BLOXHAM

Irish Equities Morning Digest

Friday, 03 February 2012

Irish Economy - Irish services sector shrinks again in January

- Ireland's services sector shrank for the second month in a row in January, marking the second contraction in 12 months as employment slumped on weak demand, a new survey showed on Friday.
- The NCB Purchasing Managers' Index slipped to 48.3 from 48.4 in December, remaining just below the 50 line separating growth from contraction. The index was positive for the 11 months to November.
- In a worrying sign for the domestic economy, the services survey's employment sub-index fell from 47.3 to 44.5, the sharpest drop since April 2010, as a lack of new work deterred firms from replacing staff who had departed.
- Around 24% of respondents lowered staffing levels in January, compared to 9% who raised them. Services firms were squeezed by falling prices and growing costs, which were boosted by higher value added tax and a fall in the value of the euro.
- New orders contracted for the second month in a row, but the drop was marginal. On a more positive note, new export orders increased at their fastest rate since last September, with respondents pointing to growth in non-EU markets like the United States and Turkey.
- With the manufacturing PMI also below 50 in January it has been a disappointing start to the year, but we expect things to improve as 2012 goes on.

Aer Lingus, Ryanair - Malev closes down

- The Hungarian flag carrier Malev shut down last evening. Its fleet of 22 includes 18 Boeing 737s that are all leased. Ryanair operates five routes from Budapest incluidng a head to head with Malev to and from Dublin. This collapse follows shortly after Spanair last week and marks a signficant step-up in failures of airlines that are financially stretched.

ICG - Fastnet Ferries closes

- The Swansea Cork ferry service, which planned to recommence operations in March, has closed down following a failure to raise sufficient equity finance. This removes capacity on the southern Irish Sea routes and should be of value to the remaining ferry companies, most of whom are losing money serving Ireland currently.

CRH - Cemex and Eagle Materials show improvement

- Cemex and Eagle Materials reported quarterly results yesterday which showed that both companies benefited from an improved performance in the final three months of the calendar year 2011. Key points from Cemex's US performance included - like for like aggregates volumes lower by -4% in the quarter to reduce the full year decline to -6% and including the benefit of favourable weather on volumes. Stable pricing with aggregates +6% yoy, although slightly weaker quarter on quarter at -1%. Signals of a moderate recovery in non-residential demand with a less favourable environment in infrastructure reflecting the winding down of earlier stimulus and ongoing uncertainty surrounding future funding levels.
- At Eagle Materials, aggregates volumes were materially lower showing a drop of -32% in the quarter. Aggregates pricing advance +19%; however this was not sufficient to prevent the segment moving into a loss at the earnings level. Cement was more favourable with volumes higher by +13% and pricing levels maintained.

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- CRH will reports FY11 results on 28 February where we see the potential for the group to modestly exceed guidance for a flat year on year EBITDA performance as it benefits from more robust activity levels in December due to the favourable weather conditions running into the year end. On the same basis, early 2012 should have seen a good start and should act as an offset for any disruption due to the extreme low temperatures being experienced in parts of CEE at present.

United Drug - Cardinal Health issues upbeat Q2'12 results; ups full year EPS guidance

- Cardinal Health, a US healthcare services company and a peer for United Drug in the Sales, Marketing & Medical space, issued strong Q2'12 results yesterday afternoon. The group recorded 7% year on year growth in revenues to $27.1bn and a 21% increase in operating profits to $475m in the quarter ended 30 December. As a result management has increased its full year EPS guidance to a range of $3.10 to $3.20 from previous guidance of $3.04 to $3.20.
- The business is split into two segments; Pharmaceutical and Medical. In the Pharma segment the group increased revenue by 6% to $24.7bn, with operating profits up 30% to $394m, driven by a combination of acquisitions and increased volumes from existing and new customers. In the Medical segment revenues were up 9% year on year to $2.4bn, again driven by strong volume growth, although, as expected, operating profits decreased by 18% to $85m due to commodity price pressure and increased investment in information systems.
- Cardinal Health currently trades on an FY12 EV/EBITDA of 7.2x compared to United Drug, which trades at just 5.7x (sector average 6.7x). Year to date Cardinal Health's share price is up +3.5% while United Drug's has fallen by -6.1%, which highlights how ongoing macroeconomic factors affecting Ireland have weighed heavily on its share price.

Petroceltic - Completes sale of interest in Isarene field in Algeria to Enel

- Petroceltic has today completed the sale of an 18.345% interest in the Isarene field in Algeria following publication of the transaction in the Algerian official journal. The amount due within 30 days as part of the deal is $101m which includes $36.75m upfront with the remaining $64.25m covering drilling costs for the appraisal programme for the block which was completed before Christmas. A further payment up to a maximum of $75m will be due in Q3 depending on gas in place estimates published in the commerciality report. The cash is due to be transferred within 30 days although we understand it will be transferred before that time.

Irish Economy - Strong tax receipts

- There was an overall budget deficit of €394m in the opening month of 2012 as against a deficit of €483m in January 2011.
- Tax receipts totalled €3,665m in the first month of the year, €534m or 17.0% higher than in January last year. However, the corporation tax returns included approximately €250m in receipts that were originally expected in December but were not received into the Exchequer account in time to benefit the end-2011 overall tax revenue out-turn. Excluding this €250m, receipts were €284m or just over 9.0% up on the year, a still very impressive start to 2012.
- With the exception of customs duties and capital acquisition taxes, all the other main headings were higher in the year. Income tax receipts were up 27.7% on January 2011, which benefited from a year-on-year comparison with January 2011, when a new social levy charge had not yet been included. Encouragingly VAT was 3.0% up on the same month last year, though much of the revenue here was linked to pre-Christmas trading and ahead of the VAT hike on January 1. The Government is looking for total tax revenue in 2012 to be up almost 5.0% on 2011 with VAT forecast to be 2.7% higher in the year.
- Following the overall fiscal measures in Budget 2012, the Government is aiming for a post-Budget General Government Deficit of €13,650m or 8.6% of GDP this year. Meanwhile, the Exchequer budget deficit is projected at €18,860m as against €24,917m in 2011.

Irish Economy - Irish central bank slashes 2012 growth forecasts

- Ireland’s central bank slashed its growth forecast for 2012 by almost three-quarters on Thursday and said a longer than projected global downturn would put Dublin’s budget deficit reduction targets for this year and next in doubt.
- The monetary authority said it expected a 0.5% uptick in real GDP this year, down from the 1.8% it projected in October, putting it in line with Ireland’s official creditors at the EU, the IMF and the ECB. Two Reuters surveys, one of chiefly European economists and the other polling mainly economists based in Ireland, this week forecast 2012 GDP growth of 0.3% and 0.7% respectively while the government is currently sticking to its Budget day projection of 1.3%.
- Notwithstanding the fall this year from expected GDP growth of 0.8% in 2011, the central bank said the government should “on the face of it” meet its target of cutting the budget deficit to 8.6% of GDP due to budgetary measures announced in December and a somewhat better outturn in 2011. However, it said the pattern of growth would to a degree determine developments in reaching this goal, a cornerstone of the EU/IMF agreement.
- The central bank said too that the country’s lenders were also following another important part of the bailout deal in the deleveraging of their balance sheets but added that it recognised progress in this area has to take account of adverse market conditions in the short-term.

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