Rabo

Benelux All Caps

January 2009

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We remain defensive for the coming 3-6 months, as (i) earnings risk for 2009 is still significantly on the downside, and (ii) de-leveraging of financial institutions and consumers is far from over. Our top picks are Ahold, Heineken, OPG, Telenet and Wolters Kluwer. We expect stock market lows to be tested again in 09H1, which could be the start of a broad rotation into healthy financed cyclicals.

Figure 1: Rabo Securities New All Cap Favourites (entry price 13 January 2009)

	Entry price (EUR)	Price target 12-m (EUR)	Potential (%)	Market cap (EUR m)	Daily volume (EUR m)
Ahold	8.97	11.0	23	10,691	77.1
Heineken	24.28	31.0	28	11,897	48.6
OPG	10.00	12.5	25	583	3.8
Telenet	12.94	18.0	39	1,403	34.9
Wolters Kluwer	14.72	19.0	29	4,224	26.5

Source: Rabo Securities

Fundamental issues remain: hold your horses

We see recent relief in the stock markets as a short-lived bear market rally (with potentially 10%-15% more upside from here) rather than the start of a new and sustainable bull market. We have two key concerns. First, EPS growth projections (consensus low: -24%, consensus: –6%, Rabo: -17%) for 2009 are still milder than for the previous downturn (avg -27%), which looks quite ambitious given indicated GDP declines of 2% or more for the US & Eurozone in 2009. We expect that the lengthy de-leveraging process of financial institutions and consumers can only add to the severity and depth of the current recession.

Main themes of our book: Bank covenants, Stress test and Pension deficit scan

Given the gloomy global GDP forecasts for 2009, we took another average haircut of 7%-8% on our estimates for Benelux co's. Our bank covenant scan reveals that 24 firms (= 25% of total) could face debt issues in an aggressive earnings decline scenario in 2009/10. Our updated stress test (based on target EV/EBITDA multiples) indicates an additional 28% valuation downside for Benelux stocks. Additionally, we analysed the vulnerability of defined benefit pension plans to current equity market levels, which could impact EBIT of certain companies by up to 13%.

Shopping basket for true market bounce in the course of 2009

The good news is that stocks markets are very likely to bottom-out in the course of 2009 in our view, which could imply the start of a prolonged bull market i.e. a broad rotation into healthy financed cyclicals such as ASML, Beter Bed, Binck Bank and Unit 4 Agresso.

Figure 2: Rabo Rebound list

	Price (EUR)	Trough target	Fair value (EUR)	Upside (%)	Market cap (EUR m)
Aalberts	4.93	4.6	11.6	135	590
Arcadis	9.48	7.0	21.5	127	587
ASML	12.21	8.0	26.3	115	5,264
Beter Bed	8.71	6.4	22.6	159	190
Binck Bank	6.16	4.5	15.4	150	475
Randstad	15.67	10.3	45.1	188	2,657
Unit 4 Agresso	8.16	6.7	19.7	141	210

Source: Rabo Securities

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