NORTH AMERICAN MORNING RESEARCH SUMMARY

Tuesday, July 08, 2008

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This summary is compiled from research published by Lehman Brothers.

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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										
Downey Financial Corp.	DSL	US$	1-OW	2-EW	60.00	5.00	(1.27)	(15.88)	N/A	(2.90)
Tronox Inc.	TRX	US$	2-EW	3-UW	4.00	2.00	(0.98)	(1.86)	N/A	unch
TARGET PRICE CHANGES										
Allstate Corp.	ALL	US$	2-EW	unch	55.00	49.00	5.45	unch	6.00	unch
Alon USA Energy	ALJ	US$	2-EW	unch	10.00	7.00	(0.50)	unch	1.20	0.95
American International Group	AIG	US$	2-EW	unch	45.00	29.00	2.35	unch	4.75	unch
Arch Capital Group Ltd.	ACGL	US$	2-EW	unch	80.00	74.00	11.00	unch	10.75	unch
Aspen Insurance Holdings	AHL	US$	2-EW	unch	30.00	25.00	4.05	unch	4.60	unch
Aventine Renewable Energy Holdings, Inc.	AVR	US$	2-EW	unch	7.00	5.00	0.48	0.45	0.05	0.21
Chevron Corporation	CVX	US$	1-OW	unch	120.00	123.00	12.40	14.65	10.80	13.60
ConocoPhillips	COP	US$	2-EW	unch	90.00	92.00	11.90	14.75	9.95	13.10
Delek US Holdings Inc.	DK	US$	2-EW	unch	13.00	12.00	0.75	0.55	0.95	0.75
Everest Re Group	RE	US$	1-OW	unch	105.00	99.00	12.00	unch	11.50	unch
Exxon Mobil Corp.	XOM	US$	2-EW	unch	101.00	102.00	9.00	10.35	7.80	9.65
Flagstone Reinsurance Holdings Ltd.	FSR	US$	2-EW	unch	15.00	13.00	2.20	unch	2.40	unch
Frontier Oil	FTO	US$	3-UW	unch	25.00	23.00	2.50	2.55	2.40	2.20
Hess Corp.	HES	US$	2-EW	unch	110.00	115.00	9.85	12.35	8.00	11.30
InBev	INTB.BR	EUR	1-OW	unch	60.00	54.00	3.19	3.08	3.50	3.33
Marathon Oil Corp.	MRO	US$	1-OW	unch	63.00	65.00	6.70	6.90	5.80	7.05
Montpelier Re Holdings	MRH	US$	2-EW	unch	18.00	16.00	2.05	unch	2.20	unch
Murphy Oil	MUR	US$	2-EW	unch	89.00	98.00	8.05	10.00	8.15	10.85
Petro-Canada	PCA	CAD	2-EW	unch	58.00	59.00	8.35	10.85	6.55	9.15
Petroleo Brasileiro S.A.	PBR	US$	2-EW	unch	62.00	65.00	5.10	5.70	4.65	5.85
Petroleo Brasileiro S.A.	PBRA	US$	1-OW	unch	61.50	64.50	5.10	5.70	4.65	5.85
RenaissanceRe Holdings	RNR	US$	2-EW	unch	57.00	49.00	7.90	unch	8.25	unch
SABMiller	SAB.L	STG	2-EW	unch	1340p	1170p	156.4	151.3	178.0	166.0
Suncor Energy	SU	CAD	2-EW	unch	57.00	59.00	3.90	5.05	3.90	5.75
Tesoro Corporation	TSO	US$	2-EW	unch	20.00	17.00	0.40	(0.80)	1.60	1.30
The Travelers Companies, Inc.	TRV	US$	1-OW	unch	62.00	55.00	6.15	unch	6.35	unch
Valero Energy	VLO	US$	2-EW	unch	44.00	40.00	4.90	4.35	4.40	4.05
VeraSun Energy Corp.	VSE	US$	2-EW	unch	7.00	5.00	0.05	(0.10)	(0.15)	(0.05)
XL Capital Ltd.	XL	US$	2-EW	unch	35.00	22.00	6.65	unch	5.75	unch
ESTIMATE CHANGES										
Quicksilver Resources Inc.	KWK	US$	1-OW	unch	56.00	unch	1.25	1.40	1.15	1.45
Sunoco, Inc.	SUN	US$	2-EW	unch	37.00	unch	1.15	0.35	2.05	1.75

* unch - no change

Allstate Corp. (ALL): ALL: Reducing Price Target, 2-EW

Stock Rating:	2-Equal weight
Sector Rating:	2-Neutral
Price:	US$ 47.00
Price Target:	US$ 49.00
Current Year EPS:	5.45
Next Year EPS:	6.00
Market Cap:	US$ 25886 (m)

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- We are reducing our price target for Allstate to $49 (1.2x 2009E book value) from $55 (1.3x 2009E book value) to reflect a more reasonable valuation in a challenging environment for financials, as well as a deteriorating outlook for P&C insurance fundamentals through 2010 and subprime investment exposure.
- No change to our EPS estimate of $5.45 in 2008 (consensus= $5.70) and $6.00 in 2009 (consensus= $6.13).
- Reiterate 2-EW rating on Allstate. Allstate could benefit from a return to favorable frequency trends from rising gas prices; however, increasing competition in personal auto and subprime investment exposure could restrain book value growth.
- ALL currently trades at 1.29x book value, versus the historical median of 1.6x (historical range: 0.9x-2.5x).

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Alon USA Energy (ALJ): EPS Revision

Stock Rating:	2-Equal weight
Sector Rating:	3-Negative
Price:	US$ 10.00
Price Target:	US$ 7.00
Current Year EPS:	(0.50)
Next Year EPS:	0.95
Market Cap:	US$ 468 (m)

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- We are raising our 2008 and 2009 oil price assumption to $127/bl and $115/bl from $105/bl and $90/bl, respectively. We are also lowering our refining margin assumptions for 2008 and 2009. As a result, we lower refiner earnings by 68% and 15%, respectively.
- We lower our 3Q08 and 2009 EPS to reflect lower refining margin assumptions.
- We also lower our price target to $7/share from $10/share.

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American International Group (AIG): AIG: Reducing Price Target, 2-EW

Stock Rating:	2-Equal weight
Sector Rating:	2-Neutral
Price:	US$ 26.46
Price Target:	US$ 29.00
Current Year EPS:	2.35
Next Year EPS:	4.75
Market Cap:	US$ N/A (m)

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- We are reducing our price target for AIG to $29 (0.7x 2009E book value) from $45 (1.2x 2009E BV) to reflect our outlook for valuation multiple compression due to concerns of additional investment writedowns and capital req's.
- AIG has the most exposure of the companies we cover to the credit crunch (over 100% of shareholder's equity) and could suffer more investment writedowns.
- Our '09 EPS est does not include the potential for AIG to exit non-core businesses, which could be dilutive in our view. The new CEO expects to complete a review of AIG's businesses in September. We believe AIG could consider exiting financial products, consumer finance, and asset mgmt.
- Reiterate 2-EW rating on AIG. AIG trades at an all-time low of 0.80x BV although we believe this is largely justified based on concerns about further investment writedowns & capital requirements. Our EPS est are significantly below consensus.

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Ameriprise Financial (AMP): Strategic Move to Increase ROE

Stock Rating:	1-Overweight
Sector Rating:	2-Neutral
Price:	US$ 39.88
Price Target:	US$ 69.00
Current Year EPS:	3.63
Next Year EPS:	4.43
Market Cap:	US$ 8859 (m)

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- AMP announced yesterday the acquisition of J. & W. Seligman & Co. for $440 million in cash. We view this as a positive for the stock as the company pushes further into higher margin and ROE businesses such as asset management. The acquisition will add $18 billion in assets and increase AMP's marketing capabilities. We affirm our 1-Overweight rating on AMP and our $69 price target.

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Apollo Group, Inc. (APOL): APOL Names CS Banker Edelstein New CEO

Stock Rating:	1-Overweight
Sector Rating:	2-Neutral
Price:	US$ 55.18
Price Target:	US$ 64.00
Current Year EPS:	2.73
Next Year EPS:	3.32
Market Cap:	US$ 8747 (m)

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- Last night, Apollo Group named former Credit Suisse investment banker Charles Edelstein its new Chief Executive Officer.
- Given his long tenure as an i-banker for the for-profit education industry, Mr. Edelstein clearly knows the industry & players very well. We have also heard he is a strong manager & motivator of people, and a good strategic thinker.
- However, he has no direct experience with managing an operating business, marketing, or operating in a regulated industry.
- While we expect Mr. Edelstein to fit seamlessly with the team, we question how many new skills he brings to APOL (that it doesn't already have). And, we believe his appointment increases risk that APOL follows an M&A heavy agenda over the LT rather than one with considerable return of cash to shareholders, as we would prefer.
- Despite these concerns, APOL should benefit from having a CEO after 2.5 yrs without one. In addition to adding depth to sr. mgmt, we expect the new CEO to better manage the many parts of APOL (mkting, IT, academics, ops, etc.) than has been done in recent times while also consolidating decision making. Reit. 1-OW & $64 target.

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Apple, Inc. (AAPL): Weekly Apple Monitor 7/8/08

Stock Rating:	1-Overweight
Sector Rating:	2-Neutral
Price:	US$ 170.12
Price Target:	US$ 234.00
Current Year EPS:	5.30
Next Year EPS:	6.60
Market Cap:	US$ 155090 (m)

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- Even as the economy remains volatile, we believe momentum is building for Apple into year-end due to the upcoming launch of the 3G iPhone, the potential for new notebooks & heightened excitement around its "mobile community".
- The 3G iPhone goes on sale Friday & a line has already formed outside Apple's 5th Ave store in NYC. Excitement around the launch could impact shares over the next few weeks.
- Checks and NPD weekly US data suggest Apple's calendar 2Q iPod sales (data through 6/28) are up in the low single digits y/y (total MP3 market is up slightly as well). iPod unit sales were up 8% y/y the week ending 6/28 - the best y/y growth rate since the week of 5/19.
- All major Apple products are shipping w/in 24hrs on Apple.com with the exception of the 1.8Ghz MacBook Air and the 3.06Ghz iMac.
- iPod SKUs appear to have sufficient availability at Best Buy stores; but the 8GB & 16GB Touch have the lowest % availability.
- iPods continue to be relatively stable on the Amazon.com top sellers list, still holding 8 of the top 10 MP3 player slots. iPod demand overall seemed surprisingly stable in the June quarter.

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Arch Capital Group Ltd. (ACGL): ACGL: Reducing Price Target, 2-EW

Stock Rating:	2-Equal weight
Sector Rating:	2-Neutral
Price:	US$ 67.10
Price Target:	US$ 74.00
Current Year EPS:	11.00
Next Year EPS:	10.75
Market Cap:	US$ 4300 (m)

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- We are reducing our price target for Arch Capital to $74 (1.0x 2009E book value) from $80 (1.1x 2009E book value) to reflect a more reasonable valuation in a challenging environment for financials, as well as a deteriorating outlook for P&C (re)insurance fundamentals through 2010.
- No change to our EPS estimate of $11.00 (cons= $10.46) in 2008 and $10.75 (cons=$10.29) in 2009.
- Reit our 2-EW, we believe Arch should benefit from increasing invested asset leverage, reserve releases and buyback activity, although P&C market conditions are deteriorating.
- ACGL trades at 1.18x BV, below ACGL's historical median of 1.5x (range=1.1x-1.8x).

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Aspen Insurance Holdings (AHL): AHL: Reducing Price Target, 2-EW

Stock Rating:	2-Equal weight
Sector Rating:	2-Neutral
Price:	US$ 23.69
Price Target:	US$ 25.00
Current Year EPS:	4.05
Next Year EPS:	4.60
Market Cap:	US$ 2034 (m)

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- We are reducing our price target for Aspen to $25 (0.7x 2009E book value) from $30 (0.8x 2009E book value) to reflect a more reasonable valuation in a challenging environment for financials, as well as a deteriorating outlook for P&C (re)insurance fundamentals through 2010.
- No change to our EPS estimate of $4.05 in 2008 (consensus= $4.06) and $4.60 in 2009 (consensus= $4.21).
- Reiterating our 2-EW rating on Aspen based on our view that the company faces headwinds from falling P&C prices, investment volatility, and 2007 should represent peak earnings and ROE. However, AHL's valuation is low in our view at 0.83x book value, below its historical median of 1.1x and at an all-time historical low.

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Aventine Renewable Energy Holdings, Inc. (AVR): Lower Price Target

Stock Rating:	2-Equal weight
Sector Rating:	2-Neutral
Price:	US$ 4.56
Price Target:	US$ 5.00
Current Year EPS:	0.45
Next Year EPS:	0.21
Market Cap:	US$ 191 (m)

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- We raise our ethanol price assumption for 2008 from $2.50/gal to $2.70/gal and raise our corn price from $6.00/bu to $6.54/bu.
- We slightly lower our 2008 EPS as higher corn price assumption more than offset higher ethanol price. We raise 2009 EPS to reflect our higher oil price assumption.
- We lower our price target from $7/sh to $5/sh mainly to reflect higher long term corn price assumption at $6.00/bu, up from $5.00/bu.

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Beverages & Tobacco: Staying with spirits

Sector Rating:	2-Neutral

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- Retain Diageo as our preferred large-cap stock; keep 1-OW on Pernod. Slower WE and certain emerging markets weigh on some beer stocks. Keep InBev as 1-OW despite short-term volatility; see some risk at Heineken and SABMiller.
- Although we still see defensive attractions across the beverages sector, we have downgraded our estimates to reflect slowing economies in Western Europe and some emerging markets, together with higher interest rates where companies are highly leveraged.
- We continue to see spirits as being more defensive than beer; our spirits estimate downgrades tend to be lower than for beer, especially for Diageo, where we see recent share price weakness as unjustified. We believe the shares look attractive at 2009E P/E of 12.3x. Although the high leverage at Pernod and return to more normal growth rates may weigh on the shares in the short term, we still see good sustainable growth and retain our 1-OW stance.
- Within beer we still see up to EUR 10 of upside potential for InBev shares if it succeeds with the Anheuser deal at $65 and fundamental value of EUR 54, although the shares are likely to be volatile until the acquisition and financing of Anheuser are complete.

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Biogen Idec (BIIB): FORTE Study Modest Positive

Stock Rating:	2-Equal weight
Sector Rating:	2-Neutral
Price:	US$ 58.20
Price Target:	US$ 61.00
Current Year EPS:	3.40
Next Year EPS:	4.16
Market Cap:	US$ 16895 (m)

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- We are maintaining our 2-Equal weight rating on shares of BIIB following disappointing results for competitor Teva from its high dose Copaxone FORTE study. With failure to demonstrate an incremental of high dose over standard dose Copaxone, a competitive threat has been limited, although we believe that additional competitive risks exist.
- Please see our comments below.

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Chevron Corporation (CVX): EPS Revision

Stock Rating:	1-Overweight
Sector Rating:	2-Neutral
Price:	US$ 98.63
Price Target:	US$ 123.00
Current Year EPS:	14.65
Next Year EPS:	13.60
Market Cap:	US$ 204005 (m)

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- We are raising our 2008 and 2009 oil price assumptions to $127/bl and $115/bl from $105/bl and $90/bl respectively. As a result, we have increased our earnings estimates for the integrated companies by an average of 19% for 2008 and 32% for 2009, respectively.
- For Chevron, we raise our 2008 and 2009 EPS by 18% and 26%, respectively.
- We now use $90/bl nominal oil price in 2012 to calculate our price target compared to $80/bl previously. We also use the 10-year estimated treasury yield of 7% compared to 6% previously and as a result we raise our price target by $3 to $123 per share.

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ConocoPhillips (COP): EPS Revision

Stock Rating:	2-Equal weight
Sector Rating:	2-Neutral
Price:	US$ 91.84
Price Target:	US$ 92.00
Current Year EPS:	14.75
Next Year EPS:	13.10
Market Cap:	US$ 141658 (m)

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- We are raising our 2008 and 2009 oil price assumptions to $127/bl and $115/bl from $105/bl and $90/bl respectively. As a result, we have increased our earnings estimates for the integrated companies by an average of 19% for 2008 and 32% for 2009, respectively.
- For ConocoPhillips, we raise our 2008 and 2009 EPS by 24% and 32%, respectively.
- We now use $90/bl nominal oil price in 2012 to calculate our price target compared to $80/bl previously. We also use the 10-year estimated treasury yield of 7% compared to 6% previously and as a result we raise our price target by $2 to $92 per share.

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Delek US Holdings Inc. (DK): EPS Revision

Stock Rating:	2-Equal weight
Sector Rating:	3-Negative
Price:	US$ 8.70
Price Target:	US$ 12.00
Current Year EPS:	0.55
Next Year EPS:	0.75
Market Cap:	US$ 467 (m)

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- We are raising our 2008 and 2009 oil price assumption to $127/bl and $115/bl from $105/bl and $90/bl, respectively. We are also lowering our refining margin assumptions for 2008 and 2009. As a result we lower refiner earnings by 68% and 15%, respectively.
- We lower our 2008 and 2009 EPS to reflect lower refining margin assumptions.
- We also lower our price target to $12/share from $13/share.

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Downey Financial Corp. (DSL): Downgrading to 2 EW; Dropping Coverage

Stock Rating:	2-Equal weight
Sector Rating:	3-Negative
Price:	US$ 2.63
Price Target:	US$ 5.00
Current Year EPS:	(15.88)
Next Year EPS:	(2.90)
Market Cap:	US$ 77 (m)

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- After downgrading the mortgage sector to 3-Negative last year, DSL was our only 1-Overweight based in California, which was then already appearing to be one of the worst markets in the housing slump. The combination of excess capital, historically superior credit quality, strong deposit franchise and apparent conservative underwriting were expected to make the stock outperform. Instead, the stock has suffered as NPAs rose from 1% to 14% in the last 13 months. For several months, it has appeared that DSL's stock is a binary trade, like so many other weakened bank/thrift stocks. It appears DSL is overwhelmed by rising NPAs, and its excess capital, deposit franchise and underwriting may or may not save it, but that is now beyond the scope of analysis. In addition, a key mgt figure, COO Rick McGill, who joined the bank last year after successfully selling his previous bank (Quaker City with which we were familiar) suddenly left last week. In turn, despite the fact that DSL still has in excess of 8% tangible capital as of 1Q08, we belatedly downgrade DSL to a 2-Equal Weight and discontinue research coverage given the uncertain outlook, with the hope that DSL can control credit losses and realize what is left of book val per shr.

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Everest Re Group (RE): Everest Re: Reducing Price Target, 1-OW

Stock Rating:	1-Overweight
Sector Rating:	2-Neutral
Price:	US$ 78.90
Price Target:	US$ 99.00
Current Year EPS:	12.00
Next Year EPS:	11.50
Market Cap:	US$ 4900 (m)

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- We are reducing our price target for Everest Re to $99 (0.9x 2009E book value of $107) from $105 (1.0x 2009E book value of $107) to reflect a more reasonable valuation in a challenging environment for financials, as well as a deteriorating outlook for P&C reinsurance fundamentals through 2010.
- Notably, our revised price target still implies over 20% potential upside from current levels and we view RE's current valuation of 0.87x book value as attractive (historical median=1.3x , range=.8x to 2.1x).
- No change to our EPS estimate of $12.00 (cons= $12.21) in 2008 and $11.50 (cons=$12.18) in 2009.
- Maint. our 1-OW rating on RE because we believe RE offers a diversified reinsurance and primary insurance platform with substantial excess capital that will likely be returned to shareholders.

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Exxon Mobil Corp. (XOM): EPS Revision

Stock Rating:	2-Equal weight
Sector Rating:	2-Neutral
Price:	US$ 88.27
Price Target:	US$ 102.00
Current Year EPS:	10.35
Next Year EPS:	9.65
Market Cap:	US$ 466392 (m)

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- We are raising our 2008 and 2009 oil price assumptions to $127/bl and $115/bl from $105/bl and $90/bl respectively. As a result, we have increased our earnings estimates for the integrated companies by an average of 19% for 2008 and 32% for 2009, respectively.
- For Exxon Mobil, we raise our 2008 and 2009 EPS by 15% and 24%, respectively.
- We now use $90/bl nominal oil price in 2012 to calculate our price target compared to $80/bl previously. We also use the 10-year estimated treasury yield of 7% compared to 6% previously and as a result we raise our price target by $1 to $102 per share.

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Flagstone Reinsurance Holdings Ltd. (FSR): FSR: Reducing Price Target, 2-EW

Stock Rating:	2-Equal weight
Sector Rating:	2-Neutral
Price:	US$ 11.43
Price Target:	US$ 13.00
Current Year EPS:	2.20
Next Year EPS:	2.40
Market Cap:	US$ 975 (m)

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- We are reducing our price target for Flagstone Re to $13 (0.8x 2009E book value) from $15 (0.9x 2009E book value) to reflect a more reasonable valuation in a challenging environment for financials, as well as a deteriorating outlook for P&C reinsurance fundamentals through 2010.
- No change to our EPS estimate of $2.20 in 2008 (consensus= $2.21) and $2.40 in 2009 (consensus= $2.29).
- Reiterate 2-EW rating on FSR. We believe FSR is well positioned to gain market share and manage its catastrophe exposure effectively. However, property catastrophe reinsurance pricing and returns are past peak levels, in our analysis.
- FSR trades at 0.81x book value, versus the historical median of 1.0x (historical range: 0.8x-1.1x).

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Frontier Oil (FTO): EPS Revision

Stock Rating:	3-Underweight
Sector Rating:	3-Negative
Price:	US$ 22.22
Price Target:	US$ 23.00
Current Year EPS:	2.55
Next Year EPS:	2.20
Market Cap:	US$ 2310 (m)

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- We are raising our 2008 and 2009 oil price assumption to $127/bl and $115/bl from $105/bl and $90/bl, respectively. We are also lowering our refining margin assumptions for 2008 and 2009. As a result we lower refiner earnings by 68% and 15%, respectively.
- We lower our 3Q08 and 2009 EPS to reflect lower refining margin assumptions.
- We also lower our price target to $23/share from $25/share.

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Goldman Sachs Group Inc. (GS): Highlights from GS 2Q08 10-Q

Stock Rating:	2-Equal weight
Sector Rating:	2-Neutral
Price:	US$ 169.82
Price Target:	US$ 200.00
Current Year EPS:	16.81
Next Year EPS:	20.90
Market Cap:	US$ 66944 (m)

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- This morning, GS released its 2Q08 10-Qs. We are highlighting a few of the more interesting datapoints below including updated fair value disclosures, retained interest and loan balances, daily distribution of trading revenue, liquidity metrics and capital ratios.
- Broadly, we would characterize the incremental disclosures in the 10-Q as in line with management commentary during the earnings conference call last month.
- Level 3 assets declined 19% from $96bn (8.1% of total assets) to $78bn (7.2% of total assets). Contributing to the majority of the decline were transfers of some commercial real-estate related exposures from Level 3 into Level 2 in addition to broad based deleveraging.
- In our opinion, the most significant new disclosure this quarter are the Tier 1 and total capital ratios. We provide some background and details into the methodology of this new ratio's calculation and interpretation. Consistent with the commentary on the earnings conference call, GS's Tier 1 ratio was 10.8% at the end of 2Q08. The total capital ratio was 14.2%.

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Health Care Distribution & Technology: LEH BRANDED DRUG PRICE SURVEY - JUNE

Sector Rating: 2-Neutral

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- We are providing the June update to our U.S. branded pharmaceutical price inflation survey, after reviewing data from First DataBank on the top 132 branded pharmaceutical products. Specifically, based on our selected price inflation study, we highlight that the volume of activity was consistent with prior years, though the magnitude of price increases was elevated. In June, we observed 3 price increases, up an average rate of 9.6%.
- In June, we observed 3 price increases at an average rate of 9.6%. This compares to the 4 price increases at an average rate of 6.5% seen in June 2007. Meanwhile, we saw 5 price increases at an average rate of 6.6% in 2006 (based on list of top branded products by sales in 2005); and 5 price increases at an average rate of 4.8% in June 2005.
- There were a broad range of products in terms of size and manufacturer that received a price increase in June. We highlight a 9.7% price increase from Sepracor on Lunesta and a 9.2% increase from Biogen-Idec on Avonex. Sepracor also increased the price of Xopenex by 10%.
- In June, for the top 50 products we saw zero price increases. We also observed zero price increases for the top 50 products in June 2007.
- Through the month of June, we have seen 99 prices increase at an average rate of 7.1%. This compares with 2007, where we saw 89 prices increase at an average rate of 6.1% through the month of June.
- As a reminder, we saw prices increase at an average rate of 6.2% for those 164 price increases in 2007. This compares with 2006, although based on results from our previous list, when we saw 158 prices increase at an average rate of 6.2%.

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Health Care Facilities: PERSPECTIVES ON HOSPITAL OPPS PROPOSAL

Sector Rating: 2-Neutral

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- On the evening of July 3, CMS released the Hospital Outpatient PPS (OPPS) FY09 proposed rule. In short, CMS is proposing that hospital outpatient departments receive a full 3.0% market basket update in FY09. In addition, all of the other proposals (when taken together) appear to have a minor, positive impact on the hospital industry. Overall, CMS estimates that the proposed changes, including the 3.0% market basket increase, would result in a 3.6% rate increase for hospitals, a 3.6% increase for both rural and urban hospitals and a 3.4% increase for "proprietary" (i.e. for-profit) hospitals. Hence, we believe the OPPS FY09 Proposal is a neutral to a mild-positive for hospitals, given that it helps confirm our view that the favorable Medicare reimbursement environment for hospitals will continue into FY09. We highlight that we do not believe the ASP proposals will have a meaningful impact on the hospital industry, and suggest these changes are an overall neutral for hospitals. Finally, to put things in perspective, we highlight that most of the reimbursement that hospitals receive from Medicare (more than 80%) is paid under Inpatient PPS, with less than 20% coming from Outpatient PPS, suggesting the Outpatient PPS system is a much less important driver of hospital stock price performance versus the Inpatient PPS system.
- LEHMAN KEY TAKEAWAYS: 1) In short, CMS is estimating that hospital outpatient departments will receive a 3.6% rate increase in FY09 under the proposed rule; 2) We do not believe the ASP changes will have a meaningful impact on the hospital industry; 3) We believe this proposal was also in-line with expectations for surgery centers, noting that they are also impacted by this proposal; 4) As a reminder, we provide some details on the Hospital Inpatient PPS proposed rule for FY09.
- Most of the reimbursement that hospitals receive from the Medicare program (more than 80%) is paid under the Hospital Inpatient PPS, with less than 20% coming from the Hospital Outpatient PPS. Hence, while it is important to track reimbursement changes under the Outpatient PPS, Inpatient PPS is the more important driver. As a reminder, on April 14, CMS published the Hospital Inpatient PPS (IPPS) FY'09 proposed rule. In short, CMS proposed providing inpatient hospitals with a 3.0% market basket increase in FY09. When combined with the continued phase-in of prior policy changes (cost-based DRG relative weights and severity adjusted DRGs), CMS estimates that hospitals will receive a 2.3% increase in FY09 (assuming no increase in coding) or 4.1% assuming that hospitals increase their coding by 1.8% in FY09 in response to the continued implementation of severity adjusted DRGs (a.k.a. MS-DRGs). For additional details, please see our "Perspectives on the Hospital IPPS" note published on April 15, 2008.
- We will look to provide our perspectives on the Hospital Inpatient PPS final rule when it is published, likely during the last week of July (noting that the rule must be published by August 2, 60 days before the October 1, 2008 effective date). In addition, we will look to provide our perspectives on the Outpatient final rule when it is published, likely sometime around the November 2 deadline (60 days before the January 1, 2009 effective date).
- Please call us at (212) 526-5496 with any questions or for copies of previous notes and reports that we have published regarding Medicare reimbursement including our "Medicare FY08 Reimbursement Outlook" report published on October 30, 2007. Alternatively, please contact Tony Clapsis, Lehman Brothers Washington Healthcare Analyst, at (202) 452-4765.

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Hess Corp. (HES): EPS Revision

Stock Rating:	2-Equal weight
Sector Rating:	2-Neutral
Price:	US$ 119.54
Price Target:	US$ 115.00
Current Year EPS:	12.35
Next Year EPS:	11.30
Market Cap:	US$ 38607 (m)

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- We are raising our 2008 and 2009 oil price assumptions to $127/bl and $115/bl from $105/bl and $90/bl respectively. As a result, we have increased our earnings estimates for the integrated companies by an average of 19% for 2008 and 32% for 2009, respectively.
- For Hess, we raise our 2008 and 2009 EPS by 25% and 41%, respectively.
- We now use $90/bl nominal oil price in 2012 to calculate our price target compared to $80/bl previously. We also use the 10-year estimated treasury yield of 7% compared to 6% previously and as a result we raise our price target by $5 to $115 per share.

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InBev (INTB.BR): Consumer headwinds but upside from Bud

Stock Rating:	1-Overweight
Sector Rating:	2-Neutral
Price:	EUR 41.53
Price Target:	EUR 54.00
Current Year EPS:	3.08
Next Year EPS:	3.33
Market Cap:	EUR 25566 (m)

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- Despite the attention demanded by the proposed bid for Bud, we do not see management taking its eye off the ball. However, we recognise that a period of softer consumer spending could provide some challenges to the company. Although the shares will likely be volatile until the BUD deal is finalised and fully financed, we still see an additional EUR 10 per share of value assuming a $65 bid (EUR 8 at $70).
- We expect slower spending in Western Europe and some emerging markets to constrain short-term growth although our estimates for key market Brazil (c.50% of EBIT) remain unchanged.
- The BUD deal could provide significant upside to the target price. We estimate that the transaction at $65 per BUD share will add approximately EU 10 of value to Inbev's target price
- After a weak Q1 reporting, we believe that Q2 should deliver better growth but still against a tough comp.
- Current valuation looks good value against the beverages average (2009 PER of 12.5x), although we expect the share price to be volatile during the bid process for Anheuser.

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Independent Refiners: PC Weekly R&M Margin Analysis

Sector Rating:	3-Negative

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- US refining margins declined for a fifth consecutive week following a bearish DOE report last week of a higher than expected build in gasoline inventory. West Coast L.A. Basin complex refiner showed the biggest decline followed by the Pacific Northwest medium refiner. Ethanol profit margin rose slightly. However, it has come down significantly in the last several weeks owing to the sharp rise in corn prices resulted from the severe flooding in the Midwest. Looking ahead, we think we have already seen the peak margins for the year. We expect gasoline will remain depressed while distillate crack will likely continue its recent down slide in the coming months, absent a major unplanned outage. Owing to weaker than expected US and global oil demand outlook, the rising ethanol supply (although the year's supply gains may be lower than previous assumption due to current poor margin), the pending startup of several large new refineries in Asia, as well as the seemingly unstoppable crude oil market, we reiterate our view that the US refining market will remain in a multi-year down cycle through 2010/2011, reaching lower lows and lower highs.
- US refining margins dropped for the fifth consecutive week. West Coast L.A. Basin complex refiner showed the biggest decline (down $7.4/bl), followed by the Pacific Northwest medium refiner (down $4.3/bl), partially offset by the Northeast light sweet refiner (up $1.1/bl).
- The sweet/sour differential fell $0.6/bl to $2.8/bl, while the light/heavy differential narrowed $1.9/bl to $17.0/bl.
- Internationally, margins rose in Japan (up $3.7/bl), Europe and Singapore (up $1.0/bl each).
- Ethanol profit rose to $0.52/gallon last week due to a rise in ethanol price and a slight decline in corn prices.

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Insurance/Non-Life: 2Q08 Non-Life Insurance Earnings Preview

Sector Rating: 2-Neutral

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- Second quarter 2008 results for the non-life insurers should reflect negative top line growth, difficult EPS comparisons versus a year ago, underlying margin deterioration, and higher catastrophes, in our opinion. That being said, we believe these concerns are broadly reflected in P&C valuations, with many of the stocks trading at or below book value. Unlike many financial stocks, most P&C insurers (with the exception of AIG and XL) have modest exposure to the credit crunch, strong balance sheets, excess capital and are unlikely to need to raise capital or cut their shareholders' dividend. P&C stocks could face pressure over the next 2 months reflecting seasonal concerns about hurricane activity, but we believe could present a potential buying opportunity in September as hurricane concerns ease.
- Overall, we expect the non-life insurance sector's 2Q08 EPS to be flat versus a year ago. Earnings for the personal lines insurers are likely to suffer the most difficult comparisons versus a year ago in part due to higher catastrophe losses and increased competition. We anticipate lower year-over-year EPS for most commercial lines insurers and reinsurers, and higher earnings for the insurance brokers.
- Investment exposure to the credit crunch as well as subprime D&O exposure should remain areas of focus, particularly for AIG and XL.
- 2Q08 U.S. industry insured catastrophe losses so far are $5.8 billion due to Southeast and Midwest U.S. tornados, above the average second quarter industry losses of $3.6 billion for the last 10 years and $2.3 billion of losses a year ago. Not included in this figure are multi-peril crop insurance losses from the Midwest floods, which are estimated to be in excess of $3 billion in Iowa alone.
- ACE (2nd largest crop insurer) announced its exposure to crop losses will have a negligible impact to 2Q and FY08 EPS despite these losses being the worst for the industry in at least 15 years due to flooding. The reason is ACE's diversity in crop insurance along with substantial reinsurance protection. We reduced our EPS estimates for other (re)insurers we cover (XL, PRE, RNR) that have not yet quantified their exposure to crop losses. Separately, we reduced our EPS estimates for ALL and THG to reflect meaningful catastrophe losses in the quarter.
- We expect the outlook for commercial P&C pricing to be uninspiring driven by soft property-casualty market conditions, in line with results from our Mid-Year 2008 Commercial P&C Insurance Buyers' Survey, which showed P&C prices could fall 8% in 2008 (vs. down 7% six months ago) with looser terms and conditions.
- Pricing for the mid-year Florida property catastrophe reinsurance renewals could be down 10%-15% based on our meetings with several reinsurers. Notably, the Florida Hurricane Catastrophe Fund (FHCF), which was looking to buy additional reinsurance, decided against purchasing private market reinsurance and instead plans to buy a put option on $4 billion of bonds through Berkshire Hathway.
- Falling P&C prices and slowing organic growth opportunities could mean insurers continue to turn to M&A as a source of growth. The most recent announced acqusitions in the P&C insurance sector include: AWH's acquisition of Darwin (2.0x book value), WSH's acquisition of HRH (21x 2008E EPS), and Liberty Mutual's acquistion of Safeco (1.8x book value). Lehman Brothers is acting as financial advisor to Liberty Mutual Group in the potential acquisition of Safeco Corporation. The rating, price target and estimates for Safeco have been temporarily suspended due to Lehman Brothers' role.
- Separately, we are reducing our price targets for 10 commercial insurers and reinsurers to reflect a more reasonable valuation outlook in a challenging environment for financials, as well as a deteriorating outlook for P&C insurance fundamentals through 2010. (Figure 5).
- Within the P&C insurance sector, we prefer the primary commercial P&C insurers and select diversified reinsurers, over the personal lines P&C insurers and insurance brokers. Broadly, we favor the high-quality names with strong balance sheets and minimal exposure to subprime-backed investments including CB, TRV, and ACE.

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Integrated Oil: 2Q08 Surprise Preview

Sector Rating: 2-Neutral

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- We expect the 2Q08 earning season to mirror 1Q08 with disappointing refiner earnings. Our refiner EPS forecasts are about 20% below consensus for 2Q08. We expect continued positive revisions for the Integrateds. We are raising our 2008 and 2009 oil price assumption to $127/bl and $115/bl from $105/bl and $90/bl respectively. As a result, we have increased our integrated earnings by 19% for 2008 and 32% for 2009. We have also lowered our refining margin assumptions and lowered refiner earnings by 68% and 15% respectively. We are also raising the long run oil price assumption to $90/bl from $80/bl in our valuation model.
- We expect our group of 15 companies to report 2Q08 earnings per share up 33% q-o-q and up 32% y-o-y.
- Biggest potential upside surprise: CVX (We expect $3.65/share, compared to FC $3.46/share) and PCA (We expect C$2.68/share compared to FC C$2.35/share).
- Biggest potential downside surprise: TSO (We expect $(0.33)/share, compared to FC $0.24/share) and MRO (We expect $1.45/share, compared to FC $1.84/share).

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L-3 Communications (LLL): A Premium Stock at a Discount

Stock Rating:	1-Overweight
Sector Rating:	1-Positive
Price:	US$ 90.54
Price Target:	US$ 120.00
Current Year EPS:	6.65
Next Year EPS:	7.45
Market Cap:	US$ 11106 (m)

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- We believe L-3 should sell at a premium to most larger defense names because L-3 has historically managed to grow faster than peers with a combination of organic growth, share repurchases, and acquisitions. It has managed to do this without missing its guidance since coming public. Earlier this year, L-3 was trading at a premium to the group, but in the most recent bear market, L-3 has given up all of that premium and now trades below most peers on earnings, with a 12.1x P/E on our 2009 EPS estimate of $7.45, and at a discount on free cash flow yield which we estimate at 12.3% for 2009. We believe L-3 shares will not stay at these levels relative to other defense peers. Our rating is 1-Overweight and our Price Target is unchanged at $120.
- We expect the company to report a quarter at least as good as estimates.
- Share repurchases likely to run ahead of $400 million target for year.
- Favorable OSI ruling reverses $129 million reserve in Q2.
- We still expect M&A activity to continue.
- Overall L-3 should be able to continue double digit growth in both 2008 and 2009.

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Marathon Oil Corp. (MRO): EPS Revision

Stock Rating:	1-Overweight
Sector Rating:	2-Neutral
Price:	US$ 51.24
Price Target:	US$ 65.00
Current Year EPS:	6.90
Next Year EPS:	7.05
Market Cap:	US$ 36534 (m)

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- We are raising our 2008 and 2009 oil price assumptions to $127/bl and $115/bl from $105/bl and $90/bl respectively. As a result, we have increased our earnings estimates for the integrated companies by an average of 19% for 2008 and 32% for 2009, respectively.
- For Marathon, we raise our 2008 and 2009 EPS by 3% and 22%, respectively.
- We now use $90/bl nominal oil price in 2012 to calculate our price target compared to $80/bl previously. We also use the 10-year estimated treasury yield of 7% compared to 6% previously and as a result we raise our price target by $2 to $65 per share.

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Marriott International (MAR): WORST-CASE SCENARIO IMPLIES DOWNSIDE LTD

Stock Rating:	1-Overweight
Sector Rating:	1-Positive
Price:	US$ 25.93
Price Target:	US$ 37.00
Current Year EPS:	1.85
Next Year EPS:	2.20
Market Cap:	US$ 9167 (m)

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- Sentiment in the lodging sector is very poor, in our view. This is understandable given slowing RevPAR growth, airline capacity cuts and general uncertainty regarding when this recession/bear market might reverse itself. As such, multiples will likely continue to decline below "trough" levels until there is more visibility into an economic recovery. However, in the spirit of not getting caught up in this downward momentum, and acknowledging that MAR as a mgr/franchisor should outperform owners/operators, we have provided an analysis which shows that current trading levels factor in a worst case scenario.
- Changes in RevPAR only have a slight affect on fees, with every 1% change to RevPAR equaling $20mm-$25mm in WW fees.
- We estimate the market is currently implying RevPAR declines 4% next year, near the high end of MAR's most distressed years (ex 2001).
- A conservative DCF suggests that MAR is worth about $25 under a stressed model. We believe those investors who are more willing to look at free cash flow analysis and yields (MAR's FCF yield is currently 8%) could be rewarded for taking a contrarian view in this market.

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Montpelier Re Holdings (MRH): MRH: Reducing Price Target, 2-EW

Stock Rating:	2-Equal weight
Sector Rating:	2-Neutral
Price:	US$ 14.92
Price Target:	US$ 16.00
Current Year EPS:	2.05
Next Year EPS:	2.20
Market Cap:	US$ 1400 (m)

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- We are reducing our price target for MontpelierRe to $16 (0.8x 2009E book value) from $18 (0.9x 2009E book value) to reflect a more reasonable valuation in a challenging environment for financials, as well as a deteriorating outlook for P&C reinsurance fundamentals through 2010.
- No change to our EPS estimate of $2.05 (cons= $2.29) in 2008 and $2.20 (cons=$2.52) in 2009.
- Maintaining our 2-EW rating on MRH, reflecting a soft property catastrophe reinsurance market.
- MRH trades at 0.84x BV, near its historical trough multiple (historical median of 1.4x, range=0.8x-2.0x).

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Murphy Oil (MUR): EPS Revision

Stock Rating:	2-Equal weight
Sector Rating:	2-Neutral
Price:	US$ 94.76
Price Target:	US$ 98.00
Current Year EPS:	10.00
Next Year EPS:	10.85
Market Cap:	US$ 18003 (m)

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- We are raising our 2008 and 2009 oil price assumptions to $127/bl and $115/bl from $105/bl and $90/bl respectively. As a result, we have increased our earnings estimates for the integrated companies by an average of 19% for 2008 and 32% for 2009, respectively.
- For Murphy, we raise our 2008 and 2009 EPS by 24% and 33%, respectively.
- We now use $90/bl nominal oil price in 2012 to calculate our price target compared to $80/bl previously. We also use the 10-year estimated treasury yield of 7% compared to 6% previously and as a result we raise our price target by $9 to $98 per share.

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Petro-Canada (PCA): EPS Revision

Stock Rating:	2-Equal weight
Sector Rating:	2-Neutral
Price:	CAD 54.65
Price Target:	CAD 59.00
Current Year EPS:	10.85
Next Year EPS:	9.15
Market Cap:	CAD 25907 (m)

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- We are raising our 2008 and 2009 oil price assumptions to $127/bl and $115/bl from $105/bl and $90/bl respectively. As a result, we have increased our earnings estimates for the integrated companies by an average of 19% for 2008 and 32% for 2009, respectively.
- For Petro-Canada, we raise our 2008 and 2009 EPS by 30% and 40%, respectively.
- We now use $90/bl nominal oil price in 2012 to calculate our price target compared to $80/bl previously. We also use the 10-year estimated treasury yield of 7% compared to 6% previously and as a result we raise our price target by C$1 to C$59 per share.

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Petroleo Brasileiro S.A. (PBR): EPS Revision

Stock Rating:	2-Equal weight
Sector Rating:	2-Neutral
Price:	US$ 65.72
Price Target:	US$ 65.00
Current Year EPS:	5.70
Next Year EPS:	5.85
Market Cap:	US$ N/A (m)

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- We are raising our 2008 and 2009 oil price assumptions to $127/bl and $115/bl from $105/bl and $90/bl respectively. As a result, we have increased our earnings estimates for the integrated companies by an average of 19% for 2008 and 32% for 2009, respectively.
- For Petrobras, we raise our 2008 and 2009 EPS by 12% and 26%, respectively.
- We now use $90/bl nominal oil price in 2012 to calculate our price target compared to $80/bl previously. We also use the 10-year estimated treasury yield of 7% compared to 6% previously and as a result we raise our price target by $3 to $65 per ADS.

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Petroleo Brasileiro S.A. (PBRA): EPS Revision

Stock Rating:	1-Overweight
Sector Rating:	2-Neutral
Price:	US$ 53.64
Price Target:	US$ 64.50
Current Year EPS:	5.70
Next Year EPS:	5.85
Market Cap:	US$ N/A (m)

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- We are raising our 2008 and 2009 oil price assumptions to $127/bl and $115/bl from $105/bl and $90/bl respectively. As a result, we have increased our earnings estimates for the integrated companies by an average of 19% for 2008 and 32% for 2009, respectively.
- For Petrobras, we raise our 2008 and 2009 EPS by 12% and 26%, respectively.
- We now use $90/bl nominal oil price in 2012 to calculate our price target compared to $80/bl previously. We also use the 10-year estimated treasury yield of 7% compared to 6% previously and as a result we raise our price target by $3 to $64.50 per ADS.

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Quicksilver Resources Inc. (KWK): Barnett Shale Acquisition

Stock Rating:	1-Overweight
Sector Rating:	1-Positive
Price:	US$ 35.60
Price Target:	US$ 56.00
Current Year EPS:	1.40
Next Year EPS:	1.45
Market Cap:	US$ 5645 (m)

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- Barnett Shale expansion adds prime acreage; enhances growth platform. We believe this transaction fits KWK well and adds upside to our net asset value estimate.
- KWK agreed to acquire Barnett Shale properties for $1.3 billion from private sellers. Assets include 350 Bcfe proved plus 650 Bcfe unbooked potential. Deal expands KWK's estimated Barnett position to 5.5 Tcfe; 1.7 Tcfe currently booked.
- Deal enhances Barnett growth platform--production now expected to increase ~40% in '09 & 30% in '10.
- Acquired properties exhibit similar characteristics to the company's Lake Arlington project; gross EUR of 5 Bcfe per well at a cost of $3.5 mln.
- Pro forma net debt/capital ratio of 61%. Acquisition financing--$1 billion new borrowings plus $307 mln KWK common stock.
- Spending expected to increase to $1.2 bln in '09 & "10. Funded by combination of cash flow, non-core asset sales; possible monetization of BBEP & KGS stakes.

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RenaissanceRe Holdings (RNR): RNR: Reducing Price Target, 2-EW

Stock Rating:	2-Equal weight
Sector Rating:	2-Neutral
Price:	US$ 46.12
Price Target:	US$ 49.00
Current Year EPS:	7.90
Next Year EPS:	8.25
Market Cap:	US$ 2975 (m)

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- We are reducing our price target for RenaissanceRe to $49 (0.9x 2009E book value) from $57 (1.1x 2009E book value) to reflect a more reasonable valuation in a challenging environment for financials, as well as a deteriorating outlook for P&C reinsurance fundamentals through 2010.
- No change to our EPS estimate of $7.90 in 2008 (consensus= $8.10) and $8.25 in 2009 (consensus= $8.26).
- Reiterate 2-EW rating on RNR based on our outlook for property catastrophe reinsurance market conditions to weaken after 2 years of strong profits.
- RNR currently trades at 1.09x book value, which is below the historical median of 1.6x (historical range: 1.1x-2.6x).

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Research In Motion (RIMM): RIM: Strength of Integrated Applications

Stock Rating:	1-Overweight
Sector Rating:	2-Neutral
Price:	US$ 115.04
Price Target:	US$ 165.00
Current Year EPS:	3.68
Next Year EPS:	5.62
Market Cap:	US$ 65585 (m)

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- We are pleased to announce a new report on RIM titled "The Strength of Integrated Applications".
- We believe RIM's tight integration of its BlackBerry e-mail service, enterprise software, and smartphone portfolio provides best in class service and high barriers to entry in a market that is both underpenetrated and rapidly expanding.
- In our view, RIM's vertical integration raises significant barriers to entry in the enterprise mobile e-mail mkt-though less so in consumer.
- Given an enterprise e-mail market of >390M users and a global base of 1.2B e-mail users, RIM's <15M enterprise and <20M total subs should expand dramatically-particularly beyond NA.
- Topical themes in this report include the growth rates of smartphones (roughly 40%-plus), risk from competitive new devices (minimal but growing), and the margin impact of the mix shift to consumer.
- RIM is a top pick in our wireless coverage universe. Our PT of $165 is based on a FY10 multiple of 30x and a conservative EPS est. of $5.62.
- Please contact us or your Lehman sales representative for a copy of the report.

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SABMiller (SAB.L): Facing up to slower growth

Stock Rating:	2-Equal weight
Sector Rating:	2-Neutral
Price:	1095p
Price Target:	1170p
Current Year EPS:	151.3
Next Year EPS:	166.0
Market Cap:	STG 16513 (m)

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- Although the topline growth outlook is still better than average, it reflects a slowdown on recent history which investors will take some time to be used to. In addition, the proposed InBev/Anheuser bid raises longer-term strategic question marks.
- After 2 years of strong organic volume growth (11% and 8%), we now see a slowdown to 4% in FY09 due to economic slowdown. Q1, due to be reported on 31 July, offers a particularly tough comp (+13%).
- From FY10 onwards we see significant margin enhancement as the Millercoors JV generates planned synergies.
- With a combined InBev/Anheuser almost twice the size, the bid here raises the question of whether the company requires its own quantum leap to compete.
- Valuation - at a 13.4x CY 2009 PER the shares look expensive relative to the industry sector average of 12.5x

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Specialty Chemicals: Q2'08 US Chemicals Earnings Preview

Sector Rating:	1-Positive

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- We are hosting a 2Q'08 earnings preview conference call on Tuesday, July 8 @ 11 AM EST to discuss our outlook for the quarter and remainder of the year. Please contact your Lehman salesperson for the conference call slides, dial-in number and passcode.
- Overall, Q2 is expected to be a fairly difficult Q for petro-chemical related commodity chemical companies given the recent surge in energy prices coupled with the economic slowdown. We believe the specialty stocks, mainly Industrial Gases, will perform the best, while those companies with US housing and auto related markets should be impacted the most.
- We will also take a closer look at highlights from our recent conf call on the energy impact on US chemical companies. We developed company-specific raw materials indexes for DOW, DD, EMN, CE, ROH, VAL, PPG and other companies, based on price swings of their specific largest raw materials and calibrated with 4 years worth of reported quarterly data.

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Suncor Energy (SU): EPS Revision

Stock Rating:	2-Equal weight
Sector Rating:	2-Neutral
Price:	CAD 59.00
Price Target:	CAD 59.00
Current Year EPS:	5.05
Next Year EPS:	5.75
Market Cap:	CAD 53209 (m)

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- We are raising our 2008 and 2009 oil price assumptions to $127/bl and $115/bl from $105/bl and $90/bl respectively. As a result, we have increased our earnings estimates for the integrated companies by an average of 19% for 2008 and 32% for 2009, respectively.
- For Suncor, we raise our 2008 and 2009 EPS by 29% and 47%, respectively.
- We now use $90/bl nominal oil price in 2012 to calculate our price target compared to $80/bl previously. We also use the 10-year estimated treasury yield of 7% compared to 6% previously and as a result we raise our price target by C$2 to C$59 per share.

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Sunoco, Inc. (SUN): EPS Revision

Stock Rating:	2-Equal weight
Sector Rating:	3-Negative
Price:	US$ 39.69
Price Target:	US$ 37.00
Current Year EPS:	0.35
Next Year EPS:	1.75
Market Cap:	US$ 4638 (m)

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- We are raising our 2008 and 2009 oil price assumption to $127/bl and $115/bl from $105/bl and $90/bl, respectively. We are also lowering our refining margin assumptions for 2008 and 2009. As a result we lower refiner earnings by 68% and 15%, respectively.
- We lower our 2008 and 2009 EPS to reflect lower refining margin assumptions.
- Our price target remains unchanged at $37/share.

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Tesoro Corporation (TSO): EPS Revision

Stock Rating:	2-Equal weight
Sector Rating:	3-Negative
Price:	US$ 18.98
Price Target:	US$ 17.00
Current Year EPS:	(0.80)
Next Year EPS:	1.30
Market Cap:	US$ 2614 (m)

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- We are raising our 2008 and 2009 oil price assumption to $127/bl and $115/bl from $105/bl and $90/bl, respectively. We are also lowering our refining margin assumptions for 2008 and 2009. As a result, we lower refiner earnings by 68% and 15%, respectively.
- We lower our 2008 and 2009 EPS to reflect lower refining margin assumptions.
- We also lower our price target to $17/share from $20/share.

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The Travelers Companies, Inc. (TRV): TRV: Reducing Price Target, 1-OW

Stock Rating:	1-Overweight
Sector Rating:	2-Neutral
Price:	US$ 44.34
Price Target:	US$ 55.00
Current Year EPS:	6.15
Next Year EPS:	6.35
Market Cap:	US$ 29600 (m)

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- We are reducing our price target for Travelers to $55 (1.1x 2009E book value) from $62 (1.3x 2009E book value) to reflect a more reasonable valuation in a challenging environment for financials, as well as a deteriorating outlook for P&C insurance fundamentals through 2010.
- Notably our revised price target still implies over 20% upside potential from current levels, and we view TRV's current valuation of 1.02x book value as attractive (historical median=1.4x , range=0.8x to 2.0x).
- No change to our above consensus EPS estimate of $6.15 in 2008 (consensus= $5.99) and $6.35 in 2009 (consensus= $5.94).
- Reiterating our 1-OW rating on TRV based on its strong balance sheet, excess reserves, excess capital position that is being deployed for substantial share buybacks, and immaterial subprime investment exposure.

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Tronox Inc. (TRX): Cont'd Cost Pressure & End Mkt Weakness

Stock Rating:	3-Underweight
Sector Rating:	2-Neutral
Price:	US$ 2.22
Price Target:	US$ 2.00
Current Year EPS:	(1.86)
Next Year EPS:	N/A
Market Cap:	US$ 93 (m)

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- We are downgrading TRX to 3-UW from 2-EW and reducing our price target to $2 from $4 given the rapid rise in freight, process chemical and energy costs and continued US housing and auto related end market weakness. We have reduced our Q2 EPS estimate to -$0.80 from -$0.55 and our '08E to -$1.86 from -$0.98 as TiO2 pricing initiatives are expected to lag cost increases experienced in 2008 leading to a reduction in profitability.
- While TRX was able to sell $12 M in land during the Q (pre-tax) which it plans to use to reduce debt, production outages and increased costs have prompted TRX to request a waiver to its financial covenants for its senior secured credit facility in Q2'08.
- TiO2 producers have nominated numerous rounds of price increases and recently a surcharge, of which we expect partial implementation over the coming months and quarters to help offset cost pressures. However, we remain cautious given the significant volume decline felt in the US architectural paint and auto OEM markets.

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Valero Energy (VLO): EPS Revision

Stock Rating:	2-Equal weight
Sector Rating:	3-Negative
Price:	US$ 37.09
Price Target:	US$ 40.00
Current Year EPS:	4.35
Next Year EPS:	4.05
Market Cap:	US$ 19602 (m)

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- We are raising our 2008 and 2009 oil price assumption to $127/bl and $115/bl from $105/bl and $90/bl, respectively. We are also lowering our refining margin assumptions for 2008 and 2009. As a result we lower refiner earnings by 68% and 15%, respectively.
- We lower our 2008 and 2009 EPS to reflect lower refining margin assumptions.
- We also lower our price target to $40/share from $44/share.

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VeraSun Energy Corp. (VSE): Lower Price Target

Stock Rating:	2-Equal weight
Sector Rating:	2-Neutral
Price:	US$ 4.21
Price Target:	US$ 5.00
Current Year EPS:	(0.10)
Next Year EPS:	(0.05)
Market Cap:	US$ 664 (m)

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- We raise our ethanol price assumption for 2008 from $2.50/gal to $2.70/gal and raise our corn price from $6.00/bu to $6.54/bu
- We lower our 2008 EPS as higher corn price assumption more than offset higher ethanol price. Our forecasts assume that though VSE will finish construction of new plants and none will be started before the beginning of 2009. We raise 2009 EPS to reflect our higher oil price assumption.
- We lower our price target from $7/share to $5/share mainly to reflect higher long term corn price assumption at $6.00/bu, up from $5.00/bu.

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Washington Research: No Deficit of Ideas

Sector Rating:	0-Not Rated

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- Economic cycles create waterfalls that show up after some lag on the books of sub-federal units of government. The current period of sub-potential growth is pinching revenues and increasing costs for all governments; those run by governors and mayors are affected by the triple-threat household wealth destruction from the housing bubble, stagnated wages, and rising energy, food, and health care prices.
  The bursting of the housing bubble is both a calamity for millions of Americans and a reminder that battered households will show up on the federal income statement in terms of lower revenues and increased federal government spending. A quarter ago, the Congressional Budget Office updated its FY08 deficit to 2.5% of GDP ($357bn). A soft economy and rebate checks ($140bn) along with extended unemployment benefits ($12.5bn) are among changes (eventually including $60bn to feed the annual AMT beast) that could push the FY08 deficit above the 3% mark. Talk of a second stimulus package is gaining momentum; a deteriorating economic outlook and the pending elections are factors likely to boost pressure for action once Washington reconvenes on Tuesday July 8.
- Dear President Obama," by Bill Gross, founder and chief investment officer of PIMCO. Investment Outlook, July 2008, Newport Beach, California. (http://www.pimco.com/LeftNav/Featured+Market+Commentary/IO/2008/IO+July+2008.htm)

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XL Capital Ltd. (XL): XL: Reducing Price Target, 2-EW

Stock Rating:	2-Equal weight
Sector Rating:	2-Neutral
Price:	US$ 19.87
Price Target:	US$ 22.00
Current Year EPS:	6.65
Next Year EPS:	5.75
Market Cap:	US$ 3557 (m)

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- We are reducing our price target for XL Capital to $22 (0.4x 2009E book value) from $35 (0.6x 2009E book value) to reflect our outlook for a lower valuation multiple due to concerns about XL's exposure to SCA, investment write-downs, a potential capital raise, and challenging P&C insurance market conditions.
- Notably, our YE09E book value for XL of $55/share does not include a potential charge for SCA.
- XL has a $75 billion financial guarantee contract for SCA's pre-IPO business, which it has not yet established reserves for. We believe XL could incur at least a $2 billion charge and corresponding capital raise to sever its exposure to SCA, which are both significant in our view relative to XL's $3.4 billion market cap.
- Reiterate 2-EW rating on XL. Although XL trades at 40% of book value, we believe this is warranted reflecting concerns about XL's SCA exposure, investment write-downs, and a potential capital raise.
- Details follow on our scenario analysis for XL.

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