



Thursday 19th June 2008

**DAILY COMPANY NOTE — Elan** See page 2 for full details

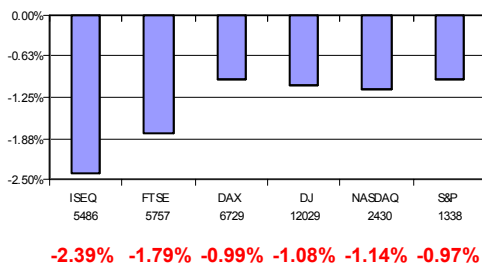
**Daily Market Comment**

**Yesterday's Summary :** With ECB board member Juergen Stark saying the bank will do everything necessary to anchor inflation expectations around the bank's 2% upper limit and US financial giant Morgan Stanley announcing that profits declined 57%, the ISEQ finished deep in negative territory yesterday, closing 2.39% lower at 5,485.77. The financials had another poor performance amid a US investment bank's research note, which suggested both Anglo Irish Bank and Bank of Ireland have Tier 1 capital ratios that are lower than most banks in Europe. They finished down 2.5% at €6.99 and 6% at €6.56 respectively. AIB shed 4% to €10.75, while Irish life & Permanent, ahead of its trading statement today, lost 6.45% to €8.75. CRH fell a further 6.5% to €18.15.

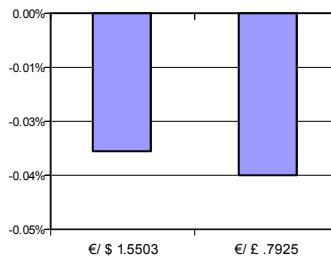
**Overnight News :** In China, the benchmark Shanghai Composite Index closed down 6.54% at 2,748.87, as investors were disappointed by the absence of a government announcement detailing measures to support the market. The Japanese Nikkei 225 ended the session 2.2 % lower at 14,130.17 on worries about the US economic outlook and a firmer yen.

**Breaking News :** Bank of Ireland have secured a €1.25bn two year, floating rate note, which was priced through joint lead managers HSBC, UBS and Unicredit. The maturity of the term funding is July 1, 2010 and it was priced 100 basis points above three month EUIBOR. US producer price data has indicated that US aggregates and asphalt pricing has remained robust in May. This will be welcomed news by CRH who is the third largest producer of aggregates and the biggest producer of asphalt in the US. Meanwhile, O'Flynn Construction, a subsidiary of the O'Flynn Group, has increased its stake in Blackrock International Land to 14% from 12.5%. O'Flynn Construction is headed by Michael O'Flynn and it currently has assets of up to €2bn.

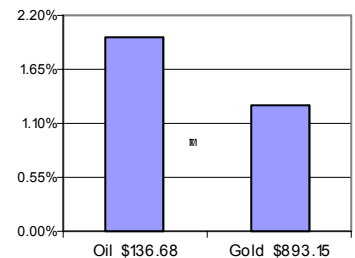
**Equity Indices change on day**



**Currency daily % change**



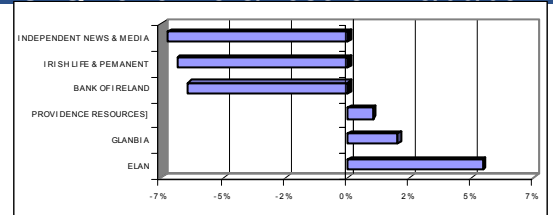
**Oil/Gold daily % change**



**News**

- "GDP growth will slow to 1.3% this year, AIB forecasts"-**AIB**-(The Irish Times)
- "IFG on alert as firm with 6.4% stake seeks to unlock value-**IFG**-(I.I)
- "Fraught dogfight on rates policy across Atlantic"- (Irish Independent)
- "Aer Lingus forced to revise its growth"-**Aer Lingus**-(Irish Examiner)
- "InBev could make Buffett €387m"- (Irish Examiner)

**ISEQ Performers/Losers 18/06/08**



**Market Themes and Movers**

**Oil pushes higher:** Oil has moved back above the \$136 mark after three days of declines. The resurgence in oil prices has been attributed to a potential strike by white collar workers of the Petroleum and Natural Gas Senior Staff Association of Nigeria. Talks are ongoing, as efforts to avert a strike intensify. Additionally, US oil inventory data is providing support for oil prices. Although Wednesday's data was in-line with expectations, this was the fifth consecutive week of crude inventories drawdown's. Initial reports this morning suggest Shell has closed a Nigerian oil field following an attack.

**HBOS issues trading update:** HBOS has issued a trading update today. The troubled UK lender is in the process of a significant rights issue to strengthen its balance sheet following the credit turmoil of the last year. The company says trading continues to be satisfactory. The UK economy is expected to slow further in 2008, and UK house prices may decline by up to 9% this year. Net margins are expected to decline less in the current year than in 2007 as the bank manages to pass on more of the higher financing costs to its customers.



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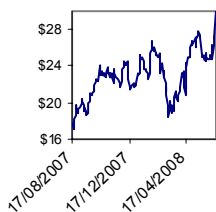
# Elan

**Current**
**\$29.40**
**Nasdaq**
**Pharmaceutical**
**Company Profile**

The Group's principal activity is discovering, developing, manufacturing and marketing advanced therapies in neurodegenerative diseases, autoimmune diseases and severe pain. The Group's operations are carried out through two divisions. Elan Drug Technologies focuses on product development, scale-up and manufacturing to address drug optimization challenges.

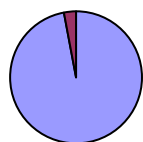
**Fundamental View:** This week Elan released preliminary results of its long awaited phase II drug trials for its drug Bapineuzumab (AAB-001). The Alzheimer treatment which has been developed by Elan in partnership with Wyeth did not attain statistical significance in treating Alzheimer's in the overall test group. The treatment did however achieve statistical significance in treating particular sub-groups of the test population. Between 40% and 70% of Alzheimer sufferers are genetically predisposed to develop Alzheimers. For this sub-group the benefits of the treatment was statistically significant and clinically beneficial. Test subjects in this sub-group experienced less loss of brain volume as well as smaller increases in ventricular volume compared to subjects in the comparable placebo sub-group. There are an estimated 5 million Alzheimers sufferers in the US and 26 million worldwide. The market for Alzheimer treatments is about \$3bn a year, a market that could triple in the next decade if a treatment that slows the diseases progression is successfully developed. Elan and Wyeth began a phase III trial in December, before the phase II results were known. This is a larger scale test and will be critical in determining Bapineuzumab's marketability and likelihood of receiving regulatory approval. The theory behind Bapineuzumab is the unproven, but popular theory, that removal of a substance in the brain known as amyloid should alleviate the symptoms of Alzheimers. Previously, we were uncomfortable with consensus estimates of a 50% probability of Bapineuzumab reaching commercialization given the lack of significant test data. Following the results of the phase II test data current consensus estimates for a 75% probability of a successful commercialisation of the drug appear reasonable to us. We are also comfortable with market consensus estimates of peak revenues from Bapineuzumab in the \$3.5bn to \$4.5bn range. These factors improve our outlook on Elan significantly, although we note that the business is still of a high risk nature. Taking a current enterprise value of \$15bn, Elan trades on an EV/Sales ratio of approximately 15x. Given the nature of Elan's pipeline and that it will be several years before Elan reaches peak revenues, the company's EV/Sales ratio is considerably lower for future year revenue estimates. 2010 revenue consensus estimates suggest an EV/Sales ratio of 8.1x, and an EV/Sales ratio of 6x for 2012 revenue estimates.

**Next catalyst:** The next catalyst for the company will be the release of its Q2 financials, expected in the last week of July. Elan is due to make a more detailed presentation of the Phase II data at the International Conference on Alzheimer's Disease in Chicago, July 29, 2008. Additionally, details from competitors' drug trials on similar Alzheimer drug treatments will move Elan's stock price. We are changing our rating on Elan to Neutral. The potential value of a successful Alzheimer's treatment is enormous, given the aging demographics of many Western countries. The data from the phase II drug trial reduces the downside to the Elan investment case significantly. Nevertheless success in later trials and subsequent regulatory approval are by no means assured. Elan is on track to have 100,000 patients using its Tysabri drug by the end of the year. On the other hand Elan's balance sheet is in poor shape and the company isn't forecasted to deliver a significant profit until 2010. Overall we are satisfied that the prospects for the company have improved considerably. However given the risky nature of Elan's pipeline, its poor financial position, and the fact that the stock trades at a hefty multiple to expected earnings we are unable to upgrade our recommendation to a buy rating.

**Statistics**
**Price Performance**

**Chart View: Elan**

Support Primary: \$27.17  
 Support Secondary: \$25.00  
 Resistance Primary: \$30.00  
 Resistance Secondary: \$36.50

Momentum in the stock remains positive and there is no reason why further gains cannot be achieved. However, given the size of recent gains (Elan is up ~64% since its March low) and longer-term resistance in the \$30 area, some consolidation may be needed before another rally is sustainable. Stock is well supported on any pullback at both \$27 and \$25. Look for a pullback before initiating fresh longs.

**Revenue by division**


■ Product Revenue 97%  
 ■ Contract Revenue 3%

Major Shareholders	%	Peer Group Multiples.			
		Company name	P/E 08	P/E 09	EPS Growth 08-09
Susquehanna Int. Group	1.81%	<b>Elan</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
Norges Bank Invt. Mgt.	1.44%	Amgen	10.6	9.9	7.27%
Bellevue Asset Mgt.	0.76%				
Barclays Global Investors	0.50%				
Vanguard	0.50%				
Shares Outstanding	472.86m				

Share Data	Financial Data	2007	2008	2009e
Current Price (\$)	Revenue (\$m)	516	1,029	1,397
Mkt Cap (\$m)	PBT (\$m)	-661	-254	-42
Reuters	EPS (\$)	-0.87	-0.53	-0.15
Bloomberg	P/E(x)	-33.79	-55.47	-196.00
Sector				
CEO	Pharmaceuticals			
Cfo	Kelly Martin			
Website	Shane Cooke			
	<a href="http://www.elan.com">www.elan.com</a>			





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