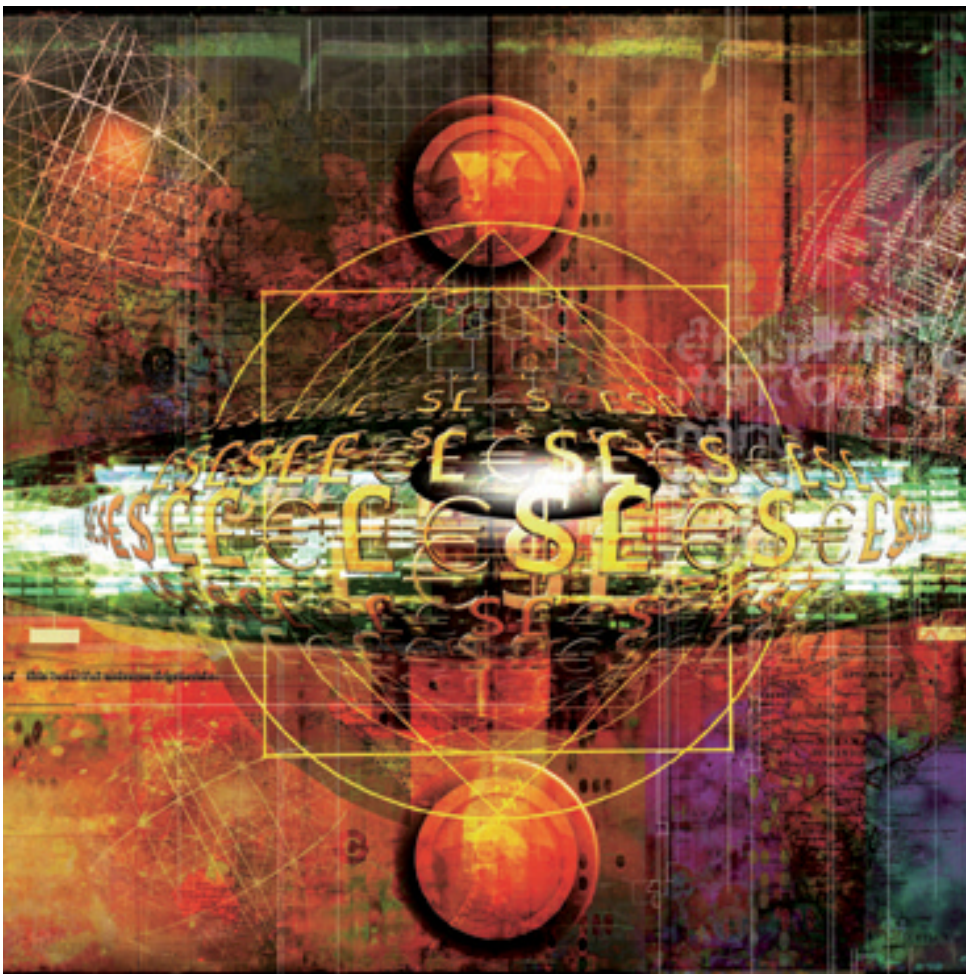


December 2003

# Outlook 2004

More alpha and less beta



Pan European Equity  
Europe

Strategy

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# Executive summary

## US upturn has obvious imperfections ...

The global economy is undoubtedly on course for recovery and there are indeed signs that the uptrend will be able to continue on firmer foundations than was the case in spring 2002. Nevertheless, we expect the US economy's growth momentum will slacken again in the second half of 2004. We do not expect a broadly-based wave of capital investment, nor the concomitant positive effects this would have on income and employment.

Euroland is not gathering any momentum of its own, but is drifting along in the wake of the global economy. This time, too, the momentum of exports will play a crucial role in overcoming the tendency towards stagnation.

## ... Europe to end the crisis of concepts

Work is underway on structural reforms throughout Europe – with different focal points and different degrees of enthusiasm. A successful implementation of the reforms in Germany would in our view multiply the reform efforts being mounted throughout the entire euro-zone. A race to reform would be the logical conclusion, offering at least a chance of reducing the "European handicap".

## Equity strategy: it's all a matter of the right mix, ...

Until the end of the first quarter 2004 we expect the European markets will be ready to bet on a sustained economic upswing – and will be supported in this by the news flow. Against this background, we believe share prices could well overshoot our targets. Later in the year, however, these expectation-errors would then have to be corrected again, and share prices would probably fall very rapidly into line with what we regard as their fair values. By the end of 2004 we put the fair value of the DJ STOXX50 at 3,100 points, and our target for the DAX is 4,300 points.

## ... we recommend more alpha and less beta

Our list of recommended stocks has so far focused on shunned cyclicals, i.e. those companies whose share prices have not yet reacted very conspicuously to the improved economic environment, but which might have been expected to do so given their positioning in the economic cycle. The companies we particularly fancy here include **BASF** and **Linde**. In addition, we have picked two other attractively-valued cyclicals – **Volvo** and **Siemens**.

The early switch to defensive stocks is intended to reflect to the changed risk-return profile at the market and sector levels. The companies we have selected also react sensitively to improved economic conditions and are viewed as attractive within the defensive cluster. Besides **Deutsche Telekom**, our favourites include **E.ON** and **Nestlé**. In the financial sector we bet on **UBS**, **Bank of Ireland** and **Allianz**.

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### Price targets 2004

**DJ STOXX50** 3.100  
**DAX** 4.300

### Recommendations list

Company	Rating
Price 25/11/2003	Target price
BASF	Outperform
€41.4	€50
Linde	Buy
€40.0	€48
Siemens	Outperform
€60.8	€67
Volvo	Outperform
SEK 207	SEK 230
Deutsche Telekom	Outperform
€13.6	€15.5
E.ON	Outperform
€46.4	€55.0
Nestlé	Outperform
CHF 299.5	CHF 330
Allianz	Outperform
€91.0	€101
Bank of Ireland	Buy
€10.1	€14.2
UBS	Buy
CHF 82.5	CHF 111

Source Datastream, WestLB Equity Markets

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## Companies mentioned in this report (prices as of 25 September 2003)

Companies	WestLB Equity Markets Sector	Reuters	Price	Target price	Rating
Allianz (€)	Financials/Insurance	ALVG.DE	91.05	101	Outperform
AWD (€)	Financials/Insurance	AWDG.DE	25.39	28	Buy
Bank of Ireland (€)	Financials/Banks	BKIR.L	10.1	14.2	Buy
BASF (€)	Chemicals	BASF.F	41.4	50	Outperform
Bayer (€)	Life Sciences	BAYG.DE	22.45	24.0	Outperform
BMW (€)	Automotive	BMWG.DE	37.70	40	Outperform
Deutsche Post DPWN (€)	Transport	DPWGn.F	16.1	15	Neutral
Cap Gemini (€)	Technology/Software	CAPP.PA	42.28	45	Outperform
Converium (CHF)	Financials/Insurance	CHRZn.S	62.10	75	Outperform
Deutsche Telekom (€)	Telecoms	DTEGn.DE	13.7	15.5	Outperform
E.ON (€)	Utilities	EONG.DE	46.40	55.0	Outperform
Epcos (€)	Technology/Hardware	EPCGn.F	18.9	22	Outperform
Fraport (€)	Transport	FRAG.DE	22.8	28	Buy
GPC (€)	Life Sciences	GPCG.DE	7.85	11	Buy
ING (€)	Financials/Banks	ING.AS	17.73	27	Buy
Linde (€)	Chemicals	LING.F	40.00	48	Buy
L'Oreal (€)	Consumer	OREP.PA	62.50	71	Outperform
Lufthansa (€)	Transport	LHAG.DE	13.1	17	Buy
LVMH (€)	Consumer/Luxury Goods	LVMH.PA	60.35	62	Outperform
Metro (€)	Consumer/Retail	MEOG.DE	35.60	39.40	Outperform
mm02 (p)	Telecommunications	OOM.L	70p	75p	Buy
Nestlé (CHF)	Consumer/Food Producers	NESN.VX	299.5	330	Outperform
Novartis (CHF)	Life Sciences	NOVZn.VX	54.40	60	Buy
Pernod Ricard (€)	Consumer/Beverages	PERP.PA	90	90	Neutral
Philips (€)	Technology/Hardware	PHG.AS	23.80	28	Outperform
RWE (€)	Utilities	RWEG.DE	26.41	30	Outperform
Telefonica (€)	Telecommunications	TEF.MC	10.8	12.2	Outperform
TietoEnator (€)	Technology/Software	TIE1V.HE	24.40	27.0	Buy
TPG (€)	Transport	TP.AS	18.2	19	Outperform
SAP (€)	Technology/Software	SAPG.DE	127.95	140	Outperform
Siemens (€)	Technology/Hardware	SIEGn.F	60.8	67	Outperform
UBS (CHF)	Financials/Banks	UBSZn.VX	82.55	111	Buy
Volvo (SEK)	Automotive	VOLVB.ST	207	230	Outperform

Source WestLB Equity Markets Estimates

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Neutral	103	40	Neutral	9	41
Sell/Underperform	42	16	Sell/Underperform	2	9

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