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## IRISH PAPERS TODAY

Aer Lingus and Aer Arann discuss new alliance  
*(The Irish Times)*

National debt €12bn higher as tax take sinks by 19%  
*(The Irish Times)*

Fitzpatrick is yet to be quizzed on €87m loans  
*(Irish Independent)*

## INTERNATIONAL PAPERS TODAY

Buffet wades in on Cadbury  
*(Financial Times)*

Winter weather pushes crude to a 15 month high  
*(Financial Times)*

Iceland is isolated after payback veto  
*(The Wall Street Journal)*

## Market View

**Analyst** : Stephen Taylor

European equity markets are slightly weaker this morning falling for the first time in three days. Concerns around sovereign debt are weighing on markets after ECB member Juergen Stark commented that investors cannot assume that the rest of the European Union will bail out Greece if such a move were necessary. We view these comments as unhelpful at the current time when such concerns around sovereign risk are at the forefront of markets. We would expect that the ECB would do everything possible to save Greece in the event of a potential default as this will be needed to ensure confidence in the Euro-zone economy as a whole. There are also some concerns that the UK's debt could be in line for a downgrade at some stage this year given the difficult fiscal position that the economy is currently facing. Cautious outlook statements from Next yesterday and Marks & Spencer this morning highlight the concerns that retailers are forecasting. Despite the current concerns in markets we still remain positive on equities given the favourable interest rate outlook and our anticipation of a stronger recovery than is currently expected globally. As for today the main focus will be on economic data out of the US. The ADP employment report is expected to show that there were a further 75,000 job losses in the US during the month of December. The figure will provide a key read across to Friday's nonfarm payrolls figure. Also in focus today will be ISM Services data that is expected to move back above its breakeven level of 50.

**Irish Economy** : 2009 Exchequer Returns released

**Analyst** : Oliver Gilvarry

Yesterday evening the End-2009 Exchequer Returns were released. Similar to current weather conditions they weren't pleasant. The Exchequer deficit was €24.64bn, €619m better than expected by the Department of Finance as outlined in the Budget 2010. The slightly better performance was due to strong retail spending in December and better than expected excise returns. For the year, tax receipts were down 19% compared to 2008 with Stamp Duty and Capital Gains Tax (CGT) suffering the largest falls. Government Expenditure was 0.5% better than expected, with spending in Social and Family Affairs lower than anticipated. This would have been helped by the lower number on the Live Register than expected in 2009. When examining spending yoy, it was down 4.4%. With revenues down 19% yoy despite significant tax increases over the last year, Budget 2010's focus on cutting expenditure was the correct decision and one that had to be taken. The interest bill on the national debt consumed 8% of tax revenues in 2009 and this will jump to 14% in 2010 according to Government figures. In cash terms the cost of servicing the national debt is €640 per person in 2009 and €1,100 per person in 2010. The Exchequer returns yesterday were positive due to the slightly better than expected deficit, but the policies undertaken by the Government must be continued as deficits of €18bn are unsustainable as the longer it takes to reduce the deficit to more reasonable levels, the greater the percentage of tax revenue that will be used to just service the national debt.

**Glanbia** : Neutral

**Yesterday's Close** €2.85

**Analyst** : Oliver Gilvarry

Glanbia released a full year pre-close statement this morning. The group has continued to guide EPS in the range of 30-31c for the full year. US Cheese & Global Nutritionals is expected to report a result better than 2008 helped by the full year effect of Optimum Nutrition. Dairy Ireland will have a worse year than in 2008 due to the decline in global dairy markets. Reductions in farm incomes impacted on the performance of Agribusiness, which will report a weaker performance than in 2008. Consumers Foods is expected to report a reasonable result for 2009, helped by significant cost cutting initiatives. Glanbia reduced prices on a number of product lines in response to a very competitive retail market. In the statement, the group also announced it will have a cost reduction programme in 2010 in Dairy Ireland. A provision of €15m relating to redundancies as part of this programme will be provided for in 2009. Trading conditions were said to have improved in the latter stages of 2009 helped by uplift in dairy and cheese markets. However, management remain cautious as markets are volatile and consumer sentiment is "fragile". Despite this, management believe the group will return to earnings growth in 2010 in the order of 6-8%.

**Grafton Group** : Neutral

**Yesterday's Close** €3.14

**Analyst** : Stephen Taylor

Grafton Group this morning issued a trading update for the full year period ending 31/12/2009. The group pointed out that the stabilisation in turnover continued through the remainder of the year with sales in the second half of the year being similar to those achieved in the first six months. Turnover for the year declined by 26% to €1.98bn, in line with market expectations. Grafton indicated that conditions in the UK continue to improve with sales declining by 7% in 2H compared to the 18% declined reported in 1H. There was a modest improvement in Ireland with sales declining by 32% in 2H compared with the 37% fall in 1H. Grafton remains cautious on its outlook for 2010 and will continue to focus on cost reductions and cash generation.



**Ryanair : Buy**

**Yesterday's Close €3.46**

**Analyst : Edward Keeling**

easyJet have released its December traffic figures this morning and the British airline carried 3.4m passengers over the month, up from 3.1m for the same period last year. Its load factor, which measures the number of passengers as a proportion of the number of seats available, was 85.4%. This is up 3.1% from December 2008 and is an encouraging indication of a continued pick up in demand. Meanwhile Ryanair will be holding an investor conference in London this Thursday the 7<sup>th</sup> January. The group is set to outline further the group's business strategy after failing to agree terms with Boeing over the deliver of up to 200 more aircraft. The airline will reduce significantly its plans to grow capacity. However it is still worth noting its overall revenues will be growing at a considerable pace. This reflects the fact there will be less pressure on its average fare from the rolling out of new capacity and its load factors will rise as newly developed routes are given time to mature. Total costs will also stop rising at the same pace as its fuel bill will not be expanding as quickly. It is also worth noting the group has various leasing options still in place that could facilitate some expansion if it so chooses, albeit at a much smaller scale compared to what the Boeing deal would have achieved. In addition it is possible the group could seek expansion through acquisitions or the second-hand aircraft market. Nevertheless management have indicated Ryanair's growth going forward will be considerably lower. This means the airline will become hugely cash generative; Capex will be significantly lower as the airline will not be buying additional aircraft. Furthermore Ryanair has one of the youngest fleets in the sector and does need to invest in replacement planes for some time to come. With already c.€2.5bln of cash already on its balance sheet and a small net debt position, Management have indicated it will distribute excess cash to shareholders in the form of special dividends. We will be issuing a full company note post the announcement.

# CRH Buy

**Current Price : €18.75**

**Price Target : €20.50** (Previous €19.00)



**DOLMEN STOCKBROKERS**

Analyst: Stephen Taylor

Wednesday January 6th 2010

• **Trading statement:** CRH issued a trading update yesterday covering the full year period for 2009. In line with the group's interim management statement in November, CRH expects pre-tax profit for the full year 2009 to have shown a decline of 55% to €750m compared with guidance of €730m - €760m. The group noted that it had seen some improvement in the rate of sales decline in the second half of the year compared with the first half. Sales in the second half of the year declined by 18% compared to the 21% decline already reported for the first half. While the rate of decline is a modest improvement the signs of stabilisation are encouraging for its business. CRH was cautious in relation to its outlook for 2010. While acknowledging that economic data had improved further over the last number of months, the group pointed out that trading conditions continue to remain difficult and the timing of any sustained pick-up in developed world construction remains unclear. While CRH's main markets in Europe and the US are likely to remain subdued we believe that a bottom in its markets has been reached and expect broadly flat revenue for 2010. Any improvement in this outlook will result in significant operating leverage due to the continued cost cutting initiatives by the group.

• **Balance Sheet / Cost Cutting:** CRH continues to be vigilant in relation to its cost cutting program. The group has increased its cost savings target to €1.65bn from €1.45bn previously. The additional €200m in savings will cost the group €55m. CRH estimates that c. 40% of the total gross savings are permanent in nature. CRH also indicated on its conference call that it will look for further potential cost savings in 2010. In light of CRH's continued focus on cost cutting and cash generation, the company indicated that net debt at the end of December was under €4bn a decrease of over €2bn over 2008. The reduction in net debt leaves CRH with a Net Debt / EBITDA ratio of just over 2x and leaves the company with one of the strongest balance sheets in its sector. This will allow CRH to continue on its disciplined acquisition strategy.

• **Acquisition Development Spend:** Total acquisition spend in 2009 amounted to €450m with acquisition spend in the second half of the year amounting to €170m principally comprised of 4 bolt-on transactions in the group's Americas Materials Division completed in the last two months. The transactions included Hilty Quarries, Wheeler Companies and Burdick Paving representing strategic additions to existing CRH operations in Missouri, Texas and Utah. Total acquisitions in its US Materials division totalled \$214m and will provide EBITDA of \$52m. These were bought at 4x EV/EBITDA marking a very attractive earnings multiple. The company indicated that it will continue on its disciplined acquisition strategy and that it has up to c. €1.5bn to spend on acquisitions over the next 18 months. This leaves CRH well positioned to grow revenue and earnings from further earnings accretive acquisitions.

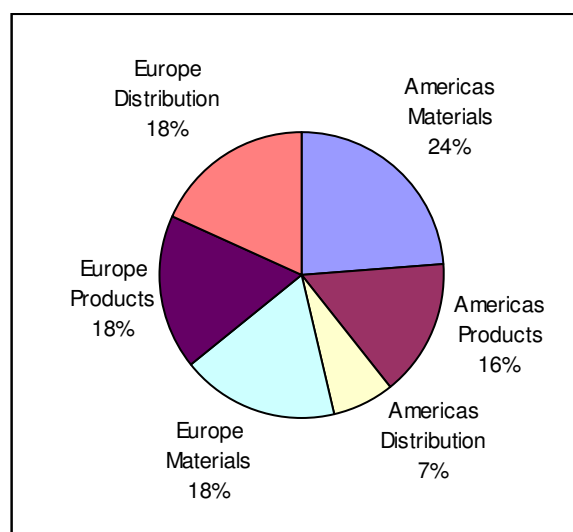
• **Investment Thesis :** We like CRH as a long-term recovery play. We do acknowledge that the group's main markets are likely to remain subdued in the short-term however the company is in a strong position to make further acquisitions. In addition and as a result of its stringent costs cutting measures the company is well positioned to generate significant operating leverage if there is quicker than anticipated recovery in its two main markets. We leave our 2010 & 2011 estimates unchanged however increase our EV/EBITDA earnings multiple to 8x from 7.5x which generates our new price target of €20.50. Our target multiple is in line with the group's historical average over the last 20 years.

Descriptive Stats		Shareholders	
Last Price	€18.75	Growth Fund America	4.10%
52 Week High	€20.70	Capital Research	3.71%
52 Week Low	€11.50	ILIM	2.97%
Reuters	CRH.I	BIAM	2.92%
Bloomberg	CRH ID	Artio	2.80%

	FY09	FY10e	FY11e
Revenue €m	17,868	17,809	18,836
EBITDA €m	1,810	2,221	2,539
EPS €	0.85	1.20	1.67
DPS	0.64	0.65	0.66
P/E	22.06	15.63	11.23
Div Yield	3.41%	3.47%	3.52%

Peer Analysis	EV/EBITDA 10	EV/EBITDA 11	Div Yield
CRH	7.4	6.3	3.47%
Lafarge	8.2	7.3	3.30%
Holcim	7.8	7.1	2.00%
Vulcan Materials	13.5	10.3	1.90%
Martin Marietta	11.6	9.3	1.78%

## Turnover by Division 2008





### International Equity Markets

Index	Value	1-Day	YTD
ISEQ	3,072	-0.8%	3.4%
FTSE	5,523	0.4%	1.9%
Dow Jones	10,572	-0.1%	1.4%
S&P	1,137	0.3%	1.9%
Nikkei	10,682	0.3%	1.8%
Stoxx 50	3,012	-0.2%	1.5%

### Sector Performances

Sector	Index	1-Day	YTD
Construction	283	0.2%	2.1%
Technology	189	0.4%	3.0%
Oil & Gas	339	0.4%	2.4%
Financials	229	1.2%	3.8%
Retail	244	-0.9%	0.1%
Food & Drink	302	-2.0%	-1.1%

### Commodity Prices

Commodity	Index	1-Day	YTD
Crude Oil	81.8	0.3%	2.9%
Copper	341.4	0.2%	3.3%
Gold	1,118.0	-0.3%	2.6%
Silver	17.8	1.9%	6.6%
Wheat	553.0	-0.9%	2.6%
Cattle	86.3	1.1%	0.6%

### Currency Exchange Rates

Currency	Index	1-Day	YTD
€/\$	1.437	-0.3%	-0.1%
€/£	0.898	0.3%	-0.7%
£/\$	1.599	-0.6%	0.7%
\$/JPY	91.708	-0.9%	1.0%
€/JPY	131.728	-1.2%	0.9%
€/SFR	1.485	0.0%	-0.1%

### 5Yr Credit Spreads

Product	Index	1-Day	YTD
Invest Grade	65.9	-2.9%	-5.9%
High Yield	397.0	-3.9%	-6.7%
Financials	66.1	-4.5%	-8.6%
BoI	230.0	-5.7%	-8.1%
AIB	250.8	-7.4%	-7.5%
RBS	130.6	-4.2%	-5.9%

### Money Market Rates

Rate	EUR	UK	US
Overnight	0.3%	0.4%	0.2%
3-Month	0.7%	0.6%	0.3%
1-Year	1.3%	1.0%	0.6%
2-Year	1.8%	1.9%	1.3%
5-Year	2.8%	3.3%	2.8%
10-Year	3.5%	4.1%	3.9%

Date	Company	Region	Event
06/01/2010	Marks and Spencer Group PLC	GB	Q3 TRADE
06/01/2010	Family Dollar	US	Q1
06/01/2010	Monsanto Co.	US	Q1
06/01/2010	Bed Bath & Beyond	US	Q3
07/01/2010	Caledonia Investments PLC	GB	TRADE
07/01/2010	EasyJet PLC	GB	TRAFFIC
07/01/2010	J Sainsbury PLC	GB	Q3 TRADE
07/01/2010	Hays PLC	GB	Q4 TRADE
07/01/2010	Rathbone Brothers PLC	GB	TRADE
07/01/2010	Apollo Grp	US	Q1
07/01/2010	Constellation Brands	US	Q3
08/01/2010	Finnair Oyj	FI	TRAFFIC
08/01/2010	Persimmon PLC	GB	TRADE
08/01/2010	Michael Page International Plc	GB	Q4 TRADE
08/01/2010	RAB Capital plc	GB	TRADE
08/01/2010	Restaurant Group Plc	GB	TRADE
11/01/2010	Austrian Airlines AG	AT	TRAFFIC
11/01/2010	Air Berlin PLC	DE	TRAFFIC
11/01/2010	Kazakhmys PLC	GB	MEETING
11/01/2010	ALCOA Inc	US	Q4
12/01/2010	Deutsche Lufthansa AG	DE	TRAFFIC
12/01/2010	Metro AG	DE	TRADE

Date	Event	Region	Estimate
06/01/2010	Nationwide Consumer Confidence	UK	72
06/01/2010	PMI Services	GE	53.1
06/01/2010	Halifax House Prices sa (MoM)	UK	0.50%
06/01/2010	PMI Services	EC	53.7
06/01/2010	PMI Services	UK	56.8
06/01/2010	Euro-Zone PPI (MoM)	EC	0.20%
06/01/2010	Industrial New Orders SA (MoM)	EC	-1.00%
06/01/2010	MBA Mortgage Applications	US	--
06/01/2010	Challenger Job Cuts YoY	US	--
06/01/2010	ADP Employment Change	US	-75K
06/01/2010	ISM Non-Manf. Composite	US	50.5
06/01/2010	Minutes of FOMC Meeting	US	--
07/01/2010	Retail Sales (MoM)	GE	0.30%
07/01/2010	Euro-Zone Consumer Confidence	EC	-16
07/01/2010	Euro-Zone Retail Sales (MoM)	EC	0
07/01/2010	Euro-Zone Economic Confidence	EC	90
07/01/2010	Euro-Zone Indust. Confidence	EC	-17
07/01/2010	Euro-zone Services Confidence	EC	-3
07/01/2010	Factory Orders MoM (sa)	GE	1.50%
07/01/2010	BOE ANNOUNCES RATES	UK	0.50%
07/01/2010	BOE Asset Purchase Target	UK	200B
07/01/2010	Initial Jobless Claims	US	440K

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