

## GS SUSTAIN

Equity Research

### Long-term winners, near-term value – October 2011

#### Macro uncertainty driving equity prices ...

Macro uncertainty continues to dictate global equity market performance. Equity correlations remain elevated, the Equity Risk Premium in Europe is close to an all-time high, and weekly volatility in 3Q11 is at its highest for several years.

#### ... durations shorter, valuations compressed

Investors have responded to the uncertainty with shortened time horizons, leading to compression of multiples for high vs. low return stocks, and for fast vs. slow growth stocks.

#### Buy quality, for offence or defence

We see two potential scenarios: 1) a gradual resolution to the Eurozone crisis, acting as a catalyst for lengthening time horizons and a re-rating of stocks with superior growth potential. We flag nine stocks from our global Focus List of high quality companies that screen for value, superior returns & growth. 2) Continued high levels of macro uncertainty. Here we highlight four stocks from our Focus List that offer value, sector leading returns and balance sheet strength.

#### 4 stocks meet all 3 value screens: CAT, ICBC, MTN and Vale; 11 stocks meet 2 of 3 screens

Compressed multiples and limited single stock differentiation continues to generate value opportunities among quality companies. CAT, ICBC, MTN and Vale meet all three of our value screens this month; a further 11 stocks meet two of the three screens we use to flag entry points

#### 9 stocks screen for value, returns & growth, and 4 for balance sheet strength

In aggregate our global Focus List offers superior returns, balance sheets, and top- and bottom-line growth than our coverage. Nine stocks flagged by our value screens offer sector leading growth: AAPL, CAT, CMI, EW, QCOM, POT, MTN, CFR and NVTkq.L; and four offer sector leading balance sheet strength: MTN, CFR, CMI & INFY.

#### Value screens generated alpha last month

While our objective is to highlight entry points for investors with a longer duration outlook, we note that 57% of stocks flagged by two or more value screens last month outperformed versus peers.

#### THE GS SUSTAIN FOCUS LIST

The GS SUSTAIN Focus List is aimed at long-term, long-only performance with a low turnover of ideas. It incorporates 70 identified leaders, which we believe are well positioned to sustain industry leadership and superior return on capital.

Please refer to the GS SUSTAIN Research team website at <https://360.gs.com/gportal/research/teams/sustain/> where you can find external links and a complete overview of published research.

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## Overview: Unlocking near-term value from long-term leaders as uncertainty persists

**Given continued volatility in global equity markets driven by high levels of macro uncertainty centered on the Eurozone sovereign debt crisis, we combine the valuation overlays we regularly apply to the long-term leaders included on the GS SUSTAIN Focus List with two potential scenarios going forward: a gradual resolution to the Euro crisis, or a continuation of high levels of macro uncertainty.**

### **Gradual resolution: Buy quality with superior top- and bottom-line growth**

Our central expectation is a gradual resolution to the Euro crisis. Should this prove correct, we anticipate a gradual reversal of the recent multiple compression that we have observed both for high vs. low return on capital stocks, and for fast vs. slow growth stocks. We therefore highlight nine stocks from our global Focus List of well positioned, well managed and high return on capital stocks that meet one or more of the three value screens we use, and are also forecast by our analysts to deliver sector leading top- and bottom-line growth 2011-13: Apple, Caterpillar, Cummins, Edwards Lifesciences, MTN, Novatek, Potash, Qualcomm and Richemont. In addition to the pre-requisite of quality, these stocks offer value, earnings growth and the potential for multiple expansion.

### **More of the same: Buy quality with superior balance sheet strength and earnings growth**

Assuming no near-term resolution, and therefore a continuation of the high levels of macro uncertainty that have driven equity markets in recent months, we anticipate more of the same: high correlations, equity risk premiums and volatility, investor time horizons that remain short and multiples that remain compressed. We highlight four stocks that meet one or more of the three value screens we use, generate sector leading returns on capital, with sector leading balance sheet strength: Cummins, Infosys, MTN and Richemont.

### **32 long-term winners flagged as offering near-term value; Caterpillar, ICBC, MTN and Vale flagged by all three value screens, and a further 11 stocks are flagged by two of the three value screens we use**

Our updated screens flag attractive entry points to 32 companies from the GS SUSTAIN Focus List of long-term winners that also offer near-term value. Four stocks currently meet all three of the value screens we use: Caterpillar, ICBC, MTN and Vale. Eleven European stocks are flagged by two of our three screens: ABB, Diageo, Fortum, HSBC, Prudential, Richemont, Roche and Unilever (the remaining three stocks are China Life, China Shenhua and EMC).

These companies are profiled on pages 12-26. A further 17 stocks meet one of the three screens as illustrated in Exhibit 1.

### **Of the two stocks highlighted by each of our screens last month, one outperformed and one underperformed**

While our objective is to highlight entry points for longer term investors looking to buy and hold quality companies, we note that one of the two stocks that met the criteria of all value screens last month, Infosys, outperformed in absolute and relative terms. On average, the two stocks highlighted (including ICBC which underperformed) generated absolute returns of 3.8%, and relative outperformance of 2.0% versus MSCI ACWI and relative underperformance of 0.4% versus MSCI global sector peers. Fourteen of the 18 companies profiled in at least two value screens last month generated positive absolute performance, two-thirds outperformed peers as well as generated positive relative performance (versus MSCI ACWI). In aggregate, 21 of the 30 stocks highlighted last month generated positive absolute returns and 57% outperformed global sector peers on a relative basis (see page 27 for performance details).



## Value screens flag potential entry points to 32 long-term winners offering near-term value

### Exhibit 1: 32 stocks are highlighted; four are flagged in all three screens: Caterpillar, ICBC, MTN & Vale

GS SUSTAIN Focus List companies offering value vs. history (trading in the bottom quartile of their eight-year trading range), value vs. global sector peers (below average multiple) or that have underperformed sector peers over the last 90 days

Company	Ticker	Value vs history			Value vs peers			Recent underperformance		Number of value screens met
		Value vs History	P/E percentile rank vs 8 yr history	EV/DACF percentile rank vs 8 yr history**	Value vs peers	P/E discount vs sector avg	EV/DACF discount vs sector avg**	Under - performance vs sector over last 90 days		
Caterpillar	CAT	✓	10%	18%	✓	-2%	-	✓	-8%	3
ICBC	1398.HK	✓	1%	1%	✓	-22%	-	✓	-10%	3
MTN	MTNJ.J	✓	-	1%	✓	-7%	-	✓	-17%	3
Vale	VALE	✓	4%	1%	✓	-34%	-22%	✓	-3%	3
ABB	ABBN.VX	✓	4%	24%		-	-	✓	-11%	2
China Life	2628.HK	✓	1%	1%		-	-	✓	-8%	2
China Shenhua	1088.HK	✓	9%	9%		-	-	✓	-5%	2
Diageo	DGE.L	✓	-	6%	✓	-1%	-		-	2
EMC	EMC	✓	12%	-		-	-	✓	-14%	2
Fortum	FUM1V.HE		-	-	✓	-9%	-	✓	-3%	2
HSBC	HSBA.L	✓	1%	2%	✓	-10%	-		-	2
Prudential	PRU.L	✓	15%	14%	✓	-	-27%		-	2
Richemont	CFR.VX		-	-	✓	-	-1%	✓	-10%	2
Roche	ROG.VX	✓	6%	7%	✓	-4%	-		-	2
Unilever	UNc.AS	✓	-	6%	✓	-8%	-		-	2
Allergan	AGN	✓	-	21%		-	-		-	1
Apple	AAPL		-	-	✓	-4%	-		-	1
Atlas Copco	ATCOa.ST		-	-		-	-	✓	-8%	1
BBVA	BBVA.MC	✓	6%	3%		-	-		-	1
BSkyB	BSY.L	✓	5%	5%		-	-		-	1
Cummins, Inc.	CMI		-	-	✓	-5%	-		-	1
Edwards Lifesciences	EW		-	-		-	-	✓	-13%	1
Infosys	INFY		-	-		-	-	✓	-7%	1
Itau Unibanco	ITUB	✓	-	21%		-	-		-	1
Julius Baer Group	BAER.VX	✓	9%	13%		-	-		-	1
Novatek	NVTkq.L		-	-		-	-	✓	-2%	1
Novo Nordisk	NOVOb.CO		-	-		-	-	✓	-13%	1
Occidental Petroleum	OXY		-	-		-	-	✓	-7%	1
Potash	POT	✓	11%	-		-	-		-	1
Publicis	PUBP.PA	✓	22%	-		-	-		-	1
Qualcomm	QCOM	✓	7%	1%		-	-		-	1
Time Warner	TWX	✓	12%	22%		-	-		-	1

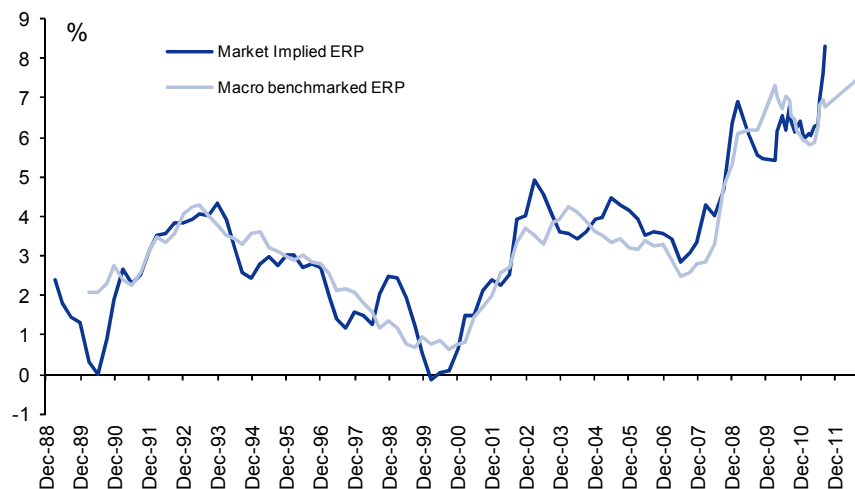
\*\* denotes P/B for Financials

Source: Goldman Sachs Research estimates, ICBC is covered by Gao Hua Securities.

## Equities continue to be driven by macro uncertainty

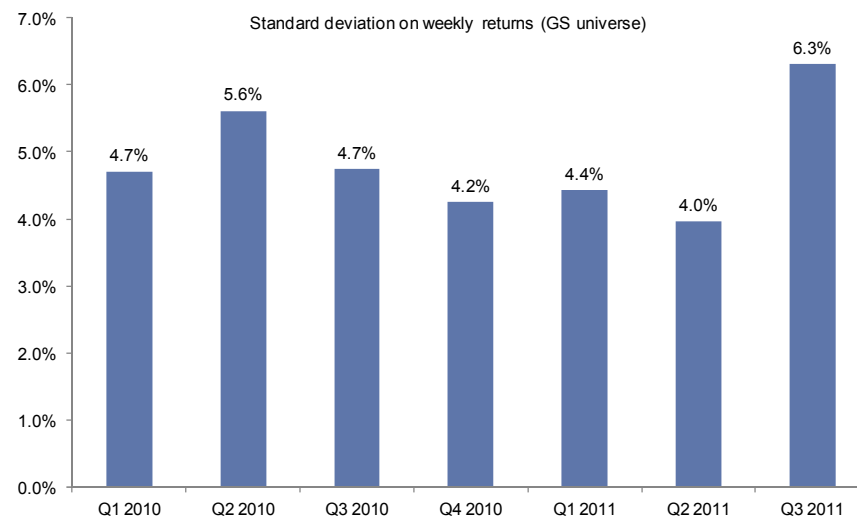
As our economists and equity strategists have recently written, equity correlations remain elevated with macro uncertainty driving limited dispersion or differentiation in single stock performance. Similarly, 3Q11 has been characterized by volatility in equity prices that is higher than any of the previous eight quarters: the standard deviation of weekly returns across Goldman Sachs' global equity coverage is 6.3% in 3Q11, whereas for five of the previous six quarters it was below 5%. As a result, equity risk premiums are close to all-time highs, at least for European stocks (Exhibit 4).

**Exhibit 2: Equity risk premiums at all-time highs ...**



Source: Datastream, Goldman Sachs Global ECS Research.

**Exhibit 3: ... and weekly volatility of equities in 3Q11 was also elevated**  
Standard deviation of weekly returns 2010-11, GS global coverage



Source: Datastream, Goldman Sachs Research.

However, as our European equity strategists noted last week (see *Strategy Espresso: Have correlations across equities peaked?* published October 13, 2011) while equity correlations could remain elevated in the short term, they are likely to be past their peaks and to drop in the next few months in line with the declines they would expect in volatility and the equity risk premium.

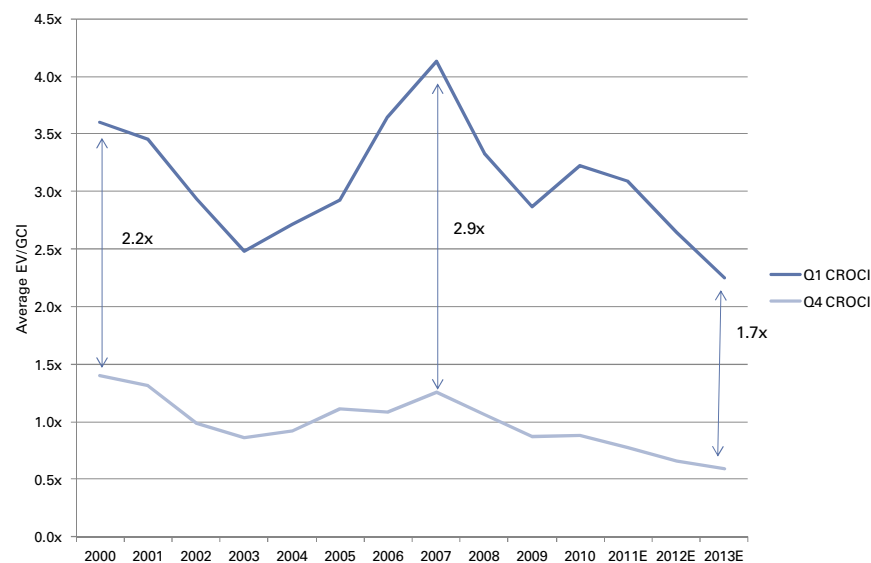


# Time horizons have shortened and premiums have compressed

Investors have responded to the rising and high levels of macro uncertainty by shortening their time horizons, resulting in a gradual compression of multiples that we have observed through 2011, and which accentuated in 3Q11. The market is differentiating less and less between companies with high and low returns on capital, and companies with fast and slower earnings growth.

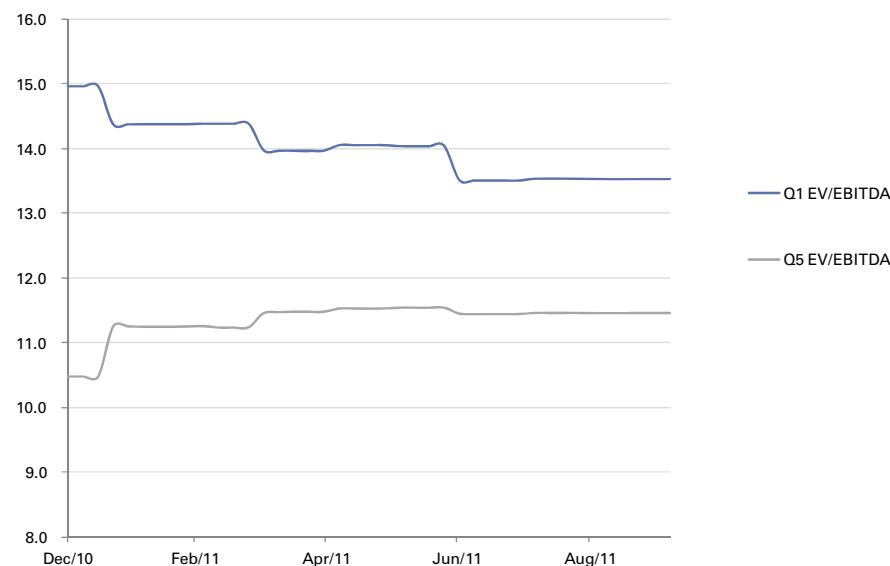
The multiple premium afforded to high versus low return on capital companies, as illustrated by the EV/GCI multiples of top and bottom quartile global sector relative CROCI companies (Exhibit 6), continues to compress. Taking 1 or 2 year forward multiples, these premiums are close to decade lows. Similarly the multiple premium for stocks forecast to generate top quintile EBITDA growth globally versus those forecast to generate bottom quintile EBITDA growth has continued to converge.

**Exhibit 4: Premiums for high return on capital companies have compressed**  
EV/GCI multiples for top and bottom quartile return on capital (CROCI) companies, GS' global coverage



Source: Goldman Sachs Research estimates, Quantum database.

**Exhibit 5: ... and growth premiums have also compressed**  
EV/EBITDA for companies with the fastest (Q1) and slowest (Q5) EBITDA growth based on I/B/E/S consensus 12-month-forward forecasts



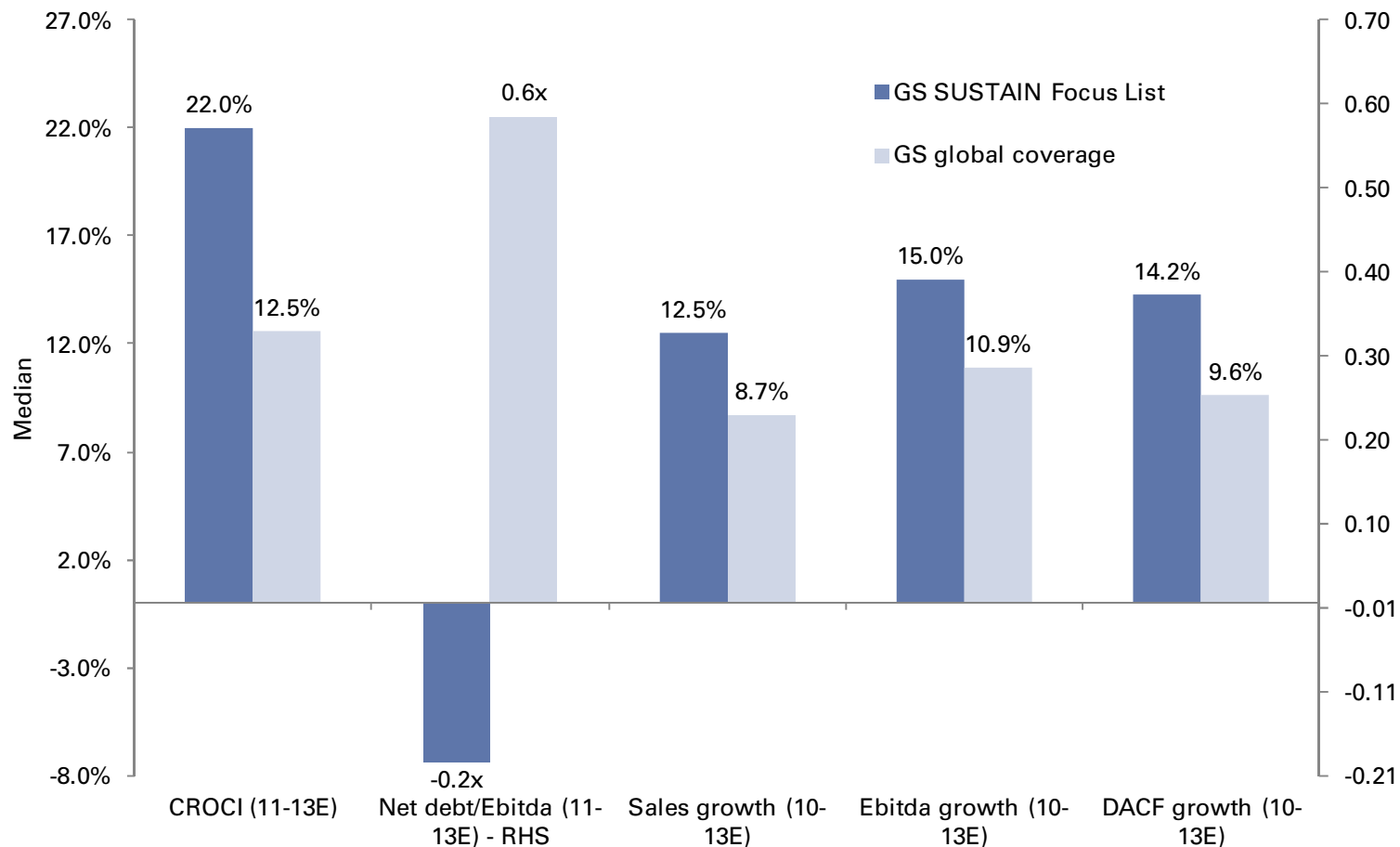
Source: Datastream, I/B/E/S, Goldman Sachs Research.

We do not expect this multiple convergence to persist. However we recognize that the primary catalyst for reversing this process is a gradual resolution to the Euro-zone sovereign debt crisis that lowers the high levels of macro uncertainty currently driving equity prices. Resolution is dependent upon a political process making the timing and shape of the solution uncertain.



As a result, we outline two potential scenarios for global equity investors and highlight value driven opportunities to buy into quality companies from our global Focus List that have the potential to outperform in either scenario. On average, all of the stocks we advocate on our global Focus List provide the defensive qualities of generating sector leading returns on capital from a position of balance sheet strength, coupled with fundamental strengths of superior top-line and bottom-line earnings growth.

**Exhibit 6: Stocks on the GS SUSTAIN Focus List offer higher returns, stronger balance sheets, and faster growth**  
 GS SUSTAIN Focus List stocks versus GS global coverage



Source: Goldman Sachs Research estimates, Quantum database.

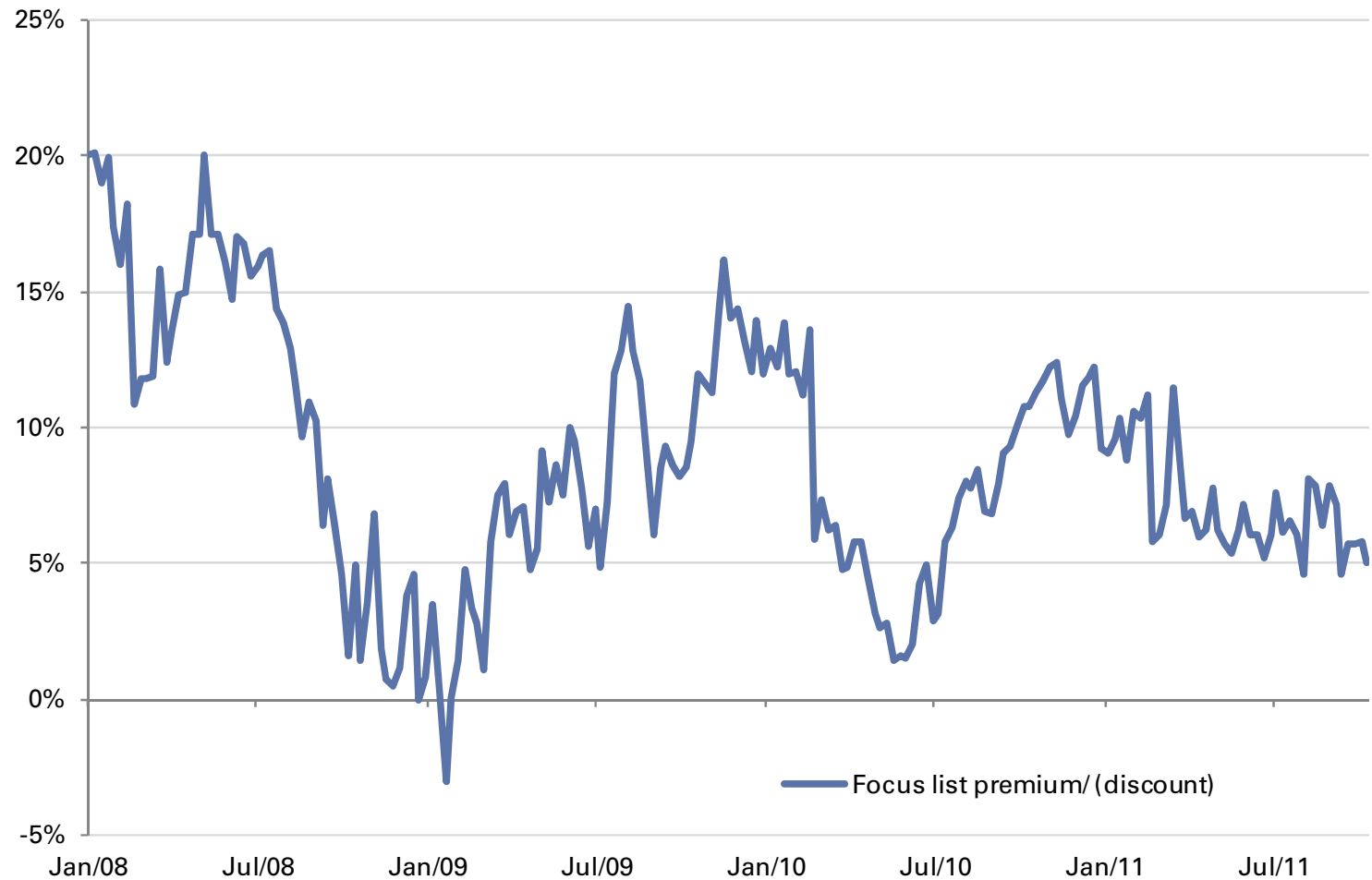
### Despite these quality characteristics, premiums remain compressed

In common with the broader trends we have observed regarding the premiums afforded to high return and faster growth companies, the premiums for stocks on our global Focus List are also compressed relative to recent history (Exhibit 7).

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#### Exhibit 7: GS SUSTAIN Focus List stocks are currently trading at a relatively low premium vs. peers

1-year forward P/E multiple premium/discount of GS SUSTAIN Focus List stocks vs. global market



Source: Datstream, Goldman Sachs Research.

## Screening for value, returns, growth and balance sheet strength

In recognition of the two potential macro outcomes we envisage, we overlay our value screens with a further filter for growth (both top-line and bottom-line earnings growth) and for balance sheet strength.

Stocks that are flagged as offering near-term value, generate high returns and are forecast to deliver sector leading top- and bottom-line growth are: Apple, Caterpillar, Cummins, Edwards Lifesciences, MTN, Novatek, Potash, Qualcomm and Richemont.

Stocks that are flagged as offering near-term value, generate high returns and have sector leading balance sheets are: MTN, Richemont, Cummins and Infosys. We note the high level of overlap between these two filters, which we believe highlights the all-round quality of the stocks on our Focus List.

### Exhibit 8: Screening for value, returns, growth and balance sheet strength on the GS SUSTAIN Focus List

Stocks on the GS SUSTAIN Focus List, flagged by one or more of our latest valuation screens, filtered for superior top-line growth, earnings growth and balance sheet strength relative to global sector peers (above 70<sup>th</sup> percentile on each filter)

Name	Value	Returns		Topline Growth		Bottomline Growth		Balance Sheet strength			
	Number of value screens met	CROCI (FY 11-13E)	Sector relative percent rank	Sales CAGR (FY 10-13E)	Sector relative percent rank	Ebitda CAGR (FY 10-13E)	Sector relative percent rank	Net debt/Ebitda (FY 11-13E)	Sector relative percent rank	DACF CAGR (FY 10-13E)	Sector relative percent rank
<b>Caterpillar, Inc.</b>	3	17%	72%	16%	76%	21%	74%	0.5x	51%	14%	56%
<b>MTN Group</b>	3	22%	93%	11%	83%	13%	81%	-0.2x	90%	14%	82%
Vale	3	24%	71%	14%	64%	13%	44%	0.4x	57%	11%	45%
ABB Ltd	2	21%	84%	9%	51%	13%	49%	-0.6x	79%	12%	49%
China Shenhua Ene	2	25%	75%	20%	80%	16%	57%	-0.5x	83%	10%	41%
Diageo	2	19%	83%	5%	37%	8%	43%	1.6x	35%	11%	72%
EMC Corporation	2	23%	86%	13%	70%	17%	69%	-0.7x	45%	12%	61%
Fortum	2	10%	78%	10%	61%	12%	64%	2.4x	73%	1%	29%
<b>Richemont</b>	2	22%	90%	16%	78%	25%	84%	-1.4x	86%	16%	71%
Roche	2	24%	72%	0%	11%	4%	25%	0.8x	22%	1%	23%
Unilever (NV)	2	16%	68%	6%	48%	10%	62%	0.8x	55%	10%	63%
Allergan, Inc.	1	25%	78%	10%	59%	10%	54%	-0.9x	67%	45%	96%
<b>Apple Inc.</b>	1	36%	98%	32%	96%	37%	92%	-0.4x	37%	35%	90%
Atlas Copco	1	30%	93%	12%	64%	15%	56%	0.0x	69%	12%	50%
British Sky Broadca	1	35%	96%	7%	45%	12%	50%	0.8x	38%	19%	77%
<b>Cummins, Inc.</b>	1	22%	88%	18%	80%	22%	75%	-0.2x	73%	28%	85%
<b>Edwards Lifescie</b>	1	25%	73%	19%	79%	24%	81%	-0.6x	55%	30%	87%
<b>Infosys Ltd.</b>	1	25%	61%	19%	76%	15%	64%	-1.9x	72%	12%	60%
<b>Novatek</b>	1	33%	100%	28%	77%	35%	80%	0.2x	66%	31%	79%
Novo Nordisk	1	40%	100%	6%	39%	11%	55%	-0.3x	47%	5%	35%
Occidental Petroleu	1	16%	83%	15%	39%	23%	63%	0.1x	68%	18%	58%
<b>Potash Corp.</b>	1	29%	93%	22%	83%	27%	80%	0.7x	45%	25%	78%
Publicis	1	19%	74%	6%	37%	8%	33%	1.1x	33%	5%	37%
<b>QUALCOMM, Inc.</b>	1	21%	88%	20%	79%	27%	85%	-1.4x	62%	24%	80%
Time Warner Inc.	1	19%	78%	5%	31%	5%	26%	2.5x	12%	5%	34%

Source: Goldman Sachs Research estimates.



# Screening the GS SUSTAIN Focus List

**Exhibit 9: GS SUSTAIN Focus List**

	Company	Ticker	Long term winners			Near term value								Rating and target price			
			Management Quality	Industry positioning	Returns on capital	Value vs history				Value vs peers		(Under)/out - performance vs sector over last 90 days	Rating	Price	Target price upside/ (downside)	Target price period	
						Percentile rank vs global sector peers	Current P/E	percentile rank vs 8 yr history	Current EV/DACF**	percentile rank vs 8 yr history	P/E (discount) /premium vs sector avg						EV/DACF (discount) /premium vs sector avg**
Oil & Gas Producers	BG	BG.L	97%	96%	58%	15.7x	81%	10.9x	86%	123%	123%	4%	Buy *	1,344p	30%	12 months	
	Novatek	NVTKq.L	49%	92%	98%	15.0x	38%	11.2x	29%	114%	129%	-2%	Buy	\$ 127	45%	12 months	
	Tullow Oil Plc	TLW.L	73%	100%	92%	12.0x	19%	11.7x	53%	71%	140%	20%	Neutral	1,424p	35%	12 months	
	Occidental Petroleum	OXY	55%	77%	87%	8.3x	39%	5.5x	28%	18%	11%	-7%	Buy	\$ 85	17%	6 months	
Oil services	Schlumberger, Ltd.	SLB	54%	63%	69%	-	-	-	-	-	-	-7%	Coverage Suspended	\$ 71			
	Technip	TECF.PA	72%	75%	75%	13.3x	28%	8.4x	60%	-	-	-1%	Buy *	€ 65	48%	12 months	
	Halliburton Company	HAL	81%	94%	81%	-	-	-	-	-	-	-18%	Coverage Suspended	\$ 37			
	FMC Technologies	FTI	64%	100%	88%	-	-	-	-	-	-	11%	Coverage Suspended	\$ 44			
Mining	Antofagasta	ANTO.L	54%	100%	93%	7.8x	48%	4.7x	51%	-	-	-6%	Neutral	1,118p	53%	12 months	
	BHP Billiton	BLT.L	96%	89%	82%	7.1x	2%	6.0x	5%	-5%	0%	-2%	Neutral	1,947p	57%	12 months	
	China Shenhua	1088.HK	46%	57%	71%	10.7x	9%	7.4x	9%	42%	23%	-5%	Buy	HK\$ 33	3%	12 months	
	Vale	VALE	71%	96%	64%	5.0x	4%	4.6x	1%	-34%	-22%	-3%	Buy	\$ 25	38%	12 months	
Steel	Novolipetsk Steel	NLMKq.L	48%	73%	88%	7.6x	5%	5.6x	4%	-6%	-9%	-15%	Neutral	\$ 27	73%	12 months	
	Gerdau	GGB	82%	100%	79%	8.1x	52%	5.3x	23%	-1%	-13%	2%	Neutral	\$ 8	16%	12 months	
Chemicals	Sasol	SOLJ.J	51%	59%	80%	7.5x	10%	6.1x	30%	7%	25%	-2%	Neutral	R 350	23%	12 months	
	Monsanto	MON	76%	73%	66%	19.8x	35%	13.6x	47%	81%	47%	17%	Buy *	\$ 74	16%	12 months	
	Potash	POT	83%	90%	90%	11.2x	11%	10.6x	51%	3%	14%	4%	Buy	\$ 51	14%	12 months	
	Syngenta	SYNN.VX	93%	78%	63%	13.4x	24%	10.8x	23%	27%	42%	6%	Neutral	SFr 268	30%	12 months	
Capital goods	KONE	KNEBV.HE	52%	80%	88%	14.5x	66%	11.8x	39%	36%	47%	3%	Neutral	€ 39	25%	6 months	
	Atlas Copco	ATCOa.ST	91%	96%	95%	11.6x	41%	9.7x	55%	9%	21%	-8%	Buy *	Skr 132	58%	12 months	
	ABB	ABB.VX	73%	93%	84%	10.7x	4%	8.1x	24%	9%	8%	-11%	Buy *	SFr 17	79%	12 months	
	Caterpillar	CAT	61%	100%	77%	10.4x	10%	8.1x	18%	-2%	1%	-8%	Buy	\$ 84	17%	12 months	
A&D	Cummins, Inc.	CMI	88%	75%	82%	10.1x	58%	8.6x	63%	-5%	7%	8%	Buy	\$ 98	24%	12 months	
	Rockwell Collins	COL	77%	85%	100%	13.0x	16%	12.2x	66%	17%	62%	8%	Neutral	\$ 56	6%	12 months	
Media	BSkyB	BSY.L	70%	52%	96%	14.2x	5%	12.2x	5%	14%	53%	5%	Buy *	676p	33%	12 months	
	Publicis	PUBP.PA	59%	52%	78%	10.3x	22%	8.9x	43%	-	-	1%	Buy	€ 35	13%	12 months	
	Time Warner	TWX	74%	63%	74%	11.4x	12%	4.1x	22%	-	-	4%	Buy	\$ 34	10%	12 months	
Consumer staples	Diageo	DGE.L	96%	75%	75%	14.1x	34%	13.2x	6%	-1%	10%	5%	Buy	1,292p	16%	12 months	
	Hershey	HSY	72%	65%	87%	19.0x	44%	14.7x	44%	29%	16%	8%	Neutral	\$ 60	10%	12 months	
	Coca-Cola	KO	58%	91%	83%	16.9x	33%	14.7x	27%	18%	22%	3%	Buy *	\$ 68	11%	12 months	
	Natura	NATU3.SA	82%	100%	100%	16.3x	39%	14.4x	42%	12%	24%	-14%	Sell	R\$ 33	9%	12 months	
	Unilever	UNc.AS	100%	57%	61%	13.6x	38%	13.6x	6%	-8%	7%	9%	Buy	€ 25	14%	12 months	

\* denotes Conviction List membership. The prices in this report are as of the market close of October 14, 2011. \*\* denotes P/B for Financials.

Source: Goldman Sachs Research estimates.

**Exhibit 10: GS SUSTAIN Focus List (continued)**

	Company	Ticker	Long term winners			Near term value							Rating and target price				
			Management Quality	Industry positioning	Returns on capital	Value vs history				Value vs peers			(Under)/out-performance vs sector over last 90 days	Rating	Price	Target price upside/(downside)	Target price period
						Percentile rank vs global sector peers	Current P/E	percentile rank vs 8 yr history	Current EV/DACF**	percentile rank vs 8 yr history	P/E (discount) /premium vs sector avg	EV/DACF (discount) /premium vs sector avg**					
Discretionary retail	Belle International	1880.HK	23%	100%	55%	18.6x	31%	16.2x	36%	33%	70%	-1%	Buy *	HK\$ 14	30%	12 months	
	Coach	COH	55%	97%	94%	16.7x	38%	16.2x	50%	5%	24%	5%	Neutral	\$ 62	1%	6 months	
	TJX	TJX	90%	87%	68%	13.3x	42%	7.3x	69%	-	-	14%	Buy *	\$ 58	18%	12 months	
	Nike	NKE	62%	95%	100%	18.0x	91%	14.6x	88%	19%	45%	11%	Neutral	\$ 93	-4%	6 months	
	Inditex	ITX.MC	48%	71%	81%	18.2x	70%	11.6x	73%	30%	22%	16%	Buy *	€ 67	29%	12 months	
Staples retail	Richemont	CFR.VX	52%	76%	86%	14.3x	53%	9.5x	87%	2%	-1%	-10%	Buy *	SFr 47	53%	12 months	
	Wal-Mex	WALMEXV.MX	24%	100%	100%	23.7x	63%	17.8x	60%	69%	87%	-13%	Neutral	P\$ 33	14%	12 months	
Pharma & biotech	Novo Nordisk	NOVOB.CO	72%	97%	100%	17.7x	52%	14.1x	70%	63%	64%	-13%	Buy	Dkr 534	26%	12 months	
	Roche	ROG.VX	84%	100%	78%	10.5x	6%	8.9x	7%	-4%	3%	3%	Buy *	SFr 143	26%	12 months	
	Allergan	AGN	72%	72%	81%	20.3x	38%	16.3x	21%	86%	90%	10%	Buy	\$ 86	13%	12 months	
Med tech	Edwards Lifesciences	EW	70%	100%	70%	25.5x	83%	18.7x	79%	98%	89%	-13%	Buy *	\$ 72	29%	12 months	
Insurance	Prudential	PRU.L	96%	71%	85%	9.9x	15%	0.7x	14%	11%	-27%	5%	Buy	632p	38%	12 months	
	Royal Sun Alliance	RSAL	100%	77%	60%	7.3x	2%	1.0x	22%	-19%	-5%	1%	Neutral	115p	26%	12 months	
	AMP	AMP.AX	71%	52%	89%	-	-	-	-	-	-	2%	Buy	A\$ 4	-	-	
Banks	China Life	2628.HK	15%	90%	87%	12.0x	1%	2.2x	1%	34%	116%	-8%	Buy	HK\$ 20	12%	12 months	
	BBVA	BBVA.MC	93%	90%	93%	5.9x	6%	0.7x	3%	-	-	3%	Buy *	€ 6	43%	12 months	
	HSBC	HSBAL	100%	60%	63%	6.4x	1%	0.9x	2%	-10%	10%	1%	Buy *	525p	71%	12 months	
	China Merchants Bank	3968.HK	59%	68%	68%	6.0x	0%	1.3x	0%	-15%	65%	-10%	Neutral	HK\$ 14	47%	12 months	
	Julius Baer Group	BAER.VX	74%	100%	81%	12.5x	9%	1.5x	13%	76%	90%	11%	Buy	SFr 35	36%	12 months	
	Standard Chartered	STAN.L	97%	53%	73%	10.2x	10%	1.2x	9%	44%	50%	2%	Neutral	1,419p	20%	12 months	
	Banco Bradesco	BBD	67%	95%	84%	8.5x	28%	1.6x	19%	20%	101%	6%	Neutral	\$ 17	14%	12 months	
	Itau Unibanco	ITUB	91%	84%	95%	8.2x	42%	1.7x	21%	15%	110%	5%	Buy	\$ 18	15%	12 months	
	Commonwealth Bank	CBA.AX	82%	97%	83%	-	-	-	-	-	-	-	12%	Buy	A\$ 48	-	-
	Hang Seng	0011.HK	85%	89%	100%	10.1x	0%	2.3x	0%	43%	186%	-4%	Neutral	HK\$ 97	35%	12 months	
Software	ICBC	1398.HK	39%	74%	74%	5.6x	1%	1.2x	1%	-22%	53%	-10%	Buy	HK\$ 4	60%	12 months	
	Mastercard	MA	59%	93%	86%	20.3x	86%	16.9x	69%	20%	56%	11%	Buy	\$ 342	11%	12 months	
	Google	GOOG	76%	59%	59%	12.4x	5%	10.0x	11%	-19%	-14%	11%	Neutral	\$ 592	12%	12 months	
	Tencent	0700.HK	20%	98%	92%	21.4x	47%	16.4x	36%	40%	41%	-18%	Neutral	HK\$ 173	18%	12 months	
Hardware	Infosys	INFY	95%	71%	72%	17.8x	26%	15.6x	28%	5%	44%	-7%	Buy	\$ 57	16%	12 months	
	Apple	AAPL	71%	92%	98%	11.5x	36%	9.7x	51%	-4%	37%	17%	Buy *	\$ 422	23%	12 months	
	Qualcomm	QCOM	78%	88%	88%	16.2x	7%	10.8x	1%	29%	21%	0%	Buy *	\$ 55	11%	12 months	
	EMC	EMC	84%	83%	87%	15.4x	12%	8.7x	28%	28%	22%	-14%	Buy *	\$ 23	26%	12 months	
	Juniper	JNPR	73%	50%	69%	18.4x	2%	7.3x	2%	46%	-18%	-29%	Neutral	\$ 22	2%	12 months	
Telecoms	ARM Holdings	ARM.L	84%	71%	67%	56.3x	93%	50.3x	92%	361%	720%	1%	Buy	594p	35%	12 months	
	MTN	MTNJ.J	66%	90%	93%	10.3x	28%	6.7x	1%	-7%	16%	-17%	Buy	R 131	17%	12 months	
	China Mobile	0941.HK	67%	91%	99%	9.7x	13%	4.1x	17%	-17%	-22%	9%	Neutral	HK\$ 75	12%	12 months	
Utilities	Centrica	CNA.L	91%	61%	91%	11.4x	49%	8.2x	29%	-	-	-1%	Buy *	310p	49%	12 months	
	Fortum	FUM1V.HE	91%	59%	75%	10.5x	29%	9.7x	63%	-9%	6%	-3%	Buy	€ 18	47%	12 months	

\* denotes Conviction List membership. The prices in this report are as of the market close of October 14, 2011. \*\* denotes P/B for Financials.

Source: Goldman Sachs Research estimates, Belle International, China Life, China Merchants Bank, ICBC, China Mobile are covered by Gao Hua Securities. AMP, Commonwealth Bank are covered by GS&PA.

## **Back tests highlight three approaches that have consistently worked in identifying near-term value**

We undertook a series of back tests (see *Long-term winners, near-term value*, published June 23, 2011) on the stocks included in the Focus List since its inception in June 2007 to find reliable signals for compelling entry points to the long-term winners identified by our analysis of c.1,000 stocks across 23 sectors globally (see *GS SUSTAIN: The die has been cast*, published April 23, 2011).

Based on our back tests, three approaches have consistently worked - between June 2007 and April 2011 the GS SUSTAIN Focus List rose 32% in absolute terms. Applying each of the following screens on a fortnightly basis would have enhanced performance:

- Buying Buy-rated companies trading on low multiples vs. their own history – absolute performance of up to 126% assuming perfect foresight of earnings.
- Buying Buy-rated companies trading on low multiples vs. their global sector peers – absolute performance of up to 145% assuming perfect foresight of earnings.
- Buying Buy-rated companies that have underperformed sector peers over the previous 90 days – absolute performance of 65% based on actual performance.

Incorporating the requirement that stocks are Buy rated has yielded more powerful signals than the valuation or performance measures alone. While the first two valuation-driven screens do not incorporate forecasting risk, this analysis provides a basis for identifying attractive entry points into long-term leaders identified through GS SUSTAIN analysis.

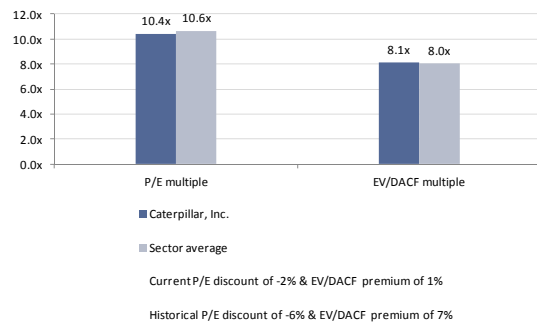


# Caterpillar

Caterpillar screens very strongly on our GS SUSTAIN analysis of the global capital goods sector with the highest industry positioning rank. It has high and improving returns on capital (CROCI 19% FY11-13E vs. 15% FY08-10) and is flagged by all three of our value screens. It is now trading at a discount of 2% (12-month forward P/E) to global machinery peers and in the bottom quartile of its eight-year historical P/E and EV/DACF range and has underperformed global peers by 8% over the last three months. Caterpillar is Buy rated with a 12-month price target of US\$98.00 based on 7.6x 2012E EV/EBITDA and 10x P/E. Risks include adverse valuation on the Bucyrus distribution divestiture, weaker cost control.

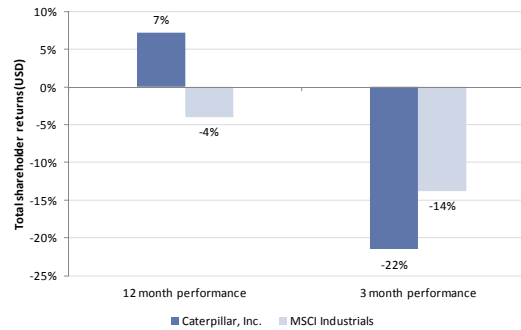
## Exhibit 11: Valuation vs. sector

12-month forward valuation of company and sector peers



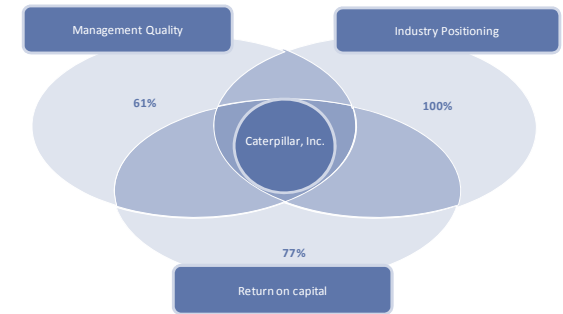
## Exhibit 12: Price performance vs. sector

Total shareholder returns of company and sector peers



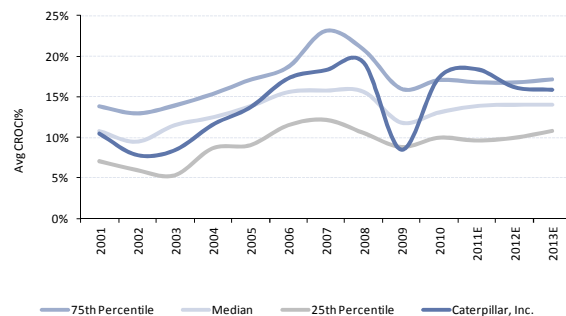
## Exhibit 13: Return on capital, industry positioning and management quality scores

Percentile rank relative to sector peers



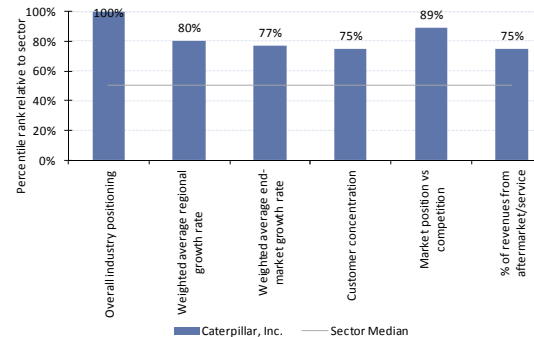
## Exhibit 14: Return on assets

Avg return on assets and percentile relative to sector



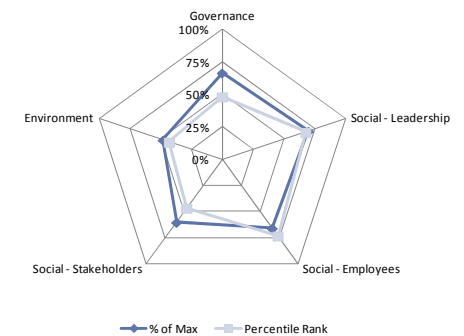
## Exhibit 15: Industry positioning: Drivers of returns and competitive advantage

Percentile rank relative to sector peers



## Exhibit 16: Management quality: Performance in addressing needs of key stakeholders

Score as a % of max and percentile relative to sector



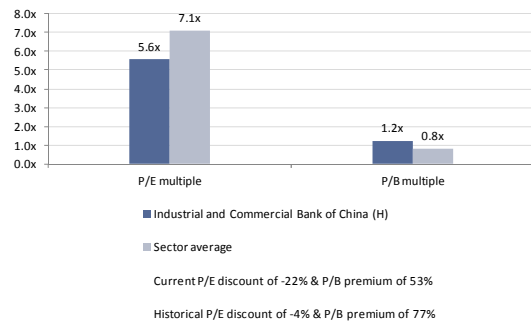
Source: Datastream, Goldman Sachs Research estimates.

# ICBC

Industrial and Commercial Bank of China is a leading player among Chinese banks and is well positioned to benefit from the secular growth of the banking sector in China over the long term. The stock, along with other Chinese banks, has continued to de-rate on concerns over Chinese inflation and resulting policy tightening, as well as the bank's exposure to local government loans. It continues to screen as attractive on all three of our value screens and is now trading at a discount of 22% (12-month forward P/E) to global bank peers and in the bottom decile of its eight-year historical P/E and P/B range and has underperformed global bank peers by 10% over the last three months. Macro concerns are likely to continue to dictate near-term share price movements, but for longer-term investors, our view is that ICBC is a well-managed company relative to Chinese peers with a robust funding franchise and strong cost control, evidenced by its low operating expense. ICBC is Buy rated with a 12-month price target of HK\$6.90 based on 2011E BVPS. Risks include a macro hard landing and ICBC's earnings misses.

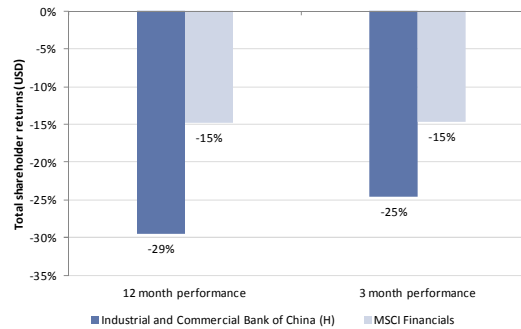
### Exhibit 17: Valuation vs. sector

12-month forward valuation of company and sector peers



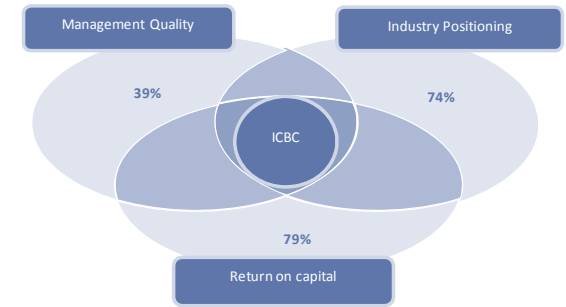
### Exhibit 18: Price performance vs. sector

Total shareholder returns of company and sector peers



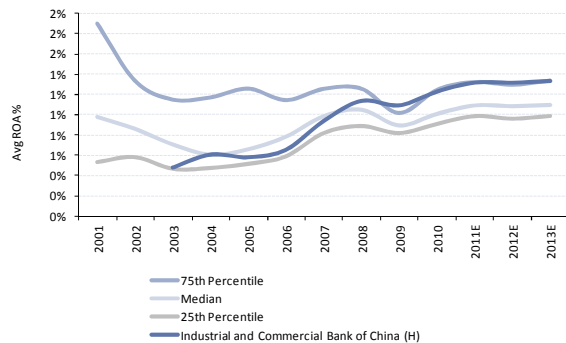
### Exhibit 19: Return on capital, industry positioning and management quality scores

Percentile rank relative to sector peers



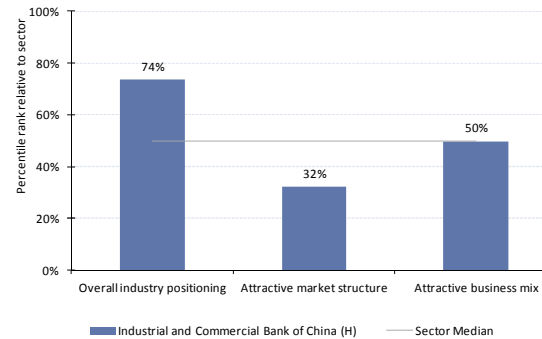
### Exhibit 20: Return on assets

Avg return on assets and percentile relative to sector



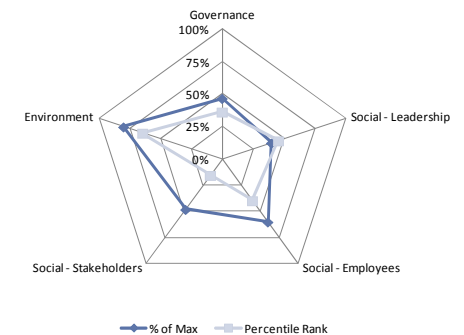
### Exhibit 21: Industry positioning: Drivers of returns and competitive advantage

Percentile rank relative to sector peers



### Exhibit 22: Management quality: Performance in addressing needs of key stakeholders

Score as a % of max and percentile relative to sector



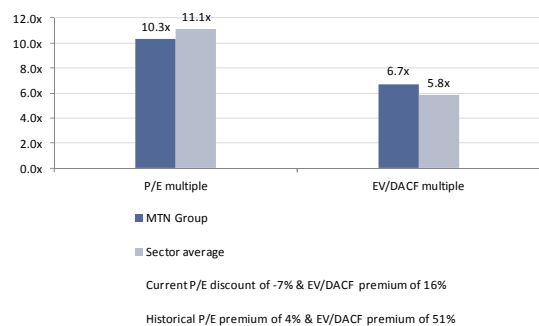
Source: Datastream, Goldman Sachs Research estimates.

# MTN Group

MTN is one of the best positioned telcos in our global coverage, in our view, generating top-decile returns on capital aided by a top-decile industry position. Particular structural strengths include its exposure to African markets offering strong growth in telecoms spending but also fairly high levels of end market consolidation. MTN has historically traded at a premium to global telco peers on both P/E and EV/DACF, but is currently trading at a discount on P/E. It is in the bottom decile of its eight-year historical EV/DACF trading range, and is Buy rated with a 12-month price target of R154 based on SOTP. Risks include competition, regulation, and macro deterioration in MTN's main markets

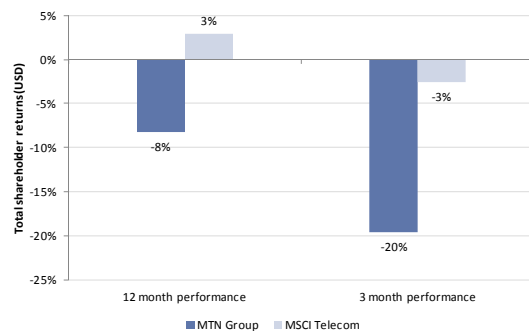
### Exhibit 23: Valuation vs. sector

12-month forward valuation of company and sector peers



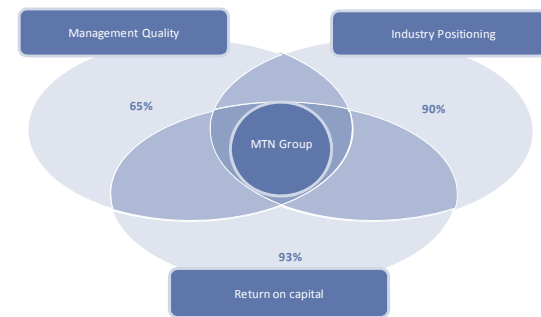
### Exhibit 24: Price performance vs. sector

Total shareholder returns of company and sector peers



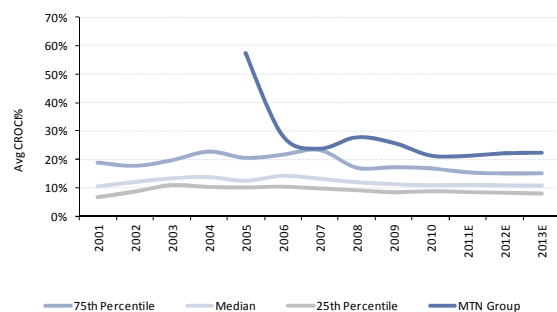
### Exhibit 25: Return on capital, industry positioning and management quality scores

Percentile rank relative to sector peers



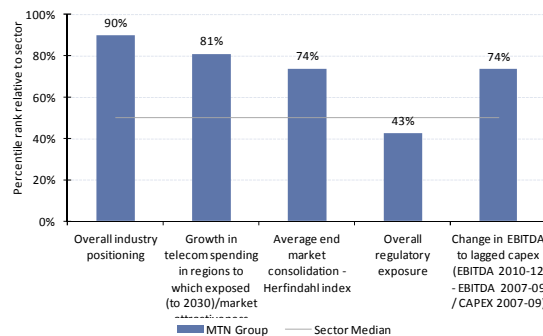
### Exhibit 26: Return on capital: Sustainable cash returns drive performance

Avg return on capital and percentile relative to sector



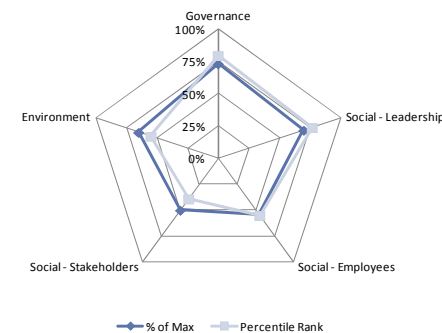
### Exhibit 27: Industry positioning: Drivers of returns and competitive advantage

Percentile rank relative to sector peers



### Exhibit 28: Management quality: Performance in addressing needs of key stakeholders

Score as a % of max and percentile relative to sector

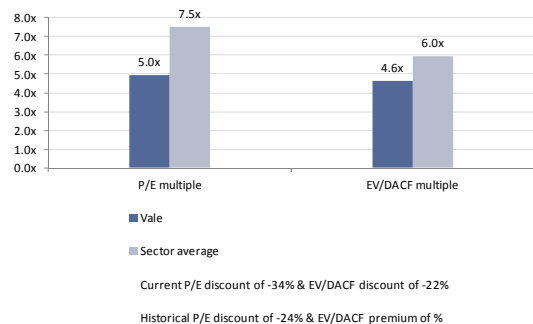


Source: Datastream, Goldman Sachs Research estimates.

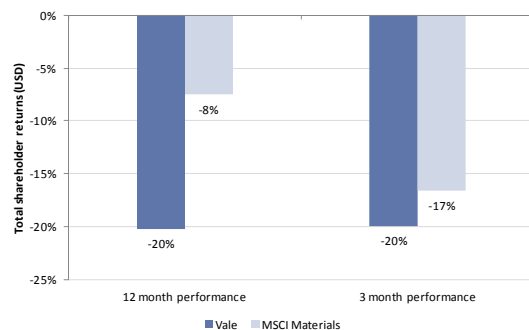
# Vale

One of the best positioned companies in our global mining analysis, Vale is trading in the 4th percentile of its eight-year historical EV/DACF range and is at a discount of 22% to global mining peers on 12-month forward EV/DACF. In our analysts' view, Vale remains the top pick among LatAm natural resources stocks given a tight iron ore supply-demand outlook. Vale is Buy rated with a 12-month target price of US\$35 based on an equal blend of DCF and target EV/EBITDA multiples. Key risks include a royalty hike, a stronger Brazilian currency and lower iron ore prices and shipments.

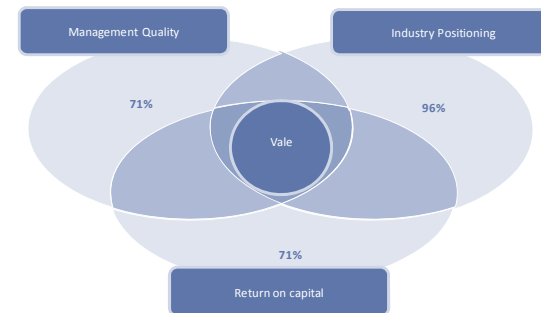
**Exhibit 29: Valuation vs. sector**  
12-month forward valuation of company and sector peers



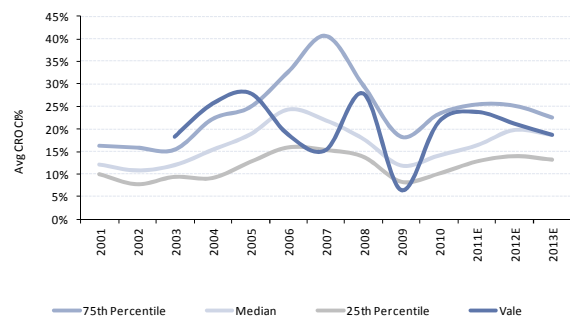
**Exhibit 30: Price performance vs. sector**  
Total shareholder returns of company and sector peers



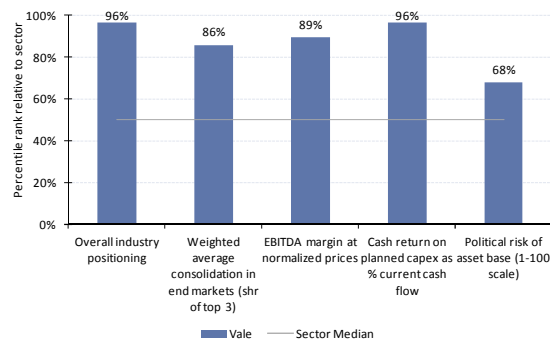
**Exhibit 31: Return on capital, industry positioning and management quality scores**  
Percentile rank relative to sector peers



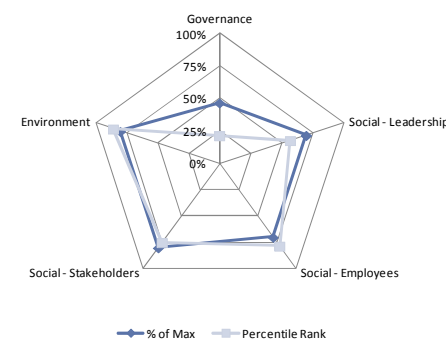
**Exhibit 32: Return on capital: Sustainable cash returns drive performance**  
Avg return on capital and percentile relative to sector



**Exhibit 33: Industry positioning: Drivers of returns and competitive advantage**  
Percentile rank relative to sector peers



**Exhibit 34: Management quality: Performance in addressing needs of key stakeholders**  
Score as a % of max and percentile relative to sector



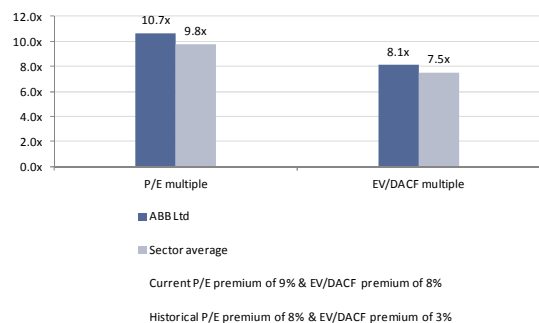
Source: Datastream, Goldman Sachs Research estimates.

# ABB

ABB is trading in the bottom quartile of its eight-year historical trading range on P/E and EV/DACF, and has underperformed sector peers by 11% over the last 90 days. Our analysts believe the company is well positioned to benefit from secular growth in transmission and distribution from both developed and emerging markets, alongside a shift towards greater automation. ABB's market-leading positions provide scale advantage, which combined with its localization strategy in emerging markets, should help to sustain top-quartile returns on capital. ABB is on the pan European Conviction Buy List with a 12-month target price of SFr31 based on 13x 2012E EV/EBIT. Risks include lower than expected volumes, greater difficulty in passing through raw material price increases, order cancellations, adverse FX moves and value destructive M&A.

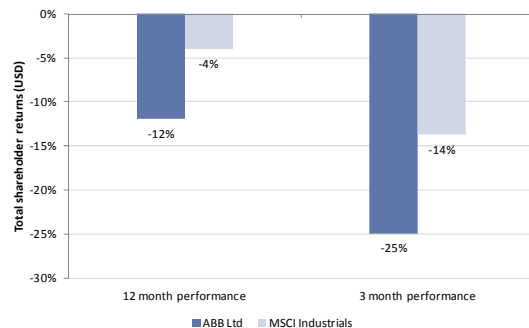
### Exhibit 35: Valuation vs. sector

12-month forward valuation of company and sector peers



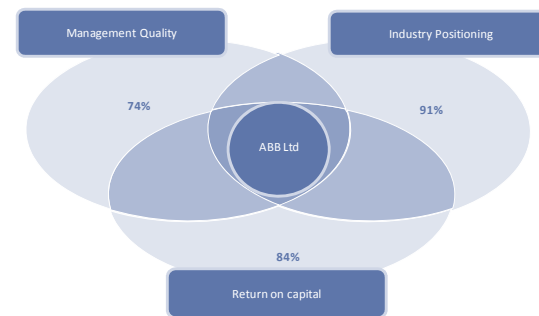
### Exhibit 36: Price performance vs. sector

Total shareholder returns of company and sector peers



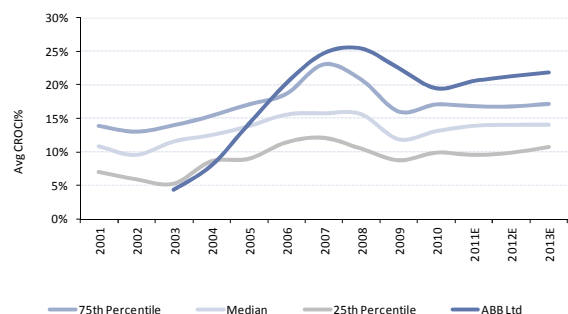
### Exhibit 37: Return on capital, industry positioning and management quality scores

Percentile rank relative to sector peers



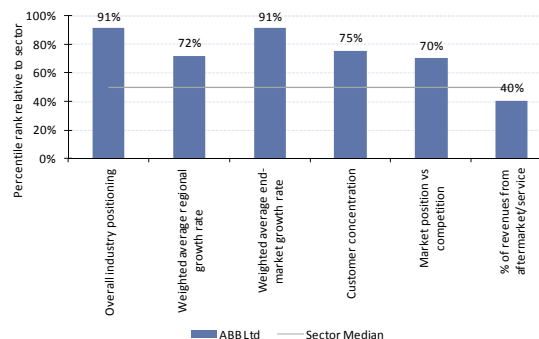
### Exhibit 38: Return on capital: Sustainable cash returns drive performance

Avg return on capital and percentile relative to sector



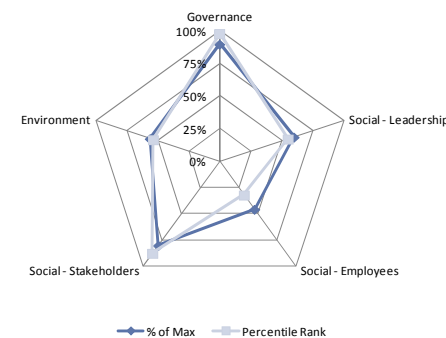
### Exhibit 39: Industry positioning: Drivers of returns and competitive advantage

Percentile rank relative to sector peers



### Exhibit 40: Management quality: Performance in addressing needs of key stakeholders

Score as a % of max and percentile relative to sector



Source: Datastream, Goldman Sachs Research estimates.

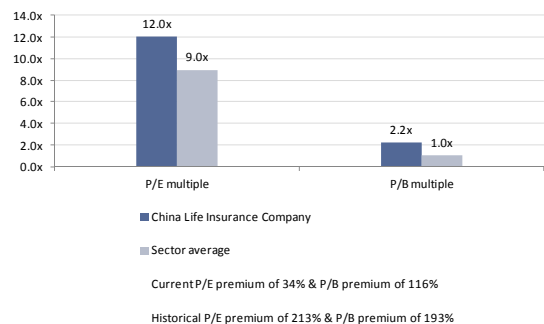


# China Life

China Life, on our analysis, screens in the top decile of industry positioning benefitting from strong distribution channels and exposure to markets with high growth in insurance premiums, and is also well placed to generate top decile forecast returns on equity. The stock has underperformed global insurance peers by 8% over the challenging operating environment faced by China life insurers and is currently trading in the bottom decile of its eight-year historical P/E and P/B trading range. China Life is Buy rated with a 12-month mid-point valuation method based price target of HK\$23.1. Risks include: a macro hard landing and disappointing reform initiatives/execution.

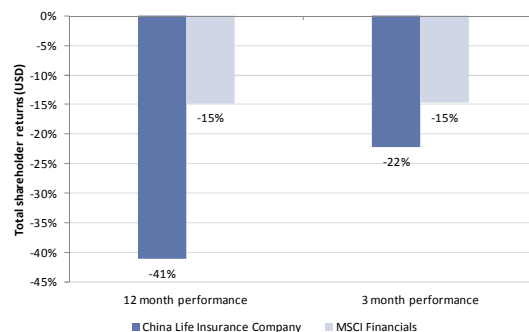
## Exhibit 41: Valuation vs. sector

12-month forward valuation of company and sector peers



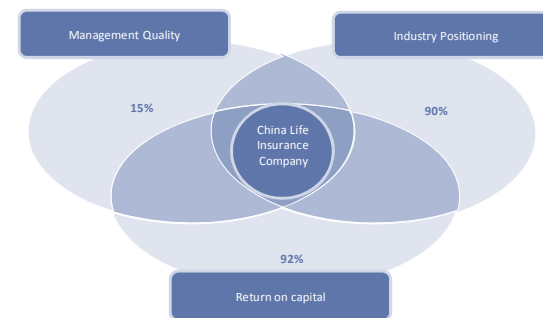
## Exhibit 42: Price performance vs. sector

Total shareholder returns of company and sector peers



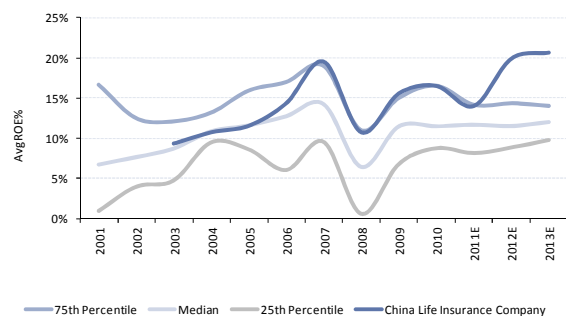
## Exhibit 43: Return on capital, industry positioning and management quality scores

Percentile rank relative to sector peers



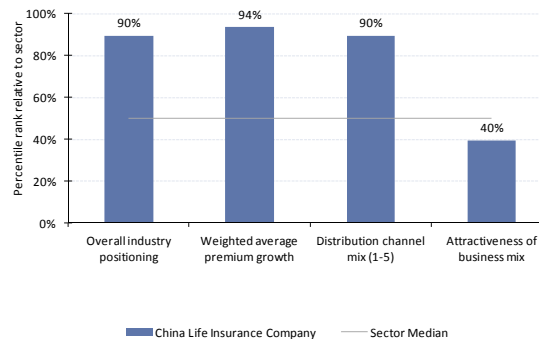
## Exhibit 44: Return on equity

Avg return on equity and percentile relative to sector



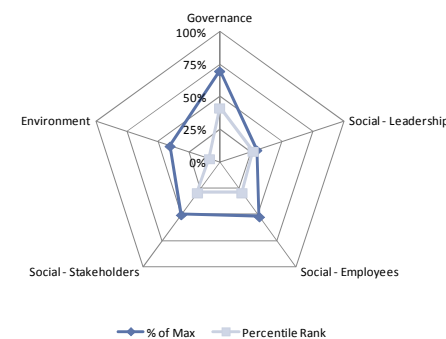
## Exhibit 45: Industry positioning: Drivers of returns and competitive advantage

Percentile rank relative to sector peers



## Exhibit 46: Management quality: Performance in addressing needs of key stakeholders

Score as a % of max and percentile relative to sector



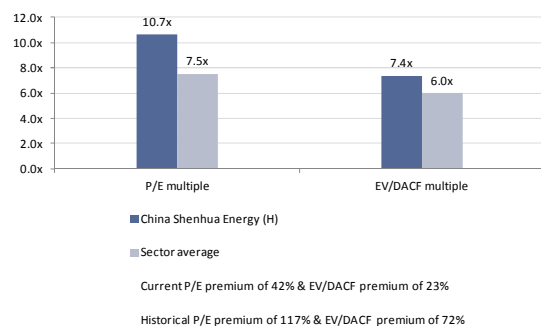
Source: Datastream, Goldman Sachs Research estimates.

# China Shenhua

China Shenhua, the largest coal mining state-owned enterprise in Mainland China, screens well on our GS SUSTAIN analysis with high and improving returns on capital. Its high returns (average CROCI 24% FY2011-13E, 71st percentile vs. global mining peers), are supported by high margins coupled with access to cheap assets. The company is one of the strongest Chinese performers on our measures of management quality. It has underperformed global mining peers by 5% over the last 90 days and is currently trading in the bottom decile of its eight-year historical P/E and P/B trading range. China Shenhua is Buy rated with a 12-month Director's Cut based price target of HK\$ 35.50. Risks include: lower coal price.

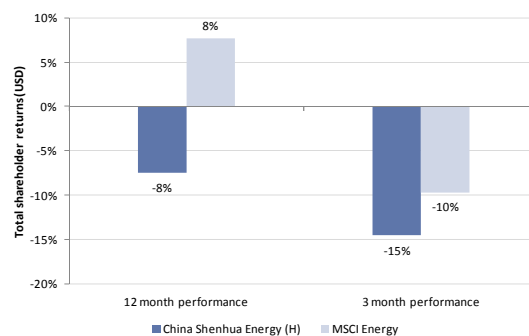
## Exhibit 47: Valuation vs. sector

12-month forward valuation of company and sector peers



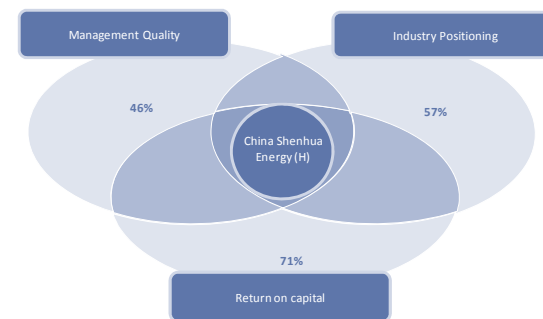
## Exhibit 48: Price performance vs. sector

Total shareholder returns of company and sector peers



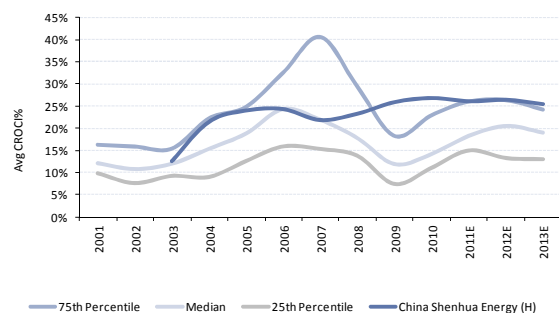
## Exhibit 49: Return on capital, industry positioning and management quality scores

Percentile rank relative to sector peers



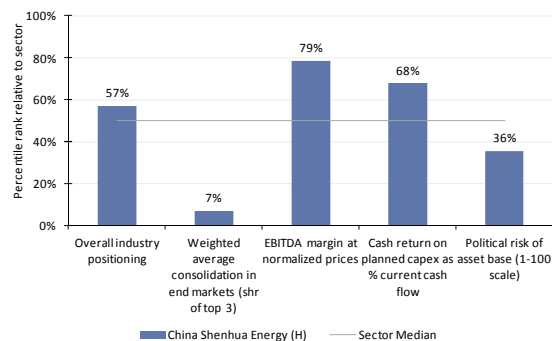
## Exhibit 50: Return on capital: Sustainable cash returns drive performance

Avg return on capital and percentile relative to sector



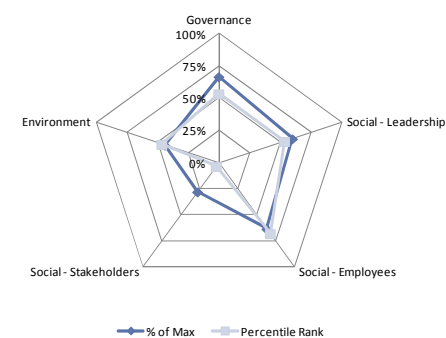
## Exhibit 51: Industry positioning: Drivers of returns and competitive advantage

Percentile rank relative to sector peers



## Exhibit 52: Management quality: Performance in addressing needs of key stakeholders

Score as a % of max and percentile relative to sector



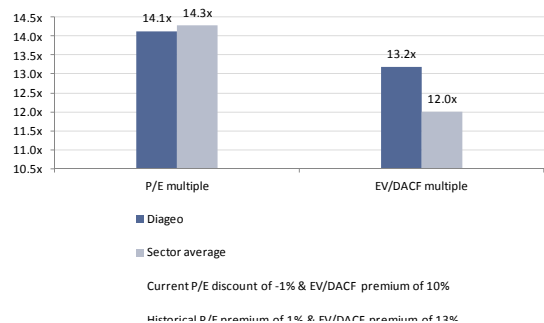
Source: Datastream, Goldman Sachs Research estimates.

# Diageo

Diageo is currently trading at a discount of 1% (12-month forward P/E) to global consumer staple peers and also in the bottom quartile of its eight-year EV/DACF (12-months forward) valuation history, despite its significantly more attractive positioning over the medium-to-long term. The company has a strong market share in alcoholic beverages (21%) and exposure to attractive end markets and high growth geographies, enabling it, in our analysts' view, to take advantage of rapid consumption growth in attractive product markets and to sustain first quartile cash returns among peers (17%, 2011-13E). Diageo is Buy rated with a 12-month EV/DACF based price target of 1500p. Risks include: material deterioration in the US spirits market, weaker than expected growth in emerging markets, earnings dilutive M&A and unfavourable FX volatility.

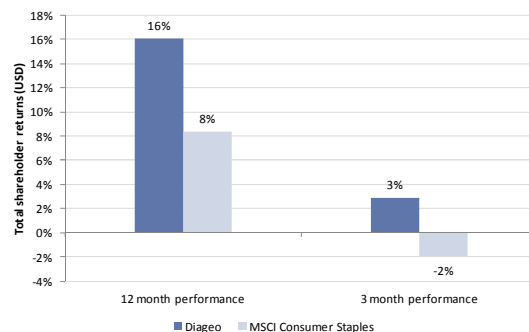
### Exhibit 53: Valuation vs. sector

12-month forward valuation of company and sector peers



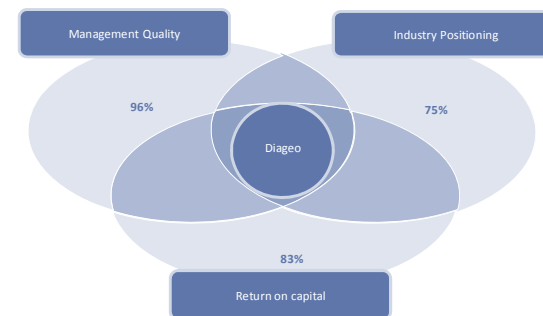
### Exhibit 54: Price performance vs. sector

Total shareholder returns of company and sector peers



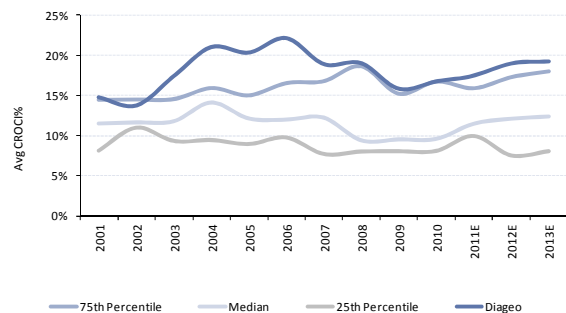
### Exhibit 55: Return on capital, industry positioning and management quality scores

Percentile rank relative to sector peers



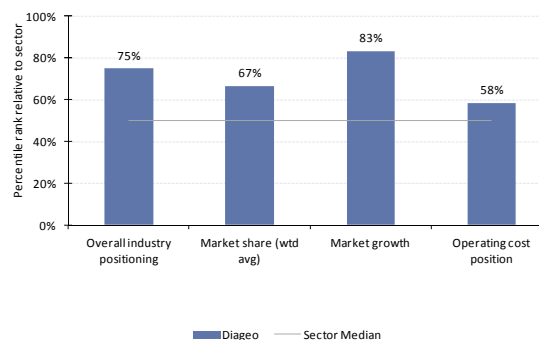
### Exhibit 56: Return on capital: Sustainable cash returns drive performance

Avg return on capital and percentile relative to sector



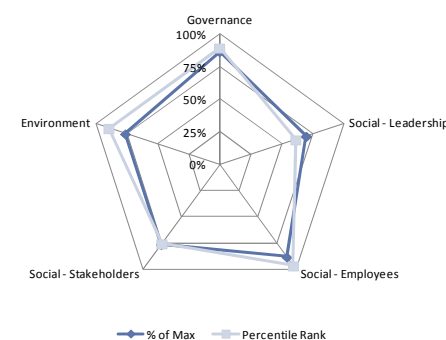
### Exhibit 57: Industry positioning: Drivers of returns and competitive advantage

Percentile rank relative to sector peers



### Exhibit 58: Management quality: Performance in addressing needs of key stakeholders

Score as a % of max and percentile relative to sector



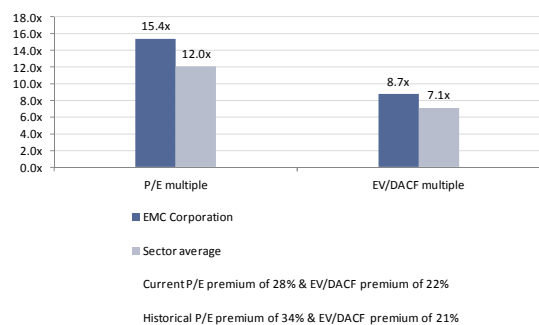
Source: Datastream, Goldman Sachs Research estimates.

# EMC

EMC is trading in the bottom quartile of its eight-year historical P/E trading range, and has underperformed sector peers by 14% in the last 90 days. The company generates top-quartile returns on capital, has top-quartile industry positioning aided by a leading position in a segment with strong TAM growth, and is also top quartile on our analysis of management quality (ESG). EMC is on the Americas Conviction Buy List with a 12-month target price of \$29 based on a target P/E multiple of 20x consolidated earnings. Risks include greater than expected cyclical pressure on networked storage spending, unforeseen supply chain disruptions from Japan, and disruptive array technologies from emerging companies.

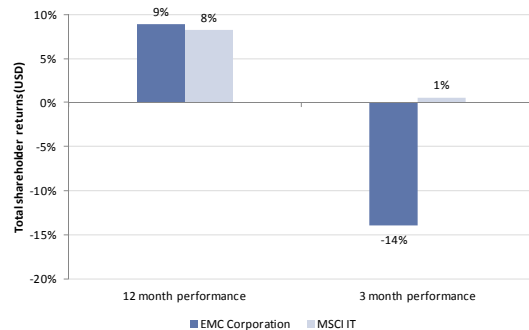
### Exhibit 59: Valuation vs. sector

12-month forward valuation of company and sector peers



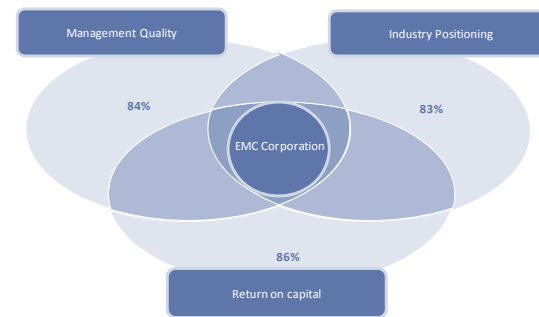
### Exhibit 60: Price performance vs. sector

Total shareholder returns of company and sector peers



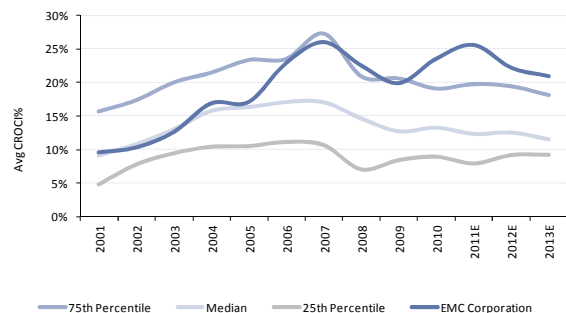
### Exhibit 61: Return on capital, industry positioning and management quality scores

Percentile rank relative to sector peers



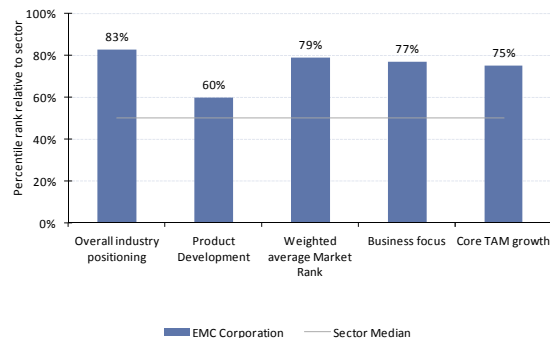
### Exhibit 62: Return on capital: Sustainable cash returns drive performance

Avg return on capital and percentile relative to sector



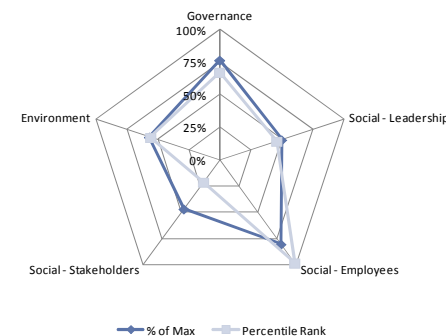
### Exhibit 63: Industry positioning: Drivers of returns and competitive advantage

Percentile rank relative to sector peers



### Exhibit 64: Management quality: Performance in addressing needs of key stakeholders

Score as a % of max and percentile relative to sector



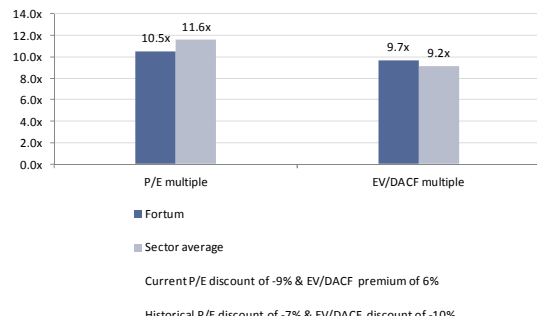
Source: Datastream, Goldman Sachs Research estimates.

# Fortum

Fortum has underperformed global utilities peers by 3% in the past 90 days following the Finnish government’s announcement that it would levy windfall taxes on nuclear and hydro generation, introduce a tax on uranium and remove free carbon from power generation. The nuclear and hydro tax proposition has been delayed until 2013 but the lack of clarity on the tax regime is, in our analysts’ view, weighing on the stock price, which is already discounting a significant tax risk. However, given Fortum’s strong balance sheet, sector-leading returns on capital, and strong industry positioning and management quality, we believe the current scenario presents an attractive entry point for longer-term investors. Fortum is Buy rated, with a 12-month price target of €27, based on equal weighted SOTP and P/E. Risks include lower energy prices and higher taxation.

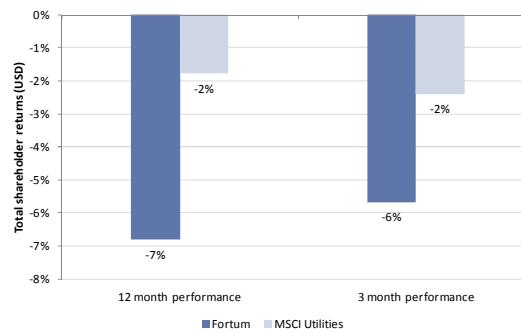
**Exhibit 65: Valuation vs. sector**

12-month forward valuation of company and sector peers

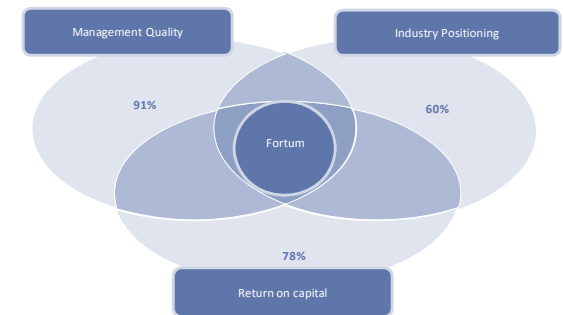


**Exhibit 66: Price performance vs. sector**

Total shareholder returns of company and sector peers

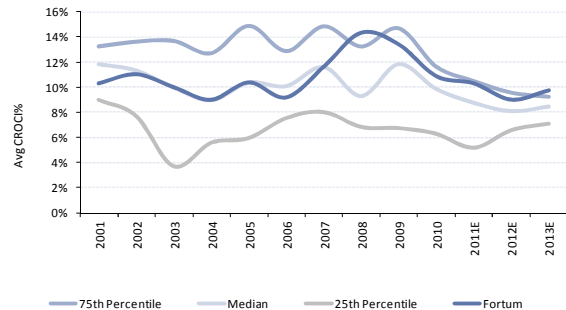


**Exhibit 67: Return on capital, industry positioning and management quality scores**  
 Percentile rank relative to sector peers



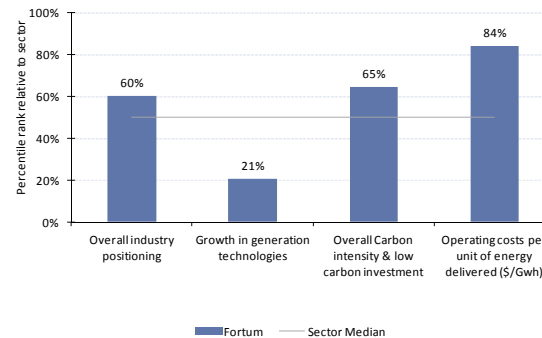
**Exhibit 68: Return on capital: Sustainable cash returns drive performance**

Avg return on capital and percentile relative to sector



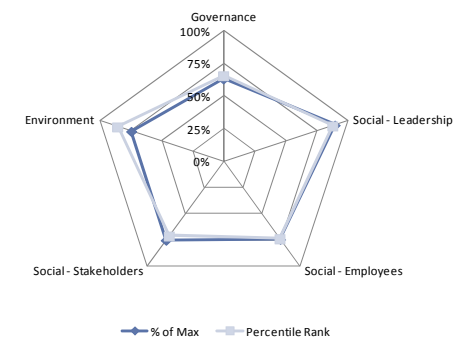
**Exhibit 69: Industry positioning: Drivers of returns and competitive advantage**

Percentile rank relative to sector peers



**Exhibit 70: Management quality: Performance in addressing needs of key stakeholders**

Score as a % of max and percentile relative to sector



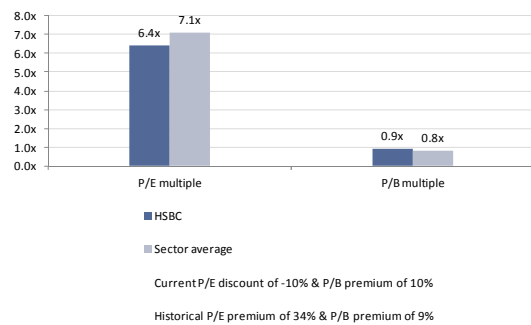
Source: Datastream, Goldman Sachs Research estimates.

# HSBC

HSBC is currently trading within the bottom decile of its eight-year historical P/E and P/B valuation range, at a discount of 10% (12-month forward P/E) to global bank peers, and has performed in line with peers over the last three months amid global macro headwinds despite a structurally superior position coupled with medium-term upside potential as the new CEO's strategy is implemented. The company screens as a winner on our GS SUSTAIN analysis of Global Mature Banks and in our analysts' view, under the leadership of its new Chief Executive, Gulliver, will continue to deliver on its strategy of: 1) being driven by customer centric deposits, 2) focusing on growth markets, 3) demonstrating cost discipline, and 4) applying strict capital allocation discipline. HSBC is on the pan European Conviction Buy List with a 12-month price target of 900p based on 1.39x 2012E P/E. Risks include: global macro headwinds, sovereign debt concerns, and regulatory/political risks.

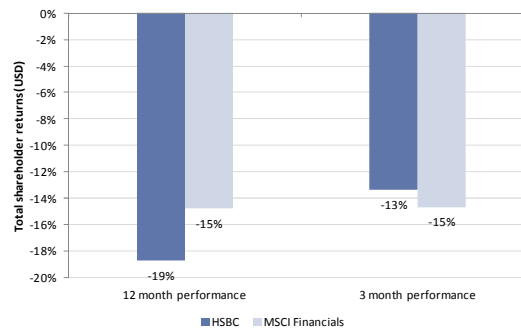
### Exhibit 71: Valuation vs. sector

12-month forward valuation of company and sector peers



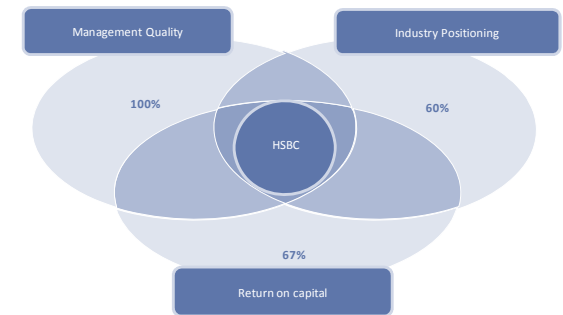
### Exhibit 72: Price performance vs. sector

Total shareholder returns of company and sector peers



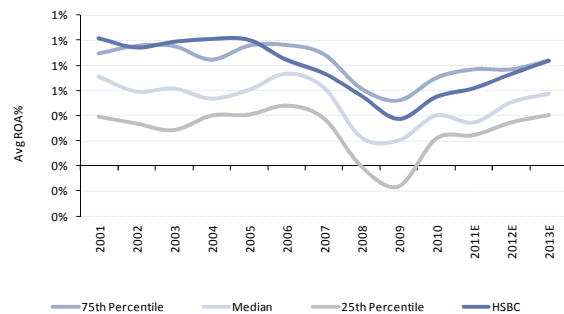
### Exhibit 73: Return on capital, industry positioning and management quality scores

Percentile rank relative to sector peers



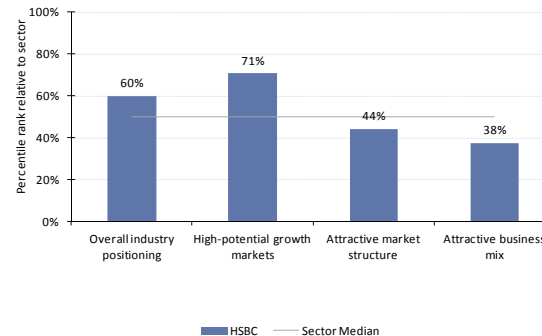
### Exhibit 74: Return on assets

Avg return on assets and percentile relative to sector



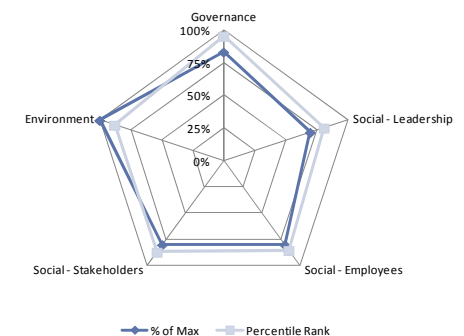
### Exhibit 75: Industry positioning: Drivers of returns and competitive advantage

Percentile rank relative to sector peers



### Exhibit 76: Management quality: Performance in addressing needs of key stakeholders

Score as a % of max and percentile relative to sector



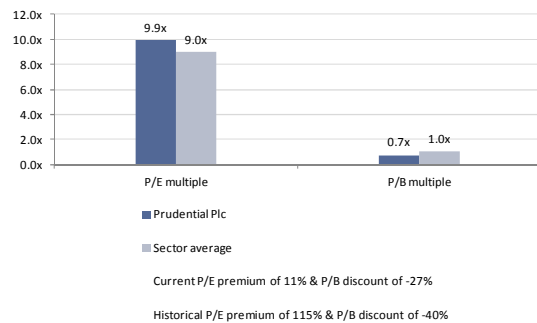
Source: Datastream, Goldman Sachs Research estimates.

# Prudential

Prudential is currently trading within the bottom quartile of its eight-year historical P/E and P/B valuation range and at a discount of 27% (12-month forward P/B) to global insurance peers. The company operates large life insurance businesses in Asia, US and UK and is relatively placed well to benefit from the rising wealth levels in the East and demand for retirement solutions in the ageing West. The company screens as a winner on our GS SUSTAIN analysis of Global Insurance and in our analysts' view, increased volatility in Europe and/or continued economic growth in Asia could act as catalysts for Prudential. The company is Buy rated with a 12-month ROIC based price target of 871p. Risks include: a significant slowdown in Asia that could impact sales and sentiment towards Prudential. In addition, hedging losses in the US and a significant step up in corporate credit impairments could damage the balance sheet.

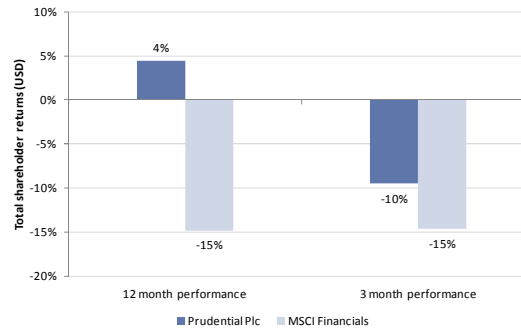
## Exhibit 77: Valuation vs. sector

12-month forward valuation of company and sector peers



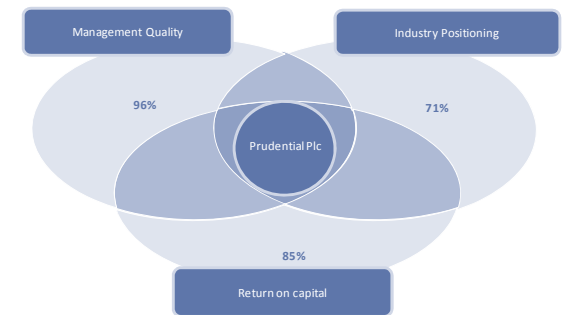
## Exhibit 78: Price performance vs. sector

Total shareholder returns of company and sector peers



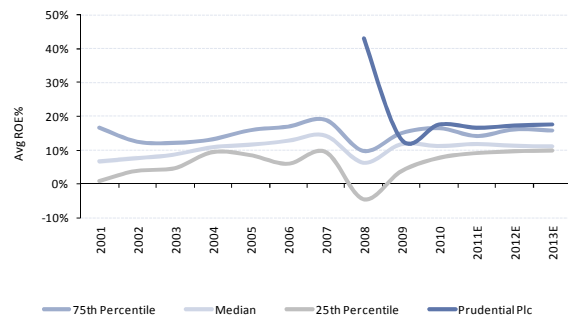
## Exhibit 79: Return on capital, industry positioning and management quality scores

Percentile rank relative to sector peers



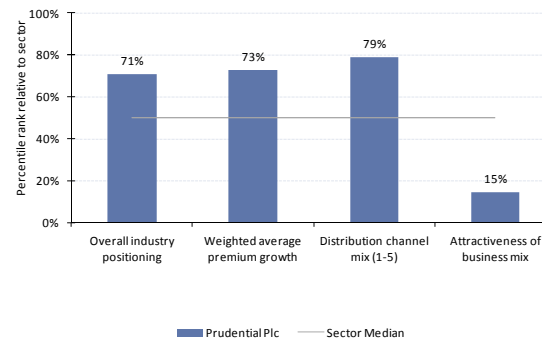
## Exhibit 80: Return on assets

Avg return on assets and percentile relative to sector



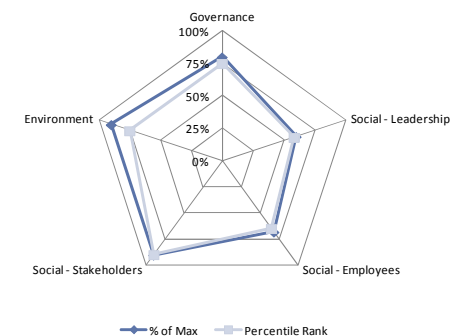
## Exhibit 81: Industry positioning: Drivers of returns and competitive advantage

Percentile rank relative to sector peers



## Exhibit 82: Management quality: Performance in addressing needs of key stakeholders

Score as a % of max and percentile relative to sector



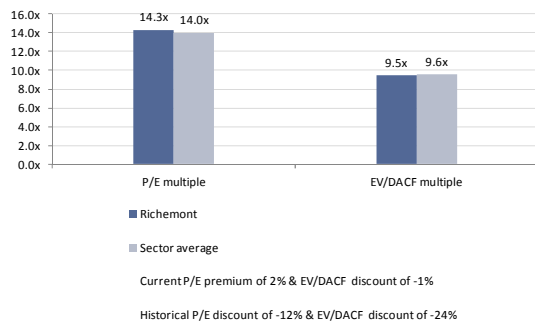
Source: Datastream, Goldman Sachs Research estimates.

# Richemont

Richemont, the leading Swiss luxury goods holding company, is a GS SUSTAIN winner as it generates sector leading cash returns aided by a global portfolio of leading brands and high emerging market exposure (38%). Our analysts highlight Richemont as their preferred high quality, high growth and high returns company within the European luxury goods space. Richemont has underperformed the sector peers by 10% over the last months and is currently trading at a discount of -1% (12-month forward EV/DACF). Richemont is on the pan European Conviction Buy List, with a 12-month price target of SFr72.7 based on 75<sup>th</sup> percentile EV/EBITDAR multiple. Risks include slower growth in new markets, higher costs, currency and dilutive acquisitions.

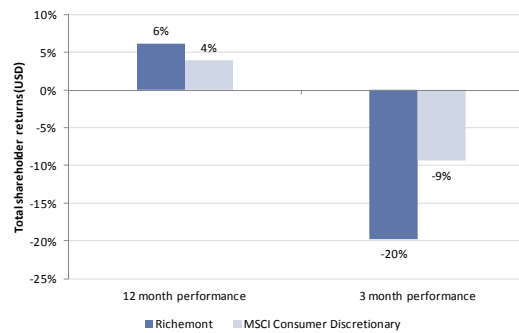
### Exhibit 83: Valuation vs. sector

12-month forward valuation of company and sector peers



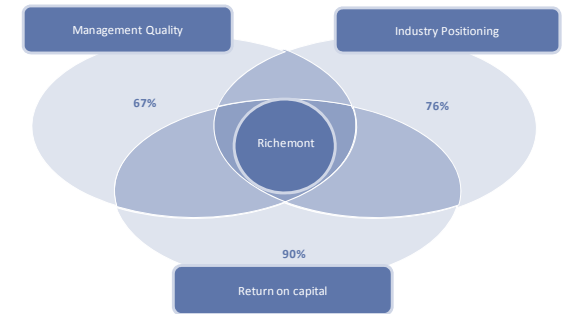
### Exhibit 84: Price performance vs. sector

Total shareholder returns of company and sector peers



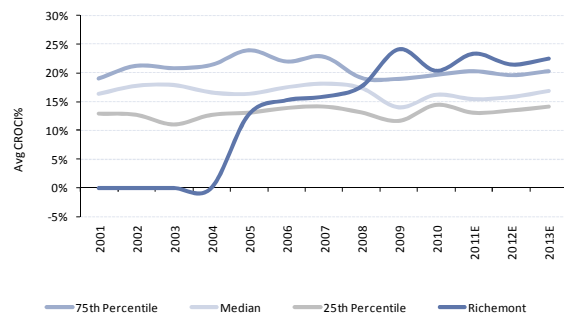
### Exhibit 85: Return on capital, industry positioning and management quality scores

Percentile rank relative to sector peers



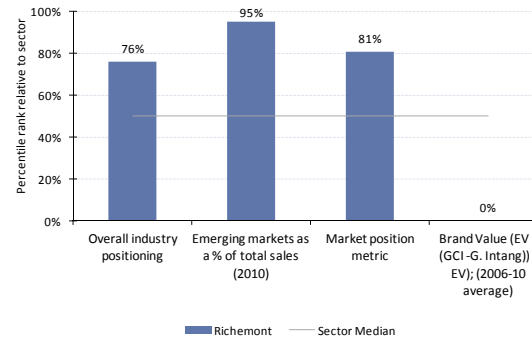
### Exhibit 86: Return on capital: Sustainable cash returns drive performance

Avg return on capital and percentile relative to sector



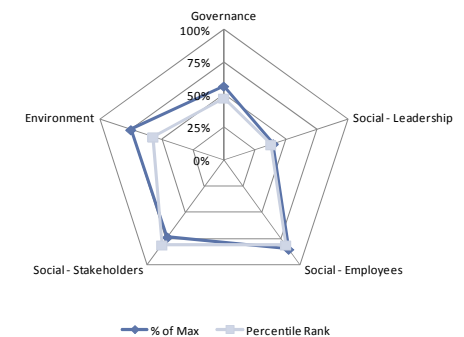
### Exhibit 87: Industry positioning: Drivers of returns and competitive advantage

Percentile rank relative to sector peers



### Exhibit 88: Management quality: Performance in addressing needs of key stakeholders

Score as a % of max and percentile relative to sector



Source: Datastream, Goldman Sachs Research estimates.

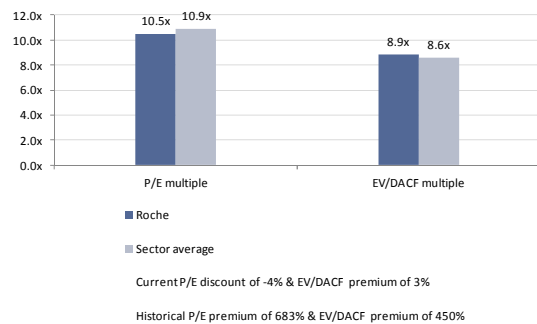


# Roche

Roche is trading in the bottom decile of its eight-year historical P/E and EV/DACF range and is at a discount of 4% (12-month forward P/E) to global pharma peers. Our analysis highlights Roche as the best positioned company in global pharma, with a high proportion of sales in high growth markets, relatively low patent cliff exposure, a strong product pipeline and a product portfolio with high barriers to entry. Our analysts believe Roche's under-appreciated, albeit maturing, cancer pipeline offers an opportunity for a sustainable re-rating over the next 6-12 months. Roche is on the pan European Conviction Buy List, with a 12-month price target of SFr180 based on a 1-4 year Director's Cut. Risks include pipeline failures, and an easier-than-anticipated regulatory pathway for bio similars.

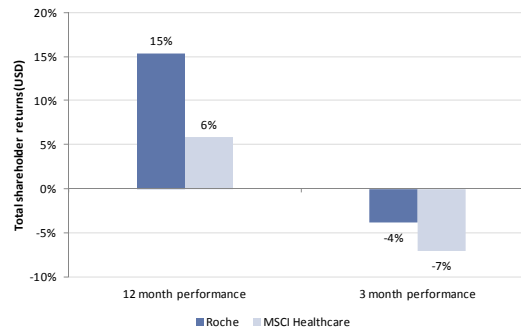
## Exhibit 89: Valuation vs. sector

12-month forward valuation of company and sector peers



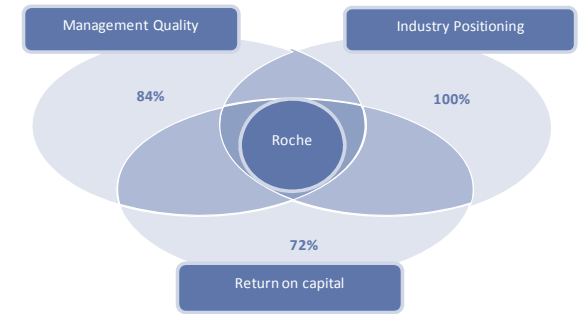
## Exhibit 90: Price performance vs. sector

Total shareholder returns of company and sector peers



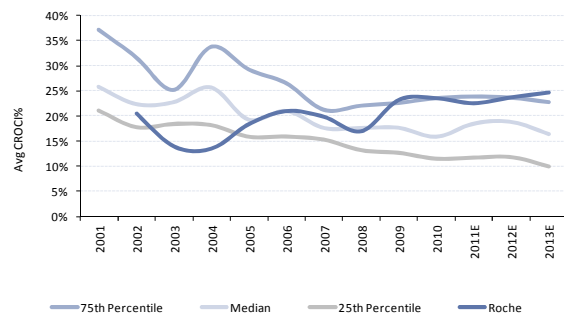
## Exhibit 91: Return on capital, industry positioning and management quality scores

Percentile rank relative to sector peers



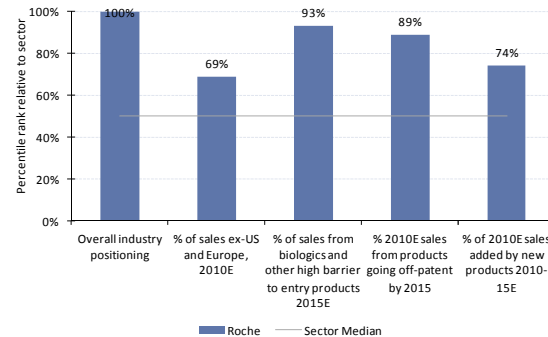
## Exhibit 92: Return on capital: Sustainable cash returns drive performance

Avg return on capital and percentile relative to sector



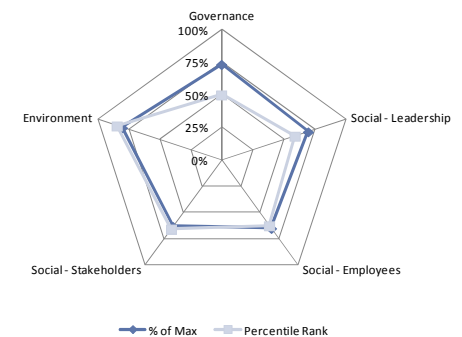
## Exhibit 93: Industry positioning: Drivers of returns and competitive advantage

Percentile rank relative to sector peers



## Exhibit 94: Management quality: Performance in addressing needs of key stakeholders

Score as a % of max and percentile relative to sector



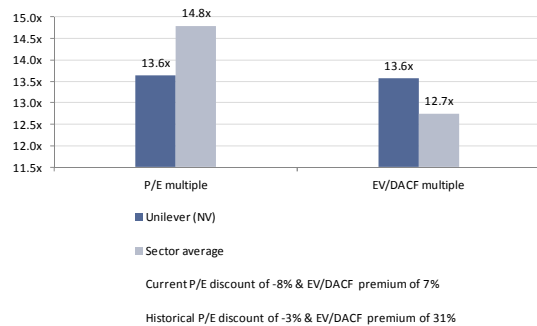
Source: Datastream, Goldman Sachs Research estimates.

# Unilever

Unilever is well positioned to capitalize on the structural growth in consumption of staples items as wealth levels rise in emerging markets. It has the highest management quality score in its sector based on environmental, social and governance data, and on our analysts' estimates will generate improving returns on capital through the 2011-13 forecast period. It is trading in the bottom quartile of its eight-year historical EV/DACF range and is at a discount of 8% (12-month forward P/E) to global consumer staples peers. Unilever is Buy rated, with a 12-month price target of €28.10 based on Director's Cut methodology. Risks include continued input cost volatility, FX moves, delayed reduction in restructuring spend and CROCI dilution from further M&A.

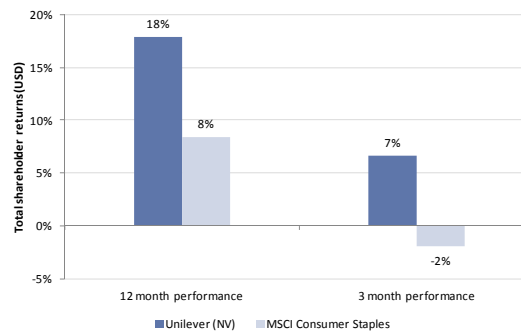
### Exhibit 95: Valuation vs. sector

12-month forward valuation of company and sector peers



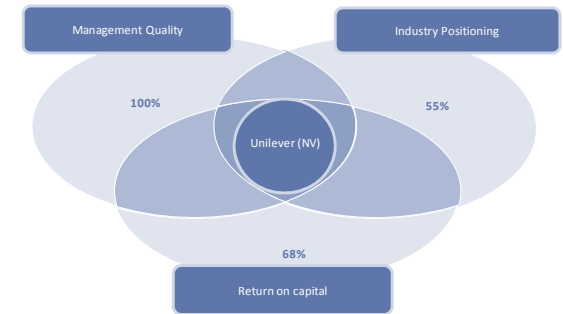
### Exhibit 96: Price performance vs. sector

Total shareholder returns of company and sector peers



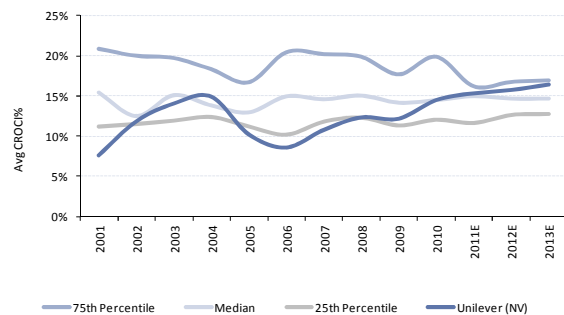
### Exhibit 97: Return on capital, industry positioning and management quality scores

Percentile rank relative to sector peers



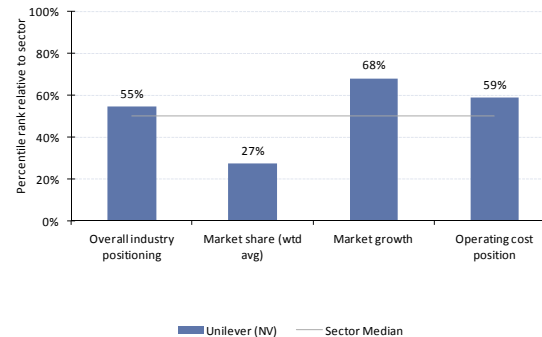
### Exhibit 98: Return on capital: Sustainable cash returns drive performance

Avg return on capital and percentile relative to sector



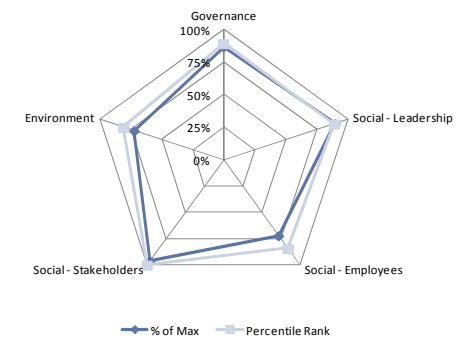
### Exhibit 99: Industry positioning: Drivers of returns and competitive advantage

Percentile rank relative to sector peers



### Exhibit 100: Management quality: Performance in addressing needs of key stakeholders

Score as a % of max and percentile relative to sector



Source: Datastream, Goldman Sachs Research estimates.

## Performance of stocks highlighted previously

Our objective in highlighting long-term winners that represent near-term value is to flag potential entry points for longer-term investors looking to buy and hold quality companies. It is not to identify ideas that will necessarily outperform over a short holding period. However, we note that of the two stocks that met the criteria of all value screens last month Infosys outperformed the MSCI ACWI by 11.6% and sector by 8.8% while ICBC underperformed. On average, these two stocks generated absolute returns of 3.8%, and relative outperformance of 2.0% versus MSCI ACWI and relative underperformance of 0.4% versus MSCI global sector peers. Fourteen of the 18 companies profiled in at least two value screens last month generated positive absolute performance, while twelve of the 18 companies generated positive relative performance (versus MSCI ACWI). In aggregate, 21 of the 30 stocks highlighted last month generated positive absolute returns and 57% outperformed global sector peers on a relative basis (Exhibit 101).

**Exhibit 101: Performance of the 30 stocks flagged by our value screens on September 20**

Company	Ticker	Total Return (\$)		Absolute returns	Performance		Number of screens met
		20/09/2011	14/10/2011		vs MSCI ACWI	vs sector	
ICBC	1398.HK	19.52	18.22	-6.7%	-8.5%	-9.9%	3
Infosys	INFY	915.49	1,045.64	14.2%	12.4%	9.2%	3
ABB Ltd	ABB.VX	1,835.26	1,934.40	5.4%	3.6%	3.2%	2
BBVA	BBVA.MC	800.76	901.38	12.6%	10.8%	9.3%	2
BSkyB	BSY.L	546.96	539.17	-1.4%	-3.2%	-3.1%	2
Centrica	CNA.L	1,027.76	1,081.40	5.2%	3.4%	4.1%	2
China Life	2628.HK	56.99	62.19	9.1%	7.3%	5.8%	2
Diageo	DGE.L	61,497.13	64,016.21	4.1%	2.3%	2.1%	2
EMC	EMC	10,675.68	11,302.22	5.9%	4.1%	0.8%	2
Fortum	FUM1V.HE	1,115.44	1,122.98	0.7%	-1.1%	-0.5%	2
HSBC	HSBA.L	1,984.14	2,009.17	1.3%	-0.6%	-2.0%	2
Itaú Unibanco	ITUB	542.38	605.67	11.7%	9.9%	8.4%	2
MTN Group	MTNJ.J	639.08	586.02	-8.3%	-10.1%	-11.6%	2
Occidental Petroleum	OXY	10,266.05	10,855.73	5.7%	3.9%	2.8%	2
Publicis	PUBP.PA	3,081.07	3,346.37	8.6%	6.8%	6.9%	2
Roche	ROG.VX	1,556.37	1,593.71	2.4%	0.6%	1.6%	2
Unilever N.V.	UNc.AS	14,291.47	15,553.56	8.8%	7.0%	6.8%	2
Vale	VALE	1,306.15	1,247.21	-4.5%	-6.3%	-2.9%	2
Allergan	AGN	1,761.69	1,821.05	3.4%	1.6%	2.5%	1
Atlas Copco	ATCOa.ST	1,916.46	1,839.15	-4.0%	-5.8%	-6.2%	1
Banco Bradesco	BBD	663.02	684.61	3.3%	1.4%	0.0%	1
China Shenhua	1088.HK	68.48	65.29	-4.7%	-6.5%	-7.6%	1
Cummins, Inc.	CMI	3,906.01	4,044.84	3.6%	1.7%	1.4%	1
Julius Baer	BAER.VX	89.37	103.84	16.2%	14.4%	12.9%	1
Novo Nordisk	NOVOb.CO	28,258.93	27,452.67	-2.9%	-4.7%	-3.7%	1
Prudential Plc	PRU.L	55,131.19	58,344.82	5.8%	4.0%	2.5%	1
QUALCOMM, Inc.	QCOM	10,744.95	11,123.29	3.5%	1.7%	-1.5%	1
Richemont	CFR.VX	3,487.02	3,325.38	-4.6%	-6.4%	-6.4%	1
Technip	TECF.PA	1,641.24	1,594.81	-2.8%	-4.6%	-5.7%	1
United Parcel Service	UPS	124.37	129.53	4.1%	2.3%	2.0%	1

Note: Results presented should not and cannot be viewed as an indicator of future performance. See our GS SUSTAIN monthly focus for performance of the GS SUSTAIN Focus List. Full details of the performance of stocks in the GS SUSTAIN universe, including expired ideas, can be provided upon request.

Source: Datastream, Goldman Sachs Research.

## Reg AC

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We, Nick Hartley, Andrew Howard, Richard Manley, Melissa B. Epperly, Derek R. Bingham, Marc Fox, Evgeny Titel, Lan Wu, Louise Nankiinga, Hanna Notte and Nimit Agarwal, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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**Growth** is a composite of next year's estimate over current year's estimate, e.g. EPS, EBITDA, Revenue. **Return** is a year one prospective aggregate of various return on capital measures, e.g. CROCI, ROACE, and ROE. **Multiple** is a composite of one-year forward valuation ratios, e.g. P/E, dividend yield, EV/FCF, EV/EBITDA, EV/DACF, Price/Book. **Volatility** is measured as trailing twelve-month volatility adjusted for dividends.

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Goldman Sachs Investment Research global coverage universe

	Rating Distribution			Investment Banking Relationships		
	Buy	Hold	Sell	Buy	Hold	Sell
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