RBC Capital Markets

UK & European Research at a Glance

February 16, 2015

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For Required Non-U.S. Analyst and Conflicts Disclosures, see Page 12.

Initiations

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	EBITDA, Adj
2014E	(27.7)
2015E	(59.3)
2016E	(82.5)

All values in USD unless otherwise noted.

Flexion Therapeutics Inc(NASDAQ: FLXN; 21.01)

Rating: **Outperform**
Risk Qualifier: **Speculative Risk**
Price Target: **37.00**

Defined pathway, differentiated offering and sizable market - Initiate at OP

Lead product FX006 offers an improved treatment option in a well established and sizable osteoarthritis knee market that has unmet need. With a clearly defined path to market, we see potential for a meaningful move in FLXN shares through upcoming pivotal data and a shift in focus to what we think could be a blockbuster opportunity.

- FX006 is targeting a sizable market with a differentiated, sustained release steroid approach that we think can deliver $1.05 billion in peak 2023 sales.
- Our physician outreach suggests that there is demand for a more efficacious alternative to IR steroid and HA.
- Our sensitivity analysis points to potential for significant upside beyond the US OA knee market.
- There is a catalyst-heavy path to 1H2016 Phase III data.

Price Target Revisions

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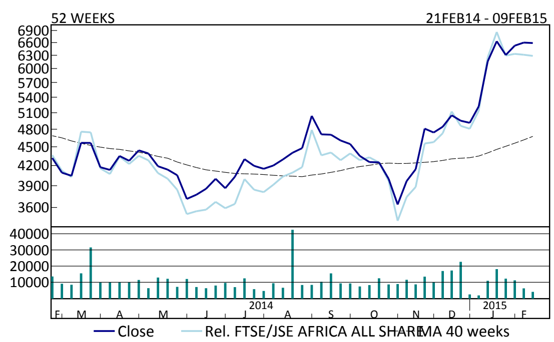

	EPS, Adj Diluted	Prev.	P/E
2014A	0.02↓	0.09	
2015E	0.18↓	0.19	29.4x
2016E	0.40↑	0.35	13.1x
2017E	0.52		9.9x

All market data in ZAc; all financial data in USD.

Gold Fields Limited(JSE: GFI; 6,078; NYSE: GFI)

Rating: **Sector Perform**
Price Target: **6,000 ▼ 6,500**

FY14 EPS a miss, ongoing challenges at South Deep

EPS of US$0.02/sh was below RBC at US$0.09/sh driven by higher depreciation and non-recurring items. GFI has guided to 2015 attributable production of 2.2Moz, slightly below our forecast. Management does not expect a material improvement at South deep until 2016.

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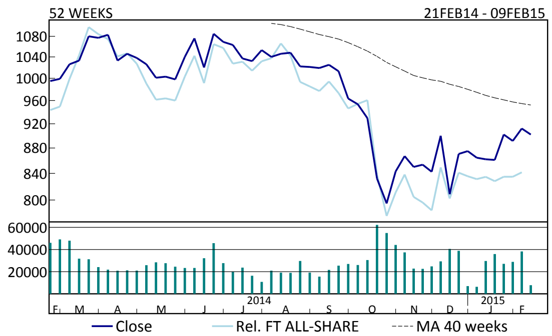
Rolls-Royce Holdings PLC(LSE: RR.; 945)

Rating: **Sector Perform**
Price Target: **970 ▲ 930**

2H14: The long and winding road

We retain our Sector Perform rating on Rolls-Royce following its full year 2014 results, with our target price increased from 930p to 970p.



	Revenue	Prev.
2014A	14,588.0↑	14,262.3
2015E	13,900.0↑	13,791.0
2016E	14,424.3↑	14,378.3
2017E	15,043.0	

All market data in GBp; all financial data in GBP.

- **A decent end to the year given headwinds:** Rolls reported full year 2014 EPS (underlying basic) of 65.3p, marginally ahead of company provided consensus off 64.0p. Civil and Defense results came in ahead of our forecasts, thanks in part to cumulative catch up adjustments on Total Care contracts. Offsetting this was weakness in Marine, and to a lesser extent Power.
- **2015 guidance similar to initial forecast:** The company's 2015 guidance sees revenues of £13.4–14.4B, EPS of 60–66p, and free cashflow of £200m at the midpoint. The profit guidance is thus similar to the initial forecast provided in the 3Q14 IMS of down 0–3% ex restructuring, although cash flow is coming in weaker than expected.
- **EPS and Target Price:** We've modestly adjusted our 2015 EPS estimate from 61.6p to 62.2p, with 2016 going from 68.4p to 69.3p. With Rolls having avoided another 2014 style profit warning, we think it fair to raise our target multiple from 13.6x to 14.0x, which sees our target price increase from 930p to 970p.
- **2018 looks great! But 2015-17...**The long term outlook does indeed look good, as it does for most aerospace companies. But in the next three years, investors arguably have more attractive alternatives in the space that have more immediate growth and lower risk. At this point, we think a Sector Perform rating remains appropriate.

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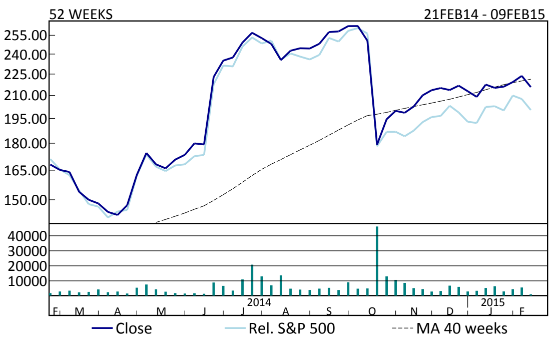
Shire PLC(NASDAQ: SHPG; 233.71; LSE: SHP)

Rating: **Sector Perform**
Price Target: **252.00 ▲ 248.00**

Q4 results mixed; 2015 guidance appears conservative

Q4/14 results were mixed but overlooked in favor of 2015 guidance that appears conservative. FX and Intuniv generics are the main 2015 headwinds, with the NPS close/performance and Natpara/Vyvsanse BED launches providing some of the broader uncertainty. Management's reiteration of the 10x20 outlook, M&A opportunities, and upcoming pipeline newsflow likely contributed to the 7% move.



	EPS, Ops Diluted	Prev.	P/E
2013A	7.70		30.4x
2014A	10.60↓	10.66	22.0x
2015E	11.43↑	11.00	20.4x
2016E	12.94↑	12.71	18.1x

All values in USD unless otherwise noted.

- **2015 guidance at the low end of consensus estimates.** Management's guidance for 2015 appears to be below current Street expectations. Product revenues are expected to grow in the low to mid single digits and royalties are expected to grow 30–40%. Assuming 3–5% product growth, total sales should be in the $6.25–6.39B range; guidance is at the low end of Street consensus, currently at $6.45B (Bloomberg, 19 analysts, range of $6.13–6.72B). Assuming 4–7% growth (mid-single-digit), EPS guidance for 2015 is $11.02–11.34 vs. consensus of $11.48 (Bloomberg, 23 analysts, range of $10.96–12.54). It appears that the Street may have been fearing a lower guide given the early response. We provide a full breakdown of the guidance relative to our forecasts.
- **Q4 revenues of $1,576M ahead of consensus of $1,546M.**
- **Q4 EPS below expectations.** Adjusted EPS in the quarter were $2.63, up 17% compared to last year's $2.26 but below our $2.69 forecast and consensus of $2.73. SG&A was higher than anticipated and accounted for the bulk of the variance relative to our forecast.
- **Upcoming catalysts could fuel 10x20 optimism.** Shire reiterated its plan to achieve $10B in revenue by 2020. Several catalysts could occur this year to give investors further confidence in management's plan, including: i) strong Vyvanse BED launch; ii) Natpara launch; iii) several SHP625 phase 2 data results; iv) SHP607 phase 2 data results; and v) Lifitegrast NDA filing along with the FDA's response.

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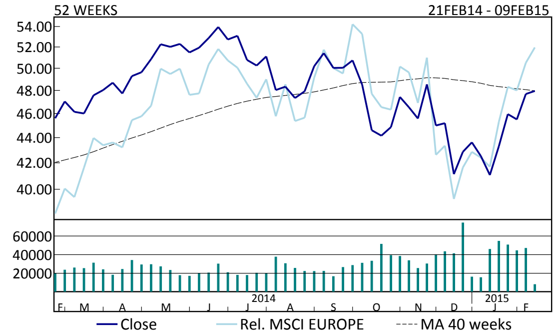
Total SA(NXT PA: FP; 47.38; NYSE: TOT)

Rating: **Sector Perform**
Price Target: **51.00 ▲ 45.00**



	DPS	Prev.
2014A	2.44↑	2.43
2015E	2.44↓	2.50
2016E	2.49↓	2.58
2017E	2.54↓	2.65

All market data in EUR; all financial data in USD; dividends paid in EUR.

Playing it safe

Total has led the sector for both capex cuts and improved opex control, and we believe this has been a key factor in its outperformance since 2014. Further outperformance is likely to be driven by timely execution of its project pipeline, with multiple deliverables over the rest of the year. We raise our Target Price to €51 from €45, but maintain our Sector Perform rating.

- Total's recent capex reduction announcement coupled with the addition of a scrip dividend offer should help see Total through weak oil pricing in the next year or two, with multiple projects due to start up at the same time, helping support company cash flows. With Total being one of the best performers in 2014 and up 12% YTD, we maintain our Sector Perform rating.

First Glance Notes

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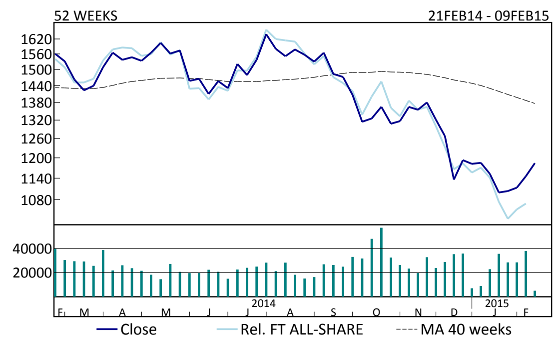

All market data in GBp; all financial data in USD.

Anglo American plc(LSE: AAL; 1,166; JSE: AGL)

Rating: Sector Perform

FY14 results beat mainly on tax

FY14 EPS beats on tax; cost focus remains key with capex for FY15E revised to low end of guidance. Dawson and Foxleigh also for sale.

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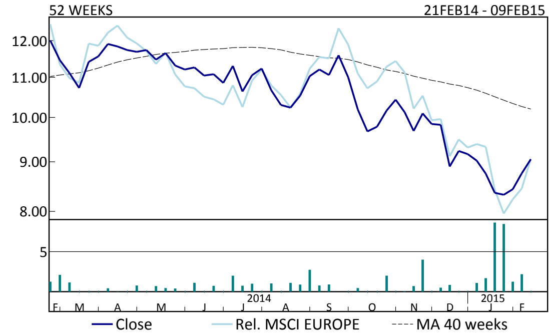
ArcelorMittal(NXT AM: MT; 9.12; NYSE: MT)

Rating: Outperform

4Q14 EBITDA a small beat; FY15 EBITDA guidance in line with RBC

- EBITDA for 4Q14 a small beat on Brazil
- Net debt beats on working cap, capex and divestments
- Clear focus on FCF generation
- Brazil the main beat, NAFTA and ACIS both miss



All market data in EUR; all financial data in USD.

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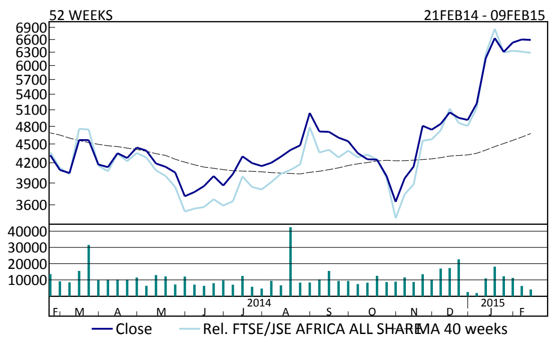

All market data in ZAc; all financial data in USD.

Gold Fields Limited(JSE: GFI; 5,770; NYSE: GFI)

Rating: Sector Perform

South Deep Site Visit - Challenges to Persist into 2016

- Production guidance for South Deep is 228koz for 2015 at an All in Sustaining Cost of US$1,400/oz, well below previous guidance. Management have indicated that the guidance is, however, based on the assumption of no improvements in operational efficiency in 2015. Should inefficiencies return to 2013 levels the mine could hit 260koz.
- South Deep has seen numerous changes in management over recent years and a new team has just taken control of the mine. This team has a combination of South African and mechanized mining experience from the platinum sector, however, they were still getting to grips with the operation. They did, however, express a concern about the line level management, which suggests further personnel changes may be required, which could be contentious moving into wage negotiations for the gold sector that should commence over the coming months. With 5,000 employees the mine remains very heavily staffed and productivity in the drill rigs remains poor by global standards and actually fell back in 2014.
- In our view, South Deep is a world class orebody with world class infrastructure that has been stuck in a cycle of under performance driven by a combination of poor initial design and a lack of operational management or labour with the skillset for mechanized mining. We remain cautious on the long term outlook for South Deep and assume maximum production of 400koz with AISC costs of US $1,100/oz. We would review this if the new management make progress with the development of the mine.

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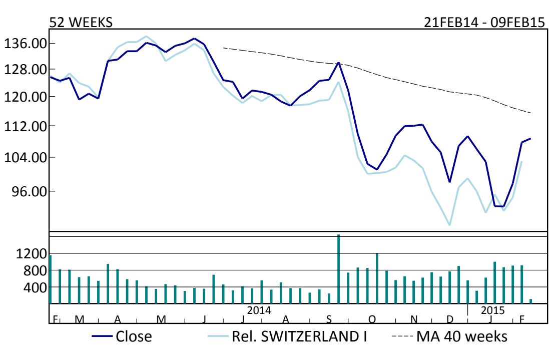

Sulzer AG(SWX: SUN; 113.50)

Rating: Sector Perform

Potential energy

- *The shares reacted well, closing up 7% yesterday. Sulzer is now valued, on our forecasts, at 11.3x NTM EV/EBITA versus peers on 11.8x. Sulzer appears to have many of the components of a transformation story. However, we expect that some stability in the oil & gas market and greater clarity on the potential and likely success of the 'Sulzer Full Potential' programme will be required before its valuation reflects this.*
- **Resilient H2, ahead of expectations**. Sulzer reported H2 orders/sales/EBIT (pre-restructuring) of CHF1.6bn/CHF1.7bn/CHF182m, 3%/2%/10% ahead of consensus.
- **Ambitious margin target announced.** Sulzer also hosted a CMD yesterday and launched the 'Sulzer Full Potential' programme with some medium term targets

All values in CHF unless otherwise noted.

(absent since November 2013). The main focus is a 4-6ppts operational EBITA margin (2014:9.4%) improvement "from 2017 onwards".

- **Capital allocation - shift towards shareholders**. Sulzer raised its dividend 9% YoY to CHF3.5, 10% ahead of consensus. The payout ratio has been raised to 40%-70% of net income from 1/3 previously. While welcome, some investors may have been hoping for a larger return in the form of a buyback/special dividend.

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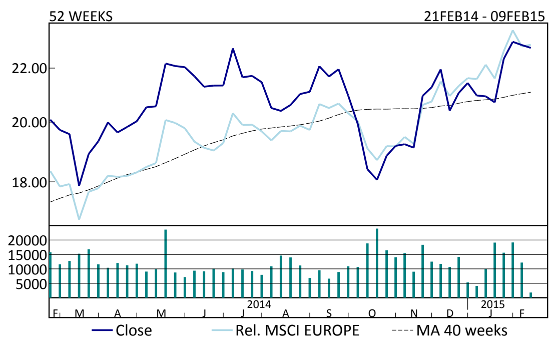

All values in EUR unless otherwise noted.

ThyssenKrupp AG (XETRA: TKA; 23.66)

Rating: Sector Perform

1Q15 adj. EBIT a small miss; FY15 guidance intact

- Adj. EBIT for 1Q15 slightly below consensus
- Net debt higher on working capital outflows
- Steel Europe Strength offsets Material Services miss
- Guidance for FY15 unchanged

Earnings Preview

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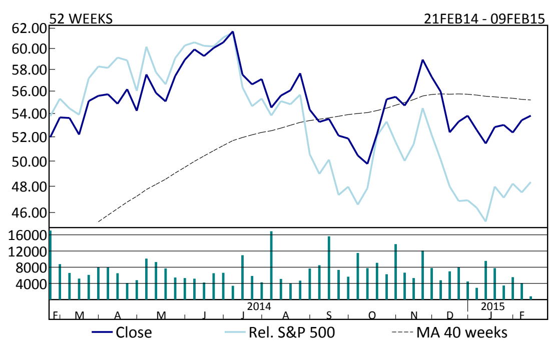

	EPS, Ops Diluted	P/E
2013A	2.59	21.6x
2014E	3.14	17.8x
2015E	3.35	16.7x
2016E	3.55	15.8x

All values in USD unless otherwise noted.

Garmin Ltd. (NASDAQ: GRMN; 55.93)

Rating: Outperform
Price Target: 67.00

Sue did your homework: Endurance training

It's always been a tug of war for Garmin's stock. Shorts point to upcoming competition from Apple/Samsung while longs feel the story is misunderstood. We like the cashflow and diversifying earnings. Outdoor/Fitness may drive incremental growth in our view, and brand concentration in wearables may help Garmin to gain share. Garmin is shareholder-friendly, carrying a 3.4% dividend yield. Our PT is $67.

- **Earnings on Wednesday, February 18; more about the full year.** The holidays likely were positive for Garmin and we expect revenues of $783M (+3% YoY) vs. the Street's $790M. On the bottom line, we're in line with the Street at $0.79. For 1Q15, we're slightly below at $609M (+4% YoY) in a seasonally slow quarter and our non-GAAP EPS is $0.59 vs. Street's $0.60. The growth segments in rank order are Fitness/Outdoor followed by steady trends in Aviation, Marine, and PND's. More new products in Outdoor/Fitness coupled with share gains explain our CY15 estimate of $3.35 vs. the Street's $3.26.
- **Expect CY15 to walk higher as the year progresses.** Garmin will provide its initial CY15 outlook on the call. We expect revenues of $3.0B (+5% YoY) and EPS of $3.35 (+7%), driven by moderate stability in PND and growth in Outdoor/Fitness (+17% YoY). Aviation and Marine are stable, but end markets fluid. Garmin doesn't hedge FX and faces near-term headwinds with ~35% of sales in EMEA with the Euro -4% in 4Q. Approximately 50% of COGS in TWD (-4% in 4Q) can be a partial offset, but QTD the Euro's down another -7% while the TWD's flat. Dial-in for the 10:30AM ET call: 888-461-2011.

Industry Comments

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All values in USD unless otherwise noted.

Euro Telecom: Liberty Global and Telenet

Infrastructure investment, focus on the UK

- Liberty continues to deliver strong growth and improving OCF margins across its European assets, which we see continuing. Going forward the company has clearly signalled higher capex in the UK to roll out to 4m new homes. We remain positive on Liberty's approach to capital allocation and see limited risks given the linear demand driven nature of the incremental roll-out. This does clearly present a risk for Sky (UP), BT (OP) and TALK (SP) as cable overbuild potentially increases to 17m homes in the UK. We continue to rate Liberty Outperform.

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Funding and Performance Indicators for European Banks

Banks outperforming for a change this year

- Euro area banks managed to outperform the market in the last week rising 2.3% compared to the market which rose 0.6%. European banks are only up 1%, weighed down upon by HSBC shares which fell 2.5%. There were some individual banks performing very well this week through results- notably ING (+7%); KBC (+5%) BMPS (+15%); CS (+7%) and ISP (+6%). On a country basis, Italian banks are the best performers (+3%) and UK banks the worst (-0.8%).
- **The picture since the QE announcement looks the same as last week.** The wider market is still performing as expected. The Euro equity market has outperformed banks by over 3%; bank credit spreads continue to get tighter, particularly in the sub space; sovereign yields are lower although Spanish 10yr is actually slightly wider now on presumably Greek readacross to Spain. Euribor expectations in 2017 have moved 7bps lower and in general less than credit spreads. The EUR/USD is now 1.6% lower.
- **We still prefer Italian banks over Spanish- but the gap is closing...:** We have for a long time now said that our preference is for Italian banks over Spanish due to their structure making more immune to potential negatives from QE; their better capital position and dividend prospects; the fact they traded cheaper than the domestic Spanish; and they are less exposed to political read across from Greece. Year to date there is a 19% differential in performance between ISP (our preferred Italian bank is up 13%) and the average of our domestic Spanish coverage (-6%)- which obviously closes the valuation gap somewhat. We mentioned in our weekly last week that we are less negative on the domestic Spanish now as they have reached our price targets (which are all below consensus). Interestingly ISP now trades at 1.1x 2016E TBV a 23% premium to our average domestic Spanish bank; our ROTE expectation for ISP is also at a 23% premium (ISP we expect 10.9% in 2016 Spain we expect 8.8%). The gap from an earnings perspective has closed almost perfectly. However, there is still a quality aspect to think about. ISP 2014 cash yield is 2.5%; Spanish banks pay in scrip. ISP has a fully loaded capital ratio of 13.3%; our average Spanish bank has a capital ratio of 11.4%, 190bps less. On Soc Gen conference call yesterday the CEO (who is now Chairman of the European Banking Federation) stressed the regulatory focus is on harmonizing national discretion in capital- a far bigger issue for Spanish banks at a potential 300-400bps of deductions in comparison to ISP with a potential 70bps. Actually valuing this quality differential is difficult. If we take the headline difference between ISP and Spanish banks fully loaded ratio, 190bps is equivalent to around 5bn for ISP- which is 11% of the market cap. In other words, there is still room for outperformance in this trade in our view, but the gap is closing. We rate the three Spanish domestic banks Underperform and ISP Outperform.
- **Capital uncertainty remains even among CEOs:** Most bank CEOs have been asked about future capital regulation during earnings season. Two that stand out this week are Raiffesen and Soc Gen. Raiffesen said in a press conference that the

regulator signalled that 12% Basel 3 fully loaded would become the standard for all major European banks but as an informal expectation to be reached over the medium term. Most of our Euro area banks have targets in the region of 10-11% and there are some significant deficits to 12% on our numbers by 2016 (CBK, BBV, GLE, BNP and SAN would have the largest gap). The CEO of Soc Gen (who as of the 1st of January 2015 is the Chairman of the European Banking Federation) is less concerned by this- and stressed that the regulator is focused on harmonising national discretion in capital rules rather than the level. Those banks with the greatest "national discretion" would be the Spanish and Greek banks (with tax credits) and also those with Danish compromise in their capital (mainly Credit Agricole and CABK). The picture on regulation is still remarkably unclear and it is unlikely that we will have visibility on the issue in the near term.

- **Timeline for capital clarity is extended…:** The FSB in fact this week published its 2015 goals with some updated timelines- which all point to a protracted period before we have the answer on capital. It states that the Basel Committee will:
- Finalise by 2016 the assessments of the standardised framework for calculation of RWAs
- Publish measures that address excessive variability in model based approaches to Basel 3 (with no explicit timing)
- Finalised by 2017 at the latest the appropriate standard for the leverage ratio
- And in 2015 will finalise the international standard for TLAC for GSIBs
- Finally the FSB warned on the risk stemming from market based finance and talks about finalising the regulatory framework for haircuts on securities financing transactions and setting up standard and transparent processes for these transactions
- **The Greek headlines were more positive this week in Europe though there has been no official news.** The EU and Greece are reported to have agreed on a framework for a compromised deal with Greece committing to a primary budget surplus and some privatisations in return for a bridging loan. EU officials are meeting today and Finance ministers again on Monday. The ECB meeting is on Wednesday next week (with Greece, Cyprus, France and Ireland excluded from voting this month as per the new rotation system). Reuters reported this week that the ECB has approved an ELA increase for Greek banks by another EUR 5bn, bringing the total available to EUR 65bn. The ECB has agreed to review this policy on Wednesday 18th, and given Greece and Cyprus cannot vote at that point it will be an interesting announcement. Meanwhile eKatherimini the Greek online newspaper reports that deposit withdrawals in January were EUR 12bn and have reached EUR 3bn so far in February. This remains the biggest risk in our view in Greece. While negotiations are ongoing the reaction of the liability base of the Greek banking system (which is twice the size of GDP) is crucial. The reported outflows in Jan/Feb are around 10% of the deposit base, but do not seem to be picking up in pace. Greece has a timeline to come to a deal and flows should be closely watched.
- **The ECBs balance sheet this week showed that ELA use ticked higher on the week by EUR 2.4bn suggesting not a significant level of additional stress.** ECB funding would be around 15% of the balance sheet. At its peak Greek central bank funding hit 34% of liabilities. So there is still scope for Greece to access liquidity (absent a change in policy from the ECB next week) and other liquidity indicators so far do not point to increasing stress. The only sign of contagion we have seen to other countries is the fact Spanish 10year bond yields are now higher than when Draghi announced QE- though the move is very marginal. Recent polls put the anti EU party Podemos relatively stable (leading in the polls in 1 of the last 4 in February).
- **Riksbank cuts repo rate to negative and launches QE:** Negative interest rates seem to be the normal now in Europe. The Riksbank this week announced a reduction in the repo rate from 0.1% to -0.1%; a SEK 10bn sovereign bond QE programme; and the potential to do a lot more if necessary to increase inflation

expectations. Note SEK 10bn of sovereign bonds is around 1% of GDP so very small in comparison to the ECB but the central bank has more flexibility to increase. This should negatively impact Swedish banks margins going forward in our view. Bloomberg reports that all the Swedish banks have said they will not pass on negative rates to customers- which implies that as asset yields fall, margins should squeeze. Actually measuring the impact is very difficult. We would note that Swedbank has the most household deposits and equity as a % of assets at 23%. The most immune to this policy we expect will be Nordea- which reports its earnings in Euros- as the SEK has depreciated 1.9% since the announcement on Thursday.

- **Venezuela announced another partial devaluation with a "free" market for its currency that will be set by supply and demand.** The only bank in Europe this affects is BBVA with 6% of 2014 earnings made from the region. Venezuela will be holding onto their 3 other tiers of currency (currently they have a rate of 6.3 bolis/USD for food and medicine; and 12 and 52 through mechanisms called Sicad 1 and Sicad 2; and the black market rate is around 190 per usd). BBVA uses Sicad 1 which is the 12 per USD to translate the earnings from Venezuela though have not taken a dividend from the division in a long time. The carrying value for Venezuela at BBVA is EUR 1.58bn. At present it is still unknown which exchange rate BBVA will use. If it goes to free market we estimate that a 95% devaluation is around 4% of TBV. BBVA has said they expect the earnings contribution from Venezuela to fall by 50% this year (which is around 2% of 2015 earnings expectations on an underlying basis. If there is a devaluation to near black market rates however the contribution would we estimate be closer to zero.
- **We still like the Swiss banks and prefer UBS to CS:** UBS and CS reported results this week. There were a number of common themes and differences. Below is what we took away as the most important issues.
- **Capital return:** Importantly UBS upped its cash dividend by 100% to CHF0.50 so that it is now yielding 3.1%. We continue to expect 64% CAGR in dividends over 2013-2016 and a yield of 7% by 2016E. For CS it maintained its dividend at CHF0.70 but offered a scrip alternative and assumes 50% take. Cash yield is the same as UBS interestingly although the growth outlook is less certain – we have flat dividend in for 2015 for example given the target of upping CET1 leverage ratio, which could close the gap between the two banks on this ratio. We forecast a yield of 4.5% by 2016E.
- **Leverage ratio:** There was some divergence here with CS improving the ratio CET1 leverage ratio by 20bp to 2.5% in Q4 14 including the new Basel definition whiles UBS saw a 10bp decline in CET1 leverage ratio to 2.9% although this is not on the new Basel basis. In terms of targets, CS upped its leverage ratio exposure reduction target by CHF50-70bn and revised its target also for currency to CHF930-950bn end 2015 vs a target of CHF1,050bn given in end Q3 14. In contrast UBS left its leverage exposure target unchanged as it sees offset from the currency benefit from the impact of lower rates on its PRVs. In addition UBS set its leverage ratio exposure target when the CHF/$ rate was at a similar level to now. In terms of the Swiss leverage ratio new rules, there remains uncertainty although CS is now officially targeting 3% CET1 leverage ratio for 2015 and now will pay out 50% of net income providing its CET1 leverage ratio and CET1 ratio are above 3% and 10% respectively. UBS on the other hand continues to look at the DPS pay out ratio of above 50% relative to a CET1 of 13% and a stressed CET1 of 10% being met. There remains uncertainty on where the final rules will come out expected this year at some point potentially towards the end of the year. We have been in the camp of a CET1 leverage requirement of 3-3.3% in line with the UK requirements (Barclays has a CET1 leverage requirement of 2.95% and a T1 requirement of 3.7%).
- **WM trends:** Both CS and UBS reported WM pre-tax below expectations. At UBS, the focus was on the gross margin, which fell 4bp sequentially, and 3bp YoY. The net margin was more in line with expectations at 28bp, down from 32bp in Q3 but up from a low 23bp in Q4 13. CS was helped by a capital gain but ex this

the gross margin was 95bp down 2bp sequentially and 9bp YoY. The net margin was below expectations at 24bp in Q4 vs 25bp in Q3 14 and 23bp in Q4 13. On an underlying basis, UBS grew pre-tax in WM by 11% and in WM Americas 16% in 2014 while CS grew WMC pre-tax by 8%. CS pointed to aiming for a flat net margin in 2015 although asset values could be volatile making it difficult to be sure. For UBS while it removed its gross margin target of 95-105bp it moved its pre-tax growth aspiration of 10-15% per annum to a firm target. Net new money at 1.2% growth at UBS was below expectations impact by European offshore outflows with German outflows coming to an end. UBS maintained its 3-5% net new money growth target. For CS net new money was closer to expectations with European offshore outflows of CHF2.2bn and CHF11.4bn for the year. It maintained its 3-4% net new money growth target although 6% from 2016. Asia remained a source of growth at both.

- **Different approaches to currency and rates impacts:** The two banks gave new information on currency and the impact of interest rates. On currency with the deprecation of the CHF from the highs the impact from the $ should be limited so that the impacts from the EUR which are less marked are the issue. In terms of mitigation, UBS talked of tactical mitigation but did not give any firm details. CS has put in place a CHF200m cost savings plan although this is out to 2017. It was on interest rates that the guidance differed. CS gave a figure of a net impact of CHF20-40m negative from low rates. On the replication portfolio impact of negative rates it saw the downside as limited – potentially implying a low return from these portfolios already but pointed out that it would put the run off and not be reinvested at a negative rate. UBS pointed to net interest income pressure in the retail bank of as much as 20bp guiding to a net interest margin towards the bottom of the 140-180bp target range vs 159bp reported in 2014. This is equivalent to CHF260m negative impact. It also noted pressure on the replication portfolio. This contrasts to CS. We find it difficult to explain the very different guidance.
- **Stock view- prefer UBS over CS:** We rate both UBS and CS Outperform (price target CHF20 for UBS and CHF26 for CS). Of the two, we prefer UBS in terms of business mix, wealth management fundamentals and DPS growth outlook. CS has been trading at a discount however due to concerns regarding its capital position, which has closed somewhat due to the comfort given on the plan to close the gap with UBS by end 2015. Having said that the outcome of the Swiss leverage rules remains key for the banks. A CET1 requirement above 3.5% could pressure our dividend forecast although our base case is a requirement of 3% to 3.3% closer to the UK rules.

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RBC European General Retail

Sports Direct (Underperform) - Challenging conditions in European sportswear

- Sports Direct reports a Q3 IMS on Thursday and we expect the release to highlight difficult recent trading conditions in Europe for sports retail, albeit with a continued robust gross margin performance owing to increased sales of higher priced own brand product. We forecast Group total sales up +4% yoy with gross profit up +8% yoy on a comparable basis.

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RBC Industrial Goods Week Ahead

Schneider results & Investor Day

- **Next week's focus: Schneider Electric.** We have something of a lull in results next week, with just one of our covered companies reporting. Schneider Electric will publish 2014 results and hold an Investor Day on Thursday. We forecast Q4 2014 sales of €6.9bn, + 0.5% YoY on an organic basis. For the full year, we forecast Schneider to meet its 2014 targets of low single-digit organic revenue growth (RBCCM: 0.9%) and an adjusted EBITA margin of 14.0%–14.4% (RBCCMe: 14.0%). We expect Schneider to provide its 2015 outlook with results. Consensus expectations are for 2.8% organic sales growth and an adjusted EBITA margin of 14.6%. At the accompanying Investor day, we expect Schneider to launch its new company program and provide a strategy update. These have in the past been well received. We recently upgraded our Schneider recommendation to Outperform.

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Turkish Telecoms

Hey Big Spenders...

- **4G spectrum auctions** - A necessary burden. The Turkish 4G spectrum auctions are now expected to occur some time in late 2015. The cost of these auctions have varied across Europe and Emerging markets; depending mostly on market structure and competitive dynamics. In Turkey, we see new entrant risk as limited, given that the 3G auctions did not yield a new entrant. Thus, auction costs should be reasonable, as there is enough 800MHz and 2.6GHz (and possibly 1800MHz if auctioned) to be shared fairly amongst the participants. However, due to the regulators’ tendency to tax Turkish wireless, we pragmatically value 800MHz at €0.5c/MHz/pop and 2.6GHz at €0.05/MHz/pop. This results in an outlay of cTRY2.5bn per operator and a total spectrum award of TRY7.6bn. We now model operators to pay for spectrum in 1H16.

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