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J.P.Morgan CAZENOVE

Europe Equity Research
7 June 2012

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Top Stories

Elekta AB (EKTAb.ST, OW – Skr326.90, PT Skr423.00) *(David Adlington)*

Margin expansion or margin compression?!

FY11/12 results were in line with consensus expectations. It is the outlook for FY12/13 that has caused the greatest amount of confusion in our view, with apparently conflicting statements between the formal guidance and commentary on the conference call. We believe management is again attempting to set a hurdle it is confident of beating. In this note we explore why the formal guidance looks overly conservative – we cannot get our EBIT forecasts as low as the formal guidance implies. The market (like Sonova a couple of weeks ago) has been quick to factor in the implied 'downside' of the guidance at face value, without considering whether there is any upside risk.

European Pharmaceuticals *(Richard Vosser)*

Insulin/GLP-1 Combos - Substantial Sales Opportunity for EU Diabetes Companies: Sanofi and Novo

Combination products of Insulin & GLP-1 represent true innovation and a substantial opportunity for both EU diabetes players Sanofi and Novo, in our view. They hold the promise of better blood glucose control and better weight management as evidenced by data already available for the products dosed together (but not in the same pen). Different properties of GLP-1s in terms of their ability to lower post meal blood sugar (post prandial glucose [PPG]) and potentially different marketing ideas have led Novo and Sanofi to pursue slightly different strategies, which means that their combos do not seem to directly compete.

Inditex (ITX.MC, N – €66.82, PT €71.42) *(Gillian Hilditch, CFA)*

Spanish environment expected to drag on sales, but fundamentals remain strong

As one of the biggest listed companies in Spain, Inditex is likely to continue to suffer from weak sentiment regarding events in its home country for some time, despite evidence that it has traded successfully throughout the last 5 years of turmoil in Southern Europe. We believe the recent step down in the Spanish clothing market will be dragging on group sales, but that the attractive fundamentals of a coherent retail brand strategy complemented by internet growth, Asian/American expansion, a strong balance sheet and good cashflows still merit a high valuation, hence we are happy to retain our Neutral stance.

Atkins (WS) (ATKW.L, OW – 644p, PT 771p) *(Victoria Prior, CFA)*

Attractive entry point with catalyst from results next week

Atkins' shares have fallen c. 20% since their peak in March 2012 on limited news flow and a weaker market in general. Recent interviews with the CEO outline a continued commitment to the strategy outlined at the interim results in November 2011, with the UK market looking less gloomy. We continue to view the current share price as an attractive entry point and while we expect no surprises, we would anticipate a re-rating of the shares post the results on 14 June 2012, as further colour on the strategy emerges. The shares are trading on a PER of 7.9x and adjusted EV/EBITDA of 6.1x for FY13E c. 20% below our Jan-13 TP.

Link to Other FTMs page
Link to Morgan Markets page

Key Rating, Price Target & EPS Changes

Daily Economic Briefing *(David Hensley)*

The ECB left rates on hold and announced a six month extension of its unlimited liquidity provision at the standard refinancing tenders (i.e. those with maturities up to three months). Draghi said that only a few members wanted to cut rates today, and he did not give any hint that the Bank was ready to reactivate the SMP or the ECB's longer-term lending facilities. The ECB staff barely touched its previous forecast, although Draghi said the numbers were set before receipt of the latest data. Officials likely are keen to learn the outcome of the Greek elections and the stress tests of Spanish banks, all of which will be known within the next two weeks. Based on Draghi's comments, our team pulled forward an assumed 25bp rate cut to July from September.

Price Target and Estimate Changes

Elekta AB (EKTAb.ST - Overweight)
(David Adlington)
Margin expansion or margin compression?!

Inditex (ITX.MC - Neutral)
(Gillian Hilditch, CFA)
Spanish environment expected to drag on sales, but fundamentals remain strong

Mecom (MEC.L - Overweight)
(Marcus Diebel)
Trading update flags strong acceleration in advertising declines. Cut 2012E/13E EPS by -46%/-56%

Vallourec (VLLP.PA - Neutral)
(Alessandro Abate)
12E EBITDA at €813m (€856m) on price pressure on weaker EU non-energy segment. TP at €39 (€43)

Results and Company Views

Algeta/Bayer
(Richard Vosser)
ASCO Presentation Overshadowed by Small Filing Delay

Atkins (WS) (ATKW.L - Overweight)
(Victoria Prior, CFA)
Attractive entry point with catalyst from results next week

Brisa takeover offer
(Elodie Rall)
Minority shareholder Abertis rejects €2.66/share Brisa takeover offer and calls for independent audit

Results and Company Views, *continued*

Snam (SRG.MI - Overweight)
(Sarah L Laitung, CFA)
Progress on refinancing and proposed cancellation of treasury shares

Sector Research

European Pharmaceuticals
(Richard Vosser)
Insulin/GLP-1 Combos - Substantial Sales Opportunity for EU Diabetes Companies: Sanofi and Novo

European Semiconductors
(Sandeep S Deshpande)
Galaxy SIII suppliers revealed in tear down

Global Oil & Gas Engineering & Construction
(Andrew Dobbing)
Luberef expansion marks a possible turning point in the competitive environment in the Middle East

May Europe/US Car Sales
(Bernard Donges)
Reiterate our BMW/VOW Preference; WE Car SAAR In Line, US Weaker

More equities to help pay for German life guarantees
(Michael Huttner, CFA)
German life insurer Alte Leipziger boosts direct equities mix from 0.5% Dec31 to now 5%

European Analyst Focus List
06 June 2012

Appendix

Key Rating, Price Target & EPS Changes

Price Target Changes

		Price Target	
Company	Rating	New	Old
Increase			
Elekta AB	OW	423.00 kr	415.00 kr
Decreases			
Mecom	OW	137 p	313 p
Vallourec	N	€ 39.00	€ 43.00

J.P. Morgan EPS Estimate Changes

Company	Current FY	Next FY
Decreases		
Inditex	-2.5%	-3.2%
Mecom	-45.6%	-55.8%
Vallourec	-16.7%	-21.8%
Revision		
Elekta AB	-4.7%	

Source: J.P. Morgan estimates

Elekta AB

Margin expansion or margin compression?!

Overweight

EKTAb.ST, EKTAB SS

Price: Skr326.90

▲ **Price Target: Skr423.00**
Previous: Skr415.00

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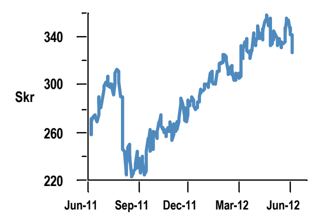
FY11/12 results were in line with consensus expectations. It is the outlook for FY12/13 that has caused the greatest amount of confusion in our view, with apparently conflicting statements between the formal guidance and commentary on the conference call. We believe management is again attempting to set a hurdle it is confident of beating. In this note we explore why the formal guidance looks overly conservative – we cannot get our EBIT forecasts as low as the formal guidance implies. The market (like Sonova a couple of weeks ago) has been quick to factor in the implied 'downside' of the guidance at face value, without considering whether there is any upside risk.

- **Margin compression?** The press release states reported revenues are expected to grow at 20% or more. EBIT is only expected to grow more than 17% – implying 50bp of margin contraction.
- **Or margin expansion?** On the conference call, the CFO stated 'we definitely have the ambition to grow our EBIT margin [in FY12/13 vs 11/12]'. Furthermore, he indicated gross margins should expand. R&D costs are expected to increase 'a bit' but will be offset by operating leverage on SG&A costs leaving 'a slight improvement in the EBIT margin'. Investors are unlikely to appreciate these mixed messages. We believe the most likely explanation is that management is again starting the year conservatively with scope to upgrade later. However, coming on the back of recent Varian commentary on pricing/mix, investors will likely err on the side of caution, at least until they have met with management or the CMD.
- **Detailed cost analysis illustrates balance of risk to upside.** Elekta has beaten significantly its initial EBIT guidance for the last 4 years. We believe it could do so again.
- **Limited changes to EPS forecasts.** We set out our new forecasts, which incorporate a moderately less bullish LT margin assumption following the Q4 shortfall vs our expectations. However, we continue to be ahead of consensus and forecast 3 yr EPS CAGR of 26%, on c20x PER.

Price Performance



	YTD	1m	3m	12m
Abs	8.6%	-3.4%	-1.8%	20.6%

Elekta AB (EKTAb.ST;EKTAB SS)

FYE Apr	2011A	2012A	2013E *(Prev)*	2013E *(Curr)*	2014E
Adj. EPS FY (Skr)	11.41	13.66	18.01	17.16	22.89
Bloomberg EPS FY (Skr)	10.58	12.84	-	16.44	20.16
Adj.EBITDA FY (Skr mn)	1,718	2,118	2,744	2,626	3,368
Bloomberg EBITDA FY (Skr mn)	1,698	2,158	-	2,616	3,096
EBIT FY (Skr mn)	1,502	1,848	2,445	2,321	3,060
EBIT margin FY	19.0%	20.4%	22.3%	21.7%	24.4%
EV/EBITDA FY	19.6	15.8	11.4	12.8	10.0
Adj P/E FY	28.6	23.9	18.2	19.1	14.3

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data	
Price (Skr)	326.90
Date Of Price	05 Jun 12
Price Target (Skr)	423.00
Price Target End Date	31 Mar 13
52-week Range (Skr)	363.00 - 207.80
Mkt Cap (Skr bn)	31.4
Shares O/S (mn)	96

European Pharmaceuticals

Insulin/GLP-1 Combos - Substantial Sales Opportunity for EU Diabetes Companies: Sanofi and Novo

Combination products of Insulin & GLP-1 represent true innovation and a substantial opportunity for both EU diabetes players Sanofi and Novo, in our view. They hold the promise of better blood glucose control and better weight management as evidenced by data already available for the products dosed together (but not in the same pen). Different properties of GLP-1s in terms of their ability to lower post meal blood sugar (post prandial glucose [PPG]) and potentially different marketing ideas have led Novo and Sanofi to pursue slightly different strategies, which means that their combos do not seem to directly compete. In fact we see significant potential for both combo products (Lxyumia/Lantus [Sanofi] and Victoza/Tresiba [Novo]) to take share from basal insulins and also to help protect both companies' franchises from biosimilars from 2015 onwards. Overall we see the class as having $4bn potential by 2020 rising to $18bn by 2030.

- **The ADA meeting for Sanofi will further showcase the specific benefits of Lyxumia (Sanofi's GLP-1) in combination with Lantus (insulin).** Data will showcase the benefit of Lyxumia on glucose levels directly after meals (post prandial glucose), an effect which is not shared to the same extent by other GLP-1s, and has the potential for superior glucose control in combination with an insulin (Lantus). Beyond the ADA the start of combination trials in 1Q'13 with both Lyxumia and Lantus in the same pen represents a significant milestone, in our view.
- **Sanofi's combo offers the opportunity for growth and protection of its diabetes franchise from 2015 onwards:** For Sanofi we see the combo providing a) a chance to re-price the Lantus franchise upwards as pricing of the GLP-1s is currently double insulin and b) the opportunity to protect the franchise from biosimilars through a bundling strategy. From a launch of the single pen combo in 2015 we see a sales potential of €2bn in 2020 rising to >€6bn in 2030 (even assuming price cuts) worth >€3 per share to Sanofi.
- **Novo combo also likely to be a substantial product, although it could cannibilise Tresiba.** While Victoza does not seem to have the same substantial effect on PPG, its combination with insulin still offers significant promise. Adding insulin to Victoza offers better glucose control which could take market share by capturing patients transitioning to insulin from OADs or GLP-1s (such as Victoza or Bydureon (Amylin)).
- **Q4'12 Phase III data for the combo, represents a significant catalyst for Novo in our view:** Phase III data from the Novo combo (Victoza/Tresiba) should be available in Q4'12 which should showcase the opportunity for combos for Novo. We see potential for combo sales of DKr13bn ($2.3bn) in 2020 rising to DKr51bn ($9bn) in 2030 from launch in 2014, worth DKr93.

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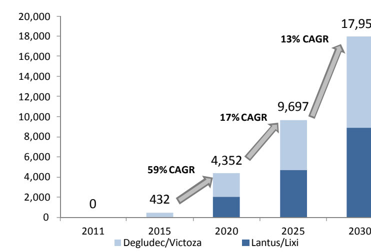
GLP-1s/Insulin Combo Sales Potential 2011-2030E ($m)



Source: J.P. Morgan estimates and company data

Company	Symbol	Market Cap $bn	Price CCY	Price	Rating	Price Target
Novo Nordisk	NOVOb.CO	89.5	DKK	802.00	N	780
Sanofi	SASY.PA	77.3	EUR	54.55	OW	68

Source: J.P.Morgan. Prices as of cob 06 June 2012.

Inditex

Spanish environment expected to drag on sales, but fundamentals remain strong

Neutral

ITX.MC, ITX SM
Price: €66.82

Price Target: €71.42

European Retail

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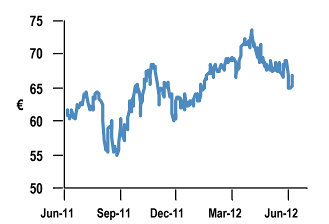
As one of the biggest listed companies in Spain, Inditex is likely to continue to suffer from weak sentiment regarding events in its home country for some time, despite evidence that it has traded successfully throughout the last 5 years of turmoil in Southern Europe. We believe the recent step down in the Spanish clothing market will be dragging on group sales, but that the attractive fundamentals of a coherent retail brand strategy complemented by internet growth, Asian/American expansion, a strong balance sheet and good cashflows still merit a high valuation, hence we are happy to retain our Neutral stance.

- **Q1 could be a catalyst for reduced expectations.** Inditex is due to report its Q1 FY13 sales on 13th June. Given c.40% exposure to Spain, expectations are that trade will have slowed since the current trading update on 14th March when sales were up 11% in constant currency (cc) terms, implying a LFL of 4%. We are looking for Q1 sales growth of 9.5% in cc, implying a LFL of c. 2% boosted by overseas growth, maturing stores and internet. Currency (30% of sales are in dollar linked economies) should add c. 1.8% to the cc growth to give 11.3% sales growth overall. Gross margin is expected to be up 130bp against soft comps (-150bp in Q1 2012) tempered by some currency pressure resulting from an estimated 35% dollar exposure on purchasing. This dollar exposure carries through to our FY to reduce our gross margin assumptions to flat from +20bp and combined with a 1% reduction in our FY LFL estimate (from 2.3% to 1.3%) to reflect increased caution around the Eurozone macro, drives a 2.5% downgrade to our FY13E estimates, placing us c. 4% below BBG cons.
- **We retain our N rating over the longer-term.** The shares are now trading on a comparable PER to H&M (Underweight), but we see more downside risk in that stock especially around gross margin, where we think the strategy of price investment will continue. Quite often the two stocks are traded as a pair; H&M is due to report on 20th June and while there may be some weakness in Inditex's shares around its trading update, any softness in the share price is in our view likely to be short lived and with greater perceived structural downside to H&M, we are happy to retain our Neutral stance on Inditex.

Price Performance



	YTD	1m	3m	12m
Abs	5.6%	-0.9%	0.3%	8.4%

Industria de Diseno Textil SA (ITX.MC;ITX SM)

FYE Jan	2010A	2011A	2012A	2013E (Prev)	2013E (Curr)	2014E (Prev)	2014E (Curr)	2015E (Prev)	2015E (Curr)
Adj. EPS FY (€)	2.12	2.78	3.10	3.44	3.36	3.80	3.68	4.19	4.06
Revenue FY (€ mn)	11,084	12,527	13,792	15,161	15,371	16,654	16,885	18,198	18,450
EBITDA FY (€ mn)	2,375	2,965	3,258	3,625	3,583	3,986	3,936	4,370	4,311
EBIT FY (€ mn)	1,729	2,290	2,522	2,821	2,731	3,117	3,019	3,436	3,329
Earning Before tax FY (€ mn)	1,732	2,322	2,559	2,841	2,771	3,137	3,039	3,456	3,349
Adj P/E FY	31.5	24.0	21.6	19.4	19.9	17.6	18.1	15.9	16.5
EV/EBITDA FY	15.3	12.2	11.1	11.1	10.1	10.1	9.2	9.2	8.4
Div Yield FY	1.8%	2.4%	2.6%	2.6%	2.9%	-	3.2%	-	3.5%

Source: Company data, Reuters, J.P. Morgan estimates.

Company Data	
Price (€)	66.82
Date Of Price	06 Jun 12
Price Target (€)	71.42
Price Target End Date	31 Dec 12
52-week Range (€)	74.73 - 52.04
Mkt Cap (€ bn)	41.6
Shares O/S (mn)	623

Atkins (WS)

Attractive entry point with catalyst from results next week

Overweight

ATKW.L, ATK LN

Price: 644p

Price Target: 771p

Atkins' shares have fallen c. 20% since their peak in March 2012 on limited news flow and a weaker market in general. Recent interviews with the CEO outline a continued commitment to the strategy outlined at the interim results in November 2011, with the UK market looking less gloomy. We continue to view the current share price as an attractive entry point and while we expect no surprises, we would anticipate a re-rating of the shares post the results on 14 June 2012, as further colour on the strategy emerges. The shares are trading on a PER of 7.9x and adjusted EV/EBITDA of 6.1x for FY13E c. 20% below our Jan-13 TP.

- **UK showing some signs of improvement.** In Building Magazine, Uwe Kruger comments that he is happy with the performance in the UK and that he is *'starting to be more optimistic'*. It is worth noting that the engineering consultants will benefit earliest in the cycle. With the rail market encouraging (the signaling contracts are coming on stream and the group has won a preliminary design contract on HS2) and other areas already having suffered the main impact of budgetary pressures, the UK market looks like it may have reached its trough. The group has *'1000 vacancies in the UK'* that it wants to fill *'as quickly as possible'*.
- **International the key to growth.** While the UK market is potentially looking less gloomy, the international markets remain the group's primary driver of growth over the medium-term, in our view. Management's mid term target is to generate 75% of revenues from outside of the UK (c. 50% in FY12E). Target markets include the US, Scandinavia and India with the Middle East continuing to be *'an important growth engine'*.
- **FY12E results due to be reported on 14 June 2012.** We look for revenue of £1703m (2011A: £1564m), PBTA of £100.6m (2011A: £102.7m) and EPS of 79.9p (2011A: 81.1p).
- **An attractive entry point.** With a clear vision for the group, we anticipate further momentum during FY13E and FY14E with upside to estimates as elements of the strategy are delivered (please see our note of 27 Jan 2012). Atkins' shares are currently trading on a PER of 7.9x and adjusted EV/EBITDA of 6.1x for FY13E which we see as an attractive entry point for investors.

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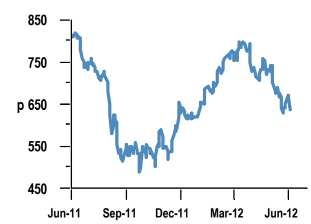
Price Performance



	YTD	1m	3m	12m
Abs	-1.2%	-13.9%	-17.2%	-21.7%

WS Atkins Plc (ATKW.L;ATK LN)

FYE Mar	2010A	2011A	2012E	2013E	2014E
Adj. EPS FY (p)	79.47	81.14	79.95	81.95	85.60
Revenue FY (£ mn)	1,388	1,564	1,703	1,722	1,771
EBIT FY (£ mn)	110	119	111	114	118
Pretax Profit Adjusted FY (£ mn)	97	103	101	103	108
DPS (Net) FY (p)	27.56	29.00	29.87	30.62	31.98
Net Yield FY	4.3%	4.5%	4.6%	4.8%	5.0%
Adj P/E FY	8.1	7.9	8.1	7.9	7.5
EV/EBITDA FY	1.2	1.7	1.6	1.3	0.9

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data	
Price (p)	644
Date Of Price	06-Jun-12
Price Target (p)	771
Price Target End Date	01 Jan 13
52-week Range (p)	825 - 481
Mkt Cap (£ mn)	644.7
Shares O/S (mn)	100

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Europe Equity Research
06 June 2012

Mecom

Trading update flags strong acceleration in advertising declines. Cut 2012E/13E EPS by -46%/-56%

Mecom just published a trading statement highlighting that advertising declines have accelerated – particular in Mecom's key market, the Netherlands (55% of Group revenues and 80% of Group EBITDA). Assuming that ad decline rates do not improve in Q212, the Board of Mecom is now expecting FY12 Group EBITDA in the range of €85m to €95m vs. current consensus (provided by the company) FY12 EBITDA at about €107m. As a result of today's statement, we have changed our 2012E/13E EPS estimates by -46%/-56% from €0.37/0€0.44 to €0.20/€0.20. On our updated estimates, Mecom shares are trading on 4.5x/4.4x 2012E/13E EV/EBITDA.

- **Advertising trends have worsened.** In today's statement management flagged a significant deterioration in advertising revenues in Q212, in particular in its Dutch business where ad revenues are expected to decline by -17% in Q212 versus -12% in Q112. Denmark also saw further pressure on advertising revenues and circulation trends for its tabloid title BT.

- **Outlook remains cautious.** Due to the weak economic situation in the Netherlands and the deepening crisis in the Eurozone, management sees no reason for the ad declines to abate in Q212. Management also flagged that the assumption for only modest ad declines in 2013 and 2014 – as provided at the Group's strategy review on 24th of January – needs to be reassessed.

- **Previous cost savings guidance of €70m was reiterated.**

- **Despite weaker ad revenues, the company will continue to pay a dividend** (JPMCe €0.07 vs. €0.15 before).

- **Next catalyst will be the update on the regulatory approval regarding the Edda disposal** (expected end of June) and the company's interim results presented on 25th of July.

Overweight

MEC.L, MEC LN

Price: 146p

▼ **Price Target: 137p**
Previous: 313p

European Media

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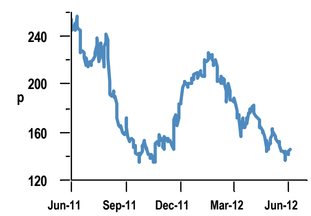
Price Performance



	YTD	1m	3m	12m
Abs	-30.8%	-5.3%	-22.2%	-42.6%

Mecom Group plc (MEC.L;MEC LN)

FYE Dec	2011A	2012E *(Prev)*	2012E *(Curr)*	2013E *(Prev)*	2013E *(Curr)*
Adj. EPS FY (€)	0.46	0.37	0.20	0.44	0.20
Revenue FY (€ mn)	1,056	1,017	993	1,001	963
EBITDA FY (€ mn)	114	107	87	119	82
EBITDA margin FY	10.8%	10.5%	8.8%	11.9%	8.5%
Pretax Profit Adjusted FY (€ mn)	53	60	34	73	33
Net Income FY (€ mn)	51	43	23	52	23
Adj P/E FY	3.9	4.8	8.9	4.1	9.2
DPS (Net) FY (€) FY	0.15	0.15	0.07	0.15	0.07

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data	
Price (p)	146
Date Of Price	01 Jun 12
Price Target (p)	137
Price Target End Date	31 Dec 12
52-week Range (p)	269 - 114
Mkt Cap (£ bn)	0.2
Shares O/S (mn)	110

J.P.Morgan CAZENOVE

Europe Equity Research
06 June 2012

Vallourec

12E EBITDA at €813m (€856m) on price pressure on weaker EU non-energy segment. TP at €39 (€43)

Neutral

VLLP.PA, VK FP
Price: €28.60

Price Target: €39.00
Previous: €43.00

European Metals, Mining & Steel

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We reduce our 2012E EBITDA to €814m (€856m) on tougher competition from within the European space affecting both prices and volumes for non-energy (mostly auto/mechanical) reducing the already weak segment earnings contribution. Our Dec 12 TP reduces to €39 (€43) also due to higher FY12 net debt. Our 2013E EBITDA is now €1.04bn from €1.16bn based mostly on y/y uplift from +c€120m (12E ramp-up costs not expected in FY13E) and c€80-100m earnings contribution from VM2/US plant. We remain N as we believe that 12E EBITDA is not representative of VK structural earnings improvement as the Bra/US plants will be at full speed.

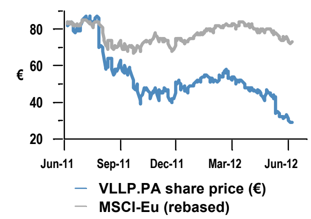
- **We reduce our 2012E EBITDA** to €814m from prior €856m driven by lower shipments mostly towards the non-energy segment. Our EPS reduces to €2.11 from €2.54 also for the effect of higher D&A charges. **Our 2013E EBITDA also reduces** to €1.04bn from €1.16bn on lower shipments (non-energy segment), and some pressure on prices (effect of downward trending raw material cost and aggressive competition from within Europe with some lagged effect in H1'13E). Our EPS reduces to €3.26 from €4.16 also for higher D&A charges.

- **Short term outlook (Q2E)**: we would expect, as of today, €175-180m EBITDA factoring in c10% uplift in shipments, but lower contribution from iron ore sales (c3mt external sales in Brazil), stronger competition within the EU (low competitors' capacity utilization rates vs. c80% at VK implies market price reduction), effect of ramp-up costs and some negative effect from $/€ strengthening (likely to reverse in H2'12).

- **2013E:** the+c€220m y/y EBITDA uplift is mostly originated by +€120m bottom-up earnings from no further negative effect of ramp-up costs and €80-100m top-down earnings contribution from VM2/US operations.

- **VK trades** at 8.8x P/E and 4.8x EV/EBITDA on our 2013E. Remain Neutral.

Price Performance



	YTD	1m	3m	12m
Abs	-44.4%	-34.9%	-45.4%	-66.0%
Rel	-39.7%	-26.9%	-33.6%	-52.3%

Vallourec S.A. (VLLP.PA;VK FP)

FYE Dec	2011A	2012E *(Prev)*	2012E *(Curr)*	2013E *(Prev)*	2013E *(Curr)*
Adj. EPS FY (€)	3.45	2.54	2.11	4.16	3.26
Revenue FY (€ mn)	5,296	5,602	5,583	6,156	5,954
EBITDA FY (€ mn)	940	856	814	1,156	1,035
EBITDA margin FY	17.7%	15.3%	14.6%	18.8%	17.4%
EBIT FY (€ mn)	693	556	494	856	705
EBIT margin FY	13.1%	9.9%	8.9%	13.9%	11.8%
ROE FY	8.3%	5.9%	5.0%	9.1%	7.3%
ROA FY	4.4%	3.1%	2.6%	4.8%	3.8%
Adj P/E FY	8.3	11.3	13.5	6.9	8.8
EV/EBITDA FY	4.8	7.5	6.1	5.4	4.8

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data	
Price (€)	28.60
Date Of Price	05 Jun 12
Price Target (€)	39.00
Price Target End Date	31 Dec 12
52-week Range (€)	87.60 - 28.32
Mkt Cap (€ bn)	3.3
Shares O/S (mn)	117

Algeta/Bayer

ASCO Presentation Overshadowed by Small Filing Delay - ALERT

European Healthcare (Pharma, Biotech)

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ALGETA.OL, ALGETA NO
Overweight
Price: Nkr135.00

05 June 2012

BAYGn.DE, BAYN GR
Neutral
Price: €48.03

05 June 2012

Last night after market close Alpharadin data was presented at ASCO. The data should remove concerns some had over the approvability given a statistically significant benefit in both pre-chemo and post-chemo in this updated data set. Correlation of bone market data with survival could also provide a market allowing earlier treatment in trials; we expect Bayer to give more details on in H2'12. The data was well received with the discussant already talking about retreatment given the benign side-effect profile and we expect this data to increase the profile of the product in the US. However, the positives from the data presentation are overshadowed by the small delay in filing timelines due to a problem with a conveyor at the new manufacturing site. While this does not affect our forecasts this does push back the next catalyst to September.

- **Significant benefit in both pre-chemo and post-chemo patients shown by updated analysis should put to rest concerns in some quarters over approvability:** The updated data set showed a significant benefit in both the pre-chemo (HR 0.745, p=0.003932) and post-chemo setting (HR 0.710, p=0.00307) (see table below). This is important for two reasons: 1) A post-chemo benefit in the final analysis removes the concern highlighted by some investors that, given the interim analysis presented at ESMO did not have a statistically significant benefit in post-chemo patients (HR 0.755, CI 0.565-1.009), the FDA may have concerns over approving the product. 2) The pre-chemo benefit should allow use in patients prior to chemo therapy even in advance of planned studies in early stage patients.

- **Subgroup analysis of the survival benefit by high ALP/low ALP (a marker of the extent of cancer in the bones) could point to a biomarker for either retreatment or to start treatment in minimally symptomatic patients:** Dr Chris Parker (lead investigator) presented data showing a great benefit in patients with high ALP values (HR 0.619 p=0.00009). He argued that High ALP may be a marker, and everybody with high ALP should be a good candidate for Alpharadin. The discussant at the presentation also mentioned that he sees patients being retreated with this agent, but of course a retreatment algorithm needs to be devised.

- **Delay to filing into the H2'12 from mid 2012, no impact to numbers:** Algeta has subtly changed its guidance for filing in the EU/US to H2'12 from mid 2012, with around a 3 month delay to September looking the most likely. The delay appears to have been caused by a problem with the conveyor carrying the vials at the new manufacturing site that Algeta and Bayer want to iron out before filing. There is no impact on our numbers from this delay as we had always conservatively assumed first

Brisa takeover offer

Minority shareholder Abertis rejects €2.66/share Brisa takeover offer and calls for independent audit - ALERT

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ABE.MC, ABE SM
Overweight
Price: €9.73

05 June 2012

BRI.LS, BRI PL
Underweight
Price: €2.48

05 June 2012

Abertis has teamed up with three other minority investors (totaling 15.7%) and they have rejected the €2.66/share takeover offer proposed by Brisa's major shareholders de Mello and Arcus (through their Tagus Holding) in March. The Abertis-led group believes the takeover offer undervalues Brisa and continues to be concerned about the obvious conflict of interest within Brisa's board of directors. Therefore, the group has asked the Portuguese regulator CMVM for an independent audit.

- **Tagus' offer undervalues Brisa.** Abertis believes the undervaluation is evidenced by two major observations: i) the offer price being substantially below Bloomberg's analysts' consensus price target prior to the announced bid (ie. €2.94/share), and ii) the increased treasury share buybacks made by Brisa in 2011 at an average price of €4.18/share (with the majority of purchases even above €4/share). We believe that the latter argument weighs strongly in favor of Abertis and it shows that Brisa thought of the share buybacks in '11 as being highly lucrative.
- **Takeover bid does not include a control nor a squeeze out premium.** Brisa's CEO de Mello and Arcus, by agreeing on a joint takeover offer and by syndicating their vote through their acquisition vehicle Tagus Holding, have been forced to launch a mandatory takeover bid at the end of March '12, as required under Portuguese law. However, the Abertis-led minority shareholders now claim that under this law, Tagus is obliged to offer a control or even a squeeze out premium, none of which have been included in the €2.66/share takeover bid.
- **Conflict of interest within Brisa's board of directors.** The minority shareholders claim that Brisa's board is controlled by directors directly linked to Tagus, de Mello and Arcus (8 out of 14 according to Abertis) and therefore it does not protect the interests of minority shareholders. As we pointed out previously (see *Brisa's Board of Directors claim neutrality - and see offer price in 'reasonable range'*), the board claims neutrality but lacks objectiveness in the analysis of the offer.
- **Cancellation of dividend supported Tagus' takeover bid.** Brisa's expected dividend payment of €0.31/share was cancelled by de Mello and Arcus one week after the takeover offer announcement. Abertis now claims that if the dividend would have been paid in early May, the offer price would have been reduced to €2.35/share, and therefore would not have met the minimum price requirement anymore.
- **Will the CMVM find an effective shareholder accord prior to offer?** Currently, Portuguese newspapers report (e.g. Jornal de Negocios, 06/06) that the CMVM believes there has been an effective shareholder accord between de Mello and Arcus since December 2010. If this proves correct, the offer price would have to be calculated based on Brisa's 6m

Snam

Progress on refinancing and proposed cancellation of treasury shares - ALERT

Overweight

SRG.MI, SRG IM

Price: €3.22

05 June 2012

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Snam has announced the issuance of up to €8bn in bonds over the next 12 months and a vote on the cancellation of 195m treasury shares. This follows press reports that progress is being made on the bridge loan as 7 banks have joined the 4 lead banks in the syndicate and an independent credit rating is expected soon. We think it is good to see the separation developing so rapidly.

- **Up to €8bn bond issue and treasury share cancellation:** On Monday evening Snam announced that the board had approved bonds of up to €8bn to be issued in one or more tranches over the next 12 months. In addition there will be an EGM on 30 July, 31 July or 1 August at which shareholders may vote on the proposed cancellation of treasury shares. We (and the company) already calculate EPS using a number of shares of c3,376m – i.e. excluding the c195m treasury shares given their sterilisation. However if it is approved the cancellation will rule out the potential re-issuance of the shares (only c0.014m were seen as potentially required for stock option plans at Dec-2011).

- **11 banks syndicating a bridge loan:** The announcement follows press reports on Friday that seven banks (Morgan Stanley, Bank of AmericaMerrill Lynch, Citigroup, UBS, HSBC, Mediobanca and Societe Generale) have joined the lead banks (BNP Paribas, JP Morgan, Intesa Sanpaolo and UniCredit) in providing an €11bn bridge loan for Snam to refinance its borrowings from ENI.

- **Cost of debt expected at 300-350bps spread:** The bridge loan is expected to be syndicated further at a later date and is reportedly priced at 300-350bps (reports last month had suggested 250-300bps). According to Reuters, each of the banks committed €1.1bn and also made additional commitments as the company was trying to raise an extra €2bn of bilateral loans (inline with reports last month), and so participation in the €11bn loan was restricted to those banks that were also willing to supply bilateral loans.

- **Expect similar credit rating to Terna:** Snam will receive a credit rating from Moody's within days according to Il Sole 24 Ore. We expect it to receive the same rating as Terna (A3/A-): one notch above the Italian sovereign.

- Also on Monday a group of European gas transmission operators including Snam published their Gas Regional Investment Plan, which envisages investments to enhance the linkage between the North West and Southern European gas markets.

J.P.Morgan CAZENOVE

Europe Equity Research
06 June 2012

European Semiconductors

Galaxy SIII suppliers revealed in tear down - ALERT

European Semiconductors

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Various independent industry research companies such as Chipworks opened up the Galaxy SIII. The key findings are positive for Wolfson Microelectronics and STMicro (both rated Neutral). CSR, a supplier of GPS in Galaxy SII is not present but we understand it will be in variants that are to ship.

- Wolfson Microelectronics (Neutral) provides the audio codec on the handset that was opened. It had been expected that Wolfson will get a slot on a high running Samsung device and this win is confirmation of this expectation. We do not know at this time if Wolfson codecs will be in every Galaxy SIII model as Samsung is likely to have multiple variants addressing different communications technologies (e.g. LTE).
- The GPS chip in the tear down is from Broadcom. CSR (Overweight) has been supplier of the GPS chip in some variants of the previous model the Galaxy SII. When the current omission was highlighted to CSR, they indicated that they believed that per their knowledge they were present in some variants of the new phone as well and do not see any significant change in their share though they were not seen in the one torn down. It is thus likely they could be seen in variants released over next few months.
- STMicroelectronics remains the supplier of the Gyroscope and accelerometer sensors on the phone.

J.P.Morgan CAZENOVE

Europe Equity Research
06 June 2012

Global Oil & Gas Engineering & Construction

Luberef expansion marks a possible turning point in the competitive environment in the Middle East - ALERT

According to MEED, in an article published over the weekend, five large Engineering & Construction (E&C) contractors have chosen not to bid on the $1bn expansion of the Luberef complex in Saudi Arabia. This appears to mark an important turning point in the onshore E&C market – over the past three years we have seen intense competition on such projects, particularly in mature markets like Saudi Arabia, Abu Dhabi and Kuwait. This period has been characterized by (i) long bid lists (typically 10-15 contractors bidding), (ii) significant bid spreads, (iii) aggressive pricing from Asian (principally South Korean) contractors, and (iv) weak order intake and declining market share for European contractors that have refrained from bidding low in an attempt to protect profitability rather than backlog. Recent commentary from senior management at Petrofac, Tecnicas Reunidas and Saipem supports this outlook for an improved competitive environment, and we see potential for backlogs to recovery during H2 2012 and particularly 2013. All three companies have indicated signs of more rational bidding from Asian contractors, and Petrofac sees an opportunity for its win rate to improve materially near term (probably based on likely success on the PetroRabigh project in Saudi Arabia and a $200m oil distribution contract in Kuwait where according to MEED Petrofac was the low bidder).

- **Market dynamics to support backlog recovery for European contractors.** The period 2005-08 marked a very tight onshore construction market, with as few as 3-4 bidders, even on large attractive projects in mature markets. However despite high level of activity in the Middle East, a deteriorating home market that started in 2008 encouraged South Korean contractors to rely more heavily on overseas projects (primarily in Saudi Arabia and Abu Dhabi). By bidding aggressively South Korean contractors were very successful on onshore mega-projects like the Yanbu and Jubail new-build refinery projects (Saudi Arabia), and the Shaybah (Saudi) and Shah (Abu Dhabi) gas projects – a trend that has appeared to put pressure on overseas profit margins. In contrast while Tecnicas Reunidas and Petrofac have seen their onshore order backlogs fall sharply since peaking in Q3 2010 and H2 2010 respectively, profit margins have remained impressively resilient. Supported by signs of a broad bid pipeline this year and particularly next, we expect order backlogs for European contractors to recover much of the losses seen during 2011.

- **Contractor list shrinking.** According to MEED the shortlist of international contractors looking to bid for the $1bn expansion at the Saudi Aramco Lubricating Oil Refining Company (Luberef) complex is down to seven. The project, which will be executed at the Luberef

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J.P. Morgan Securities Ltd.

PFC.L, PFC LN
Overweight
Price: 1,486p

01 June 2012

SPMI.MI, SPM IM
Neutral
Price: €30.43

05 June 2012

TRE.MC, TRE SM
Overweight
Price: €28.73

04 June 2012

May Europe/US Car Sales

Reiterate our BMW/VOW Preference; WE Car SAAR In Line, US Weaker

In a negative pricing environment, we favor BMW and VOW among European OEMs, due to higher pricing resilience and more positive volume developments. May Western European car sales are tracking at a 12.2MM SAAR roughly in line with our estimates, whilst US SAAR of 13.8MM vs. 14.5MM Street was weaker and China data strong for BMW and VOW.

- **BMW/VOW (OW).** We remain confident in BMW/VOW higher volume and pricing resilience, notably due to exposure to better Germany/US/China markets. In a German market down 5% y/y (with 14% less trading days) in line with JPMCe, VW Group (15% of unit sales) outperformed by 3pts and BMW (17% of units sales) was in line, the data supporting our current forecasts; Automotive News reported increased self-registrations in Germany to offset a decline in demand, which would be a negative. In the US +26% with Toyota +87% due to sales recovery after last year losses due to the Japan disaster, VOW was +24% more than supporting +10% 2Q JPMCe and BMW +7% is roughly in line with +10% 2Q JPMCe. BMW relative "underperformance" was due to the new 3 Series (sales -22%) not yet fully available in the US market. In China BMW (+32% vs. +15% 2Q JPMCe) is exceeding expectations and VOW remains strong with Audi +44%. While US avg. incentives increased (notably due to Toyota and Mercedes), BMW benefited from the new 3 Series and VOW remained disciplined.

- **DAI (N) − higher pricing concerns.** Pricing/aging product cycle keep us N on DAI. Mercedes-Benz Cars sales were +3% y/y in May, with Germany -2% (Passenger Cars), US +21% and China +3%. We noted rising avg. US incentives at Mercedes (+9% m/m, +27% y/y), due to higher discounts for the E-/S-/GL-/GLK Classes.

- **Fiat (UW), PSA/RNO (N) – negative Western Europe volume trends.** Fiat/Chrysler sales were +30% y/y in the US due to an easy comp, but market share declined sequentially to 11.2% vs. 11.9% in Apr and 11.5% YTD. Chrysler remained disciplined with US incentives. Due to higher exposure to weaker Southern European countries, mass-market OEMs continued to have very negative volume developments in Western Europe, in line with our expectations. See Table 1.

Table 1: May-12 Car Sales Data Summary

	Volumes, Y/Y						US Pricing	
	Germany	France	Italy	Spain	US	China	M/M	Y/Y
BMW	-5%	-8%	-14%	-27%	7%	32%	5%	4%
DAI	-2%	-4%	-7%	-16%	21%	3%	9%	27%
VOW	-2%	-12%	-16%	-8%	24%	Audi +44%	1%	12%
Fiat/Chrysler	-18%	-18%	-11%	-3%	30%		-3%	6%
PSA	-7%	-29%	-15%	-12%				
RNO	-19%	-12%	-23%	5%				
Market	**-5%**	**-16%**	**-14%**	**-8%**	**26%**		**5%**	**11%**

Source: Local automotive associations, Bloomberg, company reports and J.P. Morgan Cazenove estimates.

European Autos, Auto Parts and Tires

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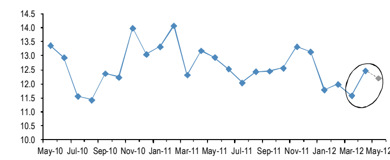
WE Passenger Car SAAR

In million units



Source: ACEA and J.P. Morgan Cazenove estimates.

More equities to help pay for German life guarantees

German life insurer Alte Leipziger boosts direct equities mix from 0.5% Dec31 to now 5% - ALERT

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- Alte Leipziger, a German life and health insurance mutual, said at its 5 June balance sheet press conference that it was investing more in equities to cover the guarantees it has given policyholders in its life business (source FT Deutschland 5 June). The life insurer said it had increased direct investment in equities from 0.5% Dec31 to 5% in May and aims to raise this mid term to 10%. The insurer says investing only in fixed income would not enable it to cover the average guarantee cost of 3.3% and says it also plans to invest more in real estate.
- This is new as the trend has been for German insurers to cut their investment in equities from over 20% of total investments in 2001 to Dec31 less than 5% (Munich is at 3.1%, Allianz 7.2%). Partly this is linked to the relatively high volatility of equities, which when linked with impairment rules is reflected in negative earnings charges, and also to the relatively high capital loading of 40% for equities under Solvency 2 vs 0% for government bonds.
- However, Alte Leipziger says it can cover the capital loading under Solvency 2. Alte Leipziger is rated A- by S&P and A+ by FitchRatings and says it already satisfies Solvency 2 solvency requirements now (source FTDeutschland 5 June report).
- Alte Leipziger in its life unit reported a return on investments of 4.5% (2010 4.8%) which compares with the German market average for life insurers of 4.1% (2010: 4.3%). The group did not invest in peripheral government bonds and avoided losses there. Thanks to this the group reported a €392m gross surplus (before transfer to policyholder reserves), down just 11% on the peak result of €438m.
- The following table highlights one key difference of Alte Leipziger vs the German life insurers' average: it has continuously increased the ratio of capital to life reserves to a 34.9% high Dec11 vs 18.3% peer average.

Alte Leipziger, a German life insurer with a mutual structure, reported at its balance sheet conference on 5 June:

1. It has increased its direct investment in equities for its life portfolio from 0.5% Dec31 to 5% in May.
2. It plans to double this to 10% mid term.
3. The reason is to provide sufficient yield to cover the guarantees on its German life portfolio of 3.3% on average., which it says it could not cover with just fixed income assets.
4. Alte Leipziger for the same reason also plans to boost its real estate investments.
5. Alte Leipziger says it has sufficient capital to cover the solvency 2 capital requirement for these asset classes (source FTDeutschland 5 June report).
6. The capital needed for solvency 2 is 40% for equities and 25% for real estate vs 0pct for govvies.

Table 1: Alte Leipziger German life mutual - key indicators €m

	2007	2008	2009	2010	2011
Alte Leipziger gross surplus	**386**	**409**	**394**	**438**	**392**
Of which risk result	172	163	178	187	196
Of which other	214	246	216	251	196
(mainly investment return					
Alte Leipziger capital	**346**	**385**	**425**	**469**	**516**
As pct of life reserves	**26.8%**	**29.0%**	**30.9%**	**32.9%**	**34.9%**
German life average	19.3%	19.4%	19.4%	18.2%	18.3%
Net yield (ROI)					
Alte Leipziger ROI	**4.9%**	**4.9%**	**4.8%**	**4.8%**	**4.5%**
German life average	4.7%	3.5%	4.2%	4.3%	4.1%

Source: Company reports.

European Analyst Focus List

Daily Update: Amended PostNL, Metric, and Unite Price Targets

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J.P. Morgan Securities Ltd.

The European Analyst Focus List (AFL) comprises Overweight-rated stocks that our analysts believe will provide an annualised return of more than 20% over the next 6, 12 or 18 months. If you have questions regarding stocks on the AFL, please contact your salesperson or the covering analyst. Past performance may not be indicative of future performance. Full details of previous AFL recommendations and performance are available on request.

J.P. Morgan AFL — 6th June 2012

Company Name	Ticker	Sector	Analyst	Rating	Ccy	Focus List Add Price	Latest Closing Price	Price Target	Potential Upside /Downside*	Total SH Return since Addition to AFL	Price Target End Date	Focus List Add Date
Brit. American Tob.	BATS LN	Tobacco	Rae Maile	OW	p	1668.00	3030.00	4102.00	35%	113%	Dec-12	11-Jun-09
Ageas	AGS BB	Insurance	Michael Huttner	OW	€	2.54	1.26	2.91	131%	-41%	Dec-12	22-Jan-10
Centrica	CNA LN	Utilities	Edmund Reid	OW	p	307.30	306.30	360.00	18%	10%	Dec-12	24-Jun-10
Brenntag	BNR GR	Business Services	Robert Plant	OW	€	58.50	87.72	108.00	23%	46%	Sep-13	09-Aug-10
Vinci	DG FP	Contractors	Elodie Rall	OW	€	39.175	32.44	54.00	66%	-5%	Mar-13	29-Nov-10
Aberdeen Asset Mgmt	ADN LN	General Financials	Rae Maile	OW	p	212.80	237.30	309.00	30%	21%	Dec-12	07-Jan-11
Anglo American	AAL LN	Materials	Roger Bell	OW	p	3226.50	1955.50	3,000.00	53%	-36%	Dec-12	11-Jan-11
SAP	SAP GY	Software & Services	Stacy Pollard	OW	€	39.07	44.35	53.00	20%	16%	Apr-12	13-Jan-11
Red Electrica	REE SM	Utilities	Javier Garrido	OW	€	36.51	30.71	50.00	63%	-10%	Dec-12	21-Jan-11
Gerresheimer	GXI GY	Medtech & Services	David Adlington	OW	€	32.14	33.63	44.80	33%	10%	Mar-13	1-Mar-11
Munich Re	MUV2 GR	Insurance	Michael Huttner	OW	€	104.45	97.14	146.00	50%	6%	Dec-12	16-Mar-11
BP	BP/ LN	Energy	Fred Lucas	OW	p	458.45	402.00	600.00	49%	-9%	Dec-12	01-Apr-11
Virgin Media	VMED US	Media	Carl Murdock-Smith	OW	$	30.89	21.78	38.00	74%	-32%	Dec-12	04-May-11
Meggitt	MGGT LN	Capital Goods	John Middleton	OW	p	351.90	366.60	500.00	36%	8%	Dec-13	15-Jun-11
Kingfisher	KGF LN	Retailing	Gillian Hilditch	OW	p	258.3	270.90	361.00	33%	10%	Jul-13	13-Jul-11
Telenet	TNET BB	Telecommunication Services	Akhil Dattani	OW	€	31.36	31.90	40.00	25%	20%	Dec-12	13-Jul-11
Jupiter Fund Mgmt	JUP LN	General Financials	Rae Maile	OW	p	188.00	202.40	275.00	36%	14%	Dec-12	24-Aug-11
Unite Group	UTG LN	Real Estate	Osmaan Malik	OW	p	167.90	185.00	250.00	35%	14%	Jun-13	30-Aug-11
UBS	UBSN VX	Banks	Kian Abouhossein	OW	Sfr	10.46	10.70	16.00	50%	5%	Dec-12	06-Aug-11
Babcock	BAB LN	Business Services	Robert Plant	OW	p	625.5	840.50	990.00	18%	33%	Mar-13	16-Sep-11
Saint-Gobain	SGO FP	Building Materials	Michael Morris	OW	€	33.35	28.48	38.80	36%	-12%	May-13	19-Oct-11
Standard Chartered	STAN LN	Banks	Raul Sinha	OW	p	1267	1291.50	1,800.00	39%	7%	Dec-12	21-Nov-11
Elekta	EKTAB SS	Healthcare Equipment	David Adlington	OW	Skr	300.90	342.00	415.00	21%	5%	Mar-13	20-Jan-12
Metric Property	METP LN	Real Estate	Harm Meijer	OW	p	83.00	85.00	115.00	35%	-3%	Jun-13	03-Feb-12
Volvo	VOLVB SS	Capital Goods	Nico Dil	OW	Skr	90.75	77.60	115.00	48%	-15%	Dec-12	06-Feb-12
IMI	IMI LN	Capital Goods	Glen Liddy	OW	p	970.00	846.50	1230.00	45%	-8%	Dec-12	05-Mar-12
Petrofac	PFC LN	Energy	Andrew Dobbing	OW	p	1680.00	1486.00	2100.00	41%	-7%	Dec-12	22-Mar-12
Erste Bank	EBS AV	Banks	Paul Formanko	OW	€	15.80	14.33	25.00	75%	-8%	Dec-12	19-Apr-12
PostNL	PNL NA	Logistics & Freight	Chris Combe	OW	€	3.39	2.83	5.25	86%	-11%	Dec-12	30-Apr-12
Aegis	AGS LN	Media	Filippo Lo Franco	OW	p	166.1	155.90	228.00	46%	-5%	Dec-12	11-May-12
Afren	AFR LN	Energy	Jessica Saadat	OW	p	121.5	104.30	210.00	101%	-9%	Dec-12	14-May-12
ENI	ENI IM	Energy	Nitin Sharma	OW	€	15.37	15.54	21.50	38%	-1%	Dec-12	22-May-12

Source: Bloomberg, J.P. Morgan estimates. Share price data as at COB 5th June 2012. *From Latest Closing Price

Companies Recommended in This Report (all prices in this report as of market close on 06 June 2012, unless otherwise indicated)
BMW (BMWG.DE/€58.79/Overweight), Daimler AG (DAIGn.DE/€35.49/Neutral), Hennes & Mauritz (HMb.ST/Skr208.50[05 June 2012]/Underweight), Volkswagen Prefs. (VOWG_p.DE/€122.60/Overweight)

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