

Morning Meeting Wrap

Morning Wrap Stories

Economic View; ECB stands firm on its views

Economic View; Residential rental yield up to 5% but probably has more to rise

Kingspan; Mixed soundings on UK non-residential sector

Gaming Sector; German Lander delay decision on gambling proposals until October

FBD holdings; May CSO data – Stabilisation in Insurance prices

Abbey; Upbeat Bellway statement

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Top 10

	Price	Mkt Cap €	1 Day	1 Week	1 Mth	Ytd	P/E	
							2011	2012
CRH	14.67	10506	-1.5	-1.2	-12.4	-5.4	15.4	11.0
Tullow Oil	13.02	13105	-1.1	-0.2	-9.1	3.3	30.6	30.8
Ryanair	3.61	5378	1.5	4.6	3.3	-4.2	12.5	11.5
Kerry Group	29.65	5204	-1.1	0.9	5.9	18.7	13.9	12.4
Elan	9.56	3885	0.0	4.6	16.7	66.8	n/a	n/a
Dragon Oil	5.47	3192	1.0	5.2	-1.6	1.7	7.4	8.3
ARYZTA	38.50	3188	-1.2	0.5	3.8	10.0	11.8	10.5
Travis Perkins	10.52	2878	-1.4	-0.1	-2.1	-0.6	12.1	10.1
Premier Oil	4.84	2564	1.9	4.4	-3.1	-0.6	14.3	8.3
Allied Irish Banks	0.19	2284	-3.1	0.0	-19.1	-38.0	n/a	n/a

Source: Datastream

Bloomberg: GDSE<GO>

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Indices

	Price	1 Day	1 Week	1 Mth	Ytd
ISEQ	2933.8	1.3	-1.0	-1.3	1.7
FTSE 100	5856.3	0.8	0.1	-1.5	-0.7
DAX 30	7159.7	1.4	1.2	-3.4	3.6
CAC 40	3878.7	1.1	-0.3	-3.2	1.9
FTSE Eurofirst 300	1104.4	0.9	-1.0	-3.1	-1.5
Nasdaq	2684.9	0.4	-3.2	-5.6	1.2
S&P 500	1289.0	0.7	-1.8	-4.3	2.5
Dow Jones Ind	12124.4	0.6	-1.0	-4.4	4.7
Nikkie 225	9467.2	0.2	-0.9	-3.3	-7.5

Exchange Rates

	Current	Px 1 day	1 Week	Px Dec10	Avg Ytd
Stg/Euro	0.886	0.892	0.884	0.857	0.866
US\$/Euro	1.451	1.461	1.444	1.342	1.400
CHF/Euro	1.220	1.223	1.218	1.250	1.278
JPY/Euro	116.216	116.695	116.812	108.806	114.946
AUD/Euro	1.367	1.375	1.357	1.309	1.358
Stg/US\$	1.637	1.637	1.633	1.566	1.617

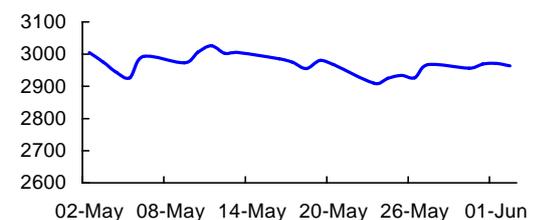
Bonds

	Yld	-1 Day	Yld 1 Wk	Yld 1 Mth	Yld 3 Mth
US 2 Yr	0.40	0.00	-0.06	-0.15	-0.30
US 10 Yr	2.96	0.00	-0.06	-0.18	-0.51
US 30 yr	4.21	0.00	-0.04	-0.09	-0.39
UK 2 Yr	0.84	-0.01	-0.02	-0.14	-0.56
UK 10 Yr	3.28	-0.02	0.03	-0.09	-0.47
BD 2 Yr	1.60	-0.03	0.01	-0.12	-0.06
BD 10 Yr	3.04	-0.02	0.04	-0.04	-0.25
Irish 10 Yr	10.57	0.19	0.05	0.40	1.31

Commodities

	Current	1 Day	1 Week	1 Mth	1 Yr
Crude Oil US\$/BBL	118.70	0.92	4.08	5.40	57.91
Gasoline C/Gal	294.86	3.33	1.80	-8.67	46.70
Heating Oil	312.66	1.47	3.14	5.96	54.32
Natural Gas \$/MMBTU	4.92	1.13	4.46	16.19	10.20
Gold \$/oz	1539.95	0.22	0.87	2.08	25.73
Silver Cts/oz	3703.00	2.24	-0.51	-2.55	102.88
Copper US\$/MT	9040.00	0.28	1.49	1.95	43.24
Wheat Cts/Bu	863.25	-1.57	-4.19	-4.61	111.06
Corn Cts/Bu	777.90	2.56	2.29	13.31	139.35

ISEQ performance



Source: Datastream

Economic View; ECB stands firm on its views

The ECB firmly placed down a marker of its independence at yesterday's press conference. Not only did it signal that its base interest rate is set to rise again in July, it set out its stall very clearly on the issue of burden-sharing in relation to Greek sovereign debt. Sticking to its position on the issue, President Trichet stated that it is not in favour of restructuring and called for avoidance of "any credit event and selective default". It declined to rule out a voluntary approach, thus leaving the door open for a "Vienna Initiative". The problem here is that Schauble's letter to the ECB President called for solutions that go beyond that very approach. A group has been set up at European level to look at whether there can be voluntary involvement with private creditors that does not trigger a default event, but time is not on their side and credit ratings agencies have been dismissive of the idea in recent days.

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We have said before that the June 20 deadline looked ambitious to get agreement on a further aid package for Greece given the many headwinds, both within Greece and at European level. In Greece, the cabinet has approved further austerity measures but these still have to be passed by Parliament, which is not a certainty. With the ECB and Germany still poles apart, markets are likely to remain sceptical on resolving this issue in the short-term. We would be in the same camp.

[Home...](#)

Economic View; Residential rental yield up to 5% but probably has more to rise

Within yesterday's CPI data, the CSO provides the latest information on residential rents, thus providing us with the opportunity to revisit the issue of rental yields. For the second consecutive quarter, private residential rents in Ireland increased modestly and are effectively flat on an annual comparison. At a minimum it appears that stability has returned to the Irish rental market after a fall of a quarter starting in early 2008. Despite the decline in rents, yields have increased from unsustainably low levels of c.3% to stand at 5% in Q2 2011 on our estimates.

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Using history as a guide, rental yields in Ireland are still too low. Since 1975, the average rental yield stands at 8%, but this includes the high interest rate periods of the 1970s and 1980s that we think are not helpful as a benchmark. During the 20-year period from 1990 onwards, rental yields average c.6%, but obviously included the boom years of the mid-2000s. One would think that yields do indeed need to return to 6%. Under the modestly cautious assumption that rents grow at an annual pace of c.2% over the next three years and house prices fall by 50% peak to trough, we estimate that the rental yield does indeed increase to 6%. Under the same assumption for rents, the yield would increase to 7.5% if the peak-to-trough decline touched 60%. Of course, other assumptions would give different results but the analysis gives some theoretical background to the debate around house prices and rents.

We would always include the caveat here that these figures use national statistics so do not capture the regional trends that we know exist. Nevertheless, it is positive to see stabilisation in rents return. If this trend was to continue it would take some pressure off the requirement for prices to fall further to complete the adjustment, but the analysis suggests that national prices still have some more to fall yet.

[Home...](#)

Kingspan; Mixed soundings on UK non-residential sector

The latest Savills Commercial Development Index for the UK shows that 22% of developers recorded a decline in activity levels in May versus 18% indicating a rise. This gives a net balance of -4% versus +1% in April and -10% in March. As has been the case for some time now, the public segment is the weakest, with a net balance of -18%. However, the private segment did deteriorate, coming in at +6% versus +12% in the previous month. From a sectoral perspective, industrial / warehouses remain the strongest at +1% but that is down from +4% in April.

While the indices measuring current activity levels were weaker, expectations have improved to +8% (+1% April and 0% March), which represents the strongest reading in 12 months. At a segmental level, industrial / warehouses was the strongest at +10%.

Overall, the data remains quite volatile with no clear trend emerging. The Non-residential sector is an important segment for Kingspan, particularly for the insulated panel business, for which we have factored in broadly flat markets for the UK into 2012.

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Recommendation; Buy
Closing Price: €7.07

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Gaming Sector; German Lander delay decision on gambling proposals until October

The leaders of Germany's 16 states yesterday put back a decision on online gambling proposals until October. The reason for the delay was to allow the Lander to incorporate the decision of the EC on whether the German proposals (16.66% turnover tax, online casino confined to land based licensees etc) comply with EU law. It was also stated that the Lander want all 16 states on board and all technical issues sorted.

In terms of yesterday's announcement, the fact that no particular amendments were announced is not surprising, in our view. The key event remains the EC detailed opinion, which is due to be announced on July 18th, and whether the EC finds that the proposals go against EU law and thus require amendments.

[Home...](#)

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FBD holdings; May CSO data – Stabilisation in Insurance prices

Inflation data released yesterday for May shows that home insurance is flat mom. This follows quite a significant move the previous month where prices rose by 3.3% while YTD home insurance is up 4.5%. Motor insurance, which was up 1.3% in April, has continued on its upward trajectory seen over the last 12 months, up 0.6% mom, leaving motor insurance up over 7.5% yoy. For the record, we have motor insurance down 3% this year in our model, so draw comfort from the continuing positive yoy trends. Also, in today's inflation data, health cost inflation was down marginally -0.1% mom. There have been increases every month bar one, since January 2010 and we welcome the reduction in the monthly rate. Additionally, in relation to claims, the level of road fatalities has decreased by 4.5% yoy in the 12 months to end May. On an absolute basis the number of fatalities is down significantly, c.14% on the same 5 month period last year. The improvement coming through could be an indication of changes in driver behaviour as a result of the increase in the number of speed cameras visible on the roads coupled with the recent roll out of legislation making driving lessons compulsory for learner drivers.

Overall, yesterday's release doesn't really change the outlook for our FBD forecasts and with the stock trading at 1.2x FY11f NAV, with a dividend yield of 4.6% and Dividend cover of 4.2x we re-iterate our Buy recommendation and €10 price target.

[Home...](#)

Recommendation; Buy
Closing Price: €7.45

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Abbey; Upbeat Bellway statement

Bellway has released a trading update for the seventeen weeks to end May. In an upbeat statement management notes that uncertainties affecting consumer confidence have diminished and trading patterns have returned to a more normal state, with the spring selling season described as "healthy". Sales rates have increased by 11% yoy for the period and the Group has already achieved its target for 5% volume growth set out in March, while average selling prices have increased by 4%, driven by mix. Operating margins continue to improve as land acquired through the downturn filters through the system. With regard to outlook, management believes that it can deliver operating margin and volume growth despite a continued constraint on mortgage supply particularly for first time buyers.

Overall, this is an upbeat statement from Bellway that gives us comfort around our forecasts for Abbey, which will report its full year results in July. At a 25% discount to NAV, we believe the stock remains cheap and reiterate our buy recommendation.

[Home...](#)

Recommendation; Buy
Closing Price: €5.05

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In the annual Extel Survey published earlier this week, Goodbody Stockbrokers took 4 of the 7 awards on offer for Ireland, taking 2 of the 4 company awards and 2 of the 3 individual awards. We would like to thank all our clients who voted for us in the survey and will endeavour to deliver on your vote of confidence in the coming 12 months again.

[Home...](#)

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