** of net synergies over K6 following the integration of Bournemouth Water. **4/**The board has made the decision to commit to a further GBP252m ERF at Avenmouth near Bristol to be completed in 2020/21, talking the portfolio to 12 plants.

- **Conclusion**: Results reported by the group are quite solid especially compared with peers (SVT posted yesterday a +3.2% YoY growth in PBT, that needs to be compared with +20% posted by Pennon today). **We expect a positive share price reaction.**

VALUATION

- At the current share price the stock is trading at **13.3x** its 2017e EBITDA and at **21.5x** its 2017E EPS

- **Sell**, FV **@ 830p**

NEXT CATALYSTS

- 9th February – Trading statement

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Food & Beverages

Rémy Cointreau

Price EUR75.40

Bloomberg	RCO FP
Reuters	RCOP.PA
12-month High / Low (EUR)	80.4 / 58.1
Market Cap (EURm)	3,747
Ev (BG Estimates) (EURm)	4,182
Avg. 6m daily volume (000)	94.40
3y EPS CAGR	13.1%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-0.8%	-3.7%	3.5%	14.2%
Food & Bev.	-7.2%	-10.2%	-8.1%	-10.0%
DJ Stoxx 600	-0.7%	-0.9%	-0.7%	-6.6%

YEnd Mar. (EURm)	03/16	03/17e	03/18e	03/19e
Sales	1,051	1,078	1,152	1,235
% change		*2.6%*	*6.9%*	*7.1%*
EBITDA	200	230	254	286
EBIT	178.4	209.5	231.1	260.6
% change		*17.4%*	*10.3%*	*12.7%*
Net income	110.4	125.3	145.0	168.1
% change		*13.5%*	*15.7%*	*15.9%*

	03/16	03/17e	03/18e	03/19e
Operating margin	17.0	19.4	20.1	21.1
Net margin	10.5	11.6	12.6	13.6
ROE	9.9	11.5	13.8	15.4
ROCE	16.5	17.3	18.0	18.3
Gearing	41.2	40.1	38.1	31.9

(EUR)	03/16	03/17e	03/18e	03/19e
EPS	2.27	2.45	2.83	3.28
% change	-	*8.0%*	*15.7%*	*15.9%*
P/E	33.2x	30.8x	26.6x	23.0x
FCF yield (%)	2.0%	2.5%	3.0%	3.5%
Dividends (EUR)	1.60	1.60	1.60	1.60
Div yield (%)	2.1%	2.1%	2.1%	2.1%
EV/Sales	4.0x	3.9x	3.6x	3.3x
EV/EBITDA	21.1x	18.2x	16.3x	14.3x
EV/EBIT	23.6x	20.0x	17.9x	15.7x

The premiumisation strategy is working

Fair Value EUR85 vs. EUR84 (+13%) **BUY-Top Picks**

The H1 2016/17 results are further proof that the group's premiumisation strategy is working. EBIT grew 7% in organic terms thanks to the superior performance of higher qualities. The return to growth in Greater China is also providing some margin upside potential. We maintain our Buy recommendation and slightly revise upwards our Fair Value from EUR84 to EUR85.

ANALYSIS

- **The business is developing nicely**. The group posted very strong organic sales growth of 5.1% in H1 2016/17, excluding Partner Brands (12% of sales). This division was affected by the loss of the EPI distribution contracts in some European markets which had a negative impact of 100bps. The group reiterated its confidence in Greater China. Note that at the Q2 sales release on 18th October the group reported that the Mid-Autumn festival was good and its value depletions rose mid single digit in Q2 and Q1 (flat in 2015/16). The objective for the year in the country is to grow both in sales and value depletions. Russia is also showing signs of improvement on the back of better consumer confidence. The negatives remain Travel Retail (Asia) and Africa.
- **H1 EBIT surprised positively**. This was due to a more positive FX movement than anticipated (EUR9.4m over the semester). The transaction effect was highly positive as the company hedged itself against the USD at a rate of 1.14 vs 1.24 last year. In organic terms, EBIT grew 7% as the increase in A&P expenditure was offset by a positive mix arising from the superior performance of higher qualities and the return to growth in Greater China. The H1 EBIT margin reached 24.1%, up 270bps in reported terms and 60bps in organic. Interestingly, the CFO said that the EBIT margin would have been flat without China. In 2015/16 Rémy Cointreau's margin in the country was at the group level while it was still significantly above at Pernod Ricard (an estimated +300bps).
- **Minor change in estimates**. The company is intensifying its investments. A&P expenditures should be more significant in H2 than in H1 and should continue to grow more than sales in the years to come. But this should be more than offset by the positive mix. We now expect 9% organic EBIT growth in 2016/17 vs +7.7% previously. The CFO indicated that he is more than confident with consensus which is 8-9%. Our FX tailwinds on EBIT for the year are also revised upwards from EUR13m to EUR15m. But these adjustments are partly offset by more financial expenses related to the amortization of OCEANE. CFO said that they should be the same than last year (EUR27m) while we and the consensus were expected an improvement. Financial expenses should only start to decrease in 2017/18 (our estimate: EUR21m). Our EPS forecasts for the next three years are increased by 0.5% on average.

VALUATION

- The group remains our top pick within the spirits industry because of the success of its premiumisation strategy and its good portfolio positioning. Buy recommendation maintained. Fair Value adjusted from EUR84 to EUR85.

NEXT CATALYSTS

- Diageo: conference call on North America on 1st December
- Pernod Ricard: conference call on Americas on 6th December

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Sector View

Brewers

Vietnam's brewers go up for sale (Sector report to follow)

	1 M	3 M	6 M	31/12/15
Food & Bev.	-7.2%	-10.2%	-8.1%	-10.0%
DJ Stoxx 600	-0.7%	-0.9%	-0.7%	-6.6%

*Stoxx Sector Indices

Companies covered

AB INBEV		**BUY**	**EUR120**
Last Price	EUR96,54	*Market Cap.*	EUR163,46m
CARLSBERG		**NEUTRAL vs. SELL**	**DKK599 vs. 600**
Last Price	DKK584,5	*Market Cap.*	*DKK89,523m*
HEINEKEN		**BUY**	**EUR83 vs. 88**
Last Price	EUR70,95	*Market Cap.*	*EUR40,867m*
MOLSON COORS		**NEUTRAL vs. BUY**	**$107 vs. 112**
Last Price	USD98,89	*Market Cap.*	*USD21,248m*
ROYAL UNIBREW		**BUY**	**DKK306**
Last Price	DKK273,5	*Market Cap.*	*DKK14,796m*

As the privatisation of the Vietnamese state owned brewers gets going, Carlsberg seems to be in pool position to acquire Habeco and AB InBev might be keen to add Sabeco to its portfolio. Heineken already has a great position in the country given its focus on the premium segment with the Heineken and Tiger brands. Vietnam is 10% of the company's group operating profit.

ANALYSIS

- While some of the world's largest emerging economies including Russia, Brazil and China slow-down, Vietnam's economic growth of over 6 percent is making it among the fastest-growing markets in the world. As a result beer consumption has been growing over 11% p.a. over the past ten years and has reached 42 litres per capita. The continued growth in working-age population and urbanisation is likely to drive consumption further ahead.
- The government is about to sell market leader Sabeco (38% market share) and the number three Habeco (17% market share). For Sabeco (price tag of USD4bn), all main brewers have been putting forward their offer. Although we believe AB InBev will be very keen to get Sabeco, we would not underestimate the chances of Heineken. For Habeco (price tag USD1.1bn), the odds are in favour for Carlsberg which has a 17% share in the company and a right of first refusal. Although not a game changer, a win from Carlsberg on Habeco could potentially increase earnings and fair value by 5/6%.

VALUATION

- Given the increased likelihood for higher interest rates and tensions on the foreign exchange markets, we reset all brewer valuations using a beta of 1. As a result our fair value for **AB InBev comes down by 9% to EUR109**, for **Heineken by 6% to EUR83** and for **Molson Coors by 5% to USD107**. For Carlsberg the decline is limited (0%) as the appreciation of the rouble compensates the increased beta. Yesterday we have already reviewed downwards by 6% our fair value for Royal Unibrew to DKK306. After the reset, Heineken (+17%) and AB InBev (+12%), have the highest upside and we keep them as Buy. We upgrade **Carlsberg to Neutral from Sell and downgrade Molson Coors to Neutral from Buy.**

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Healthcare

Actelion

Price CHF158.00

Rumoured to have received an offer from J&J

Fair Value CHF194 (+23%) BUY

Bloomberg	ATLN VX
Reuters	ATLN.VX
12-month High / Low (CHF)	173.8 / 122.5
Market Cap (CHFm)	17,026
Avg. 6m daily volume (000)	448.7

	1 M	3 M	6 M	31/12/15
Absolute perf.	9.2%	-4.2%	-1.4%	13.2%
Healthcare	-4.1%	-8.8%	-8.0%	-15.1%
DJ Stoxx 600	-0.7%	-0.9%	-0.7%	-6.6%

	2015	2016e	2017e	2018e
P/E	25.6x	19.4x	21.3x	19.8x
Div yield (%)	0.9%	0.9%	0.9%	0.9%

ANALYSIS

Over the last couple of weeks, Actelion has been rumoured several times to be at the heart of discussions for a potential acquisition by a third party. So far, sources were mysterious and no predator was reported. But today it looks like things are getting more precise; hence our decision to write a few lines to simply report the news and to comment shortly on it.

So it is said that Johnson & Johnson (J&J) would have approached Actelion and even made an initial offer. It Is even mentioned that Actelion would have already brought BofA-Merrill Lynch to work on its defence. It is also said that Shire might be interested too. Shire had been mentioned several times in the past and we would see AstraZeneca or Sanofi as other potential predators.

On the paper, interest for Actelion makes sense at present time because the company is about to sort out Tracleer's patent expiry (should take place in major markets in 2017 so that someone bidding now would have an attractive base while booking Actelion for the first time), has two young assets growing fast (Opsumit and Uptravi) and with patents in 2026-2027 and last but not least an attractive late-stage pipeline maturing.

VALUATION

At this point, we believe that Actelion should confirm the rumours if they are right i.e. if it has an initial offer from J&J on the table. And we should then see many other interests arising. That will probably include at least one of the two other Basel-based companies that are unlikely to see the perspective of a US company coming into the Basel area with happiness. Roche, if only to strengthen Esbriet in IPF by a franchise in PAH, is a candidate in our view.

Now, how high can it go? It is premature to give precise numbers but: (i) we are still using a beta of 0.9 whereas all big pharma are carrying a beta of 0.8 and J&J is likely even below. Each difference by 0.1 on the beta would represent an extra CHF15 per share on our FV; (ii) Actelion benefits from a tax rate of 13% that could be very attractive to a lot of suitors; (iii) synergies will have to be shared but will depend on who goes for it; (iv) last of course the assets and more particularly the value of the pipeline. Needless to remind that Celgene bought Receptos for close to USD8bn for a single asset that is very similar to ponesimod. But Actelion has 6 molecules ready to go or already in phase III in 2017. ACT-132577 for instance has been valued as if it was partnered because it is likely to be but J&J (that is doing a great job with Xarelto for instance) would keep 100% of its value. So, at very first glance, a bid on Actelion could go as high as CHF250 per share in our view.

NEXT CATALYSTS

Shortly some public comments by either Actelion or J&J?

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Healthcare

GlaxoSmithKline

Price 1,523p

Bloomberg	GSK LN
Reuters	GSK.L
12-month High / Low (p)	1,723 / 1,280
Market Cap (GBPm)	74,264
Avg. 6m daily volume (000)	9 272

	1 M	3 M	6 M	31/12/15
Absolute perf.	-7.2%	-8.2%	5.4%	10.9%
Healthcare	-4.1%	-8.8%	-8.0%	-15.1%
DJ Stoxx 600	-0.7%	-0.9%	-0.7%	-6.6%

	2015	2016e	2017e	2018e
P/E	20.1x	15.0x	13.0x	12.4x
Div yield (%)	6.6%	5.3%	5.3%	5.8%

GSK brings third HIF-PHI into phase III

Fair Value 1930p (+27%) **BUY**

ANALYSIS

- Yesterday GSK announced that it was entering phase III with daprodustat, its hypoxia-inducible factor prolyl hydrolase inhibitor (HIF-PHI) to treat anaemia associated with chronic kidney diseases (CKD). The programme will consist of two studies named ASCEND-D in 3,000 patients undergoing dialysis (switching from EPO) and ASCEND-ND in 4,500 non-dialysis dependent patients (switching from EPO or naïve to therapy).
- The class is seen as an interesting one to investigate for the industry because it could offer these patients suffering from life-long diseases a therapeutic option having both the advantage of an oral route (vs weekly injections) but also a more physiological behaviour and a safer profile. Patients with CKD have low levels of EPO and high levels of iron in the body. Current treatments consist of injecting EPO but this is associated with an increased cv risk (MI, stroke, VTE) and a risk of the tumour progressing or recurrence, as reflected into the label with black box warnings. HIF-PHI uses the adaptive function of the human body in low oxygen conditions (like high altitudes), which includes production of oxygen-carrying red blood cells.
- That said, two compounds in the class are already advanced in phase III trials: vadadustat from Akebia Therapeutics (which has been running PRO$_2$TECT in non-dialysis patients for a year and INNO$_2$VATE for a quarter in dialysis patients) and roxadustat from FibroGen, licensed to Astra-Zeneca for the US and China, to Yamanouchi for Japan and to Astellas for Europe and ROW. Roxadustat is expected to deliver final results by year-end for submission in China and is involved in many studies in dialysis and non-dialysis patients most of which delivering data in 2017, leading to a US filing towards the end of 2017.
- Although it is indeed good news to see GSK strengthening its pipeline with a promising compound, third-to-market position is not fully comfortable if there is no differentiating factor. At this stage, differentiation is not obvious to us although GSK emphasized previously efficacy at a very low dose and more importantly ambition well beyond anaemia in CKD patients (DFU, MDS, …). But this is a longer-term story because already in CKD the group is talking about a filing ex-Japan in 2021.

VALUATION

- Given the competitive landscape and the horizon to file, and despite entry in phase III, we have decided to wait until roxadustat delivers first phase III data to decide if we factor daprodustat into our model. As a reminder, even roxadustat (AZN) carries a 20% PoS only.

NEXT CATALYSTS

- 29th November 2016: Vaccines Day in Belgium

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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 55.7% NEUTRAL ratings 32.9% SELL ratings 11.4%

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