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Market Movers

IRISH PAPERS TODAY

Aer Lingus wants tax scrapped
(The Irish Times)

Oil prices surge to seven month high
(The Irish Times)

Molloy topped wish list of Bol and Government
(Irish Independent)

INTERNATIONAL PAPERS TODAY

Surge in US bond yields sparks concern
(Financial Times)

Slump eases in UK, Italy but exports fail Germany
(The Wall Street Journal)

DOLMEN DOZEN

Company	1-day %	YTD %
Aryzta	-2.1%	-1.8%
BP	0.6%	0.6%
CRH	2.6%	8.1%
DCC	-2.5%	45.6%
E.ON	2.4%	-11.0%
HPQ	-0.1%	1.4%
IL&P	9.0%	155.9%
INM	-4.9%	-40.6%
J&J	-0.1%	-7.0%
JPMorgan	-1.2%	10.5%
Microsoft	2.1%	16.0%
Vodafone	-2.1%	-18.9%

Market View

Analyst : Stephen Taylor

European equity markets are slightly lower this morning following a weaker close in the US overnight. The Federal Reserve's Beige Book released last night indicated that economic conditions in the US had remained weak with commercial real estate and labour markets continuing to see pressures over the period from mid-April through May. There was however some signs of stabilisation noted in relation to the US housing market in addition to expectations for manufacturing to improve. The report concluded while the recession has eased, the US economy is unlikely to see a significant boost in economic activity in 2009. Overall, we view the report as mixed and while economic data has moderated somewhat and systemic risks removed from markets growth is likely to remain below average levels over the next 12-months. One area that is starting to show cause for concern is in relation to the 30-year US mortgage rate which continues to move higher and currently stands at 5.74%, the highest level this year and could provide a potential stumbling block to a sustained housing recovery. In the UK, Bank of England member Andrew Sentance commented that the UK recession may be 'bottoming out', setting the scene for a recovery later this year. This ties in with the stabilisation we have seen in the UK housing market recently in addition to solid earnings reports from some of the UK's largest retailers. As a result of Sentance's comments, Sterling continues to remain strong against the Euro and we see this trend continuing over the next number of months. As for today, corporate news flow remains quiet. On the economic front, markets will be looking to the US where retail sales data and weekly jobless claims will be closely watched, while business inventories will also be in focus for any signs that restocking is beginning to take place.

AIB : Neutral Current Price (€2.1) Price target (Under Review) Analyst : Oliver Gilvarry

AIB has this morning, announced details of an exchange offer, in which selected perpetual bond issues may be exchanged for new subordinated bonds. The offer applies to 4 euro denominated perpetual bonds, and 2 sterling denominated perpetual bonds. Perpetual bonds are bonds that were issued without final maturity dates, but with call dates. Investors bought the securities on the assumption that they would be called at the first available call date. Given the difficulties faced by banks in recent years, the likelihood of these securities being called is low. As a result many issues trade significantly below par. Subordinated debt ranks senior to perpetual debt in the capital structure, providing additional security to investors. They also have a definite final maturity date for investors to receive back their principal. The bank gains because the exchange offer values the perpetual bonds at less than par. The exchange ratios for the offer range from 50% to 67% of the original face value of the securities. On the assumption that the new subordinated bond is issued at par, and a 50% take-up rate from perpetual bondholders, the exchange would realise a once-off gain of €600m for AIB, which would immediately bolster the core tier ratio of the bank. AIB will release details of the coupon and maturity profile of the new subordinated bond issue on the 16th June and the offer period is due to close on the 22nd of June. JP Morgan and Morgan Stanley are acting as dealer managers of the deal. The offer is similar in nature to that of BOI's recent offer, except that BOI's deal was a cash offer, as opposed to AIB's offer of a debt swap. This may be taken by a sign of relative weakness by the market. While the move is definitely positive for AIB, the move was largely expected following BOI's recent offer.

Tesco : Buy Current Price (£3.60) Price target (£4.00) Analyst : Stephen Taylor

Home Retail group has issued a trading statement covering the 13-week period from March 1st to May 30th. Sales at the group's Argos division increased by 0.9% and the division is currently trading ahead of expectations. Sales at the group's Homebase division increased by 5.8% with new space contributing to 2% of this growth. As a result of the robust performance, Home Retail expects analyst estimates for year profit before tax to increase by £10m to £200m. While the company remains understandably cautious, the improved performance can be taken positively for the UK economy

BHP : Buy Current Price (£15.21) Price target (Under Review) Analyst : David Dunk

Media reports this morning have suggested that Japan's Fair Trade Commission may begin to research the planned iron ore venture between BHP and Rio Tinto for any violations of antitrust laws. It is thought that the companies would control about 60% of the iron ore that Japan steelmakers buy. As a result the commission wants to study the effects that may result from the groups' plans. Meanwhile we note that this morning Chinalco President Xiong Weiping has said that the failure of the deal with Rio, which was ditched earlier this month in favour of a tie up with BHP, was beyond Chinalco's control. Xiong says that the deal represented a good value creating opportunity for Rio, reiterating that Chinalco were very disappointed. Additionally it has been reported that Rio Tinto is offering some of its stake in the new joint venture with BHP to Chinalco.

Paddy Power

BUY

Current Price : €17.90

Price Target : €21.50



DOLMEN STOCKBROKERS

Analyst: **Edward Keeling**

Thursday 11th June 2009

- Following on from its AGM statement in May and its entry into the Australian market, Paddy Power presented to us yesterday. Among the topics discussed were the groups increasing dependence on the online sector and the UK consumer (c.50% of group profit generated from UK consumers in H2). While we do view this as a positive, considering we expect Ireland to lag any UK recovery, it is not without its headwinds. When asked about the potential for increased competition from another larger entrant with a well known brand, the Group indicated that while it was a possibility, there are reasons to suggest this would not be the case. Notwithstanding the opportunities in other continental European markets, CFO Jack Massey believes the relative saturation and competitive nature of the market makes it less attractive. Nevertheless the group is not complacent in this regard and is trading hard. Overall we continue to view Paddy Power's business mix as a compelling investment opportunity. We are confident it will continue to win market share as consumers switch to its unique brand and broad product offering. In addition the online sector itself is a resilient engine of growth. Broadband penetration rates continue to support new entrants and the improvements in the infrastructure are allowing increased volumes and higher levels of liquidity. We believe that the rate of growth for the online sector as a whole, combined with Paddy Power's market share gains, will help offset the expected reduction in average stake per player.

- Deferral of the Irish retail tax** : Management also confirmed that the proposed doubling of the Irish retail betting tax from 1% to 2%, that was due to be implemented on May 1st 2009, continues to be deferred by the Irish government. While the rewording of the regulation has left open the possibility of doubling the betting duty at any stage, we believe that the government will delay its implementation to at least 2010. With c.50 shops already closed this year and macroeconomic conditions set only to get worse, it seems the government has acknowledged that the trade off between more unemployment and the amount of tax revenue that would be generated is unattractive. Though it is worth noting that the government does appear to be putting more emphasis on developing an alternative tax structure that would capture the non-retail sector. However considering the complications in developing and implementing such a strategy we don't view this as immediate threat to rating and price target.

- Diversifying operations** : The group remains very confident regarding its expansion into Australia through the acquisition of Sportsbet, a view we share. We see it as an opportunistic deal agreed on favourable terms (6x EV/EBITDA). There is no uncertainty surrounding the legal status of online betting and it provides exposure to an already proven growth market. There will also be significant synergies as the companies continue to integrate. Similarly to Paddy Power, Sportsbet is mainly focused on its online operations with the majority of its revenues coming from horse racing. In addition although in-running betting is not currently legal, management has indicated that it is not unreasonable to suggest this may change. Considering its success in the European market this would present further earning enhancing opportunities.

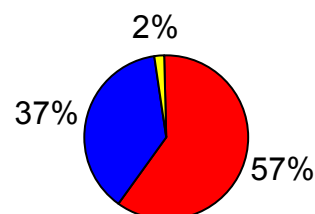
- Reiterate BUY with increased price target of €21.50** : Paddy Power remains our preferred pick from within the gaming sector. With its unique brand, compelling growth opportunities, strong balance sheet (Net Cash position of €80m) and favourable business mix we believe Paddy Power is a long term winner. We acknowledge that over the medium term the company is facing severe headwinds. Unemployment is set to rise dramatically in both of its core markets. However, with its strong cash flow and the defensive nature of the industry, we believe Paddy Power will weather the downturn and rebound even stronger when markets recover. Therefore we reiterate our BUY recommendation with an increased 12 month price target of €21.50 (based on it trading on a FY10 EV/EBITDA multiple of 10x). This is up from €18 reflecting an increased EBITDA forecast based on the deferral of the Irish betting duty and its earnings enhancing acquisitions. It is also worth noting Power offers a well protected dividend yield of over 3%.

Descriptive Stats		Shareholders	
Year to date	36.41%	David Power	9.24%
52 Week High	€23.50	Standard Life Invnt.	4.61%
52 Week Low	€9.45	Deutsche Bank	4.04%
Reuters	PAP.I	John corcoran	3.15%
Bloomberg	PWL.ID	Fidelity Mgt.	3.05%

	FY08	FY09e	FY10e
Revenue €m	2,101	2,134	2,207
Pre Tax profit	79	61	70
EPS €	1.36	1.10	1.45
DPS	0.54	0.56	0.55
P/E	13.16	16.27	12.34
Div Yield	3.02%	3.13%	3.07%

Peer Analysis	P/E 09	P/E 10	Div Yield
William Hill	9.6	9.8	4.60%
Ladbrokes	8.5	9.2	7.20%

2008 Operating Profit by Division



■ Online

■ Irish Retail

■ UK Retail



International Equity Markets

Index	Value	1-Day	YTD
ISEQ	2,930	1.2%	24.6%
FTSE	4,437	0.7%	0.0%
Dow Jones	8,739	-0.3%	-0.4%
S&P	939	-0.3%	4.0%
Nikkei	9,981	-0.1%	12.7%
Stoxx 50	2,501	0.9%	2.3%

Sector Performances

Sector	Index	1-Day	YTD
Construction	221	1.0%	8.6%
Technology	177	1.3%	15.6%
Oil & Gas	310	1.1%	16.2%
Financials	186	2.4%	23.7%
Retail	213	1.1%	16.4%
Food & Drink	235	0.6%	1.3%

Commodity Prices

Commodity	Index	1-Day	YTD
Crude Oil	71.3	1.9%	32.3%
Copper	236.7	0.1%	66.1%
Gold	954.5	0.0%	8.2%
Silver	15.2	0.6%	34.6%
Wheat	596.0	-2.9%	-5.1%
Cattle	80.8	-1.1%	-5.8%

Currency Exchange Rates

Commodity	Index	1-Day	YTD
€/\$	1.398	-0.6%	0.3%
€/£	0.855	-0.9%	-11.7%
£/\$	1.636	0.3%	10.8%
\$/JPY	98.12	0.7%	7.2%
€/JPY	137.21	0.2%	7.5%
€/SFR	1.511	-0.4%	1.2%

5Yr Credit Spreads

Commodity	Index	1-Day	YTD
Invest Grade	119.6	-6.3%	-32.0%
High Yield	767.1	-2.0%	-25.5%
Financials	103.9	-2.6%	-11.4%
BoI	333.8	-2.0%	35.8%
AIB	341.2	-1.9%	63.6%
RBS	163.9	-3.7%	25.4%

Money Market Rates

Rate	EUR	UK	US
Overnight	0.7%	0.4%	0.3%
3-Month	1.3%	1.3%	0.6%
1-Year	1.6%	1.5%	1.1%
2-Year	2.1%	2.4%	1.8%
5-Year	3.1%	3.7%	3.5%
10-Year	3.8%	4.2%	4.3%

Date	Company	Region	Event
11/06/2009	Independent News & M	IE	S/HOLDERS
15/06/2009	Volvo AB	SE	TRAFFIC
16/06/2009	Aeroports de Paris SA	FR	TRAFFIC
16/06/2009	Halma PLC	GB	PRELIM
16/06/2009	Ted Baker PLC	GB	TRADE
16/06/2009	Whitbread PLC	GB	TRADE
16/06/2009	Best Buy Co., Inc.	US	Q1
16/06/2009	Adobe Systems	US	Q2
17/06/2009	J Sainsbury PLC	GB	TRADE
17/06/2009	Assura Group Ltd	GB	PRELIM
17/06/2009	WS Atkins PLC	GB	PRELIM
17/06/2009	FedEx	US	Q4
17/06/2009	ArcelorMittal SA	LU	INVESTOR
18/06/2009	Arcandor AG	DE	Q2
18/06/2009	Cadbury PLC	GB	TRADE
18/06/2009	Go-Ahead Group PLC	GB	TRADE
19/06/2009	Ashtead Group Plc	GB	Q4
19/06/2009	France Telecom SA	FR	S/HOLDERS
19/06/2009	Koenig & Bauer AG	DE	MEETING
19/06/2009	Porsche Automobil Holc	DE	RESULTS
19/06/2009	Taylor Wimpey Plc	GB	AGM

Date	Event	Region	Estimate
11/06/2009	ECB June Monthly Report	EC	--
11/06/2009	Advance Retail Sales	US	0.20%
11/06/2009	Initial Jobless Claims	US	--
11/06/2009	Business Inventories	US	-1.00%
12/06/2009	Euro-Zone Ind. Prod. sa (Mo	EC	--
12/06/2009	Import Price Index (MoM)	US	1.00%
12/06/2009	U. of Michigan Confidence	US	68.6
15/06/2009	Eurozone Employment (QoQ	EC	--
15/06/2009	Empire Manufacturing	US	--
15/06/2009	Total Net TIC Flows	US	--
15/06/2009	NAHB Housing Market Index	US	--
16/06/2009	BOJ Target Rate	JN	--
16/06/2009	CPI (MoM)	UK	--
16/06/2009	RPI (MoM)	UK	--
16/06/2009	ZEW Survey (Econ. Sentime	GE	--
16/06/2009	Euro-Zone CPI (MoM)	EC	--
16/06/2009	ZEW Survey (Econ. Sentime	EC	--
16/06/2009	Producer Price Index (MoM)	US	--
16/06/2009	Housing Starts	US	--
16/06/2009	Building Permits	US	--
16/06/2009	Industrial Production	US	--

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