BLOXHAM

Equity Strategy: 2010 Pathfinder

2 December, 2009

Executive Summary:

- After a dramatic sell-off in 2008 (ISEQ - 63%) global equity markets have recovered significantly during 2009 from the lows of March driving the MSCI world index up 70%.

- The key macro driving equity markets have been; (1) a carry trade through buying inexpensive dollars and investing across a wide range of higher return equities and other asset classes including commodities; (2) evidence that consumer sentiment is stabilising with unemployment, credit flow, consumer confidence and housing statistics pointing to a nascent recovery and; (3) a major stimulus programme launched by world governments has ignited economic activity across the globe. This rally has cut losses from $25 trillion since the market peak in 2007 to $10 trillion.

- We identify five factors that are required to sustain equity and economic advances in 2010, including; (1) revenue growth from companies worldwide which we expect to stem from volume growth amid an anaemic inflation environment; (2) evidence that the decline in bank lending which has persisted throughout 2009 has bottomed out; (3) the return of M&A activity, with companies sitting on historically high cash balances; (4) retail cash funds remain at historically high levels and any shift by these into equity markets would augment positive progress and (5) the $15 trillion uplift in financial assets since the March lows begins translating into a positive consumer reaction (Wall Street to Main Street).

- In the Irish economy during 2010 we expect (1) GDP to contract by 1% compared to our previous estimate of a 2.25% decline (2) deflation to ease from -4.5% in 2009 to –0.2% (3) unemployment to rise from 11.7% to 12.8% and (4) consumer spending to contract by 2% compared to –7.3% in 2009.

- Set against our views on global asset markets, and the economic prospects for 2010, we recommend a very conservative approach to equities and identify eight Irish companies that provide; (1) a limited exposure to the continued advance of cyclical and high beta stocks; (2) solid dividend income in a market environment which we anticipate will remain volatile and; (3) valuations that are not demanding in either a historic or peer group context. Using these criterion we recommend C&C, DCC, ICG, Kerry Group, Irish Life and Permanent, Origin, Ryanair and Total Produce.

Company	Price (€)	Market Cap (€m)	EV/EBITDA 2010	PER 2010	Div Yield 2010	% off High
C&C	2.88	954	8.4	11.8	2.1%	-79%
DCC	19.12	1573	7.7	12.2	3.4%	-32%
ICG	13.40	330	7.0	12.4	7.4%	-49%
Irish Life & Permanent	3.11	838	-	-	-	-87%
Kerry	19.95	3493	8.9	12	1.4%	-14%
Origin	2.20	293	6.1	6.9	4%	-59%
Ryanair	2.81	4151	7.7	15.7	0%	-56%
Total Produce	0.34	118	4.0	6.5	5.1%	-63%

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2009 - From the Great Depression to the Great Escape

Following on from 2008's "Black Swan" event, equity markets bottomed in March as global efforts saw trillions in liquidity pumped around the financial system. After the biggest sell off in international equity markets since the 1930s, the rebound triggered by mass global government intervention has been significant. The wall of liquidity has helped the MSCI world index rally 70% since it bottomed in March. The gains have been primarily in technology, materials and consumer discretionary stocks, while "defensive" sectors like telecoms and utilities have largely been left behind as a renewed appetite for risk was seen in the market.

- ***Wall of liquidity drove the great escape***

The intervention has seen interest rates decline to historically low levels and an injection of unprecedented government stimulus. Credit markets have broadly stabilised, with yields tightening and the narrowing of the risk premium, the critical measure of investor appetite. These factors have driven a massive asset price rally .

Deep Government intervention: The unprecedented global rally seen since March was predominately borne from deep Government intervention. Extensive quantitative easing, sub normal interest rates and intensive liquidity injections continue to drive underlying support for both the financial and real economy. Interest rates have been cut dramatically in all major countries and are currently below 1% in the US, Japan and UK. The ECB has kept the refinancing rate at 1% and allowed overnight in rates to fall below 1% at its 12 month bank auctions, while most other major central banks have adopted unconventional monetary measures to boost liquidity.

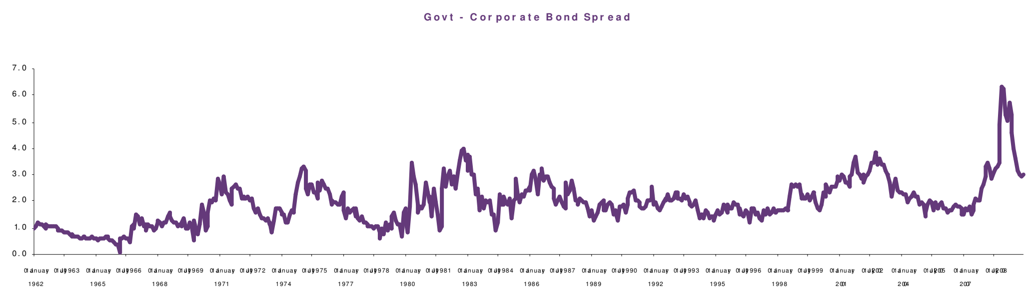
- ***Intervention was the rebound catalyst***

Simultaneous Stimulus Packages: Since the crisis began the ECB has injected a record $620 billion in one-year funds and has agreed a $266 billion stimulus package worth 1.5% of GDP. China has aggressively pumped funds indirectly into its financial markets and its stimulus package totals $4 trillion. The Japanese government announced a new stimulus plan in April, worth 2% of GDP. However, the largest spender has been the US. The Fed has expanded the monetary base by 114% over the past 12 months and has loaned over $1 trillion to the US banks. It bought more than $1.5 trillion worth of Treasury bonds and government-guaranteed securities linked to mortgages. Finally, the US agreed a $787 billion direct stimulus package to motivate the US consumer through car rebate schemes and housing credits etc. The majority of the package remains to be spent in 2010. The impact of this intervention has seen government debt spiral across most western economies. The US alone added almost $2 trillion to its debt figure, with national debt now topping $12 trillion.

- ***Global stimulus measures have been impressive***

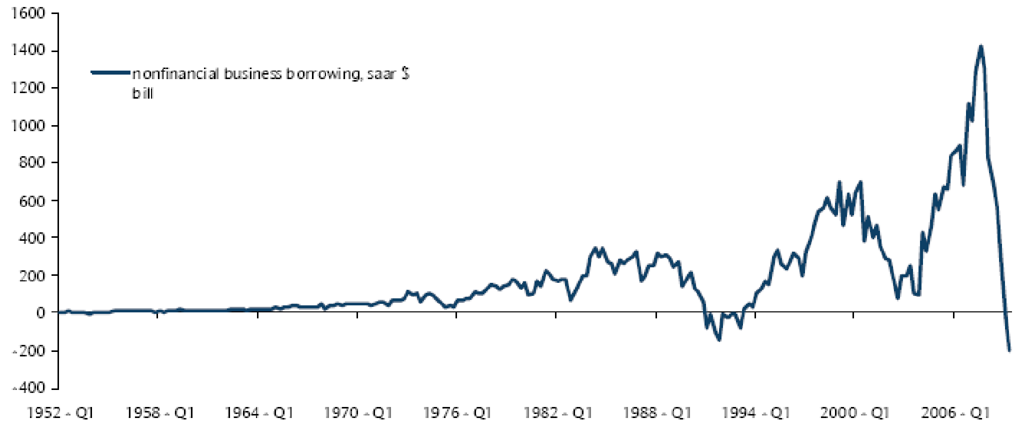
Credit Stabilisation: After the spike in the cost of corporate debt in 2008, to levels unseen since the 1930's, the spread of government to corporate bonds, a key measure of risk appetite, has seen a swift correction to more normal levels in 2009. This movement is primarily the result of the stabilisation seen in the banking sector. The implications of the move are a reduction in the cost of capital and the cost of debt for companies. However, as with previous crises, the tightening of the spread of corporate over government debt marks significant bottoms in the market. The current level is still on the upper bounds of the historical range but we expect the spread to continue to tighten throughout 2010.

- ***We see further declines in the risk premium in early 2010***



Lending still depressed: Despite the reduction in the risk premium, the take up of lending in the real economy is still at severely depressed levels. According to the latest US bank asset and liability report, commercial and industry loan books are continuing to contract at an accelerating rate. From the peak towards the end of last year, the total stock of loans and related leases at US banks has fallen by 8.7%. This is the continuing impact of de-leveraging by businesses in the real economy and a trend which was also seen in Europe. Cross border lending has fallen by 25% in the past 12 months, marking a massive decrease in bank lending across regions.

- *Narrowing of the risk premium has driven a reduction in the cost of debt*



Source: Haver

Massive $15 trillion in wealth created in financial asset markets from lows: While the fiscal stimulus has seen strong rallies in equities, all asset classes have benefited including bonds, commodities, property and derivatives. Bond prices have increased in spite of the c$4.5 trillion of issuance seen so far this year, while the take up of equity placings has also been strong. Overall, global equities are now worth $34.5 trillion approximately. This rebuild in financial strength across the financial markets is of major benefit to the financial system which in turn holds trillions of dollars of financial derivatives. The table below highlights the extent of the reflation on the financial sector, where losses have dropped from $24 trillion in March to just $10 trillion since the peak of the markets in 2007. The stimulus packages and global co-ordinated intervention has resulted in a $15 trillion rebound in markets since the lows.

- *Stimulus has created $15 trillion in wealth*

Global Asset Writedowns

	Currently Outstanding	Accumulated Losses			
		Oct-08	Mar-09	Jun-09	Oct-09
Equities	34.4	14.4	20.2	12.3	8.6
Corporate Bonds	15.4	2.2	2.0	0.7	0.5
RMBS	4.4	1.0	1.8	1.3	1.1
CLOs CDOs	1.4	0.4	0.5	0.4	0.0
CMBS	0.9	0.1	0.3	0.2	0.1
Total Losses	-	18.1	24.8	14.9	10.3

Non Gov Financial Outstanding	**55.8**
Government Debt	**60.0**
Total Financial Assets	**115.8**
Total Property Assets	**75.0**

The risk to continued reflation is renewed uncertainty about the economy or a sudden rise in inflation risks which would force the hand of policy makers regarding rate hikes. We see the latter risk as being extremely unlikely in the first half of 2010. Continued asset reflation could also be halted by an increase in the price of money as central banks begin the normalisation process in the financial system. However, the removal of excess liquidity will be the first money market support measure used by central banks. This is something which does not pose an immediate threat to continued reflation, as it is the price of money rather than its quantity that will continue to drive gains.

- *Inflation could see rates rise*

Examining prior market rebounds: To put the recent rally in perspective, the table below examines prior market bottoms and how the markets performed 9 months later. This coincides with the timeframe of the rally that commenced in March. Data for the market move in the 6, 12 and 24 month periods following the initial rally are also included to try and give colour on possible market scenarios going forward.

- *Analysis of histori-cal market bot-toms*

The data shows the average bear market saw a correction of 42%, with the current bear market experiencing a greater than average decline of 58%, while the average rally from market bottoms is 40% excluding the current rally which has seen a return of 66%. The data shows that the bear market experienced until March was one of the most severe historically, but likewise the rally seen since March of this year is also one of the most pronounced. Looking past the initial rally, the data shows that after a period of 6, 12 and 24 months from where we are now in the recovery, the markets returned an average of 19%, 21% and 21.5% respectively.

Prior rallies from market bottoms

	Initial fall	Rally from the bottom			
		9M	14M	20M	32M
June 1932 - Feb 1933	-86%	26%	104%	93%	58%
March 1938 - November 1938	-54%	62%	-18%	-12%	-23%
April - December 1942	-46%	31%	23%	20%	36%
October 1974 – June 1975	-47%	48%	-3%	13%	9%
August – March 1982	27%	50%	12%	4%	20%
October 1987 – June 1988	-36%	26%	3%	17%	31%
March - November 2003	-49%	35%	12%	12%	19%
Average return	**-42%**	**40%**	**19%**	**21%**	**21%**
March - November 2009	**-58%**	66%			

Gains over next 6-24 months likely to be less pronounced: It can be argued that the markets have rallied 66% already compared to the average of 40% and that historically speaking further gains appear limited from the current levels. However, given the speed and severity of the decline seen into March, a stronger than the historical average rally should have been expected. The 2 prior 8 month rallies of similar magnitude were the rallies from March 1938 (62%) and the 1982 bottom (50%). The 1982 scenario saw an 11.5% return over the following 6 months with 1938 experiencing an 18% decline within 6 months. The similarities between 1938 and 2009 are striking with the market bottoming in March and then rallying 62% and 68% respectively into November. The overall conclusion from the data is that the initial rally appears the swiftest, with gains for the next 6-24 months being much less pronounced. In essence, the markets could be range-bound in the near-term; a situation we believe will suit active management over a buy and hold strategy.

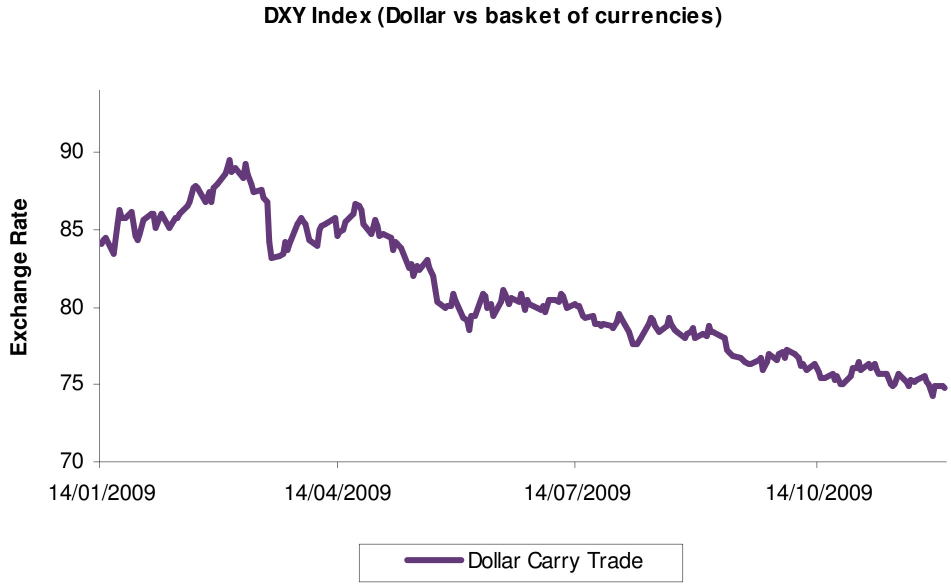
- *Speed of rally since March is unlikely to con-tinue at the same pace*

Critical Macro Factors in 2010

1. Carry Trade

Carry trade has been key driver: The carry trade has been a key driver of the recent rally in equities. Effectively investors have been borrowing in the low-interest rate currency, the US dollar, and investing in higher yielding currencies such as Australian bonds as well as riskier assets such as commodities. This borrowing of dollars has driven the trend of a weaker dollar and higher commodity/risk asset prices. It is impossible to establish how long this trend will last and how far it will increase asset prices over the next few years. The Japanese Carry trade which began in the 1980's lasted over 20 years so it's possible that the current US dollar trade could continue for the medium term.

- *Low US rates driving markets*



A reversal in US Dollar would trigger market correction: Looking back historically at the Yen Carry trade which dominated market psyche in the mid 90's, major reversals in equities coincided with strength in the YEN versus the US Dollar. Examples included the 1987 crash, the Kuwait/Iraq war and the LTCM debacle in 1998. Currently we are watching both the EURUSD and AUDUSD closely for signs of corrections, which could result in an equity market correction. Potential catalysts for a reversal of the carry trade include hawkishness from the Fed, increasing signs of a double dip recession or foreign government default.

- *Carry trade precedent exists in Yen Dollar trade of 1990'2*

2. Consumer

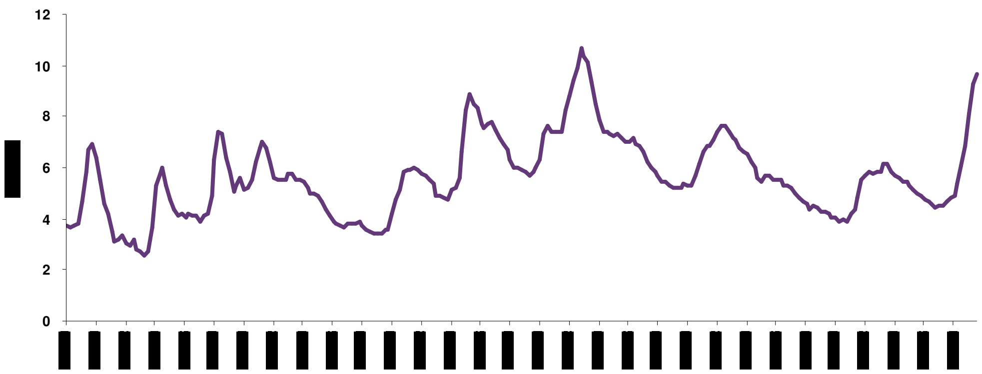
Not expecting significant employment gains until H1 2011: Unemployment has been one of the major issues facing policy makers in 2009. The fiscal stimulus has played a crucial role in stabilizing the world economy and as such we are forecasting the major Western economies to follow the US out of recession in 2010. An unemployment bottom however has historically lagged an economic bottom by 6-9 months and given our economic forecasts for 2010 we are not forecasting any significant fall in unemployment levels until H1 2011.

- *No respite in unemployment seen in 2010*

US Unemployment rate at 26 year high: In the US the official unemployment rate is now 10.2% a 26 year high, while the U6 rate at 17.5% shows that 1 in 6 people in the US are either unemployed or working part time. This is set to have a major impact on consumption levels in the world's largest consumer of goods. Across Europe the unemployment picture looks just as bleak, with Spain at 17.9% while here in Ireland the rate is 12.5%. High unemployment is set to be a strong headwind for demand as we look towards the next 12 months. However there is historical precedent for a "jobless recovery" with 1991's US recession where unemployment continued to increase for a year after the country exited recession being the most obvious case.

- ***Rising unemployment to continue as a headwind***

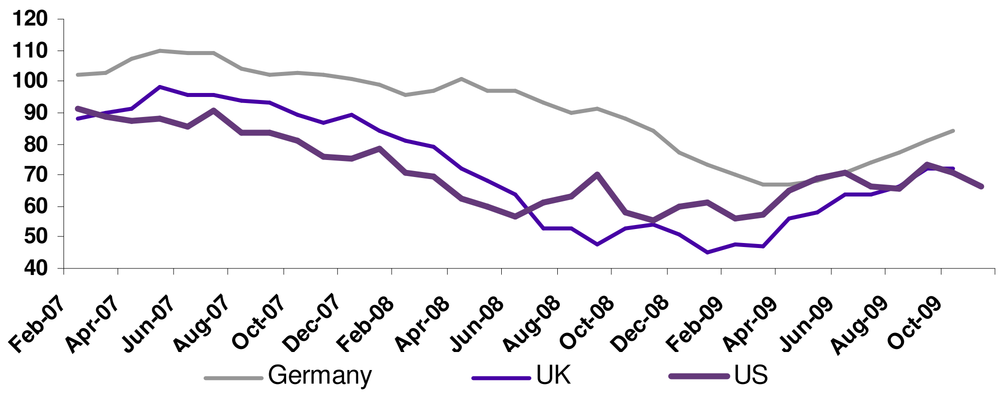
US Unemployment Rate



Consumer confidence We view renewed levels of confidence in consumers as a prerequisite for a sustained recovery: Many of the critical measures of consumer confidence have risen throughout 09, supporting higher valuations of stocks, especially those with strong consumer exposure. The major lead indictors across the US, EU and China have all showed renewed confidence from historically low levels seen at the turn of the year, however we view the recent sustained weakness in the University of Michigan sentiment index in the US as a concern. The index had been on a steady upward path until September, at which point stimulus schemes such as "cash for clunkers" finished, a cause for concern as it points to continued anemic real demand in the economy.

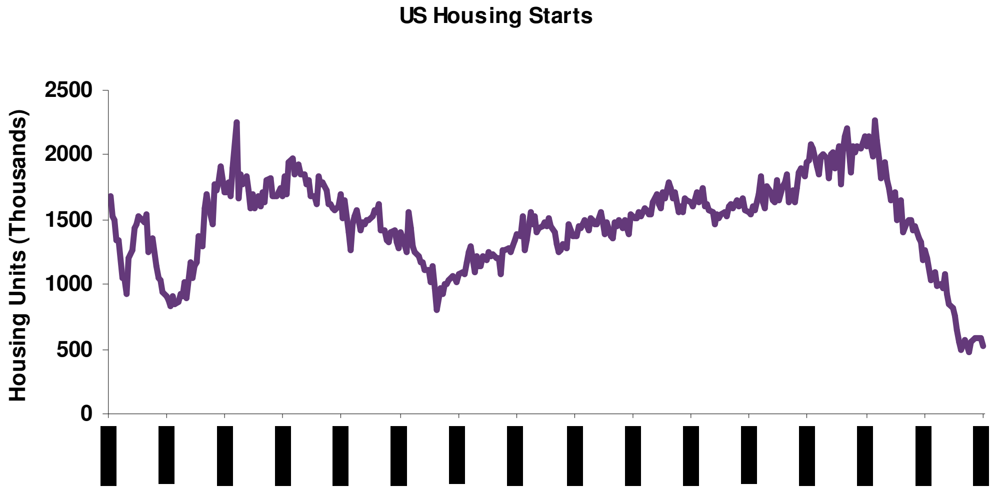
- ***Leading indicators of consumer confidence generally positive***

Consumer Confidence



Housing Turnaround in US housing market critical: Another potential catalyst for additional upside in the equity markets is a turnaround in the US housing market. Housing and related business account for about 20% of US GDP, with housing sales generating a multiplier effect by stimulating spending on domestic goods such as dishwashers and washing machines. Therefore a recovery in housing is critical for a sustainable long term recovery in the US economy. Positively, the $8,000 first-time buyer housing credit has recently been extended until April 30th and the US Governments purchase of $1.4 trillion in mortgage related securities aimed at cutting mortgage rates will continue until March 31st. We view both these measures as a positive for sentiment in the markets but the question of what happens after this stimulus is removed still remains.

- ***US housing recovery critical for a sustained economic recovery***



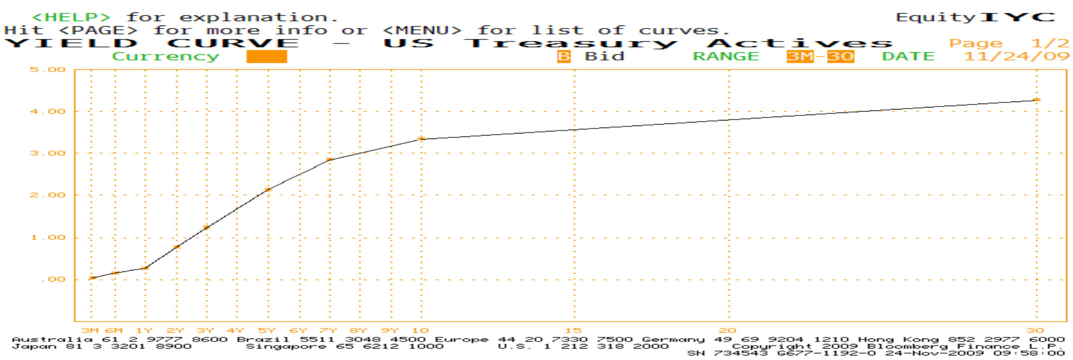
US still faces a number of issues: US housing faces a number of issues, with mortgage delinquency and foreclosure rates continuing to rise, while the foreclosure pipeline (shadow supply) continues to increase to unprecedented levels. Housing starts have moved sideways since bottoming at 479k in April, with the latest figure at just 529k. At the prior two major bottoms in housing in 1982 and 1991, housing starts troughed at circa 800k while the current housing inventory still stands at over 1 years total supply. As a result we are not expecting any increase in housing starts until the excess home inventory begins to reduce, which will be a headwind on the consumer spending in 2010.

- ***Large US housing overhang still exists***

3. Liquidity/Stimulus

Stimulus measures to continue in 2010: The stimulus measures seen in 2009 are set to continue into 2010. Only four countries (China, Germany, Saudi Arabia and the U.S.) plan to spend as much or more on stimulus in 2010 than in 2009, but still over $900bn of direct stimulus money is committed. The Fed has set interest rates to 0.25% and has given clear indications that it intends to keep them at those levels or below until the end of Q2 2010. The consensus market view as determined by options prices shows that no hikes until Q3 at the earliest is currently priced in. Policy makers will be aware that the miss timing of rate increases against a backdrop of large scale public sector deleveraging and weak consumer demand, threatens to destabilize the possibility of a V shaped recovery. This is because further falls in asset prices as a result of a double dip recession would result in increasing levels of debt repayments and further weakening in consumption levels. As a result we view any attempts to raise rates as very unlikely until definitive evidence of an economic recovery is firmly in place. Our view is borne out by the slope of the US forward yield curve shown below.

- ***US/EU rates to stay unchanged in H1 2010***



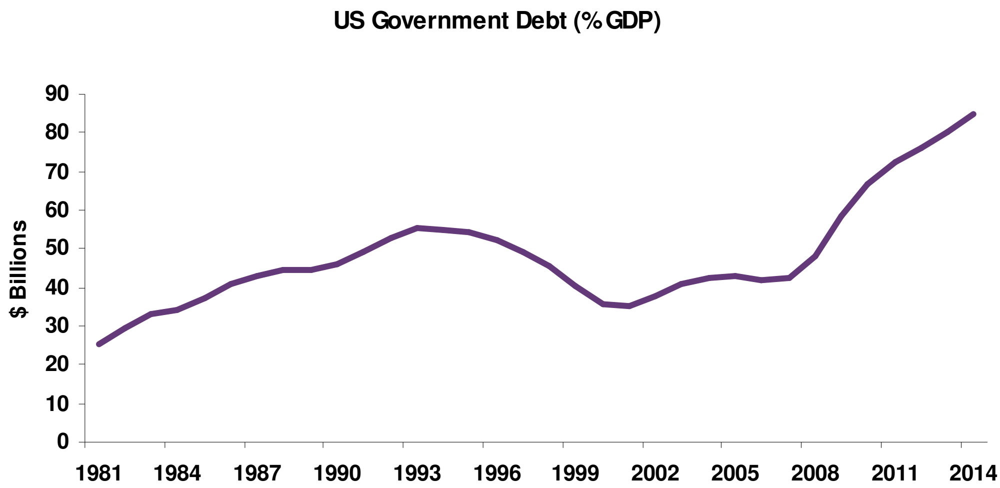
Deflationary threats remain: A return to a normal yield curve, from the inverted scenario seen in 08, implies a return to an inflationary environment in the medium term. However with a 4% yield on the 30 year US treasury, we see the call for impending hyper-inflation as unlikely. Therefore we see the inflation concerns driven by a weaker dollar and further stimulus measures being tempered by deflationary drivers such as high unemployment, excess capacity and weak consumer spending in 2010.

- ***Fine balance exists between inflation and deflation***

4. G is the new C

Government debt is replacing consumer debt: Government efforts to reflate the economy by taking on “public” in place of private sector debt are questionable and could exacerbate the deleveraging process. US total debt is presently just under $55 trillion, comprised of public debt of approx $15 trillion and private debt of approx $40 trillion. At the current rate of expansion it is possible that government debt will exceed private debt inside 10 years. As public debt continues to accelerate, companies and individuals will realize that their future tax liabilities will also be higher reducing consumption. Should the Governments expansion of debt continue at the current rate it could drive the US debt/ GDP ratio to over 200% in line with where Japan’s debt is now. For the last 20 years Japan has been substituting public debt for private debt and all that has created is deflation.

- ***Government debt presents deflationary concern***



Velocity of money circulation has collapsed: The FED and the other central banks have done everything in their power to re-flate the economy. Although the money supply has increased, the velocity of circulation has collapsed. For the government’s efforts to translate into inflation, the banks have to make new loans. The decline in the supply of loans and demand for borrowing (due to a lack of confidence) has collapsed the money multiplier.

- ***Velocity of money continues to fall***

Simultaneous deflationary/inflationary pressures: Remember that it is also possible for some classes of assets to inflate while others simultaneously deflate. The recent efforts by the Fed have driven sharp rises in many asset classes such as commodities and equities. This rise in oil has driven increases in fuel prices, which is a “tax on the consumer” and is in itself deflationary. With continued private sector de-leveraging likely over the next few years, there is a high possibility that the economy can slip back into recession next year (W shaped recovery). Companies will see higher input costs on a number critical commodities such as oil, copper, agricultural commodities and will lack the pricing power due to the deflationary environment to pass price increases onto the consumer. This may drive a contraction in operating margins and in turn valuations.

- ***Simultaneous reflation and deflation is a possibility in 2010***

Key Drivers for 2010

We have outlined the critical macro factors we are expecting to influence the market direction in 2010 namely the carry trade, the recovery of the consumer, liquidity concerns and spiralling government debt. For a continued rally in 2010 we outline what themes we need to see develop for the markets to move ahead when the macro factors outlined previously are in place. We look at revenue growth, bank credit, M&A activity and the large amounts of cash on the sidelines all as potential catalysts in their own right as catalysts for market gains in 2010.

1. Revenue growth

Driven by volume growth: Earnings growth in 2009 was driven by cost-cutting measures rather than an increase in end-demand. However cost cutting has its limits and is not enough to generate sustainable earnings growth going forward. Sales growth is expected in 2010, which is made easier by the favourable year on year comparatives. Top-line growth can come from two primary sources: volume and price growth. We believe with the excess capacity and low utilisation rates, pricing power for 2010 will be generally weak, and therefore revenue growth will have to come from volume. Volume growth is highly correlated with GDP growth which we expect to be 3.4% (Global) in 2010.

- ***Cost cutting has been the driver of 08***

Wide variance between sector revenue growth: A return of revenue growth would create a degree of operating leverage for many companies / sectors; however volume growth next year may not to be as high as experienced coming out of the bottom of previous cycles due to the level of credit contraction witnesssed. We expect revenue growth to vary considerably between sectors with Basic Resources seeing strong growth of the back of higher commodity prices and sectors such as construction and retail experiencing a more difficult trading environment. European revenue growth is likely to lag US and UK due to the strength of the Euro, which impact exports. Overall, revenue growth for 2010 is likely to be largely driven by government stimulus and corporate spend rather than the anaemic consumer.

- ***Revenue growth not uniform across sectors***

2. Credit

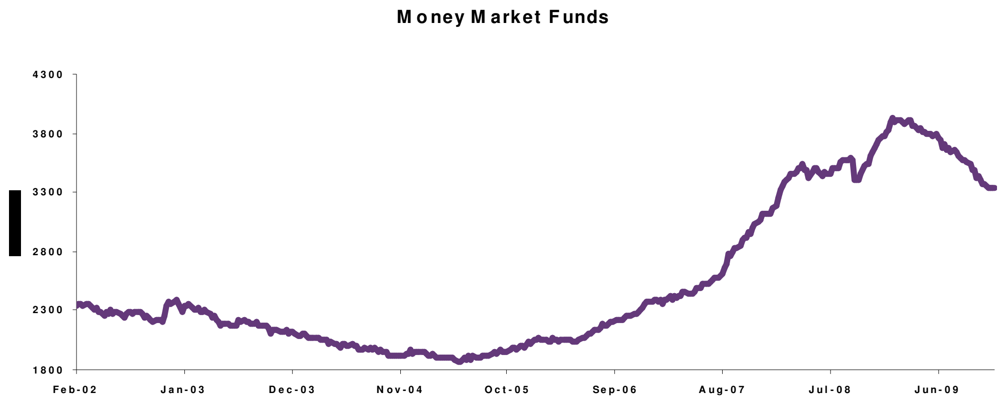
Decline in bank credit has driven decline in M2 growth: The banking systems recapitalization process is set to be another key issue for 2010. Bank credit has been declining since March, which has driven a sharp drop in M2 money growth. Lending by U.S. banks plunged by 2.8% in the third quarter, the largest drop since at least 1984 and the fifth consecutive quarter in which banks have reduced lending. This development is negatively affecting credit conditions despite the FED's expansionary monetary policies. Despite the levels of government intervention, lending levels in world banking continue to contract. Instead of lending, banks have now taken a view that reserve levels of cash should be boosted with caution and high levels of liquidity widespread. In normal

- ***Lending by banks continues to fall*** markets banks hold a bare minimum of funds in reserve to support their liabilities but now in the US alone, bank reserves exceed the regulatory minimum by $1 trillion (This figure was just $2 billion in 2006). This may point to ongoing nervousness in the banking world as banks continue to hold low yielding levels of cash rather than generating higher returns by lending it into the real economy. However we are of the view that at this early point after a recession, a resumption in bank lending would not be expected and that the falling loan rates and high excess reserves are not unusual. Our view is that the high levels of cash are more indicative of the Fed's policy measures and less to do with bank lending policies. As a result we are expecting bank lending to resume in line with improvements in the underlying world economy.

3. M&A Activity

Companies sitting on high cash balances: After a year dominated by rationalization, companies are sitting on historically high cash levels (c.$1 trillion on the S&P 500 companies alone) and are faced with low organic growth prospects due to continuing anemic top line demand. As a result the motivation for an increase in M&A activity is clear, low growth prospects mean that acquisitions are a more attractive use of capital than capital expenditure and therefore we see the H2 09 trend of reducing capex spend continuing into 2010. Also the c. $1.4 trillion of company stock held on balance sheets of S&P companies due to the buybacks seen in the past number of years is an alternative form of funding for acquisitions as is credit which continues close to long-term lows for those who have access to it. All signs now point to a resurgence in M&A activity as cash rich balance sheets chase diversification, stronger returns and growth. Cash rich sectors such as Oil & Gas, Technology and Construction are the most likely areas of activity.

- ***Low cash returns may force com-pany's to buy growth***



4. Cash on Sidelines:

Large uninvested funds could drive markets: Retail investors are still increasing redemptions from equity Mutual Funds as Bond funds continue to see inflows. According to ICI data, 2009 has seen total outflows from equity funds of $1.9 billion compared to inflows of $312.8 billion into bond funds. Money in money market funds is still quite high, indicating that investors are not fully invested in the equity rally seen since March. The MMFA index which is an index of holdings in cash funds, now shows over €3.3 trillion sitting on the sidelines compared to €2 billion in 2005 and 2006. With such large levels of cash relatively univested at present, any significant movement back to the equity market could have a substantial effect given the low volume levels seen at present. Overall retail investor sentiment is still quite negative and any change in this would be a strong catalyst .

- ***Over $3 trillion sits uninvested on the sidelines***

5. Wall St to High St

The recent rally in risk assets has increased worldwide wealth by $15 trillion since the March lows. This has created a positive "wealth affect", a term used to reflect the increase in spending that accompanies an increase in perceived wealth. People are expected to spend more when either they actually are richer or when they perceive themselves to be richer.

- ***Wealth effect should have a positive impact on sentiment and eventually on spending.***

Investors who had seen their pensions and life savings decimated in the 2007-2009 bear market will be encouraged by the vast improvement in their net worth and will feel more confident about the future. This renewed confidence will likely translate into increased spending power, which should have a domino affect on consumer spending and the economic growth.

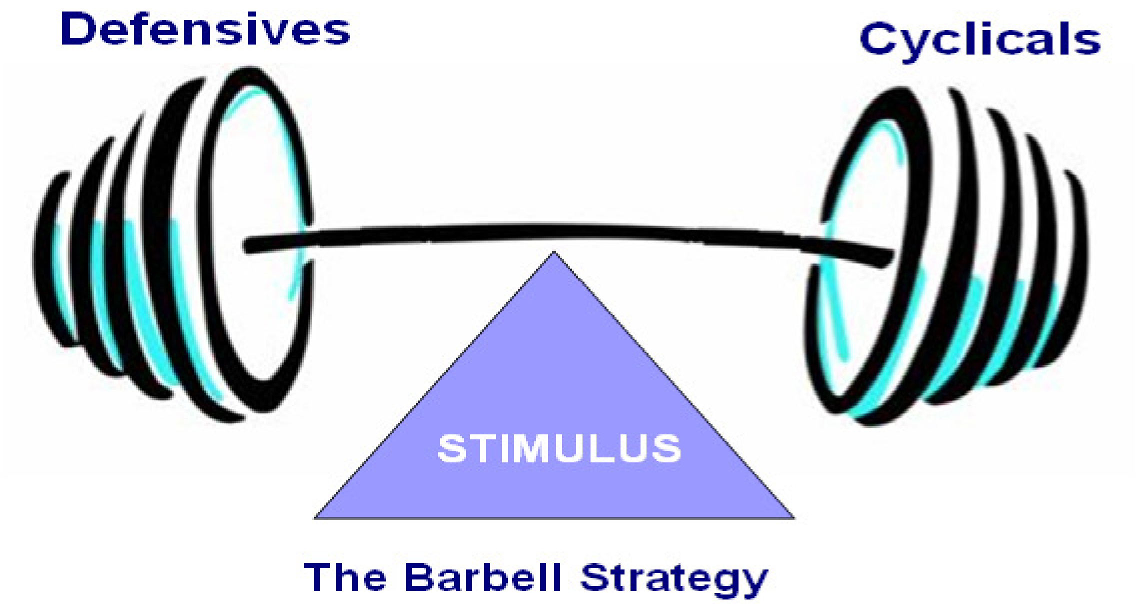
Investor Strategy for 2010

Yield on cash will continue to run at levels which encourage investment rather than saving for at least the next year. We see investors being continually forced to purchase risk assets for fear of “missing out” and due to poor risk free returns. Therefore, while global stimulus lasts, the liquidity effect which has driven the market over the past 9 months, will remains in place until a reversal of supports.

- ***2009 has seen uneven rallies across equity classes***

Defensive V Cyclicals: Cyclical stocks have already priced in a “V” shaped recovery, but a V shape recovery is not our base case scenario given our economic outlook. Having rallied 81% from the lows, cyclicals are currently priced to a stage were economic recovery has been captured in valuations. Defensive stocks on the other hand have “only” rallied 32% in the same period. Consumer discretionary stocks, for example, are currently priced at 16.3x forward earnings, at the top end of historical valuations. Defensive plays offer a much more attractive reward to risk.

Even if the risk appetite may have peaked, it does not necessarily mean that that market has peaked given the levels of liquidity injected into the global economy. On that basis, the argument for holding high quality cyclicals remains but given the risks of pull backs, defensive plays will benefit as investors seek yield and capital protection.



We recommend a bar-bell strategy for investing in 2010: Given historical precedent, the upside in the market for 2010 of between 10%-15% is likely to be volatile. The challenge to the equity market will come when stimulus reduces. Will cyclical valuations be justified by economic recovery and earnings recovery or will defensives win favour due to valuations?

- ***Historical studies would suggest upside from here is limited***

Equities can disconnect from fundamentals for prolonged periods and there is historical precedent to them overreacting significantly to the upside on intervention/stimulus. As such we recommend a barbell strategy with both cyclical plays and defensive dividend paying value plays that will protect investors in a market pullback and also provide substantial potential upside.

For Irish stocks, the best mixture comes from better valued cyclicals such Ryanair, C&C and Irish Life & Permanent balanced by a defensive backbone of Origin, DCC , ICG, Kerry and Total Produce.

Global Economic Overview

- *world economic outlook improving*

Recovery started. The world economy has begun its critical transition from steep business-cycle contraction to economic recovery. This transition may take several quarters to complete. However, there is still substantial scepticism over whether the world economy can manage to fully embark on a self-sustaining path of recovery. There have been deep concerns on both the cyclical and secular consequences of US consumer deleveraging, rapid accumulation of public-sector debt, the effectiveness of monetary and fiscal policies and the economic impact of a badly damaged credit system in most of the G7 world. But, in our view there is increasing evidence that the world economy is beginning to respond to various pro-growth actions taken by governments around the globe. The balance of probability is tilted toward economic recovery, and at a pace stronger than many expect.

World GDP Forecasts

%	2008	2009 (f)	2010 (f)	2011 (f)
World	**3.0**	**-1.2**	**3.4**	**4.2**
US	1.2	-2.4	2.5	3.2
Japan	-0.7	-4.0	1.5	2.7
China	9.0	8.2	9.4	10.2
Eurozone	0.7	-4.0	1.5	2.7
UK	0.7	-4.5	1.2	2.0
Ireland	**-3.0**	**-7.2**	**-1.0**	**2.8**

- *pace of recovery varying in different regions*

Of course, different regions are demonstrating different growth profiles and economic strengths, but no matter which part of the world, business cycles seem to be converging on the strong side. For instance, China has led the recovery process. It was the first country that applied a massive stimulus package, and naturally it should be the first economy to recover. There are many indications suggesting that the Chinese economy will likely resume double-digit growth in 2010, led by continued, large-scale investment spending and booming consumer expenditure. The US economy is probably one step behind China in terms of the recovery process, but there are indications that the economic contraction has bottomed and a resumption in positive economic activity began in the third quarter. The economic growth picture is also getting better elsewhere in the world. Recovery in the key Euroland economies such as Germany and France are even more advanced than in the US, although Europe as a whole has witnessed a much sharper contraction in growth compared to its US counterpart. The improving economic picture in both Germany and France has much to do with the consumer sector's financial health.

- *US interest-rate choking points getting progressively lower*

Interest rates a risk. In our view, the key threat to the US economy does not lie with short-term cyclical problems (e.g. restocking cycle, commercial real estate). Rather, the potential trap for the American economy has much to do with the medium– to longer-term outlook for the private sector deleveraging process. The distinctive characteristic of the 2008 Great Recession is that it has been a balance-sheet crisis embedded in excessive borrowing by the private sector. Consumer-sector debt as a share of disposable income has risen steadily and rapidly over the past three decades, and even after the current crisis, the debt ratio remains close to 100%. Debt-servicing costs for the consumer sector are 8%, the highest level in six decades. One certain outcome of rising private-sector indebtedness is that the overall economy's ability to deal with higher interest rates is greatly reduced. Since the 1980s, not only have interest rates followed a pattern of descending tops and bottoms, but also that the "choking point" of rising rates for the overall economy has become lower and lower. All of this suggests that the next "choking point" for interest rates could be significantly lower than the previous ones, and therefore investors should start to worry when the US starts raising rates again. However, rates are likely to remain extremely low for all of next year, with no significant tightening expected until 2011 at the earliest.

Dollar prospects. The death knell for the dollar has been sounded many a time in recent years, but its weakness has still not alarmed investors. Questions now focus on how much further the dollar can fall before investors flee US assets. Currency analysts believe another sharp drop in the greenback or a spike in volatility due to bad news could heighten foreigners' concerns about US assets. That could create a crisis of confidence that fuels calls for rethinking the existing currency regime. Dollar bears have been worried about the ability of the United States to fund continuing deficits and the detrimental effect of a weak dollar. However, robust equity markets and steady appetite for US Treasuries suggest investors still have faith in American assets. But there is a tipping point. A move up again to $1.60 by the euro, the dollar's record level against the single currency, is a level that would be a source of alarm. The dollar has declined 15% against a basket of six major currencies from the highs set in March and is down more than 37% from a peak in 2001. The greenback continues to hover around the $1.50 level to the euro, off about 6% from the single currency's record high of $1.6040 set in July 2008. Low US rates have contributed to the dollar's weakness in recent months as investors use it as a funding currency in carry trades. The $1.60 level is likely the maximum exchange rate in which central banks will tolerate weakness in the dollar. Beyond that, some form of intervention, verbal or otherwise, is likely to be implemented to support the US currency. For now, a weak greenback is viewed as desirable for boosting exports for the weak US economy, even though the Obama administration, like those before it, stresses its preference for a strong dollar. But the weak dollar, along with China's management of its own currency, has other nations, particularly in Europe, concerned about the threat of inflation there. The bottom line is that while a move to $1.60 versus the euro cannot be ruled out for the greenback in the short-term, we don't anticipate a significant push above the $1.50 mark just yet. In fact, as the US economy continues to recover, we think a level of $1.40 is more likely than $1.60 over the next six months.

- ***world economic outlook improving***

- ***pace of recovery varying in different regions***

Spot Exchange Rates 2009/2010

	Current	End Dec (f)	End Mar (f)	End June (f)	End Sept (f)	End Dec (f)
€/GBP	0.9095	0.8900	0.8700	0.8500	0.8250	0.8000
€/$	1.51	1.47	1.44	1.40	1.38	1.40
€/Yen	131	136	138	140	142	145
$/Yen	87	93	96	100	103	104
GBP/$	1.66	1.65	1.66	1.65	1.67	1.75

Sterling effect. The performance of sterling remains a serious cause for concern for Irish indigenous exporters, and it is hard to predict with too much confidence what direction the pound will take over the next twelve months. Sterling appears to be holding in well despite the recent negative comments from Fitch Ratings that Britain is most at risk among the world's big economies to lose its top-notch credit rating. Still, despite its current concerns, Fitch welcomed growing political consensus in Britain towards fiscal discipline ahead of a general election expected next year. Whichever government comes to office following the election, more stringent fiscal measures and a more detailed plan for stabilising the public finances will be required, impacting on the currency. But, there is no doubt that one cannot be certain how sterling will react to a change of government, though one has to assume that if a tighter fiscal policy is adopted no matter who is in power, then the pound should rally. A lot too will depend on the signals coming from the Bank of England, and how the UK economy performs in the coming months. Indeed, there are still many out there who think that the central bank will keep official interest rates low for longer than other major central banks, which would in turn weigh negatively on sterling. However, we feel the UK economy is now on the road to recovery, and this in time should help the pound appreciate versus the euro. Furthermore, prospects of high profile merger and acquisition activity in the British corporate spectrum, along with rising inflation, and increased UK asset purchases by Asian investors should all lend support to the pound. We continue to look for sterling to appreciate to the 0.80 level against the euro by the end of next year.

- ***US interest-rate choking points getting progressively lower***

Irish Economic Outlook

- *Ireland on the road to recovery*

Growth returning. The Irish economy has faced extremely difficult conditions over the past couple of years and is headed for the second year of contraction in 2009. However, following an exceptionally weak first half of the year, there are clear signs of a moderation in the rate of decline in activity in the second half of the year both internationally and domestically. Recent Irish indicators suggest that the worst of the downturn is over, but how soon the economy recovers remains open to debate. Interestingly, though, the median forecast in the latest *Reuters* Irish economists' poll is for modest quarter-on-quarter growth in GDP in the third quarter, which technically would mean that the recession is over. That said, the quarterly seasonally-adjusted National Accounts data are relatively knew and there appears a reluctance on the part of the Central Statistics Office to stand over the reliability of the numbers. Analysts too continue to focus on the year-on-year change in both GDP and GNP, and these are likely to remain quite negative for a few quarters yet. But, with the monthly economic numbers continuing to improve, we are again reducing the overall level of contraction projected for 2009 and 2010. We are now looking for an average fall in real GDP of 7.2% this year and a contraction of just 1.0% in 2010. As regards GNP, we are now forecasting a decline of 10.2% this year and 2.5% in 2010 as against our previous projections of –10.5% and –3.5% respectively. It is also worth noting that in the latest European Commission economic forecasts, Ireland is along with Slovakia predicted to have the highest growth of any of the Euroland countries in 2011.

Bloxham Main Economic Forecasts

%	2008	2009 (f)	2010 (f)	2011 (f)
GDP	-3.0	-7.2	-1.0	2.8
Consumer Spending	-1.0	-7.3	-2.0	1.8
Fixed Investment	-15.5	-29.5	-12.5	1.5
Government Spending	2.6	-0.2	-1.5	2.0
Exports	-1.0	-2.4	0.5	3.0
Imports	-2.1	-9.7	-4.0	0.5
Consumer Prices	4.1	-4.5	-0.2	2.8
Unemployment Rate	6.3	11.8	14.2	12.9

- *personal spending to pick up next year if taxes left alone in Budget*

The decline in consumer expenditure since the beginning of 2008 has been driven by a combination of a fall in disposable income arising from a drop in employment income, and a rise in incomes taxes and levies. In addition, the erosion of personal wealth due to declining asset prices, together with increased uncertainty as reflected in the indicators of consumer confidence, has prompted an increase in precautionary saving by households. However, consumer confidence hit an 18-month high in October before dipping slightly in November and it will be interesting to see if this greater optimism feeds through into increased personal spending in the coming months. The weakness in consumer demand has been reflected across a range of indicators this year including new car sales, overall retail spending and indirect tax receipts. While much of the decline in consumer spending has come in the area of car sales, which are in effect down two-thirds on the same period last year, other sectors, particularly those related to the housing market, have also been very weak. The overall weakness in retail sales has been best illustrated by the sharp fall in VAT receipts in 2009. Things haven't been helped either by the depreciation of sterling versus the euro, which has encouraged many consumers to go to Northern Ireland to do their shopping. Indeed, with sterling set to remain very weak in the short-term, Irish retailers will be under significant pressure to offer sizeable discounts to lure consumers back into the shops in the run-up to the key Christmas season. As regards the outlook for 2010, a lot will depend on the further fiscal corrective measures contained in the December 9 Budget. Another increase in the tax burden for households would clearly have a negative impact on the prospect for retail spending next year. But, the leaks coming out of the Department of Finance suggest that any further tax hikes in the 2010 Budget will in the main be limited to the introduction of a carbon tax. As things currently stand, we are forecasting an overall decline in personal spending on goods and services this year of 7.3% following an average real decrease of 1.0% in 2008. A further fall, of 2.0%, is projected for 2010.

Weak investment. Within domestic demand, the largest adjustment over the past couple of years has been the level of investment activity and the housing sector in particular. And it is hard to be anything but pessimistic about the prospects for the sector over the next twelve months or so. The most up to date indicator on the overall health of the building sector is the *Ulster Bank Construction PMI*, which is published monthly. According to the latest figures, the Irish construction sector remained some way off from recovery in October. Furthermore, activity continued to fall at a considerable pace, reflecting yet another decline in new business. Employment was also cut sharply again during the month. At a sectoral level, commercial activity declined at an accelerating pace, while there was some modest easing in the rate of contraction in civil engineering and housing. Activity in the residential construction sector has slowed this year, although not yet to the extent necessary to reduce the size of the current excess in supply, an important factor in re-establishing equilibrium in the market. Available house-building statistics and forward-looking indicators suggest that there will be around 25,000 new house completions this year, less than half the total of 2008, as developers finish existing projects. As regards 2010, house completions are predicted to amount to 15,000 at this stage, with one-off housing accounting for an increasing proportion of the total as commencements on new schemed housing and apartments decelerate rapidly. With demand likely to remain muted for some time to come, output may stay at around this level for a number of years before the excess supply of housing, the subject of some uncertainty, is cleared. Meanwhile, the situation on the commercial front is not much better. Falling capital values and rental income and credit constraints are likely to see significant fall-offs in commercial investment both this year and next. Taken together, in addition to cuts on capital infrastructural spending implemented as part of the fiscal consolidation programme, investment in building and construction is set to fall by over 30% in 2009, followed by a further reduction of 20% or more in 2010.

- ***building activity remains the biggest drag on domestic demand***

Employment & Unemployment (Annual Average)

(000s)	2008	2009 (f)	2010 (f)	2011 (f)
Industry	520	440	400	410
Services	1,465	1,400	1,375	1,415
Agriculture	115	100	100	100
Total	**2,100**	**1,940**	**1,875**	**1,925**
Unemployment (LFS basis)	141	258	275	255
Labour Force	2,241	2,198	2,150	2,180
Jobless Rate (% of labour force)	6.3	11.7	12.8	11.7

Unemployment trends. The latest Live Register figures suggest that things are improving on the labour market front. The seasonally-adjusted total fell by 3,000 in October to 422,500, its first monthly decline since March 2007, while the jobless rate decreased to 12.5% from 12.6% in the two previous months, the first drop since December 2007. On the surface these Live Register numbers are very encouraging and suggest that the jobless rate has peaked. However, we would like to reserve judgement for a while yet. For a start, the September and October data can be distorted by the re-opening of schools and third-level colleges after the Summer holidays. Anecdotal evidence suggests that many graduates who couldn't find a job have emigrated or returned to further education, though it is hard to know the exact numbers at this stage. Apart from the above-mentioned factors, another key element in the improvement in the numbers on the Live Register are the Government schemes, like the *Short-Term Enterprise Allowance Scheme (STEA)* and the *Work Placement Programme*, announced to support employment. There is no doubt that these schemes are distorting the Live Register figures, but they at least buy the Government some time. But no matter which way you look at it, a fall in the jobless rate is likely to give consumers a lift in the run-up to Christmas, notwithstanding the fiscal austerity measures likely to be announced in the December 9 Budget. As things currently stand, there are question marks over whether the jobless rate will actually break the 13.0% level now, and even if it does, it is hard to see it going much higher than 13.5%, a far cry from the pessimistic forecasts of a 17.0% jobless rate which was being suggested by some economic analysts earlier this year.

- ***unemployment rate close to its peak***

Trade flows key. Irish merchandise export volumes have continued to decline in the past few months, but their relative performance has been quite impressive amid the collapse in global trade flows. A marked decrease in the demand for durable goods characterised the contraction in world trade volumes during late 2008 and early 2009 and, as a result, countries most reliant on such exports witnessed the sharpest falls. The resilience of Ireland's recent merchandise trade performance essentially arises from product effects and, specifically, the dominance of the broad chemicals sector, which has proven to be less exposed to the recent contraction in external demand. However, the broad based weakness outside of the chemicals sector has persisted in the past few months, with indigenous exports badly hit by demand from the UK, due to the combination of the deep recession in Britain and sterling's continued weakness versus the euro. It is difficult to see much of an improvement in the near-term on this front. As regards the chemicals sector, there is some uncertainty regarding the sustainability of its recent buoyant performance given the inherent volatility of output in this industry, reflecting factors such as product cycles and patent expiries. Overall, though, the trend in Irish exports in the year to date has been better than expected. Of course, most of the demand has come on the pharmaceuticals side, with indigenous exports suffering as a result of the adverse trading conditions in Britain. Although the volume of total merchandise exports could be down 6% or more for the year as whole in 2009, it would still be a very good performance all things considered. The bottom line is that exports of goods and services will be the main driver of the Irish economic recovery when it comes, and we wouldn't be at all surprised to see a positive volume increase in 2010.

- *exports holding up remarkably well all things considered*

Balance of Payments on Current Account (€m)

	2008	2009 (f)	2010 (f)	2011 (f)
Trade	23,819	34,000	37,000	40,000
Services	-5,370	-8,500	-8,600	-9,000
Net Factor Income	-26,770	-29,500	-29,500	-30,000
Current Transfers	-1,115	-1,000	-900	-700
Current Account	**-9,435**	**-5,000**	**-2,000**	**300**
(as % of GNP)	(-6.1)	(-3.8)	(-1.6)	(0.2)

Deflation moderating. Consumer prices continued their downward spiral in October, with the annual rate of decrease pushing up to 6.6% from 6.5% in the previous month. As has already been well documented, one has to go back to the era of the Great Depression in the 1930s to see price falls as dramatic as these. It is quite clear that the Irish economy remains deep in deflationary territory and there are a number of factors (energy costs, mortgage rates and retail discounting) which could influence the CPI either positively or negatively in the coming months. The last thing the economy needs at this juncture is to get caught in a deflationary spiral. However, on the assumption that the global economy picks up and commodity prices rise in the coming months, then hopefully that should be avoided. The historical downward trend in clothing and footwear prices has been steeper than normal recently, reflecting intensified competitive pressures, but there have also been particularly sharp price falls in other non-energy industrial goods. Discounting has gathered momentum in the past few months, especially for prices of motor cars, household equipment and luxury goods, as retailers attempt to stimulate sales. Consumers are markedly more price-conscious and the unwinding of the sharp sterling exchange rate depreciation has enhanced the scope for domestic price reductions. But, there are signs that some external price pressures are now beginning to rebound, particularly in relation to energy. With the recovery in the global economy gaining momentum and conditions in many financial markets getting back to normal, the threat of a prolonged bout of world deflation would seem to have receded. But, the main problem is that the vast amount of economic slack that has built up during the recession, will take years to work off, so in our view deflation still looks like a bigger risk than runaway inflation in the short-term. With consumer prices in Ireland continuing to fall, there is little justification in public sector unions opposing much needed wage cuts, particularly as government services are one of the main areas where inflation still prevails. All in all, the headline CPI is forecast to be down 4.5% on average in 2009 as against an average increase of 4.1% in 2008. A much smaller average decrease in prices, of 0.2%, is envisaged for 2010.

- *deflation still a cause for concern*

What now for the Irish banks?

- *We highlight the unknowns in Irish banking*

Following on from the announcement in September on the details of the assets to be transferred to NAMA, and subsequent announcement from the Irish banks, we know broadly the level of assets which will be transferred from each bank. However, there are still a number of questions which hang over the sector as we head into 2010:

- The EU is yet to approve the business plans for AIB and Bank of Ireland, leaving significant uncertainty over the scale of the competitive impediments which will be imposed on both banks
- The exact level of discount to impact AIB and Bank of Ireland NAMA destined loans are still uncertain.
- The loss of income on the assets to be transferred is as yet uncertain. The interest rate to be derived from bonds to be transferred to the banks in still unknown.
- Asset sales will be required by AIB to hit its target of raising €2 billion in the next 18 months. The timing and consideration is still uncertain.
- Finally, both AIB and Bank of Ireland are likely to seek to rebuild capital levels through a rights issue. There is also a potential that Irish Life & Permanent would join them in buffering capital levels with the restructuring of the bank and life companies.

- *Competition issues may see lenient ruling from the EU.*

EU ruling is crucial The EU's treatment of ING and Lloyds, for example, has demonstrated a willingness to cut heavily into the operating strength of banks seen to benefit from state intervention. For Ireland, the hope is the EU will have a clear understanding of the critical differences in supply dynamics between periphery banking sectors and that of core/well serviced banking sectors. AIB and Bank of Ireland market shares are likely to increase as a result of competitors shrinking their Irish balance sheet, due to massive loan to deposit imbalances. Efforts to curtail this growth in market share could impact economic prospects.

Credit preservation is vital The limited size of the Irish economy provides little room for the type of loan book contraction demanded by excessive loan to deposit levels, without impeding economic strength. With 1/3 of the Irish banking market in the hands of foreign owned banks, and Anglo Irish Bank's future still uncertain, the shape of the supply side of the Irish bank balance sheet is very unclear.

- *Loan to deposit ratio a pressing concern*

Loan to deposits an issue As we highlighted in our recent report "***Crossing the Rubicon"***, in terms of net exposure to the wholesale market, the 11 lenders in Ireland are carrying an average loan to deposit ratio of 1.9x. This is well in excess of the equilibrium accepted long term norm of a 1.25x deposits. The long term equilibrium level of 1.25x needs to be reached as soon as possible given the high price of wholesale monies which threatens the profitability of the sector. €190 billion in lending or over 1 year's Irish GDP will need to come out of the Irish lending book to move to the 1.25x equilibrium level. €77 billion of loans going in to NAMA eases the impact of the de-leveraging but a substantial liquidity gap remains.

Third force A strong third force is badly needed to balance the type of increase in market share at Bank of Ireland and AIB which will come as a result of collapsing competitive appetites among non Irish banks. The make up of the third force must house a business banking element to have a genuine impact on the SME sector. It is vital that this is in place, especially with the uncertainty over Ulster Bank's appetite in the Irish banking market.

- *Fund raising likely across all Irish banks*

Rights issues Fund raising Irish Life & Permanent's break up and the upcoming likely fund raisers for AIB and Bank of Ireland, leave a less than certain banking picture for the 12 months ahead. After the 60% rights discount seen at Lloyds, it is likely that any big rights funding for either one of the two main Irish banks will require a deep discount. Therefore, the current share prices of the Irish banks include an option value of a stock offer at a deep discount to the pre-rights price.

Below we highlight the scenarios which AIB and Bank of Ireland face heading into a potential funding:

Allied Irish Bank

		(€'bn)	(€"bn)	(€"bn)	(€"bn)	(€"bn)	(€"bn)
Core equity pre pref of €3.5 bn		**7.6**	**7.6**	**7.6**	**7.6**	**7.6**	**7.6**
Core Equity After Buyback		**7.6**	**7.6**	**7.6**	**7.6**	**7.6**	**7.6**
***€24 bn X Haircut**	**Haircut**	**4.8**	**4.8**	**4.8**	**4.8**	**4.8**	**4.8**
	Net Haircut %	20%	20%	20%	20%	20%	20%
Post NAMA Core Tier 1	**(€"bn)**	**2.8**	**2.8**	**2.8**	**2.8**	**2.8**	**2.8**
Asset Sales (f) M&T + Property		**1.0**	**1.0**	**1.0**	**1.0**	**1.0**	**1.0**
		3.8	**3.8**	**3.8**	**3.8**	**3.8**	**3.8**
		(€"bn)	**(€"bn)**	**(€"bn)**	**(€"bn)**	**(€"bn)**	**(€"bn)**
RWA now		**130**	**130**	**130**	**130**	**130**	**130**
NAMA		**24**	**24**	**24**	**24**	**24**	**24**
		106	**106**	**106**	**106**	**106**	**106**
Post NAMA RWA		**106**	**106**	**106**	**106**	**106**	**106**
		Pre NAMA	**Pre NAMA**	**Pre NAMA**	**Pre NAMA**	**Pre NAMA**	**Pre NAMA**
Equity Tier 1 (exc €3.5 bn pref)		5.8%	5.8%	5.8%	5.8%	5.8%	5.8%
		Post NAMA	**Post NAMA**	**Post NAMA**	**Post NAMA**	**Post NAMA**	**Post NAMA**
		2.6%	2.6%	2.6%	2.6%	2.6%	2.6%
Target	Core Equity Tier 1	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Funding Requirement	(€"bn)	1.0	1.0	1.0	1.0	1.0	1.0
At rights share price of	(€')	0.50	1.00	1.50	2.00	2.50	3.00
Number of new shares needed	('bn)	1.94	0.97	0.65	0.49	0.39	0.32
Add existing number on issue	('bn)	0.89	0.89	0.89	0.89	0.89	0.89
Total new shares on issue	('bn)	2.83	1.86	1.53	1.37	1.27	1.21
Government Stake (assuming the only investor)		69%	52%	42%	35%	30%	27%
Tangible Equity		3.8	3.8	3.8	3.8	3.8	3.8
Tangible NAV per share		**1.3**	**2.0**	**2.5**	**2.7**	**3.0**	**3.1**
Market Cap at 1X tNAV	**(€"bn)**	**3.8**	**3.8**	**3.8**	**3.8**	**3.8**	**3.8**
Sustainable Post Tax Profit	**(€"bn)**	**0.70**	**0.70**	**0.70**	**0.70**	**0.70**	**0.70**
Sustainable Post Tax Multiple 2012		**5.4**	**5.4**	**5.4**	**5.4**	**5.4**	**5.4**

*** Potentially extra (25%) diution => conversion of govn warrants**

Bank of Ireland

		(€'bn)	(€'bn)	(€'bn)	(€'bn)	(€'bn)	(€'bn)
Core equity pre pref of €3.5 bn		**6.2**	**6.2**	**6.2**	**6.2**	**6.2**	**6.2**
Buy back (f) benefit		**0.7**	**0.7**	**0.7**	**0.7**	**0.7**	**0.7**
Core Equity After Buyback		**6.9**	**6.9**	**6.9**	**6.9**	**6.9**	**6.9**
***€16 bn X Haircut**	**Haircut**	**3.4**	**3.4**	**3.4**	**3.4**	**3.4**	**3.4**
	Net Haircut %	21%	21%	21%	21%	21%	21%
Post NAMA Core Equity Tier 1	**(€"bn)**	**3.5**	**3.5**	**3.5**	**3.5**	**3.5**	**3.5**
		(€"bn)	**(€"bn)**	**(€"bn)**	**(€"bn)**	**(€"bn)**	**(€"bn)**
RWA now		**100**	**100**	**100**	**100**	**100**	**100**
Take out assets of		**15.2**	**15.2**	**15.2**	**15.2**	**15.2**	**15.2**
		84.8	**84.8**	**84.8**	**84.8**	**84.8**	**84.8**
		Pre NAMA	**Pre NAMA**	**Pre NAMA**	**Pre NAMA**	**Pre NAMA**	**Pre NAMA**
Equity Tier 1 (exc €3.5 bn pref)		6.9%	6.9%	6.9%	6.9%	6.9%	6.9%
		Post NAMA	**Post NAMA**	**Post NAMA**	**Post NAMA**	**Post NAMA**	**Post NAMA**
		4.2%	4.2%	4.2%	4.2%	4.2%	4.2%
Target	Core Equity Tier 1	5.4%	5.4%	5.4%	5.4%	5.4%	5.4%
Funding Requirement	(€"bn)	1.0	1.0	1.0	1.0	1.0	1.0
At share price of	(€')	0.50	1.00	1.50	2.00	2.50	3.00
Number of new shares needed	('bn)	2.08	1.04	0.69	0.52	0.42	0.35
Add existing	('bn)	1.02	1.02	1.02	1.02	1.02	1.02
Total new shares on issue	('bn)	3.10	2.06	1.71	1.54	1.44	1.37
Government Stake (assuming the only investor)		67.1%	50.5%	40.4%	33.7%	29.0%	25.4%
Tangible Equity		3.1	3.1	3.1	3.1	3.1	3.1
Tangible NAV per share		**0.99**	**1.50**	**1.80**	**2.00**	**2.14**	**2.25**
Market Cap at 1X tNAV	**(€"bn)**	**3.1**	**3.1**	**3.1**	**3.1**	**3.1**	**3.1**
Sustainable Post Tax Profit	**(€"bn)**	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**
Sustainable Post Tax Multiple 2012		**6.2**	**6.2**	**6.2**	**6.2**	**6.2**	**6.2**

*** Potentially extra (25%) diution => conversion of govn warrants**

Irish equity market structure

Over the past two years the Irish stockmarket has been structurally impaired by the collapse of certain companies and the contraction in value of others. In November 2007 the ISEQ was valued at €87.9bn, composed of a financial sector representing 40%, construction and building stocks accounting for 20% and a food sector worth 9% of the index. Since that date the market itself has declined in value by 56% to €37.8bn and its composition has changed dramatically.

Currently, the buildings material group CRH and other construction related companies (eg Grafton, Kingspan) make up 36% of the ISEQ. The two airlines Aer Lingus and Ryanair account for another 11% while the food sector equates to 17% of the market's value. The overall ISEQ has a market value similar to the FTSE company Tesco.

- ***Tesco has a similar market cap to the ISEQ***

These stark details underline a structural weakness in the market whereby it has an exaggerated dependence on two sectors that have a small share of global stockmarket values. Construction and airlines account for just 3.8% of Pan European equities.

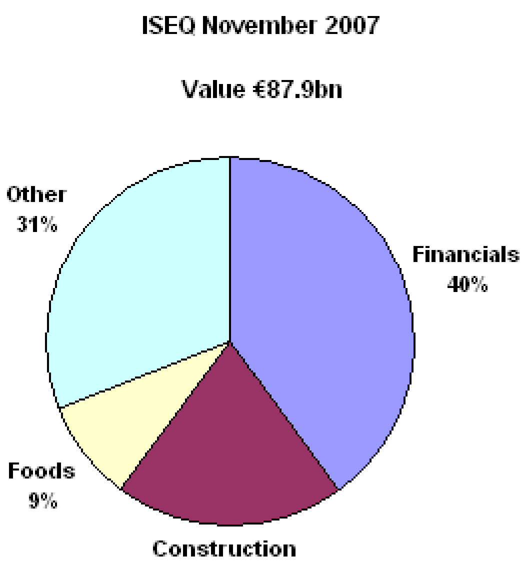
This distorted picture of the ISEQ poses challenges for regulators and participants alike. A skewed sectoral balance will make it challenging to attract international investment, while the limited spread of companies on the market poses a direct question mark over the scale of stockbroking in Ireland. The market needs a fresh round of new entrants and progressive expansion by its existing companies.

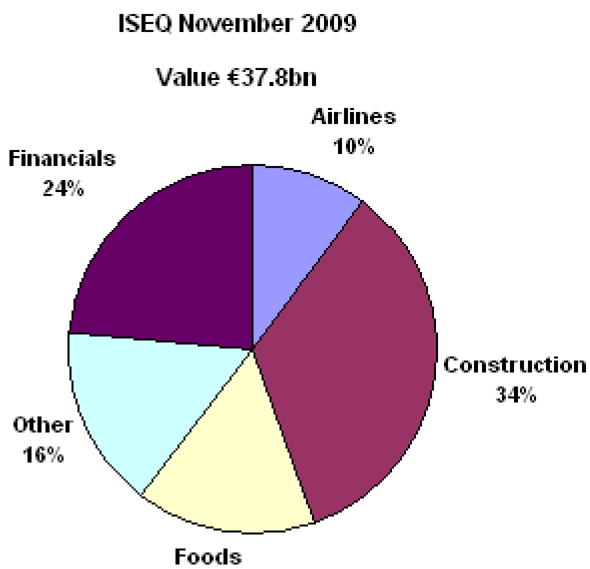
- ***Limited sectoral exposure of the ISEQ is a challenge for investors***

This problem could of course be resolved by developments within the market itself. A rally in equities would raise the overall value of the index and that could be complimented by equity issuance from a variety of companies. However, the market needs to effectively double if it is to regain the value it held just two years ago.

There is a clear appetite by both AIB and Bank of Ireland to address their own significant challenges by raising equity finance at some point. Independent Newspapers has completed an equity refinancing and other companies could use equity to fund acquisitions and/or replace expensive debt. New entrants to the stockmarket would be another stimulus although there is limited evidence of that at present. There is a glaring opportunity to connect pools of investment and pension cash with Irish Government owned assets but the political appetite for such transactions appears tepid at present.

- ***Rights issues to be common in 2010***





Reporting dates conundrum

One of the bizarre elements of the ISEQ during 2009 has been the reporting practices of ISEQ listed companies. Like buses, they arrive in bunches instead of being spread out over a period of weeks.

This quasi chaotic behaviour is a major negative because; (1) it means analysts have multiple companies reporting on the same day which caps their ability to provide detailed analysis; (2) the dealing rooms in Irish stockbroking firms have to manage multiple sets of results on given days which dilutes the messaging for individual companies; (3) fund managers have to conduct a number of one-on-one meetings each day of reporting which again limits their attention to individual stories and; (4) the media coverage of each company's results are lost in a flurry of press releases. Given the lack of breadth in the ISEQ, this management of reporting periods under utilises the capacity of Irish stockbroking, and undersells corporate Ireland.

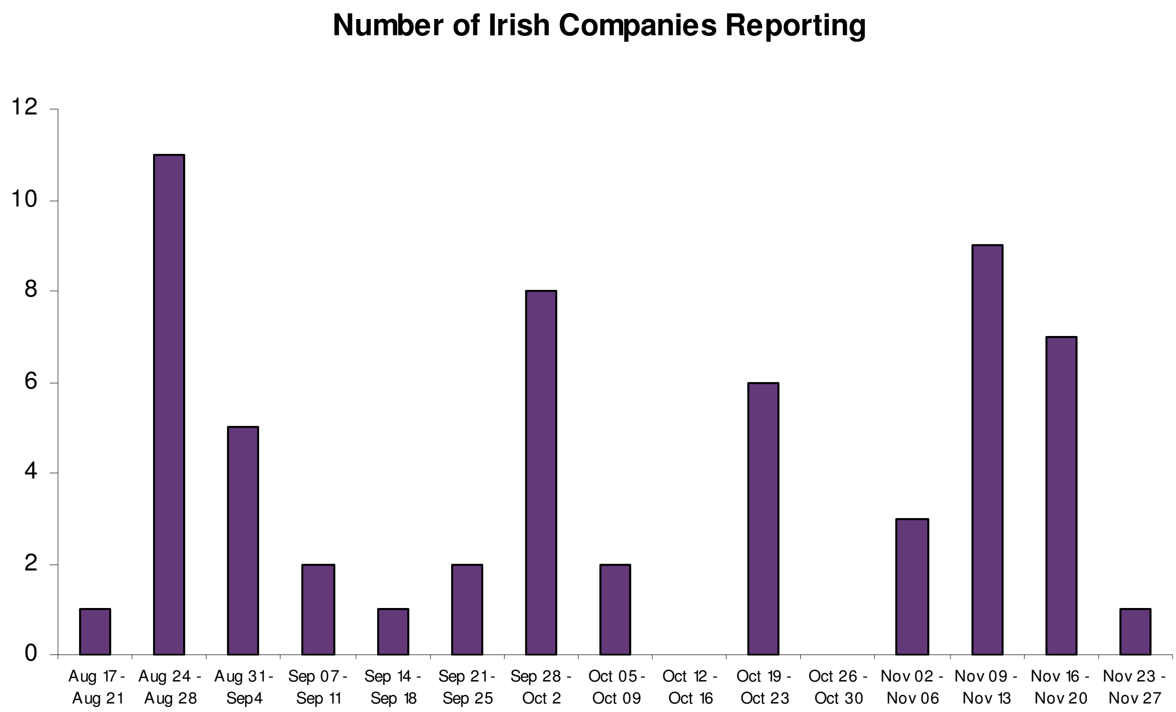
- ***We highlight the clustering of IMS reports on the ISEQ***

In the most recent season of interim results and IMS reports we note five companies reported on November 10th, and three each on November 11th and November 18th. During the interim reporting period on the week between August 24th and 28th no less than eleven Irish companies reported H1 results whereas in the prior week just one reported and the following week five released results.

Better management over that three week period would have allowed one company per day to produce numbers, thereby giving the stockbroking and investment community time to absorb the flow of information.

This practice is largely attributed to legal deadlines which constrain company's timetables. We don't agree. If the two leading brokers in Dublin and their respective companies communicated in an orderly fashion, the issuance of IMS', interim and full year results could be spread over a sufficient period to give all key Irish companies a reasonable shot at presenting their results. A more balanced and staggered results and IMS release process would enhance the ability of brokers, corporates and fund managers alike to consume multiple sets of data and information.

- ***We suggest a possible solution***



Recommended Irish companies for 2010

C&C

Business Overview & Strategy:

C&C has diversified aggressively during the second half of 2009 to broaden its market reach beyond Ireland and widen its product range. Alongside its existing portfolio of cider brands it has added the No 1 beer brand in Scotland together with associated distribution assets in the UK and Ireland. More recently it has acquired a significant UK cider producer that doubles the group's UK scale while deepening its off-trade penetration and broadening the cider range beyond premium apple and pear products.

- ***New management intent on growing footprint***

Radical change in one year. Just one year after joining C&C, its new managers have transformed the group. After an initial focus on overhauling costs and re-positioning cider in both the Irish and UK markets, focus has now shifted towards building out the group's footprint. The purchase of Tennant's beer in Scotland and the recently announced acquisition of Gaymers cider in England strengthens the group's product range, marketing reach and scale. This provides a platform from which to organically develop the business while extracting both cost and revenue synergies.

Broader range of products, routes to market. After taking control the new managers have invested in the core apple cider brand in Ireland and the UK (through A&P and pricing) while successfully launching a new pear cider to the market. It has since acquired the No 1 beer brand in Scotland and Northern Ireland (Tennants) and distribution rights to further beer brands in Ireland. In November it announced the acquisition of a leading off-trade focused cider producer (Gaymers) which propels C&C to a 25% share of the overall UK cider market.

- ***Expanding beyond cider***

Opportunity to extract cost and revenue synergies. In bringing these new beer and cider assets into its stable of products, C&C has the opportunity to extract synergies from cost efficiencies and improved market positions. Overlapping customers between all three producers will facilitate reduced overheads while high market shares should also protect the business from aggressive price discounting. In addition, we expect C&C will use its greatly enhanced scale to improve purchasing economies in inputs such as marketing, packaging and energy.

- ***Improved scale offers synergies***

Balanced base. The group now has a much improved balance between its Irish and UK businesses and across a greater range of products and customers. Whereas the business was heavily geared to the Irish and UK premium cider market a year ago, it now has; (1) vastly improved distribution to on and off trade markets on both side of the Irish Sea; (2) it can offer a far broader range of beers and ciders to its retail and pub customers, giving it enhanced reach for large customers and; (3) alongside premium Bulmers and Magners brands the group now has the capacity to supply lower priced and own label ciders to large retail customers while it becomes an even clearer alternative to Heineken (through Scottish and Newcastle) for its largest buyers.

- ***Acquisitions refine consumer offering***

Execution key. Having absorbed two relatively significant businesses, accounting for 27% of its market value, C&C managers must now display an ability to integrate these companies and extract the promised return for shareholders.

- ***Integration key in 2010***

Valuation:

- **C&C trades on a Feb 2011 PER of 10.6x, an EV/EBITDA of 8.5x and a dividend yield of 3.5%. These multiples are not overly demanding given the strategic re-positioning of the company and the potential contribution from newly acquired businesses. Assuming management spend 2010 integrating and digesting these two companies while continuing to build out the core cider brands, double digit earnings growth is plausible.**

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C&C

	Bloomberg	GCC ID Equity

Last Price	Shrs ('m)	Mkt Cap (€'m)	EV(€'m)	Sector	Analyst	Year end	Contact
2.88	330	949	1175	Beverage	Joe Gill	Feb	35316119457

Turnover	**2008A**	**2009A**	**2010F**	**2011F**
Cider	470.8	387.0	371.3	460.0
International Spirts	91.0	86.0	80.0	80.0
Tennants	0.0	0.0	34.0	140.0
Distribution	121.0	41.7	44.0	44.0
Total Group Sales	682.8	514.7	529.3	724.0
Operating Profit	2008A	2009F	2010F	2010F
Cider	107.7	74.6	66.3	74.7
International Spirts	15.8	15.3	14.8	14.8
Tennants	0.0	0.0	5.0	27.0
Distribution	1.9	0.3	0.7	0.7
EBIT pre Excep	125.4	90.2	86.7	117.1
Exceptionals	-6.5	-141.0	0.0	0.0
EBITA	**118.9**	**-50.8**	**86.7**	**117.1**
Amortisation	0.0	0.0	0.0	0.0
Depreciation	20.3	19.4	15.0	22.0
EBITDA	145.7	109.6	101.7	139.1
Net Interest	-14.8	-11.5	-9.0	-25.0
PBT	**104.1**	**-62.3**	**77.7**	**92.1**
Tax	-11.2	-10.2	-8.7	-12.0
Profit after tax	92.9	47.3	69.0	80.2
Profit Attributable	**92.9**	**47.3**	**69.0**	**80.2**
Ave no.-Basic	321.0	310.0	310.0	310.0
Ave no.Diluted	323.0	314.5	329.6	329.6
Per share (€c)	**2008A**	**2009A**	**2010F**	**2011F**
EPS -Basic	0.29	0.15	0.22	0.26
Adjusted EPS	0.22	0.15	0.21	0.24
DPS	0.06	0.06	0.06	0.06

(€m)	**2008A**	**2009A**	**2010F**	**2011F**
Debt	255	226	349	360
Share H. Funds	418	427	302	291
Capital Employed	723	712	710	710

Valuation Ratios	2008 A	2009 A	2010 F	2011F
Price Earnings	**8.9**	**19.1**	**13.8**	**11.8**
Dividend Yield	**2.1%**	**2.1%**	**2.1%**	**2.1%**
EV/EBIT	**9.5**	**12.5**	**15.0**	**10.0**
EV/EBITDA	**8.1**	**10.3**	**12.8**	**8.4**

Margin Analysis	2008 A	2009 A	2010 F	2011F
Cider	**22.9%**	**19.3%**	**17.8%**	**17.5%**
International Spirts	**18.1%**	**19.0%**	**18.5%**	**18.5%**
Distribution	**1.5%**	**1.5%**	**1.5%**	**1.5%**
Group Total	**18.5%**	**17.5%**	**16.4%**	**16.0%**

Cashflow Statement	2008 A	2009 A	2010 F	2011F
EBIT	125.4	90.2	86.7	117.1
Depreciation	20.3	19.4	12.0	22.0
EBITDA	**145.7**	**109.6**	**101.7**	**139.1**
Working Capital	12	38	2	0
Restructuring	0	0	0	0
Other items	5.5	6	0	0
Net Capital Expenditure	-103	-19	-15	-20
Operating Cash Flow	**60.5**	**135.1**	**88.7**	**119.1**
Less Interest	-14.8	-11.5	-9.0	-9.0
Tax Paid	-11.2	-10.7	-8.7	-12.1
Dividends	-81.0	-28.0	-19.0	-19.0
Free Cash Flow	**-46.53**	**84.87**	**52.03**	**79.03**
Other/Buybacks	-139.9	-55	0	0
Disposal/Acquistion	236.5	0	-175	-60
Debt Increase/(Decrease)	**50**	**30**	**-123**	**19**
Opening Debt	306	255	226	349
Closing Debt	**255**	**226**	**349**	**360**

Balance Sheet	2008 A	2009 A	2010 F	2011F
Tangible Assets	227	225	225	225
Intangible Assets	395	395	395	395
Financial Assets	0	0	0	0
Working Capital	101	92	90	90
Net Debt	-255	-226	-349	-360
Other Liabilities	-49	-59	-59	-59
Shareholders funds	**418**	**427**	**302**	**291**

DCC

Business Overview & Strategy:

DCC holds a diverse range of interests spanning the Energy, IT, Healthcare, Environmental and Food & Beverage sectors. DCC's core markets are the UK and Ireland with the group also growing its presence in mainland Europe. DCC's core strategy is to grow shareholder value both organically and through acquisitions. The group has delivered EPS growth at a CAGR of 11.8% over the past 10 years while also growing the dividend at a CAGR of 15.6% over the same period.

Energy leading the way: Energy is the largest division accounting for 56% of group operating profits in the year to 31 March 2009. The significance of this division to the group is set to rise further in the current financial year following €57m of acquisitions in the last 8 months. The oil and LPG distribution business is particularly attractive given its recurring revenues, cash generative nature and superior ROCE. DCC's leading positions in the UK and Irish markets provide the group with the scope to leverage its existing scale to deliver future profit growth.

- ***Energy to increase in importance***

Acquisitions are a core competency: DCC has a strong track record of acquiring and integrating businesses. Energy is the division which we expect to be the main focus of acquisition activity given the extremely attractive ROCE available (Energy 25% v IT (SerCom) 16%, Food & Beverage 14%, Environmental 13% and Healthcare 9%). DCC is the largest player in the UK oil distribution market with a 13% market share. This market remains fragmented providing ample scope for DCC to grow its market share towards its stated target of 20%. The Environmental market in the UK is similarly disjointed with the six major players holding a c.50% market share and the remainder of the market open to consolidation by a well capitalised business such as DCC.

- ***Acquisitions to bolster market positions***

Conservative balance sheet: DCC's interim results for the six months ended 30 September showed net debt of €88m representing gearing of only 11.8%. The group's underleveraged balance sheet leaves it well positioned to deliver on its plans to further develop its Energy business in Western Europe and to take advantage of other bolt-on opportunities that strengthen its existing market positions. We see DCC's low leverage profile as supporting future expansion while still allowing the group to maintain its conservative capital structure which has proven a competitive advantage in developing strong supply relationships with the oil majors.

- ***Balance sheet supports future expansion***

Impressive returns on capital: ROCE is a key performance metric at DCC and forms a central consideration in all decisions relating to capital allocation. The diversified nature of DCC operations has seen the return on total capital employed maintained above 17.5% over the past 10 years. The consistency of the returns highlights the effectiveness of DCC's diversified business model.

- ***Consistently high ROCE***

Valuation:

- **Based on our March 2011 forecasts DCC currently trades on a PE of 11.6x and an EV/EBITDA of 7.4x both of which are undemanding given the low risk nature of its businesses and potential for earnings enhancing acquisitions which the group's balance sheet affords.**

- **Both an interim and final dividend has been paid each year since DCC has been a public company and the current year will be no different. At the interim stage the payout was raised by 5% and assuming the same for the full year the stock current yields 3.4% which is covered 2.4x.**

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DCC

Bloomberg: DCC ID Equity

Last Price	Shrs ('m)	Mkt Cap (€'m)	EV (€'m)	Sector	Year End	Analyst
19.12	82	1573	1663	Support Services	March	Paraic Quinn

Profit & Loss (€m)	Mar 08	Mar 09	Mar 10F	Mar 11F
Revenue				
Energy	3420	4131	4007	4127
SerCom	1423	1551	1582	1630
Healthcare	287	331	328	331
Food & Beverage	310	305	296	296
Environmental	92	82	78	80
Total Revenue	**5532**	**6400**	**6291**	**6464**
EBITA				
Energy	74.3	100.7	97.4	102.2
SerCom	40.1	40.1	38.6	40.3
Healthcare	23.4	17.3	20.8	22.5
Food & Beverage	15.3	12.0	7.4	7.3
Environmental	14.0	10.2	7.8	8.1
Total EBITA	**167.2**	**180.4**	**172.0**	**180.4**
Amortisation	-7.9	-5.7	-5.2	-5.5
Exceptionals	39.6	-19.8	-4.5	0.0
EBIT	**198.9**	**154.8**	**162.3**	**174.9**
Finance costs	-17.8	-17.2	-11.0	-9.5
Share of associate	0.6	0.2	0.1	0.1
Pre tax profit	**181.7**	**137.8**	**151.4**	**165.5**
Tax	-16.5	-20.9	-29.8	-32.5
Profit after tax	**165.2**	**116.9**	**121.6**	**133.0**
Minority interest	-0.7	-0.6	-0.5	-0.5
Attributable profit	**164.5**	**116.3**	**121.1**	**132.5**

	Mar 08	Mar 09	Mar 10F	Mar 11F
EPS - basic (cent)	204.3	142.4	146.3	159.7
EPS - diluted (cent)	165.1	169.1	157.0	165.2
DPS (cent)	56.7	62.3	65.5	72.0

Growth trends				
EBITA	**17%**	**8%**	**-5%**	**5%**
EPS	**13%**	**2%**	**-7%**	**5%**
DPS	**10%**	**10%**	**5%**	**10%**

	Mar 08	Mar 09	Mar 10F	Mar 11F
Net debt	124	91	101	45
Shareholders funds	739	723	792	866
Capital Employed	862	813	893	912

Valuation Ratios	Mar 08	Mar 09	Mar 10F	Mar 11F
Price Earnings	11.6	11.3	12.2	11.6
Dividend Yield	3.0%	3.3%	3.4%	3.8%
EV/EBITA	9.9	9.2	9.7	9.2
EV/EBITDA	7.8	7.4	7.7	7.4

EBITA Margins	Mar 08	Mar 09	Mar 10F	Mar 11F
Energy	2.2%	2.4%	2.4%	2.5%
SerCom	2.8%	2.6%	2.4%	2.5%
Healthcare	8.2%	5.2%	6.3%	6.8%
Food & Beverage	4.9%	3.9%	2.5%	2.5%
Environmental	15.3%	12.5%	10.0%	10.1%
Group	**3.0%**	**2.8%**	**2.7%**	**2.8%**

Cashflow (€m)	Mar 08	Mar 09	Mar 10F	Mar 11F
EBITA	**167.2**	**180.4**	**172.0**	**180.4**
Depreciation	45.4	45.4	45.0	45.0
EBITDA	**212.6**	**225.8**	**217.0**	**225.4**
Working Capital	-84.4	80.0	-20.0	-20.0
Other / FX	-3.4	-61.9	-4.5	0.0
Operating Cash Flow	**124.9**	**243.9**	**192.5**	**205.4**
Less Interest	-15.0	-21.9	-11.0	-9.5
Tax Paid	-21.9	-14.1	-29.8	-32.5
Capex	-79.7	-50.4	-40.0	-45.0
Free Cash Flow	**8.3**	**157.6**	**111.7**	**118.4**
Dividends	-44.5	-48.7	-54.2	-59.8
Issue of shares	4.1	10.3	2.0	2.0
Acquisitions/Disposals	4.3	-93.2	-70.0	-5.0
Other	4.6	7.1	0.0	0.0
Net Cash Flow	**-23.2**	**33.0**	**-10.4**	**55.7**
Opening Cash/(Debt)	-100.5	-123.7	-90.7	-101.1
Closing Cash/(Debt)	**-123.7**	**-90.7**	**-101.1**	**-45.5**

Balance Sheet (€m)	Mar 08	Mar 09	Mar 10F	Mar 11F
Intangible Assets	417	443	438	432
Tangible Assets	337	319	384	389
Financial/Other Assets	15	12	12	12
Working Capital	293	249	269	289
Net debt	-124	-91	-101	-45
Other Liabilities	-199	-210	-210	-211
Shareholders funds	**739**	**723**	**792**	**866**

Financial Ratios	Mar 08	Mar 09	Mar 10F	Mar 11F
Gearing	16.7%	12.5%	12.8%	5.2%
Interest cover	9.4	8.5	15.6	19.0
Dividend cover	2.9	2.7	2.4	2.3

Irish Life & Permanent

Business Overview & Strategy:

Irish Life & Permanent is a retail financial services group which offers mortgages, savings, investments, life assurance and pension products, in addition to providing retail financial services through its banking operations in the UK and Ireland. We believe there is substantial unrealised value in the stock which will be unlocked with the demerger of the banking arm and the refocusing of the group as a cleaner insurance company.

Recent results a disappointment: Irish life's most recent results (Q3 17 November) showed a weakening in the net interest margin as a direct result of ECB funding falling from €12bn to €7bn during the quarter. However, longer term, this must be seen as a positive driver within the structure of the balance sheet. As a result full year guidance on net interest margins has been lowered to 80-85bps from the 90bps given at the half year stage. The acceleration in the deterioration in the €2.1bn commercial mortgage book disappointed the market. Overall group provisions were increased to 210 bps from 170bps-180bps over the cycle. However, we view these weaknesses as secondary to the underlying restructuring message outlined below.

- ***Reshaping balance sheet structure***

Restructuring the main driver: The current structure of the group sees the bank acting as a holding company for the insurance arm. IPM hold an EGM on the 17 December at which time shareholders will be asked to vote on the structure of a new non-financial holding company which will control both the bank and the insurance operations. This would be a radical change in structure which would enhance the transparency of the insurance operations and allow for the possible future demerger of the banking arm. A listing target of mid-January for the new holding company is currently in place.

- ***EGM to vote on future structure***

Third force to unlock hidden value: With talks already underway between Irish Nationwide and EBS about a merger to create a "third force" in Irish banking, we see it as very likely that ILP joins those discussions. Its inclusion as the largest participant in the third force would remove the current discount to NAV caused by the funding issue on the banking side. Any stake in an enlarged third banking force would also be a positive for the group on a SOTP valuation. The joining of the third force is at least 12 months from completion in our view.

- ***Emergence of third force to benefit NAV***

Capital requirements: The Q3 results on the 17 November suggest a current core tier 1 ratio of c.4% down slightly from previous indications given in June. To reach a core tier 1 ratio of 7% in line with European peers, we estimate IPM will require c€300m to €400m in funding after a €200m windfall from an indicated buyback of tier 2 debt (this debt can no longer be counted as capital when the internal structure of the group changes). The remainder of the shortfall will come from the release of capital from the life business and a potential rights issue.

- ***Boost to Tier 1 ratio required***

Valuation:

- **As a stand alone life business Irish Life would be worth in excess of €7 per share (€1.9 billion embedded value). After a de-merger, management have stated that it believes that it could take a 40% stake in the third force. We calculate that the drag from the capital deficit of the bank is €1 to €1.5 per share (€275 million to €400 million). Trading at €3.13 per share, the combined entity is trading at a significant discount to the €5.50 Life less the bank valuation, over pricing for further risks on the banking side of the business.**

Irish Life & Permanent

Bloomberg: IPM ID EQUITY

Shrs ('m)	Mkt Cap (€'m)	Price	Sector	Year End	Analyst
275	825	3.00	Financials	Dec	Kevin McConnell

Profit & Loss	2007	2008	2009 (F)	2010 (F)
Net Income	500	473	380	381
Guarantee Cost		49	68	10
Total	549	541	390	391
Costs	-302	-307	-275	-261
Operating Profit	247	234	115	130
Impairments	-28	-204	-330	-282
Banking PBT	219	30	-215	-153
Tax	-33	-5	40	20
Banking Net Income	186	25	-175	-133
Associates	25.0	27.0	-4.0	20.0
New Business	154	100	50	65
Existign Business Profit	192	184	85	130
Life operating profit	346	284	135	195
Total Operating Profit	590	341	-84	62
Total PBT	460	-364	-154	62
Attributable	403	-431	-124	62
Period End No Shares	275	275	275	275
Duluted EPS	194	111.0	-42	23
Operating EPS	146.5	-156.7	-24.0	22.6
Dividend	74.8	22.5		
Net Book Value	1,230	1009	923.6	945.5
Risk Weighted Assets	23494	23000	21000	20500
Equity Tier 1 Ratio	4.68%	4.00%	4.10%	3.80%
Tier 1 Ratio	8.75%	7.99%	8.70%	8.20%
Embedded Vaue	3385	2775	2650	2750
Embedded Vaue Per Share	12.3	10.1	9.6	10.0
3 Year Bad Debt Write Off			-816	

Price/Ratios	2007	2008	2009 (F)	2010 (F)
Adjusted PER	0.51	0.88	-3.57	4.82
Price/Embedded Value			0.40	0.43

Internal Ratios	2007	2008	2009 (F)	2010 (F)
Loan Growth yoy		2.5%	-12.0%	8.0%
Bad debt bps		52 bps	90 bps	70 bps
Cost % Decrease		-1.7%	10.4%	5.0%
Bad debt Charge	-28	-204	-330	-282
Cost/ Income	55%	57%	71%	67%
Net Interest Margin	1.17%	1.05%	0.85%	0.85%

Balance Sheet	2007	2008	2009 (F)	2010 (F)
Average Lending	34,473	39,585	38,900	37,500
Customer Deposits	16,000	14,900	16,200	17,820
Loan/Deposit Ratio		2.66	2.40	2.10

Loan Book Composition (End 2008)

	Ireland	UK	Total
Residential Mortgages	27664	7907	35571
Standard		605.6	
Self Cert			
BTL		7301.4	
Commercial Mortgages	2077		2077
Consumer Finance	2418		2472
Total Loan Book	32159	15814	40120

Irish Continental Group

Business Overview & Strategy:

ICG's business provides passenger and freight shipping services from Ireland to the UK and France. Prime port slots (especially in Dublin) and a modern well-invested fleet (four active ships and two chartered) gives it a platform to leverage market leading positions in passenger, Ro-Ro and Lo-Lo markets. A restructuring in 2007 ensures that ICG's flexible cost base can manage the challenges posed by Ireland's deep recession. The company's balance sheet benefits from strong cashflows that will lower debt to minimal levels within two years and protect a generous dividend payout of at least €1.

- *Fleet carried at a discount to replacement value*

Well invested fleet. ICG owns a fleet of six ships, of which four are operated by the company and two are chartered out. The four owned ships have an average age of 12 years and three are younger than ten years old. Aside from their relative modernity, these ship's replacement value is estimated to be at least 50% above their reported book value. The fleet forms the backbone of the group's asset base which is valued at €6 per share.

- *Strong cashflows support attractive dividend payments*

Cashflow and dividend. Strong cashflows and limited capex demands give ICG powerful flows of income which are rapidly unwinding debt. From a level of €114m in 2006 we estimate the company will be debt free by 2011. These cashflows ensure the company can support organic development while funding a consistent and generous dividend. Currently, the dividend payout amounts to €1 and equates to a yield of 7.4%. Indeed, the company has the capacity to pay out generous special dividends over the medium term without compromising its financial integrity. We estimate a €3 special dividend would push 2012 net debt to EBITDA to just 1.3x.

- *Market positions to benefit as competitors retract*

Strong market positions. Given its prime slots at Dublin and Rosslare ports, ICG has a market leading position on the Irish Sea market. During the first half of 2009 its share of car traffic was 45% while it accounted for over 25% of the Ro-Ro market. These market shares give ICG the scope to exploit opportunities provided by the unfolding Irish recession. While marginal freight and passenger ferry competitors reduce capacity or exit the market entirely, ICG can re-enforce its strengths and position for a recovery.

- *Restructuring undertaken ahead of the downturn*

Operational cost advantages. Aside from well invested ships which ensures no short-term lumpy capex, ICG has also completed a restructuring of its labour costs that have given it flexibility while improving its competitive advantage. Moving from a legacy cost structure to one that works with a lower structural cost base has allowed ICG to trade relatively well during the recession. While EBITDA in 2009 will be 38% below its 2007 peak, net profits continue to accrue in the business, helping support dividends and corporate development.

Valuation:

- **ICG trades on a 2010 PER of 12.6x and an EV/EBITDA of 7x, both significant discounts to its peers in Europe. Cashflow per share is 166c implying a cashflow yield of 12%. The dividend yield is 7.4% and cash cover of 1.7x ensures this payout is amply protected.**

- **For investors who value dividend income ICG offers a strong yield that is heavily backed by solid cashflows and a net asset value which undervalues the fleet. Share price progression should evolve as the Irish economy stabilises and ICG's profitability starts to recover in line with renewed growth in trade.**

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ICG

	Last Price	Shrs ('m)	Mkt Cap (€'m)	EV (€'m)	Sector	Bloomberg Year end	IR5A ID Equity Analyst	
	13.60	24.6	335	373	Transport	Dec	Joe Gill	35316119457

Profit and loss (€m)	2008	2009 F	2010 F	2011 F
Sales	342.9	276.7	282.3	288.0
Operating Profit	41.8	25.9	26.9	27.9
Goodwill Amortisation	0.0	0.0	0.0	0.0
Other Income	0.0	0.0	0.0	0.0
Associates / Joint Ventures	**0.0**	**0.0**	**0.0**	**0.0**
Exceptionals	**3.9**	**0.0**	**0.0**	**0.0**
EBIT	41.8	25.9	26.9	27.9
Interest	-2.7	-3.0	-2.5	-1.0
Pre tax profit	43.0	22.9	24.4	26.9
Tax	-2.5	-1.6	-1.7	-1.7
Minorities	**0.0**	**0.0**	**0.0**	**0.0**
Preference Dividends	**0.0**	**0.0**	**0.0**	**0.0**
Attributable Profit	**40.5**	**25.5**	**26.7**	**27.9**
Dividends	**0.0**	**0.0**	**0.0**	**0.0**
Retained Earnings	40.5	25.5	26.7	27.9

	2008	2009 F	2010 F	2011 F
EPS -Basic	168.60	105.24	109.55	113.36
EPS-Diluted(Adj)	150.47	103.95	108.22	111.99
DPS	125.00	100.00	100.00	100.00

	2008	2009 F	2010 F	2011 F
Net debt	-49	-39	-25	-9
Shareholder funds	173	180	193	212
Capital Employed	222	219	218	220

Valuation Ratios	2008	2009 F	2010 F	2011 F
Price Earnings	9.0	13.1	12.6	12.1
Dividend Yield	9.2%	7.4%	7.4%	7.4%
EV/EBIT	8.9	14.4	13.9	13.4
EV/EBITDA	5.3	7.3	7.0	6.8

Margin Analysis/EBIT	2008	2009 F	2010 F	2011 F
EBITDA Margin	**20.6%**	**18.6%**	**18.8%**	**18.9%**
EBIT Margin	**12.2%**	**9.4%**	**9.5%**	**9.7%**

Cashflow (€m)	2008	2009 F	2010 F	2011 F
EBIT	**41.8**	**25.9**	**26.9**	**27.9**
Depreciation	28.9	25.5	26.1	26.6
EBITDA	**70.7**	**51.4**	**53.0**	**54.5**
Working Capital	-1.5	-1.5	-1.5	-1.6
Other	0.0	0.0	0.0	0.0
Capex	-0.5	-10.5	-10.5	-10.5
Operating Cash Flow	**68.8**	**39.4**	**40.9**	**42.4**
Interest	-4.0	-2.7	-1.2	0.4
Tax	-2.5	-1.6	-1.7	-1.7
Dividends	-30.7	-24.6	-24.6	-24.6
Exceptional costs	3.9	0.0	0.0	0.0
Free Cash Flow	**35.4**	**10.5**	**13.5**	**16.5**
Disposal/Acquisition	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Translation Adjustment	0.0	0.0	0.0	0.0
Net Cash Flow	**35.4**	**10.5**	**13.5**	**16.5**
Opening Debt/(Cash)	84.5	49.1	38.6	25.1
Closing Debt/(Cash)	49.1	38.6	25.1	8.7

Balance Sheet (€m)	2008	2009 F	2010 F	2011 F
Tangible Assets	263	248	232	216
Intangible Assets	2	2	2	2
Financial Assets	37	37	37	37
Debtors	*94*	*106*	*121*	*139*
Creditors	*-76*	*-76*	*-76*	*-76*
Working Capital	**17**	**29**	**44**	**63**
Net Cash/(Debt)	-49	-39	-25	-9
Other Liabilities	-98	-98	-98	-98
Shareholder funds	173	180	193	212

Kerry

Business Overview & Strategy:

Kerry operates a global food ingredients business providing a broad range of flavourings and functional inputs for multinational food, drink and pharmaceutical customers. It is also one of the largest suppliers of consumer foods to the Irish and UK markets where it holds a number of leading market positions. From its Irish origins Kerry has used acquisitions and heavy sustained organic investment to improve its efficiency and competitiveness.

Portfolio. Kerry's consumer food division generated revenues of €850m in H1 2009 and accounts for over 30% of group profits. Its Ingredients division had sales of €1.65bn from customers across the globe and generates 70% of income. Together, these two businesses give the group in-depth exposures to multinational retailers and manufacturers. Despite volatile consumer markets and FX trends, the two core units have delivered growth and strong cashflows for the business.

- ***Global reach delivering growth***

Diversified earnings. Within its Ingredients division Kerry has a diversified exposure to savoury and dairy systems (45% of sales), beverages (11%), cereals (15%), functional ingredients (12%) and primary products (17%). That augments a geographic spread that encompasses the Americas (45% of sales), EMEA (40%) and Asia-Pacific (15%). This wide ranging exposure helps Kerry limit the effect of difficult trading in a specific product or geographic market. It also gives the group a platform to serve global customers efficiently.

- ***Diversified exposures limit risk***

Managing margin. Kerry's strategy is to build wider margins into its two core divisions through efficiency, expansion and the weeding out of underperforming businesses. During the first half of 2009 its trading margin expanded by 60bps to 8% and further gains are targeted in 2010 towards a five year objective of 10%. A relentless focus on margin progress helps inflate returns on capital while generating the cash flows needed to expand the business further while funding the group's dividend payout.

- ***Progress made in growing margins***

Balance sheet potential. With prodigious cashflows Kerry is capable of financing extensive organic development while completing acquisitions that help build its geographic and product range. By December 2009 we estimate its net debt to EBITDA will be about 2.5x, with interest cover of 7x. Consistent free cashflows in the €220-290m range over the last five years provide the resources to grow further and advance the group's plans to deliver a CAGR in adjusted earnings of 10%+ and a ROAE of 15%+. With a relatively low dividend payout, Kerry retains a significant portion of its profits to redeploy in a business with a return on capital of above 11%.

- ***Balance sheet provides for organic and acquisitive growth***

Valuation:

- **Kerry trades on a 2010 PER of 11.9x, EV/EBITDA of 8.8x and a dividend yield of 1.4%. These multiples place it in line with many of its international peers but do not reflect the ambitious EPS and ROAE targets set for the group.**

- **With a dividend yield of just 1.4% and cover of 7x Kerry has ample room to maintain a progressive dividend growth policy amid volatile earnings.**

- **With an operating cashflow yield of almost 11% Kerry can comfortably fund dividends while financing further organic and acquisitive growth. In the absence of a game-changing acquisition we deem the risks of an equity issue as being remote.**

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Kerry

Bloomberg KIG ID Equity

	Last Price	Shrs ('m)	Mkt Cap (€'m)	EV (€'m)	Sector	Year end	Analyst	Contact
	19.95	175.5	3501.2	4631.8	Food Manufacturing	Dec	Joe Gill	35316119457

Profit & Loss €m	2007A	2008	2009F	2010F
Ingredients	3309.6	3387.4	3400	3500
% change	5.6%	2.4%	0.4%	2.9%
Consumer Foods	1819.3	1774	1650	1700
% change	0.0%	-2.5%	-7.0%	3.0%
Other Trading Loss	-341.2	-370.8	-360	-365
% change	11.1%	8.7%	-2.9%	1.4%
Total Revenue	**4,788**	**4,791**	**4,690**	**4835**
Ingredients	310.4	320	326	335
% change	5.9%	3.1%	1.9%	2.8%
Consumer Foods	119.3	120	125	130
% change	1.5%	0.6%	4.2%	4.0%
Other Trading Loss	-28.6	-31	-30	-31
% change	5.9%	8.4%	-3.2%	3.3%
EBITA	**401.1**	**409.0**	**421.0**	**434**
Amortisation	-12.7	-14.9	-15.0	-15
Non Trading Items	-11.1	-76.3	-70.0	0
EBIT	**377.3**	**317.8**	**336.0**	**419**
Finance Costs	-79.1	-77.0	-72.0	-68
PBT	**298.2**	**240.8**	**264.0**	**351**
Income Tax	-52.2	-63.4	-58.1	-70.2
Net income	**246.0**	**177.4**	**205.9**	**280.8**

Per share (€c)	2007A	2008A	2009F	2010F
Basic EPS	**137.3**	**101.3**	**159.8**	**159.8**
Adjusted EPS	**143.8**	**153.9**	**165.8**	**168.5**

(€m)	2007A	2008A	2009F	2010F
Debt	1279.8	1164.1	899.7	763.1
Share H. Funds	1229.3	1164.7	1653.0	1539.0
Capital Employed	2913.5	2756.8	3027.7	2302.1

Valuation Ratios	2007A	2008A	2009F	2010F
Price Earnings	**13.9**	**13.0**	**12.0**	**11.8**
Dividend Yield	**1.4%**	**1.5%**	**1.4%**	**1.5%**
EV/EBIT	**10.1**	**12.0**	**11.0**	**10.7**
EV/EBITDA	**9.1**	**9.0**	**8.9**	**8.7**

Margin Analysis	2007A	2008A	2009F	2010F
EBITDA Margin	**10.4%**	**10.4%**	**10.3%**	**10.3%**
EBIT Margin	**7.9%**	**6.6%**	**8.0%**	**8.0%**

Cashflow	2007A	2008A	2009F	2010F
Trading profit	401.1	409.0	421.0	434.0
Depreciation	99.0	94.0	100.0	100.0
Change in working Cap	-35.4	18.7	-32.0	-32.0
Other items	-2.5	-39.6	-2.0	-2.0
Net Capital Expenditure	-89.0	-146.0	-120.0	-120.0
Operating Cashflow	**373.2**	**336.1**	**367.0**	**380.0**
Less Interest	3.7	3.5	3.6	3.6
Tax Paid	-37.3	-45.0	-58.1	-70.2
Finance costs paid	-82.8	-80.5	-72.0	-68.0
Free Cashflow	**256.8**	**214.1**	**240.5**	**245.4**
Acquisition & Disposals	-121	-17.1	0	0
Share Issue/BuyBack & divs	-258	-36.3	-41	-44
Other	37	-45	0	0
Debt Increase/Decrease	**-85.2**	**115.7**	**199.5**	**201.5**
Opening Debt/(Cash)	1194.6	1280	1164	964.6
Closing Debt/(Cash)	1279.8	1164.1	964.6	763.1

Balance Sheet	2007A	2008A	2009F	2010F
Tangible Assets	990.7	985.9	1005.9	1025.9
Intangible Assets	1646.2	1569.5	1554.5	1539.5
Financial Assets	18.9	41.4	42.0	43.0
Fixed Assets	**2655.8**	**2596.8**	**2602.4**	**2608.4**
Trade and other receivables	591.2	557.0	579.0	608.0
Inventory	526.4	512.8	532.0	559.0
Trade and other payables	-859.9	-909.8	-946.0	-993.3
Working Capital	**257.7**	**160.0**	**165.0**	**173.7**
Net debt	1279.8	1164.1	964.6	763.1
Other Liabilities	404.4	428.0	475.0	480
Shareholders funds	**1229.3**	**1164.7**	**1327.8**	**1539.0**

Origin Enterprises

Business Overview & Strategy:

Origin is the leading animal feed ingredients importer and blended fertiliser manufacturer in Ireland. It has diversified into agronomy services in the UK and Central Europe through the acquisition of Masstock during 2008. Fishmeal interests have been merged with a Norwegian competitor to form the joint venture Welcon. The group also owns ambient food businesses in Ireland. Origin is intent on expanding its interests in agronomy where scalability and higher returns on capital are attainable. Its core businesses generate the cashflow and asset base to fund such development.

Migrating capital. Origin's strategy is to use its cash generating core agribusiness and ambient food units to build scale in higher margin agronomy services activities. Unlike its feed ingredient and fertiliser businesses in Ireland, agronomy services can be scaled up through acquisitions and organic development. It should also help build a group with higher sustainable margins and returns on capital for investors.

- ***Agronomy services to be focus of growth***

Divisional split. Origin derives 20% of its operating profit from the food division which includes ambient food and flour milling assets on the island of Ireland. Its agri-nutrition unit incorporates a 50% share in Europe's largest fishmeal producer, Ireland's largest animal feed importer and blended fertiliser producer, together with agronomy service businesses in the UK, Poland and the Ukraine. Bolt-on acquisitions have been used to build out the agronomy services division, a pattern we expect will form a key component of strategy over the medium term.

- ***Dividends well protected***

Dividends. Having introduced an annual dividend of 8c, Origin is capable of protecting that payout while growing its business over the medium term. Dividend cover in the current year, despite depressed earnings, will be a comfortable c4.

- ***Flexing balance sheet to deliver bolt-on acquisitions***

Balance sheet. With net debt to EBITDA of 1.8x, and operating cashflow of €40m, Origin is capable of expending €90m (equal to 30% of its market value) without stretching bank covenants., We expect acquisitions will form an important part of the group's evolution.

Valuation:

- **Origin trades on a prospective PER of 6.6x, EV/EBITDA of under 4x and dividend yield of 3.6%. Its cashflow yield of 12% reflects the inherent profitability of the group, and highlights the potential for organic and acquisitive led growth.**

- **For investors, the relatively high cashflow yield and protected dividends provide a framework for capital appreciation. Triggers for positive share price momentum include; (1) evidence of stability in Irish agriculture; (2) acquisitions which advance the agronomy services strategy and; (3) further unlocking of capital from the core business units.**

- **Origin's shares are relatively illiquid given the 70% holding accounted for by Aryzta. We expect management will use acquisitions to improve liquidity over the medium term while Aryzta could also reduce its holding if valuations between both companies converge.**

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Origin

Bloomberg OGN ID Equity

	Price	Shrs ('m)	Mcap (€'m)	EV (€'m)	Sector	Year end	Analyst	
	220	133	292.6	446.4	Food Manufacturing	July	Joe Gill	353 1 6119457

Profit & Loss	2008A	2009A	2010F	2011F
Agri-Nutrition Revenue	1165.3	1212.0	1140.0	1170.0
%Change		*0.0*	*-0.1*	*0.0*
Food Revenue	338.9	295.0	356.0	329.0
%Change		*-0.1*	*0.2*	*-0.1*
Total Revenue	1,504.2	1,507.0	1,496.0	1,499
%Change		*0.0*	*0.0*	*0.0*
EBITDA	80.0	83.3	73.0	77.0
Agri-Nutrition Operating profit	55.0	55.4	50.0	53.0
%Change		*0.0*	*-0.1*	*0.1*
Food Operating Profit	15.9	17.0	11.7	12.7
%Change		0.1	-0.3	0.1
Total Operating Profit	**70.9**	**72.4**	**61.7**	**65.7**
%Change		0.0	-0.1	0.1
Associates - PAT	2.3	3.7	7.0	8.0
EBITA	73.2	76.1	68.7	73.7
Net Financing costs	-14.6	-17.3	-17.0	-18.0
Amortisation	-2.4	-3.3	-3.5	-3.5
Exceptional		-134.4		
PBT	**56.2**	**-78.9**	**48.2**	**52.2**
Tax	-11.7	18.9	-10.1	-11.0
Net income	**44.5**	**-60.0**	**38.1**	**41.2**
Tax rate (%)	20.8	24.0	21	21

Per share (€c)	**2008A**	**2009A**	**2010F**	**2011F**
Basic earnings per share (cent)	33.6	-42.7	28.6	14.1
Adjusted diluted EPS(cent)	34.1	36.2	31.7	34.1
DPS	0	8	8	8

(€m)	**2008A**	**2009S**	**2010F**	**2011F**
Debt	175.1	153.8	132.9	109.9
Shareholders funds	223.4	152.8	319.6	319.6
Capital Employed	483.2	379.6	528.9	429.5

Valuation Ratios	2008A	2009A	2010F	2011F
Price Earnings	**6.5**	**6.1**	**6.9**	**6.5**
Dividend Yield	**0.0**	**4%**	**4%**	**4%**
EV/EBIT	**7.6**	**5.9**	**6.5**	**6.1**
EV/EBITDA	**5.6**	**5.4**	**6.1**	**5.8**

Margin Analysis	2008A	2009A	2010F	2011F
EBITDA Margin	**5.3%**	**5.5%**	**4.9%**	**5.1%**
EBIT Margin	**3.9%**	**5.0%**	**3.5%**	**3.7%**

Cashflow Statement	2008A	2009A	2010F	2011F
EBITDA	80.6	83.3	73	77
Change in Working capital	16.8	-2.4	-6.0	-6.0
Interest	-9.7	-17.4	-17	-18
Tax	-13.1	-11.9	-10.1	-11.0
Operating cashflow	**74.6**	**51.6**	**39.9**	**42.0**
Capex	-21.5	-7.7	-9	-9
Insurance/Disposal Proceeds	0	6.8	0	0
Acquisition Expenditure	-141.8	-13.0	-10.0	-10.0
Investment in assoc	-15.6	-5	0	0
Issue of shares/ divi received	0	4.2	0	0
Exceptionals	0	-10	0	0
Dividends	0.2	-10.6	0	0
Debt Increase/Decrease	-104.1	16.3	20.9	23.0
Opening Debt	-71.7	-175.1	-153.8	-132.9
Translation	0.7	5.0		0.0
Closing Debt	**-175.1**	**-153.8**	**-132.9**	**-109.9**

Balance Sheet	2008A	2009A	2010F	2011F
Tangible Assets	298.5	296.2	294.7	303.7
Intangible Assets	116.4	113.1	109.6	106.1
Financial Assets	32.8	33.0	33.0	33.0
Fixed assets	**447.7**	**442.3**	**437.3**	**442.8**
Working Capital	35.5	37.6	38.0	38.0
Deferred Consideration	12.5	0.0	0.0	0.0
Net debt	175.1	153.8	132.9	109.9
Other Liabilities	72.2	73.0	76.4	76.4
Shareholders Funds	223.4	152.8	319.6	319.6

Ryanair

Business Overview & Strategy:

Ryanair operates a fleet of over 200 Boeing 737-800s from 37 bases across Europe and will carry over 66m passengers in the year to March 2010. With per passenger costs (ex fuel) at €25, the airline can compete in very challenging markets while retaining high operating margins and continuing to expand. With an estimated 8% share of the EU short-haul market the carrier has the capacity to grow further in the next three years as its existing Boeing contract increases the fleet to 250 jets. Unusually among airlines, Ryanair has a largely ungeared balance sheet with shareholders funds of €2.5bn.

Scale and reach. Using its network of 37 bases the carrier intends to grow further by 45% up to 2012 using an existing Boeing contract. Negotiations are ongoing with Boeing which may lead to another order of up to 200 aircraft which would lead to CAGR of 5%+ for the period until 2020. Ryanair has pursued a relentless growth strategy over the past ten years and in the process has replaced existing higher cost carriers while stimulating demand through lower fares.

- ***Growth strategy remains intact***

Profitability. Despite the impact of record oil prices and a deep consumer recession, Ryanair has remained profitable over the past two years, in sharp contrast to its legacy airline competitors. By managing highly disciplined unit costs that are the lowest of any carrier in Europe, Ryanair is able to defend existing markets while confidently entering new territories. Its consistent cashflow generation helps its fund a multi billion dollar aircraft order.

- ***Outperforming in face of industry headwinds***

Scope for growth. Although Ryanair has grown significantly in the last ten years, its market share in Europe compares with a 20% share of the US short haul market held by Southwest Airlines. In Europe there is evidence that competing legacy carriers and charter airlines are rapidly reducing their capacity and this opens opportunities for Ryanair to grow its footprint. During 2009 the company adopted an aggressive expansion plan in both Italy and Spain as both legacy and charter competitors opted to contract (eg Alitalia, Iberia) or collapsed (eg Futura, Spanair).

- ***Current market shares leaves scope for future expansion***

Valuation:

- **Ryanair is not a lowly valued airline, with a March 2010 PER of 15.7x and an adjusted EV/EBITDAR of 7x. That gives it a valuation premium to other EU airlines, supported by its track record of consistent profitability.**

- **Given the depressed earnings incurred by a deep consumer recession, Ryanair's business model ought to generate strong profit growth once market conditions normalise, a scenario that will reflect quickly in forward valuations**.

- **Being an airline, Ryanair is a high beta, zero dividend stock which brings with it inherent volatility and risk. We include it in our portfolio as an exposure to the consumer cyclical space which should benefit from ongoing positive momentum in equities. Signals that its yields are stabilising and a conclusion to the Boeing negotiations are key to share price trajectory in the short term.**

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Ryanair

	Last Price	Shrs ('m)	Mkt Cap (€'m)	EV (€'m)	Sector	Year end	Analyst	Contact
	2.77	1,477.2	4092	4452	Airlines	March	Joe Gill	35316119457

Bloomberg: RYA ID EQUITY

Profit and loss (€m)	2008	2009 F	2010 F	2011 F
Sales	2674.5	2943.9	2877.9	3412.2
Operating Profit	529.0	146.0	349.9	435.1
Goodwill Amortisation	0.0	0.0	0.0	0.0
Other Income	0.0	0.0	0.0	0.0
Associates / Joint Ventures	**0.0**	**0.0**	**0.0**	**0.0**
Exceptionals	**10.2**	**-218.1**	**-12.5**	**0.0**
EBIT	539.2	-72.1	337.4	435.1
Interest	-8.2	-55.0	-47.0	-77.0
Pre tax profit	531.0	-127.1	290.4	358.1
Tax	-59.2	10.0	-29.2	-1.7
Minorities	**0.0**	**0.0**	**0.0**	**0.0**
Preference Dividends	**0.0**	**0.0**	**0.0**	**0.0**
Attributable Profit	**471.8**	**-169.0**	**261.3**	**27.9**
Dividends	**0.0**	**0.0**	**0.0**	**0.0**
Retained Earnings	471.8	-169.0	261.3	27.9

	2008	2009 F	2010 F	2011 F
EPS -Basic	168.60	105.24	109.55	113.36
EPS-Diluted(Adj)	31.21	-11.43	17.66	21.96
DPS	0.00	0.00	0.00	0.00

	2008	2009 F	2010 F	2011 F
Net debt	-345	-360	112	513
Shareholder funds	2580	2507	2768	2950
Capital Employed	2235	2147	2880	3463

Valuation Ratios	2008	2009 F	2010 F	2011 F
Price Earnings	8.9	-24.2	15.7	12.6
Dividend Yield	0.0%	0.0%	0.0%	0.0%
EV/EBIT	8.3	-61.7	13.2	10.2
EV/EBITDA	6.4	12.7	7.7	6.6

Margin Analysis/EBIT	2008	2009 F	2010 F	2011 F
EBITDA Margin	**25.9%**	**11.9%**	**20.0%**	**19.8%**
EBIT Margin	**19.8%**	**5.0%**	**12.2%**	**12.8%**

Cashflow (€m)	2008	2009 F	2010 F	2011 F
EBIT	**529.0**	**146.0**	**349.9**	**435.1**
Depreciation	163.6	204.5	225.3	240.0
EBITDA	**692.6**	**350.5**	**575.2**	**675.1**
Working Capital	260.0	230.0	210.0	210.0
Other	-150.0	0.0	0.0	0.0
Capex	-675.0	-600.0	-1200.0	-1200.0
Operating Cash Flow	**127.6**	**-19.5**	**-414.8**	**-314.9**
Interest	-8.2	-55.0	-47.0	-77.0
Tax	-2.5	-1.6	-1.7	-1.7
Dividends	0.0	0.0	0.0	0.0
Exceptional costs	-13.0	0.0	0.0	0.0
Free Cash Flow	**103.8**	**-76.1**	**-463.5**	**-393.6**
Disposal/Acquisition	0.0	0.0	0.0	0.0
Other	-88.0	0.0	0.0	0.0
Translation Adjustment	0.0	0.0	0.0	0.0
Net Cash Flow	**15.8**	**-76.1**	**-463.5**	**-393.6**
Opening Debt/(Cash)	-345.0	-360.8	-284.7	178.7
Closing Debt/(Cash)	-360.8	-284.7	178.7	572.3

Balance Sheet (€m)	2008	2009 F	2010 F	2011 F
Tangible Assets	3674	4574	5164	5524
Intangible Assets	2	2	2	2
Financial Assets	37	37	37	37
Debtors	*94*	*106*	*121*	*139*
Creditors	*-76*	*-76*	*-76*	*-76*
Working Capital	**17**	**29**	**44**	**63**
Net Cash/(Debt)	361	285	-179	-572
Other Liabilities	-98	-98	-98	-98
Shareholder funds	3993	4830	4971	4956

Total Produce

Business Overview & Strategy:

Total Produce imports and distributes a broad range of fresh produce (over 200 lines) to a group of EU countries with a value of over €2.5bn. It operates a network of distribution and transport assets (88 facilities in 17 countries) that provide products to a wide range of retail and wholesale market customers. The group uses its scale to leverage buying power and distribution strengths to generate a strong return on capital (12%) awhile generating cashflows that provide a solid dividend yield (5.4%) for shareholders.

Simplicity. Total Produce has minimal exposure to owned farm assets and it does not commit to long-term forward contracts. Its wholesale business model allows it to buy from a broad range of suppliers and distribute to the retail and wholesale markets (50/50 split). From this activity it generates an average EBIT margin of 1.5%. Its business risk is fragmented among sourcing and buying customers, thereby limiting individual risk for the group.

- ***Low risk business model***

The company's product range is split between eleven categories with none accounting for more than 16% of group revenues. This allows the company to control its exposures to specific fruits throughout the year while providing a comprehensive product range to a large retail and wholesale customer base.

Three year track record. Total Produce has maintained an EBITDA between €49m and €56m in the last three years despite the turmoil caused by recession and volatile exchange rates. This performance reflects its stable earnings platform and an ability to use pricing, acquisitions and organic development to generate consistent cashflows and profits.

- ***Delivering consistant performance***

Diversified geography. Total Produce is the leading produce company in Ireland, Spain, Sweden, Denmark and the Czech Republic, alongside large operations in the Netherlands, UK, Italy and Slovakia. This broad spread of risk helps it manage specific weakness in certain markets and exploit faster growing countries. It also provides market insights from which to develop organically or through acquisition.

- ***European reach limits exposure to single markets***

Strong financials. With interest cover close to 10x and net debt to EBITDA of 1.1x Total Produce has ample room to fund acquisitions as it grows its footprint across Europe. The group also has a comfortable 3.5x dividend cover which ensures that shareholders can expect a 5% yield while the company continues to grow and develop.

- ***Low net debt supports growth***

Valuation:

- **Total Produce trades on a 2010 PER of 5.4x, EV/EBITDA of just 3.6x and a dividend yield of 6%. Its cashflow yield of 17% and ROCE of about 12% are testemant to a company generating solid long term returns in a business sector that has steady growth characteristics.**

- **Total Produce has a stated ambition to reach a €4bn revenue target within five years. If that can be engineered using comfortable acquisition multiples while sustaining its current dividend payout, investors are buying a business with the ambition of raising its EBITDA by at least 60% over that period.**

Total Produce

Bloomberg	TOT ID Equity

Shares (m)	Mkt Cap	EV (€'m)	Price	Sector	Year End	Analyst	Contact
352	123.2	212.2		Food Manufacturing	Dec	J Gill	35316119457

Profit & Loss (€m)	2007A	2008A	2009F	2010F
General Produce	2007.8	2104.7	2200.0	2266.0
Consumer + Healthfood	142.7	146.3	150.0	155.0
Group Revenue	**2150.5**	**2251.0**	**2350.0**	**2421.0**
%Change	*36.4%*	*4.7%*	*4.4%*	*3.0%*
EBITDA	57.5	59.0	53.0	55.0
%Change	*12.5%*	*2.6%*	*-10.2%*	*3.8%*
Depreciation	-13.7	-14.0	-14.5	-14.6
EBITA	**43.9**	**45.0**	**38.5**	**40.4**
Margin (%)	2.0	2.0	1.6	1.7
Net interest	-4.9	-5.5	-4.0	-4.0
Adjusted PBT	41.1	41.5	36.1	38.1
Exceptionals	0.0	-4.5	0.0	0.0
Goodwill write-off	-5.1	-5.1	-5.0	-5.0
Non trading items	-0.7	0.0	0.0	0.0
PBT	**35.3**	**29.8**	**31.1**	**33.1**
Tax	-9.0	-8.5	-8.4	-8.9
Minority interests	-5.1	-5.9	-5.3	-5.3
Net income	**21.2**	**15.4**	**17.4**	**18.8**

Per share (€c)	2007A	2008A	2009F	2010F
EPS basic	**5.4**	**4.4**	**5.0**	**5.4**
Adjusted EPS	**6.4**	**6.8**	**5.7**	**6.0**
DPS	**1.7**	**1.7**	**1.7**	**1.8**

(€m)	2007A	2008A	2009F	2010F
Debt	72.0	60.3	45.2	33.5
Shareholders Funds	163.7	170.8	219.8	225.9
Capital Employed	319.2	316.1	313.1	308.5

Valuation Ratios	2007A	2008A	2009F	2010F
Price Earnings	**6.5**	**8.0**	**7.1**	**6.5**
Dividend Yield	**4.9%**	**4.9%**	**4.9%**	**5.1%**
EV/EBIT	**4.8**	**4.7**	**5.5**	**5.3**
EV/EBITDA	**4.0**	**3.9**	**4.2**	**4.0**
Margin Analysis	**2007A**	**2008A**	**2009F**	**2010F**
EBITDA Margin	**2.4%**	**2.4%**	**2.2%**	**2.2%**
EBIT Margin	**1.8%**	**1.8%**	**1.5%**	**1.6%**

Cashflow (€m)	2007A	2008A	2009F	2010F
Trading profit	38.9	40.8	36.1	38.1
Depreciation	13.7	14.0	14.5	14.6
EBITDA	52.6	54.8	50.6	52.7
Change in working Cap	12.6	12.0	3.0	3.0
Other items	-52.2	-7.0	0.0	0.0
Net Capital Expenditure	-14.5	-14.7	-15.0	-15.0
Operating Cashflow	-1.5	45.1	38.6	40.7
Tax Paid	-11.7	-7.1	-8.4	-8.9
Dividend	-1.8	-6.0	-6.6	-6.6
Free Cashflow	**-15.0**	**32.0**	**23.6**	**25.1**
Acquisitions/Investments	-83.9	-23.3	-5	-10
Dividends received	2.2	2	1.5	1.5
Other	16.7	-5.3	-5	-5
Debt Increase/Decrease	**-80.0**	**5.4**	**15.1**	**11.6**
Opening Debt	-8.0	-72	-60	-45
Translation	2.0	6.3	0	0
Closing Debt	**-72.0**	**-60**	**-45**	**-34**

Balance Sheet (€m)	2007A	2008A	2009F	2010F
Tangible Assets	136.4	137.1	137.6	138.0
Intangible Assets	123.6	118.5	113.5	108.5
Financial Assets	51.0	51.5	52.0	52.0
Fixed Assets	**311.0**	**307.1**	**303.1**	**298.5**
Working Capital	8.2	9.0	10.0	10.0
Net debt	72.0	60.3	45.2	33.5
Other Liabilities	37.5	38.0	0.1	0.1
Minority interest	46.0	47.0	48.0	49.0
Shareholders Funds	**163.7**	**170.8**	**219.8**	**225.9**

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