

DOLMEN WEEKLY TRADER



Weekly Market Commentary May 10th 2010

Overnight the European Commission and ECB announced a package of measures to preserve financial stability in Europe. In the wake of the crisis in Greece, the commission has acknowledged that the situation in financial markets is fragile and there was a risk of contagion. It has therefore established a European stabilisation mechanism and a strong commitment to accelerated fiscal consolidation, where warranted. The European stabilisation mechanism is based on an intergovernmental agreement of euro area member states. A volume of up to €60bn is foreseen and its activation is subject to joint EU/IMF support, and will be on terms similar to the IMF. In addition, euro member states are ready to complement such resources through a Special Purpose Vehicle, up to a volume of €440bn. The IMF will participate in financing arrangements and is expected to provide at least half as much as the EU contribution. In addition to these measures, the Governing Council of the European Central Bank will conduct interventions in the euro area public and private debt securities markets. The objective of such is to address malfunctioning of securities markets and restore an appropriate monetary policy transmission mechanism. In order to sterilise its impact, specific operations will be conducted to re-absorb the liquidity injected. The ECB will also reactivate, in co-ordination with other central banks, the temporary liquidity swap lines with the Federal Reserve. As we indicated at the start of the year, indices in the US remain our preferred play and we expect them to continue their outperformance. As seen with the latest US non-farm payroll data that showed the US added 290,000 in April, the US economic recovery is well under way. We continue to recommend the US technology sector, the energy sector which boosts significant exposure to emerging markets, in addition to European blue chips with a high percentage of earnings derived from outside the EU. (Including Siemens, Michelin and MAN). On the economic front, we will be paying close attention to the latest round Chinese economic indicators, while the BOE release their latest interest rate decision today and US retail sales will be released on Friday.

Trading Recommendations

CRH - Buy Previous close (€17.84) Target (€21.50) **Analyst:** Stephen Taylor

Recent results: H1 results weaker than expected, but clear indication of recovery particularly in US.

Balance Sheet: Strong balance sheet relative to its peers that will facilitate further acquisitions.

Macro Environment: 50% of revenues are in the US, therefore a significant beneficiary of euro weakness against the dollar. Polish and Finnish markets beginning to grow again. Provides well covered dividend yield of c. 4%.

Next Catalyst: Trading and development up-date on the 7th of July.

Risks: Double dip in Europe and lack of Government spending on infrastructure products.

Antofagasta - Buy Previous close (863p) Target (1400p) **Analyst:** Brian Gallagher

Copper Market Fundamentals: Due to underinvestment in copper assets by the industry, demand is expected to outweigh supply in the copper market between 2011-2014

Increasing Production: Antofagasta continued to invest in its assets during the downturn leaving it in the unique position of being able to increase production when supply will be at its tightest.

Operations Update: Last week's Q1 production figures were ahead of guidance with cash costs lower than expected. More importantly the company's expansion projects at Los Pelambraes and Esperanza are on track to meet production targets.

Net Cash Position: \$1.7bn in cash provides strategic flexibility to absorb unexpected events.

Next Catalyst: Quarterly Financial Report 27th May 2010.

Risks: Production interruptions, adverse currency swings & higher than expected cash costs.

Kerry - Buy Previous close (€22.30) Target (€24.50) **Analyst:** Oliver Gilvarry

Recent IMS: Turnover grew in Q1 by 5.9% while group operating margins moved up 50bps driven by an increase of 70bps in ingredients and flavours and 40bps in consumer foods.

Performance of Divisions: Ingredients & Flavours continues to perform strongly with growth in all three regions. Consumer Foods grew volumes despite the difficult environment and UK branded products continued to achieve growth with chilled ready meals growing stronger than the market. Ireland remains difficult with private label growing at the expense of branded.

Currency Moves: Kerry Group has significant exposure to GBP and Dollar. In Ireland, the strength of the Euro has made competition in consumer foods area difficult. A weaker euro will benefit Kerry from an earnings perspective.

Valuation: Kerry is trading at a P/E multiple of 12.1x 2010 earnings. With the strong revenue and margin growth, Kerry should trade closer to 14x.

Risk: Further weakness in the Irish consumer and a double dip would be negative for the group.

Intel - Buy Previous close (\$21.00) Target (\$25.00) **Analyst:** Stephen Taylor

Strong Guidance: On April 13th Intel posted Q1 results that were well ahead estimates. In addition Intel issued FY gross margin guidance of 64%. This was considerably better than consensus at 60%.

Balance Sheet: Very strong balance sheet with net cash of c.\$14bn. Intel now has its highest amount of cash since 2004.

Geographical Exposures: Favourable geographic breakdown with 65% of sales derived from Asia-Pacific, 20% from America and 15% from Europe.

Valuation Attractive: Trading at an EV/EBITDA of just 6x

Key Risk: Corporate spend fails to recover.

Next Catalyst: 13th July Q2 results.

This Week's Market Events

MONDAY

Corporate

Finnair Oyj TRAFFIC, Deutsche Boerse Q1, Centrica Plc TRADE & AGM

Economics

BoJ Monetary Policy Meeting Minutes for Apr JN, Trade Balance GE, Current Account GE, BOE ANNOUNCES RATES UK

TUESDAY

Corporate

Walt Disney Q2, Deutsche Post Q1, E.ON AG Q1, United Drug H1, Aviva Plc TRADE, EasyJet PLC INTERIM, Austrian Airlines AGM, Arcelor-Mittal AGM, Unilever AGM

Economics

RICS House Prices UK, Consumer Price Index GE, Industrial Production UK, Manufacturing Production UK, ABC Consumer Confidence US

WEDNESDAY

Corporate

Macy's Q1, Cisco Systems Q3, Credit Agricole Q1, Allianz Q1, Deutsche Telekom Q1, ING Groep Q1, Tullow Oil, TRADE & AGM, BNP Paribas AGM, Unilever PLC S/HOLDERS

Economics

GDP (QOQ) GE, Jobless Claims Change UK, Bank of England Quarterly Inflation Report UK, MBA Mortgage Applications US, Trade Balance US, Monthly Budget Statement US

THURSDAY

Corporate

Telefonica SA Q1, Kingspan Group AGM, J Sainsbury PLC PRELIM, BT Group PLC FINAL, Fyffes AGM, Kingspan Group AGM

Economics

Nationwide Consumer Confidence UK, Total Trade Balance UK, Import Price Index US, Initial Jobless Claims US, Continuing Claims US

FRIDAY

Corporate

JCPenney Q1, Irish Life & Permanent TRADE, Ladbrokes Plc AGM, Standard Life AGM

Economics

Advance Retail Sales US, Industrial Production US, Capacity Utilization US, U. of Michigan Confidence US, Business Inventories US

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