

WPP (FTSE:WPP)
Share price 596p

 12th February 2010

An advertising powerhouse with significant exposure to emerging markets – results due on 5th March 2010
Market capitalisation: c£7.3bn
SECTOR: Media

LISTING: London
Sub sector: Media Agencies

Index: FTSE100
www.wpp.com
ACTIVITIES

Provision of communications services worldwide

SHARE PRICE PERFORMANCE

CURRENT PRICE
596p
SHARE PRICE HISTORY

3 month high:	626p	8 th January 2010
3 month low:	552p	4 th Nov 2009
6 month high:	626p	8 th January 2010
6 month low:	466p	6 th Aug 2009

ANALYST COVERAGE
Current sentiment: BUY
Consensus: BUY

Recent Comment:

 30th Oct 2009 – quarterly trading update reported 9% fall in third-quarter like-for-like revenue, but said rate of decline is slowing.

ANALYST PRICE TARGETS

High: 750p Low: 418p

PEER GROUP

Omnicom Group (NYSE:OMC) Mkt cap \$11.2bn (@\$36.36) PE (Dec 2010) 13.3x
 Interpublic (NYSE:IPG) Mkt cap \$3.2bn (@\$56.61) PE(Dec 2010) 20x
 Publicis (PAR:PUB)) Mkt cap €5.3bn (@30) PE(Dec 2010) 15x
 Havas (PAR:HAV) Mkt cap €1.37bn (@€3.23) PE (Dec 2010) 14.7X

ANALYST CONSENSUS

<i>Year ending 31st Dec</i>	2009	2010
Earnings per share	43.40p	48.50p
Dividend per share	15.50p	16.0p

INVESTMENT RATIOS

Price earnings ratio	13.7x	12.2x
Price earnings growth		e1.02
Dividend yield	2.60%	2.70%

TRADE RATIONALE

- Recent share price weakness could present a buying opportunity into results on 5th March 2010.
- Strong emerging market exposure (clients include Lenovo, Haier, Hyundai, Samsung, LG, Tata, Reliance) – group revenues in emerging markets were double closest peers (Omnicom, Interpublic, Publicis)
- Valuation relative to peers.
- Leading position in Asia. WPP claims to be the largest agency group in greater China with 38% of the media market. Last year the region generated billings of \$4.1bn and retained revenues of \$840m for WPP.
- Early cycle beneficiary of global economic recovery.
- 2008 revenue exposure to Direct, internet and interactive more than double that of closest peer Omnicom.
- Big cut in head count in 2009.
- Consistent performer over last 5 years (2009 excepted).
- Strong management. story.
- Operating margin (c13%) vs. peers.
- Excellent generator of cash.
- 2nd Feb Newscorp announced that the company's newspaper and television businesses are outperforming expectations.
- Renewed advertising by auto makers is buoying US TV stations, which generate up to half their revenue from car commercials.
- 3rd Feb 2010 AOL's domestic display-advertising revenue rose 1% for the quarter, the first such gain in more than two years suggesting an improving market..
- UK advertising minnow 'Creston' commented on 4th Feb 2010 that "Clients' budgets are also showing a greater stability and visibility,"

BUSINESS SEGMENT/ DIVISIONAL BREAKDOWN:

WPP in its current guise was created in 1985 when Martin Sorrell took a stake in Wire and Plastic Products Plc, a UK manufacturer of wire baskets, following his search for a public entity through which to build a worldwide marketing services company

WPP is the world leader in marketing communications services. They are made up of leading companies in:

- Advertising; Media Investment Management; Information, Insight & Consultancy
- Public Relations & Public Affairs;
- Branding & Identity; Healthcare Communications;
- Direct, Promotion & Relationship Marketing; Specialist Communications

The group employs approx 140,000 across 2,400+ offices in 107 countries.

There are more than 150 companies within the Group – and each is a distinctive brand in its own right.

Target for one third of business to be in 'faster growing' (emerging?) markets – currently 27%.

Currently North America 33%, UK & Western Europe 40%

RED FLAGS



- Recent loss of Unilever's media planning and buying business in China to rival Omnicom.
- Citigroup estimate that Unilever's China account is worth just 0.2% of WPP's group revenues but said this and other client losses in the region "somewhat dents the emerging markets thesis for WPP" and "throws doubt on WPP's ability to grow 2010 revenues" in the region.
- Lots of focus on emerging markets so all eyes will be on delivery in this area.
- Pricing under pressure in the downturn.
- Only modest (0.8%) increase in global ad spend predicted in 2010.
- Corporate governance issues of the past.
- Martin Sorrell has been very much playing down rebound of the sector – managing expectations?
- UBS recently stated k: "Evidence of improvement in advertising trends since third-quarter earnings has been largely anecdotal." To move stock prices, they said, "Results will need to significantly beat current expectations."

FINANCIALS (Reference 3rd quarter to 30th Sept 2009)

EARNINGS

Revenue down- 8.4%, quarter to Sept 2009, -8.3% in June quarter.

CASH FLOW

Cash flow swing between full and half year.

BALANCE SHEET

30th June 2009 (interim)

Net assets c£5bn

Tangibles c£644m, Goodwill £8.4bn, Intangibles £2bn,

Net debt £3.4bn 31st Dec 2008 Net gearing c53%

Comments

Only modest increase in global ad spend predicted in 2010.
Net new business billings £730m won during the third quarter. Net new business billings won in first nine months of 2009 £1.938bn.

Excellent generator of cash at operating level

Full year Dec 2008 179% operating cash conversion, Dec 2007 173%.

Current ratio .91

RECENT NEWSFLOW

Half year results

DATES

30th Oct 2009

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