BRYAN, GARNIER & CO

Consumer, Brands & Retail

Dow Jones: 26,157.16 (12.13% ytd) | CAC40: 5449.88 (15.2% ytd) | Stoxx 600: 386.676(14.52% ytd)

11th April 2019

Please find our Research on Bloomberg BRYG <GO>)

LVMH | BUY | EUR365 vs. EUR350

Another very strong quarter

11% organic sales growth in Q1 (cs+8.5%)
Louis Vuitton still very dynamic
2019 EPS revised up 4%
Buy reiterated (FV EUR365 vs EUR350)

FNAC DARTY | BUY | EUR94

Q1 2019 set to be less impacted by the Yellow Vests

'Yellow Vests' impact should be easing in Q1 in France
Easter shift to impact Q1, especially in Iberic Peninsula
Wehkamp partnership is still ramping-up
Buy confirmed

TOD'S GROUP | NEUTRAL | EUR42

Q1 set to be soft

Stable Q1 sales on the cards
Italy and US still under pressure
Further margin erosion expected over FY 2019
Neutral recommendation maintained

Healthcare |

EASL2019 – day1: It is better to treat NASH upstream

NASH: it is better to target the "metabolic" part of the disease
Diagnostic: lots of debates about non-invasive measures

Semiconductors |

Top Picks Q2: Profit taking looms after recent rally but Soitec has an option yet to be priced

Inventory correction and memory ASPs decline likely to continue until Q3 2019, smartphones to rebound first
We remain cautious on the timing and the extent of memory spending recovery

Telecom |

Reassuring comments from the government on French 5G allocation process

5G frequencies allocation framework is pointing in the right direction
Reasonable pricing is the most likely scenario

Upcoming BG events :

Date	
11th-Apr	ORPEA | Geneva roadshow
17th-Apr	Breakfast KOL maladies neuromusculaires
25th-Apr	BIOCARTIS | Paris roadshow with CEO and IR
30th-Apr	BIOCARTIS | London roadshow with CEO/IR
23rd-Sept/ 24th-Sept	Annual Consumer Conference

Recent reports :

Date	
9th-Apr	BASILEA PHARMACEUTICA | Like a treasury bond with call options
5th-Apr	HENKEL | Nothing to expect in 2019
5th-Apr	UNILEVER | Our favourite!
5th-Apr	RECKITT BENCKISER | A long way to go!
5th-Apr	HENKEL | Rien à attendre en 2019
5th-Apr	UNILEVER | Notre préférée dans l'échantillon!
5th-Apr	RECKITT BENCKISER | La route est longue !
5th-Apr	HPC | « Home Sweet Home » (VF)

RESEARCH AS A SERVICE

BRYAN, GARNIER & CO

LVMH

Consumer, Brands & Retail

| Luxury Goods

11th April 2019

BUY

Fair Value	EUR365 vs. EUR350 (+11%)
Share price	EUR329.75
EPS 3Y Cagr	12.0%

Another very strong quarter

11% organic sales growth in Q1 (cs+8.5%)

LVMH has reported Q1 sales of EUR12.53bn (consensus: EUR12.18bn), implying an 11% organic sales increase (consensus: +8.5%), following +9% in Q4 2018. FX had a five-point positive impact following the recent weakness of the EUR vs USD and the rebound in the RMB. Although we do not yet have the performance by region (which should be disclosed tomorrow during the conference call at 3pm Paris time), we guess that the very positive momentum over the quarter was especially driven by APAC (30% of sales), thanks to a very dynamic Chinese New Year, and by Japan (7% of sales), both delivering double digit sales growth. On the other hand, we expect a slowdown in Europe (28% of LVMH revenues), affected by lower tourist flows and by less dynamic local consumption, and in US (23%). We remind investors that Q1 is the weakest quarter for LVMH, as it accounts for only 23% of FY revenues.

Louis Vuitton still very dynamic

In Q1, **Wines & Spirits** revenues (16% of Group EBIT) grew 9% organically versus +2% in Q4 2018, the rebound explained especially by higher Hennessy shipments in Greater China and in the US (brand sales declined by 2% in Q4 2018). Champagne volumes remain stable with an outperformance of high quality cuvées while those of **Hennessy** were up 11%, mainly driven by the US and China. **Fashion & Leather** (59% of Group EBIT) maintained very dynamic momentum in Q1 (+15% vs +11% expected by the consensus), despite a very slight slowdown vs Q4 18 (+17%). **Louis Vuitton** and **Christian Dior** (according to our estimates, both brands account together for 71% of division sales) drove growth in the division. Some LV stores have reopened after renovation (Shanghai and Monaco…) and a new workshop has been opened in France to avoid too many production constraints. Nevertheless, other F&L brands achieved a very positive performance (Fendi, Berluti…). For **Perfumes & cosmetics**, Q1 again saw strong growth (+9%) with **Parfums Christian Dior** again posting very dynamic momentum, especially thanks to *J'adore* and *Miss Dior* and the launch of *Joy*. Furthermore, *Fenty Beauty by Rihanna* continued its successful journey. The **Watches & Jewelry** business achieved a softer trend in Q1 (+4%), mainly thanks to **Bulgari** and jewelry while watch brands such as **Tag Heuer** were less dynamic as they are affected by a more challenging industry environment. Lastly, **Selective Retail** also fared quite well (+8%), driven by Sephora especially.

2019 EPS revised up 4%

Following the Q1 sales release, we lift our earnings estimates by 4%. For FY 2019 we expect 8.5% organic sales growth, o/w +11% for Fashion & leather, vs +7% previously and a 90bp EBIT margin gain (+70bp previously).

Buy reiterated (FV EUR365 vs EUR350)

We reiterate our Buy recommendation with a new EUR365 FV, given our new earnings estimates. We still prefer LVMH and Kering among our luxury goods stocks sample.

Market Data

Bloomberg / Reuters	MC FP/LVMH.PA
Market Cap.	EUR166,533m
E.V.	EUR173.133m
Free Float	50
Avg. Daily volume (6m)	718.5
12m high / low	336.1 / 243.3
Ytd Perf.	27.7%

EURM	12/18	12/19e	12/20e	12/21e
Sales	46,826	51,300	54,190	57,075
% Change		*9.6%*	*5.6%*	*5.3%*
EBITDA	11,940	13,445	14,425	14,415
% Change		*12.6%*	*7.3%*	*-0.1%*
EBIT	9,980	11,395	12,275	13,225
% Change		*14.2%*	*7.7%*	*7.7%*
Net Income	6,354	7,490	8,140	8,917
% Change		*17.9%*	*8.7%*	*9.5%*
ROE	0.19	0.18	0.17	0.16

	12/18	12/19e	12/20e	12/21e
EV/Sales	3.7x	3.3x	3.0x	2.8x
EV/EBITDA	14.5x	12.6x	11.4x	11.1x
EV/EBIT	17.3x	14.8x	13.4x	12.1x
EPS	12.65	14.91	16.21	17.75
% change		*17.9%*	*8.7%*	*9.5%*
P/E	26.1x	22.1x	20.3x	18.6x
Div Yield	1.8%	2.0%	2.3%	2.6%

Next Catalyst: Conference call at 3pm today

Last FV Change:

2018-10-10, Reassuring Q3!

Last Reports:

2019-1-30, Very solid FY results, acceleration in Q4 for LV

Loïc Morvan
33(0) 1 70 36 57 24
lmorvan@bryangarnier.com

Click here to download

Quarterly organic sales growth by division

In %	Q1 18	Q2 18	Q3 18	Q4 18	FY 18	Q1 19
Wines & Spirits	10	**3**	7	2	5	9
Fashion & Leather	16	13	14	17	15	15
Perfumes & Cosmetics	17	14	11	13	14	9
Watches & Jewelry	20	12	10	7	12	4
Selective Retail	9	9	5	3	6	8
Total Group	**13**	**11**	**10**	**9**	**11**	**11**

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

BRYAN, GARNIER & CO

LVMH

BUY

Fair Value	EUR365 vs. EUR350 (+11%)
Share price	EUR329.75
Market Cap.	EUR166,533m
EPS 3Y CAGR	12.0%

Income Statement (EURm)	**2017**	**2018**	**2019e**	**2020e**	**2021e**
Revenues	42,636	46,826	51,300	54,190	57,075
Change (%)	13,4%	9,8%	9,6%	5,6%	5,3%
Gross margin	27,853	31,201	34,300	36,390	38,425
Change (%)	13,4%	12,0%	9,9%	6,1%	5,6%
EBITDA	10,118	11,940	13,445	14,425	14,415
EBIT	8,296	9,980	11,395	12,275	13,225
Change (%)	18,1%	20,3%	14,2%	7,7%	7,7%
Others income & expenses	-180	-126	-140	-140	-139
Financial results	-179	-388	-200	-170	-169
Pre-Tax profits	7,937	9,466	11,055	11,965	12,917
Exceptionals	-	-	-	-	-
Tax	-2,318	-2,499	-2,900	-3,120	-3,295
Profits from associates	-3	23	15	15	15
Minority interests	-487	-636	-680	-720	-720
Net profit	5,129	6,354	7,490	8,140	8,917
Restated net profit	5,129	6,354	7,490	8,140	8,917
Change (%)	28,8%	23,9%	17,9%	8,7%	9,5%
Cash Flow Statement (EURm)					
Operating cash flows	7,544	9,577	10,220	11,010	10,827
Change in working capital	514	1,087	781	838	901
Capex, net	2,276	3,038	2,301	2,302	2,450
Financial investments, net	6,306	400	0	0	0
Dividends	2,110	2,715	2,959	3,226	3,516
Other	342	921	0	0	0
Net debt	7,838	6,422	2,243	-2,401	-6,362
Free Cash flow	4,754	5,452	7,138	7,870	7,476
Balance Sheet (EURm)					
Tangible fixed assets	15,812	18,030	17,969	18,121	19,381
Intangibles assets	30,228	30,981	30,968	30,969	30,969
Cash & equivalents	3,738	4,610	8,789	13,433	17,393
current assets	17,344	18,941	20,505	21,682	22,941
Other assets	1,428	1,738	1,428	1,428	1,428
Total assets	68,550	74,300	79,659	85,633	92,112
L & ST debt	11,576	11,032	10,535	10,535	10,535
Others liabilities	26,714	29,311	26,543	26,881	27,239
Shareholder's funds	30,260	33,957	42,582	48,217	54,338
Total Liabilities	68,550	74,300	79,659	85,633	92,112
Capital Employed	55,145	59,404	60,111	61,102	63,263
Financial Ratios					
Gross margin (% of sales)	65,3%	66,6%	66,9%	67,2%	67,3%
Operating margin	19,5%	21,3%	22,2%	22,7%	23,2%
Tax rate	29,2%	26,4%	26,2%	26,1%	25,5%
Net margin	12,0%	13,6%	14,6%	15,0%	15,6%
ROE (after tax)	16,9%	18,7%	17,6%	16,9%	16,4%
ROCE (after tax)	10,7%	12,4%	14,0%	14,9%	15,6%
Gearing	26%	19%	5%	-5%	-12%
Pay out ratio	49,0%	47,4%	44,3%	46,3%	47,9%
Number of shares, diluted	502,229	502,229	502,229	502,229	502,229
Data per Share (EUR)					
EPS	10,21	12,65	14,91	16,21	17,75
Restated EPS	10,21	12,65	14,91	16,21	17,75
% change	28,8%	23,9%	17,9%	8,7%	9,5%
BVPS	60,3	67,6	84,8	96,0	108,2
Operating cash flows	15,02	19,07	20,35	21,92	21,56
FCF	9,47	10,86	14,21	15,67	14,89
Net dividend	5,00	6,00	6,60	7,50	8,50

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

BRYAN, GARNIER & CO

FNAC DARTY

11th April 2019

BUY

Consumer, Brands & Retail

| Retail & E.commerce

Fair Value	EUR94(+37%)
Share price	EUR67.75
EPS 3Y Cagr	9.8%

Q1 2019 set to be less impacted by the Yellow Vests

'Yellow Vests' impact should be easing in Q1 in France

The strong performance achieved in Q4 (i.e. +2.5% LfL) does not seem replicable in Q1 to us as Q4 was strongly driven by Black Friday, an event particularly favourable to consumer electronics and home appliances. Even if the line-up was robust (i.e. telephony, TV and books), the persistent 'Yellow Vests' protests on Saturdays in some city centres, especially in January and February, prompt us to maintain our initial Q1 LfL estimate in France at +0.5%. As a reminder, January is usually a strong month for Fnac given the numerous gift cards bought for Christmas and spent in the aftermath. We expect comments regarding the phasing of the dynamics across Q1 as we believe the performance was better in March than January (protests have eased since February and the confidence index is back on an uptrend since February).

Easter shift to impact Q1, especially in Iberic Peninsula

We believe the shift in Easter from Q1 to Q2 could have a broad impact across the group's geographies of >1%e on LfL. The impact should be even more noticeable in very religious regions as Iberian Peninsula where the event is spread over the Holy Week. In order to fully take into account this calendar element, we are now expecting 0.4% LfL growth in the Iberian Peninsula (vs. 1.4% previously) and 7.0% LfL in Benelux (vs. 8.0% previously).

Wehkamp partnership is still ramping-up

On top of a much more difficult comparison base this quarter, we believe the performance in Benelux in Q4 (i.e. 8.0% LfL) is almost replicable in Q1 and anticipate +7.0%. As we expect no change in trends in Belgium, the performance is set to stem from the Netherlands where the recovery seems well on track thanks to the partnerships with Wehkamp. The latter already generated EUR15m in additional sales in Q4 and still has the potential to generate c.EUR65-85m of sales, implying strong growth in the region until at least Q3 2019.

Buy confirmed

In all, we expect 1.4% LfL and reported growth for Q1 (vs. 1.6% previously) with EUR1,708m in sales. Valuation unchanged as our minor adjustments have a <1% impact on our EPS. Buy rating confirmed as we believe that Fnac Darty should benefit from a better oriented French retail environment in 2019 (1.8% LfL e for 2019 vs. 0.3% in 2018 at the group level). The operational execution of the group remains excellent and visible through the ongoing product mix remodelling (with small home appliances, kitchen, toys, repair and ticketing) and through the multiplication of partnerships (purchasing alliance with Carrefour, further shop-in-shops, commercial alliance with Google in France and with Wehkamp in the Netherlands) that will continue to push EBIT margin towards 5% and unlock hidden value. An announcement concerning a potential deal with Nature et Découvertes is still expected in coming weeks following recent press reports.

Market Data

Bloomberg / Reuters	FNAC FP/FNAC.PA
Market Cap.	EUR1,800m
E.V.	EUR1.822m
Free Float	65
Avg. Daily volume (6m)	62.70
12m high / low	96.4 / 47.8
Ytd Perf.	18.7%

EURM	12/18	12/19e	12/20e	12/21e
Sales	7,475	7,611	7,697	7,788
% Change		*1.8%*	*1.1%*	*1.2%*
EBITDA	609.0	648.9	672.3	691.9
% Change		*6.6%*	*3.6%*	*2.9%*
EBIT	296.0	330.2	350.0	365.8
% Change		*11.6%*	*6.0%*	*4.5%*
Net Income	169.1	194.8	210.5	223.5
% Change		*15.2%*	*8.1%*	*6.2%*
ROE	NM	NM	NM	NM

	12/18	12/19e	12/20e	12/21e
EV/Sales	0.2x	0.2x	0.2x	0.2x
EV/EBITDA	2.9x	2.5x	2.3x	2.0x
EV/EBIT	6.1x	4.9x	4.3x	3.9x
EPS	6.44	7.43	8.03	8.52
% change		*15.2%*	*8.1%*	*6.2%*
P/E	10.5x	9.1x	8.4x	8.0x
Div Yield	NM	3.1%	3.9%	4.8%

Next Catalyst: Q1 2019 sales on 18th April (after trading)

Last rating Change:

2018-4-27, The Contract of Confidence

Last FV Change:

2019-2-25, Feedback from roadshow with management

Last Reports:

2019-3-25, Fnac Darty is said to be eyeing Nature et Découvertes

Clément Genelot

33(0) 1 56 68 75 60

cgenelot@bryangarnier.com

Click here to download

Recap of our latest estimates on Fnac Darty:

LfL	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019e
France & Switzerland	0.3%	-2.1%	-2.7%	2.5%	0.5%
Iberian Peninsula	0.4%	2.5%	-0.6%	2.9%	0.4%
Benelux	2.2%	-2.3%	-1.0%	8.0%	7.0%
Fnac Darty	**0.6%**	**-1.7%**	**-2.3%**	**3.1%**	**1.4%**

Source: Bryan, Garnier & Co ests.

Sales growth	Q1 2018	Q2 2018	Q3 2018	Q4 2018e	Q1 2019e
LfL	**0.6%**	**-1.7%**	**-2.3%**	**3.1%**	**1.4%**
Opening contribution	0.2%	0.1%	0.3%	0.1%	0.0%
Forex	-0.2%	-0.2%	-0.2%	0.2%	0.0%
Reported growth	**0.6%**	**-1.7%**	**-2.3%**	**3.1%**	**1.4%**
Fnac Darty sales (EURm)	**1,686**	**1,513**	**1,752**	**2,524**	**1,709**

Source: Bryan, Garnier & Co ests.

BRYAN, GARNIER & CO

FNAC DARTY

BUY

Fair Value	EUR94(+37%)
Share price	EUR67.75
Market Cap.	EUR1,800m
EPS 3Y CAGR	9.8%

Simplified Profit & Loss Account (EURm)	2017	2018e	2019e	2020e
Revenues	7,475	7,611	7,697	7,788
Change (%)	0%	1.8%	1.1%	1.2%
Current EBITDAR	609	649	672	692
Change (%)	5%	6.6%	3.6%	2.9%
Current EBITDA	399	435	456	473
Change (%)	8%	9.0%	4.8%	3.7%
Current EBIT	296	330	350	366
Change (%)	10%	11.6%	6.0%	4.5%
EBIT	257	313	333	349
Financial results	(43)	(39)	(35)	(32)
Pre-Tax profits	214	274	298	317
Tax	(65)	(91)	(98)	(105)
Net profit - Group share	150	183	199	212
Adjusted net profit - Group share	169	195	211	224
Change (%)	12%	15.2%	8.1%	6.2%
Cash Flow Statement (EURm)				
Operating cash flows	289	328	341	351
Change in working capital	1	4	11	11
Capex, net	(118)	(123)	(133)	(142)
Free Cash flow (Fnac Darty definition)	172	209	218	220
Financial investments, net	0	0	0	0
Dividends	0	0	(55)	(70)
Capital increase / buyback	0	0	0	0
Other	(79)	(42)	120	233
Decrease / (Increase) in net debt	93	166	283	383
Net debt	(7)	(166)	(283)	(390)
Balance Sheet (EURm)				
Tangible fixed assets	620	597	580	568
Intangibles assets	480	521	565	613
Cash & equivalents	919	1,026	1,062	1,089
Other assets	3,492	3,527	3,548	3,570
Total assets	5,511	5,671	5,755	5,840
Shareholders' funds	1,261	1,435	1,579	1,722
L & ST Debt	911	860	779	699
Others liabilities	3,339	3,376	3,397	3,419
Total Liabilities	5,511	5,670	5,754	5,839
WCR	(915)	(932)	(942)	(953)
Capital employed	1,745	1,747	1,763	1,787
Ratios				
Current operating margin	4.0%	4.3%	4.5%	4.7%
Normative tax rate	33.0%	33.0%	33.0%	33.0%
Adjusted net margin	2.3%	2.6%	2.7%	2.9%
ROCE (after tax)	11.4%	12.7%	13.3%	13.7%
Gearing	-1%	-12%	-18%	-23%
Average number shares				
Number of shares, diluted	26	26	26	26
Data per Share (EUR)				
EPS	5.72	6.99	7.59	8.09
Restated EPS	6.44	7.43	8.03	8.52
% change	-	15.2%	8.1%	6.2%
Operating cash flows	11.02	12.49	12.99	13.40
FCF	6.56	7.95	8.32	8.39
Net dividend	0.00	2.10	2.66	3.24

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

BRYAN, GARNIER & CO

TOD'S GROUP

Consumer, Brands & Retail
| Luxury Goods

11th April 2019

NEUTRAL

Fair Value	EUR42(-1%)
Share price	EUR41.10
EPS 3Y Cagr	-6.8%

Q1 set to be soft

Stable Q1 sales on the cards

Tod's Group is due to release its Q1 sales on 9th May (after market close) and we expect another soft quarter. Q1 revenue is set to total EUR226m with a 0.5% organic sales decline, after -2.7% in Q4 2018. Despite a gradual slight improvement vs previous quarter, we remain cautious for this quarter. We expect a 5% organic sales increase for the retail channel (65% of total revenues). On a same-store basis, the trend is likely to be negative again (-1%), albeit less so than in Q4 2018 (-3%). Q1 business was affected by the Fall/Winter collection while the Spring/Summer 2019 collection seems better oriented. However, in Q1, F/W products account for two thirds of retail sales and S/S only for one third. Despite a positive trend for S/S, Q1 same-store retail sales should therefore remain slightly negative. We expect a 2-point positive space impact. Furthermore, given the integration of the company Italian Touch (the digital Tod's Group) business, which was previously accounted for as wholesale business, this will help the DOS sales momentum. On the other hand, we expect wholesale sales (35% of sales) to be strongly negative (-10%) due to a still very challenging situation in this channel both in Italy and in US and the deconsolidation of Italian Touch.

Italy and US still under pressure

We expect both Italy (30% of sales) and US (8% of sales) to be in negative territory, strongly affected by the wholesale channel as department stores are very cautious in orders. More specifically, US Department stores do not consider the Tod's brand as a hot brand and prefer to focus their purchases on more dynamic brands. The polarisation between brands is even stronger in the US. Greater China (22% of revenues) should be stronger but, certainly less than other peers in our view, in line with the 2018 trend. While Mainland China (almost 50% of Greater China sales) is still strong, Hong Kong and Macau are more sluggish (repatriation impact). Lastly Japan is expected to be ok, while we expect a flattish performance in Europe (excluding Italy).

Further margin erosion expected over FY 2019

For 2019, we still expect a slight EBIT margin erosion (-30bp) due to the still low FY sales increase (+2%) while the group needs a 4% revenue increase to achieve profitability gain. Furthermore, management expects to invest in communication and styling costs specially to revamp the Tod's brand image, partly thanks to collaboration with some designers as the one signed very recently with Albert Elbaz (ex Lanvin designer) whose products will be in the stores in H2.

Neutral recommendation maintained

Despite some gradual improvements that should happen in Q2 2019, we remain cautious and still maintain our Neutral recommendation. Visibility is still too high for coming quarters. The stock is already trading at a high level (18.4x 2019 EV/EBIT).

Market Data

Bloomberg / Reuters	TOD IM/TOD.MI
Market Cap.	EUR1,360m
E.V.	EUR1.405m
Free Float	38,5
Avg. Daily volume (6m)	86.40
12m high / low	64.3 / 37.3
Ytd Perf.	-0.4%

EURM	12/17	12/18e	12/19e	12/20e
Sales	963.3	940.4	965.0	1,005
% Change		*-2.4%*	*2.6%*	*4.1%*
EBITDA	160.6	118.2	118.0	137.0
% Change		*-26.4%*	*-0.2%*	*16.1%*
EBIT	111.8	71.6	70.0	89.0
% Change		*-36.0%*	*-2.2%*	*27.1%*
Net Income	71.0	47.0	42.7	57.5
% Change		*-33.8%*	*-9.1%*	*34.7%*
ROE	0.07	0.05	0.05	0.06

	12/17	12/18e	12/19e	12/20e
EV/Sales	1.4x	1.4x	1.4x	1.3x
EV/EBITDA	8.5x	11.4x	11.4x	9.6x
EV/EBIT	12.2x	18.9x	19.2x	14.8x
EPS	2.15	1.42	1.29	1.74
% change		*-33.8%*	*-9.1%*	*34.7%*
P/E	19.1x	28.9x	31.8x	23.6x
Div Yield	3.4%	2.4%	2.6%	2.9%

Next Catalyst: Q1 sales to be reported on May 9th

Last rating Change:
2018-8-6, H1 results are really above estimates!

Last FV Change:
2019-1-24, FY 18 sales down 0.5% organically

Last Reports:
2019-3-12, 2019 should be a year of transition!

Loïc Morvan
33(0) 1 70 36 57 24
lmorvan@bryangarnier.com
Click here to download

BRYAN, GARNIER & CO

11th April 2019

Healthcare

Healthcare

EASL2019 – day1: It is better to treat NASH upstream

NASH: it is better to target the "metabolic" part of the disease

During this first day at EASL (in Vienna, Austria), the first main topic regarding NASH was about treatment and the key message is that it is better to treat upstream than downstream. This is an important message since after the positive phase III study with Ocaliva (Intercept) where the latter showed a reduction of fibrosis without worsening of NASH, Intercept and many KOLs in the US repeatedly said in the past few weeks that targeting fibrosis is the most important thing to do. While experts recognise that fibrosis is the main cause of side-effects, they also equally clearly state that fibrosis is driven by the metabolic part of the disease, which is also seen as the main driver of disease progression. Dr Stephen Harrison (MD of Pinnacle Clinical Research, GI specialist) told us that if we consider that NASH can be "split into four buckets: insulin resistance and oxydation stress (forming together the metabolic component of NASH), inflammation and fibrosis, none of the drugs tested today had a direct clinical impact on inflammation and fibrosis. All the efficacy seen derived from an impact more or less significant on the metabolic part". An interesting comment from experts in view of the future phase II and phase III results of drugs targeting less fibrosis than the metabolic component of the disease.

Diagnostic: lots of debates about non-invasive measures

The other main topic of the day was the discussion about diagnostic of NASH and more particularly non-invasive testing since biopsy is unanimously recognised as a risk, costly, and not a perfect measure with about 25% false "responses". For some of the experts, since fibrosis is the main prognostic determinant of NAFLD outcomes, the focus should be made on it with MRE (magnetic resonance measure) as the leading approach to diagnose advanced fibrosis. But more globally, we take back home from yesterday's conferences that MRI-PDFF is a good tool to measure fat in the liver while MRE is good for fibrosis. However, the equipment for these two methods is available mainly in the big hospitals and remains expensive. That is why fibroscan has a lot of interest even if it is less accurate. One of the KOLs from the University of Chicago has proposed a "home made" and simple way to assess the progression of the disease with the measure of simple markers (see table below).

Fig. 1: Proposition of simple assessment of NASH progression by a KOL

Weight gain and worsening AST/ALT associated with progression from NAFL to NASH

Variable	Odds ratio	95% CI	p
ALT change (per 10 U/L)	**2.15**	**1.13 – 4.08**	**0.02**
AST change (per 10 U/L)	**3.46**	**1.15 – 10.39**	**0.03**
Alk Phos change (per 10 U/L)	1.31	0.82 – 2.08	0.25
Insulin change (per 10 µU/mL)	1.47	0.79 – 2.74	0.23
Weight change (per 1 kg)	**1.65**	**1.11 – 2.47**	**0.01**
NAS	0.87	0.39 – 1.92	0.72
MetS	2.00	0.47 – 8.53	0.35

Source: EASL2019; KOL presentation

BG Coverage

ALCON | NEUTRAL | CHF57
ASTRAZENECA | NEUTRAL | 6220p
BAYER | SELL | EUR66
BIOCARTIS | BUY | EUR17
BIOMERIEUX | NEUTRAL | EUR70
CELLECTIS | NEUTRAL | EUR22
CELYAD | BUY | EUR49
DBV TECHNOLOGIES | BUY | EUR46
FRESENIUS MED.CARE | BUY | EUR81
FRESENIUS SE | NEUTRAL | EUR68
GALAPAGOS | BUY | EUR140
GENFIT | BUY | EUR65
GENMAB | BUY | DKK1300
GLAXOSMITHKLINE | NEUTRAL | 1660p
INNATE PHARMA | BUY - Top Picks | EUR16.5
IPSEN | BUY - Top Picks | EUR148
MEDARTIS | BUY | CHF74.5
MEDIGENE | BUY | EUR16.2
MEDINCELL | BUY | EUR10
MERCK KGaA | BUY | EUR113
MORPHOSYS | BUY | EUR120
NOVARTIS | BUY | CHF90
NOVO NORDISK | NEUTRAL | DKK350
ONCIMMUNE | BUY | 143p
QIAGEN | BUY | EUR37.5
ROCHE HOLDING | BUY - Top Picks | CHF315
SANOFI | BUY | EUR94
UCB | NEUTRAL | EUR69
ZEALAND | BUY | DKK143

Jean-Jacques Le Fur, PharmD
33(0) 70.36.57.45
jjlefur@bryangarnier.com
Click here to download

BRYAN, GARNIER & CO

11th April 2019

Semiconductors

Technology

Top Picks Q2: Profit taking looms after recent rally but Soitec has an option yet to be priced

Inventory correction and memory ASPs decline likely to continue until Q3 2019, smartphones to rebound first

As expected, weakness in the semiconductor market observed throughout H2 2018 – chip sales up 1.2% y/y (-6.1% seq.) in Q4 2018 vs +20.3% in H1 2018 – **continued in the beginning of 2019**. In January and February of 2019, semiconductor sales were down -13.0% and -11.3% compared to last year, respectively. **However, it appears that semiconductor companies underestimated the push back**. Most players anticipated an inflection point by the end of the second quarter but recent data indicates it is most likely to happen by the end of the third quarter. According to DRAMeXchange, DRAM ASPs decreased by 20% seq in 1Q19 and the sequential drop is expected to continue in Q2 and Q3 around -15-20% and -10%, respectively. As regards NAND, ASPs are expected to be down c. 20% and -10-15% in Q1 and Q2, respectively. In addition, Infineon's recent profit warning gave further indications that demand continues to be weak in a large range of applications, especially in China, and therefore the **end of the inventory correction and the market rebound is more likely to happen one quarter away** from previous anticipations. **We assume semiconductor sales will decline by 6% in 2019 and -1% excluding memory**. **Nonetheless, we see potential catalysts as soon as CQ3 2019 for companies such as STMicroelectronics or Soitec with robust exposure – technology- and revenue-wise - to high-end smartphones**. While we do not foresee disruptive innovations in flagship devices from Apple, Huawei or Samsung to be out in Q4 2019, the progressive rollout of 5G, incremental innovations in sensors and a potential recovery in shipments could bring additional revenues as soon as Q3 2019.

We remain cautious on the timing and the extent of memory spending recovery

The downturn in equipment spending is more pronounced than for semiconductor sales. Weakness in world manufacturing composite PMIs show less capital expenditure and a lack of major innovations as well as a significant push back in memory-related spending, which should result in a **drop of total semiconductor equipment sales of c. 22% seq. and -30% y/y in H1 2019, according to SEMI estimates**. This includes +1% seq. in foundry and -36% seq. in memory. Like semiconductor sales, the **equipment market is expected to recover in H2 2019 with sequential growth around 30% (c. +8% y/y), but this is also contingent on memory investments** for which SEMI forecasts a 35% seq. increase in H2 2019. While Micron's guidance was reassuring, Samsung's comments on its Q1 2019 results and latest DRAMeXchange estimates on memory ASPs **prompt us to be prudent on the timing and the extent of the recovery in spending**. In our coverage, ASML and ASMI are the ones to be exposed to memory investments. Apart from memory, we note that **TSMC is on track to deliver its 5nm process technology in 2020** as originally planned which partly explains strong results and H1 guidance from ASMI and which is a positive read across for ASML's EUV guidance even though we did not have any information about Samsung's roadmap yet. As far as back-end activities are concerned, **the assembly and packaging market is set to decline by 12.4% based on VLSI estimates**, and for a player like Besi in our coverage, the lack of major innovations in smartphones, limited 5G availability in 2019 and weakness in the automotive industry does not leave room for positive surprises in the short-term, in our view.

Frédéric Yoboué
33(0) 1 56 68 75 54
fyoboue@bryangarnier.com

Click here to download

BG Coverage

ASM INTERNATIONAL | NEUTRAL | EUR55

ASML | BUY | EUR175

BE SEMICONDUCTOR | NEUTRAL | EUR23

DIALOG SEMICONDUCTOR | NEUTRAL | EUR24.5

INFINEON | NEUTRAL | EUR20

SOITEC | BUY - TOP PICKS vs BUY | EUR85

STMICROELECTRONICS | BUY | EUR17

Last rating Change:

INFINEON - 28/03/2019
IFX / STM: Following IFX warning, a market recovery in CQ3 seems unlikely

BE SEMICONDUCTOR - 21/02/2019
Besi seems fairly valued in the current environment

BE SEMICONDUCTOR - 26/10/2018
Recovery is under way

ASM INTERNATIONAL - 02/08/2018
BG Wake Up Call 2 August 2018 : BIC, Altice, Bmw, Campari, Continental, Dialog Semiconductor, Hugo Boss, Infineon, Molson Coors, Sage Group, Veolia, Nicox, AXA, CRH, Morphosys, Ipsen, Iliad

Last FV Change:

INFINEON - 28/03/2019
IFX / STM: Following IFX warning, a market recovery in CQ3 seems unlikely

STMICROELECTRONICS - 28/03/2019
IFX / STM: Following IFX warning, a market recovery in CQ3 seems unlikely

INFINEON - 26/02/2019
From MWC 2019: Infineon announced an integrated eSIM for mobile consumers

ASM INTERNATIONAL - 25/02/2019
ASMI benefits from a more favourable mix in WFE spending

Recent market rally could trigger some profit taking

Fig. 2: The semiconductor market witnessed a significant rally on a 1-month basis and multiples are close to their highest points

BG Coverage	1-month perf	Last price (EUR)	BG FV (upside)	BG Rating	EV/EBITDA			P/E NTM		
					08/03/19	09/04/19	5-y average	08/03/19	09/04/19	5-y average
ASMI	+27%	53.2	55 (+3%)	Neutral	13.8x	15.0x	13.6x	15.5x	18.0x	15.0x
ASML	+14%	179.2	175 (-2%)	Buy	18.5x	20.7x	18.5x	24.8x	27.5x	25.0x
Besi	+21%	26.5	23 (-13%)	Neutral	10.3x	14.5x	9.8x	14.6x	21.7x	15.5x
Dialog	+24%	30.7	24.5 (-20%)	Neutral	7.0x	8.4x	7.2x	12.7x	14.8x	14.2x
Infineon	+6%	20.1	20 (-0%)	Neutral	8.3x	9.1x	8.7x	18.4x	20.9x	18.8x
Soitec	+22%	78.5	85 (+8%)	Buy	13.3x	15.5x	11.6x	22.2x	25.4x	11.1x
STMicroelectronics	+15%	15.5	17 (+10%)	Buy	6.0x	6.8x	6.9x	12.0x	14.0x	19.4x
PHLX Semi	+12%	1464.5								
Updated on 09/04/2019										

Sources: Reuters; Bryan, Garnier & Co

As shown above, the market witnessed a significant rally in the recent weeks, in our view, mainly based on positive comments concerning the trade war and better-than-anticipated economic indicators in China. The trade war indeed holds back capex and has a negative impact on the Chinese economy; However, investors should pay attention to the fact that **sticking points remain and in-force tariffs will not vanish right away**. Apart from the improvements concerning the trade war, **we do not see material signs of a near rebound in the semiconductor market**, but on the contrary, the **recent warning from Infineon and latest updates in the memory industry call for caution**. Stocks in our coverage have had an **important rerating on a one-month basis**, and most of the current multiples are above the 5-year average and are even close to their highest points for some (cf. Fig. 1 and Fig. 2), which could trigger some profit taking ahead of or subsequent to earning results.

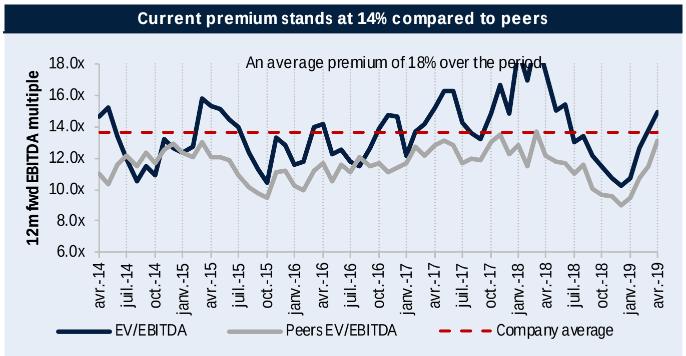
Soitec raised to Top Pick status on the back of opportunities yet to be priced in

As said above, the recent rally coupled with uncertainties on guidance for Q2 2019 and beyond, especially from equipment manufacturers, points to potential profit-taking moves in coming weeks. **In this scenario, we believe Soitec has a chance to perform better in Q2 2019 relative to other companies in our coverage**. We prefer Soitec because the company has momentum that is less correlated to the global semiconductor environment and **on top of that is on the verge of entering a new market that could bring additional revenues not priced into analysts' estimates today**. Indeed, Soitec said in the past it has a product called POI (Piezo On Insulator) to address the filter market for 5G. We believe the company could announce a design win in this area as soon as FQ4 2019 sales next week or FQ4 2019 results in June and might give indications on potential revenues and related capex as a consequence. **The filters market represents more than 50% of the front-RF chip market (USD15bn in 2017) and is forecast to increase by a 19% CAGR over 2017-23 compared with Soitec's current TAM representing "only" 10% of the market**. It is still too early to properly assess the opportunity for Soitec but we believe the group has fair chance to grab some market share.

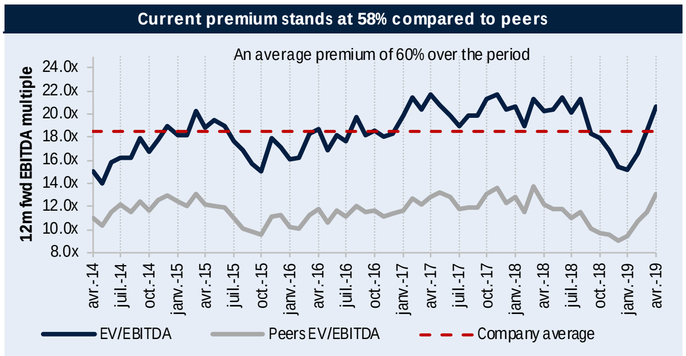
BRYAN, GARNIER & CO

Fig. 3: **Appendices (source: Reuters; Bryan Garnier & Co)**

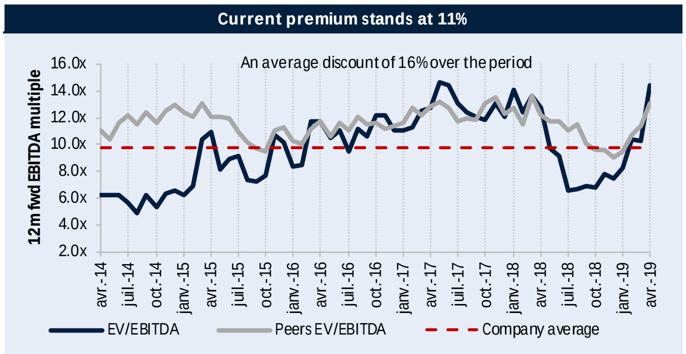
ASM INTERNATIONAL



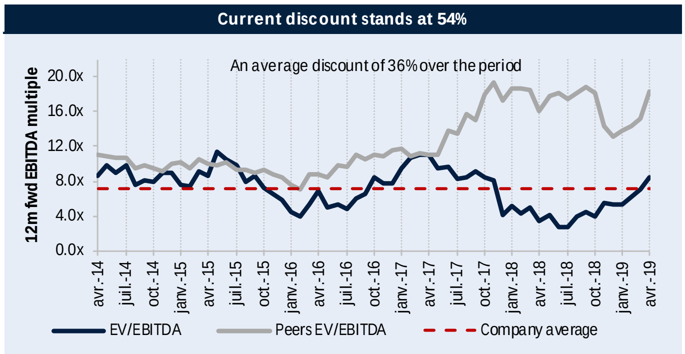
ASML



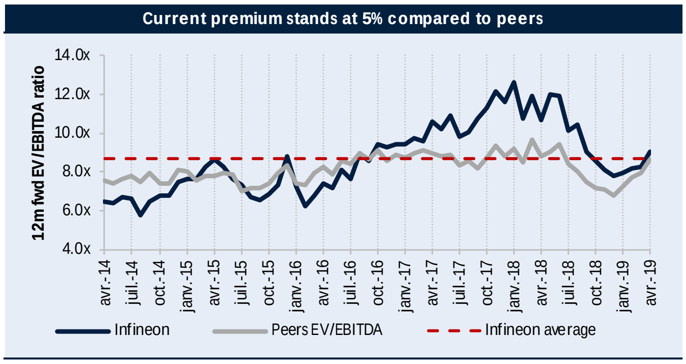
BE SEMICONDUCTOR



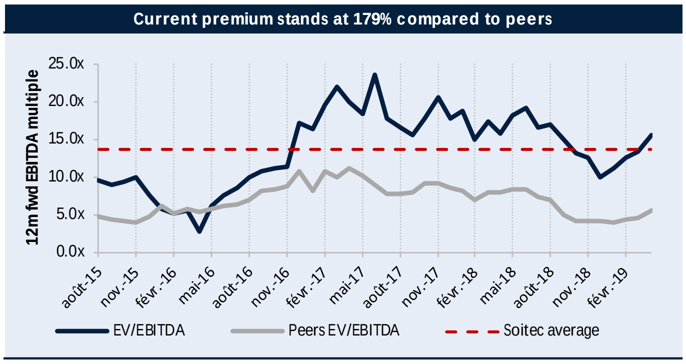
DIALOG SEMICONDUCTOR



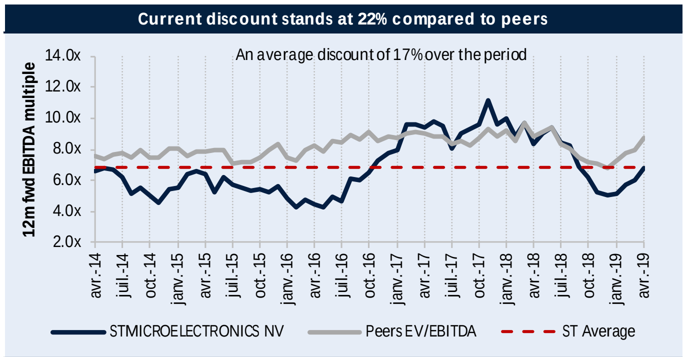
INFINEON



SOITEC



STMICROELECTRONICS



BRYAN, GARNIER & CO

11th April 2019

Telecom

Technology

Reassuring comments from the government on French 5G allocation framework

5G frequencies allocation framework is pointing in the right direction

Yesterday, in an interview with Le Monde, the French Secretary of State in charge of Telecoms Agnès Pannier-Runacher made some interesting and reassuring comments about the upcoming 5G frequencies allocation process for France (see quotes on the next page). We point out the four following takeaways: 1/ 5G is seen as the appropriate technology for high speed coverage in cities and enterprises mainly, which should avoid imposing nation-wide coverage obligations on the operators. 2/ The government is seeking to strike the right balance between budgetary constraints and the need for operators to invest, which should put aside any worst-case scenario. 3/ The government will pay attention to ensuring competitive equilibrium, leaving enough room for the four players, which should avoid an "Italian-like" situation. 4/ There will be no band of frequencies reserved for industrial players, contrary to what is done in Germany, which should minimize scarcity risk.

Reasonable pricing is the most likely scenario

In our view, the government's comments are pretty much in line with the opinion previously expressed by the ARCEP in particular, and as such, they come as no major surprise. However, the government's official position on the allocation process framework and objective was much awaited, especially since the Yellow Vest crisis and its budgetary implications could cast a doubt over the government's objectives. The government is currently finalizing the allocation process framework. ARCEP will then provide detailed specifications on that basis by the summer, while the process itself is expected to start by the end of the year. Given the latest comments described above, we feel confident in 5G frequencies pricing in France should remain reasonable, ie ~EUR7.5c / MHz / inhabitant, which means a total of **EUR1.5bn** for the four French operators assuming a sale of 300MHz, in line with the European average so far, excluding Italy and Finland (see next page). We believe the worst-case scenario should not exceed **EUR2bn**. In addition, note that payment should be spread over several years, as done in the previous auctions.

BG Coverage

BOUYGUES | BUY - TOP PICKS vs. BUY - Top Picks | EUR41

ILIAD | BUY | EUR155

ORANGE | BUY | EUR17.5

TELECOM ITALIA | BUY | EUR0.65

ALTICE | NEUTRAL | EUR2

Last rating Change:

BOUYGUES - 4/10/2019
Q2 top picks: Bouygues expected to catch up

TELECOM ITALIA - 2/22/2019
Time to seize opportunities

ALTICE - 11/30/2018
5G: Reality beyond the hype

TELECOM ITALIA - 3/7/2018
The new strategic plan should help offset Iliad's potential impact

Last FV Change:

TELECOM ITALIA - 3/1/2019
Upside potential in the medium term

ILIAD - 2/22/2019
Not much to expect from FY 2018, 2019 to show improvement

ILIAD - 1/18/2019
2019 outlook for telecoms in France: key factors to watch

BOUYGUES - 1/18/2019
2019 outlook for telecoms in France: key factors to watch

Thomas Coudry
33(0) 1 70 36 57 04
tcoudry@bryangarnier.com
Click here to download

Quotes – Interview with Secretary of State Agnès Pannier-Runacher - Le Monde Thursday 11th April 2019

"Our ambition is to cover as many people and uses as possible by deploying the most appropriate technology in each situation. 5G, with its low latency, much higher data rates and short range, is well suited for businesses and areas of high human density"

"There is also, not surprisingly, the objective of balancing revenues for the State. On this point, the challenge is to find the right balance with the scale of the investments to be made by operators"

"a competitive balance must be ensured. Space must be available for the four operators to provide 5G services under good conditions"

"At this stage, we have not adopted the German model because there is not yet a very clear request from industrialists. Moreover, splitting the tape between too many actors can cause problems in its management and cause" interference

5G frequencies pricing European benchmark – 3.5-3.7 GHz bands

Country	Price (EURc/MHz/pop.)
Spain	4.7
UK (in GBP)	10.1
Finland	3.6
Italy	31.9
Austria	5.4
Switzerland	~10.0
France (BG est.) - average EU excl. Italy and Finland	*7.5*

Bryan Garnier estimate for 5G Frequencies (3.6GHz band) in France

Country	band	MHz	EURm	Price (EURc/MHz/pop.)
Total France	*3.5-3.7GHz*	*300*	*1505*	*7.5*
Orange		100	502	
SFR		70	351	
Bouygues Telecom		60	301	
Free		70	351	

BRYAN, GARNIER & CO

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 52% NEUTRAL ratings 40.7% SELL ratings 7.3%

Bryan Garnier Research Team

Healthcare	**Pharmaceuticals**	**Eric Le Berrigaud** *(Head of Equities)*	33 (0) 1 56 68 75 33	eleberrigaud@bryangarnier.com
	Pharmaceuticals	**Jean-Jacques Le Fur, PharmD**	33 (0) 1 70 36 57 45	jjlefur@bryangarnier.com
	Biotech	**Gary Waanders, PhD**	44 207 332 25 45	gwaanders@bryangarnier.com
	Medtech / Biotech	**Hugo Solvet**	33 (0) 1 56 68 75 57	hsolvet@bryangarnier.com
	Biotech / Medtech	**Victor Floc'h**	33 (0) 1 70 36 57 01	vfloch@bryangarnier.com
	Biotech	**Ross Blair, MbChB**	44 207 332 25 05	rblair@bryangarnier.com
Technology	**Payments, Security & Video games**	**Richard-Maxime Beaudoux**	33 (0) 1 56 68 75 61	rmbeaudoux@bryangarnier.com
	Telecom & Media	**Thomas Coudry**	33 (0) 1 70 36 57 04	tcoudry@bryangarnier.com
	Lodging & Business services	**Bruno de La Rochebrochard**	33 (0) 1 56 68 75 88	bdelarochebrochard@bryangarnier.com
	Innovative materials & Construction	**Eric Lemarié**	33 (0) 1 70 36 57 17	elemarie@bryangarnier.com
	Insurance & Fintech	**Olivier Pauchaut** *(Head of Research)*	33 (0) 1 56 68 75 49	opauchaut@bryangarnier.com
	Software & IT services	**Gregory Ramirez**	33 (0) 1 56 68 75 91	gramirez@bryangarnier.com
	Industrial software	**David Vignon**	33 (0) 1 56 68 75 92	dvignon@bryangarnier.com
	Semiconductors	**Frédéric Yoboué**	33 (0) 1 56 68 75 64	fyoboue@bryangarnier.com
Consumer, Brands & Retail	**Beverages & Cannabis**	**Nikolaas Faes**	33 (0) 1 56 68 75 72	nfaes@bryangarnier.com
	Retail & e-commerce	**Clément Genelot**	33 (0) 1 56 68 75 60	cgenelot@bryangarnier.com
	Luxury & Cosmectics	**Loïc Morvan**	33 (0) 1 70 36 57 24	lmorvan@bryangarnier.com
	HPC & e-commerce	**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
Corporate Event Manager		**Julie Montel**	33 (0) 1 56 68 75 46	jmontel@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

BRYAN, GARNIER & CO

DAILY EQUITY RESEARCH UPDATE

Wake-up Call

London	Paris	Munich	Zurich	New York
Bryan, Garnier & Co Ltd	Bryan, Garnier & Co Ltd	Bryan, Garnier & Co. GmbH	Bryan, Garnier & Co	Bryan Garnier Securities
Beaufort House	26 Avenue des Champs-Elysées	Widenmayerstrasse 29	Theaterstrasse 4	750 Lexington Avenue
15 St. Botolph Street	75008 Paris	80538 Munich	8001 Zurich	16th floor
London EC3A 7BB	France	Germany	Switzerland	New York, NY 10022
United Kingdom				United States
+44 207 332 2500	+33 1 56 68 75 20	+49 89 2422 62 11	+41 44 991 3300	+1 212 337 7000

IMPORTANT INFORMATION