BRYAN, GARNIER & CO

LONDON • PARIS • MUNICH • NEW YORK • GENEVA • NEW DELHI

Please find our Research on Bloomberg BRYG <GO>)

16th December 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	19852.24	+0.30%	+13.93%
S&P 500	2262.03	+0.39%	+10.67%
Nasdaq	5456.85	+0.37%	+8.98%
Nikkei	19401.15	+0.66%	+1.26%
Stoxx 600	358.789	+0.86%	-1.92%
CAC 40	4819.23	+1.05%	+3.93%
Oil /Gold			
Crude WTI	50.9	-0.27%	+36.83%
Gold (once)	1126.52	-3.17%	+6.04%
Currencies/Rates			
EUR/USD	1.0415	-2.23%	-4.12%
EUR/CHF	1.07395	-0.18%	-1.24%
German 10 years	0.259	+25.37%	-59.15%
French 10 years	0.8	+9.21%	-18.42%
Euribor	-	+-%	+-%

Economic releases :

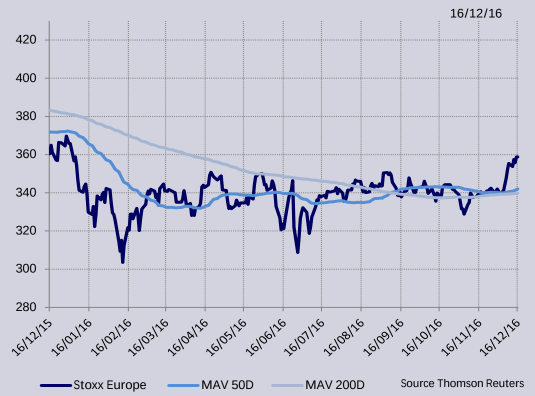
Date	
16th-Dec	11h00 EUZ - CPI Nov. (0.6% E) 14h30 US Housing Starts Nov. (-6.8% Nov.) 14h30 US - Building permits Nov. (-1.2% E) 19h00 US - Baker Hughes rig Count

Upcoming BG events :

Recent reports :

Date	
13th-Dec	Construction - Paris Reverse Roadshow feedback
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,

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



ADOCIA — BUY, Fair Value EUR74 vs. EUR82 (+43%)

Investment case is shifting: longer-term but more diversified

Lilly was holding a FY 2017 guidance call yesterday in the US and it is fair to consider phase III start with BC lispro in 2017 as more hypothetical than it used to be because (i) the programme is in competition with an internal one from LLY and (ii) phase III initiation with an URI is "possible". We therefore have to adjust for the risk of LLY opting-out, which was so far not an option in our view. Conversely, even though they are earlier-stage, we view BC glucagon and BC GLP1 combos as new opportunities that could be even more in line with market dynamics. All in all, our FV is adjusted downwards because a short-term outcome is jeopardised but the name remains very attractive.

ASTRAZENECA — BUY, Fair Value 5100p (+16%)

A late-stage pipeline call that helps put things in perspective

AstraZeneca yesterday held its second late-stage pipeline webcast, which was an opportunity to summarise the key advances made during the current year and also to get a clearer view about what is going to happen over the coming 18 months. Although there was nothing really new, we found this call interesting to put everything into perspective and we came out of call with the conviction that AstraZeneca remains one of the most transformative stories in the large cap pharma space in Europe over the coming years. Indeed it has yet to transform a potentiality into reality but it is mainly timing that now matters and from that perspective H1 2017 is key.

GRIFOLS — NEUTRAL vs. SELL, Fair Value EUR21 vs. EUR19 (+15%)

Acquisition of HOLX's share in their NAT JV. Not the deal we expected, but still a smart one

GFS announced the acquisition of Hologic's stake in their NAT joint venture for a total amount of USD1.85Bn. The deal really makes sense from a financial standpoint, as we expect it to be c.15% accretive to our EPS estimates assuming a 3% interest rate on the incremental USD1.7Bn debt. But from a strategic standpoint, we would have preferred a transaction involving the Bioscience division, especially since 1/ the current pipeline is not that comprehensive in our view; 2/ we anticipate increasing competition from subcutaneous immunoglobulins potentially from 2017e.

H & M — NEUTRAL, Fair Value SEK295 (+9%)

Disappointing November and Q4 sales

Yesterday H&M reported sales growth in November of only 9% FX-n, shy of CS expectations of approx. 15% despite more favourable weather conditions. As a consequence, FY16 sales to November only increased 7% FX-n, implying a fairly stable LFL growth, which might again put some pressure on the group's margins in view of its retail expansion (+427 for a total of 4,351 stores). In this context, our preference clearly goes to ITX that reported a solid start of Q4 2016 and earnings momentum is less at risk. We revised down our assumptions by ~1%. Neutral recommendation and FV of SEK295.

HEINEKEN — BUY, Fair Value EUR83 (+18%)

Reinforcing UK position

Heineken is looking to buy 1,900 UK pubs currently owned by Punch Taverns for GBP1.27bn. The deal is to reinforce its position in the UK pub and beer market and if it goes ahead it could enhance earnings by 2% from the first year (BG estimate). A rival bidder Emerald Investment Partners has not yet given up its pursuit of the Punch Taverns pub estate. However, the three largest shareholders that control 52% of the shares have pledged their shares to Heineken unless a rival bid of over 200p per share for Punch Taverns is received. Heineken and Patron Capital offer 180p.

CONSUMER DURABLES

FASHION: Towards more local sourcing

A few days ago, the UK's largest online fashion retailer ASOS announced its plan to double its UK manufacturing (~4% of total production currently). This quest for local sourcing is being increasingly adopted by apparel groups mainly to reduce lead times and decrease their exposure to USD/CNY currencies. ITX's unique supply chain (60% of production in "proximity countries") is definitely a key competitive advantage but for the other groups, the rebalancing would take time.

SOFTWARE AND IT SERVICES

Oracle Q2 FY17 results: neutral read-across for European Software stocks

In brief...

CAPGEMINI, *Taking over Axa Technologies Shared Services in India*
FRESENIUS SE, *Prefilled syringe Heparin is nice to have for margin sustainability at KABI US*
VEOLIA ENVIRONNEMENT, *Decrease in tariffs in Veolia's biggest water contract in France*

Return to front page

Adocia

Price EUR51.74

Investment case is shifting: longer-term but more diversified

Fair Value EUR74 vs. EUR82 (+43%) **BUY**

Bloomberg	ADOC FP
Reuters	ADOC.FR
12-month High / Low (EUR)	77.7 / 44.4
Market Cap (EUR)	354
Ev (BG Estimates) (EUR)	-14,997
Avg. 6m daily volume (000)	17.40
3y EPS CAGR	30.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-1.0%	0.3%	6.1%	-29.3%
Healthcare	2.4%	-3.6%	0.4%	-11.6%
DJ Stoxx 600	5.8%	5.4%	10.9%	-1.9%

YEnd Dec. (EURk)	2015	2016e	2017e	2018e
Sales	36,936	31,771	32,638	27,827
% change		*-14.0%*	*2.7%*	*-14.7%*
EBITDA	10,571	3,571	7,638	2,827
EBIT	10,103	3,071	7,138	2,327
% change		*-69.6%*	*132.4%*	*-67.4%*
Net income	12,554	5,189	2,223	27,994
% change		*-58.7%*	*-57.2%*	

	2015	2016e	2017e	2018e
Operating margin	27.4	9.7	21.9	8.4
Net margin	34.0	16.3	6.8	100.6
ROE	26.7	9.9	4.1	33.9
ROCE	NM	NM	NM	NM
Gearing	-153.2	-29.4	16.5	-61.2

(EUR)	2015	2016e	2017e	2018e
EPS	1.84	0.76	0.33	4.09
% change	*-*	*-58.7%*	*-57.2%*	
P/E	28.2x	68.2x	NS	12.6x
FCF yield (%)	NM	NM	NM	16.8%
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	NS	NS	0.3x	NS
EV/EBITDA	NS	NS	1.2x	NS
EV/EBIT	NS	NS	1.3x	NS

Lilly was holding a FY 2017 guidance call yesterday in the US and it is fair to consider phase III start with BC lispro in 2017 as more hypothetical than it used to be because (i) the programme is in competition with an internal one from LLY and (ii) phase III initiation with an URI is "possible". We therefore have to adjust for the risk of LLY opting-out, which was so far not an option in our view. Conversely, even though they are earlier-stage, we view BC glucagon and BC GLP1 combos as new opportunities that could be even more in line with market dynamics. All in all, our FV is adjusted downwards because a short-term outcome is jeopardised but the name remains very attractive.

ANALYSIS

- Lilly was holding an investor call yesterday and among other things confirmed that its ultra-rapid insulin programme had shifted into 2017 for phase III initiation. We would even seen in the mention reported on the slides "possible in 2017" an additional layer of caution regarding the future of this programme. Moreover, it has to be remembered that BC lispro has been put in direct competition against an "internal ultra-rapid formulation" for some time now, as reflected on Lilly's website. All together we see these pieces of information as key for Adocia's BC lispro project. It has to be remembered that Lilly in the past licensed the drug in a first time, before returning rights to Adocia and licensing the same drug again, indeed at a more advanced stage but for a much bigger amount of money a couple of years ago. Since then, the development of BC lispro in phase II has progressed according to plan and we did not know that Lilly was running a paralleled development in-house with another compound. Hence our strong confidence in this agreement, reflected by 60% PoS and certain regulatory milestone payments in 2017 and 2018. Now what we read suggest two levels of caution: first with the opportunity to move any of the URI forward and second to opt for BC lispro rather than for the internal project. As a consequence, we are lowering the PoS for BC Lispro from 60% to 50% and we are also applying this PoS to milestone payments. It is fair to say however that should Lilly decide not to move on with BC Lispro in 2017 and to return rights to Adocia that Adocia could be free to find another partner in different conditions, which would make us reconsider the full model for BC Lispro with different timing and terms.
- In the opposite direction, we did not move when Adocia announced in the course of the year that it had decided to initiate new platforms with the BioChaperone technology, with glucagon on one hand and combinations between glargine and different popular GLP1 compounds on the other hand. The developments in the field of diabetes in 2016 put Adocia in a situation where it had to reconsider its priorities. 2016 demonstrated that, at least in the field of insulins, price increasingly matters and best drugs can be commercial failures if they are not properly priced. Hence requirement for effective drugs at an affordable price and we see Adocia more and more inclined to play the game this way. This might suggest that potential partners are different from the usual suspects (or not if they decide to play different!). Actually, in particular with the opportunity of basal-GLP1 combinations, there is a wide variety of options and partners, depending mainly on whether Adocia moves forward with branded products (hence with the agreement of patent holders) or with a biosimilar, which opens the game but requires patent expiry (easier with exenatide than with liraglutide or dulaglutide).

VALUATION

- In the end, we have adjusted the contribution from BC Lispro as explained above (EUR32/share vs EUR55) whereas in the opposite direction we introduced BC Glucagon (EUR4/share) only as a rescue option (like with Zealand we are not putting any value on dual-hormone artificial pancreas yet) and BC prandial combos (EUR22/share with average-weighted options on liraglutide, dulaglutide and exenatide). Note that we have also adjusted BC Combo PoS from 50% to 40% as we see less chance of partnership given competitive landscape with biosimilars. All in all, our FV is slightly lowered but we see Adocia better equipped now to face the reality of the diabetes field than before, hence our reiterated BUY rating.

NEXT CATALYSTS

- By year-end : *Click here to download*

Analyst :
Eric Le Berrigaud
33(0) 1 56 68 75 33
eleberrigaud@bryangarnier.com

Sector Team :
Mickael Chane Du
Marion Levi
Hugo Solvet

Healthcare

AstraZeneca

Price 4,400p

A late-stage pipeline call that helps put things in perspective

Fair Value 5100p (+16%) **BUY**

Bloomberg	AZN LN
Reuters	AZN.L
12-month High / Low (p)	5,220 / 3,774
Market Cap (GBPm)	55,662
Ev (BG Estimates) (GBPm)	68,014
Avg. 6m daily volume (000)	3 003
3y EPS CAGR	-8.3%

	1 M	3 M	6 M	31/12/15
Absolute perf.	0.9%	-11.9%	15.4%	-4.7%
Healthcare	2.4%	-3.6%	0.4%	-11.6%
DJ Stoxx 600	5.8%	5.4%	10.9%	-1.9%

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	12.8x	12.9x	16.5x	16.6x
FCF yield (%)	NM	NM	2.1%	1.7%
Dividends (USD)	2.80	2.80	2.80	2.80
Div yield (%)	5.1%	5.1%	5.1%	5.1%
EV/Sales	3.3x	3.9x	4.4x	4.4x
EV/EBITDA	13.1x	19.9x	15.9x	16.0x
EV/EBIT	18.9x	26.6x	19.2x	20.1x

AstraZeneca yesterday held its second late-stage pipeline webcast, which was an opportunity to summarise the key advances made during the current year and also to get a clearer view about what is going to happen over the coming 18 months. Although there was nothing really new, we found this call interesting to put everything into perspective and we came out of call with the conviction that AstraZeneca remains one of the most transformative stories in the large cap pharma space in Europe over the coming years. Indeed it has yet to transform a potentiality into reality but it is mainly timing that now matters and from that perspective H1 2017 is key.

ANALYSIS

- EVP Global Medicines Development and CMO Sean Bohen was managing the call yesterday and his key message as he introduced the call was to show that there was "more than durvalumab in IO, more than IO in oncology and more oncology at AstraZeneca". And this objective was reached although it is very clear that oncology carries the most exciting and attractive part of AZ's pipeline.
- A lot of time was spent speaking about developments in oncology and most of the questions during the Q&A session were about this theme. Before addressing the central case, which was MYSTIC with no surprise, AZ reiterated its strong confidence behind Lynparza and Tagrisso. Recent disclosure of headline data from the SOLO-2 trial (yet to be presented in a medical congress) revigorated the level of confidence behind Lynparza in a fairly competitive PARP inhibitor class and AZ clearly stated that SOLO-2 data would show the competitive profile of Lynparza in ovarian cancer whereas it is difficult to drive any conclusion from AbbVie's recent failure in breast cancer with its own PARP considering profound differences in trial design. First data in breast cancer with Lynparza will shortly come. Note also that SOLO-2 allows AZ to promote a four-tablet-a-day regime that is much more convenient than the current 16-capsules-a-day that prevails with Lynparza. Moving to Tagrisso, this is a very clear and easy path for the drug in the T790M segment but with the objective now to broaden the scope and embrace the full EGFRm NSCLC market and FLAURA phase III data will tell what to expect from the drug in 1L in H2 2017, with high hopes.
- Moving to durvalumab, AZ tried to make clear that it was still learning from two ongoing trials called 1108 (monotherapy) and 006 (combination with treme) to finetune MYSTIC. An important clarification came across about PFS too. AZ could have decided to drop PFS as a primary endpoint to favour OS but did not opt for this solution and will not because it still considers that even though OS is gold standard, PFS is a reliable endpoint in lung and as it will have full final analyses in H1 2017, there is a chance that MYSTIC can initiate a filing for the combination before OS data are out. PFS or OS, PD-L1 positive patients (with different thresholds) or all comers, MYSTIC has been designed and powered to answer different questions. AZ actually sold the worst-case in recent calls to keep expectations low but the probability to show something as early as in 2017 is reasonably high. In any case, durvalumab is likely to progress in bladder cancer with a PDUFA date in Q2 2017 and more data to come on study 1108 and later on in 1L with DANUBE (2018). We would say that same strategy was applied with acalabrutinib. Filing in 2017 is challenging based on "fast-to-market" strategy but not at all impossible considering strong data published so far.
- We heard less meaningful comments outside of oncology but we would nevertheless stress reiterated support behind ZS-9 and benralizumab. First is probably AZ biggest opportunity in the short-term with an anticipated regulatory decision expected in Q1 2017 in the US whereas it remains the best-in-class candidate for hyperkalaemia. Second is AZ best chance to bring the Respiratory franchise back to growth in the developed markets with best-in-IL5-class status although late entry vs GSK will make competition not so easy (despite the 8-w regime argument).

VALUATION

- No change

Analyst :
Eric Le Berrigaud
33(0) 1 56 68 75 33
eleberrigaud@bryangarnier.com

Sector Team :
Mickael Chane Du
Marion Levi
Hugo Solvet

Healthcare

Grifols

Price EUR18.27

Acquisition of HOLX's share in their NAT JV. Not the deal we expected, but still a smart one

Fig. 1: Fair Value EUR21 vs. EUR19 (+15%) **NEUTRAL vs. SELL**

Bloomberg	GRF SM
Reuters	GRF.MC
12-month High / Low (EUR)	21.6 / 16.8
Market Cap (EUR)	11,671
Ev (BG Estimates) (EUR)	15,228
Avg. 6m daily volume (000)	794.8
3y EPS CAGR	13.2%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-0.9%	-4.1%	-4.1%	-14.3%
Healthcare	2.4%	-3.6%	0.4%	-11.6%
DJ Stoxx 600	5.8%	5.4%	10.9%	-1.9%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	3,935	4,014	4,232	4,414
% change		*2.0%*	*5.4%*	*4.3%*
EBITDA	1,163	1,150	1,386	1,492
EBIT	970.3	949.1	1,170	1,262
% change		*-2.2%*	*23.3%*	*7.9%*
Net income	532.1	560.4	711.7	774.8
% change		*5.3%*	*27.0%*	*8.9%*

	2015	2016e	2017e	2018e
Operating margin	24.7	23.6	27.7	28.6
Net margin	13.5	14.0	16.8	17.6
ROE	16.1	15.4	17.2	16.7
ROCE	6.9	7.1	8.9	9.6
Gearing	112.6	97.5	77.3	61.0

(EUR)	2015	2016e	2017e	2018e
EPS	0.78	0.82	1.04	1.13
% change	-	*5.0%*	*27.0%*	*8.9%*
P/E	23.5x	22.4x	17.6x	16.2x
FCF yield (%)	3.8%	4.8%	4.9%	5.5%
Dividends (EUR)	0.32	0.31	0.33	0.41
Div yield (%)	1.7%	1.7%	1.8%	2.3%
EV/Sales	3.9x	3.8x	3.5x	3.3x
EV/EBITDA	13.2x	13.2x	10.7x	9.7x
EV/EBIT	15.9x	16.0x	12.7x	11.5x

GFS announced the acquisition of Hologic's stake in their NAT joint venture for a total amount of USD1.85Bn. The deal really makes sense from a financial standpoint, as we expect it to be c.15% accretive to our EPS estimates assuming a 3% interest rate on the incremental USD1.7Bn debt. But from a strategic standpoint, we would have preferred a transaction involving the Bioscience division, especially since 1/ the current pipeline is not that comprehensive in our view; 2/ we anticipate increasing competition from subcutaneous immunoglobulins potentially from 2017e.

ANALYSIS

An acquisition to reinforce the Diagnostics division. GFS announced the acquisition of Hologic's stake in their Nucleic Acid Testing (NAT) joint-venture for a total amount of USD1.85Bn (funded by the existing cash on the balance sheet, as well as an USD1.7Bn term loan). As a reminder, such business contributed to c.55% of the Diagnostic division's revenues… and due to a lower number of blood transfusions in mature countries (particularly in the US), its top line has rather been under pressure (at least until Q3 16).

Diagnostic business – Breakdown of sales

	Nucleic acid testing	Immunoassay	Blood typing, others
Products	Assays, instruments	HCV and HIV antigens	Genotyping, instruments
Partner	Hologic (formerly 50-50% revenue sharing)	Ortho Clinical (50-50% profit sharing)	None
% sales	c.55%	c.25%	c.20%

A highly accretive deal. The deal is c.15% accretive on our EPS assuming an 3% interest rate on the incremental debt. So the acquisition makes sense from a financial standpoint as GFS further reinforces its Diagnostic franchise (c.16% of the group's sales) and even boosts the group's EBITDA margin by +350 bps (HOLX's EBITDA share was USD160m – hence an EV/EBITDA multiple of c.12x). But as the company already booked all revenues, the direct impact is restricted to the bottom line.

BG estimates – Before / After the transaction

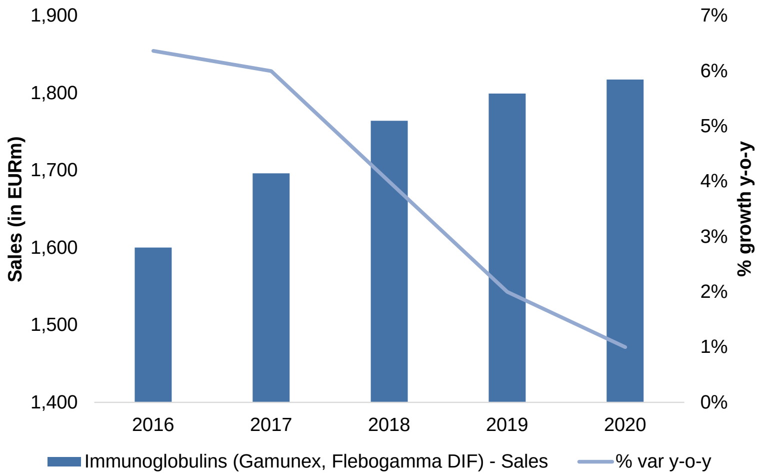
(in EURm)	2017			2018		
	Old	New	% var	Old	New	% var
Revenues	4,232	4,232	0%	4,414	4,414	0%
EBITDA	1,253	1,386	11%	1,346	1,492	11%
EBIT	1,037	1,170	13%	1,117	1,262	13%
Financial result	-232	-246	6%	-228	-243	6%
Net income	620	712	15%	675	775	15%
EPS	0.90	1.04	15%	0.98	1.13	15%

Not the deal we expected. The deal is less appealing from a strategic standpoint and from our point of view, as the business is far from being a fast-growing one. An acquisition to reinforce the Bioscience Division (c.80%of sales) would have been welcomed, especially since 1/ the current development pipeline is not that exhaustive (and even more since the partial failure of Pulmaquin in non-cystic fibrosis bonchiectasis); 2/ we anticipate an increasing competition from subcutaneous immunoglobulins (e.g. CSL's Hizentra, SHP's Hyqvia) in CIDP potentially from 2017e.

VALUATION

We raise our rating to NEUTRAL vs SELL with a FV of EUR21 vs EUR19 after having updated our model with this acquisition (and knowing that the transaction is likely to be closed in Q1 17, and we assumed it could be at the end of January). Based on our new figures, GFS' A shares would trade at 18-19x its 2017e earnings (implying a c.20% premium vs the EURO STOXX Pharma)… so we still see the stock as an expensive one, especially in light of the risks we foresee.

Immunoglobulins: watch your step. The next catalyst is likely to be the publication of pivotal data involving CSL's Hizentra for the treatment of CIDP. We are are quite optimistic about the results, especially since small studies showed that SCIG led to quite similar outcomes when compared with IVIG, and even with an improved safety profile (Hadden *et al*, 2015; Markvardsen *et al*, 2014). If approved, a substantial portion of patients currently treated with GFS' Gamunex will switch to CSL's Hizentra and SHP's Hyqvia in our view due to their convenience and improved clinical sability (steady-state IgG levels).



Phase III data are expected for Albutein in Alzheimer's disease in the next few months, and it goes without saying that the stock will react very positively should the primary endpoint be achieved. That said, 1/ solanezumab's recent failure proved (once again) that targeting β-amyloid might not be the right strategy (though we admit that GFS' strategy is a bit more complex than that); 2/ we ask ourselves whether the trial design really is satisfactory (solely 350 patients being enrolled whereas AD affects millions of people worldwide). So we remain cautious about this study's outcome.

NEXT CATALYSTS

Q4 2016: Phase III results for CSL's Hizentra in CIDP.

Q1 2017: Closing of the acquisition deal.

1.

[Click here to download]

Analyst :
Mickael Chane Du
33(0) 1 70 36 57 45
mchanedu@bryangarnier.com

Sector Team :
Eric Le Berrigaud
Marion Levi
Hugo Solvet

Luxury & Consumer Goods

H & M

Price 271.10

Disappointing November and Q4 sales

Fair Value SEK295 (+9%) **NEUTRAL**

Bloomberg	HMB SS
Reuters	HMb.ST
12-month High / Low ()	305.2 / 236.6
Market Cap (m)	448,690
Ev (BG Estimates) (m)	440,145
Avg. 6m daily volume (000)	2 941
3y EPS CAGR	2.4%

	1 M	3 M	6 M	31/12/15
Absolute perf.	7.8%	4.6%	11.9%	-10.3%
Consumer Gds	5.8%	0.0%	5.1%	-3.3%
DJ Stoxx 600	5.2%	5.1%	11.0%	-2.8%

YEnd Nov. (SEKm)	11/15	11/16e	11/17e	11/18e
Sales	180,861	192,229	211,644	231,835
% change		*6.3%*	*10.1%*	*9.5%*
EBITDA	33,341	31,141	34,815	38,948
EBIT	26,942	23,644	26,138	28,979
% change		*-12.2%*	*10.5%*	*10.9%*
Net income	20,898	18,358	20,276	22,457
% change		*-12.2%*	*10.4%*	*10.8%*

	11/15	11/16e	11/17e	11/18e
Operating margin	14.9	12.3	12.4	12.5
Net margin	11.6	9.6	9.6	9.7
ROE	36.0	30.6	31.7	32.4
ROCE	34.5	27.4	27.6	28.1
Gearing	-22.3	-14.2	-9.4	-6.9

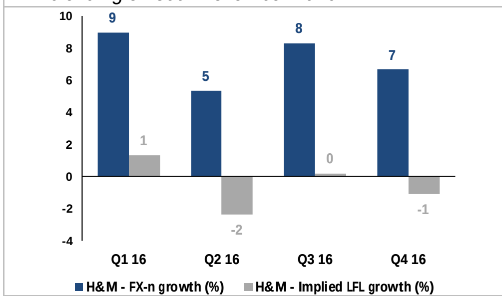
(SEK)	11/15	11/16e	11/17e	11/18e
EPS	12.63	11.09	12.25	13.57
% change	-	*-12.2%*	*10.4%*	*10.8%*
P/E	21.5x	24.4x	22.1x	20.0x
FCF yield (%)	2.7%	2.7%	3.1%	3.6%
Dividends (SEK)	9.75	9.75	10.24	11.34
Div yield (%)	3.6%	3.6%	3.8%	4.2%
EV/Sales	2.4x	2.3x	2.1x	1.9x
EV/EBITDA	13.1x	14.1x	12.7x	11.4x
EV/EBIT	16.2x	18.6x	16.9x	15.3x

Yesterday H&M reported sales growth in November of only 9% FX-n, shy of CS expectations of approx. 15% despite more favourable weather conditions. As a consequence, FY16 sales to November only increased 7% FX-n, implying a fairly stable LFL growth, which might again put some pressure on the group's margins in view of its retail expansion (+427 for a total of 4,351 stores). In this context, our preference clearly goes to ITX that reported a solid start of Q4 2016 and earnings momentum is less at risk. We revised down our assumptions by ~1%. Neutral recommendation and FV of SEK295.

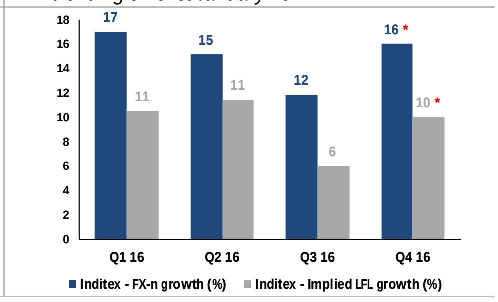
ANALYSIS

- **November sales disappointed...** Sales were only up 9% FX-n (BG ests: approx. +2% LFL), roughly in line with the previous month (+10% FX-n) but shy of the CS forecasts (~15% FX-n) that anticipated an acceleration on the back of a more favourable environment for winter clothes than the prior year (= easier comps). Indeed, note that last year, H&M used the unseasonably mild weather in North America to justify a weaker-than-expected performance in November 2015.
- **... and Q4 sales missed expectations.** As a consequence, the Swedish group posted Q4 sales (excl. VAT) that increased 7% FX-n (but ~-1% LFL) to SEK52.7bn, missing analysts' expectations of SEK53.5bn. In the FY16, sales excl. VAT were also up 7% FX-n and 6% reported to SEK192.2, representing a fairly stable LFL growth (-0.5%e).
- **Space growth in line with MT guidance.** We assume that space contribution amounted to ~12%, vs MT guidance of +10-15% p.a., leading to a space growth of c.7.7%. It is worth noting that H&M opened 427 stores during the FY16 and now counts 4,351 DOS on 30th November.
- **Structural question marks remain.** In our initiation report, we highlighted that H&M was facing structural issues: **(i)** a classical supply chain close to traditional players but less flexible than ITX, leading to higher sensitivity to shifts in demand (fashion, weather conditions), **(ii)** an increasing competitive environment, especially from Primark that is expanding in Germany (~18% of sales) and in France (~6% of sales) and **(iii)** a pressure on margins due to an insufficient LFL growth to absorb the inflation of opex costs related to the retail expansion.

H&M: quarterly FX-n and implied LFL growth (%):
FY16 ending on 30th November 2016



ITX: Quarterly FX-n and implied LFL growths (%):
FY16 ending on 31st January 2017



** Q4 16: sales from 1st Nov to 12th Dec ests*

Source: Company Data, Bryan, Garnier & Co

VALUATION

- The latest ITX and H&M publications confirms our positive stance on ITX, which has outperformed H&M this year *(see graphs above)*. ITX offers a more defensive profile in this volatile and competitive advantage with unique key competitive advantages such as its 'pull' strategy
  (= collection design based on customer purchasing decisions) and its centralised + vertical integration that implies short lead times (~two weeks vs. six months for H&M and the rest of the industry) and the lowest mark-down and unsold inventory rates amongst the lowest in the industry.
- We have revised down our earnings assumptions by ~1% but we were a touch more cautious than the CS expectations. Neutral recommendation and FV of SEK295 confirmed.

NEXT CATALYSTS

- December sales on 16th January 2017 // FY16 Sales on 31st January 2017. *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

Heineken

Price EUR70.34

Reinforcing UK position

Fair Value EUR83 (+18%) BUY

Bloomberg	HEIA NA
Reuters	HEIN.AS
12-month High / Low (EUR)	84.4 / 68.0
Market Cap (EURm)	40,516
Ev (BG Estimates) (EURm)	54,831
Avg. 6m daily volume (000)	734.2
3y EPS CAGR	6.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-0.1%	-9.7%	-10.4%	-10.7%
Food & Bev.	4.0%	-5.5%	-1.3%	-6.6%
DJ Stoxx 600	5.8%	5.4%	10.9%	-1.9%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	20,511	20,530	21,033	21,595
% change		*0.1%*	*2.4%*	*2.7%*
EBITDA	4,975	5,080	5,412	5,760
EBIT	3,381	3,486	3,694	3,932
% change		*3.1%*	*6.0%*	*6.4%*
Net income	2,048	2,103	2,302	2,494
% change		*2.7%*	*9.5%*	*8.4%*

	2015	2016e	2017e	2018e
Operating margin	16.5	17.0	17.6	18.2
Net margin	10.0	10.2	10.9	11.6
ROE	15.1	14.4	14.5	14.5
ROCE	8.2	8.1	8.6	9.1
Gearing	86.0	75.2	62.6	50.4

(EUR)	2015	2016e	2017e	2018e
EPS	3.57	3.67	4.02	4.35
% change	*-*	*2.7%*	*9.5%*	*8.4%*
P/E	19.7x	19.2x	17.5x	16.2x
FCF yield (%)	4.2%	4.1%	5.6%	6.3%
Dividends (EUR)	1.11	1.09	1.20	1.30
Div yield (%)	1.6%	1.6%	1.7%	1.8%
EV/Sales	2.7x	2.7x	2.5x	2.4x
EV/EBITDA	11.1x	10.8x	9.8x	8.9x
EV/EBIT	16.3x	15.7x	14.3x	13.0x

Heineken is looking to buy 1,900 UK pubs currently owned by Punch Taverns for GBP1.27bn. The deal is to reinforce its position in the UK pub and beer market and if it goes ahead it could enhance earnings by 2% from the first year (BG estimate). A rival bidder Emerald Investment Partners has not yet given up its pursuit of the Punch Taverns pub estate. However, the three largest shareholders that control 52% of the shares have pledged their shares to Heineken unless a rival bid of over 200p per share for Punch Taverns is received. Heineken and Patron Capital offer 180p.

Heineken and Patron Capital made an offer for Punch Taverns at GBp180 per share that has been accepted by the Punch Taverns board and is backed by the three biggest investors in the company (Glenview Capital, Avenue Capital and Warwick Capital Partners). However, if a rival offer of over GBp200 emerges, the agreement with the biggest investor would lapse.

ANALYSIS

- Punch Taverns is a tenanted pub operator with 3,350 pubs located across the United Kingdom, 96% of which are on a freehold or long leasehold basis. Heineken will end up paying GBP1.27bn (GBP305m for the equity and GBP962m for the securitised debt) for 1,900 pubs. Heineken already has around 1,100 pubs in the UK and together with the 1,900 it is to buy, it will be the third largest owner of pubs in the UK with a 6% market share.
- Owning a pub estate comes with a number of benefits. The most important benefit is that a own estate can sell your own beers. With the current Punch estate selling beers and ciders from all major brewers (Molson Coors, AB InBev, Carlsberg, and Heineken), a move to a more exclusive Heineken contract could allow Heineken to improve its market share in the UK. Currently Heineken is the number one brewer in the UK with a 19% market share, just ahead of both AB InBev and Molson Coors that have 18% (Carlsberg has 13%).
- Owning pubs allows for direct contact with consumers and the pub estate can be a testing ground for new innovations. A recent example is the Strongbow Dark Fruit cider that was first tested in about 100 of its own pubs before rolling out (and meanwhile taking 35% of all Strongbow volumes). Also having an own estate is allowing for all the on trade managers of Heineken UK to better understand the pub environment when they speak with the on-trade.
- Furthermore, UK beer margins are very thin (7%) but cider is better (12%) and pubs are a lot better (40%). So there is visible margin uplift when integrating a pub estate. Heineken has stated that the acquisition would have an immediate accretive impact on earnings. We calculate earnings accretion at 2%

VALUATION

- Our Fair Value of EUR83 is based on DCF using a 1.6% risk free rate, 7% equity premium and a beta of 1.0.
- At 17.5x 2017 earnings, Heineken shares are trading below their average of the last five years (18.0x)

NEXT CATALYSTS

- Full year results on 15th February 2017.

Click here to download

Analyst :
Nikolaas Faes
33(0) 6 11 12 44 44
nfaes@bryangarnier.com

Sector Team :
Loïc Morvan
Antoine Parison
Cédric Rossi
Virginie Roumage

Sector View

Consumer durables

FASHION: Towards more local sourcing

	1 M	3 M	6 M	31/12/15
Consumer Gds	5.3%	-0.4%	4.6%	-3.0%
DJ Stoxx 600	5.8%	5.4%	10.9%	-1.9%

*Stoxx Sector Indices

Companies covered

ADIDAS GROUP		**NEUTRAL**		**EUR136**
Last Price	EUR143,7	*Market Cap.*		EUR30,064m
H & M		**NEUTRAL**		**SEK295**
Last Price	SEK259,9	*Market Cap.*		*SEK430,153m*
INDITEX		**BUY**		**EUR38**
Last Price	EUR32,015	*Market Cap.*		*EUR99,780m*
YOOX NET-A-PORTER		**BUY**		**EUR33**
Last Price	EUR27,04	*Market Cap.*		*EUR3,670m*
ZALANDO		**NEUTRAL**		**EUR39**
Last Price	EUR35,755	*Market Cap.*		*EUR8,841m*

A few days ago, the UK's largest online fashion retailer ASOS announced its plan to double its UK manufacturing (~4% of total production currently). This quest for local sourcing is being increasingly adopted by apparel groups mainly to reduce lead times and decrease their exposure to USD/CNY currencies. ITX's unique supply chain (60% of production in "proximity countries") is definitely a key competitive advantage but for the other groups, the rebalancing would take time.

ANALYSIS

Most of the ready-to-wear (RTW) brands locate their manufacturing in Asia..., as seen in the following charts: nearly 80% of **H&M's** sourcing is from Asia, which is close to that of **ADS Group** (~93%) and **Primark** (~80%). China still accounts for a big part of this Asian footprint, representing ~29% of ADS' apparel production, 35% for H&M and half of Primark's sourcing. Yet, these groups have been impacted by increasing labour costs locally as salaries in the textile industry have been growing at double-digit rates every year over the past decade. Consequently, production was gradually moved to SEA countries (Vietnam, Indonesia, etc.), with more attractive labour costs.

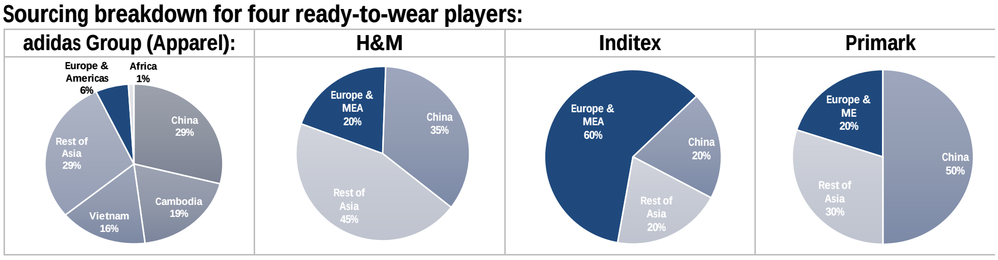
... making their supply chains more complex and less agile. Indeed, supply chains are not responsive enough considering lead times of 3-6m to manufacture and ship their collections in stores. These groups are therefore highly sensitive to shifts in demand (fashion changes, weather conditions, etc.).

ASOS to double its UK manufacturing from 4% to 8% in the MT. ASOS was not spared by these issues as production in Eastern Europe, Turkey and Asia accounts for approx. 80% of ASOS' own brand (~45% of group sales). Since it is an online fashion retailer, its success also relies on fast and efficient execution and doubling UK sourcing will have several advantages: **(i)** more affordable production costs thanks to the plunge in the GBP, **(ii)** shorter lead times as 70% of ASOS' sales are generated in Europe and **(iii)** efficiencies and cost savings (lower USD/GBP transactional exposure, lower logistics costs) that could be reinvested in price cuts to increase ASOS' competitiveness.

adidas Group's Speedfactory and Futurecraft 3D projects. At the moment, it typically takes 18m for ADS to develop and finally sell a new style of shoe. But the German group is speeding up its supply chain thanks to the **Speedfactory** (fully automated shoe plant) and **Futurecraft** (3D-printing) projects. Speedfactory, its first robotic shoe manufacturing plant in Germany (Ansbach) is now up and running and a second factory will open in Atlanta (US) next year. Production capacity is set to be modest in the ST (~1m pairs vs. 301m pairs produced by ADS every year) but it due to ramp up as the Group intends to grow this **Speedfactory** network across the world over the MT. The aim is to bring ADS products as quickly as possible and offer unprecedented customisation opportunities to consumers, while saving costs and improving its level of sustainability.

ITX really stands out with 60% of its manufacturing in European/neighbouring countries (Turkey, Morocco, Africa). This local sourcing enables ITX to be highly responsive to any changes in fashion trends and to keep its markdowns low (c.15%-20% vs. industry average of c.30%-40%) together with a very low unsold inventory rate (c.10% vs. c.15%-20% for the industry). In our view, this responsiveness is ITX' main competitive advantage, not only compared with traditional retailers but also with the internet players.

Sourcing breakdown for four ready-to-wear players:



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

[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

Sector View

Software and IT Services

Oracle Q2 FY17 results: neutral read-across for European Software stocks

	1 M	3 M	6 M	31/12/15
Softw.& Comp.	6.6%	-1.1%	13.0%	5.4%
DJ Stoxx 600	5.8%	5.4%	10.9%	-1.9%

*Stoxx Sector Indices

Yesterday evening, Oracle reported Q2 FY17 sales (FYE 31st May) in line with the consensus and company guidance. Explosive growth in SaaS and PaaS revenues was partly offset by a 19% decline in new licence sales. We view these numbers as a neutral read-across for European software vendors.

Companies covered

ALTEN	**NEUTRAL**	**EUR57**
Last Price EUR64,99	*Market*	*EUR2,189m*
ALTRAN TECHNOLOGIES	**BUY**	**EUR15**
Last Price EUR13,17	*Market*	*EUR2,315m*
ATOS	**BUY**	**EUR115**
Last Price EUR96,96	*Market*	*EUR10,158m*
AXWAY SOFTWARE	**BUY**	**EUR31**
Last Price EUR28,9	*Market*	*EUR601m*
CAPGEMINI	**BUY**	**EUR95**
Last Price EUR78,01	*Market*	*EUR13,384m*
CAST	**NEUTRAL**	**EUR3,3**
Last Price EUR3,45	*Market*	*EUR56m*
DASSAULT SYSTEMES	**SELL**	**EUR64**
Last Price EUR70,49	*Market*	*EUR18,133m*
INDRA SISTEMAS	**BUY**	**EUR12**
Last Price EUR10,39	*Market*	*EUR1,705m*
SAGE GROUP	**NEUTRAL**	**645p**
Last Price 647,5p	*Market*	*GBP6,993m*
SAP	**NEUTRAL**	**EUR82**
Last Price EUR81,44	*Market*	*EUR100,049*
SOFTWARE AG	**BUY**	**EUR40**
Last Price EUR33,595	*Market*	*EUR2,654m*
SOPRA STERIA GROUP	**BUY**	**EUR125**
Last Price EUR102,75	*Market*	*EUR2,105m*
SWORD GROUP	**BUY**	**EUR32**
Last Price EUR28,1	*Market*	*EUR265m*
TEMENOS GROUP	**BUY**	**CHF77**
Last Price CHF71,1	*Market*	*CHF4,948m*

ANALYSIS

Q2 FY17 results in line with consensus estimates. For its quarter ended 30th November 2016, Oracle has reported non-GAAP EPS down 3% (flat at cc) at USD0.61 (i.e. USD0.63 at cc) or just above the top-end of company guidance, which was given at cc (USD0.59-0.62), and in line with the consensus (USD0.60). Total revenues were up 2% at cc to USD9.07bn or at the mid-point of the guidance range (0%/+3% at cc) and in line with the consensus (USD9.11bn). Cloud and on-premise software revenues were up 3% at cc to USD7.21bn (guidance: +3%/+5%; consensus: USD7.31bn). Hardware product sales were down 9% at cc, but engineered systems grew strongly.

Q2 FY17 details. At cc, on-premise software sales were down 3%, with new licences down 19% and maintenance up 3%, Cloud SaaS/PaaS sales rose an impressive 89% (guidance: +78%/+82% at cc) including acquisitions (NetSuite), and cloud IaaS was up 9%. Cloud and on-premise software revenues were up 2% cc (vs.+6% in Q1 FY17) in the Americas, up 11% at cc (vs. +7% in Q1) in EMEA, and up 3% at cc (vs. +8% in Q1) in Asia Pacific. In the Cloud, Cloud ERP/EPM was up 104%, HCM up 131%, CRM up 15, Services up 24%, Data as a Service up 71%, Database as a Service up 700%. Oracle added 1,082 new customers (vs. 776 in Q1 FY16) - 810 expansions - of which 224 (vs. 173) in HCM, 443 (vs. 346) in Customer Experience and 532 (vs. 344) in ERP excluding NetSuite. Its ERP/EPM active installed base now reaches 3,269 customers (o/w 1,275 live). In PaaS, Oracle had 2,225 new customers and has an installed base of 12,168 clients. In IaaS, it has 2,148 customers.

Q3 FY17 guidance. For Q3 FY17 (February 2017 quarter), management expects total revenues up 3-5% at cc, with Cloud & On-Premise software guidance up 4-6% at cc (SaaS/PaaS guidance +82%/+86% at cc including NetSuite), and non-GAAP EPS USD0.61-0.64 (consensus: USD0.64) taking into account an adverse impact from a higher tax rate (25.5% vs. 22.6%). Cloud bookings were up 51% at cc, which is similar to the +49% reported in Q1. For FY17, Oracle, including NetSuite, now anticipates SaaS/PaaS revenues up 67-80% (vs. above 65-67% previously). NB. SaaS/PaaS posted a gross margin of 61% in Q2 FY17 (+18ppt), should continue to rise over FY17, and Oracle confirms its plan to reach 80% as soon as possible. Finally, the management expects to book over USD2bn in new annually cloud business this year and the Database as a Services and IaaS will grow even faster than the SaaS business.

Neutral short-term read-across for European Software vendors. As such, from a short-term perspective we consider this publication is neutral for SAP and other European software vendors. Revenue momentum is strong in the cloud, unsurprisingly. With an aggressive strategy, Oracle's cloud SaaS/PaaS revenue growth (+89% lfl) remains way above the cloud subscription growth of SAP (+29.4% lfl in Q3 2016), Workday (+38.3% in Q3 FY17) and Salesforce (+26% lfl in Q3 FY17).

VALUATION

European Software companies: EV/EBIT multiples of 16.8x for 2016 and 15.1x for 2017

NEXT CATALYSTS

Accenture's Q1 FY17 results on 21st December before the US markets open.

SAP's FY16 results on 24th January 2017 before the markets open.

Click here to download

Analyst :
Gregory Ramirez
33(0) 1 56 68 75 91
gramirez@bryangarnier.com

Sector Team :
Richard-Maxime Beaudoux
Thomas Coudry
Dorian Terral

TMT

Capgemini

Price EUR78.01

Taking over Axa Technologies Shared Services in India

Fair Value EUR95 (+22%) **BUY**

Bloomberg	CAP FP
Reuters	CAPP.PA
12-month High / Low (EUR)	89.1 / 69.0
Market Cap (EUR)	13,384
Avg. 6m daily volume (000)	686.9

	1 M	3 M	6 M	31/12/15
Absolute perf.	6.9%	-8.5%	-6.2%	-8.9%
Softw.& Comp. SVS	6.6%	-1.1%	13.0%	5.4%
DJ Stoxx 600	5.8%	5.4%	10.9%	-1.9%

	2015	2016e	2017e	2018e
P/E	16.8x	14.0x	13.0x	12.0x
Div yield (%)	1.7%	1.9%	2.1%	2.2%

ANALYSIS

- **Yesterday French newspaper *Les Echos* reported that Capgemini had agreed with Axa to acquire Axa Technologies Shared Services**, for an undisclosed sum. On 7th November, *L'Agefi* reported that this division of Axa Tech, which is based in Bangalore (India) with a headcount of c. 1,000 out of the 3,500 Axa Tech headcount, was for sale and that the name of the acquirer would be announced by the end of this year. Axa Technologies Shared Services provides IT infrastructure services for Axa across 16 countries.
- **Rationale of the deal and potential impact to our model**. The rationale of this disposal for Axa is the lack of critical size in India, which led to strong staff attrition, lack of attractiveness, and high hiring/training costs. In this context, Capgemini would bring economies of scale thanks to its workforce of 92,000+ based in India (including in Bangalore). We estimate Capgemini's offshore leverage would rise to 56% (est. 50% in India) from 55% (est. 49% in India). Based on Indian average sales/head assumptions, we estimate such a deal would add several tens of million euros of sales to Capgemini, or an est. 0.3-0.7% of additional revenues in our view.

VALUATION

- Capgemini's shares are trading at est. 10.3x 2016 and 8.9x 2017 EV/EBIT multiples.
- Net debt on 30th June 2016 was EUR2.270bn (net gearing: 36%).

NEXT CATALYSTS

FY16 results on 16th February 2017 before the market open.

Click here to download

Gregory Ramirez, gramirez@bryangarnier.com

Healthcare

Fresenius SE

Price EUR71.29

Prefilled syringe Heparin is nice to have for margin sustainability at KABI US

Fair Value EUR78 (+9%) **BUY-Top Picks**

Bloomberg	FRE GR
Reuters	FREG.DE
12-month High / Low (EUR)	72.9 / 53.1
Market Cap (EURm)	38,994
Avg. 6m daily volume (000)	1,108

	1 M	3 M	6 M	31/12/15
Absolute perf.	5.9%	1.6%	13.9%	8.1%
Healthcare	2.4%	-3.6%	0.4%	-11.6%
DJ Stoxx 600	5.8%	5.4%	10.9%	-1.9%

	2015	2016e	2017e	2018e
P/E	27.3x	23.8x	20.7x	18.7x
Div yield (%)	2.4%	2.7%	3.2%	3.5%

ANALYSIS

Fresenius SE announced yesterday the launch of generic Heparin (anti-coagulant) in the prefilled syringe format. Already available in the traditional vial format, it is important however to note that Heparin is a significant product within KABI's IV generic drug portfolio, accounting for approx. 5% or USD120-130m of IV Gx drug sales in 2016 (BG ests.).

On top of the seven "legacy" products, which came along with the acquisition of the Becton Dickinson's plant earlier this year and the related 10-year supply contract, we are pleased to see Fresenius SE has already launched two products (the first one was Ketorolac Tromethamine in late September) from the Simplist's range (prefilled syringe format). Indeed, FRE's management said at the time of the acquisition that no material impact from this acquisition should be seen in the short term as investments would need to be made. Nevertheless, we believe that these two launches might underline the fact that the upgrade at the plant has progressed well and potentially faster than initially expected.

Although it is not clear already whether the traditional vial format would still be available or if it will be replaced by the prefilled syringe, the roll-out of Heparin in the latter format is nice to have for margin sustainability as it comes at profitability levels north of 40%. Following the stronger than expected launch of Daptomycin, we highlighted earlier this week (please see *our note here*), this supports our thesis of short term strength at KABI despite easing of the drug shortage situation. We are not ruling out the prospect that Fresenius SE might continue to roll-out important products in the new prefilled syringe format.

VALUATION

Fresenius SE in our Q4 Top-Picks list

We reiterate our BUY rating and EUR78 Fair Value

NEXT CATALYSTS

22nd February: Q4/FY 2016 results

Click here to download

Hugo Solvet, hsolvet@bryangarnier.com

Utilities

Veolia Environnement

Price EUR15.67

Decrease in tariffs in Veolia's biggest water contract in France

Fair Value EUR22 (+40%) BUY

Bloomberg	VIE FP
Reuters	VIE.PA
12-month High / Low (EUR)	22.7 / 15.5
Market Cap (EURm)	8,828
Avg. 6m daily volume (000)	2 289

	1 M	3 M	6 M	31/12/15
Absolute perf.	-4.4%	-22.1%	-18.9%	-28.3%
Utilities	5.5%	-4.6%	-3.5%	-10.8%
DJ Stoxx 600	5.8%	5.4%	10.9%	-1.9%

	2015	2016e	2017e	2018e
P/E	15.2x	14.6x	12.8x	11.4x
Div yield (%)	4.7%	5.2%	5.7%	6.2%

ANALYSIS

- **The SEDIF** (Syndicat des Eaux d'Ile De France) **announced yesterday that drinking water prices will be lowered by EUR0.10 per m^3** (from EUR1.47 per m^3 to EUR1.37 per m^3) **as from January 2017** in the area it covers. This follows the past 18% decrease in tariffs back in 2011.
- As a reminder, **the SEDIF covers about 150 municipalities located on the outskirts of Paris,** which implies the supply of c. **4m customers**. **Veolia is the operator of the market** since 1923. In 2010, the contract was renewed for 12 years.
- According to French news site BFM Business, **this decrease in tariffs will only be endured by Veolia** whose remuneration is around EUR1 per m^3.
- We assumed Veolia's contract represents around 13% of the company's water revenues in France hence c. **EUR400m of revenues per year**. Considering Veolia's remuneration at EUR1 per m^3, this decrease in tariffs would imply a c. **10% cut in Veolia's remuneration hence a c. EUR40m headwind at the revenues' level as from 2017.**
- This confirms the **negative momentum for both Suez and Veolia in their respective French water businesses** with contracts' renegotiations implying **decreased prices**, in line with the low inflation environment, and the **Brottes law** implying significant headwind at the EBITDA level (we assumed a c. EUR25m headwind for Veolia in FY16).

VALUATION

- At the current share price, Veolia trades at **4.8x** its 2016e EV/EBITDA multiple
- **Buy, FV @ EUR22.0** per share

NEXT CATALYSTS

- **23rd February 2017:** FY16 results

Click here to download

Pierre-Antoine Chazal, pchazal@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 54.9% NEUTRAL ratings 34.6% SELL ratings 10.5%

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

A copy of the Bryan Garnier & Co Limited conflicts policy in relation to the production of research is available at www.bryangarnier.com

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