BRYAN, GARNIER & CO

DAILY EQUITY RESEARCH UPDATE
Wake-up Call

Dow Jones: 26,966.00 (15.6% ytd) | CAC40: 5620.73 (18.81% ytd) | Stoxx 600: 392.937(16.38% ytd)

5th July 2019

Please find our Research on Bloomberg BRYG <GO>)

RECKITT BENCKISER | NEUTRAL | GBP6800

Q2: no improvement in the growth profile expected

Poor operating performance anticipated in the coming quarter…
…due to Health
Cutting our full year forecasts
Neutral maintained

Retail & E.commerce |

Consumer Q3 2019 Top Pick List: Play French macro improvement with Maisons du Monde

Q2 19 review: back to company specifics with the end of Yellow Vest movement
Q3 19 outlook: play the French macro improvement
Play improved French macro environment with Maisons du Monde

Software & IT services |

Q3 2019 Top Picks: SAP and Sopra Steria Group

European IT stocks continued to outperform in Q2 2019
We expect no significant trend changes in Q3 2019
SAP remains a Top Pick on the back of defensive features
We add Sopra Steria to our Top Pick list on surprise potential

Headlines:

SAINT GOBAIN (NEUTRAL, FV EUR47) | French renovation market under pressure in Q1
VIVENDI (NEUTRAL, FV EUR22.5) | Canal+ France adapting to growing pressure

Upcoming BG events :

Date	
11th-Jul	Club Tech: Le BIM, la révolution du digital dans le BTP
30th-Jul	ZEALAND | Londonroadshow with CEO
6th-Sept	SOPRA STERIA | Genève roadshow with IR
10th-Sept	Club Tech | SVOD and the disruptions at work in the TV landscape
23rd-Sept/ 24th-Sept	Annual Consumer Conference
15th-Oct	Roundtable - Silver Economy: Tech & Healthcare

Recent reports :

Date	
4th-Jul	Pharmacie | BG OncoDay 2019: clear upside in early-stage NSCLC
28th-Jun	THERANEXUS | On Vertex's path with BBDF-101?
27th-Jun	RIB SOFTWARE | Un chemin semé d'embûches
27th-Jun	NEMETSCHEK | Strong foundations sustaining growth
27th-Jun	RIB SOFTWARE | A rocky road
27th-Jun	Software and IT Services | BIM is booming
27th-Jun	Software and IT Services | Le BIM en plein boom
27th-Jun	NEMETSCHEK | De solides fondations soutenant la croissance

3Q 2019 Top Picks

EIFFAGE (Buy, FV EUR108)
ESSILORLUXOTTICA (Buy, FV EUR128)
LVMH (Buy, FV EUR365)
ALLIANZ (Buy, FV EUR260)
WIRECARD (Buy, FV EUR240)
AB INBEV (Buy, FV EUR100)
SAP (Buy, FV EUR143)
NOVARTIS (Buy, FV CHF100)
UNILEVER (Buy, FV EUR57)
ROCHE HOLDING (Buy, FV CHF332)
KORIAN (Buy, FV EUR40)
DBV TECHNOLOGIES (Buy, FV EUR46)
ASM INTERNATIONAL (Buy, FV EUR65)
MAISONS DU MONDE (Buy, FV EUR29)

Last rating Change:

↓ 04/07/19, BOUYGUES

↓ 04/07/19, CANOPY GROWTH

↑ 25/06/19, MAISONS DU MONDE

↓ 04/06/19, ONCIMMUNE

↓ 23/05/19, SAFECHARGE

Last FV Change:

↓ 04/07/19, CANOPY GROWTH

↓ 04/07/19, BOUYGUES

↑ 01/07/19, BASILEA PHARMACEUTICA

↓ 27/06/19, TOD'S GROUP

↑ 26/06/19, ORPEA

BRYAN, GARNIER & CO

RECKITT BENCKISER

5th July 2019

NEUTRAL

Fair Value	GBP6800(+6%)
Share price	GBP6,400
EPS 3Y Cagr	5.1%

Consumer, Brands & Retail

| HPC

Q2: no improvement in the growth profile expected

Poor operating performance anticipated in the coming quarter…

We expect 1.5% organic sales growth in Q2, which compares with +1% in Q1. Growth should remain dragged down by Health while momentum in Hygiene-Home is expected to remain good. EBIT margin should drop 60bp in the first half of the year to 23% as a result of 1/ a negative mix with underperformance of Health and 2/ costs of RB2.0.

…due to Health

We see 3% organic sales growth in Q2 for the **Hygiene-Home** division (38% of sales), which implies an unchanged trend vs Q1. This is globally in line with market growth. But **Health** should be soft (62% of sales), with sales up 0.6% organically in Q2 (post -0.5% in Q1). *OTC* (24% of Health sales) should improve as the destocking has ended and the group should lap the impact on Mucinex of the re-entry of private labels. But this should be offset by a deterioration in 1/ *Infant Nutrition* (39% of Health sales) due to the combination in China of the decline in birth rate (which starts to impact stage 3 products) and market share losses because of the supply disruption and 2/ *Other Health* (37% of sales) as a result of continued pressure on Scholl and a deceleration of Dettol (slowdown of the Indian market) and Durex (more competitive pressure, especially in China).

Cutting our full year forecasts

We now expect 2.5% organic sales growth in 2019, which is below the group's target (3-4%) and a deterioration vs the 2018 trend (+3%). This still implies an acceleration in the second half of the year which should be driven by easier comps in Infant Nutrition (supply issues in China last year) and OTC (weak flu and re-entry of private labels in Q1 2018). Our EBIT margin forecast is unchanged. We expect stability year-on-year at 26.7%.

Neutral maintained

We make no change to our Fair Value (6,800p) as the lower organic figures are offset by more FX tailwinds. We maintain our Neutral recommendation as the Health growth engine has stopped, causing a top line deceleration and a muted EBIT margin momentum.

Market Data

Bloomberg / Reuters	RB LN/RB.L
Market Cap.	GBP45,378m
E.V.	GBP55,784m
Free Float	-
Avg. Daily volume (6m)	1,436
12m high / low	GBP7,155 / GBP5,593
Ytd Perf.	6.4%

GBPM	12/18	12/19e	12/20e	12/21e
Sales	12,597	13,061	13,453	13,919
% Change		*3.7%*	*3.0%*	*3.5%*
EBITDA	3,708	3,844	3,988	4,169
% Change		*3.7%*	*3.7%*	*4.5%*
EBIT	3,358	3,481	3,614	3,782
% Change		*3.7%*	*3.8%*	*4.7%*
Net Income	2,410	2,504	2,660	2,797
% Change		*3.9%*	*6.2%*	*5.2%*
ROE	0.16	0.15	0.15	0.14

	12/18	12/19e	12/20e	12/21e
EV/Sales	4.4x	4.2x	4.0x	3.8x
EV/EBITDA	15.0x	14.3x	13.5x	12.7x
EV/EBIT	16.6x	15.7x	14.9x	14.0x
EPS	339.90	353.17	375.15	394.51
% change		*3.9%*	*6.2%*	*5.2%*
P/E	18.8x	18.1x	17.1x	16.2x
Div Yield	2.7%	2.8%	2.9%	3.1%

Next Catalyst: H1 results on 30th July

Last Reports:

2019-6-12, RECKITT BENCKISER (NEUTRAL, FV GBP6800) | New CEO appointed

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BRYAN, GARNIER & CO

5th July 2019

Retail & E.commerce

Consumer, Brands & Retail

Consumer Q3 2019 Top Pick List: Play French macro improvement with Maisons du Monde

Q2 19 review: back to company specifics with the end of Yellow Vest movement

With the dissipation of the Yellow Vest effect, Q2 brought very heterogeneous performances, whatever the region, especially driven by company-specific elements. Among the worst performers, Casino declined 22% (doubts surrounding its French FCF generation and fears following the safeguard proceedings of Rallye) and Ahold Delhaize waned by 17% (strike in the US prompted a warning and raised broader concerns about cost inflation) over the quarter. Note also that the Fnac Darty performance (i.e. c.-2%) was affected by fears related to the fine imposed on SFAM. Among the best performers, Maisons du Monde was up 22% (globally reassuring CMD in June), Ceconomy 14% (new management and reduced tensions with the Kellerhals) and Zalando 12% (noticeable positive surprise on Q1 EBIT).

Q3 19 outlook: play the French macro improvement

We expect the performance of our covered stocks to be mainly driven by H1 publications over Q3. It encourages us to be cautious on food retailers as the H1 publications should be mixed with a soft commercial performance in France in Q2 (FMCG volumes at +0.6% in P04 and -2.4% in P05) and a sharp deterioration of the FMCG market in Belgium. The hot week at the end of June could boost food retailers' growth (through additional sales of water, beers and ice-creams), but will definitely not compensate for the whole quarter. We expect a much better environment in the non-food space over Q2 (despite the hot last week of June), especially in France where signs of a macro improvement are finally materializing. A clear rebound in French households' confidence since Dec (101 in June vs. 86 in Dec) is key to at least convert the purchasing power gains (already EUR8.5bn generated, as highlighted in our last Weekly comment: Because the worst is behind us regarding consumption in France) into consumption of discretionary goods. Banque de France anticipates a reacceleration of consumption from 2019 onwards (+1.1% in 2019 and +1.7% in 2020).

Play improved French macro environment with Maisons du Monde

Q2 should be the first quarter of the year that will benefit from easy comps (SNCF strikes in Q2 18 and long hot summer in Q3 18) while the Yellow Vest effect is disappearing and while consumption is gradually improving. We believe Maisons du Monde (55% of sales in France) should benefit from this trend and we expect a supportive and reaccelerating top line performance for Q2. Indeed, French furniture institute IPEA indicated that the market was up 9.5% in April and 10.4% in May (vs.c.2% over Q1). Such short-term commercial momentum should fuel the ongoing rerating observed since our upgrade to Buy on 25th June "Back to Basics to Regain Momentum: Growth" (from 5.9x EV/EBITDA to 6.6x). Indeed, we believe that the CMD provides a quite reassuring long-term outlook out to 2024 on the growth and profitability perspectives (all based on cautious assumptions, such as a limited rebound of consumption). Hence, it sharply reduces the downside risk (FV of EUR18 in our bear case scenario vs. our base case scenario pointing to EUR29) and recreates momentum (main market fears have dissipated and the macroeconomic backdrop in France is improving) which we want to play on this quarter.

BG Coverage

MAISONS DU MONDE | BUY Top Picks vs. BUY| EUR29
CARREFOUR | BUY | EUR20
CASINO | NEUTRAL | EUR43
AHOLD DELHAIZE | NEUTRAL | EUR21.6
FNAC DARTY | BUY | EUR94
CECONOMY | NEUTRAL | EUR6.2
ZALANDO | NEUTRAL | EUR37

Last rating Change:

MAISONS DU MONDE - 25/06/2019
Back to Basics to Regain Momentum: Growth

CASINO GUICHARD - 18/04/2019
E-commerce: the Necessary Evil of Food

Last FV Change:

MAISONS DU MONDE - 25/06/2019
Back to Basics to Regain Momentum: Growth

AHOLD DELHAIZE - 09/05/2019
US and group margin erosion on the cards

ZALANDO - 03/05/2019
No upgrade to 2019 EBIT guidance likely

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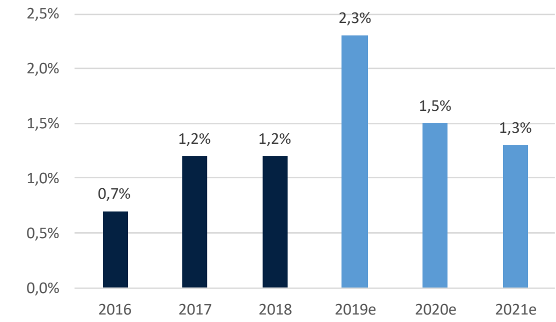
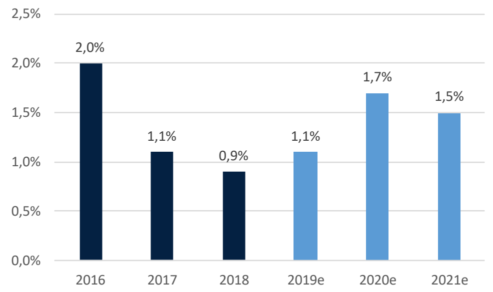
Households purchasing power evolution in France

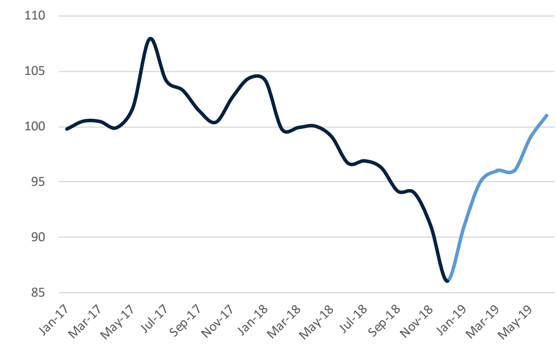


Households consumption evolution in France

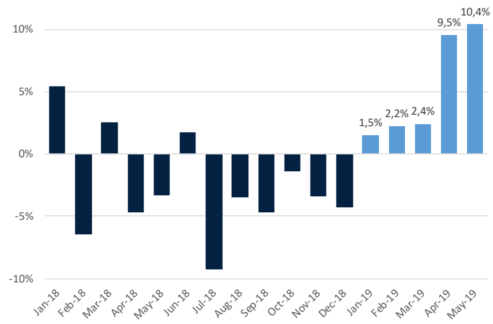


Source: Banque de France projections.

Households confidence index in France



Evolution of the furniture market in France (IPEA)



Source: INSEE; IPEA.

BRYAN, GARNIER & CO

5th July 2019

Software & IT services

Technology

Q3 2019 Top Picks: SAP and Sopra Steria Group

European IT stocks continued to outperform in Q2 2019

In Q2 2019, the performance by the European Software & IT Services sector was positive (+9% for the DJ EuroSTOXX Software & IT Services index, but lower than the +19% reported for Q1), and 7ppt above that of the DJ EuroSTOXX 600 index (+2%). In a still positive economic backdrop, albeit disturbed by geopolitical tensions, the sharp rebound in share prices seen in Q1 softened during Q2. For the 17 IT stocks in our coverage, Q1 2019 figures were mostly above consensus. During the period, the best performer was Altran (+43%, acquisition by Capgemini), followed by RIB (+23%, solid KPIs on new solutions), Materialise (+22%), Temenos (+20%, ambitious long-term targets), SAP (+17%, FY23 ambitions raised), and Atos (+15%). The worst performers were Cast (-18%, poor Q1), Indra (-10%, talks to acquire ITP Aero) and Sword (-4%).

We expect no significant trend changes in Q3 2019

The Q2/H1 2019 earnings season for the IT stocks we cover will start on 18th July (SAP, Temenos) and end on 19th September (Alten). Over the year, growth in IT is set to be driven by Software and High-tech consulting and while it should remain solid, it is likely to reach a plateau following five years of acceleration due to more caution in discretionary IT spending. Software is expected to continue benefiting from increased SaaS penetration, while on-premise licence sales are projected to be flat or in slight decline. IT Services should remain driven by Digital, while infrastructure services are expected to be dragged down on global outsourcing by lower contract duration and negative mix effects as cloud means lower contract size. Finally, growth in High-tech Consulting is to be driven by all industries except Automotive and Oil & Gas.

SAP remains a Top Pick on the back of defensive features

We do not expect our European Software & IT Services coverage to benefit from strong positive catalysts in Q3 except in the case of a material deviation from the consensus. In that case, we reiterate SAP as a Top Pick as it offers both defensive and growth features and attractive valuation multiples: 1) an est. 68% of total revenues for 2019 is recurring (est. 80% for 2023); 2) ongoing non-IFRS operating margin improvement (guidance: +5ppt over 2018-2023e) is to be driven by better cloud margins and operating efficiency; 3) a sustained pace of customer migration to S/4HANA; 4) reiterated strong momentum on cloud subscriptions; 5) once the EUR6bn acquisition of Qualtrics is digested, we expect the 30% EV/EBIT discount SAP has versus Dassault Systèmes to finally narrow thanks to SAP's recent "shareholder-friendly" policy regarding margin progression, dividends, share buy-backs and acquisitions.

We add Sopra Steria to our Top Pick list on surprise potential

We raise Sopra Steria to Top Pick status ahead of H1 results (26th July). Given the positive trend seen in Q1 in the UK – and to a lesser extent in France – we deem Sopra Steria will reach the high-end of the 4-6% lfl sales growth guidance for 2019 (BG est.: +5.9%, vs. +7.3% in Q1 and BG est. +6.3% in H1). In addition, we cannot rule out the company exceeds its flat operating profit guidance for H1 – which would translate into an est. 0.4-0.5ppt margin fall to 6.1-6.2%. As management preferred to be prudent on Sopra Banking Software – turnaround investment to be done in specialised loans -, we cannot exclude the operating loss of this division will be lower than feared in H1.

BG Coverage

SAP | BUY - Top Picks | EUR143

SOPRA STERIA GROUP | BUY–Top Picks vs.BUY|EUR156

ALTRAN TECHNOLOGIES | BUY | EUR17

ALTEN | BUY | EUR112

ATOS | BUY | EUR107

CAPGEMINI | BUY | EUR139

CAST | BUY | EUR4.1

INDRA SISTEMAS | BUY | EUR14

MATERIALISE | BUY | USD19

NEMETSCHEK | BUY | EUR55

SOFTWARE AG | BUY | EUR42

SWORD GROUP | BUY | EUR47

TEMENOS GROUP | BUY | CHF194

DASSAULT SYSTEMES | NEUTRAL | EUR129

RIB SOFTWARE | NEUTRAL | EUR16

SAGE GROUP | NEUTRAL | 710p

EASYVISTA | CORPORATE | EUR53

Last rating Change:

NEMETSCHEK - 27/06/2019
Strong foundations sustaining growth

RIB SOFTWARE - 27/06/2019
A rocky road

TEMENOS GROUP - 21/05/2019
New ambitious sustainable long-term targets

AXWAY SOFTWARE - 15/04/2019
End of coverage

CAST - 15/04/2019
FY18 losses slightly lower than expected, outlook confirmed

Last FV Change:

NEMETSCHEK - 27/06/2019
BIM is booming

RIB SOFTWARE - 27/06/2019
BIM is booming

AXWAY SOFTWARE - 22/05/2019
Capital Markets Day feedback: structural long-term growth drivers

TEMENOS GROUP - 21/05/2019
New ambitious sustainable long-term targets

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Headlines:

SAINT GOBAIN (NEUTRAL, FV EUR47) | French renovation market under pressure in Q1

- According to the FFB (Fédération Française du Bâtiment), the renovation market has been down 2.1% y/y in volume in Q1 2019, following an already difficult Q4 2018 (-1.8% y/y), on a rolling twelve-month basis. This is a bit mitigated by a positive confidence survey in Q2.
- This looks contradictory with the level of existing-home transactions, currently at very high level in France with 985,000 units at the end of March on 12-month cumulated number, up 2.6% y/y and 25% above the average since 2000. It is true, though, that renovation is not as cyclical as the new build segment.
- In any case, this is not a positive piece of news for Saint-Gobain, which generates 25% of its revenues in France, mostly (around 66%-70%) in renovation for the part of the business exposed to the building construction sector (i.e. approx. 85% of the revenues in France according to our calculations).

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VIVENDI (NEUTRAL, FV EUR22.5) | Canal+ France adapting to growing pressure

- Yesterday Satllifax reported that Canal+ is planning to cut 500 to 800 jobs in France. This plan is to be presented to staff representatives and the Social and Economic Committee (CSE) on Tuesday 9th. According to the reports, the plan should mostly hit the editing activity of the French channels. Vivendi did not comment.
- We see several possible reasons for such a plan. First, Canal+ France (whose revenues were down 3.4% on 2018) needs to restore profitability. Indeed, we believe the profitability of the French channels is still very limited, in spite of the EUR300m saving plans launched in 2016. And we remind Canal+ group fell short of its 2018 guidance and reviewed down its 2019 objective. Second, we believe interrogations about the Ligue 1 weighs a lot: either the group fails to distribute the competition, and scaling down will be unavoidable, or it manages to find an agreement with Mediapro, and the price will then be high. Third, we believe the group might need to make room for additional content spend in fiction as SVoD competition is about to step up with future Disney+, Apple TV+, etc, and while the bundling approach of historical Canal+ (cinema, fiction, sports) seems to show its limits. However, we point out the lack of communication (arpu, Canal+ Series numbers…) does not help see very clear here.

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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 50.3% NEUTRAL ratings 43% SELL ratings 6.7%

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

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DAILY EQUITY RESEARCH UPDATE

Wake-up Call

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IMPORTANT INFORMATION