



Tuesday 2nd December 2008

**DAILY COMPANY NOTE — Aer Lingus** See page 2 & 3 for full details

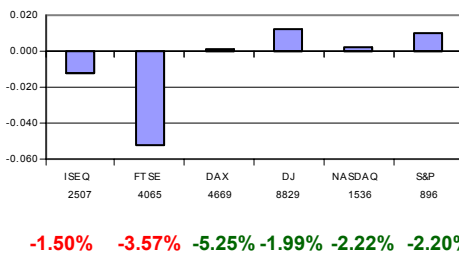
**Daily Market Comment**

**Yesterday's Summary :** Despite posting a negative session yesterday, the ISEQ outperformed its European peers, closing down 32 points at 2,507. Volumes on the index remained light. The focus for the day was on Ryanair's bid for Aerlingus, whose offer came in at €1.40 a share. Ryanair closed down 4.8% at €2.79, while Aerlingus closed up 14.3% at €1.28. The financials were relatively quiet on the day, as Irish Life closed up 1.1% at €1.70, while Bank of Ireland dropped back 1.4% to close at €1.42.

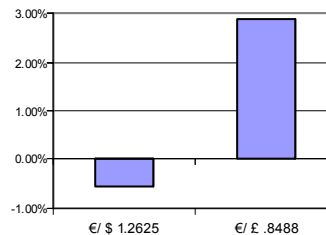
**Overnight News :** US indices dropped back considerably in yesterday's session. Financials and retailers were the worst performing sectors, led down by Macy's which tumbled by 13.6% to close at \$6.41. Fed chairman Ben Bernanke reinforced the gloomy US economic outlook, as he highlighted that the US remained under considerable economic strain in his speech yesterday. Dow Jones: -7.7% at 8,149, S&P 500: -8.9% at 816, NASDAQ: 1,398.

**Breaking News :** JPMorgan Chase said Monday it will eliminate about 9,200 jobs at the former Washington Mutual. The cuts amount to more than 21% of the work force at WaMu, which ended June with 43,198 employees. Tesco reported a rise in annual profit of 12 percent, beating analysts' estimates, on higher revenue in Asia and eastern Europe and stronger domestic sales in the current year. Net income climbed to 2.1 billion pounds (\$4.2 billion) or 26.61 pence a share. Aer Lingus on Monday night rejected the Ryanair's second bid in two years. The Irish government, which holds a 25% stake, responded cautiously, in contrast to its immediate rejection of the first bid two years ago.

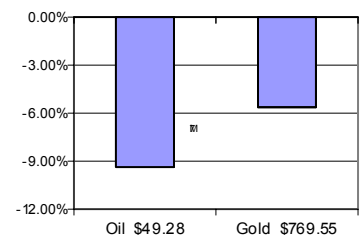
**Equity Indices change on day**



**Currency daily % change**



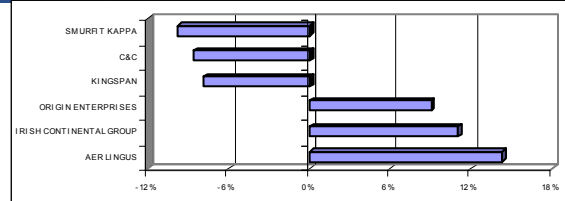
**Oil/Gold daily % change**



**News**

- "O'Leary to press on with Aer Lingus bid"-(Irish Independent)
- "Merged Aryzta has recipe for success as sales up 8.7pc"-(I.I)
- "Funding costs raise fears over earnings"-(Financial Times)
- "Steep falls spark talk of deeper rate cuts"-(Financial Times)
- "US in recession since 07"-(The Wall Street Journal)

**ISEQ Performers/Losers 01/12/08**



**Market Themes & Movers**

**Australian and Japanese central bank action :** The Reserve Bank of Australia lowered its interest rates by 1% last night to 4.25%, which was more than economists had forecasted. This represents a six year low for Australian interest rates and the fourth rate reduction in as many months. While the Australian economy has held up relatively well when compared with most advanced economies, its gross domestic product is expected to have slowed to 0.2% in the second quarter. This would cut annual growth to 1.9%, the smallest gain since the second quarter of 2002. Elsewhere the Bank of Japan has temporarily broadened the range of collateral it would accept to include lower grade corporate debt for loans of up to three months. The types of debt accepted include bonds, commercial paper and discount bills. This latest move is designed to help companies that are in danger of running out of cash during the year end funding squeeze. The Bank of Japan has less room to maneuver in terms of monetary policy as Japanese interest rates stand at just 0.3%. The new measures will be in effect until April 30 and the Japanese finance minister is also meeting with heads of commercial banks to discuss funding for small firms.



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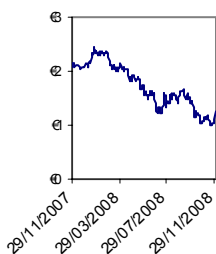
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# Aer Lingus

**ISEQ**
**Airline**
**Company Profile**

The Group's principal activity is providing passenger transportation services. The Group operates a single economy class service on its short-haul network and it also provides cargo transportation services on its passenger aircraft, primarily on its long-haul routes, as well as a range of ancillary services to its passengers

**Statistics**
**Price Performance**

**Revenue by Region**


■ Europe 66%

■ Rest of World 34%

**Fundamental view**

- Yesterday Ryanair announced it had made a new merger proposal to Aer Lingus, offering an all cash deal of €1.40 a share, representing a 28% premium over the average price of an Aer Lingus share for the 30 days to 28 November 2008. It was subsequently rejected by the company's board, with the group stating the offer significantly undervalues Aer Lingus. The new proposal is a 50% discount to the €2.80 a share Ryanair previously offered in 2006 and values Aer Lingus at €748m. Under the terms of the deal, the Aer Lingus ESOT and employee shareholders would receive €137m, while the Irish government would collect over €188m.
- Ryanair proposes to merge the two airlines into one Irish group under common ownership, with both airlines operating as separate companies with distinctive brands. Ryanair has made a commitment to double the size of Aer Lingus' short haul fleet to 66 aircraft over the next five years and as a result, create 1,000 new jobs in Aer Lingus. In addition the Aer Lingus chairman will be invited to join the board of Ryanair.
- While the board's rejection of the deal still leaves room for a hostile takeover, we believe the majority shareholders will not accept the offer and the deal will not go through. Firstly, we would agree with the board that the €1.40 share offer undervalues the airline. With net cash of €767m, and considering Aer Lingus' 23 heathrow slot pairs are estimated to be worth in excess of €300m, we do not envisage Aer Lingus' majority shareholders selling at this price. In addition, despite recently negotiating a €50m staff cost cutting programme, it is likely Aer Lingus' employees would not be willing to move away from the comforts a highly unionised and state backed company can provide.
- Secondly, under the assumption the government's has not been offered significant holdings in the new structure, we would suggest the state would be reluctant to sell its stake. Notwithstanding its strategic interest in the groups Heathrow presence, we believe the government places considerable value, certainly in excess of €1.40 a share, on its influence in the country's national flag carrier. Lastly, while the current macroeconomic environment has led to easing in the regulatory environment, doubt still remains weather the European Commission would approve such a move on competition grounds.

**Valuation**

- Despite holding a negative stance towards the possibility of a deal in its current state being agreed, we are upgrading Aer Lingus to buy with a price target of €1.76, based on 1.0x book value per share. While significant headwinds remain in terms of earnings and operating costs, we believe the airline will be more focused than ever on realising shareholder value over the coming 12 months. In addition, there is also the possibility of a further improved bid from Ryanair which, if sufficiently higher, might be better received. While we do acknowledge that the task of fundamentally restructuring the airlines inefficient cost base is not going to be easy, we would take comfort from the airlines recent success in this respect.

Major Shareholders	%	Peer Group Multiples.			
Ryanair Holdings	29.82%	Company name	P/E 08	P/E 09	EPS Growth 08-09
Minister for Finance	25.12%	<b>Aer Lingus</b>	n/a	n/a	n/a
ESOT	14.23%	Ryanair	n/a	12.0	n/m
		Air France	7.0	8.9	-21.35%

Shares Outstanding 536.35m

Share Data		Financial Data	2007	2008e	2009e
Current Price (€)	1.28	Revenue (€m)	1,301	1,359	1,347
Mkt Cap (€m)	687	Net Profit (€m)	102	-20	-25
Reuters	AERL.I	EPS (€)	0.17	0.00	0.00
Bloomberg	AERL ID	P/E(x)	9.56	n/a	n/a
Sector	Airline				
CEO	Demot Mannion				
CFO	Séan Coyle				
Website	www.aerlingus.ie				





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