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**Market Movers**

## IRISH PAPERS TODAY

Aer Lingus cost cutting provides "basis" for future  
*(The Irish Times)*

New chief financial officer for Anglo  
*(The Irish Times)*

IL&P inks €200m capital release deal  
*(Irish Independent)*

## INTERNATIONAL PAPERS TODAY

Hershey prepares to bid for Cadbury  
*(Financial Times)*

Emerging market bonds shed junk status in record start to year  
*(Financial Times)*

Devastation spreads in Haiti  
*(The Wall Street Journal)*

## Market View

**Analyst : Edward Keeling**

European markets are higher this morning reversing yesterday's losses and following their lead from the US and Asia overnight. Investors in the US brushed off concerns surrounding the policy tightening by Chinese officials and focused renewed optimism on the forthcoming earnings season which resumes with Intel after the close this evening and JP Morgan tomorrow. Meanwhile the latest Beige book from the Federal Reserve indicated that while economic activity remains at low levels, conditions have continued to improve modestly. While these improvements are broader geographically than in the last report, demand for loans continued to decline while commercial real estate conditions remain weak. We reiterate our positive stance on the prospects for the US economy and forecast that it will outperform market consensus growth forecasts for 2010. US Credit markets continue to ease, the majority of the major US banks have already paid backed TARP, while its unemployment rate, we believe has peaked. In Asia, shares headed back towards their 17 month highs as the latest Australian job report was well ahead of economists' forecasts. The report showed 35,200 jobs were created in December, over three times the market forecast. The unemployment rate declined to 5.5%, the lowest since April. The market is now pricing in a 75% chance of another rate hike at the Reserve Bank of Australia's next policy meeting at February 2<sup>nd</sup>, despite the fact it has already increased interest rates by 0.75% to 3.75%. Looking ahead towards today's session, the ECB will be announcing its latest interest rate decision at 12:45 and we expect rates will be left on hold at 1%. However the main focus will be on the corresponding press conference where we expect Jean-Claude Trichet to confirm a dovish stance on rates. Also in focus will be any comments in relation to the current difficulties that Greece are facing. In the US the all eyes will be on US retail sales data and weekly jobless claims at 13:30.

**Rio Tinto : Buy** Yesterday's Close 3539p Price Target 3700p Analyst Brian Gallagher

Rio Tinto's Q4 production figures showed good operational progress for the Australian based miner. The strongest performance was in iron ore production with operations in Pilbara growing 54% from the same quarter in 2008. This growth was heavily influenced by strong Chinese demand which remained resilient throughout the final quarter of 2009. Copper production expanded 36% on a year on year basis driven by increases at the company's Escondida and Grasberg mines with the company noting that these assets have the capacity for further production increases in 2010. The update also revealed that Rio Tinto's Aluminium operations continue to be managed conservatively which will be viewed positively by the market as the metal's price outlook is still suffering from over capacity. In relation to its outlook, CEO Tom Albanese said: "We are seeing recovery across most of our key commodities, although we continue to be cautious on the state of the global economy going into 2010 as stimulus packages start to wind down". These comments are similar to the ones made at the company's previous operation update and highlight the potential risk of an anaemic recovery in developed economies.

**Kerry Group: Buy** Yesterday's Close €21.72 Price Target €22.50 Analyst Oliver Gilvarry

Associated British Foods (ABF) released an Interim Management Statement this morning. Group revenue was up 11% on a constant currency basis and trading is ahead of expectations. First quarter sales were ahead by 19% yoy with very strong like-for-like sales in the UK and Spain. Sales in Ireland were weak due to the effects of the recession here. Management remain cautious over the pace of the UK recovery and the outlook for the UK consumer, but they still expect a significant improvement in operating profit and good revenue growth. Premier Foods also released a trading statement this morning and reported good progress in 2009 and expects to report strong branded sales growth of 6.4% with market share gains in certain branded products. The group has seen a fall in private label products due to an exit from certain low cost contracts and a switch by the UK consumer back to branded products from private label as economic conditions improve. In Ireland, the group has seen an improved performance in the second half of the year reversing the declines in the first half and gaining market share. Weaker GBP against the EUR is one of the reasons for this gain and is a negative for the Irish food producers. The results from ABF and Premier today indicate the UK consumer is moving back towards branded label products which is a positive for Kerry due to its mix of private and branded products in the UK. Kerry remains our preferred pick in the sector due to its diversification between Consumer Foods and Ingredients.

## Irish Government Debt

**Analyst Oliver Gilvarry**

The NTMA is due to issue a new 10-year bond with pricing and size to be determined today. The issue size is rumoured to be €5bn with pricing in the range of mid-swaps +145/150bps. In yield terms this will be circa 5.00%+. We remain positive on Irish Government debt and we expect the spreads over German Bund to continue to tighten over the year as the market differentiates between peripheral Euro-Zone names.

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## **UK Retailers**

**Analyst : Stephen Taylor**

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A number of UK retailers have issued trading statements this morning and continued the trend of a positive Christmas trading period.

DSG International issued an update for the 12 week period ending 9/01/2010 and indicated that trading in all of its markets had been ahead of expectations and expects pre-tax profit consensus to move to top end of range. Group like for like sales increased by 8% noting a strong performance in all markets, particularly UK electricals, Nordics, e-commerce and in Italy. DSG did indicate that it expects trading in 2010 to be difficult.

Home Retail Group issued a trading update covering the 18 week period ending 02/01/2010 and said that it expects pre-tax profit for this fiscal year to be about £20m ahead of current analyst estimates. Total sales at Homebase grew by 4.6%, while sales at its Argos division increased by 3.9%. While the recent weeks of trading had been strong, Home Retail Group also said that it expects 2010 to be challenging.

HMV issued a management statement covering the 5 week period ended 02/01/10. Total group sales increased by 6.7%, however like for like sales declined by 1.2%. HMV UK and Ireland saw like for like sales increasing by 2.2%. HMV International saw sales declined by 2.5% with like for like sales falling by 3.7%. It said that it was confident in its outlook for the full year.

Tesco remains our preferred pick in the UK retail sector due to its lower cost product offering in addition to its international exposure with an increasing focus to emerging markets.

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## **Persimmon : Buy Yesterday's Close 494p Price Target 560p Analyst Stephen Taylor**

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Barratt Developments has issued a trading update for the six month period to 31<sup>st</sup> December ahead of its interim results that are due for release on 24<sup>th</sup> February. Barratt's pointed out that first half completions were in line with expectations at 5,028. The group stated that forward sales are 43% higher year on year. Barratt's expects a 10% increase in average selling prices over its fiscal 2010 period. The group continues to focus on deleveraging its balance sheet with net debt falling to £610m compared to £1.28bn in June. Persimmon remains our preferred pick in the UK house building sector due to its strong balance sheet and land bank.

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**Current Price : €14.30**

**Price Target : €16.50** (Previous €14.30)

**Analyst: Edward Keeling**

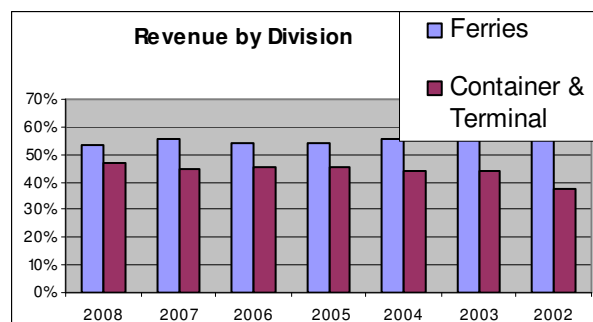
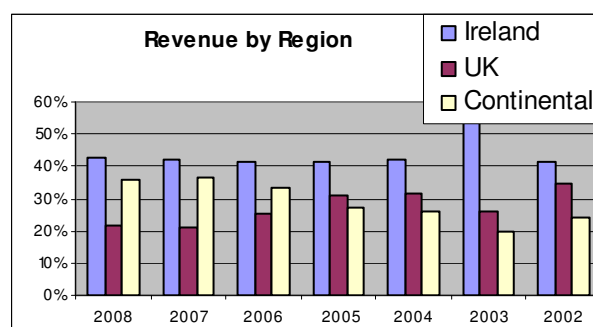
Thursday January 14th 2010

- Company Presentation:** Last month as part of a company presentation, we met with both Eamonn Rothwell (CEO) and Gearoid O'Dea (Finance Director) from ICG. Industry trends, its recent share placing and the company's cost structure were among the topics discussed.
- As signalled from its interim management statement, market conditions remain challenging. Passenger trends within its Ferries division are running ahead of managements expectations, but this is being offset by continued weakness in its freight division. Management indicated that although the structural shift from ordinary foot passengers has continued to airlines, its car passenger volumes have benefitted from a trade down effect. According to management, consumers are becoming increasingly price sensitive and are choosing to drive over to the UK or France as opposed to flying and then renting a car on arrival. This is also being helped by a reduction in capacity in regional airports, a trend which has only intensified since we met. With respect to the freight market, there has been little or no uptick and with very little discretionary goods being imported into Ireland.
- Costs:** Fuel costs currently make up c.25% of the group's total costs and management reiterated that it remains unhedged. It also intends to continue along a policy of no hedging for the foreseeable future. It remains comfortable with what it considers to be a "natural hedge". It believes that if oil prices move considerably higher, this will be accompanied by improved economic fundamentals and that this will be reflected in top line revenue growth. It does however have agreements in place with its Freight customers which allow it to pass on surcharges in the event of rising fuel prices.
- Although the group has aggressively aligned its cost base with the depressed demand environment, management have indicated that its capacity for further cost reductions is limited. Fuel and fixed costs are out of the groups control, while regulations require each shipping to maintain a certain manning ratio. With cost flexibility limited, should economies take another leg down, the group would have very little scope to limit the damage to its bottom line.
- Dividend Policy:** On its dividend policy the group remains reluctant to guarantee any payout policy but they're confident in its ability to return cash to shareholders. They concede that with such a young fleet and no major capex requirements (below depreciation foreseeable future) required over the next decade, the company is being run for cash maximisation. In our view the dividend is secure. It is over two times covered by free cash flow alone and with such a proportion of its shareholding taken up by management, the company is likely to favour a strategy of shareholder cash distribution.
- Outlook & Share Placing:** In terms of outlook the company reiterated that over the second half of the year challenging trading environment is continuing but the pace of decline is slowing. Looking ahead to next year management indicated that slight revenue growth is possible as an uptick in UK and Continental economies could offset continued deterioration in the Irish economy. In relation to the recent placing of Liam Carroll's stake, demand within the market was very strong. Management suggested that it could have placed twice the amount and that most of the stake was taken by institutional houses in the UK.
- Valuation:** We remain positive on ICG. Although it has risen some 24% since we initiated our Buy rating, we see the potential for further upside. Earnings have almost certainly troughed and with little or no capex requirements over the medium term, the company will be debt free by the end of next year. It has a dividend yield of c.7% which is close to 2x covered on free cash flow basis. Reflecting improved revenue trends as a result of a better macroeconomic climate, we increase our price target to €16.50. This is based on the stock trading on a EV/EBITDA multiple of 8x, in line with its historical average.

Descriptive Stats		Shareholders	
52 Week % Ch	-15.29%	Moonduster	24.92%
52 Week High	18.34	Eamonn Rothwell	8.89%
52 Week Low	9.20	Artemis Invt.	7.88%
Reuters	ICG_u.l	Irish Life Invt.	3.76%
Bloomberg	IR5A ID		

	FY08	FY09e	FY10e
Revenue €m	343	279	284
EBITDA	66	46	51
Operating Profit	42	21	27
EPS €	1.62	0.70	0.98
DPS	1.00	1.00	1.00
P/E	8.83	20.43	14.59
Div Yield	6.99%	6.99%	6.99%

Peer Analysis	EV/EBITDA 09	EV/EBITDA 10	Div Yield
Finn Lines	21.24	11.8	0.50%
Attica	14.8	14.1	1.30%





## International Equity Markets

Index	Value	1-Day	YTD
ISEQ	3,054	-1.5%	2.8%
FTSE	5,499	-0.7%	1.4%
Dow Jones	10,627	-0.3%	1.9%
S&P	1,136	-0.9%	1.9%
Nikkei	10,879	0.7%	1.8%
Stoxx 50	2,977	-1.1%	0.1%

## Sector Performances

Sector	Index	1-Day	YTD
Construction	282	-1.6%	1.7%
Technology	189	-0.9%	2.5%
Oil & Gas	341	-1.1%	2.6%
Financials	231	-1.0%	2.9%
Retail	243	-0.1%	0.2%
Food & Drink	298	-0.2%	-1.4%

## Commodity Prices

Commodity	Index	1-Day	YTD
Crude Oil	80.8	-2.1%	0.4%
Copper	335.0	-2.7%	-0.6%
Gold	1,128.5	-2.0%	2.8%
Silver	18.3	-2.4%	8.2%
Wheat	535.8	-6.4%	-1.7%
Cattle	85.5	0.5%	-0.7%

## Currency Exchange Rates

Currency	Index	1-Day	YTD
€/\$	1.449	-0.2%	-1.0%
€/£	0.896	-0.5%	-0.7%
£/\$	1.616	0.3%	-0.2%
\$/JPY	90.975	-1.2%	2.1%
€/JPY	131.815	-1.4%	1.0%
€/SFR	1.476	0.0%	0.5%

## 5Yr Credit Spreads

Product	Index	1-Day	YTD
Invest Grade	63.1	3.8%	-10.0%
High Yield	386.4	3.6%	-7.2%
Financials	59.4	1.3%	-12.5%
BoI	172.9	-0.4%	-28.5%
AIB	200.1	1.3%	-26.9%
RBS	107.5	0.4%	-22.1%

## Money Market Rates

Rate	EUR	UK	US
Overnight	0.3%	0.5%	0.2%
3-Month	0.7%	0.6%	0.3%
1-Year	1.2%	0.9%	0.5%
2-Year	1.7%	1.8%	1.2%
5-Year	2.7%	3.2%	2.8%
10-Year	3.5%	4.0%	3.8%

Date	Company	Region	Event
13/01/2010	Game Group PLC	GB	TRADE
13/01/2010	Ashmore Group Ltd	GB	Q2 TRADE
13/01/2010	SIG PLC	GB	TRADE
13/01/2010	Reed Elsevier PLC	GB	EGM
14/01/2010	Pernod Ricard SA	FR	TRADE
14/01/2010	Carrefour SA	FR	Q4 SALES
14/01/2010	Barratt Developments PLC	GB	TRADE
14/01/2010	Halfords Group Plc	GB	Q3 TRADE
14/01/2010	HMV Group PLC	GB	TRADE
14/01/2010	Home Retail Group plc	GB	TRADE
14/01/2010	Misys PLC	GB	INTERIM
14/01/2010	Mothercare PLC	GB	Q3 TRADE
14/01/2010	Premier Foods Plc	GB	TRADE
14/01/2010	Rio Tinto PLC	GB	Q4 OUTPUT
14/01/2010	Vestas Wind Systems A/S	DK	EGM
14/01/2010	Intel Corp.	US	Q4
15/01/2010	Experian PLC	IE	TRADE
15/01/2010	Smiths News Plc	GB	TRADE
15/01/2010	Spectris PLC	GB	TRADE
15/01/2010	Bellway PLC	GB	AGM
15/01/2010	JPMorgan Chase & Co.	US	Q4

Date	Event	Region	Estimate
13/01/2010	GDP (Annual Growth Rate)	GE	--
13/01/2010	Industrial Production (MoM)	UK	--
13/01/2010	Euro-Zone Ind. Prod. sa (MoM)	EC	--
13/01/2010	MBA Mortgage Applications	US	--
13/01/2010	Monthly Budget Statement	US	-\$66.5B
13/01/2010	Fed's Beige Book	US	--
14/01/2010	Consumer Price Index (MoM)	GE	--
14/01/2010	ECB Announces Interest Rates	EC	1.00%
14/01/2010	Import Price Index (MoM)	US	-0.10%
14/01/2010	Advance Retail Sales	US	0.40%
14/01/2010	Initial Jobless Claims	US	--
14/01/2010	Business Inventories	US	0.00%
15/01/2010	Euro-Zone CPI (MoM)	EC	--
15/01/2010	Euro-Zone Trade Balance	EC	--
15/01/2010	Consumer Price Index (MoM)	US	0.20%
15/01/2010	Empire Manufacturing	US	10.00
15/01/2010	Industrial Production	US	0.50%
15/01/2010	Capacity Utilization	US	71.70%
15/01/2010	U. of Michigan Confidence	US	73.70
18/01/2010	Rightmove House Prices (MoM)	UK	--
19/01/2010	CPI (MoM)	UK	--

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