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### Market Movers

## IRISH PAPERS TODAY

Recapitalisation goes ahead but Lenihan faces fresh pressure  
*(The Irish Times)*

Smurfit cancels dividend payout  
*(The Irish Times)*

Banks gets €7bn but Lenihan faces crisis  
*(Irish Independent)*

## INTERNATIONAL PAPERS TODAY

Crisis prompts Bank of England to boost money supply  
*(Financial Times)*

US reaches a deal on stimulus package  
*(The Wall Street Journal)*

## DOLMEN DOZEN

Company	1-day %	YTD %
Aryzta	-0.7%	-18.3%
BP	1.4%	-4.1%
CRH	2.2%	3.9%
E.ON	-0.6%	-16.1%
HPQ	-0.4%	-3.3%
IL&P	-9.8%	23.7%
INM *	-7.7%	-41.8%
J&J	1.1%	-4.2%
JPMorgan	6.0%	-17.3%
Microsoft	2.2%	-1.2%
Paddy Power	2.5%	-14.0%
Vodafone	0.7%	-4.7%

\* We are currently Neutral on IN&M

## Irish Banks recapitalisation :

Analyst : Oliver Gilvarry

Last night the Minister for Finance announced details of the recapitalisation of AIB and BOI. The terms of the deal include €3.5bn in capital being injected into each bank in the form of preference shares. The shares will pay a coupon of 8% to the government and an arrangement fee of €30m is payable to the state by each bank on closing of the deal. In terms of capital the shares are classified as Core Tier 1 and rank the same as ordinary shares in the event of liquidation, but on payment of dividend they rank higher than ordinary shares and are pari passu with payments on other preference shares in issue. The government will have the right to appoint 25% of each board as long as the preference shares are outstanding and it retains 25% of voting rights in the event of change of control and board appointments. The preference shares may be redeemed by the banks at par at any stage within five years. After five years they must be redeemed at a 25% premium to par.

The preference shares will also include warrants allowing the government to purchase 25% of the existing ordinary shares in each bank (calculated on a post-dilution basis). The state has the right to exercise this option from the 5<sup>th</sup> to 10<sup>th</sup> anniversary of the purchase of the preference shares. If either bank raises core tier 1 capital from sources other than the government, and uses the funds to reduce the government holding of preference shares, the warrants will be reduced pro-rata to that redemption amount representing not less than 15% of the existing shares of the bank (Core Tranche). The strike on the core tranche of the warrants will be €0.975 and €0.52 for AIB and BOI respectively. For the remaining 10% the state may purchase through the options, the strikes are €0.375 and €0.20 for AIB and BOI respectively.

The terms of the recapitalisation also includes conditions to promote lending into the economy, with both banks to increase mortgage volumes for first time buyers by 30% and lending to Small Medium Enterprises (SME) by 10%. Both AIB and BOI have agreed that they will not begin repossession proceedings on principal primary residence for 12-months for clients in arrears.

The deal is very close to what was leaked into the media over the last two weeks. No firm details were provided on the creation of a "Bad Bank", but reference was made to the government examining proposals for the management and reduction of exposure to certain assets such as property loans. On the extension of the government guarantee on dated bank liabilities, the minister's statement included a comment the guarantee will be reviewed in April and it may be amended to follow EU trends where the average state guarantee extends beyond 2010.

The deal continues to be based on preference shares, which are closer to debt than equity. Their ability to absorb losses is much less than ordinary equity and this fact will mean the attractiveness of AIB and BOI equity is reduced due to this plus the potential 25% stake the government may hold in each bank.

**BoI : Neutral**    **Current Price (€0.61)**    **Price Target (€1.85)**    **Analyst : Oliver Gilvarry**

BOI released an Interim Management Statement (IMS) this morning following on from the recapitalisation announcement last night. In the statement BOI has changed its guidance on impairments again with an increase in impairment charges over the next three years from €3.8bn to €4.5bn, of which €1.5bn is expected to arise in FY08/09. The increase of €750m from the previous guidance is mainly due to a more negative outlook for growth and unemployment in the UK and Ireland. Management have stated this is their base case but there is a downside risk to their estimate which may result in an additional loan impairment charge of up to €1.5bn for the three years to March 2011. This would give a total impairment charge of €6bn under management's worse case scenario. In the interim results, guidance was given that the second half of the year would be "slightly better than breakeven", guidance is now for an underlying loss in the second half of the year, but the bank expects to report an underlying profit for the full year.

The statement is very negative and the potential for impairments to hit €4.6bn over the next 2-years is a concern. Due to the difficult trading conditions facing BOI in the next two financial years and large level of impairments, the bank will make losses in FY09/10 and FY10/11. The recapitalisation gives BOI time, but the ability of the bank to raise new equity to repay part of the government preference shares by the end of 2009 is unlikely with the level of bad debts and losses the bank is facing.

**Greencore : Buy**    **Current Price (€0.80)**    **Price target (€1.70)**    **Analyst : Oliver Gilvarry**

Greencore has issued a management statement this morning where it said that group operating profit for the first four months of FY09 is in line with the same period last year. In the absence of a further decline in consumer demand, Greencore expects this trend to continue for the rest of the year with a more significant proportion of the full year results from the seasonally important second half of the year. The group's US prepared foods division showed a robust performance with year on year revenue growth of 31%. Greencore pointed out that the UK convenience food market remains difficult, while it commented that its Ingredients & Related Property division has made a good start to the year with malt in particular holding up well, however it has seen softer markets in it agribusiness and property disposals have been difficult in the current environment. Greencore expects to generate c. 80% of its operating profit in sterling and indicated that if €/£ were to remain in the 0.88-0.90 range for the rest of the financial year the translation effect would reduce group operating profit by c. €8m and pre-tax profit of €6m. The group pointed out that its balance sheet is well positioned and is sufficient to meet the operational and development needs of the company. Greencore is on track to report an EPS of c. €0.18 for its fiscal year 2009 placing the stock on a PE of 4.5x. Based on 2009 estimates Greencore is trading an EV/EBIDTA of 4.5x compared to 5.1x for its UK peers. With its stronger balance sheet and new business lines in the states, this discount is not justified.



Thursday, 12th February 2009

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**BHP Billiton : Neutral Current Price (1255p) Price target (1200p) Analyst : David Dunk**

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As expected Rio Tinto has announced details of a \$19.5bn capital injection by Chinalco. Due to limits placed on foreign investors holding stakes in Australian companies, the structure of the deal is quite complicated. \$12.3bn will come in the form of stakes directly taken in mines owned by Rio Tinto. The remaining \$7.2bn will come in the form of two tranches of 60 year convertible debt, paying a 9-9.5% coupon, redeemable in 7 years. Chinalco would have 18% of the equity holding, in the event of the debt being fully converted to equity. This would be in breach of the limit on foreign investment of 15% and the limit on Chinalco's investment in Rio of 11%. BHP has asked the Australian regulator to block the deal. BHP is also interested in Rio's assets, and has said that it may initiate counter bids for selected assets. Our ratings and price target on BHP are unchanged following the announcement.

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**British Land : Neutral Current Price (470p) Analyst : Stephen Taylor**

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British Land reported fiscal third quarter NAV per share that declined by 13% over the quarter to 718p. Gross rental income came in at £125m down from £148m last year. The group has also announced a 2 for 3 rights issue that will raise £740m. The rights issue comprises of c. 340m new shares at 225p per share, which represents 67% of the existing share capital and 40% of the enlarged issued capital. The rights issue has been fully underwritten by Morgan Stanley, UBS and Euro Lights Private. The group said that the rights issue will underpin its balance sheet 'at a time of unprecedented market dislocation' and position the company to be able to exploit future real estate buying opportunities. Given the extent of the current downturn we are unlikely to see any positive newsflow out of the UK commercial property market throughout 2009. While British Land is better positioned following its rights issue we place a neutral rating on the group as sentiment towards the sector is likely to remain subdued.

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**Diageo : Buy Current Price (855p) Price target (1150p) Analyst : David Dunk**

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Diageo has announced first half results this morning. Sales were up 3% over the period, and net profits of £1.14bn were slightly ahead of expectations. Sterling weakness has had a significant positive impact on Diageo's performance. Diageo has cut full year guidance from 7-9% of organic profit growth to 4-6%. While not immune to the current global economic weakness, Diageo's business profile is still very much defensive. We retain our buy rating, and will look to update on estimates and price target in coming days.

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**BP : Buy Current Price (506p) Price target (700p) Analyst : David Dunk**

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Total has released full year earnings for 2008 this morning. EPS was better than expected at €1.29 per share. Reserve replacement rate was 112% over the period. Production during the year was 4% lower than in 2007 at 2.35m barrels per day. The capex budget for 2009 at \$18bn is marginally lower than the \$18.3bn spent in 2008. Excluding exceptional costs, Q4 net profit was €2.9bn compared with consensus estimates of €2.6bn. Given that BP has already issued its results for the period, there is minimal read through from Total's results.

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## International Equity Markets

Index	Value	1-Day	YTD
ISEQ	2,408	-1.5%	2.1%
FTSE	4,234	0.5%	-5.8%
Dow Jones	7,940	0.6%	-9.5%
S&P	834	0.8%	-7.7%
Nikkei	7,705	-3.0%	-13.0%
Stoxx 50	2,268	0.0%	-9.0%

## Sector Performances

Sector	Index	1-Day	YTD
Construction	199	0.2%	-4.7%
Technology	156	-1.0%	0.2%
Oil & Gas	282	0.0%	4.2%
Financials	132	-1.5%	-14.3%
Retail	194	-0.8%	4.2%
Food & Drink	222	-0.4%	-5.8%

## Commodity Prices

Commodity	Index	1-Day	YTD
Crude Oil	35.9	-4.3%	-26.0%
Copper	154.0	-2.3%	9.6%
Gold	939.0	2.6%	7.2%
Silver	13.5	3.0%	20.8%
Wheat	543.3	-2.3%	-10.7%
Cattle	87.6	-0.5%	-1.7%

## Currency Exchange Rates

Commodity	Index	1-Day	YTD
€/\$	1.291	-0.1%	8.0%
€/£	0.896	1.0%	5.4%
£/\$	1.440	-1.0%	2.7%
\$/JPY	90.42	-0.1%	0.7%
€/JPY	116.67	-0.1%	8.7%
€/SFR	1.495	0.1%	0.0%

## 5Yr Credit Spreads

Commodity	Index	1-Day	YTD
Invest Grade	148.2	-6.3%	-15.4%
High Yield	1,024.4	-0.9%	0.3%
Financials	118.0	0.4%	0.2%
BoI	339.7	1.0%	40.9%
AIB	262.1	5.0%	24.9%
RBS	134.6	1.7%	-2.4%

## Money Market Rates

Rate	EUR	UK	US
Overnight	1.3%	0.8%	0.3%
3-Month	2.0%	2.6%	1.2%
1-Year	2.0%	1.6%	1.3%
2-Year	2.1%	2.0%	1.6%
5-Year	2.9%	2.9%	2.4%
10-Year	3.6%	3.6%	3.0%

Date	Company	Region	Event
12/02/2009	Greencore	IE	AGM
12/02/2009	Embarq Corporation	US	Q4
12/02/2009	Marriott Intl.	US	Q4
12/02/2009	McAfee, Inc.	US	Q4
12/02/2009	The Coca-Cola Co.	US	Q4
12/02/2009	Viacom	US	Q4
12/02/2009	BT Group	GB	Q3
12/02/2009	Diageo	GB	INTERIM
12/02/2009	British Land	GB	Q3
12/02/2009	Total	FR	Q4
12/02/2009	ENI Spa	ES	Q4
12/02/2009	Iberia Airlines	ES	TRAFFIC
12/02/2009	Rolls-Royce Group	GB	PRELIM
13/02/2009	Abercrombie & Fitch	US	Q4
13/02/2009	Cabot Oil & Gas Corp	US	Q4
13/02/2009	PepsiCo	US	Q4
14/02/2009	L'Oreal SA	FR	FINAL
14/02/2009	TNT N V	NL	Q4
14/02/2009	Aeroports de Paris SA	FR	TRAFFIC
15/02/2009	United Drug PLC	IE	S/HOLDERS
15/02/2009	Dominos Pizza	GB	PRELIM
15/02/2009	Intercontinental Hotels	GB	PRELIM

Date	Event	Region	Estimate
12/02/2009	ECB Publishes Feb. Monthly	EC	--
12/02/2009	Euro-Zone Ind. Prod. sa (MoM)	EC	-2.20%
12/02/2009	Advance Retail Sales	US	-0.40%
12/02/2009	Initial Jobless Claims	US	--
12/02/2009	Business Inventories	US	-0.60%
12/02/2009	CPI (MoM)	IE	-1.10%
13/02/2009	GDP s.a. (QOQ)	GE	-1.80%
13/02/2009	Euro-Zone GDP s.a. (QoQ)	EC	-1.20%
13/02/2009	U. of Michigan Confidence	US	61.5
13/02/2009	Retail Sales(Volume)	IE	--
16/02/2009	Rightmove House Prices	UK	--
17/02/2009	CPI (MoM)	UK	--
17/02/2009	RPI (MoM)	UK	--
17/02/2009	ZEW Survey ( Sentiment)	GE	--
17/02/2009	Empire Manufacturing	US	--
17/02/2009	ABC Consumer Confidence	US	--
18/02/2009	Bank of England Minutes	UK	--
18/02/2009	Construction Output SA	EC	--
18/02/2009	MBA Mortgage Applications	US	--
18/02/2009	Import Price Index (MoM)	US	--
18/02/2009	Housing Starts	US	--
18/02/2009	Industrial Production	US	--

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