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WEEKLY COMMENT

TRADING · EQUITY ADVISORY

11 OCTOBER 2017

Accor (Advisory – PT 47) : We initiated Accor on our G2 Platform back in mid-August on the basis of improving operational developments, growth opportunities ,and the expected asset sale of Hotel Invest. Since then, the share price appreciates more than 10% absolute and outperformed the index by 690bps.

This week, Australia Mantra Group has announced an indicative and non-binding proposal from Accor in relation to a potential take-over transaction, with Accor reportedly offering USD 930 mn or 11x FY18E EV/Ebitda for Mantra which looks reasonable. Mantra owns 120 hotels with 13,000 rooms. The transaction would combine two of the largest hotel operators in Australia and thus create the clear number one player in the country.

Australia is one of the largest markets for Accor outside Europe and this deal would be in line with the Accor strategy of consolidating market share where the company benefits from scale.

We consider the deal as positive for two main reasons: a) looking at an acquisition now may suggest the currently anticipated asset sales of Hotel Invest may occur shortly; and b) this would remove uncertainty around the use of the cash proceeds of this asset sale.

➔ **Conclusion:** We remain positive on the mid –to –long term prospects of Accor. We reiterate our Buy recommendation and raise our target price to EUR 47 which could be subject to be further raised if and when the Hotel Invest divesture will be announced formerly.

Vinci (R – PT EUR90) – An Option strategy: - Vinci has been trading between EUR 74.5 to EUR 81.5 since May 2017 and it trades currently at the high end of the range. We doubt the trading statement on 24 October would be good enough to make a break-out from this trading range.

➔ **Conclusion:** In that respect, we suggest investors who own the shares to sell a strangle by selling a December 76 put and a December 82 call. Investors will overall cash in EUR 3.43 which implies a 4.3% return or roughly 17% return on annual basis. The breakeven levels would be at EUR 72.57 on the downside (or 9.45% below the current spot) and Eur85.43 (or 6.6% above the current spot)on the upside.

Vestas (R – PT DKK 665): Vestas is the world's largest wind turbine manufacturer, with a 16% global market share. In the Americas it has an even stronger 34% share; in EMEA it holds 28%, and in Asia, 9%.

Its business model is relatively simple:

It manufactures on- and offshore wind turbines. The locations of Vestas' plants broadly match its geographical footprint

It deploys the turbines on customer sites, and ensures the wind farm is working properly.

It services the installed turbines, from its own plants or from competitors'.

Now back to the investment case:

Wind installation depends on two key things: 1) policies and 2) economics

In the developed world, the current political agenda dictates that wind subsidies will fade towards the end of the decade. In emerging markets, the pace of deployment is robust and we still expect a 15% CAGR for wind installation to 2020e

Looking at the economics, wind is nearly competitive with other energy sources, as it keeps benefitting from a lower cost of capital, more efficient turbines, and additional technological improvements. We believe wind could compete without subsidies fairly soon. As a result, we believe current projections for 3-4% annual growth between 2020 and 2030 for new wind installation is too low, especially since carbon-free energy needs are expected to keep growing through that time frame. Vestas would be benefitting from that secular growth trend, most likely resulting in visible order growth and an acceleration of its stable service business as the installed base of wind turbines increases.

All of this should enhance Vestas' attractive financial attributes:

Large net cash position, which spells dividends and share buy backs

Very robust FCF generation through the cycle, barring any abnormal working capital swings

Very attractive return profile in the mid-teens, well above its cost of capital

➔ **Conclusion:** from a timing standpoint, the stock corrected strongly following a large working capital build in Q2 and negative news flow from one of its key competitors, Siemens-Gamesa. We believe these are just one-offs and nothing structural. This air pocket is in our view an attractive opportunity to buy the shares. Indeed, the stock has underperformed its cap goods peers by c20% over the past 12 months. We would fund it by selling Engie and / or Suez Environment for which most of the good news have been priced in.

Sulzer (SCL – PT 126) Q3 17 orders will be published on 26 October and could show an early and broadening recovery trend. A low prior-year basis should have helped. In pumps, the Oil&Gas downstream business activity should show further pleasing growth as well as the medtech/healthcare business in the newly formed Applicator Systems division. The latter produces 1/3 of Sulzer's EBITDA and targets +5-7% organic growth with 21% margin. We reiterate our Buy rating on the stock with a PT of CHF126. This morning, broker UBS raised its target from CHF 130 to 138.

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

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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.

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