BRYAN, GARNIER & CO

DAILY EQUITY RESEARCH UPDATE

Wake-up Call

Dow Jones: 27,332.03 (17.17% ytd) | CAC40: 5572.86 (17.8% ytd) | Stoxx 600: 386.852(14.57% ytd)

16th July 2019

Please find our Research on Bloomberg BRYG <GO>)

SALVATORE FERRAGAMO | NEUTRAL | EUR19

No major surprises expected from H1 results

Q2 sales growth should be in line with Q1

Wholesale boosted by travel retail and undemanding comps

H1 EBIT margin to remain stable

Fair Value and Neutral recommendation unchanged

Telecom | |

5G frequencies: French authorities favor coverage over pricing

Pricing should remain under control

Coverage obligations are challenging but rather back-end loaded

Headlines:

BURBERRY (NEUTRAL, FV 1780p) | Q1 retail sales ahead of expectations

CRH (BUY, FV EUR38) | Blackstone to acquire CRH European distribution.

L'ORÉAL (NEUTRAL, FV EUR255) | A new CEO at L'Oréal China

MEDINCELL (BUY, FV EUR10) | Perseris had "a modest contribution" in H1

NICOX (BUY, FV EUR19) | NCX-470 phase II readout in early 4Q

NOVARTIS (BUY - Top Picks, FV CHF100) | SEG101 now on the radar for contribution as early as 2020

Upcoming BG events :

Date	
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	
12th-Jul	KHIRON LIFE SCIENCES | Bold Ambition
12th-Jul	SAP | This is just the beginning…
11th-Jul	HPC | Vers une beauté digitalisée, naturelle et personnalisée
11th-Jul	HPC | A more digitalized, natural and personalized beauty
4th-Jul	Pharmacie | BG OncoDay 2019: clear upside in early-stage NSCLC
28th-Jun	THERANEXUS | On Vertex's path with BBDF-101?

3Q 2019 Top Picks

EIFFAGE (Buy, FV EUR108)
ESSILORLUXOTTICA (Buy, FV EUR128)
SOPRA STERIA GROUP (Buy, FV EUR156)
ALLIANZ (Buy, FV EUR260)
SAP (Buy, FV EUR143)
NOVARTIS (Buy, FV CHF100)
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:

↓ 12/07/19, IPSEN

↓ 04/07/19, CANOPY GROWTH

↓ 04/07/19, BOUYGUES

↑ 25/06/19, MAISONS DU MONDE

↓ 04/06/19, ONCIMMUNE

Last FV Change:

↑ 15/07/19, GALAPAGOS

↑ 12/07/19, IPSEN

↓ 12/07/19, THERANEXUS

↓ 12/07/19, IPSEN

↑ 12/07/19, KHIRON LIFE SCIENCES

RESEARCH AS A SERVICE

BRYAN, GARNIER & CO

SALVATORE FERRAGAMO

Consumer, Brands & Retail

| Luxury Goods

15th July 2019

NEUTRAL

Fair Value	EUR19(-9%)
Share price	EUR20.90
EPS 3Y Cagr	16.1%

No major surprises expected from H1 results

Q2 sales growth should be in line with Q1

We expect no major surprises from Ferragamo's H1 results (30th July, after market closes. Indeed, sales growth should be pretty much in line with the Q1 performance on the back of the same drivers. We expect sales to grow 4% same-FX in H1 (EUR700m) and 4% in Q2 after +4.3% in Q1, despite an easier comparison basis in Q2 although we expect some slowdown in APAC (+5% in Q2 vs +8% in Q1), especially in Hong Kong, given recent protests and very tough comps, and also in South Korea. Note that we still expect a very solid performance in Mainland China (up mid-single digit like-for-like) thanks to the strong repatriation trend. APAC accounts for 40% of sales. Meanwhile, the situation should have improved slightly in North America and Europe, especially given undemanding comps. Furthermore, in Europe, the primary retail channel should have fared well whereas in the US, the secondary channel ought to have been less negative than in Q1 with the same positive trend for the primary channel. The trend in Japan should be very slightly positive, mainly due to the primary retail channel. Same-store sales are expected to grow by close to 3%.

Wholesale boosted by travel retail and undemanding comps

We expect retail sales (65% of sales) to grow virtually in line with the Q1 trend (+3%), driven mainly by the primary channel (up mid-single digit) while the secondary channel is set to fall (albeit to a less extent than in Q1) as management aims to focus on the primary channel (more profitable than secondary) in order to maintain brand equity at a high level. Same-store retail sales are set to gain 2% in Q2, in line with Q1. Wholesale sales should post a strong Q2 performance (9%) on very undemanding comps (-13% in Q2 2018), especially boosted by strong travel retail.

H1 EBIT margin to remain stable

As in Q1, the H1 profitability trend is set to stem from a combination of factors. Gross margin is expected to recover (+110bp to 65%) thanks to a positive product mix (outperformance of leather goods vs shoes, ready to wear and perfumes) and a positive channel mix in retail (outperformance of primary channel vs secondary channel). We welcome this trend as gross margin is also very linked to brand equity. Nevertheless, we expect a stable H1 EBIT margin (12.7%) as management continues to invest in OPEX, up mid-single digit, (marketing, retail, communication, digital …) in order to fuel future growth. EBITDA margin is expected to increase slightly due to higher amortisation.

Fair Value and Neutral recommendation unchanged

We maintain our Neutral recommendation on the stock with an unchanged EUR19 FV. The stock is trading on 2019 P/E of 33x vs an historical average of 23x. SFER is trading at a 29% premium vs our luxury sample average.

Market Data

Bloomberg / Reuters	SFER IM/SFER MI
Market Cap.	EUR3,528m
E.V.	EUR3.340m
Free Float	100%
Avg. Daily volume (6m)	555.2
12m high / low	EUR21.6 / EUR17.2
Ytd Perf.	18.4%

EURM	12/18	12/19e	12/20e	12/21e
Sales	1,347	1,400	1,465	1,560
% Change		*4.0%*	*4.6%*	*6.5%*
EBITDA	214.3	224.0	239.0	270.0
% Change		*4.5%*	*6.7%*	*13.0%*
EBIT	149.8	159.0	179.0	208.0
% Change		*6.1%*	*12.6%*	*16.2%*
Net Income	89.4	106.0	119.0	140.0
% Change		*18.6%*	*12.3%*	*17.6%*
ROE	0.12	0.13	0.14	0.15

	12/18	12/19e	12/20e	12/21e
EV/Sales	2.5x	2.4x	2.3x	2.1x
EV/EBITDA	15.6x	14.8x	13.9x	12.3x
EV/EBIT	22.3x	20.9x	18.5x	15.9x
EPS	0.53	0.63	0.71	0.83
% change		*18.6%*	*12.3%*	*17.6%*
P/E	39.4x	33.2x	29.6x	25.1x
Div Yield	1.6%	1.8%	2.1%	2.1%

Next Catalyst: H1 results on 30th July

Last rating Change:

2017-6-23, Some fears on H1 earnings…

Last FV Change:

2019-1-21, Challenging Q4 2018 and cautiousness for 2019

Last Reports:

2019-5-15, Encouraging Q1, with retail sales up 2.2% lfl!

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BRYAN, GARNIER & CO

16th July 2019

Telecom |

Technology

5G frequencies: French authorities favor coverage over pricing

Pricing should remain under control

Yesterday evening arcep published its 5G frequencies allocation procedure and applicant obligations for public consultation. 310MHz of spectrum will be allocated in the 3.5GHz band. The allocation will be divided into two parts: in the first part, between 40 and 60 MHz will be allocated at a given price to up to 4 operators (ie between 50% and ¾ of available spectrum), under specific commitments. Then, the remaining spectrum will be auctioned in blocks of 10 MHz. The process ensures each operator gets a minimum amount of spectrum and should avoid sky-rocketing auctions like those seen in Germany and Italy. The reserve price will be known by the end of September, while the final price will ultimately depend on how much spectrum each operator tries to get. Given their respective market shares, we believe Orange should apply for 100mHz (max possible), while 70MHz for the other three seems rather reasonable (or 80/70/60 for SFR, Free, Bouygues respectively), and we do not anticipate overly expensive auctions.

Coverage obligations are challenging but rather back-end loaded

Operators will be required to deploy 3,000 sites by 2022, ie EUR75m a year over the next three years for the base stations upgrade in our estimates (excl. backhauling), 8,000 sites by 2024 and 12,000 sites by 2025. As such, this is less than the 4G roll-out pace between 2013 and 2015, but we believe competitive dynamics in the most urban areas might make operators deploy more sites than required as a whole. Moreover, between 20% and 25% of the sites will need to be in non-urban areas, which might raise some profitability issues. In these areas, SFR and Bouygues Telecom should benefit from their network sharing agreement, while Orange should be in the best position to leverage B2B opportunities. We view Iliad as the most challenged by coverage commitments here. Moreover, 75% of the cells should deliver speeds of at least 240Mbit/s (vs 60 for 4G), which is likely to place heavy pressure on backhauling capacities. Note that these deployment commitments come on top of the already demanding new deal commitments. However, we point out the commitments are rather exponential and back-end loaded (1,000 sites a year in the first three years, then 2,500 a year the next two years, then 4,000 in 2025), and should allow operators to combine the New Deal commitments and the end of fibre infrastructure roll-out with the first 5G deployments while keeping capex under control, but with no significant decrease plausible.

BG Coverage

BOUYGUES | BUY | EUR39

EKINOPS | BUY | EUR5.9

ILIAD | BUY | EUR150

ORANGE | BUY | EUR17.5

TELECOM ITALIA | BUY | EUR0.65

ALTICE | NEUTRAL | EUR2

Last rating Change:

BOUYGUES - 04/07/19
Top Picks Q3: limited catalysts beyond infra deals

EKINOPS - 26/04/19
Empowering next generation networks

BOUYGUES - 10/04/19
Q2 top picks: Bouygues expected to catch up

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Headlines:

BURBERRY (NEUTRAL, FV 1780p) | Q1 retail sales ahead of expectations

- Burberry reported this morning Q1 (April to June) retail sales at GBP498m (cs: GBP492m), implying a 4% increase and +2% at same FX. Retail sales grew 4% at comparable stores which is a clear acceleration versus FY 18 performance (+2% of which +1% in H2).
- The recovery comes mainly from APAC thanks to high single digit growth vs low single digit increase on FY 2018. Mainland China sales grew mid-teens in Q1.
- The other regions were almost in line with the 2018 performance. EMEIA sales grew low single digit, driven by UK. Americas was flat in Q1 (up low single digit on FY 18), with US up low single digit as in FY 18.
- Ricardo Tisci collection had a higher weight than in Q4 (close to 25% on average of which 50% in June) vs 13% at end of March. Management reiterates its FY guidance (sales and EBIT margin broadly stable).
- We keep our Neutral recommendation on the stock. Burberry seems in on track to regain positive momentum.

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CRH (BUY, FV EUR38) | Blackstone to acquire CRH European distribution.

- Blackstone has signed agreement to acquire the European distribution branch of CRH, for EUR1.64bn (EV). Based on 2018 figures (proforma EBITDA at EUR155m), this is equivalent to 10.6x the EBITDA. This is lower than the 15x EBITDA multiple generated by the divestment of the US distribution mid-2017 - but while the US business generated 7% of EBITDA margin in 2017, the European margin stood at 4.2% last year only (based on proforma EUR3.7bn sales). Besides, the price mentioned here is consistent with the one mentioned last April by the press (cEUR2bn).
- While not a surprise (we knew CRH was mulling over its European distribution business), this deal is a positive piece of news: the European distribution business was neither the most dynamic business within CRH (-3% top line organic decline last year) nor the most profitable (EBITDA margin down 10bps at 4.7% in 2018 to compare with 12.6% at the group level). It is another step towards the reshaping of the group around building materials.

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L'ORÉAL (NEUTRAL, FV EUR255) | A new CEO at L'Oréal China

- Some appointments have been announced recently at L'Oréal, including a new CEO for L'Oréal China. Actually, the CEO of Germany since 2015, Fabrice Megarbane, has been appointed CEO of China from July 1st.
- He is replacing, Stéphane Rinderknech (China CEO since 2016) who will be entrusted with new and important responsibilities within L'Oréal. Under his leadership, L'Oréal became the leader of the Chinese Beauty market ahead of P&G. Sales in China grew 33% in 2018. And the trend remains very positive YTD.
- China accounts for more than 10% of L'Oréal sales and is more than significant for the group's sales growth. Some investors should question the ability of the new China CEO to maintain such terrific performances.
- Furthermore, we could anticipate the new role of the former China CEO. Even if nothing has been disclosed yet by the company, we expect that M. Stephane Rinderknech new position will be a major one: **i/** new US CEO (as M. Owen-Jones and M. Agon before becoming L'Oréal CEO) while US achieved not so terrific performances recently or **ii/** head of one of the L'Oréal divisions.
- We remain Neutral on the stock with an unchanged EUR255 FV.

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MEDINCELL (BUY, FV EUR10) | Perseris had "a modest contribution" in H1

- Yesterday the Court of Appeals for the Federal Circuit confirmed previous judgement by District Court that Dr Reddy's and Alvogen failed to demonstrate that claims in patents '514 and '150 protecting Suboxone were invalid but that they were not infringed by the two companies and as a consequence their respective generics, launched at risk in February 2019, will remain in the market. Since then, Indivior signed an agreement with Sandoz which launched an authorized generic on its behalf.
- Although sales have not collapsed in the way branded products usually do when they face generic competition, Indivior has been significantly weakened by this event. Therefore, we doubt that Perseris, its long-acting formulation of risperidone and competitor to MedinCell's mdc-IRM (licensed to Teva and currently in phase III), has been given all the required attention and resources to make it a commercial success. As it provided an update about its performance in H1 2019, Indivior simply said that Perseris had a "modest net revenue contribution".
- At the time Indivior was approaching the market with this drug, and although it did not have all the attributes that mdc-IRM has, we were cautious and were questioning the level of competition the company would be able to allocate to the launch. We now believe that the risk is limited and that Teva should have no reason to worry about this. As a reminder, first phase III data read-out is expected at the very end of '19 with a filing with the FDA in '20.

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NICOX (BUY, FV EUR19) | NCX-470 phase II readout in early 4Q

- Nicox announced the completion of the enrolment in the phase II trial evaluating NCX-470's ability to reduce intraocular pressure (IOP) in patients with open angle glaucoma.
- A total of 420 patients have now been recruited in this phase II trial and randomized to NCX-470 0.0021%, 0.0042% or 0.0065% vs latanoprost 0.005%. The primary endpoint of the trial, powered for non-inferiority and superiority is the mean diurnal IOP at 4 weeks.
- We previously highlighted that the fast recruitment, with >85% of patients enrolled as of mid-May 2019 (see here), suggested that Nicox should be able to report the results from the trial in early 4Q 2019. Strong execution from the company and its clinical trial centres lead to the validation of this thesis. We have a 40% PoS for NCX-470 which accounts for EUR3/ share of our EUR19 fair value.

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NOVARTIS (BUY - Top Picks, FV CHF100) | SEG101 now on the radar for contribution as early as 2020

- Sickle Cell Disease (SCD) is presented by the CDC as a group of "inherited red blood cell disorders" which become hard and sticky. First symptoms may appear as early as around 4 or 5 months of age and the severity of the disease can vary a lot. Certain circumstances in life can be particularly painful for SCD patients, like very hot conditions, high altitudes or sport in competition.
- Mild cases are usually simply followed whereas very severe cases can receive bone marrow or stem cell transplant but it leaves a lot of patients with no viable treatment. They are the ones Novartis would like to address with SEG101 (crizanlizumab) i.e. those experiencing two or more crisis per year, resulting usually in hospitalisations.
- In the SUSTAIN phase II trial, Novartis demonstrated that SEG101 reduced significantly the median annual rate of vaso-occlusive crisis by about 45%, delayed time to the first crisis and increased dramatically the number of patients who were crisis-free. Simultaneously, the drug was shown to be very safe.
- Novartis was allowed to file after completing enrolment in new PK/PD studies and the FDA has just granted **priority review** to the filing which could make SEG101 available to patients at the beginning of 2020. Although access will be a challenge (most patients are covered under Medicaid/Medicare), the drug cannot be ignored anymore since it is now very close to the market. We will adjust our numbers in connection with the H1 figures on Thursday.

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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 49.7% NEUTRAL ratings 43.8% SELL ratings 6.5%

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BRYAN, GARNIER & CO

DAILY EQUITY RESEARCH UPDATE

Wake-up Call

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