

Monthly Update on Reverse Convertibles Equity Derivatives Research

November 12th 2009

Update on our single stocks selection

We have updated our selection of European stocks which are the best candidates for a Reverse Convertible for several reasons:

- Low downside risk
- CA Cheuvreux has a positive view
- High volatility, granting a high coupon

We recommend 1Y Reverse Convertibles with US barrier on the following stocks:

Authors:

Thierry Cantet,
Head of Equity Derivatives Research

33 1 41 89 44 38

Raphael Hasson,
Equity Derivatives Analyst

33 1 41 89 66 79

Benoît Le Pape,
Convertible Bonds Analyst

33 1 41 89 44 09

Aviva:	Barrier 60%, Coupon: 12.1%
Bouygues:	Barrier 60%, Coupon: 11.9%
Axa:	Barrier 60%, Coupon: 10.6%
Credit Suisse:	Barrier 70%, Coupon: 11.8%
Vinci:	Barrier 70%, Coupon: 11.0%
GDF Suez:	Barrier 80%, Coupon: 12.0%
BASF:	Barrier 70%, Coupon: 9.3%
Carrefour:	Barrier 70%, Coupon: 8.9%
Santander:	Barrier 70%, Coupon: 8.6%
Total:	Barrier 80%, Coupon: 9.6%

E-mail: eqd-flow-research@calyon.com

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Bloomberg: CADR

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Single Stocks Selection

We are looking for stocks which deliver attractive option premium and limited downside risk:

- With low P/E (under 15) and which pay a dividend (div yield over 2.5%)
- On which CA Cheuvreux has a positive view (1 or 2)
- With 1Y ATM Implied Volatility over 30%, granting high option premium

We obtain the following selection:

Name	Ticker	Sector	Rating	P/E	Div. Yield	ATM 1Y IV	5Y CDS
AVIVA	AV/ LN	Financial	2/Outperform	6.8	6.2	43.7%	89
BOUYGUES	EN FP	Industrial	2/Outperform	11.7	4.4	43.6%	69
AXA	CS FP	Financial	1/Selected List	7.9	3.0	43.1%	59
CREDIT SUISSE	CSGN VX	Financial	2/Outperform	10.1	2.6	35.7%	67
VINCI	DG FP	Industrial	1/Selected List	13.2	4.2	36.0%	99
GDF SUEZ	GSZ FP	Utilities	1/Selected List	11.7	5.1	37.6%	54
BASF	BAS GR	Basic Materials	2/Outperform	12	3.3	34.6%	48
CARREFOUR	CA FP	Consumer, Non-cyclical	1/Selected List	14.4	3.4	33.0%	75
SANTANDER	SAN SM	Financial	2/Outperform	12.5	5.0	32.5%	87
TOTAL	FP FP	Energy	2/Outperform	9.3	2.6	30.2%	50

Source: CA Cheuvreux for rating and P/E, Bloomberg for CDS and div yield, Calyon for 1Y IV

For this selection, we have priced ATM Put Down & In with 3 different US barrier levels, for a 1Y maturity:

Name	Coupon*			60% of today's Spot	Last time 60% barrier was hit	2Y Min
	Barrier @ 60%	Barrier @ 70%	Barrier @ 80%			
AVIVA	12.1%	15.3%	17.1%	244.20	Apr-09	40%
BOUYGUES	11.9%	15.0%	16.7%	21.65	Nov-03	61%
AXA	10.6%	13.7%	15.5%	9.87	Apr-09	35%
CREDIT SUISSE	8.7%	11.8%	13.8%	33.99	Apr-09	40%
VINCI	7.6%	11.0%	13.4%	22.88	Oct-08	60%
GDF SUEZ	5.9%	9.3%	12.0%	17.76	-	75%
BASF	6.0%	9.3%	11.9%	23.52	Mar-09	52%
CARREFOUR	5.6%	8.9%	11.5%	18.99	Mar-95	72%
SANTANDER	5.5%	8.6%	11.3%	6.94	May-09	35%
TOTAL	3.6%	6.5%	9.6%	25.82	Mar-99	77%

*All coupons are indicative only and include both the PDI bid premium and the EUR Swap (vs 3M) 1Y

Source: Calyon

We recommend 60% barrier on: Aviva, Bouygues, Axa.

This is a safest barrier choice on these stocks, considering their high volatility and low 2 years minimum level.

We recommend 70% barrier on: Credit Suisse, Vinci, BASF, Carrefour, Santander.

We are more confident on these stocks with a little less volatility.

We recommend 80% barrier on: GDF Suez, Total.

This is justified either by a higher 2 year minimum, a strong bull conviction or a lower volatility.

CA Cheuvreux on our Single Stocks Selection

AVIVA 2/ Outperform

Little value for Delta Lloyds

Extract from CA Cheuvreux Europe Today, 3rd of November 2009

Delta Lloyds value works out at EUR16 per share

The valuation in the listing of Delta Lloyds comes out at EUR2.65bn or GBP2.395bn, i.e. 7% below our expectation. This is clearly at the low of the range that could be expected as it implies a 0.66x BV multiple, 0.65x EV or 5.84x this year's expected profit. Based on AVIVA's MCEV, which is much more cautious, the multiple is 0.85x EV, but it remains low. As AVIVA keeps 57% of the capital, the GBP300m loss will impact IFRS shareholder funds (IAS 27). The final impact on IGD surplus is likely to be slightly positive i.e. much better than what we expected (see our Flash Note of 7 October).

Price to pay to have a free hand on invested capital

We see four main reasons for this valuation: 1) the acquisition risk (Delta Lloyds is seen as consolidator of the Dutch market); 2) the corporate governance (legal dispute with AVIVA for years); 3) confusion with regard to figures (AVIVA's EV is 25% below the EV communicated by Delta Lloyds); and 4) the potential incentive for Delta Lloyds management to have a low valuation. In this context, AVIVA is paying the price to break up the non domination pact established in 1973 and that did not give it effective control of its subsidiary. We continue to believe that this transaction is positive, as AVIVA will gain access to 20% of its invested capital.

News is priced in

AVIVA will publish nine-month activity numbers tomorrow and the market expects them to be down 8%, mainly impacted by the setback of the UK market (AVIVA-23% est.). In our view, AVIVA's share price partially reflects the lack of visibility on Delta Lloyds. This negative factor is now likely to diminish. The share is extremely cheap which is a buying opportunity.

Jean d'HERBECOURT

Research Analyst

jdherbecourt@cheuvreux.com

(33) 01 41 89 78 60

BOUYGUES 2/ Outperform

Disposal of non-core asset

Extract from CA Cheuvreux Europe Today, 4th of November 2009

Sale of a 35.7% stake in Finagestion

Bouygues has announced a reduction of its stake in Finagestion from 70% to 35% through a sale to Emerging Capital Partner (ECP). The former is a holding company that owns water management activities in Senegal and Ivory Coast and power generation and distribution operations in Ivory Coast. These activities were kept from Saur at the time of its disposal in 2005. It is already planned that this stake will be further reduced by 10-15% before the end of the year (shares sold to employees and local investors).

Deconsolidation will impact the group's accounts

Passing below a 50% interest in this company, Bouygues is no longer going to fully consolidate it. The stake will be equity accounted in the future. In 2008, Finagestion contributed EUR280m to group sales (0.9% of total), EUR77m to group EBITDA (2% of total), EUR34m to group EBIT (1.5% of total) and EUR10m to net profit (0.7% of total). We will adjust our earnings estimates to take this into account.

Debt reduction estimated at EUR35m

The impact on the group's debt is not material. It is estimated at EUR35m, of which EUR21m from deconsolidation of Finagestion's net debt and a EUR14m cash inflow from the disposal of the 35.7% stake. This is not significant with regard to Bouygues' estimated EUR4.7bn net debt at end 2009. However the group is not at all under pressure to sell assets with a current Net debt/EBITDA ratio estimated at 1.4x.

Arnaud PALLIEZ

Research Analyst

apalliez@cheuvreux.com

(33) 1 41 89 75 77

AXA 1/ Selected List

Increased weighting in Asia

Extract from CA Cheuvreux Europe Today, 9th of November 2009

AXA exits Australia and increases its exposure to Asia

AXA is selling AXA APH's Australian and New Zealand business (EUR1.7bn in revenues) but taking full control of the latter's Asian business (EUR1.4bn in revenues) via a dual transaction with Australian insurer AMP. The premium offered to AXA APH minority shareholders is 30%. The AUD5.34 offer (26% cash / 74% in new AMP shares) is above the AUD4.1 offered a few years ago but remains well below the AUD8 share price reached in March 2007.

A very good move for AXA

This move is good, in our view, for AXA as it lets the group withdraw from the very competitive Australian market, in order to focus on an area of growth. Through this transaction, AXA will also control 100% of its future development in Asia through a deal that could be self financed as it involves only EUR1.1bn in cash.

EUR2bn cap. increase to finance future minority buyouts

AXA is to strengthen its capital base by EUR2bn at EUR11.9 per share, which means 8.3% new shares to finance its Asian operations and prepare a future buyout of Russian unit Reso Garantia and other minorities such as MPS or other groups inherited from Winterthur in CEE. The buyout of Reso Garantia minorities, would represent a cash out of EUR1.4bn based on the same conditions as in December 2007.

Conference call today 9.30 CET

Conference call today at EUR9.30: +331 72 26 06 12 (From France) +441 61 601 8918 (from the UK). AXA's exit from Australia is likely to be welcomed by the market. The capital increase is, in our view, aimed at strengthening the group's capital base. We expect better visibility on a buyout of Reso Garantia.

Calyon is joint lead manager for the rights issue

Jean d'HERBECOURT

Research Analyst

jdherbecourt@cheuvreux.com

(33) 01 41 89 78 60

CREDIT SUISSE 2/ Outperform**EPS & PT raised marginally post Q3-09**

Extract from CA Cheuvreux Europe Today, 13th of October 2009

PT raised from CHF67 to CHF68

Post the Q3-09 results we are raising our EPS forecast by 9% for 2009E, but leaving 2010E and 2011E estimates virtually unchanged. The 09E figures mainly reflect the IB driven Q3-09 earnings surprise. We raising our PT from CHF67 to CHF68, reflecting mainly slightly higher Aum levels post Q3-09. The shares are now trading at around 10x P/E and a P/TBV of 2.4x. Upside from current levels is mainly seen to be driven by markets, with limited multiple expansion expected for both IB and WM following the revaluation of these franchises since March. Though CS is well positioned to benefit from benign markets as it is in a strong position to gain market share, we replaced CS with Deutsche Bank in our European Banking Top Picks ahead of Q3-09 results as we see more "selfhelp" for a revaluation of Deutsche Bank (Sal Oppenheim transaction, Postbank etc).

Christian STARK

Research Analyst
cstark@cheuvreux.com
(41) 44 218 17 02

VINCI 1/ Selected List**9M revenues due on 12 November**

Extract from CA Cheuvreux Europe Today, 5th of November 2009

Improving traffic trends on toll motorways

Q3 is expected to have shown an acceleration in the traffic recovery for light vehicles (+6.5% at stable network vs. +5.9% in Q2). At the same time, we estimate that heavy vehicles traffic decline should have shown some signs of a slowdown (-8.1% vs. -13.2% in H1).

Contracting sales decline in line with company guidance

Revenues forecast on contracting is at EUR20.1bn for the first nine months. It implies a 6% decrease on a I-f-I basis, in line with the company's FY guidance (-5 to -7%). The pace of organic decline should have slightly accelerated in Q3 (-6.4% y-o-y vs. -5.9% in H1). However, the road works business (Eurovia) could have made a good Q3, with stable y-o-y sales.

Resilient order book

We estimate total order book at EUR24.0bn at the end of Q3, vs. EUR24.1bn at the end of H1. The order intake should show a strong decline for Vinci Construction explained by high comparison basis but could be up for Energies and Eurovia

Arnaud PALLIEZ

Research Analyst

apalliez@cheuvreux.com

(33) 1 41 89 75 77

GDF SUEZ 1/ Selected List

9m EBITDA down 2.7%, in line

Extract from CA Cheuvreux Europe Today, 12th of November 2009

Sales at EUR57.9bn, -1.2% vs. -2.4% expected

Sales were EUR57.9bn, -1.2% (lfl: -2.8%) vs. -2.4% expected (lfl: -4.1%) and consensus at -1.3%. Q3 was down -11% vs. -13.4% expected. The most resilient activities in Q3 were Energy France, International, Environment and Energy Services. The most impacted companies were Global Gas (high comparison base with arbitrage in Q3-08, full impact of low oil prices and weak gas demand), and Energy Europe.

EBITDA down 2.7%, in line

EBITDA reached EUR10.1bn (-2.7%), in line, vs. EUR10.14bn estimated (-2.5%) and consensus at EUR10.13bn. 2009 and 2011 EBITDA guidance is confirmed, i.e. 2009 EBITDA above 2008.

We are to reduce our 2009-11 EBITDA estimates

As highlighted in our preview, we are to reduce our EBITDA estimates for 2009 by around 3-5% and those for 2010-2011 by -1.5% to -3% with negatives on the cost-cutting plan (50% to remain at the EBITDA level) partly offset by a better outlook for oil prices.

We keep a positive stance

9m results suffered from a high comparison base, as 9m 2008 EBITDA was up 19%. This should reverse in Q4, as EBITDA was down 10% in Q4-08. The ability to meet 2011 guidance will depend on 2009 numbers. The EUR3.0bn additional EBITDA required to meet the EUR17.0bn EBITDA target in 2011 is to come from nonproductive capital employed (EUR1.3bn), higher oil prices (+EUR400m), lower electricity prices (-EUR200m), economic recovery (+EUR600m), end of tariff deficit (+EUR300m) and EUR600m in cost-cutting.

Damien DE SAINT GERMAIN

Research Analyst

ddesaintgermain@cheuvreux.com

(33) 1 41 89 73 12

BASF 2/ Outperform

High tax rate burdens in the near term

Extract from CA Cheuvreux Europe Today, 30th of October 2009

High restructuring charges for Ciba weigh on results

BASF has raised its guidance for restructuring charges for Ciba from EUR1.05bn to EUR1.1bn. It also plans to ramp up the integration of Ciba, booking the lion's share of restructuring charges (EUR800m) in 2009 already. This will have an adverse effect on the tax rate, as these costs are booked in a low-tax country. This is the primary reason for the 10% cut in our EPS 09E estimate. However, the restructuring charges for Ciba will be widely finished in 2010, resulting in a normalisation of the tax rate afterwards.

Outlook for Q4-09 somewhat cautious

BASF has indicated that EBIT in Q4-09 will be below the Q3-09 level due to a) seasonal weakness in the Performance Products and Functional Solutions segments, b) lower cracker margins, c) lower gas prices affecting the oil and gas business and d) investments in R&D and marketing in crop protection.

EPS forecasts raised by 1-3% for 10E-11E

We have raised our EPS estimates by 1-3% for 10E-11E due to sequential improvements in the chemical activities, as reflected in a) higher volumes (+8% q-o-q) on the back of sequentially rising demand (particularly in Asia and parts of S. America), b) the successful price-before-volume strategy (+4% q-o-q) and c) increased synergies for Ciba. The group's long-term prospects remain favorable. The cost savings and synergies are sustainable and will support BASF's earnings development despite the crisis.

Price target unchanged at EUR46 - buy

Higher earnings estimates from 2010E compensate for lower earnings estimates for this year. Hence, our DCF-based price target is unchanged at EUR46, indicating 24% upside. We therefore stick to our 2/Outperform rating.

Martin ROEDIGER

Research Analyst

mroediger@cheuvreux.com

(49) 69 897 763

CARREFOUR 1/ Selected List

Key message at our NY Conference

Extract from CA Cheuvreux Europe Today, 11th of November 2009

Worth highlighting

On trading conditions, the environment is still difficult with deflation both in food and non-food (consumers are still trading down). Gain of market shares in France during Q3. Introduction of the "Carrefour discount" brand is a success and recent promotions are now working well, after a slow impact beginning of September. Pricing environment is still challenging but stabilising. They even hear some key competitors wishing that margins would increase next year. It's too early to say whether this is a sign that price pressure may ease but generally speaking, the company thinks that all players are tired and wish for a stabilisation.

Key questions raised

Focus on the "En-avant" transformational plan and savings target (EUR3.1bn + EUR1bn improvement in WC), improvement in price image and in efficiency. Still a lot of work to do on the hyper format, and non-food exposure is an issue (company seeking to focus on products where it has a legitimate offer). They will start some tests beginning of next year (in France, Spain, Italy, Belgium), so patience required until we get an update on that front. Company confirms that there is no intention to exit Brazil (as recently rumoured). The strategy in emerging markets is to have an entity with leadership position (No. 1 or 2; they are leader in Brazil), otherwise they will admittedly study all options (e.g. for Russia).

Market impact

Environment remains challenging but trend seems better on market share and company is on track regarding savings plan. Company says that it is making good progress on the format issues but investors would have probably liked to get more hard facts.

Arnaud JOLY

Research Analyst

ajoly@cheuvreux.com

(33) 1 41 89 73 87

SANTANDER 2/ Outperform

Q3 results: solid, but no surprises

Extract from CA Cheuvreux Europe Today, 29th of October 2009

Q3 results fully in line

Revenues, operating and net profit came out just 1% above our estimates. Quality was good: in constant perimeter & FX, operating profit rose by 20% (revenues +11%, costs flat), enough to absorb rising NPLs and deliver flattish net profit. By unit: Spain in line (though both revenues & provisions lower than expected), Brazil above (but boosted by exceptional trading), UK below (on higher provisions though underlying deterioration in loan quality in line).

Net new NPLs slowing, as expected

EUR4.2bn in Q3 vs. EUR4.9bn in Q2 and EUR5.1bn in Q1. NPL ratio at 3.03% (Q3 +21bp, Q2 +33bp, Q1 +45bp). The slowdown was consistent across the main business areas, especially in Mexico (peak behind us) and the UK. Guidance for Spain cut again to 3.3% in FY09 (peak mid-2010) & RE stock –EUR0.1bn to EUR4bn in Q3.

Strengthening the balance sheet

The CT1 rose 20bp organically in Q3 (we +15bp, but RWA -2%) to 7.7%, to which we should add +60bp (Brazil IPO) & +10bp (80% take-up for the scrip dividend) to end 2009E at c.8.5%. Santander has generated EUR2.25bn net capital gains (EUR1.4bn Brazil IPO & EUR0.8bn from buyback of own debt), which will be used to boost NPL coverage (EUR1.4bn=group+6pp/Spain+16pp from 70% for both in 3Q09), for impairments on RE assets (EUR0.6bn, 15% of BV to 25% of the total) and restructuring charges (EUR1.2bn).

2009 guidance unchanged & cautiously upbeat for 2010

On track to meet flat EUR8.9bn net profit FY09. Organic K generation +10/15bp per quarter. EUR4.8bn dividend FY09 (50% pay-out mid term). 2010: Spain difficult (need for de-leveraging, margin pressure, high cost of risk), but stronger outlook for LatAm (the opposite in Brazil, Mexico turning around) and the UK (rising margins) & synergy potential from recent deals. No plans for M&A in any region.

Francisco RIQUEL

Research Analyst
frique@cheuvreux.com
(34) 91 495 16 30

TOTAL 2/ Outperform

Q3-09 results slightly above

Extract from CA Cheuvreux Europe Today, 4th of November 2009

Q3-09 slightly above but thanks to R&M and Chemicals

Total posted a Q309 adjusted net income of EUR1,869m 3% ahead of consensus expectations of EUR1,812 and slightly ahead of our own forecast of EUR1,853m. Upstream adjusted net operating income came at the low of analysts expectations at only EUR1,501m vs a range of EUR1,500 to 1,600m and 3% below our forecast. We believe that the difference is coming from a lower contribution from Nigeria LNG. This slight underperformance was however offset by stronger than expected performance of Refining & Marketing (46% above expectations) and Chemicals which came out at EUR161m above consensus range of EUR60 to 140m.

Q309 production up yoy and sequentially

At 2,430kboe/d, Q309 production comes 1% above consensus expectations and 2% above our forecast of 2,206kboe/d. Q309 production which is up 3% sequentially and 0.5% yoy shows that Q209 was clearly the trough for production (Q209 production was down 7.3% yoy). Sequential growth is driven by the ramp up of several major that came on stream throughout 2009.

Significant gearing decrease from 24.7 to 20.8%

...but essentially thanks to a positive WCR element, to the continuation of SASY disposals and also due to the fact that Total only pays semi-annual dividend (vs quarterly dividend for peers). Next interim dividend confirmed at EUR1.14 on Nov 13th.

Capex confirmed at USD18bn for 2009

... an Total seems on track to launch several new projects in the coming quarters in Canada, West Africa and the North Sea.

Dominique PATRY
Research Analyst
dpatry@cheuvreux.com
(33) 1 41 89 73 37

Geoffroy STERN
Research Analyst
gstern@cheuvreux.com
(33) 1 41 89 73 79

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Applicable disclosures for the following quoted stocks

COMPANY NAME	DISCLOSURE
AVIVA	E
BOUYGUES	E, J
AXA	E
CREDIT SUISSE	E
VINCI	A, E, G
GDF SUEZ	E
BASF	E
CARREFOUR	E, G
SANTANDER	E, G
TOTAL	E

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