

Morning Equities News and Views

- **Paddy Power** (€47.33) – BUY – Q1 2012 – another stellar performance

ISEQ Performance Snapshot

| Best Performers | Last Price | Volume | 30D Average Vol | 1D % Change | 1D Change | 3M % Change | YTD % Change |
|---------------------------|------------|------------|-----------------|-------------|-----------|-------------|--------------|
| AMINEX PLC | 0.06 | 35,868 | 40,941 | 13.46 | 0.01 | 18.0 | 44.3 |
| ALLIED IRISH | 0.07 | 2,155,383 | 934,542 | 6.06 | 0.00 | -40.2 | 1.4 |
| KENMARE RES | 0.56 | 1,966,555 | 325,902 | 5.90 | 0.03 | -20.3 | 3.3 |
| ORMONDE MINI | 0.10 | 19,000 | 33,932 | 2.00 | 0.00 | -8.9 | 13.3 |
| PADDY POWER | 47.34 | 52,620 | 92,378 | 1.91 | 0.89 | 12.6 | 6.3 |
| Worst Performers | Last Price | Volume | 30D Average Vol | 1D % Change | 1D Change | 3M % Change | YTD % Change |
| BANK IRELAND | 0.09 | 78,321,670 | 40,520,880 | -4.44 | -0.00 | -38.6 | 4.9 |
| PETRONEFT RE | 0.09 | 35,000 | 87,528 | -4.44 | -0.00 | -23.2 | -59.0 |
| IFG GROUP PL | 1.30 | 65,678 | 179,677 | -3.63 | -0.05 | 9.2 | 23.8 |
| INDEP NEWS & FBD HOLDINGS | 0.27 | 132,138 | 2,658,530 | -3.57 | -0.01 | 10.2 | 31.7 |
| | 8.10 | 75,406 | 42,031 | -3.16 | -0.26 | 6.3 | 24.6 |

Market Summary

| Market | Latest | 1D % | Ytd% |
|------------------------|--------|------|------|
| S&P 500 INDEX | 1325 | -0.4 | 5.3 |
| NASDAQ COMPOSITE INDEX | 2874 | -0.7 | 10.3 |
| FTSEUROFIRST 300 INDEX | 993 | -0.5 | -0.9 |
| FTSE 100 INDEX | 5405 | -0.6 | -3.0 |
| NIKKEI 225 | 8858 | 0.6 | 4.8 |
| SHANGHAI A SHARES | 2605 | 1.2 | 11.1 |
| IRISH INDEX | 3084 | 0.0 | 6.3 |

Interest Rates

| Official CB Rates | Latest | 1d % | 1m % | 3m % | 6m% | Ytd% |
|-------------------|--------|-------|-------|--------|--------|--------|
| ECB Rate | 1.00 | 0.00 | 0.00 | 0.00 | -20.00 | 0.00 |
| UK Base Rate | 0.50 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| US Fed Funds | 0.25 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Money Rates | Latest | 1d % | 1m % | 3m % | 6m% | Ytd% |
| Libor GBP 3M | 1.01 | 0.00 | -0.98 | -6.21 | -0.15 | -6.72 |
| Libor USD 3M | 0.47 | 0.21 | 0.26 | -5.32 | -0.90 | -19.65 |
| Euribor 3M | 0.69 | -0.29 | -8.67 | -34.20 | -53.02 | -49.48 |

Bonds

| Bond Yields | Yield % | 3m Bp Chg | 1y Bp Chg |
|----------------------------|---------|-----------|-----------|
| US 30yr | 2.93 | 2.9 | -130.0 |
| US 10yr | 1.79 | 3.1 | -132.5 |
| German 10yr | 1.47 | 0.0 | -162.4 |
| UK 10yr | 1.88 | -1.7 | -148.8 |
| Irish 5% 2020 | 7.23 | -0.6 | -295.4 |
| Spain 10yr | 6.29 | -5.5 | 104.3 |
| Irish/German 10yr Spread | 5.76 | -0.6 | -133.0 |
| Spanish/German 10yr Spread | 4.82 | -5.5 | 266.7 |
| Moody's AAA | 3.76 | -2.0 | -121.0 |
| Moody's BAA | 5.00 | 0.0 | -82.0 |

Commodities/FX

| Commodities | Latest | 1d % | 1m % | 3m % | 6m% | Ytd% |
|-------------|--------|-------|--------|--------|--------|--------|
| Gold | 1552.1 | 0.62 | -6.05 | -9.86 | -9.79 | -1.54 |
| Copper | 351.6 | 1.09 | -3.78 | -5.71 | 2.79 | 1.77 |
| Aluminum | 2035.0 | 0.49 | -1.45 | -5.79 | -5.66 | 0.74 |
| Crude Oil | 93.6 | 0.83 | -10.19 | -9.36 | -5.30 | -5.31 |
| Natural Gas | 2.7 | 1.22 | 29.39 | -11.96 | -27.50 | -16.72 |
| Forex | Latest | 1d% | 6m% | 3m % | 6m% | Ytd% |
| Euro/\$ | 1.27 | 0.00 | -5.40 | -3.11 | -5.40 | -1.67 |
| Euro/Stg | 0.80 | -0.19 | 6.66 | 3.69 | 6.66 | 4.09 |
| Euro/Yen | 102.34 | -0.18 | 1.23 | 2.20 | 1.23 | -2.62 |
| \$/Yen | 80.30 | -0.05 | -4.11 | -1.08 | -4.11 | -4.12 |

Events Calendar

| Date | Company | Event | Date | Company | Event |
|--------|-------------|---------------|--------|------------------------|---------------|
| 15 May | DCC | FY-12 results | 21 May | Ryanair | FY-12 results |
| 16 May | C&C Group | FY-12 results | 22 May | Datalex | Q1 IMS |
| 17 May | Paddy Power | Q1 IMS | 22 May | Greencore Group | H1-12 results |
| | | | 22 May | Irish Life & Permanent | AGM |

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|--------------------|---------------|------------|----------------------------|-----------------------|
| Paddy Power | €47.33 | BUY | Target Price €56.60 | Ireland/Gaming |
|--------------------|---------------|------------|----------------------------|-----------------------|

| Key financials (EUR) | 12/11 | 12/12e | 12/13e |
|-----------------------------|--------|---------|---------|
| Sales (m) | 499 | 591 | 694 |
| EBITDA (m) | 147 | 170 | 205 |
| EBITDA margin | 29.4% | 28.8% | 29.6% |
| EBIT (m) | 120 | 137 | 167 |
| EBIT margin | 23.9% | 23.2% | 24.1% |
| Net Profit (adj.)(m) | 104 | 120 | 146 |
| ROCE | 76.9% | 102.6% | 160.3% |
| Net debt/(cash) (m) | (136) | (221) | (333) |
| Net Debt/Equity | -0.6 | -0.7 | -0.9 |
| Debt/EBITDA | -0.9 | -1.3 | -1.6 |
| Int. cover(EBITDA/Fin. int) | (90.8) | (105.4) | (127.0) |
| EV/Sales | 4.1 | 3.5 | 2.8 |
| EV/EBITDA | 13.9 | 12.0 | 9.5 |
| EV/EBITDA (adj.) | 13.9 | 12.0 | 9.5 |
| EV/EBIT | 17.0 | 15.0 | 11.6 |
| P/E (adj.) | 21.0 | 19.4 | 15.9 |
| P/BV | 9.4 | 7.8 | 6.2 |
| OpFCF yield | 7.6% | 8.4% | 10.3% |
| Dividend yield | 2.1% | 2.4% | 3.0% |
| EPS (adj.) | 2.12 | 2.44 | 2.98 |
| BVPS | 4.73 | 6.05 | 7.69 |
| DPS | 1.00 | 1.15 | 1.40 |

Q1 2012 – another stellar performance

- **Facts:** Paddy Power this morning issued a trading update for the first quarter of 2012.
- **Analysis:** As discussed in our preview note, we have seen a continuation of recent trends in a quarter characterised by double digit net revenue growth in the Group's online divisions and continued resilience in both its Irish and UK retail operations. Paddy Power has also benefited from strong gross win margins in a quarter that was boosted by favourable football and racing results.
- The positive momentum seen in FY2011 has continued into FY2012, with Group net revenue increasing by 28% yoy driven by strong growth across all divisions.
- Online continues to lead the way, with net revenue from Online (ex-Australia) (39.9% of Group net revenue) increasing by 28% yoy, driven by sportsbook (+30% yoy) and gaming (+25% yoy). Australia (21.5% of Group net revenue) also continued its strong growth with net revenue increasing by 30% yoy.
- The Group's retail operations performed well in the period, with UK Retail (14.5% of Group net revenue) experiencing lfl net revenue growth of 13% yoy. Despite a 4% decline in amounts staked, Irish Retail (20.6% of Group net revenue) achieved strong lfl growth in net revenue (+15% yoy).
- The Group's Telephone division (3.6% of Group net revenue) also performed well, with amounts staked increasing by 21% yoy.
- The Group's balance sheet remains robust, with net cash at 15 May of €202m (€149m excluding customer balances).
- Notwithstanding the fact that sporting results in 2011 were significantly stronger in the second half of the year, the Board is confident in the Group's outlook for the remainder of the year. Organic entry into the Italian online market went live on schedule this week.
- Despite the headwinds arising from the potential implementation of an Irish online turnover tax and the launch of Paddy Power in Italy, we believe FY2012 will benefit from the UEFA European Football Championship in June (we estimate that the FIFA World Cup in 2010 contributed an additional €10m to net revenue). Looking ahead to the full year, we believe the Group will continue to build on what was an outstanding FY2011 performance and forecast Group net revenue of €591m (+18.4% yoy). We expect full year EBIT and EPS of €137m (+14.5% yoy) and 244c (+15.1% yoy) respectively to be driven by strong online growth and continued resilience in retail.
- Paddy Power continues to be highly cash generative, with €150m of free cash flow (6.8% yield) forecast for FY2012. Paddy Power also has the benefit of a strong net cash position (€163m excluding customer balances expected in FY2012).
- **Conclusion & Action:** Overall a solid Q1 performance, giving us confidence for the year ahead and reaffirming Paddy Power's position as our top pick in the sector. At P/E and EV/EBITDA multiples of 19.4x (17.4x ex-cash and 1.3x PEG) and 12.0x for FY2012 respectively, Paddy Power continues to trade at a premium to the sector, justified in our view by its clean regulatory profile, the growth trajectory of the Group's online divisions and its exposure to the high growth Australian market. Our sum-of-the-parts based price target of €56.60 excludes an estimated €3.30 per share contribution from Italy and represents 19.7% upside from current levels. For a more detailed analysis of Paddy Power, please refer to our recent Gaming sector report [Multi-channel bookmakers - a three horse race](#). [Click here for full 7-page trading update note](#)

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