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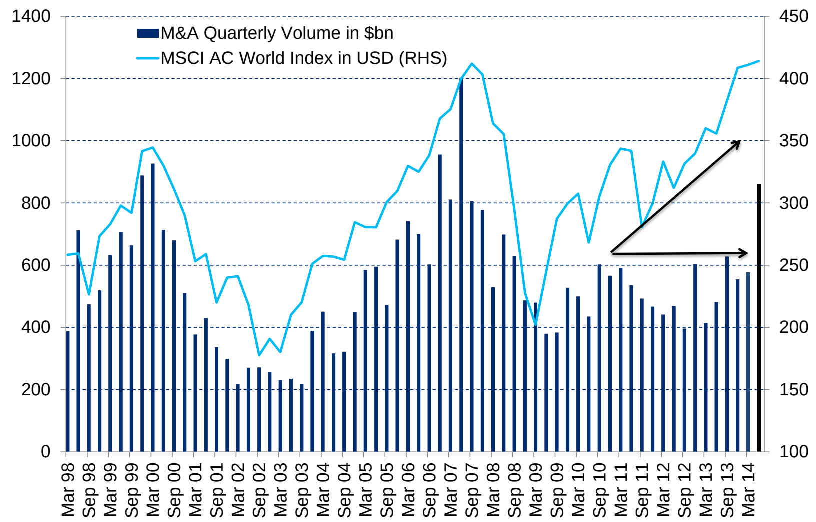
Strategy
Global

Global Equity Strategist

M&A Catch-Up

- **$1trn In 2014** — Global M&A has already hit $1trn this year, almost double the levels seen in Jan-Apr 2013. Health Care deals have dominated. Large cap M&A has increased and LBO activity remains subdued.
- **M&A Catch-Up** — M&A activity lagged the global equity rally in 2013. We see the latest rise in bids as a healthy catch-up rather than an indicator of excess market exuberance. The last three months' M&A represents 1.6% of global market cap compared to above 2.5% at previous market peaks.
- **US Predators** — Big overseas cash-piles, cheap borrowing and premium equity valuations provide ample financing for US predators. Higher CEO confidence and less cautious boards remove the obstacles.
- **UK Companies Vulnerable** — UK companies should look attractive to US predators. They trade at discount valuations, have significant international exposure and are relatively easy to acquire. Other European companies could also be vulnerable but deals may be harder to consummate.
- **Moving Up The Cap Scale** — This M&A cycle may move further up the cap scale, so supporting large cap valuations as well as mid caps. The biggest global mega caps are still unlikely to attract bids - good for CEOs, maybe not so good for shareholders.

Figure 1. Global Equity Prices And M&A Value by Quarter in $bn



Source: Citi Research, Dealogic, Datastream

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

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Contents

M&A Catch-Up

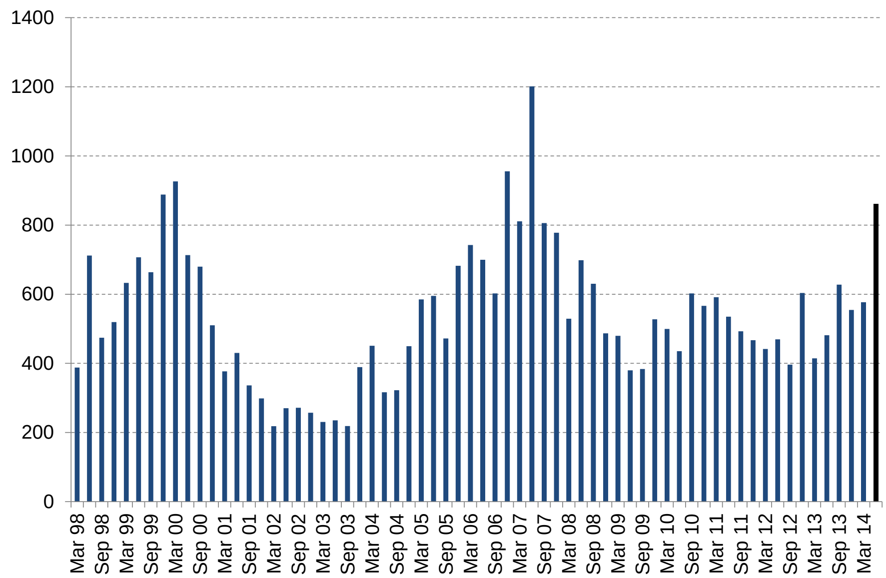
Global M&A has already hit $1trn for this year, up from $543bn for the same period in 2013. Health Care deals have led the way. Cash piles, cheap borrowing rates, a better global economy and increasing CEO confidence have all helped to boost activity. We would see the current M&A upturn as a healthy catch-up with the 2013 rally in global share prices. The UK is likely to see further activity. M&A is moving up the size scale.

$1trn

Double the deals

Since the start of the year there's been $1trn of announced deals globally according to Dealogic. That's almost double the $543bn for the same period last year. April has been the biggest month since July 2007 with $430bn deals announced. M&A activity in the last three months has been amongst the strongest on record (Figure 2). Animal spirits are on the up.

Figure 2. Global M&A Value by Quarter in $bn.

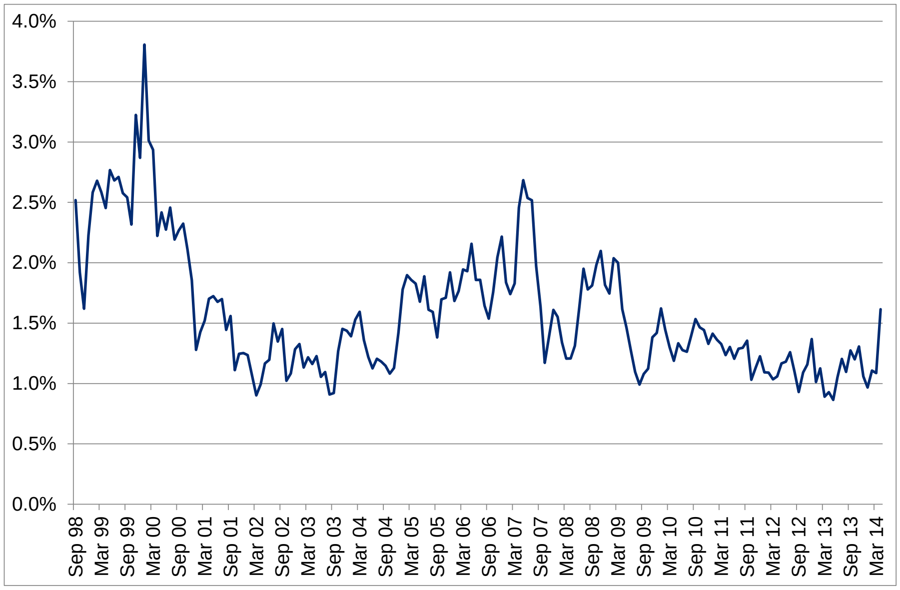


Source: Citi Research, Dealogic
We look at deals, where either target or acquirer is public. The recently announced bids for AstraZeneca and Alstom have been included.
The last datapoint includes the latest three months (Feb-Apr)

Not so big vs market cap

Before everyone gets too excited, we would highlight that the recent pick-up looks less spectacular when we adjust for the size of global equity market capitalization (ie the going price for corporate assets). Figure 3 shows that the latest increase pushes 3 month rolling M&A activity up to 1.6% of global market cap. That's only back to 2010 levels, and well below the 1999 and 2007 cyclical highs.

Figure 3. Three Month Rolling Values of Global M&A Activity as % of Mcap

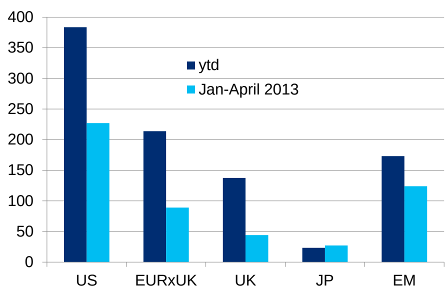


Source: Citi Research, Dealogic, Datastream

UK leads the way

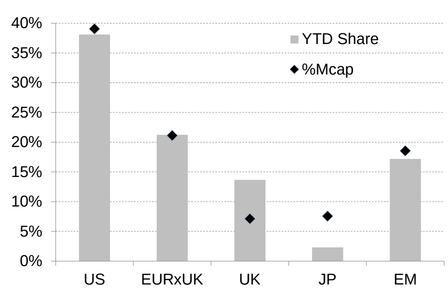
The recent pick up in M&A activity has been strongest in the UK (Figure 4). Pfizers's $100bn bid for AstraZeneca has boosted M&A to $138bn compared to $44bn for the same period in 2013. Europe ex UK has also seen a sharp pick-up. US activity has also accelerated sharply ($384bn YTD vs $227bn in Jan-April 2013). EM M&A is $173bn YTD compared to $124bn for the same period a year ago. Japan M&A in 2014 is only $23bn, down from $27bn last year. The general lack of a market for corporate control means that Japanese M&A activity always tends to lag.

Figure 4. Values in $bn by Region



Source: Citi Research, Dealogic

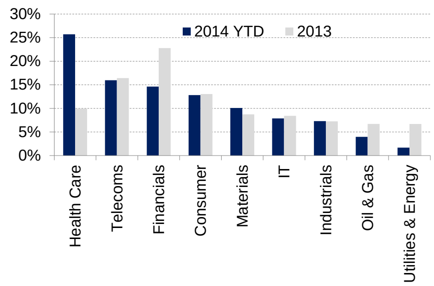
Figure 5. Share of Global M&A Value and Mcap



Source: Citi Research, Dealogic

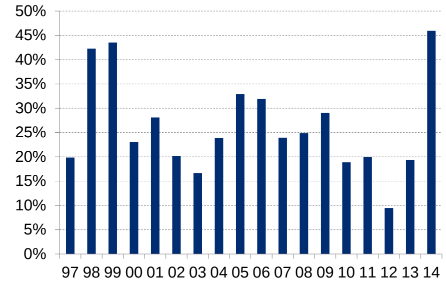
Figure 5 shows regional share of global M&A YTD and market cap. The UK accounts for 14% of deal size this year up from 4% last year. It accounts for 7% of total equity market cap. As a result of the AstraZeneca bid the UK market has moved from being Underweight to Overweight M&A. With the exception of Japan, other markets have seen 2014 M&A activity in-line with their share of global market cap. When it comes to sector shares of M&A, the dominant riser this year is Health Care sector. Financials has seen a decrease (Figure 6).

Figure 6. Sector Share of Global M&A Value



Source: Citi Research, Dealogic

Figure 7. Share of Deals Above $10bn



Source: Citi Research, Dealogic

Larger cap

M&A activity seems to be shifting up the cap scale. $10bn+ deals account for 45% of the total announced this year, back at late 1990s peaks. The global Health Care sector accounts for four of the ten biggest deals so far this year. When it comes down to it, much of this year's much-heralded upturn in M&A is down to a few very big deals in this one sector. It is also interesting to see that French companies are the subject of three of 2014's 10 biggest bids.

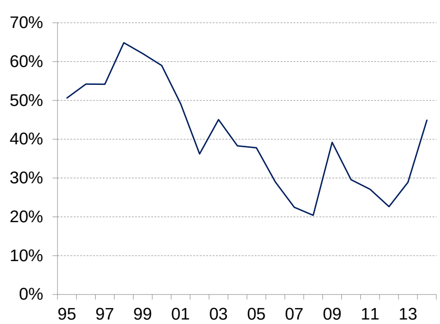
Figure 8. 10 Largest Deals By Value Announced YTD ($m)

Target	Acquiror	Deal Value	Target Nationality	Acquiror Nationality	Announcement Date	Industry
AstraZeneca PLC	Pfizer	100,000	UK	US	30/04/2014	Health Care
Time Warner Cable Inc	Comcast Corp	69,774	US	US	13/02/2014	Media
Allergan, Inc.	Valeant Pharmaceuticals	47,476	US	Canada	22/04/2014	Health Care
Lafarge SA	Holcim AG	40,634	France	Switzerland	07/04/2014	Construction
Forest Laboratories, Inc.	Actavis Inc	25,337	US	US	18/02/2014	Health Care
SFR	Altice SA	23,595	France	France	11/03/2014	Telecom
WhatsApp Inc	Facebook, Inc	19,374	US	US	19/02/2014	Technology
Alstom	General Electric	17,097	France	US	30/04/2014	Industrials
Beam Inc	Suntory Bev & Food	16,008	US	Japan	13/01/2014	Consumer
GlaxoSmithKline PLC	Novartis AG	16,000	UK	Switzerland	22/04/2014	Health Care

Source: Citi Research, Dealogic

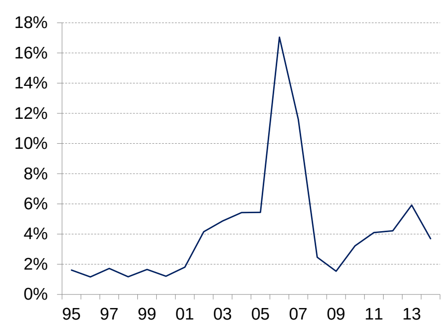
More megadeals may also help to explain a higher use of equity financing (Figure 9). Smaller bolt-on deals tend to be funded with cash/debt, especially when the cost of that cash/debt is so low. But the very biggest deals usually need some equity financing.

Figure 9. Deals Involving Shares as Payment*



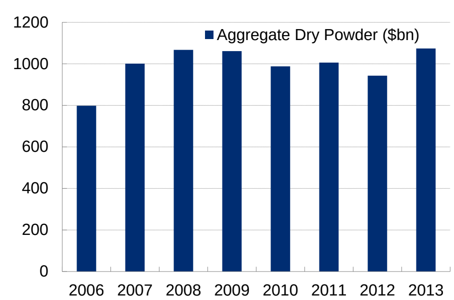
Source: Citi Research, Dealogic *Based on value

Figure 10. LBOs As % of Total M&A Value



Source: Citi Research, Dealogic

Figure 11. Private Equity Dry Powder



Source: Citi Research, Prequin. Data as of 17th Dec 2013

Low LBOs, for now

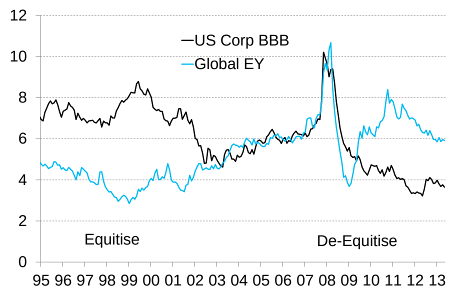
One difference of this current burst of M&A activity compared to the last peak is the low contribution from LBOs (Figure 10). At their peak back in 2007, LBOs accounted for almost 20% of total deals, now they are only 4%. Right now, private equity funds seem to be sellers (see their contribution to the IPO market) not buyers. Nevertheless, continued fund-raising means that LBO shops have record levels of "dry powder" available (Figure 11). Maybe the eventual deployment of these funds could provide a further boost to the current M&A cycle.

Why Now?

More de-equitisation

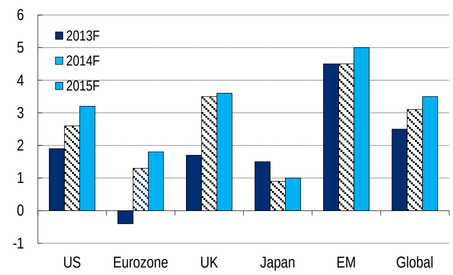
Why have we started to see stronger M&A activity? Interest rates around the world remain at record lows. Against this, buying earnings in the stock market still look cheap (Figure 12). Until 2003 it made sense to issue equity over debt (to equitise). Since then the earnings yield (E/P) has risen above bond yields. It now makes sense for companies to de-equitise – use cheap debt financing to purchase their own shares through a buyback or another company's shares through a takeover. Indeed, the E/P versus bond financing gap is still wider today than anytime during the 2003-2007 period. More debt and cash financed bids mean more de-equitisation.

Figure 12. US Corp BY and EY



Source: Citi Research, Datastream

Figure 13. GDP Growth %



Source: Citi Research

Another support for M&A activity is the ongoing improvement in the world economy. Citi economists forecast 3.1% global real GDP growth in 2014 and 3.5% for 2015, after 2.5% in 2013. This year should mark a return to sustained above-average global growth rates. Figure 13 shows our forecasts by major regions. The recovery in the UK and Eurozone is especially welcome.

Figure 14. US Cash, equivalents and short term investments as of end of 2013 (bn $)

Name	Total Cash	Cash Abroad
Apple	58.8	124.4
Microsoft	83.9	75.7
Google	58.7	33.6
Cisco	47.1	43.8
Oracle	37.0	31.2
Pfizer	32.4	25.9 (a)
JNJ	29.2	18.6
Amgen	22.8	20.9
Coca Cola	20.2	18.3
Merck	17.5	14.8 (b)
Chevron (c)	16.5	NA
GE (ex-Financial) (d)	13.7	NA
Hewlett Packard	12.2	12.2
Intel	11.7	11.3
Facebook	11.5	0.6
IBM	11.1	NA
PepsiCo	9.7	8.4
Procter&Gamble	8.5	NA
Abbot Labs	8.1	3.5 (e)
Exxon (c)	4.9	NA
Total	615.5	443.2

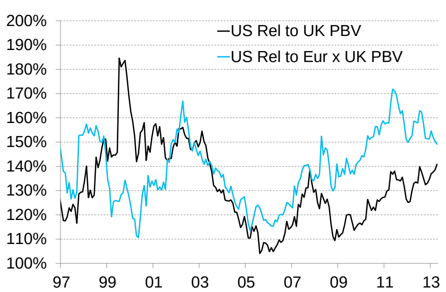
Source: Citi Research[i] [1]

Additionally, Tobias Levkovich highlights that big US companies are increasingly tempted to use their overseas cash piles on acquisitions rather than suffer taxation upon its repatriation. He highlights, that nearly $1 trillion is being held abroad. About 20 companies account for roughly 45% of the money as median cash holdings are not nearly as impressive. (Figure 14). These look like potential predators in any global M&A upturn.

Another factor is higher market valuations. This might seem odd – surely higher share prices should make companies more expensive and deals less attractive. But, as pointed out by our European strategist, Jonathan Stubbs, CEOs are happier to buy, and owners are happier to sell, when share prices are high rather than low. Another factor that may drive activity is valuation divergence across markets. If investors give higher valuations to some companies, they may be tempted to use their equity to buy lower rated companies. Again this makes US companies look the obvious predators. Outperformance means that the US market has rerated to a 50% P/BV premium to Continental Europe and 40% premium to the UK (Figure 15).

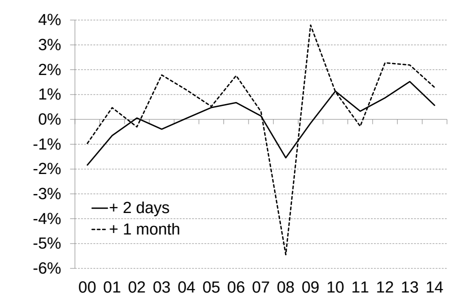
One of the common explanations for the current M&A upturn is that the market is becoming more forgiving of the bidders. That makes it easier for ambitious CEOs (what CEO isn't ambitious?) to get deals approved by wary boards. Our analysis just about supports this view (Figure 16). In 2014, the median share price of the predators is up 0.6% two days after the deal is announced, and 1.3% 1 month afterwards although this performance is little different to a randomly chosen global stock. We would also point out that in absolute terms the market has never been especially unforgiving of bid announcements, except during bear markets when it is unforgiving of everything. What can be said is that, right now, bidder share prices are generally not suffering badly post deal announcement.

Figure 15. Rel PBV



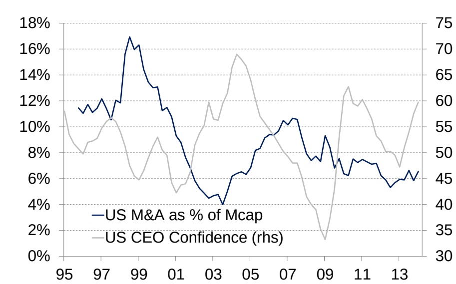
Source: Citi Research, Factset

Figure 16. Performance of Acquirer 2d and 1m Post Announcement



Source: Citi Research, Factset

Figure 17. US CEO Confidence (4Q Average) & M&A Activity



Source: Citi Research, Conference Board, Datastream

CEOs more bullish

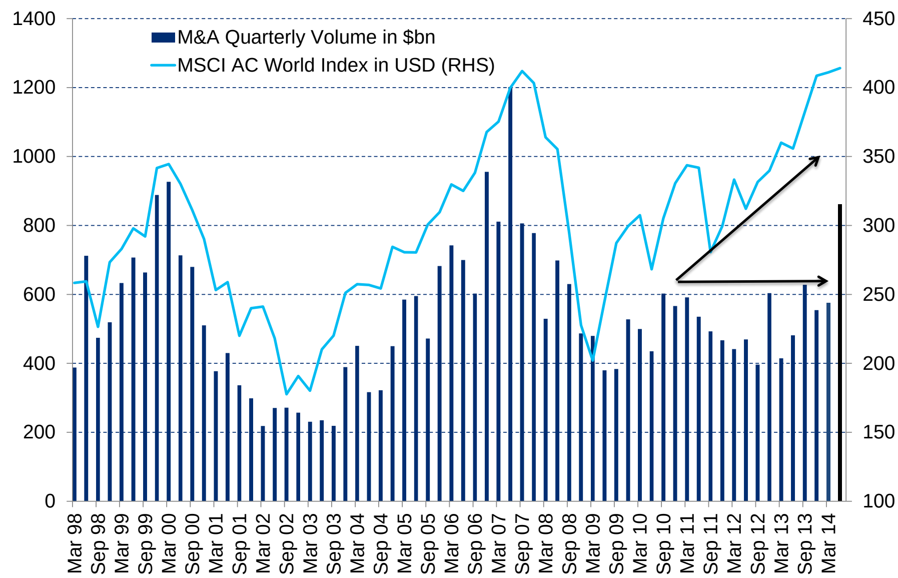
So there are plenty of reasons to explain the upturn in M&A. The global economy is improving, debt financing is cheap, shares have rerated but still look good value, companies are cash rich and the market seems more forgiving of the bidders. But most of these factors were also in place a year ago when deal activity remained subdued. We suspect that the key driver of the latest outburst is higher CEO confidence (Figure 17) which seems to lead M&A activity. This only started to pick up last year so would suggest that an upturn in deals this year is logical.

[1] (a) Assumes mid-point of 70%-90% outside the US noted in 10K.(b) Assumes mid-point of 80%-90% outside the US noted in 10K. (c) Given that overseas tax rates are higher, the lack of disclosure does not mean that much since repatriation would not have been an issue. (d) GE reported $88.6 billion of cash holdings at the end of 2013 but the bulk was in GE Capital. (e) Company only notes that all of its cash and equivalents are outside the US but does not disclose short term investments.

Investment Implications

What does this upturn in M&A mean for investors? Does it provide extra momentum for the global bull market or should it be seen as a sign of excessive exuberance? Historically, global M&A has been a coincident indicator (Figure 18) - rising share prices tend to be associated with more M&A and vice versa. This is hardly surprising given that the level of the stock market sets the price of corporate assets – higher share prices means that companies have to pay more to buy each-other.

Figure 18. Global Equity Prices And M&A Value by Quarter in $bn



Source: Citi Research, Dealogic, Datastream

M&A catch-up not overshoot

But the coincident relationship between M&A and the stock market seems to have broken down in this cycle. A gap has opened up between M&A activity and the rally in share prices. So we would see this current burst of deal activity as M&A catch-up rather than an indicator of excessive market exuberance. We would be more nervous when the global M&A gap has closed. Also previous market peaks have been associated with 3 month global M&A above 2.5% of global market cap. Even including the latest burst, current activity is only 1.6%.

Regional And Sector Strategy

Does a pick-up in M&A have implications for regional strategy? Japan's low level of M&A might not be a problem when global activity is low, but it could become an issue as it picks up. If bid premiums are being handed out to investors in other markets then investors in Japanese equities might be missing out. Other parts of the world (say in Europe and EM) where deals are harder to transact might also underperform if M&A is increasingly setting asset prices. Alternatively, higher M&A might help the relative performance of the US and UK where, at a price, most companies are for sale.

UK looks vulnerable

Right now, this makes the UK market look especially interesting. Domestic institutional selling has been a drag on valuations for many years. Recent sterling strength has added to the derating relative to the rest of the world. But UK companies have desirable global exposure (70% of revenues come from overseas), low corporate tax rates (some would say too low) and a very open (some would say

too open) market for corporate control. It could be a rich hunting-ground for cash-rich corporate predators. The UK may continue to get more than its fair share of global M&A. The reinvestment of cash from the biggest deals should help to support local share prices. This market is de-equitising (ie shrinking). We are Overweight UK equities.

Watch out for the Tech, Healthcare and Consumer sectors

As for sector strategy, those investors hoping to benefit from an increase in bid activity should probably favour stocks within industries with cash-rich buyers. Tobias Levkovich's list (Figure 14) looks like an obvious place to identify potential predators. We believe non-US companies in the Tech, Healthcare and Consumer sectors should be on their target lists.

Size trades

M&A activity can have important implications for size trades. The megadeals of the late 1990s were associated with strong relative performance from large cap stocks relative to mid caps. Nobody was safe.

By contrast, the LBOs of the last M&A cycle were focused further down the cap scale. Large cap companies were much more likely to make acquisitions than be acquired. This might have suited their CEOs, but it meant that their shareholders missed out on the feeding frenzy elsewhere. Underweighting large caps was one of the most important trades of the last market cycle. It has also been rewarding in the first few years of this cycle.

More large cap deals

There are signs that this M&A upturn could be different. The size of deals is already moving higher, suggesting that large caps may be more vulnerable to bids. Lower LBO activity has reduced the potential buyers in the mid cap universe. Large cap managers might not miss out on the bid premiums in the way that they did in 2003-07. Nevertheless, even Pfizer's $100bn bid for AstraZeneca underlines the fact that one basic law of the corporate jungle still generally applies - bigger companies buy smaller companies, not vice versa. Maybe bid activity does move up the market cap scale, but the world's very largest companies are still more likely to be predators than prey. Maybe that increases the incentive of CEOs to get into that rarefied territory (say $125bn market cap and above which is just 39 companies globally) where they are safer from predators. Maybe those fund managers who think that M&A activity is taking off should move up into the large caps, but maybe not all the way up into these bid-safe global titans.

Strategy Outlook

Global M&A has hit $1trn in 2014, almost twice the level seen over the same period of 2013. We would see this as a healthy catch-up with last year's equity market rally. The Health Care sector has dominated this year's M&A activity. Large cap bids have increased while LBOs remain subdued.

Higher M&A reflects a number of factors, including big cash-piles, cheap debt and improving economies. We would highlight that CEO confidence, a good lead indicator of M&A, has been improving since early 2013.

We would see M&A as a support for global equity markets rather than a sign of excess exuberance. The last three months' M&A represents 1.6% of global market cap. Previous market peaks have seen this ratio move above 2.5%. US IT, Health Care and Consumer mega caps look the obvious predators, while European and especially UK companies in those sectors could be the prey in our view.

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Global Market Intelligence

Figure 19. Global Market Intelligence by Region

25 Apr 14	Free MC US$bn	Wgt %	P/E 13E	P/E 14E	P/E 15E	EPS YoY % 13E	EPS YoY % 14E	EPS YoY % 15E	P/B 14E	ROE 14E	Div Yld 14E	CAPE 10Yr	Perf % (local) Weekly	Perf % (local) YTD	Perf % (USD) Weekly	Perf % (USD) YTD
Global	35,884	100	16.1	14.6	13.1	7.2	10.0	11.3	1.9	13.0	2.7	20.3	-0.1	0.0	-0.2	0.4
Developed World	32,101	89.5	16.9	15.2	13.7	7.3	10.0	11.4	2.0	13.0	2.6	21.0	0.0	0.1	0.0	0.6
Emerging World	3,782	10.5	11.9	10.8	9.7	6.8	10.3	10.6	1.4	12.6	3.0	16.4	-1.5	-1.2	-1.8	-0.9
North America	18,850	52.5	17.6	16.0	14.3	6.8	9.1	11.5	2.4	15.2	2.1	24.7	-0.1	1.1	-0.1	0.8
USA	17,511	48.8	17.6	16.0	14.4	7.7	8.7	11.7	2.5	15.5	2.1	25.1	-0.1	0.7	-0.1	0.7
Canada	1,340	3.7	17.6	15.4	14.0	-3.3	14.2	9.8	1.9	12.1	2.9	21.0	0.2	6.1	-0.2	2.2
Europe	8,964	25.0	16.0	14.5	12.9	-1.0	10.2	12.5	1.7	11.9	3.5	15.9	0.4	1.2	0.4	1.9
United Kingdom	2,851	7.9	14.4	13.7	12.6	-7.0	5.0	9.0	1.8	13.4	3.8	14.8	1.0	-1.0	1.0	0.5
Europe ex UK	6,113	17.0	16.9	15.0	13.1	2.6	13.0	14.3	1.7	11.3	3.4	16.6	0.1	2.3	0.1	2.6
France	1,389	3.9	16.6	14.5	12.8	0.7	14.6	13.2	1.5	10.2	3.4	15.8	0.4	3.8	0.4	4.2
Germany	1,233	3.4	14.8	13.3	11.7	-5.5	11.6	13.4	1.6	12.1	3.0	18.5	-0.1	-2.5	-0.1	-2.1
Switzerland	1,220	3.4	17.0	16.3	14.7	14.9	4.5	11.1	2.5	15.3	3.2	22.3	0.1	2.3	0.1	3.3
Spain	476	1.3	17.6	15.7	13.2	31.3	11.7	19.5	1.4	8.8	5.1	12.2	0.1	5.5	0.1	5.9
Sweden	427	1.2	15.2	16.3	14.3	15.9	-6.8	14.4	2.2	13.4	3.9	20.4	1.2	1.9	1.2	-0.7
Netherlands	349	1.0	16.7	14.8	12.7	6.0	13.1	16.5	1.8	12.0	2.7	16.0	-1.6	-3.3	-1.6	-2.9
Italy	349	1.0	28.6	14.9	12.0	-40.5	91.1	24.2	1.0	7.0	3.2	11.0	-1.0	13.6	-1.0	14.1
Denmark	176	0.5	21.0	17.9	15.8	10.5	17.7	13.0	2.8	15.7	2.3	32.4	1.8	12.9	1.8	13.4
Belgium	164	0.5	19.9	17.2	15.4	-6.9	15.6	12.1	2.0	11.5	3.2	15.1	0.1	3.6	0.1	4.0
Finland	116	0.3	19.0	16.3	14.9	31.2	16.5	9.6	2.0	12.0	4.0	14.6	-0.4	-2.6	-0.4	-2.2
Norway	110	0.3	12.9	11.9	11.0	-2.1	8.4	8.6	1.5	12.2	5.1	14.1	1.8	1.3	1.5	2.4
Ireland	43	0.1	79.5	22.7	16.3	396.0	249.4	39.9	1.8	7.8	1.8	10.6	-0.5	11.4	-0.5	11.9
Austria	37	0.1	16.2	12.5	9.8	-26.6	29.7	27.3	0.9	7.6	3.0	9.2	0.2	-5.3	0.2	-4.9
Portugal	26	0.1	23.1	20.9	15.4	-24.4	10.6	35.2	1.6	7.6	3.4	11.4	0.2	10.1	0.2	10.5
Japan	2,558	7.1	15.8	13.2	12.1	64.4	18.0	9.3	1.2	8.8	2.1	22.8	-0.4	-10.8	-0.2	-8.1
Asia Pac ex Jp	4,054	11.3	13.6	12.3	11.2	7.0	10.0	10.3	1.5	12.3	3.2	18.7	-0.7	0.5	-1.0	1.9
Pacific ex Jp	1,661	4.6	16.0	14.9	13.8	3.4	7.1	8.0	1.7	11.3	4.1	19.5	0.4	2.4	0.0	5.0
Australia	1,069	3.0	16.2	15.0	14.1	5.9	7.7	6.8	2.0	13.3	4.6	19.6	1.4	3.7	0.7	7.6
Hong Kong	376	1.0	15.7	14.9	13.5	5.7	5.5	9.9	1.2	8.4	3.0	22.2	-2.1	-0.6	-2.1	-0.6
Singapore	199	0.6	15.3	14.3	12.9	-11.1	7.5	10.4	1.4	9.7	3.5	16.1	0.3	1.5	-0.1	2.0
New Zealand	18	0.0	20.6	19.3	17.4	7.6	6.8	10.5	2.1	11.0	4.1	17.3	0.5	10.8	0.4	15.6
Em Asia	2,393	6.7	12.3	11.0	9.8	9.0	11.5	11.5	1.4	12.9	2.6	17.9	-1.4	-0.7	-1.7	-0.2
China	704	2.0	9.1	8.7	7.9	15.6	3.8	10.4	1.2	14.3	3.7	15.9	-2.5	-7.4	-2.4	-7.4
Korea	609	1.7	11.4	9.4	8.3	-3.8	21.7	12.6	1.0	11.0	1.3	15.2	-1.4	-2.2	-1.7	-0.9
Taiwan	453	1.3	17.1	14.6	13.2	27.4	14.2	10.8	1.7	11.9	3.2	19.6	-1.7	3.6	-2.1	1.9
India	253	0.7	17.9	15.6	13.7	8.6	14.3	14.2	2.5	15.9	1.6	27.7	-0.1	5.4	-0.5	7.5
Malaysia	147	0.4	17.2	16.1	14.7	0.0	6.8	9.3	2.0	12.7	3.1	23.3	0.3	-0.9	-0.7	-0.7
Indonesia	103	0.3	16.7	15.1	13.3	6.7	10.5	13.3	3.1	20.5	2.5	28.0	0.0	17.5	-1.2	23.7
Thailand	87	0.2	13.6	12.5	11.2	6.6	9.2	11.1	1.9	15.5	3.5	18.4	-0.6	7.4	-1.0	9.2
Philippines	37	0.1	21.4	19.4	16.9	7.5	10.5	14.5	2.8	14.3	2.2	30.8	-0.2	14.0	-0.6	13.3
Latin America	737	2.1	14.3	12.8	11.3	7.2	12.1	13.1	1.6	12.0	3.3	16.1	-1.4	-1.5	-1.3	0.9
Brazil	428	1.2	11.9	10.8	9.6	13.1	10.5	12.0	1.3	12.1	4.2	13.2	-1.2	-0.9	-0.6	4.6
Mexico	191	0.5	21.3	18.3	15.9	-6.1	16.1	15.5	2.5	13.4	1.5	25.9	-1.6	-6.0	-2.2	-6.3
Chile	59	0.2	19.9	16.3	13.7	15.6	22.1	18.5	1.5	9.4	2.7	22.2	-2.0	3.0	-2.7	-3.4
Colombia	42	0.1	16.6	15.3	13.8	-2.2	8.5	10.5	1.5	9.7	3.5	28.5	-2.1	3.6	-2.9	3.0
Peru	17	0.0	15.9	14.2	12.0	-31.0	12.0	18.2	2.1	14.7	1.8	16.9	0.8	7.5	0.8	7.5
CEEMEA	653	1.8	9.0	8.5	8.1	1.0	5.5	5.8	1.1	12.3	4.0	13.8	-1.8	-2.4	-2.8	-5.4
South Africa	295	0.8	16.4	14.5	13.1	8.7	12.9	10.8	2.3	15.9	3.3	27.3	0.7	4.9	-0.8	3.2
Russia	180	0.5	4.5	4.3	4.3	3.0	4.2	-0.1	0.5	11.7	5.3	6.9	-5.9	-16.6	-6.5	-22.6
Poland	66	0.2	14.1	14.1	12.6	-24.5	-0.1	12.3	1.3	9.1	4.2	12.2	-0.2	2.4	-0.8	1.6
Turkey	61	0.2	10.0	10.8	8.9	7.5	-7.9	21.7	1.3	12.3	3.1	15.3	-3.2	5.8	-3.5	6.5
Greece	24	0.1	27.2	18.3	13.7	-46.3	48.7	33.0	1.3	7.3	2.5	3.8	-2.2	5.4	-2.2	5.8
Czech Republic	10	0.0	10.8	12.4	13.2	-10.9	-12.4	-5.9	1.4	11.5	6.2	11.4	-1.9	6.8	-1.7	7.1
Hungary	9	0.0	10.5	10.4	8.6	-11.3	0.6	20.3	0.8	7.7	3.2	7.4	-1.6	-6.2	-2.5	-9.8
Egypt	9	0.0	19.5	11.4	10.3	-17.0	72.1	10.6	1.7	15.0	2.6	20.3	2.8	15.8	2.7	15.0
Israel	68	0.2	11.1	10.9	10.5	-8.4	-3.2	3.0	1.5	14.4	2.7	15.2	0.2	15.8	0.3	15.8

Source: Citi Research, MSCI, Worldscope, Factset Consensus estimates

Figure 20. Global Market Intelligence by Sector

25 Apr 14	Free MC US$bn	Wgt %	P/E 13E	P/E 14E	P/E 15E	EPS YoY % 13E	EPS YoY % 14E	EPS YoY % 15E	P/B 14E	ROE 14E	Div Yld 14E	CAPE 10Yr	Perf % (local) Weekly	Perf % (local) YTD	Perf % (USD) Weekly	Perf % (USD) YTD
Global	35,884	100	16.1	14.6	13.1	7.2	10.0	11.3	1.9	13.0	2.7	20.3	-0.1	0.0	-0.2	0.4
Sectors - Level 1																
Energy	3,593	10.0	13.7	12.5	11.7	-9.1	9.6	6.5	1.5	11.7	3.1	14.4	0.1	4.2	0.0	4.0
Materials	2,215	6.2	16.7	15.1	13.1	2.1	10.3	15.6	1.7	11.4	2.7	16.3	-0.1	0.3	-0.3	0.9
Industrials	3,893	10.9	17.8	15.9	14.1	5.7	12.5	12.6	2.2	14.0	2.3	22.8	-0.3	-1.1	-0.3	-0.6
Consumer Disc.	4,128	11.5	18.1	15.7	13.6	21.2	11.3	15.7	2.5	15.8	1.9	28.4	-0.5	-4.0	-0.5	-3.5
Consumer Staples	3,523	9.8	19.1	18.1	16.6	4.8	5.5	9.3	3.3	18.4	2.8	27.1	0.1	0.7	0.0	1.4
Health Care	3,767	10.5	18.3	17.0	15.3	2.6	7.9	11.2	3.3	19.7	2.1	28.6	1.3	3.2	1.3	3.6
Financials	7,695	21.4	13.7	12.3	11.0	14.1	11.0	12.0	1.2	9.7	3.2	14.4	-0.4	-1.3	-0.5	-0.8
IT	4,493	12.5	16.9	14.9	13.4	9.8	13.2	11.2	2.8	18.8	1.7	28.6	-0.6	-0.1	-0.6	0.2
Telecoms	1,378	3.8	15.1	14.5	13.6	1.8	4.3	6.4	2.0	13.8	4.5	17.6	-1.2	-4.4	-1.3	-3.9
Utilities	1,198	3.3	16.5	15.1	14.1	19.9	5.6	7.1	1.4	9.3	3.9	16.5	0.3	8.2	0.3	8.7
Sectors - Level 2																
Energy	3,593	10.0	13.7	12.5	11.7	-9.1	9.6	6.5	1.5	11.7	3.1	14.4	0.1	4.2	0.0	4.0
Materials	2,215	6.2	16.7	15.1	13.1	2.1	10.3	15.6	1.7	11.4	2.7	16.3	-0.1	0.3	-0.3	0.9
Capital Goods	2,837	7.9	17.2	15.4	13.8	3.2	11.8	11.7	2.2	14.0	2.4	22.0	-0.5	-1.2	-0.5	-0.7
Comm Svc & Supp	303	0.8	20.7	19.2	17.2	8.1	7.9	11.8	3.0	16.3	2.2	24.3	0.8	-3.0	0.8	-2.1
Transport	754	2.1	19.7	16.8	14.4	16.6	17.3	16.4	2.2	13.3	2.1	26.0	0.0	0.0	-0.1	0.5
Autos	1,055	2.9	11.4	10.2	8.8	14.3	12.4	15.1	1.4	13.7	2.4	21.5	-1.2	-2.8	-1.2	-1.4
Consumer Durables	604	1.7	22.0	17.9	15.2	134.9	20.3	17.8	2.4	13.2	1.8	28.9	-0.1	-3.3	-0.1	-2.6
Consumer Services	551	1.5	22.9	20.2	17.6	8.5	13.2	14.5	4.2	21.1	2.4	31.3	0.3	-1.3	0.3	-0.9
Media	942	2.6	22.1	18.7	16.2	20.1	1.1	15.5	3.1	17.1	1.7	34.4	0.1	-3.2	0.0	-3.1
Retailing	977	2.7	23.2	20.3	17.5	8.9	14.0	16.2	4.3	21.0	1.5	30.9	-1.0	-8.0	-1.0	-7.9
Food & Staples	778	2.2	18.0	17.0	15.4	2.8	5.8	10.3	2.4	13.9	2.6	25.3	0.4	-0.3	0.2	0.2
Food Bev & Tobac.	2,141	6.0	19.1	18.2	16.7	5.2	5.1	9.0	3.7	20.4	3.0	27.3	0.1	1.5	0.0	2.2
Household Products	604	1.7	20.9	19.6	18.0	6.5	6.8	9.1	4.2	20.8	2.5	29.2	-0.3	-0.7	-0.3	-0.3
Health Care	922	2.6	17.4	16.2	14.5	6.4	7.3	11.5	2.6	16.1	1.3	27.4	0.1	0.7	0.0	0.8
Pharma & Biotech	2,845	7.9	18.7	17.3	15.5	1.3	8.1	11.1	3.7	21.2	2.4	29.0	1.7	4.0	1.7	4.5
Banks	3,886	10.8	12.5	11.0	9.7	8.5	13.4	12.9	1.1	10.0	3.6	12.2	-0.5	-0.4	-0.6	0.1
Div Financials	1,347	3.8	15.6	14.1	12.3	32.4	10.8	15.1	1.3	9.5	2.0	15.4	-0.5	-3.3	-0.5	-3.0
Insurance	1,434	4.0	12.2	11.5	10.6	19.6	6.5	8.2	1.2	10.6	3.1	16.1	0.1	-3.6	0.1	-3.2
Real Estate	1,029	2.9	22.3	20.9	19.0	10.8	6.6	10.0	1.4	6.7	3.6	23.6	-0.3	2.3	-0.4	3.1
Software & Services	2,156	6.0	19.8	17.6	15.5	8.4	12.4	13.2	4.0	22.6	1.2	35.5	-1.9	-2.8	-1.9	-2.6
Tech	1,525	4.3	15.3	13.5	12.3	6.2	13.5	10.1	2.3	16.8	2.2	24.8	1.4	2.0	1.4	2.3
Semi & Semi Equip	812	2.3	14.1	12.4	11.3	20.0	14.0	9.2	2.1	17.1	2.1	24.6	-0.7	4.0	-0.8	4.2
Telecom	1,378	3.8	15.1	14.5	13.6	1.8	4.3	6.4	2.0	13.8	4.5	17.6	-1.2	-4.4	-1.3	-3.9
Utilities	1,198	3.3	16.5	15.1	14.1	19.9	5.6	7.1	1.4	9.3	3.9	16.5	0.3	8.2	0.3	8.7

Source: Citi Research, MSCI, Worldscope, Factset Consensus estimates

Figure 21. 2014 P/E Estimates by Region & Sector

25 Apr 14 P/E 14E	Global	DM	GEM	US	Eur ex UK	UK	Jap	Dev Asia	Em Asia	Lat Am	CEEMEA
Region	14.6	15.2	10.8	16.0	15.0	13.7	13.2	14.9	11.0	12.8	8.5
Sectors - Level 1											
Energy	12.5	14.1	6.6	14.8	12.0	11.6	11.1	16.6	9.8	9.2	4.3
Materials	15.1	15.7	12.6	17.1	17.3	12.8	13.0	12.9	13.5	11.0	14.0
Industrials	15.9	15.9	15.4	16.9	16.4	15.5	12.4	16.4	15.0	18.7	12.5
Consumer Disc.	15.7	16.2	11.7	19.0	14.0	16.2	11.5	19.0	9.6	18.8	19.3
Consumer Staples	18.1	17.8	21.9	17.9	18.8	16.2	18.3	17.9	22.9	21.4	20.3
Health Care	17.0	16.9	21.4	16.9	17.0	16.1	21.7	21.8	22.7	20.5	19.4
Financials	12.3	13.1	8.9	14.1	12.4	11.5	11.7	14.0	8.1	11.3	9.5
IT	14.9	15.6	12.0	15.1	19.2	30.2	17.0	19.4	11.9	19.4	
Telecom Services	14.5	14.9	12.7	14.2	15.1	17.4	14.6	15.8	13.9	11.2	11.7
Utilities	15.1	15.7	11.6	16.8	14.1	14.4	14.9	16.8	12.6	11.1	9.5
Sectors - Level 2											
Energy	12.5	14.1	6.6	14.8	12.0	11.6	11.1	16.6	9.8	9.2	4.3
Materials	15.1	15.7	12.6	17.1	17.3	12.8	13.0	12.9	13.5	11.0	14.0
Capital Goods	15.4	15.4	14.5	16.7	16.4	14.6	11.7	12.7	14.0	19.1	13.4
Comm Svc & Supp	19.2	19.1	25.0	19.1	19.0	18.2	20.4	21.2	25.0		
Transport	16.8	16.6	18.2	17.0	15.6	13.7	14.1	22.6	19.8	18.3	9.3
Autos & Components	10.2	10.7	8.0	13.6	10.5	13.6	9.5		8.0		12.6
Consumer Durables	17.9	18.3	13.6	18.5	17.9	15.1	20.0	15.8	16.8	6.4	11.4
Consumer Services	20.2	20.4	17.6	20.8	21.5	18.6	23.2	19.6	17.2	17.4	21.2
Media	18.7	18.3	28.0	18.8	17.5	15.3	26.4	23.9	21.9	27.1	30.3
Retailing	20.3	20.8	15.3	21.0	24.3	16.4	21.7	14.9	13.6	20.0	14.5
Food & Staples Retailing	17.0	16.6	21.7	17.3	15.7	11.2	18.2	18.6	21.1	22.7	21.1
Food Bev & Tobacco	18.2	17.9	21.6	17.8	19.0	17.0	17.1	14.5	22.4	21.0	18.2
Household Products	19.6	19.3	24.9	18.9	20.2	19.0	23.8		26.3	21.4	
Health Care Equip & Svc	16.2	16.1	20.8	15.4	20.5	18.2	21.8	22.4	22.3	24.9	18.2
Pharma & Biotech	17.3	17.2	21.7	17.7	16.7	16.0	21.7	21.5	22.8	16.1	20.4
Banks	11.0	11.9	8.1	11.9	13.7	10.4	9.0	13.6	7.4	10.4	8.3
Div Financials	14.1	14.2	13.1	14.9	12.7	13.3	11.3	19.3	12.1	18.6	12.1
Insurance	11.5	11.3	13.2	11.2	9.9	12.5	13.5	15.1	12.9	15.4	13.6
Real Estate	20.9	23.7	8.6	37.5	17.2	23.2	24.1	13.8	7.3	18.4	12.4
Software & Services	17.6	17.2	24.0	17.1	17.4	17.9	21.0	18.4	24.6	19.4	
Tech Hardware & Equip	13.5	13.4	14.2	12.6	21.2		15.6		14.2		
Semi & Semi Equip	12.4	16.6	9.2	15.2	21.9	39.7	32.8	22.0	9.2		
Telecom	14.5	14.9	12.7	14.2	15.1	17.4	14.6	15.8	13.9	11.2	11.7
Utilities	15.1	15.7	11.6	16.8	14.1	14.4	14.9	16.8	12.6	11.1	9.5

Source: Citi Research, MSCI, Worldscope, Factset Consensus estimates

Figure 22. Stocks Mentioned

Stock Name	RIC	Price	Rating	Currency
AstraZeneca PLC	AZN.L	47.224331	1	GBP
Time Warner Cable Inc	TWC.N	141.46		USD
Allergan, Inc.	AGN.N	165.84	1	USD
Lafarge SA	LAFP.PA	65.85		EUR
Forest Laboratories, Inc.	FRX.N	91.91	1	USD
Alstom	ALSO.PA	29.52	1	EUR
Beam Inc	BEAM.N	83.47		
GlaxoSmithKline PLC	GSK.L	16.31		GBP
Pfizer	PFE.N	31.28	1	USD
Comcast Corp	CMCSA.O	51.76		USD
Valeant Pharmaceuticals International Inc	VRX.TO	146.57		CAD
Actavis Inc	ACT.N	204.33	1	USD
Altice SA	ATCE.AS	41.19		EUR
Facebook, Inc	FB.O	59.78	1	USD
General Electric Company	GE.N	26.89	1	USD
Suntory Beverage & Food	2587.T	3550	1	JPY
Novartis AG	NOVN.VX	76.3		CHF

Source: Citi Research

Appendix A-1

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Data current as of 31 Mar 2014	Buy	Hold	Sell	Buy	Hold	Sell
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