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"No coward soul is mine, no trembler in the world's storm-troubled sphere:" Emily Bronte

The UK equity market started the year in a promising fashion but has run into a number of challenges and is still hovering around the 6000 level. Latterly, the protests in Tunisia and then in Egypt have aroused fears that the troubles might spread to the Middle East, threatening oil supplies from this region. No wonder the oil price has touched \$100 a barrel. The demonstrations in North Africa were caused in part by the rise in the price of food and high unemployment, especially among the young. Investors are, in part consequence, reappraising their attitude to emerging markets. The Financial Times of 5 February reported the withdrawal of more than £4.4bn from emerging market equity funds over the last week and that many investors are putting this money into the US, Europe and Japan. "Global Risks 2011", a report from the World Economic Forum in collaboration with Marsh McLennan Companies and others, has warned of the growing threat of water, food and energy shortages. The report mentions five risks to watch - cyber-security, demographic challenges, resource security, retrenchment from globalisation and weapons of mass destruction.

During January the equity market was shocked by the news that growth in UK GDP over Q4 2010 fell by 0.5%. Subsequently some better economic news suggested that the UK was still growing if slowly. The UK CIPS/Markit report on manufacturing January suggested that, in the words of Capital Economics, over "the industrial recovery is going from strength to strength." The more important services sector showed that the drop in activity in December was partly a result of severe weather. Some concern is being expressed about the rise in Consumer Price Inflation, to 3.7% per annum in December. Retailer John Lewis has reported two weeks of dull sales, implying that the government's cuts and the increase in VAT to 20% are beginning to bite.

Since the recovery in the UK equity market, from April 2009, a major source of strength has been the increasing profitability of so many companies helped by tight control over costs. BP has now returned to the dividend lists and in prospect lies the possibility that overall dividends could increase by some 15% this year. The buoyancy of company profits may, however, be changing. Already Unilever and Ryanair have warned about the rising cost of raw materials and fuel. Fortunately though, the growth in labour costs is still modest. A close watch will have to be kept on company announcements to see if profit margins are coming under pressure.

At some stage central banks across the developed world will have to start putting up interest rates and this could add to company costs. While the recovery in the UK economy remains feeble, the Monetary Policy Committee will probably keep base rate unchanged, but a rise in mid-year cannot be ruled out.

The coming months will prove a testing time for the UK economy and for companies. Hopefully the UK can maintain growth even if at a slow rate. Further problems may come from the Eurozone and from a slowdown in the fast rate of Chinese expansion. In these circumstances, we are adopting a cautious approach to UK equities and concentrating on companies with sound finances and pricing power.

Market Indicators	Price	-1m Price	% Change	Year High	Year Low
FTSE 100 Share Index	6051	5984	+1.10	6056	4806
FTSE Mid 250	11811	11674	+1.17	11830	9010
FTSE All Share	3140	3104	+1.14	3143	2486
FTSE Govt. Secs. Index	151.9	154.7	-1.84	163.4	149.8
Gold Bullion \$/Troy Ounce	1352	1377	-1.86	1418	1057
Euro/Sterling	1.19	1.20	-0.80	1.24	1.10
US\$/Sterling	1.61	1.56	+3.56	1.63	1.43
Net Yield Total Market	2.78 (2.85)	Price Earnings Ratio Total Market	13.37 (13.08)		

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Recommendations

- Strong Buy = Over +25% Total Absolute Return Over 12 Months
- Buy = Over +15% Total Absolute Return Over 12 Months
- Accumulate = +5 to +15% Total Absolute Return Over 12 Months
- Hold = Up to +5% to - 5% Total Absolute Return Over 12 Months
- Reduce = -5% to -15% Total Absolute Return Over 12 Months
- Sell = Less Than -15% Total Absolute Return Over 12 Months

Valuation Indicators – Are earnings forecasts sustainable?

The Q4/FY 2010 results season is about to begin in earnest. This is likely to play a significant part in setting the scene for the rest of 2011. Outwith the geopolitical crisis in North Africa and the Middle East, the soaring price of commodities and unease regarding the near-term direction of the oil price, investors in global stock markets are coming to terms with expectations for profits growth, a key fundamental driver of equity market direction. Readers should be reminded of the fact that in anticipation of a marked fall in profitability in the wake of the banking sector crisis in late 2008, forward-based valuation multiples fell sharply. During the recession, despite uncertainty regarding its duration, the “green shoots” of eventual recovery were an early indicator of a rebound in profitability which eventually resulted in the remarkable stock market rebound of 2009. Fast forward to today and prevailing market arithmetic indicates that the FTSE 100 is currently trading on around 12.5x 12-month trailing profitability, broadly in line with the average experienced over the past 10-15 years. Purely optically, based on current consensus earnings expectations, the FTSE 100 at prevailing levels is regarded as fair value.

FTSE 100 arithmetic

Current Market Cap	1,684bn	1,684bn
12-m trailing earnings	133bn	133bn
12-m trailing PER	12.6x	12.6x
12-m forward earnings	140bn	153bn
Earnings growth	5%	15%
12-m forward PER	12.0x	11.0x
Long-term ave PER	13.0x	13.0x
Implied Market Cap	1,819bn	1,992bn
Implied upside	8%	18%

Source: Factset, Oriel Securities

Based on the assumption that the global economy will strengthen over 2011, consensus “bottom-up” earnings forecasts indicate aggregate earnings from the UK’s largest 100 companies rising by around 20% over the course of the next 12 months. Note that on this basis the FTSE 100 is trading on 11x forecast 2011 profitability and that current valuations are therefore discounting an eventual outturn below that envisaged by the aggregation of sector / stock analysts.

We have long argued the attraction of risk adjusted returns in an investing environment characterised by such a high degree of opacity. We note too that investors are increasingly looking to the equity market as an alternative to the poor returns on offer from high interest bearing bank or building societies. After delivering low single-digit dividend growth over 2010, many companies, awash with cash, are likely to increase the level of returns to shareholders, both over the short-term in the form of dividend growth (we look for c15% growth in aggregate dividends over 2011) and over the longer term in the form of increased numbers of share buy-backs (reducing the number of shares in issue and boosting EPS growth). Based on prevailing arithmetic it is possible to argue that, trading below 6000, the FTSE 100 is likely to deliver a total return of around 10% or possibly more, over 2011.

Assuming that aggregate earnings do increase by between 5% - 15% over this year, investors might reach the conclusion that the FTSE 100 will actually end 2011 at around 6450-7000, a very creditable performance. It is worth assessing, however, just how likely it is that the corporate sector delivers the implied earnings growth required to satisfy the key foundation stone underlying these assumptions.

Concern that aggregate earnings expectations are too high is fairly widespread at the current time. Those assumptions will almost certainly prove too optimistic if the economic recovery loses momentum. What is perhaps even more concerning is the possibility that margin disappointment will prevail, even if the recovery continues. Put simply, equities can do well if nothing goes wrong! We note that prevailing consensus has EPS growth of c.30% between 2010 and 2012 following 39% growth in 2010 from 2009 (note that these are underlying earnings growth assumptions and thus ignore nasty things like financial sector write-downs).

One need not simply use analysis based upon US financial market data to come to the conclusion that the growth in prospective earnings comes at a time when corporate profit margins are *at, or above, historic highs*. Critically, we identify the factors which contributes strongly to the “V” shaped revival in profitability even at the time when overall economic activity proved subdued. We believe that these four factors, so supportive to earnings in the immediate recovery period, are starting to fade. 1) Slower activity in the eurozone. 2) Fading operational leverage. 3) An end to falling interest costs. 4) Rising commodity / energy cost pressures.

In terms of its arithmetical significance, the most important of these factors proved to be cost control through the recession. The largest cost for most businesses is labour. Unit labour costs typically rise in a downturn but on this occasion the increase was pretty moderate, reflecting the zeal with which many companies approached their cost base. Now, however, we believe that unit labour costs have troughed and that the concomitant margin expansion has levelled out. Critically, we believe the key to consensus earnings growth is renewed margin expansion. Detailed analysis of the implied incremental margin assumptions underpinning upbeat earnings expectations (incremental margin expansion = additional earnings deriving from additional sales). The conclusion reached from the analysis of this drilling leads us to believe that investors are actually looking for incremental margin growth of 15-20% over 2011!!

Investors should be aware of the fact that margins typically peak well before the end of any economic cycle. Back-testing does indicate that that margin growth has flattened out over the past six months. Consensus earnings growth forecasts are typically too optimistic. The average error over a 12-month time horizon is around 7% and this error tends to be pro-cyclical. The conclusion from this analysis is that if previous post-recovery experienced is to be relied upon, then earnings downgrades, not upgrades, are likely to prove the biggest risk to investors, arithmetically derived targets in 2011. Furthermore, we suspect that if the stock market continues to rise, so will its sensitivity to earnings disappointment when it occurs. The message remains the same; stick to risk adjusted returns and “quality” stocks.

Jeremy Batstone-Carr

UK and International Economies

UK

UK Q4 2010 GDP of -0.5% proved to be a disappointment when +0.5% was the consensus expectation. Undoubtedly the worst weather conditions experienced in the past hundred years were, in part, responsible. Nevertheless, there was a widespread weakness across sectors with the exception of manufacturing. Anecdotal evidence does not support the statistical findings and it is hoped that Q1 figures might show that the economy has returned to growth. There is little doubt that the major challenge posed by the austerity programme has now arrived.

The perceived problem associated with rising inflation has now been elevated to one which might require more immediate attention. With annualised CPI inflation standing at 3.7%, nearly 2% above target and economic growth stagnant, the fear is that stagflation has returned. It should be noted that the source of inflation is not domestic and its level is modest compared to the 25% rate prevailing in 1975. The Bank of England is in danger of losing credibility with the markets and a symbolic 25bp increase in base rates in Q3 2011, to 0.75% might be required even if economic data appears mixed.

UK Economic Performance

		2008	2009	2010E	2011E
GDP	% change	0.7	-4.7	+1.6	+1.8
Inflation	CPI	3.6	2.1	+3.3	+3.7
Current A/c	% of GDP	-2.2	-2.0	-2.1	-1.5
Unemployment	%	5.8	7.8	7.8	7.7
Budget balance	% of GDP	5.3	-14.4	-10.1	-10.3

International Economic Performance

		2008	2009	2010E	2011E
GDP % Chg					
US		1.2	-2.5	+2.9	+3.1
Japan		-0.2	5.3	+4.2	+1.5
Eurozone		0.8	-3.9	+1.7	+1.5
Inflation					
US		3.8	-0.3	+1.6	+1.7
Japan		1.4	-1.3	-0.8	-0.2
Eurozone		3.1	0.3	+1.6	+2.0
Current A/c % of GDP					
US		-4.6	-3.0	-3.3	-3.4
Japan		+3.6	+2.7	+3.4	+3.2
Eurozone		-0.4	-0.7	-0.5	-0.2

Source: The Economist

US

The long-suffering US housing market may at last be turning the corner, after a succession of false starts and subsequent reversals had dimmed such hopes earlier in the business cycle. Nevertheless, the rebound remains highly selective and not certain to be sustained. The recent data for December 2010 showed a 16.7% increase in building permits, a 12.3% gain in sales of previously owned homes, and a 17.5% rise in new home sales. With multi-month inventories of unsold homes initially limiting the magnitude of the rebound, it will be 2012 at the earliest before any lasting recovery evolves.

In other parts of the economy there is a firming in consumer confidence and notably better trends in the leading indicators. Overall the US economy is expected to grow by more than 3% in 2011, a pace that should be sufficient to keep corporate earnings growing at a high level. However, after the supercharged profit gains of 2010, uplifts will be more difficult to achieve. Concerns are rising that the better economic data may induce the Federal Reserve to boost interest rates later in 2011 rather than 2012. Yet the Fed maintains that it is still wedded to a policy of monetary accommodation.

EUROZONE

The January European Community Business and Consumer survey adds to the evidence that the Eurozone economy has made a good start in 2011. However, the recovery remains heavily reliant on the industrial and external sectors. Germany has growing at almost its strongest pace in the survey's history, while France too recorded a four month high. Growth in Ireland was the best since August 2007, whilst Italy showed a modest improvement.

Whilst inflationary pressures outside of Germany remain muted, the ECB is committed to an exit strategy from non-standard operations, should the inflation risk require such action. However, the ECB is confident that the Euro inflation in 2012 will be back below 2% once the impact of the current surge in commodity prices washes out. In all, the near term growth outlook for the Eurozone area remains positive but heavily reliant on Germany. The periphery economies are set for another tough year.

JAPAN

News that Standard and Poor's (S&P) had downgraded Japan's sovereign debt from AA to AA- should be a cause for concern for the heavily indebted European economies. S&P stated that it had made this move on the basis that Japan's budget deficit will remain high for the next few years and expectations are that the level of debt currently standing at 200% of GDP could rise further. Nevertheless, the government's debt is denominated in Yen and only 5% of the total is held by overseas creditors.

Japan's economy is expected to grow modestly in 2011 after a mild contraction in the final quarter of 2010. Growth will come from the robust demand from the fast-growing emerging economies. Recent increases in commodity and food prices should not impact on the economy which is currently mired in consumer price deflation due to weak domestic demand. By contrast, companies are enjoying strong profits growth. Starting in Q1 economic growth should accelerate throughout 2011.

Edward Menashy

CHARLES STANLEY

Investment Strategy Committee Minutes

Minutes of 2 February 2011 Investment Strategy Committee (ISC)

The Investment Strategy Committee (ISC) met for the first time on 11th January 2006 to discuss the global investment environment and make asset allocation and investment decisions to be acted upon by the managers of our Select Portfolio. The Select Portfolio, an actual portfolio of investments owned by Charles Stanley, follows the investment recommendations of the ISC, these recommendations also being made available to advisors within Charles Stanley. Whilst not seeking to enforce conformity amongst brokers or clients, the process through which the Committee reaches its conclusions is both structured and eclectic, necessarily so to enable all issues to be accorded due thought and recent events to be given sufficient weight within proceedings. The Select Portfolio is not to be considered a model portfolio alone, but the vehicle through which the conclusions of the ISC may be acted upon.

Performance to 31/01/2011

	31/01/10 31/01/11	31/01/09- 31/01/10	31/01/08- 31/01/09	31/01/07- 31/01/08	31/01/06- 31/01/07	Since inception*
Charles Stanley Select Portfolio	18.2%	19.2%	-12.7%	1.4%	6.6%	33.9%
FTSE APCIMS Balanced Total Return	14.1%	21.5%	-16.9%	-0.4%	7.6%	23.7%
FTSE ALL SHARE Total Return	18.1%	33.2%	-27.4%	-4.1%	12.9%	25.3%

Source: Interactive Data. Total return, Select Portfolio performance based on mid-prices.

*Portfolio inception date 09/01/2006. The figures refer to the past. Past performance is not a reliable indicator to future results.

	09/01/06	01/01/07	31/12/07	31/12/08	31/12/09	31/12/10	31/01/11	% Change since 09/01/06	% Change since 31/12/10
UK Equities	£270,430	£301,232	£313,445	£240,967	£305,104	£392,025	£369,637	27.10%	-1.96%
International Equities	£142,688	£163,088	£179,467	£137,466	£194,944	£250,584	£247,340	33.62%	-1.29%
Bonds	£70,309	£97,789	£100,756	£93,964	£103,214	£87,485	£86,841	20.68%	-0.74%
Hedge Funds	£0	£0	£0	£17,815	£10,007	£0	£0	n/a	n/a
Property	£0	£0	£0	£0	£0	£0	£0	n/a	n/a
Cash	£62,484	£21,575	£29,195	£37,864	£18,677	£9,468	£25,430	-59.30%	168.60%
Total	£545,911	£583,684	£622,863	£528,076	£631,946	£739,561	£729,247	33.58%	-1.39%
APCIMS Balanced TR	1772.40	1923.36	2031.82	1677.78	1959.84	2205.00	2192.59	23.71%	-0.56%
FTSE All Share	2901.00	3221.00	3286.00	2209.00	2760.80	3062.85	3044.27	4.94%	-0.61%
FTSE All Share TR	3264.27	3739.46	3938.25	2759.58	3590.71	4111.9	4090.18	25.30%	-0.53%
FTSE WORLD Ex UK TR	444.77	463.30	504.90	421.25	500.69	584.25	582.2	30.90%	-0.35%
FTSE Gilt All Stocks	156.91	149.85	149.78	160.83	152.13	156.38	153.34	-2.28%	-1.94%
FTSE Hedge Index	n/a	n/a	6556.17	3400.76	4963.85	5125.81	5243.41	n/a	2.29%
FTSE All UK Property	n/a	n/a	5167.00	3901.00	3224.56	3604.68	3615.59	n/a	0.30%
Gold (\$)	541.00	632.00	833.00	874.00	1095.70	1419.45	1331.81	146.18%	-6.17%
Brent Oil (\$)	63.00	60.00	93.80	46.00	78.26	94.23	98.66	56.60%	4.70%
RPI	193.60	201.10	209.70	216.00	216.60	226.80	228.40	17.98%	0.71%
						£392,025	£369,637	27.10%	-1.96%
£ : \$	1.77	1.96	1.99	1.45	1.62	£250,584	£247,340	33.62%	-1.29%
£ : Euro	0.68	0.67	0.74	0.94	0.89	£87,485	£86,841	20.68%	-0.74%

Strategy

Positive

Equities
Gold
Index-Linked

Neutral

Corporate Bonds

Negative

Sovereign Bonds

Geography

Positive

Selective Global
Emerging Markets
UK

Neutral

USA
Emerging Asia (was positive)
Japan

Negative

Developed Asia

The Minutes of the 12 January 2011 Investment Strategy Committee meeting were approved unanimously.

Overview

2011 has opened with a marked increase in volatility amongst investment assets across all asset classes. Revolution and protest across North Africa and into the Middle East, in large part the consequence of rising commodity prices, has put the match to the bond market pyre. It remains subjective as to whether this pyre has been drenched in the US Federal Reserve's gasoline but how the US chooses to proceed with prevailing monetary policy (if indeed it has the choice) is likely to prove pivotal to prospects for all asset classes over 2011 and beyond. The existing programme of unconventional monetary policy (QE2) is scheduled to complete in late June / early July. The programme passes its zenith in early March. What happens then will be critical but for now developed equity markets are responding to two key themes, rising sovereign bond yields and secondly, differentiating between those sectors / companies with perceived pricing power and those without. This helps to explain a very mixed performance over January but whether the prevailing trend is sustainable remains very much open to question. Marked disparity exists between the performance of developed equity markets and their developing / emerging counterparts. Fears relating to rising inflationary pressure across the emerging world and resultant monetary tightening, have resulted in substantial fund outflows over January, exacerbating the performance differential. Developed world economic activity appears, optically at least, to be reviving. Irrespective of the ongoing sovereign debt crisis at the eurozone's periphery, and rising fears regarding unsustainable fiscal deficits in the US and Japan, real GDP data appears to confirm steady progress away from the deep recession of the recent past. If this is a normal economic cycle then at some point, possibly sooner rather than later, Western monetary policy will begin to normalise. Quite how such a move would impact on real economies still searching for traction remains very much to be seen. The question then is: is what we are seeing in financial markets the start of a longer term trend, or might rising commodity and energy prices prove transient and alter course as the year progresses?

Portfolio Performance

The Select Portfolio had a poor month in January returning -1.39% against the benchmark APCIMS Balanced return of -0.56%. Both UK and international equities underperformed respective benchmarks as the portfolio's defensive orientation suffered in the UK from strength across financial sectors and in emerging markets from record fund outflows from the region. UK equities returned -1.96% over the month against -0.53% from the FTSE All-Share Index. Performance was supported by strength in BG Group and Vodafone but GlaxoSmithKline, Croda and Unilever proved weak. International equities returned -1.29% against the benchmark FTSE World ex-UK return of -0.35%. The overweight gold position proved a big detractor as the gold price fell by 6.17% over the month. Elsewhere, Asian exposure proved unhelpful, as was the dollar's weakness against sterling. By contrast January proved another strong month for Charles Stanley's investment trust portfolios as another month of outperformance reflected broadly narrowing discounts across the sector. With discounts at prevailing levels

appearing, in some instances, too tight, some portfolio rebalancing may be merited. Sectorally, the Select Portfolio's underweight position in financials detracted from performance, as did the overweight in consumer staples.

A portfolio to provide some **insulation against a rising oil price and / or geopolitical tension** would include: Oil (energy stocks), gold, inflation protected bonds, Swiss francs and volatility. Key themes include searching for **sectors with pricing power**. Back testing shows outperformance from resources, chemicals, telecoms and oil & gas and underperformance from consumer discretionary, travel & leisure, autos and construction. Searching for **sectors which tend to outperform during periods of rising bond yields** include: banks, insurance, resources, tech and industrials Sectors which tend to underperform when bond yields are rising include: healthcare, utilities, consumer staples, retail, telecoms, real estate and personal goods. Note that there may be a two-way pull in certain sectors at present!

Macro Backdrop

Having withstood the uncertainty posed by the eurozone sovereign debt crisis and tighter Chinese monetary policy, UK equities might have been expected to have weathered the storm better than proved the case. Rising geopolitical tension in North Africa / Middle East, a sharply rising oil price and inflation concerns have all exerted a negative influence. Risk assets may have to endure a prolonged "work out" before making convincing upward progress. Real GDP data in the US has proved, at least at face value, pretty robust. The initial Q4 2010 GDP estimate emerged at +3.2%, lower than consensus but buoyed by consumption which accounts for c.70% of the figure. It remains to be seen whether housing and employment conditions have turned a corner but the recovery from prevailing conditions is likely to be prolonged. The size of the federal deficit is posing an enormous problem and lingers as a major uncertainty in the background. President Obama's position has been weakened (election in 2012) and it remains to be seen just how committed the country's politicians are to meaningful deficit reduction. Rising input costs are being felt at the factory gate. At present it is not clear how much of the rise in input costs will be passed on but the threat of a margin squeeze as 2011 progresses remains elevated at the present time. By contrast the UK economy delivered a very poor Q4 2010 real GDP estimate (-0.5% against +0.5% forecast). Undoubtedly the figure was impacted by severe weather, however, manufacturing appears to have weathered the storm and looks to have continued its recovery into the New Year. Output data carry a high probability of being revised higher over the next month or so but with austerity measures impacting and VAT imparting a negative influence it remains to be seen as to whether the UK economy will avoid a technical recession when Q1 GDP data is released in late April. Whilst doubt exists regarding the strength of economic activity in the West, less doubt exists regarding inflationary pressures which are rising fast. Although official data remains comparatively becalmed (outside the UK), it remains to be seen just how the weak labour market and apparent surplus capacity can provide sufficient offset. In the eurozone and the UK debate regarding possible base rate hikes has increased of late. At present it remains Charles Stanley's official house view that UK base rates

will start rising at end Q2 / early Q3 2011. This is at odds with the market which has pushed out its estimate of the timing of the first domestic base rate hike to late Q4 / early Q1 2012 despite escalating debate on the Bank's Monetary Policy Committee.

Whether inflation emanates from Asia (strong demand), or the US (Fed monetary policy), sharply appreciating commodity and energy prices are clearly apparent and may well exert an adverse impact on company profit margins going forward, thus calling the consensus 15% growth in corporate profits for both 2011 and 2012 into question. The resolution of this issue is required before investors can feel unequivocally confident in the equity market's ability to make and sustain post-recession high ground.

Quantitative Analysis

Heading into the Q4 / FY 2010 reporting season all eyes are turning to the corporate sector's ability to deliver strong earnings growth already baked into equity market valuations. Of greater interest, as ever, will be what companies have to say regarding prospects for the next 12 months and beyond. Based on current estimates the FTSE 100 trades off 12.5x 12-month trailing earnings, roughly in line with the average over the past 10-15 years. Consensus has it that the global economy will strengthen over 2011 and working off the assumption that profits might grow by as much as 20%, the 12-month forward multiple is 11x. Note that prevailing "top down" assumptions are more cautious than "bottom up" aggregation. In purely arithmetic terms the FTSE 100 looks good value in absolute terms below 6000 and in relative terms too (assuming that bond yields are not making sovereign bonds look expensive).

Many market strategists wonder whether earnings forecasts are too high. This might be the case if the recovery stumbles but also were implied margin expansion to fall short of expectations. Fears regarding further margin growth are exacerbated by the possibility that those factors supporting the "V" shaped recovery in profits over 2010 are beginning to fade. Slower overseas output growth (in the eurozone), fading operational leverage, interest costs stop falling and start rising and rising commodity and possibly labour costs are all impacting. The difficulty lies in the fact that earnings growth assumptions imply incremental margin expansion from already peak levels. This looks challenging. In five of the past seven cycles the market peaked ahead of the peak in incremental margin growth. Finally, consensus earnings expectations are usually wrong. The average error on a 12-month horizon is around 7% and tends to be procyclical (i.e. it is greater in periods of anticipated growth than over periods of anticipated weakness). During the recovery earnings estimates were too low and required upgrading. This year downgrades may prove more common place. At present the Committee expects to see 2012 earnings expectations lowered first but as 2011 progresses investors might expect to see H2 2011 earnings forecasts pulled back too.

In terms of earnings revisions and company guidance a significant disparity has opened up in recent weeks. Analysts continue to upgrade more than they downgrade (data for January is not yet available), but company management teams are increasingly guiding lower. Historically, we know that a strong predictive relationship exists between management guidance and analyst forecasts. Assuming the historical trend holds good we

should expect to see analysts lowering earnings forecasts in the wake of lowered "insider" guidance. The Committee also noted that analysts have been less optimistic on top line growth than on earnings expectations. Sales optimism is now lagging earnings optimism by the widest margin since records began to be compiled in 1986.

By contrast, while the outlook for corporate earnings is uncertain, the corporate sector is in a strong position to reward shareholders through higher share buybacks and pronounced dividend increases.

Technical Analysis

As investors migrate funds from Asia and emerging markets the near-term beneficiary has been developed equity markets. The **S&P 500** posted its fourth gain in five months and has rallied by 23% since end-August. Whilst the index does appear comparatively overbought trend indicators are continuing to point higher. It remains to be seen whether 1300 is a key resistance level or purely psychological. Most traders take the view that it remains right to be long while the short-term uptrend remains in place. Short-term trend line exists at 1260. A break below that might imply a fall to 1204, followed by 1176.

The **Dow Jones Industrial Average** may be running into resistance at 12000 (more psychological than technical), but the five month uptrend remains intact thus the bull phase remains in place, for now.

The **FTSE All-Share Index** continues to show a rising channel, however, volatility within the channel is increasing. The index is currently testing the bottom end of the channel and a key resistance level lies in wait at 2980. In common with US indices, overbought readings do not automatically trigger market sell-offs.

The **FTSE 250 Index** lost ground in January having flirted with an all-time high. Both short and long-term uptrends are intact and the index must break below support at 11,050 to enter a period of potential downside pressure. By contrast the **FTSE Small Cap Index** is now testing a key 61.8% Fibonacci retracement level and indications suggest some resistance. The index appears overbought but again, the uptrend remains intact for now.

The **FTSE Eurofirst 300 Index** has broken through resistance and regained levels not seen since Q4 2008. The uptrend remains intact. By contrast the **Nikkei 225** technical outlook is deteriorating. The index topped out without breaking through 10,600 and has fallen back through its short-term uptrend. Support exists at 10,000 and above that the "pull back" may simply constitute a "normal" corrective move.

Brent Crude has risen above \$100pb in the light of tension in North Africa and the Middle East. Prior to the crisis Brent had been showing signs of slipping back, implying that were geopolitical turmoil to prove transient the price could slip back. That being said, the trend remains to the upside and the price could reach \$103 or possibly \$115 before falling back.

The **Trade weighted dollar** is under severe pressure and weakness has been exacerbated following the introduction of QE2 in the US. The most likely scenario is that it oscillates in a range with possible support in the region of 75.9 but a test of the low looks much more likely than a break to the upside at the present time.

Decision Time

1. Asset Class Exposure

	APCIMS Balanced Benchmark	Portfolio Weight	Difference
Equities	67.5	84.6	17.1%
UK Equities	42.5	50.7	8.2%
International Equities	25.0	33.9	8.9%
Fixed Interest	20.0	6.2	-13.8%
Corporate Bonds	0	3.3	3.3%
Hedge Funds	5.0	2.4	-2.6%
Property	2.5	0.0	-2.5%
Cash	5.0	3.5	-1.5%
Total	100.0	100.0	

2. Geography

	Benchmark Relative	CS International Growth Portfolio (FTSE All World Ex UK)	
	Benchmark	Portfolio	Difference
US	48.0	49.2	1.2%
Europe	20.2	10.9	-9.3%
Japan	8.7	4.7	-4.0%
Far East	16.0	20.7	4.7%
Emerging Markets	7.1	7.7	0.6%
Other	0.0	5.6	5.6%
Cash	0.0	1.2	1.2%
Total	100.0	100.0	

3. Model Portfolio UK Sectors

UK Sectors As Per ISC Output	FTSE All Share	Portfolio	Difference
Financials	23.2%	9.4%	-13.8%
Banks	12.6%	5.2%	
Insurance/life	3.9%		
Real Estate	1.6%	4.2%	
General Financial	2.1%		
Equity Investment Instruments	3.0%		
Oil & Gas	17.5%	19.0%	1.5%
Producers	16.8%	15.4%	
Equipment	0.7%	3.6%	
Consumer Services	8.6%	6.4%	-2.2%
Retailers (all)	3.2%	3.5%	
Media	2.7%		
Travel & leisure	2.7%	2.9%	
Consumer Goods	10.7%	18.9%	8.2%
Automobile & parts	0.2%		
Food & beverages	4.9%	5.5%	
Tobacco	3.6%	5.6%	
Household , Leisure	2.0%	7.7%	
Healthcare	6.8%	4.7%	-2.1%
Industrials	7.5%	3.7%	-3.8%
Construction/materials	0.3%		
Aerospace & Defence	1.8%		
General Industrials	0.6%		
Electricals/Engineering	1.2%	3.7%	
Support Services	3.6%		
Basic Materials	13.0%	18.7%	5.7%
Chemicals	0.5%	6.8%	
Forestry & Paper	0.1%		
Mining	12.4%	11.9%	
Telecoms/Utilities	9.8%	12.7%	2.9%
Telecoms	6.3%	5.7%	
Utilities	3.5%	7.0%	
Technology	1.7%	2.0%	0.3%
Software & Comp Services	1.1%		
Tech & Hardware	0.6%		
Miscellaneous	1.2%	4.6%	3.4%
Total	100.0%	100.0%	

Is inflation here to last? Will the trends identified across developed and developing equity markets be sustained or will they dissipate as 2011 progresses? Investors adopting a pro-growth approach should think in terms of orientating portfolios towards those sectors which have historically outperformed rising sovereign bond yields and which display clear pricing power advantage as a means of passing on rising input costs. For those investors who believe that prevailing conditions presage a growth disappointment across Western economies maintaining a defensive bias looks right although underperformance over January might appear painful. The Select Portfolio maintains a defensive bias and should benefit in total return terms from the corporate sector's ability to raise

dividend payouts comfortably ahead of official inflation levels.

The portfolio is underweight financials and overweight consumer staples, two allocations which detracted from performance over January. In conclusion, everything appears to hang on critical decisions pertaining to US monetary policy. These decisions look like being made over end-Q1 2011 or during Q2 2011. Maybe the correct decision at present, in the absence of any superior knowledge as to what the Federal Reserve may decide to do, is to step back and await developments?

Sector Strategy – Momentum under pressure

Despite opening 2011 with a flourish, global equities have struggled to maintain momentum as the month has progressed. The crisis spreading across North Africa, into the Middle East and likely eastwards to Asia, caused by the sharp increase in commodity prices, especially food prices, has added to existing fears regarding the resurgence of inflationary pressure more generally. These and ongoing concerns regarding the sovereign debt crisis in the eurozone, which has slipped to the back burner but has not gone away, have caused investors to fret regarding prospects for equities. The Q4 / FY 2010 results season has delivered against expectations, however, investors are anxiously looking ahead to guidance relating to the next twelve months and beyond. Consensus expects corporate earnings to grow by a further 15% over 2011 and by the same amount in 2012. This, though, in the context of profit margins which are already at or above previous peak levels. Little wonder that risk assets have flagged. Equity valuations appear fair, but certainly not cheap, and this is causing many investors to think again about rotating away from the cyclical growth sectors following the aggressive re-rating in the latter part of 2010.

The last couple of weeks of January saw a marked unwinding in momentum with 12-month price momentum strategies down in double digit territory over the latter part of the month. In part this might be explained by a resurgence of interest in financials (Insurance stocks have built on the performance delivered over December), but this does not justify all the weakness in momentum trades. More likely, in our minds, is the possibility that given the elevated risk environment investors have chosen to take some short-term profits. These profits have been recycled into the more defensive sectors where our long-term bias already lies. Note that, according to Nomura Research, composite blended PER, price / book value and dividend yield has returned an astonishing 10.9% since 11th January, effectively unwinding all the relative returns between these two investing styles achieved over the second half of 2010.

Despite this significant move, the case in favour of defensive strategies and against momentum still holds good. Heading into the UK reporting season we believe that the earnings profile for momentum (relatively risky) strategies is under threat. Certainly, the latter part of 2010 was dominated by earnings upgrades driven by improving economic activity data. By contrast, Financials are perceived as benefiting from rising equity markets and in Europe, the possible expansion of the European Financial Stability Fund. This resulted in a rally in the banking sector and contributed to relative underperformance across momentum stocks and sectors. Whether this trend persists once the financial sector reporting season is completed remains to be seen, however, we remain very comfortable with our risk adjusted emphasis on sectors and stocks which demonstrate low levels of financial gearing, reliable cash generation and a commitment to progressive dividend policies.

One sector that is worth highlighting is Technology. Global tech stocks have started 2011 in fine fettle having underperformed the wider market by 2.5% over 2010. We suspect that this reflects investor awareness of the fact that the sector appears comparatively attractively rated, boasts strong balance sheets, enjoys exposure both to emerging consumer demand and business spending and remains regarded as one of the few obvious growth areas across both the developed and developing world. Early results show that in aggregate earnings and revenues have beaten expectations, giving the lie to concerns that the sector might have suffered during the “growth pause” during last summer. We know that many large companies have weathered the financial and economic crisis well and are replete with cash. This may result in an upturn in M&A activity (after a long hiatus), but it may also result in a return to greater investment in the business. We believe that technology should be well placed to benefit from this trend.

We continue to hold a preference for larger, well diversified, businesses with exposure to fast-growing emerging markets, rather than to emerging markets themselves. Investors should be aware of the fact that inflationary pressure is impacting Asian / emerging market performance as central banks belatedly normalise easy monetary policy. As they do so, the breadth of earnings revisions is narrowing and the more domestically focused businesses (utilities and consumer discretionary) are underperforming. A clear inverse relationship exists between rising real rates in the emerging world and regional equity markets. This accounts for weakness in the latter (ex-Russia) and significant fund outflows identified over the early part of 2011.

It remains to be seen whether inflation across emerging economies will transmit into an inflationary “pulse” across the developed world. It is difficult to be sanguine about this, however, substantial levels of spare capacity exists across the developed world which should limit the scope for a marked inflationary surge in core inflation data. We therefore expect that trends in headline and core inflation in the West will diverge. It should also be noted that inflationary pressure evident in food and energy prices are accorded a lower weight in the calculation of Western inflation than across the developing world. We prefer to see inflation *prospects* in the context of the outlook for growth. If Western growth momentum is maintained then we expect inflation to become more of an issue, potentially validating a Western central bank response. It is just as possible that Western growth might disappoint expectations this year. Whilst this hope may keep monetary policy setters on hold for now a “fat tail” negative growth surprise could hardly be said to be positive for the pro-growth cyclical which enjoyed such strength over the final few months of last year.

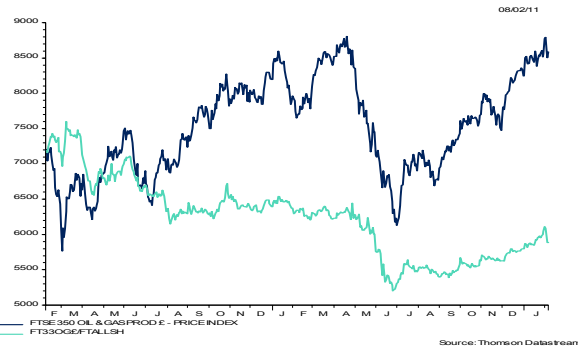
Sector Performance Data

FTSE All Share Index	Market Cap (£m)	Weightings Market %	YoY net inc growth (%)		PER		Relative	
			2010e	2011e	2010e	2011e	2010e	2011e
Oil & Gas	316	17.3	54.3	12.6	10.6	9.4	56.4	56.0
Oil & Gas Producers	304	16.6	55.7	12.4	10.3	9.2	54.8	54.8
Oil Equipment, Services	13	0.7	12.6	20.7	22.1	18.3	117.6	108.9
Basic Materials	239	13	92.9	38.9	14	10.1	74.5	60.1
Chemicals	9	0.5	58.7	12.6	17.7	15.8	94.1	94.0
Forestry & Paper	0.6	0.1	26.8	13.2	27	18.6	143.6	110.7
Industrial Metals	0.3	0	28	n/a	0	13.5	0.0	80.4
Mining	229	12.4	93.9	39.6	13.9	10	73.9	59.5
Industrials	135	7.4	9.5	12.6	14	12.4	74.5	73.8
Construction & Materials	4	0.2	-7.4	8.2	10.3	9.5	54.8	56.5
Aerospace	34	1.8	1.9	6.7	11	10.3	58.5	61.3
General Industrials	12	0.6	36.5	10.8	12.8	11.5	68.1	68.5
Electric & Electronic Equipment	7	0.4	56.7	23	17.9	14.6	95.2	86.9
Industrial Engineering	14	0.8	34.5	12.5	16.2	14.4	86.2	85.7
Industrial Transport	3	0.2	12.3	12.9	13.7	12.2	72.9	72.6
Support Services	62	3.4	4.6	16.7	15.9	13.7	84.6	81.5
Consumer Goods	197	10.7	20.5	10	15.4	14	81.9	83.3
Automobiles & Parts	3.4	0.2	n/a	n/a	13.4	11.1	71.3	66.1
Beverages	58	3.2	15.6	12.3	17.8	15.8	94.7	94.0
Food Producers	34	1.9	10.5	8.5	14.8	13.6	78.7	81.0
Household Goods	32	0.4	66.3	7.6	16.8	15.6	89.4	92.9
Housebuilders	6	0.3	n/a	68.9	30.7	18.2	163.3	108.3
Personal Goods	7	0.4	32.7	21.8	25.9	21.3	137.8	126.8
Tobacco	66	3.6	13	8.8	13.1	12	69.7	71.4
Healthcare	125	6.8	-7.6	10.9	10.5	9.5	55.9	56.5
Equipment / Services	7	0.4	5.5	9.3	15	13.7	79.8	81.5
Pharmaceuticals & Biotechnology	118	6.4	-8	10.9	10.3	9.3	54.8	55.4
Consumer Services	177	9.6	12.5	13.1	13.6	12	72.3	71.4
Food & Drug Retailers	49	2.7	12.1	12.3	13.5	12	71.8	71.4
General Retailers	27	1.5	10.3	11.2	11.3	10.2	60.1	60.7
Media	50	2.7	11	11.6	14.3	12.8	76.1	76.2
Travel & Leisure	51	2.7	15.6	16.1	14.4	12.4	76.6	73.8
Telecoms	117	6.4	7	3.5	10.3	9.9	54.8	58.9
Fixed Line Telecoms	19	1	41.5	6.4	10	9.4	53.2	56.0
Mobile Telecoms	98	5.4	1.2	2.8	10.3	10	54.8	59.5
Utilities	65	3.6	3.3	5	12.6	12	67.0	71.4
Electricity	19	1	-2.8	-3	11.7	12	62.2	71.4
Gas, Water, Multi Utilities	46	2.6	6.3	8.7	13.1	12	69.7	71.4
Technology	30	1.6	15.7	12.2	18.8	16.8	100.0	100.0
Software & Comp Services	19	1.1	10.1	11.3	16.1	14.5	85.6	86.3
Technology & Hardware	11	0.5	41.5	15.7	28.5	24.6	151.6	146.4
Financials	423	23.1	271.1	34.9	14.1	10.5	75.0	62.5
Banks	230	12.6	n/a	50	15	10	79.8	59.5
Non-Life Insurance	17	0.9	-20.6	6.5	10.2	9.5	54.3	56.5
Life Insurance	54	2.9	-12.5	8.3	9.7	8.9	51.6	53.0
Real Estate	24	1.3	-4.1	5.8	21.9	20.7	116.5	123.2
General Financial	38	1.3	29.1	20.7	14.4	12	76.6	71.4
Real Estate Services	6	0.3	161.4	66.6	66.2	39.8	352.1	236.9
FTSE All Share	1831	100	45.9	19.4	18.8	16.8	100.0	100.0

Sector Analysis

Oil & Gas Producers

Sector Performance



Most Favoured

BG Group
Royal Dutch Shell

Least Favoured

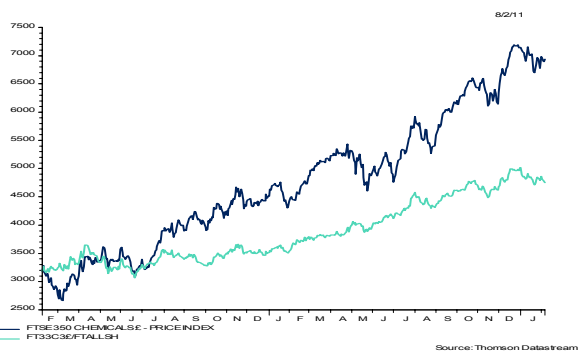
Sector Comment

The sector is near a 20-year low in terms of its prospective PE and other measures. Disposals have begun to highlight the value in the sector and generally, higher oil prices should help sentiment and free cash flows. In the sector, Shell's 5% dividend yield is attractive though BG Group has the best growth profile with production growth of 6% to 8% p.a. until 2020. BP is making good progress on disposals and rebuilding the Group but the financial and operational implications of the Gulf of Mexico oil spill are still uncertain.

Attractive

Chemicals

Sector Performance



Most Favoured

Croda
Johnson Matthey

Least Favoured

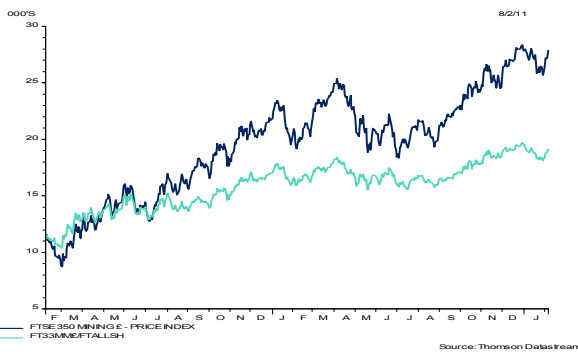
Sector Comment

Heading into 2011 we believe that the Chemicals sector requires earnings upgrades in order to justify the current rating. European Chemicals currently trade above the 12.5x 5-year average and further multiple upside looks hard to justify, thus the emphasis on earnings. We still see scope for volume growth, albeit that Q4 2010 will have lapped a tough comparator quarter. Economic data and anecdotal evidence from customers supports the view that demand remained healthy over Q4. Furthermore, rising input costs may result in a testing pricing environment over Q1 and away from specific niche operators margin pressure is emerging as a clear risk. Investors will remain alert for M&A developments as the sector consolidates.

Neutral

Mining

Sector Performance



Most Favoured

BHP Billiton, Rio Tinto,
Vedanta, Xstrata

Least Favoured

Lonmin

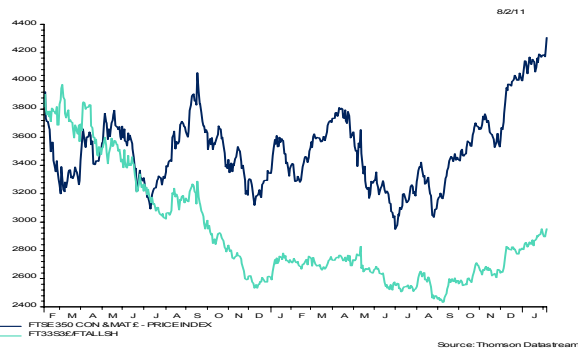
Sector Comment

While the long term demand/supply picture for miners is very positive, the shorter term outlook for the sector remains binary (Risk On/Off), with a benign global growth scenario (record copper prices) contrasted with the possibility of Chinese cutbacks, rising interest rates (inflation, end of QE2), eurozone problems, US municipal debt default and/or a housing double dip, and finally the impact of \$100 oil. These downsides, if they occur, seem likely to arrive later rather than sooner in 2011. In the face of uncertainty we recommend a market weighting for the sector. We would expect significantly higher interest rates to be negative for precious metals in particular.

Neutral

Construction & Materials

Sector Performance



Most Favoured

Balfour Beatty
Carillion

Least Favoured

Sector Comment

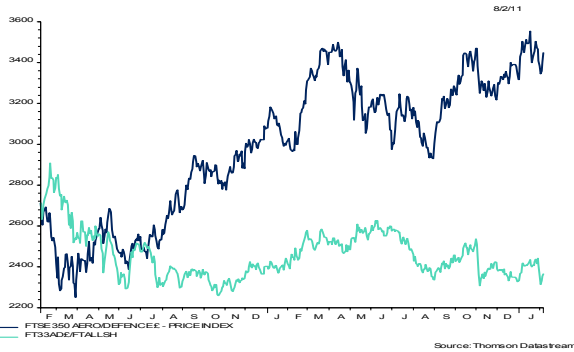
UK construction output remains depressed and sentiment is negative on the impact of government cuts. However, while weaker companies remain vulnerable, the larger, diversified companies have shown greater resilience and recent share price outperformance. For our favoured companies, we like their foreign exposure, medium term growth opportunities, financial strength and leading market positions with some barriers to entry, all supported by undemanding valuations and decent and growing yields.

Neutral

Sector Analysis

Aerospace & Defence

Sector Performance



Most Favoured

Rolls Royce

Least Favoured

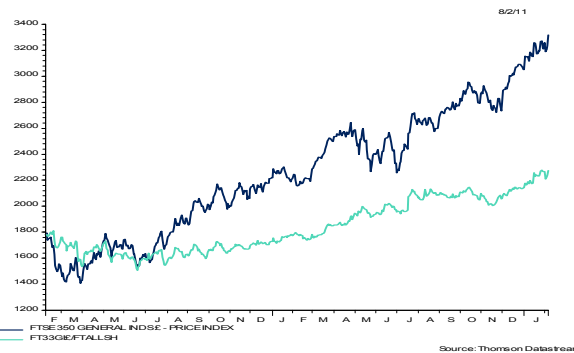
Sector Comment

Neutral

We remain cautious on defence as pressure to rein in government deficits in Europe and the US has resulted in program cuts and concerns about a slowdown in defence spending. The UK MoD budget will be cut 8% over four years with an extra £500m for cyber security and YoY real growth post 2015. The US – world's largest defence spender – will trim its budget by \$78bn over five years with modest growth through 2014 before a leveling off in 2015 as the wars in Iraq (combat operations have ended) and Afghanistan start to wind down. M&A activity has picked up as firms reposition to meet changing priorities by expanding into growth areas (cyber security and intelligence) and export markets. We are more positive on prospects for civil aerospace and exposure to a recovery in aftermarket.

General Industrials

Sector Performance



Most Favoured

Least Favoured

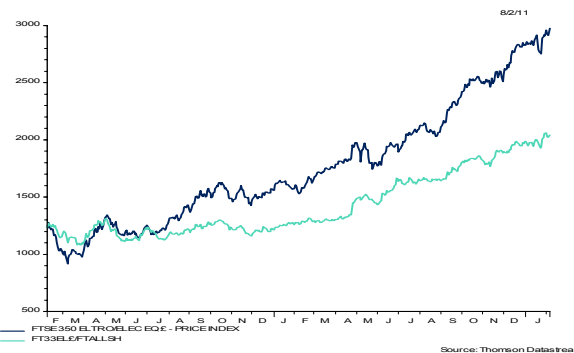
Sector Comment

Neutral

The General Industrials ultimately ended 2010 enjoying a strong year, despite a marked downturn post-April 2010 during the sovereign debt crisis. We are tactically neutral on the sector but strategically underweight reflecting an increasingly pronounced valuation overhang. The sector trades off 12.8x 2011 earnings, expensive relative to the overall market even if the trailing PER is now at levels commensurate with long-term averages. Investors should keep a close eye on industrial production trends as it will be these which support EPS progression this year. The sector has hardly suffered over January from marked rotation away from pro-growth cyclicals into the more "value" orientated defensives.

Electronic & Electrical Equipment

Sector Performance



Most Favoured

Least Favoured

Invensys

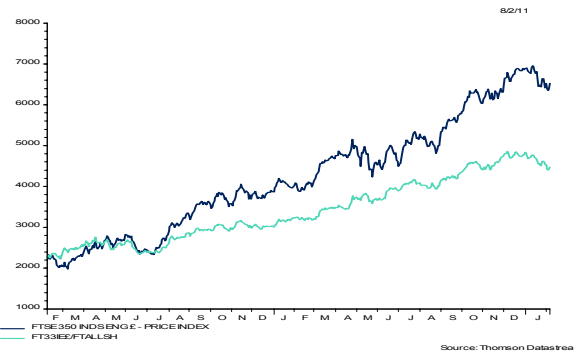
Sector Comment

Neutral

Invensys Q3 trading update was in line with the company's own expectations with operating profit at the same level as last year. Rail orders were weak but remain lumpy but operationally, margin targets have been hit. Operations Management reported a strong revival in orders over fiscal Q3 but margins were impacted by a weaker business mix (increased % of greenfield projects) and higher costs. EPS estimates were nudged back due to the weaker margin mix and whilst good long-term potential exists we await the possible fruition of vague M&A speculation.

Industrial Engineering

Sector Performance



Most Favoured

Least Favoured

Weir Group

Sector Comment

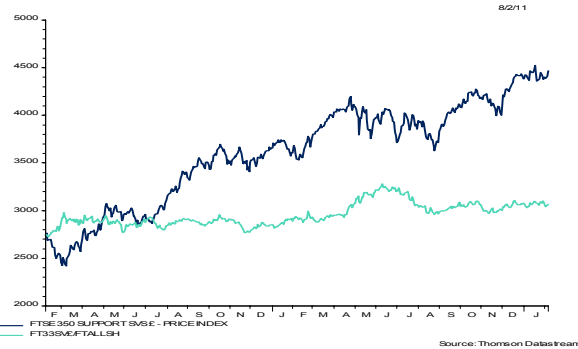
Attractive

UK industrials are expected to deliver reasonable sales growth over Q4 and Q1 2011. This is important if estimates are to be raised further over the forthcoming results season. We believe that, in the round, sectoral valuation-driven multiple upside is more limited now. Weir performed extremely strongly over 2010 but has suffered from possible M&A involving Swiss rival Sulzer (which we doubt). IMI has entered the FTSE at the December reshuffle, its shares having risen by around 70% ahead of inclusion. We expect a strong first quarter from the sector but performance has been more muted than forecast as investors have started the year by rotating fro cyclical growth sectors into more value-orientated plays.

Sector Analysis

Support Services

Sector Performance



Most Favoured

Experian
Compass Group
Carillion

Least Favoured

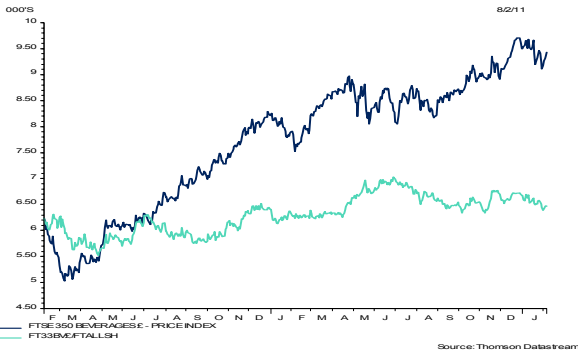
Sector Comment

Neutral

In support services, two of our favoured stocks are world leading global businesses. Experian has a strong market position in Credit Services and is demonstrating strong cash generation even during subdued trading conditions. Interim results showed organic revenue growth of 7%, the best for 4 years and this growth rate looks to be sustainable. Compass Group is a true support services company though it is listed in the travel/leisure sector. It is delivering strong cash flow, 5% organic revenue growth and rising profit margins.

Beverages

Sector Performance



Most Favoured

Diageo

Least Favoured

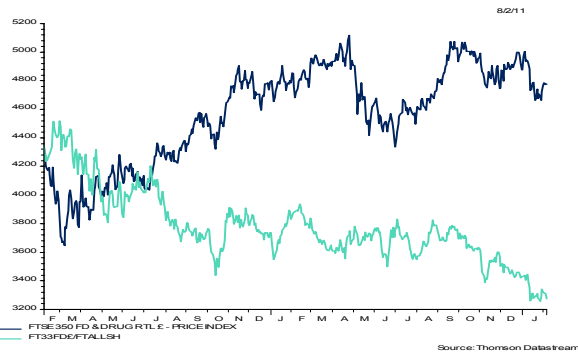
Sector Comment

Attractive

Trading conditions continue to improve as the global economic recovery comes through, although the pace of recovery varies by region. Developing markets are seeing the strongest rebound, with the US and Western Europe remaining sluggish. Developing markets are expected to be the long term growth driver, given growing middle class populations which aspire to drink international premium spirits and beer brands. Cost of goods pressures from higher grain prices should be muted by raw material hedging programmes. Premium valuations are justified by good long-term defensive growth prospects.

Food Producers

Sector Performance



Most Favoured

Unilever

Associated British Foods

Least Favoured

Sector Comment

Neutral

We believe that Food producers are likely to have an uninspiring 2011. Of the three key sector drivers, concerns regarding rising input costs were perhaps the most pressing throughout the Q4 / FY results season. As expected, guidance relating to input price inflation and the challenging operating environment featured heavily. Secondly, although investors appear to be in agreement regarding a recovery in the US consumer, we do not believe that this should be taken for granted. Finally, emerging market exposure will remain popular although we note that competitive activity is strong and that many companies will lap strong comparator trading periods. Remain selective.

Household Goods

Sector Performance



Most Favoured

Reckitt Benckiser

Least Favoured

Sector Comment

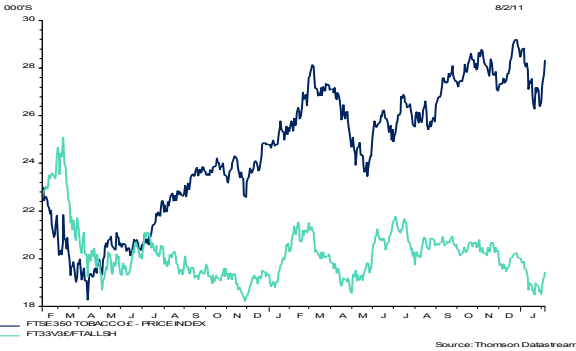
Cautious

For the housebuilders, at a fundamental level there is a structural supply shortage but demand is currently constrained and volumes are half normal levels. Companies have adjusted and are able to make single digit operating margins which should increase as newer, cheaper land begins to be used. However affordability has still not adjusted fully, sentiment is depressed by economic gloom and, critically, mortgage supply remains at low levels. This YTD has seen some gains as a double dip has seemed less likely, but valuations (Price/TNAV) are still supportive on a long term view. Nonetheless we would defer opening new positions until we can see or anticipate a bottom in house prices and improvement in mortgage supply.

Sector Analysis

Tobacco

Sector Performance



Most Favoured

British American Tobacco
Imperial Tobacco

Least Favoured

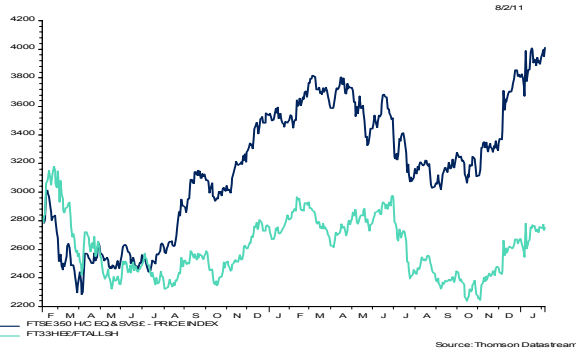
Sector Comment

Strong pricing power and cost savings have thus far more than offset any volume weakness (expected to stabilise). While not immune to tougher economic conditions (unemployment, excise tax hikes, illicit trade, leaf inflation), the sector benefits from defensive characteristics, geographical reach and attractive dividend yields underpinned by robust cash flows. Growth is fuelled by uptrading in emerging markets. Mature markets have adopted tighter smoking restrictions with Australia aiming to be the first country to introduce plain packaging (no precedent) and the UK pursuing a ban on over-the-counter displays and tobacco vending machines (limited evidence of effectiveness in reducing smoking).

Attractive

Health Care Equipment & Services

Sector Performance



Most Favoured

Smith & Nephew

Least Favoured

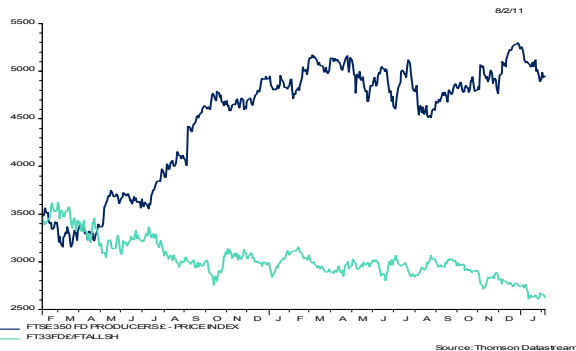
Sector Comment

We have lowered our recommendation on Smith & Nephew to Reduce in the wake of speculation that the company received an approach, probably from Joghnsn & Johnson which it has rejected as substantially undervaluing the business. Earlier rumours suggested privately owned Biomet as a possible bidder and we do not rule out the possibility that the latter could become embroiled in a bidding war, but given the uncertain outlook for ortho, probably not soon. By contrast, given the fact that the industry outlook is opaque and that potential bidders may yet rule themselves out, the failure of an approach to crystallise could see the share price falling sharply.

Unattractive

Pharmaceuticals & Biotechnology

Sector Performance



Most Favoured

AstraZeneca, Hikma
Shire Pharmaceuticals

Least Favoured

GlaxoSmithKline

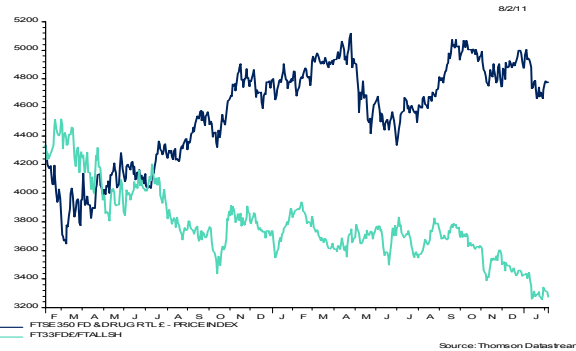
Sector Comment

The Pharmaceutical sector results season has so far been dominated by shareholder-friendly moves from both AstraZeneca and GlaxoSmithKline. Given the industry's cash generative appeal and absence of clear large scale M&A opportunities money is being returned to shareholders through dividend increases and share buybacks. These moves disguise the clear margin pressure apparent as top lines come under pressure, a function of off patent inevitability, increased competitive activity and increased governmental and regulatory interference. We have become increasingly selective despite the sector's improved performance over 2011 to date.

Neutral

Food & Drug Retailers

Sector Performance



Most Favoured

Tesco
Morrison (Wm)

Least Favoured

Sector Comment

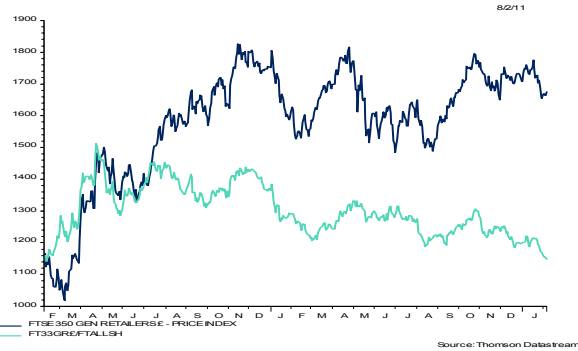
Like-for-like sales growth has picked up with rising food price inflation, but is expected to remain relatively subdued by historic standards over the next few quarters. Underlying consumer demand should be relatively resilient in the face of austerity measures. Expansion into non-food, convenience and on-line are key growth drivers. The competitive environment is likely to remain intense but rational. Valuations seem reasonable, given good long-term defensive growth prospects and freehold property backing. For investors concerned by the threat of inflation in the longer term, we highlight that the sector has historically been a good inflation hedge.

Attractive

Sector Analysis

General Retailers

Sector Performance



Most Favoured

Halfords, Next
Marks & Spencer
Kingfisher

Least Favoured

Sector Comment

The trading environment in 2011 is expected to be tough, with the consumer coming under pressure from the VAT increase to 20% and other austerity related measures. Ultimately, however, we expect consumer demand to be relatively resilient, given our belief that unemployment is close to the peak and that interest rates will remain close to historic lows throughout 2011. Higher raw material prices and freight rates will create some margin pressure. The competitive environment will remain intense, with food retailers moving aggressively into non-food and the growth of on-line retailers. The challenging outlook means our current preference is for niche retailers and those undergoing restructuring.

Neutral

Media

Sector Performance



Most Favoured

Pearson
Reed Elsevier, WPP

Least Favoured

Sector Comment

The media industry is undergoing fundamental transformation, driven by technological change. Audiences and advertisers continue to migrate away from traditional media platforms (free-to-air TV, newspapers etc) towards new platforms (the internet, pay TV, smart phones etc). Companies must adapt and evolve their business models rapidly if they are to survive and prosper. Advertising markets are expected to continue to gradually recover with the global economy. We currently prefer professional publishers with high quality 'must have' content. Advertising agencies are a play on further recovery in the advertising cycle and structural growth in emerging markets.

Neutral

Travel & Leisure

Sector Performance



Most Favoured

Whitbread

Least Favoured

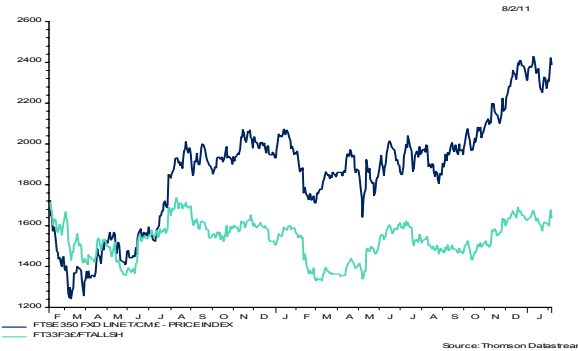
Sector Comment

Firm evidence of recovery is starting to emerge, with like-for-like sales, hotel RevPARs and cruise ship yields all showing improvement. The impact of government austerity measures on corporate and consumer confidence remains unclear, but we expect the improving trend to continue. High operational gearing means further material upgrades to forecasts could be forthcoming if recovery continues. Valuations remain reasonable for this point in the cycle.

Neutral

Fixed Line Telecommunications

Sector Performance



Most Favoured

Cable & Wireless Worldwide

Least Favoured

Sector Comment

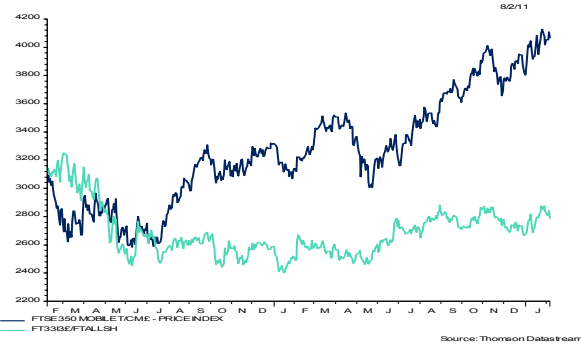
The defensive attractions of the sector (less cyclical revenues, cash generation, decent and fairly reliable yields) are finally being recognised by investors, with some recent relative outperformances. The rollout of next generation fibre optic networks continues, while mobile speeds and network capacities are not keeping up with the step change in demand as smartphones move into the mainstream. This will benefit fixed line, where companies have also increased their focus on services. Meanwhile their networks may gain in the medium term from the huge demands placed on them by broadband video (including mobile). Overall, valuations are generally supportive in a market which remains nervous.

Attractive

Sector Analysis

Mobile Telecommunications

Sector Performance



Most Favoured

Vodafone

Least Favoured

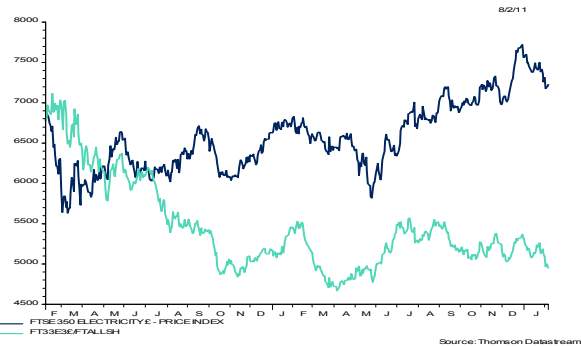
Sector Comment

Attractive

Companies have been impacted by the recession as well as ongoing falls in roaming charges and termination rates. The future will be driven by data rather than voice, and this is already happening with the move of smartphones to the midmarket, the launch of better phones and more tablets, and the start of the rollout of 4G/LTE. The relentless improvement in semiconductor performance and trend towards universal connectivity provide a supportive background. However the strategic challenge is the competition between operators, handset manufacturers and content/software providers, but the operators should be able to avoid commoditisation by responding with "personalisation" - it's about services.

Electricity

Sector Performance



Most Favoured

International Power

Least Favoured

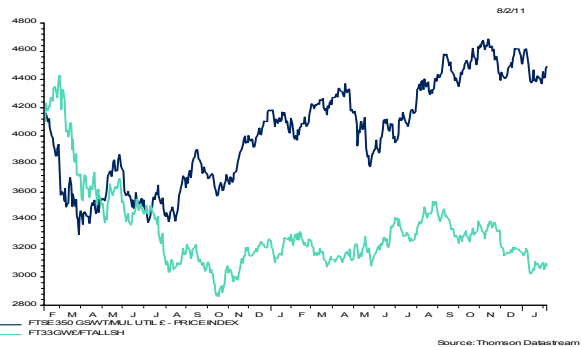
Sector Comment

Neutral

Rising wholesale prices (particularly gas) and industry costs have prompted all of the 'big six' energy suppliers to raise domestic tariffs. In response, Ofgem has launched a probe to ensure that price rises are justified. A high level of investment is needed in the UK to keep the lights on, accommodate renewables and ensure security of supply (£200bn by 2020). The UK government is proposing a green deal to promote energy efficiency measures and help meet legally binding carbon emissions targets (34% reduction in emissions by 2020 with 15% of energy from renewables). The merger between IPR and GDF International closed earlier this month, creating one of the world's largest independent power producers.

Gas, Water & Multiutilities

Sector Performance



Most Favoured

Centrica
Severn Trent

Least Favoured

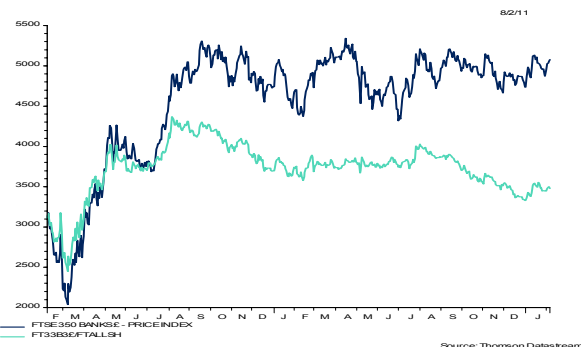
Sector Comment

Attractive

Watercos have made a good start to the tougher 2010-15 regulatory period, despite higher leakage levels caused by extreme winter weather. UU and SVT have rebased dividends, but yield remains attractive. The sector benefits from lower interest rates, higher for longer RPI inflation, and intermittent bid speculation. Ofgem is in the early stages of consultation on a new RIIO model for price controls for gas and electricity transmission and distribution networks due to take effect in 2013 (creates some regulatory uncertainty for NG and SSE). The scheme is designed to spur £32bn of investment over the next decade to ensure the grids are able to meet the challenges of transition to a low-carbon economy.

Banks

Sector Performance



Most Favoured

Standard Chartered

Least Favoured

Sector Comment

Cautious

The share prices of UK Banks have remained volatile in recent weeks due largely to concerns about ongoing reviews into the future regulatory landscape. On 22 June, Sir John Vickers the Chairman of the Independent Commission on Banking (ICB) made a speech which raised market concerns that banks may need to raise more capital for their retail banking arms. However, the speech did seem to alleviate some concerns that the banks' investment and retail banking operations would be cleaved apart.

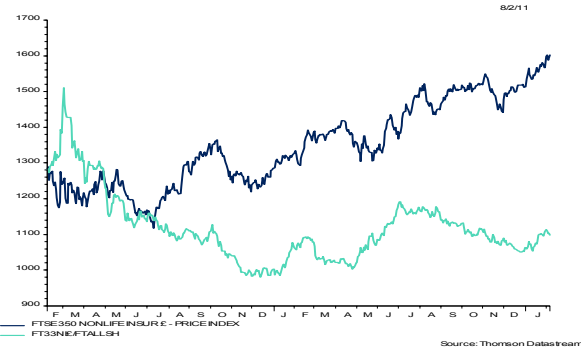
Sector Analysis

Nonlife Insurance

Sector Performance

Most Favoured

Least Favoured



Sector Comment

Neutral

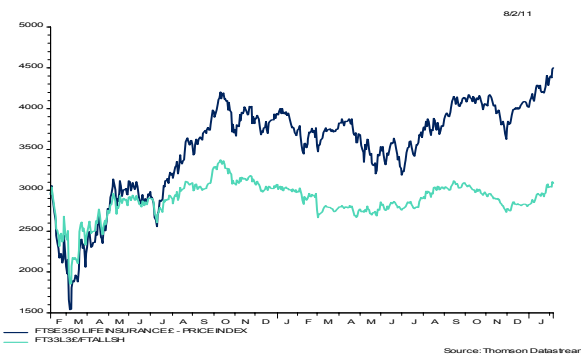
The bad weather across Britain during much of December has led to increased general insurance claims. On 20 January, RSA stated that its 2010 profit would miss analyst expectations due to the impact of the unusually harsh winter weather. Most of the extra weather-related claims were caused by freezing temperatures and heavy snowfall across Northern Europe at the end of 2010, with losses in November and December alone coming in at £142m. However, RSA stated that "its profit miss would not affect its policy of increasing its dividend at least in line with inflation."

Life Insurance

Sector Performance

Most Favoured

Least Favoured



Sector Comment

Neutral

Standard Life

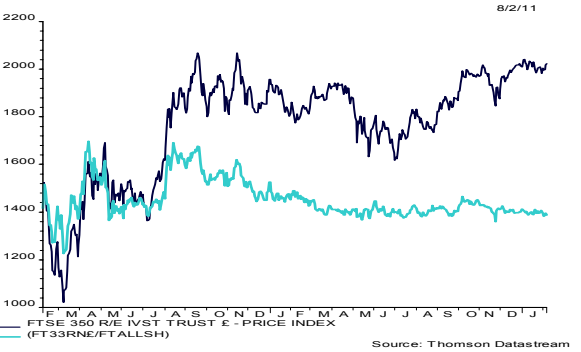
On 20 January, Aviva held an investment morning to brief investors on the details of its balance sheet management. Aviva stated that it aims to slash its hybrid debt by at least £700m over the next three years as part of its overall strategy to boost its profits and returns for shareholders. Aviva also highlighted that it had cut its pension deficit to £0.4bn as of 30 November 2010 from £1.7bn at the end of 2009.

Real Estate

Sector Performance

Most Favoured

Least Favoured



Sector Comment

Neutral

British Land
Land Securities

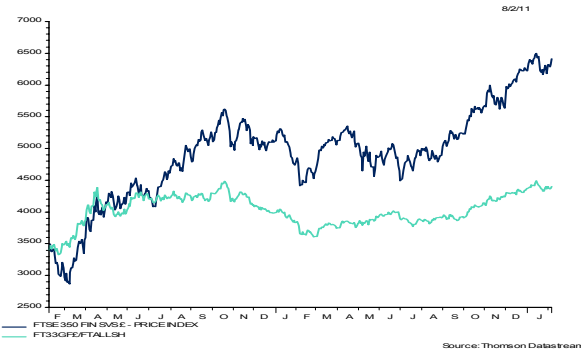
Several REITs have launched developments and restarted mothballed projects in the London office market to capture a forecast rise in rents in 2014 due to constrained supply. Overseas investors have been active in the UK market (weak GBP, low interest rates, inflation hedge) with quality assets in good locations attracting the most attention (focus on prime and rental income). Commercial property delivered 14.5% total return in 2010 with capital growth moderating (but unbroken) throughout the year (Dec 0.3%, 0.1% Nov, 0.1% Oct) and unevenly driven by London. Offices saw an up swing in rental values (0.7%), but retail and industrial have yet to return to growth. We are cautious on the outlook for secondary assets as occupier markets remain fragile and a high level of debt still needs to be refinanced.

General Financial

Sector Performance

Most Favoured

Least Favoured



Sector Comment

Neutral

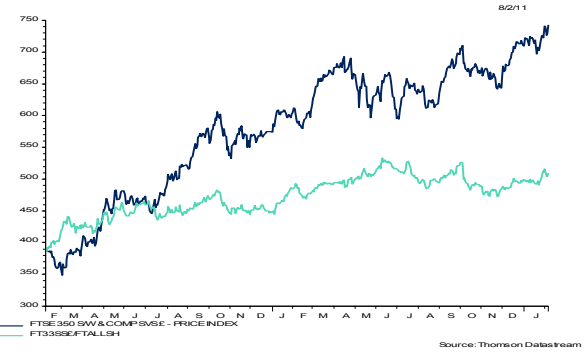
On 20 January, Man Group issued its Q3 interim management statement (IMS) in which it stated that funds under management (FUM) at 31 December were \$68.6 billion (30 September 2010: \$40.5bn with the GLG acquisition adding \$25.4bn). On 2 February, ICAP announced in an IMS covering the period from 1 October 2010 to February 2011 that trading across the Group businesses is in line with guidance given in November (profit of £333m to £357m). The core brokerage business has performed well, however, the Post-trade Risk and Information business reported that revenue growth has been below that expected.

Sector Analysis

Software & Computer Services

Sector Performance

Most Favoured **Least Favoured**



Autonomy, Logica
Misys

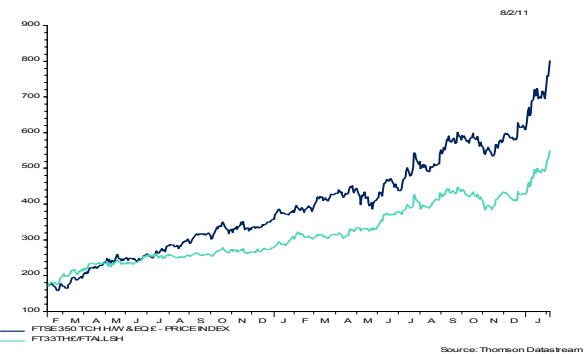
Sector Comment **Attractive**

Companies generally have a large exposure to foreign economies and currencies, together with good cash generation, all of which we continue to like although euroland's attractions have reduced. While the sector remains cyclical, it has adapted to include self-funding or regulation-driven products which have offset the downturn. Intensified competition has led to increased concentration, and we prefer companies with stronger market positions and product leadership. Sector consolidation via M&A is likely to continue as cash-rich global leaders look to add to their offerings, but AUTN is more likely to be predator than prey.

Technology Hardware & Equipment

Sector Performance

Most Favoured **Least Favoured**



Sector Comment **Cautious**

The sector has moved ahead on some actual and much speculated bid activity, but has been dominated by ARM's weight and share price gains on the back of major announcements and customer enthusiasm for smartphones and tablets. Fundamentally, the sector as a whole is benefiting from, but also being disrupted by the "fifth wave of computing", which is putting affordable computing devices in everything, everywhere and all the time, and the fact that this is occurring on a global scale.

FTSE 350 Snapshot

FTSE 350 Highest Forecast Yield with Cover > 2x

Stock	Price	Yield	Cover	Stock	Price	Yield	Cover
1. DRAX GROUP	400p	7.7%	2.0x	11. DEBENHAMS	66p	4.6%	3.1x
2. BEAZLEY	120p	6.1%	2.7x	12. MCBRIDE	148p	4.5%	2.2x
3. BRIT INSURANCE HDG.N V	1048p	5.8%	2.2x	13. MARKS & SPENCER GROUF	360p	4.5%	2.0x
4. AVIVA	460p	5.6%	2.2x	14. BROWN (N) GROUP	283p	4.4%	2.2x
5. DAIRY CREST	386p	5.1%	2.4x	15. HISCOX	376p	4.4%	2.5x
6. LADBROKES	136p	5.1%	2.1x	16. BREWIN DOLPHIN	167p	4.4%	2.0x
7. BAE SYSTEMS	341p	5.0%	2.5x	17. WILLIAM HILL	182p	4.4%	2.6x
8. IMPERIAL TOBACCO GP.	1970p	4.9%	2.0x	18. BRITVIC	447p	4.2%	2.1x
9. GREENE KING	476p	4.8%	2.1x	19. ATKINS (WS)	676p	4.2%	2.6x
10. WH SMITH	467p	4.6%	2.3x	20. BT GROUP	185p	4.0%	2.6x

Yield and cover based on consensus dividend and earnings estimate for first forecast year
Source: IBES/Thomson Datastream

FTSE 350 Lowest Forecast PE

Stock	Price	PE	Stock	Price	PE
1. ENTERPRISE INNS	106p	4.3x	11. BAE SYSTEMS	341p	8.1x
2. PUNCH TAVERNS	68p	4.8x	12. AVIVA	460p	8.2x
3. PREMIER FOODS	23p	4.8x	13. DAIRY CREST	386p	8.4x
4. BEAZLEY	120p	6.0x	14. OLD MUTUAL	132p	8.7x
5. DRAX GROUP	400p	6.5x	15. WILLIAM HILL	182p	8.9x
6. ST.JAMES'S PLACE	311p	6.9x	16. TULLETT PREBON	408p	8.9x
7. DEBENHAMS	66p	7.1x	17. FIRST GROUP	374p	9.0x
8. JD SPORTS FASHION	844p	7.4x	18. PACE	205p	9.0x
9. BRIT INSURANCE HDG.N V	1048p	7.7x	19. QINETIQ GROUP	131p	9.1x
10. SPORTINGBET	51p	7.8x	20. HISCOX	376p	9.1x

PE based on consensus earnings estimate for first forecast year
Source: IBES/Thomson Datastream

FTSE 350 Lowest Forecast Price to Book Value

Stock	Price	Price to Book Value	Stock	Price	Price to Book Value
1. PUNCH TAVERNS	68p	0.3x	11. BIG YELLOW GROUP	325p	0.7x
2. BARRATT DEVELOPMENTS	96p	0.3x	12. BELLWAY	658p	0.7x
3. ENTERPRISE INNS	106p	0.3x	13. TAYLOR WIMPEY	38p	0.7x
4. PREMIER FOODS	23p	0.4x	14. GO-AHEAD PROPS.	168p	0.8x
5. GRAINGER	99p	0.5x	15. PERSIMMON	430p	0.8x
6. HOME RETAIL GROUP	223p	0.7x	16. BARCLAYS	313p	0.8x
7. ROYAL BANK OF SCTL.GP.	44p	0.7x	17. PARAGON GP.OF COS.	189p	0.8x
8. UNITE GROUP	197p	0.7x	18. SVG CAPITAL	240p	0.8x
9. RESOLUTION	270p	0.7x	19. OLD MUTUAL	132p	0.8x
10. MARSTON'S	104p	0.7x	20. DIXONS RETAIL	22p	0.8x

Price to book value based on consensus book value estimate for first forecast year
Source: IBES/Thomson Datastream

FTSE 350 Lowest Price to Cash Flow

Stock	Price	Price to Cash Flow	Stock	Price	Price to Cash Flow
1. PUNCH TAVERNS	68p	2.6x	11. CABLE & WIRELESS COMMS	49p	4.3x
2. FIRST GROUP	374p	3.2x	12. DRAX GROUP	400p	4.9x
3. DIXONS RETAIL	22p	3.3x	13. LADBROKES	136p	5.1x
4. PREMIER FOODS	23p	3.4x	14. GO-AHEAD GROUP	1262p	5.1x
5. BOOKER GROUP	56p	3.4x	15. SHANKS GROUP	117p	5.3x
6. BT GROUP	185p	3.5x	16. CABLE & WIRELESS WWD.	75p	5.3x
7. DEBENHAMS	66p	3.8x	17. NATIONAL GRID	552p	5.4x
8. ASHTEAD GROUP	186p	4.0x	18. LONDON & STAMFORD PR.	126p	5.5x
9. ENTERPRISE INNS	106p	4.1x	19. EASYJET	395p	5.6x
10. KESA ELECTRICALS	135p	4.2x	20. MARKS & SPENCER GROUP	360p	5.7x

Cash flow defined as net income plus depreciation, amortisation, provisions and net working capital
Price to cash flow based on consensus cash flow estimate for first forecast year
Source: IBES/Thomson Datastream

Figures are as at the close on 07 February 2011

FTSE 350 Snapshot

FTSE 350 Lowest PEG Ratio

Stock	Price	PE	PEG	Stock	Price	PE	PEG
1. LLOYDS BANKING GROUP	65p	36.3x	0.27	11. REGUS	102p	54.5x	0.49
2. DIXONS RETAIL	22p	10.7x	0.34	12. INVESTEC	488p	10.7x	0.50
3. ROYAL BANK OF SCTL.GP.	44p	41.3x	0.35	13. DE LA RUE	711p	22.0x	0.52
4. BARRATT DEVELOPMENTS	96p	45.1x	0.35	14. BELLWAY	658p	18.9x	0.54
5. BARCLAYS	313p	11.6x	0.40	15. PERSIMMON	430p	18.8x	0.55
6. TAYLOR WIMPEY	38p	32.1x	0.41	16. STHREE	403p	21.5x	0.55
7. REDROW	122p	28.8x	0.46	17. F&C ASSET MANAGEMENT	91p	16.2x	0.59
8. LAIRD	175p	14.6x	0.46	18. KELLER	663p	15.5x	0.60
9. PREMIER FOODS	23p	4.8x	0.47	19. DEBENHAMS	66p	7.1x	0.60
10. EASYJET	395p	10.5x	0.48	20. KESA ELECTRICALS	135p	13.0x	0.61

PEG calculated by dividing PE ratio based on first forecast year earnings estimate by growth rate of earnings from between year 1 and year 3
 All earnings taken after goodwill and exceptionals
 Source: IBES/Thomson Datastream

FTSE 350 Best Stock Performance Over Last Month

Stock	Price	1m	6m	12m	Stock	Price	1m	6m	12m
1. SUPERGROUP	1755p	+42%	+87%	+19%	11. MONEYSUPERMARKET COM	89p	+16%	+19%	+22%
2. OCADO GROUP	251p	+35%	+62%	+0%	12. HENDERSON GROUP	161p	+15%	+21%	+41%
3. ARM HOLDINGS	611p	+33%	+93%	+198%	13. LEGAL & GENERAL	118p	+14%	+36%	+60%
4. KENMARE RES. (LON)	40p	+30%	+174%	+103%	14. CSR	414p	+14%	+23%	-6%
5. RENISHAW	1603p	+25%	+83%	+183%	15. ITV	83p	+14%	+61%	+58%
6. AQUARIUS PLATINUM (LON)	400p	+20%	+49%	+9%	16. SALAMANDER ENERGY	306p	+14%	+35%	+20%
7. GARTMORE GROUP	108p	+20%	-5%	-47%	17. BARCLAYS	313p	+14%	-4%	+16%
8. COMPUTACENTER	450p	+19%	+62%	+55%	18. HOWDEN JOINERY GP.	120p	+13%	+78%	+43%
9. FILTRONA	296p	+18%	+24%	+73%	19. CHEMRING GROUP	3526p	+12%	+23%	+13%
10. PREMIER FOODS	23p	+16%	+23%	-28%	20. AVIVA	460p	+12%	+21%	+26%

Source: Thomson Datastream

FTSE 350 Worst Stock Performance Over Last Month

Stock	Price	1m	6m	12m	Stock	Price	1m	6m	12m
1. HERITAGE OIL	318p	-32%	-8%	-15%	11. DUNELM GROUP	456p	-13%	+16%	+35%
2. KESA ELECTRICALS	135p	-18%	+1%	+10%	12. DEBENHAMS	66p	-11%	+6%	+2%
3. EASYJET	395p	-17%	+1%	-2%	13. ENTERPRISE INNS	106p	-11%	+6%	-5%
4. DE LA RUE	711p	-15%	-10%	-25%	14. PUNCH TAVERNS	68p	-10%	-10%	-19%
5. SPORTINGBET	51p	-15%	-16%	-25%	15. AFRICAN BARRICK GOLD	520p	-10%	-8%	+0%
6. CARPETRIGHT	684p	-15%	-8%	-24%	16. PARTYGAMING	185p	-10%	-36%	-32%
7. JPMORGAN INDIAN IT.	407p	-14%	+1%	+18%	17. PZ CUSONS	362p	-10%	+7%	+45%
8. CENTAMIN EGYPT NPV (LON)	146p	-14%	-9%	+30%	18. HANSEN TNSMS.INTL.(DI)	54p	-9%	-22%	-41%
9. GKN	199p	-13%	+37%	+83%	19. IG GROUP HOLDINGS	473p	-9%	-3%	+30%
10. MCBRIDE	148p	-13%	+5%	-33%	20. WEIR GROUP	1600p	-9%	+29%	+111%

Source: Thomson Datastream

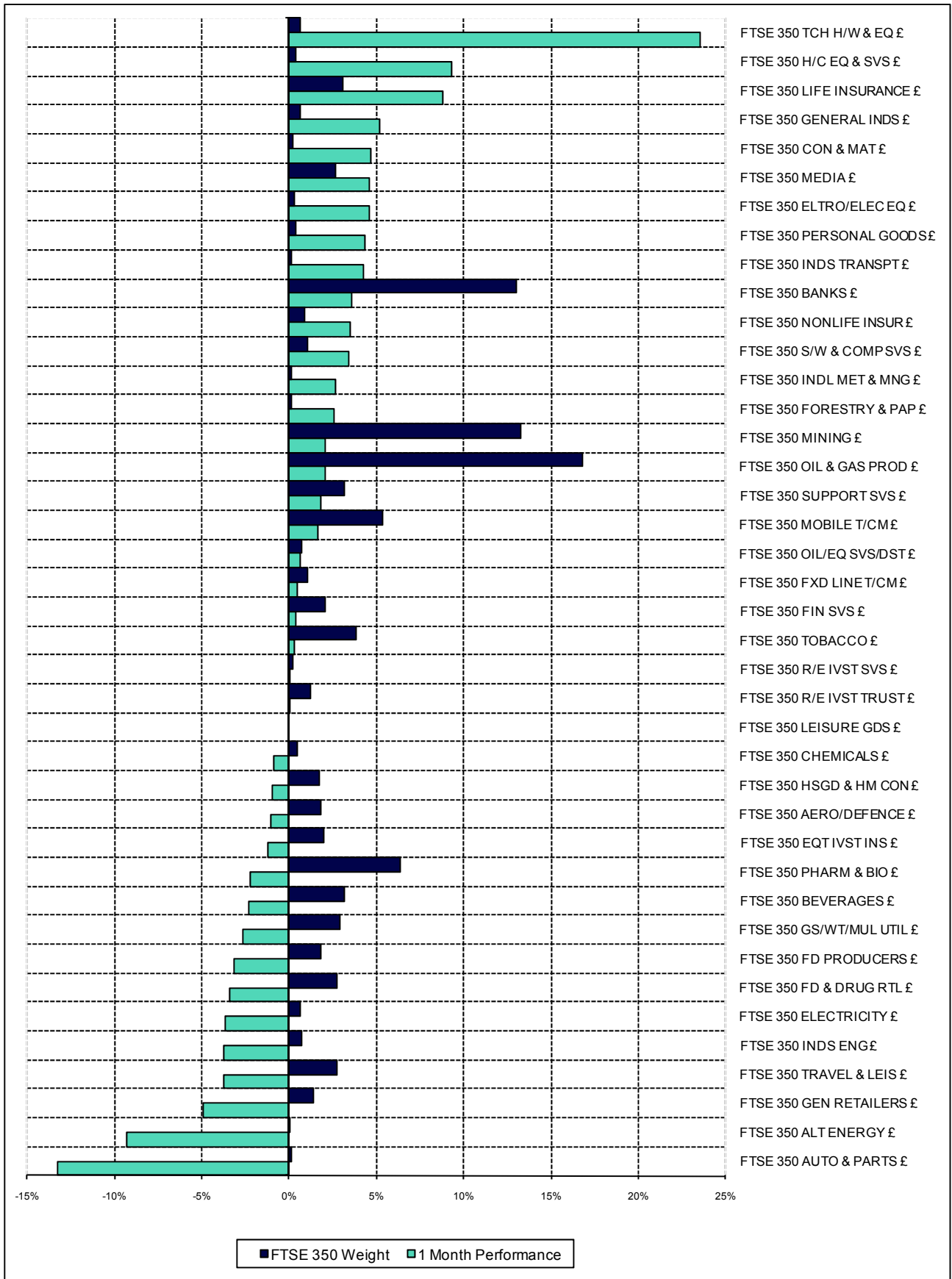
Global Index Performance

Index	Level	1m	6m	12m	Index	Level	1m	6m	12m
FTSE 100	6051	+1%	+13%	+20%	FRANCE CAC 40	4091	+6%	+10%	+15%
FTSE 250	11811	+1%	+17%	+31%	DAX 30 PERFORMANCE	7284	+5%	+16%	+34%
FTSE SMALL CAP	3301	+2%	+17%	+19%	TOPIX	940	+2%	+9%	+5%
FTSE ALL SHARE	3139.6	+1%	+14%	+21%	MSCI PACIFIC EX JP	1282	+2%	+8%	+13%
S&P 500 COMPOSITE	1319	+4%	+18%	+24%	MSCI EUROPE	1220	+3%	+11%	+17%
DOW JONES INDUSTRIALS	12162	+4%	+14%	+21%	MSCI WORLD	937	+3%	+14%	+19%
NASDAQ COMPOSITE	2784	+3%	+22%	+30%					

Source: Thomson Datastream

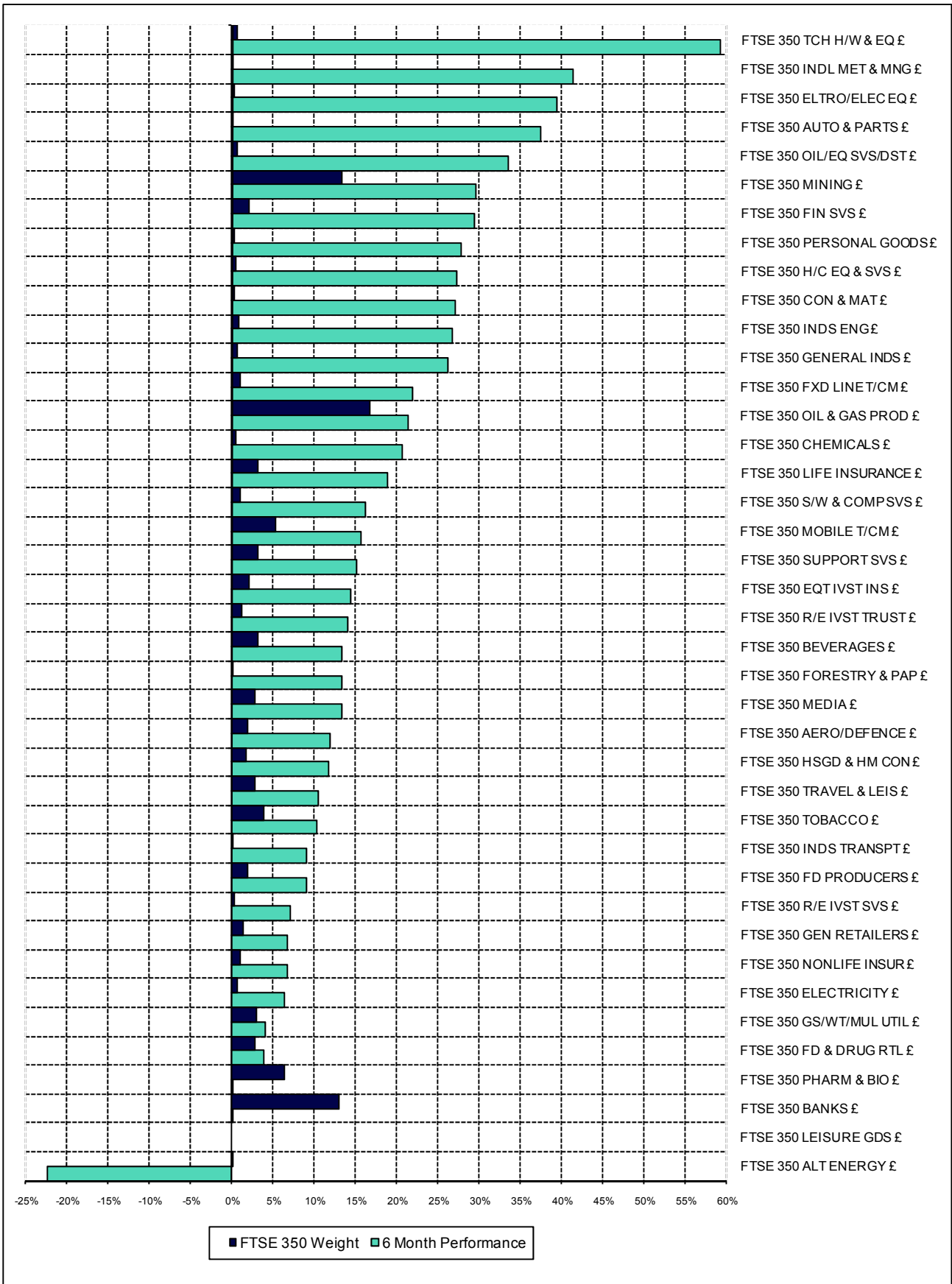
Figures are as at the close on 07 February 2011

Sector Performance & Index weights: One Month



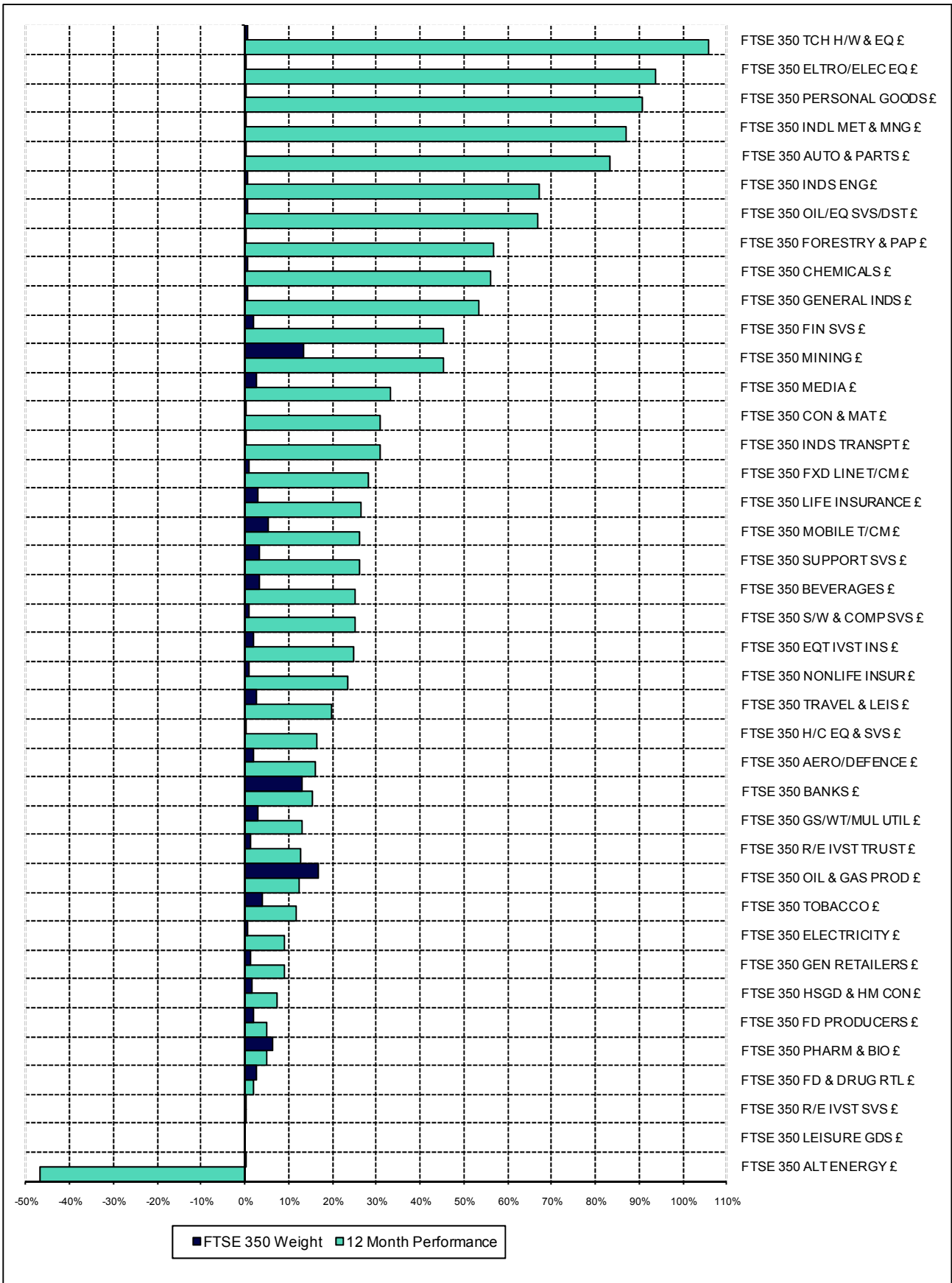
Figures are as at the close on 07 February 2011

Sector Performance & Index weights: Six Months



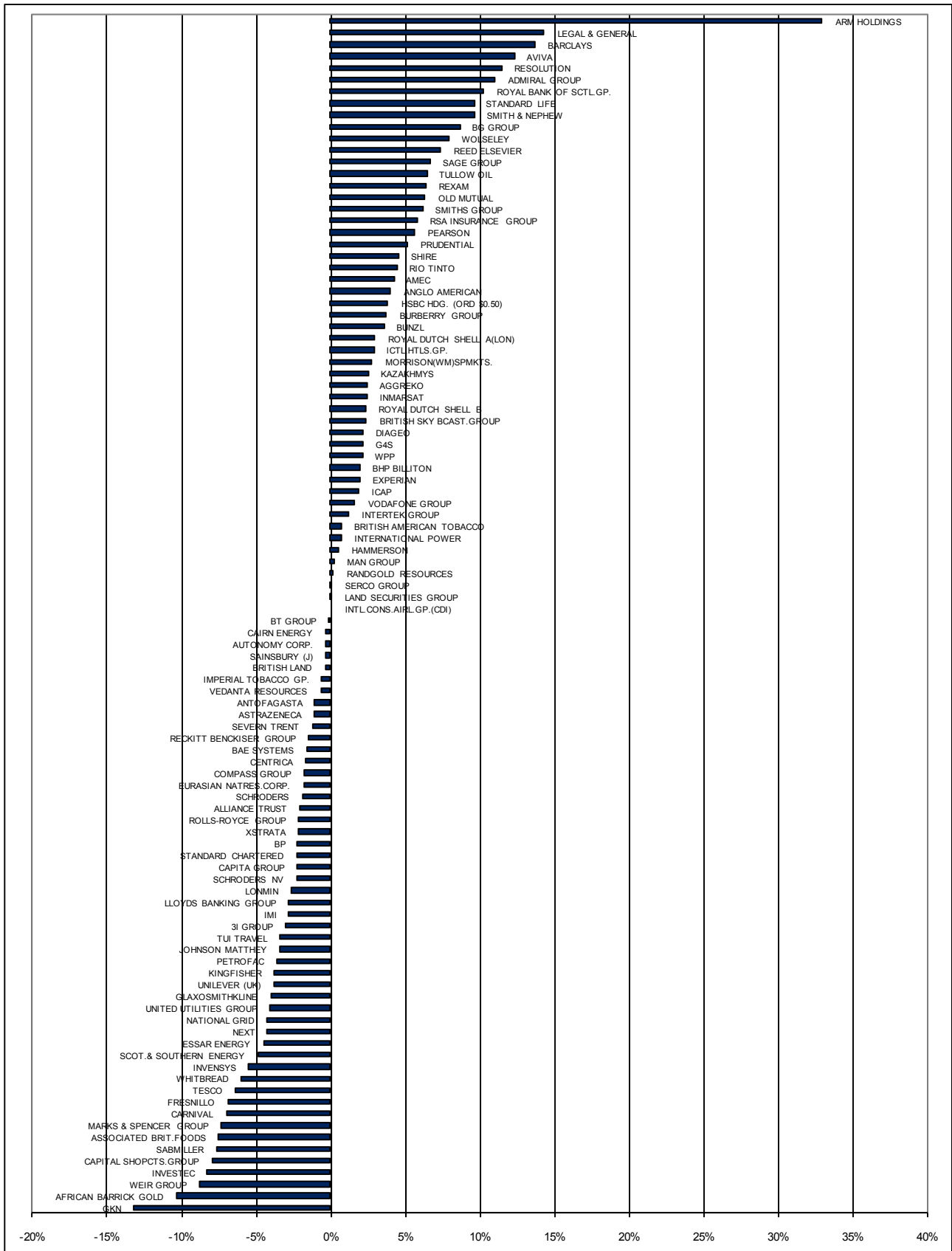
Figures are as at the close on 07 February 2011

Sector Performance & Index weights: Twelve Months



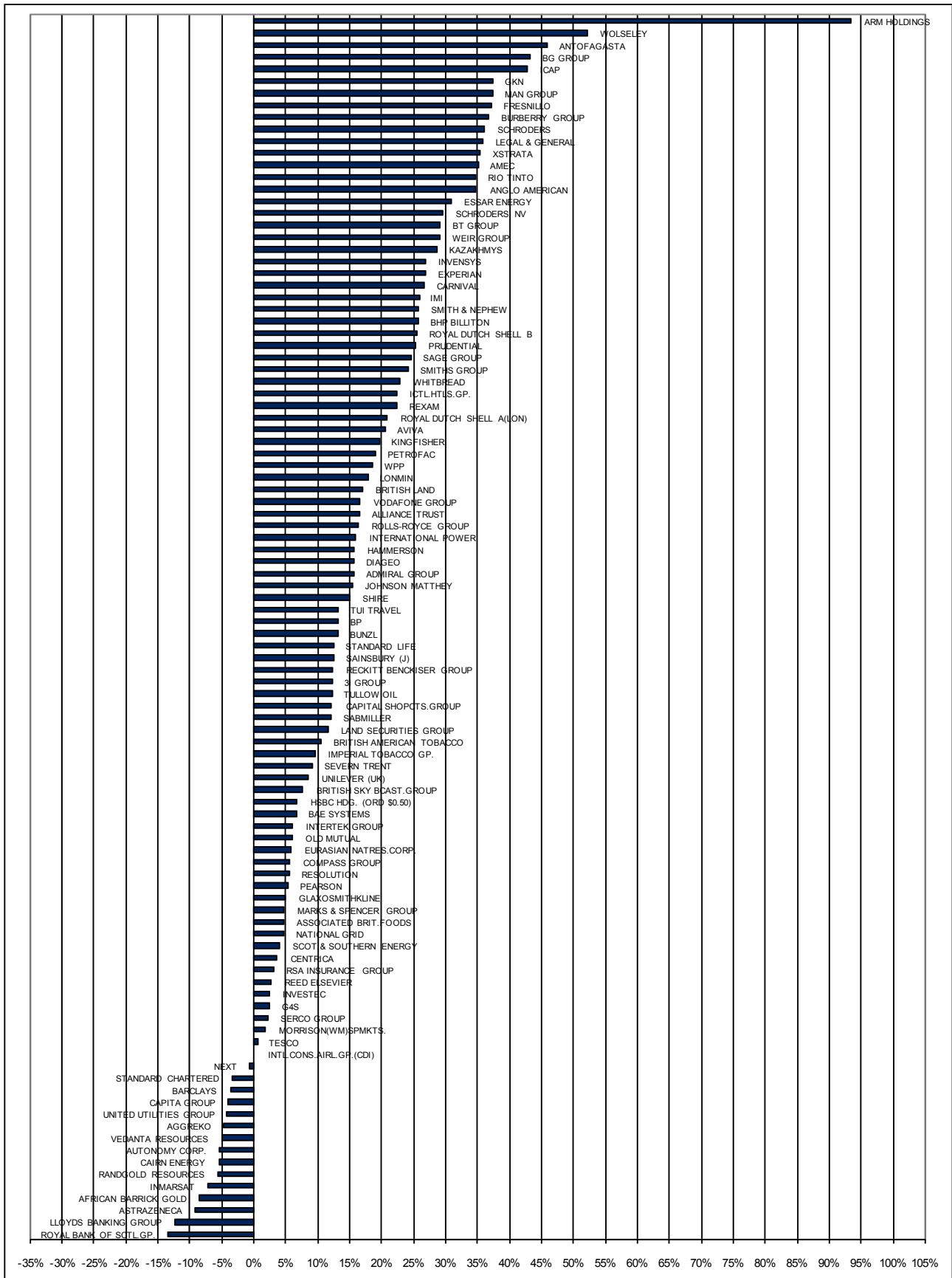
Figures are as at the close on 07 February 2011

Stock Performance: One Month



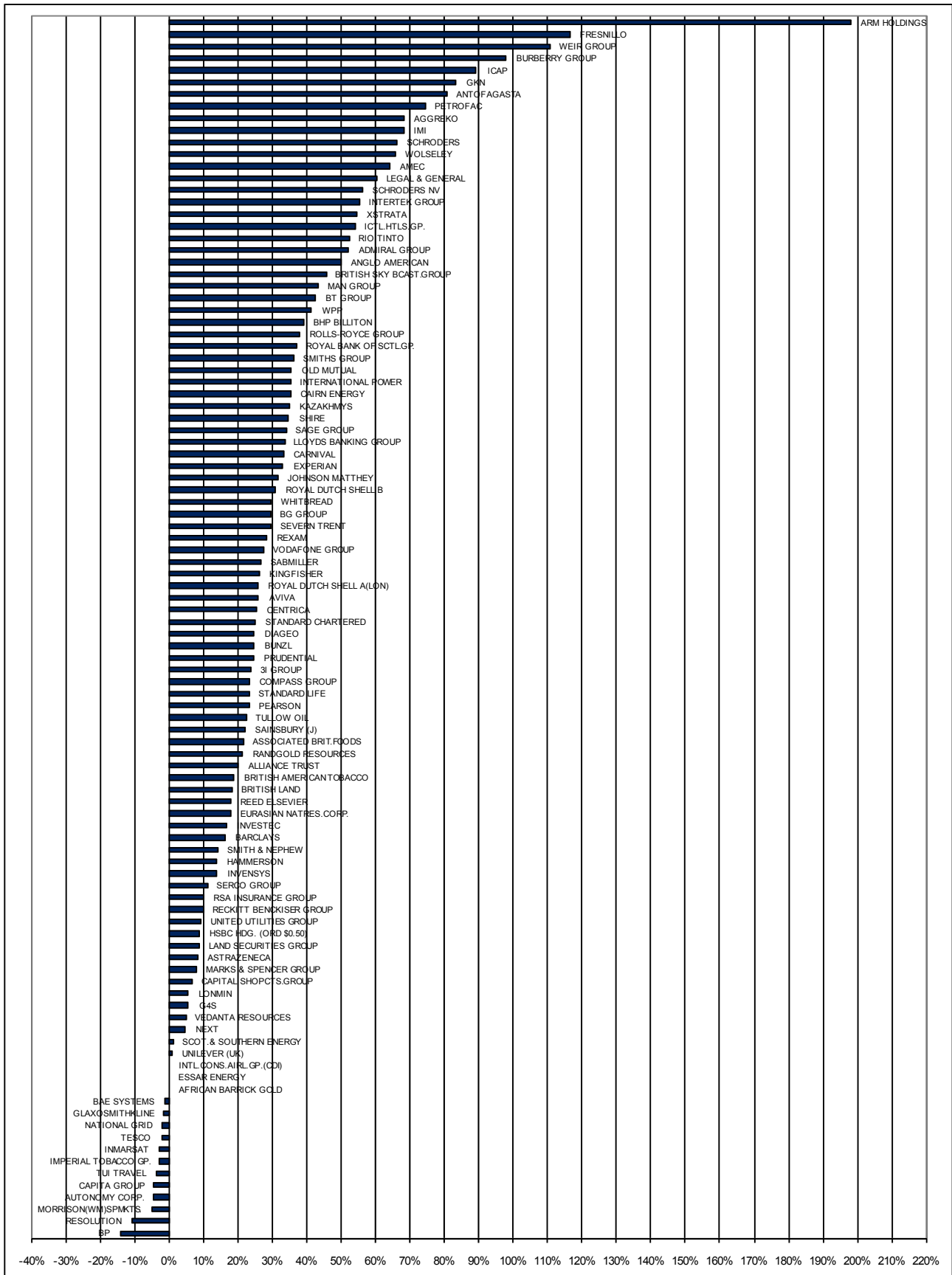
Figures are as at the close on 07 February 2011

Stock Performance: Six Months



Figures are as at the close on 07 February 2011

Stock Performance: Twelve Months



Figures are as at the close on 07 February 2011

FTSE 100 Snapshots

Stock	New rec	Date changed	Price at change	Previous rec	Previous price	Previous rec date
GlaxoSmithKline	Reduce	26/01/11	1180p	Hold	1205p	18/01/11
International Consolidated Airline Group	Name change	24/01/11				
International Power	Accumulate	27/01/11	432p	Hold	420p	18/01/11
Land Securities	Accumulate	20/01/11	695p	Hold	693p	18/01/11
Tesco	Buy	01/02/11	403p	Accumulate	411p	18/01/11

Figures are as at the close on 07 February 2011

FTSE 100 Snapshot

Admiral Group (ADML.L)

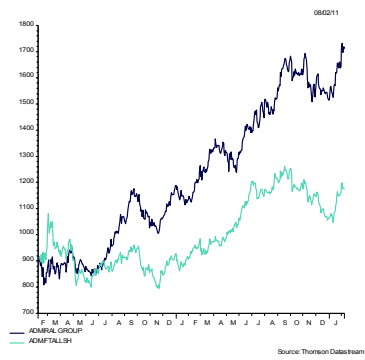
Nonlife Insurance

Hold

Valuations	2009	2010E	2011E	2012E
PER	29.1	24.9	21.0	18.3
P/CFPS	-	-	-	-
Yield (%)	3.2	3.8	4.4	5.1

Performance

Comment



On 3 November, Admiral announced that turnover rose by 50% to £446m in the third quarter of 2010. Admiral grew vehicle count by 28% year on year to more than 2.3m while it increased premium rates. It added in the interim management statement that there had been no change in claims trends from the first half of the year. Confused.com turnover has remained stable compared to H1 2010 but margins remain under pressure. Turnover from non-UK car insurance increased by 87% compared to Q3 2009. The Group also stated that it remained on track to meet market consensus profit estimates for 2010.

Summary Forecasts	2009	2010E	2011E	2012E
Turnover (£m)	-	-	-	-
PBT (£m)	216	256	312	361
EPS (p)	59.0	69.0	82.0	94.2
DPS (p)	54.2	64.5	74.8	87.2

Source: IBES/DataStream Estimates

Other Data

Price (p)	1,719.0
Year End	December
Mkt Cap (£m)	4,617
Contact	Nic Clarke

African Barrick Gold (ABGL.L)

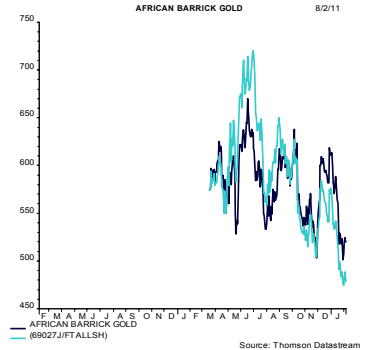
Mining

Hold

Valuations	2009	2010E	2011E	2012E
PER	59.8	16.1	10.6	8.7
P/CFPS	-	9.2	7.2	5.9
Yield (%)	0.0	0.4	0.6	0.8

Performance

Comment



Q4 production (18 Jan) showed the company failing to meet its second downward revised FY guidance. Not by much, but it has not restored management's reputation, successively dented since the listing in March 2010. Much of this is reflected in the relatively low rating, which should mean that the share price downside is limited and gold enthusiasts should see value here. However there are also concentration risks (Tanzania) and we would still like to see a couple of uneventful quarters before upgrading. Prelims 16 Feb.

Summary Forecasts	2009	2010E	2011E	2012E
Turnover (\$m)	-	893	1,038	1,108
PBT (\$m)	-	312	446	510
EPS (c)	14.0	52.0	79.0	96.0
DPS (c)	-	3.0	5.0	7.0

Source: IBES/DataStream Estimates

Other Data

Price (p)	520.0
Year End	December
Mkt Cap (£m)	2,132
Contact	Tom Gidley-Kitchin

Aggreko (AGGK.L)

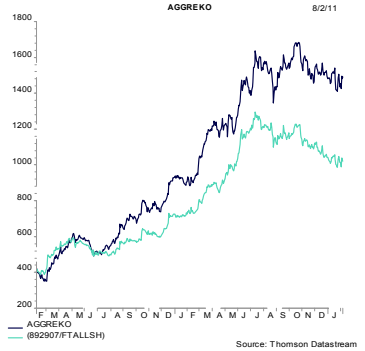
Support Services

Hold

Valuations	2009	2010E	2011E	2012E
PER	23.9	19.0	18.5	16.3
P/CFPS	10.8	9.6	8.6	7.4
Yield (%)	0.8	1.3	1.3	1.4

Performance

Comment



The Group issued an upbeat Q3 IMS which indicated that Q3 revenues were 30% higher on a constant currency basis and with maintained margins. In the first half of the year, revenue grew by 10% on a constant currency basis. The strength of the trading performance led Aggreko to upgrade its guidance and the Company now expects a pre-tax profit for the year to be about £300m which was above consensus expectations. Unusually, the stronger performance was achieved in the Local business rather than the International Power Projects business.

Summary Forecasts	2009	2010E	2011E	2012E
Turnover (£m)	1,024	1,222	1,261	1,352
PBT (£m)	244	305	314	357
EPS (p)	62.4	78.3	80.6	91.2
DPS (p)	12.6	18.9	19.9	21.1

Source: IBES/DataStream Estimates

Other Data

Price (p)	1,490.0
Year End	December
Mkt Cap (£m)	4,090
Contact	Tony Shepard

Alliance Trust (ATST.L)

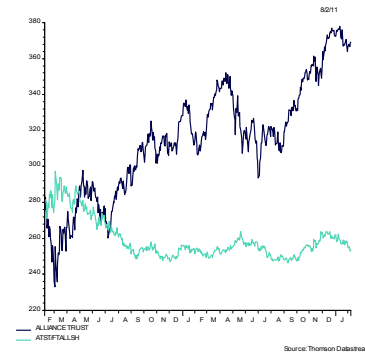
Investment Trust

Hold

Valuations	2007	2008E	2009E	2010E
PER	-	-	-	-
P/CFPS	-	-	-	-
Yield (%)	0.0	0.0	0.0	0.0

Performance

Comment



As would be expected, all has gone somewhat quiet over Laxey's involvement with Alliance Trust. The company's year end was at the end of January, and so we await its commentary with the publication of its annual report in a few months time. We continue to urge caution that the its valuation appears somewhat of a value trap.

Summary Forecasts	2007	2008E	2009E	2010E
Turnover (£m)	-	-	-	-
PBT (£m)	-	-	-	-
EPS (p)	-	-	-	-
DPS (p)	-	-	-	-

Source: IBES/DataStream Estimates

Other Data

Price (p)	368.7
Year End	January
Mkt Cap (£m)	2,437
Contact	Stephen Peters

FTSE 100 Snapshot

AMEC (AMEC.L)

Support Services

Accumulate

Valuations	2009	2010E	2011E	2012E
PER	26.5	20.8	18.0	15.9
P/CFPS	24.2	22.3	16.4	14.3
Yield (%)	1.4	1.6	1.9	2.1

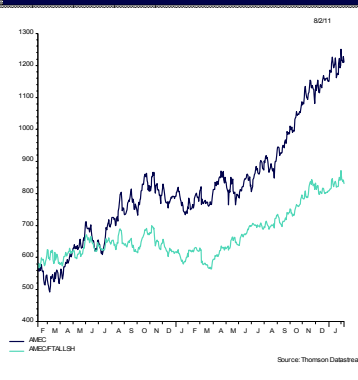
Summary Forecasts	2009	2010E	2011E	2012E
Turnover (£m)	2,539	2,896	3,179	3,483
PBT (£m)	207	257	294	331
EPS (p)	46.4	59.1	68.2	77.2
DPS (p)	17.7	20.1	23.4	25.7

Source: IBES/DataStream Estimates

Other Data

Price (p)	1,228.0
Year End	December
Mkt Cap (£m)	4,070
Contact	Tom Gidley-Kitchin

Performance



Comment

The cursory Q3 IMS showed everything on track. The FY EBITDA margin is now expected to be 9.0%, ahead of the 8.5% target. H1 results had been solid, with organic (and absolute) growth, and a slightly larger order book, in all three divisions. The company is on track for 2015 EPS of more than 100p (moving away from a focus on margins only). In the short term it expects to allocate its £670m net cash to more add-on agreed acquisitions, later it may consider balance sheet efficiency. In our view the business is being managed well, the company is positioned well and the share price still has some upward potential. Prelims 3 Mar.

Anglo American (AAL.L)

Mining

Accumulate

Valuations	2009	2010E	2011E	2012E
PER	27.8	13.7	9.3	8.2
P/CFPS	16.9	9.0	6.7	6.2
Yield (%)	0.0	1.1	1.8	1.9

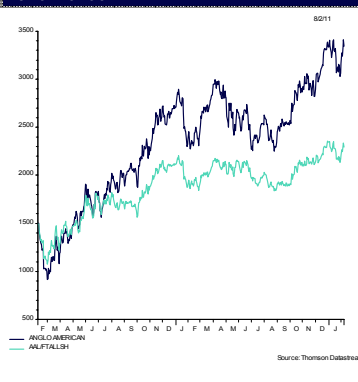
Summary Forecasts	2009	2010E	2011E	2012E
Turnover (\$m)	20,858	27,936	32,989	36,855
PBT (\$m)	4,029	9,055	13,235	14,173
EPS (c)	198.0	402.0	593.0	672.0
DPS (c)	-	60.0	100.0	102.0

Source: IBES/DataStream Estimates

Other Data

Price (p)	3,411.0
Year End	December
Mkt Cap (£m)	45,032
Contact	Tom Gidley-Kitchin

Performance



Comment

In the H1 results metal price increases, partially offset by FX, provided most of the YoY gains (EPS +102%). The \$2bn asset optimisation and procurement programs continue well and disposals continue into a seller's market. A major driver will be execution of the four major development projects to increase production by 33%. The share is attractive on fundamentals but S.African exposure is still high (50% of H1 EBIT), bringing concentration risk (strikes, wage inflation, mining rights disputes last year). Q3 production showed platinum ahead and on target, iron ore flat and copper down as expected on lower grades, hardness, maintenance. Prelims 18 Feb.

Antofagasta (ANTO.L)

Mining

Hold

Valuations	2009	2010E	2011E	2012E
PER	35.6	19.9	10.9	10.4
P/CFPS	23.6	11.7	6.9	5.9
Yield (%)	1.0	1.7	2.7	3.0

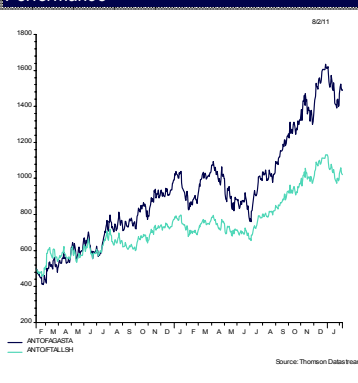
Summary Forecasts	2009	2010E	2011E	2012E
Turnover (\$m)	2,963	4,444	7,434	7,210
PBT (\$m)	1,438	2,572	4,511	4,454
EPS (c)	67.7	121.0	221.0	232.0
DPS (c)	23.0	40.0	65.0	72.0

Source: IBES/DataStream Estimates

Other Data

Price (p)	1,495.0
Year End	December
Mkt Cap (£m)	14,739
Contact	Tom Gidley-Kitchin

Performance



Comment

FY production (+17.8% at 521,100 tonnes, 2 Feb) fell short of the revised guidance, mainly owing to maintenance being brought forward, pushing some production into 2011 (guidance now raised to 715,000 tonnes). Group cash costs before by-products increased by 14% owing to higher energy costs and a higher Peso. 2015 production could be 1m tonnes. Plus m-term projects in Pakistan, Africa and Spain, and now also USA. The low cost and growth attractions are offset by the metal (copper) and country concentration risks and a still relatively high rating. Prelims 8 Mar.

ARM Holdings (ARML.L)

Technology Hardware & Equipment

Reduce

Valuations	2010	2011E	2012E	2013E
PER	65.4	58.0	48.3	36.8
P/CFPS	46.7	57.9	45.9	34.3
Yield (%)	0.5	0.5	0.6	0.6

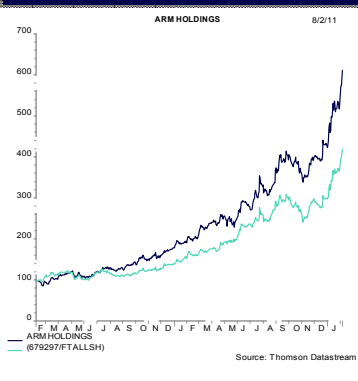
Summary Forecasts	2010	2011E	2012E	2013E
Turnover (£m)	407	452	514	642
PBT (£m)	167	179	217	265
EPS (p)	9.3	10.5	12.6	16.6
DPS (p)	2.9	3.3	3.7	3.8

Source: IBES/DataStream Estimates

Other Data

Price (p)	611.0
Year End	December
Mkt Cap (£m)	8,085
Contact	Tom Gidley-Kitchin

Performance



Comment

Prelims (1 Feb) were ahead of expectations, and performance was very good in all areas. They followed a string of extremely positive announcements in Jan, and management's outlook for 2011 and beyond was positive. The 2014/2020 targets of 10bn/20bn unit sales (2020 is less formal) look increasingly achievable (6.1bn in 2010). Product development is accelerating and significant momentum has been achieved. We see the shares as significantly too expensive. We believe the share price is being driven by US tech investors who have given up on Intel and are meeting an insufficient supply of ARM shares, and/or a bid story which we do not credit.

FTSE 100 Snapshot

Associated British Foods (ABF.L)

Food Producers

Reduce

Valuations	2009	2010E	2011E	2012E
PER	14.7	13.9	12.5	11.3
P/CFPS	7.1	9.3	8.3	7.8
Yield (%)	2.2	2.4	2.6	2.9

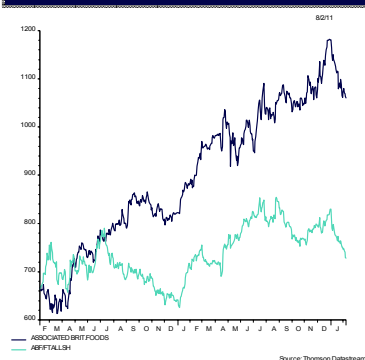
Summary Forecasts	2009	2010E	2011E	2012E
Turnover (£m)	10,167	10,827	11,522	12,237
PBT (£m)	825	865	959	1,057
EPS (p)	72.2	76.6	85.0	93.8
DPS (p)	23.8	25.1	27.7	30.7

Source: IBES/DataStream Estimates

Other Data

Price (p)	1,063.0
Year End	September
Mkt Cap (£m)	8,415
Contact	Jeremy Batstone-Carr

Performance



Comment

AB Foods interim trading update, covering the 16 week period to 8th January 2011, was dominated by concerns relating to the margin outlook and prospects for Primark. Although the latter reported fiscal Q1 sales 12% ahead of the equivalent period, we suspect that the combination of additional space and severe weather in the run-up to Christmas will have impacted negatively. Divisional margins are likely to come under pressure over fiscal H2 as the January VAT hike impacts. Sugar and Grocery operations were resilient but an opaque outlook calls the shares' rating into question.

AstraZeneca (AZN.L)

Pharmaceuticals & Biotechnology

Accumulate

Valuations	2010	2011E	2012E	2013E
PER	7.1	7.0	7.5	7.3
P/CFPS	-	-	-	-
Yield (%)	5.4	5.8	6.1	6.3

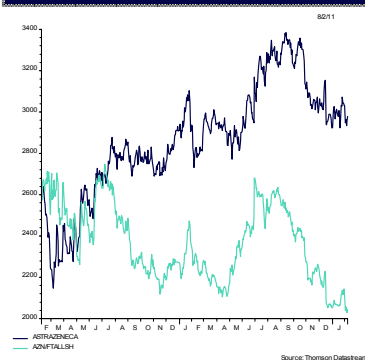
Summary Forecasts	2010	2011E	2012E	2013E
Turnover (\$m)	33,269	33,600	30,500	30,000
PBT (\$m)	13,086	12,700	11,100	10,800
EPS (c)	671.0	677.0	635.0	650.0
DPS (c)	255.0	275.0	290.0	300.0

Source: Charles Stanley Forecasts

Other Data

Price (p)	2,957.0
Year End	December
Mkt Cap (£m)	41,389
Contact	Jeremy Batstone-Carr

Performance



Comment

AstraZeneca's Q4/FY 2010 results proved much more reassuring than expected. An enhanced share buyback programme and commitment to the progressive dividend policy are likely to prove popular with income seeking investors. Although Group sales were flat, we suspect that the adverse impact of patent-loss and competitive pressure will result in a pressurised top line from here. Pipeline contribution forecast has been lowered but was not as weak as investors had feared. Margins are expected to benefit from ongoing cost control. The shares are lowly rated and enjoy an attractive dividend yield.

Autonomy (AUTN.L)

Software & Computer Services

Buy

Valuations	2010	2011E	2012E	2013E
PER	20.9	20.3	18.1	15.3
P/CFPS	20.1	18.6	15.6	11.6
Yield (%)	0.0	0.0	0.0	0.0

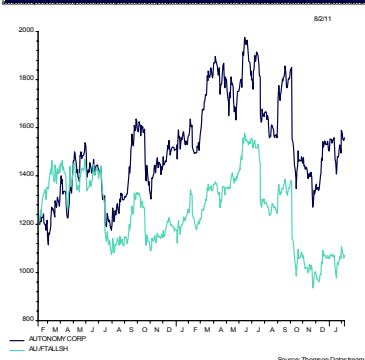
Summary Forecasts	2010	2011E	2012E	2013E
Turnover (\$m)	870	970	1,079	1,229
PBT (\$m)	379	423	494	585
EPS (c)	119.5	123.0	138.0	163.0
DPS (c)	-	-	-	-

Source: IBES/DataStream Estimates

Other Data

Price (p)	1,547.0
Year End	December
Mkt Cap (£m)	3,753
Contact	Tom Gidley-Kitchin

Performance



Comment

Prelims (1 Feb) were in line with guidance. For 2011 management believes that revenues are likely to be some way ahead of consensus, but that the latter represents a good base case at this (early) stage. It will not comment further on the targeted acquisition until there is news, but will not overpay. There remains some disconnect between the company and some analysts, leading to an intense focus on quarterly results and volatility in the shares. We believe that annual performance is a better reflection, and that organic growth should be closer to target markets' 15-16% than the bears' 10-12%. The outcome will determine share price performance.

Aviva (AV.L)

Life Insurance

Hold

Valuations	2009	2010E	2011E	2012E
PER	5.9	8.2	8.0	7.2
P/CFPS	-	-	-	-
Yield (%)	5.2	5.5	5.9	6.2

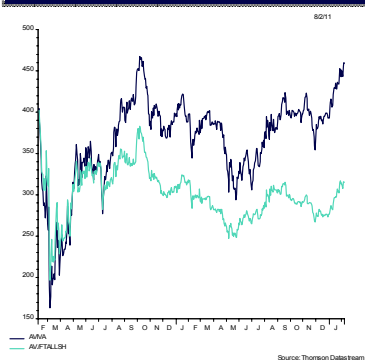
Summary Forecasts	2009	2010E	2011E	2012E
Turnover (£m)	32,673	35,562	37,582	37,386
PBT (£m)	3,735	3,024	2,590	2,918
EPS (p)	78.1	56.4	57.2	63.5
DPS (p)	24.0	25.4	27.0	28.5

Source: IBES/DataStream Estimates

Other Data

Price (p)	460.1
Year End	December
Mkt Cap (£m)	12,976
Contact	Nic Clarke

Performance



Comment

On 20 January, Aviva held an investment moping to brief investors on the details of its balance sheet management. Aviva stated that it aims to slash its hybrid debt by at least £700m over the next three years as part of its overall strategy to boost its profits and returns for shareholders. Aviva also highlighted that it had cut its pension deficit to £0.4bn as of 30 November 2010 from £1.7bn at the end of 2009.

FTSE 100 Snapshot

BAE Systems (BA.L)

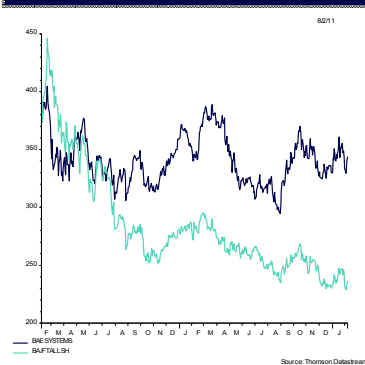
Aerospace & Defence

Hold

Valuations	2009	2010E	2011E	2012E
PER	8.4	8.1	7.9	7.7
P/CFPS	7.4	6.7	7.1	7.0
Yield (%)	4.7	5.1	5.4	5.6

Performance

Comment



UK SDSR will result in modestly lower growth in 2010 (1p per share thereafter). Performance also subject to costs from cancelled Trinidad & Tobago offshore patrol vessel program (£150m before tax). Cost cutting in tighter global defence spending environment. Continues to see opportunities in the US, where operations are being restructured, and select export markets. Good H1 results with L4L sales +7%, EPS +14%, DPS +9% and double-digit margins. Order book lower at £43.6bn (£44.3bn). Recently called off sale of Platform Solutions (received 3 final bids) due to improving earnings and aims to expand intelligence business through acquisitions. FY10 on 17 Feb.

Summary Forecasts	2009	2010E	2011E	2012E
Turnover (£m)	20,374	22,716	22,278	22,523
PBT (£m)	1,520	2,028	2,067	2,190
EPS (p)	40.6	42.1	43.0	44.2
DPS (p)	16.0	17.3	18.5	19.2

Source: IBES/DataStream Estimates

Other Data

Price (p)	341.2
Year End	December
Mkt Cap (£m)	11,633
Contact	Tina Cook

Barclays (BARC.L)

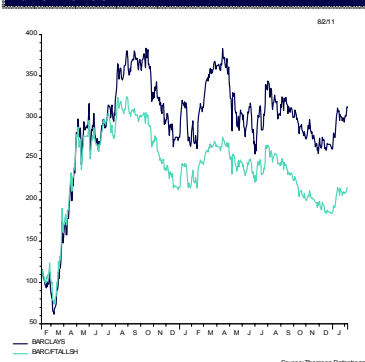
Banks

Hold

Valuations	2009	2010E	2011E	2012E
PER	13.8	11.6	8.6	7.0
ROE (%)	56.7	47.4	36.8	31.0
Yield (%)	0.8	1.6	2.0	3.2

Performance

Comment



On November 9, Barclays issued an IMS covering the first 9mths of 2010 in which it stated that PBT was up 4% to £4,274m. Income was up 2% to £22,872m in part reflecting the subdued macroeconomic environment. Operating expenses increased by 18% to £14,476m. Impairment charges and other credit provisions improved from 31% to £4,298m. This was largely in the Retail portfolios where impairments totalled £2,523m (2009: £2,942m) representing improved performances in the majority of the secured and unsecured portfolios and in Wholesale portfolios where impairments totalled £1,664m (2009: £2,621m).

Summary Forecasts	2009	2010E	2011E	2012E
Operating Profit (£m)	4,585	6,132	8,479	10,336
PBT (£m)	4,585	5,734	7,634	9,263
EPS (p)	22.7	26.9	36.4	44.7
DPS (p)	2.5	5.0	6.2	10.0

Source: IBES/DataStream Estimates

Other Data

Price (p)	312.8
Year End	December
Mkt Cap (£m)	38,101
Contact	Nic Clarke

BG Group (BG.L)

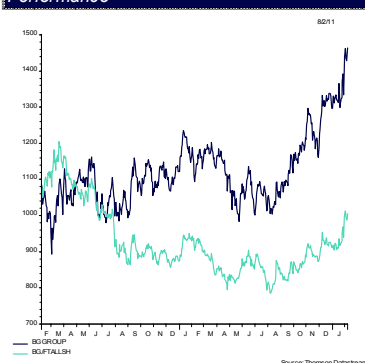
Oil & Gas Producers

Accumulate

Valuations	2009	2010E	2011E	2012E
PER	21.6	19.3	17.6	15.7
P/CFPS	13.8	10.7	9.9	9.2
Yield (%)	0.9	0.9	1.0	1.1

Performance

Comment



The Q3 results showed a 27% rise in EPS and +20% for the 9 months. The Q3 outcome was well ahead of expectations but was due to an exceptional performance from the LNG division which was 43% higher. Two significant developments have been announced. First, BG has upgraded its estimate of recoverable gross resources from the Tupi, Iracema and Guara fields offshore in Brazil by 34% to 10.8bn boe. Also, the large Queensland Curtis LNG project has been sanctioned and first LNG exports are expected in 2014. Overall, we expect production volumes to pick-up and accelerate over the 2012-14 timeframe.

Summary Forecasts	2009	2010E	2011E	2012E
Turnover (£m)	10,213	11,216	12,093	13,978
PBT (£m)	3,988	4,146	4,730	5,325
EPS (p)	66.8	74.8	82.0	91.8
DPS (p)	12.4	13.2	14.5	16.1

Source: IBES/DataStream Estimates

Other Data

Price (p)	1,440.0
Year End	December
Mkt Cap (£m)	48,768
Contact	Tony Shepard

BHP Billiton (BLT.L)

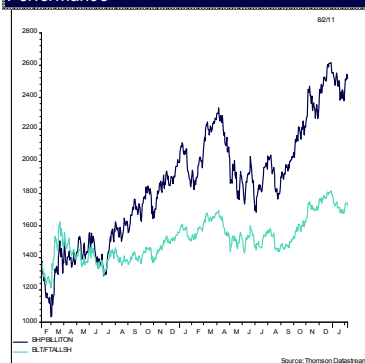
Mining

Accumulate

Valuations	2010	2011E	2012E	2013E
PER	18.4	10.5	8.9	9.1
P/CFPS	12.8	8.8	7.8	7.6
Yield (%)	2.1	2.2	2.3	2.5

Performance

Comment



FY results showed continuing improvement despite negative FX impact, on the back of volume increases, new operations and controlled costs, plus debt reduction. Q1 production showed general QoQ progress and Olympic Dam is finally fully operational. The iron ore JV with Rio has been abandoned, now the Potash bid as well. A small \$4.2bn balance on the old shareback program has been reinstated. Next moves are likely to be more buybacks and/or an oil & gas bid, but not immediately. In the meantime there are plenty of organic growth plans, minimal debt and high, stable margins and the shares remain attractive. H1 results 16 Feb.

Summary Forecasts	2010	2011E	2012E	2013E
Turnover (\$m)	52,798	68,416	77,445	76,239
PBT (\$m)	19,260	32,782	38,719	37,415
EPS (c)	222.0	391.0	459.0	450.0
DPS (c)	87.0	91.0	96.0	101.0

Source: IBES/DataStream Estimates

Other Data

Price (p)	2,541.5
Year End	June
Mkt Cap (£m)	55,620
Contact	Tom Gidley-Kitchin

FTSE 100 Snapshot

BP (BP.L)

Oil & Gas Producers

Hold

Valuations	2009	2010E	2011E	2012E
PER	7.7	7.6	7.2	6.9
P/CFPS	11.7	5.3	4.8	4.6
Yield (%)	1.7	3.5	3.8	4.2

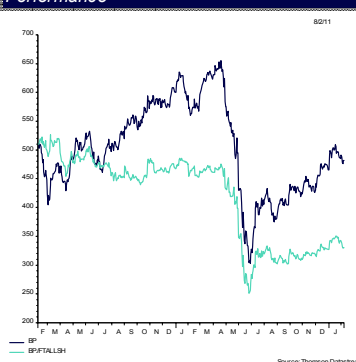
Summary Forecasts	2009	2010E	2011E	2012E
Turnover (\$bn)	297	312	328	341
PBT (\$bn)	31	31	33	35
EPS (c)	109.2	110.0	116.0	122.0
DPS (c)	14.0	29.0	32.0	35.0

Source: IBES/DataStream Estimates

Other Data

Price (p)	481.5
Year End	December
Mkt Cap (£m)	90,501
Contact	Tony Shepard

Performance



Comment

2011 will be a year of consolidation for BP. Priorities are safety and meeting its commitments in the Gulf of Mexico and implementing a new strategy. In 2011, production will be lower and in the future there will be more focus on exploration and more divestments in downstream. BP has gained good new access in other regions and it plans 32 start-up projects which may contribute 1million boepd by 2016. In summary, BP still carries Gulf of Mexico risks but it has begun to rebuild its strategy. The rebased dividend has been set at 50% below the previous payout.

British American Tobacco (BATS.L)

Tobacco

Buy

Valuations	2009	2010E	2011E	2012E
PER	16.0	14.0	12.8	11.6
P/CFPS	12.5	14.4	12.7	12.3
Yield (%)	4.1	4.6	5.1	5.6

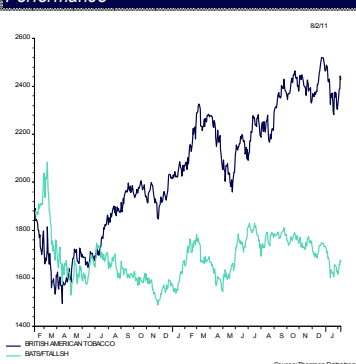
Summary Forecasts	2009	2010E	2011E	2012E
Turnover (£m)	14,208	15,017	15,473	16,108
PBT (£m)	4,440	5,047	5,482	5,975
EPS (p)	153.0	174.3	191.2	210.8
DPS (p)	99.5	113.6	124.0	136.9

Source: IBES/DataStream Estimates

Other Data

Price (p)	2,444.0
Year End	December
Mkt Cap (£m)	48,804
Contact	Tina Cook

Performance



Comment

Performed well in Q3 with revenue higher on good pricing with support from FX and Benteol acquisition. Volumes are down -1% to 526bn, or -3% underlying, partly due to flooding in Pakistan. Core GDB volumes are up +8% flattered by hoarding in Japan ahead of excise tax hike. Focus on cost control has helped improve margins. Solid financial position with £1.75bn undrawn credit facility. Although trading conditions remain challenging with downtrading to illicit trade in some countries impacting the low price segment, BAT says it remains on track for another good year. Proposing regional re-organisation and in talks to buy Protabaco. FY10 on 24 Feb.

British Land (BLND.L)

Real Estate

Hold

Valuations	2010	2011E	2012E	2013E
PER	18.5	18.1	17.4	16.9
P/CFPS	33.3	38.4	15.1	15.3
Yield (%)	4.9	4.9	5.0	5.1

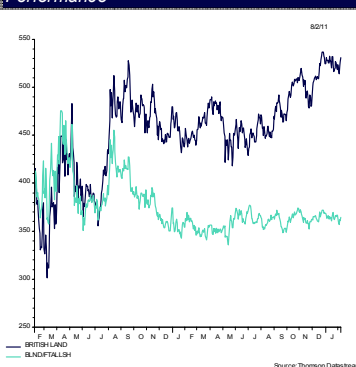
Summary Forecasts	2010	2011E	2012E	2013E
Turnover (£m)	394	535	544	560
PBT (£m)	249	256	268	275
EPS (p)	28.4	29.0	30.2	31.1
DPS (p)	26.0	26.0	26.5	27.1

Source: IBES/DataStream Estimates

Other Data

Price (p)	526.5
Year End	March
Mkt Cap (£m)	4,658
Contact	Tina Cook

Performance



Comment

H1 NAV is up 4.2% to 525p driven by a 2.6% rise in the value of the portfolio. The portfolio (mostly out-of-town retail and London offices) continues to benefit from some of the highest occupancy (98%) and lease lengths (12.5 yrs). L4L income is up 1% (offices 1.3%, retail 0.9%). Retail rental values are showing signs of stabilisation with growth in the best locations. Good progress on letting London offices, which have continued to realise rental growth. Committed to the largest office development program in London (BLND share £1bn) for delivery in 2014 into a supply constrained market. Several recent acquisitions and sold Macclesfield superstore. Q3 on 15 Feb.

British Sky Broadcasting (BSY.L)

Media

Hold

Valuations	2010	2011E	2012E	2013E
PER	24.7	19.3	16.1	14.2
P/CFPS	9.8	13.9	11.3	10.3
Yield (%)	2.5	2.8	3.1	3.4

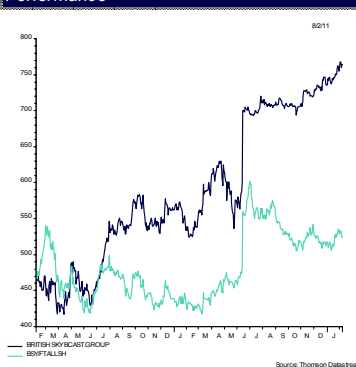
Summary Forecasts	2010	2011E	2012E	2013E
Turnover (£m)	5,912	6,403	6,870	7,275
PBT (£m)	837	951	1,151	1,324
EPS (p)	30.9	39.5	47.6	54.0
DPS (p)	19.4	21.1	23.5	25.8

Source: IBES/DataStream Estimates

Other Data

Price (p)	764.0
Year End	June
Mkt Cap (£m)	13,392
Contact	Sam Hart

Performance



Comment

Regulatory uncertainty continues surrounding News Corp's proposed acquisition of the 61% stake it does not already control. The Culture Secretary has suggested he will refer the deal for investigation by the Competition Commission, but is considering certain 'remedies' before making a final decision. Our best guess is that a deal will ultimately be approved. We would then expect a formal offer to be forthcoming from News Corp, but would probably have to be well in excess of 800p to be recommended by the Board.

FTSE 100 Snapshot

BT Group (BT.L)

Fixed Line Telecommunications

Accumulate

Valuations	2010	2011E	2012E	2013E
PER	10.0	9.7	9.0	8.7
P/CFPS	3.1	3.5	3.5	3.5
Yield (%)	3.7	4.0	4.3	4.7

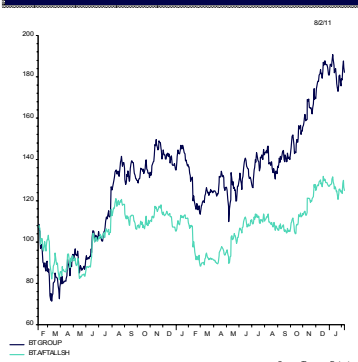
Summary Forecasts	2010	2011E	2012E	2013E
Turnover (£m)	20,911	20,205	19,959	19,930
PBT (£m)	1,877	1,847	2,055	2,150
EPS (p)	18.5	19.1	20.6	21.3
DPS (p)	6.9	7.4	8.0	8.6

Source: IBES/DataStream Estimates

Other Data

Price (p)	184.7
Year End	March
Mkt Cap (£m)	14,335
Contact	Tom Gidley-Kitchin

Performance



Comment

Q3 results (3 Feb) were solid, with Global Services moving into positive cash flow, continuing good performance in Retail and group EBITDA +7% YoY as management continues to remove costs (with more to come). The IAS 19 pension deficit fell further to £2.7bn, but the ruling by the Pensions Regulator is still awaited. Falling net debt will provide management with options on capital structure. The FY outlook was unchanged. Management is building a track record of delivering on its guidance and the group is now operating well. Only the pension uncertainty detracts, but this is becoming less material.

Bunzl (BNZL.L)

Support Services

Accumulate

Valuations	2009	2010E	2011E	2012E
PER	13.9	12.9	12.6	12.4
P/CFPS	-	-	-	-
Yield (%)	2.8	3.0	3.1	3.2

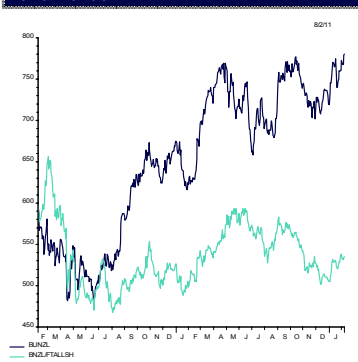
Summary Forecasts	2009	2010E	2011E	2012E
Turnover (£m)	4,648	4,765	4,880	4,970
PBT (£m)	258	275	285	298
EPS (p)	55.9	60.5	61.8	62.7
DPS (p)	21.6	23.0	24.0	25.0

Source: Charles Stanley Forecasts

Other Data

Price (p)	779.0
Year End	December
Mkt Cap (£m)	2,572
Contact	Tony Shepard

Performance



Comment

Overall trading has been consistent with expectations at the time of the half year results announcement in August. Those H1 results showed revenue grew by 2.4% with acquisitions contributing half of the improvement. Margins improved and lower interest costs and tax led to a 10% rise in EPS. So far in 2010, £100m has been spent on 8 acquisitions which add about £140m of turnover and the pipeline looks promising. At the end of June net debt was £745m (Dec. 2009; £717m) representing a net debt/EBITDA ratio of 2.2x.

Burberry Group (BRBY.L)

General Retail

Hold

Valuations	2010	2011E	2012E	2013E
PER	33.3	25.7	20.9	18.0
P/CFPS	14.0	21.1	16.2	14.0
Yield (%)	1.2	1.5	1.9	2.2

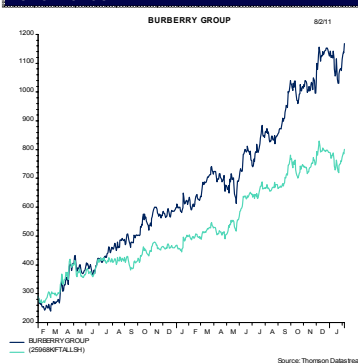
Summary Forecasts	2010	2011E	2012E	2013E
Turnover (£m)	1,280	1,480	1,715	1,923
PBT (£m)	215	275	349	398
EPS (p)	35.1	45.5	55.9	65.0
DPS (p)	14.0	17.8	22.3	25.9

Source: IBES/DataStream Estimates

Other Data

Price (p)	1,169.0
Year End	March
Mkt Cap (£m)	5,093
Contact	Sam Hart

Performance



Comment

Burberry's Q3 update was stronger than expected, with underlying sales +27% and guidance for full year PBT to be at the top end of market expectations. The Group remains very well positioned to benefit from structural growth in the global luxury goods industry, given the iconic brand and action being taken to leverage the franchise. The Group is highly cash generative and the balance sheet is sound. A premium valuation is justified by strong forecast earnings growth, but the current valuation looks well up with events. Takeover rumours have been circulating, but we consider a bid unlikely over the medium term.

Cain Energy (CNE.L)

Oil & Gas Producers

Hold

Valuations	2009	2010E	2011E	2012E
PER	637.8	30.5	13.2	11.0
P/CFPS	87.7	11.9	5.8	4.9
Yield (%)	0.0	0.0	0.0	0.0

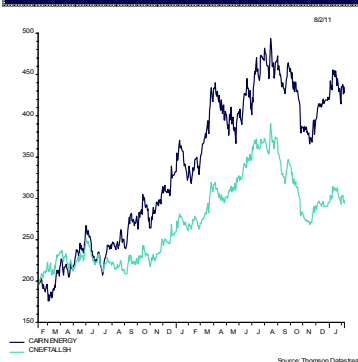
Summary Forecasts	2009	2010E	2011E	2012E
Turnover (\$m)	234	1,480	2,472	2,899
PBT (\$m)	(14)	632	1,574	1,958
EPS (c)	1.1	23.0	53.0	64.0
DPS (c)	-	-	-	-

Source: IBES/DataStream Estimates

Other Data

Price (p)	435.4
Year End	December
Mkt Cap (£m)	6,097
Contact	Tony Shepard

Performance



Comment

An update on Greenland operations was badly received by the share price. Two wells have been plugged & abandoned and will give rise to a \$185m write-off. On the positive side, the Vedanta deal is still expected to be concluded in Q1/11 though Indian Government approval is not expected until February. Cain is to sell a maximum of 51% of Cain India to Vedanta for up to \$8.5bn. When completed Cain may own between 11% and 22% of Cain India. A substantial portion of the proceeds will be returned to shareholders and some cash will be retained to carry on exploring Greenland.

FTSE 100 Snapshot

Capita Group (CPI.L)

Support Services

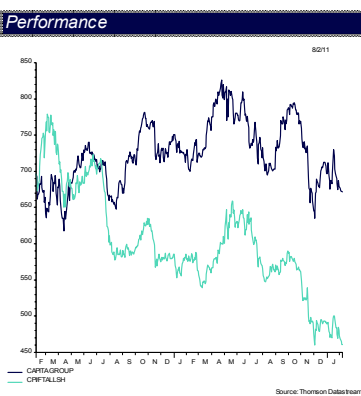
Hold

Valuations	2009	2010E	2011E	2012E
PER	17.4	15.2	14.0	13.2
P/CFPS	-	-	-	-
Yield (%)	2.5	2.9	3.3	3.6

Summary Forecasts	2009	2010E	2011E	2012E
Turnover (£m)	2,687	2,740	2,875	3,000
PBT (£m)	325	365	402	432
EPS (p)	38.7	44.1	48.0	51.0
DPS (p)	16.8	19.3	22.0	24.0

Source: Charles Stanley Forecasts

Other Data	
Price (p)	672.0
Year End	December
Mkt Cap (£m)	4,118
Contact	Tony Shepard



Comment

H1 results showed impressive earnings (+16%) and +18% rise in DPS. The bid pipeline has expanded to £4.4bn consisting 23 bids with best prospects in Local Govt. (23% of Group turnover) and Life & Pensions (19% of turnover). Although the Group has continued to perform well in H2 there will be little revenue growth for the year and organic growth is likely to remain under pressure in the first half of 2011 due to fewer sales decisions in H2 and the short-term impact of the current public sector retrenchment. The revenue outlook is likely to remain uncertain until the conversion of the bid pipeline into firm contracts materialises.

Capital Shopping Centres (CSCG.L)

Real Estate

Hold

Valuations	2009	2010E	2011E	2012E
PER	20.5	25.8	24.7	23.1
P/CFPS	30.5	26.7	23.4	22.0
Yield (%)	4.4	4.0	4.0	4.1

Summary Forecasts	2009	2010E	2011E	2012E
Turnover (£m)	371	359	396	406
PBT (£m)	88	90	105	114
EPS (p)	18.3	14.6	15.2	16.3
DPS (p)	16.5	15.0	15.0	15.5

Source: IBES/DataStream Estimates

Other Data	
Price (p)	375.9
Year End	December
Mkt Cap (£m)	3,229
Contact	Tina Cook



Comment

Shareholders approved CSC's revised terms to buy the £1.6bn Trafford Centre from Peel at 400p (368p), reducing Peel's number of shares to 206m (224m) and stake to 19.8% (24.7%). SPG (5% shareholder) voted against the deal after its takeover offer of 425p was rebuffed by CSC. Pro-forma NAV of 390p. CSC occupancy remained high at 98.8% in Q3 with fewer tenant failures. Achieved 104 lettings giving an £11.8m uplift in passing rents. Replacing short-term leases with long-term tenants on higher rents (still 7% below ERV). Planning three major retail extensions at £500m over five years. UK consumer spending remains fragile. FY10 on 23 Feb.

Carnival (CCL.L)

Travel & Leisure

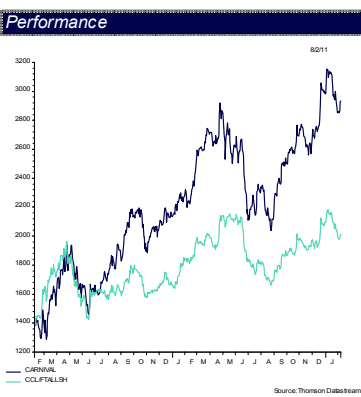
Accumulate

Valuations	2010	2011E	2012E	2013E
PER	19.1	15.8	13.3	11.8
P/CFPS	9.9	10.3	8.7	7.9
Yield (%)	0.8	1.8	2.5	2.8

Summary Forecasts	2010	2011E	2012E	2013E
Turnover (\$m)	14,469	15,627	16,783	17,666
PBT (\$m)	1,979	2,467	2,910	3,249
EPS (c)	247.0	298.0	355.0	399.0
DPS (c)	40.0	85.0	118.0	132.0

Source: IBES/DataStream Estimates

Other Data	
Price (p)	2,927.0
Year End	November
Mkt Cap (£m)	6,258
Contact	Sam Hart



Comment

Carnival's full year results showed a good rebound in profitability, with PBT +9.6% and EPS +10.3%. Net revenue yields improved through the year and the trend is expected to continue in 2011. Long term prospects remain good, given the Group's position as the number one player in a global duopoly. We consider cruising a structural growth industry, driven by rising penetration of cruise holidays in Europe and Asia. The shares have performed strongly in recent months and the valuation looks up with events near term, but we see further upside potential on a one year plus time horizon.

Centrica (CNA.L)

Gas, Water & Multiutilities

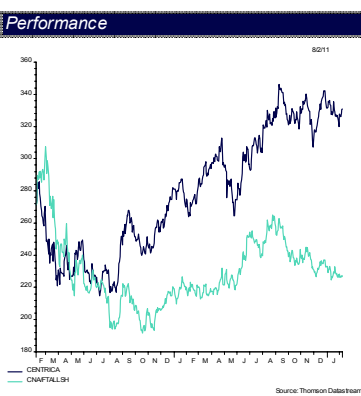
Buy

Valuations	2009	2010E	2011E	2012E
PER	15.5	13.1	12.1	11.1
P/CFPS	6.4	8.2	7.8	7.2
Yield (%)	3.9	4.1	4.4	4.7

Summary Forecasts	2009	2010E	2011E	2012E
Turnover (£m)	21,963	21,682	22,028	23,349
PBT (£m)	1,635	1,987	2,145	2,340
EPS (p)	21.3	25.3	27.3	29.9
DPS (p)	12.8	13.7	14.6	15.5

Source: IBES/DataStream Estimates

Other Data	
Price (p)	330.6
Year End	December
Mkt Cap (£m)	17,039
Contact	Tina Cook



Comment

FY EPS expected to be in line with consensus (24.9p). British Gas has added 270k supply customers YTD with services rising to 181k. Household tariffs went up 7% in Dec. Boiler installations have increased 29% and 50% of services customers have an insurance product. BG Business on track for notably higher profit. Gas Production volumes are up 50% reflecting Venture and Morecambe. CCGT operational performance is strong with 97% reliability, but clean spark spreads remain subdued. Gas Storage is on track, but Caythorpe has been shelved. North American downstream expects higher profit, partly offset by challenges in upstream. FY10 on 24 Feb.

FTSE 100 Snapshot

Compass Group (CPG.L)

Travel & Leisure

Buy

Valuations	2010	2011E	2012E	2013E
PER	15.6	14.2	13.2	12.2
P/CFPS	-	-	-	-
Yield (%)	3.1	3.5	3.9	4.1



Comment
The 2010 dividend was rebased with a 33% increase to 2x dividend cover. Organic revenue growth should accelerate to 5% in 2011 from 3.2% in 2010 and steady margin improvements are expected over the next 2 years. Free cash flow was exceptionally strong in the year at £744m (2009; £593m). Net debt at the end of 2010 had fallen to £621m (2009; £943m) after spending £205m on bolt-on acquisitions. Over 4 years, margin has advanced by 250 bps. Progress should continue though some of the efficiencies are being reinvested in generating new business wins. Encouragingly, new business wins are advancing by some 9.5%.

Summary Forecasts	2010	2011E	2012E	2013E
Turnover (£m)	14,468	15,000	15,700	16,350
PBT (£m)	922	1,010	1,100	1,200
EPS (p)	35.7	39.2	42.1	45.5
DPS (p)	17.5	19.5	21.5	23.0

Source: Charles Stanley Forecasts

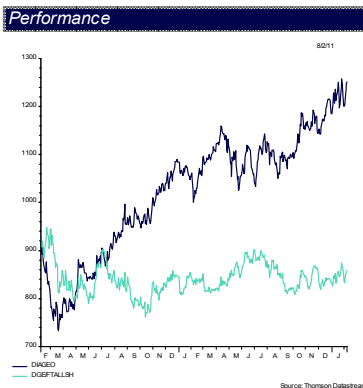
Other Data	
Price (p)	556.0
Year End	September
Mkt Cap (£m)	10,515
Contact	Tony Shepard

Diageo (DGE.L)

Beverages

Accumulate

Valuations	2010	2011E	2012E	2013E
PER	17.3	15.6	14.2	12.9
P/CFPS	-	-	-	-
Yield (%)	3.1	3.2	3.4	3.6



Comment
The Q1 update in mid-October was reassuring, with organic net sales growth of 5%. Previous guidance for full year organic operating profit growth to be ahead of the 2% achieved in 2009/10 was reiterated. Long term prospects remain good, given the unrivalled portfolio of spirits brands and distribution network. The Group is well diversified by region and product, is highly cash generative and has a sound balance sheet. We anticipate further steady growth in earnings and dividends, whatever shape the global economic recovery takes. The valuation remains reasonable.

Summary Forecasts	2010	2011E	2012E	2013E
Turnover (£m)	9,780	10,225	10,700	11,200
PBT (£m)	2,431	2,700	2,975	3,300
EPS (p)	72.0	80.0	88.0	97.0
DPS (p)	38.1	40.4	42.8	45.4

Source: Charles Stanley Forecasts

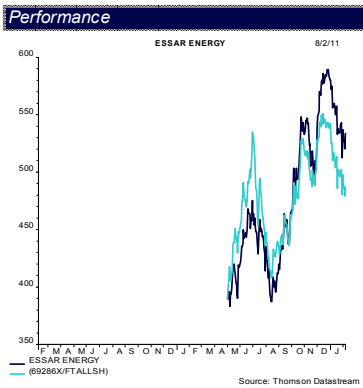
Other Data	
Price (p)	1,248.0
Year End	June
Mkt Cap (£m)	31,248
Contact	Sam Hart

Essar Energy (ESSR.L)

Oil & Gas Producers

Hold

Valuations	2009	2010E	2011E	2012E
PER	-	50.6	18.7	11.3
P/CFPS	-	11.5	6.1	4.1
Yield (%)	0.0	0.0	0.0	0.0



Comment
The London Listing and entry into the FTSE 100 Index improves the Group's international profile and gives it the opportunity to undertake some strategic acquisitions. In particular, Essar may be interested in some of BP's or Shells European refineries. Since the IPO, in May, the share price has performed well against the European oil & gas sector. As the largest private fuel retailer in India, partial deregulation is leading to higher gasoline prices. The shares are tightly controlled by family interests with a small free float.

Summary Forecasts	2009	2010E	2011E	2012E
Turnover (\$m)	-	8,895	11,093	12,978
PBT (\$m)	-	307	903	1,497
EPS (c)	-	17.0	46.0	76.0
DPS (c)	-	-	-	-

Source: IBES/DataStream Estimates

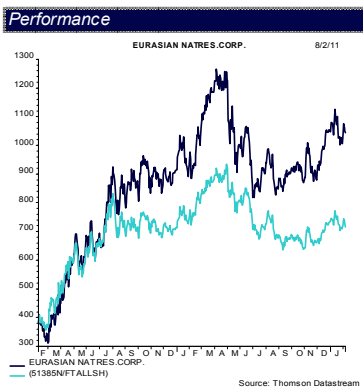
Other Data	
Price (p)	533.5
Year End	December
Mkt Cap (£m)	6,954
Contact	Tony Shepard

ENRC (ENRC.L)

Mining

Hold

Valuations	2009	2010E	2011E	2012E
PER	20.8	11.0	8.4	8.0
P/CFPS	17.9	9.1	7.0	6.3
Yield (%)	0.7	1.5	2.0	2.3



Comment
H1 results showed YoY revenues growing by 80% and 67% LFL, as a result of higher prices followed by higher YoY production, EPS rose by 63%. H2 will show stiffer comparators. ENRC maintained its very low positions on its respective cost curves. Further diversification by metal and geographically is being pursued in the DRC and Zambia (copper/cobalt), Brazil (iron ore), and S.Africa (platinum), but these are medium term prospects. Q4 production (2 Feb) showed chrome production broadly flat YoY but +10% on Q3 with higher processing. The CEO resigned on 4 Feb, reasons unclear, but will stay until replaced. Prelims 23 Mar.

Summary Forecasts	2009	2010E	2011E	2012E
Turnover (\$m)	3,831	6,595	7,654	8,232
PBT (\$m)	1,439	2,745	3,568	3,817
EPS (c)	81.0	153.0	201.0	211.0
DPS (c)	12.0	25.0	34.0	38.0

Source: IBES/DataStream Estimates

Other Data	
Price (p)	1,044.0
Year End	December
Mkt Cap (£m)	13,444
Contact	Tom Gidley-Kitchin

FTSE 100 Snapshot

Experian (EXP.N.L)

Support Services

Buy

Valuations	2010	2011E	2012E	2013E
PER	19.0	18.7	16.9	15.9
P/CFPS	-	-	-	-
Yield (%)	1.8	2.1	2.4	2.5

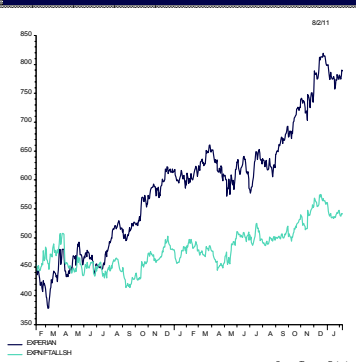
Summary Forecasts	2010	2011E	2012E	2013E
Turnover (\$m)	3,859	4,160	4,500	4,885
PBT (\$m)	910	950	1,050	1,125
EPS (c)	67.1	68.0	75.2	80.0
DPS (c)	23.0	27.0	30.0	32.0

Source: Charles Stanley Forecasts

Other Data

Price (p)	790.5
Year End	March
Mkt Cap (£m)	7,926
Contact	Tony Shepard

Performance



Comment

Organic revenue growth was 7% in the first half of the year. This level of growth is the strongest for 4 years and looks to be sustainable for several years. Revenue from Asia Pacific (\$150m) and Latin America (\$715m) which together accounts for 21% of Group revenue is growing fast. The Credit Services businesses within the North American and UK divisions are returning to growth. In addition, one of the key growth drivers comes from the targeting of new customer segments and these global growth initiatives are expected to contribute 2% to organic growth in 2011. The interim dividend was raised 29%.

Fresnillo (FRES.L)

Mining

Hold

Valuations	2009	2010E	2011E	2012E
PER	52.0	34.8	22.4	21.0
P/CFPS	43.2	25.1	14.9	14.3
Yield (%)	0.6	0.7	1.2	1.6

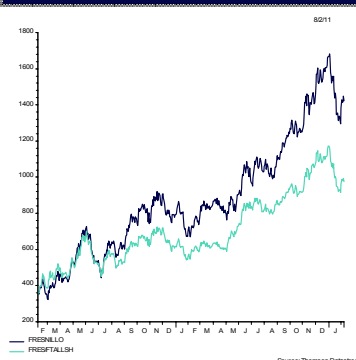
Summary Forecasts	2009	2010E	2011E	2012E
Turnover (\$m)	850	1,303	1,690	1,649
PBT (\$m)	457	763	1,005	1,000
EPS (c)	44.9	67.0	104.0	111.0
DPS (c)	14.0	17.0	27.0	38.0

Source: IBES/DataStream Estimates

Other Data

Price (p)	1,449.0
Year End	December
Mkt Cap (£m)	10,392
Contact	Tom Gidley-Kitchin

Performance



Comment

H1 results showed revenues +49.4%, with gold and silver prices +28-29%, silver production +1.6% (FY target flat) and gold production +32.7% (FY target +22.7%) as the fourth mine, Soledad-Diplos, came on stream. Gold now accounts for 46% of revenues, silver 49%. Costs were affected by the higher Peso, but EBITDA was +92.7% and EPS +82.2% at 30.8 cents. The company remains on course to double production in the 10 years to 2018, with 75% of expansion being brownfield. We see the share price as full, with silver maybe overstretched, and doubt the bid story. Q4 production (14 Jan) was ahead of target and at a quarterly (gold) and annual (silver) record. Prelims 1 April.

G4S (GFS.L)

Support Services

Accumulate

Valuations	2009	2010E	2011E	2012E
PER	13.2	12.6	11.7	10.6
P/CFPS	7.3	8.0	8.9	7.0
Yield (%)	2.7	2.9	3.1	3.4

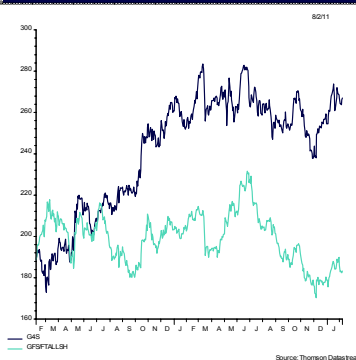
Summary Forecasts	2009	2010E	2011E	2012E
Turnover (£m)	7,009	7,364	7,633	8,068
PBT (£m)	363	424	447	489
EPS (p)	20.2	21.2	22.8	25.1
DPS (p)	7.2	7.6	8.2	9.0

Source: IBES/DataStream Estimates

Other Data

Price (p)	266.1
Year End	December
Mkt Cap (£m)	3,754
Contact	Tony Shepard

Performance



Comment

Organic revenue growth was 2% in the first half of 2010 and this rate of growth has continued into the second half. For the nine months to September, organic growth has been 2.7% in Secure Solutions and -0.5% in Cash Solutions. New Markets (28% of Group revenue) has continued to show strong growth and this is one of the investment attractions of G4S. Overall, the business has continued to perform well despite continued challenging market conditions with positive organic growth and margins maintained. The Group is expected to show good progress this year and into next year.

GKN (GKN.L)

Automobiles & Parts

Hold

Valuations	2009	2010E	2011E	2012E
PER	46.9	11.7	9.9	8.7
P/CFPS	8.8	12.3	6.9	5.5
Yield (%)	0.0	2.3	3.0	4.0

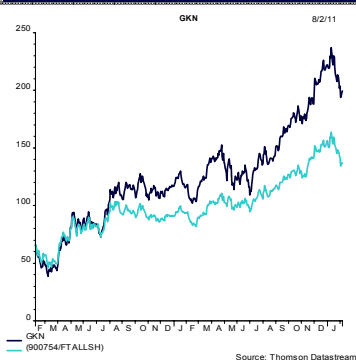
Summary Forecasts	2009	2010E	2011E	2012E
Turnover (£m)	4,223	5,231	5,490	5,841
PBT (£m)	36	345	400	465
EPS (p)	4.2	17.0	20.0	23.0
DPS (p)	-	4.5	6.0	8.0

Source: IBES/DataStream Estimates

Other Data

Price (p)	199.3
Year End	December
Mkt Cap (£m)	3,095
Contact	Jeremy Batstone-Carr

Performance



Comment

GKN's share price has suffered a sharp reversal over January, although news flow has been limited. We suspect that the weakness pertains to a more general rotation away from cyclicals and into "value" orientated defensives. GKN is well managed and continues to benefit from cost cutting / restructuring. Market share has been gained in the Driveline business in emerging markets. Aerospace remains problematic. We see limited scope for earnings upgrades and vulnerability to rising scrap steel costs. Lowly rated but benefiting from a low tax charge, therefore less attractive on EV/EBITDA. Full year results due 1st March.

FTSE 100 Snapshot

GlaxoSmithKline (GSK.L)

Pharmaceuticals & Biotechnology

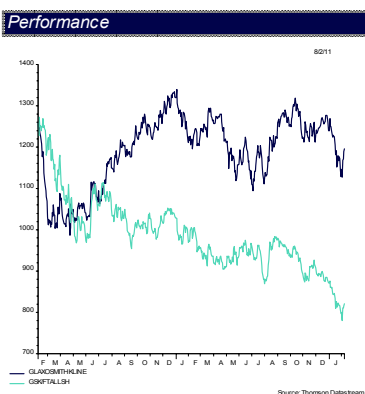
Reduce

Valuations	2010	2011E	2012E	2013E
PER	22.1	10.3	9.5	9.3
P/CFPS	-	-	-	-
Yield (%)	5.5	5.8	6.0	6.1

Summary Forecasts	2010	2011E	2012E	2013E
Turnover (£m)	28,392	28,280	29,450	30,050
PBT (£m)	4,505	8,525	8,700	8,750
EPS (p)	53.9	116.0	125.0	128.0
DPS (p)	65.0	69.0	71.0	73.0

Source: Charles Stanley Forecasts

Other Data	
Price (p)	1,189.0
Year End	December
Mkt Cap (£m)	61,787
Contact	Jeremy Batstone-Carr



Comment
To great surprise, GlaxoSmithkline's Q4 / FY 2010 results were dominated by shareholder friendly moves including a 7% increase in the dividend payout (we had suspected that the Q4 payout might have been passed in the wake of the £2.2bn additional legal charge). Furthermore, a £1-2bn share buyback will commence this year. GlaxoSmithkline, in common with many Pharma majors generates cash in excess of business needs and sees limited M&A opportunities. Furthermore, c.£500m non-core business sale proceeds are likely in the US and UK and these too are expected to be returned to shareholders.

Hammerson (HMSO.L)

Real Estate

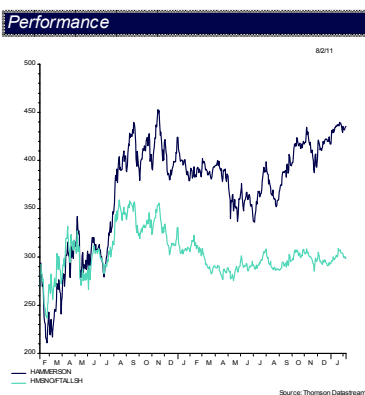
Hold

Valuations	2009	2010E	2011E	2012E
PER	22.1	22.4	21.2	20.8
P/CFPS	12.8	21.1	20.4	16.6
Yield (%)	3.6	3.7	3.8	3.9

Summary Forecasts	2009	2010E	2011E	2012E
Turnover (£m)	352	323	319	327
PBT (£m)	130	140	148	152
EPS (p)	19.7	19.4	20.5	20.9
DPS (p)	15.5	16.0	16.5	17.0

Source: IBES/DataStream Estimates

Other Data	
Price (p)	435.0
Year End	December
Mkt Cap (£m)	3,074
Contact	Tina Cook



Comment
Some recovery in tenant demand at UK regional shopping centres in Q3 and return to modest rental growth in France. Over 50 new long-term lettings at slightly above ERV and high occupancy at 97%. Planning 46,000 sqm development at London Wall to boost exposure to London office market (completes 2014). Continues to progress pipeline and recycle capital with £420m realised for reinvestment. Proceeds of £79m from sale of Bishops Sq. Net debt is £2.2bn with no maturities before 2012. Cautious about impact of austerity measures on consumer, but believes high quality assets will prove resilient. Drakesmith appointed CFO. FY10 on 21 Feb.

HSBC Holdings (HSBA.L)

Banks

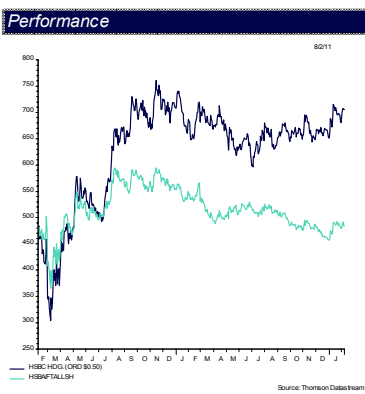
Accumulate

Valuations	2009	2010E	2011E	2012E
PER	33.5	14.6	11.3	9.6
ROE (%)	262.1	109.4	91.0	82.7
Yield (%)	3.0	3.2	3.5	3.9

Summary Forecasts	2009	2010E	2011E	2012E
Operating Profit (\$m)	5,298	19,672	26,505	31,882
PBT (\$m)	7,079	20,327	25,043	29,879
EPS (c)	34.0	78.0	101.0	119.0
DPS (c)	34.0	36.0	40.0	44.0

Source: IBES/DataStream Estimates

Other Data	
Price (p)	706.0
Year End	December
Mkt Cap (£m)	125,005
Contact	Nic Clarke



Comment
On November 5, HSBC announced in an IMS that pre-tax profits for the year to date remained well ahead of 2009 and that Q3 2010 was well ahead of Q3 2009. In Q3 2010, the PFS business performed better than HSBC had expected driven by lower impairment charges. In Commercial Banking, the principal source of revenue growth compared with the preceding quarter came from strong levels of economic activity centred on emerging markets and lower impairment charges. The Global Banking and Markets business has experienced lower trading activity, reflecting seasonal factors and more subdued market sentiment and conditions.

ICAP (IAP.L)

General Financial

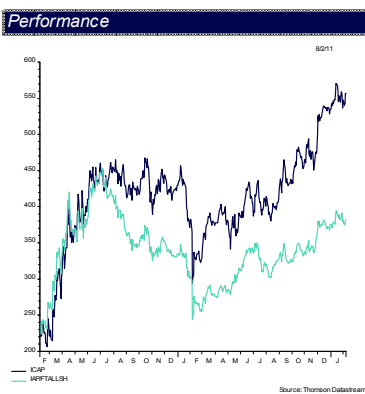
Hold

Valuations	2010	2011E	2012E	2013E
PER	17.5	14.4	13.3	11.9
P/CFPS	13.2	11.8	9.8	9.5
Yield (%)	3.1	3.3	3.7	4.2

Summary Forecasts	2010	2011E	2012E	2013E
Turnover (£m)	1,605	1,737	1,812	1,913
PBT (£m)	333	354	396	440
EPS (p)	31.8	38.8	41.9	46.7
DPS (p)	17.0	18.5	20.4	23.3

Source: IBES/DataStream Estimates

Other Data	
Price (p)	556.5
Year End	March
Mkt Cap (£m)	3,674
Contact	Nic Clarke



Comment
On 2 February, ICAP announced in an interim management statement covering the period from 1 October 2010 to February 2011 that trading across the Group businesses is in line with guidance given in November (profit of £333m to £357m). ICAP highlighted that the core brokerage business was performing well with average daily volumes on its main brokerage system up 24% in the fourth quarter to \$788m. However, there was some market concern at the statement that "Post-trade risk and information continues to grow revenues, but the pace of growth is below what we expect in the medium term as a result of the change in the mix of business at TreOptima".

FTSE 100 Snapshot

IMI (IMI.L)

Industrial Engineering

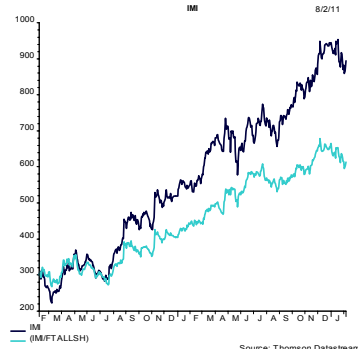
Hold

Valuations	2009	2010E	2011E	2012E
PER	22.0	13.8	12.2	11.1
P/CFPS	12.1	13.3	12.3	8.3
Yield (%)	2.4	2.7	2.9	3.1

Performance

Comment

Summary Forecasts	2009	2010E	2011E	2012E
Turnover (£m)	1,792	1,908	2,101	2,222
PBT (£m)	186	297	339	367
EPS (p)	40.6	64.7	73.5	80.7
DPS (p)	21.2	24.0	25.9	28.0



Mix of early and late cycle businesses saw H1 revenue rise 4% as a strong bounce back in Fluid Power offset lower volumes in Severe Service (return to growth in 2011). Major restructuring program helped deliver record profits and above target 15.7% margin. OP is up 48% at £146m and EPS is 61% higher at 29.8p (FYe mid to high end of 62p-66p). DPS raised 13% to 9p. Acquired Z&J and formed nuclear JV in China. Net debt down at £157m with low gearing. Balance sheet flexibility to invest in organic growth, further restructuring and bolt-ons. Pension deficit higher at £329m. Some speculation about eventual sale of Retail businesses. FY10 results 3 Mar.

Source: IBES/DataStream Estimates

Other Data

Price (p)	894.5
Year End	December
Mkt Cap (£m)	2,869
Contact	Jeremy Batstone-Carr

Imperial Tobacco (IMT.L)

Tobacco

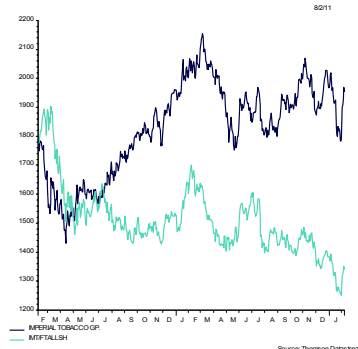
Accumulate

Valuations	2010	2011E	2012E	2013E
PER	11.0	10.2	9.4	8.7
P/CFPS	7.0	8.8	8.3	7.7
Yield (%)	4.3	4.9	5.3	5.7

Performance

Comment

Summary Forecasts	2010	2011E	2012E	2013E
Turnover (£m)	7,055	8,197	8,480	8,772
PBT (£m)	2,467	2,640	2,847	3,028
EPS (p)	178.3	193.1	209.8	227.2
DPS (p)	84.3	96.5	105.0	112.6



Q1 trading update confirms a good start to the year. Tobacco revenue is up 5% and a return to volume growth is a positive surprise. Total stick equivalent volumes are 1.2% higher (cigarette +0.5% and FCT +6.3%) with global strategic cigarette brands up 7% on recent brand rejuvenations and strong show in emerging markets. Lower tax rate should benefit EPS and earlier than anticipated hike in dividend payout ratio to 50% has been well received. Deleveraging remains on track. Anticipates E400m cumulative synergies from Altadis by 2012. Spain remains main area of weakness. Seeking leave to appeal UK cigarette vending machine judgment.

Source: IBES/DataStream Estimates

Other Data

Price (p)	1,970.0
Year End	September
Mkt Cap (£m)	20,062
Contact	Tina Cook

Inmarsat (ISA.L)

Mobile Telecommunications

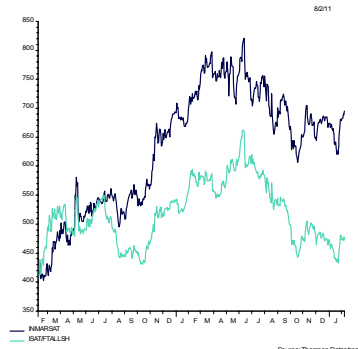
Hold

Valuations	2009	2010E	2011E	2012E
PER	24.1	20.9	16.1	16.8
P/CFPS	8.2	10.6	9.4	10.0
Yield (%)	3.0	3.3	3.6	4.0

Performance

Comment

Summary Forecasts	2009	2010E	2011E	2012E
Turnover (\$m)	1,038	1,187	1,351	1,379
PBT (\$m)	235	341	467	433
EPS (c)	46.0	53.0	69.0	66.0
DPS (c)	33.0	37.0	40.0	44.0



The Q3 IMS showed revenues up by 19% YoY, slightly ahead of expectations but half of this was due to the Segovia acquisition. However maritime, the largest division, bounced back. LightSquared has triggered Phase II of a co-ordination agreement, generating annual incremental revenues of \$115m +3% pa for at least 5 years. The next satellite constellation to be launched (operations start in 2014) at a total cost of \$1.2bn, will give the company a high performance product, almost unchallenged, at a very competitive price. The high rating and wait before news on demand for the new product offsets the attractive business and growth prospects. Prelims 7 Mar.

Source: IBES/DataStream Estimates

Other Data

Price (p)	688.0
Year End	December
Mkt Cap (£m)	3,169
Contact	Tom Gidley-Kitchin

InterContinental Hotels (IHG.L)

Travel & Leisure

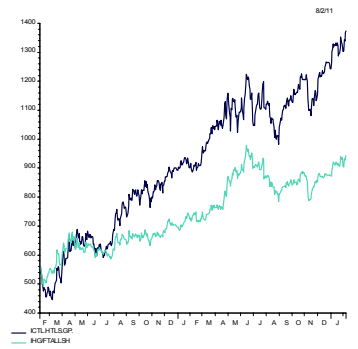
Hold

Valuations	2009	2010E	2011E	2012E
PER	22.2	23.2	20.2	17.5
P/CFPS	15.1	17.0	14.9	12.8
Yield (%)	1.9	2.0	2.1	2.3

Performance

Comment

Summary Forecasts	2009	2010E	2011E	2012E
Turnover (\$m)	1,538	1,629	1,736	1,851
PBT (\$m)	309	380	446	532
EPS (c)	99.3	95.0	109.0	126.0
DPS (c)	41.0	44.0	46.0	50.0



Q3 results showed further evidence of recovery in the global hotels cycle, with global RevPAR +8.1% and good growth across all regions. The improving trend is expected to continue, although the rate of recovery is likely to slow as comparatives become tougher. Long term growth prospects remain good, given the strong portfolio of hotel brands, pipeline of c.198,000 rooms (total c.658,000) and excellent potential in China and other emerging markets. The full valuation, suggests a sharp recovery in earnings is largely discounted. Hold for now.

Source: IBES/DataStream Estimates

Other Data

Price (p)	1,368.0
Year End	December
Mkt Cap (£m)	3,963
Contact	Sam Hart

FTSE 100 Snapshot

Int'l Consolidated Airlines (ICAG.L)

Travel & Leisure

Accumulate

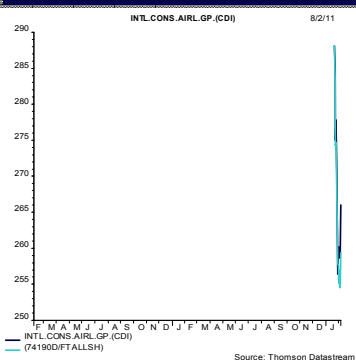
Valuations	2009	2010E	2011E	2012E
PER	-	-	12.5	10.5
P/CFPS	-	8.2	4.9	5.4
Yield (%)	0.0	0.0	0.0	0.0

Summary Forecasts	2009	2010E	2011E	2012E
Turnover (\$m)	-	14,800	16,300	17,000
PBT (\$m)	-	100	600	900
EPS (c)	-	-	0.3	0.3
DPS (c)	-	-	0.1	0.1

Source: Charles Stanley Forecasts

Other Data	
Price (p)	266.0
Year End	December
Mkt Cap (£m)	4,935
Contact	Tony Shepard

Performance



Comment

The merger of British Airways and Iberia was completed in January and International Consolidated Airlines was created. We expect the first results to be published at the end of February to cover the year to December 2010. Hopefully, the structural changes to the cost base and a continued recovery in premium traffic should give the new Group some better tailwinds in 2011. Topical issues are rising fuel costs and ongoing labour disputes. However, the merger is expected to achieve more than €400m of synergy benefits. Also, the outlook for the joint transatlantic business with American Airlines is positive.

International Power (IPR.L)

Electricity

Accumulate

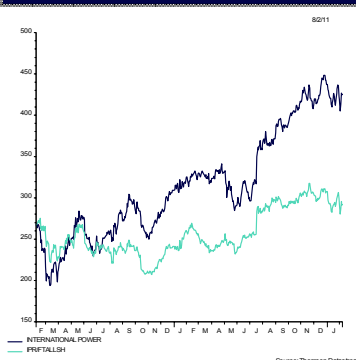
Valuations	2009	2010E	2011E	2012E
PER	13.0	15.1	15.0	13.7
P/CFPS	9.0	8.3	9.4	6.9
Yield (%)	2.9	2.9	2.9	3.2

Summary Forecasts	2009	2010E	2011E	2012E
Turnover (£m)	3,471	3,407	3,640	3,709
PBT (£m)	718	614	641	686
EPS (p)	32.8	28.1	28.4	31.1
DPS (p)	12.5	12.5	12.5	13.5

Source: IBES/DataStream Estimates

Other Data	
Price (p)	425.0
Year End	December
Mkt Cap (£m)	21,642
Contact	Tina Cook

Performance



Comment

IPR and GDF International closed the deal to merge certain assets, creating one of the world's largest independent power producers. As a condition of EU clearance, IPR's 33% stake in the T-Power CCGT plant in Belgium will be sold. Admission to trading on the LSE took place on 3 Feb. IPR shareholders will receive a 92p special dividend on 25 Feb (record date: 11 Feb; ex-div: 9 Feb) to compensate for loss of control (70% GDF: 30% IPR). IPR's CEO and FD will retain their positions. The new IPR benefits from geographical reach, emerging market exposure, superior growth prospects, synergies and stronger balance sheet. FY10 on 2 March.

Intertek Group (ITRK.L)

Support Services

Hold

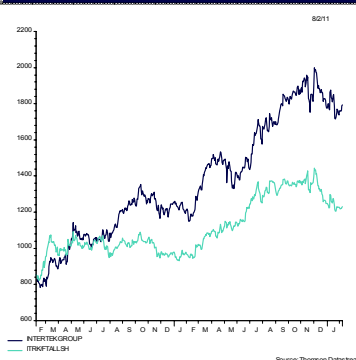
Valuations	2009	2010E	2011E	2012E
PER	21.9	20.0	17.6	15.5
P/CFPS	14.2	15.0	12.9	11.6
Yield (%)	1.4	1.6	1.8	2.0

Summary Forecasts	2009	2010E	2011E	2012E
Turnover (£m)	1,237	1,354	1,471	1,593
PBT (£m)	192	208	235	266
EPS (p)	81.5	89.4	101.8	115.2
DPS (p)	25.5	28.1	32.2	35.8

Source: IBES/DataStream Estimates

Other Data	
Price (p)	1,787.0
Year End	December
Mkt Cap (£m)	2,851
Contact	Tony Shepard

Performance



Comment

For the first ten months of 2010, organic revenue growth was about 6.5%, which represents a good improvement on the 4.6% achieved in the first half. As a result, the operating margin has improved. In the first half of the year, the operating profit margin fell by 50bps at constant exchange rates and for the full it year it is now expected to be slightly below the prior year. In the first half, £30m of bolt-on acquisitions were completed and net debt rose to £240m (Dec2009: £201m) to give a net debt/EBITDA ratio of 0.9x. In the November IMS, it was indicated that net debt was £186m after completing £40m of acquisitions in the year to date.

Invensys (ISYS.L)

Electronic & Electrical Equipment

Accumulate

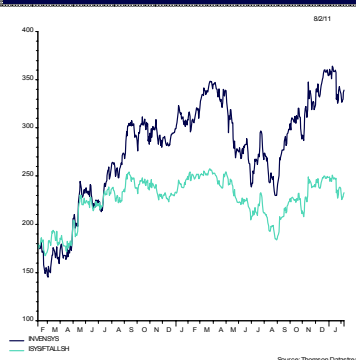
Valuations	2010	2011E	2012E	2013E
PER	18.3	16.0	12.8	11.6
P/CFPS	16.5	17.2	12.0	9.6
Yield (%)	0.9	1.3	1.6	1.8

Summary Forecasts	2010	2011E	2012E	2013E
Turnover (£m)	2,243	2,438	2,571	2,700
PBT (£m)	204	231	278	306
EPS (p)	18.4	21.1	26.3	29.1
DPS (p)	3.0	4.5	5.4	6.0

Source: IBES/DataStream Estimates

Other Data	
Price (p)	337.0
Year End	March
Mkt Cap (£m)	2,728
Contact	Jeremy Batstone-Carr

Performance



Comment

Invensys shares have reacted negatively to a trading update covering the period from 30th Sept 2010. Divisional news flow has been mixed and the company has given nothing further away regarding vague M&A rumours. Consensus EPS estimates are likely to be nudged back on the news that (lumpy) rail orders were down year on year and that IOM margins were impacted by an altered mix of business performance and cost increases. Invensys' shares had traded at a premium to a non-homogenised capital goods sector prior to profit-taking. Controls could be divested, adding greater focus to the business.

FTSE 100 Snapshot

Investec (INVP.L)

General Financial

Hold

Valuations	2010	2011E	2012E	2013E
PER	11.5	10.7	8.6	7.2
P/CFPS	2.2	7.9	7.9	6.5
Yield (%)	3.3	3.8	4.9	6.3

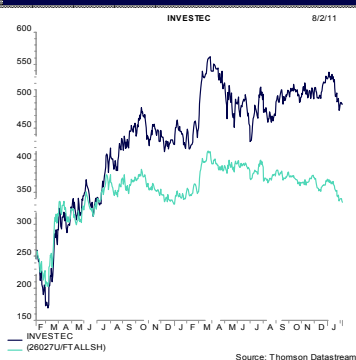
Summary Forecasts	2010	2011E	2012E	2013E
Turnover (£m)	1,158	1,703	1,914	2,155
PBT (£m)	432	485	625	774
EPS (p)	42.5	45.6	56.4	67.4
DPS (p)	16.0	18.3	24.0	30.6

Source: IBES/DataStream Estimates

Other Data

Price (p)	487.5
Year End	March
Mkt Cap (£m)	2,619
Contact	Nic Clarke

Performance



Comment

On 18 November, Investec stated in its results for the 6 months ended 30 September that operating PBT grew by 5.6% to £228.2m. The operating profit excluding the £46m profits earned on the repurchase of the Group's debt in the prior period increased by 34.2% to £228.2m. Asset Management increased operating profit by 69.1% to £48.9m. Wealth and Investment by +36.1% to £16.3m. Property Activities by +39.8% to £16.4m. The Investment Banking division by +58.7% to £42.5m. Capital Markets by +81.3% to £133.5m. However, the Private Banking division posted a loss of £3.9m (2009: profit of £16.7m) as a result of low activity levels and increased impairments.

Johnson Matthey (JMAT.L)

Chemicals

Accumulate

Valuations	2010	2011E	2012E	2013E
PER	22.8	17.2	15.4	14.1
P/CFPS	-	-	-	-
Yield (%)	2.0	2.3	2.5	2.8

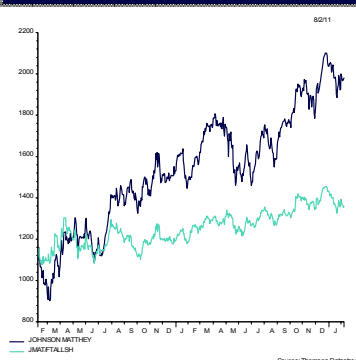
Summary Forecasts	2010	2011E	2012E	2013E
Turnover (£m)	7,839	9,892	10,400	11,000
PBT (£m)	254	335	375	402
EPS (p)	86.4	115.0	128.0	140.0
DPS (p)	39.0	45.0	50.0	56.0

Source: Charles Stanley Forecasts

Other Data

Price (p)	1,974.0
Year End	March
Mkt Cap (£m)	4,238
Contact	Jeremy Batstone-Carr

Performance



Comment

In the wake of an upbeat trading update covering fiscal Q3 (to end-December 2010), we have nudged up our estimates for Johnson Matthey. The update confirms progress across all divisions, building on the improvement identified at the interim stage. An R&D presentation re-affirmed the Group's desire to raise its profile in key end-markets such as emissions legislation, energy security and the likely evolution of the low carbon economy. Based on our estimates the shares trade off a 12-month forward PER of 15x (EV/EBITDA 11x), far from excessive given the resilience of the business.

Kazakhmys (KAZ.L)

Mining

Accumulate

Valuations	2009	2010E	2011E	2012E
PER	23.3	10.1	7.3	7.5
P/CFPS	17.2	10.6	7.6	6.9
Yield (%)	0.3	0.8	1.5	1.4

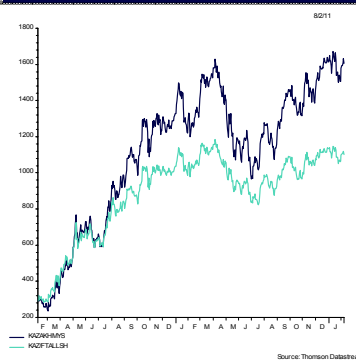
Summary Forecasts	2009	2010E	2011E	2012E
Turnover (\$m)	2,404	3,163	3,904	3,791
PBT (\$m)	725	1,530	2,213	2,094
EPS (c)	113.0	260.0	362.0	352.0
DPS (c)	9.0	20.0	39.0	36.0

Source: IBES/DataStream Estimates

Other Data

Price (p)	1,631.0
Year End	December
Mkt Cap (£m)	8,730
Contact	Tom Gidley-Kitchin

Performance



Comment

Q4 production (27 Jan) showed broad continuity with the rest of the year and the FY copper target was met at 303 kt. H1 results showed an 87% increase in EBITDA before special items offset by the absence of 2009's \$336m FX gain from the devaluation of the tenge. 75% of revenues and 95% of EBITDA (before associate ENRC) came from copper, where cash costs increased by 12% but the realised price increased by 73%. Although KAZ achieves some diversification from its 26.0% ENRC stake, it is still concentrated by metal and country and has execution risk on growth plans, but is relatively cheap. Trading update on 3 Mar.

Kingfisher (KGF.L)

General Retailers

Accumulate

Valuations	2010	2011E	2012E	2013E
PER	15.6	13.0	11.3	10.1
P/CFPS	5.3	8.4	7.4	6.9
Yield (%)	2.2	2.6	3.0	3.4

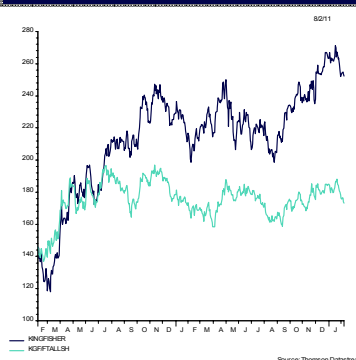
Summary Forecasts	2010	2011E	2012E	2013E
Turnover (£m)	10,503	10,521	10,899	11,351
PBT (£m)	549	665	756	840
EPS (p)	16.3	19.6	22.4	25.1
DPS (p)	5.5	6.5	7.5	8.5

Source: IBES/DataStream Estimates

Other Data

Price (p)	253.7
Year End	January
Mkt Cap (£m)	5,997
Contact	Sam Hart

Performance



Comment

Q3 results were encouraging, with operating profit +8.2%. Like-for-like sales were -1.2%, but this was offset by higher gross margins and improved operating efficiency. The trading environment is likely to remain tough, but self-help initiatives should continue to drive healthy growth in earnings and dividends. The valuation represents a premium to the sector, but is justified by good international diversification, superior forecast earnings growth, the sound balance sheet and at least £3.0bn of freehold property.

FTSE 100 Snapshot

Land Securities (LAND.L)

Valuations	2010	2011E	2012E	2013E
PER	20.1	20.1	19.3	18.1
P/CFPS	29.0	20.0	18.6	17.9
Yield (%)	4.1	4.1	4.2	4.4

Summary Forecasts	2010	2011E	2012E	2013E
Turnover (£m)	833	555	573	615
PBT (£m)	238	255	269	289
EPS (p)	34.1	34.1	35.6	37.9
DPS (p)	28.0	28.0	29.0	30.0

Source: IBES/DataStream Estimates

Other Data

Price (p)	686.5
Year End	March
Mkt Cap (£m)	5,286
Contact	Tina Cook

Real Estate

Performance



Comment

Continued momentum on development pipeline, lettings and recycling capital. Q3 DPS flat at 7p (FYe 28p). Reduced LTV gearing and lower cost of debt. Focus on developments with LAND aiming to deliver into a supply constrained market. Office element of One New Change is now 71% let (retail 100%) and 50:50 JV formed with CWG to restart the Walkie Talkie. Announced plans for another retail development underpinned by pre-lets (Glasgow). Improved occupancy with fewer tenants in administration. Firepower to make acquisitions and expects more opportunities to emerge in 2011. Sees property values rising over next few years, interspersed with ripples.

Legal & General (LGEN.L)

Valuations	2009	2010E	2011E	2012E
PER	7.3	9.2	9.1	8.5
P/CFPS	-	9.2	8.4	8.1
Yield (%)	3.2	3.7	4.1	4.4

Summary Forecasts	2009	2010E	2011E	2012E
Turnover (£m)	4,712	5,402	5,834	5,712
PBT (£m)	1,319	1,040	1,043	1,076
EPS (p)	16.2	12.8	13.0	14.0
DPS (p)	3.8	4.4	4.9	5.2

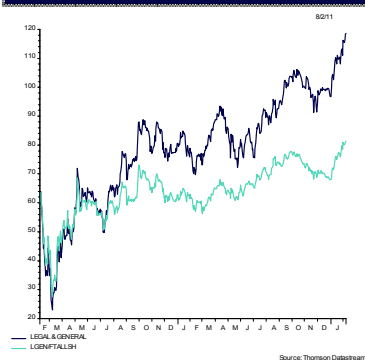
Source: IBES/DataStream Estimates

Other Data

Price (p)	118.2
Year End	December
Mkt Cap (£m)	6,934
Contact	Nic Clarke

Life Insurance

Performance



Comment

On 22 October, L&G rushed out a trading update more than two weeks early after the numbers were mistakenly sent to analysts. New gross investment funds for Q3 were £5.63bn (9 months £27.6bn, +13%). This was largely driven by a marked improvement in Non profit pensions and investment business. This was only partly offset by a decline in sales of bulk annuities and with profit sales. Worldwide sales on an APE basis for the first nine months of 2010 rose by 27% to £1.35bn. In a fuller trading update on November 9, L&G stated that it was on track to beat its £600m 2010 cash generation target. L&G added that it was well placed to grow the dividend.

Lloyds Banking Group (LLOY.L)

Valuations	2009	2010E	2011E	2012E
PER	(2.9)	36.3	10.4	6.5
ROE (%)	(3.3)	38.9	8.4	5.2
Yield (%)	0.0	0.0	0.0	3.9

Summary Forecasts	2009	2010E	2011E	2012E
Operating Profit (£m)	7,294	13,401	12,935	13,594
PBT (£m)	(10,131)	1,800	5,934	9,499
EPS (p)	(22.0)	1.8	6.2	10.0
DPS (p)	-	-	-	2.5

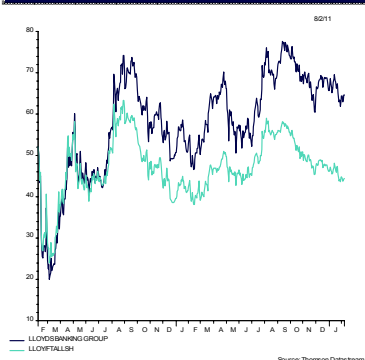
Source: IBES/DataStream Estimates

Other Data

Price (p)	64.6
Year End	December
Mkt Cap (£m)	43,956
Contact	Nic Clarke

Banks

Performance



Comment

On 27 January UKFI (UK Financial Investments) told the Treasury Select Committee that 'value for money' will be key concerning disposal of RBS and Lloyds Banking Group stakes. Sales of the stakes are likely to take years and could be by way of a broad public sale, sales to institutions or sale via structured transactions. The Chairman of UKFI stated that there would be a diminution of value if either banks were broken up. And rather helpfully the UKFI stated that it would "ideally sell RBS and Lloyds stakes in a rising market".

Lonmin (LMI.L)

Valuations	2010	2011E	2012E	2013E
PER	42.1	25.7	16.7	15.2
P/CFPS	72.1	13.9	10.5	14.4
Yield (%)	0.5	0.5	0.5	0.7

Summary Forecasts	2010	2011E	2012E	2013E
Turnover (\$m)	1,585	1,973	2,138	2,183
PBT (\$m)	237	397	546	513
EPS (c)	70.2	115.0	177.0	195.0
DPS (c)	15.0	15.0	16.0	21.0

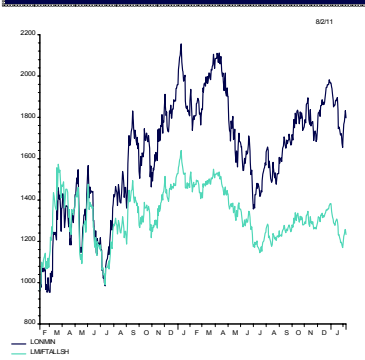
Source: IBES/DataStream Estimates

Other Data

Price (p)	1,834.0
Year End	September
Mkt Cap (£m)	3,711
Contact	Tom Gidley-Kitchin

Mining

Performance



Comment

Q1 production report (27 Jan) showed platinum sales -39.1% YoY at 66 koz because of the furnace rebuild (completed in Dec) and bad weather in the northern hemisphere, but the company maintained its FY guidance of 750 koz (2013 target 850 koz). The higher Rand reduced the gain in the basket sale price by over 8 ppts. PGMs should benefit from global growth in auto sales, Chinese jewellery demand is strong and ETFs may continue to be supportive of the metal price. We back the CEO and his strategy. However, even after share price underperformance we think the rating remains too high.

FTSE 100 Snapshot

Man Group (EMG.L)

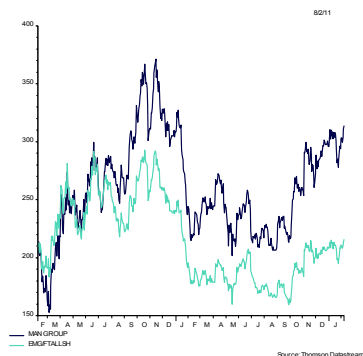
General Financial

Hold

Valuations	2010	2011E	2012E	2013E
PER	19.7	19.3	12.8	10.0
P/CFPS	11.4	17.9	11.1	9.8
Yield (%)	8.8	4.4	4.6	5.6

Performance

Comment



On 20 January, Man Group issued its Q3 interim management statement in which it stated that funds under management (FUM) at 31 December were \$68.6 billion (30 September 2010: \$40.5bn with the GLG acquisition adding \$25.4bn). Overall, there was a net outflow in the quarter of \$1.0bn. There was a net outflow of \$1.1bn in long only funds, reflecting a single redemption of over \$1.0bn from a low margin mandate, as the investor switched out of European equities. There was a net inflow of \$0.1bn into alternative funds in Q3. Both AHL and GLG alternatives saw positive flows, with the majority coming from GLG.

Summary Forecasts	2010	2011E	2012E	2013E
Turnover (\$m)	1,345	1,349	1,997	2,307
PBT (\$m)	560	535	966	1,167
EPS (c)	25.5	26.0	39.0	50.0
DPS (c)	44.0	22.0	23.0	28.0

Source: IBES/DataStream Estimates

Other Data

Price (p)	311.0
Year End	March
Mkt Cap (£m)	5,844
Contact	Nic Clarke

Marks & Spencer (MKS.L)

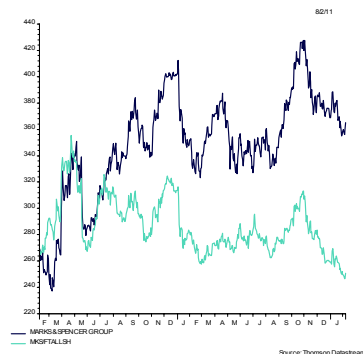
General Retailers

Accumulate

Valuations	2010	2011E	2012E	2013E
PER	12.0	10.9	10.0	9.2
P/CFPS	-	-	-	-
Yield (%)	4.2	4.5	5.0	5.4

Performance

Comment



The Q3 update in mid-Jan was solid, with LFL sales +3.8% in General Merchandise and +1.8% in Food. Full year guidance for flat gross margin and operating costs +4-5% was re-iterated. The trading environment will be tough in 2011, but we expect the Group to make steady progress. Restructuring of IT systems and the supply chain is expected to deliver £300m of annual savings (c.11% of operating costs) by 2015/16. The valuation seems undemanding, given forecast high single-digit EPS growth in each of the next three years. The 4%+ yield is attractive and the dividend is expected to progress.

Summary Forecasts	2010	2011E	2012E	2013E
Turnover (£m)	9,348	9,700	10,000	10,300
PBT (£m)	633	700	760	825
EPS (p)	30.0	33.0	36.0	39.0
DPS (p)	15.0	16.0	18.0	19.5

Source: Charles Stanley Forecasts

Other Data

Price (p)	359.8
Year End	March
Mkt Cap (£m)	5,701
Contact	Sam Hart

Morrison (MRW.L)

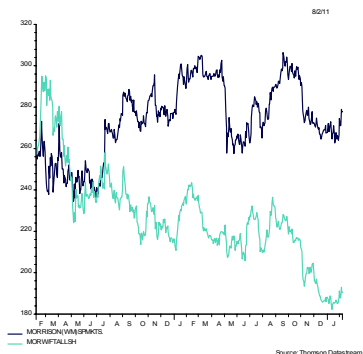
Food & Drug Retailers

Accumulate

Valuations	2010	2011E	2012E	2013E
PER	13.5	12.3	11.1	10.1
P/CFPS	-	-	-	-
Yield (%)	3.0	3.3	3.6	4.0

Performance

Comment



The post-Christmas trading update was reassuring, with like-for-like sales +1.0% and management comfortable with full year consensus PBT forecasts of £865m. New space is central to strategy, with 1.5m sq ft of new space targeted in the three years to Jan 2013. Opportunities for expansion in convenience, on-line and non-food and being considered. The operating environment is likely to remain tough, but we expect high single / low double-digit growth in EPS and dividends in each of the next three years. The balance sheet is the strongest in the sector and valuation undemanding.

Summary Forecasts	2010	2011E	2012E	2013E
Turnover (£m)	15,410	16,450	17,500	18,550
PBT (£m)	767	855	950	1,035
EPS (p)	20.5	22.6	25.0	27.5
DPS (p)	8.2	9.0	10.0	11.0

Source: Charles Stanley Forecasts

Other Data

Price (p)	277.5
Year End	February
Mkt Cap (£m)	7,375
Contact	Sam Hart

National Grid (NG.L)

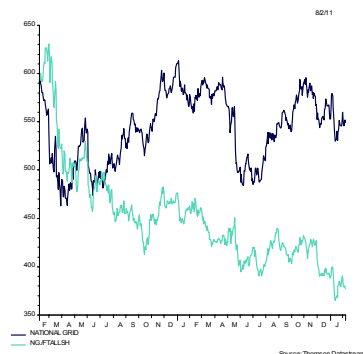
Gas, Water & Multiutilities

Accumulate

Valuations	2010	2011E	2012E	2013E
PER	10.9	11.4	11.0	10.5
P/CFPS	3.4	5.5	5.8	5.7
Yield (%)	6.2	6.6	7.1	7.5

Performance

Comment



On track for strong year driven by profit growth in the US and non-recurring timing items. US Gas Distribution performing particularly well. OP expected to be significantly ahead of last year with EPS in line with 2010 at 49.5p eliminating dilutive impact of rights issue. Might miss some performance targets in US and UK due to extreme weather. Capex slightly lower at £3.6bn, but five-year £22bn target intact (mostly UK Transmission). At start of UK regulatory price reviews for 2013, creating some uncertainty. NiMo rate case in US agreed in Jan (disappointing) and sale of NH business expected in H2 2011. Announced \$200m efficiency program for US business.

Summary Forecasts	2010	2011E	2012E	2013E
Turnover (£m)	13,988	14,827	15,278	15,656
PBT (£m)	1,974	2,334	2,528	2,686
EPS (p)	50.6	48.2	50.1	52.6
DPS (p)	34.1	36.4	39.3	41.2

Source: IBES/DataStream Estimates

Other Data

Price (p)	552.0
Year End	March
Mkt Cap (£m)	19,364
Contact	Tina Cook

FTSE 100 Snapshot

Next (NXT.L)

Valuations	2010	2011E	2012E	2013E
PER	10.6	9.3	8.5	7.7
P/CFPS	-	-	-	-
Yield (%)	3.3	3.6	4.0	4.4

Summary Forecasts	2010	2011E	2012E	2013E
Turnover (£m)	3,407	3,485	3,600	3,715
PBT (£m)	505	580	580	615
EPS (p)	188.5	214.0	235.0	260.0
DPS (p)	66.0	72.6	79.7	88.2

Source: Charles Stanley Forecasts

Other Data

Price (p)	1,998.0
Year End	January
Mkt Cap (£m)	3,615
Contact	Sam Hart

General Retailers

Performance



Comment

The post-Christmas update was mixed. Retail LFL was -6.1%, impacted by snow. Directory sales were +8.7%. Full year PBT guidance remained broadly unchanged at £540-555m. Trading is likely to be tough in 2011, but we think Next can continue to make steady progress. Action has been taken to improve fashion ranges, attract more younger customers, expand in homewares and develop International. Directory is well placed to benefit from structural growth in online retailing. Cash flow is strong, the balance sheet sound, management best in class and valuation attractive. Full year results 24th March.

Old Mutual (OML.L)

Valuations	2009	2010E	2011E	2012E
PER	10.6	8.7	7.9	7.2
P/CFPS	-	-	-	-
Yield (%)	1.1	2.5	3.0	3.1

Summary Forecasts	2009	2010E	2011E	2012E
Turnover (£m)	-	-	-	-
PBT (£m)	1,170	1,423	1,510	1,621
EPS (p)	12.4	15.2	16.6	18.3
DPS (p)	1.5	3.3	4.0	4.1

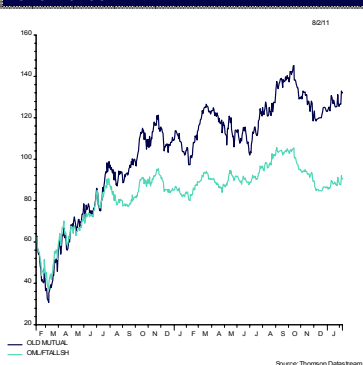
Source: IBES/DataStream Estimates

Other Data

Price (p)	131.8
Year End	December
Mkt Cap (£m)	7,191
Contact	Nic Clarke

Life Insurance

Performance



Comment

On November 4, Old Mutual reported better than expected sales and said that plans to streamline the company were on track despite the failed attempt to sell banking subsidiary Nedbank to HSBC. Sales in the life assurance business rose by 1% to £351m, which was below the consensus market forecast of £372m. However, sales of unit trusts were very strong, rising by 36% in Q3 2010 v Q3 2009 and were well ahead of the consensus market forecast. Regarding Nedbank, Old Mutual stated that it was "not in a rush to do anything" and that it was pleased with Nedbank's third quarter results and that the business was in good health.

Reduce

Pearson (PSON.L)

Valuations	2009	2010E	2011E	2012E
PER	16.1	14.1	13.8	12.9
P/CFPS	10.3	10.8	11.1	10.6
Yield (%)	3.4	3.6	3.8	4.0

Summary Forecasts	2009	2010E	2011E	2012E
Turnover (£m)	5,624	5,807	5,824	6,056
PBT (£m)	761	833	820	872
EPS (p)	65.4	74.9	76.2	81.6
DPS (p)	35.5	38.0	40.0	42.4

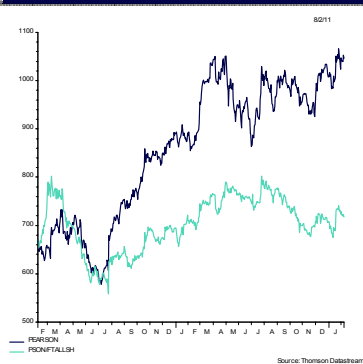
Source: IBES/DataStream Estimates

Other Data

Price (p)	1,053.0
Year End	December
Mkt Cap (£m)	8,562
Contact	Sam Hart

Media

Performance



Comment

The pre-close trading update ahead of full year results on 28th Feb was encouraging, with EPS guidance raised to 76.0p and upbeat comments on the outlook for 2011. As the world's largest provider of education company, Pearson is well placed to benefit from long term structural growth in the global education market. FT Group has high quality content and should continue to benefit from the advertising rebound. Penguin has a strong back catalogue and publishing schedule, whilst eBooks present both a threat and an opportunity. The valuation remains undemanding.

Accumulate

Petrofac (PFC.L)

Valuations	2009	2010E	2011E	2012E
PER	24.2	20.1	17.3	15.5
P/CFPS	7.2	15.9	14.0	13.4
Yield (%)	1.4	1.7	2.0	2.1

Summary Forecasts	2009	2010E	2011E	2012E
Turnover (\$m)	3,655	4,330	5,215	5,846
PBT (\$m)	448	543	620	668
EPS (c)	103.2	124.0	144.0	161.0
DPS (c)	36.0	43.0	50.0	53.0

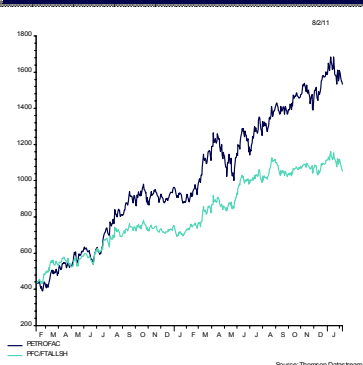
Source: IBES/DataStream Estimates

Other Data

Price (p)	1,550.0
Year End	December
Mkt Cap (£m)	5,359
Contact	Tony Shepard

Oil & Gas

Performance



Comment

At the end of September, the Group's order book was \$7.4bn compared \$6.9bn at June 2010. In October a \$790m contract was awarded by TOTAL for a gas processing plant in Scotland and at the end of 2010, Petrofac announced it had commenced work on the \$3.4bn, second phase of the Turkmenistan contract. This growing order backlog gives good visibility to earnings. In the first half of 2010 net earnings advanced by 42% and for the year, guidance is for a 20% rise in earnings on a like-for like basis. At the end of September 2010, gross cash balances were \$1bn slightly lower than at the half-year.

Hold

FTSE 100 Snapshot

Prudential (PRU.L)

Valuations	2009	2010E	2011E	2012E
PER	8.1	15.0	13.6	12.4
P/CFPS	-	-	-	-
Yield (%)	2.8	2.9	3.1	3.3

Summary Forecasts	2009	2010E	2011E	2012E
Turnover (£m)	19,976	20,623	21,035	21,541
PBT (£m)	3,090	1,582	1,900	2,129
EPS (p)	88.8	47.7	52.5	57.8
DPS (p)	19.9	20.8	22.0	23.4

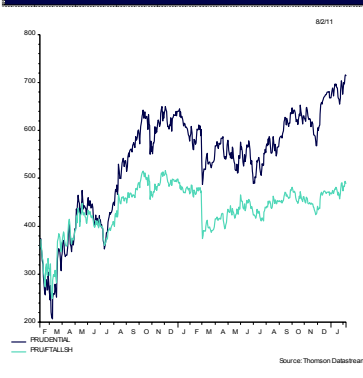
Source: IBES/DataStream Estimates

Other Data

Price (p)	716.0
Year End	December
Mkt Cap (£m)	18,226
Contact	Nic Clarke

Life Insurance

Performance



Comment

On 10 November, Prudential announced that its Group-wide nine month sales were up by 24% to £2,464m and that its new business profit for the same period was up 21% to £1,345m. Asia has grown year to date APE sales by 32 per cent to £1,066m. The new business profit margin of 58% is consistent with last year. In the US, Jackson delivered year to date APE sales of £850m, up 33% over the same period in 2009. New business profit grew 10% to £532m. In the UK, total APE sales of £548m were up 3% on the first nine months of 2009. New business profit grew 14% year to date to £192m. Over the nine months, M&G has attracted net fund inflows of £6.2bn (2009: £11.1 bn).

Randgold Resources (RRS.L)

Valuations	2010	2011E	2012E	2013E
PER	72.9	19.7	14.1	17.5
P/CFPS	-	15.1	8.9	9.3
Yield (%)	0.2	0.4	0.4	0.7

Summary Forecasts	2010	2011E	2012E	2013E
Turnover (\$m)	485	1,071	1,299	1,071
PBT (\$m)	145	578	761	324
EPS (c)	113.0	417.0	584.0	471.0
DPS (c)	20.0	32.0	32.0	57.0

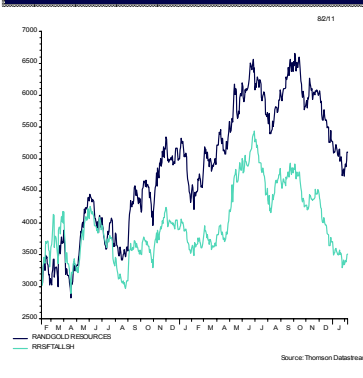
Source: IBES/DataStream Estimates

Other Data

Price (p)	5,110.0
Year End	December
Mkt Cap (£m)	4,651
Contact	Tom Gidley-Kitchin

Mining

Performance



Comment

Prelims 7 Feb: Randgold experienced some engineering challenges in 2010, which it has overcome, and sales and ramp-up at Tongon in Cote d'Ivoire were impacted by the post-election stand-off. Meanwhile attributable production is forecast to be +70% in 2011 after -10% in 2010 (back on course). Overall, the benefits of Randgold's country diversification have been underlined and its reputation for execution is broadly intact despite the 2010 blips. These will serve it well in relation to the massive potential at Kibali in the DRC. The shares are now much more reasonably valued and, for gold bulls, this could be a good entry point.

Reckitt Benckiser (RB.L)

Valuations	2009	2010E	2011E	2012E
PER	17.7	14.8	14.8	13.8
P/CFPS	12.9	13.6	12.8	12.4
Yield (%)	2.9	3.3	3.4	3.6

Summary Forecasts	2009	2010E	2011E	2012E
Turnover (£m)	7,753	8,539	9,456	9,987
PBT (£m)	1,892	2,217	2,268	2,425
EPS (p)	194.7	231.7	232.0	249.2
DPS (p)	100.0	113.0	117.0	125.0

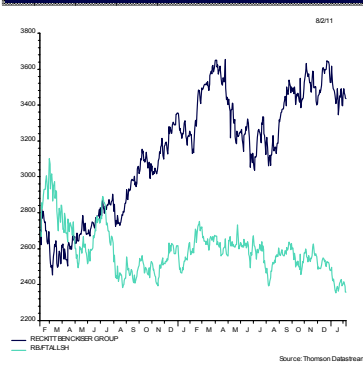
Source: IBES/DataStream Estimates

Other Data

Price (p)	3,439.0
Year End	December
Mkt Cap (£m)	24,962
Contact	Tom Gidley-Kitchin

Household Goods

Performance



Comment

Q3 results were a little ahead of expectations but, broadly speaking, the company managed to maintain its YoY performance against a deteriorating background in the US and a continuing difficult environment in Europe, aggravated by P&G's ongoing promotion push in fabric care. Suboxone is still free from generic competition, but this must end sometime. SSL (funded at less than 1% interest) will be consolidated from 1 November. Reckitt's plan is to raise growth levels in SSL's core brands by investment in new products and segments. Should be re-rated. Prelims on 9 Feb.

Reed Elsevier (REL.L)

Valuations	2008	2009E	2010E	2011E
PER	12.4	13.2	12.3	11.3
P/CFPS	10.9	9.0	9.5	8.8
Yield (%)	3.6	3.7	3.9	4.2

Summary Forecasts	2008	2009E	2010E	2011E
Turnover (£m)	6,071	6,016	6,110	6,400
PBT (£m)	1,279	1,271	1,370	1,510
EPS (p)	45.9	43.2	46.2	50.5
DPS (p)	20.4	20.8	22.0	24.0

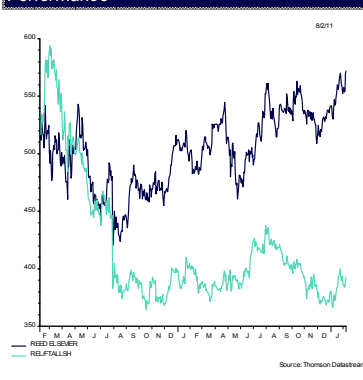
Source: IBES/DataStream Estimates

Other Data

Price (p)	569.0
Year End	December
Mkt Cap (£m)	6,914
Contact	Sam Hart

Media

Performance



Comment

The Q3 trading update in mid-November was reassuring, with trends seen in the first half of the year continuing into the second half. Most markets have stabilised and there are early signs of recovery in some markets. We expect the improving trend to continue. Long term prospects remain good, given strong positions in oligopolistic markets. Cash generation is strong, the balance sheet sound and the valuation reasonable. Investors remain wary of Reed following management upheaval, profit warnings and a placing in 2009, but we expect sentiment to continue to gradually improve.

FTSE 100 Snapshot

Resolution (RSL.L)

Valuations	2009	2010E	2011E	2012E
PER	21.8	12.1	10.8	9.3
P/CFPS	-	-	-	-
Yield (%)	3.9	6.1	6.1	6.1

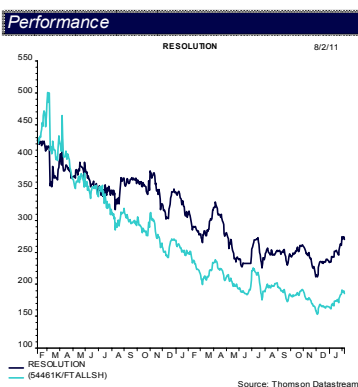
Summary Forecasts	2009	2010E	2011E	2012E
Turnover (£m)	-	-	-	-
PBT (£m)	20	410	509	574
EPS (p)	12.4	22.3	25.0	29.0
DPS (p)	10.5	16.4	16.4	16.4

Source: IBES/DataStream Estimates

Other Data

Price (p)	270.1
Year End	December
Mkt Cap (£m)	3,923
Contact	Nic Clarke

Life Insurance



Hold

On 11 November, Resolution announced that total sales on an APE basis for nine months to 30 September 2010, excluding £26m in respect of the acquired AXA businesses, were up 35% to £683m (2009: £505m). In the nine months to 30 September 2010 consolidated UK sales totalled £320m. Of this the Friends Provident businesses contributed £294m whilst the AXA UK Life business contributed sales of £26m for the month of September. This compares to £296m for FP for the equivalent period in 2009. Andy Briggs is to take over as the head of Friends Provident from Trevor Matthews.

Rexam (REX.L)

Valuations	2009	2010E	2011E	2012E
PER	14.5	11.4	10.9	10.4
P/CFPS	-	-	-	-
Yield (%)	2.2	3.3	3.5	3.8

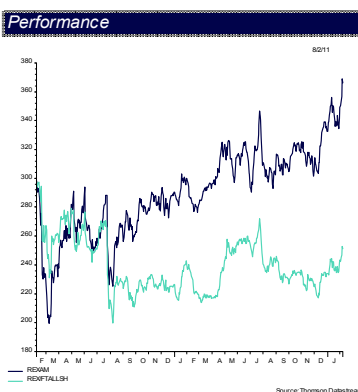
Summary Forecasts	2009	2010E	2011E	2012E
Turnover (£m)	4,866	4,900	4,950	5,150
PBT (£m)	285	407	432	452
EPS (p)	25.4	32.5	34.0	35.6
DPS (p)	8.0	12.0	13.0	14.0

Source: Charles Stanley Forecasts

Other Data

Price (p)	368.9
Year End	December
Mkt Cap (£m)	3,235
Contact	Tony Shepard

General Industrials



Hold

The Group is in recovery mode benefiting from extensive cost reduction. In the first half of 2010, organic sales growth was 2% and organic profit growth was 25%. Beverage Can profit margins improved by 260bps to 10.7%. In Plastic Packaging, profit margin edged up to 10.5%. In a year-end update, we took some encouragement from lower debt levels (£1.7bn at September 2010) and a more positive outlook for North American beverage can profitability. The extensive cost reduction initiatives in both Cans and Plastics remain on track to deliver £82m of savings by 2011.

Rio Tinto (RIO.L)

Valuations	2009	2010E	2011E	2012E
PER	20.9	10.5	7.9	8.0
P/CFPS	14.3	8.6	6.2	6.6
Yield (%)	0.6	1.2	1.4	1.5

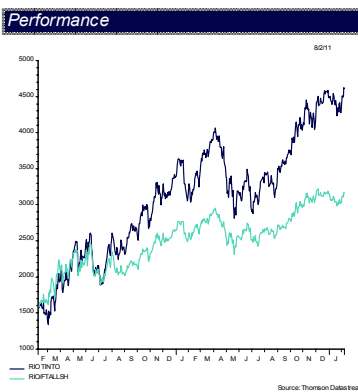
Summary Forecasts	2009	2010E	2011E	2012E
Turnover (\$m)	41,825	54,836	63,137	65,216
PBT (\$m)	8,785	20,979	28,908	28,306
EPS (c)	357.1	707.0	942.0	929.0
DPS (c)	45.0	91.0	103.0	115.0

Source: IBES/DataStream Estimates

Other Data

Price (p)	4,625.0
Year End	December
Mkt Cap (£m)	70,599
Contact	Tom Gidley-Kitchin

Mining



Accumulate

H1 results were ahead of expectations with revenues +34%, underlying EPS +80% at 294.1 cents, debt/equity down to 25%. 60% of EBITDA came from iron ore, and all divisions were EBITDA positive with aluminium slowly being improved. Q4 ops review (18 Jan) followed Q3 in showing record iron ore and coking coal, lower copper and thermal coal. A less indebted Rio is investing in growth, and has also made a \$3.9bid for Riversdale (Mozambique, coking coal), to close 18 Feb, and reached some agreement with Ivanhoe on Oyu Tolgoi (Mongolia, copper/gold). Aluminium is still a vulnerability but might be a m-term upside surprise. Prelims 10 Feb.

Rolls-Royce (RR.L)

Valuations	2009	2010E	2011E	2012E
PER	16.3	16.9	14.8	13.0
P/CFPS	14.0	12.0	12.8	10.9
Yield (%)	2.3	2.5	2.6	2.8

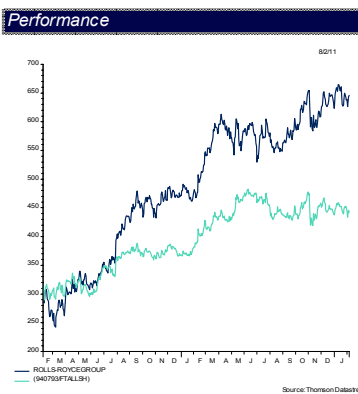
Summary Forecasts	2009	2010E	2011E	2012E
Turnover (£m)	10,414	10,850	11,564	12,320
PBT (£m)	915	945	1,078	1,239
EPS (p)	39.7	38.2	43.7	49.6
DPS (p)	15.0	16.0	17.0	18.3

Source: IBES/DataStream Estimates

Other Data

Price (p)	645.5
Year End	December
Mkt Cap (£m)	12,082
Contact	Tina Cook

Aerospace & Defence



Accumulate

In a Q3 update, RR said it now expects FY underlying profit to be slightly lower (c2%) due to the Trent 900 incident, partly offset by better performances at non-civil businesses. Good progress has been made on identifying the cause of the engine failure (one component) and remedial action is underway, but there could be delays to future deliveries and incremental compensation costs (Qantas aims to settle out of court). Continues to see a small cash inflow in 2010 with average net cash balance similar to H1. Benefits from solid balance sheet, strong aftermarket exposure, and leading share on new programs. John Rishton will become CEO in March. FY10 on 10 Feb.

FTSE 100 Snapshot

Royal Bank of Scotland (RBS.L)

Banks

Hold

Valuations	2009	2010E	2011E	2012E
PER	(8.0)	41.3	12.5	8.7
ROE (%)	(14.8)	(442.2)	10.0	6.7
Yield (%)	0.0	0.0	0.0	0.0

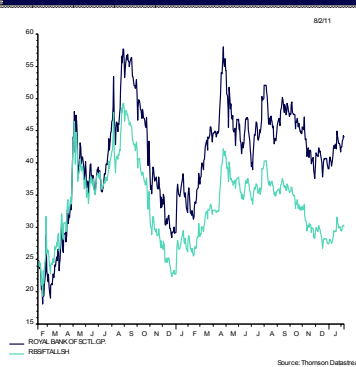
Summary Forecasts	2009	2010E	2011E	2012E
Operating Profit (£m)	(1,905)	11,093	10,162	12,902
PBT (£m)	(6,762)	2,004	4,606	7,927
EPS (p)	(5.5)	1.1	3.5	5.1
DPS (p)	-	-	-	-

Source: IBES/DataStream Estimates

Other Data

Price (p)	44.2
Year End	December
Mkt Cap (£m)	25,873
Contact	Nic Clarke

Performance



Comment

On 27 January UKFI (UK Financial Investments) told the Treasury Select Committee that 'value for money' will be key concerning disposal of RBS and Lloyds Banking Group stakes. Sales of the stakes are likely to take years and could be by way of a broad public sale, sales to institutions or sale via structured transactions. UKFI also stated that RBS has given guidance that it could seek to leave the Asset Protection Scheme early. The Chairman of UKFI stated that there would be a diminution of value if either banks were broken up. And rather helpfully the UKFI stated that it would "ideally sell RBS and Lloyds stakes in a rising market".

Royal Dutch Shell plc (RDSb.L)

Oil & Gas Producers

Accumulate

Valuations	2009	2010E	2011E	2012E
PER	11.5	9.0	7.9	7.7
P/CFPS	7.9	5.5	4.9	4.7
Yield (%)	4.8	4.8	5.2	5.3

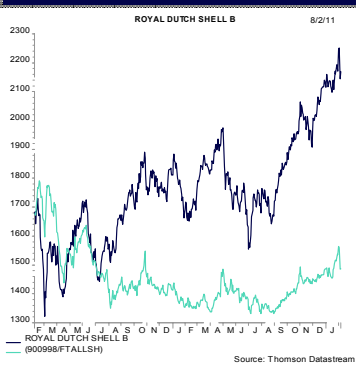
Summary Forecasts	2009	2010E	2011E	2012E
Turnover (\$bn)	368	388	400	396
PBT (\$bn)	34	39	44	47
EPS (c)	304.0	390.0	442.0	454.0
DPS (c)	168.0	168.0	180.0	185.0

Source: IBES/DataStream Estimates

Other Data

Price (p)	2,169.0
Year End	December
Mkt Cap (£m)	58,472
Contact	Tony Shepard

Performance



Comment

Shell's Q4 earnings of \$4.1bn was 16% below estimates. A much lower than expected Downstream contribution was the main reason for the shortfall but also the Upstream contribution was lighter than expected. In Downstream there was increased downtime at some of the major refineries for maintenance and in Upstream there were start-up costs and weak gas trading results. Nevertheless, the overall outcome was still 48% ahead of last year and the CEO said that, We are making good progress against our targets, and there is more to come from Shell."

RSA Insurance (RSA.L)

Nonlife Insurance

Hold

Valuations	2009	2010E	2011E	2012E
PER	11.4	12.3	9.2	8.7
P/CFPS	15.9	1,978.6	1,731.3	-
Yield (%)	6.0	6.4	6.7	7.0

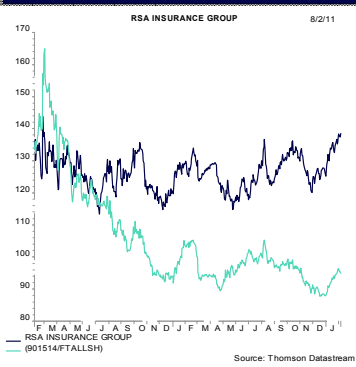
Summary Forecasts	2009	2010E	2011E	2012E
Turnover (£m)	6,737	7,455	7,939	8,412
PBT (£m)	554	479	687	741
EPS (p)	12.1	11.3	15.1	15.9
DPS (p)	8.3	8.8	9.3	9.7

Source: IBES/DataStream Estimates

Other Data

Price (p)	138.5
Year End	December
Mkt Cap (£m)	4,844
Contact	Nic Clarke

Performance



Comment

On 20 January, RSA stated that its 2010 profit would miss analyst expectations, which was largely due to the impact of the unusually harsh winter weather. Operating profit for the year will be £600m-£630m after weather related claims came in at £255m above the normal levels. RSA had been expected to report profit of £740m-£777m. Most of the extra weather-related claims were caused by freezing temperatures and heavy snowfall across northern Europe at the end of 2010, with losses in November and December alone coming in at £142m. However, RSA stated that "its profit miss would not affect its policy of increasing its dividend at least in line with inflation."

SABMiller (SAB.L)

Beverages

Hold

Valuations	2010	2011E	2012E	2013E
PER	21.0	18.2	15.8	13.8
P/CFPS	16.1	16.4	14.1	12.1
Yield (%)	2.0	2.3	2.6	2.9

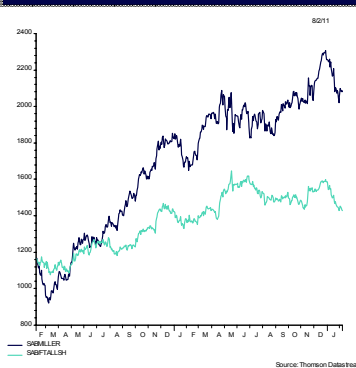
Summary Forecasts	2010	2011E	2012E	2013E
Turnover (\$m)	18,020	19,468	20,821	22,287
PBT (\$m)	3,576	3,993	4,534	5,311
EPS (c)	160.4	185.0	213.0	243.0
DPS (c)	68.0	76.0	87.0	98.0

Source: IBES/DataStream Estimates

Other Data

Price (p)	2,088.0
Year End	March
Mkt Cap (£m)	33,125
Contact	Sam Hart

Performance



Comment

The Q3 trading update in mid-Jan reported larger volumes +3% and revenue +3% on an organic basis, reflecting improving economic conditions in many emerging markets. The Group continues to benefit from lower raw material prices and financial performance has been in line with expectations. Long term growth prospects remain good, given a strong portfolio of beer brands and unrivalled exposure to emerging markets. We like the shares for the long term, but think the current valuation is well up with events. We would wait for a setback before adding to holdings.

FTSE 100 Snapshot

Sage (SGE.L)

Software & Computer Services

Accumulate

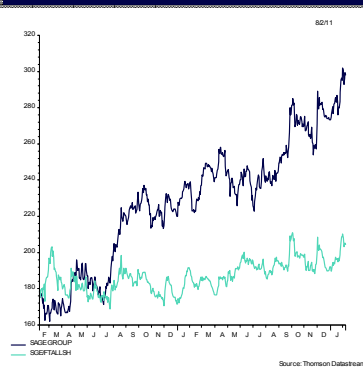
Valuations	2010	2011E	2012E	2013E
PER	15.6	14.9	13.8	12.9
P/CFPS	11.6	13.2	11.4	10.4
Yield (%)	2.6	2.7	3.0	3.2

Summary Forecasts	2010	2011E	2012E	2013E
Turnover (£m)	1,435	1,487	1,560	1,641
PBT (£m)	356	366	390	420
EPS (p)	19.2	20.1	21.7	23.2
DPS (p)	7.8	8.2	8.8	9.5

Source: IBES/DataStream Estimates

Other Data	
Price (p)	299.3
Year End	September
Mkt Cap (£m)	3,951
Contact	Tom Gidley-Kitchin

Performance



Comment

The typically brief Q1 IMS (26 Jan) reported trading in line with management expectations, in each region, outlined in Dec. The gradual recovery in the group's principal markets has continued. In our view the new CEO (internal appointment) has moved smoothly into place. The company faces medium term challenges in the US, but the recovery there in customers' spend on the discretionary part of the product set and the federal stimulus in healthcare computerisation should be supportive in the shorter term. Meanwhile cash generation, the business model and general defensiveness are attractive and growth expectations for the next two years are not demanding.

Sainsbury (J) (SBRY.L)

Food & Drug Retailers

Hold

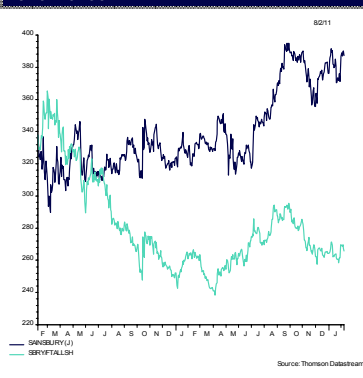
Valuations	2010	2011E	2012E	2013E
PER	16.5	15.4	14.0	12.7
P/CFPS	7.3	7.2	6.6	6.4
Yield (%)	3.6	3.9	4.3	4.6

Summary Forecasts	2010	2011E	2012E	2013E
Turnover (£m)	19,964	21,170	22,454	23,710
PBT (£m)	610	661	736	824
EPS (p)	23.6	25.3	27.9	30.7
DPS (p)	14.2	15.3	16.6	18.0

Source: IBES/DataStream Estimates

Other Data	
Price (p)	390.1
Year End	March
Mkt Cap (£m)	7,279
Contact	Sam Hart

Performance



Comment

The Q3 trading update in mid-Jan was solid, with like-for-like sales ex-fuel and VAT +2.8%. Management was comfortable with full year consensus PBT forecasts of £660m. The trading environment is expected to remain challenging, but we expect the Group to continue to make steady progress. New space is central to strategy, with management targeting 8% space growth in both 2010/11 and 2011/12. We like the shares for the long term, but see better value in Tesco and Morrison for now. Estimated NAV 271p. Q4 trading update due 23rd March.

Schroders (SDR.L)

General Financial

Reduce

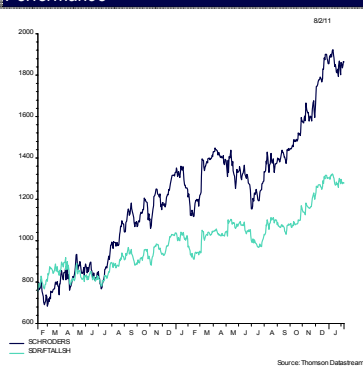
Valuations	2009	2010E	2011E	2012E
PER	32.9	18.9	15.9	13.6
P/CFPS	14.0	15.3	13.6	12.4
Yield (%)	1.7	1.8	2.0	2.3

Summary Forecasts	2009	2010E	2011E	2012E
Turnover (£m)	999	1,116	1,281	1,435
PBT (£m)	200	382	451	533
EPS (p)	56.7	98.5	117.6	137.1
DPS (p)	31.0	34.0	38.0	42.4

Source: IBES/DataStream Estimates

Other Data	
Price (p)	1,865.0
Year End	December
Mkt Cap (£m)	4,215
Contact	Nic Clarke

Performance



Comment

On the 9 November, Schroders announced that in the first nine months of 2010 its pre-tax profit was £283m. This was ahead of expectations on the back of strong sales to Asian institutional clients. Sales and rising markets pushed funds under management to £181.5bn as flows to its institutional, retail and private banking business beat forecasts. Net flows of new funds to the business in the third quarter were £5.4bn and Schroders added that the trend had continued in the current quarter. Schroders also stated that 79% of the £21.5bn net inflows for the first nine months of 2010 came from clients outside its home market.

Scottish & Southern Energy (SSE.L)

Electricity

Hold

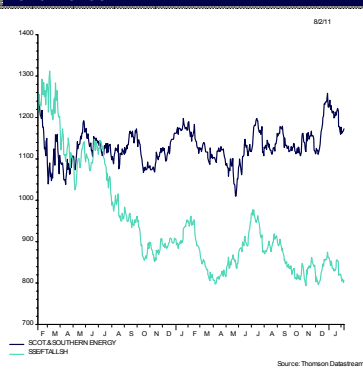
Valuations	2010	2011E	2012E	2013E
PER	11.4	11.0	10.5	9.6
P/CFPS	6.5	8.3	7.8	7.0
Yield (%)	6.0	6.4	6.7	7.0

Summary Forecasts	2010	2011E	2012E	2013E
Turnover (£m)	21,550	20,312	20,554	21,648
PBT (£m)	1,240	1,262	1,315	1,449
EPS (p)	102.7	106.4	111.1	122.2
DPS (p)	70.0	74.5	78.2	82.2

Source: IBES/DataStream Estimates

Other Data	
Price (p)	1,169.0
Year End	March
Mkt Cap (£m)	10,891
Contact	Tina Cook

Performance



Comment

Trading in line with previous guidance for adj PBT of £1.3bn in 2011, but OP for generation & supply will be slightly below last year. Customer accounts reached 10.05m (+300k) and household gas tariffs were raised by 9.4% in Dec. Operational performance is solid, but renewable energy output remains subdued. Progress continues on heavy capex program with spend of c£1.6bn pa to 2015. Wind farm projects remain on track and Glendoe hydro expected to re-start in the first half of 2012. Will raise DPS by RPI+2% pa to 2013 (FYe 74.5p) and yield remains key attraction until new generation capacity starts to come on line to drive earnings growth from 2013.

FTSE 100 Snapshot

Serco (SRP.L)

Support Services

Accumulate

Valuations	2009	2010E	2011E	2012E
PER	18.8	16.3	14.6	12.9
P/CFPS	11.6	13.8	13.0	9.7
Yield (%)	1.1	1.3	1.5	1.7

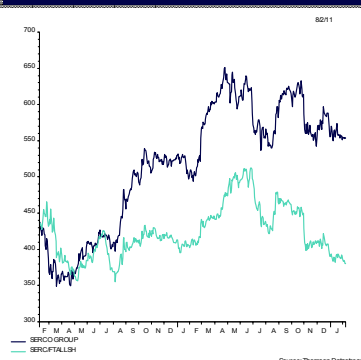
Summary Forecasts	2009	2010E	2011E	2012E
Turnover (£m)	3,970	4,312	4,595	5,001
PBT (£m)	195	227	253	292
EPS (p)	29.5	34.0	37.9	43.2
DPS (p)	6.3	7.3	8.3	9.5

Source: IBES/DataStream Estimates

Other Data

Price (p)	554.5
Year End	December
Mkt Cap (£m)	2,735
Contact	Tony Shepard

Performance



Comment

The Government's Spending Review creates short-term pressures for outsourcers and Serco's attempt to obtain savings from its largest suppliers was abandoned after an outcry not only from suppliers but also from the Government. Nevertheless, after reporting a 18% rise in first half earnings and an 83% advance in free cash flow the Group is on track to deliver financial guidance for the year, which is for continued strong organic growth (8.5% in the first half of 2010). By the end of 2012, Serco is targeting revenue of about £5bn and an adjusted operating margin of about 6.3% compared to 5.8% in H1/2010.

Severn Trent (SVT.L)

Gas, Water & Multiutilities

Accumulate

Valuations	2010	2011E	2012E	2013E
PER	11.8	16.1	14.4	13.4
P/CFPS	5.2	7.0	6.5	6.5
Yield (%)	5.0	4.5	4.8	5.1

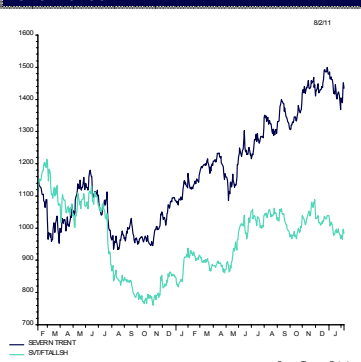
Summary Forecasts	2010	2011E	2012E	2013E
Turnover (£m)	1,704	1,712	1,793	1,857
PBT (£m)	338	285	321	344
EPS (p)	122.6	90.3	100.7	108.1
DPS (p)	72.3	65.1	69.9	74.0

Source: IBES/DataStream Estimates

Other Data

Price (p)	1,452.0
Year End	March
Mkt Cap (£m)	3,443
Contact	Tina Cook

Performance



Comment

Demand at SVT Water is similar to the second half of last year, following stronger than expected consumption in H1. Opex remains in line with expectations and below Ofwat's assumptions. Bad debts stable at 2.3%, but impact of public sector cuts unknown. Recent cold weather has temporarily trimmed capex (FYe £405m), following a reduced level in H1. Leakage levels are above normal due to extreme weather, but cost of repairs not material. Efficiency improvement plans are delivering benefits (exceptional charge). Net debt flat at £3.7bn in H1 with lower gearing at 56%. Committed to raising dividend by RPI+3% pa to 2015 (FYe 65.09p).

Shire Pharmaceuticals (SHP.L)

Pharmaceuticals & Biotechnology

Accumulate

Valuations	2009	2010E	2011E	2012E
PER	23.1	19.1	16.2	14.1
P/CFPS	-	-	-	-
Yield (%)	0.3	0.4	0.5	0.6

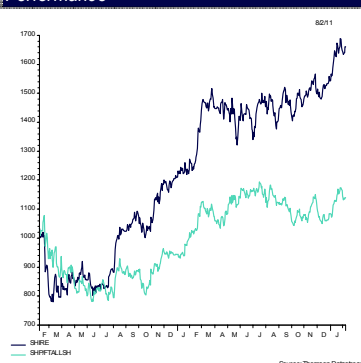
Summary Forecasts	2009	2010E	2011E	2012E
Turnover (\$m)	3,008	3,450	3,800	4,175
PBT (\$m)	857	1,060	1,240	1,420
EPS (c)	116.0	140.0	165.0	190.0
DPS (c)	9.0	11.0	13.0	15.0

Source: Charles Stanley Forecasts

Other Data

Price (p)	1,661.0
Year End	December
Mkt Cap (£m)	9,339
Contact	Jeremy Batstone-Carr

Performance



Comment

Shire Pharma is due to report Q4 / FY results on Thursday 10th February. We do not expect the next 12 months to be characterised by the same continual upgrades as characterised 2010. The principal supporting factor driving Shire's robust share price performance is the high degree of earnings visibility going forward. We believe that Shire offers amongst the best compound earnings growth profiles over the next three years (c.12% pa). The shares are, however, already highly rated and a rejuvenated Genzyme could prove a key headwind for VPRIV and Replagal.

Smith & Nephew (SN.L)

Health Care Equipment & Services

Reduce

Valuations	2009	2010E	2011E	2012E
PER	16.8	16.2	14.9	14.1
P/CFPS	-	-	-	-
Yield (%)	1.2	1.4	7.1	1.7

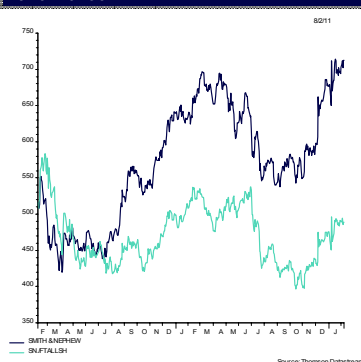
Summary Forecasts	2009	2010E	2011E	2012E
Turnover (\$m)	3,772	3,910	4,000	4,250
PBT (\$m)	694	810	925	1,000
EPS (c)	68.3	71.0	77.0	81.2
DPS (c)	14.0	16.0	81.2	19.0

Source: Charles Stanley Forecasts

Other Data

Price (p)	712.5
Year End	December
Mkt Cap (£m)	6,345
Contact	Jeremy Batstone-Carr

Performance



Comment

With no more developments on the M&A front, investors will await the update accompanying S&N's Q4 / FY 2010 results on 10th February with more than passing interest. Despite the absence of any recent developments S&N's share price has hardly dipped, implying that the market expects the pace to quicken following the results release. Industry fundamentals remain opaque, judging by 2010 updates from global rivals. Having reached the end of the Earnings Improvement Programme investors will be interested to see how the company views future projects. We recently moved our recommendation to Reduce.

FTSE 100 Snapshot

Smiths Group (SMIN.L)

Valuations	2010	2011E	2012E	2013E
PER	16.3	14.9	13.5	12.5
P/CFPS	13.1	13.5	11.6	10.6
Yield (%)	2.5	2.6	2.9	3.2

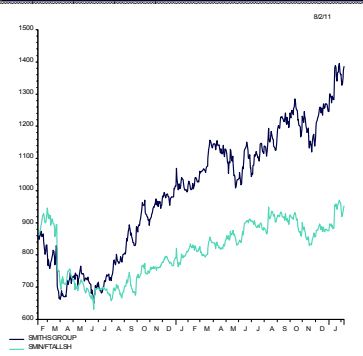
Summary Forecasts	2010	2011E	2012E	2013E
Turnover (£m)	2,770	2,928	3,096	3,266
PBT (£m)	430	487	533	606
EPS (p)	84.0	92.2	101.7	110.1
DPS (p)	34.0	36.0	40.0	44.0

Source: IBES/DataStream Estimates

Other Data	
Price (p)	1,374.0
Year End	July
Mkt Cap (£m)	5,387
Contact	Tina Cook

General Industrials

Performance



Comment

Rejected £2.45bn cash offer from Apax for Medical on price grounds (11x historical EBITDA). Bid pitched as best and final offer, but speculation is likely to persist. Sales at Detection are behind last year due to timing of government orders, but should be flat at H1. Trials of airport full body scanners are underway. John Crane, Interconnect and Flex-Tek have seen orders pick up, while sales at Medical are flat. Progress on global restructuring and cost saving initiatives underpins margin expansion. Strong cash generation supports bolt-ons and higher R&D. Net debt flat at £845m. S&P revised outlook to stable. Expects a good performance at H1 on 23 Mar.

Hold

Standard Chartered (STAN.L)

Valuations	2009	2010E	2011E	2012E
PER	17.1	13.9	12.9	11.4
ROE (%)	227.7	199.2	200.0	191.7
Yield (%)	2.3	2.6	2.8	3.0

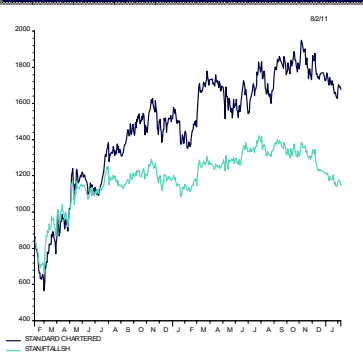
Summary Forecasts	2009	2010E	2011E	2012E
Operating Profit (\$m)	7,232	6,319	7,480	8,469
PBT (\$m)	5,151	6,150	7,124	8,052
EPS (c)	159.2	197.0	211.0	239.0
DPS (c)	64.0	70.0	76.0	83.0

Source: IBES/DataStream Estimates

Other Data	
Price (p)	1,694.0
Year End	December
Mkt Cap (£m)	39,778
Contact	Nic Clarke

Banks

Performance



Comment

On 9 December, Standard Chartered highlighted in its pre-close trading update that it "is on track to deliver another year of record income and profit". Income growth has remained strong year on year and cost growth is expected to exceed income growth for the full year by broadly the same margin as in the first half of the year. Consumer Banking income for the full year is expected to show a growth rate broadly consistent with that seen in the first half. Wholesale Banking income in 2010 is expected to show mid-single digit income growth over 2009. Credit quality continues to be very good in both businesses and it is expected that there will be PBT growth in both businesses.

Accumulate

Standard Life (SL.L)

Valuations	2009	2010E	2011E	2012E
PER	8.2	15.3	14.1	12.4
ROE (%)	12.9	28.2	27.2	24.8
Yield (%)	5.1	5.3	5.6	5.9

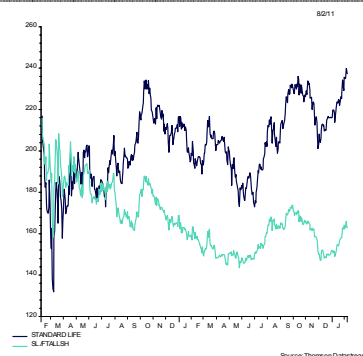
Summary Forecasts	2009	2010E	2011E	2012E
Operating Profit (£m)	-	-	-	-
EPS (p)	29.1	15.6	17.0	19.3
DPS (p)	12.2	12.8	13.4	14.1

Source: IBES/DataStream Estimates

Other Data	
Price (p)	239.4
Year End	December
Mkt Cap (£m)	5,466
Contact	Nic Clarke

Life Assurance

Performance



Comment

On 3 November, Standard Life issued an IMS covering the nine months to 30 September 2010. Strong product demand coupled with positive market movements has led to a 13% increase in assets under administration (AUA) to £192.4bn. The overall increase in AUA has been driven by a significant increase in fee business AUA both in the long-term savings and third party investment management businesses. Fee business across the UK, Canadian and wholly owned International operations increased 10%, 10% and 22% respectively. Global Investment Management third party fee business increased AUM by 21% year to date to £69.1bn.

Accumulate

Tesco (TSCO.L)

Valuations	2010	2011E	2012E	2013E
PER	13.8	12.4	11.1	9.9
P/CFPS	6.8	7.6	7.0	6.5
Yield (%)	3.2	3.6	3.9	4.4

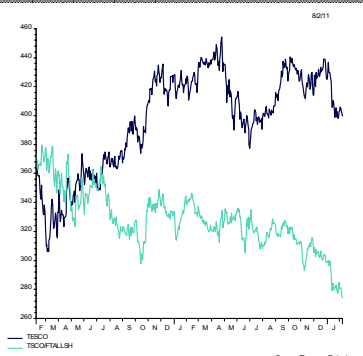
Summary Forecasts	2010	2011E	2012E	2013E
Turnover (£bn)	57	62	67	71
PBT (£bn)	3	4	4	4
EPS (p)	29.2	32.5	36.3	40.6
DPS (p)	13.1	14.4	15.8	17.5

Source: IBES/DataStream Estimates

Other Data	
Price (p)	402.1
Year End	February
Mkt Cap (£m)	32,290
Contact	Sam Hart

Food & Drug Retailers

Performance



Comment

The post-Christmas update was mixed. UK LFL sales slowed to +0.6%, held back by bad weather. Asia, Europe and the US all made good progress. Philip Clarke will replace Sir Terry Leahy as CEO in March 2011, but no fundamental change in strategy is anticipated. We forecast low double-digit growth in earnings and dividends in each of the next three years. International and Retailing Services (Tesco Bank, tesco.com, Tesco Mobile etc) are expected to be key drivers, with the core UK food retailing business acting as the 'cash cow' to fund growth. The valuation remains undemanding.

Buy

FTSE 100 Snapshot

Tui Travel (TT.L)

Travel & Leisure

Hold

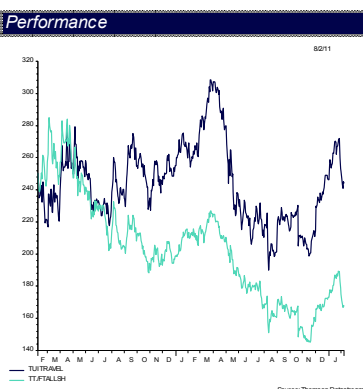
Valuations	2010	2011E	2012E	2013E
PER	7.5	6.9	6.1	5.4
P/CFPS				
Yield (%)	2.7	2.6	2.5	2.6

Summary Forecasts	2010	2011E	2012E	2013E
Turnover (£m)	9,269	9,300	9,550	9,950
PBT (£m)	311	338	397	442
EPS (p)	26.4	29.0	32.5	37.0
DPS (p)	9.8	11.0	13.0	14.0

Source: IBES/DataStream Estimates

Other Data

Price (p)	245.0
Year End	September
Mkt Cap (£m)	2,739
Contact	Sam Hart



Comment

Q1 results in early February were in-line with expectations, but are seasonally unimportant. Disruption caused by political unrest in Egypt and Tunisia is expected to impact Q2 operating profit by £25-30m. The episode is another example of the vulnerability of tour operators to exceptional events completely beyond their control. The shares are cheap and the yield attractive, but fairly reflects the low quality of earnings and poor visibility. The shares will continue to be supported by speculation that TUI AG will acquire the 51% stake it does not already control.

Tullow Oil (TLW.L)

Oil & Gas

Hold

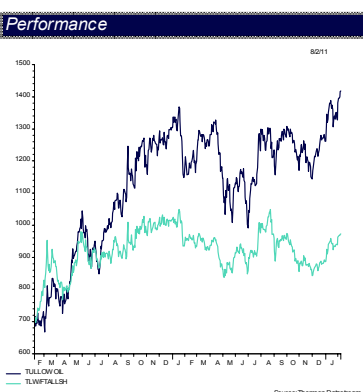
Valuations	2009	2010E	2011E	2012E
PER	765.9	119.0	32.4	27.0
P/CFPS	65.2	33.2	15.1	14.4
Yield (%)	0.4	0.4	0.4	0.4

Summary Forecasts	2009	2010E	2011E	2012E
Turnover (£m)	582	649	1,308	1,465
PBT (£m)	20	148	589	708
EPS (p)	1.9	11.9	43.7	52.4
DPS (p)	6.0	6.0	6.0	6.0

Source: IBES/DataStream Estimates

Other Data

Price (p)	1,417.0
Year End	December
Mkt Cap (£m)	12,588
Contact	Tony Shepard



Comment

A recent IMS said the Group was making progress in negotiations on the ongoing dispute over tax in Uganda which is delaying the approval of the farm-down of its portfolio to TOTAL and CNOOC. Net debt at the end of October was \$1.9bn. The Jubilee project offshore Ghana will produce its first oil on 15 December and will quickly move to a flow rate of 55,000 boe/d and in six months it is expected to ramp up to 120,000 boe/d. Tullow continues to have an active drilling programme including appraisal of Owo and Tweneboa and a major basin-opening exploration campaign in both Africa and South America. Guidance is for capital expenditure of \$1.5bn.

Unilever (ULVR.L)

Food Producers

Accumulate

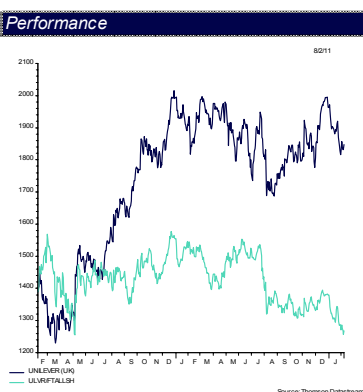
Valuations	2010	2011E	2012E	2013E
PER	14.5	14.9	13.1	12.2
P/CFPS	-	-	-	-
Yield (%)	3.9	4.0	4.3	4.6

Summary Forecasts	2010	2011E	2012E	2013E
Turnover (£m)	44,262	47,300	49,800	52,000
PBT (£m)	6,132	6,100	6,800	7,350
EPS (p)	126.0	123.0	140.0	150.0
DPS (p)	72.0	74.0	78.0	84.0

Source: Charles Stanley Forecasts

Other Data

Price (p)	1,833.0
Year End	December
Mkt Cap (£m)	23,526
Contact	Jeremy Batstone-Carr



Comment

Unilever's Q4 / FY 2010 results beat expectations and the accompanying outlook statement provided a degree of reassurance regarding prospects, notwithstanding the sharp increase in input cost pressures, a competitive operating environment, pressurised consumer and difficult comparatives. Unilever shares trade on 13.6x 2011 estimates and offer a prospective dividend yield of 4.1% (free cash flow yield of 8.4%). Unilever is the most lowly rated of the global consumer staple majors and we suspect that the bad news is priced in. We expect the company to be much more competitive going forward.

United Utilities (UU.L)

Gas, Water & Multiutilities

Accumulate

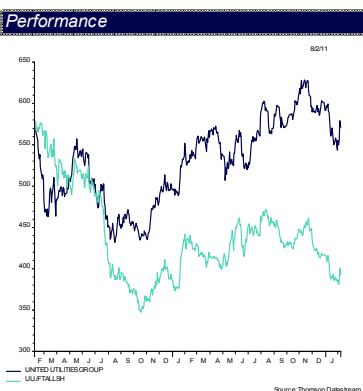
Valuations	2010	2011E	2012E	2013E
PER	9.7	16.2	15.3	14.3
P/CFPS	4.9	7.1	6.4	6.4
Yield (%)	6.0	5.2	5.5	5.8

Summary Forecasts	2010	2011E	2012E	2013E
Turnover (£m)	2,439	1,510	1,577	1,635
PBT (£m)	474	306	332	356
EPS (p)	59.2	35.6	37.5	40.1
DPS (p)	34.3	30.0	31.9	33.4

Source: IBES/DataStream Estimates

Other Data

Price (p)	575.0
Year End	March
Mkt Cap (£m)	3,919
Contact	Tina Cook



Comment

On track for solid underlying financial performance in 2011. Positive demand trend in H1 continues, although regulated revenue will be slightly lower in H2 due to seasonality. Infrastructure renewals and depreciation expected to rise as capex ramps up. Leakage levels higher following recent cold weather. Net debt and gearing helped by higher inflation and proceeds from sale of £600m non-regulated business in Nov. Headroom to cover financing needs to summer 2012. Expects to outperform in regulatory period with financing outperformance already locked in. Committed to raising DPS by RPH+2% pa to 2015 (FYe 30.0p). Steve Mogford becomes CEO in March.

FTSE 100 Snapshot

Vedanta Resources (VED.L)

Mining

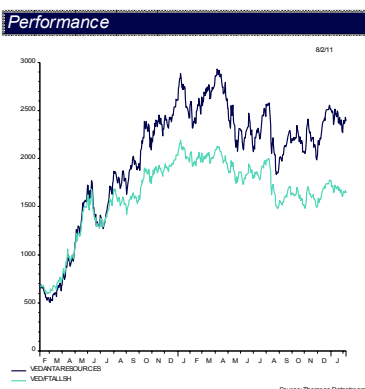
Accumulate

Valuations	2010	2011E	2012E	2013E
PER	19.3	11.9	5.4	4.5
P/CFPS	8.1	5.2	2.4	1.6
Yield (%)	1.1	1.2	1.3	1.6

Summary Forecasts	2010	2011E	2012E	2013E
Turnover (\$m)	7,931	11,260	16,204	19,353
PBT (\$m)	1,842	3,004	5,159	6,458
EPS (c)	203.2	328.0	721.0	870.0
DPS (c)	45.0	47.0	52.0	61.0

Source: IBES/DataStream Estimates

Other Data	
Price (p)	2,432.0
Year End	March
Mkt Cap (£m)	6,453
Contact	Tom Gidley-Kitchin



Comment
Q3 production (27 Jan) showed 9 mth revenues +35% and EBITDA +59% (but there is always significant earnings leakage to minorities). The company's massive growth program is progressing. However it has experienced a number of problems in environmental/ political areas. The cash bid for 51-60% of Cairn India (if allowed) is equivalent to its own market cap, and will represent a major diversification into oil/energy resources. The company is hyperactive, the corporate structure has too many minorities, and the share price is extra-volatile but VED remains a cheap, low cost, high growth, diversified and strategic (India) story.

Vodafone (VOD.L)

Mobile Telecommunications

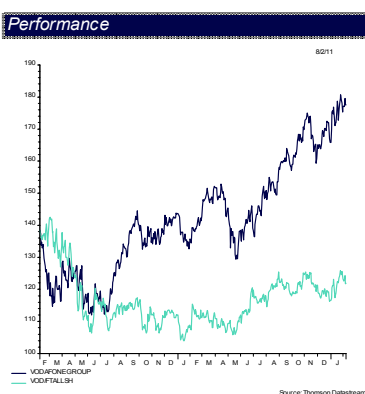
Accumulate

Valuations	2010	2011E	2012E	2013E
PER	11.1	10.7	10.6	10.1
P/CFPS	7.2	7.5	6.9	6.8
Yield (%)	4.7	5.0	5.4	5.7

Summary Forecasts	2010	2011E	2012E	2013E
Turnover (£m)	44,472	45,349	45,974	46,816
PBT (£m)	10,564	10,920	10,955	11,522
EPS (p)	16.0	16.6	16.7	17.6
DPS (p)	8.3	8.9	9.5	10.2

Source: IBES/DataStream Estimates

Other Data	
Price (p)	177.6
Year End	March
Mkt Cap (£m)	92,159
Contact	Tom Gidley-Kitchin



Comment
The Q3 IMS (1 Feb) was broadly in line with expectations and showed previous trends continuing (southern Europe not recovering yet, but balanced by other regions). Disposals in Poland and especially France (SFR) in the next months will be well received if good prices are achieved. Meanwhile an improving relationship with Verizon and strong performance by Verizon Wireless encourage expectations of agreement on dividends from 2012 onwards. We think that all the various issues relating to India may be sorted out in the next 6-12 months, removing uncertainty. The strategy is sensible, management is executing well and valuation is attractive.

Weir Group (WEIR.L)

Industrial Engineering

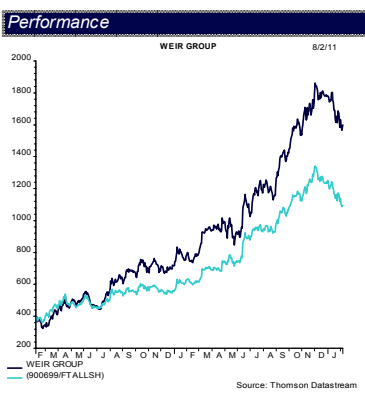
Hold

Valuations	2009	2010E	2011E	2012E
PER	26.3	16.5	14.9	13.7
P/CFPS	13.7	24.7	17.5	16.2
Yield (%)	1.3	1.6	1.7	1.9

Summary Forecasts	2009	2010E	2011E	2012E
Turnover (£m)	1,390	1,600	1,805	1,949
PBT (£m)	170	289	321	348
EPS (p)	60.8	97.0	107.7	117.0
DPS (p)	21.0	26.0	27.5	30.7

Source: IBES/DataStream Estimates

Other Data	
Price (p)	1,600.0
Year End	December
Mkt Cap (£m)	3,372
Contact	Jeremy Batstone-Carr



Comment
Weir Group is scheduled to release full year results on 8th March. News flow has been limited to vague M&A speculation surrounding a possible approach for Swiss Rival Sulzer. We note that c.55% of Sulzer's revenue is derived from its Pumps division (EBIT margin just 11.3% over H1 2010) and a clear overlap exists with Weir which derives a 17.5% margin from its equivalent operation. However, Sulzer would be transformational for Weir and we suspect that the conservatively managed Scottish business continues to favour smaller bolt-on deals.

Whitbread (WTB.L)

Travel & Leisure

Accumulate

Valuations	2010	2011E	2012E	2013E
PER	19.1	16.4	14.7	12.7
P/CFPS	-	-	-	-
Yield (%)	2.1	2.3	2.4	2.7

Summary Forecasts	2010	2011E	2012E	2013E
Turnover (£m)	1,435	1,545	1,677	1,830
PBT (£m)	230	270	300	350
EPS (p)	93.0	108.0	121.0	140.0
DPS (p)	36.6	40.0	43.0	47.0

Source: Charles Stanley Forecasts

Other Data	
Price (p)	1,773.0
Year End	February
Mkt Cap (£m)	3,139
Contact	Sam Hart



Comment
The Q3 trading update revealed continued strong sales momentum, with Premier Inn like-for-like sales +8.7%, Restaurants + 1.5% and Costa +11.0%. Premier Inn remains well placed to benefit from structural growth in the UK budget hotel market, with 55,000 rooms targeted by 2013/14 (currently 44,000). Costa should benefit from further growth in the global branded coffee shop market, with 3,000 stores targeted by 2014/15. We highlight at least £3.5bn of freehold property on the balance sheet. The valuation looks up with events near term, but we would add to holdings on weakness.

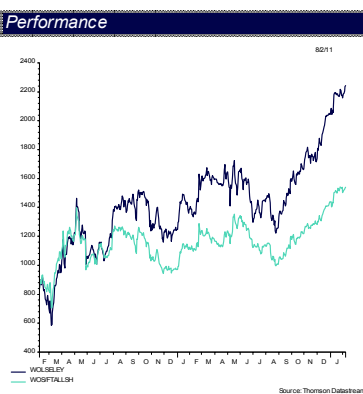
FTSE 100 Snapshot

Wolseley (WOS.L)

Support Services

Accumulate

Valuations	2010	2011E	2012E	2013E
PER	30.2	19.1	14.8	13.6
P/CFPS	-	-	-	-
Yield (%)	0.0	0.4	0.9	1.1



Comment
Preliminary results showed several positive factors. There was 4% LFL revenue growth in Q4 which is continuing into the new financial year. Also, Q4 showed strong cash generation and this gave the new management team the confidence to promise a dividend in 2011. Deleveraging will continue and by improving the operating performance and better targeted resource allocation the Group should drive long term value creation.

Summary Forecasts	2010	2011E	2012E	2013E
Turnover (£m)	13,203	13,600	14,400	15,020
PBT (£m)	349	480	593	646
EPS (p)	74.1	117.0	151.0	164.0
DPS (p)	-	10.0	20.0	25.0

Source: Charles Stanley Forecasts

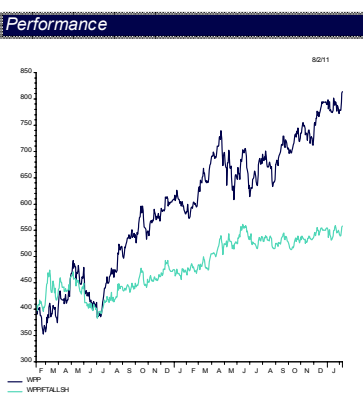
Other Data	
Price (p)	2,238.0
Year End	July
Mkt Cap (£m)	6,368
Contact	Tony Shepard

WPP Group (WPP.L)

Media

Accumulate

Valuations	2009	2010E	2011E	2012E
PER	18.3	14.6	13.1	11.6
P/CFPS	-	-	-	-
Yield (%)	1.9	2.2	2.4	2.7



Comment
The Q3 trading update was encouraging, with like-for-like revenue growth accelerating to +7.5% and full year operating margin guidance raised. Going forward, we expect recovery in the global advertising industry to continue, although the pace of recovery is likely to slow in 2011 as comparatives become tougher. Long term growth prospects remain good, given industry leading exposure to faster growth emerging markets, digital and market research. The Group is highly cash generative, the balance sheet is sound and the valuation remains reasonable. Full year results 4th March.

Summary Forecasts	2009	2010E	2011E	2012E
Turnover (£m)	8,684	9,125	9,550	10,050
PBT (£m)	812	1,015	1,135	1,275
EPS (p)	44.4	55.5	62.1	70.0
DPS (p)	15.5	17.8	19.6	21.5

Source: Charles Stanley Forecasts

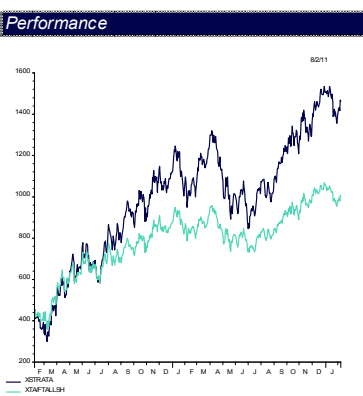
Other Data	
Price (p)	811.5
Year End	December
Mkt Cap (£m)	10,245
Contact	Sam Hart

Xstrata (XTA.L)

Mining

Buy

Valuations	2009	2010E	2011E	2012E
PER	23.0	13.4	8.9	8.5
P/CFPS	15.5	8.6	6.2	6.4
Yield (%)	0.0	0.6	0.9	1.1



Comment
H1 results showed a doubling of earnings (EPS + 108%), like peers driven by metal price increases offset by FX losses on producer country costs, with some further benefit from volume increases and ongoing cost reductions. The company is investing significantly in developing its resources to increase production by 50% in 2014. At the same time it is now adding M&A to its strategy going forwards. We like the management, its focus on shareholder value and the optionality in the portfolio. FY production (31 Jan) showed record coal, nickel, strong copper, lead, ferrochrome. Prelims 8 Feb.

Summary Forecasts	2009	2010E	2011E	2012E
Turnover (\$m)	22,732	28,889	34,972	36,220
PBT (\$m)	3,966	7,342	11,735	12,089
EPS (c)	103.0	176.0	267.0	278.0
DPS (c)	-	15.0	21.0	25.0

Source: IBES/DataStream Estimates

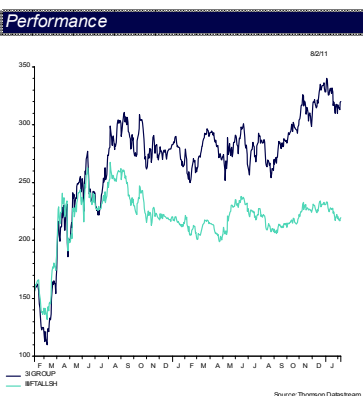
Other Data	
Price (p)	1,467.5
Year End	December
Mkt Cap (£m)	43,507
Contact	Tom Gidley-Kitchin

3i Group (III.L)

Investment Trusts

Hold

Valuations	2010	2011E	2012E	2013E
PER	18.7	7.9	6.4	5.5
P/NAV	0.0	0.0	0.0	0.0
Yield (%)	0.0	1.1	1.3	1.4



Comment
Comment by 3i during the month confirmed realisations broadly in line with the same point in 2010. The trust is paying down debt, has a healthy cash balance which should progress during 2011. Biggest holding 3i Infrastructure released a positive announcement, confirming recent purchases had been all but completed. These are positive for the infrastructure's cash flow and dividend payments, although we caution that the holding trades on a reasonable premium to NAV. We are turning more positive on the sector as economics seems to improve but remain generally cautious given 3i's valuation.

Summary Forecasts	2010	2011E	2012E	2013E
Turnover (£m)	843	828	806	894
PBT (£m)	159	368	407	515
EPS (p)	17.1	40.4	50.2	57.7
DPS (p)	-	3.5	4.0	4.6

Source: IBES/DataStream Estimates

Other Data	
Price (p)	319.4
Year End	March
Mkt Cap (£m)	3,100
Contact	Stephen Peters

FTSE 100 & 250 Stock Ideas

AstraZeneca
Accumulate
 UK FTSE 100 – Pharmaceuticals

3042p
£42.7bn

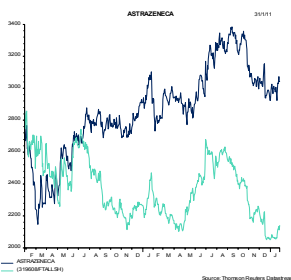
Company Note
 AZN.L

31 January 2011

12m Range	2729-3389p
Net Cash	\$3,653m
Weight in Sector (350)	37.3%
Weight in Index (100)	2.8%
Basic Shares	1409m

EPS estimate boosted by enhanced share buyback

Following the release of Q4 / FY 2010 results which proved much more reassuring than we, or the market, had been expecting we have revised our estimates. In particular we have adjusted our Core EPS estimate in the light of confirmation of the company's decision to double the amount of net share purchases over 2011 from \$2.1bn to \$4bn. Investors should be encouraged by this, and our expectation that the company should maintain its commitment to a progressive dividend policy. The 2010 dividend was raised by 11% to \$2.55 and we look forward to further improvements despite the pressure exerted on the top line created by the loss of patent protection for a number of key products and increased competitive pressure. AstraZeneca shares remain lowly rated, benefit from an attractive dividend yield and enjoy a free cash flow yield in excess of 12% for the next three years. AstraZeneca is one of our stock picks for 2011 and remains our core UK preference amongst large pan-European Pharmaceutical companies.



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Company Activities

AstraZeneca is a biopharmaceutical company. The Company focuses on the discovery, development and commercialization of prescription medicines for six areas of healthcare. Its six areas of healthcare includes cardiovascular, gastrointestinal, infection, neuroscience, oncology, and respiratory and inflammation. The Company's products include Crestor, Nexium, Synagis, Seroquel, Arimidex and Symbicort. The Company owns and operates a range of research and development (R&D), production and marketing facilities worldwide.

AstraZeneca delivered FY 2010 sales of \$33,269m, an improvement of 1% on 2009 (and flat in constant currency terms). This performance was achieved despite product pricing pressure as part of EU austerity measures which were offset by another strong performance from key brands and continued growth in emerging markets. Over Q4, sales declined by 3% (CER) to \$8,617m and Group operating margin emerged at 40.6%, in line with expectations. Full year Core EPS increased by 6% to \$6.71c (+5% CER), ahead of our \$6.60c estimate. AstraZeneca forecasts (conservatively), that targeted Core EPS, based on January 2011 average exchange rates, should fall in the range \$6.45-\$6.75 this year. Irrespective of the increasingly severe headwinds faced by the company in terms of its top line (see table below), investors are likely to focus on AstraZeneca's cash generating ability and the possibility that the enhanced share buyback, announced with these results, could be maintained for at least the next three years. This, coupled with the progressive dividend payment, should ensure a relatively attractive total return in excess of that we expect from major UK rival GlaxoSmithKline.

In terms of operating prospects we note that AstraZeneca has lowered its 2014 targeted sales forecast to the middle of a \$28bn-\$34bn range (previously it was at the top end of this range), the result of a lowered product pipeline contribution (by \$1bn to c.\$3.5bn). Whilst the justification for this move has not been confirmed it could pertain to the delay in the approval of Brilinta and the discontinuation of Certrid. Investors should be aware, however, of the fact that previous consensus was firmly anchored at the bottom end of the 2014 sales range, thus the market has already built in some room for future disappointment in terms of its expectations.

We have incorporated our upgraded Core EPS estimate in our estimates and do not hold with the bear case that AstraZeneca has cut its underlying guidance whilst looking forward to an improvement in EPS through a higher share buyback. We maintain our view that shareholders will continue to benefit from ongoing productivity improvements (supportive for margins) and that any disappointment in terms of the business' operation is amply reflected in the shares' lowly rating. The next key item of news flow is likely to be in relation to Brilinta's approval, which we expect to take place in the US over Q2/Q3 2011.

Charles Stanley clients can access research at www.charles-stanley.co.uk

Please refer to important disclaimers at end of document

Year to 31 st December	2009A	2010A	2011E	2012E	2013E
Sales (\$m)	32,804	33,269	33,600	30,500	30,000
Core Pre-tax Profit (\$m)	12,885	13,086	12,700	11,100	10,800
Core EPS (c)	6.32	6.71	6.77	6.35	6.50
DPS (c)	2.30	2.55	2.75	2.90	3.00
PER	7.4x	7.0x	6.9x	7.4x	7.2x
Net Div Yield	4.8%	5.4%	5.8%	6.1%	6.4%

Source: Charles Stanley Forecasts

BP
Hold
 UK FTSE 100 – Oil & Gas Sector

478p
£89.8bn

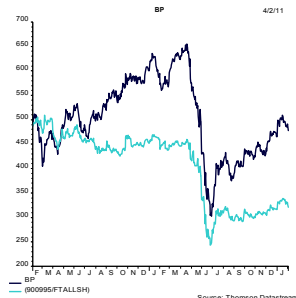
Company Note

04 February 2011

BP.L

12m Range	303-655p
Net Debt	\$25.9bn
Weight in Sector (350)	29.6%
Weight in Index (100)	5.8%
Basic Shares	18.8bn

2011 will be a year of consolidation for BP. Clearly safety is a top priority and meeting its commitments in the Gulf of Mexico as well as executing on disposals and beginning to implement a new strategy of moving away from volume to value based targets. In 2011, production is likely to be lower due to the effects of the drilling moratorium in the Gulf of Mexico, divestments and higher turnaround activity. Going forward, an increased focus on exploration and more divestments in downstream is welcome and the Group has made some solid strategic progress with positive developments in other regions. BP plans 32 start-up projects which may contribute 1 million boepd by 2016. In summary, BP still carries Gulf of Mexico risks but it has begun to rebuild its strategy. A rebased quarterly dividend of 7 cents per share has been set at 50% below the previous payout.



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Company Activities

BP is a holding company. With effect from January 1, 2008, the Company operates in two business segments: Exploration and Production, and Refining and Marketing. A separate business, Alternative Energy, handles the Company's low-carbon businesses and options outside oil and gas and is referred as Other Businesses and Corporate.

2010 Results. In 2010, BP's earnings amounted to \$20.5bn (2009; \$14.6bn) before non-operating items. In 2010, total non-operating items were a negative \$25.5bn. All charges relating to the Gulf of Mexico tragedy are treated as non operating items which amounted to \$40.9bn for the year with an additional \$1bn charge in Q4. BP assumes that it will not be found to be grossly negligent with regard to the tragedy and if this is the case, it should be able to recover costs from its partners which are withholding payment (\$6bn to date). BP's net debt at the end of 2010 was \$25.9bn (gearing of 21%) and this should fall in 2011. Disposal proceeds of \$13bn are expected in 2011 and BP has a gearing target of 10-20% compared to its historic 20-30% target range. The Deepwater Horizon disaster was an inflexion point for BP. It has driven disposals and has led to a new strategy and a more prudent dividend policy.

Dividend, Investment & Disposals. BP will pay a quarterly dividend of 7 cents per share, some 50% lower than the previous payout which will cost about \$5bn per annum. Over the next three years BP still has to inject \$15bn into the \$20bn Gulf Coast Claims Facility. Organic capital expenditure was \$18.2bn during 2010 and it is expected this will increase to \$20bn in 2011. So far, \$22bn has been raised from disposals and the Group is on target to achieve its target of \$30bn by the end of 2011. Divestments had a book value of \$1.4bn and contributed about \$1.5bn profit. After a strategic review, it has been decided to sell the Texas City and Carson refineries in the US by the end of 2012. As a result, BP will reduce its US refining capacity by 50% and by 2012 it could hold the smallest refining portfolio out of the global oil majors.

Exploration & Production reported a 2010 profit of \$27.7bn (2009; \$22.5bn). This was a good result but it was largely driven by higher prices. For example, in 2010, the average realised oil price for BP was about \$79/bbl compared to \$62/bbl in 2009. Also, the results benefited from lower depreciation and a higher contribution from TNK-BP. In 2010, production for the year was 4% lower at 3,822mboe/d. In 2011, there will be pressure on volumes and costs as the Group invests in safety and processes. Furthermore, production will be impacted by regulation in the Gulf of Mexico and divestments. Overall, BP's 2011 production guidance is lower at 3,400mboe/d. **Refining and Marketing** reported a profit of \$5.5bn in 2010 compared to \$3.6bn in 2009. The result reflected a stronger refining environment as well as improved operational performance though the results were impacted significantly in Q4 by a loss from supply and trading.

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Valuations	2010	2011E	2012E	2013E
PER	7.7	7.6	7.2	6.8
P/CFPS	-	5.5	4.8	4.6
Yield (%)	1.7	3.5	3.7	4.5
Turnover (\$bn)	297	312	328	341
PBT (\$bn)	31	31	33	35
EPS (c)	109.2	111.0	117.0	124.0
DPS (c)	14.0	29.0	31.0	38.0

Source: IBES/DataStream Estimates

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BSkyB
Hold
 UK FTSE 100 – Media

763p
£13.4bn

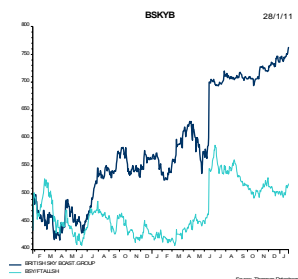
Company Note
 BSY.L

28 January 2011

12m Range	763-521p
Net Debt	£945m
Weight in Sector (350)	27.8%
Weight in Index (100)	0.9%
Basic Shares	1,753m

Cable or Sky?

BSkyB's interim results were strong and well ahead of expectations. The sharp uplift in earnings primarily reflected the high degree of operational gearing within the business and reduced investment in broadband / telephony. Key performance indicators released for the second quarter remained buoyant. The underlying performance of the company, however, continues to be overshadowed by News Corp's proposal to acquire the 60.9% stake in the company which it does not already own. Regulatory clearance for the deal is currently being sought in the UK. Our best guess is that clearance will be granted, although perhaps only after a lengthy further investigation by the Competition Commission and / or implementation of certain 'remedies'. We would expect a formal offer to subsequently be forthcoming from News Corp, although the continued strong financial performance of the business means the Board of BSKYB may feel obliged to demand a price well in excess of its previously stated minimum acceptable level of 800p. An obvious arbitrage opportunity exists, but the current share price probably fairly reflects risks that either the deal is blocked by regulators or that News Corp is not forthcoming with a formal offer for an extended period of time. Our recommendation remains Hold.



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Company Activities

BSkyB is Europe's largest pay-TV provider, with 10.1m subscribers. It has an unrivalled portfolio of quality content, with rights to show a wide range of top-flight sports events (e.g. Premier League football and England cricket) and new film releases from the main Hollywood studios. In July 2006 it entered the broadband market and is now one of the UK's largest providers with 3.0m customers. It also has 2.8m fixed-line telephone customers, of which 2.2m take the line-rental option. The Group is 39% controlled by Rupert Murdoch's News Corporation. James Murdoch (son of Rupert) is Non-Executive Chairman.

- **Interim results.** Revenue increased by 15% to £3,186m, EBITDA by 19% to £677m, PBT by 31% to £477m and EPS by 32% to 20.0p. Operating margin expanded by 140bps to 16.3%. Free cash flow was 44% higher at £443m. The interim dividend was raised by 11% to 8.7p. Dividend policy is to maintain the payout ratio at c.50% and to raise the dividend in line with underlying earnings.
- **Balance sheet.** Net debt declined by £131m to £945m, leaving gearing at only 17% and net debt / EBITDA at c.0.7x. We consider the balance sheet position to be strong.
- **Key performance indicators** remained strong in Q2. A net 140,000 customers were added, taking the total to 10.1m. Sales of additional products were buoyant, with 343,000 Sky+HD additions (total 3.5m), 61,000 Multiroom (total 2.2m), 204,000 Broadband (total 3.0m), 187,000 Telephony (total 2.8m) and 268,000 line rental (total 2.2m). 23% of customers now take a TV, Broadband and Telephony service. Average revenue per user (ARPU) was £49 higher than the same stage last year at £541 per annum, driven by a 5% price increase and take-up of additional products. Churn was 10bps lower than the prior year at 9.6%, slightly below the long term target of 10%.
- **Revenue growth** was driven by a 15% increase in retail subscription revenue to £2,631m, reflecting growth in the total number of customers and ARPU. Wholesale subscription revenues increased by 31% to £151m, reflecting a higher number of wholesale subscribers to premium channels (Sky Sports / Sky Movies), first-time inclusion of wholesale revenues from Living TV (acquired July 2010) and carriage of HD on another platform for the first time. Advertising revenue increased by 40% to £236m, driven by the acquisition of Living TV. On an underlying basis, advertising revenue was up by 14%, broadly in line with the overall TV advertising market (+13%). Share of the TV advertising market increased by c.300bps to 17.4%.

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Year to June	2009A	2010A	2011E	2012E	2013E
Sales (£m)	5,323	5,912	6,370	6,800	7,200
Pre-tax Profit (£m)	661	779	970	1,195	1,338
EPS (p)	25.9	31.1	39.2	48.0	54.0
DPS (p)	17.6	19.4	20.8	23.5	25.8
PER	29.4x	24.5x	19.5x	15.9x	14.1x
Net Div Yield	2.3%	2.5%	2.7%	3.1%	3.4%

Source: Charles Stanley forecasts

- **Operating costs** increased by 15% to £1,417m. The key driver was a 15% increase in programming costs to £1,058m, reflecting the acquisition of new sports rights and the cycling of certain sports events (e.g. Ryder Cup golf / Ashes cricket) and investment in the entertainment category. Marketing costs were up by 14% to £613m, a consequence of expenses related to strong product sales. Subscriber acquisition cost rose by £34 to £354, as a higher proportion of customers took up the more heavily subsidised HD product. Subscriber management costs were down by 12% at £286m, as a range of efficiency initiatives took effect. Operating costs (excluding programming costs) as a percentage of sales improved by a further 300bps to 40.7%.
- **Acquisition of Wi-Fi operator.** BSkyB announced the acquisition of The Cloud Networks Limited for an undisclosed sum (but “less than £50m”) with results. The company is the UK’s leading Wi-Fi operator, with over 5,000 public Wi-Fi locations. The rationale behind the acquisition is to offer broadband customers a comprehensive Wi-Fi connectivity option while on the move. We think this is likely to become increasingly important as BSkyB looks to make its programming available through alternative platforms. *Sky Anywhere* will be launched later this year, making content available through i-Phones, i-Pads, lap-tops and the Xbox.
- **Outlook** comments from Chief Executive, Jeremy Darroch, were cautiously upbeat. He is cautious on the economic outlook for 2011, as the impact of the government’s deficit reduction plan flows through to the consumer economy, although no signs of a deterioration in consumer confidence have been observed to date. He remains confident that BSkyB is well positioned to benefit from long-term growth in the entertainment and communications marketplace. Management is comfortable with consensus forecasts for the full year.
- **New Corp approach.** Regulatory clearance continues to be sought for News Corp to acquire the 60.9% stake in BSkyB that it does not already own. Regulatory clearance has been granted by the European Union competition authorities, but the UK investigation into implications of the deal for media plurality remains ongoing. Based upon the conclusions of the Ofcom report, Jeremy Hunt (Secretary of State for Culture, Olympics, Media and Sport) has concluded that the merger could operate against the public interest in media plurality and therefore he intends to refer the matter to the Competition Commission for further investigation. He has, however, stated that he is prepared to consider proposals from BSkyB that could mitigate the threat to media plurality before making a final decision. The proposals are believed to involve either a sale of Sky News or other action that would make the channel independent of News Corp. Hunt will make a final decision on whether to refer the deal to the Competition Commission by 7th February at the latest. A Competition Commission investigation could last up to six months.
- **Recommendation.** Actions of the UK media regulatory authorities have historically been hard to predict, but we expect the deal to be given regulatory clearance, although it may only come after a lengthy investigation by the Competition Commission and / or implementation of certain ‘remedies’. We would subsequently expect News Corp to be forthcoming with a formal offer. The Board of BSkyB stated in June 2010 that it would only be prepared to recommend an offer at 800p or above. Based on forecasts for the year to June 2011, an offer at this level implies an earnings multiple of 20.8x or an EV / EBITDA multiple of 9.3x. Given further strong forecast earnings growth in subsequent years, these multiples appear relatively modest. We think the Board of BSkyB may ultimately feel obliged to demand a price in excess of 800p. An obvious arbitrage opportunity exists for higher risk clients, but the current level of the share price probably fairly reflects risks that either a deal is blocked by regulators or that News Corp waits for an extended period of time before submitting a formal offer. On balance, our recommendation is **Hold**.

Experian

Buy

UK FTSE 100 – Support Services Sector

780p

£7.8bn

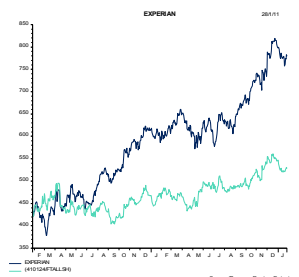
Company Note

28 January 2011

EXPN.L

12m Range	821-565p
Net Debt	\$1.9bn
Weight in Sector (350)	13.0%
Weight in Index (100)	0.4%
Basic Shares	1.0bn

The Q3 update was very positive and shows the Group is firmly back on the growth track with 8% organic revenue growth. We expect this trend to continue for several years. Although a strong share price performance (+32% over 12 months) has driven a re-rating, we continue to see further upside for the share price. Experian will deliver high quality earnings with strong cash flows. This year the Group is improving the dividend payout and has completed more than half of its \$300m share buyback programme. The long-term outlook is very positive and the Group plans to deliver sustained mid-high single digit organic revenue growth of premium quality.



3-Year Strategic Plan. Experian's three year strategic plan is to sustain and grow its leading global market leadership. It aims to deliver sustained mid-high single digit organic revenue of premium quality. The growth drivers are the provision of new data requirements, new customer segments and the accelerating shift to digital marketing channels. As a result by 2014, about 35% (currently about 25%) of revenues are expected to come from outside the two main US and UK regions. Also, by 2014, new customer segments could result in over 65% of revenues from outside financial services compared to about 60% at present. There will be a modest uptick in investment (capital expenditure is expected to be \$370m in FY11) to support growth and the aim is to at least maintain or improve margins. In the first half of 2011, the margin improved by 10bps to 24.3%. The Group is highly cash generative and an update on buyback/dividends will be given in May. Organic investments will be supplemented with targeted acquisitions.

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Company Activities

Experian employs about 15,000 people across 40 countries. It is a leading global information services company, providing data and analytical tools to help businesses to manage credit risk, prevent fraud, target marketing offers and automate decision making. Experian also helps individuals to check their credit score, and protect against identity theft.

Interim Management Statement (IMS). The recent IMS for the 3 months to December 2010 showed that the Group is delivering strong growth. Organic revenue growth at constant exchange rates grew by 8% in the quarter. In Q3, revenue increased by 12% at constant exchange rates and organic revenue increased by 8%. The difference mainly relates to the acquisition of Mighty Net acquired in September 2010 for \$207m.

Global Leadership. Experian has a unique global footprint in information services. It has five global strategic objectives which includes: - to sustain and grow its market leading position in credit data and value-added analytics, to maximise high growth expansion opportunities in new customer segments, to build scale operations in targeted fast-growth emerging markets, to establish global leadership in digital marketing services and to become the leading global consumer brand for credit information and identity protection services. In the recent IMS organic revenue performances were as follows:- +18% in Latin America, +7% North America, +4% UK & Ireland, +7% EMEA/Asia Pacific. By principal activity, organic revenue increased by 7% at Credit Services, 11% at Marketing Services, 7% at Decision Analytics and 9% at Interactive. In North America, Q3 organic revenue growth at Credit Services was 5%. Within the UK, Credit Services' revenue still declined by 1% in Q3 but overall, the UK & Ireland division delivered Q3 organic revenue growth of 4% compared to a flat performance at the half-year.

Strong Comparatives. For the year to March 2011, the Group expects similar rates of organic revenue growth to the first half and a modest improvement in EBIT. Overall, the Q3 +8% organic revenue growth represents a small uptick on the first half. The Q3 update shows the revenue trend is currently running above guidance though Q4 will have a strong comparative in the Latin American division.

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Year to March	2009A	2010A	2011E	2012E	2013E
Revenue (\$m)	3,790	3,867	4,160	4,500	4,885
Pre-tax Profit (\$m)	844	910	950	1050	1,125
EPS (cents)	63.2	67.1	68.2	75.2	80.0
DPS (cents)	30.0	23.0	27.0	30.0	32.0
PER	19.6x	18.5x	18.2x	16.5x	15.5x
Net Div Yield	1.6%	1.8%	2.2%	2.4%	2.5%

Source: Charles Stanley Forecasts

GlaxoSmithkline

Reduce

UK FTSE 100 – Pharmaceuticals

1171p

£60.8bn

Company Note

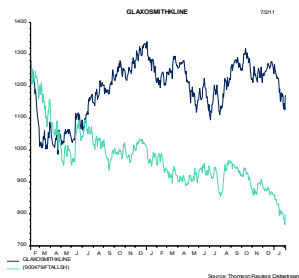
GSK.L

07 February 2011

12m Range	1088-1324p
Net Debt	£8.9bn
Weight in Sector (350)	53.2%
Weight in Index (100)	3.9%
Basic Shares	5.1m

Shareholder-friendly moves mask lower margins

Investors are likely to be hugely relieved by GlaxoSmithkline's decision to dominate its Q4 / FY 2010 results (and the last overseen by departing CFO Mr Julian Heslop), with a surprise *increase* in the dividend (we had suspected that the final quarterly payment might have been passed as a consequence of the £2.2bn legal charge assumed in the Q4 results and which impacted so heavily on the company's full year performance (see table below)). In addition GlaxoSmithkline has initiated £1-2bn share repurchases over 2011, re-emphasising the desire to return surplus cash to shareholders. Again, we had not assumed that the company would begin a share buyback programme until 2012 at the earliest. In addition, c.£500m disposals of consumer health brands regarded as non-core are scheduled, the eventual proceeds of which may also be earmarked for shareholders. Inevitably, such a move, coupled with a challenging operating environment, has necessitated a significant overhaul of estimates but the net effect of two severe countervailing forces is that we leave our 2011 EPS estimate unchanged and broadly in line with consensus.



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Company Activities

GlaxoSmithKline is a global healthcare group, which is engaged in the creation and discovery, development, manufacture and marketing of pharmaceutical products, including vaccines, over-the-counter (OTC) medicines and health-related consumer products. Its principal pharmaceutical products include medicines in the therapeutic areas, such as respiratory, anti-virals, central nervous system, cardiovascular and urogenital, metabolic, anti-bacterials, oncology and emesis, dermatologicals and vaccines. The Company's segments include Pharmaceuticals and Consumer Healthcare

We can take nothing away from the decision to stick to the progressive dividend payout and accept that the shares' dividend yield is likely to remain attractive to income orientated investors. We also note that were GlaxoSmithkline to achieve a £1-2bn share buyback programme over the next few years then this could have a positive impact on EPS growth over the long-term. Also, we suspect that the company is attempting to send investors a strong signal that it believes that existing legal charges and provisions are sufficient to meet future obligations if they become necessary. Investors should note, however, that unlike AstraZeneca, GlaxoSmithkline is financing its share buy-back programme, initially at least, not through free cash generation but from disposal gains. It is entirely fair, in our view, to ascribe a higher opportunity cost to the greater risk associated with GlaxoSmithkline's strategy. Furthermore, it should be noted that the proposed share buyback takes place at a higher multiple than does that of AstraZeneca, thus the share buyback should be adjudged less earnings accretive.

We are holding our 2011 EPS estimate at 116p which reflects the likely positive gain from the announced sale of GlaxoSmithkline's \$1.7bn holding in Quest (announced prior to the results release). Although guidance for the usual P&L metrics (CoGS, S,G&A and R&D as % of Group sales) were all in line investors should note that the company is also guiding for a c.100bps operating margin contraction in 2011, largely due to the loss of high margin H1N1 vaccine and Avandia (diabetes) sales. Furthermore, we suspect that high impact newsflow could be limited over 2011 (we suspect that the market is already anticipating Benlysta (Lupus) approval). With regard to the pipeline, GlaxoSmithkline confirmed the progress of the LAMA/LABA combination (COPD) into Phase 3 trials and an extensive, 16,000 patient, trial aimed at assessing the survival rate for COPD patients following treatment with Relovair (dubbed "son of Advair"). A trial of this size should go a long way towards addressing any potential regulatory concerns regarding the product's safety.

The upshot from these results is that we maintain our **Reduce** recommendation and our view that better prospects for shareholders may lie elsewhere in the near-term.

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Year to 31 st December	2009A	2010E	201E	2012E	2013E
Sales (£m)	28,368	28,392	28,280	29,450	30,050
Pre-tax Profit (£m)	8,726	4,505	8,525	8,700	8,750
EPS (p)	121.2	53.9	116.0	125.0	128.0
DPS (p)	61.0	65.0	69.0	71.0	73.0
PER	9.6x	21.7x	10.1x	9.4x	9.1x
Net Div Yield	5.2%	5.5%	5.9%	6.0%	6.2%

Source: Charles Stanley Forecasts

Johnson Matthey

Accumulate

UK FTSE 100 – Chemicals

1967p
£4.2bn

Company Note

04 February 2011

JMAT.L

12m Range	1440-2122p
Net Debt	£660m
Weight in Sector (350)	45.8%
Weight in Index (100)	0.3%
Basic Shares	214.6m

Keep on Truckin'

In the wake of a resilient fiscal Q3 trading update, covering the period to end-December, earnings estimates are being upgraded. With regard to the outlook for the remainder of the fiscal year, Johnson Matthey expects results to be “strong” and “slightly ahead of earlier expectations.” Although the extent of the upgrade is limited to low single-digit this performance may come to be seen as exceptional at a time when many companies are facing the possibility that earnings expectations will be lowered. Not only did Johnson Matthey’s Q3 results provide reassurance but a recent investor day emphasised the Group’s commitment to R&D with a view to raising its profile in end-markets regarded as critical to the company’s future: emissions legislation, energy security and the likely evolution of the low carbon economy. Based on our estimates the shares trade off a 12-month forward PER of 15x (EV/EBITDA 11x) which we do not view as excessive given both short and long-term trends.



The latest trading update confirms that progress continues to be made across all divisions, building on the improved performance identified at the interim stage. Johnson Matthey has benefitted from the revival in automotive end-markets and rising platinum group metal (PGM) prices. Given that metals prices appear more robust than Johnson Matthey originally expected and that European light duty automotive markets have proved so resilient, coupled with the improvement in heavy duty diesel in North America, the Group now believes that results for the year should surpass earlier expectations.

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Company Activities

Johnson Matthey Plc is a specialty chemicals company. The Company focuses on catalysis, precious metals, fine chemicals and process technology. It has operations in approximately 30 countries. The Company has three divisions: Environmental Technologies, Precious Metal Products, and Fine Chemicals & Catalysts. On February 6, 2008, the Company acquired Argillon Group. On November 26, 2008, the Company sold its non-core Insulators and Alumina businesses to Lapp Insulator GmbH & Co. On March 2, 2009, it acquired 49% interest of Alfa Aesar China Limited.

Johnson Matthey reported that underlying Group pre-tax profit increased by 34% over fiscal Q3, against the comparable period in 2009, although slightly below the figure reported at the interim stage reflecting normal seasonal influences. **Environmental Technologies** (25% of Group turnover), delivered a 21% increase in sales over the quarter (excluding precious metals) and by 6% over Q2 reflecting higher substrate costs associated with the fitment of diesel catalysts in Europe. Investors should note excess capacity in Belgium as the Group’s Macedonian operations are built up, but can take heart from the fact that this is already priced into estimates and that the Group has entered talks which could lead to the possible closure of the Benelux location.

Within the division **Emission Control Technologies** reported a 25% sales improvement boosted by China and sales of heavy duty vehicles. **Process Technologies** reported a 15% sales improvement. **Precious Metal Products** (c.70% Group sales) reported a “significant” 63% increase in annualised operating profit with both platinum (+22%) and palladium (+94%) starting. **Fine Chemicals** (c.5% Group sales) reported a sales improvement of 10% over the equivalent period in 2009 boosted by pharmaceutical sales in North America.

Key risks to the share price include a possible slowdown in Western economic activity and / or a sharp fall in platinum group metal prices. As neither event is envisaged in Charles Stanley’s base case scenario we believe that the outlook appears bright and maintain our **Accumulate** recommendation.

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Year to 31 st March	2010A	2011E	2012E	2013E	2014E
Sales (£m)	7,839	9,820	10,400	11,000	11,500
Pre-tax Profit (£m)	254.0	335.0	375.0	402.0	423.0
EPS (p)	86.4	115.0	128.0	140.0	150.0
DPS (p)	39.0	45.0	50.0	56.0	61.0
PER	22.7x	17.1x	15.3x	14.0x	13.1x
Net Div Yield	2.0%	2.3%	2.5%	2.8%	3.1%

Source: Charles Stanley Forecasts

Man Group

Recommendation

UK FTSE 100/250 – Sector

301p
£5.66bn

Croesus Note
EMG.L

20 January 2011



Another quarter of net outflows, the ninth straight quarter, has undermined market confidence in Man Group's claim that it has turned a corner and that with the acquisition of GLG things will be rosier in 2011. The market was expecting a net inflow in the quarter. With decent fund performance, a strong new business pipeline and the integration of GLG apparently going well this should indeed give the business good momentum in 2011. But as we have stated in previous notes we are looking for a clear trend in declining redemptions and increased sales before we raise our recommendation on the stock from **Hold**. However, we do point out that the stock is yielding around 5%.

- Man Group has issued its Q3 interim management statement in which it states that funds under management (FUM) at 31 December were \$68.6 billion (30 September 2010: \$40.5bn with the GLG acquisition adding \$25.4bn).
- Overall, there was a net outflow in the quarter of \$1.0bn.
- There was a net outflow of \$1.1bn in long only funds, reflecting a single redemption of over \$1.0bn from a low margin mandate, as the investor switched out of European equities. Inflows in the long only business are at higher margins than outflows. Total long only sales and redemptions were \$1.2bn and \$2.3bn.
- Man experienced a net inflow of \$0.1bn into alternative funds in the third quarter. Both AHL and GLG alternatives saw positive flows, with the majority coming from GLG. There was a small net outflow of \$0.3bn in institutional fund of funds, although the near term outlook remains positive. Institutional quarterly redemptions confirmed on 1 January 2011 were around \$400m. Total alternatives sales and redemptions were \$2.9bn and \$2.8bn.
- Man Group state that "the institutional sales outlook is positive, with a major European managed account mandate for at least \$1.5bn expected to conclude in February for funding over the year".
- AHL Diversified was up 5.3% in the 3 months to 31 December 2010 to give a calendar year return of 14.8%. AHL was 3.7% below peak (performance fee level) on a weighted average basis at 31 December, with 75% of FUM at or within 5% of peak.
- Man Group reported a regulatory capital surplus position of around \$300m and over \$1.8bn in cash on 31 December 2010.

Nic Clarke

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Company Activities

Man Group is engaged in alternative investment management business. The Company distributes its products and solutions to private investors via a global network of intermediaries, and directly to institutions. Man provides asset management and investment management services to private investors, institutions and financial professionals. The Company's principal operating subsidiaries include Man Investments Limited, Man Investments AG, Man Investments (USA) LLC, Man Investments (CH) AG, Man Group UK Limited, E D & F Man Limited, Man Investments Holdings Limited, Man Group Holdings Limited, Man Ultraviolet Limited and Man Investments Finance Limited.

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Royal Dutch Shell

Accumulate

UK FTSE 100 – Oil & Gas Sector

2178p
£58.7bn

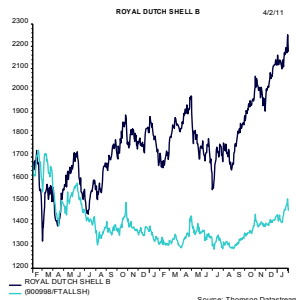
Company Note

04 February 2011

RDSb.L

12m Range	1554-2251p
Gearing	17%
Weight in Sector (350)	19.3%
Weight in Index (100)	3.8%
Basic Shares	2.7bn

A Q4 earnings miss of 16% resulted in the share price giving up some of its recent outperformance. Nevertheless, overall the Q4 outcome was still 48% higher than last year and the CEO said that “We are making good progress against our targets, and there is more to come from Shell.” We believe that Royal Dutch Shell has good momentum going forward with a rich seam of projects and a good portfolio of long-life assets which should be confirmed at the Strategy update on 15th March.



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Company Activities

Shell is a global group of energy and petrochemical companies. The Head Office is in the Netherlands and the parent company is Royal Dutch Shell which is incorporated in the UK. The Group employs 102,000 staff across 100 countries. It produces 2% of the world's oil and 3% of the world's gas. It produces 3.2m barrels of oil and gas per day. It owns 45,000 service stations and 25 refineries and chemical plants.

Q4 & 2010 Results. Royal Dutch Shell's clean Q4 earnings of \$4.1bn was 16% below market expectations. A much lower than expected Downstream contribution was the main reason for the shortfall but also the Upstream contribution was also lighter than expected. Overall, the Q4 outcome was still 48% higher than last year. The 2010 preliminary results showed earnings of \$18.1bn (+57%). In 2010 production increased by 5% to 3,314 thousand boe/d. The dividend was held at a quarterly rate of 42 cents per share and this is the indicated payout for 2011.

Upstream & Downstream. In Q4, underlying Upstream earnings were \$3.5bn (2009; \$2.8bn). During Q4, production was 5% higher and earnings benefited from higher oil (+15%) and gas prices (+9%). The Upstream contribution was impacted by weak gas trading and start-up costs which together reduced the outcome by about \$450m. Downstream activities include Refining, Marketing, Chemicals, Trading and Alternative Energy and in Q4, Downstream earnings were \$0.4bn (2009; loss of \$1.7bn). Although this showed a big improvement year-on-year, it was much lower than the Q3/10 number of \$1.4bn. This is largely due to increased downtime at some of the major refineries for planned maintenance and as a result the Refining business recorded a \$470m loss.

Disposals & Investment. 2010 was extremely successful in delivering disposals which raised \$7bn. The most significant divestment was the sale of 29% of its interest in Woodside for a total price of \$3.2bn. In 2011, disposal proceeds are expected to be \$5bn of which \$2bn will come from agreements in 2010. During 2010, cash flow from operating activities was \$27.4bn compared to \$21.5bn in 2009. Net capital investment of some \$25-27bn is expected in 2011 compared to \$24bn in 2010.

Delivery & Gearing. A key event for 2011 is the Pearl GTL, Qatargas and Oil Sands start-ups. In terms of Shell's \$194bn of capital employed, some \$44bn is work in progress which is about to be put into service. With some large new projects moving from investment to production, there should be a large improvement in free cash flow towards the end of 2011 and into 2012. In the meantime, there could be further start-up costs to be incurred in the first half of 2011. There is no formal forecast for 2011 production due to continuing uncertainty over the Gulf of Mexico (e.g. a negative 50,000 boepd), Nigerian volumes (elections and some asset sales) and Opec quotas. Shell has an indicative target of 3,500 thousand boe/d for 2012. By the end of 2012, Shell's production could be some 11% higher than the 2009 level and the cash flow could be more than 80% higher. For 2011, cash flow prospects appear to have been enhanced by the recent upward move in the oil price. At the end of 2010, gearing was 17% and this should fall over 2011 and 2012.

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Valuations	2010	2011E	2012E	2013E
PER	11.6	9.0	8.0	7.8
P/CFPS	-	5.5	4.9	5.1
Yield (%)	4.8	4.9	5.1	5.5
Turnover (\$bn)	368	374	400	391
PBT (\$bn)	34	38	40	37
EPS (c)	304.0	391.0	439.0	450.0
DPS (c)	168.0	172.0	180.0	194.0

Source: IBES/DataStream Estimates

Tesco

Upgrade to Buy

UK FTSE 100 – Food Retail

403p
£32.3bn

Company Note

TSCO.L

01 February 2011

12m Range	455-368p
Net Debt	£1.8bn
Weight in Sector (350)	66.7%
Weight in Index (100)	2.1%
Basic Shares	8,030m

Missing the Point

Tesco's share price has been weak in recent weeks, driven by a somewhat disappointing post-Christmas trading update. The episode has led some analysts to question future growth prospects for the core UK business, which accounted for c.67% of Group operating profit in 2009/10. In our opinion, however, the weak like-for-like sales performance can at least in part be attributed to bad weather in the UK, with December having been the coldest since modern records began in 1910. The structure of Tesco's store portfolio and sales mix appears to have made it particularly vulnerable to weather related disruption. Going forward into 2011, like-for-like sales growth is likely to remain relatively subdued, but we would expect it to move back in line with the industry. The mature state of the UK food retail market and Tesco's c.30% market share means we have expected profit growth in this part of the business to moderate for some time. Increasingly, we expect International and Retailing Services to take over as the drivers of earnings growth. The core UK food retailing business will act as the 'cash cow' to fund growth in these areas. Underlying earnings growth could well slow from the low double-digit rate of recent years to high single-digit, but we think this is more than discounted in the current share price. The valuation (February 2012 PE 11.2x) looks too cheap for a company with such good long term defensive growth prospects and significant asset backing (NAV c.280p). We see potential for a total return from the shares in excess of 15% over the next 12 months. In line with our recommendation criteria, we upgrade from Accumulate to Buy (last comment was on 18th January 2011 at 411p).



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Company Activities

Tesco is the world's 3rd largest retailer, with 5,000 stores and 97m sq ft of space. In the UK, it is the leading food retailer, with 2,545 stores, 33m sq ft of space and a c30% market share. It operates through a range of retail formats, including hypermarkets (Extra), superstores, convenience (Metro / Express) and on-line (tesco.com). It also owns Dobbies Garden Centres. Tesco Bank has 6.5m customer accounts and offers a range of savings, insurance, loan and credit card products. Tesco Mobile has 2.3m mobile phone customers. Overseas, the Group has 1,300 stores (35m sq ft) in Asia and 1,000 stores (29m sq ft) in Europe. In the US, there are 165 Fresh & Easy stores (1.7m sq ft) following launch in November 2007. The Group has a 90% stake in dunnhumby, a global consumer insight business with data on 350m consumers.

- UK Christmas trading.** Like-for-like sales excluding fuel (but including VAT) in the six weeks to 8th January were up by 0.6%, weaker than consensus expectations of +1.7% (source: Reuters). Adjusting for changes to the VAT rate, however, like-for-like sales are estimated to have been down by 0.3-0.4%. The performance represents the first period in which Tesco has reported negative like-for-like sales for c.20 years. Non-food appears to have been the key area of weakness, impacted by bad weather which prevented customers travelling to larger out of town stores (greatest exposure to non-food). Tesco is particularly vulnerable to weakness in non-food categories, given much higher exposure than peers. Non-food represents c.25% of UK sales, compared with c.15% for Sainsbury and c.8% at Morrison. The food category was said to have delivered a "strong like-for-like sales performance".
- UK performance vs. peers.** The Christmas trading performance was unquestionably behind the industry average, but perhaps not to the extent it appears at first sight. Sainsbury like-for-like sales excluding fuel (but including VAT) were up by 3.6% over the 14 weeks to 8th January, but this was boosted by a c.1% contribution from store extensions, 0.8% from the higher VAT rate and a strong performance from the non-food range, which remains at a relatively early stage of development. Morrison's like-for-like sales were up by c.2% in the six weeks to 2nd January, but similarly benefited by c.0.9% from the higher VAT rate and remains in 'turnaround mode'.
- UK like-for-like sales outlook.** We expect like-for-like sales in the UK food retail industry to remain relatively subdued in 2011. The demand environment is likely to be constrained, with consumers under pressure from higher direct and indirect taxes, sub-inflation wage growth and concerns over future employment prospects amongst

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Year to February	2009A	2010A	2011E	2012E	2013E
Sales (£m)	53,898	56,910	62,450	67,500	72,500
Pre-tax Profit (£m)	2,917	3,176	3,500	3,950	4,350
EPS (p)	27.0	29.2	32.5	35.8	40.0
DPS (p)	12.0	13.1	14.5	16.0	17.9
PER	14.9x	13.8x	12.4x	11.2x	10.1x
Net Div Yield	3.0%	3.2%	3.6%	4.0%	4.4%

Source: Charles Stanley forecasts

workers in the public sector. Underlying sales volumes are likely to be flat or in slightly negative territory. Food price inflation is therefore anticipated to be the main driver of like-for-like sales growth. Price inflation in the industry is currently believed to be in the 1.5-2.0% range and we would expect it to continue to tick up as commodity price increases continue to feed through to food prices. We forecast Tesco's like-for-like sales growth (ex-fuel and VAT) to be c.2% in the 2011/12 fiscal year, broadly in line with management's planning assumptions.

- **UK competitive environment** is expected to remain intense but rational.
 - **Rational players.** We believe the main players in the UK food retail industry are behaving rationally and expect them to continue to do so. Tesco, Sainsbury and Morrison all have to justify returns to shareholders. Initiation of a 'price war' would be 'suicidal' and lead to a collapse in profitability for all in the market. Perhaps the greatest threat comes from Asda, given that it is a division of the much larger Walmart and therefore has more limited disclosure requirements. We see no logical reason, however, why Walmart would want to initiate a 'price war' and further reduce already disappointing returns from the business. Asda's latest '10% cheaper' promise should be regarded as a marketing 'gimmick', rather than a sign of aggressive price reductions.
 - **Promotional activity** is running at a historic high of 35-40% of industry sales (historic average 20-25% of sales). Such a high level of promotional participation is disruptive to supply chains and customer shopping habits. The impact on gross margins, however, is believed to be relatively limited, with a high proportion of promotions being funded by suppliers of branded goods eager to support volumes.
 - **New space.** Total industry space is believed to have grown by c.6% in 2010 and is forecast to increase by a further c.4.5% in 2011. The rate of space expansion is well above the historic rate of 2-3% and has raised concerns that the market might be becoming saturated. We remain relatively sanguine, however, about the rate of new space expansion. Approximately 40% of all new space is being allocated to non-food and a further 20% to the convenience segment. The new space data also includes some recycled space, such as Asda's acquisition of 193 Netto stores and Tesco's 77 Mills convenience stores.
- **International** is expected to become an increasingly important driver of profit growth. The profit contribution is currently being held back by heavy investment in a number of markets, but we expect it to increase as assets mature. We briefly remind investors of the Group's activities in its major overseas markets and future growth prospects.
 - **Europe** (13% 2010 operating profit). As at 28th August 2010, the Group had 1,004 stores in Europe covering 28.8m sq ft of space. It operates in Poland, Hungary, the Czech Republic, Slovakia, the Republic of Ireland and Turkey, listed in descending order by space. The region was the worst hit by the global economic downturn, but firm evidence of recovery in sales and profits was seen in the interim results and the improving trend is expected to continue. Guidance is for total space to increase by 2.9m sq ft (+10%) in the 2010/11 fiscal year. Development of the business in Turkey (branded *Kipa*) is a key strategic priority, given its large, growing and relatively under-developed retail market.
 - **Asia** (12% 2010 operating profit). The Group has 1,300 stores in the region covering 32.8m sq ft of space. It operates in South Korea, Thailand, China, Malaysia and Japan, listed in descending order by total space. The region was relatively unaffected by the global economic downturn, meaning the business continued to deliver solid growth in sales and profits throughout. The trend is expected to continue, although profitability is likely to be held back by heavy investment. Guidance is for total space to increase by 3.7m sq ft (+12%) in 2010/11. Korea has proven to be the most successful market for Tesco to date and it is now joint market leader. China, however, has been identified as a significant opportunity for the future. It's current strategy in China is focused around building 'Lifespace' shopping malls (as part of a JV) in second and third tier cities in the east of the country. The Group plans to build 80 malls in the 2010-15 period, of which three are currently open. The approach ensures that Tesco is the anchor tenant in the shopping malls and therefore guarantees high footfall locations for its stores. China is expected to breakeven in 2010/11, with operating profit potentially building to c.£100m by 2015.
 - **US** (loss-making). Tesco entered the US in November 2007 with the opening of its first *Fresh & Easy* neighbourhood store. The format is almost unique in the US marketplace, given it's emphasis on convenience foods, fresh produce and own

brand goods. The business made a loss of £165m in 2009/10 and losses are expected to be similar in 2010/11, but management is guiding for it to move into profitability in 2012/13. High operational gearing means profitability is expected to build strongly thereafter. Establishing the Fresh & Easy format has proven to be much more challenging than anticipated at the time of launch, but we think Tesco was extremely unlucky to enter the US shortly before its economy plunged into the worst recession since the 1930s. The areas in which it launched (Southern California, Nevada and Arizona) were particularly badly hit, with many catchment areas that had previously been gaining population actually experiencing depopulation. Expansion of the store network was suspended, but unfortunately the infrastructure was in place for a network of c.400 stores, meaning much higher than expected losses. Stabilisation of the economy, however, means the store opening programme has now resumed. Approximately £1.2bn has been invested in the business to date, although this should be seen in the context of the Group's c.£3.5bn annual capital expenditure. Chief Executive Elect, Philip Clarke, presented to analysts on Fresh & Easy at the time of interim results in October and stated that he was very confident it had all the components for a profitable business model. We think an exit from the US is very unlikely within the next 2/3 years and contrary to many analysts would not dismiss the possibility that the business could become a significant contributor to Group profit in the longer term. In the event that management did decide to pull the plug, we think net exit costs would be relatively immaterial in a Group context (c.£10m).

- **Retailing Services** encapsulates all of the Group's activities which are not directly related to the sale of food and non-food goods through its physical store network. Activities include Tesco Bank, Tesco Mobile, tesco.com, Tesco Direct and dunhumby. Management set a target in 2008 of growing Retailing Services operating profit from c.£400m to c.£1bn over the 'medium term'. The businesses generated £540m of operating profit in 2009/10. The makeup of profit, however, is slightly opaque, as results for some of the activities are included within the geographic regions and not revealed individually.
 - **Tesco Bank** (7% 2009/10 profit) is considered to have the best potential amongst the Retailing Services activities to become a significant contributor to Group earnings growth. In 2009/10 the business reported an operating profit of £250m. The contribution is forecast to rise to c.£375m by 2012/13. At the interim stage, Tesco Bank had 6.5m customer accounts across its insurance, savings, loans and credit card products. Customers continue to be migrated onto its own insurance and banking platforms from the old RBS operated platforms. It is the intention to launch a mortgage product in the first half of the 2011/12, with a current account following in the second half. We think prospects for customer acquisition are particularly good. Customers trust the Tesco brand and are likely to be willing to migrate from the high street banks, which are regarded with antipathy following the banking crisis and subsequent bonus fiasco. The pool of at least 16m Clubcard holders is likely to be a particularly rich recruiting ground, given the extensive range of data held on these customers. .
- **Asset backing.** As at 27th February 2010, Tesco estimated its property portfolio was worth £34.6bn. We would expect the estimate to be raised further with 2011 full year results, reflecting further falls in property yields. Freehold properties represent c.70% of the portfolio and it is company policy to maintain the ratio around this level. The current strategy is to sell mature property assets in the UK and use the proceeds to purchase freehold properties in overseas markets, where future returns are expected to be higher. Adjusting for forecast year end net debt of £7.0bn, the last reported IAS 19 pension deficit of £1.5bn and capitalised operating lease liabilities of £3.5bn, we estimate NAV per share to be c.280p per share.
- **Valuation.** The shares are trading on a February 2012 PE of 11.2x, 2013 PE of 10.1x and a 2012 prospective yield of 4.0% (covered 2.2x). The valuation represents a discount to Sainsbury (2012 PE 13.4x), but a small premium to Morrisons (10.7x). We highlight that the forward PE ratio is close to a 15 year low and see potential for a modest upward re-rating, with the catalyst perhaps being another good set of full year results or an improvement in UK like-for-like sales growth.
- **Next scheduled news flow.** Full year results 19th April 2011.

Unilever
Accumulate
 UK FTSE 100 – Food Producers

1837p
£23.5bn

Company Note
 ULVR.L

04 February 2011

12m Range	1662-2000p
Net Debt	€6.7bn
Weight in Sector (350)	72.1%
Weight in Index (100)	1.5%
Basic Shares	2812m

Resilient in a challenging environment

In the wake of Unilever's Q4 / FY 2010 results we have adjusted our near-term estimates lower. We have, however, maintained our 2013 estimates at prevailing levels as we have faith in the company's ability to weather very challenging operating conditions over the medium term. Unilever's management took the opportunity afforded by these results to reiterate guidance to achieve profitable volume growth ahead of the market, steady and sustainable operating margin improvement and strong cash flow. In the wake of Proctor & Gamble's recent news regarding the impact of higher input costs Unilever indicated input cost inflation of 400bps of sales over 2011, around a 12% increase in the cost base. In part this should be recouped through higher product prices, in part through lower A&P spend and in part through identified cost savings of around €1bn, however, there is no disputing the adverse impact that higher commodity prices will have and thus we expect operating margins to suffer over H1 2011. On our adjusted estimates Unilever shares trade off 15x 2011 earnings, but 13x 2012 estimates, towards the bottom of its recent valuation range. The dividend yield is, however, supportive until such time as management's belief that Unilever is ready to compete, bears fruit.



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Company Activities

Unilever is a supplier of consumer goods. It focuses on everyday consumer needs for nutrition, hygiene and personal care. Unilever's portfolio includes brands, as Knorr, Lipton, Hellmann's, Magnum, Omo, Dove, Lux and Axe/Lynx. The Company's products are sold in over 170 countries around the world. It operates under four categories: savoury, dressings and spreads; ice cream and beverages; personal care; and home care. In April 2009, the Company completed the acquisition of the TIGI Hair Care Product Business and Advanced Education Academies. In July 2009, the Company acquired the sauces business of Baltimor Holding ZAO. In December 2010, the Company acquired Sara Lee Corporation's Sara Lee Personal Care and European Laundry business.

Unilever reported organic sales growth of 4.1% over 2010, of which 5.8% was volume growth while pricing was -1.6%. This outcome was better than we, or the market had been expecting. Group sales of €44.2bn were exactly in line with expectations. The company's underlying EBIT margin increased by 20bps over the year, to 15%, again in line with the market. Full year fully diluted EPS increased by 25% to €1.46c and the dividend was raised substantially, as forecast, to 71.4p to PLC investors. Unilever generated €3.4bn free cash in 2010, a reflection of ongoing working capital control but year-end closing net debt was €6.7bn (€6.4bn) reflecting the impact of acquisitions undertaken during the year. Unilever confirmed the completion of Sara Lee's personal care business over Q4 2010 and the disposal of Italian frozen foods. Alberto Culver has received shareholder approval but awaits regulatory clearance.

Whilst the operating environment remains extremely tough we see little scope for estimate upgrades over 2011. However, we do note that after years of reorganising the business management has declared Unilever ready to pose a threat to its global rivals. In the view of highly regarded Group CEO Mr Paul Polman, the company is under-rated relative to his own expectations. To achieve internal targets Unilever will have to start delivering improved results on a consistent basis. In part this delivery will depend on better and faster innovation, superior execution of strategy in the market place and on an acceleration in the pace at which the "performance culture" pervades the business. We suspect that 2011 is likely to be out of the company's hands in the context of rising input costs, intense competition and severe pressure on consumers' available spending power. To make matters harder, volume comparisons with H1 2010 are difficult and emerging market demand may suffer from regional macro economic policy. Nonetheless, we are increasingly convinced that the Unilever turn-around is in place and that continued careful stewardship will prove rewarding for shareholders over the medium term.

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Year to 31 st December	2009A	2010A	2011E	2012E	2013E
Sales (€m)	39,823	44,262	47,300	49,800	52,000
Pre-tax Profit (€m)	4,916	6,132	6,100	6,800	7,350
EPS (p)	104.0	126.0	123.0	140.0	150.0
DPS (p)	41.0	72.0	74.0	78.0	84.0
PER	17.6x	14.5x	14.9x	13.1x	12.2x
Net Div Yield	2.2%	3.9%	4.0%	4.2%	4.6%

Source: Charles Stanley Forecasts

Technical Overview

Two-faced January

Sharp rallies in December are often followed by significant pull-backs in January and although most leading equity indices did not fall sharply they did, however, round out the month well below the highs that had been recorded in the first couple of weeks. In the case of the UK market this reversal is not so hard to figure out – Q4 GDP was revised to show a drop of 0.5%, which means that the feared ‘double-dip’ still cannot be entirely ruled out. Elsewhere, investors have been unsettled by events in the Arab world which, at the time of writing, are ongoing. It would seem that investing in 2011 is not going to be a straightforward business.

US Markets

The **S&P 500** spent most of last month trending gently higher and one result of this ongoing strength is that it has remained above its 10-day moving average since November 30th, for a 37-day winning run. Such sequences are not common and the last time we saw anything similar was in the first quarter of last year when the index held above the 10-day MA for 48 days. What matters here is that runs of 30 days or more are unusual and when they are finally broken the result is often a pull-back of 5-10% (and sometimes more); consequently, it is worth noting that the 23.2-point drop that occurred on Friday January 28th (which was the largest fall since August) took the S&P through that moving average in a decisive manner.

In fact, the magnitude of the drop and its timing (the index was trading at just below 1300 at the time) suggest that a short-term top might now be forming. This hypothesis is reinforced by the picture presented by the various technical oscillators - specifically, the 14-day RSI is displaying clear bullish divergence, which implies that the underlying index is losing upside momentum. It is also worth noting that the 14-week RSI has reversed from the highs that were recorded earlier in the month, implying that it has reacted to resistance in the form of the previous peak, from April 2010.



Chart courtesy of Metastock

Such price action is likely to prove worrisome for short-term traders since it leaves the index hovering right around the uptrend that began after the lows in August, a breach of which would certainly go some way to strengthening the impression that this ‘wave’ of the rally

has reached a conclusion of sorts. However, for investors with a longer time horizon I would suggest that the trend-line to monitor is the one that began with the lows in March 2009, and which is currently standing at around **1220**. A reversion to that level would also involve a test of support in the form of the intermediate peak that was reached last April, at 1219.8, and this confluence of potential support areas strongly suggests that the S&P should find some buyers should it fall that far.

If that key level is exceeded, however (an event to which we would ascribe a 30% possibility at this stage) the inference would be that the index has entered a corrective phase, with an initial downside target of around 1175 (which would equate to a 38.2% retracement of the six-month rally).

The **Nasdaq Composite** has also started to display price action which suggests that a top might be forming. Last month we noted that most technical indicators had reached levels that were starting to look unsustainable so it is worth noting that the 14-week RSI has retreated just shy of the top that was reached nine months ago. Also worth noting is that the recent drop has taken the Composite through its short-term uptrend, suggesting that a corrective phase might be imminent. A 38.2% retracement of the rally since August would take the index back to around 2510.



Chart courtesy of Metastock

UK Market

The FTSE All Share traded up to a high of 3154 last month and after spending a couple of weeks struggling to break above 3150 it began to move lower.



Chart courtesy of Metastock

The weekly candlestick chart above demonstrates that the UK index has been trending higher within the parameters of a rising channel, the lower end of which is implying the possibility of support in the region of 3030 (a level that is being tested at the time of writing).

A breach of this significant trendline would strongly suggest that the All Share has entered a corrective phase and, that being the case, we should expect to see a retracement of at least 38.2% of the six-month rally, implying a downside target in the region of 2900. Coincidentally, a retreat to that level would also involve a test of the long-term uptrend (i.e. the one that began in March 2009) – in other words, 2900 is a critical level for this index.

Last month we drew readers' attention to the fact that the **FTSE Small Cap Index** had rallied to the extent that it had retraced 61.8% of the long-term decline that began in mid-2007. The chart shows that the 38.2% and 50% retracement levels have been key support/resistance levels so it seemed reasonable to assume that the 61.8% level would also have relevance. At this point it is still too early to say whether the index will stall at this point, although it is worth noting that it has not really been exceeded by very much. A close back below 3200 or so would strongly suggest that resistance has held.

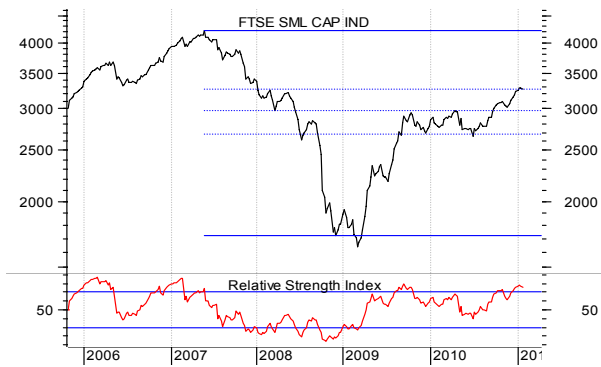


Chart courtesy of Metastock

US Dollar

The technical picture for the US dollar (as shown in the chart below for the Dollar Index) has deteriorated over recent weeks as investors have elected to put their cash into other areas (not least the euro). Note the manner in which the US currency failed at resistance in the form of the intermediate highs that were reached in late November, at 81.2 or so – January's trading peak was 81.16 – and the subsequent reversal took the



Chart courtesy of Thomson Reuters Metastock

greenback through the bottom of its recent trading range (where support had been found in the region of 79) and to levels last seen in mid-November. The inescapable conclusion is that the dollar-rally (such as it was) is already over and that it is hard to see it breaking out of the 77-81 range in the near term.

Commodities

The recent weakness in the US dollar has not automatically led to a surge in commodity prices, suggesting that this particular correlation (which has been fairly reliable over the last couple of years) might finally be breaking down. Brent Crude has retreated from its recent peak, as have copper, silver and other precious metals. However, it is the retreat in the gold price that has grabbed the headlines and, as the chart shows, the downtrend has been in place since the late-December peak at \$1420. At this stage a close above 1340 is required to negate that trend, while a drop below \$1300 would be decidedly bearish.

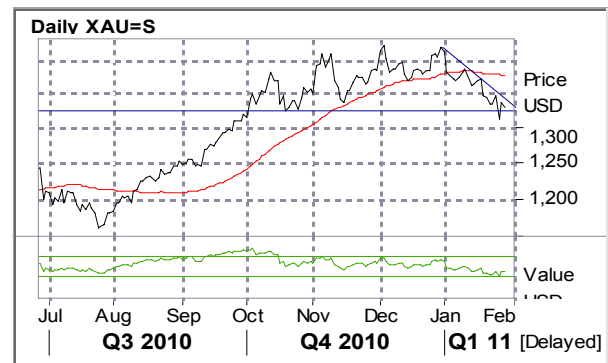


Chart courtesy of Thomson Reuters Metastock

Japan

The **Nikkei 225** traded up to an eight-month closing high of 10589.76 last month but, in common with other major indices, was unable to maintain those gains. In fact, the subsequent reversal has taken the Tokyo market back through the uptrend which began in November, although it should be noted that this has yet to result in a major reversal.



Chart courtesy of Metastock

Traders should keep an eye on the 50-day moving average (currently at 10300 or so), a breach of which would suggest that a corrective phase has begun.

Bill McNamara

Exchange Traded Funds

“When people ask me if I have any spare change, I tell them I have it at home, in my spare wallet”. **Nick Arnett**

iShares 100th

On the 24th January iShares, the leader in ETFs by market share, announced that they had launched their 100th LSE listed ETF: iShares MSCI Poland ETF.

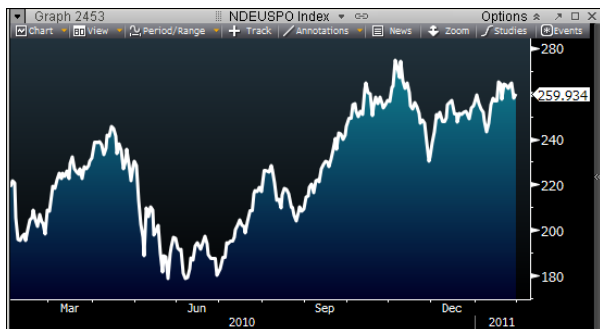


Fig.1. MSCI Poland Index. Source: Bloomberg

Prior to this ETF being listed it was very difficult for an investor to make an investment in the region, being a notoriously hard-to-access market. The interesting point with this particular ETF is that, despite iShares now starting to introduce swap backed ETFs, this one is physically backed. This therefore makes the fund’s holdings a lot more transparent, the holdings of which can be downloaded at any time from the iShares website. The MSCI Poland Index tracks 23 of Poland’s largest capitalised companies.

One thing to note though is the spread of investments. At the time of writing, the exposure to the financial sector in Poland stands at just over 48%, with the next most heavily weighted sector being *utilities* and then *materials* at roughly 13% each. This could be cause for concern if we ever return to the dark days of the financial crisis, something some market commentators are still predicting.

Poland is a hugely important country to Emerging Markets and has a weighting in the MSCI Eastern Europe index of some 20%. According to recent research published by Blackrock, the Polish economies current outlook “remains robust”, a fact supported by the following table.

	GDP (%)		CPI (%)	
	2010	2011	2010	2011
Russia	4.9	4.4	8.4	9.5
Poland	3.2	3.7	2.7	3.9
Romania	-2	1.3	7.7	6.2
Czech Republic	1.8	2.2	1.9	2.9
Hungary	0.9	2.5	5	3.5
Slovakia	3.9	3.3	1.9	4.1
Bulgaria	-0.1	2.5	3.5	4.6
Croatia	-1.1	2	2.4	3.5

Source: Blackrock. End of November 2010

The ticker for this ETF is SPOL, is traded in Sterling while the underlying index is traded in USD. Therefore, there may be a certain amount of currency drag. Its Total Expense Ratio (TER) stands at 0.74%, which is on the high side compared to other ETFs from iShares, undoubtedly reflecting the difficulty of investing in the region. Reporting funds status has been applied for so it may be best to wait for this to be granted to avoid any

complications with HMRC, if it is not bought in a tax efficient wrapper.

The factsheet can be located at:
<http://uk.ishares.com/en/pc/?domain=www.ishares.co.uk>

FSA concerns about leveraged ETFs

We now return to a subject last reported on by IHB back in July 2009, namely leveraged and inverse ETFs. In that article we highlighted how these products work, explaining the many myriad risks associated with them and the caution the unwary investor should adopt if investing in them.

In a discussion paper last month, the FSA stated that it is considering adopting a more ‘intrusive’ approach to products – what it calls ‘product intervention’ - and that one element of this enhanced approach may include publishing a list of investments ‘likely only to be suitable for certain segments of the retail market (for example, sophisticated customers capable of fully understanding the way in which the product works and the likelihood of it failing)’. Interestingly, leveraged ETFs are included in the FSA’s illustrative list.

All inverse/leveraged ETFs come with a wealth warning, not least on the ETF providers’ websites. Many clearly show that these derivative-backed ETFs are “designed for financially sophisticated institutional investors who want to use them for short-term investment strategies. They are not suitable for buy and hold strategies”. This is the main point: they are short-term investments with any position being held for longer than, at most, one week, possibly resulting in serious underperformance.

Despite this, there is a place for these products, the main point however is to “know your product”. There has never been a better use of the old and possibly overused axiom: “*Caveat emptor*”.

Source launch active ETF

We have reported a number of times in the recent past on the relatively new ETF entrant, *Source* who continues to snap at the heels of the largest and oldest ETF providers, stealing market share with their extremely close tracking, low fees and innovation. Source recently announced a new active ETF called the Man GLG Europe Plus Source ETF (ticker: MPFE). Traded in Germany in Euros (currency risk) and carrying a 75 basis point TER, the ETF aims to compile ideas from 60 leading brokers to create a highly liquid and diversified European equity portfolio. This appears to be much like the MWTOPS funds reported on in the March 2010 issue of the IHB, but while the MW TOPS ETF is a total return fund, the Source ETF is long only. Dividends are reinvested.

It is unclear as to whether this fund will have Reporting Funds status at the moment so it may be best at this early stage to only invest using a tax efficient wrapper.

John Fletcher

Please be aware, a number of the products mentioned in this article would be considered as complex instruments, as futures may underlie the Exchange Traded Funds (ETF). You should always make sure that you are aware of what you are buying and how the ETF is priced. If you are unsure you should seek assistance from your financial adviser.

Corporate Actions

Misys to return cash

Business software group Misys plc is to return around £145m to shareholders via a B share scheme, giving them the choice of receiving the cash in the form of income or capital.

The return follows last year's disposal by Misys of most its holding in Allscripts, which realised £670m net. A total of £525m was returned via a tender offer.

The return of the balance from the disposal proceeds will be accompanied by a proportional 7-for-8 share consolidation.

Details of the B share scheme

Subject to shareholder approval, at a general meeting to be held on 11 February 2011, shareholders will receive one B share for every existing ordinary share that they hold on 11 February 2011. Shareholders will be able to elect between the following choices in respect of those B shares:

- * To receive a single dividend of 38p per B share for some or all of their B shares;
- * To have some or all of their B shares redeemed on the Initial Redemption Date at 38p per B share, being paid on 4 March; or
- * To have some or all of their B shares redeemed at the Final Redemption Date at 38p per B share being paid on the 14 April.

Shareholders who decide to have only part of their holding of B shares redeemed on the Initial Redemption Date or choose not to receive the single B share dividend in respect of their B shares, will have the remainder of their B shares redeemed on the Final Redemption Date at 38p per B share.

Shareholders who do not elect, or who are not eligible to elect, for any of the B share alternatives will have their B shares redeemed at the Final Redemption Date at 38p per B share.

A share consolidation will take place in conjunction with the B share scheme. Existing ordinary shares will be subdivided and consolidated so that shareholders receive 7 New Ordinary Shares (subject to fractional entitlements) for every 8 existing ordinary shares held on 11 February 2011. The intention is that the intrinsic value of one New Ordinary Share immediately after Listing of the New Ordinary Shares should be approximately equal to the intrinsic value of one Existing Ordinary Share immediately before the consolidation.

The effect of the share consolidation will be to reduce the number of issued ordinary shares to reflect the return of 38p per ordinary share, but shareholders will own the same proportion of Misys issued share capital immediately following the consolidation as they did previously (subject to fractional entitlements).

The New Ordinary Shares will be traded on the London Stock Exchange in the same way as existing ordinary

shares and will be equivalent to the existing ordinary shares in all material respects, including their dividend, voting and other rights.

Regen Therapeutics demerger & name change

The company is proposing to transfer its existing business into a new company, Regen Therapeutics Ltd, which will be tradeable on JP Jenkins with existing shareholders receiving 1 ordinary share in Regen Therapeutics Limited for each existing share held as well as retaining their existing share. Regen Therapeutics Plc will become an investing company, will continue to trade on AIM and change its name to Alexander Investments Plc. The expected date for the demerger is 18 February 2011.

Tesco Bank launches retail bond

The supermarket giant's banking arm, Tesco Bank, is raising between £50 and £100m by issuing bonds specifically for individual investors. This is the first such bond to be issued by Tesco Bank and can be bought and sold by investors exclusively through stockbrokers or wealth managers with a minimum purchase of £2,000. It can be held within a stocks and shares ISA or SIPP.

The Bond is intended to pay a fixed rate of interest of 5.2% Gross per annum for its term, until August 2018. It will be listed on the London Stock Exchange's Order Book for Retail Bonds.

The Bond will be funded on the closing date of 24 February and interest will accrue from this date. Interest is paid in half-yearly instalments and the Tesco Bank 5.2% Bond is intended to return 100% of the face value of £100 on maturity, before dealing costs.

Tesco is raising the money as part of a determined push to expand its banking business and move into mortgages.

Sylvania Resources proposed redomicile to Bermuda

Sylvania Resources intends to redomicile the holding company of the group from Australia to Bermuda.

Under the Redomicile proposal, all existing shares in Sylvania Resources will be exchanged for shares in Sylvania Platinum Limited, a company that has been incorporated in Bermuda to become the new holding company for the Sylvania Group. The Redomicile will be effected by a scheme of arrangement between Sylvania Resources and its shareholders.

If shareholders approve the Redomicile proposal at the scheme meeting and the scheme is subsequently approved by the Court, it is currently envisaged that the scheme would take effect and that Sylvania Platinum would be admitted to the official list of ASX and to trading on AIM on 24 March 2011.

George Coster

Fixed Interest - Europe still in trouble. UK gilt-edged yield curve flattens

While Anglo-Saxon sovereign bond yield curves are flattening as inflationary pressure intensifies, Europe's bond markets remain in a state of extreme flux. Another chance went begging on Friday 4th February as the region's leaders once again gathered in Brussels to debate, amongst other things, greater regional economic co-ordination, improved competitiveness, a common approach to the crisis in North Africa and a possible beefing up of the European Financial Stability Fund (EFSF). It was the market's hopes for the latter that had served to set pulses racing in the financial markets in the days leading up to the meeting.

At issue lay hopes that the region's governments might empower the Fund to purchase sovereign bonds outright, either at primary auctions, through private placements or on the secondary market. If enacted, this could have represented a **very important step towards resolving the periphery's debt crisis**. Put simply, the EFSF has the ability to fund itself, given a likely AAA credit rating, at say 30 years and with those funds purchase short-term peripheral sovereign debt from the secondary market. The bonds acquired could be swapped with Greece's Treasury for 30-year bonds that could either be held by the Fund or sold back to the market. This effective restructuring would work without triggering those credit default swaps we know to be lurking in the system with the potential to bring down the weaker financial institutions around the world (such is the interconnectedness of the global banking system). In addition such a plan would have allowed the Greek government to cash in on the haircut the financial market has already given itself on those bonds.

In addition, the strengthened EFSF could also intervene in auctions to stabilise prices by offering a capping bid on yields. This would serve immediately to cool speculation regarding failed auctions and runaway borrowing costs.

Despite the obvious advantages of such a plan the region's heads left the meeting empty-handed...again! Rather than drill into the details regarding how an extension of the Stability Fund might work, Germany and France preferred to present new ideas on a "competitiveness pact" aimed at harmonising tax regimes, wages and pensions policies. Little was said regarding the pact and so the Fund continues to perform its original function, writing bridging loans conditional on IMF-directed economic and fiscal austerity programmes. Investors must come to terms with the fact that nice as a co-ordinated regional economy would be, and a worthy long-term aspiration, the problems besetting the region's periphery are immediate. A "competitiveness pact" is unlikely to boost investor confidence in the ability of Portugal, Spain or Belgium's ability to repay their outstanding loans.

Meanwhile, in a worrying development, Europe's banking system is showing increasing signs of seizing up, just as the peripheral debt issue moves (temporarily) to the back burner. The ECB saw nearly 400 banks queue up for emergency funding at its latest 7-day repo auction and we doubt that despite the region's exposure to the crisis in Egypt, that it was purely concern regarding the outcome in North Africa that led to so many banks coming forward. The banks are, in fact sensing the possibility of a disorderly resolution to the region's sovereign debt crisis. Note that banks that can barely fund themselves and fear immediate financial crisis are still in no mood to lend

money, either to individuals or to the small and medium-sized enterprises regarded as the life blood of long-term economic well being.

In the near-term investors can look to the next milestone in the crisis. Greece is due for its next disbursement from the IMF on February 28th. Investors may raise an eyebrow regarding the non-existence of the IMF's report on the country's economic progress **which is now long overdue**. Greece only qualified for its November 30th disbursement, which was delayed by 6 weeks, on a technicality! We wonder how the IMF will proceed from here and may not have to wait too long to find out. Secondly, Ireland goes to the polls soon and that country may elect an administration intent on renegotiating affordable terms with the IMF and EU. Such a move, while good for Ireland, would certainly crimp the country's bridging loan programme and has the potential to throw the eurozone banking system into crisis. Finally, Portugal has two substantial bonds maturing; €4.5bn on 15 April and €5bn on 15 June. Will Portugal have the cash to redeem these bonds? Will China and Japan be called into support again?

The pressure on the Monetary Policy Committee

The Bank of England's Monetary Policy Committee will meet again over 9th-10th February to debate the health of the domestic economy, the outlook for inflation and the setting of base rates. We suspect that the debate will be very different to the "wait and see" discussion held in January. More recent data has painted deeply contrasting views on the state of the economy. First and foremost, the country's economy contracted by a much worse than expected -0.5% over Q4 2010. Much debate has centred on whether this was exacerbated by severe weather prior to Christmas, or if the effects of the deep recession and still high unemployment should be feared more than inflation. The data does not support the view that the economy's weakness can be explained by weather alone. While two members of the 9-person Committee voted for a base rate hike in January, it remains to be seen whether concern regarding the impact of the government's austerity programme, a year of declining real wage growth and the ongoing tight credit conditions to households and small businesses outweigh evidence that inflationary pressure is building.

While headline inflation rises and has remained above the target 1-3% range for yet another month, investors should not lose sight of the fact that the latest round of macro economic data shows **an acceleration in the contraction of money and credit, for the first time since the Great Depression**. Whilst the nation's media obsesses regarding inflation and its causes we continue to believe that it is this measure more than any other which will stay the majority on the Committee from exacerbating an already difficult position for the domestic economy by initiating the process of base rate hikes. The financial markets continue to look for the first UK base rate hike in May, timed to coincide with the release of the May Quarterly Inflation Report. We note that the MPC will have had just a few weeks to digest the first estimate of UK real GDP for Q1 2011, scheduled to be released in late-April. Charles Stanley continues to believe that the first UK base rate hike will come at end-Q2 / early Q3 2011. Despite the "noise" we suspect that the "risk" or rather good news, is that the Bank holds steady.

Jeremy Batstone-Carr

Investing For Income

Sector	Net Dividend Growth			Net Div Yield		Yield Relative	
	2010e	2011e	2012e	2011e	2012e	2011e	2012e
Oil & Gas	-38.1	47	3.8	3.9	4.1	114.7	107.9
Oil & Gas Producers	-38.9	48	3.6	4	4.2	117.6	110.5
Oil Equipment, Services	18.1	13.2	12	1.8	2	52.9	52.6
Basic Materials	76.7	27.7	8.7	1.7	1.8	50.0	47.4
Chemicals	33.7	12	10.3	2.3	2.6	67.6	68.4
Forestry & Paper	3.8	4.2	4.5	1.2	1.9	35.3	50.0
Industrial Metals	n/a	n/a	n/a	0	0.6	0.0	15.8
Mining	79.6	28.5	8.7	1.6	1.8	47.1	47.4
Industrials	12.6	11.1	9.3	3	3.3	88.2	86.8
Construction & Materials	6.2	4.2	4.5	4.4	4.6	129.4	121.1
Aerospace	6.2	7.7	5.3	3.7	3.9	108.8	102.6
General Industrials	23.2	10	17.7	2.9	3.5	85.3	92.1
Electricity & Electrical Equipment	18.2	12	6.9	2.4	2.5	70.6	65.8
Industrial Engineering	10	8.2	7.9	2.5	2.7	73.5	71.1
Industrial Transport	6.9	4.6	7.1	4.1	4.4	120.6	115.8
Support Services	17.6	16	11.7	2.6	2.9	76.5	76.3
Consumer Goods	13.6	8.8	9.4	3.6	3.9	105.9	102.6
Automobiles & Parts	n/a	n/a	n/a	2.7	3.6	79.4	94.7
Beverages	10.4	9.4	9	2.9	3.2	85.3	84.2
Food Producers	7.2	5.7	6.8	3.4	3.7	100.0	97.4
Household Goods	16.4	6.4	9.6	2.9	3.1	85.3	81.6
Personal Goods	23	21.1	6.7	1.7	1.8	50.0	47.4
Tobacco	14.7	9.4	10.1	4.9	5.4	144.1	142.1
Healthcare	6.5	5.5	6.7	4.8	5.2	141.2	136.8
Equipment / Services	14.5	8.4	9.1	1.7	1.8	50.0	47.4
Pharmaceuticals & Biotechnology	6.4	5.4	6.6	5	5.4	147.1	142.1
Consumer Services	14.4	15.1	12	3.3	3.6	97.1	94.7
Food & Drug Retailers	11.5	9.9	10.6	3.8	4.2	111.8	110.5
General Retailers	11.5	16.3	11.9	3.9	4.3	114.7	113.2
Media	5.5	11.9	10.6	3.1	3.4	91.2	89.5
Travel & Leisure	33	24.3	14.8	2.7	3.1	79.4	81.6
Telecoms	9.3	7.1	7.7	5.5	5.9	161.8	155.3
Fixed Line Telecoms	28.4	7.5	10.8	4.8	5.4	141.2	142.1
Mobile Telecoms	6.3	7.1	7.1	5.7	6.1	167.6	160.5
Utilities	15.2	5.2	5.8	5.5	5.8	161.8	152.6
Electricity	12.2	-0.1	4.6	5.1	5.4	150.0	142.1
Gas, Water, Multi Utilities	16.5	7.3	6.3	5.6	5.9	164.7	155.3
Technology	12.6	10.9	11.4	1.4	1.6	41.2	42.1
Software & Comp Services	10	9.8	11	1.7	1.9	50.0	50.0
Technology & Hardware	24.3	15.2	13	0.9	1	26.5	26.3
Financials	13.5	10.7	28.5	3.2	4.1	94.1	107.9
Banks	20.5	15.7	48.2	2.6	3.9	76.5	102.6
Non-Life Insurance	8.7	-3.8	7.3	5.8	6.2	170.6	163.2
Life Insurance	22.1	6.5	4.7	4.8	5	141.2	131.6
Real Estate	26.2	8.1	-27.6	4	4.2	117.6	110.5
General Financial	-8	12	13.1	3.7	4.2	108.8	110.5
FTSE All Share	2.2	16.4	11.7	3.4	3.8	100.0	100.0

Collective Investments

Ignore America at your peril

These are the words of our Chief Economist at a recent strategy meeting. Whilst we remain very positive on the outlook for emerging market equities we noted with interest that developed equities beat their emerging market counterparts in January as inflation fears particularly in Asia spooked investors across the region. Another theme which we have previously espoused in these pages is that of the decreasing relevance of investing on a regional basis since where a company happens to be listed may have little to do with where its revenue is generated. We would remind investors that whatever your views on the US economy as a whole and there is no doubt that it is facing some major challenges not least the magnitude of the Federal deficit it would be wrong, in our opinion, to write off the world's largest stockmarket. Many of the world's leading products are still designed in the US, even if it has become cheaper to assemble them in the East. Firms such as Microsoft, Qualcomm, Monsanto, Covidien and Google retain intellectual property that the Chinese have (yet) to replicate.

Active Management

In the period 2008-2010 correlations reached multi-decade highs as investors scrambled for the exit in the midst of the crisis then were indiscriminate in their rush to add risk back into portfolios. More recently sector and stock dispersions have been increasing, a trend we believe is likely to continue as investors focus more on those companies which are likely to do well in a more normalised environment but one in which achieving growth may prove more challenging than before. This favours an active stockpicking approach and one of our preferred funds for US exposure is M&G American managed by Aled Smith.

M&G American

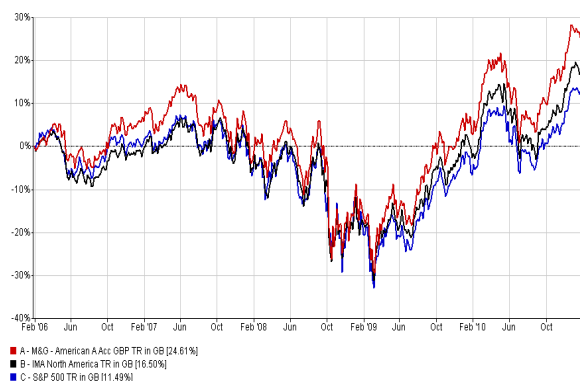
Sedols: 3092684 (Acc); 3092673 (Inc)

The Fund is managed entirely from a bottom-up perspective with no top-down views imposed on both sector and stock selection. The fund is concentrated on those companies with the ability to produce a cash flow return on investment consistently exceeding its cost of capital. Aligned to this, an assessment of management's ability to implement this strategy is crucial.

The research effort focuses identifying those companies whose business models have been fundamentally mis-priced by the market. These might be companies which are in the process of improving their capital allocation or asset base to generate future sustainable growth, those with strong intellectual property or simply those whereby the future prospects are not fully reflected in the price. The manager adopts a long-term philosophy and hence the turnover is turnover with a typical holding period of between three and five years.

The portfolio will tend to hold between 60 and 75 stocks. Initial weightings within the portfolio are generally between 1.25% and 1.75% built up to a

maximum of 3% on conviction. There will be no intended style bias but it will tend to be underweight in the mega-cap stocks.



31/01/2006 - 31/01/2011 © Data provided by Financial Express 2011

Current outlook

The manager believes that although the market has performed strongly in the past few months, valuations remain undemanding, with current prices implying no return to 2007 levels of profitability even after stripping out financials from the equation. Historically, the market has always regained its previous level of profitability and at current market levels investors have a free option on the possibility of that trend repeating itself. Although the Fund does not attempt to time economic cycles it is the manager's belief that the US economy has been experiencing a slowdown in a continuing recovery rather than a double-dip recession with one sign of the improving health of the market being the pick-up in merger and acquisition activity from which the fund has benefitted with takeovers of three of its holdings within the last year.

Summary

The performance since Aled Smith assumed responsibility for the mandate has been excellent, comfortably beating both the peers and the index. Smith has demonstrated a real talent for stock selection and we believe he is well positioned to deliver above average returns going forward. We also like the fact that he sits within the Global Equities team, which includes highly regarded managers such as Graham French, manager of M&G Global Basics, and we believe that this gives him a broader insight into the relative merits of investing in companies operating within a global context.

The Collectives Research desk, as well as selecting funds for the Charles Stanley preferred fund list, also directly manages client monies within the Collectives Portfolio Service (discretionary only service, collectives-only exposure). If you would like more information regarding the service, then please don't hesitate to get in touch with us at: collectivesdesk@charles-stanley.co.uk 0207 149 6988.

Shauna Bevan & Ross Brookes

Please refer to the risk warning regarding geared securities at the back of this document

Investment Trust Model Portfolios

Charles Stanley launched two investment trust model portfolios in May 2009. They were each launched with £100,000 of proprietary capital. Holdings are drawn from the Investment Trust Preferred List. Portfolios are managed with a long term, buy and hold approach, although special situations may be invested in where appropriate.

The Growth portfolio attempts to achieve capital growth from a diversified list of holdings. It will own listed funds investing in equities, bonds and other alternative assets, invested anywhere in the world, and traded in London. The Income portfolio seeks to achieve good income growth, as well as capital appreciation from a diversified list of holdings. A yield of 5% is targeted.

Both will own listed funds investing in equities, bonds and other alternative assets, invested anywhere in the world, and traded in London. They will typically consist of around 25 names, weighted according to the conviction in the manager and trust.

Neither portfolio has a formal benchmark, although comparisons can be made against appropriate APCIMS and FTSE All Share/MSCI World indices.

31 January 2011

Portfolio Holdings

Growth Portfolio			Income Portfolio		
Code	Name	%	Code	Name	%
EPG	EP Global Opportunities	6.1	3IN	3i Infrastructure	6.6
SMT	Scottish Mortgage	6.0	INPP	International Public Partnerships	5.9
AAS	Aberdeen Asian Smaller Companies	5.8	SCAM	Scottish American	5.8
SDP	Schroder Asia Pacific	5.8	AAIF	Aberdeen Asian Income	5.5
JEO	Jupiter European Opportunities	5.8	BRCI	Blackrock Commodities Income	5.4
ATS	Artemis Alpha	5.7	UEM	Utilico Emerging Markets	5.4
WWH	Worldwide Healthcare	5.7	SLET	Standard Life UK Equity Income	5.2
JAM	JPMorgan American	5.6	EDIN	Edinburgh	5.0
UEM	Utilico Emerging Markets	4.6	MYI	Murray International	4.9
SEC	Strategic Equity Capital	4.3	JEGI	JPMorgan Emerging Markets Income	4.3
JESC	JPMorgan European Smaller Companies	4.0	CHY	City Merchants High Yield	3.9
RTT	RCM Technology	4.0	USE	Harewood US Enhanced Income	3.9
BRSC	Blackrock Smaller Companies	3.7	EUT	European Investment Trust	3.9
BTEM	British Empire	3.6	EIF	Harewood European Enhanced Income	3.7
IFD	Invista Foundation Property	3.5	ECWL	Ecofin CULS	3.7
JFJ	JPMorgan Japan	3.2	IFD	Invista Foundation Property	3.6
BHMG	BH Macro	2.9	IPU	Invesco Perpetual UK Smaller Companies	3.1
PLI	Perpetual Income & Growth	2.6	ALPH	Alpha Pyrenees	3.0
BHUE	Blackrock UK Small Cap Hedge Fund	2.4	JAM	JPMorgan American	3.0
CAT	Catco Reinsurance Fund	2.2	TRYS	TR Property Sigma	2.7
BRWM	Blackrock World Mining	2.2	GLIF	Greenwich Loan Income	2.4
BRFI	Blackrock Frontiers Fund	2.0	CAT	Catco Reinsurance Fund	1.9
SR.	SR Europe	1.8	HDIV	Henderson Diversified Income	1.8
OPP	Origo Partners	1.6	MCT	Middlefield Canadian Income Trust	1.8
RUG	Renn Universal Growth	1.5	SLES	Standard Life Equity Income Sub Shares	0.1
SDU	Schroder UK Growth	1.3		Cash	3.4
TEIFE	Tamar European Industrial Fund	0.9			
WWHS	Worldwide Healthcare Sub Shares	0.1			
SDPS	Schroder Asia Pacific Sub Shares	0.1			
SDUS	Schroder UK Growth Sub Shares	0.1			
ATSS	Artemis Alpha Subscription Shares	0.2			
	Cash	0.5			

Asset Allocation

Region	Growth Portfolio %	Region	Income Portfolio %
UK	27.4	UK	26.5
US	18.9	US	11.0
Europe ex UK	15.9	Europe ex UK	23.9
Asia ex Japan	17.4	Asia ex Japan	15.8
Japan	5.8	Japan	0.5
Other	5.6	Other	12.3
CFI	9.0	CFI	10.1
Total	100	Total	100

Asset Class	Growth Portfolio %	Asset Class	Income Portfolio %
Equities	78.2	Equities	60.0
Property	9.7	Fixed Interest	8.1
Fixed Interest	2.9	Infrastructure	8.4
Cash	9.1	Property	9.4
Total	100	Cash	10.0
		Total	100

Performance

Growth Model Portfolio		Income Model Portfolio	
Inception Date: 26/05/2009		Inception Date: 26/05/2009	
	(Last Month)		(Last Month)
Model Portfolio Yield	1.4% (1.4%)	Model Portfolio Yield	4.8% (4.8%)
Model Portfolio Discount	-11.4% (-14.4%)	Model Portfolio Discount	-3.3% (-3.3%)

% Returns	1m	3m	6m	1 year	Since Inception
Growth Portfolio	0.4	7.2	16.5	29.5	56.2
APCIMS Growth (TR)	-0.3	4.4	11.7	15.9	34.7
FTSE All Share (TR)	-0.5	4.2	13.5	18.1	42.7
MSCI World	-0.1	7.2	14.6	19.3	40.2

% Returns	1m	3m	6m	1 year	Since Inception
Income Portfolio	0.8	3.8	12.1	18.7	34.1
APCIMS Income (TR)	-0.9	1.9	7.7	12.3	25.9
FTSE All Share (TR)	-0.5	4.2	13.5	18.1	42.7
MSCI World	-0.1	7.2	14.6	19.3	40.2

Benchmark Returns: Financial Express, to 31/01/2011. Total Return, Bid to Bid, net income reinvested. Discount & yield data: own calculations.

Performance Notes

Neither fund is managed with reference to the benchmarks quoted. Benchmarks are shown for comparative purposes only.

Performance Commentary (December)

Growth Portfolio

It was a difficult month for world markets, with Emerging Markets such as India and Brazil down over 10%. The UK market also fell, so it was pleasing to see the Growth portfolio perform so well. Much of this was due to discount narrowing, a feature which is making the investment trust sector look somewhat unattractive at the moment. Our smaller company names performed particularly well, as did BH Macro. We made no changes to the portfolio during the month

Income Portfolio

Performance for the Income Model portfolio was strong, as would be expected in difficult markets. Discount narrowing in some trusts, as well as good defensive performance from others such as the European Investment Trust, Invesco Perpetual Smaller Companies and TR Property Sigma were the biggest contributors. Standard Life Equity Income and Edinburgh both detracted from returns.

Stephen Peters

Financial Planning

Not a duty but a privilege

Making Regular Gifts from Income

Much of the advice given in relation to inheritance tax planning focuses on the efficient gifting of capital sums but it would be missing a trick to lose sight of the more modest gifting strategies, in particular that relating to regular gifts from surplus income.

There could be several reasons why regular gifts from income could make sense – perhaps because one lacks the ability to settle a larger sum or maybe that one simply wishes to make full use of all available strategies for reducing the ultimate impact of IHT – but the key attraction is that such transfers are immediately exempt from inheritance tax and unlike larger capital transfers do not have to be survived by a specified period.

Section 21 of the Inheritance Tax Act 1984 exempts a transfer if, taking one year with another, it can be shown that it was made out of surplus income (i.e. without recourse to capital) and that, after the gift, the transferor had sufficient net income to maintain his usual standard of living. The rules pertaining to this exemption were considered in the case of *Bennett and others v CIR*. The court identified several points to consider:

- 'normal expenditure' means that which, when it took place, was part of the settled pattern of expenditure adopted by the donor;
- a 'settled pattern' can be shown from the expenditure of the donor over a period of time or by showing that the donor assumed a commitment or adopted a firm resolution, in relation to future expenditure, and has then made gifts in accordance with that commitment;
- there is no fixed minimum period to establish the relief;
- where there is no formal commitment or resolution, it may be necessary to show a series of payments (three will usually suffice, two possibly);
- there can be some variation in the pattern, but to claim the relief it must be shown that the donor intended a pattern to exist and to remain for a period of time (barring unforeseen circumstances);
- the amount of the transfer does not have to be fixed; the amount may not be to the same person each time; the amount may be fixed by a formula such as a percentage of earnings or a figure such as 'what is left over after paying nursing home fees';
- tax planning does not disqualify the expenditure: almost the reverse; if the taxpayer can show that he entered into a series of gifts having taken advice, and intending to make use of the relief in s.21 IHTA 1984, it will help that he took the advice in claiming the relief.

- HMRC interpret income as meaning income net of tax and normal outgoings.
- It is important to keep evidence of such payments in case they are questioned at a later date by HMRC.

The relief is both a simple and a valuable one which is often overlooked when undertaking tax planning. It is essential that evidence is retained which will enable any claim for this relief to be substantiated and often this is best achieved via the establishment of a regular mandate either directly to the beneficiary's account or into a savings plan taken out for their benefit. Such formality of arrangement is not necessarily the only route to meeting the acid test of 'normal expenditure' but it certainly assists the process. At the same time it is important that the right vehicle is selected to offer maximum protection in the event of changes in circumstances or the death of the donor. Importantly the intention to make regular gifts out of surplus income does not bring with it the obligation to do so ad infinitum and the donor will retain the option to vary the sum involved or suspend payments entirely should future circumstances dictate.

For advice and information regarding inheritance tax and all aspects of financial planning please speak to your Charles Stanley stockbroker or directly to the Charles Stanley Financial Planning Department on 020 7149 6549.

Susan Cambridge

This article is based on our understanding of current tax law, which is subject to change and the benefits of which would depend on your personal circumstances. It is always recommended that you seek advice from a suitably qualified investment professional.

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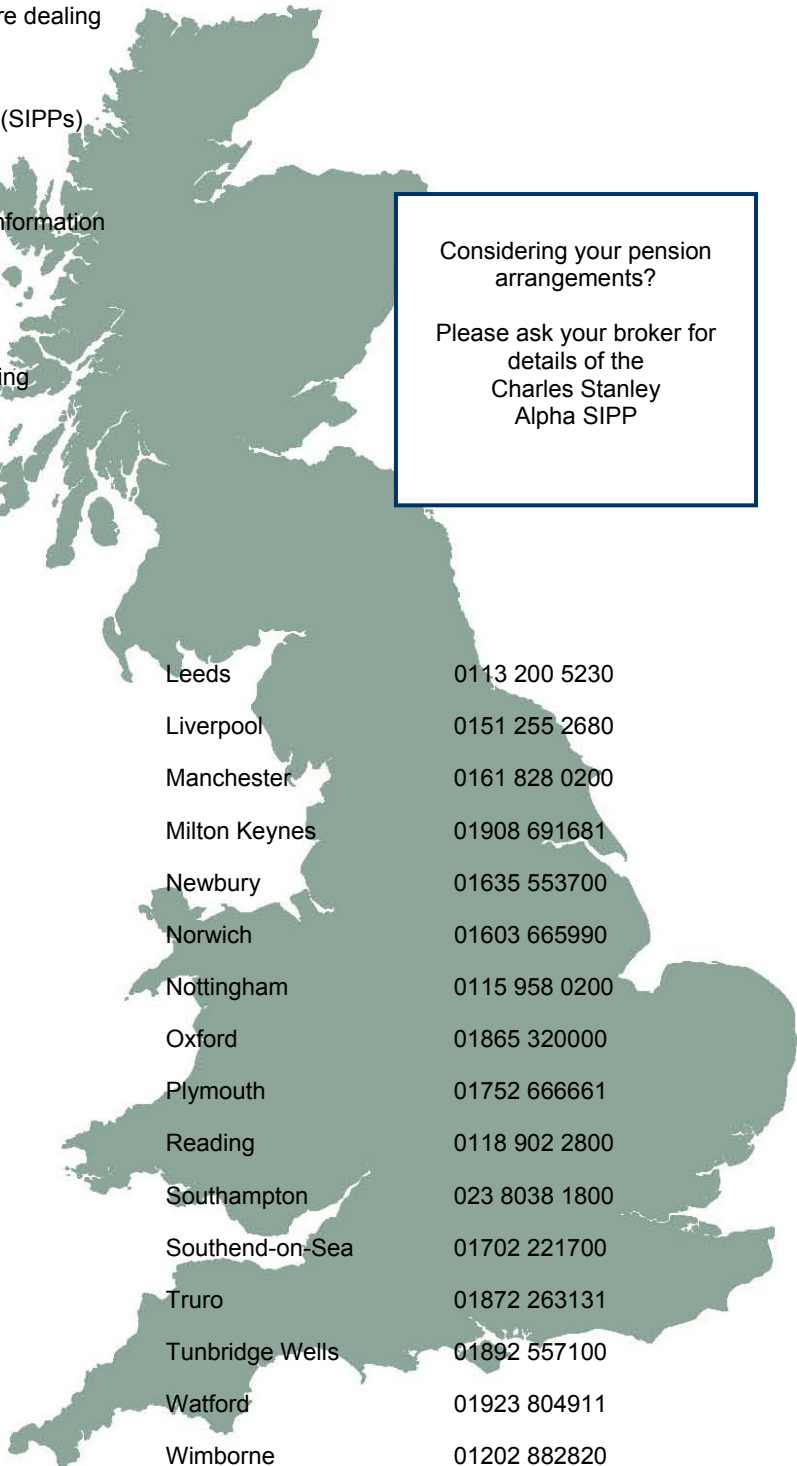
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