NCB

Independent & International

Ireland Moves Forward

CONTENTS

Executive Summary

Boom and bust of epic proportions

After a boom of epic proportions, Ireland has been hit by a bust of equal magnitude. From 1997 to 2007, real GDP grew by 6.7% per annum, but by 2010 it had collapsed back to 2005 levels, a reduction of 12% from peak levels. The ensuing dislocation in the public finances pushed the **government's annual budget deficit to almost 12% of GDP**. Meanwhile the over-borrowed private sector has created massive losses in the banking area and this has required substantial State support. As a result, **Irish gross debt has ballooned to 95% of GDP and is expected to rise to 113% by 2014**. An escalating funding crisis, as markets lost confidence, led to the **EU/IMF rescue package** requiring **severe fiscal retrenchment to 2014**. Yet all is not lost amid the economic turbulence.

Political change but social cohesion intact

A **general election is set to take place on 25th February 2011** and a centre government with a slight leaning to the left is the most likely outcome. Despite political uncertainty in the run up to the election, the Finance Bill, allowing the EU/IMF rescue plan to proceed, has been passed with broad political support. Social cohesion remains intact despite **massive fiscal consolidation of 14% of GDP taken to date and a further 6% outlined over the period 2012-2014**. There continues to be **cross political support for EU membership.**

Economic growth a challenge

Growth will be a challenge for the Irish economy given the public and private debt overhang and fiscal austerity measures. However **Irish competitiveness** has improved significantly through the downturn, evidenced by the **balance of payments current account, which registered a surplus in Q3 2010** for the first time since 2003. **Infrastructure** across the country has been significantly improved through the boom years. **Irish exports** increased to the highest figure ever recorded in 2010, increasing 7% year-on-year. A **two tiered recovery** will be the order of the day for the Irish economy in 2011 with exports continuing to grow but domestic demand remaining weak. It will be a **jobless recovery** in 2011 and possibly beyond as we expect employment to contract marginally this year.

Low corporation tax will remain

Despite having received aid from the EU/IMF, **Ireland did not have to make any commitments to alter its corporation tax rate of 12.5%.** The rate forms the backbone of Irish FDI and export policy, regardless of which government is in power. Nonetheless, at the broader EU level the EU Commission continues to progress its work in bringing forward a proposal for a common EU-wide base for calculating corporation tax, known as the common consolidated corporation tax base (**CCCTB**). However it is important to remember that the CCCTB cannot be imposed on Member States. Unanimity is required for all decisions taken on taxation issues and Ireland has a veto.

Property market has yet to bottom

House price declines in Ireland are not over, we expect the average national peak to trough decline in achieved prices to be in the region of 45-55%. This equates to a further 10% fall from peak levels. **NAMA**, the government's recently established vehicle for addressing problematic bank loans, has quickly become one of the largest property companies in the world. It is likely to pursue further asset sales, initially in the UK, and will be a critical determinant of the supply/demand balance in Ireland over the medium-term.

Banks insolvent and illiquid but for State and EU support

The banks remain reliant on the sovereign for capital and on the European and Irish Central Banks for liquidity. The **March 2011 stress tests** will determine whether any additional capital is required apart from the €10bn already earmarked to bring Core Tier 1 (CT1) ratios above 12% by the end of February 2011.

Sovereign debt restructuring can't be ruled out

In the low growth scenario, and even in our base case scenario, it is difficult to see how Ireland would be able to wean itself completely off EU aid post 2013. As such, our central view is that Ireland will need EU help to raise funds and as a result be rolled into the permanent **European Stability Mechanism** ("ESM"). Sovereign debt restructuring may form part of the ESM, but we see it as being a last resort after other efforts have been exhausted. **A lowering of the interest rate on EU loans, however, would give Ireland a higher probability of weaning itself off aid by 2014.**

Bond market has priced in the worst

We like Irish bonds which mature before June 2013 on an outright basis – they are essentially guaranteed by the EU/IMF. We see the **markets implied probability of default on Irish bonds maturing post June 2013 as being too high.** Even though restructuring is a possibility, we would advocate **switching a portion of bond funds into Irish government bonds to avail of the pick-up in yield**.

Equity market has limited exposure to Ireland

Irish profits now represent only 17% of overall operating profit of our sample for Irish publicly quoted companies. This compares to 36% in 2006. The names we favour in the Irish equity market are **CRH, Ryanair, Smurfit Kappa, Irish Continental, C&C and ARYZTA.** Smaller names continue to offer value and are often neglected, and on this basis we favour **FBD, Abbey, CPL, Donegal Creameries** and **Origin Enterprises.**

M&A activity on the up

2010 saw a recovery in the Irish M&A market and we should at a minimum see an M&A market in 2011 similar to that of last year. In relation to the **Irish financials**, The Governor of the Central Bank has previously referred to the possibility of “some or all” of the Irish banks becoming foreign owned. **NAMA** will be a significant dictator of activity in the property sector in 2011 and beyond. **Publicly quoted companies** in the food and construction sector are likely to be active acquirers.

Potential disposal of state assets

Given the condition of government finances, the sale of state assets cannot be ruled out. It has been reported that there has been foreign interest in potential asset sales in Ireland. We identity a number of assets which could be sold including those in the areas of **forestry**, **energy**, **networks** and **ports**.

FDI remains robust

Foreign Direct Investment (FDI) in Ireland increased significantly in 2010, despite global FDI declining by 8%, with the **Industrial Development Agency (IDA)** securing 126 investments and IDA sponsored firms creating almost 11,000 jobs. Ireland has developed a fast growing reputation as a favourable location for global technology companies with **9 of the World’s top 10 ICT** companies now located in Ireland.

Renewable energy – indigenous companies make their mark

The area of renewable energy/cleantech continues to be an area of significant investor interest both in public markets/IPOs and venture capital fundraising. There are several Irish companies (mainly privately owned) with significant exposure to the demand arising from efforts to achieve the EU’s 2020 targets including **Kingspan** (public), **Glen Dimplex** (private) and **Mainstream Renewable Power** (private).

1. Irish Economy – Challenges ahead

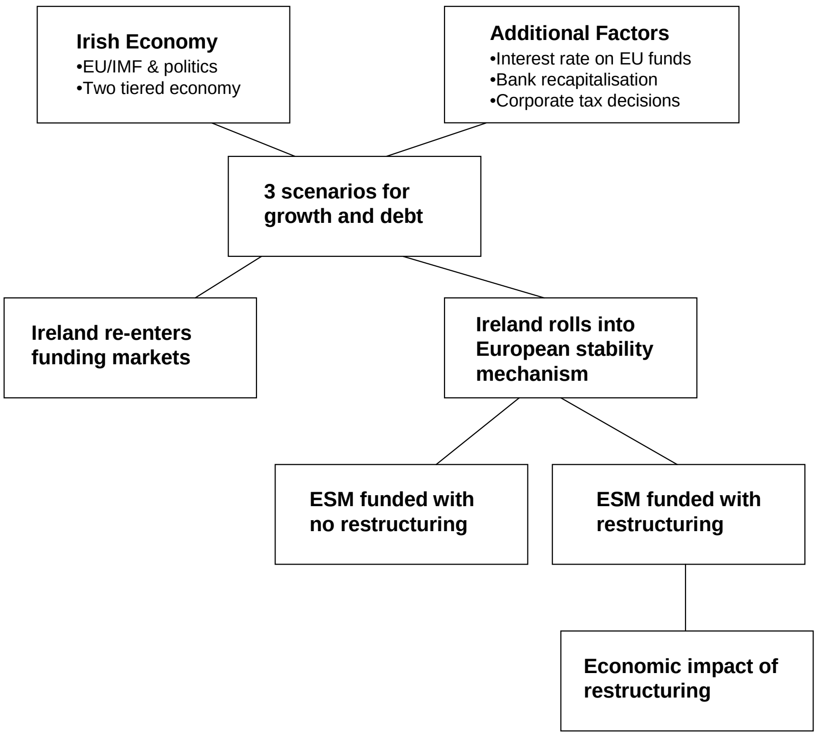
1.1 Introduction

Growth will be a challenge for the Irish economy given the public and private debt overhang and fiscal austerity measures. Despite these challenges, the Irish economy did return to growth on a quarterly basis in 2010. Growth in the economy was driven by the impressive performance of the exporting sector. A two tiered recovery will be the order of the day for the Irish economy in 2011 with exports continuing to grow but domestic demand remaining weak. It will be a jobless recovery in 2011 and possibly beyond as we expect employment to contract marginally this year.

The economic outlook in Ireland is complicated by the banking sector, the relationship between Ireland and its overseers and finally the political negotiations at the European level. As such, we assess the Irish economy under 3 scenarios in order to assess the stock of public debt come 2014. The assumptions in the scenarios are not mutually exclusive but rather illustrative.

In the low growth scenario, and even in our mid (base) case scenario, it is difficult to see how Ireland would be able to wean itself completely off EU aid post 2013. As such, our central view is that Ireland will require EU help to raise funds post June 2013 and as a result will be rolled into the permanent, but yet to be created, **European Stability Mechanism** (ESM). Sovereign debt restructuring may form part of the ESM, but we see it as being a last resort after other efforts have been exhausted. **A lowering of the interest rate on EU loans, however, would give Ireland a higher probability of weaning itself off aid by 2014.** *The rest of this section follows the flow outlined in the diagram below.*

Diagram 1: Ireland's Economic Path



1.2. Ireland's new bedfellows

1.2.1 The EU/IMF loan package

2010 was an extraordinary year for the Irish State and economy. **After a long period of inevitability, Ireland officially applied for a loan from the EU/IMF on Sunday the 21st of November.** Ireland agreed a €67.5bn external facility with the European Union through the European Financial Stability Fund (EFSF) and the European Financial Stability Mechanism (EFSM); bilateral loans from the UK, Sweden and Denmark; and the International Monetary Fund's (IMF) Extended Fund Facility (EFF) on the basis of specified conditions.

The external support will be broken down as follows: €22.5bn from the EFSM; €22.5bn from the IMF; and €22.5bn from the EFSF and bilateral loans. The bilateral loans will be subject to the same conditionality as provided by the EU/IMF programme. As part of the programme Ireland is to utilise €17.5bn of its own funds from the National Pension Reserve Fund (NPRF) and existing cash resources (Chart 1).

Chart 1: Contributions to loan package

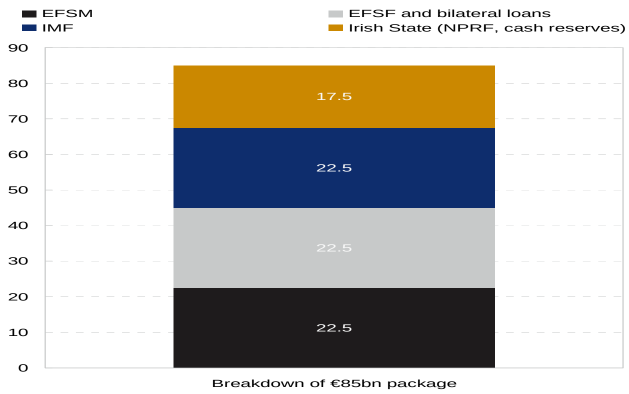
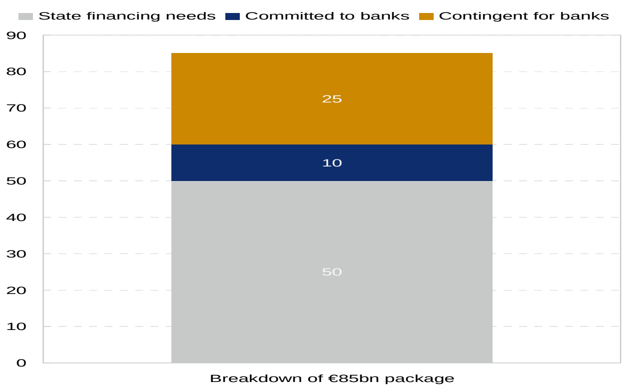


Chart 2: Allocation of loan package



Source: NCB

The Programme has two parts – the first part deals with the banks and the second part deals with fiscal policy and structural reform. The facility will include up to €35bn to support the banking system; €10bn for the immediate recapitalisation and the remaining €25bn will be provided on a contingency basis. The remaining €50bn will be used to cover the financing of the State (Chart 2). The funds in the facility will be drawn down as necessary, although the amount will depend on the capital requirements of the financial system and NTMA bond issuances during the programme period. **The average interest rate on loans is to be 5.8% with an average life of 7 years.**

The funds will be made available to Ireland as long as it continues to meet the targets outlined in the Memorandum of Understanding ("MoU") governing the loans. The MoU contains quarterly targets for Ireland. If targets are missed, Ireland will have to implement more fiscal consolidation measures in order to receive the funds from the EU/IMF.

1.2.2 Ireland has little room to manoeuvre on EU/IMF targets

The measures outlined in the current Government's 4 year plan would be sufficient to meet the targets outlined in the MoU. **The Government's plan sees a €15bn budgetary correction over 4 years, broken down into €10bn in public expenditure measures and €5bn in tax revenue raising measures.**

The general election is set to take place on 25th February 2011. The opinion polls show that Fine Gael (33%) lead Labour (22%) and Fianna Fail (16%). The translation of this poll into seats is depicted in Chart 4 and shows that a Fine Gael/Labour coalition would have a substantial majority, 108, relative to the required number of seats 84. This is likely to be a centre government with a slight leaning to the left. The left leaning parties (Labour, Sinn Fein, certain independents) would not have sufficient seats, 66, to form a government.

Chart 3: Sunday Business Post/Red C Poll

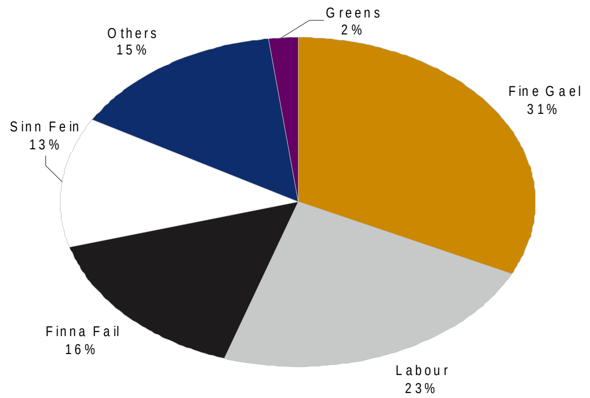
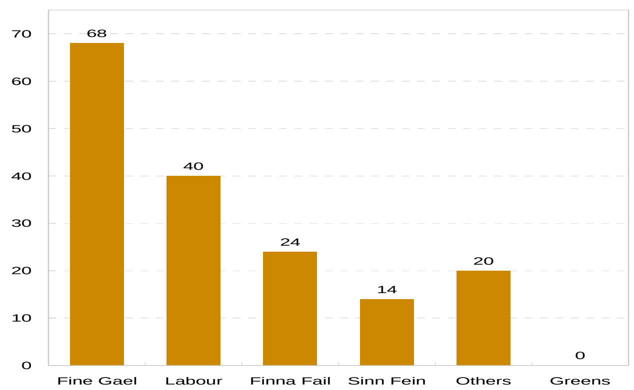


Chart 4: Seats based on Sunday Business Post/Red C Poll



Source: Sunday Business Post, January 29 2011. Politicalreform.ie

In relation to the EU/IMF package, it is worth noting that Fine Gael's Finance spokesperson stated that "The deal needs to be renegotiated and Fine Gael will look for a mandate to do so", while the Labour leader stated that "we will seek a mandate to renegotiate the programme". The loan agreement between IMF/EU outlines high level figures (net debt to GDP, primary budget deficit) to be achieved in each Budget to 2014, but the details of how those are to be achieved are rather broad. Thus, the Fianna Fail 4 year plan does not have to be implemented as outlined. **It appears likely that the opposition will ballot on the back of altering the EU/IMF deal, but in our opinion the deal is likely to look very similar with only changes in the exact details of how the €15bn in consolidation measures is to be achieved. Changes to the interest rate, taken at a European wide level, however, do seem likely in the coming months.**

1.2.3 The EU/IMF and the senior bond issue

The EU/IMF plan for the banking system is one of continued incremental measures, which keeps the status quo intact and saddles the Irish sovereign with the burden of capital injections. Minister Lenihan's speech on the 1st of December highlighted the pressure which came from the EU/ECB to keep the status quo intact: "There has been much commentary about the need for senior bondholders to accept their share of the burden of this crisis. I certainly raised this matter in the course of the negotiations and the unanimous view of the ECB and the Commission was and is that no Programme would be possible if it were intended by us to dishonour senior debt."

The Minister went on to say "There is simply no way that this country, whose banks are so dependent on international investors, can unilaterally renege on senior bondholders against the wishes of the ECB. Those who think we could do so are living in fantasy land."

It only became apparent in January 2011 exactly what the Minister meant above. It transpired that the ECB essentially forced Ireland into taking the bailout. The Irish banks, on running out of eligible collateral to tap the ECB for funds, had to turn to the Irish central bank for Exceptional Liquidity Assistance (ELA). An article in the FT revealed that "Under Eurozone procedures, the Irish central bank has to seek approval for its actions from the ECB's governing council [in relation to providing ELA funds], giving the euro's monetary guardian considerable leverage over Dublin. Late last year the ECB approved an increase in ELA only on condition that the country accepted a €85bn bail-out from the European Union and International Monetary Fund"[1].

The Irish banks are still heavily reliant on the ECB and the Irish Central Bank for funds. At the end of December 2010 the Irish banks were tapping the ECB for €95bn in funds and €51bn in funds via the ELA. The Irish banks, like any other Euro area bank, are perfectly entitled to tap the ECB for as much money as it likes given their current rules on full-allotment. It is the €51bn figure which weakens Ireland's bargaining position with the ECB/EU, combined with the fact that the Irish government is set to run a cumulative exchequer deficit of €48bn between 2011-2013.

Despite remonstrations against senior bank bondholders by the opposition, it is clear that unless they can come up with some radical plan to finance the State and banks without EU money then this is the plan that Ireland will have to stick to as long as the rhetoric from the EU/ECB remains the same.

Fine Gael on the 2nd of February 2011 in a statement regarding their five-point plan for recovery said "We believe that Ireland may be left with no option, in the absence of a renegotiated deal, but to write down the value of the bonds in the Irish banks, or face the prospect of a hugely damaging sovereign default."

The above sentence is carefully worded and allows Fine Gael to campaign on the back of burning senior bondholders without annoying the EU because of the insertion of the caveat "in the absence of a renegotiated deal". We do expect an announcement soon, most likely in March at the EU meeting

[1] www.ft.com/cms/s/0/272b9490-1f37-11e0-8c1c-00144feab49a.html

of Finance Ministers, about the current EFSF/EFSM bailout facilities. It is possible that the interest rate on loans to recipient countries may be lowered and that the size of the funds available may be increased. These are decisions which are most likely to be taken on an EU-wide level not in a specific Irish context.

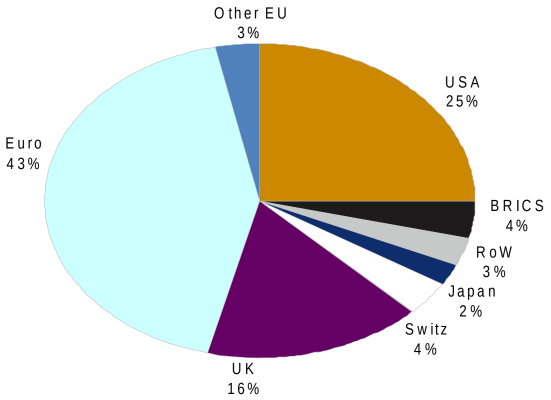
Ireland could of course threaten the EU/ECB unilaterally renege on senior bondholders, but Ireland would be the ultimate loser in such an outcome if the EU/ECB held their line. The EU/ECB might lighten their stance on the Irish senior bank bond issue in time when they are more confident in the stability of the Euro area banking system. To put all this in context there is approximately €18bn in unsecured senior bonds in the Irish banks.

1.3 Economic growth

1.3.1 Exports and FDI the key drivers of the Irish economy

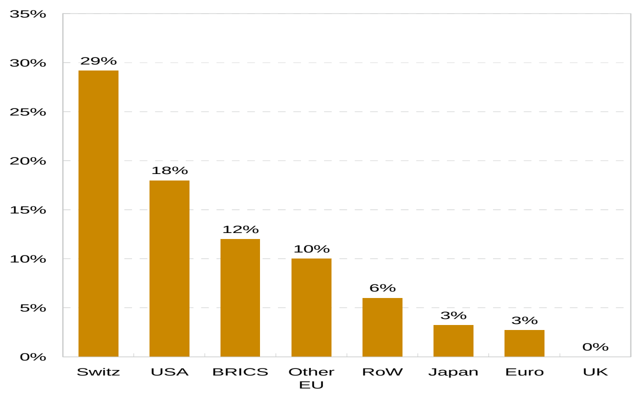
All the attention has been on the banking/government finances but it is worth remembering that the rest of the economy is still operating and trying to fight its way out of the recession. 2010 was in fact a good year for exports, the driving force of the economy. The Irish Exporters Association (IEA) said **exports grew by 6.7% in value terms in 2010**. According to the IEA exports to the US grew by 18%, Canada by 27% and Germany by 42%. Exports to Brazil, Russia, India and China rose by 12% (Charts 5 & 6).

Chart 5: Geographic breakdown of Irish merchandise exports



Source: Irish Exporters Association

Chart 6: Increase y/y % in merchandise exports



Source: Irish Exporters Association

2010 was also a good year for Ireland's inward investment promotion agency, IDA Ireland. **Foreign Direct Investment (FDI) in Ireland increased significantly in 2010**, despite global FDI declining by 8%, with the IDA securing 126 investments and IDA sponsored firms creating almost 11,000 jobs.

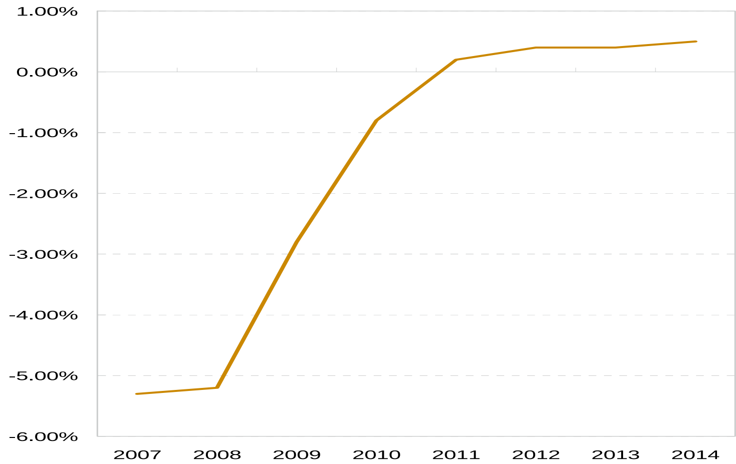
Irish competitiveness improved significantly in 2010. Business costs including energy, private rents, office rents, services, construction and labour have all become more competitive. Both gas and electricity prices are now below the Euro average, and the cost of living has also fallen. Office rents for new tenants have decreased sharply – typically up to 40%, whilst the EU has forecast that from 2008 to 2012, Ireland's labour costs will have improved 13% relative to the EU (27) average. The improvement in competitiveness is helping secure new FDI for Ireland and a continuing focus on improving competitiveness is essential.

The **2010 IMD World Competitiveness Yearbook**, for the key measures influencing foreign direct investments, ranked Ireland;

- 1st for corporate taxes
- 4th for the availability of skilled labour
- 4th for being open to new ideas
- 6th for labour productivity
- 7th for the availability of financial skills
- 7th for the flexibility and adaptability of people

Official evidence of Ireland's gain in competitiveness was seen in the **current account, which registered a surplus in Q3 2010 of €255mn**, for the first time since 2003. We expect this trend to continue and for Ireland to post current account surpluses over the coming years. This tells you that private sector savings is offsetting public sector dissaving in Ireland or alternatively that Ireland is producing more than it is consuming. The current account is composed of the merchandise trade balance (+€10,063mn), services trade balance (-€1,565mn), transfers of income (-€7,629mn) and current transfers (€614mn). The "transfers of income" deficit is primarily driven by transfers abroad relating to returns from FDI in Ireland.

Chart 7: Current account, % GDP

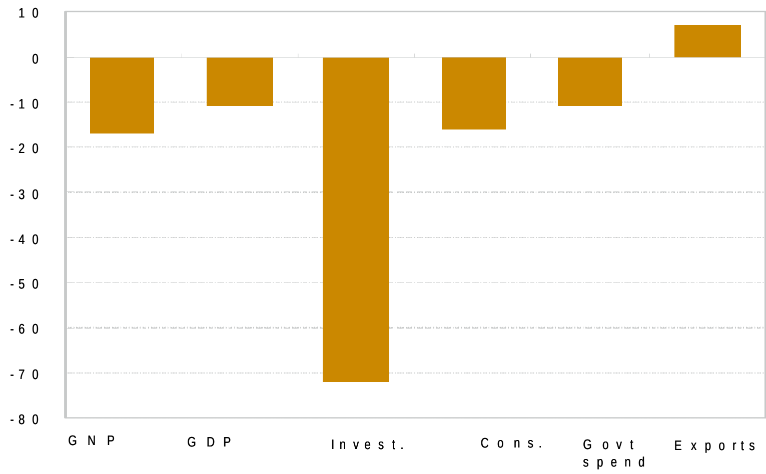


Source: CSO, NCB forecasts

1.3.2 A two tiered economy

The above paragraphs would suggest that Ireland's economy is in rude health. Unfortunately, the domestic part of the economy remains desperately weak. This is hardly surprising given the size of the property bust, fiscal cuts and the banking sector mess. **As of Q3 2010, the value of GNP/GDP was 22%/17% below its peak level.** These aggregate figures disguise the drastic differences in the individual components of output. Consumption, investment and current government spending were down 16%, 72% and 11% respectively. In contrast exports were 7% above their previous 2007 peak (Chart 8).

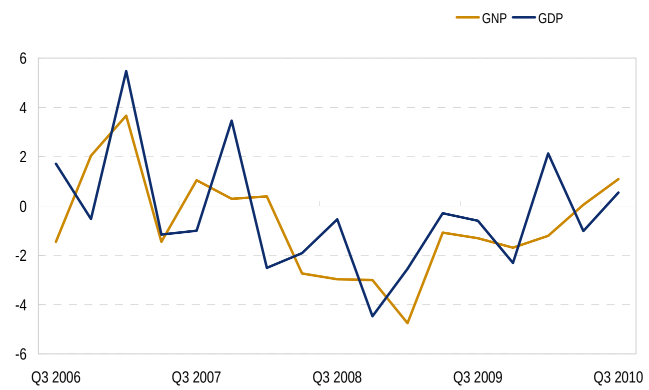
Chart 8: GDP components



Source: CSO

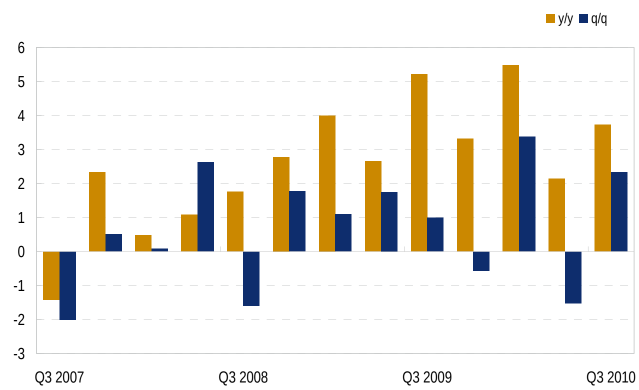
The Irish economy is clearly a two tiered economy and exports will remain the key driver of the recovery. In fact, GNP has already begun recovering and actually expanded in Q2 and Q3 of 2010. Irish GNP expanded by 1.1% q/q in Q3 after an upwardly revised +0.1% q/q in Q2 (Chart 9). GDP expanded by 0.5% q/q after -1.0% in Q2. Net exports were the main driver of the performance of both GNP and GDP with exports up 3.6% q/q and imports increasing by just 1.4% q/q (Chart 10). Domestic demand continued to remain weak with consumption down -0.5% q/q, government expenditure down -1.7% q/q and investment -18.1% q/q.

Chart 9: q/q % change in output



Source: CSO

Chart 10: Contribution of net exports to growth



Source: CSO, NCB

A **two tiered recovery** will be the order of the day for the Irish economy in 2011 also. We look for GNP to contract by 0.7% in 2011 and GDP to grow by 0.2% on the back of the continued contribution from net exports, with domestic demand expected to remain weak and contract by 2.6% (Appendix 1). We expect employment to contract marginally in 2011 as a result of the weak domestic demand. The unemployment rate will be determined by the level of emigration and the profile of those emigrants, but the rate is likely to remain in much the same range as it has been for the last couple of months (13.0-13.6%). In short, the recovery in Ireland will continue to be driven by net exports, with domestic demand dragging and as such, will be best categorised as a **jobless recovery**.

Ireland's ability to **cut wages** may be leading to pain in the domestic part of the economy, but it is the best option for a small open economy like Ireland. It is this flexibility which is helping Ireland regain competiveness. The positive feedback loop between domestic demand and employment is unlikely to be meaningful until 2012, but in the meantime Ireland must rely on exports to drive the economy and employment. We highlight the reasons we believe consumption is likely to be weak – emigration, personal debt, rising tax burden, sluggish employment – in the coming years in a later section of this report.

1.4 Additional considerations impacting Ireland

Aside from the usual considerations – growth prospects, political and social atmosphere – on the solvency of a sovereign, there are two other significant drivers in Ireland's case at the current juncture:

a) Political decisions in the EU – EFSF interest rate, ESM interest rate, conditions and decisions on corporate tax rate

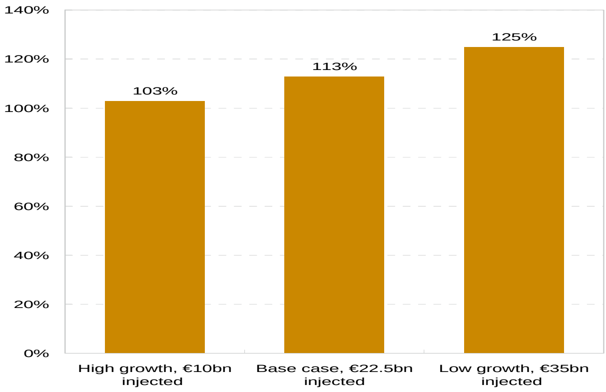
b) Irish policy makers' decisions on the Irish banking system

1.4.1 Lowering the interest rate

Eurozone finance ministers are to discuss the possibility of lowering the interest rate of 5.7% on the Irish loan package. If the reduction in the interest rate is meaningful then this would be a significant positive for the Irish economy, its banks and also sovereign bonds. The current aid package is viable if things go right for the Irish economy and only the earmarked €10bn is needed for the banks. If things stray on the growth front and/or the banks require even more capital injections then the debt to GDP ratios rise. Specifically, if growth comes in close to the levels expected by the Government and the only extra money that goes into the banking sector is the €10bn already earmarked to date, then NCB forecasts the debt to GDP ratio peaking at 103% in 2013. In a scenario whereby an extra €12.5bn/€25bn is injected into the banks then the debt to GDP ratio is seen peaking at 113%/125% (Chart 11). We discuss these scenarios in more detail below.

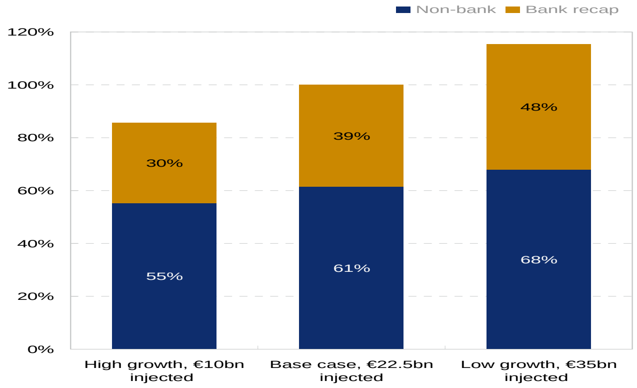
Gross debt to GDP is the standard EU measure of government debt, it is a gross measure of debt. Net debt to GDP, by contrast, is gross debt less liquid assets (National Pension Reserve Fund, exchequer cash balances). Seeing as the Irish government is set to use a portion of its liquid assets as part of the EU/IMF package it is important to look at this measure also.

Chart 11: Gross debt to GDP %, different scenarios 2014



Source: NCB forecasts

Chart 12: Breakdown of net debt % of GDP. 2014



Source: NCB forecasts

In the low growth scenario (and even in our base case scenario) it is difficult to see how Ireland would be able to wean itself completely off EU aid post 2013. As such, **our central view is that Ireland will need EU help to source funding and as a result be rolled into the permanent European Stability Mechanism ("ESM") post June-2013.** By granting Ireland 7 year loans and extending the term of the Greek loans, the EU, in our opinion has implicitly committed to extend the aid available to those governments beyond the term of the EFSF. If the interest rate on EFSF aid was calculated on a similar basis to the current rate, Ireland's debt would be unsustainable in the low growth scenario restructuring would certainly be a possibility. However, we believe that the EU will not want a Euro area nation to enter into restructuring negotiations and they will only go there when there are no other options available; the best economic decision rarely trumps the path of least resistance on the political front.

A lowering of the interest rate on EU loans would give Ireland a higher probability of weaning itself off aid by 2014. Just as importantly, the intimation that any such lower rate would be similar to the rate to be charged on the yet to be decided ESM would be a positive for Ireland, even in a low growth/large capital injections scenario. It would also be a positive for the Irish banks in terms of the costs of funding. A lower margin, even in a high debt scenario would enable Ireland to continue to correct its fiscal finances and begin running a surplus. If the Euro area is willing to support the periphery for a period of time with a feasible rate on loans under the new ESM then it would enable the periphery to re-enter the markets in the future without having to restructure sovereign debt.

1.4.2 Restructuring the Banks

As the debt/GDP outcomes above highlight, the decisions on the restructuring of the banking sector over the coming months are a key swing variable in determining Ireland's ability to wean itself off EU aid come 2014.

As part of the Irish EU/IMF bailout package, the government has committed to reduce the size of the banks' wholesale funding exposures via deleveraging of non-core assets over the next few years. This will form an integral part of the Prudential Liquidity Assessment Reviews (PLAR) that is scheduled to take place in April. The process firstly involves the submission of detailed restructuring plans, outlining how the banks' business models are to be overhauled and downsized (most likely ring-fencing non-core assets into "bad-banks" to be wound-down).

Without knowledge of how the regulator is to proceed, we have erred on the side of caution in our base case and assumed that the banks will require €12.5bn in addition to the €10bn already earmarked. Exactly, how large the capital injections required is to be determined in the coming months by the regulator's decisions. The Irish authorities are cognisant of this fact and are clearly trying to enable deleveraging to occur without substantial upfront write-downs.

The lowering of the interest rate on aid and/or decisions on the deleveraging of the Irish banking sector could have a positive impact on the outlook for Ireland's debt to GDP and debt sustainability. One negative implication for the Irish economy and sovereign bonds, particularly longer dated bonds, would be the coming into force of a common EU-wide basis for calculating corporation tax.

1.4.3 EU decisions on corporate tax

Despite having received aid from the EU/IMF, Ireland did not have to make any commitments to alter its corporation tax rate of 12.5%. The rate forms the backbone of Irish FDI and export policy, regardless of who is in power. The Fine Gael spokesperson on Finance illustrated this when he highlighted that views on the importance of the 12.5% corporate tax rate "are shared by Fine Gael, Labour and Fianna Fáil. When the tax rate came under pressure, I thought it would be important to reaffirm our commitment, across party lines, to the 12.5 per cent rate"

It is also worth noting that the commitment to the 12.5% tax rate is protected in the EU context by the principle of unanimity in tax rates. Ireland has a veto on such matters and this principle was further enhanced by the insertion of a legal guarantee in the Lisbon Treaty.

Nonetheless, at the broader EU level the EU Commission continues to progress its work in bringing forward a proposal for a common EU-wide base for calculating corporation tax, known as the common consolidated corporation tax base (**CCCTB**). The Commission is not proposing a harmonisation of corporate tax rates in the EU.

The CCCTB would require companies active in more than one EU member state to file a consolidated tax return with the tax authorities of their 'principal' member state for the whole of their activity in the EU. It would include the consolidation of profits and losses at EU level in order to fully take into account the cross-border activities of the business.

This single consolidated tax return would establish the tax base which will then be allocated to all the concerned member states according to an apportionment formula. The formula will take into account three factors of equal importance: assets, payroll and turnover. After apportionment, member states will be allowed to tax the tax base allocated to them at their own corporate tax rate. For example, where a group has companies in France, the UK and Ireland, each of these three countries might have a claim to a share of the tax on the overall group result. France, the UK and Ireland would then apply the corporation tax rate they use to their share, and the tax liability for the overall group would then be satisfied.

The CCCTB would have implications for Irish FDI, corporate tax and economic growth. To put it in context, corporation tax in 2010 at €3.9bn was 12% of the overall tax take. In an economy like Ireland's where the corporate tax rate is low, the effective tax rate impact of a switch to the CCCTB would reduce employment and economic activity. A report by accountants Ernst & Young prepared for the Department of Finance, indicated that employment could fall between -0.5% and -1.6%, GDP by between -0.8% and -1.8% and finally that FDI could fall between -1.4% and -4.5%[2].

The CCCTB would also have implications for Irish publicly quoted companies. Screening our ESN database for tax rates paid in 2009 (excluding banks and outliers) suggests Irish quoted companies pay less corporation tax than their European counterparts. This is a very broad analysis and may be partly explained by the mix of industries within particular markets and the markets where the underlying profit is earned but it does highlight that any potential tax changes in the Eurozone is likely to have a negative outcome for Irish-based companies.

Table 1: Average tax rate in 2009 for publicly listed companies in the Eurozone

Country	Average tax rate
Belgium	23.4%
Denmark	25.1%
Finland	23.8%
France	28.5%
Germany	29.2%
Greece	34.4%
Ireland	18.9%
Italy	30.2%
Netherlands	22.9%
Norway	22.0%
Portugal	23.9%
Spain	24.7%
Sweden	23.6%

Source: ESN – excludes banks, insurance companies and outliers

A draft proposal on how the EU should proceed in relation to the CCCTB is due in Q1 2011. In our discussions with IBEC (Irish business and employers confederation) they highlighted that these proposals are likely to take a long time to implement, if they are implemented at all. This has been an on-going process for almost a decade now. **As the discussion above highlights, these could be significant developments for Ireland and we will keep our clients informed as these proposals**

[2] http://www.finance.gov.ie/documents/publications/reports/2011/CCCTBrepjan2011.pdf

are revealed over the coming weeks. Clearly Ireland's bargaining position is severely weakened given its reliance on EU/ECB funding, but it is important to remember that the CCCTB cannot be imposed on Member States. Unanimity is required for all decisions taken on taxation issues and Ireland has a veto.

1.5 Three scenarios for growth

Given all these unknowns, it is highly uncertain what the outcome for the Irish economy, deficit and debt levels will be over the medium term. As such, we look at 3 different scenarios and consider deficit/debt levels in 2014 under these 3 scenarios. We then go on to discuss the issue of debt restructuring in the following section.

Table 2 outlines the government's base case, NCB's 3 cases and the IMF base case**. The major difference, aside from the growth rates, between the forecasts is the amount of money to be injected into the banking sector by the State**. To date, the State has injected €45.75bn into the banks (€30.95bn in promissory notes and €14.8bn in cash). The Department of Finance base case assumes that the State will only have to inject the already outlined €10bn into the banks. The IMF base case assumes an additional €25bn, on top of the €10bn, will be injected into the banking sector. The NCB base case assumes that an additional €12.5bn is injected into the banking sector, while the NCB low growth scenario sees an additional €25bn injected. Finally, the NCB high growth scenario sees nothing in addition to the €10bn injected.

Table 2: Debt forecasts in different scenarios, year-end 2014

	Debt/GDP	Deficit/GDP	GDP growth - interest rate	Primary balance/GDP	Change in debt/GDP
DoF	100.0	2.8	-1.0	2.7	-1.7
IMF	124.1	5.1	-0.6	1.2	-0.6
NCB base	113.0	4.6	-1.9	1.4	0.5
NCB low	124.9	6.5	-2.9	0.2	2.7
NCB high	99.6	2.8	-0.9	2.8	-1.9

Source: NCB forecasts

1.6 Ireland and the funding markets post-2013

If the Department of Finance base case or NCB high growth scenario plays out then it is highly likely that Ireland will be able to enter the funding markets on its own two feet in 2014 as a result of a decent primary balance and GDP growth rate. This combined with well-behaved interest rates would see Ireland's debt to GDP ratio on a downward trajectory. The last column of table 2 shows this and is derived from the sum of (GDP growth rate - interest rate on debt) and the primary government balance to GDP.

If the NCB low-growth outcome were to transpire it is difficult to see how Ireland would be able to re-enter the funding markets on its own two feet as a result of debt sustainability worries. Debt would be on an upward path. As such, our central view is that Ireland will need EU help to raise funds in the markets post 2013. It is thus important to consider the implications of Ireland being unable to re-enter the funding markets.

1.6.1 Extension of EU aid

By granting Ireland 7 year loans and extending the term of the Greek loans, the EU, in our opinion, has implicitly committed to extend the aid available to those governments beyond the term of the EFSF. This of course, will require a new mechanism to be put in place by 2013.

The EFSF is explicitly temporary. It can only facilitate the financing of loans agreed on or prior to 30 June 2013. The EFSF is to be liquidated at the earliest date after this deadline on which it no longer has any loans outstanding and all funding instruments as well as any reimbursement amounts due to the guarantor states have been repaid in full.

The EFSF is guaranteed by the non-bailed out Euro area countries i.e. their tax payers are on the hook for the borrowings. The idea of the permanent Euro area crisis mechanism, the ESM, is to make the private sector, bondholders, share some of the burden of establishing any future emergency facility. Germany has been pushing this idea and many have questioned the wisdom of their timing. The reason for bringing forth such an issue is that it could well involve altering the EU Treaty – i.e. extremely time sensitive.

1.6.1.1 The process for accessing EU funds under the ESM

It is still uncertain what form the ESM would take, but what is clear is that any State requiring further EU help would need to undertake further fiscal consolidation measures. The steps involved for a country being granted additional aid from the EU in a case where it cannot access the debt markets at sustainable rates will be:

1. An assessment of the country's debt sustainability at the EU interest rate as opposed to the market rate.

2. If the EU deems that debt is sustainable in the medium term, the EU will provide funds for a period of time based on strict fiscal conditionality.

3. If the EU deems that the debt is unsustainable "the Member State has to negotiate a comprehensive restructuring plan with its private sector creditors. If debt sustainability can be reached through these measures" the EU would provide funds based on strict fiscal conditionality.

"In order to facilitate this process, standardized and identical collective action clauses (CACs) will be included, in such a way as to preserve market liquidity, in the terms and conditions of all new euro area government bonds starting in June 2013. Those CACs would be consistent with those common under UK and US law after the G10 report on CACs, including aggregation clauses allowing all debt securities issued by a Member State to be considered together in negotiations. This would enable the creditors to pass a qualified majority decision agreeing a legally binding change to the terms of payment (standstill, extension of the maturity, interest-rate cut and/or haircut) in the event that the debtor is unable to pay. Member States will strive to lengthen the maturities of their new bond emissions in the medium-term to avoid refinancing peaks.

We restate that any private sector involvement based on these terms and conditions would not be effective before mid-2013."[3]

The passages above from the November 2010 Eurogroup Ministers meeting highlight that debt issued prior to June 2013 would not be subject to restructuring under the new ESM. Access to the market could well be a problem for the European periphery in 2014. In this instance, the idea that a restructuring of debt must occur to access funds from the ESM is nonsensical unless debt issued prior to June 2013 is part of the restructuring; otherwise debt sustainability could not be achieved given the limited amount of debt eligible for restructuring. Restructuring can be done without CACs; it is just a messier process.

1.6.1.2 Restructuring under ESM

If the low growth scenario were to transpire for Ireland then it seems highly likely that Ireland would have to apply for funds under the new ESM. Whether debt is sustainable or not would in a large part, depend on the interest rate to be charged under the ESM, but restructuring of the debt under this scenario could be a potential outcome. The November 2010 Eurogroup Ministers press release did not suggest that debt should be restructured in any particular way under the ESM, mentioning "standstill, extension of the maturity, interest-rate cut and/or haircut" as possible solutions. There have been many possible mechanisms suggested in the financial press over the last number of months with the E-bond idea gaining significant attention.

The E-bond idea put forth by Jean-Claude Juncker (prime minister and treasury minister of Luxembourg) and Giulio Tremonti (Italy's minister of economy and finance) would see a European Debt Agency (EDA) established. The authors suggest that "the EDA should finance up to 50 per cent of issuances by EU members, to create a deep and liquid market. In exceptional circumstances, for member states whose access to debt markets is impaired, up to 100 per cent could be financed in this way. Second, the EDA should offer a switch between E-bonds and existing national bonds …Bonds of Member States with weaker public finances could be converted at a discount, implying that banks and other private bondholders immediately incurred the related losses."[4]

The idea was warmly welcomed in a number of Member States, by some institutional actors and MEPs, and even by the main opposition parties in Germany, but was immediately dismissed by Chancellor Merkel and subsequently also by the leaders of Austria, Finland, France, Slovakia, Sweden and the Netherlands. Merkel argued that such bonds would "not create the right incentives" and would not be "compatible with existing treaties". Their introduction would, according to German officials, remove a vital element compelling euro-zone members to control their debt and deficit spending.[5]

The problem with the E-bond idea on restructuring would see holders of sovereign debt, particularly financial institutions, having to take an immediate write down on their holdings. Given this is reality it is probably the best outcome, but it would entail further bank write-downs. Thus it seems likely that there would also need to be an EU wide bank recapitalisation fund. The other way around this issue

[3] http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/118050.pdf
[4] http://www.ft.com/cms/s/0/540d41c2-009f-11e0-aa29-00144feab49a.html#axzz1AdkKuwko
[5] http://www.epc.eu/documents/uploads/pub_1207_post-summit_analysis_-_20_december_2010.pdf

is to lengthen the maturity of existing debt and/or lower coupon payments, thus maintaining the face value of the debt. The NPV of the investment has clearly fallen but accounting rules may allow a fudge. Specifically, if the debt is in the held-to maturity bucket then it would not be necessary for financial institutions to take an impairment on the investment.

1.7 Economic impact of restructuring

The reason that Ireland would need to undertake a restructuring would be because the debt is deemed unsustainable. Therefore, **the first and clear impact of a restructuring would be the impact of further fiscal consolidation measures**. The primary balance in our low growth scenario would be +0.4% and would likely need to be increased towards something like 4%, therefore requiring an **additional consolidation of 3.5% of GDP. To put this in context, Ireland has already implemented a fiscal consolidation of 14% of GDP with a further 6% outlined over the period 2012-2014.**

One would also imagine that the risk premium on Ireland's sovereign and financial firms would likely be higher absent a restructuring. Furthermore, access to the debt markets would likely be curtailed for a period of time. In fact, the evidence on the effect of default on access to finance as measured by its cost (specifically, the sovereign risk premium) is mixed at best, but there is evidence that defaults may affect access through a reduced volume of funds. The difference between previous debt restructurings and one that a Euro Member State may take is that the latter is likely to receive funds from the EU via the ESM, thus negating the adverse consequences of the absence of funds.

With regard to the output effects history "reveals a simple and sobering message: contrary to what it is typically presumed, **defaults have not been followed by output contractions**. **In fact, we find that the opposite seems to be the case: the default quarter coincides with the trough of the output contraction and marks the start of the economic recovery…It does not imply that policies that lead to default have no cost; on the contrary, the large GDP decline that typically precedes a default may reflect in part the anticipation of the default decision.**"[6]

In the case of Ireland, we would argue that the output costs will be borne in the period leading up to 2014 as a result of the much lower trajectory of growth that we are projecting relative to a "normal" recovery. Normally one would expect a vigorous recovery in growth in an economy that experienced the enormous decline in output that Ireland has experienced. Specifically, **the enormous fiscal consolidation, deleveraging of the financial sector, the lack of private sector credit and the elevated cost of credit all manifest themselves from the implicit assumption by market instruments (yields, CDS) that there is a high probability that Ireland will have to restructure its debt.**

[6] www.iadb.org/res/publications/pubfiles/pubWP-581.pdf

1.8 Sovereign bond viewpoint

With regard to our view on Irish sovereign bonds, we reiterate the view that we have adopted since it became evident that Ireland would tap the EU/IMF aid package. Namely, we like Irish bonds on an outright basis which mature before the expiration of the EFSF in June 2013 due to the guarantees given by the EU/IMF. Furthermore, given the implied probability of default on Irish bonds maturing outside the EFSF we would advocate switching a portion of bond funds out of German and into Irish to avail of the pick-up in yield which more than compensates for the risks of any haircut or extension, in our view.

Irish bonds maturing post-2013 are likely to rally on the back of any decisions to lower the interest rate on the EU loan package, but we would remain cautious in light of the forthcoming decisions in relation to the Irish banking sector and the common consolidated corporate tax base. Nonetheless we still believe that the markets implicitly assumed probability of default on Irish bonds maturing outside the EFSF, approximately 85% at the time of writing, is too high and would therefore recommend to institutions holding German bonds to switch a portion of those funds into Irish government bonds to avail of the pick-up in yield.

Table 3: Irish government bonds

Maturity	Coupon	Outstanding (000s)	Price	YTM	ASW	Ispread
11/11/2011	4	4539000	100.085	3.8500537	181.88607	240.55796
05/03/2012	3.9	5595000	99.47001	4.4074971	230.42738	290.59364
18/04/2013	5	6133520	96.535	6.7336701	398.06669	474.25744
15/01/2014	4	11857240	90.76	7.6169512	450.00902	554.01719
18/04/2016	4.6	10168500	84.75	8.3244762	458.91798	563.2292
18/10/2018	4.5	9255870	77.7825	8.5484267	426.05273	537.99724
18/10/2019	5.9	6766580	82.83501	8.7958295	456.35737	549.15669
18/10/2020	5	7716160	74.9025	8.9753813	435.05028	560.50502
13/03/2025	5.4	8285020	72.0425	8.9682291	396.82505	528.47146

Source: Bloomberg

1.9 Conclusion on economic outlook

- The Irish economic recovery is underway, driven by the performance of the export sector.
- Ireland has regained competitiveness by cutting costs and wages.
- The improvement in competiveness combined with the 12.5% corporation tax and the attractiveness of Ireland's labour force and business environment have seen FDI continue to flow into Ireland.
- FDI sponsored firms account for 75% of Ireland's exports.
- Exports will continue to be the driving force in the economy in the near term as domestic demand recovers in the face of the property market bust, banking sector issues and the fiscal consolidation.
- Ireland may require further EU assistance post-2013 if the State is unable to access funding markets at economical rates.
- **Ireland may even have to restructure its sovereign debt if growth turns out to be more sluggish than anticipated, but we would argue that the economic impact of this is largely priced into Ireland's sovereign and banking debt spreads.**

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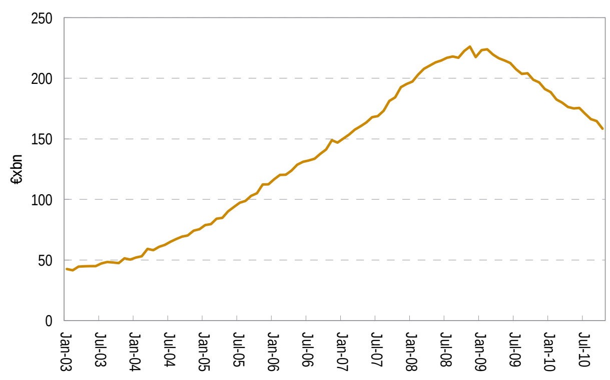
2. Irish Banks - Deflationary environment set to prevail

2.1 Introduction

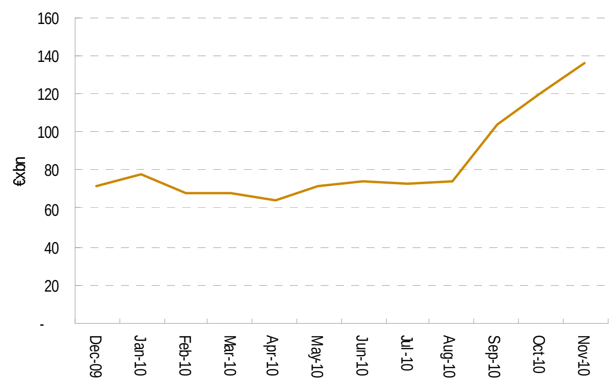
The bond market is currently ensuring that deflation remains the key prerogative of over indebted European peripheral States, as fiscal consolidation is pursued. The natural reflationary offset is usually strong net external demand, driven by increased competitiveness. This is all the more pertinent for Ireland as fast external devaluation (via currency depreciation) is not a viable option during this downturn on account of Euro membership. Consequently, swift internal devaluation (achieved through falling wages and prices) is the required route that must be followed. Against this backdrop, populist inertia and social unrest limit the government's capacity to implement the necessary adjustments to the cost base. Meanwhile, Ireland's favourable demographics are also threatened by emerging net emigration, as graduates seek employment in better performing foreign economies. From the banking perspective, real effective public and private debt burdens remain under upward pressure during this deflationary period, creating negative asset quality ramifications.

Chart 13: Irish loans to deposit funding gap



Source: Irish Central Bank

Chart 14: Domestic banks reliance on Central Authorities



Source: Irish Central Bank

The Irish banks relied heavily on wholesale markets to fund the credit binge during the boom, as the demand for new loans outstripped the quantum of domestic deposits in the system. Irish private sector credit peaked at €407bn in early 2009, with the corresponding combined **loan to deposit funding gap** for the Irish banking system reaching over €220bn (chart 13). This highlights the massive credit binge over the boom years, with the funding gap standing at just under €50bn at the start of 2003, before beginning its rapid ascent reflecting the dramatic rise in leverage over the period. Over the course of the last year, the Irish banks struggled to raise term funding as access to the debt markets became constrained. These liquidity difficulties were exacerbated by deposit withdrawals following credit rating downgrades, as sovereign solvency concerns depleted confidence in State guarantees over banking liabilities. Hence, as chart 14 above illustrates, Central Bank reliance steadily increased over the period as outflows and redemptions were replaced by exceptional liquidity measures from monetary authorities (totalling c. €142bn at the end of November via ECB and Irish Central Bank assistance). Eventually, worries regarding the size of these exposures, the risk of further loan losses coupled with the States inability to source funding at sustainable rates privately, culminated in the EU/IMF bailout in November.

2.2 Bailout package to address systemic risk

2.2.1 Core Tier 1 capital ratios to remain above 10.5%

The Irish banking sector is to receive a €35bn contingency package, funded equally via the Irish government and EU/IMF. An upfront €10bn recapitalisation will bring Core Tier 1 (CT1) ratios above 12% by the end of February 2011 (May in the case of IL&P), at the high end of current international standards. Additional drawdowns from the fund will be triggered if CT1 ratios fall below 10.5% in future accounting periods. Therefore this capital threshold represents a new floor, providing an extra layer of protection for providers of funding to the institutions, with the State hoping that access to lost credit lines will eventually be restored, while the banks will be in a strong position to support the Irish economic recovery. The government also outlined that NAMA (see section X below) is to take the remaining smaller (€0m–20m) land and development loans (c. €16bn) from AIB and BoI, completely expunging the banks from this toxic asset class. The sector is to also undergo another round of stress testing in March, as part of the Central Banks' Prudential Capital Assessment Review (PCAR). This is expected to focus on residential mortgage exposures and to be more detailed and intensive when compared to previous stress tests. Any exposed capital shortfalls, caused as a result of incremental provisioning, is to be drawn-down from the contingency package as required. Overall, these measures are designed to restore credibility and confidence in the Irish banking system.

2.2.2 Asset disposals as a means of reducing wholesale exposure

As mentioned in our economics section, under the terms of the Irish EU/IMF bailout package the government has committed to reduce the size of the banks' wholesale funding exposures via deleveraging of non-core assets over the next few years. This will form an integral part of the Prudential Liquidity Assessment Reviews (PLAR) that is scheduled to take place in April. The process firstly involves the submittal of detailed restructuring plans, outlining how the banks' business models are to be overhauled and downsized (most likely ring-fencing non-core assets into "bad-banks" to be wound-down).

A key variable will undoubtedly be the length of time that the banks are given to complete the balance sheet transformation. Any forced disposals of assets, within a short time period, may have to come at a price less than book value, eating into the equity position of the banks. From a capital point of view, this runs the risk of reducing the benefit from the release of associated risk weighted assets, potentially triggering further draw-downs from the contingency fund while adding to the Sovereign's debt burden.

The State is also prepared to provide "credit enhancements" in relation to assets and portfolios earmarked for disposal, helping to assuage lingering concerns relating to latent asset quality issues. This could form some type of indemnity or guarantee against future loan losses on certain portfolios, acting as an incentive for prospective purchasers. Following the sale of these assets the domestic loan to deposit ratios will be improved back towards parity, significantly scaling down the banking sector to better reflect the size of the Irish economy. In addition to work that the institutions undertake, the Central Bank has retained specialist advisors to identify further disposal or securitization measures, which will help to drive and speed up the deleveraging process.

Table 4: Non-core assets

	Loans (€xbn)
Bank of Ireland:	
New Ireland Assurance	NA
UK Broker distributed mortgages	32
Irish Building Society mortgages (ICS)	7
International corporate banking assets	4
Allied Irish Banks:	
UK Division	20
Aviva Life & Pensions (25% stake)	NA
BZWBK (SOLD)	9
23% stake in M&T (SOLD)	NA
Goodbody Stockbrokers (SOLD)	NA
Irish Life and Permanent:	
UK Broker distributed mortgages	8
Allianz General Insurer (30% stake)	NA
Cornmarket (insurance brokers)	NA

Source: Company data/NCB Estimates

AIB has already completed the sale of its stake in its Polish (BZWBK) and US (M&T) banks (generating equity capital of c. €3.5bn). BoI received approval for its restructuring plans by the European Commission last July, nevertheless it (along with all the other banks) is required to submit new detailed disposal plans, by the end of April. The NTMA recently indicated (Friday, 7 January) that the Irish banks are set to reduce their balance sheets by a further €50bn to €60bn, as part of the EU/IMF programme (in addition to €87bn that is already NAMA bound). The Irish authorities are seeking a gradual run-down/sale over an extended timeframe. We believe that this type of "warehousing" of the assets makes most commercial sense from the sovereign's perspective, avoiding capital hits from forced disposals at less than book value.

The State's bargaining position would also be strengthened under this strategy, giving it the flexibility to off-load portfolios at a more opportune time, while achieving better pricing. One option involves using the merged (Post-NAMA) operations of Anglo/Irish Nationwide as a vehicle to hold the non-core assets. The incremental transfers are expected to incorporate some level of discounts, however provisions already recognised should be sufficient to off-set the writedowns (the majority of these non-core assets are currently performing compared to just 25% of the NAMA loans, which explains the smaller haircuts). **The critical factor will be whether the EU/IMF approves this restructuring mechanism, and how long the banks are given to correct loan to deposit imbalances.** It will be very difficult to meet any near-term targets on the latter until the funding situation is stabilised and confidence is restored in the institutions.

Reports suggest the Spanish banking giant, Banco Santander, has held talks with the Irish government in relation to acquiring parts of AIB's UK division (with a particular interest in the SME loan-book). The British operations are now expected to be stripped down into its structured credit and project finance portfolios, with a piecemeal disposal of the division's assets most likely. Meanwhile, several American hedge funds and banks have also expressed an interest in Anglo Irish Banks' US loan book.

2.3 Asset Deleveraging takes effect

Given the challenging outlook for the Irish economy, coupled with the scale of losses incurred over the downturn, its comes as no surprise that most of the foreign banks operating in the country have now moved into withdrawal or retrenchment mode, or else are focused on reducing their large loan to deposit imbalances. As table 5 below illustrates, at the end of 2008 total private sector credit reached €394bn, before peaking a few months later at €407bn (this excludes the foreign subsidiaries of the Irish banks operating in the country). However, we expect this credit to contract almost 30% to €281bn by 2013 through a combination of NAMA transfers, loan writedowns and as borrowers' repayments exceed new draw-downs. As a consequence, the Irish banking sector is currently undergoing a rapid period of shrinkage.

Table 5: Irish banking landscape

€bn	2008A	2013E	change
Allied Irish Banks	91	68	-25%
Bank of Ireland	64	50	-22%
EBS	17	16	-6%
KBC	19	18	-5%
Ulster Bank (Royal Bank of Scotland)	61	40	-34%
Anglo Irish Bank	44	18	-59%
Irish Life and Permanent	33	25	-24%
Lloyds Banking Group (BOSI)	31	20	-35%
NIB/Danske	11	8	-27%
Other	23	18	-23%
Total Irish lending (€bn)	394	281	-29%

Source: Company data/NCB estimates/Irish Central Bank

The table above gives a breakdown of the stock of private sector credit across the banks operating in Ireland. Of the nine players above, six have reduced their Irish businesses significantly since the financial crisis commenced. Lloyds Banking Group (owners of Bank of Scotland (Ireland)) announced its complete departure from the Irish shores, placing its loan-book into terminal run-down. Danske owned National Irish Bank (NIB) is in the process of closing up to half its branch network. Domestic institutions Anglo Irish and Irish Nationwide intend to cease as going concerns and are in run-down mode. IL&P's banking division (Permanent TSB) is also concentrating on reducing its extreme loan to deposit ratio (June 2010: 246%). Ulster Bank (owned by RBS) is the third largest retail bank in Ireland, but it too has funding problems and has transferred up to c. 30% of its loan book to a non-core division. Given this withdrawal and changing landscape, a handsome reward awaits incumbent banks/investors with the strength to compete for the residual revenue pool, so long as funding costs remain manageable. The consensus view is that the large domestic banks (AIB and BoI) will reassert their dominance as foreign players gradually retrench to focus on more attractive markets. As can be seen from table 6 below, even coming into the downturn these domestic players still had a dominant position, ranking either one or two across all the main banking products.

Table 6: Irish banking market shares (2009)

	AIB	BoI
Current Accounts	40%	38%
Credit Cards	38%	33%
Deposits	25%	27%
Business Current accounts	41%	36%
Mortgages	17%	19%
Life, Pension and Investments	n/a	22%
Irish Branches	27%	27%

Source: Company data

2.4 Historic Banking landscapes as a guide to the future

2.4.1 Revenue pool of €6.7bn earned in 2004

Table 7 below shows the quantum of revenue and pre-provision profits that were generated by just the Irish operations of banks in the country in 2004 (i.e. excludes foreign divisions). With the 2011 GNP rebased to 2004 levels (€130bn), we believe that the banking "profit-pool" on offer at that time to be representative of the potential normalised level available going forward. In this pre-boom period, €6.7bn of revenues were recorded by the main banks, with combined pre-provision profits of €3.2bn (implies cost to income ratio of 52%).

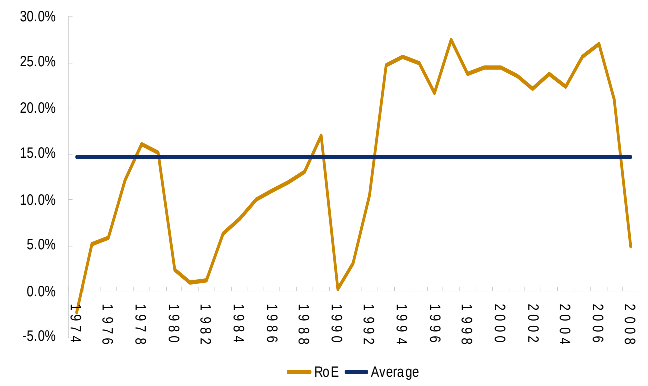
Table 7: Profits generated by Irish banking operations in 2004

€bn	AIB	BoI	Ulster	Anglo	BOSI	TSB	KBC	EBS	NIB	Total
Revenue	1.9	2	1.1	0.4	0.4	0.4	0.3	0.14	0.1	6.7bn
Expenses	1.1	1.2	0.4	0.1	0.2	0.2	0.2	0.08	0.05	3.5bn
Pre-provision profits	0.8	0.8	0.7	0.3	0.2	0.2	0.1	0.06	0.05	3.2bn

Source: Company data

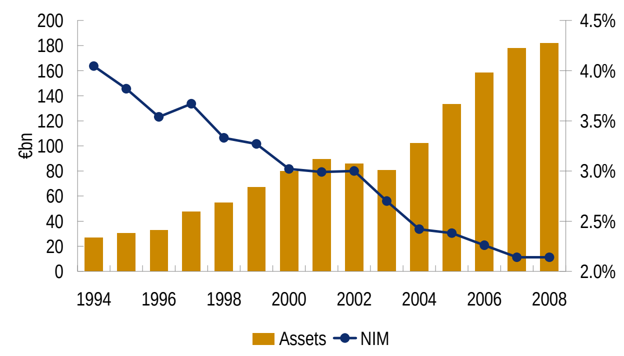
As chart 15 below highlights, BoI's 34 year return on equity (ROE) from 1974 to 2008 averaged 15% (similar to other domestic peers). This was achieved while experiencing two steep downturns prior to the boom years of the property bubble (2002 to 2007) and includes the losses incurred in its US division (First New Hampshire Bank). Meanwhile, chart 16 shows that AIB's margins have been declining steadily over the last 15 years (from over 4% in 1994 to just over 2% in 2008) as its balance sheet expanded rapidly (€20bn to over €180bn). Part of the margin decline can be attributed to the aggressive competitive market place, following the arrival of the new entrants.

Chart 15: BoI's 34 year return on equity averaged 15%



Source: Company Data

Chart 16: AIB's margin and asset trajectory trends



Source: Company Data

2.4.2 Ownership of domestic banks passes to public sector

As a consequence of the bursting of the Irish property bubble, the equity bases of the Irish banks were eroded, if not all but wiped out, over the cycle. With the exception of BoI's initial recapitalisation, the government has been the only provider of new capital to the sector, placing a significant strain on the sovereign's financial position. This has lead to majority public ownership of the banking system, with IL&P the only institution yet to receive State cash (although some dilution is likely as the group's banking issues are addressed over the coming months).

Table 8: Irish Government ownership

Allied Irish Banks	c. 96%
Bank of Ireland	c. 36-85%
Irish Nationwide	100%
EBS	100%
Anglo Irish Bank	100%
Irish Life and Permanent	0%-?

Source: Company data/NCB estimates

The Governor of the Central Bank has also previously referred to the possibility of "some or all" of the Irish banks becoming foreign owned, and the advantages that this would bring from a national point of view. We have previously mentioned the benefits of a strong international bank acquiring an Irish franchise. Such ownership would have positive impacts on both the cost and availability of credit, directly benefitting the economy and asset quality generally in the market. The new entrant would also be free to operate without the burdensome and costly constraints of government guarantees, offering the prospect of significantly higher returns than compared to weaker Irish competitors. This, together with the ability to operate with lower parent funding costs, would significantly enhance margins and boost pre-provision profit levels (we roughly estimate by at least €1bn per annum for the larger banks).

2.5 NAMA –one of the world's largest property companies

2.5.1 Introduction

The National Asset Management Agency (NAMA) was set up by the Irish Government in April 2009 to purchase illiquid (€87bn) property and construction (P&C) loans from the domestic banks, in exchange for liquid NAMA bonds. This exceptional assistance was needed as the international markets had become very agitated about the scale of these risky exposures in the domestic banks. The banks' reluctance to recognise writedowns in relation to these portfolios upfront, preferring to support over indebted developers by "rolling up" interest payments onto the principal, only exacerbated investors' worries, especially as the value of the underlying collateral was rapidly declining. Ultimately NAMA's role is to remove these toxic P&C loans from the banking system, so that the key institutions can play their role in the national economy, making credit available to consumers and businesses.

The Government originally indicated that the overall prices to be paid for the loans were expected to be at a discount in the region of 30% to the par values. One of the key features of the agency, from the banks' perspective, was that it did not have to pay market value for some of the assets. Indeed, many argued that it was very difficult to ascertain, with any accuracy, the correct market value of any Irish commercial property, due to the lack of transactions taking place at the time. As a result all assets to be transferred to the agency were valued as of 30 November 2009. NAMA also had the ability to pay a long term economic value (LTEV) for the assets at a premium above market rates, taking into consideration future variables (demographics, macroeconomics) that may influence the demand for property. As a result the banks could avoid marking to market these loans at the bottom of the cycle, which would have caused large hits to the banks' capital bases.

Table 9: NAMA haircuts and loans

	NAMA Loans	Average Haircut*
Allied Irish Banks	27	54%
Bank of Ireland	15	42%
Anglo Irish Bank	36	62%
Irish Nationwide	8	64%
EBS Building Society	1	60%
Total	87	58%

Source: NAMA/NCB estimates (actual haircuts based on 2010 transfers)*

Though in reality, the European Commission imposed a stringent valuation methodology to ensure that the banks were not able to benefit unfairly from the receipt of State aid. These measures effectively mitigated the uplift from the LTEV, and created steeper haircuts than originally anticipated. As NAMA received assets, it learned that there was very little equity in the majority of the loans, with the developers obtaining loan to values (LTV) of 100% in many cases. As a consequence of these factors, the capital hits to the banks were significant, delivering a crucial blow to the equity cushions in the case of AIB, Anglo and Irish Nationwide.

NAMA's core commercial objective will be to recover the cost that it has paid for the loans, in addition to whatever it has invested to enhance property assets underlying those loans (the agency has the ability to lend to developers if additional working capital is required to finish projects). NAMA may agree to debt rescheduling and loan restructuring in the case of debtors considered to be viable within a three-/five-year timeframe. In the agency's latest Business Plan (published in June, 2010) it indicated that under the central case scenario, it expects to produce a net present value (NPV) gain of €1 billion over its lifetime. If NAMA fails to generate a profit, a levy is to be placed on the banks' earnings to recoup any losses (most likely via additional taxes).

2.5.2 First transfer includes prime international assets

NAMA completed the transfer of the first tranche of loans in May 2010, acquiring €15bn at an average haircut of 50%. These loans related to the largest exposures across the banks, and included some of the Country's highest profile developers. Although not officially disclosed, media reports suggested that Treasury Holdings and Quinlan Private were among the top borrowers (see table 10 below). The first round of NAMA transfers included loans collateralized on some of the country's most prestigious hotels: the Shelbourne, the K-Club, the Ritz Carlton in Wicklow and the Radisson and G Hotel in Galway.

Table 10: Sample of top Irish development groups now in NAMA

Company	Assets
Ballymore	Whitewater Shopping Centre (Co Kildare)
	Commercial development land in London's docklands
	Landbanks in the East End of London
Quinlan Private	Savoy Hotel, London
	Citigroup building in London's docklands.
	Bank of Ireland headquarters (Baggot Street)
	Jurys Inn Group
Castlethorn	Dundrum shopping centre
	Developments in Adamstown (west Dublin)
Gannon Homes	K Club golf resort at Straffan (Co Kildare)
	Belcamp College site (Dublin)
	700 acres of zoned land (north Dublin)
O'Flynn Construction	Elysian Tower (Cork city)
	9.2 per cent stake in Blackrock International Land
McNamara group of companies	Glass Bottle site (Ringsend, Dublin)
	Stake in the Shelbourne Hotel (Dublin)
Edward Holdings	G Hotel (Galway)
	Ashford Castle (Mayo)
	Jesuit student residence (Dublin)
	Shareholder in Topaz
	Enwest oil terminal (Galway Harbour)
Cosgrave Brothers	Radisson SAS (Booterstown, Dublin)
	Dún Laoghaire golf course
Zoe group	Anglo Irish Bank headquarters (Dublin Docklands)
Treasury Holdings	NTMA headquarters (Grand Canal, Dublin)
	Battersea power station in London

Source: Press reports

Three of London's most prestigious hotels (Berkeley, Claridges and the Connaught) are owned by a consortium whos principals have had their loans transferred to NAMA. The hotels are part owned by financier Derek Quinlan's Maybourne Hotel Group with Anglo Irish Bank and Bank of Ireland both advancing substantial loans to the company.

During 2010, NAMA completed the acquisition of about 11,000 loans from 850 debtors with a nominal value of some €71.2 billion. In exchange, the five participating institutions have received government-guaranteed securities to a value of €30.2 billion, equivalent to a discount of approximately 58%. NAMA also concluded its review of business plans from the top 30 developers which account for approximately €27 billion (nominal value) of the loans which have been acquired. Under the EU-IMF Programme, AIB and Bank of Ireland debtor exposures of less than €20m in land and development loans are due to transfer to NAMA in the early part of 2011 (an additional €16bn to bring the total NAMA transfer to €87bn).

Battersea Power Station

The above pictures illustrate the diversity of NAMA's assets mix, from deserted landbanks in Ireland to the Battersea Power Station located in South London.

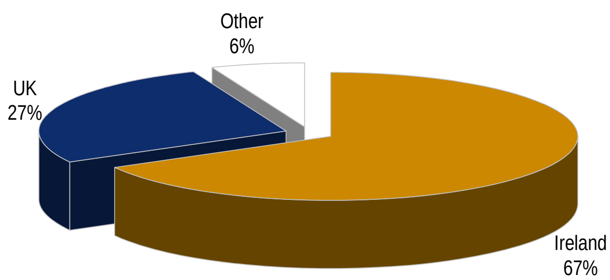
2.5.3 Asset sales commence

In 2010, NAMA approved the sale of close to €2 billion in property assets held by NAMA borrowers in order to pay down debts either to the Agency itself or to the relevant banks (90% were of UK origination). Some of the funds realised are being used to pay down debt owed by borrowers to non-NAMA banks where they had co-lent on relevant developments. Brendan McDonagh (Chief Executive of NAMA) suggested at a recent parliamentary hearing (13 January) that NAMA hopes to complete Irish property sales of c. €200m by the end of March. The Agency is currently in advanced talks with two overseas buyers for two assets, while a domestic purchaser is interested in a third property.

Cranes lie idle over unfinished Anglo Irish Bank Headquarters

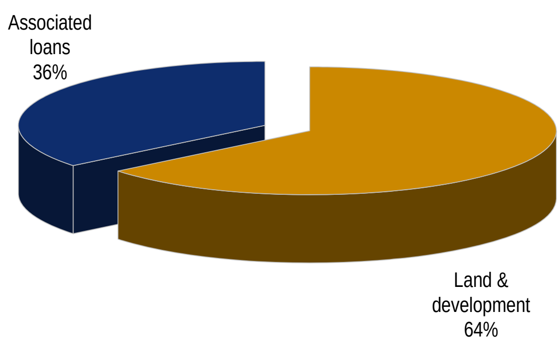
While there is still some uncertainty in relation to the final quantum of assets that NAMA is set to acquire, as chart 17 below shows, we believe that at least two thirds of the total will be of Irish origination. We expect the agency to pursue the majority of its asset sales in foreign markets over the next few years, while slowly unwinding additional supply into the Irish market. This will avoid placing any further pressure on Irish commercial values in the near-term, while generating cashflow for the agency via foreign disposals.

Chart 17: Geographical location of assets



Source: NAMA /NCB estimates

Chart 18: Loan type



Source: NAMA/NCB estimates

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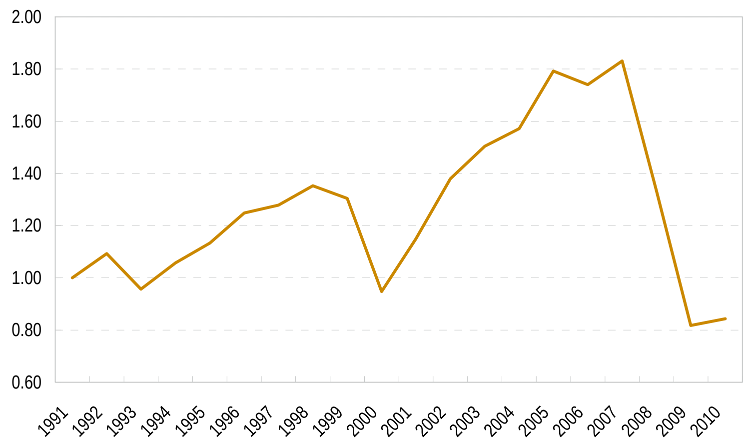
3. The Irish Equity Market

3.1 Introduction

The performance of the Irish equity market has mirrored the rise and fall of the Irish economy. The chart below shows the persistent outperformance of the Irish market relative to the broad European market throughout the period of the "Celtic Tiger" from the early 1990s until 2007.

Chart 19 - ISEQ index performance relative to Stoxx 600 Europe index from 1991 to 2010



Source: Datastream

The only significant interruption of this trend was in the late 1990's when the launch of the Euro triggered some selling of Irish equities by domestic investors availing of the opportunity to achieve a broader Eurozone-wide diversification of their equity portfolios without exposure to incremental currency risk. This was also the period when inflation of the "bubble" in technology shares was quickening and the Irish market was at a disadvantage due to its lack of exposure to this sector. Both of these retarding influences proved transitory and the Irish market reasserted its strongly outperforming trend from 2000 onwards as the local economy continued its pattern of high absolute and relative growth.

The obvious drivers of the Irish market's outperformance over this protracted time period were strong growth in the domestically sourced earnings component and investor willingness to expand the valuation on these earnings. However, a significant part of the outperformance also came from those companies that successfully grew their non-Irish earnings while often consistently outperforming their international peers.

The relative and absolute performance of the Irish equity market turned sharply lower in 2007 and continued into a headlong crash as the severely negative implications of the bursting property "bubble" became progressively more apparent. The obvious fundamental driver was collapsing earnings and credit quality in the banking and construction related sectors. However, from a more behavioural perspective, there is also some limited evidence of investor aversion to Irish shares in general driving valuations on non-Irish sourced earnings to a discount relative to international peers.

3.2 Irish Equity Market - Geographic split of profits

As a result of the difficult conditions in Ireland, Irish profits now represent only 17% on average of overall operating profit of our sample of Irish publicly quoted companies listed below. This compares to 36% in 2006. Therefore, the future performance of economies outside Ireland, in particular the UK, the Eurozone and the US, will have a greater influence on corporate profits going forward.

Chart 20: Operating Profit generated in Ireland - 2006

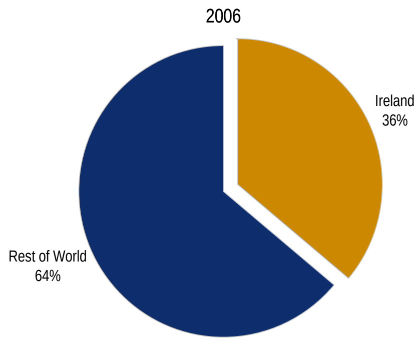
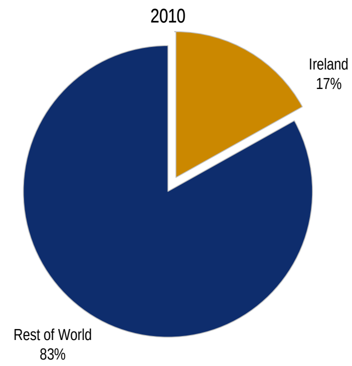


Chart 21: Operating Profit generated in Ireland - 2010



Source: NCB estimates, company accounts

Looking at the individual companies, the Irish construction stocks in particular have seen a significant change in the profits derived from Ireland. In 2006 we estimate CRH, Kingspan and Grafton generated 9%, 12% and 53% of operating profits in Ireland respectively. In 2010 it is expected to be 1%, 4% and 1% respectively.

The reduction in the relative contribution of Irish profits is not solely down to the deterioration in the Irish economy impacting corporates. A number of Irish companies have proactively diversified outside Ireland in recent years (such as DCC, Paddy Power and United Drug) to take advantage of opportunities in other countries and reduce their dependency on Ireland going forward.

Table 11: Revenue and Operating Profit generated in Ireland

	Revenue % Ireland		Operating Profit % Ireland	
Name	FY2006	FY2010	FY2006	FY2010
CRH	7%	3%	9%	1%
Ryanair	12%	8%	12%	8%
Kerry Group	16%	13%	16%	13%
ARYZTA*	30%	25%	33%	12%
DCC	29%	19%	42%	15%
Smurfit Kappa Plc	4%	2%	3%	2%
Paddy Power	56%	34%	62%	33%
Kingspan Group	18%	7%	12%	4%
C&C Group	80%	20%	70%	40%
Glanbia	60%	50%	61%	35%
Grafton	41%	28%	53%	1%
United Drug	70%	65%	60%	41%
Total	35%	23%	36%	17%

*ARYZTA includes profits from Origin Enterprises

Source: NCB estimates, company accounts

3.3 Balance Sheet Discipline

As a result of the difficult trading environment driven by the severe recession in Ireland coupled with the global credit crisis, balance sheet discipline has been a strong focus for Irish companies. Irish companies, particularly cyclical stocks, have demonstrated impressive net debt reduction from the period 2006 to 2010 as they pulled back on acquisitions and capital expenditure and generated working capital inflows through the downturn.

As shown in the table below, **CRH**, **Smurfit, Kingspan** and **Grafton** reduced total net debt by between 22% and 57% in the four year period. Admittedly share issues also played a part in the debt reduction for both CRH and Smurfit Kappa of €1.2bn in 2009 and €1.4bn in 2007 respectively.

Table 12: Debt Performance

	Debt/Equity		Total Net Debt (net cash)		
Name	FY2006	FY2010	FY2006	FY2010	% change
CRH	63%	36%	4,492	3,493	-22%
Ryanair	nm	5%	(294)	143	nm
Kerry Group	90%	66%	1,195	1,028	-14%
Aryzta*	66%	76%	621	1,227	98%
DCC	6%	6%	33	54	64%
Smurfit Kappa	985%	190%	4,882	3,067	-37%
Paddy Power	nm	nm	(87)	(130)	nm
Kingspan	35%	21%	188	126	-33%
C&C Group	174%	110%	383	365	-5%
Glanbia	115%	110%	224	395	76%
Grafton	52%	24%	550	239	-57%
United Drug	16.5%	30%	52	109	111%
Average Debt/Equity & Total Net Debt	160%	61%	12,238	10,116	-17%

**Aryzta information in FY2006 column is FY2007 accounts filed (i.e. post Heistand deal)*
Source: NCB estimates, company accounts

Less cyclical companies, such as **ARYZTA**, **Glanbia** and **United Drug**, have increased debt levels over the period as a result of bolt on acquisitions to further diversify the businesses outside Ireland and add new product or service offerings to the business portfolios.

Ryanair, DCC and **Paddy Power** have the strongest balance sheets in the table above. Paddy Power is in a net cash position leaving it well placed to do further bolt on deals. DCC has a very low level of debt giving it further scope for expansion, particularly through acquisitions in the energy division. Ryanair's low level of net debt and expected strong cash generation leave it well positioned to continue to invest in the business and return cash to shareholders (€500m one off dividend paid in October 2010).

3.4 Irish Equity Market – Favoured Stocks

The names we favour are **CRH, Ryanair, Smurfit Kappa, Irish Continental, C&C and ARYZTA.** Smaller names continue to offer value and are often neglected, and on this basis we favour **FBD, Abbey, CPL, Donegal Creameries** and **Origin Enterprises.**

CRH

We expect 2011 to be the first year of earnings growth for CRH since 2007 as it benefits from 1) relatively stable sales in the year following three years of sales declines, 2) operational leverage as a result of €1.8bn in annualised cost savings taken out since 2007 of which 40% are expected to be permanent and 3) a fall off in restructuring charges which CRH includes as an operating expense (€100m in 2010, €205m in 2009). At its investor day in November 2010, CRH said it expected more significant disposals in 2011. We have included no profit on disposals in 2011 but on average CRH has generated €50m per annum over the last 5 years.

CRH has one of the strongest balance sheets in the sector and we expect a step up in acquisition spend in 2011. CRH announced H2 2010 development spending of €367m, the highest level of spending since H1 2008. For the full-year 2010, acquisition spending totalled €536m, compared to €450m in 2009 and €1bn in 2008. CRH said it was seeing an increasing flow of opportunities across the US and Europe.

We expect CRH to maintain the dividend at the current level in 2010 and 2011, equating to a dividend yield of 3.9%, among the highest in the sector. The dividend is covered circa 2.0x by free cash flow in both years.

The key concern remains the outlook for US Highway spending. A new six-year highway bill is not expected in the short term. SAFETEA-LU has been extended to early March 2011 and a period of short term extensions is most likely for the remainder of 2011 at levels similar to 2010. Recent moves by the Republican controlled House of Representatives to remove a clause which previously ring fenced gasoline tax for US highway construction has weighed on stocks within the sector. However the impact of the move remains uncertain as there continues to be bipartisan support for highway spending as a means of job creation and infrastructure development. State and local spending is likely to remain under pressure in 2011 and we have not built any improvement into our forecasts.

On valuation, CRH is trading on a 2011 P/BV of 1.1x, relatively low for a company that has historically generated returns on invested capital well in excess of its cost of capital. The dividend yield of 3.9% is at the upper end of the peer group average. While earnings multiples in 2011 look high (PE 2011 20x, EV/EBITDA 8.4x), earnings in 2012 should benefit from sales growth and operational leverage (PE 2012 15x, EV/EBITDA 7.1x) as the slow economic recovery continues in both the US and Europe. We rate CRH a Buy.

Ryanair

Ryanair enjoys strong bargaining power throughout many parts of the supply chain. Ryanair's willingness to switch capacity between airports helps ensure low airport costs - in contrast to other airlines which are associated with particular airports and therefore are less able to migrate aircraft in search of lower costs. The likelihood of Ryanair closing a base if it is insufficiently profitable also helps keep tight control on staff costs, which are negotiated locally. These factors contribute to the airline's sustainable cost competitive advantage. Cheap aircraft and a high number of seats per aircraft are other cost advantages, albeit less sustainable ones.

Ryanair has taken advantage of tough economic conditions to improve its route network. Capacity withdrawals by other airlines due to high fuel prices and the subsequent recession created openings for Ryanair at attractive airports, particularly in mainland Spain and Italy, but also the Canary Islands, Malta and elsewhere. The wider than normal choice of airports helped facilitate a migration of capital away from the lower performing parts of its network. Ryanair's strong cost advantage acts as a disincentive to other airlines to add capacity at the same airports; the benefits of the recession should therefore be sustainable notwithstanding that earnings will remain volatile.

Ryanair's growth rate is slowing. The airline will add 40 aircraft in FY11, 22 in FY12 and 5 in FY13. Slower growth makes it easier for Ryanair to cherry-pick airports and prune under-performing bases. This should enable the airline to build further on the recession-induced improvement in its route network, and therefore expand margins.

Ryanair has a strong balance sheet and is highly cash generative. This allowed the airline to pay a special dividend of €500m in 2010; we expect a further dividend of this amount in either 2012 or 2013.

Our one-year price target for Ryanair is €4.80. This is driven by the underlying improvement in Ryanair's route network and sluggish economic growth. Whilst investing in airlines always carries high risk, this is particularly true in 2011. The dramatic rebound in profitability for airlines in 2010 was driven by economic growth and supply constraint by airlines. The happy coincidence of rising demand and falling supply contributed to strong increases in ticket prices with a leveraged impact on net profit. The demand-supply balance may deteriorate in 2011 as airlines respond to the recent improvement in profitability by increasing aircraft utilisation levels. Rising fuel prices are also likely to act as a constraint on profitability, even though Ryanair is well-hedged through to the end of FY2012.

Smurfit Kappa

Smurfit Kappa is the industry leader in European packaging with a market share of approximately 20%. During the downturn it showed strong leadership in reducing production capacity by over 7% in 2009. We expect the company to maintain its supply discipline going forward in order to secure pricing power for its products. Box prices bottomed in September 2009. Since then, it has increased prices by 13.1% and intends to achieve up to 15% by year end 2010 with a further 4-5% to come in Q1 2011. We forecast box prices to increase at a slower pace throughout 2011 and into 2012 on the back of ongoing demand recovery in major markets coupled with tighter inventory control.

To date, Smurfit Kappa has reduced operating cost by over €300m. We expect rationalization to be ongoing with scope for further cost cutting in 2011 and 2012. In combination with a favourable outlook for board pricing, it should experience improved operating leverage. We forecast margins to expand to a peak of 16.6% in 2012, which we see as the mid point in the current cycle.

On the back of strong FCF generation of €131m and €264m we forecast a reduction in net debt to €3,067m for FY 2010 and €2,779m for FY 2011. With a net debt/EBITDA of 2.4x by year end 2011, we see potential for Smurfit to pay a final dividend of 10c. Net debt reduction will remain a key priority for management so we would be surprised to see the company look at acquisitions until 2012.

The biggest risk to Smurfit Kappa and the sector would be the unwelcome return of capacity creep, which plagued the industry in the past and was a key contributor to value destruction. While we expect the larger players to focus on keeping capacity tight, we worry that any easing in bank lending could lead to capacity growth from smaller private players which would likely reduce pricing power in the industry.

We see good value in the share at current levels and confirm our BUY recommendation. We value stocks in the paper and packaging sector on a through the cycle 12 month forward EV/EBITDA multiple in combination with a DCF. These measures yield our price target of €11.50, giving 45% upside from current levels.

Food & Beverage Sector

Food and beverage companies performed well in 2010 given their defensive qualities, with gains of +20%. Further price appreciation in 2011 is likely to be more modest than in 2010. Individual company outperformance is likely to depend on company specific issues and management strength. Agri commodity input costs (grains and proteins) are rising rapidly and already some large branded food manufacturers have signalled greater challenges for margins given the weakening consumer spending dynamics across many markets, Government austerity measures and increased taxation. M&A activity in the sector is likely to be more cautious and measured this year due to rising debt financing costs.

Against this backdrop we see **C&C** and **ARYZTA** as best placed to outperform in terms of earnings and offering greater share price appreciation. However we continue to view **Kerry** as a very attractive defensive stock with a strong balance supporting acquisition growth in 2011. But its valuation is up with events and any pull back due to margin pressure from input price inflation should offer an attractive entry level. Post the acquisition of BSN, **Glanbia** now generates 70% of its EBIT from global nutritionals and US cheese with 30% derived in Ireland of which just 10% is generated in its Irish dairy commodity processing business. The quality and resilience of Glanbia's earnings profile are significantly enhanced by the group's expansion into nutritionals and we believe the stock will continue to re-rate to nutritional multiples which underpins our new target price of 500c.

C&C

The combination of enhanced synergy savings and the Group's debt free status are key supports for earnings in the year to Feb FY12. C&C is no longer dependent on a single cider brand. The acquisition of Gaymer diversified its portfolio of cider brands enabling the Group to service all price points, enhance its distribution into the faster growing off-premises channel and increase its overall market share in cider to 25% in GB.

The acquisition of Tennent's in Scotland added a popular beer to its LAD (long alcoholic drinks) portfolio and one which enjoys regional dominance in Scotland. Tennent's also greatly enhanced distribution capability in Scotland for C&C's cider products.

Finally, the divestment of Spirits deleveraged its balance sheet leaving the Group virtually debt free. Its debt free status will support further dividend growth ahead of current market expectations.

A key risk to forecasts, we believe, is its Irish profits which currently account for 40% of total profits in FY Feb 2012. The high margin pub sector in Ireland continues to suffer volume declines as consumers accelerate the switch to home consumption. We believe that Irish profits could fall short of expectation but that overall forecasts should remain intact due to better than expected integration savings and better than expected cider volume recovery in the UK.

On valuation, C&C is trading on a PE of 12x Feb 2012, a significant discount to the sector. We see our 400c TP as achievable given its zero debt level, its diversified brand portfolio in cider, a category which continues to display growth in the UK, and the potential of international growth in Australia and the USA.

ARYZTA

ARYZTA has transformed itself into an international industrial baker focusing on added value par baked products through a series of acquisitions which have diversified its reliance on any individual market, customer, channel or product. It has also managed to maintain investment grade rating through this change by focusing on cash generation, locking in cheap long term bond financing options ahead of the financial crisis and securing cash inflows from the IPO of its agri commodity subsidiary (Origin Enterprises) and a modest share placing. With its investment in Origin Enterprise now valued at over €300m, further inflow of cash is likely as the Group reduces its shareholding in this non core division.

ARYZTA has a strong track record of protecting its margin through previous spikes in input price inflation, which adds to our confidence that management can maintain margins in the current upward spike in agri related costs.

With 30% of its business now linked to the Quick Service Restaurant (QSR) sector, we see ARYZTA's exposure to the higher growth regions of Asia and Latam increasing rapidly in line with the increased growth of the QSR's in these regions.

ARYZTA is currently restructuring and integrating its recent acquisition of Fresh Start Bakeries, Great Kitchens and Maidstone. We expect to see activities consolidated onto fewer larger sites as evident with the announcement of plans to integrate the sweet baking activities of Otis, Pennant and Maidstone. Synergies will be an important earnings support in the current challenging trading environment and we estimate that they could add upwards of 10% to earnings over the period of integration.

Weak consumer spending is a key risk to trading but recent results have shown that the pace of decline witnessed in early 2010 has abated as the year progressed. Growth in Continental European and North American markets remains resilient with pockets of weakness in Ireland and the UK remaining.

ARYZTA trades on a PE of 11x July 2011 earnings, a 35% discount to the sector. This reflects market concerns regarding integration and synergies of acquisitions and margin worries given the current spike in input price inflation. We believe our €40 target price is well founded using sector valuations with earnings well supported through synergies, strong margin protection in periods of input price inflation and improving prospects of recovery in like for like sales growth in North America and Continental Europe.

Irish Continental Group

Proven business model, sound strategic position - Irish Continental's business model is proven, with a modern fleet of ships, strong strategic positioning and an industry-leading cost base. Ships owned by the Group are depreciated on a relatively conservative basis and worth materially in excess of book value, while the 150 year lease over its Dublin Port facility is a key long-term asset. The Group will end 2010 with negligible net debt and in 2011 we forecast a further advance in EPS to 145 cent per share. An estimated 75% of incremental revenues fall to the bottom line, leaving the Group a prime beneficiary of even modest volume growth in tourism and/or freight markets.

Industry dynamics remain favourable entering 2011. Airline capacity between Ireland and the UK has been cut by 25-30% over the past two years, while DFDS and Stena Line are both reducing services on the Irish Sea. Although ample capacity remains in place to meet medium-term growth in export/imports, the yield environment should be firmer in both freight and tourism. The ash cloud and snow-related disruption to air travel in 2010 has also served to highlight the ferry as a viable and economic option for tourist traffic.

Irish Continental's minimal capex needs and tight management of working capital lead us to forecast free cash generation of €48m in 2011 and €54m in 2012, representing yields of 11% and 13% respectively. This underpins confidence in a progressive dividend policy (yield currently 6%), at the same time as retaining a strong balance sheet and the flexibility to capitalise on any development opportunities which may arise.

The key concerns that could impact the Group include a double dip in the global economy. However, with virtually all imports and exports travelling by sea and activity still only stabilizing after the falls in 2008-09, we see this risk as modest. The Group has also demonstrated considerable resilience in 2008-2009. Over the years Irish Continental has also shown an ability to manage the volatility in fuel costs.

The Group trades on 12.2x 2011 forecast EPS, 7.1x EBITDA and yields a secure dividend of 6%. Based on peak EBITDA this EV/EBITDA multiple declines to 5.4x. Irish Continental's combination of conservatively valued assets, low financial debt and high operational leverage to recovering volumes underpins our buy stance and €20 per share price target.

Small Cap Top Picks

Origin Enterprises

Origin Enterprises is ideally positioned to benefit from the boom in agri commodity prices as higher farm output prices will boost production, which in turn boosts demand for inputs such as seeds, fertiliser, crop protection products and agronomy services. Origin has large dominant positions in fertiliser and agronomy services. In addition, it has restructured into joint ventures with industry partners its interests in food distribution in Ireland, in fishmeal and is awaiting approval of restructuring proposals in animal feed in Ireland. These actions have released cash, transforming its capacity to grow via acquisition.

We believe that Origin has the capacity to outperform in 2011 in terms of trading and further M&A activity cannot be ruled out. Origin itself may become a target given its market positions in agri commodities and the improving margins and prospects within this sector. We have increased our target price by 9% to 380c to reflect the general sector re-rating on rising agri commodity prices.

Donegal

Donegal Creameries is well positioned to perform strongly in 2011 with its operations in dairy, animal feed, added value seed potatoes and dairy based snack foods, which all offer margin improvements year on year. Through a series of small acquisitions, cost reductions and improved efficiencies Donegal's cash generation will grow significantly in 2011 to a free cash flow yield of 28%, underpinning its dividend payout policy. We believe the Group could also benefit from some restructuring in its 35% stake in Monaghan Mushrooms which generates €100m in sales and dominates the sector in the UK and is now expanding internationally via a recent acquisition in Canada. Such an event would transform the Group into a net cash position, enabling it to grow via acquisition.

FBD Holdings

Clear evidence of a hardening in premium rates is becoming evident in the Irish insurance market, with the Consumer Price Index in 2010 showing rate increases of 6% and 15% in motor and dwellings insurance respectively. The weather losses incurred over 2010 should also provide an incentive for competitors to drive home additional rate rises over coming months. While FBD is the second largest general insurer in Ireland with 12% market share, it has a very low customer penetration in urban markets (just 5% in Dublin). The group has targeted further growth in the larger cities and is utilising broker channels to help achieve this. Notwithstanding the risk of further modest property writedowns, the FBD franchise is delivering a solid performance against the backdrop of a difficult operating environment. Assuming a dividend payout ratio of 40% in 2011, the stock currently offers a prospective dividend yield of 8%, which we believe is safe. We reiterate our BUY recommendation with a price target of €9.50 (7x 2011 earnings, in line with peers).

CPL Resources

CPL recently noted a modest up-tick in the Irish recruitment market, as employer confidence slowly returns. While the outlook for the Irish economy remains challenging, the group's focus on niche markets (healthcare, IT) enables it to avoid losses during this downturn. With a strong management team and healthy cash position (June 2010: €44m or c. 42% of current market cap), further opportunistic bolt-on acquisitions are likely over coming months. Assuming that no suitable businesses can be found that provide an attractive strategic fit, we highlight the possibility of management rewarding shareholders with a special distribution. The stock is currently trading on just 5.7x June 2012 EV/EBIT.

Abbey plc

At the time of its recent half-year results (9 December) Abbey indicated that it remained cautions on future trading conditions, describing the outlook as "quite bleak". It believes that constrained mortgage availability in the UK will continue to impact house pricing over the coming months. Nevertheless, with the Group's cash position remaining healthy (€100m) it is strongly placed to focus on its restocking process. In addition, the group has commenced a buy-back programme (for up to 15% of its share capital or c. €16m) which will help support the stock valuation over the near-term. Trading on just 0.8x April 2011 NAV, we remain positive on the Abbey.

For further information on the Irish quoted companies discussed above please refer to the detailed information in the appendices.

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4. M&A – A Good 2010, Cautiously Optimistic for 2011

In 2009 mergers and acquisition (M&A) activity in Ireland was at historically low levels. 2010 saw a recovery in the Irish M&A market with 197 deals involving Irish companies with a total value of €10.3 billion. This compares with 134 deals and a total value of just €3.4 billion in 2009.

Table 13: Quarterly value of 2010 M&A transactions by sector

Sector	Q1 2010	Q2 2010	Q3 2010	Q4 2010
Media & Publishing	0	12	0	0
Health & Pharmaceutical	96	70	14	207
IT & Telecoms	58	16	16	77
Food/Food Services	125	1202	474	101
Leisure & Travel	0	0	0	158
Financial Services	42	24	3185	57
Support Services	0	13	18	0
Print & Paper	73	0	0	0
Building, Construction & Property	0	132	86	439
Industrial	85	215	1715	1532
Retail	27	0	18	1
Professional & Technical	0	5	0	7
Total	505	1,689	5,525	2,580
Growth (year on year %)	-55%	71%	459%	161%

It should be noted that the four largest deals accounted for €7.1 billion or close to 70% of the total. The largest of these transactions were **AIB's** disposal of its 70% stake in Bank Zachodni WBK SA for €3.1 billion and Ardagh Glass Group plc's acquisition of Impress Holdings BV for €1.7 billion. The other transactions were the ESB's acquisition of Northern Ireland's electricity networks from Viridian for €1.4 billion and **Aryzta's** acquisition of two US companies, Fresh Start Bakeries and Great Kitchens, for a combined deal value of €902m.

Excluding these large deals the underlying quarterly deal values in 2010 were €505m, €787m, €1,067m and €1,167m respectively which, when compared to the €993m and €988m of deal value in quarter three and quarter four 2009, shows a consistent level of improvement since the record low of €271m recorded in quarter two 2009. On average there were 50 deals per quarter in 2010 in contrast to the 2009 average of 36 deals per quarter. As in previous years **CRH** was a serial purchaser of overseas assets, completing 28 transactions in total.

The most active sectors during 2010 were "IT and Telecoms", "Building, Construction and Property" and "Industrial" with 32 transactions each. Notable transactions in these sectors included STT's €47.6m acquisition of Eircom Limited, Spectrum Equity Investors' €64.7 million acquisition of Trintech Group plc, CRH's acquisition of a 48% stake in Bauking AG for €126m, **Kingspan's** acquisition of **CRH's** European insulation business for €120m and Biffa Waste Management's acquisition of Greenstar UK for €162 million.

The "Food/Food Services" sector recorded 24 deals during the year. In addition to **Aryzta's** acquisitions, noteworthy transactions include Axereal's acquisition of the **Greencore** malt businesses for €116 million and the Capvest led establishment of Valeo Foods Limited through the merger of Batchelors and **Origin Foods** (NCB Corporate Finance advised Axereal and Capvest respectively). The latter transaction demonstrates that although private equity activity is still significantly lower than it was three years ago, certain private equity players are still active in the market.

Other active sectors during the year were “Health and Pharmaceutical” and “Financial Services” with 16 recorded transactions each including Permira’s €158m acquisition of a majority stake in Creganna-Tactx Medical.

The M&A market saw significant activity around distressed businesses and assets in 2010. A few high profile transactions included énergie Group’s acquisition of Jackie Skelly Fitness Clubs, UPC acquiring Broadworks Communications and Thrifty Car Rentals acquiring Irish Car Rentals.

Another key feature of the 2010 M&A landscape was the foreign acquisitions by Irish companies and PLCs. As in previous years, and as touched on above, **CRH** again led the way with 28 transactions in total while **Kerry Group** completed four acquisitions including that of Key Essentials Inc in the US for an undisclosed sum and Croissant King Pty Limited from General Mills for a combined total of €18.3m.

Looking forward, the continued uncertainty over the Irish economy will impact on M&A activity in 2011 as it did this year. Buyers will continue to be cautious and funding will remain a challenge. Notwithstanding this, provided the economy can show some growth and the wider global economy continues to strengthen, confidence will continue to hold and hopefully improve such that we should at a minimum see an M&A market in 2011 similar to that of 2010. We believe there will be further transactions in the active sectors of Financial Services, Food / Food Services and IT / Telecoms as well as a prevalence of trade buyers over financial buyers and further distressed transactions.

In relation to the **Irish banks**, The Governor of the Central Bank has previously referred to the possibility of “some or all” of the Irish banks becoming foreign owned, and the advantages that this would bring from a national point of view. Reports suggest the Spanish banking giant, Banco Santander, has held talks with the Irish government in relation to acquiring parts of AIB’s UK division. The British operations are now expected to be stripped down into its structured credit and project finance portfolios, with a piecemeal disposal of the division’s assets most likely. Meanwhile, two American hedge funds have also expressed an interest in Anglo Irish Banks’ US loan book.

NAMA, one of the largest property companies in the world, is likely to pursue further asset sales. We expect the agency to pursue the majority of its asset sales in foreign markets over the next few years, while slowly unwinding additional supply into the Irish market.

Other Irish public limited companies are likely to be active acquirers in 2011. In the food sector **Glanbia** announced the acquisition of BSN in January. Recently, **Greencore** attempted to acquire Northern Foods. **Kerry Group** and **Total Produce** have a track record of bolt on acquisitions and **C&C** and **Origin** have much improved balance sheets and cash generation leaving them well placed to make acquisitions. In the building materials sector, we expect **CRH** to continue to make bolt on deals and it recently said it was seeing an increasing pipeline of opportunities.

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5. Potential Disposal of State Assets

The potential for the State to dispose of certain of its assets is something that has been on the agenda for some time and certainly prior to the EU/IMF funding package. In 2009, the Special Group on Public Service Numbers and Expenditure Programmes (commonly known as "An Bord Snip Nua") dealt in part with this issue. Following on from this, Dr. Colm McCarthy the author of the report was tasked with heading up the Review Group on State Assets and Liabilities to ..."provide advice on the proper stewardship of State assets and on opportunities for the better use of those assets".

The following Terms of Reference have been set out for the Group:

- To consider the potential for asset disposals in the public sector, including commercial State bodies, in view of the indebtedness of the State;
- To draw up a list of possible asset disposals;
- To assess how the use and disposition of such assets can best help restore growth and contribute to national investment priorities;
- To review where appropriate, relevant investment and financing plans, commercial practices and regulatory requirements affecting the use of such assets in the national interest.

The Review Group was due to report by end December 2010 having received all submissions from interested parties by September 2010. As the date for the next general election has been set for 25 February 2011, there is a strong possibility that the report will not be published prior to the election.

The implementation of the report will depend on two key factors, namely:

- The composition of the next government, as the different parties have different policies in relation to State assets; and
- To the extent that the incoming government seeks, as part of its programme for government, to renegotiate the EU/IMF debt package it may not wish to make any commitments in relation to asset disposals prior to entering into such negotiations.

As a result, it is likely to be the second half of 2011 until there is visibility on any asset disposal programme.

Even when the assets are identified for sale there are a number of issues to be considered, including:

- **EU Guidelines**. Any disposal process will have to be conducted in accordance with strict EU sale of State asset guidelines. While a number of criteria can be set by the government in terms of selecting a winner of a competitive process, it is difficult (but not impossible) to accept a bid other than the highest financial bid. Where the most likely purchaser of an asset is a financial/private equity bidder (which will seek to sell on the asset at a later date) this may impact on the government's ranking of that asset within all assets selected.

- **Readiness.** Certain assets may need to be restructured prior to their disposal. For example, it is unlikely that all of Bord na Mona (traditionally involved in peat and fossil fuels) and Coillte's (national forestry operator) underlying land assets would be transferred out of State ownership in the event that these bodies were selected for sale. In addition, in the event that parts of Electricity Supply Board (ESB) or Bord Gais (BGE), the gas authority, were to be sold a separation process would be required.

- **Regulation.** In certain sectors State bodies are governed by a regulatory framework (Commission for Energy Regulation, Commission for Aviation Regulation), whereas other sectors do not have a regulatory framework (water). For regulated entities, the government is likely to examine whether the current regulatory framework will encourage/ensure that government policy is met post disposal (the regulatory framework for the telecoms sector may be seen as one of the contributory factors to the slow roll out of infrastructure post privatisation of eircom, the telecommunications provider) and where a regulatory framework is required in advance of disposal this is likely to lead to a delay in any such disposal/privatisation.

- **Capital Expenditure.** In a number of areas (electricity networks in particular) significant expenditure is required over the next decade to ensure that Ireland has the infrastructure that it requires. While it is likely that any new owner would seek to complete these investment programmes, this may not be the case where the owner has other significant funding obligations or the expected reward is not deemed sufficient (e.g. a lower than required cost of capital for a regulated network asset).

Having considered these issues we would expect the following assets to be at the forefront of consideration for disposal:

- **Voluntary Health Insurance (VHI).** The outgoing government has signalled its intention to dispose of the health insurance provider.

- **Coillte Forestry Assets**. Coillte's 2009 accounts show that the carrying value of its forestry and land assets is €1.3 billion. It is worth noting that the forestry assets (or land) have not been revalued since they were transferred into Coillte in 1989, therefore we would expect the market value of the forestry assets and land to significantly exceed the €1.3 billion (by way of example immature forestry assets with a book value of €8.4 million were sold for €33.8 million in 2009). The government could realise significant proceeds by selling some or all of the forestry assets in one or more lots in the short term. Coillte could be retained to manage the forests on behalf of the new owners (minimising any job losses) who would receive proceeds in the future when the trees are felled. There would be no loss of long term value to the State where the land and replanting rights are retained.

- **Energy Sector**. The State currently owns two of the four main energy companies in Ireland (BGE and ESB, the others being Energia and Airtricity). As BGE concludes the execution of its ambitious energy business plan (it has recently commissioned the Whitegate CCGT station) the government may seek to dispose of BGE Energy to both realise proceeds and reduce State involvement in the sector. To the extent that ESB's generation and supply assets are considered for disposal they are likely to be offered in more than one lot as ESB plants tend to be the marginal price setting plants in the market pool. Generation sector disposals may be deferred until after the electricity interconnector to Wales is up and running in 2012, so that interested parties can evaluate the impact of the interconnector on the market price of power.

- **Networks**. ESB and BGE currently own both distribution and transmission networks. BGE's network (in which distribution and transmission are managed together) investment programme is nearly complete, with most major towns connected, whereas ESB's networks (which are more separable) require significant investment over the next decade, both in terms of refurbishment due to age and extension to accommodate increased levels of wind generation. As a result, we would view BGE's network assets to be considered for disposal ahead of ESB's networks, and to the extent that ESB's networks are considered for disposal the State may wish to retain ownership of the transmission network (possibly by transferring ownership into EirGrid).

- **Rosslare Port**. Rosslare Port is currently operated by Iarnród Éireann with ownership resting with Fishguard and Rosslare Railways and Harbours Company, an Anglo-Irish company dating back to the nineteenth century. In the event that the ownership of the port is tidied up this may lead to a disposal of either or both of the port or the right to operate the port.

While we believe the assets listed above will be at the forefront of consideration for disposal, other assets being reviewed as part of the Review Group on State Assets and Liabilities include **Dublin Airport Authority**, the **Irish Aviation Authority**, **Dublin Bus**, **Irish Rail**, **Dublin Port Company** (and nine other port companies around Ireland) and **An Post**.

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6. Technology sector – FDI in action

6.1 Introduction

Ireland has developed a fast growing reputation as a favourable location for global technology companies with 9 of the World's top 10 ICT (information and communications technology) companies now located in Ireland. A young, educated, flexible workforce and a low corporate tax rate has proved an attractive combination for technology leaders looking to expand. Largely export-oriented, the sector has been insulated from the poor trading conditions in the domestic economy. Evidence of the sector's health can be seen in employment numbers where the technology sector has grown steadily over the last number of years with over 75,000 people currently employed in c.5,000 ICT enterprises.

Over the past decade, activity has increasingly shifted towards software and services, though hardware manufacturing firms continue to contribute significantly to Ireland's economy. For the past couple of years, the Government has promoted the "Smart Economy" as Ireland's best chance for future growth and, in 2010, we witnessed a number of innovative Irish technology companies expanding internationally. As a result, a technology hub has emerged of global and domestic technology companies which when allied to the continued commitment of the Government to promoting innovation and a significant level of venture capital available to indigenous companies provides a significant platform for the future growth of the sector.

6.2 Multinationals still attracted to Ireland

Foreign direct investment remains a key growth driver in the Irish economy. In addition to the significant presence of the global technology leaders shown in the table below, 15 of the top 20 medical technology companies in the world also operate in Ireland employing the highest per capita of medical technology personnel in Europe. In total 24,000 people, employed by 160 medical technology companies (over 90 of which are indigenous), produce €6.8bn in exports of medical devices making Ireland the 2nd largest exporter of medical devices in Europe.

In 2010, 126 foreign direct investments were made in Ireland with approximately 11,000 new jobs created. This has led to foreign direct investment accounting for €110bn or 75% of total Irish exports. Importantly, the activity carried out by a number of the large multinationals is trending towards higher value added services such as research and development. IBM's decision to locate its smarter cities project in Dublin was one example of the €500m in research, development and innovation projects announced in Ireland in 2010. The belief at policy level is that high value exports will lead Ireland back to sustainable economic growth.

Table 14: Top Technology Companies in Ireland

Company	No. of Employees (estimates)
Microsoft	1,800
hp	4,500
IBM	3,500
DELL	1,300
	2,000
intel	5,000
Google	1,600

6.3 Why Ireland as a location for technology investment?

The following factors have been central to Ireland emerging as a preferred European location for technology investment:

- **12.5% corporate tax rate** – the low rate of corporation tax continues to be a major attraction for multinationals locating in Ireland. Maintaining this low rate will be critical to the level of foreign direct investment in Ireland and remains a key variable to the continuing development of the technology sector in Ireland;

- **Restoration of international competeviness** – Irish competitiveness improved significantly in 2010. Business costs including energy, office rents, services, construction and labour have all become more competitive. Both gas and electricity prices are now below the Euro average, and the cost of living has also fallen. Office rents have fallen by over 35%, whilst the EU has forecast that from 2008 to 2012, Ireland's labour costs will have improved 13% relative to the EU average;

- **Availability of skilled labour** – Ireland has the youngest population in Europe with over 35% under the age of 25 and the highest proportion of graduates among the 25-34 age groups in the EU. Ireland's total investment in knowledge, including higher education, has increased by an average annual rate of 10% in the past decade – compared with EU and OECD averages of around 3%. In addition to this domestic supply of labour, membership of the EU including access to an internal market of almost 500m people has proved key to some companies locating in Ireland;

- **US link** – Due to location, language, culture and historical relationships; Ireland is seen as the entry point to Europe for many US companies. The total US investment into Ireland is greater than their investment into Brazil, Russia, India and China combined. This is particularly relevant for the technology sector where large US corporations continue to dominate the global market;

- **Flexibility and adaptability of people** – Labour-force flexibility is seen as a major area of priority in terms of improving Irish multinationals' competitiveness. A business friendly environment with a flexible approach to business regulation and work practices resulted in Ireland being ranked 7th for flexibility and adaptability of people in the 2010 World Competitiveness Yearbook and 6th for labour productivity; and

- **National Infrastructure Developments** - Ireland's infrastructure has improved significantly in recent years, enhancing our attractiveness as an FDI location. Improved road access to key locations, EirGrid building an East-West electricity interconnector to ensure security of supply and an export outlet for any excess energy and the completion of Dublin Airport's Terminal 2 opening the possibility of new direct access to existing and growth markets, are creating a positive impact. Importantly, broadband infrastructure has improved (Ireland now ranks ahead of the UK, US, France and Germany in this area) with the telecommunications industry investing €600m per annum on capital projects.

6.4 Ireland – The Internet capital of Europe

Ireland, and Dublin in particular, has emerged as a hive of web based activity with internet leaders including Google, Facebook, eBay, Paypal and LinkedIn choosing it as their location for their European headquarters. Ireland's worldwide reputation for creativity and communication skills in the developing fields of entertainment and media has led to a number of fast-growing sub-sectors including: social networking, digital media and online gaming. The positive influence of having leading social networking companies like Facebook and LinkedIn based in Ireland has helped foster the interest in and growth of innovative local companies operating in the same space such as HeyStaks (a recent university spin out combining search and social networking). Similarly, the confluence of art, technology and science has seen Ireland develop as a leader in the digital media space. Combined, there is now a healthy mix of global internet leaders and innovative early stage indigenous companies all interfacing and developing a strong Irish presence in the global Internet market.

6.5 Positive backdrop for innovation and entrepreneurship

Irish venture capital firms have invested €1.5bn in early stage companies in the last ten years and have successfully leveraged a further €1.5bn from international investors into the Irish market. The Venture Capital industry in Ireland remains strong with over €700m raised and currently available for investment. The size of the individual venture capital funds have increased and the skill set of Irish venture capitalists has deepened considerably. Recent government policy has been to support and encourage the development of innovation in the indigenous sector. In particular, the government has announced the establishment of the Innovation Fund with committed capital of €250m to be matched on a 50:50 basis by private sector commitments. These funds will be used to commercialise R&D, support start-up and early stage companies and to fast track scaling opportunities.

The recent policy of supporting University spinouts and fostering early stage incubators is already reaping dividends with some notable recent transactions including the acquisition of ChipSensors by Silicon Laboratories Inc. Recent M&A activity in the sector has been strong with 32 transactions in

2010 fuelled by overseas trade interest (e.g. the acquisition of Eircom by Singapore Technologies) and a number of financial buyers (e.g. the acquisition of Trintech Group plc by Spectrum Equity investors) and private equity funds (e.g. the acquisition of Calyx group by Better Capital).

6.6 2011 and beyond

Ireland has a well educated, skilled work force, a pro-business environment for foreign direct investment and a positive government policy towards innovation and technology. As a result, Ireland is now seen as one of the key technology hubs globally which has provided the expertise and culture to foster a fast growing indigenous technology sector led by local entrepreneurs. Challenges remain such as protecting the low corporate tax rate, growing the pool of local technical expertise and the need for further investment to ensure a high speed communications infrastructure. But overall the sector has the potential for continued growth with critical mass in a number of high technology sectors and a vibrant community of both multinational and indigenous businesses. With this platform, the sector remains well placed to be a key driver of economic growth in the short and medium term.

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7. Renewable Energy: indigenous companies make their mark

7.1 Introduction

The area of renewable energy/cleantech continues to be an area of significant investor interest both in public markets/IPOs and venture capital fundraising. Firstly, it is important to differentiate somewhat between the two terms used as, while they have been used interchangeably in the past, there is a generally accepted distinction; namely:

- Renewable energy relates to the plant and equipment that produces electricity and/or heat from renewable resources including wind, solar, wave, tidal, biomass.

- Cleantech is a much wider definition which includes renewable energy but also areas such as energy storage, fuel cells, biofuels, electric vehicles, smart grids/meters, energy efficiency and LED lighting,

While there has been strong global growth in the sector some of the underlying factors in terms of government supports and targets differ from continent to continent. Some of these supports/targets are long term in nature (and generally stable) such as those of the EU, whereas others are more short term and subject to significant annual fluctuations in activity, such as in the US wind market.

7.2 EU Targets and Ireland's Progress

In 2007, the European Union agreed new climate and energy targets - 20-20-20 by 2020 – 20% reduction in greenhouse gas emissions; 20% improvement in energy efficiency and 20% of the EU's energy consumption to be from renewable sources by 2020. Under the terms of the Directives (which are separate but consistent in their objectives), each Member State is set an individually binding target, which will contribute to the achievement of the overall EU goal.

Member States are to achieve their individual target across the heat, transport and electricity sectors and apart from a sub-target of a minimum of 10% in the transport sector that applies to all Member States, there is flexibility for each country to choose how to achieve their individual target across the sectors. Ireland's overall target is to achieve 16% of energy from renewable sources by 2020.

- Electricity. The Irish Government has set a target of 40% electricity consumption to come from renewable sources by 2020. Ireland is fortunate to have high average windspeeds and, as a result, we are making good progress towards our 2020 targets (and interim 2010 target of 15%) with low average subsidy compared with other European countries.

- Transport. The Government has set a target of 10% electric vehicles by 2020, supported by:
    - Government supported €5,000 incentive for electric vehicles;
    - ESB to roll out 3,500 charge points and 30 fast charge points; and
    - Renault-Nissan Alliance to provide Ireland with electric cars.
- As with wind, Ireland's size and geography represents a significant competitive advantage. Eric Basset, managing director of Renault Ireland, said: "Due to its relatively small size,

Ireland is ideally suited for the introduction of electric vehicles and as a pilot for the rest of Europe. As the population of Ireland is predominantly centred around the major urban areas of Dublin, Cork, Limerick, Galway and Waterford, and with the average vehicle covering approximately 75 km per day, electric vehicles are ideally suited to address the everyday needs of both private and business use."

- Heat. The Government has set a target of 12% renewable heat by 2020. In Ireland's National Renewable Energy Action Plan, submitted to the EU under Article 4 of Directive 2009/28/EC the government stated "For historical, geographical and demographic reasons, renewable heat poses considerable challenges for Ireland, challenges which the Government is determined to address". To date this determination has not resulted in concrete action plans compared with the advanced thinking in the UK to develop a feed in tariff for heat.

7.3 Funding Requirement

One of the key issues in delivering these targets (and achieving the expected sector growth) is the availability of funding. The achievement of the 20/20/20 targets requires massive funding in terms of both debt and equity across all EU countries. In the UK, Ernst and Young has estimated the cost of implementing the UK's low carbon agenda at £450 billion in the period to 2025, with traditional sources of capital (utilities, other corporates, project finance and infrastructure funds) only in a position to provide approximately £50-£80 billion over the same period. Even with the involvement of pension funds and the proposed Green Investment Bank the funding gap will be in the hundreds of billions.

Ireland will need in the order of €10 billion to fund the expected windfarm construction and grid reinforcement works required to achieve its 2020 renewable electricity targets. Achieving transport, heat and efficiency targets will cost a significant additional sum. Given the continuing deleveraging of the domestic banks' balance sheets, increasing involvement from European banks will be required to fund the construction programme. As the domestic economies of these European banks will also require significant funding for similar projects over the same period, there is a danger that sufficient funding will not be available to meet the expected construction schedule in Ireland. The deterioration of Ireland's credit rating may also impact on the economics of renewable projects as the underlying contracts are, in many cases, supported by a government guarantee.

7.4 Irish Companies

There are a number of Irish companies (mainly privately owned) with significant exposure to the achievement of the EU's 2020 targets including:

- **Kingspan**. Manufacturer of building products that drive energy efficiency and prevent heat loss, including its market-leading insulated panels. Al Gore's Generation Investment Management is a significant shareholder.
- **Glen Dimplex** (private). Leading manufacturer of electric heating appliances with brands including Morphy Richards and Creda, is now a leading supplier of heat pumps in Europe, with recent expansion into solar products.
- **Mainstream Renewable Power** (private). Global onshore and offshore renewable energy developer with significant UK offshore pipeline.

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8. People and the Economy

8.1 Introduction

The recession and property/banking crash have had a dramatic impact on Irish society and the Irish economy. The impact of the recession has had differing impacts on people depending on their profession, gender and age. In the discussion below we look at these aspects of the recession. The impact has been particularly harsh on craft workers, young people and those who took out mortgages in the period leading up to the crash. Emigration is back once again, primarily among those aged less than 45, which will have a significant impact on housing demand. Combining these facts we conclude that consumption in the 20-45 year old cohort is likely to be extremely subdued in the coming years, but less dented in the over 45s. Despite emigration, Ireland remains a relatively young population, but will continue to age, with implications for healthcare spending and nursing homes in particular.

8.2 Employment declines

Unsurprisingly, given the property related boom-bust cycle, male craft workers have been the hardest hit in terms of both the absolute fall and percentage fall from peak employment levels. Among females, clerical and secretarial workers saw the largest fall in both percentage and absolute terms from peak levels. Female sales staff and male machine operatives were also particularly hard hit in the current downturn.

Female professional workers as a group were relatively sheltered from the recession with numbers there decreasing by seven hundred from the peak level, while female associate professional and technical workers saw the second smallest percentage decline. The number of male associate professional and technical workers actually surpassed the previous peak level.

Table 15: Employment by broad occupation

Males	'000s	fall	% fall
1. Managers and administrators	206.4	22.7	-9.90%
2. Professional	119.4	9.1	-7.10%
3. Associate professional and technical	83.2	-0.1	0.10%
4. Clerical and secretarial	60.1	6.4	-9.60%
5. Craft and related	165.8	132.4	-44.40%
6. Personal and protective service	86.9	5.8	-6.30%
7. Sales	66.5	8.9	-11.80%
8. Plant and machine operatives	115.5	39.1	-25.30%
9. Other	90.6	46.4	-33.90%
Total males	994.5	231.4	-18.90%
Females			
1. Managers and administrators	102.1	9.3	-8.30%
2. Professional	131	0.7	-0.50%
3. Associate professional and technical	111.8	7.6	-6.40%
4. Clerical and secretarial	169.3	32	-15.90%
5. Craft and related	10.1	2.8	-21.70%
6. Personal and protective service	150.2	10.2	-6.40%
7. Sales	98	20.4	-17.20%
8. Plant and machine operatives	23.4	5.2	-18.20%
9. Other	60.9	19.7	-24.40%
Total females	857	68.2	-7.40%

The breakdown by industry again shows that construction has been the hardest hit sector with male workers declining by 149,200. Industry was the second hardest hit sector with the decline in employment in this sector hitting both male (-49,300) and females (-16,700) hard. The third largest falls have been in the wholesale and retail trade sector with female (-24,600) and male (-20,000) workers feeling the pain.

Table 16: Employment by industry

	,000s	change	% fall
Males			
Agriculture, forestry and fishing	80.2	-22.7	-22.10%
Industry	172.8	-49.3	-22.20%
Construction	107.5	-149.2	-58.10%
Wholesale and retail trade; repair of motor vehicles and motorcycles	136	-20	-12.80%
Transportation and storage	75.4	-4.5	-5.60%
Accommodation and food service activities	53.1	-4.4	-7.70%
Information and communication	50.9	-1.7	-3.20%
Financial, insurance and real estate activities	49.4	-0.6	-1.20%
Professional, scientific and technical activities	57.5	-10.2	-15.10%
Administrative and support service activities	31.6	-11.1	-26.00%
Public administration and defence; compulsory social security	54.9	-0.8	-1.40%
Education	38.5	-3.4	-8.10%
Human health and social work activities	43.9	0	0.00%
Other NACE activities	42.9	-6.9	-13.90%
Total males	994.5	-231.4	-18.90%
Females			
Agriculture, forestry and fishing	9.3	-4.2	-31.10%
Industry	68.1	-16.7	-19.70%
Construction	7.2	-6.3	-46.70%
Wholesale and retail trade; repair of motor vehicles and motorcycles	133.7	-24.6	-15.50%
Transportation and storage	16.5	-1.7	-9.30%
Accommodation and food service activities	69.5	-10.8	-13.40%
Information and communication	22.4	-0.8	-3.40%
Financial, insurance and real estate activities	50	-12.2	-19.60%
Professional, scientific and technical activities	38.9	-10	-20.40%
Administrative and support service activities	28.4	-13.5	-32.20%
Public administration and defence; compulsory social security	50	-5.5	-9.90%
Education	110.5	-1.5	-1.30%
Human health and social work activities	193.3	0	0.00%
Other NACE activities	59.1	-4.9	-7.70%
Total females	857	-68.2	-7.40%

The health and social services sector have seen large percentage increases in the number of female and male workers since Q3 2007. For male workers, the declines in the IT and financial/insurance sectors have been the least severe. Female workers in the education sector saw the least reduction in employment.

In terms of age profile, the recession has been particularly harsh on the young, with the unemployment rate for those aged between 20 and 24 rising from 8.0% in Q3 2007 to 25.5% in Q3 2010. The aggregate 20-24 unemployment rate disguises the gender difference, with the male rate at 31.7% and female rate at 19.3%.

The key first time buyer cohort, 25-34, unemployment rate has risen from 4.7% in Q3 2007 to 14.8% in Q3 2010. The key mover/purchaser cohorts, 35-44 and 45-54, saw their unemployment rates rise from 3.7% and 3.2% respectively to 12.5% and 10.7% over the same period.

8.3 Emigration

The statistics above highlight why emigration is once again a major issue in Ireland. The most up to date official figures reveal that 65,300 persons emigrated in the year ending April 2010. Of this number, 27,700 were Irish nationals. These figures represent 1.4% and 0.6% of the population respectively. The reason we mention this is to highlight that while emigration is accelerating it has not yet reached the levels seen in the late 1980s. In 1989 2.0% of the population emigrated, with the vast majority of these being Irish nationals.

Statistics from other countries show the number of Irish people emigrating to Australia, Canada and New Zealand in particular has increased over the course of the recession.

In the first six months of 2010, Canada issued 3,077 work permits to Irish citizens, which is more than the 3,047 it issued during the whole of 2009. This corresponds with a steady rise in Irish workers in Canada recently: 2,959 in 2009; 2,617 in 2008; and 2,392 in 2007.

Australia has seen a similar increase in the issuing of permanent residence visas. In the year to the end of June 2010, 3,041 Irish people got migration programme visas (for highly skilled workers), up from 2,501 a year earlier. A separate visa programme, which enables Australian firms to sponsor workers on a temporary basis, is also experiencing a big increase in Irish applicants. In the five months to November 30th, some 2,290 people received these visas, compared to 3,370 for the whole of the previous 12-month period.

The number of permanent resident visas issued by New Zealand to Irish people is up 49 per cent at 434 in the year to end June 2010. It has also issued 4,010 work visas to Irish people, up from 3,936 in the previous 12-month period.

The UK, traditionally the largest recipient of Irish migrants has issued 5,630 national insurance numbers in the first six months of 2010 to Irish persons, suggesting full-year figures will surpass the 11,050 people in 2009 and the 10,550 people in 2008[7].

[7] http://www.irishtimes.com/newspaper/ireland/2010/1227/1224286316832.html

8.4 Negative equity

Table 17 outlines the number of mortgages which we believe are in negative equity assuming that house prices are 45% off their peak level. We believe there are approximately 287,000 mortgages in negative equity with 212,000 of those being owner occupied[8].

Table 17: Negative equity under different assumptions

Scenario	No. of mortgages in negative equity	Owner occupied mortagges in negative equity	% of total owner occupied mortages
Average prices 45% below their peak	286,986	212,369	34%

In order to put the number of mortgages in negative equity into context we need some gauge of the total number of mortgages in Ireland. Unfortunately the 2006 Census did not provide a figure for the total number of residential mortgages held in the economy. It did however provide a figure for the number of owner occupied homes with mortgages. Adding our assumed increase in net mortgages to the 2006 Census figure results in approximately 630,000 owner occupied mortgagors, leaving approximately 34% of owner occupied mortgages in negative equity assuming a 45% decline in prices.

8.4.1 Negative equity and arrears

It is worth remembering that residential mortgages in Ireland are secured with recourse to the borrower's general finances rather than just the property, unlike most States in the US. As a result, the "jingle mail" phenomenon whereby a mortgagor in negative equity sends the bank back the keys is pretty much non-existent. Furthermore, the regulator has worked with the banks to ensure that the latter showed as much forbearance as feasible to mortgagors experiencing difficulty. This has been done, for example, by extending maturities or switching to interest only for a period. These measures have been put in place to ensure that people were given a chance to work out their difficulties and resume normal payment as opposed to being forced into foreclosure. It is also worth mentioning that the Irish State pays the interest portion of a mortgage for households meeting certain criteria. All in all, despite the unemployment rise and the level of negative equity, the number of foreclosures has been relatively small given the economic devastation in Ireland.[9] We believe that this will continue to be the case going forward as households prioritise mortgage payments.

[8] 74% of the mortgages which were estimated to be in negative equity were assumed to be owner-occupied. This percentage was arrived at by examining the IBF mortgage data and the Irish Central Bank's breakdown of outstanding mortgages.

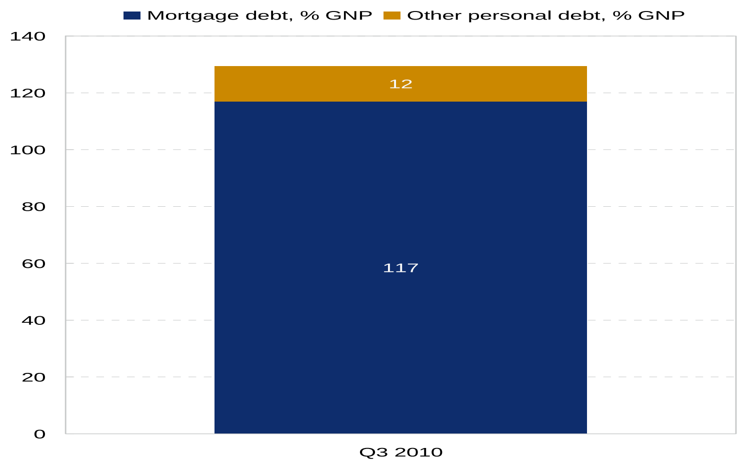
[9] At the beginning of Q3 2010 mortgage lenders held a stock of 495 repossessed residential properties. A further 81 were repossessed during the quarter of which 22 were repossessed on foot of Court Orders and 59 were repossessed following voluntary surrender or abandonment.

A total of 54 properties were disposed of during the quarter. This left mortgage lenders with 522 repossessed residential properties at the end of September 2010.

8.5 The prospects for consumption

Chart 22 below highlights personal indebtedness in Ireland, the majority of which is mortgage debt. 56% of the mortgages drawn down in the period 2004-2008 were by persons under the age of 35, while 28% of the mortgages drawn down over the same period were by persons aged between 36 and 45. In aggregate these persons have large debts relative to the assets they now hold and also relative to their incomes. With households prioritising mortgage payments, limited employment growth, limited wage growth, limited credit growth and emigration not to mention rising personal tax burden we believe that consumption expenditure in the 20-45 age group in particular will be subdued in the recovery.

Chart 22: Personal debt to GNP



Source: Central Bank of Ireland

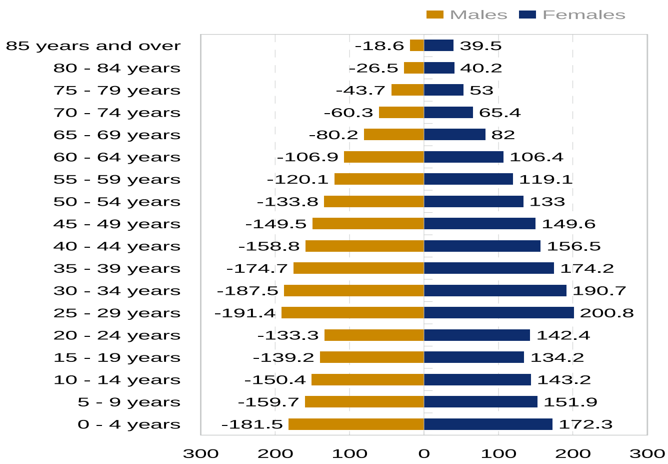
Despite the dramatic decline in house prices it is worth remembering that nominal prices are still 165% above their 1996 levels and 300% above their 1986 levels. As of the last Census there were 500,000 houses which were owner occupied without a loan or a mortgage. In other words, there is still a certain cohort, primarily those aged 45+, who have significant equity remaining in their houses. When this is combined with the fact that the 45+ age group is less likely to emigrate and the fact that this group saw less of a decline in employment than other cohorts it suggests that consumption prospects are better than for the 20-45 year age group. We are not saying that everything is rosy for this group as many people's wealth/pensions have been devastated by the losses in the Irish banks in particular and many will have provided and/or continue to provide support for their children's housing needs, but it is clear that there consumption prospects are brighter than the 20-45 age group.

8.6 Demographics

The natural increase in Ireland's population has been steadily increasing since the late 1990s as the number of births per thousand increased and the number of deaths per thousand has declined. Ireland's population stood at 4,470,700 in 2010.

The most populous age cohorts are the 25-29 (392,200) and the 30-34 (378,200) groups. It is also noticeable from the population pyramid below that the 0-4 age cohort is disproportionately bigger than the 5-20 age cohorts. This reflects the increase in the number of births over the last 4 years in particular. In the year to April 2010 there were 74,100 births following the record 74,500 registered in 2009.

Chart 23: Population pyramid, 2010



Source: CSO

Ireland's old age dependency ratio (65+/15-64) at 17% is one of the lowest in the EU and far lower than the European average which stands at 26%. Germany (31%), Italy (31%), Greece (28%), Sweden (28%) and Portugal (27%) are at the other end of the spectrum.

Ireland's dependency ratio will increase sharply over the coming decades as the large numbers in the 25-49 cohorts age. The old age dependency ratio will reach 25% by 2021, 33% by 2031 and 45% by 2041. This will clearly have implications for health expenditure.

8.6.1 Demographics and nursing homes

It is clear from the discussion above that there is going to be a significant increase in the demand for old age care in the years to come. We focus on nursing homes supply and demand below, but there are clearly wider implications as only about 5% of the 65+ population needs residential or nursing home care. In its position statement *An Age Friendly Society,* the National Council on Ageing and Older People highlighted the following:

- 87% of people questioned preferred to remain in their homes with family members taking care of all needs and health services providing respite care
- The study stated that the most frequently used Community Services were
  - Chiropody
  - Optical services
  - Dentistry
  - Public Health Nursing

There are approximately 450 private registered nursing homes and 120 public nursing homes in the State. As of April 2010 there were approximately 20,600 private beds and 9,600 public beds. The total supply is up from 28,500 in 2007.

The population over 65 was 509,500 in April 2010, equating to 16.9 persons per bed over 65. Ireland's population over 65+ will reach approximately 700,000 in 2021, 1,000,000 in 2031 and 1,300,000 in 2041. In order to keep the ratio of beds to population over 65 constant the number of beds would need increase to 41,420 in 2021, 59,172 in 2031 and 76,923 in 2041.

8.6.2 Demographics and emigration effects on housing demand

Under a no migration assumption the potential demand for housing averages 34,000 units per annum as compared with 24,000 units under the no change in headship scenario over the period 2012-2016 (Charts 24 & 25). The headship ratio is likely to increase in Ireland over the coming decade as the average number of persons per household's falls towards European norms. The current crisis, lower potential growth rates and restricted access to finance are likely to delay this process somewhat, but will pale in comparison to the effect that emigration will have on the potential demand for housing. Assuming net emigration averages 40,000 over the period to 2015, we estimate that this would reduce the potential demand for housing by 8,000 per annum compared to the figures mentioned above.

Chart 24: Potential housing demand, no change headship demand

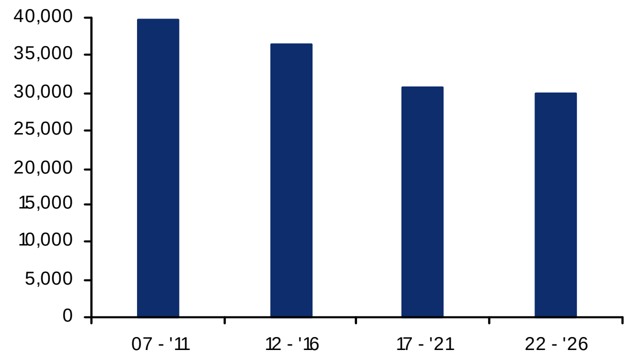
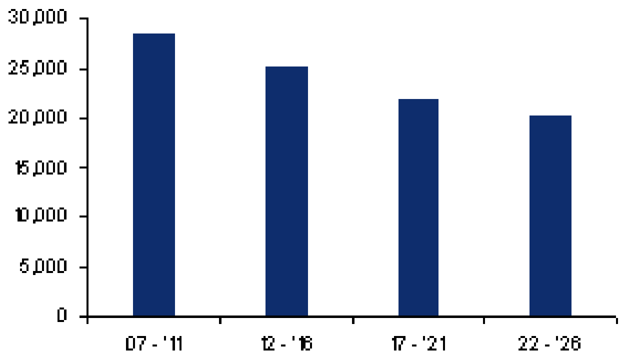


Chart 25: Potential housing change headship

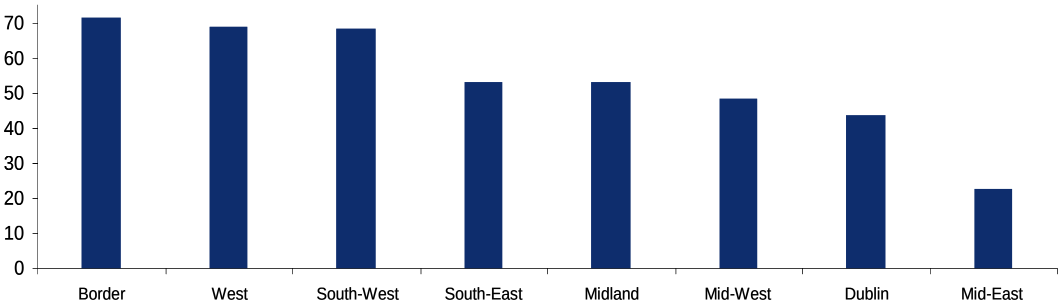


Source: CSO, authors calculations

Taking the average change in the number of households over the period 2009-2011 and dividing it into the number of houses available for sale according reveals there is a large amount of supply for sale in every region even if potential demand turns into actual demand[10]. Chart 26 also reveals that there is a large variation across regions with supply ranging from 23 months in the Mid-East to 71 months in the Border region. The Mid-East region is forecast to see a surge in the numbers of persons aged between 35-59 over the period 2009-2011. This helps explain why the number of month's potential supply is far less in the Mid-East than any other region.

[10] The above data is derived from Sherry Fitzgerald data from the end of 2009 and this has been combined with Daft.ie data from the end of 2010.

Chart 26 : Number of months' supply of properties available for sale relative to potential demand, by region



Source: Daft.ie, Sherry Fitzgerald, CSO, authors calculations

The above analysis, however, has focused on potential demand for housing. Even if regional population growth were to follow the path of the CSOs projections this does not say anything about actual demand for housing which will be determined by affordability, access to credit, job prospects, taxes, confidence and preferences. All-in all the analysis presents a sobering picture of the state of the Irish residential property market. The problem is particularly acute outside Dublin, Kildare, Meath and Wicklow.

House prices at the time of writing were 38% below their peak level according to the Q4 2010 TSB/ESRI house price index. Data from Daft.ie, based on asking prices, has the peak to trough decline in this index at 41%. In euro terms the average national house price stood at just below €220,000 according to Daft. Dublin city house prices continue to lead the fall, reflecting the larger increase in prices during the boom, but also a greater amount of transactions. Dublin house prices fell by 4.4% q/q in Q4 2010, to leave the fall from the peak at 50% according to Daft.

The differences in the size of the peak to trough decline and average prices relates to the fact that these prices are not simple averages, but rather econometrically estimated averages. Thus model differences as well as data differences are driving the divergent figures. The truth lies somewhere in between all the models but the generally accepted official measure of house prices tends to be the TSB/ESRI sales price index given its longer history. **Regardless, the message is clear; house price declines in Ireland are not over. We expect the average national peak to trough decline in achieved prices to be in the region of 45-55%. This equates to a further 10% fall from peak levels or close to a 20% decline from current levels.**

For more details see the piece, "Is the decline in Irish house prices over?" at http://www.ncbresearch.com/fixed_income/DefinitelyMaybeN3.pdf

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Appendices

Appendix I: Economic forecasts

y/y% changes unless otherwise stated	2007	2008	2009	2010	2011	2012	2013	2014
GNP	4.5	-3.5	-10.7	-3.0	-0.7	1.6	1.7	1.6
GDP	5.6	-3.5	-7.6	-0.8	0.2	2.1	2.1	2.1
Components of GDP								
Consumption	6.4	-1.5	-7.0	-1.2	-1.8	2.0	1.8	1.7
Government consumption	6.9	2.2	-4.4	-2.8	-3.8	-3.0	-2.5	-1.7
Investment	2.8	-14.3	-31.0	-23.6	-4.3	4.5	4.0	3.8
Gross Domestic expenditure		-4.3	-12.4	-5.7	-2.6	1.4	1.4	1.4
Exports	8.2	-0.8	-4.1	6.0	4.7	3.2	3.7	3.6
Imports	7.8	-2.9	-9.7	1.8	2.7	2.7	3.3	3.3
Prices								
CPI	4.9	4.1	-4.3	-1.0	1.5	2.2	1.7	2.3
HICP	2.9	3.1	-1.9	-1.6	0.9	1.8	1.7	2.0
Labour market indicators								
Employment	2.9	-4.0	-7.7	-4.0	-0.2	1.5	2.1	2.3
Unemployment rate (year avg)	4.6	6.3	12.2	13.4	13.2	12.2	11.0	9.4

Appendix II: Public finance forecasts – base case

	2008	2009	2010	2011	2012	2013	2014
GNP	-3.5	-10.7	-3.0	-0.7	1.6	1.7	1.6
GDP	-3.5	-7.6	-0.8	0.2	2.1	2.1	2.1
Revenue receipts (€ millions)	43,022	35,344	36,015	49,839	51,333	53,989	56,984
Expenditure outlays (€ millions)	55,735	59,985	54,775	68,135	68,108	67,321	66,443
Exchequer balance (€ millions)	-12,714	-24,641	-18,760	-18,296	-16,775	-13,332	-9,459
Bond redemptions (€millions)			1,200	4,390	5,576	6,028	11,357
Gross funding need (€ millions)			20,027	22,686	22,351	19,360	20,816
General government deficit, (€ millions)	-13,198	-23,350	-50,135	-15,806	-13,998	-12,462	-8,119
General government deficit to GDP	-6.9%	-14.6%	-31.9%	-9.9%	-8.5%	-7.4%	-4.6%
General government deficit to GDP (excluding financial interventions)	-6.9%	-11.8%	-11.9%	-9.9%	-8.5%	-7.4%	-4.6%
Gross Government debt to GDP (GGD, %)	41.5%	66.5%	95.3%	105.3%	110.6%	113.1%	112.6%
GGD excluding promissory notes, %GDP	41.5%	66.5%	95.3%	105.3%	110.6%	113.1%	112.6%
NAMA bonds			38,500	38,500	38,500	31,500	28,875
NAMA bonds, % GDP			24.5%	24.2%	23.5%	18.6%	16.4%
State liabilities (GGD plus NAMA bonds)			119.7%	129.4%	134.1%	131.7%	129.1%
Net debt (GGD less NPRF, cash), % GDP			76.3%	95.4%	101.0%	103.7%	103.5%
Net debt, % GNP			95.2%	117.1%	123.9%	127.1%	127.2%

Assumption is that a further €12.5bn in addition to the €10bn already earmarked for the banks is drawn down. Following the lead of the IMF, we assume half these additional funds are drawn down from EU/IMF facility and the other half come from domestic resources (cash balances, NPRF).

Appendix III: Public finance forecasts – high growth

	2008	2009	2010	2011	2012	2013	2014
GNP	-3.5	-10.7	-3.0	1.0	2.6	2.7	2.6
GDP	-3.5	-7.6	-0.8	1.8	3.1	3.1	3.1
Revenue receipts (€ millions)	43,022	35,344	36,015	50,720	52,744	56,008	59,681
Expenditure outlays (€ millions)	55,735	59,985	54,775	68,135	67,714	66,862	65,945
Exchequer balance (€ millions)	-12,714	-24,641	-18,760	-17,415	-14,970	-10,855	-6,264
Bond redemptions (€millions)			1,200	4,390	5,576	6,028	11,357
Gross funding need (€ millions)			20,027	21,805	20,546	16,883	17,621
General government deficit, (€ millions)	-13,198	-23,350	-50,135	-14,925	-12,193	-9,985	-4,924
General government deficit to GDP	-6.9%	-14.6%	-31.9%	-9.2%	-7.2%	-5.7%	-2.7%
General government deficit to GDP (excluding financial interventions)	-6.9%	-11.8%	-11.9%	-9.2%	-7.2%	-5.7%	-2.7%
Gross Government debt to GDP (GGD, %)	41.5%	66.5%	95.3%	99.0%	102.3%	102.5%	99.6%
GGD excluding promissory notes, %GDP	41.5%	66.5%	95.3%	99.0%	102.3%	102.5%	99.6%
NAMA bonds			38,500	38,500	38,500	31,500	28,875
NAMA bonds, % GDP			24.5%	23.8%	22.8%	17.9%	15.7%
State liabilities (GGD plus NAMA bonds)			119.7%	122.8%	125.2%	120.4%	115.3%
Net debt, % GDP			76.3%	86.7%	90.4%	91.0%	88.5%
Net debt, % GNP			95.2%	108.3%	114.0%	115.7%	113.9%

Assumption is that no more money in addition to the €10bn already earmarked for the banks is drawn down.

Appendix IV: Public finance forecasts –low growth

	2008	2009	2010	2011	2012	2013	2014
GNP	-3.5	-10.7	-3.0	-1.7	0.6	0.7	0.9
GDP	-3.5	-7.6	-0.8	-0.8	1.1	1.1	1.2
Revenue receipts (€ millions)	43,022	35,344	36,015	49,350	50,338	52,434	54,812
Expenditure outlays (€ millions)	55,735	59,985	54,775	68,491	68,501	67,757	66,912
Exchequer balance (€ millions)	-12,714	-24,641	-18,760	-19,141	-18,162	-15,323	-12,101
Bond redemptions (€millions)			1,200	4,390	5,576	6,028	11,357
Gross funding need (€ millions)			20,027	23,531	23,738	21,351	23,458
General government deficit, (€ millions)	-13,198	-23,350	-50,135	-16,651	-15,385	-14,453	-10,761
General government deficit to GDP	-6.9%	-14.6%	-31.9%	-10.6%	-9.6%	-8.8%	-6.4%
General government deficit to GDP (excluding financial interventions)	-6.9%	-11.8%	-11.9%	-10.6%	-9.6%	-8.8%	-6.4%
Gross Government debt to GDP (GGD, %)	41.5%	66.5%	95.3%	106.8%	118.1%	122.8%	124.9%
GGD excluding promissory notes, %GDP	41.5%	66.5%	95.3%	106.8%	118.1%	122.8%	124.9%
NAMA bonds			38,500	38,500	38,500	31,500	28,875
NAMA bonds, % GDP			24.5%	24.4%	23.9%	19.1%	17.1%
State liabilities (GGD plus NAMA bonds)			119.7%	131.3%	142.1%	142.0%	142.0%
Net debt, % GDP			76.3%	96.9%	112.2%	117.0%	119.2%
Net debt, % GNP			95.2%	117.7%	135.0%	139.3%	140.8%

Assumption is that a further €25bn in addition to the €10bn already earmarked for the banks is drawn down. Following the lead of the IMF, we assume half these additional funds are drawn down from EU/IMF facility and the other half come from domestic resources (cash balances, NPRF).

EUR 5.14

ABBEY PLC

Buy

ABBY.I/ABBY ID

Market capitalisation: EUR 127m

Construction & Materials

EUR	04/10	04/11e	04/12e	04/13e
Sales (m)	97.2	83.6	129	169
EBITDA (m)	16.9	9.6	14.8	22.3
EBITDA margin	17.4%	11.5%	11.5%	13.2%
EBIT (m)	12.6	6.6	11.8	19.3
EBIT margin	12.9%	7.9%	9.2%	11.4%
Net profit (reported) (m)	12.0	6.2	10.2	16.3
Net profit (adj.) (m)	12.0	6.2	10.2	16.3
Cash Flow from Ops.bef. chg in NWC (m)	18.4	9.2	13.2	19.3
Net debt (Cash) (m)	-104	-113	-127	-147
Net Debt/Equity	-0.6	-0.7	-0.7	-0.8
Net Debt/EBITDA	-6.1	-11.8	-8.6	-6.6
Interest cover (EBITDA/Fin. interest)	nm	nm	nm	nm
ROCE (adj.)	18.4%	10.6%	20.9%	38.3%
ROCE (adj.)/WACC	nm	nm	nm	nm
EV / CE	0.2	0.2	nm	nm
EV / Sales	0.1	0.1	nm	nm
EV / EBITDA	0.6	1.1	nm	nm
EV / EBIT	0.7	1.6	nm	nm
P/E (adj.)	9.6	20.5	12.4	7.8
P/BV	0.7	0.8	0.7	0.7
OpFCF yield	27.4%	8.5%	12.2%	16.8%
Dividend yield	1.0%	1.0%	1.0%	1.0%
EPS (adj.)	0.49	0.25	0.41	0.66
EPS (adj.) growth	15.8%	-48.6%	64.7%	60.1%
BVPS	6.51	6.72	7.08	7.69
DPS	0.05	0.05	0.05	0.05
Abs. Performances(12m,6m,3m,1m):	7.1%	11.7%	18.2%	0.8%

12 month High/low: EUR5.30 / 4.05 — Avg. Daily nb traded shares:41,626

Main shareholders: Free float 58.7%; Gallagher family holdings 41.3%; FMR Corp 13.1%;

All share prices at 01/02/11.

Profile: The company focuses on the first time buyer market in the UK and Ireland, with activity concentrated in the South East of England and in commuter towns serving Dublin. In recent years the group has commenced a small pilot development in Prague. Abbey also operates a plant hire business in the UK where the focus has been to improve return on capital employed through rationalisation of its network. Abbey tends to traditionally build its homes and has not embraced timber build as a means of rapidly expanding output..

SWOT Analysis

STRENGTHS

- Debt free balance sheet.
- Conservative management team with proven track record.
- Based in good geographical locations where demand is likely to remain firm (SE England).
- Operations in Ireland and the UK, which allows the company to switch emphasis to cyclically stronger markets.

WEAKNESSES

- Stock replenishment.
- Over-supply of housing in Ireland.
- Declining property values.
- Poor investor confidence in property markets .
- Demand for new homes depends on cyclical factors like interest rates and consumer confidence.
- Limited free float, Family owns c. 42%.

OPPORTUNITIES

- Strong cash position allows group to acquire attractive land sites as competitors struggle with debt problems.
- UK market structurally undersupplied.
- Potential consolidator of troubled peers.

THREATS

- Further stock write downs.
- Government budgetary and planning regulatory changes.
- Prolonged economic downturn in Ireland & UK.

Recommendation: At the time of its recent half-year results (9 December) Abbey indicated that it remained cautious on future trading conditions, describing the outlook as “quite bleak”. It believes that constrained mortgage availability in the UK will continue to impact house pricing. Nevertheless, with the group’s cash position remaining healthy (€100m) it is strongly placed to focus on its restocking process. In addition, the group has commenced a buy-back programme (for up to 15% of its share capital or c. €16m) which will help support valuation over the near-term. Trading on just 0.8x April 2011 NAV, we remain positive on Abbey.

Target Price: EUR 6.40

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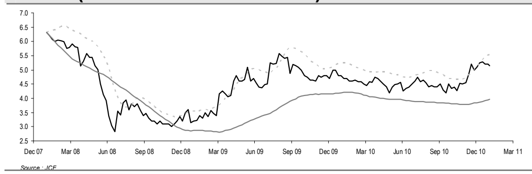
PRICE (SHORT & LONG AVERAGE)



FINANCIAL CALENDAR

28/04/11	Interim 2011 Dividend paymen
30/03/11	Interim 2011 Ex-dividend date

EUR 1.02

AER LINGUS

Buy

AERL.I/AERL ID

Market capitalisation: EUR 545m

Airlines

EUR	12/09	12/10	12/11	12/12
Sales (m)	1,206	1,208	1,282	1,326
EBITDAR (m)	57.6	182	196	218
EBITDA margin	0.1%	10.8%	11.7%	13.0%
EBIT (m)	-80.9	42.4	54.8	73.8
EBIT margin	nm	3.5%	4.3%	5.6%
Net profit (reported) (m)	-130	37.4	60.3	79.8
Net profit (adj.) (m)	-41.3	47.4	60.3	79.8
Cash Flow from Ops.bef. chg in NWC (m)	-116	121	149	172
Net debt (Cash) (m)	-336	-339	-426	-598
Net Debt/Equity	-0.5	-0.5	-0.5	-0.7
Net Debt/EBITDA	-189	-2.6	-2.8	-3.5
Interest cover	nm	nm	nm	nm
ROCE (adj.)	-13.7%	6.7%	9.1%	14.8%
ROCE (adj.)/WACC	nm	nm	nm	nm
EV / CE	0.0	0.4	0.2	nm
EV / Sales	0.0	0.2	0.1	nm
AEV / EBITDAR	0.2	1.3	0.6	nm
EV / EBIT	nm	5.6	2.2	nm
P/E (adj.)	nm	12.2	9.0	6.8
P/BV	0.5	0.8	0.7	0.6
OpFCF yield	-49.6%	15.4%	29.6%	32.3%
Dividend yield	0.0%	0.0%	0.0%	0.0%
EPS (adj.)	-0.08	0.09	0.11	0.15
EPS (adj.) growth	-chg	+chg	27.3%	32.3%
BVPS	1.33	1.39	1.50	1.65
DPS	0.00	0.00	0.00	0.00
Abs. Performances(12m,6m,3m,1m):	47.8%	9.6%	-8.1%	-5.6%

12 month High/low: EUR1.17 / .56 — Avg. Daily nb traded shares:712,138

Main shareholders: Free float 32.6%; Ryanair 29.8%; Irish Gov't 25.1%;

ESOP 12.5%;

All share prices at 01/02/11.

Profile: Aer Lingus is Ireland's national carrier, operating a hybrid business model of low cost short haul services and two-class long haul services primarily from its Dublin hub. The airline flew 8.8m short-haul and 0.9m long-haul passengers in 2010. Aer Lingus has a structural cost disadvantage relative to low cost carriers such as Ryanair and easyJet due to high staff costs and lack of scale when buying aircraft. As is true for other flag carriers, collective wage-bargaining and trade union opposition to changes in working practices have led to uncompetitive staff costs relative to younger airlines. The airline is also relatively small – its fleet at the end of 2009 consisted of 36 short-haul aircraft and 8 long-haul aircraft. Aer Lingus will not therefore enjoy the same bargaining power as larger airlines.

SWOT Analysis

STRENGTHS
- Strong position at Dublin airport.
- Strong balance sheet with gross cash of €952m at September 2010.
- 4th highest slot holding at Heathrow with 3%.
- US immigration pre-clearance from Dublin.

WEAKNESSES
- High cost base due to Irish economic strength and highly unionised labour force.
- Irish air travel tax.
- Relatively small scale operation in relation to main competitors.
- Low free float post Ryanair stake building.

OPPORTUNITIES
- Scope to continue to lower costs/defer capex.
- Increased US access under Open Skies.
- US airline partnership-building.

THREATS
- Sensitivity to business and consumer confidence.
- Increased competition on short haul from LCCs and on the transatlantic.
- Continued strike threats from fully unionised labour force.
- Resurgent fuel prices.

Recommendation: We have a 1-year price target of €1.40 and a Buy recommendation. Our price target is based on 0.85x blended book value in 2011 and 2012, and compares to an average price to book multiple of 0.8x since the IPO. The discount to book value reflects low returns on capital as well as low liquidity of the shares. Aer Lingus should, however, be worth more to another airline due to synergies. Fiscal difficulties of the Irish government and comments by Ryanair make us more hopeful that the currently onerous ownership structure will be resolved by both parties disposing of their stakes.

Target Price: EUR 1.40

Analyst(s)		NCB Stockbrokers
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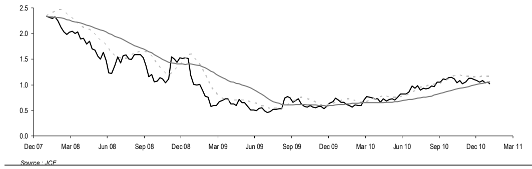
PRICE (SHORT & LONG AVERAGE)



FINANCIAL CALENDAR

NCB

Independent & International

ESN

EUR 0.24

ALLIED IRISH BANKS

Hold

ALBK.I/ALBK ID

Market capitalisation: EUR 2988m

Banks

EUR	12/09	12/10e	12/11e	12/12e
Total Revenue (m)	4,236	2,900	1,850	2,000
Pre-Provision Profit (PPP) (m)	2,315	1,098	448	898
Loan Impairment Charge (m)	-5,355	-11,350	-1,206	-783
Operating profit (OP) (m)	-3,040	-10,252	-758	115
Earnings before tax (m)	-2,117	-9,842	-758	115
Net profit (reported) (m)	-1,919	-8,722	-773	101
Net profit (adj.) (m)	-3,071	-9,081	-773	101
Shareholders equity (m)	10,709	-2,571	-3,344	-3,243
Tier 1 Ratio	7.2%	6.7%	5.8%	5.9%
Cost/Income ratio	44.8%	62.1%	75.7%	55.0%
ROE (adj.)	-40.3%	-166%	-20.6%	3.0%
NPL ratio (gross)	13.8%	7.3%	6.2%	6.1%
NPL coverage	41.0%	26.9%	37.9%	39.2%
LIC/Avg. RWA	4.2%	10.8%	1.3%	0.9%
P/Pre-Provision Profit per Share	0.5	3.3	6.7	3.3
P/E (adj.)	nm	nm	nm	2.2
P/BV	0.1	nm	nm	nm
P/NAV	0.2	1.3	1.5	1.4
Dividend yield	0.0%	0.0%	0.0%	0.0%
PPPPS	2.59	0.09	0.04	0.07
EPS (adj.)	-3.44	-10.11	-0.85	0.11
EPS (adj.) growth	-chg	-chg	+chg	+chg
BVPS	7.64	0.34	0.27	0.28
NAVPS	6.08	0.22	0.16	0.17
DPS	0.00	0.00	0.00	0.00
Abs. Performances(12m,6m,3m,1m):	-80.0%	-74.0%	-28.2%	-18.7%
12 month High/low: EUR1.79 / .23	Avg. Daily nb traded shares:2,691,461			

Main shareholders: Free float 100.0%;

All share prices at 01/02/11.

Profile: Allied Irish Banks (AIB) is one of the leading retail clearing banks in Ireland. However, largely as a result of material loan write downs following the bursting of the Irish property bubble, the group is currently undergoing a significant period of restructuring. In aggregate AIB is required to raise €13bn of capital, in order to reach a 12% Core Tier 1 level, as instructed by the Irish regulator. The group disposed of its 22% stake in the US bank "M&T" along with its 70% share ownership of the Polish bank "BZWBK" during 2010 (generating equity of €3.4bn in the process). Aside from liability management gains (€1.4bn) on the buy-back of the group's subordinate debt, the Irish government has been required to inject the residual equity shortfall, taking its effective shareholding in the Group to 93%.

SWOT Analysis

STRENGTHS

- Dominant market position in Irish banking.
- Low LTV mortgage lending.
- Strong capital markets business.
- Large branch network.

WEAKNESSES

- Asset quality deterioration in non-NAMA loan book.
- Funding costs to remain elevated.
- 60% of Irish mortgages are tracker based.
- Cost of government guarantee to erode pre-provision profits.
- Dependent on emergency liquidity facilities from Central Bank authorities.

OPPORTUNITIES

- Cost reduction to improve pre-provision profits.
- Asset re-pricing to enhance revenues.
- Strengthen market position as foreign players retrench.
- Further liability management initiatives to generate capital accretion.

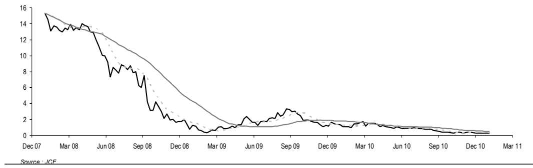
THREATS

- Demand for credit to remain weak.
- Wholesale funding markets to remain closed to Irish banks.
- Levy to be placed on future earnings in the event of NAMA making losses.
- Deposit rates to remain prohibitively high.

Recommendation: We reiterate our cautious stance on AIB and maintain our HOLD recommendation. The group is under significant pressure to deleverage its balance sheet, with the risk of further capital hits from forced disposals at below book values. As the government's stake has increased to 93% (and may rise to c. 97%), the ordinary shares were delisted from the Main Securities Market of the Irish Stock Exchange (25 January), with trading in the shares moved to the Enterprise Securities Market.

Target Price: EUR 0.40

PRICE (SHORT & LONG AVERAGE)



FINANCIAL CALENDAR

Analyst(s)		NCB Stockbrokers
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EUR 34.08 ARYZTA Buy

ARYN.I/YZA ID

Market capitalisation: EUR 2828m Food & Beverage

EUR	07/09	07/10	07/11e	07/12e
Sales (m)	3,212	3,010	3,745	3,917
EBITDA (m)	344	335	451	493
EBITDA margin	10.7%	11.1%	12.0%	12.6%
EBIT (m)	239	217	296	328
EBIT margin	7.4%	7.2%	7.9%	8.4%
Net profit (reported) (m)	31.2	152	178	197
Net profit (adj.) (m)	231	194	253	277
Cash Flow from Ops.bef. chg in NWC (m)	367	357	466	501
Net debt (Cash) (m)	659	1,228	1,358	1,083
Net Debt/Equity	0.5	0.7	0.7	0.5
Net Debt/EBITDA	1.9	3.7	3.0	2.2
Interest cover (EBITDA/Fin. interest)	6.8	6.5	5.3	6.3
ROCE (adj.)	9.3%	6.2%	7.5%	8.4%
ROCE (adj.)/WACC	1.0	0.7	0.8	0.9
EV / CE	1.1	1.1	1.2	1.1
EV / Sales	0.7	1.2	1.1	1.0
EV / EBITDA	7.0	10.5	8.9	7.6
EV / EBIT	10.0	16.2	13.5	11.4
P/E (adj.)	10.4	12.9	11.2	10.2
P/BV	1.5	1.5	1.6	1.4
OpFCF yield	17.3%	12.9%	13.7%	14.7%
Dividend yield	0.0%	1.0%	1.2%	1.4%
EPS (adj.)	2.35	2.44	3.05	3.34
EPS (adj.) growth	16.1%	3.9%	24.9%	9.6%
BVPS	16.69	20.33	21.59	23.97
DPS	0.00	0.35	0.40	0.47
Abs. Performances(12m,6m,3m,1m):	29.6%	4.7%	8.2%	1.4%

12 month High/low: EUR35.00 / 25.82 Avg. Daily nb traded shares:53,421

Main shareholders: Free float 100.0%;

All share prices at 11/01/11.

Profile: Aryzta is a global bakery Group specialising in par baked products. It has operations in the US, Canada, and most of Western & Central Europe and a growing footprint in emerging markets in Latam and Asia. Its product range is focused on the value added non packaged par bakery sector serving the market through a variety of routes such as retail, food service, Quick Service Restaurants and speciality bakery outlets. Aryzta also retains a 71.4% share in Origin Enterprises plc, an agri commodity Group with operations in Ireland & GB. Origin is largely focused on agronomy services and fertiliser blending with joint ventures in food , animal feed, and marine protein sectors.

SWOT Analysis

Strengths

- Diversified markets, channels, technologies customers and products.
- Well funded balance sheet.
- Strong relationships with Global QSR players.
- Ireland accounts for less than 5% of EBIT.

Weaknesses

- Volatility in key commodity inputs such as flour, energy and labour.
- Weakening consumer spending.

Opportunities

- Consolidation to fewer larger sites.
- Low risk expansion in emerging markets via QSR links.
- Potential to monetise its 71% holding in Origin.

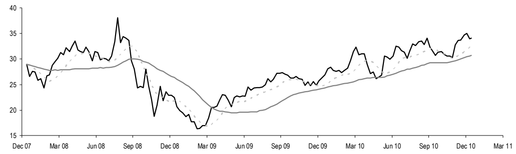
Threats

- New competitor emerging.

Recommendation: Aryzta is now the leading global player in par baked goods with a very diversified product, customer and market platform. Its recent acquisitions of Fresh Start Bakeries, First Kitchens and 100% of Maidstone enhances its product offering, cross selling opportunities and provides access to complementary markets and technologies. Furthermore it diversifies its customer base into the fast growing QSR channel. The Global recession has slowed sales but its recent Q1 results highlight potential early shoots of recovery in continental EU markets with volume recovery in Ireland resulting from a strategic change to promote value offerings. We believe that Aryzta will deliver significant synergies (up to €40m or 10% of eps) as it moves to integrate its recent acquisitions and consolidates operations onto fewer larger sites. This combined with a very strong track record in sustaining margins through volatile input price cycles should ensure delivery of the targeted 45c per share from these acquisitions. We believe that Aryzta will also move to monetise its stake in Origin in the near term to accelerate debt reduction.

Target Price: EUR 40.00

Price (Short & Long average)



Source : JCF

Financial Calendar

14/03/11 Interim 2011 Results

Analyst(s)		NCB Stockbrokers
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EUR 0.34

BANK OF IRELAND

Hold

BKIR.I/BKIR ID

Market capitalisation: EUR 1796m

Banks

EUR	12/09	12/10e	12/11e	12/12e
Total Revenue (m)	2,440	2,764	2,400	2,770
Pre-Provision Profit (PPP) (m)	1,052	946	600	1,051
Loan Impairment Charge (m)	-4,061	-3,750	-1,300	-650
Operating profit (OP) (m)	-3,009	-2,804	-700	402
Earnings before tax (m)	-1,915	-2,347	-673	429
Net profit (reported) (m)	-1,571	-2,094	-783	202
Net profit (adj.) (m)	-2,696	-1,717	-783	202
Shareholders equity (m)	6,387	7,016	5,774	4,930
Tier 1 Ratio	9.8%	12.4%	11.4%	11.6%
Cost/Income ratio	56.9%	65.8%	75.0%	62.0%
ROE (adj.)	-74.5%	-31.3%	-10.2%	2.7%
NPL ratio (gross)	10.4%	9.5%	9.2%	6.1%
NPL coverage	43.3%	46.3%	43.0%	37.9%
LIC/Avg. RWA	4.0%	4.2%	1.6%	0.8%
P/Pre-Provision Profit per Share	1.3	2.1	3.0	1.7
P/E (adj.)	nm	nm	nm	8.9
P/BV	0.2	0.3	0.3	0.4
P/NAV	0.6	0.2	0.2	0.2
Dividend yield	0.0%	0.0%	0.0%	0.0%
PPPPS	0.67	0.18	0.11	0.20
EPS (adj.)	-1.71	-0.32	-0.15	0.04
EPS (adj.) growth	-chg	+chg	+chg	+chg
BVPS	1.38	1.53	1.38	1.42
NAVPS	1.38	1.53	1.38	1.42
DPS	0.00	0.00	0.00	0.00
Abs. Performances(12m,6m,3m,1m):	-57.8%	-60.3%	-34.8%	-9.6%
12 month High/low: EUR1.21 / .26		Avg. Daily nb traded shares:15,094,452		

Main shareholders: Free float 100.0%;

All share prices at 01/02/11.

Profile: Bank of Ireland (BoI) has a bias towards the mortgage and long-term savings markets while c. 50% of its loans are based outside of Ireland. As part of its restructuring plan (April 2010) BoI intends to run-off its €30bn UK mortgage loan-book and €4bn of international lending, together with a divestment of its New Ireland Assurance business and at least €2bn of loans relating to its ICS building society division (Irish mortgages). The group successfully raised €3.5bn of capital during 2010 to reach a 7% Equity Tier 1 level, while keeping the government's stake limited to 36%. However, the regulator has since increased the capital bar to the 12% Core Tier 1 level, forcing BoI to raise a further €2.2bn by the end of February.

SWOT Analysis

STRENGTHS

- Dominant position in Irish market.
- Relatively conservative/diversified loan book.
- Low Irish corporate tax rate (12.5%).
- Limited exposure to high-risk businesses.
- Robust capital levels following upcoming equity rasings.

WEAKNESSES

- Limited overseas expansion capability.
- 60% of Irish mortgages are tracker based (€18bn).
- Under-achievement in the business banking sector in Ireland, although improving.
- Poor overseas acquisitions track record.
- Exposed to competitive Irish deposit market.
- Reliant on government guarantees to term out funding.

OPPORTUNITIES

- Gain Irish market share as weaker players retrench.
- Funding profile will benefit from the receipt of liquid NAMA bonds.

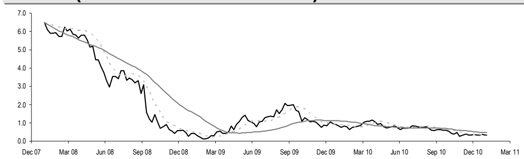
THREATS

- Earnings ability impacted by declining Irish economy.
- Loan losses on residual loan book (post NAMA) to remain elevated.
- Intense Irish deposit competition impacting margins adversely.
- Regulatory/restructuring changes to constrain earnings ability.

Recommendation: With the group set to undergo a further round of stress testing (March 2010), we can not rule out the possibility of additional capital injections as a consequence of increased provisioning. New detailed restructuring plans are also required to be submitted by the end of Q1. The latter must be approved by the ECB/EU/IMF, and as such, further capital hits as a result of forced disposals potentially face the group. Hence, we remain cautious on the stock until we have full clarification on these key variables.

Target Price: EUR 0.45

PRICE (SHORT & LONG AVERAGE)



Source : JCF

FINANCIAL CALENDAR

Analyst(s)		NCB Stockbrokers
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NCB
Independent & International

ESN

C&C GROUP

EUR 3.52

GCC.I/GCC ID

Market capitalisation: EUR 1140m

Buy

Food & Beverage

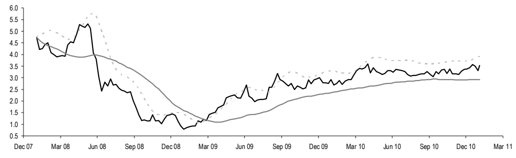
EUR	02/09	02/10	02/11e	02/12e
Sales (m)	514	569	709	797
EBITDA (m)	110	106	122	132
EBITDA margin	21.3%	18.7%	17.2%	16.6%
EBIT (m)	90.2	89.5	106	116
EBIT margin	17.5%	15.7%	15.0%	14.6%
Net profit (reported) (m)	79.9	73.4	308	96.5
Net profit (adj.) (m)	79.9	73.4	-136	96.5
Cash Flow from Ops.bef. chg in NWC (m)	86.8	100	122	132
Net debt (Cash) (m)	226	365	7.2	-55.6
Net Debt/Equity	0.9	1.1	0.0	-0.1
Net Debt/EBITDA	2.1	3.4	0.1	-0.4
Interest cover (EBITDA/Fin. interest)	10.5	14.8	22.2	33.1
ROCE (adj.)	20.5%	11.2%	21.7%	23.1%
ROCE (adj.)/WACC	2.3	1.2	2.4	2.6
EV / CE	0.9	1.7	2.7	2.5
EV / Sales	1.0	2.1	1.6	1.3
EV / EBITDA	4.5	11.3	9.1	8.1
EV / EBIT	5.5	13.4	10.5	9.2
P/E (adj.)	3.7	11.8	13.2	12.0
P/BV	1.2	2.6	2.9	2.5
OpFCF yield	38.6%	14.3%	13.3%	10.6%
Dividend yield	20.4%	1.3%	1.9%	2.1%
EPS (adj.)	0.25	0.23	0.27	0.29
EPS (adj.) growth	-21.7%	-9.9%	15.9%	10.7%
BVPS	0.80	1.03	1.22	1.42
DPS	0.19	0.05	0.07	0.07
Abs. Performances(12m,6m,3m,1m):	22.1%	8.2%	6.3%	4.0%

12 month High/low: EUR3.60 / 2.66 — Avg. Daily nb traded shares:1,096,665

Main shareholders: Free float 100.0%;

All share prices at 01/02/11.

PRICE (SHORT & LONG AVERAGE)



FINANCIAL CALENDAR

Profile: C&C manufactures and markets the dominant premium cider product (Bulmers Cider) in Ireland with 10%+ of the on-trade and exports the same product under the Magners brand to international markets. C&C is now also the leading brewer in Scotland following its acquisition of Tennents from ABI in August 2009. The acquisition of Gaymers in November from Constellation Brands increases its share of the UK cider market to 25% and enhances its product range, distribution capability and geographic markets.

SWOT Analysis

STRENGTHS

- Sustainability of conversion of EBITDA to free cash >60%.
- GB cider market dominated by Heineken, whose strategy is premium pricing not discounts.
- Market leadership in cider in Ireland and beer in Scotland.
- 25% market share of UK cider market.

WEAKNESSES

- Weak consumer spending accelerates growth of lower margin off-trade sales at the expense of higher margin on-trade sales.
- Investment needed to revive Tennents sales.

OPPORTUNITIES

- To capitalise on its expanded branded portfolio and distribution to grow higher margin sales.
- Further acquisitions of regional brands.
- To exploit its relationship with ABI to explore the potential of cider in new international markets.
- To outperform on synergy guidance.

THREATS

- Introduction of excise tax equalisation for cider with that of beer in GB.
- Pressure for discounts increased in weak economic environment.

Recommendation: C&C's newly expanded product range increases its competitive offering especially in draught and in the off-trade. It can now maintain Magners as a premium cider brand while offering customers' value priced brands from the Gaymer stable. Tennent's provides regional leadership in Scotland in the LAD category and this significantly enhances the sales prospects for draught cider through Tennent's draught distribution network. Sales in GB are forecast to reach Eur 450m by FY 2011 with further upside depending on the level of revenue synergies harvested by the enlarged GB sales team. C&C is now firmly established as the number two player in the GB cider market with an estimated 25% market share (2.25m hl). Heineken retains its leadership position with a 50% market share (4.5m hl). C&C is now producing an equal amount of beer for the GB market as cider. Key advantages of this rapid expansion in GB include: 1) an ability to optimise efficiencies across its two plants in GB and one in Ireland, 2) direct distribution ownership in GB reduces its reliance on third party contractors and 3) strengthening of relationships with customers. Procurement synergies will also play a significant role in delivering our forecast margin expansion assumptions. Post its disposal of spirits, C&C will become cash positive by FY12, facilitating further acquisitions, dividend growth and share buy backs. We see little risk to estimates and rate it a BUY.

Target Price: EUR 4.00

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CPL RESOURCES PLC

EUR 2.98 | **Buy**

CPS.I/CPL ID

Market capitalisation: EUR 111m

Support Services

EUR	06/10	06/11e	06/12e	06/13e
Sales (m)	190	230	265	317
EBITDA (m)	5.0	7.4	10.6	13.0
EBITDA margin	2.6%	3.2%	4.0%	4.1%
EBIT (m)	4.0	6.4	9.5	11.9
EBIT margin	2.1%	2.8%	3.6%	3.8%
Net profit (reported) (m)	4.5	6.5	9.2	11.5
Net profit (adj.) (m)	4.5	6.5	9.2	11.5
Cash Flow from Ops.bef. chg in NWC (m)	6.1	7.6	10.2	12.6
Net debt (Cash) (m)	-43.5	-48.9	-56.9	-67.1
Net Debt/Equity	-0.7	-0.7	-0.8	-0.8
Net Debt/EBITDA	-8.7	-6.6	-5.4	-5.2
Interest cover (EBITDA/Fin. interest)	nm	nm	nm	nm
ROCE (adj.)	16.8%	29.2%	46.0%	61.3%
ROCE (adj.)/WACC	1.9	3.2	5.1	6.8
EV / CE	2.6	3.3	3.0	2.6
EV / Sales	0.3	0.3	0.2	0.1
EV / EBITDA	10.3	8.4	5.2	3.4
EV / EBIT	13.1	9.8	5.7	3.7
P/E (adj.)	21.2	17.1	12.2	9.7
P/BV	1.5	1.7	1.5	1.3
OpFCF yield	5.6%	6.8%	9.2%	11.3%
Dividend yield	1.3%	1.7%	1.7%	1.9%
EPS (adj.)	0.12	0.17	0.24	0.31
EPS (adj.) growth	-43.6%	44.8%	40.4%	25.8%
BVPS	1.66	1.78	1.98	2.23
DPS	0.04	0.05	0.05	0.06
Abs. Performances(12m,6m,3m,1m):	36.7%	25.5%	35.5%	17.8%

12 month High/low: EUR3.10 / 2.10 — Avg. Daily nb traded shares:35,657

Main shareholders: Free float 59.2%; A Heraty / P Carroll 40.8%;

All share prices at 01/02/11.

Profile: CPL Resources is a leader in the provision of specialist recruitment and outsourcing services. Its capability now spans the entire employment lifecycle and includes permanent, temporary and contract recruitment, workforce management, training, performance consulting and career transition. The group has a broad and diverse range of customers from market-leading multi-nationals to small and medium enterprises. It has specialist divisions with in-depth knowledge of their particular sector, helping the group to tailor its services to the particular needs of individuals that vary by profession.

SWOT Analysis

STRENGTHS

- Well positioned (circa 12% market share) in the Irish market.
- Strong management track record.
- Highly cash generative business.
- Solid balance sheet.
- Fee income well diversified by business sector.

WEAKNESSES

- Low Free Float (59%).
- Highly cyclical industry.
- Need to reinvest in business to protect franchise.
- High exposure to Irish downturn.

OPPORTUNITIES

- Continued market share growth in Ireland.
- Acquisitive growth and subsequent delivery of cost and revenue synergies.
- Increase presence in UK/ Eastern Europe.
- Further growth in HR/health outsourcing business.

THREATS

- Loss of key personnel.
- Margin erosion as competition increases.
- Clients relocate outside of Ireland.
- Changes in labour law to increase compliance costs.
- Rise in bad debts as economy contracts.

Recommendation: CPL recently noted a modest up-tick in the Irish recruitment market, as employer confidence slowly returns. The group is a well managed company that has remained profitable during this downturn. As the Group has strong cash balances, further acquisitions are likely over coming months. Assuming no suitable businesses can be found, we increasingly believe that management will turn towards a special distribution for shareholders (existing cash balances equate to €1.13 per share).

Target Price: EUR 3.00

Analyst(s)		NCB Stockbrokers
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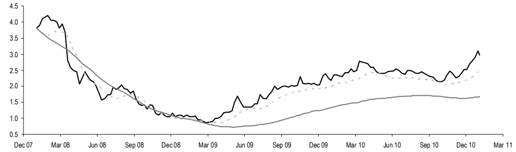
PRICE (SHORT & LONG AVERAGE)



Source : JCF

FINANCIAL CALENDAR

04/03/11 Interim 2011 Dividend paymen

02/02/11 Interim 2011 Ex-dividend date

EUR 15.99

CRH

Buy

CRH.I/CRH ID

Market capitalisation: EUR 11193m

Construction & Materials

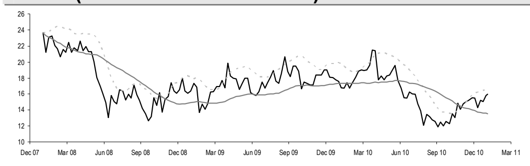
EUR	12/09	12/10e	12/11e	12/12e
Sales (m)	17,373	16,742	16,470	17,007
EBITDA (m)	1,803	1,595	1,719	1,948
EBITDA margin	10.4%	9.5%	10.4%	11.5%
EBIT (m)	955	658	882	1,111
EBIT margin	5.5%	3.9%	5.4%	6.5%
Net profit (reported) (m)	592	373	551	751
Net profit (adj.) (m)	633	473	551	751
Cash Flow from Ops.bef. chg in NWC (m)	1,462	1,270	1,305	1,505
Net debt (Cash) (m)	3,723	3,493	3,106	2,540
Net Debt/Equity	0.4	0.3	0.3	0.2
Net Debt/EBITDA	2.1	2.2	1.8	1.3
Interest cover (EBITDA/Fin. interest)	6.1	6.1	7.4	9.3
ROCE (adj.)	4.7%	2.9%	4.4%	5.7%
ROCE (adj.)/WACC	0.6	0.4	0.6	0.8
EV / CE	1.0	0.9	0.9	0.9
EV / Sales	1.0	0.9	0.9	0.8
EV / EBITDA	9.2	9.0	8.4	7.1
EV / EBIT	17.3	21.9	16.3	12.5
P/E (adj.)	20.1	22.9	20.3	14.9
P/BV	1.2	1.0	1.1	1.0
OpFCF yield	16.6%	13.1%	11.7%	13.4%
Dividend yield	3.9%	3.9%	3.9%	4.1%
EPS (adj.)	0.94	0.68	0.79	1.07
EPS (adj.) growth	-54.9%	-28.4%	16.5%	36.2%
BVPS	15.39	14.79	14.98	15.43
DPS	0.63	0.63	0.63	0.66
Abs. Performances(12m,6m,3m,1m):	-8.4%	-0.2%	28.2%	3.2%

12 month High/low: EUR21.95 / 11.70 — Avg. Daily nb traded shares:1,662,856

Main shareholders: Free float 99.0%;

All share prices at 01/02/11.

PRICE (SHORT & LONG AVERAGE)



FINANCIAL CALENDAR

01/03/11 Full year 2010 Results

Profile: CRH is a leading producer and distributor of building materials and products, with forecast 2010 turnover of €16.7bn, and a diversified geographic and sectoral base. Group EBITA is split between The Americas (50%) and Europe (50%).

CRH has grown aggressively over the past three decades, both organically and by a proven acquisition strategy, focused mainly on smaller to mid-sized acquisitions. The Group is the number one asphalt producer and the number three aggregates player in the US.

SWOT Analysis

STRENGTHS

- Well-located aggregate reserves.
- Broad geographical & sector exposure.
- Market leadership brings pricing power.
- Strong management team & finances.
- Proven acquisition approach.
- Strongest balance sheet in sector.

WEAKNESSES

- Non residential sector is later cycle and continues to deteriorate.
- Housing weakness still a concern.
- Margin erosion likely due to lower pricing power in cyclical end markets.

OPPORTUNITIES

- US highway spending may improve with introduction of new 6-year highway bill.
- Competitors overleveraged and will be forced to sell assets.

THREATS

- Continued slowdown in non-residential markets.
- Input costs are beginning to rise again.
- State budgets are forced to continue cutting transport spending.

Recommendation: We increased our price target to €16.75 (from €14.60) recently based on the midpoint of our sum-of-the-parts analysis. We expect sales declines to continue to moderate in 2011 and the benefits of the cost cutting programme (circa €1.8bn in annualised cost saving taken out since 2007) to begin to come through. Cash flow remains strong. We expect net debt to decline to €3.5bn by year end 2010 (equating to a net debt / EBITDA of 2.2x). While visibility in the short term is limited particularly in the US, we expect CRH to continue to generate good cash flow (2010 free cash flow yield of 11%), maintain the dividend and make bolt on acquisitions, taking advantage of its strong balance sheet. At the current share price CRH is trading on a 2011 EV/EBITDA of 8.4x, price / book value of 1.1x and dividend yield of 3.9%. We rate CRH a Buy.

Target Price: EUR 16.75

Analyst(s)		NCB Stockbrokers
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DCC

EUR 22.90

Buy

DCC.I/DCC ID

Market capitalisation: EUR 1908m

General Industrials

EUR	03/09	03/10	03/11e	03/12e
Sales (m)	6,400	6,725	8,275	8,355
EBITDA (m)	226	240	283	283
EBITDA margin	3.5%	3.6%	3.4%	3.4%
EBIT (m)	175	187	218	218
EBIT margin	2.7%	2.8%	2.6%	2.6%
Net profit (reported) (m)	116	131	154	162
Net profit (adj.) (m)	138	147	170	169
Cash Flow from Ops.bef. chg in NWC (m)	189	193	228	227
Net debt (Cash) (m)	90.7	53.5	25.8	-47.5
Net Debt/Equity	0.1	0.1	0.0	0.0
Net Debt/EBITDA	0.4	0.2	0.1	-0.2
Interest cover (EBITDA/Fin. interest)	13.1	22.0	20.2	25.7
ROCE (adj.)	16.4%	14.6%	16.0%	15.6%
ROCE (adj.)/WACC	2.1	1.8	2.0	2.0
EV / CE	1.1	1.6	1.8	1.7
EV / Sales	0.2	0.2	0.2	0.2
EV / EBITDA	4.5	6.8	6.8	6.6
EV / EBIT	5.8	8.7	8.8	8.5
P/E (adj.)	6.7	10.8	11.2	11.4
P/BV	1.5	2.0	2.1	1.8
OpFCF yield	28.9%	16.7%	10.4%	10.5%
Dividend yield	5.5%	2.9%	3.2%	3.6%
EPS (adj.)	1.69	1.78	2.04	2.02
EPS (adj.) growth	2.6%	5.5%	14.4%	-1.2%
BVPS	7.78	9.51	10.85	12.78
DPS	0.62	0.67	0.74	0.82
Abs. Performances(12m,6m,3m,1m):	14.2%	21.5%	8.5%	-3.0%

12 month High/low: EUR24.10 / 17.66 — Avg. Daily nb traded shares:202,161

Main shareholders: Free float 100.0%; Fidelity Management 13.0%; Prudential Plc 9.3%;

Invesco Ltd 7.1%;

All share prices at 01/02/11.

Profile: DCC is engaged in the marketing, sale and distribution of a broad range of unrelated products, primarily in the Energy, IT, Healthcare, Environmental and Food/beverage sectors. The Group's activities are mainly based in the UK and Ireland, with a modest but growing Continental European presence. Growth is generated by a focus on product areas offering above average growth prospects, either organic or through (primarily) bolt-on acquisitions. DCC has delivered CAGR in EPS of 16% over the past 10 years at the same time has generated high returns on capital and strong cash flows.

SWOT Analysis

Strengths
- Diversity delivers stable growth.
- High ROCE, strong cash flow.
- Proven bolt-on acquisition record.
- Strong financial position.
- Highly defensive sector e.g. energy (c60% Group earnings)

Weaknesses
- Weaker sterling impacting reported results.
- Food and Beverage sector under increased competition in Ireland.
- Diversified business model makes it difficult to compare to peers.

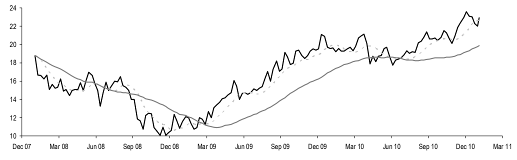
Opportunities
- Scope to consolidate UK oil distribution sector.
- Scope for step-up in M&A activity.
- Oil majors divesting from the LPG sector and oil distribution.

Threats
- Acquisition prices remaining high especially in environmental.
- OFT review of oil distribution
- IT spending slowdown could emerge.
- Exposure to adverse sterling effect.

Recommendation: In February, DCC as expected reported strong Q3 performance. Management raised full year guidance in line with our expectations. DCC trades on an EV/EBITDA multiple of 6.8x our March 2011 estimates, below its 10 year average of 7.6x. We have taken a fresh look at valuations and based on a blended mix of our conservative DCF analysis and sum-of-the-parts valuation we derive a fair value per share of €26.30. The investment case for DCC remains intact. The Group is on track to achieve higher levels of ROCE following restructuring measures taken across each division in recent years. The key support for growth will come from the Energy and IT divisions through bolt on acquisitions and organic growth. Our target price of €26.30, equates to a FY2011 PE of 12.9x and an EV/EBITDA multiple of 7.7x. Trading on a dividend yield of 3.2% we maintain our BUY recommendation.

Target Price: EUR 26.30

Price (Short & Long average)



Financial Calendar

Analyst(s)		NCB Stockbrokers
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NCB

Independent & International

ESN

DONEGAL CREAMERIES

EUR 4.35

Buy

DQ7.I/DCP ID

Market capitalisation: EUR 44m

Food & Beverage

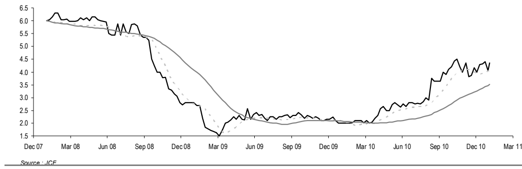
EUR	12/09	12/10e	12/11e	12/12e
Sales (m)	113	123	126	128
EBITDA (m)	7.6	11.4	12.2	13.0
EBITDA margin	6.7%	9.3%	9.7%	10.1%
EBIT (m)	5.1	8.9	9.7	10.5
EBIT margin	4.5%	7.3%	7.7%	8.2%
Net profit (reported) (m)	0.0	7.1	7.7	8.4
Net profit (adj.) (m)	0.0	7.1	7.7	8.4
Cash Flow from Ops.bef. chg in NWC (m)	2.9	7.8	13.1	13.7
Net debt (Cash) (m)	20.2	19.3	13.2	7.0
Net Debt/Equity	0.3	0.3	0.2	0.1
Net Debt/EBITDA	2.7	1.7	1.1	0.5
Interest cover (EBITDA/Fin. interest)	12.0	11.4	13.5	17.3
ROCE (adj.)	5.4%	20.6%	22.3%	23.8%
ROCE (adj.)/WACC	0.6	2.3	2.5	2.6
EV / CE	1.2	1.7	1.7	1.5
EV / Sales	0.4	0.5	0.5	0.4
EV / EBITDA	5.6	5.3	4.7	4.0
EV / EBIT	8.3	6.7	5.9	4.9
P/E (adj.)	nm	5.7	5.7	5.3
P/BV	0.4	0.6	0.6	0.6
OpFCF yield	34.6%	16.7%	27.2%	28.7%
Dividend yield	3.7%	3.7%	3.7%	3.7%
EPS (adj.)	0.00	0.70	0.76	0.82
EPS (adj.) growth	+chg	nm	8.6%	8.1%
BVPS	5.80	6.34	6.94	6.92
DPS	0.16	0.16	0.16	0.16
Abs. Performances(12m,6m,3m,1m):	123.1%	58.2%	-4.4%	8.8%

12 month High/low: EUR4.70 / 1.90 — Avg. Daily nb traded shares:8,815

Main shareholders: Free float 100.0%;

All share prices at 01/02/11.

PRICE (SHORT & LONG AVERAGE)



FINANCIAL CALENDAR

Profile: Donegal Creameries is a diverse agri group operating in the North Western region of Ireland. The Group has a milk assembly business which operates in Donegal and in Northern Ireland. While this supplies its liquid milk business, the bulk of its milk is sold on for further processing. It also operates a farm input and animal feed business. Its potato business focuses on seed replication which has a strong track record of profitability. Donegal also has a 35% share in Ireland's largest mushroom exporting business as well as significant property assets including a 3,000 acre farm in Donegal which is being converted into organic production to improve margins. It has completed two small acquisitions in the past year, one in seed potatoes in Brazil and the second a consumer packing business called Chef-in-the-Box in the UK which serves the food service sector with pre-packed lunch products.

SWOT Analysis

STRENGTHS

- Dominant market share in region.
- Diverse areas of agri activity.
- Significant stake in the dominant mushroom producer in Ireland and the UK.

WEAKNESSES

- Earnings exposed to volatility of agri commodities especially milk.
- Variable FX exchange rates can impact performance.

OPPORTUNITIES

- Potential to expand its agri business foot print in the region or to diversify into new income streams.

THREATS

- EU farm reforms could impact performance at its agri business.

Recommendation: Donegal reported much better than expected H1 earnings and we upgraded our full year forecasts by 30%. The Group's animal feed business reversed the prior year's losses, while this was expected, the level of recovery was ahead of expectation. Performance in dairy was weak but prospects for a significant improvement in H2 are good. Donegal's investment in growing its niche consumer food business such as organic yogurts, its Rumblers ready-to-go breakfast product and its Chef-in–the-box activities have increased its traction in the Irish and UK retail sectors with increased listings and significant volume expansion. A key driver of the improved performance is the significant expansion in associate earnings from its 35% stake in Monaghan Mushrooms, the leading supplier of mushrooms in Ireland the UK. We expect significant further growth in contributions from Mushrooms following investment by Monaghan of €100m in new technology, new capacity and acquisitions in Canada. We see Donegal sustaining solid earnings growth over the near term from its diversified niche agri commodity and specialised niche consumer food activities, with significant increases in associate earnings from Mushrooms. Net debt will decline, facilitating further growth via investment and acquisition. We see our TP well supported on sector valuations and the underlying valuation of its associate investment.

Target Price: EUR 6.00

Analyst(s)		NCB Stockbrokers
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GBp 576.50

DRAGON OIL

Buy

DGO.L/DGO LN

Market capitalisation: GBP 2974m

Oil & Gas Producers

USD	12/09	12/10e	12/11e	12/12e
Sales (m)	623	779	971	1,104
EBITDA (m)	503	657	802	882
EBITDA margin	80.7%	84.3%	82.5%	79.9%
EBIT (m)	314	446	518	571
EBIT margin	50.4%	57.2%	53.4%	51.7%
Net profit (reported) (m)	259	347	407	450
Net profit (adj.) (m)	259	347	407	450
Cash Flow from Ops.bef. chg in NWC (m)	544	657	802	883
Net debt (Cash) (m)	-1,138	-1,090	-1,162	-1,272
Net Debt/Equity	-0.7	-0.6	-0.5	-0.5
Net Debt/EBITDA	-2.3	-1.7	-1.5	-1.4
Interest cover (EBITDA/Fin. interest)	nm	nm	nm	nm
ROCE (adj.)	31.9%	30.1%	30.2%	28.9%
ROCE (adj.)/WACC	nm	nm	nm	
EV / CE	2.8	3.0	2.8	2.4
EV / Sales	3.4	4.2	3.8	3.2
EV / EBITDA	4.2	5.0	4.5	4.0
EV / EBIT	6.7	7.3	7.0	6.2
P/E (adj.)	12.5	12.5	11.8	10.7
P/BV	1.9	2.2	2.2	1.9
OpFCF yield	17.7%	12.0%	16.5%	18.2%
Dividend yield	0.0%	0.0%	0.0%	0.0%
EPS (adj.)	0.50	0.67	0.79	0.87
EPS (adj.) growth	-29.9%	33.8%	17.5%	10.4%
BVPS	3.30	3.83	4.31	4.87
DPS	0.00	0.00	0.00	0.00
Abs. Performances(12m,6m,3m,1m):	39.9%	34.9%	29.2%	7.2%

12 month High/low: GBp581.00 / 381.75 — Avg. Daily nb traded shares:707,708

Main shareholders: Free float 48.0% (100.0%);

All share prices at 01/02/11.

Profile: Dragon Oil is a very profitable, highly cash-generative oil and gas producing company operating a long term licence on existing assets with significant further development potential in the Caspian Sea offshore Turkmenistan. It offers the prospect of 12-15% production growth to 2012, and reserves upside from gas on top of its already exceptionally long Reserve Life of approx. 30 years, with commercial gas sales viable from the end of next year. Dragon's valuation is undemanding which may be partly explained by the risks associated with its single licence in Turkmenistan from which around 90% of crude production moves to market via Azerbaijan and Iran, but Dragon is also well placed to benefit from its position in the strategically important region of the Caspian, with growing demand (and prices) for gas and access to reserves. The company has significant cash on its balance sheet ($1.3bn end Dec '10) and has repeatedly stated its intention to use up to half of this cash to fund an acquisition which would diversify assets but be immediately accretive. The company has an aggressive drilling plan for 2011 and we see potential upside from a progressive capex programme.

SWOT Analysis

STRENGTHS

- High growth – 12% CACR in entitlement volumes, plus potential gas sales from 2011.
- Low cost – attractive PSA, tax at 25%, swap arrangements into Iran.
- Exceptional level of reserves – c.30 years crude, 1.6tcf net gas unbooked.
- High level of cash on the Balance Sheet.

WEAKNESSES

- Production growth slowing, high decline rate requires constant drilling in an area of increasing competition for rigs.
- Logistics - 90% of crude via Baku and Iran, swap agreement terminated April 2010.
- Concerns on corporate governance, dependence on Turkmenistan.

OPPORTUNITIES

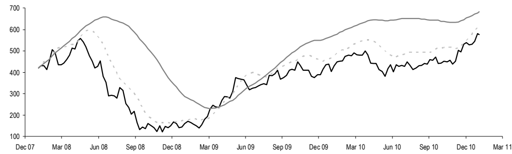
- More effective drilling campaigns to grow production, might raise overall recovery factor and add to reserves.
- Gas commerciality allows reserves to be booked.
- Effective M&A delivers target of diversified assets at accretive value.
- Introduction of effective dividend stream.

THREATS

- ENOC holding of 52% blocks management decisions.
- Operations impacted by regional instability.

Recommendation: Our estimate of fair value of Dragons reserves at 805p, is based on the long term cash flows discounted at 12%, assuming $85 long term oil outlook and gas at $2.50. We see strong production growth in 2011, and upside to our forecasts based on high oil prices. We expect Dragon to put its high cash balances to good use by acquiring assets during the year, but it also remains an M&A candidate given its strong position in an attractive oil and gas producing region.

PRICE (SHORT & LONG AVERAGE)



Source : JCF

FINANCIAL CALENDAR

21/04/11	Interim Management Statemen
22/02/11	Full year 2010 Preliminary resu

Target Price: GBp 805.00

Analyst(s)		NCB Stockbrokers
Donal ONeill	00 353 16115863	Donal.oneill@ncb.ie

EUR 6.81

FBD HOLDINGS PLC

Buy

FBD.I/FBD ID

Market capitalisation: EUR 232m

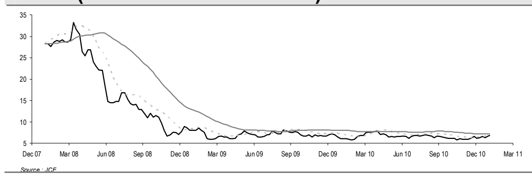
Insurance

EUR	12/09	12/10e	12/11e	12/12e
Life Gross Premiums (m)	0	0	0	0
Non-LIfe Gross Premiums (m)	357	364	389	413
Total Net Revenues (m)	342	349	375	397
Non-Life Insurance Technical Result (m)	15	41	67	81
EBIT (m)	-35	35	51	65
Net profit (reported) (m)	-31	31	44	57
Net profit (adj.) (m)	25	32	46	59
Shareholders equity (m)	192	209	235	269
ROE (adj.)	-14.5%	15.5%	20.0%	22.7%
Expense Ratio (Non-Life)	20.3%	19.7%	19.0%	18.7%
Combined ratio (Non-Life)	104.1%	100.7%	96.6%	93.0%
Cost/Income ratio (Banking)	0.0%	0.0%	0.0%	0.0%
P/E (adj.)	9.3	6.4	5.0	3.9
P/BV	1.2	1.0	1.0	0.8
P/ANAV	1.2	1.0	1.0	0.8
P/EbV	nm	6.2	3.4	3.4
Dividend yield	4.4%	5.7%	8.0%	10.2%
EPS (adj.)	0.74	0.97	1.37	1.73
EPS (adj.) growth	-56.7%	30.2%	41.7%	26.5%
BVPS	5.74	6.28	7.05	8.06
ANAVPS	5.74	6.28	7.05	8.06
EbVPS	0.00	1.00	2.00	2.00
DPS	0.30	0.39	0.55	0.69
Abs. Performances(12m,6m,3m,1m):	9.0%	0.1%	11.6%	9.8%
12 month High/low: EUR7.80 / 5.57		Avg. Daily nb traded shares:67,965		

Main shareholders: Free float 66.5%;

All share prices at 01/02/11.

PRICE (SHORT & LONG AVERAGE)



FINANCIAL CALENDAR

29/04/11 Full year 2010 AGM

29/04/11 Q1 2011 Interim Management :

08/03/11 Full year 2010 Preliminary resu

Profile: FBD is one of Ireland's largest property and casualty insurers, looking after the insurance needs of private individuals, farmers and business owners. In its non-under-writing business, the group has developed financial service businesses and has hotel and leisure property interests that include four hotels in Ireland and two resorts in southern Spain.

SWOT Analysis

STRENGTHS

- Trusted brand / loyal customer base.
- Strong capital ratios / solvency levels.
- De-risked balance sheet.
- Leveraging broker channel to penetrate market.
- Prudent reserving policy.

WEAKNESSES

- Earnings impacted by cyclical nature of general insurance industry.
- Exposed to economic hardship and weak domestic demand in Ireland.
- Frequent occurrence of adverse weather conditions in recent years.
- Low free float (66.5%).

OPPORTUNITIES

- Growth in Dublin market where market share is currently c. 12%.
- Further improvements in claims environment from structural changes.
- Increased demand for general insurance in Ireland.
- GWP beginning to rise again since 2007.
- Positive operating leverage as premiums rise.

THREATS

- Premium rates softening.
- Reversal of improvements experienced recently in claims environment.
- Further deterioration in Property / Leisure industry in Ireland and/or Spain.
- Large reduction in farm incomes in Ireland.
- Sovereign debt restructuring.

Recommendation Notwithstanding the risk of further modest property write downs, the FBD franchise is delivering a solid performance against the backdrop of a difficult operating environment. The Group is confidently dealing with the main issue of its underwriting result and is well positioned to benefit from premiums hardening in the market. Assuming a dividend payout ratio of 40% in 2011, the stock currently offers a prospective dividend yield of 8%, which we believe is safe. Our recommendation remains BUY.

Target Price: EUR 9.50

Analyst(s)		NCB Stockbrokers
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EUR 0.39

FYFFES

Hold

FFY.I/FFY ID

Market capitalisation: EUR 127m

Food & Beverage

EUR	12/09	12/10e	12/11e	12/12e
Sales (m)	598	610	622	635
EBITDA (m)	19.5	21.8	19.3	19.3
EBITDA margin	3.3%	3.6%	3.1%	3.0%
EBIT (m)	11.9	14.2	11.7	11.7
EBIT margin	2.0%	2.3%	1.9%	1.8%
Net profit (reported) (m)	-13.0	16.1	14.4	14.6
Net profit (adj.) (m)	18.9	18.7	17.0	17.2
Cash Flow from Ops.bef. chg in NWC (m)	19.5	21.8	19.3	19.3
Net debt (Cash) (m)	-36.6	-39.1	-39.4	-43.3
Net Debt/Equity	-0.2	-0.2	-0.2	-0.2
Net Debt/EBITDA	-1.9	-1.8	-2.0	-2.2
Interest cover (EBITDA/Fin. interest)	nm	nm	nm	nm
ROCE (adj.)	12.1%	14.0%	11.2%	10.9%
ROCE (adj.)/WACC	1.3	1.6	1.2	1.2
EV / CE	1.2	0.9	0.8	0.8
EV / Sales	0.2	0.1	0.1	0.1
EV / EBITDA	6.3	4.1	4.5	4.3
EV / EBIT	10.3	6.2	7.4	7.1
P/E (adj.)	8.8	6.8	7.5	7.4
P/BV	1.1	0.8	0.7	0.7
OpFCF yield	11.5%	15.5%	13.6%	13.6%
Dividend yield	4.3%	4.5%	4.7%	5.0%
EPS (adj.)	0.05	0.05	0.05	0.05
EPS (adj.) growth	31.6%	4.5%	-5.3%	1.2%
BVPS	0.44	0.47	0.52	0.54
DPS	0.02	0.02	0.02	0.02
Abs. Performances(12m,6m,3m,1m):	-12.5%	6.9%	24.2%	4.1%

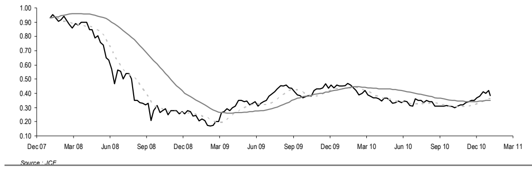
12 month High/low: EUR.47 / .30 Avg. Daily nb traded shares:522,185

Main shareholders: Free float 87.0%; Balkan 13.0%; BIAM 8.0%;

Marathon 6.1%;

All share prices at 01/02/11.

PRICE (SHORT & LONG AVERAGE)



FINANCIAL CALENDAR

Profile: Fyffes core trading operations centre on tropical fruits only (mainly bananas, pineapples into Europe and winter melons into the US). While its sources bananas in Latin and Central America for European markets, it expects to grow 70% of the pineapples sales from farms in Central America. Fyffes holds a 40% stake in Balmoral plc (formally Blackrock Land plc). Following three years of losses in its Brazilian melon business, Fyffes wrote off this investment but continues to operate the Sol winter melon business which has a leading market position in the US melon sector.

SWOT Analysis

STRENGTHS

- Solid balance sheet to support sector consolidating acquisitions, growth in dividend payout, share buy backs.
- Good market share in EU banana sector (+15%).

WEAKNESSES

- Limited pricing power.
- Product under/oversupply impacts margins.
- Weather impacts supply and demand and selling prices.
- Acquisition track record marred by Brazilian melons losses and asset write offs.
- High exposure to property sector via its 40% stake in Blackrock International Land which is continuing to suffer write downs.

OPPORTUNITIES

- Limited consolidation opportunities in the tropical fruit sector which is dominated by five major global players.
- Potential for modest margin expansion as EU lowers import tariffs.

THREATS

- Retailer consolidation.
- Margin pressure from rising supply chain costs such as fruit, shipping and packaging.

Recommendation Fyffes performed well in FY09 and again in FY10 against a background of increased supply chain costs (especially from the introduction of minimum fruit selling prices in Costa Rica), adverse FX rates, very adverse weather in Q1 FY10 and very weak selling prices in H1 FY10 due to excessive volumes reaching European markets. These factors combined with jostling for a share of the tariff reduction ensured that H1 selling prices remained weak and performance suffered. However, most operators reduced supplies of bananas into Europe which delivered a better performance in H2. FY11 will be fully challenged in terms of trading given the 5% rise in input costs and adverse FX rates. Longer term, Fyffes needs to complete acquisitions to grow earnings. The group recently acquired a 33% stake in a German banana / fresh produce business VanWylick which should enhance earnings and provide opportunities for synergies and sales growth in its German banana operations. We continue to rate the stock HOLD and view our target price as valid in the light of the challenging trading environment and limited sector acquisition growth opportunities.

Target Price: EUR 0.45

Analyst(s)		NCB Stockbrokers
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EUR 4.07

GLANBIA

Buy

GL9.I/GLB ID

Market capitalisation: EUR 1196m

Food & Beverage

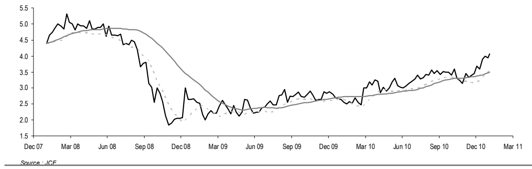
EUR	12/09	12/10e	12/11e	12/12e
Sales (m)	1,830	1,913	1,963	2,024
EBITDA (m)	140	164	169	170
EBITDA margin	7.6%	8.6%	8.6%	8.4%
EBIT (m)	101	125	130	132
EBIT margin	5.5%	6.6%	6.6%	6.5%
Net profit (reported) (m)	103	87.2	94.5	102
Net profit (adj.) (m)	87.8	107	114	120
Cash Flow from Ops.bef. chg in NWC (m)	140	164	169	170
Net debt (Cash) (m)	443	395	333	268
Net Debt/Equity	1.5	1.1	0.8	0.5
Net Debt/EBITDA	3.2	2.4	2.0	1.6
Interest cover (EBITDA/Fin. interest)	5.8	7.1	8.4	11.3
ROCE (adj.)	10.0%	11.5%	11.7%	11.7%
ROCE (adj.)/WACC	1.1	1.3	1.3	1.3
EV / CE	1.4	1.5	1.6	1.5
EV / Sales	0.6	0.7	0.7	0.7
EV / EBITDA	8.2	8.1	8.2	7.8
EV / EBIT	11.4	10.7	10.7	10.0
P/E (adj.)	9.4	10.1	10.4	10.0
P/BV	2.9	3.0	2.8	2.4
OpFCF yield	12.3%	14.3%	14.1%	14.2%
Dividend yield	1.7%	1.8%	1.9%	1.9%
EPS (adj.)	0.31	0.36	0.39	0.41
EPS (adj.) growth	-14.3%	19.3%	6.8%	4.6%
BVPS	0.99	1.21	1.45	1.71
DPS	0.07	0.07	0.08	0.08
Abs. Performances(12m,6m,3m,1m):	54.8%	23.7%	18.3%	10.6%

12 month High/low: EUR4.08 / 2.43 — Avg. Daily nb traded shares:372,644

Main shareholders: Glanbia Co-op 54.8%; Free float 45.2%;

All share prices at 01/02/11.

PRICE (SHORT & LONG AVERAGE)



FINANCIAL CALENDAR

02/03/11 Full year 2010 Results

Profile: Glanbia is an international dairy processor and dairy nutritional Group with core operations in Ireland, the US and Nigeria and also has a branded dairy-based consumer food division in Ireland. Glanbia has doubled its US cheese and whey processing capacity with a second facility in New Mexico and added a second plant to its JV development in Nigeria with PZ Cussons. Glanbia has expanded its ingredient formulation businesses with the acquisition of Kortus, Seltzer, Optimum and more recently BSN as well as building a new plant in Missouri. Glanbia generates circa 70% of its EBIT from nutritionals and US cheese.

SWOT Analysis

STRENGTHS

- Strong market positions in cheese (US and Ireland) and fresh dairy in Ireland.
- Whey based nutritional and formulation operations provides good margin protection supplying the high growth value added infant nutrition and sports nutrition sectors.

WEAKNESSES

- Sensitivity to commodity pricing and currency volatility.
- Limited pricing power in fresh consumer products.
- Failed to secure the sale of its Irish operations to Glanbia co-op mid year leaves its future involvement in primary dairy processing in Ireland open to question.

OPPORTUNITIES

- Acquisitions in the higher margin nutritional and ingredient sectors.
- Expanding whey protein technology to deliver new products.
- Exiting its Irish low margin, cyclical businesses.

THREATS

- Lower demand for high margin body building/ sports / energy sector.
- Dairy ingredients becoming commoditised.
- Facing high investment needs in low margin primary dairy processing in Ireland as milk quotas abolition leads to output expansion.

Recommendation: Glanbia's strategy to diversify outside Ireland and reduce its dependency on commodities means that the Group now generates 70% of its EBIT from high margin global nutritionals and US cheese. These are high quality earnings streams with resilient track records through periods of commodity price volatility. The Group has just completed the acquisition of BSN, a branded sports nutritional group in the US which bestows 10% market share in this sector to Glanbia. Ireland now accounts for only 30% of Group EBIT of which only 10% is derived from its Irish commodity division. This business generated losses in 2009 with the collapse in international dairy market returns. Recovery in FY10 saw a strong rebound in performance with guidance for the full year increased to 20% EPS yoy growth. Glanbia has also secured a 50% reduction in its pension liabilities and completed a 40% capacity expansion in its US JV. Post the acquisition of BSN, debt is expected to be largely unchanged at December 2011. The return to growth in US milk output will ensure its expanded capacity in the US is quickly utilised. We see little risk of underperformance in the near term with upside to earnings as dairy commodity prices increase.

Target Price: EUR 5.00

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NCB

Independent & International

ESN

EUR 3.42

GRAFTON

Buy

GRF_u.I/GN5 ID

Market capitalisation: EUR 788m

Construction & Materials

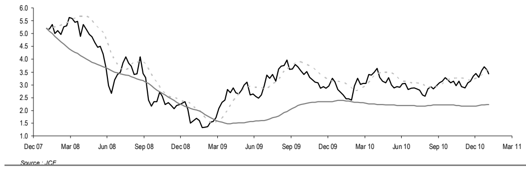
EUR	12/09	12/10e	12/11e	12/12e
Sales (m)	1,980	2,010	2,093	2,216
EBITDA (m)	68.0	104	134	168
EBITDA margin	3.4%	5.2%	6.4%	7.6%
EBIT (m)	17.8	53.9	84.1	118
EBIT margin	0.9%	2.7%	4.0%	5.3%
Net profit (reported) (m)	13.4	39.4	63.5	94.4
Net profit (adj.) (m)	6.5	46.5	64.7	94.6
Cash Flow from Ops.bef. chg in NWC (m)	31.9	94.5	113	143
Net debt (Cash) (m)	322	240	186	111
Net Debt/Equity	0.3	0.2	0.2	0.1
Net Debt/EBITDA	4.7	2.3	1.4	0.7
Interest cover (EBITDA/Fin. interest)	5.1	16.4	13.4	21.1
ROCE (adj.)	1.3%	3.7%	5.4%	7.5%
ROCE (adj.)/WACC	0.2	0.5	0.7	0.1
EV / CE	0.7	0.8	0.7	0.7
EV / Sales	0.5	0.5	0.5	0.4
EV / EBITDA	14.7	10.0	7.2	5.3
EV / EBIT	56.0	19.2	11.5	7.6
P/E (adj.)	nm	17.2	12.2	8.3
P/BV	0.7	0.8	0.8	0.7
OpFCF yield	18.5%	14.4%	13.2%	15.8%
Dividend yield	1.5%	2.2%	2.9%	2.3%
EPS (adj.)	0.03	0.20	0.28	0.41
EPS (adj.) growth	-91.3%	nm	40.3%	46.3%
BVPS	4.14	4.23	4.44	4.77
DPS	0.05	0.08	0.10	0.08
Abs. Performances(12m,6m,3m,1m):	28.5%	18.5%	10.7%	-0.7%

12 month High/low: EUR3.73 / 2.33 — Avg. Daily nb traded shares:425,716

Main shareholders: Free float 88.0%; Chadwick Family 12.0%;

All share prices at 01/02/11.

PRICE (SHORT & LONG AVERAGE)



FINANCIAL CALENDAR

Profile: Grafton is the clear market leader in builder's merchanting and DIY retailing in Ireland, where it also manufactures a small range of building products. In the UK the Group trades from 460 locations and is the 4th largest player in the merchanting market with a share of circa 10%. It also leads the UK dry-mortar manufacturing market, with a network of 9 plants. Grafton is a conservatively managed and financed business with growth opportunities in both of its markets and a strong long-term record of value creation. In the near-term the Group is experiencing a steep correction in Irish housing activity, from record levels in 2006, while recent commentary from UK house builders would indicate that the UK market is beginning to improve. Grafton generates over 70% of its revenue from the UK market.

SWOT Analysis

STRENGTHS	WEAKNESSES
▪ Market leading and/or strong positions in all businesses. ▪ Successful bolt-on acquisition model. ▪ Scale delivers buying synergies. ▪ Sound finances, cash generative.	▪ Irish housing activity to remain at severely depressed levels for the next 3-5 years. ▪ UK mortgage applications at low levels. ▪ DIY business impacted by weak consumer sentiment
OPPORTUNITIES	**THREATS**
▪ UK market remains fragmented. ▪ Organic openings continue in UK. ▪ Demographics underpin long-term RMI demand. ▪ Surplus medium-term property assets. ▪ Less new build can boost RMI capacity.	▪ Economic double-dip. ▪ Further sharp falls in UK/Irish house prices. ▪ Knock-on effects from housing on RMI & retail. ▪ Bad debt risk, as insurance cover reduced. ▪ Higher interest costs on debt refinancing

Recommendation: Grafton recently released a trading statement highlighting that trends in its merchanting businesses, in the UK and Ireland, continue to improve, despite severe weather conditions impacting sales towards the end of the year. The Group reported FY 2010 sales of €2.0bn (+1% year-on-year) broadly in line with our expectations despite extreme weather in November and December negatively impacting sales. For FY2010 we are forecasting adjusted EPS of 20.0c which is at the upper end of current Bloomberg consensus estimates (17.6c). We continue to remain positive on Grafton. Trading conditions in Ireland are stabilising and the Group's cost cutting measures should restore margins as activity levels continue to improve in the UK. Grafton is trading on a 2011 PE of 12x and a price / book value of 0.8x. We rate Grafton a Buy.

Target Price: EUR 4.00

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EUR 1.15

GNC.I/GNC ID

Market capitalisation: EUR 233m

GREENCORE

Hold

Food & Beverage

EUR	09/09	09/10	09/11e	09/12e
Sales (m)	801	856	764	873
EBITDA (m)	69.8	79.1	81.1	85.1
EBITDA margin	8.7%	9.2%	10.6%	9.8%
EBIT (m)	48.7	57.3	59.6	63.6
EBIT margin	6.1%	6.7%	7.8%	7.3%
Net profit (reported) (m)	-10.3	31.6	32.5	37.0
Net profit (adj.) (m)	17.0	34.0	34.6	39.1
Cash Flow from Ops.bef. chg in NWC (m)	75.5	78.7	81.1	85.1
Net debt (Cash) (m)	300	215	193	166
Net Debt/Equity	1.7	1.2	1.0	0.8
Net Debt/EBITDA	4.3	2.7	2.4	2.0
Interest cover (EBITDA/Fin. interest)	1.5	2.9	4.3	5.3
ROCE (adj.)	6.8%	10.4%	10.2%	10.7%
ROCE (adj.)/WACC	0.8	1.2	1.1	1.2
EV / CE	1.0	1.0	0.9	0.9
EV / Sales	0.8	0.5	0.6	0.5
EV / EBITDA	8.9	5.7	5.2	4.7
EV / EBIT	12.7	7.9	7.1	6.3
P/E (adj.)	9.0	7.1	6.7	6.0
P/BV	1.9	1.4	1.2	1.1
OpFCF yield	26.5%	43.2%	34.9%	36.6%
Dividend yield	4.8%	6.5%	6.5%	6.5%
EPS (adj.)	0.17	0.17	0.17	0.19
EPS (adj.) growth	-14.3%	-4.0%	2.3%	12.9%
BVPS	0.83	0.87	0.95	1.06
DPS	0.08	0.08	0.08	0.08
Abs. Performances(12m,6m,3m,1m):	-17.3%	-13.9%	6.8%	-9.6%

12 month High/low: EUR1.47 / 1.04 — Avg. Daily nb traded shares:731,448

Main shareholders: Free float 100.0%; Polaris Capital 12.0%; letko brosseau & ass 10.7%;

AIB 3.1%;

All share prices at 01/02/11.

Profile: Greencore is now exclusively a manufacturer of own-label convenience food in the UK and US markets following the acquisition of Home Brand Foods in Boston.

SWOT Analysis

STRENGTHS
- Modern large-scale manufacturing in the UK delivering low unit cost.
- Leading market positions in most of its own label categories in the UK.
- Balance sheet strength improved from disposal of non core and low margin businesses.

WEAKNESSES
- Continuous pricing pressure from UK retail customers.
- Constant investment required to keep pace with changing food trends.
- Rapid changes in input costs can compress margins.
- High dependency on UK market.

OPPORTUNITIES
- Expansion outside retail reduces risk dependency.
- High product churn provides re-pricing opportunities.
- Replicating its UK success in the US.
- Own Label market share gains in recessionary times.
- Industry capacity cuts assists margins.

THREATS
- Sensitive to loss of supply contracts with major retail customers.
- Consolidation in UK retail sector leading to further margin pressure on suppliers.
- Price deflation pressures.

Recommendation: The 73p recommended cash bid from Boparan for Northern Foods effectively derails Greencore's merger offer in the absence of a second offer from Greencore. We believe Greencore would need to significantly enhance its offer (+£150m) and significantly shift the bulk of its offer to cash to hold any chance of displacing the Boparan offer. This would require a very large rights issue and increased debt financing to fund such an offer. We believe the interest of shareholders in Greencore would be best served if the board of Greencore withdrew its bid interest in Northern and refocused on the day to day operational performance of the business. With input price inflation rapidly rising, management will need to take price recovery and cost reduction action to preserve margins. We see a privately owned Northern Foods as increasing the challenge to secure price increases for all players. Rationalisation in the sector is likely to remain a key feature in the near term given the weakened balance sheets of many of the key players, which should offer Greencore other potential targets. We would not rule out Greencore itself becoming a target and based on the Boparan offer multiple, suggests an underlying value of 120c for Greencore.

Target Price: EUR 1.35

Analyst(s)		NCB Stockbrokers
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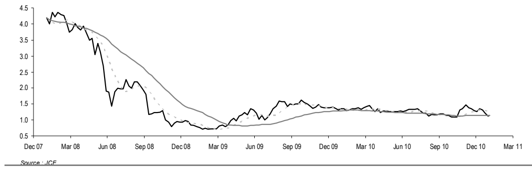
PRICE (SHORT & LONG AVERAGE)



FINANCIAL CALENDAR

01/04/11 Full year 2010 Dividend payme

EUR 1.23

IFG GROUP PLC

Accumulate

IFG.I/IFP ID

Market capitalisation: EUR 154m

Financial Services

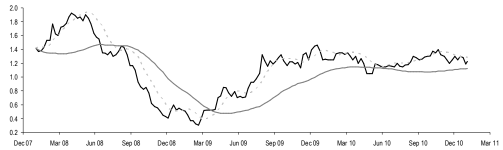
EUR	12/09e	12/10e	12/11e	12/12e
Sales (m)	93.3	142	154	174
EBITDA (m)	18.0	25.6	30.4	36.5
EBITDA margin	19.3%	18.1%	19.7%	21.0%
EBIT (m)	12.9	20.6	25.3	31.4
EBIT margin	13.8%	14.5%	16.4%	18.1%
Net profit (reported) (m)	7.7	15.2	19.3	24.0
Net profit (adj.) (m)	15.4	20.3	24.3	29.1
Cash Flow from Ops.bef. chg in NWC (m)	13.3	5.2	16.3	9.5
Net debt (Cash) (m)	43.9	28.3	11.9	2.4
Net Debt/Equity	0.8	0.4	0.2	0.0
Net Debt/EBITDA	2.4	1.1	0.4	0.1
Interest cover (EBITDA/Fin. interest)	11.8	25.6	60.7	72.9
ROCE (adj.)				
ROCE (adj.)/WACC				
EV / CE	1.5	1.6	1.6	1.5
EV / Sales	1.6	1.3	1.1	1.0
EV / EBITDA	8.3	7.0	5.5	4.7
EV / EBIT	11.5	8.7	6.6	5.4
P/E (adj.)	6.7	6.9	6.0	5.4
P/BV	2.0	2.4	2.1	1.8
OpFCF yield				
Dividend yield	3.0%	3.2%	3.6%	3.9%
EPS (adj.)	0.21	0.19	0.21	0.23
EPS (adj.) growth	-9.2%	-8.9%	9.3%	9.6%
BVPS	0.68	0.53	0.60	0.68
DPS	0.04	0.04	0.04	0.05
Abs. Performances(12m,6m,3m,1m):	-5.4%	7.0%	-7.5%	-5.4%

12 month High/low: EUR1.45 / 1.00 — Avg. Daily nb traded shares:117,904

Main shareholders: Free float 82.0%; Fiorland 18.0%;

All share prices at 01/02/11.

Price (Short & Long average)



Source : JCF

Financial calendar

Profile: IFG is a niche financial services company. It has three main divisions - International Trustee & Corporate Services, and its UK and Ireland Financial Service and Pensions businesses. The International division consists of two distinct businesses – a traditional offshore corporate trust business to high net worth individuals and a provider of administrative and trustee services to the timeshare/leisure market. The UK division comprises of two elements: the provision of administrative, trustee and actuarial services to pension funds and the group's IFA businesses. It recently acquired James Hay, making the group the largest SIPP provider in the UK. IFG has a mortgage broking and pension business in Ireland.

SWOT Analysis

Strengths

- Strong offshore corporate trust business.
- Business model focus on growing fee-based and recurring income.
- Cash generative business.
- Largest SIPP provider in the UK.
- Conflict free advice provider (IFA).
- Diversified income streams.

Weaknesses

- Diverse mix of complex businesses, results in market discount.
- Refinancing risk.
- Perceived to be an Irish financials company (however c. 95% of revenue generated outside of country).

Opportunities

- Transparent business model to benefit from regulatory changes.
- Continued growth in international (Trustee & Corporate Services), mortgage services, and title insurance.
- Streamline businesses via IT integration.
- Replicate UK business in Ireland.
- Further consolidation of fragmented SIPP market.

Threats

- Ever increasing regulatory/compliance requirements.
- Unforeseen compliance breaches could be expensive in a highly regulated environment.
- Loss of key personnel.

Recommendation: IFG is set to benefit from continued growth in its International and UK businesses, while the domestic mortgage business now accounts for less than 5% of total revenues. Following the acquisition of James Hay the group has achieved scale in each of its main markets and is the number one provider of UK SIPPS. IFG continues to generate a high level of recurring income, which will help underpin the shares. We remain positive on the stock.

Target Price: EUR 1.50

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EUR 0.62

INWS.I/INWS ID

Market capitalisation: EUR 341m

INDEPENDENT NEWS & MEDIA

Buy

Media

EUR	12/09	12/10e	12/11e	12/12e
Sales (m)	1,256	1,406	1,503	1,553
EBITDA (m)	217	263	296	317
EBITDA margin	17.3%	18.7%	19.7%	20.4%
EBIT (m)	177	223	256	277
EBIT margin	14.1%	15.9%	17.0%	17.9%
Net profit (reported) (m)	-87.8	58.6	71.1	82.7
Net profit (adj.) (m)	92.0	48.9	70.1	80.7
Cash Flow from Ops.bef. chg in NWC (m)	160	245	296	317
Net debt (Cash) (m)	1,044	1,009	941	837
Net Debt/Equity	1.9	1.5	1.3	1.0
Net Debt/EBITDA	4.8	3.8	3.2	2.6
Interest cover (EBITDA/Fin. interest)	3.0	3.1	4.0	4.2
ROCE (adj.)	9.9%	12.2%	0.0%	-15.2%
ROCE (adj.)/WACC	nm	nm		
EV / CE	0.9	0.9	1.0	0.9
EV / Sales	1.2	1.2	1.2	1.1
EV / EBITDA	7.2	6.6	5.9	5.2
EV / EBIT	8.8	7.8	6.8	5.9
P/E (adj.)	nm	5.2	4.9	4.2
P/BV	nm	14.9	3.9	2.0
OpFCF yield	63.3%	82.8%	78.5%	92.2%
Dividend yield	0.0%	0.0%	0.0%	0.0%
EPS (adj.)	0.00	0.10	0.13	0.15
EPS (adj.) growth	-76.2%	nm	32.3%	15.2%
BVPS	-0.21	0.03	0.16	0.31
DPS	0.00	0.00	0.00	0.00
Abs. Performances(12m,6m,3m,1m):	-14.0%	-13.3%	2.5%	23.3%

12 month High/low: EUR1.01 / .48 — Avg. Daily nb traded shares:1,285,037

Main shareholders: Free float 76.0%; Denis O'Brien 20.2%; Anthony O'Reilly 13.0%;

Pioneer 3.0%;

All share prices at 01/02/11.

Profile: Independent News & Media (INM) has grown to become a leading international media group with interests in newspaper and magazine publishing, commercial printing, outdoor advertising, broadcasting and online activities. Its principal markets are Ireland, Australia, New Zealand, and South Africa. The Group publishes over 200 newspaper titles, has a significant online presence, and operates over 130 radio stations. For the first time in two years, INM saw a return to revenue growth during the first six months of H12010, delivering organic revenue growth of 1% and reported revenue growth of 7.8%, to €656.5m. EBITDA increased 26.1% yoy in the period to €115.6m (H1 2009: €91.7m) and underlying EBIT rose by 29.2% yoy to €94.6m (H1 2009: €73.2m).

SWOT Analysis

Strengths

- Geographic diversity reduces dependency on individual regions.
- INM has strong market positions that represent high barriers to entry.
- Newspapers are typically highly cash generative
- Leveraged to a recovery in the economic environment.
- Improving balance sheet, allowing for leverage ratios to come into line with more appropriate levels.

Weaknesses

- Cyclical exposure negatively impacts profitability in an economic downturn.
- Earnings are highly sensitive to currency movements, particularly the South African Rand and Australian Dollar.
- Newspaper advertising will remain under pressure from structural decline and competition from new technologies.

Opportunities

- Highly leveraged to a recovery in economic growth.
- Improving margins via management self-help efforts and operating leverage.
- Potential for FCF generation in the near term to reduce balance sheet leverage.

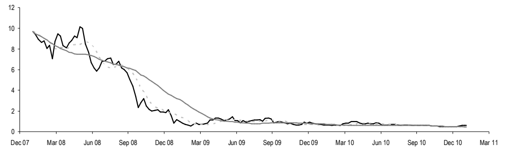
Threats

- Risk of a delayed recovery in advertising in Australia, New Zealand and South Africa.
- Delay in an economic recovery in developing and developed markets will negatively impact earnings.
- Long-term decline in circulation volumes in developed markets.

Recommendation: On our recently revised estimates the stock commands modest PE and EV/EBITA multiples of 4.9x and 5.9x for FY2011. Valuation discounts to its Australian and ESN peer groups remain, despite evidence of an advertising recovery, rising returns and FCF generation. Conscious of the headwinds currently facing risky assets, meaningful deleveraging will improve the equity investment case and should bridge the valuation gap that exists, in our view.

Target Price: EUR 1.16

Price (Short & Long average)



Source : JCF

Financial calendar

Analyst(s)		NCB Stockbrokers
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EUR 17.60

IRISH CONTINENTAL GROUP

Buy

ICG_u.I/IR5A ID

Market capitalisation: EUR 440m

Industrial Transportation & Motorways

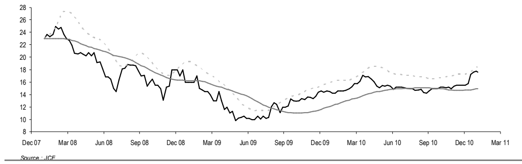
EUR	12/09	12/10e	12/11e	12/12e
Sales (m)	261	264	270	279
EBITDA (m)	50.8	54.4	56.3	60.5
EBITDA margin	19.5%	20.6%	20.9%	21.7%
EBIT (m)	26.5	31.4	35.2	39.2
EBIT margin	10.2%	11.9%	13.1%	14.1%
Net profit (reported) (m)	25.2	36.7	33.6	38.8
Net profit (adj.) (m)	25.2	28.7	33.6	38.8
Cash Flow from Ops.bef. chg in NWC (m)	49.3	48.6	55.4	61.1
Net debt (Cash) (m)	21.7	7.9	-14.6	-42.6
Net Debt/Equity	0.1	0.0	-0.1	-0.2
Net Debt/EBITDA	0.4	0.1	-0.3	-0.7
Interest cover (EBITDA/Fin. interest)	31.8	30.2	80.4	nm
ROCE (adj.)	13.1%	17.6%	21.3%	25.8%
ROCE (adj.)/WACC	1.6	2.2	2.7	3.2
EV / CE	1.8	2.3	2.6	2.7
EV / Sales	1.5	1.5	1.6	1.4
EV / EBITDA	7.5	7.3	7.6	6.6
EV / EBIT	14.3	12.6	12.1	10.2
P/E (adj.)	13.5	13.2	12.2	10.7
P/BV	2.4	2.3	2.5	2.3
OpFCF yield	15.9%	10.5%	12.1%	13.4%
Dividend yield	5.7%	5.7%	5.7%	5.7%
EPS (adj.)	1.08	1.17	1.45	1.65
EPS (adj.) growth	-27.7%	8.9%	23.3%	13.8%
BVPS	6.19	6.69	7.04	7.55
DPS	1.00	1.00	1.00	1.00
Abs. Performances(12m,6m,3m,1m):	23.9%	16.6%	13.5%	13.4%

12 month High/low: EUR17.90 / 14.20 — Avg. Daily nb traded shares:72,325

Main shareholders: Free float 84.0%;

All share prices at 01/02/11.

PRICE (SHORT & LONG AVERAGE)



FINANCIAL CALENDAR (Source: Precise)

Profile: Irish Continental Group operates passenger ferries and freight vessels between Ireland/UK and between Ireland/Continental Europe. The Group operates a mixed fleet of conventional and fast craft and charters a fleet of vessels to service the lo-lo freight market. On its key Ireland-UK services the Group holds (in perpetuity) sailing slots on the important short-sea routes. Irish Continental also owns a ship on charter to P&O, *Kaitaki* (until 2013), as well as operating strategically-located terminals in Dublin and Belfast. The Group's cost base leads the industry for efficiency following major rationalisation in 2005/06 and ongoing timely action on a smaller scale since.

SWOT Analysis

STRENGTHS

- 11% FCF yield as investment phase complete.
- 6% dividend yield, with high degree of security.
- Port-based barriers to entry in terminal business.
- Quality assets – fleet, upgraded terminal.
- Lower cost base enhances competitive position.

WEAKNESSES

- Overcapacity on long-sea routes remains an issue but is moderating.
- Unhedged fuel is a risk but is shared by the industry.

OPPORTUNITIES

- Operationally geared to recovery in Ireland and internationally, due to the fixed cost base.
- Fill expanded Dublin terminal capacity.
- Increased UK-Ireland trade integration.
- Well-placed for any development at Belfast.
- Ongoing air capacity cuts boost volumes/yields.

THREATS

- Barriers to entry on the longer sea routes are low.

Recommendation: Irish Continental enjoys a strong position on the Irish Sea, where its modern fleet and attractive sailing slots on the key short-sea routes represent significant barriers to entry. Tourist car flows have shown growth, as well as better yields, since mid-2009, while roll-on roll-off volumes are stabilising circa 20% off peak levels. Incremental revenues in Ferries falls 75%+ to the bottom line, while Tonnage Tax regimes in Europe means EPS is similarly boosted. Fuel is volatile but the fleet is modern and adjustment mechanisms in the freight business recoup half of all variations. With an ungeared balance sheet at end-2010, a 11% FCF yield and a high degree of operational leverage we see Irish Continental as an attractive play on recovery, while delivering a secure 6% yield in the interim. Our rating remains BUY with a price target of €20 per share.

Target Price: EUR 20.00

Analyst(s)		NCB Stockbrokers
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EUR 0.91

IPM.I/IPM ID

Market capitalisation: EUR 256m

IRISH LIFE & PERMANENT PLC

Hold

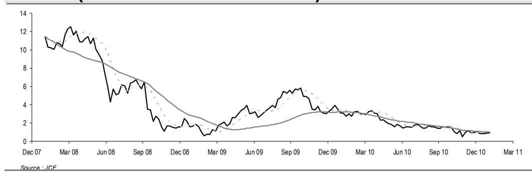
Banks

EUR	12/09	12/10e	12/11e	12/12e
Total Revenue (m)	469	460	487	533
Pre-Provision Profit (PPP) (m)	182	180	232	278
Loan Impairment Charge (m)	-376	-391	-341	-153
Operating profit (OP) (m)	-194	-211	-109	125
Earnings before tax (m)	-319	-159	-96.8	145
Net profit (reported) (m)	-305	-112	-65.5	141
Net profit (adj.) (m)	-182	-152	-65.5	141
Shareholders equity (m)	2,471	2,358	2,293	2,434
Tier 1 Ratio	9.2%	9.0%	8.7%	9.8%
Cost/Income ratio	61.2%	60.8%	52.4%	47.8%
ROE (adj.)	-6.9%	-6.3%	-2.8%	5.9%
NPL ratio (gross)	1.8%	2.2%	2.3%	2.4%
NPL coverage	61.3%	50.7%	30.9%	30.9%
LIC/Avg. RWA	1.8%	1.9%	1.7%	0.8%
P/Pre-Provision Profit per Share	5.0	1.7	1.1	0.9
P/E (adj.)	nm	nm	nm	1.8
P/BV	0.4	0.1	0.1	0.1
P/NAV	0.4	0.1	0.1	0.1
Dividend yield	0.0%	0.0%	0.0%	0.0%
PPPPS	0.66	0.65	0.83	0.99
EPS (adj.)	-0.66	-0.55	-0.23	0.50
EPS (adj.) growth	-chg	+chg	+chg	+chg
BVPS	8.94	8.47	8.18	8.63
NAVPS	8.94	8.47	8.18	8.63
DPS	0.00	0.00	0.00	0.00
Abs. Performances(12m,6m,3m,1m):	-71.7%	-48.2%	-39.5%	-16.0%
12 month High/low: EUR3.49 / .51		Avg. Daily nb traded shares:1,257,835		

Main shareholders: Free float 100.0%;

All share prices at 01/02/11.

PRICE (SHORT & LONG AVERAGE)



FINANCIAL CALENDAR

02/03/11 Full year 2010 Preliminary resu

Profile: The core of the group's profitability is its life business, which is focused on the long-term savings market in Ireland. This business is set to benefit from Ireland's growing and maturing population, as the population is encouraged to save/provide for their retirement. Irish Life & Permanent (IL&P) has a leading position in the long-term savings market with a 33% share. The Group's banking portfolio is principally mortgages (94% of total loans) with 60% of total loans tracker based. IL&P also has a 30% interest in Allianz Ireland.

SWOT Analysis

STRENGTHS

- Low risk insurance business in a structurally growing market.
- Distribution capability (all channels from branch network to broker network and direct sales-force).
- Low Irish corporate tax rate (12.5%).
- Proven track record in managing costs.
- Leading share of the Irish life market.

WEAKNESSES

- Bank is dependent on wholesale funding (loan to deposit ratio over 240%).
- High exposure to ECB window / short-term funding.
- Capital deficiency in banking business if demerged from Life company.
- Dependent on the fortunes of the Irish economy (>90% of profits).
- Elevated funding costs negatively impacting banking margins.
- 60% of loans are tracker based.

OPPORTUNITIES

- Buy-back bonds trading below par value to enhance bank capital.
- VIF securitisations to generate capital.
- Continued growth in market share of new business in the structurally growing Irish long-term savings market.
- Merge banking business with competitors to exploit cost and revenue synergies.

THREATS

- Shareholder dilution as a result of bank demerger.
- New competitors enter Life market.
- Irish loan losses remaining elevated for extended period.
- Persistency lapses in Life company.
- Further deposit outflows if guarantee removed.

Recommendation: While IL&P has significant exposure to the wholesale markets, the Group is in the fortunate position of having a large pool of eligible collateral (€17bn or c.35% of total funding) that protects it from near-term liquidity shocks (deposit outflows). However, we note that the prospect of shareholder dilution as the Group undergoes a further round of regulatory stress tests in March. These are expected to be more detailed and intensive than compared to previous stress tests, with a particular focus on Irish residential mortgages (c. 70% of IL&P's total loans). As such, we retain our cautions stance on the stock and reiterate our HOLD recommendation.

Target Price: EUR 1.70

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NCB

Independent & International

ESN

EUR 24.55

KERRY GROUP

Buy

KYGa.I/KYG ID

Market capitalisation: EUR 4301m

Food & Beverage

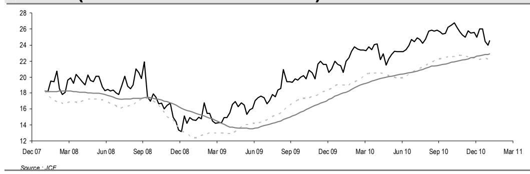
EUR	12/09	12/10e	12/11e	12/12e
Sales (m)	4,521	5,006	5,139	5,305
EBITDA (m)	520	574	614	637
EBITDA margin	11.5%	11.5%	11.9%	12.0%
EBIT (m)	406	457	497	520
EBIT margin	9.0%	9.1%	9.7%	9.8%
Net profit (reported) (m)	201	320	355	382
Net profit (adj.) (m)	291	337	372	399
Cash Flow from Ops.bef. chg in NWC (m)	482	544	584	607
Net debt (Cash) (m)	1,160	1,029	792	534
Net Debt/Equity	0.9	0.7	0.4	0.2
Net Debt/EBITDA	2.2	1.8	1.3	0.8
Interest cover (EBITDA/Fin. interest)	7.4	8.9	10.2	12.7
ROCE (adj.)	10.6%	12.5%	13.2%	13.5%
ROCE (adj.)/WACC	1.2	1.4	1.5	0.1
EV / CE	1.6	1.8	1.7	1.5
EV / Sales	1.1	1.1	1.0	0.9
EV / EBITDA	9.2	9.4	8.3	7.6
EV / EBIT	11.7	11.8	10.2	9.3
P/E (adj.)	12.4	13.0	11.6	10.8
P/BV	2.8	2.8	2.3	2.0
OpFCF yield	14.7%	10.5%	11.6%	12.2%
Dividend yield	1.0%	1.2%	1.3%	1.4%
EPS (adj.)	1.66	1.92	2.12	2.27
EPS (adj.) growth	8.2%	15.5%	10.5%	7.1%
BVPS	7.34	8.87	10.57	12.40
DPS	0.25	0.29	0.32	0.35
Abs. Performances(12m,6m,3m,1m):	18.6%	0.6%	-6.3%	-1.7%

12 month High/low: EUR27.03 / 20.50 Avg. Daily nb traded shares:231,280

Main shareholders: Free float 69.0%; Kerry Co-op 23.8%;

All share prices at 01/02/11.

PRICE (SHORT & LONG AVERAGE)



FINANCIAL CALENDAR

22/02/11 Full year 2010 Preliminary resu

Profile: Kerry is a global food ingredient Group with a branded consumer food business operating solely in Ireland and the UK. Consumer foods accounts for 33% of group EBIT with ingredients generating the balance. We estimate that 40% of its profits are generated in Europe and the Americas, with Asia accounting for about 20%. Kerry's ingredient growth dynamics are assisted by constant change in the food industry, which triggers new product development and reformulation of existing products. Since 2006, Kerry has implemented significant rationalisation. Its ingredient business is exclusively focused on food. The Group acquired a leading competitor in the branded food sector in Ireland, the integration of which is delivering substantial synergies and margin expansion in its consumer food division.

SWOT Analysis

STRENGTHS

- Strong management track record.
- Lack of dependency on any single customer, product, technology or region.
- Leading branded positions across all its consumer food markets.
- Highly cash generative.

WEAKNESSES

- Moderate organic growth driving acquisition requirement.
- Customer consolidation can impact margins.
- Margins pressurised in times of rising energy and raw material prices.

OPPORTUNITIES

- Flavors and bioscience & pharma ingredients offer margin and volume expansion.
- Consumer brand extension into new categories.
- Less competition from private equity buyers for acquisitions.
- Expansion into beverages via food relationships.

THREATS

- UK retailers limiting margin advances in consumer food.
- Acquisitions remain expensive for higher value added categories such as flavours and branded food businesses.

Recommendation: Kerry's performance throughout 2010 has exceeded market expectations resulting in improved eps guidance at its H1 results. Its Q3 update underpinned the strong H1 performance with margin expansion offsetting moderating like for like growth compared to that achieved in H1. Kerry said that input costs (wheat, dairy, vegetable oils and sugar) were increasing (+4% in FY10) and it expects to recover these through pricing and efficiencies. It expects its FY11 input cost to increase by 8%, requiring price increases of 3-4% to fully recover the higher costs. Margin gains in both ingredients and food were unchanged at +50bps and +40bps respectively. Group margins expanded by 30bps. Ingredients like for like volumes were +6% in the nine months versus +6.5% in H1 (Q3 5.0%), the Americas growth of 5.2% compared to 6.2% in H1. Growth in Asia and EMEA was broadly unchanged from H1. Kerry is well placed to benefit from ongoing demand recovery across its markets and channels and signalled that if current volume demand is sustained, it will have to increase its capex investment to meet this demand. Acquisitions may also trigger eps upgrades given its strong balance sheet.

Target Price: EUR 29.00

Analyst(s)		NCB Stockbrokers
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KINGSPAN GROUP

EUR 6.60

KSP.I/KSP ID

Market capitalisation: EUR 1098m

Hold

Construction & Materials

EUR	12/09	12/10e	12/11e	12/12e
Sales (m)	1,126	1,164	1,325	1,431
EBITDA (m)	103	103	120	163
EBITDA margin	9.1%	8.8%	9.1%	11.4%
EBIT (m)	62.7	62.8	80.0	123
EBIT margin	5.6%	5.4%	6.0%	8.6%
Net profit (reported) (m)	47.7	41.7	55.4	93.7
Net profit (adj.) (m)	47.7	41.7	55.4	93.7
Cash Flow from Ops.bef. chg in NWC (m)	82.3	82.3	96.0	134
Net debt (Cash) (m)	164	126	213	175
Net Debt/Equity	0.3	0.2	0.3	0.2
Net Debt/EBITDA	1.6	1.2	1.8	1.1
Interest cover (EBITDA/Fin. interest)	17.1	8.2	9.2	15.4
ROCE (adj.)	6.5%	6.5%	7.2%	10.7%
ROCE (adj.)/WACC	0.7	0.7	0.8	1.2
EV / CE	1.4	1.7	1.4	1.3
EV / Sales	1.0	1.2	1.0	0.9
EV / EBITDA	11.3	13.3	10.9	7.8
EV / EBIT	18.5	21.8	16.3	10.3
P/E (adj.)	20.9	29.9	19.8	11.7
P/BV	1.7	2.1	1.7	1.5
OpFCF yield	18.8%	5.4%	6.9%	9.5%
Dividend yield	0.0%	1.5%	1.8%	2.1%
EPS (adj.)	0.29	0.25	0.33	0.56
EPS (adj.) growth	-61.2%	-12.7%	32.9%	69.1%
BVPS	3.50	3.64	3.87	4.30
DPS	0.00	0.10	0.12	0.14
Abs. Performances(12m,6m,3m,1m):	7.3%	22.7%	10.8%	-11.9%

12 month High/low: EUR7.70 / 5.00 — Avg. Daily nb traded shares:253,937

Main shareholders: Free float 76.0%; Murtagh family 24.0%;

All share prices at 01/02/11.

Profile: Kingspan manufactures a range of niche building products with regulation driving demand for its insulated panels and board products in particular. Access Flooring aims to capitalise on the shift towards raised access floors in multi-storey buildings, notably in the US. Environmental & Renewables produces a range of tanks and other products designed to conserve water, prevent oil pollution, treat waste and boost energy efficiency. Many of Kingspan's product areas enjoy long-term secular growth, but in the near term face a cyclical slowdown as UK/Irish housing markets remain weak while non-residential activity is impacted by tighter credit availability.

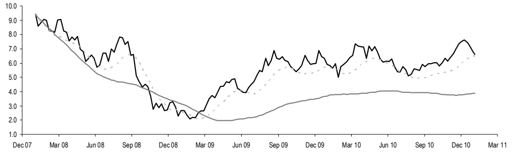
SWOT Analysis

STRENGTHS	WEAKNESSES
▪ Dominant shares of growing markets. ▪ Products fit conservation agenda. ▪ Record of new product innovation/R&D. ▪ Products allow fast, reliable build.	▪ Focused on non-dash residential sector. ▪ Inputs cost pressures e.g. steel, chemicals.
OPPORTUNITIES	**THREATS**
▪ Greater energy saving focus globally. ▪ Scope for high growth in CEE, Turkey, Australia and especially North America. ▪ Government initiatives to support industry growth and better building standards.	▪ Increased competition in insulation boards and panels with resultant downside margin risk. ▪ Non residential sector stagnates for a considerable period.

Recommendation: In the Group's most recent trading update it stated that it expects operating profit for the FY2010 to be between €62m and €65m, versus our forecast of €62.8m. For FY2011 we are forecasting sales and operating profit growth of 14% and 27% respectively. We previously downgraded our 2011 forecasts as the margin recovery we had anticipated in panels and insulation will not be as high as a result of rising raw material costs offsetting the benefits of operating leverage. Furthermore, the access flooring division will be negatively impacted by reduced non-residential activity with no pick up expected until late 2011/ early 2012. Order intake in recent months has moderated across each division. On a positive note the Group's aggressive cost reduction moves (€60m reduction in fixed costs) gives it strong operating leverage to any demand recovery. The balance sheet is one of the strongest in the sector, trading at 1.8x net debt/EBITDA our FY2011 estimates. The Group recently acquired CRH's Insulation European business (CIE) for a consideration of €120m. However, in the near term, our primary concern is margin pressure as raw material costs continue to rise while order intake volumes remain subdued. We remain cautious on the stock and retain our HOLD recommendation.

Target Price: EUR 5.50

PRICE (SHORT & LONG AVERAGE)



Source : JCF

FINANCIAL CALENDAR

28/02/11 Full year 2010 Earnings confer

28/02/11 Full year 2010 Preliminary resu

Analyst(s)		NCB Stockbrokers
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NCB

Independent & International

ESN

EUR 3.60

ORIGIN ENTERPRISES

Accumulate

OGN.I/OGN ID

Market capitalisation: EUR 495m

Food & Beverage

EUR	07/09	07/10	07/11e	07/12e
Sales (m)	1,508	1,337	1,023	874
EBITDA (m)	88.5	66.6	56.3	54.1
EBITDA margin	5.9%	5.0%	5.5%	6.2%
EBIT (m)	77.7	56.2	46.8	44.6
EBIT margin	5.2%	4.2%	4.6%	5.1%
Net profit (reported) (m)	-60.1	44.1	44.4	46.4
Net profit (adj.) (m)	46.8	50.8	48.4	50.4
Cash Flow from Ops.bef. chg in NWC (m)	88.5	66.6	56.3	55.1
Net debt (Cash) (m)	154	112	42.1	26.4
Net Debt/Equity	1.0	0.6	0.2	0.1
Net Debt/EBITDA	1.7	1.7	0.7	0.5
Interest cov er (EBITDA/Fin. interest)	5.1	4.4	5.1	6.8
ROCE (adj.)	35.7%	18.4%	26.2%	21.8%
ROCE (adj.)/WACC	4.0	2.0	2.9	2.4
EV / CE	1.6	1.5	2.5	2.1
EV / Sales	0.3	0.3	0.4	0.4
EV / EBITDA	4.8	5.6	6.7	6.7
EV / EBIT	5.5	6.6	8.0	8.1
P/E (adj.)	7.3	7.0	10.2	9.8
P/BV	2.3	1.8	2.1	1.8
OpFCF y ield	25.0%	21.6%	12.4%	11.1%
Div idend y ield	3.0%	2.5%	2.6%	2.8%
EPS (adj.)	0.36	0.37	0.35	0.37
EPS (adj.) grow th	6.0%	2.4%	-4.7%	4.2%
BVPS	1.13	1.45	1.71	1.99
DPS	0.08	0.09	0.09	0.10
Abs. Performances(12m,6m,3m,1m):	53.2%	39.5%	16.1%	12.5%

12 month High/low: EUR3.70 / 2.10 — Avg. Daily nb traded shares:87,212

Main shareholders: iaw s 72.0%; Free float 25.0%; management 3.0%;

All share prices at 01/02/11.

Profile: Origin was listed in June 2007 by IAWS (now Aryzta) which retained a 71.4% holding in the entity. Its businesses comprises of agri businesses and ambient food distribution. The agribusiness division includes fertiliser (Ireland & UK) and agri advisory (UK & Poland) which operates under the Masstock logo. The ambient foods division encompasses Shamrock foods, a leading ambient food sales and marketing company, Odlums, Ireland leading flour miller and Roma, Ireland's leading pasta brand. Origin has sold these businesses into a 45% owned JV group called Valeo which has also acquired the Batchelors distribution business as part of the deal. Origin holds a 50% stake in Welcon its marine protein business. .It has also created a 50% JV for its animal feed business with W&R Barnett

SWOT Analysis

STRENGTHS

- Strong market positions in each of its core divisions.
- High barriers to entry in many of its businesses.
- Very cash generative businesses.
- Strong balance sheet.

WEAKNESSES

- Rate of organic growth in its core businesses is low.
- Challenging to source suitable acquisitions within its core activities.

OPPORTUNITIES

- Acquisition growth via consolidation opportunities in existing core areas or in new fields.

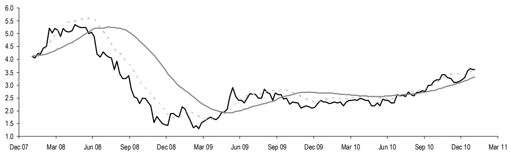
THREATS

- FX volatility- mainly Sterling.
- Volatility in farm spending power from low out prices limits purchasing power for inputs and increases sector credit risk rating.
- EU farm policy reforms in 2013.

Recommendation: As booming cereal prices in 2007/ 2008 boosted performance, recent rising grain price trends should boost earnings. Management has progressively improved efficiency within the Group via restructuring operations to achieve scale in specific sectors such as food distribution in Ireland (became a 45% stakeholder in a larger consolidated business of Valeo) and its 50% JV in marine protein Welcon business via its JV with Austevoll. It has also formed a 50:50 JV for its animal feed business in Ireland – again focusing on delivering improved synergies in the sector. We see the potential for earnings to improve near term but highlight that we are always only one harvest away from weaker prospects should grain prices weaken significantly. We see the restructuring of its food distribution business as strategically positive and facilitating a refocusing on growing its core fertiliser and agronomy activities. We believe its strong balance positions the company to fund acquisition growth in this narrow sector but also see solid opportunities for growth via diversification. Origin will benefit from the current agri commodity driven sector re rating.

Target Price: EUR 3.80

PRICE (SHORT & LONG AVERAGE)



Source : JCF

FINANCIAL CALENDAR

Analyst(s)		NCB Stockbrokers
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EUR 29.24

PADDY POWER

Hold

PAP.I/PWL ID

Market capitalisation: EUR 1421m

Hotels, Travel & Tourism

EUR	12/09	12/10e	12/11e	12/12e
Sales (m)	2,751	3,746	4,229	4,574
EBITDA (m)	84.8	125	125	142
EBITDA margin	3.1%	3.3%	3.0%	3.1%
EBIT (m)	66.7	104	101	117
EBIT margin	2.4%	2.8%	2.4%	2.6%
Net profit (reported) (m)	56.9	83.4	84.4	95.7
Net profit (adj.) (m)	56.9	80.3	84.4	95.7
Cash Flow from Ops.bef. chg in NWC (m)	81.2	116	116	128
Net debt (Cash) (m)	-73.1	-130	-97.1	-158
Net Debt/Equity	-0.4	-0.6	-0.4	-0.5
Net Debt/EBITDA	-0.9	-1.0	-0.8	-1.1
Interest cover (EBITDA/Fin. interest)	nm	nm	nm	nm
ROCE (adj.)	58.5%	96.4%	57.4%	68.4%
ROCE (adj.)/WACC	nm	nm	nm	nm
EV / CE	10.9	14.9	8.4	9.1
EV / Sales	0.4	0.4	0.3	0.3
EV / EBITDA	12.7	10.8	9.9	8.8
EV / EBIT	16.2	12.9	12.1	10.7
P/E (adj.)	20.3	18.4	16.8	14.8
P/BV	7.3	7.4	5.9	4.8
OpFCF yield	7.5%	9.2%	9.2%	9.7%
Dividend yield	1.9%	2.2%	2.5%	2.5%
EPS (adj.)	1.22	1.67	1.74	1.97
EPS (adj.) growth	-13.5%	36.8%	4.3%	13.3%
BVPS	3.39	4.15	4.96	6.04
DPS	0.56	0.64	0.73	0.73
Abs. Performances(12m,6m,3m,1m):	25.2%	4.9%	1.1%	-4.8%

12 month High/low: EUR30.80 / 22.75 — Avg. Daily nb traded shares:108,012

Main shareholders: Free float 85.0%; David Henry Power 8.2%; Fidelity 7.3%;

UBS 6.0%;

All share prices at 01/02/11.

Profile: Paddy Power has circa 198 betting shops in Ireland and 93 in the UK. The Irish estate is approximately 40% larger than it was in 2004, while the UK estate has grown four-fold from 31 shops in 2004. Paddy Power is, however, predominantly an online operator - 73% of group EBIT came from online operations in the first half of 2010 versus 40% in the second half of 2004. Online EBIT grew seven-fold between 2H04 and 1H10 from €5m to €36m; non-online EBIT grew less spectacularly from €8m to €13m.

Online EBIT has grown organically, as well as through the 2009 acquisition of Sportsbet in Australia and a B2B deal with PMU in France. These deals, along with strong organic growth in the UK, have made Paddy Power increasingly international in its focus. EBIT from non-Irish customers grew from 19% of group EBIT in 2H04 to 61% in 1H10. We expect Australia to have contributed one-fifth of group EBIT in 2010.

Sports-betting contributes slightly more than half of online gross win, with the remainder coming from gaming (i.e. casino, poker, bingo, financial spread-betting and B2B).

SWOT Analysis

STRENGTHS

- Market leader in Ireland on a revenue basis.
- Strong financial position (no gearing).
- Highly cash generative and resilient cash flows.
- Strong brand reinforced by innovative advertising.
- Low level of maintenance capex.

WEAKNESSES

- Reliance on sporting results.
- High level of operational gearing (LBO lease and staff costs).
- Does not own proprietary gaming software.

OPPORTUNITIES

- Optimisation of capital structure.
- B2B deals in overseas markets.
- European market liberalisation.
- Bolt-on acquisitions.
- Potential future US online gaming ban overturn.

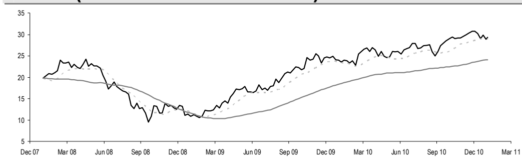
THREATS

- Sustained consumer weakness in Ireland & UK.
- Gross win margin volatility.
- Sterling or Australian dollar depreciation.
- Intensifying competition, particularly in the online space.
- Adverse regulatory change and tax hikes.

Recommendation: We have a price target of €32.50 and Hold recommendation. Before taking into account the proposed acquisition of the Sportsbet minority interests, we forecast flat underlying earnings in 2011 due to the introduction of an online sports betting tax in Ireland, lower gross win margins as sports results normalise, and the absence of a World Cup. We anticipate a return to growth in 2012 and remain optimistic about the prospects for the Irish retail division where Paddy Power should gain market share as competitors close shops in a weak consumer environment.

Target Price: EUR 32.50

PRICE (SHORT & LONG AVERAGE)



Source : JCF

FINANCIAL CALENDAR

07/03/11 Full year 2010 Preliminary resu

Analyst(s)		NCB Stockbrokers
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EUR 3.71

RYANAIR

Buy

RYA.I/RYA ID

Market capitalisation: EUR 5472m

Airlines

EUR	03/09	03/10	03/11e	03/12e
Sales (m)	2,942	2,988	3,622	4,138
EBITDAR (m)	427	733	929	1,043
EBITDA margin	11.9%	21.3%	23.1%	23.0%
EBIT (m)	144	402	526	599
EBIT margin	4.9%	13.5%	14.5%	14.5%
Net profit (reported) (m)	-118	305	414	490
Net profit (adj.) (m)	104	319	414	490
Cash Flow from Ops.bef. chg in NWC (m)	324	622	728	859
Net debt (Cash) (m)	120	143	663	189
Net Debt/Equity	0.0	0.1	0.2	0.1
Net Debt/EBITDA	0.3	0.2	0.8	0.2
Interest cover	7.8	15.1	16.6	26.9
ROCE (adj.)	4.5%	10.6%	12.3%	13.8%
ROCE (adj.)/WACC	nm	nm	nm	nm
EV / CE	1.4	1.5	1.6	1.5
EV / Sales	1.3	1.7	1.7	1.3
AEV / EBITDAR	9.3	6.8	6.5	5.3
EV / EBIT	27.5	12.4	11.4	9.2
P/E (adj.)	37.5	15.6	13.2	11.5
P/BV	1.6	1.7	2.0	1.8
OpFCF yield	10.5%	17.5%	17.1%	18.5%
Dividend yield	0.0%	0.0%	9.1%	0.0%
EPS (adj.)	0.07	0.22	0.28	0.32
EPS (adj.) growth	-77.3%	nm	30.0%	15.2%
BVPS	1.64	1.93	1.84	2.12
DPS	0.00	0.00	0.34	0.00
Abs. Performances(12m,6m,3m,1m):	13.5%	5.4%	-6.5%	-1.5%

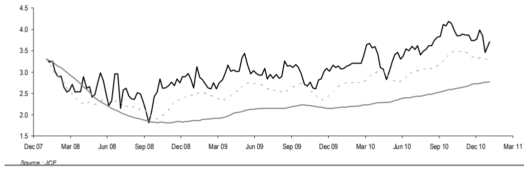
12 month High/low: EUR4.20 / 2.78 — Avg. Daily nb traded shares:2,989,051

Main shareholders: Free float 94.9%; Capital 13.2%; Fidelity 9.0%;

Deutsche Bank 5.8%;

All share prices at 01/02/11.

PRICE (SHORT & LONG AVERAGE)



FINANCIAL CALENDAR

Profile: Ryanair is Europe's most profitable low cost airline, serving over 1,200 short-haul point-to-point routes from 44 bases, mostly across western Europe. As part of its low cost focus, it primarily serves secondary airports. It will carry 80m passengers in the year to March 2012. Approximately 80% of revenues come from its scheduled airline business, with the remainder derived from a broad range of ancillary service sales. Ryanair will operate a fleet of 294 B737-800s at March 2012 and plans to grow its fleet to 299 by 2013. Its target is to double FY07 profits in FY13 subject to FY07 oil prices ($68pbl) and yield (€44).

Ryanair's disciplined approach to changing its bases and network according to route profitability gives it almost unique bargaining power with airports and staff, leading to a sustainable cost competitive advantage. This should drive further market share gains, and margin expansion. The latter will also be encouraged by fewer deliveries of new planes since this facilitates the migration of existing aircraft away from less profitable routes.

SWOT Analysis

STRENGTHS

- Europe's lowest cost airline.
- High market share on routes operated due to its low cost base and a first-mover advantage.
- Strong route network following capacity withdrawals by other airlines.
- Very young fleet.

WEAKNESSES

- Reliance on discretionary spend.
- Lack of pricing power for a commoditised service.
- Ryanair brand unpopular with some passengers.

OPPORTUNITIES

- Further capacity withdrawals by competitors leading to higher fares.
- Stronger leisure demand as economies improve.
- Continued cost cutting.
- Reallocation of capital to higher margin routes as growth slows.

THREATS

- Higher fuel prices.
- Requirement to buy carbon permits from 2012.
- Weaker leisure demand due to higher commodity prices, interest rates, and tax rates.
- Increased supply by competitors.
- Global pandemics, terrorism, war etc.

Recommendation: BUY. Our 12-month price target is €4.80. The key risk to our thesis in the short-term is our implicit assumption of continuing supply discipline by competitors. Even though Ryanair is unlikely to face increased competition on individual routes, there is a risk that airlines will respond to 2010's sharp rebound in profitability by adding too much capacity into cities served by Ryanair. This would depress fares and have a leveraged impact on net profit. For FY2012 Ryanair is now 80% hedged at $800 per tonne. Recent Q3 results were reassuring following the profit warning from easyJet. In particular the strong increase in fares ancillary revenues was impressive despite the challenging conditions through the winter.

Target Price: EUR 4.80

Analyst(s)		NCB Stockbrokers
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EUR 8.81

SMURFIT KAPPA PLC

Buy

SKG.I/SKG ID

Market capitalisation: EUR 1921m

General Industrials

EUR	12/09	12/10e	12/11e	12/12e
Sales (m)	6,057	6,623	7,293	7,681
EBITDA (m)	741	902	1,139	1,254
EBITDA margin	12.2%	13.6%	15.6%	16.3%
EBIT (m)	339	440	689	811
EBIT margin	5.6%	6.6%	9.4%	10.6%
Net profit (reported) (m)	-107	10.0	271	373
Net profit (adj.) (m)	-122	54.1	319	420
Cash Flow from Ops.bef. chg in NWC (m)	329	531	684	674
Net debt (Cash) (m)	3,052	3,067	2,779	2,635
Net Debt/Equity	1.8	1.9	1.6	1.6
Net Debt/EBITDA	4.1	3.4	2.4	2.1
Interest cover (EBITDA/Fin. interest)	2.4	3.1	3.8	4.3
ROCE (adj.)	14.5%	1.3%	9.1%	11.2%
ROCE (adj.)/WACC	1.8	0.2	1.1	1.4
EV / CE	0.7	0.8	0.8	0.8
EV / Sales	0.7	0.7	0.6	0.5
EV / EBITDA	5.5	4.8	3.8	3.4
EV / EBIT	12.0	9.8	6.3	5.2
P/E (adj.)	nm	29.4	6.0	4.6
P/BV	0.8	1.0	1.1	1.2
OpFCF yield	11.8%	11.4%	18.7%	16.4%
Dividend yield	0.0%	0.0%	1.1%	1.1%
EPS (adj.)	-0.56	0.25	1.46	1.93
EPS (adj.) growth	-chg	+chg	nm	31.9%
BVPS	7.69	7.41	7.96	7.57
DPS	0.00	0.00	0.10	0.10
Abs. Performances(12m,6m,3m,1m):	27.8%	11.3%	12.9%	20.7%

12 month High/low: EUR8.98 / 5.65 — Avg. Daily nb traded shares:526,070

Main shareholders: Free float 68.0%;

All share prices at 01/02/11.

Profile: SKG is the European market leader in the production of containerboard (paper) and corrugated (packaging), with a circa 20% market share. The Group was formed through the late-2005 merger of Jefferson Smurfit Group and Kappa Packaging. Enhanced scale has facilitated efficiencies in areas such as procurement and logistics, where SKG's pan-European network provides flexibility. Over 80% of activity is in Western and Eastern Europe, with Latin America accounting for circa 20%. Following the late-2005 merger SKG aggressively cut capacity and set about raising prices to restore margins. SKG achieves the highest EBITDA margins compared to its peers.

SWOT Analysis

STRENGTHS

- Market leader in Europe and LatAM.
- Industry leading margins.
- Integrated paper/packaging smooths earnings.
- Well invested plant network.

WEAKNESSES

- Heavily exposed to Western Europe.
- Limited backward integration into virgin fibre.
- Dependent on OCC prices to continue rising to pass on costs.
- Still highly leveraged versus competitors.

OPPORTUNITIES

- High growth opportunities in Central & Eastern Europe and Latin America.
- Improving industry supply side discipline.
- Potential to acquire distressed assets cheaply.

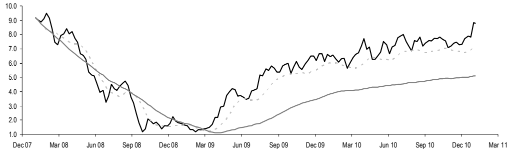
THREATS

- Input cost pressures for both virgin and recycled fibre, from biomass and China.
- Slowdown in macroeconomic expansion in developed markets.
- Competition from private producers.
- Weakness in USD vs EUR exchange rate.

Recommendation: Smurfit Kappa reported solid Q3 results in November 2010. We expect FCF to be strong in Q4, but will be somewhat offset by higher levels of capex during the quarter. Demand remains healthy across all markets and should continue to grow in Q4. Input cost increases will lead to further price increases for corrugated packaging. The company maintains it's guidance of 20% EBITDA growth for the full year. SKG is our top pick in the Paper and Packaging sector in the UK and Ireland. With industry leading margins, SKG has the greatest exposure in the sector to containerboard, which is our preferred paper grade. Its strong market position in Europe is bolstered by growth from its Latin American operations which will continue to boost operating margins through 2011 and 2012. SKG will prioritise debt reduction in 2011 after which we expect it to reinstate its dividend and look at potential acquisitions in both Europe and Latin America. For FY 2011 we forecast EBITDA of €1,139m on sales of €7,293m. We have increased our target price to €11.50 (€9.80) and maintain our strong BUY recommendation.

Target Price: EUR 11.50

PRICE (SHORT & LONG AVERAGE)



Source : JCF

FINANCIAL CALENDAR

09/02/11 Q4 2010 Results

Analyst(s)		NCB Stockbrokers
Donal ONeill	00 353 16115863	Donal.oneill@ncb.ie

NCB

Independent & International

ESN

EUR 0.42

TOTAL PRODUCE

Buy

T7O.I/TOT ID

Market capitalisation: EUR 138m

Food & Beverage

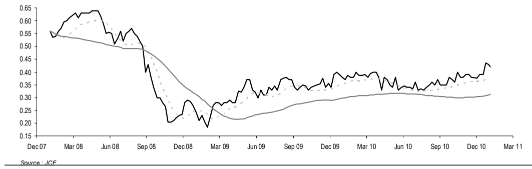
EUR	12/09	12/10e	12/11e	12/12e
Sales (m)	2,186	2,187	2,205	2,229
EBITDA (m)	49.5	51.3	51.7	53.2
EBITDA margin	2.3%	2.3%	2.3%	2.4%
EBIT (m)	30.7	32.6	33.1	33.5
EBIT margin	1.4%	1.5%	1.5%	1.5%
Net profit (reported) (m)	13.0	19.6	20.2	20.9
Net profit (adj.) (m)	24.3	25.3	25.9	26.6
Cash Flow from Ops.bef. chg in NWC (m)	51.3	53.1	53.5	55.0
Net debt (Cash) (m)	50.6	49.8	44.3	37.7
Net Debt/Equity	0.2	0.2	0.2	0.2
Net Debt/EBITDA	1.0	1.0	0.9	0.7
Interest cov er (EBITDA/Fin. interest)	15.6	15.1	17.2	21.3
ROCE (adj.)	12.0%	13.3%	12.8%	12.4%
ROCE (adj.)/WACC	1.3	1.5	1.4	1.4
EV / CE	0.6	0.7	0.7	0.6
EV / Sales	0.1	0.1	0.1	0.1
EV / EBITDA	3.2	3.3	3.3	3.1
EV / EBIT	5.1	5.2	5.1	4.9
P/E (adj.)	5.3	5.5	5.7	5.5
P/BV	0.7	0.8	0.8	0.7
OpFCF y ield	43.0%	36.6%	35.2%	36.3%
Div idend y ield	4.0%	4.0%	4.1%	4.2%
EPS (adj.)	0.06	0.07	0.07	0.08
EPS (adj.) grow th	-4.1%	4.8%	9.3%	2.7%
BVPS	0.47	0.45	0.52	0.57
DPS	0.02	0.02	0.02	0.02
Abs. Performances(12m,6m,3m,1m):	9.1%	16.7%	16.7%	12.0%

12 month High/low: EUR.44 / .33 — Av g. Daily nb traded shares:651,525

Main shareholders: Free float 89.4%;

All share prices at 01/02/11.

PRICE (SHORT & LONG AVERAGE) — **FINANCIAL CALENDAR**



Profile: Total Produce is one of Europe's leading fresh produce distributors with significant operations in Ireland, UK, Sweden, Denmark, Spain, Italy, Holland, Belgium, France, Germany, the Czech Republic and Slovakia which handle 250m cases of produce. It has 88 facilities in 17 countries. It also operates a consumer distribution business in Ireland which had sales of approx €106m in FY09.

SWOT Analysis

STRENGTHS

- Well established market positions in Europe – especially in the Nordic & Iberian regions.
- Predictable cash flow.
- Long track record of sector consolidation.

WEAKNESSES

- Limited pricing power to recover rising supply chain costs especially in retail sector.
- Low organic growth.
- FX volatility can be difficult to recover via pricing.
- Profits at its legacy consumer distribution business in Ireland under significant pressure.

OPPORTUNITIES

- Growth via consolidation.
- To provide logistics or additional value added services for new suppliers of fruit into Europe.

THREATS

- Retailer consolidation.
- Retailer pricing power.
- Weather disruptions to supplies.

Recommendation: Total Produce has a track record as a sector consolidator when previously part of Fyffes plc. The firm's income is largely brokerage commission, as it does not take ownership of most of the product it supplies, which significantly reduces the risk profile of the business. Total's performance in FY09 and H1 FY10 displayed strong resilience despite challenging trading conditions from weather and unfavourable FX rates, slightly weaker volumes & selling prices and losses at its Irish consumer product distribution business. The latter business is likely to continue to struggle to break even in FY10 in the absence of significant corrective action to adjust to a contracting, more competitive retail environment in Ireland. While this business is small in a group context, it has the potential to obscure progress in fresh produce. We continue to view Total's fresh produce business as low risk, cash generative, with a strong track record of performance. Further bolt-on deals are likely given its low net debt/ EBITDA of 0.9x and the stock continues to trade on very undemanding multiples and offers an attractive yield. H1 results were as expected, resilient given the very difficult adverse weather for trading in Northern Europe in Q1. We expect the full year performance to be slightly ahead of company guidance.

Target Price: EUR 0.50

Analyst(s)		NCB Stockbrokers
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NCB
Independent & International

ESN

GBp 1382.00

TULLOW OIL PLC

Accumulate

TLW.L/TLW LN

Market capitalisation: GBP 12162m

Oil & Gas Producers

USD	12/09	12/10e	12/11e	12/12e
Sales (m)	916	951	1,788	2,078
EBITDA (m)	605	709	1,191	1,454
EBITDA margin	66.0%	74.5%	66.6%	70.0%
EBIT (m)	151	397	737	973
EBIT margin	16.5%	41.8%	41.2%	46.8%
Net profit (reported) (m)	25.3	177	370	489
Net profit (adj.) (m)	25.3	177	370	489
Cash Flow from Ops.bef. chg in NWC (m)	401	854	1,724	1,960
Net debt (Cash) (m)	1,062	-7.3	379	475
Net Debt/Equity	0.4	0.0	0.1	0.1
Net Debt/EBITDA	1.8	0.0	0.3	0.3
Interest cover (EBITDA/Fin. interest)	10.1	8.2	13.8	14.0
ROCE (adj.)	5.5%	5.1%	6.5%	6.5%
ROCE (adj.)/WACC				
EV / CE	4.5	3.7	2.9	2.3
EV / Sales	19.6	18.0	11.2	9.7
EV / EBITDA	29.6	24.1	16.8	13.8
EV / EBIT	nm	43.1	27.1	20.6
P/E (adj.)	6.7	1.0	0.5	0.4
P/BV	0.1	0.0	0.0	0.0
OpFCF yield	1.6%	4.8%	7.8%	10.1%
Dividend yield	19.6%	19.6%	20.6%	21.6%
EPS (adj.)	3.15	20.29	42.06	55.53
EPS (adj.) growth	-89.9%	nm	107.3%	32.0%
BVPS	302.93	483.84	676.33	907.11
DPS	4.38	4.38	4.60	4.83
Abs. Performances(12m,6m,3m,1m):	17.0%	12.3%	18.0%	9.6%

12 month High/low: GBp1388.00 / 991.50 — Avg. Daily nb traded shares:2,642,465

Main shareholders: Free float 100.0%;

All share prices at 01/02/11.

Profile: Tullow Oil is a fast growing independent Exploration and Production company, with 2009 volumes split 66% crude from Africa, 25% gas in UK, and 9% gas in Bangladesh. Tullow has built up an exceptional portfolio combining material exploration and development opportunities especially in Ghana and Uganda. Ghana is already in the production phase, with production due to ramp up from 50kbpd to 120kbpd by mid 2011. The intensive exploration campaign in Uganda continues to build reserves in two areas, which have the potential for 1mb reserves each. Tullow has been effective in maximising its financial resources, having sold several material but non-strategic assets at the top of the asset market, agreed a $2bn debt facility and raised a further £0.9bn with a successful rights issue (January 2010). Tullow's assets sit in the centre of the radar for several industry players but continues to operate as a more successful independent, and is able to exploit its position to construct attractive deals.

SWOT Analysis

STRENGTHS

- Large scale reserve development opportunities, internal cash flows, step out exploration.
- Forecast earnings increase 16x in two years.
- Strong record in exploration and execution.
- Key position on industry radar.
- 83% exploration success rate in 2010.

WEAKNESSES

- Near term production decline and increased costs – resulting from strategic shift from previous core into larger opportunities.
- UK and Africa – limited direct operational synergies.

OPPORTUNITIES

- Game-changing opportunities in Ghana and Uganda, strong exploration portfolio elsewhere.
- Ngassa opens third area in Uganda, Venus B opens extension of similar Ghana plays.
- New exploration potential eg French Guiana.
- Farm-ins, selling interests to generate cash.

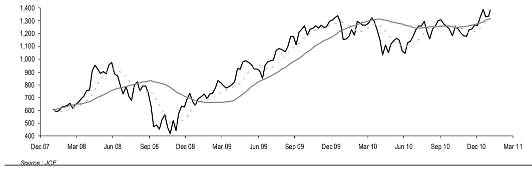
THREATS

- Heavy exploration programme – demanding on resources, volatile newsflow.
- Political and logistical complexity in Uganda.
- Weak UK gas prices hit internal cash generation.

Recommendation: Tullow remains an exploration and M&A story – hence the importance of NAV as the valuation driver. We base our NAV on the price which a buyer could pay for reserves and make a target rate of return. Our methodology already includes significant exploration upside, including Ngassa at 30% above Tullow's indications and overall Uganda at 2x their guidance, as well as Ghana 40% above present guidance. Given this upside, we believe that much of the expected further exploration success is likely to "join the dots" to get to where the market expects Tullow to get to, rather than to raise the bar. However, Tullow has proven highly successful not only exploration but in moving to exploit those reserves so the market is comfortable with a premium. We expect the company to sell its oil at a premium to Brent in 2010, but remain cautious on the political situation in Uganda. Following the FY 2010 results and guidance update we will likely look to revise our numbers and forecasts. In the near term we maintain our accumulate rating.

Target Price: GBp 1260.00

PRICE (SHORT & LONG AVERAGE)



FINANCIAL CALENDAR

09/03/11	Full year 2010 Results
09/03/11	Full year 2010 Results present
09/03/11	Full year 2010 Earnings confer

Analyst(s)		NCB Stockbrokers
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- **Reduce**: the stock is expected to generate total return of **0% to -10%** during the next 12 months time horizon
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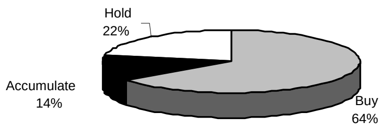
NCB Stockbrokers Ratings Breakdown



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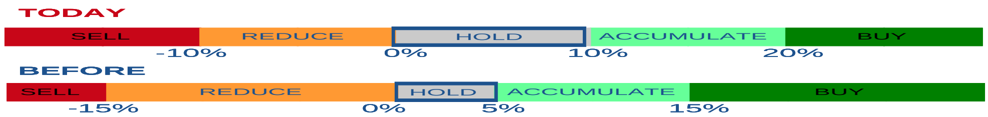
Since 4 August 2008, the ESN Rec. System has been amended as follow.

- Time horizon changed from 6 months to 12 months
- Recommendations Total Return Range changed as below:



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