

Irish Economy - December data to show fall in trade surplus

- This morning sees the release of the external trade data for December. The November figures were a lot stronger than expected with the seasonally-adjusted surplus hitting a new record high of €4,310m. The previous record high was in September, so in the September-November period the trade balance reached levels never seen before.
- Given the slowdown in the world economy and the fall-off in global demand, the overall data in recent months have been very impressive. Seasonally-adjusted exports rose by 4.6% in November while imports decreased by 6.0% in the month. Meanwhile, on an unadjusted basis, the value of exports in November was up 9.2% on the same month in 2010 while the value of imports was 2.4% above that in November of the previous year. The unadjusted trade surplus amounted to €4,461m, the second-highest ever and €620m greater than the surplus of €3,841m posted in the same month in 2010.
- In the first eleven months of 2011, the cumulative trade surplus amounted to €41,294m, €915m higher than the surplus of €40,379m in January-November 2010, but the worry is that export growth will decrease markedly in the coming months due to weaker world demand.
- Based on the most recent numbers it looks like the overall trade surplus in 2011 will be around €45bn, a new record high, up from the previous record of €43.4bn posted in 2010. As regards the December data, a seasonally-adjusted surplus of €3.7bn is projected.

FBD - Strongly positioned to benefit from projected growth of agri sector

- There are a number of developments afoot at present in the Irish dairy sector as both farmers and processors eye the abolition of milk quotas from 2015. The Irish dairy market has operated under an EU imposed quota system for close to 30 years (since 1983) and as such this is a highly significant development arising from which stakeholders in the Irish dairy market have started to set out plans as how to capitalise on the opportunity to increase milk output by circa 50-60% from current levels. In tandem with dairy developments, plans also exist to further develop Ireland's beef industry, within the framework of the government's "Harvest 2020" initiative.
- Glanbia, the largest milk processor in Ireland, estimates that following the removal of the production cap in 2015 the benefit to farming incomes could be up to €750m. Significant capital investment will be required in the coming periods to facilitate the material step up in milk output at each point in the supply chain once quotas are removed i.e. from local dairy farmers through to the large processors, such as Glanbia and Dairygold (Ireland's largest farmer owned dairy and agri co-op). Both Glanbia and Dairygold are currently exploring dairy manufacturing plans which could involve an outlay of c. €130m.
- FBD is strongly positioned to benefit from both the expected rise in capital expenditure within the agri sector and the associated benefit to farming incomes as the market adjusts to higher output levels in the post quota marketplace. In 2011, farm incomes rose by an estimated 33% (according to CSO) highlighting the strength of the agri-sector within the Irish domestic economy. The retrenchment of Aviva from the Irish general insurance market is an added positive for FBD, given Aviva has been its largest competitor in agri-related insurance. We estimate that c.40% of premiums written by FBD are generated from the wider farming community, including c.27% originating directly from agri (farms and motor) policies.

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Smurfit Kappa - OCC prices rise +9% as upward momentum continues

- The latest weekly data on European OCC prices shows a +8.7% rise in prices to €125.08/tonne, up from €115.07/tonne last week. The latest increase in OCC prices marks the fifth consecutive week of advances from the recent low of €109.71 on 10 January 2012. Smurfit Kappa last week indicated that it is currently seeing OCC prices closer to €140/tonne through its network which highlights that even after the c.9% advance in the FOEX index this week it is still lagging the current spot price in the market.
- It is against this backdrop of higher input costs that the industry has moved to secure higher containerboard prices. The extent of the initial success in implementing the 1 February recycled containerboard price increase should be somewhat evident when RISI releases data on the German containerboard market tomorrow. Our expectation is that up to €40-60/tonne of an increase may be evident in the February data, with progress on the remainder dependent on market conditions as we move into March.

Paddy Power - Unibet showing appetite for expansion

- Unibet has reported growth of +26% quarter over quarter in both gross winning revenue and operating profits and which includes all time high revenues in its core Nordic operations (58% total revenues). The company confirms that during the first 6 weeks of 2012 it has seen "continued good growth" both in revenue and new customer numbers.
- Unibet has been among the most active within the online betting and gaming sector in terms of its expansion into recently regulated markets, both organically and via acquisitions. Consider that since the start of H2 2011 it has launched in the Italian sporting betting and casino market; gained approval to operate in Denmark; re-entered the French market following the acquisition of Solfive Group; entered Australia with the acquisition of Betchoice and received a sportsbetting license in Belgium.
- All of this has been achieved while undertaking share buybacks; raising dividends and still maintaining a net cash position equivalent to £14m (SEK 153m). Unibet has in the past been linked to mergers with both Sportingbet and its Nordic compatriot Betsson. Based on the respective sizes of Unibet (mkt cap c.€550m) and Betsson (c.€900m) we see merit in such a combination given the benefits that would be derived from greater scale in a consolidation market place.
- In our view, Paddy Power is similarly well positioned to Unibet in terms of its ability to continue to reward shareholders both by utilising its net cash position of c.€110m to augment the strong earnings growth momentum of the group (Bloxham forecasting +20% eps growth for FY11) and to pay dividends (current yield 2.1%).

Glanbia, Aryzta - Dominos Pizza results are strong

- Dominos Pizza has reported 3.7% growth in like for like sales at its European retail outlets. Growth by fast food chains in the US and Europe has been evident over recent quarters and is a valuable end market for food manufacturers including Glanbia and Aryzta. Glanbia is a part owner of Europe's largest mozzarella producer while Aryzta is a key supplier of buns to chains like McDonalds. Positive like for like trends should be supportive for organic growth in both companies.

Abbey (M&J Hire) – Speedy Hire IMS in line with expectations

- Speedy Hire this morning issued a robust IMS covering the period from 1 October to 14 February. The group said trading during the period was in line with expectations, with underlying revenues for Q3 (Oct-Dec) up 7.6% year on year despite the mild weather conditions resulting in lower revenues from heating and drying equipment. Trading has benefitted from a combination of the recent cold snap and revenues from non-weather related activities. The group is making steady progress overall despite the challenging market conditions and is confident of meeting its full year expectations.
- M&J Hire, Abbey's plant hire business, increased its operating profits by 58% year on year in H1'12 (to end Oct) having seen an upturn in trading. Although the group had warned that the second half of the year was likely to be weaker, the positive IMS issued by Speedy Hire this morning provides encouragement for Abbey's H2, with a preliminary statement for the full year ending 30 April due in July.

C&C - Heineken champions cider

- In its latest IMS Heineken says it plans to further expand three key brands into international markets of which Strongbow cider is one. The development of cider as a true international drink by global beverage companies is key to unlocking the potential in C&C.

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