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DAVY MORNING EQUITY BRIEFING

22 February 2012

MARKET COMMENT

Markets unimpressed by new Greek funding package Stock markets fell marginally yesterday as renewed concerns around the sustainability of Greek debt outweighed any positive sentiment from the final conclusion of the long-awaited agreement on a new funding package. The new deal had left Greece's debt sustainability on a knife-edge with the agreed restructuring expected to reduce Greek debt to 120.5% of GDP. But market sentiment was undermined further by the leak of IMF analysis characterising the new plan as fragile and concluding that the Greek debt-to-GDP ratio could rise to 160% by 2020 should GDP growth disappoint expectations. more

CONSTRUCTION AND HOUSEBUILDING

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CPL Resources Hays H1 net fees grow by 11% but trading conditions have become more challenging in several markets more

RESULTS AND EVENTS

Wednesday February 22nd; Barratt Developments interim results. Travis Perkins FY results. **Thursday February 23rd;** Consumer price index, January. Wholesale price index, January. easyJet - AGM - Hangar 89, London Luton Airport, Luton, Bedfordshire, LU2 9PF - 10.00. William Hill FY results. Redrow interim results. **Friday February 24th;** Amadeus IT Holding FY results. **Monday February 27th;** PostNL FY results. Kingspan FY results. Bovis Homes FY results. Associated British Foods - trading statement. **Tuesday February 28th;** Persimmon FY results. Aer Lingus FY results. CRH FY results. **Wednesday February 29th;** Diageo - ex-dividend - interim dividend rate - 16.6p. Taylor Wimpey FY results. IAG FY results. Glanbia FY results. Holcim FY results. easyJet - ex-dividend - final dividend rate - 45.4p. **Friday March 2nd;** Italcementi FY results. **Monday March 5th;** Salzgitter FY results. Paddy Power FY results. FBD Holdings FY results. **Tuesday March 6th;** Betfair - interim management statement. **Wednesday March 7th;** Air France KLM FY results.

MARKET COMMENT

Markets unimpressed by new Greek funding package

Conall Mac Coille, Chief economist

Stock markets fell marginally yesterday as renewed concerns around the sustainability of Greek debt outweighed any positive sentiment from the final conclusion of the long-awaited agreement on a new funding package. The new deal had left Greece's debt sustainability on a knife-edge with the agreed restructuring expected to reduce Greek debt to 120.5% of GDP. But market sentiment was undermined further by the leak of IMF analysis characterising the new plan as fragile and concluding that the Greek debt-to-GDP ratio could rise to 160% by 2020 should GDP growth disappoint expectations.

Elections in April also pose a near-term implementation risk with Antonis Samaris, leader of the New Democracy party which currently ahead in the polls, clearly reluctant to commit to the new agreement during the negotiations. Markets are also wary of the growing reluctance of European governments to continue funding Greece, described as a potential "bottomless pit" by German finance minister Wolfgang Schauble last week. That said, the new funding agreement does include a ring-fenced account to ensure that bond redemptions are met in full, ahead of budgetary considerations, and with a special EU Commission task force permanently based in Athens to ensure implementation. So, although questions about the sustainability of Greek debt remain, the ongoing threat of a disorderly default on Greece's bonds could be removed. For now, markets remain unconvinced.

A key element of the new Greek package is an effective debt buy-back programme with national central banks passing on profits from their past purchases of Greek debt under the ECB's Securities Markets Programme. Reports this morning suggest that both the Irish government and EU Commissioner Oli Rehn have ruled out such measures for Ireland. In its December 2011 review, the IMF described the prospects for Ireland's debt sustainability as fragile and recommended stronger European support for the country. So, it is disappointing that additional support measures for Ireland are being ruled out at this stage, highlighting the reality that poor fiscal governance in Greece has yielded ever-increasing support from EU governments and central banks.

Today, markets will look to the first releases of the February purchasing manager surveys (PMIs) for the manufacturing and services sectors. Last month, the rise to 50.4 in the composite euro area survey surprised markets on the upside, leading to a reappraisal of growth prospects and reinforcing the view that a deep, prolonged recession in the euro area was less likely.

Following today's release of the February PMI data, markets should be able to make a reasonable stab at the outlook for GDP growth in Q1. The current expectation is for a marginal rise to 50.5 in February, consistent with GDP growth close to zero or marginally negative. But a stronger reading could lead to a material change in the market's expectations for GDP growth in 2012.

CONSTRUCTION AND HOUSEBUILDING

Travis Perkins plc (TPK LN)

Price: 1011p Rating: Neutral Issued: 03/08/11 *Previous: Underperform Issued: 16/05/11*

Impressive 2011 performance; higher BSS-related synergies and better-than-expected net debt reduction

Flor O'Donoghue

FACTS: Travis Perkins (TPK) has announced (February 22nd) results for 2011. The group reported revenues of £4.78bn, up 52% year-on-year (yoy) and diluted EPS of 87.3p (+17% yoy). Based on the full-year result, H2 diluted EPS was over 20% higher than in the second half of 2010. A dividend of 20p per share has been announced (+33% yoy), implying a H2 dividend of 13.5p (+ 35% yoy). Net debt at year-end stood at £583m, down by £191m from the end of 2010 (£774m). Adjusted net debt/EBITDA at year-end was 1.3x.

ANALYSIS: 2011 was notable for TPK as it was the first full year with BSS on board (the transaction was completed in late 2010). As expected, TPK's revenues rose over 50% last year with underlying revenues up a very impressive 6%. This compares with an increase of 5.5% for the 11 months to end-November.

The results are slightly (1%) ahead of our expectations at the EBITA line but the diluted EPS result is in line with expectations.

By division, merchanting like-for-like (lfl) revenues rose 9.4% last year (up by 9.3% at the 11-month stage) with the strong organic growth led by pricing (up 5.5%) and market share gains. However, this did not convert into margin expansion: merchanting margins slipped 20bps to 8.6% last year, although the H2 margin was up 30bps to 8.6%. 2011 was a difficult year for Wickes with lfl sales contracting 1.4% (down 1.6% after 11 months). Retail EBIT fell over 30% in H1 and fell 18% yoy in the second half, with the latter actually better than expected as another 30%-plus decline was forecast. One positive feature of the statement is that BSS synergies in 2011 came in at £20m, £5m higher than the most recent guidance (and sharply ahead of the initial £8m guidance). Management's overall synergy target is now £30m, implying that the previous expectation of an incremental £10m in synergies in 2012 remains intact. Aided by the impact of synergies, BSS achieved a trading margin of 4.6%, up 40 bps on a pro-forma basis, on revenues of £1.44bn (lfl sales growth of 2.9%).

Net debt at year-end had been guided at £600m, hence the result is comfortably better, implying another good year for free cash generation (c.£200m). In relation to 2012, lfl sales rose 1.8% in the first seven weeks of the year. By division, trends from 2011 continue. General and specialist merchanting lfl sales are up 5.4% and 3.9% respectively, retail lfl revenues are 3.1% lower and plumbing and heating lfl sales are up 0.9%. The tone of management's comments is consistent with its earlier cautious view and TPK believes its markets will remain "subdued" this year. It does suggest that it will look to modify its trading stance and re-focus on limiting cost growth and maintaining gross margins. TPK also indicates that it expects to cut another £125m off net debt.

DAVY VIEW: The 2011 results have underlined once again that TPK is a business with many admirable traits. Our current 2012 expectations are for flat-to-slightly-higher revenues and little or no operating profit growth. We will review our estimates after the briefing this morning. Our initial reaction is that any forecast changes will be modest.

Company summary and analysis

Strong sales result from Home Depot; ABI remains above 50

Robert Gardiner

FACTS: On February 21st, Home Depot reported better-than-expected Q4 results, boosted by a strong sales performance. Elsewhere, the latest ABI reading confirms the positive recent trend.

ANALYSIS: Home Depot's Q4 results were well ahead of the street's estimates. The largest US home improvement retailer reported Q4 EPS of $0.50 versus consensus $0.42. Q4 sales rose 5.9% year-on-year (yoy) to $16bn versus consensus $15.5bn. Same-store sales rose 5.7% in the quarter with US same-store sales up 6.1%. Management reported a strong finish to the year, helped by favourable weather.

For 2012, Home Depot guided 4% sales growth with like-for-like sales up low-single-digit. The read-through from its fiscal Q4 (end-January) is positive for CRH and Wolseley. Like-for-like US store sales up 6.1% yoy compares to 3.5% in Q2 and 3.8% in Q3. This is significant for CRH's US Products division which sources directly into the Homecenter Channel from the Architectural Products Group (patio products, pavers, tiles, lawn and garden products). Bear in mind that these product groups will benefit more than most from favourable weather. For Wolseley, the trend in same-store sales is also positive given that it, through Ferguson, is a leading distributor of plumbing and heating products in North America.

Meanwhile, the Architectural Billings Index (ABI) remained stable at 50.9 in January, the third consecutive monthly reading above 50. The AIA is encouraged by January's reading on the basis that the improvement is being reflected across most regions and major construction sectors. The group still cautions that any improvement near-term will be modest. The ABI is a reliable leading indicator of non-residential construction activity in the US with a 9-12 month lag. A reading above 50 indicates an increase in billings.

DAVY VIEW: We have yet to hear from CRH and Wolseley for Q4 2011 but all peer updates from the US to date point to improved sales and profitability. We expect these trends to be confirmed in results from both companies in the coming weeks.

Sector valuations

Barratt Developments plc (BDEV LN)

Price: 130p Rating: Underperform Issued: 08/04/11 *Previous: Outperform* *Issued: 30/06/09*

H1 results along expected lines; strong start to 2012

Robert Gardiner

FACTS: Barratt Developments (BDEV) has reported (February 22nd) H1 results which were in line with its trading statement in January. H1 operating profit rose 40.5% year-on-year (yoy) to £61.1m (it guided £61m on January 12th). Group revenues rose 8.6% yoy to £952.8m (c.£950m guided January 12th). Net debt at period-end was £542.3m, better than the January guidance of c.£550m. The group is now guiding to end-June 2012 net debt of £350m, again ahead of previous guidance.

ANALYSIS: The group sold 5,117 homes (+6.7% yoy) in the period with an average selling price of £181,200 (+3.1%). Underlying house prices were unchanged, but the group saw regional variances with greater robustness in the south-east. Private selling prices increased by 4.2% yoy to £199,900 due to mix changes. The group's operating profit margin improved to 6.4% in the period from 5.1% in the previous year, driven by the delivery of higher-margin land and tight control of overheads. In the six months, the group agreed terms on £178.1m of land purchases equating to 4,671 plots.

In terms of outlook, the group sees a strong start to 2012. Net private reservations per week are up 21.8% yoy in the seven weeks to February 19th. Forward sales at the same date were up 7.8% at £962.8m with private forward orders up 24.3% yoy.

DAVY VIEW: The H1 numbers are along expected lines although the net debt figure is better. The group has seen a strong start to H2 which bodes well for the sector ahead of the spring selling season. We will review forecasts following a call with management this morning.

Company summary and analysis

UK housing transaction trend continues to improve

Flor O'Donoghue

FACTS: According to HM Revenue & Customs, on a seasonally adjusted basis, there were 85,000 UK housing transactions (with a value of £40,000 and over) in January. This was up 20% year-on-year (yoy) and up 4,000 on the December figure. For the quarter to end-January, transactions were 15% higher than the same quarter in 2010/11.

ANALYSIS: January's figure continues the recent revival in UK housing transactions. Transactions in January were the highest in over two years. That said, the long-term monthly average is 120,000 transactions, so current activity rates remain well below this level.

DAVY VIEW: The latest figures are encouraging given the difficult economic circumstances. The relevant read-through is for Travis Perkins (100% UK revenues) and Grafton (over 70%). Wolseley (under 15% of group revenues), Saint-Gobain (under 10%), SIG (over 40% but over half non-residential) and Kingspan (over 35% but more skewed towards non-residential) would also have exposure to the knock-on effects from housing transactions (upgrading, renovating, modernising, retro-fitting etc).

Sector valuations

RESOURCES AND ENVIRONMENT

Tullow Oil (TLW LN)

Price: $24.54 Rating: Outperform Issued: 30/06/09

Uganda farm-down completed

Job Langbroek

FACTS: Tullow has announced (February 22nd) that the farm-down of its interest in the Lake Albert licences in Uganda has completed. The group has swapped a 66.66% stake in its licences with CNOOC and Total for a cash consideration of $2.9bn. Total will operate EA-1, Tullow will operate EA-2 and CNOOC will operate what was formerly the third exploration licence and is now the Kanywataba and Kingfisher production licences.

ANALYSIS: This is the final act in a long-running deal that was first proposed in early 2010. Its completion will allow the start-up of the Ugandan operations in earnest with exploration and appraisal in full swing by the second half of the year. In the near future, the Kanaywataba well will kick off and a series of wells in an area to the west of the Nile (the Omuka prospect will be the first). The time involved in completing the deal has inevitably led to some delays. The basin-wide development, which at one stage was muted for 2014/2015, will now be completed by 2016 and in the interim, small-scale production will take place from the Kaiso-Tonya area in 2013.

DAVY VIEW: There is little new in this statement but it does close off a difficult period for the Ugandan operation and allows the timely development of the assets to proceed. The overall asset looks more comfortable in the hands of three substantial oil and gas companies, each bringing their own set of skills, although we do not see Tullow getting too involved in the downstream development process. The deal closure has an immediate impact on the balance sheet which will now be completely de-leveraged. This creates a degree of flexibility not available to the group for some time.

Company summary and analysis

FOOD AND BEVERAGE

Glanbia (GLB ID)

Price: 520c Rating: Outperform Issued: 30/06/09

Hershey takes control of sports drink manufacturer

John O'Reilly

FACTS: Hershey has raised it holding in Tri-Us to 69%, according to a report

ANALYSIS: Hershey, the US chocolate and other confectionery products manufacturer, has acquired control of Tri-Us Inc, the owner of the Mix1 range of sports (pre- and post-workout) beverages, the active ingredient in which is whey protein isolate (WPI). According to *Boulder County Business Report,* citing federal regulatory documents, Hershey has increased its holding in Tri-Us to 69%, having initially acquired a 49% stake for $6m in a $7.3m fund-raising by Tri-Us in February 2011. As well as being distributed to specialist supplements retailers (Vitamin Shoppe), Mix1 is marketed through grocery retail (Kroger).

DAVY VIEW: Mix1 looks to be a direct competitor of Glanbia's leading ON brand range of whey-based sports nutrition supplements. Glanbia also owns BSN, another leading brand in the segment. As should become apparent in its forthcoming preliminary results statement, the company's nutrition activity, which is sports nutrition oriented, is recoding strong autonomous growth. High WPI prices — Glanbia is the leading producer of WPI — has not impeded the growth momentum of supplements based on this biologically superior protein.

Company summary and analysis

Fyffes (FFY ID)

Price: 41c Rating: Outperform Issued: 27/01/11 *Previous: Neutral* *Issued: 18/02/10*

Chiquita reports FY results up year-on-year, helped by strong performance in bananas; Fyffes FY results due March 1st

Aiden O' Donnell

FACTS: Chiquita reported FY 2011 numbers after the market close on February 21st.

ANALYSIS: The company's results improved year-on-year, helped by a strong performance in bananas, driven by better pricing in North America and an initial improvement in Europe. The company notes lower banana pricing in Europe in Q4. The weaker euro is also likely to have had an impact.

Chiquita has struggled in its salads business and is engaged in a number of restructuring efforts to return the business to sustainable growth.

It expects to grow revenues and profits in 2012.

DAVY VIEW: From a Fyffes perspective, there are no surprises in the Chiquita statement. Pricing year-to-date in Europe remains strong and we view this as positive for Fyffes ahead of its FY numbers on March 1st.

Company summary and analysis

FINANCIALS

Mortgage lending was down 35% year-on-year in Q4 but marginally up on Q3

Emer Lang

FACTS: The IBF/PwC mortgage market prolife shows that new mortgages in Q4 2011 were running 35% below the comparable level in Q4 2010 but were up marginally on Q3. New loans totalled €639m (3,856 loans) in the quarter compared with Q3's €623m (3,607).

ANALYSIS: New lending in FY 2011 was €2.5bn (14,273 loans) compared with €4.7bn (27,666) in 2010. First-time buyers (FTBs) remain the largest segment, accounting for 48.9% of new loans in the quarter and 44.7% in the year. Adding mover-purchasers (MPs) in Q4, new home buyers account for roughly 80% of the market by volume at this stage. The buy-to-let (BTL) segment has shrunk to just 3.4% of new loans in Q4; this typically accounted for c.13% of loans (20% by value) at peak.

DAVY VIEW: The average mortgage taken out by FTBs and MPs has reduced significantly, primarily reflecting falling house prices, which have declined by 47% (CSO data) from peak. The average FTB mortgage of €159,000 in Q4 compares with a peak of €252,000 in Q1 2008 (37% lower), while the average MP mortgage of €206,000 is down from €282,000 (down 27%) over the same period. That said, Q4 is typically the quietest quarter of the year, but Q4 2011 proved to be the strongest quarter and the FY total of €2.5bn is a bit higher than we expected (€2.3-2.4bn). However, it compares with the €4.7bn advanced in 2010 and is a far cry from the €40bn advanced at the peak of the market in 2006. Bank of Ireland has revealed that it accounted for over €1bn of new mortgages in 2011, more than 42% of the total in value terms.

Sector valuations

RECRUITMENT

CPL Resources (CPL ID)

Price:275c Rating:Outperform Issued: 30/06/09

Hays H1 net fees grow by 11% but trading conditions have become more challenging in several markets

Joshua Goldman

FACTS: Hays has released (February 22nd) H1 results for the period ending December 13th, with PBT of £60.3m, an increase of 24%.

ANALYSIS: International businesses (69% of fees are from outside the UK) drove good group net fee growth of 11% on a like-for-like (LFL) basis and operating profit growth of 14%. Temporary fees (56% of group) grew 14% LFL while permanent fees grew more slowly at 8% LFL. Asia Pacific and Continental Europe and Rest of World grew net fee incomes by 15% and 27% respectively on a LFL basis.

However, the UK market remained challenging with net fees down 6%. The public sector was the main driver of this decrease with net fees down 18% LFL, but these have been sequentially stable since April 2011. Given that the outlook remains uncertain, the company will continue to reduce all aspects of its UK cost base, which is down more than 25% from peak levels.

Trading conditions in several markets became more difficult as the half-year progressed. Together with the current economic uncertainty, this has led to the company rebasing the dividend to more appropriate levels within the revised 2.0-3.0x EPS cover range — the interim dividend is down 55% to 0.83p.

DAVY VIEW: The comments from Hays are consistent with our own view of the market. For CPL, we are forecasting very modest (low-single-digit percentage) sequential net fee income growth for H1/H2 financial year 2012. We continue to rate CPL as 'outperform' with its strong balance sheet and proven track record of navigating a challenging economic environment.

Company summary and analysis

THE DAY IN NUMBERS

	Index value	*Change*	*% Change*
IRISH MARKET			
Total Market (ISEQ)	3183.7	-23.5	-0.7
ISE Financials Index	206.9	2.4	1.2
ISE General Index	4316.9	-36.8	-0.9
ISE Small Cap Index	1895.5	11.2	0.6
SECTOR INDICES			
FTSE E300 Constr. & Mats.	1359.8	-12.0	-0.9
FTSE E300 Food Producers	1751.4	-3.9	-0.2
FTSE E300 Travel & Leisure	1217.5	-17.6	-1.4
EUROPEAN MARKETS			
FTSE Eurofirst 300	1085.4	-5.6	-0.5
FTSE 100	5928.2	-17.1	-0.3
CAC 40	3465.2	-7.3	-0.2
DAX	6908.2	-40.1	-0.6
US MARKETS			
S&P 500	1362.2	1.0	0.1
Nasdaq	2948.6	-3.2	-0.1
DJIA	12965.7	15.8	0.1
REST OF THE WORLD			
ASX All Ordinaries	4368.2	35.4	0.8
FTSE/JSE Africa All Share	34142.4	36.4	0.1
NZX 50	3337.3	21.7	0.7
Hang Seng	21489.8	11.1	0.1
Shanghai SE Composite	2381.4	17.8	0.8
Nikkei 225	9554.0	91.0	1.0
FTSE All World Developed	173.7	-0.1	-0.1
COMMODITIES			
Brent Oil $/bbl	122.6	1.4	1.2
CRB Commodity Index	497.7	1.8	0.4
Gasoline USc/gal	305.9	4.3	1.4
Gold $/t oz	1754.0	19.1	1.1
Natural Gas GBp/therm	57.4	0.5	0.8
EXCHANGE RATES			
Stg/EUR	0.8386	0.0042	0.5
USD/EUR	1.3232	0.0021	0.2
USD/Stg	1.5775	-0.0050	-0.3
INTEREST RATES			
Euro 3 Mth Money Rate	1.03	-0.01	-0.5
UK 3 Mth Money Rate	1.07	-0.00	-0.2
US 3 Mth Money Rate	0.49	-0.00	-0.1
BOND YIELDS			
Ireland 10 Yr Bond Yield	6.86	-0.06	-0.9
Euro 10 Yr Bond Yield	1.97	0.01	0.5
UK 10 Yr Bond Yield	2.21	-0.01	-0.5
US 10 Yr Bond Yield	2.06	0.06	2.9

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Suspended	0	0	0	0
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