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MORGAN STANLEY THEME TRADES

MORGAN STANLEY RESEARCH
Europe

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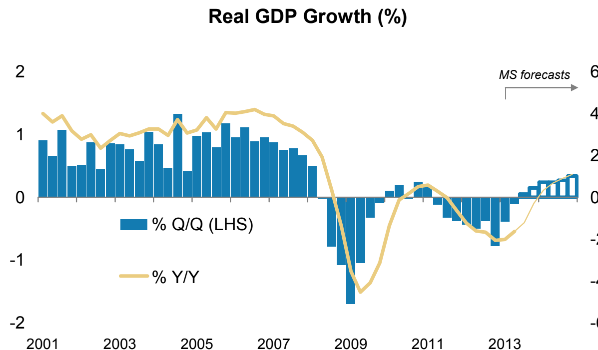
Ways to Play the New Spain

Spain's economic path is at a turning point – with GDP growth likely to have stabilised or even become (fractionally) positive in 3Q after eight outright contractions in a row. While risks remain, we expect above-consensus growth of close to 1% on average in 2014-15.

The *New Spain's* export engine continues to strengthen, external and fiscal imbalances are being gradually corrected, and structural measures keep coming on many fronts. All this is likely to bring a more sustained pace of GDP expansion, characterised less by boom-bust dynamics than in the pre-crisis years. This makes us fundamentally more constructive on the *New Spain's* ability to set itself apart from the rest of the eurozone periphery in the medium term.

In this piece, we highlight 10 stocks we believe will benefit from Spain's recovery. Each of these stocks have significant exposure to the Spanish economy.

Real GDP Growth (%)



Source: INE, Morgan Stanley Research

FEATURED NAMES

- Abertis
- Bankinter
- BBVA
- CaixaBank
- DIA
- Gas Natural
- Mapfre
- Mediaset Espana
- Ryanair
- Santander

Economics & Banks: The New Spain (9th Sept 2013)

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High Conviction Ideas: Select Metrics

Exhibit 1

Analysts' Near-Term Trading View and Share Price Performance

				Price	18-Sep-13	Up/(Down)	Abs. Price Performance			Rel to MSCI Industry			
Company	Ticker		Rating	Target	Close	to PT	1M	3M	2012	1M	3M	2012	Analyst
Abertis	ABE.MC	Equal-Weight	E	14.20	14.52	-2%	6%	4%	6%	1%	-8%	-18%	Rowbotham, Jaime
Bankinter	BKT.MC	Equal-Weight	E	3.70	3.94	-6%	2%	40%	-34%	2%	31%	-57%	Serrano, Alvaro
BBVA	BBVA.MC	Overweight	O	9.00	8.20	10%	7%	20%	8%	7%	10%	-15%	Serrano, Alvaro
CaixaBank	CABK.MC	Equal-Weight	E	2.90	3.20	-9%	1%	24%	-26%	1%	14%	-49%	Serrano, Alvaro
DIA	DIDA.MC	Overweight	O	6.70	6.55	2%	3%	6%	38%	1%	-3%	45%	Aubin, Edouard
Gas Natural	GAS.MC	Equal-Weight	E	16.00	15.02	7%	-4%	-7%	7%	-8%	-11%	9%	Dores, Carolina
Mapfre	MAP.MC	Overweight	O	3.02	2.81	8%	-2%	1%	-6%	-1%	-4%	-38%	Wasilewicz, Maciej
Mediaset Espana	TL5.MC	Equal-Weight	E	8.50	8.02	-36%	3%	23%	15%	-2%	12%	0%	Rossi, Julien
Ryanair	RYA.L	Overweight	O	9.15	6.42	43%	-3%	-7%	26%	-8%	-19%	3%	Butcher, Penelope
Santander	SAN.MC	Overweight	O	6.70	5.88	14%	1%	14%	17%	1%	4%	-6%	Serrano, Alvaro

		Mkt Cap	MSe EPS		Cons EPS		MSe vs Cons EPS		EV/EBITDA		EBITDA margin (%)		P/E		Div Yield (%)		FCF Yield (%)		Net Debt/EBITDA	
Company	Ticker	(€ mm)	2013e	2014e	2013e	2014e	2013e	2014e	2013e	2014e	2013e	2014e	2013e	2014e	2013e	2014e	2013e	2014e	2013e	2014e
Abertis	ABE.MC	11,827	0.75	0.84	0.79	0.88	-5.5%	-4.5%	9.6	9.0	61.7	62.5	19.4	17.4	4.5	4.5	5.8	6.5	4.7	4.4
Bankinter	BKT.MC	5,523	0.15	0.28	0.22	0.27	-32.7%	2.8%	16.2	15.0	26.1	28.2	26.2	14.0	1.9	3.6	NA	NA	-	-
BBVA	BBVA.MC	46,084	0.49	0.79	0.65	0.72	-24.5%	9.1%	11.9	7.7	18.9	28.6	16.8	10.4	5.1	3.7	NA	NA	NA	NA
CaixaBank	CABK.MC	16,899	(0.00)	0.15	0.04	0.23	-107.9%	-34.3%	NM	21.9	(31.0)	8.6	NM	21.3	6.3	1.4	NA	NA	NA	NA
DIA	DIDA.MC	4,338	0.36	0.40	0.33	0.38	9.4%	6.9%	7.8	7.0	6.5	6.6	18.1	16.3	2.0	2.2	1.4	5.3	1.0	0.8
Gas Natural	GAS.MC	14,958	1.49	1.33	1.35	1.36	10.2%	-2.8%	6.0	6.2	20.2	18.5	10.1	11.3	6.1	5.5	20.1	15.2	2.7	2.7
Mapfre	MAP.MC	8,644	0.29	0.33	0.30	0.32	-5.1%	3.6%	8.0	7.1	7.3	7.8	9.7	8.4	5.0	5.3	NA	NA	1.4	1.3
Mediaset Espana	TL5.MC	3,262	0.21	0.32	0.15	0.21	40.0%	52.4%	33.5	20.4	10.7	15.8	38.1	25.4	1.8	3.0	1.1	2.6	NM	NM
Ryanair	RYA.L	9,288	0.43	0.57	0.44	0.50	-0.9%	14.9%	7.9	5.8	21.0	24.0	14.9	11.3	-	-	7.4	10.4	NM	NM
Santander	SAN.MC	63,775	0.37	0.62	0.44	0.54	-14.6%	14.4%	11.1	7.2	17.0	25.9	15.8	9.5	10.2	5.1	NA	NA	NA	NA

O = Overweight, E = Equal-weight, U = Underweight. Reporting date is the expected date on which the company will issue results or an interim management or trading statement. RTI information: The view is the direction of the shares (rise/fall) and whether on an absolute basis or relative to the industry; the period states number of business days for which the RTI is open from the Date RTI Opened. MSCI industry is the default benchmark for relative RTIs; analysts have the option to use more granular indices for measuring the idea's performance. Performance is price change and does not include dividends or transaction costs. Morgan Stanley estimates are Morgan Stanley "for consensus" methodology unless noted and fiscal year aligned other than WOS (calendarised).
Source: Morgan Stanley Research, Thomson Reuters e = Morgan Stanley Research estimates

The Spanish economy looks set to grow again

Positives

- The **economic cycle** has stabilised. We expect zero-ish or slightly positive GDP growth in 3Q, and a very gradual pick-up thereafter to an above-consensus 0.8% for the whole of 2014 and 1.1% in 2015.
- **Structural reforms** have progressed more than anywhere else in the periphery. While there's more to do, decisive action might exert a positive impact on the *New Spain* further down the line.
- Firms' **competitiveness** is improving, courtesy of wage moderation and reforms; the **current account *surplus*** should increase further, **exports** are likely to outperform.

Negatives

- **House prices** will likely fall further, but the bubble in *residential* **construction investment** has almost fully corrected; thus, it should cut less into GDP growth.
- **Deleveraging across the board:** External debt remains elevated; balance-sheet repair is more advanced for corporates than consumers.
- **Government debt** is high and rising. But the **budget deficit** is narrowing and important reforms are happening in this area too.

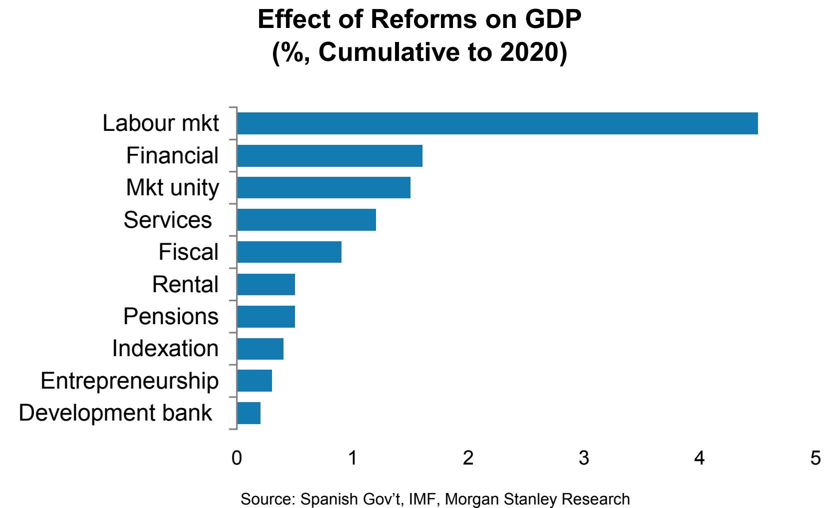
Potential Risks

- **Job market stress:** Domestic demand is likely to stay weak. Our worry is not that unemployment will go much higher. It's that it will not come down quickly.
- **Global macro slowdown:** A recovery of the *New Spain* hinges on a stronger pick-up of exports, as domestic demand is likely to stay weak – given ongoing deleveraging across most sectors.
- **Substantial strengthening of the EUR** would hurt competitiveness.

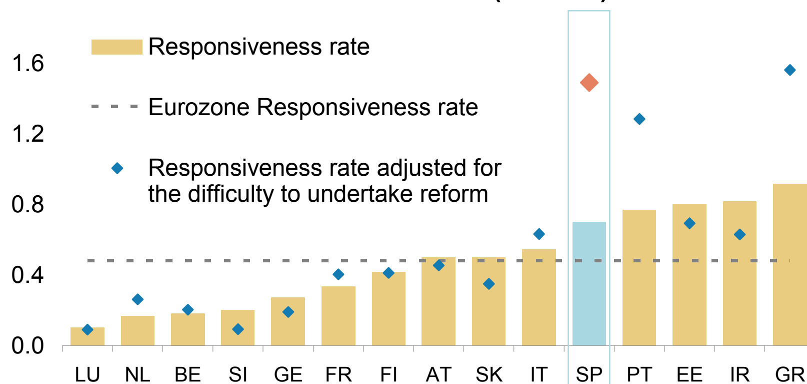
with solid progress in the Reform Agenda

The Spanish government is in the process of implementing a structural reform agenda intended to raise the medium-term growth potential of the *New Spain* . The scope of the measures is quite substantial. While they may be difficult to undertake, the responsiveness of the authorities has generally been quite swift. It appears that the cumulative effect of all the reforms that the Spanish government has implemented so far could lift GDP by almost 12% relative to the baseline – from now to 2020. And two million jobs could be created.

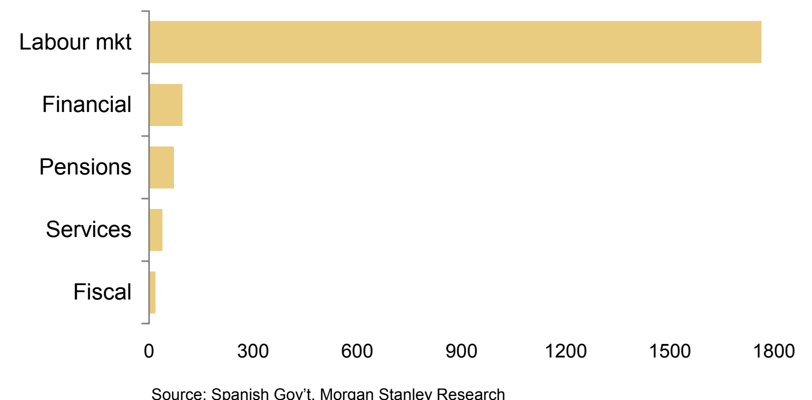
Hard data from Spain has been beating consensus in recent months. Industrial production is still shrinking on a year-on-year basis, although at a slower pace than before. And it has been broadly stable on a quarter-on-quarter basis since the beginning of the year – in line with the early indications from the sentiment measures. Both the manufacturing indicators and retail sales have generally come in much better than the median prediction over the past few months (with an exception or two).



Source: Spanish Gov't, IMF, Morgan Stanley Research



Note: Higher number = stronger commitment. Source: OECD, Morgan Stanley Research



Source: Spanish Gov't, Morgan Stanley Research

and stronger exports increasing Spain's competitiveness

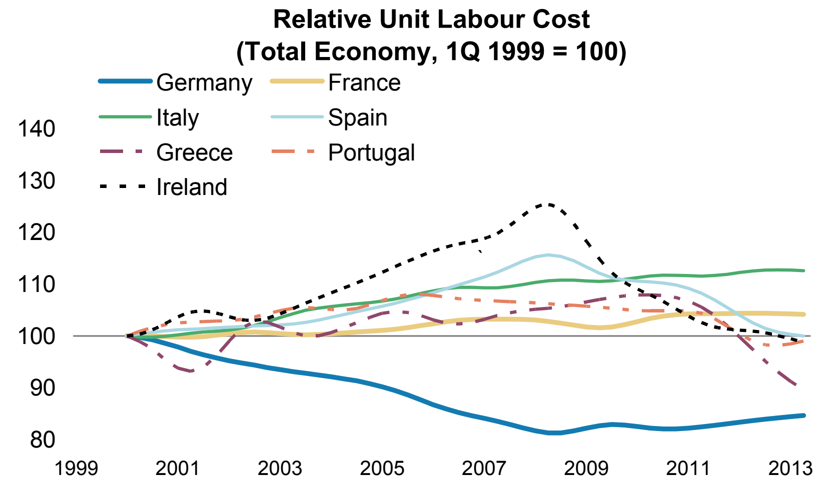
On exports, Spain is structurally strong – and getting stronger. If we look at relative unit labour costs for the whole economy, i.e., including the non-tradable sector, it looks like the *New Spain* has nearly recovered all the lost competitiveness since the inception of the eurozone. If we look at the manufacturing sector alone, as a proxy for the tradable sector, the picture shows an improvement too, but it looks like there's another 10% to go before the lost ground is fully recouped.

Productivity is increasing at a pace of 2%Y and has been rising since 2006, i.e., before the economic crisis, with no negative print since.

Real unit labour costs continue to decline, with the latest numbers pointing to a fall of about 3%Y. The decline follows a well consolidated trend, which started in early 2010.

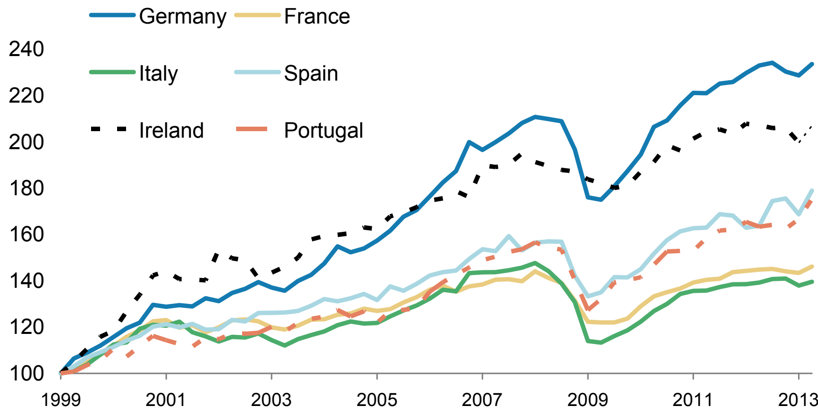
Wages and salaries show a significantly diverging trend across Europe. In Spain, they're now falling outright – quite the opposite in Germany, where they're increasing robustly.

Relative Unit Labour Cost (Total Economy, 1Q 1999 = 100)



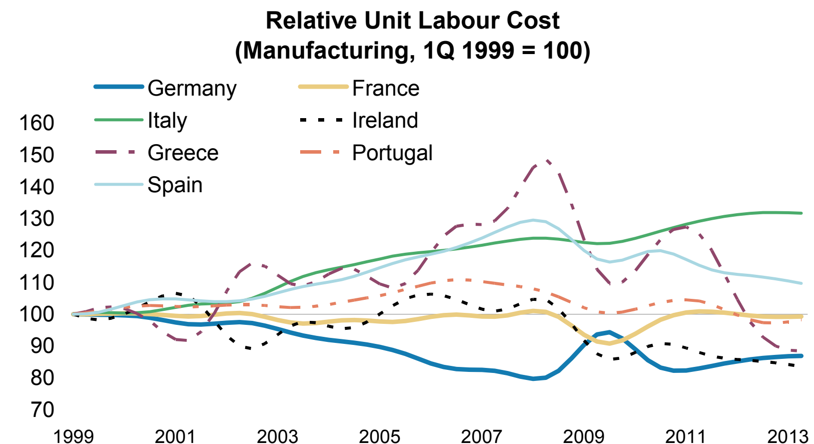
Source: EU Commission, Morgan Stanley Research

Exports of Goods & Services (1999Q1 = 100)



Source: Eurostat, Morgan Stanley Research

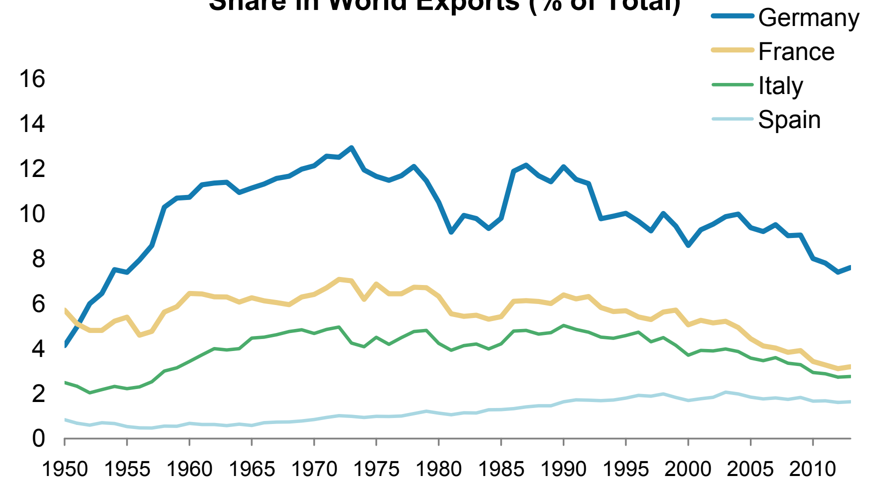
Relative Unit Labour Cost (Manufacturing, 1Q 1999 = 100)



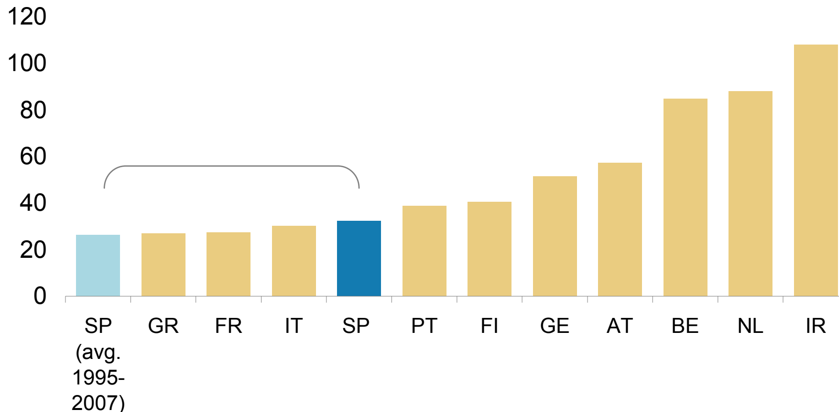
Source: EU Commission, Morgan Stanley Research

Spain is also becoming more open, with external imbalances adjusting fast

We think that, building on an already solid base, exports can play a bigger role in the *New Spain's* rebalancing and future growth – especially if reforms continue and competitiveness keeps improving. Currently Spain is a relatively closed economy compared to some other eurozone countries, with exports accounting for 32% of GDP. Yet **the *New Spain* is becoming more open** – with the share of exports in GDP having risen by five percentage points relative to the pre-crisis average.



Source: IMF, Morgan Stanley Research



Source: Eurostat, Morgan Stanley Research

Abertis (ABE.MC)

Jaime Rowbotham, Equal-Weight, PT €14.2

Investment Case

Yields on Spanish 10-year sovereign bonds remain a key driver of the shares, and Abertis' dividend yield of 4.5% is still above the current YTM on sovereign bonds of 4.2%. We see several potential catalysts that could be positive for the shares, like swapping the AP-7 receivable for an extension at Acesa or share buybacks. Continued portfolio rationalization could unlock upside while selling Airports, or stakes in Telecoms or Motorways could crystallize value even beyond our current valuation for these assets. Abertis trades on 8.7x EV/EBITDA 2014e and a dividend yield of 4.6% compared to the airports and motorways averages of 9x and 4.7% respectively.

Exposure to Spanish Domestic Market

37% of Abertis' 2013e are from Spain.

Margin Potential

Within the tollroads segment of the business, Motorways have an almost total drop through of additional revenues to EBITDA, as their cost base is almost 100% fixed. Consequently, a return to traffic growth should lead to higher margins. Increased domestic activity in Spain should lead to an uplift in traffic.

Catalysts

Portfolio rotation such as disposing of the remaining stake in Eutelsat, Airports or stakes in other assets; share buybacks, investing in Mobile Towers, extending concessions for capex or the AP-7 debt, or winning roads in Brazil as part of the new federal programme.

Risk-Reward Snapshot

Price Target €14.2	Derived from base case.
Bull Case €17.0	**Disposal of airports and selling stakes in mature assets crystallizes value.** Airports sold at 16x EBITDA 2012 and we value Telecoms at 13x. Abertis invests €1bn in mobile telecoms at 10x EBITDA and the business re-rates to 14x. For the motorways, we assume a 3% decline in traffic in 2013 in Spain and flat traffic in France. We assume growth thereafter. We also assume higher leverage across motorways concessions reducing the cost of capital. Our Bull Case valuation implies a 4% dividend yield.
Base Case €14.2	**Spanish traffic falls -6.3% in 2013 and -2% in 2014. In France, traffic falls -2% in 2013 and grows 1% in 2014**. Airports valued at 12x EV/EBITDA 2012 and Telecoms at 11x. Arteris valued at market prices.
Bear Case €9.0	**No value attributed to the AP7 compensation.** We assume no AP7 compensation, which in our base case for Acesa is worth €3.6 per share. In our bear case valuation, we assume a dividend yield of 7.5%, in line with the historical peak yield at which Abertis has traded.

Abertis: (ABE.MC): Less Compelling Valuation (May 15th, 2013)

Source: Thomson (historical prices); Morgan Stanley Research e = Morgan Stanley Research estimates

Bankinter (BKT.MC)

Alvaro Serrano, Equal-Weight, PT €3.7

Investment Case

We believe Bankinter will be the best performer among the domestics, reaching 9.5% ROTE in 2015e, driven by an improvement in margins, market share gains and better asset quality. BKT has an 11.5% B3 CT1 ratio 2013E – the best capitalized bank of the listed names – which together with its relatively small size should allow it to continue to take market share. Bankinter currently trades on 1.1x P/TBV.

Exposure to Spanish Domestic Market

Almost 100% of Bankinter's revenues are domestic whilst also offering the best asset quality profile in Spain, with a real estate exposure of only 1.5% which we think will support NII and limit losses.

Margin Potential

BKT will see additional NII growth as and when euribor increases, as more than 40% of its loans are made up of mortgages without floors.

Catalysts

1) Development on banking union; 2) Consolidation of the Spanish financial system.

Risk-Reward Snapshot

Price Target €3.7	DDM/Gordon Growth model valuation – weighted average of our bull (10%), base (80%) and bear cases (10%).	
Bull Case: €5.5	10% weighting	**Economic growth recovering in 2H13, picking up in 2014.** NII grows by 7.5% CAGR 2013-15. Margins (NII/ATA) improve from 110bp in 2013 (flat vs 2012) to 140bp in 2015. CoR normalises in 2015 at 35bp. We forecast 2015e RoNAV of 12.6%.
Base Case: €3.7	80% weighting	**-1.5% GDP growth in 2013, provisions stabilize in 2H13.** NII falls 3.8% in 2013 on the back of lower Euribor levels. Margins start recovering in 2014/15 to 126bp. CoR normalizes starting from 2H13 and reaches 45bp in 2015. We forecast 2015e RoNAV of 9.9%.
Bear Case: €2.25	10% weighting	**Deeper recession in Spain delays recovery until beyond 2014.** Euribor 12m stays depressed in 2014/2015 and lower cost of funds is not enough to relieve the pressure coming from the mortgage book. NIM remains flat, CoR normalises at 65bp in 2015. We forecast 2015e RoNAV of 5.9%.

Spanish Banks: Time to buy the domestics? (August 30th, 2013)

Source: Thomson (historical prices); Morgan Stanley Research e = Morgan Stanley Research estimates

BBVA (BBVA.MC)

Alvaro Serrano, Overweight, PT €9.0

Investment Case

Trading at 1.2x P/TBV 2014E for a 14% ROTE 2015E, BBVA is our preferred play on a Spanish recovery. The outlook in Spain has improved as lower deposit competition increases visibility on NII recovery in 2014E, which together with lower provisions, should drive group earnings 2013-2015. Additionally, BBVA is a leading franchise in Mexico with 26-28% market share, which, in addition to the country's low banking penetration, offers structural growth while short-term balance sheet risks are low.

Exposure to Spanish Domestic Market

Almost 50% of BBVA's balance sheet is exposed to Spain (versus 30% at SAN). Moreover, BBVA offers significant revenue exposure to the Spanish economy with 28.6 % of 2013e revenues coming from the domestic market.

Margin Potential

We forecast NII to grow 6% CAGR 2013-15, driven by 100bp reduction in deposit costs, which more than offsets further deleveraging (-5% yoy 2014E). A stronger recovery than expected could translate into better loan growth and lower funding costs, in line with the 9% NII growth we anticipate in our bull case scenario. Additionally, we forecast Mexico's growth to accelerate through +10% 2014/15 in local currency with RoNAV reaching 14.0% in 2015.

Catalysts

Developments on banking union & consolidation of the Spanish financial system.

Risk-Reward Snapshot

Price Target €9.0	SOTP/ Gordon growth valuation model – weighted average of our bull (10%), base (80%) and bear (10%) cases.	
Bull Case €11.1	10% weighting	**Economic growth recovering in 2H13, picking up in 2014 in Spain.** Spanish NII grows by +13% in 2014E. CoR normalises in 2015 at 40bp from 120bp in 2013. Mexican provisions improve to 350bp in 2015. We forecast 2015e RoNAV of 15.5%.
Base Case €9.0	80% weighting	**Provisions stabilise in 2H13 in Spain, Mexico accelerates in 2014.** NII troughs in 2013 and grows 6% CAGR 2013-2015 in Spain. CoR decreases to 50bp in 2015. Mexico accelerates growth to +10% in 2014/15 in local currency, RoNAV reaches 14.0% in 2015.
Bear Case €6.50	10% weighting	**Deeper recession in Spain delays recovery**. In Spain, CoR takes longer to decrease (100bp in 2014, 65bp in 2015), NII remains weak into 2015 on lower margins. Mexico's earnings are flat to slightly down in 2013-2015 as volume growth fails to pick up and margins remain under pressure. We forecast 2015e RoNAV of 11%.

Spanish Banks: Time to buy the domestics? (August 30th, 2013)

Source: Thomson (historical prices); Morgan Stanley Research e = Morgan Stanley Research estimates

CaixaBank (CABK.MC)

Alvaro Serrano, Equal-Weight, PT €2.9

Investment Case

CaixaBank is among the most attractive banks in Spain, in our view. It is making good progress on real-estate deleveraging, which together with better asset quality than peers, should drive lower provisions in 2014. Post the Inbursa disposal and the new likely rules on DTAs, B3 capital looks more solid at 10.4% 2013e. Low levels of Euribor will continue to keep margins under pressure but, given CABK is trading at 0.7x P/TNAV for a 6.6% return 2015e, we think the downside risk from here is limited.

Exposure to Spanish Domestic Market

Approximately 93% of CaixaBanks's revenues are domestic.

Margin Potential

We expect CABK to end the year with 5700 branches, vs. BBVA for example at 3500. We believe further cost cutting is possible and could provide a positive surprise to earnings. Additionally, with 41% of its loan book made up mortgages, CABK's margins are geared to interest rate hikes.

Catalysts

1) Increase in Euribor rates; 2) Development on banking union; 3) Consolidation of the Spanish financial system.

Risk-Reward Snapshot

Price Target €2.9	SOTP/ Gordon growth valuation model – weighted average of our bull (10%), base (80%) and bear (10%) cases.	
Bull Case: €4.4	10% weighting	**Economic growth recovering in 2H13, picking up in 2014.** NII grows by +10% CAGR 2013-15. Margins (NII/ATA) improve from 121bp in 2013 to 143bp in 2015. CoR normalises in 2015 at 60bp. We forecast 2015e RoNAV of 9%.
Base Case: €2.9	80% weighting	**-1.5% GDP growth in 2013, provisions stabilize in 2H13.** 0 NII growth in 2013 and ~4.5% p.a. in 2014/15. Margins start recovering in 2014 and reach 135bp in 2015 (vs 115 in 2013). CoR improves starting from 2H13 and reaches 70bp in 2015. We forecast 2015e RoNAV of 6.6%.
Bear Case: €1.8	10% weighting	**Deeper recession in Spain delays recovery until beyond 2014.** NIM struggles to improve (109bp in 2013, 123bp in 2015), CoR takes longer to decrease and falls to 90bp in 2015. We forecast 2015e RoNAV of 4.9%.

Spanish Banks: Time to buy the domestics? (August 30th, 2013)

Source: Thomson (historical prices); Morgan Stanley Research e = Morgan Stanley Research estimates

DIA (DIDA.MC)

Edouard Aubin, Overweight, PT €6.70

Investment Case

DIA remains a long-term core holding in the European food retail sector and is well exposed to the two main secular trends in grocery retailing: shift to proximity and discount. We expect the company will continue to benefit from powerful structural trends in food retail, such as lower household size, ageing population, changes in EM urban environment, increases in EM labour costs and commodity food inflation. Furthermore, DIA is led by an experienced management team with a solid track record regarding capital allocation. It trades in line with traditional operators on 7.4x 2014e EV/EBITDA but should be at a similar level to discount/convenience operators, in our view, which all trade at higher multiples, e.g. Jeronimo martins is on 11.2x 2014e. EV/EBITDA.

Exposure to Spanish Domestic Market

We believe that investors largely perceive DIA's growth opportunity in its domestic market as minimal. We disagree. With a 45% revenue exposure to the Spanish domestic market and making up 1.1% of the IBEX 35, DIA is an attractive way to play the Spanish recovery, we believe. While DIA operates a large number of stores in both Spain and Portugal, these stores have a small selling space and the banner market share was only 7.6% in Spain in 2012. We believe that top line growth in DIA's domestic market (Iberia) will reaccelerate over the 2013-15 cycle, driven by the opportunistic acquisition of Schlecker (its store network should be doubled in the medium term) and by the aggressive roll-out of the DIA Fresh format since 4Q12.

Margin Potential

We expect DIA's Iberian margins to increase further yoy in 3Q, with EBITDA margins to grow to 8.85% in 2013 and 8.90% by 2016. We believe DIA has room to take market share and expect the acquisition of Schlecker's Iberian operations will help drive margins. We note that Lidl (Spain's second largest hard discounter) hasn't gained market share in either 2011 or 2012, which indicates to us that DIA's gains are not simply a function of discount positioning.

Catalysts

Q3 13 earnings 28th October.

Risk-Reward Snapshot

Price target €6.70		Derived from base case scenario.
Bull Case €8.00	21.3x Base Case 13e adjusted EPS	**French, Turkish and Chinese operations are sold, LatAm store opening program is doubled:** A disposal of its French, Turkish and Chinese operations could be EPS accretive by 5-6% for 2013e assuming, no share buy back. DIA would become debt free (assuming proceeds in the range of €650m to €870m vs. DIA's average net debt of €680m as of Dec. 2012e). Assuming that all proceeds are used to buy back shares, the EPS accretion would range from 15% to 24%, we calculate. Furthermore, a disposal of French, Turkish and Chinese operations would increase the weight of EMs in DIA's sales mix (to 33% vs. a European food retail average of 19%). All in all, proceeding to such an optimization of its assets portfolio would likely crystallize €0.30 to €1.50 per share, depending on different scenarios. Additionally, we calculate that doubling its store opening program in LatAm over 2013-18 would likely lead to a NPV of €510m (or €0.77 per share). All in all, DIA's equity value would be worth approximately €5.3bn (taking the mid point of the range), or €8.00 per share.
Base Case €6.70	17.8x Base Case 13e adjusted EPS	**Iberia and France margins are more or less stable over 2013-15, EMs' adj. EBITDA margin reaches 3.4% by 2015:** We assume that the adj. EBITDA margin remains stable at c.8.9% in Iberia over the 2013-15 cycle, increases by 50 bps in France (to 5.0%) and by 130 bps in EMs (to 3.4%).
Bear Case €4.50	11.9x Base Case 13e adjusted EPS	**Margins in Iberia are impacted by Mercadona's expansion, French operations revert to losses.** We model a 275 bps adj. EBITDA margin contraction in Iberia over the 2013-15 cycle (to 6.0%), a stable margin in France (at 4.4%) and 130 bps expansion in EMs (as per the base case). These assumptions translate to an equity value (as per our DCF model) of €4.50 per share.

DIA S.A. (DIDA.MC): Six reasons to remain Overweight DIA (January 29th, 2013)

Gas Natural (GAS.MC)

Carolina Dores, Equal-Weight, PT €16.00

Investment Case

We continue to like Gas Natural's strong free cash flow generation, comfortable leverage ratios and exposure to the international LNG market. However, the risk of a gas review, combined with mounting uncertainty around how the reform may proceed, keeps us EW on the name. Gas Natural trades at a small premium to peers on PE 2014e, which we think is fair, given lower leverage (net debt / EBITDA at 2.8x in 2013e) and strong cash flow (dividend cover c2x). We think the stock could outperform once the management gives clear targets on how it plans to redeploy capital and also if the final result of the energy and gas reform is more positive than the market expects.

Exposure to Spanish Domestic Market

From an economic perspective, Gas Natural is 1.62% of the IBEX 35, which is one the largest weightings in the index, and has a 60% revenue exposure to the domestic market.

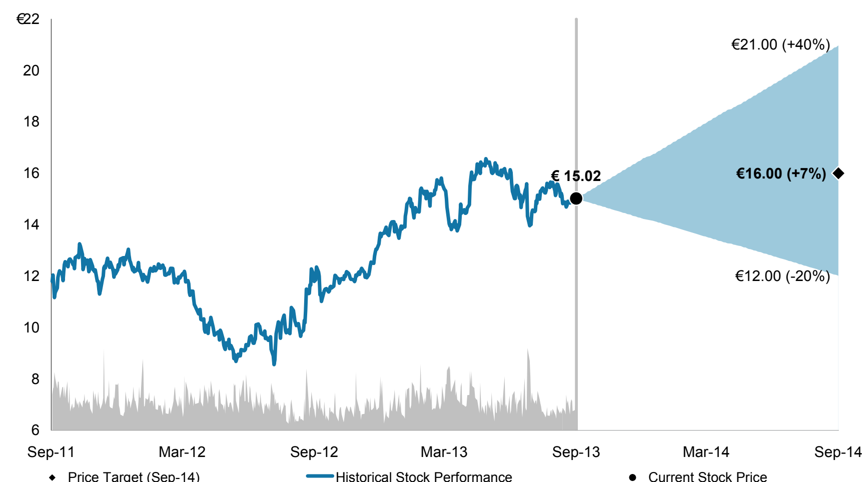
Margin Potential

A recovery of economic activity could improve volumes in Gas Natural's electricity and gas supply business and also reduce the annual tariff deficits (i.e. imbalance between revenues and costs) in the electricity and gas systems.

Catalysts

4Q13: Approval and publishing of parameters of Spain's energy reform.
4Q13: Investor day

Risk-Reward Snapshot



Price Target €16.00		Derived from our Sum-of-the-Parts base case.
Bull Case: €21	11.6x bull case 2014e EPS	We assume the final outcome of the energy reform is better than expected: renewable returns equate pre-reform, distribution returns gradually revert to pre-reform levels and there are no negatives in gas. We assume utilities can fully pass through higher fuel costs (from the green cent tax) to power prices, also benefiting hydro and nuclear. GAS achieves its LT targets and gas margins remain high for longer.
Base Case: €16	12.1x base case 2014e EPS	The generation taxes are extended into perpetuity. The parameters of electricity are applied to gas. We assume the tax on thermal and fuel (green cent) is partially incorporated to power prices. Power prices in Spain reach €67.5/MWh by 2020.
Bear Case: €12	11.0x bear case 2014e EPS	The generation reform would reduce the profitability of the generation business by €5/MWh and prices in Spain do not recover. The LatAm subsidiaries returns are in line with cost of capital. The liberalized gas business goes back to 2011 margins (€2.10/MWh).

Gas Natural (GAS.MC): Increasing Headwinds in Spain – Move to EW (August 30, 2013)

Source: Thomson (historical prices); Morgan Stanley Research e = Morgan Stanley Research estimates

Mapfre (MAP.MC)

Maciej Wasilewicz, Overweight, PT €3.02

Investment Case

Mapfre's significant underlying earnings growth and the clean up of the balance sheet in 4Q12 only improves the quality and quantum of future profits. It has high technical margins and a protection focused business mix. We acknowledge the recent deterioration in sentiment in EM, but continue to believe that the market will reward a higher multiple for its LATAM business as it reduces costs in Brazil and drives up margins. With capital stronger than before, we see cash dividends as more likely. Mapfre trades on 8x 2014e vs the non-life insurers on 11.9x and offers a 5.6% dividend yield.

Exposure to Spanish Domestic Market

40% of Mapfre's revenues come from Spain.

Margin Potential

We think the market is not giving Mapfre credit for the large recovery in Spanish life profitability, which we expect should continue as Spanish banks (the main distribution channel) move away from capital weakness and begin to produce more insurance volume. Although a rise in the economy may lead to a rise in claims from increased frequency, we believe this will be offset by a rise in higher margin non-compulsory sales.

Catalysts

1) 3Q13 results November; 2) Resolving the Aseval JV situation; 3) Resolving the Bankia overhang.

Risk-Reward Snapshot

Price Target €3.02	SOTP based, weighted — 20% Bull, 60% Base, 20% Bear.	
Bull Case: €4.7	2.2x 2013e TBV, 14x P/E 2014e	**LatAm causes a re-rating, cost of capital falls 100bps.** We assume less market volatility translates into higher investment and life savings margins. Improved LatAm expenses and hardening rates in Spanish non-life lead to a 100bps fall in CoRs.
Base Case: €3.2	1.5 2013° TBV, 9.6x P/E 2014e	**Lower volumes, weaker underwriting.** Our base case forecast by line is shown in our SOTP. No significant price rises for non-life in 2012, a decline in life margins, goodwill impairments and a loss in underwriting margin from Baremo in FY13e.
Bear Case: €0.7	0.3x 2013e TBV, 2.2x Bear Case P/E 14e	**Assets under pressure, elevated claims inflation.** Negative asset scenario (-25% equities, +100bps spread widening, 100bps lower yields 25% write-down on equities), life margins compress 250bps and higher loan losses. We assume a 400bps deterioration in the combined ratio due to fiercer competition and Baremo.

Mapfre SA (MAP.MC): Why We Remain Overweight after Spanish Slow-down (August 2, 2013)

Source: Thomson (historical prices); Morgan Stanley Research e = Morgan Stanley Research estimates

Mediaset Espana (TL5.MC)

Julien Rossi, Equal-Weight, €8.50

Investment Case

With greater than 45% ad market share, Mediaset Espana is one of the best-positioned broadcasters in Europe to improving adspend. Moreover, Mediaset Espana benefits from a recovering Spanish TV, supportive regulation and a consolidated and low cost market. However, with shares trading at 17.1x 2015e P/E vs Southern European broadcasters at 13.3x, it seems as though an improvement in advertising is somewhat priced in.

Exposure to Spanish Domestic Market

As the largest broadcaster in Spain, making up 0.5% of the IBEX 35, Mediaset Espana is a pure play on the recovery of the Spanish economy with an estimated 100% 2013e domestic revenue exposure.

Margin Potential

Lower cost inflation and strong cost discipline suggest that TV adspend will reach €2.1bn in 2016 and €2.5bn in 2020e, which translates into 25% EBITDA margin by 2016 and 35% into perpetuity, roughly in line with the better managed broadcasters and comparable to what RTL and Pro7 are printing in Germany (>30%).

Catalysts

Q3 13 earnings 24th October.

Risk-Reward Snapshot

Price Target €8.50		DCF-based (1.5% long-term growth rate, 9.5% WACC). We value MES' 22% stake in Digital+ at a 30% discount to price paid (€490m) consistent with the fall in EBITDA recorded since the deal closed.
Bull Case €12.50	**12x Bull Case 2015e EPS**	**Full-blown macro recovery, EBITDA margins hit c.40% in the long run, TV adspend gets back to €2.8bn (previous peak at €3.35bn.** We assume a strong and long-lasting pick up in net advertising revenue from 1H14boosted by more favourable macro indicators. Cost inflation remains minimal.
Base Case €8.50	**18x Base Case 2015e EPS**	**Gradual recovery:** TV adspend reaches €2.5bn by 2020e, long-term EBITDA margin is c.35%. TV adspend and MES' financial performance get back to previous mid-cycle levels by 2020. Cost inflation remains low, no incremental regulation.
Bear Case €4.50	**18x Bear Case 2015e EPS**	**TV adspend falls -10% by 2015:** Soft private consumption leads TV adspend to post another double-digit decline by 2015. EBITDA margins are stuck at 15% in the long run.

Media & Internet: Peripheral Broadcasters Price Targets Raised (September 19, 2013)

Source: Thomson (historical prices); Morgan Stanley Research e = Morgan Stanley Research estimates

Ryanair (RYA.L)

Penelope Butcher, Overweight, €9.15

Investment Case

Our OW rating is predicated on several dynamics, including continued benign capacity environment in Europe, which is supported by 0.5% 4Q13 short haul seat growth apparent from our analysis of OAG, versus current +0.2% Y/Y growth; $110/bbl spot and modest yield growth of just 2-3% on RASK in FY14/15 versus +10% last year. We continue to believe this thesis is workable and underpins our €9.15 PT (+44% upside). RYA is adding no new fleet capacity for the next 3-4 quarters (at least), major competitors plan more short haul adjustments and cash generation materially exceeds capex/replacement requirements.

Exposure to Spanish Domestic Market

With Vueling absorbed into IAG this past May, EZJ & Iberia downsizing their Spain exposure materially in the past year, RYA is the best placed carrier to leverage improving macro (business and consumer demand) in Spain. It currently operates ~22% of its seat capacity in Spain, the largest carrier by total passenger exposure in domestic and short haul routes.

Margin Potential

Within our forecasts, we see RYA EBITDAR margin expanding to 25.8% in FY15 from 23.5% in FY13.

Catalysts

1) AGM September 20th, 2) 2Q results November 4th, 3) Announcements on competitor capacity.

Risk-Reward Snapshot

Price Target €9.15	Set in line with our base case.
Bull Case: €11.75	**DCF, assuming base case of US$110/bbl fuel and long-term EBIT margin of 15%.** Our DCF uses a 7.8% WACC and a 2% terminal growth assumption.
Base Case: €9.15	**Weighted average of methodologies.** Weighted average of discounted 2015e calendarised EPS (30%), DCF (60%) and NAV with market valuation of fleet (10%).
Bear Case: €3.45	**NAV with 20% discount to fleet value.** If the business had to be liquidated today, we assume the company would probably incur a 20% hit to fleet values compared to market prices (similar to the decline in prior recessions).

Ryanair (RYA.L): The next gen RYA is worth owning (September 5, 2013)

Source: Thomson (historical prices); Morgan Stanley Research e = Morgan Stanley Research estimates

Santander (SAN.MC)

Alvaro Serrano, Overweight, PT €6.7

Investment Case

Santander is well positioned to benefit from accelerating NII growth in Spain and UK. The extent of the real-estate clean up in Spain should speed up the fall in provisions versus peers, whilst lower deposit competition and reduced liquidity asset buffers will improve margins in the UK. Though Brazil remains a headwind, we believe lower provisions should drive earnings growth in 2014E.

Exposure to Spanish Domestic Market

30% of Santander's balance sheet is exposed to Spain, but we believe it is of a higher quality as only 3-3.5% of their performing Spanish books is related to real estate, compared to Banco Popular and Sabadell with 12% and 8% respectively.

Margin Potential

Santander has a loan to deposit ratio of 85% in Spain, which means it can afford to pay below market rates on deposits and funding costs could surprise positively. In our bull case, which also assumes Euribor increasing, we have a 17% ROTE 2015E vs. 15% in our base case.

Catalysts

1) Development on banking union; 2) Consolidation of the Spanish financial system.

Risk-Reward Snapshot

Price Target €6.7	SOTP/ Gordon growth valuation model – weighted average of our bull (10%), base (80%) and bear (10%) cases.	
Bull Case: €9.0	10% weighting	**Economic growth recovers in 2H13, picks up in Spain in 2014.** Spanish NII grows by +5% CAGR 2012-2015 in Spain 2014E, CoR normalises in 2015 at 50bp. Brazilian NIM holds up and loan growth matches company guidance (+15% in 2013).
Base Case: €6.7	80% weighting	**Provisions stabilize in Spain and UK margins turn the corner in 2013.** NII grows 8% in Spain 2014E and CoR (ex RE) is reduced to 110bp. Brazil loan growth is below management guidance (+10% in 2013, +12.5% in '14) and margins remain under pressure. UK margins improve and reach 110bp in 2015 (from 97bp in 2012). We forecast 2015e RoNAV of 15.1%.
Bear Case: €4.5	10% weighting	**Deeper recession in Spain delays recovery.** CoR takes longer to decline, NII remains weak into 2015 on lower margins, provisions in Brazil remain elevated and only drop below 700bp in 2014. UK margins recover more gradually.

Spanish Banks: Time to buy the domestics? (August 30, 2013)

Source: Thomson (historical prices); Morgan Stanley Research e = Morgan Stanley Research estimates

Valuation Methodology & Risks to Price Targets (I)

Stock	Risks
Abertis	We recently raised our Price Target for Abertis to €14.2 from €14, primarily due to rolling forward the model, and despite lowering our traffic forecasts for Spain. We value different parts of Abertis using different valuation methods. For the motorways, we calculate an individual DDM for each of the main concessions – Acesa, Aumar, Aucat, Iberpistas + Castellana, Avasa, Autema, Sanef, GCO and the Chilean concessions; apply an EV/EBITDA valuation multiple to Aulesa and Trados; we value the OHL Chile assets at the acquisition price, Arteris and Eutelsat at market value, and value the other motorway investments at book value. We value airports on an EV/EBITDA multiple while for telecoms we use a DCF methodology. We value other financial investments at book value. Finally, we adjust for non-core debt (i.e. group debt not accounted for in the Sum of the Parts calculation). For the motorways businesses we discount cash flows until the last year of each concession and consider no additional residual value. We use a WACC of 7.1% for Spanish motorways, 6.8% for HIT and 8.5% for Telecoms. *Risks to our PT*: 1) AP-7 compensation. Under the AP-7 agreement, Abertis committed to invest in its Acesa concession c. €500m of capex in exchange for remuneration for the investment, as well as a guaranteed revenue arrangement for Acesa. Both the remuneration of the investment as well as any compensation for guaranteed revenues (if traffic underperforms expectations, as is currently the case) are paid to Abertis at the end of the Acesa concession i.e., 2021. The outstanding balance capitalizes annually at a 6.5% rate. The Spanish government recently suggested that Abertis provide for €360m of the €760 outstanding AP-7 balance as at 2011. In our estimates, the AP-7 agreement will accrue to €5.1bn by 2021 implying an NPV of €2.9bn or c. €3.6 per share. Abertis believes that its contract with the Ministerio de Foment is legally binding and has not provided for any amount. In our valuation, we assume the AP-7 compensation is paid in full. 2) Further austerity measures and weaker traffic. Further austerity measures in Spain and France can mean more pressure on private consumption, which might have a negative impact on our traffic forecasts. 3) Regulatory changes. All companies are potential targets of regulatory changes but motorway companies are particularly exposed, given they are often strongly cash generative and the fact that their assets (the motorways) cannot be moved to another country when faced with a more stringent fiscal regime, unlike a factory, for example. 4) Political and economic instability across the Eurozone. 5) Interest rates are another key driver of value at motorways so increasing interest rates in Spain are a further risk to our price target.
Bankinter	PT is based on DDM/Gordon Growth model valuation – weighted average of our bull (10%), base (80%) and bear cases (10%). Our base case assumes 11.0% CoE. We use a 0% average terminal growth rate. *Risks to our PT*: The main risk to our rating and price target is a deterioration in the funding markets, which would prevent BKT from rebuilding its NII. Additionally, low Euribor rates for longer (2014 and 2015) would pose downside risk to our estimates.
BBVA	PT is based on SOTP/ Gordon growth valuation model – weighted average of our bull (10%), base (80%) and bear (10%) cases. We use an average 11.5% cost of equity and 2.8% long-term growth. *Risks to our PT*: The main risks to our rating and price target are reflected in our bull and bear cases and include a significant deterioration / improvement in sovereign risk in Europe and, in particular, Spain.
CaixaBank	PT is based on SOTP/ Gordon growth valuation model – weighted average of our bull (10%), base (80%) and bear (10%) cases. We assume a 11% cost of equity for our base case, and value the listed stakes at market value. We use a 0% average terminal growth rate. *Risks to PT*: i) The main risks to our rating and price target are reflected in our bull and bear cases and include a significant deterioration /improvement in sovereign risk in Europe and, in particular, Spain. ii) Capital accumulation ahead of our estimates would be a positive catalyst to the stock, and is the biggest risk to our Equal-weight rating.

Valuation Methodology & Risks to Price Targets (II)

Stock	Risks
DIA	Our DCF now translates to a €6.70 value for DIA shares. Regarding the different geographies, DCF assumptions are: 1.We assume that the number of conventional stores in Iberia grows from 3,380 in December 2011 to 3,922 in December 2016 and that Dia operates 425 Dia Fresh and 1,665 Schlecker drugstores by December 2016. This translates to Iberian net sales growing at +4.3% CAGR over the period to reach €6.3bn by 2016. We assume that EBITDA margin will grow from 8.40% in 2011 to 8.80% in 2012, 8.85% in 2013 and 8.90% by 2016. 2. We assume that the number of stores in France declines from 916 in December 2011 to 903 in December 2016 and that French operations sales will be up only +1.2% CAGR over the period. We assume that EBITDA margin will grow from 3.8% in 2011 to 4.4% in 2012, 5.0% in 2013 and 5.0% by 2016. 3. For Emerging Markets, we assume that the number of stores grows from 2,537 in December 2011 to 4,418 in December 2016. While this is more or less in line with our previous estimate of 4,671 stores by December 2016, there is a significant change in the geographic mix with Latam accounting for a bigger share and Turkey and China for a significantly lower share. Stores in Latam are currently posting average sales over three times higher than in Turkey / China. This leads us to increase our net sales growth forecasts for EMs over the period. We model a +19.5% CAGR over 2013-16 (vs. +16% previously when restating from the disposal of operations in Northern China). We assume that EBITDA margin will grow from 2.30% in 2011 to 2.20% in 2012e, 2.55% in 2013e and 3.55% by 2016e. 4. Finally, we assume a beta of 1.0x, a cost of equity of 9.0%, a WACC of 8.0% and a terminal growth rate of 1.8%. *Risks to PT:* DIA's main upside risks include a disposal of French, Turkish and Chinese activities; capacity rationalization accelerating in Spain (i.e. competitors closing down stores) or an appreciation of the Brazilian Real and/or the Argentinean peso. Main downside risks to our price target include Mercadona accelerating its expansion in Spain and/or improving even further its price positioning, food deflation becoming a feature again in Spain, the turnaround in France failing to materialize, sustained capacity growth in Turkey, FX risk.
Gas Natural	We recently lowered our price target to €16 from €17.30 for two key reasons: 1) We have changed our valuation methodology from a scenario analysis to using our Sum-of-the-Parts base case to derive our price target. Previously we had applied a 50% weighting to our base case, 30% to our bear case and 20% to our bull case. We have now removed this weighting, as an energy reform draft has been announced, and we have some indication of what may drive Gas Natural's revenues. As there is also a draft of the Royal Decree available, we can make assumptions on the base case to arrive at what we believe is an adequate level of valuation for the shares. We now value Gas Natural based on a DCF valuation on our base case estimates, which we believe include the most likely outcome of the conclusion of the energy reform. 2) We are reducing our base case SOTP valuation of Gas Natural by 10% to €16, to incorporate our estimates for the energy and gas reform in Spain as well as MTM power prices and FX. SOTP valuation. We run a DCF for Gas Natural's main businesses (gas and electricity distribution and gas supply). We use a different WACC, on a 4.5% risk-free rate and an equity risk premium of 4.0% depending on the risk and cost of debt of each business, ranging from 5.7% to 8.1%. In Spain, we assume there will be a gas review, with similar terms to what has been proposed in electricity. This would have an estimated pre-tax negative impact on the gas distribution business of c€135mn. In electricity, we assume management's estimates for the energy reform as the base case. We mark-to-market LatAm currencies and assume EBITDA growth of c5% in local currency, in line with guidance. *Risks to PT:* The risks to our price target include macro (lower GDP, higher interest rates and changes in FX rate, mainly USD, COP and BRL). As we discuss in this report, regulation is an important factor: Gas Natural is exposed to regulation in Spain, Colombia, Brazil, Mexico, Panama and Argentina. Commodity prices are also important, as c40% of Gas Natural's EBITDA comes from fully liberalised businesses (generation and supply of gas and electricity). M&A (given the company's acquisitive history, we cannot rule out further acquisitions) and potential for a share overhang (from Repsol and La Caixa) are also risks.
Mapfre	We use a SOTP valuation methodology to value Mapfre, consistent with our approach for most of the insurance sector. Using assumptions for each business unit, we determine a sustainable return on capital, then apply a multiple using the cost of capital adjusted for growth. We stress the valuation with a bull and bear case. In the latter we include an asset market shock scenario. We weight our bull-bear-base cases at 20%-20%-60% to factor improving market conditions. We forecast the valuation for 2014, then discount it back one year to 2013 and add back the 2013 divi. *Risks to PT:* i) A return of fears in Spain. Although we think Mapfre's balance sheet is stronger than many assume, a return to the macro fears on Spain will have a negative impact on the share price and trading conditions. ii) Impairments could be higher. Our base case assumes €200m of gross impairments. The level could be higher. For example, bank bail-ins of senior debt are a possibility if the environment deteriorates significantly. iii) Scrip dividends are possible. Although Mapfre's policy is to pay a cash dividend, in the past it has paid a partial script dividend to fund acquisitions. If assets come under pressure, we think a scrip dividend is a possibility. iv) Ratings downgrade. We note that Mapfre Re is on BBB+ with a negative outlook. This unit, as well as Credit and Global Risks are all at risk of losing business volumes if they are downgraded further by the rating agencies.

Valuation Methodology & Risks to Price Targets (III)

Stock	Risks
Mediaset Espana	Our €8.50 price target is DCF-based (1.5% long-term growth rate, 9.5% WACC). We value MES' 22% stake in Digital+ at a 30% discount to price paid (€490m) consistent with the fall in EBITDA recorded since the deal closed. *Risks to PT:* Key risks include (i) Volatility of TV adspend (ii) Volatility of audiences (iii) Integration of recently acquired Cuatro (iv) Programming cost inflation (v) uncertain contribution to earnings from Digital+.
Ryanair	We set our Price Target €9.15 by taking the weighted average of our 2015 discounted EPS, DCF at US$110/bbl and NAV calculation. The reduction in DCF and 2015 discounted EPS leads to our Price Target moderation downward. We run our DCF using a $110/bbl crude oil price into perpetuity, a WACC of 7.8%, long-term EBIT margin (15%) and a terminal growth rate of 2%. The second method involves taking our 2015 EPS forecast, assuming a $110/bbl fuel cost (based on the forward curve) and applying a mid-cycle P/E multiple (12x for RYA). We discount this value by each carrier's respective cost of equity to arrive at a fair value (12.6% in the case of RYA). To calculate the NAV, we use the external source of MBA Aero to obtain market values of owned fleet for each of the carriers. Following this, based on latest reported data, we add current cash balances, book value of other property or plant assets and any monetisable stake investments. We then subtract total interest-bearing debt, prepaid revenues, capitalised leases and pension liabilities in the event of a wind-up of the business, to arrive at the NAV per share. We apply a 20% haircut to the fleet value within our 'distressed NAV' calculation, which we use as our bear case, in order to simulate distressed sale conditions. *Risks to PT* are economic conditions that lead to a negative impact on passenger volume and yield growth relative to our forecasts, volatility in fuel prices, and the key exchange rates of the EUR/USD and GBP/EUR. RYA faces company-specific risk in terms of infrastructure and taxation cost increases and outstanding legal reviews on airport subsidies, which could lead to a higher-than-anticipated cost base. Revenue risks may come in the form of ticket tax increases or regulatory changes that impact ancillary revenue streams.
Santander	PT is SOTP/ Gordon growth valuation model – weighted average of our bull (10%), base (80%) and bear (10%) cases. We have used an average 11% cost of equity and 2% long-term growth. *Risks to PT*: The main risks to our rating and price target are reflected in our bull and bear cases and include a significant deterioration / improvement in sovereign risk in Europe and, in particular, in Spain.

Morgan Stanley & Co. Limited is acting as financial adviser to Ryanair Holdings plc in relation to the proposed cash offer for Aer Lingus Group plc. Please refer to the notes at the end of the report.

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The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report: Ben Britz, Matt Ostrower.

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Disclosure Section (continued)

Global Stock Ratings Distribution

(as of August 31, 2013)

For disclosure purposes only (in accordance with NASD and NYSE requirements), we include the category headings of Buy, Hold, and Sell alongside our ratings of Overweight, Equal-weight, Not-Rated and Underweight. Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, Not-Rated and Underweight are not the equivalent of buy, hold, and sell but represent recommended relative weightings (see definitions below). To satisfy regulatory requirements, we correspond Overweight, our most positive stock rating, with a buy recommendation; we correspond Equal-weight and Not-Rated to hold and Underweight to sell recommendations, respectively.

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	Coverage Universe		Investment Banking Clients (IBC)		
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	**978**	**34%**	**400**	**38%**	**41%**
Equal-weight/Hold	**1280**	**44%**	**491**	**46%**	**38%**
Not-Rated/Hold	**114**	**4%**	**28**	**3%**	**25%**
Underweight/Sell	**510**	**18%**	**137**	**13%**	**27%**
Total	**2,882**		**1056**		

Data include common stock and ADRs currently assigned ratings. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

Analyst Stock Ratings

Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Underweight (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.

Disclosure Section (continued)

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