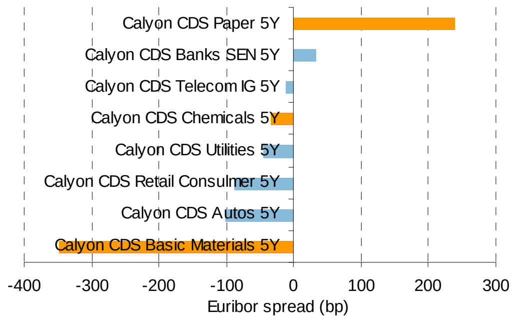
Industrials Quarterly

Caroline Brugère
Industrials Analyst
(Basic Materials, Chemicals)
(33) 1 41 89 88 38

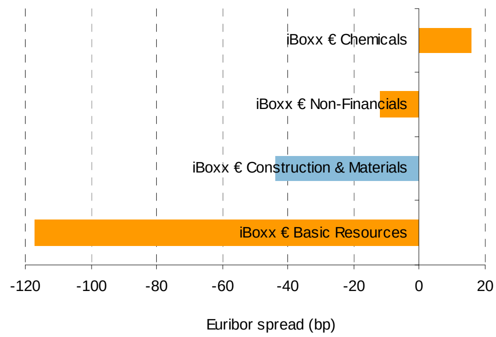
Stuart James
Industrials Analyst
(Pulp & Paper)
(44) 20 7214 6546

Q209 Update

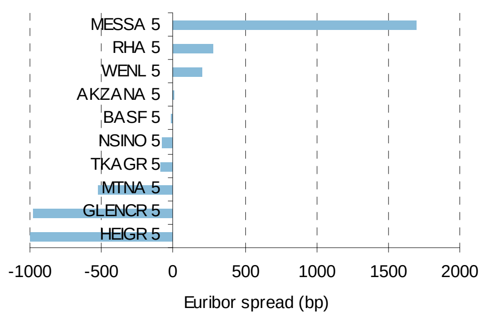
CDS YTD performance



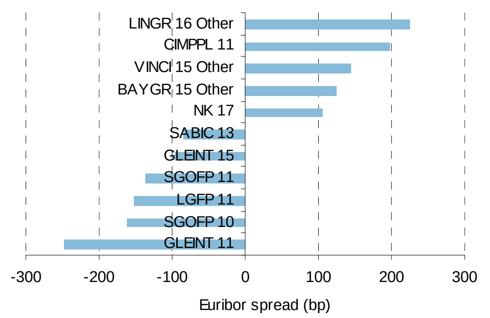
Industrials Cash YTD performance



Under/outperformers in Industrials CDS



Under/outperformers in Industrials Cash



Sources: Bloomberg, Calyon

Driving through downgrades

■ Mixed evolution of industrial spreads

Basic Materials was the best-performing sector in CDS in Q109, driven by a large tightening in Glencore, HeidelbergCement and ArcelorMittal. We had expected some tightening for both Glencore and ArcelorMittal after CDS spreads rocketed in Q408, a surge that in our view was disconnected from credit fundamentals. We believe that technical factors such as bank loan hedging may explain the overdone widening at the end of the year. Chemicals and Pulp & Paper underperformed other sectors as fundamentals deteriorated, while increasing refinancing risk concerns put further pressure on Paper spreads.

■ Downward trend in ratings continues

In line with our expectations, negative rating actions were seen during the quarter on as many as 16 of the credits in our Industrials coverage (76%). We believe that this negative trend will continue over the next 12 months.

■ Sector recommendations unchanged

Given the continued deterioration of the macro environment we expect further negative newsflow, which should weigh on cyclical spreads. We remain Underperform in both CDS and cash on Building Materials, Steel, Pulp & Paper and Chemicals.

- **CDS recommendation**: Underperform
- **Cash recommendation**: Underperform

■ What to expect from Q109 earnings releases?

We expect Q109 results to be worse than Q408 for Building Materials, Steel and Chemicals. For most industrial companies demand was probably worse in Q109 than in Q408. We expect sharp YoY drops in sales volumes and low capacity utilisation, which should lead to significant pressure on operating margins. In addition, we expect further inventory writedowns in Steel due to further declines in spot prices. A key item to watch will be the change in working capital requirement.

In Pulp & Paper we also expect to see very weak results driven by a large drop in volumes with possible working capital cash absorption caused by higher inventories. As a consequence we expect further ongoing closure of production and additional restructuring. Any refinancing progress should be taken positively.

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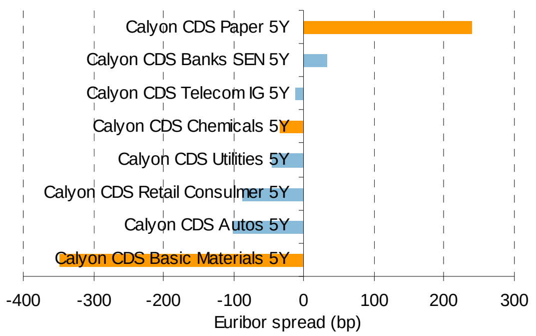
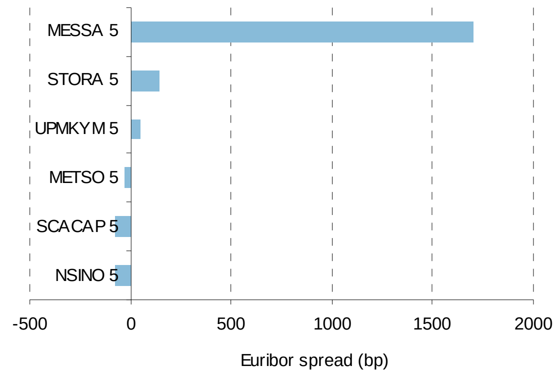
Sector recommendations

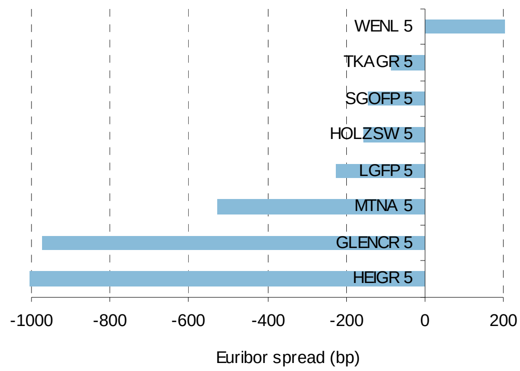
Industrials CDS YTD performance



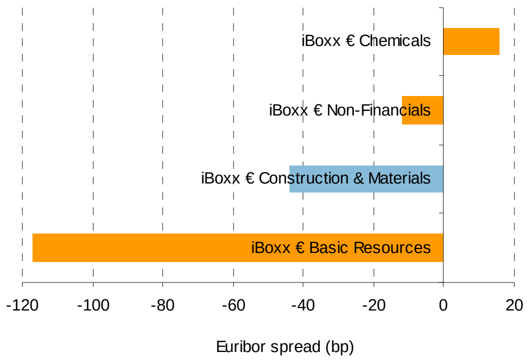
Paper CDS YTD performance



Basic Materials CDS YTD performance



Industrials Cash YTD performance



Source all charts: Bloomberg

Recommendation performance

CDS: Mixed performance depending on sub-sectors

The performance of Industrials CDS since the beginning of the year has been very mixed depending on the sub-sector due to name-specific issues.

Sharp underperformance of Calyon Paper CDS index

M-Real and Stora Enso led the Pulp & Paper index sharply wider, which we view as being in line with fundamentals given the deterioration being seen at both credits. Since the very weak Q408 results the sector has experienced further volume deterioration, rating downgrades and profit warnings. These factors plus weakening financial flexibility, impending new capacity and increased focus on refinancing risk are leading investors to re-price Pulp & Paper sector risk wider.

Outperformance of Calyon Basic Materials CDS index

The sharp tightening of the index was driven by two credits, Glencore and HeidelbergCement, and by ArcelorMittal to a lesser extent. In the case of both Glencore and ArcelorMittal we had expected some tightening after CDS spreads rocketed in Q408. Indeed, this surge in spreads was disconnected from credit fundamentals in our view. We believe that technical factors such as bank loan hedging may explain the overdone widening at the end of the year. In the case of HeidelbergCement CDS we believe that, beyond any technical factor, the YTD tightening might be explained by the status quo situation on the credit (no news on bank refinancing nor financial covenants).

Underperformance of Calyon Chemicals CDS index

Chemical names – in particular Rhodia, Akzo Nobel and BASF – underperformed most sectors as sector fundamentals deteriorated. This had not been priced by CDS spreads in Q408.

Cash indices: Mixed evolution as well

The iBoxx Basic Resources index benefited from the rally in Xstrata, Glencore and ArcelorMittal bonds. We note that UPM exited the index at the end of February when it was downgraded to sub-investment-grade. The spreads of Glencore and Xstrata bonds tightened at the end of January after Xstrata announced a rights issue in which Glencore would participate with a neutral credit impact. By contrast, the Chemicals iBoxx index widened due to the deterioration of fundamentals, as for CDS spreads.

Recommendation CDS and Cash

Given the continued deterioration of the macro environment we expect negative newsflow, which should weigh on cyclical spreads. We remain Underperform in both CDS and Cash on Basic Materials, Pulp & Paper and Chemicals.

- **CDS recommendation**: Underperform
- **Cash recommendation**: Underperform

Issuer recommendations

Performance relative to Calyon's industrial indices since 2008

	Current reco.	Live perf.	Closed	Total perf. YTD
Air Liquide	Outperform	11	14	25
Akzo Nobel	Underperform	28	-5	23
Bayer	Sector Perform	0	-26	-26
DSM	Sector Perform	0	-1	-1
Evonik Degussa	Underperform	18	-39	-20
Linde	Outperform	74	0	74
Heidelberg	Sector Perform	0	1351	1351
Holcim	Underperform	35	16	52
Lafarge	Restricted	0	117	117
St Gobain	Sector Perform	0	-105	-105
ArcelorMittal	Outperform	-253	68	-185
ThyssenKrupp	Underperform	-262	0	-262
Glencore	Outperform	27	0	27
Total		-321	1390	**1069**

Source: Bloomberg, Calyon. Spreads as at 3 April 2009

Pulp & Paper performance relative to index YTD

	Current reco.	Live perf.	Closed	Total YTD
Stora	**Underperform**	-19	0	-19
UPM	Underperform	-73	0	-73
SCA	**Sector Perform**	0	177	177
Metso	Sector Perform	0	0	0
M-Real	Underperform	999	0	999
Nosk Skoj.	**Underperform**	-397	0	-397
Total		**511**	**177**	**688**

Source: Bloomberg, Calyon. Spreads as at 6 April 2009

Recommendation performance

The table on the left sums up the performance of our recommendations since last year. All our recommendations are positive except the ones on ArcelorMittal and ThyssenKrupp, which have been losing money since the date they were set up (30 July and 12 June 2008, respectively). However, the trend changed in early January 2009 as ArcelorMittal CDS started to outperform the index (by 180bp) and ThyssenKrupp CDS to underperform it (by 261bp).

In Pulp & Paper our Underperform recommendation has worked well relative to other sectors. Within the *Pulp & Paper 2009 Outlook* (published 16 December 2009) our conviction short was M-Real, which is responsible for most of the good performance (widening from 2,980bp to 4,585bp), and our conviction long was SCA, which has also worked well (tightening from 299bp to 165bp), with profit taken.

M-Real spreads have moved a little tighter in the current rally being seen but other than the very small buyback we see no new information to justify the tightening, and hence have not taken profit yet. Our short in Stora Enso continues to work well but we think that this and UPM can move wider yet given the rapid downturn in volumes now being seen in industry data and, accordingly, see the Q1 results as the next catalyst for this move.

Changes to issuer recommendations

We change today our recommendation on Saint-Gobain from Sectorperform to Outperform. Indeed, we also review our rating target from Mid-BBB to High-BBB following the EUR1.5bn capital increase completed in March (see *Issuer snapshot* section). In addition, this rights issue further enhances the company's liquidity, which had been improved by the EUR1bn bond issue in January. As we believe that spreads may remain driven by the liquidity situation of issuers we expect further outperformance of Saint-Gobain CDS.

At this stage we make no changes to our published Pulp & Paper sector recommendations. During the quarter, post a sharp tightening in 5Y CDS, we moved our recommendation on SCA from Outperform to Sectorperform (see below).

Summary of our recommendations on CDS

Basic Materials

Issuer	S&P/Moody's	Calyon	Spot CDS	Variation 1 Week	Variation 1 Month	Variation YTD	Expected Trend	Spot vs Index Ratio	Spot vs Index Fair Value	Spot vs Index Spot - FV	CDS Recommendation Previous	CDS Recommendation Since	CDS Recommendation New
ArcelorMittal Finance	BBB+ neg / Baa2 CW neg	Mid-BBB	**957**	-45	58	-528	➔	98%	**926**	**31**	Outperform	30/07/08	Outperform
Compagnie de Saint Gobain	BBB+ neg/ Baa1 neg	High-BBB	**312**	-3	-73	-145	➔	32%	**435**	**-123**	Restricted	08/04/09	**Outperform**
Glencore	BBB- / Baa2 neg	Low-BBB	**1296**	-5	-152	-974	➔	132%	**1288**	**8**	Outperform	01/10/08	Outperform
HeidelbergCement	B- CW neg / B1 CW neg	Low-B	**2562**	-212	-253	-1002	↗	262%	**2409**	**153**	Sectorperform	14/01/09	Sectorperform
Holcim	BBB / Baa1 Cw neg	Mid-BBB	**609**	10	34	-157	➔	62%	**587**	**22**	Underperform	05/03/09	Underperform
Lafarge	BBB- / Baa3 neg	Restricted	**649**	-11	-113	-227	➔	66%	**762**	**-113**		20/02/09	Restricted
ThyssenKrupp	BBB CW neg/ Baa2 CW neg	Low-BBB	**470**	-13	36	-87	↘	48%	**447**	**23**	Underperform	12/06/08	Underperform
Wendel	BB neg/NR	NR	**1113**	2	-151	205	➔	114%	**1116**	**-3**	NR	–	NR
Index Basic Materials			**979**	-31	-75	-348	↗						**Underperform**

Key: ↘ *Outperformance expected;* ➔ *No trend reversal is expected;* ↗ *Underperformance expected. Source: Bloomberg, Calyon*

Chemicals

Issuer	S&P/Moody's	Calyon	Spot CDS	Variation 1 Week	Variation 1 Month	Variation YTD	Expected Trend	Spot vs Index Ratio	Spot vs Index Fair Value	Spot vs Index Spot - FV	CDS Recommendation Previous	CDS Recommendation Since	CDS Recommendation New
Air Liquide	A / NR	Mid-A	**81**	2	2	-29	➔	32%	**91**	**-10**	Outperform	04/08/08	Outperform
Akzo Nobel	BBB+ neg / Baa1 neg	High-BBB	**152**	7	25	10	➔	59%	**126**	**26**	Sectorperform	22/12/08	Underperform
BASF	A+ neg/A1	NR	**130**	-1	-15	-12	➔	51%	**119**	**11**	NR	–	NR
Bayer AG	A- neg/A3	High-BBB	**85**	0	-5	-46	↗	33%	**105**	**-20**	Sectorperform	22/12/08	Sectorperform
Clariant AG	BBB- / Ba1	NR	**415**	-7	-52	-127	↗	162%	**458**	**-43**	NR	–	NR
Evonik Degussa	BB / Baa3 CW neg	High-BB	**224**	20	38	-69	➔	87%	**243**	**-19**	Underperform	25/03/09	Underperform
DSM	A- / A3	Low-A	**96**	7	1	-39	➔	37%	**108**	**-12**	Sectorperform	18/02/09	Sectorperform
Lanxess	BBB / Baa2	NR	**262**	17	-33	-113	➔	102%	**285**	**-23**	NR	–	NR
Linde AG	BBB+ / Baa1	High-BBB	**93**	5	-3	-70	➔	36%	**107**	**-14**	Outperform	18/12/07	Outperform
Rhodia	BB neg / Ba3	NR	**1361**	-6	-63	126	➔	531%	**1216**	**145**	NR	–	NR
Solvay	A neg/ A2 Cwneg	NR	**134**	2	-6	-23	➔	52%	**133**	**1**	NR	–	NR
Syngenta AG	A / A2	NR	**103**	7	8	-15	↘	40%	**100**	**3**	NR	–	NR
Index Chemicals			**256**	5	-8	-35	➔						**Underperform**

Key: ↘ *Outperformance expected;* ➔ *No trend reversal is expected;* ↗ *Underperformance expected. Source: Bloomberg, Calyon*

Pulp & Paper

			Spot	Variation			Expected	Spot vs Index			CDS Recommendation		
Issuer	**S&P/Moody's**	**Calyon**	**CDS**	**1 Week**	**1 Month**	**YTD**	**Trend**	**Ratio**	**Fair Value**	**Spot - FV**	**Previous**	**Since**	**New**
Metso	BBB neg/Baa2 neg	Mid-BBB	**466**	-15	-61	-28	➔	40%	**463**	**3**	Sectorperform	16/12/08	Sectorperform
M-Real	CCC+ neg/Caa1 CW neg	High-CCC	**4519**	-134	-1314	1633	➔	390%	**3891**	**628**	Underperform	16/12/08	Underperform
Norske Skogindustrier	BB- neg/B2	High-B	**1173**	-58	-146	-92	➔	101%	**1576**	**-403**	Underperform	16/12/08	Underperform
Svenska Cellulosa (SCA)	BBB+ neg/Baa1 neg	Mid-BBB	**165**	-5	-34	-77	➔	14%	**246**	**-81**	Sectorperform	16/02/09	Sectorperform
Stora Enso	BB+ neg/Ba2 CW neg	Mid-BB	**646**	-5	40	133	➔	56%	**620**	**26**	Underperform	16/12/08	Underperform
UPM Kymmene	BB+ neg/Ba1	High-BB	**449**	9	-35	47	➔	39%	**490**	**-41**	Underperform	16/12/08	Underperform
Paper			**1159**	-30	-218	224	➔						**Underperform**

Key: ➘ *Outperformance expected;* ➔ *No trend reversal is expected;* ➚ *Underperformance expected. Source: Bloomberg, Calyon*

Primary activity and outlook

2009 started slowly for Industrial primary issuance. The only Industrial issuers coming on the market in January were Saint-Gobain and BASF, while the corporate market was flooded with Utilities and Telecom issuance. However, as the window for primary remained open in late February we saw most of the issuers that we were expecting finally coming on the market: ThyssenKrupp, Bayer, DSM, Holcim, Akzo Nobel. ArcelorMittal came on the convertible bond market with a EUR1.25bn 5Y convertible bond issued in March.

These new issues came with substantial premiums to CDS (100-300bp), except in the case of Holcim. Indeed, we calculate a mid-swap spread of c.625bp on the EUR500m 5Y bond issued in March, ie, a slightly positive basis over the 5Y CDS level.

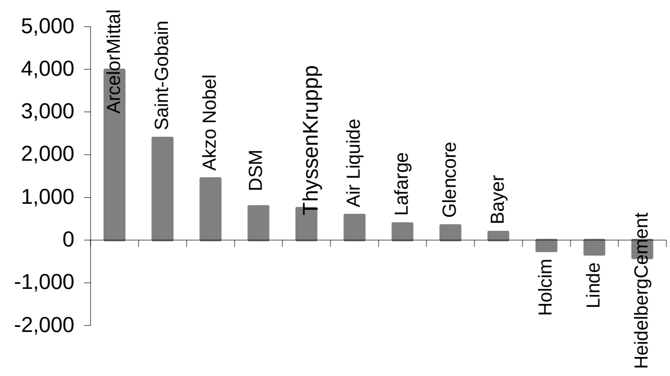
Industrial primary issues in Q109

Company	Date	Type	Original currency	Amount Currency	Amount EUR	Maturity	Spread (bp) vs mid-swap	Coupon
Akzo Nobel	Mar-09	Bond	EUR	750	750	Mar-15	425	7.250%
	Mar-09	Bond	GBP	250	269	Apr-16		8.000%
		Total			**1,019**			
ArcelorMittal	Mar-09	Convertible bond	EUR	1,250	1,250	Apr-14		7.250%
BASF	Jan-09	Bond	EUR	1,500	1,500	Jun-15	200	5.125%
	Mar-09	Bond	GBP	400	430	Mar-17		
	Apr-09	Bond	EUR	1,000	1,000	Oct-12	160	3.750%
	Jun-09	Bond	EUR	350	350	Oct-12	145	3.750%
		Total			**3,280**			
Bayer	Mar-09	Bond	EUR	1,300	1,300	Sep-14	190	4.625%
DSM	Mar-09	Bond	EUR	500	500	Mar-14	320	5.750%
Holcim	Mar-09	bond	EUR	500	500	Mar-14	625	9.000%
Saint-Gobain	Jan-09	Bond	EUR	1,000	1,000	Jul-14	525	8.250%
ThyssenKrupp		Bond	EUR	500	500	Feb-13	430	6.750%
		Bond	EUR	1,000	1,000	Feb-16	555	8.500%
		Total			**1,500**			

Source: Bloomberg, Calyon

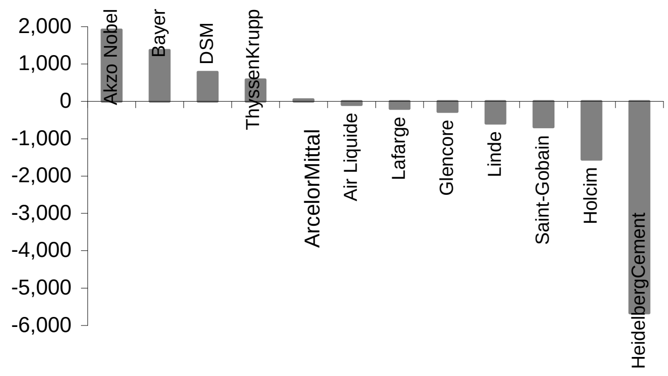
Looking at the remaining financing needs for 2009 and 2010, we believe that the companies that are the most likely to come to the primary market are Linde, Holcim, Bayer and Air Liquide. HeidelbergCement has the largest financing needs by far; however, credit rating and spread levels prevent it from coming on the market and it has to rely on bank refinancing. Glencore theoretically needs some refinancing at the latest by 2010 in our view. Again, the current spread level prevents the company from issuing new bonds for the time being, in our view. The charts below are based on our estimates of the cash position of each company at FY09 and FY10 year-end, based on our free cash flow estimates and assumption that no further debt refinancing is done other than what has already been announced.

Cash position at FY09 year-end



Source: Calyon, Companies

Cash position at FY10 year-end



Source: Calyon, Companies

We saw no primary activity over the quarter in the Pulp & Paper sector despite a deluge of new issuance elsewhere. We continue to regard new issuance for the sector as a ‘Catch 22' situation. The credits that need to issue, ie, M-Real and Norske Skog, which have material refinancing risk, cannot issue. The credits that could issue, say SCA and maybe Metso, probably do not desperately need to issue given reasonable debt maturity profiles and better ratings. Apart from the Calyon-led Fresenius deal the European high-yield market has remained closed since July 2007, dramatically reducing financial flexibility for high-yield credits. Fallen angels Stora Enso and UPM are now in the high-yield category and are starting to adjust financial strategies accordingly, but at this stage we would need to see some more BBB-/BB+ credits come with new issuance before we could be confident that UPM or Stora Enso could issue new bonds.

Credit trend

Outlook and credit trend

Macroeconomic newsflow continued to deteriorate in Q109. Our economists revised down their estimate for FY09 world GDP growth from 0.4% published in December 2008 to -1.0% now. In particular, FY09 GDP growth in the Eurozone has been revised from -0.8% to -2.9% now. Prospects for recovery in 2010 have reduced. Our economists are now looking at growth in the Eurozone of 0.4% in FY10 vs 1.1% in December 2008.

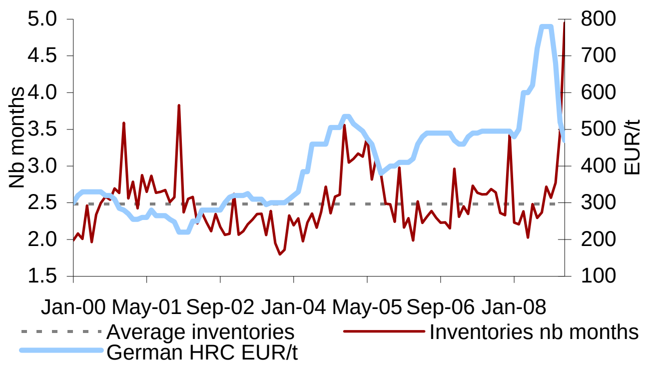
Industrial production has been sharply down in Q109. German industrial production fell by close to 20% YoY in January, the sharpest drop since the indicator has been in existence. UK and French industrial production also receded severely, down by 11.4% and 10.9% YoY, respectively, in January. Manufacturers continued to reduce inventories after the destocking phase started in Q408. Our autos analyst now estimates that automotive production might be down by 20-25% YoY this year in Europe (compared with down 10-15% expected in December 2008) and by c.25% in the US. Construction data unsurprisingly continues to deteriorate as shown in the charts below.

Steel

The production data released by the Worldsteel Association on 20 March showed a 23% YoY drop in world production of crude steel in the first two months of 2009, including 22% YoY for February only. The decline reached 43% in Europe, including 41% in France and 34% in Germany. The reasons for this downturn remain the collapsed demand from the automotive and construction sectors, which represent 62% of steel end-use in the OECD (source ArcelorMittal). The downward revisions to GDP growth estimates for FY09 have led Cheuvreux to review down its estimates for world steel production, which is closely correlated to GDP growth. It now expects world crude steel production to fall 11% YoY in FY09, vs 6% in December.

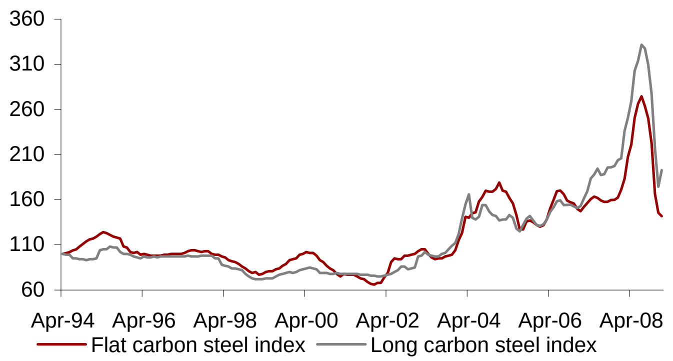
Despite the destocking which has taken place since September, inventories for flat and long carbon steel products are reported to remain high in Europe (see chart below). As a consequence of high inventories, spot prices have continued to fall since January. *Metal Bulletin* reported on 26 March a price of hot-rolled coil (HRC) in Europe at EUR320/t compared with EUR810/t in August 2008 (-60%). So far, the price of HRC is down by c.40% on average since early 2009 compared with the 2008 average (source *Metal Bulletin*). The CRU price index for flat carbon steel is indicated to be down 38% since the beginning of the year compared with the 2008 average, 33% in the case of long carbon steel.

German inventories of flat steel products



Source: Cheuvreux, CRU

CRU steel price indices



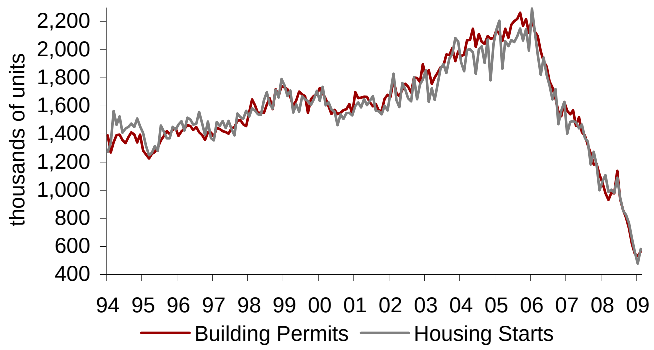
Source: CRU

Nippon Steel was reported by Bloomberg and Reuters in March to have agreed with BHP Billiton on a 60% YoY cut in coking coal prices. This is likely to serve as a benchmark for the sector. As regards iron ore prices we expect a 27% YoY decline this year for contracts starting 1 April. However, price negotiations are reported (source Bloomberg, Reuters) to have been delayed. Indeed, mining companies are willing to wait until the outlook for demand improves. Were these price negotiations to be effectively delayed, this would mean that steel manufacturers would have to pay last year's price until a new one is set. This would weigh on Q209 working capital. Bloomberg reported at the end of March that some miners would agree on a 40% temporary price cut for some Chinese customers. These reports have not been confirmed at the time of writing.

Building Materials

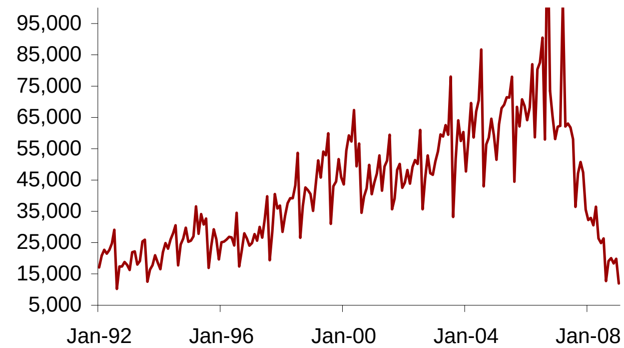
Data for building permits and housing starts has continued to deteriorate in the main mature markets. When Building Materials producers released Q408 results in February/March they indicated that Q109 business was difficult.

US housing starts and building permits



Source: US Census Bureau

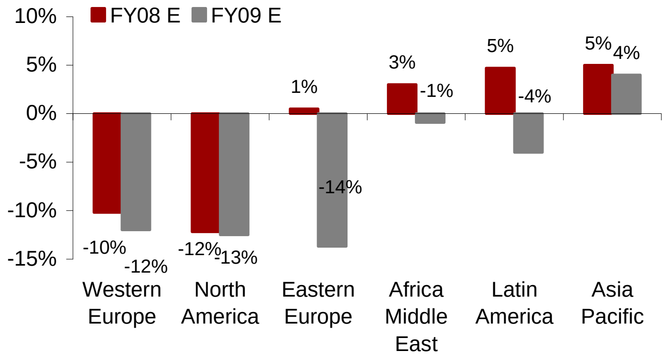
Spain: housing permits (units)



Source: Datastream

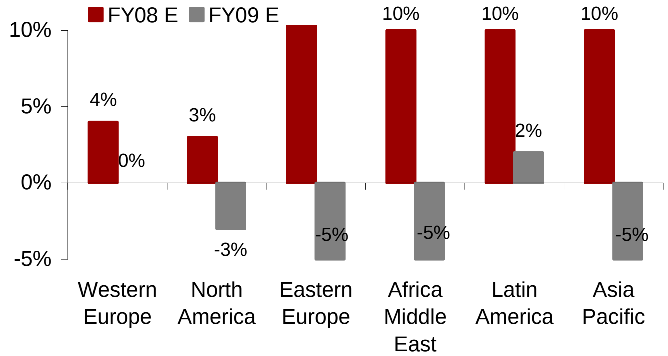
Based on preliminary data for the US stimulus plan released mid-January (USD775bn total amount indicated at that time), on 19 January the Portland Cement Association (PCA) provided an estimate of the potential impact that it could have on domestic cement consumption in the US in FY09 and FY10. The PCA estimated that the plan could reduce the fall in domestic cement demand to 8.6% YoY in FY09 vs a drop of 15.1% before any stimulus impact. The 15.1% estimate was a sharp revision compared with the 11.9% drop in demand estimated in October 2008 for FY09. As regards FY10 the PCA estimated that the plan could lead to an increase in domestic cement demand of 5.3% YoY vs a drop by 8.0% before any stimulus impact. At this stage we factor in little impact from the plan for FY09 given the time necessary for the release of funds, orders and works. We stick to Cheuvreux's estimates for changes in cement volumes and prices in FY09, which have been revised downwards compared with our *Industrials 2009 Outlook* published 22 December 2008.

Expected change in cement volumes (YoY)



Source: Cheuvreux

Expected change in price volumes (YoY)



Source: Cheuvreux

Chemicals

We expect demand and production to have remained depressed in the Chemical sector in Q109. BASF said in late February that the situation in its end-markets was worsening, and that inventory levels were still too high. The company indicated on 25 March that demand remained very weak. It reduced its production capacities worldwide by over 25%. On its side Bayer explained in early March that polycarbonate plants were running at a 50% capacity utilisation rate, and TDI and MDI plants at 70%. Bayer indicated that orders from automotives were down 47% YoY in January, down 23% YoY for construction, 35% for electronics and 48% for furniture.

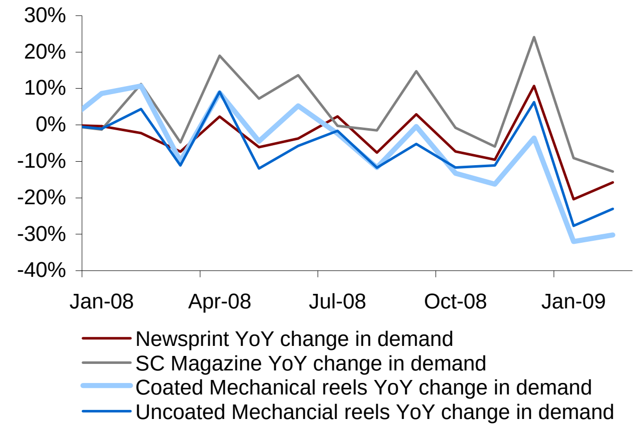
Pulp & Paper

Sector dynamics continue to migrate from a cost- and restructuring-based credit story to a falling-volume-led story. Advertising revenues are falling, construction demand for wood products remains low and consumer packaging demand is weak. Accordingly, we continue to believe that the sector is heading for a very sharp downtown in 2009. We expect to see very weak results over the next few quarters.

So far YTD demand growth for newsprint in Europe has fallen a large -17.9%, with SC magazine demand down -11.1%, and demand for coated (uncoated) mechanical reels down a huge -31.0% (-23.7%). The fall in deliveries for fine paper continues to accelerate with statistics released last week confirming a drop in demand for coated fine paper in February of as much as -22.6% (uncoated -18.9%) versus drops in January of -17.6% and -13%, respectively.

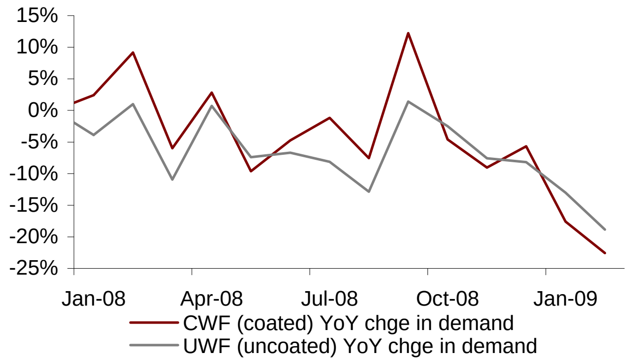
These figures represent the change in growth for just two months but, in line with our *Pulp & Paper 2009 Outlook – Survival of the Fittest*, published 16 December 2008, we believe that they will mark the start of an extreme downturn in the demand for paper products in Europe across all paper grades. We continue to remain highly sceptical that any further price increases can be negotiated given the surplus capacity in place.

Sharp reduction in publishing paper volumes



Source: CEPIPRINT

Fine paper volumes continue downward trend



Source: CEPIFINE

Downgrades despite efforts to preserve free cash flows in FY09

Industrial producers intensified efforts in Q109 to preserve free cash flows this year. Many of them announced further capex cuts after the ones already announced in Q408. In addition, most cut dividends and delayed or cancelled share buyback programmes if they were in place.

Capex (FY09 guidance vs FY08 realised)

(EURm)	FY09 capex guidance	YoY change
ArcelorMittal (USD)	3,000	-46%
ThyssenKrupp	4,500	12%
HeidelbergCement	750	-32%
Holcim (CHFm)	2,900	-36%
Imerys	<200	<-20%
Lafarge	1,800	-38%
Saint-Gobain	1,650	-23%
Air Liquide	1,600	-16%
Akzo Nobel	475	-11%
Bayer	1,500	-15%
DSM	<EUR500m	<-15%
Evonik Industries	1,000	-14%
Linde	NA (13% of gases sales)	NA

Source: Companies

Change in dividend in FY09

	Cash dividend per share		
(EURm)	**FY08**	**FY09**	**Δ YoY**
ArcelorMittal	1.5	0.75	-50%
ThyssenKrupp	1.3	1.3	0%
HeidelbergCement	1.3	0.12	-91%
Holcim (CHF) (1)	3.3	0	-100%
Imerys	1.9	1	-47%
Lafarge	4	2	-50%
Saint-Gobain	2.05	1	-51%
Air Liquide	2.25	2.25	0%
Akzo Nobel	1.8	1.8	0%
Bayer	1.35	1.4	4%
DSM	1.2	1.2	0%
Linde	1.7	1.8	6%

(1) CHF2.25 dividend to be paid in shares in FY09

Source: Companies

Given the deterioration in Q408 performance and the worsening outlook we have seen many downgrades and/or negative outlooks in Q109.

Rating actions in Q109

	S&P's		Moody's		Fitch	
	Date	**Action**	**Date**	**Action**	**Date**	**Action**
Building Materials / Construction						
HeidelbergCement	09-Jan-09	Downgrade from BB- cw neg to B+ cw neg	09-Feb-09	Downgrade from Ba3 neg to B1 cw neg	10-Mar-09	Downgrade from BB- cw neg to B cw neg
	06-Mar-09	Downgrade from B+ to B- cw neg				
Holcim	22-Jan-09	Downgrade from BBB+ neg to BBB	06-Mar-09	Baa1 on credit watch neg	03-Apr-09	Downgrade from BBB+ to BBB neg
Imerys			17-Feb-09	Downgrade from Baa2 neg to Baa3		
Lafarge	21-Jan-09	Downgrade from BBB neg to BBB- neg	16-Jan-09	Downgrade from Baa2 cw neg to Baa3 neg	27-Mar-09	Downgrade from BBB cw neg to BBB- neg
	20-Feb-09	stable outlook on BBB -				
OHL			17-Mar-09	Baa3 on credit watch neg	16-Mar-09	Downgrade from BBB- to BB+ cw neg
Steel / Metals						
ArcelorMittal	12-Feb-09	negative outlook on BBB+	07-Apr-09	Baa2 on credit watch neg	20-Mar-09	BBB+ on credit watch neg
ThyssenKrupp	20-Mar-09	BBB on credit watch neg	24-Mar-09	Baa2 on credit watch neg	19-Mar-09	BBB+ on credit watch neg
Glencore			12-Mar-09	negative outlook on Baa2		
Chemicals						
Akzo Nobel	25-Feb-09	Downgrade from A- neg to BBB+ neg	16-Mar-09	Downgrade from A3 neg to Baa1 neg		
Bayer	17-Mar-09	negative outlook on A-				
DSM					01-Apr-09	Negative outlook on A-
Evonik Degussa			24-Mar-09	Baa3 on credit watch neg		
Pulp & Paper						
Metso	13-Feb-09	negative outlook on BBB	20-Jan-09	negative outlook on Baa2		
M-Real	16-Jan-09	Downgrade from B- to CCC+ neg	13-Feb-09	Downgrade from B3 to Caa1 neg		
Norske Skog			13-Feb-09	Downgrade from B1 to B2		
Stora Enso	24-Feb-09	negative outlook on BB+	13-Feb-09	Downgrade from Ba1 to Ba2 cw neg		
UPM	01-Apr-09	Downgrade from BBB- to BB+ neg	13-Feb-09	Downgrade from Baa3 to Ba1		

Source: S&P, Moody's, Fitch

What to expect from Q109 earnings results

For most industrial companies, demand was probably worse in Q109 than in Q408. Indeed, destocking started progressively only in Q408 depending on the sector. In addition Q408 benefited from a lagging effect in orders, which will not be repeated. For example, Linde stated in March that October 2008 was its best month on record ever. We expect sharp YoY falls in sales volumes and low capacity utilisation, which should lead to significant pressure on operating margins. In addition, we expect further inventory writedowns in Steel due to further declines in spot prices. ThyssenKrupp already warned on 19 March that it would have to take some writedowns in its Q208/09 results (period ending 31 March). A key item to watch will be the change in working capital requirement. After the strong destocking that has taken place in Q308 and Q408 most companies are targeting some significant release in working capital in FY09. However, we are not sure whether we might see the start of this in Q109 as customers continue to reduce their inventories, in addition to seasonal hikes in working capital, eg, in Building Materials.

Issuer snapshot

We have included a liquidity analysis for issuers where the full detail of debt maturities as at 31 December 2008 has been disclosed. In the 'liquidity analysis' tables below we try to estimate the cash position at FY09 year-end and FY10 year-end given: (1) the level of medium-term debt maturing; (2) the assumption that short-term bank debt is rolled over but not commercial paper (given the risk that this market might dry up), (3) available cash on balance sheet; (4) our estimates for free cash flow after dividends in FY09 and FY10; (5) new bonds, loans or capital issues completed since the beginning of FY09. We assume that the company needs to maintain on its balance sheet a minimum amount of cash necessary to run day-to-day operations (amount either indicated by the company or estimated at 2% of sales).

Air Liquide (A/NR/A)

FY08 results were in line with expectations. The company met its FY08 target, which was double-digit growth in net profit at constant exchange rates. Revenue growth remained strong in Q408 at 7.9% YoY. However, the sales volumes of the Industrial Merchant segment in Europe declined. EBIT was impacted by EUR30m non-recurring charges consisting primarily of the 80% provisioning on a USD20m receivable due by LyondellBasell US. Air Liquide warned that Q109 would be more difficult than Q408. For 2009 overall the company provided two scenarios (long crisis/partial upturn in H209), under which revenue growth would range from 0% to 5% YoY. Air Liquide targets neutral free cash flow after dividends in FY09. In particular, it announced a reduction in FY09 capex from EUR2bn (previous guidance) to EUR1.6bn. On 16 February we slightly adjusted (-2%) our FY09 EBITDA estimate to EUR3,007m. We believe that credit metrics should remain acceptable (though pretty tight) for S&P's A rating. Liquidity remained strong as at 31 December 2008 with the total of cash and committed & unused facilities covering 300% of the debt due within one year.

One year rating target: Mid-A (maintained)

Relative value: Outperform (maintained since 04/08/08)

Air Liquide: liquidity analysis

Reporting date: 31 December 2008. Amounts in EURm	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	> Dec-13
debt due (excluding put option of minorities)	**965**	**673**	**505**	**1,411**	**1,273**	**1,817**
including bonds	33	520	296	820	739	1,365
including private placements	265	4	72	207		
including loans		142	133	381	532	445
including short-term bank debt	304					
including commercial paper	353					
including other debt	10	7	4	2	2	7
cash	1,494	848				
FOCF after dividends & net acquisitions/asset sales	16	0				
new bonds/new loans						
cash position before rollover of ST debt & securit.	**545**	**176**				
rollover of short-term bank debt & securitisation	304					
cash position after rollover of ST bank debt & securit.	**848**	**176**				
Cash position after drawdown on committed facilities	**848**	**266**				
Committed & undrawn facilities (1)	**1,882**	**1,882**				
Drawdown under committed available facilities		-90				
Committed & undrawn facilities remaining available end of period	**1,882**	**1,792**				

(1) Maturity date of committed & undrawn facilities

	2009	2010	2011	2012	2013	2013
				1,882		

Source: Company, Calyon

Akzo Nobel (BBB+ neg/Baa1 neg/ BBB+)

Q408 EBITDA was down 17% YoY due to volume declines. Volumes were down in all divisions with specialty chemicals being the most impacted by the downturn (-11% YoY). No guidance was given for FY09 but the company maintained its medium-term target of an EBITDA margin of 14% by the end of 2011. The company announced a 32% YoY cut in capex to EUR475m in FY09. Akzo Nobel stated that in view of the current uncertainties the share buyback would not be completed. After the EUR1bn bond issue completed in December liquidity was further improved by two bond issues achieved in March: a EUR750m 6Y bond at 7.25% and a GBP250m 7Y bond at 8.00%.

One year rating target: High-BBB (maintained)

Relative value: Underperform (maintained since 22/12/08)

ArcelorMittal (BBB+ neg/Baa2 CW neg/ BBB+ CW neg)

Q408 EBITDA was in line with the guidance provided last November at the pre-exceptionals level. Indeed, it stood at USD2.8bn – within the USD2.5-3.0bn range indicated as guidance. However, ArcelorMittal recorded a USD3.5bn operating loss in Q408 due to USD4.4bn exceptional charges primarily related to write-downs of inventory and raw material supply contracts. Net debt was reduced by USD6.0bn to USD26.5bn. This was primarily achieved by a USD1.6bn release in working capital and USD2.5bn cash proceeds from the unwinding of a currency hedging transaction on raw material purchases. Thus, the company seems well on track to achieve its target of reducing net debt by USD10bn by FY09 year-end compared with the level as at 30 September 2008 (USD32.5bn). ArcelorMittal provided very poor guidance on Q109, seeing EBITDA of “approximately USD1.0bn due to the full impact of price declines and production cuts”. The company confirmed this guidance on 24 March, specifying that “approximately means plus/minus 15%”. Two major steps were achieved in Q109 in terms of debt refinancing with (1) the approval by banks in February-March of a total of USD6.0bn ‘forward start facilities’, extending the maturities of existing lines (drawn or undrawn) from 2010-11 to 2012; and (2) the issue on 26 March of a EUR1.25bn 5Y convertible bond.

One year rating target: Mid-BBB (maintained)

Relative value: Outperform (maintained since 30/07/08)

ArcelorMittal: liquidity analysis (forward start facilities signed in February 2009 factored in)

Reporting date: 31 December 2008	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	> Dec-13
debt due	**8,409**	**5,319**	**3,928**	**10,512**	**1,871**	**4,037**
including bonds	100	835	0	0	1,500	3,255
including loans	4,400	5,684	3,928	9,312	371	782
including short-term bank debt	1,500					
including commercial paper	2,400					
including securitisation	0					
cash	7,587	9,758	4,440			
FOCF after dividends & net acquisitions/asset sales	7,393	0	0			
new bonds/new loans	1,688					
cash position before rollover of ST debt & securit.	**8,258**	**4,440**	**512**			
rollover of short-term bank debt & securitisation	1,500					
cash position after rollover of ST bank debt & securit.	**9,758**	**4,440**	**512**			
Cash position after drawdown on committed facilities	**9,758**	**4,440**	**2,385**			
Committed & undrawn facilities (1)	**5,800**	**4,500**	**4,500**			
Drawdown under committed available facilities	**0**	**0**	**-1,873**			
Committed & undrawn facilities remaining available end of period	**4,500**	**4,500**	**1,877**			

(1) Maturity date of committed & undrawn facilities

	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	> Dec-13
	1,300	0	750	3,750		

Source: Company, Calyon

Bayer (A- neg/A3/A-)

Q408 results were in line with expectations. As expected, the performance was driven by the HealthCare and CropScience subsectors while the EBITDA before non-recurring items of Materialscience fell by 85% YoY. Net debt was up to EUR14.2bn (EUR12.2bn in FY07). The pension deficit increased by EUR1.0bn compared with December 2007 due to the decrease in the fair value of plan assets. For FY09 Bayer reduced its previous guidance ("growth in underlying EBITDA") to a "decline in underlying Group EBITDA [limited] to about 5%". It expects a "gratifying trend" in HealthCare and CropScience. As regards MaterialScience the company anticipates an extremely difficult year. Bayer said that it aims to reduce net debt towards EUR10bn by the end of FY09 thanks to a EUR1bn reduction in working capital requirement. We revised down our estimates on 4 March. In particular, we lowered our pricing assumptions in the MaterialScience subsector. Thus, we lower our estimate for FY09 EBITDA before special items by 3% compared with previously (22 December 2008). The strong focus on net debt reduction affirmed by the company is crucial for Bayer to maintain its low-A ratings, meaning that it cannot afford any acquisitions beyond roughly the EUR500m level in FY09 in our view. We maintain our rating target at High-BBB given the uncertainty on (1) the operational performance; and (2) the reduction in working capital. The EUR1.3bn 5.5Y bond issued in March (at 4.625%) improved liquidity, which was weak at 31 December 2008.

One year rating target: High-BBB (maintained)

Relative value: Sectorperform (maintained since 22/12/08)

Bayer: liquidity analysis

Reporting date: 31 Dec 2008	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	> Dec-13
debt due (Calyon estimates)	**6,256**	**771**	**1,967**	**2,740**	**1,465**	**3,671**
including bonds & private placements	2,059	379	400	2,381	1,074	2,140
including mandatory convertible bond	2,296	0				
including bank debt	1,409		1,250			
including commercial paper						
including securitisation						
including other debt	448					
cash	2,041	846	2,027			
FOCF after dividends and net acquisitions	2,352	1,952				
new bonds/new loans	1,300					
cash position before rollover of ST bank debt & securit.	**-563**	**2,027**	**60**			
rollover of short-term bank debt & securitisation	1,409					
cash position after rollover of ST bank debt and securit.	**846**	**2,027**	**60**			
Committed & undrawn facilities (1)	**3,500**	**3,500**	**3,500**			
Drawdown under committed available facilities	**0**	0	0			
Committed & undrawn facilities remaining available end of period	**3,500**	**3,500**	**3,500**			

(1) Maturity date of committed & undrawn facilities (as at 31 December 2008)

2008	2009	2010	2011	2012	2013
				3,500	

Source: Company, Calyon

DSM (A-/A3/A-)

Q408 EBITDA was down 20% YoY to EUR241m and operating profit down 35% YoY to EUR123m, in line with expectations. The Performance Materials and Polymer Intermediates divisions were sharply impacted by the fall in demand in Q408 while Nutrition and Pharma withstood well. Net debt was higher than our expectations at EUR1.8bn as at 31 December 2008 due to a higher-than-expected increase in working capital and capex. Still, credit metrics at FY08 year-end remained very comfortable for the low-A ratings. DSM cancelled the remainder (EUR250m) of the share buyback programme. Liquidity was good as at 31 December 2008. It was further strengthened by the issue in March of a EUR500m 5Y bond at 5.75%.

One year rating target: Low-A (maintained)

Relative value: Sectorperform (maintained since 18/02/09)

DSM: liquidity analysis

Reporting date: 31 Dec 2008. Amounts in EURm	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	> Dec-13
debt due (source: Calyon estimates)	**734**	**7**	**3**	**151**	**0**	**1,398**
including bonds & private placements	177	0	0	108	0	0
including loans						
including short-term bank debt	498					
including commercial paper						
including securitisation						
including other debt						
cash	601	974	967			
FOCF after dividends & net acquisitions/asset sales	109	0	0			
new bonds/new loans	500					
cash position before rollover of ST debt & securit.	**476**	**967**	**964**			
rollover of short-term bank debt & securitisation	498					
cash position after rollover of ST bank debt & securit.	**974**	**967**	**964**			
Cash position after drawdown on committed facilities	**974**	**967**	**964**			
Committed & undrawn facilities (1)	**900**	**900**	**900**			
Drawdown under committed available facilities	**0**	0	0			
Committed & undrawn facilities remaining available end of period	**900**	**900**	**900**			

(1) Maturity date of committed & undrawn facilities

2009	2010	2011	2012	2013
			500	400

Source: Company, Calyon

Evonik Degussa (BB/Baa3 CW neg/NR)

Q408 EBITDA (pre-exceptionals) was down 32% YoY in line with the EBITDA of chemical activities (down 33% YoY). This was due to the plummeting demand from the major end-markets for chemical segments (construction, automotive, plastics and coatings). Evonik Industries recorded a net non-operating charge of EUR406m, including some impairment losses on chemical assets and restructuring expenses. FY08 operating cash flow was very weak at EUR388m versus EUR1.2bn in FY07, due to a surge in working capital (EUR749m in FY08). Net debt stood at EUR5bn. The company announced a cost-cutting programme aiming to save EUR500m per year over the next three years. Capex budget was said to be reduced to EUR1.0bn in FY09. The company's liquidity relies on a EUR2.25bn syndicated facility maturing in 2011 available for EUR1.45bn as at 31 December 2008. This facility is subject to financial covenants including a maximum net debt/EBITDA ratio (level not disclosed). Evonik Industries said that it complied with this covenant as at 31 December 2008 but we understand that the headroom under this covenant has significantly reduced.

One year rating target: High-BB (maintained)

Relative value: Underperform (maintained since 25/03/09)

Glencore (BBB-/Baa2 neg/NR)

Q408 trading results confirmed a relative resilience to the drop in commodity prices. Marketing results (after a USD341m inventory writedown) declined by 26% YoY in H208 (to USD1.6bn) vs an 88% YoY drop for the industrial results (to USD271m). Glencore recorded USD3.7bn exceptional items being primarily asset impairments and inventory writedowns. Glencore guided for a USD4bn pre-exceptionals EBITDA in FY09. Reported net debt (before any adjustments) was reduced to USD17.4bn thanks to a USD4.0bn release in working capital requirement. Liquidity was significantly improved as at 31 December 2008; indeed, the short-term debt was covered 100% by the total of cash and committed & unused bank lines (USD5.3bn), vs 80% last September. In FY09 the company will probably rely on the rollover of short-term bank debt and on the renewal of the receivables & inventories securitisation programmes if it does not want to draw on committed & unused bank lines. Glencore said that it will now tackle, with its banks, the renewal process of the USD2bn receivables facility (USD1.6bn used as at 31 December 2008, see debt table below) as the related back-up facilities expire in June 2009. It also intends to seek some maturity extension for the USD8.2bn syndicated loan maturing primarily in May 2011. Glencore said that it would give an update on the subject when it releases its Q109 results in May.

One year rating target: Low-BBB (maintained)

Relative value: Outperform (maintained since 01/10/08)

Glencore: liquidity analysis

Reporting date: 31 December 2008	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	> Dec-13
debt due	**5,245**	**833**	**7,048**	**424**	**1,170**	**3,596**
including bonds	0	0	834	0	1,170	3,596
including loans	900	0	5,559	0	0	0
including short-term bank debt	1,670	0	0	0	0	0
including commercial paper	0	0	0	0	0	0
including securitisation	1,969	0	0	0	0	0
including profit participation scheme	706	611	463	267	0	0
cash	939	858	400			
FOCF after dividends & net acquisitions/asset sales	1,525	0	0			
new bonds/new loans	0					
cash position before rollover of ST debt & securit.	**-2,781**	**25**	**-6,648**			
rollover of short-term bank debt & securitisation	3,639					
cash position after rollover of ST bank debt & securit.	**858**	**25**	**-6,648**			
Cash position after drawdown on committed facilities	**858**	**400**	**-4,502**			
Committed & undrawn facilities (1)	**4,316**	**4,316**	**3,911**			
Drawdown under committed available facilities	**0**	**-375**	**-2,146**			
Committed & undrawn facilities remaining available end of period	**4,316**	**3,911**	**0**			

(1) Maturity date of committed & undrawn facilities

	2008	2009	2010	2011	2012	> 2012
		30	1,765	2,521		

Source: Company, Calyon

HeidelbergCement (B- CW neg/B1 CW neg/B CW neg)

Q408 EBITDA before exceptionals stood above consensus estimates at EUR804m, operating income at EUR595m. Net debt was reduced by EUR716m compared with 31 September 2008 to EUR11.6bn thanks to a strong release in working capital (EUR790m in Q408). We calculate adjusted net debt/EBITDA at 4.4x, FFO/adjusted net debt at 13% and retained cash-flow/adjusted net debt at 12% as at 31 December 2008. There was no news regarding liquidity & refinancing. HeidelbergCement said on 19 March that a broad base of equity investors was interested in the company and that it was "close to entering into negotiations". The company indicated that this would be for a capital injection, not for a sale of existing shares. Regarding debt refinancing, HeidelbergCement said that it was about to propose a refinancing package to banks. It declined to comment on the package to be proposed (in particular whether it would include any asset pledges). The renegotiation of these covenants is part of the package. We have revised down our estimates to factor in a decline in cement volumes in Eastern Europe (vs flat volumes expected in December) and lower margins due to lower capacity utilisation. We estimate FY09 EBITDA at EUR2.4bn compared with EUR2.6bn published on 22 December 2008. Despite the 32% YoY cut in capex in FY09 announced by the company, we now believe that the FFO/ adjusted net debt ratio might stand close to 10% at FY09 year-end. We change our rating target from Mid-B to Low-B. Our liquidity analysis below shows that the company will need to draw on committed lines this year.

One year rating target: Low-B (previously Mid-B, since 19/03/09)

Relative value: Sectorperform (maintained since 14/01/09)

HeidelbergCement: liquidity analysis

Reporting date: 31 Dec. 2008. Amounts in EURm	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	> Dec-13
debt due (Calyon estimates)	**1,766**	**6,000**	**700**	**2,000**	**1,000**	**1,040**
including bonds & private placements	713	540	0	1,000	540	956
including loans	689	5,400				
including short-term bank debt	329					
including commercial paper	0					
including securitisation						
including other debt	35					
cash	839	284	0			
FOCF after dividends	461	336				
new bonds/new loans						
cash position before rollover of ST debt	**-465**	**-5,380**				
rollover of short-term bank debt & securitisation	329					
cash position after rollover of ST bank debt	**-136**	**-5,380**				
Cash position after drawdown on committed facilities	**284**	**-4,800**				
Committed & undrawn facilities (1)	**1,000**	**580**	**0**			
Drawdown under committed available facilities	**-420**	-580	0			
Committed & undrawn facilities remaining available end of period	**580**	**0**	**0**			

(1) Maturity date of committed & undrawn facilities

	2009	2010	2011	2012
				1,000

Source: Company, Calyon

Holcim (BBB/Baa1 CW neg/BBB+ neg)

Q408 results stood below consensus expectations. In particular, in Europe the fall in volumes was larger-than-expected. Q408 operating EBITDA declined 39% YoY. Holcim proposed to maintain the dividend payout ratio at one-third of net income but to pay it in shares this year. It said that it expects net debt to remain at the same level LfL at the end of FY09. Liquidity had weakened as at 31 December 2008 compared with September. However, on 19 March Holcim issued a EUR500m 5Y bond at 9%, which would allow around 70% of FY09 financing needs to be filled. According to our estimates the remaining financing need amounts to CHF400m in FY09.

One year rating target: Mid-BBB (maintained)

Relative value: Underperform (maintained since 05/03/09)

Holcim: liquidity analysis

Reporting date: 31 Dec 2008. Amounts in CHFm	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	> Dec-13
debt due	**5,863**	**1,985**	**1,340**	**1,193**	**4,401**	**3,836**
including bonds & private placements	1,127	1,195	669	564	1,422	3,029
including loans	1,293	755	623	614	3,023	682
including short-term bank debt (Calyon estimate)	3,343					
including commercial paper	0					
including securitisation	0					
including other debt	0					
cash	3,605	3,000				
FOCF after dividends & net acquisitions/asset sales	373	0				
new bonds/new loans	1,158					
cash position before rollover of ST debt	**-727**	**1,015**				
rollover of short-term bank debt & securitisation	3,343					
cash position after rollover of ST bank debt	**2,616**	**1,015**				
Cash position after drawdown on committed facilities	**3,000**	**2,631**				
Committed & undrawn facilities (1)	**2,000**	**1,616**				
Drawdown under committed available facilities	**-384**	-1,616				
Committed & undrawn facilities remaining available end of period	**1,616**	**0**				

(1) Maturity date of committed & undrawn facilities

	2009	2010	2011	2012
				2,000

Source: Company, Calyon

Imerys (NR/Baa3/NR)

Q408 results stood below expectations. Q408 sales were down 7.1% YoY including negative 10.5% organic growth. Q408 current operating income dropped 35.5% YoY. Sales volumes declined by 17.1% YoY in Q408. Not surprisingly, the activities linked to construction (such as building materials and ceramics) and industrial equipment (such as monolithic refractories) were the most impacted. Net debt was up to EUR1.6bn. We revised down our estimates for FY09 EBITDA from EUR522m previously to EUR494m on 13 February. Taking into account the reduction in dividend and capex (estimated at EUR150m in FY09) we believe that the retained cash flow/adjusted net debt ratio would remain in line with the Baa3 rating in FY09. Liquidity remains strong given little debt maturing in FY09-11.

One year rating target: Low-BBB (maintained)

Relative value: Sectorperform (maintained since 04/11/08)

Imerys: liquidity analysis

Reporting date: 31 Dec 2008. Amounts in EURm	Dec-09	Dec-10	Dec-11	Dec-12	> Dec-12
debt due (Calyon estimates)	**274**	**77**	**68**	**240**	**1,131**
including bonds & private placements		50			981
including loans	0	27	68	240	150
including short-term bank debt					
including commercial paper	206				
including securitisation					
including other debt	68				
cash	218	125	125		
FOCF after dividends & net acquisitions/asset sales	152	0	0		
new bonds/new loans	0				
cash position before rollover of ST debt	**96**	**48**	**57**		
rollover of short-term bank debt					
cash position after rollover of ST bank debt	**96**	**48**	**57**		
Cash position after drawdown on committed facilities	**125**	**125**	**125**		
Committed & undrawn facilities (1)	**838**	**809**	**673**		
Drawdown under committed available facilities	-29	-77	-68		
Committed & undrawn facilities remaining available end of period	**809**	**673**	**506**		

(1) Maturity date of committed & undrawn facilities

	2009	**2010**	**2011**	**2012**	**2013**
	0	59	99	80	600

Source: Company, Calyon

Lafarge (BBB-/Baa3 neg/BBB- neg)

Lafarge's Q408 results were in line with expectations with current operating income down 6% YoY to EUR753m. Lafarge announced a total of EUR4.5bn measures to strengthen the financial structure. The company said that it would increase cost-cutting from EUR120m to EUR200m in FY09 as part of the EUR400m programme already announced for the 2009-11 period. It planned a further cut in capex of EUR200m to EUR1.8bn in FY09. It also expected to reduce working capital by a further EUR200m in FY09. Asset sales were indicated for a total EUR1bn in FY09. Lafarge announced a EUR1.5bn rights issue, which is fully underwritten. The main shareholders, GBL and NNS Holding (Sawiris family), committed to subscribe for EUR0.5bn. Lafarge obtained a new EUR1bn two-year facility. Together with the proceeds from the rights issue this new loan should allow the company to repay the A1 and A2 tranches of the Orascom loan (EUR2.6bn) before June 2009. Thus, the related financial covenant (Net debt/EBITDA <4x as at 30 June 2009) – which might have been breached – should be removed, meaning a strong improvement in liquidity. We have revised down our estimates for FY09 EBITDA from EUR4.1bn (published in December) to EUR3.9bn (–5%) factoring in a larger decline in volumes. Under these estimates we believe that only the targeted EUR1bn asset sales would allow the company to stabilise credit metrics in FY09. In the liquidity table below we assume that the new EUR1bn loan and EUR1.5bn cash proceeds from the rights issue will be used to repay the total EUR1.6bn A1 and A2 tranches of the Orascom loan maturing in 2009. The table shows that there is no longer any refinancing urgency for the company in FY09.

One year rating target: Restricted

Relative value: Restricted

Lafarge: liquidity analysis

Reporting date: 31 Dec 2008	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	> Dec-13
debt due	**2,702**	**1,093**	**2,405**	**4,530**	**1,380**	**4,571**
including bonds	299	843	1,181	367	801	4,078
including loans	0	250	1,224	4,163	500	149
including short-term bank debt	1,379	0	0	0	0	0
including commercial paper	1,024	0	0	0	0	0
including securitisation	0	0	0	0	0	0
including other debt	0	0	0	0	79	344
cash	1,591	768	381			
FOCF after dividends & net acquisitions/asset sales	500	512	0			
new bonds/new loans	0	0	0			
cash position before rollover of ST debt	**-611**	**187**	**-2,024**			
rollover of short-term bank debt	1,379	0				
cash position after rollover of ST bank debt	**768**	**187**	**-2,024**			
Cash position after drawdown on committed facilities	**768**	**381**	**-1,368**			
Committed & undrawn facilities (1)	**2,054**	**2,054**	**1,860**			
Drawdown under committed available facilities	**0**	-194	-656			
Committed & undrawn facilities remaining available end of period	**2,054**	**1,860**	**0**			

(1) Average maturity of committed & undrawn facilities: 3.2 years as of 31 Dec. 2008

(1) Maturity date of committed & undrawn facilities

	2009	2010	2011	2012
			1,204	850

Source: Company, Calyon

Linde (BBB+/Baa1/NR)

FY08 EBITDA before non-recurring items was up 5.4% YoY to EUR2.6bn. Linde met its FY08 guidance, which was a YoY increase in FY08 sales and an increase in earnings at a faster rate than sales. Linde indicated that October 2008 was a 'record' month for the company. However, demand collapsed from mid-November onwards. Overall Gases' sales were flat YoY in Q408, excluding FX impact, and Gases' EBITDA was down 1.5% YoY in Q408. Linde explained that under its best-case scenario (based on a macroeconomic upturn in H209) sales and earnings would be flat or show a slight increase compared with FY08. Under a 'weaker scenario' sales and earnings would decrease by a single-digit percent compared with FY08. The company said that any worst-case scenario would be linked to the bankruptcy of several clients. Linde acknowledged that it would not be able to achieve its medium-term targets for 2010, which were a ROCE of 13% and an EBITDA over EUR3bn. Liquidity remained good. We calculate a shortfall in FY09 refinancing of EUR0.3bn. Linde said that it would be looking at ‘any window of opportunity’ to continue to refinance its debt regularly.

One year rating target: High-BBB (maintained)

Relative value: Outperform (maintained since 18/12/07)

Linde: liquidity analysis

Reporting date: 31 Dec 2008. Amounts in EURm	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	> Dec-13
debt due (source: Calyon estimates)	**1,290**	**300**	**840**	**1,000**	**300**	**3,717**
including bonds	495			1,000	300	3,683
including loans		300	840			8
including short-term bank debt	351					
including commercial paper	444					
including securitisation						
including other debt						
cash	1,022	253				
FOCF after dividends & net acquisitions/asset sales	185	46				
new bonds/new loans						
cash position before rollover of ST debt	**-83**	**-1**				
rollover of short-term bank debt						
cash position after rollover of ST bank debt	**-83**	**-1**				
Cash position after drawdown on committed facilities	**253**	**253**	**0**			
Committed & undrawn facilities (1)	**2,000**	**1,664**				
Drawdown under committed available facilities	-336	-254				
Committed & undrawn facilities remaining available end of period	**1,664**	**1,410**				

(1) Maturity date of committed & undrawn facilities

	2009	2010	2011	2012	2013	2013
			2,000			

Source: Company, Calyon

Metso (BBB neg/Baa2 neg/NR)

Metso reported fractionally better than expected Q408 results, delivering operating profit growth of 6% to EUR190m providing an EBIT margin of 10.3% (9.5%), despite a 3% drop in sales. It provided a guarded outlook statement for weaker FY09 revenues and profits where it sees sales “greater than EUR5bn” (-22%) and “satisfactory” profit (consensus EBIT -46%), but thankfully targets improved cash flow helped by a 54% dividend cut. Longer-term targets were abandoned for 2009. The market is focused on the deterioration being seen in the order book where Q408 orders fell by 41%, driven by Metso’s exposure to the paper and mining sectors (43% and 22% of sales to end-market, respectively). The paper sector is cutting capex sharply and the mining supercycle is over so naturally orders are dropping. The biggest concern would be large-scale cancellations of existing orders, which could still happen, but at the moment the FY08 order backlog is down 6% on FY07 levels and Q408 cancelled orders were limited to 3% of the backlog, providing an element of visibility. Liquidity continues to look adequate given that the debt maturity profile has few maturities until 2011, better than the most of the paper-related names. At Q408 Metso had cash of EUR314m and committed undrawn credit facilities of EUR650m. FY08 FFO was flat at EUR574m (EUR580m) but growing inventories meant working capital was a huge EUR437m (EUR286m) drain on cash flow, leading to a 53% drop in OCF. Higher capex and large dividends resulted in cash flow before financing of -EUR565m, leading to a sharp increase in debt. Gross cash protection measures were solid in 2008 but will weaken in 2009 and continued high dividend levels would have led to downgrades, so recently announced dividend cuts are welcome. Next catalyst: order book and inventory dynamics in Q109 results.

One year rating target: Mid-BBB (maintained)

Relative value: Sectorperform (maintained since 16/12/08)

Metso: liquidity analysis

Reporting date: 31 December 2008 EURm	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	> Dec-13
debt due	**242**	**160**	**386**	**160**	**68**	**315**
including bonds	83	124	332	92	0	162
including loans	15	34	51	67	66	150
including short-term bank debt	101					
including commercial paper	141					
including securitisation	0					
cash	314	99	99			
FOCF after dividends & net acquisitions/asset sales	-124	-13	50			
new bonds/new loans	0	0	0			
cash position before rollover of ST debt & securit.	**-52**	**-74**	**-237**			
rollover of short-term bank debt & securitisation	101					
cash position after rollover of ST bank debt & securit.	**49**	**-74**	**-237**			
Cash position after drawdown on committed facilities	**99**	**99**	**99**			
Committed & undrawn facilities (1)	**650**	**600**	**427**			
Drawdown under committed available facilities	**-50**	**-173**	**-336**			
Committed & undrawn facilities remaining available end of period	**600**	**427**	**-409**			

(1) Maturity date of committed & undrawn facilities

	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	> Dec-13
	0	0	500	0		

Source: Company, Calyon

M-Real (CCC+ neg/Caa1 CW neg/NR)

M-Real was our conviction short in our *Pulp & Paper 2009 Outlook* and has not disappointed, widening materially YTD with investors remaining focused on short-term refinancing risk. Q408 results were a little weaker than expected with sales dropping 13% on the prior-year period under the new reporting structure, and operating profit before non-recurring items once again negative at -EUR51m (EUR9m). At the time it forecast that Q109 operating profit before non-recurring items would be better than the EUR51m loss in Q408, but since then it has issued a profit warning confirming that Q109 will now be worse than Q408. The sale of the Graphic Papers business to Sappi resulted in positive FY08 cash flow (EUR241m) post capex and acquisitions. Without the asset sale net cash flow before financing would have been an ugly -EUR225m. As a result of the disposal short-term liquidity still looks adequate with Q408 cash of EUR0.55bn, and EUR0.9bn of committed credit lines, providing EUR1.45bn of liquidity. This is enough to meet drawn debt maturities of EUR322m in 2009, even allowing for a large element of cash burn of, say, EUR350m.

However, December 2009 sees an extremely difficult refinancing of an undrawn EUR500m RCF. If banks extend the maturity for, say, a couple of years, then our liquidity assessment suggests that the business will still run out of cash in 2010, ie, little chance of the EUR400m FRN (EUR356m outstanding) being redeemed at par on maturity. This would also mean that the banks would be fully drawn under the credit facility to a struggling company with limited liquidity. Therefore, we struggle to see why banks would be attracted to refinancing the loan without a concrete plan for the 2010 debt maturities, particularly as gaining security or priority over bondholders looks to be difficult given negative pledge clauses in the bonds. Consequently, we expect a lot of the banks in the loan to exit at maturity bringing forward the liquidity pressure point towards December 2009. Valuable joint venture stakes or asset sales may provide some flexibility but continued availability of pension fund loan headroom (EUR320m) is key, given that new drawdowns will require new bank guarantees. Over the quarter MESSA10 FRN initially moved from c.64c to 38c, before recently moving back to c.48c post a EUR44m buyback of the FRN at a cost of EUR20m. While M-Real has a good level of self-sufficiency, it has limited product and geographic diversification and extremely weak credit metrics, which expose it to covenant breaks. The Graphic Papers disposal means very short-term covenant breaks are less likely in the short term, though leverage remains high, performance looks like it will deteriorate and the equity ratio covenant still lacks headroom.

One year rating target: High-CCC (maintained)

Relative value: Underperform (maintained since 16/12/08)

M-Real: liquidity analysis

Reporting date: 31 December 2008 EURm	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	> Dec-13
drawn debt due	**322**	**440**	**110**	**190**	**546**	**228**
including bonds	240	358	52	102	494	118
including loans	55	56	57	87	48	38
including short-term bank debt	0					
including pension loan	20	33				
including finance leases	2	3	3	2	2	22
Cash	550	66	-517			
FOCF after dividends & net acquisitions (zero asset sales)	-350	-250	-100			
new bonds/new loans	-20	0	0			
cash position before rollover of ST debt & securit.	**-142**	**-624**	**-727**			
rollover of short-term bank debt & securitisation	0					
cash position after rollover of ST bank debt & securit.	**-142**	**-624**	**-727**			
Cash position after drawdown on committed facilities	**66**	**-517**	**-727**			
Committed & undrawn facilities (1)	**901**	**150**	**0**			
Drawdown under committed available facilities	**-208**	**-107**	**0**			
Committed & undrawn facilities remaining available end of period	**150**	**0**	**-43**			

(1) Maturity date of committed & undrawn facilities

	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	> Dec-13
	543	43	43	100	43	129

Source: Company, Calyon

Norske Skog (BB- neg/B2/NR)

Refinancing risk and the probability of covenant breaks increased during 2008. However, the sale of two Korean mills generated NOK3.8bn of cash to improve liquidity and reduce debt. This has helped avoid probable 2009 covenant breaks and built in sufficient cash to meet maturities in 2008 and 2009. However, 2011 reveals challenging debt maturities of NOK3.6bn. In an economic downturn this level of cash flow is unlikely to come from trading over the period, so further asset sales or restructuring will be required before 2011, unless it is possible to negotiate a refinancing in a high-yield market that is currently firmly closed to new business. The ability (or not) to access the new Norwegian government corporate bond fund will be key but we are conscious that initial reports on investment criteria suggest that a new bond would have to include additional investors to confirm that the bond is at market rates, which could be a dealbreaker.

Q408 results bucked the sector trend coming in ahead of expectations with strong EBIT growth before exceptionals of more than 300% to NOK256m. This was driven by a combination of the weak NOK and lower variable costs (recovered paper) offset by weakness in Asia, where Q408 results were substantially weaker than Q308. Post zero dividends cash flow was positive, driven by asset sales. The results included a NOK2.4bn writedown in the value of energy contracts, which had no cash impact. Norske Skog estimates that 2008 newsprint demand fell by -2.5%, with the US down -11% and Europe -4%. There was growth in Latam and Asia but oversupply still exists in Asia where Norske Skog newsprint appears to be loss-making. Magazine paper was the star performer with growth in FY08 gross operating earnings of 56%.

Prior to the recent early repayment of the 2010 bank loan, short-term liquidity was very solid given cash of NOK6bn and available credit lines of EUR400m (to 2012) providing available liquidity of NOK9.9bn (NOK1bn more than Q308). This remains fine for 2009 debt maturities of NOK1.6bn, with headroom for significant cash burn in case of need, thanks to disposals. Norske Skog is trying to address debt maturities by refinancing the 2010 bank debt to an existing 2012 term loan and offering to buy back bonds, albeit at a heavy discount. In the meantime selling 6M CDS still looks attractive given adequate liquidity helped by capex cuts.

One year rating target: High-B (maintained)

Relative value: Underperform (maintained since 16/12/08)

Norske Skog: liquidity analysis

Reporting date: 31 December 2008 NOKm	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	> Dec-13
debt due	**2,339**	**399**	**3,557**	**6,034**	**0**	**7,967**
including bonds	722	0	3,212	902		7,858
including loans	1,617	399	345	5,132	0	109
including short-term bank debt	0					
including commercial paper	0					
including securitisation	0					
cash	5,209	3,920	4,471			
FOCF after dividends & net acquisitions/asset sales	1,050	950	950			
new bonds/new loans	0	0	0			
cash position before rollover of ST debt & securit.	**3,920**	**4,471**	**1,864**			
rollover of short-term bank debt & securitisation	0	0	0			
cash position after rollover of ST bank debt & securit.	**3,920**	**4,471**	**1,864**			
Cash position after drawdown on committed facilities	**3,920**	**4,471**	**1,864**			
Committed & undrawn facilities (1)	**150**	**0**	**0**			
Drawdown under committed available facilities	**0**	**0**	**0**			
Committed & undrawn facilities remaining available end of period	**0**	**0**	**0**			

(1) Maturity date of committed & undrawn facilities

	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	> Dec-13
	150	0	0			

Source: Company, Calyon

OHL (NR/Baa3 CW neg/BB+ CW neg)

FY08 consolidated EBITDA stood 3% higher than our expectations at EUR608m. The EBITDA stemming from International Construction grew 28% YoY to EUR111m, well above the company's guidance of a 15% YoY increase. OHL explained that this strong performance was linked to the Czech subsidiaries and the commencement of major projects in Qatar and Algeria. Overall recourse EBITDA stood at EUR268m, up 19% YoY. OHL bought back part of the OBRAS 12 bonds for a nominal amount of EUR100m (thereby reducing the issue outstanding to EUR600m) for a purchase price of EUR63.7m. Shares bought back under the programme approved last October represented 1.6 million shares. We estimate that it represented a spending of around EUR15m based on an average EUR9 share price in Q408. Leverage as at 31 December 2008 was in line with the low-BBB ratings. However, the rating was downgraded by Fitch (as well as put on credit watch for downgrade by Moody's) due to the agencies' concerns about the market environment, in particular for Latin American concessions, the increased operational risk for construction activities (dependence on a few large projects) and the fragile liquidity. Indeed most of OHL's liquidity relies on revolving credit lines (EUR733m available as at 31 December 2008), which require annual renewal. Both Fitch and Moody's expressed concern about the ability of the company to roll over such lines in the current market environment.

One year rating target: High-BB (maintained)

Relative value: Underperform on OBRAS 12 (maintained since 12/11/08)

Saint-Gobain (BBB+ neg/ Baa1 neg/BBB+)

FY08 results released on 20 February stood in line with expectations, with current operating income at EUR3.6bn. The company said that FY09 should be particularly tough, especially in H1. It announced a EUR1.5bn rights issue that was successfully completed on 18 March. According to our estimates this rights issue should allow the company to maintain adequate credit metrics in FY09 for the high-BBB ratings. However, there is no headroom for downside to our estimates, in particular as regards S&P's requirement for the BBB+ rating. This explains why both S&P and Moody's left the negative outlook unchanged after the announcement of the rights issue. Liquidity improved in January 2009 with the issue of a 5.5Y EUR1bn bond at 8.25%. However, the company will need to refinance debt by 2010 as shown in the table below.

One year rating target: High-BBB

Relative value: Outperform

Saint Gobain: liquidity analysis

Reporting date: 31 Dec 2008. Amounts in EURm	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	>Dec-13
debt due	**3,251**	**3,597**	**1,209**	**1,358**	**861**	**3,340**
including bonds	999	1,452	1,098	1,247	750	3,260
including loans		2,034				
including short-term bank debt	798					
including commercial paper	690					
including securitisation	462					
including other debt	302					
cash	1,937	3,267	876			
FOCF after dividends & net acquisitions/asset sales	2,321	519				
new bonds/new loans	1,000					
cash position before rollover of ST debt & securit.	**2,007**	**189**	**-333**			
rollover of short-term bank debt & securitisation	1,260					
cash position after rollover of ST bank debt & securit.	**3,267**	**189**	**-333**			
Cash position after drawdown on committed facilities	**3,267**	**876**	**-333**			
Committed & undrawn facilities (1)	**3,200**	**2,700**	**1,313**			
Drawdown under committed available facilities	**0**	-687	0			
Committed & undrawn facilities remaining available end of period	**2,700**	**1,313**	**-687**			

(1) Maturity date of committed & undrawn facilities

	2009	2010	2011
	500	700	2,000

Source: Company, Calyon

SCA (BBB+ neg/Baa1 neg/NR)

Q408 delivered a weak, 36% drop in EBIT, driven by an 84% fall at the packaging division (volumes -51%) and a 25% drop in Forest Products' EBIT. However, the Tissue businesses saw a better mix providing a 22% improvement with Personal Care EBIT down 9%. Clearly, the cyclical businesses will be looked at closely with the Q109 results. At the end of FY08 SCA had cash of SEK5.7bn and available credit facilities of SEK20.7bn providing available liquidity of SEK26.4bn, more than adequate to cover debt maturities in 2009. However, existing maturities mean that it will certainly have to refinance before 2011.

Negative rating outlooks reflect that performance is below what is required for the rating. S&P highlights that FFO/net debt needs to improve in 2009 to around 30% to avoid a downgrade to BBB but, as this looks unlikely in the current environment (unless high dividends and capex are materially cut), we expect it to be downgraded to BBB in 2009.

Good market shares, low cost positions, high vertical integration and the low cyclicality of the hygiene product market means that there is no doubt that SCA would survive even a tough recession. SCA was our only Outperform recommendation in our *Pulp & Paper 2009 Outlook*, when 5Y CDS was at 299bp. Since then CDS moved as tight as c.160bp whereupon we moved our Outperform rating to Sectorperform. Once spreads reach c.160bp for a cyclical BBB credit we believe there is little upside in the current environment.

One year rating target: Mid-BBB (maintained)

Relative value: Sectorperform (maintained since 16/02/09)

SCA: liquidity analysis

Reporting date: 31 December 2008 SEKm	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	> Dec-13
debt due	**13,579**	**5,288**	**8,341**	**6,611**	**4,649**	**13,972**
including bonds	0	2,000	7,655	0	0	5,481
including loans	3,272	2,041	651	6,576	4,630	8,476
including short-term bank debt	0					
including commercial paper	10,201					
including securitisation	0					
cash	5,738	2,209	2,209			
FOCF after dividends & net acquisitions/asset sales	-969	-300	200			
new bonds/new loans	0	0	0			
cash position before rollover of ST debt & securit.	**-8,810**	**-3,379**	**-5,932**			
rollover of short-term bank debt & securitisation	0					
cash position after rollover of ST bank debt & securit.	**-8,810**	**-3,379**	**-5,932**			
Cash position after drawdown on committed facilities	**2,209**	**2,209**	**-5,932**			
Committed & undrawn facilities (1)	**20,684**	**9,165**	**1,046**			
Drawdown under committed available facilities	**-11,019**	**-5,588**	**0**			
Committed & undrawn facilities remaining available end of period	**9,165**	**1,046**	**-1,212**			

(1) Maturity date of committed & undrawn facilities

	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	> Dec-13
	500	2,531	2,258	8,559	6,836	

Source: Company, Calyon

Stora Enso (BB+ neg/Ba2 CW neg/BB+ neg)

Weak Q408 results were compounded by a further profit warning in the middle of March. Stora Enso now sees 2009 demand “clearly less than” 2008 for all of its products, at least for H109, despite the 55% drop in underlying operating profit seen in FY08. It sees Q109 “clearly down” on Q408 driven by customer destocking and underlying weakness in demand. Advertising expenditure started to decline sharply in Q408 and is expected to remain weak, considerably reducing the demand for paper. Stora Enso’s CEO described the European industry situation as “traumatic” and sees cash preservation as a top priority through production curtailments and working capital management. It sees zero unit cost inflation for the year as a whole, which is disappointing given recent commodity price drops.

Q408 results delivered a massive 80% drop in operating profit excluding non-recurring items, providing a thin operating margin of just 1.1% (4.8%). The main drivers were lower sales and higher energy costs, given the six-month delay between lower oil prices filtering through to lower gas prices. FY08 cash flow was dominated by the expected large capex and dividend payments, leading to negative net cash flow before financing. FFO fell by 49% over the year (Q408 -54%). Fine Paper (-127%) and Consumer Board (-85%) accounted for most of the drop in operating profit with Newsprint (+10%) and Magazine (+26%) much better.

Within the Q408 results Stora Enso announced an FY09 capex cut to EUR500m (EUR704m) but subsequently this was reduced to EUR400m with the March profit warning. Stora and partner Aracruz have decided to delay the Veracel II project by at least a year and reduce JV capex. Additionally, it announced that dividends would be cut to help 2009 cash flow.

2009 looks like it will be a very weak year. While lower capex/dividends and potentially lower raw material costs/cash generated from the working capital cycle (given lower sales) will help, we see the downturn in volumes applying pressure to cash flow, and further capacity cuts will clearly be necessary. Liquidity looks a little thin, with total cash and unused credit facilities of EUR2.4bn against maturing debt of EUR1.3bn in the next 14 months, but clearly Stora Enso must be actively trying to refinance debt at the moment. These factors led investors to become more nervous about Stora Enso risk during the quarter with STORA5.125 14 moving around 200bp wider to MS+c.800bp and even STORA3.125 10bp wider, currently priced at around MS+500bp. Comparing its results against UPM clearly reveals that the drop in operating profit and cash flow at Stora Enso was larger than at UPM during FY08, eg, FFO fell 29% at UPM but

49% at Stora Enso. Next catalysts: very weak Q1 results and increasing refinancing risk.

One year rating target: Mid-BB (maintained)

Relative value: Underperform (maintained since 16/12/08)

Stora Enso: liquidity analysis

Reporting date: 31 December 2008 EURm	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	> Dec-13
debt due	**472**	**823**	**434**	**152**	**133**	**1,466**
including bonds	339	526	381	0	0	1,326
including loans	90	270	57	129	92	98
including short-term bank debt	43					
including commercial paper	0					
including finance leases / other	11	32	26	26	42	133
cash	416	222	222			
FOCF after dividends & net acquisitions/asset sales	-200	-50	-50			
new bonds/new loans	0	0	0			
cash position before rollover of ST debt & securit.	**-256**	**-651**	**-262**			
rollover of short-term bank debt & securitisation	43	0	0			
cash position after rollover of ST bank debt & securit.	**-213**	**-651**	**-262**			
Cash position after drawdown on committed facilities	**222**	**222**	**222**			
Committed & undrawn facilities (1)	**2,000**	**1,565**	**692**			
Drawdown under committed available facilities	**-435**	**-873**	**-484**			
Committed & undrawn facilities remaining available end of period	**1,565**	**692**	**208**			

(1) Maturity date of committed & undrawn facilities

	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	> Dec-13
	0	0	0	1,400	0	600

Source: Company, Calyon

ThyssenKrupp (BBB CW neg/ Baa2 CW neg/BBB+ CW neg)

Q108/09 results were slightly above expectations with EBITDA down 29.5% YoY to EUR764m. Net debt was sharply up by EUR1.8bn compared with 30 September 2008 to EUR3.5bn due to high capex and increase in working capital. ThyssenKrupp said at that time (13 February) that it expected Q208/09 to be more difficult than Q1. It reiterated what it said in November, ie, that it expects a significant drop in sales and earnings this year. On 19 March the company issued a massive profit warning. It said that it would make a loss in Q208/09 due to capacity underutilisation, price pressure and further writedowns on inventories. It expects to report “positive operating earnings – before project and restructuring costs” this year "provided the economic situation improves in the second half of the year". ThyssenKrupp announced a major reorganisation of the company, with a sharp reduction in the number of divisions, from five currently to two. Liquidity of the company remains very good. It was strengthened by the issue in March of a EUR1.5bn bond split into two tranches: 4Y (EUR500m) at 6.75% and 7Y (EUR1bn) at 8.50%.

One year rating target: Low-BBB (maintained)

Relative value: Underperform (maintained since 12/06/08)

ThyssenKrupp: liquidity analysis

Reporting date: 30 Sept 2008. Amounts in EURm	FY08/09	FY09/10	FY10/11	FY11/12	FY12/13	> FY12/13
debt due	**1,348**	**168**	**823**	**96**	**581**	**1,400**
including bonds & private placements	550	0	748	0	249	979
including loans (estimate for FY08/09)	244	112	52	81	325	398
including short-term bank debt (estimate for FY08/09)	467					
including commercial paper	0					
including securitisation						
including other debt	87	56	23			
cash	2,725	2,245	2,077			
FOCF after dividends & net acquisitions/asset sales	-1,099	0	0			
new bonds/new loans	1,500					
cash position before rollover of ST debt	**1,778**	**2,077**	**1,254**			
rollover of short-term bank debt	467					
cash position after rollover of ST bank debt	**2,245**	**2,077**	**1,254**			
Cash position after drawdown on committed facilities	**2,245**	**2,077**	**1,504**			
Committed & undrawn facilities (1)	**4,600**	**4,096**	**4,096**			
Drawdown under committed available facilities	**0**	0	-250			
Committed & undrawn facilities remaining available end of period	**4,096**	**4,096**	**3,846**			

(1) Maturity date of committed & undrawn facilities

	2009	2010	2011	2012	2013	2014
(estimate for 2009)	504					4,096

Source: Company, Calyon

UPM (BB+ neg/Ba1/BB+ neg)

Q408 results delivered a EUR46m loss before special items, driven by an 8% drop in revenues leading to a huge drop in operating margin at -2.0% (7.7%). For Q408 the Forest & Timber segment (previously a contributor of 25% of profits) was again the culprit, providing more than a 180% drop in underlying operating profit, or -110% for FY08. Overall, FY08 saw a 39% drop in underlying operating profit providing a 29% drop in FFO to EUR760m, weaker than we expected, covering capex by just 1.35x. As feared, post capex cash flow failed to cover dividends creating a negative net cash flow before financing of -EUR288m – clearly unsustainable.

UPM plans a 28% cut in capex for FY09 to around EUR400m (EUR558m). It will also cut dividends by 46%, which is welcome, but we believe dividends should be cut to zero (debt providers are now bigger stakeholders in the business). Generally, we are fundamentally opposed to high-yield credits paying dividends. It expects 2009 paper deliveries to be lower than 2008 and said Q109 paper deliveries would be lower than Q408, although prices will be a little better than average 2008 levels. Adhesive label demand will be weaker in 2009 with flat prices, and wood product demand will be lower but so will raw material prices.

Whilst UPM is taking the right actions we believe that the strong drop in demand will be the biggest factor leading to weaker FY09 profits. S&P believes that the current sharp decline in the economy could reduce European graphic paper demand by up to 10% in 2009. We think that statistics since the start of the year point to a larger downturn but visibility remains very poor. With its recent downgrade to BB+ neg S&P confirmed that UPM could be downgraded again if it is clear that it cannot reach a 20% FFO/debt level – it needs to improve cash flow to reach these levels. The new EUR825m bank loan has one undisclosed financial covenant, likely earnings-based. 2009 is shaping up to be a tough year. It has strong market positions that will see it perform better than the sector average but lower demand is likely to outstrip restructuring savings, better currency benefits and lower raw-material prices. The recent downgrades to sub-investment grade bring reduced financial flexibility and greater liquidity focus so, while spreads have moved a touch wider, it is surprising that there has been little traction to date. UPM remains the short of choice for Paper investors. Next catalyst: very weak Q1 results.

One year rating target: High-BB (maintained)

Relative value: Underperform (maintained since 16/12/08)

UPM: liquidity analysis

Reporting date: 31 December 2008 EURm	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	> Dec-13
debt due	**344**	**197**	**287**	**828**	**226**	**1,905**
including bonds	250	138	0	636	0	1,071
including loans	46	29	43	724	72	211
including short-term bank debt	74					
including commercial paper	0					
including pension loans	39	22	156	148	148	410
cash	330	188	188			
FOCF after dividends & net acquisitions/asset sales	-35	43	43			
new bonds/new loans	0	0	0			
cash position before rollover of ST debt & securit.	**-49**	**34**	**-56**			
rollover of short-term bank debt & securitisation	74					
cash position after rollover of ST bank debt & securit.	**25**	**34**	**-56**			
Cash position after drawdown on committed facilities	**188**	**188**	**188**			
Committed & undrawn facilities (1)	**1,138**	**975**	**821**			
Drawdown under committed available facilities	**-163**	**-154**	**-244**			
Committed & undrawn facilities remaining available end of period	**975**	**821**	**577**			

(1) Maturity date of committed & undrawn facilities

	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	> Dec-13
	0	0	0	1,138		

Source: Company, Calyon

Industrials earnings calendar

April

		1 Wednesday **Stora Enso** AGM	2 Thursday **SCA** AGM	3 Friday **British Airways** Traffic data
6 Monday	7 Tuesday **SAS** Traffic data	8 Wednesday	9 Thursday **Lufthansa** Traffic data	10 Friday
13 Monday	14 Tuesday	15 Wednesday	16 Thursday	17 Friday
20 Monday	21 Tuesday	22 Wednesday **M-Real** Q109 Results	23 Thursday **Akzo Nobel, Stora Enso** Q109 Results **Lufthansa NorskeSkog** AGM	24 Friday **Lufthansa** AGM
27 Monday	28 Tuesday **DSM, SAS, Metso, SCA** Q109 Results **Air Liquide** Q109 Sales	29 Wednesday **ArcelorMittal Bayer, UPM Imerys Saint Gobain** Q109 Results	30 Thursday **Lufthansa** Q109 Results	1 Friday

May

4 Monday **Linde** Q109 Results	5 Tuesday **Holcim, Lafarge** Q109 Results	6 Wednesday **HeidelbergCement** Q109 Results **British Airways** Traffic data	7 Thursday **SAS** Traffic data **Norske Skog** Q109 Results	8 Friday
11 Monday	12 Tuesday **ThyssenKrupp** Q208/09 Results **Lufthansa** Traffic data	13 Wednesday	14 Thursday	15 Friday
18 Monday	19 Tuesday **Air France** FY09 Results	20 Wednesday	21 Thursday	22 Friday **British Airways** FY09 Results
25 Monday	26 Tuesday	27 Wednesday	28 Thursday	29 Friday

June

1 Monday	2 Tuesday	3 Wednesday **British Airways** Traffic data	4 Thursday	5 Friday **SAS** Traffic data
8 Monday	9 Tuesday	10 Wednesday **Lufthansa** Traffic data	11 Thursday	12 Friday
15 Monday	16 Tuesday	17 Wednesday	18 Thursday	19 Friday
22 Monday	23 Tuesday	24 Wednesday	25 Thursday	26 Friday
29 Monday	30 Tuesday	1 Wednesday	2 Thursday	3 Friday

Appendix – Summary of CDS recommendations

Issuer	Ratings		Spot	Variation			Expected	Spot vs Index			Perf. Expectation vs Sector Index		
	S&P/Moody's	Calyon	CDS	1 Week	1 Month	YTD	Trend	Ratio	Fair Value	Spot-FV	Previous	Since	New
Issuer's Names							(1)		(2)			(3)	

Expected trend

According to our quantitative model, this column indicates the expected trend for each single name (sector) relative to its sector index (the iTraxx Main):

➚ The single name (resp. sector) should underperform its sector (resp. iTraxx Main) in the month following. Indeed, the single name CDS over sector index ratio has tightened a lot in the past few days and so the model anticipates a trend reversal. This means that it is a good time to play the underperformance (but not necessarily the widening as we are in relative value)

➔ No trend reversal is expected

➘ The single name (resp. sector) should outperform its sector (resp. iTraxx Main) in the month following. The ratio single names CDS/sector index has widened a lot in the past few days and so the model anticipates a trend reversal. This means that it is a good time to play the outperformance (but not necessarily the tightening as we are in relative value)

Fair value model

The ratio corresponds to the single name spread divided by its sector index (or sector index divided by iTraxx Main).

The historical fair value model has been developed to enhance our recommendation on every issuer of the coverage list. Its principle is based on a historical observation of the positioning of the 5Y CDS spread over the sector index. The average between the 3M, 6M and 12M ratios is considered to be the fair positioning of the 5Y CDS over the sector index. Therefore, with the spot value of the index, we can compute the historical fair value of the CDS.

The calculation of the historical fair value is achieved in several steps.

- **Step 1:** Using Calyon prices, we compute the ratio: '5Y CDS spread/index' for every trading day. It is worth noting that the computation of the index takes into consideration the PV01 weighting method (the wider the name, the less impact it has upon the fair value calculation for the index).
- **Step 2:** Once step 1 has been achieved, we compute the average value of the ratios over three months (3M), six months (6M) and one year (12M).
- **Step 3:** The average between the 3M, 6M and 12M ratios is considered to be the fair positioning of the 5Y CDS over the sector index. Therefore, with the spot value of the index, we can compute the historical fair value of the CDS. Comparing the spot price of the CDS and its fair value according to our model gives the analyst a quantitative tool to appreciate the potential future performance of an issuer vs the sector.

Performance expectation vs sector index

This represents the view of our analysts based on a fundamental analysis. It also indicates how long a particular recommendation has been held.

Credit Research contact details

Jean-François Paren	Global Head of Credit Research / Telecom Analyst		(33) 1 41 89 33 95		
Credit Research					
Franck Bataille	Utilities Analyst	(33) 1 41 89 14 86	Stuart James	Industrials Analyst	(44) 20 7214 6546
Christophe Boulanger	Autos Analyst	(44) 20 7214 6402	Harpreet Parhar	ABS Analyst	(44) 20 7214 5534
Caroline Brugère	Industrials Analyst	(33) 1 41 89 88 38	Claire Poncet Dumont	Retail Analyst	(33) 1 41 89 94 76
Gwenaëlle Lereste	Financials Analyst	(33) 1 41 89 06 90	Eric Sharper	Autos/Industrials	(33) 1 57 87 28 37
			Guillaume Thomas	Quantitative Analyst	(33) 1 57 87 02 80

Certification

The views expressed in this report accurately reflect the personal views of the undersigned analyst(s). In addition, the undersigned analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report.

Caroline Brugère, Stuart James

Recommendation System:

Fundamental credit assessment: We evaluate the fundamental credit quality trend of an issuer for the next 12 months.

Calyon's Credit Research evaluates the potential changes of an issuer for the next 12 months and assigns a one year forward rating based on S&P's scale. This rating is to be compared with the average long-term rating assigned by S&P and Moody's.

Internal credit rating: We assign a rating to a company which reflects the assessment of the credit quality by the credit analyst. The timeframe for the rating is one year. As a rating scale we use a scale similar to the one of S&P and Fitch, however, we substitute the rating agencies plus or minus by high and low, ie. the Calyon scale uses AAA, High-AA, Mid-AA, Low-AA, High-A, Mid-A etc.

Performance of credit instruments: We express our expectation of how the 5 year CDS is going to perform vis-à-vis its sector. The timeframe of that recommendation is one month. When the analyst changes a recommendation he/she should indicate in the analysis when the last recommendation was made.

Outperform: CDS spreads should outperform the sector performance.
Sectorperform: CDS spreads should perform in line with the sector performance.
Underperform: CDS spreads should underperform the sector performance.

Credit products rating distribution table:
(as of 16th Jan 2009)

	All covered companies		Companies where Calyon provided Investment Banking Services in past 12 months	
	Count	Percentage	Count	Percentage
Outperform	21	20%	3	14%
Sectorperform	44	41%	5	11%
Underperform	42	39%	4	10%

Disclosures

Company Name	Disclosure		
Air Liquide	E, G	LyondellBasell US	None
Akzo Nobel	None	Metso	None
Aracruz	None	M-Real	None
ArcelorMittal	None	Nippon Steel	None
BASF	None	NNS Holding	None
Bayer	G	Norske Skog	None
BHP Billiton	None	OHL	None
DSM	None	Orascom	None
Evonik Degussa	None	Portland Cement	None
Evonik Industries	None	Rhodia	None
GBL	None	Saint-Gobain	G
Glencore	None	SCA	None
HeidelbergCement	None	Stora Enso	None
Holcim	None	ThyssenKrupp	G
Imerys	None	UPM	None
Lafarge	E	Xstrata	None
Linde	None		

A	NOT IN USE
B	NOT IN USE
C	The Company owned more than 5% of the total issued share capital of Crédit Agricole SA as of the end of the second most recent month preceding the publication date of this report.
D	NOT IN USE
E	One or more companies in the Crédit Agricole S.A. group owned more than 3 % of the total issued share capital of the Company as of the end of the second most recent trading day preceding the publication date of this report.
F	Crédit Agricole Cheuvreux and/or a company in the Crédit Agricole S.A. group is a market maker or a liquidity provider for the financial instruments of the Company.
G	Calyon and/or a company of the Crédit Agricole S.A. group has been lead or co-lead manager over the previous 12 months in a publicly disclosed offer of or on financial instruments of the Company.
H	Calyon and/or a company in the Crédit Agricole S.A. group has concluded or is party to a non confidential agreement relating to the provision of investment banking services (except publicly disclosed offers mentioned under G) to the Company during the past 12 months or that has given rise during the same period to the payment of compensation or to the promise to get a compensation paid.
I	This research has been communicated to the Company and following this communication, its conclusions has been amended before its dissemination.
J	An executive director of the Credit Agricole S.A. group is a director or board member of the company.

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