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Market View

European equities are trading marginally higher this morning following an expansionary Chinese PMI reading overnight. The manufacturing survey recorded a reading of 50.5 versus a consensus 49.6. Importantly the release was above the 50 mark which signals manufacturing expansion. This will help relieve some concerns that the Chinese economy is heading for a hard landing and also raise hopes that China can continue to grow strongly while its main trading partner (Europe) records slow to contracting growth. For the day ahead, focus will return to the Greek debt talks which remain unresolved and a solution overdue. In the US, the ADP jobs report (Consensus 182,000, Prior 325,000) will attract some attention ahead of Friday's Non Farm report. Also of note is the US ISM report for January which is expected to deliver an expansionary reading of 54.5.

Elan - Sell

Previous Close \$13.61

Target \$6.50

Yesterday afternoon, Biogen Idec (BIIB) reported a 6% increase in adjusted EPS to \$1.51, 2c ahead of market expectations, from a 9% increase in revenue to \$1.3bn, in line with consensus. Of direct relevance to Elan, Tysabri, which is jointly marketed by itself and Biogen Idec, recorded lower than expected revenue (\$269.3m versus \$294.4m). Indeed, although global in-market sales of Tysabri increased 11% over the same period last year to \$380m, it was only the third time in 21 quarters since the drug was re-launched that there was a sequential drop in revenue. There was particular weakness in rest-of-the-world sales, which dipped for the second consecutive quarter. The net number of commercial patients on the drug ticked up by 900 over the previous quarter, but this is well behind the average quarterly sequential growth over the previous three periods (2,300) and the sequential growth in Q410 (1500). Biogen Idec management attributed the relative patient, and thus revenue, growth weakness to "increased discontinuation" of Tysabri use "as more patients became aware of their JCV antibody status" with no mention of patients possibly switching to the Novartis drug Gilenya. The read through for Elan is that Q411 revenue, when reported on the 8th of February (all Tysabri), may be lower than market expectations or that those estimates will be revised down in the intervening week.

Pfizer - Buy

Previous Close \$21.40

Target \$24.00

Pfizer yesterday afternoon issued a solid set of Q411 numbers, reporting a 6% increase in adjusted EPS of 50c (47c expected) from a 4% decline in reported revenue to \$16.7bn (consensus \$16.6bn). On specific product lines, Lipitor sales, which went generic in the US in late 2011 having been generic in the Europe through the year, slipped 24% to \$2.0bn, with US sales of \$1.2bn in line with expectations. Although Prevnar came in below expectations at \$916m (\$1.1bn expected), this was offset by beats from Lyrica (\$998m v. \$970m) and Celebrex (\$667m v. \$639m), with Enbrel sales in line (\$9.25m). The market, however, was looking more towards FY12 guidance than FY11 historic and here the company disappointed, pulling back EPS guidance by 2.2% on average from the \$2.25 to \$2.35 range to a \$2.20 to \$2.30 range. Revenue expectations have also been tempered c.3% from the \$62.2bn to \$64.7bn range to between \$60.5bn and \$62.5bn. Management credits the adjustments primarily to a change of FX assumptions, noting that guidance on costs has also been reduced. Over the longer term, Pfizer remains one of our preferred plays in the sector, with new product catalysts expected to move the share price on over the year. In the short term, however, there is little to excite the market in yesterday's numbers and guidance, with the beat in Q411 offset by the downward revision in FY12 guidance. The stock has been trading in a tight range (\$21.40 to \$22.00) for over a month (having appreciated 31% over the preceding four months) and yesterday's announcement will do little to change its range-bound position over the short term.

Imperial Tobacco - Buy

Previous Close 2270p

Target 2500p

Imperial Tobacco released a Q1 IMS this morning, which coincides with its AGM later today. Underlying tobacco net revenue was up 3% lfl on a strengthening price mix but slightly lighter than the 5% expected, while underlying stick equivalent volumes were down 1% v +1% expected. European volumes were weaker primarily as they were against tough comparatives; however the group saw growth in the value segment of its cigarette portfolio. Key strategic brands such as Davidoff and JPS posted strong growth in the quarter with volumes up 3% while net revenue was also 10% higher. Performance continued to be strong in the group's emerging markets particularly in the luxury Cuban cigar segment where volumes were up 14% driven by strong demand particularly from Russia and China. In its outlook statement, management stated the company is well placed to create further value for shareholders this year. Imperial Tobacco is focused on growing dividends to shareholders ahead of earnings in 2012 equating to a yield of 4.63% in 2012, which is expected to grow to 5.12% in 2013. In addition, the company is still in the midst of a £500m share buy-back programme. The stock of the world's fourth largest tobacco company currently trades on an undemanding 10.2x forward earnings multiple a substantial discount to British American Tobacco on 13.8x, which is unwarranted in our view and doesn't take account of Imperial's position as the sectors most likely M&A target.



BP - Buy

Previous Close 471p

Target 550p

As expected, the US judge responsible for the Macondo trial proceedings, has ruled that BP must cover some of the claims awarded against Halliburton for the cleanup costs and economic losses caused by the disaster. This announcement was anticipated following a similar ruling last week relating to the other major contractor (Transocean) on the well. Importantly, the judge, Carl Barbier, did delay his ruling on BP's claims that Halliburton acted fraudulently in respect of the handling of cement samples. Following today's announcement, we continue to see latent, long term value in BP nevertheless the approaching trial on the 27th of February does present high event risk. As a result we are recommending that clients consider switching some or all of their holding in BP to Royal Dutch Shell which will provide cleaner large cap exposure to energy markets. The next major catalyst for BP will come when it reports Q4 results on the 7th of February. Clients looking to reduce their event risk exposure should consider exiting or reducing exposure close to this event.

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