Brexit: The day after…

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Data as of 28 June 2016, 5.30 p.m. Paris time.

SOCIETE GENERALE
Private Banking

KEY TAKEAWAYS

▪ Global stock markets lost ~USD 2 trn in value the day after Britain voted to leave the European Union (Brexit). European markets fell almost 11% in two days (Stoxx Europe 600), with a wide discrepancy at the sector-level. Banks were hit the hardest, losing 21% from 24 to 26 June closing price, but defensive stocks outperformed the market (e.g., Chemicals fell 8%, F&B fell 4% and Healthcare fell 3%).

▪ Our Equity Solutions experts have accordingly selected a basket of stocks that could be a good buy at this current price. The post-Brexit selloff of these picks appears excessive as it is expected to have minimal impact on the revenue/earnings of the companies under consideration.

▪ Our experts explain how each stock is insulated from the Brexit. We also provide our investment arguments and the key risks to our thesis along with a brief company description.

Convictions from the Recommended Universe	
AIA Group	Engie SA
Airbus Group	GlaxoSmithKline
Alibaba Group	LVMH
Bayer AG	Pernod Ricard
Broadcom	Ryanair
CVS Healthcare	Wizz Air Holding
Danone SA	

Source: SGPB

Other picks from the Recommended Universe
Anheuser-Bush Inbev
Dollar General Corp
Gas Natural
Home Depot Inc

Source: SGPB

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AIA Group Ltd (1299-HK)

BUY – SGPB Target Price: HKD 60.00

Brexit comment:
AIA has no exposure to UK or Europe and hence will not be affected by the Brexit developments or the volatility in currency.

Investment case:
AIA's competitive advantages are (1) strong exposure to fast-growing Asian markets where it benefits from high GDP growth and low insurance penetration; (2) diversified revenue mix, both on a geographical and product basis; (3) proven expertise in underwriting profitable insurance business; (4) comfortable capitalisation (free capital surplus of USD 7.53 bn as of FY15) and solvency ratio (428% on HKICO basis); and (5) a wide distribution network.

Main risks:
The Chinese government has restricted the usage of third-party payment providers to buy insurance products in Hong Kong. This has negative implications for AIA, given that its HK business generates ~25% of first-year premium from mainland customers, in-line with the industry.

Description:
AIA Group (AIA) is a leading life insurance company with operations across 17 markets in Asia Pacific (ex-Japan). It has a market-leading position in its core markets, viz. Hong Kong (HK), China, Thailand and Singapore.

Description	Current
Currency	Hong Kong Dollar
Market Cap (bn)	536.20
Price	44.50
52 Wk Low	36.85
52 Wk High	52.50
Profitability	**2016(e)**
Net Interest Margin	na
ROA	1.94
ROE	10.55
Cost-to-Income	-
Valuation	
PE Ratio 2016(e)	20.43
Price/Book 2016(e)	2.15
Tier One Capital Ratio	-
Dividend Yield	
Dividend Yield 2016(e)	1.68

** Data as of (current year - 1)*

Sources: SGPB, Bloomberg & FactSet.

Airbus Group SE (AIR-FR)

BUY – SGPB Target Price: EUR 69.00

Brexit comment:
The aerospace industry is relatively protected from this single event, although the stocks were downgraded along with global markets. We recall that the industry mainly uses USD as the transaction currency, hence the recent drop in the GBPUSD rate is a positive for the suppliers which have production facilities in GBP. Anyway, as most of the suppliers have long term visibility on their production (often above 5 years), they are properly hedged again adverse currencies moves such as the one we now witness.

Investment case:
Several macroeconomic factors support aircraft demand over the long term. Demand is correlated to load factor and air traffic, both of which are encouraging. Air traffic is closely linked to global GDP (historically at ~2x) and has increased 8.1% YoY for FY15 as per IATA (Chinese air traffic has risen by 14.2%). Moreover, the global load factor is now close to 85%, which necessitates further capacity, hence implying new orders and a sustained production rate. Earnings expectation for FY16-19 have risen with the lower Euro, and more specifically, as 1) R&D expenses are lower since Airbus has entered the production phase of its cycle, 2) the programme mix is favourable: A380 reached breakeven in FY15 and gained new orders early in 2016, production of A320neo and A350XWB is set to accelerate in 2016-2019, and the A330 generates high cash returns, and finally 3) the positive trend in the defence sector (increasing budget globally) can lead to disposal of non-core assets, that is to say, cash availability for shareholders.

Main risks:
A reversal of the EUR/USD exchange rate above 1.20 for a long period would hurt company's financials. In the short/medium term (24–36 months), we think Airbus is properly hedged against FX volatility.
If China's hard landing and low oil price continue over a long period, cash flow would be impacted by the resultant cancellations and decline in orders.
Airbus had already recorded EUR 290 mn charges for its A400m programme in 2Q15. Additional headwinds for A400M/A350XWB ramp-up will affect earnings in the short term.

Description:
Airbus has been operating in the aerospace and defence (A&D) sector since 1998. It is a leading aircraft manufacturer, as reflected in its backlog which reaches more than 10 years of production, valued at EUR 1 bn. Its activities includes civil and military aircrafts, helicopters, satellites, and intelligence, communication and security systems.

Description	Current
Currency	Euro
Market Cap (bn)	38.53
Price	49.92
52 Wk Low	49.51
52 Wk High	68.50

Profitability	2016(e)
Profit Margin	3.62
ROA	2.24
ROE	35.50
ROC *	18.28

Valuation	
PE Ratio 2016(e)	15.95
Price/Sales 2016(e)	0.60
Price/Book 2016(e)	5.66

Dividend Yield	
Dividend Yield 2016(e)	2.52

** Data as of (current year - 1)*

Sources: SGPB, FactSet.

Alibaba Group Holding Ltd (BABA-US)

BUY – SGPB Target Price: USD 95.00

Brexit comment:
Alibaba has no exposure to UK or Europe and hence will not be affected by the Brexit developments or the volatility in currency

Investment case:
According to the China Internet Network Information Center (CINIC), China's online shopping penetration in June 2015 was 48.8% of its total internet users. Bain & Co estimates that Chinese e-commerce will grow to CNY 10 trn by 2020 from CNY 2.14 trn in 2014. In our view, Alibaba being the sector leader should be a key beneficiary of this growth.

Main risks:
As Alibaba is highly exposed to the Chinese e-commerce market, any slowdown in Chinese consumer spending or a slower-than-expected shift towards e-commerce (from traditional retailing) could significantly impact its growth prospects.

Description:
Alibaba is a China-based e-commerce company that operates as a platform enabling third parties to buy and sell products. It operates (1) Taobao Marketplace, China's largest online shopping destination, (2) Tmall, China's largest third-party platform for brands and retailers and (3) Juhuasuan, China's most popular group-buying marketplace.

Description	Current
Currency	U.S. Dollar
Market Cap (bn)	183.64
Price	74.23
52 Wk Low	57.20
52 Wk High	86.42

Profitability	2017(e)
Profit Margin	25.67
ROA	9.30
ROE	20.16
ROC *	30.16

Valuation	
PE Ratio 2017(e)	18.29
Price/Sales 2017(e)	6.54
Price/Book 2017(e)	3.69

Dividend Yield	
Dividend Yield 2017(e)	-

** Data as of (current year - 1)*

Sources: SGPB, Bloomberg & FactSet

Anheuser-Busch Inbev (ABI-BE)

BUY – SGPB Target Price: EUR 125.00

Brexit comment:
Even after the SABMiller acquisition, on a pro-forma basis, the European market as a whole would only represent ~13% of volumes and ~9% of EBITDA. The fall of the Sterling following the outcome of the UK referendum, could cause the takeover to break down. In our view, however, ABI is determined to close the deal in 2H16 even has to be structured in another way. Hedging losses seem inevitable, however.

Investment case:
ABI has a long history of growth through successfully integrated M&As and perfect financial execution. The acquisition of SABMiller broadens the group's geographic footprint, adding an important position in Africa, which is expected to show above-average growth in the coming years. ABI's proposed synergies look credible and should boost margins. Being the largest and most profitable brewer makes it the default choice for investors wanting to play the brewing industry.

Main risks:
Anything less than a perfect integration of SABMiller could have serious consequences and cause the share price to plummet. The market already seems to be counting on the estimated synergies to increase. ABI needs synergies to keep growing its earnings. ABI will remain heavily reliant on North and Latin America.

Description:
ABI is the world's largest brewer, producing ~413 mn hectolitres pa. It is also one of the top-five consumer product companies globally. ABI has 19 brands in its portfolio with an estimated retail sales value of >USD 1 bn. The majority of the shares is in the hands of different families.

Description	Current
Currency	Euro
Market Cap (bn)	175.12
Price	109.50
52 Wk Low	87.73
52 Wk High	124.20

Profitability	2016(e)
Profit Margin	14.86
ROA	4.23
ROE	14.61
ROC *	8.89

Valuation	
PE Ratio 2016(e)	29.65
Price/Sales 2016(e)	4.54
Price/Book 2016(e)	4.33

Dividend Yield	
Dividend Yield 2016(e)	3.08

** Data as of (current year - 1)*

Sources: SGPB, FactSet.

Bayer AG (BAYN-DE)

BUY – SGPB Target Price: EUR 119.00

Brexit comment:
EMs constitute 37% of Bayer sales, Western Europe 31%, US 21% and ROW 11%. The UK is 4.2% of sales. There has been some speculation that Bayer would cancel the proposed acquisition of Monsanto because of higher borrowing costs and lower equity valuation (more dilution). The share price dipped to EUR 85,00 post Brexit, but that was still a bit above the lows reached after the announcement of the Monsanto deal (~EUR 84 in May). At a P/E of 12.2x 2016E EPS the stock is undervalued. Gross yield of 3% attractive, taking into account a payout of only 37% and average expected dividend growth of 7%.

Investment case:
Pharmaceutical sales should increase by ~5% pa until 2020, driven by five products: Xarelto (anticoagulant, peak sales ~EUR 4 bn), Eylea (eye care, ~EUR 2 bn), Xofigo (metastatic prostate cancer, ~EUR 1 bn), Stivarga (colorectal cancer, ~EUR 0.5 bn) and Adempas (pulmonary hypertension, ~EUR 0.5 bn). The acquisition of Monsanto makes strategic sense. Bayer's targeted USD 1.5 bn synergies are realistic. At a P/E of 12.2x 2016E the valuation is compelling.

Main risks:
The key risk is that Bayer is overpaying for Monsanto (~16x LTM EBITDA) at a time when Monsanto's profitability has come under pressure. Leverage will be high (net debt/EBITDA of >4). The controversy around GMO seeds and glyphosate (Round-Up, Monsanto's broad-spectrum herbicide) also constitutes a risk.

Description:
Bayer is a life sciences group with EUR 34.2 bn in sales (excluding Covestro) in three divisions: Prescription Pharmaceuticals (46% of sales), Crop Science (36%) and Consumer Health/OTC (19%). It owns of 69% Covestro (chemical polymers). EMs constitute 37% of sales, Western Europe 31%, US 21% and ROW 11%.

Description	Current
Currency	Euro
Market Cap (bn)	71.93
Price	86.98
52 Wk Low	83.45
52 Wk High	138.00

Profitability	2016(e)
Profit Margin	9.55
ROA	5.96
ROE	22.59
ROC *	9.44

Valuation	
PE Ratio 2016(e)	12.29
Price/Sales 2016(e)	1.56
Price/Book 2016(e)	2.78

Dividend Yield	
Dividend Yield 2016(e)	2.98

** Data as of (current year - 1)*
Sources: SGPB, FactSet.

Broadcom Ltd (AVGO-US)

BUY – SGPB Target Price: USD 190.00

Brexit comment:
Broadcom has negligible exposure to the EU and is exposed to secular growth drivers that are relatively well insulated from the uncertainty in the EU. In our view, the recent fall in share price (-9.5% since the Brexit referendum) offers an attractive entry point.

Investment case:
Avago's acquisition of Broadcom in February 2016 has made Broadcom Ltd (AVGO) a market leader in data centre switching and routing chipsets, broadband cables and set-top box chipsets. We expect its wired infrastructure segment to benefit from the growing need for hyper-scale data centres. Further, increasing content gains in high-end smartphones should benefit its wireless segment revenues. It is trading at a next-12 month P/E of 11.1x, lower than its peer average of 14.3x.

Main risks:
Failure to successfully integrate Broadcom's business or realise the anticipated opex synergies within the guided timeline could lead to material downgrades to AVGO's earnings by consensus. Avago's top five customers accounted for over 46% of FY15 revenues. Loss of these key customers to competitors could significantly impact its revenues and earnings.

Description:
AVGO designs and manufactures analogue and digital semiconductor connectivity solutions for a range of end-products like smart-phones, data centre networking, servers and storage, home connectivity, broadband access, telecommunications equipment and factory automation.

Description	Current
Currency	U.S. Dollar
Market Cap (bn)	56.81
Price	143.63
52 Wk Low	100.00
52 Wk High	166.00

Profitability	2016(e)
Profit Margin	(3.29)
ROA	(0.86)
ROE	18.35
ROC *	15.97

Valuation	
PE Ratio 2016(e)	13.09
Price/Sales 2016(e)	4.32
Price/Book 2016(e)	2.40

Dividend Yield	
Dividend Yield 2016(e)	1.32

** Data as of (current year - 1)*

Sources: SGPB, FactSet.

CVS Health Corp (CVS-US)

BUY – SGPB Target Price: USD 117.00

Brexit comment:
CVS has no exposure to UK or Europe and hence will not be affected by the Brexit developments or the volatility in currency.

Investment case:
CVS is a pure-play on the largest and growing healthcare market, the US. In our view, the company is better positioned than its peers in the US healthcare market, given its integrated pharmacy model and its diversified products and services portfolio. The acquisitions of Target's pharmacies and of Omnicare Inc are enabling CVS to gain market share, which is expected to help it negotiate pricing with drug manufacturers.

Main risks:
Retail same-store sales and front-end sales could decline in case of an economic slowdown in the US, which could reduce drug utilisation and lower the demand for PBM services. CVS may not be able to retain major clients in its PBM business in the coming season, which would negatively impact revenues and margin.

Description:
CVS Health (CVS) is the largest pharmacy healthcare provider in the US. It provides a range of pharmacy benefit management (PBM) services to ~80 mn plan members and operates >9,600 retail pharmacies and >1,100 walk-in medical clinics.

Description	Current
Currency	U.S. Dollar
Market Cap (bn)	100.14
Price	93.24
52 Wk Low	81.37
52 Wk High	113.65

Profitability	2016(e)
Profit Margin	3.21
ROA	6.15
ROE	16.95
ROC *	8.99

Valuation	
PE Ratio 2016(e)	16.01
Price/Sales 2016(e)	0.55
Price/Book 2016(e)	2.71

Dividend Yield	
Dividend Yield 2016(e)	1.74

** Data as of (current year - 1)*

Sources: SGPB, FactSet.

Danone (BN-FR)

BUY – SGPB Target Price: EUR 70.00

Brexit comment:
In contrast to the US, Russia or China, the UK is no key country for Danone. The UK accounts for less than 5% of Danone sales. Some special water sources (Evian, Volvic) and some dairy products are exported. The catalyst for our investment case, the recent uplift on margin guidance, is still valid.

Investment case:
By 2020 Danone aims for 5% organic sales growth (3-5% in dairy, 6-8% in medical and 7-10% for water and baby) with a 200 bps sustainable margin improvement. It upgraded its 2016 guidance for EBIT margin to +50bps to +60bps with sales growth of 3-5%. Danone has become more efficient and flexible. Its product mix is improving. We value the stock at a P/E of 21.0 x 2017E (a target price of EUR 70.00).

Main risks:
Several key regions are facing turbulence (China, Russia, Brazil). Danone is vulnerable to external events beyond its control. There is a risk that Danone puts savings before marketing investments, which could lead to weaker volume growth. It operates in a low growth environment with a lot of competition and increasing market share for private label.

Description:
Danone is a leader in fresh dairy, bottled water, baby nutrition and medical nutrition. It acquired Numico in 2007, Unimilk in Russia in 2010 and Wockhardt's nutrition activities in India in 2012. In 2013, it forged a strategic alliance with Mengniu, the Chinese fresh dairy products market leader (9.9% stake).

Description	Current
Currency	Euro
Market Cap (bn)	37.25
Price	60.46
52 Wk Low	51.73
52 Wk High	66.50

Profitability	2016(e)
Profit Margin	8.30
ROA	5.52
ROE	13.92
ROC *	5.58

Valuation	
PE Ratio 2016(e)	20.04
Price/Sales 2016(e)	1.81
Price/Book 2016(e)	2.79

Dividend Yield	
Dividend Yield 2016(e)	2.71

** Data as of (current year - 1)*
Sources: SGPB, FactSet.

Dollar General Corp (DG-US)

BUY – SGPB Target Price: USD 103.00

Brexit comment:
Dollar General has no exposure to UK or Europe and hence will not be affected by the Brexit developments or the volatility in currency

Investment case:
The company's strong brand recognition, solid urban and rural footprint, and its low-cost product range should help increase its customer base, top-line growth and market share gains. In our view, DG's strategic initiatives should continue driving margin expansion given that new store growth is expected to improve in FY16/17. The company has been expanding its health and private-brand portfolio, which should aid its gross margin.

Main risks:
DG may face pricing pressure due to increased competition. Reduced contribution from new/remodelled store initiatives, competitor proximity to new stores, and lower penetration in newer markets may hurt sales.

Description:
Dollar General Corp (DG) is a US-based discount retailer, the largest small-box retailer by sales. It offers a variety of day-to-day necessities, including consumables, seasonal goods, home products, and apparel. As of FY15, it operates 12 483 stores in 43 US states, selling private-label and branded goods.

Description	Current
Currency	U.S. Dollar
Market Cap (bn)	26.54
Price	93.51
52 Wk Low	59.75
52 Wk High	93.78

Profitability	2017(e)
Profit Margin	5.88
ROA	11.22
ROE	24.46
ROC *	13.87

Valuation	
PE Ratio 2017(e)	18.07
Price/Sales 2017(e)	1.10
Price/Book 2017(e)	4.42

Dividend Yield	
Dividend Yield 2017(e)	1.11

** Data as of (current year - 1)*
Sources: SGPB, FactSet.

Engie SA (ENGI-FR)

BUY – SGPB Target Price: EUR 21.00

Brexit comment:
Engie has very low exposure to UK (around 6.6% of FY15 revenue) and the stock has corrected around 9% since Brexit. It offers a good entry point at the current discounted valuation. Further potential easing of monetary policy in Europe, post brexit can lower the cost of debt for Engie.

Investment case:
Engie targets 2016-18 capex of EUR 22.0 bn, which includes EUR 15.0 bn for portfolio rotation program and EUR 7.0 bn for maintenance. Additionally, it targets EUR 1.0 bn of opex savings under its Lean 2018 program. The contribution of regulated activities to EBITDA is expected to increase to >85% by 2018-end. Moreover, It has announced that all its new investments in power production would be in projects that emit little or no CO2, in renewable energies and in natural gas.

Main risks:
Any further decline in price of power and commodities could have a significant impact on earnings. High leverage (net debt/EBITDA of 2.41x in 1Q16 vs. 2.21x in FY14) leaves limited room for inorganic growth/M&A opportunities.

Description:
Engie provides energy-related services and is the biggest utility company globally in terms of market value. The company is engaged in production of electricity, distribution and supply of gas in Continental Europe and supply power internationally. It is also involved in Exploration & production of oil & gas and also provides multi-technical services.

Description	Current
Currency	Euro
Market Cap (bn)	32.10
Price	13.18
52 Wk Low	12.34
52 Wk High	18.12

Profitability	2016(e)
Profit Margin	3.72
ROA	1.59
ROE	5.58
ROC *	(5.63)

Valuation	
PE Ratio 2016(e)	13.09
Price/Sales 2016(e)	0.49
Price/Book 2016(e)	0.73

Dividend Yield	
Dividend Yield 2016(e)	7.33

** Data as of (current year - 1)*
Sources: SGPB, FactSet.

Gas Natural SDG SA (GAS-ES)

BUY – SGPB Target Price: EUR 21.00

Brexit comment:
The stock has corrected ~14% in the last 6 months and offers a good entry point at such cheap valuations. It has less than 5% revenue exposure to the UK, and being a regulated utility its earnings are more or less fixed with minimal risks.

Investment case:
GAS Natural offers a combination of (1) regulated asset base which provides FCF-generation characteristics, and (2) organic growth potential through its exposure to the Latam gas distribution business. The regulated business accounted for 69% of its 1Q16 EBITDA, providing high earnings visibility. In its 2016-18 strategy and 2020 ambition plan, GAS guided for a cumulative investment of EUR 14 bn, of which >80% will be allocated to regulated assets. It expects regulated assets to account for ~72% of overall EBITDA by 2020.

Main risks:
The company is exposed to risk of lower commodity prices, which impact its gas supply business (accounts for ~17% of its EBITDA).
It has high exposure to Latam (~35% of EBITDA), where growth is slowing and currencies have depreciated.
Political uncertainty in Spain due to the move for Catalonian independence is another key risk.

Description:
Gas Natural SDG (GAS) is a Spanish utility engaged in power generation and distribution. It is the main player in the Spanish gas supply market with a market share of 30% and is also a key gas distribution company in the country. GAS operates in more than 30 countries.

Description	Current
Currency	Euro
Market Cap (bn)	15.77
Price	15.76
52 Wk Low	14.69
52 Wk High	21.21

Profitability	2016(e)
Profit Margin	5.40
ROA	2.77
ROE	9.09
ROC *	4.36

Valuation	
PE Ratio 2016(e)	12.15
Price/Sales 2016(e)	0.65
Price/Book 2016(e)	1.10

Dividend Yield	
Dividend Yield 2016(e)	5.94

** Data as of (current year - 1)*
Sources: SGPB, FactSet.

GlaxoSmithKline Plc (GSK-GB)

BUY – SGPB Target Price: GBP 15.30

Brexit comment:
GSK has a balanced geographical exposure (US 34%, EU 27%, rest 39%). The UK is only 4.6% of sales. GSK has a high cost base in GBP, its reporting currency. Brexit will bring a cost advantage. We had selected GSK for its defensive qualities and its high yield. These arguments are still valid. We are waiting for factual EPS-increases before raising our target price.

Investment case:
GSK will remain the leader in respiratory treatments (asthma, COPD). It has high growth potential in HIV (a 20 bn USD market). Vaccines and OTC offer steady cash flow. Management expects GBP 6 bn in sales from 11 new products by 2018. It is confident that its pipeline of ±40 assets (80% first-in-class) will deliver (2016/17: 4 regulatory decisions and 10 phase 3 starts). GSK has pledged to pay an annual dividend of 80p (5.4%) in 2016 and 2017.

Main risks:
General price pressure in prescription drugs could weigh on margins. OTC has become more competitive resulting in lower growth. Another risk is pipeline failures for its major projects or failure to get them approved. A specific risk is a reduction in the dividend after CEO change (2017).

Description:
GSK has GBP 24 bn in sales (pharmaceuticals 59%, OTC 26%, vaccines 15%) with a balanced exposure (US 34%, EU 27%, rest 39%). GSK is the global #1 in vaccines and a leader in OTC (health products sold without a prescription).

Description	Current
Currency	British Pounds
Market Cap (bn)	72.49
Price	14.88
52 Wk Low	12.28
52 Wk High	15.32

Profitability	2016(e)
Profit Margin	16.73
ROA	8.37
ROE	102.47
ROC *	37.60

Valuation	
PE Ratio 2016(e)	16.89
Price/Sales 2016(e)	2.85
Price/Book 2016(e)	17.30

Dividend Yield	
Dividend Yield 2016(e)	5.41

** Data as of (current year - 1)*
Sources: SGPB, FactSet.

Louis Vuitton Moët Hennessy (MC-FR)

BUY – SGPB Target Price: EUR 190.00

Brexit comment:
While London is one of the world's three largest cities for luxury sales (EUR 13 bn in 2015), we feel LVMH should be relatively untouched by the Brexit. For LVMH the appetite for luxury in Asia and China in particular and the success of Louis Vuitton are, in our view, the main drivers for sales and earnings growth.

Investment case:
Thanks to its solid balance sheet and FCF generation, LVMH can spend large amounts on advertising and can easily finance the expansion of the retail network, while keeping ample financial leeway for M&A and making extraordinary cash returns increasingly likely. The group's diversified revenue and profit base make it less vulnerable to a downturn in any particular market segment. The repositioning of Louis Vuitton should lead to smoother evolution of sales.

Main risks:
LVMH is very dependent on Louis Vuitton. The local Asian market and Asian travellers are very important for the group. The personal luxury goods market is growing, yet cyclical. Over the past few years competition has increased and consumer preferences are changing rapidly. LVMH's results are subject to foreign currency movements.

Description:
LVMH, formed through the 1987 merger of Louis Vuitton and Moët Hennessy, is the world's largest luxury group. Moët Hennessy is a 66%/34% joint venture with Diageo. The Arnault family, directly and indirectly (a.o. through Euronext-listed Christian Dior SE), controls 46.64% of the shares and 62.90% of votes. Bernard Arnault is Chairman and CEO.

Description	Current
Currency	Euro
Market Cap (bn)	66.13
Price	131.40
52 Wk Low	130.55
52 Wk High	176.60

Profitability	2016(e)
Profit Margin	11.03
ROA	6.83
ROE	15.29
ROC *	11.23

Valuation	
PE Ratio 2016(e)	17.02
Price/Sales 2016(e)	1.87
Price/Book 2016(e)	2.60

Dividend Yield	
Dividend Yield 2016(e)	2.87

** Data as of (current year - 1)*
Sources: SGPB, FactSet.

Pernod Ricard SA (RI-FR)

BUY – SGPB Target Price: EUR 120.00

Brexit comment:
Pernod Ricard's main worry is the ailing Asian market (for cognac in particular) and reviving the Absolut (vodka) brand in the US. The fall of the Sterling following the 'Leave' camp victory, should be beneficial for the group's whisky and gin exports, offsetting the negative impact on UK consumption of spirits as imported brands become more expensive.

Investment case:
Pernod Ricard should be a main beneficiary of the long-term premiumisation trend. The product portfolio is well diversified. Emerging markets account for ~39% of group revenue and operating profit. Alexandre Ricard expects Africa to become a key growth engine. The new strategic model focuses on reducing complexity, increasing efficiency, etc. Over three years, the Allegro project, started in FY13/14, should generate recurring savings and spur top-line growth.

Main risks:
Visibility on China still is low. Absolut is suffering in the US.. The FY15/16 outlook underwhelmed. This will be the third consecutive year of poor organic growth, while the group clearly needs solid volume growth before the operational leverage kicks in. Group earnings are heavily exposed to foreign currency swings.

Description:
Pernod Ricard (merger of Pernod and Ricard in 1975) is the co-leader in the global Wines & Spirits market. The Ricard family and the Euronext-listed Belgian holding company Groupe Bruxelles Lambert resp. hold 13.14% and 7.49% of the capital and 19.17% and 6.86% of the votes. Alexandre Ricard is Chairman and CEO.

Description	Current
Currency	Euro
Market Cap (bn)	24.95
Price	94.42
52 Wk Low	88.00
52 Wk High	111.70

Profitability	2016(e)
Profit Margin	15.54
ROA	4.45
ROE	10.01
ROC *	3.99

Valuation	
PE Ratio 2016(e)	18.53
Price/Sales 2016(e)	2.90
Price/Book 2016(e)	1.86

Dividend Yield	
Dividend Yield 2016(e)	1.94

** Data as of (current year - 1)*

Sources: SGPB, FactSet.

The Home Depot Inc (HD-US)

BUY – SGPB Target Price: USD 142.00

Brexit comment:
Home Depot has no exposure to UK or Europe and hence will not be affected by the Brexit developments or the volatility in currency.

Investment case:
We are positive on HD owing to its strong industry position, focus on professional contractors (~40% of FY15 sales, FY ending January 2016) and continued growth from digital assets (1Q16 online traffic grew in double digits and online sales grew 21.5% YoY). Additionally, HD's expanded universe after acquiring Interline Brands Inc in August 2015 (integration progressing nicely) should boost its revenues and help expand its sales force and fulfilment capabilities.

Main risks:
Weaker-than-expected recovery in the housing/ real estate market and increase in mortgage rates may impact repair and remodelling spend, affecting the company's top-line and comps growth. HD may witness headwinds from a weaker economic backdrop, home-price appreciation and tight labour markets, leading to higher costs and construction delays. The company expects FX to continue pressurising top line in FY16 (~USD 800 mn).

Description:
US-based Home Depot (HD) is the world's largest home-improvement speciality retailer operating through 2 200+ retail stores in the US, Canada and Mexico. The typical HD store averages 105 000 sq ft of indoor retail space, interconnected with its e-commerce business, catering to DIY/DIFM customers and professional contractors.

Description	Current
Currency	U.S. Dollar
Market Cap (bn)	155.09
Price	124.67
52 Wk Low	92.17
52 Wk High	137.82

Profitability	2017(e)
Profit Margin	8.63
ROA	19.02
ROE	228.89
ROC *	25.89

Valuation	
PE Ratio 2017(e)	17.43
Price/Sales 2017(e)	1.57
Price/Book 2017(e)	39.89

Dividend Yield	
Dividend Yield 2017(e)	2.51

** Data as of (current year - 1)*

Sources: SGPB, FactSet.

Ryanair Holdings Plc (RY4C-DUB)

BUY – SGPB Target Price: EUR 17.20

Brexit comment:
Ryanair, although quite exposed to GBP, is not a UK-based airline. Its hedging strategy for both FX and jetfuel is one of the most defensive in the industry (meaning the percentage of hedging is very high and long term). Hence, the recent downgrade of its price is not supported by financial expectations.

Investment case:
In our view, RYA should continue to witness higher traffic growth (management target a 9% increase for FY17 and 100% growth for the period FY16-24) given the addition of eight new bases in Europe, including Athens, Brussels, Glasgow and Lisbon. Further, the company's 'Always Getting Better' programme, which focuses on fee reductions and digitalisation, along with an expanded business schedule, should continue to support its industry-leading passenger load factor.

Main risks:
Aggressive competition from major European low-cost carriers (LCCs), mainly Wizz Air Plc in the CEE and legacy carriers in Western Europe, could affect the stock price.
Airlines are extremely sensitive to external shocks, including terrorist attacks, wars, strikes, aircraft accidents or climate events.

Description:
Ryanair (RYA) is the leading low-cost airline in Europe. As per the company, it is also Europe's leading short-haul player in terms of passengers carried. RYA operates through 200 airports in 33 countries. It has 340 planes that fly through 1 800+ routes across Europe.

Description	Current
Currency	Euro
Market Cap (bn)	13.12
Price	10.46
52 Wk Low	10.46
52 Wk High	15.57

Profitability	2017(e)
Profit Margin	22.76
ROA	11.47
ROE	25.93
ROC *	19.38

Valuation	
PE Ratio 2017(e)	8.65
Price/Sales 2017(e)	1.95
Price/Book 2017(e)	2.24

Dividend Yield	
Dividend Yield 2017(e)	0.47

** Data as of (current year - 1)*
Sources: SGPB, FactSet.

Wizz Air Holdings Plc (WIZZ-GB)

BUY – SGPB Target Price: GBP 21.50

Brexit comment:
Since the initiation of our BUY recommendation on this stock, we mentioned the Brexit as a key risk because Wizz Air results makes 20% of sales in UK and are converted in EUR from GBP. Investors clearly overreacted and depreciated the stock by almost 30% as we talk.

Investment case:
The key exposure to the Central and Eastern Europe (CEE) region makes Wizz Air an attractive growth story. Passenger growth in this area is supported by long term economic and demographic factors. Air traffic is a historical multiplier of GDP of 2x, and CEE GDP growth is greater than Euro zone (EZ) GDP growth. Also trips per capita in CEE is below 0.5 whereas in Western Europe it is above 1. The large order of 110 A321neo to be fully delivered by 2024 gives a predictable annual capacity growth rate of 13% from 2016 until 2024. A321neo should reduce CASK (Cost per available seat per kilometer) vs. the actual fleet of A320ceo.

Main risks:
Competition from major European LCCs, mainly Ryanair Plc, which is developing its capacity in Central and Eastern Europe, but it will take time before competition materializes and it will primarily impact higher cost carriers in the region.
Airlines are extremely sensitive to external shocks, including terrorist attacks, wars, strikes, aircraft accidents or climate events.

Description:
With its ultra-low cost model, Wizz Air has become the leading airline in Central and Eastern Europe (39.2% market share). The company operates since 2004. Its average fleet age is 3.8 years, one of the youngest in the European industry, the fleet is constantly increasing, it reached 67 in 4QFY16. Wizz Air operates more than 380 routes across 38 countries from 25 bases and 121 airports.

Description	Current
Currency	British Pounds
Market Cap (bn)	0.81
Price	14.15
52 Wk Low	14.01
52 Wk High	20.66

Profitability	2017(e)
Profit Margin	14.73
ROA	na
ROE	24.38
ROC *	30.46

Valuation	
PE Ratio 2017(e)	7.64
Price/Sales 2017(e)	0.55
Price/Book 2017(e)	1.86

Dividend Yield	
Dividend Yield 2017(e)	-

** Data as of (current year - 1)*
Sources: SGPB, FactSet.

VALUATIONS

DESCRIPTION			VALUATION								GROWTH				PROFITABILITY		
FactSet Code	Company	Cap (m€)	P/BV		EV/Sales (e)		P/E (e)			Div. Yield	Sales Growth		EPS Growth		Op Margin*	Net Margin	ROE
			FY1x	10Yx	FY1x	FY2x	FY1x	FY2x	10Yx	FY1%	FY1%	FY2%	FY1%	FY2%	FY1%	FY1%	FY1%
Convictions from the Rcommended Universe																	
1299-HK	**AIA Group Limited**	62 944	2.2	2.1	3.6	3.3	20.4	16.4	20.0	1.7	8.3	10.2	26.3	20.7	na	17.2	10.5
AIR-FR	**Airbus Group SE**	38 527	5.8	3.0	0.5	0.4	15.5	12.0	40.6	2.5	2.6	8.0	-3.5	26.7	9.4	3.6	35.5
BABA-US	**Alibaba Group Holding Ltd. Sponsor**	167 310	4.7	8.5	7.8	5.8	23.4	18.3	33.6	0.0	42.8	27.3	21.8	25.3	45.9	23.9	19.3
BAYN-DE	**Bayer AG**	71 928	2.7	3.0	1.9	1.7	12.0	11.0	23.9	3.0	1.9	4.3	5.6	9.2	22.8	9.6	22.6
AVGO-US	**Broadcom Limited**	51 757	2.5	5.4	5.2	4.0	13.1	11.1	28.3	1.3	92.7	22.6	21.9	17.4	53.0	-3.3	18.3
CVS-US	**CVS Health Corporation**	91 237	2.7	2.0	0.7	0.6	16.0	14.2	17.7	1.7	18.5	8.2	12.8	12.8	7.3	3.2	17.0
BN-FR	**Danone SA**	37 253	2.8	3.0	2.1	2.0	19.7	18.1	18.8	2.7	-1.0	5.3	4.8	8.5	17.4	8.3	13.9
ENGI-FR	**ENGIE SA**	32 097	0.8	1.2	0.9	0.9	12.6	12.7	15.3	7.3	-1.4	-0.5	0.0	1.9	15.7	3.7	5.6
GSK-GB	**GlaxoSmithKline plc**	86 838	18.6	9.4	3.3	3.2	16.6	16.0	16.8	5.4	7.8	2.9	17.6	4.2	32.0	16.7	102.5
MC-FR	**LVMH Moet Hennessy Louis Vuittor**	66 134	2.6	3.0	1.9	1.8	16.4	15.1	18.6	2.9	3.6	5.8	13.1	9.1	23.4	11.0	15.3
RI-FR	**Pernod Ricard SA**	24 953	1.8	2.1	3.9	3.7	18.2	17.3	19.6	1.9	2.5	2.3	3.8	5.5	28.7	15.5	10.0
RY4C-DUB	**Ryanair Holdings Plc**	13 124	3.0	2.6	1.9	1.7	9.3	8.2	16.0	0.3	3.6	5.7	22.6	10.7	32.4	21.2	30.3
WIZZ-GB	**Wizz Air Holdings Plc**	968	2.4	2.0	0.2	0.0	8.5	7.3	4.1	0.0	27.2	15.3	26.5	10.0	18.2	14.6	27.5
Other companies from the Recommended Universe																	
ABI-BE	**Anheuser-Busch Inbev Sa**	175 117	4.5	3.1	5.5	5.1	29.0	24.5	19.1	3.1	-1.0	5.4	-20.6	20.1	38.5	14.9	14.6
DG-US	**Dollar General Corporation**	24 176	4.8	3.4	1.3	1.2	20.1	18.1	20.5	1.1	9.9	7.1	17.3	11.5	11.4	5.9	23.5
GAS-ES	**Gas Natural SDG, S.A.**	15 771	1.1	1.5	1.3	1.2	11.7	11.3	12.2	6.0	-2.7	1.6	-9.4	3.0	19.9	5.4	9.1
HD-US	**Home Depot, Inc.**	141 300	26.0	6.3	1.9	1.8	19.8	17.4	18.2	2.2	6.4	4.5	16.7	13.2	16.1	8.3	170.9

P/BV: Price to Book Value. *EBITDA Margin.
FY1 Current Unrealized Year, FY2 Next Year.
Sources: SGPB, Factset.

MARKET DATA

Ticker	Name	Ccy	Price	52 Weeks High	52 Weeks Low	Avg 6M Daily Turnover in (000)	Performance (%)					Risk	
							3m	6m	12m	Ytd	5y	Volatility	Beta
Convictions from the Rcommended Universe													
1299-HK	**AIA Group Limited**	HKD	44,5	52,5	36,9	1 106 800,1	6,3	-5,3	-14,1	-4,5	65,4	32,2	1,0
AIR-FR	**Airbus Group SE**	EUR	49,92	68,50	49,51	146 010,28	-16,5	-19,7	-18,8	-19,5	126,4	30,85	1,10
BABA-US	**Alibaba Group Holding Ltd. Sponsored Al**	USD	74,2	86,4	57,2	1 103 169,9	-2,1	-11,3	-10,9	-8,7	na	na	1,8
BAYN-DE	**Bayer AG**	EUR	86,98	138,00	83,45	289 754,71	-15,1	-25,1	-34,6	-24,9	62,0	45,55	0,92
AVGO-US	**Broadcom Limited**	USD	143,6	166,0	100,0	566 815,7	-6,1	-1,8	6,3	-1,0	305,2	59,6	1,8
CVS-US	**CVS Health Corporation**	USD	93,24	113,65	81,37	499 827,34	-8,1	-5,7	-11,9	-4,6	155,3	36,55	0,78
BN-FR	**Danone SA**	EUR	60,5	66,5	51,7	98 631,8	-2,5	-3,2	-0,3	-2,9	16,4	8,2	0,8
ENGI-FR	**ENGIE SA**	EUR	13,18	18,12	12,34	87 791,20	-1,9	-20,0	-24,6	-19,3	-44,9	7,77	0,92
GSK-GB	**GlaxoSmithKline plc**	GBP	14,9	15,3	12,3	122 831,2	7,1	8,1	8,8	8,4	15,6	15,5	0,8
MC-FR	**LVMH Moet Hennessy Louis Vuitton SE**	EUR	131,40	176,60	130,55	137 823,07	-10,7	-10,0	-23,2	-9,3	24,9	41,43	1,00
RI-FR	**Pernod Ricard SA**	EUR	94,4	111,7	88,0	54 567,5	-5,6	-10,1	-12,7	-10,2	41,1	25,7	0,8
RY4C-DUB	**Ryanair Holdings Plc**	EUR	10,46	15,57	10,46	28 783,57	-24,1	-30,3	-17,4	-30,3	201,0	66,77	1,06
WIZZ-GB	**Wizz Air Holdings Plc**	GBP	14,2	20,7	14,0	2 002,3	-21,2	-19,6	-10,5	-22,1	na	na	0,2
Other companies from the Recommended Universe													
ABI-BE	**Anheuser-Busch Inbev Sa**	EUR	109,5	124,2	87,7	189 792,7	1,3	-4,7	-2,8	-4,3	178,2	26,4	1,1
DG-US	**Dollar General Corporation**	USD	93,51	93,78	59,75	240 422,30	11,4	29,5	17,5	30,1	182,6	15,24	0,72
GAS-ES	**Gas Natural SDG, S.A.**	EUR	15,8	21,2	14,7	54 478,9	-11,4	-17,3	-25,4	-16,2	15,7	11,2	0,9
HD-US	**Home Depot, Inc.**	USD	124,67	137,82	92,17	707 126,15	-4,4	-6,2	10,7	-5,7	254,2	19,85	1,04

Sources SGPB, Factset.

Financial Terms And Acronyms

BV (Book Value): is the total value of net assets of a company.

BV/S (Book Value Per Share): is the total value of the net assets of a company divided by the total number of outstanding shares.

C/I (Cost Income Ratio): is used for valuing banks. It shows a company's costs in relation to its income.

CAGR (Compound Annual Growth Rate): is a term used for the geometric progression ratio that provides a constant rate of return over a specific time period.

CAPEX (Capital Expenditure): is the fund used by the company to acquire or upgrade the physical assets such as property, industrial buildings or equipment. The most capital intensive industries include oil, telecom and utilities.

CAR (Capital Adequacy Ratio): is a measure of a bank's capital. It is expressed as a percentage of a bank's risk-weighted credit exposures.

CET I (Common Equity Tier I Ratio) : is a measure of the bank's common equity capital as a percentage of risk-weighted assets. It is generally compared to a defined benchmark stipulated by the regulatory authority to determine whether a bank is sufficiently capitalised.

COMBINED RATIO: It represents the total of acquisition and administrative expenses, and claims and insurance benefits incurred, divided by net premiums earned.

DIVIDEND YIELD: Dividend per share (total dividend paid out divided by the total number of shares) expressed as a percentage of current stock price.

EBIT (Earnings Before Interest and Taxes): profit before taking into account interest payments and income taxes.

EBIT Margin: Ratio that expresses EBIT as a percentage of total sales (EBIT/Sales*100)

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation): profit before taking into account interest payments, income taxes and non-cash operating expenses (depreciation and amortisation).

EPS (Earnings Per Share): is the division of total net profit by the number of shares.

EQUITY is the difference between the value of the assets and the cost of the liabilities.

EV (Enterprise Value) is a measure of a company's value, often used as an alternative to straightforward market capitalisation. It is calculated as (market cap + debt + minority interest + preferred shares) − total cash − cash equivalents.

FCF (Free Cash Flow): represents the difference between operating cash flow and capital expenditures.

FFO (Funds from Operations): measures a REIT's operating performance. It is net income plus gains (minus losses) from property sale and purchase. FFO per share is often used in place of earnings per share when analysing REITs.

FY0: Realised year, **FY1**: Current unrealised year, **FY2**: next year

GOODWILL: is an intangible asset that arises as a result of the acquisition of one company by another company for a premium value.

GROSS INCOME: gross profit calculated as a company's total sales minus its cost of goods sold (COGS) that corresponds to labour and production costs.

GROSS MARGIN: expresses gross income as a percentage of total sales.

LIKE FOR LIKE (LFL) GROWTH: is a measure of growth in sales, adjusted for new or divested businesses.

Loan-to-deposit (L/D) ratio: Loans/Deposits. This helps in assessing a bank's liquidity, lending capacity and balance sheet quality.

LTV (Loan-To-Value Ratio): is a financial term used to express the ratio of a loan to the value of an asset purchased.

NAV (Net Asset Value): is similar to book value and is also called per investment unit. NAV is the marked-to-market value of the company's property investments less liabilities.

ND (Net Debt): is calculated as a company's total debt minus cash and other similar liquid assets.

NET MARGIN: is a financial ratio which measures the profitability of the net income of a company.

NI (Net Income or Bottom Line): represents a company's total earnings (or profit) which is calculated by adjusting revenues for the costs, depreciation, interest, taxes and other expenses.

NIM: Net Interest Margin

NON-PERFORMING LOANS (NPL) RATIO: NPLs/Loans. This indicates the percentage of the loans that are non-performing or are in stressed segments.

OPERATING MARGIN: See definition of EBIT Margin.

ORGANIC GROWTH: is the growth rate that a company can achieve by increasing its output and enhancing sales, excluding any profits or growth from takeovers or M&A activities.

P/E or PER (Price Earnings Ratio): reflects the trading price of a share in relation to the expected earnings.

P/BV (Price To Book Value): expresses the share price with regard to the accounting value of the company.

PAYOUT RATIO: is the proportion of earnings paid out as dividends to shareholders and typically expressed as a percentage.

PROFIT WARNING: is the announcement made by the company before its earnings release indicating the investors that its earnings would not meet the analysts' expectations.

RWA (Risk Weighted Assets): is a measure of the bank's assets, weighted according to their risk. It involves the risk weighting of both on and off-balance-sheet exposures.

REVENUE GROWTH: Illustrates the growth of sales over a given period.

ROA (Return on assets): a financial ratio that is calculated as net income divided by total assets and shows how profitable a company is relative to its total assets.

ROC (Return on invested capital): a profitability ratio which is calculated as net income minus dividends divided by total invested capital.

ROE (Return On Equity): The amount of net income returned as a percentage of shareholders' equity. Return on equity measures a corporation's profitability by disclosing how much profit a company generates with the money shareholders have invested.

TBV (Tangible Book Value): is the book value excluding intangible assets.

TBV/S (Tangible Book Value Per Share): allows to estimate the accounting value of a company by measuring its stockholders' equity per share. Formula: Re-valued Net Assets/Total Shares of Company.

WACC (Weighted Average Cost of Capital): also referred to as the firm's cost of capital, it is the rate that a company is expected to pay on an average to all its security holders to finance its assets.

WORKING CAPITAL: is the difference between a company's current assets and current liabilities and shows whether the company has sufficient short-term assets to cover its short-term debts.

Appendix

Investment Rating Definitions:

Buy	Stock that is expected to outperform its MSCI sector index over a 12-month investment horizon.
Neutral	Stock that is expected to perform in line with its MSCI sector index over a 12-month investment horizon.
Sell	Stock that is expected to underperform its MSCI sector index over a 12-month investment horizon.
Restricted	Covered stock that is not rated or assigned a target price as the Societe Generale group has a capital market transaction with that company.

Recommended Universe Principle:

The Recommended Universe is made of companies from the Investment Universe as defined by Societe Generale Private Banking guidelines. Members are chosen by Equity Solutions. There are no lower nor upper limits on the number of stocks in the Recommended Universe. There is no specific constraint in term of geographical or industry representation. A company from the recommended universe can be subject to a rating change, as decided by the Equity Solutions expert covering the company. When a stock is downgraded to a Sell rating, it is still followed for at least 3-month, after which Equity Solutions issues a coverage termination alert.

Product Risk Rating:

The product category of single equity, stock, share is rated at ‘4’.

In order to draw the attention of potential investors to the risk linked to each investment solution, Societe Generale Private Banking has ranked each product according to its own specific risk scale from the lowest risk (class 0) to the highest risk (class 4). The risk classification in 5 levels, is a Societe Generale Private Banking internal risk indicator. These internal indicators are based on the Value at Risk 95% 1 year (VaR). The VaR corresponds to the maximum amount that the portfolio being considered could lose in normal market conditions over a given period with a given probability (past performances and simulations of performance shall not be considered as a reliable indicator of future performance). If the VaR 95% 1 year is y%, this means that there is a 95% probability that the portfolio will not lose more than y% of its value in one year.

Risk Levels	Losses
0 - Lowest Risk	There is a 95% probability that the product will not depreciate in value in one year.
1 - Low Risk	There is a 95% probability that the product will not lose more than 5% of its value in one year.
2 - Medium Risk	There is a 95% probability that the product will not lose more than 15% of its value in one year.
3 - High Risk	There is a 95% probability that the product will not lose more than 30% of its value in one year.
4 - Highest Risk	There is a minimum of 5% probability that the product will lose more than 30% of its value in one year.

Disclosures:

Disclosures :

SG acted as Sole Global Coordinator & Joint Bookrunner in Airbus' convertible bond issue (7yr).
SG is acting as joint mandated lead arranger & bookrunner with Anheuser-Busch InBev for the financing of the acquistion of SABMiller.
SG acted as joint bookrunner in Anheuser-Busch Inbev's bond issue (4yr, 4yr, 6yr, 9yr, 12yr, 20yr).
SG acted as joint bookrunner in Danone's bond issue (EUR, 8.5yr).
SG acted as a lead structuring advisor in Engie's bond tender offer.
SG acted as joint bookrunner in Pernod Ricard's bond issue (10y, EUR).

SOCIETE GENERALE
Private Banking

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Subject of the document

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SOCIETE GENERALE
Private Banking

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Equity Solutions Team:

Asia: Bangalore: Shishir Malik, Anirudh Srivastava, Abhishek Iyer, Jyotiraditya Sharma, Neeraj Mendiratta, Saurabh Lohariwala, Shekhar Kedia, Sriram Chellappa, Pradeep Rajwani, Pradeep Anantharamakrishnan, Wrutuja Pardeshi.

Europe: Jérôme Matt, Danny Van Quaethem, Kristof De Graeve, Thomas Hinault, Mathieu Balleron.

Societe Generale Private Banking
Tour Alicante
17, Cours Valmy
92043 Paris La Défense Cedex
France

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