Dolmen Daily

DOLMEN STOCKBROKERS

Friday 16th October 2009

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After-tax profit soar to $10.7m for Denis O'Brien's Aergo Capital (*The Irish Times)*

Citigroup losses hit $3.2bn as customer bad debts at $8bn *(Irish* Independent*)*

INTERNATIONAL PAPERS TODAY

Goldman and Citi highlight US divide (*Financial Times)*

Nokia loss as problems hit Siemens venture (*Financial Times)*

Goldman roars ahead of rivals (*The Wall Street Journal)*

Market View — Analyst : Edward Keeling

European equity markets are higher this morning as strong earnings from IBM and Google after the close yesterday provided further optimism over a strong earnings rebound. US indices finished higher overnight as better than expected employment and manufacturing data boosted investor sentiment. Despite results beating consensus estimates, both Goldman Sachs and Citigroup shares failed to add to previous days gains, reflecting the now elevated expectations following JPMorgan's outstanding Q3 results. It is also worth noting that oil jumped more than 3% to settle on its highest level in more than a year as US energy figures showed that gasoline inventories fell by 5.2 million barrels in the week to Oct. 9th, compared with expectations for an increase. While the correlation between rising oil prices and equity markets is positive on the moment, we would caution about this trend continuing. There was also key moves among currencies yesterday, with comments from Bank of England policy maker Paul Fisher that he felt there were now clear signs that the UK's quantitative easing was working leading to significant sterling strength, a clear positive for Irish companies. Going forward we remain positive on equity markets with the continued unwinding of the credit crunch, the prospect of low interest rates for an extended period and the increase in liquidity resulting from governments' quantitative easing prospects the key catalysts. We do reiterate however the importance of stock selection and expect that over the medium term it will be a story of winners and losers. We continue to prefer the technology, pharmaceutical, investment banking and insurance sectors. Looking ahead to today's session, the earnings season is set to continue with the release of Q3 figures from both GE and Bank of America. On the economic front the University of Michigan confidence data out of the US will be watched closely at 15:00.

US Financials : Citigroup and Goldman Sachs report — Analyst : Oliver Gilvarry

US Q3 bank earnings continued yesterday with Citigroup and Goldman Sachs (GS) reporting. GS beat expectations and reported EPS of $5.25. The better than expected results were due to strong Fixed Income Commodities and Currencies (FICC) revenues. Revaluation gains on assets also added $1.3bn to the bottom line, helped by the recovery in credit markets. Management have guided the revenues being generated in FICC will begin to slow as more competition comes on line, but increased volumes will offset some of this loss. The capital positions remains strong with common tier 1 equity at 11.6% in Q3. Citigroup reported a loss of 23c per share better than expected. The strong result was due to lower reserve builds for loans losses than in previous quarters and lower credit losses than expected. Comments from management referred to the loss in market share in the Investment Banking area is due to gains by competitors such as JPM and GS, especially with regard to trading. Consumer credit has improved, but the US consumer remains under pressure. Bank of America reports this afternoon before the market opens with analysts expecting an EPS loss of 11.7c.

Microsoft : Buy — Current Price: ($26.70) Price Target: ($28.00) Analyst : Stephen Taylor

Following Intel's blockbuster results earlier in the week both Google and IBM reported after the bell yesterday producing results that beat analysts expectations. Where the two tech giants differed was in their outlook statements with Google offering a more optimistic perspective. The world's most popular search engine stated that they had begun rehiring in anticipation of a pick in sales and that they had seen a pick up in ad spending which can be viewed as a positive for the broader economy. Furthermore Google managed to achieve top line revenue growth with sales jumping 8.4% to $4.38bn. IBM also beat the street's eps predictions however, unlike Google, it failed to grow its top line in the quarter. The reason for the continued drop in revenue (now four successive quarters) was the decline in contract signings which fell 7%. On the whole the results are positive but the market was expecting more from IBM as the company's shares dropped as much as 4% following the results. This contrasted with Google shares which rose 3% in post market trading.

Smurfit-Kappa

BUY

Current Price : €6.10

Price Target : €7.25

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Analyst: **Edward Keeling**

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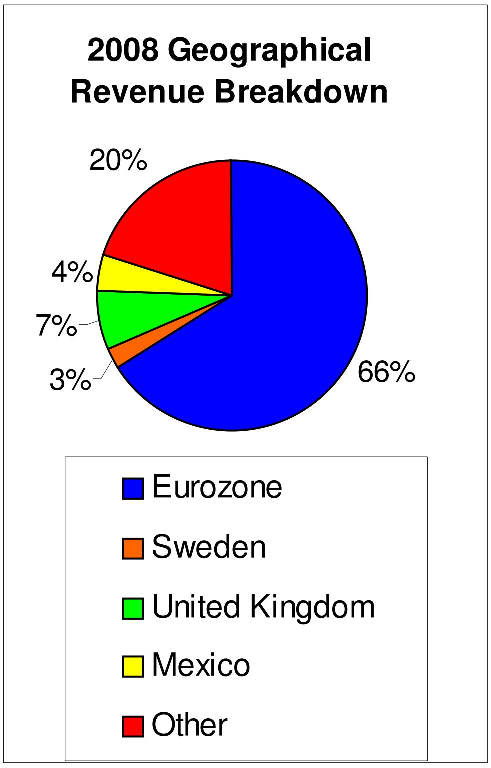
- Smurfit Kappa Group is a world leader in paper-based packaging with operations in Europe and Latin America. It operates in 22 countries in Europe and is the European leader in containerboard, solidboard, corrugated and solidboard packaging and has a key position in several other packaging and paper market segments. Smurfit Kappa Group also has a good base in Eastern Europe and operates in 9 countries in Latin America where it is the only pan-regional operator.
- **Financial Profile:** As of its Q2 results announcement in August, Smurfit Kappa had a net debt of €3.16bn. This was reduced by €23m compared to March 2009 levels and down by €121m year on year. In light of this the group continues to focus on maximising free cash flow generation and debt reduction through the cycle. While debt levels of this magnitude do present some issues, the facilities in place behind its debt structure provides us with comfort that the appropriate amount of financial flexibility exists. On July 3rd the group announced amendments to its senior credit facility agreement. The amendments further extended the group's long term debt maturity profile and the majority of its revolving credit facility. In addition its covenant levels were increased providing, in our view, enough headroom to see the company through the cycle.
- **Industry Capacity:** One of the most significant features of the paper packaging industry currently is the amount of excess capacity still in place. Although significant amounts of capacity have been taken out, c.7% in this down cycle so far, there is still surplus levels of supply. The market imbalance is set to be exacerbated further by additional capacity due to come on to market by the end of next year. Despite the weak demand environment, expansion plans already put in place by competitors, will ensure that overcapacity remains an issue and as a result pricing power. However we expect that the supply pressures may not be as bad as the market currently fears. With less efficient producers already struggling to survive and many loss making for some time, we suspect a significant proportion will be forced to permanently close or further reduce their operations. This combined with the possibility of industry consolidation will be enough to relieve some of the pressures
- **Pricing Power:** Despite the capacity issues just discussed, the industry has been exhibiting some pricing power of late. Since its Q2 results announcement in August, SKG has successfully implemented two €60/ tonne price increases across all of its European brown containerboard divisions. The group indicated it was the result of rising raw material costs (OCC prices) and facilitated by low inventory levels. Although over the short term this will have negative effect on margins of the integrated operators like SKG, going into 2010 it will be of benefit as higher containerboard prices will eventually feed through into higher corrugated box prices. Management has indicated that every 1% increase in box prices adds c.36-40m in full year EBITDA.
- **Valuation:** Smurfit Kappa is currently trading on a forward EV/EBITDA multiple of 6.3x. We believe that considering Smurfit's market leading position, highly efficient business model and superior margins, a higher multiple is warranted. While we do acknowledge SKG's net debt position is significant, we take comfort from its recent senior debt negotiations. We believe its current covenant levels are reasonable and are encouraged by both its net debt reduction over recent years and its debt maturity profile. Furthermore we expect this year to be the trough in earnings as corrugated box price increases are pass through next year and demand picks up. Incorporating this, we believe a 12 month price target of €7.25 is appropriate based on the stock trading on 7x its expected 2010 EV/EBITDA, in line with historical sector mid-cycle multiples. With over 15% upside from current levels, our recommendation is BUY.

Descriptive Stats		Shareholders	
Year to date	229.00%	Smurfit Kappa FEED	24.39%
52 Week High	€6.10	Madisson Dearborne	21.46%
52 Week Low	€1.01	Polaris Capital	4.98%
Reuters	SKD.I	Bestinver	4.87%
Bloomberg	SKD.ID	Causeway Capital	4.62%

	FY08	FY09e	FY10e
Revenue €m	7,062	5,939	6,160
EBITDA	932	707	736
Pre Tax profit	-11	44	92
EPS €	-0.23	0.16	0.34
DPS	0.26	0	0
P/E	5.84	38.00	17.00
Div Yield	4.25%	0.00%	0.00%

Peer Analysis	EV/EBITDA 09	EV/EBITDA 10	Div Yield
Smurfit Kappa	6.6	6.3	0.00%
Stora Enso	10.3	9.1	2.39%
SVA	7.6	7.1	3.49%



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Market Movers

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International Equity Markets

Index	Value	1-Day	YTD
ISEQ	3,319	-0.1%	42.4%
FTSE	5,223	-0.6%	18.6%
Dow Jones	10,016	1.5%	14.7%
S&P	1,092	1.8%	21.4%
Nikkei	10,239	1.8%	15.8%
Stoxx 50	2,939	-0.4%	20.5%

Sector Performances

Sector	Index	1-Day	YTD
Construction	277	0.1%	1.5%
Technology	191	-3.5%	3.6%
Oil & Gas	313	0.3%	2.8%
Financials	240	-0.1%	2.3%
Retail	226	1.6%	1.5%
Food & Drink	272	0.6%	3.9%

Commodity Prices

Commodity	Index	1-Day	YTD
Crude Oil	77.6	3.2%	34.5%
Copper	285.9	0.5%	98.1%
Gold	1,050.2	-1.1%	19.1%
Silver	17.4	-2.8%	53.8%
Wheat	505.0	-1.6%	-24.7%
Cattle	85.7	0.1%	-5.4%

Currency Exchange Rates

Commodity	Index	1-Day	YTD
€/$	1.495	0.2%	-6.2%
€/£	0.919	-1.6%	4.5%
£/$	1.627	1.8%	-10.3%
$/JPY	90.550	1.2%	-0.4%
€/JPY	135.340	1.4%	-6.6%
€/SFR	1.517	0.1%	-1.6%

5Yr Credit Spreads

Commodity	Index	1-Day	YTD
Invest Grade	88.6	0.8%	-49.6%
High Yield	481.7	-1.4%	-53.3%
Financials	69.9	0.5%	-40.8%
BoI	171.0	-0.6%	-31.3%
AIB	175.6	-0.4%	-15.5%
RBS	110.3	3.5%	-19.3%

Money Market Rates

Rate	EUR	UK	US
Overnight	0.4%	0.4%	0.2%
3-Month	0.7%	0.6%	0.3%
1-Year	1.3%	0.9%	0.6%
2-Year	1.8%	1.8%	1.3%
5-Year	2.8%	3.2%	2.8%
10-Year	3.5%	3.9%	3.6%

Date	Company	Region	Event
19/10/2009	L'Oreal SA	FR	S/HOLDERS
19/10/2009	BB&T Corporation	US	Q3
19/10/2009	Texas Instruments	US	Q3
19/10/2009	Zions Bancorp	US	Q3
19/10/2009	Apple Inc.	US	Q4
20/10/2009	Total SA	FR	S/HOLDERS
20/10/2009	BNY Mellon	US	Q3
20/10/2009	DuPont	US	Q3
20/10/2009	M&T Bank Corporation	US	Q3
20/10/2009	Pfizer	US	Q3
20/10/2009	State Street Corporation	US	Q3
20/10/2009	The Coca-Cola Co.	US	Q3
20/10/2009	UnitedHealth Group Inc.	US	Q3
20/10/2009	Western Union Co.	US	Q3
20/10/2009	Yahoo, Inc.	US	Q3
21/10/2009	Iberdrola SA	ES	Q3
21/10/2009	Cadbury PLC	GB	TRADE
21/10/2009	Eli Lilly	US	Q3
21/10/2009	Northern Trust	US	Q3
21/10/2009	The Boeing Co.	US	Q3
21/10/2009	U.S. Bancorp	US	Q3
21/10/2009	Wells Fargo & Co.	US	Q3

Date	Event	Region	Estimate
16/10/2009	Euro-Zone Trade Balance	EC	- -
19/10/2009	Rightmove House Prices (MoM)	UK	- -
19/10/2009	Construction Output SA MoM	EC	- -
19/10/2009	NAHB Housing Market Index	US	- -
20/10/2009	Producer Prices (MoM)	GE	- -
20/10/2009	Producer Prices (YoY)	GE	- -
20/10/2009	Public Sector Net Borrowing	UK	- -
20/10/2009	M4 Money Supply (MoM)	UK	- -
20/10/2009	Producer Price Index (MoM)	US	-0.30%
20/10/2009	Housing Starts	US	607K
20/10/2009	Building Permits	US	590K
20/10/2009	Bank of Canada Rate	CA	- -
20/10/2009	ABC Consumer Confidence	US	- -
21/10/2009	Bank of England Minutes	UK	- -
21/10/2009	MBA Mortgage Applications	US	- -
21/10/2009	Fed's Beige Book	US	- -
22/10/2009	Euro-Zone Current Account nsa	EC	- -
22/10/2009	Retail Sales (MoM)	UK	- -
22/10/2009	Initial Jobless Claims	US	- -
22/10/2009	Leading Indicators	US	- -
22/10/2009	House Price Index MoM	US	- -

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