Irish Equity Strategy 2011

An Industrial Portfolio

BLOXHAM

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Executive Summary

After dramatic volatility during 2008 (-63%) and 2009 (+70%) the ISEQ has declined by a relatively moderate 14% in 2010. However, this belies fundamental structural changes during a year when the Financials sector has suffered a further severe contraction in value. In 2010 Bank of Ireland shares have fallen 63%, AIB by 70%, while Irish Life and Permanent fell 79%. In contrast, an eclectic range of non financial companies have performed well with a combination of organic growth and M&A activity boosting their performance and share prices. Stand out performances this year includes Aer Lingus (+63%) and Origin Enterprises (+55%). To put these returns in context, Irish benchmark Government bonds lost almost 20% in value during a traumatic 2010 for the domestic economy.

The key factors in the behaviour of the Irish economy during the last year were; (1) the deterioration in the Irish banking sector; (2) the knock-on negative impact to the public finances and government bond yields; (3) a further contraction (albeit small) in GDP and; (4) rising unemployment and muted price pressures.

With the Government planning to take another €6bn (3.7% of GDP) out of the economy in 2011, it is hard to see domestic demand picking up, and in our view both personal spending and fixed investment will fall for the fourth year running in real terms next year, though not as much as in 2008, 2009 or 2010. Personal spending is projected to be down 0.5%, though strong export volume growth of 6.5% should see overall GDP growth back in positive territory at just under 1.5%. Currency developments are expected to be positive for Irish exporters with the ongoing Eurozone debt problems pushing the euro down versus both the dollar and sterling. We are forecasting the US dollar to appreciate to $1.20 by mid-year with sterling set to rise to 0.80 and possibly below that over the next twelve months.

Key Irish Economic Forecasts

	GDP Growth (%)	Inflation Rate (%)	Unemployment Rate (%)	Debt/GDP Ratio (%)
2009	-7.6	-4.5	11.8	65.6
2010 (f)	-0.4	-0.9	13.4	98.6
2011 (f)	1.4	1.0	13.8	106.0
2012 (f)	2.5	2.0	13.0	113.0

Price pressures are likely to remain contained, with rising global commodities the main upward risk to the CPI. Still, the deflationary impact of the fiscal austerity measures in the forthcoming Budget should keep the average annual rise in the consumer price index at no more than 1.0% in 2011. The outlook for employment remains fairly downbeat in the immediate future, with increased emigration the key factor in keeping the jobless rate from rising much above 14.0%. The Government is aiming to reduce the General Government Deficit to just over 9.0% of GDP next year, which is achievable if the export sector remains strong as anticipated, and unemployment comes in no higher than anticipated.

Given the large macro risks that continue to surround the Irish economy and the overall euro zone we are advising clients to favour companies that offer (1) strong balance sheets that can absorb demand risks while providing the resources to exploit growth opportunities; (2) cashflows that protect and enhance existing dividends while allowing for additional debt reduction if required; (3) valuations that are not demanding relative to peer groups and historic averages; (4) contained exposure to Irish consumer trends over the next two years.

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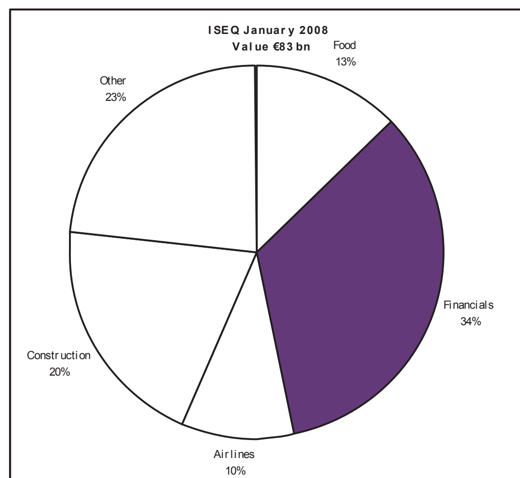
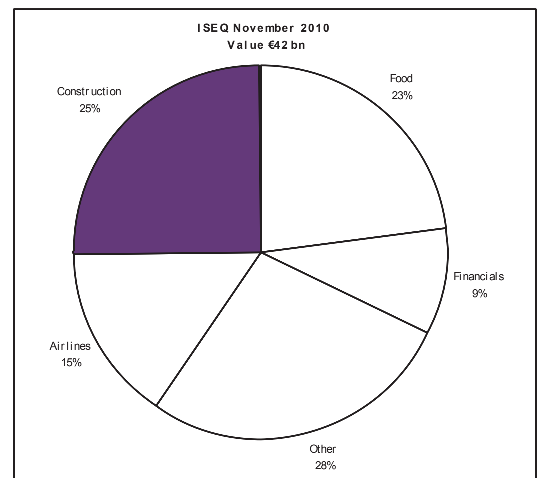
We set out a series of screens to derive a portfolio of six companies using these criteria that are designed to offer positive returns from dividend income and potential capital appreciation based on profit performance and modest valuation expansion. Our target is to generate a total shareholder return of at least 10% from these stocks.

Company (2011F)	Price (€)	Market Cap (€m)	EV/EBITDA	PER	Div Yield %	Ytd %
CRH	13.83	10601	7.2	16.5	4.7	-27
DCC	20.57	1745	6.2	10.2	4.0	+7
Origin Enterprises	3.26	436	6.7	8.4	3	+54
Ryanair	3.93	5853	7	11	na	+30
Smurfit Kappa	6.99	1553	4.0	4.1	2.4	+14
Total Produce	0.38	129	3.2	7.6	4.6	+15

Using our chosen criteria, our core 2011 Irish Equity Portfolio is comprised of *CRH, DCC, Origin Enterprises, Ryanair, Smurfit Kappa* and *Total Produce*. A separate group of three companies (*Aer Lingus, C&C and ICG*) are noted as potential M&A related opportunities.

Company (2011F)	Price (€)	Market Cap (€m)	EV/EBITDA	PER	Div Yield %	Ytd %
Aer Lingus	1.08	587	2.8	14	na	+72
C&C	3.18	1064	7	10	3	+5
ICG	15.35	380	6.4	11.0	6.5	+5





Irish Economy

The Global Economy

There is still a lot of uncertainty as to how the world economy will perform over the next six to twelve months. Our view is that there will be a sustained, but uneven global recovery. Overall, we are fairly optimistic on world GDP prospects, though the rate of growth will vary quite significantly across countries and regions. Many industrial countries are facing a prolonged period of modest growth and escalating public debt ratios. Fiscal policy is set to tighten markedly in Euroland and the UK in 2011, while uncertainties over the public finances position will continue to cast a shadow over the United States.

In the US, below-trend growth and continuing disinflation are prompting a renewed commitment to monetary accommodation in the form of large-scale asset purchases that will extend well into next year. However, the Bank of England is unlikely to follow with extra quantitative easing in the short-term, and the ECB will probably continue to withdraw liquidity. Meanwhile, monetary policy is likely to be generally tightening across Asian emerging markets. Asia will be the key driver of world economic growth for some time to come. Asian emerging markets continue to post robust growth and momentum is likely to remain strong. Asia ex. Japan accounts for roughly one fifth of world GDP in nominal terms, but has accounted for more than half of global GDP growth in the past five years. And according to the IMF, Asia ex. Japan will remain the key driver of global GDP in the next five years, still accounting for close on half of world growth in the 2011-2015 period. Following sharp corporate cutbacks during the downturn, corporate finances in industrial countries have shown a marked improvement, with profitability improving significantly. Unusually, the corporate sectors in the US, Eurozone and UK are now all running sizeable financial surpluses, and the “bottom-up” news from companies is favourable too. We also believe there is a genuine signal that cost-cutting in the downturn has now paved the way for decent profit growth even amidst subdued GDP increases. In turn, business investment is now likely to outpace GDP growth in many industrial countries.

GDP Forecasts %	2009	2010 (f)	2011 (f)	2012 (f)
World	**-1.9**	**4**	**3.3**	**3.7**
US	-2.6	3	2.3	2.8
Japan	-5.2	2.8	1.5	2.2
China	9.1	10.2	9.7	10
Eurozone	-4	1.9	1.2	1.8
UK	-4.9	1.7	2.3	2.8
Ireland	**-7.6**	**-0.4**	**1.4**	**2.5**

Ireland	Real	Real GNP	Average	General	Govt Balance			Debt/GDP
	GDP Growth (%)	GNP Growth (%)	Inflation Rate (%)	€m	% GDP	Level ‘000	Rate (%)	Ratio (%)
2009	-7.6	-10.7	-4.5	-23,400	-14.3	259	11.8	65.6
2010 (f)	-0.4	-3.2	-0.9	-49,500	-32.0	287	13.4	98.6
2011 (f)	1.4	0.8	1.0	-15,000	-9.3	295	13.8	106.0
2012 (f)	2.5	2.0	2.0	-11,775	-7.0	280	13.0	113.0

Sterling

Currency movements continue to be volatile, though we still remain upbeat on the prospects of sterling versus the euro over the next few months, particularly given the short-term inflation outlook in the UK and the ongoing Eurozone debt problems. Britain's economy has rebounded strongly from an 18-month recession, posting its strongest six-month period of growth for a decade in the middle of this year. However, government spending cuts and tax rises are expected to weigh on activity next year. UK inflation has remained higher this year than the Bank of England anticipated with the latest figures, for October, showing 3.2% and well above the central bank's 2% target. The Bank expects inflation to stay above its 2% target next year before falling back sharply to stand below target in two years time, the horizon on which the central bank sets policy.

Growth is seen slowing in 2011 but then picking up again to above 3.0% in 2012, though we think GDP will surprise to the upside next year. The November MPC minutes betrayed signs that some members were becoming more worried recent high inflation out-turns could filter through to higher inflation expectations. But for now, most members feel it would be premature to tighten policy while a lot of spare capacity remains and medium-term inflation expectations are anchored. It would also be premature, they argue, to loosen policy without clearer signs the economy is growing "too slowly to use up the margin of spare capacity" when inflation is so high. Overall, we think the pound is undervalued, particularly against the euro, where the budgetary woes of a number of countries within the 16-member bloc will start to weigh more negatively on the single currency. Furthermore, a weaker euro would be a major boon to many of the poorer performing Euroland member states. Taking everything into account, we continue to believe that sterling will appreciate to the 0.80 level over the next few months, and will be trading in the 0.75-0.80 range by the middle of 2011.

Spot Exchange Rates 2010/2011

	Current	End Dec (f)	End Mar (f)	End June (f)	End Sept (f)	End Dec (f)
€/GBP	0.845	0.835	0.820	0.800	0.780	0.765
€/$	1.31	1.28	1.24	1.20	1.18	1.15
€/Yen	111	111	110	108	107	105
$/Yen	84	85	87	87	88	88
GBP/$	1.56	1.53	1.51	1.50	1.51	1.50

US Dollar

The basic theme in the currency market is competitive devaluation. The euro has come down from its recent high and the fiscal debt crisis in the Eurozone is likely to weigh on the European common currency over the next few months. Although the structural forces for the euro remain negative, the dollar's fall since mid-June has been very sharp and substantial. Many indicators suggest that a retracement of the dollar's gains earlier this year was inevitable. From a cyclical viewpoint, the dollar should still trend higher against the European currency. The Euroland "peripherals" are facing the classic choice between devaluation and deflation. Although the euro will never drop to the level required to stabilise and stimulate the Eurozone, the fact remains that the lower the euro, the better it is for the region's economy.

There is a balancing act playing out in the FX market, which has been an effective mechanism for redistributing deflationary pressures among nations. The euro is currently struggling to hold above the $1.30 level and our feeling is that the dollar will strengthen further in the near-term as markets start to re-question the level of fiscal austerity Euroland "peripheral" countries can take, and investors realise the US economy is in better shape than previously thought. We are looking for the dollar to appreciate to $1.28 by year-end and to $1.20 by the middle of next year.

Irish Finances

The past year in the Irish economic landscape has been dominated by the deterioration in the Irish banking sector and the negative knock-on effect to Ireland's public finances. After much market speculation in recent weeks the Irish government finally agreed in principle to the provision of €85bn of financial support to Ireland from the EU/IMF. Ireland's contribution to the €85bn facility will be €17.5bn, which will come from the National Pension Reserve Fund and other domestic cash resources. This means that the extent of the external assistance will be reduced to €67.5bn. The key purpose of the external financial support is to return the Irish economy to sustainable economic growth and to ensure that the country has a properly functioning healthy banking system.

The lending terms are not ideal for Ireland: the bailout looks both expensive, and lacking in transparency, because of the many different lenders. If drawn down in total today, the combined annual average interest rate would be around 5.83% per annum, but the rate will vary according to the timing of the drawdown and market conditions. Still, the 5.8% interest rate is roughly in line with what was asked of Greece, after adjusting for the longer maturity, and is a lot lower than the current Irish 10-year government bond yield of just over 9.50% on an annualised basis. However, it is above the average interest rate of 4.7% paid by the NTMA to raise funding last year and the similar average rate paid up to October this year when the Agency stopped going to the market. But, taking all the factors into account, the interest rate charged could have been considerably higher.

Taxation Measures

	2011	2012	2013	2014	Total
Income tax	1,245	260	210	160	**1,875**
Pensions	260	225	225	155	**865**
Tax Expenditures	405	100	100	60	**665**
Site Value tax	-	180	175	175	**530**
Carbon Tax	-	220	-	80	**300**
Capital Tax	-	145	-	-	**145**
VAT	-	-	310	260	**570**
Other Measures	110	-	-	-	**110**
Total	**2,020**	**1,130**	**1,020**	**890**	**5,060**

As part of the agreement, the Government has published its €15bn four-year fiscal consolidation plan with €10bn to come from expenditure cuts and €5bn in tax increases over the 2011-2014 period. As already intimated by the Minister for Finance, there will be a front-loading (€6bn) of the adjustment in the forthcoming Budget.

We will have to wait until December 7 to see the precise details of Budget 2011, the first and in many ways the most important part of the consolidation process. In fact, it looks like the €6bn (3.7% of GDP) to be taken out of the economy in 2011 appears to be non-negotiable as far as the EU/IMF is concerned. With such a harsh adjustment on top of what has already been done in the past two years it is hard to see domestic demand picking up, and in our view both personal spending and fixed investment will fall for the fourth year running in real terms next year, though not as much as in 2008, 2009 or 2010. House completions are likely to be in the 10,000-15,000 range in both 2010 and 2011 compared with the peak of 93,000 seen at the height of the boom in 2006. So the onus will be on the export side to deliver the much needed growth in the short-term, but that of course will depend on the strength of the global economy.

Irish Employment

The outlook for employment remains fairly downbeat in the immediate future, with the numbers on the Live Register still extremely high despite a fall in the seasonally-adjusted total signing on in the past three months. A pick-up in the labour market tends to lag recovery in output/GDP by six to nine months, so it is likely to be the middle of 2011 at the earliest before there is an underlying improvement in employment conditions. Indeed, further losses in the construction, financial services and retail sectors look inevitable over the next few months. Trade union officials from the banking sector estimate that some 10,000 jobs in the financial sector will be lost over the next year as domestic lenders restructure and foreign-owned banks trim their operations in the wake of Ireland's banking crisis. There appears to have been far too much focus among policymakers on the domestic banking sector and not enough attention given to the serious issue of rising unemployment. Irrespective of who is in power post-Budget, the Irish government needs to come up with some major pro-employment initiatives that will boost job opportunities as soon as possible.

We think reducing employers' PRSI or cutting the minimum wage would enhance the job prospects of the unemployed. A minimum wage of €8.65 per hour might have sense when the economy was flying, but there is no justification for having one of the highest minimum wage rates in the EU when the economy is coming out of a severe recession and struggling to recover. As such, we welcome the proposal to reduce the minimum wage to €7.65 per hour. Looking at all the relevant factors, we now think the jobless rate will end this year at 13.5%, and even with further severe fiscal austerity in 2011, we do not see it going much above the 14.0% level. Increased emigration will be a key factor in limiting the rise in the unemployment rate.

Employment & Unemployment (Annual Average)

(000s)	2009	2010 (e)	2011 (f)	2012 (f)
Industry	411	366	360	365
Services	1,422	1,402	1,395	1,420
Agriculture	96	85	85	85
Total	**1,929**	**1,853**	**1,840**	**1,870**
Unemployment (LFS basis)	259	287	295	280
Labour Force	2,187	2,140	2,135	2,150
Jobless rate (% of labour force)	11.8	13.4	13.8	13

Irish Inflation

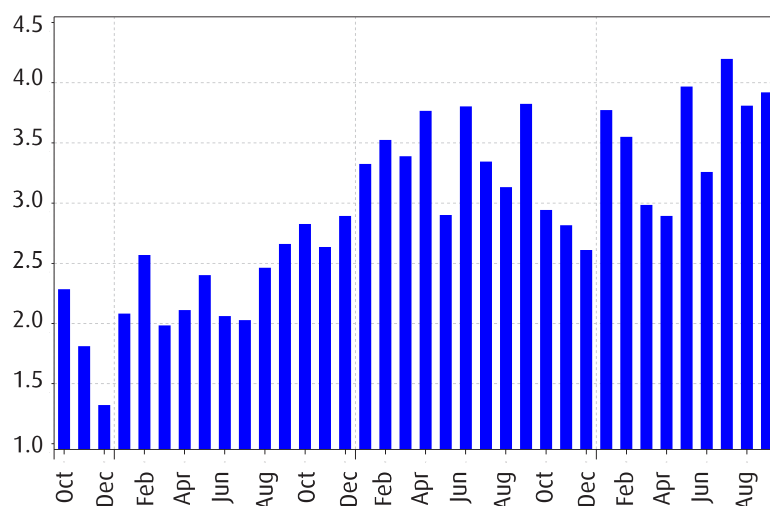
The latest HICP figures for the EU as a whole refer to the month of September, and they show that Ireland is now the only country within the 27-member bloc to still be in deflationary territory at this point in time. This should be no surprise given the severity of the economic downturn and the implementation of major wage/price reductions across the board.

While Ireland still needs to make more downward wage/price adjustments to become more competitive and return the economy to sustainable growth going forward, the last thing the country needs is to get stuck in a deflationary spiral like Japan, which will do more damage than good in the medium to long term. Hopefully, this won't be an issue, but the likelihood of further severe fiscal austerity measures in the forthcoming Budget and in the next three after that will only add to deflationary pressures. The main upward pressure on the Irish CPI in the months ahead will come from mortgage interest rates and food/energy costs. In overall terms, the risks to the inflation outlook for 2010 and 2011 appear to be broadly balanced and relate in main to how the domestic economic recovery evolves and what happens to international energy/food prices. We are expecting headline prices to be down 0.9% on average in 2010 as against a fall of 4.5% in 2009, and up 1.0% on average in 2011.

Irish External Trade

Despite all the doom and gloom in the economy, Ireland's export sector continues to thrive. Exports of goods and services were up 6.9% in volume terms year-on-year in the first half of 2010, with goods up 4.2% and services up 10.1%. Encouragingly, Ireland has a higher weighting of exports in services (48%) than any other Western economy. Furthermore, almost half the multi-national companies in the State expect to increase the amount they export in 2011. A recent survey by the Irish Management Institute (IMI) and National Irish Bank found 47% of multi-nationals expect turnover to increase in 2011, while 11% are expecting a decrease.

Ireland's immediate economic prospects are highly dependent on the ability of Irish exporters to take advantage of the upturn in the global economy. There is some uncertainty regarding the sustainability of the buoyant performance of the pharmaceuticals sector, as output from this industry tends to be inherently volatile due to factors such as patents and product cycles, but we remain confident that it can continue to prosper in the coming year. Meanwhile, the worrying aspect for indigenous Irish exports in particular has been the renewed weakness in the dollar and sterling since the start of July, making it more expensive for exporters to sell their goods into the United States and UK. But, the signs on the currency markets are that things are changing again, and we think the greenback and the British pound will strengthen against the euro on a 6-month view as the Eurozone's mounting government debt problems and a slowdown in the German economy start to weigh on the single currency. Exports offer a key ray of light currently in a fairly gloomy economic picture, and will be the primary driver of the Irish recovery story in the years ahead. We are looking for a volume increase in goods and services of 7.5% in 2010 and another healthy increase of 6.5% in 2011. We also think the overall merchandise trade surplus will break through the €40bn level this year. One of the most important factors over the next twelve months or so will be the return of a current account surplus on the balance of payments, meaning the country can fund itself.



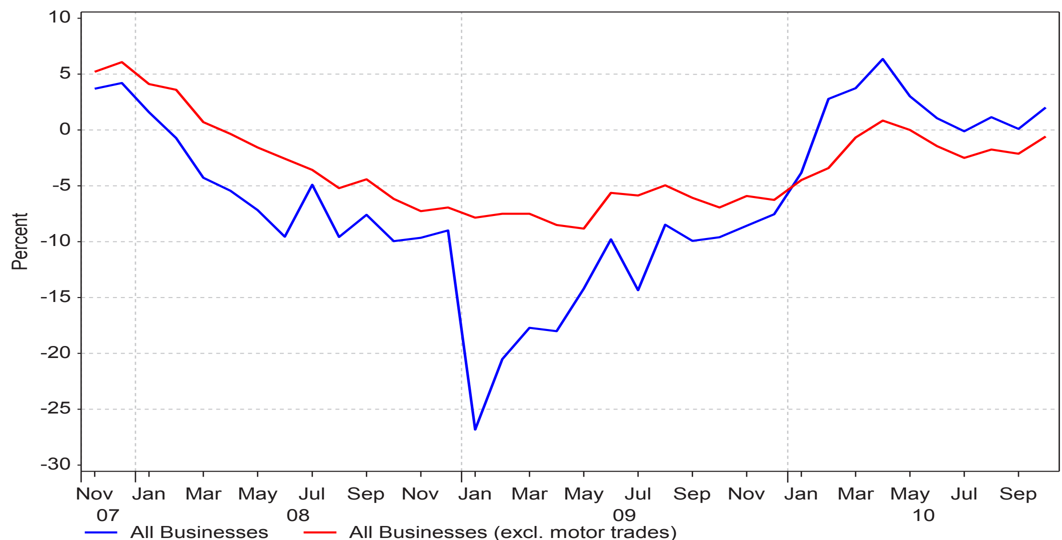
Balance of Payments on Current Account (€m)

	2009	2010 (f)	2011 (f)	2012 (f)
Trade	32,367	37,500	39,500	41,400
Services	-8,416	-7,500	-6,200	-6,000
Net Factor Income	-27,901	-30,600	-32,000	-33,400
Current Transfers	-901	-1,000	-1,000	-1,200
Current Account	**-4,853**	**-1,600**	**300**	**800**
(as % of GNP)	-3.7	-1.3	-0.2	-0.6

Irish Personal Spending

The trend in consumer spending, although still very volatile, has shown signs of stabilising in 2010. Headline retail sales have been boosted by a partial recovery in car sales on foot of incentives introduced in Budget 2010. However, the underlying trend, excluding the motor trade, has been somewhat more muted. The weakness in consumer demand reflects the deteriorating trend in disposable incomes, and it is hard to see much improvement on this front in 2011 especially if taxes are increased further in the forthcoming Budget, as seems likely, and/or social welfare rates are reduced. Consumer sentiment remains extremely fragile. Indeed, Irish consumer confidence fell for the fourth month in a row in October due to fears about looming spending cuts and tax hikes. Concerns about the country's battered public finances helped push the KBC Ireland/ESRI Consumer Sentiment Index down to 48.1, the lowest level in 17 months, from 52.4 in September. However, the index picked up marginally in November, rising to 48.4, but still very weak by historical standards. One can not say for sure exactly how consumers will behave in 2011 until we see the precise details of the Budget for next year, but given the overall proposed level of €6bn to be taken out of the economy over the next twelve months, it is difficult to see the household sector buoyant. Ireland's personal savings rate jumped to 12% in 2009 from 4% in 2008, and has probably stayed high throughout 2010. We think personal savings rates will remain at fairly elevated levels given the need for households to repair their balance sheets, and are forecasting a fall of 0.5% in personal spending in real terms in 2011.

Retail Sales Volume Annual % Change



Source: Reuters EcoWin

The Irish stock market has been hit by both structural and cyclical factors which, combined, have sharply reduced the value of the market in the past two years (-62%). Structural pressure has developed due to an implosion in the Financials sector that accounted for 34% of the market's value in January 2008, in contrast to just 9% presently. Cyclical headwinds have been caused by a tough macroeconomic environment, volatile FX markets and a continued preference by investors for bonds relative to equities.

Against this backdrop Irish equities have shown a sharp divergence in performance. Among the Financials, share prices have declined significantly as the capital consequences of their impaired loan books became apparent. This has caused a huge contraction in the value of Financials, and the disappearance of Anglo Irish Bank. In contrast, the non financials component of the ISEQ has performed strongly in relative and absolute terms. Exposure to non Irish markets, positive cash flows, robust balance sheets and conservative expansion has helped many companies to display double digit percentage share price advances during 2010. Moreover, companies that two years ago had material leverage in their balance sheets, or owned loss making activities in their business, have used restructuring, disposals and fundraising to de-gear their financials while improving their core operating margins. Aer Lingus, Greencore, Independent News & Media and Smurfit Kappa are among the companies where this trend is apparent. The result of this activity is that the ISEQ contains an eclectic range of companies offering exposure to a variety of product and geographic markets across the world based on strong financial platforms.

Looking forward to 2011, we expect progress to be evident on a number of fronts that include; (1) organic investment to improve efficiencies and expand market positions in chosen markets; (2) acquisitions completed to broaden product and geographic portfolios by companies with strong balance sheets; (3) stable and growing dividends by companies with sufficient cash flows to finance such income without impairing their balance sheets and; (4) disposals to improve the quality of existing operations.

In determining a portfolio of Irish equities for 2011 we sought the following attributes; (1) an existing operational platform that is indicating an ability to generate returns that meet or exceed its cost of capital in the foreseeable future; (2) a balance sheet that provides financial headroom to finance investment organically or through acquisition in the next year; (3) a dividend or share buyback policy that has produced material returns in recent years and is intended to generate further income for shareholders in 2011; (4) a limited exposure to the Irish consumer during the next two years given the probable impact of tough fiscal restructuring in that period (5) access to markets where strong relative growth is anticipated during 2011 and; (6) valuation metrics (earnings, returns and income measures) that are not demanding relative to peer groups or the historic averages of the portfolio itself. Using these criteria we have derived six companies that we argue provide sufficient returns in 2011 that exceed bond yields and inflation over that period.

Valuation matrix (2011F)	Dividend yield (%)	Dividend cover (x)	EV/EBITDA	Debt to EBITDA	% Irish Exposure
CRH	4.7	1.2	7.2	1.8	3
DCC	4.0	2.4	6.2	-0.1	17
Origin Enterprises	3.0	4.4	6.7	0.8	5
Ryanair	na	na	9	0.8	4
Smufit Kappa	2.4	11.3	4.0	2.4	3
Total Produce	4.6	3.6	3.2	0.8	10
Aer Lingus	na	na	2.8	na	60
C&C	3	3.3	7	na	30
ICG	6.5	1.5	6.4	na	45

Alongside this core portfolio we also identify three companies that are not trading on demanding multiples, yet they offer material upside if plausible M&A activity develops around them. We chose these companies on the basis of shareholding structures which could facilitate corporate activity that is not reflected in their current valuations. These companies are Aer Lingus, C&C and ICG.

Aer Lingus - A major restructuring of its cost base and renewed focus on the Irish market has helped Aer Lingus return to profitability during 2010, while preserving its strong cash-rich balance sheet. In addition, consolidation continues to course through global airlines including alliances centred in Europe. We believe this combination of internal and external factors, combined with a 25% Irish Government shareholding, could unlock a transaction that rewards shareholders.

C&C - The Irish/UK beer and cider group enters 2011 debt free after timely and well priced disposals. Its core business is benefitting from investment in brands and distribution that are improving their market position and profitability. Proving cider as a growth drinks category in a mature western market, coupled with international expansion of the category by C&C, Heineken and Carlsberg, could leave C&C as a valuable add-on for one of the strong global drinks companies that are advocating acquisitions as a key component of their strategies.

ICG - Irish Continental Group continues to trade profitably on Irish sea routes despite the recession and a slowdown in international trade. Its balance sheet too will be debt free by early 2011, while we expect EBITDA to remain solid during the next year as loss making competitors struggle to compete with ICG's prime sailing slots and its flexible cost base. With 35% of its shares held tightly the possibility of material corporate activity exists.

Core and M&A portfolio analysis	
Core	Pg
CRH	13
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CRH

Business Overview & Strategy:
CRH is a vertically integrated building materials company with a presence in 35 countries and operating across all sectors of the construction market - infrastructure, residential and non-residential. While still remaining predominately a play on developed markets (85% EBITDA), the group continues to steadily grow its footprint in emerging markets such as India and China. Fundamental to the group's business model is the principle of balanced growth whereby expansion is pursued across geographies, sectors, products and end markets to ensure diversification.

Operating leverage to benefit from cost cutting:
CRH has aggressively reduced its cost base with €1.8bn in annualised savings achieved over the past four years, of which c.40% are permanent and will not return as volumes recover. At 10.8% of expected revenues for 2010 the group's cost reductions are at the top end of its peer group. The company's leaner operating base leaves it well positioned to benefit from positive operating leverage as volumes return.

Proven acquisition strategy:
The Group has a strong record for approaching acquisitions in a disciplined manner as highlighted by 1) the group's reduction in the level of acquisition activity over the past two years as visibility surrounding the earnings potential of targets deteriorated and 2) the low level of goodwill as a percentage of total assets (<20%) compared to its peer group. A similar measured approach has been applied to expansion in emerging markets, with the group growing its presence in tandem with, rather than ahead of, the wider development of individual construction markets.

Balance sheet strength:
The group's increasing appetite for acquisitions is underpinned by one of the strongest financial positions in the sector with a net debt to EBITDA forecast of 1.8x for 2011. In addition, CRH benefits from a favourable gross debt profile with maturities broadly distributed over the next 5+ years and committed undrawn facilities totalling €1.5bn. Management has stated that it sees capacity to spend up to €1.5bn on acquisitions over an 18 month period.

Valuation:
CRH currently trades on a 2011 PE of 16.5x and an EV/EBITDA of 7.2x, neither of which are particularly engaging on a standalone basis. Our more positive stance on CRH's investment case at current levels reflects 1) the fact that 2011 will represent only year one of a recovery in the earnings cycle and 2) the P/NAV of 1.0x compares favourably to the 1.5-2.0x range that the company has historically supported. We have consistently held the view that the 2010 dividend will be maintained at the prior year's level given our expectation that the current dividend policy will be weighted towards cashflow and balance sheet performance, rather than earnings cover. On this basis, the current dividend yield is a notable 4.5%.

CRH - €13.83	2008A	2009A	2010F	2011F
Revenue (€m)	20887	17373	16780	17008
EBITDA (€)	2665	1803	1621	1704
PER (x)	8.5	8.9	18.3	16.5
EV/EBITDA (x)	6.1	8.8	8.1	7.2
Dividend yield (%)	3.4%	3.5%	4.5%	4.7%
Dividend cover (%)	3.4	1.4	1.1	1.2
Interest cover (x)	7.8	6.1	6.4	6.6
Net debt/EBITDA (x)	2.3	2.1	2.1	1.8

DCC

Business Overview & Strategy:
DCC holds a diverse range of interests spanning the Energy, IT, Healthcare, Environmental and Food & Beverage sectors. The group's primary markets are the UK (70%) and Ireland (17%), although in recent years this has been expanded to include a greater presence in mainland Europe (13%). DCC's strategy is to build shareholder value through a combination of organic and acquisitive growth across the sectors in which it operates. Over the past 10 years the group has delivered uninterrupted EPS growth at a CAGR of 10.6%, while at the same time growing the dividend at a CAGR of 14.4%.

Growth opportunities in Energy:
Energy is the largest division accounted for 59% of group operating profits in the year to 31 March 2010. As the market leader in UK oil distribution (14% market share) the group is well placed to further build its position towards its stated target of c.20%. The Energy division's oil distribution businesses in Austria and Denmark, where it holds market leading positions, can also be expected to act as a platform for further development in mainland Europe over the medium term.

Prudent capital structure:
Based on our forecasts, DCC will finish FY11 (year ended 31 March 2011) with net debt of €35m representing gearing of only 4%. The group's prudent balance sheet leaves it well positioned to deliver on its ambitions to further develop its Energy business, while also taking advantage of opportunities to extend market positions and geographical reach in its other divisions.

ROCE consistency underpins strategy:
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, spread across five distinct divisions, has seen the return on total capital employed maintained above 17.5% over the past 10 years (FY10: 18.4%). The consistency of the returns highlights the effectiveness of DCC's diversified business model in creating shareholder value.

Valuation:
Based on our March 2012 forecasts DCC currently trades on a PE of 10.2x and an EV/EBITDA of 6.2x both of which are undemanding given the group's long record for low risk growth and potential for earnings enhancing acquisitions which the group's financial strength facilitates. Our FY11 forecasts for the Energy division do not assume a repeat of last year's harsh winter which were it to occur would boost our eps estimate by 5% and lower the prospective PE to 10.2x. At the interim stage the dividend payout was raised by 10% and assuming the same for the full year the stock current yields 3.6% which is covered 2.6x.

DCC - €20.57	Mar-09A	Mar-10A	Mar-11F	Mar-12F
Revenue (€m)	6400	6725	7691	7933
EBITDA (€)	226	240	269	280
PER (x)	9.4	11.6	10.7	10.2
EV/EBITDA (x)	6.8	7.1	6.5	6.2
Dividend yield (%)	3.9%	3.8%	3.6%	4.0%
Dividend cover (%)	2.7	2.6	2.6	2.4
Interest cover (x)	8.5	15.8	15.9	16.7
Net debt/EBITDA (x)	0.4	0.2	0.1	-0.1

Origin Enterprises

Business Overview & Strategy:

Origin is sharpening its focus on agronomy services as a core growth platform for its medium term strategy. In the process other businesses including grain trading, ambient foods and marine protein have been divested from the group into joint ventures (Welcon, Valeo and Hall) with partners that offer scale and synergy benefits for the respective divisions. These transactions have bolstered group finances and provide the resources needed to expand in the UK and Continental Europe.

Agronomy Services:

The acquisition of Masstock in 2009 gave Origin shareholders access to an advisory services market offering strong cashflow, returns and growth attributes. Masstock itself is the No 1 provider of agronomy services to cereal farmers in the UK, a position enhanced by acquisition during 2009. It has also been expanded into markets that offer above average growth potential including Poland and the Ukraine where agricultural land quality is high but farm productivity is low. Development is planned through organic investment and acquisitions in all three markets.

Active M&A:

During 2009 and 2010 Origin has divested its interests in marine protein, ambient foods and grain trading. Each of these has been sold into a joint venture with a partner that offers opportunities to extract scale and synergy benefits while releasing cash and capital for the group. The three transactions combined have generated over €35m in cash for Origin which equates to 8% of its December 2010 market value. This additional financial largesse provides the resources to pursue acquisitions that bulk out the key agronomy services division.

Strong capital structure:

Following the latest transaction which involves its grain trading division in Ireland Origin will have a net debt to EBITDA of less than 1x, while its dividend cover is a comfortable 4.4x. We estimate the group could spend €100m or 23% of its market value without exceeding a debt to EBITDA of 2.5x, so the potential for M&A driven expansion is significant.

Valuation:

Origin trades at an EV/EBITDA for July 2011 of 6.7x while offering a dividend yield of 3% which is covered 4.4x by forecast earnings. Its net debt to EBITDA is just 0.8x after the Hall transaction and we believe eps enhancing deals that generate positive returns on capital are likely during 2011.

Origin - €3.26	2008A	2009A	2010A	2011F
Revenue (€m)	1504	1507	1337	1050
EBITDA (€)	80	83	72	60
PER (x)	12.5	6.1	6.4	8.4
EV/EBITDA (x)	9.3	5.5	6	6.7
Dividend yield (%)	-	1.9	3.6	3
Dividend cover (%)	na	4.5	4.5	4.4
Interest cover (x)	4.8	4.9	4.8	6.4
Net debt/EBITDA (x)	2.2	1.9	1.1	0.8

Ryanair

Business Overview & Strategy:

Ryanair continues to expand its footprint across the European short-haul market by deploying aircraft and industry lowest operating costs. This has allowed it to compete profitably despite weakness among consumers in markets such as the UK and Ireland. Over the next three years its capacity growth will fall as a Boeing order expires and this should support yield progression over that period. Decisions about using its strong cashflows to fund dividends and/or finance new aircraft will dominate the strategic agenda over that period.

Ample market opportunity:

Despite its rapid growth over the last decade Ryanair flies less than one in ten short-haul passengers in a large European market that will grow in line with GDP over the medium term. Given its industry low unit costs Ryanair can expand into existing markets while stimulating new demand by targeting both small and large airports (with the exception of Heathrow, Paris CDG and Frankfurt Main) across Europe. Over the period between 2010 and 2013 its fleet will grow from 232 to 299 units but annual capacity expansion will fall sharply from 14% in 2009 to just 6% in 2013. This will help support yields and facilitate better margins in the business.

Strong balance sheet:

It is highly unusual for any airline to create genuine shareholder value but Ryanair has returned over €850m to shareholders in the past three years (share buybacks and dividends), more than its entire equity raising since an IPO in 1997. Moreover, its prospective cashflows suggest that further special dividends are possible as the company slows growth and makes its balance sheet even more "inefficient" by boosting net cash balances. The carrier also retains the option of acquiring more aircraft, if an appropriate deal can be negotiated with either Boeing or Airbus. We envisage any such transaction will keep annual capacity growth after 2013 in low single digit percentages, thereby preserving yield management capabilities in the airline.

Valuation:

Based on our forecasts for March 2011 Ryanair is trading on a PER of 15x and an adjusted EV/EBITDAR of 9x. That is at the upper end of the valuation range across Europe's legacy and LCC sectors and reflects confidence that positive profit momentum is probable, even in an adverse economic climate. To advance further Ryanair must build its yields in summer 2011 and 2012 while slowing volume growth. Our model assumes that passenger volumes grow by 11% in FY March '11 and 9% in FY March '12 while total revenue per passenger should advance 5.5% and 1% respectively in those two years. This creates a revenue platform on which net profit should advance from €305m in March 2010 to an estimated €471m by March 2012.

Ryanair - €3.93	2009A	2010A	2011F	2012F
Revenue (€m)	2942	2988	3497	3843
EBITDA (€m)	427	733	818	950
PER (x)	39	15	15	11
EV/EBITDA (x)	15	10	9	7
Dividend yield (%)	na	na	na	na
Dividend cover (%)	na	na	na	na
Interest cover (x)	2.7	8.2	9.4	12
Net debt/EBITDA (x)	0.3	0.2	0.8	0.2

Smurfit Kappa

Business Overview & Strategy:
Smurfit Kappa is the leading player in European packaging with a c.20% market share through its operations which span 21 countries. The group is also the only pan-region player in Latin America where it is present in 9 countries. Smurfit Kappa has sought to position itself as a value add rather than commodity focused business leveraging its scale to provide customers with a pan-European solution to their packaging requirements (c.35% of European sales).

Profitability before volume:
Given that Smurfit Kappa operates an integrated system it is corrugated (box) price increases which drive group profitability. The group has consistently demonstrated a focus on pricing over volumes with each 1% move in corrugated prices adding €33m EBITDA, compared to a 1% volume move adding only €15m. Corrugated prices have risen 13% from the low point in 2009 with Smurfit Kappa expecting a 15% recovery by the end of 2010 and for further progress in early 2011 to reflect recently implemented containerboard price increases.

Capacity outlook remains favourable:
Inventory levels in the European market remain at 2 year lows despite a major capacity addition coming on stream in the first quarter of 2010. A lack of new capacity additions until at least mid 2012 provides good visibility over the medium term and ensures that any further capacity closure announcements will be a net positive to the overall supply/demand equation. Were an announcement on planned new capacity to be made today it would not come online until at least 2013. However, in the current market we consider that it would be very challenging to secure financing for such a large capital project.

A focus on deleveraging:
Smurfit Kappa's capital structure has been significantly strengthened following the completion of a series of measures to improve its financial flexibility over the past two years. Management is on record as targeting a net debt to EBITDA ratio in the range of 2.5 - 3.5x through the cycle, which we see as being achieved by the end of the current year (FY10e: 3.4x). We expect the group's focus on deleveraging to continue in 2011 under which net debt to EBITDA falls to 2.4x and offers the prospect of dividends being reinstated.

Valuation:
Smurfit Kappa trades on a FY11 EV/EBITDA multiple of 4.0x which represents a 25% (14% incl. pension) discount to the average of its European peer group on 5.4x. We view progress on deleveraging in line with our FY11 forecasts as providing the catalyst for a narrowing of the valuation discount between Smurfit Kappa and its peers. Our forecasts see a return of dividend payouts in FY11 based on improved profitability and further progress on lowering the group's net debt position.

Smurfit Kappa - €6.99	2008A	2009A	2010A	2011F
Revenue (€m)	7062	6057	6846	7302
EBITDA (€m)	941	741	900	1142
PER (x)	5.1	na	9.3	4.1
EV/EBITDA (x)	5.0	5.4	5.5	4.0
Dividend yield (%)	2.8%	na	na	2.4%
Dividend cover (%)	7.6	na	na	11.3
Interest cover (x)	3.4	2.4	3.2	4.1
Net debt/EBITDA (x)	3.4	4.1	3.4	2.4

Total Produce

Business Overview & Strategy:

Total Produce imports and distributes a wide range of fresh produce (over 200 lines) with revenues in excess of €2.5bn to a broad range of EU countries. It operates a network of distribution and transport assets (88 facilities in 17 countries) that serve retail, wholesale and catering customers. The group uses its scale as one of the leading fresh produce importers in Europe to leverage buying power and distribution strengths which, in turn, generate solid returns on capital (12%) while funding a strong dividend yield.

Steady profits:

Amid a very challenging economic environment in markets such as the UK and Ireland (where Total Produce is the largest distributor) the company has generated consistently positive EBIT results while comfortably funding a dividend yield above 4% which is covered 3.8 times. Total Produce has limited exposure to owned farmland assets and does not commit to long-term contracts while maintaining a disciplined credit worthiness system with customers. This has helped it trade profitably during the recession while allowing it exploit failures among its competitors. The group's product range is spread across eleven categories with none accounting for more than 16% of group sales. Over the past four years this business model has delivered EBITDA in a €49-56m range despite the recession.

Disciplined growth

Total Produce has adopted a very conservative approach towards expansion despite having a strong balance sheet (debt to EBITDA of just 0.8x) and consistent profitability. A well covered dividend and recent share buybacks underline the company's focus on rewarding shareholders in a challenging environment. We estimate the group could fund over €100m in additional buybacks or to fund acquisitions without stressing its balance sheet.

Diversified geographic reach

Total Produce is the leading fresh produce company in Ireland, Spain, Sweden, Denmark and the Czech Republic alongside large operations in the Netherlands, UK, Italy and Slovakia. In a highly fragmented market Total Produce accounts for about 5% of total revenues despite being one of the largest distributors of fruit and vegetables.

Valuation

Total Produce trades on a PER of 8x, an EV/EBITDA of 3.4x and a dividend yield of 4.4%. It has traded profitably for each of the past ten years. While we accept top-line growth is limited in this market, the ability to extract profits, fund dividends and finance share buybacks is a valuable framework for income oriented investors.

Total Produce - €0.38	2008A	2009A	2010F	2011F
Revenue (€m)	2516	2431	2490	2550
EBITDA (€m)	56.3	53.6	53.5	55.0
PER (x)	7.4	4.8	8	7.6
EV/EBITDA (x)	4.2	3.5	3.4	3.2
Dividend yield (%)	3.4	5.5	4.4	4.6
Dividend cover (%)	4	3.8	3.8	3.6
Interest cover (x)	7.2	11.3	10.2	10.0
Net debt/EBITDA (x)	1.1	0.9	0.9	0.8

Aer Lingus

Business Overview & Strategy:
Aer Lingus operates a fleet of 30 narrow body A320/21s and 7 wide body A330s serving markets from Ireland in Europe and the US. In 2010 it will carry about 9m passengers on its short-haul routes and 1m on long-haul. During 2009 and 2010 the company has undergone a major restructuring programme that has sharply curtailed operating costs while reducing capital expenditure materially. As a result, it has regained profitability while ensuring that a cash rich balance sheet (with net cash of over €350m compared to a market value of €587m) is protected. Having stabilised its core business in a tough domestic economy, the carrier is keen to explore opportunities with one or more of the three global Alliances - STAR, Oneworld and Skyteam - with whom it has existing relationships. In 2010 the company commenced a joint venture with United Airlines in Washington and with Aer Arann in Ireland.

Cut to grow:
By adopting an aggressive approach towards its heavily loss-making long-haul division (capacity was cut by 30% in the last year) Aer Lingus has turned its finances around. Restructuring of core costs and a re-deployment of short-haul capacity (including using Aer Arann as a feeder airline) has further improved performance and facilitated a material yield increase across the airline this year. While stabilising its core Aer Lingus has also moved to improve its yield performance by using a mix of tighter capacity and more business-focussed services and routes to attract higher spending passengers. This strategy has been assisted by an industry-wide contraction of air services to Ireland in 2010.

Valuation:
Aer Lingus' share price has been a roller coaster since flotation in 2007 and was further undermined by losses in 2009. A major cost restructuring programme together with a re-alignment of the business to better reflect its core Irish brand, has returned the carrier to profits during 2010. That, coupled with curbed capital expenditure, ensures that high cash balances have stabilised and could grow further in 2011. Using adjusted EV/EBITDAR we estimate Aer Lingus trades at just 2.8x, making it the least expensive legacy airline in Europe. That valuation effectively ignores any upside that will accrue if a transaction with one of the global Alliances is engineered by a management team increasingly focused on shareholder value.

Aer Lingus - €1.08	2008A	2009A	2010E	2011F
Revenue (€m)	1357	1206	1266	1296
EBITDA (€m)	106	58	164	193
PER (x)	26.7	na	na	14.0
adj EV/EBITDA (x)	5.6	8.6	3.2	2.8
Dividend yield (%)	na	na	na	na
Dividend cover (%)	na	na	na	na
Interest cover (x)	na	na	na	na
Net debt/EBITDA (x)	na	na	na	na

C&C

Business Overview & Strategy:
C&C produces and distributes cider and beer in its core UK and Irish markets. It holds a leading position in the British and Ireland cider market which is the largest in the world and accounts for 50% of global sales in the category. It also owns the No 1 beer brand Tennants in the Scottish and Northern Ireland market. Over the past two years C&C has been restructured to reduce its cost base and improve its competitive position in both the on and off trade on both sides of the Irish Sea. The acquisition of Gaymers in England has broadened the group's cider brands, price points and market reach. In addition, the disposal of a spirits unit has effectively eliminated debt in the group, and provided financial strength in support of the core brands.

Repositioned:
C&C has used cost efficiency, acquisitions, investment in pricing and extensive marketing to improve the market position of its cider and beer portfolio. As a result, it has regained positive traction for cider sales in the UK with improved access to on and off trade markets. In proving that cider is a profitable growth category in the world's largest market, C&C has raised its profile as the No 2 producer alongside Heineken. It now intends to further strengthen its share of the UK while a fledging expansion of cider sales in the US and Australia is underway.

Strategic vision:
C&C is one of the few viable independent drinks companies in the western world operating with a solid financial platform and a portfolio of brands in growth segments. This, together with is debt free balance sheet, makes it an attractive asset in a global industry that continues to consolidate at a rapid pace. Few drink categories exhibit growth in western mature markets aside from cider. If Heineken and Carlsberg succeed in exporting the cider phenomenon to the Benelux (with Bulmers) and Scandinavia (with Somersby) then C&C's value will rise as a potential acquisition target, in our view.

Valuation:
C&C trades broadly in line with international drinks companies and offers a dividend yield in excess of 3%. If a corporate transaction were to develop in the medium term, we argue the takeout valuation would be at a premium to current multiples while the existing earnings base will grow further as the groups' strategy towards its brands takes effect.

C&C - €3.18	2009A	2010A	2011F	2012F
Revenue (€m)	514	568	538	540
EBITDA (€m)	110	104	124	133
PER (x)	12	10	12	10
EV/EBITDA (x)	10	7	8	7
Dividend yield (%)	3	3	2.6	3
Dividend cover (%)	2.5	3.8	3.3	3.3
Interest cover (x)	8.7	12.4	17	na
Net debt/EBITDA (x)	2.1	3.5	na	na

ICG

Business Overview & Strategy:
ICG provides passenger and freight shipping services from Ireland to the UK and France together with container handling facilities at ports in Dublin and Belfast. Prime port slots (especially in Dublin) and a modern well-invested fleet (four operated ships and two chartered) gives it a platform to leverage market leading positions on passenger, Ro-Ro and Lo-Lo markets. A profound restructuring in 2007 allows ICG to operate a flexible cost base that ensures profitability during a deep recession. The company's balance sheet enjoys very low levels of debt and fixed assets that are undervalued relative to their current open market prices.

Inclement conditions:
The Irish economy has undergone a severe recession over the past two years which has made trading of goods across the Irish Sea more difficult. Despite a weak overall market, ICG has used its flexible cost base and prime sailing slots to retain a positive EBITDA while other shipping companies have moved in to loss. During 2010 the company benefited from the ash event which shifted air passengers on to ferries while freight volumes started to stabilise.

Cashflows and debt:
Based on our forecasts ICG will generate enough cash to eliminate debt while paying a dividend yield of over 6% in 2010. With a well invested fleet of relatively modern ships, and limited capital expenditure needs, the group will move in to a net cash position in 2011 alongside a fixed asset base of ships that are about 60% undervalued compared to their open market values. We estimate that ICG could fund a one-off special dividend of €3 (20% of the current share price) while keeping net debt to EBITDA at just 1.4x. Annual cashflows would eliminate that debt in three years.

Operationally leveraged:
ICG is capable of converting up to 70% of incremental revenues in to profits given the operational leverage in the business. Any recovery is dependent of some growth in the Irish economy and/or a reduction in competitive capacity as loss-making peers withdraw from the Irish economy. In the meantime, the group will continue to trade profitably in its core activities while the probable re-lease of the Pride of Bilbao from Q1 2011 will ensure a steady and profitable income stream from third party sources over an extended multi-year period.

ICG - €15.35	2008A	2009A	2010E	2011F
Revenue (€m)	344	262	276	282
EBITDA (€m)	66	51	55	57
PER (x)	12.9	12.0	12.5	11.0
EV/EBITDA (x)	7.8	6.6	6.9	6.4
Dividend yield (%)	5.5	7.7	6.5	6.5
Dividend cover (%)	1.5	1.1	1.2	1.5
Interest cover (x)	10.4	13.2	na	na
Net debt/EBITDA (x)	0.7	0.4	0.1	na

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