



Thursday 28th August 2008

DAILY COMPANY NOTES — Paddy Power & IL&P See page 2 for full details

Daily Market Comment

Yesterday's Summary : With the Irish earnings season in full flow and better than expected German inflation data, the ISEQ crept into positive territory yesterday, closing 0.76% higher at 4,380.20. Irish Life & Permanent had an encouraging trading session, adding 6.7% to €5.79 amid interim results that were not as bad as the market had feared. Kingspan was among the outperformers, soaring 8% to €7.55, as the house builder reported a robust first half performance. Paddy Power dropped 5.6% to €15.15 as it warned that earnings may suffer as a result of a new pricing strategy. Anglo Irish Bank jumped 8.7% to €5.72.

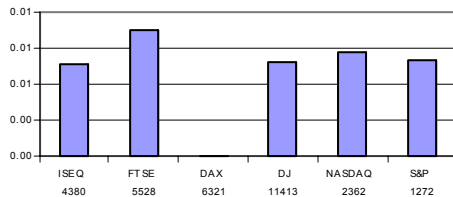
Overnight News : US stocks closed higher last night after new figures showed a surprise rise in orders for durable goods. The news offset another big jump in oil prices and continued worries about the outlook for the US economy. The Dow Jones Industrial Average ended up 0.8% at 11,504.14, while the technology oriented Nasdaq Composite gained 0.83% to 2,381.67.

Breaking News : Diageo has announced net profit for the year to June 30 grew 2% to £1.52bn. Net sales rose to £8.09bn from £7.48bn, a rise of 7% stripping out currency movements, while operating profit was up 9% at £2.3bn. Diageo also lowered full year guidance, stating that this reflected worrying trends in Great Britain and Europe. Premier Foods, Britain's largest food manufacturer, has said adjusted pretax profit for the six months to June 28 rose to £60m, which was in line with market expectations. However, reflecting restructuring costs, its debt rose to over £1.8bn by the end of June from £1.6bn at the end of 2007. The group also said it is on track to deliver the analysts' forecasts for full year average underlying pretax profit of £212m. Air Berlin has reported that turnover for the second quarter increased from €814.8m to €869.5m. Despite EBIT decreasing from €18.7m to €13.8m, the airline remains optimistic about achieving a positive operating income for the current year.

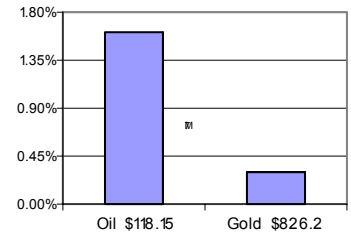
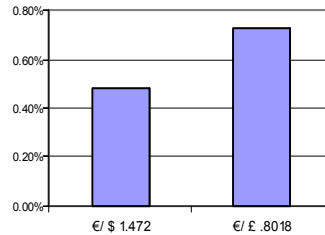
Equity Indices change on day

Currency daily % change

Oil/Gold daily % change



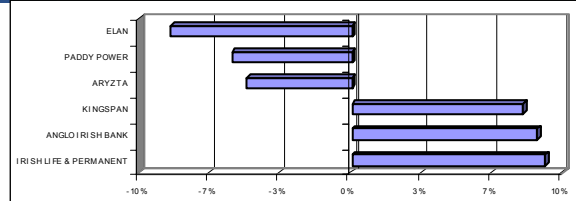
0.76% 1.05% 0.01% 0.79% 0.87% 0.80%



News

ISEQ Performers/Losers 27/08/08

- "IL&P tells investors it can release €1bn"-Irish Life & Permanent-(I.T)
- "Paddy Power cuts operating profit forecast to €75m"-(The Irish Times)
- "Kingspan hit by tightening margins"-(The Irish Times)
- "INM net profit jumps by 28% despite challenging market"-IN&M-(I.I)
- "Glanbia expects good 2008 after 37.6pc hike in first half profit"-(I.I)



McInerney Holdings Interim Results

McInerney has reported an operating loss before tax and exceptional items of €22.1m for the first six months of 2008, which compares to an operating profit before tax of €9.2m for the corresponding period in 2007. McInerney will not pay an interim dividend and its dividend policy will be reviewed based on the outcome for the year. The group also announced that it was taking a €27.6m write-down against the carrying value of certain sites in its landbank. Total unit completions at the group declined to 423 from 703 last year. In light of the downturn, McInerney has taken extensive cost cutting measures to provide annualised cost reductions of €47m. The group also announced details of changes to its banking covenants that have come under pressure in light of the downturn in the housing market. In Ireland, McInerney has successfully converted its covenant structure to be based on cash collection and sales, rather than earnings with a similar facilities being negotiated in the UK.

Aer Lingus Interim Results

Aer Lingus has posted a net loss for the six months ended June 30 of €20.6m, compared with a net profit of €6.81 for the same period last year. Total revenue rose 10.2% to €632.9m, passenger revenue increased 10.4% to €606.2m, while fuel costs for the company were 48.7% higher at €172m. The airline also announced a cashflow of €120m was generated from operations, creating a strong balance sheet with net cash of €802.6m. There was a strong ancillary performance, with related revenue up 38.2% at €69.7mm. Ancillary revenue per passenger was up from €11.47 to €14.35.



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Paddypower

David Dunk
Buy
Target:
€18.00
Previous:
€27.50
Current:
€15.15
ISEQ
Gaming
Company Profile

The Group's principal activity is providing sports betting services through a chain of licensed betting offices, Paddy Power Bookmaker, together with telephone betting, Dial-a-Bet, and online interactive betting services, paddy-power.com. It provides online gaming services through paddy-power.com and 'paddy-power-casino.com'

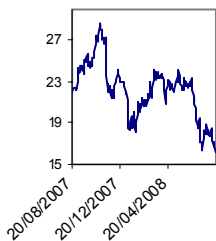
Fundamental View

Paddypower released its interim results this morning for the six months ended 30 June 2008. The results for the first half of the year were strong with EPS of €0.823, up 17% from the same period last year. Operating profit increased 10% to €45.1m. Sports results for the period ran in the bookie favour, although not to the same extent as in 2007. Offsetting this was the decline in Sterling denominated profits which impacted operating profit by €2.5m.

The online division performed particularly well with operating profit growth of 43%. The trading environment for the online division is challenging due to the intense level of competition from peers. Amounts staked increased 28% on a constant currency basis. Profit from the online division accounted of just less than 47% of group profit. The retail division has seen a 6% increase in amounts staked, but a decline in gross win from 14.7% to 14%. The UK retail division showed a profit for the period of €0.5m against a loss of the same amount in H107.

The most significant portion of the interim statement was the guidance given for full year profit. Paddypower are now guiding for full year operating profit of €75m, down from €82m. This is particularly disappointing given that it was only a few short months ago that the company raised guidance for the year. Of the €7m shortfall from previous guidance, €4.5m is being attributed to unfavourable sports results. The remaining shortfall is attributed to a weaker economic environment as well as an increasing level of discounts for customers by Paddypower in the Irish retail market.

Paddypower has effectively started a price war in the Irish retail sector with its aggressive pricing strategy. The Irish bookmaker market is arguably oversaturated, with a increase of over 30% of bookmaker shops in 6 years. This is a long term strategy for Paddypower, with the aim of increasing market share, discouraging new entrants as well as forcing closures among weaker competitors. It is no coincidence that Paddypower stepped up its pricing efforts at a time when the economy is slowing and consumers are under pressure.

Statistics
Price Performance

Next Catalyst

Following on from today's results the next catalyst for Paddypower will likely be the results from major sporting events as well as results from its peers. Paddypowers competitors may be forced to adopt a similarly aggressive pricing strategy which may result in the exit of weaker participants from the market.

Valuation

We are reducing expected earnings for Paddypower to €1.37 for 2008 and €1.44 for 2009. Paddypower is now trading at a 2008 earnings multiple of 11.1x compared to a sector multiple of just over 7x. However given Paddypower's net cash position, the company is best evaluated on a EV/EBITDA basis. Paddypower trades in line with its peers on 2008 EV/EBITDA multiple of slightly less than 7x. Our revised 12 month target of €18 reflects Paddypower's superior branding and online portal.

Chart View: Paddy Power

Support Primary: €14.52
 Support Secondary: €11.90
 Resistance Primary: €16.25
 Resistance Secondary: €18.00

Chart outlook is negative with the stock starting to show a series of bearish breakdowns. Caution is warranted with further medium-term weakness not unlikely. However, oversold levels are being approached and a short-term upward correction may soon be due.

Profit by Geography


■ Retail 38% ■ Non Retail 62%

Major Shareholders	%	Peer Group Multiples			
Fidelity	10.20%	Company name	P/E 08	P/E 09	EPS Growth 08-09
David Power	9.10%	Paddypower	11.1	10.5	5.11%
Deutsche Bank	3.98%	Ladbrokes	5.2	7.7	-32.16%
Nordea	3.81%	William Hill	7.2	6.7	7.00%
Shares Outstanding	48.332m				

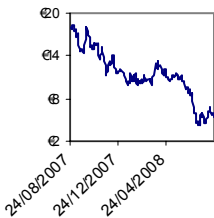
Share Data		Financial Data	2007	2008	2009e
Current Price (€)	15.15	Revenue (€m)	2,028	2,250	2,450
Mkt Cap (€m)	721	PBT (€m)	76	80	84
Reuters	PAP.I	EPS (€)	1.27	1.37	1.44
Bloomberg	PWL ID	P/E(x)	11.93	11.06	10.52
Sector	Gaming	DPS (€)	0.51	0.55	0.59
CEO	Patrick Kennedy	Dividend Yield	3.37%	3.63%	3.89%
Cfo	Jack Massey				
Website	www.paddypowerplc.com				



Irish Life & Permanent

Target
€7.05
Previous (14/12/07)
€14
Current
€6.06
ISEQ
Insurance
Company Profile

The Group's principal activity is providing financial services in Ireland. The Group operates through its Insurance and Investment, Banking, General Insurance and Other segments. Insurance and Investment includes long term savings products including pensions to both individuals and group schemes.

Statistics
Price Performance


- Fundamental View:**
- Irish Life and Permanent (IPM) released results for the first half of the year yesterday morning. The results were in line with consensus with EPS for the period at 95.7c, a fall of 7% from the same period in 2007.
 - As guided in June, the interim dividend is maintained at 22.5c with a strong possibility for no increase in the final dividend. Net Interest Margin (NIM) fell to 108bps for the half compared to 117bps for FY07 and the fall was due to increased funding costs for the bank from wholesale and deposit funding. Guidance for the full year on NIM is between 98 and 100bps.
 - Loan growth for the first six months of the year was 5% and this was due to pipeline business from the end of 2007, growth for the full year will be low single digit. Impairments charge for the half year is 3.4bps and the bank is guiding 8bps impairments for the full year mainly from the personal finance and UK buy to let book.
 - Life sales fell by 16% compared to the same period in 2007 with retail sales down 32%. The comparison with the H107 is misleading as it included the maturity of SSIA deposits and the majority of the fall in retail sales was due to lower sales of lump sum investments. Corporate business sales did increase by 12%, but the group is facing reduced demand for investments and savings products due to weakness in equity and property markets.
- Next Catalyst:**
- At the results presentation the group outlined a plan to release capital from the Life Business through Financial Re-Insurance and Value in Force Securitisation. The re-insurance will generate €100m capital for the group in 2009 and possibly €100m each year in 2010 and 2011 and will allow the group to "withstand whatever the current economic cycle may throw at us" according to management.
 - On funding, deposit growth was 7.5% compared to year end and the ratio of deposits to loans fell to 2.81x from 2.88x, but is still significantly higher than the average of 1.77x at other Irish banks. The dependence on wholesale funding within IPM is creating pressure on the NIM due to the fact the bank is not growing loans and is unable to pass on higher funding costs to the back book. The recent funding cost the group 115bps over 3-month EURIBOR proving how expensive the reliance on wholesale funding is for IPM.
 - The poor result from the Allianz Ireland Associate with slowing sales in investment products will affect EPS over the next year. Due to these negatives and the effect increased impairments will have on earnings, FY09 EPS is estimated at €1.41.
 - A P/E multiple of 5.5x reflects the lower growth prospects the company is facing and will give a 12-month price target of €7.70 implying an up-side of 27% from the current share price. The strong capital base and the well covered dividend implies a low risk of the current dividend been cut while waiting for this up-side.

Chart View: Irish Life & Permanent

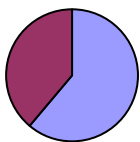
Support Primary: €4.97

Support Secondary: €4.32

Resistance Primary: €6.85

Resistance Secondary: €8.35

Daily momentum continues to improve and there is little reason why the stock cannot target resistance at €6.85 in the short-term. However, it should be noted that the longer-term chart outlook remains negative and the necessary conditions for a sustained rally have yet to be formed.

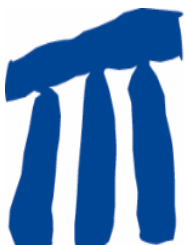
Profit by Geography


■ Insurance & Investment Business 61%

■ Banking 39%

Major Shareholders	%	Peer Group Multiples			
		Company name	P/E 08	P/E 09	EPS Growth 08-09
AXA	4.65%	IPM	4.3	4.3	0.00%
Capital Group	4.13%	Aviva	7.7	6.6	16.67%
BOIAM	3.93%	Friends Provident	6.6	7.1	-7.58%
UBS Investments	3.76%				
Capital Research	2.61%				
Shares Outstanding	268.5m				

Share Data	Financial Data	2007	2008e	2009e
Current Price (€)	PBT (€m)	590	528	457
Mkt Cap (€m)	EPS (c)	1.94	1.41	1.41
Reuters	IPM.L	5.70	4.30	4.30
Bloomberg	IPM.LN	0.75	0.75	0.75
Sector	Insurance	6.80%	12.38%	12.38%
CFO	Denis Casey			
Chairman	Peter Fitzpatrick			
Website	www.irishlifepermanent.ie			





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