

European Consensus Earnings Report

Q2 2014

July 2014

Authors

As the second quarter earnings season gets underway, we observe an improved sentiment in Europe, reflected by the positive earnings per share [EPS] outlook for the S&P Europe 350. There appears to be a renewed anticipation of growth following a more stable outlook on interest rate changes from both the European Central Bank and the Bank of England. On 10 June 2014, the S&P Europe 350 hit its 10 year high with analysts predicting a revival in M&A activity and across Europe indices have recorded strong YTD performance [chart 1].

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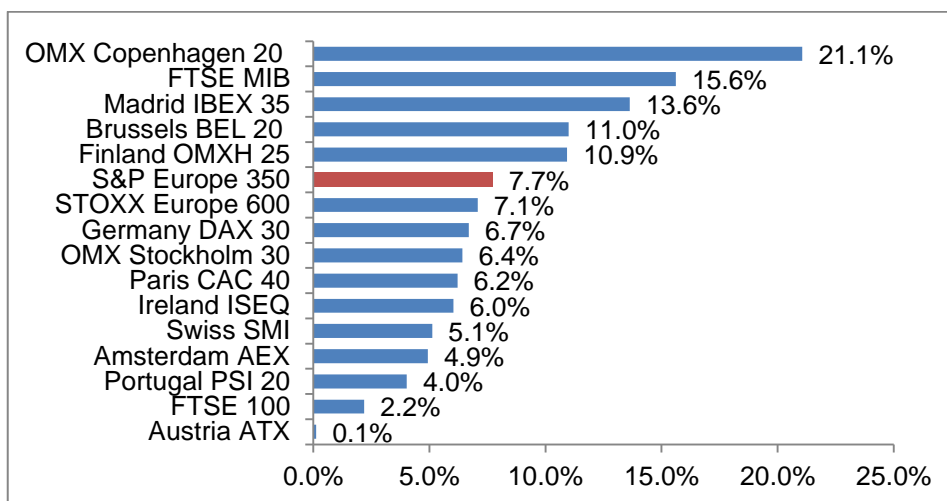
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- The blended¹ year-on-year (YoY) growth in quarterly earnings for the S&P Europe 350 has improved by five percentage points since April 2014 to +7.1% as of 27 June 2014. This stands in stark contrast to the negative outlook in the first quarter.
- Most noteworthy improvement in sentiment appears in the Telecommunication Services sector, as Telefonica's takeover of E-Plus is expected to lead the way for a broader consolidation in the industry.²
- Sectors that contradict the positive growth trend include Utilities, Healthcare and Consumer Staples. European Utilities continue to be the worst performing sector as a shift to renewables and low wholesale power prices are expected to continue eroding their revenues.³

Chart 1: Major European Indices YTD Performance as of 4 July 2014



Source: S&P Capital IQ as of 4 July 2014. For illustrative purposes only.

¹ The blended growth rate combines actual results for companies that have reported with estimated results for companies that have yet to report

² S&P Capital IQ, 2 July 2014

³ Financial Times, 14 February 2014: 'Crisis-hit European utilities square up to technological revolution'

Q2 2014 Earnings Outlook by Sector

The blended second calendar quarter [CQ2] 2014 expected YoY growth rate for the S&P Europe 350 was 7.1% as of 27 June 2014, only slightly down from 8.3% at the beginning of the year and up from 1.7% in April 2014. This stands in stark contrast to the significantly reduced EPS outlook in the first quarter of 2014.⁴ Despite the improved CQ2 2014 outlook over the last three months for the S&P Europe 350, it was driven by significantly stronger sentiment in only three of the ten sectors.

Positive Outlook

Consumer Discretionary [+48.7%], Materials [+41.95%] and **Information Technology [+36.8%]** are the three sectors leading the growth trend and showing the greatest improvements in EPS outlook over the past three months.

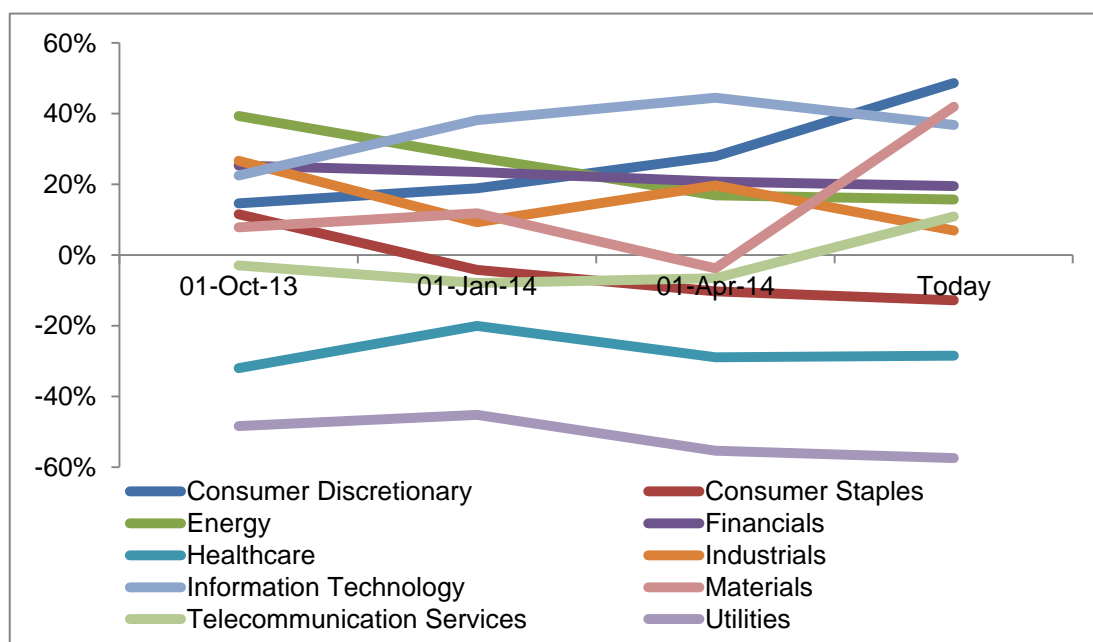
Pirelli & C. SpA [BIT:PC, +44.6%] is the most significant contributor to growth in the Consumer Discretionary sector, whilst **Stora Enso Oyj [HLSE:STERV, +172.7%]** and **ASML Holding NV [ENXTAM:KPN, +58.9%]** are driving growth in the Materials and Information Technology sectors respectively.

Also of note is the much improved sentiment for **Telecommunication Services [+10.9%]**, likely a result of the more relaxed regulatory environment that is expected to open the way for other large-scale mergers, post Telefonica's takeover of E-Plus.

Negative Outlook

Squeezed by the growth of renewables and low wholesale energy prices, **Utilities [-57.4%]** continue to be the sector with the most negative growth outlook for CQ2 2014. This is followed by **Healthcare [-28.4%]** and **Consumer Staples [-12.8%]**. These are in fact the only three sectors in the S&P Europe 350 with negative growth outlook for CQ2 2014 as of 27 June 2014. A very different picture to what we saw in the first quarter where six of the ten sectors had negative EPS growth outlook. On a company-level, noteworthy entities across these sectors include **Fortum Oyj [HLSE:FUM1V, -12.6%]**, **Nobel Biocare Holding AG [SWX:NOBN, -16.3%]** and **METRO AG [XTRA:MEO, -33.3%]**.

⁴ European Consensus Earnings Report Q1 2014, May 2014

Chart 2: S&P Europe 350 CQ2 2014 Blended YoY Growth [%] by Sector

Source: S&P Capital IQ as of 27 June 2014. For illustrative purposes only.

Table 1: S&P Europe 350 CQ2 2014 Estimated EPS (USD) and Blended YoY Growth [%] by Sector

Industry	CQ22014 EPS Est	Today*	1 April 2014	1 Jan 2014	1 Oct 2013
Consumer Discretionary	32.62	48.66%	27.96%	18.86%	14.68%
Consumer Staples	35.65	-12.80%	-10.27%	-4.20%	11.54%
Energy	29.98	15.70%	16.90%	27.70%	39.34%
Financials	16.85	19.55%	20.77%	23.54%	25.34%
Healthcare	26.93	-28.38%	-28.85%	-20.00%	-31.97%
Industrials	24.61	7.00%	19.74%	9.27%	26.67%
Information Technology	12.22	36.84%	44.52%	38.19%	22.49%
Materials	58.48	41.95%	-3.72%	11.87%	7.89%
Telecommunication Services	26.25	10.91%	-6.53%	-7.90%	-2.94%
Utilities	14.31	-57.39%	-55.28%	-45.13%	-48.34%
S&P EUROPE 350	25.57	7.12%	1.69%	8.28%	12.03%

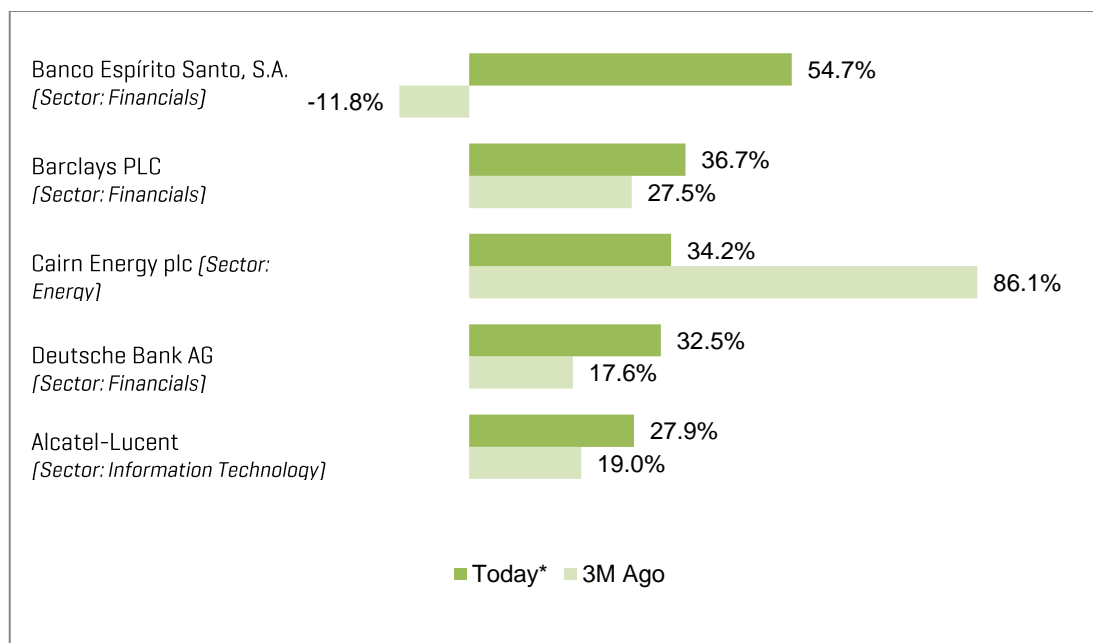
Source: S&P Capital IQ as of 27 June 2014. For illustrative purposes only. *Today being 27 June 2014.

Top 5 Companies by Potential Upside⁵

We note a strong representation of Financials in the top five companies with the largest potential upside based on our consensus target price.

Cairn Energy PLC [LSE:CNE] and **Deutsche Bank AG [XTRA:DBK]**, with a target price of GBP 2.8 and EUR 34.61 respectively as of 27 June 2014, were also amongst the top five in the last quarter. However, Cairn Energy is the only company in the top five to have seen a deterioration in its upside potential, falling below 50% for the first time in six months. Perhaps surprisingly, **Banco Espirito Santo, S.A. [ENXTLS:BES]**, with a target price of EUR1.19 as of 27 June 2014, tops the list as it is seen by some analysts as a good play on the Portuguese macro recovery and emerging markets growth in general. Despite uncertainty around the asset quality of its Angolan loan book, the market remains positive about the recent management changes at Banco Espirito Santo.⁶

Chart 3: Top 5 Companies by Potential Upside Today* versus Three Months Ago



Source: S&P Capital IQ as of 27 June 2014. For illustrative purposes only.*Today being 27 June 2014.

⁵ Potential upside defined as S&P Capital IQ consensus target price relative to the current price, as of 27 June 2014 for a given company

⁶ J.P.Morgan Cazenove, 25 June 2014: 'Banco Espirito Santo: Recent underperformance an opportunity to pick up shares; we reiterate our Neutral rating'

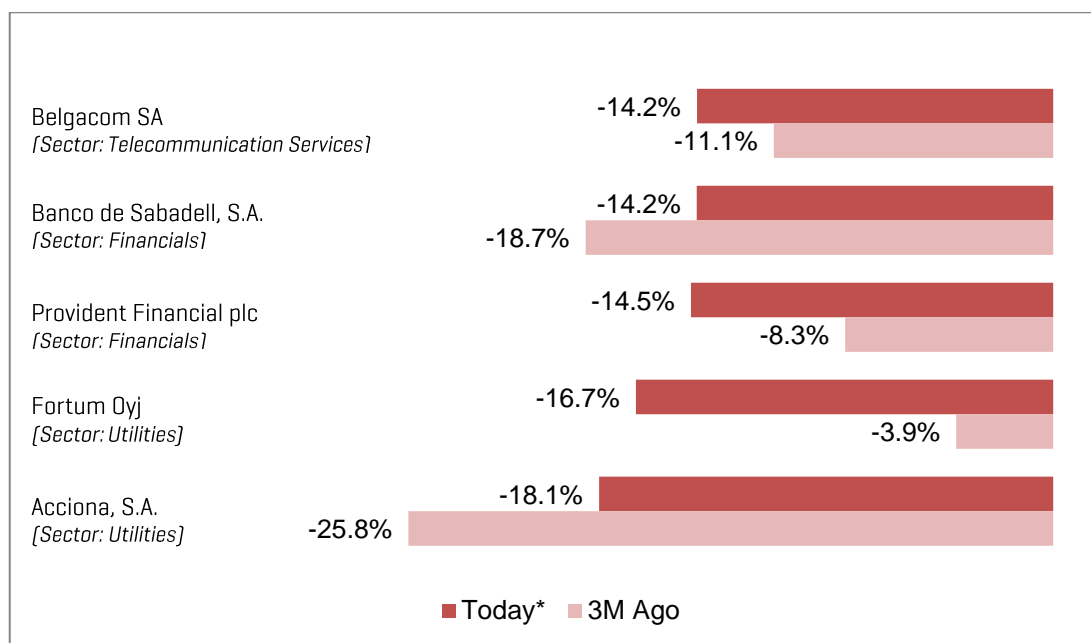
Bottom 5 Companies by Potential Upside

Whereas Financials contributed three of the top five companies by potential upside, they also continue to feature in the bottom five, reflecting the continued mixed sentiment in this sector. Likewise, we continue to see a strong representation of Spanish companies given the fragile economic conditions.

Acciona, S.A. [CATS:ANA] and **Banco de Sabadell, S.A. [CATS:SAB]**, with a target price of EUR 55.33 and EUR 2.18 respectively, are the only recurring names in the bottom five since our Q1 Earnings Report in May [as of 27 June 2014].

Other Spanish companies with negative upside potential include **Red Eléctrica Corporación S A. [CATS:REE, -12.5%]**, **Gas Natural SDG SA [CATS:GAS, -12.3%]** and **Banco Santander, S.A. [CATS:SAN, -11.8%]**.

Chart 4: Bottom 5 Companies by Potential Upside Today* versus Three Months Ago

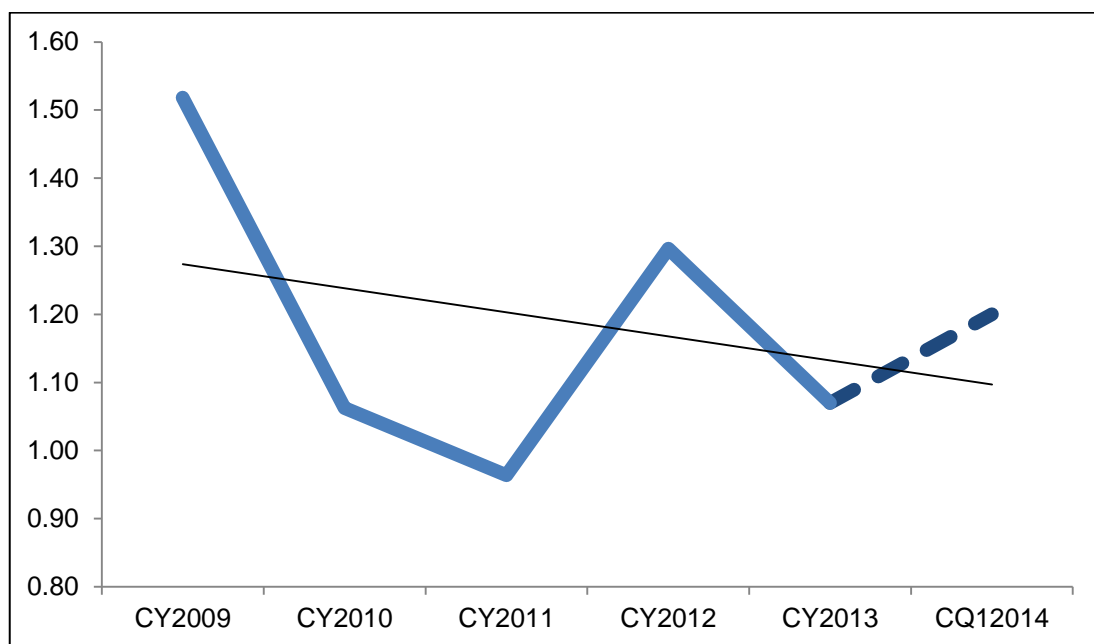


Source: S&P Capital IQ as of 27 June 2014. For illustrative purposes only. *Today being 27 June 2014.

Trends in the Beat/Miss Ratio⁷

The CQ1 2014 beat/miss ratio for the S&P Europe 350 index of 1.20 is again trending upwards, following a weak end to 2013. Yet, it remains below the recent high of 1.30 seen in calendar year [CY] 2012.

Chart 5: S&P Europe 350 CY Beat/Miss Ratio 2009–CQ1 2014



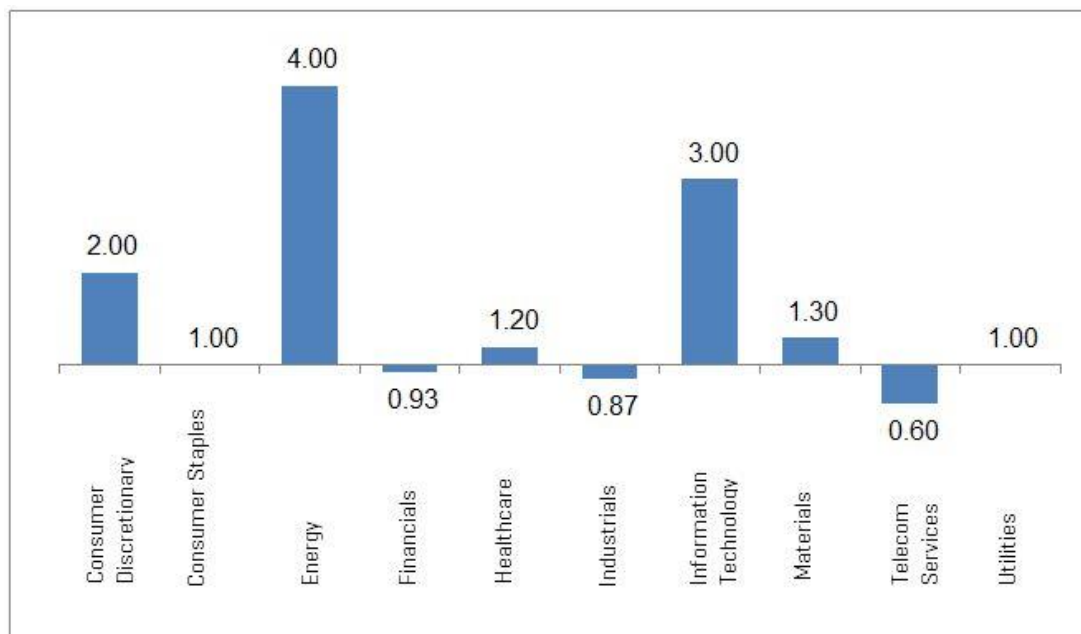
Source: S&P Capital IQ as of 27 June 2014. For illustrative purposes only.

For half of the sectors in the S&P Europe 350, the number of companies reporting better than expected earnings in CQ1 2014 was greater than the number of companies missing their consensus estimates.

This was particularly noteworthy for Energy, Information Technology and Consumer Discretionary. Companies with the largest percentage earnings surprise in those sectors, included **Royal Dutch Shell plc** [LSE:RDSA, +48.1%], **Nokia Corporation** [HLSE:NOK1V, +100%] and **Electrolux AB** [OM:ELUX B, +210%]. Meanwhile, the low beat/miss ratio in Telecommunication Services, Industrials and Financials was driven by **Tele2 AB** [OM:TEL2 B, -19.5%], **GEA Group Aktiengesellschaft** [XTRA:G1A, -48.5%] and **Banco de Sabadell, S.A.** [CATS:SAB, -50.0%].

⁷ Proportion of companies beating their consensus estimate to companies missing their consensus estimate

Chart 6: S&P Europe 350 Beat/Miss Ratio by Sector CQ1 2014

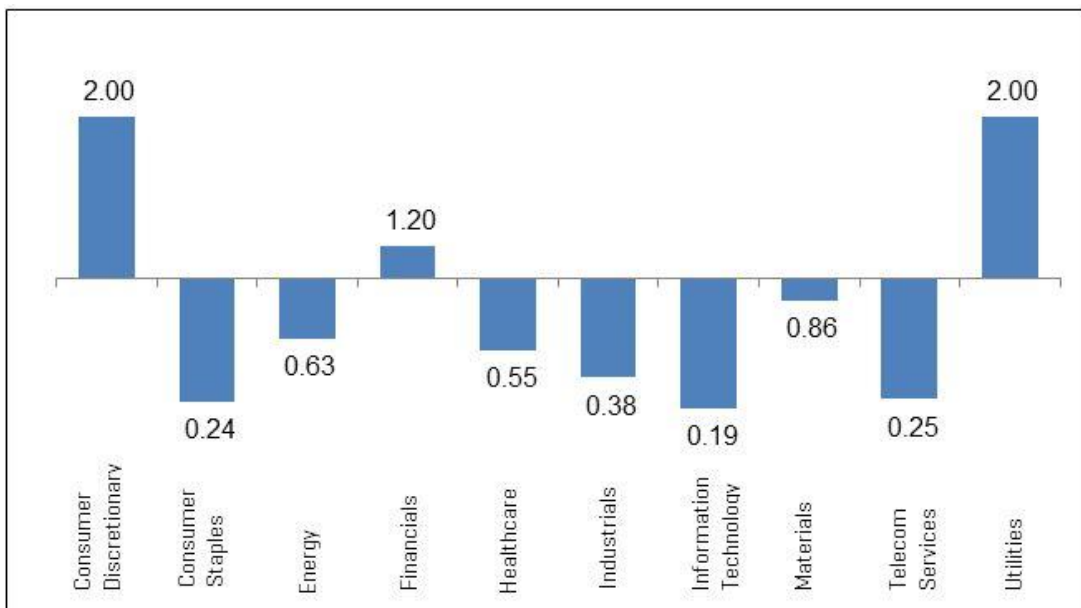


Source: S&P Capital IQ as of 27 June 2014. For illustrative purposes only.

Earnings Revisions

The aggregate CQ2 2014 earnings revision ratio for the S&P Europe 350 was 0.56, as of 27 June 2014. The number of downward revisions has continued to exceed the number of upward revisions since the beginning of the year. However, we do see signs of improvements across most sectors compared with the first quarter. In particular, Consumer Discretionary and Utilities along with Financials are the three sectors defying the broader trend.

Chart 7: S&P Europe 350 3M Earnings Revision Ratio by Sector, CQ2 2014



Source: S&P Capital IQ as of 27 June 2014. For illustrative purposes only.

Similar to the previous quarter, Scandinavian companies and in particularly Swedish companies, feature highly both in terms of up and down revisions. **Atlas Copco AB [OM:ATCO A, EPS Est. SEK 2.57]**, **Ericsson [OM:ERIC B, EPS Est. SEK 0.71]** and **Tele2 AB [OM:TEL2 B, EPS Est. SEK 0.89]** saw the highest number of downward EPS revisions in the last month with three each, whereas **H & M Hennes & Mauritz AB [OM:HM B, EPS Actual SEK 3.51]** had nine upwards revisions over the period.

Getting Behind the Data

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