ESG Keys: Fossil Fuel Disinvestment

Is it the Answer? Distributed Disinvestment Is

Equities

Global

Global Sustainability

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The Fossil Fuel Disinvestment Campaign: a Social Movement with Legs

Following on a series of recent meetings with our clients, we highlight the fossil fuel disinvestment campaign as potentially effective movement, defined as one that will act as a catalyst for change. Why? Because many of those engaged in the debate are the consumers, voters and leaders of the next several decades. In our view, this single fact carries more weight than any other data point on the planet for this issue: time, youthful energy and stamina are on the side of the fossil fuel divestment campaign.

Fossil Fuel Disinvestment is Not the (Entire) Answer

…because saying no to fossil fuel investments is no simple matter. Fossil fuels are systemic. They are embedded in every aspect of our daily lives. Suddenly removing them would do untold damage to society. Less dramatically, divesting from fossil fuel industries would leave plenty of fossil fuel exposure, direct and indirect, in investment portfolios, potentially undermining the campaign on the oblique. But…

Fossil Fuel "Distributed Disinvestment" is the Answer

We see the fossil fuel divestment campaign as significant, signalling a structural shift in energy procurement and usage in the next couple of decades. Our view has been supported by an important UBS Q-Series® (Will solar, batteries and electric cars reshape the electricity system? 20 August 2014). This report evokes a vision of future transformation in the electricity market, in the direction of fossil fuel disinvestment in the true sense of the word. Should the distributed model they describe become widespread, we believe it has the potential to change the competitive positioning of fossil fuels in regional energy markets, thus also investment portfolios.

Climate Change "Proactive Adapters"

In the broader context of climate change we believe the long-term winners will be proactive adapters, as described in a recent note. We see stocks named in the abovementioned Q-Series® – see Table 1 – as adapting proactively to nascent structural shifts in energy and infrastructure, thus, moving in the broad direction signalled by the fossil fuels divestment campaign.

Investment Conclusions

We believe that the developments described in the UBS Q-Series®: Global Utilities, Autos & Chemicals ("Will solar, batteries and electric cars reshape the electricity system?")[1] have the potential to bring about far-reaching changes in the competitive landscape in several sectors. This important note and the intergenerational nature of the fossil fuel disinvestment campaign collectively suggest a long-run multifaceted change in many steps, in many different places – let's call this process *distributed disinvestment.*

In the broader context of climate change we take the view that the long-term winners will be "proactive adapters", and we see the developments described by our colleagues as absolutely in tune with that idea.[2] In UBS research, we would expect thise to make a difference to the ESG Analyser risk exposure scores for some companies – an update of this (roughly) annual publication should appear in coming months.[3] In the meantime we tabulate companies expected by our autos, chemicals, industrials, technology and utilities teams to see an improved competitive position as a result of the (environmentally, socially and economically driven) paradigm shift we anticipate.

Figure 1: Stock table

Company Name	Sector	Rating	FX	Price	PT	Analyst Name
Enel	Electric Utilities	Buy	EUR	4.19	5.15	Alberto Gandolfi
Iberdrola	Electric Utilities	Buy	EUR	5.60	6.00	Alberto Gandolfi
Edison International	Electric Utilities	Buy	USD	55.79	60.00	Julien Dumoulin-Smith
BMW	Automobile Manufacturers	Neutral	EUR	85.63	93.00	Philippe Houchois
Valeo	Auto Parts	Buy	EUR	89.92	125.00	David Lesne
Umicore	Chemicals, Specialty	Buy	EUR	35.37	40.00	Joe Dewhurst
Hitachi Chemical	Chemicals, Specialty	Buy	JPY	1985.00	2200.00	Takaaki Muramatsu
Siemens	Advanced Industrial Equipment	Buy	EUR	93.91	105.00	Fredric Stahl, CFA
Infineon Technologies AG	Semiconductors	Buy	EUR	8.52	9.50	Gareth Jenkins
NARI Technology Development	Electric Components & Equipment	Buy	CNY	16.85	18.00	Benson Li

Source: UBS research, price updated as of 29 September 2014

Theatre, Stranded Assets and Investment – What's the Connection?

Effective campaigns and share prices.

In theatrical circles a performance is said to be *effective* when it changes the thinking, and sometimes the behaviour, of its audiences. NGOs and other campaigners, focusing on issues such as controversial weapons, mountain top mining, arctic drilling, fracking, oil sands or stranded (carbon) assets, sometimes use theatrical tactics. They hope to be similarly politically effective, changing the behaviour of so-called economic agents. In our view, the relevance of this point, for investors, is the possibility that effective campaigns can and do lead to structural change, and this has a real impact on market risk, as well as business risk.

[1] Found at: https://neo.ubs.com/shared/d1Pi6Bu5w2rEn
[2] See ESG Keys: Climate Change. Adaptation, Resilience, Transformation. Julie Hudson CFA, Hubert Jeaneau CFA, Eva Tiffany Zlotnicka, 12 June 2014. Found at: https://neo.ubs.com/shared/d1DmiQDCK8
[3] The 2013/4 edition is found at this link: https://neo.ubs.com/shared/d1mX5kpRCAw

Following on a series of recent meetings with our clients, we highlight the fossil fuel disinvestment campaign (along with the related stranded assets campaign)[4] as a movement with legs, because of a view that came up several times in different ways: interns and young professionals feel very strongly about the need to move away from fossil fuels. Putting this into context, press articles describe the campaign as having started in university campuses a few years ago,[5] since then successfully spreading to other interest groups. In a nutshell, it is the consumers, voters and leaders of the next several decades who feel so strongly about fossil fuels. In our view, this single fact carries more weight than any other data point on the planet. Time and, for that matter, youthful energy and stamina are on their side.

Time is on the side of future leaders, voters and consumers at the core of the fossil fuel divestment campaign.

We're not suggesting for a moment that the market will take one look at the potential reduction in the value of fossil fuel assets that might follow from a hypothetical government mandate to stop all usage, and send fossil fuel company share prices into free fall. Markets work in subtler ways than that. At UBS we look out for the shift in competitive dynamics that drive business models that drive returns and risk, that drive share prices. Depending on which stakeholders turn out to be the primary audience for the campaign, we would expect a structural change in the competitive landscape to be the means by which change comes about. In the parlance of the Porter Competitive Analysis a successful campaign could result in increased competitive pressure by changing the way customers, suppliers, competitors or investors (or all of the above) behave. By such means we would expect an effective campaign to change the way fossil fuels are used in the next couple of decades. In short, we would not necessarily expect a sweeping step-change in the immediate future, but we do think the fossil fuel divestment campaign indicates a long-run change in many steps, in different places – the process of *distributed disinvestment* defined above.

Disinvestment campaign signals potential structural shift in energy – let's call it distributed disinvestment.

Stepping back, there are many possible counter-arguments to suggest that the fossil fuel disinvestment and stranded assets campaigns will eventually disappear. For example, at UBS we have published on the stranded assets concept, taking the view that to regard nature's carbon sequestration assets as potentially stranded is to forget the huge potential economic value they contain as carbon sink. Disinvesting from the companies exposed to fossil fuel reserves is, in a sense, also to disinvest from a significant part of the ecosystem. The catch is there are actually no markets in carbon sequestration assets and liabilities, so, ecosystem assets are technically uninvestable. The even bigger catch is that, while there is a large interactive audience cheering on the fossil fuel divestment campaign, there is no such large, interactive audience campaigning for the regulatory change that would make it possible for eco-assets to make an appearance on company balance sheets.

A few lone voices are cheering for the idea that eco-asset markets could turn fossil fuel companies into something completely different.

In a public, twenty-page letter dated 16th May 2014, Royal Dutch Shell responded to shareholder questions regarding the "stranded assets" issue. In essence, the message was that no fossil fuel assets would become stranded in the 'reasonably foreseeable future'. The reasoning was, taking together the slow-moving nature of energy systems and infrastructures, growing populations with a need for energy supplies, "The world will need oil and gas for many decades to come, supporting both demand, and oil prices." (p. 1). The key points presented by Royal Dutch

Powerful logic suggests fossil fuel asset stranding to be highly unlikely in the foreseeable future, but future leaders, voters and consumers are likely to have a different horizon….

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[4] Global Sustainability and Cultural Change, Julie Hudson CFA, Hubert Jeaneau CFA, Eva Tiffany Zlotnicka, 2nd May 2013. Found at: https://neo.ubs.com/shared/d1ryFgBy5orX

[5] See http://www.bbc.co.uk/news/world-us-canada-29310475

Shell are well recognised and perfectly logical: the strong likelihood (and the IPCC's belief) that global temperatures will rise by more than two degrees by the end of the century; that carbon footprints can be managed; that fossil fuels still provide the lion's share of total energy demand and will do so for some time while alternative fuels and other technologies such as carbon capture and storage develop. The catch is that the idea of the 'reasonably foreseeable future' is likely to mean quite different things to the generations campaigning for fossil fuel abandonment.

We could be quite wrong about this but it seems to us that the strident voice demanding fossil fuel disinvestment will persist. The practical question is, what can investors do?

Say No to Fossil Fuel Investments?

By indirections find directions out.

Saying no to fossil fuel investments is harder than it looks. Fossil fuels are embedded in every aspect of our daily lives. Divesting from fossil fuels without also giving up (inexhaustively) the car, the train, the bus, bricks and mortar, central heating, tap water, cooked food, anything made of metals, plastics or other materials, laptops and mobile phones - in short all of the trappings of civilization - would be inconsistent. Life without such trappings would be dramatically different thus difficult, without a slower process of adaptation. Closer to home and less dramatically, divesting from the fossil fuel industries would leave plenty of fossil fuel exposure, direct and indirect, in the average portfolio. Such continued exposure in disinvested portfolios could potentially contradict the aim of the campaign by unintentionally directing investment flows towards fossil fuel businesses.

UBS's 'mainstream' research resonates with the stranded assets campaign.

Fossil fuel divestment is not the answer. However, the fossil fuel divestment campaign is the answer. We see it as a whopping great data point signalling a structural shift in energy procurement and usage in the next couple of decades. Not only that: the meaning of this data point has just been supported by a recent UBS report.

Reshaping the Energy System

Sweeping structural changes to the energy system, following from the arrival of new technologies, is not a new concept. The idea of combining smart grid, solar energy, batteries, and electric car technology to come up with a decentralised, efficient clean energy system was a far-off ideal in the not-so-distant past. In August 2014, several UBS sector teams put out a joint publication in which the following was the key message:

Batteries and solar at the tipping point: Electricity users will become generators.

"Solar systems and batteries will be disruptive technologies for the electricity system. Steeply declining battery and solar system costs will enable multiple new applications. Our proprietary model suggests a payback time as low as 6-8 years for a combined EV + solar + battery investment by 2020 – unsubsidised. We see Europe, and in particular Germany, Italy and Spain, leading this paradigm shift due to high fuel and retail electricity prices."[6]

[6] Patrick Hummel, CFA, Philippe Houchois; Joe Dewhurst; Alberto Gandolfi, Q-Series®: Global Utilities, Autos & Chemicals. Will solar, batteries and electric cars reshape the electricity system? 20 August 2014.

A reshaping of the electricity system – pathway to fossil fuel disinvestment?

Their note focuses on the chemicals, utilities and auto sectors. In our view, this concept could extend to other sectors. Even if it does not, the scenario they describe has the potential to change the way infrastructure is designed in the not-so-distant future, and, of course, to change the competitive position of fossil fuels within regional energy portfolios. It seems reasonable to us to describe the system of investments in this note as a pathway to fossil fuel disinvestment – even if fossil fuels will continue to be embedded, indirectly, in the inputs to this structure through the consumer durables and other equipment and materials required to deliver it for some time.

Philippe Houchois, UBS's European Auto Analyst, comments:

Auto sector – potential contributor to fossil fuel disinvestment.

We estimate that autos could be a major contributor to fossil fuel disinvestment as a result of increasingly stringent emission requirements for vehicles. Personal transport accounts for an estimated 60% of global oil consumptions and commercial trucks another 14%. Already in the past 10 years CO_2 emissions per vehicle, a proxy for fuel consumption, have decreased by 2.0-2.5% per annum, a trend which we think will accelerate slightly, even excluding any transfer of market towards electrified vehicles. In addition to on-going efficiency gains by Internal Combustion Engines (ICEs), we estimate that meeting regulatory standards by 2021 will require a sales penetration between 3% and 7% in the markets of China, the US and Europe. Europe has the most stringent standards, reinforced by a clear strategy of energy independence.

At this stage most automotive technologies are geared to improving fuel efficiency, if only by reducing weight across all components in order to reduce vehicle mass and therefore consumption. Technologies to directly reduce fuel consumption range from micro-hybrid systems such as stop-start to power assisted transmissions with their own battery, all the way to full hybrid powertrains and battery powered vehicles.

Among OEMs, we note that BMW (Neutral) stands out by having (1) commercialised a premium battery powered vehicle ahead of peers (i3) thus generating revenue and experience and (2) gained an edge in the manufacturing of composite materials to reduce weight, which applied to higher end vehicles, will ease the CO_2 compliance curve for the group.

The UBS ESG Analyser

In the following pages we adjust the ESG Analyser Survey tables for the developments describes in our colleagues' note. Changes in the text are marked as follows:

Autos

Key questions	Issues
What are the most important core drivers in the industry?	Customers, credit availability, GDP, unemployment, raw materials.
What aspect of corporate strategy differentiates leading companies in the industry?	Brand should remain a key differentiator. Ability to achieve scale and diversification of market exposure.

What are the most important financial metrics in the UBS company model?	Sales growth, EBITDA margin, working capital, capex and D&A.
What are the most important environmental and/or social issues that could affect the industry model, company strategy, or metrics described above?	10-15% of the total workforce is involved in the auto industry in most European countries. CO2 regulation, government intervention. The interconnection of Electric Vehicles (EVs) with technologies in sectors that potentially connect to EVs (solar generation, batteries) could potentially reshape the auto industry.
Most important governance issues that could affect the above model, strategy or metrics	Conflict of interest between large shareholders and shareholders in general, and government interference with corporations' ability to run their business, including restructuring.
For firms in the industry, what are the most important 'business as usual' risks or opportunities?	Greatest opportunities: Emerging markets and China in particular. Greatest risk: Government intervention may slow/prevent the necessary industry restructuring. Generally high levels of market distortion through taxation, incentives, etc.
Which, if any, of the above-mentioned environmental, social, or governance catalysts could crystallise these risks or opportunities?	Average CO2 emission for cars sold in 2016 will need to be below 130gr per km, a level with which the industry already complies. The compliance level drops to 95gr by 2021 and (tbc) below 70gr by 2025. Alternative powertrain technology (hybrid, electric vehicles) will be key in reaching targets. Standards are set to continue tightening over time. See above: structural shifts in energy infrastructure and developing battery technology could potentially change the way targets are reached.

Source: UBS Indicates ESG team edit of the ESG Analyst Survey responses.

Chemicals

Companies in this sector have vastly different risk profiles, depending on the business model. Umicore is already on the Analyser most-preferred list. Hitachi Chemical was not covered.

Key questions	Issues - Specialty chemicals
What are the most important core drivers in the industry?	Product differentiation and innovation, human capital, value added for customers.
What aspect of corporate strategy differentiates leading companies in the industry?	Targeted research and development, increasing pricing power versus customers, end market product lifecycles.

What are the most important financial metrics in the UBS company model?	Profit margin, cash flow returns, financial leverage.
What are the most important environmental and/or social issues that could affect the industry model, company strategy, or metrics described above?	Population growth, urbanisation & increasing wealth, scarcity of resources, climate change & new legislation. Technology change in other sectors such as transport, put together with increasing critical mass for alternative energy, is likely to be a strong positive for companies with an R&D edge in relevant fields.
Most important governance issues that could affect the above model, strategy or metrics	Mismanagement - a shift away from price over volumes strategy and misallocation of capital/R&D spend.
For firms in the industry, what are the most important 'business as usual' risks or opportunities?	Opportunities: product innovation, legislation. Risks: commoditisation of products, legislation
Which, if any, of the above-mentioned environmental, social, or governance catalysts could crystallise these risks or opportunities?	New regulations related to energy and environment; recycling; efficiency themes. Structural change in transport or infrastructure will open up opportunities for innovation in our view.

Source: UBS

Industrials

Key questions	Issues
What are the most important core drivers in the industry?	General economic activity, confidence, commodity prices, automotive production, construction, infrastructure investment, industrial capex, agricultural commodity prices.
What aspect of corporate strategy differentiates leading companies in the industry?	A focus on consolidated niche markets, track record with M&A, consistency of capital allocation strategy.
What are the most important financial metrics in the UBS company model?	EBIT margins, organic orders and sales growth, ROCE, free cash flow generation.
What are the most important environmental and/or social issues that could affect the industry model, company strategy, or metrics described above?	Climate change regulation, the social effect of plant closures due to restructuring measures, and globalisation. Structural shifts in transport technology or energy infrastructures could present both opportunities and threats to industrial firms.
Most important governance issues that could affect the above model, strategy or metrics	Conflict of interests between major and minor shareholders; labour union conflict during layoffs and restructuring process; and transfer of technology issues, particularly in emerging markets, like China.
For firms in the industry, what are the most important 'business as usual' risks or opportunities?	Productivity improvements; emerging market demand; capex revival in the main end-markets; and an uptick in industrial production and capacity utilisation rates.
Which, if any, of the above-mentioned environmental, social, or governance catalysts could crystallise these risks or opportunities?	None identified - other than the trends in environmental regulation mentioned above. See above - structural change in key sectors such as transport or energy and the way they interconnect could bring about significant changes in the risks and opportunities facing companies.

Source: UBS

Utilities

Key questions	Issues
What are the most important core drivers in the industry?	In regulated markets, the regulatory regime can influence tariff levels, ability to recover fuel and other costs, and levels of allowable returns. In liberalised markets, commodity prices and power demand dictate power pricing, and utilities' returns.
What aspect of corporate strategy differentiates leading companies in the industry?	Ability to own assets in regions with reliable and consistent regulatory framework; as well as an ability to diversify geographically and gain exposure to the most profitable generating technologies (conventional, hydro, nuclear or renewables etc.).
What are the most important financial metrics in the UBS company model?	For generation – installed capacity/capacity additions/utilisation rates are key drivers. The key financial metrics to look for in generation are margins (spark, dark spread etc.). For regulated businesses (transmission & distribution), the key drivers are capex/the regulated asset base (RAB) and the regulated return levels. The key financial metrics are the regulated return. Generally, ROA, ROEs and leverage (ND/EBITDA) are the metrics to focus on.
What are the most important environmental and/or social issues that could affect the industry model, company strategy, or metrics described above?	In the continued absence of high economic growth, governments are under varying degrees of financial stress, and governments, regulators and consumers are all focusing on reducing the costs of utility services. At the same time, the focus on reducing carbon emissions and encouraging environment-friendly power generation technologies have lead to significant growth of wind and solar power. Although costs of such technologies have reduced - and some, such as roof top solar panels in Europe and Australia, are now at cost-parity from an end-user perspective - they are still expensive from the overall power-system perspective. They require concurrent investments in the grid, and also, the need to maintain and operate otherwise loss-making conventional thermal plants. Such renewables technology should thus increase the cost of power rather than reduce them. Regulators and policy makers need to remove this contradiction before power companies can commit significant capital to particular types of power generation technology. In cases where investments are mandated, but the utilities aren't allowed to recover associated costs, it would adversely impact their ROAs and ROEs. However developments in a nexus of interconnecting sectors – autos, materials, industrials and solar energy – could potentially bring about a paradigm shift.

Most important governance issues that could affect the above model, strategy or metrics	State owned utilities, and companies influenced by government decisions (regulated stocks), may at times not look for the best interest of shareholders in their strategies. For example, utilities in some countries may overspend and commit capital to projects which do not earn enough or reliable returns, but may be deemed necessary from a 'national interest' perspective.
For firms in the industry, what are the most important 'business as usual' risks or opportunities?	Opportunities: For developed market utilities, one opportunity of growth is the expansion into new markets where power demand growth is higher than home territory. But this would also result in exposure to a less familiar regulatory and political environment. New technologies (wind, solar etc) may provide good opportunities in regions where the market economics of their construction and operation, and/or government subsidies, allows for attractive returns. Risks: Increase in renewables generation leading to a fall in utilisation rates and profitability of conventional generators is one of the biggest risks in developed markets. Environmental legislation/carbon pricing and/or taxation represent risks, especially in regions where the exact form of such legislation is uncertain – such as USA, Australia. Weak power demand, especially in Europe and USA impact power prices and profitability – thus making future capex decisions risky. The possibility of governments stepping in to apply ad-hoc taxations, or review old tariff commitments or capex plans in light of fiscal austerity or inflation concerns.
Which, if any, of the above-mentioned environmental, social, or governance catalysts could crystallise these risks or opportunities?	For regulated utilities in regions with dependable regulatory regimes, the need to invest in smart-grid technology, or in low-carbon emission technologies, may add to their regulated asset base and drive stock returns. Decision by the EU on (1) Carbon emissions, (2) Potential removal from subsidised technologies (3) 20/20 Efficiency & renewables targets. As discussed above, developments in a nexus of interconnecting sectors – autos, materials, industrials and solar energy – could potentially bring about a paradigm shift. For instance the possibility of viable solar (micro) generation without subsidy could reduce regulatory risk.

Source: UBS

In the meantime, this may be a good moment to remind our readers of a simple framework for analysis we suggested in the context of structural change.

Quantifying the Unquantifiable - Assessing the Potential Profile of ESG Issues

Potential cumulative impact arising from structural change, as described in an early UBS ESG publication.

In our first ESG & Sustainability publication, in April 2005, Why Try to Quantify the Unquantifiable, we discussed a number of approaches to the valuation effects of major changes. We identified one-off effects (step changes) and gradual effects (cumulative changes) arising from the risks faced by companies in the context of structural change. We think it worth revisiting this model, in which the 'cumulative effects' seem to us to be a reasonable description of adverse impacts likely to be avoided by "proactive adapters" or conversely experienced by firms or sectors that do not (or cannot) adapt to change, in the context of the structural shifts signalled by the fossil fuel disinvestment and stranded assets campaigns.

One-off effects: Step Change (Less likely in our view)

1. A one-off ‘impact on a firm’s P&L arising from a specific event such as legal action, fine or product incident. Both P&L and valuation may be affected.

2. A one-off impact on the value of a brand (or the firm’s reputation), arising from a specific event. There is may be no immediate P&L impact, but there may potentially be an impact on the firm’s valuation.

3. A one-off impact on the value of intellectual property following on a change in market structure. The immediate impact is likely to be on the share price. The P&L may be affected by the change to the structure of the market, and intangibles on the balance sheet may also have to be adjusted in future periods.

Cumulative effects (More likely in our view)

4. A steady stream of added costs gradually affecting profit margins over a long period of time.

5. A steady erosion of sales and fall in product prices, reducing profits over a period of time.

6. Levies or taxes charged over a period of time.

Assessing Potential Materiality

The potential scale of the issue.

The chances that it will affect firms significantly should it materialise.

The likely timing.

The direction of flow in costs or liabilities between stakeholders.

How widely it is known and how well established (or not) any disclosure mechanisms are.

Risk profile (cumulative, step change, or a combination).

Statement of Risk

The specialisms known as Sustainable Investing, ESG Integration (the incorporation of environmental, social or governance issues within the investment decision making process), or Socially Responsible Investment cover an enormous range of potential environmental, social and governance issues. Over time the relative importance of these issues fluctuates. At the time of writing, we believe the issues raised in this research to be relevant to investors, but this may change. Additionally, this research should not be read as a complete or definitive account of all relevant issues for firms. Although we attempt to address all significant or nascent issues, these may not always be apparent, and these may change over time. Finally, this document should not be interpreted to mean that all ESG issues have a financial impact. Whether or not ESG issues have a financial impact remains an open question as there is no accepted financial model that can determine whether a given ESG issue is already reflected in share prices. This point is not unique to ESG issues, but also applies to almost any intangible driver of financial value.

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12-Month Rating	Definition	Coverage[1]	IB Services[2]
Buy	FSR is > 6% above the MRA.	48%	33%
Neutral	FSR is between -6% and 6% of the MRA.	41%	30%
Sell	FSR is > 6% below the MRA.	11%	23%
Short-Term Rating	**Definition**	**Coverage[3]**	**IB Services[4]**
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%

Source: UBS. Rating allocations are as of 30 June 2014.
1:Percentage of companies under coverage globally within the 12-month rating category. 2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category. 4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

KEY DEFINITIONS: Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months. **Market Return Assumption (MRA)** is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium). **Under Review (UR)** Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation. **Short-Term Ratings** reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case. **Equity Price Targets** have an investment horizon of 12 months.

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UBS Limited: Julie Hudson, CFA; Hubert Jeaneau, CFA; Philippe Houchois. **UBS Securities LLC:** Eva Tiffany Zlotnicka.

Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
BMW	BMWG.F	Neutral	N/A	€85.63	26 Sep 2014
Edison International[6, 16]	EIX.N	Buy	N/A	US$55.79	26 Sep 2014
Enel[2, 4, 6]	ENEI.MI	Buy	N/A	€4.19	26 Sep 2014
Hitachi Chemical	4217.T	Buy	N/A	¥1,974	29 Sep 2014
Iberdrola[2, 4]	IBE.MC	Buy	N/A	€5.60	26 Sep 2014
Infineon Technologies AG[18]	IFXGn.DE	Buy	N/A	€8.52	26 Sep 2014
NARI Technology Development	600406.SS	Buy	N/A	Rmb17.09	29 Sep 2014
Royal Dutch Shell[5, 6, 16]	RDSa.L	Neutral	N/A	2,347p	26 Sep 2014
Siemens[3, 4, 5, 14]	SIEGn.DE	Buy	N/A	€93.91	26 Sep 2014
Umicore	UMI.BR	Buy	N/A	€35.37	26 Sep 2014
Valeo	VLOF.PA	Buy	N/A	€89.92	26 Sep 2014

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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