Goodbody

Morning Wrap

Today's Newsflow

Select headline to navigate to article

This is our final Morning Wrap for 2025. We wish you and yours a very happy holiday period and a prosperous New Year. The Wrap will be back on Monday 5th January.

Equity Research **19 Dec 2025**

08:44

Upcoming Events

Company Events

19-Dec	WH Smith; FY25 Results

Economic Events

Ireland

22-Dec	PPI
	Wholesale Price Index

United Kingdom

19-Dec	GfK Consumer Confidence
	Retail Sales
22-Dec	GDP Q3
	Imports Q3
	Exports Q3

Goodbody Capital Markets

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WH Smith FY25: A cleaner slate for progress from FY26 and beyond

Recommendation: Hold
Closing Price: £6.85

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Adj PBT (pre-IFRS 16) has come in at £108m, -5.3% yoy on a £114m restated base, vs. GBYe £103m, updated guidance from 19-Nov of £100-110m and pre-warning guidance in August of c.£140m. Adj EPS was -28% yoy to 43.4p. On current trading, in the last 15 weeks to 14 Dec, LFL sales were +3% with UK +2%, North America +1% and RoW +6%. With a strategic review of the non-core NorAm operations (e.g. Resorts, InMotion), incremental investment in the UK and central costs, FY26 adj PBT is expected to come in at £100-115m, disappointing relative to our £126m and consensus £130m, even if the company has reassured on the NorAm margin (7-8%).

For FY26, guidance is for +4-6% sales growth with UK +3-5%, North America +6-8% and RoW +4-6% - UK EBIT margin is expected at 14-15% in a "year of investment", North America 7-8% and c.5% in RoW, £30-32m central costs (FY25 £25m), £33-35m interest charge (FY25 £26m), c.25% tax rate, £90m capex (FY25 £81m) and £400m headline net debt. We currently model £126m adj PBT driven by £156m EBIT (assuming an 8% NorAm and 15.3% UK margin) and 69.4p adj EPS. Visible Alpha currently expects £130m adj PBT.

2025 has been a tough year for SMWH with shares -42% mainly due a loss of confidence following the North America accounting revelations and subsequent CEO departure. While there are many moving parts in the statement, the reassurance on NorAm margins and strategy is welcome and some of the margin pressures in the UK should be temporary. That said, consensus expectations will need to again re-base from here and it will likely take some time to rebuild market confidence in the overall strategy, along with a permanent CEO appointment, in 2026.

North America FY25 EBIT (pre-IFRS 16) came in at £15m, -55.9% yoy (vs. restated FY24 £34m) and recent guidance £5-15m. UK EBIT was £130m, +6.2% yoy vs. Nov-guidance c.£130m with margins 15.6%, +30bp yoy. Rest of World EBIT was £14m, flat yoy vs. guide c.£14m with margins 4.6%. Year-end leverage is £390m net debt (ex-leases) or 2.1x EBITDA. FY DPS 17.3p, reflecting 2.5x coverage off the lower EPS base (FY24 33.6p).

Home…

AIB Group Completion of SRT to add 25bps to CET1 and P2R unchanged for 2026

Recommendation: Buy
Closing Price:€9.20

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AIB Group (AIB) has completed its second significant risk transfer (SRT) on a €2bn residential mortgage portfolio, reinforcing its multi-year strategy to optimise capital efficiency. The transaction delivers a CET1 uplift of approximately 25bps through an €800m reduction in RWAs, partially offsetting the impact of October's warrant cancellation. Separately, the ECB's 2025 SREP confirmed AIB's Pillar 2 Requirement remains unchanged at 2.40% for 2026, underscoring regulatory confidence in the bank's risk profile and governance. With a CET1 ratio well above the >14% management target, AIB enters 2026 from a position of strength, providing clarity and stability for investors.

AIB has announced it has successfully completed its second significant risk transfer (SRT) on a €2bn portfolio of residential mortgages, marking another milestone in its multi-year, multi-asset SRT programme. This transaction follows the inaugural deal in November 2024 and underscores management's commitment to proactive capital optimisation. The latest SRT delivers a positive CET1 impact of approximately 25bps, driven by an €800m reduction in risk-weighted assets. Even after factoring in the October warrant cancellation, AIB's pro-forma CET1 ratio remains robust at around 16.15%, comfortably above regulatory minimums. This achievement highlights AIB's ability to deploy innovative capital solutions while maintaining strong balance sheet resilience.

Following the ECB's 2025 Supervisory Review and Evaluation Process (SREP), AIB has also confirmed its Pillar 2 Requirement will remain unchanged at 2.40% for 2026. This stability reinforces confidence in AIB's risk profile and governance standards, providing clarity for investors ahead of the new regulatory cycle. With a CET1 ratio significantly above the 11.30% minimum requirement, AIB enters 2026 from a position of strength, supporting strategic flexibility and shareholder returns. The unchanged Pillar 2 Requirement signals regulatory comfort with AIB's capital planning and risk management approach. Overall, this outcome complements the recent SRT execution, underlining AIB's disciplined capital strategy and strong regulatory standing.

Home…

Irish Banks BPFI expects housing completions of 35k in 2025 & highlights weakness in housing starts

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Latest data from the BPFI Q3 housing monitor forecasts housing completions of around 35k units in 2025, marginally higher YoY. However, housing commencements have remained weak in 2025, with just over 11,600 units started in the first ten months—levels barely above those seen in 2016. At the same time, the pace of delivery has slowed sharply, with only 10% of homes commenced in 2024 reaching partial completion within a year compared to 40% in 2018. Adding to these challenges, employment in skilled trades has fallen by about 35% since 2007, leaving significant gaps in critical roles such as plastering, tiling, and plumbing. Government measures (planning reforms, VAT cuts, LDA expanded role) aim to offset supply bottlenecks, but the BPFI sees little change in completions over the near term without a material pickup in commencements in early 2026. See below our detailed analysis of this morning's *Q3'25 Housing Market Monitor.*

Housing commencements have remained subdued throughout 2025, with just over 11,600 units started in the first ten months of the year. This figure is only slightly higher than the levels recorded in 2016, highlighting a lack of significant progress in new housing starts. While the twelve months to October 2025 saw 23,599 units commenced, this includes a spike in December 2024 due to the expiry of levy waivers, which artificially inflated numbers. Adjusting for this, annualised commencements would have been closer to 18,000 units, lower than pandemic-era activity in 2020. Regional disparities are evident, with Dublin City leading at 2,053 units, while Galway City recorded only 20.

The pace of moving from commencement to completion has slowed considerably, creating concerns about delivery timelines. Historically, around 40% of homes commenced in 2018 reached partial completion within 12 months, but this rate has fallen sharply. For units commenced in 2024, only 10% achieved partial completion within a year, indicating significant delays compared to previous years. This slowdown is partly linked to the surge in commencements during the levy waiver period, which may have strained resources and capacity. The trend suggests that even when projects start, they are taking much longer to finish, impacting overall housing supply.

Labour constraints remain a critical challenge for the construction sector, particularly in skilled trades essential for housing delivery. Employment in skilled trades has fallen by approximately 35% since 2007, despite overall sector employment recovering somewhat in recent years. While construction employment grew by 11% in the first half of 2025, growth in skilled trades was only half that rate, leaving gaps in key roles such as plastering, tiling, painting, and plumbing. Apprenticeship registrations and demand analysis confirm persistent shortages in these areas, which could hinder future output. Without addressing these labour gaps, the sector's ability to scale housing delivery beyond 2026 will remain constrained.

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DCC £600m tender fully subscribed at 5,170p, 12% of stock bought back

Recommendation: Buy
Closing Price: £49.16

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DCC has announced the results of the tender offer, with the full £600m subscribed and a strike price of £51.70, and all orders below this level filled. Funds will be received within 10 days of the December 17th closing date. This amounts to 12.0% of the shares outstanding.

This doesn’t complete DCC’s returns of capital – a further £100m SBB from the final proceeds of the healthcare disposal is due by FY27 end, and the remaining ProTech activities are slated to be sold by the end of CY26, (valued at £600m in our SotP) and the proceeds also to be returned to shareholders.

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