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## Market Movers

## IRISH PAPERS TODAY

Alliance will alter British politics forever, say Cameron and Clegg (*The Irish Times*)

Equity markets take heart as fears of contagion abate (*The Irish Times*)

Nationwide says €2.7bn bailout may need top-up (*Irish Independent*)

## INTERNATIONAL PAPERS TODAY

Leaders see dawn of "new politics" (*Financial Times*)

Pru's acquisition of AIA back on track (*Financial Times*)

UK government unveils First Plans (*The Wall Street Journal*)

## Market View

Analyst: Stephen Taylor

European equity markets have opened higher this morning following strong closes in the US and Asia overnight. The Euro is also a little stronger this morning at 1.2667 following some positive events yesterday with Portugal getting away a successful bond auction, Spain announcing austerity measures in addition to German GDP coming in ahead of expectations. This has also helped to calm bond markets with yields and CDS spreads continuing to tighten. After the US market closed last night, Cisco reported better than expected quarterly results and issued guidance that was also ahead of consensus. Cisco added 1,000 jobs over the quarter and indicated that it intends hiring a further 2,000 to 3,000 people. In addition, software maker SAP has agreed to buy Sybase for \$5.8bn, further highlighting the attractiveness of the technology sector. With Microsoft releasing very strong test figures for Office 2010 and announcing the availability of Office 2010, we reiterate the technology sector as one of our preferred investment opportunities. With innovative products, strong balance sheets many of which with substantial net cash balances and geographical diversity, it is one of the few sectors that will continue to produce strong top line and earnings growth over the coming years. As for today markets will continue to watch bond markets closely. On the economic front US weekly jobless figures will be the main event of the day.

## AIB: Interim Management Statement

Analyst Oliver Gilvarry

Allied Irish Bank (AIB) has this morning released an Interim Management Statement (IMS). The company continues to trade in challenging conditions with Net Interest Margins experiencing downward pressure from a number of factors which include intense competition for customer deposits, higher costs associated with wholesale funding, reduced income on capital and increased interest payments on higher yielding bonds following the two capital exchanges. Management also cited costs arising from NAMA and loan volume reductions outside Ireland as additional reasons for lower Net Interest Margins. Assuming a 45% discount on to AIB's NAMA eligible loans, the bank will be required to raise close to €7.4bn. The company has already submitted a recapitalisation plan to the Financial Regulator with AIB intending to raise the required capital through asset disposals, corporate actions and liability management opportunities. The bank did warn that the amount needed to be raised may vary as the value of eligible loans will continue to fluctuate as they are transferred to NAMA. The bank's principal source of funding continues to be customer deposits with 51% of AIB's funding originating from this area. Loan to deposit ratios were constant compared to the end of 2009. Finally, management did state that they are starting to see improvement in their British and Polish businesses and they also noted the strong results of its US operations. The operational strength of these assets will be important to the bank as they will more than likely be sold in the coming months.

**ICG: Buy**    **Previous Close** €16.10    **Target** Under Review    **Analyst** Edward Keeling

Irish Continental Group (ICG) issued an interim management statement this morning, covering the period from January 1<sup>st</sup> to May 8<sup>th</sup>. Revenue came in at €75.7m, slightly down from €76.2m last year. Higher passenger revenue and car revenue was offset by lower freight revenue. Operating costs were €67.7m, compared with €68.2m last year. This resulted in EBITDA for the period of €8m, unchanged year on year. In its passenger market, total passenger numbers were up by 10.4% to 40,500. The substantial increase in passenger numbers was influenced by the disruption to air travel to and from Ireland. In the Roll on Roll off freight market, Irish Ferries carried 60,300 units, a reduction of 15% from last year but a continued improvement in trend from the 18% decline experienced in December. In fact, in the last four weeks, RoRo carryings were down just 4% on the same period in 2009. Management have guided that this area of the market is showing some signs of growth for the first time in 18 months. The group's balance sheet remains robust with net debt of just €16m, down from €21.7m at December 31<sup>st</sup>. Liquidity also remains strong with gross cash balances of €25m. In terms of outlook Management have noted continued improvement in trends and make reference to the benefit of the weaker euro against sterling. This will have a significant positive impact on the inbound tourism to Ireland and also Irish exports to the UK, both of which are core business flows for ICG. We remain positive on ICG and will be reviewing our price target post meeting with management.

## Kingspan: Trading Statement

Analyst Stephen Taylor

Kingspan has issued a trading statement this morning and has indicated that it has seen a noticeable pick up in the 'latter six weeks or so'. Following a slow start to the year characterised largely by harsh weather conditions, activity has clearly started to improve. Overall revenue was down about 6% year on year. The company expects that the recent improvement in activity is anticipated to continue for the coming months which, considering the pronounced weakness in January and February, should result in operating profit of c. 10% in the first half, with no significant change in net debt. By product segment, Insulated Panels revenue globally was down 7%, however order intake has been strong. Insulation Board sales revenue were up 7% (down 3% excl. acquisitions). Access floor sales fell by 19%, while Environmental & Renewable sales declined by 3%.



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**Vodafone:** Buy      **Previous Close** 137p      **Target** 155p      **Analyst** Stephen Taylor

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Telefonica has reported a first quarter net profit that increased by 2% to €1.66bn slightly below expectations of €1.75bn. Sales for the period grew by 1.7% to €13.93bn. The group's Spanish operations continue to drag on earnings. Despite the lower than expected results, Telefonica reiterated its earnings goals for the year and confirmed that it expects to pay a 2012 dividend of at least €1.75 per share. Vodafone remains our preferred telco due to its emerging market exposure, increased focus on data revenue. Vodafone will also benefit from the recent introduction of Apple's iPhone on its network.

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# Smurfit Kappa Buy

**Current Price : €7.30**

**Price Target : €9.50**



**DOLMEN STOCKBROKERS**

**Analyst: Edward Keeling**

Thursday May 13th 2010

**Investment Thesis:** We remain positive on Smurfit Kappa (SKG) post its Q1 results update on Friday May 8th. Despite rallying over 20% since we initiated our Buy recommendation, we believe it is still a favourable time to invest in the industry and specifically in SKG. Industry supply/demand dynamics continue to support price increases and margin expansion. Although it is leveraged to an European economic recovery, we believe SKG's exposure to quality corporates and the resilience of its integrated business model will mean it continues to deliver attractive shareholder returns. SKG also boasts significant exposure to Latin America (20%), a high growth region. Balance sheet concerns do remain, however we are confident that the group's strong cashflow generation will reduce its net debt/EBITDA ratio to more comfortable levels by the year end.

**Q1 Results:** Last Friday May 8th, SKG posted strong Q1 results. Revenue for the period increased by 2% year on year to €1,530m. EBITDA came in at €184m, ahead of market consensus of c.€175m. Significant raw material cost pressure was largely offset by a pick up in volumes and the continuation of a pricing recovery, together with additional cost take-out benefits. Across the group's divisions, its European packaging business was the star performer. European corrugated volumes increased by 3% year on year and management guided that further improvements in volumes and prices were seen in April. Similarly the group's Latin American operations exhibited strong growth characteristics, boasting EBITDA margins of 17% (This is compared with the group average of 12%). Demand was particularly strong in Mexico and Argentina, while Venezuela and Chile remained the only countries in the region where volumes were lower year on year.

**Industry Dynamics:** As seen from its Q1 announcement, European packaging is exhibiting both volume and pricing growth. Pricing power is a significant driver of SKG's earnings. Every 1% increase in corrugated box prices adds c.€35m in full year EBITDA. We believe that industry dynamics will continue to be supportive of higher prices and therefore strong earnings growth over the coming year. With supply side discipline continuing throughout the industry, inventory levels in the market remain at 2 year lows. This is in conjunction with higher input costs will be supportive of further pricing momentum.

**Balance Sheet:** At the end of March the group's net debt was €110m higher than the December 2009 level (€3.16bn Vs €3.05bn at Q4 2009). This primarily can be attributed to the negative working capital outflow of the first quarter (which reflects the normal seasonality of SKG's business), together with adverse currency movements of €49m. Nonetheless we remain confident SKG will have reduced its net debt/EBITDA ratio will have been reduced year end, down from 4.2x at the end of Q1 and comfortably below covenants of 5.1x. It remains a highly cash generative business and management have a clear strategic focus on debt reduction. It is also worth noting that although the SKG's absolute amount of debt remains a concern, the group's debt maturity profile is very favourable, with no significant debt maturing until 2013. In addition SKG maintains an attractive liquidity position with approximately €594m of cash on its balance sheet and undrawn committed credit facilities of €525m.

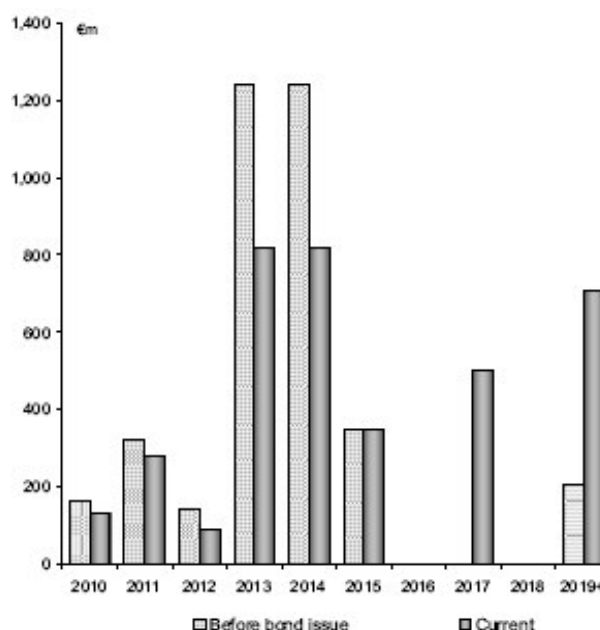
**Valuation:** SKG's current valuation is very attractive when compared with its peers and considering the stage in the industry cycle. It currently trades on EV/EBITDA multiple of 5.5x. This compares with a long term historical industry average of 7x and represents a discount of over 10% to its peers. Considering the proven strength of SKG's integrated operating model, leading industry margins and favourable industry supply dynamics, we believe a multiple of 6.5x is more appropriate. This is in line with its peers but a discount to historical sector averages reflecting the current risks to European growth. We therefore reiterate our Buy recommendation with an increased price target of €9.50, up from €7.25 previously.

Descriptive Stats		Shareholders	
Year to date	148%	Smurfit Kappa FE	24.33%
52 Week High	€7.81	Madisson Dearbc	21.40%
52 Week Low	€2.83	Norges Bank	5.37%
Reuters	SKD.I	Polaris Capital	4.97%
Bloomberg	SKD.ID	Causeway Capita	4.60%

	FY09	FY10e	FY11e
Revenue €m	5,990	6,450	6,924
Operating Profit	348	455	677
Pre Tax profit	71	153	364
EPS €	-0.11	0.39	1.23
P/E	N/A	18.72	5.93
DPS	0.00	0.00	0.00
Div Yield	0.00%	0.00%	0.00%

Peer Analysis	EV/EBITDA 10	EV/EBITDA 11
Smurfit Kappa	5.5	4.6
Mondi	6.1	5.1
Stora Enso	8.1	7.0
SCA	6.5	5.7

## Long Term Debt Maturity Profile





## International Equity Markets

Index	Value	1-Day	YTD
ISEQ	3,214	1.2%	9.0%
FTSE	5,383	0.9%	0.0%
Dow Jones	10,897	1.4%	4.5%
S&P	1,172	1.4%	5.1%
Nikkei	10,394	-0.2%	0.7%
Stoxx 50	2,764	1.2%	-6.4%

## Sector Performances

Sector	Index	1-Day	YTD
Construction	276	1.8%	0.0%
Technology	205	2.1%	11.2%
Oil & Gas	322	0.5%	-2.2%
Financials	211	0.8%	-5.0%
Retail	264	1.7%	9.1%
Food & Drink	329	0.8%	8.5%

## Commodity Prices

Commodity	Index	1-Day	YTD
Crude Oil	75.7	-0.9%	-7.5%
Copper	318.8	-0.6%	-4.8%
Gold	1,238.9	0.5%	12.7%
Silver	19.7	1.9%	15.1%
Wheat	491.5	-0.4%	-13.2%
Cattle	94.7	-0.7%	8.0%

## Currency Exchange Rates

Currency	Index	1-Day	YTD
€/\$	1.261	-0.4%	13.2%
€/£	0.851	0.5%	4.2%
£/\$	1.482	-0.9%	8.9%
\$/JPY	93.240	0.6%	-0.4%
€/JPY	117.620	0.3%	12.8%
€/SFR	1.402	-0.4%	5.8%

## 5Yr Credit Spreads

Product	Index	1-Day	YTD
Invest Grade	85.8	-7.4%	24.4%
High Yield	471.1	2.2%	0.4%
Financials	114.4	-7.9%	62.9%
BoI	244.7	-10.5%	-2.4%
AIB	246.9	-5.8%	-10.0%
RBS	157.2	-14.2%	17.7%

## Money Market Rates

Rate	EUR	UK	US
Overnight	0.6%	0.5%	0.3%
3-Month	0.7%	0.7%	0.4%
1-Year	1.1%	1.1%	0.7%
2-Year	1.3%	1.6%	1.1%
5-Year	2.2%	2.8%	2.5%
10-Year	3.2%	3.7%	3.6%

Date	Company	Region	Event
13/05/2010	Telefonica SA	ES	Q1
13/05/2010	Kingspan Group PLC	IE	AGM
13/05/2010	J Sainsbury PLC	GB	PRELIM
13/05/2010	BT Group PLC	GB	FINAL
13/05/2010	Fyffes PLC	IE	AGM
13/05/2010	Kingspan Group PLC	IE	AGM
14/05/2010	JCPenney	US	Q1
14/05/2010	Irish Life & Permanent PLC	IE	TRADE
14/05/2010	Ladbrokes Plc	GB	AGM
14/05/2010	Standard Life Plc	GB	AGM
18/05/2010	Paddy Power PLC	IE	RADE & AGM
18/05/2010	DCC PLC	IE	PRELIM
18/05/2010	British Land Co Plc	GB	Q4
18/05/2010	Royal Dutch Shell Plc	NL	S/HOLDERS
18/05/2010	Next Plc	GB	AGM
18/05/2010	Home Depot Inc	US	Q1
18/05/2010	Wal-Mart Stores	US	Q1
18/05/2010	Hewlett-Packard	US	Q2
19/05/2010	Scottish & Southern Energy PLC	GB	PRELIM
19/05/2010	Land Securities Group PLC	GB	PRELIM
19/05/2010	ICAP PLC	GB	PRELIM
19/05/2010	Credit Agricole SA	FR	AGM

Date	Event	Region	Estimate
13/05/2010	Nationwide Consumer Confidenc	UK	--
13/05/2010	Total Trade Balance (GBP/Mln)	UK	--
13/05/2010	Import Price Index (MoM)	US	--
13/05/2010	Initial Jobless Claims	US	--
13/05/2010	Continuing Claims	US	--
14/05/2010	Advance Retail Sales	US	--
14/05/2010	Industrial Production	US	--
14/05/2010	Capacity Utilization	US	--
14/05/2010	U. of Michigan Confidence	US	--
14/05/2010	Business Inventories	US	--
17/05/2010	Rightmove House Prices	UK	--
17/05/2010	Empire Manufacturing	US	--
17/05/2010	Net Long-term TIC Flows	US	--
18/05/2010	CPI (MoM)	UK	--
18/05/2010	RPI (MoM)	UK	--
18/05/2010	ZEW Survey	GE	--
18/05/2010	Euro-Zone CPI (MoM)	EC	--
18/05/2010	ZEW Survey	EC	--
18/05/2010	Euro-Zone Trade Balance	EC	--
18/05/2010	Producer Price Index (MoM)	US	--
18/05/2010	Housing Starts	US	--
18/05/2010	Building Permits	US	--

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