



Friday 5th September 2008

DAILY COMPANY NOTE — Aer Lingus See page 2 & 3 for full details

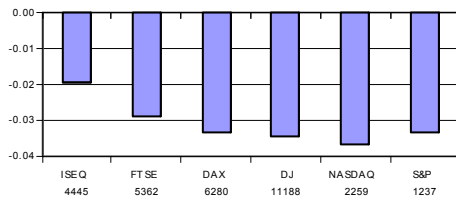
Daily Market Comment

Yesterday's Summary : On that day that saw both the ECB and the Bank of England leave interest rates unchanged at 4.25% and 5% respectively, the ISEQ finished deep in negative territory yesterday, closing 1.71% lower at 4,444.78. Furthermore, with the ECB lowering its eurozone growth forecast and implementing changes in its collateral requirements for lending in open market operations, the financials had a poor performance. AIB fell 3.3% to €8.41, Bank of Ireland lost 3.5% to €5.53, while Anglo Irish Bank ended down 2.28% at €5.58. Smurfit Kappa, continuing to benefit from the strengthening dollar, gained 5.4% to €4.58.

Overnight News : US markets sold off heavily overnight as a combination of weak domestic retail sales, a declining labour market and fears that faltering global growth will impact on the profits of some of America's largest multi-national companies, undermined investor confidence. The Dow Jones, dragged down by the financials, closed down 2.91% at 11188.23.

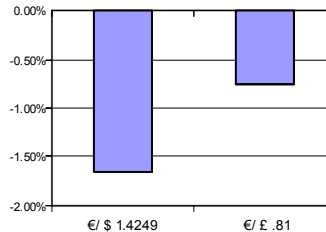
Breaking News : Aer Lingus has announced it carried 1.01 million passengers in August, as passenger traffic, measured in revenue passenger kilometres, rose 8.8% from 2007. On short haul routes, the load factor increased to 83% from 82.9% from the same period last year, while on long haul routes the load factor fell to 77.5% from 80.3%. Easyjet has also reported its August passenger stats and the British airline said it carried 4.6 million passengers in August, up 23.7% from 3.7 million year on year. The low cost carrier posted an August load factor of 83.9%, up from 83.8% in the same month a year earlier. French investment bank Natixis has announced it will offer new shares in its €3.7bn rights issue at a price of €2.25 each, representing a discount of around 62% to its current share price.

Equity Indices change on day

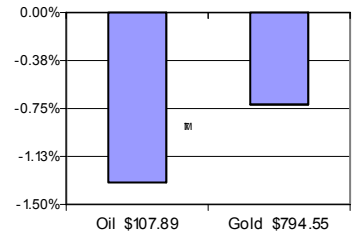


-1.71% -2.50% -2.91% -2.99% -3.20% -2.92%

Currency daily % change



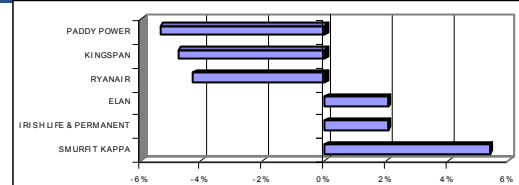
Oil/Gold daily % change



News

- “Anglo Irish Stock on loan falls 20 12.47%”-(The Irish Times)
- “ECB holds rates over inflation fears”-(The Irish Times)
- “Google shakes web with new browser”-The Irish Times)
- “BP to yield on the demand of Russian billionaire partners”-(Irish Independent)
- “Stronger dollar boosts shares at Smurfit Kappa”-(Irish Independent)

ISEQ Performers/Losers 04/09/08



Market Themes & Movers

Non farm payrolls probably declined: The US probably lost jobs in August for an eight consecutive month, raising the risk that growth will slow in the second half of the year. The market expects non-farm payrolls to fall by a further 75,000 after declining by 51,000 in July. The unemployment rate likely stayed at a four-year high of 5.7%. Mounting job cuts are adding to concerns about the US economy due to lower home values, scarcer credit and higher prices. The reduction in the labour force is being felt through the majority of sectors. High costs and slowing sales have plagued car makers and airlines. General Motors Corp, the largest US automaker is offering early retirement incentives to about 9,000 US salaried workers, while United Airlines, the worlds second largest carrier, will shed 1,550 flight attendant jobs to help stem losses. The projection for today's jobs report would bring the total decline in payrolls so far this year to more than half a million. The nonfarm payrolls number is due at 1.30pm today.

Currency volatility continues : The yen climbed to the highest in more than a year against the euro on concern the credit-market slump will lead the world into recession prompting investors to sell higher-yielding assets funded in Japan. Against the euro, Japan's currency climbed to 150.60 yen, the strongest since August 17 2007, while it reached 105.69 per dollar, the highest since July 17. Japan's currency often gains ground when demand for higher-yielding assets declines, as traders reverse what are known as carry trades. In such trades, investors get funds in a country with low borrowing costs and buy assets where returns are higher. Elsewhere, the euro dropped for a seventh straight day against the dollar, its longest decline since 2006. The ECB left interest rates on hold yesterday at 4.25% and Jean Claude Trichet reiterated that risks to growth are on the downside. The currency extended its decline after Luxembourg's Finance Minister Jean-Claude Juncker told reporters yesterday the currency is 'effectively overvalued'.



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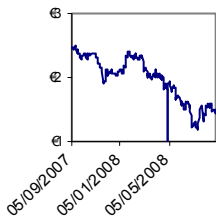
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Aer Lingus

ISEQ
Airline
Company Profile

The Group's principal activity is providing passenger transportation services. The Group operates a single economy class service on its short-haul network, comprising a maximum of 11 routes to the United Kingdom and 57 routes to Continental Europe, and a two-class service on its long-haul network, including a maximum of nine routes to the United States.

Statistics
Price Performance

Revenue by Geography


■ Europe 66%
■ Rest of World 34%

Fundamental View:

- Last week, following their interim results announcement, Aer Lingus' CEO, Dermot Mannion and CFO, Seán Coyle, presented to us as part of their post results road show. Areas of key focus were the airlines performance over the six months to July 30th and considering the airlines overly inflated cost base, managements plans to fundamentally address this.
- In the first half of the year, the group reported an operating loss of €22.3m, which was down from a modest operating profit of €2.6m in 2007 and was driven by a 49% increase in its fuel bill to €172m. EBITAR fell 32% to €36m and total passenger load factor reduced by 5.1% to 70.2%. In terms of yields, short haul average fares were down 4.8%, while long haul average fares were up 2.6%, resulting in a total average fare decline of 2.6%. In spite of this, revenue per passenger was flat year on year at €107.7m, amid an impressive 25% rise in ancillary revenue.
- Going forward management fully recognises there are difficult times ahead and has lowered its guidance to an expected full year loss, from a possible breakeven result. They have indicated that long haul capacity will be reduced by 11% yoy for the winter period, while short haul will be decreased by 1%. Furthermore, the airlines impressive net cash position, that is currently at €802m, will be eroded and is estimated to stand at c.€550m by financial year end 2009. With regards to oil prices, it has 70% of fuel requirements hedged at \$1,137/mt (c. \$114 per barrel) for the rest of the year and 20% at \$1,165/mt (c.116 per barrel) for full year 2009.
- In terms of operating costs, with its short haul cost per passenger standing at c.€80, which is compared with €40 and €60 for Ryanair and EasyJet respectively, Aer Lingus does acknowledge the urgent need for an "unrelenting" cost cutting strategy. In light of this, It has not eliminated the possibility of selectively changing the airports from which it operates out of, in a bid to reduce airport charges and has indicated that it will inform the market with specific cost cutting strategies and targets by the end of September.

Valuation

- Despite the strength of Aer Lingus' balance sheet and the fact the current share price places no value on its 23 Heathrow slots, we are placing a neutral rating on the stock, with a price target of €1.73 based a multiple of 1.0x net book value per share. We believe this fairly represents not only the uncertain earnings outlook that high oil prices presents, but also the difficulties it will face in attempting to restructure its inefficient cost system.

Next Catalyst

- Excluding monthly traffic updates, other near term catalysts include any updates regarding the airlines various new revenue initiatives, which include; Sum of all parts single booking system and its new codeshare signed with United Airlines, and the much anticipated disclosure of its strategies to battle its excessively high cost base.

Chart View: Aer Lingus

Primary Resistance: 1.77
Secondary Resistance: 1.94
Primary Support: 1.32
Secondary Support: 1.15

Stock is being squeezed between key resistance and its short term uptrend. In the near term resistance is likely the hold with price pulling, however longer term chart outlook is more ambiguous.

Major Shareholders	%	Peer Group Multiples			
Ryanair Holdings	29.82%	Company name	P/E 08	P/E 09	EPS Growth 08-09
Minister for Finance	25.12%	Aer Lingus	n/a	n/a	n/a
Aer Lingus ESOP	14.23%	Ryanair	N/a	27.1	N/a
Bank of Ireland	3.74%				
Irish Airline Pilots	2.25%				
Shares Outstanding	533.96m				

Share Data	Financial Data	2007	2008e	2009e
Current Price (€)	Revenue (€m)	1,298	1,396	1,454
Mkt Cap (€m)	Net Profit (€m)	102	-9	-40
Reuters	EPS (€)	0.17	0.00	0.00
Bloomberg	P/E(x)	9.56	n/a	n/a
Sector				
CEO	Airline			
CFO	Dermot Mannion			
Website	Séan Coyle			
	www.aerlingus.ie			





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