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Market Movers

IRISH PAPERS TODAY

Government bond yields jump amid fears about Irish banks
(The Irish Times)

Lenihan says key bodies backed guarantee move
(The Irish Times)

Rumours of takeover bid boost Tullow's share price
(Irish Independent)

INTERNATIONAL PAPERS TODAY

Vodafone set for \$6.8bn sale
(Financial Times)

Banking worries hit euro and spark investor flight to safer assets
(Financial Times)

Bank worries return, hitting euro, stocks
(The Wall Street Journal)

Market View

Analyst: Oliver Gilvarry

Overnight Asia was weak as the continuing strength in the Yen following strong machinery orders in Japan. In Europe, the market is weak again this morning following concerns over the peripheral Euro-Zone nations with Ireland and Portugal in the limelight. Irish 10-year bond yields yesterday broke through 6% and are trading at 5.99% on the open this morning with the spread between Germany and Ireland bond yields at 373bps. On individual stocks, Barratt Developments released full year results which we have outlined below and Vodafone announced the sale of its stake in China Mobile that was long rumoured. For the day ahead, the Beige Book out at 19.00 tonight which we expect to show continuing sluggish growth in the US economy. In Europe we have manufacturing data from the UK and Germany this morning. Earlier this morning UK House data surprised to the positive showing a 0.2% m/o/m compared to a decline of 0.5% expected.

Tullow Oil: Buy **Previous Close** 1228p **Target** 1470p **Analyst** Brian Gallagher

Tullow Oil has been the subject of intense M&A speculation over the last two trading sessions resulting in a strong rally in the explorer's share price. We do not give much credence to these reports as Tullow Oil is regularly cited as a likely takeover target and instead we believe that the share price has been buoyed by the market's realisation that the company will find a resolution to the recent tax dispute in Uganda. We also feel that traders have identified the upcoming (next two weeks) results of the Owo sidetrack as a potential positive catalyst for the stock as it will provide greater clarity on the size of the resources in the western half of Tullow Oil's license in Ghana. As a result of the current trading conditions, we feel that the risks to Tullow Oil's share price lie to the upside and recommend that clients use any weakness to re-enter long positions in the explorer.

Ryanair: Buy **Previous Close** €3.90 **Target** €4.70 **Analyst** Edward Keeling

In a FT article this morning Micheal O'Leary is quoted as saying that Ryanair could be back in the market to buy up to 300 aircraft. Asked about the prospect of paying future dividends, beyond the c. 34c which goes ex on September 15th, O'Leary said "All other things being equal, if we're still generating this amount of cash and we haven't found any acquisition or aircraft acquisition for it, then we would certainly consider a second dividend by about the end of 2013. But if I was a shareholder I wouldn't be banking on that yet." He said he saw no airline on the market worth buying, but there was still the option of purchasing the 200 Boeing jets from either Boeing or its rival, Airbus. There is nothing new in O'Leary's comments. This has been his stance since the €500m dividend payout was first announced. It also worth noting that Ryanair has maintained that it will only re-ent negotiations if better terms are offered than Ryanair turned down last year. We do not see this as likely over the medium term.

UK Homebuilders

Analyst Stephen Taylor

Berkeley Group

Berkeley Group has issued an interim management statement this morning covering the period from 1st May 2010 to 31st August 2010. The group pointed out that demand for properties over the period has been resilient, particularly in London which has a shortage of supply and specific demand from international purchasers. Outside of London, which is more reliant on the UK domestic economy to a greater extent, a lack of credit availability and weak consumer confidence is weighing on transactions currently. Berkeley Group has continued to invest in property and has acquired a further eight sites over the period opening a further 23 sales outlets. While uncertainties remain, Berkeley has maintained forward sales above £600m and provides the board with confidence that Berkeley can achieve its objective of growing earnings per share by 10% in the current financial year.

Barratt Developments

Barratt Developments has reported full year results this morning. The group reported a full-year loss of £118.4m compared to a loss of £468.6m. Market expectations were for a loss of £125m. Revenue declined by 11% to 2.04bn with the group selling 11,377 homes during the period, compared with 13,277 last year. The group's operating margin increased to 5.9% from 1.8% a year earlier. The group expects a 'modest' increase in average selling price this year, however the group noted that the outlook for new housing 'remains challenging'.

Overall we are under weight the construction sector due to continue financing concerns and the lack of availability of credit. However, for clients looking for exposure to a UK home builder, Persimmon is our preferred play.



Irish Financials

Analyst: Oliver Gilvarry

The Irish Government meets today and some form of decision is expected on the future of Anglo Irish Bank, with speculation in the press today that a wind up of the bank will be announced. Yesterday, the Irish Government obtained approval to extend the State guarantee on liabilities in the banking system that have maturities less than three months. This includes corporate deposits and inter-bank borrowings with the extension up to the end of December.

Vodafone: Buy **Previous Close** 160p **Target** Under Review **Analyst** Stephen Taylor

Vodafone has announced that it has agreed to sell its entire 3.2% interest in China mobile. Vodafone expects the cash consideration to be c. £4.3bn before tax and transaction costs. The group has said that c. 70% of the net proceeds will be returned to shareholders by way of a share buyback with the remainder used to reduce the Group's net debt. The sales will take place by way of an accelerated bookbuild offering. Goldman Sachs, Morgan Stanley and UBS are acting as Lead Managers and Bookrunners. Vodafone has said that both companies will continue this cooperation in areas such as roaming, network roadmap development, multinational customers and green technology. While the sale had been touted for some time we view it is a positive step in Vodafone extracting value for shareholders. A continued focus on asset sales including its minority stake in SFR in France and any further talk of a dividend payment or sales of Verizon Wireless would provide a further boost to its share price.

Irish Life & Permanent

Neutral

Current Price : €1.69

Price Target : €3.90

8th August 2010

Analyst: **Oliver Gilvarry**



Introduction

We have reviewed our price target and rating on Irish Life & Permanent (IPM) following the recent interim results, resulting in a downgrade in rating and price.

Banking Operations

In the banking operation Net Interest Income (NII) fell by 1.5%, better than expected as banking margins remained relatively stable at 81bps. Total operating income, fell by 16.3% as the cost of Government Guarantee eroded NII. Underlying costs only fell 1.5%, but there was an exceptional charge of €18m in the period that should help lower costs in future periods. Impairment charges remain high, but were lower than consensus at €150m.

Insurance Operations

Operating profit in the Life business was €118m, an increase of 40% yoy. The increase in operating profit was driven by higher margins driven by mix of business. Margins in the Life Business increased to 13% in the period on an APE basis with margins weaker in ILIM, but this was offset by higher sales due to acquisition of new mandates. Overall the margin increased by 10bps to 10.1% compared to the 1H09. Highlighting the insurance arm of the business is recovering. Sales within Retail Life remain difficult and sales were 4% lower than in 2009. Corporate Life sales continue to decline as higher unemployment and salary cuts impact on sales. Irish Life Investment Managers (ILIM) experienced €1.2bn of new inflows with new sales consisting of €689m.

Credit Quality

While impairment charges have slowed, impaired loans continue to increase with a HoH increase of 47.1%. The pace of increase has at least slowed from the previous period. The largest increase in arrears was in the ROI mortgage book, jumping by 77.3% HoH. The coverage level of impaired loans remains high at 50.74%, but this fell from 57.61% at the year end. Management believe the level of arrears will peak in the Irish mortgage book by the end of this year, and the peak has already been experienced in the UK mortgage book. Guidance on impairments remains €800-900m over the cycle with our estimate slightly higher at €980m. Management are estimating a decline of 40% in house prices with each 1% over this increasing the impairment charge by €20-25m.

Funding & Capital

The group is now aiming to grow the retail deposit book by €1.7bn this year instead of €2bn previously. Retail inflows in the first half were €0.8bn with corporates slightly weaker. On term funding, the group is looking to raise another €1.3bn for the remainder of this year with €2bn for the following three years to be refinanced. Since the interims the group has raised another €175m in a private deal in an issue of Residential Mortgage Backed Securitised (RMBS) similar to the deal it undertook a number of weeks ago outside guarantee. The capital of the bank remains strong with core tier 1 at 10.7% and the group is undergoing discussions with the Financial Regulator on the capital requirement for the group involving a merger of the bank with EBS. The Value in Force securitisation should be completed by year end, adding another €100m to the Life capital base.

Strategic Direction

From our discussions with management the focus of the group currently is the acquisition of EBS with the group in the second round with another bidder. IPM seem confident they have a good chance of winning the deal. A successful bid will require a capital raise in the region of €500-600m of ordinary equity, as other sources such VIF securitisation and debt buyback will release other capital also.

Reason for change of view

An increasing amount of uncertainty is set to surround the bank in coming months and this is one of the main reasons we are changing our price target and rating. We are also concerned the actions to release value from the Life book are now very dependent on Government due to the EBS deal. Also a failure to achieve a deal on EBS will extend the timeline on the crystallisation of the value in the Life book for shareholders.

Valuation

We have updated our valuation model based on the recent results with some changes to our target and we use similar assumptions as per our previous note. The value of the Life book is the main support to the groups valuation with the banking arm acting as a drag. We expect the banking arm to remain loss making in 2011, but the group to report a small profit in that year due to the Life arm.

On a standalone basis we see the group valued at €3.30 based on a 25% discount to TNAV of the bank and 20% discount to EV of the Life arm, assuming the group recapitalises the bank to more normalised levels. Assuming the group undertakes a deal with the Government and owns 45% of the new banking operation including EBS and Irish Nationwide, the value of the group is €4.45. Taking the average of these due to the uncertainty surrounding the direction of the group in coming months, we are reducing our price target to €3.95 and place the stock on Neutral.

While this target shows significant upside this could take over a year to be realised. Due to this delay and uncertainty we see better value elsewhere in the insurance and banking sector such as **Aviva**, which is paying a dividend or **UK financials** who are operating in a stronger economy and have greater clarity in relation to outlook.



International Equity Markets

Index	Value	1-Day	YTD
ISEQ	2,783	-0.9%	-7.1%
FTSE	5,408	-0.6%	-0.6%
Dow Jones	10,341	1.2%	-0.8%
S&P	1,092	1.3%	-2.1%
Nikkei	9,226	-0.8%	-14.4%
Stoxx 50	2,727	-1.0%	-8.4%

Sector Performances

Sector	Index	1-Day	YTD
Construction	244	-0.7%	-12.3%
Technology	191	-0.3%	3.9%
Oil & Gas	299	-0.6%	-9.4%
Financials	218	-1.3%	-2.6%
Retail	270	-0.4%	11.1%
Food & Drink	342	0.0%	12.0%

Commodity Prices

Commodity	Index	1-Day	YTD
Crude Oil	74.09	-0.7%	-11.4%
Copper	347.05	-0.8%	2.9%
Gold	1,255.55	0.4%	14.8%
Silver	19.91	-0.2%	18.1%
Wheat	735.25	-0.8%	21.5%
Cattle	96.35	-2.1%	7.7%

Currency Exchange Rates

Currency	Index	1-Day	YTD
€/\$	1.268	-1.5%	-11.3%
€/£	0.826	-1.3%	-7.4%
£/\$	1.536	-0.2%	-4.4%
\$/JPY	83.830	-0.5%	11.3%
€/JPY	106.320	-1.9%	-20.3%
€/SFR	1.283	-1.6%	15.9%

5Yr Credit Spreads

Product	Index	1-Day	YTD
Invest Grade	119.7	4.0%	50.5%
High Yield	513.3	2.7%	0.3%
Financials	143.6	7.6%	92.2%
BoI	325.2	2.3%	57.1%
AIB	438.8	1.0%	76.4%
RBS	201.6	4.2%	35.8%

Money Market Rates

Rate	EUR	UK	US
Overnight	0.7%	0.5%	0.2%
3-Month	0.9%	0.7%	0.3%
1-Year	1.2%	1.1%	0.4%
2-Year	1.3%	1.2%	0.7%
5-Year	1.8%	2.1%	1.6%
10-Year	0.025	3.0%	2.6%

Date	Company	Region	Event
08/09/2010	Berkeley Group	GB	AGM
08/09/2010	DSG International	GB	AGM
09/09/2010	Home Retail Group	GB	Q2 TRADE
09/09/2010	WM Morrison Supermarkets	GB	INTERIM
09/09/2010	HMV Group	GB	AGM
09/09/2010	JD Wetherspoon	GB	PRELIM
13/09/2010	ASSOCIATED BRITISH FOOD:	GB	TRADING
14/09/2010	DEBENHAMS PLC	GB	TRADING
14/09/2010	Best Buy Co.	GB	Q2
14/09/2010	The Kroger Co.	GB	Q2
15/09/2010	NEXT PLC	GB	INTERIM
16/09/2010	INVESTEC PLC	GB	TRADING
16/09/2010	KINGFISHER PLC	GB	INTERIM
16/09/2010	FedEx	GB	Q2
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Date	Event	Region	Estimate
08/09/2010	Trade Balance	GE	12.0B
08/09/2010	Exports SA (MoM)	GE	1.50%
08/09/2010	Industrial Production (MoM)	UK	0.40%
08/09/2010	Manufacturing Production	UK	0.30%
08/09/2010	Industrial Production MoM	GE	1.00%
08/09/2010	MBA Mortgage Applications	US	--
08/09/2010	Fed's Beige Book	US	--
09/09/2010	Consumer Price Index	GE	--
09/09/2010	Total Trade Balance	UK	-£3300
09/09/2010	BOE Asset Purchase Target	UK	200B
09/09/2010	BOE ANNOUNCES RATES	UK	0.50%
09/09/2010	Trade Balance	US	-\$48.1B
09/09/2010	Initial Jobless Claims	US	470K
09/09/2010	Continuing Claims	US	4445K
10/09/2010	PPI Input NSA (MoM)	UK	0.20%
10/09/2010	PPI Input NSA (YoY)	UK	9.00%
10/09/2010	PPI Output n.s.a. (MoM)	UK	0.10%
10/09/2010	PPI Output n.s.a. (YoY)	UK	4.80%
10/09/2010	Wholesale Inventories	US	0.40%
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