

Equities

15 March 2012 | 32 pages

European Portfolio Strategist

UK/Pan-European — Make Mine a Double

- **Misery all around** — The world according to the media and equity market valuations is miserable. Grumpy investors, grumpy brokers. There is not much good news apparent.
- **But total returns touching all time highs** — The FTSE 100 total return index has recently reached all time highs. What could happen if things actually get better?
- **Valuations suggest double digit returns** — Long run valuation measures such as Cyclically Adjusted PE suggest double digit compound returns over the next decade.
- **As does global growth** — Global nominal GDP growth of around 6% coupled with 4% dividend yields also points to double digit returns.
- **Dividends, Buybacks and M&A to further support returns** — The UK market is also more likely to see shareholder friendly cash returns further supporting the market.
- **FTSE to double in a decade** — These suggest that the FTSE 100 should double over the next 10 years. And that's without a re-rating. That would be a proper bull market.

Equities

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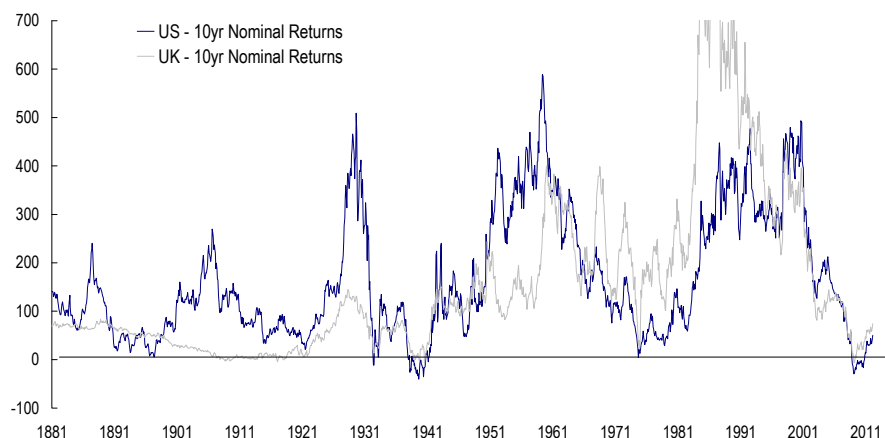
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Figure 1. US and UK 10yr Rolling Nominal Returns 1881-2012



Source: Global Financial Data, DataStream & Haver

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[23 February — Are We Nearly There Yet?](#)

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

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UK/Pan-European — Make Mine a Double

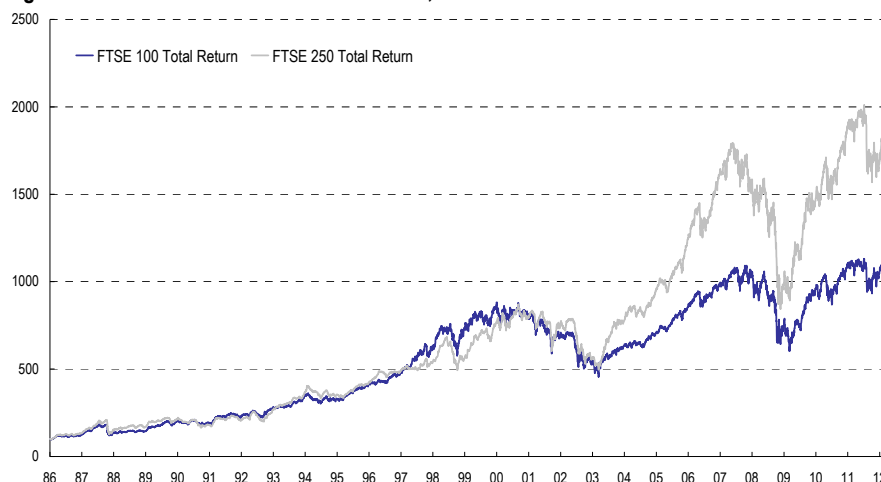
Financial crisis. Bank collapse. Bear market. Fiscal austerity. Eurozone on the brink. Double and treble dip recessions. Seven years of lean. Unemployment. High streets as ghost towns. That's the obvious bad news. But history shows that some of the best investment opportunities present themselves when the outlook is grim. This week we use history to show that the bad news we know is likely to herald better equity market performance in our view. The FTSE could double over the next 10 years.

It's not that bad

Heaven knows I'm miserable now

The backdrop and news stories are not pretty. It's enough to make one give up on equities altogether. Many have. Given how miserable the news is one would expect equities to be on their knees. While flows to equities mirror the sentiment expressed above the equity market is not following the bad news script.

Figure 2. FTSE 100 & FTSE 250 Total Returns, 1986 — 2012

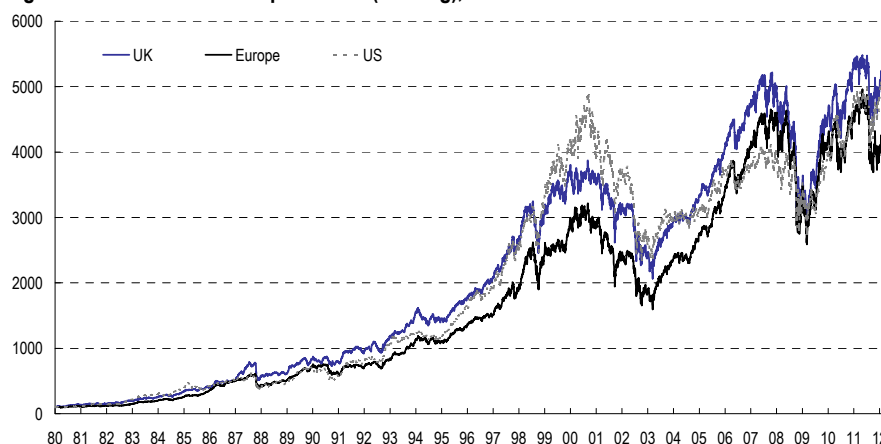


Source: Datastream.

All time highs. Yes really

To no fanfare the FTSE 100 reached all time high total returns at the end of February (and again this week?). The FTSE 250 is not far behind. UK equities have been grinding out reasonable nominal returns despite the doom laden backdrop. If we adjust for inflation returns are still 14% below peaks but in our world of money illusion equity returns have been fine.

Figure 3. UK Market Vs Europe and US (Sterling), 1980 — 2012



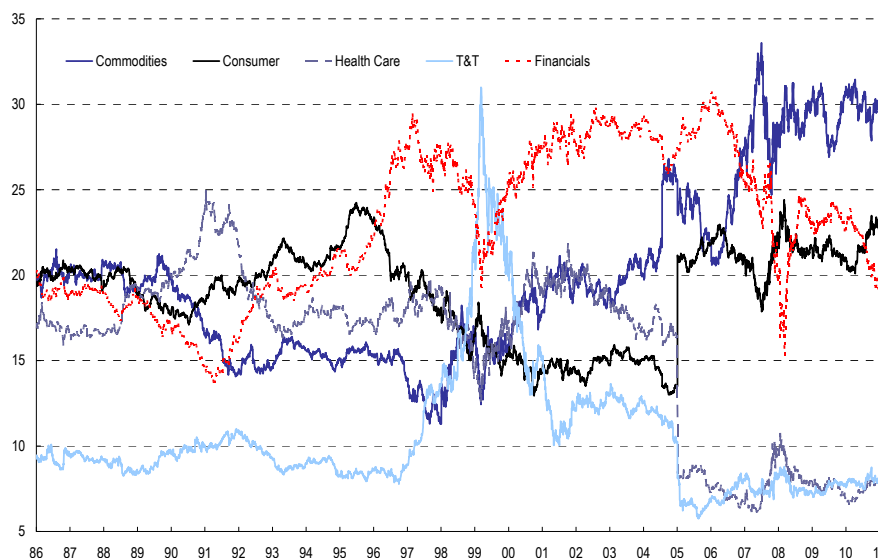
Source: Datastream.

UK outpacing US and Europe

In a broader international context the picture is similar. UK equity market total returns are outstripping both the US and Europe (in Sterling). This of course highlights the importance of valuation and dividends. For much of the last decade equities have not been expensive and dividends have grown (ex financials).

The UK market has also delivered these returns as a result of two other factors. First its exposure to the rest of the world and not just the UK economy and second is that the UK market for corporate control is open. The growing proportion of the UK market that is contributed by commodity earnings (Figure 4) highlights the internationalisation of UK market earnings.

Figure 4. All Share, Broad Sector Weights, %

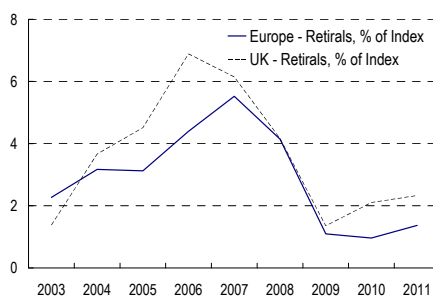


Source: DataStream & CIRA.

More and more international

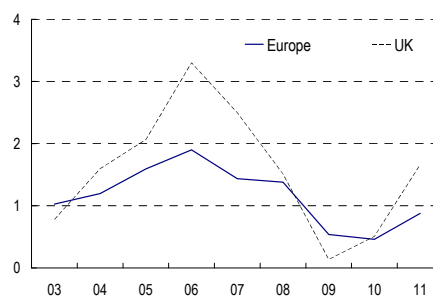
The second factor is not just that companies can be bid for but also that they tend to be shareholder friendly. The UK has seen more equity retired relative to market cap than Europe. The de-equitisation of the UK market has thus helped the total return.

Figure 5. Retirals, % of Index



Source: DataStream, FTSE, Stoxx, CIRA.

Figure 6. Buybacks, % of Index



Source: DataStream, FTSE, Stoxx, CIRA.

Deals not no deal

As an example if we take the FTSE 100 from March 2002 of the 100 companies 60% are still in the FTSE 100 and 11% are now in the FTSE 250. 25% has been acquired. Since 2003 on average 3.6% of the index has been retired against just under 2% for Europe ex the UK.

Where now?

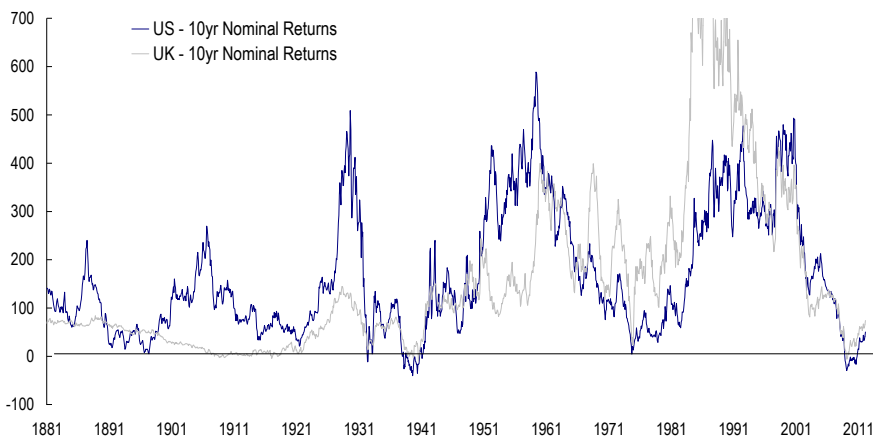
So despite the miserable backdrop and two 50% bear markets in the last ten years UK equities have delivered reasonable nominal returns. Over the last decade this has been 70%, of course helped by the starting point being closer to the post TMT trough. However even if we pick the peak in 2000 total nominal returns are positive at 38%. This is despite the starting point of high valuations. So what are the prospects for the next decade? Of course such long term forecasts are by their very nature highly subjective but we can see plenty of good news amongst the gloom.

History (Part 1)

Golden ages born into misery

Over the past 140 years there have been four golden ages for equity investing. The 1900s, 1920s, 1950s and the 1980s. All of these were born in the face of low 10 years rolling returns from equities.

Figure 7. US and UK 10yr Rolling Nominal Returns 1881-2012



Source: Global Financial Data, DataStream

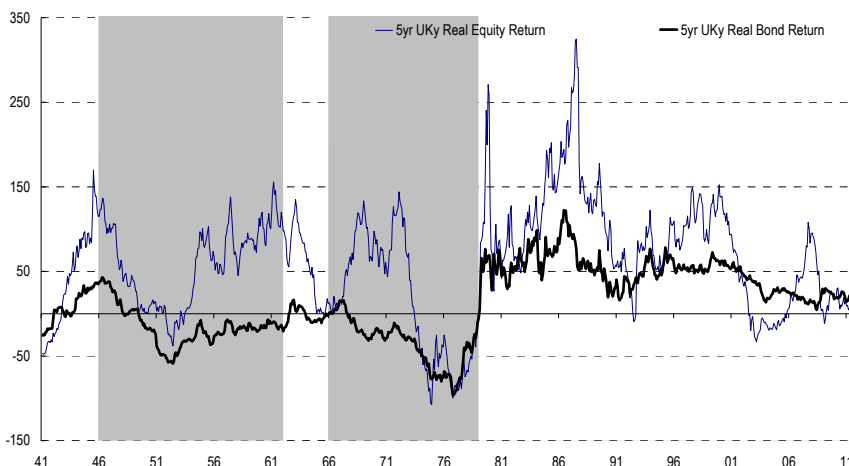
As Figure 7 shows we are in a similar position now. While this does not mean that a new golden age is set to start today, history shows that owning equities after a period of relatively poor returns has increased the chances of making above average returns.

History (Part 2)

Bonds lose out and equities can prosper during financial repression

The other lesson we can draw from history is from periods of financial repression. As we analysed last year financial repression is one of the ways out of high levels of debt. Negative real rates, inflation and forced holding of debt allows the real value to be eroded.

Figure 8. 5yr Real Rolling Returns For Bonds & Equities (Repression Periods Shaded)



Source: Global Financial Data, Datastream & Haver

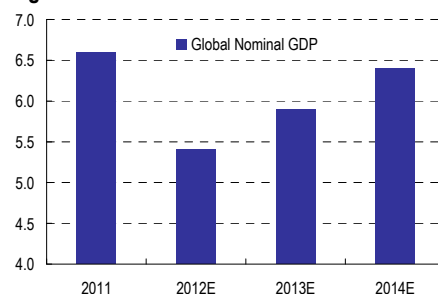
The first consequence is obvious. Negative real returns from bonds. However when this occurred in the decade post WW2 it coincided with positive real returns from equities. This culminated in the birth of the cult of the equity. Ross Goobey led the way and many followed. With many of the building blocks for financial repression in place again a switch back to equities could well be on the cards. It did take a decade last time so let's not get to carried away.

It's the world economy, stupid.

The UK market is not the UK economy

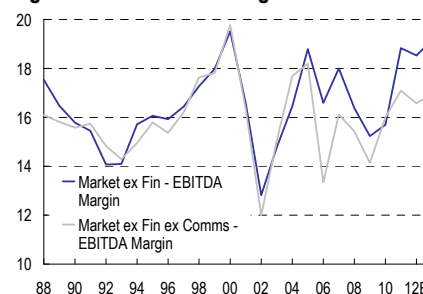
To misquote Bill Clinton what drives the earnings of the UK equity market is the world economy not the UK. Despite the well known travails in Europe and sluggish growth in the UK, overall global nominal GDP growth is expected to be c.5.5% in 2012 increasing to 6% in 2013 and heading toward 7% beyond that (Figure 9). This growth has been a pretty good proxy for top line growth historically.

Figure 9. Global Nominal GDP 2011-14E



Source: Citi Investment Research and Analysis

Figure 10. UK EBITDA Margins



Source: DataStream and CIRA

Margins high but not falling

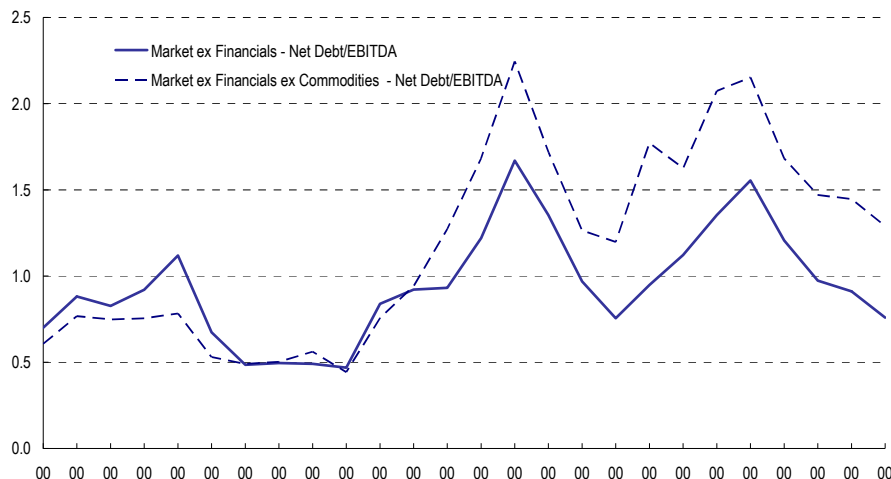
With robust top line companies should be able to deliver earnings growth in line with this assuming no material change to margins, interest or tax. While margins are close to all time highs, this is less concerning if we strip out commodities (Figure 10). The balance of the two suggests to us that margins should be stable. Citi's Global Equity Strategy Team has just published a piece looking at [global margins](#). While UK, Europe and US margins are approaching all time highs, Asian margins are at all time lows. The margin arbitrage is clear and there is little sign of it unwinding. This gives a degree of support to the ability of UK companies to maintain aggregate profit margins.

Furthermore companies have the ability to use their robust balance sheets to support growth through inorganic investments. But if we assume the risk of balance sheet positives to growth offsets the negative risk from declining margins, the world economy growing at 6% should allow UK companies to grow earnings at 6% a year. And with the dividend yield at 4% for 2012 the scene looks set for double digit nominal total returns over the next decade.

Open all hours

As we mentioned above UK companies have rebuilt balance sheets. This is true across global equity markets. Companies have got balance sheet fire power and access to low coupon debt. This money will eventually get spent. At its most simple it will get paid out as dividends. Good for total returns. More likely it will be spent as a combination of M&A, buybacks, dividends and capex.

Figure 11. UK Net Debt/EBITDA



Source: DataStream and CIRA

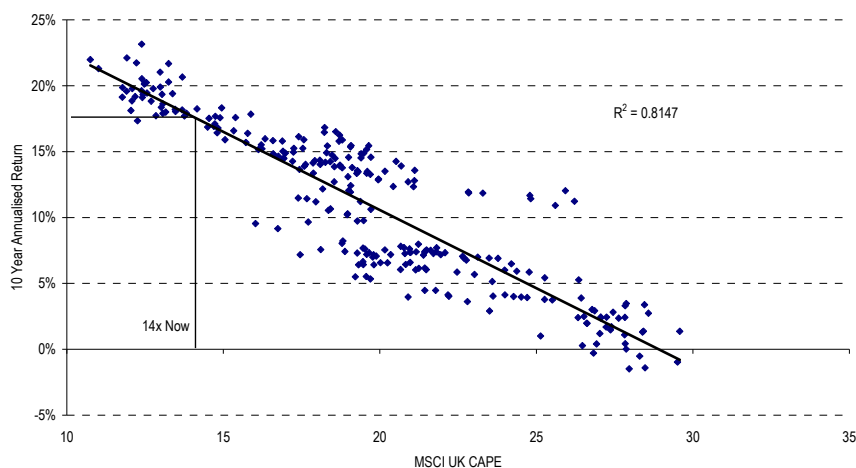
Open for business

The return of capital to shareholders through buybacks is a global theme. The receipt of cash from M&A is more likely to occur in open markets with no block on corporate control. As the animal spirits return to board rooms the UK is likely to be a disproportionate beneficiary both from outside of the UK and in market deals. The UK is a good place to come shopping for companies.

FTSE to double

It is the foolhardy strategist who predicts a positive outcome after such a miserable few years. But you don't have to be a lunatic bull to expect good returns from UK equities.

Figure 12. MSCI UK CAPE vs 10yr Annual Returns



Source: DataStream and CIRA

CAPE says buy

Figure 12 shows returns over the following decade from a range of 10 year cyclically adjusted PEs (CAPEs). The predictive power has been good. If you bought equities when the CAPE is where it is now, compound returns tended to be double digit. If history is followed perfectly then nominal returns of compound 17% could be on the way. Using price only this would imply the FTSE 100 should more than double from here over the next decade.

Growth says buy equities

Taking global nominal GDP growth of 6% as the growth rate for earnings then assuming no change in multiples this implies a near doubling of the FTSE.

Finally the history of returns rather than valuation produces a similar if slightly less robust outcome. If you bought equities when 10 year rolling returns were 50% below the 10 year average then future returns on average were 1.5x better than average.

Strategy outlook

By looking out a decade and seeing positive prospective returns from equities we may well call a short term peak in equity markets. Having rallied 25% from the lows a pause is likely in our view. Furthermore the risks in the Eurozone haven't been extinguished by the provision of liquidity. A range of risks still exist but over time markets climb a wall of worry.

In our year ahead document of 2010¹ we concluded with a view that the FTSE100 could reach 10,000 by 2020. This report takes that forward two years. We can of course never be certain of the future but it looks a lot better to us than the recent past does.

¹ European Market Outlook 2010 – From Blind Recovery to Delivery – 31 December 2009

Market Outlook & Citi Research

The Point — Top Calls

Europe ex-UK

European Engineering — Be More Selective

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EUROPE | ENGINEERING

Our Sector View is now Neutral. We suggested an Overweight sector view last September and reiterated the view at the start of the year. We still see a range of opportunities in the group. However, divergence is increasing, as signaled by our recent downgrades to Sell ratings on Schneider Electric and Weir. Our current Neutral view is in line with the view of our Strategists. We continue to focus on (1) Geographic Exposure; (2) End Markets; and (3) Balance Sheet Strength.

Schneider Electric SA (SCHN.PA) — Sell – Valuation Not Merited by Performance

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FRANCE | ENGINEERING, ELECTRICAL COMPONENTS & EQUIPMENT | SELL

We downgrade Schneider to Sell. This is not because we see significant weakening of its end markets (though we equally don't see any significant upgrade catalyst here). It is because we do not see the returns history of the business as supportive of the current premium valuation. Schneider's track record of organic profit growth and ROIC are both below average for the sector. While its 2012E EV/EBITA of 10x is a c15% premium to the sector on 8.7x. Our Target Price is revised down to €43 based on an EV/EBITA of 8.7x in line with the sector average.

Off(shore) to the races — Oil services offer defensive growth at attractive price

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EUROPE | OILFIELD EQUIPMENT SERVICES

We think European oil services continue to screen well around attractively priced growth metrics. Eight of our coverage stocks meet the criteria of >15% pa 2-year compound earnings growth and trading within 10% of their 15-year average 1-year forward PE (or time since IPO). In our view, the market is underestimating the longevity of this growth. High oil prices are a stark reminder of limited spare capacity in the global oil supply chain. An overarching theme of oil majors' 2012 strategy presentations was more investment and we see continued growth in spend as necessary to maintain an oil price environment conducive to global growth. For most of our companies, we raise estimates and TPs based on this improved outlook. We also upgrade PGS, downgrade Petrofac. Both to Neutral.

EADS (EAD.PA) — Target Raised to €34.50, Buy Rating Retained

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NETHERLANDS | AEROSPACE & DEFENSE, AEROSPACE & DEFENSE | BUY

We raise our FY12 EBIT forecast by 12% and reiterate our Buy rating with a revised DCF based 1-year target of €34.50 (=11.5x '13E P/E). Despite strong performance we continue to see significant medium-term upside on account of margin expansion and strong FCF; trends that were affirmed at the FY11 results.

UK

UK Housebuilding – Castle Times (13) — Good Start to the year

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UNITED KINGDOM | HOMEBUILDING

Fears over the Euro combined with decent data from the UK has meant the macro cloud has lifted a little for the Housebuilding sector. However, the data is likely to remain patchy over the coming months. Citi continues to forecast a relatively weak UK economy in 2012 and 2013 with GDP growth of 0.2% and 1.0% respectively. The start to the year in terms of volumes and H2 2011 margins have been a bit better than we were expecting a couple of months ago and this has seen us moving forecasts higher. This in turn has led us to tweak some target prices up. Despite this we are pulling some recommendations back following the strong run in many share prices - we move Bovis back to Neutral and Barratt to Sell. On the flipside we are moving Persimmon back up to Buy following the sell off after the capital return announcement.

Lloyds Banking Group PLC (LLOY.L) — Interesting Or Interest Down?

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UNITED KINGDOM | BANKS, DIVERSIFIED BANKS | BUY

Significant progress has been made in reshaping and restructuring Lloyds. Noncore assets have been reduced ahead of schedule, target cost savings have been raised, and the company outlook is positive on asset quality. Furthermore, the 2012 funding plan is complete (including the LTRO) and capital position looks solid. With much of the 'heavy lifting' now complete, Lloyds can begin to realign its focus towards its core strength in UK retail banking, where it remains highly profitable. We lower 2012-13E combined business PBT by 6-12%, due to lower interest income, but raise 2014E 1% driven by a lower FV unwind charge and the additional planned cost take-out. Combined with a heavier tax charge, this reduces our underlying 2012-13 EPS by 17-18%. We reiterate our Buy rating and 45p target price.

Admiral Group (ADML.L) — Are we there yet?

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UNITED KINGDOM | INSURANCE - PROPERTY & CASUALTY, PROPERTY & CASUALTY INSURANCE | NEUTRAL

We believe Admiral is one of the best motor insurers in the UK. However, we remain cautious because: i) its growth is slowing, ii) greater competition will put pressure on its u/w advantage, iii) the volatility of its results has increased, and iv) there is still uncertainty over claims trends. We increase 2012 EPS by 7% for better profit commissions and raise our PT to 1110p from 1030p. Neutral maintained.

Inmarsat plc (ISA.L) — 2015, A Growth Odyssey. Sell

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UK | SATELLITE COMMUNICATIONS, ALTERNATIVE CARRIERS | SELL

Inmarsat shares are up c.20% year to date as the market has been hoping for an inflection point in the performance of the core business in 4Q11. We assume a -0.2% two-year CAGR in core MSS, below management guidance and consensus estimates. We see downside risks to consensus estimates in the near term, reduce our EPS estimates 26.5% in 2012E and see the risk/reward profile as unattractive at current levels. The stock trades on 8.1x 2012E EV/EBITDA and 16.1x P/E on our revised estimates. We see this level as unjustified compared to faster-growing satellite peers. We reduce our 12-month TP to 410p from 480p on the back of lower estimates, and downgrade the stock to Sell.

Report of the Week

Upwardly Mobile

Global Telecommunications

An Analysis of the Global Mobile Payments Opportunity

In the good old days, your office couldn't reach you 24x7, Apples and Blackberries were found at fruit stands and you only came across an Android when you relaxed with a science fiction novel. Also, in the good old days, people drove in circles looking for an address or a payphone, they stood in line at the bank for every financial transaction and they ran from store to store searching for the best price. Today in most developed markets, you can not only place a call but with a couple of clicks on a mobile phone you can pay a bill, send money to a friend, search for the best bargain, donate money to charity and pay for practically anything. In emerging markets, consumers are finally being included in the formal financial system. Workers who are employed anywhere in the world can now text their wages back to family members at home and no longer have to travel hours at a time to pay utility bills.

The meteoric rise in mobile phone subscriptions — now almost 6 billion worldwide — has transformed communication. It's not only about voice. Today's mobile phones can serve as a mobile payments platform or shopping mall. Mobile Payments touches a large number of industries. This is increasingly true in low-GDP countries and for lower-income consumers with basic phones.

In emerging markets, mobile phone penetration now outpaces the availability of banking and other financial services, giving rise to the mobile phone as a portal for the provision of these services. Once consumers are comfortable with the concept of electronically stored monetary value, more advanced mobile banking functionality can be introduced. There are more than 125 Mobile Payments pilots in progress today. Successful deployments like M-PESA in Kenya have forged a path for others to follow, based on massive adoption of the platform, gaining 60% penetration of the country's adult population in just four years since being launched.

In developed markets where access to financial services is more commonplace, the Mobile Payments opportunity is based more on providing feature-rich products that enhance the consumers' banking or shopping experience. Mobile commerce is already transforming the way consumers shop, blending of the online and off-line into a single homogenous view. Adoption will depend on using mobility to enhance the consumer's buying experience and leveraging mobile information to create additional consumer value.

It's not just telecom providers and financial institutions, but an ecosystem that also involves consumers, private corporations, governments, retailers, technology companies and processors.

In the report that follows, we look at what the Mobile Payments opportunity could be and examine the factors that contribute to a successful Mobile Payments ecosystem. We look closely at Japan and Kenya — two countries with leading Mobile Payment offerings — to help to provide a blueprint for how future offerings should be structured. We then take a global tour to examine the key mobile payments offerings around the world.

International Corner

Each week we use this section to highlight the key news, views, analysis and recommendations from our colleagues around the world.

International Economics

How Much Is This Going to Hurt?

The evolution of external imbalances in the oil-exporting countries — and the related rebalancing of global spending and production in the aftermath of oil shocks — represents another crucial piece of the global adjustment puzzle. Indeed, given the secular rise in oil prices over the past decade, the response of current account positions in oil-exporting countries and oil-importing countries has had important implications for both financial markets and global economic performance.

At present, the interest in such issues is heightened by two important developments. First, geo-political uncertainties in the Middle East highlight the risk of a marked increase in oil prices at some point over the next year. A surge in oil prices would bring with it challenges for the global economy, likely including heightened inflationary pressures, painful terms of trade changes for oil importers, and a potentially disruptive adjustment of external balances in many countries. Second, at a somewhat longer horizon, technological innovations in the energy sector suggest that over the next decade the U.S. economy is likely to take significant steps toward energy self-sufficiency, potentially shifting the quantity and composition of its energy imports in a profound way. With both of these issues in mind, we examine how current account balances in the United States and a large set of other countries have adjusted to oil shocks during previous episodes.

In this essay, we present empirical evidence that bears directly on such issues. For the United States, we find that over a three-year period, the non-oil current account balance adjusts sufficiently to fully offset the effects of an oil shock on the overall external balance. We find that this adjustment occurs through three key channels: (1) the dollar typically depreciates, (2) the level of GDP declines (or at least is lower than in the absence of the shock), and (3) direct investment receipts from abroad tend to rise, reflecting increased returns on the U.S. energy sector's extensive foreign operations; specifically, in the face of rising oil prices, these operations become more profitable.

For other countries, the evidence points to a broadly similar story. Non-oil current account balances adjust significantly over a three- to five-year horizon in response to changes in the oil balance. However, we find a marked difference in the extent of adjustment in the oil-exporting countries. In particular, the magnitude of adjustment following an oil shock is notably smaller for oil exporters. These results also highlight the global demand destruction associated with an oil shock—namely, the oil exporters only partially recycle their higher export earnings back into increased demand for goods and services from abroad.

However, one salient question that remains is whether a shock in the current environment might somehow be different. We approach this question with some trepidation, given that the experience of the global financial crisis highlights that things are rarely as different as they seem. Even so, we have a few thoughts on this issue.

As we have noted, one important development for the United States is that the energy sector is in the process of a rapid evolution. Specifically, U.S. exports of oil-related products have expanded significantly in recent years and are now equal to roughly 30 percent of the value of oil imports. And technological innovations in the energy sector suggest that over the next decade the U.S. economy is poised to take further significant steps toward energy self-sufficiency.

These developments are likely to have two implications. First, the U.S. external sector seems much less exposed to energy shocks than was the case several decades ago, and this should tend to blunt the effects of such shocks. But second, it is possible that a spike in oil prices — at least to the extent that it was perceived as permanent — might serve to accelerate the expansion of the U.S. energy sector. In the near term, such a development would mean increased investment and hiring in the sector, thus lifting U.S. GDP and imports. The higher level of imports would, in turn, temporarily reinforce the deterioration in the trade balance due to the increase in the oil bill. However, over time, the beneficial outcome would be greater energy self-sufficiency for the U.S. economy.

But another important feature of the current global environment, even apart from the persisting uncertainties in Europe, is that the recovery in many countries remains lackluster. The work that we have done on “stall speed” suggests that when growth is already soft, confidence tends to be fragile and the economy is accordingly more vulnerable to shocks. The empirical evidence on this score is most clear for the United States, but we believe that the general insights are broadly applicable. This line of reasoning suggests that under current circumstances a sizable and sustained rise in oil prices might have unusually severe effects on the global economy—at the very least; the risks seem to be tilted in this direction.

Please contact us if you would like more on the above article. You can also access all Citi Investment Research and Analysis from around the world through our Global Equities Online internet site. Please contact us for further details

Market Outlook

Taps on. A synchronised increase in global liquidity has helped to push equity markets higher this year. The Greek PSI negotiations have concluded successfully, but contagion risks to other Euro Area countries remain. However, it appears that regional and global policy action has materially reduced the downside risks of euro collapse and of a synchronised global recession. Good news for risk assets, good news for equities. Year-to-date the Stoxx index is up 6%, Greece is up c13%. The laggards have turned leaders.

Macro – mind the gap

Our economists continue to expect a sizeable slowdown in global economic growth in 2012, with renewed recession in the eurozone, growth of roughly 2% in the US and slowing, albeit still-strong growth in emerging markets, particularly from Asia. EM economies have less direct exposure to debt, stronger banks, better growth dynamics and greater policy flexibility.

More downgrades ahead

Analysts have already been downgrading for much of the past year, but downgrades have been relatively mild so far. We currently expect -10% earnings growth in 2012E (vs. 10%+ bottom-up). We believe this is consistent with a European recession, but not a global one.

Valuations

The strong start to 2012 has seen the European equity market re-rate on most measures. On 12m fwd P/E, the market is now trading back in double-digits, having spent much of the previous 6ms in single-digit territory. However, the Stoxx index remains at around a 20% discount vs. the LT average. Plenty of bad news still priced in.

Themes

We see increased liquidity and stabilising global growth expectations mixing with light investor positioning and attractive equity valuations to drive 15-20% returns for European equities this year. We have suggested that investors take on risk into weaker markets. Downside protection from liquidity, valuation and positioning. We back 3Bs Survivors' Party strategy of beta, bigger caps and balance sheet strength.

The uneven global growth outlook keeps our long-held preference for growth and quality. With policy rates set to be ultra low for years to come, de-equitisation and risk adjusted dividends matter.

Sector Strategy

Back barbell of defensive growth and acceptable risk. We are Overweight Health Care, Insurance, Food & Beverages, Basic Resources, Oil & Gas and Personal & Household Goods. We are Underweight Construction, Real Estate, Telecoms, Travel & Leisure and Utilities. This is a mixture of domestic exposure and leverage.

GDP	2011	2012E	2013E
Euro zone	1.5	-1.3	-0.3
UK	0.9	0.2	1.0
Global	3.0	2.4	3.0
US	1.7	2.0	1.8
Japan	-0.9	1.2	1.4
CPI	2011	2012E	2013E
Euro zone	2.7	2.3	1.4
UK	4.5	2.4	1.9
Global	3.6	3.0	2.9
US	2.4	2.2	1.8
Japan	-0.3	-0.4	-0.1
Interest Rates	Now	2Q12E	2Q13E
ECB	1.00	0.75	0.50
UK Base	0.50	0.50	0.50
US Fed Funds	0.25	0.25	0.25
Japan Call	0.10	0.10	0.10
10Yr Yield	Now	2Q12E	2Q13E
Euro zone	1.96	1.60	1.50
UK	2.27	1.85	1.60
US	2.27	2.05	2.65
Japan	1.07	0.95	1.40
Ex Rates	Now	1Q12E	1Q13E
US\$/€	1.31	1.33	1.26
US\$/£	1.57	1.59	1.57
€/£	1.20	1.19	1.25
Y/US\$	83	80	78
End Year Targets	Now	End-12E	Return
Stoxx	270	285	5.6%
FTSE 100	5931	6200	4.5%

Source: Reuters and CIRA forecasts

Figure 13. European Sector Strategy

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

Source: Citi Investment Research and Analysis

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Valuation Tables

Figure 14. Pan-European Sector Weightings & Returns

As at Close 13 Mar 12 Sector (No of Stocks)	Mkt Cap (Euros m)	% of Stoxx	Return Relative to Stoxx				Absolute Return			
			1m	3m	12m	Ytd	1m	3m	12m	Ytd
Oil & Gas (33)	558,393	10.4	0	-3	8	-2	3	11	9	8
Chemicals (23)	259,385	4.8	2	8	9	5	5	23	11	16
Basic Resources (30)	266,660	4.9	-6	0	-12	2	-3	14	-11	13
Construction & Materials (24)	130,792	2.4	2	7	-5	5	4	22	-4	16
Industrial G&S (98)	540,435	10.0	2	6	1	5	5	21	2	16
Automobiles & Parts (15)	140,400	2.6	-1	17	6	21	2	33	7	34
Food & Beverage (29)	456,332	8.5	3	-1	22	-3	6	13	23	8
Personal & H'hold Goods (29)	329,812	6.1	4	3	22	4	7	18	23	15
Health Care (34)	577,665	10.7	-1	-6	18	-7	2	7	19	3
Retail (25)	172,089	3.2	0	-8	1	-8	3	6	2	2
Media (31)	123,920	2.3	-1	-4	-4	-4	2	9	-3	6
Travel & Leisure (21)	66,560	1.2	0	2	2	1	3	17	3	12
Telecommunications (21)	296,219	5.5	-3	-13	-8	-11	0	-1	-7	-2
Utilities (28)	250,790	4.7	0	-7	-12	-6	3	6	-11	4
Banks (49)	632,089	11.7	-2	6	-23	7	1	21	-22	18
Insurance (32)	288,321	5.3	0	6	-5	6	3	22	-4	18
Real Estate (24)	66,765	1.2	2	3	-1	1	5	18	0	12
Financial Services (29)	71,726	1.3	0	3	-8	4	2	17	-8	16
Technology (25)	161,901	3.0	3	1	-3	4	6	15	-2	15
Stoxx - Pan Europe (600)	5,390,254	100.0	—	—	—	—	3	14	1	11
Pan Euro - Large Cap	4,407,162	81.8	0	-1	1	-1	3	13	2	10
Pan Euro - Mid Cap	690,360	12.8	1	4	-3	3	4	19	-2	15
Pan Euro - Small Cap	292,732	5.4	0	4	-3	4	3	19	-2	15
Stoxx ex UK (427)	3,526,340	65.4	—	—	—	—	3	16	-3	12
EuroStoxx - Eurozone (309)	2,401,602	44.6	—	—	—	—	3	16	-7	12

Source: Citi Investment Research and Analysis & DataStream

Figure 15. Pan-European Sector Relative Ratings

As at Close 13 Mar 12 Sector	P/E Relative to Stoxx				Yield Relative to Stoxx			
	2010	2011E	2012E	2013E	2010	2011E	2012E	2013E
Oil & Gas	93	85	79	83	88	99	101	96
Chemicals	118	105	115	115	71	76	73	73
Basic Resources	86	76	81	75	66	70	74	75
Construction & Materials	123	110	118	117	97	95	93	92
Industrial G&S	122	114	118	118	79	82	81	81
Automobiles & Parts	96	68	77	70	69	86	91	101
Food & Beverage	158	147	148	151	71	77	79	81
Personal & H'hold Goods	157	149	142	142	69	73	75	77
Health Care	111	100	106	109	95	98	99	100
Retail	111	113	115	119	99	94	95	96
Media	101	95	99	105	115	126	117	114
Travel & Leisure	137	132	145	125	80	78	74	79
Telecommunications	72	76	84	91	203	212	210	199
Utilities	75	95	99	105	191	162	151	144
Banks	74	95	85	79	112	90	94	105
Insurance	77	87	70	73	124	125	125	121
Real Estate	146	140	154	165	126	127	122	116
Financial Services	103	110	110	96	123	122	122	131
Technology	125	125	159	149	69	64	57	45
Stoxx - Pan Europe	100	100	100	100	100	100	100	100
Pan Euro - Large Cap	97	96	97	98	103	103	104	103
Pan Euro - Mid Cap	115	126	120	113	85	84	83	86
Pan Euro - Small Cap	114	122	117	109	91	89	85	89
Stoxx ex UK	97	102	103	101	108	102	100	100
EuroStoxx - Eurozone	89	96	97	95	118	109	105	104

Source: Citi Investment Research and Analysis & DataStream

Figure 16. Pan-European Sector Growth

As at Close 13 Mar 12 Sector	Earnings Growth %			Net Dividend Growth %		
	2011E	2012E	2013E	2011E	2012E	2013E
Oil & Gas	8.7	19.6	6.9	18.1	11.2	3.5
Chemicals	12.6	1.0	11.9	12.1	3.3	9.6
Basic Resources	12.5	4.3	19.7	12.3	13.7	10.9
Construction & Materials	12.2	2.4	12.7	3.0	5.4	8.4
Industrial G&S	6.2	7.4	12.1	8.8	6.4	9.2
Automobiles & Parts	40.6	-2.1	23.6	31.2	13.3	22.2
Food & Beverage	7.5	9.8	9.8	13.9	11.9	11.5
Personal & H'hold Goods	4.9	15.5	12.6	11.0	10.2	12.8
Health Care	11.0	3.9	8.6	8.5	8.5	10.1
Retail	-2.1	8.7	8.3	-0.7	9.3	9.4
Media	6.3	5.2	6.0	14.9	0.1	6.6
Travel & Leisure	3.6	0.8	29.4	2.0	2.0	16.8
Telecommunications	-5.9	-0.1	3.8	9.9	6.7	3.5
Utilities	-21.3	6.3	4.9	-11.0	0.9	3.8
Banks	-21.7	23.1	20.7	-15.1	12.2	21.2
Insurance	-11.2	35.9	8.3	5.8	8.4	4.9
Real Estate	3.7	0.6	4.6	6.2	4.0	3.6
Financial Services	-5.8	9.8	28.3	3.6	8.2	17.0
Technology	-0.2	-12.8	19.5	-2.8	-3.6	-14.0
Stoxx - Pan Europe	-0.1	10.5	12.0	5.0	7.9	9.0
Pan Euro - Large Cap	1.2	9.7	10.6	5.3	8.4	8.3
Pan Euro - Mid Cap	-8.1	15.1	19.2	3.7	6.3	12.7
Pan Euro - Small Cap	-6.4	15.0	20.4	1.9	3.4	13.9
Stoxx ex UK	-4.8	9.9	13.7	-0.1	5.3	8.9
EuroStoxx - Eurozone	-7.0	9.3	14.2	-3.5	4.5	7.9

Source: Citi Investment Research and Analysis & DataStream

Figure 17. Pan-European Sector Ratings

As at Close 13 Mar 12 Sector	Price/Earnings				Net Dividend Yield			
	2010	2011E	2012E	2013E	2010	2011E	2012E	2013E
Oil & Gas	11.4	10.5	8.8	8.2	3.12	3.68	4.09	4.24
Chemicals	14.5	12.9	12.8	11.4	2.53	2.84	2.94	3.22
Basic Resources	10.5	9.4	9.0	7.5	2.34	2.63	2.99	3.31
Construction & Materials	15.1	13.5	13.2	11.7	3.46	3.56	3.75	4.07
Industrial G&S	14.9	14.1	13.1	11.7	2.82	3.06	3.26	3.56
Automobiles & Parts	11.8	8.4	8.6	7.0	2.46	3.22	3.65	4.46
Food & Beverage	19.5	18.1	16.5	15.0	2.51	2.86	3.20	3.57
Personal & H'hold Goods	19.2	18.3	15.9	14.1	2.46	2.73	3.01	3.39
Health Care	13.6	12.3	11.8	10.9	3.38	3.67	3.98	4.38
Retail	13.6	13.9	12.8	11.8	3.54	3.51	3.84	4.20
Media	12.4	11.6	11.1	10.5	4.09	4.70	4.71	5.02
Travel & Leisure	16.8	16.2	16.1	12.5	2.86	2.92	2.97	3.47
Telecommunications	8.9	9.4	9.4	9.1	7.21	7.93	8.46	8.75
Utilities	9.2	11.7	11.0	10.5	6.81	6.06	6.11	6.35
Banks	9.1	11.6	9.5	7.8	3.98	3.38	3.80	4.60
Insurance	9.4	10.6	7.8	7.2	4.41	4.66	5.06	5.30
Real Estate	17.9	17.3	17.2	16.4	4.47	4.75	4.94	5.12
Financial Services	12.7	13.5	12.3	9.6	4.39	4.54	4.92	5.76
Technology	15.4	15.4	17.7	14.8	2.46	2.39	2.30	1.98
Stoxx - Pan Europe	12.3	12.3	11.1	9.9	3.56	3.74	4.03	4.40
Pan Euro - Large Cap	11.9	11.8	10.8	9.7	3.66	3.86	4.18	4.53
Pan Euro - Mid Cap	14.2	15.4	13.4	11.3	3.04	3.16	3.35	3.78
Pan Euro - Small Cap	14.0	15.0	13.0	10.8	3.26	3.32	3.43	3.91
Stoxx ex UK	12.0	12.6	11.4	10.1	3.83	3.83	4.03	4.39
EuroStoxx - Eurozone	11.0	11.8	10.8	9.5	4.21	4.06	4.25	4.58

Source: Citi Investment Research and Analysis & DataStream

Figure 18. Pan-European Country Weightings & Returns

	Mkt Cap (Euros m)	% of Stoxx	Relative Return to Stoxx*				Absolute Return*			
			1m	3m	12m	YTD	1m	3m	12m	YTD
Austria (10)	23,627	0.4	-3	8	-21	5	-1	23	-21	16
Belgium (17)	79,991	1.5	4	5	5	4	7	20	6	15
Denmark (16)	96,876	1.8	1	5	0	6	4	20	1	18
Finland (20)	80,890	1.5	1	2	-14	2	3	17	-13	14
France (88)	792,991	14.7	2	2	-6	2	5	16	-5	13
Germany (62)	692,144	12.8	1	6	0	7	4	21	1	19
Greece (4)	6,950	0.1	-15	3	-63	0	-13	18	-62	11
Ireland (8)	34,867	0.6	5	4	23	-4	8	19	24	6
Italy (32)	212,927	4.0	-1	-1	-18	1	2	13	-17	11
Netherlands (31)	220,737	4.1	2	-1	-6	-3	4	13	-5	8
Norway (15)	85,588	1.6	2	4	8	4	5	19	9	15
Portugal (6)	15,683	0.3	-3	-10	-23	-9	0	3	-22	1
Spain (31)	240,794	4.5	-7	-11	-15	-11	-5	2	-14	-1
Sweden (39)	255,083	4.7	0	5	1	2	2	20	2	13
Switzerland (48)	687,191	12.7	0	-1	7	-3	3	13	8	8
UK (173)	1,863,914	34.6	-1	-3	9	-2	2	11	10	8
Stoxx - Pan Europe	5,390,254	100								

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

Figure 19. Pan-European Country Relative Ratings

As at Close 13 Mar 12 Country	Price/Earnings				Net Dividend Yield			
	2010	2011E	2012E	2013E	2010	2011E	2012E	2013E
Austria	90	168	92	81	103	72	79	101
Belgium	125	126	119	118	86	89	101	100
Denmark	170	188	170	143	32	43	49	59
Finland	93	127	146	134	156	124	115	86
France	90	95	99	97	118	104	101	103
Germany	94	96	95	95	95	93	90	90
Greece	52	-	81	68	181	148	84	173
Ireland	194	155	157	154	54	52	49	48
Italy	86	91	88	85	131	107	101	102
Netherlands	95	92	92	90	82	87	91	88
Norway	116	103	96	96	122	119	105	111
Portugal	76	85	102	85	189	162	161	173
Spain	67	82	91	89	213	198	185	174
Sweden	125	109	121	124	92	96	93	94
Switzerland	115	119	115	115	85	89	90	91
UK	105	96	95	98	86	96	100	100
EuroStoxx - Eurozone	89	96	97	95	118	109	105	104
Stoxx ex UK - Europe ex UK	97	102	103	101	108	102	100	100
Stoxx - Pan Europe	100	100	100	100	100	100	100	100

Source: Citi Investment Research and Analysis & DataStream

Figure 20. Pan-European Country Growth

As at Close 13 Mar 12 Country	Earnings Growth %			Dividend Growth %		
	2011E	2012E	2013E	2011E	2012E	2013E
Austria	-46.8	101.2	27.8	-27.0	19.0	38.9
Belgium	-0.9	16.4	13.1	8.6	22.9	7.6
Denmark	-9.8	22.7	32.4	42.9	21.9	31.9
Finland	-27.0	-3.5	22.1	-16.8	0.7	-19.1
France	-5.3	5.8	13.6	-6.8	4.2	11.0
Germany	-2.0	11.7	12.5	2.9	4.8	9.1
Greece	-	-	33.0	-14.0	-38.8	123.8
Ireland	24.9	8.8	14.6	1.1	2.7	5.8
Italy	-6.3	14.7	15.5	-14.0	2.0	9.1
Netherlands	3.3	10.1	14.4	10.6	13.0	6.2
Norway	13.3	18.3	11.3	2.9	-4.7	14.5
Portugal	-10.5	-8.4	34.2	-10.2	7.6	16.9
Spain	-17.5	-1.1	14.9	-2.2	0.9	2.7
Sweden	14.9	-1.1	9.8	9.8	4.6	10.8
Switzerland	-3.2	14.6	11.4	9.6	9.4	9.7
UK	9.2	11.4	9.0	16.8	13.2	9.2
EuroStoxx - Eurozone	-7.0	9.3	14.2	-3.5	4.5	7.9
Stoxx ex UK - Europe ex UK	-4.8	9.9	13.7	-0.1	5.3	8.9
Stoxx - Pan Europe	-0.1	10.5	12.0	5.0	7.9	9.0

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

Figure 21. Pan-European Country Ratings

As at Close 13 Mar 12 Country	Price/Earnings			Net Dividend Yield		
	2010	2011E	2012E	2010	2011E	2012E
Austria	11.0	20.7	10.3	8.0	3.69	2.69
Belgium	15.3	15.5	13.3	11.8	3.05	3.31
Denmark	20.9	23.2	18.9	14.3	1.13	1.62
Finland	11.4	15.7	16.2	13.3	5.56	4.63
France	11.0	11.6	11.0	9.7	4.19	3.90
Germany	11.6	11.8	10.6	9.4	3.38	3.47
Greece	6.4	-	9.0	6.7	6.45	5.55
Ireland	23.8	19.1	17.5	15.3	1.91	1.93
Italy	10.5	11.2	9.8	8.5	4.67	4.01
Netherlands	11.7	11.3	10.2	9.0	2.93	3.24
Norway	14.3	12.6	10.7	9.6	4.34	4.46
Portugal	9.3	10.4	11.4	8.5	6.73	6.04
Spain	8.3	10.0	10.1	8.8	7.57	7.40
Sweden	15.4	13.4	13.5	12.3	3.26	3.58
Switzerland	14.2	14.6	12.8	11.4	3.04	3.33
UK	12.9	11.8	10.6	9.7	3.06	3.57
EuroStoxx - Eurozone	11.0	11.8	10.8	9.5	4.21	4.06
Stoxx ex UK - Europe ex UK	12.0	12.6	11.4	10.1	3.83	3.83
Stoxx - Pan Europe	12.3	12.3	11.1	9.9	3.56	3.74

Source: Citi Investment Research and Analysis & DataStream

Figure 22. UK Sector Weightings & Relative Returns

As at Close 13 Mar 2012	Mkt	% of	% of	Relative return				
	Cap £m	AllShare	Group	1m	3m	12m	Qtd	Ytd
OIL & GAS (26)	327,906	17.9		-1	-4	3	-5	-5
Oil & Gas Producers (18)	313,951	17.2	96	-1	-5	3	-5	-5
Oil Equip, Serv and Distrib (7)	13,943	0.8	4	6	10	8	11	11
Alternative Energy (1)	12	0.0	0	10	-3	-	20	20
BASIC MATERIALS (39)	212,522	11.6		-6	1	-15	4	4
Chemicals (7)	12,068	0.7	6	4	17	24	18	18
Forestry & Paper (1)	2,268	0.1	1	13	26	10	24	24
Industrial Metals (4)	2,816	0.2	1	-9	1	-41	7	7
Mining (27)	195,370	10.7	92	-6	0	-16	3	3
INDUSTRIALS (111)	155,832	8.5		5	9	10	6	6
Construction & Materials (11)	13,685	0.7	9	4	8	-9	1	1
Aerospace (10)	35,431	1.9	23	3	4	12	3	3
General Industrials (6)	12,412	0.7	8	6	15	2	14	14
Electronic & Electrical Equip (12)	7,923	0.4	5	7	21	15	21	21
Industrial Engineering (12)	15,085	0.8	10	5	7	19	5	5
Industrial Transportation (8)	2,236	0.1	1	6	9	-3	9	9
Support Services (52)	69,060	3.8	44	5	10	10	7	7
CONSUMER GOODS (35)	247,159	13.5		3	2	24	2	2
Automobiles & Parts (2)	3,414	0.2	1	-3	10	6	8	8
Beverages (4)	72,141	3.9	29	2	5	27	5	5
Food Producers (11)	37,935	2.1	15	1	-7	12	-7	-7
Household Gds & Home Cons (11)	35,638	2.0	14	4	7	16	9	9
Leisure Goods (2)	161	0.0	0	-8	-21	-12	-19	-19
Personal Goods (3)	7,776	0.4	3	10	16	18	17	17
Tobacco (2)	90,094	4.9	36	4	0	32	0	0
HEALTH CARE (13)	133,419	7.3		-1	-8	11	-8	-8
Health Care Equip & Services (4)	6,371	0.3	5	-2	-4	-14	-7	-7
Pharmaceuticals & Biotech (9)	127,047	7.0	95	0	-8	12	-8	-8
CONSUMER SERVICES (90)	166,271	9.1		1	-4	-4	-5	-5
Food & Drug Retailers (6)	41,247	2.3	25	0	-20	-15	-21	-21
General Retailers (25)	26,859	1.5	16	2	6	7	6	6
Media (26)	51,452	2.8	31	2	2	0	1	1
Travel & Leisure (33)	46,714	2.6	28	1	3	-2	2	2
TELECOMMUNICATIONS (9)	109,036	6.0		-3	-10	-2	-9	-9
Fixed-Line Telecoms (7)	20,685	1.1	19	-1	4	4	4	4
Mobile Telecoms (2)	88,351	4.8	81	-4	-13	-3	-12	-12
UTILITIES (8)	69,949	3.8		3	-2	9	-3	-3
Electricity (2)	14,141	0.8	20	1	-6	12	-6	-6
Gas, Water & Multi-Utilities (6)	55,808	3.1	80	3	-1	8	-2	-2
TECHNOLOGY (29)	26,921	1.5		2	2	8	1	1
Software & Computer Serv (18)	14,697	0.8	55	2	3	12	5	5
Technology Hardware & Equip (11)	12,224	0.7	45	1	0	3	-3	-3
TOTAL NON-FINANCIAL (360)	1,449,016	79.3		0	-2	4	-2	-2
FINANCIALS (252)	378,100	20.7		0	7	-12	8	8
Banks (5)	187,799	10.3	50	-1	9	-18	11	11
Non-Life Insurance (10)	14,496	0.8	4	1	4	-7	2	2
Life Insurance (9)	57,387	3.1	15	1	11	0	9	9
Real Estate Investment Svs (24)	6,149	0.3	2	0	4	-3	1	1
REITS (17)	24,141	1.3	6	3	4	-7	5	5
Financial Services (28)	33,228	1.8	9	1	7	-13	8	8
Equity Inv Instruments (159)	54,900	3.0	15	1	1	-3	2	2
FTSE ALL SHARE (612)	1,827,115	100.0		0	0	0	0	0
FTSE 100 (100)	1,543,145	84.5		0	-1	0	-1	-1
Mid 250 (250)	242,384	13.3		2	7	0	7	7
Small Cap (262)	41,586	2.3		1	5	-5	6	6

Source: Citi Investment Research and Analysis & DataStream

Figure 23. UK Relative Ratings

As at Close 13 Mar 2012	P/E Relative				Yield Relative			
	2010	2011	2012E	2013E	2010	2011	2012E	2013E
OIL & GAS	89	85	78	82	84	92	94	89
Oil & Gas Producers	87	84	77	81	86	93	95	90
Oil Equip, Serv and Distrib	168	162	136	124	53	51	60	64
Alternative Energy	9	-	-	-	1,396	160	0	0
BASIC MATERIALS	82	77	83	78	67	67	70	72
Chemicals	166	148	153	155	64	58	56	54
Forestry & Paper	141	92	118	120	89	101	101	99
Industrial Metals	124	85	116	101	9	7	54	51
Mining	79	75	80	76	68	68	71	73
INDUSTRIALS	123	120	121	121	81	78	76	76
Construction & Materials	139	128	137	130	129	115	104	100
Aerospace	99	103	105	110	97	92	90	88
General Industrials	105	103	105	104	86	89	90	90
Electronic & Electrical Equip	168	137	134	132	58	58	59	59
Industrial Engineering	148	130	124	126	66	62	64	65
Industrial Transportation	91	101	106	103	132	112	106	102
Support Services	134	131	132	128	66	66	66	66
CONSUMER GOODS	143	146	145	142	91	87	85	89
Automobiles & Parts	94	100	93	89	72	100	114	126
Beverages	164	164	159	155	72	67	67	68
Food Producers	130	143	145	145	101	95	89	89
Household Gds & Home Cons	142	138	144	140	80	78	68	82
Personal Goods	243	216	199	186	39	44	47	51
Tobacco	134	136	136	134	111	107	108	110
HEALTH CARE	111	90	99	102	132	130	124	119
Health Care Equip & Services	105	119	125	123	52	48	49	49
Pharmaceuticals & Biotech	111	89	98	101	136	134	127	122
CONSUMER SERVICES	99	103	110	109	103	102	95	96
Food & Drug Retailers	91	95	98	103	131	121	117	114
General Retailers	91	100	105	105	110	100	96	97
Media	106	108	109	109	86	100	90	90
Travel & Leisure	104	106	125	116	92	89	81	84
TELECOMMUNICATIONS	82	90	97	100	158	186	196	193
Fixed-Line Telecoms	81	85	89	90	136	140	155	174
Mobile Telecoms	82	92	99	103	164	196	206	198
UTILITIES	102	116	120	126	158	142	137	132
Electricity	89	102	106	124	181	163	155	143
Gas, Water & Multi-Utilities	106	120	124	126	152	136	133	129
TECHNOLOGY	155	167	168	159	46	46	47	47
Software & Computer Serv	116	126	128	124	64	64	65	65
Technology Hardware & Equip	260	274	265	239	24	24	26	26
TOTAL NON-FINANCIAL	101	99	100	101	98	99	99	98
FINANCIALS	95	105	99	96	111	103	105	110
Banks	95	94	92	91	94	90	92	103
Non-Life Insurance	76	236	88	91	213	179	158	151
Life Insurance	80	96	94	93	127	117	129	121
Real Estate Investment Svs	352	226	220	200	47	42	54	57
REITS	165	181	194	200	122	112	105	100
Financial Services	100	132	118	96	134	120	119	121
FTSE ALL SHARE	100	100	100	100	100	100	100	100
FTSE 100	99	97	99	99	101	102	103	103
Mid 250	117	128	114	109	92	86	79	81
Small Cap	76	94	88	83	98	80	79	81

Source: Citi Investment Research and Analysis & DataStream

Figure 24. UK Earnings Growth

As at Close 13 Mar 2012	Earnings Growth %			Net Dividend Growth %		
	2011	2012E	2013E	2011	2012E	2013E
OIL & GAS	15.4	18.5	3.8	25.3	12.5	3.6
Oil & Gas Producers	15.4	18.2	3.4	25.7	12.1	3.3
Oil Equip, Serv and Distrib	15.0	30.4	19.4	10.2	29.9	16.2
Alternative Energy	-	-	-	-86.8	-100.0	-
BASIC MATERIALS	18.3	0.8	15.7	15.5	14.0	11.8
Chemicals	24.8	5.0	7.8	4.8	5.6	5.7
Forestry & Paper	69.9	-15.2	6.8	31.5	9.9	6.8
Industrial Metals	61.4	-19.5	25.0	-3.7	732.8	3.4
Mining	17.4	1.1	16.0	15.9	13.4	12.3
INDUSTRIALS	13.5	8.0	9.1	11.8	7.5	8.3
Construction & Materials	19.8	2.3	14.9	3.0	-0.6	4.4
Aerospace	6.3	7.2	3.6	9.3	6.8	6.2
General Industrials	13.0	7.2	9.7	19.9	10.6	9.4
Electronic & Electrical Equip	35.7	11.4	10.1	16.6	10.7	10.0
Industrial Engineering	26.6	13.7	7.8	8.4	13.4	10.6
Industrial Transportation	-0.6	4.3	11.8	-1.6	3.8	4.8
Support Services	13.5	8.3	11.5	16.4	8.7	10.2
CONSUMER GOODS	8.9	9.6	10.8	10.6	7.7	13.1
Automobiles & Parts	4.9	16.6	13.4	60.0	25.0	20.0
Beverages	11.0	12.7	11.6	6.9	10.7	9.7
Food Producers	0.3	8.1	8.4	8.1	2.7	9.0
Household Gds & Home Cons	13.6	4.6	12.0	11.9	-4.3	32.3
Personal Goods	24.7	18.3	16.2	29.5	19.1	16.8
Tobacco	9.0	9.2	10.4	11.3	10.6	11.0
HEALTH CARE	36.0	-0.6	5.8	13.9	4.1	4.5
Health Care Equip & Services	-2.4	3.6	11.0	6.4	11.4	9.4
Pharmaceuticals & Biotech	38.0	-0.7	5.6	14.1	3.9	4.5
CONSUMER SERVICES	6.1	2.5	9.7	14.6	2.6	9.4
Food & Drug Retailers	5.8	5.5	4.3	6.3	6.3	6.3
General Retailers	-0.1	3.8	9.1	4.9	5.8	10.1
Media	7.6	8.5	8.4	34.3	-0.8	9.5
Travel & Leisure	8.7	-7.6	17.7	11.5	0.4	12.8
TELECOMMUNICATIONS	0.0	1.9	5.3	35.2	16.3	7.1
Fixed-Line Telecoms	4.7	5.0	7.6	18.3	21.9	22.4
Mobile Telecoms	-1.1	1.1	4.7	38.5	15.3	4.4
UTILITIES	-2.9	5.8	3.4	3.5	6.1	5.0
Electricity	-3.9	4.7	-6.6	4.1	4.1	0.7
Gas, Water & Multi-Utilities	-2.6	6.1	6.4	3.3	6.7	6.3
TECHNOLOGY	2.7	8.9	14.9	15.0	13.4	8.7
Software & Computer Serv	1.7	7.6	12.5	15.0	11.8	8.2
Technology Hardware & Equip	5.1	12.4	20.8	15.1	18.4	10.1
TOTAL NON-FINANCIAL	13.1	7.5	8.2	17.5	9.4	7.7
FINANCIALS	0.2	16.2	11.5	7.5	11.5	14.0
Banks	11.4	12.3	9.8	11.1	11.7	22.6
Non-Life Insurance	-64.4	193.6	5.0	-2.9	-3.3	4.3
Life Insurance	-7.6	11.5	9.6	6.9	21.2	2.0
Real Estate Investment Svs	72.1	12.2	19.6	4.0	39.5	16.6
REITS	1.2	1.7	5.7	5.3	3.1	3.7
Financial Services	-16.3	22.8	33.4	3.5	8.4	11.2
FTSE ALL SHARE	10.6	9.0	8.8	15.5	9.8	8.9
FTSE 100	12.0	7.7	8.1	16.6	10.8	8.5
Mid 250	1.2	22.0	14.6	7.8	0.6	12.7
Small Cap	-10.9	16.1	15.3	-5.9	9.2	10.7

Source: Citi Investment Research and Analysis & DataStream

Figure 25. UK Sector Ratings

As at Close 13 Mar 2012	Price/Earnings				Net Dividend Yield			
	2010	2011	2012E	2013E	2010	2011	2012E	2013E
OIL & GAS	11.3	9.8	8.3	8.0	2.65	3.32	3.73	3.87
Oil & Gas Producers	11.1	9.6	8.1	7.9	2.69	3.39	3.79	3.92
Oil Equip, Serv and Distrib	21.4	18.6	14.3	12.0	1.67	1.84	2.39	2.77
Alternative Energy	1.2	-	-	-	43.84	5.79	0.00	0.00
BASIC MATERIALS	10.5	8.9	8.8	7.6	2.11	2.44	2.78	3.11
Chemicals	21.2	17.0	16.2	15.0	2.01	2.11	2.23	2.36
Forestry & Paper	18.0	10.6	12.5	11.7	2.78	3.65	4.01	4.29
Industrial Metals	15.8	9.8	12.2	9.7	0.27	0.26	2.15	2.22
Mining	10.1	8.6	8.5	7.3	2.14	2.48	2.81	3.16
INDUSTRIALS	15.7	13.8	12.8	11.7	2.53	2.83	3.04	3.30
Construction & Materials	17.7	14.7	14.4	12.5	4.06	4.18	4.15	4.34
Aerospace	12.6	11.8	11.0	10.7	3.06	3.34	3.57	3.79
General Industrials	13.4	11.8	11.0	10.0	2.70	3.24	3.58	3.92
Electronic & Electrical Equip	21.3	15.7	14.1	12.8	1.81	2.11	2.33	2.57
Industrial Engineering	18.9	14.9	13.1	12.2	2.07	2.24	2.55	2.82
Industrial Transportation	11.6	11.6	11.1	10.0	4.13	4.07	4.22	4.42
Support Services	17.0	15.0	13.9	12.4	2.06	2.40	2.61	2.87
CONSUMER GOODS	18.2	16.7	15.3	13.8	2.85	3.15	3.40	3.84
Automobiles & Parts	12.0	11.4	9.8	8.6	2.27	3.63	4.54	5.45
Beverages	20.9	18.8	16.7	15.0	2.26	2.42	2.67	2.93
Food Producers	16.5	16.5	15.2	14.0	3.18	3.44	3.53	3.85
Household Gds & Home Cons	18.0	15.9	15.2	13.5	2.52	2.82	2.70	3.57
Personal Goods	30.9	24.8	21.0	18.0	1.22	1.58	1.88	2.20
Tobacco	17.0	15.6	14.3	12.9	3.48	3.87	4.28	4.75
HEALTH CARE	14.1	10.4	10.4	9.9	4.15	4.72	4.92	5.14
Health Care Equip & Services	13.3	13.7	13.2	11.9	1.64	1.75	1.95	2.13
Pharmaceuticals & Biotech	14.2	10.3	10.3	9.8	4.27	4.87	5.07	5.29
CONSUMER SERVICES	12.6	11.8	11.5	10.5	3.22	3.69	3.79	4.14
Food & Drug Retailers	11.6	10.9	10.4	10.0	4.11	4.37	4.65	4.94
General Retailers	11.5	11.5	11.1	10.2	3.45	3.62	3.83	4.21
Media	13.4	12.5	11.5	10.6	2.69	3.61	3.58	3.92
Travel & Leisure	13.3	12.2	13.2	11.2	2.88	3.21	3.23	3.64
TELECOMMUNICATIONS	10.4	10.4	10.2	9.7	4.97	6.73	7.82	8.37
Fixed-Line Telecoms	10.3	9.8	9.3	8.7	4.28	5.06	6.17	7.55
Mobile Telecoms	10.4	10.5	10.4	9.9	5.14	7.12	8.21	8.57
UTILITIES	12.9	13.3	12.6	12.2	4.97	5.14	5.46	5.73
Electricity	11.3	11.7	11.2	12.0	5.68	5.92	6.16	6.21
Gas, Water & Multi-Utilities	13.5	13.8	13.0	12.2	4.79	4.95	5.28	5.61
TECHNOLOGY	19.7	19.2	17.7	15.4	1.45	1.66	1.88	2.05
Software & Computer Serv	14.8	14.5	13.5	12.0	2.02	2.32	2.59	2.81
Technology Hardware & Equip	33.0	31.4	28.0	23.1	0.76	0.87	1.03	1.14
TOTAL NON-FINANCIAL	12.9	11.4	10.6	9.8	3.06	3.60	3.94	4.24
FINANCIALS	12.1	12.1	10.4	9.3	3.48	3.74	4.17	4.76
Banks	12.1	10.8	9.7	8.8	2.94	3.27	3.65	4.48
Non-Life Insurance	9.7	27.2	9.3	8.8	6.69	6.49	6.28	6.55
Life Insurance	10.2	11.0	9.9	9.0	3.98	4.25	5.15	5.26
Real Estate Investment Svs	44.7	26.0	23.2	19.4	1.47	1.53	2.14	2.49
REITS	21.0	20.8	20.4	19.3	3.84	4.05	4.17	4.33
Financial Services	12.7	15.2	12.4	9.3	4.22	4.36	4.73	5.26
FTSE ALL SHARE	12.7	11.5	10.5	9.7	3.14	3.63	3.98	4.33
FTSE 100	12.5	11.2	10.4	9.6	3.17	3.70	4.10	4.45
Mid 250	14.9	14.7	12.1	10.5	2.88	3.11	3.13	3.52
Small Cap	9.6	10.8	9.3	8.1	3.07	2.89	3.16	3.49

Source: Citi Investment Research and Analysis & DataStream

Figure 26. Companies Mentioned

Stock	RIC Code	Rating	Price	Currency	Stock	RIC Code	Rating	Price	Currency
Admiral Group	ADML.L	2	11.9	GBP	Persimmon	PSN.L	1	6.82	GBP
Barratt Developments	BDEV.L	3H	1.4805	GBP	Petrofac	PFC.L	2	17.11	GBP
Bovis Homes Group	BVS.L	2	5.12	GBP	PGS	PGS.OL	2	85.85	NOK
EADS	EAD.PA	1	30.68	EUR	Schneider Electric	SCHN.PA	3	51.93	EUR
Inmarsat	ISA.L	3	4.629	GBP	Weir Group	WEIR.L	3	19.93	GBP
Lloyds Banking Group	LLOY.L	1	0.359234	GBP					

Note: Prices as at 14 March 2012 close. Source: dataCentral

Notes

Appendix A-1

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