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**Market Movers**

## IRISH PAPERS TODAY

O'Dea resigns as Minister after Greens withdraw support  
*(The Irish Times)*

EU likely to give judgement "within weeks" on Nama  
*(The Irish Times)*

Bol is warned it must pay State €280m by deadline  
*(Irish Independent)*

## INTERNATIONAL PAPERS TODAY

Support for Labour in battle over debt  
*(Financial Times)*

Climate treaty in doubt after UN talks chief quits  
*(Financial Times)*

IMF, reversing course, urges capital controls  
*(The Wall Street Journal)*

## Market View

Analyst : Stephen Taylor

European equity markets are lower this morning however off their worst levels of the session following the Federal Reserve's (the Fed) decision to increase its discount rate by 0.25% to 0.75%. The timing of the decision is surprising, however the actual policy move should not be taken as a surprise as it has been well flagged that the Fed had been looking at such a move. The discount rate in effect is the rate at which the Fed charges banks directly for loans and has typically been seen as an emergency loan facility. Historically there has been a full 1% spread between the target rate and the discount rate, however during the credit crisis this was lowered to 0.25% (and the spread now stands at 0.5% after last night's move) as banks used it to get funding. In its decision last night, the Fed signalled that it should not be taken as a change to the current monetary policy outlook. We believe that the surprise nature of the move by the Fed is in order to test the market and ensure that financial institutions are using private markets to borrow rather than from the Fed. While higher interest rate expectations may be a short-term negative for equity markets, we take it as a positive for the long-term outlook that the Fed is confident enough to take such a step. The largest risk for markets at the moment is the current sovereign debt issues in peripheral Europe. Credit Default Swaps (CDS) among peripheral nations continued to tighten yesterday an indication that such concerns have abated slightly. However this issue is likely to drag on for the foreseeable future. Overall, last night's move by the Fed does not change our positive outlook for equity markets at the moment as the corporate profit outlook continues to improve. We will continue to monitor credit markets spreads as they have the largest correlation with equity markets.

**BHP Billiton: Buy**    **Previous Close** 2016p    **Target** 2070p    **Analyst** Brian Gallagher

Anglo American reported strong full year results this morning, capping off an excellent earnings season for FTSE 100 diversified miners. Like BHP Billiton, Rio Tinto and Xstrata, the group's results beat consensus expectations on a sales and earnings basis. Revenue came in at \$24.6bn versus an expected \$20bn while group EPS was stronger at \$2.14 versus an expected \$1.99. One area where Anglo American did not manage to match its peers was in relation to shareholder distribution. The group did not announce a reinstatement of its dividend and it did not guide definitively that it intends to do so this year. This morning's results also highlighted why we prefer BHP Billiton and Rio Tinto over Anglo American, particularly from a balance sheet perspective. The group results showed that Anglo American has only managed to maintain debt levels at \$11bn whereas BHP Billiton and Rio Tinto have strengthened their balance sheets considerably during the same period. Management made similar soundings to the other diversified miners on the economic environment, echoing concerns over developed economies and seeing emerging economies as driving global growth in 2010. On the whole, the results are a positive for the sector as they reinforce the earnings potential and the strong long term fundamentals of FTSE diversified miners.

**Kerry Group: Buy**    **Previous Close** €22.00    **Target** €24.00    **Analyst** Oliver Gilvarry

Nestle released full year results that were slightly ahead of expectations. Organic revenue growth was 41% yoy and was higher than expected. The growth level was below the group's own target of between 5% & 6% and the miss on the internal target was due to a reduction in demand for bottled water as consumers pull back on discretionary spending. The group has announced it is launching a new buyback this year and has also increased its dividend. Nestle expect continued economic uncertainty in 2010 especially in developed economies. They also see organic sales improving in 2010 with operating margins also increasing. We still remain positive on the food sector overall due to the visibility on earnings, higher margins and increasing revenues. In that space Kerry Group remains our preferred and they report full year results next Tuesday.

**CRH: Buy**    **Previous Close** €17.52    **Target** €20.50    **Analyst** Stephen Taylor

CRH peer Lafarge has reported full year 2009 results this morning. Revenue showed a 17% decline to €15.884bn with operating income falling by 30% to €2.47bn. The group's operating margin declined by 3% to 15.6%. The revenue and operating income figures were c. 4% below market expectations. Free cash flow for the group remained strong, showing a 34% improvement to €2.8bn. The group left its full-year dividend unchanged at €2.00. The market had expected the group to cut its dividend to €1.75. In relation to its outlook for 2010, the company said that overall cement volume will increase primarily driven by emerging markets. The group expects its more mature markets to improve slowly during the second half of the year. With CRH's main businesses in Europe and the US, it is likely to maintain a cautious tone when it reports March 2<sup>nd</sup>. The market will be looking closely at the group cash generation, further cost reduction measures in addition to its outlook for acquisitions.



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**Cove Energy**

**Previous Close 38.25p**

**Analyst Brian Gallagher**

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Yesterday, Anadarko, who is the acting operator on Cove Energy's licences in East Africa, reported a successful drilling update on the Windjammer exploratory well. In a RNS released to the exchange, the US based oil and gas exploration company reported that the Brewin Dolphin rig had encountered 480 feet of natural gas in a column of more than 1,200 feet. In isolation Anadarko's update would be a positive for Cove Energy however the implications of finding hydrocarbon deposits in the region at the first attempt means that we view this development as a significant step forward for Cove Energy. Although the well has not been fully appraised yet, the find in essence derisks the entire offshore Rovuma Basin in which Cove Energy holds an 8.5% stake. The next catalysts for Cove Energy will fall in line with Anadarko drilling schedule in the region.

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# Paddy Power

## Buy



**DOLMEN STOCKBROKERS**

**Current Price : €23.80**

**Price Target : €27.50** (Previous €21.50)

**Analyst: Edward Keeling**

Friday February 19th 2010

**Valuation Premium:** Paddy Power trades at valuation premium when compared with its land based peers for various reasons. Primarily It has a much greater exposure to the online growth market, with c.80% of profits derived from the online channel versus c.30% at both Ladbrokes and William Hill. The sector itself remains a resilient engine of growth with broadband penetration rates continuing to support new customers and the improvements in technology infrastructure are allowing for increased volumes and higher levels of liquidity. We believe that the rate of growth for the online sector as a whole, combined with Paddy Power's market share gains, (supported by its unique brand and broadest product offering) will continue to offset the expected reduction in average stake per player.

**Geographical Diversification:** Aside from its market share growth opportunities from within existing markets, Paddy Power within the last 12 months has significantly expanded its international presence. Its most recent move was into the French online sports betting market through an outsourcing contract with PMU. PMU is the French horserace gaming monopoly and the largest betting organisation in Europe with €9.3bn of turnover in 2008 generated through 10,000 retail outlets. In anticipation of the deregulation of the French online gaming market, Paddy Power will manage risk and pricing for PMU's new online sports betting business for the five year period from 2010. Very little detail has been given in terms of deal structure or earnings forecasts but the deal can only be seen as a major positive and we anticipate it will be significant catalyst for the stock going forward.

**Australian Division:** Paddy Power also has significant growth opportunities in Australia through its acquisition of 60% of Sportsbet, one of Australia's largest corporate bookmakers. Similarly to Paddy Power, it focuses on racing and sports through online and telephone channels. Under the terms of the acquisition, Paddy Power has a call option, exercisable in either 2012 or 2013, to acquire all of the outstanding shares it does not own. With the exercise price to be determined based on a EBITDA multiple of up to 7 times. Paddy Power expects the acquisition to enhance earnings by 6-7% in a full year. Overall we see Paddy Power's move as an opportunistic deal agreed on favourable terms (6xEV/EBITDA). There is no uncertainty surrounding the legal status of Australia's online betting industry and it provides exposure to an already proven growth market. There will also be significant synergies as the companies continue to integrate. In addition although in-running betting is not currently legal, management has indicated that it is not unreasonable to suggest this may change. Considering its success in the European market this would present further earning enhancing opportunities.

**UK Retail:** Although the UK market remains extremely challenging, the current environment does present new entrants with a very attractive long term growth opportunity. The average cost of setting up a new Paddy Power shop has declined by over half to €250k, while the average annual EBITDA per shop is €140k. As a result Paddy Power will focus the majority of its retail expansion plans in the UK. It is planning to bring its total UK estate to 180 shops by 2011 and a potential €9m could be added to the groups profit in three years. With an average turnover per shop that is c.2x that of its competitors and notwithstanding it will be operating in an environment where the gross win margin is nearly 3% higher than its domestic market, the UK will provide an opportunistic long term growth prospect.

**Irish Retail:** There is no doubt that Paddy Power's Irish retail exposure is set to experience further pressures as unemployment rises and consumer spend decreases. That said, we anticipate Paddy Power will make considerable market share gains over the period. Although Paddy Power has indicated it will curb expansion here for the foreseeable future, it is continuing to gain significant market share as competitors retrench. We anticipate the amount staked at its Irish retail division will be more resilient than expected.

**Buy Rating with €27.50 price target:** We are resuming coverage of Paddy power with a Buy rating and a €27.50 price target, based on the stock trading on a EV/EBITDA multiple of 10x. This is in line with its online peers and its historical average. While we do acknowledge Paddy Power trades at a significant premium when compared with its land based peers, we believe this is justified considering its growth opportunities, product mix and strong balance sheet. Its financial position remains robust with a net cash position of c.€75m, or c€1.56 a share, which leaves it open to further strategic options. Although unemployment will remain high in its core markets, we believe that the rate of growth for the online sector as a whole, combined with Paddy Power's market share gains, supported by its unique brand and broadest product offering will continue to offset the expected reduction in average stake per player.

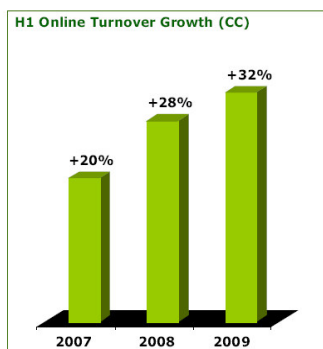
Descriptive Stats		Shareholders	
Year to date	36.41%	David Power	8.80%
52 Week High	€26.11	Fidelity Mgt.	6.85%
52 Week Low	€10.42	Standard Life	5.03%
Reuters	PAP.I	Capital Research	4.33%
Bloomberg	PWL.ID	John Corcoran	3.12%

	FY08	FY09e	FY10e
Revenue €m	2,101	2,749	3,490
Pre Tax profit	79	67	85
EPS €	1.36	1.17	1.45
DPS	0.54	0.56	0.60
P/E	17.50	20.34	16.41
Div Yield	3.02%	3.13%	3.35%

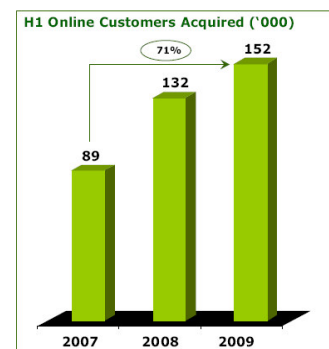
Peer Analysis	EV/EBITDA 09	EV/EBITDA 10	Div Yield
William Hill	8.4	7.9	4.00%
Ladbrokes	8.3	8	4.40%
BWIN	14.1	9.9	2.50%
Partygaming	10.2	10.1	0.00%
Playtech	14.4	12.2	3.40%

### Paddy Power Online Growth Momentum

#### TURNOVER



#### CUSTOMER ACQUISITION





### International Equity Markets

Index	Value	1-Day	YTD
ISEQ	2,969	0.6%	-0.5%
FTSE	5,325	0.9%	-1.8%
Dow Jones	10,393	0.8%	-0.3%
S&P	1,107	0.7%	-0.7%
Nikkei	10,336	0.3%	-4.0%
Stoxx 50	2,778	0.6%	-6.8%

### Sector Performances

Sector	Index	1-Day	YTD
Construction	260	0.7%	-6.9%
Technology	193	0.5%	4.2%
Oil & Gas	324	0.7%	-3.2%
Financials	207	0.1%	-7.7%
Retail	249	0.2%	1.3%
Food & Drink	309	0.7%	2.5%

### Commodity Prices

Commodity	Index	1-Day	YTD
Crude Oil	79.1	2.2%	-2.5%
Copper	330.6	1.4%	-2.8%
Gold	1,108.7	0.2%	1.1%
Silver	16.1	-0.2%	-5.6%
Wheat	499.5	-1.9%	-11.1%
Cattle	93.1	1.0%	3.7%

### Currency Exchange Rates

Currency	Index	1-Day	YTD
€/\$	1.353	-0.6%	6.2%
€/£	0.871	0.4%	1.0%
£/\$	1.553	-0.9%	5.2%
\$/JPY	91.800	0.6%	1.2%
€/JPY	124.120	0.0%	7.5%
€/SFR	1.466	-0.1%	1.3%

### 5Yr Credit Spreads

Product	Index	1-Day	YTD
Invest Grade	87.0	-2.9%	26.9%
High Yield	494.5	-2.7%	15.7%
Financials	91.5	-4.8%	36.3%
BoI	235.1	2.0%	-5.4%
AIB	251.9	1.4%	-8.7%
RBS	167.2	-0.6%	20.6%

### Money Market Rates

Rate	EUR	UK	US
Overnight	0.3%	0.5%	0.2%
3-Month	0.7%	0.6%	0.3%
1-Year	1.1%	0.9%	0.6%
2-Year	1.5%	1.6%	1.2%
5-Year	2.5%	3.0%	2.8%
10-Year	3.4%	4.0%	3.9%

Date	Company	Region	Event
19/02/2010	JCPenney	US	Q4
19/02/2010	PG&E Corp.	US	Q4
19/02/2010	Aeroports de Paris SA	FR	FINAL
19/02/2010	Lafarge SA	FR	FINAL
19/02/2010	Carrefour SA	FR	Q4
19/02/2010	Nestle SA	CH	FINAL
19/02/2010	Anglo American PLC	GB	FINAL
19/02/2010	Rentokil Initial Plc	GB	PRELIM
22/02/2010	TNT N V	DK	Q4
22/02/2010	Associated British Foods PLC	FR	Q4
22/02/2010	Bunzl PLC	DE	PRELIM
22/02/2010	Hammerson PLC	DE	FINAL
22/02/2010	Cabot Oil & Gas Corp.	IE	PRELIM
22/02/2010	Constellation Energy Grp	IE	PRELIM
22/02/2010	Nordstrom	NL	FINAL
23/02/2010	Carlsberg A/S	DK	Q4
23/02/2010	Vallourec SA	FR	Q4
23/02/2010	Continental AG	DE	PRELIM
23/02/2010	Merck KGaA	DE	FINAL
23/02/2010	Dragon Oil PLC	IE	PRELIM
23/02/2010	Kerry Group PLC	IE	PRELIM
23/02/2010	Heineken NV	NL	FINAL

Date	Event	Region	Estimate
19/02/2010	Producer Prices (MoM)	GE	--
19/02/2010	ECB Euro-Zone Current Account	EC	--
19/02/2010	Retail Sales (MoM)	UK	--
19/02/2010	Consumer Price Index (MoM)	US	--
22/02/2010	Chicago Fed Nat Activity Index	US	--
22/02/2010	Dallas Fed Manf. Activity	US	--
23/02/2010	IFO - Business Climate	GE	--
23/02/2010	IFO - Expectations	GE	--
23/02/2010	S&P/CaseShiller Home Price Ind	US	--
23/02/2010	Consumer Confidence	US	--
23/02/2010	Richmond Fed Manufact. Index	US	--
23/02/2010	ABC Consumer Confidence	US	--
24/02/2010	GDP s.a. (QOQ)	GE	--
24/02/2010	Government Spending	GE	--
24/02/2010	Imports	GE	--
24/02/2010	Exports	GE	--
24/02/2010	GfK Consumer Confidence Surve	GE	--
24/02/2010	Industrial New Orders SA (MoM)	EC	--
24/02/2010	MBA Mortgage Applications	US	--
24/02/2010	New Home Sales MoM	US	--
25/02/2010	Unemployment Rate (s.a)	GE	--
25/02/2010	Euro-Zone M3 s.a. (YoY)	EC	--

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