Top 10 Picks for 2010

Paul Danesi, CIM – *Director, Portfolio Advisory Group*

The U.S. equity market is likely to remain in a "sweet spot" through the first half of 2010, although investors should not expect the sort of returns witnessed in 2009. As we enter the New Year, the global economy appears to be on the mend, corporate profits are recovering, and monetary policy remains highly stimulative and supportive of equity markets. Furthermore, cash and fixed income alternatives are unattractive.

While 2009 was a turbulent year, it proved to be a great time to be invested in equities as unprecedented efforts to stimulate financial markets and the economy achieved their intended effect. Equity markets overshot to the downside in the first quarter of 2009 as investors weighed the risks of a financial collapse and economic depression. In hindsight, panic selling created a tremendous opportunity for investors to buy U.S. stocks as the S&P 500 rallied nearly 70% from its March low. Looking at calendar year returns, the S&P 500 Composite Index returned 25%, while the tech-heavy Nasdaq Composite Index soared an impressive 45%. Information technology was the top performing sector last year advancing 40%, trailed by the cyclical materials and consumer discretionary sectors which provided returns of 27% and 21%, respectively.

Looking ahead, the largest threat to the U.S. equity market and economy are higher interest rates and an un-orderly decline the U.S. dollar. The U.S. Federal Reserve and Treasury will eventually have to unwind the numerous liquidity programs and other stimulative measures which have been put in place over the last 18 months. It is very possible U.S. economic activity could slump again later in 2010 as ongoing signs of a recovery in the first quarter of 2010 force central bankers to prematurely remove economic stimulus and raise interest rates. Low interest rates have played a critical role in sustaining the recovery so far.

While there are risks, given the alternatives -low bond yields and cash returns near zero - equities look relatively attractive as we begin the New Year. Credit Suisse cautiously pegs yearend "fair value" for the S&P 500 in a range of 1050 to 1150, but there is the potential for the market to overshoot to the upside in the interim. With lower return expectations, investors should be far more selective when choosing stocks for their portfolios as we begin 2010. We admit attractive risk return profiles are much more difficult to find at this juncture.

Our stock picks for 2010 encompass a number of themes including investing in the emerging markets consumer and infrastructure development, as well as an expected resurgence in capital spending, particularly where technology is concerned. With stronger relative growth expected in most emerging economies in 2010, we are biased towards companies with a multinational orientation. The lone exception on our list being Bank of America, which is a recovery play on domestic banking, and where investors are under appreciating the earnings recovery potential in our opinion.

Top 10 Picks for 2010 - Consensus Data *

Company	Ticker	Price Jan. 7, 2010	Dividend	Yield	Consensus Target	Potential Total Return	EPS 2010	EPS 2011	P/E 2010	P/E 2011	Market Cap. (millions)
Bank of America	BAC	$16.93	$0.04	0.2%	$21.70	28%	$0.94	$2.01	18.0	8.4	$166,743
EMC Corp.	EMC	$17.56	$0.00	0.0%	$20.25	15%	$1.11	$1.26	15.8	13.9	$36,026
Fluor Corp.	FLR	$48.97	$0.50	1.0%	$59.30	22%	$3.45	$3.75	14.2	13.1	$8,907
General Electric	GE	$16.25	$0.40	2.5%	$18.20	14%	$0.95	$1.16	17.1	14.0	$176,740
Intel Corp.	INTC	$20.60	$0.63	3.1%	$25.00	24%	$1.51	$1.63	13.6	12.6	$115,023
McDonald's	MCD	$61.90	$2.20	3.6%	$68.40	14%	$4.41	$4.79	14.0	12.9	$66,738
Mead Johnson	MJN	$45.96	$0.80	1.7%	$49.40	9%	$2.45	$2.68	18.8	17.1	$9,250
PepsiCo	PEP	$60.97	$1.80	3.0%	$71.40	20%	$4.19	$4.67	14.6	13.1	$94,801
Teva Pharmaceutical Industries	TEVA	$56.84	$0.63	1.1%	$64.75	15%	$4.51	$4.96	12.6	11.5	$54,711
Transocean Ltd.	RIG	$91.01	$0.00	0.0%	$108.00	19%	$10.53	$11.66	8.6	7.8	$29,862

* U.S. dollars

Source: Bloomberg, ScotiaMcLeod

While there are risks, we are not ready to get overly defensive just yet, so our list offers some beta in names like EMC Corp., General Electric, Transocean, and Intel. EMC Corp. is considered to be one of the best ways to play a recovery in enterprise spending on information technology. General Electric is a play on global economic growth and a recovery in its capital arm. Among defensives industries we emphasized those companies that offer above average growth, in some cases such as Teva Pharmaceuticals, at the expense of dividends. Mead Johnson Nutrition is somewhat unique in that it is considered to be a highly attractive takeover target for Nestle SA or Heinz Foods. All in all, our list for 2010 offers a fairly diverse basket of U.S. blue chips.

ScotiaMcLeod®

BANK OF AMERICA (BAC)

Company Description

Bank of America is the largest bank in the U.S. as measured by assets and branches. The bank serves individual consumers, small-and mid-sized businesses, and large corporations. Core services include a full range of banking, investing, asset management, and other financial and risk management products. In what would prove to be a controversial move, Bank of America acquired Merrill Lynch for U$29.1 billion. The acquisition makes BAC one of the world's leading asset managers and a leader in corporate and investment banking. As of the end of its latest quarter, Bank of America had more than 6,100 branches in 30 states, more than 18,500 ATM's, and almost U$1 trillion dollars in deposits.

Bank of America
(BAC-NYSE)

Rating: Outperform **Risk: High**

Summary Data (U$)

Price (January 7,2010):	$16.93	**Fiscal Year-End:**	December
12-Month Target:	$21.00	**Dividend:**	$0.04
Total Return:	24%	**Yield:**	0.2%
52-Week High:	$19.10	**52-Week Low:**	$2.53
Trailing ROE	1.8%	**Market Value ($mil)**	$168,233

Earnings Per Share (U$)

Annual	**2008A**	**2009E**	**2010E**	**2011E**
EPS:	$0.49	-$0.04	$0.90	$2.15
P/E Multiple:	28.7x	n.m.	18.8x	7.9x

Source: Bloomberg, Credit Suisse

Reasons to Buy:

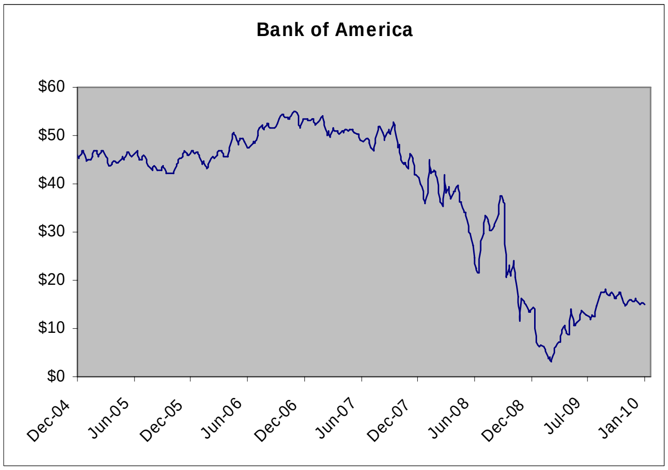
Credit Crisis in the Rear View Mirror: Signs are pointing to the end of what was the worst financial crisis since the great depression. Banks which received government support, including BAC, have begun to repay their debts, loan losses are close to peaking, and credit card delinquencies are in the early stages of decline.

TARP Repayment: During the credit crisis, BAC received U$45 billion in "extraordinary assistance" through the government's TARP program. BAC recently repaid the TARP preferred through the sale of U$18.8 billion in common equivalent securities and excess liquidity. This removes a significant overhang from the stock and company, in particular the intense regulatory and political scrutiny BAC was under while in receipt of the money. Annual dividends on the preferred shares would have amounted to U$3.6 billion in 2010.

Strong Capital Position: Management has made significant strides to improve the firm's capital levels over the last few quarters. Pending asset sales are expected to boost capital levels further. On a pro forma basis, BAC's Tier 1 common equity ratio should rise to 8.5% compared to a median of 7.5% for its large cap peers. Strategic investment will also provide support to capital levels and book value in 2010.

Earnings Potential under Appreciated: It is likely 2010 will be an important inflection point in terms of earnings and book value growth. Much of the anticipated growth will come from an improvement in credit quality. There has been a discernable slowdown in problem asset growth in recent quarters, a trend which is expected to continue in 2010. Bad debt expense has been a significant drag on earnings over the last year. Credit Suisse are modeling 15% growth in tangible book value in 2010 and further growth of 13% in 2011. They forecast a 2010 yearend book value of approximately U$22.85 per share and a tangible book value of U$13.75 per share. Earnings are also expected to rebound sharply in 2010 to U$0.90 per share from what is expected to be a reported loss of U$0.04 per share in 2009. In 2011, Credit Suisse forecasts earnings of U$2.15 per share.

Valuation: BAC is one of the cheapest large capitalized banks based on "normalized" earnings. The shares trade at 1.3 times tangible book value compared with the median of its peers at 1.5 times. The exit from the TARP program removes a significant overhang from the stock that could lead to a narrowing of the valuation gap with its peers. Credit Suisse's U$21 target price equates to 1.5 times forward tangible book value and 7.9 times normalized earnings of U$2.65 per share which is their 2012 earnings estimate.



Source: Bloomberg

EMC CORP. (EMC)

Company Description

EMC Corp. is the world's leading mass data storage device maker with about 23% market share, followed by IBM and Hewlett Packard with 16% and 13%, respectively. Financial institutions, government agencies, manufacturers, Internet service providers, and retailers all use massive amounts of information in their daily operations. EMC's RAID (redundant array of independent disks) devices allow the storage and quick retrieval of huge amounts of data. Major product lines include: Symmetrix, CLARiiON, & Centura. EMC also makes file servers, and software designed to manage, share, and protect data. EMC is the majority owner of VMware (VMW), and its RSA division provides security software. Products are sold directly, through distributors, system integrators, resellers, and OEMs. Dell Computer should represent about 10% of 2009 revenues.

EMC Corp.
(EMC-NYSE)

Rating: Outperform Risk: Medium

Summary Data (U$)

Price (January 7,2010):	$17.56	**Fiscal Year-End:**	December
12-Month Target:	$22.00	**Dividend:**	$0.00
Total Return:	25%	**Yield:**	0.0%
52-Week High:	$18.44	**52-Week Low:**	$9.61
Trailing ROE	10.5%	**Market Value ($mil)**	$35,822

Earnings Per Share (U$)

Annual	**2007A**	**2008A**	**2009E**	**2010E**
EPS:	$0.73	$1.05	$0.88	$1.20
P/E Multiple:	25.4x	10.0x	20.0x	14.6x

Source: Bloomberg, Credit Suisse

Reasons to Buy:

Recovery in Storage is in Progress: A cyclical recovery in storage is in progress as customer spending trends appear to be returning to normal. EMC is well positioned to benefit from a broader recovery in the mass storage market.

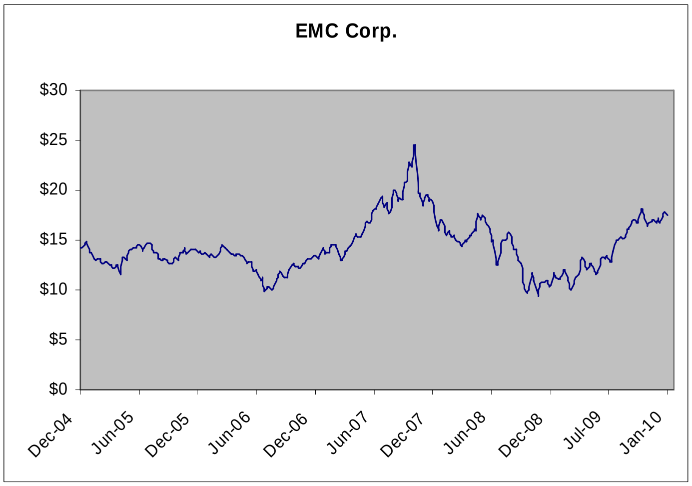
Focused on High Growth Markets: EMC is well positioned to compete in high-growth markets such as virtualized data centers, security, and cloud computing (software and service delivery via the Internet).

Earnings Recovery Underway: There is the potential for significant earnings gains over the next year or two. Recent quarterly financial results saw better-than-expected sales of high-end Symmetrix V-Max products. The Company noted V-Max sales are ramping ahead of target and proceeding well. Stronger sales of V-Max should help gross margins because of high margin software associated with the product and lower cost components. Consensus EPS estimates for 2009 and 2010 are U$0.87 and U$1.11, respectively, implying growth of 28% in 2010. Both estimates have been trending up since July. Earnings momentum is a key driver of the stock price.

Multinational: EMC is a multinational with almost half of its sales coming from outside the U.S. This fits with the theme of investing in multinational companies with exposure to faster growing regions of the world.

Large Cash Position: EMC ended the September quarter with U$8.4 billion of cash and investments, U$2.2 billion of which is held at WMware. EMC generated free cash flow of U$815 million in the third quarter of 2009.

Valuation: EMC Shares trade at 14.6 times Credit Suisse's 2010 EPS estimate. A reasonable valuation given the forecast earnings recovery for a company that is considered to be the best way to play a recovery in enterprise.



Source: Bloomberg

FLUOR CORP. (FLR)

Company Description

Fluor Corp. is one of the world's leading engineering and construction companies. Fluor provides design, procurement, maintenance, outsourcing, and project management services to government and industrial customers all over the world. In addition to the oil and gas industry which represents almost 60% of their business, Fluor's customer base also includes the chemicals and petrochemicals, life sciences, manufacturing, mining, telecommunications, power projects, and transportation infrastructure industries. Fluor's revenue mix is diversified not only by business offering, but also by geography. About half of this multinational's revenues come from outside the United States.

Fluor Corp.
(FLR-NYSE)

Rating: Outperform **Risk: Medium**

Summary Data (U$)

Price (January 7/2010):	$48.97	**Fiscal Year-End:**	December
12-Month Target:	$64.00	**Dividend:**	$0.50
Total Return:	32%	**Yield:**	1.0%
52-Week High:	$58.62	**52-Week Low:**	$30.21
Trailing ROE	29.1%	**Market Value ($mil)**	$8,766

Earnings Per Share (U$)

Annual	2007A	2008A	2009E	2010E
EPS:	$2.10	$3.90	$3.85	$3.40
P/E Multiple:	34.7x	11.3x	12.7x	14.4x

Source: Bloomberg, Credit Suisse

Reasons to Buy:

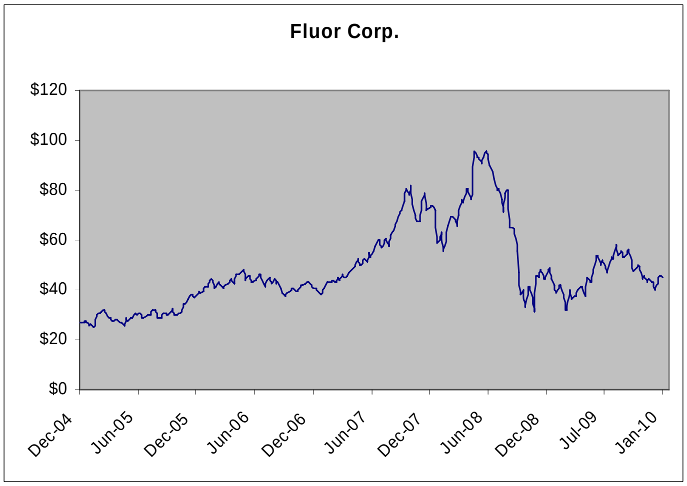
Play on Global Infrastructure: Fluor is a direct play on global infrastructure development, both expansion and maintenance, which is a recurring investment theme for the foreseeable future. Fluor's Oil & Gas segment has been the primary driver for the business and remains the single largest component of backlog and contributor to revenue and earnings. While there have been some short-term setbacks in the energy group, longer-term investment in oil and gas projects is likely to remain substantial. Large new project awards will likely come from LNG, refining, and international offshore markets.

Order Backlog: Order backlog, a key metric for the construction and engineering sector, is experiencing a bit of a rough patch, especially where the energy sector is concerned. However, weakness in Oil & Gas is being offset by strength in other businesses. Despite the decline, backlog still represents well more than a year of business at the current revenue run rate. The Company is well positioned to gain new business as the global economy recovers, and management aims to keep the value of contracted projects near U$30 billion. Higher margin cost reimbursable work accounts for about 75% of backlog.

Persistent Profitability: Fluor has consistently made money over the last 17 years and 2009 will be no exception even with the severe downturn in the global economy and lower commodity prices. Credit Suisse is forecasting earnings of U$3.85 per share for 2009 and U$3.40 for 2010. While their estimate implies a 12% decline in 2010, this could prove conservative, and estimates should ultimately gravitate higher as economic conditions and commodity pricing improve.

Balance Sheet: Fluor has the highest credit rating of any publicly-traded company in their industry. Fluor's pristine balance sheet with net cash gives the Company greater financial flexibility than many of its competitors. The Company's ample cash resources will support future growth initiatives, both organic and through acquisitions.

Valuation: Shares of Fluor weakened into year end. In the short-term investors are concerned about recent earnings disappointments and the company's outsized exposure to energy, oil prices, and capital spending within the sector. We maintain a constructive view on energy capex longer-term and believe investors' shortsighted concerns are creating an attractive entry point for investors. The shares are currently trading at 12.9 times forecast 2010 earnings. This compares to a 28 times P/E multiple over the last three years and 24 times multiple over the last 10 years.



Source: Bloomberg

GENERAL ELECTRIC CO. (GE)

Company Description

GE is a one of the largest and most diversified industrial products companies in the world. Products range from household appliances, light bulbs, locomotives, jet engines, medical imaging, generators and power turbines, security technology, as well as electrical distribution and control equipment. GE is also the largest supplier of desalination equipment and plants globally, and one of the largest wind turbine producers. GE Capital is one of the preeminent non-bank financial services companies in the U.S. NBC Universal produces films and television programming, but a controlling stake is being sold to Comcast Corp. (CMCSA). Operating businesses that are reported as segments include Energy Infrastructure, Technology Infrastructure, NBC Universal, Capital Finance, and Consumer & Industrial.

General Electric Co.
(GE-NYSE)

Rating: Not Rated **Risk: Medium**

Summary Data (U$)

Price (January 7/2010):	$16.25	**Fiscal Year-End:**	December
12-Month Target:	$18.20	**Dividend:**	$0.40
Total Return:	14%	**Yield:**	2.5%
52-Week High:	$17.52	**52-Week Low:**	$5.73
Trailing ROE	13.2%	**Market Value ($mil)**	$173,014

Earnings Per Share (U$)

Annual	2008A	2009E	2010E	2011E
EPS:	$1.91	$1.00	$0.95	$1.16
P/E Multiple:	8.5x	15.1x	17.1x	14.0x

Source: Bloomberg

Reasons to Buy:

Global Infrastructure Play: GE is a proxy for long-term global economic growth. GE continues to reorient itself as a diversified infrastructure play, with the recent sale of a controlling stake in NBC Universal to Comcast (CMCSA). The Industrial businesses are late cycle and orders will lag in an economic recovery. However, a good portion of industrial revenues come from stable high-margins services business which are more recurring in nature.

GE Capital: Troubles with its financial arm, GE Capital will be resolved in time. Loan loss provisions may have peaked and could become a major earnings tailwind in the future. In fact, we believe upside earnings surprises are more likely to be driven by GE Capital than the infrastructure and industrial segments GE Capital remains an integral part of GE's operation providing equipment financing and a competitive pricing edge; investors should not expect this unit to be sold contrary to the musings of some analyst and investors.

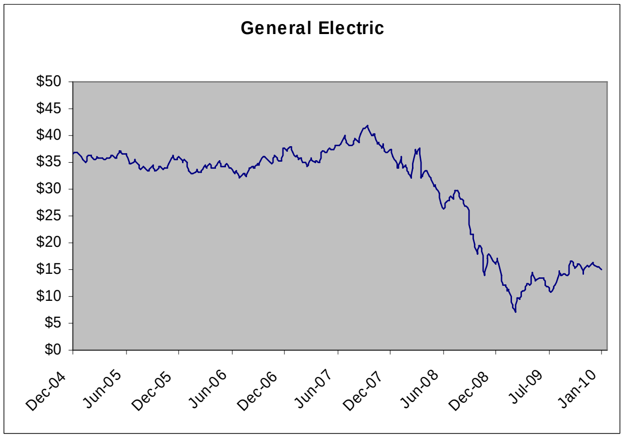
Financial Condition has improved: GE's financial condition has improved markedly since it sold preferred shares to Warren Buffett in 2008. Concerns have now shifted from one of capital adequacy to capital deployment. GE management believes the company should have in the range of U$23-U$25 billion of cash available at yearend, bolstered in part by the sale of NBC Universal.

Green Advantage: Ecomagination is a business initiative developed by General Electric to help meet the growing demand for energy efficient and environmentally friendly products and services. Products include wind power systems, water desalination equipment, energy efficient locomotives, aircraft engines, appliances, and lighting. The market opportunity for clean energy products is enormous and growing as consumer, businesses, and governments alike become increasingly sensitive to environmental issues. GE's Ecomagination campaign is helping to drive revenues and spruce up the Company's image. According to their 2008 annual report, GE's Ecomagination portfolio generated more than U$17 billion in sales.

Earnings Recovery: The market appears to be under appreciating the significant earnings recovery potential as economic conditions and credit markets improve.

Dividend Growth: CEO, Jeffrey Immelt has stated that the historical payout ratio of 40%-50% remains intact. Therefore it is not unrealistic to assume dividend increases could be coming down the road.

Valuation: GE shares are trading at 16.2 times consensus 2010 EPS, not cheap for a diversified conglomerate. However, analysts' earnings expectations for 2010 are beginning to rise. The consensus earnings estimate for 2010 implies a 5% year-over-year decline in earnings, which looks very conservative.



Source: Bloomberg

INTEL CORP. (INTC)

Company Description

Intel is the world's number one semiconductor manufacturer with about 80% market share for processors used in desktop and notebook computers, as well as computer servers. The company's major products include integrated circuits including "chips" or microprocessors, embedded processors, flash memory products, graphic components, network and communications products, and digital imaging products. Other markets served include communications, industrial automation, military, and other electronic equipment. This technology bellwether generates about 80% of sales from outside of the U.S., and more than 65% of sales come the Asia Pacific region.

Intel Corp.
(INTC-Nasdaq)

Rating: Outperform **Risk: Low**

Summary Data (U$)

Price (January 7/2010):	$20.60	**Fiscal Year-End:**	December
12-Month Target:	$27.00	**Dividend:**	$0.63
Total Return:	34%	**Yield:**	3.1%
52-Week High:	$21.27	**52-Week Low:**	$12.05
Trailing ROE	12.9%	**Market Value ($mil)**	$113,753

Earnings Per Share (U$)

Annual	**2007A**	**2008A**	**2009E**	**2010E**
EPS:	$1.20	$0.98	$0.92	$1.60
P/E Multiple:	22.2x	15.0x	22.4x	12.9x

Source: Bloomberg, Credit Suisse

Reasons to Buy:

Play on Economic Recovery: Corporate America has underinvested in technology over the last several years. Strong balance sheets bolstered by economic recovery should drive a resurgence in capital spending, particularly on productivity enhancing software and hardware. Credit Suisse anticipates that the investment community is underestimating the strength of the corporate PC replacement cycle in 2010, which will ultimately further contribute to Intel's market leading position.

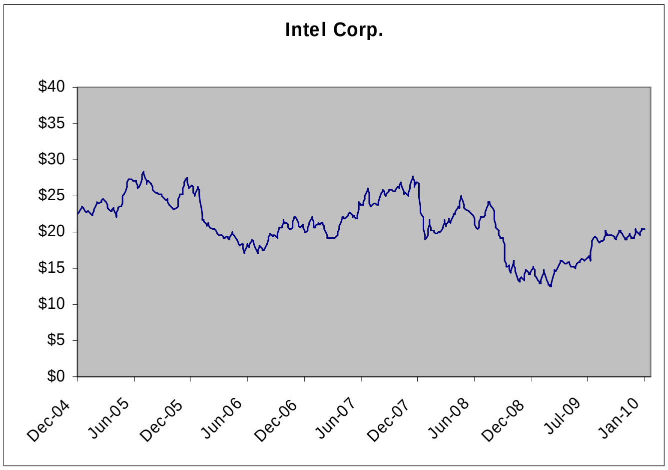
Emerging Markets Opportunity: Intel is well positioned to take advantage of the secular shift occurring in the computer industry whereby the introduction of lower price-point PCs and "netbook" computers will dramatically increase global PC penetration among consumers. Similar to the growth witnessed for cell phones earlier this decade, much of this sales growth is expected to surface in emerging markets.

Persistent Profitability: Intel has a long track record of generating significant profits and free cash flow throughout an economic cycle. Intel has made money in each of the last 15 years and despite the severe recession last year, is expected to earn more than U$5 billion in 2009. Intel's largest competitor AMD has consistently lost money over the last several years and is not forecast to earn a profit through 2012.

Earnings Rebound: After declining in 2009, earnings are forecast to rebound sharply in 2010. Credit Suisse is forecasting earnings growth of 74% in 2010 driven by a continued recovery in the global semiconductor market.

Balance Sheet: Intel has a pristine balance sheet with a net cash position of U$10.7 billion (U$1.94 per share) at the end of the third quarter of 2009.

Valuation: Although INTC shares have rallied over 60% since the market bottomed in March, 2009, their performance has lagged the broader S&P500 Index and the Information Technology sub-sector. Current valuation represents a buying opportunity as earnings forecasts have increased substantially during the intervening period and the stock trades at an attractive P/E multiple of 13.8 times forward earnings based on consensus estimates, (12.9 times using Credit Suisse estimates), compared to its average over the past three years of 19 times, or the 10-year average of 28 times.



Source: Bloomberg

MCDONALD'S (MCD)

Company Description

In 1948 in San Bernardino, California, the McDonald brothers opened their first restaurant. Six years later in 1954, Ray Kroc signed a franchise agreement; a deal that would eventually make him one of America's wealthiest men. Today, McDonald's is the world's #1 fast food chain by sales with more than 32,000 locations serving more than 58 million people in 118 countries every day. In 2008, McDonald's ranked as #8 on BusinessWeek's annual ranking of the 100 Best Global Brands. McDonald's views itself as a franchisor. Almost 26,000, or more than 80% of its restaurants worldwide are owned and operated by independent local franchisees and affiliates; the balance are company operated.

McDonald's Corp.
(MCD-NYSE)

Rating: Neutral **Risk: Medium**

Summary Data (U$)

Price (January 7, 2010):	$61.90	**Fiscal Year-End:**	December
12-Month Target:	$69.00	**Dividend:**	$2.20
Total Return:	15%	**Yield:**	3.6%
52-Week High:	$64.75	**52-Week Low:**	$50.44
Trailing ROE	30.1%	**Market Value ($mil)**	$66,802

Earnings Per Share (U$)

Annual	**2008A**	**2009E**	**2010E**	**2011E**
EPS:	$3.67	$3.98	$4.46	$4.99
P/E Multiple:	17.0x	15.7x	13.9x	12.4x

Source: Bloomberg, Credit Suisse

Reasons to Buy:

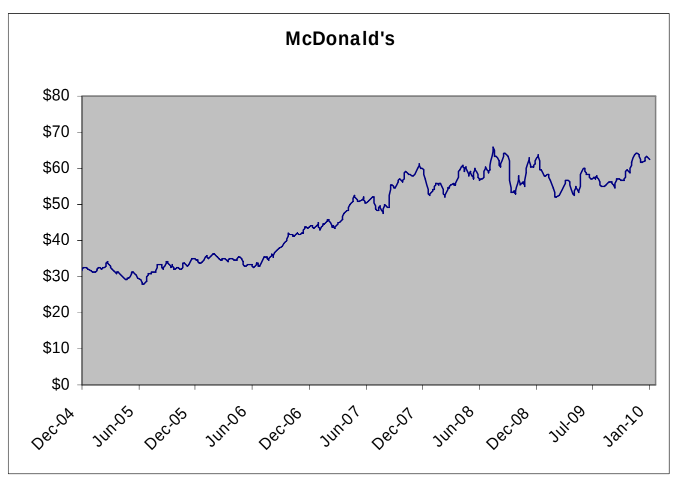
More Defensive than Cyclical: While a part of the consumer discretionary (consumer cyclical) sector, McDonald's is more a defensive stock than cyclical. For the defensive investor, the shares offer an attractive dividend yield and relatively stable sales and earnings. The shares currently yield 3.6% placing it in the top deciles of S&P 500 companies. The dividend provides a degree of downside protection during periods of market volatility.

Same-Store Sales Growth: Comparable-store sales growth, or growth at restaurants opened at least 13 months, is a key performance metric in the food retailing industry. McDonald's delivered impressive "comps" in 2009 in both domestic and international markets. Sales were particularly strong in Europe. The ability to deliver a locally relevant dining experience catering to customer preferences and their desire for convenience and value plays a key role in McDonald's market share gains and sales growth. McDonald's launch of its McCafe premium coffee beverages and value offering help the chain gain market share.

Earnings Growth: McDonald's is positioned to deliver accelerating earnings growth into 2010. Headwinds the company faced in 2008 and the better part of 2009, namely higher commodity prices and a stronger U.S. dollar, have abated. This should make for easier comparisons in future quarters. Long-term growth opportunities remain significant and continued international expansion and new product introductions are key drivers. McDonald's will continue to aggressively open new restaurants in emerging markets. International profitability will improve as economies of scale are realized and improvements in global infrastructure are achieved. McDonald's is making a push into the specialty coffee market with its new McCafe initiatives.

Attractive Dividend Yield: As noted the shares offer an attractive 3.6% dividend yield at current levels. McDonald's also has an impressive history of dividend growth and the financial means to keep the trend intact.

Attractive Valuation: Shares of MCD are trading at 15.7 times trailing 12-month earnings compared to a 20-year average of 20.4 times. On forward earnings, MCD trades at a discount to the industry average on a P/E and Enterprise Value/EBITDA basis. Giving consideration to McDonald's franchise value, scale and global reach, consistent earnings growth, as well as its attractive dividend yield, we believe McDonald's is attractively valued relative to its peers.



Source: Bloomberg

ScotiaMcLeod®

MEAD JOHNSON NUTRITION CO. (MJN)

Company Description

Mead Johnson is a global leader in paediatric nutrition manufacturing and marketing more than 70 products in over 50 countries around the globe. The Company is probably best known for its Enfamil and Enfalac brands of infant formulas. About 40% of U.S. sales are through state run WIC (Women, Infants, and Children) programs which provide lower income families with rebates for infant formula. Mead says these contracts provide sales at breakeven levels of profitability. Aside from the goodwill provided, these contracts fill productive capacity and offer an opportunity for spill-over sales of non-WIC products. The North American market for their products is mature and a "cash cow". Cash flow from its North American operations is used to help fund international expansion. In 2008, China accounted for more than 11% of sales, Mexico nearly 10%, while the rest of the world outside the U.S. represented approximately 40% of that year's sales.

Mead Johnson Nutrition Co.
(MJN-NYSE)

Rating: Outperform **Risk: Medium**

Summary Data (U$)

Price (January 7/2010):	$45.96	**Fiscal Year-End:**	December
12-Month Target:	$50.00	**Dividend:**	$0.80
Total Return:	11%	**Yield:**	1.7%
52-Week High:	$50.35	**52-Week Low:**	$24.00
Trailing ROE	n/a	**Market Value ($mil)**	$9,399

Earnings Per Share (U$)

Annual	**2008A**	**2009E**	**2010E**	**2011E**
EPS:	$1.90	$2.25	$2.50	$2.93
P/E Multiple:	n/a	19.4x	18.4x	15.7x

Source: Bloomberg, Credit Suisse

Reasons to Buy:

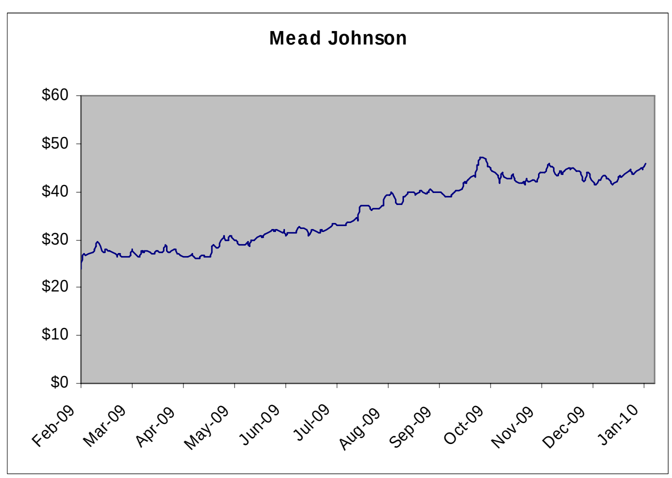
Emerging Markets Opportunity: Powdered baby formula has significant appeal in emerging markets including Asia where there is a lack of refrigeration and storage capabilities, and formula is viewed as an investment in a child's future. Mead Johnson has been operating in the Pacific Rim since the 1950's and in China since the mid 1990's. The Asia/Latin America segment has grown at least 10% per annum for the last four years.

Cash Cow: Mead Johnson generates strong cash flow on an absolute basis and relative to its packaged food group peers. MJN has almost U$600 million in cash on its balance sheet and manageable debt, with an interest average ratio (EBIT/total interest expense) greater than 16 times.

Persistent Earnings Growth: Credit Suisse is forecasting EPS for 2009 and 2010 of U$2.25 and U$2.50, respectively. This implies earnings growth of 18% in 2009 and 11% in 2010.

Potential Takeover Target: MJN is a potential takeover target. Potential acquirers include Heinz (HNZ) and Nestle (NSRGY). Nestle's decision to not pursue Cadbury may increase the chance it could make a bid for Mead Johnson. Credit Suisse believes Nestle could easily spend U$20 billion on an acquisition this year. Mead could fetch at least $55/share from a strategic acquirer, a 22% premium to the current share price. Mead would also be a good fit for Heinz, providing the food company with scale in infant feeding they currently lack.

Valuation: The shares are trading at 18.4 times 2010 forecast earnings and 15.7 times 2011 forecast earnings. What appears to be a premium valuation is a reflection of the company's market position, emerging market opportunity, and the takeover opportunity.



Source: Bloomberg

PEPSICO INC. (PEP)

Company Description

Pepsi is a word leader in convenient snacks, foods, and beverages with almost half of its sales coming from outside the U.S. Major beverage products include the well-known Pepsi brand as well as Mountain Dew, Gatorade sports drinks, Tropicana, Dole and Aquafina water. The "beverage" businesses generate about half of Pepsi's revenue. The other half of revenues come from snack foods sold under the Frito-Lay and Quaker brands. Frito-Lay is the world's largest snack maker whose brands include Doritos, Fritos, Lay's, and Ruffles. Pepsi has three major operating divisions: PepsiCo North America Beverages; PepsiCo Americas Foods; and PepsiCo International. PepsiCo International is comprised of the all PepsiCo businesses in Europe, Asia, Africa, and Australia. In 2009, the Company announced plans to consolidate its bottling and distribution operations.

PepsiCo Inc.
(PEP-NYSE)

Rating: Outperform **Risk: Low**

Summary Data (U$)

Price (January 7/2010):	$60.97	**Fiscal Year-End:**	December
12-Month Target:	$76.00	**Dividend:**	$1.67
Total Return:	27%	**Yield:**	2.7%
52-Week High:	$64.48	**52-Week Low:**	$43.78
Trailing ROE	35.1%	**Market Value ($mil)**	$95,113

Earnings Per Share (U$)

Annual	2008A	2009E	2010E	2011E
EPS:	$3.68	$3.72	$4.23	$4.78
P/E Multiple:	14.9x	16.3x	14.4x	12.8x

Source: Bloomberg, Credit Suisse

Reasons to Buy:

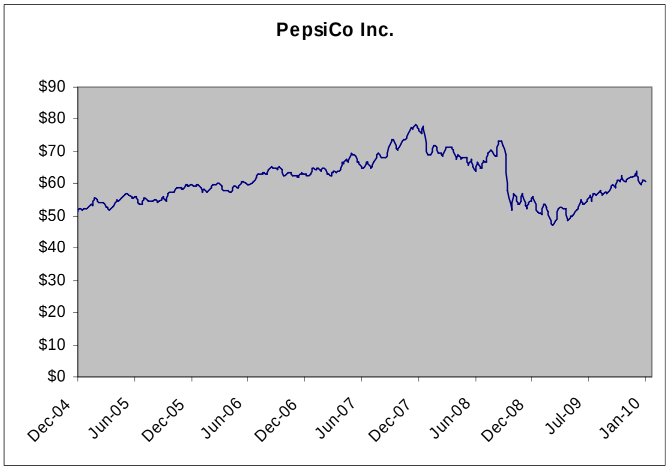
A Play on the Global and Emerging Markets Consumer: Pepsi provides an indirect and relatively low risk way to play growth in emerging markets such as China, Mexico, Russia and Brazil. These countries represent an excellent long term growth opportunity for Pepsi. Snack foods are an inexpensive luxury for the growing middle class in emerging markets. Pepsi tailors products to meet the specific tastes and demands in each market.

Acquisition of Bottlers a Strategic Positive: In October of 2009, Pepsi announced plans to acquire its two largest bottlers, Pepsi Bottling Group (PBG) and PepsiAmericas (PAS). The acquisitions will facilitate greater efficiency levels, more rapid changes to its supply chain, eliminate manufacturing redundancies, and give Pepsi greater control of its distribution network. Cost synergies could reduce annual expense by U$300 million by 2012. The transactions are expected to close by the end of the first quarter of 2010.

Earnings Growth: While there is a resiliency in beverage and snack food sales, the industry is still subject to some cyclicality. Volumes suffered in 2009 but are beginning to pick up as economic conditions improve. Stronger volumes coupled with forecast price increases and expected input cost deflation will support stronger earnings growth in 2010. Pepsi management is targeting 11-13% growth on a currency neutral basis. Credit Suisse's 2010 estimate implies a growth rate of nearly 14%, better than the 2% rate likely to be reported in 2009.

Return of Capital to Shareholders: Pepsi should be able to aggressively buy back its stock in the open market once the bottler transaction is complete. Credit Suisse is assuming Pepsi repurchases U$4 billion worth of its shares. Pepsi also has a long history of dividend growth and offers investors an attractive current dividend yield of 2.7%. The quarterly dividend has doubled in the last five years and the next dividend increase should be declared in May of 2010.

Attractive Valuation: Pepsi shares are trading at only 16.3 times trailing 12-month earnings, well below its five and 10-year averages of 20.8 times and 24.4 times, respectively. Pepsi shares are also trading at a discount to Coca Cola (KO) shares, which may not be justified as Pepsi has delivered more consistent earnings growth.



Source: Bloomberg

TEVA PHARMACEUTICAL. (TEVA)

Company Description

Teva is the world's largest generic drug maker. Through its subsidiary TEVA Pharmaceuticals USA, the company manufactures generic versions of hundreds of brand-name drugs. It produces generic versions of Eli Lilly's antidepressant Prozac and Merck's osteoporosis drug Fosamax. Teva also develops its own proprietary products including its blockbuster drug Copaxone for the treatment of multiple sclerosis, and Azilect for Parkinson's disease. The company also has an active components division that makes compounds for itself and other drug manufacturers. In December of 2008, Teva completed the acquisition of Barr Pharmaceuticals for U$7.5 billion in cash and stock. Barr is a leading generic drug company with a strong presence in the U.S. and Europe.

Teva Pharmaceutical Industries Ltd.
(TEVA-Nasdaq)

Rating: Outperform **Risk: Low**

Summary Data (U$)

Price (January 7/2010):	$56.84	**Fiscal Year-End:**	December
12-Month Target:	$60.00	**Dividend:**	$0.63
Total Return:	7%	**Yield:**	1.1%
52-Week High:	$58.30	**52-Week Low:**	$41.05
Trailing ROE	5.5%	**Market Value ($mil)**	$52,406

Earnings Per Share (U$)

Annual	**2007A**	**2008A**	**2009E**	**2010E**
EPS:	$2.35	$2.86	$3.38	$4.46
P/E Multiple:	19.8x	14.9x	16.8x	12.7x

Source: Bloomberg, Credit Suisse

Reasons to Buy:

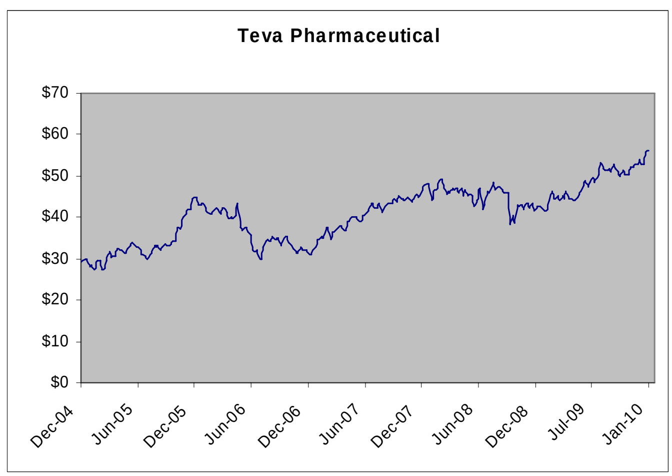
Health Care Reform should be Positive for Generics: Generic drug makers should benefit from U.S. health care reform. The goals of such legislation are to lower costs, improve quality, coverage, and consumer choice, while eliminating waste, fraud and abuse. From a cost perspective, cheaper generic drugs are an obvious part of the solution to address the rising costs of health care.

Biogenerics are a Long-Term Opportunity: A biogeneric drug is a generic alternative of a biopharmaceutical or biologic which is no longer protected by intellectual property rights. Legislation that would allow the sale of biogeneric drugs in the U.S. could be tabled in 2010. The acquisitions of Barr Pharmaceuticals and CoGenesys will allow Teva to better compete should this market opportunity present itself. Teva management estimates over U$60 billion in current biopharmaceuticals will be exposed to generic competition over the next decade.

Huge Pipeline: Teva has almost 200 Abbreviated New Drug Applications (ANDAs) pending with the U.S. Food & Drug Administration targeting annual branded sales of U$120 billion. Of those, it has more than 80 first-to-file Paragraph-IV challenges. If a generic drug maker is the first to file its ANDA with a Paragraph IV certification and ultimately receives approval to sell its generic drug, it is granted market exclusivity for 180 days.

Copaxone still Growing: It's somewhat ironic the flagship drug of the world's largest generic drug maker is a branded pharmaceutical. Copaxone, for the treatment of multiple sclerosis continues to exhibit strong growth as it gains market share in the U.S. and Europe. This is an important drug for Teva, contributing more than U$2 billion of an estimated U$16.8 billion in forecast 2009 sales.

Cheap Earnings Growth: Credit Suisse is forecasting 18% earnings growth in 2009 and 32% growth in 2010. With the stock trading at roughly 13.2 times 2010 and 12 times 2011 consensus forecast earnings, investors are paying very little for this impressive growth profile.



Source: Bloomberg

ScotiaMcLeod®

TRANSOCEAN LTD. (RIG)

Company Description

Transocean is the world's largest offshore drilling services company operating some 138 rigs across all the major offshore oil and gas fields. The company manages one of the most modern and versatile fleets in the industry with most of its rigs suitable for both exploration and development drilling. The company focuses on deepwater (4,500 feet or more) and harsh environment drilling services. Transocean's ultra-deepwater drillship Discover Deep Seas holds the current record for deepwater drilling at 10,011 feet in the Gulf of Mexico. Transocean employs three types of rigs in its operations: 1) Enterprise Class Drillships, 2) Semisubmersible Rigs, and 3) Jackup Rigs. The Company provides rigs and personal to oil and gas companies at a daily rate on a contract basis. Chevron Corp. (CVX) is one of their largest customers.

Transocean Ltd.
(RIG-NYSE)

Rating: Outperform **Risk: Medium**

Summary Data (U$)

Price (January 7/2010):	$91.01	**Fiscal Year-End:**	December
12-Month Target:	$108.00	**Dividend:**	$0.00
Total Return:	19%	**Yield:**	0.0%
52-Week High:	$94.44	**52-Week Low:**	$46.11
Trailing ROE	28.9%	**Market Value ($mil)**	$29,223

Earnings Per Share (U$)

Annual	**2007A**	**2008A**	**2009E**	**2010E**
EPS:	$8.63	$14.06	$11.63	$9.82
P/E Multiple:	16.6x	3.4x	7.8x	9.3x

Source: Bloomberg, Credit Suisse

Reasons to Buy:

Persistently High Oil Prices: Transocean's business is highly dependant on energy prices where customer expectations for oil and gas prices drive drilling activity. Strong global demand, questionable reserve levels, a lack of new major discoveries, geopolitical tensions, and tight refining capacity have supported oil prices well above long-term historical averages. The current price of WTI crude oil is about U$83 per barrel. Credit Suisse equity research is currently conservatively assuming crude oil will average U$70 per barrel in 2010.

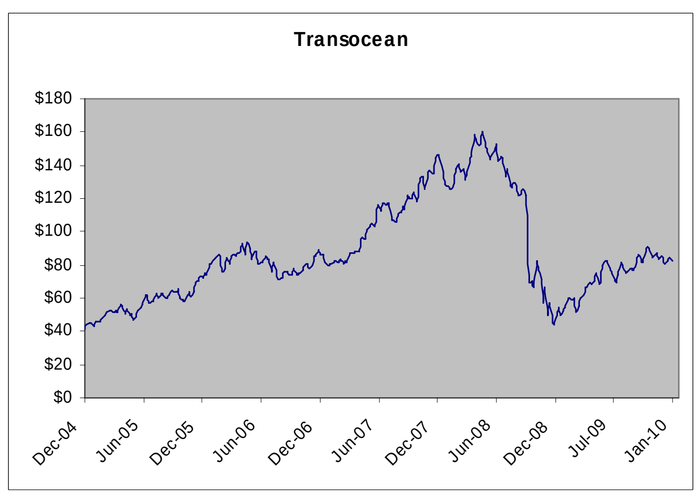
Market leader: Transocean is a dominant player in the offshore drilling industry with more deepwater rigs than any other competitor. Transocean is also considered to have one of the most modern and versatile fleets. The company has almost 50% market share in the ultra-premium segment for deepwater drilling.

Record Backlog: Transocean's contracted backlog currently stands at $32.2 billion providing confidence in future revenue, earnings, and cash flow estimates. Backlog equates to almost three years of business based on trailing 12-month revenues.

Free Cash Flow: Strong industry fundamentals and a large backlog will allow Transocean to generate cash flow well in excess of what it could prudently reinvest in its fleet and new build activity. In the 2010-12 timeframe Credit Suisse estimates Transocean will generate $15 billion in free cash flow (about U$40 per share). Transocean should have the financial means to reduce debt by U$2 billion annually, fund cash dividends beginning in the second half of 2010, and repurchase shares worth more than U$500 million annually.

Dividend Potential: Transocean has not paid dividends to common shareholders since 2002. Recent comments from management suggest the Company is considering a switch to a dividend model in 2010. Credit Suisse estimate Transocean could comfortably pay a U$1.00 per share quarterly dividend in the third and fourth quarter of 2010, and quarterly dividends of U$1.25 and U$1.50 per share in 2011 and 2012, respectively. A change in the dividend policy would require shareholder approval at its annual general meeting in May 2010.

Valuation does not Reflect Fundamentals: Current valuation does not reflect the company's overall profitability, free cash flow, and market leadership. Transocean currently trades at a discount to peers Diamond Offshore Drilling Inc. (DO) and Seadrill Ltd. (SDRLF), both of which are paying dividends. A shift to a dividend model could support multiple expansion and a narrowing of the valuation discount.



Source: Bloomberg

The author(s) of the report own(s) securities of the following companies.
None.

The supervisors of the Portfolio Advisory Group own securities of the following companies.
***General Electric Co**,*

ScotiaMcLeod®