

## Morning Equities News and Views

- **Economic Update** – Ireland's 2014 funding requirement is reduced by €3.5bn
- **easyJet** (GBp 403.80) – BUY – Good Q1 2012 results
- **Ryanair** (€4.01) – BUY – Q3 2012 Preview
- **Glanbia** (€4.83) – BUY – Co-op stake reduction option to fund new processing capacity

## ISEQ Performance Snapshot

Best Performers	Last Price	Volume	30D Average Vol	1D % Change	1D Change	3M % Change	YTD % Change
IFG GROUP PL	1.12	268,209	253,142	9.80	0.10	1.8	6.7
IRISH LIFE &	0.03	213,800	596,668	6.90	0.00	3.3	29.2
READYMIX PLC	0.19	64,000	24,829	5.56	0.01	111.1	375.0
TVC HOLDINGS	0.75	123,909	199,891	3.47	0.03	0.0	-2.0
C&C GROUP PL	3.18	452,154	673,349	2.25	0.07	12.6	10.8
Worst Performers	Last Price	Volume	30D Average Vol	1D % Change	1D Change	3M % Change	YTD % Change
AMINEX PLC	0.06	82,250	39,082	-14.06	-0.01	37.5	34.5
OVOCA GOLD P	0.27	1,370	1,843	-10.00	-0.03	-10.0	-3.6
ALLIED IRISH	0.07	861,089	895,837	-4.00	-0.00	1.4	4.3
PETRONEFT RE	0.19	37,990	40,270	-3.50	-0.01	-22.8	-8.1
PROVIDENCE R	3.20	2,733	5,716	-3.03	-0.10	56.1	29.6

## Market Summary

Market	Latest	1D %	Ytd%
S&P 500 INDEX	1326	0.9	5.4
NASDAQ COMPOSITE INDEX	2818	1.1	8.2
FTSEUROFIRST 300 INDEX	1040	-0.5	3.8
FTSE 100 INDEX	5723	-0.5	2.7
NIKKEI 225	8849	-0.4	4.7
SHANGHAI A SHARES	2504	1.4	6.8
IRISH INDEX	2983	-0.1	2.8

## Interest Rates

Official CB Rates	Latest	1d %	1m %	3m %	6m%	Ytd%
ECB Rate	1.00	0.00	0.00	-33.33	-33.33	0.00
UK Base Rate	0.50	0.00	0.00	0.00	0.00	0.00
US Fed Funds	0.25	0.00	0.00	0.00	0.00	0.00
Money Rates	Latest	1d %	1m %	3m %	6m%	Ytd%
Libor GBP 3M	1.09	-0.23	0.91	10.39	30.53	0.65
Libor USD 3M	0.56	-0.45	-3.33	31.83	120.79	-4.20
Euribor 3M	1.15	-0.78	-18.16	-27.65	-28.77	-15.27

## Bonds

Bond Yields	Yield %	3m Bp Chg	1y Bp Chg
US 30yr	3.14	-1.3	-145.3
US 10yr	1.98	-1.8	-144.0
German 10yr	1.92	-2.3	-126.3
UK 10yr	2.16	0.0	-153.5
Irish 5% 2020	7.20	0.1	-155.5
Spain 10yr	5.39	-0.6	-4.8
Irish/German 10yr Spread	5.28	2.4	-29.2
Spanish/German 10yr Spread	3.47	1.7	121.5
Moody's AAA	3.92	1.0	-114.0
Moody's BAA	5.33	0.0	-77.0

## Commodities/FX

Commodities	Latest	1d %	1m %	3m %	6m%	Ytd%
Gold	1713.5	1.40	6.63	-0.65	6.11	8.70
Copper	384.2	0.33	10.74	9.47	-14.79	11.82
Aluminum	2252.0	0.58	11.71	1.26	-14.05	11.49
Crude Oil	100.1	0.72	0.44	11.00	0.53	1.31
Natural Gas	2.8	1.25	-12.20	-29.66	-41.49	-7.56
Forex	Latest	1d%	6m%	3m %	6m%	Ytd%
Euro/\$	1.31	0.57	-9.48	-5.13	-9.48	1.23
Euro/Stg	0.84	-0.08	5.60	3.96	5.60	-0.49
Euro/Yen	101.77	0.17	11.04	4.12	11.04	-2.03
\$/Yen	77.56	0.19	0.66	-1.91	0.66	-0.73

## Events Calendar

Date	Company	Event	Date	Company	Event
27 Jan	CPL Resources	H1	8 Feb	Smurfit Kappa	Q4
30 Jan	Ryanair	Q3 Results	21 Feb	Kerry	FY11
7 Feb	United Drug	AGM			

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## Ireland's 2014 funding requirement is reduced by €3.5bn

- Ireland has announced a bond switch from the 4% January 2014 bond to a new 4.5% 18 February 2015 bond. The NTMA bought the 2014 bond at 98.35 (yield 4.902%) and sold the 2015 bond at 98.20 (yield 5.152%). Take up in the switch was €3.53bn out of a total issue size of €11.86bn.
- This is a positive for Ireland as it eases the funding cliff in 2014 (€11.9bn bond and €12bn deficit) and also plays into the demand being created by the ECBs LTRO.
- Last week we stated that we thought the rally in Irish bonds would continue on a momentum basis into the second LTRO in February before weakening. On a fundamental basis we reiterated our belief that the 2012, 2013 and 2014 bonds would be made whole. In terms of the issues further out the curve we highlighted that there was approximately a further 4% upside. That upside has now been reached and we would say that Irish bonds are now fairly valued based on our view of the world.
- Momentum and sentiment towards Ireland are extremely positive and we don't want to step in the way of that, but the fundamentals still linger. After all we still see Ireland's deficit at 9.2% of GDP at the end of 2012 and debt to GDP at 117%.
- ***Click here for the full note***

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easyJet	GBp 403.80	BUY	Target Price GBp 424.00	United Kingdom/Airlines
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## Good Q1 2012 results

- **Facts:** easyJet revenue rose 16.7% on the back of a 8.1% increase in passengers and a 9.2% increase in total revenue per seat. The management said they were "cautiously confident" in their outlook for the business and guided H1 pre tax losses of between £140mn and £160mn ahead of our expectations of -£177mn.
- **Analysis:** The increase in total revenue per seat was driven by a 9.4% increase in "seat" revenue per seat and a 0.5% decrease in non-seat revenue per seat. Passenger numbers were up 8.1% on the back of a capacity increase of 6.9% to leave the load factor up 0.9ppt. easyJet has reclassified ancillary revenue as part of "seat revenue" and "non-seat" revenue now includes other revenue items. Passenger revenue per seat though was still strong and was up 6.5%, but clarification is required on how the other non-passenger revenue items have been broken out.
- We had pencilled in that the company would be able to push up passenger revenue per seat by 4.5% in FY'2012 and by 4.4% in FY'2013. We will push the 2012 figure higher once we get clarity on the ancillary reclassification at the conference call. With approximately 70% of the first half seats now booked, the percentage increase in revenue per seat at constant currency for the first half of the year is expected to be similar to the level seen in the first quarter. Visibility for the more profitable H2 is still cloudy with less than 15% of second half available seats sold.
- Cost per seat excluding fuel fell by 1.6%. Cost per seat excluding fuel and currency impact is expected to grow by between 2% to 3% for the full year and by around 3% in the first half of the year driven by price increases at regulated airports and investments in new revenue streams.
- In terms of jet fuel, easyJet has hedged 67% of its FY'2012 requirement at \$962/metric tonne and 51% of its FY'2013 requirement at \$981/metric tonne. This compares to a current spot price of \$1020/metric tonne. In terms of the euro surplus, easyJet are 72% hedged at €1.13 for 2012 and 51% hedged at €1.14 for 2013.
- In terms of the outlook the management said they were "cautiously confident" in their outlook for the business and guided H1 pre-tax losses of between £140mn and £160mn. This is a smaller loss than the -£177m we had anticipated and consequently we will be revising up our numbers.
- The company remains cash generative and will end the year with a positive cash balance despite the 45 GBp per share special dividend announced last year. We expect that the company will be in a position to either increase its current payout ratio, 20%, or complement it with another special dividend in the coming years given the cash generative nature of the business.
- **Conclusion & Action:** We continue to like easyJet and the low cost carriers more generally as we believe consumers will continue to seek out the best value fares available in the market. easyJet remains the lowest cost carrier in the majority of primary airports in Europe, but its fares are still well below the competitors' and hence their ability to push up passenger revenue per seat by 6.9% in Q1'2012. Overall this is a good report and we retain our BUY recommendation with the intention to push up our price target post the conference call.

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<b>Ryanair</b>	<b>€4.01</b>	<b>BUY</b>	<b>Target Price €4.15</b>	<b>Ireland/Airlines</b>
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Key financials (EUR)	03/11	03/12e	03/13e
Sales (m)	3,630	4,284	4,748
EBITDAR (m)	857	958	1,036
EBITDA margin	21.0%	20.3%	20.0%
EBIT (m)	489	565	632
EBIT margin	13.5%	13.2%	13.3%
Net Profit (adj.)(m)	373	447	508
ROCE	10.6%	11.2%	12.7%
Net debt/(cash) (m)	709	219	(42)
Net Debt/Equity	0.2	0.1	0.0
Debt/EBITDA	0.9	0.3	0.0
Int. cover(EBITDA/Fin. int)	11.7	15.3	18.4
EV/Sales	1.5	1.4	1.2
AEV/EBITDAR	7.1	6.8	6.1
AEV/EBITDAR (adj.)	6.9	6.8	6.1
EV/EBIT	11.4	10.5	9.0
P/E (adj.)	13.4	13.1	11.5
P/BV	1.7	1.8	1.8
OpFCF yield	16.1%	18.5%	17.5%
Dividend yield	8.4%	0.0%	8.5%
EPS (adj.)	0.25	0.31	0.35
BVPS	1.98	2.27	2.27
DPS	0.34	0.00	0.34

## Q3 2012 Preview

- **Facts:** Ryanair report Q3 2012 results on the 30th January 2012.
- **Analysis:** We expect revenue to rise 9.8% to €819mn (consensus €819mn) on the back of a 2% fall in passenger numbers and a 15% rise in average fares. We expect net income to narrow from -€10.3mn in Q3 2011 to -€6mn (consensus -€16mn) with the increase in fuel being the major headwind.
- Despite the extremely tough European economic environment facing Ryanair we have pencilled in a 6% increase in average fares in FY'13. As the lowest cost offering in Europe we expect Ryanair to continue to be able to push up fares and attract trade down passengers given the gap between their fares and other European carriers.
- The fuel hedging and dollar hedging in FY'13 provides a large amount of protection for the airline on the cost side. Ryanair has 100% of its dollar hedging in place at \$1.43 for the period to December 2012, while on the fuel side it has hedged 73% of the FY'13 fuel requirement at \$990/metric tonne versus a current spot price of \$1010/metric tonne.
- Ryanair currently trades on 11.4x our FY'13 EPS compared to a 3 year average of 12x consensus year ahead EPS. We believe that the Bloomberg consensus net income number of €475mn for FY'13 is a bit light (NCB €508mn) and that we will see upgrades to those numbers around the Q3 results as Ryanair continues to demonstrate an ability to push through fare increases in the difficult European environment. Less risk aversion should also see PE multiples expand given their depressed levels related to euro area worries.
- The €500mn or 35 cent per share special dividend expected to be announced in winter 2012 and the cash generative nature of the business will also continue to support the stock. We see operating free cash flow yields of circa 18% and free cash flow approaching €750mn per annum from 2013, which will enable the airline to enact further special dividends/buybacks post 2013.
- All-in all we see the stock heading towards our fundamental value of €4.15 in the next couple of weeks and challenging the technical level at €4.20. We find it difficult to see a material move through that region currently given our outlook for the euro area economy. The only major positive that could help the stock past this region would be a material decline in the oil price, which contains a premium capturing US/Iranian tensions.
- **Conclusion & Action:** We expect Ryanair to deliver further evidence of their ability to push through fare increases in a difficult European economic environment. The ability to push through large price increases in the face of rising fuel prices will enable the company to minimise the losses in the seasonally weak winter and generate good returns in the summer. We expect these results to push the stock towards our €4.15 price target in the next couple of weeks.

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<b>Glanbia</b>	<b>€4.83</b>	<b>BUY</b>	<b>Target Price €5.70</b>	<b>Ireland/Food &amp; Beverage</b>
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Key financials (EUR)	12/10	12/11e	12/12e
Sales (m)	2,167	2,649	2,746
EBITDA (m)	184	210	219
<i>EBITDA margin</i>	<i>8.5%</i>	<i>7.9%</i>	<i>8.0%</i>
EBIT (m)	137	158	164
<i>EBIT margin</i>	<i>6.3%</i>	<i>6.0%</i>	<i>6.0%</i>
Net Profit (adj.)(m)	112	130	138
ROCE	12.0%	11.6%	11.5%
Net debt/(cash) (m)	408	493	435
<i>Net Debt/Equity</i>	<i>1.0</i>	<i>1.0</i>	<i>0.7</i>
Debt/EBITDA	2.2	2.4	2.0
Int. cover(EBITDA/Fin. int)	8.3	7.4	8.4
EV/Sales	0.7	0.7	0.7
EV/EBITDA	8.3	9.1	8.7
EV/EBITDA (adj.)	8.3	9.1	8.7
EV/EBIT	11.2	12.0	11.6
P/E (adj.)	9.7	10.4	10.2
P/BV	2.6	2.7	2.4
<i>OpFCF yield</i>	<i>6.7%</i>	<i>7.2%</i>	<i>9.9%</i>
<i>Dividend yield</i>	<i>1.4%</i>	<i>1.6%</i>	<i>1.7%</i>
EPS (adj.)	0.38	0.44	0.47
BVPS	1.42	1.69	2.02
DPS	0.07	0.08	0.08

## Co-op stake reduction option to fund new processing capacity

- Facts:** The CEO of Glanbia's Dairy Ingredients division, Jim Bergin, was quoted in the press discussing Glanbia's increase in milk processing capacity in anticipation of the EU milk quota abolition in 2015. The article states that Glanbia will be looking to farmers to help fund part of the investment.
- Analysis:** Glanbia is expected to reveal details of its proposed investment in the new dairy processing plant in March, probably at its full year results at the beginning of the month. The total required investment is not yet known, but could be up to €100m.
- Conclusion & Action:** If the dairy farmers are expected to part-fund the investment, one of the options could be a sell down in the farmers' 54% stake in Glanbia. In our view, this would result in an increase in liquidity and better corporate governance, opening up the stock to more investors and supporting the share price. If the investment is part-funded by the farmers it would also free up more funds for Glanbia to invest in the high growth/high margin nutritional business. Glanbia currently trades on 10.2x FY12E P/E, much lower than peers in the global nutritional sector which trade on around 18x P/E. We rate Glanbia BUY with a sum-of-the-parts price target of €5.70.

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