Europe Insights

16 for '16

Key Takeaway

Our Research team has selected 16 stocks that play particularly strongly to one of four fundamental investment themes for 2016. We offer three Buy ideas to positively represent each theme, and one Underperform chosen to represent topical downside risk. Our Buys: Kering, Thyssen, Royal Dutch, Metro, Bouygues, Lundin Petroleum, Hikma, Wirecard, Ashtead, Aviva, Babcock, Publicis. Our Underperforms: Telefonica, Royal Mail, Whitbread, Swedbank.

The stock selection showcases ideas where our analysts feel they have a particular point of differentiation, or where they can see an especially attractive risk/reward balance.

Business Restructuring: Charmaine Yap believes Kering’s Gucci brand turnaround, and possible exit from Puma, will continue to drive margins and multiple upside. As Royal Dutch Shell seeks to complete its takeover of BG (included in last year’s picks), Jason Gammel sees upside opportunity from divestitures, buybacks, cost savings and synergies. Seth Rosenfeld expects ThyssenKrupp to be active in any European steel consolidation next year, which could further reduce its exposure to the sector, and emphasise the undervaluation of its high-quality capital goods division. We choose Telefonica as our negative play on Restructuring, as Jerry Delli believes increasingly challenging positions in core markets leave tough decisions ahead for management, which could be exacerbated by balance sheet considerations should Hutch step away from the Three-O2 merger.

Inflection Points: Jerry also believes the recent French 700MHz spectrum auction is a likely consolidation catalyst. Bouygues’ telecom business will likely be a key asset in this process. James Grzinic believes that Metro’s Cash & Carry business is finally turning the corner, with margins bottoming out, management action to improve execution on a country level, and any European recovery likely to add further momentum to the story. Lundin Petroleum has just brought its Edvard Grieg well to first oil, transforming its FCF profile as it directs focus to its world class Johan Sverdrup field. Our negative inflection call is Royal Mail, as its pensions scheme comes sharply into focus as it seeks to restructure its obligations alongside wage renegotiations in early 2016. David Kerstens believes this will not come without cost, and could cause investors to take a less optimistic view.

Growth: Drug maker Hikma has significantly enhanced its platform with the Roxane deal. James Vane-Tempest believes investors have yet to fully appreciate the 15%+ EPS growth CAGR from here, and upside scope from the Mar’16 Injectables update. Wirecard made an H2 appearance in our 2015 picks as a European e-com growth play. Damindu Jayaweera sees its geographic reach broadening, and expands on the Asia leg in this piece. Ashtead has suffered recently from energy end-market concerns. Justin Jordan believes these are proving overdone. Trading close to 3yr P/E lows, he sees upside into still impressive (and conservatively struck) growth trends. Our negative call on growth is Whitbread, facing mounting competition in its prime hotel market from peers and room-sharing websites.

Narrowing Valuation Discount: Mark Cathcart sees strategic, capital and operating benefits from Aviva’s acquisition of Friends, with the resulting cash & dividend generation likely to drive a re-rating in tandem with Solvency II confidence. Babcock shares have reacted poorly to earnings revisions and the Avincis integration. However, Kean Marden now sees upside risk in OpFCF numbers, which should drive earnings quality and help close the valuation gap to peers. Publicis management has positioned the business to recover lost ground into an important year for ad spending in 2016, with Sapient growth also likely to contribute to a higher multiple. Conversely, Swedbank is our negative Valuation call, with tailwinds of the past three years fading or becoming headwinds, challenging its ability to pay out the dividends that have assisted its re-rating to sector peak.

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- **Royal Dutch Shell** (PT: 2040p, 31% upside) — Jason Gammel, Global Energy
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- **ThyssenKrupp** (PT: €27, 54% upside) — Seth Rosenfeld, Global Steels
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- **Telefonica** (PT: €9.60, -13% downside) — Jerry Dellis, European Telecoms
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### Growth Opportunities

- **Bouygues** (PT: €45, 29% upside) — Jerry Dellis, European Telecoms
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- **Metro** (PT: €36, 23% upside) — James Grzinic, Luxury & Retail
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- **Lundin Petroleum** (PT: SEK157, 26% upside) — Niki Kouzmanov, Euro E&Ps
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- **Royal Mail** (PT: 400p, -14% downside) — David Kerstens, Transport & Logistics
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### Inflection Points

- **Hikma** (PT: 261.5p, 21% upside) — James Vane-Tempest, Spec Pharma
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- **Wirecard** (PT: €54, 20% upside) — Damindu Jayaweera, Technology
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- **Ashtead** (PT: 1385p, 25% upside) — Justin Jordan, Industrials, Paper & Packaging
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- **Whitbread** (PT: 4100p, -11% downside) — Ian Rennardson, Hotels & Leisure
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### Narrowing Valuation Discount

- **Aviva** (PT: 600p, 20% upside) — Mark Cathcart, European & UK Insurance
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- **Babcock** (PT: 1330p, 31% upside) — Kean Marden, Business Services
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- **Publicis** (PT: €70, 18% upside) — Lisa Hau, Media & Advertising
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- **Swedbank** (PT: SEK170, -8% downside) — Kristen Dahlberg, Nordic Banks
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Please see important disclosure information on pages 24 - 29 of this report.
Business Restructuring

Positive
• Kering – K€r-ching!
• Royal Dutch Shell – Seizing the BG Opportunity
• ThyssenKrupp – Cap Goods Strength Coming to the Fore

Negative
• Telefonica – Risks Across the Portfolio
Kering – K€r-ching! (PT: €192, 20% upside)

**Investment Case for 2016**

We believe a Gucci turnaround (c.30% of Kering sales, 60% of EBIT, 60% of EV) will fuel brand momentum against ongoing adverse conditions in the personal luxury goods market. The complete change in creative direction and management serves as the main catalyst which is complemented by a solid e-commerce offer and new store concept. After four consecutive years of slowdown, we think Gucci has reached an inflection point in both retail and wholesale sales, and by extension on margin compression.

Coupled with further outperformance at Bottega Veneta and Saint Laurent, this should drive a pick-up to mid-single digit organic growth at Kering. In our view, Kering’s diversified portfolio of brands now looks better equipped to adapt to the evolving luxury spend trends. Elsewhere we also expect transformational initiatives at PUMA to be less of a drag on group profitability. As such, Kering is on track to normalise hedging losses in 2015 and well-supported to rebuild profitability in the medium-term.

**Compelling Optionality for further Portfolio Change**

Kering has successfully advanced from a historically retail-dominant business towards one of Luxury and Sport & Lifestyle, and in the process rerated from FY1 EV/EBIT ranges of 9-12x to 11-14x. As PUMA approaches the end of its restructuring measures (c.30% of group sales, c.5% of EBIT), further focus by Kering on its Luxury division presents a compelling optionality for rerating from current levels.

- **Our group target of €192 values Kering’s Luxury division at 14x 2017 EV/EBIT and PUMA at 15.5x 2017 EV/EBIT, or a conservative €170, which is c.15% discount to PUMA’s €203 quoted value.**

This represents c.17x 2017 P/E at the group and 1.1x 3YR 2015-18 TSR of 15% or 1.8x 3YR 2014-17 TSR of c.9%. In comparison, luxury peers offer c.12% 2015-18 3YR TSR and are trading on an average 19.5x 2017 P/E, or 1.8x TSR.

- **Purely incorporating PUMA’s quoted €203 share price or c.19x 2017 EV/EBIT multiple would increase our group target to €195.**

- In the event of a PUMA disposal, a rerating in the remaining high-margin luxury focused group, which we value at c.16x 2017 EV/EBIT, should more than offset the estimated c.msd% EPS dilution and lead to a €207 target.

**Valuation**

At current share prices of €164 for Kering and €201 for PUMA, Gucci is valued at c.11-12x 2017 EV/EBIT, in-line or a discount to the industry at c.12.2x, which we believe does not reflect our view of an imminent brand revival. The corresponding P/E multiples of c.16x in 2016 and c.14x in 2017 reflect a 25% discount to peers and now appear unjustified in comparison to the 10%-15% historical gap.

**Key Catalysts and Financial Data (Calendarised)**

- **Revenue**
  - FY 16 results: 18 Feb 2016
  - Q1 16 revenue: (TBC) 19 April 2016
  - H1 16 results: (TBC) 25 July 2016

- **Key Forecasts**
  - Metric
    - Revenue (€m) 12,457 12,134 13,035 12,871
    - EPS (€) 10.4 10.6 11.4 11.9
    - Dividend Yield (%) 2.8% 2.9% 3.1% 3.2%
    - P/E (x) 15.4 15.2 14.1 13.4
    - EV/EBITDA (%) 10.8% 11.0% 9.9% 9.8%

- **Source:** Jefferies estimates, FactSet

**Kering’s evolving portfolio**

- **Source:** Company data, Jefferies estimates

**Valuation Scenarios**

- **Long View Valuation Sensitivity**
  - Price Target: Value % U/D-side Assumptions
    - Base Case: €192 2% Pick up in group organic growth to 4-5% in 2016-18, EBIT margin progresses from 14.6% in 2015E to 13.9% by 2018E.
    - Base w/ Puma divest: €207 29% Potential divestiture of PUMA at €2bn EV consideration. Rerating in remaining luxury-focused group to 16x 2017 EV/EBIT.
    - Upside Case: €245 53% Better than expected Gucci turnaround to drive stronger organic growth and EBIT margin recovery.
    - Downside Case: €130 -6% Continued pressure from slowing luxury spend, reinvestments stagnate EBIT margin at +13%.

- **Source:** Jefferies estimates

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*Please see important disclosure information on pages 24 - 29 of this report.*
Royal Dutch Shell - Seizing the BG Opportunity (PT: 2040p, 31% upside)

Investment Case for 2016
RDS remains firmly in the penalty box since the BG acquisition announcement, with the stock trading at a 48% discount on 2017e EV/DA CF (RDS 3.4x vs Super Major peer group at 6.5x) and a 33% discount on 2017e PE (RDS 8.1x vs Super Major peer group at 12.0x). The low multiples on RDS stock are partially a function of dilution. However, after adjusting for share count dilution as well as expected synergies, incremental cost savings and divestitures, we find the investment proposition too compelling to ignore. We believe that the combined entity will have the operational and financial characteristics that will attract a premium multiple, once integration is complete, and we are confident in RDS’ management maintaining the 2016 dividend at $1.88/sh despite the current dividend yield of 7.9%. We note for investors with higher risk tolerance, gaining exposure to RDS through BG offers an 10.9% deal arb which also leads to an implied dividend yield through BG of 9.2%.

Seizing the BG Opportunity
While we still retain reservations about the price of the c.$56bn BG acquisition, on completion we believe significant value can be added through divestitures, share repurchases and further cost savings and synergies. We expect the combined entity to have among the most resilient cash cycles within the sector at a wide range of oil prices. We believe the combined entity will be highly cash flow generative from the beginning and generate an underlying combined production CAGR of +3% 2016-20. We expect that the RDS/BG combination can cover the current dividend (with no scrip option) with free cash flow in 2017 at $70/bbl Brent. An aggressive pace of divestitures targeting assets that are not oil price sensitive represents incremental upside. In our view, midstream assets and equity in affiliates can be sold at cash flow multiples that exceed that of RDS potentially leading to a highly accretive share repurchase program. Cost reductions and capital spending efficiencies that exceed what Shell has advanced thus far would also be well received as the combination of two large entities with a rich portfolio of investment opportunities generates high potential for synergies/efficiencies relative to peers. We expect the combined entity can support a progressive dividend beyond 2017 at $65/bbl Brent. The current yield is already among the highest in the sector and $25bn of share repurchases is expected to supplement this dividend.

Key Catalysts and Financial Data (Calendarised)

<table>
<thead>
<tr>
<th>Key Catalyst</th>
<th>Key Forecasts (JEFe pro-forma)</th>
<th>2018e CFPS dilution/accretion vs Brent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clearance from China’s Ministry of Commerce (MOFCOM)</td>
<td>Metric</td>
<td>Jef 16e</td>
</tr>
<tr>
<td>Shareholder approvals (RDS, majority; BG, 75%)</td>
<td>Production (kboe)</td>
<td>3,882</td>
</tr>
<tr>
<td>RDS strategic update on completion of the transaction</td>
<td>EPS ($/sh)</td>
<td>1.82</td>
</tr>
<tr>
<td></td>
<td>Dividend Yield (%)</td>
<td>7.9</td>
</tr>
<tr>
<td></td>
<td>P/E (x)</td>
<td>13.0</td>
</tr>
<tr>
<td></td>
<td>EV/DA CF (x)</td>
<td>4.4</td>
</tr>
</tbody>
</table>

Source: Company data, Jefferies estimates, FactSet

Valuation
Our 2040p price target is primarily derived from a Discounted Cash Flow (DCF) model, supported by a SoP and DDM analysis. In addition to oil/natural gas commodity price and refining margin risks, we view the overhang of the BG deal as the primary risk.

Valuation Scenarios

<table>
<thead>
<tr>
<th>Long View Valuation Sensitivity</th>
<th>Price Target</th>
<th>Value</th>
<th>% U/D-side</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price Target</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Base Case</td>
<td>2040p</td>
<td>31%</td>
<td></td>
<td>$73/bbl Brent in 2017; Highly CF generative combined RDS/BG entity, enlarged co able to cover divi</td>
</tr>
<tr>
<td>Upside Case</td>
<td>2,560p</td>
<td>64%</td>
<td></td>
<td>$80/bbl Brent in 2017; Strong project execution, Restructuring &amp; BG synergies higher than expected</td>
</tr>
<tr>
<td>Downside Case</td>
<td>1,500p</td>
<td>-4%</td>
<td></td>
<td>$60/bbl Brent in 2017; Poor project execution delays major capital projects, delaying growth beyond 2017</td>
</tr>
</tbody>
</table>

Source: Jefferies estimates
ThyssenKrupp - Cap Goods Strength to the Fore (PT: €27, 54% upside)

Investment Case for 2016
THKA turned FCF positive for the first time in nine years in FY15. While FY16 will see FCF roughly stable, quality should be significantly upgraded as earnings growth offsets a swing in working capital, and FCF should accelerate further in FY17 to a c.8% yield. After years of balance sheet concerns, positive FCF generation should support a fall in gearing to <100%, and highlight THKA’s underlying earnings quality and defensiveness in both capital goods and materials. While THKA’s steelmaking businesses face industry-wide risks as high Chinese exports pressure global steel margins, these operations contribute <30% to EBIT and capital goods should be a key earnings driver in FY16.

The Opportunity from Portfolio Change
We believe THKA’s capital goods businesses are deeply undervalued by the market; efforts to highlight the quality of these businesses and alleviate historical balance sheet worries should drive a gradual re-rating of THKA equity. Across the group, we are most bullish on THKA’s Elevator Technology business as strong exposure to the US, Middle East and South Korea drive continued new installation growth, and ongoing cost cutting measures should close a significant margin gap versus peers. Recent order wins in Industrial Solutions (cement plant in Saudi Arabia worth “higher three digit” million euro) and Components Technology (auto sector orders worth €4.5bn) will help secure THKA’s order book and FCF generation moving forward; a A$50bn Australian submarine contract could provide further upside in FY16.

While THKA faces risk within its steelmaking operations, these businesses contribute <30% to group EBIT. In addition, THKA’s exposure is to relatively defensive premium products via long-term autos contracts. Looking forward, we believe that THKA will be an active participant in any Euro Steel sector consolidation and restructuring in the course of 2016. THKA could see significant synergy and cost savings benefits from a tie-up with another premium flat rolled steel producer such as Tata, VOE, MT or SZG. As THKA restructures its steelmaking businesses, we expect investors to pay increased attention to the company’s high quality but undervalued capital goods divisions.

Key Catalysts and Financial Data (FY ending September)

| Key Catalysts | Rebound in global steel demand | Further asset disposals enabling balance sheet deleveraging | 1Q FY16 Results - Feb 2016 |
| Key Forecasts | Metric | Jef '16e | Cons '16e | Jef '17e | Cons '17e |
| Revenue | 42,144 | 42,282 | 43,329 | 43,330 |
| Adj. EBIT | 1,751 | 1,774 | 2,084 | 1,973 |
| Dividend Yield | 1.4% | 1.4% | 2.9% | 2.1% |
| FCF Yield | 0.8% | 2.0% | 7.9% | 5.3% |
| EV/EBITDA | 4.6x | 4.6x | 4.0x | 4.2x |

Source: Company data, Jefferies estimates, FactSet

Re-Rating of THKA’s Capital Goods Businesses Should Drive Equity Upside

| | TKA adj. EBIT contribution FY16-17e | Peer Group FY16a EV/EBITDA |
| Materials | 28% | 4.5x |
| Capital Goods | 72% | 8.7x |
| TKA FY16a EV/EBITDA | 4.6x |

Source: Jefferies estimates

Valuation
Our €27.00 PT is derived through a SoTP valuation using EV/EBITDA multiples, under which the materials businesses trade in-line with steel peers and capital goods trade at a 20% discount versus their peer set. At our price target, THKA would trade on a 5.5x CY2016E EV/EBITDA (ex-pensions), a premium to the European steel sector at 4.6x. THKA’s deeply undervalued capital goods businesses should gradually re-rate as the company’s balance sheet and FCF improve.

Valuation Scenarios

| Long View Valuation Sensitivity | Value | % U/D-side | Assumptions |
| Price Target | €27 | 54% | SoTP-based valuation with capital goods divisions receiving a 20% discount to peers |
| Upside Case | €33 | 88% | Full premium multiple to capital goods peers |
| Downside Case | €15 | -14% | Global steel prices disappoint to the downside and capital good prices deteriorate |

Source: Jefferies estimates
Telefonica – Risks Across the Portfolio (PT: €9.60, -13% downside)  

**Investment Case for 2016**

TEF trades at a premium to the European Telco Incumbents on 7.4x/7.3x 15/16e EV/EBITDA (vs the incumbents on 7.0x/6.8x). However, quoted TEF Brasil trades on 5.0x/4.7x EV/EBITDA in 2016e/17e and we believe that TEF’s Venezuelan/Argentinian would be hard-pressed to justify anything approaching the blended group trading multiples given weak macro prospects and cash repatriation controls. Against this backdrop, we also consider the trading value of TEF’s ‘rump’ which is trading on 8.3x/8.2x 15/16e EV/EBITDA, which looks rich to our eyes. Especially given 2016 is likely to be a tough year for TEF Shareholders with threats across the portfolio, including increased competitive tension in Spain, O2UK deal risk and macro concerns in the LatAm region (something cons have persistently underestimated).

**Portfolio Concerns**

**Spain Remains Competitively Tense.** There is a widely held view that the Spanish market is poised for a vigorous recovery, but in our view, polarised retail market shares bring contrasting incentives. TEF has c.70% EBITDA market share to protect and has sought to do so by creating bundles of content the other operators can’t replicate. However, following the award of the main domestic football rights to Mediapro, TEF’s original dream of using exclusive football content to differentiate its bundles, reduce churn and sustain pricing power seems to be over and this may force TEF to find new ways to differentiate itself, introducing additional cost pressure.

**Three-O2.** Our Base Case remains that the deal happens for £10.25bn, but a key risk facing TEF is that the EC pushes so hard on remedies that Hutchison feels that the £3-4bn of synergies are no longer attainable and is compelled to renegotiate a lower price, or step away. Completion is key to TEF, success has been taken for granted by investors and use of proceeds to pay down c.25% of group net debt makes paying a cash dividend in 2016 feel credible. In a scenario where the merger collapses adj. leverage climbs to 3.2x in 2017 (vs 2.7x in our base case) and the €3.7bn p.a. cash dividend remains uncovered in 2016 and still only narrowly covered in 2017 on our numbers.

**Brazil.** Which contributes almost a quarter of group Revs/EBITDA, faces significant macro challenges with Brazil’s central bank expecting the country to remain in recession through 2016 and consumer confidence metrics have deteriorated sharply in the last 12 months, even after several years of progressive decline. Brazil (46% of 2Q15 LatAm revenues) has reported organic revenue growth averaging +2.1% since 1Q12. However, in real terms (based on official inflation rates) Brazil has averaged -2.9%.

**Key Catalysts and Financial Data (Calendarised)**

<table>
<thead>
<tr>
<th>Key Catalysts</th>
<th>4Q15 Results (Feb 16)</th>
<th>O2/3 Deal Clearance</th>
<th>FX Weakness in Latam Currencies</th>
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</table>

<table>
<thead>
<tr>
<th>Key Forecasts</th>
<th>Metric</th>
<th>Jef 16e</th>
<th>Cons 16e</th>
<th>Jef 17e</th>
<th>Cons 17e</th>
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<tbody>
<tr>
<td>Revenue</td>
<td>45,421</td>
<td>47,383</td>
<td>46,999</td>
<td>48,133</td>
<td></td>
</tr>
<tr>
<td>EPS</td>
<td>0.66</td>
<td>0.72</td>
<td>0.74</td>
<td>0.82</td>
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<tr>
<td>Dividend Yield</td>
<td>6.7%</td>
<td>6.8%</td>
<td>6.8%</td>
<td>6.9%</td>
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<tr>
<td>EV/EBITDA</td>
<td>7.2x</td>
<td>6.1x</td>
<td>6.9x</td>
<td>5.8x</td>
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<tr>
<td>EV/OpFCF</td>
<td>17.4x</td>
<td>N/A</td>
<td>13.8x</td>
<td>N/A</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Company data, Jefferies estimates, FactSet

**Valuation**

Our €9.60 price target is based on SOP valuation, which offers c.13% downside. At this price, TEF would trade on 6.7x/6.4x EV/EBITDA in 2016e/17e in-line with the incumbents which trade on 6.8/6.4x but the rump (Spain + LatAm ex BZL/ARG/VEN) would be on 7.4x/7.3x and would still be trading at a significant premium.

**Valuation Scenarios**

<table>
<thead>
<tr>
<th>Price Target</th>
<th>Value</th>
<th>% U/D-side</th>
<th>Assumptions</th>
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</thead>
<tbody>
<tr>
<td>Base Case</td>
<td>€9.6</td>
<td>-13%</td>
<td>Spain remains competitively tense, Macro conditions showing no sign of recovery in BRZ</td>
</tr>
<tr>
<td>Upside Case</td>
<td>€11.5</td>
<td>5%</td>
<td>Content investment allows TEF to raise prices without increased churn</td>
</tr>
<tr>
<td>Downside Case</td>
<td>€7.5</td>
<td>-32%</td>
<td>O2/3 Deal risk, Macro in BRZ, Competition intensifies in Spain</td>
</tr>
</tbody>
</table>

**Source:** Jefferies estimates
Inflection Points

Positive

- Bouygues – Consolidation Back in Focus
- Metro – For Good Measure
- Lundin Petroleum – De-levering while Investing

Negative

- Royal Mail – Focus on Pay Deal & Pension Reforms
Bouygues – Consolidation Back in Focus (PT: €45, 29% upside)  

Investment Case for 2016
The market continues to value the BYG Group as a ‘going concern’ with zero probability of a telecom disposal. We believe that there is an unprecedented alignment of interests towards consolidation (among all French operators and also the government). Our initial view was that consolidation discussions would be brought back to the table when NUM-SFR realised that organic improvement was no longer an option, however, with Orange now (reportedly) engaged in discussions with Bouygues, consolidation may have been brought forward. A deal with Orange would be more amenable to both M. Bouygues and the French Government. We underline our conviction by continuing to use a telco disposal basis for setting our Bouygues PT. At an €11bn valuation for BYG Tel, our fair value is €45, c.30% upside.

French 700MHz Auction Marked an Inflection Point
French telecom is characterised by polarised strategies and sharply contrasting results. BYG remains on the right side (alongside ORA). This is not a sustainable situation for Free or NUM-SFR, in our view. Over the last two years, the three larger operators have been insulated somewhat as Free has been consigned to competing for lower value customers due to its tight spectrum allocation and the lack of a 4G roaming deal. However, post the 700MHz auction, Free will have the tools that finally enables it to launch a credible 4G proposition. With c.80% of customers yet to migrate to 4G and c.60% not tied to a contract, its opportunity to grab share is significant.

This threat appears to have focused minds, renewing impetus for consolidation, with interests aligned as never before. All the players in the market have a considerable incentive to avoid an increase in competitive intensity. NUM-SFR is commercially less resilient than rivals but committed to the most ambitious targets. ORA has a strong vested interest in dealing with any issue that could undermine investor confidence in its ability to stabilise EBITDA and cash flows. While the Government, who last summer voiced ‘public interest’ objections, may, with the cash pocketed from the auction, feel that consolidation is a surer way to ensure network investment keeps up with international peers and would give it more leverage to preserve French employment (with SFR’s commitments expiring in April 17).

On a standalone basis, things are also looking up. Revenue prospects for BYG Telecom should benefit from completed re-pricing in mobile and supportive pricing/mix in FBB. Revenue trend inflection achieved against a backdrop of tight cost control should drive solid margin gains (from a low base). Service revenues began growing in 3Q15. With the forced re-pricing of obsolete legacy tariffs now complete and BYG claiming market-leading usage levels among its mobile base (28% market share of 3G + 4G traffic combined vs. 14% customer share), there is no excuse for not now delivering ARPU stability.

Valuation
We value Bouygues on a SOTP basis, with the construction assets as 11x 2016E EBIT (in line with the sector), TF1 at market value and Telecom at a take-out EV of €11bn. With a 10% conglomerate discount this implies a Value per share of €45 (+30% upside).

Valuation Scenarios

<table>
<thead>
<tr>
<th>Price Target</th>
<th>Value</th>
<th>% U/D-side</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Case</td>
<td>€45</td>
<td>29%</td>
<td>French Consolidation, BYG Tel €11bn Take Out EV</td>
</tr>
<tr>
<td>Upside Case</td>
<td>€50</td>
<td>43%</td>
<td>BYG Tel €12bn Take Out EV and Construction Assets Relate to 12x 16E EBIT</td>
</tr>
<tr>
<td>Downside Case</td>
<td>€33</td>
<td>-6%</td>
<td>Stand Alone Going Concern</td>
</tr>
</tbody>
</table>

Source: Jefferies estimates
Metro - For Good Measure (PT: €36, 23% upside)

**Investment Case for 2016**
We believe that Metro’s investment attractions have increased materially in recent times. Not only has B/S leverage reduced considerably, but the exposure to a challenged Russian consumer outlook is now much more contained, the online/offline price harmonisation at MediaMarktSaturn largely complete and the decentralisation process of C&C operations well under way. This makes Metro a better quality play into a recovering European consumer at attractive valuation levels. We currently estimate Metro trades on 16.6x calendarised 2016 P/E (excluding property profits) and an EV/EBITDA of 5.2x. The latter highlights the extent to which a temporarily high tax charge is impacting reported earnings. We expect a fiscal year 14/15 rate of 50% to reduce to 35% by 17/18, and supercharge 10% EBIT CAGR to well over 20% EPS CAGR over the next three years.

**Cash & Carry at inflection**
Over the past five years, C&C operating margins have reduced from a peak of 5% to c.3.5% (JEFe) in the year to end September 2015 (and an even sharper rebasing if the disposal of loss-making businesses is accounted for). We believe this reflects sharp margin declines across most geographies in reaction to the negative operational leverage from pressured demand, especially in the foodservice segment (which saw sales decline by close to 15% since the credit crunch). Not only should the changes in the C&C operating model lead to a more effective execution, but this should also be accompanied by the help from recovering demand following a protracted period of contraction in sales of the C&C customers base. This should lead to gradual margin recovery (we estimate to 4.1% by fiscal 17/18). In the meantime, a much more effective multi-channel offering at MMS should see continued gains following the recovery to a c.2% margin in 15/16.

**Key Catalysts and Financial Data (Calendarised)**

<table>
<thead>
<tr>
<th>Key Catalysts</th>
<th>Cons. 16e</th>
<th>Cons. 17e</th>
<th>Cons. 18e</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue (€m)</td>
<td>59,614</td>
<td>60,091</td>
<td>61,387</td>
</tr>
<tr>
<td>EBIT (€)</td>
<td>1.93</td>
<td>1.99</td>
<td>2.42</td>
</tr>
<tr>
<td>Dividend Yield</td>
<td>3.5%</td>
<td>3.5%</td>
<td>3.9%</td>
</tr>
<tr>
<td>P/E (inc property)</td>
<td>15.2</td>
<td>14.7</td>
<td>12.1</td>
</tr>
<tr>
<td>EV/EBITDA</td>
<td>5.2</td>
<td>n/a</td>
<td>4.7</td>
</tr>
</tbody>
</table>

Source: Jefferies estimates, FactSet

**C&C LFL recovery to drive margin turn**

Source: Company Data, Jefferies estimates

**Valuation**
Our €36 PT places Metro on slightly over 20x calendar 2016 P/E (dropping to 16.2x in 2017, and highlighting very strong levels of net earnings growth as the tax rate normalises). It also implies an undemanding EV/EBITDA of 6.1x (dropping to 5.5x by calendar 2017).

**Valuation Scenarios**

<table>
<thead>
<tr>
<th>Price Target</th>
<th>Value</th>
<th>% Upside/Downside</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Case</td>
<td>€36</td>
<td>23%</td>
<td>European consumer recovery, cost savings from self help at C&amp;C/MMS, share gains in electronics, €/RUB 70</td>
</tr>
<tr>
<td>Upside Case</td>
<td>€48</td>
<td>64%</td>
<td>Better than expected consumer recovery in Europe, overdelivery on cost savings, €/RUB to 60</td>
</tr>
<tr>
<td>Downside Case</td>
<td>€19</td>
<td>-35%</td>
<td>Deterioration of European consumer environment (particularly Russia), cost savings fall &amp; share losses in core businesses</td>
</tr>
</tbody>
</table>

Source: Jefferies estimates
Lundin Petroleum - De-levering while Investing (PT: SEK157, 26% upside)

Investment Case for 2016

Into 2016, we remain focused on Lundin Petroleum’s “stepping-stone” project, Edvard Grieg, which recently achieved First Oil. Even at our conservative field ramp-up assumptions, we see group production double to 64kboe/d in 2016. Edvard Grieg First Oil also marks the end of the capital intensive phase of the project life cycle and the beginning of cash flow generation, inflecting group free cash flow (FCF). Lundin Petroleum’s 2016 FCF turnaround potential of US$1.5bn (c.33% of current market cap; US$61/b Brent) is the highest in our Euro E&P universe. At US$50/b Brent, Lundin Petroleum’s FY16 FCF is only marginally negative but still well ahead of peers such as Det norske oljeselskap, Tullow Oil and Premier Oil.

The Inflection Point - Free Cash Flow at Low Oil Prices while investing for Future Growth

In the current oil price environment, NAV valuations and potential industry support (corporate and asset acquisitions; farm-ins; etc.) form just one aspect of our investment cases. Balance sheet strength and free cash flow profiles are key, in our view, for relative outperformance within the Euro E&P group. We expect companies in a position to de-lever to come out as winners from the current oil price cycle. Lundin Petroleum is at precisely this inflection point. Cumulative free cash flow in 2016-2020 is positive, even at US$50/b flat Brent, placing Lundin in a position to de-lever while also maintaining investment in future production growth - Johan Sverdrup Phase 1 (sanctioned) and Phase 2 (unsanctioned). By the end of the decade, we believe, Lundin Petroleum could be a step ahead of its peers, which, in the current oil price environment, might have been forced to defer investment (Tullow Oil - East Africa development and E&A drilling; Premier Oil - Sea Lion) due to weaker balance sheets and FCF profiles. For more details, please see our 1 Dec 2015 Cold Hard Cash Flow report.

Key Catalysts and Financial Data (Calendarised)

<table>
<thead>
<tr>
<th>Key Catalysts</th>
<th>LUPE's best in-class FCF profile, even at US$50/b flat Brent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue (US$m)</td>
<td>Group Range (JEF)</td>
</tr>
<tr>
<td>EPS (US$/sh)</td>
<td>Group Range (US$50/b Brent)</td>
</tr>
<tr>
<td>FCF Yield</td>
<td>LUPE FCF (JEF)</td>
</tr>
<tr>
<td>P/EBITDA</td>
<td>LUPE FCF (US$50/b Brent)</td>
</tr>
</tbody>
</table>

Source: Company data, Jefferies estimates, FactSet

Valuation

We use SoTP valuation for Lundin Petroleum with assets discounted to 1 Jan 2017 (Skr248/sh) and offset by YE16e net debt of US$3.8bn (Skr108/sh). We also include US$764m of accumulated Norwegian tax losses, discounted to US$597m (Skr17/sh). We incorporate Lundin’s current capital structure and forward de-gearing profile into our group WACC. On an EV/2P basis, our Price Target implies US$13.4/boe (vs. LUPE currently trading at US$11.7/boe and sector at US$10.1/boe).

Valuation Scenarios

<table>
<thead>
<tr>
<th>Long View Valuation Sensitivity</th>
<th>Price Target</th>
<th>Value</th>
<th>% U/D-side</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Case</td>
<td>SEK157</td>
<td>26%</td>
<td></td>
<td>Edv Grieg FY16 uptime 60% (cons. 90%), Johan Sverdrup Ph 1 gross capex US$15.5bn, First Oil 2020</td>
</tr>
<tr>
<td>Upside Case</td>
<td>SEK194</td>
<td>55%</td>
<td></td>
<td>Success case captured by mid-point between our PT and the unskewed PT valuation</td>
</tr>
<tr>
<td>Downside Case</td>
<td>SEK115</td>
<td>-8%</td>
<td></td>
<td>RBL refinancing at significantly higher cost (CIBO+3% currently) increasing WACC to 9%</td>
</tr>
</tbody>
</table>

Source: Jefferies estimates
Royal Mail - Focus on Pay Deal & Pension Reforms (PT: 400p, -14% downside)  Negative

Investment Case for 2016
We remain cautious on Royal Mail with an Underperform rating and 400p price target ahead of upcoming labour negotiations and pension reforms, which could prove to be relatively more expensive than what’s currently reflected in Royal Mail’s premium valuation. Royal Mail shares are trading at a 34% premium to the sector, while we estimate underlying profitability will remain relatively stable at 7.8%, with accelerated efficiency improvements with savings of £500m compensating for an increasingly competitive parcel market.

Pension reforms to strain cash?
Earnings expectations for FY16/17E and beyond are largely dependent on the outcome of a new labour agreement, following discussions with Unions which are expected to start early 2016 and will likely also involve discussions about pension reforms. We assume the terms of the new labour agreement will remain similar to the current labour agreement, with wage inflation in the range of 2%-3% and no forced redundancies. The labour negotiations will likely also cover the inevitable reform of the defined benefit pension scheme, covering around 96,000 existing employees, accounting for >2/3 of the UKPIL workforce, as pension cash contributions are expected to rise from currently around £400m per annum, accounting for 17% of the pensionable payroll, to £700m-£900m per annum from FY18/19E onwards, accounting for 30%-40% of the pensionable payroll. Royal Mail has already indicated it will not be able to afford an increase in pension cash contributions, implying the defined benefit pension scheme will likely have to be closed and transferred into a relatively cheaper defined contribution scheme. Our estimates assume Royal Mail will maintain pension cash contributions at £400m per annum, which would correspond to a universal DC scheme at around 14% of pensionable payroll. We estimate the saving on pension cash contributions for Royal Mail amounts to £2.3bn, assuming a gradual reduction in the pensionable workforce by 3,000-4,000 people per annum over the next 30 years. Our Royal Mail valuation assumes part of the pension saving will have to be passed on to the members of the DB scheme and compensates for the hidden value in the London development property.

Key Catalysts and Financial Data

Key Catalysts
Q1 IMS - January 21st
FY15/16 results in May

Key Forecasts
Metric            Jef 16e  Cons 16e  Jef 17e  Cons 17e
Revenue            9,254   9,244   9,280   9,306
EPS                 36.88   37.54   39.19   39.55
Dividend Yield     4.9     4.7    5.1     4.7
P/E                 12.0    12.4    11.9    11.8
EV/EBITDA          6.8     6.2    6.5     5.9

Source: Company data, Jefferies estimates, FactSet

Fading sales growth drives cost focus to stabilise margins

Source: Jefferies estimates

Valuation
Royal Mail shares are trading at 11.5x FY16E EV/EBIT, implying a 34% premium to the European postal sector. Adjusted for the relatively high IAS19 pension service charge of >£700m (accounting for 30% of pensionable payroll), the shares would be trading at 8.4x FY16E EV/EBIT, broadly in-line with the European postal sector. Our 400p DCF-based price target assumes relatively stable underlying profitability at 7.8% of revenues, with pension incentive payments compensating for the hidden value in the London development property.

Valuation Scenarios

<table>
<thead>
<tr>
<th>Long View Valuation Sensitivity</th>
<th>Price Target</th>
<th>Value</th>
<th>% U/D-side</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Case</td>
<td>400p</td>
<td>-14%</td>
<td></td>
<td>Stable underlying profitability at 7.8%, cost of pension reform &gt; property value</td>
</tr>
<tr>
<td>Upside Case</td>
<td>560p</td>
<td>20%</td>
<td></td>
<td>Profitability improving to 9.4% by FY20E, cost of pension reform in line with property value</td>
</tr>
<tr>
<td>Downside Case</td>
<td>300p</td>
<td>-36%</td>
<td></td>
<td>Profitability declining to 5.5% by FY20E; cost of pension reform &gt; property value</td>
</tr>
</tbody>
</table>

Source: Jefferies estimates
Growth Opportunities

Positive

- Hikma Pharmaceuticals – Primed for Growth
- Wirecard – Good to Great: Expanding Footprint
- Ashtead – Poised for Re-Rating

Negative

- Whitbread – Premier Out
Hikma Pharmaceuticals – Primed for Growth (PT: 2615p, 21% upside)  

**Investment Case for 2016**

Another year of excellent strategic acquisitions leaves Hikma well positioned as one to own for 2016. The Roxane deal is a game-changer for the US oral generics business in our view, providing a solid platform and pipeline which Hikma can leverage for top-line growth and a 15.4% EPS CAGR 2015-19E.

**Muscular Growth Platform Established**

The Roxane deal, announced July 2015, is transformative; we currently model 14% EPS accretion in 2017 and >20% thereafter. Roxane has a broad portfolio of 88 products, 75% of which have three or fewer competing products, and the combined portfolio is catapulted to the 6th largest player in the US generics market. There are further opportunities to commercialise these assets outside the US, in our view, in particular in MENA.

We believe the market is yet to appreciate the strategic value from the recent US generics deals, and is too transfixed by the lower short-term guidance for the US oral generics business at its 9M IMS. This dislocation presents a compelling entry point, in our view. We believe Doxycycline sales have now normalised, expectations for Mitigare are low, and further launches should support organic growth.

In Injectables, a Bedford guidance update is expected in March 2016, launches are occurring ahead of schedule and we expect further clarity on 2017 prospects at FY which could provide a boost to the shares. Hikma is our preferred name in the EMEA generics sector.

### Key Catalysts and Financial Data (Calendarised)

#### Key Catalysts

- Stabilisation of impacted MENA markets should improve
- New product launches to improve visibility for Injectables.
- Successful closing and integration of Roxane in Q415.

#### Key Forecasts

<table>
<thead>
<tr>
<th>Metric</th>
<th>Jeff ‘16e</th>
<th>Cons ‘16e</th>
<th>Jeff ‘17e</th>
<th>Cons ‘17e</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue (USDm)</td>
<td>2,382</td>
<td>1,792</td>
<td>2,660</td>
<td>2,087</td>
</tr>
<tr>
<td>EPS (USD)</td>
<td>154.0</td>
<td>164.0</td>
<td>186.7</td>
<td>196.9</td>
</tr>
<tr>
<td>Dividend Yield</td>
<td>0.7%</td>
<td>0.9%</td>
<td>0.3%</td>
<td>1.2%</td>
</tr>
<tr>
<td>P/E</td>
<td>21.4x</td>
<td>19.9x</td>
<td>17.6x</td>
<td>17.1x</td>
</tr>
<tr>
<td>EV/EBITDA</td>
<td>13.2x</td>
<td>14.5x</td>
<td>11.3x</td>
<td>12.7x</td>
</tr>
</tbody>
</table>

Source: Company data, Jefferies estimates, FactSet *JEFe include Roxane transaction.

### Valuation

Our PT of 2615p is derived by applying a 21.5x P/E in 2017 reflecting 2017 guidance for Bedford and Roxane. Risks: FX & oil price volatility, any unexpected disappointment in US generics, execution risk integrating Bedford/Roxane or setback to Injectables or R&D; prolonged unrest in MENA.

### Valuation Scenarios

<table>
<thead>
<tr>
<th>Long View Valuation Sensitivity</th>
<th>Target</th>
<th>Value</th>
<th>% U/D-side</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Case</td>
<td>2615p</td>
<td>21%</td>
<td>US business delivers sales above guidance as US injectables deliver solid growth.</td>
<td></td>
</tr>
<tr>
<td>Upside Case</td>
<td>2879p</td>
<td>33%</td>
<td>Bedford products launch faster than expected, Roxane integration ahead of expectations.</td>
<td></td>
</tr>
<tr>
<td>Downside Case</td>
<td>2073p</td>
<td>-4%</td>
<td>MENA growth slower, Roxane dissappoints &amp; EBITDA margin remains suppressed.</td>
<td></td>
</tr>
</tbody>
</table>

Source: Jefferies estimates
Wirecard – Good to Great: Expanding Footprint (PT: €54, 20% upside)  Positive

Investment Case for 2016

Wirecard, the German online payments technology provider, had a great 2015 (Stock +c.24.5% vs DAX +8.5% YTD). We positioned the stock in 2015 as a way to participate in the eCom growth in Europe. Its 9M15 org. revenue growth of 24% is testament to the underlying strength of that market. 2016, as shown in the chart below, will likely again be a year of incremental positive surprises that will drive consensus EBITDA forecasts up. Increasingly, Asia is becoming a contributor to these positive surprises following several strategic steps taken by the company. Singapore and Indonesia are markets where it is slowly gaining traction, and in this write-up we touch upon its most recent foray; India. With the stock already trading at a discount to its peer’s, we are confident of our Buy stance and €54 price target.

Structural eCommerce Driven Payments Story is Being Extended to Asia

The market always tends to overestimate the disruptive influence of technology in the short-term, and underestimate its influence in the longer-term. With the proliferation of payment instruments (e.g. Klarna, iDeal, etc) and security advances (e.g. Tokenization, Behavioural analytics), no one is 100% certain as to who the true long-term winners will be in the payment technology space. This is where Wirecard, both as a pan-European merchant acquirer and as an issuing technology provider, capable of facilitating new payment schemes (e.g. Orange Cash eWallet in France), is better placed, in our view, as a “pick-and-shovel” player. This positioning means it can keep growing regardless of who wins or loses in the eCom space and the payment instrument space.

Much of its historical growth is hedged to the European eCom market, which continues to grow strongly; Adobe is forecasting major economies in Europe to deliver 17%-20% yoy growth in online holiday spending this year. Given this growth will likely taper over the medium-term, Wirecard has taken strategic steps to participate in the nascent eCom growth in S.E Asia and recently India.

Indian eCom market is expected to deliver 35% CAGR over the next 5 years to reach $100bn by 2020 (Source: ASSOCHAM-PwC). Unlike in places such as China, this explosive internet growth will come not just from internet penetration, but also from the unbanked population. The latter makes heavy use of ‘retail assisted ecommerce’ for activities such as mobile top-ups, utility bills, money transfers and transport ticketing. These activities will likely extend to general eCom soon, and lead that populace to take up prepaid payment instruments as lack of credit histories prevent them from obtaining other instruments such as credit cards. Wirecard’s ability to support prepaid cards (e.g. Paysafecard, part of UK listed Paysafe group) is unique among many payment technology peers. This ability is down to its ownership of Wirecard Bank which enables it to be an Issuer. The recent acquisition in India will help the group obtain the necessary licences in India to become an Issuer in that market, and participate in the prepaid led retail assisted eCom growth in India. The acquisition is expected account for c.4% of FY16E EBITDA guidance (€280-300m), and the upside optionality to this over the years could be material.

Key Catalysts and Financial Data (Calendarised)

<table>
<thead>
<tr>
<th>Metric</th>
<th>Jof 16e</th>
<th>Cons ’16e</th>
<th>Jof 17e</th>
<th>Cons ’17e</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>952.5</td>
<td>934.1</td>
<td>1166.4</td>
<td>1112.9</td>
</tr>
<tr>
<td>EBITDA</td>
<td>2.847</td>
<td>2.823</td>
<td>3.304</td>
<td>3.454</td>
</tr>
<tr>
<td>EPS</td>
<td>1.53</td>
<td>1.59</td>
<td>1.98</td>
<td>1.98</td>
</tr>
<tr>
<td>P/E</td>
<td>29.5x</td>
<td>27.6x</td>
<td>22.8x</td>
<td>22.0x</td>
</tr>
<tr>
<td>PEG</td>
<td>1.07x</td>
<td>n/a</td>
<td>0.78x</td>
<td>n/a</td>
</tr>
</tbody>
</table>

Source: Company data, Jefferies estimates, FactSet

Another year of upward consensus revisions likely

Source: Jefferies estimates

Valuation

We believe one should factor in the company’s EPS CAGR (Cons. 28% FY15-17E) when comparing its valuation. This allows for a better comparison with peers which are structurally not as well aligned to online payments, and as a result have tepid growth rates. We therefore prefer to compare Wirecard’s valuation on a PEG basis where it trades on 1.0x Cal 16, a 25% discount to the global payments peer group.

Valuation Scenarios

<table>
<thead>
<tr>
<th>Price Target</th>
<th>Value</th>
<th>% U/D-side</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Case</td>
<td>€54</td>
<td>20%</td>
<td>2014-17 EBITDA CAGR to be 26.5%, Mobile is 5% of EBITDA in FY17E</td>
</tr>
<tr>
<td>Upside Case</td>
<td>€70</td>
<td>56%</td>
<td>2014-17 EBITDA CAGR to be 31%, Mobile is 15% of EBITDA in FY17E</td>
</tr>
<tr>
<td>Downside Case</td>
<td>€36</td>
<td>-20%</td>
<td>Macro-headwinds in EU and competition from players such as Adyen</td>
</tr>
</tbody>
</table>

Source: Jefferies estimates
Ashtead – Structural Shift & Market Share Gain (PT: 1385p, 25% upside)  
Positive

Investment Case for 2016
In 2015, despite consensus upgrades, Ashtead has de-rated on energy concerns. Following a Q216 beat & raise, with 1) Record 75% utilization (on fleet 24% larger Y/Y at $5.3bn); 2) 2% Y/Y same store Sunbelt rental yield growth (ex oil & gas); 3) Minimal 2% energy exposure and little evidence of wider US non-residential construction slowdown (+9.5% Y/Y in 10M15), Ashtead is poised for re-rating as investor sentiment shifts to 2016 growth and positive rental rates rather than short-term trading. Currently near three year valuation lows on CY16 12.8x PE & 6.1x EV/EBITDA, expect bear capitulation to power Ashtead re-rating, reiterate Buy with 1,385p PT.

Primed for Growth
Disciplined Growth & Share Gain. Despite a four year track record of delivering over 20% US rental revenue growth (3x underlying US market) and a robust 2016 macro outlook, we conservatively model pace of Sunbelt rental revenue easing from 22% growth in FY16 to 12% in FY17 and 8% in FY18. However, structural and cyclical benefits will continue to drive rental revenue growth in 2016/17 as AHT benefits from; 1) Scale & consolidation in fragmented industry; 2) Structural shift to rental; 3) Non-residential construction growth & supportive rental macro; and 4) New stores offering several years of positive contribution to Sunbelt LFL growth & EBITDA margins. These factors provide upside surprise risk to our forecasts.

Energy concerns overplayed. While energy slowdown has been severe (Baker Hughes rig count down 65% Y/Y), Energy represents just 2% of Sunbelt rental revenues. There is little evidence of energy downturn translating to wider US non-residential construction slowdown and tough O&G comps are rolling over in Dec-15. We see investor sentiment shifting to focus on 2016 growth and positive rentals rates rather than short-term trading.

Key Catalysts and Financial Data

Key Catalysts
United Rentals 1SQ4 results, Jan 20 (TBC)
Ashtead 16Q3 results, Mar 1

Key Forecasts
<table>
<thead>
<tr>
<th>Metric</th>
<th>Apr 16e</th>
<th>Cons '16e</th>
<th>Apr 17e</th>
<th>Cons '17e</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue (£m)</td>
<td>2,508</td>
<td>2,485</td>
<td>2,788</td>
<td>2,824</td>
</tr>
<tr>
<td>EPS (p)</td>
<td>80.4</td>
<td>78.8</td>
<td>88.8</td>
<td>92.9</td>
</tr>
<tr>
<td>Dividend Yield</td>
<td>1.7%</td>
<td>1.7%</td>
<td>1.8%</td>
<td>1.8%</td>
</tr>
<tr>
<td>P/E</td>
<td>13.7</td>
<td>13.9</td>
<td>12.4</td>
<td>11.9</td>
</tr>
<tr>
<td>EV/EBITDA</td>
<td>6.5</td>
<td>6.6</td>
<td>5.9</td>
<td>5.8</td>
</tr>
</tbody>
</table>

Source: Jefferies estimates, Bloomberg consensus

Ashtead has doubled US market share in last 5 years. We believe it has many years of share gain ahead

Source: Jefferies estimates, Company data

Valuation
While Ashtead trades at a premium to peers, its 1) Lower energy exposure than peers; 2) Record of organic market share gains (7% market & 6% structural rental growth); 3) Sector leading ROIC/dollar utilization self-financing expansion; and 4) Modest 1.7x net debt/EBITDA, justify this premium rating. At the same time, its valuation multiple is close to three-year lows, trading on CY16 12.8x PE & 6.1x EV/EBITDA: Reiterate Buy with 1,385p PT (reflecting 16x cal16e P/E v. historic 3yr average of 17.5x), expecting bear capitulation as growth continues to impress and drive a re-rating.

Valuation Scenarios

Long View Valuation Sensitivity

<table>
<thead>
<tr>
<th>Price Target</th>
<th>Value</th>
<th>% U/D-side</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Case</td>
<td>1,385p</td>
<td>25%</td>
<td>22% FY16 Revenue moderating to 12% in FY17. EBITDA margin rising to 45.7% in FY16</td>
</tr>
<tr>
<td>Upside Case</td>
<td>1,500p</td>
<td>35%</td>
<td>25% FY16 Revenue moderating to 20% in FY17. EBITDA margin rising to 47.5% in FY16</td>
</tr>
<tr>
<td>Downside Case</td>
<td>655p</td>
<td>-40%</td>
<td>14% FY16 Revenue moderating to 10% in FY17.</td>
</tr>
</tbody>
</table>

Source: Jefferies estimates
Whitbread – Premier Out (PT: 4100p, -11% downside)  

**Investment Case for 2016**

Whitbread’s growth strategy has been very successful over the last five years. With many of the architects of this growth leaving the company we worry this is as good as it gets for Whitbread. We think there is a danger that competition in the budget hotel and coffee shop markets intensifies, growth slows and that both earnings estimates and the valuation multiples come under pressure. We have an Underperform recommendation with a 4100p price target.

**Competition Intensifying from Peers and Room Sharing Websites.**

Whitbread is making a big bet on the continued growth of the London budget hotel market. If it completes its expansion plan we expect 40% of divisional EBIT to be generated here by 2018. We think this strategy puts Whitbread at risk from the rapidly growing ‘room-sharing’ economy. Even without the 25,000+ listings on the largest room-sharing website, we expect the number of London hotel rooms to grow by 5% in 2016, from a 2015 base of c.142,000 rooms. This will likely put further pressure on RevPAR. We recently reduced our RevPAR growth assumptions from 3% to 2% in 2016/17 and from 3% to 1% in 2017/18.

Whitbread expects to have 85,000 Premier Inn rooms by 2020, up from c.62,000 today. If it achieves this, its market share will have more than doubled since 2007. However, we think competitor Travelodge is much stronger than it was from a financial, strategic and managerial point of view.

**Key Catalysts and Financial Data (Calendarised)**

<table>
<thead>
<tr>
<th>Key Catalysts</th>
</tr>
</thead>
<tbody>
<tr>
<td>RevPAR growth slows</td>
</tr>
<tr>
<td>Premier Inn and/or Costa expansion targets are missed</td>
</tr>
<tr>
<td>Further management change</td>
</tr>
</tbody>
</table>

**Key Forecasts**

<table>
<thead>
<tr>
<th>Metric</th>
<th>Jef 16e</th>
<th>Cons '16e</th>
<th>Jef 17e</th>
<th>Cons '17e</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>3,428</td>
<td>3,238</td>
<td>3,549</td>
<td>3,576</td>
</tr>
<tr>
<td>EPS</td>
<td>263.7p</td>
<td>266p</td>
<td>284.7p</td>
<td>298p</td>
</tr>
<tr>
<td>Dividend Yield</td>
<td>2.2%</td>
<td>2.2%</td>
<td>2.4%</td>
<td>2.4%</td>
</tr>
<tr>
<td>P/E</td>
<td>17.6x</td>
<td>17.2x</td>
<td>16.2x</td>
<td>15.4x</td>
</tr>
<tr>
<td>EV/EBITDA</td>
<td>11.7x</td>
<td>11.5x</td>
<td>10.7x</td>
<td>10.4x</td>
</tr>
</tbody>
</table>

Source: Company data, Jefferies estimates, FactSet

**Recent room-share entrants & Hotel* Bookings Forecasts**

Source: Jefferies estimates

**Valuation**

Our 4100p price target is based on the shares trading at 10.7x 2016/17 EV/EBITDA, in-line with the five year average. This is supported by our Sum-of-the-Parts valuation which implies, assuming Premier Inn is worth c.11x EV/EBITDA, Costa Coffee has to be valued at 15x EV/EBITDA to justify today’s share price. Consequently, we think any demerger is priced in. The risks are that hotel demand remains strong and the effects of the room-sharing economy are not as big as expected.
Narrowing Valuation Discount

Positive

- Aviva – The Ghost of M&A Past
- Babcock – Lee-Ho
- Publicis – Reorganisation and Stabilisation

Negative

- Swedbank – All that Glistens is not Gold
Aviva – The Ghost of M&A Past (PT: 600p, 20% upside)  

**Investment Case for 2016**

With 2016 the year of Solvency II culmination, greater clarity on the group’s cash generation potential under the new metrics is likely to highlight the upside for the stock’s valuation. The merger with Friends Life is likely to bring market leadership, cost saves (£225m target) and capital synergies not yet recognised in the share price in our view. The strength of market leadership is underpinned by access to 25% of retirees in the new UK pension world with a strong cross-sell proposition for the composite. Management have already achieved £63m of run-rate cost synergies where we believe there is scope to lift the target particularly given management’s track record in cost target achievement. With Solvency II confidence now imminent, we expect £1bn of capital synergies to come through diversification with the Friends book, of which £300m have already been recognised. The stock has struggled to perform since the completion of Friends despite positive updates on the synergies achieved and continued operational momentum. In our view, a re-assessment of the stock is deserved.

**Detaching from the past**

Aviva’s history of large mergers (Commercial Union & General Accident 1998, followed by Norwich Union 2000) and inability to integrate effectively and create value in their wake is still fresh in investor’s minds, based on the stock’s performance since the merger. The stock has yet to recover following the shock of the Friends acquisition despite the strategic, capital and operating benefits set to emerge from the deal. Re-rating is merited, in our view, given the increased cash and dividend generated by the deal backed by SII confidence. Further, past trading patterns also seem to be hard to dismantle where Aviva, out of sync with the wider sector, appears to be trading as a UK bond yield proxy (see chart The Aviva Anomaly). The relationship is unwarranted, in our view, (as the group no longer sells annuities) and highlights another way the stock will eventually detach from the past.

Our DDM based on a CoC of 9.5% suggests that the market is valuing Aviva on a long-term growth rate of c.2%, materially below our growth profile of 4.0%. The stock has a higher than average dividend yield at 5.8% vs a 5.4% average 2017F for the large cap primary conglomerates in our coverage. Aviva trades on PER 2017F of 8.8x vs 9.4x average for large cap conglomerates.

---

**Key Catalysts and Financial Data (Calendarised)**

**Key Catalysts**
- Solvency II cash generation clarity - FY15 results
- M&A synergies achieved
- Capital release from Friends Life SII integration

**Key Forecasts**

<table>
<thead>
<tr>
<th>Metric</th>
<th>Jelf 16e</th>
<th>Cons '16e</th>
<th>Jelf 17e</th>
<th>Cons '17e</th>
</tr>
</thead>
<tbody>
<tr>
<td>Op profit (£m)</td>
<td>3,203</td>
<td>3,059</td>
<td>3,453</td>
<td>3,393</td>
</tr>
<tr>
<td>EPS operating (p)</td>
<td>52.5</td>
<td>49.0</td>
<td>57.1</td>
<td>54.0</td>
</tr>
<tr>
<td>Dividend Yield</td>
<td>5.0%</td>
<td>4.8%</td>
<td>5.8%</td>
<td>5.7%</td>
</tr>
<tr>
<td>P/E</td>
<td>9.6</td>
<td>10.1</td>
<td>8.8</td>
<td>9.2</td>
</tr>
<tr>
<td>Cash yield</td>
<td>8.8%</td>
<td>8.7%</td>
<td>9.3%</td>
<td>9.3%</td>
</tr>
</tbody>
</table>

Source: Company data, Jefferies estimates, FactSet

**The Aviva Anomaly**

Source: FactSet

**Valuation Scenarios**

**Long View Valuation Sensitivity**

<table>
<thead>
<tr>
<th>Price Target</th>
<th>Value</th>
<th>% U/D-side</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Case</td>
<td>600p</td>
<td>20%</td>
<td>Expense synergies £225m, life and Aviva investors growth, non-life COR up</td>
</tr>
<tr>
<td>Upside Case</td>
<td>668p</td>
<td>34%</td>
<td>Yields -50bps, equities +10%, market risk -5%</td>
</tr>
<tr>
<td>Downside Case</td>
<td>511p</td>
<td>3%</td>
<td>Yields -50bps, equities -10%, combined ratio +1pt, market risk +5%</td>
</tr>
</tbody>
</table>

Source: Jefferies estimates
Babcock – Lee-Ho (PT: 1330p, 31% upside)  Positive

Investment Case for 2016
Babcock’s investment risks are subsiding. Improved OpFCF erodes the quality of earnings debate; 1.5x net debt/EBITDA will be in sight at the end of next year; there is less uncertainty after the UK government’s recent Strategic Defence and Comprehensive Spending reviews; and CEO succession will be resolved (we continue to believe that Bill Tame, the former CFO, will be promoted internally).

FCF Developments and Earnings Quality Suggest Rerating.
Babcock has suffered from persistent negative estimate momentum since mid-2014. In our view, FY17E consensus estimates look more conservatively grounded as guidance excludes potential additional Magnox nuclear decommissioning work (the site’s condition at handover was not as expected because a third party didn’t complete the required work and Babcock may be paid to rectify) and Sellafield (the Nuclear Decommissioning Authority takes over the site from April 2016 as seems likely to parcel out work previously carried out by the NMP consortium). After a tough 2015, Avincis’s Energy Solutions division contributes only 4% to group revenue so its ability to impede momentum has diminished.

Babcock’s bid pipeline peaked in early 2014 and has recently stabilised at c.£10.5bn. In our view, a modest improvement could occur during 2016 as we believe the new UK government’s Strategic Defence and Comprehensive Spending reviews create a supportive outsourcing environment.

In addition, we think there may be up to 10% upside to FCF estimates over the next few years – an important consideration for valuation and the quality of earnings debate. In particular: 1) the additional cash pension contribution could diminish as discount rates rise and the main Babcock International and Devonport Royal Dockyard pension schemes are reviewed by actuaries in 2016 and 2017 respectively; 2) we have prudently assumed that capex/depreciation declines from 2x (inflated by Devonport infrastructure projects and SAP implementation) to 1.7x in FY18E but there is further upside £20m if management’s medium-term 1.5x guidance is more accurate; 3) cash JV dividends should improve as projects mature and the AirTanker consortium makes final deliveries in late 2016/early 2017.

In our view, Babcock’s 12.8x CY16E PE is attractive relative to outsourcing peers (Capita 15.4x, G4S 13.5x and Serco 87x) and history (a 9-19x through the cycle range). Upside risks to cash flow could push the FCF yield towards 7% in FY18E.
Publicis – Reorganisation And Restabilisation (PT: €70, 18% upside)

Investment Case for 2016
Publicis has been fighting on several fronts throughout the year, leading to underperformance against peers. The recent announcement of a front office re-organisation offers some assurance that management is responding to operational issues. Publicis is pursuing a strategy that broadens its revenue streams as it taps into the budgets of not only the CMO but also the CIO and CTO’s. The acquisition of Sapient has enhanced digital exposure to >50% of revenue and once fully integrated it should be the engine of top line growth. Geographically, the US is the largest market at c.50% of revenues which is a positive margin driver and also a favourable USD:EUR FX play. The business is very cash flow generative despite the volatility. FCF yield is robust at >8% (>€1bn) and dividend yields c.2%-3% with scope to improve as the pay-out ratio is periodically reviewed. The recent rebasing of expectations offers an attractive entry point.

Publicis at a c.20% discount to peers after a year of underperformance
Publicis is trading on a 1 year forward PE of c.13x, a c.20% discount to peers (PE of c.16.5x). This highlights the underperformance due to: 1) collapse of the Omnicom merger, 2) distraction from integrating Sapient and 3) media account reviews where Publicis had the most to defend and has disappointed with the loss of P&G North America. While we do anticipate a weak 1Q16e, given the phasing of accounts lost, we see reasons for the valuation multiple to recover over time to at least peer group level. Regaining market share lost in the US should be helped by the business reorganisation and a better advertising year in FY16e with special events such as the Olympics, US Presidential Elections and UEFA Championship. The organic contribution of Sapient should also be supportive as it is on track and growing c.5%. The integration is progressing better than expected with cost synergy guidance raised (c.€60m p.a.). The FY18E operating margin objective of 17.3%-19.3% is not in consensus numbers, and clear progress on this metric would warrant a rerating.

We value Publicis based on an average of relative valuation, FY16E PE and EV/EBITDA at 15x and 9.5x and also DCF. Our €70 PT, together with 2%-3% dividend yield, implies c.20% total shareholder return.

Key Catalysts and Financial Data (Calendarised)

Valuation Scenarios

Long View Valuation Sensitivity

Source: Company data, Jefferies estimates, FactSet

Source: FactSet, Jefferies
Swedbank – All that Glistens is not Gold (PT: SEK170, -8% downside)

**Investment Case for 2016**

Strong operating and regulatory tailwinds which have allowed Swedbank to raise dividends are abating. Low earnings transparency, lowest loan loss provisions and relatively low balance sheet diversification are inconsistent with the highest valuation in the sector.

**Expensive**

Swedbank has delivered high growth in earnings, book value and the CET 1 ratio over the last couple of years. Cost efficiency execution has been excellent and Swedbank may very well come in somewhat under the SEK16bn group expense target for 2016. Digitalisation of banking services, rapid dismantling of branch-offices and out-sourcing of staff to the Baltic countries are a few of the reasons for this improvement. The operating performance has also been characterised by high treasury net interest income and covered bond repurchases, enhancing Swedish retail net interest income at the expense of lower net financial income. Discount rate and asset price movements have reduced pension liabilities according to IAS 19 and enhanced the CET 1 ratio.

However, we believe that most of the advantages recently benefiting Swedbank are now fading. Swedbank’s mortgage margin is at a peak and margin expansion may start levelling off. IAS 19 should not contribute much further to CET 1, costs are close to the 2016 target, commission income growth is relatively low and falling impairments have left loan loss reserves thin. We question if the combination of (1) low earnings transparency; (2) limited balance sheet diversification with the high exposure to Swedish real estate and Baltic lending, and (3) the low cost approach to retail banking and asset management constitutes a strong enough basis to merit the highest valuation of the Nordic banks. The largest capital surplus in the sector makes Swedbank’s dividend ambition, 75% pay-out, undemanding in 2015 but it is not necessarily the best indicator of future dividend capacity. Of the Nordic banks we cover, declining earnings momentum will be the most visible in Swedbank’s dividend this year as DPS looks set to fall from the SEK11.35 per share distribution for 2014. We expect earnings and book value growth to fall to 2% and 5% in 2015-17f from 7% and 7% in 2012-15, respectively and Swedbank’s pay-out to moderate towards 60%-62% in 2016-17f. Excellent asset quality benefits Swedbank currently, but the associated loan loss reserves have fallen to a very low level both compared to peers and the historical average.

Our PT of SEK170 is derived from a discounted dividend model reflecting long term ROTE 13.3% and ke 9.5%.

### Key Catalysts and Financial Data

<table>
<thead>
<tr>
<th>Key Catalysts</th>
<th>Abating mortgage margin expansion &amp; treasury contributions to NII</th>
<th>Quarterly results, rate decisions Swedish central bank</th>
<th>Capital regulation disclosures from Swedish FSA</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Metric</th>
<th>Jef 16e</th>
<th>Cons 16e</th>
<th>Jef 17e</th>
<th>Cons 17e</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPS (SEK)</td>
<td>15.3</td>
<td>16.2</td>
<td>15.5</td>
<td>16.8</td>
</tr>
<tr>
<td>DPS (SEK)</td>
<td>9.3</td>
<td>11.1</td>
<td>9.5</td>
<td>12.8</td>
</tr>
<tr>
<td>Dividend Yield</td>
<td>5.0</td>
<td>6.0</td>
<td>5.2</td>
<td>6.9</td>
</tr>
<tr>
<td>P/E</td>
<td>12.1x</td>
<td>11.4x</td>
<td>11.9x</td>
<td>10.9x</td>
</tr>
<tr>
<td>CET 1 (%)</td>
<td>23.5</td>
<td>23.3</td>
<td>24.1</td>
<td>23.6</td>
</tr>
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</table>

Source: Jefferies estimates, company data

<table>
<thead>
<tr>
<th>Swedbank pay-out and P/TBV</th>
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</table>

Source: Jefferies estimates, company data.

### Valuation Scenarios

<table>
<thead>
<tr>
<th>Long View Valuation Sensitivity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price Target</td>
</tr>
<tr>
<td>----------------</td>
</tr>
<tr>
<td>Base Case</td>
</tr>
<tr>
<td>Upside Case</td>
</tr>
<tr>
<td>Downside Case</td>
</tr>
</tbody>
</table>

Source: Jefferies estimates
Performance Summary of the 15 for ‘15

**Last Year’s Picks**

Last year, we selected 15 ideas across 5 different themes. Those themes and stocks were:

**Dividend/Cash Return**: AXA, Royal Bank of Scotland, Nestle

**Restructuring/Portfolio Change**: BT Group, Accor, Bayer

**Growth Opportunities**: Hargreaves Lansdown, Glanbia, Merlin Entertainments

**Unjustified Valuation Discount**: Orange, Credit Agricole, Smurfit Kappa

**Points of Inflection**: Inmarsat, BG Group, Getinge

**Mid-Year Update: 3 Stocks Removed, 3 Stocks Added**

On June 23rd, we released a mid-year update. This piece updated our investment cases on the selected names, with particular focus on how the theme for which each stock had been picked was playing through the individual equity stories.

We also removed 3 names from the list given changes in analyst coverage. Those names were Hargreaves Lansdown, Nestle and Glanbia. To replace these, we added **Wirecard** and **Jungheinrich** in the Growth category, and **Lafarge Holcim** in the Restructuring/Portfolio Change category.

**15 for ‘15 Stock Performance Table**

<table>
<thead>
<tr>
<th>Stock</th>
<th>Price at Inception</th>
<th>Close Price</th>
<th>Absolute % Move</th>
<th>Perf %/w Local Benchmark</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accor</td>
<td>37.1</td>
<td>40.11</td>
<td>8.11</td>
<td>1.1</td>
<td>Full 12 months</td>
</tr>
<tr>
<td>AXA</td>
<td>19.6</td>
<td>25.52</td>
<td>30.20</td>
<td>23.2</td>
<td>Full 12 months</td>
</tr>
<tr>
<td>Bayer AG</td>
<td>119.2</td>
<td>116</td>
<td>-2.69</td>
<td>-9.3</td>
<td>Full 12 months</td>
</tr>
<tr>
<td>BG Group</td>
<td>89.6</td>
<td>96.5</td>
<td>7.43</td>
<td>15.4</td>
<td>Full 12 months</td>
</tr>
<tr>
<td>BT Group</td>
<td>400</td>
<td>472.7</td>
<td>18.18</td>
<td>26.2</td>
<td>Full 12 months</td>
</tr>
<tr>
<td>Credit Agricole</td>
<td>11.2</td>
<td>10.66</td>
<td>-4.82</td>
<td>-11.8</td>
<td>Full 12 months</td>
</tr>
<tr>
<td>Getinge</td>
<td>172.8</td>
<td>215.6</td>
<td>24.77</td>
<td>25.9</td>
<td>Full 12 months</td>
</tr>
<tr>
<td>Glanbia</td>
<td>12.6</td>
<td>17.7</td>
<td>-40.48</td>
<td>19.8</td>
<td>Closed 23/6/15</td>
</tr>
<tr>
<td>Hargreaves Lansdown</td>
<td>962.5</td>
<td>1249</td>
<td>29.77</td>
<td>27.3</td>
<td>Closed 23/6/15</td>
</tr>
<tr>
<td>Inmarsat</td>
<td>815.5</td>
<td>1121</td>
<td>37.46</td>
<td>28.2</td>
<td>Full 12 months</td>
</tr>
<tr>
<td>Merlin Entertainments</td>
<td>385.4</td>
<td>431.5</td>
<td>11.96</td>
<td>20.0</td>
<td>Full 12 months</td>
</tr>
<tr>
<td>Nestle</td>
<td>72.4</td>
<td>70.5</td>
<td>-2.62</td>
<td>-2.1</td>
<td>Closed 23/6/15</td>
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<tr>
<td>Orange</td>
<td>14.6</td>
<td>15.4</td>
<td>5.48</td>
<td>-1.5</td>
<td>Full 12 months</td>
</tr>
<tr>
<td>Royal Bank of Scotland</td>
<td>400</td>
<td>291</td>
<td>-27.25</td>
<td>-19.2</td>
<td>Full 12 months</td>
</tr>
<tr>
<td>Smurfit Kappa</td>
<td>18.8</td>
<td>23.88</td>
<td>26.86</td>
<td>-0.8</td>
<td>Full 12 months</td>
</tr>
<tr>
<td>Wirecard</td>
<td>36.24</td>
<td>45.39</td>
<td>25.19</td>
<td>33.3</td>
<td>Added 23/6/15</td>
</tr>
<tr>
<td>Lafarge Holcim</td>
<td>69.2</td>
<td>50.9</td>
<td>-26.45</td>
<td>-20.5</td>
<td>Added 23/6/15</td>
</tr>
<tr>
<td>Jungheinrich</td>
<td>62.7</td>
<td>74.9</td>
<td>18.96</td>
<td>27.1</td>
<td>Added 23/6/15</td>
</tr>
</tbody>
</table>

* Performance does not include dividends. Year Performance measured 8th Dec ’14-8th Dec ’15 unless otherwise stated.
Analyst Certification:

I, Jeffries Int'l Ltd. Equity Research, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

I, Charmaine Yap, CFA, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

I, Jason Gammel, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

I, Seth Rosenfeld, CFA, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

I, Jerry Dellis, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

I, James Vane-Tempest, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

I, Niki Kouzmanov, CFA, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

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Other Companies Mentioned in This Report

- Accor (AC FP: €38.82, BUY)
- Ashfield Group plc (AHT LN: p1,088.00, BUY)
- Aviva Plc (AV LN: p490.80, BUY)
- AXA SA (CS FP: €24.65, BUY)
- Babcock International (BAB LN: p989.50, BUY)
- Bayer AG (BAYN GR: €111.65, HOLD)
- BG Group (BG LN: p925.80, BUY)
- Bouygues (EN FP: €35.61, BUY)
- BT plc (BT/A LN: p460.55, BUY)
- Getinge (GETIB SS: SEK210.00, BUY)
- Glanbia (GLB ID: €16.75, HOLD)
- Hargreaves Lansdown (HL LN: p1,407.00, HOLD)
- Hikma Pharmaceuticals plc (HIK LN: p2,082.00, BUY)
- Immarsat plc (ISAT LN: p1,100.00, BUY)
- Jungheinrich AG (JUN3 GR: €71.51, BUY)
- Kering (KER FP: €155.45, BUY)
- LafargeHolcim (LHN VX: CHF49.81, BUY)
- Lundin Petroleum AB (LUPE SS: SEK121.40, BUY)
- Merlin Entertainments plc (MERL LN: p436.00, BUY)
- Metro (MEO GR: €26.86, BUY)
- Nestle (NESN VX: CHF72.50, BUY)
- Orange S.A. (ORA FP: €14.92, BUY)
- Publicis Groupe S.A. (PUB FP: €57.69, BUY)
- Royal Bank of Scotland (RBS LN: p285.50, BUY)
- Royal Dutch Shell plc (RDSA LN: p1,453.50, BUY)
- Royal Mail Group Limited (RMG LN: p445.70, UNDERPERFORM)
Themes & Tactics

Europe Insights

14 December 2015

* Smurfit Kappa Group plc (SKG ID: €23.25, BUY)
* Swedbank AB (SWEDA SS: SEK178.00, UNDERPERFORM)
* Telefonica (TEF SM: €10.57, UNDERPERFORM)
* ThyssenKrupp AG (TKA GY: €17.23, BUY)
* Whitbread (WTB LN: p4,400.00, UNDERPERFORM)
* Wirecard AG (WDI GR: €44.15, BUY)

Distribution of Ratings

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