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DAVY MORNING EQUITY BRIEFING

10 February 2012

MARKET COMMENT

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RESULTS AND EVENTS

Friday February 10th; Industrial production and turnover, December. **Tuesday February 14th;** Thyssenkrupp Q1 results. **Wednesday February 15th;** Voestalpine Q3 results. Heineken FY results. **Thursday February 16th;** ICON FY results. Saint-Gobain Group FY results. Pernod Ricard interim results. Ladbrokes FY results. **Friday February 17th;** Lafarge FY results. **Monday February 20th;** Bank of Ireland FY results. Carlsberg FY results. **Tuesday February 21st;** TNT Express FY results. Dragon Oil FY results. Wienerberger FY results. Kerry Group FY results. CSM FY results. **Wednesday February 22nd;** Barratt Developments interim results. Travis Perkins FY results. **Thursday February 23rd;** easyJet - AGM - Hangar 89, London Luton Airport, Luton, Bedfordshire, LU2 9PF - 10.00. William Hill FY results. Redrow interim results. **Friday February 24th;** Amadeus IT Holding FY results.

MARKET COMMENT

Industrial production data expected to show declines in December

Conall Mac Coille, Chief economist

Industrial production data for December are released today for a range of European economies. The German and UK releases all indicate that output contracted in Q4. And releases later today for Finland, Italy, Ireland and Switzerland are expected to show further declines in December.

Yesterday's release for the UK showed 0.5% growth on the month. Coupled with revisions, this small rise indicated that UK industrial production was down 3.3% on the year, a sharper contraction than expected. German industrial production, released on Tuesday, showed a fall of 2.9% in December on the month, up by 0.9% on the year. However, the fall in December was a sharper drop than expected.

French industrial production, released this morning, showed a sharp fall of 1.4% on the month, down 1.3% on the year. Again, the fall in French output was much sharper than the 0.7% decline expected by the market. Italian production is expected to have fallen by 0.7% on the month and 0.6% on the year when the data are released at 09.00 this morning.

Together these releases may reinforce the view that economic activity contracted in Q4, ahead of the GDP releases for the final quarter released on February 15th. However, with euro area GDP expected to have contracted in Q4, the key question for markets is whether the pick-up in stock prices will feed into a rebound in consumer and business confidence. So today's release of the Michigan measure of consumer confidence will be watched closely.

Overnight, EU finance ministers decided not to approve new funding for Greece. Instead, EU ministers have decided to meet next Wednesday to decide whether to endorse the new agreement, after it is scheduled to have been passed by the Greek parliament over the weekend.

Agreement will be required by the coalition government but also by the main opposition party, New Democracy, given the likelihood of a Greek election in the near future. Securing political support for the new funding package remains a challenge. And uncertainty around the passage of the new fiscal consolidation package through the Greek parliament is likely to hold back market sentiment this week.

CONSTRUCTION AND HOUSEBUILDING

Beacon Roofing reports strong Q1 results to end-December; positive for CRH's Americas Distribution business

Barry Dixon

FACTS: Beacon Roofing, which distributes roofing materials in 38 states in the US and competes with CRH's Allied Distribution business, has reported very strong Q1 results to end-December.

ANALYSIS: Total revenues increased by 21% to $489.9m with organic sales up 17%. Residential markets increased by 25.4% while commercial markets increased by 15.5%. EPS came in at 41c versus 29c expected.

Results in the quarter benefitted from stronger pricing and increased volumes, driven in part by better weather conditions in the three months to December and increased storm-related activity in some regions.

Gross and operating margins continue to improve, driven by higher volumes.

The company is continuing to look for suitable acquisitions, similar to a business called Fowler & Peth it acquired in the period.

In terms of outlook, management indicated that it was encouraged by the strong start and continues to see steady growth.

DAVY VIEW: CRH is one of the largest distributors of roofing and siding products in the US, with operations in all 50 states. EBITDA from CRH's Americas Distribution division is estimated at just over €63m in 2011 — less than 4% of group. Nonetheless, we are forecasting 3% volumes growth in 2012 with 1% price increases, which could prove pessimistic. There are an increasing number of areas where we see upside to CRH forecasts for 2012, which will help to support the current valuation level.

Sector valuations

Polish cement sales decline by 4% in January due to bad weather and difficult comps

Barry Dixon

FACTS: Polish cement sales declined by 4% in January compared to the same month last year.

ANALYSIS: January 2011 was a strong month following a harsh end to 2010, so the comp was always going to be difficult. In addition, cement demand was very strong into the end of the year with volumes up by almost 170% in December, bringing the full-year 2011 increase to 23%.

We are forecasting 4% volume growth for Polish cement for full-year 2012.

DAVY VIEW: The data illustrate the first signs of the impact of inclement weather in Europe at the start of this year and the potential impact this may have on Q1 numbers, particularly given the already difficult comps versus Q1 last year. CRH and Heidelberg are two of the main cement producers in the Polish market

Sector valuations

Merchanting federation volumes fell 3.3%; declined for the sixth year in seven

Flor O'Donoghue

FACTS: UK merchanting figures for December have been released by the Builders Merchants Federation (BMF).

ANALYSIS: According to the BMF, UK merchanting volumes in December were down 2% compared to December 2010. Taking Q4 overall as a better gauge of underlying trends, volumes were 2.3% lower than in the same three months in 2010. Volumes in 2011 fell 3.3%, making it the fourth consecutive year of declines — and the sixth year in seven. As we have noted previously, volumes are currently running some 30% off the peak level.

DAVY VIEW: The latest figures from the BMF are no real surprise. With UK consumer confidence very fragile, member volumes remain challenged. It is clear from various sources that the outlook for the UK building distribution sector in 2012 remains gloomy. If the current trend persists, casualties are very likely. In a relative sense, the national operators will continue to fare better than the small independent sector. Upcoming results from Saint-Gobain (February 16th) and Travis Perkins (February 22nd) should highlight this.

Sector valuations

PAPER AND PACKAGING

Smurfit Kappa Group (SKG ID)

Price: 726c Rating: Outperform Issued: 30/06/09

UK containerboard prices decline again in February as OCC prices rise

Barry Dixon

FACTS: UK containerboard prices declined again in February while OCC prices increased, according to the latest official data from RISI.

ANALYSIS: UK recycled containerboard prices declined by a further £20/tonne in February. This brings the total decline to £85/tonne from last summer. Kraftliner prices declined by £10/tonne in the month, bringing the total fall from last summer's peak to £55/tonne.

OCC prices increased by £5/tonne in February, as expected. This implies a £20/tonne fall from the peak in 2011.

The spread therefore between recycled containerboard and OCC has narrowed by £65/tonne (€80) since last summer, illustrating the margin pressure being experienced by containerboard producers.

DAVY VIEW: The recent price increases announced by the industry are necessary in order to try to restore at least some of the margin deterioration since last summer. The prospects for success in terms of implementing these price increases remain uncertain but even if further price declines are averted, there is upside to our SKG forecasts.

Company summary and analysis

AIRLINES

Lufthansa (LHA GY)

Price: 1105c Rating: Neutral Issued: 09/09/11 *Previous: Outperform* *Issued: 21/03/11*

New cost plan 'SCORE' aims to save €1.5bn

Stephen Furlong

FACTS: Lufthansa has announced (February 10th) a new earnings improvement plan which is successor to its CLIMB 11 programme.

ANALYSIS: The name of the program ('SCORE – Change for Success') represents the key areas targeted, standing for synergies, costs, organisation, revenue and execution.

The objective is sustainable and structural earnings improvement in light of the changing industry environment and investments in modernisation and growth.

The plan's target is sustainable earnings improvement of at least €1.5bn.

The project term is three years.

In terms of scope, it is a group-wide programme with contributions from all business segments, group airlines and overhead functions, as well as joint projects, to increase synergies.

The first identified joint projects are the optimisation of neighbourhood traffic, joint procurement and the reduction of overhead costs at corporate headquarters and business units.

DAVY VIEW: Lufthansa will aim to deliver earnings growth and improvement from this programme out to 2015. It aims to do so in a challenging revenue environment with increased competition likely out of its growing Frankfurt Hub, increased competition from low-cost carriers within Europe and Middle Eastern airlines expanding form outside.

Company summary and analysis

Flybe's IMS shows UK revenue flattish; implies it is struggling to pass through higher fuel costs

Joshua Goldman

FACTS: Flybe has issued (February 10th) an IMS.

ANALYSIS: Total revenue under management showed an increase of 18.6% to £165.5 m, driven by Flybe's entry into continental Europe through Flybe Finland, the joint venture with Finnair. Scheduled seats flown by the group, including Flybe Finland, were 3.0m, up by 9.8% from 2.8m in Q3 2010/11 (adjusting for the severe weather disruption in the UK in Q3 2010/11, the year-on-year increase was 3.4%). Net assets at December 31st 2011 were £102.8m, and total cash was £61.5 m.

Flybe UK generated total revenues of £133.7m in Q3 2011/12, down 0.3% on Q3 2010/11. Seats flown were 2.75m, a decrease of 0.3% (adjusting for the severe weather disruption in Q3 2010/11, the year-on-year decrease was 6.0%). Passenger numbers and load factor were comparable to Q3 2010/11 at 1.7 m and 61.7% respectively, despite a UK domestic market which continues to be challenging. Passenger yield increased by 0.1% to £76.90 and passenger revenue per seat was up 0.2% to £47.41. Fuel was hedged at $987 per tonne for 87% of forecast burn in Q4 2011/12, and 60% hedged for H1 2012/13 at $1,009 per tonne. The company continues to gain market share in the UK regional market (excluding London), moving to 50.5% for the 12 months to December 2011 from 48.0% in the same period last year.

Flybe Finland generated total revenues of £25.8m in Q3 2011/12, comprising passenger revenue of £8.3m and other revenue of £17.5m (primarily contract flying for Finnair).

DAVY VIEW: Flybe continues to adjust capacity to try to meet demand. The company expects market conditions to continue to remain challenging. The flattish unit revenue in the UK implies that in this higher fuel environment, the company is having difficulty passing along the increased costs.

Sector valuations

FOOD AND BEVERAGE

Kerry Group (KYG ID)

Price: 2880c Rating: Outperform Issued: 30/06/09

IFF reports strong growth in flavours division

Aiden O' Donnell

FACTS: On February 9th, IFF reported Q4 and FY numbers ahead of market expectations. The stock rose almost 2% on the back of the positive result.

ANALYSIS: Overall for the year, the company grew revenues, measured in local currencies, by 4%. Its flavour division, which is of most relevance from a Kerry perspective, outperformed, generating 9% sales growth. The strongest growth was achieved in EMEA and North America, both growing by double digits. Its heath and wellness portfolio continues to be a key driver of growth. The revenue growth was both price and volume driven.

Q4 proved to be a strong quarter for the flavour division with sales growth of 8%, led by a double-digit increase in beverage and a high-single-digit increase in savoury. The president of the flavours division noted on the conference call that although the comps are tough versus the previous year, he is expecting a solid start to the year for the division.

The company's other division, fragrances, lapped some very difficult comps and as a result saw a revenue decline of 1%.

Interestingly, the company expects some input costs to rise by a low-single-digit rate in 2012 with more pressure felt in the first half.

For FY 2012, IFF expects to grow revenues at the low end of its long-term target range of 4-6%.

DAVY VIEW: The 9% sales growth delivered by the company's flavour unit is impressive and indicates that the underlying trends that have been a feature of the industry over the past few years (health and wellness, emerging consumers etc) continue to grow. The market backdrop described by IFF offers a favourable read-through for Kerry. Kerry reports FY 2011 results on February 21st.

Company summary and analysis

Tate & Lyle (TATE LN)

Price: 673p Rating: Neutral Issued: 04/04/11 *Previous: Underperform Issued: 13/08/10*

7-12% growth anticipated by Corn Products International

Jack Gorman

FACTS: Corn Products International beat Q4 2011 expectations and guided for 2012.

ANALYSIS: Adjusted EPS for Q4 rose by 6% to $1.11, exceeding market estimates of $1.08. Significant price pass-through was achieved to cover higher input costs. This helped operating profit to advance in all territories except North America, where the higher net corn costs pulled profits down by 12%.

2012 guidance calls for 7-12% EPS growth year-on-year. This translates to EPS of $5.00-5.25, compared to consensus of $5.07.

DAVY VIEW: Sweetener/starch production and agri-processing remain in robust health as demonstrated by these results and also those of Bunge yesterday.

Tate & Lyle is also on track to deliver a solid year (to March 2012) and what was a surprisingly negative reaction to yesterday's IMS represents a trading opportunity in the stock in our view.

Company summary and analysis

RESOURCES AND ENVIRONMENT

Tullow Oil (USc) (TLW LN)

Price:$23.91 Rating:Outperform Issued: 30/06/09

Jaguar well offshore Guyana starts up

Job Langbroek

FACTS: The operator Repsol has spudded the Jaguar-1 well offshore Guyana. The well will be drilled to 6,500 metres to test a Turonian target. Drilling is slated for 180 days and the well participants are Repsol (15%), Tullow Oil (30%), YPF Guyana (30%) with CGX holding the balance.

ANALYSIS: The well is being drilled by the Atwood Beacon and is long awaited. It will target the same geological upper cretaceous targets that have proved to contain oil and gas, both along the West African transform margin and elsewhere along the South American offshore. The well continues Tullow's South American exploration programme and follows on the success of the Zaudyus well offshore French Guiana to the south. While it is tempting to put both this well and the Zaeydus drilling into the same basket, they are in different geological basins notwithstanding that the play style and settings bear many similarities. The Jaguar well is north of the regional Demerara high and in an area where there is already some good evidence of a working petroleum system — a crucial difference to the earlier Zaedyus well, which was located to the south of the Demerara plateau.

DAVY VIEW: Quite apart from the geological niceties, the well start-up should help to offset the perception that Tullow was in an exploration lull. In fact, there are now three important offshore wells drilling: Jupiter, offshore Sierra Leone; Kosrou, offshore Côte d'Ivoire; and now Jaguar. Together, these have a combined 99p of un-risked value to the group. We use P50 estimates in all cases. For instance, the P10 estimate for Jaguar is 700m barrels in a success case whereas we base our valuation on just a 175m barrel outcome. The current drilling programme should go some way to meet the requirements of those who look for more 'E' than 'P' in their oil and gas investment profile. We value the group at 1549p per share in total and rate it as 'outperform'.

Company summary and analysis

PHARMA AND HEALTHCARE

ICON (ICLR US)

Price:$20.26 Rating:Neutral Issued: 27/10/11 *Previous: Outperform Issued: 05/08/11*

Preview of Q4 and FY results, due February 16th; margin rebound anticipated

Jack Gorman

FACTS: ICON's Q4 and FY results are due before US markets open on February 16th.

ANALYSIS: We expect EPS of 9c (Q4 2010: 36c) on the back of 16% revenue growth to $240m. Our Q4 EPS forecast is in line with consensus and towards the lower end of a wide range guided by the company.

Much as we observed at Parexel, we are forecasting a sequential up-turn in EBIT margins, from 0.5% in Q3 to 2.5% in Q4. The pace of margin rebound will depend on the pace of revenue flow, particularly from the first wave of PFE projects. We forecast that high-single-digit margins (8%) can be reached by end-2012. We expect that net book-to-bill will continue to be elevated by the PFE project flow; our gross book-to-bill runs at 1.6x and a net 1.3x, which in its own right may be conservative (Parexel's net ratio was 1.5x).

Such a Q4 out-turn would mean ICON generates a full-year EPS of 54c, towards the lower end of the company's wide guidance of 50-70c.

We would also expect ICON to provide 2012 guidance as part of the release. Our current EPS forecast (93c) reflects an anticipated strong rebound in trading (consensus is 99c) but again this is critically bound by assumptions on the pace of margin recovery.

DAVY VIEW: The stock has performed strongly of late, perhaps in anticipation of a stronger-than-forecast rebound in 2012/13 margins. Parexel's optimistic commentary on its PFE relationship was also supportive, as is ICON's share buyback programme. To this end, 2012 guidance will be the critical component of the results release.

Company summary and analysis

SUPPORT SERVICES

DCC (DCC ID)

Price: 1995c Rating: Outperform Issued: 30/06/09

Fuel for thought

Caren Crowley

FACTS: Rubis, a French-listed fuels distributor and terminal operator, has released a trading statement for Q4 calendar year 2011. Like-for-like fuel distribution sales volumes were only down 5% year-on-year in Q4 despite the impact of the mild weather on demand for heating fuel. Rubis distributes a number of fuels but its primary product is LPG. LPG is used in a variety of applications (cooking, power, transport) but predominantly as a heating fuel. In Q4, Rubis's LPG distribution volumes were only down 5% "thanks to an excellent performance" in the auto-gas market where sales volumes were up 26%.

ANALYSIS: The use of LPG as a transport fuel (i.e. auto-gas) seems to provide a reasonably effective hedge against abnormally mild weather and the consequent decrease in consumption of LPG as a heating fuel. This apparent hedge may give DCC some food for thought as it perhaps looks to moderate the volatility that weather brings to earnings from its fuels distribution division, DCC Energy. The use of LPG as auto-gas is more popular in Europe than in DCC Energy's core region, the UK. It will be interesting to see if DCC looks to expand its footprint to gain exposure to the auto-gas market.

Company summary and analysis

FINANCIALS

EBA downplays impact of bank re-cap on real economy; postpones next EU-wide stress test to 2013

Emer Lang

FACTS: The European Banking Authority (EBA) has issued a press release (February 9th) outlining the results of its preliminary assessment of banks' capital plans submitted in response to the EBA's recommendation on recapitalisation. This had identified a capital shortfall of €114.7bn at European banks.

ANALYSIS: The key findings include that raising the requisite capital gives a surplus of c.26%, creating some leeway in case some of the actions fail to materialise, and that the actions predominantly focus on direct capital measures (account for 96% of the capital shortfall and 77% of the actions required). The EBA suggests that the majority of these 'actions' are capital-raising, retained earnings and conversion of hybrids to common equity with measures impacting risk-weighted assets (RWAs) accounting for the remaining 23%. Just 7% of this 23% relates to asset disposals, the remainder relating to other de-leveraging, new advanced models and other mitigating measures. The EBA notes that three banks (Österreichische Volksbank, Dexia and WestLB) from the original list of banks with shortfalls have been identified as undergoing a significant restructuring process, which the EBA has agreed is an appropriate response to its December recapitalisation recommendation. Therefore, they will not be assessed against the capital levels of 9% after accounting for an appropriate sovereign buffer. In addition, the shortfall related to Greek banks was identified as a component of pre-agreed arrangements under the EU/IMF assistance programme and is treated separately. Excluding the aggregate €36.7bn relating to these, the EBA's focus is on the €78bn shortfall identified for the other banks in the sample.

DAVY VIEW: The EBA's conclusion, that the impact of actions reducing lending into the real economy would be less than 1% of the total amount, suggests that fears the exercise would exacerbate Europe's credit crunch may have been overstated. The EBA press release also notes that the board of supervisors has agreed that, in the context of the ongoing re-capitalisation exercise, the EBA will undertake its next EU-wide stress test in 2013 as opposed to later this year as previously planned. However, reports suggest that Irish bank stress tests will go ahead in November as planned.

Sector valuations

Barclays kicks off UK bank reporting season

Emer Lang

FACTS: Barclays has reported (February 10th) a pre-tax profit of £5.88bn for 2011, down 3% on 2010's £6.07bn and just marginally below expectations of a broadly flattish outcome.

ANALYSIS: Underlying income, excluding own credit and debt buy-backs, fell by 8%, but own credit and debt buy-back gains left total income up 3% at £32.2bn. Underlying operating expenses fell by 4% but including PPI redress, goodwill impairment and the UK bank levy, total expenses rose by 4%. Key to the overall outcome, impairment and other provisions fell by a third to £3.8bn (77bps).

The group notes that its exposure to domestic Irish banks remains minimal. Although its Irish exposures increased by 5% to £5.7bn, this principally reflected increased lending to financial institutions of £4.3bn (2010: £3.8bn), including £0.9bn of trading assets and £1.3bn of loans to entities domiciled in Ireland whose principal business and exposures are outside of Ireland. Its Irish sovereign exposure is £244m.

DAVY VIEW: Barclays has kicked off the UK bank reporting season with an out-turn that looks broadly in line with expectations. There is limited read-across for the Irish banks although the improving impairment trend is encouraging. BKIR noted in its November IMS that trends in its unsecured consumer, UK mortgage and corporate banking books were compensating for a deterioration in its Irish residential mortgage portfolio. Barclays' UK retail and business banking (RBB) charge fell by 35% to £536m in 2011, implying an annualised loan loss rate of 44bps (2010: 70bps).

On the outlook for 2012, Barclays notes that the performance of RBB and corporate banking in January was "consistent with the good performance achieved in 2011". While cautioning that it is too soon to suggest a trend, it notes that improvement in market conditions resulted in an encouraging start to the year for Barclays Capital.

Sector valuations

THE DAY IN NUMBERS

	Index value	*Change*	*% Change*
IRISH MARKET			
Total Market (ISEQ)	3118.6	11.8	0.4
ISE Financials Index	202.5	2.4	1.2
ISE General Index	4228.8	13.9	0.3
ISE Small Cap Index	1886.5	45.0	2.4
SECTOR INDICES			
FTSE E300 Constr. & Mats.	1323.7	10.8	0.8
FTSE E300 Food Producers	1698.5	5.2	0.3
FTSE E300 Travel & Leisure	1218.2	7.3	0.6
EUROPEAN MARKETS			
FTSE Eurofirst 300	1073.5	2.7	0.3
FTSE 100	5895.5	19.5	0.3
CAC 40	3424.7	14.7	0.4
DAX	6788.8	40.0	0.6
US MARKETS			
S&P 500	1352.0	2.0	0.2
Nasdaq	2927.2	11.4	0.4
DJIA	12890.5	6.5	0.1
REST OF THE WORLD			
ASX All Ordinaries	4357.1	-6.6	-0.2
FTSE/JSE Africa All Share	34268.1	41.4	0.1
NZX 50	3326.7	2.1	0.1
Hang Seng	20748.3	-261.7	-1.3
Shanghai SE Composite	2349.6	2.1	0.1
Nikkei 225	8947.2	-55.1	-0.6
FTSE All World Developed	171.7	0.4	0.2
COMMODITIES			
Brent Oil $/bbl	117.9	0.4	0.4
CRB Commodity Index	500.3	1.8	0.4
Gasoline USc/gal	300.1	2.6	0.9
Gold $/t oz	1749.0	14.6	0.8
Natural Gas GBp/therm	77.0	6.0	8.4
EXCHANGE RATES			
Stg/EUR	0.8398	0.0015	0.2
USD/EUR	1.3281	0.0021	0.2
USD/Stg	1.5810	-0.0008	-0.1
INTEREST RATES			
Euro 3 Mth Money Rate	1.07	-0.01	-0.7
UK 3 Mth Money Rate	1.08	0.00	0.0
US 3 Mth Money Rate	0.51	-0.00	-0.6
BOND YIELDS			
Ireland 10 Yr Bond Yield	6.88	0.07	1.0
Euro 10 Yr Bond Yield	2.04	0.06	2.8
UK 10 Yr Bond Yield	2.24	0.05	2.3
US 10 Yr Bond Yield	2.04	0.05	2.7

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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.

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			Investment banking services/Past 12 months	
Rating	*Count*	*Percent*	*Count*	*Percent*
Outperform	50	53	28	77
Neutral	28	30	6	16
Underperform	11	11	0	0
Under Review	3	3	1	2
Suspended	0	0	0	0
Restricted	1	1	1	2

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