Dolmen Daily
DOLMEN STOCKBROKERS
Thursday 6th May 2010

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Rehn urges austerity plan escalation *(The Irish Times)*

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INTERNATIONAL PAPERS TODAY

Pru forced to abandon launch of rights issue(*Financial Times)*

Greek premier vows to push on with cuts as three bank workers die in Athens protest (*Financial Times)*

Mass strike, fatal fire bring Greece to halt (*The Wall Street Journal)*

Market View — Analyst: Brian Gallagher

European equity markets have opened lower this morning reflecting overnight losses in Asia and the US. Yesterday's weakness was driven by scenes of civil unrest in Greece which resulted in the death of three citizens. The demonstrations in Athens were a stark reminder for markets of the severity of the situation facing Europe's peripheral nations and will mean that concerns over fiscal reform remain to the fore over the coming days. Currency traders continued to question the strength of the single currency as the euro slipped to a 14 month low against the dollar. Yields on German 10 year also plunged to a record low as investors switched into safer assets. Today's ECB press conference will be the main focus with the market looking for an indication of further assistance for Greece. There has also been speculation that the Central Bank's President, Jean Claude Trichet, may reinstate the 12 month repo facility in order to prevent the risk of another liquidity squeeze in Europe's money markets. In the US, employment figures will provide the main economic data as weekly jobless claims are released ahead of tomorrow's non farm payrolls which are expected to show that the US economy added 190,000 jobs in April. Recent economic figures have illustrated the diverging fortunes of the US and Europe and as a consequence we believe that US markets will continue to outperform other western markets. In light of the recent volatility, we are recommending that clients who are looking to hedge their existing positions do so through either futures contracts or an ETF (XUKS LN).

Grafton: Neutral — **Previous Close** €3.44 — **Target** Review — **Analyst** Stephen Taylor

Grafton Group has issued an interim management statement ahead of its AGM today. Like many of the construction related companies that have reported recently, the group also indicated January trading was badly effected by the adverse weather conditions with sales in the month €25m lower year on year. However, the company has pointed out that trading in the UK (now accounts for c. 70% of turnover), picked up with like for like turnover growth in each of the following months. In Ireland, Grafton indicated that sales continue to be below the levels achieved in 2009, but the rate of decline has reduced. Group turnover for the four months to the end of April was €617m, down €22m on the first four months of 2009. UK merchanting sales in sterling terms rose by 4% in the three months to end of April. Grafton pointed out that it has seen a strong resurgence in new house building in the UK and it is optimistic that the positive effects on its business will continue. In relation to costs, Grafton noted that it incurred further rationalisation costs of €1.7m, which will result in annualised cost savings of €4.2m. Grafton continues to retain good liquidity and indicated that negotiations are continuing in relation to some of the group's debt and it is anticipated that these arrangements will come into effect in the third quarter of this year.

Irish Economy — **Analyst** Oliver Gilvarry

The Department of Finance April exchequer figures were released yesterday evening. The deficit at the end of April was €6.96bn compared to €7.316bn for the same period last year. This is the first time the deficit was lower compared to the same period last year. Taxation receipts were €1.1bn lower at €9bn year on year with expenditure €1.3bn lower at €14.36bn. The figures are roughly in line with expectations and it is positive the deficit for the period is lowering than in 2009. Taxation receipts in particular are almost bang in line with Government's estimates and are an early indicator that conditions are stabilising. Overall the key for the economy is for the taxation receipts to remain in line with the Government targets for this year at €31.05bn and the tight rein on spending to continue. In the current difficult time for peripheral Euro-Zone sovereigns, we must continue to differentiate ourselves by keeping the targets on spending and revenues set last year.

Kerry: Buy — **Previous Close €**22.56 — **Target €**24.50 — **Analyst** Oliver Gilvarry

Kerry Group released an Interim Management Statement (IMS) yesterday ahead of its AGM. Revenues in Q1 have increased by 5.9% with margins also improving. Continuing volumes grew by 5.1% with ingredients and flavours up 5.2% and consumer foods up 3.3%. Margins improved in Q1 with group operating margin up 50bps driven by an increase of 70bps in ingredients and flavours and 40bps in consumer foods. Management stated all business areas have improved except for consumer foods in Ireland. The deflationary environment in Ireland continued to impact negatively on branded sales. Heavily promoted private labels and discounted offerings continue to grow at the expense of branded labels. Consumer foods in the UK continued to be strong with growth in branded products. Guidance on EPS has been maintained in a range of 182c -185c. The statement yesterday was up-beat with positive news on turnover and margins. We expect the group to continue moving closer to a 10% operating margin over the next two years and the recent weakness in the euro against both the dollar and sterling will be positive for earnings in the group. We remain buyers at current levels.

C&C: Buy **Previous Close** €3.44 **Target** €3.90 **Analyst** Edward Keeling

Diageo has reported an interim management statement covering the quarter ended 31st March 2010. Over the period organic net sales grew 12%. This was well ahead of market expectations for growth of just 6%. The group has indicated that it has seen some signs of recovery, albeit fragile in mature markets and stronger in the emerging markets. Management have said that consumer trends remain difficult to predict, especially in mature markets. Therefore, despite the better than expected performance, Diageo has maintained its guidance for low single digit organic operating profit growth for the year ending 30th June 2010.

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Paddy Power: Buy **Previous Close** €26.25 **Target** €27.50 **Analyst** Edward Keeling

Partygaming posted Q1 results this morning and the UK online gaming provider posted a 27% increase in group revenue year on year. There were strong performances across all divisions except for poker which suffered from US competition. The company has guided that despite clean EBITDA margins which are ahead of expectations in Q1, it is reiterating its full year guidance for EBITDA margins of 28%. In line with management's forecasts, average daily revenues have softened and were down 6% - 7% versus the average for the previous quarter. However this reflects the normal seasonal pattern seen in previous quarters. In terms of a direct read across for Paddy Power, average daily revenue in sports betting increased by 55% year on year. The amount wagered fell by 19% versus the prior year although the gross win margin increased to 7.3%.

Home Retail Group

Buy

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Current Price: 269p

Price Target: 320p

Analyst: **Stephen Taylor**

6th May 2010

- **Initiating Coverage with Buy Rating:** Today we are initiating coverage of Home Retail Group (HRG) with a buy rating and price target of 320p. Our price target places the stock on a conservative multiple of 5.5x fiscal 2011 EBITDA of £439m. **Tesco remains our preferred retailer due to its low cost product offering and international exposure;** however of the discretionary retailers and on a valuation basis we believe that shares in HRG also look attractive. HRG also offers a well covered dividend yield in excess of 5%.

- **Results:** Last Wednesday, HRG reported full-year results for the 52-week period ending 27th February 2010. The group reported operating profit that declined to £289.7m from £300.4m last year. Revenue increased by 2% to £6.20bn. The results were broadly in line with market expectations. The group maintained its full year dividend at 14.7p with the final part of the dividend of 10p trading ex on May 19th. Like the majority of retailers in the UK that have reported, HRG provided a cautious outlook and indicated that the economic environment was likely to remain difficult. HRG did however indicate that it is to increase capital spending to £125-£150m in the year ahead, an increase of up to £63m year on year.

- **Argos:** Argos is HRG's largest division and generated 72% of group revenue in 2009. Revenue for the period increased by 2% to £4.35bn. Operating margins declined to 6.1% from 7.1% resulting in an operating profit of £266m for the year. There has been concern that the Argos store may face significant competition pressures over the coming years. However, the company has set out a detailed strategy to update the store with an increased focus on online. The company expects to increase the amount of web-only ranges, improve functionality of its website e.g. with 360 degrees product review and implementing a new Argos iPhone app. Besides Amazon.com, Argos is the second largest internet retailer in the UK with over 300 million website visits resulting in £1.4bn of sales (32% of total group sales) in the last year.

- **Homebase:** Homebase is HRG's second largest division and accounted for 26% of total group revenue in fiscal 2010. Over the period revenue at the unit increased by 4% to £1.57bn, while the group saw operating profit jump to £41.2m from £14.9m last year. HRG has taken significant cost cutting measures in light of the downturn reducing total operating and distribution costs by c. £50m or 6%. HRG has been attempting to replicate the success of its kitchen installation service with an extension of bathroom installations in addition to fitted bedroom furniture.

- **Share buyback:** HRG has one of the strongest balance sheets in the retail space with a net cash position of £414m at its year end. As a result, the company announced that it will be in a position to buy back £150m worth of its own shares or c. 6% of the company's market cap over the next 12-months.

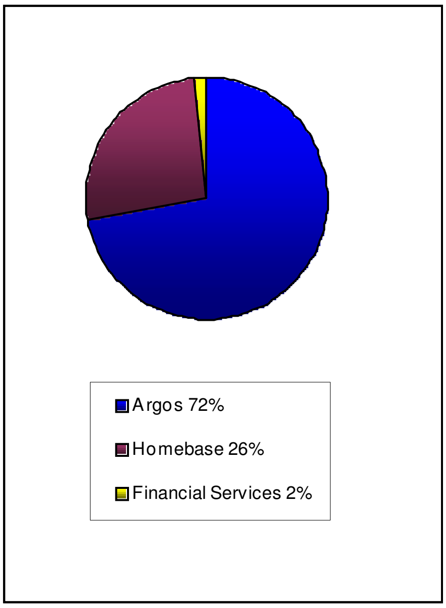
- **M&A Target?:** There has been speculation that HRG could potentially be a target for Wal-Mart's Asda (Sunday Times 11th April 2010). Both companies declined to comment on the speculation. Wal-Mart said in May that increasing cash flow generation would allow it look at acquisitions. The group has also indicated that it wants to expand Asda in the UK. Given the strong brand recognition of HRG together with solid cash flow generation and strong balance sheet we would not rule out the possibility of a takeover. We do not attach a bid premium to our valuation.

Descriptive Stats		Shareholders	
Price (p)	269.00	Schroders	9.97%
52 Week High	336.50	Blackrock	7.20%
52 Week Low	223.75	Taube Hodson	5.01%
Bloomberg	HOME LN	Axa	4.84%
Reuters	HOME.L	UBS Global Asset	4.60%

	FY10	FY11	FY12
Revenue (£m)	6,029	6,132	6,316
EBITDA (£m)	450	439	458
Operating Profit (£m)	290	283	300
EPS(p)	24.00	23.00	25.0
DPS (p)	14.00	14.00	15.00

Company	P/E 10	EV/EBITDA 10	Div Yield
Home Retail Group	12.0	4.8	5.20%
DSG International	14.0	4.9	0.00%
Best Buy	15.3	6.7	1.20%
Home Depot	22.8	10.5	2.50%
Tesco	14.7	9.5	2.90%
Next	13.0	7.1	2.60%
Average	**15.3**	**7.3**	**2.40%**

Fiscal 2010 Revenue Breakdown



CRH
Buy

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Current Price : €19.51

Price Target : €21.50 (previous €20.50)

Analyst: **Stephen Taylor**
6th May 2010

- **Recommendation:** We reiterate our buy rating on CRH following yesterday's update to the market. We believe that with its US division beginning to show real signs of recovery, this should offset against any further weakness in Europe. We increase our price target to €21.50 from €20.50 as we look out to 2011 earnings as we believe the market will move over the coming months to discount the recovery that the company is beginning to see. Shares in CRH also offer a well covered dividend yield in excess of 3%.

- **Risks:** The major risk that we see for our investment thesis on CRH is a period of further contraction in the Euro-Area which cannot be ruled out at the moment given the uncertainties surrounding government fiscal positions. We are however more optimistic in relation to the US and believe that the US economy is on a sustainable economic road to recovery.

- **US:** In January and February, CRH saw its Americas operation show a like for like US$ sales decline of c.25%. However, given the moderation in decline in March and April, the cumulative sales decline for the first four months of the year was 14%. In the group's largest division, Materials, CRH was particularly upbeat with the group seeing a significant uptick in volumes during April and ahead of 2009 levels. A pick up in contract lettings following the extension of the SAFETEA-LU Federal Highway Funding program combined with higher activity under the American Investment & Recovery Act has resulted in a stronger order backlog than at the same point in 2009. CRH also pointed out that while challenging conditions are likely to remain in non-residential activity, recent improving trends in RMI activity levels suggest that the broader housing market is close to bottom.

- **Europe:** CRH saw sales in its European operations decline by 23% year on year for the first two months of the year. However similar to the US the group saw the sales decline moderate between March and April resulting in a cumulative decline of 14% for the first four months of the year. CRH pointed out that its materials business has started to see positive signs emerge in particular in Poland and Finland. Cement volumes had declined by 40% and 10% respectively in January and February for both of these countries, however by the end of April were in line with 2009 levels. In relation to Ireland and the Ukraine, CRH has seen some pick up in recent months, however activity continues to run well below 2009 levels. CRH pointed out that it expects the improved trend witnessed in the last couple of months to continue throughout the second half of the year.

- **Balance Sheet:** CRH has one of the strongest balance sheets in the building materials sector. The group ended 2009 with a net debt position of c. €3.7bn and net debt to EBITDA position of c. 2x. With CRH expected to generate c. €1bn in free cash flow in 2010, it leaves the company well placed to take advantage of bolt-on takeover opportunities as they arise. CRH spent a total of €460m in 2009 on acquisition and development spend.

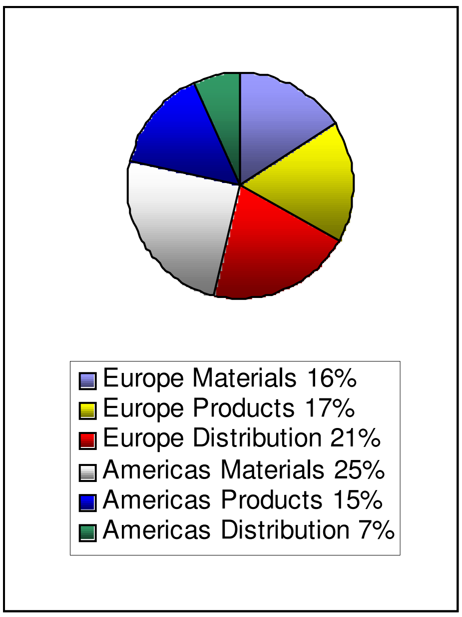
- **Price Target:** We value CRH at 8x our 2011 forecasted EBITDA of c. €2.2bn. We forecast our net debt falling over the period (subject to acquisitions to €2.3bn). Our multiple of 8x is based on the stock trading in line with its 20-year historical average.

Descriptive Stats		Shareholders	
Price (€)	19.51	Capital Research	13.40%
52 Week High	22.00	Blackrock	3.99%
52 Week Low	14.46	UBS	3.77%
Bloomberg	CRH ID	ILIM	2.97%
Reuters	CRH.I	BIAM	2.92%

	FY09	FY10	FY11
Revenue (€m)	17,373	17,400	18,150
EBITDA (€m)	1,803	1,946	2,164
Operating Profit (€m)	955	1,146	1,364
EPS(c)	88.3	1.03	1.27
DPS (c)	62.5	63.00	63.00

Company	EV/EBITDA 10	EV/EBITDA 11	Div Yield
CRH	8.5	7.4	3.20%
Lafarge	7.7	6.8	3.90%
Holcim	8.1	7.2	2.20%
Heidelbergcement	7.1	6.2	0.70%
Vulcan Materials	16.9	12.7	1.80%
Cemex	9.7	8.3	0.00%
Martin Marietta	12.3	10.0	1.80%
Average	10.0	8.4	1.9%

Revenue by division 2009



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Market Movers

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International Equity Markets

Index	Value	1-Day	YTD
ISEQ	3,188	-2.1%	6.2%
FTSE	5,342	-1.3%	-1.5%
Dow Jones	10,868	-0.5%	4.2%
S&P	1,166	-0.7%	4.6%
Nikkei	11,057	1.2%	1.4%
Stoxx 50	2,679	-1.1%	-10.3%

Sector Performances

Sector	Index	1-Day	YTD
Construction	266	-2.8%	-4.5%
Technology	203	-0.6%	9.6%
Oil & Gas	323	0.1%	-2.8%
Financials	202	-1.5%	-9.1%
Retail	263	-1.6%	7.0%
Food & Drink	320	-0.7%	4.8%

Commodity Prices

Commodity	Index	1-Day	YTD
Crude Oil	80.0	-3.3%	-2.4%
Copper	315.2	-0.8%	-7.4%
Gold	1,175.3	0.3%	7.1%
Silver	17.5	-1.7%	3.2%
Wheat	512.0	0.2%	-10.4%
Cattle	96.7	0.7%	10.5%

Currency Exchange Rates

Currency	Index	1-Day	YTD
€/$	1.281	-1.3%	12.0%
€/£	0.849	-1.0%	4.5%
£/$	1.510	-0.3%	7.4%
$/JPY	93.810	-0.8%	-0.5%
€/JPY	120.220	-2.1%	11.4%
€/SFR	1.433	0.0%	3.6%

5Yr Credit Spreads

Product	Index	1-Day	YTD
Invest Grade	96.8	10.2%	52.1%
High Yield	453.9	7.0%	14.8%
Financials	132.3	7.3%	119.7%
BoI	276.9	10.7%	16.5%
AIB	277.1	8.0%	1.7%
RBS	172.1	6.0%	30.2%

Money Market Rates

Rate	EUR	UK	US
Overnight	0.3%	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%	1.2%
5-Year	2.2%	2.9%	2.5%
10-Year	3.1%	3.7%	3.6%

Date	Company	Region	Event
06/05/2010	Kraft Foods	US	Q1
06/05/2010	GlaxoSmithKline PLC	GB	AGM
06/05/2010	Zurich Financial Services AG	CH	Q1
06/05/2010	Arriva PLC	GB	RADE & AGM
06/05/2010	British Airways PLC	GB	TRAFFIC
06/05/2010	Diageo PLC	GB	TRADE
06/05/2010	EasyJet PLC	GB	TRAFFIC
06/05/2010	adidas AG	DE	AGM
06/05/2010	E.ON AG	DE	AGM
06/05/2010	Grafton Group PLC	IE	AGM
06/05/2010	Swiss Life Holding AG	CH	AGM
06/05/2010	Lloyds Banking Group PLC	GB	AGM
07/05/2010	The Washington Post Co.	US	Q1
07/05/2010	Smurfit Kappa Group Plc	IE	Q1 & AGM
07/05/2010	SAS AB	SE	TRAFFIC
07/05/2010	HSBC Holdings PLC	GB	Q1 TRADE
07/05/2010	Royal Bank of Scotland Group Pl	GB	Q1 TRADE
07/05/2010	Standard Chartered PLC	GB	AGM
10/05/2010	Finnair Oyj	FI	TRAFFIC
10/05/2010	Deutsche Boerse AG	DE	Q1
10/05/2010	Centrica Plc	GB	TRADE
10/05/2010	Centrica Plc	GB	AGM

Date	Event	Region	Estimate
06/05/2010	PMI Services	UK	- -
06/05/2010	Official Reserves (Changes)	UK	- -
06/05/2010	Factory Orders MoM (sa)	GE	- -
06/05/2010	ECB Announces Interest Rates	EC	- -
06/05/2010	Nonfarm Productivity	US	- -
06/05/2010	Unit Labor Costs	US	- -
06/05/2010	Initial Jobless Claims	US	- -
07/05/2010	PPI Input NSA (MoM)	UK	- -
07/05/2010	Industrial Production MoM (sa)	GE	- -
07/05/2010	Industrial Prod. YoY (nsa wda)	GE	- -
07/05/2010	Unemployment Rate	US	- -
07/05/2010	Change in Nonfarm Payrolls	US	- -
10/05/2010	BoJ Monetary Policy Meeting Mir	JN	- -
10/05/2010	Trade Balance	GE	- -
10/05/2010	Current Account (EURO)	GE	- -
10/05/2010	BOE Asset Purchase Target	UK	- -
10/05/2010	BOE ANNOUNCES RATES	UK	- -
11/05/2010	RICS House Price Balance	UK	- -
11/05/2010	Consumer Price Index (MoM)	GE	- -
11/05/2010	Industrial Production (MoM)	UK	- -
11/05/2010	Manufacturing Production (MoM)	UK	- -
11/05/2010	ABC Consumer Confidence	US	- -

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