Benelux All Caps

Rabobank Equity Research

October 2010

Please vote for us

Institutional Investor 2011
All-European
research Benelux

Benelux All Caps

October 2010

The ambiguous economic environment impedes an outspoken directional market view. Our stock selection is a mix of (i) still attractively valued cyclicals, (ii) defensive high FCF/dividend generators and (iii) pure valuation plays. We add SBM Offshore and Mediq to our Conviction list and remove strong performer Nutreco. Since inception, our list generated a whopping α of 830bps.

Figure 1: Rabo Conviction List (last price 1 October 2010)

Company	Entry date	Entry price (EUR)	Last price (EUR)	α generation since entry (%)	Price target 12-m (EUR)	Upside (%)
AkzoNobel	15-June-2010	43.1	44.2	2.0	58	31
ASMI	15-June-2010	18.1	18.7	-2.4	28	49
Bekaert	15-June-2010	142.0	192.0	32.3	▲ 222	16
Crucell	15-June-2010	14.5	24.6	63.5	24.75	1
Heineken	15-June-2010	36.5	37.5	2.7	45	20
Mediq (entry)	4 October 2010	12.7	12.7	-	16	26
Nutreco (exit)	20-July-2010	45.0	53.8	9.3	60	12
SBM Offshore (entry)	4 October 2010	14.1	14.1	-	19	35
Wolters Kluwer	15-June-2010	15.5	15.4	-1.5	19	24
Average (incl. closed positions)				**8.3**		
				Performance since 16 June		
AEX		333.8	333.8	0.7		
AMX		539.5	568.2	5.9		
AScX		455.4	465.7	3.7		
Bel-20		2509.3	2579.4	2.9		
Total return Rabo conviction list				14.2		

Source: Rabobank International

Slow growth macro scenario incorporated in our models

While management teams of listed companies remain generally upbeat on earnings trends, leading macro indicators indicate a slowdown of economic activity growth as of 2011, intensified by austerity measures related to sovereign debt issues in especially Europe. We now incorporated a slow macro recovery scenario (no double-dip) for all stocks under coverage; this central scenario assumes GDP growth of 2.0%-2.5% for the US and c. 1.5% for the Eurozone. Our finetuned estimates are now on average 3% below consensus and reflect an average 14% EPS growth for FY11 at an average P/E 2011 of 11.4x, which seems reasonable in historical perspective.

Key theme for 2011: attractive total returns at limited earnings risk

We plotted expected EPS growth for 2011 against P/E 2011 multiples to detect (i) which companies are still attractively valued when using limited growth projections (buy/long candidates) and (ii) which stocks need over 50% EBITA growth y-o-y, while still trading at not overly cheap multiples of 12x-13x (sell/short candidates). We also took a closer look at expected dividend yields, analysing (i) average historical dividend growth (ii) pay-out consistency and (iii) balance sheet strength.

SBM Offshore and Mediq added to Rabo Conviction list

Our in-depth analysis of SBM's lease portfolio indicates 35% upside on SOTP value, even when applying a 40% discount versus peers to Turnkey. Mediq is a pure valuation call, as all regulatory risk is priced in.

Equity Research

David Tailleur

+31 (0)30 71 24474

David.tailleur@rabobank.com

Rabobank International GFM

Equity Sales + 31 (0)30 216 9101

Equity Sales Trading + 31 (0)30 216 9123

www.rabobank.com