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IRISH PAPERS TODAY

Standard & Poors downgrades State's credit rating
(The Irish Times)

CRH warns this year's earnings will fall 10%
(The Irish Times)

Lenihan fails in bid to halt new downgrade
(Irish Independent)

INTERNATIONAL PAPERS TODAY

Market jitters over growth
(Financial Times)

Facebook's "value" soars as investors seek pre-IPO stake
(Financial Times)

Markets fall as home sales tumble in U.S.
(Wall Street Journal)

Market View

Analyst: Stephen Taylor

European equity markets have opened slightly weaker this morning following yesterday's losses and lower closes in the US and Asia overnight. Economic concerns continue to weigh on markets as highlighted by CRH's disappointing outlook. Economic data out of the US yesterday in the form of existing home sales could be described as nothing short of dismal. Total purchases declined to an annual rate of 3.83 million, the lowest in a decade as continuing concerns surrounding the jobs market is leading to a further stalling in the housing market. The effects of the recent removal of the government tax incentive is also clearly weighing on the market. Risks to economic growth forecasts continue to lie to the downside at the moment. The markets will be closely watching Ben Bernanke's speech on the economic outlook at Jackson Hole this coming Friday and comments in relation to further stimulus or quantitative easing. As for today the main focus will continue to be on the economic front. In Germany, business confidence figures in the form of the IFO reading are expected to show a slight pull back in June. In the US, new home sales data will be closely watched with a flat outcome for June expected following the 24% rise in July. Durable goods data will also be key with the ex transportation figures expected to show an increase of 0.5%. With major concerns about the economy in particularly now in the US, economic figures will be a key driver of markets.

Tullow Oil: Buy Previous Close 1297p Target 1470p Analyst Brian Gallagher

Tullow Oil have provided a disappointing H1 update to the market this morning. The explorer has failed to provide an update on the sidetrack operations at its recent discovery in Ghana and also announced that the farm out of the Ugandan assets which it purchased from Heritage Oil is being delayed by a tax dispute between the sovereign and Heritage Oil. Tullow Oil's operating figures were better than expected however these figures are almost immaterial as Tullow Oil's value is derived from the assets in its exploration portfolio. The company did announce a small discovery in Uganda which now brings the total resources discovered in the country to 1 billion barrels of oil. We continue to buy Tullow Oil and see the stock continuing to outperform in the second half as it completes a high impact drilling schedule. Nonetheless, today's statement will frustrate the market as a resolution to the Uganda farmout has been promised for sometime now.

BHP Billiton: Buy Previous Close 1803p Target 2200p Analyst Brian Gallagher

BHP Billiton's preliminary full year results this morning demonstrated that the company has the financial clout to complete a deal like the Potash approach. The group reported EBITDA of \$24.5bn, generated on revenue of \$52.8bn. Gearing at the world's largest miner also fell to 6% leaving it in a strong position to pursue Potash. Our view remains that a bid above \$150 a share is expensive and would merit a review of our call on the miner. The results this morning also provided an insight into the broader commodity markets and global economy with management at BHP expressing concern over the level of debt in OECD countries. It also sees mixed outlooks in the different commodities but importantly for our call on Antofagasta, it believes that the copper fundamentals are strong. On the whole, today's results were inline with consensus estimates and illustrate the earnings power of the mining sector. Despite this, BHP Billiton's short term price action continues to be dominated by the Potash deal which means today's results will be overshadowed by any commentary provided by the company on M&A activity.

Paddy Power: Buy Previous Close €26.60 Target Under Review Analyst Edward Keeling

Paddy Power has this morning reported a strong set of first half results. Profit before tax increased by 54% to €52.5m with underlying EPS showing growth of 31% to 82.2c. The group substantially increased on line scale (ex Australia) with gross win up 45% to €75m. The group's Australian business saw online gross win up 45% and operating profit of €45m. World cup trading provided a major boost for the company generating gross win of €18m a more than four-fold increase versus Euro 2008 and World Cup 2006. In relation to its outlook for the year the company pointed out that it expects to exceed current market consensus for EPS with the group seeing full year EPS showing up to 30% growth. Paddy Power's results demonstrate the strength of the company and geographic diversity. We continue to like the stock and will be reviewing our price target following today's strong numbers.

Glanbia

Previous Close €3.38

Analyst Oliver Gilvarry

Glanbia released interim results this morning with turnover up 9.7% yoy and operating profit increasing to €66.3m from €47.8m a year ago. The operating margin increased by 130bps to 6.4%. EPS for the half year was 18.62c and the interim dividend has been increased to 3.03c. The strong performance was helped by the return to profitability in Irish Dairy Ingredients with a continued strong performance by Global Nutritionals. Management have also upped guidance with adjusted EPS to increase by 20% this year of 36.6c compared to consensus of 35c. The recovery in Dairy markets along with the potential for the group to revisit the Co-Op deal makes the stock attractive.



FBD**Previous Close** €6.99**Analyst** Oliver Gilvarry

FBD reported half year results with Gross Written Premiums (GWP) up 1.1% to €183.2m, the first increase since 2007. The group reported operating profit of €11.29m. The interim dividend for the period is 10.5c, an increase of 0.5c since last year. The combined ratio for the group in the first half was 105.2% due to severe weather claims. Non-underwriting operations generated an operating profit of €1.9m, a decline of 34.4% yoy, with the Hotel businesses in Spain and Ireland reporting an operating loss in the first half. The group also had a negative valuation adjustment of €15.8m on its Hotel & Golf resort assets. The return to positive growth in GWP is a positive, but the weak performance in the Hotel business and further downward valuations on that asset offset this.

Irish Economy**Analyst** Oliver Gilvarry

Standard & Poor (S&P) downgraded Ireland yesterday to AA- from AA with a negative outlook. The downgrade was mainly due to the fact that the cost of the Irish banking bailout has increased significantly above S&P's previous estimates. Its estimate of the cost of recapitalising the financial system has increased from €30-35bn to €45-50bn. The negative outlook is taking into account the possibility the rating could be lowered further if the Government's fiscal performance progress more slowly than expected due to further support for the banking sector or weaker economic conditions. The rating downgrade puts Ireland's rating at the same level as Fitch and one below Moody's, both of which are on a stable outlook. S&P now estimates Ireland's net government debt to gross GDP will increase to 113% in 2012, higher than similar rated countries such as Belgium and Spain. This morning ten-year Irish Government debt is yielding 5.50% at the moment and is trading at 332bps over equivalent German Government debt. The announcement by S&P is a negative, but the State has completed its required funding for this year and is fully funded into Q2 of next. A strong position, that a number of our other European peers are not in. Also the downgrade to AA-, still leaves Ireland on a higher rating than Italy or Portugal.

CRH

Buy

Current Price : €11.72

Price Target : €14.00 (previous €20.00)

(previous €21.50)



Analyst: **Stephen Taylor**
25th August 2010

• **Recommendation** : Following CRH's second profit warning in 6-weeks we are reducing our price target to €14.00 from €20.00, however maintaining our longer term buy rating on the stock. Our new price target places the company trading at 7.5x 2011 EBITDA, which is below its historical multiple of 8x. While we see long-term value in CRH, **we acknowledge that shares in the group may continue to underperform if economic data particularly in the US remains weaker than anticipated.**

• **New trading range / catalysts** : Given the downgrade to earnings following CRH's results (as detailed below) we see CRH trading in a range between our bear case of 6x EBITDA and bull case of 8x EBITDA **implying a share price range of €10.00 - €15.00.** Further deterioration in economic data will see the stock trade to the low end of this range and **should be noted that this is where the risk lies in the short-term.** We are not of the view however the US is about to enter a double-dip recession rather a period of below average growth. Any positive turn in economic data, earnings accretive acquisitions, further economic stimulus and a further quantitative easing announcement from the Federal Reserve could potentially push the stock to the higher end of this range. A further catalyst for the stock could be a potential spin off of its US business. With the stock trading at a significant discount to its US peers a spin off its US business could potentially provide a way of unlocking value.

• **First half results** : CRH's first half results announced yesterday were broadly in line with expectations. However earnings guidance was a major disappointment and was the key reason for yesterday's severe weakness in the share price. Pre-tax profit fell by 77% to €25m. EBITDA for the period showed a decline of 20% to €520m year on year and in line with previous guidance provided at its July 7th trading statement. Revenue declined by 8% to €7,658m and broadly in line with expectations.

• **Disappointing outlook** : CRH warned that it now expects EBITDA for the full year 2010 to be 10% below the 2009 level of €1.8bn, which works out to be c. €1.62bn. This is well below our previous estimate of €1.84bn. Back in July, CRH had indicated that it expected overall group EBITDA in the second half of the year to exceed the 2009 level. The miss is due to a disappointing outcome at its US materials business that 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. As a result we see our EPS forecast for 2010 come down to 69c (prev 94c) and for 2011 of 96c (prev 124c)

• **Balance sheet** : Net debt was €4,762m down from €5,122m last year. EBITDA / Interest cover was a comfortable 6.5x compared with 6.3x last year and net debt / EBITDA was 2.8x compared with 2.3x previously.

• **Development update** : During the first six months of the year, CRH spent €159m on 14 acquisitions and investments. CRH noted that it made further progress on the development front in July and August with a further 6 acquisitions at a total cost of €86m. The group pointed out that it is seeing a good flow of bolt on opportunities, however it will continue to monitor market development and will maintain a patient approach to progressing transactions in light of the challenging market backdrop.

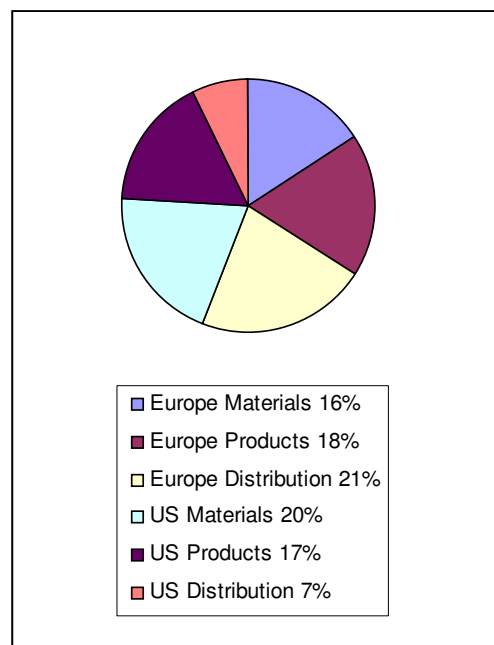
• **Dividend** : With its strong balance sheet and anticipated strong second half-cash inflow, the 2010 interim dividend has been maintained at c. 18.5c (trade ex on September 1st). In relation to its final year dividend (44c last year), CRH pointed out that it will decide on this in the Spring of next year. CEO Myles Lee did highlight the value orientated nature of the group's shareholder base and strong record of dividend growth. However the company will base its dividend payment on market conditions. If dividend payments remain, the stock is paying a full year dividend yield of 5.3%.

Descriptive Stats		Shareholders	
Price (€)	11.70	Capital World	12.87%
52 Week High	22.00	Blackrock	3.95%
52 Week Low	11.51	UBS	3.73%
Bloomberg	CRH ID	ILIM	2.93%
Reuters	CFHL	BIAM	2.88%

	FY09	FY10	FY11
Revenue (€m)	17,373	16,300	17,000
EBITDA (€m)	1,803	1,620	1,855
Operating Profit (€m)	955	819	1,055
EPS(c)	88.3	0.70	0.96
DPS (c)	62.5	62.60	62.70

Company	EV/EBITDA 10	EV/EBITDA 11	Div Yield
CRH	7.9	6.9	5.30%
Lafarge	7.3	6.5	5.40%
Holcim	7.3	6.5	2.46%
Heidelbergcement	6.3	5.5	1.00%
Vulcan Materials	17.9	12.6	2.70%
Martin Marietta	11.2	9.4	2.20%
Average	9.7	7.9	3.2%

Revenue by division 1H2010





International Equity Markets

Index	Value	1-Day	YTD
ISEQ	2,620	-5.8%	-11.5%
FTSE	5,156	-1.5%	-4.6%
Dow Jones	10,040	-0.4%	-3.7%
S&P	1,052	-0.4%	-5.7%
Nikkei	8,995	-1.3%	-16.1%
Stoxx 50	2,615	-1.7%	-11.6%

Sector Performances

Sector	Index	1-Day	YTD
Construction	229	-4.2%	-16.9%
Technology	184	-1.9%	0.0%
Oil & Gas	290	-2.3%	-13.0%
Financials	210	-2.2%	-4.9%
Retail	261	-1.4%	6.8%
Food & Drink	331	-0.4%	8.4%

Commodity Prices

Commodity	Index	1-Day	YTD
Crude Oil	71.63	-2.0%	-13.3%
Copper	326.20	-1.5%	-3.4%
Gold	1,230.65	0.4%	12.3%
Silver	18.43	2.1%	9.0%
Wheat	707.75	-2.4%	17.3%
Cattle	99.45	-0.3%	10.4%

Currency Exchange Rates

Currency	Index	1-Day	YTD
€/\$	1.263	-0.2%	-11.3%
€/£	0.820	0.5%	-7.2%
£/\$	1.540	-0.7%	-4.5%
\$/JPY	83.900	-1.5%	9.9%
€/JPY	105.970	-1.7%	-19.3%
€/SFR	1.304	-1.0%	13.6%

5Yr Credit Spreads

Product	Index	1-Day	YTD
Invest Grade	119.7	2.8%	59.7%
High Yield	513.3	2.5%	4.3%
Financials	143.6	3.2%	87.0%
BoI	325.2	1.6%	38.9%
AIB	438.8	0.9%	60.0%
RBS	201.6	2.2%	30.8%

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%	0.7%
5-Year	1.7%	2.0%	1.5%
10-Year	0.024	3.0%	2.5%

Date	Company	Region	Event
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
26/08/2010	Signet Group PLC	GB	Q2
26/08/2010	Novell	US	Q3
27/08/2010	Independent News & Media	IE	INTERIM
27/08/2010	Tiffany & Co.	US	Q2
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Date	Event	Region	Estimate
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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