Please find our Research on Bloomberg BRYG <GO>)

28th November 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	19152.14	+0.36%	+9.91%
S&P 500	2213.35	+0.39%	+8.29%
Nasdaq	5398.92	+0.34%	+7.82%
Nikkei	18356.89	-0.13%	-3.43%
Stoxx 600	342.454	+0.18%	-6.39%
CAC 40	4550.27	+0.17%	-1.87%
Oil /Gold			
Crude WTI	44.71	-4.14%	+20.19%
Gold (once)	1184.53	-0.13%	+11.50%
Currencies/Rates			
EUR/USD	1.06045	+0.39%	-2.38%
EUR/CHF	1.07445	+0.07%	-1.19%
German 10 years	0.158	-14.23%	-75.08%
French 10 years	0.782	-0.09%	-20.28%
Euribor	-0.314	0.00	+139.70%

Economic releases :

Date	
28th-Nov	11H00 OECD outlook 15h00 Draghi speaks at European parliament

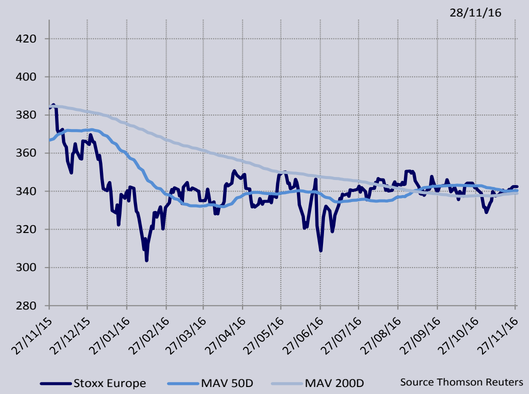
Upcoming BG events :

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	
25th-Nov	Brewers
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 ACTELION Several upsides to play in an exciting 2017 year

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



ENGIE — BUY, Fair Value EUR15.6 vs. EUR17 (+35%)

Still betting on the company's transformation despite lowering our 2016-18e estimates

Following the company's 9M-16 results, we revised downward our estimates for 2016e and beyond, with slightly lowered EBITDA expectations. We also adjusted our minorities and tax rate assumptions which implies a harsher cut to our EPS estimates. We now expect recurring net income to be broadly flat (+0.7%, actually) over 2016-18e (vs. a 3.9% CAGR expected before). These adjustments have led us to lower our FV from EUR17.0 to EUR15.6. However, we maintain our Buy rating as we still believe the ongoing transformation plan could pave the way for a significant rerating of the stock with the E&P disposal remaining the main short-term catalyst.

FASHION

Serving Consumers not Uberising Them! (sector report out)

There are consumers to serve but who cannot be made subservient. Considering them as a kind of hermit, wandering shamelessly through an overpopulated digital desert is a degrading vision that contradicts their desire for authenticity. Although we believe in digital, we consider it cannot substitute real people and that physical stores, which are a millennium institution, will remain at the heart of commercial facilities.

We are reinitiating coverage of Inditex (BUY, FV: EUR38) and H&M (NEUTRAL, FV: SEK295). Both continue to enjoy strong growth profiles (EPS CAGR 2016-19e: +12.3% for ITX and +10.2% for H&M) but, in our view, Inditex offers a more defensive profile in this competitive industry.

In brief...

CAMPARI, ***Sale of Sella & Mosca and Teruzzi & Puthod***

Utilities

ENGIE

Price EUR11.55

Still betting on the company's transformation despite lowering our 2016-18e estimates

Fair Value EUR15.6 vs. EUR17 (+35%) **BUY**

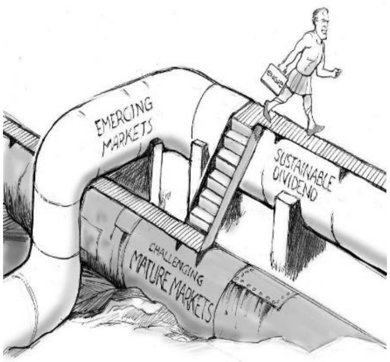
Bloomberg	ENGI FP
Reuters	ENGIE.PA
12-month High / Low (EUR)	16.6 / 11.3
Market Cap (EUR)	28,115
Ev (BG Estimates) (EUR)	66,791
Avg. 6m daily volume (000)	5 771
3y EPS CAGR	-2.0%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-12.6%	-19.0%	-16.2%	-29.3%
Utilities	-7.5%	-9.8%	-12.4%	-14.7%
DJ Stoxx 600	-0.2%	0.1%	-1.8%	-6.4%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	69,883	65,666	64,457	65,535
% change		*-6.0%*	*-1.8%*	*1.7%*
EBITDA	11,261	10,794	10,593	10,881
EBIT	6,327	6,182	5,900	6,095
% change		*-2.3%*	*-4.6%*	*3.3%*
Net income	2,589	2,409	2,334	2,443
% change		*-6.9%*	*-3.1%*	*4.7%*

	2015	2016e	2017e	2018e
Operating margin	9.1	9.4	9.2	9.3
Net margin	3.7	3.7	3.6	3.7
ROE	5.3	5.0	4.9	5.1
ROCE	6.8	4.3	4.1	4.2
Gearing	61.5	55.5	60.0	60.2

(EUR)	2015	2016e	2017e	2018e
EPS	1.08	1.01	0.97	1.02
% change	-	*-7.1%*	*-3.1%*	*4.7%*
P/E	10.7x	11.5x	11.9x	11.3x
FCF yield (%)	0.9%	29.3%	11.3%	14.0%
Dividends (EUR)	1.00	1.00	0.70	0.70
Div yield (%)	8.7%	8.7%	6.1%	6.1%
EV/Sales	1.1x	1.0x	1.0x	1.0x
EV/EBITDA	6.6x	6.2x	6.3x	6.1x
EV/EBIT	11.8x	10.8x	11.3x	11.0x



Following the company's 9M-16 results, we revised downward our estimates for 2016e and beyond, with slightly lowered EBITDA expectations. We also adjusted our minorities and tax rate assumptions which implies a harsher cut to our EPS estimates. We now expect recurring net income to be broadly flat (+0.7%, actually) over 2016-18e (vs. a 3.9% CAGR expected before). These adjustments have led us to lower our FV from EUR17.0 to EUR15.6. However, we maintain our Buy rating as we still believe the ongoing transformation plan could pave the way for a significant rerating of the stock with the E&P disposal remaining the main short-term catalyst.

ANALYSIS

Lowering our estimates: Following the company's 9M-16 results, **we revised downward our estimates for 2016e and beyond**. We decreased our EBITDA expectations by **0.5%/1.2%/1.7%** for 2016e/2017e/2018e and our recurring net income by **6.4%/10.7%/12.2%** over the same period. **We now stand at the very low-end of the company's guidance for 2016e for both EBITDA** (EUR10,794m vs. guidance between EUR10.8bn-11.4bn) **and recurring net income** (EUR2,409m vs. guidance between EUR2.4bn-2.7bn. As a consequence of these adjustments, we expect **Engie's recurring net income to be broadly flat (+0.7%) between 2016e and 2018e.**

At the EBITDA level, we notably integrated: **1/**a **different phasing regarding the deconsolidation** of the US thermal assets with the impact now expected to almost complete in 2017e; **2/**the integration of the impact of the **outages in the Tricastin and Tihange 1** nuclear reactors, in 2016e only; **3/the closure of the Australian 1.6GW Hazelwood coal-fired power plant** which negatively impacts our 2017e and 2018e EBITDA estimates; **4/higher expected load factors for Engie's European CCGT fleet** which should positively impact the company's FY-17e EBITDA; **and 5/a weaker-than-expected performance in the LNG** business due to challenging market conditions.

The discrepancy between our EBITDA and our net recurring income revisions mainly came from **two adjustments** as **1/we revised upward our minorities forecasts** for 2016e and beyond (EUR700m/EUR660m/EUR663m in 2016e/2017e/2018e vs. EUR600m/EUR606m/EUR612m initially) following a notably higher-than-expected contribution from E&P International (30% minorities) and Engie Energia Chile (47% of minorities); **and 2/we revised upward our tax rate assumption**, for 2017e and beyond, by 150bps as larger net losses are expected to be posted in the Benelux segment (price headwind) with no tax shield option any more, which would mechanically increase the Group's tax rate to above our initial expectations.

Table 1: Changes to estimates (2016e-2018e)

	New			Old			Var (%)		
	2016e	2017e	2018e	2016e	2017e	2018e	2016e	2017e	2018e
EBITDA	10,794	10,593	10,881	10,852	10,723	11,065	(0.5%)	(1.2%)	(1.7%)
Net recurring income	2,409	2,334	2,443	2,575	2,614	2,784	(6.4%)	(10.7%)	(12.2%)
Recurring EPS	1.01	0.97	1.02	1.08	1.09	1.16	(6.4%)	(10.7%)	(12.2%)
Dividend per share	1.00	0.70	0.70	1.00	0.70	0.70	0.0%	0.0%	0.0%

Source : Bryan Garnier & Co. ests.

Conclusion: Despite lowering our estimates, **we maintain our Buy rating**. Indeed, we still believe the ongoing transformation plan implemented by Engie could pave the way for a **significant rerating** of the stock following company's **increased focus on contracted and regulated activities** as well as the expected reduced exposure to commodities.

We additionally believe the **poor performance of the stock** since the beginning of the year (-30.0% vs. -15.4% for SX6P) and since the beginning of Q4-16 (-17.2% vs. -10.9% for SX6P) implies that **the market has already integrated**, to a certain extent, **this "no-growth scenario"** as well as the risk inherent to the nuclear provisions.

In our view, **the main short-term catalyst remains the disposal of the company's E&P assets.** The recent speculation over a potential interest of Neptune Oil & Gas Ltd., despite a lower implied valuation vs. our SOTP (EUR3.8bn vs. EUR5.4bn), confirmed that **1/Engie appears to be well on-track to deliver its EUR15bn disposals' programme by 2018** (EUR6bn completed or about to be completed as of today, excluding the E&P potential disposal and the negotiations over disposals in Poland, Chile and Australia); **and that 2/investors would see this disposal as positive for the company's overall transformation** as shown by the solid stock's performance (+2.4% vs. +0.7% for SX6P) following the unveiling of Neptune's interest.

Note that **the E&P disposal would obviously have a significant downsizing impact on our EBITDA expectations** (about EUR1.2bn), **but is likely to be more marginal at the bottom line level** due to high D&A, high minorities (E&P International is 30% owned by Chinese CIC since 2011) and high tax rate.

VALUATION

Impact on our FV: All in all, these adjustments have led us to **decrease our FV from EUR17.0 to EUR15.6 per share** which implies c.35% theoretical upside. This decrease is attributable to both the cut in our EBITDA estimates and the increase in our tax rate assumption.

Note that **further information over nuclear provisions** – especially over their updated discount rate – are expected to be unveiled in the coming weeks. Everything else being equal, a **100bps** decrease in the discount rate (currently standing at 4.8%) would imply a c. **EUR1.1bn** increase in provisions – hence an **EUR0.5** per share negative impact on our FV – and a c. **EUR100m** headwind at the pre-tax income level (linked with higher dismantling provisions). **The 10-year extension, last year, of Doel 1 and Doel 2 nuclear reactors could, however, have a positive impact on the overall provision.**

Buy, FV @ EUR15.6

At current share price, the stock trades at **6.2x** its 2016e EV/EBITDA multiple

NEXT CATALYSTS

Further disposals including notably the exploration & production (E&P) assets, the Polaniec power plant in Poland (for which three bids, ranging between EUR200m and EUR400m, are said to have been received by Engie), the remaining thermal assets in Australia (Loy Yang B and Kwinana power plants) or the port project in northern Chile and the IEM2 power plant project, still in Chile.

Update on nuclear provisions (particularly on the discount rate) which could occur by the end of the year

March 2nd 2017: FY-16 results

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Analyst :
Pierre-Antoine Chazal
33(0) 1.56.68.75.06
pchazal@bryangarnier.com

Sector Team :
Xavier Caroen

Sector View

Fashion

Serving Consumers not Uberising Them! (sector report out)

	1 M	3 M	6 M	31/12/15
Consumer Gds	-3.0%	-5.2%	-4.2%	-6.4%
DJ Stoxx 600	-0.2%	0.1%	-1.8%	-6.4%

*Stoxx Sector Indices

Companies covered

ADIDAS GROUP		**NEUTRAL**	**EUR136**
Last Price	EUR139.2	*Market Cap.*	EUR29,123m
BIC		**NEUTRAL**	**EUR124**
Last Price	EUR122.95	*Market Cap.*	*EUR5,893m*
GROUPE SEB		**BUY**	**EUR140**
Last Price	EUR130.55	*Market Cap.*	*EUR6,550m*
H & M		**NEUTRAL**	**SEK2950**
Last Price	SEK271.7	*Market Cap.*	*SEK449,683m*
INDITEX		**BUY**	**EUR38**
Last Price	EUR32.395	*Market Cap.*	EUR100,964
YOOX NET-A-PORTER		**BUY**	**EUR33**
Last Price	EUR25.81	*Market Cap.*	*EUR3,502m*
ZALANDO		**NEUTRAL**	**EUR39**
Last Price	EUR36.115	*Market Cap.*	*EUR8,930m*

There are consumers to serve but who cannot be made subservient. Considering them as a kind of hermit, wandering shamelessly through an overpopulated digital desert is a degrading vision that contradicts their desire for authenticity. Although we believe in digital, we consider it cannot substitute real people and that physical stores, which are a millennium institution, will remain at the heart of commercial facilities.

ANALYSIS

- Every day we read that: the world-leading taxi-company has no car fleet (**Uber**); the leading hotel company has no accommodation (**Airbnb**); one of the most powerful retailers has no stocks (**Alibaba market place**); the most popular media firms create no content (**Twitter & Facebook**); the leading manager of leisure video contents operates no cinema (**Youtube**); a top-notch telephone company can function without infrastructure (**WhatsApp, Apple, Facebook**)... In short, orchestrated by the Millennial generation, the digital (r)evolution is not about to happen, it is already underway. Its commercial format, e-commerce (2012/15 CAGR of 15%e in Europe), goes hand in hand with the shortfall in growth at traditional retailers (2012-15e CAGR of 1.4%e in Europe).
- E-commerce players that have been successful only share the common denominator of a coherent offering, which we consider fits into one of four main models. **In the first**, the e-merchant offers a comprehensive range at the best price. **Amazon** fits best this notion of a web-hypermarket, substituting "everything under the same roof" with "everything on the same site". **In the second**, a web category killer such as **Zalando** (initiated with a Neutral rating, FV@EUR39) multiples flows on high rotation product lines such that it becomes the natural destination for all internet users looking for a specific product. **In the third**, the expertise of a **YNAP** (initiated with a Buy rating, FV@EUR33) is so great in a niche segment that it is difficult for another web-merchant to **1/** source and **2/** sell a similar product, in such an intimate framework and at the best price. **In the fourth**, the Brick & Mortar retailer is capable of reconciling a more predictive way of serving consumers (via click and data) while maintaining social ties (via collection from a physical store network). In this field, we initiate coverage of **Inditex** at Buy (FV@EUR38) and **H&M** at Neutral (FV@SEK295).

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Analyst :
Cédric Rossi
33(0) 1 70 36 57 25
crossi@bryangarnier.com

Sector Team :
Nikolaas Faes
Loïc Morvan
Antoine Parison
Virginie Roumage

Sector View

Fashion

Fast-Fashion: a fast-changing industry (document released today)

	1 M	3 M	6 M	31/12/15
Consumer Gds	-3.0%	-5.2%	-4.2%	-6.4%
DJ Stoxx 600	-0.2%	0.1%	-1.8%	-6.4%

*Stoxx Sector Indices

Companies covered		
H & M	**NEUTRAL**	**SEK295**
Last Price	*Market Cap.*	
INDITEX	**BUY**	**EUR38**
Last Price	*Market Cap.*	

We are reinitiating coverage of Inditex (BUY, FV: EUR38) and H&M (NEUTRAL, FV: SEK295). Both continue to enjoy strong growth profiles (EPS CAGR 2016-19e: +12.3% for ITX and +10.2% for H&M) but, in our view, Inditex offers a more defensive profile in this competitive industry.

ANALYSIS

- **The 'mass-market' or 'accessible fashion' segment of the global market is vast (c.EUR1,100bn) and remains very fragmented** since the two flagship brands, H&M and Zara, are likely to account for respective market shares of 1.7% and 1.4%. However, these two global brands need to contend with growing competition from new brands (Primark, Forever21, etc.) which are pursuing very aggressive price strategies and, secondly, the **growth in internet players** (Amazon, Zalando, ASOS, etc.) offering a virtually-unlimited choice of items and increased customer experience.
- **The H&M and Inditex groups dispose of some major assets they can leverage when it comes to contending with this multiform competition**. Even before the emergence of most of these online retailers, H&M and Inditex already had robust commercial strategies focused on: **(i)** international markets, **(ii)** multichannel (then omnichannel) and **(iii)** multi-concept, while **(iv)** shortening the lifespan of the collections to keep pace with changing trends.
- **In our view, Inditex is the best equipped to thrive in this environment:** its 'pull' strategy (= collection design based on customer purchasing decisions) and ability to launch a new collection within just two weeks (vs. 6 months for the industry) thanks to centralised, vertical integration, enable Inditex to enjoy mark-down and unsold inventory rates amongst the lowest in the industry. Furthermore, its new strategy combining flagship stores (= fewer DOS openings) and online offer (c.5.5% of 2016e sales) minimise the risks to earnings growth (EBIT CAGR 2016-19e: +12%).
- **H&M: some outstanding doubts.** The group generates c.8% of 2016e sales over the internet but is bearing the brunt of competition from discount brands (Primark, etc.) whereas its supply chain is similar to that of the industry (80% of manufacturing realised with 6-month lead times), making H&M more sensitive to changing trends. The earnings growth (CAGR 2016-19e: +10%) is more volatile due to sourcing in USDs (c.80%), an ambitious DOS opening plan (surface growth: +10-15% per annum) and plans to launch one or even two new brands in 2017.

VALUATION

- We are reinitiating coverage of **Inditex** (BUY, FV: EUR38) and **H&M** (NEUTRAL, FV: SEK295).

Click here to download

Analyst :
Cédric Rossi
33(0) 1 70 36 57 25
crossi@bryangarnier.com

Consumer Analyst Team:
Nikolaas Faes
Loïc Morvan
Antoine Parison
Virginie Roumage

Food & Beverages

Campari

Price EUR9.06

Bloomberg	CPR IM
Reuters	CPR.MI
12-month High / Low (EUR)	10.1 / 6.9
Market Cap (EUR)	5,262
Avg. 6m daily volume (000)	1 212

	1 M	3 M	6 M	31/12/15
Absolute perf.	-2.8%	-7.1%	4.0%	13.3%
Food & Bev.	-5.6%	-8.6%	-7.5%	-8.8%
DJ Stoxx 600	-0.2%	0.1%	-1.8%	-6.4%

	2015	2016e	2017e	2018e
P/E	28.2x	25.5x	19.9x	18.4x
Div yield (%)	1.0%	1.0%	1.1%	1.1%

Sale of Sella & Mosca and Teruzzi & Puthod

Fair Value EUR10.7 (+18%) **BUY**

ANALYSIS

On Friday, Campari announced the sale of 100% of Sella & Mosca and Teruzzi & Puthod. This completes the exit from the Italian still wine business, which was announced in 2015. The two companies generated sales of EUR21.4m and EBITDA of EUR3.2m in 2015. The transaction will incur a cash payment of EUR57m at the closing of the deal (before the end of 2016) and the balance in four years. This corresponds to an expected multiple of 13.9 times the overall pro-forma EBITDA in 2016e.

VALUATION

We maintain our Buy recommendation and our Fair value of EUR10.7.

NEXT CATALYSTS

Diageo: conference call on December 1st

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Virginie Roumage, vroumage@bryangarnier.com

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%

Bryan Garnier Research Team

Healthcare Team	**Pharmaceuticals**	**Eric Le Berrigaud** ***(Head of Equities)***	33 (0) 1 56 68 75 33	eleberrigaud@bryangarnier.com
	Biotech/Medtech	**Mickael Chane-Du**	33 (0) 1 70 36 57 45	mchanedu@bryangarnier.com
	Medtech/Biotech	**Hugo Solvet**	33 (0) 1 56 68 75 57	hsolvet@bryangarnier.com
Consumer Team	**Luxury/Consumer Goods**	**Loïc Morvan**	33 (0) 1 70 36 57 24	lmorvan@bryangarnier.com
	Beverages	**Nikolaas Faes**	33 (0) 1 56 68 75 72	nfaes@bryangarnier.com
	Retailing	**Antoine Parison**	33 (0) 1 70 36 57 03	aparison@bryangarnier.com
	Luxury /Consumer Goods	**Cedric Rossi**	33 (0) 1 70 36 57 25	crossi@bryangarnier.com
	Food & Beverages	**Virginie Roumage**	33 (0) 1 56 68 75 22	vroumage@bryangarnier.com
TMT	**Video Games / Payments**	**Richard-Maxime Beaudoux**	33 (0) 1 56 68 75 61	rmbeaudoux@bryangarnier.com
	Telecom	**Thomas Coudry**	33(0) 1 70 36 57 04	tcoudry@bryangarnier.com
	Software & IT Services	**Gregory Ramirez**	33 (0) 1 56 68 75 91	gramirez@bryangarnier.com
	Semiconductor	**Dorian Terral**	33 (0) 1 56 68 75 92	dterral@bryangarnier.com
Utilities		**Xavier Caroen**	33 (0) 1 56 68 75 18	xcaroen@bryangarnier.com
		Pierre-Antoine Chazal	33 (0) 1 56 68 75 06	pachazal@bryangarnier.com
Insurance		**Olivier Pauchaut** ***(Head of Research)***	33 (0) 1 56 68 75 49	opauchaut@bryangarnier.com
Hotels/Business Services		**Bruno de La Rochebrochard**	33 (0) 1 56 68 75 88	bdelarochebrochard@bryangarnier.com
Construction/Infrastructures/Building Materials		**Eric Lemarié**	33 (0) 1 70 36 57 17	elemarie@bryangarnier.com
Automotive & Parts		**Xavier Caroen**	33 (0) 1 56 68 75 18	xcaroen@bryangarnier.com
Marketing		**Sophie Braincourt**	33(0) 1 56 68 75 36	sbraincourt@bryangarnier.com
Market Data & Information Systems Manager		**Eric Monnier**	33(0) 1 56 68 75 63	emonnier@bryangarnier.com

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London
Beaufort House
15 St. Botolph Street
London EC3A 7BB
Tel: +44 (0) 207 332 2500
Fax: +44 (0) 207 332 2559
Authorised and regulated by the
Financial Conduct Authority (FCA)

Paris
26 Avenue des Champs Elysées
75008 Paris
Tel: +33 (0) 1 56 68 75 00
Fax: +33 (0) 1 56 68 75 01
Regulated by the
Financial Conduct Authority (FCA) and
the Autorité de Contrôle prudential et
de resolution (ACPR)

New York
750 Lexington Avenue
New York, NY 10022
Tel: +1 (0) 212 337 7000
Fax: +1 (0) 212 337 7002
FINRA and SIPC member

Munich
Widenmayerstrasse 29
80538 Munich
Germany
+49 89 2422 62 11

BRYAN, GARNIER & CO