WEEKLY COMMENT

TRADING · EQUITY ADVISORY

27 SEPTEMBER 2017

Bouygues (Advisory, PT EUR 44): At the advisory, we continue to favour Bouygues over Vinci given the possible upside on estimates. Bouygues has recently reported strong figures and ticked all the boxes. Our buy case relies on consensus upgrades as construction's margins keep improving and consensus' estimates remain too low over time. Also, there is upside potential to improve cash return and Telecom remains solid and visible. On top of it, the deal between Alstom and Siemens has been confirmed. It's a bit the cherry on the cake but Bouygues owns 28.3% of Alstom. The proposed Alstom-Siemens Mobility merger could unlock EUR 13 per share value for Alstom (EUR 4.1 from synergies, EUR 4.9 from multiple expansion and EUR 4 paid as a special dividend), which implies a c40% upside from yesterdays close so possibly a 6-7% positive impact on Bouygues' share price.

In the same sector, Vinci remains an attractive long term case with similar trends in the construction and solid cash generation but the momentum and upside is more limited on short term than Bouygues. Vinci is a cash cow but the upside on margin estimates looks rather limited on short term, as we saw during the H1 figures. Indeed, the old backlog has to be cleaned up first. Vinci trades with a 17% premium compared to its historical average and Bouygues looks more appealing for now.

➔ **Conclusion:** Buy Bouygues at current level.

Trading Buy on KPN (RF – PT EUR 3.9): With a decreasing revenue and a stable Ebitda for the year to come, KPN is hardly a very exciting proposal. However, with a gradual recovery in sales from 2019 and with leverage falling to below 2.5x Ebitda in 2019 and cash flow to continue to rise, we expect KPN to grow its dividend by 7/10% by year over the next 2-3 years. Therefore, KPN remains a very attractive name to tap into European Telecom, a sector about to see a structural improvement in earnings and cash generation, thanks to a lower cost structure, increased investment and M&A activity. KPN has embarked on a clear and focused strategy of concentrating on its core market (Netherlands). KPN is giving no guidance on a quarterly basis, but the market is expecting a Q3 sales and Ebitda decline of 4-5% and 5.5-6.5% (vs -3.2% and+1.5% in 2Q respectively). KPN is due to release its Q3 on 26, October. Consumer revenue will be affected by roaming and MTR cuts. KPN is guiding for flat Ebitda for the full year which more or less implies a +2.5-+3% Ebitda growth in Q4 which is fairly achievable given easier comparable, and solid progress on cost cutting.

➔ **Conclusion:** Technically, the stock came back from a recent high of EUR 3.14 down to its 200day moving average of EUR 2.85. We recommend to buy at current level as a trading buy or to average down.

Trading Buy on Publicis (R – PT 67): On a recent roadshow in London, management made much of its commitment to further differentiating its offering through digital and its capacity to win digital transformation budgets (as with the recent worldwide McDonald's deal). The group should continue to implement synergies between its core assets and Sapient. This will underpin a gradual upturn in growth, and probably at a faster rate than that of its peers. Publicis confirmed an acceleration in H2 and a performance in line with that of its peers from 2018. Relative to the market, Publicis is down -19%. Although the group has seen earnings downgrades, the bulk of this move is driven by a de-rating. At 11.6x 2018E P/E for Publicis, the group trades at all-time relative lows in terms PE relative. Finally, the current market situation and the attractive valuation may spur the interest from a M&A perspective. WPP but also Publicis could be credible targets for a potential acquirer while a straight merger is also an alternative. Natiixis recently released a note where the analyst is mentioning Accenture as a clear candidate to acquire WPP or Publicis.

➔ **Conclusion:** We recommend to buy at current level.

Facebook (RF – TP USD 195): Last Monday, the technology sector was under selling pressure driven by sector rotation. Face Book was among the hardest hit, down more than 4% on the day. YTD stock still up a nice 41%, though.

What was the main reason?

Face Book abandoned a plan to change its stock structure that would have given CEO Mark Zuckerberg the ability to retain control of the company via the issuance of no-vote Class C stock while donating a portion of its fortune to a charitable foundation. In order to nonetheless finance its philanthropy fund, Mr Zuckerberg decided to change the speed at which he is reducing its FB share: he now plans to sell 35-75 mn shares over 18 months or 18% of his shares valued at ~USD 6-13 bn, vs an earlier plan to sell or gift no more than USD 1 bn of stock each year for the next three years.

Our take: Even though the shares ownership reduction may be interpreted as a sign of fair valuation, we don't share this view and would use current share price weakness as a buying opportunity as the fundamentals didn't really change. The shares are trading below its 2-year average on both P/E (26x) and EV/Ebitda (15x), which we find compelling vs the expected sales and EPS 3Y CAGR of 34% and 39%, respectively.

➔ **Conclusion:** As a quick reminder, we like Face Book for 2 simple reasons: 1. Face Book is the best way to play two dynamic changes underway in internet – the transition of advertising dollars towards mobile & digital video; 2. Instagram is in the early stages of monetisation, on top of the long-term optionality to also monetise the Messenger and WhatsApp platforms (the latter two platforms have more than 1 bn monthly users).

IMPORTANT INFORMATION – FOR INVESTMENT PROFESSIONALS ONLY : Please see important information at the end of this document.
Publication of the Trading Equity Advisory Department of Lombard Odier
Contact : tra-equity-advisory@lombardodier.com

Givaudan (R - PT 2090): stock price has had a strong run of late, up 13% since the July low, reaching a new all-time high at 2130. It is up 25% since February when it traded close to CHF 1'700 (outperforming the SMI Index by 15% over the past 6 months). Few reason for the rise 1) expectations of accelerated growth rate in H2, 2) market flows out of Luxury, 3) solid message on the savings front during its August Conference, 4) a couple of broker upgrades, notably last week Vontobel from Hold to Buy. Overall EPS revisions have hardly moved over 6 months and this explains a fast and considerable multiple expansion over that period. Today, the stock stands on a P/E'18 of >25x or an EV/Ebitda of close to 18x (vs 21.6x and 15x resp. for Nestlé).

Although we continue to see resilience in growth, margins and returns for the Flavor & Frangrance sector, we reckon further upside looks limited in the short-term. I wish to highlight here that competitor Symrise recently mentioned pricing pressure from big staple customers (those account for approx. 50% of GIVN's top-line); there is limited pricing power despite oligopolistic market structure, while consumer concentration (M&A among Staples) is naturally leading to tough price environment. Conclusion: take some profit and either switch into Nestlé or Mondelez in the US. We met the UBS Chemical analyst yesterday in our office in Lancy and we took the opportunity to ask about Givaudan obviously. They have a Hold rating on the name and PT of CHF 1870. The UBS analyst shared our view the price overshot recently and he sees the fair value range between CHF 1800-2000. He also pointed to the tougher price environment.

Nestlé (R – PT 95) – 2020 targets : The group presented yesterday the 2020 targets of mid-single-digit organic sales growth and trading operating margin at 17.5-18.5% vs 16% in FY'16. The CEO stated that more aggressive margin improvement would curb the growth, therefore under current circumstances, investors should not expect more margin expansion in 2020. Instead, the company wants to achieve a balance between growth, margin and capital efficiency. The company confirmed its focus on Food & Beverage categories with additional opportunities in consumer health. The company's portfolio will be adjusted. The products under portfolio review stand for ca. 10% of sales or CHF 9 bn. Growth opportunities stem from emerging markets where margins are superior to these in developed markets and, from product innovation. Four categories are the pillars: coffee, pet care, water and nutrition. Skin health contributed negatively so far and, it is under restructuring.

The participation in l'Oréal remains unchanged.

The sentiment after the meeting was very good. There is a clear change in the communication style, the commitment is more tangible and targets quite ambitious. We like the evolution - Nestlé is no more the sleeping beauty. We expect the M&A activity and are reassured by the CEO's comments that it cannot have negative impact on returns.

➔ **Conclusion:** Nestlé remains a valuable core holding with the upside option. Buy.

FINANCIAL RATING

The financial rating aims to indicate a stock's 12- to 18-month expected performance compared to its reference sectoral universe. It is the result of an analytical process founded first on the company's fundamentals, and then integrating the valuation considerations, and the momentum. It is expressed in the following way:

- Research List (R): We expect the share to show a 12- to 18-month performance that is superior to its reference sectoral universe.
- Research List – Focus (RF): Designates the analyst's most promising share, again, with a 12- to 18-month outlook.
- Supplementary Swiss List (SSL): Designates the additional list which includes Swiss stocks that are covered, but not recommended, within the universe.
- Not Rated (NR): The value is not among our favourites within our reference sectoral universe.

In parallel, for those values rated 'R' or 'RF', we publish a 12-month price target.

IMPORTANT INFORMATION – FOR QUALIFIED INVESTORS ONLY

This document has been prepared by the trading floor of Bank Lombard Odier & Co Ltd (hereinafter "Lombard Odier") and can be distributed in/from Switzerland only to qualified investors according to the Swiss collective investment schemes legislation. It is not intended for distribution, publication, or use in any jurisdiction where such distribution, publication, or use would be unlawful, nor is it aimed at any person or entity to whom it would be unlawful to address such a document. Neither this document nor any copy thereof may be sent, taken into, or distributed in the United States or given to any US person.
This document was not prepared by the Financial Research Department of Lombard Odier. Accordingly, it has not been prepared in accordance with the Swiss Bankers Association Directives on the Independence of Financial Research or any other legal requirements designed to promote the independence of investment research. Any information contained in this document is not and should not be regarded as financial research for the purposes of the Swiss Bankers Association or any relevant regulatory body. Consequently, this document is not subject to any restriction on dealing ahead of the dissemination of investment research . Furthermore it is duly stressed that opinions expressed in this document may differ from the opinions expressed by other divisions of Lombard Odier, including its Financial Research Department.
This document is provided for marketing purposes only and does not constitute an offer or a recommendation to purchase or sell any security. It contains the opinions of Lombard Odier as at the date of issue. These opinions do not take into account individual investor circumstances, objectives or needs. No representation is made that any investment or strategy is suitable or appropriate to individual circumstances or that any investment or strategy constitutes a personal recommendation to any investor. Each investor must make his/her own independent decisions regarding any securities or financial instruments mentioned herein. Before entering into any transaction, an investor should carefully consider the suitability of a transaction to his/her particular circumstances and, where necessary, obtain independent professional advice in respect of risks, as well as any legal, regulatory, credit, tax and accounting consequences.
The information contained herein is based on sources believed to be reliable. However, Lombard Odier does not guarantee the timeliness, accuracy or completeness of the information contained in this document, nor does it accept any liability for any loss or damage resulting from its use. All information and opinions as well as the prices indicated may change without notice. Past performance is no guarantee of current or future returns and the client may receive back less than he invested.
The investments mentioned in this document may carry risks that are difficult to quantify and integrate into an investment assessment. In general, products such as equities, bonds, securities lending, forex, money market instruments bear risks, which are higher in the case of derivatives, structured and private equity products; these are aimed solely at investors who are able to understand and accept the risks. Lombard Odier will be pleased to provide investors with more detailed information concerning risks associated with given instruments on request. The value of any investment in a currency other than the base currency of a portfolio is subject to foreign exchange rates. These rates may fluctuate and adversely affect the value of the investment when it is realized and converted back into the investor's base currency. The liquidity of an investment is subject to supply and demand. Some products may not have a well established secondary market or in extreme market conditions may be difficult to value, resulting in price volatility and making it difficult to obtain a price to dispose of the asset.
This document has been issued in Switzerland by Bank Lombard Odier & Co Ltd, a bank and securities dealer authorized and regulated by the Swiss Financial Market Supervisory Authority (FINMA). It may be used by any other entity of the Group in compliance with all applicable legal and regulatory requirements.
This document may not be reproduced (in whole or in part), transmitted, modified, or used for any public or commercial purpose without the prior written permission of Lombard Odier.
© 2017 Bank Lombard Odier & Co Ltd - all rights reserved.

SWITZERLAND

GENEVA

Bank Lombard Odier & Co Ltd[1]
Rue de la Corraterie 11 · 1204 Genève · Suisse
geneva@lombardodier.com
Lombard Odier Asset Management (Switzerland) SA
Avenue des Morgines 6 · 1213 Petit-Lancy · Suisse
Support-Client-LOIM@lombardodier.com
Management Company regulated by the FINMA.

FRIBOURG

Banque Lombard Odier & Cie SA · Bureau de Fribourg[1]
Rue de la Banque 3 · 1700 Fribourg · Suisse
fribourg@lombardodier.com

LAUSANNE

Bank Lombard Odier & Co Ltd[1]
Place St-François 11 · 1003 Lausanne · Suisse
lausanne@lombardodier.com

VEVEY

Banque Lombard Odier & Cie SA · Agence de Vevey[1]
Rue Jean-Jacques Rousseau 5 · 1800 Vevey · Suisse
vevey@lombardodier.com

ZURICH

Bank Lombard Odier & Co Ltd[1]
Utoschloss · Utoquai 29-31 · 8008 Zürich · Schweiz
zurich@lombardodier.com

[1] *Private bank and securities dealer authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA).*

EUROPE

AMSTERDAM

Lombard Odier (Europe) S.A. · Netherlands Branch
Herengracht 466 · 1017 CA Amsterdam · Nederland
amsterdam@lombardodier.com
Branch of Lombard Odier (Europe) S.A., a credit institution based in Luxembourg, authorised by the Commission de Surveillance du Secteur Financier (CSSF) in Luxembourg and regulated in the Netherlands by De Nederlandsche Bank (DNB) and Autoriteit Financiële Markten (AFM).

BRUSSELS

Lombard Odier (Europe) S.A. Luxembourg · Belgium branch
Avenue Louise 81 · Box 12 · 1050 Brussels · Belgium
brussels@lombardodier.com
Branch of Lombard Odier (Europe) S.A., a credit institution based in Luxembourg, authorised by the Commission de Surveillance du Secteur Financier (CSSF) in Luxembourg and regulated in Belgium by the Banque nationale de Belgique (BNB) and the Financial Services and Markets Authority (FSMA).

GIBRALTAR

Lombard Odier & Cie (Gibraltar) Limited
Suite 921 Europort · P.O. Box 407 · Gibraltar · gibraltar@lombardodier.com
Authorised and regulated by the Gibraltar Financial Services Commission (FSC) to conduct banking and investment services business.

LONDON

Lombard Odier (Europe) S.A.
Queensberry House · 3 Old Burlington Street · London W1S 3AB · United Kingdom · london@lombardodier.com
The Bank is authorised and regulated by the Commission de Surveillance du Secteur Financier (CSSF) in Luxembourg and in the UK by the Prudential Regulation Authority (PRA) and subject to limited regulation by the Financial Conduct Authority (FCA) and the PRA. Details of the extent of our authorisation and regulation by the PRA and regulation by the FCA are available from us on request. Registered in Luxembourg No.B169907.
Lombard Odier Asset Management (Europe) Limited
Queensberry House · 3 Old Burlington Street · London W1S 3AB · United Kingdom · london@lombardodier.com
Investment firm authorised and regulated by the Financial Conduct Authority (FCA register No.515393).

LUXEMBOURG

Lombard Odier (Europe) S.A.
291, route d'Arlon · 1150 · Luxembourg · Luxembourg
luxembourg@lombardodier.com
Credit institution regulated by the Commission de Surveillance du Secteur Financier (CSSF) in Luxembourg.
Lombard Odier Funds (Europe) S.A.
291, route d'Arlon · 1150 · Luxembourg · Luxembourg
luxembourg@lombardodier.com

MADRID

Lombard Odier (Europe) S.A. · Sucursal en España
Paseo de la Castellana 66 · 4ª Pl. · 28046 Madrid · España · madrid@lombardodier.com
Credit institution supervised by the Commission de Surveillance du Secteur Financier (CSSF) in Luxembourg and regulated in Spain, by the Banco de España and the Comisión Nacional del Mercado de Valores (CNMV).
Lombard Odier Gestión (España) S.G.I.I.C, S.A.U.
Paseo de la Castellana 66, 4ª Pl. · 28046 Madrid · España
madrid@lombardodier.com
Management Company supervised by the Comisión Nacional del Mercado de Valores (CNMV).

MILAN

Lombard Odier (Europe) S.A. · Succursale in Italia
Via Santa Margherita 6 · 20121 Milano · Italia
milano-cp@lombardodier.com
Branch of Lombard Odier (Europe) S.A., a credit institution based in Luxembourg, authorised by the Commission de Surveillance du Secteur Financier (CSSF) in Luxembourg and regulated in Italy by the Commissione Nazionale per le Società e la Borsa (CONSOB) and la Banca d'Italia.

MOSCOW

Bank Lombard Odier & Co Ltd · Representative Office Moscow
82 Sadovnicheskaya Street · 115 035 Moscow · Russian Federation · moscow@lombardodier.com
Under the supervisory authority of the Central Bank of the Russian Federation.

PARIS

Lombard Odier (Europe) S.A. · Succursale en France
8, rue Royale · 75008 Paris · France. *RCS PARIS B 803 905 157* · paris@lombardodier.com
Credit institution under Luxembourg law regulated by the Commission de Surveillance du Secteur Financier (CSSF) - Business permit No.23/12. Registered in Luxembourg No.B169 907.
Insurance intermediary *authorised by the Commissariat aux Assurances (CAA) No.2014 CM002. The registration with the CAA can be verified at www.orias.fr.*

MIDDLE EAST | AMERICAS | ASIA | PACIFIC

BERMUDA

Lombard Odier Trust (Bermuda) Limited
3rd Floor, Victoria Place · 31 Victoria Street · Hamilton HM 10 · Bermuda · bermuda@lombardodier.com
Licensed to conduct Trust and Investment Business. Supervised by the Bermuda Monetary Authority (BMA).

DUBAI

Bank Lombard Odier & Co Ltd · Representative Office Dubai
Conrad Business Tower · 12th Floor · Sheikh Zayed Road · P.O. Box 212240 · Dubai
dubai@lombardodier.com
Under the supervisory authority of the Central Bank of the UAE.

HONG KONG

Lombard Odier (Hong Kong) Limited
3901, Two Exchange Square · 8 Connaught Place · Central · Hong Kong · hongkong@lombardodier.com
A licensed entity regulated and supervised by the Securities and Futures Commission in Hong Kong.

MONTREAL

Lombard Odier & Cie (Canada), Limited Partnership
1000 Sherbrooke Street West · Suite 2200 · Montreal (Quebec) · Canada H3A 3R7
montreal@lombardodier.com
Regulated by the Autorité des Marchés Financiers du Québec.

NASSAU

Lombard Odier & Cie (Bahamas) Limited
Goodman's Bay Corporate Centre · West Bay Street · P.O. Box N-4938 · Nassau · Bahamas
nassau@lombardodier.com
Supervised by the Central Bank of the Bahamas and the Securities Commission of the Bahamas.

PANAMA

Lombard Odier & Cie (Bahamas) Limited · Representative Office in Panama
Oceania Business Plaza Torre 2000 · Oficina 38-D · Blvd. Pacifica · Urb. Punta Pacifica · Corregimiento de San Francisco · Panamá · panama@lombardodier.com
Supervised by the Central Bank of the Bahamas and the Superintendencia de Bancos de Panamá.
Lombard Odier (Panama) Inc.
Oceania Business Plaza Torre 2000 · Oficina 38-D · Blvd. Pacifica · Urb. Punta Pacifica · Corregimiento de San Francisco · Panamá · panama@lombardodier.com.
Supervised by the Superintendencia del Mercado de valores de Panamá. License to operate as an Investment Adviser. Res. SMV No.528-2013.

SINGAPORE

Lombard Odier (Singapore) Ltd.
9 Raffles Place · Republic Plaza #46-02 · Singapore 048619 · singapore@lombardodier.com
A merchant bank regulated and supervised by the Monetary Authority of Singapore.

TOKYO

Lombard Odier Trust (Japan) Limited
Izumi Garden Tower 41F · 1-6-1 Roppongi, Minato-ku · Tokyo 106-6041 · Japan · tokyo@lombardodier.com
Regulated and supervised by the Financial Services Agency (FSA) in Japan. It holds a trust business license (FSA No.208) and is registered with Kanto Local Finance Bureau for Financial Instruments Business Operator(No.470).

12.2016