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12th December 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	19756.85	+0.72%	+13.38%
S&P 500	2259.53	+0.59%	+10.55%
Nasdaq	5444.5	+0.50%	+8.73%
Nikkei	19155.03	+0.84%	-0.20%
Stoxx 600	355.375	+0.97%	-2.85%
CAC 40	4764.07	+0.60%	+2.74%
Oil /Gold			
Crude WTI	51.5	+1.30%	+38.44%
Gold (once)	1162.9	-0.65%	+9.46%
Currencies/Rates			
EUR/USD	1.0537	-0.70%	-3.00%
EUR/CHF	1.0751	-0.37%	-1.13%
German 10 years	0.264	-7.52%	-58.41%
French 10 years	0.81	-2.71%	-17.41%
Euribor	-0.316	-0.63%	+141.22%

Economic releases :

Date	
12th-Dec	20h00 US Budget statement

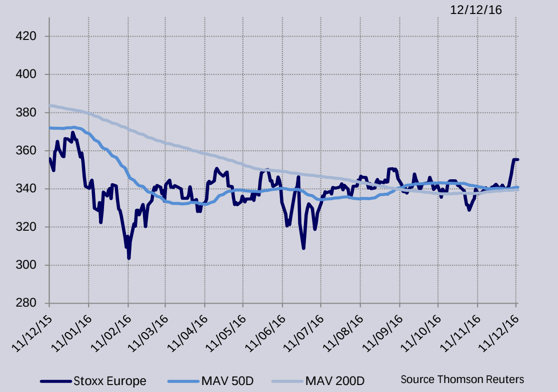
Upcoming BG events :

Date	
12th-Dec	Jean-Pierre Petit, Président des Cahiers Verts de l'Economie.
13th-Dec	Jean-Pierre Petit, Président des Cahiers Verts de l'Economie.

Recent reports :

Date	
7th-Dec	Brewers : Our takeaways from the Consumer Conference
5th-Dec	TAVI is VITAL
2nd-Dec	FD-SOI: forbidden fruit of the industry and market
29th-Nov	Morphosys We want MORe! (Fair Value EUR65 BUY)
28th-Nov	Fashion E-Commerce: Serving Consumers not Uberising Them! Coverage initiation of ZALANDO, YOOX, H&M,
25th-Nov	Brewers

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



ASTRAZENECA — BUY, Fair Value 5100p (+19%)

Unexpected good news for durvalumab

On Friday last week the FDA surprisingly accepted durvalumab's BLA in second line bladder cancer for review based on phase I/II results. The data was indeed very good but stemmed from a pretty small trial including a wide variety of different tumour types. And earlier this year, Tecentriq (Roche) was approved in a similar indication, leaving limited hope for BLA acceptance and approval. Actually AstraZeneca suggested it might get approval for all-comers and this is where the difference with Tecentriq might come from although we do not understand which clinical data supports this claim. Anyway, the PDUFA date is therefore in Q2 2017 and once the first indication is approved will make life easier for the following ones that will use the shorter sBLA route. 2L bladder cancer per se represents a limited commercial opportunity however and pressure is still on MYSTIC to succeed.

ELIOR — BUY-Top Picks, Fair Value EUR24 (+17%)

Feedback: On track with strategic plan

Results perfectly in line with expectations but rather reassuring given the environment especially in France (48% of consolidated revenue). The strategic plan is delivering its first results and management remains confident it can deliver at least its objective. The short term outlook seems positive and profitability will accelerate during 2016-17. We made some positive adjustments to our forecasts. Buy confirmed.

GEMALTO — SELL, Fair Value EUR52 vs. EUR50 (-1%)

Integration of 3M's Identity Management Business in our model

During the conference call, management said it expects a decline in profitability in the 3M Identity Management Business over coming years via investments in core technologies and R&D bricks. Even if we believe this is a good acquisition (smaller than Mopho and with a far better profitability), it is expensive and the accretion we expect is lower than the market reaction last Friday. We have raised our 2016-18e EPS sequence by 3.2% on average. We maintain our Sell recommendation and raise our SOTP-derived FV from EUR50 to EUR52. The stock is often a "value trap". We advise investors to closely monitor the EUR50/share threshold because, other things being equal, both the SIM and Mobile Platforms & Services would be valued at zero in our SOTP.

IMERYS — BUY, Fair Value EUR72 (+3%)

Acquisition of Kerneos would add c10% of sales.

Imerys announced last night the contemplated acquisition of Kerneos, specialised in mineral-based binders, in particular for the construction industry. Kerneos is a decent size business (EUR415m of sales), profitable (EUR100m of EBITDA, i.e. a 24% margin vs 19% for Imerys) and reports dynamic organic growth for some markets. The price offered looks reasonable at 8.8x and does not deteriorate Imery's investment profile (post deal net debt/EBITDA at 2.6x 2017e). In all, this looks positive for NK as M&A offsets the lack of organic growth. 2018e EPS to be enhanced by 4.5%, before synergies.

In brief...

ORANGE, ***Vivendi says it is not part of Canal+/Orange talks***

SAFILO, ***Licencing agreements: Safilo renews Christian Dior but ends Céline***

Healthcare

AstraZeneca

Price 4,280p

Unexpected good news for durvalumab

Fair Value 5100p (+19%) **BUY**

Bloomberg	AZN LN
Reuters	AZN.L
12-month High / Low (p)	5,220 / 3,774
Market Cap (GBP)	54,144
Ev (BG Estimates) (GBP)	66,336
Avg. 6m daily volume (000)	2 979
3y EPS CAGR	-8.3%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-6.5%	-11.2%	8.3%	-7.3%
Healthcare	-0.8%	-4.4%	-6.4%	-13.0%
DJ Stoxx 600	4.6%	2.9%	4.1%	-2.9%

YEnd Dec. (USDm)	2015	2016e	2017e	2018e
Sales	23,641	21,375	19,695	20,463
% change		*-9.6%*	*-7.9%*	*3.9%*
EBITDA	5,937	4,232	5,493	5,633
EBIT	4,114	3,168	4,529	4,491
% change		*-23.0%*	*43.0%*	*-0.8%*
Net income	5,390	5,337	4,185	4,165
% change		*-1.0%*	*-21.6%*	*-0.5%*

	2015	2016e	2017e	2018e
Operating margin	17.4	14.8	23.0	21.9
Net margin	6.8	0.8	7.0	7.4
ROE	8.6	1.2	9.9	12.9
ROCE	16.2	14.5	10.8	10.6
Gearing	47.7	101.1	139.1	192.8

(USD)	2015	2016e	2017e	2018e
EPS	4.26	4.22	3.31	3.29
% change	-	*-1.1%*	*-21.6%*	*-0.5%*
P/E	12.6x	12.8x	16.3x	16.3x
FCF yield (%)	NM	NM	2.2%	1.7%
Dividends (USD)	2.80	2.80	2.80	2.80
Div yield (%)	5.2%	5.2%	5.2%	5.2%
EV/Sales	3.3x	3.9x	4.4x	4.4x
EV/EBITDA	12.9x	19.7x	15.7x	15.9x
EV/EBIT	18.7x	26.3x	19.0x	19.9x

On Friday last week the FDA surprisingly accepted durvalumab's BLA in second line bladder cancer for review based on phase I/II results. The data was indeed very good but stemmed from a pretty small trial including a wide variety of different tumour types. And earlier this year, Tecentriq (Roche) was approved in a similar indication, leaving limited hope for BLA acceptance and approval. Actually AstraZeneca suggested it might get approval for all-comers and this is where the difference with Tecentriq might come from although we do not understand which clinical data supports this claim. Anyway, the PDUFA date is therefore in Q2 2017 and once the first indication is approved will make life easier for the following ones that will use the shorter sBLA route. 2L bladder cancer per se represents a limited commercial opportunity however and pressure is still on MYSTIC to succeed.

ANALYSIS

- Anything positive on durvalumab is of meaningful significance for AstraZeneca and its Oncology franchise for sure. So, the FDA's first BLA acceptance for the drug, in bladder cancer, is relevant, positive and somewhat surprising news. The surprise comes from the fact that durvalumab in bladder cancer only presented limited data so far out of a multi-tumour open-label phase I/II trial out of which only 61 patients had advanced urothetial bladder cancer whereas a PD-L1 targeting agent had already been approved earlier this year in about the same indication (Tecentriq, Roche), based on a much larger study including 310 patients. In our view, very few people if any expected under these circumstances to act on durvalumab in bladder cancer before it reports phase III data in 1L from DANUBE, sometimes in 2018. Even AstraZeneca had limited hopes we believe.

- Our understanding is that AstraZeneca succeeded in differentiating durvalumab from atezolizumab by sharing new data (so far undisclosed?) that would allow their drug to be offered to all-comers rather than only to PD-L1 positive patients. That is what we understood from our interactions with the company. Based on study 1108, we do not see the rationale behind this since what was reported in *The Lancet* in July 2016 was that ORR was 46.4% in PD-L1 positive patients and 0% in PD-L1 negative patients. The editorial reported comments from Dr Bellmunt from Dana Institute: "in this study, 25% or more expression of PD-L1 in either tumour or immune cells was predictive of efficacy, which gives us strong information". There should be additional data from other sources we are not aware of that support such a belief and FDA's decision to accept a filing.

- In terms of the consequences of the news, we consider them fairly limited in the end. Bladder cancer will represent a meaningful opportunity if and only if DANUBE is positive. So the commercial opportunity so far is modest. This BLA acceptance does not remove any pressure from durvalumab to succeed in head&neck and in lung cancer, starting with PFS data from MYSTIC that is expected in H1 2017. The combination between durvalumab and tremelimumab is where AZN can make a difference with existing drugs. That said, beyond the symbolic aspect of the news that can make possible to have durvalumab on the market in Q2 2017 (that's when the PDUFA date is), the positive aspect of the BLA acceptance is to be able to file any other following indication under the sBLA route and to save a bit of time.

VALUATION

- We have no sales for durvalumab in 2017 so far and it is now fair to say that there is a meaningful probability to have some, based on this BLA acceptance and PDUFA date in Q2 2017. However, over half a year, this will be modest. Tecentriq reported CHF77m in sales for the first two quarters and this is the top-end of what can be achieved. So we will make the change at a later stage but the impact on our FV would be minimal.

NEXT CATALYSTS

- 2nd February 2017: Full-year results

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Business Services

ELIOR

Price EUR20.50

Feedback: On track with strategic plan

Fair Value EUR24 (+17%) **BUY-Top Picks**

Bloomberg	ELIO FP
Reuters	ELIO.PA
12-month High / Low (EUR)	21.0 / 16.8
Market Cap (EUR)	3,534
Ev (BG Estimates) (EUR)	5,218
Avg. 6m daily volume (000)	237.3
3y EPS CAGR	17.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	5.2%	-0.1%	0.5%	6.2%
Travel&Leisure	4.1%	0.1%	-4.6%	-13.6%
DJ Stoxx 600	4.6%	2.9%	4.1%	-2.9%

YEnd Sept. (EURm)	09/16	09/17e	09/18e	09/19e
Sales	5,896	6,285	6,636	7,034
% change		*6.6%*	*5.6%*	*6.0%*
EBITDA	501	551	617	655
EBIT	328.0	357.8	411.5	493.2
% change		*9.1%*	*15.0%*	*19.9%*
Net income	168.0	215.8	253.6	294.7
% change		*28.4%*	*17.6%*	*16.2%*

	09/16	09/17e	09/18e	09/19e
Operating margin	5.6	5.7	6.2	7.0
Net margin	2.8	3.4	3.8	4.2
ROE	8.9	11.9	12.7	13.6
ROCE	6.0	6.3	7.1	8.3
Gearing	109.6	98.9	83.0	70.0

(EUR)	09/16	09/17e	09/18e	09/19e
EPS	1.05	1.25	1.47	1.71
% change	-	*19.2%*	*17.5%*	*16.2%*
P/E	19.5x	16.4x	13.9x	12.0x
FCF yield (%)	4.9%	4.9%	7.4%	7.4%
Dividends (EUR)	0.42	0.50	0.59	0.68
Div yield (%)	2.0%	2.4%	2.9%	3.3%
EV/Sales	0.9x	0.8x	0.8x	0.7x
EV/EBITDA	10.5x	9.5x	8.3x	7.6x
EV/EBIT	16.0x	14.6x	12.4x	10.1x

Results perfectly in line with expectations but rather reassuring given the environment especially in France (48% of consolidated revenue). The strategic plan is delivering its first results and management remains confident it can deliver at least its objective. The short term outlook seems positive and profitability will accelerate during 2016-17. We made some positive adjustments to our forecasts. Buy confirmed.

ANALYSIS

Confident in short and medium term objectives: Despite the challenging environment especially in France, the Tsubaki plan has started to bear fruit (exit of poor-performing contracts representing EUR100m i.e. 1.7% of growth, disposal of non strategic assets i.e. EUR80m total revenue, retention rate, new business in France and UK, expansion in NA, development of new concepts or implementation of best practice). **For the year ahead**, management expects an acceleration in profitability with organic revenue growth of at least 3% excluding voluntary contract exits which is expected to be less than 100bps (our organic forecast is 2.3% after exits vs. 1.4% in 2015-16) with an EBITDA margin improvement of between 20 to 30bps (Management goal is resolutely at the top of the range). Net result will again register higher growth benefiting mainly from lower financial costs (around EUR50m after EUR63m in 2015-16 and EUR107m in 2014-15) and a lower tax rate of around 34% vs. 39% due to more results coming from abroad. **Our EPS 2016-17e growth is c. 20%.**

Main changes

	2016			2017e			2018e		
	Old	New	Change %	Old	New	Change %	Old	New	Change %
SALES	5 866	5 896	0,5%	6 151	6 285	2,2%	6 496	6 636	2,2%
EBITDA	497	501	0,8%	551	551	-0,1%	604	617	2,1%
	8,5%	8,5%	2 bp	9,0%	8,8%	-20 bp	9,3%	9,3%	-1 bp
EBIT*	338	328	-3,1%	385	358	-6,9%	426	412	-3,3%
	5,8%	5,6%	-20 bp	6,3%	5,7%	-56 bp	6,6%	6,2%	-35 bp
EPS	0,99	1,05	6,6%	1,18	1,25	5,7%	1,34	1,47	9,9%

**including GW amortization of EUR13m in 2016 and EUR20m in 2017e and 2018e. Previously registered below EBIT.*

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

Free Cash flow should improve and acquisitions are still part of the strategy: In 2015-16, free cash flow contracted by EUR15m due to acquisitions and mainly Preferred Meals (contract catering in Education in NA) consolidated only in Q4 with a negative impact on working capital. Excluding non-recurring items, the conversion rate from EBITDA would have been over 50% (51%) vs. 35% on reported and in line with 2020 management objective (between 45% and 50%). Acquisitions will remain part of the group's strategy notably in NA and the UK in contract catering. Up to now, acquisitions closed to date represent c. EUR250m of non consolidated sales in 2015-16. As expected, 2016-17e net debt should remain at around EUR1.7bn representing financial leverage of c.3.2x in 2016-17. Remember that management's target is for c.2.5x in 2020.

VALUATION

At the current share price, the stock is trading at 9.5x EV/EBITDA 2016-17e and 8.3x 2017-18e compared with a CAGR for 2016-2019 EBITDA of 9.4%. Our EPS CAGR of 2016-2019 is 17.6% compared with P/E 2016-17e of 16.4x and 13.9x in 2017-18e.

NEXT CATALYSTS

Q1 revenue on 27th January, 2017

H1 results on 30th May, 2017

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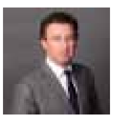

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TMT

Gemalto

Price EUR52.31

Integration of 3M's Identity Management Business in our model

Fair Value EUR52 vs. EUR50 (-1%) **SELL**

Bloomberg	GTO FP
Reuters	GTO.PA
12-month High / Low (EUR)	65.5 / 47.0
Market Cap (EUR)	4,702
Ev (BG Estimates) (EUR)	4,859
Avg. 6m daily volume (000)	431.2
3y EPS CAGR	19.0%

	1 M	3 M	6 M	31/12/15
Absolute perf.	8.4%	-17.8%	-3.9%	-5.4%
Softw.& Comp.	1.7%	-2.9%	5.6%	3.5%
DJ Stoxx 600	4.6%	2.9%	4.1%	-2.9%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	3,122	3,127	3,332	3,595
% change		*0.2%*	*6.6%*	*7.9%*
EBITDA	345	488	561	641
EBIT	313.3	420.6	482.0	552.2
% change		*34.3%*	*14.6%*	*14.6%*
Net income	226.3	300.5	332.4	383.8
% change		*32.8%*	*10.6%*	*15.5%*

	2015	2016e	2017e	2018e
Operating margin	10.0	13.5	14.5	15.4
Net margin	4.2	8.2	8.3	9.5
ROE	5.4	9.5	9.4	10.5
ROCE	7.1	9.5	8.6	9.8
Gearing	13.4	5.8	25.0	14.5

(EUR)	2015	2016e	2017e	2018e
EPS	2.53	3.34	3.69	4.26
% change	-	*31.8%*	*10.6%*	*15.5%*
P/E	20.7x	15.7x	14.2x	12.3x
FCF yield (%)	3.6%	4.8%	5.8%	7.5%
Dividends (EUR)	0.47	0.51	0.55	0.59
Div yield (%)	0.9%	1.0%	1.1%	1.1%
EV/Sales	1.6x	1.6x	1.6x	1.4x
EV/EBITDA	14.6x	10.0x	9.7x	8.1x
EV/EBIT	16.1x	11.6x	11.3x	9.4x

During the conference call, management said it expects a decline in profitability in the 3M Identity Management Business over coming years via investments in core technologies and R&D bricks. Even if we believe this is a good acquisition (smaller than Mopho and with a far better profitability), it is expensive and the accretion we expect is lower than the market reaction last Friday. We have raised our 2016-18e EPS sequence by 3.2% on average. We maintain our Sell recommendation and raise our SOTP-derived FV from EUR50 to EUR52. The stock is often a "value trap". We advise investors to closely monitor the EUR50/share threshold because, other things being equal, both the SIM and Mobile Platforms & Services would be valued at zero in our SOTP.

ANALYSIS

Last Friday, Gemalto announced that it has entered into agreements to acquire 3M's Identity Management Business (the transaction includes 3M Cogent Inc., Document Reader and Secure Materials Businesses). This entity is a partner to governments, law enforcement, border control and civil identification bodies worldwide. According to Frost & Sullivan, **3M is the no. 4 in the Identification market** with 4% market share worldwide (Gemalto is no. 3 with 6%) and is a direct competitor to Morpho (no. 1 with a MS of 29%). **In 2017, its contribution to financials is expected to be limited to H2**. After this **transaction for USD850m** (an expensive 4x sales and 14.7x PFO, financed by cash and existing credit facilities), we estimate GTO's net debt/adjusted EBITDA ratio at 1.3x. The business acquired will be part of Gemalto's **Government Programmes business, which represented 12.5% of its sales in 2015 and should now represent 18% on a pro forma basis**. After the conference call, we understand that there is very little difference between its EBITDA and its PFO. GTO expects the business acquired to grow at +10% CAGR **with EBITDA margins above 20% by 2020 vs. a PFO margin currently at 27%. This means that management expects a decline in profitability over coming years** via investments in core technologies and R&D bricks.

As a reminder, **the recent sharp downward revision in Gemalto's PFO 2017 target** (between EUR500m and EUR520m) **did not integrate any new M&A**. As a result, the acquisition of 3M's Identity Management Business come on top of this guidance. As management is not able to give visibility on the topline to justify its PFO target in a fixed cost business, we were at the low end of the guidance range (EUR505m). **With a consolidation as of 1st July 2017, we update our PFO estimate from EUR505m to EUR533.1m to integrate 3M's Identity Management Business vs a guidance that should now be seen at EUR530-550m** (vs. EUR500-520m prior to the acquisition). We therefore remain at the bottom of the range and we reiterate our scenario.

Our view remains the same. **For the first time Gemalto is forced to invest at the end of its mid-term plan to capture growth beyond 2017** (whereas it usually reaps the benefits of past investments during this final phase). **Moreover, management will announce a new multi-year development plan at the end of next year** (a PFO guidance for 2020 or 2021), **which will require other new investments** (the first years of a new plan are somewhat sluggish in view of reorganisations, investments in operating expenses and/or M&A). As a result, **we see no strong leverage for the years to come as we expect poor lfl topline growth and strong investments, while the key activities are experiencing difficulties** (SIM & related services and Payments: ~60% of its sales). There is a risk on our current valuation in the event of a fresh deterioration in these verticals.

VALUATION

This is a good acquisition (smaller than Mopho and with far better profitability), **but it is expensive** and **the accretion we expect is lower than the market reaction last Friday.**

We have raised our 2016-18 EPS sequence by 3.2% on average this time: 0% in 2016e, 1.8% in 2017e and 7.7% in 2018e.

We maintain our Sell recommendation and raise our SOTP-derived FV from EUR50 to EUR52 (the best way to value GTO's different activities). The stock is often a "value trap". **We advise investors to closely monitor the EUR50/share threshold** because, other things being equal, both the SIM and mobile Platforms & Services divisions would be valued at zero in our SOTP. **However, a new deterioration in the payment business could negatively impact this latter.**

NEXT CATALYSTS

FY 2016 sales and earnings: on 3rd March, 2017 (before trading).

3M's Identity Management Business financials

Fig. 1:	USDm	12 months ending June 2016
Fig. 3:	**Sales**	**215**
Fig. 4:	Gross profit	100
Fig. 5:	*Margin*	*46%*

Fig. 6:	**PFO**	**58**
Fig. 7:	*Margin*	*27%*

Source: Company.

3M's Identity Management Business revenue split per activity

Fig. 8:	**3M's Identity Management Business**	**Revenue breakdown**
Fig. 9:	Biometrics	61%
Fig. 10:	Document readers	13%
Fig. 11:	Secure materials	26%
Fig. 12:	**Total**	**100%**

Source: Company.

3M's Identity Management Business revenue split

Fig. 13:	**3M's Identity Management Business**	**Revenue breakdown**
Fig. 14:	Platforms & Services	60-65%
Fig. 15:	Embedded software & Products	35-40%
Fig. 16:	**Total**	**100%**

Source: Company.

3M's Identity Management Business revenue split per geography

Fig. 17:		**Revenue breakdown**
Fig. 18:	Americas	54%
Fig. 19:	EMEA	32%
Fig. 20:	Asia	14%
Fig. 21:	**Total**	**100%**

Source: Company.

BG estimates (old and new) from 2015 to 2018e

Fig. 22:	**EURm**	**2015**	**BG**	**BG**	**BG**	**BG**	**BG**
Fig. 23:		**(reported)**	**2016e**	**2017e (old)**	**2017e (new)**	**2018e (old)**	**2018e (new)**
Fig. 24:	**Sales**	**3,121.6**	**3,127.0**	**3,220.8**	**3,332.2**	**3,349.6**	**3,594.6**
Fig. 25:	*Y/Y change*	*26.6%*	*0.2%*	*3.0%*	*6.6%*	*4.0%*	*7.9%*
Fig. 26:	*Y/Y change*	*4.0%*	*0.8%*	*3.0%*	*3.0%*	*4.0%*	*4.5%*
Fig. 27:	**PFO[1]**	**422.6**	**465.0**	**505.2**	**533.1**	**554.5**	**610.9**
Fig. 28:	*Margin*	*13.5%*	*14.9%*	*15.7%*	*16.0%*	*16.6%*	*17.0%*
Fig. 29:	**EBIT**	**203.3**	**365.9**	**384.9**	**410.7**	**440.5**	**493.3**
Fig. 30:	*Margin*	*6.5%*	*11.7%*	*12.0%*	*12.3%*	*13.2%*	*13.7%*
Fig. 31:	**Current**	**313.3**	**420.6**	**454.1**	**482.0**	**495.7**	**552.2**
Fig. 32:	*Margin*	*10.0%*	*13.5%*	*14.1%*	*14.5%*	*14.8%*	*15.4%*
Fig. 33:	**Net profit**	**136.9**	**257.4**	**273.3**	**277.7**	**315.4**	**339.9**
Fig. 34:	*Margin*	*4.4%*	*8.2%*	*8.5%*	*8.3%*	*9.4%*	*9.5%*
Fig. 35:	**Rest. attrib.**	**226.3**	**300.5**	**326.3**	**332.4**	**315.1**	**383.8**
Fig. 36:	*Margin*	*7.3%*	*9.6%*	*10.1%*	*10.0%*	*9.4%*	*10.7%*
Fig. 37:	**Net debt**	**334.7**	**156.3**	**-81.3**	**735.3**	**-348.4**	**467.6**
Fig. 38:	*Gearing*	*13.4%*	*5.8%*	*-2.8%*	*25.0%*	*-10.9%*	*14.5%*

[1]PFO (Profit From Operations) is an underlying EBIT before stock options

Sources: Bryan, Garnier & Co ests.

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Construction & Building Materials

Imerys

Price EUR70.00

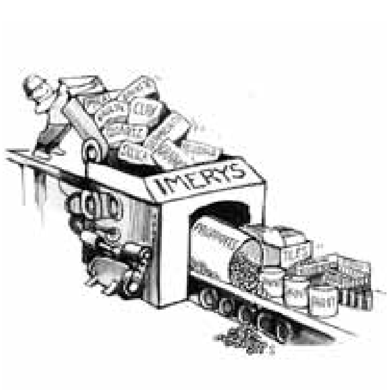
Bloomberg	NK FP
Reuters	IMTP.PA
12-month High / Low (EUR)	70.3 / 51.6
Market Cap (EURm)	5,570
Ev (BG Estimates) (EURm)	7,263
Avg. 6m daily volume (000)	61.70
3y EPS CAGR	9.1%

	1 M	3 M	6 M	31/12/15
Absolute perf.	7.1%	8.1%	10.4%	8.7%
Cons & Mat	0.4%	3.2%	7.5%	7.2%
DJ Stoxx 600	4.6%	2.9%	4.1%	-2.9%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	4,087	4,141	4,233	4,317
% change		*1.3%*	*2.2%*	*2.0%*
EBITDA	745	791	848	875
EBIT	468.2	511.9	549.8	564.5
% change		*9.3%*	*7.4%*	*2.7%*
Net income	285.9	321.7	349.5	368.5
% change		*12.5%*	*8.6%*	*5.4%*

	2015	2016e	2017e	2018e
Operating margin	11.5	12.4	13.0	13.1
Net margin	1.7	7.0	8.3	8.6
ROE	12.9	13.6	13.4	13.2
ROCE	7.9	7.8	8.2	8.4
Gearing	55.4	53.7	47.6	41.1

(EUR)	2015	2016e	2017e	2018e
EPS	3.56	4.03	4.39	4.63
% change	-	*13.2%*	*8.9%*	*5.4%*
P/E	19.6x	17.3x	15.9x	15.1x
FCF yield (%)	5.0%	3.7%	4.5%	5.2%
Dividends (EUR)	1.75	1.89	2.00	2.10
Div yield (%)	2.5%	2.7%	2.9%	3.0%
EV/Sales	1.8x	1.8x	1.7x	1.6x
EV/EBITDA	9.8x	9.2x	8.4x	8.0x
EV/EBIT	15.7x	14.2x	13.0x	12.5x



Acquisition of Kerneos would add c10% of sales.

Fair Value EUR72 (+3%) **BUY**

Imerys announced last night the contemplated acquisition of Kerneos, specialised in mineral-based binders, in particular for the construction industry. Kerneos is a decent size business (EUR415m of sales), profitable (EUR100m of EBITDA, i.e. a 24% margin vs 19% for Imerys) and reports dynamic organic growth for some markets. The price offered looks reasonable at 8.8x and does not deteriorate Imery's investment profile (post deal net debt/EBITDA at 2.6x 2017e). In all, this looks positive for NK as M&A offsets the lack of organic growth. 2018e EPS to be enhanced by 4.5%, before synergies.

ANALYSIS

- Imerys has announced the (contemplated) acquisition of Kerneos. Kerneos developps binders (calcium aluminate based) for the building (i.e. mortars), civil engineering (i.e. sewage infra) and refractories (i.e. blast furnace) industries. The Kerneos binders offer several properties (rapid hardening, self-leveling, sealing, resistance). Kerneos has nine production units in five countries and does business in Europe, North America and Emerging Markets. 1,500 people work for the group.
- The size of the business is very comparable with the last Imerys acquisition, S&B. Kerneos hads EUR415m in annual revenues at end-September (vs EUR400m for S&B when acquired) representing 10% of Imerys' 2016e revenues, for EUR100m in EBITDA, ie a 24% margin (vs 20% for S&B when acquired, or 19% for Imerys in 2016e). The mix impact will also be positive on Imerys' consolidated accounts. Kerneos generated a 3.3% CAGR in revenues in the last three years but we do not have the organic performance, except for the part of the business exposed to construction technologies - which was a very decent 7.1% increase. EBITDA grew 8% over the same period.
- The price stands at EUR880m, included debt, ie 8.8x EBITDA, which looks fine compared to Imerys multiple (9.2x 2016e) and below S&B ratio (9.5x) - all before synergies. Kerneos net profit is not disclosed here, but if we assume a net margin roughly similar to Imerys (8%), combined with a deal entirely financed through debt (3% cost) and a tax rate of 29%, Imerys EPS would be enhanced by c4.5% in 2017e and 2018e, before synergies (which are expected around EUR23m, very similar to those of S&B of EUR25m).
- Imerys' management will develop further on the deal today at 9.00am Paris time with a conference call (+33 1 70 77 09 46 or +44 203 367 94 53) or through a webcast on the company website. As far as we are concerned, we think the market should react positively to the deal. Any acquisition is a way for Imerys to balance the lack of organic growth and to reinforce the part of the business exposed to more dynamic markets. Execution risks should be limited, as the nature of Kerneos' business is likely to look familiar to Imerys. Finally, Kerneos looks profitable and dynamic at least on some markets, although reported top line growth does not look that impressive, although we do not have the growth breakdown.
- The deal is not completed, but based on the application of historical EV/EBITDA multiples (8.6x) to 2018e estimates including Kernos annual contribution (EUR107m of EBITDA + EUR23m of synergies) this would add EUR3 to our valuation based on multiples. The deal should be completed by mid-2017. It should not deteriorate Imerys' credit rating, which will remain investment grade. 2017e net debt/EBITDA post deal stands at 1.7x vs 2.4x previously.

VALUATION

- EUR72 of Fair Value, based on a combination of historical multiples (EUR68) and DCF (EUR74).

NEXT CATALYSTS

- FY 2016 results to be released on 16th February 2017.

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TMT

Orange

Price EUR13.50

Bloomberg	ORA FP
Reuters	ORAN.PA
12-month High / Low (EUR)	16.4 / 13.1
Market Cap (EURm)	35,911
Avg. 6m daily volume (000)	6 400

	1 M	3 M	6 M	31/12/15
Absolute perf.	-4.0%	-0.9%	-11.3%	-12.8%
Telecom	0.0%	-5.4%	-9.2%	-18.3%
DJ Stoxx 600	4.6%	2.9%	4.1%	-2.9%

	2015	2016e	2017e	2018e
P/E	13.7x	14.1x	12.9x	12.7x
Div yield (%)	4.4%	4.4%	5.2%	5.9%

Vivendi says it is not part of Canal+/Orange talks

Fair Value EUR17,1 (+27%) **BUY**

ANALYSIS

- On Saturday, Vivendi denied it was discussing a **cross-ownership deal** with telecoms operator Orange. "If talks are taking place, it's **between Orange and Canal Plus**," a Vivendi spokesman said. He added that potential cross-ownership deals between Orange, Vivendi and Telecom Italia, were not on the agenda, insisting that any potential talks between the two groups were focused on its pay-TV unit Canal Plus.
- We believe that talks between Canal+ and Orange make sense. But as stated in our note on Friday, we think **Canal+ needs Orange more than Orange needs Canal+**. Indeed, from Canal+' side, in defensive mode, a capitalistic alliance with a major player such as Orange could help the company fight against the growing threat from Altice's aggressive media/telco convergence strategy and its large investment capacity. That said, we would appreciate Stephane Richard **clarifying his position regarding the telecom/media convergence** paradigm.
- On the other hand we believe a capitalistic deal between Orange and Vivendi would raise **personal** and **political** issues. Besides, the rational for Orange to take a stake in Telecom Italia, in which Vivendi holds a 24 percent stake, would remain **limited** in our view. Especially at a time when Iliad is about to enter the Italian market.

VALUATION

- We stick to our Fair Value of EUR17, with a Buy recommendation.

NEXT CATALYSTS

- Full year 2016 results expected end of February 2017.

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Luxury & Consumer Goods

Safilo

Price EUR8.20

Licencing agreements: Safilo renews Christian Dior but ends Céline

Fair Value EUR11 (+34%) **NEUTRAL**

Bloomberg	SFL IM
Reuters	SFLG.MI
12-month High / Low (EUR)	10.9 / 6.3
Market Cap (EURm)	514
Avg. 6m daily volume (000)	118.1

	1 M	3 M	6 M	31/12/15
Absolute perf.	-11.1%	-0.9%	19.7%	-23.4%
Consumer Gds	2.6%	-2.2%	-0.9%	-3.9%
DJ Stoxx 600	4.6%	2.9%	4.1%	-2.9%

	2015	2016e	2017e	2018e
P/E	74.0x	19.4x	73.3x	22.1x
Div yield (%)	NM	1.2%	1.8%	2.4%

ANALYSIS

This morning Safilo and **Christian Dior Couture** (LVMH) announced they had renewed their licencing agreement for three additional years until 31st December 2020. This renewal is naturally positive news considering that Dior is Safilo's biggest license (~14-15% of sales) and one of the fastest-growing brands this year. Dior is positioned at the higher end of the Fashion/Luxury segment, with some models that are even in the Atelier segment (retail price > EUR300). Dior was supposed to show a mid to high single-digit CAGR over 2015-20 but we assume that it is ahead of this objective at this stage.

Safilo also announced that its licensing agreement with **Céline** (LVMH) would not be renewed after the expiry date (31st December 2017). This licensing agreement started in 2012 and the Group states that Céline accounted for ~3% of sales, mainly concentrated in Europe and North America. The reasons for this decision were not communicated but we believe that in terms of positioning there would have been a small overlap with its future **Moschino** licence (starting on 1st January 2018). As a reminder, Safilo will also start its new **Rag & Bone** licence on 1st January 2018.

Both announcements prove that unlike Kering, which has built up a centralised organization (Kering Eyewear) to run its eyewear category, each LVMH brand can independently select its eyewear manufacturer. Besides Dior and Céline, Safilo also collaborates with Fendi, Givenchy and Marc Jacobs.

VALUATION

Despite the non-renewal of Céline, we think that it was more crucial for Safilo to secure Dior over the MT. Overall the group seems to be dealing with the Gucci transition efficiently thanks to the first positive results from the painful actions implemented over the last two years, although the performance of the proprietary brand PF remains below internal expectations.

NEXT CATALYSTS

FY16 Results to be released in March 2017.

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Bryan Garnier stock rating system

For the purposes of this Report, the Bryan Garnier stock rating system is defined as follows:

Stock rating

BUY	Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
NEUTRAL	Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
SELL	Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

Distribution of stock ratings

BUY ratings 55.6% NEUTRAL ratings 34% SELL ratings 10.5%

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