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Davy Research

12 March 2010

Morning Equity Briefing

Starting Points

Links to Starting Points data section

Key market changes

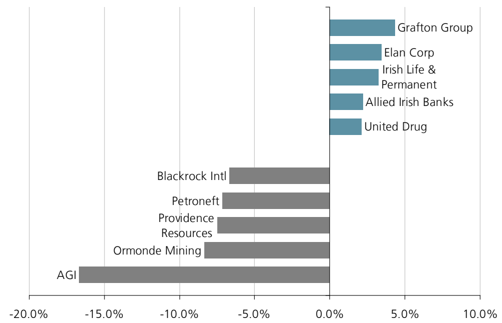
ISEQ	3023.7	↑	0.5%
FTSE 100	5617.3	↓	-0.4%
FTSE E300	1056.0	↓	-0.3%
NASDAQ	2368.5	↑	0.4%
DJIA	10611.8	↑	0.4%
S&P 500	1150.2	↑	0.4%
Hang Seng	21211.4	↓	-0.1%
Nikkei 225	10751.3	↑	0.8%

Forex and oil changes

Brent oil ($)	80.0	↑	6
$/€	1.3682		
£/€	0.9074		
$/£	1.5075		

ISE movers

20	↑	19	↓	17	-



Latest Davy Research

Glanbia - In talks to dispose of its Irish businesses; FY2009 results in-line

Tullow Oil - No real surprises as group gears up to deliver production profile

Tate & Lyle - Positive trading tailwinds in near term but still facing structural challenges

Geberit - Full-year results to reveal strong end to the year; outlook comments awaited

Bovis Homes - Full year results slightly behind; strength of balance sheet and order book reinforces 'outperform' rating

Market Comment

US household net worth rises again, but at a slower pace US household net worth rose for a third straight quarter in Q4 2009, albeit at a slower pace than in Q2 or Q3. Net worth increased by $683bn compared with Q3, driven mainly by further gains in financial assets. Debts were not repaid at a rapid pace. House prices seem to be stabilising, and net equity in real estate rose as a result. A combination of further de-leveraging, gains in financial assets and eventually house price inflation will boost net worth in the year ahead. In turn, consumer spending will benefit. more

Today in Starting Points

SIG plc 2009 results due March 18th; comments on prospects awaited more

Allied Irish Banks Successful issuance of €3bn of senior guaranteed funding more

Banks Completion of regulator's stress tests over coming weeks to determine capital requirement target more

Elan Corp (USc) Disposes of Prialt more

Smurfit Kappa Group Smaller containerboard producers cut production as OCC prices bite more

Tullow Oil (Stg) High prices for Atlantic margin oil more

Dragon Oil (USc) Two wells brought on-stream; discount to Brent should remain narrow more

Trinity Biotech (USc) Back to the future: Trinity sells its coagulation division for $90m more

Irish economy Consumer prices, February: Prices rise thanks to typical seasonal factors; deflation will continue over the full year more

Results and events

	Prev EPS	*Fcast EPS*
Monday March 15th		
ARYZTA interim results		
Thursday March 18th		
SIG (Stg) FY results	58.7	9.0
HeidelbergCement FY results	412.3	406.1
Monday March 22nd		
Wolseley interim results		

Market Comment

US household net worth rises again, but at a slower pace

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US household net worth rose for a third straight quarter in Q4 2009, albeit at a slower pace than in Q2 or Q3. Net worth increased by $683bn compared with Q3, driven mainly by further gains in financial assets. Debts were not repaid at a rapid pace. House prices seem to be stabilising, and net equity in real estate rose as a result. A combination of further de-leveraging, gains in financial assets and eventually house price inflation will boost net worth in the year ahead. In turn, consumer spending will benefit.

Household financial assets rose, but the surge was nothing like Q3. In Q4, financial assets augmented by $677bn. That compares with a near $2.5trn rise in Q3. Markets did not reflate to quite the same extent last quarter. Yet all assets are now rising in value. Household owners' equity in real estate increased by $91bn. That fell short of the $420bn jump in Q3, but the gain was welcome. It is interesting to note that households now have 38% equity in their homes on average (as a percentage of the current price). That equates to a 4.5 percentage point lift from the trough, but is some distance from the 60% buffer back in 2005. Funnily enough, US household net worth is now back to Q1 2005 levels.

One of the key differences between the US and Ireland is that household net worth is recovering over there, but not here. That is important because it is a key influence on savings behaviour. The US household savings ratio stabilised, as net worth began to improve from Q2 of last year. But, in Ireland, the higher concentration of net assets in property means that net worth is probably still in decline (data are not available). The damage done to net worth was one of the three key factors that drove the Irish savings ratio up by 10 percentage points between 2007 and 2009, along with rapidly rising unemployment and perceived loss of control of the public finances. The last two factors are heading in the right direction now, but further erosion of net worth in the next year will mean that when the Irish savings ratio soon peaks, it will remain high thereafter.

SIG plc

SHI LN

2009 results due March 18th; comments on prospects awaited

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Company summary and analysis

Price **122p** Rating: **Outperform** Issued: **30/06/09**

SIG provided considerable detail in its January 13th trading update; hence results for 2009 on March 18th should be uneventful. Detail provided on January 13th included estimated revenues in 2009, including the like-for-like sales result, underlying pre-tax profit guidance and forecast end-year net debt.

We adjusted our forecasts following the trading update and our 2009 estimates are consistent with SIG's guidance. Figures of note include:

- Forecast revenues of £2.744bn, as per SIG's guidance;
- Pre-tax profits before amortisation and exceptional items of £60.6m — SIG has suggested a result of 'not less' than £60m; and
- End-2009 net debt of £263m — SIG has flagged net debt of c.£260m — with net debt/EBITDA estimated at 2.1x.

Our forecasts imply that SIG's revenues stabilised in the second-half of 2009 (up 4% on H1) as the rate of like-for-like sales decline moderated (from -17.5% in H1 to -13.6% in H2). The forecasts also suggest an improvement in SIG's trading margin in H2 to 3.7% (H2 2008: 5.9%), having fallen as low as 2.9% in the first-half. Overall, our estimates point to an 85% drop in earnings in 2009, also reflecting the dilutive impact of the equity-raising.

With the 2009 results already flagged to a significant extent, results day attention will focus on management's comments. Areas of interest will be its most recent thoughts on cost savings (SIG is now in implementation mode) and trading prospects, including the impact the recent bad weather had on trading (we suspect that SIG may be more affected than others due to its exposure to product categories such as roofing).

In mid-January, management said that a flat revenue result in 2010 was possible, although we are modelling a 4% decline. Our other core current forecast assumption is for a very modest (20bps) improvement in SIG's trading margin, reflecting the full impact of savings made last year. Evidence that such an outcome is on track should help the ongoing rehabilitation of the SIG story. The stock is cheap on the basis of a realisation of our medium-term EPS recovery scenario (20p by 2013).

Allied Irish Banks

ALBK ID

Successful issuance of €3bn of senior guaranteed funding

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Company summary and analysis

Price **140c** Rating: **Outperform** Issued: **11/09/09** *Previous: Neutral* *Issued: 30/06/09*

ALBK yesterday (March 11th) successfully issued €3bn of senior guaranteed funding, split between a two-year floating issue priced at 95bps over mid-swaps and a €2bn five-year fixed-rate priced at 155bps over mid-swaps. Both issuances were well received with the floating issuance 1.2x oversubscribed and the fixed rate 1.65x oversubscribed.

The price of the fixed-rate issuance compares with the bank's €1.5bn three-year fixed-rate issuance back in January priced at 130bps over. However, market credit conditions deteriorated significantly in February as Greece's fiscal concerns came to the fore. Since the end of February, credit conditions have improved. ALBK's five-year CDS finished yesterday at 213bps, compared with 258bps back in early February. The cost of the issuance compares favourably with the 175bps spread over mid-swaps paid by BKIR for a two-year dollar issuance back in February and the 165bps spread over mid-swaps paid by IPM for a five-year issuance last week. The Irish government's spread over German bunds for 10-year bond yields also continues to tighten, and is now at 128bps over — the lowest since end-2008. Also yesterday, Abbey became the second UK lender in a week to issue under a covered bond program which suggests further easing in credit conditions.

Separately, we have done further analysis on ALBK's 'renegotiated loans' balances as detailed in its 20F filing issued this week. The balance of €4.5bn or 3.4% gross loans appears high and raises concerns that the renegotiated loans balance hides additional stress in the book. However, as the 20F notes, any renegotiation of loans on concessionary rates or uncommercial terms would not prevent such loans from being classified as impaired. Instead, the balance points to successful arrears management practices that reduced the bank's 'past due but not impaired' balance for 1-30 days from €6.1bn at the end of 2008 to €3.75bn in the year. The renegotiated loans figure compares with a figure of 5.8% for KBC Ireland — whose book is predominantly residential mortgages — suggesting that such a figure is appropriate at this stage in the credit cycle as banks seek to work with customers through extension of loan terms, move rates from fixed to variable or allow customers to move to interest-only only for a period.

Banks

Completion of regulator's stress tests over coming weeks to determine capital requirement target

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Sector valuations

In a public address yesterday (March 11th), the financial regulator said with regard to strengthening the banking system that the immediate priority is to complete stress tests on the banks' post-NAMA exposures over the coming weeks. This will help establish a prudent target capital requirement that is informed by emerging best practice internationally.

Significantly, the speech notes the medium-term priorities for banking regulation, many of which will be set internationally, such as the Basel proposal changes to capital and liquidity requirements. According to the regulator, a robust recapitalisation will ensure that the Irish banks will start this process in a stronger position and with a better funding outlook. This suggests that target capital levels, the composition of capital and liquidity requirements will be improved over the medium term and will not result in overly onerous short-term requirements.

Elan Corp (USc)

ELN US

Disposes of Prialt

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Company summary and analysis

Price **$7.44** Rating: **Outperform** Issued: **30/06/09**

Elan has disposed of its remaining rights and the sales force associated with pain drug Prialt to fellow Ireland-based company Azur Pharma. The transaction comprises all rights ex-Europe (which Eisai previously acquired) and a 34-person speciality pharma sales force.

Prialt generated $16.5m in net revenues last year, flat year-on-year, and had not met the initial expectations at launch in 2005. The transaction is expected to close in Q2 and will be EBITDA-neutral for Elan. It also means that Tysabri will soon be Elan’s only marketed product.

No financial details on the deal were disclosed. Azur says it will be funded from its existing cash resources, which stood at over $40m at the end of last year. However, it is worth noting that in Elan's Q4 2009 results only a month ago, it wrote down the carrying value of the intangible asset relating to Prialt to $14.6m. It seems reasonable to us that the consideration may not be too far away from this level.

Smurfit Kappa Group

SKG ID

Smaller containerboard producers cut production as OCC prices bite

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Company summary and analysis

Price **630c** Rating: **Outperform** Issued: **30/06/09**

RISI is reporting that a number of smaller containerboard producers in Central Europe are likely to cut production as OCC supplies become harder to source.

As outlined earlier this week, OCC prices have spiked due to a combination of poor weather, which has impacted recycled paper collection rates, rising demand from Asian producers and stock-building by ProGroup in advance of the opening of its new 650,000 tonne machine in Q2.

Delivered OCC prices now stand at close to €130/tonne, up over €30/tonne since the start of the year. This is well above the €100/tonne peak reached in the last two cycles but still well below the €160/tonne reached in the 1995 cycle.

For larger producers, the supply problems are not as severe as most, including SKG, have their own collection systems. What is difficult, however, is the margin compression associated with such a spike in prices.

While we believe that the current move in prices is temporary and will reverse when collection rates return to normal and Asian demand subsides, as it typically tends to do at this time of year, if it is sustained for a more prolonged period, then further increases in containerboard prices are likely.

In this environment, integrated players such as SKG may suffer further margin compression in Q2 as the company attempts to push through higher box prices.

Tullow Oil (Stg)

TLW LN

High prices for Atlantic margin oil

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Company summary and analysis

Price **1278p** Rating: **Outperform** Issued: **30/06/09**

Devon Energy has sold its international oil and gas businesses to BP for $7.0bn. These assets consist of interests in the Gulf of Mexico, offshore Brazil, the Caspian and China. Devon's 2008 annual report indicated that it had year-end reserves of 230m barrels of oil equivalent booked in these areas. A straight see-through suggests that BP is paying $30 per barrel for oil that – certainly offshore Brazil and in the Gulf of Mexico – is not cheap to develop. BP consolidates even further its pre-eminent position in the Gulf of Mexico but also gets involved offshore Brazil – an area it has targeted for some time. Clearly, the unit cost per barrel has to have an element of opportunity cost built in for the Brazilian play.

Based on an $85 per barrel long-run oil price, we value Tullow's Atlantic margin barrels at $14-17 per barrel. If BP's aspirations are factored into the price per barrel it paid for Devon's business units, the headline price of $30 per barrel would no doubt be lower. However, this should give some comfort that the metrics used in our 1498p per share NAV construct for Tullow are based on reasonable assumptions.

Dragon Oil (USc)

DGO ID

Two wells brought on-stream; discount to Brent should remain narrow

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Company summary and analysis

Price **$7.26** Rating: **Neutral** Issued: **14/12/09**

Dragon Oil has brought two new wells on production, with each well flowing at some 2,100 bopd. The initial flow is a bit below expectations but further testing and optimisation of both wells is scheduled for the coming weeks. Furthermore, initial flow rates can be volatile, with wells producing above as well as below the average expected initial flow rate.

One of the more impressive aspects of Dragon’s FY2009 results was its realised oil price which was almost at par with Brent versus a discount of 6% in 2008. The narrow or non-existent discount to Brent may recur in FY2010, especially as we think that Iranian demand for Dragon’s crude has increased.

Oil traders such as Vitol, Glencore and Shell are apparently withdrawing petrol supplies to Iran. This means that Iran will probably look to boost its own petrol production. Iran uses Dragon's crude — through a swap agreement — in its refineries to produce petrol.

Currently, we assume that Dragon’s realised oil price in FY2010 will be at an 8% discount to Brent. If we assume the discount to Brent in FY2010 is zero, this increases our FY2010 EPS forecast by 11.3%, or from 65.3c to 72.7c. For this year, we assume that Dragon will market 90% of its oil through Iran. In 2009 and 2008, the corresponding figures were 90% and 80% respectively.

Trinity Biotech (USc)

TRIB US

Back to the future: Trinity sells its coagulation division for $90m

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Company summary and analysis

Price **$5.74** Rating: **Neutral** Issued: **30/06/09**

Trinity Biotech's FY results were overshadowed by the announcement that it will dispose of its coagulation division to Stago Group for what looks to be an attractive consideration of $90m.

After closing the deal by the end of April 2010, Trinity will receive $67.5m up-front and will then receive two instalments of $11.25m each on the first and second anniversaries of the transaction. The disposal will remove c.40% of Trinity's revenue base; nonetheless, management is guiding that EPS can reach 90-100% of existing levels.

Although the coagulation division, comprising instruments and reagents manufacture, had formed much of the strategic direction of the firm in recent years, it was difficult to ignore the price on offer. The $90m price compares to a c.$52m consideration paid by Trinity for the assets in 2006, and revenues have declined in the interim.

To some extent, this brings Trinity back to where it was in 2005, i.e. infectious diseases, HIV testing, with a growing focus on the point-of-care (POC) market. However, its product scope is now wider (e.g. HbA1c testing in diabetes, potential coagulation POC) and crucially, the balance sheet is transformed. Trinity should have net cash of approximately $40-45m following the deal, with another $22.5m due. Organic growth is the focus for management, though it may now be difficult to ignore acquisition opportunities. Management also confirmed that no other parts of the business are up for sale.

For the record, FY results were better than expected: EBIT of $14.1m was 2% ahead of our $13.8m forecast, and EPS of 56.5c was 7% above forecast (52.6c), driven by a tax credit in the final quarter.

Irish economy

Consumer prices, February: Prices rise thanks to typical seasonal factors; deflation will continue over the full year

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The Consumer Price Index (CPI) rose 0.4% month-on-month (mom) in February. The HICP – a much better guide to underlying price changes – increased 0.2%. Both indices nudged up following the end-of-winter sales at clothing/footwear (+6.8%), furniture and DIY outlets. That followed the typically large mom drop in prices in January (-0.6% for CPI; -0.7% for HICP). But there was plenty of ongoing price deflation in February too: food, alcohol, health (due to administered cuts in drug prices), education and recreation and culture all experienced lower prices versus January. The CPI increased by more than the HICP due to the 3% rise in mortgage interest. It added fully 0.2 percentage points to the CPI, accounting for the 0.4% rise compared with only 0.2% for the HICP.

The rate of deflation for the HICP was 2.4%, exactly the same as in January. Prices will probably fall at more or less the same rate intra-year this year as during 2009. We forecast that the year-on-year rate for the HICP will be 2.2% as of December 2010; that compares with -2.6% in December 2009. Mortgage interest totally distorts the impression of price trends given by the CPI (the HICP has no mortgage component). Annual deflation may be only 0.9% at end-2010 for the CPI. That compares with -5% in December of last year. On the basis of the CPI, it would seem that prices overall will begin to decline much more slowly soon; however, that is not the case, apart from banks pushing up mortgage rates.

International equity markets

	Index	Change	% day	% YTD	Off all time high	2010 P/E
S&P 500	1150.2	4.6	0.4 ↑	3.2	-26.5	14.7
Dow Jones Industrial Average	10611.8	44.5	0.4 ↑	1.8	-25.1	13.1
NASDAQ	2368.5	9.5	0.4 ↑	4.4	-53.2	18.4
Hong Kong	21211.4	-16.8	-0.1 ↓	-3.0	-33.0	11.0
Japan	10751.3	86.4	0.8 ↑	1.9	-72.4	19.4
FTSE 100	5617.3	-23.3	-0.4 ↓	3.8	-18.9	12.4
FTSE Eurobloc 100	900.2	-3.4	-0.4 ↓	-1.6	-41.9	12.3
FTSE Eurofirst 300	1056.0	-2.8	-0.3 ↓	1.0	-38.1	12.9
ISEQ	3023.7	15.0	0.5 ↑	1.6	-69.7	

European market sectors (€)

	Index	% day	% YTD
FTSE E300 Banks	578.4	-0.7 ↓	-1.3
FTSE E300 Construction	1458.7	-0.3 ↓	-3.3
FTSE E300 Foods	1448.5	-0.3 ↓	4.9
FTSE E300 Media	597.8	-0.1 ↓	0.5
FTSE E300 Pharma	1001.3	-0.3 ↓	1.7
FTSE E300 Transport	741.2	-0.8 ↓	0.2

US market sectors ($)

	Index	% day	% YTD
S&P 500 Banks	144.0	1.4 ↑	14.8
S&P 500 Const. Mats	92.0	0.5 ↑	-13.4
S&P 500 Food Prod.	275.7	0.1 ↑	5.5
S&P 500 Media	172.1	0.4 ↑	5.2
S&P 500 Pharma & Bio.	345.0	0.4 ↑	1.5
S&P 500 Transport	274.0	1.3 ↑	7.6

Bond yields

	Yield	Basis Points
Ireland 10 year	4.27	0
German 10 year	3.18	2
UK 10 year	4.15	7
US 10 year	2.73	1

Money rates

	Rate	Change %
Euro 3 month	0.65	0
UK 3 month	0.64	0
US 3 month	0.26	0

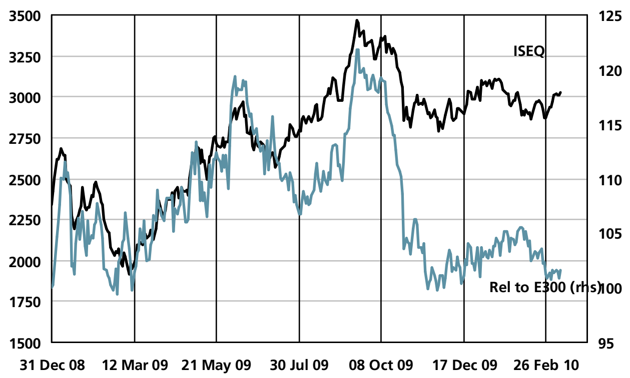
Forex rates

€/ $	1.3682
€/ £	0.9074
£/ $	1.5075

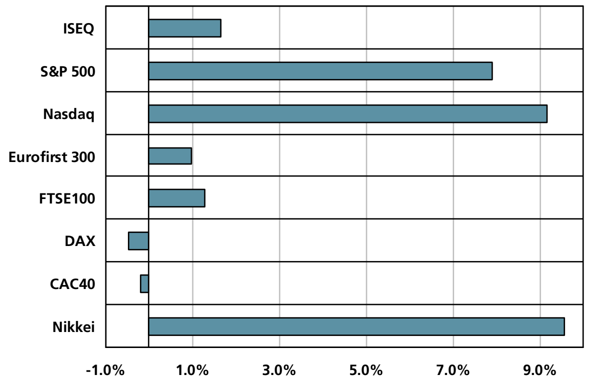
Selected stocks in New York

	Price	Volume	Change (c)	% day	% YTD
Bank of Ireland ADR	6.47	1,063,749	0.15	2.4 ↑	-15.5
Elan Corp	7.44	1,774,903	0.19	2.6 ↑	14.1
ICON	24.06	827,200	0.12	0.5 ↑	10.7
M&T Bank Corp	80.30	490,738	0.74	0.9 ↑	20.0
CRH ADR	24.44	79,067	0.24	1.0 ↑	-10.6
Ryanair ADR	27.05	481,226	0.09	0.3 ↑	0.9
AIB ADR	3.76	3,556,436	0.06	1.6 ↑	7.1
Trintech	4.54	1,475	0.16	3.7 ↑	38.4
Trinity Biotech	5.74	660,600	0.27	4.9 ↑	41.7

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*
Grafton Group	313	4.3%	13	6.5%	-21.0%	117.4%	0.731
Elan Corp	543	3.4%	18	29.3%	-8.0%	58.8%	0.102
Irish Life & Permanent	319	3.2%	10	-3.3%	-45.9%	336.4%	0.833
Allied Irish Banks	140	2.2%	3	16.7%	-58.5%	197.9%	1.024
United Drug	240	2.1%	5	12.7%	-4.0%	84.6%	0.301
FBD Holdings	627.4	2.0%	12	-9.1%	-24.4%	13.5%	0.176
Siteserv	5.6	1.8%	0	-13.8%	-60.0%	40.0%	0.040
McInerney Hlds	18	1.7%	0	-7.7%	-28.0%	125.0%	0.113
Bank of Ireland	117.2	1.2%	1	-11.5%	-65.7%	392.4%	2.411
Greencore Group	131	1.2%	2	-5.8%	-22.3%	89.9%	1.186

Down	*Price*	*Change on day*	*Actual Change*	*YTD Change*	*Off high*	*52 week low*	*ISE volume*
AGI	5	-16.7%	-1	-33.3%	-89.6%	0.0%	0.016
Ormonde Mining	5.5	-8.3%	-1	-8.3%	-38.9%	83.3%	0.045
Providence Resources	3.7	-7.5%	0	-11.9%	-32.7%	54.2%	0.055
Petroneft	26	-7.1%	-2	13.0%	-7.1%	185.7%	0.138
Blackrock Intl	4.2	-6.7%	0	-6.7%	-53.3%	35.5%	0.086
Kenmare	14	-6.7%	-1	-27.6%	-54.5%	86.7%	0.047
Origin Enterprises	215	-4.0%	-9	0.9%	-25.9%	64.1%	0.165
Boundary	2.7	-3.6%	0	-28.9%	-73.0%	35.0%	0.075
Smurfit Kappa	630	-3.1%	-20	1.6%	-9.9%	404.0%	0.794
Indep. News & Media	8.8	-2.2%	0	-32.3%	-59.4%	37.5%	1.326

ISE movers on week

Up	*Price*	*Change on week*	*Actual Change*	*YTD Change*	*Off high*	*52 week low*	*ISE volume*
Boundary	2.7	35.0%	1	-28.9%	-73.0%	35.0%	1.427
Allied Irish Banks	140	12.5%	16	16.7%	-58.5%	197.9%	20.383
Grafton Group	313	9.8%	28	6.5%	-21.0%	117.4%	4.527
FBD Holdings	627.4	9.1%	52	-9.1%	-24.4%	13.5%	0.589
Bank of Ireland	117.2	7.1%	8	-11.5%	-65.7%	392.4%	15.545
Irish Life & Permanent	319	5.6%	17	-3.3%	-45.9%	336.4%	6.143
CRH	1795	5.2%	89	-5.6%	-13.3%	26.0%	9.435
United Drug	240	3.4%	8	12.7%	-4.0%	84.6%	0.953
Datalex	15	3.4%	1	3.4%	-49.8%	11.1%	0.257
Dragon Oil	531	2.9%	15	21.8%	-1.1%	231.9%	0.846

Down	*Price*	*Change on week*	*Actual Change*	*YTD Change*	*Off high*	*52 week low*	*ISE volume*
Kenmare	14	-36.1%	-8	-27.6%	-54.5%	86.7%	1.944
AGI	5	-23.1%	-2	-33.3%	-89.6%	0.0%	0.083
Ormonde Mining	5.5	-21.4%	-2	-8.3%	-38.9%	83.3%	0.357
Blackrock Intl	4.2	-16.0%	-1	-6.7%	-53.3%	35.5%	1.426
Origin Enterprises	215	-8.5%	-20	0.9%	-25.9%	64.1%	0.189
Siteserv	5.6	-8.2%	-1	-13.8%	-60.0%	40.0%	0.289
Ovoca Gold	16.4	-7.3%	-1	-18.0%	-53.1%	31.2%	0.069
Worldspreads	89	-7.3%	-7	21.9%	-7.3%	39.1%	0.000
Karelian Diamond	200	-6.4%	-13	-39.9%	-42.9%	6.4%	6.143
ICON	1758.1	-5.7%	-107	11.6%	-7.2%	67.6%	1.032

Important disclosures

Analyst certification

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Underperform	5	6	1	2
Under Review	1	1	1	2
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