

CONTENTS

Market View: Asian markets weigh on European equities as concerns grow over the strength of the Yen

Aer Lingus: Expects to be at least breakeven this year

Antofagasta: Poorer than anticipated production

CRH: Issues profit warning

IL&P: Press reports indicate securities

NAMA: Last transfer on second tranche

Company Note: Bank of Ireland

Market Movers

IRISH PAPERS TODAY

Third level funding must rise by €500m a year - report
(The Irish Times)

ILP raises €250m without support of State bank guarantee
(The Irish Times)

Thousands now facing €900 rise in motor tax
(Irish Independent)

INTERNATIONAL PAPERS TODAY

Watchdog to move faster on oil spills
(Financial Times)

Ayatollah rebukes warring factions
(Financial Times)

Bank debt reports turn muddy
(Wall Street Journal)

Market View

Analyst: Oliver Gilvarry

Equity markets were weak in Asia overnight with the Nikkei down 1.3% as concerns over the strength of the Yen on Japanese exporters. The US market was also weak as worries over economic growth came to the fore again and this has flowed through into Europe this morning. M&A activity continues with HP counter bidding for 3Par and comments on the wires that Dell is considering increasing its bid in response. On corporate earnings, the main results this morning are CRH and Aer Lingus in Ireland, both are discussed below, with CRH reporting weak figures. While Aer Lingus is beginning to show a turnaround in Q2 with a return to profitability. On the economic front, Q2 GDP for Germany was released this morning. This was the second reading and the detail of the release showing the strength of the German export market. The other important release today is existing home sales at 15.00. The consensus estimate is for a figure of 4.65m or a decline of 13.4% mom. We don't expect any major deviation in this number as the US housing market continues struggle.

Aer Lingus

Previous Close €0.93

Analyst Edward Keeling

Aer Lingus has reported an operating loss of €19m for the first half of 2010 this morning. This result was better than anticipated and illustrates that new management is making progress in restructuring the business. The airline turned an operating profit of €18.8m in the Q2 and now expects to at least breakeven this year. The figures demonstrated an improvement average yields per passenger and a better performance in long haul operations. The company provided no guidance for 2011 stating that it was too early to do so.

Antofagasta: Buy

Previous Close 1027p

Target 1400p

Analyst Brian Gallagher

Antofagasta's results this morning were disappointing. EPS came in just above consensus at 45c per share however revenue and production were weaker than anticipated. The primary reason for this was that Antofagasta missed two shipments which will now be accounted for in the second half. This means that some of the miss will be made up at full year results but it still appears that the group's production in the quarter was lacklustre. Management has downgraded its full year production figures from 543,000 tonnes to 500,000 tonnes citing the earthquake at the start of the year and production disruptions at two of its mines. In isolation, the results do not damage our overall investment thesis on the Chilean copper miner. We are also encouraged by the positive outlook which the notoriously conservative management provided. Furthermore, the fact that Antofagasta reiterated its production guidance of 700,000 tonnes for 2011 means that the company will still be able to take advantage of what is expected to be a tight copper market. Nonetheless, we view today's result as a setback in its own right and if we see production guidance slipping further we will be forced to revisit our call on the company.

CRH: Buy

Previous Close €14.03

Target €20.00

Analyst Stephen Taylor

CRH has issued full year results for the 6-month period ending June 30th. EBITDA declined by 20% to €520m in line with guidance provided on July 7th trading statement. Revenue declined by 8% to €7.658bn. Profit before tax came in at €25m, 77% lower year on year. In relation to its outlook for the second half of the year, CRH issued a further profit warning indicating that EBITDA for the full year 2010 is likely to be c. 10% below the same period last year. The company had previously indicated that it expected EBITDA for the second half of the year to be ahead of last year. While the company was slightly more upbeat on Europe, CRH noted that concerns surrounding the recovery in the US had increased. As a result, its materials business has experienced weaker than expected volumes and more competitive pricing due to lower than anticipated levels of commercial construction and pull-backs in state and municipally funded projects. CRH maintains a strong balance sheet with Net debt as at 30th June coming in at €4.76bn compared to €5.12bn last year. Net debt to EBITDA for the period was 2.8x, while EBITDA/net interest cover came in at 6.5x. In relation to its ongoing development program CRH spent €159m on 14 acquisitions and investments during the first half of the year. CRH noted that it had made further progress on the development front in July and August with a further six transactions totalling €86m. CRH indicated that it was seeing a good flow of bolt-on opportunities and it continues to monitor wider developments in its industry. Overall CRH's guidance is a disappointment and as a result we will be reducing our earnings estimates by c. 10%.

IL&P: Buy

Previous Close €1.51

Target €4.15

Analyst Oliver Gilvarry

An article in the Irish Times this morning states that Irish Life & Permanent (IPM) issued a 2-year Residential Mortgage Backed Security (RMBS) without a Government Guarantee. No details were given on the price the debt was issued, but IPM said the net cost of the issue was lower than if it was done under guarantee. It's a positive that IPM was able to do an unguaranteed issuance, but the issue size was a private deal and relatively small. We still believe funding remains expensive for Irish banks. It is due to this fact and lower Net Interest Margins (NIM) along with weaker economic conditions than previously expected we are reducing our price target for BOI as per our attached note.



NAMA

Analyst Oliver Gilvarry

The last transfer of loans for the second tranche was completed last night with Anglo Irish Bank transferring €6.75bn of loans to the agency. The discount on the loans was 61.9% compared to a discount of 55% on the first Anglo transfer. On total transfers from all banks, the haircut on the first tranche of loans was 55.6% with the total haircut on all loans transferred over at 52.3%. Long-term economic value uplift on the first tranche of loans was 11% and this has declined to 9.8% in the second tranche. A total of 34% of the total loans has been transferred at this stage with the agency expecting a transfer of €12.1bn in the third tranche. This is due to be completed by the end of September and just under 50% of the total transfer will then be complete. In the second transfer, loans secured on hotels were largest proportion of the transfer. Banks transferred loans secured on 31 hotels with 22 of these in Ireland and 9 outside. The process of transferring loans continues to take place at a slow pace and key for the Irish banking sector is for this to be completed as quickly as possible to eliminate uncertainty still surrounding the sector.

Bank of Ireland

BUY

Yesterday's close: €0.78



Price Target: €0.90

24th August 2010

Analyst: Oliver Gilvarry

Interim Results

Bank of Ireland's (BOI) recent interim results were the first following its successful capital raise. The results were in line with expectations with net interest income (NII) declining by 29% yoy with operating profits down 32%. The decline in income was due to higher funding cost from the government guarantee fee, wholesale funding, increased competition for deposits domestically and lack of loan demand. Net interest margin (NIM) declined by 29bps to 1.41% compared to 1H09. The decline in income was matched by the fall in expenses, but operating expenses only declined by 3% yoy. We expect that further cost rationalisation will come through in coming months and we have included this in our model.

Impairment & Credit Quality

Non-NAMA impairment charges declined by 4% to €893m. Management continue to maintain guidance for impairments on the non-NAMA loan book to €4.7bn over the cycle. Management's view is that loan impairments will continue to decline over the coming periods, with €367m per quarter over the next three quarters. Credit quality continues to deteriorate, but at a slower pace. Impaired loans increased 34% HoH with 11.3% of the loan book "challenged" up €3bn from the full year. In turn BOI is maintaining high coverage ratios, but these have fallen by 2% to 42% HoH. The driver for the decline was mortgages as impaired loans in this book jumped 59%. On NAMA loans, we expect an average haircut of between 35% & 38% on the €12bn transferring across with €2.9bn of provisions already applied against the loans.

Funding & Net Interest Margins (NIM)

Funding for the group continues to be challenging, but the deposit book is basically flat from the year end at €84bn with deposits from the JV with the UK Post Office increasing by 12% from the year end. The rating downgrade of the group by S&P in January has led to an outflow of rating sensitive deposits. Competition for deposits in Ireland remains intense with NIM declining by 30bps yoy due to this pressure with higher cost of funding taking 15bps off NIM. Higher lending margins only added 19bps to the margin, eroded by deposit competition. The NIM of 1.41% at the end of June, excludes the cost of the Eligible Liability Guarantee (ELG) of €94m, which erodes another 11bps. Management guidance is for a similar decline in NIM in the 2H resulting in a full year number of low to mid 130's.

Outlook & Guidance

On the conference call, management reiterated guidance on its targets for 2013. After we met with management last week, the concerns over the Irish sovereign and the increased cost of issuing national debt has impacted on the group. The group continues to aim to term out debt towards the end of this year, but this will impact NIM and we expect this to fall to 1.31% for this year. Loan growth guidance is now low single digit with ROE by 2013 to be low teens. Therefore, we now expect normalisation for the bank will take longer than 2013, as the prospect for growth in Ireland remains muted for 2011 due to lower growth than expected from the US and UK.

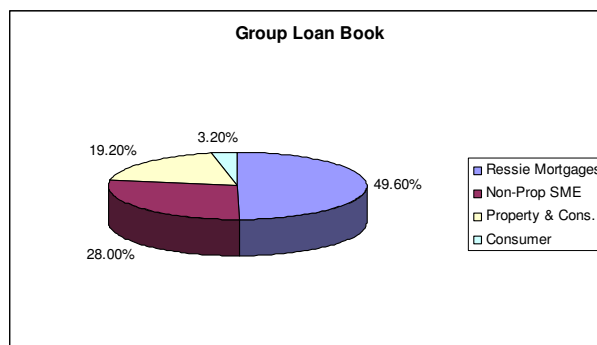
Change in Outlook

Despite this, BOI having successfully raised capital in the last number of months, the concerns over the sovereign and the weak economic environment are impacting the bank. Management's intention to continue terming out wholesale funding will impact NIM further and we expect this to decline to 1.26% next year before starting to recover gradually in 2012 and 2013. We believe it will be difficult for the group to achieve its target of 1.75% by 2013 as weaker growth in Ireland over the next two years than previously expected will result in continued low levels of demand for credit in the economy. Our previous estimates were for higher growth levels in Ireland's main trading partners is not coming to pass. The higher cost of funding for the Irish State impacts directly onto BOI as does muted loan growth due to weaker economic growth in Ireland and the UK. The cost base of the bank will need to reduced further from the current run rate of €1.8bn.

Valuation & Recommendation

Due to lower loan demand along with further margin depression, we are reducing our price target to €0.90. This is based on a 35% discount to the sector using our estimated 2013 TNAV. We don't believe the group will be able to achieve its targets by 2013 in the current economic climate. Despite this we still see value in the franchise and retain our BUY rating, due to the bank's dominant position in Ireland along with its retained UK businesses. The bank will be impacted by the market perception of the Irish State and this will also be a significant driver of the share price separate from BOI's own fundamentals. Upside risks to our target are a better than expected economic growth in Ireland allowing for increase loan growth at higher margins. A more benign funding market would also be a significant positive to the share price. Other alternatives to Irish financials are **UK banks** such as **Lloyds Banking Group** and **Barclays** which have much greater exposure to stronger economies and can fund at much cheaper levels than their Irish counterparts.

Descriptive Stats		Shareholders	
Year to date	-7.52%	NPRF	36.00%
52 Week High	2.23	Capital Research	2.99%
52 Week Low	0.58	Harris Assoc.	1.50%
Reuters	BKIR.I	Fidelity Management	1.23%
Bloomberg	BKIR ID	Irish Life Investment	0.57%
	FY10e	FY11e	FY12e
Revenue €m	2,502	2,386	2,578
Pre Tax profit	-1,604	-283	256
DPS	0.00	0.00	0.00
Div Yield	0.00%	0.00%	0.00%





International Equity Markets

Index	Value	1-Day	YTD
ISEQ	2,756	0.9%	-10.5%
FTSE	5,195	0.8%	-4.4%
Dow Jones	10,174	-0.6%	-2.4%
S&P	1,067	-0.4%	-4.3%
Nikkei	9,117	-0.7%	-14.7%
Stoxx 50	2,661	0.6%	-11.4%

Sector Performances

Sector	Index	1-Day	YTD
Construction	239	0.5%	-16.6%
Technology	188	0.0%	0.6%
Oil & Gas	296	0.8%	-11.9%
Financials	215	1.3%	-4.5%
Retail	265	1.1%	7.2%
Food & Drink	332	0.5%	8.1%

Commodity Prices

Commodity	Index	1-Day	YTD
Crude Oil	73.10	-1.0%	-13.0%
Copper	331.25	0.0%	-3.0%
Gold	1,226.15	-0.1%	11.2%
Silver	18.04	0.0%	5.8%
Wheat	725.50	1.9%	18.6%
Cattle	99.75	0.5%	11.2%

Currency Exchange Rates

Currency	Index	1-Day	YTD
€/\$	1.266	-0.4%	-11.8%
€/£	0.816	-0.3%	-7.5%
£/\$	1.551	-0.1%	-4.7%
\$/JPY	85.160	-0.5%	10.1%
€/JPY	107.790	-1.0%	-19.9%
€/SFR	1.317	0.2%	12.7%

5Yr Credit Spreads

Product	Index	1-Day	YTD
Invest Grade	119.7	-1.1%	58.9%
High Yield	513.3	-1.1%	3.8%
Financials	143.6	-0.6%	86.6%
BoI	325.2	-0.5%	34.1%
AIB	438.8	0.0%	59.5%
RBS	201.6	-2.6%	25.3%

Money Market Rates

Rate	EUR	UK	US
Overnight	0.4%	0.5%	0.2%
3-Month	0.9%	0.7%	0.3%
1-Year	1.2%	1.0%	0.4%
2-Year	1.3%	1.2%	0.6%
5-Year	1.8%	2.1%	1.6%
10-Year	0.025	3.0%	2.6%

Date	Company	Region	Event
24/08/2010	CRH PLC	IE	INTERIM
24/08/2010	Antofagasta PLC	GB	INTERIM
24/08/2010	Cairn Energy PLC	GB	INTERIM
24/08/2010	Persimmon PLC	GB	Q2
25/08/2010	Glanbia PLC	IE	H1
25/08/2010	FBD Holdings PLC	IE	INTERIM
25/08/2010	Paddy Power PLC	IE	INTERIM
25/08/2010	Heineken NV	NL	H1
25/08/2010	Tullow Oil PLC	GB	H1
25/08/2010	UK COAL PLC	GB	INTERIM
25/08/2010	Vislink PLC	GB	INTERIM
25/08/2010	JDSU	US	Q4
26/08/2010	Lagardere SCA	FR	INTERIM
26/08/2010	Accor SA	FR	Q2
26/08/2010	Credit Agricole SA	FR	Q2
26/08/2010	Avis Europe plc	GB	INTERIM
26/08/2010	Kazakhmys PLC	GB	INTERIM
26/08/2010	Savills Plc	GB	INTERIM
26/08/2010	William Hill PLC	GB	INTERIM
26/08/2010	Diageo PLC	GB	PRELIM
26/08/2010	London Mining Plc	GB	Q2

Date	Event	Region	Estimate
24/08/2010	GDP s.a. (QOQ)	GE	--
24/08/2010	BBA House Purchase	UK	--
24/08/2010	Industrial New Orders	EC	--
24/08/2010	Richmond Fed Manu Index	US	--
24/08/2010	Existing Home Sales MoM	US	--
24/08/2010	ABC Consumer Confidence	US	--
25/08/2010	IFO - Business Climate	GE	--
25/08/2010	IFO - Expectations	GE	--
25/08/2010	MBA Mortgage Applications	US	--
25/08/2010	Durable Goods Orders	US	--
25/08/2010	Durables Ex Transportation	US	--
25/08/2010	New Home Sales MoM	US	--
26/08/2010	Euro-Zone M3 s.a. 3 mth ave.	EC	--
26/08/2010	Initial Jobless Claims	US	--
26/08/2010	Continuing Claims	US	--
27/08/2010	GDP (QoQ)	UK	--
27/08/2010	GDP QoQ (Annualized)	US	--
27/08/2010	Personal Consumption	US	--
27/08/2010	Core PCE QoQ	US	--
27/08/2010	U. of Michigan Confidence	US	--
27/08/2010	MNI Business Survey	CH	--

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