

Trade Idea

Equity Derivatives Research

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European dividends: long is the road

- European dividend expectations have collapsed. The market is pricing a total 62% cut in SX5E dividends from 2008 to 2010. Dividends are suffering from multiple downside pressure (profit collapse, refinancing issues, payment in shares, political pressure, exotic books downsizing).
- During this crisis, dividends will not be resilient and classical top down analysis is useless. We think that trading on dividends now requires a very precise bottom up analysis. What could be the floor on dividends for each company?
- We have worked with CA Cheuvreux and have applied our own worst case scenario. In 2009 our worst case is in line with implied market levels, on 2010, we are only 10% above which is too low.
- We recommend the following strategies:
- On the short term, concentrate on non financial stocks on which CA Cheuvreux is confident regarding the dividend payment: **RWE, Deutsche Telekom, France Telecom, Vivendi, Telefonica, GDF Suez, Iberdrola and Total.**
- **Go long on 2011 Div swaps/futures and beyond.** With this position one could benefit either if the worst case for 2009 and 2010 div does not materialize or from a profit/dividend recovery from 2011.

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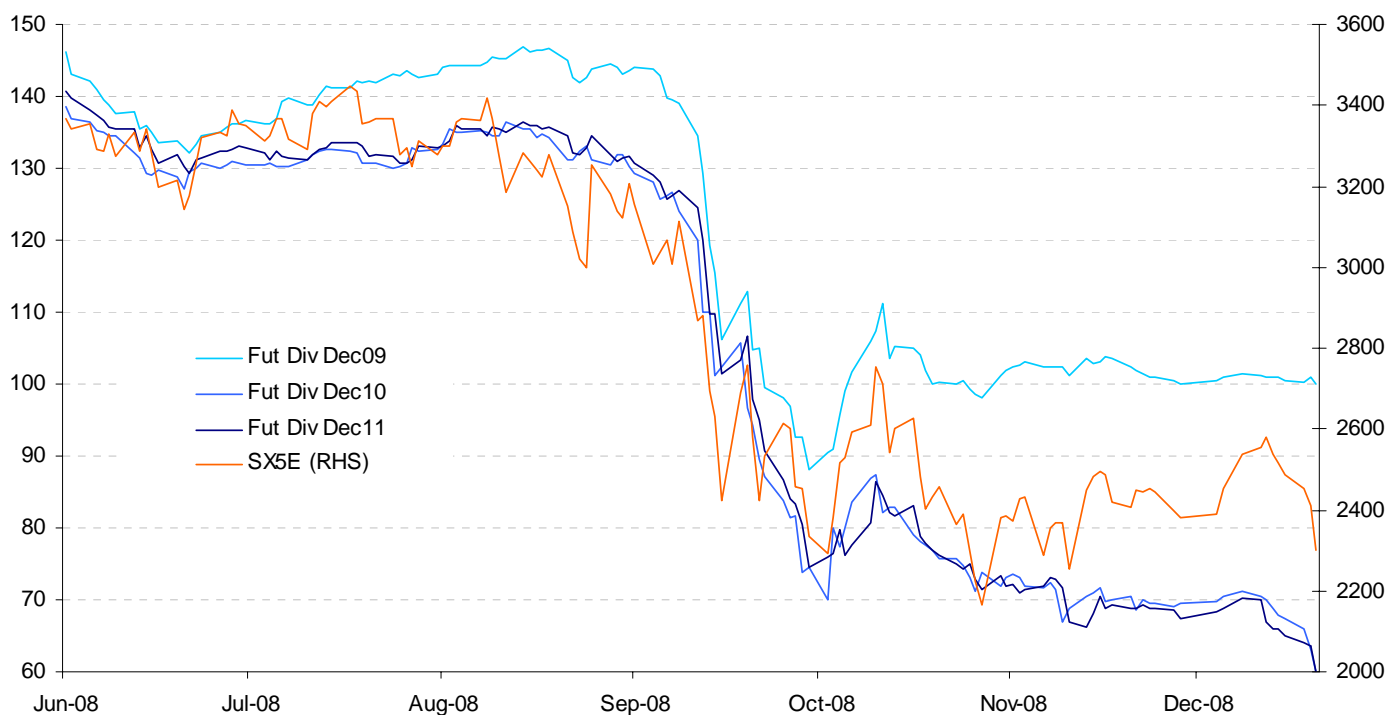
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European dividend: the falling knife?

European dividends have heavily fallen over the last year, and have reacted almost like delta one products with equity market.

SX5E dividends future evolution compared with equity market

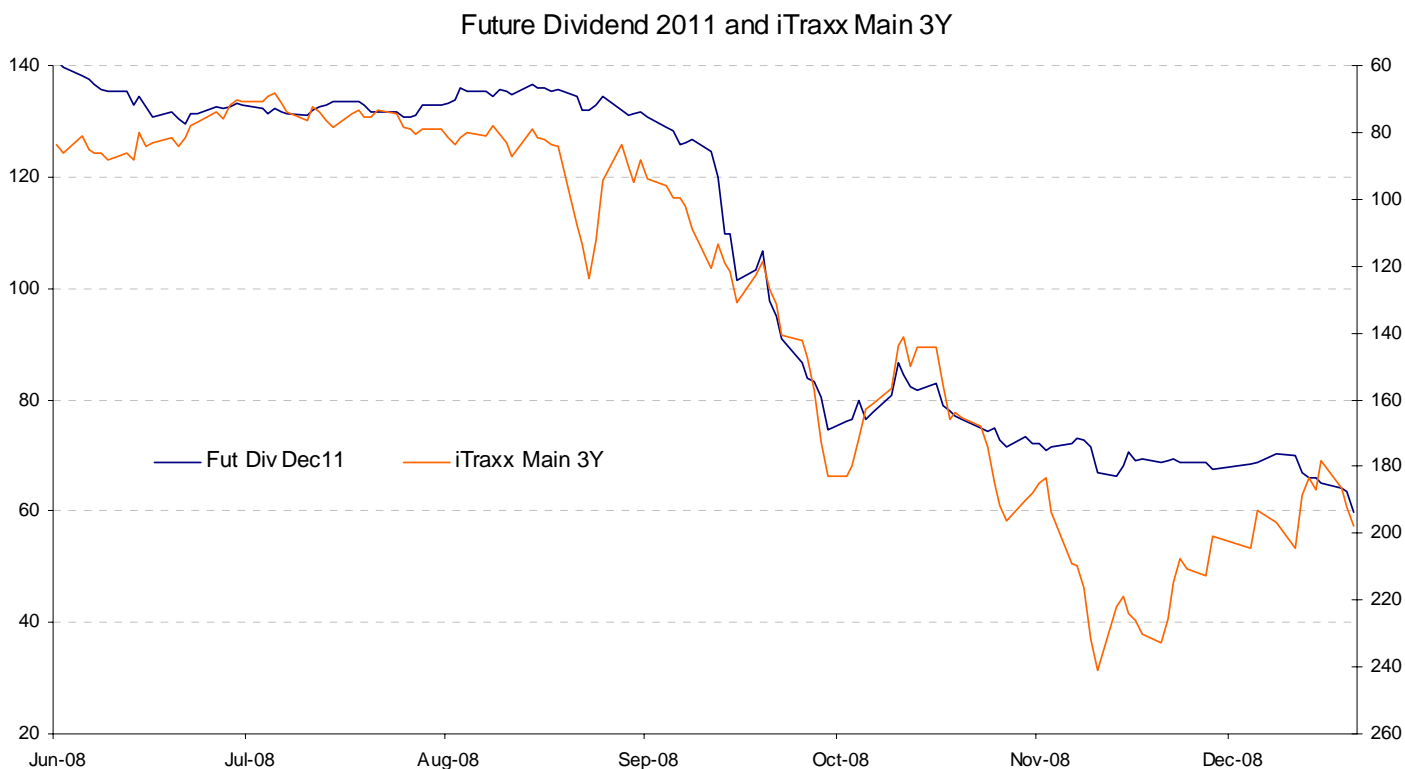


Source: Bloomberg

There are several reasons for this collapse:

1. European margins and ROE are high, thanks to restructuring following the last recession 2001-2002. To preserve free cash flow, when sales and margins have downside pressure, corporates have only two leverages, capex and dividends. Therefore, even companies with safe balance sheet may be tempted to cut their dividend.
2. After the collapse of equity markets, companies can offer high dividend yields (let say around 5%), even with a cut of their dividend. There is a "mimic" effect. The first to announce its dividend in each sector, could fix the norm for the others.

3. Even if the primary bond market is reopened (for investment grades mainly), refinancing is not easy. This is what the market is telling us with the relation between iTraxx Main, and dividend futures. Bond investors are yield hungry and this is affecting corporates financial structures and then dividends.



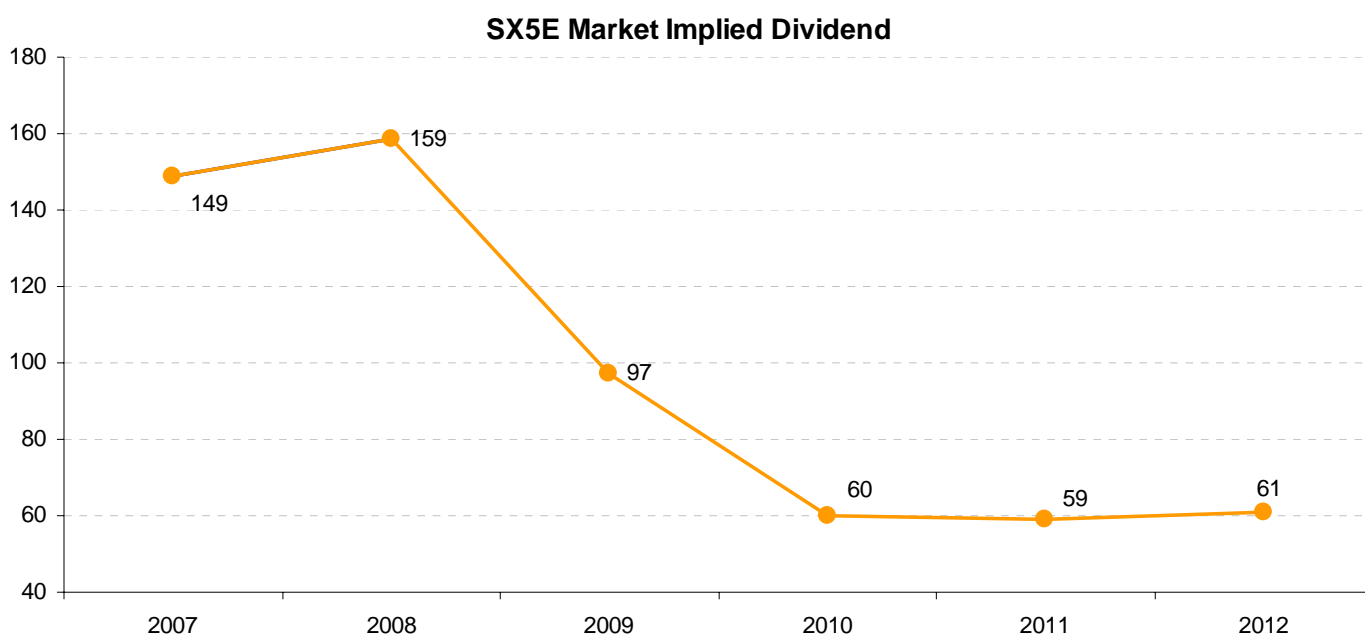
Source: Bloomberg

4. There is increased pressure from states on distressed corporates to cut their dividends:
- Following bailouts on banks, governments are putting pressure to cut dividend payments
 - Even on corporates: see French government pressure on Renault.
 - Preferred shares vs ordinary shares
5. There are, as well, technical reasons: exotic books are structurally long dividends, and they had to cut in blood.

The relevant approach: the bottom up analysis.

Looking at macro analysis is no more relevant in our view. During the last recessions dividends have been resilient (in 91 and in 2001). However, as everybody knows, the current recession is lot more severe than the previous ones and we are in a liquidity crisis. So in our view there is no comparable period in the modern area, a recession created by a credit crunch coupled with a liquidity crisis. Therefore dividends may not be more resilient than profits.

The current implied market dividends price a drop of 39% between 2008 and 2009, then another drop of 38% between 2009 and 2010. This would be a total 62% decrease in dividends in two years. This has never been observed in the modern area.



Source: Calyon

Why you should not go long on 2009 SX5E dividend

We think that trading on dividends now requires a very precise bottom up analysis.

What could be the floor on dividends for each company?

CA Cheuvreux analysts have provided a detailed table on SX5E names, with their dividend forecasts, their confidence levels, and qualitative explanations (see second part of this document with qualitative comments on each stock).

Our goal is to adopt a cautious view and to try to forecast a worst case scenario.

- CA Cheuvreux's analysts are confident on the dividends of 29 stocks.

We have decided to keep these 2008 projected dividends (final 2008 div paid in 2009), but we have cut by 50% the dividends of 2009 paid in 2009 (interim dividends).

- CA Cheuvreux's analysts have doubts on the dividends of 14 stocks.

We have decided to cut these 2008 projected dividends by 50%, 100% in special cases (political pressure: French banks, Renault).

- CA Cheuvreux's analysts are bear on the dividends of 7 stocks.

We have decided to take 0 € dividends for these stocks.

Note that we have cut to 0 all dividends on banks on which CA Cheuvreux is not confident or neutral.

| NAME | 2009 Div Yield | Cheuvreux Confidence | Calyon Div cut scenario | SECTOR | Worst Case Scenario | | |
|------------------------------|----------------|----------------------|-------------------------|-----------------------------|---------------------|--------------|------------|
| | | | | | Cheuvreux Div € | Div € | Div points |
| | | | | | 2009 | 2009 | 2009 |
| AEGON NV | 7.9% | = | 100% | Insurance | 0.30 | 0.00 | 0.00 |
| AIR LIQUIDE | 3.6% | + | 0% | Chemicals | 2.19 | 2.19 | 1.10 |
| ALLIANZ SE-REG | 6.3% | = | 50% | Insurance | 4.00 | 2.02 | 1.77 |
| ALSTOM | 3.2% | = | 50% | Industrial Goods & Services | 1.17 | 0.59 | 0.23 |
| ARCELORMITTAL | 8.0% | = | 50% | Basic Resources | 1.50 | 0.76 | 1.09 |
| ASSICURAZIONI GENERALI | 2.8% | - | 100% | Insurance | 0.50 | 0.00 | 0.00 |
| AXA SA | 4.8% | - | 100% | Insurance | 0.60 | 0.00 | 0.00 |
| BANCO BILBAO VIZCAYA ARGENTA | 10.8% | + | 19% | Banks | 0.77 | 0.62 | 4.30 |
| BANCO SANTANDER SA | 11.1% | + | 18% | Banks | 0.65 | 0.54 | 8.29 |
| BASF SE | 8.3% | + | 0% | Chemicals | 1.95 | 1.95 | 3.47 |
| BAYER AG | 3.1% | + | 0% | Chemicals | 1.35 | 1.35 | 2.00 |
| BNP PARIBAS | 5.9% | - | 100% | Banks | 1.50 | 0.00 | 0.00 |
| CARREFOUR SA | 4.1% | + | 0% | Retail | 1.09 | 1.09 | 1.28 |
| COMPAGNIE DE SAINT-GOBAIN | 6.4% | - | 100% | Construction & Materials | 1.90 | 0.00 | 0.00 |
| CREDIT AGRICOLE SA | 7.6% | = | 100% | Banks | 0.60 | 0.00 | 0.00 |
| DAIMLER AG-REGISTERED SHARES | 8.4% | = | 50% | Automobiles & Parts | 2.00 | 1.01 | 1.74 |
| DEUTSCHE BANK AG-REGISTERED | 0.0% | - | 100% | Banks | 0.00 | 0.00 | 0.00 |
| DEUTSCHE BOERSE AG | 5.7% | + | 0% | Financial Services | 2.44 | 2.44 | 0.92 |
| DEUTSCHE TELEKOM AG-REG | 7.4% | + | 0% | Telecommunications | 0.78 | 0.78 | 4.49 |
| E.ON AG | 6.2% | = | 50% | Utilities | 1.60 | 0.81 | 2.89 |
| ENEL SPA | 11.0% | = | 50% | Utilities | 0.49 | 0.25 | 2.01 |
| ENI SPA | 7.9% | + | 24% | Oil & Gas | 1.34 | 1.03 | 4.83 |
| FORTIS | 60.3% | - | 100% | Banks | 0.90 | 0.00 | 0.00 |
| FRANCE TELECOM SA | 6.9% | + | 25% | Telecommunications | 1.35 | 1.02 | 3.74 |
| GDF SUEZ | 5.8% | + | 25% | Utilities | 1.90 | 1.43 | 3.58 |
| GROUPE DANONE | 2.8% | + | 8% | Food & Beverage | 1.20 | 1.10 | 1.02 |
| IBERDROLA SA | 5.7% | + | 18% | Utilities | 0.35 | 0.29 | 2.04 |
| ING GROEP NV-CVA | 16.4% | = | 50% | Insurance | 1.00 | 0.51 | 2.03 |
| INTESA SANPAOLO | 0.0% | = | 0% | Banks | 0.00 | 0.00 | 0.00 |
| L'OREAL | 2.6% | + | 0% | Personal & Household Goods | 1.46 | 1.46 | 0.67 |
| LVMH MOET HENNESSY LOUIS VUI | 4.0% | + | 10% | Personal & Household Goods | 1.65 | 1.49 | 0.74 |
| MUENCHENER RUECKVER AG-REG | 5.1% | + | 0% | Insurance | 5.50 | 5.50 | 2.20 |
| NOKIA OYJ | 5.6% | + | 0% | Technology | 0.60 | 0.60 | 4.41 |
| PHILIPS ELECTRONICS NV | 5.3% | + | 0% | Personal & Household Goods | 0.70 | 0.70 | 1.37 |
| RENAULT SA | 5.6% | = | 100% | Automobiles & Parts | 0.91 | 0.00 | 0.00 |
| REPSOL YPF SA | 8.0% | - | 100% | Oil & Gas | 1.15 | 0.00 | 0.00 |
| RWE AG | 8.5% | + | 0% | Utilities | 5.25 | 5.25 | 4.19 |
| SANOFI-AVENTIS | 4.2% | + | 0% | Health Care | 2.07 | 2.07 | 4.14 |
| SAP AG | 1.9% | + | 0% | Technology | 0.50 | 0.50 | 0.85 |
| SCHNEIDER ELECTRIC SA | 7.1% | + | 0% | Industrial Goods & Services | 3.40 | 3.40 | 1.63 |
| SIEMENS AG-REG | 3.6% | + | 0% | Industrial Goods & Services | 1.60 | 1.60 | 2.53 |
| SOCIETE GENERALE | 7.0% | = | 100% | Banks | 1.97 | 0.00 | 0.00 |
| TELECOM ITALIA SPA | 5.4% | = | 50% | Telecommunications | 0.06 | 0.03 | 0.60 |
| TELEFONICA SA | 6.5% | + | 24% | Telecommunications | 1.00 | 0.77 | 6.07 |
| TOTAL SA | 5.8% | + | 18% | Oil & Gas | 2.16 | 1.78 | 7.24 |
| UNICREDIT SPA | 0.0% | = | 0% | Banks | 0.00 | 0.00 | 0.00 |
| UNILEVER NV-CVA | 4.3% | + | 14% | Food & Beverage | 0.78 | 0.67 | 2.03 |
| VINCI SA | 5.4% | + | 14% | Construction & Materials | 1.55 | 1.34 | 1.28 |
| VIVENDI | 6.6% | + | 0% | Media | 1.40 | 1.40 | 3.17 |
| VOLKSWAGEN AG | 0.9% | + | 0% | Automobiles & Parts | 2.20 | 2.20 | 0.47 |
| | | | | | TOTAL | 96.40 | |

Source: CA Cheuvreux for the confidence and the div €, Calyon

We have obtained a worst case scenario 2009 dividend of 96.4, almost equal to the Implied Market Dividend of the same year.

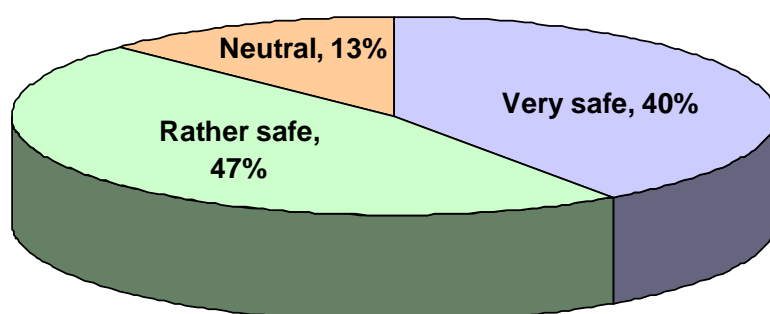
Considering CA Cheuvreux's earning estimate for 2008, this leads to a payout ratio of 34.3% (our paid in 2009 dividend forecast divided by CA Cheuvreux's 2008 EPS estimate).

Starting from CA Cheuvreux's confidence level on each dividend, we made 4 categories:

- very safe: positive CA Cheuvreux's confidence level, with no interim dividend already paid
- rather safe: positive CA Cheuvreux's confidence level, with final 2009 dividend paid in 2010
- neutral: neutral CA Cheuvreux's confidence level, and no special situation
- risky: cautious CA Cheuvreux's confidence level, or neutral with special situation (political pressure, i.e French banks)

| | Absolute level | Relative Level |
|-------------|----------------|----------------|
| Very safe | 38.9 | 40% |
| Rather safe | 45.2 | 47% |
| Neutral | 12.3 | 13% |
| Risky | 0.0 | 0% |

Source: Calyon



Source: Calyon

The risky part of our worst case scenario dividend is also the smallest, representing only 13%.

Our 2009 worst case dividend of 96.4 is low but resilient. This is what is priced by the market. We recommend considering longer maturities as there is no upside on short term dividend.

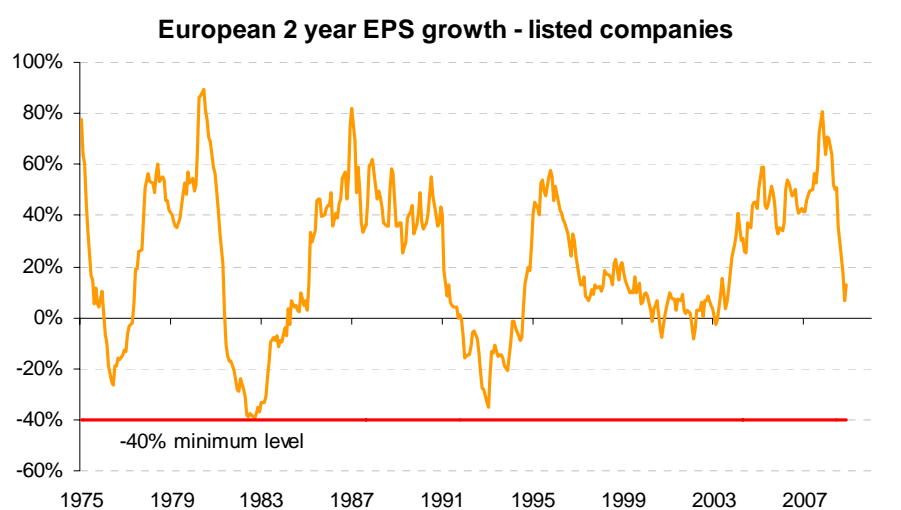
2010 SX5E dividend: no sufficient upside

We think the bottom up approach is not suitable for 2010 dividends, as the uncertainty of estimates is not compatible with precise calculation.

Thus, we have to make two major assumptions concerning 2010 EPS and 2010 payout ratio.

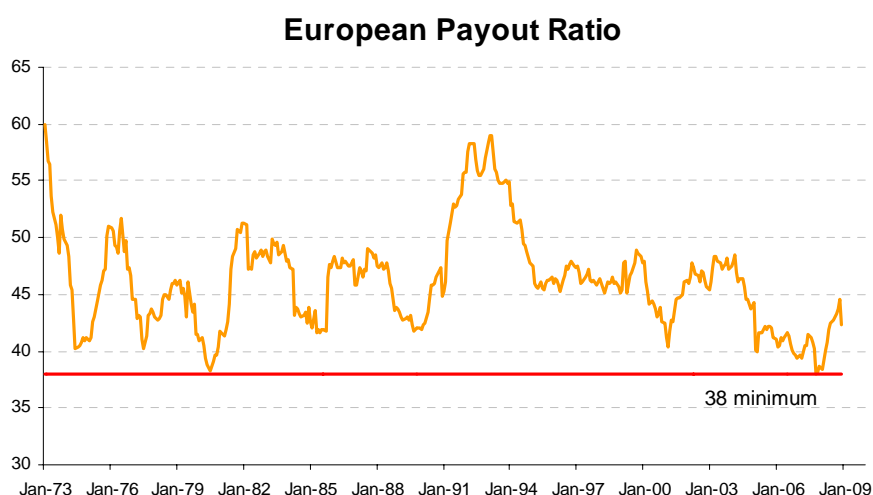
We want to estimate a floor on both 2Y EPS growth and payout ratio, in order to calibrate our valuation of a worst case scenario.

As we are going through the worst crisis ever experienced in the modern history, leading to an unprecedented re-regulation and dividend policy, we decided to find floors that have never been reached.



Source: Datastream

The 2Y European EPS growth has never been under -40%. Thus, we decide to price a -50% worst case scenario.



Source: Datastream

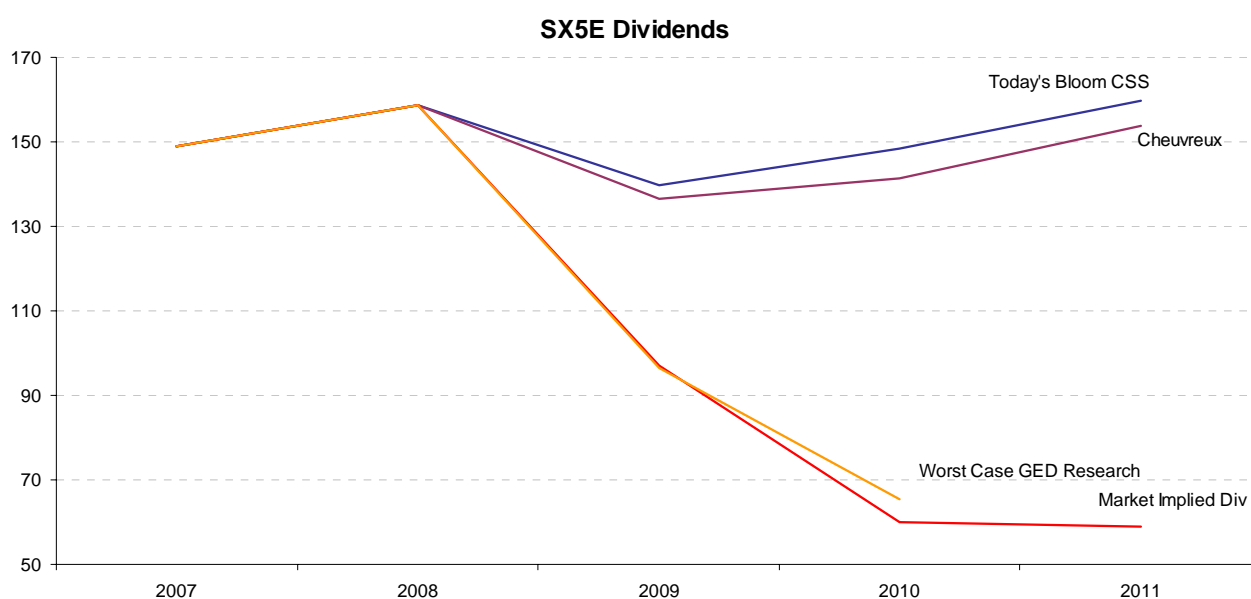
The European payout ratio has never been under 38%. As for the 2Y EPS growth, we choose a floor level for our worst case scenario. Our floor is 35%

The following table details the possible 2010 dividend, depending on the 2008-10 EPS growth and the 2010 payout ratio. We retain -25% for 2008-2009, which is CA Cheuvreux assumption.

| 2008-10 EPS growth | Resulting 2009-10 EPS growth | Resulting 2010 Div For a 2010 Payout ratio of: | | | Resulting 2008-10 Div growth For a 2010 Payout ratio of: | | |
|--------------------|------------------------------|---|-------|------|---|------|------|
| | | 35% | 45% | 25% | 35% | 45% | 25% |
| -30% | -7% | 91.6 | 117.8 | 65.5 | -42% | -26% | -59% |
| -40% | -20% | 78.5 | 101.0 | 56.1 | -51% | -36% | -65% |
| -50% | -33% | 65.5 | 84.2 | 46.8 | -59% | -47% | -71% |
| -60% | -47% | 52.4 | 67.3 | 37.4 | -67% | -58% | -76% |
| -70% | -60% | 39.3 | 50.5 | 28.1 | -75% | -68% | -82% |

Source: Calyon

If we consider that 2009 payout ratio (35%) is the new norm and consider a -50% EPS growth for 2010 compared to 2008 as a worst scenario, then we obtain a worst scenario 2010 dividend of 65.5, less than 10% above the market current implied dividend level.



Source: Calyon for worst case and market implied, Bloomberg, CA Cheuvreux

What is the impact of these assumptions (bottom-up approach on 2009 dividends combined with our 2010 worst case scenario) on 2008-2010 dividends evolution?

The following table details, stock by stock, the 2Y dividend growth (2008-10), considering our previous scenario.

| NAME | Div Evolution between 2008 and 2010 worst case | NAME | Div Evolution between 2008 and 2010 worst case |
|------------------------------|--|------------------------------|--|
| AEGON NV | -100% | BANCO BILBAO VIZCAYA ARGENTA | -42% |
| ASSICURAZIONI GENERALI | -100% | TOTAL SA | -41% |
| AXA SA | -100% | VINCI SA | -40% |
| BNP PARIBAS | -100% | UNILEVER NV-CVA | -39% |
| COMPAGNIE DE SAINT-GOBAIN | -100% | LVMH MOET HENNESSY LOUIS VUI | -37% |
| CREDIT AGRICOLE SA | -100% | SIEMENS AG-REG | -32% |
| DEUTSCHE BANK AG-REGISTERED | -100% | BASF SE | -32% |
| FORTIS | -100% | BAYER AG | -32% |
| INTESA SANPAOLO | -100% | CARREFOUR SA | -32% |
| RENAULT SA | -100% | DEUTSCHE TELEKOM AG-REG | -32% |
| REPSOL YPF SA | -100% | MUENCHENER RUECKVER AG-REG | -32% |
| SOCIETE GENERALE | -100% | PHILIPS ELECTRONICS NV | -32% |
| UNICREDIT SPA | -100% | SANOFI-AVENTIS | -32% |
| ALLIANZ SE-REG | -75% | SAP AG | -32% |
| TELECOM ITALIA SPA | -74% | GROUPE DANONE | -32% |
| DAIMLER AG-REGISTERED SHARES | -66% | TELEFONICA SA | -31% |
| ENEL SPA | -66% | SCHNEIDER ELECTRIC SA | -30% |
| ING GROEP NV-CVA | -66% | L'OREAL | -28% |
| ARCELORMITTAL | -60% | AIR LIQUIDE | -27% |
| E.ON AG | -60% | IBERDROLA SA | -27% |
| GDF SUEZ | -53% | VIVENDI | -27% |
| ALSTOM | -50% | NOKIA OYJ | -26% |
| FRANCE TELECOM SA | -47% | DEUTSCHE BOERSE AG | -21% |
| ENI SPA | -46% | VOLKSWAGEN AG | -17% |
| BANCO SANTANDER SA | -44% | RWE AG | 13% |
| WEIGHTED AVERAGE | -59% | | |
| MEDIAN | -43% | | |

Source: Calyon

Our 2010 worst case scenario of 65.5 is not comfortable enough to go long. The market is apparently pricing a little worst payout and/or EPS for 2010 than we are. For that reason, we do not recommend to trade 2010 div swaps/futures.

Even if the worst case scenario does not materialize, we think there is more leverage on longer maturities.

And what about long term dividends?

Beyond 2010, the market dividend yield is flat as usual. This would mean that after a total decrease of -60% for the market (-55% in our scenario), dividends would never recover. This is of course, again, very pessimistic.

The risk appears asymmetric. The market is pricing -60% EPS growth and a payout of 40%, or an EPS growth of -50% and a payout of 30% for 2008-2010. Our own bottom up worst case scenario leads to -50% on dividends 2008-2010. This is slightly better than the pricing of the market but the margin is not sufficient.

2011 dividends could benefit from a positive surprise on 2010 (if worst case scenario does not materialize), that would re-price upward the whole dividend term structure or from a profit/dividend recovery that could start in 2011.

So we recommend going long on 2011 and beyond Div swaps/futures.

Single stock detailed approach

Starting from CA Cheuvreux's expectations on SX5E dividends, we have selected stocks we consider the safest among those CA Cheuvreux feels the more comfortable with (ex financials and cyclicals).

| CA CHEUVREUX | | | | | |
|--------------------|--------------------|-------------------|------------|------------|--|
| Eurostoxx50 | Price 19-Jan-09 | Div. Yield 08E | Div 08E | Confidence | Comment |
| RWE | 61.6 | 8.5% | 5.25 | + | Our estimate is in the middle of the payout range and thus a possible deviation to the downside is limited. On top of that, RWE has no liquidity issues at all. |
| DEUTSCHE TELEKOM | 10.2 | 7.6% | 0.78 | + | Very confident. No refinancing issues and strong cash flow. Committed to distributing attractive dividend. |
| FRANCE TELECOM | 19.4 | 7.0% | 1.35 | + | Strong, due to very high level of FCF generation. Extra-dividend possible (not included) |
| VIVENDI | 20.9 | 6.7% | 1.40 | + | Strong visibility on cash flow. No need for financing. |
| TELEFONICA | 15.3 | 6.6% | 1.00 | + | Strong cash flow generation, dividend targets recently reiterated by management |
| GDF SUEZ | 32.2 | 5.9% | 1.90 | + | No liquidity issue - Commitment of a DPS CAGR of 10-15% between the dividend paid in 2007 and in 2010. Note that the In the Q3 results c/c, Iberdrola already confirmed the DPS at around EUR 0.35 for 2008 payable in 2009. This means to come back to its traditional pay out ratio of 55-60%. |
| IBERDROLA | 6.1 | 5.7% | 0.35 | + | |
| TOTAL SA | 38.1 | 5.7% | 2.16 | + | Good visibility & track record (no div cut since 1945). No debt ex-SASY. If oil price stays low, higher capex flexibility in 2010 |
| VINCI | 29.5 | 5.3% | 1.55 | + | Interim dividend already paid in December (EUR0.52 vs EUR0.47). Dividend in shares never proposed in the past |
| SANTANDER | 6.2 | 10.5% | 0.65 | + | Increased confidence after recent 1x4 rights issue |
| BBVA | 7.4 | 10.4% | 0.77 | + | First three interim Div/share for 2008 already paid (+10% YoY) |
| BASF | 24.1 | 8.1% | 1.95 | + | High free cash flow and sufficient earnings in 2008 |
| ENI | 17.0 | 7.9% | 1.34 | + | No decrease of dividend in 1998 when oil price was at USD13/b. Eni strongly committed to a leading dividend yield, and confident in its ability to pay it in the current environment. Its strategy is based on a conservative oil price scenario and the Italian government, owning a 30% stake, needs cash. |
| SCHNEIDER ELECTRIC | 48.7 | 7.0% | 3.40 | + | 50% pay-out policy very likely to be maintained. High dividend yield at present (5-6%). |
| NOKIA | 10.6 | 5.6% | 0.60 | + | Strong Balance sheet. Strong cash conversion. Share buy-back stopped, and instead more focus on dividend. |
| DEUTSCHE BOERSE | 44.5 | 5.5% | 2.44 | + | Sufficient liquidity for payouts due to another record result in 2008. High payout policy continued. Dividend payment is safe. |
| PHILIPS | 13.9 | 5.0% | 0.70 | + | Philips raised its pay-out ratio to 40-50% of continuing net income in FY07 from 25-35% previously. Cy did not cut div in previous years |
| MUNICH RE | 113.0 | 4.9% | 5.50 | + | No doubts on the dividend - internally they even plan to continue the share repurchase programme!! Only in the case of a large acquisition they would probably temporarily suspend the sh. repurchase programme; unlikely. |
| UNILEVER N.V. | 18.3 | 4.3% | 0.78 | + | After successful divestment programme balance sheet further improved. Dividend is corner stone. |
| SANOFI AVENTIS | 49.4 | 4.2% | 2.07 | + | Strong, no cash issue |
| CARREFOUR | 26.5 | 4.1% | 1.09 | + | High |
| LVMH | 40.5 | 4.1% | 1.65 | + | Payout set to increase, upper structures need cash, no big financial risk on LVMH. |
| SIEMENS AG | 44.6 | 3.6% | 1.60 | + | Already approved and confirmed, to be paid on 28 January 2009. |
| AIR LIQUIDE | 62.1 | 3.5% | 2.19 | + | Strong. No cash issue. A strong dividend policy is a pillar of Air Liquide. |
| BAYER | 43.9 | 3.1% | 1.35 | + | Large exposure to defensive areas provide safety |
| DANONE | 42.8 | 2.8% | 1.20 | + | No liquidity issue. Worst-case scenario would be a flat dividend. |
| OREAL | 54.7 | 2.7% | 1.46 | + | Payout of around 42%, sound balance sheet, limited risk, buyback reduction more likely than cut in dividend |
| SAP | 26.8 | 1.9% | 0.50 | + | Higher adj. earnings, higher cash flow enable co. to maintain dividend. 40% of sales recurring, outlook for 09 ok. |
| VOLKSWAGEN | 240.8 | 0.9% | 2.20 | + | VW has a better cash flow situation than peers and Porsche needs also dividends from VW. |
| ING | 6.9 | 14.5% | 1.00 | = | Interim dividend already paid, no final dividend in 2008 and low visibility in 2009 |
| ENEL | 4.5 | 10.9% | 0.49 | = | Stretched financial structure but quite likely 2008 dividend seems safe, unless the deal with Acciona comes |
| ARCELORMITTAL | 18.2 | 8.3% | 1.50 | = | The Mittal family owns 45% of AM. No cash issue in 2009, but no more share buybacks expected and dividend for 2010 likely to be cut. |
| DAIMLER | 24.5 | 8.2% | 2.00 | = | Since share buyback has been cancelled, dividend should be maintained unless unit sales drop by more than 20%. |
| CREDIT AGRICOLE SA | 8.2 | 7.3% | 0.60 | = | Payout could be below 100% or at 100% but with a weaker than expected Q4. Likely to have a payment in shares option |
| AEGON | 4.3 | 7.0% | 0.30 | = | EUR 0.30 is interim dividend already paid. No final dividend |
| E.ON | 25.6 | 6.3% | 1.60 | = | Possible deviation to the downside is limited in our view. However, in light of the credit crisis the company may decide to pay at the lower end of the range. |
| SOCIETE GENERALE | 30.7 | 6.2% | 1.90 | = | Probable but still some capital pressure |
| ALLIANZ | 67.2 | 5.9% | 4.00 | = | Solvency ratio >160% would allow flat dividend y-o-y; however, management likely wants to be cautious |
| TELECOM ITALIA | 1.1 | 5.5% | 0.06 | = | TI financial structure is stretched (and management would like to cut DPS more) but shareholders would need a dividend to cover their financial charges. Very likely that a dividend will be paid. Our forecast is relatively cautious vs. consensus |
| RENAULT | 17.2 | 5.3% | 0.91 | = | Equals dividend from Nissan, minimum 2008 dividend to be EUR0.45 already paid by Nissan. |
| ALSTOM | 35.2 | 3.3% | 1.17 | = | Growth stemming from the large order backlog. Payout can be increased a bit, but rather low yield. |
| INTESA-SANPAOLO | 2.5 | 0.0% | 0.00 | = | Company already announced a dividend cut to 0 |
| UNICREDITO | 1.6 | 0.0% | 0.00 | = | Company already announced a dividend cut to 0 |
| REPSOL YPF | 14.5 | 7.9% | 1.15 | - | If oil price remains depressed in Q2-09, growth in DPS could be below our +15% expectation (interim dividend has been raised by 5%) |
| SAINT GOBAIN | 30.5 | 6.2% | 1.90 | - | High on 2008 (management is committed to stability) more at risk for 2009. |
| BNP PARIBAS | 27.4 | 5.5% | 1.50 | - | Weak for 08, capital pressure |
| AXA | 13.4 | 4.5% | 0.60 | - | Limited visibility. We expect a cut of at least 50% for 2008. |
| GENERALI | 18.0 | 2.8% | 0.50 | - | Best case scenario unless equity markets recover - see our flash note dated 12 december 2008 |
| DEUTSCHE BANK | 18.9 | 0.0% | 0.00 | - | Deutsche has not sourced government rescue package and will focus on capital build-up |

Source: CA Cheuvreux

We obtain the following selection (ranked by dividend yield) on which we are buyer of dividend:

RWE, Deutsche Telekom, France Telecom, Vivendi, Telefonica, GDF Suez, Iberdrola, and Total.

Potential Risks:

Even with this approach there are some uncertainties:

- Some corporates could pay their dividend in shares (then the analyst forecast could be right but the dividend swap future would be zero). Clearly, we think it is impossible to forecast which corporates will pay in cash or shares.
- There is a “mimic” effect. It is very likely that corporates would like to retain cash and if their peers have announced limited dividends, they could, at the last minute, prefer to cut as well. In most cases, minority shareholders would have limited pressure.
- Increased political pressure on corporates, could put some dividends at risk. However we have retained 0€ dividends for 2009 and 2010 on distressed corporates that require the government umbrella.

Disclosure

Applicable CA Cheuvreux disclosure for the following quoted stocks

| Company named in that document | CA Cheuvreux Disclosure |
|--------------------------------|-------------------------|
| RWE | E |
| Deutsche Telekom | E |
| France Telecom | E |
| Vivendi | - |
| Telefonica | E,G |
| GDF-Suez | E |
| Iberdrola | E,G |
| Total | E |

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