US equity markets

Stocks to Buy Now

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- Concerns of slowing global economic growth combined with continued fears of fiscal and monetary fears in Europe has created compelling buying opportunities for some of our favorite stocks.
- The following list of 22 stocks across all 10 sectors represents UBS WMR equity sector analysts' best current ideas that, in many cases, are trading at much lower prices and valuations than they were a month ago.
- This list represents a cross section of companies that we believe are well positioned to weather the current uncertain economic environment and offer solid, long-term value.

Concerns of slowing global economic growth combined with continued fears of fiscal and monetary fears in Europe have weighed on the market recently, wiping out most of the year's gains. We believe the recent market turmoil has created compelling buying opportunities for some of our favorite stocks.

We asked our equity sector analysts to pick the following list of 22 stocks across all 10 sectors which represent UBS WMR's best current ideas that, in many cases, are trading at much lower prices and valuations than they were a month ago. This list represents a cross section of companies that we believe are well positioned to weather the current uncertain economic environment and offer solid, long-term value. Our Equity Strategy team remains constructive on the U.S. equity market and has a year-end S&P 500 price target of 1,400 or 6% above current levels.For investors willing to dip their toes in the water, we believe these stocks will provide investors with solid returns over the next 12 months. In fact three of these stocks - Citigroup, Occidental Petroleum and United Technologies - were added to the WMR Top 25 stock list over the past six weeks.

The current list is a follow up to our 21 August 2011 report entitled *20 Stocks to Buy Now*. The basket of stocks in the 21 August report returned an average of 18.8% vs a return of 17.4% for the S&P 500 over the same period (through midday 8 June 2012).

Company	Analyst
Celgene	Brimeyer, Jerry
Humana	Brimeyer, Jerry
Nike	Brown, Alexandra
Starbucks	Brown, Alexandra
Occidental Petroleum	Decker, Nicole
Schlumberger	Decker, Nicole
Coca-Cola	Dessloch, Sally
Mead Johnson	Dessloch, Sally
Arch Capital Group	Dion, Michael
MetLife	Dion, Michael
Cypress Semiconductor	Faulkner, Robert
SanDisk	Faulkner, Robert
ITC Holdings	Kenol, Joe
Equinix	Lambertson, George
TW Telecom	Lambertson, George
Edison International	Lefkowitz, David
Freeport McMoran Copper & Gold	Sutphin, Andrew
United Technologies	Sutphin, Andrew
Citigroup	Ungar, Dean
Wells Fargo	Ungar, Dean
CSX Corp.	Woloshin, Jonathan
Starwood Hotels	Woloshin, Jonathan

Arch Capital Group (ACGL) – Michael Dion, CFA

Arch Capital Group, a Bermuda-based insurer, provides both primary insurance via brokers and reinsurance products through both brokers and directly on a worldwide basis, providing a good balance of risk and the ability to move capital where returns are highest. Arch has a solid balance sheet and ample liquidity. An emphasis on short-tail lines means ACGL benefits from lighter catastrophe years, and the company has a solid mix of both primary business and reinsurance. ACGL should benefit dis-proportionally from a market turn in pricing due to its diverse mix of businesses and excess capacity to boost premiums. We expect solid book value growth in the high single-digits (nearly 20% growth per annum since going public in 3/02) as the company has a solid, conservative investment portfolio. ACGL has historically had redundant reserve releases which should add to EPS. ACGL is not currently undertaking share repurchases with its excess capital, as the improved pricing environment for property/casualty insurance is generating additional underwriting opportunities. These include mortgage reinsurance, Japan quake, and Florida wind insurance in particular.

Arch Capital shares are only up modestly year-to-date, and are down 5% over the last month. ACGL will be able to rapidly grow premiums at much higher underwriting margins if pricing conditions improve further. A deterioration of the economic situation in Europe could impair domestic insurers there and create additional opportunities for the company. Although the stock trades slightly above book value and at a premium to peers, ACGL has proven its ability over time to avoid outsized industry losses while concurrently growing EPS and book value over time. P&C stocks like ACGL tend to be safe havens within financials during times of market volatility.

Arch Capital Group (ACGL) — **Outperform**

Arch Capital Group provides financial services. The company operates businesses primarily into two underwriting segments, insurance and reinsurance. It was founded in 1995 and is headquartered in Hamilton, Bermuda.

Price (USD)	WMR Target	Upside / (Downside)	52 Week High	52 Week Low
38.42	45.00	17%	39.64	30.07

Key Metrics	Dividend Yield (%)	Enterprise Value ($M)	Total Assets ($M)	Market Value ($M)
	0.00	5,836.6	17,141.8	5,178.3

Consensus Forecasts (Fiscal Year End)	12/2011	12/2012E	12/2013E
Sales ($M)	3,436.5	3,500.5	3,639.6
Net Income ($M)	304.2	405.2	401.0
First Call EPS ($)	2.20	2.93	2.90
Book Value per share ($)	31.94	35.25	38.14
P/E (x)	17.5	13.1	13.2
ROE (%)	7.2	8.9	7.9

Consensus Rating Distribution	Buy	Hold	Sell
	9	10	1

Price Target Rationale

The valuation is based on ACGL trading at 1.2x 2012E consensus year-end book value, a premium to peers given its recent outperformance & robust growth prospects. Risk factors include a large catastrophic loss or potential reserve charge due to weather, a terrorist-related event, investment writedowns or legacy liabilities; and a more severe downturn than expected in insurance pricing.

Source: FactSet, UBS WMR as of 8 June 2012

Celgene (CELG) – Jerry Brimeyer

Celgene is a relatively fast-growing biopharmaceutical company, largely composed of four anti-cancer drugs—Revlimid (multiple myeloma/MM, a plasma cell cancer and myelodysplastic syndrome/MDS; 67% of revs), Thalomid (MM; 7%), Vidaza (MDS; 15%) and Abraxane (breast cancer; 8%). Use of Revlimid, which is already on the market for MM treatment, should increase significantly upon approval for maintenance use (rather than just shorter term treatments), expected later this year.This is the chief reasons for the company's high rate of expected sales and earnings growth. Studies have demonstrated significant improvement in progression free survival (PFS) for over three years with maintenance use in post-transplant patients. Recent studies also lend credence to first-line use of Revlimid for MM, another significant portion of the market where the drug is not yet well positioned. Sales of Revlimid amounted to nearly USD 3.2 billion in 2011 and could reach USD 6 billion by 2016, potentially driving 20% EPS growth.

High Conviction Call

Celgene (CELG) — **Outperform**

Celgene develops human pharmaceuticals and agrochemicals. It engages primarily in the discovery, development and commercialization of pharmacy therapies for the treatment of cancer and immune-inflammatory related diseases. Celgene's drug products include REVLIMID, THALOMID, VIDAZA, ALKERAN and FOCALIN. The company was founded in 1980 and is headquartered in Summit, NJ.

Price (USD)	WMR Target	Upside / (Downside)	52 Week High	52 Week Low
65.04	82.00	26%	80.42	51.70

Key Metrics	Dividend Yield (%)	Enterprise Value ($M)	Total Assets ($M)	Market Value ($M)
	0.00	28,331.8	10,005.9	28,672.0

Consensus Forecasts (Fiscal Year End)	12/2011	12/2012E	12/2013E
Sales ($M)	4,842.1	5,453.2	6,143.7
Net Income ($M)	1,753.8	2,216.6	2,596.0
First Call EPS ($)	3.79	4.79	5.61
Book Value per share ($)	14.81	18.61	23.51
P/E (x)	17.2	13.6	11.6
ROE (%)	30.5	30.0	22.9

Consensus Rating Distribution	Buy	Hold	Sell
	21	6	0

Price Target Rationale

The price target is based on risk-adjusted PE derived from expected total return, generating an expected PE multiple of 17.3x. Applied to 2012E consensus EPS yields USD 82 target price. Major risk factors include products development failures, competition for major products, unexpected product side effects, and regulatory, legal and government actions.

Source: FactSet, UBS WMR as of 8 June 2012

Citigroup (C) - Dean Ungar, CFA

On the fundamentals and valuation, we believe Citigroup looks very attractive, and we see a significant opportunity. However, Citi is subject to significant external risks, mainly the eurozone turmoil, which could hamper stock performance until a credible, long-term solution is achieved (not a sure thing). Citi's net credit exposure to the eurozone is manageable, in our view, but that would be of little significance to investors if the eurozone melts down. With that serious caveat, let's look at the opportunity. The shares are trading at 0.5x of tangible book value per share of USD 50.90 and 6.4x the 2012 consensus EPS estimate of USD 4.02. Both of these are the lowest among large cap banks and regional banks. Yet the company has been showing consistent improvement in earnings, asset quality, and capital levels. Since 1Q 2010, the level of nonperforming assets has declined from USD 30bn to USD 12bn. The level of Basel 1 Tier 1 common equity has increased from 9.1% to 12.5%. Tangible book value per share has increased by 24% over the past two years and 1Q 2012 core EPS of 1.11 was well ahead of expectations based on strong trading results and good expense control. Despite all these improvements, the shares are down more than 25% over the past two years.

Coca-Cola (KO) – Sally Dessloch

KO is our High Conviction Call within Consumer Staples. In our view, Coke shares should outperform the Consumer Staples sector. We like its brand strength, geographic footprint (especially in emerging markets), and product affordability. It has potential for margin expansion from productivity initiatives and bottler integration. Although the strengthening of the dollar may temper Coke's sales and profit growth in the near term, we believe investors should focus on the underlying strength of its international operations. Coke sports a dividend of nearly 3%.

Citigroup (C) — **Outperform**

Citigroup, is a global financial services company, has some 200 million customer accounts and does business in more than 100 countries, providing consumers, corporations, governments and institutions with a broad range of financial products and services, including consumer banking and credit, corporate and investment banking, insurance, securities brokerage, and asset management. Major brand names include Citibank, CitiFinancial, Primerica, Smith Barney, and Banamex.

Price (USD)	WMR Target	Upside / (Downside)	52 Week High	52 Week Low
27.77	52.00	87%	43.06	21.40

Key Metrics	Dividend Yield (%)	Enterprise Value ($M)	Total Assets ($M)	Market Value ($M)
	0.15	652,120.7	1,873,878.0	78,904.3

Consensus Forecasts (Fiscal Year End)	12/2011	12/2012E	12/2013E
Sales ($M)	78,353.0	77,136.2	80,022.0
Net Income ($M)	11,102.5	12,265.1	13,854.5
First Call EPS ($)	3.70	4.09	4.62
Book Value per share ($)	60.59	64.46	69.18
P/E (x)	7.5	6.8	6.0
ROE (%)	6.6	6.7	7.1

Consensus Rating Distribution	Buy	Hold	Sell
	14	5	3

Price Target Rationale

Our price target is based on trading at a bit below 1.0x the projected 2012 year-end tangible book value per share estimate of USD 54.01. Risks include greater exposure to Europe and emerging markets than other US banks, the uncertainty regarding the unwinding of Citi Holdings assets. Additional risks include greater than expected drag from Citi Holdings, and also an inability to better control expenses.

Source: FactSet, UBS WMR as of 8 June 2012

High Conviction Call

Coca-Cola (KO) — **Outperform**

The Coca-Cola Company manufactures, distributes and markets nonalcoholic beverage concentrates, syrups, and finished beverages. Its products are sold to bottling and canning operations, distributors, fountain wholesalers and retailers. The company also produces, markets and distributes juices and juice drinks and certain water products. The company was founded in 1886. The company is headquartered in Atlanta, GA.

Price (USD)	WMR Target	Upside / (Downside)	52 Week High	52 Week Low
75.24	82.00	9%	77.82	63.34

Key Metrics	Dividend Yield (%)	Enterprise Value ($M)	Total Assets ($M)	Market Value ($M)
	2.75	188,863.2	79,974.0	167,572.0

Consensus Forecasts (Fiscal Year End)	12/2011	12/2012E	12/2013E
Sales ($M)	46,542.0	48,471.5	50,961.1
Net Income ($M)	8,920.3	9,477.8	10,360.6
First Call EPS ($)	3.84	4.08	4.46
Book Value per share ($)	13.78	15.15	16.50
P/E (x)	19.6	18.4	16.9
ROE (%)	28.5	28.1	28.8

Consensus Rating Distribution	Buy	Hold	Sell
	9	7	0

Price Target Rationale

Our 12-month price target is approximately 18x consensus 2013E earnings, slightly below the stock's current forward multiple and towards the lower end of Coke's long term average P/E of 17-20 times. Risks include currency, a downturn in the global economy or emerging markets; heightened competition from PepsiCo could also pose a risk.

Source: FactSet, UBS WMR as of 8 June 2012

CSX Corp. (CSX) - Jonathan Woloshin, CFA

Weakness in CSX shares following the 18 April 2012 1Q earnings conference calls related to coal concerns as overall volumes declined 14% for the quarter. In addition, management indicated that 2Q 2012 could be slightly worse for domestic utility coal volumes as compared to 1Q. Although we share the market's concerns regarding coal volumes we would make the following observations: 1) merchandise and inter-modal volumes (79% of 1Q 2012 shipments) were up 3% and 9% respectively year on year; 2) per unit revenue for merchandise, coal and inter-modal were up 7%, 10% and 10% respectively year on year. We believe this indicates continued strength in unit pricing, even for coal (after accounting for fuel surcharges); 3) export coal volumes were very strong for the quarter up 17% year on year while metallurgical coal shipments improved 33%; 4) based on forward orders management believe 2Q should represent the trough for coal volume declines. We should note however that weather could influence these trends; 5) according to management the outlook for shipments of automotive, metals, forest products, fertilizer and inter-modal (accounting for ~58% of CSX's volume) is favorable. The incremental margins driven by the growth in these businesses should help offset some of the weakness in coal. Concerns regarding coal could lead to a slight reduction in consensus EPS estimates from the current USD 1.82 figure, possibly to USD 1.75. However we believe much of the anticipated coal weakness was already factored into previously reduced estimates.

Cypress Semiconductor (CY) – Robert Faulkner

CY, a High Conviction Call, has several product lines the most prominent of which is its PSoC (programmable-system-on-chip) which is targeted at replacing the $17B microcontroller market. A specific implementation of PSoC is the company's TrueTouch, touch-screen controller found in many smartphones and tablets. It is aggressive pricing in the touch-screen controller markets that have weighed on the stock in recent months coupled with disappointing sales from a couple of prominent smartphone OEMs.The 2H/12 is looking very positive for the company with a wave of new touch designs particularly among new Ultrabooks as well as in the automotive industry. Adding to the second half story should be accelerating demand for the new USB 3.0 standard as well as improving demand in communications end-markets that will benefit their very profitable SRAM products.

High Conviction Call

CSX Corp (CSX) — **Outperform**

CSX provides rail, inter-modal, barging, and contract logistics services across America and around the world. The company offers traditional rail service, and the transport of intermodal containers and trailers. CSX transports crushed stone, sand, gravel, metal, phosphate, fertilizer, food, consumer, agricultural, paper, and chemical products. The company was founded in 1978 and is headquartered in Jacksonville, FL.

Price (USD)	WMR Target	Upside / (Downside)	52 Week High	52 Week Low
21.08	25.00	19%	27.06	17.69

Key Metrics	Dividend Yield (%)	Enterprise Value ($M)	Total Assets ($M)	Market Value ($M)
	2.67	30,484.9	29,473.0	21,811.9

Consensus Forecasts (Fiscal Year End)	12/2011	12/2012E	12/2013E
Sales ($M)	11,700.0	12,177.7	12,876.2
Net Income ($M)	1,818.6	1,982.0	2,254.2
First Call EPS ($)	1.67	1.82	2.07
Book Value per share ($)	7.80	8.90	10.04
P/E (x)	12.6	11.6	10.2
ROE (%)	21.3	21.1	22.5

Consensus Rating Distribution	Buy	Hold	Sell
	15	5	0

Price Target Rationale

Our price target is predicated on the shares trading at 13.5x consensus 2012E EPS. This multiple is consistent with CSX's long-term average forward P/E multiple. Risks to our price target include further declines in natural gas prices and coal shipments, lower than expected GDP growth, additional EPS restrictions on coal plants and managent's inability to realize productivity gains.

Source: FactSet, UBS WMR as of 8 June 2012

High Conviction Call

Cypress Semiconductor (CY) — **Outperform**

Cypress solutions are at the heart of any system that is built to perform: consumer, computation, data communications, automotive, industrial, and solar power. Leveraging a strong commitment to customer service and performance-based process and manufacturing expertise, Cypress's product portfolio includes a broad selection of wired and wireless USB devices, CMOS image sensors, timing solutions, network search engines, specialty memories, high-bandwidth synchronous and

Price (USD)	WMR Target	Upside / (Downside)	52 Week High	52 Week Low
13.12	23.00	75%	23.50	12.15

Key Metrics	Dividend Yield (%)	Enterprise Value ($M)	Total Assets ($M)	Market Value ($M)
	3.37	1,987.7	810.1	1,990.9

Consensus Forecasts (Fiscal Year End)	12/2011	12/2012E	12/2013E
Sales ($M)	995.2	860.7	987.7
Net Income ($M)	231.7	164.5	239.2
First Call EPS ($)	1.24	0.88	1.28
Book Value per share ($)	2.24	2.46	3.09
P/E (x)	10.6	14.9	10.3
ROE (%)	42.9	42.4	45.0

Consensus Rating Distribution	Buy	Hold	Sell
	10	6	2

Price Target Rationale

As investors have recognized the opportunity in CY's PSoC products the stock has commanded an average multiple on NTM consensus EPS of about 15.0x which we believe is reasonable given the USD 17 billion available market. Applying 15.0x to current (as of 5/2/12) consensus FY13 EPS yields our 12-month price target. Risks: Serious deterioration in SRAM pricing and/or failure of PSoC to gain market share.

Source: FactSet, UBS WMR as of 8 June 2012

Edison International (EIX) - David Lefkowitz, CFA

Edison has solid growth potential at the company's regulated utility in California as well as a valuation lower than its peers. Despite some concerns about the regulatory environment in California, we believe this jurisdiction will remain better than average. Investments to comply with the state's aggressive green energy program could add 200 basis points to annual EPS growth over the next decade. EIX's nuclear plant in Southern California has faced more scrutiny after Fukushima, and was recently closed temporarily to evaluate technical problems that emerged after some equipment was replaced. In the unlikely worst case that the plant is shuttered, EIX would lose only 4% of utility company earnings and recover much of it as it builds new generation or a large-scale transmission line to replace the capacity.

Recent comments by management at an industry conference indicate that a resolution around the company's unregulated business (whose losses have plague shares) can be expected shortly. We view this positively since it indicates that the company will not likely fund losses at these merchant power facilities, an outcome that is even more likely after the lower than expected PJM capacity auction results. Importantly, since the debt attributable to the merchant business is secured by the plants and is non-recourse to EIX shareholders, the stock will not suffer if additional plants are put into bankruptcy. Shares have outperformed the sector and the S&P 500 year to date, which we believe will continue as merchant coal operations are scaled back and the valuation discount begins to shrink. Dividend growth is also likely given that the company's current payout is about 40% of regulated earnings, substantially lower than the industry average payout ratio of 65%.

Edison International (EIX) — **Outperform**

Edison International is the parent company of Southern California Edison, a regulated electric utility serving Los Angeles and its suburbs. The company also owns and operates competitive power generation facilities throughout the US, with significant operations in the Midwest. The company is also an active participant in the energy trading markets. Edison International is headquartered in Rosemead, California.

Price (USD)	WMR Target	Upside / (Downside)	52 Week High	52 Week Low
46.04	48.00	4%	45.97	32.64

Key Metrics	Dividend Yield (%)	Enterprise Value ($M)	Total Assets ($M)	Market Value ($M)
	2.85	29,539.2	48,039.0	14,870.0

Consensus Forecasts (Fiscal Year End)	12/2011	12/2012E	12/2013E
Sales ($M)	12,760.0	12,523.6	12,905.3
Net Income ($M)	1,049.7	785.7	850.9
First Call EPS ($)	3.22	2.41	2.61
Book Value per share ($)	31.59	33.54	33.34
P/E (x)	14.3	19.1	17.6
ROE (%)	10.2	6.9	7.7

Consensus Rating Distribution	Buy	Hold	Sell
	13	5	0

Price Target Rationale

Our price target is based on a 14.6x P/E multiple applied to our 2013 earnings estimate, which is in line with the regulated group multiple and excludes any contributions from the company's merchant coal-fired power plants. Risks include negative regulatory decisions in California and a possible, although unlikely, shutdown of the company's nuclear power plant at San Onofre.

Source: FactSet, UBS WMR as of 8 June 2012

Equinix (EQIX) – George Lambertson

EQIX is the largest network-neutral co-location data center in the world with 100 data centers globally in 38 markets. EQIX data centers serve as hubs for hundreds of carriers, providing cross connections between customers as well as external connectivity options for customers. EQIX reported very strong and above consensus 1Q12 results, with a +25% year-over-year increase in total revenues, a +29% increase in EBITDA and diluted EPS of USD 0.71 (vs. consensus USD 0.48). Results reflected surprisingly strong Monthly Recurring Revenue (MRR) per Cabinet growth of 4.3% year-over-year. Utilization of net cabinets in use increased to 80.9% from 79.4% a year-ago. EQIX increased its 2012E EBITDA guidance, which we consider to be conservative, given the company's strong 1Q12 fundamental trends. In addition, we think it likely that EQIX will convert to a REIT by year end 2012 to optimize its tax structure, which could lead to multiple expansion, given that REITs trade at higher multiples than non-REIT data centers.

Our conviction in the stock reflects EQIX's reputation for data centers meeting high standards, sourcing of substantial Europe business from its US customers, positive 1Q12 operating trends, growth across its three regions, firm pricing, strong global demand for data center outsourcing, increasing capital expenditures, and higher productivity resulting from expansion in the company's sales force. given its strong global footprint, strong and accelerating revenue and EBITDA, and the likelihood of conversion to REIT status.

Equinix (EQIX) — **Outperform**

Equinix, Inc. provides global data center services to global enterprises, content companies, neutral data centers, financial companies and Internet exchange services for enterprises to protect and connect their most valued information assets. The company was founded in June 1998 and is headquartered in Foster City, CA.

Price (USD)	WMR Target	Upside / (Downside)	52 Week High	52 Week Low
167.03	180.00	8%	172.44	80.85

Key Metrics	Dividend Yield (%)	Enterprise Value ($M)	Total Assets ($M)	Market Value ($M)
	0.00	10,740.9	5,785.3	7,773.4

Consensus Forecasts (Fiscal Year End)	12/2011	12/2012E	12/2013E
Sales ($M)	1,606.8	1,905.4	2,202.8
Net Income ($M)	82.4	125.0	178.2
First Call EPS ($)	1.72	2.61	3.72
Book Value per share ($)	41.23	44.55	45.31
P/E (x)	97.1	64.0	44.9
ROE (%)	4.9	7.4	9.1

Consensus Rating Distribution	Buy	Hold	Sell
	16	6	0

Price Target Rationale

The valuation is based on EQIX trading at 11x applied to consensus 2013E EBITDA of US 1029 million as of 05/30/12. EQIX trades at 10.0x 2013E EV/EBITDA compared to 10.1x for its data center peer group. We think EQIX should trade higher than its retail data center peer group average multiple given its track record of strong execution, global exposure in key markets, upside potential in international markets, and its likely conversion to a REIT. Risk factors include increasing competition from wholesale providers (supply and price), a sharp increase in supply of data centers by Equinix or others that leads to over-capacity, price deterioration, a decision not to convert to a REIT, and customers moving from co-location network data centers to managed hosting or cloud hosting centers.

Source: FactSet, UBS WMR as of 8 June 2012

Freeport McMoRan Copper & Gold (FCX) – Andrew Sutphin

We upgraded the shares of Freeport McMoRan from Marketperform to Outperform on 30 May (see separate note) as we believe the sentiment pendulum has swung too far to the negative. In addition, the current yield of ~4% should provide investors with downside support while the global macroeconomic backdrop slowly improves, in our view. Since the production shortfall wrought by the September-December 2011 strike at Freeport's (FCX) low-cost Grasberg mine in Indonesia, the shares have trailed the performance of the S&P Materials sector. FCX has found little respite from negative news flow year-to-date, which has added to the shares' underperformance and has also caused a divergence from its strong historical correlation with the price of copper.

The current spate of negative news flow include: 1) a temporary suspension of operations at the Grasberg mine from 23 February-12 March due to conflicts between unionized workers and non-unionized workers; 2) reports on a potential change in Indonesian mining laws that would challenge the terms of FCX's 1991 Contract of Work with the government; 3) slowing economic growth in China; and 4) absence of a special dividend as company is now increasing capital investment to increase future copper production. We believe that the market has opted to focus on these negative (some only potentially) news items and ignored a number of catalysts that could be a positive for the shares. These include: 1) with the strikes over, production has begun to improve at Grasberg and the mine is expected to ramp up to 100% operating rate during 2Q12E; 2) at the end of 1Q12, the company had negative net-debt (more cash than debt) of ~USD 1 billion and strong cash flows are expected in 2012E and 2013E; and 3) the shares have priced a copper price below both the current spot price and the UBS WMR 12-month view.

Freeport-McMoRan (FCX) — **Outperform**

FCX engages in the mining of copper, gold and molybdenum. Other assets include smelting and refining units. It is the second-largest copper producing company in the world with approximately a 10% market share. It operates the large Grasberg mine in Indonesia. Purchasing Phelps Dodge added copper and molybdenum mines in North and South America. In 2010, nearly 73% of its revenues were from its copper business, 12% from gold, 6% from molybdenum, 1% cobalt and the remaining 8% from other activities. It is headquartered in Phoenix, AZ.

Price (USD)	WMR Target	Upside / (Downside)	52 Week High	52 Week Low
33.83	44.00	30%	56.78	28.85

Key Metrics	Dividend Yield (%)	Enterprise Value ($M)	Total Assets ($M)	Market Value ($M)
	3.72	34,496.7	32,070.0	31,890.3

Consensus Forecasts (Fiscal Year End)	12/2011	12/2012E	12/2013E
Sales ($M)	20,880.0	20,001.3	22,748.0
Net Income ($M)	4,717.7	3,839.1	4,985.1
First Call EPS ($)	4.94	4.02	5.22
Book Value per share ($)	16.47	19.18	23.15
P/E (x)	6.8	8.4	6.5
ROE (%)	32.8	21.5	24.1

Consensus Rating Distribution	Buy	Hold	Sell
	17	4	0

Price Target Rationale

Our price target is derived using the consensus estimate for 2012E on a 10.9x multiple. We chose this multiple based on our belief that USD 6 represents peak-like earnings for Freeport at current production levels, and question the sustainability of currently high copper prices. Risks to our thesis: 1) The company opts not to payout aportion of its sizable cash balance in the form of an increased or special dividend; 2) management makes an acquistion or additional investment in outside its expertise the metal sector; 3) a sustained period of falling copper prices.

Source: FactSet, UBS WMR as of 8 June 2012

Humana (HUM) – Jerry Brimeyer

Humana is a health insurer or managed care organization (MCO) with exposure to both government healthcare programs (Medicare and Medicaid) and commercial insurance. Humana is a High Conviction Call as we believe the company will be a major beneficiary of government sponsored healthcare coverage programs, namely Medicare (for Americans age 65 and older). The company has a comparatively high percentage of its business (about 60%) derived from government plans. Although we believe that government reimbursement cuts are likely, we argue that cost-effective healthcare insurers, like Humana, are an attractive alternative for the government to assist in lowering the cost of these plans. Continued expansion in Medicare enrollment, largely because of "baby boomers" reaching age 65 over the next 15 years, will likely make it the fastest growing segment of health insurance enrollment this decade. Humana's Medicaid enrollment could also be extremely strong this decade, largely attributable to healthcare reform, which is expected to add 16 million Americans to the ranks of Medicaid during 2014-19. In our opinion, recent weakness in Humana shares makes an attractive entry opportunity for this stock. We believe the healthcare costs, which in years past have skyrocketed, will remain moderate, permitting strong earnings growth for Humana for the remainder of this year. Further, with strong, sustainable growth in Medicare and benefits from Medicaid growth, we believe that Humana will remain a good long term growth story for much of this decade.

ITC Holdings (ITC) – Joe Kenol

ITC is a pure-play electric transmission company that serves markets in Michigan and the Great Plains. The company has generated 19% annual average EPS growth over the last six years driven by regulated investment projects to upgrade transmission systems and connect new resources (especially wind power) to the grid. We expect robust, mid-teens EPS growth over the next several years as the company completes announced projects and closes on the recently announced acquisition of Entergy's transmission network. The Entergy system needs upgrading and should provide a solid pipeline of regulated spending projects over the coming years.

ITC shares have come under increased selling pressure over the past several weeks after FERC allowed a complaint at by the Massachusetts Attorney General to advance to hearings. Massachusetts is arguing that regulated transmission ROEs are too high. We still believe that this complaint will not be successful, especially in light of regulators' goals to encourage transmission investment. At current valuations, ITC shares seem to be discounting about a 200 basis point decline in allowed ROEs, which we view as highly unlikely. We believe the risk / reward in ITC shares is compelling and reiterate our High Conviction Call.

Humana (HUM) — **Outperform**

Humana offers health insurance coverage and related services through a variety of traditional and Internet-based plans for employer groups, government-sponsored programs, and individuals. It is one of the nation's largest publicly traded health benefits companies.

Price (USD)	WMR Target	Upside / (Downside)	52 Week High	52 Week Low
79.41	100.00	26%	96.46	65.20

Key Metrics	Dividend Yield (%)	Enterprise Value ($M)	Total Assets ($M)	Market Value ($M)
	1.35	11,448.0	17,708.0	12,577.8

Consensus Forecasts (Fiscal Year End)	12/2011	12/2012E	12/2013E
Sales ($M)	36,832.0	39,547.0	43,056.0
Net Income ($M)	1,419.8	1,322.5	1,458.4
First Call EPS ($)	8.46	7.88	8.69
Book Value per share ($)	48.42	55.16	62.85
P/E (x)	9.4	10.1	9.1
ROE (%)	18.9	15.3	14.9

Consensus Rating Distribution	Buy	Hold	Sell
	11	8	0

Price Target Rationale

The price target is based on risk-adjusted PE derived from expected total return, generating an expected PE multiple of 12.5x. Applied to 2012E consensus EPS yields $100 target price. Major risk to price target include unexpected government reimbursement cuts, health reform uncertainties, and unexpectedly high medical costs.

Source: FactSet, UBS WMR as of 8 June 2012

High Conviction Call

ITC Holdings Corp (ITC) — **Outperform**

ITC Holdings operates or is planning to build regulated electric transmission systems in Michigan, Iowa, Minnesota, Kansas, Oklahoma, and Texas. The company is the only publicly traded company that is solely focused on electric transmission systems. ITC is headquartered in Novi, MI.

Price (USD)	WMR Target	Upside / (Downside)	52 Week High	52 Week Low
69.64	82.00	18%	81.90	64.88

Key Metrics	Dividend Yield (%)	Enterprise Value ($M)	Total Assets ($M)	Market Value ($M)
	2.02	6,375.7	4,823.4	3,589.1

Consensus Forecasts (Fiscal Year End)	12/2011	12/2012E	12/2013E
Sales ($M)	757.4	854.8	983.1
Net Income ($M)	171.1	205.3	249.3
First Call EPS ($)	3.35	4.02	4.88
Book Value per share ($)	24.43	27.13	30.57
P/E (x)	20.8	17.3	14.3
ROE (%)	14.7	15.8	17.1

Consensus Rating Distribution	Buy	Hold	Sell
	4	3	0

Price Target Rationale

Our price target is based on 14.5x 2014 earnings estimates proforma for the acquisition on Entergy's transmission business, a 5% premium to the group multiple in light of the favorable secular growth outlook. Risks include negative regulatory outcomes and less policy support for renewable generation.

Source: FactSet, UBS WMR as of 8 June 2012

Mead Johnson (MJN) – Sally Dessloch

Mead Johnson is a global leader in the growing pediatric nutrition industry, and its emerging markets exposure is among the best within Consumer Staples, at over 70% of sales. Its categories are attractive: they are driven by innovation, are relatively price-inelastic, and respond well to consumer advertising as well as marketing to health care professionals. Moreover, use of these products is still in an early adoption stage in most emerging markets, which affords considerable growth potential. Pediatric nutrition products carry high operating margins, and cash flow is strong. We believe the company can deliver double-digit earnings growth over time as it expands in emerging markets. Potential catalysts for outperformance include acceleration in Mead's emerging markets expansion, easing commodity costs, and an eventual recovery in the US birth rate, which has declined for several years owing to economic headwinds. Mead shares have pulled back recently on concerns about slower economic growth in China, now about 30% of Mead's sales. We think these concerns are overblown, as we believe China's growing middle class is likely to continue to spend on pediatric nutrition products to ensure their one child's well-being.

Mead Johnson Nutrition (MJN) — **Outperform**

Mead Johnson Nutrition Company manufactures, distributes and sells infant formulas and other nutritional products. The product portfolio addresses a broad range of nutritional needs for infants, children and expectant and nursing mothers. The brand names include Enfamil and Enfalac. The products are sold by wholesalers and retailers and are promoted to health care professionals and consumers. The Group operates in North America, Latin America, Asia and Europe.

Price (USD)	WMR Target	Upside / (Downside)	52 Week High	52 Week Low
81.45	91.00	12%	87.27	60.62

Key Metrics	Dividend Yield (%)	Enterprise Value ($M)	Total Assets ($M)	Market Value ($M)
	1.48	17,667.0	2,766.8	16,539.6

Consensus Forecasts (Fiscal Year End)	12/2011	12/2012E	12/2013E
Sales ($M)	3,677.0	4,073.7	4,497.8
Net Income ($M)	572.0	645.8	742.1
First Call EPS ($)	2.79	3.15	3.62
Book Value per share ($)	-0.86	0.81	2.65
P/E (x)	29.2	25.9	22.5
ROE (%)	-95.6	-25015.7	223.0

Consensus Rating Distribution	Buy	Hold	Sell
	5	7	0

Price Target Rationale

Our 12-month price target is approximately 25 times consensus calendar 2013E earnings, appropriate in our view given the company's emerging markets growth prospects. Risks to our price target include an emerging markets slowdown; foreign currency; commodity costs; food safety concerns; increased regulation or other difficulties encountered in expanding in emerging markets; a dilutive acquisition, and continued erosion in the US birth rate.

Source: FactSet, UBS WMR as of 8 June 2012

MetLife (MET) – Michael Dion, CFA

MetLife's leading position in group life insurance, its conservatively positioned investment portfolio, sizable excess capital position expected to be USD 6-7 billion by year-end, and its past successful and newly initiated USD 600 million cost cutting initiatives separate it from its peers. MET's ALICO acquisition bolsters MET's presence in the important high return Asian life insurance and retirement market, especially Japan. MET now has approximately 45% of its revenue coming from abroad, with about half that total from Japan. MET has been a leader recently in selling variable annuities, although sales will slow in 2012 since it adjusted product benefits downward. Its large group insurance business will benefit from an improving economy and more favorable employment and pricing trends. At its investor day recently MET highlighted under very conservative assumptions its target for long term ROE expansion to 12-14% (up from 10% in 2011) via cost savings, growth in high return markets, and capital management.

One near term catalyst is that MET should complete the sale of its bank in early 3Q12. This event will help it avoid greater regulatory oversight as MET will no longer be regulated as a bank holding company, and we expect meaningful share repurchases (up to USD 2 billion) and a possible dividend increase (perhaps by as much as 50%) once the sale is completed. MetLife shares are down 5% year-to-date and 25% quarter-to-date due to macro concerns related to Europe, weak equity markets in the US, and lower interest rates. While MET would be impacted by lower-for-longer interest rates, this impact is muted by long-dated hedges that pay off when rates decline, and help mitigate fluctuations/declines in EPS. Trading significantly below book value, we believe MET is attractively priced and is a High Conviction Call.

High Conviction Call

MetLife (MET) — **Outperform**

MetLife provides life insurance, annuities, retail banking services, automobile and homeowner's insurance to individuals as well as group insurance, reinsurance, retirement, savings products and services to institutional customers. The company operates through four segments: institutional, individual, auto and home, & international. Incorporated in 1999, MetLife is headquartered in New York, NY.

Price (USD)	WMR Target	Upside / (Downside)	52 Week High	52 Week Low
29.75	56.00	88%	44.56	25.61

Key Metrics	Dividend Yield (%)	Enterprise Value ($M)	Total Assets ($M)	Market Value ($M)
	2.51	46,881.5	809,823.0	31,351.1

Consensus Forecasts (Fiscal Year End)	12/2011	12/2012E	12/2013E
Sales ($M)	70,262.0	68,062.2	70,855.2
Net Income ($M)	5,361.8	5,575.5	6,002.7
First Call EPS ($)	5.02	5.22	5.62
Book Value per share ($)	50.76	51.66	56.00
P/E (x)	5.9	5.7	5.3
ROE (%)	9.9	10.6	10.7

Consensus Rating Distribution	Buy	Hold	Sell
	15	4	0

Price Target Rationale

The valuation is based on MET trading at 0.9x consensus 2012E year-end book value, a slight premium to peers given its strong balance sheet and EPS growth prospects. Risk factors include more intense price competition, potential rising capital requirements, increases in credit losses in its investment portfolio, & adverse changes in stock markets and interest rates.

Source: FactSet, UBS WMR as of 8 June 2012

Nike (NKE) – Alexandra Brown

Recently, profit concerns for NKE's Europe region placed an overhang on the stock. Europe represented approximately 25% of NKE's total FY11 sales, with Western Europe being about 18% of the total. We recognize this exposure is a risk, especially if there is no resolution in the near-term. However, we believe NKE has multiple initiatives that can allow the company to deliver high-teens EPS growth over the next few years. NKE's earnings power, in our opinion, deserves an above historical average valuation that is more in-line with its peers for the following reasons.

First, NKE invested heavily in its supply chain over the last year. Technology is being integrated into the process in order to make the manufacturing more efficient and environmentally friendly. NKE worked to empower its supply chain team members to use the most forward thinking manufacturing and product design capabilities. We estimate NKE's profit margin hit a positive inflection point later in calendar 2012 from lower costs to create and transport the products. In addition to potentially lowering NKE's costs, the new merchandise has a new degree of innovative that is already resonating with consumers. Further, we favor NKE for its willingness to use modern means to connect to consumers and form communities. Utilizing social media, e-commerce, fitness apps, athletic events (professional / amateur) and experience retail stores, NKE is working hard to elevate its brand perception on a global level.

Nike (NKE) — **Outperform**

Nike designs and manufactures athletic footwear, apparel and equipment. The company designs and sells shoes for a variety of sports, including baseball, cheerleading, golf, volleyball, and wrestling. NIKE also sells Cole Haan dress and casual shoes. The company operates NIKETOWN shoe and sportswear stores, NIKE factory outlets, and NIKE Women shops. Nike sells its products throughout the US and in about 200 other countries. Nike was founded by Bill Bowerman and Philip H. Knight in 1964 and is headquartered in Beaverton, OR.

Price (USD)	WMR Target	Upside / (Downside)	52 Week High	52 Week Low
108.64	120.00	10%	114.81	76.98

Key Metrics	Dividend Yield (%)	Enterprise Value ($M)	Total Assets ($M)	Market Value ($M)
	1.34	47,939.5	14,998.0	49,210.4

Consensus Forecasts (Fiscal Year End)	05/2011	05/2012E	05/2013E
Sales ($M)	20,862.0	24,192.3	26,590.9
Net Income ($M)	2,132.2	2,394.5	2,812.2
First Call EPS ($)	4.39	4.93	5.79
Book Value per share ($)	19.96	21.26	23.68
P/E (x)	24.7	22.0	18.8
ROE (%)	21.8	22.6	23.8

Consensus Rating Distribution	Buy	Hold	Sell
	12	7	0

Price Target Rationale

Our price target is USD 120. The price target is based on a higher forward year P/E target of 20.6x FY2013E EPS (USD 5.83, 1 June 2012). This multiple is above NKE's 10-year average (16x). However, NKE's strong YTD FY12 performance, robust sales outlook from global product launches and early signs of improved supply chain efficiencies may warrant a premium to its historical valuation. Risk factors include uncertainties in the economic outlook, higher inflation than expected and company-specific risks.

Source: FactSet, UBS WMR as of 8 June 2012

Occidental Petroleum (OXY) – Nicole Decker

Occidental is a large oil-levered E&P company known for its successful "buy and exploit" strategy. Approximately 70% of its overall production is oil. Skilled at producing mature onshore reserves, Occidental's portfolio is anchored by a large base of low-risk oil and gas reserves in Texas, California and the Bakken shale. In 2010 and 2011, Oxy experienced several quarters of oil and gas production disappointments, due in part to disruptions in its Libya operations, as well as operating bottlenecks in California. However, in the past two quarters, production has exceeded expectations, leading us to believe that growth is back on track.

Oxy's large positions in California and in the Permian Basin in Texas will provide most of the company's production growth in the near-term. Of note, we believe exploration work in California will be a source of upside value this year. Oxy has a long-term production growth goal of 5-8% per year. Based on management guidance, which we believe to be conservative, production appears to be on track to rise by approximately 6% in 2012. We believe the company has potential to achieve growth beyond current estimates, which could be a positive catalyst for Oxy stock. Oxy trades at 9.3x 2013 consensus earnings estimates. In the past ten years, the stock has traded at 12.0x earnings. Based a midcycle multiple, we estimate the stock price is reflecting USD 79/bbl. However, in 2010, when oil prices averaged USD 79.50/bbl, Oxy traded at an average 15.0x earnings, suggesting the stock trades at a discounted valuation of approximately 25%.

High Conviction Call

Occidental Petroleum (OXY) — **Outperform**

Occidental Petroleum is an international oil and gas exploration and production company, as well as a major North American chemical manufacturer. It is the fourth-largest U.S. oil and gas company with more than 10,000 employees and 20,000 contractors on four continents. Oxy's success is built on technical expertise, business acumen, strong partnerships and its proven ability to deliver superior results.

Price (USD)	WMR Target	Upside / (Downside)	52 Week High	52 Week Low
85.05	114.00	34%	109.08	66.36

Key Metrics	Dividend Yield (%)	Enterprise Value ($M)	Total Assets ($M)	Market Value ($M)
	2.54	71,114.1	61,704.0	68,892.0

Consensus Forecasts (Fiscal Year End)	12/2011	12/2012E	12/2013E
Sales ($M)	23,939.0	25,815.5	27,896.9
Net Income ($M)	6,820.2	6,592.6	7,218.6
First Call EPS ($)	8.39	8.11	8.88
Book Value per share ($)	47.30	52.52	59.48
P/E (x)	10.1	10.5	9.6
ROE (%)	19.5	16.3	16.6

Consensus Rating Distribution	Buy	Hold	Sell
	13	5	0

Price Target Rationale

Our price target reflects 13.2x earnings and EV/EBITDA of 5.7x based on 2013E consensus, compared to E&P industry midcycle multiples of 16.4x and 6.0x, respectively. Risks to our price target include price swings in oil and gas due to disruptions from geopolitical, weather and/or terrorist activity; changes in fiscal terms by host nations; regulatory legislation; events affecting worldwide economic activity; operational mishaps and delays.

Source: FactSet, UBS WMR as of 8 June 2012

SanDisk (SNDK) – Robert Faulkner

SNDK is a leading supplier of NAND flash (i.e. non-volatile) memory used as for electronic storage.It may be in the form of a mobile device like a USB-drive or something to replace an existing disk drive called a solid-state drive (SSD).We see 2H/12 as a reversal of the headwinds that have plagued SNDK's stock thus far. Excess industry capacity is being reduced by the delay of expansion projects as well as the conversion of some capacity to other uses. SNDK has also made a concentrated effort to expand its smartphone and tablet customer base to all major OEMs. Furthermore, we see the adoption of SNDK flash by Lenovo and Fujitsu in their new ultrabooks as part of the secular shift of some enterprise and client applications to SSDs as driving additional industry growth.

Schlumberger (SLB) – Nicole Decker

Schlumberger is the largest oil service company in the world, and it has the largest international operations of the major oil services companies. Schlumberger derived 67% of its revenues from outside of North America in 2011. We believe the company is well positioned to benefit from increased exploration and development activity worldwide. A unique strength of Schlumberger is its leading position in the offshore markets. Schlumberger derives approximately 50% of its revenues from offshore activity, where margins are typically higher than in the onshore work. We expect Schlumberger to benefit from increasing offshore activity as the worldwide spending upcycle continues to materialize. Further, we expect the pace of activity in the Gulf of Mexico to increase in 2012.

Schlumberger's relatively limited exposure to the North America onshore, where margins have likely peaked, combined with its strong position in the offshore markets makes it our top pick among the oil and gas services names. Schlumberger trades at 12.2x 2013 consensus earnings estimates. In the past ten years, the stock has traded at 25.7x earnings.

SanDisk (SNDK) — **Outperform**

SanDisk designs, develops, manufactures and markets flash memory data storage products. The company also produces Universal Serial Bus, Drives and MP3 Players. The company provides storage solutions, known as solid-state drives that can be used in lieu of hard disk drives in a range of computing devices, including personal computers and enterprise servers. SanDisk was founded by Eli Harari in 1988 and is headquartered in Milpitas, CA.

Price (USD)	WMR Target	Upside / (Downside)	52 Week High	52 Week Low
35.43	47.00	33%	53.46	30.99

Key Metrics	Dividend Yield (%)	Enterprise Value ($M)	Total Assets ($M)	Market Value ($M)
	0.00	7,709.8	10,174.6	8,559.8

Consensus Forecasts (Fiscal Year End)	12/2011	12/2012E	12/2013E
Sales ($M)	5,662.1	5,007.5	6,014.2
Net Income ($M)	1,137.2	464.7	787.5
First Call EPS ($)	4.65	1.90	3.22
Book Value per share ($)	28.44	29.83	32.98
P/E (x)	7.6	18.6	11.0
ROE (%)	17.7	5.8	8.9

Consensus Rating Distribution	Buy	Hold	Sell
	13	9	0

Price Target Rationale

Our price target is based upon 10x current consensus 2013 estimates. We believe the 2013 EPS estimates will be closer to the high end of the range (USD 1.33-USD 5.77 as of 11 May). Risks: Continued depressed demand and pricing; wafer fabrication execution issues; overspending by NAND competitors to gain market share; and FX.

Source: FactSet, UBS WMR as of 8 June 2012

High Conviction Call

Schlumberger (SLB) — **Outperform**

Schlumberger is an oilfield services company that supplies technology, project management and information solutions for the oil and gas industry. The company's services include seismic surveys, drilling, wireline logging, well construction and completion, and project management. The company employs approximately 77,000 people representing over 140 nationalities and working in more than 80 countries. Schlumberger was founded in 1926 and is headquartered in Houston, TX.

Price (USD)	WMR Target	Upside / (Downside)	52 Week High	52 Week Low
64.54	90.00	39%	95.53	54.79

Key Metrics	Dividend Yield (%)	Enterprise Value ($M)	Total Assets ($M)	Market Value ($M)
	1.71	92,964.8	55,201.0	85,920.9

Consensus Forecasts (Fiscal Year End)	12/2011	12/2012E	12/2013E
Sales ($M)	39,540.0	43,873.1	48,835.7
Net Income ($M)	4,981.3	5,879.5	7,186.1
First Call EPS ($)	3.66	4.32	5.28
Book Value per share ($)	23.88	26.42	30.28
P/E (x)	17.6	14.9	12.2
ROE (%)	19.1	18.2	20.4

Consensus Rating Distribution	Buy	Hold	Sell
	22	3	0

Price Target Rationale

Our price target reflects 17.7x earnings and EV/EBITDA of 9.8x based on 2013E consensus, compared to oil services industry midcycle multiples of 22.0x and 8.9x, respectively, to which SLB typically trades at a premium. Risks to our price target include price swings in oil and gas due to disruptions from geopolitical, weather and/or terrorist activity; changes in fiscal terms by host nations; regulatory legislation; events affecting worldwide economic activity; operational mishaps and delays.

Source: FactSet, UBS WMR as of 8 June 2012

Starbucks (SBUX) – Alexandra Brown

Recent market volatility has taken its toll on SBUX given its exposure to Europe (mid-single digit percentage of total sales) and the high-income consumer. SBUX coffee cost outlook also soured investor sentiment. After coffee prices spiked and hurt profitability in FY11/12E, SBUX's FY13E coffee deflation guidance disappointed investors, since consensus estimates expected a greater tailwind from lower coffee prices. However, we continue to favor SBUX given our comfort in the company's ability to manage the near-term turmoil, while also funding growth initiatives. SBUX is addressing its commodity expense issues by returning to its former strategy of buying in advance of its future coffee needs. This process may limit FY13's deflation benefit, but we believe the drag may be recouped in FY14 and provide less volatility going forward. Second, the European business was already underperforming the company average prior to recent European concerns. In response, SBUX proactively built a revitalization team of seasoned SBUX employees. On the ground in London since March, we believe the tools, people and roadmap from the US transformation are in place to turn this business.

In addition to managing these two headwinds, we see layers of opportunity for SBUX to keep double digit sales and EPS growth momentum into the future. First, SBUX continues remodel units and upgrade product quality to fuel US sales growth. For example, SBUX recently acquired a juice company and a French bakery concept that overtime may elevate the wellness and freshness of its menu. Next, SBUX is launching multiple products (Via, 'K-Cups' and the 'Verisimo' platform) to gain a meaningful presence in the premium single-serve coffee market. With phased roll-outs, we anticipate sustainable and profitable growth in its retail stores and in grocery for these products. Lastly, SBUX has a measured growth pace for its China store development. We believe SBUX learned from its US unit growth mistakes and is focused on growing profitability in China.

High Conviction Call

Starbucks (SBUX) — **Outperform**

Starbucks purchases and roasts high-quality whole bean coffees and sells them through company-operated retail stores. Starbucks also sells coffee and tea products and licenses its trademark through other channels such as licensed retail stores and, through certain of its equity investees and licensees, Starbucks produces and sells a variety of ready-to-drink beverages. The company was founded in 1985 and is headquartered in Seattle, WA.

Price (USD)	WMR Target	Upside / (Downside)	52 Week High	52 Week Low
53.59	61.00	14%	62.00	33.72

Key Metrics	Dividend Yield (%)	Enterprise Value ($M)	Total Assets ($M)	Market Value ($M)
	1.27	39,759.2	7,360.4	40,534.2

Consensus Forecasts (Fiscal Year End)	09/2011	09/2012E	09/2013E
Sales ($M)	11,700.4	13,448.5	15,081.4
Net Income ($M)	1,169.9	1,423.9	1,778.0
First Call EPS ($)	1.52	1.85	2.31
Book Value per share ($)	5.80	6.91	8.10
P/E (x)	35.3	29.0	23.2
ROE (%)	29.1	29.3	31.7

Consensus Rating Distribution	Buy	Hold	Sell
	17	5	0

Price Target Rationale

Our price target of USD 61 is based on a target forward year P/E multiple of 26.3x on consensus FY13 EPS of USD 2.32 (1 June 2012). Risk factors include uncertainties in the economic outlook and company-specific risks.

Source: FactSet, UBS WMR as of 8 June 2012

Starwood Hotels (HOT) – Jonathan Woloshin, CFA

We believe HOT's 1Q 2012 earnings release reinforced our underlying investment thesis. RevPAR and average daily rate (ADR) continue their recovery, particularly for HOT's core strengths of international, domestic gateway business, city exposure and upper upscale and luxury segment focus. Despite the strong performance of the stock over the past year we do not believe investors fully appreciate the powerful impact the first dollar incentive fees from HOT's large international portfolio will have on profitability and free cash flow. HOT has a strong balance sheet, generates ample free cash flow recently amended and extended its revolving credit facility to a 2013 maturity, further monetized its Bal Harbor development (which should continue to generate substantial cash through 2014) and has minimal debt maturities in 2012. Management continues to be very focused on capital management as it seeks to reduce its portfolio of owned hotels, increase its percentage of managed hotels, particularly in the lucrative international market and significantly reducing its investment in the timeshare business. Combining this with HOT's strict focus on expense control and the lodging industry's dearth of new construction, particularly in the luxury and upper upscale segments provide HOT with a continued attractive risk/reward profile.

High Conviction Call

Starwood Hotels & Resorts (HOT) — **Outperform**

Starwood Hotels & Resorts operates a real estate investment trust. It makes investments in luxury and upscale full-service hotels and resorts. It serves the needs of upscale business and leisure travelers worldwide. The company is headquartered in White Plains, NY.

Price (USD)	WMR Target	Upside / (Downside)	52 Week High	52 Week Low
52.11	67.00	29%	60.81	35.78

Key Metrics	Dividend Yield (%)	Enterprise Value ($M)	Total Assets ($M)	Market Value ($M)
	0.97	12,123.7	9,560.0	10,196.6

Consensus Forecasts (Fiscal Year End)	12/2011	12/2012E	12/2013E
Sales ($M)	5,624.0	6,287.8	6,400.0
Net Income ($M)	376.4	473.9	530.4
First Call EPS ($)	1.93	2.43	2.72
Book Value per share ($)	15.30	17.56	19.87
P/E (x)	27.0	21.4	19.2
ROE (%)	13.9	15.0	15.1

Consensus Rating Distribution	Buy	Hold	Sell
	15	10	0

Price Target Rationale

Our price target is based on a 13.5x multiple of HOT's consensus 2012 EBITDA estimates. The EBITDA multiple represents the midpoint of HOT's historical forward EBITDA valuation.Risks to our price target include a further weakening of the economy, a negative mix shift away from business travelers and a reversal of the RevPar gains realized this past year.

Source: FactSet, UBS WMR as of 8 June 2012

tw telecom (TWTC) – George Lambertson

Secular driven demand for higher bandwidth co-location data center connectivity, Ethernet fiber connectivity, lower cost IP VPN networks, and managed IP data services is supporting accelerating revenue growth at TWTC. TWTC reported strong 1Q12 results, with revenue growth accelerating to 8% year-over-year and 2% sequentially. The company continued to display strong growth in data and advanced IP connectivity, with 16.2% revenue growth. Medium and large sized enterprise customer revenues now make up 78.4% of total revenues. The company reported an 8.6% increase in EBITDA year-over-year and a 2.9% increase sequentially. While capex remains relatively high as a percentage of sales (in the low to mid 20% area in 2012E), we think investments will drive acceleration in revenue growth and increasing FCF growth and bring down capital intensity over time. Moreover, investments are largely success-based, the company has reasonable leverage of 1.7x net debt to EBITDA, and has consistently generated FCF over the last eight quarters. We think the increasing ratio of gross customers to buildings added should drive higher revenue per building. We expect double-digit increases in data and internet services revenues to offset flattish network and voice services revenues. We think the company can drive high single-digit revenue and EBITDA growth, potentially at the higher end of the consensus estimate range. We believe the company's now larger base of infrastructure (15,905 buildings) and customers (27,495), should allow TWTC to leverage its business platform. TWTC is a High Conviction Call.

High Conviction Call

tw telecom (TWTC) — **Outperform**

tw telecom provides managed networking solutions. Itintegrates data, dedicated Internet access and local & long distancevoice services for long distance carriers, wireless communicationscompanies, incumbent local exchange carriers and enterprise organizationsin healthcare, finance, higher education, manufacturing and hospitalityindustries, as well as for military, state and local government. It wasfounded in 1993 and is headquartered in Littleton, CO.

Price (USD)	WMR Target	Upside / (Downside)	52 Week High	52 Week Low
24.40	28.00	15%	24.21	15.42

Key Metrics	Dividend Yield (%)	Enterprise Value ($M)	Total Assets ($M)	Market Value ($M)
	0.00	4,517.4	2,708.2	3,624.2

Consensus Forecasts (Fiscal Year End)	12/2011	12/2012E	12/2013E
Sales ($M)	1,366.9	1,479.5	1,603.0
Net Income ($M)	56.8	86.6	113.5
First Call EPS ($)	0.38	0.58	0.76
Book Value per share ($)	6.75	6.84	6.52
P/E (x)	64.2	42.1	32.1
ROE (%)	5.8	7.4	8.3

Consensus Rating Distribution	Buy	Hold	Sell
	10	7	0

Price Target Rationale

Our valuation is based on TWTC trading at a EV/EBITDA of 8.4X (8.1x previously) applied to consensus 2013E EBITDA of USD 598 million as of 05/11/12. TWTC trades at a 2013E EV/EBITDA multiple of 7.1x compared to its peer group of 7.4x. We think TWTC deserves to trade at a higher multiple than its peers due to a stronger balance sheet, better earnings visibility, and potential for share repurchases. Risks to our price target include recession risk, lack of improvement in employment, increased competition, no slowdown in capital spending, and pricing competition.

Source: FactSet, UBS WMR as of 8 June 2012

United Technologies (UTX) – Andrew Sutphin

High Conviction Call UTX's diverse mix of spare parts and services sales to original equipment sales; geographic sales and varied end-markets sum together help dampen its earnings cyclicality. This along with its strong balance sheet has historically generated a high level of net income to free cash flow allowing it to fund dividend increases, share buybacks and acquisitions. We expect UTX to benefit from the deep and visible backlogs of the Commercial Aerospace industry and the urbanization trends within the emerging markets.

With its pending acquisition of Goodrich, the commercial aerospace market will become UTX's largest end market, representing about 40% of profits. Elevators and climate systems will each account for another 30% of profits. With global airline passenger miles growing at a moderate rate and new, more fuel efficient airplanes driving an upgrade cycle, the outlook for the commercial aerospace market is favorable. However, UTX is paying a substantial premium for Goodrich and as a result, 2012 earnings growth will be very modest. But earnings growth should accelerate next year as the company realizes synergies from the acquisition. The company's Otis Elevator and Carrier climate systems businesses are closely tied to commercial and residential property development. Leading indicators for property development are finally rising after a deep slump. Recently Otis's business in China has experienced some softness (partly based on difficult comparisons). However we note that China accounts for only 7% of company revenues and the long term outlook for this market remains quite attractive as the country continues to modernize. With UTX shares trading at a market multiple despite an above-average long-term growth outlook, we find the stock appealing.

High Conviction Call

United Technologies (UTX) — **Outperform**

United Technologies is an industrial conglomerate that provides high technology products and services to the building systems and aerospace industries worldwide. The company makes air-conditioning systems, elevators, aircraft engines, aircraft control systems, fire safety products, and helicopters. Otis, Carrier and UTC Fire & Security serve customers in the commercial and residential property industries worldwide. Its operating units include businesses with operations throughout the world and employ nearly 207,000 people.

Price (USD)	WMR Target	Upside / (Downside)	52 Week High	52 Week Low
75.50	90.00	19%	91.83	66.87

Key Metrics	Dividend Yield (%)	Enterprise Value ($M)	Total Assets ($M)	Market Value ($M)
	2.55	73,019.5	61,452.0	68,716.4

Consensus Forecasts (Fiscal Year End)	12/2011	12/2012E	12/2013E
Sales ($M)	58,190.0	60,496.2	68,425.4
Net Income ($M)	4,978.3	5,005.5	6,084.6
First Call EPS ($)	5.49	5.52	6.71
Book Value per share ($)	24.40	26.56	29.81
P/E (x)	13.8	13.7	11.3
ROE (%)	23.0	21.3	22.3

Consensus Rating Distribution	Buy	Hold	Sell
	16	5	0

Price Target Rationale

Our price target is predicated upon the consensus 2013E EPS estimate applied to a price to year-forward earnings multiple of 13.4x, below its historical year forward average multiple of 14.9x, as we believe the consensus 2013E EPS is too low and does not fully incorporate the potential earnings power from the pending Goodrich transaction. Risks include: 1) a prolonged global recession; 2) persistent weakness in the commercial construction markets; and 3) the repeal of favorable tax treatment for export sales would have a material negative impact on earnings.

Source: FactSet, UBS WMR as of 8 June 2012

Wells Fargo (WFC) – Dean Ungar, CFA
Wells Fargo is a high performing bank with a return on tangible equity (ROTE) that has consistently generated above peer profitability over the years. Since 2009, the company has generated an average ROTE of over 18%, which is far above its large-cap peer average of 11.5%. Wells Fargo has several advantages over its peers. 1) It is the leading mortgage banking company in the U.S., which should remain a positive in the current refinancing market. 2) It is very balanced between fee and lending revenues, based on a diverse business model. 3) Expenses, which were USD 13bn in 1Q 2012 should declined to approximately USD 11.3bn by 4Q 2012 as expense savings are implemented (a savings of USD 0.21 per share after tax). 4) Wells has very limited exposure to Europe or ex-US. 5) While Wells' net interest margin is likely to decline in this low rate environment, the overall impact to earnings should be manageable. 6) We believe the valuation is attractive at 9.2x the 2012 consensus EPS estimate of USD 3.67.

High Conviction Call

Wells Fargo (WFC) — **Outperform**

Wells Fargo & provides banking and financial services. Wells Fargo is a financial services company providing banking, insurance, investments, mortgage and consumer finance. The company is engaged in banking and a variety of related financial services businesses. Retail, commercial and corporate banking services are provided through banking stores. The company operates in three segments: Community Banking, Wholesale Banking and Wells Fargo Financial. Wells Fargo was founded in 1929 and is headquartered in San Francisco, CA.

Price (USD)	WMR Target	Upside / (Downside)	52 Week High	52 Week Low
31.43	40.00	27%	34.59	22.58

Key Metrics	Dividend Yield (%)	Enterprise Value ($M)	Total Assets ($M)	Market Value ($M)
	2.82	344,917.1	1,313,867.0	165,688.0

Consensus Forecasts (Fiscal Year End)	12/2011	12/2012E	12/2013E
Sales ($M)	80,948.0	84,383.5	85,107.0
Net Income ($M)	15,012.0	17,460.8	19,590.1
First Call EPS ($)	2.82	3.28	3.68
Book Value per share ($)	24.49	27.17	29.62
P/E (x)	11.1	9.6	8.5
ROE (%)	11.9	12.7	13.0

Consensus Rating Distribution	Buy	Hold	Sell
	20	9	1

Price Target Rationale
Our price target is based on P/E of 11x the consensus 2013 EPS estimate of USD 3.62. Risks include additional weakness in housing which would lead to higher than expected loan losses, weak economic recovery or double dip.

Source: FactSet, UBS WMR as of 8 June 2012

Appendix

Analyst certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

Statement of Risk

Stock market returns are difficult to forecast because of fluctuations in the economy, investor psychology, geopolitical conditions and other important variables.

Required Disclosures

For a complete set of required disclosures relating to the companies that are the subject of this report, please mail a request to UBS Wealth Management Research Business Management, 1285 Avenue of the Americas, 13th Floor, Avenue of the Americas, New York, NY 10019.

Stock recommendation system:

Analysts provide a relative rating, which is based on the stock's total return potential against the total estimated return of the appropriate sector benchmark over the next 12 months.

Industry sector relative stock view system

Outperform (OUT)	Expected to outperform the sector benchmark over the next 12 months.
Marketperform (MKT)	Expected to perform in line with the sector benchmark over the next 12 months.
Underperform (UND)	Expected to underperform the sector benchmark over the next 12 months.

Under review

Upon special events that require further analysis, the stock rating may be flagged as "Under review" by the analyst.

Suspended

An outperform or underperform rating may be suspended when the stock's performance materially diverges from the performance of its respective benchmark.

Restricted

Issuing of research on a company by WMR can be restricted due to legal, regulatory, contractual or best business practice obligations which are normally caused by UBS Investment Bank's involvement in an investment banking transaction in regard to the concerned company.

Sector bellwethers, or stocks that are of high importance or relevance to the sector, that are not placed on either the outperform or underperform list (i.e., are not expected to either outperform or underperform the sector benchmark) will be classified as **marketperform**. Stocks that are rated Marketperform that are not sector bellwethers are not assigned a price target.

High Conviction Calls

Sector analysts are required to have at least one "high conviction" outperform or underperform call for each sector they cover. Analysts have discretion over the selection of a recommendation as high conviction and the grounds for selection (e.g., greatest upside/downside to price target, most/least compelling investment case, etc.). The basis for each high conviction call is set forth in any research report identifying a recommendation as such.

Terms and Abbreviations

Term / Abbreviation	Description / Definition	Term / Abbreviation	Description / Definition
1H, 2H, etc. or 1H11, 2H11, etc.	First half, second half, etc. or first half 2011, second half 2011, etc.	1Q, 2Q, etc. or 1Q11, 2Q11, etc.	First quarter, second quarter, etc. or first quarter 2011, second quarter 2011, etc.
2011E, 2012E, etc.	2011 estimate, 2012 estimate, etc.	A	actual i.e. 2010A
ADR	American depositary receipt	Capex	Capital expenditures
CY	Calendar year	E	expected i.e. 2011E
EBITDA	Earnings before interest, taxes, depreciation and amortization	EPS	Earnings per share
FCF	Free cash flow = cash a company generates above outlays required to maintain/expand its asset base	K	One thousand
Net Debt	Short- and long-term interest-bearing debt minus cash and cash equivalents	p.a.	Per annum (per year)
Shares o/s	Shares outstanding	UP	Underperform: The stock is expected to underperform the sector benchmark

Appendix

Term / Abbreviation	Description / Definition	Term / Abbreviation	Description / Definition
WMR	UBS Wealth Management Research	CIO	UBS Chief Investment Office

Appendix

Disclaimer