Dolmen Daily

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CONTENTS

Market View: Irish Central Bank cut growth forecast for this year

Petroceltic: Completion of Algerian farmdown

BT: Strong Q312 numbers and EBITDA guidance

Smurfit Kappa: IP posts robust Q411 numbers

IRISH PAPERS TODAY

Asian shares dip as Greek talks continue
(The Irish Times)

Families hit on double with hikes in VHI and college fees
(The Irish Independent)

Anglo unlawfully 'shovelled' billions to Quinn, court told
(The Irish Times)

INTERNATIONAL PAPERS TODAY

$88bn Glencore and Xstrata talks
(Financial Times)

Egypt riot stokes anger at police
(Wall Street Journal)

UK recession forecast
(Financial Times)

Market View

European equities have followed their Asian peers in trending slightly lower this morning on softer economic data and company releases. China's non-manufacturing PMI number for January came in at 52.9 and while still in expansionary mode it is lower than the 56 reading recorded in December. In Japan, Panasonic became the third large electronics company to issue a profit warning overnight while earnings releases from Singapore Airlines and Hyundai Heavy also disappointed. In Europe overnight, international debt inspectors admitted an additional €15bn would be needed to fill a newly discovered black hole in Greece's finances while the Spanish government has told its banks they will have to raise an additional €50bn to cover toxic assets. In Ireland, the Central Bank has cut its growth forecasts for the Irish economy to 0.5% this year, which is down from the 1.8% forecast in October of last year. The Bank cited slowing export growth and weak consumer spending for the cut. For the day ahead, markets will be focused on US data with non-farm payrolls out at 13.30, with a rise of 140K expected while US non-manufacturing PMI and factory orders are out at 15.00 with 53.2 and 1.5% being expected by the market respectively.

Petroceltic - Completion of Algerian farmdown

Petroceltic has this morning announced the completion of its farmdown of an 18.375% interest in its Isarene permit to Enel Spa. Under the terms of the agreement, ENEL will agreed to pay back costs of $36.75mln, committed to fund 49% of the cost of a recent six well appraisal drilling campaign and also signed the terms of contingent cash consideration agreement, the terms of which are undisclosed but relate to overall reserves and the production profile of the field. In total the amount under this agreement to be paid to PCI is in excess of $101m and is due to be settled in the next 30 days. It is believed that this payment will leave Petroceltic funded until mid-2013. We also anticipate that Petroceltic is likely to seek to progress another farmdown of a similar size now that it has completed the ENEL transaction.

BT - Strong Q312 numbers and EBITDA guidance

BT this morning issued a strong set of Q312 numbers indicating that it expects to achieve its 2013 EBITDA target of above £6bn a year early and to generate free cash flow of c.£2.4bn this year. For the quarter, the company reported a 13% increase in adjusted EPS to 6.1p (consensus at 5.6p) despite a 5% contraction in revenue to £4.77bn (market was expecting a 4% slip to £4.83bn). The company reported strength in its broadband offering (Openreach Division) which was the one division reporting an increase in revenue, growing by 5% to £1.3bn (22% of gross revenue). Ebitda grew by 8% to £591m (39% of total). Although revenue from BT Global Services slipped 4% to 1.9bn (31% of total), the company is growing its international footprint, with management noting that new contract orders in the fiscal year to date are up over 50% in Asia Pacific and Latin America. Cost controls resulted in the division reporting a 2% increase in EBITDA to £144m, although this was only 9% of total profit. The traditional landline business (BT Retail) proved the laggard with revenue down 5% to £1.8bn (31% of total) with cost cutting measures only seeing EBITDA coming in flat on Q311 numbers at £453m (30% of total). Despite the strength of today's results and the potential catalyst of greater than expected demand for superfast broadband connections, the long term overhang of the pension deficit remains, with a marked increase reported over the quarter. The move from £2.5bn in September to £4.1bn at the end of December 2011 is attributed to "particularly low real corporate bond yields" and recent inflation being higher that long-term assumptions. Given that caveat, the strength of today's numbers, backed by an undemanding valuation (c.9.3x forward P/E) and solid dividend yielding 4%, should see it continue its 5-month upward momentum.

Smurfit Kappa - Buy | Previous Close €6.35 | Target €7.00

International Paper, a peer of Smurfit Kappa in the packaging space, released Q411 numbers yesterday afternoon. The global leader in the paper and packaging industry posted earnings per share of 66c significantly ahead of market estimates of 61c on Revenue of $6.37bn. The company stated that growth in emerging markets had been strong and it saw robust demand from the industrial sector for boxes. The company stated that despite the uneven global economy it remains confident for the year ahead. Smurfit Kappa releases Q411 numbers next week in which the company could announce significant refinancing of debt which would be a positive catalyst for the stock. In addition, increased industry consolidation, the recent positive turn in the pricing cycle and improvement in economic data bodes well for Europe's largest corrugated and containerboard manufacturer going forward. The company currently trades on an excessively depressed EV/EBITDA multiple of 4.9x particularly given the improving industry dynamics.

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