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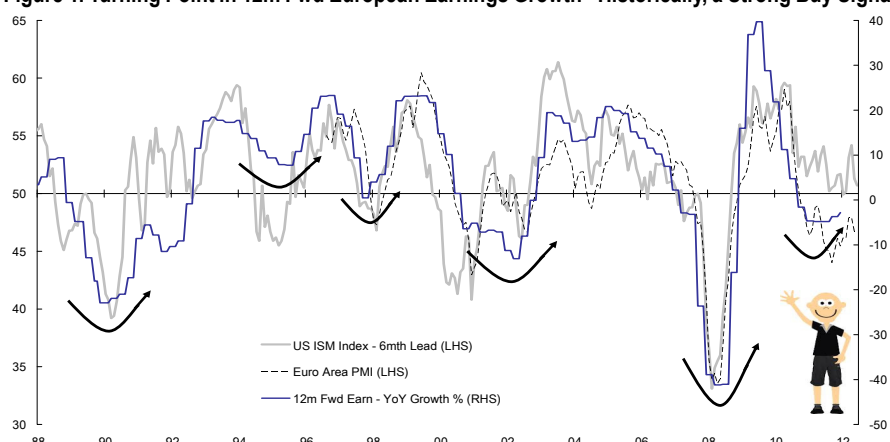
Equity Strategy (Citi)
Europe

European Portfolio Strategist

European Earnings — Turning Point

- **More misses than beats** — 1Q13 results season has disappointed with the lowest beats to miss ratio since late 2008. Earnings and sales expectations lowered YTD.
- **More to come for 2013** — Bottom-up earnings growth expectations are still at 9% having started the year at 11%. We expect this will finish the year at c5%.
- **But, no earnings cliff...** — Equity bears need an earnings cliff to be right (or sharply higher interest rates). Earnings cliff needs GDP cliff. Unlikely, in our view.
- **...and 10% growth for 2014 looks likely** — As economic growth firms in the US, looks less bad in Europe and the benefit of the debt equity arbitrage comes through.
- **...and turning point in 12-month forward earnings growth** — Figure 1 shows this. Average 18-month European equity move = c+30% in previous five turnarounds.
- **Dividends are outgrowing earnings** — Companies have grown dividends over the last two years despite earnings falling, responding to what the market wants.
- **Capex is forecast to lag earnings growth** — Having bounced post recession capex spend is forecast to fall over the next two years as companies limit investment.
- **Liquidity over earnings** — Our equity re-rating thesis is backed by 'Goldilocks in a strait-jacket', an extraordinary global policy put, capital re-allocation and only modest earnings growth. Bull thesis remains on track.

Figure 1. Turning Point in 12m Fwd European Earnings Growth - Historically, a Strong Buy Signal



Source: Datastream and Citi Research. Note: This is Adrian Cattley's last strategy note

Equities

Adrian Cattley

+44-20-7986-4454
adrian.cattley@citi.com

Anna Esposito

+44-20-7986-4039
anna.z.esposito@citi.com

Jonathan Stubbs

+44-20-7986-4218
jonathan.stubbs@citi.com

Ayush Tambi

+91-22-4277-5153
ayush.tambi@citi.com

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

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Contents

European Earnings — Turning Point	3
Results season	3
Earnings forecasts	4
2013 and 2014 earnings growth	5
Sector earnings trends	6
What are companies doing with their earnings?	8
Pay dividends	8
Capex plans	9
Strategy outlook	11
Market Outlook	12
Macro	12
2014 looks better than 2013 for earnings	12
Equities look fair value to super-cheap	12
Sector Strategy	12
Valuation Tables	13
Appendix A-1	24

European Earnings — Turning Point

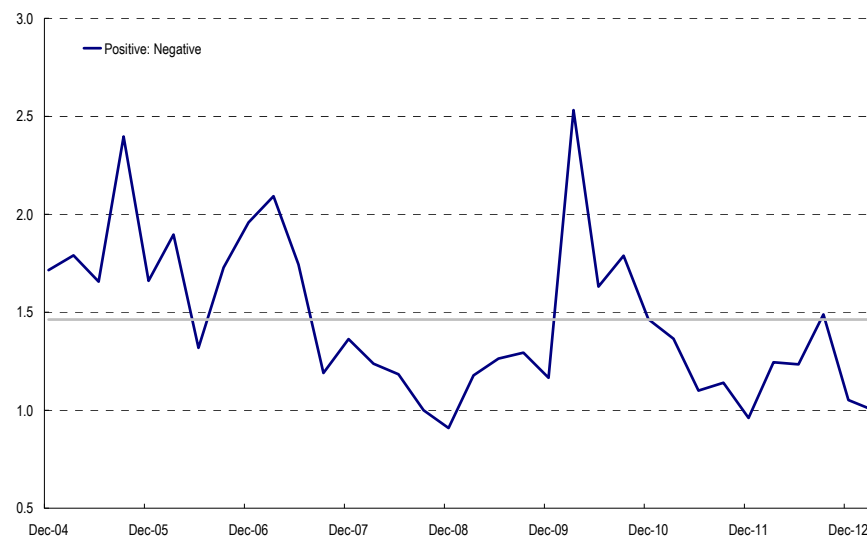
As we draw to the end of the results season for the 1Q13 period we analyse the state of the corporate sector. Where are earnings growth expectations now and how does that fit in with current macro conditions? What are companies doing with their cash?

Results season

The 1Q13 results season in Europe has delivered a relatively downbeat picture. Using longer-run data (Figure 2) this recent season was almost as weak as end-2008 or end-2011.

The worst results season since late 08

Figure 2. Earnings Positive/Negative 2004-2013



Source: IBES, MSCI

Figure 3 uses shorter-term data; the picture of a relatively weak earnings season is still clear.

The most misses

Figure 3. Earnings Surprise by quarter, MSCI Europe (Percentage)

	Last 4Q Average	Q2-2013	Q1-2013	Q4-2012	Q3-2012	Q2-2012	Q1-2012
Positive	50.8	46.3	43.2	56	52.2	51.8	43.0
In Line	8.6	7.4	16.2	6.4	5.5	6.5	12.3
Negative	40.6	46.3	40.6	37.6	42.3	41.6	44.8

Source: IBES, MSCI

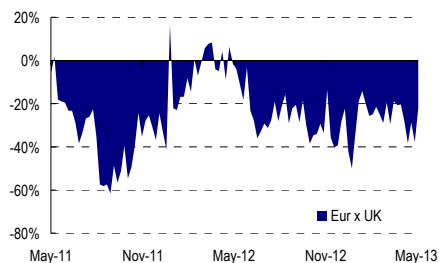
Perhaps most interesting is that the results for 1Q13 have produced the highest number of negative reports over the last five quarters. Anecdotally this weakness was seen mainly from Europe although there were misses from EM-exposed businesses as well. The US has remained the bright spot. However, what matters more is the impact these results have had on earnings expectations for the rest of the year and 2014 as well.

Earnings forecasts

With the medium-term performance of equity markets set by a combination of earnings growth, valuation and flows, the main importance of the results season is how it gets reflected in earnings growth forecasts.

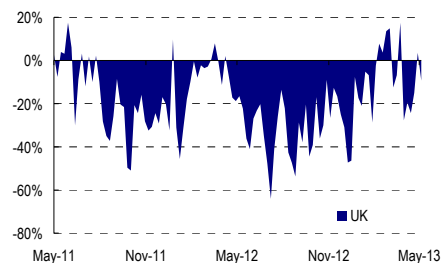
A year of downgrades

Figure 4. Europe ex UK — Wkly Net Upgrades



Source: Facstet

Figure 5. UK — Wkly Net Upgrades

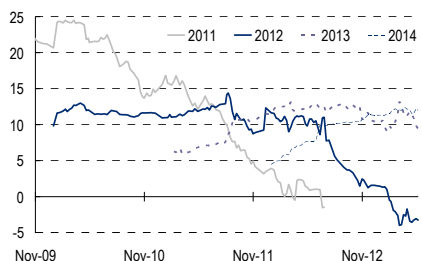


Source: Facstet

Figure 4 and Figure 5 analyse the weekly moves in net upgrades over the last two years. In Europe ex-UK we are 12 months into steady downgrades. This is similar to the global pattern where we have seen net downgrades for the last 54 weeks (available on Bloomberg CGQI <Go> Option 3 (ERI)). These downgrades have occurred while a number of major equity markets (S&P, Dax) have hit new all-time highs. More broadly the markets have been dominated by downgrades for most of the last two years. Downgrades are not new news and currently the market is being influenced by other factors than this year's earnings estimates.

2013 falling towards 5%

Figure 6. European EPS Growth Expectations



Source: Datastream and Citi Research

Figure 7. UK EPS Growth Expectations

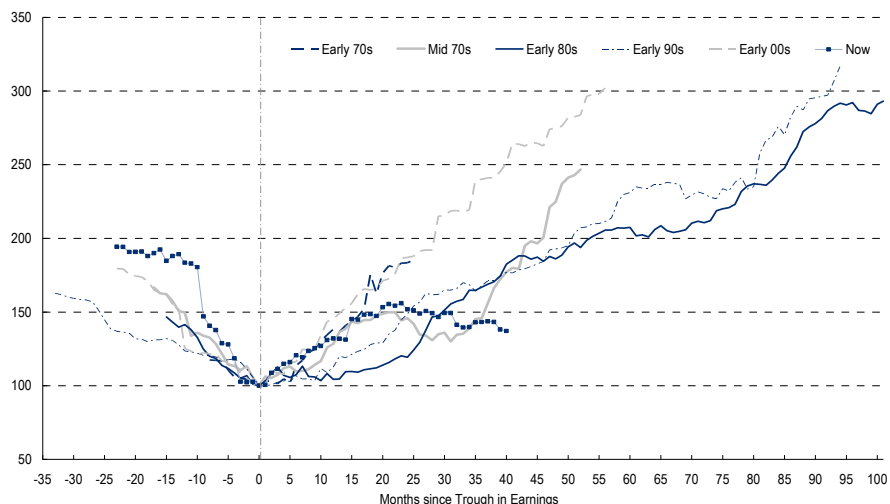


Source: Datastream and Citi Research

Figure 6 and Figure 7 look at this pattern in a different way and show calendar year bottom-up earnings growth expectations for both Europe and the UK. Over the longer run analyst expectations start at around +10% growth for the year and end the year at more like 5%. The pattern of steady downgrades to the 2011 and 2012 earnings is clear and both finished in negative territory for Europe. The UK didn't go negative in 2011 due to financials and commodity earnings. For 2013 earnings growth expectations started the year at around 11% and have now fallen to around 9%.

A lackluster earnings recovery compared to history

Figure 8. European Earnings Recessions & Recoveries (Rebased to Trough)



Source: Datastream and Citi Research

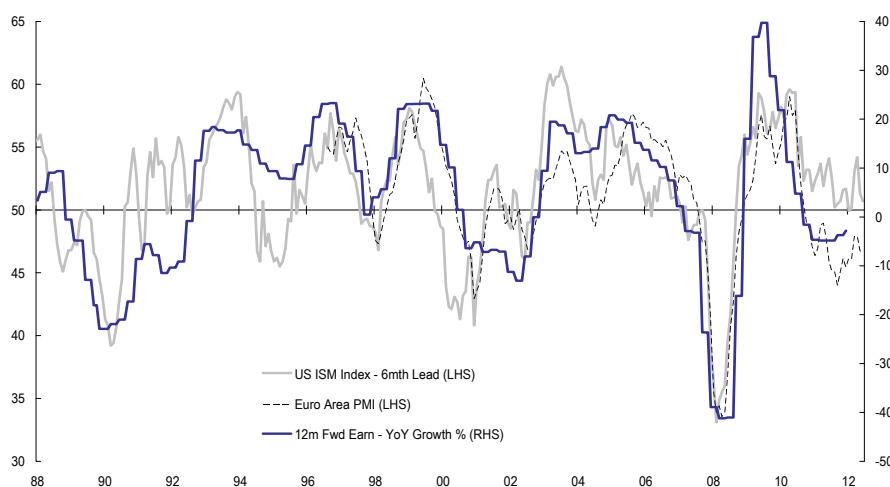
While downgrades to analysts forecasts are the norm for equity markets, the pace of earnings recovery this cycle has lagged previous recoveries (Figure 8). This reflects in part the earnings bubble that occurred prior to the crash. Some of those earnings are gone for good. Also the rate of economic growth in the developed world and in particular Europe has been well below previous recoveries. This is the historical consequence of financial crises. Furthermore this tepid growth has been one of the main reasons for the ongoing outperformance of themes such as defensive growth.

2013 and 2014 earnings growth

The above highlights what analysts have done both in reaction to the recent results season and how companies are faring in the recovery. One cross check to the current forecasts is where earnings growth expectations are relative to the key lead indicators. For this the US Manufacturing ISM and European PMIs are the ones we track most closely.

More downgrades to come

Figure 9. US ISM and Euro Area PMI (6 month lead) vs 12m Fwd Earnings



Source: Datastream and Citi Research

As can be seen earnings expectations have tracked the lead indicators pretty closely over the last 25 years, with a 6 month lead. We draw a number of conclusions from these data. First there is a wider than normal gap between US and European economic performance currently. European earnings unsurprisingly have a close relationship with the European lead indicators. This is pointing to further downgrades for 2013 estimates. Second, the ISM is pointing to upside risk to analysts forecasts.

For 2013 our top-down growth forecast remains 0-5% compared to the c9% that analysts currently forecast. Implicitly we are placing more weight on the weakness in Europe and commodity prices than on the improving conditions in the US. This implies we haven't reached the end of the downgrades yet for 2013. However, we believe the equity market is increasingly being priced off 2014 earnings expectations where our top-down forecast is 10%, in line with the analysts. This likely reflects the ongoing improvement in the US economy and things being less bad in Europe. We also expect there to be earnings benefits from the low cost of debt, in the form of both the lower coupon on newly issued debt and earnings accretive use of debt through either buy backs or M&A.

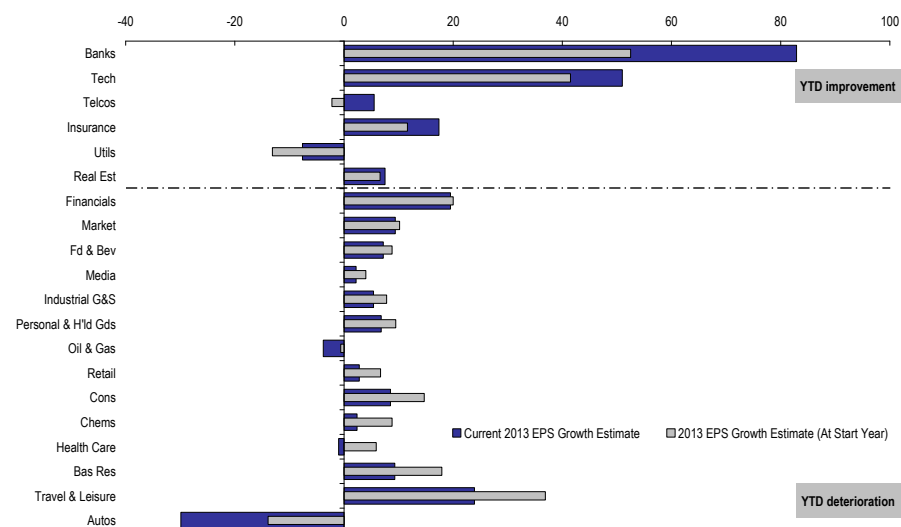
Overall market earnings both reported and forecast have proven to be lacklustre post the initial 2010 bounce-back. Valuations however more than compensated for this low growth and have allowed markets to deliver double-digit compound returns as the markets have re-rated to around long-run average multiples.

Sector earnings trends

We now look at what the recent results season has meant for sector earnings forecasts since the start of the year.

Most sectors are cutting

Figure 10. YTD Change to Sector 2013 EPS Growth Expectations, By Sector

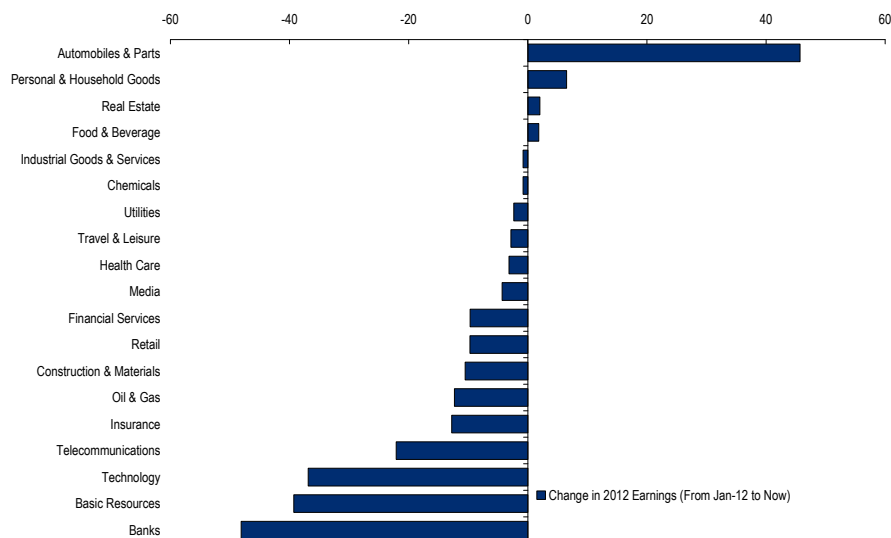


Source: Datastream and Citi Research

Most sectors are cutting

Figure 10 shows where earnings growth forecast by sector were at the start of the year and where they are now. Given the overall trend in downgrades it is no surprise that only a third of the market has seen upgrades year to date. Two of these are for Banks and Tech sectors that saw earnings fall last year.

Figure 11. Change in 2012 Earnings Expectations through 2012 (Percentage)



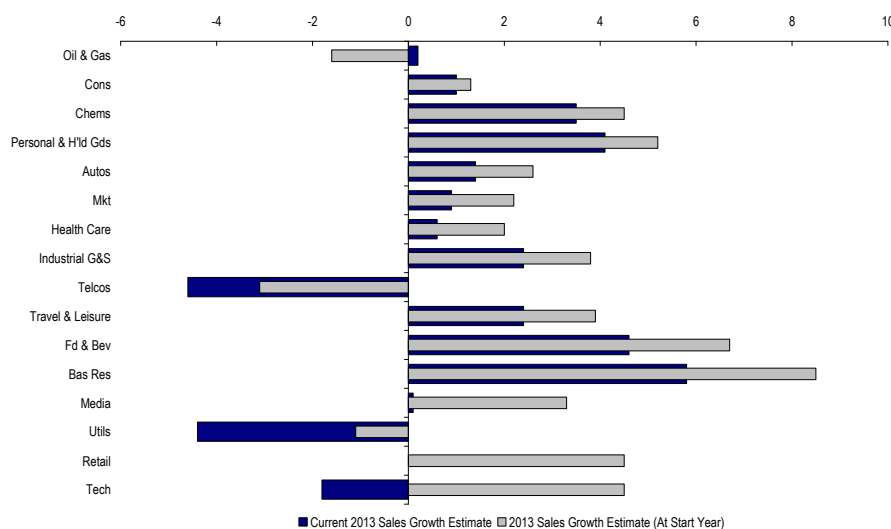
Source: Datastream and Citi Research

As Figure 11 highlights one of the reasons for the move in earnings in 2013 is a degree of mean reversion compared to 2012. What 2012 also shows is that most sectors saw downgrades through the year.

The interesting swing in 2013 forecasts is that from negative earnings growth to positive for the Telecoms sector. Here there is some evidence that the worst of the regulatory changes are now behind the sector.

All 2013 sales forecasts cut bar Oils

Figure 12. YTD Change to Sector 2013E Sales Growth Expectations, By Sector

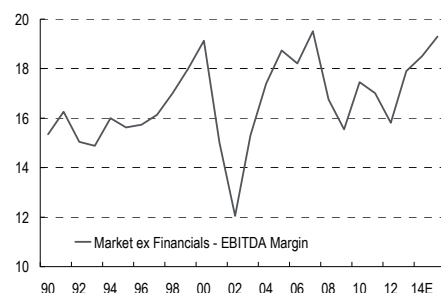


Source: Citi Research

Figure 12 looks at changes in sales growth forecasts rather than EPS. Here all sectors bar Oils have seen top line downgrades. This more closely matches the ongoing soft nominal economic growth that Europe in particular is experiencing. Top-line growth is difficult to come by.

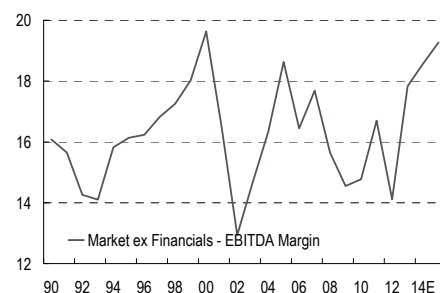
Margins still robust

Figure 13. Europe — EBITDA Margin



Source: Datastream and Citi Research

Figure 14. UK — EBITDA Margin



Source: Datastream and Citi Research

Part of the reason for more robust earnings forecasts in the face of weak top line has been the resilience of profit margins (Figure 13 and Figure 14). For Europe margins are forecast to move back towards previous highs in 2013 despite the weakness in top-line growth. The UK market is forecast to bounce back to similar margin highs. The UK margin is skewed by swings in commodity earnings which pushed the margin down in 2012. If these are excluded the pattern is much like the broader European one. Companies appear to have protected profit margins at the expense of growth.

Relatively high margins against tepid top-line growth still looks one of the main risks to the longevity of the market rally. However, with little sign of sharply higher labour or commodity costs this remains a concern to be monitored rather than discounted in our view.

What are companies doing with their earnings?

With earnings growth hard to come by, investors have valued this commodity more highly. The low interest rate world has also meant that those companies that offer a sustainable yield are also in demand.

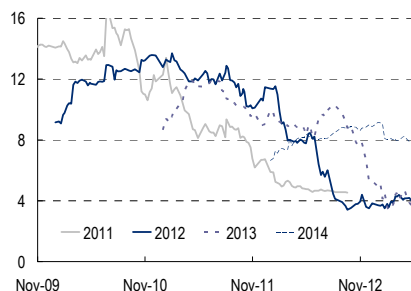
The question is how are companies responding to the different signals that the equity and debt markets are giving them. We have looked more recently at how the ultra low yields on corporate bonds have caused a relative [derating of equity](#) compared to credit.

Pay dividends

Dividends have been protected relative to earnings. For both 2011 and 2012 dividends have grown while earnings have shrunk. The payout ratio has increased.

Dividends more robust than earnings

Figure 15. European DPS Growth Forecasts



Source: Datastream and Citi Research

Figure 16. UK DPS Growth Forecasts

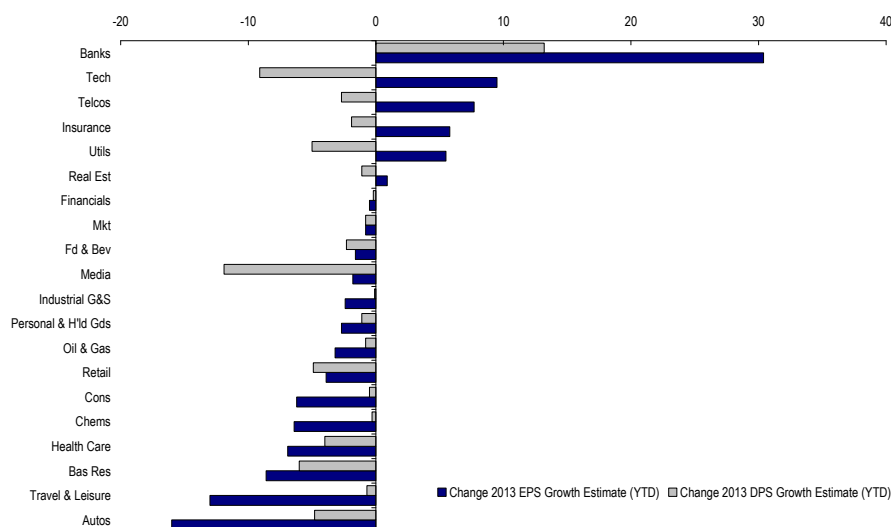


Source: Datastream and Citi Research

However, dividends are forecast to grow at 4% for 2013 and 2014, which is below the earnings growth estimate. If our top-down forecast of 0-5% is right we would expect dividend growth to be maintained while earnings growth slows.

Dividends generally more resilient than earnings

Figure 17. Dividends More Resilient



Source: Datastream and Citi Research

Figure 17 shows that for 2013 at the sector level there has been a mix of upgrades and downgrades to dividends, following, unsurprisingly, the sector earnings trends. [Banks stand out](#) as the most interesting as dividend growth expectations have increased as more banks move towards excess capital positions and return that to investors.

In general companies appear to be responding to the markets desire for income by increasing payouts when earnings are not growing.

Capex plans

One of the main uses of cash flow is to invest in the business, both to replace worn-out assets and to grow the business. For 2013E capex (excluding Financials) is forecast by our analysts to be c€480bn compared to dividends (ex Fins) of €170bn or €220bn in total. Capex is a much bigger use of company cash flow.

Figure 18. Capital Expenditure by Sector 2008-2014E (€millions)

Aggregate	Current Forecasts							Start 2013 Forecasts						
	2008	2009	2010	2011	2012E	2013E	2014E	2008	2009	2010	2011	2012E	2013E	2014E
Automobiles & Parts	29598	26451	27997	36839	44379	45728	46243	29598	26451	27997	36839	40297	39079	39689
Basic Resources	29469	24839	28240	37125	47816	45730	36192	29230	25063	28243	37127	46576	43368	38338
Chemicals	11834	10950	11032	12940	15669	17645	17037	11834	10950	11032	12990	14602	15596	16156
Construction & Materials	14657	8879	7130	7295	7117	7182	7085	14657	8879	7130	7295	7610	6580	7064
Food & Beverage	12194	10517	12339	14781	16250	17237	17758	12194	10517	12339	14767	16438	16396	17135
Health Care	10955	11290	10396	9978	13814	11249	11256	10919	11232	10326	9943	14574	11200	11303
Industrial Goods & Services	37624	31140	30554	34520	36742	39003	37232	37624	31140	30554	34767	38585	37738	37081
Media	9029	9426	10012	11124	11473	10068	9824	9029	9426	10012	11124	11543	10228	10064
Oil & Gas	93926	91372	90622	101441	113856	123073	128914	94332	91624	92027	104569	112417	117143	118047
Personal & Household Goods	5357	4146	5229	6743	7805	8517	8765	5357	4146	4999	6694	7130	7642	7814
Retail	20890	14699	15844	17097	17453	17706	16292	20943	14753	15848	17398	17944	17572	15778
Technology	3447	2649	3264	4129	4356	3659	3374	3857	2864	3480	4331	7241	4495	3931
Telecommunications	51426	46580	54502	55653	56716	57029	51463	51426	46580	54502	55653	56874	55928	50739
Travel & Leisure	10517	9420	9452	11148	9780	10425	10246	10517	9420	9452	11102	9842	10257	9757
Utilities	75289	73260	72134	70771	74218	67652	66157	75289	73260	72134	70831	73878	66637	66831
Total	416213	375616	388748	431584	477446	481904	467839	416808	376304	390075	435432	475552	459859	449727
YoY (% change)		2009	2010	2011	2012E	2013E	2014E		2009	2010	2011	2012E	2013E	2014E
Automobiles & Parts		-11	6	32	20	3	1		-11	6	32	9	-3	2
Basic Resources		-16	14	31	29	-4	-21		-14	13	31	25	-7	-12
Chemicals		-7	1	17	21	13	-3		-7	1	18	12	7	4
Construction & Materials		-39	-20	2	-2	1	-1		-39	-20	2	4	-14	7
Food & Beverage		-14	17	20	10	6	3		-14	17	20	11	0	5
Health Care		3	-8	-4	38	-19	0		3	-8	-4	47	-23	1
Industrial Goods & Services		-17	-2	13	6	6	-5		-17	-2	14	11	-2	-2
Media		4	6	11	3	-12	-2		4	6	11	4	-11	-2
Oil & Gas		-3	-1	12	12	8	5		-3	0	14	8	4	1
Personal & Household Goods		-23	26	29	16	9	3		-23	21	34	7	7	2
Retail		-30	8	8	2	1	-8		-30	7	10	3	-2	-10
Technology		-23	23	26	6	-16	-8		-26	21	24	67	-38	-13
Telecommunications		-9	17	2	2	1	-10		-9	17	2	2	-2	-9
Travel & Leisure		-10	0	18	-12	7	-2		-10	0	17	-11	4	-5
Utilities		-3	-2	-2	5	-9	-2		-3	-2	-2	4	-10	0
Total		-10	3	11	11	1	-3		-10	4	12	9	-3	-2

Source: Citi Research

Figure 18 shows the capex spend over the last four years and the forecast for growth over the next two years and shows what has changed between the start of the year and now. For similar data and analysis of the US market, see [Tobias's Capex note](#).

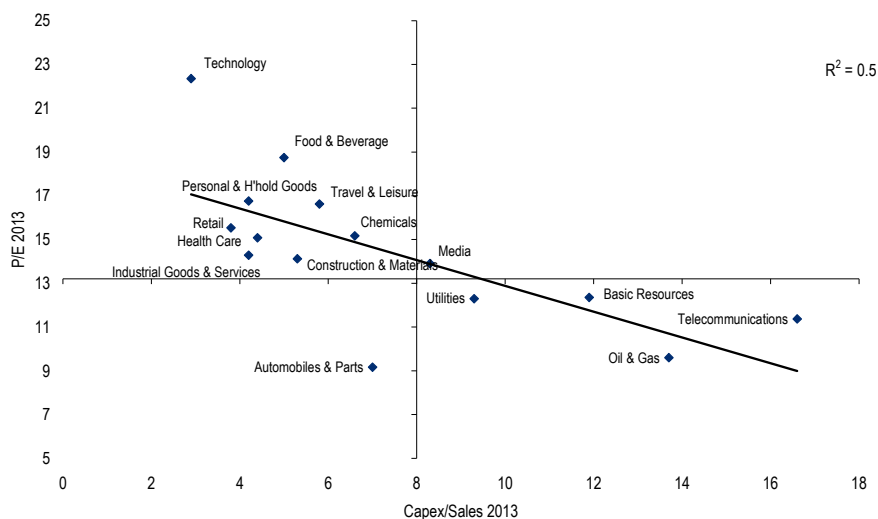
We draw a number of conclusions. First having shelved investment plans in 2009 and 2010 as the world plunged into recession, 2011 and 2012 saw a sharp bounce-back. The absolute amount of capex for 2013E is expected to be 15% above the 2008 level. This is a sub-3% compound growth in nominal spend, below global nominal GDP growth over the same period which is 21% or compound growth of c.4%. More importantly for the forecast period companies are expected in aggregate to shrink capex against a world economy that is forecast to grow by more than 10% nominal. Companies are not matching global growth. Dividend growth over this period is forecast to be 4% a year, suggesting that at the margin companies are prioritising dividends over capex.

The positive view from this analysis is that companies' capex plans have been forecast to increase at the same time as analysts are cutting earnings numbers.

Given the volatility of the sector numbers we think it is unwise to draw too strong conclusions over these shorter-term changes, but interestingly our analysts expect a number of the heavy capex sectors such as Basic Resources and Utilities to cut spend. But not in Oil & Gas.

Higher ratings for less investment

Figure 19. Capex to Sales vs PE 2013



Source: Citi Research

The reason why this trend in capex spend is interesting is that the equity market has in general been rewarding those industries that spend less on capex and generate more FCF with higher ratings (Figure 18) and better share price performance over the past 12-18 months. If those sectors that have been the heaviest spenders begin to change there is the potential for a re-rating.

Strategy outlook

The ongoing Eurozone recession presents a clear headwind for corporates which has seen the results season come through as one of the weakest of recent years. Downgrades have followed and we expect more to come. However, the prospects for a better 2014 look to be firming and supports the ongoing re-rating of equities. Companies also appear to be prioritising dividends over capex. Corporate actions are increasingly shareholder friendly and bond unfriendly.

Market Outlook

Our Chief Economist and Economics team expect another year of modest global growth in 2013. De-leveraging should cap growth. Policy action should (successfully, in our view) defuse systemic growth bombs. Despite macro risks, we have argued that the macro framework remains pretty certain and embedded. It consists of five elements: 1) de-leveraging, 2) lower growth, 3) divergent growth, 4) very low policy rates, and 5) QE. It is this framework that gives us a world of low growth and low rates and is the basis for our ongoing preference for growth and income-biased strategies.

Macro

GDP	2012E	2013E	2014E
Euro zone	-0.5	-0.6	-0.3
UK	0.3	0.4	0.7
Global	2.5	2.6	3.1
US	2.2	1.9	2.8
Japan	2.0	1.3	1.4
CPI	2012E	2013E	2014E
Euro zone	2.5	1.6	1.3
UK	2.8	2.9	2.7
Global	2.9	2.7	3.0
US	1.8	1.3	2.1
Japan	0.0	0.1	1.9
Interest Rates	2Q13E	4Q13E	2Q14E
ECB	0.50	0.25	0.25
UK Base	0.50	0.50	0.50
US Fed Funds	0.25	0.25	0.25
Japan Call	0.10	0.10	0.10
10Yr Yield	2Q13E	4Q13E	2Q14E
Euro zone	1.40	1.30	1.40
UK	1.90	2.10	2.30
US	1.86	2.38	2.83
Japan	0.50	0.70	0.50
Ex Rates	2Q13E	4Q13E	2Q14E
US\$/€	1.31	1.25	1.23
US\$/£	1.51	1.43	1.41
€/£	0.86	0.88	0.87
Y/US\$	107	105	105
End Year Targets	Now	End-13E	Return
Stoxx	308	330	7
FTSE 100	6244	7000	12

Source: Datastream and Citi Research estimates

Modest global growth was the outcome in 2012, but investors have had to deal with Chinese hard landing fears, US stall speed concerns and ongoing uncertainty in the Euro Area. By end-1H13, no Chinese hard landing and no US fiscal cliff should contribute to a world of reduced macro risks. In Europe, Spain (and possibly Italy) in a funding programme and getting safely beyond Italian elections could also bring some temporary stability. Lower macro risk in 2013 is one support of our re-rating case and should also present a better platform for corporates to be heard.

2014 looks better than 2013 for earnings

Modest nominal global GDP growth including a 2H13 pick-up in US growth and a pick-up in EPS-boosting M&A and buybacks could support modest single-digit earnings growth in 2013E. But, recession in the EA and near-record margins suggest that big earnings gains are unlikely. Citi's analysts expect 10-15% earnings growth in 2013E and 2014E. Our top-down base case is 5% and 10%, respectively. Ongoing downgrades to 2013E estimates are likely to be modest.

Equities look fair value to super-cheap

European equities look fair value on trailing P/E and price/book multiples, in line with long-term averages. Balance sheet adjusted multiples (EV/EBITDA) suggest that shares are cheaper than fair value, as does the cyclically adjusted P/E for Europe (CAPE). Based on post-1980 data, current DY, P/E, price/book and CAPE multiples all suggest 10%+ compound returns over the next 10 years. While, in the absence of an earnings collapse, absolute valuations look supportive of further 2013 gains for European equities, it is relative valuations that continue to show equities as looking particularly cheap. In the UK, dividends have not looked this cheap vs UK gilts in the last 100 years. European equities are trading at record cheaps relative to investment grade credit.

Sector Strategy

We continue to run a barbell strategy, with a preference for growth leaders in a low growth world and cheap (acceptable) risk. We also back restructuring and re-leveraging as key alpha drivers in 2013-14. We are currently net long Financials with an Overweight on Banks. Here, our analysts see improving capital, higher potential returns, restructuring and regulatory forbearance as supporting a positive stance. We are broadly Neutral on cyclicals, have a positive skew to defensive growth and are Underweight Utilities, Telecoms and Oil & Gas.

Figure 20. European Sector Strategy

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

Source: Citi Research

Valuation Tables

Figure 21. Pan-European Sector Weightings & Returns

As at Close 14 May 13 Sector (No of Stocks)	Mkt Cap (Euros m)	% of Stoxx	Return Relative to Stoxx				Absolute Return			
			1m	3m	12m	Ytd	1m	3m	12m	Ytd
Oil & Gas (32)	519,342	8.4	E	-2	-15	-6	5	5	9	4
Chemicals (24)	317,656	5.1	E	1	3	-2	7	9	32	9
Basic Resources (28)	217,571	3.5	E	-20	-27	-23	0	-14	-6	-14
Construction & Materials (21)	133,816	2.2	E	0	2	-1	6	8	30	10
Industrial G&S (104)	660,163	10.6	E	-1	2	0	4	7	30	11
Automobiles & Parts (14)	157,946	2.5	E	-3	-1	-2	12	4	27	9
Food & Beverage (28)	564,707	9.1	E	2	0	3	2	9	28	14
Personal & H'hold Goods (29)	382,623	6.2	E	4	0	3	5	12	27	15
Health Care (35)	740,932	11.9	E	7	6	8	5	15	35	20
Retail (24)	197,299	3.2	E	1	0	1	4	9	28	12
Media (27)	147,117	2.4	E	2	5	1	3	9	34	12
Travel & Leisure (21)	86,847	1.4	E	-2	7	2	4	5	36	13
Telecommunications (23)	306,385	4.9	E	4	-12	2	4	12	12	13
Utilities (26)	255,778	4.1	E	4	-10	-3	5	12	14	8
Banks (46)	772,458	12.4	E	-6	11	-1	8	1	41	10
Insurance (33)	364,339	5.9	E	5	17	3	9	13	50	14
Real Estate (29)	90,580	1.5	E	5	2	0	8	13	31	11
Financial Services (30)	92,602	1.5	E	1	13	7	6	9	43	19
Technology (26)	202,357	3.3	E	-1	9	3	8	6	38	14
Stoxx - Pan Europe (600)	6,210,516	100.0	—	—	—	—	0	0	0	0
Pan Euro - Large Cap	5,077,621	81.8	E	0	0	0	6	8	27	11
Pan Euro - Mid Cap	792,926	12.8	E	-1	0	0	4	7	28	11
Pan Euro - Small Cap	339,969	5.5	E	-2	0	0	4	5	27	11
Stoxx ex UK (418)	4,108,254	66.1	—	—	—	—	0	0	0	0
EuroStoxx - Eurozone (297)	2,737,543	44.1	—	—	—	—	0	0	0	0

Source: DataStream and Citi Research

Figure 22. Pan-European Sector Relative Ratings

As at Close 14 May 13 Sector	P/E Relative to Stoxx				Yield Relative to Stoxx			
	2011	2012E	2013E	2014E	2011	2012E	2013E	2014E
Oil & Gas	70	64	72	78	123	131	129	125
Chemicals	109	107	114	115	72	79	79	78
Basic Resources	53	90	90	86	98	107	101	99
Construction & Materials	100	107	109	103	94	98	99	97
Industrial Goods & Service	121	106	110	109	78	83	85	85
Automobiles & Parts	65	45	71	68	91	100	96	95
Food & Beverage	158	139	142	144	69	74	77	77
Personal & H'hold Goods	152	125	128	129	67	74	79	80
Health Care	113	104	115	115	86	90	90	92
Retail	118	110	117	121	91	94	91	90
Media	102	97	106	107	104	119	108	105
Travel & Leisure	144	141	129	114	72	70	68	69
Telecommunications	70	83	85	91	243	147	144	136
Utilities	79	78	93	103	188	178	161	148
Banks	96	145	87	80	93	100	109	121
Insurance	104	74	69	73	112	118	118	115
Real Estate	156	147	150	159	112	114	112	108
Financial Services	127	118	106	104	110	113	107	109
Technology	129	235	170	140	57	55	48	48
Stoxx - Pan Europe	100	100	100	100	100	100	100	100
Pan Euro - Large Cap	97	94	97	98	101	102	103	103
Pan Euro - Mid Cap	114	129	117	112	94	89	88	89
Pan Euro - Small Cap	128	167	125	114	97	92	86	87
Stoxx ex UK	103	106	102	101	102	99	99	100
EuroStoxx - Eurozone	94	102	97	96	112	103	103	102

Source: DataStream and Citi Research

Figure 23. Pan-European Sector Growth

Sector	Earnings Growth %			Net Dividend Growth %		
	2012E	2013E	2014E	2012E	2013E	2014E
Oil & Gas	6.3	-3.1	3.8	10.3	3.1	5.0
Chemicals	-1.5	2.1	12.0	13.0	5.0	6.7
Basic Resources	-43.5	9.6	18.2	12.3	-1.7	7.5
Construction & Materials	-9.1	6.6	18.7	7.8	5.1	6.6
Industrial Goods & Service	11.0	4.9	13.8	10.6	7.4	8.4
Automobiles & Parts	37.4	-30.3	17.1	13.9	-0.5	8.4
Food & Beverage	9.7	7.0	10.6	11.3	8.0	9.7
Personal & H'hold Goods	17.9	6.6	10.9	14.7	11.5	10.0
Health Care	4.9	-0.9	12.2	7.9	4.0	11.3
Retail	3.1	2.9	8.8	7.7	0.5	7.3
Media	1.8	0.3	11.2	19.3	-5.9	5.8
Travel & Leisure	-1.6	20.0	27.2	0.2	1.1	9.8
Telecommunications	-18.2	5.9	4.7	-37.1	1.6	2.7
Utilities	-2.3	-8.0	1.5	-1.5	-6.0	0.1
Banks	-35.8	82.3	21.6	11.3	13.6	20.4
Insurance	35.5	17.5	5.9	9.2	4.3	5.9
Real Estate	2.6	7.1	6.1	6.0	2.2	4.8
Financial Services	3.9	20.9	15.2	6.8	-1.9	10.9
Technology	-47.0	50.5	36.7	0.3	-10.5	9.0
Sbxx - Pan Europe	-3.3	9.3	12.2	3.7	4.1	8.8
Pan Euro - Large Cap	-0.7	6.6	10.9	4.9	4.6	8.5
Pan Euro - Mid Cap	-14.6	20.7	17.4	-2.7	3.5	10.4
Pan Euro - Small Cap	-25.7	46.2	23.1	-0.9	-3.5	9.9
Sbxx ex UK	-6.1	12.6	14.0	0.1	4.1	9.5
EuroSbxx - Eurozone	-10.3	14.2	14.0	-4.6	4.0	8.4

Source: DataStream and Citi Research

Figure 24. Pan-European Sector Ratings

Sector	Price/Earnings				Net Dividend Yield			
	2011	2012E	2013E	2014E	2011	2012E	2013E	2014E
Oil & Gas	10.0	9.4	9.7	9.3	4.05	4.47	4.60	4.83
Chemicals	15.4	15.7	15.4	13.7	2.38	2.69	2.82	3.01
Basic Resources	7.5	13.3	12.1	10.2	3.24	3.64	3.58	3.85
Construction & Materials	14.2	15.7	14.7	12.4	3.11	3.36	3.53	3.76
Industrial Goods & Service	17.2	15.5	14.8	13.0	2.56	2.83	3.04	3.30
Automobiles & Parts	9.1	6.7	9.6	8.2	3.00	3.42	3.40	3.68
Food & Beverage	22.4	20.4	19.1	17.2	2.27	2.53	2.73	3.00
Personal & H'hold Goods	21.6	18.3	17.2	15.5	2.20	2.53	2.82	3.10
Health Care	16.0	15.3	15.4	13.7	2.84	3.07	3.19	3.55
Retail	16.7	16.2	15.7	14.5	2.99	3.22	3.24	3.48
Media	14.5	14.2	14.2	12.8	3.42	4.08	3.84	4.07
Travel & Leisure	20.4	20.7	17.3	13.6	2.39	2.39	2.42	2.66
Telecommunications	9.9	12.1	11.4	10.9	8.00	5.03	5.11	5.25
Utilities	11.2	11.5	12.5	12.3	6.19	6.09	5.73	5.74
Banks	13.7	21.3	11.7	9.6	3.08	3.42	3.89	4.69
Insurance	14.8	10.9	9.3	8.8	3.69	4.03	4.20	4.45
Real Estate	22.2	21.6	20.2	19.0	3.68	3.91	3.99	4.18
Financial Services	18.0	17.3	14.3	12.4	3.62	3.87	3.79	4.21
Technology	18.2	34.4	22.9	16.7	1.88	1.89	1.69	1.84
Sbxx - Pan Europe	14.2	14.7	13.4	12.0	3.30	3.42	3.56	3.87
Pan Euro - Large Cap	13.7	13.8	13.0	11.7	3.33	3.50	3.66	3.97
Pan Euro - Mid Cap	16.2	19.0	15.7	13.4	3.12	3.03	3.14	3.46
Pan Euro - Small Cap	18.2	24.5	16.8	13.6	3.19	3.16	3.05	3.35
Sbxx ex UK	14.5	15.5	13.7	12.1	3.38	3.38	3.52	3.85
EuroSbxx - Eurozone	13.4	14.9	13.1	11.5	3.68	3.51	3.65	3.96

Source: DataStream and Citi Research

Figure 25. Pan-European Country Weightings & Returns

	Mkt Cap (Euros m)	% of Stoxx	Relative Return to Stoxx*				Absolute Return*			
			1m	3m	12m	YTD	1m	3m	12m	YTD
Austria	26,516	0.4	-1	-3	3	-6	6	6	33	5
Belgium	99,427	1.6	-1	2	10	4	5	11	42	16
Denmark	116,126	1.9	-3	-4	-3	-1	4	5	25	11
Finland	85,898	1.4	3	-1	3	4	10	8	34	16
France	905,592	14.6	2	1	5	0	9	10	36	11
Germany	803,625	13.0	1	1	1	-2	8	10	31	10
Greece	8,813	0.1	0	-4	22	12	7	4	58	25
Ireland	41,280	0.7	-4	1	-8	1	2	10	19	13
Italy	218,791	3.5	4	-3	1	-6	11	6	31	5
Netherlands	244,592	3.9	0	0	3	0	7	9	33	12
Norway	90,136	1.5	-2	-7	-9	-5	5	2	18	6
Portugal	17,744	0.3	-3	-5	-6	-3	4	3	22	9
Spain	268,072	4.3	0	-3	6	-5	7	5	37	6
Sweden	300,433	4.9	-3	-3	5	3	3	6	36	15
Switzerland	864,016	14.0	-2	3	8	8	5	12	40	21
UK	2,102,263	33.9	0	0	-7	-1	7	9	21	11
Stoxx - Pan Europe	6,193,323	100								

Source: DataStream and Citi Research. *Note: Country returns use MSCI indices.

Figure 26. Pan-European Country Relative Ratings

As at Close 14 May 13 Country	Price/Earnings				Net Dividend Yield			
	2011	2012E	2013E	2014E	2011	2012E	2013E	2014E
Austria	223	96	103	85	77	85	95	100
Belgium	142	134	125	121	70	96	90	95
Denmark	183	133	128	119	46	52	59	69
Finland	101	156	138	120	138	142	110	105
France	91	102	95	94	102	102	106	107
Germany	99	78	93	92	96	95	88	89
Greece	371	-16	555	75	104	81	24	40
Ireland	148	138	148	133	48	49	50	49
Italy	85	108	95	93	114	103	106	104
Netherlands	115	106	100	98	87	76	74	77
Norway	93	84	86	84	118	134	132	136
Portugal	79	721	145	103	169	136	126	125
Spain	71	141	93	102	227	150	170	160
Sweden	111	102	113	115	94	106	107	105
Switzerland	127	121	117	115	83	87	86	89
UK	95	91	96	99	95	102	102	101
EuroStoxx - Eurozone	94	102	97	96	112	103	103	102
Stoxx ex UK - Europe ex UK	103	106	102	101	102	99	99	100
Stoxx - Pan Europe	100	100	100	100	100	100	100	100

Source: DataStream and Citi Research

Figure 27. Pan-European Country Growth

As at Close 14 May 13 Country	Earnings Growth %			Dividend Growth %		
	2012E	2013E	2014E	2012E	2013E	2014E
Austria	123.8	1.8	35.9	15.1	16.5	14.2
Belgium	2.1	16.9	16.5	40.8	-1.8	14.5
Denmark	32.5	13.7	21.0	18.2	17.4	26.4
Finland	-37.5	24.0	28.7	6.0	-19.4	3.8
France	-13.3	17.1	13.9	3.8	8.6	9.3
Germany	22.5	-7.8	13.6	2.4	-3.4	9.6
Greece	-2,300.4	-103.2	728.0	-19.0	-69.6	81.5
Ireland	4.0	1.9	24.5	6.1	6.4	6.9
Italy	-24.1	25.0	14.3	-6.0	7.1	6.6
Netherlands	5.1	15.4	14.8	-10.0	1.8	13.1
Norway	7.3	7.0	14.2	18.0	2.2	12.5
Portugal	-89.4	442.9	58.1	-16.2	-3.9	8.1
Spain	-51.7	66.5	1.4	-31.4	17.5	2.8
Sweden	5.5	-1.2	10.4	17.4	5.3	6.2
Switzerland	1.7	12.9	14.6	9.2	3.3	12.8
UK	1.8	3.7	8.8	11.1	4.0	7.5
EuroStoxx - Eurozone	-10.3	14.2	14.0	-4.6	4.0	8.4
Stoxx ex UK - Europe ex UK	-6.1	12.6	14.0	0.1	4.1	9.5
Stoxx - Pan Europe	-3.3	9.3	12.2	3.7	4.1	8.8

Source: DataStream and Citi Research. *Note: Country returns use MSCI index

Figure 28. Pan-European Country Ratings

As at Close 14 May 13 Country	Price/Earnings				Net Dividend Yield			
	2011	2012E	2013E	2014E	2011	2012E	2013E	2014E
Austria	31.6	14.1	13.9	10.2	2.53	2.91	3.39	3.87
Belgium	20.1	19.7	16.8	14.4	2.32	3.27	3.21	3.68
Denmark	25.9	19.6	17.2	14.2	1.51	1.79	2.10	2.66
Finland	14.3	22.9	18.5	14.4	4.57	4.84	3.90	4.05
France	12.9	14.9	12.8	11.2	3.35	3.48	3.78	4.13
Germany	14.0	11.5	12.4	11.0	3.18	3.25	3.14	3.44
Greece	52.7	-2.4	74.5	9.0	3.42	2.77	0.84	1.53
Ireland	21.0	20.2	19.8	15.9	1.59	1.68	1.79	1.92
Italy	12.1	15.9	12.7	11.1	3.75	3.53	3.78	4.02
Netherlands	16.3	15.5	13.4	11.7	2.88	2.59	2.63	2.98
Norway	13.2	12.3	11.5	10.1	3.88	4.58	4.68	5.27
Portugal	11.3	105.8	19.5	12.3	5.57	4.67	4.49	4.85
Spain	10.0	20.7	12.4	12.3	7.48	5.13	6.03	6.21
Sweden	15.8	15.0	15.2	13.7	3.08	3.62	3.81	4.05
Switzerland	18.1	17.8	15.7	13.7	2.72	2.97	3.07	3.46
UK	13.5	13.3	12.8	11.8	3.14	3.49	3.63	3.91
EuroStoxx - Eurozone	13.4	14.9	13.1	11.5	3.68	3.51	3.65	3.96
Stoxx ex UK - Europe ex UK	14.5	15.5	13.7	12.1	3.38	3.38	3.52	3.85
Stoxx - Pan Europe	14.2	14.7	13.4	12.0	3.30	3.42	3.56	3.87

Source: DataStream and Citi Research

Figure 29. UK Sector Weightings & Relative Returns

As at Close 14 May 2013	Mkt	% of	% of	Relative return				
	Cap £m	AllShare	Group	1m	3m	12m	Qtd	Ytd
OIL & GAS (24)	309,095	15.3		1	-1	-13	0	-4
Oil & Gas Producers (17)	297,175	14.7	96	2	-1	-12	0	-4
Oil Equip, Serv and Distrib (7)	11,920	0.6	4	-5	-8	-21	-6	-11
BASIC MATERIALS (37)	164,392	8.1		-6	-21	-24	-8	-23
Chemicals (8)	14,190	0.7	9	-1	-2	-6	-4	-7
Forestry & Paper (1)	3,327	0.2	2	1	5	41	-1	20
Industrial Metals (4)	1,086	0.1	1	-9	-45	-56	-23	-43
Mining (24)	145,789	7.2	89	-7	-23	-26	-8	-24
INDUSTRIALS (109)	191,045	9.5		-1	4	6	-1	5
Construction & Materials (11)	14,544	0.7	8	-4	-6	-1	-6	-3
Aerospace (9)	47,072	2.3	25	2	13	13	3	14
General Industrials (6)	13,484	0.7	7	1	1	6	1	1
Electronic & Electrical Equip (12)	9,146	0.5	5	-4	-5	0	-6	-3
Industrial Engineering (12)	19,907	1.0	10	-1	3	7	-1	5
Industrial Transportation (8)	2,383	0.1	1	-1	5	2	1	1
Support Services (51)	84,509	4.2	44	-2	3	5	-2	3
CONSUMER GOODS (35)	290,329	14.4		-1	4	4	-1	5
Automobiles & Parts (2)	4,806	0.2	2	6	9	23	8	13
Beverages (4)	87,747	4.3	30	0	3	10	-3	5
Food Producers (11)	47,831	2.4	16	-2	3	11	-2	5
Household Gds & Home Cons (11)	46,491	2.3	16	-1	7	23	-1	12
Leisure Goods (1)	191	0.0	0	5	8	70	3	17
Personal Goods (4)	7,863	0.4	3	1	-4	-19	-1	-2
Tobacco (2)	95,401	4.7	33	-2	4	-9	0	1
HEALTH CARE (13)	148,872	7.4		1	8	-2	2	7
Health Care Equip & Services (5)	7,993	0.4	5	-2	3	1	-2	-2
Pharmaceuticals & Biotech (8)	140,879	7.0	95	1	8	-2	2	8
CONSUMER SERVICES (85)	198,843	9.8		0	2	7	0	2
Food & Drug Retailers (7)	45,896	2.3	23	-4	1	-4	-2	0
General Retailers (22)	34,654	1.7	17	2	5	10	4	1
Media (23)	56,389	2.8	28	-1	1	6	-1	2
Travel & Leisure (33)	61,905	3.1	31	2	3	17	0	6
TELECOMMUNICATIONS (8)	126,654	6.3		-2	7	0	0	10
Fixed-Line Telecoms (6)	28,187	1.4	22	4	5	24	5	14
Mobile Telecoms (2)	98,467	4.9	78	-3	8	-5	-1	8
UTILITIES (7)	81,100	4.0		1	10	0	5	3
Electricity (2)	17,809	0.9	22	-1	5	-2	2	0
Gas, Water & Multi-Utilities (5)	63,291	3.1	78	2	11	0	5	4
TECHNOLOGY (25)	33,489	1.7		5	1	26	3	8
Software & Computer Serv (15)	14,545	0.7	43	-1	-2	9	-1	0
Technology Hardware & Equip (10)	18,943	0.9	57	10	3	43	7	15
TOTAL NON-FINANCIAL (343)	1,543,819	76.4		-1	0	-4	-1	-1
FINANCIALS (252)	477,127	23.6		2	0	14	2	2
Banks (6)	240,162	11.9	50	2	-5	15	1	0
Non-Life Insurance (10)	17,989	0.9	4	-2	-3	3	-2	-4
Life Insurance (9)	77,099	3.8	16	5	10	25	6	8
Real Estate Investment Svs (21)	8,441	0.4	2	4	11	16	8	10
REITS (16)	29,968	1.5	6	2	5	4	8	-1
Financial Services (27)	39,748	2.0	8	3	3	25	5	13
Equity Inv Instruments. (163)	63,719	3.2	13	-1	0	-1	-1	0
FTSE ALL SHARE (595)	2,020,945	100.0		0	0	0	0	0
FTSE 100 (100)	1,701,644	84.2		0	0	-1	0	0
Mid 250 (250)	273,862	13.6		-1	0	7	-1	2
Small Cap (245)	45,440	2.2		-1	0	4	-1	0

Source: DataStream and Citi Research

Figure 30. UK Relative Ratings

As at Close 14 May 2013	P/E Relative				Yield Relative			
	2011	2012E	2013E	2014E	2011	2012E	2013E	2014E
OIL & GAS	73	72	76	79	110	114	117	113
Oil & Gas Producers	72	71	75	79	111	115	118	114
Oil Equip, Serv and Distrib	121	105	93	87	73	74	78	86
BASIC MATERIALS	54	86	92	88	93	95	97	98
Chemicals	131	125	132	132	63	63	64	66
Forestry & Paper	117	117	104	99	78	75	83	89
Industrial Metals	54	-71	-192	358	268	32	16	15
Mining	51	81	88	84	95	100	101	102
INDUSTRIALS	129	118	119	118	72	77	77	75
Construction & Materials	114	115	147	122	127	117	113	108
Aerospace	119	107	105	110	79	80	80	79
General Industrials	109	102	101	100	84	86	89	90
Electronic & Electrical Equip	133	126	129	128	47	48	49	50
Industrial Engineering	135	123	125	125	61	76	64	64
Industrial Transportation	99	105	101	97	82	82	82	79
Support Services	141	128	127	124	62	70	74	69
CONSUMER GOODS	154	136	132	130	80	82	87	89
Automobiles & Parts	99	82	82	79	64	73	78	83
Beverages	186	163	157	153	58	60	62	64
Food Producers	162	151	144	143	79	78	83	83
Household Gds & Home Cons	170	136	132	128	60	64	81	81
Personal Goods	181	154	147	140	52	56	59	63
Tobacco	127	115	113	113	112	115	119	121
HEALTH CARE	90	88	103	105	127	121	120	117
Health Care Equip & Services	123	116	116	114	45	62	62	64
Pharmaceuticals & Biotech	88	87	103	105	132	125	123	120
CONSUMER SERVICES	112	110	112	111	88	88	86	84
Food & Drug Retailers	93	89	100	113	116	113	106	99
General Retailers	114	111	110	109	82	81	81	81
Media	119	107	111	110	82	87	88	88
Travel & Leisure	123	138	124	113	76	75	72	71
TELECOMMUNICATIONS	98	94	98	98	174	152	135	128
Fixed-Line Telecoms	107	94	98	95	93	94	98	103
Mobile Telecoms	95	94	98	99	197	168	145	135
UTILITIES	122	116	121	125	136	136	132	128
Electricity	105	101	114	116	152	149	139	135
Gas, Water & Multi-Utilities	128	121	124	128	132	133	130	126
TECHNOLOGY	234	206	186	177	32	35	39	43
Software & Computer Serv	157	140	133	130	52	56	58	60
Technology Hardware & Equip	372	324	266	243	17	19	25	30
TOTAL NON-FINANCIAL	96	99	103	103	102	101	101	99
FINANCIALS	121	106	91	90	94	95	96	103
Banks	112	103	83	81	81	82	90	102
Non-Life Insurance	160	82	82	84	168	185	143	140
Life Insurance	106	91	93	95	114	110	105	104
Real Estate Investment Svs	313	212	218	210	52	52	54	56
REITS	192	186	195	198	101	101	98	94
Financial Services	172	131	104	97	103	106	98	105
FTSE ALL SHARE	100	100	100	100	100	100	100	100
FTSE 100	96	98	98	98	103	103	103	103
Mid 250	150	116	117	114	78	81	78	79
Small Cap	101	112	100	91	81	78	77	80

Source: DataStream and Citi Research

Figure 31. UK Earnings Growth

As at Close 14 May 2013	Earnings Growth %			Net Dividend Growth %		
	2012	2013E	2014E	2012	2013E	2014E
OIL & GAS	-1.7	1.9	4.5	8.8	10.2	4.2
Oil & Gas Producers	-2.0	1.3	4.1	8.8	10.1	3.8
Oil Equip, Serv and Distrib	11.5	21.0	16.9	6.8	13.1	18.4
BASIC MATERIALS	-38.7	0.4	14.4	7.4	8.7	8.8
Chemicals	2.1	1.1	9.3	5.0	9.9	10.4
Forestry & Paper	-3.8	21.3	15.0	0.7	20.0	15.0
Industrial Metals	-173.2	-60.3	-158.4	-87.3	-48.2	0.6
Mining	-39.6	-0.5	14.1	9.7	8.6	8.6
INDUSTRIALS	5.3	6.5	10.3	12.3	7.5	3.9
Construction & Materials	-4.0	-16.4	32.2	-3.1	4.3	2.1
Aerospace	7.4	9.8	3.8	6.7	6.3	6.4
General Industrials	3.8	8.8	10.0	7.5	11.8	8.3
Electronic & Electrical Equip	2.7	4.7	9.7	8.6	9.1	9.7
Industrial Engineering	6.2	6.2	8.6	29.6	-9.1	7.1
Industrial Transportation	-8.8	12.0	13.9	4.4	7.4	4.1
Support Services	6.9	8.2	11.8	19.4	12.4	0.9
CONSUMER GOODS	9.8	10.6	10.6	7.9	14.7	9.5
Automobiles & Parts	16.9	7.9	12.8	20.0	15.0	15.0
Beverages	10.9	11.5	11.8	7.9	10.8	10.9
Food Producers	4.2	12.5	9.8	4.1	13.6	8.0
Household Gds & Home Cons	20.7	10.8	12.2	11.1	37.3	7.4
Personal Goods	14.0	12.8	13.8	13.3	14.4	13.6
Tobacco	6.5	9.2	9.1	7.8	10.8	9.6
HEALTH CARE	-2.0	-7.9	7.2	0.0	5.9	5.0
Health Care Equip & Services	2.8	7.0	11.3	45.4	7.8	11.0
Pharmaceuticals & Biotech	-2.2	-8.5	6.9	-0.9	5.8	4.8
CONSUMER SERVICES	-1.6	6.3	9.5	5.4	4.5	5.6
Food & Drug Retailers	1.7	-4.6	-2.9	2.4	0.8	0.3
General Retailers	-0.6	8.3	10.4	3.6	7.1	8.3
Media	7.0	3.8	10.1	11.1	8.4	8.2
Travel & Leisure	-13.6	20.2	19.6	4.2	3.0	6.7
TELECOMMUNICATIONS	0.9	3.0	8.7	-8.4	-4.7	2.3
Fixed-Line Telecoms	10.4	2.9	13.4	6.4	11.2	13.7
Mobile Telecoms	-1.5	3.0	7.4	-10.4	-7.2	0.1
UTILITIES	1.9	2.5	6.1	5.1	3.5	4.6
Electricity	1.2	-4.5	6.9	2.9	0.0	4.5
Gas, Water & Multi-Utilities	2.1	4.9	5.8	5.8	4.7	4.6
TECHNOLOGY	9.8	19.4	14.7	15.1	18.9	18.8
Software & Computer Serv	9.1	12.8	11.8	13.6	10.6	11.6
Technology Hardware & Equip	11.2	31.0	19.2	18.4	37.3	31.5
TOTAL NON-FINANCIAL	-6.2	3.1	8.6	4.7	7.1	5.7
FINANCIALS	11.0	24.7	10.9	6.5	8.0	15.3
Banks	4.9	33.8	12.1	7.5	17.2	21.3
Non-Life Insurance	89.9	7.5	5.8	15.8	-17.0	5.1
Life Insurance	12.9	5.1	6.2	1.2	2.1	6.7
Real Estate Investment Svs	43.0	4.2	13.3	6.1	12.1	9.7
REITS	0.3	2.5	7.2	5.2	3.5	4.1
Financial Services	27.1	36.1	16.0	7.3	-0.8	16.0
FTSE ALL SHARE	-3.2	7.4	9.1	5.1	7.3	7.6
FTSE 100	-5.6	7.4	8.7	4.8	7.6	7.5
Mid 250	25.3	6.6	11.9	8.1	4.0	8.8
Small Cap	-12.3	19.4	19.8	1.9	5.9	12.5

Source: DataStream and Citi Research

Figure 32. UK Sector Ratings

As at Close 14 May 2013	Price/Earnings				Net Dividend Yield			
	2011	2012E	2013E	2014E	2011	2012E	2013E	2014E
OIL & GAS	9.7	9.9	9.7	9.3	3.51	3.82	4.21	4.39
Oil & Gas Producers	9.6	9.8	9.6	9.2	3.56	3.88	4.27	4.43
Oil Equip, Serv and Distrib	16.0	14.4	11.9	10.2	2.33	2.49	2.82	3.34
BASIC MATERIALS	7.2	11.8	11.7	10.3	2.99	3.21	3.49	3.80
Chemicals	17.5	17.1	16.9	15.5	2.00	2.10	2.31	2.55
Forestry & Paper	15.5	16.1	13.3	11.6	2.49	2.51	3.01	3.46
Industrial Metals	7.1	-9.7	-24.5	41.9	8.56	1.08	0.56	0.56
Mining	6.8	11.2	11.2	9.8	3.05	3.35	3.64	3.95
INDUSTRIALS	17.1	16.2	15.2	13.8	2.31	2.59	2.78	2.89
Construction & Materials	15.1	15.7	18.8	14.2	4.05	3.92	4.09	4.18
Aerospace	15.8	14.7	13.4	12.9	2.53	2.71	2.88	3.06
General Industrials	14.5	14.0	12.9	11.7	2.68	2.88	3.22	3.49
Electronic & Electrical Equip	17.7	17.2	16.5	15.0	1.50	1.62	1.77	1.94
Industrial Engineering	18.0	16.9	15.9	14.7	1.96	2.54	2.31	2.47
Industrial Transportation	13.2	14.5	12.9	11.3	2.63	2.74	2.95	3.07
Support Services	18.8	17.6	16.2	14.5	1.98	2.36	2.66	2.68
CONSUMER GOODS	20.5	18.6	16.9	15.2	2.55	2.75	3.15	3.45
Automobiles & Parts	13.2	11.3	10.4	9.2	2.03	2.44	2.81	3.23
Beverages	24.8	22.3	20.0	17.9	1.86	2.01	2.23	2.47
Food Producers	21.6	20.7	18.4	16.8	2.52	2.63	2.98	3.22
Household Gds & Home Cons	22.5	18.7	16.9	15.0	1.92	2.14	2.94	3.16
Personal Goods	24.1	21.1	18.7	16.4	1.66	1.88	2.15	2.44
Tobacco	16.8	15.8	14.5	13.3	3.59	3.87	4.29	4.70
HEALTH CARE	11.9	12.1	13.2	12.3	4.08	4.08	4.32	4.53
Health Care Equip & Services	16.4	15.9	14.9	13.4	1.44	2.09	2.25	2.50
Pharmaceuticals & Biotech	11.7	12.0	13.1	12.3	4.23	4.19	4.43	4.65
CONSUMER SERVICES	14.9	15.2	14.3	13.0	2.81	2.97	3.10	3.27
Food & Drug Retailers	12.4	12.2	12.8	13.2	3.71	3.79	3.82	3.84
General Retailers	15.1	15.2	14.1	12.7	2.62	2.72	2.91	3.15
Media	15.8	14.7	14.2	12.9	2.63	2.93	3.17	3.43
Travel & Leisure	16.4	19.0	15.8	13.2	2.42	2.52	2.60	2.77
TELECOMMUNICATIONS	13.0	12.9	12.5	11.5	5.57	5.10	4.86	4.97
Fixed-Line Telecoms	14.3	12.9	12.6	11.1	2.98	3.18	3.53	4.02
Mobile Telecoms	12.7	12.9	12.5	11.6	6.31	5.65	5.24	5.25
UTILITIES	16.2	15.9	15.5	14.6	4.36	4.58	4.75	4.96
Electricity	14.0	13.8	14.5	13.6	4.87	5.01	5.01	5.23
Gas, Water & Multi-Utilities	17.0	16.6	15.8	15.0	4.22	4.46	4.67	4.89
TECHNOLOGY	31.1	28.3	23.7	20.7	1.04	1.19	1.42	1.68
Software & Computer Serv	20.9	19.2	17.0	15.2	1.67	1.90	2.10	2.34
Technology Hardware & Equip	49.4	44.5	33.9	28.5	0.55	0.66	0.90	1.18
TOTAL NON-FINANCIAL	12.7	13.5	13.1	12.1	3.25	3.40	3.65	3.85
FINANCIALS	16.1	14.5	11.6	10.5	3.01	3.20	3.46	3.99
Banks	14.9	14.2	10.6	9.4	2.58	2.77	3.25	3.94
Non-Life Insurance	21.3	11.2	10.4	9.9	5.38	6.23	5.17	5.43
Life Insurance	14.1	12.5	11.9	11.2	3.66	3.70	3.78	4.03
Real Estate Investment Svs	41.6	29.1	27.9	24.6	1.65	1.75	1.96	2.16
REITS	25.6	25.5	24.9	23.2	3.23	3.40	3.52	3.66
Financial Services	22.9	18.0	13.2	11.4	3.31	3.55	3.52	4.09
FTSE ALL SHARE	13.3	13.7	12.8	11.7	3.20	3.36	3.61	3.88
FTSE 100	12.7	13.5	12.5	11.5	3.30	3.46	3.72	4.00
Mid 250	19.9	15.9	14.9	13.3	2.51	2.71	2.82	3.07
Small Cap	13.4	15.3	12.8	10.7	2.58	2.62	2.78	3.12

Source: DataStream and Citi Research

Notes

Notes

Appendix A-1

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