

DAVY MORNING EQUITY BRIEFING

03 February 2012

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RESULTS AND EVENTS

Tuesday February 7th; Bellway trading update. ArcelorMittal FY results. United Drug - AGM - The Shelbourne Hotel, 27 St. Stephen's Green, Dublin 2 - 12.00. **Wednesday February 8th;** CPL Resources - ex-dividend - interim dividend rate - 3.0c. Elan Corp FY results. Smurfit Kappa Group FY results. **Thursday February 9th;** Greencore - AGM - The Crowne Plaza Hotel, Northwood Business Park, Santry, Dublin 9 - 11.00. Diageo interim results. **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.

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MARKET COMMENT**Stocks rise ahead of today's services sector data****Conall Mac Coille, Chief economist**

Stock markets rose yesterday (February 2nd) ahead of today's purchasing managers indices (PMIs) for the global services sector. Also, following better-than-expected US initial jobless claims and another positive ADP employment survey, the market now expects that US non-farm payrolls will have increased by 140,000 in January when the official data are released today.

This morning, the revised services PMI surveys for Germany, France and the euro area are published. In January, the rise in the preliminary release of the euro area service sector PMI provided a positive surprise to markets. Services sector PMI surveys for January are released for the first time today for Italy, the UK and the US later this morning. Together with the non-farm payrolls number, the services sector PMIs have the potential to materially bolster market sentiment.

The Irish services PMI released early this morning showed a marginal fall to 48.3 in January, down from 48.4 in December. While below the 50 no change level, the correlation between the Irish PMI data and official GDP statistics is very poor. So we cannot infer too much about the pace of expansion in Irish GDP from the PMI surveys.

Yesterday's Exchequer Returns indicated 17% growth in tax revenues on January 2011. However, the annual comparison is distorted by timing effects, including the late receipt of €261m of corporation taxes that had been received too late last year to be included into the end-of-year accounts.

The most striking feature of yesterday's January Exchequer Returns was the strength of value added tax receipts (VAT), up 3% on the year. The VAT receipts in January predominantly relate to sales in November and December. So the 3.0% growth in VAT receipts add to evidence from the retail sales data that Irish consumer spending may have bounced back in the final quarter of 2011.

That said, consumers may have brought forward spending to avoid the increase in the top rate of VAT to 23% in January. In addition, the annual comparison is flattered by the poor weather in December 2010 which temporarily depressed consumer spending. Excluding the volatile motor trades sector, retail sales fell by 1.2% in December 2010 before expanding sharply by 1.4% in January 2011 as shoppers returned to the high street. So for now we cannot draw any concrete conclusions on the pace of tax revenue growth in 2012 from the Exchequer Returns.

CONSTRUCTION AND HOUSEBUILDING**Cemex Q4 numbers ahead; meets crucial covenant test****Tim Cahill**

FACTS: Cemex yesterday (February 2nd) reported Q4 2011 EBITDA of \$542m, comfortably ahead of both the Davy estimate of \$515m and consensus of \$525m. Q4 2011 sales rose 6.0% year-on-year (yoy) with EBITDA up 13% yoy. EBITDA margins increased by 90bps yoy.

ANALYSIS: The period was characterised by much better weather yoy versus Q4 2010, which resulted in better-than-expected results in Northern Europe (EBITDA +72% yoy) and the US (EBITDA was -\$20m versus -\$36m in Q410). The group reported a reasonable result in Mexico (EBITDA +7% yoy), while Spain and Egypt had a tough quarter (Mediterranean EBITDA -26% yoy). The result from Asia was difficult due to the Philippines, and EBITDA was down 8% yoy. Net debt (including perpetual) at end-2011 was \$16.9bn (net debt/EBITDA as calculated by Cemex was 6.64x so complied with December 2011 covenants of net debt/EBITDA 7.0x). The next covenant test will be 6.5x at end-June 2012. The group sold \$225m of assets in 2011 and expects to sell a further \$500m in 2012. The restructuring programme delivered cost savings of \$150m in H2 2011, and management expects to reach a run-rate of \$400m by end-2012.

DAVY VIEW: This set of results from Cemex is along expected lines, with good weather providing decent numbers in the US and Northern Europe. Geographically, it looks like HeidelbergCement receives the most positive read-through (US, Germany, Poland) from these results, while Lafarge is the next loser (Egypt, Spain). We reiterate our view of being long HeidelbergCement and underweight Holcim and Lafarge into the Q4 2011 earnings season. HeidelbergCement will be the first out of the blocks with a trading statement on February 9th.

Sector valuations**Travis Perkins plc (TPK LN)**

Price:924p Rating:Neutral Issued:03/08/11 Previous:Underperform Issued:16/05/11

OFT to review Toolstation acquisition**Flor O'Donoghue**

FACTS: The Office of Fair Trading (OFT) intends to review Travis Perkins's (TPK) recent acquisition of the remaining 70% of Toolstation.

ANALYSIS: TPK has said it "sees absolutely no basis for this notification". The transaction was announced on January 3rd. TPK acquired its initial stake in April 2008 and it was no surprise that the group decided to take full ownership. TPK's plan is that Toolstation will form part of the group's consumer division when the new reporting structure is presented with the 2011 results (February 27th).

DAVY VIEW: Judging by TPK's comments, management is confident that the deal will get the green light. Although Toolstation has grown rapidly to now operating from over 100 branches, it is still small in the context of a TPK business that has annualised revenues approaching £5bn.

Company summary and analysis

AIRLINES

Airlines' January statistics to be released today; Malev ceases to operate

Stephen Furlong

FACTS: Ryanair and IAG report January traffic statistics today; Malev stops operating.

ANALYSIS: For Ryanair, we expect capacity take-out to be likely down high single digits to reflect the grounding of aircraft in the winter. We expect loads in the 70-71% range. For IAG, we expect low-single-digit capacity growth and flat loads of c.74%. The key factor will be premium growth, which is expected to continue to be modestly ahead of non-premium. IAG previously stated that the long-haul premium market is "stable".

Meanwhile, Malev has stopped operating and grounded all aircraft as of 05.00 GMT. Founded in 1946, Malev operates 21 aircraft including 16 Boeing 737 next generation. The main beneficiaries should be low-cost airlines Wizz, Ryanair and easyJet. Ryanair recently opened five new routes from Budapest to Birmingham, Bologna, Bristol, Dublin and London (Stansted). easyJet flies to Berlin, Dortmund, Geneva, Gatwick, Luton, Paris CDG and Orly.

DAVY VIEW: We expect overall capacity discipline in the low-cost market, a factor that will be illustrated by Ryanair's traffic statistics. In addition, it appears that weaker players are falling away rapidly. For the network airlines, the growth of premium traffic and whether the premium market has remained stable will be closely watched.

Sector valuations

PHARMA AND HEALTHCARE

Elan Corp (ELN US)

Price: \$13.65 Rating: Outperform Issued: 30/06/09

Alkermes upgrades FY guidance after strong Q3

Jack Gorman

FACTS: Alkermes (ALKS) upgraded its FY guidance after a strong Q3 out-turn. Elan is a 25% shareholder.

ANALYSIS: The quarter included the first full quarterly contribution from EDT, acquired from Elan in September 2011. Revenues rose from \$44m to \$125.6m, while adjusted EBITDA surged from a loss of \$4.1m to a profit of \$29.7m.

Growth was driven by sales, manufacturing revenue and royalties from ALKS' five key products and also from a robust performance from its mature products portfolio:

- Its long-acting antipsychotics (Risperdal Consta, Invega Sustenna/Xeplion) reported revenue growth of 35% to \$47.6m.
- Amypra contributed \$10.2m (added as part of EDT transaction).
- Vivitrol grew by 38% to \$10.6m.
- Bydureon contributed \$0.3m after its launch in some EU countries in the second half of calendar 2011.

ALKS also provided updated guidance for the year ending March 2012. The revenue range was increased from \$350-380m to \$370-400m. Adjusted EBITDA was increased similarly from \$45-55m to \$65-75m.

DAVY VIEW: The integration of EDT has started successfully, as reflected in strong Q3 results and upgraded FY guidance. Strong growth in key products and several data read-outs on its pipeline during 2012 bode well for the stock. The shares broke above \$19 post results, putting a value on Elan's shareholding of approximately \$615m.

Company summary and analysis

FOOD AND BEVERAGE

ARYZTA (YZA ID)

Price: 3565c Rating: Outperform Issued: 14/06/10 Previous: Neutral Issued: 30/06/09

Artisan holds 33% share of US in-store bread category

John O'Reilly

FACTS: US in-store bread sales delivered growth of 2.9%.

ANALYSIS: Artisan breads accounted for one-third of in-store bread sales in the US for the 52 weeks ended October 2011. Total in-store bread sales rose by 2.9% year-on-year. Leading the category was crusty/hot heart breads with a 39.2% share. Bread's share of the total in-store bakery category was 19.1%. In-store bread sales rose by 22.7% from 2006-2010, an annual average rate of growth of 5.2%. The data, provided by Nielsen Perishables Group, are reported by *Modern Baking*.

DAVY VIEW: US in-store bakery is a channel for ARYZTA's La Brea, which other data have shown to be among the top ten brands in US bread. Historic 12-month data would suggest that bread price rises have fallen short of input cost rises. But more recent data indicate a very substantial easing of input cost pressure.

Company summary and analysis

EU Sweeteners: Dutch sugar co-op maintains net profit and pays higher beet price to farmers

Jack Gorman

FACTS: Royal Cosun expects 2011 net profit to be €115m (2010: €109m).

ANALYSIS: For what is predominantly a sugar beet processor, the net profit out-turn might be considered surprising given the sharp uptick in EU sugar pricing through 2011. However, the co-operative has instead passed on almost all of its improved trading performance to its members in the form of a higher beet price.

Cosun will pay €55.69 per tonne of quota sugar beet delivered in the 2011/2012 campaign. This is a 29.5% increase year-on-year (yoy).

Suiker Unie (sugar) was reported to have "turned in an excellent result...high prices on the world market and scarcity on the European market led to firmer selling prices...". The recent harvest campaign closed successfully in mid-January and lasted 130 days.

Its non-sugar operations, ranging from starch to inulin to fruit/vegetable concentrates, also performed well yoy.

DAVY VIEW: The percentage increment in payments to beet farmers for quota sugar is broadly similar to that seen in Austria (+33%) and a little lower than in southern Germany (+40%). It is clear that the upturn in sugar profitability has been shared across all stakeholders. The supply/demand situation in European quota sugar still remains tight; this bodes well for annual contracting, beginning in mid 2012, for the 2012/2013 marketing year.

Sector valuations

RESOURCES AND ENVIRONMENT

Petroceltic (PCI LN)

Price:8p Rating:Outperform Issued:30/06/09

ENEL transaction completed

Job Langbroek

FACTS: Petroceltic has announced the completion of the sale of an 18.375% stake in the Isarene PSC to ENEL Trade SpA. Post deal, Petroceltic holds a 56.625% interest in the licence.

ANALYSIS: Following the news that the transfer of a part of the Isarene licence had been officially gazetted, the completion of the sale allows the payment of past costs, funding of 49% of the recent appraisal programme and a contingent payment (up to a maximum of \$75m) to take place. The recovery of past costs and the contribution to the appraisal programme are due to be paid within 30 days.

DAVY VIEW: While the gazetting news some days ago provided a clear line of sight to payment, the completion announcement crystallizes the payment date. The receipt of funds should completely remove any residual market concern that the structure of the balance sheet would not be able to keep pace with the cash demands of its various projects. The contingent payment due later this year provides a significant source of funds for new ventures above that in the group at present. Reviewing the new equity position in the licence and the delays in progressing its Italian asset portfolio, we have tweaked our group valuation to 26p per share (formerly 28p), with the bulk made up of a 16.4p contribution from Algeria.

Company summary and analysis

Kenmare (KMR ID)

Price:\$0.79 Rating:Outperform Issued:30/06/09

Prices to remain stronger for longer

Caren Crowley

FACTS: Exxaro, a South African mining company, has released a trading update.

Exxaro has South African mineral sands operations at KZN Sands on the Eastern Cape and at Namakwa Sands on the Western Cape. It also is a partner in the TiWest mineral sands and pigment manufacturing joint venture in Australia. It is currently merging its mineral sands operations (c.7% of the global market) with pigment producer Tronox.

ANALYSIS: For FY2011, Exxaro expects that its mineral sands business will report a higher operating profit than the corresponding period in 2010 due to a general increase in selling prices of its products. By exclusion, it can be inferred that Exxaro did not manage to grow production or sales volumes.

Exxaro's profits in 2011 will also be boosted by the partial reversal of some R869m of the carrying value of the KZN Sands operations. In 2009, Exxaro reported a R1,435m impairment of the carrying value of the assets of KZN Sands after the decision not to proceed with the development of the Fairbreeze mine. Management has reversed this decision. Fairbreeze is not due on-stream until 2014 and will replace (not supplement) the Hillendale deposit at which mining is expected to cease this year. We understand environmental permits are delaying construction of Fairbreeze.

DAVY VIEW: Exxaro's result underscores a theme in the mineral sands sector: new supply is costly and prices must stay stronger for longer despite the three-to-fourfold growth in prices of certain minerals sands products in 2011.

Company summary and analysis

PAPER AND PACKAGING

Smurfit Kappa Group (SKG ID)

Price:635c Rating:Outperform Issued:30/06/09

Director appointment

Robert Gardiner

FACTS: Smurfit Kappa Group has announced the appointment of Irial Finan to the board as an independent, non-executive director with effect from February 2nd 2012.

ANALYSIS: Irial Finan (54) is currently Executive Vice President of The Coca-Cola Company and President of the Bottling Investments Group. He joined the Coca-Cola System in 1981. Prior to his appointment to his current role in 2004, Irial served as Chief Executive Officer of Coca-Cola Hellenic, a large public bottler with operations across Western, Central and Eastern Europe and West Africa. He is currently responsible for leading a multi-million-dollar internal bottling business, Bottling Investments Group (BIG), which has operations across four continents. He is also responsible for the stewardship of The Coca-Cola Company's Equity Investments and leads the Commercial Product Supply organization (CPS). Finan holds a Bachelor of Commerce degree from National University of Ireland in Galway and is a Fellow of the Institute of Chartered Management Accountants.

Company summary and analysis

THE DAY IN NUMBERS

	<i>Index value</i>	<i>Change</i>	<i>% Change</i>
IRISH MARKET			
Total Market (ISEQ)	3065.8	-2.5	-0.1
ISE Financials Index	178.7	9.2	5.4
ISE General Index	4182.8	-15.2	-0.4
ISE Small Cap Index	1767.2	-6.4	-0.4
SECTOR INDICES			
FTSE E300 Constr. & Mats.	1309.7	13.1	1.0
FTSE E300 Food Producers	1673.8	-33.6	-2.0
FTSE E300 Travel & Leisure	1189.4	7.8	0.7
EUROPEAN MARKETS			
FTSE Eurofirst 300	1059.5	2.4	0.2
FTSE 100	5796.1	5.4	0.1
CAC 40	3376.7	9.2	0.3
DAX	6655.6	39.0	0.6
US MARKETS			
S&P 500	1325.5	1.5	0.1
Nasdaq	2859.7	11.4	0.4
DJIA	12705.4	-11.1	-0.1
REST OF THE WORLD			
ASX All Ordinaries	4333.2	42.2	1.0
FTSE/JSE Africa All Share	34371.5	232.0	0.7
NZX 50	3314.6	12.8	0.4
Hang Seng	20758.4	18.9	0.1
Shanghai SE Composite	2312.6	44.5	2.0
Nikkei 225	8831.9	-44.9	-0.5
FTSE All World Developed	168.7	0.5	0.3
COMMODITIES			
Brent Oil \$/bbl	112.0	1.4	1.3
CRB Commodity Index	501.0	0.6	0.1
Gasoline US\$/gal	288.3	-1.0	-0.3
Gold \$/t oz	1759.1	15.7	0.9
Natural Gas GBp/therm	61.9	1.0	1.6
EXCHANGE RATES			
Stg/EUR	0.8315	-0.0005	-0.1
USD/EUR	1.3143	-0.0041	-0.3
USD/Stg	1.5803	-0.0043	-0.3
INTEREST RATES			
Euro 3 Mth Money Rate	1.11	-0.01	-0.6
UK 3 Mth Money Rate	1.08	-0.00	-0.1
US 3 Mth Money Rate	0.53	-0.01	-1.2
BOND YIELDS			
Ireland 10 Yr Bond Yield	7.00	0.02	0.2
Euro 10 Yr Bond Yield	1.87	0.02	0.8
UK 10 Yr Bond Yield	2.10	0.05	2.5
US 10 Yr Bond Yield	1.82	-0.01	-0.3

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