

**Companies Featured**

[HEIG.DE](#), [ITX.MC](#), [SAND.ST](#), [WPP.L](#)

November 2, 2009

## Morgan Stanley: Today's Research

### Today's Changes

#### Company Initiations

Ticker	Company	Stock Rating		Price Target		ModelWare Estimate		Consensus*
		From	To	From	To	From	To (FY)	
HEIG.DE	HeidelbergCement AG	--	O	--	€61.30	--	€3.25(12/09)	--
						--	€3.66(12/10)	--
						--	€5.46(12/11)	--

\* First Call consensus estimate

### Highlights

#### The Morning Call

HeidelbergCement — <i>Initiating at OW</i> / Best Risk-Reward Mix In the Sector	Overweight
Inditex — <i>Visit to Spain, remain OW</i> / Well Placed to Weather Challenging Conditions	Overweight

#### Company/Industry Analysis

WPP Group Plc (United Kingdom) / LUV Actually	Underweight
Sandvik (Sweden) / Still Upside to Consensus Earnings; Overweight	Overweight

#### Strategy/Economics Analysis

**Economics** / From Athens to Dublin: Fiscal Sustainability in the EMU Periphery

**Commodities** / Commodity Market Report

### The Morning Call

#### HEIG.DE, HeidelbergCement — *Initiating at OW* / Best Risk-Reward Mix In the Sector

**Rating:** Overweight  
**Building & Construction:** In-Line  
**Share Price:** €41.09

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November 2, 2009

Morgan Stanley: Today's Research

Morgan Stanley &amp; Co. International plc

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We initiate on HeidelbergCement (HC) at Overweight given a very attractive valuation and risk-reward. HC trades at a discount of 20% to peers on EV/EBIT and 25% on P/E, even in 2009e, yet is best positioned for earnings growth (19.8% CAGR in EBIT 2009e-2012e and 27.2% in EPS). Of the top 10 countries by turnover, seven (55% of sales) should increase their earnings contribution from 2010, with the other three likely bouncing in 2011. HC offers 49% upside potential to our €61.3 price target, 91% upside potential under our V-shaped recovery analysis (bull case), yet has just 26% downside potential under our double dip scenario (bear case). Last, a recent capital increase and focus on cash flow means HC should be able to meet all its debt maturities to 2012, which should allow for a progressive reduction of its financial risk discount.

**Target:** €61.30**52-Week Range:** €61.79-17.98**Mkt. Cap(mn):** €7,704**ModelWare EPS:** €3.25 (FY 12/09), €3.66 (FY 12/10)

### ITX.MC, Inditex — *Visit to Spain, remain OW/Well Placed to Weather Challenging Conditions*

Morgan Stanley &amp; Co. International plc

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We spent Thursday and Friday in Spain visiting Inditex and competitor stores and continue to believe the shares offer an attractive risk/reward proposition and remain Overweight. Although our visit did not change our near-term view of challenging trading conditions offset by market share gains, we are increasingly confident in the Group's long-term growth prospects and continued cost control. We note that recent macro data shows that the rate of decline in Spanish retail sales is slowing rapidly. With most concepts now proven in international markets, we believe that Inditex is in a strong position to re-accelerate space growth, especially in Asia, as conditions improve, underpinning guidance for double-digit space growth over the medium term.

**Rating:** Overweight**Retailing - General:** Cautious**Share Price:** €40.00**Target:** €45.00**52-Week Range:** €41.00-23.29**Mkt. Cap(mn):** €24,868

## Company/Industry Analysis

### COMPANY ANALYSIS

#### WPP.L, WPP Group Plc (545p) /LUV Actually

Morgan Stanley &amp; Co. International plc

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**Quick comment – 3Q in line:** WPP reported 3Q revenues almost exactly in line with our forecasts. Revenues of £2007m (MS est £2033m) grew 17% yoy driven by 10% FX gains and 15.4% from acquisitions. The underlying decline was -8.7%, slightly below our -8.5% forecast but broadly in line with consensus. With headcount now down 10% since end 2008, operating margins fell 0.7% underlying in 3Q, a marked improvement on -4.5% in 1H09. With stable working capital, net debt closed Sept. at £3.4bn (YTD average £3.5bn).

**More stable trading:** The main positive feature was that underlying trading conditions have stabilised. The rate of revenue decline improved 100bps above that implied by the easing yoy comparison (180bps vs 80bps). While still the worst category, a 10% drop in market research was a clear improvement on -14% in 2Q. This stability enabled management to reiterate a forecast of flat yoy PBIT margins in 2H09 (implying c11.5% for 2009) which assumes "conservative" 4Q revenue assumptions.

**Forecasts unchanged:** We retain our forecast of 42.3p EPS in 2009 (-24% yoy). This implies -7.6% organic revenue decline (-5.9% in 4Q) and 11.7% PBIT margin.

**No earnings growth in 2010:** Unlike consensus (47p) we forecast flat growth 42.6p in 2010. This assumes a 1% organic revenue decline (mgt guidance is "even-Stevens") and a 20bps rise in

**Rating:** Underweight**Media & Internet:** In-Line**Target:** 458p**52-Week Range:** 600-313**Mkt. Cap(mn):** £6,983**ModelWare EPS:** 42p (FY 12/09), 43p (FY 12/10)

margins. This assumes higher than expected cost reflation in both staff (rehiring in 2H, salary increases and incremental incentive payments) as well as higher travel, entertainment and investment costs. Beyond 2010, we expect EPS to accelerate to 55p by 2012 due to operational gearing from 4% revenue growth 2011-12.

**Rated Underweight:** WPP trades at 13x PE, 9x EBITDA & 13.4x FCF in 2010e. We believe this is more than sufficient given revenues remain under significant pressure, visibility is low, new business trends average (£730m in 3q). Furthermore it is the most leveraged of its peer group (2.9x EBITDA) leaving it more susceptible to a macro economic double-dip scenario in 2010.

### **SAND.ST, Sandvik (SKr80.20) /Still Upside to Consensus Earnings; Overweight**

Morgan Stanley & Co. International plc

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**Under-absorption to continue to surprise positively:** During its 3Q09 results conference, Sandvik indicated that if demand were to stay at current levels during the 4Q09, underlying margins excluding under-absorption will be at the 4-6% level. In our opinion, this may confuse investors and could make them cautious. We see such caution as unnecessary because: **1) Tooling and SMC demand is recovering; therefore, underlying volumes are set to improve, and margins should be higher than the 4-6% provided. 2) This comment is specifically aimed at 4Q production and sales levels and cannot be extrapolated into 2010.**

**We see consensus upgrading 2010 EBIT figures:** According to SME, consensus sees SKr6.8bn EBIT in 2010. In our opinion, this is too pessimistic for two reasons: 1) it continues to factor significant under absorption in 2010, a restocking year. According to our estimates, Sandvik's cost under absorption reached over SKr3bn for the first nine months of 2009. We expect this SKr3bn to come back in 2010. 2) Additionally, we see volumes increasing by 11%, which applied to a normalized 50-60% drop-through should result in an incremental SKr4bn of EBIT. Without factoring price increases, this will result in an EBIT amounting to SKr8bn. Price increases explain the rest up to our SKr9.9bn EBIT for 2010. We strongly believe consensus needs to upgrade within the next few quarters.

**Minor adjustments to our earnings estimates.** We cut our EPS by 1.5% on average, driven by unfavourable currency contribution of SKr700m for next year. **In our opinion, the only negative after the results is Sandvik's valuation.** At SKr80 per share, Sandvik is close to our SKr85 target and trades on 12x 2011e recovery earnings. We remain OW, however, because of potential consensus upgrades as well as a now more plausible bull case scenario in which upgrades within mining capex levels results in significant SMC volumes upgrades.

**Rating:** Overweight

**Capital Goods:** In-Line

**Target:** SKr85.00

**52-Week Range:** SKr83.90-39.20

**Mkt. Cap(mn):** SKr95,309

**ModelWare EPS:** SKr0.39 (FY 12/09),

SKr4.65 (FY 12/10)

## Strategy/Economics Analysis

### **Economics/From Athens to Dublin: Fiscal Sustainability in the EMU Periphery**

Morgan Stanley & Co. International plc

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**What's new:** We compare the long-term fiscal outlook of Greece and Ireland on the basis of different long-term macroeconomic scenarios.

**Conclusions:** The sustainability of public finances in either country is far from assured. Although the current fiscal situation is superficially similar in the two countries, investors should differentiate between the two sovereigns on the basis of the risk profile for the fiscal outlook. For Ireland, the risks are predominantly short to medium term; for Greece, they are medium to long

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term.

**Risks:** Under some adverse but plausible macroeconomic conditions, public debt in either country may climb sufficiently to test financial markets' confidence. For Ireland, the risks emanate from the possibility that the current deep recession results in sustained deflation or chronic weakness of the economy. Greece faces a more adverse demographic outlook in the long term, which requires immediate measures to maintain fiscal sustainability.

**Where we differ:** Our fiscal sustainability analysis explicitly takes into account projected demographic profiles for both countries and the associated costs and, in the case of Ireland, the debt arising from the government's acquisition of banking sector assets as well as the potential future recovery on those assets.

**Investment conclusions:** The market is pricing equivalent levels of risk for Ireland and Greece in terms of level and curve. We think that the profile of these risks is different and therefore the Greek curve should be steeper than the Irish curve. We suggest that these trades work in both CDS and cash markets.

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## Commodities/Commodity Market Report

Morgan Stanley & Co. Incorporated

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Energy prices were impressively choppy last week; WTI closed at \$77.00/bbl, down 4.3%. The weekly US data was neutral - crude stocks built by 0.8 mmb, gasoline stocks rose by 1.6 mmb but distillates drew by 2.1 mmb. The US economy was reported to have grown by 3.5% in 3Q, despite this, stock markets fell and the USD rallied as risk appetite waned. In US natural gas markets, the November Henry Hub contract rolled and the December contract fell slightly on the week to close at \$5.05/mmBtu. Mild weather and the 914 data for August showing a MoM increase in production (~0.5 Bcf/d) are enough to keep gas bulls awake at night.

Base metals prices fell across the board, despite better than expected economic data in the US, China and South Korea, as a stronger US dollar and rising inventories, for all but aluminum and lead, weighed on the complex. LME copper stocks have now increased in 16 straight weeks, but remain modest on a historical basis relative to expanding demand, in our view.

Precious metals prices weakened across the board, with gold and platinum seeing the first weekly fall in 5 weeks, despite weakness across all asset classes, as the USD rebounded sharply. 10-day volatility rose with last week's price action, but remains low relative to recent years. Eurozone gold holdings were unchanged in the ECB's latest weekly financial statement — continuing to show an unwillingness to sell.

Agriculture prices lost their footing last week on expectations of improving weather conditions coupled with a rebound in the US dollar. Nonetheless, the US harvest is so delayed that even average progress through November would leave crop in the field.

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(as of October 31, 2009)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	875	37%	277	40%	32%
Equal-weight/Hold	1082	46%	318	46%	29%
Not-Rated/Hold	26	1%	3	0%	12%
Underweight/Sell	392	17%	87	13%	22%
Total	2,375		685		

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**Overweight (O).** The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

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**Not-Rated (NR).** Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

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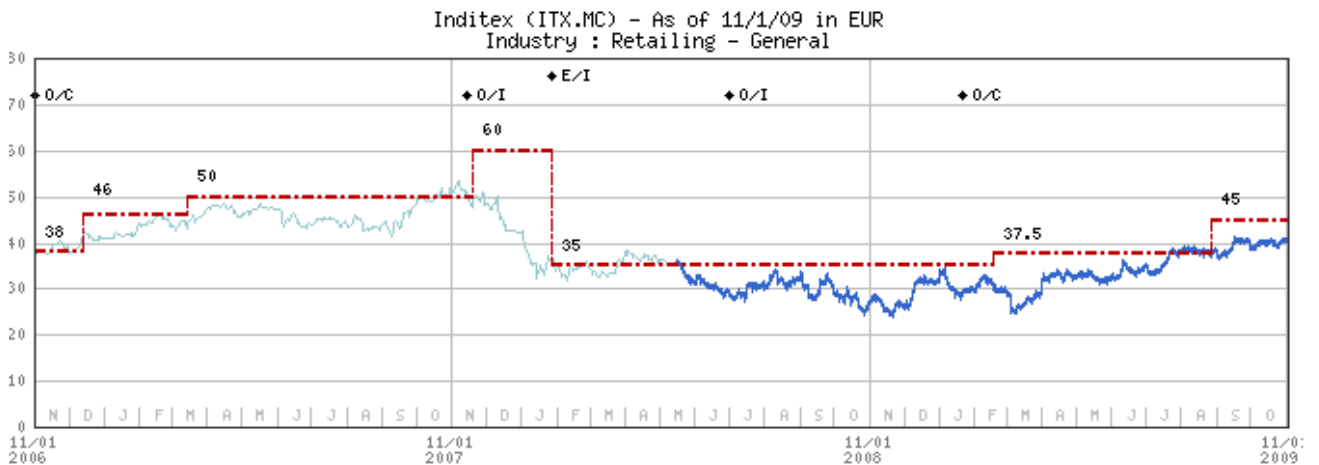
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Stock Rating History: 11/1/06 : O/C; 11/14/07 : O/I; 1/28/08 : E/I; 7/1/08 : O/I; 1/21/09 : O/C

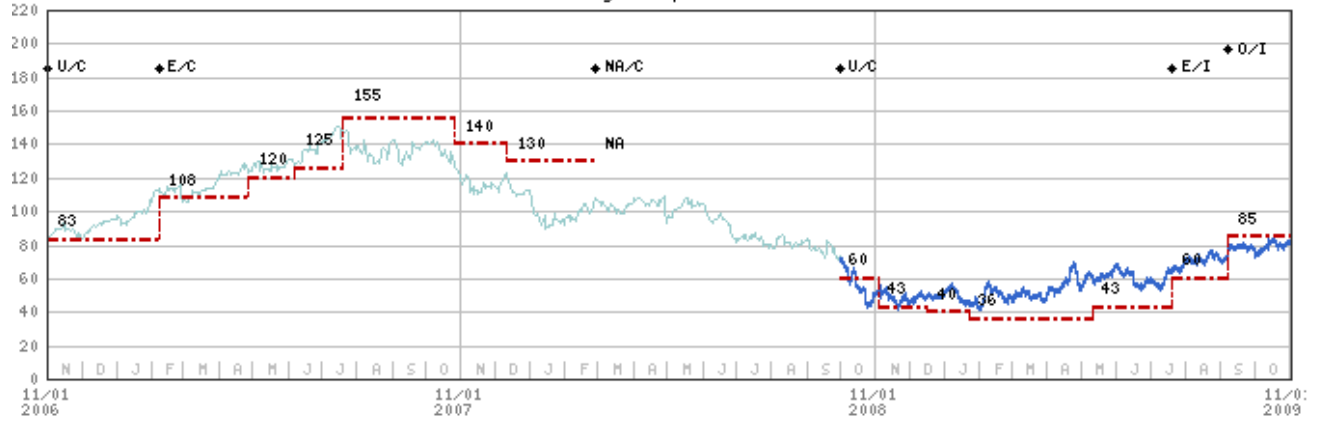
Price Target History: 9/21/06 : 38; 12/13/06 : 46; 3/14/07 : 50; 11/20/07 : 60; 1/28/08 : 35; 2/17/09 : 37.5; 8/28/09 : 45

Source: Morgan Stanley Research      Date Format : MM/DD/YY      Price Target ---      No Price Target Assigned (NA)  
 Stock Price (Not Covered by Current Analyst) ---      Stock Price (Covered by Current Analyst) ---  
 Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View  
 Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) More Volatile (V) No Rating Available (NA)  
 Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

November 2, 2009

Morgan Stanley: Today's Research

Sandvik (SAND.ST) - As of 11/1/09 in SEK  
Industry : Capital Goods

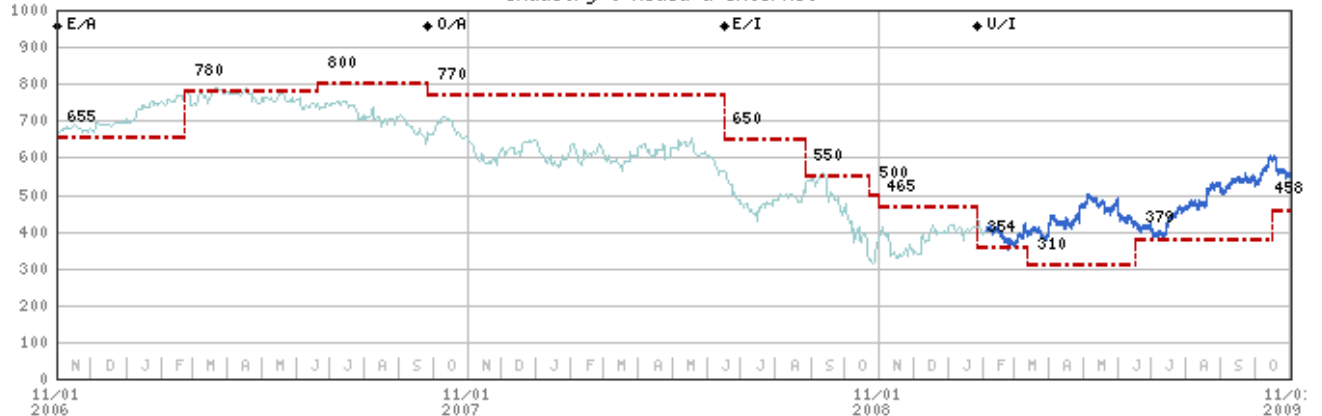


Volatility shading indicates "more volatile" (V) flag. As of Nov-14-2008 the V flag has been discontinued.

Stock Rating History: 11/1/06 : U/C; 2/7/07 : E/C; 2/27/08 : NA/C; 9/30/08 : U/C; 7/20/09 : E/I; 9/8/09 : O/I  
Price Target History: 10/30/06 : 83; 2/7/07 : 108; 4/27/07 : 120; 6/7/07 : 125; 7/20/07 : 155; 10/26/07 : 140;  
12/11/07 : 130; 2/27/08 : NA; 9/30/08 : 60; 11/3/08 : 43; 12/17/08 : 40; 1/22/09 : 36; 5/11/09 : 43;  
7/20/09 : 60; 9/8/09 : 85

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)  
Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) ■  
Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View  
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) More Volatile (V) No Rating Available (NA)  
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

WPP Group Plc (WPP.L) - As of 11/1/09 in GBp  
Industry : Media & Internet



Volatility shading indicates "more volatile" (V) flag. As of Nov-14-2008 the V flag has been discontinued.

Stock Rating History: 11/1/06 : E/A; 9/26/07 : O/A; 6/16/08 : E/I; 1/28/09 : U/I  
Price Target History: 3/14/06 : 655; 2/23/07 : 780; 6/21/07 : 800; 9/26/07 : 770; 6/16/08 : 650; 8/27/08 : 550;  
10/24/08 : 500; 10/31/08 : 465; 1/28/09 : 354; 3/13/09 : 310; 6/17/09 : 379; 10/16/09 : 458

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)  
Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) ■  
Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View  
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) More Volatile (V) No Rating Available (NA)  
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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