

Monthly update on Reverse Convertibles

Equity Derivatives Research

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Update on our Reverse Convertibles 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 on:

	Barrier	Coupon US Barrier	Coupon EU Barrier
Saint Gobain:	60%	9.8%	7.0%
Axa:	60%	9.0%	6.5%
Bouygues:	60%	8.8%	6.3%
Credit Suisse:	70%	9.7%	6.8%
Santander:	70%	10.9%	8.0%
Schneider Electric:	70%	9.8%	7.2%
Vinci:	70%	8.4%	6.2%
Carrefour:	80%	9.8%	7.6%
Repsol:	80%	8.7%	7.0%
GDF Suez:	80%	8.7%	6.9%

Single Stocks Selection

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

- With low 2011 P/E (below 15) and which pay a dividend (div yield over 2%)
- On which CA Cheuvreux has a positive view (1 or 2)
- With 1Y ATM Implied Volatility over 25%

We obtain the following selection:

Name	Ticker	Sector	Rating	P/E	Div. Yield	ATM 1Y IV	5Y CDS
SAINT GOBAIN	SGO FP	Industrial	2/Outperform	9.5	3.2%	40.4%	124
AXA	CS FP	Financial	1/Selected List	6.1	3.4%	39.0%	103
BOUYGUES	EN FP	Industrial	1/Selected List	10.1	4.7%	38.3%	71
CREDIT SUISSE	CSGN VX	Financial	2/Outperform	7.2	4.3%	37.8%	86
SANTANDER	SAN SM	Financial	1/Selected List	7.6	6.2%	36.1%	130
SCHNEIDER ELECTRIC	SU FP	Industrial	2/Outperform	11.2	2.7%	34.8%	63
VINCI	DG FP	Industrial	2/Outperform	12.2	4.3%	32.2%	84
CARREFOUR	CA FP	Consumer, Non-cyclical	1/Selected List	12.9	3.1%	30.2%	67
REPSOL YPF	REP SM	Energy	2/Outperform	7.9	5.4%	27.2%	112
GDF SUEZ	GSZ FP	Utilities	2/Outperform	10.9	5.8%	26.6%	59

Source: CA Cheuvreux for rating and P/E, Bloomberg for CDS and div yield, Crédit Agricole CIB 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*			Selected Barrier	Last time selected barrier was hit	2Y Min	
	Barrier @ 60%	Barrier @ 70%	Barrier @ 80%				
SAINT GOBAIN	9.8%	12.9%	14.8%	60%	18.97	Mar-09	55%
AXA	9.0%	12.2%	14.1%	60%	8.83	Mar-09	39%
BOUYGUES	8.8%	12.2%	14.2%	60%	20.40	Nov-03	65%
CREDIT SUISSE	7.5%	9.7%	12.8%	70%	32.48	Mar-09	49%
SANTANDER	7.6%	10.9%	13.2%	70%	6.78	Mar-09	41%
SCHNEIDER ELECTRIC	6.4%	9.8%	12.1%	70%	51.44	Apr-09	55%
VINCI	5.1%	8.4%	11.1%	70%	26.15	Mar-09	61%
CARREFOUR	4.0%	7.1%	9.8%	80%	27.89	Mar-09	66%
REPSOL YPF	2.7%	5.6%	8.7%	80%	13.12	Apr-09	71%
GDF SUEZ	2.6%	5.5%	8.7%	80%	21.38	-	83%

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

We recommend 60% barrier on: Saint Gobain, Axa and Bouygues

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

We recommend 70% barrier on: Credit Suisse, Santander, Schneider and Vinci

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

We recommend 80% barrier on: Carrefour, Repsol and GDF Suez.

This is justified either by a strong bull conviction and a lower volatility.

Name	Recent Publication	Next Publication Date	Next Publication
SAINT GOBAIN	-	2/25/2010	Y
AXA	-	2/18/2010	Y
BOUYGUES	-	3/2/2010	Y
CREDIT SUISSE	Y09 already published	4/22/2010	Q1
SANTANDER	Y09 already published	4/29/2010	Q1
SCHNEIDER ELECTRIC	-	2/18/2010	Y
VINCI	preview on sales	3/3/2010	Y
CARREFOUR	preview on sales	2/19/2010	Y
REPSOL YPF	-	2/25/2010	Y
GDF SUEZ	-	3/4/2010	Y

Source: Bloomberg

Among our selection of stocks,

- 2 have already published: Crédit Suisse and Santander
- 2 have already published preview on sales: Vinci and Carrefour
- 2 of the remaining stocks won't publish before early March: Bouygues and GDF Suez

The 4 remaining firms will publish in a few days: Axa, Schneider Electric, Saint Gobain and Repsol. We consider the risk is higher on Axa and Saint Gobain; this is also the market point of view as these 2 stocks have the higher implied volatility of our selection. This is why we have chosen 60% barrier for both these stocks.

In addition, Axa has already lost 25% since its max of mid October 2009 and Saint Gobain has lost 20% since its max of early January 2010.

CA Cheuvreux on our Single Stocks Selection SAINT GOBAIN 2/ Outperform

FY-09 results due on 25 Feb. after market

Extract from CA Cheuvreux Europe Today, 15th of February 2010

(EUR m)	FY-09E	FY-08	% Chg	H2-09E	H2-08	%Chg
Sales	37 932	43 800	-13.4%	19 217	21 659	-11.3%
Current op. profit	2 073	3 649	-43.2%	1 143	1 644	-30.5%
Op. margin	5.5%	8.3%		5.9%	7.6%	
EBIT	1 369	2 814	-51.4%	768	917	-16.2%
Net current profit	531	1 913	-72.3%	321	812	-60.5%
Current EPS (EUR)	1.12	4.69	-76.2%	0.71	1.81	-60.8%

FOCUS ON:

Well-established consensus on 2009

We do not expect a major surprise on 2009 numbers. We have revised up our EBITA 2009E following better resilience in flat glass prices in H2. We are now 4% higher at EUR2,073m, which seems to be more in line with consensus at around EUR2.1bn. At the recurring EPS level, we are 5% below consensus, which is around EUR1.2.

2010 outlook could be more positive than expected

Q4 recovery observed on existing home transactions in some key European markets (France, UK, etc.) has improved the outlook on renovation work (36% of total group sales) which will also benefit from stimulus measures on public building.

Possible increase in cost savings target

The current level of EUR1.5bn in 2008-2009 could be revised upward slightly, maybe towards EUR1.9bn.

Other sources of upside

We cannot exclude that management will be more positive about the opportunity to sell off the packaging business. Recent share price underperformance ahead of this results publication offers a good trading buy opportunity.

Analysts' meeting on 26 Feb. at 8:30am CET

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AXA 1/ Selected List

Expected improvement in balance sheet

Extract from CA Cheuvreux Europe Today, 13th of January 2010

(EUR m)	H2 09e	H2 08	H2/H2	Consensus	H1 09
Underlying profit	1501	1278	17	1684	2116
Adjusted profit	1633	1736	-6	1663	1737
Net published profit	1219	-400	-405	1777	1323
APE	2887	3120	-7		3111
NBV	473	482	-2		429
S1 ratio	156	127			133

FOCUS ON:

Focus on balance sheet

We confirm our earnings estimates for 2009E but lower our estimated dividend from EUR0.65 per share to EUR0.54 (consensus stands at EUR0.50). The balance sheet, which was the main cause for alarm in March 2009, is set to have improved significantly with the dual positive effect of the recovery in asset values and the EUR2.4bn capital increase.

We have lowered our earnings scenario after 2010

We have lowered our earnings estimates by 5-7% p.a., for 2011E and thereafter which puts us 3-5% above consensus. Our adjustments mainly concern life insurance, where we were just too optimistic.

We see positive catalysts ahead

We have lowered our target price from EUR23.5 to EUR22. AXA remains one of our core calls on the sector for 2010. The exclusivity agreement with AMP will expire on 5 February, leaving AXA free to conclude a more favourable deal with NAB. The group is also set to benefit this year from the confirmed wind of economic recovery, especially through its US activities which will enjoy a positive currency impact. The other aspects to look at are a further clean-up of the business portfolio and the very strong franchise in P&C, which should provide some stability for the earnings outlook.

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BOUYGUES 1/ Selected List

Brighter prospects – attractive valuation

Extract from CA Cheuvreux Europe Today, 17th of December 2009

New report – Rating upgraded to 1/ Selected List

We publish a new report today on Bouygues in which we have revised up our earnings estimates by 1 to 5% for 2009E-2012E. We have also revised up our target price to EUR42.5 from EUR41.0, following the change in our restated net asset value calculation. Rating upgraded from 2/Outperform to 1/Selected List.

Outperformance potential in 2010

We view the stock as bound to outperform the rest of the market due to its defensive features (business diversification and ~40% of total EBIT generated by Bouygues Telecom) and potential for positive earnings surprises from continued commercial successes in fixed-line telephony and an increasing flow of new orders in construction businesses. The stock offers an attractive dividend yield (4.6%) and its strong balance sheet provides financial resources to seize new growth opportunities.

Attractive valuation

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CREDIT SUISSE 2/ Outperform

Q4-09 weak but strong start to 2010

Extract from CA Cheuvreux Europe Today, 11st of February 2010

2010 outlook should compensate for weak Q4-09.

Following a weak Q4-09, the company stressed that it got off to a very good start to 2010 with a) net new assets at its strongest level since crisis - suggesting potential gains from UBS, b) strong client activity and the highest transaction pipelines since crisis. Given that both NNM and Investment Banking revenues disappointed in Q4-09, the turnaround indicated in these areas going into Q4-09 should allow investors to get over the Q4-09 weakness. Shares are attractively valued on a P/E10E of just 8.1x and offer a 4.3% yield based on the confirmed CHF2 dividend.

Q4-09 pre-tax around 20% below Cons.

Q4-09 Net Profit came in at CHF793m vs our CHF1'179m and Cons at CHF1'160m i.e. around 30% below expectations. On a pre-tax basis the figures missed Cons by around 20% and our expectations by around 9%. The weakness is due to a lower Investment Banking top-line following a slowdown in client activity in Q4-09 and higher WM Clients compensation costs. a) Investment Banking pre-tax at CHF1'030m compare to our CHF856m and Cons at CHF1'230, with Fixed Income (-67% qoq vs Cons -30%) and Equity (-40% qoq vs Cons -12%). b) WM Clients pre-tax at CHF692m 14% below our and Cons figures, mainly on higher comp with gross margins at 130bps holding up well. NNM at CHF5.4bn/2.7% compares to our CHF4.9bn/2.5% and Cons at CHF8.6bn/4.9%, probably due to Cons not fully factoring in outflows from Italian amnesty (CHF5.6bn).

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SANTANDER 1/ Selected List

Upgrading to Selected List

Extract from CA Cheuvreux Europe Today, 08th of February 2010

Concerns about Spain look overstated

Santander has lost c.25% of its mkt cap in the last month amid rising sovereign-risk aversion in Spain. Its 5Y CDS has risen to 140bp, similar to Spain at 160bp, even though Spain accounts for only 1/3 of profits & loans. In our view, the Spanish unit can stay profit making under harsh assumptions, but current prices attach very little value to this franchise, which we think exaggerated. We see the current weakness as a LT buying opportunity & upgrade from 2 to 1/SL.

Stressing P&L forecasts: strong loss absorption capacity

We think the main risks in Spain refer to NPLs and cost of funding (negative loan growth already factored in). On NPLs, if we apply 50% for developers (8% in 2009) & 40% for LGD, the loss would equate to 50% of pre-tax profits for the Spanish unit (18% of the group). If we double total NPLs in Spain to 8% (50% LGD), this equates to 95% & 33% respectively. On cost of funding, if we apply +50bp over EUR284bn group wholesale funding (4.5Y duration), the cost would only cut 3% of group profits assuming 0% pass-through

Capital is also very solid

Santander ended 2009 with 8.6% CT1 with Basle 3 seen at -45bp but +40/60bp organic capital generation. The group owns EUR20bn of Spanish bonds in the AFS portfolio to hedge the deposit base. Average duration is only 3 years, so the potential MtM impact on EUR46bn TBV is very small (10Y Spanish bond yield +20bp YTD).

Zero value for the Spanish franchise?

Santander is trading on 8.6X10E P/E or 12.5X if we assume zero profits for Spain, vs. the European peers at 12X. If we give zero value to Spain (even though domestic banks & Greek peers still trade on 1XTBV), our EUR13.1 target price would drop to around EUR10, still 10% above current prices. The EUR0.60 DPS implies a 6.5% yield at current prices and should provide support.

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SCHNEIDER ELECTRIC 2/ Outperform

Results due on 18 February (bef. market)

Extract from CA Cheuvreux Europe Today, 18th of February 2010

EURm	2009E	2008A	% change
Sales	15641	18311	-14.6%
EBITA	1707	2754	-38.0%
Margin (%)	10.5%	15.0%	NS
Net income	905	1682	-46.2%
Change WCR	457	-72	NS
FCF	1497	1735	-13.7%

FY 09 sales exp at EUR15641m

Schneider Electric will report its FY-09 sales and results on 18 February before market. We expect FY-09 sales at EUR15641m, down 14.6% y-o-y and down 16.5% l-f-l. After a Q3-09 at -17.0% l-f-l, we expect Q4-09 at -13.4% l-f-l with Europe at -17%, Nth Am. at -14%, Asia at -9% and RoW at -6%.

FY 09 EBITA expected at EUR1707m, margin at 10.5%

We expect FY-09 EBITA to reach EUR1707m including restructuring costs, down 38.0% y-o-y and margin to fall to 10.5% (vs. 15.0% in FY-08). This level of margin is consistent with the FY guidance. Net income exp. at EUR905, down 46.2% y-o-y. Better resilience exp. on FCF at EUR1497m, down 13.7% y-o-y.

Key messages expected

In the wake of this publication, Schneider Electric will host a meeting. Messages are expected on 1/ 2010 outlook, 2/ progress of ONE programme, 3/ updated Areva distribution business outlook, 4/ comments on future FCF evolution.

2/Outperform, TP at EUR84.0

We keep our 2/Outperform rating and our EUR84.0 target price. We appreciate management's focus on defending profits and cash flow. The stock is inexpensive after the recent share price drop.

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VINCI 2/ Outperform

FY-09 sales show resilience

Extract from CA Cheuvreux Europe Today, 03rd of February 2010

FY sales down by 5.5% I-f-I at EUR31.9bn

This is in line with company guidance of a 2-3% increase for Vinci Concessions (+2.8% at EUR4.9bn) and a 5-7% decline for Vinci Contracting (-6.8% at EUR26.9bn). It is 2% below our estimates with all the negative difference on Construction (5% below), which, because of accounting at completion rate, is not so significant.

Recent news flow is positive on concessions

We continue to see growth accelerating on concessions (+3.8% I-f-I in Q4) with a now well-established traffic recovery on light vehicles (+3.4% in Q4 vs. +3.2% on FY) and a lower rate of decline on heavy vehicles (-3.7% in Q4 vs. -10.0% on FY), however explained by a more favourable comparison basis. Relationships with the tenant (the French state) are good, as illustrated by the recent signature of the green package and the tariff increases on 1 February (-0.9%).

No change in construction guidance

Vinci continues to be selective in its order intake to protect its margins. Eurovia (road works) had a good Q4 (+1.2% I-f-I vs. -3.7% on FY) with a better French market (stimulus) and the start of big projects abroad. Vinci Energies (-7.6% vs. -6.5%) and Vinci Construction (-9.0% vs. -8.5%) were slightly below annual trends.

Total order book up 4% y-o-y to EUR24.0bn

Looking into details, the backlog is down 3% on Vinci Energies, up 24% on Eurovia and down 2% on Vinci Construction. On the latter division, however, it is worth noting that we are up by 2% q-o-q and that EUR3bn of new big projects are not yet included.

Continued increase in our SOP

Our sum-of-the-parts calculation has continued to rise – from EUR45 per share to EUR45.3 – with the positive impact of the recent measures for French toll motorways ("green package" and tariff increases). We keep our 2/Outperform rating at this stage.

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CARREFOUR 1/ Selected List

Preview of 2009 results (19 Feb)

Extract from CA Cheuvreux Europe Today, 12th of February 2010

(m)	2009E	2008	% Chg.	Margin	Group guidance
Sales	85675	86967	-1.5%	-	-
Recurring EBITA	2767.0	3300.2	-16.1%	3.23%	2775
Net profit	805.9	1255.7	-35.8%	-	-
Recurring net profit	1392.4	1823.4	-23.6%	-	-

FOCUS ON:

No surprise expected on 2009 results

The group is due to release its 2009 results on Friday 19 February before the opening of the market (analyst meeting at 9.00 am CET). We do not expect any tangible surprise on 2009 results, the group having recently guided for an EBITA (excl non recurring items) of around EUR 2775m. We expect EBITA of EUR2767m, down 16.1% and reflecting an erosion of 56bp in margin. By geographical areas, we expect an erosion in EBITA margin of 93bp in France (to 3.05%) and 41bp in Europe (to 3.15%). In all, net profit is likely to reach EUR806m (-35.8% with EUR630m of non recurring items). Recurring net profit is likely to reach EUR1392m, down 23.6%.

The key points of the analyst meeting

We see three key elements: 1) an update on the cost cutting plan (group target of around EUR450m following EUR530m in 2009); 2) some details on the way to revive the hypermarkets in France (new concepts, optimization of selling space etc); 3) the environment.

A strong conviction

The strategy is moving in the right direction with a stronger focus on the sector's new keys to success (marketing, brands and customers relationships). We are very confident on the cost cutting plan. Regarding the environment, we believe that the worst is over and an ease of price competition cannot be ruled out in France/Spain.

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REPSOL YPF 2/ Outperform

BP interested in Brazilian assets?

Extract from CA Cheuvreux Europe Today, 2nd of February 2010

BP is interested in Repsol's Brazilian assets

According to press sources, Mr. Hayward, BP's CEO said that the company would be interested in buying part of the assets Repsol owns in the Brazilian offshore area, if they were put up for sale. BP's target would be to create a partnership with Repsol in certain blocks to jointly undertake their exploration and potential production.

Would help finance the USD11-15bn investment in the area

This partnership, if it materialises, would help Repsol finance the major investment required in the area, which could reach USD11-15bn in the next 7-10 years. We think Repsol would have to raise funds of EUR4.5-5bn by 2012E to be in line with the sector's average leverage at that time (0.5-0.6X debt/EBITDA).

Divesting out of YPF and Gas Natural should come first

Having said this, we would prefer Repsol to divest YPF or sell its stake in Gas Natural before finding a partner for Brazil or an IPO. The divestments would reduce the group's risk profile and would also free up funds that are tied up, while the latter would limit the potential for value creation from the area, although it would also crystallise some value.

2/Outperform reiterated

We like Repsol itself in light of its attractive valuation: 1) 35% upside potential to our EUR23 TP; and 2) at 3.6X10E P/CF, it is trading at a 30% average discount to the sector vs. the historical 20% average. Also, we see further upside in: 1) Brazil, moving from the current base case to an optimistic scenario (of 2.2bn new boes); and 2) asset disposals, including YPF and the 30.8% stake in Gas Natural. We thus reiterate our 2/Outperform rating on Repsol, one of our European Oil & Gas Top Picks for 2010.

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GDF Suez 2/ Outperform

Still attractive after EPS cut

Extract from CA Cheuvreux Europe Today, 15th of February 2010

We revise down our EPS by 9% in 2010E and 8% in 2011E

We revise down our EBITDA estimates by 4% in 2010E (EUR15.2bn) and 3.6% in 2011E (EUR16.4bn). Consequently, our EPS is revised down by 9% in 2010E and 8% in 2011E. By division, we have mainly revised down Global Gas by EUR430m to reflect lower assumptions on gas margins with industrial clients and lower arbitrage opportunities (LNG and gas/gas).

We reduce our TP to EUR32 from EUR34.5

In line with our cut in estimates, we have reduced our TP to EUR32, still offering 20% upside at current levels. On our TP, GSZ would trade at 6.6x EBITDA 11E, in line with peers. Dividend yield remains attractive at 6.5% vs. 5.5% while risk in dividend cuts appears more limited considering the Belgian tax is already known and GSZ reached an agreement on the new gas tariff framework in France.

Limited downside risks

We expect the warning to be well discounted in the share price. Share price recovery will depend on the magnitude of the warning and GSZ's ability to be convincing on its new guidance. Based on our new estimates, GSZ is still expected to have an EBITDA CAGR of 8% over 2009-2011, i.e. at the top end of the sector.

Potential catalysts ahead

Once the market gains more visibility on the landing point, we expect next catalysts could be: 1) implementation of the new gas framework (1 April); 2) investor day on gas business (expected in H1); and 3) access to EDF's nuclear capacities in France. In relative terms, GSZ has the advantages of no disposals ahead, more global exposure (20% of sales outside Europe), resilient CDS (up 16bp from the lows) while equity performance was in line with players exposed to weaker economies or high geared companies.

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Disclosure

Applicable CA Cheuvreux disclosure for the following quoted stocks

COMPANY NAMED IN THAT DOCUMENT	CA CHEUVREUX DISCLOSURE
SAINT GOBAIN	A, E, G
AXA	E, G
BOUYGUES	E, J
CREDIT SUISSE	E
SANTANDER	E, G
SCHNEIDER ELECTRIC	E, G
VINCI	A, E, G
CARREFOUR	G
REPSOL YPF	E
GDF SUEZ	E

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