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Davy Research

09 February 2010

Morning Equity Briefing

Starting Points

Market Comment

UK retail stalls in January; housing firm for now but does not look cheap The UK economy limped out of recession in Q4. But real-time survey (viz. PMIs) and labour market data (claimant count) suggest that activity is stronger than the GDP figures portray. Note that GDP is a quarterly average, whereas data suggest that growth was accelerating each month intra-quarter. But, even though exports of manufacturing and services in particular have benefited from sterling weakness, strong domestic demand pass-through is lacking. Retail sales momentum has faded. Meanwhile housing demand is robust for now, but the asset is not cheap. more

Today in Starting Points

United Drug No surprises in Q1 trading; leaving forecasts unchanged more

Construction and Housebuilding Vulcan Materials reports 5% increase in aggregate prices; volumes decline 23% as non-residential markets decline more

Banks UBS returns to profit but sees outflows accelerate; ALBK appoints CFO more

ICON (USc) PPD beats forecasts but large cancellations hit book-to-bill; CRL beats Q4 estimates more

Gaming 888 Q4 KPIs; 14% growth in total operating income year-on-year more

Kenmare (USc) Perfect timing; exceptionally well positioned to benefit from recovering demand and prices more

Blackrock Intl. Land British Land's results highlight continued improvement in UK commercial property more

Norkom Adds new Asian client; further strengthens client base more

Links to Starting Points data section

Key market changes

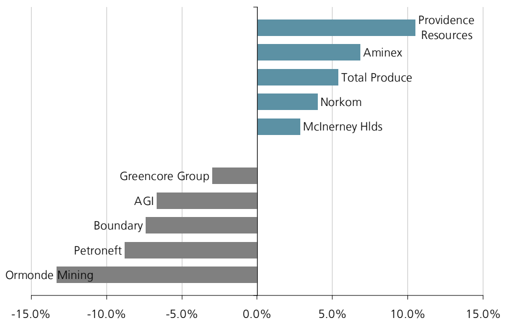
ISEQ	2908.3	↑	0.6%
FTSE 100	5092.3	↑	0.6%
FTSE E300	979.3	↑	0.7%
NASDAQ	2126.1	↓	-0.7%
DJIA	9908.4	↓	-1.0%
S&P 500	1056.7	↓	-0.9%
Hang Seng	19586.2	↑	0.2%
Nikkei 225	9929.8	↓	-0.2%

Forex and oil changes

Brent oil ($)	69.6	↓	-33
$/€	1.3656		
£/€	0.8758		
$/£	1.5588		

ISE movers

19	↑	19	↓	18	-



Latest Davy Research

Weekly Market Comment - February 8th 2010

Davy on Food and Beverages - Sector performance and valuation update; Apocalypse deferred; in pursuit of brand equity - reinvesting gross margin upside

Kenmare Resources - Perfect timing; exceptionally well positioned to benefit from recovering demand and prices

Davy on Construction - February 8th 2010

Smurfit Kappa Group - Outlook will indicate progress on box prices; potential for upgrades in 2010 and 2011

Results and events

	Prev EPS	Fcast EPS
Tuesday February 9th		
Retail sales, Dec	mom 1.1% yoy -8.2%	n/a
Buzzi Unicem - trading statement		
United Drug - AGM - Shelbourne Hotel, St. Stephen's Green, Dublin 2 - 12.00		
United Drug - interim management statement		
Wednesday February 10th		
HeidelbergCement - trading statement		

Market Comment

UK retail stalls in January; housing firm for now but does not look cheap

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The UK economy limped out of recession in Q4. But real-time survey (viz. PMIs) and labour market data (claimant count) suggest that activity is stronger than the GDP figures portray. Note that GDP is a quarterly average, whereas data suggest that growth was accelerating each month *intra*-quarter. But, even though exports of manufacturing and services in particular have benefited from sterling weakness, strong domestic demand pass-through is lacking. Retail sales momentum has faded. Meanwhile housing demand is robust for now, but the asset is not cheap.

The latest retail sales figures from the British Retail Consortium (BRC) were disappointing. Headline sales rose 1.2% year-on-year, but the much more meaningful same-store sales fell 0.7%. That was the biggest decline since May and the worst January comparison for 15 years. It is worth cautioning that sales were probably weather-affected. Food sales were boosted early in the month, but non-food and discretionary items were hit. Although January probably overstates the weak trend, it follows on from Q4 when official retail sales volume growth was slightly softer than in Q3 or Q2.

UK housing demand remains strong. The RICS index bounced back to +32, up two points from December yet still a touch short of the October-November highs. This kind of net balance (of surveyors reporting increases versus decreases in house prices) is in the realm of the lofty readings seen in 2004 (before the blip in 2005) or 2006 (before the bubble popped). But the UK house price bubble only popped; it did not burst. Valuation is still stretched at rental yields of around 4%. The market may prove resilient in the short term as disposable incomes recover and interest rates remain low, but the proper shakeout has been postponed not cancelled.

United Drug

UDG ID

No surprises in Q1 trading; leaving forecasts unchanged

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Company summary and analysis

Price **222c** Rating: **Outperform** Issued: **30/06/09**

UDG has had a good first quarter's trading and remains well on track to deliver to the market's expectation for the full year. Profits across its non-Irish speciality service units are growing and will partly offset the impact of the manufacturer price reductions on the Irish wholesale business — though we note that volumes continue to grow in the latter. UDG's solid cashflow generation has also continued into Q1, according to management.

No explicit financial detail was provided. Key IMS highlights include:

- Healthcare Supply Chain profits are ahead of last year as UDG maintains share in its RoI and NI markets. IPHA price reductions came into force on February 1st, resulting in a 40% pricing reduction for off-patent brands (in our forecasts). The Medical & Scientific business in the UK and Ireland is encouragingly trading in line with internal budgets and is seeing good new business opportunities, though capital spending remains unsurprisingly slow.
- Profits in Packaging & Speciality are well ahead year-on-year (yoy), though the comparable period was negatively impacted by the lower US and EU outturn. Sharp has since recovered and has continued its H2-2009 momentum; the UK remains a little slower to recover trading. The Medco JV is running ahead of timetable.
- CSO profits, once again, are up yoy and the division is trading strongly across all its elements.
- Full-year PBT is expected to be broadly in line with last year on a constant currency basis. Our own numbers and 23c EPS forecast look achievable in this context.

Construction and Housebuilding

Vulcan Materials reports 5% increase in aggregate prices; volumes decline 23% as non-residential markets decline

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Sector valuations

Vulcan Materials reported Q4 results slightly below forecasts in terms pf EPS and sales. Q4 aggregate shipments declined by 23% (versus -26% for the full year) while aggregate prices increased by 5% in the quarter.

Highway construction markets continue to outperform largely driven by stimulus spending. Vulcan management indicated that contract awards in its states increased by 13% in the quarter. While Q4 is traditionally a slow month in terms of highway construction because of holidays and deteriorating weather conditions, momentum in terms of the allocation of stimulus funds appears to be improving.

Management remains concerned about the lack of agreement on a successor to SAFETEA-LU as this may impact some states' spending plans. Nevertheless, it is assuming that federal spending remains at the same level in 2010 which is a key driver of its assumption of 0-5% growth in aggregate volumes and a 2-3% increase in aggregate prices.

Asphalt margins are expected to decline further in 2010 as the increase in product prices fails to keep pace with rising input costs.

The outlook for residential markets is positive while further weakness is expected in non-residential markets.

In our models, we are assuming 5% growth in US volumes and 3% growth in aggregate prices which is consistent with the outlook from Vulcan. CRH and Heidelberg Cement are two significant players in the US aggregates market with CRH the largest supplier of raw materials into the highway construction sector.

Banks

UBS returns to profit but sees outflows accelerate; ALBK appoints CFO

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Sector valuations

UBS has reported a net profit of CHF1.2bn for Q4 2009, its first profit in over a year and beating the mean expectation of CHF416m. However, the market is likely to focus on funds flows. While all wealth and asset management units reported a profit in the quarter, net funds outflows accelerated. In aggregate, outflows of net new money reached CHF56.2bn in Q4 compared with CHF36.6bn in the preceding quarter. UBS expresses confidence 'that the measures it is taking to address the causes of client asset outflows will be effective' but 'in the immediate future' it still expects to report outflows, with some pressure on margins.

Meanwhile, ALBK has appointed Bernard Byrne, a senior executive at the Electricity Supply Board (ESB), as chief financial officer. Byrne, who is currently group financial and commercial director at the ESB, will take up his new role in May. Noting that his experience spans Ireland, the UK, Poland and the US, ALBK CEO Colm Doherty said 'his familiarity with our areas of operation coupled with the external perspective he brings to the role will be a major asset to the group as we position ourselves for the future.'

ICON (USc)

ICLR US

PPD beats forecasts but large cancellations hit book-to-bill; CRL beats Q4 estimates

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Company summary and analysis

Price **$23.96** Rating: **Outperform** Issued: **22/07/09** *Previous: Neutral* *Issued: 30/06/09*

Though PPD looks to have beaten headline forecasts for Q4, the large cancellations in the period will be the focus and are among the reasons why 2010 guidance, provided in early January, was below market expectations.

For Q4, revenues fell by 1.6% to $363.1m and operating income was $23.9m compared to $71.7m last year. This decline mostly occurred in the company's development (i.e. CRO) division.

Gross book-to-bill reached 1.3x in the quarter; however, 'contract cancellations and adjustments' pulled this ratio back to c.0.5x on a net basis. PPD's recent record has been hardly stellar either: cumulative book-to-bill for the first nine months of 2009 was only 0.87x. While the guidance call last month alluded to the cancellations, the market is unlikely to warm to these numbers today.

Meanwhile, Charles River Labs, a speciality pre-clinical CRO, reported a 49c EPS outturn for Q4, ahead of estimates (44c). It also guided for EPS in 2010 to be in a range of 220-240c, with consensus currently at 237c. According to management, strong pre-clinical bookings have been seen in Q1-2010 and there are early positive indicators for Q2.

Gaming

888 Q4 KPIs; 14% growth in total operating income year-on-year

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Sector valuations

888's Q4 KPIs show that the business grew well in the fourth quarter. Total operating income came in at $68m (Q4 2008: $60m), a 14% increase compared to Q4 2008 and a 12% increase compared to Q3 2009. Of the $8m increase, $3m came from B2B activities with the other $5m coming from B2C activities. B2B total operating income came in at $14m (Q4 2008: $11m), an increase of 36% on Q4 2008 while B2C total operating income came in at $54m (Q4 2008: $49m), a 9% increase compared to Q4 2008.

Within B2C operations, casino and sportsbook/bingo both performed well while poker was flat. Total operating income for B2C casino came in at $33m (Q4 2008: $30m), up 13% year-on-year, while the emerging offering (bingo/sports) was up 52% off a base of $5m. These numbers appear to mark a turning point for the company given that full-year total operating income came in at $247m (2008: $263m), a decline of 6%. The Q4 run-rate was clearly well ahead of the trend experienced earlier in the year.

In terms of outlook, management says that the first quarter of 2010 has started well. During the first five weeks of the year group average daily total operating income was more than 7% higher than Q4. We estimate that this implies growth of 27% year-on-year, albeit 888's bingo acquisition (Wink) will have helped. New customer recruitment across the group showed a strong increase of more than 52%. Growth was driven by B2C, especially casino and 888Ladies, with more than 18% increase in average daily total operating income compared to Q4 (4% excluding the impact of the Wink bingo acquisition).

In terms of read-across for the sector, we think it notable that 888 is emphasising the importance of mega-jackpots on the casino side. This includes the pioneering £8,888,888 Pirates Millionaire free spin slot machine, launched together with a prominent UK TV campaign and a new £5,000,000 Pot of Gold Bingo promotion. This ties in with what PartyGaming was saying last week in terms of the importance of large jackpots to drive casino growth. It also implies that while scale has always been crucial on the poker side, it is now increasingly important on the casino side also.

Kenmare (USc)

KMR ID

Perfect timing; exceptionally well positioned to benefit from recovering demand and prices

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Company summary and analysis

Price **$0.34** Rating: **Outperform** Issued: **30/06/09**

Kenmare's single largest customer is the titanium-based pigment sector. Underlying demand for pigment is correlated with global GDP growth rates. Leading indicators continue to project a recovery or expansion in all major economies. The key pigment producers are forecasting above-trend market growth, with emerging markets accounting for 70-80% of incremental demand.

Titanium mineral supply is, however, shrinking. We forecast a significant supply shortfall by 2014 without investment in new mines. Current mine economics does not support investment in new mines; product prices are too low. Our analysis suggests that product price increases of 65% are required to incentivise mining investment.

We think that the shift in pricing power to miners will lead to accelerated expansion of the Moma project. In this scenario, we value Kenmare at 71p per share before taking into account the financing structure. The investment opportunity is that the market is still focussed on project delays and has given little credit for the expansion opportunity. There is little sign too that higher product prices are being factored in. We rate the stock 'outperform', believing that evidence of a successful ramp-up and tightening product prices will initiate market reaction.

For further detail, see our research report issued February 8th.

Blackrock Intl. Land

BLK ID

British Land's results highlight continued improvement in UK commercial property

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Company summary and analysis

Price **5c** Rating: **Outperform** Issued: **30/06/09**

Results from British Land (February 9th) show continued improvement in the UK property market. The company recorded an 18% increase in its NAV in Q3 (end-December), helped by a significant increase in its property valuation of 8.2%, with strong growth across all sectors.

According to the company, the early signs of recovery seen in Q2 extended right across its portfolio during the last three months of 2009. The investment market has improved, with buyers outweighing sellers, but inward yield shift, rather than rental growth, was the main driver of improved valuation. However, since the beginning of 2010, there is evidence of improving rental values in the office market.

The new equivalent yield across the portfolio is now 6.5%, with underlying tenancy of 93.7%. Occupiers in administration fell from 0.8% to 0.7% of total rent.

The UK accounted for c.26% of Blackrock's investment assets at the interim stage and the performance of these assets should help offset some of the valuation pressures on the company's Irish portfolio — 48% of investment assets. The company did not carry out a revaluation of its portfolio at the interim stage, but using IPD data, we estimated that the underlying NAV would have fallen to c.18.6c. The current discount of 73% to the interim underlying NAV reflects concerns over the company's forthcoming year-end revaluations and the need to re-finance with its creditors due to an expected covenant breach following this revaluation. However, strong tenancies, rental cover of 1.65x and overseas assets suggest that the penal discount is overdone.

Norkom

NORK ID

Adds new Asian client; further strengthens client base

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Company summary and analysis

Price **156c** Rating: **Outperform** Issued: **04/12/09**

Norkom has announced the addition of Daiwa Capital Markets Singapore Limited to its expanding and diverse client base. Daiwa Capital Markets has subscribed to Norkom's sanctions and politically exposed persons (PEP) screening and transaction monitoring solutions. This software screens over 1bn financial services transactions daily and matches investment banks' transactions against global watch-lists, ensuring that business is not being conducted with high-risk entities like terrorists, criminals and PEPs.

This new client signing further strengthens Norkom's market-leading position within the Asia Pacific region, which accounts for approximately 14% of revenue. The value of the deal to Norkom is unknown; however, as a guide, Norkom generates on average between €0.6m and €1m in deal revenue from initial contracts and aims to leverage relationships for another €5-20m over the lifecycle, depending on the size of the client. This further enhances Norkom's impressive 65% revenue visibility, and reaffirms our belief in management achieving our current-year forecasts of €9.1m in EBITDA.

International equity markets

	Index	Change	% day	% YTD	Off all time high	2010 P/E
S&P 500	1056.7	-9.5	-0.9	-5.2	-32.5	13.5
Dow Jones Industrial Average	9908.4	-103.8	-1.0	-5.0	-30.0	12.3
NASDAQ	2126.1	-15.1	-0.7	-6.3	-58.0	16.5
Hong Kong	19586.2	35.3	0.2	-10.5	-38.1	9.9
Japan	9929.8	-22.0	-0.2	-5.8	-74.5	18.4
FTSE 100	5092.3	31.4	0.6	-5.9	-26.5	11.8
FTSE Eurobloc 100	829.9	8.5	1.0	-9.3	-46.5	11.3
FTSE Eurofirst 300	979.3	7.2	0.7	-6.4	-42.6	11.9
ISEQ	2908.3	18.2	0.6	-2.2	-70.9	

European market sectors (€)

	Index	% day	% YTD
FTSE E300 Banks	515.7	0.1	-12.0
FTSE E300 Construction	1363.8	0.6	-9.6
FTSE E300 Foods	1349.1	1.8	-2.3
FTSE E300 Media	559.0	0.6	-6.1
FTSE E300 Pharma	979.5	1.6	-0.5
FTSE E300 Transport	707.4	0.3	-4.3

US market sectors ($)

	Index	% day	% YTD
S&P 500 Banks	127.7	-2.4	1.9
S&P 500 Const. Mats	88.0	-0.4	-17.4
S&P 500 Food Prod.	261.9	-0.6	0.2
S&P 500 Media	151.5	-1.1	-7.4
S&P 500 Pharma & Bio.	334.0	-0.5	-1.5
S&P 500 Transport	242.0	-0.9	-5.2

Bond yields

	Yield	Basis Points
Ireland 10 year	4.81	5
German 10 year	3.13	1
UK 10 year	3.94	5
US 10 year	3.56	0

Money rates

	Rate	Change %
Euro 3 month	0.66	0
UK 3 month	0.62	1
US 3 month	0.25	0

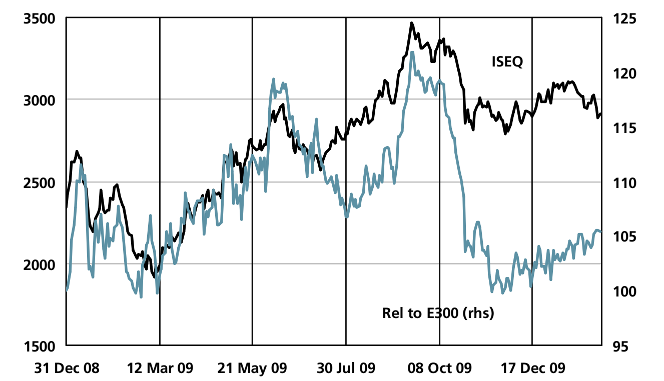
Forex rates

€/ $	1.3656
€/ £	0.8758
£/ $	1.5588

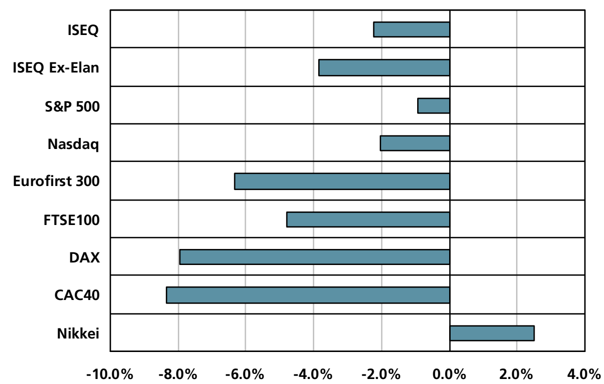
Selected stocks in New York

	Price	Volume	Change (c)	% day	% YTD
Bank of Ireland ADR	6.61	380,005	-0.20	-2.9	-13.7
Elan Corp	6.97	1,188,056	-0.18	-2.5	6.9
ICON	23.96	242,478	-0.43	-1.8	10.3
M&T Bank Corp	71.29	852,971	-1.38	-1.9	6.6
CRH ADR	23.30	403,429	-0.76	-3.2	-14.7
Ryanair ADR	26.28	223,103	-0.23	-0.9	-2.0
AIB ADR	3.20	3,272,087	-0.11	-3.3	-8.8
Trintech	3.53	2,317	0.19	5.7	7.6
Trinity Biotech	4.06	28,984	0.06	1.5	0.2

ISEQ and E300 performance Dec 2008 to date



International markets performance year to date (€)



ISE movers on day

Up	*Price*	*Change on day*	*Actual Change*	*YTD Change*	*Off high*	*52 week low*	*ISE volume*
Providence Resources	4.2	10.5%	0	0.0%	-23.6%	100.0%	0.337
Aminex	14	6.9%	1	33.3%	-17.6%	259.0%	0.005
Total Produce	39	5.4%	2	14.7%	-2.5%	116.7%	0.531
Norkom	156	4.0%	6	6.8%	-1.3%	345.7%	0.037
McInerney Hlds	18	2.9%	1	-7.7%	-28.0%	125.0%	0.071
Allied Irish Banks	112	2.8%	3	-6.7%	-66.8%	314.8%	2.372
Bank of Ireland	122	2.5%	3	-7.9%	-64.3%	876.0%	1.554
Grafton Group	266.4	2.5%	6	-9.4%	-32.7%	120.3%	0.455
Irish Continental Grp	1450	2.1%	30	0.0%	-7.2%	56.2%	0.046
Abbey	477.5	1.6%	8	1.6%	-16.4%	44.7%	0.006
Down	*Price*	*Change on day*	*Actual Change*	*YTD Change*	*Off high*	*52 week low*	*ISE volume*
Ormonde Mining	6.5	-13.3%	-1	8.3%	-27.8%	116.7%	0.101
Petroneft	22.8	-8.8%	-2	-0.9%	-12.3%	150.5%	0.001
Boundary	2.5	-7.4%	0	-34.2%	-75.0%	25.0%	0.080
AGI	5.6	-6.7%	0	-25.3%	-88.3%	0.0%	1.287
Greencore Group	131	-3.0%	-4	-5.8%	-22.3%	92.6%	0.853
Irish Life & Permanent	302.7	-2.4%	-7	-8.3%	-48.7%	380.5%	0.575
FBD Holdings	585	-2.3%	-14	-15.2%	-31.2%	5.8%	0.049
Indep. News & Media	9.8	-2.0%	0	-24.6%	-54.8%	55.6%	2.558
ICON	1773	-1.7%	-31	12.6%	-7.8%	69.0%	0.001
TVC Holdings	58	-1.7%	-1	-6.5%	-12.1%	65.7%	0.018

ISE movers on week

Up	*Price*	*Change on week*	*Actual Change*	*YTD Change*	*Off high*	*52 week low*	*ISE volume*
Ormonde Mining	6.5	30.0%	2	8.3%	-27.8%	116.7%	1.858
CPL Resources	237	8.7%	19	16.2%	-1.3%	178.8%	0.354
Siteserv	7	7.7%	1	7.7%	-50.0%	75.0%	0.370
First Derivatives	280	7.7%	20	9.8%	-17.6%	100.0%	0.001
Worldspreads	73	5.8%	4	0.0%	-14.1%	14.1%	0.000
Providence Resources	4.2	5.0%	0	0.0%	-23.6%	100.0%	2.070
Fyffes	46	4.5%	2	0.0%	-6.1%	178.8%	1.468
ICON	1773	4.3%	73	12.6%	-7.8%	69.0%	0.006
Prime Active Capital	26	4.0%	1	4.0%	-1.9%	271.4%	0.221
Dragon Oil	493	3.8%	18	13.1%	-5.5%	244.8%	0.527
Down	*Price*	*Change on week*	*Actual Change*	*YTD Change*	*Off high*	*52 week low*	*ISE volume*
AGI	5.6	-20.0%	-1	-25.3%	-88.3%	0.0%	1.729
Ovoca Gold	19	-15.6%	-4	-5.0%	-45.7%	90.0%	0.008
Readymix	19	-9.5%	-2	6.7%	-29.6%	72.7%	0.050
Zamano	19	-9.5%	-2	5.6%	-38.7%	52.0%	0.000
Kenmare	24.6	-8.6%	-2	11.8%	-29.7%	207.5%	0.080
Aminex	14	-8.5%	-1	33.3%	-17.6%	259.0%	0.007
Allied Irish Banks	112	-8.2%	-10	-6.7%	-66.8%	314.8%	14.195
C&C	267	-7.4%	-21	-11.3%	-16.6%	233.8%	0.354
Smurfit Kappa	640	-7.2%	-49	3.2%	-8.4%	451.7%	3.302
Petroneft	22.8	-6.9%	-2	-0.9%	-12.3%	150.5%	0.104

Important disclosures

Analyst certification

Each research analyst primarily responsible for the content of this research report certifies that : (1) the views expressed in this research report accurately reflect his or her personal views about any or all of the subject securities or issuers referred to in this report 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 in this report.

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Davy ratings are indicators of the expected performance of the stock relative to its sector index (FTSE E300) over the next 12 months. At times, the performance might fall outside the general ranges stated below due to near-term events, market conditions, stock volatility or – in some cases – company-specific issues. Research reports and ratings should not be relied upon as individual investment advice. As always, an investor's decision to buy or sell a security must depend on individual circumstances, including existing holdings, time horizons and risk tolerance.

Our ratings are based on the following parameters:

Outperform: Outperforms the relevant E300 sector by 10% or more over the next 12 months.

Neutral: Performs in-line with the relevant E300 sector (+/-10%) over the next 12 months.

Underperform: Underperforms the relevant E300 sector by 10% or more over the next 12 months.

Under Review: Rating is actively under review.

Suspended: Rating is suspended until further notice.

Restricted: The rating has been removed in accordance with Davy policy and/or applicable law and regulations where Davy is engaged in an investment banking transaction and in certain other circumstances.

Distribution of ratings/investment banking relationships

			Investment banking services/Past 12 months	
Rating	*Count*	*Percent*	*Count*	*Percent*
Outperform	45	55	25	64
Neutral	28	34	10	25
Underperform	5	6	1	2
Under Review	1	1	1	2
Suspended	0	0	0	0
Restricted	2	2	2	5

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