LEHMAN BROTHERS | Equity Research

EUROPEAN MORNING RESEARCH SUMMARY

Tuesday, September 02, 2008

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Delek Group (DELKG.TA)	*No Surprises from the Delek Group*
Prudential Plc (PRU.L)	*Asia starts to look attractive on IFRS*
Strauss Group (STRS.TA)	*Hitting Headwinds; Downgrade to 3-UW*
Vinci S. A. (SGEF.PA)	*Reassuring analyst meeting*

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This summary is compiled from research published by Lehman Brothers.

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For complete details of the research together with the associated important disclosures and valuation methodologies, please see the full note on LehmanLive.

PLEASE SEE IMPORTANT DISCLOSURES BEGINNING ON PAGE 9.

KEY FORECAST CHANGES

SECURITY / SECTOR	TICKER	CURR	RATING		PRICE TARGET		CUR YEAR EPS		NEXT YEAR EPS	
			OLD	NEW	OLD	NEW	OLD	NEW	OLD	NEW
COMPANY RATING CHANGES										
Strauss Group	STRS.TA	ILS	2-EW	3-UW	58.00	50.00	2.96	2.56	3.85	3.67
TARGET PRICE CHANGES										
Allianz	ALVG.DE	EUR	2-EW	unch	150.00	155.00	14.10	unch	17.60	16.50
ESTIMATE CHANGES										
Vinci S. A.	SGEF.PA	EUR	1-OW	unch	60.00	unch	3.15	3.19	3.48	3.32

* unch - no change

Allianz (ALVG.DE): Dresdner: still a long way to go

Stock Rating:	2-Equal weight
Sector Rating:	1-Positive
Price:	EUR 114.19
Price Target:	EUR 155.00
Current Year EPS:	14.10
Next Year EPS:	16.50
Market Cap:	EUR 51654 (m)

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- While Allianz has received a better price for Dresdner than we had expected, we regard today's announcement as only the first step on a long road towards a possible exit or structural improvement of its under-performing German banking business. The main drawback of this deal seems to us to be that, as expected, Allianz has effectively only swapped the majority of its ownership of Dresdner for a stake in the new Commerzbank-Dresdner. Because of this, we regard the valuation upside of the deal at this stage to be relatively limited, certainly compared to a cash deal which would have secured an exit from German banking and provided the ability to return capital to shareholders, thereby potentially boosting shareholder returns considerably.
We have raised our price target modestly to EUR155 to reflect the better than expected price but reduced our net income forecasts for 2009 to reflect re-structuring charges. We remain 2-Equal weight.

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Banks: Performance drivers: September 2008

Sector Rating:	1-Positive

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- The European Banks Index (SX7P) shed the gains of the first two weeks of August and underperformed the market (E300) by 0.74% in a volatile performance for the end of August. Twin themes of unwinding Long Oil/Short Financials and earnings were the main stock drivers.
- The calendar for the next fortnight is light, with a few central bank decisions and investor days as we enter into the lean phase post close of Q2 earnings season. We continue to expect a stronger US dollar theme to continue, though the performance should be largely reflective of the macro picture emerging in the coming days.
- Our conviction ideas are prompted by our expectations of a reversal in recent stock outperformance, as we expect the market to recognise the deterioration in underlying fundamentals. We highlight Long CSG/Short UBS (relative valuation, new money growth, credit marks), Long HSBC/Short Barclays (dollar exposure, recent underperformance, NPL deterioration), Short Bankinter (recent performance, deteriorating Spanish economy).

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Delek Group (DELKG.TA): No Surprises from the Delek Group

Stock Rating:	3-Underweight
Sector Rating:	2-Neutral
Price:	ILS 425.10
Price Target:	ILS 580.00
Current Year EPS:	95.08
Next Year EPS:	99.50
Market Cap:	ILS 4918 (m)

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- Delek's Q2 results were negatively affected by higher cost of financing and weakness in the real estate and energy sectors. We are encouraged by the Group's constant search for new investments and believe that when opportunities arise mngmt will know when to act. At the same time, we see the potential ST catalyst from an IPO of the desalination business as remote. We maintain our PT and rating and are reviewing our model.
- Refining margins in the US (we view the recent spike as temporary) will likely continue to be weak through the course of 2008 and 2009. We recently reiterated our bearish view on US refiners continue to be cautious on the stock and the sector.
- Delek Auto was the main bright spot in Q2 however; we believe that 2H 2008 will prove to be difficult for DLEA and that solid growth vs. 07 is already priced into the valuation.
- Catalysts from IPOs remain remote in our view as we believe that Delek's partners at IDE are reluctant to take the company public.

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Equity Research: Issues Which Keep Me Awake At Night

Sector Rating:	0-Not Rated

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- In this interim update of our mid-year review for 2008, we judge that market awareness of political risk - at the global and the local levels - is set to remain high for the remainder of 2008.
- The US elections (and possible "unknown unknowns") aside, three issues now look likely to dominate the political scene through the latter part of 2008, ie; the possibility of military action against Iran's nuclear programme; the political consequences of food and fuel price inflation; and the West's relations with Russia. Furthermore, the "known unknown" of an international terrorist attack remains a real threat.

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Independent Refiners: 2Q 2008 Scoresheet

Sector Rating:	3-Negative

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- 2Q 2008 was a relatively strong quarter for refining with margins improving substantially relative to 1Q, primarily driven by strong middle distillate crack spreads. On average, earnings were up 98% q-o-q with the clear winners for the quarter being Petroplus and the Polish duo of PKN and Lotos. However, volatility has always been a feature of the refining industry and we believe that 3Q will see earnings fall from 2Q. Our forecasts also assume a fall in the oil price to $100/bl by 4Q, and although lower oil prices may be seen as good for refiners, we do not believe this will lead to higher margins as our outlook for the oil price is predicated on weaker demand and new downstream supply. We rate the sector 3-Negative, expecting the shares to underperform the broader oil sector.

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Prudential Plc (PRU.L): Asia starts to look attractive on IFRS

Stock Rating:	1-Overweight
Sector Rating:	2-Neutral
Price:	548p
Price Target:	989p
Current Year EPS:	
Next Year EPS:	
Market Cap:	STG 13428 (m)

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- One of the main bear points relating to Prudential Asia has been the criticism that the company has generated a lot of subjective embedded value, but little in the way of objective cash or IFRS earnings from the region. Our analysis indicates this is set to change. With the stock trading below EV, and with Asian sales likely to grow at a CAGR of 15-20% over the next five years, we remain 1-Overweight.
- Asia currently generates 60% of new business profit. By 2010, we expect Asian EV to exceed that in the UK, and to form more than 50% of the group's total by 2012. Asia is set to contribute more premium income than the UK in 2009.
- We calculate that IFRS earnings in Asia are set to grow 5-15% p.a. faster than sales over the next five years, as the growing book of in-force regular premiums drives asset growth. Cash flow should follow a similar pattern.
- Increased disclosure on IFRS should help to refine our calculations, but also to highlight the trend to the market. On our figures, if Prudential Asia is worth an IFRS PE/growth ratio of 0.8 in 2012, it would be worth EV plus 7x new business profit today - reassurance that EV is the right valuation metric for Prudential Asia.

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Strauss Group (STRS.TA): Hitting Headwinds; Downgrade to 3-UW

Stock Rating:	3-Underweight
Sector Rating:	1-Positive
Price:	ILS 44.70
Price Target:	ILS 50.00
Current Year EPS:	2.56
Next Year EPS:	3.67
Market Cap:	ILS 4711 (m)

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- We downgrade the shares of STRS to 3-UW from 2-EW. The stock has fallen since its second-quarter report (-7.8% vs -3.1% for the TA-25), but we believe there are limited catalysts and expect other stocks in our coverage universe to provide more upside over the coming quarters.
- 2Q08 results were negatively affected by rising raw material prices across geographies, rising energy prices, a strong shekel and high CPI linked financing expenses.
- While EBITDA trends were positive, free cash flow was ILS - 350m compared with ILS +180m in 2Q07. Management explained some of this as strategic inventory building, but we are hard pressed to see a return to positive FCF by the end of 2008.
- In our initiation report in June, we cited three challenges facing STRS: 1) margin pressure in Israel; 2) coffee investment; and 3) US investment. Each of these affected 2Q, and we do not see a let-up any time soon.
- We believe STRS is a strong company with a good strategy in a tough environment; it is the externals that drive our downgrade.

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Vinci S. A. (SGEF.PA): Reassuring analyst meeting

Stock Rating:	1-Overweight
Sector Rating:	2-Neutral
Price:	EUR 38.85
Price Target:	EUR 60.00
Current Year EPS:	3.19
Next Year EPS:	3.32
Market Cap:	EUR 18563 (m)

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- We reiterate our positive stance on Vinci following the announcement of IH08 and a reassuring analysts' meeting.
- The group's operating and net performance in the first half of the year proved better than expected, mainly in terms of operating margins in the construction area.
- Vinci's management delivered a reassuring message in terms of 2008 revenues, margins and debt, also supported by a) ongoing order book growth for construction activities; and b) improved traffic performance in August (versus a weak June and July period).
- Vinci's balance sheet structuring continues to look solid, with no refinancing risk and limited exposure to rate hikes.

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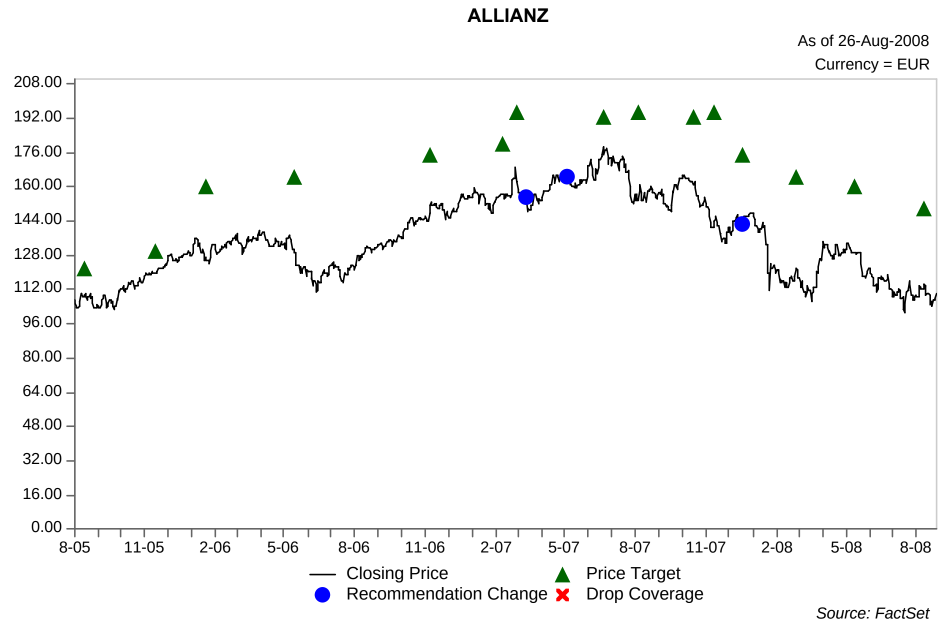
Allianz (ALVG.DE) **EUR 114.19 (29-Aug-2008)** **2-Equal weight / 1-Positive**

Rating and Price Target Chart :



Currency = EUR

Date	Closing Price	Rating	Price Target
11-Aug-08	114.61		150.00
12-May-08	129.05		160.00
26-Feb-08	121.53		165.00
18-Dec-07	142.82	2 - Equal weight	
18-Dec-07	142.82		175.00
12-Nov-07	144.02		195.00
16-Oct-07	161.12		193.00
06-Aug-07	154.60		195.00
20-Jun-07	178.64		193.00

Date	Closing Price	Rating	Price Target
04-May-07	164.51	1 - Overweight	
13-Mar-07	154.75	RS - Rating Suspended	
27-Feb-07	162.59		195.00
09-Feb-07	156.67		180.00
06-Nov-06	147.90		175.00
15-May-06	129.63		165.00
19-Jan-06	127.17		160.00
14-Nov-05	119.48		130.00
15-Aug-05	109.10		122.00

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Valuation Methodology: We value all of Allianz's business on the basis of a return on embedded value over the next five years together with a two-stage growth model, using an explicit growth rate for seven years and 1% to perpetuity. We use an embedded value approach to value he life business using our own risk-adjusted embedded value model.

Risks Which May Impede the Achievement of the Price Target: Risks to Allianz's performance include potential asset volatility and any reserve inadequacy in its insurance business. In its banking operations it is vulnerable to any deterioration in the credit quality of its loan book and fall in revenues.

Delek Group (DELKG.TA) **ILS 425.10 (29-Aug-2008)** **3-Underweight / 2-Neutral**

Rating and Price Target Chart :

CHART IS NOT APPLICABLE

Currency = ILS

FOR EXPLANATIONS OF RATINGS REFER TO THE STOCK RATING KEYS LOCATED ON THE PAGE FOLLOWING THE LAST PRICE CHART

Strauss Group (STRS.TA) **ILS 44.70 (01-Sep-2008)** **3-Underweight / 1-Positive**

Rating and Price Target Chart :

CHART IS NOT APPLICABLE

Currency = ILS

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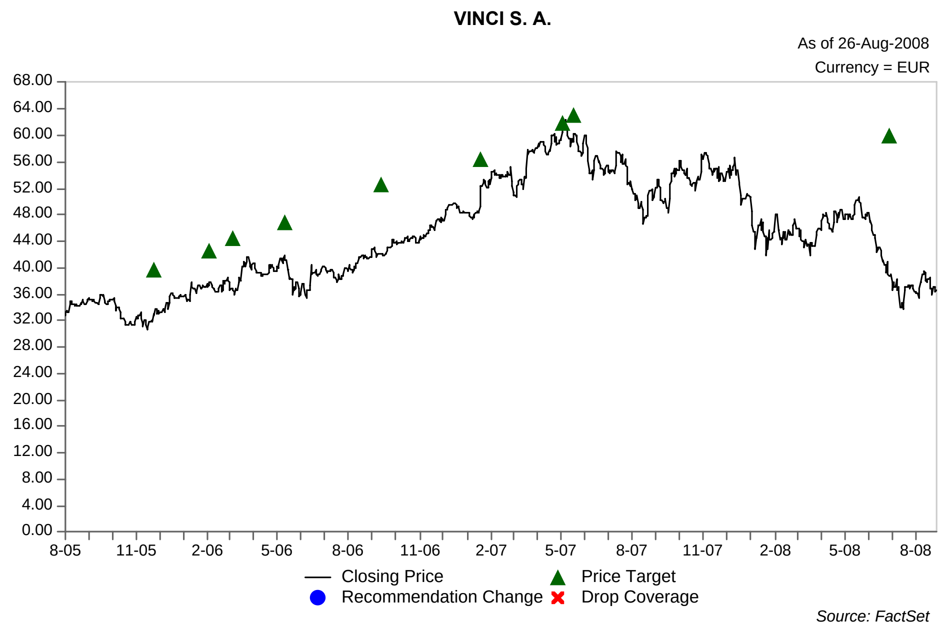
Valuation Methodology: We value SG using two methods: (1) DCF based on WACC of 9.5%, terminal growth of 2% and EBIT of 10%; and (2) P/E multiple using European and NA food companies for comparable multiples. We have considered using the "implied value of the coffee business" bsed on the recent transaction with TPG but do not believe the market values STRS on this basis.

Risks Which May Impede the Achievement of the Price Target: Strauss Group participates in the domestic Israeli food market and the global roast and ground coffee market, both of which are highly competitive. SG has embarked upon an aggressive M&A strategy focused on emerging markets (Eastern Europe and Brazil in articular), which is inherently high risk.

Vinci S. A. (SGEF.PA) **EUR 38.85 (29-Aug-2008)** **1-Overweight / 2-Neutral**

Rating and Price Target Chart :



Currency = EUR

Date	Closing Price	Rating	Price Target
27-Jun-08	38.85		60.00
17-May-07	59.04		63.00
03-May-07	60.42		62.00
19-Jan-07	52.45		56.50
13-Sep-06	42.10		52.50

Date	Closing Price	Rating	Price Target
11-May-06	41.83		47.00
06-Mar-06	36.55		44.50
03-Feb-06	37.83		42.50
23-Nov-05	33.08		39.66

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Valuation Methodology: We valued Vinci on the basis of a sum-of-the-parts approach. In particular, the group's concession business on the basis of a DCF, which considers the group's stream of cash flow until the end of the concession period. We use a variable WACC, but we woud obtain the same result adopting a 6% stable cost of capital for ASF and a 6.5% stable WACC for Cofiroute Other business activities, i.e. group road works, construction and energy and IT services are valued on the basis of market multiples, i.e. an EV/EBIT of 10x on expected 2009 results.

Risks Which May Impede the Achievement of the Price Target: Our forecast and valuation for Vinci are subject to a number of assumptions on macro factors and of operating profitability trends. Any chance to our projections on those key variable could therefore result in a significant change to our target price

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2-Equal weight - The stock is expected to perform in line with the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.
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1-Positive - sector coverage universe fundamentals/valuations are improving
2-Neutral - sector coverage universe fundamentals/valuations are steady, neither improving nor deteriorating
3-Negative - sector coverage universe fundamentals/valuations are deteriorating

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