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IRISH PAPERS TODAY

Sky to create 800 Dublin jobs
(The Irish Times)

ECB not considering requests to delay Anglo payments
(The Irish Independent)

Italy yields fall at bond sale
(The Irish Times)

INTERNATIONAL PAPERS TODAY

Banks set to double crisis loans from ECB
(Financial Times)

US economy picks up steam
(Wall Street Journal)

Support grows for Syrian peace plan
(Financial Times)

Market View

Equities are pointing higher this morning as investors react positively to the agreement by EU leaders on the long awaited fiscal compact. The pact, which is due to be formally signed in March, was agreed by 25 of the 27 member states and will require Governments to introduce laws on balanced budgets and impose near term automatic sanctions on countries that violate deficit rules. It is being seen as a victory for German Premier Angela Merkel. Agreement on the compact was welcomed by ECB President Mario Draghi last night who stated the compact "will strengthen confidence in the Euro area," and describing it as "the first step toward the fiscal union." The Taoiseach is believed to have secured a clause ensuring that a new treaty won't need to be inserted in the constitution, however the passage of the compact which must be ratified by member states by 1st of January 2013 in order to access bailout funds that March, still remains uncertain as it is likely to be challenged in the Irish Supreme Court. Despite last night's success for EU leaders, further challenges are emerging in order to bring the debt crisis to an end. Portugal's fiscal outlook continued to worsen as its 10-year yield hit 17.38% yesterday, its highest level since the country joined the Euro. While in Greece, a fresh confrontation is brewing over a second rescue package, with the Greek PM noting that "some difficulties" beset the debt-swap talks, alluding to the potential that reluctant European governments may have to commit additional funds. For the day ahead, investors are likely to focus on digesting the fiscal compact with the main data points being Eurozone unemployment figures out at 10.00 (10.4% expected), Chicago PMI at 14.45 (63 expected) while US consumer confidence is out at 15.00 (68 expected).

Xstrata - Full year production demonstrates strong coal and nickel volumes

Xstrata has this morning released its production report for the year ended 31 Dec 2011. The highlights included record annual production at its Australian thermal coal operations and record production of mined nickel. On a divisional basis, production was broadly in line with expectations. Copper production fell 3% as the miner moved through what it called a "transition" period. Gold output also fell to 517,900 ounces versus 525,800 a year earlier. Total coal output rose 7% while nickel production surged 15% to 105,925 tons driven mainly by the Raglan and Nikkelverk mines. On the whole the results will not shock the market ahead of Xstrata's full year results which are scheduled for release next Tuesday.

BSkyB - Buy

Previous Close 665.5p

Target 870p

BSkyB this morning issued a strong set of H112 results (year end June), reporting a 25% increase in EPS top 25.3p, ahead of consensus at 24.2p, from a 6% increase in revenue to £3.36bn, marginally behind expectations (£3.40bn). Adjusted operating profit of £601m (£586m expected) was not only a 16% improvement on the same period last year, but also the highest ever reported. The company announced a 5% increase in dividend to 9.2p, as expected, which is in addition to a £750m share buyback initiated on the 29th of November. Over the reporting period, BSKyB grew total net product by 772,000 to 26.8m, added 100,000 new households to reach 10.5m customers and experienced strong customer loyalty in tough economic conditions through its price freeze, which kept churn down to 9.6%. Looking forward, management gave no quantitative guidance for the full year only noting broad-based growth, investing in core areas and increasing product penetration in an expected environment of "strong consumer headwinds". The share price has been under pressure over the past two months on the possible loss of some English Premier Division screen rights, the cost and possibility of strong competition for those rights (Google TV said to be interested) and the launch of Netflix in the UK and Ireland. Although still a long term portfolio play, supported by a dividend yielding 3.8%, soccer rights uncertainty could see short-term weakness (tender documents for the 2013-16 rights go out in the coming months) and for those trading the stock, we would look to take profit on any results-driven strength.

Smurfit Kappa - Buy

Previous Close €6.20

Target €7.00

Smurfit Kappa have announced that they will seek price increases of €100/tonne on testliner grades as of tomorrow and €60/tonne on Krafliner grades from the 1st of March. The announcement which follows similar moves by peers highlights how the pricing environment has improved in the industry. In addition, recent downtime announced by competitors should also be price supportive. Furthermore, the increased concentration of market share among two producers (Smurfit Kappa and DS Smith c.40%) should also be positive for industry pricing in the long term. These developments should provide a positive backdrop to Smurfit Kappa's Q411 numbers on the 8th of February where the company could announce debt refinancing, which would act as a further catalyst for the stock.

Q312 numbers ahead of expectations ...

Ryanair yesterday issued Q312 numbers ahead of market expectations and has upgraded FY12 (year end March) guidance. The company reported EPS of 1c versus market expectations of a loss of 1c per share, from a 13% increase in revenue to €844m. The net income beat (€30m) was a combination of greater revenue per passenger (€50.54 versus €49.10) and lower operating costs, in particular staff costs and airport handling charges, including reduced requirement for de-icing.

... and guidance raised by 9%, primarily on Q3 beat

Management has raised FY12 net income guidance by 9% to €480m from €440m, however this only represents a 7% increase on consensus going into the results. With €30m already accounted for in the Q312 beat, fourth quarter numbers will remain little changed. We have moved our net income up from €450m to €492m from revenue of €750m. The top line is based on 14.3m Q412 passengers (as guided) generating €52.45 per passenger, compared to Q411 where 15.0m passengers generated €46.77 per head. Total operating costs come in at €817m, in line with Q312. During the conference call, management stressed that the Q312 beat was a one-off and that operating conditions will be more challenging through Q412 into FY13.

Use of cash critical

Fiscal year to date, Ryanair has generated €401.7m in cash from operating activities (€198.4m in FY11) which funded Capex of €106m, an €85.1m share buyback programme and repayment of €176.3m in debt. Net debt fell from €708.8m at March 31, 2011 to €513.4m. Management has confirmed that it proposes to distribute a €500m special dividend by the end of FY13 and also that two share buyback programmes, each of €100m, could be initiated. At current prices this would represent 3.25% of outstanding shares and increase FY13 EPS by 2.5%. That said, with the share price at a four-year high, buybacks may not be the best way to generate shareholder value.

Take profit on strength

Despite management's caution and reservations on guidance, the stock ended up 0.9% on the day. Given that (i) the 7% upgrade on FY12 profit was confirmed as current and not conservative, given a range of cost headwinds; (ii) increased fuel costs will pose a significant cost challenge in FY13; (iii) double digit yield growth is only "hopeful", not a given; and (iii) the stock is trading at a considerable premium to peers (12.2x on revised guidance versus easyJet on 9.8x), we would use current share price strength to take profits, looking to re-enter at the €3.80 level (11x earnings).

Ryanair - Q312 result comparator (€m)

| | Q311 Dec-10 A | Q312 Dec-11 A | Growth (%) | Q312 Dec-11 F | Diff (%) |
|--|---------------------|---------------------|----------------|---------------------|--------------|
| Operating revenues | | | | | |
| Scheduled revenues | 579.2 | 667.4 | 15.2% | 656.0 | 1.7% |
| Ancillary revenues | 167.1 | 177.0 | 5.9% | 164.0 | 7.9% |
| Total operating revenue | 746.3 | 844.4 | 13.1% | 820.0 | 3.0% |
| Operating expenses | | | | | |
| Staff costs | -89.3 | -92.3 | 3.4% | -100.0 | 7.7% |
| Depreciation | -69.2 | -76.2 | 10.1% | -80.0 | 4.8% |
| Fuel and oil | -283.7 | -333.6 | 17.6% | -330.0 | -1.1% |
| Maintenance, materials & repairs | -25.9 | -27.7 | 6.9% | -25.0 | -10.8% |
| Aircraft rentals | -24.4 | -23.3 | -4.5% | -15.0 | -55.3% |
| Route charges | -95.2 | -99.7 | 4.7% | -110.0 | 9.4% |
| Airport & handling charges | -114.4 | -121.1 | 5.9% | -120.0 | -0.9% |
| Market, distribution & other | -44.5 | -41.1 | -7.6% | -44.0 | 6.6% |
| Total operating expenses | -746.6 | -815.0 | 9.2% | -824.0 | 1.1% |
| Operating profit | -0.3 | 29.4 | n/m | -4.0 | n/m |
| Other income/exceptionals | | | | | |
| Volcanic ash related costs | 0 | | | | |
| Foreign exchange (loss)/gain | 3.8 | 1.8 | n/m | | |
| Loss on impairment of financial assets | 0 | | | | |
| Gain on disposal of property, plant, equip | 0 | | | | |
| Total other income | 3.8 | 1.8 | n/m | 0.0 | n/m |
| EBIT | 3.5 | 31.2 | 791.4% | -4.0 | n/m |
| Interest | | | | | |
| Finance income | 7.8 | 12.0 | 53.8% | 12.0 | 0.0% |
| Finance expense | -24 | -27.7 | 15.4% | -25.0 | 10.8% |
| Net interest | -16.2 | -15.7 | -3.1% | -13.0 | 20.8% |
| PBT | -12.7 | 15.5 | -222.0% | -17.0 | n/m |
| Tax | 2.4 | -0.6 | -125.0% | 2.04 | n/m |
| Attributable profit | -10.3 | 14.9 | -244.7% | -15.0 | n/m |
| Ordinary share no | 1487.6 | 1477.4 | | 1478.3 | |
| FD share no | 1487.6 | 1480.1 | | 1480.2 | |
| Basic earnings per share | -0.69 | 1.01 | n/m | -1.01 | n/m |
| FD earnings per share | -0.69 | 1.01 | n/m | -1.01 | n/m |

Source: Company presentations and Dolmen estimates

Airline comparatives

| | Mkt Cap | Closing Price | Price Change YTD | Fwd P/E | PEG | Fwd EV/ EBITDA | Net Debt | Forward DPS | Dividend yield |
|-------------------------|------------|------------------|------------------------|---------|-----|-------------------|-------------|----------------|-------------------|
| EU LCCs | | | | | | | | | |
| Ryanair | 6132 | 4.19 | 15.4 | 12.9 | 0.9 | 7.3 | 274 | 0.00 | 0.0 |
| Aer Lingus | 452 | 0.85 | 34.5 | 10.8 | n/a | 5.8 | -352 | 0.00 | 0.0 |
| easyJet | 1927 | 447 | 13.9 | 9.8 | 2.8 | 4.7 | -24 | 0.10 | 0.0 |
| Air Berlin | 197 | 2.31 | -7.5 | n/a | n/a | 10.7 | 1253 | 0.00 | 0.0 |
| Vueling | 153 | 5.1 | 31.8 | 11.6 | n/a | n/a | -193 | 0.00 | 0.0 |
| EU flag carriers | | | | | | | | | |
| IAG (BA and Iberia) | 3301 | 178 | 20.7 | 25.9 | 0.3 | 5.0 | 751 | 0.00 | 0.0 |
| Lufthansa | 4829 | 10.545 | 14.8 | 19.4 | 2.0 | 2.8 | 2818 | 0.35 | 3.3 |
| SAS | 2977 | 9.05 | 13.1 | 177.5 | n/a | 4.4 | 4517 | 0.00 | 0.0 |
| Air France / KLM | 1453 | 4.84 | 21.8 | n/a | n/a | 7.0 | 7748 | 0.02 | 0.4 |
| Finnair | 329 | 2.57 | 11.7 | n/a | n/a | 6.3 | 261 | 0.02 | 0.6 |

Source: Bloomberg

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