

# ABN AMRO conviction calls

The Netherlands, Belgium and selected Pan-Euro

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## Conviction calls from our universe – March update

25 March 2014

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### Companies mentioned

<b>Long</b>			
BAM <sup>4,5,6,8,11,12</sup>	BUY	TP EUR 4.90	
CFE <sup>6,8,11</sup>	BUY	TP EUR 97.00	
Delhaize Group <sup>6,8,11,12</sup>	BUY	TP EUR 60.00	
PostNL <sup>6,8,10,11,12</sup>	BUY	TP EUR 5.20	
SBM Offshore <sup>5,6,8,11,12</sup>	BUY	TP EUR 18.00	
Tessenderlo <sup>5,8,11</sup>	BUY	TP EUR 26.00	
Umicore <sup>5,8,11,12</sup>	BUY	TP EUR 39.00	
<b>Short</b>			
Colruyt Group <sup>6,8,11</sup>	SELL	TP EUR 35.00	
KPN <sup>4,5,6,8,11,12</sup>	HOLD	TP EUR 2.40	
Solvay <sup>6,8,11,12</sup>	SELL	TP EUR 95.00	
Vopak <sup>5,6,8,10,11,12</sup>	SELL	TP EUR 35.00	

Please note numbers included above i.e., 4,5,6,8,11,12 refer to specific disclosures listed on the last page of this publication

\* ECT: Energy, Commodity & Transport

Today we remove TKH from our long list, after having already earlier removed ArcelorMittal and Wereldhave. Our conviction longs are now: BAM, CFE (added 10 March, 2014), Delhaize (added today), PostNL, SBM Offshore (added today), Tessenderlo (added today), and Umicore. Also today, we remove Corio, Mobistar and USG People from our short list, after having already removed Nyrstar earlier. Our conviction shorts are now: Colruyt (added today), KPN, (added today), Solvay and Vopak (added today).

### ABN AMRO conviction list; adding Delhaize, SBM Offshore and Tessenderlo as longs and Colruyt, KPN and Vopak as shorts

Conviction calls of the ABN AMRO equity research universe (Benelux all-cap, Pan-Euro ECT\*, Pan-Euro Real Estate and a few selected other Pan-Euro names).

#### Long

<b>BAM</b>	Positive sentiment in Dutch housing market set to remain
<b>CFE</b>	Ready to perform
<b>Delhaize Group</b>	Buy case valid; lacking details can be filled in later
<b>PostNL</b>	Flagging overreaction to FY13 as a buying opportunity
<b>SBM Offshore</b>	Market discounts overly negative fine scenario
<b>Tessenderlo</b>	In Tack We Trust
<b>Umicore</b>	End of downgrade cycle is here

#### Short

<b>Colruyt</b>	Recent market share loss requires action
<b>KPN</b>	Still a few difficult quarters ahead
<b>Solvay</b>	Earnings risks increasing
<b>Vopak</b>	Risks still not reflected in valuation

### Outperformance of 3.4% since our last update on 26 January

A weakish absolute performance for our combined long-short portfolio of -3.7% in February (owing mostly to ArcelorMittal and PostNL) has swung into a positive return of 4.7% in March. Since the last update on 26 January, our combined portfolio has outperformed the Stoxx 600 by 3.4%, broken down in +2.3% for our long picks, and +1.1% for our short selection. Over this period, we have turned in a good performance on the long side with +18.7% on BAM, +9.2% on CFE, +12.3% on Umicore and +12.4% on Wereldhave, whilst on the short side with -15.4% on Mobistar (the latter is today removed). On the other hand, we were less fortunate with -21.9% on PostNL on the long side (we keep the stock on our conviction list, though, highlighting the weakness as a buying opportunity), and with +15.3% on USG People on the short side (we take our loss on this name today). Since inception of this list, our longs have returned +34.0%, while our shorts contributed +2.0%, bringing the total return of our conviction list since inception to 36.1% (Stoxx 600 rose 20.4% in the same period).

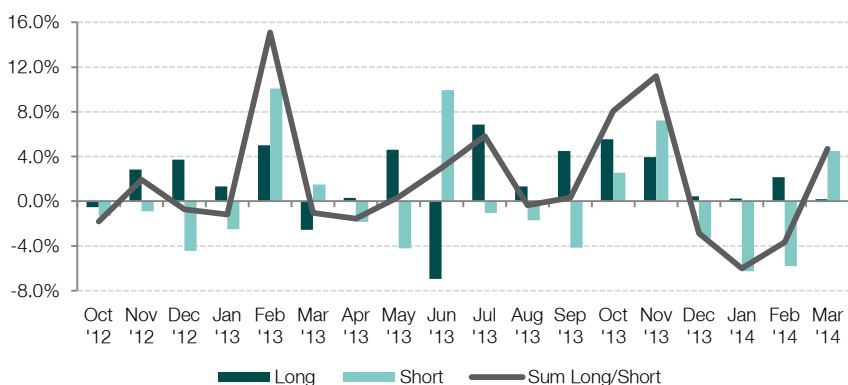
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Valuation table

	Rating	Target price	Current price	Upside	EV/EBITDA			PE		
					2014e	2015e	2016e	2014e	2015e	2016e
<b>Long</b>										
BAM	BUY	4.90	4.17	18%	8.3	7.0	5.0	15.5	12.2	7.6
CFE	BUY	97.00	77.50	25%	5.4	4.5	3.9	14.0	10.7	8.9
Delhaize Group	BUY	60.00	50.58	19%	4.5	4.3	3.8	24.1	11.8	10.5
PostNL	BUY	5.20	3.08	69%	5.2	4.2	4.1	6.5	4.9	4.9
SBM Offshore	BUY	18.00	11.47	57%	7.5	7.8	5.3	6.9	7.5	6.8
Tessenderlo	BUY	26.00	19.31	35%	11.4	6.9	5.5	35.0	10.8	8.2
Umicore	BUY	39.00	35.41	10%	10.0	8.8	6.1	18.3	15.8	13.0
<b>Short</b>										
Colruyt Group	SELL	35.00	39.54	-11%	8.1	7.5	6.9	18.1	17.1	16.2
KPN	HOLD	2.40	2.55	-6%	6.0	5.8	5.8	nmf	nmf	nmf
Solvay	SELL	95.00	111.45	-15%	8.3	7.6	7.1	17.5	14.7	13.3
Vopak	SELL	35.00	39.73	-12%	9.4	9.0	8.7	17.7	16.9	16.1

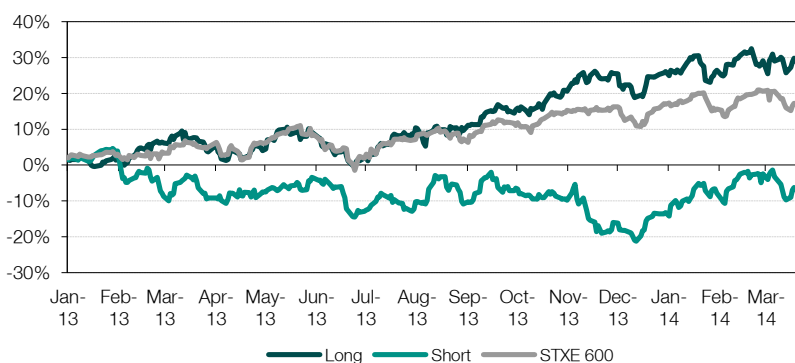
Source: Bloomberg, ABN AMRO Equity Research estimates, priced at 24 March 2014

Monthly absolute performance



Source: Bloomberg, ABN AMRO Equity Research

Long and short portfolio performance vs the market



Source: Bloomberg, ABN AMRO Equity Research

We make the following assumptions to calculate returns. On inclusion or removal of a stock, we weight equally all the stocks placed on the list. We measure the total return of the list including dividend payments. The performance returns shown exclude transaction costs such as commissions, fees and interest charges; adjusting for such costs would reduce total returns. The closing prices on the stated date are used to determine the performance of the stocks included in the list.

## Conviction list performance

Stock	Ticker	Included	Removed	Performance since inception	Performance since last update
<b>Long</b>					
BAM	BAM NB	27-Jan-14		18.7%	18.7%
CFE	CFEB BB	10-Mar-14		9.2%	9.2%
PostNL	PNL NA	6-Jun-13		43.1%	-21.9%
TKH Group (removed)	TWEKA NA	13-Sep-13		8.1%	-1.2%
Umicore	UMI BB	13-Sep-13		0.5%	12.3%
<b>Short</b>					
Corio (removed)	CORA NA	27-Jan-14		4.0%	4.0%
Mobistar (removed)	MOBB BB	27-Jan-14		15.4%	15.4%
Solvay	SOLB BB	27-Jan-14		-9.1%	-9.1%
USG People (removed)	USG NA	27-Jan-14		-15.3%	-15.3%
<b>New</b>					
Colruyt Group (short)	COLR BB	25-Mar-14			
Delhaize (long)	DELB BB	25-Mar-14			
KPN (short)	KPN NA	25-Mar-14			
SBM Offshore (long)	SBMO NA	25-Mar-14			
Tessenderlo (long)	TESB BB	25-Mar-14			
Vopak (short)	VPK NA	25-Mar-14			
<b>Removed</b>					
<i>Long</i>					
ASML	ASML NA	12-Oct-12	19-Oct-12	-4.9%	
Nutreco	NUO NA	12-Oct-12	11-Dec-12	7.2%	
TKH	TWEKA NA	12-Oct-12	16-Jan-13	12.4%	
Ziggo	ZIGGO NA	12-Oct-12	8-Mar-13	-2.9%	
Boskalis	BOKA NA	12-Oct-12	12-Mar-13	17.7%	
ASMi	ASMI NA	13-Nov-12	15-Mar-13	5.8%	
Ahold	AH NA	11-Dec-12	22-Mar-13	18.1%	
Prosafe	PRS NO	12-Oct-12	13-May-13	23.1%	
Atrium	ATRS AV	13-May-13	9-Jul-13	-14.0%	
Mobistar	MOBB NA	8-Mar-13	9-Jul-13	-5.7%	
Arcadis	ARCAD NA	6-Jun-13	2-Aug-13	-5.8%	
CFE	CFEB BB	12-Mar-13	8-Aug-13	-2.2%	
Nutreco	NUO NA	9-Jul-13	21-Oct-13	7.2%	
Seadrill	SDRL NO	25-Jun-13	25-Nov-13	12.5%	
Heijmans	HEIJM NA	15-Nov-13	27-Jan-14	17.4%	
SBM Offshore	SBMO NA	4-Apr-13	27-Jan-14	18.8%	
Wereldhave	WHA NA	13-May-13	27-Feb-14	8.3%	12.4%
ArcelorMittal	MT NA	15-Nov-13	18-Mar-14	-13.4%	-10.1%
<i>Short</i>					
USG People	USG NA	12-Oct-12	13-Nov-12	7.6%	
Binck	BINCK NA	12-Oct-12	7-Dec-12	-5.4%	
Marine Harvest	MHG NO	12-Oct-12	6-Feb-13	-17.5%	
AB InBev	ABI BB	16-Jan-13	19-Feb-13	-2.5%	
Wessanen	WES NA	12-Oct-12	27-Feb-13	0.4%	
Sanoma	SAA1V FH	19-Feb-13	4-Apr-13	10.6%	
Icade	ICAD FP	11-Dec-12	10-Apr-13	2.3%	
Norwegian Property	NPRO NO	10-Apr-13	9-Jul-13	13.5%	
Bekaert	BEKB BB	13-Nov-12	30-Jul-13	-34.7%	
DSM	DSM NA	12-Oct-12	7-Aug-13	-49.4%	
Imtech	IM NA	20-Nov-12	13-Nov-13	68.8%	
SPS	SPSN VX	9-Jul-13	27-Jan-14	0.1%	
Tessenderlo	TESB BB	16-Nov-12	27-Jan-14	9.9%	
Nyrstar	NYR BB	9-Aug-13	10-Feb-14	13.1%	1.3%
Return Long				34.0%	2.2%
Return Short				2.0%	1.2%
<b>Total sum</b>				<b>36.1%</b>	<b>3.4%</b>
Return Euro Stoxx 600				20.4%	-0.1%
Return AEX				18.4%	-1.4%
Return AMX				23.2%	3.1%
Return Bel-20				29.0%	5.6%
<b>Relative performance</b>					
Return Long				13.6%	2.3%
Return Short				22.4%	1.1%

Source: Bloomberg, ABN AMRO Equity Research

# 1. Longs

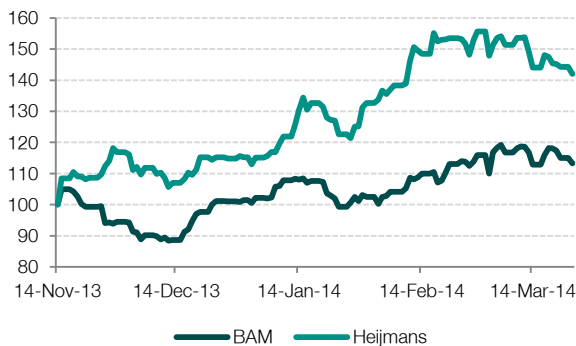
## 1.1. BAM - Positive sentiment in Dutch housing market to remain

**BAM (BUY, TP EUR 4.90)**

### Investment case

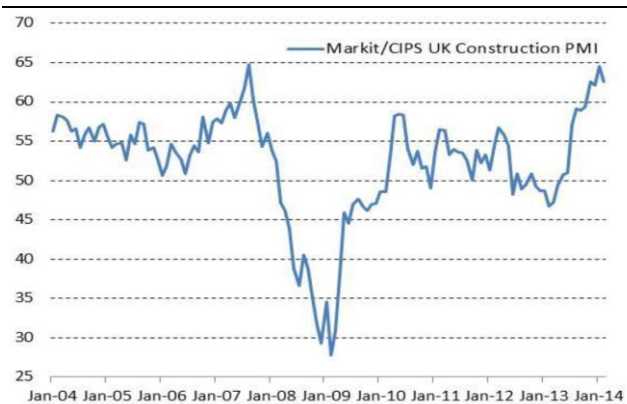
Since our upgrade of the Dutch construction sector *Dutch housing market reaching inflection point* dated 14 November 2013, Heijmans has outperformed BAM by 30%. We believe the share price performance of the two stocks will converge in the short term, as BAM and Heijmans are both exposed to the same market dynamics on the Dutch market. On top of this, we expect BAM to benefit in 2014 from the strong expected growth in the UK construction market (which accounts for approximately 27% of BAM’s annual revenues as at FY13).

**BAM lagging Heijmans by 30% since ABN AMRO’s construction sector upgrade**



Source: Bloomberg, ABN AMRO

**UK construction PMI strongly on the rise and close to record highs**



Source: Markit

### Dutch housing market recovery will lead to lower discount on land bank

We expect that BAM will continue to benefit from the positive sentiment surrounding the Dutch housing market, which, in our view, has now bottomed out. We believe that the Dutch housing market is at the start of a multi-year recovery, as house prices and transaction volumes have stabilised, consumer confidence is significantly on the rise, and housing affordability has risen to historical high levels.

We believe that the improved market dynamics justifies a lower discount on BAM’s land bank than currently implied by the market. We estimate that the market values BAM’s land bank at a discount of approximately 35% to the current book value. However, as the Dutch housing market fundamentals remain strong and the housing market is on the verge of recovery, we believe the discount levels will narrow in the coming years. In our valuation, we assume a discount of 24% to the current book value. If we were to value the land bank at book value, we would arrive at a fair value of EUR 6/share.

### Valuation remains at attractive levels given the strong recovery potential

On our 2015 estimates, BAM trades at 7.1x EV/EBITDA (historical: 5.6x EV/EBITDA). We consider BAM’s valuation to be undemanding, given the significant recovery potential. We model a 1.9% PBT margin in FY15, which is at the low end of the through-the-cycle range (2-4%).

## 1.2. CFE – Ready to perform

### Investment case

#### CFE (BUY, TP EUR 97)

With the acquisition of the remaining 50% stake in DEME as at 24 December 2013, CFE's profile has now definitely changed to offshore-focused. 72% of revenues and 100% of operating results now come from DEME. As such, DEME has now really become the key reason to invest in CFE, in our view. CFE onshore was loss-making in 2013, but aims to deliver a recovery in 2014.

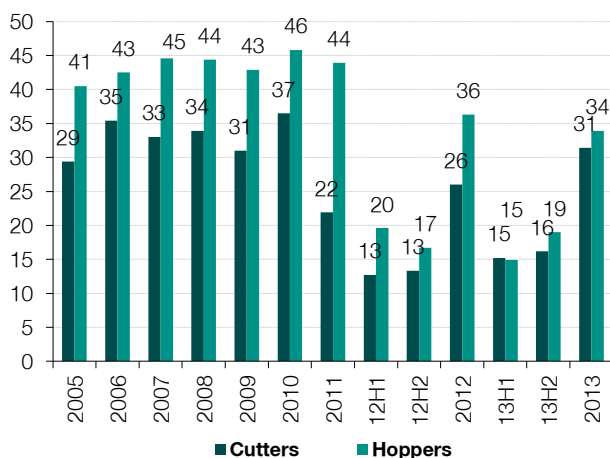
Combining a 6-12% higher EBITDA forecast for DEME with a more cautious margin expectation for CFE onshore (we have delayed return to break-even to 2015), has made us lift our EPS expectation for 2014 by 2% to EUR 5.52, for 2015 by 13% to EUR 7.26, and for 2016 by 18% to EUR 8.68.

Since DEME has finalised its large fleet expansion and renewal programme, its capex demand for the coming years is low, implying a surplus of cash flow will be able available for debt reduction, a higher cash return and/or new growth investments.

### Margins DEME better than expected

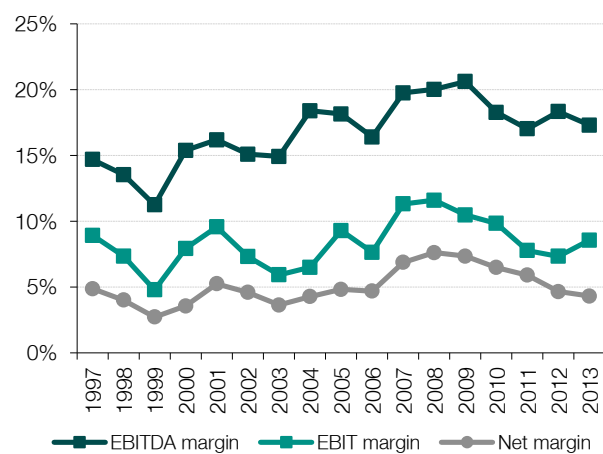
In 2H13, the EBITDA margin (19.4%) was significantly better than 1H13 (15.1%) owing to a better fleet utilisation, a lower percentage of procurement for the customer (transporting windmill steel), and despite substantial extra costs for the construction of two energy islands offshore Abu Dhabi. DEME is now in talks with the client on receiving compensation for the extra work done, but this might well take some time, in our view.

Utilisation cutters and hoppers (in weeks) 2005-13



Source: Ackermans & van Haaren, ABN AMRO Equity Research

DEME margins 1997-2013



Source: CFE, ABN AMRO Equity Research

The prime reason for the lower margin in 2013 versus 2012 is the very strong revenue growth (+108%) in Marine Works / Offshore Wind (now 22% of revenues), where reported margins – caused by the low margins on transport of steel – are lower than in dredging. In 1H13, DEME was further awaiting the start-up of the large Wheatstone and Doha Port dredging projects, leading to a relatively low utilisation of the hopper fleet. Ackermans & van Haaren's (main shareholder of CFE since end of 2013) management at its analyst meeting indicated that the underlying EBITDA margin in 2013 amounted to 19%.

### Valuation remains at attractive levels given the strong recovery potential

Assuming CFE meets our new earnings forecasts in a year's time, we expect the stock to reach our new target price of EUR 97/share, reflecting a 2015 valuation of 5.4x EBITDA, 10.0x EBIT and 13.4x PER.

### 1.3. Delhaize Group – Buy case valid; lacking details can be filled in later

#### Delhaize Group (BUY, TP EUR 60)

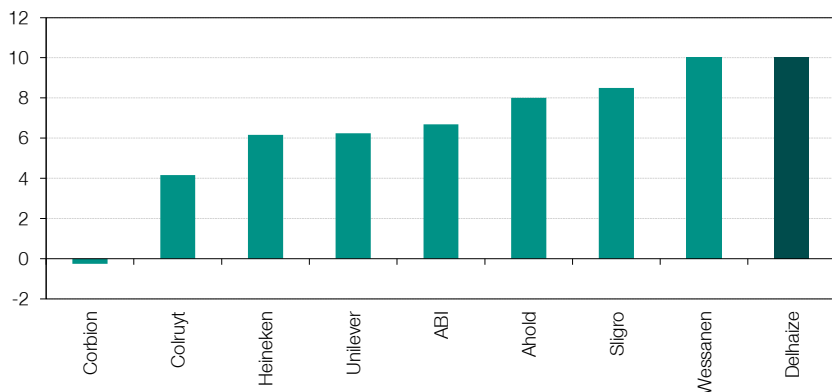
#### Investment case

We are confident that Delhaize can maintain its annual free cash flow at levels of EUR 500m or higher, despite the necessary steps (and consequential investments) about to be taken in the US and in Belgium. Delhaize's 2013 results were in line with expectations, and management's comments on expected underlying group EBIT for 2014 were reassuring. Delhaize combines strong market positions in its core markets, with a very attractive valuation on all methods. We therefore reiterate our Buy recommendation and EUR 60/share target price for Delhaize, and we add Delhaize to our long conviction list.

#### Recent share price weakness offers a buying opportunity

Delhaize's update and the maiden speech of new CEO Frans Muller lacked detail, which we believe is the reason for the recent share price weakness. We consider this weakness as an excellent buying opportunity and stress that CEO Frans Muller has only been in office since November and that strategy details will probably be disclosed in due course. From the unexpected 11% jump in Delhaize's dividend, we conclude that management is confident of future free cash flow generation, and we anticipate average annual free cash flow of more than EUR 500m in 2014e-2016e, despite an expected increase in capex over the period. Delhaize's 2015 free cash flow yield is more than 10%, which is the highest yield in our Benelux fast-moving-consumer-good universe.

Delhaize: 2015 free cash flow yield of Benelux fast-moving-consumer-good peers (%)



Source: ABN AMRO Equity Research

#### We reiterate our Buy recommendation and EUR 60/sh target price

Delhaize's 2015 free cash flow yield is very attractive, and the shares are trading at a discount to the DCF/share of c.30%. The valuation discount to peers is clear with an average 30% discount on 2015 multiples, with EV/EBITDA of 4.0x (6.5x for the sector), EV/EBIT of 6.9x (10.2x for the sector) and P/E-ratio of 10.6x (13.0x for the sector). We consider last week's share price drop as a buying opportunity. We reiterate our Buy recommendation and EUR 60/share target price, and we add Delhaize to our long conviction list.

## 1.4. PostNL – Flagging overreaction to FY13 as a buying opportunity

### PostNL (BUY, TP EUR 5.20)

#### Recent developments

PostNL reported 4Q13 results that matched expectations. It was particularly encouraging to see a strong improvement of the results for the MailNL division (underlying EBIT +55% to EUR 116m in 4Q13), as pricing/mix for the first time more than offset a continued high erosion of mail volumes (-13.4% in 4Q13), with cost savings making a strong contribution as well. Nonetheless, the event led the market to trade the PostNL stock sharply lower. The main causes for this were PostNL's expectation of a bigger decline in mail volume of 9-12% in the coming years (lowered from 8-10% previously) and the downgrade of the 2015 cash EBIT margin for Parcels to 11-13% (was 13-15%). We believe that the market overreacted to these downgrades. The impact of a bigger decline in mail volumes is offset by PostNL expecting to save EUR 75m more than expected from existing measures (confirming our suspicion that the initial targets were set conservatively), making it leave the 2015 targets for the MailNL division unchanged. We highlight that PostNL has shown a strong execution on the restructuring front during 2013, and management hinted during the analyst meeting that it sees scope for more savings plans in due course. The downgrade to the Parcels margin is caused by EUR 20m lower profits related to 1) higher subcontractor fees, and 2) investments in additional services (additional pick-up and delivery points and 24/7 automats). The extension of the service proposition is both defensive (in order to fend off increasing competition in the 2C domain) and needed to facilitate the growth of the market. We consider it acceptable that such investments in growth market can weigh on the margin a little. And one should forget that the division still contributes to healthily growing profits. The above led us to lower our EBIT estimates for 2014-2016 by about 6%. This makes the >25% drop in the share price look overdone, which we see as a buying opportunity.

#### Investment case

PostNL's valuation looks very attractive at 5.0x P/E and 4.3x EV/EBITDA (and a 2016 dividend yield of c. 10.5%). These multiples represent a discount of 30-60% to peers, which in our view, is overdone now that the equity story for PostNL has proven to be simplifying (due to a regained grip on the restructuring, better pension agreements and an improved regulatory regime). We see >50% upside to a conservatively estimated SOTP valuation of EUR 5.20/share, which still implies a 2015 valuation of only 8.0x P/E and 4.6x EV/EBITDA. We expect a re-rating to be triggered by PostNL continuing to show progress towards the 2015 targets, driving a 50% CAGR in cash EBIT. Another catalyst is a further sell-down of the TNT Express stake. And a wildcard could be a recovery in corporate bond yields, as this adds actuarial gains to equity and thereby may bring forward the date that PostNL could return to paying cash dividends (the stock thus presents a hedge against an environment of rising interest rates).

**SBM Offshore (BUY, TP EUR 18)****1.5. SBM Offshore – Market discounts overly negative fine scenario**

SBM's share price reacted strongly negatively since the start of February on recent developments in the bribery case. A former employee suggested on Wikipedia that some USD 250m in bribery payments were made, including some USD 137m to people related to Petrobras. Partly as a result of these allegations, Petrobras became the subject of a political battle between the Brazilian government and the opposition in the run-up to the general elections. Investors now fear that the bribery case will impact SBM's commercial possibilities in Brazil. Furthermore, they fear that the fine in this case could be very substantial. Consequently SBM's market cap lost 20% of its value, representing a nominal amount of USD 814m. We believe this reaction is severely overdone. The allegations of the disgruntled former employee – who initially tried to bribe the company – have not been substantiated and have been completely taken out of context, in our view. Petrobras has also been involved in this investigation from the start two years ago. Consequently, we believe that the outcome of the 30-day investigation initiated by Petrobras on the back of the mounting political pressure will result in nothing. This will likely clear SBM in this country, further limiting any commercial damage. In addition, we note that expectations of the market regarding a potential fine are far too high. In addition, we believe the Balance Sheet can easily absorb a fine of up to USD 530m before they hit any balance sheet covenants. Overall, we believe expectations are at rock bottom, downside risks appear to be limited, while we expect positive newsflow from Petrobras soon.

**SBM has made quite some efforts to assist the regulators**

Newswires report consensus sees a USD415m fine, while we expect a fine below USD100m. We fail to see why the Dutch prosecutor (OM) who is in the lead in this investigation, has any incentive to be too harsh considering that SBM proactively addressed the issue itself. It paid for whole investigation (forensic accountants, lawyers etc) itself for two consecutive years. SBM fired 60% of top 100 personnel including the man responsible (Laures). SBM hired a Chief Compliance Officer in the board to make sure a cultural change is embedded. Finally, SBM completely changed the way it works. Another way of looking at this case is trying to make a guestimate of the downside. We believe there are no reasons to assume the fine is going to be as high as rumoured. In particular, as other / similar cases were much worse or had lower fines. Several comparable cases include:

- a) Rabo bank Libor case with a EUR 774m fine of which EUR 70m to the OM, USD 325m of the DoJ and USD 475m to the CFTC.
- b) Modec in Ghana: no penalty as the USD 5.0m payments to the former CEO of the National Oil Company might have been morally incorrect, but were not illegal.
- c) Weatherford paid a USD 253m fine for bribing foreign officials and conducting business with nations such as Iran, Syria, Sudan and Cuba. Weatherford's penalty was partly as high as it is, because the company willingly obstructed the investigation of the DoJ, which lasted for several years
- d) Total which was charged USD 398m for bribing Iranian officials.

SBM is not able to be specific about the details of the bribery case as the case is still ongoing. However, reading in between the lines, we believe the Modec case is very comparable to SBM's case, which further limits any commercial impact (the only competitor did the same thing SBM). The first step towards normalisation for SBM is the Petrobras investigation, which is due shortly (to be finished end of March early April). Finally, we look at the gap between a normal valuation and the current share price. The lease fleet is worth EUR 18 per share. Each euro difference represents a gap or 'fine' of USD 270m. This implies there is a discount of close to USD 1.8bn on the current share price, which we believe is far too high. Even if a penalty needs to be paid, we believe the balance sheet can handle this. SBM has no liquidity constraints. Also solvency stood at 30% at YE13 (covenant > 25%) and although detailed calculations are complicated (SWAPs etc), we believe the company can absorb a fine of up to USD 530m before they hit the covenants. So expectations are extremely low, while the valuation discount is abnormally large, which gives an excellent risk / reward balance, in our view.



## 1.6. Tessenderlo – In Tack We Trust

**Tessenderlo (BUY, TP EUR 26)** We include Tessenderlo in our Favourites list, after having raised our rating to Buy from Hold, and having increased our target price to EUR 26 from EUR 18, which provides a compelling upside potential of 36%. We believe business conditions for most divisions will improve in the coming years, while new management will cut costs aggressively. As a result, our 2014-16F EPS estimates are more than 80% above Bloomberg consensus.

### **Improving business conditions and cost savings should benefit earnings**

We believe Tessenderlo will meet its 2014F REBITDA guidance of EUR 103m, partly due to improving business conditions, while consensus stands at EUR 89m. Kerley should benefit from improved agricultural fundamentals and increased earnings due to new capacity. We expect both Gelatin & Akiolis and Inorganics to trough in 2014, while PPS and Other Business are already seeing earnings improvement. Management is already aggressively cutting costs, which will predominantly lead to lower costs within the Non-allocated segment.

### **New management is fully aligned to generate shareholder return**

Incoming CEO Luc Tack indirectly holds 27.5% of the shares, which he acquired on 6 November 2013 for EUR 21.96 per share (15% above the current price). Luc Tack had a strong track at Picanol (PIC BB), where he led a successful restructuring since 2009 that generated a return of more than 1700%.

### **We see a FCF yield of 4%/10% in 2014/15F**

On our 2015F estimates, the shares trade at 10.8x earnings, which we believe is too low given the improving profile and expected growth. We forecast the FCF yield will improve to 4% and 10% in 2014 and 2015, respectively.

## 1.7. Umicore – End of downgrade cycle is here

**Umicore (BUY, TP EUR 39)** Umicore's 2H13 results indicated that we are now at the end of the downgrade cycle. We find the company's 2014 guidance for a slight decline in REBIT as overly cautious, and believe Umicore will be able to show growth. M&A remains high on the agenda and could be transformative, potentially adding 35-40% of REBITDA.

### **Valuation is attractive, in our view, as we see 21% total return on our 2015 forecasts**

2014 guidance indicates end-of-downgrade cycle Umicore's 2H13 results were broadly in line with expectations, with REBIT of EUR 141m just 2% below consensus (Vara). This number did contain HDD start-up costs and implies that REBIT would have been 8% ahead of consensus if this were corrected for. The 2014 guidance of a slight decline in REBIT implies 'merely' a decrease of some 4% in consensus forecasts, and is the main reason why the stock increased 6% on the day of the results.

### **We believe Recycling can grow volumes and improve its mix in 2014F-16F**

The 2H13 results also indicated that Recycling was able to increase volumes and margins despite the maintenance shutdown and falling metal prices. We attended the analyst lunch on the day after the results, and believe that Umicore can increase volumes and improve the mix over the next three years.

### **We lowered our target price to EUR 39 post results, but reiterate our Buy recommendation**

We have lowered our 2014-15F EPS forecasts by 12-13%, and cut our target price to EUR 39 from EUR 42. The stock trades on 2015F P/E of 14.7x, which is 2% below its historical average. We foresee 14% EPS CAGR until 2016, after which the expansion in Hoboken will come on-stream.

## 2. Shorts

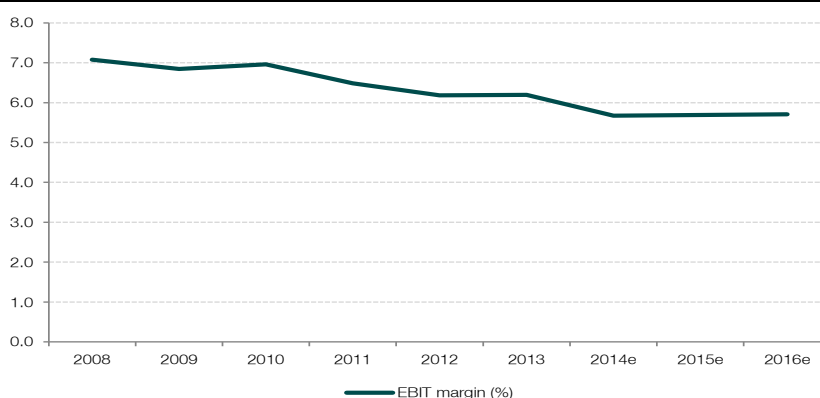
### 2.1. Colruyt – Recent market share loss requires action

#### Colruyt (SELL, TP EUR 35)

#### Investment case

For several reasons, competitive pressure is mounting in Belgium. As a result, and for the first time in many years, Colruyt reported a loss of market share loss in the October-December 2013 quarter. The efficacy of an every-day-low-pricing (EDLP) banner such as the Colruyt brand is diminishing and with the competitive situation expected to remain the same or even become more fierce in the mid-term, Colruyt needs to come with an answer, in our view. We expect Colruyt to lower its prices even further and use the weapon of promotion more frequently. With limited, if any, opportunity to offset the consequential gross margin pressure by means of lowering operating expenses, we expect Colruyt to report group EBIT profitability of below 6% for 2014e-2016e. Colruyt's valuation is not compelling. We reiterate our Sell recommendation and EUR 35/share target price for Colruyt, and we add Colruyt to our short conviction list.

Colruyt: Group EBIT margin 2008-16e (%)



Source: Colruyt, ABN AMRO Equity Research

#### The characteristics of the Belgian markets are changing rapidly

Competition is mounting in Belgian food retail, driven by the challenging economic circumstances and consumers' increasing focus on prices and promotions. Moreover, comparable to the situation in the Netherlands, German discounter Lidl is successful in Belgium, which is hurting all supermarket brands, including Colruyt. The entrance of Albert Heijn in Belgium in 2012 is putting extra pressure on prices, as Ahold is leveraging on its better purchasing conditions in the Netherlands and its lower cost base. To illustrate, when Ahold opens a new Albert Heijn in Belgium, Colruyt, on average, has to adjust its prices in about seven Colruyt stores in the proximity. In addition, we conclude that even Carrefour Belgium has become a more powerful competitor following its store portfolio restructuring of the past few years.

#### We reiterate our Sell recommendation and EUR 35/sh target price

Colruyt's valuation is not compelling and our target price of EUR 35 is the average outcome of several valuation methodologies used, including peer multiples, DCF and a ROCE/WACC analysis. Colruyt is trading at 2015 multiples of EV/Sales of 0.6x (0.3x for the sector), EV/EBITDA of 7.1x (6.0x for the sector), EV/EBIT 9.9x (9.6x for the sector) and P/E-ratio of 16.5x (12.7x for the sector). Our target implies a 12-month forward-looking PER of 15x, which is just below Colruyt's long-term average of 16x, which we deem fair in light of recent developments. In addition, Colruyt's 2015 free cash flow yield and its dividend yield of 4.2% and 2.5%, respectively, are not very attractive either, in our view. We reiterate our Sell recommendation and EUR 35/share target price for Colruyt, and we add Colruyt to our short conviction list.

## 2.2. KPN – Still a few difficult quarters ahead

### KPN, (HOLD, TP EUR 2.40) **Recent events**

KPN reported a mixed 4Q13 update. Operational numbers were much weaker in Dutch consumer mobile, but excluding one-off items the group EBITDA was slightly worse than consensus expectations. KPN provided limited qualitative guidance other than stabilisation towards end 2014 and FCF growth in 2015. KPN's earlier announced stabilisation programme will result in EUR 300m combined OPEX/CAPEX savings by 2016. Finally KPN announces a 7ct dividend for 2014. Over the past year, KPN's fixed outlook improved with stabilisation in customer numbers and revenue growth. The challenge remains in mobile and the business segment. In both, we forecast a large increase in competition. KPN's simplification process of stripping out legacy products and increasing benefit from quadruple play offers should help to offset the top-line pressure, but before those benefits kick in, we believe that there will be considerable negative earnings momentum in 1H14.

### **Investment case**

A number of uncertainties persist in the KPN investment case. Closure of the e-Plus deal would still be a positive whereas a blocking of the sale or far fetching remedies would be a negative trigger, in our view. On the negative side, the mobile market outlook remains very uncertain for as long as Tele-2 and cable do not (fully) launch their mobile offers. With an implied valuation of the non e-Plus assets at 5.7x EV/EBITDA 2015, it is in line with western European incumbents, while the Dutch mobile market is increasingly competitive. Due to the uncertainties and mixed outlook, we believe current risk-reward dynamics are unattractive in the short term and hence we place the stock on our short list.

### 2.3. Solvay – Earnings risks increasing

#### Solvay, (SELL, TP EUR 95) **Investment case**

We expect Solvay's operational costs and D&A charges to increase significantly in 2014, which is why we expect it to miss consensus (Vara) REBIT by 9%. Non-recurring items will increase as well due to restructuring and write-downs, impacting FCF. In the longer term, we believe it will be difficult for Solvay to meet its 2016 REBITDA target.

#### **2014 consensus expectations are too high, in our opinion**

Solvay has said it is confident that 2014 will show REBITDA growth, but we believe consensus expectations are too high. We believe that AF, AM, and PC will indeed show growth, but expect that this will be partly offset by higher C&BS. D&A charges will also increase, which will limit earnings growth. Note that our 2014F REBIT forecast is 9% below consensus (Vara).

#### **We believe Solvay will not make its 2016F REBITDA target of EUR 2.3-2.5bn**

We forecast REBITDA of EUR 1,787m in 2014F, while Solvay is targeting a REBITDA of EUR 2.3-2.5bn in 2016. To meet the low end of this range, Solvay needs to grow REBITDA by 14% per year thereafter. This looks challenging, in our view, as Solvay will be facing increased competition in several of its major businesses.

#### **We find valuation stretched**

The stock trades at 2015F 7.6x EV/EBITDA and 15.3x P/E, which we find too high given the earnings risk. EV/IC stands at 1.1x, while ROIC/WACC is 77%. We think management is doing the right things to transform the business, but we believe its 2016 REBITDA target of EUR 2.3-2.5bn is overly ambitious given the expected increased competition in several of its major businesses.

**Vopak (SELL, TP EUR 35)** **Vopak – Risks still not reflected in valuation**  
 We have flagged four key risks for Vopak in the past, and continue to see short-term risks for these points:

**1) Asia ramp-up of the new terminals as these were not (fully) covered by commercial contracts** We forecast a negative impact of EUR 9m from the opening of Pengerang in 2014, and an additional negative impact from the opening of Hainan in 2015 of EUR 3.5m. Although we do not have consensus at a divisional level, we suspect consensus is pricing in a quicker build-up of contracts than ABNe.

**2) Backwardation and contract renewals negatively impacting The Netherlands** In our view, Vopak is currently not offering the best available infrastructure. In today's market and despite its unique location in Rotterdam this could prove to be a risk for lower prices/occupancy in upcoming contract renewals (the first contracts for the Westpoort terminal are coming up for renewal in 2H14).

**3) Risk that the market would be disappointed if Vopak would not make the 2016 ambition** The fact that Vopak has shelved its ambition to reach EUR 1bn in Group EBITDA by 2016, should get investors rethinking the company's growth profile. On our lowered forecasts for 2014-2016 (10-20% below consensus), we see Vopak going ex-growth in the coming years. Going ex-growth or taking a breather is not necessarily something investors should worry about. However, we do believe that Vopak is still valued as a short/mid-term growth story, trading at 18.0x and 17.1x 2014/15 P/E (on consensus, P/E for the same period arrives at 16.5x and 14.7x). Given the 2012-2016e CAGR in EBITDA of only 1%, it is neither a short nor a mid-term growth story, in our view. As there will be an increase in the depreciation charge earnings CAGR over 2012-2016 is below 0%.

**4) Dilutive impact from the C-share issue** Vopak has said it will not ask for an extension of the mandate to issue C-shares, which we think is a positive given the potential dilution that would be likely to have come with these issues. On the other hand, Vopak has indicated that it is still exploring the avenue of alternative equity funding so the risk of dilution might still be out there.

Our target price of EUR 35 is the average of our DCF model (EUR 31), a returns-based valuation approach (EUR 40 on 2015 estimates), and a required FCF yield of 6.5% (EUR 35). At our target price, Vopak is valued at 15.5x and 14.8x P/E for 2014 and 2015, respectively. This is still ahead of the historic one-year forward P/E over the last eight years (14.2x).

### 3. Removed conviction ideas

#### 3.1. Corio (short) – Much of the pain has been taken

Since we put Corio on our conviction Sell list on 27 January 2014, its share price dropped close to 3% with the EPRA Developed Europe gained 2%. During this period, Corio 1) announced to have sold a EUR 213m in assets (mainly in the Netherlands) at a steep 27% discount to June 2013 book values, and 2) published a set of FY13 results that disappointed on operational metrics and revaluations. Given the benign share price reaction on both elements, we can conclude that much of the bad news was already priced into the stock. Additionally, we believe the short-term catalysts for Corio have improved. The disposals reduce balance sheet risks as its leverage goes down below 41%. Management has hinted that more disposals will come through in the coming months for which book losses to the expected disposal price have already been taken at the FY13 results. This means that Corio will be de-risking further without a (major) negative impact on NNAV. Beyond this, making deeply discounted disposals will take pressure off somewhat. We maintain our view that Corio remains captured in a negative earnings trend. Underlying retail markets remain challenging, while the company continues to underperform peers on lfl rent growth and its capital values are declining. Additionally, we assume a negative spread between the running yield on disposals that are needed to fund its development pipeline. This makes its valuation fairly unattractive on our 2015 estimates at 16x FFO, 5.3% EBITDA/EV, a 5.0% dividend yield 3% below NNAV. Nonetheless we take the stock off our favourite sell list as the catalyst materialised, the shares underperformed the index and short-term catalysts are tilted towards the positive side.

#### 3.2. Mobistar (short) – Locking in performance after weak FY13

We take Mobistar off our conviction short list as our case of a disappointing 4Q13 and FY14 outlook materialised. Mobistar's 4Q13 top-line was 4% weaker than expected, but profitability was in line. Revenue weakness was mainly in the service revenue line that came in 6% below expectations. Customer trends continued their downward trend, and were also a bit below expectations. Guidance was again a disappointment. Mobistar guided for EBITDA in the range of EUR 250-280m (cons EUR 308m). In the short term we do not see additional downside before reporting of the 1Q14 numbers. Additionally upside risk could come from M&A speculation. We maintain our Hold rating as we believe that the outlook for Mobistar remains very difficult.

#### 3.3. TKH (long) – Still positive, but lack of triggers

After a positive absolute performance for the TKH stock of 8% since inclusion in September 2013, we have decided to remove it due to a lack of triggers. We remain optimistic that TKH is in the early stages of a marked acceleration in earnings momentum in the coming years, driven by tire building machines (we are seeing orders from big-5 tire makers coming through), traction with the seven growth verticals and some self-help in Building Solutions. However, this is a gradual development, which is seen supported only by the release of quarterly results (limited newsflow otherwise).

#### 3.4. USG (short) – Locking in, after part of risk has disappeared

In our last favourite list update, we added USG People. In a separate report dated 11 March, we downgraded the stock to a SELL. The stock has since come down from EUR 13.80 to EUR 12.00, which we set as our target at the time of publication. Although we believe there could be more downside for the share price, we have decided to lock in the return and take USG People off the list again. In general, European staffing markets have returned to growth again, and staffing companies such as Adecco, Randstad but also USG People reported strong Q4 results. Momentum at USG is improving, although the company continues to be exposed to strategic issues (the disposal of non-strategic operations like Germany and France for example) which take more time to

resolve. USG People should benefit from better staffing markets in the next few quarters though. The Professionals business, which represents some 5% of group revenues, is slowly improving. Nevertheless, margins were negative in Q4 while the company targets a margin of 10%, so a lot of improvement is needed this year. Once operating leverage kicks in earnings growth should accelerate, but current consensus forecasts already expect more than 45% earnings growth which could prove to be ambitious. To conclude, we believe a decent part of the near-term downside risk has disappeared, which is why we take the stock off our list.



## 4. Quant scores

In addition to fundamental bottom-up research, we also provide quant scores from the ABN AMRO European stock selection model. We use this as a complementary tool to review our long/short conviction calls.

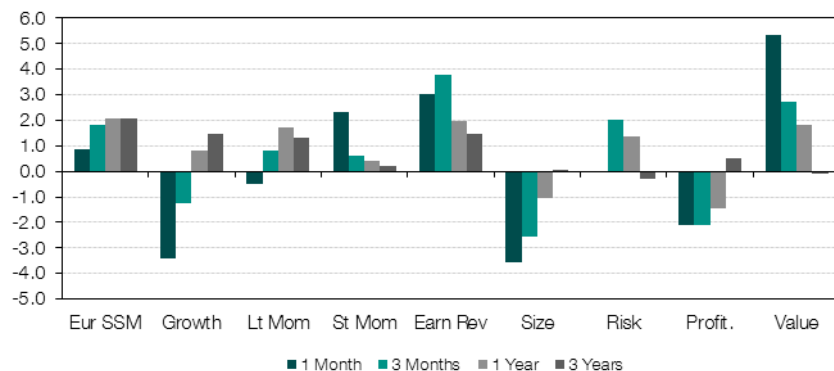
The ABN AMRO European stock selection model combines a wide variety of fundamental and technical style factors such that the resulting signal achieves the highest expected risk-adjusted performance, independent of the overall market direction. Style factors often exhibit high levels of persistence, resulting in periods of positive (or negative) performance being clustered together. We exploit this tendency to predict which styles will outperform, and change the model's exposures accordingly. The model's dynamic design allows it to adapt to, and profit from, the prevailing market environment.

In addition to the expected style performance, our model also takes into account the style factors' volatility and joint correlation in order to derive the optimal risk/return trade-off. We favour styles displaying both favourable long-term and short-term characteristics as well as those that offer stability and the best potential for diversification. The optimal style allocation assumes a monthly rebalancing frequency. To align the model with the purpose of the high conviction list, we overweight the longer-term factors, targeting a longer (three-month) horizon.

We find that this dynamic approach has resulted in an excellent live model performance. A long/short basket mimicking our model scores has realised a risk-adjusted return of 2.1 (IR in the chart below) over the past three years. On average, the 20% highest ranked stocks have outperformed the bottom 20% by 16 % per annum since model inception.

Over the past month, we saw strong performances from the valuation and earnings revisions factors, while small caps outperformed their large cap counterparts. The overall model's risk-adjusted performance was below its long-term average at 0.9, as the top ranked stocks outperformed the bottom ranked stocks by 0.3%. Our model has increased its exposure to the value and size (small-cap), and reduced its exposure to profitability and momentum, following recent performances.

**Realised risk-adjusted returns (annualised information ratio, 1M-3Y) for the European stock selection model and style factors.**



Source: ABN AMRO, FactSet

The ABN AMRO conviction calls list is solely based on a fundamental bottom-up approach by equity research analysts. However, to provide fund managers with an additional tool, we also provide updates on the European style performances and the quantitative model scores of stocks on the conviction call list.

In the two tables below, we show the model's scores for the companies in the high long/short conviction calls. We show the current model weights, the companies' style scores and the overall model score. The average score is zero within the European universe. An overall score of one corresponds to an expected annualised market-relative performance of approximately 5%.

Within the long conviction list, our quantitative model is especially positive on PostNL, which continues to be one of the model's top ranked companies in the Benelux. Delhaize is also viewed positively, while the model is moderately negative on SBM Offshore and CFE.

#### High Conviction list – Long – Quantitative scores

Name	Weights:	15%	15%	-14%	14%	-24%	0%	1%	16%
	Overall Score	Growth	Long-term Momentum	Short-term Momentum	1m Earnings Revisions	Size	Risk	Profitability	Value
Bam	-0.1	-1.6	0.5	0.6	0.1	-1.3	2.0	-0.7	0.2
CFE	-0.5	-0.2	1.5	2.5	-1.1	-0.9	0.2	-1.6	-0.1
Delhaize	0.6	-0.4	0.2	0.4	1.0	0.0	1.1	-0.8	1.7
PostNL	2.6	0.8	1.9	-2.6	0.3	-1.2	1.8	0.0	1.7
SBM Offshore	-0.7	-1.6	-1.2	0.6	-0.1	-0.7	1.4	-0.6	1.3
Tessenderlo	0.0	0.1	-1.1	0.0	-0.3	-1.6	0.4	-1.9	-1.2
Umicore	-0.3	-0.2	-0.7	1.2	0.3	-0.2	-0.1	-0.2	0.7

Source: ABN AMRO, FactSet

All four high conviction short calls get negative model scores. Colruyt and KPN are most negative at -1.2 and -0.8, respectively, while Solvay and Vopak receive a more modest negative score.

#### High Conviction list – Short – Quantitative scores

Ranked Scores	Weights:	15%	15%	-14%	14%	-24%	0%	1%	16%
	Overall Score	Growth	Long-term Momentum	Short-term Momentum	1m Earnings Revisions	Size	Risk	Profitability	Value
Colruyt	-1.2	-0.7	-0.3	0.6	-1.5	0.2	-0.2	0.9	0.0
KPN	-0.8	-1.2	1.1	-0.1	-0.5	0.6	0.0	-1.5	0.0
Solvay	-0.2	-0.5	-0.3	-0.2	0.0	-0.9	-1.1	-0.9	-1.5
Vopak	-0.1	-0.6	-1.4	-0.9	1.1	0.0	-0.3	0.7	-0.5

Source: ABN AMRO, FactSet

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