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Key market changes

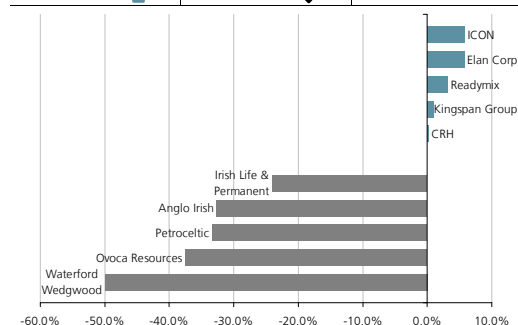
ISEQ	3299.1	↓	-7.1%
FTSE 100	4605.2	↑	0.3%
FTSE E300	1003.6	↓	-0.1%
NASDAQ	1754.9	↓	-5.8%
DJIA	9447.1	↓	-5.1%
S&P 500	996.2	↓	-5.7%
Hang Seng	15871.2	↓	-5.6%
Nikkei 225	9176.8	↓	-9.6%

Forex and oil changes

Brent oil (\$)	83.2	↓	-15
\$/€	1.3593		
£/€	0.7760		
\$/£	1.7509		

ISE movers

5 ↑ | 37 ↓ | 18 -



Latest Davy Research

- [Wolseley Plc - Improvement in financial position reduces financial risks, but operating challenges remain](#)
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Starting Points

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Central banks perceived as behind the curve The Fed made it pretty clear yesterday that a rate cut is coming. We would not be surprised to see co-ordinated rate cuts today or tomorrow to try to stop the rot in equity markets. The problem is that the market increasingly sees central banks as playing catch-up. They continue to pump liquidity into money markets as the market looks for the core issue causing the problem, i.e. solvency fear, to be addressed. And rate cuts may come too late if banks will not lend at any price. [more](#)

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Results and events

	Prev EPS	Fcast EPS
Wednesday October 8th		
getmobile europe - ex-dividend - interim dividend rate - 5.0c		
Thursday October 9th		
Industrial production & turnover, August	mom -0.8%	n/a
	yoy -4.3%	
CPI, September	mom 0.5%	mom 0.2%
	yoy 4.3%	yoy 4.2%
C&C interim results	15.9	15.8

Please refer to important disclosures at the end of this report

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Market Comment

Central banks perceived as behind the curve

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The Fed made it pretty clear yesterday that a rate cut is coming. We would not be surprised to see co-ordinated rate cuts today or tomorrow to try to stop the rot in equity markets. The problem is that the market increasingly sees central banks as playing catch-up. They continue to pump liquidity into money markets as the market looks for the core issue causing the problem, i.e. solvency fear, to be addressed. And rate cuts may come too late if banks will not lend at any price.

It worries us somewhat that the Australian rate cut and Bernanke's speech did not prevent further selling of risk assets. In fact, the US had another shocking day and the Nikkei overnight has just posted its biggest drop since 1987. One salient factor is that the US Q3 earnings season, which really gets going next week, looks set to be ugly if Alcoa's results turn out to be any guide.

The problem is that even those banks that looked strong and were perceived beneficiaries still have question marks. For example, Bank of America got hit badly on announced measures to preserve existing capital (dividend cut) and raise further capital (stock offer). It is suffering from a fear that the real economy is going to be so bad that it leads to huge write-downs in its business and consumer book. The economic outlook is getting worse every day that credit availability tightens.

Banks

UK government announces measures to support financial system

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Sector valuations

Following significant falls in the share prices of UK banks yesterday (most dramatically HBOS at -41% and RBS -39%) and speculation mounting of a £50bn bailout, the UK government has announced a rescue package. The moves are designed to bolster confidence in the financial sector and boost the banks' equity.

The approach is three-pronged. Firstly, the Bank of England will take all actions necessary to ensure liquidity in the system. This includes making at least £200bn available under the Special Liquidity Scheme.

Secondly, the government is establishing a facility to make available Tier 1 capital to eligible institutions, i.e. UK incorporated banks and UK subsidiaries of foreign institutions. At this stage, the eight major banks and building societies have signed up to the government-supported re-capitalisation scheme, which involves a £25bn capital injection. This will take the form of preference shares, PIBS or assistance with ordinary equity-raising. There is also an additional minimum £25bn for all eligible institutions, which presumably in theory could include UK subsidiaries of the Irish banks. However, the catch here is that the UK authorities will make a judgement on eligibility based on how significant they are in the UK banking system.

Thirdly, the government is prepared to guarantee £250bn worth of new debt issuances for eligible institutions provided they are adequately capitalised.

Elsewhere, the Spanish authorities have announced a €30-50bn emergency fund to inject liquidity by buying Spanish assets.

The Irish government played a great hand last week with the announcement of its guarantee scheme (details still to be announced), which outmanoeuvred our near neighbours. But the latest moves by the UK and Spain are likely to take them out of the spotlight and turn the focus back on others, including Ireland. This is after shareholders in UK banks get to grips with being diluted of course. We can expect another interesting day on markets.

Banks

Release of details of Irish guarantee scheme to be delayed

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Sector valuations

It appears that it could be next week before full details of Ireland's bank guarantee scheme are revealed. Originally due to come before the Dail (Irish parliament) this week, the government admitted last night that it has been delayed.

The Department of Finance is still stressing that the charges for banks will vary, with those perceived to have higher-risk balance sheets paying more. Such risk would include any perceived exposure to property loans where the value of the property has significantly declined in value.

In the past couple of days, it has emerged that it is possible that overseas subsidiaries of Irish banks would not necessarily be covered by the guarantee if the scheme is to meet EU rules. The Minister for Finance also said yesterday (October 7th) that there would be some limits to what the banks could lend under the scheme. He is also reported to have said that while he did not think that recapitalisations of Irish banks were necessary, he did concede that events were moving quite quickly.

CRH

CRH ID

US housebuilders association CEO expects US housing market to recover in late 2009; housing stimulus plan likely from new US administration**Barry Dixon**

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barry.dixon@davy.ie[*Company summary and analysis*](#)Price **1545c** Target: **3000.0c** Issued: **10/03/08** Previous: 3600.0c Issued: 22/10/07

The Irish Construction Industry Federation (CIF) hosted a breakfast at which the guest speaker was Jerry Howard, CEO of the National Association of Home Builders (NAHB) in the US.

According to Howard, the US market is unlikely to recover until late 2009 and possibly 2010 with availability of finance and confidence the key issues. Housing starts continue to fall rapidly with US banks calling in performing loans from developers where they have that option.

House prices in the US are down 7-10% from the peak nationally with some over-built markets, such as Arizona, Nevada and Southern California, down over 30%. There is limited further downside to prices, except in areas of significant oversupply.

He believes that the recent bail-out package in the US will help liquidity and reduce foreclosures (helping unsold inventory levels) but a housing stimulus bill is required and will likely be implemented by the new administration. This will probably be similar to the 1975 package which involved a once-off tax credit for first-time buyers (similar to a FTB grant) and an interest rate subsidy.

The NAHB believes that the long-term sustainable build rate for US housing is 1.6m units per annum.

This is similar to our own view on the US housing market. We are assuming a 10-15% decline in residential construction output in 2009. Approximately 30% of CRH's US business is exposed to residential markets although a significant portion of this is in repair and maintenance (RMI), which is typically more stable.

Wolseley plc

WOS LN

Improvement in financial position reduces financial risks, but operating challenges remain**Flor O'Donoghue**

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florence.o'donoghue@davy.ie[*Company summary and analysis*](#)Price **367p** Target: **250.0p** Issued: **16/07/08** Previous: 450.0p Issued: 26/03/08

Aided by better-than-expected results, Wolseley's net debt at end-July 2008 was some £136m lower than what we expected. The progress that has been made is such that it now looks as if Wolseley will avoid breaching its banking covenants. We are now forecasting end-July 2009 net debt of circa £2.1bn, which would leave net debt/EBITDA at 2.7x. This is after factoring in more progress on working capital management, asset disposals and capital expenditure.

Helped by the strengthening of the dollar against sterling, our revised diluted adjusted EPS forecast for 2009 is 43.5p, up from 32p previously. However, it still represents a forecast decline of 23% in earnings in the current financial year. While it could be argued that Wolseley is an attractive way to play any turn in the US housing market, we believe it is too early to take this view. Moreover, the group continues to face significant operating challenges in many markets, including non-residential in the US, the UK and Ireland, and the Nordic region.

It is clear that management is unwilling to accept the level of losses that Stock is currently experiencing. Importantly, it will provide more detail on its plans in the group's AGM and IMS on November 18th. Reflecting the better financial outlook for Wolseley, we are raising our price target to 325p.

For further detail, see our research report issued this morning.

CRH

CRH ID

Outlook for US state budgets deteriorates**Barry Dixon**

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barry.dixon@davy.ie[*Company summary and analysis*](#)Price **1545c** Target: **3000.0c** Issued: **10/03/08** Previous: 3600.0c Issued: 22/10/07

The Rockefeller Institute's latest state report, "State revenues in the US", makes for bleak reading.

While state revenues increased by 3.6% in Q2, this masked a 1.4% decline in sales tax, an 8.3% fall in corporate income tax and a 3.4% decrease in motor fuel taxes. All of the growth was in income tax receipts, which increased by 6.6% in the quarter. This, however, was tax on income earned in 2007.

Regionally, the northeast and east of the country appear to be faring best with most other regions slowing to various degrees.

The outlook in the report is pretty bleak, with the collapse in the financial services industry, the stock market and most other asset classes expected to further negatively affect state incomes. This reader put down the report at this point!

The link between state revenues and state highway budgets is not addressed and remains unclear. Our sources in the US suggest that highway spending plans look reasonable for the next 12 months, driven by federal spending from the recently fixed Highway Trust Fund and state budgets which have already been set.

We believe that despite this negative outlook, infrastructure (and highways in particular) remains one of the most stable end markets in the US construction sector. We expect residential construction to decline by 10-15% in 2009 and non-

residential construction to fall by 5-10% while infrastructure should be relatively stable.

CRH is the largest highway construction company in the US. Infrastructure markets account for almost two-thirds of the profits of its Americas Materials division, which is the largest division in the group and accounts for approximately 25% of group profits.

CRH

CRH ID

US construction employment declines by 5.5% in August; residential market falls by 11.4%, highway by 3%

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[Company summary and analysis](#)

Price **1545c** Target: **3000.0c** Issued: **10/03/08** Previous: 3600.0c Issued: 22/10/07

Latest employment data from ARTBA indicate that total employment in the US construction market declined by 5.5% in August compared to the same month last year.

The residential market was, as expected, the hardest hit with employment levels declining by 11.4%.

Employment in highway, street and bridge construction fell by 3% as the volume of business continued to decline as a result of higher pricing.

Overall, highway budgets continue to increase but price increases are resulting in volume declines.

Highway construction accounts for approximately 60% of CRH's Americas Materials business.

Kerry Group

KYG ID

Givaudan beating overall market growth

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[Company summary and analysis](#)

Price **1980c**

Givaudan, a world leader in flavour and fragrance, says that it is continuing to achieve above market growth despite a difficult economic environment.

Specifically, it reports 9% growth in actual sales in its flavour division in local currency (0.7% in Swiss francs). On a pro-forma basis — that is if its Quest acquisition is included for comparative purposes — actual flavour sales fell by 5.3% in Swiss francs but rose by 2.6% in local currencies.

It recorded double-digit growth in developing markets which is where ingredient companies are finding growth strongest. This is also the case for Kerry whose flavour business model is very different to Givaudan's. Kerry's is more integrated within its ingredients division while Givaudan's is discrete or standalone.

Greencore Group

GNC ID

Increase in own-label at Sainsbury; like-for-like sales growth of 4.3%

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[Company summary and analysis](#)

Price **142c**

Sainsbury has reported that its customers are increasingly turning to its own-branded products and it has continued to expand its own-label basic range. Like-for-like sales ex-fuel for the second quarter to end-September rose 4.3%. Greencore is a significant supplier to Sainsbury.

Meanwhile, Uniq said that growth in sandwiches in its UK division has slowed significantly, from 13.1% in the first half to 2.1% in the latest quarter. Growth in desserts stabilised but this was at a cost to margin. Its like-for-like sales growth improved to 1.7% in the latest quarter to end-September — a small improvement on the 0.5% growth reported in the first half. It expects to deliver a trading profit for the second half, albeit at a much lower level than last year and this is still dependent on Christmas.

Pharma and healthcare

Pfizer realignment: a means to an end?

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[Sector valuations](#)

Pfizer's move to switch its main divisional structure from geographic to mostly product-based business units is the latest part of a comprehensive restructuring of the company that has been ongoing since early 2007. The main units will be centred on primary care (family doctors, mainstream products); speciality care (smaller patient populations, catering for specialist clinicians); and emerging markets. We understand that these are additional to other specialist units already formed that focus on oncology, animal health and products that have lost patent protection.

This looks to be another example of big pharma's renewed desire to grasp the nettle on restructuring and cost reductions. Pfizer is aiming to create a more flexible cost base and has outsourced significant portions of its infrastructure already. This will likely continue. It also reflects the long-term drive towards speciality care, away from blockbusters (?) and towards individualised medicines.

Also noteworthy is that each new business unit will have responsibility for drug development, strategic planning and sales/marketing. Pfizer may also (perhaps unwittingly) allow investors to better value each of these units separately – maybe

in time allowing spin-outs, spin-offs and other potential value creation for PFE shareholders.

Dragon Oil (USc)

DGO ID

Russian energy companies look to state to help re-finance and fund asset purchases

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[Company summary and analysis](#)

Price **\$2.40** Target: **\$10.62** Issued: **25/08/08** Previous: \$11.79 Issued: 23/06/08

According to media reports, banks are not the only sector looking for state aid. Gazprom, Rosneft, Lukoil and TNK-BP have asked the Russian government for non-preferential loans to help re-finance their foreign debt. The Russian government said it was prepared to lend \$50bn to Russian companies to repay debt to foreign banks now that the credit markets are closed for business and the Russian stock market continues to slide. Lukoil president and 20% shareholder, Vagit Alekperov, also commented that such state aid would allow Lukoil to become more aggressive and buy assets abroad. Interestingly, Lukoil was interested in acquiring a stake in Dragon Oil back in 2005.

We believe that companies will only acquire if they have real confidence in the oil price. Despite the substantial discount at which E&P stocks currently trade, M&A so far has been limited. Q3 results may shed more light on industry's confidence in the oil price if capex figures are updated.

While Lukoil may be confident on the oil price but tight on cash, most of the majors and indeed certain independents continue to channel some of their discretionary cashflow towards share buybacks. This gives them flexibility to acquire assets or companies if current valuations mean it is cheaper to buy reserves rather than to explore for them. According to the latest figures from the US Energy Information Administration (EIA) the global, three-year weighted averaged cost of finding and developing reserves was some \$17.2 per barrel in the period 2004-2006. In contrast to this, Dragon's market cap values its reserves at \$1 per barrel.

While the recent downward trend in crude oil prices is in response to perceived demand destruction, it should not be forgotten that supply suppression can also influence the oil price. OPEC is not the only producer which will cut back supplies if the price is not right. Lukoil commented that its production growth in 2009 will be in the region of 1.5% under the scenario of \$105 per barrel. However, under the \$90 or \$80 scenarios, its production will stabilise.

International equity markets

	Index	Change	% day	% YTD	Off all time high	2008 PE
S&P 500	996.2	-60.7	-5.7 ↓	-32.2	-36.3	12.0
Dow Jones Industrial Average	9447.1	-508.4	-5.1 ↓	-28.8	-33.3	11.3
NASDAQ	1754.9	-108.1	-5.8 ↓	-33.8	-65.3	15.5
Hong Kong	15871.2	-932.6	-5.6 ↓	-42.9	-49.8	10.2
Japan	9176.8	-979.2	-9.6 ↓	-40.1	-75.6	10.6
FTSE 100	4605.2	16.0	0.3 ↑	-28.7	-33.5	8.2
FTSE Eurobloc 100	877.8	-1.0	-0.1 ↓	-36.2	-43.4	8.8
FTSE Eurotop 300	1003.6	-1.3	-0.1 ↓	-33.4	-41.1	9.1
ISEQ	3299.1	-253.8	-7.1 ↓	-52.4	-66.9	6.0

European market sectors (€)

	Index	% day	% YTD
FTSE E300 Banks	680.8	-3.9 ↓	-39.5
FTSE E300 Construction	1170.4	-1.1 ↓	-44.9
FTSE E300 Foods	1227.5	2.1 ↑	-16.7
FTSE E300 Media	531.2	-2.5 ↓	-34.7
FTSE E300 Pharma	954.7	1.6 ↑	-8.7
FTSE E300 Transport	675.6	-0.8 ↓	-36.2

US market sectors (\$)

	Index	% day	% YTD
S&P 500 Banks	161.9	-8.7 ↓	-41.1
S&P 500 Const. Mats	121.0	-2.3 ↓	-24.4
S&P 500 Food Prod.	254.5	-3.0 ↓	-10.1
S&P 500 Media	135.6	-5.1 ↓	-30.4
S&P 500 Pharma & Bio.	300.0	-3.3 ↓	-18.9
S&P 500 Transport	243.0	-3.1 ↓	-9.2

Bond yields

	Yield	Basis Points
Ireland 10 year	4.13	1
German 10 year	3.74	-1
UK 10 year	4.24	2
US 10 year	3.50	5

Money rates

	Rate	Change %
Euro 3 month	5.38	3
UK 3 month	5.47	19
US 3 month	5.00	-40

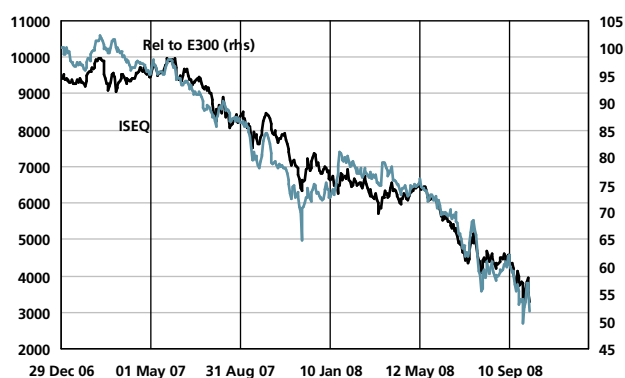
Forex rates

€/\$	1.3593
€/£	0.7760
£/\$	1.7509

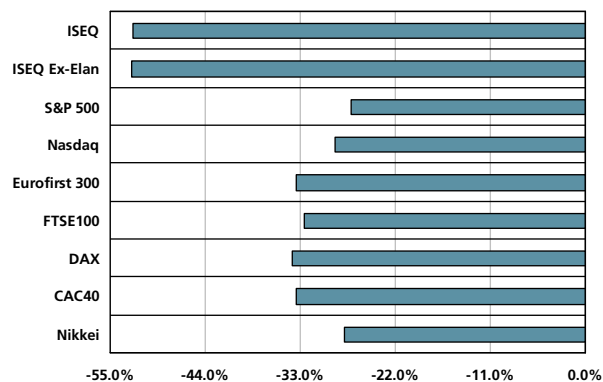
Selected stocks in New York

	Price	Volume	Change (c)	% day	% YTD
Amarin Corp	0.84	21,713	-0.06	-6.7 ↓	-67.7
Elan Corp	10.08	5,495,517	0.39	4.0 ↑	-54.1
ICON	34.35	591,852	-1.85	-5.1 ↓	11.1
M&T Bank Corp	79.00	740,588	-6.21	-7.3 ↓	-3.2
Ceva	7.21	79,935	-0.40	-5.3 ↓	-41.0
Ryanair ADR	16.63	2,288,549	-0.93	-5.3 ↓	-57.8
SSCC	3.24	3,700,423	-0.40	-11.0 ↓	-69.3
Trintech	1.90	0	0.00	0.0	-24.9
Trinity Biotech	3.03	60,884	-0.06	-1.9 ↓	-55.5

ISEQ and E300 performance Dec 2006 to date



International markets performance year to date (€)



ISE movers on day							
<i>Up</i>	<i>Price</i>	<i>Change on day</i>	<i>Actual Change</i>	<i>YTD Change</i>	<i>Off high</i>	<i>52 week low</i>	<i>ISE volume</i>
ICON	2725	5.8%	150	21.9%	-11.5%	47.3%	0.002
Elan Corp	719	5.7%	39	-51.4%	-69.4%	5.7%	0.531
Readymix	65	3.2%	2	-59.4%	-63.1%	3.2%	0.032
Kingspan Group	616.1	1.0%	6	-40.5%	-65.3%	12.0%	0.703
CRH	1545	0.3%	4	-35.2%	-48.3%	6.5%	2.798
<i>Down</i>	<i>Price</i>	<i>Change on day</i>	<i>Actual Change</i>	<i>YTD Change</i>	<i>Off high</i>	<i>52 week low</i>	<i>ISE volume</i>
Waterford Wedgwood	0.1	-50.0%	0	-95.0%	-96.9%	0.0%	28.600
Ovoca Resources	5	-37.5%	-3	-75.0%	-76.2%	0.0%	0.151
Petroceltic	4	-33.3%	-2	-66.7%	-74.2%	0.0%	0.050
Anglo Irish	268.4	-32.6%	-130	-75.5%	-80.4%	16.7%	9.281
Irish Life & Permanent	380	-24.0%	-120	-67.8%	-78.0%	6.4%	3.593
Siteserv	13	-18.8%	-3	-60.6%	-79.4%	0.0%	0.473
Bank of Ireland	329	-17.8%	-71	-67.7%	-76.1%	0.6%	10.706
Boundary	10	-16.7%	-2	-82.1%	-87.0%	0.0%	0.003
Allied Irish Banks	555	-13.3%	-85	-64.6%	-69.4%	11.0%	8.676
Petronaft	16.1	-13.0%	-2	-65.0%	-70.7%	0.0%	0.638

ISE movers on week							
<i>Up</i>	<i>Price</i>	<i>Change on week</i>	<i>Actual Change</i>	<i>YTD Change</i>	<i>Off high</i>	<i>52 week low</i>	<i>ISE volume</i>
Veris	67.8	5.4%	4	-62.3%	-76.6%	5.4%	0.006
Qualceram Shires	34	4.6%	2	-64.2%	-75.0%	25.9%	0.006
Paddy Power	1275	4.0%	49	-43.4%	-55.3%	4.0%	1.161
CRH	1545	3.0%	45	-35.2%	-48.3%	6.5%	11.328
IFG Group	128.6	2.1%	3	-20.9%	-42.5%	2.1%	0.264
Origin Enterprises	280	1.8%	5	-26.3%	-48.1%	1.8%	1.032
Abbey	330	1.5%	5	-45.0%	-57.7%	17.9%	0.044
FBD Holdings	1160	0.5%	6	-54.1%	-65.9%	0.9%	0.146
ARYZTA	2780	0.4%	10	-7.6%	-26.8%	14.5%	0.742
Worldspreads	95	0.0%	0	N/A	-33.6%	0.0%	0.000
<i>Down</i>	<i>Price</i>	<i>Change on week</i>	<i>Actual Change</i>	<i>YTD Change</i>	<i>Off high</i>	<i>52 week low</i>	<i>ISE volume</i>
Boundary	10	-54.5%	-12	-82.1%	-87.0%	0.0%	0.569
Petroceltic	4	-50.0%	-4	-66.7%	-74.2%	0.0%	0.239
Waterford Wedgwood	0.1	-50.0%	0	-95.0%	-96.9%	0.0%	34.941
Siteserv	13	-38.4%	-8	-60.6%	-79.4%	0.0%	0.788
Ovoca Resources	5	-37.5%	-3	-75.0%	-76.2%	0.0%	0.151
Prime Active Capital	36	-30.8%	-16	-58.1%	-73.1%	0.0%	0.000
Anglo Irish	268.4	-30.2%	-116	-75.5%	-80.4%	16.7%	34.827
Irish Life & Permanent	380	-21.6%	-105	-67.8%	-78.0%	6.4%	21.013
C&C	150	-21.0%	-40	-63.4%	-75.1%	0.0%	0.569
Dragon Oil	176	-20.0%	-44	-62.9%	-75.6%	0.0%	1.169

Important disclosures

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