



Thursday 10th July 2008

DAILY COMPANY NOTE — Kerry Group See page 2 for full details

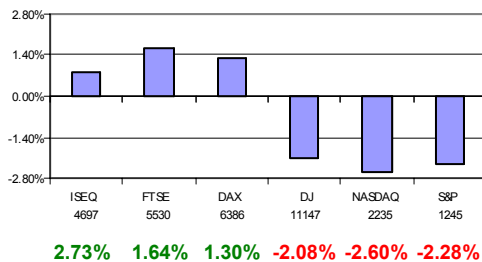
Daily Market Comment

Yesterday's Summary : The ISEQ, following its lead from Wall street overnight, had a strong performance yesterday, closing 2.73% higher at 4,786.18. Investor sentiment was lifted amid Ben Bernanke comments that the Fed may extend its primary dealer credit facility for investment banks into 2009. The financials recovered some of their Tuesday declines, as AIB gained 5.6% to €8.55, Bank of Ireland climbed 7.1% to €4.83 and Anglo Irish Bank added 4.2% to €4.88. With investors growing nervous ahead of the group's AGM tomorrow, C&C shed 7.1% to €3.00. Elan rose 5.85% to finish at €22.97 on broker upgrades.

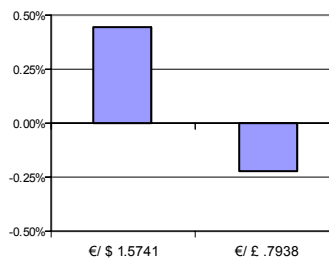
Overnight News: In China, the Shanghai Composite Index closed down 1.54% at 2,875.45, with airlines and brokers leading the decline. The Australian S&P/ASX 200 closed down 1.5% at 4,937.4, as investors took to the sidelines worried about the U.S. second quarter reporting season. Japan's Nikkei 225 closed up 0.1% at 13,067.21, led by banks.

Breaking News : Grafton, the Irish building supplier, has reported that group turnover in the six months ended June fell to €1.4bn, from €1.6bn in the same period a year earlier. Despite this, the group said it remains confident about the long term fundamentals underlying the value of its business in the UK and Ireland. Tullow Oil, in a drilling update this morning, has announced that the result of the second test on Mahogany-2 continues to demonstrate the high quality of the Jubilee field and supports the partners' fast track development approach. In addition, the latest result means that plans to sanction the development of the Jubilee later in 2008 remain firmly on schedule. Abbey has reported pre-tax profits of €16.8m which is against €45.3m the previous year. The group added that profits have been materially effected by an impairment charge of €20.6m against land and work in progress.

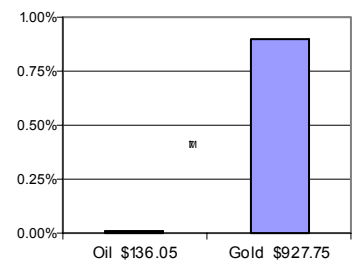
Equity Indices change on day



Currency daily % change



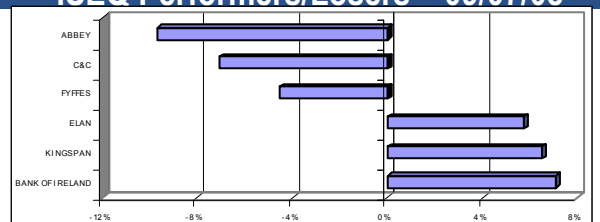
Oil/Gold daily % change



News

- "Tullow Oil chief expects substantially higher profits"-(The Irish Times)
- "Aer Lingus warns it may cut routes"-(The Irish Times)
- "AIB subsidiary raises stake in BPH"-(The Irish Times)
- "Ulster Bank says effects of downturn to last into next year"-RBS-(I.I)
- "Buyout hopes lift Bingley"-Bradford & Bingley-(Irish Independent)

ISEQ Performers/Losers 09/07/08



Market Themes and Movers

Bank of England Interest Rate Decision: At 12:00 today the Bank of England will announce its latest interest rate decision and expectations are for borrowing rates to be left on hold at 5%. Bank of England Governor Mervyn King and the UK Monetary Policy Committee are walking a tight rope as the economy continues to slow and commodity prices continue to rise. Inflation grew at the fastest pace in more than a decade in May and declining home values and tighter credit have meant the UK economy is in danger of coming to a halt. This has left the Bank of England with little or no room to either stimulate growth by lowering interest rates or combating inflation through raising rates. Meanwhile, according to a HBOS report, UK hose prices fell the most in 15 years indicating the worst property slump since the last recession in 1991. When compared with the same period a year earlier, the average cost of a home declined 6.1% in the three months ending in June.

Fannie & Freddie: US financial stocks tumbled in trading last night as Former St. Louis Federal Reserve President William Poole has said that the chances the US government will need to bail out both Fannie Mae and Freddie Mac are increasing. Concerns relating to the two US government sponsored mortgage companies rose yesterday, as Fannie Mae paid a record yield relative to treasuries on the sale of \$3bn in two year notes. Financial Markets have begun to question weather the biggest provider of financing for US home loans will have enough capital to survive the worst housing slump since the Great Depression.



Dolmen Securities
75 St. Stephen's Green, Dublin 2, Ireland.
45 South Mall, Cork, Ireland
Theatre Court, Mallow St, Limerick, Ireland.

Website : www.dolmenstockbrokers.ie
Tel : +353 1 633 3800/1890 400 300
Tel : +353 21 422 2122
Tel : +353 61 436 500

E-mail: info@dsl.ie
E-mail: cork@dsl.ie
E-mail: Limerick@dsl.ie

Kerry Group

Stuart Draper
Buy
Target
€23.00
Previous (04/09/07)

€22.00
Current
€18.80
ISEQ
Food
Company Profile

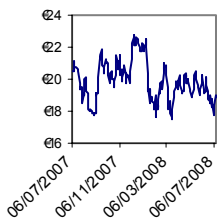
The Group's principal activity is manufacturing and marketing of food ingredients and flavour technologies to the global food and beverage industries. The Group also operates as a consumer foods processor and supplier in selected EU markets. The Group supplies over 10,000 food, food ingredients and flavour products to customers in more than 140 countries worldwide.

Fundamental view: Since the AGM held on the 14th of May, Kerry Group has fallen 7% compared to the ISEQ which has fallen by 25% in the same period. The company has recovered margin in the consumer foods division during 2007 with an increase of 10bps to 6.40% with the Ingredients & Flavours division holding margin constant at 9.4%. Kerry group generates 65% of it's profits in GBP & USD and these currencies weakened by 10% during 2007 against the Euro plus food commodities hitting all time highs shows how management have learned to handle costs since the profit warning in 2006.

This is the first full year in charge for the new CEO, Stan McCarthy, who previously headed the Americas division. During his time in that division he increased sales by 63% and profits by 26% even with the dollar declining significantly over the period. His strategy going forward for Kerry is to roll-out Americas operating model to other areas to increase synergies and enable cross selling to increase margins. Another part of the Americas operating model is to integrate Kerry's technologies into customer operations and work with the customer to provide the solutions they want. This has the benefit of trying the customer closer to Kerry Group and makes it harder for them to change supplier.

Next catalyst: Stan McCarthy's aim is to double sales over the next 5-years and this will require acquisitions plus organic growth. Kerry are currently waiting for approval on their purchase of Breeo Foods from the Irish Competition Authority and this is the first purchase by Kerry in nearly 3-years. The company has a strong balance sheet and generates Free Cash Flow (FCF) of €257.2m based on 2007 figures and interest cover is over 4x. The fall of private equity investors in the past year will allow Kerry to make acquisitions at prices it deems reasonable.

A number of Kerry's peers have reported issues with rising raw materials and currency issues that will contract margins in their food ingredients divisions. Kerry has offset some of this risk since their experience in 2006 as they have put pricing contracts in place that link volatility in commodity pricing back to the customer.

Statistics
Price Performance


Management have guided EPS for 2008 in a range of €1.51 to €1.55 and if exchange rates stay at current levels, double digit EPS growth is possible in 2009. Estimating EPS for 2008 at the middle of management expectations and assuming 10% growth in 2009, EPS in 2009 would be €1.68. Kerry's peers trade at 13.5x and this would give a 12-month price target of €23 and a 22% up-side from the current share price. The next date for an up-date from Kerry is on the 26th of August with the release of their interim results.

Chart view: KerryGroup

Primary Support: 18.25
 Secondary Support: 17.39
 Primary Resistance: 20.44
 Secondary Resistance: 22.69

Downtrend still remains. Near term bullish price action is currently testing this trend. Should this be broken at 20.44, further upside potential exists, with a price target set a 22.69.

Profit by Destination


- Europe 64%
- Americas 27%
- Asia Pacific 9%

Major Shareholders	%	Peer Group Multiples			
		Company name	P/E 08	P/E 09	EPS Growth 08-09
Kerry Co-Op Creameries	23.79%	Kerry Group	12.3	11.2	9.80%
AIM Trimark Investments	6.96%	Danisco	13.7	11.5	4.47%
Capital world Investments	5.13%	Givaudan	12.1	11.1	9.12%
Invesco Asset Mangement	4.98%				
M&G Investment Management	2.03%				

Shares Outstanding	174.71m	Next Event	Interim Results	26th August
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Share Data	Financial Data	2007	2008e	2009e
Current Price (€)	Revenue (€m)	4,788	4,978	5,188
Mkt Cap (€m)	PBT (€m)	309	326	360
Reuters	EPS (c)	1.44	1.53	1.68
Bloomberg	P/E(x)	4.80	12.29	11.19
Sector	DPS (c)	0.20	0.22	0.24
CEO	Dividend Yield	1.10%	1.17%	1.28%
Chairman				
Website				





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