BRYAN, GARNIER & CO

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21st December 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	19974.62	+0.46%	+14.63%
S&P 500	2270.76	+0.36%	+11.10%
Nasdaq	5483.94	+0.49%	+9.52%
Nikkei	19444.49	-0.26%	+2.42%
Stoxx 600	361.317	+0.48%	-1.23%
CAC 40	4849.89	+0.56%	+4.59%
Oil /Gold			
Crude WTI	52.3	+0.35%	+40.59%
Gold (once)	1127.47	-1.07%	+6.13%
Currencies/Rates			
EUR/USD	1.0378	-0.57%	-4.46%
EUR/CHF	1.06815	-0.04%	-1.77%
German 10 years	0.18	+14.49%	-71.61%
French 10 years	0.714	-1.53%	-27.23%
Euribor	-	+-%	+-%

Economic releases :

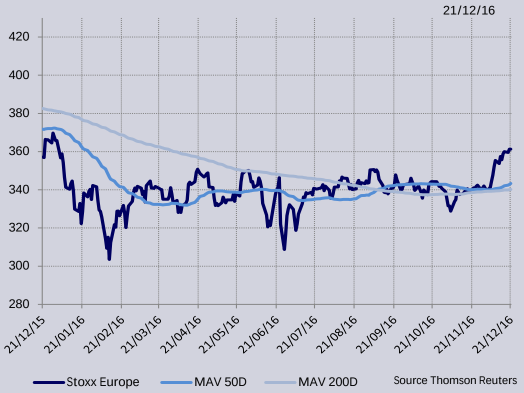
Date	
21st-Dec	16h00 EUZ - Consumer Confidence (-6 E) 16h00 US - Existing home sales 16h30 - US DoE inventories

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



ENGIE — BUY, Fair Value EUR14.8 (+20%)

Recently mentioned Suez's takeover by Engie : what-if analysis

BFM Business reported yesterday that Engie could consider a full takeover of its 33.7%-owned Suez subsidiary. We believe this transaction is unlikely to happen in the short-term, as both companies are deeply involved in their restructuring programmes until 2018. However, we have tried to model the potential implications of such a deal at both balance sheet and P&L levels for Engie. While net debt/EBITDA ratio would rise significantly, we estimate the buyout would be accretive for Engie's EPS assuming no capital increase is launched to fund it. The "ideal" scheme (acquisition and disposal of the waste business) would, however, imply enhanced exposure to French water business whose fundamentals do not appear well-oriented.

CONSUMER DURABLES

NIKE: Q2 earnings above expectations, but disappointing future orders (+2% FX-n)

Yesterday Nike released Q2 revenues (to end November) up 6% reported and 8% FX-n to EUR8.2bn, topping CS expectations of EUR8bn. The Q2 EPS came in at US$0.50 (+11%) vs. CS of US$0.43 mainly thanks to a positive SG&A leverage. Nike's management reiterated the FY17 outlook (high single-digit FX-n growth), but we believe that investors will be disappointed by the weaker-than-expected backlog, only up 2% FX-n vs. CS of ~5%, particularly in North America (-4% vs. +1%e).

In brief...

GALAPAGOS, *En route for the triple combo in 2017*

Galapagos announced positive topline results from the SAPHIRA1 trial assessing the efficacy of GLPG1837 in 26 cystic fibrosis patients harbouring the G551D mutation

ROCHE, *Ocrevus' potential approval delayed to end of Q1 17*

The extension is the result of the submission of additional data by the company regarding the manufacturing process of the compound

VINCI, *A new toll road in the portfolio*

Vinci, through Vinci Highways, has acquired 100% of LAMSAC, which holds the concession, to 2049, of a 25 km urban toll roads around Lima in Peru

Utilities

ENGIE

Price EUR12.34

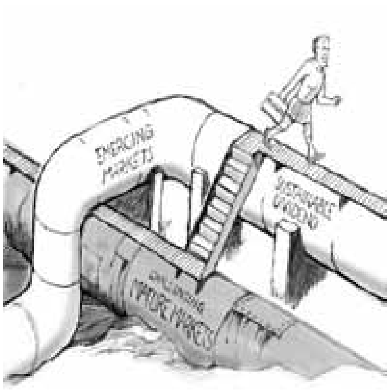
Bloomberg	ENGI FP
Reuters	ENGIE.PA
12-month High / Low (EUR)	16.5 / 11.3
Market Cap (EUR)	30,039
Ev (BG Estimates) (EUR)	70,493
Avg. 6m daily volume (000)	5 772
3y EPS CAGR	-20.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	9.6%	-9.7%	-14.8%	-24.4%
Utilities	7.8%	-3.2%	-6.4%	-9.5%
DJ Stoxx 600	6.5%	6.0%	7.0%	-1.2%

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	-3,243	6,182	5,900	6,095
% change		*NS*	*-4.6%*	*3.3%*
Net income	2,589	2,409	2,204	2,313
% change		*-6.9%*	*-8.5%*	*5.0%*

	2015	2016e	2017e	2018e
Operating margin	-4.6	9.4	9.2	9.3
Net margin	3.7	3.7	3.6	3.7
ROE	10.2	5.0	4.6	4.8
ROCE	6.8	4.3	4.1	4.2
Gearing	61.5	55.5	60.0	60.2

(EUR)	2015	2016e	2017e	2018e
EPS	2.04	1.01	0.97	1.02
% change	*-*	*-50.7%*	*-3.1%*	*4.7%*
P/E	6.1x	12.3x	12.7x	12.1x
FCF yield (%)	0.8%	27.4%	10.6%	13.1%
Dividends (EUR)	1.00	1.00	0.70	0.70
Div yield (%)	8.1%	8.1%	5.7%	5.7%
EV/Sales	1.1x	1.1x	1.1x	1.1x
EV/EBITDA	6.7x	6.5x	6.7x	6.5x
EV/EBIT	NS	11.4x	11.9x	11.6x



Recently mentioned Suez's takeover by Engie : what-if analysis

Fair Value EUR14.8 (+20%) **BUY**

BFM Business reported yesterday that Engie could consider a full takeover of its 33.7%-owned Suez subsidiary. We believe this transaction is unlikely to happen in the short-term, as both companies are deeply involved in their restructuring programmes until 2018. However, we have tried to model the potential implications of such a deal at both balance sheet and P&L levels for Engie. While net debt/EBITDA ratio would rise significantly, we estimate the buyout would be accretive for Engie's EPS assuming no capital increase is launched to fund it. The "ideal" scheme (acquisition and disposal of the waste business) would, however, imply enhanced exposure to French water business whose fundamentals do not appear well-oriented.

ANALYSIS

- Yesterday, BFM Business reported that **Engie could consider a full takeover of its 33.7%-owned Suez subsidiary**. According to the media, Engie could consider allocating part of the resources from its expected EUR15bn disposals programme in order to buy Suez. A disposal of Suez's waste business (ex-SITA) could also be considered to help funding the operation. **This caused Suez's stock price to climb 4.6% yesterday** (vs. +0.8% for SX6P).
- In our previous report on Engie, we stated that **such an operation was unlikely to happen in the short-term, as we believe both companies are already deeply involved in their restructuring programmes until 2018**. In addition, we considered that this would be viewed as **a step backwards** following both companies' efforts to strengthen their respective commercial developments through new business organisations and the ongoing homogenisation of their structure. **In the long-term, an acquisition of Suez could potentially make sense for Engie,** as the company aimed at focusing on more contracted and regulated activities including customer solutions and particularly on the *"business-to-territories"* sub-segment.
- Independently of such strategic considerations, **we tried to model a potential 100% takeover of Suez by Engie with a full integration in 2018**. We assumed **three different scenarios** while excluding a debt-funding scheme (which is likely to be dilutive at the EPS level due to the inherent higher financial expenses). Based on a 10% premium vs. Suez's average share price over the last three months, we estimated Engie's cash-out would amount to c.**EUR5.6bn**. The acquisition would therefore lead to a sharp increase in Engie's 2018e debt net over EBITDA ratio due to the consolidation of Suez's debt, **from 2.4x** (current BG estimates) **to 3.2x**. Assuming a financing through **capital increase** – and based on a 10% discount to TERP hence a 12% discount vs. current Engie's share price – we estimate the ratio would be more comfortable for Engie, at **2.8x**, but still significantly higher than the current expected one. Finally, **assuming a disposal of Suez's current waste business,** we estimated Engie's net debt over EBITDA would amount to **2.9x** – based on an EUR860m 2018e EBITDA for waste activities and a 7.0x normative EV/EBITDA multiple.
- **Our three scenario therefore imply ratios well above Engie's current objective at 2.5x,** which is mainly explained by Suez's strong **exposure to regulated activities** in the US and in Chile (22.5% of 2015 company's EBITDA).

Table 1: expected impact on Engie's 2018e net debt/EBITDA ratio

	2018e			
	No acquisition	**Acquisition**		
	Current BG estimates	**No capital increase**	**Capital increase**	**No capital increase and ex-SITA's disposal**
EBITDA	10,881	13,672	13,679	12,819
Net debt	26,475	43,661	38,056	37,641
Net debt/EBITDA	**2,4x**	**3,2x**	**2.8x**	**2.9x**

Source : Bryan Garnier & Co. ests.

- **At the P&L level, a capital increase funding scheme does not make sense**, in our view, as it would imply **c.4% dilution on 2018e EPS** due to the new shares to be created. Assuming no capital increase, we estimated **the operation would be accretive in 2018 by 17% and 7%** for Engie depending on whether the waste business is disposed of or not. Note that as for the waste business, we assumed a 3.5% net margin, in line with sector's standards. Note also that we do not consider additional financial expenses as we assumed they would be offset by financial synergies' linked with the takeover. We however do not include in our assumptions any revenues' and costs' synergies from the operation for now in order to be on the safe side.

Table 2: expected impact on Engie's 2018e P&L

	2018e			
	No acquisition	Acquisition		
	Current BG estimates	No capital increase	Capital increase	No capital increase and ex-SITA's disposal
EBITDA	10,881	13,679	13,679	12,819
EBIT	6,095	7,388	7,388	6,998
Net income	2,313	2,698	2,698	2,472
# shares	2,396	2,396	2,915	2,396
EPS	**0.97**	**1.13**	**0.93**	**1.03**

Source : Bryan Garnier & Co. ests.

- **Conclusion:** in our view, the **capital increase funding scheme appears unlikely** to be set given the implied EPS dilution. **No capital increase would imply a strong accretion but it would significantly increase the company's credit metrics** with net debt/EBITDA ratio above 3.0x while Engie's objective remains 2.5x. **A disposal of Suez's current waste business would create a more comfortable in-between configuration** with reasonable accretion (c. +7%) and net debt/EBITDA ratio at 2.9x. **This would, however, infringe on current Suez's diversification strategy by increasing the exposure of the new structure to French water activities** which is still bearing the brunt of a low inflation environment (flat tariff indexation), poor trend in volumes and new regulatories headwind inherent to the Brottes law.

VALUATION

- At current share price, the stock trades at **6.5x** its 2016e EV/EBITDA multiple
- **Buy**, **FV @ EUR14.8** per share
- Note that **Suez** (Buy, FV @ EUR17.5 per share) currently trades at **6.8x** its 2016e EV/EBITDA multiple

NEXT CATALYSTS

- **Further disposals** including notably the exploration & production (E&P) assets, the Polaniec power plant in Poland, the remaining thermal assets in Australia or the port project in northern Chile and the IEM2 power plant project, still in Chile
- **March 2nd 2017:** FY-16 results

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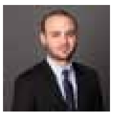

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Sector View

Consumer durables

NIKE: Q2 earnings above expectations, but disappointing future orders (+2% FX-n)

	1 M	3 M	6 M	31/12/15
Consumer Gds	5.9%	0.5%	2.2%	-1.8%
DJ Stoxx 600	6.5%	6.0%	7.0%	-1.2%

*Stoxx Sector Indices

Companies covered

ADIDAS GROUP		**NEUTRAL**	**EUR136**
Last Price	EUR146.15	*Market Cap.*	EUR30,577m
H & M		**NEUTRAL**	**SEK295**
Last Price	SEK256	*Market Cap.*	*SEK423,698m*
INDITEX		**BUY**	**EUR38**
Last Price	EUR32.115	*Market Cap.*	*EUR100,091m*
YOOX NET-A-PORTER		**BUY**	**EUR33**
Last Price	EUR26.9	*Market Cap.*	*EUR3,651m*
ZALANDO		**NEUTRAL**	**EUR39**
Last Price	EUR35.775	*Market Cap.*	*EUR8,846m*

Yesterday Nike released Q2 revenues (to end November) up 6% reported and 8% FX-n to EUR8.2bn, topping CS expectations of EUR8bn. The Q2 EPS came in at US$0.50 (+11%) vs. CS of US$0.43 mainly thanks to a positive SG&A leverage. Nike's management reiterated the FY17 outlook (high single-digit FX-n growth), but we believe that investors will be disappointed by the weaker-than-expected backlog, only up 2% FX-n vs. CS of ~5%, particularly in North America (-4% vs. +1%e).

ANALYSIS

In Q2 ending 30th November, revenues for the **NIKE brand** (~94% of total sales) increased 6% reported and 8% FX-n. The end of the positive contribution from two major sport events (EURO Championship and Rio OG) explains the slight deceleration vs. Q1 (+10% FX-n).

By region, **North America** revenue was up 3% (Q1: +6%), mostly driven by DTC (double-digit traffic increases and higher conversion). The activity in **Western Europe** grew by 12% FX-n (Q1: +10%), driven by Sportswear and Running categories, particularly in Apparel (+23%). In **Greater China**, revenue soared 17% FX-n (Q1: +21%), marking the Group's 10th consecutive quarter of double-digit. During the call, management specified that online sales during the Singles Day nearly tripled vs. last year. The **Central & Eastern Europe** region have slowed down to +1% FX-n vs. +16% in Q1, but trends remained strong in **Emerging Markets** (+13% FX vs. +11% in Q1), fuelled by Korea and Mexico among others.

Q2 EPS of 50¢ beating expectations of 43¢. The **GM** declined 140bp to 44.2% (CS: 44.3%) due to higher input costs, a negative FX impact and a higher mix of off-price sales vs. last year. However this decrease was offset by a **strong operating leverage** as demand creation was down 1% (substantial investments ahead of the EURO and OG events) whilst **SG&A** expenses contracted 3%. Consequently, the Group's EBIT reached USD1.13bn (+16%), or 18% above CS forecasts, representing an 110bp-increase in the EBIT margin to 13.8%.

FY17 outlook confirmed… Management continued to expect revenue FX-n growth to be within the high-single-digit/low-double-digit range whilst the stronger USD should have a more adverse impact on the reported performance (Q3: mid-single-digit growth). As for the profitability, Nike guided on a sequential improvement with regard to the GM (Q3:-100 to -125bp vs. -140bp in Q2) thanks to a more favourable price-mix. The operating leverage should be less significant in H2 given the ramp up of the Group's "Edit to Amplify" initiative (reduce styles, shorter lead times and more agile supply chain).

… but modest future orders (+2% FX-n vs. CS of +5%). Even if management reiterated that there was a disparity between this backlog and the Group's future performance, we believe that investors should be disappointed by these future orders for the period from December 2016 through April 2017. Nike's future orders in **North America** are down 4% vs. expectations of +1%, whilst **Western Europe** (+2% vs. +5.7%e) and **Greater China** (+12% vs. +16.6%e) are also shy of the CS expectations.

READ-ACROSS TO ADIDAS GROUP

Nike's Q2 publication shows that it faces increasing competitive pressure in North America, particularly from adidas Group which achieved strong sales growth of 20% in Q3, o/w +24% for adidas brand. Following the opening of ADS's largest flagship store in New York (~4,200sqm) at the beginning of this month, CEO Kasper Rorsted confirmed that reinforcing US operations were among the Group's priorities for 2017 and beyond.

NEXT CATALYSTS

adidas Group: FY17 results on 8th March 2017 // CMD on 14th March.

Nike should report Q3 FY17 earnings (to end February) by the end of March 2017.

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Healthcare

Galapagos

Price EUR58.40

En route for the triple combo in 2017

Fair Value EUR64 (+10%) **BUY**

Bloomberg	GLPG BB
Reuters	GLPG.BR
12-month High / Low (EUR)	63.8 / 32.7
Market Cap (EURm)	2,701
Avg. 6m daily volume (000)	282.8

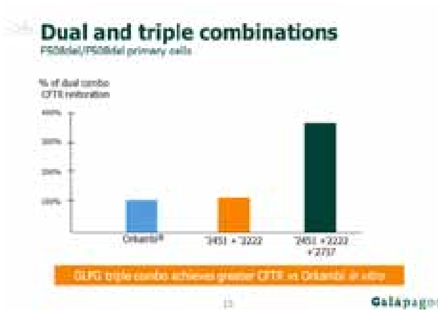
	1 M	3 M	6 M	31/12/15
Absolute perf.	3.5%	-3.0%	24.3%	2.9%
Healthcare	3.1%	-4.4%	-0.7%	-10.8%
DJ Stoxx 600	6.5%	6.0%	7.0%	-1.2%

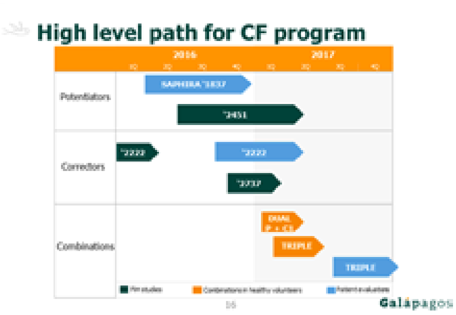
	2014	2015e	2016e	2017e
P/E	NS	NS	NS	93.2x
Div yield (%)	NM	NM	NM	NM

ANALYSIS

- Galapagos announced positive topline results from the SAPHIRA1 trial assessing the efficacy of GLPG1837 in 26 cystic fibrosis patients harbouring the G551D mutation. This mutation represents less than 5% of all CF cases. 25 patients whom were stable on Kalydeco prior to inclusion had a mean percent predicted FEV1 of 74%. After a 7 ways washout during which mean ppFEV1 levels decreased by 5.4%, 1 month of GLPG1837 enable all patients to return to baseline levels (7 days at 125mg BID, 7 days at 250mg BID and 14 days at 500mg BID). Moreover sweat chloride concentration decreased in a dose dependant manner was statistically significant (to levels around 60mmol/L that could make CF hard to diagnose after sweat chloride test). On the safety side, most of the events where moderate to mild. One drop-out was due to an increase in non-cardiac creative phosphokinase, not observed in previous trial nor in preclinical data (possibly drug-drug interaction?).

- We are pleased with the results that put GLPG's first potentiator at least at par with Kalydeco. As a reminder, increased efficacy for the triple combo is expected to be mainly streamed from the synergistic effect of the correctors used by GLPG/ABBV and already in the clinic. It is not clear at this stage whether GLPG1837 or GLGP2451 (currently in phase I trial) will be used for the triple combo as GLPG management presented in its last call exciting data from the triple combo including GLPG2451 as a corrector. GLPG2451 being administrated QD, it would also provide an edge to Vertex' molecules dosed BID.





VALUATION

- We reiterate our BUY rating and EUR64 fair value

NEXT CATALYSTS

- Today 3:00pmCET/9:00amET: conference call on SAPHIRA 1 results (UK +44 330 336 9105, FR +32 2 404 0659, US +1 719 325 4746; access code 6588087).

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Healthcare

Roche

Price CHF233.50

Bloomberg	ROG VX
Reuters	ROG.VX
12-month High / Low (CHF)	278.5 / 220.1
Market Cap (CHFm)	164,048
Avg. 6m daily volume (000)	1,330

	1 M	3 M	6 M	31/12/15
Absolute perf.	0.6%	-4.5%	-5.0%	-15.5%
Healthcare	3.1%	-4.4%	-0.7%	-10.8%
DJ Stoxx 600	6.5%	6.0%	7.0%	-1.2%

	2015	2016e	2017e	2018e
P/E	17.3x	15.0x	14.3x	14.2x
Div yield (%)	3.5%	4.0%	4.2%	4.2%

Ocrevus' potential approval delayed to end of Q1 17

Fair Value CHF285 (+22%) **BUY**

ANALYSIS

- **Ocrevus' potential approval in MS delayed by three months**. ROG yesterday announced that the FDA has extended the PDUFA date for its review of Ocrevus (ocrelizumab, CD20 mAb)' BLA to March 28, 2017. The extension is the result of the submission of additional data by the company regarding the manufacturing process of the compound… which required additional time for FDA review. So this is not related to eventual questions vis-à-vis the efficacy/safety profile of the antibody.
- **Strong newsflow expected in Q1 17.** While this is not great news, it does not change our perception of the equity story (we see Ocrevus as an important driver / line of defence against biosimilars in the next few years). Firstly, because "ocre" is still being evaluated by the regulator, and no fundamental question has so far been raised. Secondly, all eyes are on APPHINITY (Phase III trial evaluating the addition of Perjeta to the current SOC in HER2+ adjuvant breast cancer), and we believe the overall stock performance is highly dependent on its readout (somewhere in Q1 17).
- **Read-across for GEN/NVS's ofatumumab also delayed**. We remain quite positive about the prospect of ofatumumab (another CD20 mAb) from a fundamental standpoint (SC administration, strong Phase II data, etc.), and we could not wait to see which label would be attributed to "ocre"… and obviously the broader, the better. But in the end, we will have to wait.

VALUATION

- We stick to our BUY rating with a FV of CHF285.

NEXT CATALYSTS

- Q1 17: First phase III data for ACE910 in Haemophilia A with inhibitors + APPHINITY readout + Ocrevus approval in MS.

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Construction & Building Materials

VINCI

Price EUR64.32

Bloomberg	DG FP
Reuters	SGEF.PA
12-month High / Low (EUR)	69.7 / 56.9
Market Cap (EURm)	38,416
Avg. 6m daily volume (000)	1 511

	1 M	3 M	6 M	31/12/15
Absolute perf.	5.3%	-4.1%	-0.7%	8.8%
Cons & Mat	3.1%	4.4%	10.1%	8.2%
DJ Stoxx 600	6.5%	6.0%	7.0%	-1.2%

	2015	2016e	2017e	2018e
P/E	17.9x	16.5x	15.1x	14.3x
Div yield (%)	2.9%	3.2%	3.5%	3.7%

A new toll road in the portfolio

Fair Value EUR74 (+15%) **BUY**

ANALYSIS

- Vinci, through Vinci Highways, has acquired 100% of LAMSAC, which holds the concession, to 2049, of a 25 km urban toll roads around Lima in Peru. The deal includes the electronic toll collection operator PEX. This is a large deal, based on a EV for the two entities of EUR1.5bn.
- The deal looks attractive. First, the asset is well located. This is a ring road around Lima, the capital of Peru (the fifth largest city in LatAm) which is a dynamic country (6% GDP growth in the last 10 years). Besides, a new section between the toll road and Callao harbour in the west side of Lima is planned according to Vinci press release. This should support the traffic, which standing at only 139,300 vehicles per day today.
- Secondly, this looks like a significant step for Vinci Highways, which mainly holds the toll roads business of Vinci outside the large motorways in France. Vinci Highways manages 26 concessions in 13 countries. At the end of 2015, the Equity committed in Vinci Highways assets stood at around EUR600m. The Lima toll road looks like a significant step forward for this part of the business then.
- Third, this type of operation underlines the strength of the Vinci model, which is regularly able to expand its concession portfolio, without jeopardizing its financials balance.

VALUATION

- EUR74 Fair value based on a SOTP

NEXT CATALYSTS

- FY 2016 results due to be released on 7th February 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 54.3% NEUTRAL ratings 35.8% SELL ratings 9.9%

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