16 February 2016

Equity Solutions

What if markets recover?

BUILDING TEAM SPIRIT TOGETHER

SOCIETE GENERALE
Private Banking

In accordance with the applicable regulation; we inform the reader that this material is qualified as a marketing document.

Data as of the 16th of February 2016 at 6 p.m., Paris time.

Executive Summary

Lower expectations for global economic growth have led to a market drop year-to-date, justifying a de-rating of asset prices to better reflect the shape of the economy. But the high level of volatility makes it hard for investors to determine the correct price of most assets. Taking into account the economic environment, the quality of reported earnings of the full year 2015 and the valuation levels of the equity markets, we can understand that the market is pricing a lower global growth prospect. However, this can not be generalised to all sectors and all stocks. We have selected 29 stocks we consider undervalued and attractive after the recent drop. Our selection spans all sectors.

List of stocks:

Code	Name	Sector	Country	Rating	Target Price	Currency
MC-FR	LVMH	C. Discretionary	France	BUY	190.00	EUR
TUI1-DE	TUI AG	C. Discretionary	Germany	BUY	20.90	EUR
DIS-US	The Walt Disney Co	C. Discretionary	U.S.A.	BUY	120.00	USD
RI-FR	Pernod Ricard	C. Staples	France	BUY	120.00	EUR
CA-FR	Carrefour SA	C. Staples	France	BUY	30.00	EUR
KO-US	Coca-Cola Company	C. Staples	U.S.A.	BUY	48.00	USD
CVX-US	Chevron	Energy	U.S.A.	BUY	112.0	USD
RDSB-GB	Royal Dutch Shell	Energy	Netherlands	BUY	31.6	EUR
CS-FR	AXA	Financials	France	BUY	29.00	EUR
INGA-NL	ING Groep	Financials	Netherlands	BUY	16.70	EUR
UL-NL	Unibail Rodamco	Financials	France	ADD	247.59*	EUR
FRE-DE	Fresenius Medical Care AG	Healthcare	Germany	BUY	90.00	EUR
BAYN-DE	Bayer	Healthcare	Germany	BUY	151.00	EUR
UCB-BE	UCB	Healthcare	Belgium	ADD	79.69*	EUR
SU-FR	Schneider Electric SA	Industrials	France	BUY	73.00	EUR
DG-FR	Vinci SA	Industrials	France	BUY	65.20	EUR
AIR-FR	Airbus Group NV	Industrials	France	BUY	69.00	EUR
AAPL-US	Apple Inc	Info. Technology	U.S.A.	BUY	160.00	USD
GOOGL-US	Alphabet Inc	Info. Technology	U.S.A.	BUY	850.00	USD
ORCL-US	Oracle Corp	Info. Technology	U.S.A.	BUY	49.00	USD
RIO-GB	Rio Tinto Plc	Materials	U.K.	ADD	21.42*	GBP
LHN-CH	LafargeHolcim Ltd	Materials	Switzerland	BUY	70.00	CHF
AKE-FR	Arkema	Materials	France	ADD	72.48*	EUR
DTE-DE	Deutsche Telekom AG	Tel. Services	Germany	ADD	17.26*	EUR
ORA-FR	Orange SA	Tel. Services	France	ADD	17.78*	EUR
ILD-FR	Iliad SA	Tel. Services	France	ADD	240.65*	EUR
ENG-ES	Enagas SA	Utilities	Spain	BUY	31.00	EUR
VIE-FR	Veolia	Utilities	France	BUY	25.00	EUR
ENEL-IT	Enel SA	Utilities	Italy	BUY	4.64	EUR

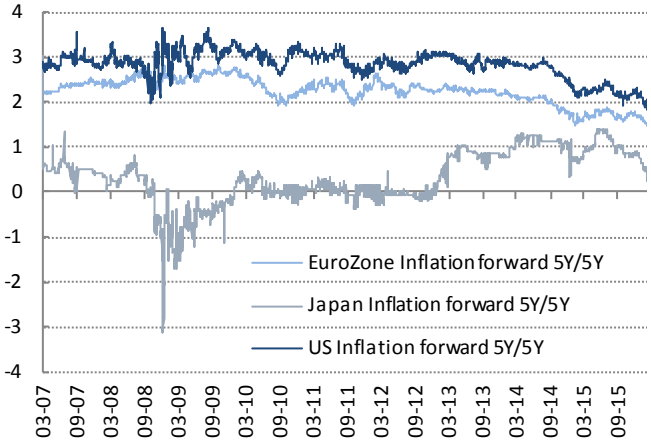
** Consensus Target Price*

Sources: Datastream, Societe Generale Private Banking

Content

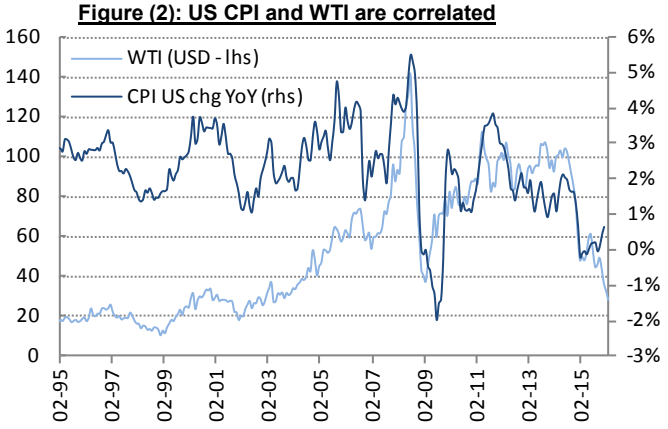
Market Update

Figure (1): Inflation 5-year forward in 5 years (%)



Sources: Datastream, Societe Generale Private Banking

Figure (2): US CPI and WTI are correlated



Sources: Datastream, Societe Generale Private Banking

Global economy weakens – risk heightens

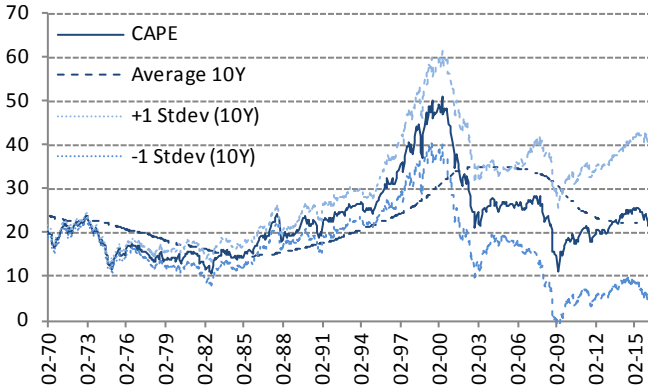
Lower expectations for global economic growth have led to a market drop year-to-date, justifying a de-rating of asset prices to better reflect the shape of the economy. Nevertheless, the high volatility also makes it difficult to determine the correct price of equity markets.

In the US, a list of economic indicators signals a risk of slowdown. Nonfarm payrolls released on 5 February came in as a negative surprise (151K vs. 190Ke) – the ISM Manufacturing is now stable below 50 at 48.2 (1 February), while durable goods and factory orders are down 5.0% and 2.9% respectively. In the meantime, the Federal Reserve Chair Janet Yellen has indicated unease with both the global environment and a further rate hike, leading to greater uncertainty.

In the Eurozone, the ECB continues implementing its expansionary policy but inflation expectation and consumer price index (CPI) disappoint (29 January CPI YoY at +0.4%). Figure 1 shows the central bankers' most favoured indicator to monitor inflation, the forward inflation in 5 years. As we can see, curves in Japan, US and Eurozone are bottoming amidst highly expansionary policies. This situation may be stemming from lower oil prices, which in turn is reducing the costs and prices of manufacturing goods and others like chemicals or air and freight fares. Nonetheless, central bankers are ready to take further action in order to restore sustained growth and inflation but this must be accompanied by consistent reforms and fiscal policies.

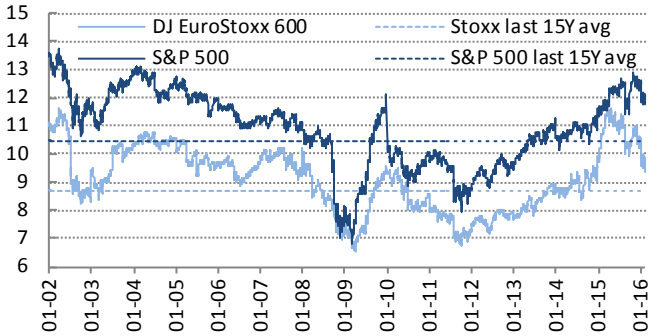
In fact, Japan's Prime Minister Shinzo Abe undertook a series of structural reforms and expansionary policies (aka "Abenomics") to recover growth in a country where stagnation has persisted for the last 20 years. Wages did not grow and companies' profit remained solid. The willingness of both the central bank and the government will remain a solid instance of a country's economic upturn.

Figure (a): Cyclically adjusted Price to Earnings - S&P 500



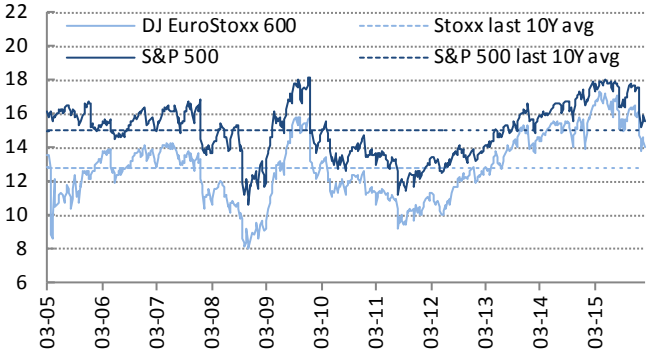
Sources: Datastream, Societe Generale Private Banking

Figure (b): EV/EBITDA – S&P 500 – DJ EuroStoxx 600



Sources: Datastream, Societe Generale Private Banking

Figure (c): Price to Earnings – S&P 500 – DJ EuroStoxx 600



Sources: Datastream, Societe Generale Private Banking

Oil prices under pressure create opportunities in some sectors and regions

Oil price is now a quarter of its 2014 peak (USD 110). The abundance of oil, sometimes used as a political tool has escalated geopolitical tensions. The expected normalisation of the Chinese economy adds to downward pressure on the commodity. Ultimately, this is a net positive for the global economy as production costs are reduced for many industries, implying higher margins and greater investment capacities. Also, it is a net gain for consumers. But, in the short term, such low prices are destructive for some highly leveraged oil producers. And countries highly dependent on oil (Venezuela, Saudi Arabia, Nigeria, Algeria) could be in budgetary turmoil if no actions are taken to adapt their domestic economy. The drop in oil price thus creates short-term uncertainty, and investors seems unable to determine the correct price of both the WTI and the Brent. But industries for which oil is a major cost are already benefitting from this fall in price, so will the entire economy.

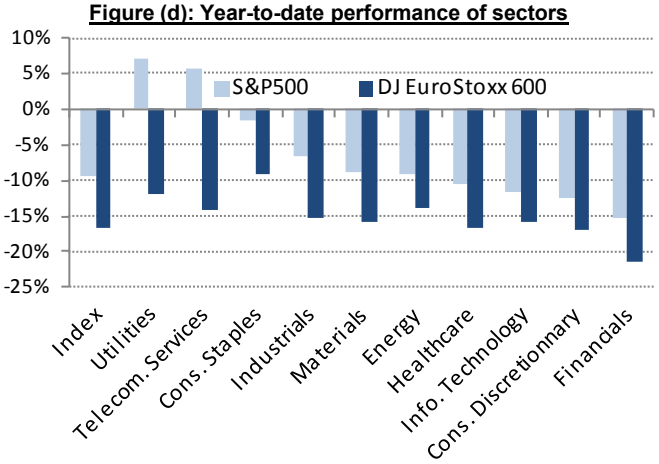
Equity markets were disconnected from fundamentals

Over the last couple of years, common valuation indicators have risen way above their historical averages (see Figures (b) and (c)). Despite warnings of this impending situation, investors kept feeding the markets and stocks kept rising until last summer (S&P500 peaked at 2,140 on the 20 May 2015, now priced 15% below at 1,829). Such indicators may have been reliable in a specific economic environment but do not work in another paradigm. The current situation forces us to forego classic indicators and look at different metrics in order to determine whether the level the markets have reached represents an opportunity to start investing or whether this correction is legitimate and may further erode investor returns. Figure (a) depicts a long-term valuation indicator. Instead of monitoring the classic price-to-earnings, Shiller built an inflation-adjusted indicator to get rid of short-term volatility of earnings. As of today, we see that the CAPE was above its 10-year average and has just crossed below it. This would imply that the S&P 500 is now correctly priced. Nevertheless, the indicator is far from its historical bottom.

Several of the listed elements increased the uncertainty on the strength of the European banking system. Year-to-date this sector has been the most impacted in equity markets.

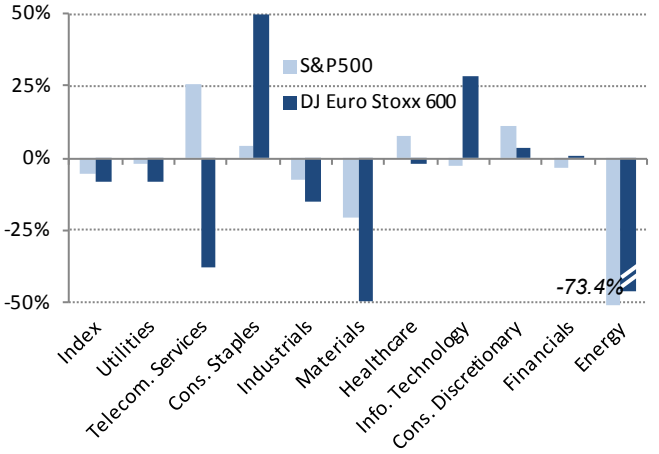
Sector Review

Figure (d): Year-to-date performance of sectors



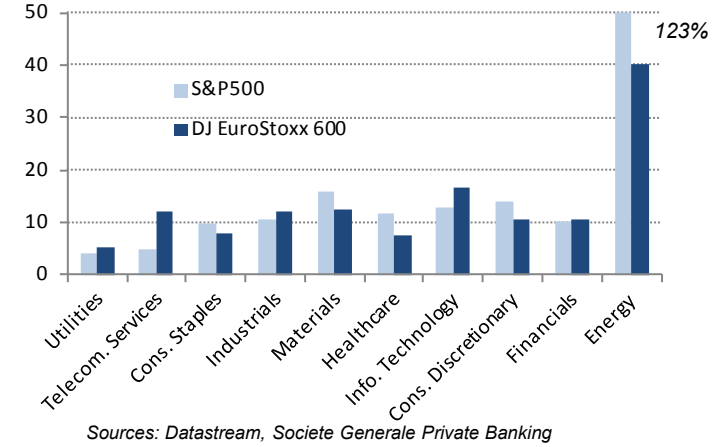
Sources: Datastream, Societe Generale Private Banking

Figure (e): Earnings growth YoY of sectors 4Q15



Sources: Datastream, Societe Generale Private Banking

Figure (f): Consensus of earnings estimates FY16 (%)



Sources: Datastream, Societe Generale Private Banking

The current earnings season may create future positive surprises

Results may appear satisfying at first sight but this isn't the case. Although 80% of the stocks in the S&P 500 surprised positively on sales figures and 50% on EPS figures, views on the earnings season* can be biased as equity analysts tend to diminish their estimates weeks before a company report. Hence, there is a greater probability of positive surprise. If we focus only on the figure rather than the spread vs. the estimates, it is hard to not be convinced that a correction in the stock markets was likely. Indeed, annual sales figures are down -5% and EPS is down -10%. However, if we exclude financials and oil companies, both figures appear in line with the consensus and show positive growth.

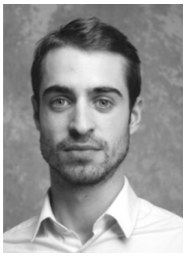
So, taking into account the economic environment, the quality of reported earnings* and the valuation levels, we can understand that the market is pricing a lower global growth prospect. However, this cannot be generalised to all sectors and all stocks.

We see several opportunities in our universe.

In the following sections, we will review each sector and propose investment solutions that are attractive in both the long and short term.

** Earnings season: when this document was edited, 381 companies of the S&P500 had reported – 193 companies of the DJ EuroStoxx 600 .*

Mathieu Balleron, CAIA
Equity Expert, Paris



Consumer Discretionary

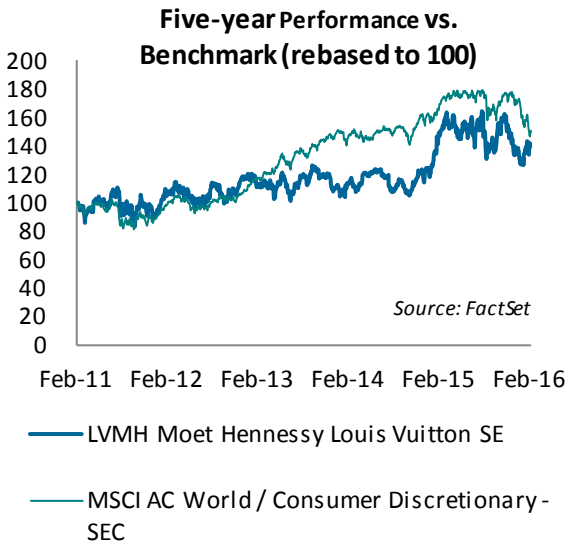
Very diverse sector with different drivers for the different industries but China, Latin America and Russia remain the common weak spots. As per automakers, the market is stabilizing while in Consumer Durables & Apparel, visibility is low despite repositioning of key brands. Online adoption incl. m-commerce should increase in retailing industry but FX would remain a headwind. For media business, focus remains on agencies retention of key clients and producing quality content but margin pressure prevails. Online business should gain traction in Hotel, Leisure and Restaurant businesses while organic growth remains under pressure. MSCI Europe Consumer Discretionary Index is trading at an FY16E P/E of 12.3x and EPS is expected to grow ~19% while MSCI World Consumer Discretionary Index is trading at an FY16E P/E is 14.1x and EPS is expected to grow ~16%.

Key players:

FactSet Code	Company	Cap (m€)	EV/Sales (e)		P/E (e)			Div. Yield	Return	
			FY1x	FY2x	FY1x	FY2x	10Yx	FY1%	1m	YTD
AMZN-US	*Amazon.com, Inc.*	214 235	1.71	1.4	105.9	58.8	193.9	0.0	-21.1	-25.0
DIS-US	*Walt Disney Comp.*	133 445	2.9	2.8	15.7	14.7	17.2	1.6	-20.6	-13.3
DAI-DE	*Daimler AG*	67 183	0.3	0.3	7.3	7.0	11.6	5.5	-17.8	-19.1
VOW-DE	*Volkswagen AG*	56 446	0.2	0.2	8.8	7.3	13.8	1.3	0.2	-16.6
GM-US	*General Motors Comp.*	38 403	0.2	0.2	5.0	4.8	11.9	5.3	-19.2	-18.5
WPP-GB	*WPP Plc*	24 038	1.9	1.8	15.5	14.1	16.5	3.1	-2.8	-8.4

Source: Factset

Stock selection:



LVMH (MC-FR) – BUY - SGPB Target Price: EUR 190.00

Current situation

LVMH is the most diversified global luxury group, both in soft and hard luxury. It is also present in luxury alcoholic drinks through Moët Hennessy (jv Diageo). LVMH reported 4Q15 sales of EUR 10.376 bn (+ 4.3% cc) and 2H15 EBIT of EUR 3.65 bn (19.3% margin + 40 bps), both ahead of consensus. Strong growth in Japan (+12%), Europe (+6%), the US (+6%) compensated a drop of 2% in Asia (cc). Excellent overall performance with 2015 EBIT of EUR 6.6 bn (+16%).

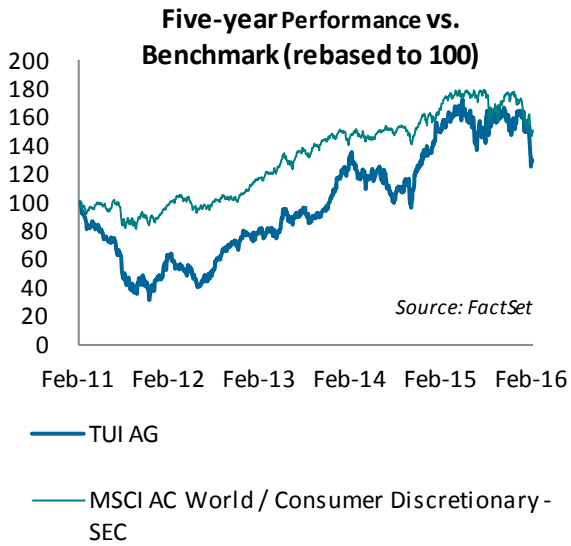
Positive catalysts

At 18.2x and 16.7x expected earnings for resp. FY16 and FY17 the stock is not cheap, but given the uncertainties around China and Louis Vuitton, the market may underestimate the earnings potential. Thanks to its solid balance sheet and free cash flow, LVMH has ample financial flexibility. Its diversified portfolio makes it less vulnerable to a downturn in any particular segment. Some of the smaller brands carry significant long-term potential. Louis Vuitton is currently being repositioned.

Risk to our investment case

The success of the repositioning exercise at Louis Vuitton is not a given, and a recovery in Asian sales could take longer than expected, which could severely impact the group's growth profile and profitability.

Consumer Discretionary

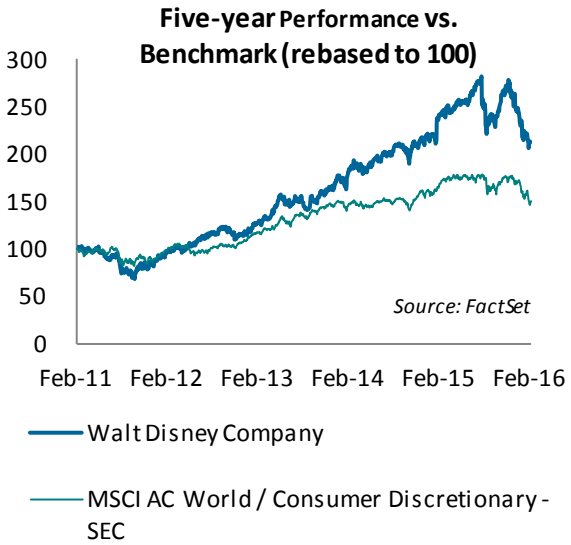


TUI AG (TUI1-DE) - BUY - SGPB Target Price: EUR 20.90

Current situation
TUI Travel's merger with its parent company TUI AG has made the group the world's largest leisure and tourism company. For 1Q16, the company delivered on market expectations and demonstrated the resilience of its business model.

Positive catalysts
The post-merger integration of TUI Travel and TUI AG is progressing well and should deliver full synergies (EUR 50 mn annually) by FY17. Winter and summer bookings are in line with the expectations despite significant drop (~40%) in Turkey bookings. Overall Sources market long haul bookings are up 10% in 1Q16 and the UK continues to perform better (bookings +3% for winter and +9% for summer). TUI is trading at an FY16E P/E of 12x vs. peers' average of ~20x and offers a dividend yield of 4.7% (FY16E).

Risk to our investment case
European macroeconomic weakening coupled with low airline tourist traffic can reduce top line growth. Intense competition from smaller players and new entrants could result in pricing pressure thus lower margins. Geopolitical risks could lead to weak consumer confidence and impact the sales growth.



The Walt Disney Co (DIS-US) - BUY - SGPB Target Price: USD 120.00

Current situation
Disney's globally recognised brand strength and diversified business model offers strong and sustainable growth visibility in earnings. The company reported strong 1Q16 results (FY ending September) with revenues growing by 14% YoY to USD 15.2 bn (3% ahead of consensus), operating income up 20% to USD 4.27 bn, net income growing by 32% to USD 2.88 bn (19% ahead of consensus). EPS grew 36% to USD 1.73, 18% ahead of consensus.

Positive catalysts
Stronger than expected footfalls in its to be launched in 2Q16 Shanghai Disneyland park and better than expected box office collections from its studios pipeline in FY16. Recent 1Q16 results showed that ESPN subscriber base had started to tick up in last couple of months. A continuation of this trend may lead to lessening of investor concerns around affiliate fees.

Risk to our investment case
A faster than expected decline in ESPN subscribers may increase fears of a decline in affiliate fees.

Consumer Staples

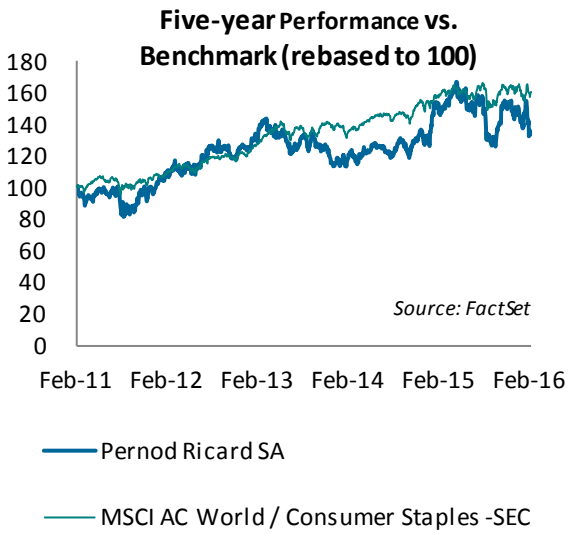
European Staples witnessed the greatest re-rating of any sector during 2015, and returned 18% overall (SXXP +6%). Most staple companies showed resilient organic sales growth, well appreciated in the context of negative investor sentiment. M & A (like the monster deal between AB Inbev and SAB Miller) contributed to strong returns. Companies withstood the EM crisis remarkably well. Expectations for 2016 are much more moderate as the sector has already re-rated tremendously. During the severe market correction, most stocks proved to be very resilient (cfr. Coca Cola, Nestlé, P&G, Unilever, L'Oréal etc). This has increased the relative valuation premium versus the rest of the market.

Key players:

FactSet Code	Company	Cap (m€)	EV/Sales (e)		P/E (e)			Div. Yield	Return	
			FY1x	FY2x	FY1x	FY2x	10Yx	FY1%	1m	YTD
NESN-CH	*Nestle S.A.*	213 060	2.8	2.7	22.3	21.0	16.1	3.1	0.1	-1.3
ABI-BE	*AB Inbev*	167 920	5.1	5.2	22.5	23.6	18.5	3.1	-1.4	-8.2
2914-JP	*Japan Tobacco Inc.*	63 597	3.9	3.7	18.9	17.3	18.4	2.9	2.3	1.4
CL-US	*Colgate-Palmolive*	52 876	4.2	4.1	23.8	21.8	23.6	2.4	1.8	-1.4
RI-FR	*Pernod Ricard SA*	25 236	3.8	3.6	18.1	17.1	19.6	2.0	-9.9	-9.2
CA-FR	*Carrefour SA*	17 182	0.3	0.3	14.4	13.3	24.8	3.2	-18.8	-12.3

Source: Factset

Stock selection:



Pernod Ricard (RI-FR) - BUY - SGPB Target Price: EUR 120.00

Current situation

1H organic growth in operating profit (2%) was in line with guidance (1-3%). In the US 1H sales grew 3%, partly closing the gap with market growth of 4%, driven by Jameson and improvement in Absolut. Management is confident in further improvement in the US.

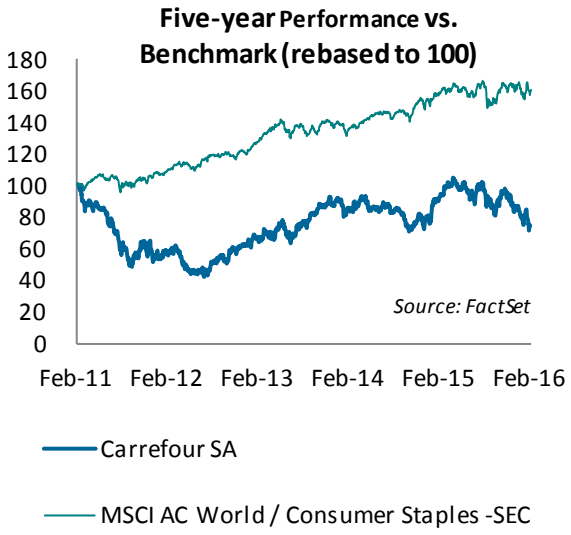
Positive catalysts

As Pernod Ricard is the leader in premium spirits, it should be a main beneficiary of the long-term premiumisation trend, which should enable it to further enrich the product mix, increase prices and enhance the already high margins. The stock is trading at 17.5x EPS for 16E.

Risk to our investment case

No forex tailwinds and high valuation vs 6-7% EPS growth. Lack of improvement in China, where management expects a mid- to high-single-digit fall in FY16 (penalised by whisky, which significantly underperforms cognac).

Consumer Staples

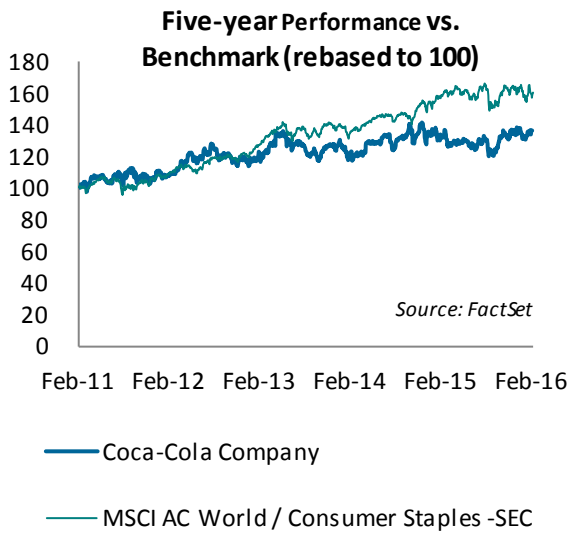


Carrefour SA (CA-FR) - BUY - SGPB Target Price: EUR 30.00

Current situation
Despite a tough operating environment, Carrefour posted in-line sales for 4Q15 and FY15 with stable performance in France and an improvement in Latin America (Brazil and Argentina). The company confirmed that FY15 recurring operating income will be in-line with consensus expectation of EUR 2.45 bn.

Positive catalysts
Focus on (1) enhancing customer experience (better offers at competitive prices), (2) the acceleration of the multi-channel roll-out and store remodelling, (3) IT rationalisation, (4) supply chain revamp in France and (5) evolution of its model in China should be value accretive. Agreements to cooperate on purchasing from different vendors with Cora/Supermarchés Match should bring better bargaining power and improve Carrefour's competitiveness.

Risk to our investment case
Low inflation in Europe and deterioration in consumer spending, particularly in France, could intensify the pressure on revenues and margins. Possible weakness in Latam and Asian currencies could directly impact sales. The weak situation in China remains a concern.



Coca-Cola Company (KO-US) - BUY - SGPB Target Price: USD 48.00

Current situation
4Q15 results (% change all YoY): unit case volume +3% (sparkling +2%, still +6%), revenues -8% (-1% organically on 6 fewer days), EBT +43% (currency neutral, adjusted -2%), reported EPS USD 0.28 (+65%), comparable EPS USD 0.38 (-14%)..

Positive catalysts
FY16 outlook: organic revenue growth of 4–5%, currency neutral income before taxes (structurally adjusted) to grow 6–8% (strong operating performance partially offset by higher interest expense), comparable currency neutral EPS growth of 4–6% incl. impact of 3 to 4 points of structural headwind (9 points currency headwind), share buyback USD 2.0–2.5 bn (dividend yield 3.2%). Improved marketing, refranchising and cost-savings underpin earnings growth.

Risk to our investment case
1Q16 expected currency headwind of 5 points on revenue and of 12 points on EBT. Decline of the CSD market.

Energy

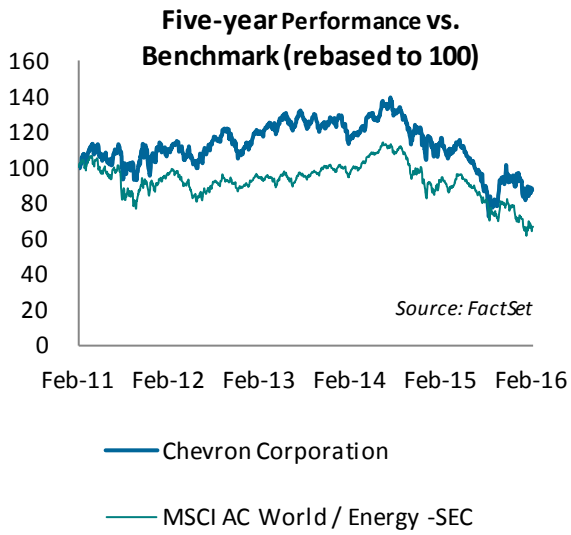
The drop in crude oil price is the main reason behind the sector weak performance. It has also been probably one of the main catalysts for the overall market weakness. Pure Exploration & Production companies (which are relying heavily on oil price) and Oil Services firms (which are relying on oil & gas companies Capex levels) are the one suffering the most in current environment, while Integrated oil & gas companies are more resilient thanks to their downstream operations. Downgrades in EPS expectations don't make the sector particularly cheap.

Key players:

FactSet Code	Company	Cap (m€)	EV/Sales (e)		P/E (e)			Div. Yield	Return	
			FY1x	FY2x	FY1x	FY2x	10Yx	FY1%	1m	YTD
XOM-US	*Exxon Mobil Corp.*	302 177	1.8	1.4	31.7	18.3	12.5	3.7	3.8	4.0
CVX-US	*Chevron Corporation*	144 271	1.6	1.2	51.2	17.1	12.2	5.1	-3.7	-5.0
RDSB-GB	*Royal Dutch Shell Plc*	132 816	0.9	0.7	19.9	11.6	16.2	8.2	-2.6	-0.2
857-HK	*PetroChina Co. Ltd.*	98 519	1.0	1.1	18.2	29.7	11.8	2.4	-17.9	-8.1
FP-FR	*Total SA*	90 384	1.1	0.9	15.1	10.5	12.5	6.0	-13.1	-6.4
SLB-US	*Schlumberger NV*	79 167	3.5	3.2	34.0	24.7	22.6	2.9	11.6	0.8

Source: Factset

Stock selection:



Chevron (CVX-US) - Buy - SGPB Target Price: USD 112.0

Current situation

Chevron's global asset base, and more especially its low royalty Permian acreage, is seen as attractive. The company has more leverage to oil prices than peers (upstream production roughly 2/3 oil). With major projects coming on line in 2015 (Gorgon LNG, Permian Basin ramp up) we notice an improvement in production growth in 4Q 2015.

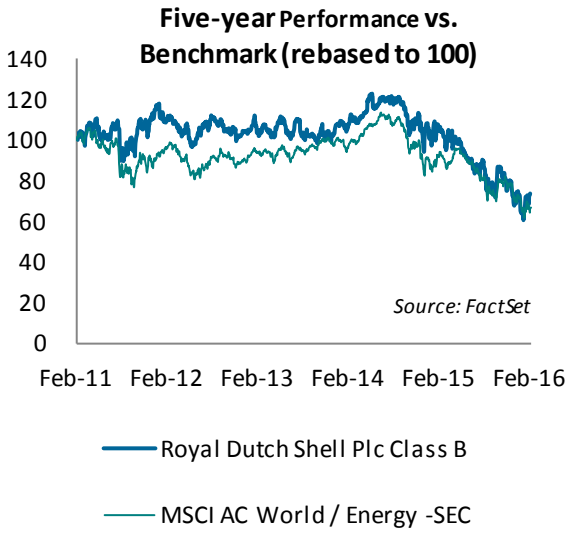
Positive catalysts

Growth in production and moderation in spending should allow the company to return to positive free cash flow (cash flow neutrality expected by 2017). This would in turn secure dividend payments. Given Chevron strong long term growth prospects for production and a solid balance sheet that should allow to weather a prolonged low oil price environment, we find value in the stock.

Risk to our investment case

With 66% of upstream production in FY15 being oil, further decline in crude oil price would have a material negative impact on earnings and the share price.

Energy



Royal Dutch Shell (RDSA-NL) – BUY – SGPB Target Price: EUR 31.6

Current situation

To cope with depleting reserves, Royal Dutch Shell has massively invested over the past years on new projects that should contribute to production's growth. The repositioning of the company, with divestitures having been made, is expected to bring sound cash flow. This is further exacerbated by management focus on Opex and Capex reduction.

Positive catalysts

We are positive on the ongoing BG's acquisition which should be cash flow enhancer. With P/E FY16e standing at 16.8x, a discount to sector peers at 19.0x, we believe this is not reflected into the valuation. Moreover, a 2016 dividend yield expected at 9.2%, which we view as secure in light of a strong balance sheet, is supportive to the share price.

Risk to our investment case

Lower oil price for longer would have a material impact on the company's free cash flow generation capacity. This would put at risk any re-rating potential for the share price.

Financials

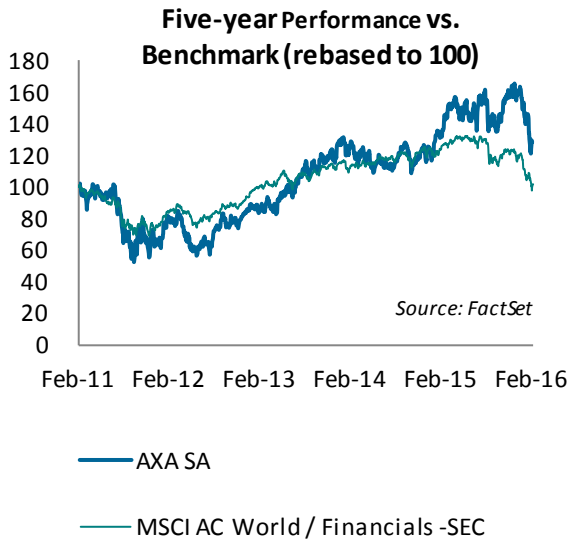
Concerns over exposure to the energy sector and slower global GDP growth, persistence of record-low interest rates in Europe and delay in the pace of rate hike in the US has resulted in a sharp selloff in financials stocks. However, real estate sector has outperformed due to recovery in real estate prices, lower refinancing costs and self-help initiatives. Clarity over capital requirements (both in the banking and insurance sectors in Europe), solid dividend yield (MSCI World Financials Index FY17E dividend yield of 4.3%) and low interest rate backdrop in Europe (especially for real estate sector) are key factors which would lead to a positive investor sentiment towards the sector.

Key players:

FactSet Code	Company	Cap (m€)	EV/Sales (e)		P/E (e)			Div. Yield	Return	
			FY1x	FY2x	FY1x	FY2x	10Yx	FY1%	1m	YTD
C-US	*Citigroup Inc.*	99 481	na	na	7.1	6.4	16.3	1.0	-29.4	-27.5
BNP-FR	*BNP Paribas SA*	50 535	na	na	6.9	6.4	9.7	6.3	-27.7	-22.2
CS-FR	*AXA SA*	48 470	0.4	0.4	8.7	8.2	12.4	5.6	-17.5	-20.1
INGA-NL	*ING Groep NV.*	39 959	na	na	9.3	8.7	11.4	7.0	-22.1	-17.0
UL-NL	*Unibail-Rodamco SE*	21 732	21.1	20.9	19.9	18.9	9.0	4.6	-8.5	-6.1
AGN-NL	*AEGON N.V.*	8 955	0.8	0.8	6.9	5.9	11.5	5.9	-17.4	-18.9

Source: Factset

Stock selection:



AXA (CS-FR) - BUY - SGPB Target Price: EUR 29.00

Current situation

AXA is seeing moderate business growth in its Life business driven by product mix improvement to higher margin and capital light products (Unit-linked and Protection & Health). Meanwhile, improving pricing trends in mature markets (mainly in France, the UK, & Ireland and Germany) is positive for its P&C business.

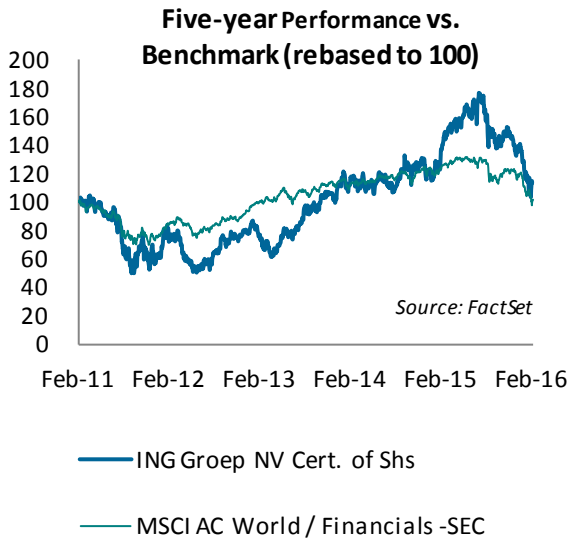
Positive catalysts

AXA continues to deliver well on the profitability front as evident from its industry-leading combined ratio and VNB margin. We expect margins to improve further in FY16 driven by the ongoing cost-cutting initiatives and increasing share of higher margin products in its business mix. AXA's high dividend seems sustainable, given the strong improvement in remitted free cash flow and availability of excess capital in AXA's key local units (France L&S, Germany P&C and US).

Risk to our investment case

An unexpected slowdown in AXA's key markets could adversely impact new business growth and the operating margin. Further, the company is exposed to currency risk and interest rate risk.

Financials

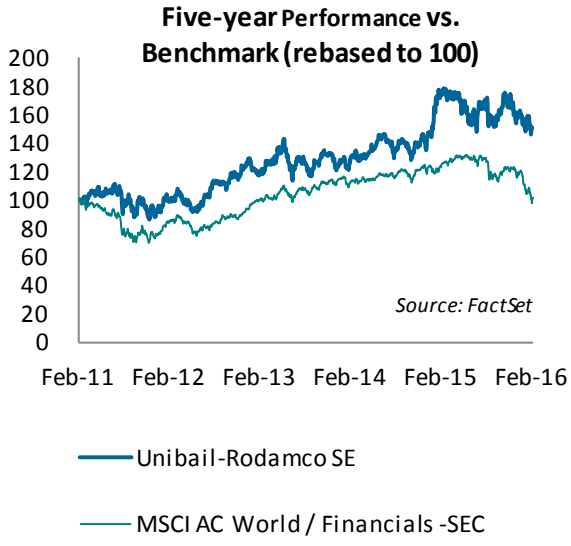


ING Groep (INGA-NL) – BUY - SGPB Target Price: EUR 16.70

Current situation
ING Groep's capitalisation is above the regulatory requirement and it reaffirmed that it aims to pay a progressive dividend. In FY15, ING continued to perform well on key parameters viz. core loan book growth, net interest margin, cost savings and asset quality.

Positive catalysts
Clarity regarding capital requirement and pro-forma group CET I ratio of 13.4% (considering full divestment of NN Group) suggests that ING is well positioned to reward its shareholders with an attractive dividend (FY16-17E average dividend yield of ~7.2%). Further, steady expansion in net interest margin, healthy loan book growth and lower credit costs would drive net income CAGR of 6.6% during FY15-18E.

Risk to our investment case
ING has an exposure of EUR 29 bn to the Oil & Gas industry and EUR 5.8 bn to Russia as of 4Q15. Lower-than-expected economic growth in ING's key markets viz. Netherlands, Belgium, Germany and Luxembourg. Adverse regulatory requirements regarding capitalisation.



Unibail Rodamco (UL-NL) – ADD - Consensus Target Price: EUR 247.59

Current situation
Unibail is targeting to improve its portfolio quality through the sale of non-core assets and acquisitions in prime locations. It has reported strong FY15 earnings. In 2015, the company signed 196 leases with international premium retailers for its shopping centres, up 15% from 2014.

Positive catalysts
The company has a strong project development pipeline of EUR 7.4 bn. It has a healthy balance sheet with a loan-to-value of 35% and interest coverage ratio of 4.6x. Cost of debt is at a historical low of 2.2%. At an FY16E NAV/share of ~EUR 193, representing P/NAV of ~1.1x, it is trading below its five-year average of 1.3x.

Risk to our investment case
Slow macroeconomic recovery in Europe may impact consumer demand (reduced footfall in malls), thereby affecting the ability of tenants/retailers to pay rent (negotiating on lower leasing rates) and discouraging addition in new leasing contracts.

Healthcare

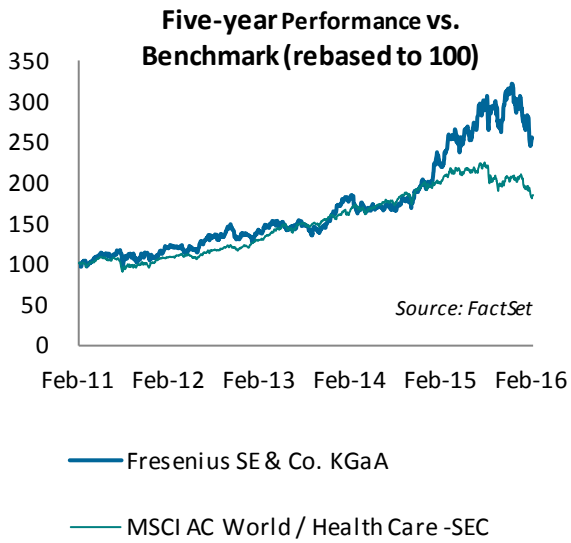
The overriding sector worry is the crackdown on US drug pricing, exacerbated by the introduction of biosimilars (which may lead to price pressure on biologics). It's ironic that while companies are still heavily involved in M&A (Teva/Actavis generics, Pfizer/Allergan, Shire/Baxalta, Mylan/Meda), at the same time some investors are pushing for more break-ups. Pfizer (USD 72 bn in sales incl. Allergan) has already announced a break-up, but GSK is "under siege". In the end, it is all about innovation delivering unique products for unmet medical needs (HCV, cancer), resulting in sustainable growth. That is why the biotech sector is fundamentally still very healthy despite its dismal stock performance. Performance will be very stock specific, though (depending on pipeline and commercial success). The most defensive stocks (J&J, GSK, Perrigo, Pfizer, FMC) delivered the best ytd performance. The sector offers a sustainable high dividend yield.

Key players:

FactSet Code	Company	Cap (m€)	EV/Sales (e)		P/E (e)			Div. Yield	Return	
			FY1x	FY2x	FY1x	FY2x	10Yx	FY1%	1m	YTD
ROG-CH	*Roche Holding Ltd.*	193 376	4.4	4.1	16.8	15.3	19.9	3.5	-6.2	-9.5
PFE-US	*Pfizer Inc.*	162 640	3.7	3.5	12.9	11.7	19.0	4.1	-11.8	-9.0
NOVN-CH	*Novartis AG*	155 321	4.2	4.0	14.8	13.3	16.9	3.9	-17.1	-16.8
AMGN-US	*Amgen Inc.*	97 913	5.0	4.7	13.3	11.9	18.2	2.8	-4.5	-10.8
SAN-FR	*Sanofi*	90 783	2.5	2.4	12.5	12.3	20.9	4.4	-13.5	-11.2
BAYN-DE	*Bayer AG*	79 743	2.1	1.9	13.8	12.5	24.5	2.6	-19.4	-16.7

Source: Factset

Stock selection:



Fresenius Medical Care AG & Co (FME-DE) - BUY – SGPB Target Price: EUR 90.00

Current situation

After several quarters of margin compression, EBIT (excluding one-time item) expanded by 30 bps to 14.9% in 3Q15 due to FME's ongoing cost-saving program and care coordination services. In the US, Medicare is gradually moving towards value-based bundled payment models. We expect FME to benefit from this development, given its presence across the dialysis value chain and its experience of treating the largest patient base.

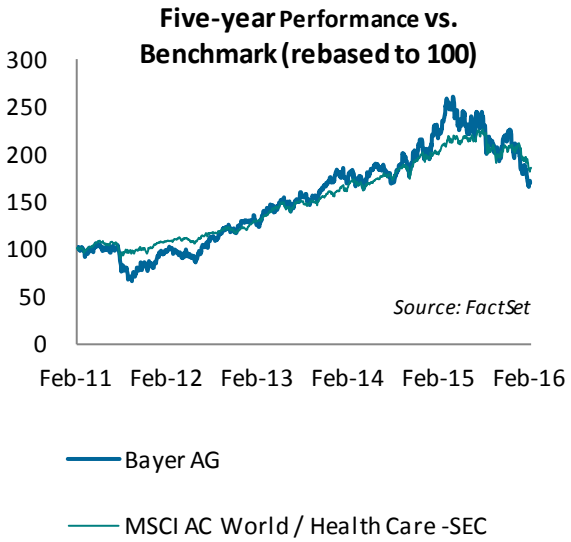
Positive catalysts

We expect higher utilisation of the cheaper drug Mircera (to treat anaemia in dialysis patients) as compared to the use of Epogen. This should aid margin and earnings growth. Ongoing cost savings and strong expected growth in high-margin international businesses (mainly EMEA & APAC) should support earnings growth.

Risk to our investment case

Given the political focus on the escalating healthcare spends in the US, there could be reimbursement cuts after the presidential election. In view of very high net income expectation (15-20% YoY) for FY16, any miss in quarterly earnings may drag the share price down drastically.

Healthcare

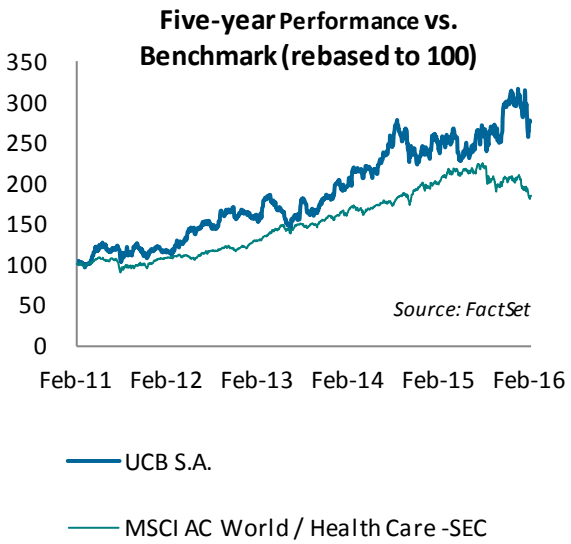


Bayer (BAYN-DE) - BUY - SGPB Target Price: EUR 151.0

Current situation
Despite a subdued short term outlook Bayer Crop Science offers good profitable long-term growth. Bayer OTC occupies a strong global nr 2 position and generates solid, sustainable cash flow. Sales of Prescription Pharma should increase by ~7% a year driven by 5 new products.

Positive catalysts
At a P/E of 12.6x 2016E EPS and with an expected dividend yield of 2.9% (payout 36%) we consider this undervalued, defensive stock as a compelling buying opportunity. Bayer has a strong balance sheet. A reassuring outlook (results Feb 25) and a divestment of Covestro could trigger a re-rating.

Risk to our investment case
A downturn in Covestro would make it harder for Bayer to divest its stake and would lead to EPS downgrades. Crop Science is suffering from a global downturn in agro. The pipeline needs to deliver (although only limited new data expected in 2016). Renewed weakness in Xarelto new prescription due to competition would be quite negative.



UCB (UCB-BE) - ADD - Consensus Target Price: EUR 79.69

Current situation
UCB is a global specialty pharma company with innovative therapies for patients with severe diseases (arthritis or RA, Crohn's, psoriasis, epilepsy, osteoporosis). It has 3 drivers: Cimzia for RA (peak sales >EUR 1.5 bn), Vimpat for epilepsy (> EUR 1.2 bn) and Neupro (~EUR 400 mn) for Parkinson's/restless legs with patents >2020. At the 3Q update UCB raised 2015 sales guidance to EUR 3.75 bn and Rebitda to ~EUR 800 mn (consensus EPS EUR 2.04).

Positive catalysts
Sales growth and margin expansion result in high double digit EPS growth. UCB aims for a 30% REBITDA margin in 2018. UCB confirmed its leadership in epilepsy with the approval of Briviact. The real catalyst will be the read-out of phase 3 data for romosozumab (osteoporosis, a billion dollar opportunity, 50/50 with Amgen), expected 1Q16.

Risk to our investment case
Failure in romosozumab is by far the biggest risk. UCB's Cimzia acts according to the same mode of action as Remicade, for which biosimilars will be approved in the US (for all indications) and the EU. This might increase price pressure.

Industrials

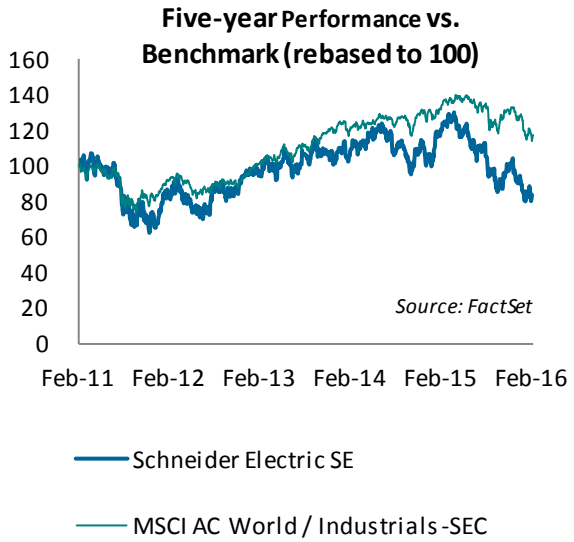
Similar to global indicators released since the beginning of the year, several industrial ones also impacted specifically the sector. In the US, industrial production slowed for its second consecutive months in January (by -0.4%, after -0.9%), factory and durable goods orders are both down in February by -2.9% and -5.0% respectively. The Chinese slowdown and economic switch from production to services directly impacts industrial firms. Electrical Equipment demand in Western Europe may accelerate in 2016 backed by continued recovery in economies like Spain and Italy. It is already witnessing strong OEM demand and the overall market is stabilising. Chinese market should stabilise as we expect destocking to end by 1Q15. Transportation remains unattractive due to low production level, but airlines directly benefits from low oil price and this impacts positively the aerospace sector.

Key players:

FactSet Code	Company	Cap (m€)	EV/Sales (e)		P/E (e)			Div. Yield	Return	
			FY1x	FY2x	FY1x	FY2x	10Yx	FY1%	1m	YTD
GE-US	*General Electric Co.*	256 347	2.4	2.3	18.8	16.0	16.4	3.4	-6.7	-9.3
MMM-US	*3M Company*	83 585	3.4	3.4	18.7	17.3	16.9	2.9	-1.1	2.2
SIE-DE	*Siemens AG*	72 445	1.2	1.1	12.3	11.1	16.6	4.4	-11.4	-8.5
AIR-FR	*Airbus Group SE*	41 899	0.6	0.5	15.7	15.3	40.4	2.6	-16.0	-13.9
DG-FR	*VINCI SA*	33 022	1.3	1.2	15.1	14.0	12.7	3.3	0.8	2.1
SU-FR	*Schneider Electric SE*	27 862	1.3	1.3	13.7	12.7	16.1	4.1	-14.8	-9.4

Source: Factset

Stock selection:



Schneider Electric SA (SU-FR) - BUY - SGPB Target Price: EUR 73.00

Current situation

Schneider faced challenging times in 2015 due to the slowdown in China (~15% of sales) and the decline in oil and gas prices. The expected stabilisation of China should provide support in 2016. Demand from the construction market in the US remains strong. In the short term, expected revenue growth in Western Europe, APAC (ex-China) and MEA due to higher infrastructure spending should compensate for the negative impact of weakening oil and gas investments.

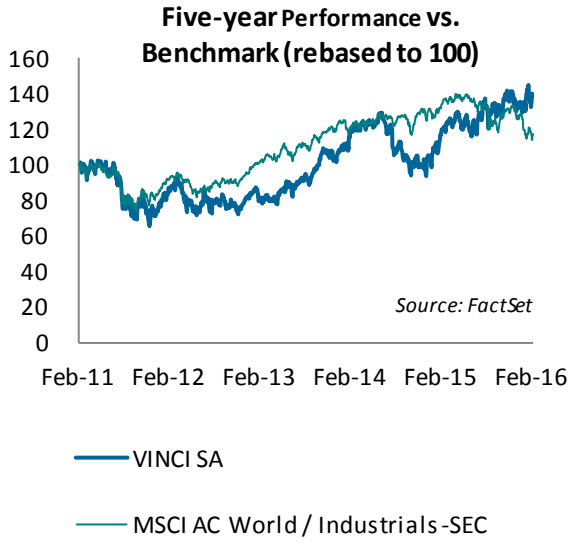
Positive catalysts

We expect flat to positive organic growth guidance from management for 2016. We believe ongoing industrial destocking should end by 1Q16 and restocking to start by 2Q16. Accordingly, as an early-cycle player, Schneider's earnings should get re-rated faster in 2016. Synergies with Invensys are expected to further enhance automation capabilities and increase its cross-selling opportunities.

Risk to our investment case

Western Europe is witnessing stabilisation, and any economic slowdown in the European region may dent the company's growth. Revenues from China may deteriorate in 2016 and industrial slowdown may prolong weakness in this economy.

Industrials

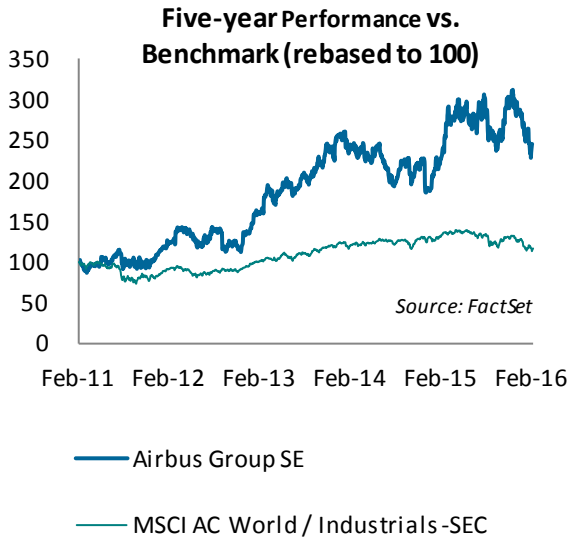


Vinci SA (DG-FR) - BUY – SGPB Target Price : EUR 65.20

Current situation
Traffic growth at toll-roads and passenger traffic growth at airports have helped Vinci post strong FY15 results. Operating margins rose 60 bps YoY and free cash flow surged by 36%.

Positive catalysts
Company's strategy to increase its exposure to the high-growth and high-margin Concessions business is positive. In our view, this strategy should help to improve margins (consensus expects FY16E EBITDA margin of 15.5%, up 80 bps YoY) and generate healthy cash flows (FY16E FCF of EUR 2.25 bn), which should help it to maintain its FY16E dividend yield of 3.2%.

Risk to our investment case
Prolonged slow down in French economy may impact the company's Contracting segment. Weak traffic growth in Europe could weigh on the company's Concessions business.



Airbus Group NV (AIR-FR) - BUY - SGPB Target Price: EUR 69.00

Current situation
Airbus's sensitivity to the USD and the turmoil of Boeing, its main competitor, have driven down the stock along with equity markets. The valuation of the stock did not reflect anymore its long term growth propsect and the attractive guidance of the management.

Positive catalysts
Long-term outlook of air traffic implies a doubling of the global fleet by 2030. More specifically to the group, R&D expenses are lower since it has entered the production phase of its cycle, the mix of programs is favorable (A380 reached its breakeven in FY15 and finally gained new orders early this year, production of A320neo and A350XWB to accelerate through the period 2016/2018).

Risk to our investment case
A reversal of EURUSD exchange rate above 1.20 for a long period would hurt company's financials. China's hard landing and low oil price, if confirmed over a long period, could lead to significant cancellations and less new orders which will impact the firm's cash flows.

Information Technology

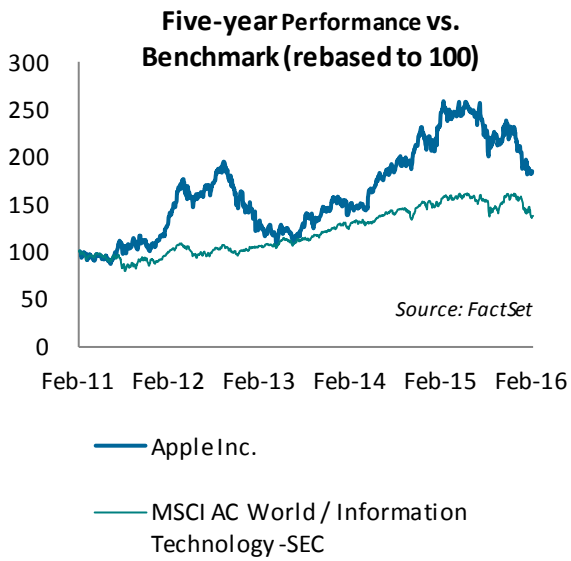
High valuation, strong USD and earnings which were slightly below the lofty expectations resulted in weakness across the technology sector. The pain was particularly seen in segments which are user growth or unit growth dependent. After falling 5.8% in 2016, Gartner expects IT spending to increase 0.6% in 2016, which we believe would be 2H loaded. Within the sector we favour secular growth stories that are exposed to themes like Internet of Things, Cloud Computing and Big Data. After the correction stocks are now at attractive levels and offer an attractive entry point for the long term.

Key players:

FactSet Code	Company	Cap (m€)	EV/Sales (e)		P/E (e)			Div. Yield	Return	
			FY1x	FY2x	FY1x	FY2x	10Yx	FY1%	1m	YTD
AAPL-US	*Apple Inc.*	467 616	1.6	1.5	10.3	9.4	22.7	2.3	-16.3	-10.7
GOOGL-US	*Alphabet Inc. Class A*	435 827	5.7	4.6	20.5	17.6	35.6	0.0	-4.5	-9.1
MSFT-US	*Microsoft Corporation*	358 401	3.6	3.3	18.3	16.4	17.0	2.8	-4.4	-9.0
FB-US	*Facebook, Inc. Class A*	260 592	10.4	7.5	32.6	24.7	726.3	0.0	-1.9	-2.5
ORCL-US	*Oracle Corporation*	133 978	3.7	3.5	13.6	12.5	19.4	1.6	-4.7	-2.7
CKP-US	*Checkpoint Systems*	242	na	na	19.4	14.9	30.1	0.0	4.9	2.2

Source: Factset

Stock selection:



Apple Inc (AAPL-US) - BUY - SGPB Target Price: USD 160.00

Current situation

The company reported weak 1Q16 results (FY ending September) with flat iPhone unit sales and negative Mac and iPad unit sales. Apple also guided for below consensus 2Q16 as it believes that the macro environment is tough (particularly in Greater China).

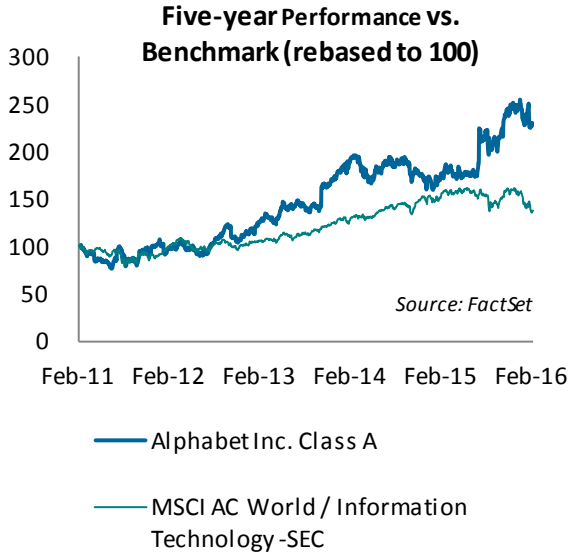
Positive catalysts

According to media reports Apple is planning to launch a cheaper version called the iPhone 5Se in March (prices at <USD 500). The company has been reporting growth in the Android switch rate and we believe the cheaper phone should help to further gain market share in emerging markets. While this might brings down the ASP over the next couple of quarters, the gross margins should remain stable as the management is focused on preserving margins. In addition, the expectation of iPhone 7 in 2H16 also makes us optimistic on the stock.

Risk to our investment case

China is Apples second biggest market, any slowdown in the Chinese consumer demand could significantly impact Apple's sales growth.

Information Technology

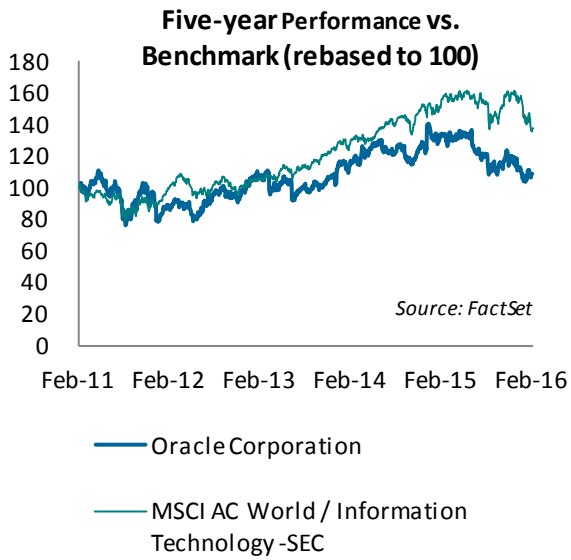


Alphabet Inc (GOOGL-US) - Buy - SGPB Target Price: USD 850.00

Current situation
4Q15 net revenues (excluding traffic acquisition cost) rose 19.1% YoY to USD 17.1 bn and were above consensus at USD 16.8 bn. Overall advertising revenues grew 17.0% to USD 19.1 bn on the back of a 20.2% increase in core site revenues. Paid click (volumes) grew 31%, while cost-per-click (pricing) fell 13%. The company reported revenues from Other Bets (non Google businesses) at USD 151 mn, up 42.5%.

Positive catalysts
The core search business is showing signs of growth with paid clicks (volumes) reporting the highest growth in the last one year. Given the efforts to improve user engagement in both desktop and mobile, we expect the trend to continue.

Risk to our investment case
Google might not be able to maintain its market share in online advertising (~66% in the US) given the rise of players such as Facebook and Microsoft's Bing.



Oracle Corp (ORCL-US) - Buy - SGPB Target Price: USD 49.00

Current situation
Oracle's cloud business displays among the best growth rates in the industry (2Q16 SaaS/PaaS bookings growth of 75% YoY). We believe Oracle's ability to leverage its offering of hardware, applications, middleware, and database/ analytics into a leading hybrid on premise/ cloud service should start to bear fruit in the group's overall growth trend in the near-term.

Positive catalysts
Sustained momentum in Oracle's cloud transition will be a key catalyst for the stock. 2Q16 cloud revenues (5% of 2Q16 revenues) grew 39%. The management has guided for segment's 3Q/4Q16 revenues to grow at 51% and 57% at cc, respectively. Cloud gross margins were guided to increase from 43% in 2Q16 to 55–60% in 4Q16 and 80% by FY18, which is a positive.

Risk to our investment case
Intense competition in specific segments (like SaaS/PaaS, virtualization) from companies like SAP, Salesforce and Workday, Global enterprise IT spending cuts and a faster-than-expected decline in licensing revenues due to the cloud transition.

Materials

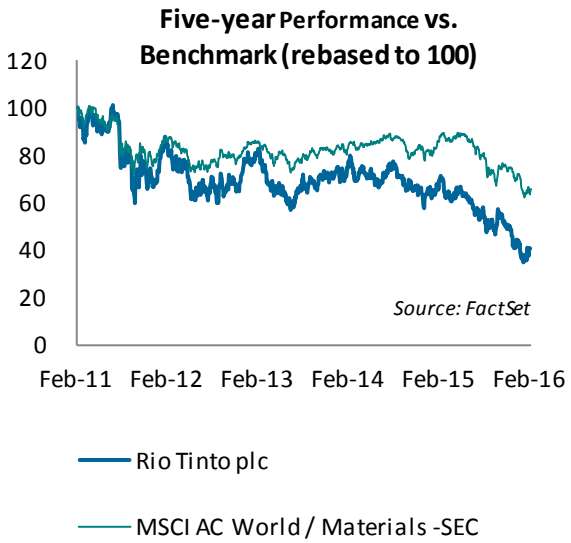
Self-help (cost cutting, improving the product mix) & M&A (agro, gases) will remain key drivers for chemical stocks, however, subdued volume outlook should persist. In Metals & Mining, continued weak demand in 2016 will likely trigger production cuts; we expect more capacity cuts at the higher end of the global cost curves. We have a preference for companies with low cost operations and where cash flows are secured even at spot prices. In construction materials, we expect demand to improve in developed markets driven by pick up in new construction activity amid low interest rate environment globally. However, companies with significant exposure to EMs should underperform their global peers.

Key players:

FactSet Code	Company	Cap (m€)	EV/Sales (e)		P/E (e)			Div. Yield	Return	
			FY1x	FY2x	FY1x	FY2x	10Yx	FY1%	1m	YTD
RIO-GB	*Rio Tinto plc*	43 154	2.1	1.9	20.6	14.6	15.1	6.2	-17.5	-6.5
AI-FR	*Air Liquide SA*	33 093	2.3	2.1	18.5	17.3	19.1	3.1	-19.3	-6.9
LHN-CH	*LafargeHolcim Ltd.*	20 377	1.3	1.3	21.5	15.3	20.3	4.1	-32.5	-26.5
GLEN-GB	*Glencore plc*	18 886	0.4	0.3	18.1	27.1	25.3	4.0	8.7	11.8
MT-NL	*ArcelorMittal SA*	5 406	0.3	0.3	na	23.3	88.5	1.4	-33.4	-22.6
AKE-FR	*Arkema SA*	3 775	0.7	0.7	11.9	10.2	24.3	3.7	-20.7	-21.5

Source: Factset

Stock selection:



Rio Tinto Plc (RIO-GB) – Add - Consensus Target Price: GBp 2,142.00

Current situation

The company's earnings are closely linked to the pricing environment of iron ore (down ~30% in last one year), its core commodity. Due to severity of the commodity prices, the management replaced its progressive dividend policy with a new flexible policy, with total shareholders returns being 40-60% of underlying earnings through the cycle.

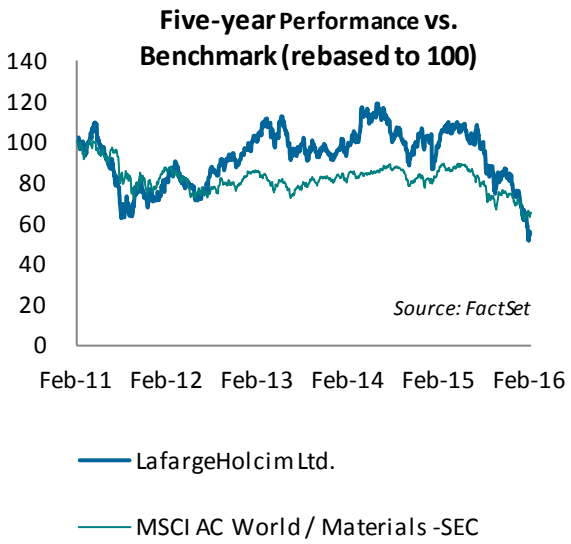
Positive catalysts

We expect gradual recovery in iron ore prices in coming quarters, helped by supply discipline from the Big 4 and high-cost capacity curtailment in China. That said, RIO appears well positioned to capitalise on any rise in iron ore prices given its industry-leading cost structure. The management targets to lower its cost base further (cash cost of USD 14.9/t as of FY15) to protect its margins in the current environment.

Risk to our investment case

Rio's exposure to iron ore and aluminium is relatively high and any further weakness in prices should weigh on the share price performance. Meanwhile, unexpected slowdown in demand from Chinese steel industry would be negative for the iron ore industry

Materials

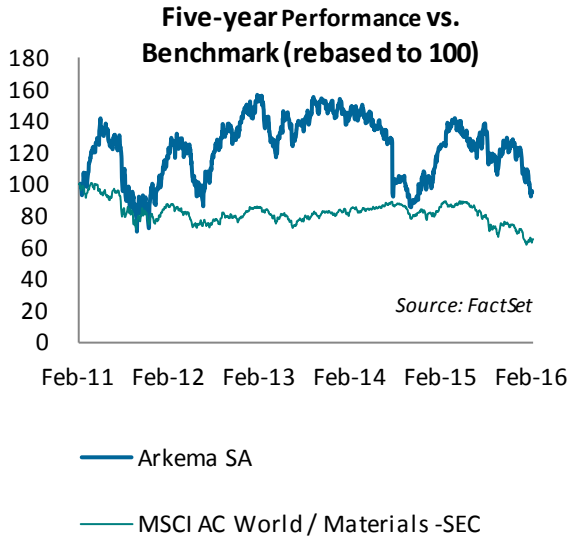


LafargeHolcim Ltd (LHN-CH) - BUY – SGPB Target Price: CHF 70.00

Current situation
Company is facing sluggish volumes in cement demand in the emerging markets which weakened its earnings momentum and led to underperformance in its share price compared to the MSCI Materials Index.

Positive catalysts
LHN's increased focus on cash generation, reduced capital expenditure, favorable capital allocation policy and merger synergies would enable significant shareholder returns. This should not only lead to a increased dividend yield but also lead to higher return on assets which should lead to multiple rerating.

Risk to our investment case
Further slowdown of demand in the largest markets, especially emerging markets, would curtail further multiple re-rating. A rise in energy costs (mainly fuel) and FX headwinds could significantly hurt revenue and profitability.



Arkema (AKE-FR) – ADD – Consensus Target Price: EUR 72.48

Current situation
2015 9 month results were better than anticipated due to a solid ramp up of most new projects. Management claims it remains competitive in China. The Bostik acquisition (now global nr 3 in adhesives) delivered its first synergies. Management is comfortable in achieving ≥EUR 205 mn. The balance sheet is strong (43% gearing). Cautious for 4Q15 (destocking, price volatility), yet increased EBITDA 2015 guidance to EUR 1.04 bn.

Positive catalysts
At a P/E of 10.3x 2016E, an EV/EBITDA of 5.0x 2016E and with a dividend yield of 3.7% (44% payout) Arkema is undervalued assuming double digit EPS growth in 2015E/18E, which should be the catalyst. 2017 EBITDA objective reiterated at EUR 1.3 bn (x2 vs 2014), driven by Bostik, organic growth and a better operating environment.

Risk to our investment case
Investors should take into account the high cyclicality of the business (high beta stock). Some segments (acrylic acids, fluorogases, risk in polyamide) are plagued by overcapacity. Consensus estimates could be too high.

Telecom. Services

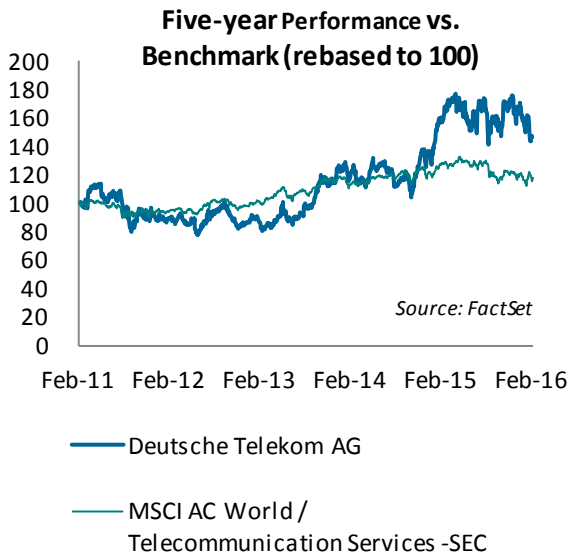
The European Telecom sector is witnessing return of pricing power, driven by converged offerings, mobile data monetization and M&A, that is largely being supported by regulatory authorities. Consolidation and operational improvements still provide scope for cost cutting and margin expansion. However, currency volatility is impacting the performance of emerging markets exposed companies. With visibility on cash flows and high dividend yield, the telecom companies should provide resilient performance.

Key players:

FactSet Code	Company	Cap (m€)	EV/Sales (e)		P/E (e)			Div. Yield	Return	
			FY1x	FY2x	FY1x	FY2x	10Yx	FY1%	1m	YTD
VZ-US	*Verizon Com.*	183 138	2.3	2.2	12.6	12.3	32.8	4.6	13.3	8.4
VOD-GB	*Vodafone Group PLC*	72 112	2.1	2.1	42.5	35.2	36.9	5.5	-5.0	-5.2
DTE-DE	*Deutsche Telekom AG*	67 533	1.7	1.7	19.6	16.8	49.3	3.7	-11.6	-12.2
ORA-FR	*Orange SA*	40 686	1.6	1.6	16.2	15.1	20.4	4.0	-5.4	-0.8
TEL-NO	*Telenor ASA*	18 974	1.8	1.7	11.9	11.0	20.9	6.5	-17.5	-17.9
ILD-FR	*Iliad SA*	12 817	3.2	3.0	36.1	29.4	31.3	0.2	8.9	-0.7

Source: Factset

Stock selection:



Deutsche Telekom AG (DTE-DE) - ADD - Consensus Target Price: EUR 17.26

Current situation

DT's North American operations remain its primary growth driver, contributing 42.2% to 3Q15 revenue, with T-Mobile US (TMUS) leading customer additions with ~61.2 mn subscribers, recently overtaking Sprint to become the third-largest player in the US. A strong USD has further aided TMUS growth with 9M15 net revenue/EBITDA growing 34.7%/55.7% YoY (in EUR) vs. ~11%/28% growth in local currency.

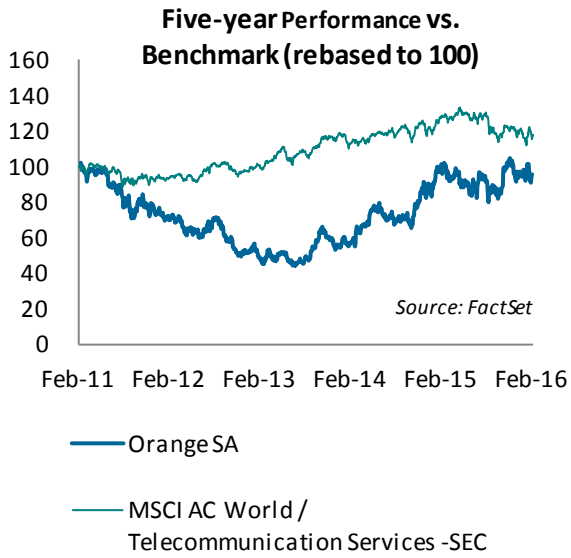
Positive catalysts

TMUS' FCF is likely to increase in the coming years as 1) a growing subscriber base drives operating leverage and 2) working capital requirement eases with moderation in account receivables relating to equipment instalment plan (EIP). Consensus expects FCF to increase from USD 316 mn in FY15E to USD 1.96 bn/3.17 bn in FY16E/17E. Given TMUS' strong performance, DT also has the option of getting a good exit multiple on its sale to another US telecom player.

Risk to our investment case

Any increase in competition in the US, driven by Sprint, may moderate TMUS' growth profile. Increased competition in Germany, driven by Vodafone, may impact pricing recovery.

Telecom. Services



Orange SA (ORA-FR) - ADD – Consensus Target Price: EUR 17.78

Current situation

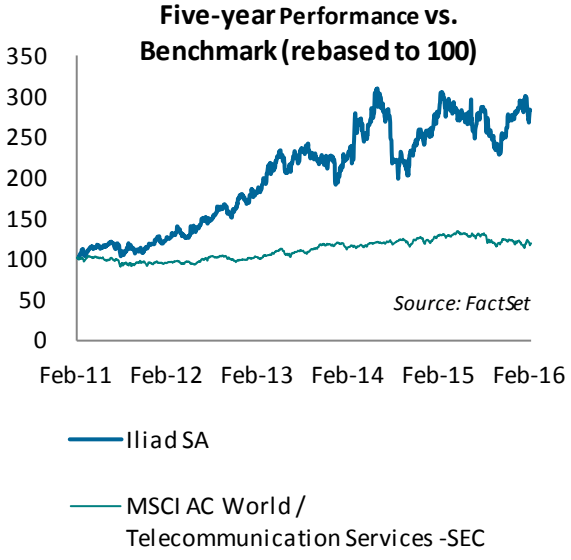
We are positive on Orange as it shows continued improvement in pricing and customer addition in its largest market (France), driven by its own initiatives as well as stabilising competitive intensity. Pricing power has returned in the sector—Orange increased its quad-play tariff in July after Numericable-SFR hiked prices in April, 2015. Orange is also benefitting from the loss of the latter's customers (owing to Numericable's focus on increasing its EBITDA). In 3Q15, blended mobile ARPU increased 0.4% QoQ, while mobile customers increased 2.6% QoQ.

Positive catalysts

The company's growth prospects and margins are likely to improve with its investments of EUR 15 bn over 2015-18 in fibre-to-the-home (FTTH) and mobile network, along with group-level cost-cutting measures (EUR 3 bn of gross saving during 2015-18). Improving pricing trends in broadband are likely to drive the above growth.

Risk to our investment case

Any failure of Orange-Bouygues telecom deal may negatively impact the company's price performance in the near term.



Iliad SA (ILD-FR) – ADD – Consensus target Price: EUR 240.65

Current situation

Iliad continues to execute strongly on its strategy of increasing its market share (9M15 mobile: 16% and broadband: ~23%) in the French telecommunication market. The company aims to achieve 25% market share each in the mobile and broadband segments over the long term. While the company continues to lead in net subscriber additions in the mobile segment, it is ramping up its infrastructure (4G and fibre-to-the-home [FTTH]) to ensure acceleration in its broadband net subscriber additions, where it currently lags behind Orange and Numericable-Sfr.

Positive catalysts

An Orange-Bouygues deal may provide Iliad with additional spectrum, aiding the company to expand its own network, as its network sharing agreement with Orange ends in 2018.

Risk to our investment case

A higher than expected capex over the next few years may lead to FCF deterioration and de-rating of the stocks multiples.

Utilities

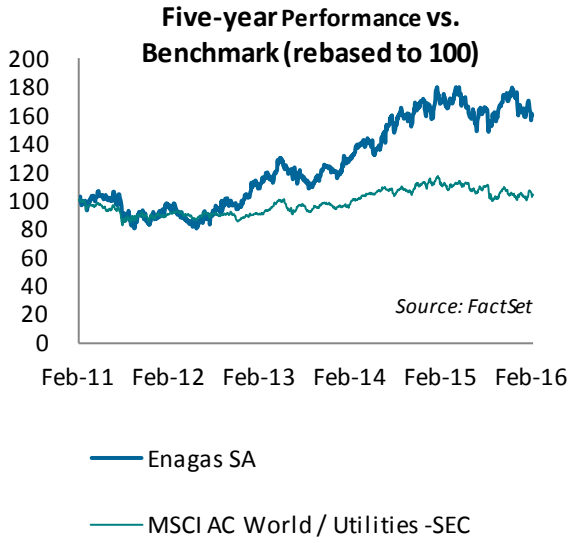
European electricity prices have been on a declining trend for more than a year due to China's coal glut, a sharp rise in LNG supply and oversupply in the European power markets. This has resulted in compression of the dark spreads as well as spark spreads while the stocks with commodity related exposure have been severely de-rated. We, thus have a preference for stocks which have limited commodity exposure or those which have largely regulated earnings. Within the integrated utilities space which have commodity exposure, we like stocks which are attractively valued post-correction and offers a good entry point. In US, we have a preference for regulated growth stories. At a 2016E P/E of 14.5x, the sector is trading largely in-line to MSCI World index P/E of 14.7x..

Key players:

FactSet Code	Company	Cap (m€)	EV/Sales (e)		P/E (e)			Div. Yield	Return	
			FY1x	FY2x	FY1x	FY2x	10Yx	FY1%	1m	YTD
ENEL-IT	*Enel S.p.A.*	34 397	1.0	1.0	11.6	12.0	18.7	4.4	-10.3	-6.0
ENGI-FR	*ENGIE SA*	33 510	0.9	0.9	12.6	11.7	15.3	7.2	-14.3	-15.7
LHN-CH	*LafargeHolcim Ltd.*	20 377	1.3	1.3	21.5	15.3	20.3	4.1	-32.5	-26.5
EOAN-DE	*E.ON SE*	18 329	0.2	0.2	11.6	12.5	14.5	5.6	5.1	2.6
VIE-FR	*Veolia Environnement*	11 412	0.8	0.8	23.1	20.0	27.6	3.5	-3.2	-5.0
ENG-ES	*Enagas SA*	6 085	8.5	8.6	14.7	14.4	14.6	5.5	-5.9	-2.0

Source: Factset

Stock selection:



Enagas SA (ENG-ES) - Buy - SGPB Target Price: EUR 31.00

Current situation

Enagas enjoys a six-year period where allowed regulated returns would be calculated on the basis of backward-looking nominal bond yields. As a result, it is well-positioned to benefit in an environment of declining sovereign bond yields as it would have a growing positive spread vs. cost of capital. Allowed return for Spanish utilities was set when the country's 10-year yield was at 3.7%, which has now eased to 1.7%. It offers a real return of ~6.6%, including the variable remuneration.

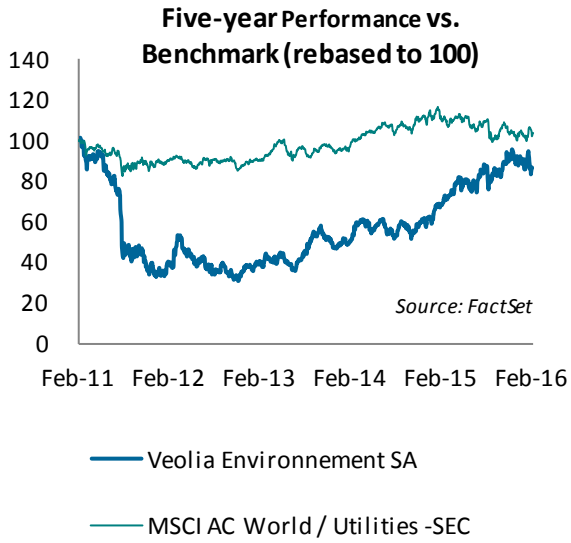
Positive catalysts

We expect earnings growth to be driven by higher domestic gas demand in Spain (+5% in 2015). This in turn is expected to be led by higher electricity generation, lower hydro-production and increase in domestic consumption.

Risk to our investment case

Any negative outcome due to the political impasse following the Spanish elections is a key risk. However, we do not expect any regulatory changes as none of the political parties have raised network regulation as an issue.

Utilities

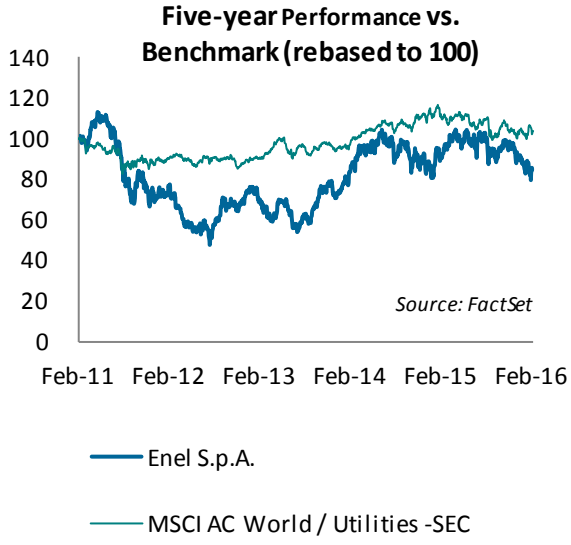


Veolia (VIE-FR) - BUY – SGPB Target Price: EUR 25.00

Current situation
Veolia is benefiting from restructuring of commercial portfolio in waste operations, disposal of non-core assets and other restructuring measures). We expect Veolia to exceed its cost-cutting target as it already cut costs of EUR 750 mn as of September 30, 2015 (vs. 2011-15 objective of EUR 750 mn). It continues to win new contracts, recently winning two cumulatively worth EUR 90 mn to operate power plants in northern Japan for a period of 20 years.

Positive catalysts
In its 2016-18 business plan, Veolia expects (a) costs savings of EUR 600 mn before related costs (estimated at EUR 100 mn), of which EUR 200 mn are expected in 2016 and (b) 2016-18 average annual revenue growth of 2–3% and average annual EBITDA growth of around 5%.

Risk to our investment case
Any deterioration in the waste market (35.6% of 9M15 revenues) conditions or deflation risk could significantly impact earnings.



Enel SA (ENEL-IT) - BUY - SGPB Target Price: EUR 4.64

Current situation
We are particularly positive about the company's increasing exposure to renewable and emerging markets, which offer demand-driven growth along with better pricing. Moreover, the company increased growth capex targets in renewable and networks and reduced them in generation. Also, 53% of the EUR 17 bn growth capex to FY19 is linked to Enel Green Power (EGP).

Positive catalysts
The share of regulated to contracted EBITDA is expected to reach 75% (vs. 70% in 2014) which should provide better earnings stability while the balance sheet should continue to deleverage.

Risk to our investment case
A further decline in power prices could pressure Enel's EPS and valuations. Weak outlook of the Latam currencies is key risk factors to Enel's earnings.

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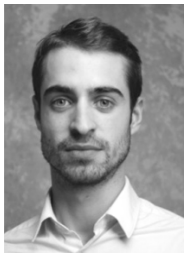

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Rating System

Investment Rating Definition:

Buy	Company from SGPB Conviction Lists, expected return above 10% or more over a 12-month investment horizon based on our experts' assumption.
Add	Company outside SGPB Conviction List. Proposition to reinforce or invest in companies benefiting from positive fundamentals with a positive return expected over a 12-month investment horizon, based on our experts' assumption.

Product Risk Rating

Product Category Risk Rating:
The product category of single equity, stock, share is rated at '4'.

In order to draw the attention of 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.

Target Price Calculation

Our target prices are based on relative valuation methodology (such as P/E, P/B, EV/EBITDA). We use the peer group average or the stock's historical multiple as the target multiple and multiply it with the consensus estimate of the corresponding valuation parameter. In certain cases, a premium or discount is assigned to the target multiple to account for the stock's differentiating factor vs. the peer group.

Equity Risk Classification: 4

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.

Glossary (1/4)

Societe Generale Private Banking Investment Universe

Societe Generale Private Banking defines and maintains an investment universe, aiming at ensuring the liquidity and the meaningful coverage of companies subject to potential investments.

This investment universe complies with rules defined as follows:

-**Issuers are constituents of MSCI indices**: The constituents of the indices retained cover developed and emerging countries with increased precision (average market capitalisation) for Germany, Belgium, France, the UK and Switzerland.

-**Market Capitalisation**: To avoid the inclusion of securities whose market capitalisation could be too low in light of the potential investments by clients and/or managers, only securities whose market capitalisation is greater than €500 mn have been chosen.

-**Liquidity**: To ensure minimum liquidity for investments, only securities with a six-month average daily trading volume greater than EUR 300,000 are selected.

-**Reliable Financial Information**: Only securities tracked by at least three sell side financial analysts are included in the universe.

-**Social and Environmental Responsibility Policy of SG Group**: Societe Generale has defined a framework for Social and Environmental Responsibility. This framework sets out restrictions on listed securities identified by SG Group and deleted from the universe.

Financial Terms and Acronyms

ADR (American Depositary Receipt): is a negotiable certificate issued by a US bank representing a specified number of shares in a foreign stock that is traded on a US exchange. ADRs are denominated in US dollars, with the underlying security held by a US financial institution overseas.

BACKLOG: often refers to a company's sales orders waiting to be fulfilled. Even if it provides the revenue visibility, the companies usually try to avoid to have an extensive backlog because that creates the risk of unmet demand and thus can have negative impact on future earnings

BENCHMARK: is, generally, a broad market, market-segment stock or bond index that is used as a reference to evaluate the performance of a security, mutual fund or investment manager.

BV (Book Value): is the total value of net assets of a company. It consists of the firm's fixed assets plus its current assets, minus short-term liabilities, long-term creditors and any provisions.

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. Formula: (Operating Costs/Operating Income)*100.

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. Formula: (Tier One Capital + Tier Two Capital)/Risk Weighted Assets.

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.

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. Also referred to as operating income, it is calculated as a company's gross income minus all its operating expenses.

EBIT Margin: Ratio that expresses EBIT as a percentage of total sales (EBIT/Sales*100); also referred to as operating margin.

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). It is calculated as a company's gross income minus its cash operating expenses only.

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

Glossary (2/4)

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.

EV/EBITDA: compares the total value of the company to its EBITDA.

EV/SALES: compares the total value of the company to its sales.

FCF (Free Cash Flow): represents the difference between operating cash flow and capital expenditures and shows the company's ability to generate shareholder's value after laying out the money required to maintain or expand its asset base. Without enough cash, it would be difficult for a company to develop new products, make acquisitions, pay dividends and reduce debt.

FFO (Funds from Operations): measures a REIT's operating performance. It is net income plus gains (minus losses) from property sale and purchase. Non-cash expenses like depreciation and amortisation are added back because value of real estate tends to rise over time rather than depreciating like other fixed assets and investments. FFO per share is often used in place of earnings per share when analysing REITs.

FY1 (Fiscal Year One): refers to the current fiscal year.

FY2 (Fiscal Year Two): refers to the next fiscal year.

GDR (Global Depositary Receipt): is very similar to an ADR. It is a bank certificate issued in more than one country for shares in a foreign company. The shares are held by a foreign branch of an international bank. The shares trade as domestic shares, but are offered for sale globally through the various bank branches.

GOODWILL: is an intangible asset that arises as a result of the acquisition of one company by another company for a premium value and can have as origin the value of a company's brand name, solid customer base, good customer relations, good employee relations and any patents or proprietary technology.

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 (Gross Income/Sales*100).

IPO (Initial Public Offering): is the first sale of stock by a private company to the public to expand its growth or, sometimes, repay its debt.

LIKE FOR LIKE (LFL) GROWTH: is a measure of growth in sales, adjusted for new or divested businesses. This is a widely used indicator of retailers' performance. This adjustment is important in businesses that show a significant change through expansion, disposals or closures.

LTV (Loan-To-Value Ratio): is a financial term used to express the ratio of a loan to the value of an asset purchased. The term is commonly used by financial institutions and real estate companies to represent the ratio of the loan as a percentage of the total appraised value of real property.

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. Formula: Net Profit/Sales.

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.

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. Formula: Share Price/Earnings Per Share.

P/TBVS (Price To Tangible Book Value): expresses the share price with regard to the accounting value of the company. Formula: Share Price/Tangible Book Value Per Share.

PAYOUT RATIO: is the proportion of earnings paid out as dividends to shareholders and typically expressed as a percentage. A lower payout ratio is generally preferable to a higher payout ratio. A ratio greater than 100% indicates the company is paying out more in dividends than it makes in net income.

Glossary (3/4)

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. It is generally used to calculate risk-based capital ratio which is the ratio of a bank's capital to its risk weighted assets.

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.

SHARE BUYBACK (Share Repurchase): A program by which a company buys back its own shares from the marketplace, reducing the number of outstanding shares. It usually indicates that the company's shares are undervalued and pushes the share prices up.

SHAREHOLDER'S EQUITY: is the amount of the funds contributed by the owners (the stockholders) plus the retained earnings (or losses).

STOCK SPLIT: is a corporate action in which the company divides its existing shares into multiple shares to make shares seem more affordable for small investors without changing the underlying value of the company.

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.

Sources: FactSet, Bloomberg, SGPB

Indices

MSCI AC WORLD: is a free float-adjusted market capitalisation weighted index that is designed to measure the equity market performance of developed markets. The MSCI World Index consists of the following 23 developed market country indexes: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the UK, and the US (as of 2 June 2014).

MSCI AC ASIA PACIFIC: is a free float-adjusted market capitalisation weighted index that is designed to measure the equity market performance of the developed and emerging markets in the Pacific region. The MSCI AC Pacific Free Index consists of the following 12 developed and emerging market countries: Australia, China, Hong Kong, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Singapore, Taiwan, and Thailand (as of 2 June 2014).

MSCI EUROPE: is a free float-adjusted market capitalisation weighted index that is designed to measure the equity market performance of the developed markets in Europe. The MSCI Europe Index consists of the following 15 developed market country indexes: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the UK (as of 2 June 2014).

MSCI EMERGING MARKETS: is a free float-adjusted market capitalisation index that is designed to measure equity market performance of emerging markets. The MSCI Emerging Markets Index consists of the following 23 emerging market country indexes: Brazil, Chile, China, Colombia, the Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, the Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey* and the UAE (as of 2 June 2014).

MSCI WORLD HIGH DIVIDEND YIELD: is based on the MSCI World Index, its parent index, and includes large- and mid-cap stocks across 23 Developed Markets (DM) countries (as of 31 March 2014). The index is designed to reflect the performance of equities in the parent index (excluding REITs) with higher dividend income and quality characteristics than average dividend yields that are both sustainable and persistent.

Glossary (4/4)

MSCI WORLD VALUE: captures large- and mid-cap securities exhibiting overall value style characteristics across 23 Developed Markets countries (as of 31 March 2014). The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield. With 853 constituents, the index targets 50% coverage of the free float-adjusted market capitalisation of the MSCI World Index.

MSCI WORLD GROWTH: captures large- and mid-cap securities exhibiting overall growth style characteristics across 23 Developed Markets countries (as of 31 March 2014). The growth investment style characteristics for index construction are defined using five variables: long-term forward EPS growth rate, short-term forward EPS growth rate, current internal growth rate and long-term historical EPS growth trend and long-term historical sales per share growth trend.

MSCI WORLD SMALL CAP: captures small cap representation across 23 Developed Markets (DM) countries (as of 31 March 2014). With 4,302 constituents, the index covers approximately 14% of the free float-adjusted market capitalisation in each country.

MSCI WORLD LARGE CAP: captures large-cap representation across 23 Developed Markets (DM) countries (as of 31 March 2014). With 737 constituents, the index covers approximately 70% of the free float-adjusted market capitalisation in each country.

MSCI EMEA: is a free float-adjusted market capitalisation weighted index that is designed to measure the equity market performance of the emerging market countries of Europe, the Middle East and Africa. The MSCI EM EMEA Index consists of the following 10 emerging market country indexes: the Czech Republic, Greece, Hungary, Poland, Russia, Turkey, Egypt, South Africa, Qatar and the UAE.

MSCI LATAM: captures large- and mid-cap representation across five emerging market (EM) countries (as of 31 March 2014) in Latin America. With 137 constituents, the index covers approximately 85% of the free float-adjusted market capitalisation in each country.

MSCI EMERGING ASIA: captures large and mid-cap representation across eight EM countries (as of 31 March 2014). With 537 constituents, the index covers approximately 85% of the free float-adjusted market capitalisation in each country.

MSCI RUSSIA: is designed to measure the performance of the large- and mid-cap segments of the Russian market. With 22 constituents, the index covers approximately 85% of the free float-adjusted market capitalisation in Russia.

MSCI BRAZIL: is designed to measure the performance of the large- and mid-cap segments of the Brazilian market. With 70 constituents, the index covers about 85% of the Brazilian equity universe.

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S&P 500: includes 500 leading companies in the leading industries of the US economy. It is a core component of the US indices that could be used as building blocks for portfolio construction. It is also the US component of S&P Global 1200.

Nikkei 225: is the leading index of Japanese stocks. It is a price-weighted index comprised of Japan's top 225 blue-chip companies on the Tokyo Stock Exchange. The Nikkei is equivalent to the Dow Jones Industrial Average Index in the US.

Sources: FactSet, Bloomberg, MSCI global equity indexes, SGPB

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SG acted as co-manager in Adecco's bond issue (7.5 yr)
SG acted as joint bookrunner in Aegon's bond issue (RegS, EUR, 5yr).
SG acted as Sole Global Coordinator & Joint Bookrunner in Airbus' convertible bond issue (7yr).
SG acted as a joint bookrunner in Bayer's hybrid bond issue
SG acted as joint bookrunner in BNPP's bond issue (EUR, 10yr).
SG acted as co-manager in Chevron's bond issue (USD, 2,3,5,10 yr)
SG acted as co-manager in Chevron's bond issue.
SG acted as co-manager in Citigroup's bond issue ((USD perpNC5).
SG acted as co-manager in Citigroup's bond issue (5y SEC).
SG acted as co-manager in Citigroup's bond issue (USD 12y).
SG acted as co-manager in Citigroup's bond issue (USD)
SG acted as Co-manager in Citigroup's bond issue.
SG acted as Co-manager in Citigroup's bond issue (10yr)
SG acted as Co-manager in Citigroup's bond issue (5yr,USD,2020).
SG makes a market in Enel warrants
SG acted as a lead structuring advisor in Engie's bond tender offer.
SG acted as passive joint bookrunner in GDF Suez's bond issue.
SG acted as joint dealer manager in GDF SUEZ's tender offer (targeting some 10/2017, 02/2021, 07/2022, 10/2022, 02/2023 bonds).
SG acted as financial advisor to Holcim in the merger with Lafarge.
SG acted as joint lead manager in ING Belgium's bond issue (EUR)
SG acted as a joint lead manager in ING Groep bond issue
SG was dealer manager of the squeeze-out initiated by LafargeHolcim on Lafarge's shares, following the public exchange offer.
SG acted Joint Structuring Advisors & Joint Dealer Managers in Lafarge's bond buy-backs (ISINs: XS0235605853, XS0434974217, XS0307005545, XS0501648371, XS0562783034, XS0801954867, XS0473114543, XS0215159731, XS0975113498, XS0430665108, XS0158276708).
SG acted as joint bookrunner in Publicis' bond issues (Eur 1.125% 16/12/2021; Eur 1.625% 16/12/2024)
SG acted as a joint lead manager in Royal Dutch Shell's bond issue.
SG is acting as financing joint mandated lead manager with Royal Dutch Shell PLC for the acquistion of BG Group PLC.
SG acted as joint bookrunner in Schneider Electric's bond issue (EUR, 8yr).
SG acted as co-manager in United Technologies Corporation's bond issue (8yr, EUR).
SG acted as co-manager in United Technologies's new bond issue (USD)
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SG acted as joint bookrunner in Veolia Environnement's tender offer (ISIN:FR0010750489, FR0010918490, FR0010474239)
SG acted as joint bookrunner in the Veolia Environnement's block trade sold by Groupama.
SG acted as sole bookrunner in Qatar Holding's bloc disposal of Vinci shares
SG acted as joint bookrunner in Daimler's bond issue (Senior, EUR, 3yr, 5yr, 8yr).
SG acted as Co-manager in Daimler's bonds issues.
SG acted as joint bookrunner in Volkswagen's bond issue.
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SG acted as Co-manager in ExxonMobil's bond issues.
SG acted as joint bookrunner in Total's inaugural hybrid bond issue (EUR, perp ,2.25% and EUR, perp, 2.625%).

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SG acted as Co-manager in Citigroup's bond issue.
SG acted as co-manager in Citigroup's bond issue (USD).
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