Europe Insights
15 for '15 Update

Key Takeaway

In December, Jefferies selected 15 Buy-rated stocks offering potential upside in 2015 based around certain fundamental themes. The stocks were Accor, AXA, Bayer, BG, BT, Crédit Agricole, Getinge, Glanbia, Hargreaves Lansdown, Inmarsat, Merlin, Nestle, Orange, RBS and Smurfit Kappa. We provide a midyear update on progress and performance. We remove three names because of coverage changes, replaced by Lafarge/Holcim, Wirecard and Jungheinrich.

After a very strong run in Q1 '15, markets have pulled back as investors weigh progress on corporate profits and equity valuations alongside macro developments including the onset of Eurozone QE and protracted uncertainty around Greece.

The 15 ideas we originally presented have in aggregate performed well. The stocks were chosen in consideration of five potential drivers for share price upside: Dividend/Cash Return, Restructuring/Portfolio Change, Growth, Unjustified Valuation Discount and Points of Inflection. We provide an update on each company and developments around the themes those stocks were selected to represent. We are removing three names from the list because of coverage changes: Nestle, Glanbia and Hargreaves Lansdown (which was also lowered to Hold when Phil Dobbin assumed coverage in April).

We are introducing three fresh ideas that we believe can complement the remaining 12, bringing us back to full strength. In the Dividend/Cash Return group, we are adding Lafarge/Holcim, where pay-out ratio upside exists into 2016. In the Growth group, we are adding German payment service provider Wirecard and German fork-lift manufacturer Jungheinrich. While operating in very different industries, both benefit from the structural growth of the ecommerce market.

The table below lists the absolute and relative performance of the original 15 ideas since December publication, as well as current % up/downside to price target.

<table>
<thead>
<tr>
<th>Stock</th>
<th>Current Price</th>
<th>Price on 08/12/14</th>
<th>Absolute % Move</th>
<th>Rel Move (%) v Local Benchmark</th>
<th>% Up/Downside to 12-Mo PT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accor</td>
<td>48.3</td>
<td>37.1</td>
<td>30.3</td>
<td>16.1</td>
<td>13.8</td>
</tr>
<tr>
<td>AXA</td>
<td>23.3</td>
<td>19.6</td>
<td>18.9</td>
<td>4.6</td>
<td>10.3</td>
</tr>
<tr>
<td>Bayer AG</td>
<td>133.6</td>
<td>119.2</td>
<td>12.3</td>
<td>-2.4</td>
<td>8.5</td>
</tr>
<tr>
<td>BG Group</td>
<td>1093.0</td>
<td>895.0</td>
<td>22.3</td>
<td>19.8</td>
<td>24.4</td>
</tr>
<tr>
<td>BT Group</td>
<td>465.0</td>
<td>400.8</td>
<td>16.0</td>
<td>13.7</td>
<td>10.8</td>
</tr>
<tr>
<td>Credit Agricole</td>
<td>13.9</td>
<td>11.2</td>
<td>23.7</td>
<td>9.5</td>
<td>15.5</td>
</tr>
<tr>
<td>Getinge AB</td>
<td>206.7</td>
<td>172.8</td>
<td>19.6</td>
<td>10.2</td>
<td>16.1</td>
</tr>
<tr>
<td>Glanbia *</td>
<td>17.7</td>
<td>12.6</td>
<td>40.0</td>
<td>20.4</td>
<td>-0.8</td>
</tr>
<tr>
<td>Hargreaves Lansdown*</td>
<td>1239.0</td>
<td>962.5</td>
<td>28.7</td>
<td>26.4</td>
<td>-13.4</td>
</tr>
<tr>
<td>Inmarsat</td>
<td>964.0</td>
<td>815.5</td>
<td>18.2</td>
<td>4.4</td>
<td>8.9</td>
</tr>
<tr>
<td>Merlin Entertainment</td>
<td>445.3</td>
<td>385.4</td>
<td>15.5</td>
<td>13.2</td>
<td>12.3</td>
</tr>
<tr>
<td>Nestle SA*</td>
<td>69.9</td>
<td>72.4</td>
<td>-3.4</td>
<td>-1.6</td>
<td>13.0</td>
</tr>
<tr>
<td>Orange</td>
<td>14.8</td>
<td>14.6</td>
<td>1.6</td>
<td>-12.4</td>
<td>21.3</td>
</tr>
<tr>
<td>Royal Bank of Scotland</td>
<td>354.8</td>
<td>400.0</td>
<td>-11.8</td>
<td>-13.6</td>
<td>43.7</td>
</tr>
<tr>
<td>Smurfit Kappa</td>
<td>26.8</td>
<td>18.8</td>
<td>42.6</td>
<td>23.1</td>
<td>19.4</td>
</tr>
</tbody>
</table>

* Removed from 22/06/15 due to coverage/recommendation changes

To read our original report (8 December 2014), please click on the following link: 15 for '15.
## Summary of Contents

### Dividend/Cash Return
- **AXA** – Mark Cathcart, European Insurance  
  Tel: +44 207 029 8784, Email: mcathcart@jefferies.com  
  Page 4

- **Royal Bank of Scotland** – Joe Dickerson, UK and European Banks  
  Tel: +44 207 029 8309, Email: jodickerson@jefferies.com  
  Page 4

- **Nestle** – Martin Deboo, European Consumer Goods  
  Tel: +44 207 029 8670, Email: mdeboo@jefferies.com  
  Page 5

### Restructuring/Portfolio Change
- **BT** – Jerry Dells, European Telecoms  
  Tel: +44 207 029 8517, Email: jdellis@jefferies.com  
  Page 5

- **Accor** – Ian Rennardson, European Travel and Leisure  
  Tel: +44 207 029 8447, Email: irennardson@jefferies.com  
  Page 6

- **Bayer** - Jeffrey Holford, Global Pharmaceuticals  
  Tel: +1 212 336 7409, Email: jholford@jefferies.com  
  Page 6

### Growth Opportunities
- **Hargreaves Lansdown** – Phil Dobbin, UK Speciality Finance  
  Tel: +44 207 029 8478, Email: phil.dobbin@jefferies.com  
  Page 7

- **Glanbia** – Martin Deboo, European Consumer Goods  
  Tel: +44 207 029 8670, Email: mdeboo@jefferies.com  
  Page 7

- **Merlin Entertainments** – Mark Irvine-Fortescue, European Travel and Leisure  
  Tel: +44 207 029 8198, Email: mark.irvinefortescue@jefferies.com  
  Page 8

### Unjustified Valuation Discount
- **Orange** – Jerry Dells, European Telecoms  
  Tel: +44 207 029 8517, Email: jdellis@jefferies.com  
  Page 8

- **Credit Agricole** – Omar Fall, European Banks  
  Tel: +44 207 029 8280, Email: ofall@jefferies.com  
  Page 9

- **Smurfit Kappa** – Justin Jordan, European Paper & Packaging  
  Tel: +44 207 029 8976, Email: justin.jordan@jefferies.com  
  Page 9

### Points of Inflection
- **Inmarsat** – Giles Thorne, European Telecoms & Satellites  
  Tel: +44 207 029 8005, Email: giles.thorne@jefferies.com  
  Page 10

- **BG Group** – Jason Gammel, Global Integrated Oil  
  Tel: +44 207 029 8709, Email: jason.gammel@jefferies.com  
  Page 10

- **Getinge** – Martin Brunninger, European Medtech  
  Tel: +44 207 029 8704, Email: mbrunninger@jefferies.com  
  Page 11

### NEW ADDITIONS

### Dividend/Cash Return
- **Lafarge/Holcim** – Mike Betts, European Building & Construction  
  Tel: +44 207 029 8692, Email: mbetts@jefferies.com  
  Page 12

### Growth
- **Wirecard** – Damindu Jayaweera, European IT Software & Services  
  Tel: +44 207 029 8127, Email: djayaweera@jefferies.com  
  Page 13

### Growth
- **Jungheinrich** – Ben Glaeser, European Capital Goods  
  Tel: +44 207 548 4148, Email: benjamin.glaeser@jefferies.com  
  Page 14
## European 15 for ’15

Performance since 8 December 2014 publication

### Table 1. Stock Performance & Up/Downside to 12-Mo PT

<table>
<thead>
<tr>
<th>Stock</th>
<th>Current Price</th>
<th>Price on 08/12/14</th>
<th>Absolute % Move</th>
<th>Rel Move (%) v Local Benchmark</th>
<th>% Up/Downside to 12-Mo PT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accor</td>
<td>49.3</td>
<td>37.1</td>
<td>30.3</td>
<td>16.1</td>
<td>13.8</td>
</tr>
<tr>
<td>AXA</td>
<td>23.3</td>
<td>19.6</td>
<td>18.9</td>
<td>4.6</td>
<td>10.3</td>
</tr>
<tr>
<td>Bayer AG</td>
<td>133.6</td>
<td>119.2</td>
<td>12.1</td>
<td>-2.4</td>
<td>8.5</td>
</tr>
<tr>
<td>BG Group</td>
<td>1093.0</td>
<td>895.0</td>
<td>22.1</td>
<td>19.8</td>
<td>24.4</td>
</tr>
<tr>
<td>BT Group</td>
<td>465.0</td>
<td>400.8</td>
<td>16.0</td>
<td>13.7</td>
<td>10.8</td>
</tr>
<tr>
<td>Credit Agricole</td>
<td>13.9</td>
<td>11.2</td>
<td>23.7</td>
<td>9.5</td>
<td>15.5</td>
</tr>
<tr>
<td>Getinge AB</td>
<td>206.7</td>
<td>172.8</td>
<td>19.6</td>
<td>10.2</td>
<td>16.1</td>
</tr>
<tr>
<td>Glanbia *</td>
<td>17.7</td>
<td>12.6</td>
<td>40.0</td>
<td>-20.4</td>
<td>-0.8</td>
</tr>
<tr>
<td>Hargreaves Lansdown *</td>
<td>1239.0</td>
<td>962.5</td>
<td>28.7</td>
<td>26.4</td>
<td>-13.4</td>
</tr>
<tr>
<td>Inmarsat</td>
<td>964.0</td>
<td>815.5</td>
<td>18.2</td>
<td>4.4</td>
<td>8.9</td>
</tr>
<tr>
<td>Merlin Entertainment</td>
<td>445.3</td>
<td>385.4</td>
<td>15.5</td>
<td>13.2</td>
<td>12.3</td>
</tr>
<tr>
<td>Nestle SA *</td>
<td>69.9</td>
<td>72.4</td>
<td>-3.4</td>
<td>-1.6</td>
<td>13.0</td>
</tr>
<tr>
<td>Orange</td>
<td>14.8</td>
<td>14.6</td>
<td>1.8</td>
<td>-12.4</td>
<td>21.3</td>
</tr>
<tr>
<td>Royal Bank of Scotland</td>
<td>354.8</td>
<td>400.0</td>
<td>-11.3</td>
<td>-13.6</td>
<td>43.7</td>
</tr>
<tr>
<td>Smurfit Kappa</td>
<td>26.8</td>
<td>18.8</td>
<td>42.6</td>
<td>23.1</td>
<td>19.4</td>
</tr>
</tbody>
</table>

* Removed from 22/06/15 due to coverage/recommendation changes

Source: Jefferies estimates, Bloomberg

### Calculation Footnotes

Relative Performance is based off local benchmarks:

- **BG Group, BT Group, Hargreaves Lansdown, Merlin Entertainments, Royal Bank of Scotland** local benchmark is the FTSE100
- **Inmarsat** local benchmark is the FTSE250
- **Accor, AXA, Credit Agricole, Orange** local benchmark is the CAC40
- **Bayer** local benchmark is the DAX
- **Getinge** local benchmark is the OMX
- **Glanbia** and **Smurfit Kappa** local benchmark is the ISEQ
- **Nestle** local benchmark is the SMI

Performance is not adjusted for dividends

Performance taken from close 08/12/14 to 22/06/15
AXA (Buy, PT: €25.7)

**AXAbition**

Mark Cathcart expected management to confirm delivery of its five-year Ambition plan through 2015, and for the market to start looking for Ambition 2020 disclosure towards year-end. He also hoped for an increasing cash return story, with a possible pay-out ratio uplift to 42% from 40% at the FY numbers. The thesis has played out well, with management raising the pay-out ratio to 45%, and we forecast further growth to 48% in the medium term. This would still leave €1bn-plus of excess cash generation available by 2017e for acquisitive growth where cash earnings surprised on the upside for the full-year results. The shares have performed well (see Table 1) and in spite of the increased divi pay-out, the available yield has now fallen to 4.7% (from 5.5% in December). AXA is not immune from the profitability impact of the low yield environment as QE plays out in Europe – a negative sector theme that began to take hold through the spring. However, Mark highlights pricing in non-life, expense ratio improvement, new hybrid product growth and EM growth opportunities (vindicated at Q1 numbers) as offsetting factors, enabling this stock to remain a preferred stock within his coverage.

Since the original 15 for ‘15 was published, Mark has reduced the risk premium to 9.5% for most of his coverage, and updated valuations for published results. This has seen his valuation on AXA move from €21.4 to as high as €26.2. His price target is now €25.7 (lowered in late April to account for the lower yield impact on returns).

For detail on Mark’s most recent thinking, please click on the following link: [The Shining](#)

---

Royal Bank of Scotland (Buy, PT: 510p)

**Finding Love in a Hopeless Space**

RBS has struggled to perform since we published the 15 for ‘15. Joe Dickerson highlights the ‘restructuring fatigue’ being experienced by investors, but his view on RBS as an asymmetric risk/reward story with upcoming catalysts remains undimmed. On the specific theme of dividend/cash return, Joe questions whether capital return has really been pushed back one year versus investor expectations given the very small minority of investors who expected some form of capital return from RBS expected so in 2016. Material restructuring charges are likely to persist for at least another two years, but in his view the timing of capital return has not changed materially as a result of further CIB restructuring announced in February (particularly if Joe is correct that CIB run-off will be faster and less costly than management’s guidance). Thus, he expects a small 9p/share dividend to commence in 2016. Importantly, the larger and more immediate opportunity is for capital return via share repurchase (particularly of part of HMT’s stake). Our view is that material share repurchases could occur any time over the course of late-2015 through 2017, given RBS’s various disposals and restructurings should generate 7.1 points of capital, or nearly 70% of RBS’s estimated CET1 ratio build over 2015-2017. The bottom line is that restructuring is the key contributor to RBS’s expected excess capital position. Having raised his price target to 530p from 500p in early February, the impact of the fresh CIB restructuring on numbers led to a scaled back 510p price target in March.

For detail on Joe’s recent thinking, please click on the following link: [The Cost of Waiting](#)
Nestle (Buy, PT: CHF 79)
From Capex to Cash Returns

At the FY14 stage, our analyst took the opportunity to trim his FY15 organic growth forecast to 4.8% from 5%, on the back of a weaker Zone AOA, which Nestle plans to address but is unlikely to be a quick fix. At the same time, Europe and North America appeared to be picking up, something our analyst hoped could continue as confidence returns to consumers and remedial actions on underperforming assets (esp frozen food) take effect. Importantly, the greater focus on sweating existing assets was also evidenced as capex was reduced beyond our expectations, from 5.3% of sales to 4.3%, adding CHF1bn yoy to FCF.

Given a transition of coverage, we are removing Nestle from our 15 for ’15 list.

BT Group (Buy, PT: 515p)
Advancing into a Converged World

In our December piece, Jerry Dellis pointed to a likely acquisition of either EE or O2 as a key step towards a powerful, converged player with more opportunities to drive growth. He also highlighted a pension review and the EPL auction as other important milestones. A decision to buy EE was announced soon after our publication. BT’s £4.6bn synergy NPV estimate for the deal closely mirrored our initial £4.5bn estimate (in our 15 December note). We believe that the revenue synergy guidance looks cautious. The pension agreement with BTPS Trustee was struck a quarter earlier than expected on a £7bn funding deficit — a good outcome given the low interest rate environment. The EPL auction in February saw an 83% increase in Sky’s outlay, far ahead of our own (and consensus) expectations of c.40% inflation. By contrast, a 30% increase for BT was usefully below expectations (c.40%).

Jerry recently noted that BT has been heavily reliant on Consumer to deliver rev/EBITDA growth. Over the last two years, ~60% of rev growth has come from pricing up LR and raising BB ARPUs (fibre regulation having supported Infinity take-up). Bringing EE into the mix adds another avenue for growth from FY17 with RGU growth from cross-selling a nice balance vs pricing activity in BB/TV. BT Sport tariffs announced recently appear intended to encourage take-up of BT’s Entertainment Plus pack, blending in sport as part of a broader TV offer, now positioning BT as a challenger in Pay TV. In addition, a key part of our Buy thesis surrounds the UK regulatory outlook. This continues to look relatively benign from a BT perspective, with Ofcom’s recent commentary regarding the scope of the upcoming Digital Strategic Review not signalling any determination to intervene in ambitious/disruptive ways.

Our BT price target was increased to 515p from 470p in February on a lower WACC and higher FCF estimates. Our standalone BT forecasts now incorporate the equity placing last February that raised ~£1bn and increased share count by ~222m. At our 515p price target, the Pro Forma BT-EE would trade on 12.4x/11.3x EV/OpFCF in Mar17/18 (vs. sector 13.1x/12.0x at current prices), 6.7%/6.5% Equity FCF yield (vs. sector 6.1%/7.0%) and 15.0x/13.5x PE adj. for spectrum amortisation (vs. sector 14.1x/12.8x).

To read Jerry’s latest note on the BT Sport pricing strategy please click here:
New BT Sport Pricing May Stimulate a More Balanced Discussion with Ofcom
Accor (Buy, PT: €55)

The Path to Value Creation

Ian Rennardson continues to see a strong portfolio improvement story at Accor, as the asset heavy HotelInvest business goes through a significant restructuring, which should crystallise value and could over time lead to the group being split into two. He expects Accor to continue to exit onerous leases, to renegotiate lease costs and to buy-in leases, and to acquire freeholds. Accor is also likely to dispose of its worst-performing owned assets. The road-map is not simple, but Ian thinks it is achievable.

Management steadfastly refuses to put any figures on the financial consequences of the restructuring, saying only that the process will accelerate in 2015 (and that well above twice the 48 hotels restructured in 2014 would be restructured in 2015). That said, major improvements are already being seen at HotelInvest, where 2014 EBIT rose by almost 50% to €292m, with operating margin rising to 6.1% from 4.1% on flat sales.

Ian continues to use an EBITDA-based SoTP approach to valuation. Since the publication of the 15 for ’15, he has raised his price target to €55. This maintains the multiple on the HotelServices business, which is as good as any of its peers (13x 2016e), but lifts the HotelInvest multiple to 10x (asset heavy peer average) to reflect improving performance.

Assuming a successful restructuring results in materially higher EBITDA and applying the same 10x multiple results in our blue sky €65–€70 PT. Risks are failure to execute on the planned restructuring and that a slower-than-expected recovery in Europe negatively impacts forecasts.

Click below for more detail on why Accor is our only Buy-rated Hotel name globally: Entering Uncharted Territory

Bayer (Buy, PT: €145)

Restructuring the Future

With the MaterialScience divestment process set to be initiated in H2’15, Jeff Holford saw an opportunity for a rerating of the remaining high-growth divisions (Pharma, Consumer OTC, Animal Health, and Crop Science), while a delevered balance sheet would offer further acquisitive opportunities.

Operationally, the business has performed well through the year. Q1’15 Sales beat by 2%, and the underlying EBITDA and CORE EPS beat consensus by 3% due to Healthcare and MaterialScience. FY 2015 guidance was raised, primarily reflecting FX benefits.

Opportunities in the core business remain. Jeff expects to see the royalty rate from Johnson & Johnson’s US sales of Xarelto increase towards 30% over 2015E, which could provide upside to estimates. He has been careful to be conservative with the more mature franchises (Betaferon, Kogenate, Nexavar, YAZ, etc), against which the growth assets (Xarelto, Eylea, Xofigo, Stivarga, Lemtrada, Riogicuat) can make an overall positive contribution. He also believes that management will work hard to improve the visibility of the next generation of assets, with Phase III decisions expected to be made on the five ‘next wave’ Phase II products by the end of 2015.

The broader restructuring story has yet to play out, and Jeff has more recently emphasised AstraZeneca and Roche as his preferred European picks, with market misperceptions and valuation offering compelling opportunities on those names, in his view. Meanwhile, Bayer remains a Buy, and his current price target of €145 offers 8.5% upside alongside a 2% dividend yield.
Hargreaves Lansdown (Hold, PT: 1073p)
Seizing Opportunities

In December, we felt that HL had weathered the pressures of RDR and competition well, and that its service offering remained compelling. Customers continued to join the platform, and new avenues of growth were emerging in corporate pensions and near-automatic advice. With the valuation having pulled back from 36x one-year fwd P/E in January 2014 to 25x 2015e P/E, the growth was priced attractively.

This view was substantiated in early February with net new business inflows of £2.25bn reported in the half year to December, a lower gain than the prior year, but still very encouraging given the volatile end to 2014.

On 22 April, Phil Dobbin assumed coverage of Hargreaves Lansdown, alongside the other UK asset managers. Phil’s report noted the strong run the sector had enjoyed YTD in 2015, updated models, and looked into the ‘persistency’ of each business model by using insurance sector embedded value methodologies. One of the conclusions of this was that the market was fully discounting the high persistency of HL’s AuA, a factor in his decision to take the stock to a Hold with a 1073p price target.

As a result of this change, we have decided to remove Hargreaves Lansdown from our 15 for ‘15 list. For Phil’s assumption of coverage, please click the link below:

The Value of Persistency

Glanbia (Buy, PT: €17.5)
Whey Ahead in Sports Nutrition

Glanbia was selected to represent our Growth ideas for its leading global position in the embryonic sports nutrition category. Its #1 US market share position (2x greater than its nearest competitor on our estimate), premium positioning, best-in-class production facilities and geographic roll-out strategy all positioned the business for powerful long-term growth.

The stock was trading at €15.15 at the time of FY results in late February. This implied the stock trading on just 20x fwd P/E – a 5% discount to Food peers and on a PEG of just 1.3x. This felt compelling, and our analyst raised his PT to €17.50 from €14.50, applying a 23x P/E, a 10% premium to peers supported by best-in-class 15% avg three-year EPS growth.

The company has continued to deliver good numbers, with a solid Q1 update and 2015 EPS guidance reiterated. The stock reached its YTD high on 2 June at €18.1, but has since pulled back to €17.65. Given a transition of coverage, we are removing Glanbia from our 15 for ‘15 list.

Please see our last published Glanbia note (12 May) here:

Solid Q1 as Expected
Merlin Entertainments (Buy, PT: 500p)  
Attractions are Building  

The framework of Mark Irvine-Fortescue’s thesis remains unchanged, with attractive compounding growth set to continue off a #2 global position and #1 position in Europe. Mark continues to expect earnings momentum and re-rating to drive the share price as roll-out is accelerated. Last week, he lifted his forecasts – now reflecting 12% ‘14-17E EPS CAGR, with upside risk and possible M&A. He is now sits at the top of consensus.

The Smiler rollercoaster accident on 2 June was shocking, particularly given Merlin’s safety track record. The negative PR is understandable and has been managed as well as could be expected, in our view. Beyond this serious incident, we would note that current trading is encouraging, as is the outlook, and new business development is accelerating.

Our price target is now 500p (vs 420p prior), equating to 12.3x ‘16E EBITDA. Center Parcs recently sold for 16x ‘14 EBITDA. We see Whitbread and Compass as key peer multiples to aspire to, given the market’s appetite for consistent earnings delivery and compounded growth. Our Blue Sky scenario generates 2017E EPS of 27.7p, 12% upside to our published forecasts, giving an equity value of 570p per share (on static multiples). Additionally, every turn on the EV/EBITDA multiple equates to c50p/share.

Mark revisits the Market Growth Drivers and Merlin Growth Drivers in this note:

Accelerated Evolution

Orange (Buy, PT: €18)  
The Geared Upside Story Continues

After strong operational performance was rewarded with strong share price performance in 2014, Jerry Dellis expected momentum to continue in 2015, with an 18% EV/EBITDA discount to the sector looking too wide given fundamental improvements.

He raised his price target on the stock to €18 in January 2015, at which price ORA would have traded on 6.2x 2015 EV/EBITDA (sector 7.0x) and 11.4x EV/OpFCF (14.1x). At this point, Jerry highlighted key attributes as 1) the advent of 4G reducing competitive pressure in French mobile, with Iliad unable to credibly offer the service, 2) net reductions in the group cost base consistently delivered over the prior nine quarters, 3) French consolidation back on the agenda, and 4) Group EBITDA margins stable for the last three quarters on reducing rates of revenue decline. In sum, the hope was that ORA would be able to outline prospects for FCF stabilisation in FY15 that would draw attention to the contrast between its defensive credentials and its continuing value discount.

While both Q4’14 and Q1’15 results have proved solid, the market has taken time to digest the detail of the Essentials 2020 Plan, unveiled on 17 March. Jerry recognised that the plan contained much that was politically welcome, but that for shareholders the messages were mixed. A ~15% upgrade to 2015-18 capex is not recoverable via stronger EBITDA on that timescale. The flip side to this is that commitment to FTTH/4G deployment should secure a degree of political backing into the mid-term. More positively, trend stabilisation is close at hand, logic points to French consolidation inside six months and DPS growth is feasible from 2016. In conclusion, although the capex uplift has raised questions around FCF development, the thesis remains robust, with plenty of opportunity left in 2015 to drive the discount narrowing we still believe is warranted.

Yesterday’s M&A news has reignited interest in the sector. See Jerry’s note:

French Consolidation - Back On
Credit Agricole (Buy, PT: €16)

Omar Fall continues to believe CASA is the only French Bank worth owning, with mistakes of the past having forced strategic change, French retail concerns overdone, and ongoing developments around corporate structure. Recent Q1’15 results provided a 20% headline beat, with a strong performance from asset gathering, CIB and Retail. He continues to believe that strong valuation arguments exist given CASA’s mix of earnings. With 50% of PTP derived from asset gathering, and on our estimates only 5% of core operating profit coming from investment banking this year, the stock deserves a premium to peers.

One potential value crystallisation event has just come to life. In a move announced just last week, CASA and Soc Gen have decided to IPO their asset gathering business Amundi (80% CASA owned). Amundi is the largest asset manager in Europe with €954bn in AuM as of end 1Q15. CASA will retain a majority stake in Amundi post listing and it remains key to its earnings profile, so we suspect CASA won’t be selling much in any sale, if any. A key positive, however, is on the implied sum-of-the-parts for CASA. On a simple analysis, applying peer Blackrock’s earnings multiple to CASA’s Amundi stake (15x next year’s earnings) generates a valuation of c.€9bn for Amundi. This implies a P/E for the rest of CASA of just 7x 2016 earnings versus the sector trading on 12x.

We also continue to see a key longer dated value driver – a potential announcement around cash return to shareholders given the overcapitalisation of its parent, the Caisse Regionales, and the need to simplify the corporate structure

Omar continues to believe that the 0.9x TNAV multiple is unwarranted given Credit Agricole’s sustainable RoTE of 13%. Since December publication, he has lifted his price target to €16 on higher forward earnings and higher TNAV. His valuation methodology is based on a single-stage GGM model (RoTE of 13%, CoE of 12%).

Smurfit Kappa (BUY, PT: €32)

Perception Lagging Reality

Back in December, Justin Jordan felt that Smurfit Kappa’s 16.5% 15e EV/EBITDA discount to peers was unwarranted. He suggested that as misperceptions cleared around leverage position, history of private equity ownership, Venezuela and pension fund deficit, the benefits of improving ROCE, sector-leading FCF yield and the greatest operational upside to volume/price increases would assert themselves.

The company has delivered well so far this year operationally, and undertaken €180m of accretive M&A (Grupo CYBSA, Inspirepac, Beacon Packaging) as well as been involved in (subsequently denied) takeover speculation (International Paper suggested as potential acquirer). The valuation discount has narrowed versus peers, now standing at 7%, with SKG trading on 8.3x 15e EV/EBITDA vs peers on 8.7x. Since December publication, our price target has been increased from €24 to the current €32 based on estimate increases, accretive M&A and re-rating potential.

While we remain positive on the stock, and broader sector, Justin has most recently stressed that recent industry efforts to secure European testliner (recycled containerboard) price hikes appear to have stalled, limiting potential for higher box prices and sector-wide upgrades. While sell-side estimates are conservative, in the absence of upgrades we believe that elevated buy-side expectations may lead to a period of sector consolidation. Based on fundamentals, trading on 14x CY15 PE with 7% FCF yield, we remain buyers ahead of SKG’s 29 July Q2 results.
Inmarsat (Buy, PT:1050p)

The Long March to Revenue Inflection Ends

Giles Thorne highlighted the twin effect the remaining two Global Xpress satellite launches due in 2015 would have on Inmarsat – unlocking revenue visibility and also proving Inmarsat’s unique position in a post sequester world. Aside from this, he also pointed to other sources of potential upside (European Aviation Network visibility, LightSquared, L-band outperformance), driving a roadmap to £13/shr from the (then) base-case price target of 925p.

The May Proton failure was a major setback for Global Xpress, undermining the aforementioned inflections catalysts. But a solid set of Q4 numbers, consistent qualitative guidance and a confident tone around growth levers (most especially the European Aviation Network and the LightSquared situation) saw the stock well supported, in spite of this latest Global Xpress delay.

On 9 March, Giles raised his price target to 1050p driven by a lower discount applied to the European Aviation Network opportunity, higher GX revenue assumptions based on a possible fourth GX launch as early as Q3’16, lower tax contingency and FX. He acknowledged that Inmarsat’s 2015 PE of 31x (on 9 March) remained very high compared with peers on ~21x while pointing out that an investor in Inmarsat now faced significant upside from a range of catalysts, with a reassessed upside case of 1450p.

For the most recent note on the ISAT roadmap to 1450p/shr please click here: Clearer and Bluer

BG Group (Buy, PT:1360p)

The Rubber Meets the Road in 2015

Jason Gammel highlighted an inflection in the cash cycle (alongside the production growth) of BG Group as a key attraction to the equity story back in December, with the imminent start-up of the QCLNG project in Australia and the ramp of its Brazilian assets. He felt that this would be a key driver of renewed investor enthusiasm through the year as confidence built around a powerful production and earnings growth story.

While the oil price decline continued to buffet the sector in early 2015, leading Jason to lower his price target to as low as 1150p (vs 1340p at the time of our 15 for ’15 publication), ultimately this commodity environment – alongside the strong asset story developing at BG – contributed to a bold bid for BG by Royal Dutch Shell. This led Jason to raise his target to 1360p (383p cash, 0.4454 shares of RDSB at our 2200p PT for RDS).

Since then, the BG share price has been tied to the price action of Shell, which has underperformed by 10% versus its peers since the announcement. We continue to rate BG a Buy and in a note last week, Jason highlighted that buying BG stock with the current arbitrage essentially levered the current RDS dividend yield of 6.4% up to 7.1%. This requires accepting the tail risk of a deal falling through, although we believe the probability of this outcome is low. The market is very efficient in pricing this tail risk; the 75p/share price of the March 2016 BG put at 1100p drives the arbitrage down to 1.5%, essentially the cost of the borrow and funding.

For Jason’s most recent note on BG, please click on the link below: Levering Dividend Yield
Getinge (Buy, PT: SEK240)

What Lies Beneath?

Martin Brunninger expected a reversal in the underperformance of 2014, which had been brought about by both margin contraction based on undigested M&A activities and the FDA overhang on US sales in Medical Systems. Trading at just 13x 2015 P/E back in December, he saw 43% upside potential as the company moved to improve margins, and the FDA overhang cleared.

In January, a new CEO was selected. Alex Myers joined with a strong track record of streamlining businesses, which gave further hope to the market on the scope for margin rebound. January’s Q4 results also provided optimism around a sustainable recovery in sales, profitability and a short timeline for FDA resolution, although Martin trimmed his PT to SEK240 from SEK250 on FX impacts. By early February, the Medical Systems Division had reached agreement with the FDA, with no increase in the expected financial impact. With the stock still trading at a 30% discount to peers, the >15% earnings growth continued to appeal. More recently, the new CEO has indicated his confidence in the margin opportunity and reiterated the 2015 outlook. The Capital Markets Day on 2 September will reveal a roadmap for streamlining the business and is likely to be another catalyst for re-rating.

The stock has tracked back from highs in recent months, and now trades at 12.4x 2016 P/E versus the sector on 18.5x 16e for three-year EPS CAGR of 19% vs the sector at 12%. Martin continues to see an excellent long-term story at Getinge, and it remains one of our top three ideas in the sector, alongside IBA (Buy) and Elekta (Underperform).
Lafarge/Holcim (Buy, PT: €75/CHF 86)

Synergies Pave the Way to Shareholder Returns

Mike Betts believes the Lafarge/Holcim deal, due to complete in coming months, provides a significant opportunity for shareholders. In a recent report, he focused on the synergy potential of the two businesses. The conclusion to this was that c.€1.2bn of synergies could be generated at the EBITDA level from the LafargeHolcim merger. This is 20% above the €1bn target. The capital expenditure and working capital reduction targets will also probably be exceeded. Mike expects the majority, if not all, of the synergies from the merger to benefit shareholders, unlike both companies’ cost-cutting programmes during the last few years where the customers appear to have benefited more than the shareholders.

A key driver of his positive view is that, within the next 2-3 years, Lafarge/Holcim could be in a position to return almost CHF9.5bn to shareholders, over and above normal dividends. This represents almost 21% of the combined stock market value (at the time of writing in April). This assumes that the merged company decides to operate with a net debt to EBITDA ratio of two times at the end of 2017. Importantly, this CHF9.5bn assumes only the divestments required in order to obtain regulatory approval for the merger of the two companies.

By 2017, after adjusting for one-offs, LafargeHolcim’s free cash flow pre-shareholder dividend could be around CHF4.4bn (10% of the combined stock market value) and shows the potential ability of the combined company to continue making substantial payments to shareholders.

Mike rates both shares a Buy, with mid-cycle based price targets of CHF86 for Holcim and €75 for Lafarge. Taking an 8x 2017 EBITDA multiple and discounting back at Holcim’s (Nov ’14 Investor Day) estimate of 7% WACC generates a CHF85 PT for Holcim and EU74 for Lafarge. These are current form, not adjusting for the proposed 1-for-20 scrip issue after the planned merger close.

For Mike’s April note, please click on the link below:
Lafarge/Holcim: Synergies and Cash Return Potential
Wirecard (Buy, PT: €48)

All to Play For

As a payment services provider, Wirecard facilitates merchants to accept payments through multiple channels (mobile, in-store, etc). Wirecard’s main product is an online payment gateway, and as such its fortunes are tied to the growth of eCommerce. Its portfolio includes advanced tools for managing fraud and credit risk, and its banking licence helps provide associated financial services. Strong European eCommerce dynamics provide support to our forecasts, with Damindu also highlighting WDI’s focus on the fast-growing Central European market, and its participation in European cross-border eComm activity as particularly attractive features of the equity story. Overall eCommerce growth has a long way to go, with currently only 40% of users shopping online in the EU. Emerging markets also provide a great opportunity for Wirecard to participate in the switch away from cash. Through several acquisitions, it is in a position to tap a significant portion of S.E. Asia’s 600m population, where 58% of the population is unbanked. Finally, Wirecard’s white-label mobile wallet platform could prove to be a dark horse.

WDI started 2015 with organic revenue up 22% in Q1, yet again proving the sustainability of its c.20% organic run-rate. Growth comes not only by adding new merchants to its +19,000 list, but also from growth of existing merchants such as KLM, Qatar Airways, Lidl, Thomas Cook and Sky. Over the longer term, internationalisation of existing customers, the nascent mobile payments (c.2% of FY15E EBITDA) and the Asian volumes should offset any maturation in Europe. Additionally, the company has a c.€650m acquisition war chest, which it will deploy to opportunistically expand its ex-European footprint. We believe this to be the right strategy, alongside its focus on internal R&D.

Damindu forecasts Wirecard to deliver 21% revenue CAGR between 2014 and 2017, in line with the underlying market growth. With much of the investment already sunk, resulting operational leverage should lead to a strong 28% EPS CAGR over the same period. Wirecard trades on CY16 PE of 24.5x. Given the strong earnings growth outlook, we believe it’s appropriate to measure Wirecard’s 0.9x CY16 PEG against the Global Payment Services peer group on 1.5x. This discount seems unwarranted, and will likely narrow as the market comes to more fully appreciate the attractive segments and geographies in which Wirecard operates. The recent pull-back in the shares provides an attractive entry point in Damindu’s view into a well-positioned long-term growth story. His DCF-derived price target for the stock is €48, offering 33% upside on a 12-month view.

For Damindu’s most recent update on the company, please click on the link below:
A Pure Play on eCommerce
Jungheinrich (Buy, PT: €70)

Business Positioned Well for Structural Tailwinds

Ben Glaeser sees compelling through cycle organic growth for the forklift truck market and global number three Jungheinrich in particular. Specifically in Europe – which still accounts for 91% of group revenue – forklift truck volumes are outgrowing industrial production trends due to increasing sophistication of distribution networks. Jungheinrich addresses this structural component better than competitors due to its >65% exposure to more “consumer-related” end-markets (food & beverage production and retail, logistics) and its established logistic systems business (which can deliver full automated warehouse systems).

In addition to high structural growth, Jungheinrich’s new truck business is strongly geared into a potential industrial production recovery. Especially markets such as Spain, Italy and France still leave a lot of catch-up potential towards pre-crisis highs. Jungheinrich’s guidance of above €3bn in sales by 2017 implies a CAGR of 7% organically, which we believe is credible and unmatched in the sector.

Jungheinrich’s business model is similar to that of elevator and escalator companies as it generates almost all of operating profit outside of its equipment business. As very profitable aftermarket, used truck and rental businesses obviously lag the new equipment sales achieved in recent quarters Ben expects them to drive earnings growth strongly going forward. Together with better utilisation rates, he sees margins improving to above 8% by 2017.

Ben rates Jungheinrich Buy with a €70 PT. At only 9x FY16 EV/EBIT, the shares remain at >15% discount to the capital good coverage universe. This is despite a change in tack he sees regarding capital allocation which should benefit FCF generation and returns equally. His price target is based on 10.4x E/EBIT and 15.2x P/E, which is almost in line with the sector.

For Ben’s most recent note on the Forklift Market, please click below:
Forklift Momentum Withstands Weak IP
Analyst Certification:

I, Jefferies 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, Ian Rennardson, 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, Mark Cathcart, 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, Jeffrey Holford, PhD, ACA, 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, 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, Omar Fall, 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, Martin Brunninger, 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, Martin Deboo, 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, Phil Dobbins, 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, Giles Thorne, 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, Mark Irvine-Fortescue, 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, Joseph Dickerson, 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, Ian Rennardson, 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, Mike Betts, 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, Justin Jordan, 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, Benjamin Claeser, 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.

Registration of non-US analysts: Jefferies Int’l Ltd. Equity Research is employed by Jefferies International Limited, a non-US affiliate of Jefferies LLC and is not registered/qualified as a research analyst with FINRA. This analyst(s) may not be an associated person of Jefferies LLC, a FINRA member firm, and therefore may not be subject to the NASD Rule 2711 and Incorporated NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst.

Registration of non-US analysts: Ian Rennardson is employed by Jefferies International Limited, a non-US affiliate of Jefferies LLC and is not registered/qualified as a research analyst with FINRA. This analyst(s) may not be an associated person of Jefferies LLC, a FINRA member firm, and therefore may not be subject to the NASD Rule 2711 and Incorporated NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst.

Registration of non-US analysts: Mark Cathcart is employed by Jefferies International Limited, a non-US affiliate of Jefferies LLC and is not registered/qualified as a research analyst with FINRA. This analyst(s) may not be an associated person of Jefferies LLC, a FINRA member firm, and therefore may not be subject to the NASD Rule 2711 and Incorporated NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst.

Registration of non-US analysts: Jason Gammel is employed by Jefferies International Limited, a non-US affiliate of Jefferies LLC and is not registered/qualified as a research analyst with FINRA. This analyst(s) may not be an associated person of Jefferies LLC, a FINRA member firm, and therefore may not be subject to the NASD Rule 2711 and Incorporated NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst.

Themes & Tactics
Europe Insights
23 June 2015
Registration of non-US analysts: Jerry Dellis is employed by Jefferies International Limited, a non-US affiliate of Jefferies LLC and is not registered/qualified as a research analyst with FINRA. This analyst(s) may not be an associated person of Jefferies LLC, a FINRA member firm, and therefore may not be subject to the NASD Rule 2711 and Incorporated NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst.

Registration of non-US analysts: Omar Fall is employed by Jefferies International Limited, a non-US affiliate of Jefferies LLC and is not registered/qualified as a research analyst with FINRA. This analyst(s) may not be an associated person of Jefferies LLC, a FINRA member firm, and therefore may not be subject to the NASD Rule 2711 and Incorporated NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst.

Registration of non-US analysts: Martin Brunninger is employed by Jefferies International Limited, a non-US affiliate of Jefferies LLC and is not registered/qualified as a research analyst with FINRA. This analyst(s) may not be an associated person of Jefferies LLC, a FINRA member firm, and therefore may not be subject to the NASD Rule 2711 and Incorporated NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst.

Registration of non-US analysts: Martin Deboo is employed by Jefferies International Limited, a non-US affiliate of Jefferies LLC and is not registered/qualified as a research analyst with FINRA. This analyst(s) may not be an associated person of Jefferies LLC, a FINRA member firm, and therefore may not be subject to the NASD Rule 2711 and Incorporated NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst.

Registration of non-US analysts: Phil Dobbin is employed by Jefferies International Limited, a non-US affiliate of Jefferies LLC and is not registered/qualified as a research analyst with FINRA. This analyst(s) may not be an associated person of Jefferies LLC, a FINRA member firm, and therefore may not be subject to the NASD Rule 2711 and Incorporated NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst.

Registration of non-US analysts: Giles Thorne is employed by Jefferies International Limited, a non-US affiliate of Jefferies LLC and is not registered/qualified as a research analyst with FINRA. This analyst(s) may not be an associated person of Jefferies LLC, a FINRA member firm, and therefore may not be subject to the NASD Rule 2711 and Incorporated NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst.

Registration of non-US analysts: Mark Irvine-Fortescue is employed by Jefferies International Limited, a non-US affiliate of Jefferies LLC and is not registered/qualified as a research analyst with FINRA. This analyst(s) may not be an associated person of Jefferies LLC, a FINRA member firm, and therefore may not be subject to the NASD Rule 2711 and Incorporated NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst.

Registration of non-US analysts: Joseph Dickerson is employed by Jefferies International Limited, a non-US affiliate of Jefferies LLC and is not registered/qualified as a research analyst with FINRA. This analyst(s) may not be an associated person of Jefferies LLC, a FINRA member firm, and therefore may not be subject to the NASD Rule 2711 and Incorporated NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst.

Registration of non-US analysts: Justin Jordan is employed by Jefferies International Limited, a non-US affiliate of Jefferies LLC and is not registered/qualified as a research analyst with FINRA. This analyst(s) may not be an associated person of Jefferies LLC, a FINRA member firm, and therefore may not be subject to the NASD Rule 2711 and Incorporated NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst.

Registration of non-US analysts: Mike Betts is employed by Jefferies International Limited, a non-US affiliate of Jefferies LLC and is not registered/qualified as a research analyst with FINRA. This analyst(s) may not be an associated person of Jefferies LLC, a FINRA member firm, and therefore may not be subject to the NASD Rule 2711 and Incorporated NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst.

Registration of non-US analysts: Damindu Jayaweera is employed by Jefferies International Limited, a non-US affiliate of Jefferies LLC and is not registered/qualified as a research analyst with FINRA. This analyst(s) may not be an associated person of Jefferies LLC, a FINRA member firm, and therefore may not be subject to the NASD Rule 2711 and Incorporated NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst.

Registration of non-US analysts: Benjamin Glaeser is employed by Jefferies International Limited, a non-US affiliate of Jefferies LLC and is not registered/qualified as a research analyst with FINRA. This analyst(s) may not be an associated person of Jefferies LLC, a FINRA member firm, and therefore may not be subject to the NASD Rule 2711 and Incorporated NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst.

As is the case with all Jefferies employees, the analyst(s) responsible for the coverage of the financial instruments discussed in this report receives compensation based in part on the overall performance of the firm, including investment banking income. We seek to update our research as appropriate, but various regulations may prevent us from doing so. Aside from certain industry reports published on a periodic basis, the large majority of reports are published at irregular intervals as appropriate in the analyst’s judgement.

Company Specific Disclosures

For Important Disclosure Information on companies recommended in this report, please visit our website at https://javatar.bluematrix.com/sellside/Disclosures.action or call 212.284.2300.

Explanation of Jefferies Ratings

Buy - Describes securities that we expect to provide a total return (price appreciation plus yield) of 15% or more within a 12-month period.

Hold - Describes securities that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 10% within a 12-month period.

Underperform - Describes securities that we expect to provide a total return (price appreciation plus yield) of minus 10% or less within a 12-month period.
The expected total return (price appreciation plus yield) for Buy rated securities with an average security price consistently below $10 is 20% or more within a 12-month period as these companies are typically more volatile than the overall stock market. For Hold rated securities with an average security price consistently below $10, the expected total return (price appreciation plus yield) is plus or minus 20% within a 12-month period. For Underperform rated securities with an average security price consistently below $10, the expected total return (price appreciation plus yield) is minus 20% or less within a 12-month period.

NR - The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Jefferies policies.

CS - Coverage Suspended. Jefferies has suspended coverage of this company.

NC - Not covered. Jefferies does not cover this company.

Restricted - Describes issuers where, in conjunction with Jefferies engagement in certain transactions, company policy or applicable securities regulations prohibit certain types of communications, including investment recommendations.

Monitor - Describes securities whose company fundamentals and financials are being monitored, and for which no financial projections or opinions on the investment merits of the company are provided.

Valuation Methodology

Jefferies’ methodology for assigning ratings may include the following: market capitalization, maturity, growth/value, volatility and expected total return over the next 12 months. The price targets are based on several methodologies, which may include, but are not restricted to, analyses of market risk, growth rate, revenue stream, discounted cash flow (DCF), EBITDA, EPS, cash flow (CF), free cash flow (FCF), EV/EBITDA, P/E, PE/growth, P/CF, P/FCF, premium (discount)/average group EV/EBITDA, premium (discount)/average group P/E, sum of the parts, net asset value, dividend returns, and return on equity (ROE) over the next 12 months.

Jefferies Franchise Picks

Jefferies Franchise Picks include stock selections from among the best stock ideas from our equity analysts over a 12 month period. Stock selection is based on fundamental analysis and may take into account factors such as analyst conviction, differentiated analysis, a favorable risk/reward ratio and investment themes that Jefferies analysts are recommending. Jefferies Franchise Picks will include only Buy rated stocks and the number can vary depending on analyst recommendations for inclusion. Stocks will be added as new opportunities arise and removed when the reason for inclusion changes, the stock has met its desired return, if it is no longer rated Buy and/or if it triggers a stop loss. Stocks having 120 day volatility in the bottom quartile of S&P stocks will continue to have a 15% stop loss, and the remainder will have a 20% stop. Franchise Picks are not intended to represent a recommended portfolio of stocks and is not sector based, but we may note where we believe a Pick falls within an investment style such as growth or value.

Risks which may impede the achievement of our Price Target

This report was prepared for general circulation and does not provide investment recommendations specific to individual investors. As such, the financial instruments discussed in this report may not be suitable for all investors and investors must make their own investment decisions based upon their specific investment objectives and financial situation utilizing their own financial advisors as they deem necessary. Past performance of the financial instruments recommended in this report should not be taken as an indication or guarantee of future results. The price, value of, and income from, any of the financial instruments mentioned in this report can rise as well as fall and may be affected by changes in economic, financial and political factors. If a financial instrument is denominated in a currency other than the investor’s home currency, a change in exchange rates may adversely affect the price of, value of, or income derived from the financial instrument described in this report. In addition, investors in securities such as ADRs, whose values are affected by the currency of the underlying security, effectively assume currency risk.

Other Companies Mentioned in This Report

- Accor (AC FP: €48.33, BUY)
- AstraZeneca PLC (AZN LN: p4,242.00, BUY)
- AXA SA (CS FP: €23.30, BUY)
- BG Group (BG/LN: p1,093.00, BUY)
- BT plc (BT/A LN: p465.00, BUY)
- Crédit Agricole S.A. (ACA FP: €13.86, BUY)
- Getinge (GETIB SS: SEK206.70, BUY)
- Glanbia (GLB ID: €17.65, BUY)
- Hargreaves Lansdown (HL/LN: p1,239.00, HOLD)
- Holcim (HOLN VX: CHF71.05, BUY)
- Inmarsat plc (ISAT LN: p964.00, BUY)
- Johnson & Johnson (JNJ: $100.09, HOLD)
- Jungeheinrich AG (JUN3 GR: €61.00, BUY)
- Lafarge (LG FP: €60.75, BUY)
- Merlin Entertainments plc (MERL LN: p445.30, BUY)
- Nestle (NESN VX: CHF69.90, BUY)
- Orange S.A. (ORA FP: €14.85, BUY)
- Roche (ROG VX: CHF269.30, BUY)
- Royal Bank of Scotland (RBS LN: p354.80, BUY)
- Royal Dutch Shell plc (RDSA LN: p1,875.00, HOLD)
- Sky (SKY LN: p1,074.00, HOLD)
- Smurfit Kappa Group plc (SKG ID: €26.80, BUY)
- Société Générale SA (GLE FP: €43.75, UNDERPERFORM)
- Wirecard AG (WDI GR: €36.20, BUY)

Please see important disclosure information on pages 15 - 20 of this report.
### Distribution of Ratings

<table>
<thead>
<tr>
<th>Rating</th>
<th>Count</th>
<th>Percent</th>
<th>IB Serv./Past 12 Mos.</th>
<th>Count</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>BUY</td>
<td>1087</td>
<td>52.16%</td>
<td>299</td>
<td>27.51%</td>
<td></td>
</tr>
<tr>
<td>HOLD</td>
<td>832</td>
<td>39.92%</td>
<td>161</td>
<td>19.35%</td>
<td></td>
</tr>
<tr>
<td>UNDERPERFORM</td>
<td>165</td>
<td>7.92%</td>
<td>13</td>
<td>7.88%</td>
<td></td>
</tr>
</tbody>
</table>
Other Important Disclosures

Jefferies Equity Research refers to research reports produced by analysts employed by one of the following Jefferies Group LLC (“Jefferies”) group companies:

**United States:** Jefferies LLC which is an SEC registered firm and a member of FINRA.

**United Kingdom:** Jefferies International Limited, which is authorized and regulated by the Financial Conduct Authority; registered in England and Wales No. 1978621; registered office: Vintners Place, 68 Upper Thames Street, London EC4V 3BJ; telephone +44 (0)20 7029 8000; facsimile +44 (0)20 7029 8010.

**Hong Kong:** Jefferies Hong Kong Limited, which is licensed by the Securities and Futures Commission of Hong Kong with CE number AT5346; located at Suite 2201, 22nd Floor, Cheung Kong Center, 2 Queen’s Road Central, Hong Kong.

**Singapore:** Jefferies Singapore Limited, which is licensed by the Monetary Authority of Singapore; located at 80 Raffles Place #15-20, UOB Plaza 2, Singapore 048624, telephone: +65 6551 3950.

**Japan:** Jefferies (Japan) Limited, Tokyo Branch, which is a securities company registered by the Financial Services Agency of Japan and is a member of the Japan Securities Dealers Association; located at Hibiya Marine Bldg, 3F, 1-5-1 Yuraku-cho, Chiyoda-ku, Tokyo 100-0006; telephone +813 5251 6100; facsimile +813 5251 6101.

**India:** Jefferies India Private Limited (CIN - U74140MH2007PTC200509), which is licensed by the Securities and Exchange Board of India as a Merchant Banker (INM000011443) and a Stock Broker with Bombay Stock Exchange Limited (INB011491033) and National Stock Exchange of India Limited (IN8211491037) in the Capital Market Segment; located at 42/43, 2 North Avenue, Maker Maxity, Bandra-Kurla Complex, Bandra (East) Mumbai 400 051, India; Tel +91 22 4356 6000.

This material has been prepared by Jefferies employing appropriate expertise, and in the belief that it is fair and not misleading. The information set forth herein was obtained from sources believed to be reliable, but has not been independently verified by Jefferies. Therefore, except for any obligation under applicable rules we do not guarantee its accuracy. Additional and supporting information is available upon request. Unless prohibited by the provisions of Regulation S of the U.S. Securities Act of 1933, this material is distributed in the United States (“US”), by Jefferies LLC, a US-registered broker-dealer, which accepts responsibility for its contents in accordance with the provisions of Rule 15a-6, under the US Securities Exchange Act of 1934. Transactions by or on behalf of any US person may only be effected through Jefferies LLC. In the United Kingdom and European Economic Area this report is issued and/or approved for distribution by Jefferies International Limited and is intended for use only by persons who have, or have been assessed as having, suitable professional experience and expertise, or by persons to whom it can be otherwise lawfully distributed. Jefferies International Limited has adopted a conflicts management policy in connection with the preparation and publication of research, the details of which are available upon request in writing to the Compliance Officer. Jefferies International Limited may allow its analysts to undertake private consultancy work. Jefferies International Limited’s conflicts management policy sets out the arrangements Jefferies International Limited employs to manage any potential conflicts of interest which may arise as a result of such consultancy work. For Canadian investors, this material is intended for use only by professional or institutional investors. None of the investments or investment services mentioned or described herein is available to other persons or to anyone in Canada who is not a “Designated Institution” as defined by the Securities Act (Canada). In Singapore, Jefferies Singapore Limited is regulated by the Monetary Authority of Singapore. For investors in the Republic of Singapore, this material is provided by Jefferies Singapore Limited pursuant to Regulation 32C of the Financial Advisers Regulations. The material contained in this document is intended solely for accredited, expert or institutional investors, as defined under the Securities and Futures Act (Cap. 289 of Singapore). If there are any matters arising from, or in connection with this material, please contact Jefferies Singapore Limited, located at 80 Raffles Place #15-20, UOB Plaza 2, Singapore 048624, telephone: +65 6551 3950. In Japan this material is issued and distributed by Jefferies (Japan) Limited to institutional investors only. In Hong Kong, this report is issued and approved by Jefferies Hong Kong Limited and is intended for use only by professional investors as defined in the Hong Kong Securities and Futures Ordinance and its subsidiary legislation. In the Republic of China (Taiwan), this report should not be distributed. The research in relation to this report is conducted outside the PRC. This report does not constitute an offer to sell or the solicitation of an offer to buy any securities in the PRC. PRC investors shall have the relevant qualifications to invest in such securities and shall be responsible for obtaining all relevant approvals, licenses, verifications and/or registrations from the relevant governmental authorities themselves. In India this report is made available by Jefferies India Private Limited. In Australia this information is issued solely by Jefferies International Limited and is directed solely at wholesale clients within the meaning of the Corporations Act 2001 of Australia (the “Act”) in connection with their consideration of any investment or investment service that is the subject of this document. Any offer or issue that is the subject of this document does not require, and this document is not, a disclosure document or product disclosure statement within the meaning of the Act. Jefferies International Limited is authorised and regulated by the Financial Conduct Authority under the laws of the United Kingdom, which differ from Australian laws. Jefferies International Limited has obtained relief under Australian Securities and Investments Commission Class Order 03/1099, which conditionally exempts it from holding an Australian financial services licence under the Act in respect of the provision of certain financial services to wholesale clients. Recipients of this document in any other jurisdictions should inform themselves about and observe any applicable legal requirements in relation to the receipt of this document.

This report is not an offer or solicitation of an offer to buy or sell any security or derivative instrument, or to make any investment. Any opinion or estimate constitutes the preparer’s best judgment as of the date of preparation, and is subject to change without notice. Jefferies assumes no obligation to maintain or update this report based on subsequent information and events. Jefferies, its associates or affiliates, and its respective officers, directors, employees may have long or short positions in, or may buy or sell any of the securities, derivative instruments or other investments mentioned or described herein, either as agent or as principal for their own account. Upon request Jefferies may provide specialized research products or services to certain customers focusing on the prospects for individual covered stocks as compared to other covered stocks over varying time horizons or under differing market conditions. While the views expressed in these situations may not always be directionally consistent with the long-term views expressed in the analyst’s published research, the analyst has a reasonable basis and any inconsistencies can be reasonably explained. This material does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should consider whether any advice or recommendation in this report is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice. The price and value of the investments referred to herein and the income derived from them may fluctuate. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Fluctuations in exchange rates could have adverse effects on the value or price of, or income derived from, certain investments. This report has been prepared independently of any issuer of securities mentioned herein and not in connection with any proposed offering of securities or as agent of any issuer of securities. None of Jefferies, any of its affiliates or its research analysts has any authority whatsoever to make any representations or warranty on behalf of the issuer(s). Jefferies policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer prior to public dissemination.
to the publication of a research report containing such rating, recommendation or investment thesis. Any comments or statements made herein are those of the author(s) and may differ from the views of Jefferies.

This report may contain information obtained from third parties, including ratings from credit ratings agencies such as Standard & Poor’s. Reproduction and distribution of third party content in any form is prohibited except with the prior written permission of the related third party. Third party content providers do not guarantee the accuracy, completeness, timeliness or availability of any information, including ratings, and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such content. Third party content providers give no express or implied warranties, including, but not limited to, any warranties of merchantability or fitness for a particular purpose or use. Third party content providers shall not be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs) in connection with any use of their content, including ratings. Credit ratings are statements of opinions and are not statements of fact or recommendations to purchase, hold or sell securities. They do not address the suitability of securities or the suitability of securities for investment purposes, and should not be relied on as investment advice.

Jefferies research reports are disseminated and available primarily electronically, and, in some cases, in printed form. Electronic research is simultaneously available to all clients. This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Jefferies. Neither Jefferies nor any officer nor employee of Jefferies accepts any liability whatsoever for any direct, indirect or consequential damages or losses arising from any use of this report or its contents.

For Important Disclosure information, please visit our website at https://javatar.bluematrix.com/sellside/Disclosures.action or call 1.888.JEFFERIES

© 2015 Jefferies Group LLC