

Monthly Update on Reverse Convertibles Equity Derivatives Research

December 14th 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

ING: Barrier 60%, Coupon: 15.8%

Bouygues: Barrier 60%, Coupon: 12.1%

Axa: Barrier 60%, Coupon: 11.4%

Credit Suisse: Barrier 70%, Coupon: 13.3%

Deutsche Boerse: Barrier 70%, Coupon: 12.2%

Vinci: Barrier 70%, Coupon: 11.0%

BASF: Barrier 70%, Coupon: 10.1%

Ericsson: Barrier 70%, Coupon: 10.1%

Santander: Barrier 70%, Coupon: 10.1%

GDF Suez: Barrier 80%, Coupon: 12.0%

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

Calyon EQD Research and Information on
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
ING	INGA NA	Financial	2/Outperform	8.2	3.0	51.5%	75
BOUYGUES	EN FP	Industrial	2/Outperform	11.2	4.7	43.0%	65
AXA	CS FP	Financial	1/Selected List	7.5	3.1	42.2%	77
CREDIT SUISSE	CSGN VX	Financial	2/Outperform	9.2	2.9	40.1%	68
DEUTSCHE BOERSE	DB1 GR	Financial	2/Outperform	12.4	3.9	37.6%	-
VINCI	DG FP	Industrial	1/Selected List	13.5	4.1	35.7%	95
BASF	BAS GR	Basic Materials	1/Selected List	11.4	3.0	33.9%	48
ERICSSON TELECOM AB	ERICB SS	Communications	2/Outperform	14.3	2.7	34.9%	100
SANTANDER	SAN SM	Financial	2/Outperform	11.6	5.1	33.4%	87
GDF SUEZ	GSZ FP	Utilities	1/Selected List	12.1	5.2	32.0%	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%			
ING	15.8%	18.2%	19.4%	3.83	Apr-09	30%
BOUYGUES	12.1%	15.2%	17.0%	20.58	Oct-03	64%
AXA	11.4%	14.4%	16.1%	9.61	Apr-09	36%
CREDIT SUISSE	10.3%	13.3%	15.1%	31.14	Mar-09	43%
DEUTSCHE BOERSE	8.7%	12.2%	14.4%	32.24	Mar-09	56%
VINCI	7.6%	11.0%	13.4%	23.71	Oct-08	58%
BASF	6.8%	10.1%	12.5%	25.84	Apr-09	47%
ERICSSON TELECOM AB	6.8%	10.1%	12.4%	40.44	May-03	67%
SANTANDER	6.9%	10.1%	12.6%	6.76	Apr-09	36%
GDF SUEZ	5.8%	9.2%	12.0%	17.82	-	75%

*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: ING, 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, Deutsche Boerse, Vinci, BASF, Ericsson, Santander.

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

We recommend 80% barrier on: GDF Suez.

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

ING 2/ Outperform

Not short of value: rating upgrade

Extract from CA Cheuvreux Europe Today, 10th of December 2009

Rating upgraded from 3/Underperform to 2/Outperform

We are upgrading our rating to 2/Outperform after the sharp decline in the share price in recent weeks. Furthermore, we raise our TP from EUR8.50 to EUR8.90 on an increase in our normalized banking earnings assumption by EUR0.2bn to EUR3.0bn-3.3bn. There are four reasons for our rating upgrade:

1) Value not fully priced in

Based on: 1) normalised earnings for the remaining banking operat. of EUR3.0bn-3.3bn and a P/E multiple of 10x; 2) shareholders' equity of EUR24bn for insurance; 3) a sum of EUR24.8bn for repayment of group leverage, hybrids, core debt and the remaining state funding; and 4) 3.8bn shares outstanding; we arrive at a fair value of EUR8.90 per share, 59% above the current share price. This fair value is underpinned by our value-added model.

2) Finalisation of rights issue

Apart from developments in Dubai, the rights issue has had a clearly negative impact on the share price in the last two weeks as the syndicate is buying the rights and shorting the stock to hedge its position. However, the rights must be exercised by 15 December.

3) More clarity on spin-off process in coming months

We expect more clarity on the insurance spin-off process in the coming months. We think the current share price reflects concerns, mainly with respect to the potential proceeds. We believe there is still a perception that ING will push ahead rapidly with the spin-off. We do not share this view: we believe Co. will take at least 12 months to start the divestment process, for operational and legal reasons.

4) Positive news flow on reduction in repayment premium

We expect good news on more favorable conditions for repaying the remaining EUR5bn of state funding. We foresee a reduction in total repayment costs of EUR1.0bn-1.3bn spread over '10 and '11.

Hans PLUIJGERS

Research Analyst

hpluijgers@cheuvreux.com

(31) 20 5730634

BOUYGUES 2/ Outperform

Good resilience for 9m-09 earnings

Extract from CA Cheuvreux Europe Today, 2nd of December 2009

9M earnings were higher than expected

Down by 18% over 9m-08 at EUR1,461m, group operating profit in the first nine months of 2009 was circa 4% above median consensus (EUR1,400m) and our forecast.(EUR1,395m). Net attributable profit also reached a better than expected level at EUR1,024m, decreasing by 15% y-o-y, above our EUR955m estimate and EUR975m for the median consensus. The reduction in capex, mainly due to low investments for Bouygues Telecom, implies a free cash flow increase of EUR400m to EUR1,110m. The group is ahead of schedule on its debt reduction (down EUR476m vs. last year; against our est. of a EUR200m reduction by year-end).

Stable operating margin for Bouygues Construction

Recovery in margins also confirmed by 9m-09 results, particularly for Bouygues Construction. The 3.7% operating margin for Bouygues Construction is stable y-o-y and above the last quarter (3.4%). The negative impact on Gautrain has been offset by good execution on other projects and the order book remains at a high level without including some large contracts announced recently such as the Miami tunnel and the real estate complex in Qatar.

Decline in margin for Bouygues Telecom

Good commercial performance in the third quarter confirmed by the excellent result for the mobile activity (10 million-mobile customer mark topped in September) and confirmation of the successful launch of the fixed-line business. Nevertheless, due to higher commercial costs and new tax to finance public TV, the operating margin was down by 8,5% q-o-q.

FY-09 guidance confirmed

The company's 2009 sales targets remains unchanged at EUR31.2bn but with modifications in each business. All of them were revised up except for Colas with a decrease of EUR600m.

Arnaud PALLIEZ

Research Analyst

apalliez@cheuvreux.com

(33) 1 41 89 75 77

AXA 1/ Selected List

Prepared for the end of the crisis

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

Recent developments – A strategy to exit the crisis

AXA's management is putting in place the conditions to be ready for the rebound of the economy and the next accounting development, bearing in mind that AXA's balance sheet is more leveraged than peers in terms of shareholders' equity and debt. 1) AXA is "opening up the bamboo curtain" (see our Flash Note of 12 November), or in other words buying back the right from AXA APH's minorities to develop directly throughout Asia, including India, and increasing its weight towards Asia. This transaction which has to be finalised in the next few months is likely to be carried out on very favourable terms for AXA's shareholders. Taking into account ongoing acquisitions in Russia and in Eastern Europe, AXA aims to have a 15-20% contribution from emerging markets to underlying profit. 2) AXA is working on to restore its US footprints for both Alliance Bernstein and AXA Financial. Here the financials structure has to be clarified and stabilised (double leveraging with AB) and we do not rule out a disposal of AB in the medium term. Products sold by the two entities have been adapted to the new macro context. This indicates substantial upside for 2010, which must now be validated by clients in particular for the new VA "Retirement Cornerstone" which will be sold alongside the "Accumulator". 3) AXA's change of corporate governance, to be validated at the next AGM, will give more power to the CEO/CFO tandem. In our view, this is likely to provide the group with the reactivity that was missing somewhat during the crisis. 4) AXA is preparing to contend with the new accounting and regulatory environment that will drive the sector in 2013. The group is working on a new concept (STEC for capital). The objectives are to reduce the market risk requirement (61% of capital requirement), and to get the internal model accepted by the regulator.

Outlook - Strong rebound of profitability in the pipe

We expect a strong rebound in profitability, with earning estimates that are 23% below the cycle-peak for 2010 and in line with 2007 for 2011. The drivers are an est. EUR490m of capital gains in 2011E vs. impairment charges, losses and hedging costs in 2008-2009; underlying profits that are likely to grow gradually in risk insurance and a rebound in life and asset management. The group will also benefit from the general recovery in value of AUM, of which EUR400bn in equities managed for third parties. AXA will also benefit from the consolidation of the bought out minorities in Asia and in Russia and Eastern Europe.

Valuation - AXA is on our Insurance Top Picks list

We start 2010 with AXA as a Top Pick in view of the share's 20% discount in P/E terms compared with the sector. The catalysts for the share will be success of the AXA APH offer, the publication of a 2009 balance sheet that is likely to show significant improvement especially given the group's exposure to corporate bonds, and more importantly, the recovery of US VA sales expected in Q1 2010. Our target price of EUR23.5 implies a P/E of 11.5x 2010E and 9.2x 2011E earnings, in line with the long term valuation of the group.

Jean d'HERBECOURT

Research Analyst

jdherbecourt@cheuvreux.com

(33) 01 41 89 78 60

CREDIT SUISSE 2/ Outperform

Key message at our Financials Conference

Extract from CA Cheuvreux Europe Today, 1st of December 2009

Presentation by Michael Rüdiger, CEO Crédit Suisse Central

Worth highlighting

CS is well prepared for challenges in private banking going forward:

- 1) early steps to build a European on-shore franchise is paying off;
- 2) the integrated bank offering is helping drive up margins in onshore markets; and 3) international expansion has been accelerated in the past few years, creating new platforms of growth.

Key questions raised

Impact of tax amnesties pressure on Europe: the answers were reassuring in terms of success in capturing outflows through large Italian onshore presences. Also, as highlighted above, the offering to onshore clients has been differentiated and new growth markets developed.

Market impact

Positive, reassuring.

Christian STARK

Research Analyst

cstark@cheuvreux.com

(41) 44 218 17 02

DEUTSCHE BOERSE 2/ Outperform

No volume recovery in November

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

Eurex: No volume recovery

Traded contracts at Eurex (ex ISE) in November came in at 131.9m, down 6% y-o-y and nearly flat m-o-m (-0.6%). A closer look at Eurex: equity index derivatives, a high-margin product, fell -20% y-o-y (64m contracts) and -5% m-o-m, while fixed income derivatives (high margins) were up 12% y-o-y in November and down only slightly mom (-13%). Trading in equity derivatives (lower margins) remained relatively low at 29.1m contracts (+10% yoy; -3%m-o-m). ISE reported 61.1m traded options, a decline of -6% y-o-y and -30% m-o-m. Overall, the group's traded volume in November, including ISE, was down only 6% y-o-y thanks to a lower base in November 2008, which was already impacted by the financial crisis. YTD, the combined number of contracts is down 18% y-o-y, which is in line with our forecast.

An average month for Xetra volumes

November order book volume at EUR90.5bn was close to the average of EUR89.6bn for the year. Volume was down 21% y-o-y and 52% ytd – close to our 50% forecast for 2009. We stick to our volume forecast as we still expect some volume recovery towards the end of the year.

Deutsche Börse – a long-term growth story

Given its integrated business model, Deutsche Börse should benefit above average from future growth. This is supported by a) regulatory pressure for more clearing; and b) the ongoing high level of corporate and public bond issuance as securities markets absorb some of the banking system's lending activities. The stock is trading at 12.8x 2010E earnings, which is not expensive vs. its historical average of 17.2x (2003-08). We confirm our 2/OP rating.

Christophe BLIEFFERT

Research Analyst

cblieffer@cheuvreux.com

(49) 69 47 897 541

VINCI 1/ Selected List

A change in corporate governance

Extract from CA Cheuvreux Europe Today, 20th of November 2009

New form of corporate governance to be adopted

Vinci's Board has decided to merge the functions of Chairman of the Board and CEO with Xavier Huillard assuming this dual role and to appoint Yves-Thibault de Silguy as Vice-Chairman and Senior Director. In his role, Mr de Silguy will focus on the organisation and good running of the board and its committees. The move has been justified as a way to strengthen the company's operating efficiency.

A sensitive issue

The roles of Chairman and CEO were split three and half years ago, as a result of excessive compensation received by Antoine Zacharias and his clash with Xavier Huillard on this issue. This negative experience has led to a significant improvement in Vinci's corporate governance.

A smooth evolution

Our initial analysis is that we do not think that the group's new group corporate governance structure will significantly reduce the powers of opposition exercised by the board and its four committees (audit, strategy and investment, compensation and appointments). Of the 13 directors, seven are independent and in his new role, (former chairman) Mr de Silguy will be fully dedicated to organising the control tasks of these governance bodies. The powers of opposition exercised by shareholders could also be reinforced by the fact that, with the completion of the Cegelec acquisition, Qatari Diar is set to become the second main shareholder (with ~6 to 8% of total shares) after the group's employees.

We will keep a close watch on how this new governance works

This re-focusing of corporate governance roles does not any raise specific concerns at this stage as it is has been by 80% of CAC 40 companies.

Arnaud PALLIEZ

Research Analyst

apalliez@cheuvreux.com

(33) 1 41 89 75 77

BASF 1/ Selected List

Innovations led margin improvements

Extract from CA Cheuvreux Europe Today, 8th of December 2009

Margins set to rise

Due to improving earnings contributions from a) innovations, b) strong top-line growth in emerging markets, and c) cost savings and synergy benefits, we raise our EPS estimates for 2009E-12E by 4-17% respectively. Thus, after four years of falling EBIT margins we expect improvement again, rendering the valuation discount to its peers unjustified.

Promising innovation pipeline fuels growth

We are confident for BASF's innovation pipeline. BASF's annual innovation sales should rise to EUR6bn in 2010E and EUR7bn by 2015E. Both figures are EUR2bn higher than we previously anticipated, resulting in EUR300m higher earnings p.a. from 2010E through 2015E.

Emerging markets provide a boost

Moreover, we expect strong GDP growth in the emerging markets where BASF is active, namely Asia (exposure: 15%) and Latin America (7%). Combining growth with economies of scale we have raised our estimates for BASF's combined EBIT from both regions by 20-42% 2009-2012E.

Cost savings and synergies drive earnings higher

Finally, cost savings (e.g. EUR1bn from the NEXT programme) and synergies (at least EUR450m from Ciba) will provide additional fuel for earnings growth and profit margins in 2010E and beyond.

PT raised to EUR54 – 29% upside; upgrade to 1/SL

BASF is currently trading at an EV/EBITDA 10E of 5.6x, an 23% discount to its peers. This is not justified in view of the company's superior forecast profitability. We raise our DCF-derived PT from EUR46 to EUR54 on our increased earnings estimates, suggesting 29% upside. We also raise our recommendation from 2/Outperform to 1/Selected List.

Martin ROEDIGER

Research Analyst

mroediger@cheuvreux.com

(49) 69 897 763

ERICSSON 2/ Outperform

Ericsson set to reduce costs further

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

Adjusting top-line estimates downwards

We have cut our top-line estimates by 4% for 2009E and 5% for 2010E and 2011E essentially to reflect: 1) the Q3 revenue shortfall in the network division; and 2) the reduced scope of the managed services contract at 3 Italia. We now expect a decline of -1.9% (-6.5% at cc) in 2009, and growth of 0.8% (2.4% at cc) in 2010 and 4.8% in 2011.

Factoring in a new restructuring measures

As part of its ongoing restructuring programme, which was unveiled in January (savings of SEK10bn from H2-10, restructuring of SEK6-7bn), Ericsson said it has almost hit its restructuring budget (total charges of SEK7bn in Q1, Q2 & Q3) and that it has achieved savings ahead of its plans (amount not disclosed, we estimate SEK5bn at end of Q3). Ericsson also said that it had identified new sources of savings, which would involve restructuring costs \geq SEK2.7bn in Q4. We have assumed that total savings will be upgraded from SEK10bn from H2-10 to SEK14bn from 2011. Thus, we increase our operating margin estimates for 09E/10E/11E from 11.2%/9.2%/9.8% to 12.2%/12.2%/13.1%.

EPS cut for 2009E, but raised for 2010 and 2011

We have modeled reduced top-line, the implementation of additional restructuring measures as well as improved prospects for SE, which leads us to cut our 2009E EPS (pre-amortisation of acquired intangibles, but including restructuring) from SEK3.31 to SEK2.43, and increase our EPS estimates by 21% (from SEK4.73 to SEK5.71) in 2010 and by 23% (from SEK5.53 to SEK6.80) in 2011.

Buy recommendation, TP raised from SEK80 to SEK84

Raising our long-term EBITA margin assumption from 12% to 13% - corresponding to an operating margin of 11.6% (vs. 12.2% est. in 2009) - leads us to raise our DCF-based TP from SEK80 to SEK84. The stock is trading at a P/E of 12.8x based on our estimates for 2010E, which is attractive in our view.

Odon DE LA PORTE

Research Analyst

odelaporte@cheuvreux.com

(44) 207 621 51 79

SANTANDER 2/ Outperform

Raising estimates & TP

Extract from CA Cheuvreux Europe Today, 25th of November 2009

Raising estimates by 6% in 2010-11E

We are raising our cash EPS estimates by 3% (09E) & 6% (10-11E), and look for +3% (10E) & +25% (11E). In Brazil, we factor in strong loan growth (20-25%), stable margins (net of cost of risk) plus integration synergies, and allows for +35% in net income (preminorities) in 2010E. In UK, we model for net income >10% thanks to strong pricing power & synergies. We still look for profits in retail Spain to fall by 10% in 2010E.

Raising solvency ratios: core Tier 1 of 9% in 2010E

Following the Brazilian IPO (60bp), scrip dividend (10bp) and organic capital generation (10-15bp per quarter), we raise our core Tier 1 forecasts to 8.6% (09E) & 9.0% (10E). We also raise our NPL coverage to 75-80% in 09-10E (cycle trough) & RE provisions to 25% of BV.

Raising target price to EUR13.50

The above leads us to raise our target price by 8% to EUR13.50, indicating 15% upside potential, to which we should add a cash dividend yield of 5% at current prices. At 10.5X10E and 9X11E, the shares still trade at an unjustified discount to European peers. In TBV terms, Santander trades on 2X10E (vs. 1.5X), though we expect it to deliver RoTE of 22% (vs. 12%). In a normalized cost-of-risk scenario, we think the shares could be worth EUR19ps (or EUR14 in NPV terms).

2/Outperform reiterated

Despite its strong outperformance, we stick to our 2/Outperform rating. In our view, Santander stands out from the peer group in terms of diversification and exposure to structural growth in LatAm, strong competitive position and pricing power, cost-cutting potential, better risk profile and solvency ratios, whilst valuation is still undemanding.

Francisco RIQUEL

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

GDF SUEZ 1/ Selected List

Agreement on a new gas framework

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

Politicians to reduce their interference

According to press reports, the French government has agreed to a new gas framework whereby: a) it would give guidelines regarding the gas tariffs trend for the full year; and b) GDF Suez could ask, over the year, for a price review any time with the approval of the CRE (without the government interfering). Within this framework, GDF Suez would not have any official constraint to reduce prices. The new gas tariff framework would be implemented next year once a decree has been signed.

Pending questions remain

A new gas formula was implemented a few months ago (gas prices still indexed to oil prices with a pass through formula). Pending questions relate to: a) if and how GSZ could recover all or part of the EUR2.0bn revenue shortfall accumulated over the past years; and b) what level of commercial margin could be implemented.

Will need time to reduce the regulatory discount

In our view, it will be a while before the market is ready to remove the French regulatory discount on the share, especially as this topic has persisted over the past four years (since the IPO of GDF).

We maintain a positive stance

Damien DE SAINT GERMAIN

Research Analyst

ddesaintgermain@cheuvreux.com

(33) 1 41 89 73 12

Benoit TROCHU

Research Analyst

btrochu@cheuvreux.com

(33) 1 41 89 75 74

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Applicable disclosures for the following quoted stocks

COMPANY NAME	DISCLOSURE
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AXA	E, G
CREDIT SUISSE	E
DEUTSCHE BOERSE	E
VINCI	A, E, G
BASF	E
ERICSSON	E
SANTANDER	E, G
GDF SUEZ	E

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