

Green shoots?

James Vaux

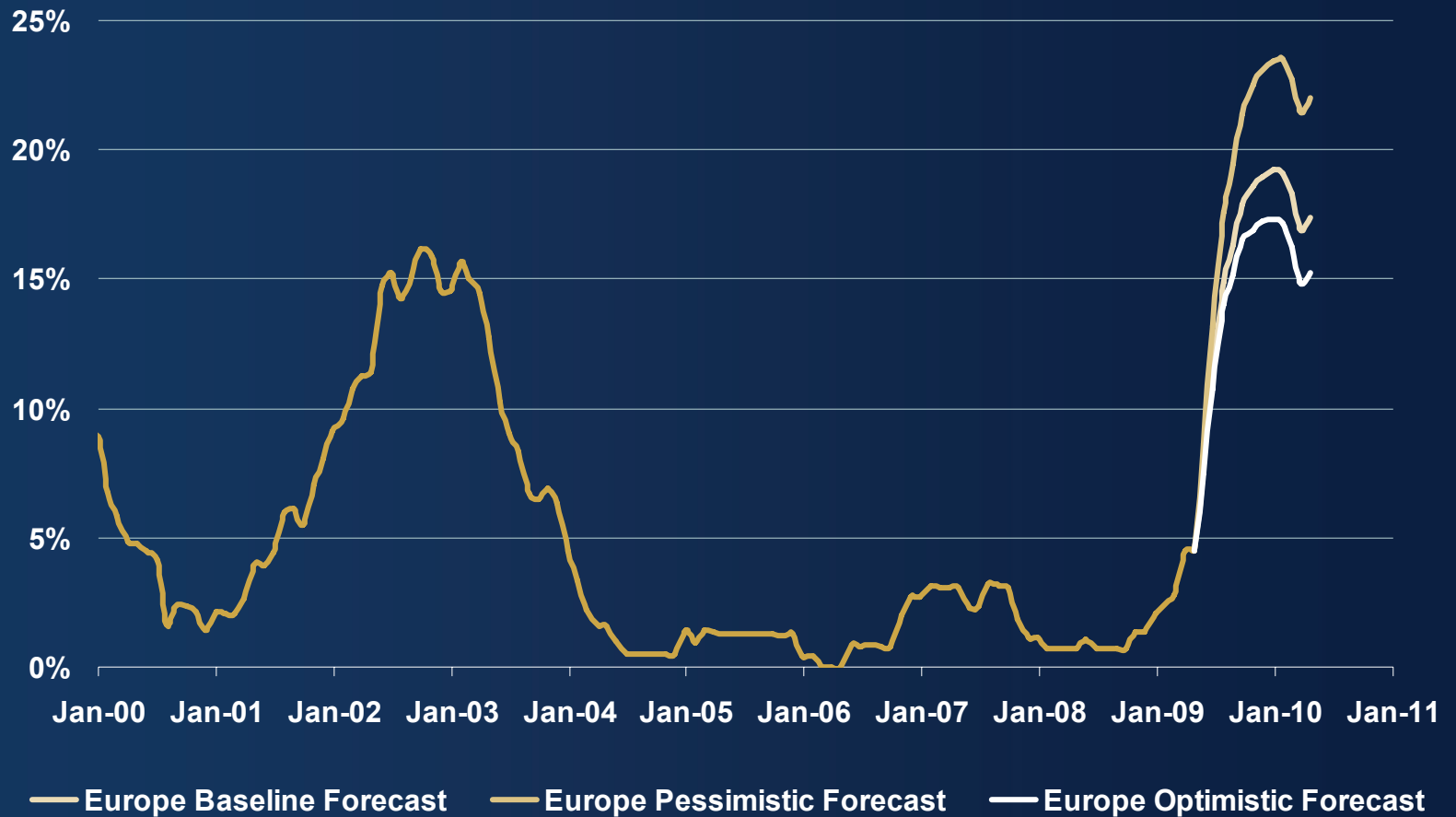
  ROTHSCHILD

June 2009

Macroeconomic environment

Fundamentals

Moody's European 'speculative grade' default rate forecast

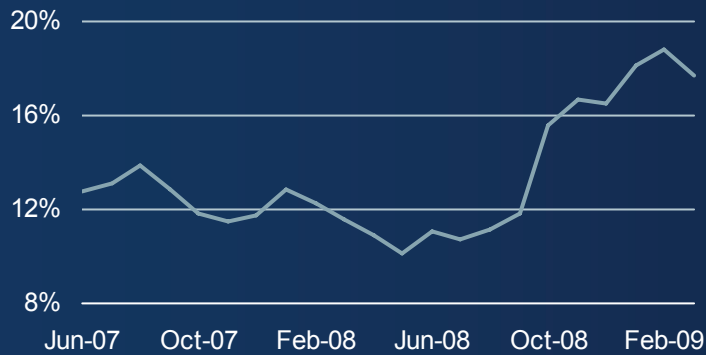


Source Moody's

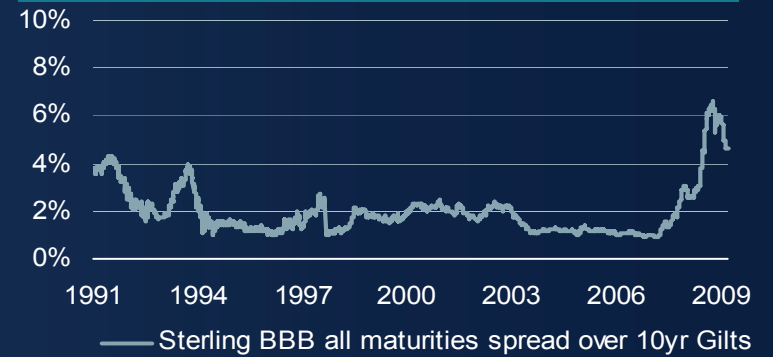
Macroeconomic environment

Monetary

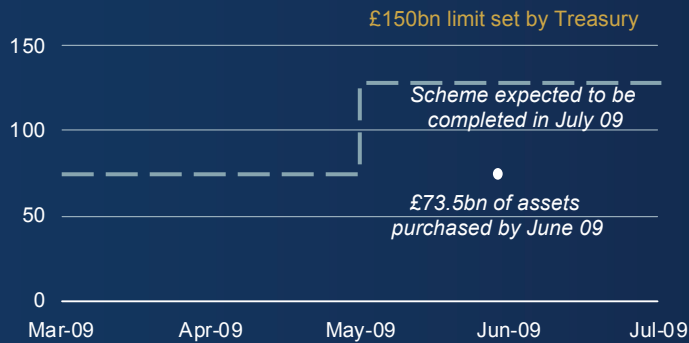
UK money supply growth (%)



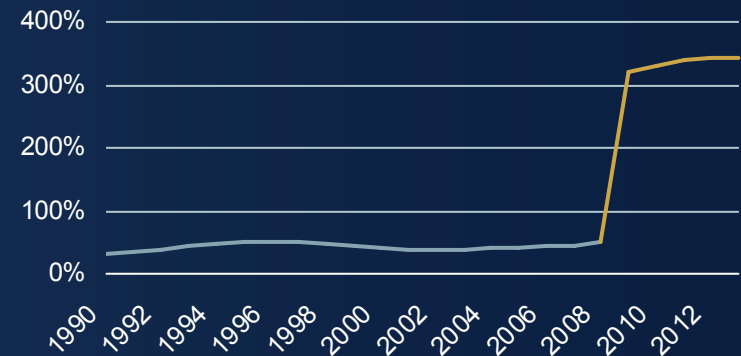
Bond yield evolution



UK quantitative easing (£bn)



UK public sector deficit (% GDP)

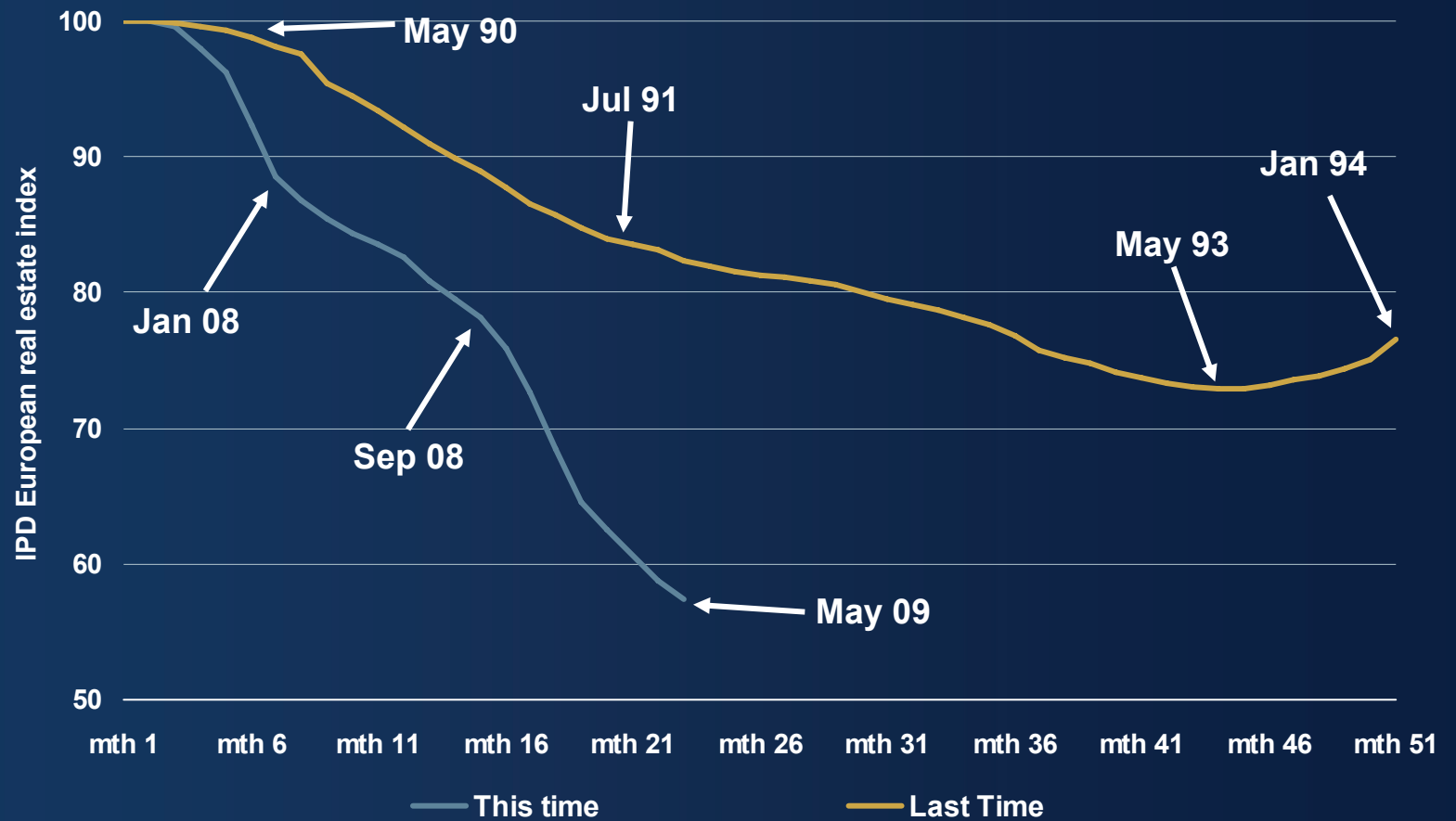


Source Economist intelligence unit, Bloomberg, HM Treasury

Macroeconomic environment

Asset price cycle – this recession and the last

Evolution of asset prices



Source IPD March 2009

Macroeconomic environment

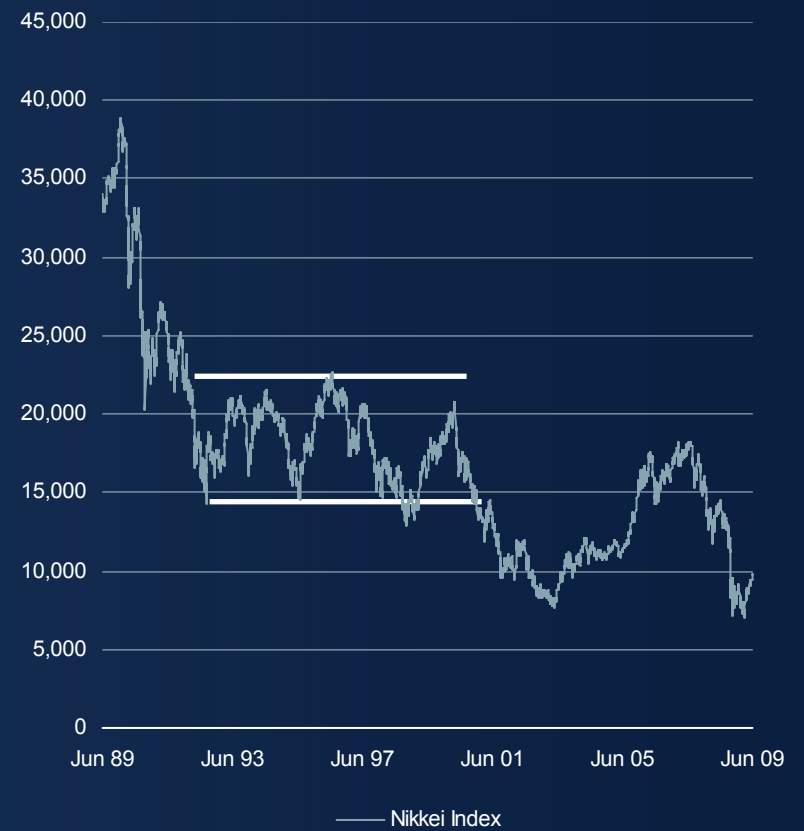
"W" shaped, "L" shaped or "h" shaped ?

FTSE 100



Source **Bloomberg**

Nikkei

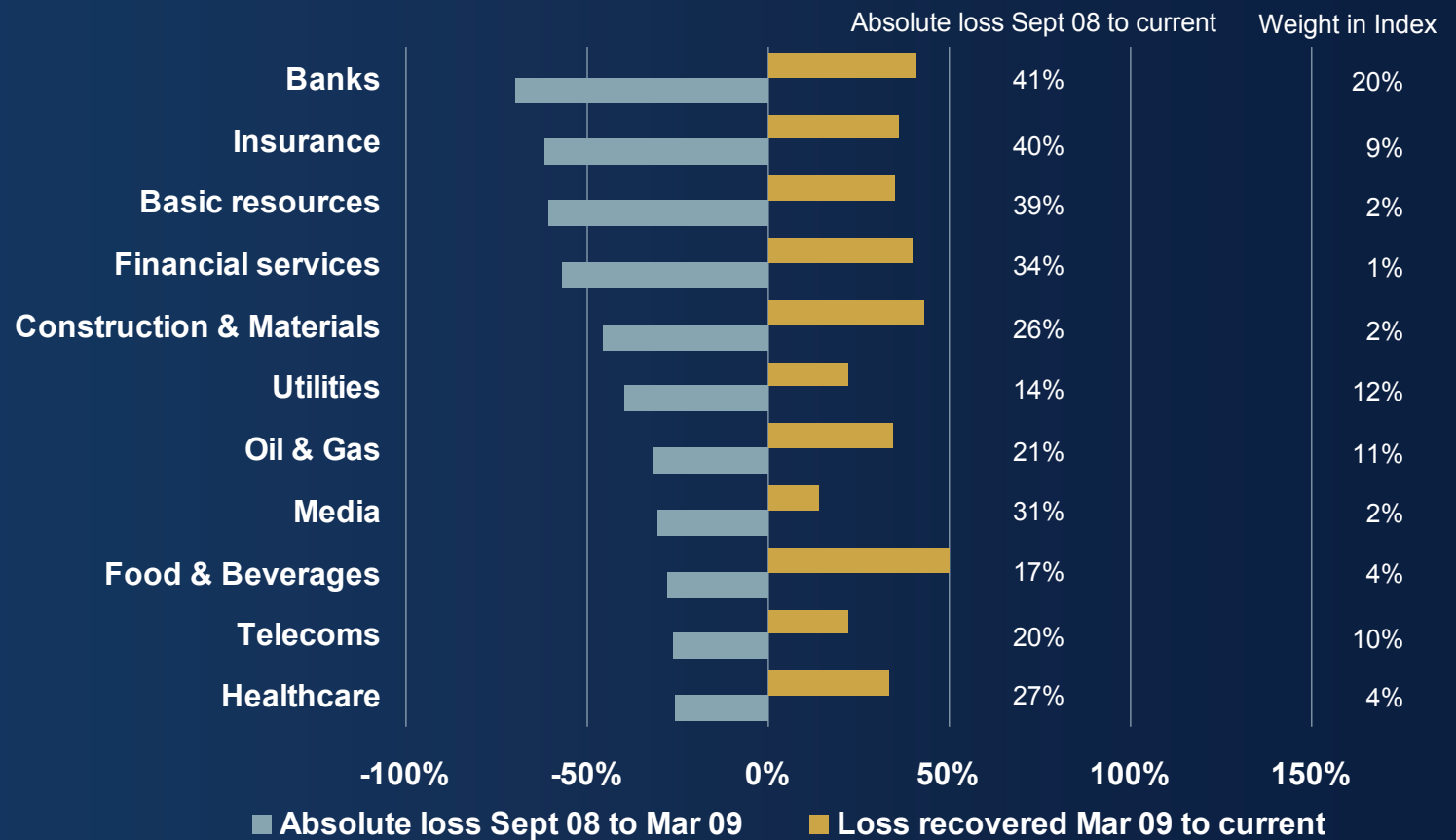


Source **Bloomberg**

Capital markets

Recent recovery skewed to financial stocks in last 3 months

Sector performance

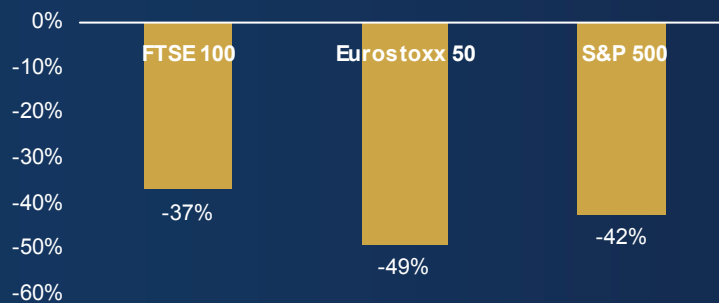


Source Bloomberg June 09
 Note Eurostoxx 600 subsectors' performance

Capital markets

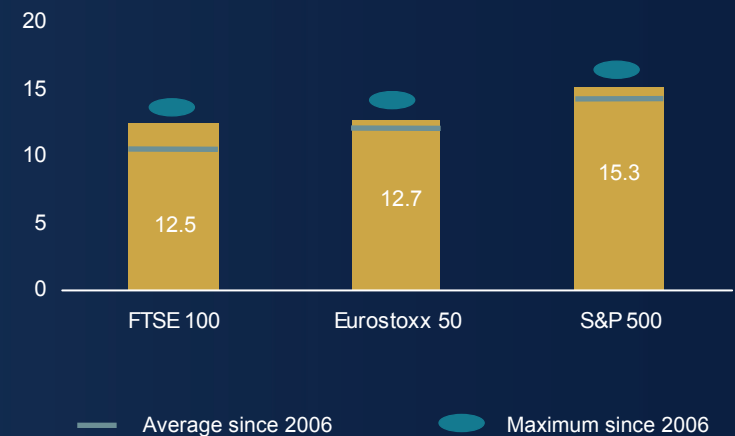
Current market valuations

Share price drop since peak in June 2007



Source **Bloomberg** June 09

Current Price-Earnings multiples



Source **Bloomberg** June 09

- Forward looking Price-Earnings multiples are back at peak levels, above average and close to the maximum since 2006

Multiples look as high as they can go, when will earnings recover?

Capital markets

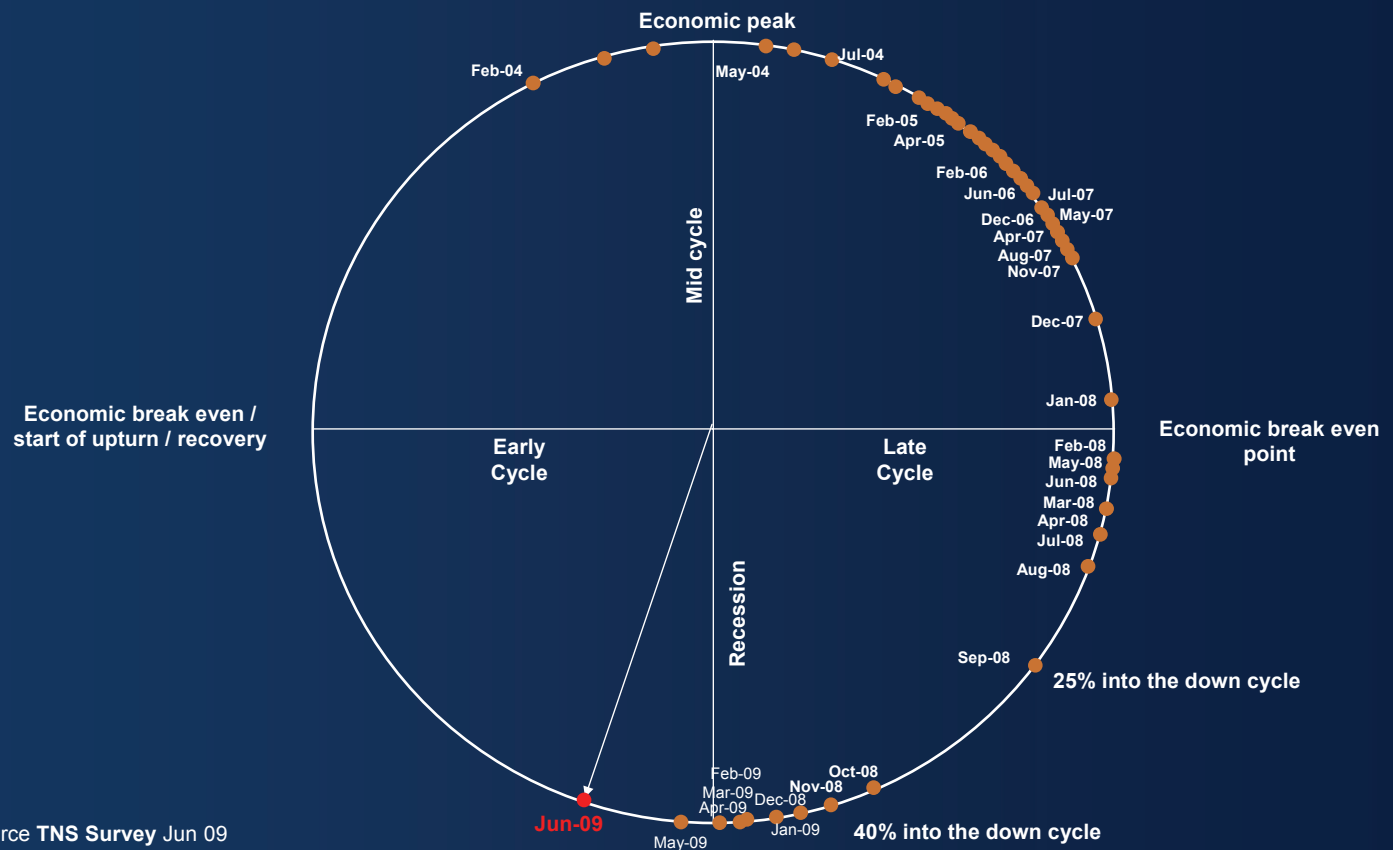
Current investor consensus over economic cycle

Phases of the global economic cycle, in degrees

Global growth expectations continue to surge

Investor expectations in May shifted decisively from recession to recovery

1/3 believe corporate profit growth will exceed 10% in the next 12 months



Source TNS Survey Jun 09

Blind optimism or real green shoots?

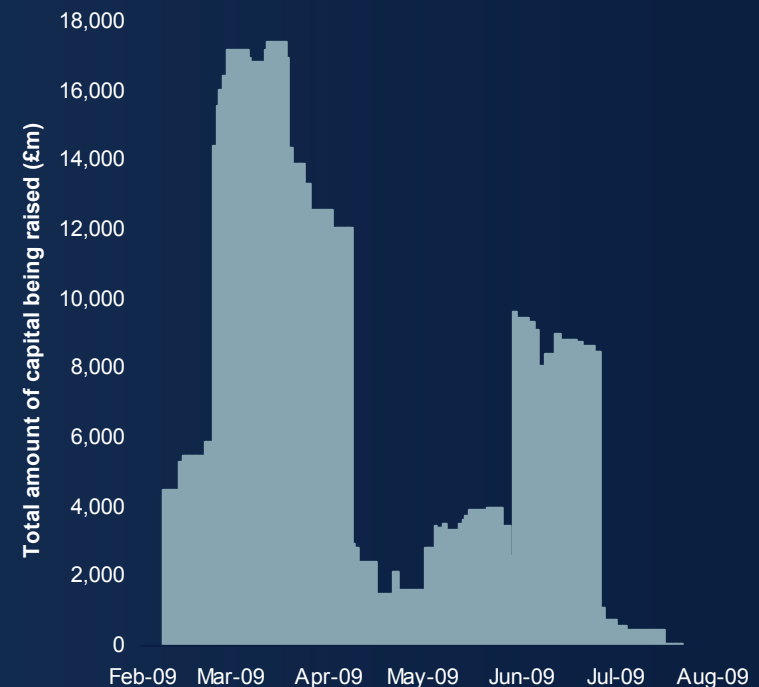
Capital markets

Significant secondary issuance in 2009 in the UK

Market rally

- £48bn of UK pre-emptive capital raisings in 2009¹
- Potential pipeline of c.£5-10bn+ of capital raisings in H2 2009
- At peak, c. £16bn was sub-underwritten by institutions, leaving only very limited headroom capacity
- The cash used was accumulated from liquidity events and from selling during October market collapse
- Institutions likely to be more choosy in H2 and “ration” for most deserving and urgent deals
- This will also be influenced by whether actual dividend flow meet current expectations

Estimated underwriting commitments (UK)



Source **Rothschild, RNS announcements 25/06/09**

Notes

- 1 Data adjusted for Glencore irrevocable portion of Xstrata rights issues, GIC primary underwriting for British Land rights issue, 30% Hong Kong proportion of the HSBC rights issue and US\$3.4bn Australian portion of the Rio Tinto rights issue
- 2 Charts show level of underwriting commitments on a daily basis (not on a cumulative basis)

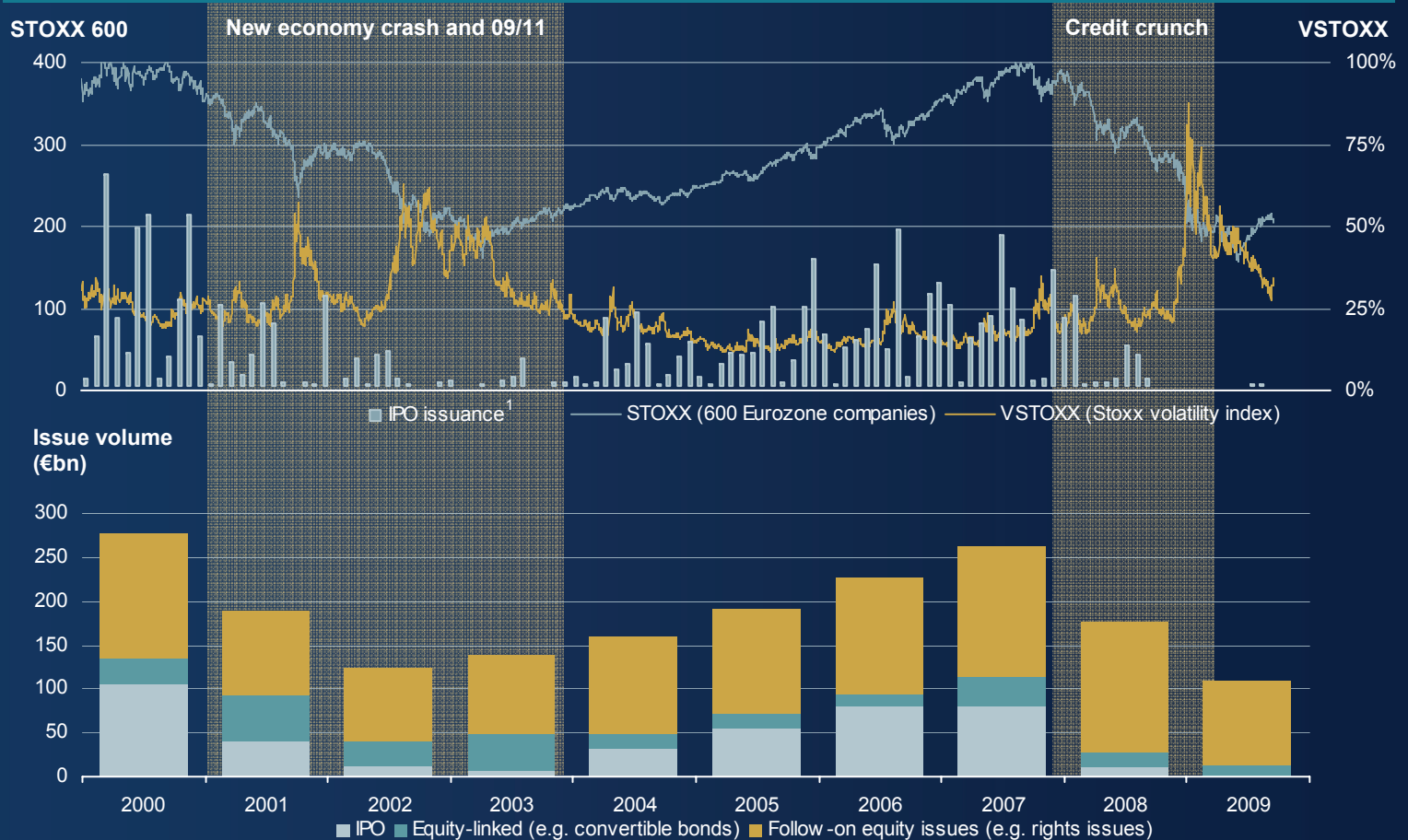
Capital markets

European capital issuances and market conditions

Relationship of capital issuances vs. market conditions

The STOXX 600 is an index of small, mid and large cap companies across Europe

The VSTOXX reflects market expectations of near-term volatility



Note 1. Scale not shown as for illustrative purposes only, with volume shown in chart below
Source Bloomberg, Dealogic June 09

Capital markets

Case study: UK capital raisings

Documented capital raisings (over £300m) since January 2009

No.	Annoucement date	Issuer	Structure	Value (£m)	Use of proceeds
1	18 Jun 09	GKN	Right Issue	425	Debt repayment
2	15 Jun 09	Punch Taverns	Placing and Open Offer	375	Debt repayment
3	05 Jun 09	Rio Tinto	Right Issue	7,400	Debt repayment
4	04 Jun 09	Debenhams	Placing and Open Offer	323	Debt repayment
5	20 May 09	Lloyds TSB	Placing and Open Offer	3,940	Redemption of preferred shares
6	11 May 09	Travis Perkins	Rights Issue	314	Debt repayment
7	11 May 09	Lonmin	Rights Issue	302	Debt repayment
8	08 May 09	Taylor Wimpey	Placing and Open Offer	510	Debt repayment
9	08 May 09	3i	Rights Issue	732	Debt repayment
10	30 Apr 09	DSGi	Placing & Rights Issue	311	Debt repayment
11	28 Apr 09	Liberty International	Placing and Open Offer	620	Debt repayment
12	18 Mar 09	SIG	Placing and Open Offer	341	Debt repayment
13	06 Mar 09	Wolseley	Placing & Rights Issue	1,051	Debt repayment
14	05 Mar 09	Premier Foods	Placing and Open Offer	404	Debt repayment
15	04 Mar 09	Segro	Rights Issue	524	Debt repayment
16	02 Mar 09	HSBC	Rights Issue	12,853	Tier 1 capital
17	27 Feb 09	William Hill	Rights Issue	365	Debt repayment
18	19 Feb 09	Land Securities	Rights Issue	785	Debt repayment
19	12 Feb 09	British Land	Rights Issue	767	Growth funding
20	09 Feb 09	Hammerson	Rights Issue	609	Debt repayment
21	29 Jan 09	Xstrata	Rights Issue	4,106	Debt repayment

Source Prospectus,
RNS announcements

So far a majority of equity issuance used to de-lever has been highly successful...

Capital markets

High yield bond issues

Recent European HY bond issues

Date	Issuer	Moody 's	S&P	Amount	Spread at reoffer (vs gov't)	Tenor	Coupon	Industry	Nationality
19-Jun	Ardagh Glass	Ba3	BB	€300m	610	7.0yr	9.250%	Building Materials	Ireland
05-Jun	Ifco Systems	Ba3	BB-	€200m	759	7nc4	10.000%	Business Services	Netherlands
03-Jun	Fresenius ¹	Ba1	BB	€150m	387.7	6.7yr	5.500%	Healthcare	Germany
29-May	Virgin Media	B2	B+	\$750m	721	7.2yr	9.500%	Telecommunications	UK
29-May	Virgin Media	B2	B+	€180m	713	7.2yr	9.500%	Telecommunications	UK
28-May	Pernod Ricard	Ba1	BB+	€800m	415	5.5yr	7.000%	Beverages	France
21-May	UPC ¹	B2	B-	€150m	848	9.0yr	9.750%	Telecommunications	Netherlands
14-May	Stora Enso ¹	Ba2	BB-	€232m	981	5.1yr	5.125%	Basic Materials	Finland
14-May	Stora Enso1	Ba2	BB-	€232m	981	5.1yr	5.125%	Basic Materials	Finland
15-Jan	Fresenius	Ba1	BB	\$500m	841	6.0yr	9.000%	Healthcare	Germany
15-Jan	Fresenius	Ba1	BB	€275m	782	6.0yr	8.750%	Healthcare	Germany

Source Bloomberg, Rothschild analysis

Note

Excludes Government and Finance issuers; ¹ indicates tap