30 May 2012 | 52 pages

Citi Focus List Europe

Analysts' Key Buy Ideas*

- **The Citi Focus List Europe** — European analysts' 15-20 strongest Buy ideas for the next 12 months. It also reflects our UK & European Strategy team's preferred investment themes, such as World Champions, defensive growth, CDS-adjusted dividends, 3Bs (Big, Balance Sheet, Beta).
- **Stock Picking with a Strategy Overlay** — The focus is squarely on bottom-up ideas with analysts competing for inclusion. There is no limit on the time ideas may stay in the Focus List but they will be reviewed at least monthly. We aim to highlight 15-20 ideas. The List will evolve as analysts' conviction levels change and will continue to reflect key strategy themes.
- **Liquidity, Actionability & Citi Edge** — The Focus List highlights liquid names in which investors can build positions. We believe that Citi analysts offer investors strong views with differentiated analysis on Focus List stocks. Liquidity means some names with higher return expectations are excluded. Our UK and continental European mid-cap teams will continue to publish focus lists for those universes - UK Small/Mid-Cap View, European Small/Mid-Cap Panorama
- **Feedback Welcome** — Please contact us with any feedback you have on the Citi Focus List Europe.

*Correction: This amends data for HSBC on page 29 and currency for ABB on page 3.

Figure 1. Citi Focus List Europe

ABB	BSkyB	HSBC	Saipem
AB-InBev	Danone	Inditex	SAP
Barclays	EADS	Linde	TeliaSonera
BAT	Fresenius SE	PPR	Wolseley
BHP Billiton	GlaxoSmithKline	Prudential	

Source: Citi Investment Research and Analysis

- Equities

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Citi Focus List Europe

Company	RIC	Target Price	Current Price	Key Research	Strategy Themes	Lead Analyst	Telephone
ABB	ABBN.VX	SFr 23.0	SFr 15.8	An Improving Track Record	Q, CDS DY, SIS	Mark Fielding	44 (0)20 7986 4018
AB-InBev	ABI.BR	€ 63.0	€ 55.1	More Beer, Less Tax	WC	Andrea Pistacchi	44 (0)20 7986 0767
Barclays	BARC.L	£ 3.3	£ 1.8	The Pain in Spain		Andrew Coombs	44 (0)20 7986 4053
BAT	BATS.L	£ 34.0	£ 30.3	Smoking Prices in Emerging Markets	WC, DG, CDS DY, SIS	Adam Spielman	44 (0)20 7986 4211
BHP Billiton	BLT.L	£ 23.0	£ 17.5	Home Improvement	WC, DG, 3Bs	Heath Jansen	44 (0)20 7986 3921
BSkyB	BSY.L	£ 8.5	£ 7.0	Updating the Buy Thesis & Upgrading TP to 850p	Q	Tom Singlehurst	44 (0)20 7986 4051
Danone	DANO.PA	€ 62.0	€ 52.3	Superior Growth and Receding Risks; Upgrade to Buy	DG	Robert Dickinson	44 (0)20 7986 4431
EADS	EAD.PA	€ 36.5	€ 27.8	Still a Buy, Despite A380 Difficulties	WC, Q	Jeremy Bragg	44 (0)20 7986 1089
Fresenius SE	FREG.DE	€ 105.0	€ 76.4	Acquisition of RHK – ROIC Analysis	DG	Cora McCallum	44 (0)20 7986 4047
GlaxoSmithKline	GSK.L	£ 16.1	£ 14.2	£2.3bn Skin Cancer Opportunity for GSK	WC, CDS DY	Andrew Baum	44 (0)20 7986 4498
HSBC	HSBA.L	£ 6.5	£ 5.1	From Local Small Bank to World's Connected Bank	WC	Ronit Ghose	44 (0)20 7986 4028
Inditex	ITX.MC	€ 82.0	€ 69.1	The Colour Of Spring	WC, DG, Q	Richard Edwards	44 (0)20 7986 4006
Linde	LING.DE	€ 150.0	€ 125.5	Growth Potential Explored: Upgrading Linde To Buy		Andrew Benson	44 (0)20 7986 3925
PPR	PRTP.PA	€ 154.0	€ 119.4	Global Luxury Goods Sector		Thomas Chauvet	44 (0)20 7986 4147
Prudential	PRU.L	£ 8.5	£ 6.9	Eastern Promise, Western Risks	WC	Raghu Hariharan	44 (0)20 7986 3975
Saipem	SPMI.MI	€ 50.0	€ 33.0	Top of the Cheap Stock Queue		Ryan Kauppila	44 (0)20 7986 4467
SAP	SAPG.DE	€ 65.0	€ 33.0	SAP Core Growth is Underappreciated	WC, DG, SIS	Gunnar Plagge	44 (0)20 7986 4234
TeliaSonera	TLSN.ST	SKr 50.0	SKr 44.1	Alpha Switch	Q, CDS DY	Laurie Fitzjohn-Sykes	44 (0)20 7986 4114
Wolseley	WOS.L	£ 28.5	£ 22.8	Value Opportunities Creeping Back In	3Bs	Clyde Lewis	44 (0)20 7986 4272

Source: Citi Investment Research and Analysis. May 30th 2012

Strategy Themes Key: WC – World Champions, DG – Defensive Growth, Q – Quality (High ROE & strong Balance Sheet), CDS DY – CDS adjusted dividends, SIS – Strong in Strong, 3Bs – Big, Balance Sheet & Beta

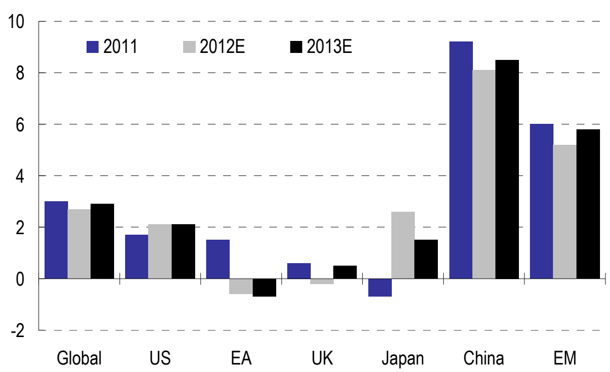
Economic View – Grexit & China Slowdown[1] Willem Buiter & Team[2]

Three main changes in this month's forecasts – First, Q1 data for Japan and the euro area were stronger than expected. Second, China's economy is now slowing markedly and greater policy easing is likely. Third, we now believe the probability that Greece will leave EMU in the next year or two is 50-75%, and we attempt to include "Grexit" in our forecasts. Overall, we are edging up our 2012 global growth forecast to 2.7% versus 2.6% last month (revised up to 3.2% from 3.1% PPP-weighted). This is the fourth consecutive upgrade to the 2012 forecast. However, we are cutting our 2013 global growth forecast to 2.9% from 3.0% last month, with continued EMU recession.

Grexit likely – There are many uncertainties, but in an attempt to model the possibility of Grexit in our new forecasts we apply an assumption that Greece leaves EMU in early 2013, followed by sharp currency devaluation, with a large drop in economic activity in 2013 and a modest rebound further ahead. We believe that sizeable adverse economic and financial contagion to other euro area countries would be unavoidable and that this is already happening to an extent. We expect that a Grexit would be followed by far-reaching policy responses: we forecast the ECB would cut rates to 0.5% and resume its multi-year LTRO programme, a second package for both Portugal and Ireland, some kind of Troika programme for Spain, plus financial market support for Spain's and Italy's government bonds. We do not expect an early move to Eurobonds or full fiscal burden sharing. But, if deposit flight from periphery banks escalates, then EU policymakers may agree to a jointly-funded enhanced deposit guarantee scheme (DGS) — which aims to protect deposits against EMU exit and currency denomination as well as bank insolvency — plus a jointly-funded bank recapitalization scheme.

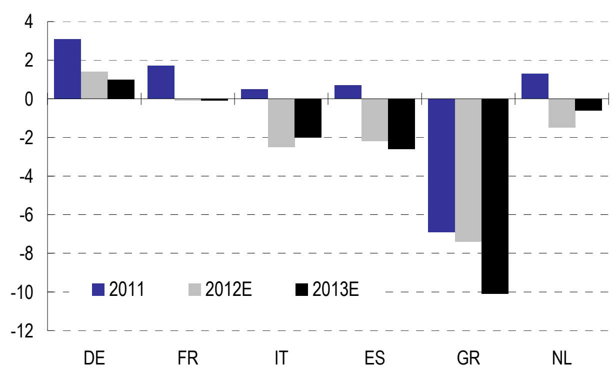
Crisis continues – We believe that, with such measures, Grexit could be contained in the sense that no other countries would be forced to exit EMU and the European banking system would continue to function. But, we believe that strained EMU sovereigns are likely to face high spreads plus poor credit availability, and the resultant economic weakness will cap revenues and lead to general fiscal deficit overshoots and rising debt ratios among many EMU countries. Grexit, if it happens, would not end the EMU crisis.

Figure 2. 2011-2013e GDP Growth Forecasts (%)



Source: Citi Investment Research and Analysis

Figure 3. 2011-2013e GDP Growth Forecasts (%)



Source: Citi Investment Research and Analysis

Figure 4. Citi Economic Forecasts

Base Rates	**Current**	**3Q12**	**4Q12**	**3Q13**
US	0.25	0.25	0.25	0.25
Euro Area	1.00	0.50	0.50	0.50
UK	0.50	0.50	0.50	0.50
10y Yields	**Current**	**3Q12**	**4Q12**	**3Q13**
US	1.70	1.90	2.20	2.80
Germany	1.34	1.40	1.25	1.75
UK	1.73	1.80	1.65	2.25
10y Spreads vs Bunds (bps)	**Current**	**3Q12**	**4Q12**	**3Q13**
France	106	109	54	13
Italy	454	499	504	393
Spain	516	549	504	343
	Current	**3Q12**	**4Q12**	**3Q13**
€/US$	1.24	1.23	1.24	1.27

Source: Citi Investment Research and Analysis

[1] See Global Economic Outlook & Strategy: May 2012 [2] European Economics Team: Michael Saunders, Jürgen Michels, Guillaume Menuet. Global Economics Team: Willem Buiter, Ebrahim Rahbari. Global Political Analysis: Tina Fordham

European Equity Strategy — Backing Growth & Quality

Jonathan Stubbs/Adrian Cattley

Certainty in an uncertain world — We continue to see clear and stable macro mega-trends in what is often an unclear and unstable world: 1) de-leveraging, 2) lower growth, and 3) divergence. We think that these trends are embedded for the next few years. Our investment strategy continues to be guided by this macro framework.

Politics and liquidity — Political risk looms large in the remainder of 2012 with a new political geography emerging in Europe according to Citi's political strategist, Tina Fordham[1]. Liquidity measures will not prevent recession or remove the need for bank de-leveraging or re-caps but there is a liquidity (or disaster) put in place, in our view.

Earnings flat in 2012E — Top-down, we expect 0% earnings growth in 2012E European; more optimistic than implied by European PMIs and less optimistic than implied by US PMIs. Financial & Oil earnings are big swing factors this year. Excluding these sectors would see only a small gap between top-down and bottom-up estimates.

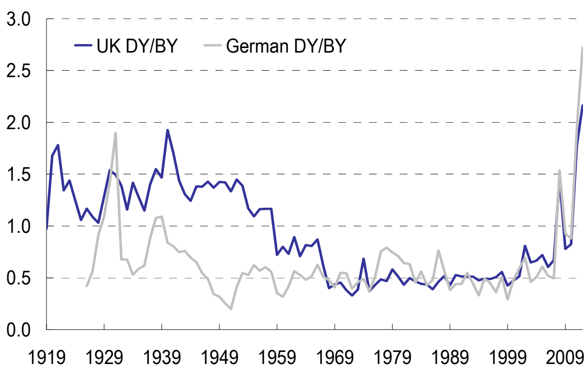
Valuation support — Equities look attractive to us. A 12-month forward P/E of 9.6x is undemanding. Balance sheet adjusted metrics show equities never cheaper in the past 20 years. Equities trade at multi-year or multi-decade cheaps versus other asset classes. Earnings need to collapse to undermine valuation support for equities.

Key investment themes — We continue to back a structural re-rating of strong credit, growth and quality within Europe. That has been our view over the past few years. However, investors should also be alert to tactical opportunities to raise risk as we near the next liquidity driven "sugar rush".

The Citi Focus List Europe — Many of our analysts Focus Lists stocks appear in at least one of our core themes: 1) World Champions, 2) Defensive Growth, 3) CDS-Adjusted Dividends, 4) Quality (High RoE & Strong Balance Sheet), 5) Strong in Strong and 6) 3Bs.

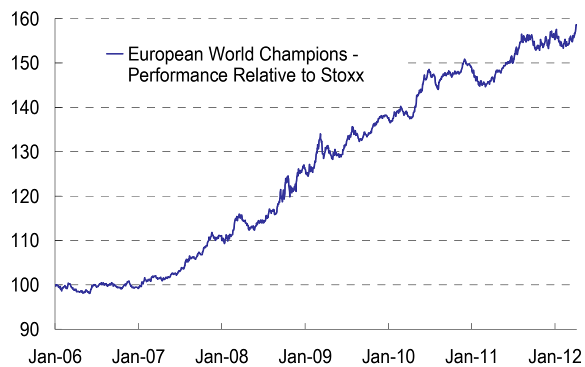
Sector & country — We have positive skews to growth (EM exposure, earnings momentum), dividends (DY*G, CDS-adjusted DYs) and strong balance sheets in our sector and country models. See Figure 7 for our sector allocations. At a country level, we have a structural preference for North over Southern Europe.

Figure 5. Cheap — UK & German DY/10Y Bond Yields



Source: Citi Investment Research and Analysis

Figure 6. European World Champions, 2006-Now



Source: Citi Investment Research and Analysis

Figure 7. European Sector Strategy

Overweight	Neutral	Underweight
Autos	Banks	Construction
Basic Resources	Financial Services	Media
Chemicals	Industrial G&S	Real Estate
Food & Bev	Oil & Gas	Telecoms
Health Care	Retail	Travel & Leisure
Insurance	Technology	Utilities
Personal & H/hold Goods		

Source: Citi Investment Research and Analysis

[1] See Global Political Insights - The New Eurozone Political Geometry: What Economic and Market Implications?

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Citi Focus List Europe

ABB	**Share Price to Follow Pricing Up**	**Mark Fielding**

Our Buy Thesis

(1) EPS to accelerate: we believe ABB is currently at a cyclical low for margins and expect a strong pick up in EPS going into 2013. Erratic quarterly reporting has created a perception of volatile profitability, but ABB's underlying EBIT margins have been quite stable since 2008. Recent cyclical impacts related to China rail and nuclear and Italy in general have further impacted demand, but in our view are temporary. (2) Pricing is stabilizing: although recent results still show a negative pricing impact (focused in the Power business), we believe these effects are mainly from pressures of last year in the backlog and does not change our view that on a Q/Q basis the current pricing situation is now becoming more stable. Recent peer commentary supports this view. We estimate a 5% shift in Power prices could add c.19% to EPS. (3) Strong Balance Sheet: on our forecasts ABB will have year end net cash, even with the Thomas & Betts acquisition, and ABB is paying a c5% dividend yield.

Valuation

The share is on an EV/sales of 0.9x 2012E versus our 12-15% forecast 2012-14 margins. Our target price is based on an EV/sales of 1.3x 2013E, in line with our forecast of mid-cycle operating margins of 13-15%. A P/E of 9x13E is a c10% discount to peers, EV/EBITA of 6x is more like a 20% discount. This is despite ABB being net cash and paying a dividend yield of c5%.

Debate/Risks

The key risk is that pricing does not improve with increased low cost competition from Chinese and Korean competitors. The other main concern is that the company does further large acquisitions at high multiples, even if recent deals have slightly abated these fears.

Key Themes

CDS-Adjusted Dividends, Strong in Strong.

Upcoming event(s)

The next main event will be the 2Q report on 26 July.

Description

ABB is a global electrical equipment business with activities in five divisions. Power Products and Power Systems supply products and complete T&D solutions to utility and industrial customers. Discrete Automation and Motion, Low Voltage Products and Process Automation supply products, systems and solutions to customers across nearly all segments of the process and manufacturing industries as well as specialist end-markets, such as marine and utility.

Key Research

An Improving Track Record

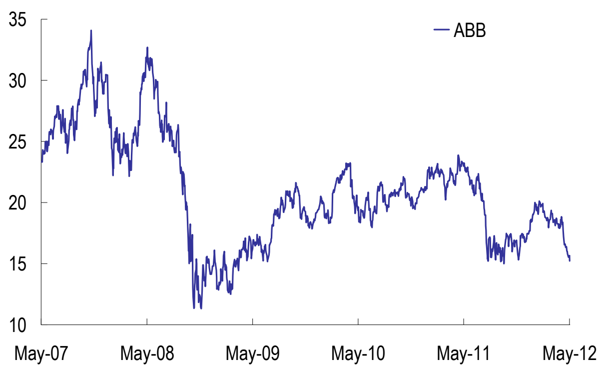
ABB

Mark Fielding

Rating	1
Price (29 May 12)	15.81
Target price (SFr)	23.00
Expected Share Price Return (%)	45.5
Expected Dividend Yield (%)	3.8
Expected Total Return (%)	**49%**
Market cap (SFrM)	36,596
Market Cap ($M)	38,187
Net Debt to Equity (%)	-50
Payout Ratio (%)	40

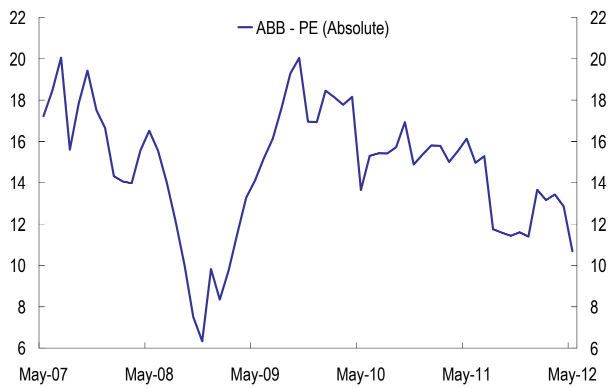
Year to 31-Dec	2009	2010	2011	2012e	2013e	2014e
Sales (US$M)	31,795	31,589	37,990	41,171	44,318	46,402
EBITDA (US$M)	4,782	4,520	5,662	6,136	7,096	7,760
Net Income (US$M)	2,902	2,561	3,168	3,388	3,973	4,409
Core EPS (¢)	1.3	1.1	1.4	1.5	1.7	1.9
EPS Growth (%)	-6.9	-11.8	24.0	7.0	17.2	11.0
ROE (%)	23.3	17.9	20.7	20.3	21.2	21.0
PE (x)	12.6	17.6	16.1	12.0	9.5	8.5
PB (x)	3.1	3.4	2.7	2.1	1.9	1.7
EV/EBITDA (x)	7.3	9.5	9.2	7.4	5.9	5.1
FCF Yield (%)	8.5	7.5	5.2	9.0	10.6	11.9

Figure 8. Share Price



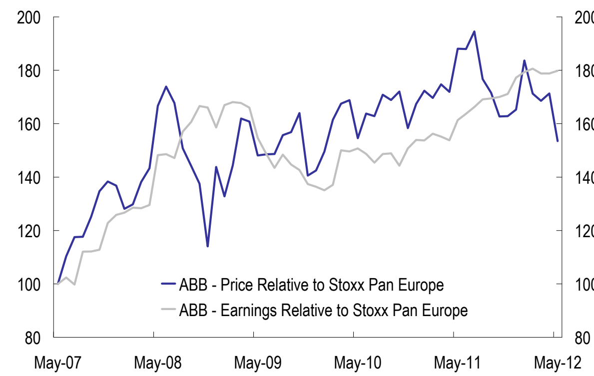
Source: DataStream

Figure 9. 12-Month Forward P/E



Source: Citi Investment Research and Analysis and DataStream

Figure 10. Price and Earnings Relative



Source: Citi Investment Research and Analysis and DataStream

AB-InBev	Premium Quality	Andrea Pistacchi

Our Buy Thesis	(1) Defensive earnings growth: ABI is more "in control" of its P&L than other staples, because: (1) it has pricing power in its key markets (US, Brazil, Argentina represent nearly 90% of group EBIT); (2) it has limited exposure to W Europe (7% of EBIT) and (3) deleveraging adds 4-6% to EPS growth. (2) US recovery: following 3 years of post deal integration and cost cutting, the US agenda has now very much shifted to top line. Innovation (incl. Bud Light Platinum), increased pressure on wholesalers and lower unemployment are contributing to an improvement in US volumes. We expect EBIT acceleration to also be driven by more favourable mix and continued pricing. (3) 11% EPS CAGR FY11-14: In addition to US recovery, continued double digit EBIT growth in Brazil and balance sheet de-gearing should contribute to drive another year of visible double digit EPS growth (Citi +15%) and share price outperformance. ABI has consistently outperformed consumer staples and the market for the past 8 years, except in 2008.
Valuation	Despite the stock's rally (+55% since September), valuation still looks compelling, with ABI trading on 14.4x CY13E PE, an 8% discount to the average of blue chip global staples (historically is has tended to trade in line). Valuation is further supported by a 3% DVDY, which is set to increase slightly as ABI has almost achieved its balance sheet de-gearing target of 2x ND/EBITDA.
Debate/Risks	Brazilian Real weakness: some investors are concerned about ABI's significant BRL exposure (40% of group EBIT, but less on EPS because ABI only controls 62% of Ambev and because a portion of the group's net debt is denominated in BRL). Besides BRL translation impact (approx 3% downgrade to consensus EPS by marking to market currency vs beginning of May), in 2013 ABI will face a "transactional" headwind related to the fact that ~60% of its COGS in Brazil are US$ denominated. However ABI has enough pricing power to pass on the incremental cost. In addition, underlying USD barley prices (for 2013) are heading down. M&A risk: we think it is unlikely that ABI acquires SAB, particularly on a 2-year view (difficult financing, significant equity issuance, limited EPS accretion, execution risks).
Key Themes	World Champions
Upcoming event(s)	ABI will report its Q2 results on 31 July. We also expect monthly Nielsen and IRI data to provide confirmation of positive momentum in US.
Description	ABI is the world's largest brewer. It has a very focused geographic portfolio, with just over 40% of its profit coming from the US (47% market share), and just under 40% from Brazil (close to 70% share). Europe and Asia (combined) contribute less than 10% of profit. Its main global brands are Budweiser, Bud Light, Brahma and Stella Artois, but it has several strong local brands too. Vigorous cost cutting has allowed the company to boost margins very significantly over the past several years.
Key Research	More Beer, Less Tax

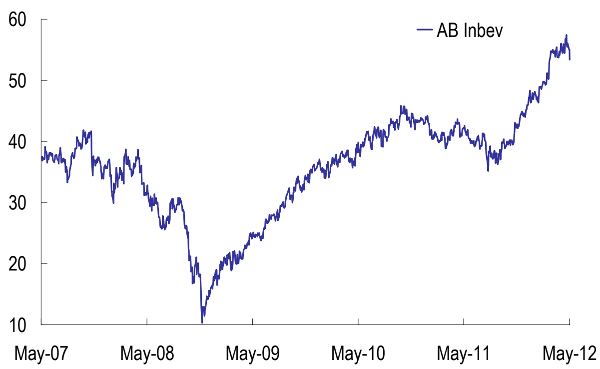
AB-InBev

Andrea Pistacchi

Rating	1
Price (30 May 12)	55.06
Target price (€)	63.00
Expected Share Price Return (%)	14.4
Expected Dividend Yield (%)	3.3
Expected Total Return (%)	**18%**
Market cap (€M)	88,433
Market Cap ($M)	110,523
Net Debt to Equity (%)	136
Payout Ratio (%)	20

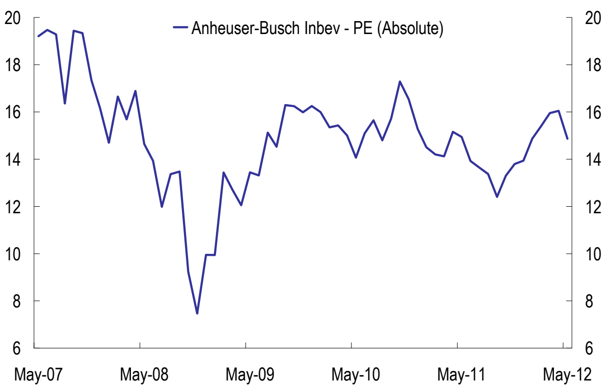
Year to 31-Dec	**2009**	**2010**	**2011**	**2012e**	**2013e**	**2014e**
Sales (US$M)	36,758	36,297	39,045	40,523	42,849	45,781
EBITDA (US$M)	13,037	13,869	15,357	15,890	16,973	18,516
Net Income (US$M)	3,927	5,040	6,449	7,429	8,010	8,911
Core EPS (¢)	2.5	3.2	4.0	4.6	5.0	5.6
EPS Growth (%)	-1.8	28.1	27.7	15.1	7.7	11.0
ROE (%)	14.9	15.4	17.7	18.8	18.5	18.8
PE (x)	15.1	16.9	14.1	14.8	13.8	12.4
PB (x)	2.7	2.6	2.6	2.7	2.4	2.2
EV/EBITDA (x)	9.2	10.4	10.0	11.1	10.1	8.9
FCF Yield (%)	13.1	8.7	9.7	8.5	9.2	10.4

Figure 11. Share Price



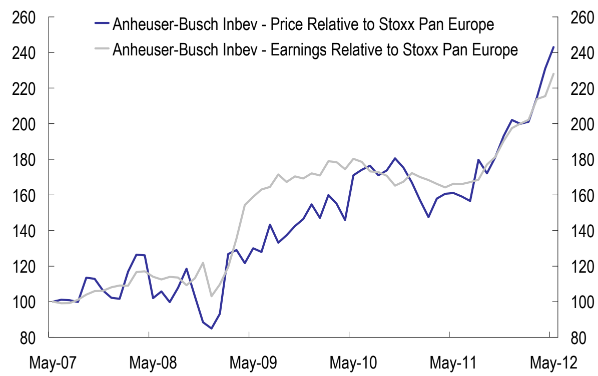
Source: DataStream

Figure 12. 12-Month Forward P/E



Source: Citi Investment Research and Analysis and DataStream

Figure 13. Price and Earnings Relative



Source: Citi Investment Research and Analysis and DataStream

Barclays — A Diamond in the Rough — Andrew Coombs

Our Buy Thesis	(1) Winner in Consolidating World of Capital Markets: Barclays is deemed to be a "flow monster" in FICC sales & trading, with a dominant market share position (c10%). This dominant position should enable the bank to consolidate its global FICC position as competition recedes, in our view. (2) Retail Growth: in contrast to domestic peers Barclays recorded Group loan growth of 1% in 2011, driven by UK Retail (+5%) and BarclayCard (+13%), which are both high RoE businesses, part offset by a contraction in Corporate loans. We forecast a further 2% Group loan growth in 2012. (3) Renewed Cost Discipline: planned "non-performance" cost savings have been increased to £2bn pa, up from £1bn pa, with c£1.2bn already achieved. Meanwhile Barclays has also shown strong discipline on "performance" costs: BarCap's 2011 bonus pool was down 32% y-o-y. (4) Benign Asset Quality: Barclays reported a 16% y-o-y decline in provisions in 1Q12, driven by lower impairments in UK & Spain. Furthermore, company guidance on full-year provisions has been lowered to £3.4bn, from £3.8bn. This reaffirms our belief that consensus is too bearish on 2012 impairments.
Valuation	We forecast an underlying Group RoE of 7.2% in 2012E (RoTE 8.4%). This is still somewhat below the company target of >13%, due to lower revenue assumptions, but ahead of our forecast average sector return. Despite this Barclays trades at a discount to the wider sector, on 0.5x P/TB vs. sector 0.7x.
Debate/Risks	(1) Large Peripheral Exposures: Barclays has £65bn asset exposure to the peripheral Eurozone countries, the majority of which is to Spain (£26bn), Italy (£25bn) and Portugal (£9bn). This compares to Group customer loans of £442bn and equity of £55bn. Over the past 9 months total asset exposure to peripheral Eurozone is down 15%. Meanwhile in Spain, the largest business, Barclays is better provisioned and better capitalized than peers. (2) Revenues Set to Weaken: BarCap & Rate Hedges – After a very strong first quarter we expect that BarCap revenues will weaken in 2Q12 following the re-emergence of sovereign concerns. However this is already baked into our forecasts: we estimate FICC down 30% qoq. Meanwhile in 2011 hedging activities contributed £3.3bn to NII, split £2.3bn from the carry and £1.0bn from selling gilts, accounting for 27% of total Group NII. In future, declining yields are likely to reduce the carry, and gilt sales may also slow, but again this is already captured in our revenue forecasts. (3) Capital Stretched; ICB Regulation Adds Extra Cost - The reported core tier 1 ratio declined 10bps qoq to 10.9%, the first decline since 1Q09. This was due to a number of factors including FX movements and share- based compensation awards. On a 'fully-loaded' basis we still forecast a Basel 3 core tier 1 ratio of 8.9% at end-2012, rising to 10.4% by end-2014, which we believe is more than sufficient. ICB regulation is expected to add >£1bn of extra costs, but it remains unclear how this will be legislated, and it is not expected to come into implementation until 2015-18.
Key Themes	-
Upcoming event(s)	Next event is the 1H12 results on 27th July 2012.
Description	Barclays is a UK-based financial services group with a significant international presence, particularly in Europe, the US and Africa. It is engaged in retail and commercial banking, investment banking and investment management.
Key Research	The Pain in Spain

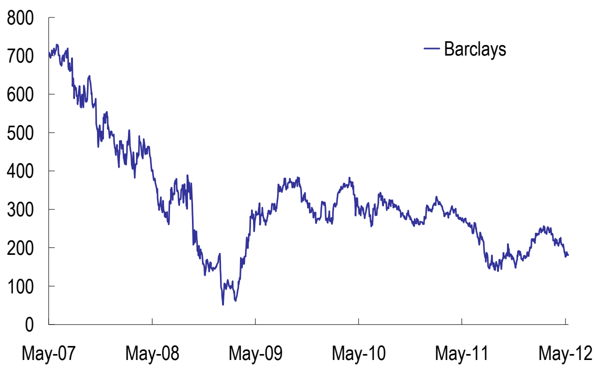
Barclays

Andrew Coombs

Rating	1
Price (30 May 12)	1.80
Target price (£)	3.25
Expected Share Price Return ('	80.9
Expected Dividend Yield (%)	3.6
Expected Total Return (%)	**85%**
Market cap (£M)	21,974
Market Cap ($M)	34,369
Payout Ratio (%)	24

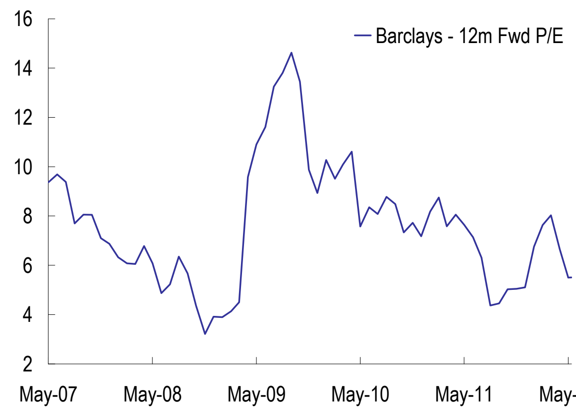
Year to 31-Dec	**2009**	**2010**	**2011**	**2012e**	**2013e**	**2014e**
Net Income (£M)	3,562	3,123	3,167	3,941	4,396	5,267
Core EPS (p)	31.0	25.1	24.5	30.5	33.9	40.6
EPS Growth (%)	694.6	-19.1	-2.3	24.3	11.4	19.7
ROE (%)	11.9	7.4	6.5	7.4	8.0	9.6
PE (x)	8.3	12.2	9.5	6.4	5.3	4.4
PB (x)	0.7	0.6	0.4	0.4	0.4	0.4

Figure 14. Share Price



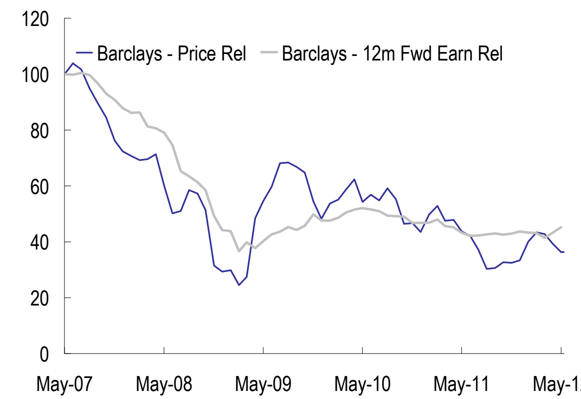
Source: DataStream

Figure 15. 12-Month Forward P/E



Source: Citi Investment Research and Analysis and DataStream

Figure 16. Price and Earnings Relative



Source: Citi Investment Research and Analysis and DataStream

BAT	Smoking Prices in Emerging Markets	Adam Spielman

Our Buy Thesis	We expect BAT to continue to post steady EPS growth of about 9% or more (on a constant currency basis) supported by strong pricing globally, but particularly in Brazil and Russia, which together account for about 20% of profit. BAT enjoys good exposure to frontier markets, where demand for cigarettes is actually growing. In addition, this year we should see the full year benefits of the cost cutting that drove up 2H11 margins in the EU, and also higher market share in Japan.
Valuation	BAT trades on a 2013E PE of 13.2x and a 4.9% dividend yield. While this is a slightly richer than average for the past five years, we believe the multiple will be maintained in the next 12 months as investors continue to appreciate its earnings predictability and self-help.
Debate/Risks	Plain packaging is coming to Australia and probably also New Zealand (together 10% of BAT's profit) and maybe the UK too.
Key Themes	World Champions, Defensive Growth, CDS-Adjusted Dividends, Strong in Strong
Upcoming event(s)	1H results are on 25th of July.
Description	BAT is a global tobacco company, with more than half its profit coming from emerging markets. In many markets (e.g. Canada, Brazil, South Africa, Australia) it is the dominant company. It owns many brands, with its top four accounting for one-fifth of volume. It is centralising management, marketing and production, thereby cutting costs.
Key Research	**Smoking Prices in Emerging Markets**

BAT

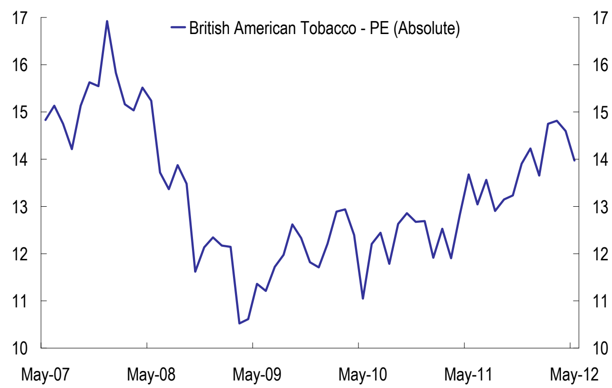
Adam Spielman

		Year to 31-Dec	2009	2010	2011	2012e	2013e	2014e
Rating	1	Sales (£M)	14,208	14,883	15,399	15,673	16,332	17,118
Price (30 May 12)	30.34	EBITDA (£M)	4,907	5,426	5,966	6,255	6,647	7,119
Target price (£)	34.00	Net Income (£M)	3,046	3,505	3,857	4,068	4,364	4,692
Expected Share Price Return (%)	12.1	Core EPS (p)	153.0	175.8	194.6	208.8	228.4	250.6
Expected Dividend Yield (%)	4.5	EPS Growth (%)	18.8	14.9	10.7	7.3	9.4	9.7
Expected Total Return (%)	**17%**	ROE (%)	41.9	41.7	44.4	53.9	69.4	95.4
Market cap (£M)	59,370	PE (x)	11.8	12.8	13.8	14.6	13.2	12.0
Market Cap ($M)	92,861	PB (x)	5.2	5.3	7.3	8.3	9.9	13.2
Net Debt to Equity (%)	112	EV/EBITDA (x)	8.6	8.7	9.1	9.7	8.9	8.3
Payout Ratio (%)	65	FCF Yield (%)	9.3	8.9	7.7	8.1	8.9	9.6

Figure 17. Share Price

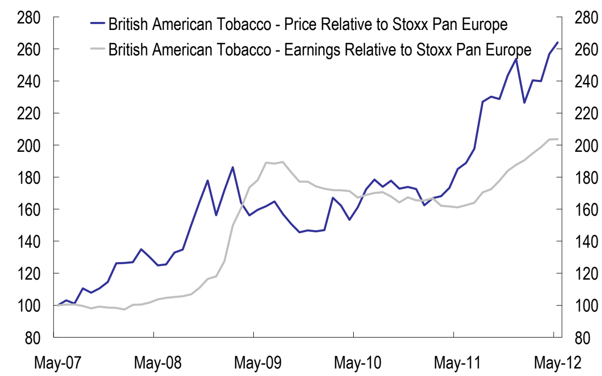
Source: DataStream

Figure 18. 12-Month Forward P/E



Source: Citi Investment Research and Analysis and DataStream

Figure 19. Price and Earnings Relative



Source: Citi Investment Research and Analysis and DataStream

BHP Billiton	Delivering on Diversity	Heath Jansen

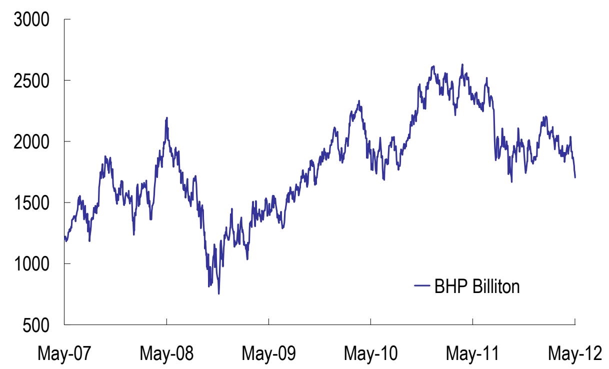
Our Buy Thesis	In our opinion, BHPB is the best positioned large diversified miner, with a high quality assets base and low cost production. Under a backdrop of stable commodity prices the company's portfolio should outperform. The market is concerned on BHBP large capital expenditure program, however we believe that BHPB is likely to stage its capex profile over the coming decade and this would result in an increase in free cash flow yield a higher ROE and a potential PE rerating.
Valuation	BHBP is trading on a FY2013E PE of 8.4x and a 30% discount to NPV, the company is trading on a 4% dividend yield which is the highest yield the company has traded on in 12 years. We think the downside is being protected by the yield and upside could be unlocked through a change in capex.
Debate/Risks	The key risk is if the company sticks with its existing aggressive capex profile and/or makes a large M&A deal.
Key Themes	World Champions, Defensive Growth, 3Bs
Upcoming event(s)	June 2012 Quarter Production and Exploration & Development Reports
Description	BHP Billiton is the world's largest mining company, formed by the merger of BHP Ltd and Billiton plc in 2001. The group is amongst the world's largest producers of major commodities, including aluminium, copper, energy coal, iron ore, manganese, metallurgical coal, nickel, silver and titanium minerals, and uranium along with substantial interests in oil and gas. The company retains a dual listed corporate structure between the UK and Australian markets.
Key Research	**Home Improvement**

BHP Billiton

Heath Jansen

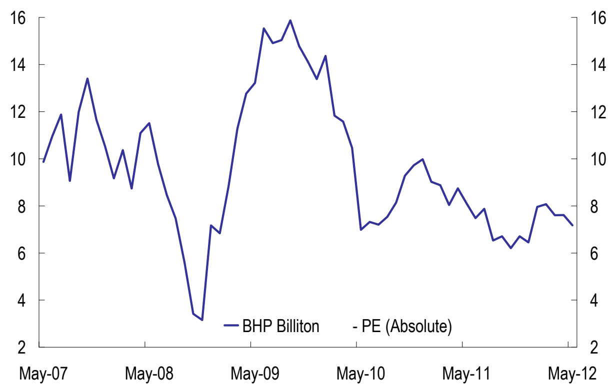
		Year to 30-Jun	2009	2010	2011	2012e	2013e	2014e
Rating	1	Sales (US$M)	50,211	52,798	71,739	73,090	79,264	84,554
Price (30 May 12)	17.52	EBITDA (US$M)	20,876	24,478	37,093	34,510	38,091	42,315
Target price (£)	23.00	Net Income (US$M)	10,722	12,469	21,684	17,967	19,530	22,047
Expected Share Price Return (%)	31.3	Core EPS (¢)	192.1	223.7	407.4	337.6	366.9	414.2
Expected Dividend Yield (%)	3.4	EPS Growth (%)	-30.2	16.4	82.1	-17.1	8.7	12.9
Expected Total Return (%)	**35%**	ROE (%)	27.4	28.2	41.2	29.1	26.6	25.0
Market cap (£M)	102,043	PE (x)	11.1	13.1	8.9	9.2	7.3	6.4
Market Cap ($M)	159,605	PB (x)	3.1	3.0	3.7	2.1	1.8	1.5
Net Debt to Equity (%)	12	EV/EBITDA (x)	6.2	7.3	5.9	5.6	4.5	3.9
Payout Ratio (%)	43	FCF Yield (%)	7.3	4.7	10.4	4.6	8.5	10.5

Figure 20. Share Price



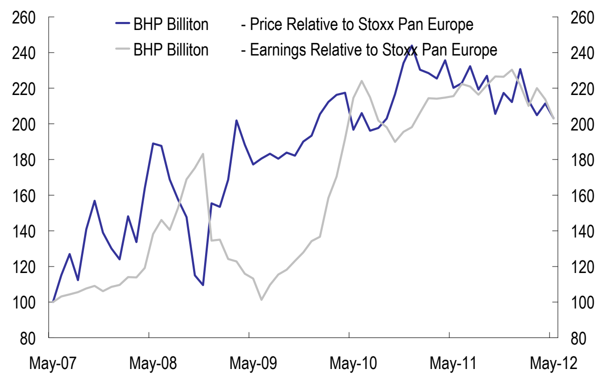
Source: DataStream

Figure 21. 12-Month Forward P/E



Source: Citi Investment Research and Analysis and DataStream

Figure 22. Price and Earnings Relative



Source: Citi Investment Research and Analysis and DataStream

BSkyB	Buy Sky Buy	Thomas Singlehurst, CFA

Our Buy Thesis

Over the past decade or more, there has been broad acceptance of BSkyB's premium multiple – an implicit acknowledgment of its growth status. Over the past 6 to 12 months, however, relative price and earnings have decoupled. While there are newsflow risks in the near-term – in particular the FA Premier League rights renewal, concerns about slowing subscriber growth and a more competitive UK landscape (competition from OTT players) – we think the market underestimates how mechanical EPS growth at BSkyB actually is. We estimate >75% of forecast EBIT growth comes from product penetration of the existing base. What is more we see material upgrade potential from a relatively range of sources: a simple 5% price increase from September (the first price in 2 years) combined with a rolling forward of the group's existing buyback programme (not unlikely given <1x net debt/EBITDA) could add 10%+ to consensus EPS.

Valuation

13.0x CY 2012E P/E, a 5 year relative low. The dividend yield meanwhile is approaching a 5 year high at 4%. On our base case the group de-rates fast (to 11.7x 2013E) but even this could be conservative. On our bull case the group could be on as little as 10x 2013E and would be still growing at EPS at 15%+ with a total cash return (dividend plus buyback) of well over 5%.

Debate/Risks

Investors worry about near-term newsflow, in particular the upcoming FAPL rights renewal. The concern is that that BSkyB pays a lot more to retain rights or, worse, loses a significant amount of rights to a new competitor. We forecast 25% cost uplift on renewal vs. consensus 10%-20%. More fundamentally, investors worry about slowing subscriber growth and the impact of more competition within the OTT space. With regards to the former, we note that slowing subscriber growth per se is not a problem. Indeed it could even drive EPS upgrades on lower subscriber acquisition costs. We see greater product penetration of the base as the most important KPI near-term. On the latter, we acknowledge the threat from new competitors like Netflix and Lovefilm, but also argue that there is a material opportunity for BSkyB, both from the existing offerings like Sky Anytime+ and SkyGo enhancing yield/driving down churn, but also from Now TV becoming a gateway product for the platform in the c. 9-10m households that don't already have Sky.

Key Themes

Quality

Upcoming event(s)

FAPL Rights Renewal (anticipated in June). Confirmation that BSkyB has retained FAPL rights within the range of consensus cost expectations (+10% to +25% with CIRA at +25%) we think would be a positive catalyst both in terms of the comfort it gives on the group's consumer proposition (a high degree of exclusivity on sports) but also on EPS.

Pricing/Buyback Announcement (expected at FY results on 26 July) - Despite having frozen prices for 24 months, we and consensus only assume a c. 2% price increase. If this is nearer 5% (as per VMED) this alone could drive a 5%+ consensus EPS upgrade. A continuation of the buyback from the £750m programme announced in July 2011 would be positive for EPS.

Description

British Sky Broadcasting Group plc provides a pay television broadcasting service to customers in the UK and the Republic of Ireland on a subscription basis and serves just shy of 10m households. The group's channels broadcast news, movies, sports (it owns the most lucrative UK football rights) and other entertainment as well as pay-per-view events. BSkyB also offers a triple lay package with broadband and fixed line telephony services.

Key Research

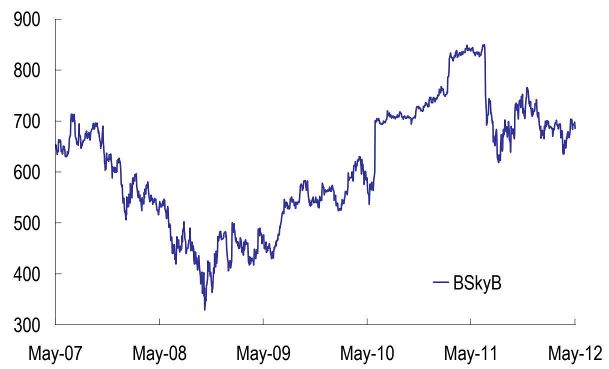
Updating the Buy Thesis & Upgrading TP to 850p

BSkyB

Thomas Singlehurst, CFA

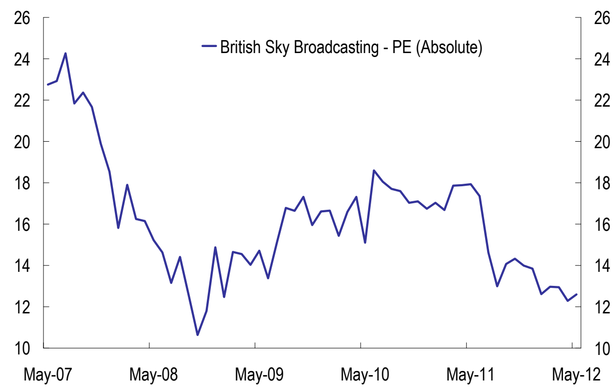
		Year to 30-Jun	2009	2010	2011	2012e	2013e	2014e
Rating	1	Sales (£M)	5,324	5,912	6,597	6,809	7,089	7,379
Price (30 May 12)	6.97	EBITDA (£M)	1,093	1,192	1,405	1,539	1,695	1,732
Target price (£)	8.50	Net Income (£M)	448	542	725	855	970	1,008
Expected Share Price Return (%)	22.0	Core EPS (p)	25.5	30.9	41.6	49.8	58.3	61.6
Expected Dividend Yield (%)	3.6	EPS Growth (%)	1.7	21.0	34.6	19.6	17.1	5.8
Expected Total Return (%)	**26%**	ROE (%)	430.2	96.3	73.6	79.9	82.0	66.6
Market cap (£M)	11,739	PE (x)	17.3	18.2	18.2	14.0	11.9	11.3
Market Cap ($M)	18,361	PB (x)	41.8	13.1	14.3	10.8	9.2	6.4
Net Debt to Equity (%)	909	EV/EBITDA (x)	8.3	8.9	9.6	7.9	6.9	6.5
Payout Ratio (%)	69	FCF Yield (%)	5.3	6.3	6.3	7.1	8.6	8.7

Figure 23. Share Price



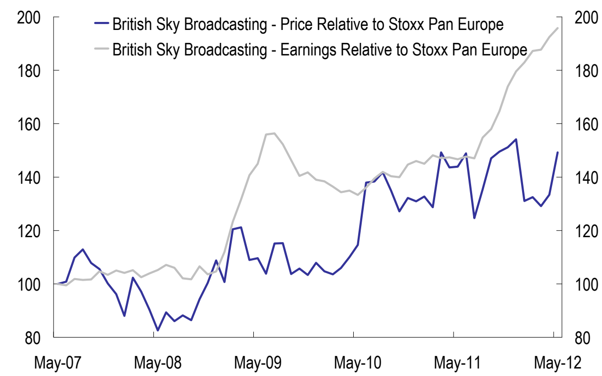
Source: DataStream

Figure 24. 12-Month Forward P/E



Source: Citi Investment Research and Analysis and DataStream

Figure 25. Price and Earnings Relative



Source: Citi Investment Research and Analysis and DataStream

Danone	Superior Growth & Receding Risks Merit Re-Rating	Robert Dickinson

Our Buy Thesis	We view Danone as having an attractive long-term earnings profile due to its exposure to categories that offer superior growth potential such as Waters and Nutrition. Coupled with over 50% of revenues generated from emerging markets, this gives the company a top-line outlook that is demonstrably superior to peers. We believe this is not fully reflected in the current valuation as the market has residual concerns around the US and Russian dairy businesses which are key to the long-term growth of this division. Our analysis suggests that both of these markets such accelerate materially in the second half of 2012 and return to double-digit growth by 2013.
Valuation	Danone trades in-line with the broader consumer staples peer group on 14.5x 2013E P/E, however we estimate superior EPS growth of 12% CAGR 2012-15E compared to 9% for peers Nestle (NESN.VX; SFr54.90; 2) and Unilever (ULVR.L; £20.21; 2). We see scope for a modest re-rating as the market gains additional confidence and visibility on key markets and the attractive earnings growth profile.
Debate/Risks	Danone is exposed to a further deterioration in consumer sentiment, particularly in developed market such as France which remains 11% of group sales. Its premium-priced yoghurt and waters could be viewed as more discretionary items which could be vulnerable to consumers down-trading. Execution risk in the US dairy market due to strong competition from Chobani in Greek yoghurt and General Mills in the traditional segment of the category.
Key Themes	Defensive Growth
Upcoming event(s)	We expect 1H12 results on 27 July to be supportive of our thesis that growth in the US and Russian dairy businesses is accelerating. This should build further confidence in the outlook for the dairy division and support re-rating.
Description	Danone is a major international food manufacturer. It is the global leader in fresh dairy products and also has businesses in water-based beverages, baby nutrition and clinical nutrition. Major brands include Activia, Actimel, Dannon, Evian, Cow & Gate and Nutricia.
Key Research	**Superior Growth and Receding Risks; Upgrade to Buy**

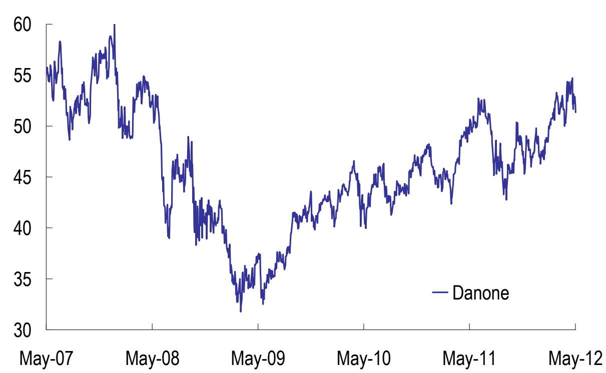
Danone

Robert Dickinson

Rating	1
Price (30 May 12)	52.32
Target price (€)	62.00
Expected Share Price Return (%)	18.5
Expected Dividend Yield (%)	2.9
Expected Total Return (%)	**21%**
Market cap (€M)	31,908
Market Cap ($M)	39,878
Net Debt to Equity (%)	49
Payout Ratio (%)	47

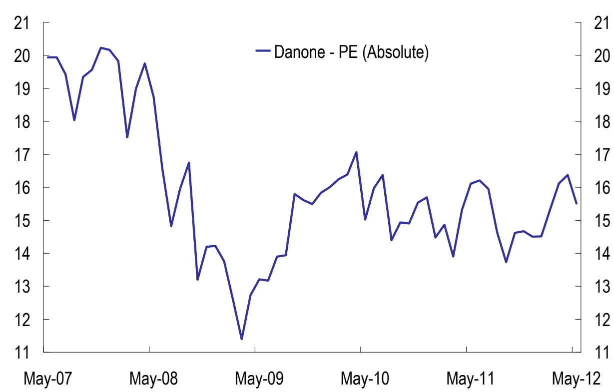
Year to 31-Dec	2009	2010	2011	2012e	2013e	2014e
Sales (€M)	14,982	17,010	19,318	20,949	22,408	23,976
EBITDA (€M)	2,789	3,123	3,426	3,735	4,070	4,432
Net Income (€M)	1,412	1,669	1,749	1,930	2,165	2,426
Core EPS (¢)	2.6	2.7	2.9	3.2	3.6	4.0
EPS Growth (%)	-0.5	5.3	6.8	10.4	12.2	12.1
ROE (%)	12.9	13.2	14.5	15.5	16.3	17.0
PE (x)	14.7	16.3	16.4	16.2	14.6	13.1
PB (x)	1.8	2.4	2.4	2.5	2.3	2.1
EV/EBITDA (x)	10.2	10.3	10.2	9.6	8.7	7.7
FCF Yield (%)	6.3	6.1	5.9	6.5	6.3	7.7

Figure 26. Share Price



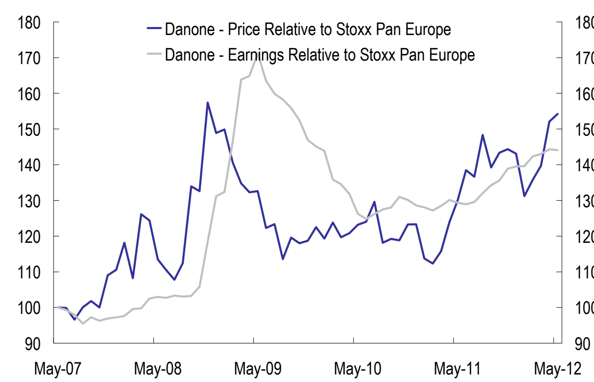
Source: DataStream

Figure 27. 12-Month Forward P/E



Source: Citi Investment Research and Analysis and DataStream

Figure 28. Price and Earnings Relative



Source: Citi Investment Research and Analysis and DataStream

EADS	**Continuing the Climb**	**Jeremy Bragg**

Our Buy Thesis	We are still positive on civil Original Equipment, due to EM demand and replacement demand for older fuel inefficient planes. The current order backlog (=7x of production) offers excellent visibility. We view civil aero as a leveraged play on the civil aero cycle. A combination of margin expansion due to self-help and high single-digit sales growth should drive 27% EPS CAGR 2012E-2016E. We assume an 8.8% margin in the core Airbus Commercial division by 2015E vs. 1.6% in 2011A. See "Growth, Visibility, Value" (14 November 2011). EADS is a significant beneficiary of € weakness vs. the $. Significant hedging limits near term EPS sensitivity, but every 1 $ cent movement in the spot rate from our base case of $1.27/€ impacts NPV by c€1/share. See "Still a Buy, Despite A380 Difficulties" (22 May 2012). As EBIT rises and R&D/Capex plateaus, we see EADS becoming a "cash machine" with >€5/share FCF by 2016E. See "(Still) Positive on EADS for 2012" (12 January 2012). Citi's EPS forecasts are 14-18% ahead of consensus through 2014E, so we see scope for continued positive consensus momentum but note that there is scope for short-term share price volatility due to FX and in the event of further execution issues.
Valuation	EADS is trading on 9.5x 2013E P/E vs. an historical average of 13.7x and 12.1x 2013E P/E for peer Boeing (BA.N; US$70.40; 1). Our DCF-based €36.50 Target Price implies 12.5x 2013E P/E. EV/Sales 0.5x 2013E vs. an historical average of c0.7x and our long-term margin assumption of 8.1% (o/w Airbus 8.7%). On a 3 year view, we believe that the shares could potentially triple (10x 2016E EV/EBIT = €78.50/share).
Debate/Risks	The key risk is poor execution on the A350XWB aircraft development programme or recurring costs on the A380 or A400M programmes. Our valuation models factor in €2bn of programme charges from now. Charges have a disproportionate impact on market sentiment. There is a risk of a large M&A deal given the company's desire to rebalance away from Civil Aero OE and a €11bn net cash balance sheet. Significant strategic shareholdings (France 22%, Germany 22%, Spain 5%) reduce liquidity and introduce a potential overhang for the shares. Despite an attractive valuation, many investors seem unwilling to buy the shares following a very strong run YTD (+18% rel) & in 2011 (+55% rel).
Key Themes	World Champions, Quality (High RoE & Strong Balance Sheet)
Upcoming event(s)	CEO and CFO change at AGM on 31 May. Farnborough Air Show w/c 9 July. 1H12 results 27 Jul.
Description	EADS is an aerospace and defence company centred on Airbus (60% sales), which manufactures large commercial jet aircraft and operates in a duopoly which Boeing. EADS' other businesses include Airbus Military, Eurocopter (helicopters), Cassidian (defence), Astrium (space) and ATR (regional aircraft).
Key Research	**Still a Buy, Despite A380 Difficulties**

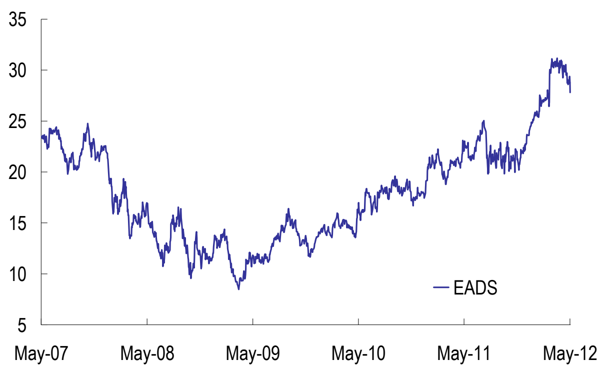
EADS

Jeremy Bragg

Rating	1
Price (30 May 12)	27.83
Target price (€)	36.50
Expected Share Price Return (%)	31.2
Expected Dividend Yield (%)	2.5
Expected Total Return (%)	**34%**
Market cap (€M)	22,944
Market Cap ($M)	28,676
Net Debt to Equity (%)	-98
Payout Ratio (%)	0

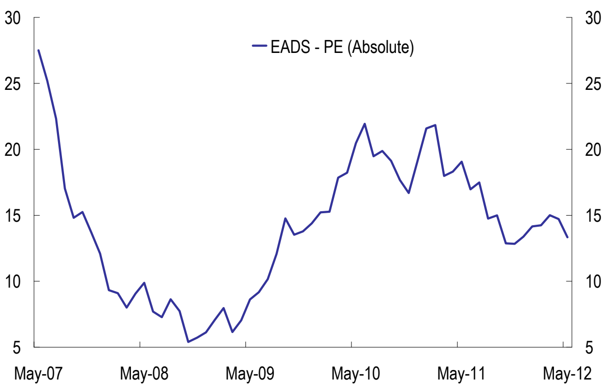
Year to 31-Dec	2009	2010	2011	2012e	2013e	2014e
Sales (€M)	42,822	45,752	49,128	55,060	58,340	62,540
EBITDA (€M)	3,782	2,737	3,426	4,615	5,562	6,606
Net Income (€M)	1,175	647	1,144	1,741	2,382	3,096
Core EPS (¢)	1.4	0.8	1.4	2.1	2.9	3.8
EPS Growth (%)	-46.1	-44.9	76.2	51.5	36.8	30.0
ROE (%)	10.9	6.7	12.9	18.4	21.8	23.9
PE (x)	8.6	20.8	15.3	13.0	9.3	7.2
PB (x)	1.1	1.6	2.2	2.2	1.9	1.6
EV/EBITDA (x)	5.0	7.3	7.7	6.7	5.3	4.2
FCF Yield (%)	4.7	20.4	14.8	0.8	6.3	10.3

Figure 29. Share Price



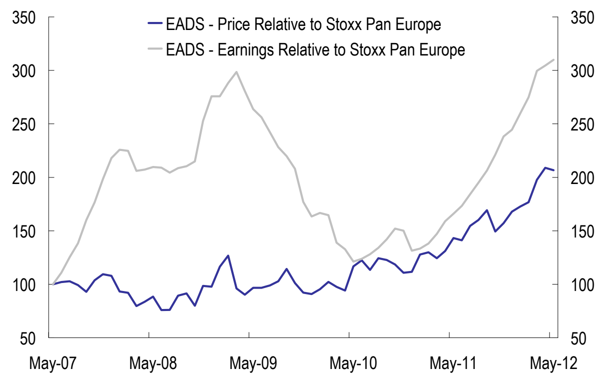
Source: DataStream

Figure 30. 12-Month Forward P/E



Source: Citi Investment Research and Analysis and DataStream

Figure 31. Price and Earnings Relative



Source: Citi Investment Research and Analysis and DataStream

Fresenius SE	Diversified Defensive	Cora McCallum

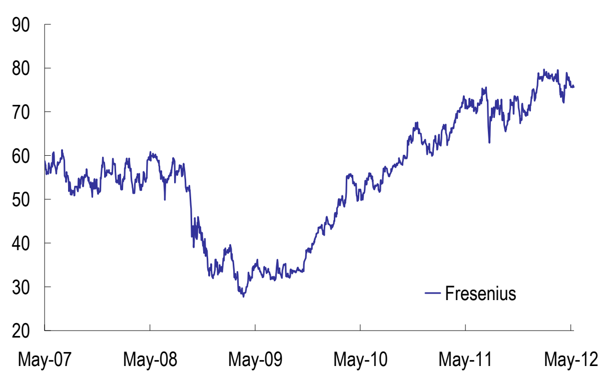
Our Buy Thesis	We see a quality company, diversified across a number of defensive industries, all of which are expected to benefit from any further austerity measures. Near term sales growth is expected to benefit from drug shortage situations in the US injectable generics market, leaving Fresenius the sole supplier of drugs in some cases (such as propofol). Sales growth is therefore impressive for a defensive company; we forecast 8.2% CAGR 11-16. Two of the business units, Fresenius Medical Care and Fresenius Helios, are expected to drive EBIT margin improvement through efficiency gains. Consequently we forecast 9.7% EBIT growth CAGR 11-16. With strong cash generation across all businesses enabling the repayment of debt, we anticipate 12.7% EPS growth CAGR 11-16. Fresenius announced its intention to acquire Rhon-Klinikum in May 2012, to become the largest private hospital operator in Germany with 47% share. The deal is intended to be funded by debt, which is already underwritten and a capital increase (already completed). Assuming the deal closes at the end of Q3, we anticipate earnings dilution of 0.4% in FY 13 and accretion of 3% in FY 14. We believe further details regarding the completion of the transaction will support positive share price momentum.
Valuation	Fresenius SE currently trades on a 2013E PE of 12.6x despite strong visible earnings growth. Our DCF valuation suggests a fair value of €105, or €112 including the acquisition of Rhon-Klinikum.
Debate/Risks	The key investor concern is that Fresenius SE may overpay for Rhon-Klinikum and will have too great an exposure to the slow revenue growth of the German private hospital market, perhaps the least interesting segment of the company. There is some concern that Fresenius SE may be a recipient of further FDA warning letters, potentially creating manufacturing delays.
Key Themes	Defensive Growth
Upcoming event(s)	The company is hosting a capital markets day focusing on the Kabi division on 12 June in Bad Homburg. The tender period for Rhon-Klinikum shareholders will run until 27 June. If 90% plus one share acceptance is achieved we expect the merger to complete in late Q3/early Q4 12.
Description	Fresenius SE is an integrated provider of health care. Through its four divisions the company builds (Fresenius Vamed) and runs hospitals (Fresenius Helios), provides clinical nutrition, infusion therapy and injectable generic drugs (Fresenius Kabi) and furnishes dialysis services (Fresenius Medical Care).
Key Research	**Acquisition of RHK – ROIC Analysis**

Fresenius SE

Cora McCallum

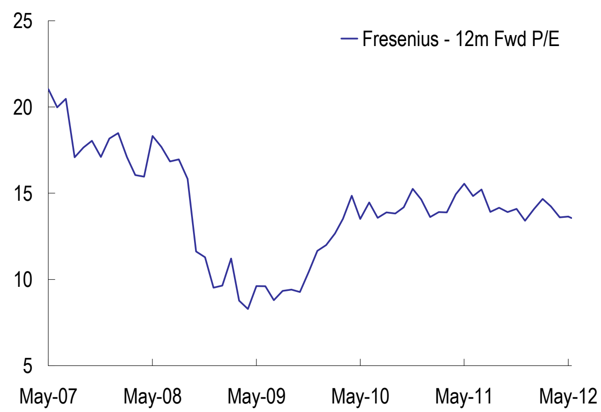
		Year to 31-Dec	2009	2010	2011	2012e	2013e	2014e
Rating	1	Sales (€M)	14,164	15,972	16,522	18,829	20,288	21,646
Price (30 May 12)	76.41	EBITDA (€M)	2,614	3,055	3,237	3,695	4,016	4,342
Target price (€)	105.00	Net Income (€M)	566	658	770	885	979	1,091
Expected Share Price Return (%)	37.4	Core EPS (¢)	3.5	4.0	4.7	5.4	6.0	6.7
Expected Dividend Yield (%)	1.2	EPS Growth (%)	18.5	15.6	16.1	14.9	10.6	11.5
Expected Total Return (%)	**39%**	ROE (%)	14.1	14.5	14.2	13.9	13.7	13.6
Market cap (€M)	13,537							
Market Cap ($M)	16,919	PE (x)	9.9	13.5	14.7	14.1	12.7	11.4
Net Debt to Equity (%)	104	PB (x)	1.7	2.1	1.9	1.8	1.6	1.5
Payout Ratio (%)	21	EV/EBITDA (x)	5.6	5.3	7.4	7.5	7.0	6.4
		FCF Yield (%)	15.7	13.0	8.0	3.8	9.6	11.4

Figure 32. Share Price



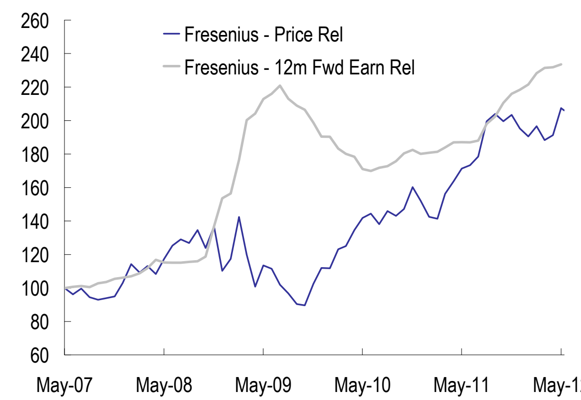
Source: DataStream

Figure 33. 12-Month Forward P/E



Source: Citi Investment Research and Analysis and DataStream

Figure 34. Price and Earnings Relative



Source: Citi Investment Research and Analysis and DataStream

GSK	Going for GARP	Andrew Baum

Our Buy Thesis	We believe the market is under-appreciating (i) GSK's late-stage pipeline, with value-added drugs for melanoma and NSCLC (skin, lung cancer) and HIV; (ii) consensus 2017E effective tax rates of c.25% look 200-250 basis points too high; and (iii) potential multiple expansion associated with any spin-off of ViiV (GSK and PFE HIV joint venture). GSK's 5-year growth rate is the highest amongst the large-cap EU pharma names (ex-Novo). We model 2013-18E EPS CAGR of 8.4% (vs. the sector average of 5.5%). The dividend yield of 5.4% (vs. the sector average of 5.1%) will continue to support the stock over the medium term.
Valuation	2013E target P/E of 12x vs the sector on 11x for EPS CAGR of 8.4% vs the sector's 5.5% from 2013-18E.
Risks	With the resolution of the DoJ investigation, we see few near-term risks for GSK aside from the macro sector exposure to continued EU pricing pressure. Relovair data in COPD has the potential to disappoint, although any downside is likely limited given the hurdles for near-term approval of generic Advair in both the EU and US. Competition from Mundipharma's Flutifom in EU may put some pressure on Advair market share in EU. Longer term, continued underwhelming performance of the US pharma business is a key risk. GSK has lost market share to Symbicort faster than we had expected since the FDA's change in LABA guidance in February 2010. We also note the slowing sales of and risk to Lovaza (omega-3 fish oil) from new and generic entrants in 2014. We believe GSK now details products to clinicians in the US less aggressively than many of its peers given the recent $3bn settlement with the DoJ.
Key Themes	World Champions, CDS-Adjusted Dividends
Upcoming event(s)	Phase III melanoma data (dabrafenib and trametinib) to be presented at ASCO at the beginning of June; (ii) 2Q12 results on July 25th.
Description	GSK is uniquely positioned amongst the EU large-cap pharma names as the only company to have undergone the majority of its patent cliff (excluding Advair, for which see considerable barriers to entry for generic entrants). We believe the company's diversified portfolio (pharma, consumer, vaccines) offers attractive sustainable growth over the medium to long term.
Key Research	**£2.3bn Skin Cancer Opportunity for GSK. Reassuring Signs for Rest of Pipeline.**

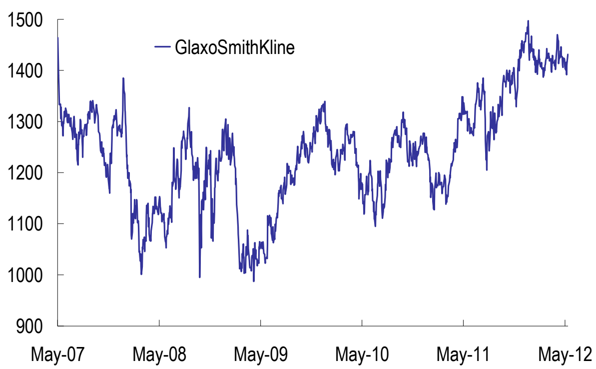
GSK

Andrew Baum

Rating	1
Price (30 May 12)	14.24
Target price (£)	16.10
Expected Share Price Return (%)	13.1
Expected Dividend Yield (%)	5.3
Expected Total Return (%)	**18%**
Market cap (£M)	71,531
Market Cap ($M)	111,881
Net Debt to Equity (%)	88
Payout Ratio (%)	59

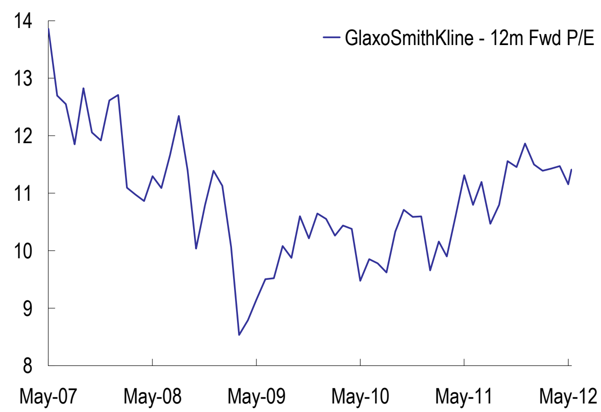
Year to 31-Dec	2009	2010	2011	2012e	2013e	2014e
Sales (£M)	28,349	28,392	27,387	27,793	28,071	29,446
EBITDA (£M)	10,413	5,873	9,576	9,481	10,181	11,064
Net Income (£M)	5,512	6,381	5,810	5,972	6,339	7,083
Core EPS (p)	107.9	124.4	113.9	120.5	132.1	151.9
EPS Growth (%)	22.5	15.3	-8.4	5.8	9.6	15.0
ROE (%)	61.5	67.6	68.7	75.7	80.7	84.7
PE (x)	10.8	9.9	11.4	11.7	10.7	9.3
PB (x)	6.7	7.1	9.1	8.7	8.2	7.3
EV/EBITDA (x)	6.8	12.4	7.9	8.5	8.0	7.4
FCF Yield (%)	9.7	8.1	7.1	6.6	8.0	11.2

Figure 35. Share Price



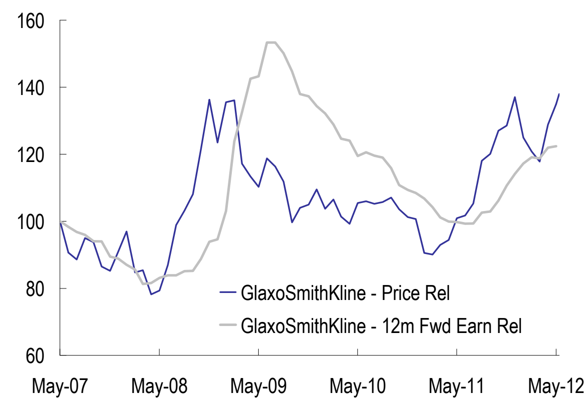
Source: DataStream

Figure 36. 12-Month Forward P/E



Source: Citi Investment Research and Analysis and DataStream

Figure 37. Price and Earnings Relative



Source: Citi Investment Research and Analysis and DataStream

HSBC	From Local Small Bank to World's Connected Bank	Ronit Ghose

Our Buy Thesis	(1) EM Earnings, DM Valuation: HSBC is one of the biggest GEM banks in the world. It earned $14bn in Asia and EM in 2011. Asia and EM is c80% of HSBC earnings in 2011 and likely to remain so in 2012-13E. Yet HSBC's valuation (1x P/B) is similar to a high quality DM bank eg. JPM (JPM.N; US$33.63; 1) or Nordea (NDA1V.HE; €6.03; 2). This presents a buying opportunity in our view. (2) Targets and Strategy: HSBC's new CEO set the group in the right direction in 2011, but a negative external environment led to negative earnings revisions from 2Q-4Q11. Stuart Gulliver's second Strategy Day (on 17th May) was positive, highlighting progress on divestments, costs (now aiming for the upper end of previous $2.5-3.5bn cost saving target) and connectivity-driven revenue growth. (3) Local Bank to Connected Bank: the world's local bank was a better marketing slogan than a business model. New management has exited local or small businesses (28 and counting in the last year). Connectivity-focused businesses are growing fast such as GTS (2011 revenues +20% yoy) and FX (+19% yoy). In Asia, HSBC has also closed the gap to global peers and become one of the leading wholesale banks.
Valuation	We believe its Asian and EM strengths, combined with the ongoing group turn-around under the new(ish) management are under-valued. HSBC currently trades at 1.1x 2012E P/tBV and 8.4x 2012E PE, with a 5.1% 2012E dividend yield. We have a Buy rating and a £6.50 target price.
Debate/Risks	(1) Are HSBC's financial targets unrealistic? HSBC targets are ambitious, targeting a cost income ratio of 48-52% and a RoE of 12-15% by 2013E, while we forecast 57.9% and 10.7% in 2013E respectively. Although management's targets are ambitious, we do not believe the market is expecting them to achieve them and therefore this offers further upside risk if management reach their targets. (2) US remains a drag on profitability: North America accounted for 58% of group impairments in 2011, however US NPLs are rising at a slower rate and 1Q12 impairments were down materially on 4Q11. US asset quality appears to be stabilising, and we forecast North American 2012 impairments to be 43% lower than those in 2011. (3) HSBC operates in too many markets, with too low a return: since the strategy day in March 2011 HSBC has sold 28 businesses, mainly retail focused and smaller markets. The group is starting to focus more on its core strengths (i.e. commercial banking), and core regions (i.e. Asia). While in 2011 47% of revenues were from emerging markets (including Asia), we forecast that this will be 56% by 2014.
Key Themes	World Champions
Upcoming event(s)	Next event is the 1H12 results on 30th July 2012.
Description	Following a change in strategy in 2011, HSBC has begun to refocus its business on its core strengths around commercial banking and Asia. In addition 58% of 2011 impairments came from North America, where asset quality is improving creating an uplift to profits. HSBC's p&l and balance sheet is becoming increasingly focused on emerging markets, despite HSBC having a developed market bank valuation.
Key Research	**From Local Small Bank to World's Connected Bank**

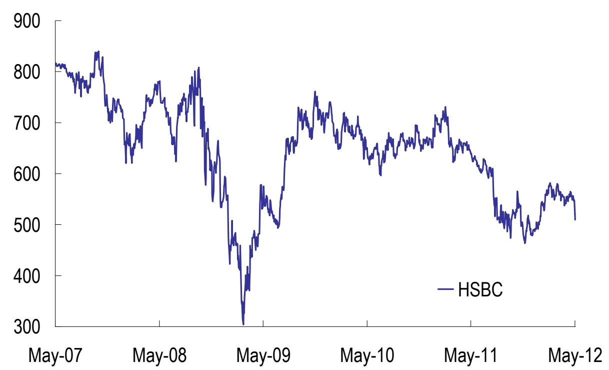
HSBC

Ronit Ghose

Rating	1
Price (31 May 12)	5.04
Target price (£)	6.50
Expected Share Price Return (%)	29.1
Expected Dividend Yield (%)	5.6
Expected Total Return (%)	**35%**
Market cap (£M)	91,444
Market Cap ($M)	141,569
Payout Ratio (%)	43

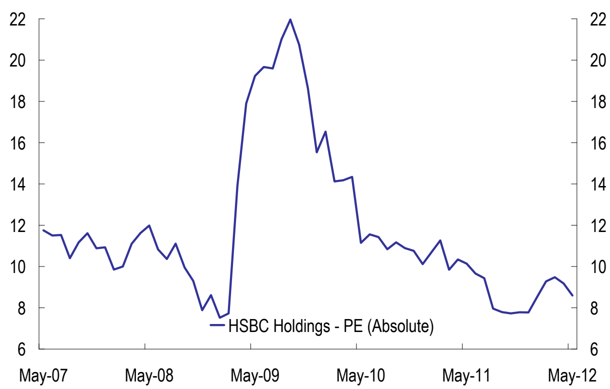
Year to 31-Dec	**2009**	**2010**	**2011**	**2012e**	**2013e**	**2014e**
Net Income (US$M)	5,565	12,746	16,224	16,456	18,169	20,001
Core EPS (¢)	33.9	72.3	90.5	90.8	99.0	107.6
EPS Growth (%)	-16.4	113.3	25.2	0.3	9.1	8.6
ROE (%)	5.2	9.6	11.1	10.5	10.7	11.0
PE (x)	27.1	14.2	10.5	9.0	8.0	7.4
PB (x)	1.6	1.3	0.9	0.9	0.8	0.8

Figure 38. Share Price



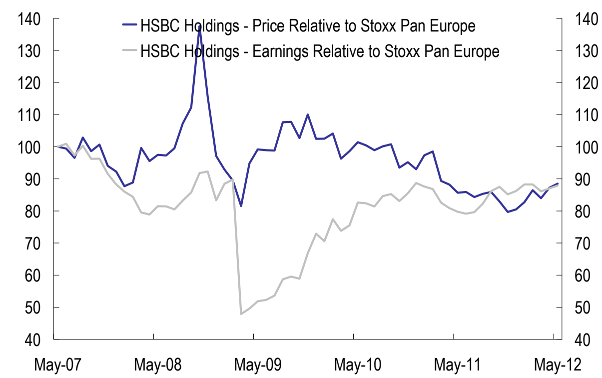
Source: DataStream

Figure 39. 12-Month Forward P/E



Source: Citi Investment Research and Analysis and DataStream

Figure 40. Price and Earnings Relative



Source: Citi Investment Research and Analysis and DataStream

Inditex | Rule the World | Richard Edwards

Our Buy Thesis	A ‘GDP-plus’ business: our long held Buy rating is based on our belief that Inditex is a ‘GDP-plus’ business, most impressively in the demanding calendar 2009 when sales weighted GDP fell -3.5% Inditex delivered flat group LFL. As Inditex accelerates the store opening programme in the higher-growth Asian and Emerging markets we expect the group to continue to deliver ‘GDP-plus’ LFL sales growth driving c.+10-15% compound EPS growth from here. In combination with a c.3% dividend yield, this should drive c.+15% ETR over time. This view is underpinned by the group’s recent doubling of design, sourcing and store feedback management capacity.
Valuation	Target price €82 – This target is based on 14.5x January 2014E target EV/EBIT (recent average), equating to c.21x P/E and a 4.5% free cash flow yield (also in line with long run average).
Debate/Risks	The company has a large exposure to Spain.
Key Themes	World Champions, Defensive Growth, Quality (High RoE & Strong Balance Sheet)
Upcoming event(s)	1Q results on 13 June. We strike a €510m PBT forecast, equating to €0.62 EPS +16% year on year, driven by 1Q sales +12.8% (LFL +4%, ccy +1%, space +7.8%), gross margins flat and +1.8% LFL cost inflation.
Description	Inditex manufactures and retails apparel. The company operates retail chains under the names Zara, Massimo Dutti, Pull & Bear, Stradivarius, Bershka, Oysho, Zara Home and Uterque in 80 countries around the world. Much of the manufacturing is subcontracted.
Key Research	The Colour Of Spring

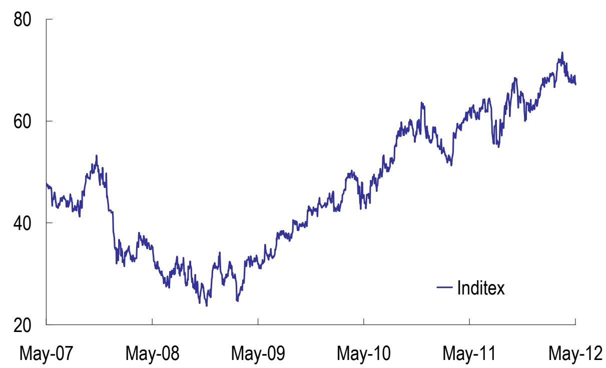
Inditex

Richard Edwards

Rating	1
Price (30 May 12)	69.08
Target price (€)	82.00
Expected Share Price Return (%)	18.7
Expected Dividend Yield (%)	2.9
Expected Total Return (%)	**22%**
Market cap (€M)	43,060
Market Cap ($M)	53,816
Net Debt to Equity (%)	-26
Payout Ratio (%)	52

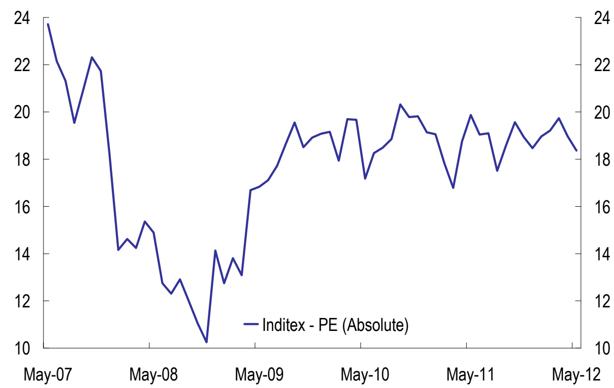
Year to 31-Jan	**2009**	**2010**	**2011**	**2012e**	**2013e**	**2014e**
Sales (€M)	10,407	11,084	12,527	13,793	15,209	17,000
EBITDA (€M)	2,174	2,340	2,914	3,202	3,600	4,041
Net Income (€M)	1,254	1,313	1,733	1,933	2,139	2,402
Core EPS (¢)	2.0	2.1	2.8	3.1	3.4	3.9
EPS Growth (%)	0.2	4.3	32.0	11.5	10.6	12.3
ROE (%)	28.1	26.1	29.6	28.0	27.0	26.7
PE (x)	15.3	17.2	18.7	19.6	19.8	17.4
PB (x)	3.9	5.3	5.4	5.6	5.0	4.4
EV/EBITDA (x)	8.2	8.7	10.0	10.6	10.5	9.0
FCF Yield (%)	4.3	8.0	5.8	4.1	4.9	5.6

Figure 41. Share Price



Source: DataStream

Figure 42. 12-Month Forward P/E



Source: Citi Investment Research and Analysis and DataStream

Figure 43. Price and Earnings Relative

Source: Citi Investment Research and Analysis and DataStream

Linde	Quality Growth at Discount to Peers	Andrew Benson

Our Buy Thesis	Linde is a growth stock driven by opportunities in energy, sustainability and emerging markets. Generally high and divergent energy cost trends have and continue to create opportunities for growth. Coal gasification in China, enhanced oil recovery in the Middle East, gas-to-liquids in the US, energy arbitrage opportunities, and more efficient production processes such as steel in India, should drive demand for industrial gases in the coming years. We see Linde as best placed to exploit these growth opportunities. The scale of opportunity globally is driving up hurdle rates for investment, which we expect will lead to a progressive improvement in ROCE over the medium term. Linde is well-placed to deliver sustained high-single-digit compound EPS growth. It is the leader in Gases in emerging regions, it has a strong tonnage opportunities pipeline (with €4.3bn worth of contracts under consideration), and is the global leader in gas management engineering. Linde restated its medium-term targets for 2014 of group EBITDA of at least €4.0bn and ROCE of at least 14%. Achieving its target would require high-single-digit annual growth in EBITDA, which we see as highly likely due to the emerging market exposure and the scale of growth available, notably in energy and environmental-related markets.
Valuation	We believe the valuation discount versus its peers (2012E PE of 15.0x versus peers at 16.9x and 2012E EV/.EBITDA of 7.85x versus peers of 8.76x) undervalues the shares. The FY11 and 1Q12 results confirmed growth is on track.
Debate/Risks	The European credit crisis will likely adversely impact GDP growth and put pressure on volumes. The development of US shale gas will tend to drive energy costs down and this might lead to some uncertainty for some energy related project; US coal-to-liquids projects are not going ahead, for example. Infrastructure projects slowdown in emerging markets like India and China. The company is a defensive growth entity with a high and growing visibility of growth; is the growth discounted in the premium valuation?
Key Themes	-
Upcoming event(s)	CFO Roadshow in New York on May 30th. Look for further guidance on 2012 outlook, cost initiatives and growth targets
Description	Linde has 21% of the global gases market and is one of the two leaders in Europe. Its takeover of BOC has given it a strong position. The company is well placed in the key growth drivers of emerging markets and healthcare.
Key Research	**Growth Potential Explored: Upgrading Linde To Buy**

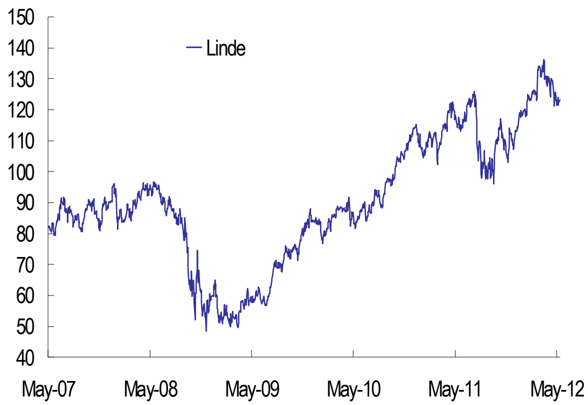
Linde

Andrew Benson

Rating	1
Price (30 May 12)	125.45
Target price (€)	150.00
Expected Share Price Return (%)	19.6
Expected Dividend Yield (%)	1.4
Expected Total Return (%)	**21%**
Market cap (€M)	21,460
Market Cap ($M)	26,820
Net Debt to Equity (%)	67
Payout Ratio (%)	36

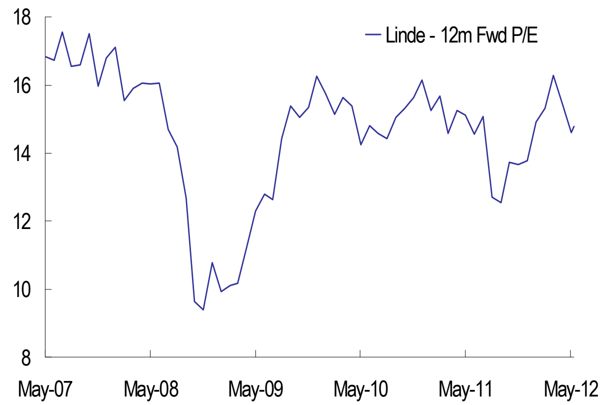
Year to 31-Dec	2009	2010	2011	2012e	2013e	2014e
Sales (€M)	11,211	12,868	13,787	14,674	15,673	16,729
EBITDA (€M)	2,403	2,857	3,134	3,312	3,550	3,798
Net Income (€M)	855	1,153	1,315	1,404	1,559	1,739
Core EPS (¢)	5.1	6.8	7.7	8.2	9.1	10.1
EPS Growth (%)	-6.6	34.7	13.1	6.4	10.7	11.2
ROE (%)	10.3	11.8	11.7	12.3	13.2	13.6
PE (x)	12.8	13.5	14.5	15.2	13.7	12.3
PB (x)	1.6	1.8	1.7	1.9	1.7	1.6
EV/EBITDA (x)	7.1	7.5	7.7	8.0	7.3	6.7
FCF Yield (%)	6.7	7.9	5.7	2.8	4.3	5.9

Figure 44. Share Price



Source: DataStream

Figure 45. 12-Month Forward P/E



Source: Citi Investment Research and Analysis and DataStream

Figure 46. Price and Earnings Relative

Source: Citi Investment Research and Analysis and DataStream

PPR	Transformation Story To Drive Multiple Expansion	Thomas Chauvet

Our Buy Thesis

While PPR's structure remains that of a diverse conglomerate, its strategic objectives are clear – a focus on products/markets with good medium-term growth prospects and high emerging markets exposure, and the willingness to sell legacy retail assets which do not offer sufficient growth and profitability potential. The group's future growth dynamics and product/geographic exposure continue to evolve and offer significant margin/returns expansion potential, in our view. We continue to view the gradual transformation of PPR into a "pure-play" luxury/lifestyle company as an attractive investment opportunity which could lead to significant value creation. We expect EBIT to accelerate too, thanks to profitable space growth, more favourable mix and continued pricing, in our view not entirely factored into consensus.

While the market remains overly focused on the core Gucci brand (~70% of Luxury and ~60% of group EBIT), PPR’s other luxury brands continue to deliver outstanding revenue growth and now account for ~40% of Luxury sales, driving nearly half of our 2012-14E Luxury EBIT growth. With favourable regional and channel mix, Bottega Veneta’s new markdown policy on leather goods and YSL’s favourable mix (leather goods), this bodes well for medium-term margin expansion.

Investors should be reassured that financial indebtedness is not a major issue for PPR anymore, following solid operating FCF generation in 2008-11, and further debt reduction after the partial listing of CFAO in 2009 and the sale of Conforama in 2010. With fixed charge cover of 3.5x and net debt/EBITDA of around 1.4x at the end of 2012E, PPR does not seem to be excessively geared. With a desired level of debt of 1.5-2.0x EBITDA, and the upcoming disposals of Fnac and Redcats, this should leave the group with significant room for manoeuvre for further acquisitions.

Valuation

PPR trades on a FY2013E PE of 10.3x and 8.8x EV/EBIT, at a ~25% discount to our SOTP valuation. The upside should come from gradual multiple expansion as the group executes its asset rotation and transformation into a pure-play luxury and lifestyle group.

Debate/Risks

The company remains a conglomerate structure. Gucci perceived as a more cyclical brand than some of its soft luxury peers. Potential delays in the disposal process of legacy retail assets (Redcats, Fnac, and the 42% stake in CFAO). The company has not been a great buyer of assets (Puma). Above industry average financial leverage. Scepticism over the validity of the future luxury and lifestyle combination.

Key Themes

-

Upcoming event(s)

1H12 results (27 July), which should provide more visibility on the magnitude of potential earnings upgrades and on planned disposals of legacy retail assets.

Description

PPR was established in 1963 by François Pinault. He retains a majority holding. PPR grew in the retail sector in the mid-1990s. The purchase of a controlling stake in Gucci Group in 1999, followed by a multi-brand luxury goods/lifestyle strategy and the acquisition in 2007 of a 62% stake in Puma (80% as of March 2012), Volcom (acquired in May 2011) and Brioni (Nov 11) means that the group is now split 40/25/35 Luxury/Lifestyle/Retail by sales and 75/20/5 by EBIT.

Key Research

There’s Still Time to Trade Up Into Luxury

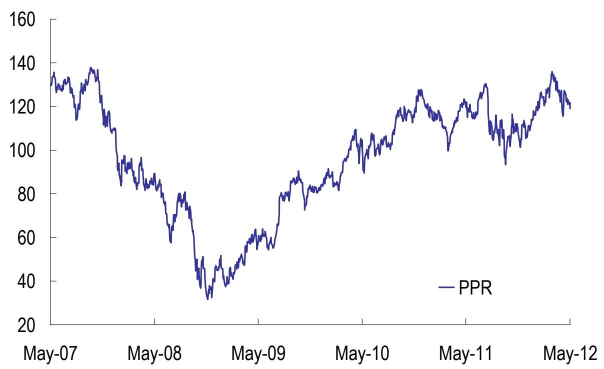
PPR

Thomas Chauvet

Rating	1
Price (30 May 12)	119.35
Target price (€)	154.00
Expected Share Price Return (%)	29.0
Expected Dividend Yield (%)	3.4
Expected Total Return (%)	**32%**
Market cap (€M)	15,035
Market Cap ($M)	18,790
Net Debt to Equity (%)	42
Payout Ratio (%)	62

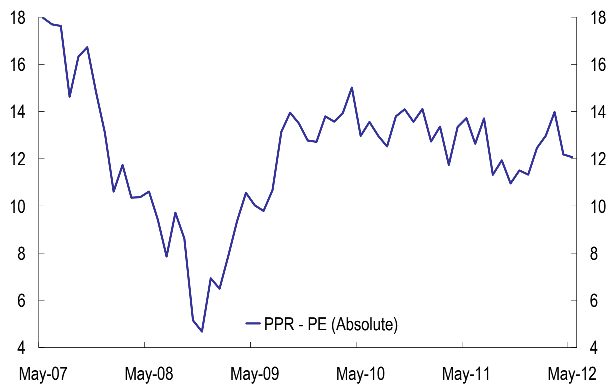
Year to 31-Dec	**2009**	**2010**	**2011**	**2012e**	**2013e**	**2014e**
Sales (€M)	13,597	14,605	12,227	13,601	14,489	15,497
EBITDA (€M)	1,556	1,749	1,817	2,077	2,343	2,668
Net Income (€M)	669	958	1,055	1,235	1,447	1,716
Core EPS (¢)	5.3	7.6	8.4	9.8	11.5	13.6
EPS Growth (%)	-8.4	42.9	10.5	17.1	17.1	18.6
ROE (%)	6.9	9.3	9.8	11.7	13.7	14.8
PE (x)	12.4	13.8	13.6	12.3	10.3	8.7
PB (x)	1.1	1.4	1.3	1.5	1.4	1.2
EV/EBITDA (x)	9.0	10.0	9.8	8.9	7.7	6.5
FCF Yield (%)	9.6	6.7	4.5	6.8	8.5	10.2

Figure 47. Share Price



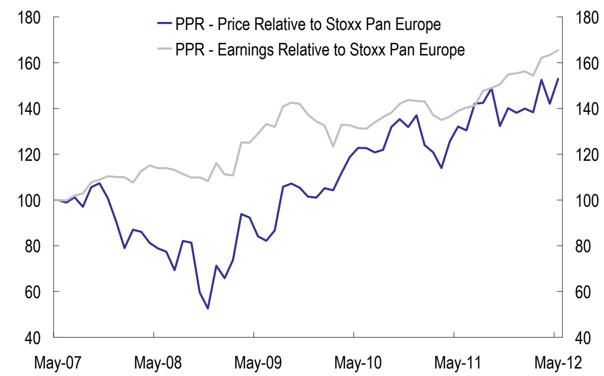
Source: DataStream

Figure 48. 12-Month Forward P/E



Source: Citi Investment Research and Analysis and DataStream

Figure 49. Price and Earnings Relative



Source: Citi Investment Research and Analysis and DataStream

Prudential	EM Growth at DM Price	Raghu Hariharan

Our Buy Thesis	Prudential is a top pick within the European insurance space given its undisturbed growth profile, negligible Eurozone exposure and the only insurer with a clear global growth footprint. The company is well positioned in major Asian markets with leading markets shares in 8/12 markets while also being amongst the top life insurance players in the US and the UK. The key inflection point for the company would be reached when it achieves its FY13 targets of doubling Asian earnings with Asia set to account for c45% of overall earnings.
Valuation	The share is 10x FY13E P/E, at a premium to the sector but a 40% discount to its Asian peers on a sum of the parts basis as it stands out as being the only company with a unique growth profile with c40% of earnings arising from Asia.
Debate/Risks	The key debate remains around the "drag" that the group suffers from its developed market exposure. However, the group has proven risk management capability in the US and UK while ensuring that marginal capital allocation will be more focused on Asia. Key Risks remain regulatory risks, low interest rates in the US, UK longevity risks and Asian growth slowdown.
Key Themes	World Champions
Upcoming event(s)	1H12 results in August, 2012
Description	Prudential is a rarity within the European insurance space that has "in built" earnings growth given its scale positions across fast growing, important Asian markets while ensuring that it is catering to a graying population in the more developed UK/US markets. It has proven expertise in risk management and capital allocation through the 2008 crisis and there are low execution risks in achieving earnings growth.
Key Research	**Eastern Promise, Western Risks**

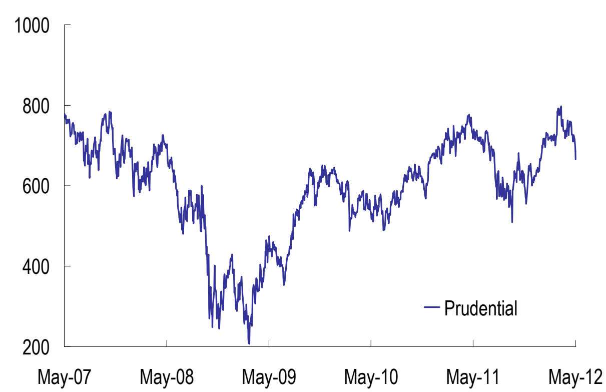
Prudential

Raghu Hariharan

Rating	1
Price (30 May 12)	6.85
Target price (£)	8.50
Expected Share Price Return ('	24.2
Expected Dividend Yield (%)	3.9
Expected Total Return (%)	**28%**
Market cap (£M)	17,466
Market Cap ($M)	27,319
Payout Ratio (%)	37

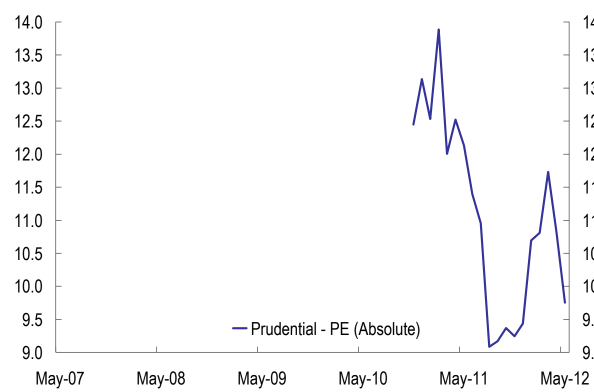
Year to 31-Dec	2009	2010	2011	2012e	2013e	2014e
Net Income (£M)	1,347	1,565	1,618	1,660	1,823	1,994
Core EPS (p)	53.9	62.0	63.9	65.4	71.3	77.4
EPS Growth (%)	41.5	15.1	3.0	2.4	9.0	8.6
ROE (%)	23.8	22.7	20.1	19.9	21.2	19.3
PE (x)	8.5	9.4	10.5	10.6	9.5	8.8
PB (x)	2.6	2.3	1.9	2.1	1.9	1.5

Figure 50. Share Price



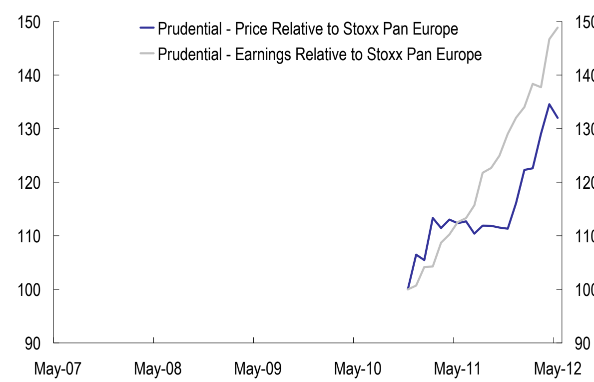
Source: DataStream

Figure 51. 12-Month Forward P/E



Source: Citi Investment Research and Analysis and DataStream

Figure 52. Price and Earnings Relative



Source: Citi Investment Research and Analysis and DataStream

Saipem — Growth Moored To Offshore Boom — Ryan Kauppila

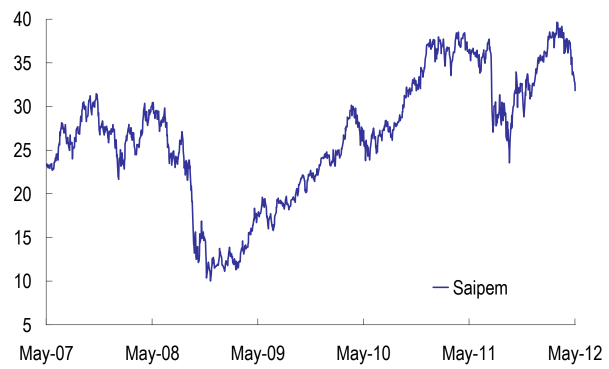
Our Buy Thesis	Deepwater oil and gas accounts for 34% of incremental production this decade. As a market-leader in offshore construction, Saipem is well geared towards this growth. Tightening industry utilisation across offshore markets should see Saipem operating margins expand by 300bps 2011-14E (to 15%), and given the expanding overall market, we see potential for double-digit earnings growth through to 2020E. The current backlog accounts for 70% of earnings growth 2011-13E, a defensive order book benefitting from geographic diversity, a creditworthy client base, and economics robust down to oil prices of $50/bl for ~80% of the project portfolio. The balance sheet looks secure, with free cash flow set to grow 59% p.a. 2011-14E following the completion of a multi-year investment program in 2012..
Valuation	Saipem is trading at 11x 2013E PE, a 35% discount to its 10-year historical average. Given the robust visibility afforded by the current backlog and necessity for further global energy supply infrastructure spend, Saipem offers some of the most attractive defensive growth across the European market, in our view.
Debate/Risks	Risks that a pullback in oil prices will see cuts to industry capex, with prospective projects being delayed or cancelled. Eni is a 43% shareholder and Saipem debt is issued via Eni treasury. As such, Italy sovereign or fiscal concerns, which impact Eni, could have a spill-over impact on Saipem. Risks that intense Asian competition in onshore markets negatively impacts expected growth. Saipem's business is dependent on resource-rich nations, many of which are associated with high levels of geopolitical and security risks (e.g. Iraq, Nigeria).
Key Themes	Defensive Growth
Upcoming event(s)	We expect the announcement of several large offshore projects in Brazil and West Africa in the coming months. Saipem looks well placed to win several of these projects.
Description	Saipem is an Engineering & Construction contractor diversified across onshore & offshore construction and onshore & offshore drilling. Operations are diverse across client base and geography, with competitive local content offerings in select regions. Eni is a 43% shareholder and accounts for 14% of current backlog.
Key Research	**Top of the Cheap Stock Queue**

Saipem

Ryan Kauppila

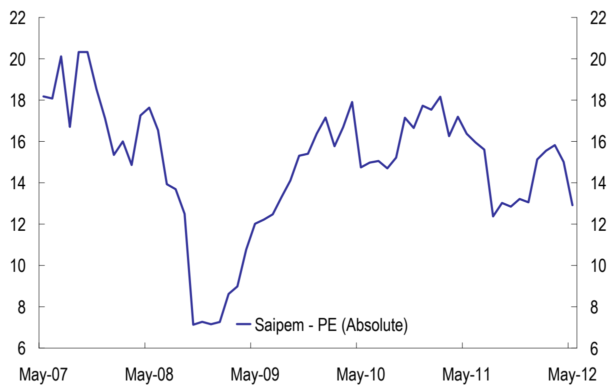
		Year to 31-Dec	2009	2010	2011	2012e	2013e	2014e
Rating	1	Sales (€M)	10,292	11,160	12,593	13,415	14,333	15,897
Price (30 May 12)	32.97	EBITDA (€M)	1,598	1,837	2,135	2,363	2,688	3,148
Target price (€)	50.00	Net Income (€M)	734	846	921	1,032	1,242	1,634
Expected Share Price Return (%)	51.7	Core EPS (¢)	1.7	1.9	2.1	2.3	2.8	3.7
Expected Dividend Yield (%)	2.0	EPS Growth (%)	1.4	15.4	8.4	12.0	20.4	31.5
Expected Total Return (%)	**54%**	ROE (%)	23.7	22.6	21.0	20.3	21.0	23.4
Market cap (€M)	14,549							
Market Cap ($M)	18,183	PE (x)	10.5	14.6	16.2	14.5	11.5	8.7
Net Debt to Equity (%)	84	PB (x)	3.1	4.0	3.1	2.6	2.2	1.9
Payout Ratio (%)	33	EV/EBITDA (x)	6.7	8.6	8.5	7.6	6.2	5.0
		FCF Yield (%)	-8.9	-2.6	2.7	3.7	9.0	11.6

Figure 53. Share Price



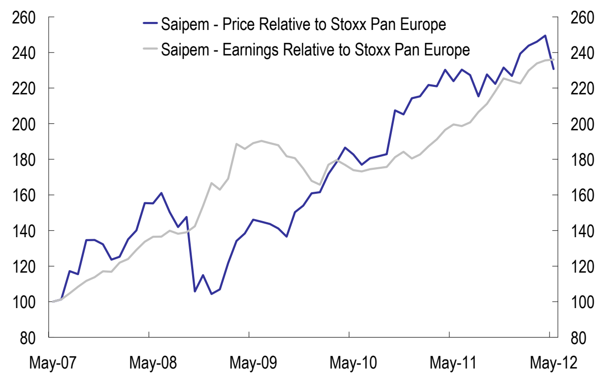
Source: DataStream

Figure 54. 12-Month Forward P/E



Source: Citi Investment Research and Analysis and DataStream

Figure 55. Price and Earnings Relative



Source: Citi Investment Research and Analysis and DataStream

SAP | In-memory, In Memory And In Cloud | Gunnar Plagge

Our Buy Thesis	We see ~10% top line growth over the next years for SAP as the company executes on underappreciated core growth developed markets & BRIC and its product roadmap in mobile software, cloud and in-memory. The Ariba acquisition offers opportunities to extend supply chain functionality along analytics and network connectivity. Solid top line growth should result in margin expansion towards 35%.
Valuation	At the current share price, SAP's forward multiple of ~12.6x earnings is below the 2-year historical average of ~15x. Given the quality of SAP's substantial defensive earnings growth, we argue for a rerating of SAP's forward multiple towards 18x, arriving at a price target of EUR 65. Having updated our DCF model we note that SAP's share price at this point discounts in our view a negative terminal growth rate of ~-4% with the terminal growth value accounting for an unusually low ~35% of the total EV.
Risks	Q2 targets not achievable: Sales execution problems, as witnessed by SAP during the first quarter in North America reflect, in many cases, more serious underlying organizational problems. We believe that in SAP's case the organisational changes introduced in January were easily reversible and we are as such optimistic that SAP will meet Q2 expectations as far as North American software sales are concerned, while a negative impact from overall macro risk on EMEA software numbers can't be ruled out. Expensive valuation of Ariba deal on 8.2x 2012E revenues.
Key Themes	World Champions, Defensive Growth, Strong in Strong
Upcoming event(s)	Oracle FY results in June with colour on impact of macro on enterprise software spending in particular Europe (32% of Oracle's revenues are from Europe/EMEA).
Description	SAP is the leading enterprise application software vendor worldwide. SAP develops and sells a complete suite of software that includes ERP, supply-chain management, customer relationship management, product lifecycle management, and other front- and back-office support software that allows companies to automate, integrate and improve their businesses and processes.
Key Research	**SAP Core Growth is Underappreciated**

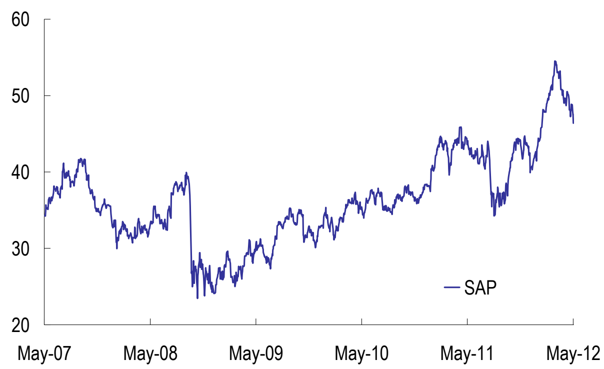
SAP

Gunnar Plagge

Rating	1
Price (30 May 12)	46.75
Target price (€)	65.00
Expected Share Price Return (%)	39.0
Expected Dividend Yield (%)	2.1
Expected Total Return (%)	**41%**
Market cap (€M)	57,425
Market Cap ($M)	71,770
Net Debt to Equity (%)	-14
Payout Ratio (%)	29

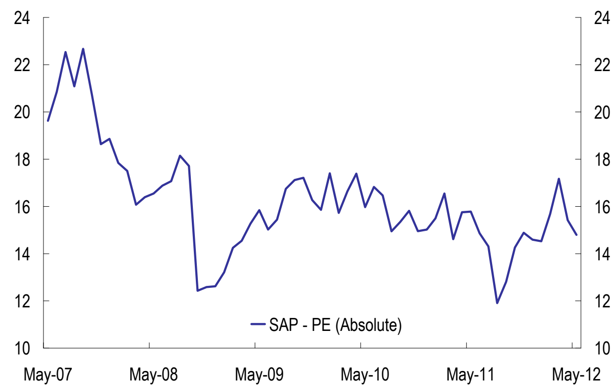
Year to 31-Dec	**2009**	**2010**	**2011**	**2012e**	**2013e**	**2014e**
Sales (€M)	10,672	12,464	14,232	16,006	17,746	19,493
EBITDA (€M)	3,413	4,541	5,433	5,997	6,838	7,715
Net Income (€M)	2,014	2,739	3,371	3,731	4,347	4,943
Core EPS (¢)	1.7	2.3	2.8	3.1	3.7	4.2
EPS Growth (%)	-10.9	36.0	23.0	10.6	16.5	13.7
ROE (%)	25.7	30.0	30.0	27.5	27.2	25.8
PE (x)	17.9	15.5	14.6	15.0	12.6	11.1
PB (x)	4.8	4.8	3.9	3.9	3.2	2.7
EV/EBITDA (x)	10.5	9.6	9.2	9.2	7.5	6.3
FCF Yield (%)	7.7	6.1	6.7	3.5	7.8	9.0

Figure 56. Share Price



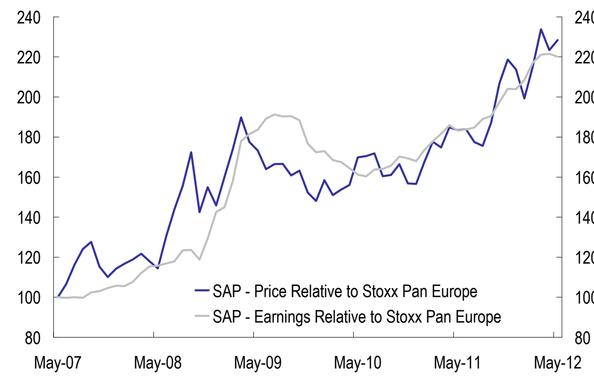
Source: DataStream

Figure 57. 12-Month Forward P/E



Source: Citi Investment Research and Analysis and DataStream

Figure 58. Price and Earnings Relative



Source: Citi Investment Research and Analysis and DataStream

TeliaSonera	Northern Light	Laurie Fitzjohn-Sykes

Our Buy Thesis	TeliaSonera is one of the few European telecoms operators with growing operations, benefiting from an attractive geographic footprint of Nordics and Central Asia. Organic revenue growth was 2.9% in 1Q12 and 2012 guidance is for 1-2%. Telia has a capital disciplined management team with a history of returning cash to shareholders. We forecast an 8% buyback or special dividend in 2013 after cash is received from the Megafon and Kcell IPOs. We argue the positive reaction to the recent Megafon transaction was underdone; the deal is FCF accretive, reduces Telia's exposure to Russia and shows management's pragmatic approach. Telia screens well on our sector analysis, the ROCE on the Swedish operations is at a sustainable level, Swedish mobile voice pricing is already relatively low and Telia offers an attractive balance of growth and valuation.
Valuation	Telia trades on 6.0x 2012E EV/EBITDA, a justified premium to the sector on 4.8x, in our view. Telia trades on 10.2x 2013E p/e vs sector 9.1x.
Risks	The premium valuation is a common pushback, we argue this is justified by the stronger growth than the sector average. Hutchison Sweden introduced an aggressive promotion for a short period this spring. There are concerns that they may reintroduce such a promotion. We see this as unlikely, the spring promotion only had a short duration and was largely contained to the discount end of the market.
Key Themes	CDS-Adjusted Dividends
Upcoming event(s)	No announced timing but we expect the intended Megafon and Kcell IPOs to take place this year, which would allow significant cash returns.
Description	Telia is the incumbent operator in Sweden and Finland, with mobile operations in the other Nordic countries, Spain and Central Asia. Telia has minority stakes in Turkcell and Megafon.
Key Research	**Alpha Switch**

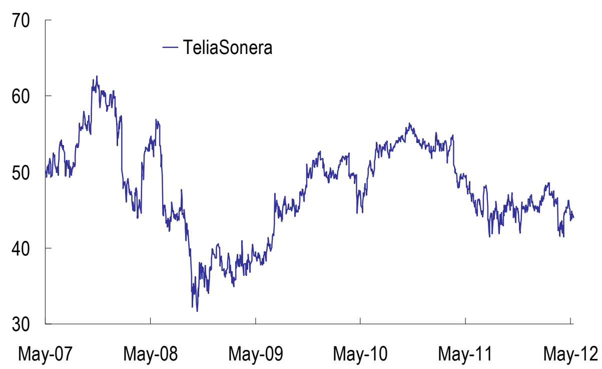
TeliaSonera

Laurie Fitzjohn-Sykes

Rating	1
Price (30 May 12)	44.08
Target price (SKr)	50.00
Expected Share Price Return (%)	13.4
Expected Dividend Yield (%)	6.6
Expected Total Return (%)	**20%**
Market cap (SKrM)	190,870
Market Cap ($M)	26,499
Net Debt to Equity (%)	32
Payout Ratio (%)	54

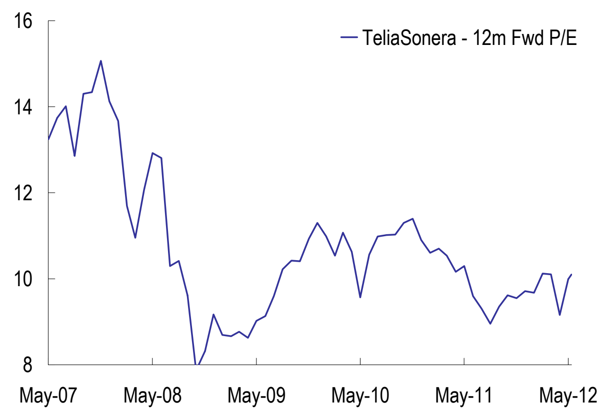
Year to 31-Dec	2009	2010	2011	2012e	2013e	2014e
Sales (SKrM)	109,550	107,287	104,804	106,409	108,612	109,828
EBITDA (SKrM)	36,584	37,240	37,222	37,081	38,437	38,940
Net Income (SKrM)	18,854	21,257	18,341	18,508	18,650	19,399
Core EPS (ö)	4.2	4.7	4.2	4.3	4.5	4.9
EPS Growth (%)	-0.8	12.7	-12.1	2.8	4.9	8.5
ROE (%)	14.2	16.3	15.1	15.2	15.2	15.9
PE (x)	10.1	11.0	11.5	10.5	9.9	9.1
PB (x)	1.7	1.9	1.8	1.5	1.6	1.4
EV/EBITDA (x)	5.1	6.1	5.6	5.2	4.9	4.8
FCF Yield (%)	7.6	4.9	4.4	6.6	8.5	9.2

Figure 59. Share Price



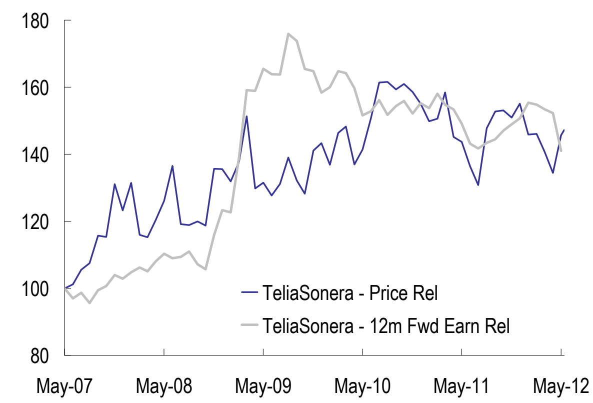
Source: DataStream

Figure 60. 12-Month Forward P/E



Source: Citi Investment Research and Analysis and DataStream

Figure 61. Price and Earnings Relative



Source: Citi Investment Research and Analysis and DataStream

Wolseley	Margins and Acquisitions to Help Market Recovery Clyde Lewis
Our Buy Thesis	The group has been refocused on a tighter range of businesses with management pushing hard to set a cost base suitable for current volume levels – margin benefits are still coming through and we believe that the N. American operations can exceed previous peak levels. The industry is still in a massive roll up phase in North America as well as Continental Europe, although the UK is more consolidated. The strong balance sheet and benefits of scale should ensure growth creates value for shareholders. The majority of the group's markets look to have passed their nadir, with volumes expected to increase over the new few years, in turn driving profits up.
Valuation	WOS is trading on a PE of c. 11x to July 2013e with an EV/Sales ratio of 0.43x vs long run averages of 12.6x and 0.53x respectively. For July 2014E the ratios drop to 9.3x and 0.38x respectively.
Debate/Risks	The shares have already bounced a lot in the last couple of years - does valuation now fairly reflect the potential? We still see further upside. The UK and French businesses are likely to come under more volume pressure in the next 12-18 months. Do upside from margins and M&A offer enough potential to drive value in the shares?
Key Themes	3Bs
Upcoming event(s)	A Q3 IMS on the 29th May will be followed by full year result on the 2nd October
Description	Wolseley is a leading Building and Plumbers merchant (B2B supplier) in its key markets in the US, UK, France and Nordic regions.
Key Research	**Value Opportunities Creeping Back In**

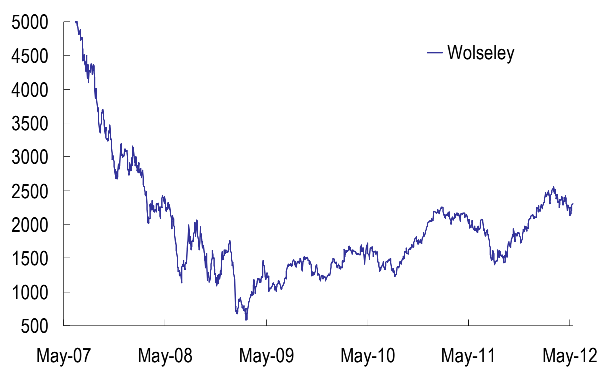
Wolseley

Clyde Lewis

Rating	1
Price (30 May 12)	22.77
Target price (£)	28.50
Expected Share Price Return (%)	25.2
Expected Dividend Yield (%)	2.4
Expected Total Return (%)	**28%**
Market cap (£M)	6,491
Market Cap ($M)	10,153
Net Debt to Equity (%)	29
Payout Ratio (%)	0

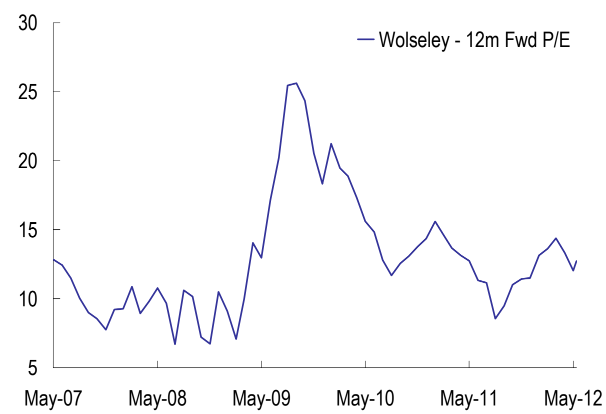
Year to 31-Jul	2009	2010	2011	2012e	2013e	2014e
Sales (£M)	14,441	13,203	13,558	13,658	13,935	15,086
EBITDA (£M)	798	622	761	842	928	1,085
Net Income (£M)	274	311	446	495	573	700
Core EPS (p)	130.7	110.3	157.8	174.8	202.3	247.4
EPS Growth (%)	-48.9	-15.6	43.1	10.7	15.8	22.3
ROE (%)	8.1	9.7	13.9	14.1	14.9	16.6
PE (x)	9.8	13.1	11.9	11.7	11.0	9.0
PB (x)	1.1	1.3	1.5	1.7	1.6	1.4
EV/EBITDA (x)	5.8	8.7	8.4	7.9	7.1	5.7
FCF Yield (%)	48.3	18.8	-4.4	6.8	8.4	8.7

Figure 62. Share Price



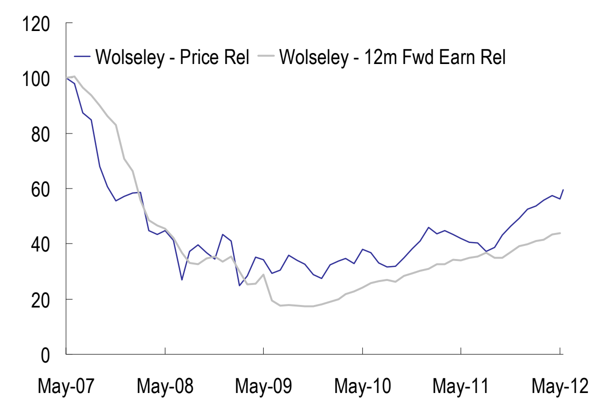
Source: DataStream

Figure 63. 12-Month Forward P/E



Source: Citi Investment Research and Analysis and DataStream

Figure 64. Price and Earnings Relative



Source: Citi Investment Research and Analysis and DataStream

Notes

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

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A member of the household of Keith Horowitz, CFA, Analyst, holds a long position in the securities of JP Morgan Chase & Co.

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Data current as of 31 Mar 2012	12 Month Rating Buy	Hold	Sell	Relative Rating Buy	Hold	Sell
Citi Investment Research & Analysis Global Fundamental Coverage	52%	37%	11%	10%	79%	10%
% of companies in each rating category that are investment banking clients	44%	42%	40%	47%	42%	43%

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CIRA's stock recommendations include an investment rating and an optional risk rating to highlight high risk stocks.

Risk rating takes into account both price volatility and fundamental criteria. Stocks will either have no risk rating or a High risk rating assigned.

Investment Ratings: CIRA's investment ratings are Buy, Neutral and Sell. Our ratings are a function of analyst expectations of expected total return ("ETR") and risk. ETR is the sum of the forecast price appreciation (or depreciation) plus the dividend yield for a stock within the next 12 months. The Investment rating definitions are: Buy (1) ETR of 15% or more or 25% or more for High risk stocks; and Sell (3) for negative ETR. Any covered stock not assigned a Buy or a Sell is a Neutral (2). For stocks rated Neutral (2), if an analyst believes that there are insufficient valuation drivers and/or investment catalysts to derive a positive or negative investment view, they may elect with the approval of CIRA management not to assign a target price and, thus, not derive an ETR. Analysts may place covered stocks "Under Review" in response to exceptional circumstances (e.g. lack of information critical to the analyst's thesis) affecting the company and / or trading in the company's securities (e.g. trading suspension). As soon as practically possible, the analyst will publish a note re-establishing a rating and investment thesis. To satisfy regulatory requirements, we correspond Under Review and Neutral to Hold in our ratings distribution table for our 12-month fundamental rating system. However, we reiterate that we do not consider Under Review to be a recommendation.

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