

## CONTENTS

**Market View:** Chinese trade data way ahead of expectations

**Tullow Oil:** Full Year Results

**Glanbia:** Glanbia Co-Op to buy its Dairy & Agri-business units

**Company Note:** Aviva

**Market Movers**

## IRISH PAPERS TODAY

Innovation taskforce say 120,000 jobs can be created  
*(The Irish Times)*

No Government block to lay-offs at Aer Lingus  
*(The Irish Times)*

Value of land offered as security is down by 50pc, AIB admits  
*(Irish Independent)*

## INTERNATIONAL PAPERS TODAY

Barclays sets sights on buying a big US retail bank  
*(Financial Times)*

Call for action on speculation  
*(Financial Times)*

Europe backs a clampdown on swap use  
*(The Wall Street Journal)*

## Market View

**Analyst: Edward Keeling**

European markets are trading broadly higher this morning as concerns surrounding sovereign debt risk fade for the moment into the back round. In Asia overnight, despite Chinese trade data that was way ahead of economists' forecasts, China's Shanghai composite fell 0.8%. Investors grew nervous about the implications of this stronger than expected economic data on monetary policy. The market is concerned that Chinese policymakers will implement tightening policy measures aimed at preventing overheating and excess lending, an equity unfriendly environment. The Central Bank has already started cooling demand by twice increasing its bank's required reserve ratios. In the US, one year on after stocks registered their worst close in 12 years, indices finished slightly higher with Citigroup and AIG running up on strong volume amid speculation that regulators could consider clamping down on short sales of specific issues. Technology shares were boosted after Cisco unveiled a higher capacity router which it said can be configured to handle internet traffic up to 12 times faster than its rivals. US airline stocks also outperformed as various US airlines indicated that demand is returning to the market. There is little in the way of corporate news flow expected today while in the US, mortgage applications data will be in focus at 12:00.

**Tullow Oil: Buy**      **Previous Close** 1281p      **Target** 1450p      **Analyst** Brian Gallagher

Tullow Oil released full year results this morning which missed market consensus. While revenue was stronger than expected at £582m, underlying earnings were weak as a result of high costs. Production was lighter than expected with the group producing 58,000kboepd in 2009, below the 59,300kboepd guided at its Q3 results. Tullow Oil's dividend also disappointed the market, coming in 2p lower than what was forecasted. Net debt crept up to £718m which was slightly higher than we expected and the group's gearing also pushed up to 47% from 30% in 2008. Overall, the financial results released today are poorer than we were anticipating however as Tullow Oil is not a traditional trading company, its stock price is driven more by its exploration and appraisal activities and today's results were encouraging from this perspective. The press release confirmed the group's accelerated exploration schedule and it also provided an update on its farmout in Uganda. Management stated that CNOCC and Total will more than likely acquire 33.3% stakes in the three blocks that Tullow Oil owns in the Lake Albert Basin. We view this development as a positive because it will leave Tullow Oil with more room to focus on its ambitious exploration schedule. The company will also benefit from having two partners as Tullow Oil lacks the necessary experience in developing assets to production capability. The next key catalyst for the stock will be today's conference call but we continue to recommend buying Tullow Oil as it holds some of the best licences in Africa and the development of Lake Albert and Jubilee will provide Tullow Oil with a sustainable platform from which to develop its exploration portfolio.

**Glanbia: Full Year Results**      **Previous Close** €2.60      **Analyst** Oliver Gilvarry

Glanbia released 2009 results this morning that were overshadowed by the announced that the group is in discussions with its largest shareholder, Glanbia Co-Op, to buy Glanbia's Irish Dairy and Agri-business units. This unit includes Irish Dairy Ingredients, Consumer products and Agribusiness, Irish property business, Group Business Services and related Irish JV and associates. Such a transaction would significantly reduce the Co-Op's ownership in the listed company, therefore potentially increasing the free float. Glanbia CEO, John Moloney stated the discussions are progressing well, but it is too early to state what amount the unit will fetch. Proceeds of any deal will be used for development pipeline with potential purchases focused on nutritional. As for the full year results, EPS of 30.68c was slightly better than the consensus estimate of 30.5c. Turnover was slightly weaker than expected at €1.83bn along with operating profit at €111.2m. Over the year, margins have improved to 6.1%, an increase of 10bps. The improvement in margins was driven by the US Cheese & Global Nutritionals business, with margins here increasing by 1.50% to 11.4%. Dairy Ireland's tough year can be seen in its fall in operating margin to 2.3% from 3.7% in 2008. Some positives in the results were the pension deficit and net debt. The pension deficit fell more than expected by €78.6m to €85.8m, with a large part of the decline due to the removal of guarantee increases in pension payments for all members and final pensions for current employees to be on average career salary instead of final salary. Net debt fell more than expected to €442.6m in the period with net debt to EBITDA at 2.89x. On outlook, the group believes 2010 will be challenging but see some positive signs in its operating environment which should underpin performance in 2010. US cheese prices are expected to increase from the lows experienced last year. The Nutritional business will continue to perform and develop its product range and geographical reach. Dairy Ireland is expected to deliver a marked improvement after a very difficult 2009. Milk prices have stabilised over the course of the year and recent auctions in New Zealand and strong demand from China for imported dairy products will underpin prices in our opinion. The key story from today's results is not the figures, but the potential divestment of the Irish Dairy and associated businesses. This would leave the group in a position to focus on the higher margin and higher growth Cheese and Nutritional businesses. The stock is cheap, trading at 7.8x 2010 earnings, EV/EBITDA multiple of 8.3x and yielding 2.63%.

# Aviva

## BUY

Current Price : £3.92

Price Target : £5.00

10th March 2010

Analyst: **Oliver Gilvarry**



- Aviva released full year results last week that were mixed, but weighted towards the positive. Operating profit on a MCEV basis beat expectations at £3.483bn driven by the Life business.
- Operating profits in the General Insurance side was weaker than expected due to the adverse weather experienced in Q4. This also hit the combined ratio of the group which at 99% was above the internal target of 98% or better.
- While the General Insurance result was disappointing, the reduction in the expense ratio from 13.4% to 12.6% plus the lower release of reserves leaves the General Insurance area in a strong position for 2010.
- Higher premiums are being passed through to UK consumers and with lower costs, Aviva is in a good position to increase profitability.
- On costs, the group achieved its target of £500m a year early and further cost cutting is targeted for 2010 in the European business in particular.
- On the Life business, management sees Q3 as the trough in sales and the trend for UK consumers to again begin purchasing products offered by Aviva was seen in Q4. Margins have improved over the year, increasing by 10bps to 2.20%. This momentum is expected to continue in 2010 with top line growth to return. We would agree with this view as the uncertainty of 2009, lessens for consumers in Aviva's main Life markets this year.
- Capital position of the group remains strong with IGD surplus increasing from £2bn in 2008 to £4.5bn at the end of 2009. This is in the middle of the range that management is happy to run the capital position. The capital position is further underlined by the £1.1bn impairment provision set aside for UK commercial mortgage and the bond portfolio.
- Very little of this provision was used during the year and LTV on the commercial mortgage book dropped from 106% at the half year to 94% at the end of the year. In corporate bonds, there was minimal movement in credit ratings and very minor losses. Exposure to Spain, Greece and Portugal is only 2% of shareholders debt securities.
- On the conference call, management have guided the impairment provision will have to be closely looked at by the end of 2010 with regard to releasing some of it back through the income statement if conditions continue as they are. With the current low interest rate environment to continue into 2010 and growth returning, we expect some of this provision to be released this year.
- On the dividend, a final of 15p will be paid and this is covered 1.8x by IFRS operating profit. At the higher end of managements target of 1.5-1.8x. We expect further cost cuts and increased sales to allow the group to increase the dividend this year.
- The one miss in the results was in EV per share. The group reported an EV per share of 471p, weaker than expected. The miss was due to hedges in place in Delta Lloyd and liquidity premium assumptions used to value policyholders liabilities. We see these being reversed this year and the strong operating profit figures are a better indicator for the group.
- On valuation grounds the company is trading at 0.8x Embedded Value (EV). With the miss on EV in the full year results we are reducing our estimate for full year EV to £5.00. With the group generating a 16% ROE in 2009, lower cost base and the potential for higher sales in 2010, the group should trade at EV. Based on this our 12-month target reduced slightly to £5.00, plus the stock pays a dividend of 6.2%.

Descriptive Stats		Shareholders	
Year to date	-1.88%	Blackrock	5.01%
52 Week High	474p	Legal & General	4.21%
52 Week Low	164p	Axa	3.86%
Reuters	AV.L	M&G Invt. Mgt.	2.50%
Bloomberg	AV/ LN	Alliance Bernstein	2.15%

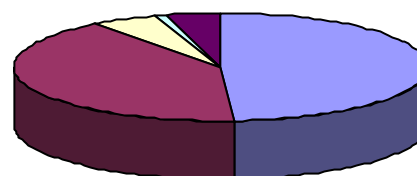
  

	FY09	FY10e	FY11e
Revenue £m	31,821	34,292	36,545
Operating Profit	2,786	2,582	2,843
Net profit	1,237	1,341	1,613
EPS p	46.3	44.5	59.9
DPS	24	26	28
P/E	8.48	8.82	6.56
Div Yield	6.19%	6.62%	7.13%

Peer Analysis	P/E 10	P/E 11	Div Yield
Prudential	9.5	8.5	3.70%
AXA	8.4	7.1	3.53%

2008 Revenue by Region



UK
Europe
North America
Asia Pacific
Aviva Investors



### International Equity Markets

Index	Value	1-Day	YTD
ISEQ	3,016	0.0%	1.1%
FTSE	5,602	-0.1%	3.2%
Dow Jones	10,564	0.1%	1.3%
S&P	1,140	0.2%	2.3%
Nikkei	10,568	-0.2%	0.2%
Stoxx 50	2,881	0.0%	-3.0%

### Sector Performances

Sector	Index	1-Day	YTD
Construction	271	0.1%	-2.9%
Technology	204	-0.1%	10.1%
Oil & Gas	329	0.3%	-1.1%
Financials	217	-0.8%	-2.5%
Retail	254	0.1%	3.6%
Food & Drink	319	0.8%	4.8%

### Commodity Prices

Commodity	Index	1-Day	YTD
Crude Oil	81.5	-0.5%	0.6%
Copper	341.2	0.0%	1.7%
Gold	1,121.9	-0.2%	2.4%
Silver	17.3	0.4%	2.8%
Wheat	489.5	-1.1%	-12.3%
Cattle	92.3	0.1%	5.1%

### Currency Exchange Rates

Currency	Index	1-Day	YTD
€/\$	1.360	-0.2%	5.7%
€/£	0.907	0.2%	-2.5%
£/\$	1.500	-0.5%	8.4%
\$/JPY	89.960	-0.4%	3.3%
€/JPY	122.350	-0.6%	9.2%
€/SFR	1.462	-0.1%	1.5%

### 5Yr Credit Spreads

Product	Index	1-Day	YTD
Invest Grade	74.3	0.6%	3.6%
High Yield	427.7	1.2%	-1.5%
Financials	79.2	0.8%	2.6%
BoI	201.5	2.1%	-17.7%
AIB	218.3	-1.1%	-20.3%
RBS	133.8	3.7%	-2.7%

### Money Market Rates

Rate	EUR	UK	US
Overnight	0.3%	0.5%	0.2%
3-Month	0.7%	0.6%	0.3%
1-Year	1.1%	0.9%	0.5%
2-Year	1.5%	1.6%	1.1%
5-Year	2.4%	3.0%	2.6%
10-Year	3.3%	3.9%	3.7%

Date	Company	Region	Event
10/03/2010	Fortis SA/NV	BE	Q4
10/03/2010	JCDecaux SA	FR	FINAL
10/03/2010	E.ON AG	DE	FINAL
10/03/2010	Muenchener Rueckversicherungs	DE	FINAL
10/03/2010	Pirelli & C. SpA	IT	FINAL
10/03/2010	Tullow Oil PLC	GB	FINAL
10/03/2010	IG Group Holdings plc	GB	TRADE
10/03/2010	Ark Therapeutics Group Plc	GB	PRELIM
10/03/2010	Standard Life Plc	GB	PRELIM
10/03/2010	Brown-Forman Corp.	US	Q3
11/03/2010	Volkswagen AG	DE	FINAL
11/03/2010	Deutsche Lufthansa AG	DE	Q4
11/03/2010	Origin Enterprises Plc	IE	H1
11/03/2010	EcoSecurities Group Plc	IE	PRELIM
11/03/2010	Iberia Lineas Aereas de Espana	ES	TRAFFIC
11/03/2010	Swatch Group AG	CH	FINAL
11/03/2010	Home Retail Group plc	GB	TRADE
11/03/2010	WM Morrison Supermarkets PLC	GB	PRELIM
11/03/2010	Old Mutual PLC	GB	PRELIM
11/03/2010	National Semiconductor	US	Q3
12/03/2010	JD Wetherspoon PLC	GB	H1

Date	Event	Region	Estimate
10/03/2010	Trade Balance	GE	--
10/03/2010	Imports SA (MoM)	GE	--
10/03/2010	Current Account (EURO)	GE	--
10/03/2010	Exports SA (MoM)	GE	--
10/03/2010	Consumer Price Index (MoM)	GE	--
10/03/2010	Industrial Production (MoM)	UK	--
10/03/2010	Manufacturing Production (MoM)	UK	--
10/03/2010	MBA Mortgage Applications	US	--
10/03/2010	Wholesale Inventories	US	--
10/03/2010	Monthly Budget Statement	US	--
11/03/2010	ECB Publishes Mar. Monthly Rep	EC	--
11/03/2010	Trade Balance	US	--
11/03/2010	Initial Jobless Claims	US	--
12/03/2010	Euro-Zone Ind. Prod. sa (MoM)	EC	--
12/03/2010	Advance Retail Sales	US	--
12/03/2010	Retail Sales Less Autos	US	--
12/03/2010	U. of Michigan Confidence	US	--
12/03/2010	Business Inventories	US	--
15/03/2010	Rightmove House Prices (MoM)	UK	--
15/03/2010	Eurozone Employment (QoQ)	EC	--
15/03/2010	Empire Manufacturing	US	--

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