Europe Investment Daily

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Everyone's focus has been on what proved a seminal week for the financial markets. But within the melee it is worth remembering that for Thomson Reuters the fallout from the week could have meaningful implications. We estimate that Lehman, Merrill Lynch and Bank of America make up 1% each of Thomson Reuters' (TRIL.L; £14.00; 2H/(TRI.N; US$33.34; 2H) Markets division. We reduce our 2009E revenue forecasts for Markets by a full 3% and now assume 0% growth in 2009E (implicit in our forecasts is a degree of contagion to other financial institutions), leading to EPS cuts of c.10% in 2009-10E (only 5% in Sterling). We reduce our target price to $30.75/1700p. Despite this our numbers stay towards the top end of consensus, and while we feel it is too early for us to turn positive there is the scope of positive surprises given the low valuation of the Markets business.

As regards Reed Elsevier (REL.L; £6.03; 1M), which has now received regulatory approval for the ChoicePoint deal, we remain extremely positive. Despite cyclicality, we still expect the group to comfortably deliver c.10% EPS growth. We anticipate 4-5% organic growth (ex-cycling) through 2009-11 and nearly 200bps of margin expansion courtesy of restructuring- and integration-related cost savings. Yes, on a 12x 2009E P/E the stock is at a premium to the peer group, the 'e' of the peer group continues to have downside risk and we think a premium is more than justified. Though not looked at closely in the report, we continue to like Pearson (PSON.L; £6.39; 1M) for its relatively defensive business model, improving competitive positioning and discounted valuation (11.2x 09E P/E). **Thomas A Singlehurst, CFA / p6**

Citi
Global Data Services

Daily Earnings Changes Report - Europe / CEEMEA

Company Changes 19-Sep-2008

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Company / Bloomberg Ticker	EPS 2008	EPS 2009	EPS 2010	P/E 2008	P/E 2009	P/E 2010	Rating/ Risk	Target Price	Last Price	ETR	2009 Div Yield	Market Cap (M)	Explanation
Aegon NV	EUR												**Updating EPS for market movements**
AGN NA													
- New	**0.82**	**1.29**	**1.43**	**9.1**	**5.8**	**5.3**	**2H**	**EUR 8.10**	EUR 7.49	16.7%	9.1%	EUR 11,647	
- Old	0.84	1.34	1.47	9.0	5.6	5.1	2H	EUR 8.10				USD 16,849	
- Change	-1.9%	-3.2%	-3.0%	1.9%	3.3%	3.1%							Covered by William Elderkin +44-20-7986-4009 (Note: Last Actual FY 2007)
Air Arabia	AED												**Earnings forecasts raised using $100/bbl crude vs $130/bbl before -reiterate 1H rating after recent share price weakness**
AIRARABI UH													
- New	**0.09**	**0.12**	**0.16**	**17.0**	**12.7**	**9.9**	**1H**	**AED 2.50**	AED 1.57	59.2%	0.0%	AED 7,327	
- Old	0.08	0.12	0.16	18.8	13.6	9.9	1H	AED 2.50				USD 1,994	
- Change	10.6%	7.5%	0.6%	-9.6%	-7.0%	-0.6%							Covered by Andrew Light +44-20-7986-4102 (Note: Last Actual FY 2007)
Anglo American	GBP												**Lowering earnings forecasts and trimming TP following revisions to our PGM commodity price forecasts**
AAL LN													
- New	**6.01**	**8.88**	**11.66**	**7.3**	**4.9**	**3.7**	**1M**	**GBP 39.00**	GBP 23.81	68.5%	3.3%	GBP 31,369	
- Old	6.57	9.72	11.99	6.6	4.5	3.6	1M	GBP 40.00				USD 57,461	
- Change	-8.6%	-8.7%	-2.8%	9.4%	9.5%	2.8%							Covered by Heath R Jansen +44-20-7986-4210 (Note: Last Actual FY 2007)
Aquarius Platinum	GBP												**Lowering earnings forecasts and TP following revisions to our PGM commodity price forecasts**
AQP LN													
- New	**91.6**	**55.0**	**74.7**	**7.5**	**12.5**	**9.2**	**2M**	**GBP 3.70**	GBP 3.75	1.9%	4.3%	GBP 983	
- Old	94.3	111.4	111.8	7.3	6.2	6.1	2M	GBP 6.10				USD 1,800	
- Change	-2.8%	-50.7%	-33.2%	2.9%	102.7%	49.6%							Covered by Heath R Jansen +44-20-7986-4210 (Note: Last Actual FY 2008)
Aviva	GBP												**Updating EPS for market movements**
AV/ LN													
- New	**78.6**	**83.1**	**84.7**	**7.2**	**6.8**	**6.7**	**2H**	**GBP 5.70**	GBP 5.65	6.7%	7.1%	GBP 15,016	
- Old	78.6	83.1	84.6	7.2	6.8	6.7	2H	GBP 5.70				USD 27,506	
- Change	0.0%	0.0%	0.1%	0.0%	0.0%	-0.1%							Covered by Andrew Crean +44-20-7986-3975 (Note: Last Actual FY 2007)
Axa SA	EUR												**Updating EPS for market movements**
CS FP													
- New	**2.90**	**2.67**	**2.71**	**8.5**	**9.2**	**9.1**	**1M**	**EUR 30.00**	EUR 24.65	26.9%	5.1%	EUR 50,879	
- Old	2.78	2.69	2.73	8.9	9.2	9.0	1M	EUR 30.00				USD 73,602	
- Change	4.4%	-0.7%	-0.6%	-4.2%	0.7%	0.6%							Covered by Andrew Crean +44-20-7986-3975 (Note: Last Actual FY 2007)
Bovis Homes Grp	GBP												**Interim Data Upload**
BVS LN													
- New	**8.4**	**0.6**	**10.7**	**62.0**	**na**	**48.6**	**2H**	**GBP 4.60**	GBP 5.20	-10.5%	0.0%	GBP 628	
- Old	8.4	0.6	10.7	62.0	na	48.6	2H	GBP 4.60				USD 1,151	
- Change	0.0%	0.0%	0.0%	0.0%		0.0%							Covered by Aynsley Lammin +44-20-7986-4092 (Note: Last Actual FY 2007)
Friends Provident	GBP												**Updating EPS for Market Movements**
FP/ LN													
- New	**14.3**	**13.6**	**15.3**	**7.3**	**7.6**	**6.8**	**2H**	**GBP 1.40**	GBP 1.04	42.3%	4.1%	GBP 2,417	
- Old	14.3	13.8	15.5	7.3	7.5	6.7	2H	GBP 1.40				USD 4,427	
- Change	0.0%	-1.6%	-1.5%	0.0%	1.6%	1.5%							Covered by Andrew Crean +44-20-7986-3975 (Note: Last Actual FY 2007)
Gemina	EUR												**Although we remain positive on long-term prospects, we downgrade Gemina to 2S to reflect high uncertainty about traffic evolution due to Alitalia. Cutting estimates and price target accordingly.**
GEM IM													
- New	**0.01**	**0.02**	**0.02**	**73.0**	**39.1**	**25.7**	**2S**	**EUR 0.85**	EUR 0.63	34.2%	0.0%	EUR 934	
- Old	0.02	0.03	0.04	30.9	19.0	15.1	1H	EUR 1.20				USD 1,351	
- Change	-57.7%	-51.4%	-41.1%	136.4%	105.6%	69.7%							Covered by Luca Todesco +39-02-8648-4718 (Note: Last Actual FY 2007)
ING	EUR												**Updating EPS for market movements**
INGA NA													
- New	**3.12**	**3.05**	**3.38**	**6.5**	**6.7**	**6.0**	**2H**	**EUR 25.00**	EUR 20.39	30.5%	8.6%	EUR 42,400	
- Old	3.13	3.08	3.41	6.5	6.6	6.0	2H	EUR 25.00				USD 61,336	
- Change	-0.4%	-0.9%	-0.8%	0.4%	0.9%	0.8%							Covered by William Elderkin +44-20-7986-4009 (Note: Last Actual FY 2007)

Irish Life	EUR													**Updating EPS for market movements**
IPM ID														
- New		**1.67**	**0.96**	**0.75**	**3.7**	**6.4**	**8.2**	**2H**	**EUR 7.50**	EUR 6.14	30.3%	8.1%	EUR 1,648	
- *Old*		1.67	0.99	0.77	3.7	6.2	7.9	2H	EUR 7.50				USD 2,384	
- Change		0.0%	-2.1%	-2.9%	0.0%	2.2%	2.9%							Covered by Andrew Crean +44-20-7986-3975 (Note: Last Actual FY 2007)
Irkutskenergo	USD													**Upgrading rating to 1H on valuation grounds, following recent market sell-off.**
IRGZ RU														
- New		**0.02**	**0.03**	**0.05**	**22.3**	**19.2**	**11.5**	**1H**	**USD 0.91**	USD 0.55	66.1%	0.8%	USD 2,622	
- *Old*		0.02	0.03	0.05	22.3	19.2	11.5	2H	USD 0.91					
- Change		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%							Covered by Alexander Korneev +7-495-643-1581 (Note: Last Actual FY 2007)
Legal & General	GBP													**Updating EPS for market movements**
LGEN LN														
- New		**15.4**	**16.6**	**18.0**	**6.9**	**6.4**	**5.9**	**2M**	**GBP 1.00**	GBP 1.07	-0.6%	6.4%	GBP 6,296	
- *Old*		15.4	16.8	18.2	6.9	6.4	5.9	2M	GBP 1.00				USD 11,534	
- Change		0.0%	-1.2%	-1.1%	0.0%	1.2%	1.1%							Covered by Andrew Crean +44-20-7986-3975 (Note: Last Actual FY 2007)
Man Group PLC	GBP													**Lowering target price and estimates ahead of pre-close statement to reflect recent poor AHL and MGS performance, and recent USD strength.**
EMG LN														
- New		**90.2**	**79.7**	**85.9**	**9.5**	**10.8**	**10.0**	**1M**	**GBP 6.50**	GBP 4.70	43.0%	5.6%	GBP 7,988	
- *Old*		90.2	93.2	108.5	9.5	9.2	7.9	1M	GBP 7.20				USD 14,632	
- Change		0.0%	-14.4%	-20.8%	0.0%	16.9%	26.2%							Covered by Haley A Tam, CFA +44-20-7986-4220 (Note: Last Actual FY 2008)
Mosenergo	RUB													**Upgrading rating to 1H on valuation grounds, following recent market sell-off.**
MSNG RU														
- New		**-0.01**	**0.13**	**0.26**	**na**	**10.3**	**5.3**	**1H**	**RUB 2.19**	RUB 1.36	61.6%	2.3%	RUB 54,059	
- *Old*		-0.01	0.13	0.26	nm	10.3	5.3	3H	RUB 2.19				USD 2,138	
- Change		0.0%	0.0%	0.0%		0.0%	0.0%							Covered by Alexander Korneev +7-495-643-1581 (Note: Last Actual FY 2007)
OGK-1	RUB													**Upgrading rating to 1H on valuation grounds, following recent market sell-off.**
OGKA RU														
- New		**0.01**	**0.06**	**0.09**	**58.1**	**13.0**	**7.9**	**1H**	**RUB 1.01**	RUB 0.72	41.0%	1.5%	RUB 32,054	
- *Old*		0.01	0.06	0.09	58.1	13.0	7.9	3H	RUB 1.01				USD 1,268	
- Change		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%							Covered by Alexander Korneev +7-495-643-1581 (Note: Last Actual FY 2007)
OGK-3	RUB													**Upgrading rating to 1H on valuation grounds, following recent market sell-off.**
OGKC RU														
- New		**0.10**	**0.12**	**0.10**	**8.4**	**7.4**	**8.6**	**1H**	**RUB 1.87**	RUB 0.85	118.7%	0.8%	RUB 40,507	
- *Old*		0.10	0.12	0.10	8.4	7.4	8.6	2H	RUB 1.87				USD 1,602	
- Change		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%							Covered by Alexander Korneev +7-495-643-1581 (Note: Last Actual FY 2007)
OGK-5	RUB													**Upgrading rating to 1H on valuation grounds, following recent market sell-off.**
OGKE RM														
- New		**0.03**	**0.07**	**0.17**	**51.8**	**25.5**	**10.5**	**1H**	**RUB 2.71**	RUB 1.80	51.3%	0.6%	RUB 63,528	
- *Old*		0.03	0.07	0.17	51.8	25.5	10.5	3H	RUB 2.71				USD 2,512	
- Change		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%							Covered by Alexander Korneev +7-495-643-1581 (Note: Last Actual FY 2007)
Prudential	GBP													**Updating EPS for market movements**
PRU LN														
- New		**78.9**	**77.8**	**84.8**	**7.6**	**7.7**	**7.1**	**1M**	**GBP 8.25**	GBP 6.00	40.5%	3.4%	GBP 14,947	
- *Old*		79.8	80.5	87.7	7.5	7.5	6.8	1M	GBP 8.25				USD 27,380	
- Change		-1.2%	-3.3%	-3.3%	1.2%	3.4%	3.4%							Covered by Andrew Crean +44-20-7986-3975 (Note: Last Actual FY 2007)
Redrow	GBP													**Interim Data Upload**
RDW LN														
- New		**27.6**	**-5.8**	**3.9**	**8.2**	**na**	**57.1**	**1H**	**GBP 2.65**	GBP 2.25	17.8%	0.0%	GBP 360	
- *Old*		27.6	-5.8	3.9	8.2	nm	57.1	1H	GBP 2.65				USD 659	
- Change		0.0%	0.0%	0.0%	0.0%		0.0%							Covered by Aynsley Lammin +44-20-7986-4092 (Note: Last Actual FY 2008)
Reed Elsevier	GBP													**Forecasts updated for ChoicePoint deal which closes imminently (19/09). Alongside PSON, we see REL as one of our top picks in Euro Media. Buy/Medium Risk.**
REL LN														
- New		**41.6**	**47.4**	**53.0**	**14.5**	**12.7**	**11.4**	**1M**	**GBP 7.20**	GBP 6.03	23.0%	4.1%	GBP 6,647	
- *Old*		41.7	45.6	51.2	14.4	13.2	11.8	1M	GBP 7.20				USD 12,176	
- Change		-0.3%	3.9%	3.6%	0.3%	-3.8%	-3.4%							Covered by Thomas A Singlehurst, CFA +44-20-7986-4051 (Note: Last Actual FY 2007)

Swiss Life	CHF											**Updating EPS for market movements**
SLHN VX												
- New	**60.05**	**26.09**	**30.29**	**2.8**	**6.5**	**5.6**	**2H**	**CHF 220.00**	CHF 170.00	41.2%	7.5%	CHF 5,964
- *Old*	60.26	26.17	28.98	2.8	6.5	5.9	2H	CHF 220.00				USD 5,397
- *Change*	-0.4%	-0.3%	4.5%	0.4%	0.3%	-4.3%						Covered by William Elderkin +44-20-7986-4009 (Note: Last Actual FY 2007)
TGK-1	RUB											**Upgrading rating to 1H on valuation grounds, following recent market sell-off.**
TGKA RU												
- New	**0.00**	**0.00**	**0.00**	**na**	**na**	**14.1**	**1H**	**RUB 0.02**	RUB 0.01	137.5%	0.0%	RUB 30,835
- *Old*	0.00	0.00	0.00	nm	nm	14.1	2H	RUB 0.02				USD 1,219
- *Change*	0.0%	0.0%	0.0%			0.0%						Covered by Alexander Korneev +7-495-643-1581 (Note: Last Actual FY 2007)
TGK-8	RUB											**Lowering TP following expiry of buyout offer.**
TGKH RU												
- New	**0.00**	**0.00**	**0.00**	**68.8**	**45.7**	**19.5**	**3H**	**RUB 0.02**	RUB 0.04	-41.4%	0.4%	RUB 74,386
- *Old*	0.00	0.00	0.00	68.8	45.7	19.5	3H	RUB 0.04				USD 2,942
- *Change*	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%						Covered by Alexander Korneev +7-495-643-1581 (Note: Last Actual FY 2006)
Thoms Reut PLC	GBP											**Target price and estimates decreased.**
TRIL LN												
- New	**1.47**	**2.12**	**2.65**	**17.5**	**12.1**	**9.7**	**2H**	**GBP 17.00**	GBP 14.00	25.5%	4.8%	GBP 14,219
- *Old*	1.52	2.14	2.66	16.9	12.0	9.6	2H	GBP 18.50				USD 26,045
- *Change*	-3.4%	-1.2%	-0.2%	3.5%	1.2%	0.2%						Covered by Thomas A Singlehurst, CFA +44-20-7986-4051 (Note: Last Actual FY 2007)
VTGK	RUB											**Upgrading rating to 1H on valuation grounds, following recent market sell-off.**
TGKG RU												
- New	**0.05**	**0.15**	**0.19**	**12.0**	**4.2**	**3.2**	**1H**	**RUB 1.75**	RUB 0.62	184.3%	3.8%	RUB 17,805
- *Old*	0.05	0.15	0.19	12.0	4.2	3.2	2H	RUB 1.75				USD 704
- *Change*	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%						Covered by Alexander Korneev +7-495-643-1581 (Note: Last Actual FY 2007)

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Global Market Data

	Price	Performance					12 Month		
	19-Sep-08	1 Day	1 Week	1 Month	QTD	YTD	High	Low	Score *
World Indices									
EuroStoxx600	306.8	8.3%	-0.8%	-1.2%	-2.5%	-26.0%	432.3	283.4	16
Nikkei 225	11,920.9	3.8%	-2.4%	-7.3%	-11.5%	-22.1%	17459.0	11489.3	7
NASDAQ 100	2,273.9	3.4%	0.6%	-4.6%	-1.3%	-14.3%	2859.1	2098.8	23
S&P 500	1,255.1	4.0%	0.3%	-0.9%	-2.3%	-14.5%	1565.2	1156.4	24
UK - FTSE 100	5,311.3	8.8%	-1.9%	-0.2%	-3.1%	-17.7%	6730.7	4880.0	23
USD Exchange Rates									
EUR/USD	1.447	0.9%	1.7%	-2.2%	-8.4%	-0.8%	1.6	1.4	25
GBP/USD	1.832	0.9%	2.1%	-1.9%	-8.2%	-7.8%	2.1	1.8	23
USD/JPY	107.5	1.8%	-0.5%	-2.1%	1.3%	-3.7%	117.6	97.4	50
Commodities									
Gold ($/oz)	861.0	-3.6%	13.1%	6.1%	-8.8%	3.1%	1004.3	723.0	49
Oil ($/bbl)	104.6	6.8%	3.3%	-8.7%	-25.8%	8.9%	145.3	79.0	39

* Score (current price - 52 week low price)/(52 week high price - 52 week low price). A score of 100 would indicate that the current price is trading at its 52 week high. A score of 0 would indicate that the current price is trading at its 52 week low.

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Professional Publishers

Keeping Up With Events

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- **Events, Dear Boy, Events** — Both Reed Elsevier and Thomson Reuters have seen important newsflow in the past few days: for TRIL, Lehman filing for Chapter 11 bankruptcy protection and the proposed BoA acquisition of Merrill, are both likely to have a material impact on its Markets division; for REL, approval from the regulatory authorities heralds the closure of the ChoicePoint deal.
- **TRIL: Little Local Difficulties** — We estimate that Lehman, Merrill Lynch and Bank of America make up 1% each of Thomson Reuters' Markets division. We reduce our 2009E revenue forecasts for Markets by a full 3% and now assume 0% growth in 2009E. Implicit in our forecasts is a degree of contagion to other financial institutions. The impact on profits is somewhat mitigated by FX moves.
- **TRI/TRIL Earnings/Valuation Decreased But Some Room For Optimism** — We decrease EPS by c. 10% in 2009E/2010E (only 5% in Sterling), and reduce our PT to $30.75/1700p. Despite this, we note that our forecasts are high in the consensus range. If, as we believe, diversification by asset class and end-user does help growth through 2009E/2010E, there is still scope for positive surprises given depressed valuation for the Markets business. Delivery is key; Hold (2H) for now.
- **REL: Never Had It So Good?** — Well, maybe that is a bit strong, but we do see Reed Elsevier delivering relatively consistent double-digit earnings growth over the next 2-3 years. While the business does have some cyclical elements (Corporate/ Government exposure in LexisNexis; Exhibitions) we still anticipate 4%-5% organic growth ex-cycling. Restructuring/integration should also boost returns.
- **Valuation Attractive But Don't Forget RBI** — While at 12.0x 2009E P/E REL is at a significant premium to the media sector (9.4x), it is on a material discount to other defensive names (e.g. Cadbury/Danone on 15x-17x) with arguably better competitive positioning/less input cost inflation. The only concern near-term is RBI. The sale should be dilutive (4.8% at £1bn and 0.4% worse for every £100m lower) but simple resolution could be a positive catalyst. We rate REL Buy (1M).
- **Pearson and McGraw-Hill Best of the Rest —** While not covered in detail in this report we also include financial forecasts for Pearson, McGraw-Hill, UBM and Wolters Kluwer. Of these we are positive on PSON (1M) and MHP (1M) given the relative defensiveness of business models, improving competitive positioning and discounted valuation. We are neutral on UBM and WKL (both 2M) given concerns over cyclicality/investment – valuation discounts for both are justified, in our view.

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Great Value Given High Multi-Year Growth Opportunities

Buy/High Risk	**1H**
Price (18 Sep 08)	Dh1.39
Target price	Dh2.50
Expected share price return	79.9%
Expected dividend yield	0.0%
Expected total return	**79.9%**
Market Cap	Dh6,487M US$1,766M

	2007	2008E	2009E
EPS new(Dh)	0.08	0.09	0.12
EPS Old(Dh)	0.08	0.08	0.12
EPS Growth	10.1	15.9	34.4
P/E	17.5	15.1	11.2
EV/EBITDA	16.8	8.9	4.9
Consensus Data	na	0.08	0.10

Price Performance (RIC: AIRA.DU, BB: AIRARABI UH)

- **Earnings forecasts raised on lower oil prices** — We now use $100/bbl crude vs. $130/bbl previously, although we are reducing the outlook for ticket price growth due to lower fuel surcharges expected. 2008E EPS is raised by 11% to AED 0.0922 and 2009E by 8% to AED 0.1240.
- **Recent share price fall illogical** — In contrast to other airlines globally, Air Arabia's share price has fallen sharply despite oil prices declining and is now 37% lower than its peak in January 2008.
- **Excellent value for a high growth company in an economically strong region** — Air Arabia now trades on lower multiples than low cost airlines in more mature and weaker Europe and the US. Price/book of 1.2x is 10-30% lower than the range for easyJet, Ryanair and Southwest (1.3-1.7x). Excluding cash and investments, Air Arabia's underlying operating business trades on a P/E of just 10.8x this year, falling to 3.3x by 2010E.
- **Pan-MENA region growth opportunities set to continue** — Markets are liberalising with the launch of daily flights to Jeddah and Riyadh and double-daily to Mumbai and Delhi. New routes to Hyderabad, Kiev and Nairobi start in October. Jordan has also fully liberalised and Egypt is expected to be more open when Terminal 3 opens soon at Cairo Airport. We expect Air Arabia's Rabat base to be launched end 08/early 09. Announcements on this plus a new base in the Levant region are expected shortly.
- **We re-iterate our Buy/High Risk (1H) rating and target price of AED 2.50** — Our target price is based on DCF value and is equivalent to a P/E of 20x 09E EPS.

Gemina SpA (GEMI.MI)

Facing Short-Term Troubles

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Hold/Speculative	**2S**
from Buy/High Risk	
Price (18 Sep 08)	€0.63
Target price	€0.85
from €1.20	
Expected share price return	34.9%
Expected dividend yield	0.0%
Expected total return	**34.9%**
Market Cap	€928M
	US$1,343M

	2007	2008E	2009E
EPS new(€)	0.01	0.01	0.02
EPS Old(€)	0.01	0.02	0.03
EPS Growth	-92.7	-28.5	86.9
P/E	51.9	72.6	38.8
EV/EBITDA	9.0	9.5	8.7
Consensus Data	na	0.03	0.04

Price Performance (RIC: GEMI.MI, BB: GEM IM)

- **CAI bid withdrawn; Alitalia fate uncertain** — CAI withdrew its bid for Alitalia yesterday. The fate of the Italian flagship carrier is less clear than ever, and the grounding of Alitalia planes may become a reality. Following the news, Gemina's stock lost -8%. The press reported today that Alitalia has liquidity "for weeks" (according to CEO), which may have created room for further national or international rescue teams to show up, although we remain cautious about this.
- **Assessing Alitalia impact on AdR: a worst case scenario** — Alitalia accounts for c40% of Aeroporti di Roma (AdR) traffic; we expected Alitalia to generate c4m pax in Q408 and 3.3m in Q109. Zeroing Alitalia contribution to traffic would give a -10% YoY traffic decrease in FY08 and a -7.5% cut in FY09.
- **Let's get rational: impact on traffic could be limited** — However, we believe the traffic slowdown (even in a failure scenario) could be lower than that, thanks to: i) slot reallocation; ii) other carriers increased load factor. We cut our traffic estimates for AdR to -5% in FY08 and -7.2% in FY09 (due to Fiumicino de-hubbing). Receivables re. Alitalia amount to €32m and in our view are not likely to have a significant impact on debt (c€1.3bn, avg Kd <6%, exp.2013).
- **Lower traffic + less capex = increased cash flows** — Despite our haircut to FY08-FY11 traffic estimates and the consequent impact on P&L (EBITDA 07-10 CAGR down from +11% to +4%, EPS from +50% to +26%), the impact on cash could be limited by AdR's capex plan postponement (08-10 avg capex pa down from c€190m to c€120m), generating c€100 additional OpCF in 08-10.
- **Rating down to Hold/Speculative Risk, target cut to €0.85** — Although we remain positive on the long-term prospects, we downgrade Gemina to 2S to reflect the high uncertainty about traffic evolution. On a DCF basis the potential upside remains significant (end concession 2044); however, on a market multiple analysis (Gemina trades at 16% premium on 2009E EBITDA vs peers) coupled with expected negative newsflow commands a target price cut from €1.20 to €0.85 per share.

Impala Platinum Holdings Ltd (IMPJ.J)

Bid for Northam – Destruction and Distraction

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Sell/Medium Risk	**3M**
Price (19 Sep 08)	R183.20
Target price	R162.00
Expected share price return	-11.6%
Expected dividend yield	5.8%
Expected total return	**-5.8%**
Market Cap	R115,705M
	US$14,609M

	2008	2009E	2010E
EPS new(R)	20.38	14.86	14.88
EPS Old(R)	20.38	14.86	14.88
EPS Growth	57.0	-27.1	0.1
P/E	9.0	12.3	12.3
EV/EBITDA	5.5	7.6	7.2
Consensus Data	na	25.08	23.83

Price Performance (RIC: IMPJ.J, BB: IMP SJ)

- **Impala trying to acquire Booysendal** — Impala has announced that it is seeking to combine its assets with that of Mvelaphanda and Northam, while these companies have announced that they have received approaches from companies to acquire the entire share capital.
- **Near-term value destructive** — While no offer price was announced, we calculate that if Impala makes the acquisition with cash at current market prices the NPV will be diluted by 2.5-6.0%. We estimate a share offer would dilute near-term earnings by 4%. To complete the transaction, we believe a premium would be required.
- **What will Impala add?** — While an acquisition will have some synergies, we highlight that Northam and Mvelaphanda are extremely lean at their centres and rationalisation should have little impact. We also believe Northam has the wherewithal to develop the Booysendal property on its own. In a skills-constrained environment, the combination of resources could see speedier development of Booysendal however.
- **What about Leeuwkop?** — The acquisition of the Booysendal property could shift development of the Leeuwkop property to the back burner. While the acquisition price for Leeuwkop has been sunk, the entire transaction could end up being dilutive.
- **Not clear-cut** — We highlight that Anglo Platinum sold Booysendal and its stake in Northam to Mvelapanda as part of a BEE transaction and should not be content with these assets ending up in the hands of its main rival. Booysendal will also initially depend on Anglo Platinum for electricity and water. We also do not anticipate too favourable response from the DME as an empowerment company will disappear from the market.

Investec PLC (INVP.L)

Weathering The Storm

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Buy/Medium Risk	**1M**
Price (19 Sep 08)	£3.65
Target price	£5.10
Expected share price return	39.7%
Expected dividend yield	6.8%
Expected total return	**46.6%**
Market Cap	£2,487M
	US$4,556M

	2008	**2009E**	**2010E**
EPS new(p)	53.2	52.5	57.4
EPS Old(p)	53.2	57.9	65.0
EPS Growth	8.3	-1.4	9.3
P/E	6.9	7.0	6.4
Consensus Data	na	56.9	62.7

Price Performance (RIC: INVP.L, BB: INVP LN)

- **Lessons learnt** — Investec gained experience of how to handle loss of confidence in a banking system when this happened in South Africa in 2002. This experience is helping it to weather the current storm in the UK: it is well capitalised and its balance sheet has been kept liquid. Its loan to deposit ratio was 105% at 31 March 2008 with management indicating that this has moved close to 100% since. Its strong South African business is adding stability.
- **EPS cut** — Post its trading update we cut our forecasts for Investment Banking, Capital Markets and Asset Management. We still forecast a strong contribution from Kensington (as detailed in *Simply Too Cheap at These Levels* released 27 May 2008). This leads to a cut in forecast growth in group diluted EPS from +8.7% to –1.4% for FY09 and from 12.4% to 9.3% for FY10. These growth rates are excellent when seen in the context of what is happening in global banking.
- **Strength in diversity** — South Africa contributed 63% to FY08 pre-tax earnings. Trading conditions within Investec's niches in South Africa are still robust (it does not have exposure to the lower and middle income consumer market). At a group level, management is not focusing on growing the balance sheet, but rather on earning revenue off existing assets, cutting costs and growing non capital-intensive fee income, which is a sound strategy given market conditions.
- **Valuation cheap** — Investec is trading at only 1.2x book despite a forecast FY09 ROE of 21.2% and at 1.7x tNAV with a forecast FY09 return on tNAV of 25.7%. It appears fundamentally undervalued, but given its presence in London its share price is likely to be more influenced by global banking issues than the big four SA banks that are relatively more insulated from these issues.

Man Group PLC (EMG.L)

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H109 Preview

Buy/Medium Risk	**1M**
Price (19 Sep 08)	£4.70
Target price	£6.50
from £7.20	
Expected share price return	38.3%
Expected dividend yield	4.7%
Expected total return	**43.0%**
Market Cap	£7,988M
	US$14,632M

	2008	2009E	2010E
EPS new(US¢)	90.2	79.7	85.9
EPS Old(US¢)	90.2	93.2	108.5
EPS Growth	62.8	-11.7	7.8
P/E	9.5	10.8	10.0
EV/EBITDA	7.0	7.7	6.9
Consensus Data	na	83.5	92.4

Price Performance (RIC: EMG.L, BB: EMG LN)

- **H109 Pre-Close on 29 September** — Ahead of Man Group's trading statement, we reduce our AUM forecasts to reflect AHL investment performance (down 11% July and August), RMF and Glenwood (both down 4%), MGS (down 7% in July), and the negative impact of a stronger US$ on the ~30% of AUM in other currencies. We now forecast $73.8bn AUM at end September 2008, up 8% year on year but down 7% from $79.5bn at end June 2008.
- **10% Earnings Downgrade** — This reduces forecast Mar09 AUM by 6% from $90.0bn to $81.6bn, and FY09E EPS by 14% to 79.7c. This reflects a 14% reduction in forecast PBT, comprising a 9% reduction in management fee PBT to $1,193m and 25% reduction in performance fee PBT to $510m. Our performance fee PBT forecast assumes that AHL is the main contributor, and that it can return to 8% above high water marks by end March 2009.
- **650p target price** — Following these changes to our earnings forecasts, we reduce our target price by 10% from 720p to 650p. This reduction is less than the change in EPS forecasts, reflecting the recent US$ strength vs. Sterling.
- **Buying Opportunity** — Despite our downgrades, we believe the recent fall in Man Group share price (down 24% since 1 August) is over-done. We forecast 10% three-year EPS CAGR, driven by demand for alternative investments and Man's strong position as a large scale established player. This is supplemented by a well-covered 6% dividend and the prospect of share buybacks using some part of the group's $1.6bn surplus capital (13% of market cap). We reiterate our Buy / Medium Risk (1M) recommendation ahead of the trading statement.

Autos Weekly

Credit Concerns Resurface

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- **Credit Spreads Widen** — Turmoil in the credit market has affected spreads of all European assemblers. Spreads are currently especially volatile but renewed higher refi costs have now persisted for the last 3 months. It will be some time before we can tell how successfully captive Financial Services companies are passing on higher costs: most likely we are in a period when much lower profit contracts are being added to portfolios. Add in a rising cost of risk, partly itself the result of softening residual values, and a material step-down in FS returns becomes increasingly likely. The one thing we don't expect from Captive FS businesses is to back away from financing customers at a time of contracting demand.
- **Credit Turmoil Magnifies FX Headwinds** — The dollar's recent rally came as a relief to US-exposed auto makers. However, where the dollar gives, the pound takes away. We estimate at current exchange rates, European OEMs will still suffer a combined €1bn headwind from the US$ (down from the €3bn calculated with dollar at $1.55) but a €2bn hit from sterling exposure. Indeed, every 1% weakening in the £/€ rate hurts combined 09E EBIT by €130m, whilst every 1% move in the $/€ is a likely €100m impact.
- **Global Auto Forecasts Downgraded**— On Friday we cut our Global Auto Forecasts for 08 and 09 and now expect FY08 to be the first down year (-1.1%) in the global auto market since 2001. We don't want to be too gloomy but mature markets plunged over the summer & even emerging markets failed to provide as strong a spur to global growth as in prior periods (+3% in Aug vs. +24% FY07). We see August as a likely bottom, but remain cautious on the volume outlook. For further detail see 'Itus: Downgrading our Global Autos Forecast' 19 Sept 08.

Consumer Corner: The Week Ahead

Week Beginning 22 September 2008

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- **Imperial Tobacco: Trading update, Wednesday 24 September –** We expect very few surprises with the statement likely to be "in-line with expectations" and no material news on merger synergies or process.

Engineering Thoughts

Week Commencing 22nd September 2008

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- **Week That Was** — On Tuesday **Husqvarna** warned that 3Q operating profit would be c. SKr300m compared to SKr553m in 2007. This implies a much weaker quarter than previously estimated. The already poor 1H performance, especially in North America and Europe, might have worsened under the combined effect of accelerating slowdown in construction and poor summer weather.
- **Week That Will Be** — From Monday to Wednesday, MINExpo in Las Vegas will focus on the mining industry. Citi analysts will meet with **Atlas Copco**, **Metso and Sandvik.** With growing concerns over commodity prices and lower return on new investment in certain commodities such as aluminium and nickel, the conference will provide an interesting opportunity to see whether weaker commodity prices will feed through.
- **Softening Capex in US Hospitals** — Citi US Nonprofit Hospital survey (85% of the hospital industry and $40bn of annual capex) showed that the average expected growth in investment capex is now at 3% only, down from 13% in the 2007 survey. Although weaker profits and the credit market would lead to lower investment, Imaging (the key market for **Philips** and **Siemens**) remains a priority. US imaging has been showing some signs of recovery after the DRA negatively impacted demand. However, organic growth is likely to remain low at Philips and Siemens Healthcare divisions (we forecast 4% and 2.5% respectively in 2009).
- **Our Top Picks** — AGA, Charter, Invensys, IMI, GEA, MAN, Morgan Crucible, Schneider and Siemens.

Figure 1. Movers and Shakers – One-Week Share Price Performance to Close on 18/09/08

Biggest Gainers	Percentage	Comment
Vestas Wind	1.3%	Renewable energy safe haven
Tomkins	0.5%	US recovery hopes
Schindler	-0.5%	
Biggest Losers		
MAN	-13.7%	Market worries on historic cyclicality
BBA Aviation	-13.6%	Regional jet outlook
Charter	-12.1%	Price reflecting past cyclicality

Source: Powered by dataCentral

European Transport

The Week Commencing 22 September 2008

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- **Forthcoming Events** — Next week we do not expect any transport data to be released. The following week the September traffic begins to be reported.
- **Leaders and Laggards** — The top performing share this week was easyJet, up 7.3% (+16.8% relative) after announcing at its investor day that FY08 guidance is maintained. The worst performing share was Wincanton, down 20% (-10.6% relative).
- **Airlines/Airports Top Picks** — Our top airline picks are British Airways and easyJet. Our preferred airport is ADP.
- **Land Transport Top Picks** — We rate TNT, GO Ahead Group, National Express, FirstGroup and Kuehne & Nagel Buy/Medium Risk (1M); HHLA is rated Buy/Low Risk (1L).

Feeder's Digest Weekly

A Rough Ride for Jeronimo, But All Quiet on the Colruyt Front

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- **This Week Has Been ...** — Dominated by news on the financial stocks and the market turmoil in their wake. However, the food retail sector has held relatively steady in the mayhem, especially those with the most conservative balance sheets — Colruyt in particular barely budging from its c€180 level. Jeronimo, however, has had a volatile week, swinging from nearly €6.00 to lows below €5.00.
- **UK Flavour** — Fresh & Easy faces protests from staff over union status, ONS sales data shows food volumes down, Tesco and ASDA shout about price cuts, ASDA says inflation has peaked, M&S and Waitrose spar over price and Tesco finally gets its front page apology from The Guardian.
- **Continental Colour** — Intermarché launches loyalty card, CBD announces robust growth in August and Super de Boer announces strong 3Q08 LFL figures.
- **Published This Week** ... — This week we published a review of the recent Banque de France data, our view on the recent UK TNS market share data in which we question whether we have seen the peak in food inflation and finally we commented on the Colruyt net profit guidance which came in slightly below consensus expectations.
- **NEXT EVENTS** — We have Tesco interim results on Tuesday 30 September. Later in the week we look forward to welcoming many of you to our 9th Annual Retail Conference. Thursday 2 October will focus on Food Retail, Friday 3 October will focus on General Retail.

GB Off Trade Cider: Weak Market

AC Nielsen Data to 6 September 2008

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- **GB Off-Trade LAD market marginally down —** The GB LAD market reported a marginal decline in the four week period to 6 September (vol. -3.4%, val. -0.8%) and is another data point to support the deceleration trend seen over the last year (Figures 2 & 4). Cider continued to outperform the LAD market (vol. +2.3%, val. +8.0%). Cider's MAT value share of LAD stands at 14.4% vs 12.5% last year. This period's data reflects a yoy value share gain of +130bps but a 30bps m-o-m loss.
- **'Scottish & Newcastle' outperformance continues —** Although Heineken acquired S&N's UK assets at the end of April, these are still tracked under 'S&N'. **'**S&N' outperformance in both volume & value terms continues (+3.8% and 15.4% respectively). Bulmers Original reported its second period of volume and value decline (-11.4% and -12.5% respectively) albeit less marked (-23.4% and -16.9%) than last month. With C&C also in decline, this suggests a premium packaged sub-category trend, which we attribute to the unfavourable August weather. Strongbow continues to drive growth (+12.6%) and accounts for c52% of portfolio growth but with support from newer products such as Bulmers Pear and Jacques. S&N's value share stands at 50.0% (the first time it has broken this level since December 05) and reflects a +320bps yoy value share gain.
- **C&C underperformance continues —** C&C reported both volume and value decline (-21.1% and-23.5% respectively) but in contrast to Bulmers Original, the figures reflect further weakening (-7.3% -9.9%) rather than moderation. Over the last two periods (see Figure 17), Magners price point has increased materially relative to Bulmers Original. C&C's value share now stands at 10.9%, a 450bps yoy loss.

Figure 1. GB Off Trade Cider – Major Company Performances (Period ended 6 September 2008)

	Volume growth (%)			Value Growth (%)			Value Share (%)		
	July	August	August MAT	July	August	August MAT	July	August	August MAT
Scottish & Newcastle	**16.0**	**3.8**	**17.0**	**27.2**	**15.4**	**23.5**	**49.8**	**50.0**	**47.4**
Bulmers Original	-23.4	-11.4	48.7	-16.9	-12.5	44.0	5.9	5.4	5.5
Strongbow	16.1	4.5	18.2	23.7	12.6	20.7	29.5	31.5	30.7
C&C / Magners	**-7.3**	**-21.1**	**10.7**	**-9.9**	**-23.5**	**5.7**	**11.8**	**10.9**	**12.4**
Gaymer Cider Company	8.6	1.8	7.0	17.1	9.0	10.2	12.0	12.2	12.3
Aston	-4.5	-4.1	-8.8	3.6	3.4	-2.4	4.7	4.9	5.3
Private Label	11.0	9.8	21.4	20.1	18.3	25.2	8.1	8.7	9.0
Market	**10.8**	**2.2**	**12.9**	**18.4**	**8.0**	**18.5**	**100.0**	**100.0**	**100.0**

Source: ACNielsen and Citi Investment Research

Insiders Insight Weekly Update

Atria Oyj, BASF, SAAB, Sparebanken 1 SMN, Thyssenkrupp, Wolfson Microelectronics

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- **European Directors Deals** — There were conviction deals in BASF, SAAB and Thyssenkrupp last week.
- **European Share Buybacks** — There were conviction deals in Atria Oyj, Sparebanken 1 SMN and Wolfson Microelectronics last week.

Itus

Downgrading our Global Autos Forecast

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- **Summer Weakness —** We calculate that global major auto markets declined 3% in Jul and 10% in Aug, leaving 8M08 sales down 1%. We now expect FY08 to be the first down year (-1.1%) in the global auto market since 2001. Mature markets plunged over the summer & even emerging markets failed to provide as strong a spur to global growth as in prior periods (+3% in Aug vs. +24% FY07).
- **Global Autos Forecast Reduced —** With this report we cut our global autos forecast for 08E-10E based on weaker economic data and also evidence of continued softening in end markets. We now expect global sales to decline 1.1% in 08E (previously -0.6%), with 15% growth in mature markets (was 20%) and in 09E we forecast total sales up 3.4% (was 4.1%). For more detail on a country-by-country basis please see back section of this report.
- **Wall of Worry** — Headwinds are far from fading in the auto industry in 08 and threaten to dampen 09 profits too. With this report we show European OEM sensitivities to changing FX rates, raw materials and the threat of further leasing write-downs in FS. Mix degradation and softening volumes are further worries.
- **Global Long Ideas** — Cash generative Daimler (1M) is our top recommendation in Europe, along with Fiat SpA (1H) and RNO (1H). Borg Warner (1M) is our US favourite, while Daihatsu Motor (1M) is preferred in Japan.
- **Global Sell Ideas** — On the sell side, we highlight currency-challenged Porsche (3H) and VW (3M) where we think the market underestimates the negative aftermath for the shares once the short-squeeze runs itself out and Porsche's expected 51% voting majority is achieved.

Figure 1. Global Passenger Vehicle Registrations, July & Aug 2008 (Units in Thousands)

	Jul-08	% Chg	Aug-08	% Chg	8M08	% Chg
Western Europe	**1,162.9**	**-7.2%**	**714.6**	**-16.5%**	**9,613**	**-4.4%**
New EU states	95.8	-13.7%	91.2	+3.4%	799	+2.7%
Russia	199.3	+39.6%	175.6	+23.2%	1,432	+42.5%
Japan	302.6	+5.4%	193.9	-14.9%	2,268	-1.5%
Brazil & Argentina	327.7	+28.6%	285.0	+5.3%	2,281	+24.9%
South Korea	106.7	+5.3%	80.1	-18.6%	795	-0.9%
China	356.5	+2.0%	347.5	-5.7%	3,011	+15.5%
India	115.1	-3.1%	124.2	-1.5%	1,039	+7.1%
United States	**1,136.2**	**-13.2%**	**1,249.8**	**-15.5%**	**9,798**	**-11.2%**
TOTAL	**4,037.0**	**-2.8%**	**3,496.1**	**-10.4%**	**32,927**	**-0.9%**

Source: National statistics and CIR Estimates. * Chinese Aug figures estimated

Metals and Mining

Cutting PGM Forecasts

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- **Downgrading near-term PGM prices** — Following the recent decline in PGM prices on the back of anticipated weaker demand and the increased likelihood of a balanced platinum market by 2009, we have revised down our 2008 and 2009 PGM price forecasts by 14-36% and brought forward our existing medium-term outlook.
- **Weaker European growth knocks vehicle sales and platinum demand** — The deteriorating economic outlook in Europe has led to serial downgrades in vehicle sales in platinum's largest market. As a result, we now anticipate a decline in global autocatalyst demand for platinum.
- **Palladium and rhodium suffer from weakest US car sales in decades** — Mounting pressure on the US auto market and the possibility that sales may decline to their lowest levels in 15 years have weighed heavily on rhodium and palladium prices.
- **Market balance on the horizon** — We expect weaker demand and a recovery in 2009 supply to move the platinum and rhodium markets into balance by 2009.
- **Power premium remains** — Although recent results suggest local producers are able to maintain production while reducing their electricity consumption, we think the risk of future load-shedding and the restrictions that South Africa's power situation places on future growth justify a power premium over the next five years.
- **Lower earnings for Aquarius and Anglo American –** The revisions to our PGM price forecasts result in lower earnings for the UK platinum names. We have reduced earnings for Anglo American by 9% in 2009E and 3% in 2010E. For Aquarius we have lowered earnings by 51% in FY09E and 33% in FY10E.
- **Lower target prices but recommendations maintained –** We have lowered our target price for Aquarius from £6.10 to £3.70 based on our lower earnings forecasts. We have also lowered our target price for Anglo American from £40.00 to £39.00, again on the basis of lower earnings forecasts. However, we maintain our Hold rating on Aquarius and our Buy rating on Anglo American.

Off Our Trolley

AC Nielsen Sales – US Report – Volume 9 (2008)

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- **Danone** — Slowing price growth (+11% in August vs. +13% in July and +17% in June) has led to a modest improvement in yoghurt volumes (-3% in August vs. -4% in June and July). Volumes in yoghurt drinks (e.g. Danactive) have deteriorated further, declining at 35% in August vs. -28% in July. In summary, volume trends remain poor.
- **Unilever** — While there has been some volume improvement from July (-10%), August volumes at -7% remain disappointing. Given this and a disappointing August read in Europe (see https://www.citigroupgeo.com/pdf/SEU18075.pdf), Q308 is shaping up to be another lacklustre quarter on the volume front.
- **Nestle —** August volumes, at -6%, remain broadly in keeping with those over the last 12 weeks (-7%) and last 52 weeks (-7%). In keeping with our expectations (as Nestle starts to lap some of last year's pricing actions), we note that there has been a lessening of price growth (+6.5% in August vs. +8% over the last 12 weeks and +8% over the last 52 weeks).
- **Cadbury —** Cadbury has slowed modestly in August, with sales ahead +4% (vs. +5% in July) and volumes declining 3% (vs. -2% in July). Gum share has declined for the 6th consecutive 4 weekly period (-60bp).
- **ABF —** Volumes in cooking oil continue to show a material decline (-35% in August) in response to pricing actions (+60%) to recover edible oil costs.
- **Tate & Lyle —** US retail sales of table-top Splenda declined 3% in August in response to pricing actions. This compares with a c.1% decline over the last 12 and 52 weeks.
- **Caution —** While we would caution against placing too much reliance upon short-term retail sales data, it can be a useful forward indicator of material deviations from trend.

Russian Food Retail Sector

Poised To Sustain Food Inflation, Liquidity Tightening

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- **Largely Immune To Food Price Growth, Worsening Of The Credit Environment** — Food inflation has long been cited as a major problem for the food retail market. More recently, credit market turmoil has raised worries over the ability of food retailers to fund growth. We believe consumer demand will stay robust, while biggest retailers have enough resources to fund the expansion.

- **Strong Real Income Driven Retail Turnover Growth** — According to Rosstat, Russia's retail turnover surged by 14.0% yoy (real terms) in 2Q after growing 16.6% yoy in 1Q, driven by real income growth of 6.6% and 9.5%, respectively. While retail turnover growth is still rather strong, one may note an apparent slowdown in the rate of the growth.

- **Food Inflation Presses Down Real Incomes…** — CPI growth (9.3% ytd in July) was largely driven by food inflation (12.4% ytd in July) and appeared to be one of the main reasons for the real income growth slowdown. Understandably, high CPI not only depresses purchasing power of the population, but also affects the consumer demand structure.

- **…Alters Consumption Structure** — We believe that when it comes to reviewing the family budget, food expenses would be the last to be cut, while spending on less essential items such as apparel and white and brown goods would likely be revised down. Having said that, we believe that food retailers are better positioned to sustain the period of high inflation as opposed to their non-food peers. The latter would also likely see additional pressure from the interest rate spike, which would curb credit-based demand.

- **Biggest Food Retailers Are Not That Dependant On External Funding** — After the recent equity placement, the biggest public food retailers have enough cash on their balance sheets, providing them sufficient leeway to complete this year's capex program and meet near-term debt obligations. The question arises: what if the credit environment doesn't recover in the long term? Our models suggest that existing business would provide the retailers enough cash flow to fund organic capex (Fig. 1-3). At the same time, small highly leveraged retailers, which have less access to the capital markets, may find themselves in a rather difficult situation, which may trigger M&A activity.

- **Sensitivity Analysis** — We analysed sensitivity of the DCF values and EPS estimates to the changes in the assumption to the new store additions. Our model suggests (Fig. 4) that if we cut new store openings by 50%, DCF value of MGNT and FIVE goes down only by 15%, while '09E EPS is cut 3.3% and 7.5%, respectively. SCON's (2M) DCF slides 27% and EPS falls by 3.5%.

Russian Gencos

Turning Bullish on the Sector; Stock Overhang Also Reduced

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- **Utilities have underperformed indices in market sell-off** — In September, the Russian thermal gencos under our coverage (OGKs and TGKs, excluding TGK-4 and TGK-8, where mandatory buyout offers were in place) have fallen by an average 49% and 51%, respectively, underperforming the RTS index (down 34%) and the MICEX10 index (down 43%).
- **Turning bullish on sector; most gencos now rated Buy/High Risk** — Until now, we have been bearish on the sector (only 3 out of 12 covered thermal genco stocks rated Buy), but we think the recent market sell-off presents a buying opportunity. We upgrade our ratings accordingly, and now rate all gencos Buy/High Risk except for OGK-6, TGK-4 and TGK-8, which are still rated Sell/High Risk (3H) (see table below). Our target prices are unchanged except for that on TGK-8 (down from Rbl0.039 to Rbl0.021 following expiry of the mandatory buyout offer).
- **Stock overhang also substantially reduced** — As trading volumes have picked up recently, the stock overhang in the sector has fallen substantially (it currently amounts to only US$133mn for the covered entities). The stock overhangs in Mosenergo and OGK-2 have been fully cleared. The greatest stock overhangs are in OGK-1, OGK-4 and OGK-6. Given that the stock overhang remains partially in place for the sector, we continue to apply a 30% discount to our DCF valuations in deriving our target prices for the Russian thermal gencos.

Figure 1. Recommendations

Stock	Rating	Old rating	Current price (as of 9/19/08)*	Target price*	Upside	MCap/Inst. Capacity, $/kW	EV/Inst. Capacity, $/kW
TGK-5	1H	1H	0.007	0.029	**326%**	133	(9)
OGK-2	1H	1H	0.529	2.076	**292%**	71	101
TGK-7	1H	2H	0.574	1.749	**205%**	93	73
TGK-1	1H	2H	0.008	0.019	**141%**	191	170
Bashkirenergo	1H	1H	$0.950	$2.100	**121%**	193	205
OGK-3	1H	2H	0.850	1.865	**119%**	166	(158)
OGK-4	1H	1H	1.120	1.971	**76%**	273	113
Irkutskenergo	1H	2H	$0.550	$0.910	**65%**	203	216
Mosenergo	1H	3H	1.375	2.193	**59%**	175	155
OGK-5	1H	3H	1.750	2.712	**55%**	234	246
OGK-1	1H	3H	0.711	1.010	**42%**	116	144
TGK-4	3H	3H	0.025	0.027	**8%**	574	540
OGK-6	3H	3H	0.474	0.380	**-20%**	58	30
TGK-8	3H	3H	0.034	0.021	**-38%**	754	650

* Rbl, except where noted   Source: Citi Investment Research

UK Small Mid Cap Weekly

Volatility Creates Opportunites

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- **Extreme market volatility —** News out of the financials sector hit markets at the start of the weak and drove the markets sharply lower across the board. Markets rallied aggressively in early Friday morning trade on expectations of a US rescue plan. Over the week (to Thursday close) the FTSE 250 was down 5.7%, the FTSE Small Cap 4.6%, the FTSE 100 8.2% and the Aim All-Share 8.6%.
- **Looking for anomalies (p29) —** We look for stocks which have underperformed their peer group since 2nd September where we have a buy rating, and stocks which have outperformed where we have a sell or hold rating. Key Buy recommendations (p5) which have underperformed: **Interserve** & **Charter**.
- **UK Economics: Downgrading GDP forecasts —** We are further downgrading our UK economic forecasts, and now expect GDP to shrink by 0.3% YoY in 2009 (previous forecast was 0.1% growth). We believe the UK is currently in recession and do not anticipate a recovery in 2009. Recent Mid Cap outperformance is unlikely to be sustained given Mid Caps are overweight the UK economy relative to large caps.
- **UK Housebuilders: Short term correction likely (p35) —** Having rallied over 30% over last three months downside risks have increased in the near term with worsening macro conditions. Despite recently cutting our estimates we believe there is further downside risk to volumes and cash generation for the house-builders.
- **Metals & Mining: Momentum to value** (p34) **—** The sector has fallen 38% in the past three months, bearing the brunt of the transition from momentum to value. Our favoured small/mid-cap stocks combine value, volume growth, M&A potential and cashflow. Buy **First Quantum**, **Fresnillo**, **Gem Diamonds** and **Ferrexpo.**
- **Pensions: Lucrative profit source** (p36)**—** Net pension credits can be a material source of accounting profits for companies and do not warrant a standard valuation multiple. Despite challenging markets, net pension credits may remain unexpectedly robust as expected rate assumption increases compensate for lower market values.
- ***Save the Date*** — We are delighted to invite you to the 9th Pan Euro Retail Conference 2008; 2-3/10/08; and the Citi Pan European Small/Mid Cap Conference, 6-10/10/08.

UK Small/Mid-Cap

Leaders and Laggards: Looking for Anomalies

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- **Capitulation?** — From its peak the FTSE 250 is down 32% and the FTSE Small Cap 37%. This compares to the FTSE 100 which is down 27%. Since the more recent peaks in 2nd September and 19th May the FTSE 250 is down 12% and 21% respectively. The FTSE Small Cap is down 8% and 18%.
- **Looking for anomalies** — High volatility creates opportunities. We look at the best and worst performing stocks since the two recent peaks within the six largest Mid Cap sectors (c. 60% of the index by size) in the FTSE 250 and FTSE Small Cap Indices. We highlight stocks which have underperformed their peer group since 2nd September where we have a buy rating and stocks which have outperformed where we have a sell or hold rating.
- **Support Services** — **Interserve** (BUY, -21.5% since 2nd September), **WSP Group** (BUY, -21.1%) and **eaga** (BUY, -16.7%).
- Travel & Leisure — JD Wetherspoon (HOLD, +6.6%), and Mitchells & Butlers (Buy, -14.5%).
- Financial Services — Hargreaves Lansdown (Hold, -6.8%), Cattles (BUY, -22.0%), Investec (BUY, -27.6%), Queen's Walk (Hold, +0.7%).
- **General Retailers** — **DSG International** (SELL, +9.5%), **Dignity** (Hold, -4.1%), **Inchape** (BUY, -20.5%), **Lookers** (Hold, +0.0%) and **Findel** (Buy, -28.2%).
- **Industrials** — **Tomkins** (Hold, -3.4%), **Enodis** (Hold, -3.6%) **Charter** (BUY, -29.5%)
- **Media** — **Rightmove** (SELL, -4.2%), **Aegis** (Hold, -10.4%), **Yell** (Buy, -32.2%).
- **Index** — **DSG International** (SELL, +9.5%), **Unite** (Hold, +6.7%), **JD Wetherspoon** (HOLD, +6.6%), **Hochschild Mining** (Hold, +6.1%), **Hiscox** (Hold, +6.1%) and **Findel** (Buy, -28.2%), **Yell** (Buy, -32.2%).

*nb price moves are from 2nd September to close on 18th September

Under Cover — Issue 281

From Wall Street to Main Street – Implications for Insurers...

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- **Euro Insurers during Financial Turmoil** — The sector has been hugely volatile since the onset of the credit crunch, arguing their case when reporting but at the market's mercy in the fallow periods. First it was monoline and ABS exposure, then equity holdings. However the sector is down only 5% (rel DJSTOXX) since the onset of the credit crunch and up 2% this year.
- **Defensive as a Financial** — We continue to argue that insurers are stronger than in 2002/03 and better positioned than banks. They have de-leveraged since 02/03 in contrast to the banks and brought investment exposures to acceptable tolerances. Even with a 25% fall in equities from here (& appropriate falls elsewhere), S&P capital adequacy remains solid. Furthermore, EVs are under-geared to markets and, with the current price/ EV near lows, we believe further compression is unwarranted.
- **Lessons from an Extraordinary Week** — The sector is up 1% (rel) since the day before the GSE bailout. We see Lehman as a credit event but not a material one. AIG's prize asset – Asia – is probably beyond the reach of our companies but could provide a peer benchmark for Pru Asia's valuation. The Fed's ABS proposal could challenge the ABS marks taken by the likes of ING and Aegon.
- **From Wall Street to Main Street** — If a line is being drawn under systemic risk to the financial system, attention will now switch to the gathering recession on Main Street. This should favour insurers. If not, insurers still remain defensive financials.
- **Positive Call on European Insurers** — With the sector close to historic lows and offering unprecedented value, we remain positive. Within the sector, we are still cautious of weaker balance sheets and larger 'credit' exposure. We also believe the defensive qualities of P/C may slowly wane. Our preferences are shown below.

Appendix A-1

Analyst Certification

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Citi Investment Research Asia Quantitative Radar Screen and Emerging Markets Radar Screen model recommendations are based on a regionally consistent framework to measure relative value and momentum for a large number of stocks across regional developed and emerging markets. Relative value and momentum rankings are equally weighted to produce a global attractiveness score for each stock. The scores are then ranked and put into quintiles. A stock with a quintile rating of 1 denotes an attractiveness score in the top 20% of the universe (most attractive). A stock with a quintile rating of 5 denotes an attractiveness score in the bottom 20% of the universe (least attractive).

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