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Davy Research

19 March 2010

Morning Equity Briefing

Starting Points

Links to Starting Points data section

International equity market changes
European and US market sectors
Selected stocks in New York
Bond yields and money rates
YTD: ISEQ, E300, major international indexes
ISE movers on the day
ISE movers on the week

Key market changes

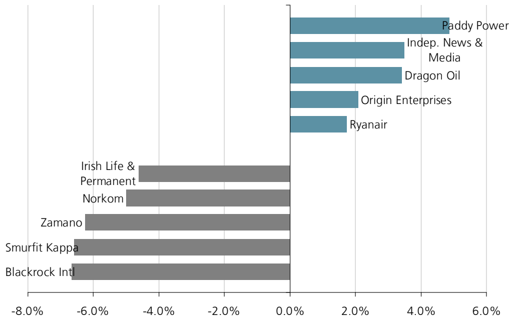
ISEQ	3104.0	↓	-0.6%
FTSE 100	5642.6	-	0.0%
FTSE E300	1069.7	↓	-0.1%
NASDAQ	2391.3	↑	0.1%
DJIA	10779.2	↑	0.4%
S&P 500	1165.8	-	0.0%
Hang Seng	21288.3	↓	-0.2%
Nikkei 225	10824.7	↑	0.8%

Forex and oil changes

Brent oil ($)	80.5	↓	-54
$/€	1.3616		
£/€	0.8942		
$/£	1.5221		

ISE movers

12	↑	25	↓	19	-



Latest Davy Research

British Airways/Iberia merger - Consolidation, restructuring and early cycle stocks will drive returns; we value merged entity at over £6.3bn or £3.10 per share

IFG Group - Transformational deal creates number-one player in UK SIPP market

ARYZTA - Strong financial performance in a difficult revenue environment

Davy on Construction - March 15th 2010

Geberit - Strong end to the year, but management remains cautious on 2010 prospects; forecasts unchanged

Market Comment

Renewed concerns over Greece weigh on markets Equity markets gave up some of their recent gains yesterday (March 18th), and sovereign bond yields for peripheral Eurozone countries came under pressure as doubts about EU support for Greece created anxiety in the markets. Greek CDS increased by 26bps to 313bps and its ten-year bond yield increased by 17bps to 626bps. more

Today in Starting Points

Smurfit Kappa Group Increasing containerboard prices by €60/tonne from April 1st; market does not appear to believe that it can convert this to higher box prices more

Banks NAMA issues first loan acquisition schedules more

Wolseley plc Interim results preview more

Airlines & Other Transport British Airways/Iberia merger: consolidation, restructuring and early cycle stocks will drive returns; we value merged entity at over £6.3bn or £3.10 per share more

IFG Group Transformational deal creates number-one player in UK SIPP market more

Foods US CPI for bakery products down 1.1% year-on-year in February more

Airlines & Other Transport Air Berlin reports improved results more

Results and events

	Prev EPS	*Fcast EPS*
Monday March 22nd		
Wolseley interim results	45.6	23.4
Tuesday March 23rd		
Irish Continental Group FY results	147.1	83.0
UTV Media FY results	18.0	11.9
Buzzi Unicem FY results	183.2	80.9
Wednesday March 24th		
Independent News & Media FY results	7.9	3.2
Wienerberger FY results	162.3	-7.4
Bellway interim results		
Thursday March 25th		
Carlsberg - AGM - Forum Copenhagen, Julius Thomsens Plads 1, Frederiksberg, Denmark - 16.30		
Friday March 26th		
Carlsberg - ex-dividend - regular cash - 3.50DKK		
Monday March 29th		
Kenmare - EGM - The Westbury Hotel, Grafton Street, Dublin 2 - 11.00		

Market Comment

Renewed concerns over Greece weigh on markets

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Equity markets gave up some of their recent gains yesterday (March 18th), and sovereign bond yields for peripheral Eurozone countries came under pressure as doubts about EU support for Greece created anxiety in the markets. Greek CDS increased by 26bps to 313bps and its ten-year bond yield increased by 17bps to 626bps.

Opposition to firm support for Greece from Germany placed further pressure on Greece to fix its budget deficit, with the German Chancellor yesterday ruling out "overly hasty" aid pledges. This was despite the fact that the German Finance Minister earlier this week endorsed a European solution. In turn, the Greek Prime Minister set a one-week deadline for the European Union to outline its support and suggested that Greece may seek support from the IMF. The Prime Minister noted that Greece is in effect now operating under an IMF-style programme but without the benefits of its funding. However, Greece has not yet asked for any money and the hope is that visible EU support in itself would force down market rates, which are over twice that of the German ten-year bund.

Smurfit Kappa Group

SKG ID

Increasing containerboard prices by €60/tonne from April 1st; market does not appear to believe that it can convert this to higher box prices

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Company summary and analysis

Price **567c** Rating: **Outperform** Issued: **30/06/09**

Smurfit Kappa Group (SKG) became the latest to announce a €60/tonne price increase for recycled containerboard from April 1st in response to the recent spike in OCC prices. This is the third increase in seven months and, if successfully implemented, containerboard prices will have effectively doubled since last August.

In previous cycles, this would have been viewed very positively. On this occasion, however, the market does not appear to believe that higher containerboard prices can be converted into higher corrugated box prices.

This is evidenced by the fact that Mondi, which has traditionally traded at a similar multiple to SKG, now trades at over a 20% premium having outperformed SKG by almost 40% over the past month.

Mondi is a net seller of over two-thirds of its containerboard production, while SKG is almost full integrated. SKG must recover higher OCC costs through higher box prices, while Mondi recovers them through higher containerboard prices.

We do not believe there is any reason why box prices should behave any differently this cycle. Thus while SKG may experience margin pressure for longer than the pure paper producers, the longer-term positive investment thesis remains intact.

On a less positive note, SAICA moved a step further in the development of its 400,000-tonne recycled containerboard plant in the UK. Metso announced that it has received the order for the machinery for the plant, which is set to come on stream in 2012.

We believe the recent weakness in SKG's share price presents a very attractive entry point for investors with a slightly longer investment horizon. We reiterate our 1000c price target.

Banks

NAMA issues first loan acquisition schedules

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Sector valuations

Reports suggest that Bank of Ireland (BKIR) and Irish Nationwide Building Society received their first acquisition schedules from NAMA on March 18th detailing their exposures to the top ten borrowers that will be acquired by the agency and at what price. EBS will apparently get its schedule today, with Allied Irish Banks (ALBK) and Anglo getting theirs in the coming days in time for the first tranche of loans to transfer to NAMA, scheduled before the end of the month. This will provide an early read on potential haircuts, a critical variable in assessing capital requirements.

In an interview in the *Irish Times*, the Irish Financial Regulator is quoted as saying that Irish banks should be recapitalised 'as swiftly as practicable', but that 'transitional arrangements' will be required to bring their capital levels into line with new bank rules (Basel 111). The cost of a 'big bang' recapitalisation to instil market confidence in the banks is described as 'manageable for the Government' while there would have to be 'transitional arrangements' for the banks to reach the 'end destination' for capital thresholds to be set under the new capital rules. The Regulator is assessing potential losses on the non-NAMA loan books under likely and stressed scenarios, both of which would be taken into account in the recapitalisation exercise. 'There will be a Regulator-Central Bank statement and a Government statement in due course,' which will reveal 'the specific target capital level and the amount of time that we are going to let the banks have' to get there.

We have modelled for 6% core equity at the trough, which drives our gross (before recent debt management initiatives and shares issued by BKIR to pay the government preference dividend) capital requirements of €4.1bn for ALBK and €2.2bn for BKIR.

Wolseley plc

WOS LN

Interim results preview

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Company summary and analysis

Price **1625p** Rating: **Underperform** Issued: **30/06/09**

The Wolseley share price has gained over 30% year-to-date and has outperformed the E300 Building Materials index by a similar amount. The stock has clearly enjoyed the tail wind provided by what could be termed "less bad news". The impetus of a fresh management team, the decision to exit Ireland and eliminate a loss-making drag on the business and a surprise positive earnings upgrade have all helped sentiment towards the stock.

It may be the case that this momentum continues for a while longer. However, the stock is trading at roughly 60% above its traditional rating compared to the E300 Building Materials sector. While it is argued that Wolseley has more ground to make up than most, we believe a smooth recovery in earnings looks to be already priced in. This concerns us, particularly in the context of the group's non-residential exposure.

Meanwhile, Wolseley will come back into focus with the posting of interim results to end-January on March 22nd (and may announce further business disposals). Our expectation is that the underlying result will be consistent with what Wolseley outlined in its Q1 trading update. At that stage, Wolseley indicated that its revenues fell 13% year-on-year (yoy) in Q1 with underlying trading profits down 41%.

On the assumption that this trend broadly continued in Q2, we expect Wolseley will report a H1 revenue decline of circa 14% to £6.4bn with underlying trading profits down 40-45% (£140-145m).

In relation to the Q1 divisional performance, Wolseley revealed that, on a constant currency basis, its North American profits fell 49% (with Ferguson's underlying trading profits down 47%). In Europe, constant currency trading profits fell 30% in Q1, although there was contrasting fortunes in the UK and Ireland (+17% underlying) and France (trading loss of £9m).

For H1 overall, we are forecasting that North American profits will fall by over 50% but that, depending on the reclassification of non-recurring items, there will be a much lower rate of decline in European trading profits.

One other area of interest is Wolseley's financial position at end-H1. While not a structural concern any longer, the group's net debt rose £264m in Q1. This was attributed to the seasonality of working capital.

Airlines & Other Transport

British Airways/Iberia merger: consolidation, restructuring and early cycle stocks will drive returns; we value merged entity at over £6.3bn or £3.10 per share

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Sector valuations

The imminent signing of the BA-Iberia merger agreement and the likely final decision on antitrust immunity have led us to examine the merged entity from a valuation perspective. We value the listed entity at over £6.3bn or £3.10 per share. We continue to see 10x earnings and 6x EBITDAR as an appropriate valuation at mid-cycle.

BA is regarded as an extremely early cyclical stock and should be in a better position coming out of this downturn than it was in entering it. It is moving closer to its aim of creating a premium global airline. Despite the risks surrounding both macro and company-specific issues, we believe BA is in a better strategic place now than it has been for over a decade. Although Spain is recovering only slowly, Iberia will gain from its unique Latin American franchise.

Upcoming catalysts include a merger agreement at the end of March, antitrust approval in the coming months, a BA investor day on May 21st and continuing signs of improvement in transatlantic premium bookings. Resolution of BA's pension issue by June 30th should at least reduce uncertainty, and we would consider current cabin crew strikes as evidence of management's focus on cost productivity.

For further detail, see our research report issued this morning.

IFG Group

IFP ID

Transformational deal creates number-one player in UK SIPP market

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Company summary and analysis

Price **135c** Rating: **Outperform** Issued: **30/06/09**

An equity raise of €51m, or 50% of the company's pre-announcement market cap, is a statement of strength that has caused investors to take notice. IFG will hold a 23% share of existing UK SIPP business following the consolidation of the James Hay acquisition (18%) and its existing IPS business (5%). The SIPP industry is a high growth sector that grew by an estimated high-teens percentage in 2009. IFG will benefit from this growth through the reinvigoration of James Hay's distribution network of 1,200 IFAs.

The deal is immediately earnings enhancing as all new business will be added to the IPS platform on a 45% margin (compared with the low 15% margin for James Hay's legacy business). We estimate that cost savings of €8m per year are achievable from efficiency gains in management of the James Hay back book. We are upgrading our 2011 EPS forecast by 3% to 18.5c.

IFG's net debt to EBITDA is set to fall to 1.2x by end-2010 (versus 1.8x pre-deal) and to zero in 2013. A surplus equity raise of €4.9m and an improved debt profile are supportive of further value-enhancing acquisitions.

For further detail, see our research report issued this morning.

Foods

US CPI for bakery products down 1.1% year-on-year in February

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Sector valuations

February's CPI data for the US corroborate corporate announcements and market research reports which reveal the bakery goods sector to be very price competitive. Coupons, promotions and lower prices are key instruments driving consumption. Year-on-year (yoy) for February, the CPI for bakery products declined by 1.1%.

For bread, the yoy decline in February was 3.6%. For bread other than white, the decline was 2.6% yoy.

The producer price index for February showed a yoy decline of 0.3% in bakery product manufacturing prices.

Airlines & Other Transport

Air Berlin reports improved results

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Sector valuations

Air Berlin has preannounced its full-year results (due on March 25th). The numbers look ahead of consensus with EBIT of €28.5m (versus consensus of €24.8m), revenue of €3.24bn (versus consensus of €3.3bn) and net result of -€9.5m (versus -€12m consensus). No outlook was given.

Air Berlin’s total revenue in the financial year 2009 decreased by 4.4% from €3.39bn to €3.24bn (the application of IFRIC 13 led to a reduction of €12.2m). At the same time, due to its efficiency programme, Air Berlin was able to reduce the overall operating expenses at EBITDAR level by 6.2 % to €2.78bn (€2.96bn in 2008). EBITDAR therefore increased by 8.4% to €503.7m in 2009 from €464.6m in the previous year.

The result from operating activities (EBIT) reached €28.5m in 2009 from €2.0m in 2008 (the application of IFRIC 13 led to a reduction of €12.2m). The net loss for the reporting year was -€9.5m compared with -€83.5m in the previous year.

Air Berlin will publish detailed information on the full-year results as well as the complete annual report as of December 31st 2009 on March 25th 2010 starting from 07:30 (CET) at ir.airberlin.com.

International equity markets

	Index	Change	% day		% YTD	Off all time high	2010 P/E
S&P 500	1165.8	-0.4	-0.0	↓	4.5	-25.5	14.9
Dow Jones Industrial Average	10779.2	45.5	0.4	↑	3.4	-23.9	13.4
NASDAQ	2391.3	2.2	0.1	↑	5.4	-52.7	18.5
Hong Kong	21288.3	-42.4	-0.2	↓	-2.7	-32.7	11.0
Japan	10824.7	80.7	0.8	↑	2.6	-72.2	19.5
FTSE 100	5642.6	-2.0	-0.0	↓	4.2	-18.6	12.5
FTSE Eurobloc 100	906.0	-4.7	-0.5	↓	-1.0	-41.6	12.4
FTSE Eurofirst 300	1069.7	-1.2	-0.1	↓	2.3	-37.3	13.0
ISEQ	3104.0	-18.7	-0.6	↓	4.3	-68.9	

European market sectors (€)

	Index	% day		% YTD
FTSE E300 Banks	586.8	-1.3	↓	0.1
FTSE E300 Construction	1492.4	-0.3	↓	-1.0
FTSE E300 Foods	1463.7	0.1	↑	6.0
FTSE E300 Media	604.8	0.0		1.6
FTSE E300 Pharma	1013.0	1.3	↑	2.9
FTSE E300 Transport	748.4	-0.1	↓	1.2

US market sectors ($)

	Index	% day		% YTD
S&P 500 Banks	146.7	-1.1	↓	17.0
S&P 500 Const. Mats	98.0	-2.5	↓	-8.1
S&P 500 Food Prod.	278.8	0.2	↑	6.7
S&P 500 Media	172.2	0.2	↑	5.3
S&P 500 Pharma & Bio.	348.0	0.4	↑	2.5
S&P 500 Transport	283.0	1.7	↑	11.1

Bond yields

	Yield	Basis Points
Ireland 10 year	4.34	8
German 10 year	3.13	2
UK 10 year	3.98	-2
US 10 year	3.68	4

Money rates

	Rate	Change %
Euro 3 month	0.64	0
UK 3 month	0.65	0
US 3 month	0.27	0

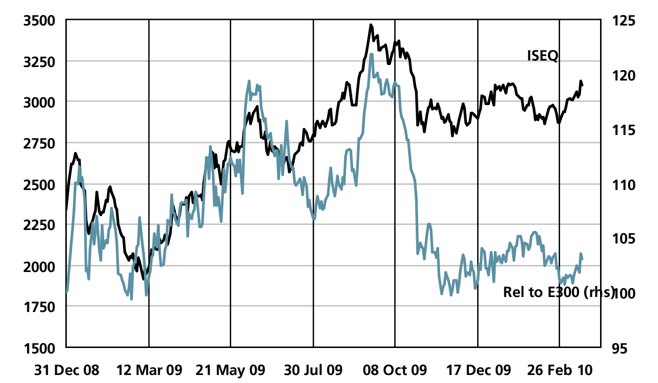
Forex rates

€/ $	1.3616
€/ £	0.8942
£/ $	1.5221

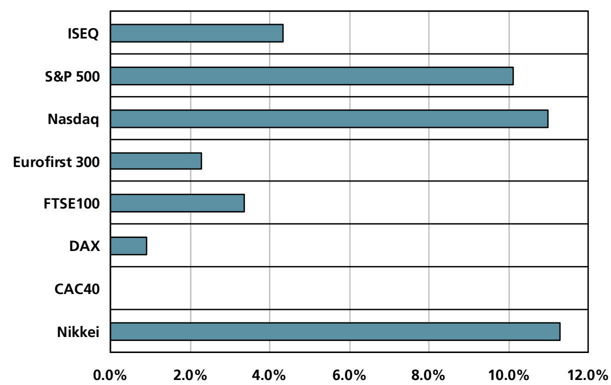
Selected stocks in New York

	Price	Volume	Change (c)	% day		% YTD
Bank of Ireland ADR	6.99	1,397,752	-0.27	-3.7	↓	-8.7
Elan Corp	7.35	1,814,401	-0.11	-1.5	↓	12.7
ICON	25.32	409,170	0.01	0.0		16.5
M&T Bank Corp	84.00	1,273,678	1.21	1.5	↑	25.6
CRH ADR	25.59	172,476	-0.09	-0.4	↓	-6.4
Ryanair ADR	26.72	651,267	0.24	0.9	↑	-0.3
AIB ADR	4.12	3,364,163	-0.17	-4.0	↓	17.4
Trintech	4.50	5,238	0.14	3.2	↑	37.2
Trinity Biotech	5.10	260,770	-0.05	-1.0	↓	25.9

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*
Paddy Power	2480	4.9%	115	0.2%	-3.7%	108.4%	0.192
Indep. News & Media	8.9	3.5%	0	-31.5%	-59.0%	29.0%	3.473
Dragon Oil	541.9	3.4%	18	24.3%	0.0%	189.0%	0.055
Origin Enterprises	245	2.1%	5	15.0%	-15.5%	87.0%	0.000
Ryanair	350	1.7%	6	6.2%	-7.2%	27.9%	3.105
TVC Holdings	60	1.7%	1	-3.2%	-9.1%	50.0%	0.000
ARYZTA	2960	1.0%	31	15.2%	0.0%	79.4%	0.033
Readymix	20.2	1.0%	0	13.5%	-25.2%	44.3%	0.017
Glanbia	252	0.9%	2	-12.8%	-14.6%	24.1%	0.930
Aer Lingus	59.5	0.8%	1	-7.0%	-25.6%	32.2%	0.777

Down	*Price*	*Change on day*	*Actual Change*	*YTD Change*	*Off high*	*52 week low*	*ISE volume*
Blackrock Intl	4.2	-6.7%	0	-6.7%	-53.3%	31.3%	0.068
Smurfit Kappa	567	-6.6%	-40	-8.5%	-18.9%	351.8%	1.941
Zamano	15	-6.3%	-1	-16.7%	-51.6%	20.0%	0.010
Norkom	152	-5.0%	-8	4.1%	-6.2%	174.9%	0.005
Irish Life & Permanent	310	-4.6%	-15	-6.1%	-47.4%	244.4%	0.717
Kingspan Group	600	-4.4%	-28	0.0%	-14.3%	130.8%	0.121
Allied Irish Banks	153	-3.7%	-6	27.5%	-54.6%	176.7%	3.944
Ormonde Mining	5.3	-3.6%	0	-11.7%	-41.1%	76.7%	0.017
FBD Holdings	680.6	-2.9%	-20	-1.4%	-18.0%	21.5%	0.113
Grafton Group	317	-2.7%	-9	7.8%	-19.9%	104.5%	0.198

ISE movers on week

Up	*Price*	*Change on week*	*Actual Change*	*YTD Change*	*Off high*	*52 week low*	*ISE volume*
AGI	6	20.0%	1	-20.0%	-87.5%	20.0%	0.110
Origin Enterprises	245	14.0%	30	15.0%	-15.5%	87.0%	0.566
First Derivatives	300	13.2%	35	17.7%	-11.8%	114.3%	0.002
TVC Holdings	60	13.2%	7	-3.2%	-9.1%	50.0%	0.046
Kenmare	15.7	12.1%	2	-18.8%	-49.0%	109.3%	0.153
Bank of Ireland	130	10.9%	13	-1.9%	-62.0%	219.4%	14.118
Allied Irish Banks	153	9.3%	13	27.5%	-54.6%	176.7%	22.125
Readymix	20.2	9.2%	2	13.5%	-25.2%	44.3%	0.824
FBD Holdings	680.6	8.5%	53	-1.4%	-18.0%	21.5%	1.204
Paddy Power	2480	8.1%	186	0.2%	-3.7%	108.4%	0.968

Down	*Price*	*Change on week*	*Actual Change*	*YTD Change*	*Off high*	*52 week low*	*ISE volume*
REO	1550	-13.5%	-275	-18.8%	-50.8%	106.7%	0.339
Zamano	15	-11.8%	-2	-16.7%	-51.6%	20.0%	0.000
Siteserv	5	-10.7%	-1	-23.1%	-64.3%	25.0%	8.437
Smurfit Kappa	567	-10.0%	-63	-8.5%	-18.9%	351.8%	4.138
Prime Active Capital	23	-8.0%	-2	-8.0%	-13.2%	228.6%	0.006
McInerney Hlds	16.8	-6.7%	-1	-13.8%	-32.8%	110.0%	0.682
Total Produce	38.5	-3.8%	-2	13.2%	-3.8%	45.3%	3.889
Ormonde Mining	5.3	-3.6%	0	-11.7%	-41.1%	76.7%	0.198
Irish Life & Permanent	310	-2.8%	-9	-6.1%	-47.4%	244.4%	3.513
Kerry Group	2325	-1.8%	-42	13.0%	-5.0%	68.5%	0.560

Important disclosures

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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.

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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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