

# Citi Focus List Europe

## Analysts' Key Buy Ideas – October Update

- **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. The List evolves as analysts' conviction levels change; it continues to reflect key strategy themes. We aim to highlight 15-20 ideas.
- **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.
- **Changes in the last four months** — Since we launched the Focus List Europe on May 30<sup>th</sup>, we have added Bayer, Standard Chartered, ENEL and VW to the Focus List, and removed GSK, HSBC, EADS and Wolseley.
- **Our short-term ideas by sector** — This report also includes our latest Most and Least Preferred stocks over a 3 month time horizon by sector. Both Focus List names and Most and Least Preferred names are part of the Citi Best Ideas Global Data base. An Excel-based filter is available on CitiVelocity.
- **Feedback Welcome** — Please contact us with any feedback you have on the Citi Focus List Europe.
- **Valuation Sheet** — for the latest valuation comps, see our weekly update: [Citi Focus List Europe:10/10/12](#)

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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 22.0	SFr 17.7	<a href="#">Buy Case Reinforced by Improved Demand and Pricing</a>	Q, CDS DY, SIS	Mark Fielding	+44-20-7986-4018
AB-InBev	ABI.BR	€ 77.0	€ 67.1	<a href="#">Mexico? Way to Go</a>	WC	Andrea Pistacchi	+44-20-7986-0767
Barclays	BARC.L	£ 3.7	£ 2.4	<a href="#">Relative Underperformance Unjustified</a>		Andrew Coombs	+44-20-7986-4053
Bayer	BAYGn.DE	€ 75.0	€ 68.3	<a href="#">Buy Case Reinforced by Improved Demand and Pricing</a>	Q, DG, SIS	Andrew Baum	+44-20-7986-4498
BAT	BATS.L	£ 37.9	£ 32.3	<a href="#">1H12 Details: Bats a Bit Below</a>	WC, DG, CDS DY, SIS	Adam Spielman	+44-20-7986-4211
BHP Billiton	BLT.L	£ 22.0	£ 19.3	<a href="#">Result Better; Capex Cut is the Key to Preserve RoE</a>	WC, DG, 3Bs	Heath Jansen	+44-20-7986-3921
BSkyB	BSY.L	£ 8.5	£ 7.5	<a href="#">Solid Results + Solid Prospects + Solid Upgrades = Solid Buy</a> <a href="#">Pain in Spain Drives 4% EPS Cut but Long-term Attractions</a>	Q	Thomas Singlehurst,	+44-20-7986-4051
Danone	DANO.PA	€ 56.0	€ 48.2	<a href="#">Remain Intact</a>	DG	Robert Dickinson	+44-20-7986-4431
ENEL	ENEI.MI	€ 3.6	€ 2.9	<a href="#">Less Debt, Same Earnings, More Dividends?</a>		Antonella Bianchessi	+39-02-8906-8715
Fresenius SE	FREG.DE	€ 105.0	€ 95.6	<a href="#">Acquisition of RHK – ROIC Analysis</a>	DG	Jonathan Beake	+44-20-7986-5441
Inditex	ITX.MC	€ 100.0	€ 96.7	<a href="#">Something Beautiful</a>	WC, DG, Q	Richard Edwards	+44-20-7986-4006
Linde	LING.DE	€ 150.0	€ 132.3	<a href="#">Nursing Homecare and Not Forgetting Its Core Growth Drivers</a>		Andrew Benson	+44-20-7986-3925
PPR	P RTP.PA	€ 160.0	€ 132.0	<a href="#">There's Still Time To Trade Up Into Luxury</a>		Thomas Chauvet	+44-20-7986-4147
Prudential	PRU.L	£ 8.5	£ 8.5	<a href="#">Eastern Promise, Western Risks</a>	WC	Paul Bradley	+44-20-7986-4032
Saipem	SPMI.MI	€ 50.0	€ 34.9	<a href="#">Offshore Oil Services – Treat as Cyclical at Your Peril</a>		Ryan Kauppila	+44-20-7986-4467
SAP AG	SAPG.DE	€ 63.0	€ 54.9	<a href="#">Cut on Europe, Upside in Cloud</a>	WC, DG, SIS	Walter Pritchard	+1-415 951 1770
Standard Chartered	STAN.L	£ 18.3	£ 14.6	<a href="#">Credit Ratings and the Rise of the Rest</a>	WC	Ronit Ghose	+44-20-7986-4028
TeliaSonera	TLSN.ST	SKr 50.0	SKr 45.8	<a href="#">Safe Haven with Optionality</a>	Q, CDS DY	Laurie Fitzjohn-Sykes	+44-20-7986-4114
Volkswagen (pref)	VOWG_p.DE	€ 175	€ 145.5	<a href="#">Global Leader Undervalued on c.7x '13 PE</a>		Harald Hendrikse	+44-20-7986-3460

Source: Citi Research. October 16<sup>th</sup> 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 – Central Banks to the Rescue, Again

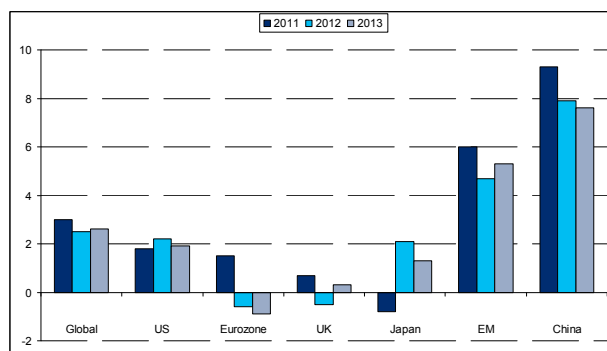
Willem Buiter & Team<sup>2</sup>

**The outlook is balanced between economic fragilities** — with slowing growth in Asia, subpar recovery in the US and widespread recessions plus periphery strains in Europe — coupled with a new wave of central bank stimulus (monetary policy, credit easing and extra liquidity) across all major economic regions. Both sides of this balance (economic fragilities and policy response) appear likely to be greater than the consensus has been expecting.

**We expect that by year-end, the ECB, Sweden, Denmark and a range of major emerging markets will cut rates again**, the PBOC will implement two more RRR cuts and the BoE will expand QE again. The Fed's new easing campaign appears likely to persist well into 2013, accompanied by further widespread easing across both developed and emerging markets. But, even with policy action, economic growth in major countries is likely to remain disappointing in 2013. We are leaving our 2012 global growth forecast (at current exchange rates) at 2.5%, while cutting our 2013 forecast to 2.6% from 2.8% last month. Within that, we are making notable cuts to our growth forecasts for China and Japan, plus more modest forecast downgrades to a range of emerging markets, especially in Asia plus Central and Eastern Europe.

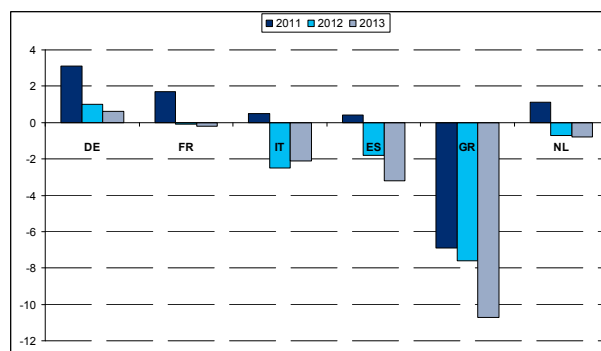
**In the euro area, some key tail risks have receded for now.** Nevertheless, we still expect that the euro crisis will rumble on, with persistent economic weakness — especially in periphery countries — and recurring episodes of financial strains. We put the probability of Grexit in the next 12-18 months at about 60%. Moreover, the 'ECB-put' — the yield level for Italy and Spain at which ECB buying will be activated — probably is above current levels, given that both countries seem reluctant to move into an EFSF/ESM programme unless forced by markets. In addition, over the longer term, adverse fiscal trends point to risks of a wider series of debt restructuring in EMU, including Portugal and, eventually, perhaps Ireland, Italy and Spain. Citi's economists and strategists continue to expect further sovereign credit ratings downgrades over the next 2-3 quarters in the euro area.

Figure 1. 2011-13<sup>e</sup> GDP Growth Forecasts (%)



Source: Citi Research

Figure 2. 2011-13e GDP Forecasts (%)



Source: Citi Research

Figure 3. Citi Economic Forecasts

		Current	4Q12	1Q13	2Q13
<b>Base Rates</b>					
US		0.25	0.25	0.25	0.25
Euro Area		0.75	0.5	0.25	0.25
UK		0.5	0.5	0.5	0.5
<b>10y Yields</b>					
US		1.83	1.65	1.75	2.00
Euro Area		1.67	1.50	1.55	1.60
UK		1.90	1.70	1.60	1.80
<b>10y Spreads vs Bunds (bps)</b>					
France		62	75	70	65
Italy		340	400	300	325
Spain		391	525	375	400
<b>€/US\$</b>					
		Current	Dec-12	Mar-13	Jun-13
		1.31	1.27	1.20	1.15

Source: Citi Research<sup>1</sup> As of date of publication of Global Economic Outlook,... - 19 Sept 2012

<sup>1</sup> See Global Economic Outlook and Strategy: September 2012

<sup>2</sup> Willem Buiter, Michael Saunders, Juergen Michels, Tina Fordham, Guillaume Menuet, Ebrahim Rahbari

## European Equity Strategy

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, recessions and liquidity** — Better news in Europe. ECB is drawn out and core countries support maintenance of the Euro. More liquidity from central banks across the world has supported risk assets. But, Spain is still likely to be in a programme by year end and probability (60%) of Grexit occurring over the next 12-18 months. Euro recession still in 2013.

**Earnings cuts for 2013E** — Top-down, we expect 0% to 5% earnings growth in 2013E for Europe, with more confidence at the lower end of the range. Bottom up analysts are expecting double digit growth. That seems unlikely and downgrades present a headwind to markets over the coming months.

**Valuation support** — However this earnings bad news is reflected in valuations. PE, CAPE and DY all below averages. Price to book ex Fins is around average. Combined with expectation of better 2014 economic activity suggests possible equity re-rating in 2013 and double digit returns.

**Key investment themes** — In a low growth, low interest rate world we expect growth/quality to structurally outperform. Income continues to matter. Low rates mean that de-equitisation will be the main new buyer of shares. Liquidity and policy action has driven sugar rush trade for value. This gives chance to look at growth and quality again.

**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.

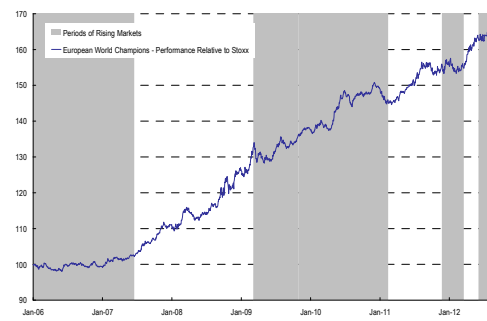
**Sector & country** — We have positive skews to growth (EM exposure, earnings momentum), dividends (DY\*G, CDS-adjusted Dys) and strong balance sheets in our sector and country models. See Figure 6 for our sector allocations. At a country level, we have a structural preference for North over Southern Europe.

Figure 4. European Defensive Growth Relative to Market



Source: Citi Research

Figure 5. European World Champions, 2006-Now



Source: Citi Research

Figure 6. European Sector Strategy

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

Source: Citi Research



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## Citi Focus List Europe

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## ABB

## Transforming Perception

## 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 1.0x 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 closer to 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)

### 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

- [Buy Case Reinforced by Improved Demand and Pricing](#)

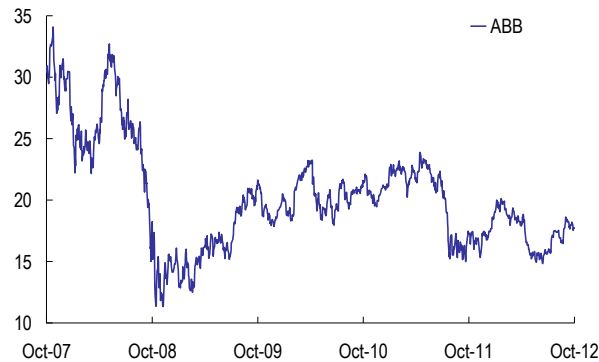


# ABB

Mark Fielding

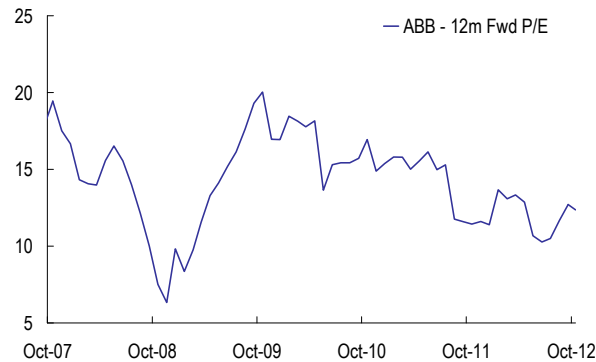
Rating	1	Year to 31-Dec	2009	2010	2011	2012e	2013e	2014e
Price (16 Oct 12)	17.72	Sales (US\$M)	31,795	31,589	37,990	40,008	42,419	44,613
Target price (SFr)	22.00	EBITDA (US\$M)	4,782	4,520	5,662	5,865	6,646	7,320
Expected Share Price Return (%)	24.2	Net Income (US\$M)	2,902	2,561	3,168	3,174	3,699	4,125
Expected Dividend Yield (%)	3.4	Core EPS (¢)	1.3	1.1	1.4	1.4	1.6	1.8
Expected Total Return (%)	<b>28%</b>	EPS Growth (%)	-6.9	-11.8	24.0	0.2	16.5	16.5
		ROE (%)	23.3	17.9	20.7	19.1	20.0	19.9
Market cap (SFrM)	41,017	PE (x)	12.6	17.6	16.1	13.5	11.8	10.5
Market Cap (\$M)	43,951	PB (x)	3.1	3.4	2.7	2.5	2.2	2.0
Net Debt to Equity (%)	-50	EV/EBITDA (x)	7.3	9.5	9.2	8.1	7.2	6.3
Payout Ratio (%)	40	FCF Yield (%)	8.5	7.5	5.2	8.0	8.4	9.6

Figure 7. Share Price



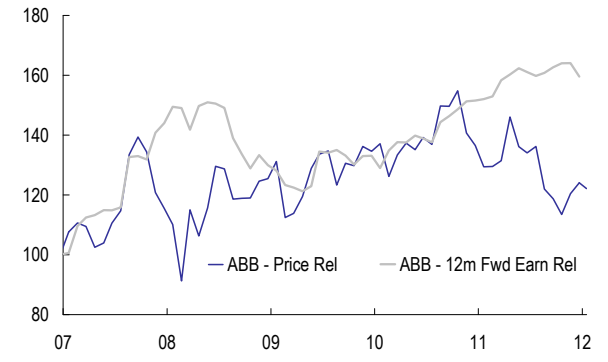
Source: DataStream

Figure 8. 12-Month Forward P/E



Source: Citi Research and DataStream

Figure 9. Price and Earnings Relative



Source: Citi Research and DataStream

## AB-InBev

## Premium Quality

## Andrea Pistacchi

### Our Buy Thesis

- Defensive earnings growth – ABI combines 12.5% EPS CAGR with plenty of self help from: (a) pricing power in its key markets, (b) limited exposure to W Europe (7% of EBIT), (c) cost savings and (d) deleverage benefit to EPS.
- Significant mix opportunity in the US, ABI's largest market – We believe ABI can generate at least 5% EBITDA growth in the US annually, driven by mix (\$800m opportunity over 5 years), continued pricing at inflation and less volume deleverage. The mix opportunity is three-fold and stems from growing at the high end, shrinking the low end (value beer) and trading consumers up in the "middle" through innovation.
- Modelo – Cost synergies could be almost double what ABI is targeting and there is a significant price/mix opportunity too. Even factoring in the \$600m of announced synergies, margins in Mexico would be around 42%, about 10pp below ABI's margins in Brazil and LatAm South, but we see no reason why Modelo's cost base (COGS in particular) shouldn't be reduced further.
- Excellent track record of outperformance – ABI has outperformed the DJ Stoxx in 8 of the past 9 years (except in 2008).

### Valuation

- Despite the stock's rally (+42% YTD), valuation does not look overly stretched. On 17.6x CY13E PE, ABI trades broadly in line with its blue chip global staples peer group.

### Debate/Risks

- Brazil volume (and profit) is likely to slow in 2013, as ABI raises prices to pass on the October tax increase and FX headwinds on COGS. We are below consensus on Brazil, but the risk to EPS is not material (1% downgrade to Brazil EBITDA is worth only 25bps on EPS)
- US macro – recent volume recovery in the US has been helped by lower unemployment figures, but the macro hasn't been the only driver. ABI's volumes have improved also because (1) it is doing better innovation and (2) it is putting more pressure on its distributors.
- There is a risk that the US Dep. of Justice could raise antitrust concerns on the ABI-Modelo deal. If it does, we are confident ABI will find a way to arrange the structure to address the issue. The upside we see on the deal, in any case, is mostly on domestic Mexican margins.

### Key Themes

- World Champions and Defensive Growth

### Upcoming event(s)

- ABI will report its Q3 results on 31 October. We expect strong growth in Brazil (pricing and pre-buying ahead of the tax increase, FX hedge benefits) and an improvement in the US. Outcome of the DoJ review of the Modelo transaction over next few months.

### Description

- ABI is the world's largest brewer. It has a highly 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

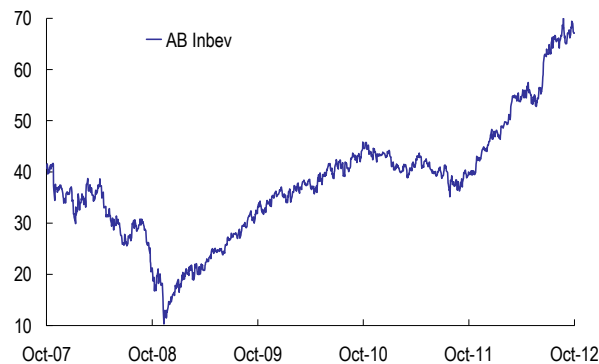
- [Mexico? Way to Go](#)

# AB-InBev

Andrea Pistacchi

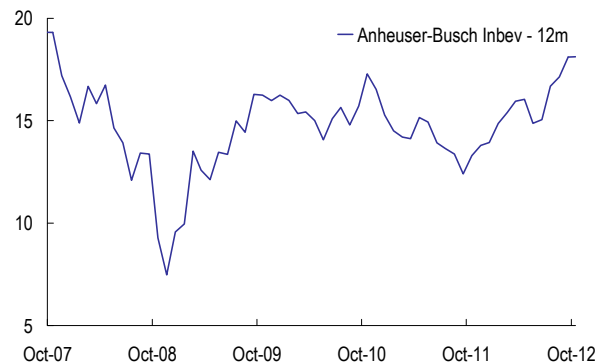
Rating	1	Year to 31-Dec	2009	2010	2011	2012e	2013e	2014e
Price (16 Oct 12)	67.55	Sales (US\$M)	36,758	36,297	39,045	39,583	47,909	51,101
Target price (€)	77.00	EBITDA (US\$M)	13,037	13,869	15,357	15,473	18,418	20,328
Expected Share Price Return (%)	14.0	Net Income (US\$M)	3,927	5,040	6,449	7,448	8,129	9,347
Expected Dividend Yield (%)	2.2	Core EPS (¢)	2.5	3.2	4.0	4.6	5.0	5.7
Expected Total Return (%)	16%	EPS Growth (%)	-1.8	28.1	27.7	13.8	9.1	9.1
		ROE (%)	14.9	15.4	17.7	18.7	17.2	17.0
Market cap (€M)	108,525	PE (x)	15.1	16.9	14.1	16.7	17.5	15.2
Market Cap (\$M)	140,535	PB (x)	2.7	2.6	2.6	3.3	2.7	2.4
Net Debt to Equity (%)	136	EV/EBITDA (x)	9.2	10.4	10.0	11.9	11.9	10.8
Payout Ratio (%)	20	FCF Yield (%)	13.1	8.7	9.7	7.0	7.3	8.4

Figure 10. Share Price



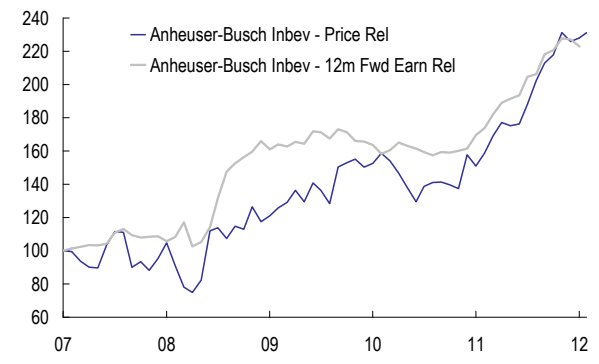
Source: DataStream

Figure 11. 12-Month Forward P/E



Source: Citi Research and DataStream

Figure 12. Price and Earnings Relative



Source: Citi Research and DataStream

## Barclays

## Walk The Talk

## Andrew Coombs

### Our Buy Thesis

- (1) New Management: The recent appointment of Sir David Walker as the new Barclays Chairman and Antony Jenkins as the new Group CEO should enable the focus of the board to return to Group strategy, growth and improving profitability.
- (2) 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. This dominant position should enable the bank to consolidate its global FICC position as competition recedes.
- (3) Retail Growth: in contrast to domestic peers Barclays recorded positive loan growth in 1H12, driven by UK Retail and BarclayCard, which are both high RoE businesses.
- (4) Renewed Cost Discipline: Planned “non-performance” cost savings have already been increased to £2bn pa, up from £1bn pa. We believe this could yet be increased further. Meanwhile Barclays has also shown strong discipline on “performance” compensation costs.
- (5) Benign Asset Quality: Barclays has reported a notable decline in UK & Spanish impairments in 1H12. This reaffirms our belief that consensus is too bearish on 2012 impairments.

### Valuation

- We forecast an underlying Group RoTE of 9.7% in 2012E, rising to 10.2% in 2013E. This is slightly below the new CEO's reported target, of achieving greater than the cost of equity, but is ahead of our forecast European banks sector return. Despite this Barclays trades at a discount to the wider sector, on 0.7x P/TB vs. sector 0.9x.

### Debate/Risks

- (1) Peripheral European Exposures: Barclays has £65bn asset exposure to the peripheral Eurozone countries, the majority of which is to Spain (£26bn) and Italy (£25bn). This compares to Group customer loans of £442bn and equity of £55bn. However total asset exposure to peripheral Eurozone continues to shrink and in Spain, the largest business, Barclays is better provisioned and better capitalized than peers.
- (2) Rate Hedges: 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 this is already captured in our revenue forecasts.
- (3) Capital: The reported core tier 1 ratio declined 10bps in 1H12 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 9.0% at end-2012, rising to 10.6% by end-2014, which we believe is more than sufficient.
- (4) ICB Regulation Adds Extra Cost: 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 3Q12 interim management statement on 31 October 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

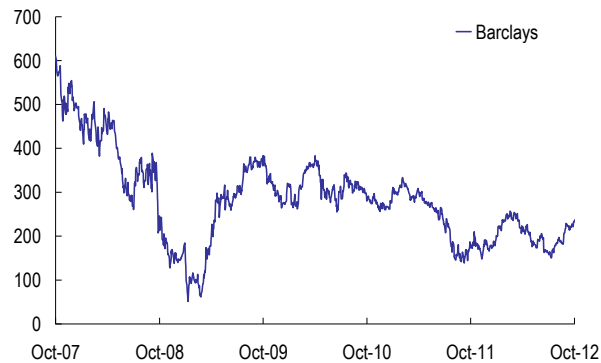
- [Banking on Markets - 25th Edition: Bucking Normal Seasonality](#)

# Barclays

Andrew Coombs

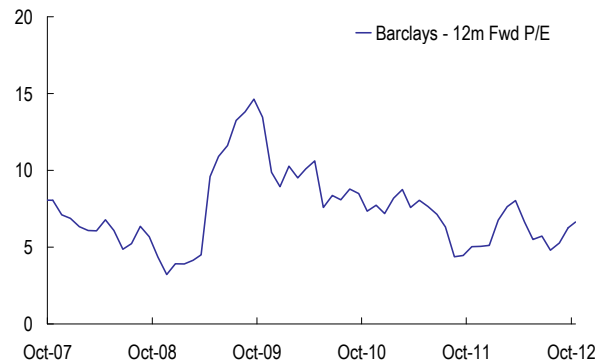
Rating	1	Year to 31-Dec	2009	2010	2011	2012e	2013e	2014e
Price (16 Oct 12)	2.38	Net Income (£M)	3,562	3,123	3,258	4,569	4,887	5,798
Target price (£)	3.70	Core EPS (p)	31.0	25.1	25.2	35.3	37.7	44.7
Expected Share Price Return (%)	55.3	EPS Growth (%)	694.6	-19.1	0.5	40.1	6.8	6.8
Expected Dividend Yield (%)	2.7	ROE (%)	8.5	6.4	6.1	8.3	8.8	9.8
Expected Total Return (%)	<b>58%</b>	PE (x)	8.3	12.2	9.3	6.0	6.3	5.3
Market cap (£M)	29,168	PB (x)	0.7	0.6	0.4	0.5	0.5	0.5
Market Cap (\$M)	46,876							
Payout Ratio (%)	8							

Figure 13. Share Price



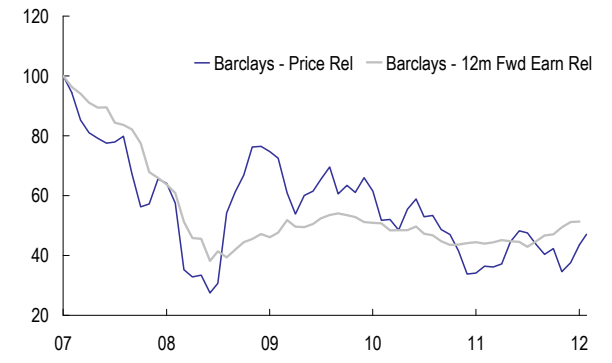
Source: DataStream

Figure 14. 12-Month Forward P/E



Source: Citi Research and DataStream

Figure 15. Price and Earnings Relative



Source: Citi Research 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 benefits of higher market share in Japan.

### Valuation

- BAT trades on a 2013E PE of 14.2x and a 4.6% 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 the UK too.

### Key Themes

- World Champions, Defensive Growth, CDS-Adjusted Dividends, Strong in Strong

### Upcoming event(s)

24 Oct 3Q trading statement

### 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

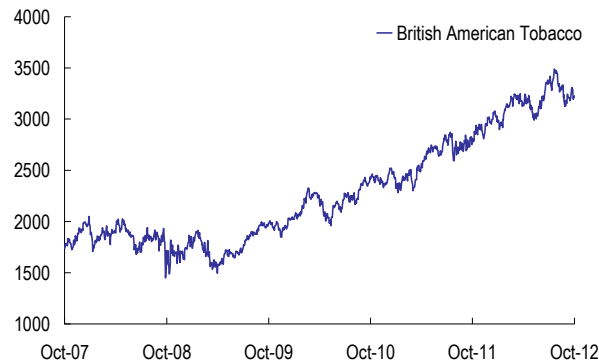
- [Smoking Prices in Emerging Markets](#) 1H12 results note

# BAT

Adam Spielman

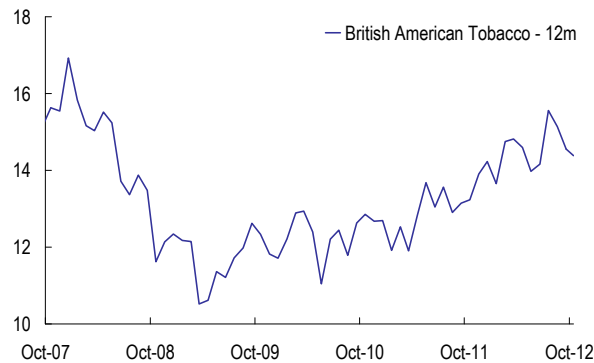
		Year to 31-Dec	2009	2010	2011	2012e	2013e	2014e
Rating	1	Sales (£M)	14,208	14,883	15,399	15,460	16,153	16,960
Price (16 Oct 12)	32.35	EBITDA (£M)	4,907	5,426	5,966	6,162	6,594	7,084
Target price (£)	37.85	Net Income (£M)	3,046	3,505	3,857	4,036	4,349	4,725
Expected Share Price Return (%)	17.0	Core EPS (p)	153.0	175.8	194.6	207.2	227.6	252.3
Expected Dividend Yield (%)	4.2	EPS Growth (%)	18.8	14.9	10.7	6.4	9.9	9.9
Expected Total Return (%)	21%	ROE (%)	41.9	41.7	44.4	53.5	69.1	96.1
Market cap (£M)	62,651	PE (x)	11.8	12.8	13.8	15.4	14.2	12.8
Market Cap (\$M)	100,687	PB (x)	5.2	5.3	7.3	8.9	10.7	14.3
Net Debt to Equity (%)	112	EV/EBITDA (x)	8.6	8.7	9.1	10.2	9.5	8.8
Payout Ratio (%)	65	FCF Yield (%)	9.3	8.9	7.7	7.4	8.1	9.2

Figure 16. Share Price



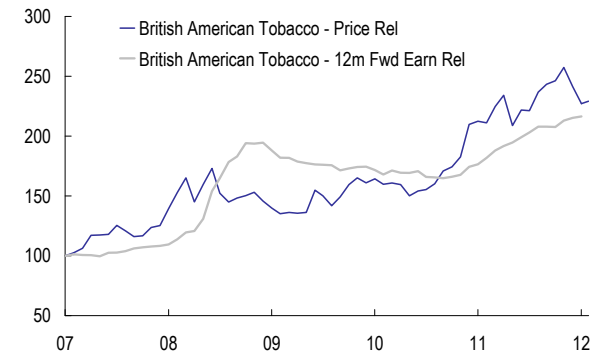
Source: DataStream

Figure 17. 12-Month Forward P/E



Source: Citi Research and DataStream

Figure 18. Price and Earnings Relative



Source: Citi Research and DataStream

## Bayer

## Positive Thesis Continues To Play Out.

Andrew Baum

### Our Buy Thesis

- Our BUY rating is based on a favourable assessment of (i) key cardiovascular drug Xarelto – given its competitive positioning as well as the recent delay for its principal competitor drug BMY/PFE's Eliquis – (ii) CropScience revenues and margin progression due to continued demand and seed tech investment, and (iii) the potential for a tax rate materially lower than that modelled by consensus, driven by more efficient tax minimisation strategies. At our Target Price of €75, Bayer would trade at an undemanding 12x '13E core EPS, compared to our DCF-derived intrinsic value of €90, implying substantial potential for multiple expansion.

### Valuation

- Bayer currently trades on a 2013E P/E of 910.8x, a c.10% discount to the sector (ex Novo) at 12.4x, with a comparable c.7% '13-18E EPS CAGR. Our TP of €75 would put Bayer on an undemanding 12x '13E core EPS.

### Debate/Risks

- Near-term investment risks include: (i) worsening weakness in demand for MaterialScience products, as well as higher raw material costs exerting pressure on margins, (ii) market over-reaction to slow Xarelto Rx uptake in the US. Longer term risks include: (i) the highly cyclical nature of the CropScience business with pricing power highly dependent on grain prices, and (ii) the adverse impact on MaterialScience's profitability from weakness in demand for its key products polyurethanes and polycarbonates.

### Key Themes

- Diversified conglomerate, significant emerging market exposure

### Upcoming event(s)

- i) Release of riociguat Ph3 data in PAH and CTEPH at CHEST meeting on 23/10; ii) US approval for Xarelto in VTE prevention in the US (2/11) and EU decision on Xarelto in ACS (4Q); iii) regulatory filings for key pipeline cancer drug Alparadin (4Q).

### Description

- Bayer is a Chemical and Healthcare conglomerate participating in prescription and consumer pharmaceuticals, as well as crop and material sciences. We anticipate the relative contribution of Healthcare to group sales and EBIT to increase due to the increasing contribution of Bayer's pharmaceutical pipeline to group revenues going forward.

### Key Research

- [€500m CTEPH Opportunity for Bayer. Pipeline Delivery to Continue. Buy](#)

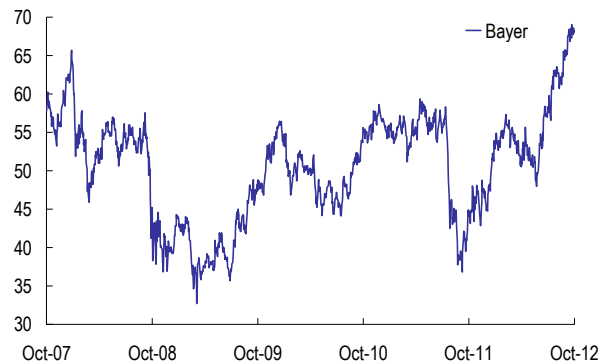


# Bayer

Andrew Baum

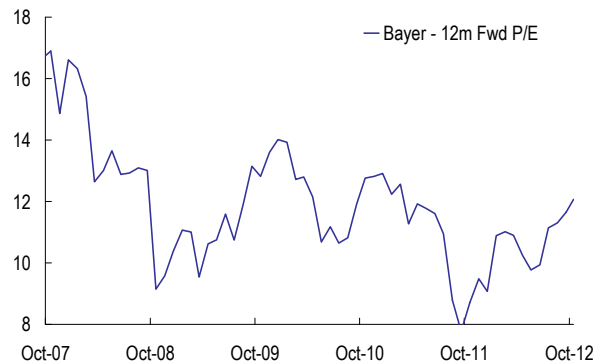
Price (16 Oct 12)	68.27	<b>Year to 31-Dec</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012e</b>	<b>2013e</b>	<b>2014e</b>
Target price (€)	75.00	Sales (€M)	31,168	35,116	36,444	39,389	41,554	43,450
Expected Share Price Return (%)	9.9	EBITDA (€M)	6,437	7,101	7,613	8,575	9,064	9,767
Expected Dividend Yield (%)	2.7	Net Income (€M)	3,003	3,465	4,000	4,531	5,232	5,834
Expected Total Return (%)	<b>13%</b>	Core EPS (¢)	3.6	4.2	4.8	5.5	6.3	7.1
Market cap (€M)	56,456	EPS Growth (%)	-12.8	15.2	15.4	13.3	15.5	15.5
Market Cap (\$M)	73,107	ROE (%)	17.1	18.4	21.0	22.8	23.9	23.6
Net Debt to Equity (%)	54	PE (x)	11.9	12.1	10.5	10.8	10.8	9.7
Payout Ratio (%)	38	PB (x)	2.4	2.4	2.1	2.7	2.4	2.2
		EV/EBITDA (x)	8.2	8.2	7.7	7.6	7.7	6.9
		FCF Yield (%)	7.3	8.0	6.0	7.4	6.6	8.7

Figure 19. Share Price



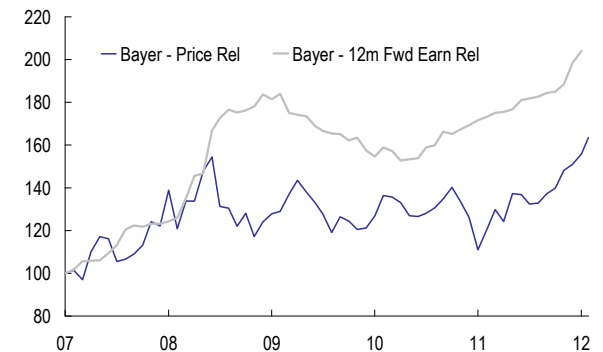
Source: DataStream

Figure 20. 12-Month Forward P/E



Source: Citi Research and DataStream

Figure 21. Price and Earnings Relative



Source: Citi Research 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 asset base and low cost production. Under a backdrop of stable commodity prices the company's portfolio should outperform. The market is concerned on BHPB's large capital expenditure programme, however BHPB has recently been walking the walk on "living within its means" by delaying the approval of Olympic Dam and signaling no major project approvals in FY13. We believe that capex cuts are key to containing the capital base, while optimization of existing operations and efficient ramp-up of projects under execution can lead the way to maintain and potentially increase the RoE.

### Valuation

- BHPB is trading on a FY2014E PE of 10.9x and a 10% 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 profile.

### 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)

- September 2012 Quarter Production Report on 16<sup>th</sup> October 2012

### 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

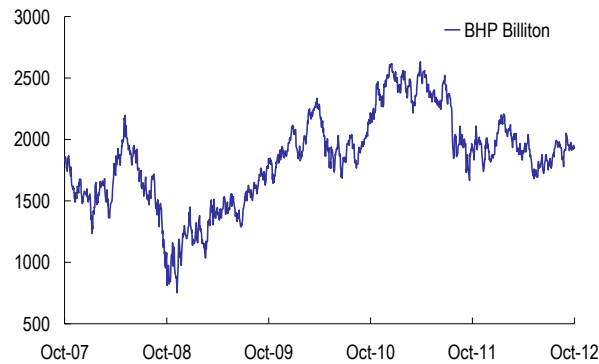
- [Result Better; Capex Cut is the Key to Preserve RoE, WACC Down](#)

# BHP Billiton

Heath Jansen

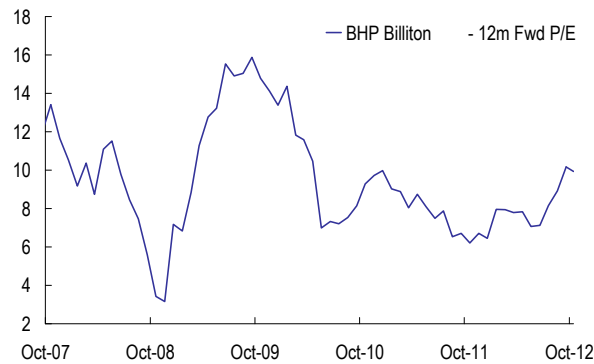
		Year to 30-Jun	2009	2010	2011	2012	2013e	2014e
Rating	1	Sales (US\$M)	50,211	52,798	71,739	72,226	68,073	77,488
Price (16 Oct 12)	19.41	EBITDA (US\$M)	20,876	24,478	37,093	33,770	28,336	35,208
Target price (£)	22.00	Net Income (US\$M)	10,722	12,469	21,684	17,117	12,829	16,694
Expected Share Price Return (%)	13.4	Core EPS (¢)	192.1	223.7	407.4	321.6	241.0	313.6
Expected Dividend Yield (%)	4.1	EPS Growth (%)	-30.2	16.4	82.1	-21.1	-25.0	-25.0
Expected Total Return (%)	17%	ROE (%)	27.4	28.2	41.2	27.9	18.3	21.0
Market cap (£M)	108,745	PE (x)	11.1	13.1	8.9	9.7	12.8	9.9
Market Cap (\$M)	174,764	PB (x)	3.1	3.0	3.7	2.3	2.2	2.0
Net Debt to Equity (%)	12	EV/EBITDA (x)	6.2	7.3	5.9	5.7	6.7	5.4
Payout Ratio (%)	43	FCF Yield (%)	7.3	4.7	10.4	4.4	2.2	5.8

Figure 22. Share Price



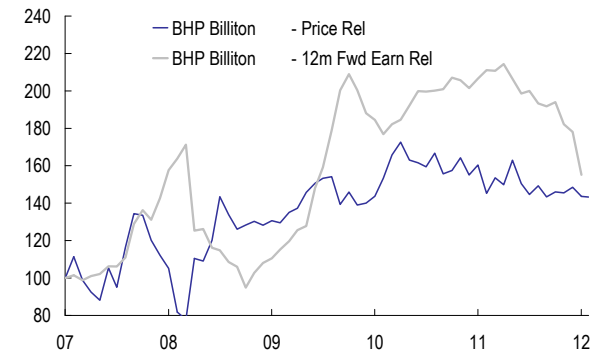
Source: DataStream

Figure 23. 12-Month Forward P/E



Source: Citi Research and DataStream

Figure 24. Price and Earnings Relative



Source: Citi Research and DataStream

## BSkyB

## High Definition

## Thomas Singlehurst, CFA

### Our Buy Thesis

- There are three factors that drive our bull thesis on BSkyB: (1) Strength in high value areas – BSkyB continues to show solid growth across the board, but in particular in areas like Multiroom and HD which enjoy a higher marginal return; we also note the beneficial interchange between lower gross additions and lower churn – both are supportive to medium-term returns; (2) Mechanical Growth – the important point about the product growth profile is that this should follow-through, almost mechanically, to EBIT growth. On the basis that the 2012 product sale profile by itself should drive >£120m of EBIT uplift, we think consensus expectations looks too low; (3) Earnings Security from Other Sources: operationally this includes price increases and cost efficiencies; financially it also includes the earnings uplift associated with accretive cash usage, and in particular the group's cumulative £1.25bn buyback programme. Putting this together, it seems to us that not only is BSkyB well-placed to see continued earnings growth but that there is decent scope for upgrades as we progress through the year. We reflect this in our above consensus forecasts for 2013E and 7%-10% upgrade to 2014E-2015E EPS.

### Valuation

- The group is toward the higher end of the spectrum in terms of relative valuation at 13.8x 2012E P/E vs. the cable/satellite peer group on 11x – we think this is more than justified by the group's visible growth profile. Even without a rerating, simply delivering EPS growth and paying the dividend should drive a 10%-15% TSR over the next 12 months.

### Debate/Risks

- There are two main areas of pushback. The first is concern about increasing competition in the UK triple play market, in particular in the aftermath of BT's successful acquisition of FAPL rights. The launch of Netflix and reinvigoration of Lovefilm is also a cause for concern. The second is the group's valuation. Our own view is relatively sanguine. On the former, we acknowledge the threat from new competitors, 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. On the latter, we accept that a rerating is unlikely, but even holding the multiple should drive comfortable double-digit returns.

### Key Themes

- Quality

### Upcoming event(s)

- NowTV update (launched in the summer). This has hitherto been seen as a defensive move to counter the impact of Lovefilm (which is reported to have 2m customers) and Netflix (which has recently passed the 1m subscriber mark). What has been less commented on are the positive reasons for launching NowTV. Not only could this drive relatively significant incremental monetization of an embedded investment but it could also substantially widen the addressable market. Updates on early progress could be a positive catalyst.
- 1Q Trading. A combination of the Now TV launch and the roll out of broadband/telephony in Eire could be a catalyst for a re-acceleration in product sales. The 1Q trading update, due in 1 November could be a key event.

### 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 >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 triple play packages with broadband and fixed line telephony services.

### Key Research

- [British Sky Broadcasting Group PLC: Solid Results + Solid Prospects + Solid Upgrades = Solid Buy](#)

# BSkyB

Thomas Singlehurst, CFA

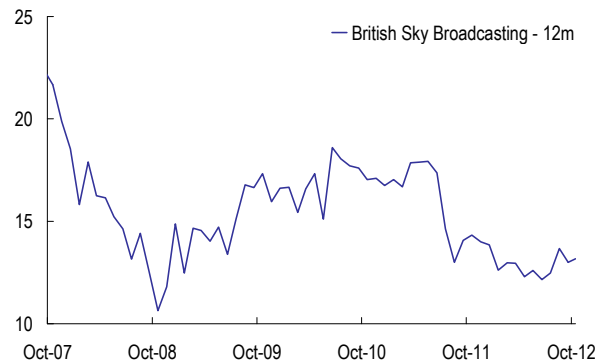
		Year to 30-Jun	2009	2010	2011	2012	2013e	2014e
Rating	1	Sales (£M)	5,324	5,912	6,597	6,791	7,129	7,473
Price (16 Oct 12)	7.50	EBITDA (£M)	1,093	1,192	1,405	1,568	1,682	1,714
Target price (£)	8.50	Net Income (£M)	448	542	725	876	948	979
Expected Share Price Return (%)	13.3	Core EPS (p)	25.5	30.9	41.6	50.9	58.0	61.6
Expected Dividend Yield (%)	3.4	EPS Growth (%)	1.7	21.0	34.6	22.3	13.9	13.9
Expected Total Return (%)	17%	ROE (%)	430.2	96.3	73.6	88.5	113.9	101.5
Market cap (£M)	12,407	PE (x)	17.3	18.2	18.2	13.7	12.9	12.2
Market Cap (\$M)	19,939	PB (x)	41.8	13.1	14.3	12.7	17.1	9.9
Net Debt to Equity (%)	909	EV/EBITDA (x)	8.3	8.9	9.6	7.7	7.5	7.4
Payout Ratio (%)	69	FCF Yield (%)	5.3	6.3	6.3	8.1	7.7	7.8

Figure 25. Share Price



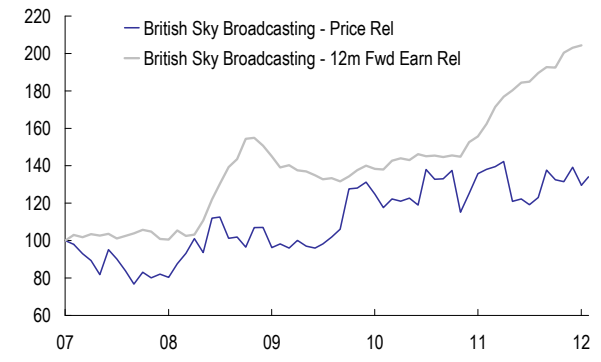
Source: DataStream

Figure 26. 12-Month Forward P/E



Source: Citi Research and DataStream

Figure 27. Price and Earnings Relative



Source: Citi Research 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 reflected in the current valuation due to the market's concerns around the Western European Dairy business. While acknowledging that long-term growth in this region is likely to remain sluggish, we view this as more than offset by the growth potential for the Dairy business in the US and Russia. Our analysis suggests that both of these markets should accelerate materially in the second half of 2012 and could achieve double-digit growth in 2013. We believe this is likely to prompt some re-rating for the shares and the valuation discount to food manufacturing peers such as Nestlé and Unilever should close.

### Valuation

- Danone trades on a 2013 P/E of 14.3x and is one of the few consumer staples companies that is trading below its long-term average valuation. We forecast Danone to deliver superior EPS growth CAGR of 11% from 2012-15E versus peers such as Nestle (NESN.VX; SFr62.00; 2) and Unilever (UNc.AS; €28.37; 2) with 9% which trade on 16.5x 2013 P/E.

### Debate/Risks

- Danone is exposed to a further deterioration in consumer sentiment, particularly in developed markets 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. Danone also faces strong competition 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 3Q12 results on 18 October to be supportive of our thesis that growth in the US and Russian dairy businesses is accelerating. This should build further confidence in the dairy division and support re-rating. The company's investor seminar on 14-16<sup>th</sup> November which will showcase the Russian business should also build confidence in the long-term growth outlook for this key market.

### 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

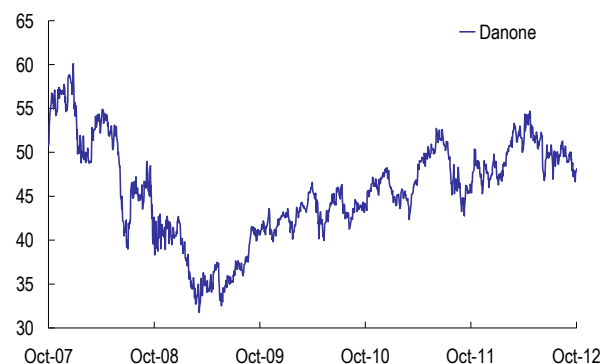
- [Reiterate Buy; Pain in Spain Drives 4% EPS Cut but Long-term Attractions Remain Intact](#)

# Danone

Robert Dickinson

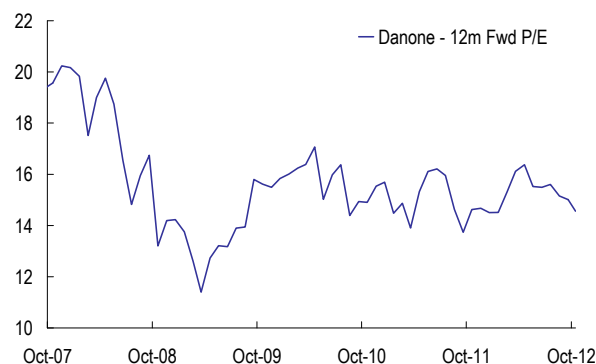
		Year to 31-Dec	2009	2010	2011	2012e	2013e	2014e
Rating	1	Sales (€M)	14,982	17,010	19,318	20,812	22,687	24,118
Price (16 Oct 12)	48.45	EBITDA (€M)	2,789	3,123	3,426	3,610	3,985	4,320
Target price (€)	56.00	Net Income (€M)	1,412	1,669	1,749	1,860	2,021	2,242
Expected Share Price Return (%)	15.6	Core EPS (¢)	2.6	2.7	2.9	3.1	3.4	3.7
Expected Dividend Yield (%)	3.1	EPS Growth (%)	-0.5	5.3	6.8	6.5	8.6	8.6
Expected Total Return (%)	19%	ROE (%)	12.9	13.2	14.5	15.1	15.6	16.1
Market cap (€M)	31,158	PE (x)	14.7	16.3	16.4	16.1	14.5	13.0
Market Cap (\$M)	40,348	PB (x)	1.8	2.4	2.4	2.3	2.2	2.0
Net Debt to Equity (%)	49	EV/EBITDA (x)	10.6	10.1	10.2	9.5	8.3	7.4
Payout Ratio (%)	47	FCF Yield (%)	6.3	6.8	5.2	6.1	6.9	7.8

Figure 28. Share Price



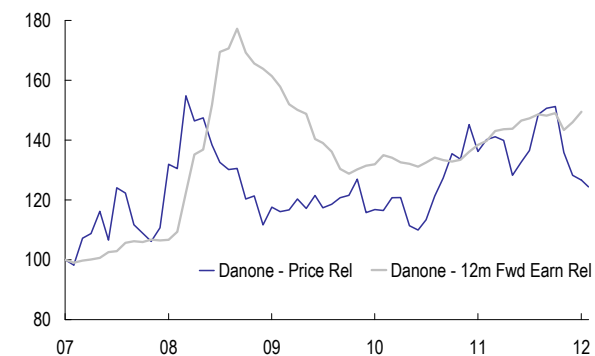
Source: DataStream

Figure 29. 12-Month Forward P/E



Source: Citi Research and DataStream

Figure 30. Price and Earnings Relative



Source: Citi Research and DataStream

## ENEL

## Less debt, same earnings, more dividends?

**Antonella Bianchessi**

### Our Buy Thesis

- We believe ENEL offers solid visible growth prospects underpinned by large exposure to regulated activities and international growth. Solid and growing cashflow combined with declining capex also provides upside risk to dividend.

### Valuation

- ENEL trades at 30% discount to European utilities on both P/E and EV/EBITDA.

### Debate/Risks

- We believe market concern over Italian generation profitability is overstated. Renegotiation of gas contracts, declining coal prices and cost cutting deriving from closure of capacity might provide upside risk to consensus earnings.

### Key Themes

-

### Upcoming event(s)

- Business plan presentation in March 2013.

### Description

- ENEL is a vertically integrated utility, its operations range from generation and import of electricity to distribution and supply to eligible and non-eligible customers. ENEL also distributes and supplies gas. Its operations span from Italy to Spain, Russia, Slovakia and Latin America. 54% of its EV is separately listed, as ENEL controls 92% of Endesa (which controls Enersis), 69.4% of Enel Green Power and 54% of OGK5.

### Key Research

- [Less debt, Same earnings, More dividends?](#)

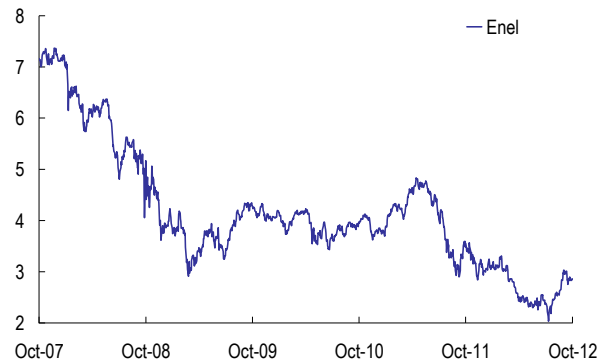


# ENEL

Antonella Bianchessi

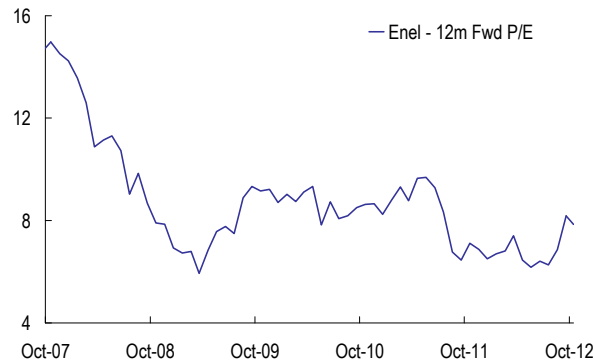
		Year to 31-Dec	2009	2010	2011	2012e	2013e	2014e
Rating	1	Sales (€M)	64,362	73,377	79,514	79,395	79,409	79,756
Price (16 Oct 12)	2.86	EBITDA (€M)	16,371	17,480	17,717	16,425	16,504	16,975
Target price (€)	3.60	Net Income (€M)	5,585	4,390	4,148	3,650	3,584	4,010
Expected Share Price Return (%)	25.9	Core EPS (¢)	0.6	0.5	0.4	0.4	0.4	0.4
Expected Dividend Yield (%)	5.6	EPS Growth (%)	10.5	-21.4	-5.5	-12.0	-1.8	-1.8
Expected Total Return (%)	31%	ROE (%)	20.8	12.3	10.8	9.2	8.6	9.1
Market cap (€M)	26,894	PE (x)	6.4	8.3	8.8	7.0	7.5	6.7
Market Cap (\$M)	34,826	PB (x)	1.1	0.9	0.8	0.7	0.6	0.6
Net Debt to Equity (%)	124	EV/EBITDA (x)	6.2	6.1	5.9	5.7	5.6	5.3
Payout Ratio (%)	42	FCF Yield (%)	18.3	8.8	-1.1	-1.3	5.5	10.0

Figure 31. Share Price



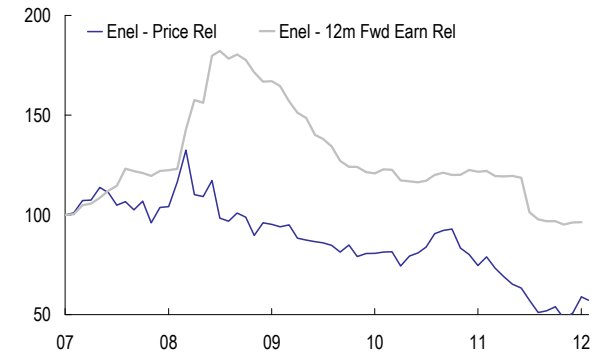
Source: DataStream

Figure 32. 12-Month Forward P/E



Source: Citi Research and DataStream

Figure 33. Price and Earnings Relative



Source: Citi Research and DataStream

Fresenius SE	Diversified Defensive	Jonathan Beake
Our Buy Thesis	<ul style="list-style-type: none"> <li>■ Fresenius SE is a quality company, diversified across a number of defensive industries, all of which are expected to benefit from any further austerity measure. 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,</li> <li>■ Two of the business units, Fresenius Medical Care and 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.</li> <li>■ Fresenius recently aborted its attempted acquisition of Rhon-Klinikum. Whilst this represents a minor set back to strategy, Helios remains a well run business that should continue to gain share in the German private hospital market. As a result of the offer, the company has raised cash which could now be spent on acquisitions for other parts of the group which potentially offer higher growth/superior margins.</li> </ul>	
Valuation	<ul style="list-style-type: none"> <li>■ Fresenius SE currently trades on a 2013 PE of 16.4x despite strong visible earnings growth. Our DCF valuation suggests a fair value of €105.</li> </ul>	
Debate/Risks	<ul style="list-style-type: none"> <li>■ Some investors are concerned that Fresenius SE may be a recipient of FDA warning letters, potentially creating manufacturing delays and thus impacting on sales in the Kabi division.</li> </ul>	
Key Themes	<ul style="list-style-type: none"> <li>■ Diversified defensive</li> <li>■ Injectable generics regulation in the US</li> <li>■ Future appetite for acquisitions in light of the failed RHK bid.</li> </ul>	
Upcoming event(s)	The next event for Fresenius SE is Q3 result which will be published on 31-Oct-2012.	
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	<ul style="list-style-type: none"> <li>■ <a href="#">Injectable Generics Manufacturing: Quality Defensive with Double-Digit Growth</a></li> </ul>	

# Fresenius SE

Jonathan Beake

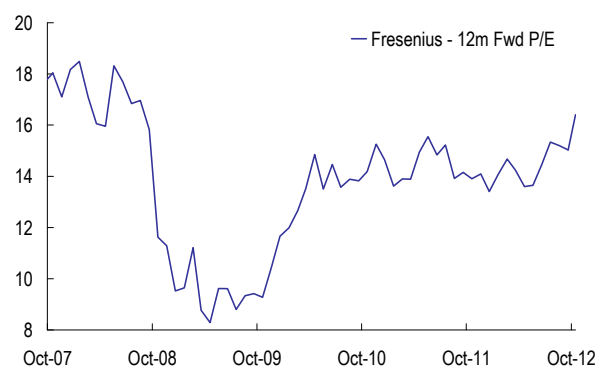
		Year to 31-Dec	2009	2010	2011	2012e	2013e	2014e
Rating	1	Sales (€M)	14,164	15,972	16,522	19,284	20,823	22,212
Price (16 Oct 12)	95.60	EBITDA (€M)	2,614	3,055	3,237	3,803	4,109	4,442
Target price (€)	105.00	Net Income (€M)	566	658	770	913	977	1,090
Expected Share Price Return (%)	9.8	Core EPS (¢)	3.5	4.0	4.7	5.4	5.8	6.4
Expected Dividend Yield (%)	1.0	EPS Growth (%)	18.5	15.6	16.1	14.7	7.0	7.0
Expected Total Return (%)	11%	ROE (%)	14.1	14.5	14.2	14.4	13.7	13.7
Market cap (€M)	16,988	PE (x)	9.9	13.5	14.7	15.6	16.6	14.9
Market Cap (\$M)	21,999	PB (x)	1.7	2.1	1.9	2.4	2.1	1.9
Net Debt to Equity (%)	104	EV/EBITDA (x)	5.6	5.3	7.4	7.7	7.7	7.1
Payout Ratio (%)	21	FCF Yield (%)	15.7	13.0	8.0	2.4	7.3	8.8

Figure 34. Share Price



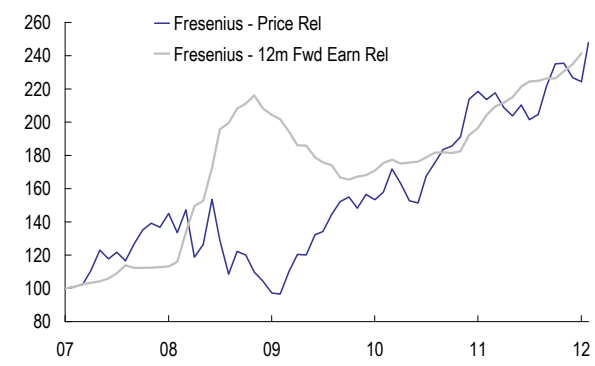
Source: DataStream

Figure 35. 12-Month Forward P/E



Source: Citi Research and DataStream

Figure 36. Price and Earnings Relative



Source: Citi Research and DataStream

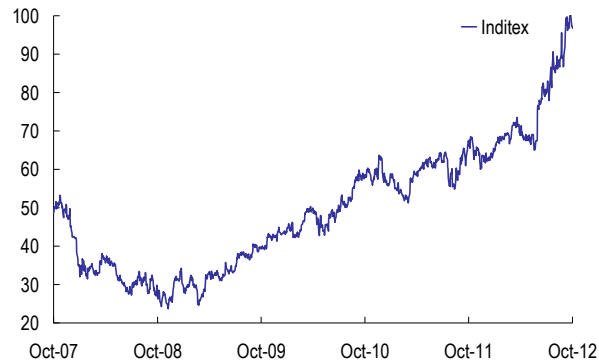
Inditex	Rule the World	Richard Edwards
Our Buy Thesis	<ul style="list-style-type: none"> <li>■ A 'GDP-plus' business: our long held Buy rating is based on our belief that Inditex is a 'GDP-plus' business, most impressively in the demanding calendar year 2009 when sales weighted GDP fell -3.5% Inditex 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.</li> </ul>	
Valuation	<ul style="list-style-type: none"> <li>■ Target price €100 – This target is based on 15x January 2014E target EV/EBIT (recent average), equating to c.22x P/E and a 4.5% free cash flow yield (also in line with long run average).</li> </ul>	
Debate/Risks	<ul style="list-style-type: none"> <li>■ The company has a large exposure to Spain.</li> </ul>	
Key Themes	<ul style="list-style-type: none"> <li>■ World Champions, Defensive Growth, Quality (High RoE &amp; Strong Balance Sheet)</li> </ul>	
Upcoming event(s)	<ul style="list-style-type: none"> <li>■ The group's 3Q results on 12 December 2012.</li> </ul>	
Description	<ul style="list-style-type: none"> <li>■ Inditex manufactures and retails apparel. The company operates retail chains under the names Zara, Massimo Dutti, Pull &amp; Bear, Stradivarius, Bershka, Oysho, Zara Home and Uterque in 80 countries around the world. Much of the manufacturing is subcontracted.</li> </ul>	
Key Research	<ul style="list-style-type: none"> <li>■ <a href="#">Something Beautiful; Only The Strong Survive</a></li> </ul>	

# Inditex

Richard Edwards

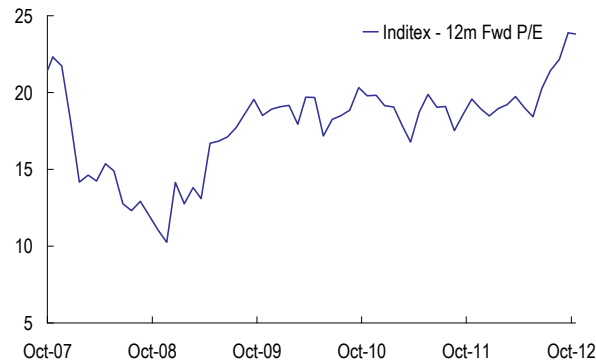
Rating	1	Year to 31-Jan	2009	2010	2011	2012	2013e	2014e
Price (16 Oct 12)	97.68	Sales (€M)	10,407	11,084	12,527	13,793	15,538	17,128
Target price (€)	100.00	EBITDA (€M)	2,174	2,340	2,914	3,202	3,767	4,138
Expected Share Price Return (%)	2.4	Net Income (€M)	1,254	1,313	1,733	1,933	2,237	2,462
Expected Dividend Yield (%)	2.1	Core EPS (¢)	2.0	2.1	2.8	3.1	3.6	4.0
Expected Total Return (%)	4%	EPS Growth (%)	0.2	4.3	32.0	11.5	15.7	15.7
		ROE (%)	28.1	26.1	29.6	28.0	28.1	27.0
Market cap (€M)	60,887	PE (x)	15.3	17.2	18.7	19.6	23.3	24.7
Market Cap (\$M)	78,846	PB (x)	3.9	5.3	5.4	5.6	7.1	6.3
Net Debt to Equity (%)	-26	EV/EBITDA (x)	8.2	8.7	10.0	10.6	12.7	13.4
Payout Ratio (%)	52	FCF Yield (%)	4.3	8.0	5.8	4.1	4.1	3.9

Figure 37. Share Price



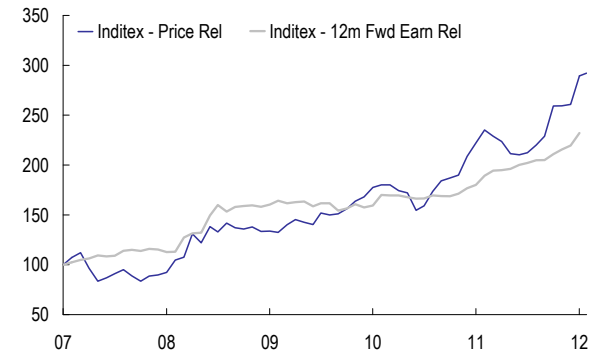
Source: DataStream

Figure 38. 12-Month Forward P/E



Source: Citi Research and DataStream

Figure 39. Price and Earnings Relative



Source: Citi Research 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. The pace of new business wins was strong in H1; Linde signed contracts that will require €650m in Capex in Q2 (this is almost a year's worth of tonnage Capex). Outstanding Capex for tonnage contracts is a record €2.6bn and the potential contract pipeline is also a record €4.7bn. This will underpin growth through 2015. In the short term Linde has more favourable geographic mix than Air Liquide, as it has minimal exposure to the southern Europe, zero exposure to Japan and strong presence in Eastern Europe, Germany and the UK. 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 (2013E PE of 14.4x versus peers at 17.6x and 2013E EV/EBITDA of 8 x versus peers of 9.5x) undervalues the shares. The FY11 and 2Q12 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)

- 3Q results on the 29-th of November. We expect new cost cutting program to be announced till the end of the year (at par or above HPO with Eur 650 mn cumulative savings).

### 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

- [Nursing Homecare and Not Forgetting Its Core Growth Drivers](#)

# Linde

Andrew Benson

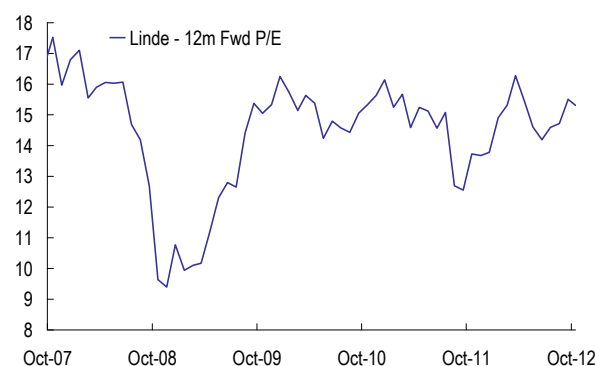
		Year to 31-Dec	2009	2010	2011	2012e	2013e	2014e
Rating	1	Sales (€M)	11,211	12,868	13,787	15,056	17,171	18,339
Price (16 Oct 12)	132.25	EBITDA (€M)	2,403	2,857	3,134	3,426	3,921	4,216
Target price (€)	150.00	Net Income (€M)	855	1,153	1,315	1,458	1,688	1,894
Expected Share Price Return (%)	13.4	Core EPS (¢)	5.1	6.8	7.7	8.4	9.2	10.3
Expected Dividend Yield (%)	1.4	EPS Growth (%)	-6.6	34.7	13.1	8.5	9.5	9.5
Expected Total Return (%)	15%	ROE (%)	10.3	11.8	11.7	12.2	13.4	14.3
Market cap (€M)	24,475	PE (x)	12.8	13.5	14.5	15.1	14.4	12.9
Market Cap (\$M)	31,693	PB (x)	1.6	1.8	1.7	1.9	1.9	1.8
Net Debt to Equity (%)	67	EV/EBITDA (x)	7.1	7.5	7.7	8.4	8.1	7.4
Payout Ratio (%)	36	FCF Yield (%)	6.7	7.9	5.7	3.0	3.8	4.3

Figure 40. Share Price



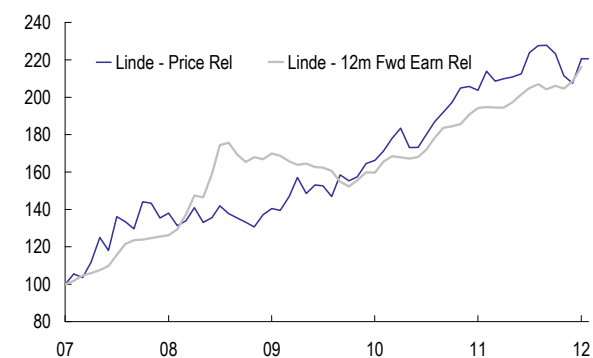
Source: DataStream

Figure 41. 12-Month Forward P/E



Source: Citi Research and DataStream

Figure 42. Price and Earnings Relative



Source: Citi Research and DataStream

## PPR

## Simplification and Momentum 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 that 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 2012E EBIT), PPR's other luxury brands continue to deliver outstanding revenue growth and now account for ~40% of 2012E Luxury sales, driving ~50% of our 2012-14E Luxury EBIT growth. Favourable regional and channel mix, economies of scale, Bottega Veneta's new markdown policy on leather goods and YSL's favourable mix (leather goods) bode 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 (remaining 42% stake sold to Toyota in 3Q12); the sale of Conforama in 2010, and the planned demerger/listing of Fnac post May 2013 AGM. With 2012E fixed charge cover of 3.4x and net debt/EBITDA of around 1.1x, PPR does not seem to be excessively geared. With a potential (desired) level of debt of 1.5-2.0x EBITDA, and the upcoming disposal of Redcats, this should leave the group with significant room for manoeuvre for further acquisitions.

### Valuation

- PPR trades at a ~20% discount to our SOTP valuation on a 2013E PE of 11.8x and EV/EBIT of 9.1x (luxury sector on 15.7x and 10.8x, respectively). 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 of Redcats, demerger of Fnac. The company has not been a great buyer of assets (Puma) so far. Slightly above industry average financial leverage. Skepticism over the validity of the strategy and the combination of luxury and lifestyle activities.

### Key Themes

#### Upcoming event(s)

- 
- 3Q12 sales (25 Oct), which should provide more visibility on the resilience of PPR's luxury brands relative to peers (especially YSL and Bottega Veneta), and details on the implementation of Puma's restructuring plan. We expect management to provide an update on the Redcats disposal process, with the sale of Redcats USA (~50% of Redcats' profits) expected to be announced before the publication of 3Q12 as indicated by CEO Francois-Henri Pinault recently. Demerger and listing of Fnac expected post the May 2013 AGM.

### 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 (82% as of June 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 80/15/5 by EBIT (2012E).

### Key Research

- [There's Still Time to Trade Up Into Luxury](#)

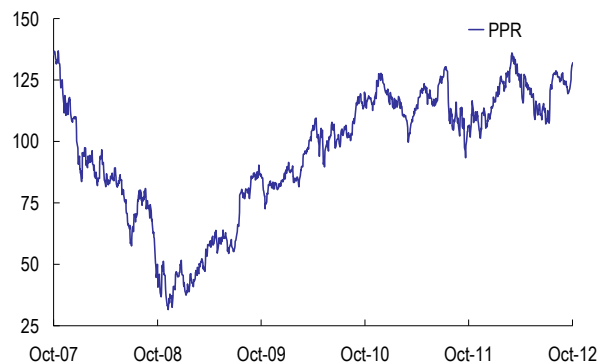


# PPR

Thomas Chauvet

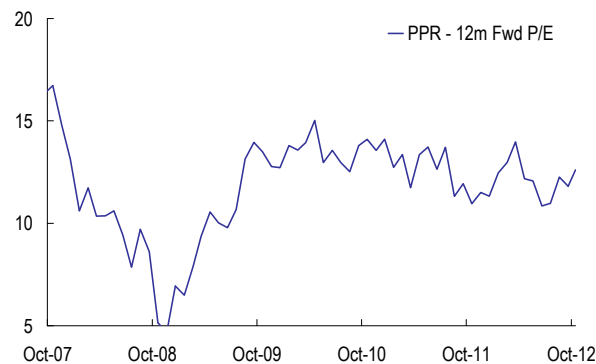
Rating	1	Year to 31-Dec	2009	2010	2011	2012e	2013e	2014e
Price (16 Oct 12)	130.85	Sales (€M)	13,597	14,605	12,227	13,841	14,752	15,734
Target price (€)	160.00	EBITDA (€M)	1,556	1,749	1,817	2,106	2,364	2,646
Expected Share Price Return (%)	22.3	Net Income (€M)	669	958	1,055	1,242	1,405	1,602
Expected Dividend Yield (%)	3.1	Core EPS (¢)	5.3	7.6	8.4	9.8	11.1	12.7
Expected Total Return (%)	25%	EPS Growth (%)	-8.4	42.9	10.5	17.8	13.1	13.1
		ROE (%)	6.9	9.3	9.8	10.5	10.9	11.8
Market cap (€M)	16,483	PE (x)	12.4	13.8	13.6	12.6	11.8	10.3
Market Cap (\$M)	21,345	PB (x)	1.1	1.4	1.3	1.3	1.3	1.2
Net Debt to Equity (%)	42	EV/EBITDA (x)	9.0	10.0	9.8	8.6	7.6	6.5
Payout Ratio (%)	62	FCF Yield (%)	9.6	6.7	4.5	6.9	7.8	8.6

Figure 43. Share Price



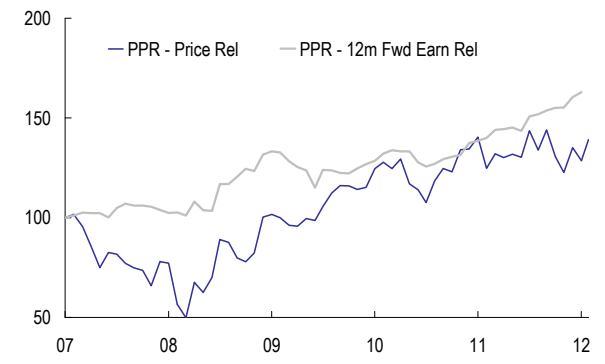
Source: DataStream

Figure 44. 12-Month Forward P/E



Source: Citi Research and DataStream

Figure 45. Price and Earnings Relative



Source: Citi Research and DataStream

Prudential	EM Growth at DM Price	Paul Bradley
Our Buy Thesis	<ul style="list-style-type: none"> <li>■ 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.</li> </ul>	
Valuation	<ul style="list-style-type: none"> <li>■ The share is 12x FY13E P/E, at a premium to the sector (9x), but a 20% 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.</li> </ul>	
Debate/Risks	<ul style="list-style-type: none"> <li>■ 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.</li> </ul>	
Key Themes	<ul style="list-style-type: none"> <li>■ WC – World Champions</li> </ul>	
Upcoming event(s)	<ul style="list-style-type: none"> <li>■ 3Q Interim Management Statement 14 November 2012; Analyst day (New York) 28/29 November 2012</li> </ul>	
Description	<ul style="list-style-type: none"> <li>■ Prudential is a rarity within the European insurance space in that has “in built” earnings growth given its scale positions across fast growing, important Asian markets while ensuring that it is catering to a greying 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.</li> </ul>	
Key Research	<ul style="list-style-type: none"> <li>■ <a href="#">Eastern Promise, Western Risks</a></li> </ul>	

# Prudential

Paul Bradley

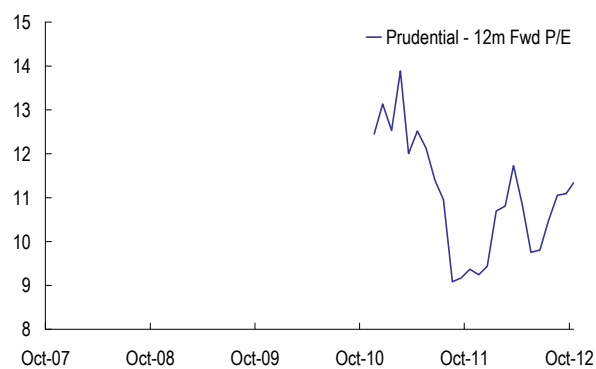
		Year to 31-Dec	2009	2010	2011	2012e	2013e	2014e
Rating	1	Net Income (£M)	1,347	1,565	1,618	1,660	1,823	1,994
Price (16 Oct 12)	8.52	Core EPS (p)	53.9	62.0	63.9	65.4	71.3	77.4
Target price (£)	8.50	EPS Growth (%)	41.5	15.1	3.0	2.4	9.0	9.0
Expected Share Price Return (%)	-0.2	ROE (%)	23.8	22.7	20.1	19.9	21.2	19.3
Expected Dividend Yield (%)	3.1	PE (x)	8.5	9.4	10.5	11.8	11.9	11.0
Expected Total Return (%)	3%	PB (x)	2.6	2.3	1.9	2.7	2.4	1.9
Market cap (£M)	21,771							
Market Cap (\$M)	34,988							
Payout Ratio (%)	37							

Figure 46. Share Price



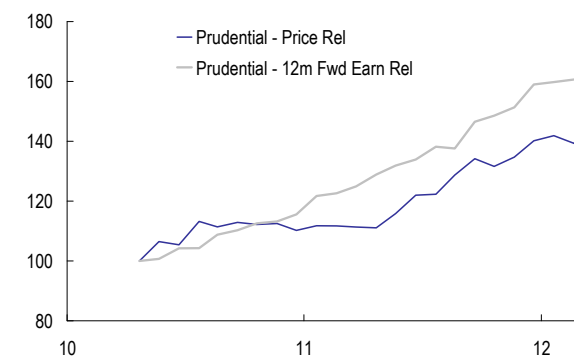
Source: DataStream

Figure 47. 12-Month Forward P/E



Source: Citi Research and DataStream

Figure 48. Price and Earnings Relative



Source: Citi Research and DataStream

## Saipem

## Growth Moored To Offshore Boom

Ryan Kauppila

### Our Buy Thesis

- Saipem is geared towards increasingly complex offshore oil and gas production, a structural shift which looks set to accelerate this decade. Saipem's completion of a five-year, €8B capital program in 2012 looks well timed to capitalise on this increased activity. In offshore construction, where Saipem is an industry leader, utilisation looks set to tighten materially 2012-15E (from 70% to 90%), which should see Saipem's EBITDA margins improve 200bps over that time period (to 19.5%). Onshore, Saipem is well positioned in the Middle East and Africa, areas where recent investment has been sluggish, but should see considerable activity later this decade. We believe the market is underestimating the scope for new awards in 2013, the degree of margin expansion offshore and expected pick-up in activity onshore later this decade. Near-term, we expect major award wins in Brazil and West Africa.

### Valuation

- Saipem is trading at 13x 2013E PE, 1.3x the EuroStoxx, in our view undemanding given 18% p.a. earnings growth 2012-15E. A strong backlog (1.4x 2013E revenues) largely consisting of investment grade clients (oil majors, national oil companies) provides robust top-line visibility around this growth; given the strength of the current bid pipeline, we see scope for further backlog growth over the course of 2012.

### Debate/Risks

- Oil market supply-demand fundamentals look to support current levels of industry capital spend, with an increasing share of spend directed offshore. However, given Saipem's exposure to frontier oil and gas developments, a retrenchment in spend related to weaker oil prices would likely see some of these projects delayed or cancelled. Additionally, a significant proportion of Saipem's expected activity is located in areas of heightened geopolitical risks (e.g. Iraq, Nigeria, Russia). Additionally, Saipem's backlog consists mostly of large fixed-price contracts, and therefore carries significant execution risks.

### Key Themes

- Defensive Growth

### Upcoming event(s)

- Brazil pre-salt riser awards expected by year-end.

### 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

- [Offshore Oil Services - Treat as Cyclical at Your Peril](#)

# Saipem

Ryan Kauppila

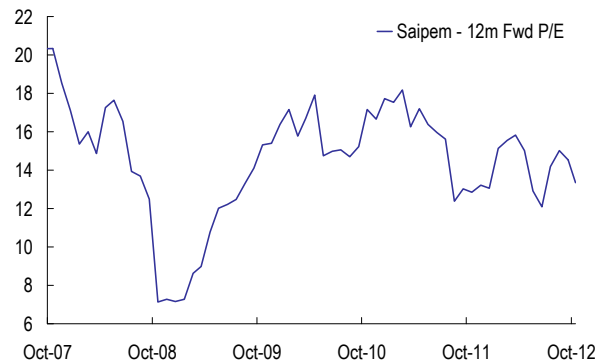
		Year to 31-Dec	2009	2010	2011	2012e	2013e	2014e
Rating	1	Sales (€M)	10,292	11,160	12,593	13,409	13,789	15,301
Price (16 Oct 12)	35.24	EBITDA (€M)	1,598	1,837	2,135	2,351	2,512	2,942
Target price (€)	50.00	Net Income (€M)	734	846	921	1,021	1,120	1,474
Expected Share Price Return (%)	41.9	Core EPS (¢)	1.7	1.9	2.1	2.3	2.5	3.3
Expected Dividend Yield (%)	1.9	EPS Growth (%)	1.4	15.4	8.4	10.9	9.7	9.7
Expected Total Return (%)	44%	ROE (%)	23.7	22.6	21.0	20.1	19.1	21.7
Market cap (€M)	15,551	PE (x)	10.5	14.6	16.2	15.5	13.9	10.6
Market Cap (\$M)	20,138	PB (x)	3.1	4.0	3.1	2.8	2.5	2.1
Net Debt to Equity (%)	84	EV/EBITDA (x)	6.7	8.6	8.5	8.2	7.4	6.0
Payout Ratio (%)	33	FCF Yield (%)	-8.9	-2.6	2.7	0.6	6.7	8.3

Figure 49. Share Price



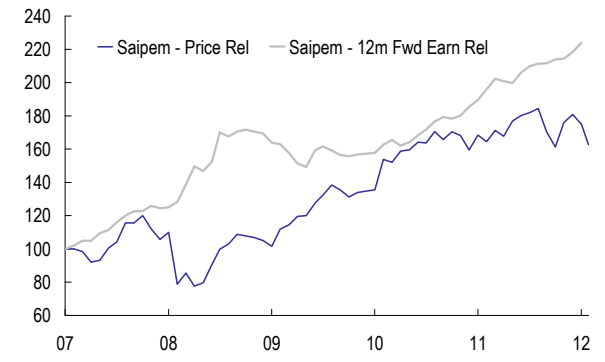
Source: DataStream

Figure 50. 12-Month Forward P/E



Source: Citi Research and DataStream

Figure 51. Price and Earnings Relative



Source: Citi Research and DataStream

## SAP

## Own it for the Core, Emerging Markets and Cloud

Walter Pritchard

### Our Buy Thesis

- We see ~11% top line growth over the next 3 years for SAP driven by 7% core ERP growth and 2-6pts of “growth accelerators” including cloud, Hana and mobile (base case is 11% growth). Emerging markets are key to the core and SAP is one of the better positioned software vendors for EM. Solid top line growth should result in margin expansion towards 35%.

### Valuation

- We use DCF-based price targets across our coverage universe, driving our €63 price target. This is based on our “base” case for “growth accelerators” and in the “bull” case we see 13% growth and a stock worth €69 and in the “bear” case 9% growth and a stock worth €52. Importantly, due to recent pick-up in M&A activity and the fact the shares are already in the upper half of their last four-year (since 2008 downturn) P/E range, we don’t expect to see multiple expansion.

### Risks

- Macro volatility impacting capital spending and large software purchases such as SAP; disappointment in “growth accelerators”

### Key Themes

- World Champions, Defensive Growth, Strong in Strong

### Upcoming event(s)

- SAP F3Q12 results in late Oct shouldn’t be filled with surprises but will provide an update on the trajectory of “growth accelerators”

### 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

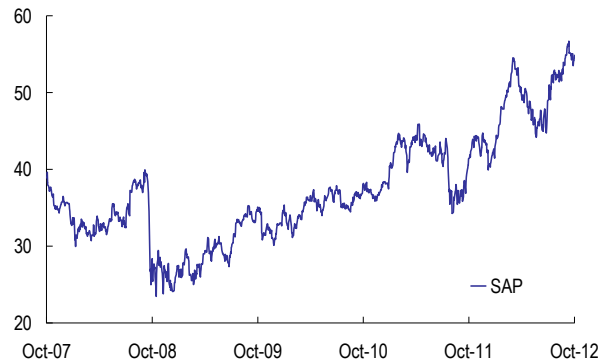
- [SAP AG \(SAPG.DE\) - Own it for the Core, Emerging Markets and Cloud](#)

# SAP

# Walter Pritchard

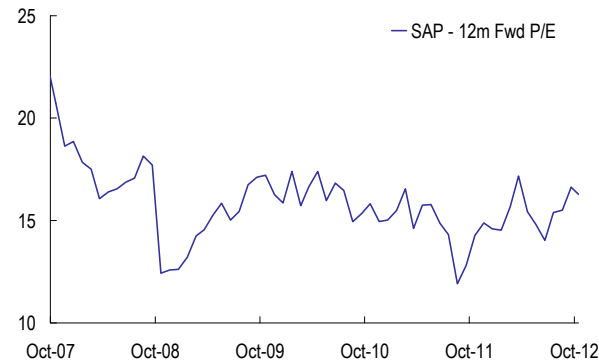
		Year to 31-Dec	2009	2010	2011	2012e	2013e	2014e
Rating	1	Sales (€M)	10,672	12,464	14,232	16,255	18,267	20,164
Price (16 Oct 12)	55.22	EBITDA (€M)	3,413	4,541	5,433	6,100	7,000	7,945
Target price (€)	63.00	Net Income (€M)	2,014	2,739	3,371	3,783	4,434	5,074
Expected Share Price Return (%)	14.1	Core EPS (¢)	1.7	2.3	2.8	3.2	3.7	4.3
Expected Dividend Yield (%)	1.8	EPS Growth (%)	-10.9	36.0	22.9	12.2	17.2	17.2
Expected Total Return (%)	<b>16%</b>	ROE (%)	25.7	30.0	30.0	27.6	27.2	25.8
Market cap (€M)	67,829	PE (x)	17.9	15.5	14.7	16.0	14.8	13.0
Market Cap (\$M)	87,835	PB (x)	4.8	4.8	3.9	4.6	3.8	3.2
Net Debt to Equity (%)	-14	EV/EBITDA (x)	10.5	9.6	9.2	9.8	9.1	7.6
Payout Ratio (%)	29	FCF Yield (%)	7.7	6.1	6.7	1.5	6.7	7.7

Figure 52. Share Price



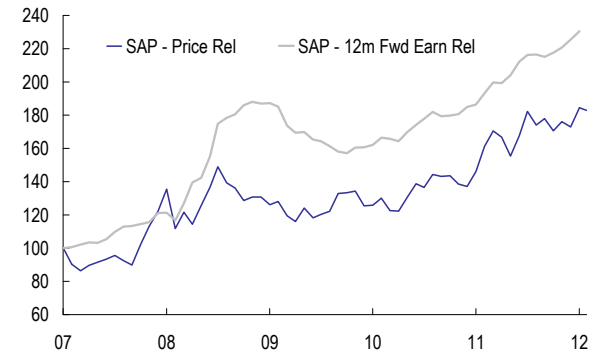
Source: DataStream

Figure 53. 12-Month Forward P/E



Source: Citi Research and DataStream

Figure 54. Price and Earnings Relative



Source: Citi Research and DataStream

## Std Chartered

## The Emerging Market Play

Ronit Ghose

### Our Buy Thesis

- Standard Chartered is geared to the theme of banking growth in Asia/EM and market share gains, especially in corporate and investment banking from balance sheet strength and breadth of EM network reach. The ongoing de-leveraging of European banks, and related reduction in global banking exposure, should support the gain in market share by non-Western banks. SC is a pure play on this theme.
- On 14 August the New York DFS and Standard Chartered Bank reached an agreement to settle the matters raised in the DFS Order dated Aug. 6, 2012. The settlement includes a fine of \$340 million and an on-site monitor at SCB NY branch reporting to state officials. The fine is equivalent to c1ppt of SC's TBVPS compared to a 15% stock price decline from the release of the 6 August DFS Order to the closing price on 14 August. We see this as a positive removal of a major overhang.

### Valuation

- Our Standard Chartered (SCB) target price of £18.25 (HK\$226) is based on a consideration of SCB's P/E and P/B valuation multiples over history and peer group multiples. At our target price, SCB would trade at c13.1x 2012E EPS and 1.8x 2012E tangible book - a discount to both the stock's historical average P/E and its historical average P/TB.
- Price/tangible book multiple - SCB's average P/TB over the past 13 years (1997- 2011) is 2.9x. At our target price, SCB would trade at 1.8x, below the historical average. SCB is targeting an ROE of c15% on reported book, equivalent to c18% on tangible book. We forecast c12-13% for 2012-14 on reported book or c15-16% on tangible book. Price/earnings multiple - In the past 13 years, SCB has traded at an average (forward) P/E of 14.7x. At our target, the implied forward P/E is 13.1x 2012E, a discount to historical average.

### Debate/Risks

- SC has grown its balance sheet rapidly in recent years; WB loans in particular have grown quickly. While we do not have any evidence of poor underwriting standards, we need to be watchful when any bank grows its balance sheet so rapidly. We have an upbeat economic forecast for SC's key markets in 2012 but any deterioration in the economic environment could raise asset quality concerns.
- Low interest rates put pressure on returns in deposit-heavy businesses, including cash management in WB and current accounts in CB. The group's low LDR is a drag on returns in a low rate environment and higher rates will help returns. Many of the markets in which SC operates are a strategic growth priority for many banks, international and regional, and this is also placing pressure on product margins and costs.
- Emerging market stocks often underperform when US\$ rates rise. Our analysis shows that UK international banks have underperformed the broader European equity market when \$ short rates increase faster than long rates and the yield curve flattens.

### Key Themes

- WC – World Champions

### Upcoming event(s)

-

### Description

- SC is a global player in the financial services industry, operating in over 70 countries and providing personal and business customers with range of financial services. SC is listed on the London, HK and Mumbai stock exchanges, and ranks amongst the top 20 companies in the FTSE-100 by market cap.

### Key Research

- [Credit Ratings And The Rise Of The Rest](#)

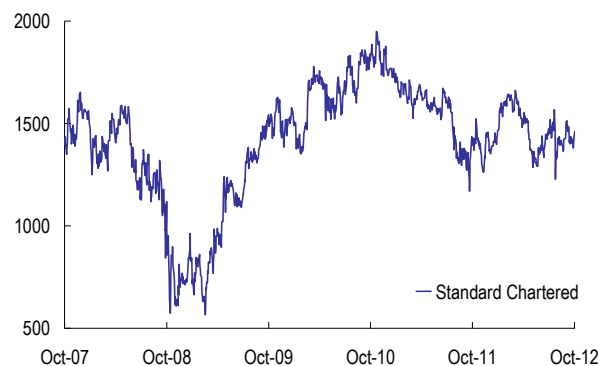


# Std Chartered

Ronit Ghose

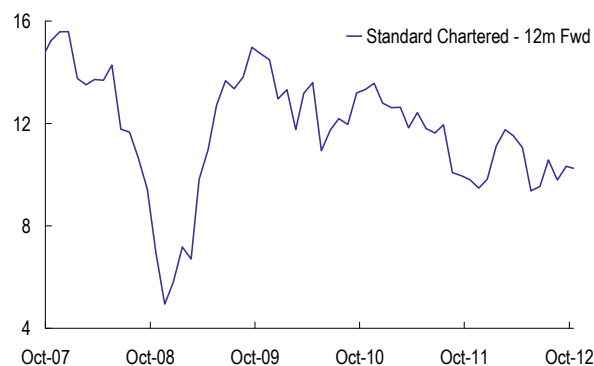
Rating	1	Year to 31-Dec	2009	2010	2011	2012e	2013e	2014e
Price (16 Oct 12)	14.67	Net Income (US\$M)	3,279	4,231	4,758	5,169	5,813	6,520
Target price (£)	18.25	Core EPS (¢)	159.4	193.0	198.5	212.6	235.5	259.9
Expected Share Price Return (%)	24.4	EPS Growth (%)	-9.2	21.0	2.9	7.1	10.8	10.8
Expected Dividend Yield (%)	3.7	ROE (%)	13.3	12.9	12.1	12.1	12.3	12.5
Expected Total Return (%)	<b>28%</b>	PE (x)	11.5	13.5	12.3	11.0	10.0	9.1
Market cap (£M)	35,357	PB (x)	1.9	1.7	1.3	1.3	1.2	1.1
Market Cap (\$M)	56,823							
Payout Ratio (%)	41							

Figure 55. Share Price



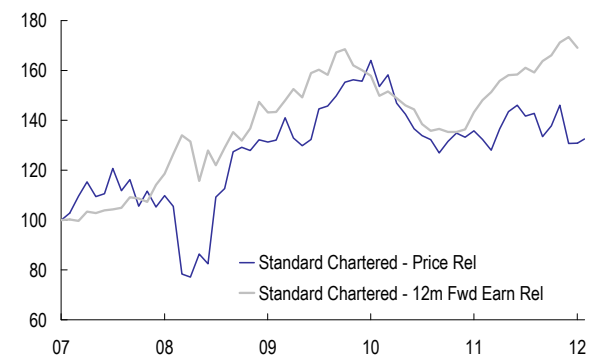
Source: DataStream

Figure 56. 12-Month Forward P/E



Source: Citi Research and DataStream

Figure 57. Price and Earnings Relative



Source: Citi Research and DataStream

TeliaSonera	“Safe Haven” with Optionality	Laurie Fitzjohn-Sykes
Our Buy Thesis	<ul style="list-style-type: none"> <li>■ We view Telia as one of the safe havens within European telecoms. Telia is one of the few European telecoms operators with growing operations, it also has an attractive geographic footprint (Nordic+ Central Asia) and a capital disciplined management team. While Telia reported slightly weak 2Q12 results and reduced guidance, its operations are still some of the strongest in Europe. We also see option value around cash proceeds from associates, Kcell IPO and potential sale of Yoigo.</li> </ul>	
Valuation	<ul style="list-style-type: none"> <li>■ Telia trades on 6.3x 2012 EV/EBITDA, a justified premium to the sector on 4.8x. Telia trades on 11.0x 2013 p/e vs sector 9.8x. Telia trades on a 6.3% dividend yield 2012 vs sector average 6.5%.</li> </ul>	
Risks	<ul style="list-style-type: none"> <li>■ There were concerns on rising competition in the Swedish mobile market in early 2012, though these have now reduced. Telia also reduced its FY12 margin guidance with its 2Q12 results due to a number of areas. Valuation remains the key pushback.</li> </ul>	
Key Themes	<ul style="list-style-type: none"> <li>■ CDS-Adjusted Dividends</li> </ul>	
Upcoming event(s)	<ul style="list-style-type: none"> <li>■ Potential cash proceeds from associates, Kcell IPO or and sale of Yoigo. Management have a history of returning cash to shareholders, therefore based on some combination of cash proceeds we forecast an 8% buyback in 2013.</li> </ul>	
Description	<ul style="list-style-type: none"> <li>■ Telia is the incumbent operator in Sweden and Finland, with mobile operations in the other Nordic countries, Spain and Central Asia. Telia has associate assets in Russia and Turkey</li> </ul>	
Key Research	<ul style="list-style-type: none"> <li>■ <a href="#">‘Safe Haven’ with Optionality</a></li> </ul>	

# TeliaSonera

Laurie Fitzjohn-Sykes

		Year to 31-Dec	2009	2010	2011	2012e	2013e	2014e
Rating	1	Sales (SKrM)	109,550	107,287	104,804	104,250	105,401	106,769
Price (16 Oct 12)	45.78	EBITDA (SKrM)	36,584	37,240	37,222	36,408	37,648	38,237
Target price (SKr)	50.00	Net Income (SKrM)	18,854	21,257	18,341	17,995	18,343	18,993
Expected Share Price Return (%)	9.2	Core EPS (ö)	4.2	4.7	4.2	4.2	4.4	4.8
Expected Dividend Yield (%)	6.3	EPS Growth (%)	-0.8	12.7	-12.1	-0.1	6.1	6.1
Expected Total Return (%)	<b>16%</b>	ROE (%)	14.2	16.3	15.1	15.1	15.6	16.4
Market cap (SKrM)	198,231	PE (x)	10.1	11.0	11.5	11.0	10.4	9.6
Market Cap (\$M)	29,762	PB (x)	1.7	1.9	1.8	1.6	1.7	1.5
Net Debt to Equity (%)	32	EV/EBITDA (x)	5.1	6.1	5.6	5.5	5.3	5.2
Payout Ratio (%)	54	FCF Yield (%)	7.6	4.9	4.4	6.3	7.9	8.6

Figure 58. Share Price



Figure 59. 12-Month Forward P/E

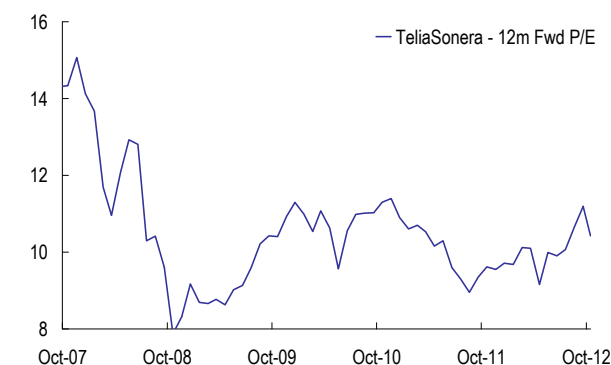
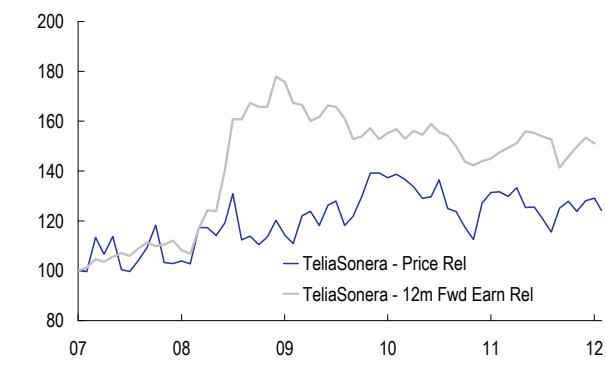


Figure 60. Price and Earnings Relative



## Volkswagen (pref) Undervalued Global Leader

Harald Hendrikse

### Our Buy Thesis

- VW is a global leader in the automotive markets. Global leaders continue to win share and improve profitability. With Europe tail risks largely removed, VW is simply too cheap. Key VW advantages are:
  - 1) size
  - 2) brands
  - 3) EM exposure over 50pc
  - 4) premium brands over 50pc of revs
  - 5) new product cycle started with new Golf
  - 6) self-help from new MQB platform savings
  - 7) profit growth from Porsche/MAN/Scania integration and improvement
  - 8) low valuation

### Valuation

- VW currently trades at a very low valuation of under 6x FY13 PE, 50pc discount to market multiples, despite small recent downgrades. VW normally trades on just a 35pc discount to the market – at current levels, this would suggest a PE of 8x, at consensus this would be worth Euro 200, or on our forecasts €170-180. Our TP is €175. Buy.

### Debate/Risks

- Key risks are:
  - 1) The fall in demand in Europe, Germany in particular, both in terms of volume and pricing.
  - 2) Slowing demand and rising capacity in China, suggesting further risk to pricing.
  - 3) European credit market risk to financial services company which supports a large proportion of VW sales.

### Key Themes

–

### Upcoming event(s)

- Q3 results due Oct 27

### Description

- VW is one of the top three global car manufacturers with over 8.5m unit sales and production spread in every continent, with large businesses in Europe, China, US and Brazil, and encompassing brands from VW, Skoda, to Audi, Bentley, and Lamborghini, as well as truck businesses such as MAN and Scania. VW is over 30pc owned by Porsche SE.

### Key Research

- [Global Leader Undervalued on c.7x '13 PE – Upgrade to Buy](#)

# Volkswagen (pref)

Harald Hendrikse

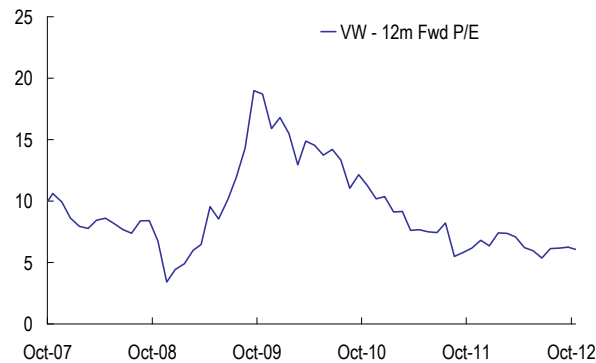
Rating	1	Year to 31-Dec	2009	2010	2011	2012e	2013e	2014e
Price (16 Oct 12)	147.00	Sales (€M)	105,187	126,875	159,337	186,600	193,200	198,000
Target price (€)	175.00	EBITDA (€M)	8,469	14,931	18,482	18,215	22,271	23,504
Expected Share Price Return (%)	19.0	Net Income (€M)	956	5,050	8,855	22,099	9,827	10,670
Expected Dividend Yield (%)	2.8	Core EPS (¢)	2.4	11.2	19.0	47.5	21.1	22.9
Expected Total Return (%)	<b>22%</b>	EPS Growth (%)	-80.0	372.7	69.7	149.6	-55.5	-55.5
		ROE (%)	2.6	12.4	17.5	31.3	11.3	11.2
Market cap (€M)	64,405	PE (x)	22.5	7.3	6.4	2.9	7.0	6.4
Market Cap (\$M)	83,402	PB (x)	0.7	1.3	0.9	0.8	0.8	0.7
Net Debt to Equity (%)	110	EV/EBITDA (x)	6.1	-0.3	1.8	2.9	2.6	2.4
Payout Ratio (%)	70	FCF Yield (%)	37.7	28.0	17.1	9.4	11.6	13.4

Figure 61. Share Price



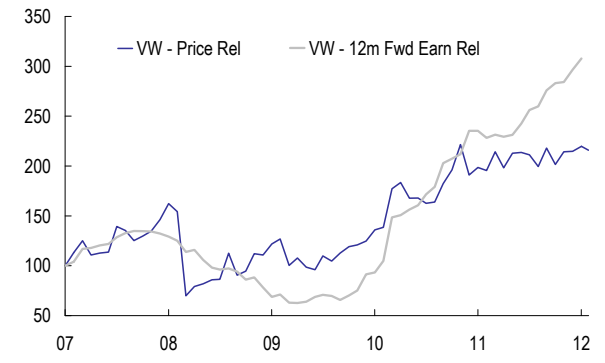
Source: DataStream

Figure 62. 12-Month Forward P/E



Source: Citi Research and DataStream

Figure 63. Price and Earnings Relative



Source: Citi Research and DataStream

## Best Ideas – Europe: Citi Most preferred and Least Preferred

Calls are relative to each sector and use a 3 month horizon. Best Ideas listed as of 15/10/12

		MOST PREFERRED		LEAST PREFERRED	
<b>INDUSTRIALS</b>	<b>Aerospace &amp; Defence</b>	Rolls Royce		MTU Aero Engines	
	<b>Autos</b>	Continental	Volkswagon	Autoliv	Fiat
		Michelin			
	<b>Business Services</b>	Intertek	Capita	Adecco	Rentokil
		Aggreko	APR Energy	Electrocomponents	Randstad
		Serco		Regus	
	<b>Construction</b>	Saint Gobain	Heidelberg Cement	Buzzi Unicem	CRH
		Persimmon		Barratt Developments	
	<b>Engineering</b>	ABB	IMI	Philips	AssaAbloj
		Sandvik		Metso	
	<b>Transport</b>	easyJet	PostNL	Firstgroup	Royal Jordanian
<b>CONSUMER</b>	<b>Beverages, Tobacco &amp; HPC</b>	ABInBev	BAT	L'Oréal	
	<b>Food Manufacturing</b>	Danone		ABF	
	<b>Leisure</b>	Compass		Accor	
	<b>Luxury Goods</b>	Richemont		Swatch	
	<b>Retail - General</b>	adidas	Kingfisher	Marks & Spencer	Home Retail
	<b>Retail - Food</b>	Jeronimo Martins		Tesco	
<b>UTILITIES</b>	<b>Utilities</b>	GDF Suez	Snam Rete Gas	E.ON	A2A
	<b>Renewables</b>	REC		SMA Solar	
<b>HEALTHCARE</b>	<b>Healthcare</b>	Bayer		Novartis	
		Sanofi		Roche	
<b>FINANCIALS</b>	<b>Banks</b>	Societe Generale	Standard Chartered	Banco Popular	Intesa Sanpaulo
		Barclays		RBS	
	<b>Insurance</b>	Delta Lloyd		Ageas	
	<b>Diversified Financials</b>	Aberdeen Asset Management		Ashmore	
<b>COUNTRY</b>	<b>Italy</b>	Davide Campari	Prysmian	Mediaset	Tiscali
	<b>UK SMID</b>	Fenner		Renishaw	
<b>MATERIALS</b>	<b>Chemicals</b>	Linde	Lonza	Givaudan	Solvay
	<b>Metals &amp; Mining</b>	BHP Billiton	Voestalpine	Norsk Hydro	Antofagasta
	<b>Oil &amp; Gas</b>	Repsol		OMV	
<b>TMT</b>	<b>Telecoms</b>	Millicom	TeliaSonera	Telefonica	France Telecom
		Telicom Austria			
	<b>Media</b>	Reed Elsevier	BSkyB	Mediaset Espana	WPP
		Sky Deutschland		Publicis Groupe	
	<b>Technology</b>	Ericsson		Alcatel-Lucent	

Figure 64. Most Preferred

Sector	Company Name	RIC Code	Current Price	Target Price	Rating
Aerospace & Defence	Rolls Royce	RR.L	8.81	10.00	1
Autos	Continental AG	CONG.DE	75.40	94.00	1
	Michelin	MICP.PA	62.98	77.00	1
	Volkswagen AG	vowg.de	132.65	150.00	2
Business Services	Intertek	ITRK.L	28.34	31.50	1
	Aggreko PLC	AGGK.L	22.78	25.50	1
	Serco	SRP.L	5.78	6.70	1
	Capita Group PLC	CPI.L	7.33	8.70	1
	APR Energy	APREN.L	7.55	9.55	1
Construction	Saint Gobain	SGOB.PA	26.83	30.00	1
	Persimmon PLC	PSN.L	7.86	8.70	1
	HeidelbergCement AG	HEIG.DE	40.33	45.00	1
Engineering	ABB	ABBN.VX	17.90	22.00	1
	Sandvik	SAND.ST	89.45	100.00	1
	IMI	IMI.L	9.06	11.00	1
Transport	easyJet	EZJ.L	6.00	7.00	1
	PostNL NV	PTNL.AS	2.84	5.01	1
Beverages, Tobacco & HPC	AB-InBev	ABI.BR	67.80	77.00	1
	BAT	BATS.L	32.37	37.85	1
Food Manufacturing	Danone	DANO.PA	48.77	56.00	1
Leisure	Compass Group	CPG.L	6.95	7.50	1
Luxury Goods	Richemont	CFR.VX	61.25	74.00	1
Retail - General	adidas Group	ADSGn.DE	67.46	74.00	1
	Kingfisher PLC	KGF.L	2.81	3.30	1
Retail - Food	Jeronimo Martins	JMT.LS	14.08	14.20	1
Utilities	GDF Suez	GSZ.PA	17.76	22.50	1
	Snam SpA	SRG.MI	3.55	4.15	1
Renewables	Renewable Energy Corporation	REC.OL	1.22	4.50	1H
Healthcare	Bayer AG	BAYGn.DE	69.99	75.00	1
	Sanofi SA	SASY.PA	69.39	80.00	1
Banks	Societe Generale	SOGN.PA	25.29	30.00	1
	Barclays PLC	BARC.L	2.46	3.70	1
	Standard Chartered PLC	STAN.L	14.79	18.25	1
Insurance	Delta Lloyd	DLL.AS	12.65	14.10	1
Diversified Financials	Aberdeen Asset Management	ADN.L	3.32	3.45	1
Italy	Davide Campari-Milano SpA	CPRI.MI	6.46	7.00	1
	Prysmian SpA	PRY.MI	14.90	17.00	1
UK SMID	Fenner	FENR.L	3.56	5.22	1
Chemicals	Linde AG	LING.DE	134.55	150.00	1
	Lonza Group AG	LONN.VX	46.75	52.00	1
Metals & Mining	BHP Billiton Ltd	BHP.AX	33.07	36.00	1
	voestalpine AG	VOES.VI	23.65	34.00	1
Oil & Gas	Repsol	REP.MC	15.48	18.00	1
Telecoms	Millicom Intl Cellular	MICsdb.ST	591.50	750.00	1
	Telekom Austria	TELA.VI	5.74	7.50	1
	TeliaSonera AB	TLSN.ST	46.12	50.00	1
Media	Reed Elsevier PLC	REL.L	6.18	6.70	1
	British Sky Broadcasting Group PLC	BSY.L	7.55	8.50	1
	Sky Deutschland	SKYDn.DE	3.30	3.80	1
Technology	Ericsson LM	ERICb.ST	58.90	84.00	1

Figure 65. Least Preferred

Sector	Company Name	RIC Code	Current Price	Target Price	Rating
Aerospace & Defence	MTU Aero Engines	MTXGn.DE	64.90	62.00	2
	Autoliv Inc.	ALV	61.86	355.00	3
Autos	Fiat SpA	FIA.MI	4.24	3.00	3
	Adecco	ADEn.VX	48.05	40.00	3
Business Services	Electrocomponents	ECM.L	2.11	2.00	3
	Rentokil	RTOL	0.88	0.75	3
	Randstad	RAND.AS	25.53	20.00	3
	Regus	RGU.L	1.05	0.95	3
	Buzzi Unicem	BZU.MI	9.09	6.60	3
Construction	CRH PLC	CRH.L	11.26	12.00	3
	Barratt Developments	BDEV.L	1.84	1.70	2H
Engineering	Philips	PHG.AS	18.94	13.15	3
	Metso Oyj	MEO1V.HE	27.70	22.00	3
	Assa Abloy	ASSAb.ST	217.90	170.00	3
Transport	Firstgroup PLC	FGP.L	1.87	2.12	2
	Royal Jordanian Airlines	RJAL.AM	0.56		2
Beverages, Tobacco & HPC	L'Oréal	OREP.PA	100.60	97.00	2
Food Manufacturing	Associated British Foods PLC	ABF.L	13.62	12.35	2
Leisure	Accor SA	ACCP.PA	25.83	22.50	3
Luxury Goods	Swatch Group AG	UHR.VX	390.60	402.00	2
Retail - General	Marks and Spencer Group PLC	MKS.L	3.90	3.50	2
	Home Retail Group	HOME.L	1.04	0.70	3
Retail - Food	Tesco	tsco.I	3.08	2.45	3
Utilities	E.ON AG	EONGn.DE	18.40	15.00	3
	A2A	A2.MI	0.41	0.32	3
Renewables	SMA Solar Technology	S92G.DE	26.49	22.00	3H
Healthcare	Novartis AG	NOVN.VX	58.60	57.00	2
	Roche Holding AG	ROG.VX	184.60	157.00	2
Banks	Banco Popular Espanol	POP.MC	1.31	1.15	3H
	Intesa Sanpaolo	ISP.MI	1.32	1.10	3H
	Royal Bank of Scotland Group PLC	RBS.L	2.80	2.70	2H
Insurance	Ageas SA/NV	AGES.BR	19.79	19.20	2H
Diversified Financials	Ashmore Group	ASHM.L	3.66	3.10	3
	Mediaset SpA	MS.MI	1.64	0.90	3
Italy	Tiscali SpA	TIS.MI	0.05	0.03	3H
	Renishaw	RSW.L	17.00	11.60	3
Chemicals	Givaudan AG	GIVN.VX	941.00	750.00	3
	Solvay SA	SOLB.BR	95.05	75.00	3
Metals & Mining	Norsk Hydro ASA	NHY.OL	26.80	26.00	3
	Antofagasta	ANTO.L	12.79	9.30	3
Oil & Gas	OMV AG	OMVV.VI	28.83	26.00	2
Telecoms	Telefonica SA	TEF.MC	10.52	10.50	2
	France Telecom	FTE.PA	9.52	9.10	3
Media	Mediaset España SA	TL5.MC	4.16	2.50	3
	WPP PLC	WPP.L	8.55	8.75	2
Technology	Publicis Groupe SA	PUBP.PA	43.07	35.00	3
	Alcatel-Lucent	ALUA.PA	0.75	1.00	3





**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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Citigroup Global Markets Ltd is currently mandated as advisor to Accor SA in relation to the announced disposal of its United States Economy Hotels Division to an affiliate of Blackstone Real Estate Partner VII.

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Interbank Offered Rates-Related Litigation and Other Matters: Government agencies in the U.S., including the Department of Justice, the Commodity Futures Trading Commission and the Securities and Exchange Commission, as well as agencies in other jurisdictions, including the European Commission, the U.K. Financial Services Authority, the Japanese Financial Services Agency (JFSA) and the Canadian Competition Bureau, are conducting investigations or making inquiries regarding submissions made by panel banks to bodies that publish various interbank offered rates. As members of a number of such panels, Citigroup subsidiaries have received requests for information and documents. Citigroup is cooperating with the investigations and inquiries and is responding to the requests. Consequently Citi Research is not commenting on the quantum or likelihood of any potential LIBOR related claims or settlements. Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Barclays PLC

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Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of BHP Billiton Ltd

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An employee of Citigroup Global Markets or its affiliates is a Chairman of the Audit Committee and a Board member of France Telecom SA.

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Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Intesa Sanpaolo SpA

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An employee of Citigroup Global Markets or its affiliates is a Chairman of the Audit Committee and a Board member of L'Oréal SA.

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Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Prudential PLC

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Citigroup Global Markets Limited is currently mandated as Joint Lead Manager on the announced Initial Public Offering of Direct Line Insurance Group Plc, a fully owned subsidiary of the Royal Bank of Scotland Group Plc. Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Royal Bank of Scotland Group PLC

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The Chairman of Citi serves as a director of Roche Holding AG.

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Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Sanofi SA

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Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Societe Generale

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Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Standard Chartered PLC

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Citigroup Global Markets Limited is mandated as Joint Bookrunner on the IPO of Telefonica Deutschland AG.

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Citigroup Global Markets Ltd is currently mandated as advisor to Volkswagen AG in relation to the announced acquisition of Porsche AG.

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An employee of Citi serves on the board of WPP Group PLC.

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BEST IDEAS UNIVERSE: The best ideas universe from which British American Tobacco PLC (covered by Adam Spielman), AB-InBev (covered by Andrea Pistacchi) and L'Oréal (covered by Adam Spielman) were chosen comprises: Imperial Tobacco Group PLC (IMT.L, £22.96), British American Tobacco PLC (BATS.L, £32.37), Swedish Match AB (SWMA.ST, SKr264.1), C&C Group Plc (GCC.I, €3.81), Carlsberg (CARLB.CO, Dkr521.5), SABMiller (SAB.L, US\$26.74), AB-InBev (ABI.BR, US\$67.8), Pernod-Ricard (PERP.PA, €88.83), Reckitt Benckiser (RB.L, £36.67), Beiersdorf (BEIG.DE, €59.05), Henkel (HNKG.p.DE, €63.68) and L'Oréal (OREP.PA, €100.6). All prices as of 16 Oct 2012.

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BEST IDEAS UNIVERSE: The best ideas universe from which Bayer AG (covered by Andrew S Baum), Novartis AG (covered by Andrew S Baum), Roche Holding AG (covered by Andrew S Baum), Sanofi SA (covered by Mark Dainty, ACA) were chosen comprises: Bayer AG (BAYGn.DE, €70.36), AstraZeneca PLC (AZN.L, US\$29.25), Novartis AG (NOVN.VX, US\$58.1), Roche Holding AG (ROG.VX, SFr183.9), GlaxoSmithKline PLC (GSK.L, £14.41), Shire Pharmaceuticals (SHPL.L, £18.56), Ipsen (IPN.PA, €19.0), Sanofi SA (SASY.PA, €69.39), Hikma Pharmaceuticals (HIK.L, US\$7.6), UCB SA (UCB.BR, €45.11), Novo

Nordisk A/S (NOVOB.CO, Dkr950.5), Actelion Ltd (ATLN.VX, SFr47.52), Stada Arzneimittel (STAGN.DE, €23.1), Vectura (VEC.L, £0.92), Basilea Pharmaceutica AG (BSLN.S, SFr47.5), Almirall S.A. (ALM.MC, €6.84), Grifols S.A. (GRLS.MC, €25.7), Merck KGaA (MRCG.DE, €100.6), Grifols SA (GRLSbn.MC, €18.83), Algeta (ALGETA.OL, Nkr159.1). All prices as of 16 Oct 2012.

BEST IDEAS UNIVERSE: The best ideas universe from which Adecco (covered by Marc Van'T Sant), Rentokil (covered by Marc Van'T Sant), Randstad (covered by Marc Van'T Sant), Electrocomponents (covered by Marc Van'T Sant), Aggreko PLC (covered by Marc Van'T Sant), Regus (covered by Ed Steele), Intertek (covered by Ed Steele), Serco (covered by Ed Steele), Capita Group PLC (covered by Ed Steele) and APR Energy (covered by Marc Van'T Sant) were chosen comprises: Adecco (ADEN.VX, €46.73), Rentokil (RTO.L, £0.88), MITIE (MTO.L, £2.98), Berendsen (BRSN.L, £5.72), Randstad (RAND.AS, €25.53), Hays (HAYS.L, £0.8), Electrocomponents (ECM.L, £2.11), Premier Farnell (PFL.L, £1.71), Michael Page Group (MPI.L, £3.6), Bunzl PLC (BNZL.L, £11.17), Amadeus (AMA.MC, €18.9), Aggreko PLC (AGGK.L, £22.78), Experian (EXP.N.L, US\$10.81), WS Atkins (ATKW.L, £6.81), Securitas (SECUB.ST, SFr49.65), De La Rue (DLAR.L, £10.55), Regus (RGU.L, £1.05), Bureau Veritas (BVI.PA, €82.4), Intertek (ITRK.L, £28.34), G4S (GFS.L, £2.68), SGS (SGSN.VX, SFr1994.0), Serco (SRP.L, £5.78), Capita Group PLC (CPI.L, £7.33), Xchanging plc (XCH.L, £1.19) and APR Energy (APREN.L, US\$7.55). All prices as of 16 Oct 2012.

BEST IDEAS UNIVERSE: The best ideas universe from which Aberdeen Asset Management (covered by Haley A Tam, CFA), Ashmore Group (covered by Haley A Tam, CFA) were chosen comprises: Henderson Group Plc (HGGH.L, £1.16), Aberdeen Asset Management (ADN.L, £3.32), Ashmore Group (ASHM.L, £3.66), Hargreaves Lansdown PLC (HRGV.L, £7.38), Man Group PLC (EMG.L, US\$0.93), Schroders PLC (SDR.L, £15.7), Schroders PLC NV (SDRt.L, £12.3), F&C Asset Management Plc (FCAM.L, £0.97), Jupiter Fund Management (JUP.L, £2.62), BME (BME.MC, €16.95), London Stock Exchange PLC (LSE.L, £9.88), ICAP PLC (IAP.L, £3.18), Deutsche Boerse AG (DB1Gn.DE, €41.59), Tullett Prebon (TLPR.L, £2.93), 3i Group Plc (III.L, £2.23), Gottex Fund Management Holdings Ltd (GFMN.S, US\$2.82), GAM Holding Ltd (GAMH.S, SFr12.55), Intermediate Capital Group (ICP.L, £3.07), Provident Financial PLC (PFG.L, £14.2) and Hellenic Exchange Holding SA (EXCr.AT, €3.69). All prices as of 16 Oct 2012.

BEST IDEAS UNIVERSE: The best ideas universe from which Rolls Royce (covered by Jeremy Bragg), MTU Aero Engines (covered by Jeremy Bragg) were chosen comprises: Cobham (COB.L, £2.17), Thales (TCFP.PA, €28.26), Finmeccanica (SIFI.MI, €4.25), EADS (EAD.PA, €26.65), Safran (SAF.PA, €30.24), Rolls Royce (RR.L, £8.81), BAE Systems (BAES.L, £3.29), Rheinmetall AG (RHMG.DE, €38.2), QinetiQ (QQ.L, £1.97), Meggitt Plc (MGGT.L, £4.02), MTU Aero Engines (MTXGn.DE, €65.16) and GKN Plc (GKN.L, £2.05). All prices as of 16 Oct 2012.

BEST IDEAS UNIVERSE: The best ideas universe from which Tesco (covered by Alastair A Johnston), Jeronimo Martins (covered by Alastair A Johnston) were chosen comprises: Sainsbury (SBRY.L, £3.56), Tesco (TSCO.L, £3.08), Morrison (Wm) (MRW.L, £2.67), Carrefour (CARR.PA, €16.51), Metro AG (MEOG.DE, €20.4), Colruyt (COLR.BR, €33.59), Delhaize (DELB.BR, €28.89), Jeronimo Martins (JMT.LS, €14.08), Ahold (AHLN.AS, €9.62), Casino Guichard Perachon (CASP.PA, €67.82), Booker (BOK.L, £0.96). All prices as of 16 Oct 2012.

BEST IDEAS UNIVERSE: The best ideas universe from which Standard Chartered PLC (covered by Ronit Ghose), Barclays PLC (covered by Andrew Coombs), Societe Generale (covered by Kinner Lakhani), Royal Bank of Scotland Group PLC (covered by Andrew Coombs), Intesa Sanpaolo (covered by Azzurra Guelfi), Banco Popular Espanol (covered by Ignacio Moreno) were chosen comprises: National Bank of Greece SA (NBGR.AT, €2.25), Banco Bilbao Vizcaya Argentaria SA (BBVA.MC, €6.31), Banco Santander (SAN.MC, €6.06), HSBC Holdings PLC (HSBA.L, US\$6.11), Standard Chartered PLC (STAN.L, US\$14.79), ING Groep NV (ING.AS, €6.92), UBS (UBSN.VX, SFr12.01), Barclays PLC (BARC.L, £2.46), Credit Agricole SA (CAGR.PA, €6.4), Credit Suisse (CSGN.VX, SFr21.47), Natixis (CNAT.PA, €2.65), Julius Baer Gruppe AG (BAER.VX, SFr32.13), Commerzbank (CBKG.DE, €1.56), Erste Bank (ERST.VI, €19.08), Societe Generale (SOGN.PA, €25.29), Royal Bank of Scotland Group PLC (RBS.L, £2.8), EFG International (EFGN.S, SFr8.51), Deutsche Bank (DBKGn.DE, €34.6), BNP Paribas SA (BNPP.PA, €40.7), KBC (KBC.BR, €19.41), Vontobel (VONN.S, SFr25.4), Unione Banche Italiane (UBI.MI, €3.18), Swedbank AB (SWEDa.ST, SFr121.3), Banco de Sabadell SA (SABE.MC, €2.03), Intesa Sanpaolo (ISP.MI, €1.32), Banca Popolare di Milano (PMI.MI, €0.45), DNB ASA (DNB.OL, Nkr73.75), Banco Popular Espanol (POP.MC, €1.31), Banca Monte dei Paschi di Siena SpA (BMPS.MI, €0.24), Svenska Handelsbanken AB (SHBa.ST, SFr242.1), Skandinaviska Enskilda Banken AB (SEBa.ST, SFr56.05), Banesto (BTO.MC, €2.95), Banco Popolare (BAPO.MI, €1.29), Nordea (NDA1V.HE, €7.38), Bankinter SA (BKT.MC, €3.12), Danske Bank A/S (DANSKE.CO, Dkr106.8), UniCredit Group (CRDI.MI, €3.63), Raiffeisen Bank Intl (RBIV.VI, €31.5), Standard Chartered Plc (2888.HK, US\$183.0), HSBC Holdings Plc (0005.HK, US\$75.2), Eurobank (EFGn.AT, €1.25), JSE Limited (JSEJ.J, R67.2), CaixaBank SA (CABK.MC, €3.02), Brait SE (BATJ.J, R30.27), Lloyds Banking Group PLC (LLOY.L, £0.43), Bank of Ireland (BKIR.I, €0.1), Hyprop Investments Limited (HYPJ.J, R70.13), Resilient Property Income Fund Limited (RESJ.J, R46.35), Rebosis Property Fund Limited (REBJ.J, R11.01), Peregrine Holdings Limited (PGRJ.J, R11.2), Bank of Cyprus (BOCr.AT, €0.27) and African Bank Investments Limited (ABLI.J, R30.33). All prices as of 16 Oct 2012.

BEST IDEAS UNIVERSE: The best ideas universe from which Linde AG (covered by Andrew Benson), Lonza Group AG (covered by Dominik Frauendienst), Solvay SA (covered by Dominik Frauendienst), Givaudan AG (covered by Evgenia Molotova) were chosen comprises: L'Air Liquide SA (AIRP.PA, €96.31), Akzo Nobel NV (AKZO.AS, €43.0), BASF SE (BASFn.DE, €65.58), Linde AG (LING.DE, €134.25), Syngenta AG (SYNN.VX, US\$345.8), Novozymes (NZYMB.CO, Dkr164.2), Wacker Chemie AG (WCHG.DE, €45.9), DSM NV (DSMN.AS, €39.22), Arkema (AKE.PA, €74.79), Victrex PLC (VCTX.L, £14.03), K+S AG (SDFGn.DE, €36.8), Croda International PLC (CRDA.L, £22.86), Israel Chemicals Ltd (ICL.TA, US\$47.9), Yara International (YAR.OL, Nkr288.7), Lonza Group AG (LONN.VX, SFr46.81), Lanxess (LXSG.DE, €59.92), Clariant AG (CLN.VX, SFr10.78), Solvay SA (SOLB.BR, €95.05), Umicore NV/SA (UMI.BR, €39.49), Johnson Matthey PLC (JMAT.L, £22.84), Givaudan AG (GIVN.VX, SFr936.5), Symrise AG (SY1G.DE, €27.05). All prices as of 16 Oct 2012.

BEST IDEAS UNIVERSE: The best ideas universe from which were chosen comprises: . All prices as of 31 Dec 1969.

BEST IDEAS UNIVERSE: The best ideas universe from which Firstgroup PLC (covered by Roger Elliott), PostNL NV (covered by Roger Elliott) were chosen comprises: National Express Group PLC (NEX.L, £2.05), Deutsche Post (DPWGn.DE, €15.58), Firstgroup PLC (FGP.L, £1.87), Stagecoach Group PLC (SGC.L, £2.78), PostNL NV (PTNL.AS, €2.84), Kuehne & Nagel International (KNIN.VX, SFr106.0), AP Moller Maersk A/S (MAERSKb.CO, Dkr40920.0), Panalpina (PWTN.S, SFr84.7), Hamburger Hafen und Logistik AG (HHFGn.DE, €19.89), DP World (DPW.DI, US\$11.86), Go Ahead Group (GOG.L, £12.95) and TNT Express (TNTE.AS, €8.17). All prices as of 16 Oct 2012.

BEST IDEAS UNIVERSE: The best ideas universe from which were chosen comprises: . All prices as of 31 Dec 1969.

BEST IDEAS UNIVERSE: The best ideas universe from which Repsol (covered by Alastair R Syme), OMV AG (covered by Alastair R Syme), Saipem (covered by Ryan W Kaupilla) were chosen comprises: Royal Dutch Shell (RDSa.L, US\$21.6), Royal Dutch Shell (CL B) (RDSb.L, US\$22.18), Total (TOTF.PA, €39.55), Eni (ENI.MI, €17.9), Repsol (REP.MC, €15.48), OMV AG (OMVV.VI, €28.83), BG Group (BG.L, US\$13.26), Afren (AFRE.L, US\$1.41), Soco International (SIA.L, US\$3.33), Galp Energia (GALP.LS, €13.2), Statoil (STL.OL, Nkr147.5), Premier Oil (PMO.L, US\$3.7), Valiant Petroleum (VPP.L, US\$4.44), Heritage Oil (HOIL.L, US\$1.93), EnQuest (ENQ.L, US\$1.2), Tullow Oil (TLW.L, US\$14.25), Gulfsands Petroleum (GPX.L, US\$0.91), Bowleven (BLVN.L, US\$0.79), Salamander Energy (SMDR.L, US\$2.01), Petrofac (PFC.L, US\$16.23), CGGVeritas (GEPH.PA, US\$25.37), Technip (TECF.PA, €88.22), Seadrill (SDRL.OL, US\$228.2), Subsea 7 (SUBC.OL, US\$131.4), AMEC (AMEC.L, €11.03), Saipem (SPMI.MI, €35.59), Lamprell (LAM.L, US\$0.79), PGS (PGS.OL, US\$98.1), Hellenic Petroleum S.A. (HEPr.AT, €6.71), Neste Oil (NES1V.HE, €10.66), Saras S.p.A. (SRS.MI, €1.07), ERG Group (ERG.MI, €5.87), DNO International ASA (DNO.OL, Nkr10.23), Motor Oil (Hellas)SA (MORr.AT, €6.9), Africa Oil Corp (AOIC.ST, US\$68.25), Cairn Energy (CNE.L, US\$2.86), Lundin Petroleum (LUPE.ST, US\$157.5), Essar Energy Plc (ESSR.L, US\$1.31), Genel Energy (GENL.L, US\$7.91), Aker Solutions (AKSO.OL, Nkr115.5) and MOL Magyar Olaj-es Gazipari Nyrt (MOLB.BU, Ft18650.0). All prices as of 16 Oct 2012.

BEST IDEAS UNIVERSE: The best ideas universe from which IMI (covered by Mark Fielding), Philips (covered by Mark Fielding), ABB (covered by Mark Fielding), Sandvik (covered by Natalia Mamaeva), Metso Oyj (covered by Natalia Mamaeva), Assa Abloy (covered by Natalia Mamaeva) were chosen comprises: Electrolux (ELUXb.ST, SKr163.5), IMI (IMI.L, £9.06), Invensys (ISYS.L, £2.24), Schneider Electric (SCHN.PA, €48.84), Morgan Crucible (MGCR.L, £2.24), Vestas Wind System (Den) (VWS.CO, €34.53), Cookson Group (CKSN.L, £5.34), Weir Group (WEIR.L, £17.71), Bodycote (BOYL, £3.59), Alstom (ALSO.PA, €27.52), Philips (PHG.AS, €18.94), Siemens (SIEGn.DE, €77.44), ABB (ABBN.VX, US\$17.72), Smiths Group (SMIN.L, £10.62), RHI (RHIV.VI, €21.15), Sandvik (SAND.ST, SKr89.45), GEA Group (G1AG.DE, €24.98), SKF (SKFb.ST, SKr145.0), Metso Oyj (MEO1V.HE, €27.7), Fiat Industrial (FI.MI, €7.99), Atlas Copco (ATCOa.ST, SKr154.0), FLSmidth (FLS.CO, Dkr333.2), Nexans (NEXS.PA, €35.33), Husqvarna (HUSQb.ST, SKr33.61), Melrose (NYN.L, £2.37), Assa Abloy (ASSAb.ST, SKr217.9), Kone (KNEBV.HE, €58.0) and Schindler (SCHN.S, SFr120.1). All prices as of 16 Oct 2012.

BEST IDEAS UNIVERSE: The best ideas universe from which Michelin (covered by Philip Watkins), Continental AG (covered by Philip Watkins), Autoliv Inc. (covered by Philip Watkins) were chosen comprises: Michelin (MICP.PA, €62.98), Continental AG (CONG.DE, €76.31), Peugeot SA (PEUP.PA, €5.8), Renault SA (RENA.PA, €35.48), Autoliv Inc. (ALV.N, SKr61.9), Valeo SA (VLOF.PA, €34.42), Faurecia (EPED.PA, €12.24), Pirelli (PECI.MI, €8.33), Daimler AG (DAIGn.DE, €38.34), Porsche Automobil Holding SE (PSHG\_p.DE, €49.21), Volkswagen AG (VOWG.DE, €133.55), Fiat SpA (FIA.MI, €4.24), Volkswagen AG(pref) (VOWG\_p.DE, €146.9), Scania AB (SCVb.ST, SKr119.3), BMW AG (BMWG.DE, €60.99), Volvo AB (VOLVb.ST, SKr92.4), Nokian Renkaat (NRE1V.HE, €29.98), MAN SE (MANG.DE, €76.85) and Delticom (DEXGn.DE, €51.29). All prices as of 16 Oct 2012.

BEST IDEAS UNIVERSE: The best ideas universe from which Delta Lloyd (covered by Paul L Bradley), Ageas SA/NV (covered by Paul L Bradley), Prudential Plc (covered by Paul L Bradley) were chosen comprises: Allianz SE (ALVG.DE, €94.96), Aegon NV (AEGN.AS, €4.29), Zurich Insurance Group (ZURN.VX, SFr240.0), ING Groep NV (ING.AS, €6.92), Delta Lloyd (DLL.AS, €12.65), Ageas SA/NV (AGES.BR, €19.79), SNS REAAL Groep NV (SR.AS, €1.19), Standard Life PLC (SL.L, £2.92), Assicurazioni Generali SpA (GASI.MI, €12.36), Resolution (RSL.L, £2.18), AXA SA (AXAF.PA, €12.25), Legal & General (LGEN.L, £1.36), Aviva PLC (AV.L, £3.37), Prudential Plc (PRU.L, £8.7), Permanent TSB Group Public Hldg Ltd Co (IPM.I, €0.03), Admiral Group (ADML.L, £11.75), Amlin Plc (AML.L, £4.03), Catlin Group Ltd (CGL.L, US\$4.9), Hannover Ruckversicherungs AG (HNRGn.DE, €55.31), Hiscox Ltd (HSX.L, £4.88), Lancashire Holdings (LRE.L, US\$8.73), Mapfre SA (MAP.MC, €2.23), Munich Re (MUVGn.DE, €127.5), RSA Insurance Group (RSA.L, £1.15), Sampo Oyj (SAMAS.HE, €24.96), SCOR (SCOR.PA, €21.36) and Swiss Re (SRENH.VX, SFr64.4). All prices as of 16 Oct 2012.

BEST IDEAS UNIVERSE: The best ideas universe from which Accor SA (covered by James Ainley), Compass Group (covered by James Ainley) were chosen comprises: The Restaurant Group (RTN.L, £3.68), Enterprise Inns (ETI.L, £0.73), JD Wetherspoon (JDW.L, £4.99), Punch Taverns (PUB.L, £0.07), Mitchells & Butlers (MAB.L, £3.16), Marston's (MARS.L, £1.21), Greene King (GNK.L, £6.02), Thomas Cook Group (TCG.L, £0.18), TUI Travel Plc (TT.L, £2.47), Accor SA (ACCP.PA, €25.83), Whitbread PLC (WTB.L, £23.76), Intercontinental Hotels Group Plc (IHG.L, US\$15.93), Kuoni Reisen Holding (KUNN.S, SFr259.75), Ladbrokes (LAD.L, £1.79), Edenred (EDEN.PA, €22.66), Paddy Power (PAP.L, €57.3), Compass Group (CPG.L, £6.95), Sodexo (EXHO.PA, €61.3), Spirit Pub Company (SPRTC.L, £0.59), Betfair (BETF.L, £7.36), bwin.party digital entertainment plc (BPTY.L, £1.17) and OPAP SA (OPAr.AT, €4.25). All prices as of 16 Oct 2012.

BEST IDEAS UNIVERSE: The best ideas universe from which Danone (covered by Robert Dickinson, CA), Associated British Foods PLC (covered by Robert Dickinson, CA) were chosen comprises: Nestle (NESN.VX, SFr61.75), Unilever PLC (ULVR.L, €23.42), Unilever NV (UNc.AS, €28.48), Danone (DANO.PA, €48.77), Tate and Lyle (TATE.L, £6.96), Associated British Foods PLC (ABF.L, £13.62), Lindt & Sprungli (LISN.S, SFr33960.0), Premier Foods (PFD.L, £0.83), Beiersdorf (BEIG.DE, €59.05), Reckitt Benckiser (RB.L, £36.67), Henkel (HNKG\_p.DE, €63.68) and L'Oréal (OREP.PA, €100.6). All prices as of 16 Oct 2012.

BEST IDEAS UNIVERSE: The best ideas universe from which Davide Campari-Milano SpA (covered by Mauro Baragiola), Tiscali SpA (covered by Mauro Baragiola), Mediaset SpA (covered by Mauro Baragiola), Prysmian SpA (covered by Mauro Baragiola) were chosen comprises: Lottomatica SpA (LTO.MI, €16.98), Davide Campari-Milano SpA (CPRI.MI, €6.46), CIR - Compagnie Industriali Riunite SpA (CIRX.MI, €0.92), Tiscali SpA (TIS.MI, €0.05), Arnoldo Mondadori Editore (MOED.MI, €1.09), Gruppo Editoriale l'Espresso SpA (ESPI.MI, €0.81), Landi Renzo (LR.MI, €1.47), Seat Pagine Gialle SpA (PGIT.MI, €0.01), Mediaset SpA (MS.MI, €1.64), Aeroporto di Venezia - Marco Polo SpA (SAVE) (SAVE.MI, €6.86), Piaggio & C SpA (PIA.MI, €1.71), Safilo SpA (SFLG.MI, €6.46), Prysmian SpA (PRY.MI, €14.9), Autogrill SpA (AGL.MI, €7.81), Geox SpA (GEO.MI, €2.29), Luxottica Group SpA (LUX.MI, €28.6), Yoox (YOOX.MI, €11.06), El Towers SpA (EIT.MI, €19.73), Interpump Group SpA (ITPG.MI, €5.77), Brunello Cucinelli (BCU.MI, €14.62) and Dufry AG (DUFN.S, SFr117.5). All prices as of 16 Oct 2012.

BEST IDEAS UNIVERSE: The best ideas universe from which were chosen comprises: . All prices as of 31 Dec 1969.



BEST IDEAS UNIVERSE: The best ideas universe from which BHP Billiton PLC (covered by Heath R Jansen), Norsk Hydro ASA (covered by Heath R Jansen), Antofagasta (covered by Jatinder Goel, CFA), voestalpine AG (covered by Thomas O'Hara) were chosen comprises: BHP Billiton PLC (BLT.L, US\$19.49), Anglo American PLC (AAL.L, US\$18.09), Rio Tinto PLC (RIO.L, US\$30.61), Norsk Hydro ASA (NHY.OL, Nkr26.8), Lonmin PLC (LMI.L, US\$4.91), Hochschild Mining Plc (HOCM.L, US\$5.06), Klöckner & Co. (KCOGN.DE, €7.3), Kazakhmys Plc (KAZ.L, US\$7.09), African Barrick Gold Plc (ABGL.L, US\$4.82), Randgold Resources Ltd (RRS.L, US\$77.05), Ferrexpo PLC (FXPO.L, US\$1.95), Aquarius Platinum Ltd (AQP.L, US\$0.38), Petropavlovsk PLC (POG.L, US\$4.4), Gem Diamonds (GEMD.L, US\$1.68), New World Resources (NWR.L, €2.59), Centamin Egypt Limited (CEY.L, US\$0.99), Fresnillo Plc (FRES.L, US\$19.38), Talvivaara Mining Company (TALV.L, €1.34), African Minerals Ltd (AMQ.L, US\$3.09), Nyrstar NV (NYR.BR, €4.66), Zanaga Iron Ore Company (ZIOC.L, US\$0.44), Boliden AB (BOL.ST, SKr114.5), Nordgold (NORDNq.L, US\$5.0), London Mining (LOND.L, US\$1.56), Polymetal (POLYP.L, US\$11.6), Eurasian Natural Resources Corporation PLC (ENRC) (ENRC.L, US\$3.28), ArcelorMittal (ISPA.AS, US\$11.77), Antofagasta (ANTO.L, US\$12.79), Salzgitter AG (SZGG.DE, €32.05), First Quantum Minerals Ltd (FQM.L, US\$13.85), voestalpine AG (VOES.VI, €23.65). All prices as of 16 Oct 2012.

BEST IDEAS UNIVERSE: The best ideas universe from which Reed Elsevier PLC (covered by Thomas A Singlehurst, CFA) were chosen comprises: British Sky Broadcasting Group PLC (BSY.L, £7.55), WPP PLC (WPP.L, £8.55), Mediaset SpA (MS.MI, €1.64), Publicis Groupe SA (PUBP.PA, €43.07), Daily Mail & General Trust PLC (DMGOa.L, £4.8), Wolters Kluwer NV (WLSNc.AS, €15.07), Vivendi (VIV.PA, €16.0), Pearson PLC (PSO.N.L, £12.43), Reed Elsevier PLC (REL.L, £6.18), ITV PLC (ITV.L, £0.92), Trinity Mirror PLC (TNI.L, £0.71), ProSiebenSat.1 Media (PSMG\_p.DE, €22.01), Johnston Press PLC (JPR.L, £0.13), Yell Group PLC (HIBU.L, £0.0), Eniro AB (ENRO.ST, SKr7.35), Blinkx Plc (BLNX.L, US\$0.53), Independent News & Media PLC (INME.I, €0.11), Grupo Prisa (PRS.MC, €0.34), Havas SA (EURC.PA, €4.12), Mediaset España SA (TL5.MC, €4.16), Television Francaise 1 SA (TFFP.PA, €6.73), Schibsted (SBST.OL, Nkr227.1), Stroer Out-of-Home Media AG (SAXG.DE, €7.0), JCDecaux (JCDX.PA, €17.14), Informa PLC (INF.L, £4.1), UBM plc (UBM.L, £7.31), Lagardere Groupe (LAGA.PA, €20.91), M6 Metropole Television (MMTP.PA, €11.2), GfK Holding AG (GFKG.DE, €36.0), Aegis Group PLC (AEGS.L, £2.35), Sky Deutschland (SKYDn.DE, €3.35), Reed Elsevier NV (ELSN.AS, €10.52). All prices as of 16 Oct 2012.

BEST IDEAS UNIVERSE: The best ideas universe from which Nestle (covered by Robert Dickinson, CA) were chosen comprises: Nestle (NESN.VX, SFr61.75), Unilever PLC (ULVR.L, €23.42), Unilever NV (UNc.AS, €28.48), Danone (DANO.PA, €48.77), Tate and Lyle (TATE.L, £6.96), Associated British Foods PLC (ABF.L, £13.62), Lindt & Sprungli (LISN.S, SFr33960.0), Premier Foods (PFD.L, £0.83), Beiersdorf (BEIG.DE, €59.05), Reckitt Benckiser (RB.L, £36.67), Henkel (HNKG\_p.DE, €63.68) and L'Oréal (OREP.PA, €100.6). All prices as of 16 Oct 2012.

BEST IDEAS UNIVERSE: The best ideas universe from which Kingfisher PLC (covered by Richard Edwards), Inditex (covered by Richard Edwards), Marks and Spencer Group PLC (covered by Richard Edwards), adidas Group (covered by Richard Edwards), Home Retail Group (covered by Assad M Malic) were chosen comprises: Kingfisher PLC (KGF.L, £2.81), Inditex (ITX.MC, €98.5), Hennes & Mauritz AB (HMB.ST, SKr235.4), Next Group PLC (NXT.L, £36.17), Sports Direct International Plc (SPD.L, £4.01), Marks and Spencer Group PLC (MKS.L, £3.9), Debenhams Plc (DEB.L, £1.11), N Brown (BWNG.L, £3.07), ASOS Plc (ASOS.L, £23.94), Halfords Group Plc (HFD.L, £3.28), Dunelm (DNLM.L, £6.84), adidas Group (ADSGn.DE, €67.9), Carphone Warehouse (CPWL, £1.67), Dixons Retail PLC (DXNS.L, £0.22), Home Retail Group (HOME.L, £1.04), Inchcape PLC (INCH.L, £3.57), Darty Plc (DRTY.L, €0.56), WH Smith PLC (SMWH.L, £6.29), Jumbo Babyland (BABr.AT, €4.61), CDON Group (CDON.ST, SKr41.0) and Zooplus (ZOIG.DE, €30.95). All prices as of 16 Oct 2012.

BEST IDEAS UNIVERSE: The best ideas universe from which easyJet (covered by Andrew Light), Royal Jordanian Airlines (covered by Andrew Light) were chosen comprises: Air France-KLM (AIRF.PA, €5.68), Ryanair (RYA.I, €4.55), easyJet (EZJ.L, £6.0), Lufthansa (LHAG.DE, €10.95), Scandinavian Airlines System (SAS.ST, SKr5.8), Aircastle Ltd (AYR.N, US\$11.1), AerCap Holdings NV (AER.N, US\$12.75), FLY Leasing Ltd (FLY.N, US\$13.59), Air Arabia PJSC (AIRA.DU, Dh0.69), Royal Jordanian Airlines (RJAL.AM, JD0.56), Aegean Airlines S.A. (AGNr.AT, €1.58), Aéroports de Paris (ADP.PA, €61.02), Fraport (FRAG.DE, €44.58), Zurich Airport (FHZN.S, SFr393.0), Vienna Airport (VIEV.VI, €35.27), Gemina SpA (GEMI.MI, €0.76), International Consolidated Airlines Group, S.A. (ICAG.MC, €1.93), International Consolidated Airlines Group, S.A. (ICAG.L, €1.56), Air Lease Corporation (AL.N, US\$20.53), Kenya Airways Ltd (KQNA.NR, KSh11.8). All prices as of 16 Oct 2012.

BEST IDEAS UNIVERSE: The best ideas universe from which Fresenius SE (covered by Jonathan Beake) were chosen comprises: Amplifon SpA (AMPF.MI, €3.21), Nobel Biocare Holding AG (NOBN.S, €8.82), Sonova Holdings AG (SOON.VX, SFr98.0), Straumann Holding AG (STMN.S, SFr118.2), William Demant Holding (WDH.CO, Dkr524.0), Essilor (ESSI.PA, €71.42), Sirona (SIRO.O, US\$56.92), DENTSPLY (XRAY.O, US\$37.46), Fresenius SE (FREG.DE, €96.38), Fresenius Medical Care (FMEG.DE, US\$58.51) and Smith & Nephew PLC (SN.L, US\$6.7). All prices as of 16 Oct 2012.

BEST IDEAS UNIVERSE: The best ideas universe from which Renishaw (covered by David I Phillips), Fenner (covered by David I Phillips) were chosen comprises: IG Group (IGG.L, £4.59), Babcock (BAB.L, £9.7), Telety Group Plc (TCY.L, £9.55), BBA Aviation (BBA.L, US\$2.1), HomeServe (HSV.L, £2.29), CPP Group (CPPG.L, £0.06), Greggs (GRG.L, £4.86), Synergy Health Plc (SYR.L, £9.21), Carillion (CLLN.L, £2.93), Keller Group (KLR.L, £5.61), Spectris (SXS.L, £15.94), Renishaw (RSW.L, £17.0), Balfour Beatty (BALF.L, £3.04), Spirax-Sarco (SPX.L, £19.55), Rotork (ROR.L, £23.37), Fenner (FENR.L, £3.56), Chemring Group (CHG.L, £3.38), Domino Printing Sciences (DOPR.L, £5.58), Halma (HLMA.L, £4.17), Senior (SNR.L, £1.94), Filtrona PLC (FLTR.L, £5.58), 3i Infrastructure Plc (3IN.L, £1.26), Big Yellow (BYG.L, £3.43), Safestore (SAFE.L, £1.06), Perform Group (PER.L, £4.3), Moneysupermarket (MONY.L, £1.36), DS Smith PLC (SMDS.L, £2.08), Spirent Communications Plc (SPT.L, US\$1.5), Sage Group PLC (SGE.L, £3.09) and Wirecard (WDIG.DE, €17.97). All prices as of 16 Oct 2012.

BEST IDEAS UNIVERSE: The best ideas universe from which Fiat SpA (covered by Harald C Hendrikse), Volkswagen AG(pref) (covered by Harald C Hendrikse) were chosen comprises: BMW AG (BMWG.DE, €60.99), Fiat SpA (FIA.MI, €4.24), Scania AB (SCVb.ST, SKr119.3), Volvo AB (VOLVb.ST, SKr92.4), Porsche Automobil Holding SE (PSHG\_p.DE, €49.21), Volkswagen AG (VOWG.DE, €133.55), Volkswagen AG(pref) (VOWG\_p.DE, €146.9), Daimler AG (DAIGn.DE, €38.34) and MAN SE (MANG.DE, €76.85). All prices as of 16 Oct 2012.

BEST IDEAS UNIVERSE: The best ideas universe from which British Sky Broadcasting Group PLC (covered by Thomas A Singlehurst, CFA), WPP PLC (covered by Thomas A Singlehurst, CFA), Publicis Groupe SA (covered by Thomas A Singlehurst, CFA), Mediaset España SA (covered by Catherine T O'Neill), Sky Deutschland (covered by Thomas A Singlehurst, CFA) were chosen comprises: British Sky Broadcasting

Group PLC (BSY.L, £7.55), WPP PLC (WPP.L, £8.55), Mediaset SpA (MS.MI, €1.64), Publicis Groupe SA (PUBP.PA, €43.07), Daily Mail & General Trust PLC (DMGOa.L, £4.8), Wolters Kluwer NV (WLSNc.AS, €15.07), Vivendi (VIV.PA, €16.0), Pearson PLC (PSO.N.L, £12.43), Reed Elsevier PLC (REL.L, £6.18), ITV PLC (ITV.L, £0.92), Trinity Mirror PLC (TNI.L, £0.71), ProSiebenSat.1 Media (PSMG\_p.DE, €22.01), Johnston Press PLC (JPR.L, £0.13), Yell Group PLC (HIBU.L, £0.0), Eniro AB (ENRO.ST, SKr7.35), Blinkx Plc (BLNX.L, US\$0.53), Independent News & Media PLC (INME.I, €0.11), Grupo Prisa (PRS.MC, €0.34), Havas SA (EURC.PA, €4.12), Mediaset España SA (TL5.MC, €4.16), Television Francaise 1 SA (TFFP.PA, €6.73), Schibsted (SBST.OL, NKr227.1), Stroer Out-of-Home Media AG (SAXG.DE, €7.0), JCDecaux (JCDX.PA, €17.14), Informa PLC (INF.L, £4.1), UBM plc (UBM.L, £7.31), Lagardere Groupe (LAGA.PA, €20.91), M6 Metropole Television (MMTP.PA, €11.2), GfK Holding AG (GFKG.DE, €36.0), Aegis Group PLC (AEGS.L, £2.35), Sky Deutschland (SKYDn.DE, €3.35), Reed Elsevier NV (ELSN.AS, €10.52). All prices as of 16 Oct 2012.

BEST IDEAS UNIVERSE: The best ideas universe from which Telefonica SA (covered by Tania Valiente), TeliaSonera AB (covered by Laurie Fitzjohn-Sykes, CFA), France Telecom (covered by Dimitri Y Kallianiotis, CFA), Telekom Austria (covered by Georgios Ierodiaconou), Millicom Intl Cellular (covered by Laurie Fitzjohn-Sykes, CFA) were chosen comprises: BT Group PLC (BT.L, £2.2), Vodafone Group PLC (VOD.L, £1.73), Deutsche Telekom AG (DTEGn.DE, €9.06), Tele2 AB (TEL2b.ST, SKr119.2), SES S.A. (SESFd.PA, €21.16), Belgacom SA (BCOM.BR, €22.55), Telefonica SA (TEF.MC, €10.52), Freenet (FNTGn.DE, €12.96), Kabel Deutschland (KD8Gn.DE, €56.3), Eutelsat Communications (ETL.PA, €25.53), Telecom Italia SpA (TLIT.MI, €0.77), TeliaSonera AB (TLN.ST, SKr46.12), France Telecom (FTE.PA, €9.52), Portugal Telecom (PTC.LS, €3.81), KPN NV (KPN.AS, €5.98), OTE (OTER.AT, €3.65), Elisa Oyj (ELI1V.HE, €17.89), Inmarsat plc (ISA.L, US\$5.73), United Internet AG (UTDI.DE, €15.66), Mobistar SA (MSTAR.BR, €22.2), Telekom Austria (TELA.VI, €5.74), Swisscom AG (SCMN.VX, SFr382.3), Telecom Italia SpA(savings shares) (TLITn.MI, €0.67), Telenet Group Holding NV (TNET.BR, €35.77), Bouygues SA (BOUY.PA, €19.57), Zon (ZON.LS, €2.3), TalkTalk Telecom Group PLC (TALK.L, £1.78), Virgin Media (VMED.O, £31.87), Virgin Media (VMED.L, £19.97), Sonaecom (SNC.LS, €1.38), TDC (TDC.CO, Dkr42.1), Jazztel (JAZ.MC, €5.21), Millicom Intl Cellular (MICsdb.ST, US\$591.5), Ziggo N.V. (ZIGGO.AS, €27.25), Colt Group SA (COLT.L, €1.22). All prices as of 16 Oct 2012.

BEST IDEAS UNIVERSE: The best ideas universe from which Barratt Developments (covered by Clyde Lewis), HeidelbergCement AG (covered by Clyde Lewis), Saint Gobain (covered by Clyde Lewis), Persimmon PLC (covered by Clyde Lewis), CRH PLC (covered by Aynsley Lammin), Buzzi Unicem (covered by Aynsley Lammin) were chosen comprises: Barratt Developments (BDEV.L, £1.84), Lafarge SA (LAFP.PA, €44.94), Holcim Ltd (HOLN.VX, SFr63.4), Berkeley Group Holdings PLC (BKGH.L, £14.91), HeidelbergCement AG (HEIG.DE, €40.17), Bellway PLC (BWY.L, £9.8), Wolseley PLC (WOS.L, £26.8), Saint Gobain (SGOB.PA, €26.83), Persimmon PLC (PSN.L, £7.86), Marshalls PLC (MSLH.L, £0.87), Martin Marietta Materials Inc (MLM.N, US\$82.77), Italcementi Group (ITAI.MI, €4.21), Travis Perkins PLC (TPK.L, £11.14), SIG PLC (SHI.L, £1.06), Wienerberger AG (WBSV.VI, €5.91), Geberit AG (GEBN.VX, SFr205.2), Redrow PLC (RDW.L, £1.59), Grafton Group PLC (GRF\_u.L, €3.44), Taylor Wimpey PLC (TW.L, £0.59), Bovis Homes Group PLC (BVS.L, £5.11), CRH PLC (CRH.L, €11.26), Vulcan Materials Co (VMC.N, US\$46.57), Buzzi Unicem (BZU.MI, €9.09), Howdens (HWDN.L, £1.62), Rockwool (ROCKb.CO, Dkr550.0), Kingspan (KSP.I, €8.5), Vicat (VCTP.PA, €41.3) and Titan Cement Co SA (TTNr.AT, €13.83). All prices as of 16 Oct 2012.

BEST IDEAS UNIVERSE: The best ideas universe from which Swatch Group AG (covered by Thomas Chauvet), PPR (covered by Thomas Chauvet), Richemont (covered by Thomas Chauvet) were chosen comprises: Swatch Group AG (UHR.VX, SFr382.5), Burberry Group PLC (BRBY.L, £11.64), LVMH (LVMH.PA, €128.25), PPR (PRT.PA, €133.4), Richemont (CFR.VX, €60.0), Tod's SPA (TOD.MI, €89.15) and Hugo Boss Group (BOSSn.DE, €74.42). All prices as of 16 Oct 2012.

BEST IDEAS UNIVERSE: The best ideas universe from which SMA Solar Technology (covered by Jason Channell), Renewable Energy Corporation (covered by Jason Channell) were chosen comprises: Manz Automation (M5ZG.DE, €24.5), Meyer Burger (MBTN.S, SFr11.3), SMA Solar Technology (S92G.DE, €26.13), SolarWorld (SWVG.DE, €1.46), Renewable Energy Corporation (REC.OL, NKr1.22), Gamesa (GAM.MC, €1.58). All prices as of 16 Oct 2012.

Adrian Cattley, Strategist, holds a long position in the securities of Prudential Plc.

A member of the household of Adrian Cattley, Strategist, holds a long position in the securities of Royal Bank of Scotland Group PLC.

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