

## CONTENTS

**Market View** : Chinese industrial production continues to surprise to the upside

**Tesco** : Sainsbury reports half year pre tax profits of £307m

**CRH** : Peer Holcim Q3 earnings beat expectations

**Vodafone** : Swisscom net income well ahead of expectations

**Tullow Oil** : Management "very positive" on 2010

**E.ON**: The German utility company raises guidance

**Smuifit Kappa**: Q3 results show better than expected earnings

**IN&M** : Bondholders approve restructuring

**Company Note** : Aviva

## IRISH PAPERS TODAY

Banks give six-month grace period on seizures  
*(The Irish Times)*

Do not defer "painful" reform of public finances, warns E&Y  
*(The Irish Times)*

Analysts on alert as CRH is expecting profit slump  
*(Irish Independent)*

## INTERNATIONAL PAPERS TODAY

HSBC and Barclays lead 2-tier UK banks  
*(Financial Times)*

US bank reform bill seeks to strip powers from the Fed  
*(Financial Times)*

Lloyds to cut 5,000 jobs  
*(The Wall Street Journal)*

## Market View

Analyst : Oliver Gilvarry

Overnight US markets were mixed with the DJIA up slightly and the S&P500 down slightly. Flat trading continued into Asia with the Nikkei unchanged on the day. The Hang Seng is up 1.69% following strong Industrial Production figures in China released overnight. In the US a strong performer overnight was the luxury homebuilder Toll Builders. Q4 revenue was much better than expected and management stated the market continued to gain momentum up to Labour Day. In early trade the dollar is being sold with EU-RUSD breaking through 1.50, with it currently trading at 1.5040. The weakness is due to the risk trade remaining intact with investors moving from safer investments into equity and corporate bonds. As a result of this trade investors are moving out of safe havens such as the dollar into other currencies. The reaction of the Euro-Zone to the move will be interesting as statements from ECB members and political leaders have indicated EURUSD above 1.50 will be a problem for the economic area. In economics today, UK unemployment figures are out at 9.30 followed by the BOE Inflation Report is due to be released at 10.30. The inflation report should provide some explanation for the recent increase in QE by the BOE and may even indicate this is the end of the programme, which will be positive for GBP

**Tesco : Buy**    **Current Price** 420p    **Price target** 425p    **Analyst** : Stephen Taylor

Sainsbury released half year profits with underlying pre-tax profits of £307m compared to market estimates of £302m. Operating margins also improved with an increase of 15bps to 3.28%, compared to the same period last year. Same store sales were up 5.7% yoy. Management comments on the economy stated it will remain challenging in the second half of the year, but they believe food deflation is unlikely. Part of the reason for the beat on earnings was due to more promotions for customers. While the results were good, our preferred in the sector remains Tesco due to its higher margins, greater geographic diversification and the potential earnings power from its banking strategy.

**CRH : Buy**    **Current Price** €17.35    **Target Price** €20.30    **Analyst** : Stephen Taylor

Swiss peer of CRH, Holcim, reported a strong set of earnings this morning that beat expectations. The group reported net income of CHF673m well ahead of expectations of CHF464.6m helped by further cost savings. Revenue declined by 18% to CHF5.69bn. The company added that its emerging market business has continued to improve and it has become 'more optimistic' about North American development. Holcim did caution that Europe will remain challenging for longer. We continue to like CRH as a long-term recovery play, however we do caution the group's main end markets in the US and Europe are likely to remain difficult in addition to having a lack of emerging market exposure. However, given the cost savings measures taken by the company, the group is well positioned to take advantage of an uptick in activity.

**Vodafone : Buy**    **Current Price** 135p    **Target Price** 150p    **Analyst** : Stephen Taylor

Swisscom has reported a solid set of full year third quarter results. Operating profit of CHF769 beat expectations of CHF716m. Revenue fell by 2.8% to CHF3bn broadly inline with expectations. The group also reiterated its full year earnings forecasts. The solid results from Swisscom this morning reinforce our positive stance on the telecom sector. Vodafone remains our top pick as it continues to increase cost savings in addition to an improving European market. Emerging markets continue to perform well and while margins are under pressure due to heavy price competition we still see this as a key growth driver for the group. Vodafone also pays a well covered dividend yield of 5.7%.

**Tullow Oil : IMS**    **Current Price** 1245p    **Analyst** : Stephen Taylor

Tullow Oil released an Interim Management Statement (IMS) this morning for the period 1 July 2009 to 11 November 2009. The statement indicated that the company is on track to meet its full year working interest production guidance of 58,000boepd. It also confirmed that capital expenditure for 2009 will be in the region of £750m and that net debt was £664m as at the 31st October 2009. Management reported that "Tullow's business continues to perform strongly" citing its 85% exploration success. In terms of outlook Tullow is "very positive" for the remainder of 2009 and into 2010. From an operational perspective, the IMS confirmed that Shell will take up a 33% interest in the company's French Guiana licence with an option to acquire a further 12% at a later date however the deal is still subject to French regulatory approval. The IMS also included an updated exploration and appraisal schedule which showed that the Mahogany Deep-2 well is expected to reach objectives by the end of the month. We view these results as the next major catalyst for the oil and gas explorer. Finally, the company announced that its full trading statement and operational update will be released on 20 January 2010.

---

**E.ON : Buy    Current Price €27.50    Target Price €31    Analyst : Stephen Taylor**

---

German utility company, E.ON reported a strong set of nine month results this morning. Adjusted net profit came in broadly flat year on year at €4.5bn. As a result of the flat outcome, E.ON has raised its full year earnings guidance for a drop of between 3% to 5% compared to its previous outlook for a 5% to 10% decline. We continue to like E.ON and the results and guidance should provide comfort for investors. E.ON also provides a well covered dividend yield of c. 5.5%.

---

**Smurfit Kappa : Buy    Current Price €6.30    Target Price €7.25    Analyst : Edward Keeling**

---

Smurfit Kappa released its Q3 results this morning and the group has reported a better than expected performance. It posted EBITDA for the period of €192m, which is down from €231m last year but ahead of consensus estimates of €170m. The group continues to post leading EBITDA margins which came in at 12.7% reflecting Smurfit's fully integrated business model. The group's free cash flow was €129m resulting in a net debt reduction of €130m from Q2 to €3.03bn. Encouragingly demand for the group's product remained stable through the third quarter and industry inventory levels remain at 2 year lows, supporting recent pricing increases. It estimates there has been a 32% decline in containerboard inventory levels across the market from March to August 2009. In addition, it expects that despite higher containerboard prices, less efficient capacity closures will continue. In line with our expectations, higher containerboard prices will lead to some short term margin pressures, but will eventually result in corrugated price increases. The group was cautious in its outlook however, stating that while sentiment has improved across markets, a consumer led economic recovery and return to demand growth for corrugated packaging has yet to materialise. We remain positive on Smurfit Kappa. While we do acknowledge SKG's net debt position is significant, we take comfort from its recent senior debt negotiations. We believe its current covenant levels are reasonable and take comfort from both its net debt reduction over recent years and its debt maturity profile. Furthermore we expect this year to be the trough in earnings as corrugated box price increases are passed through next year and demand picks up.

---

**IN&M: Buy    Current Price €0.18    Target Price €0.26    Analyst : Stephen Taylor**

---

Independent News & Media (INM) has announced that bondholders have approved the company's restructuring deal yesterday. INM pointed out that the first step in the restructuring, being the issue of 723,200,000 new ordinary shares, at 17c to bond holders, will take place in the coming days. INM said it now sees complete restructuring of the group being completed on schedule. Bondholders approved the deal by a majority of 89.85%. The requirement for approval was 75%. We view shares in INM as a speculative buy, however investors will have to follow their money through a rights issue at a price of 5c a share.

---

# Aviva

## BUY

Current Price : £4.00

Price Target : £5.20

11th November 2009



Analyst: **Oliver Gilvarry**

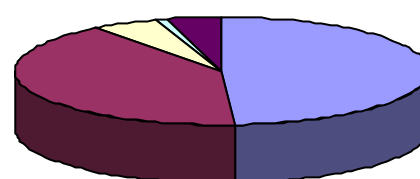
- Aviva released a trading statement last week with details on sales for the first 9-months of this year. Total Life & Pension Sales were weaker than what the market expected, as they fell 11% to £24.1bn compared to the same period last year. Despite the fall in volumes, new business margin remained constant from earlier in the year at 2.1%
- Life and Pension sales remain weak in the UK, declining to £6.66bn, but market share did increase to 10.8% with margins also increasing to 2.5%. Sales in Aviva Europe were flat yoy, helped by weak GBP. On a constant currency basis, sales fell 10% and margins remain flat at 3.8%. Sales in North America fell by 22% on a constant currency basis. Management have guided this is due to the company aiming to use capital more efficiently. This decision has been reversed for Q4 and Aviva will compete for business in 2010.
- General Insurance followed the same trend as Life and Pension sales with volumes falling as Aviva aim to write profitable business and not just for the sake of volume. The Combined Ratio for Q3 was 98% with management confident this will be maintained into the year end. Premiums are continuing to increase in the UK, but in the low single digit levels as the market remains challenging.
- The capital position of the group was better than expected with the IGD surplus at £3.7bn as at the 30th of September. This doesn't include the £400m capital uplift from the sale of the Australian business and is after the payment of the interim dividend. Aviva also has equity market hedges in place that limit the downside impact to its IGD surplus to £500m with a 40% decline in the equity market, while the group benefits from equity market upside.
- None of the £1.1bn of provisions set aside against the UK Annuity book were used in Q3. The LTV on the UK Commercial Real Estate book improved slightly and there was no default in the corporate bond portfolio. Unrealised losses of £2.4bn in the US business moved to a net unrealised gain of £400m, highlighting the benefit to the group from improved credit markets.
- In the conference call following the release last week, management commented on the successful IPO of Delta Lloyd. The IPO, the largest in Europe, was priced at the lower end of its range at €16 per share. The market reaction to the price was part of the reason for the fall back in Aviva's share price last week, but this IPO was launched in the aftermath of the ING announcement of its future break-up. The cash raised from the partial sale of Aviva's stake in Delta Lloyd will improve the financial position of the group and eventually will be the catalyst for credit rating upgrades.
- In the statement and conference call management remain confident and expect profitability outlook for 2009 to remain "good". Continued strong financial markets into year end will have a positive effect on overall profits.
- Aviva has continued to maintain margins in its different operating areas leaving it well positioned to benefit from increased demand for its products next year.
- The significantly improved capital position and the successful IPO of Delta Lloyd are supportive to the balance sheet and the high dividend. The group is paying a well covered yield 6%, at the higher end of its peers.
- On valuation grounds the company is trading at 0.8x Embedded Value (EV). We believe it deserves to trade at least 1x its current EV including goodwill. Therefore we are upgrading our 12-month target to £5.20.

Descriptive Stats		Shareholders	
Year to date	-30.98%	AXA	9.47%
52 Week High	474p	Barclays	5.08%
52 Week Low	160p	Legal & General	4.25%
Reuters	AV.L	M&G Invst. Mgt.	2.85%
Bloomberg	AV/ LN	Alliance Bernstein	2.58%

	FY08	FY09e	FY10e
Revenue €m	36,527	34,164	36,264
Operating Profit	3,358	2,796	2,959
Net profit	2,170	1,688	1,753
EPS €	82	64	66
DPS	33	23	24
P/E	4.94	6.33	6.14
Div Yield	8.15%	5.68%	5.93%

Peer Analysis	P/E 09	P/E 10	Div Yield
Prudential	8.2	7.9	3.40%
AXA	10.7	8.4	4.00%

2008 Revenue Breakdown



UK	49%
Europe	41%
North America	5%
Asia Pacific	1%
Aviva Investors	4%



### International Equity Markets

Index	Value	1-Day	YTD
ISEQ	3,014	0.0%	26.0%
FTSE	5,231	-0.1%	18.8%
Dow Jones	10,227	2.0%	16.8%
S&P	1,093	2.2%	21.0%
Nikkei	9,871	0.6%	11.4%
Stoxx 50	2,856	-0.1%	17.8%

### Sector Performances

Sector	Index	1-Day	YTD
Construction	264	0.0%	1.7%
Technology	179	-1.2%	3.6%
Oil & Gas	322	-0.4%	2.7%
Financials	232	0.1%	2.3%
Retail	239	-0.6%	1.6%
Food & Drink	286	0.5%	4.0%

### Commodity Prices

Commodity	Index	1-Day	YTD
Crude Oil	79.1	-0.5%	34.2%
Copper	296.2	-0.2%	107.3%
Gold	1,105.8	0.2%	26.3%
Silver	17.2	-1.5%	54.4%
Wheat	523.0	0.6%	-22.5%
Cattle	84.6	-0.4%	-6.6%

### Currency Exchange Rates

Commodity	Index	1-Day	YTD
€/\$	1.499	0.0%	-7.0%
€/£	0.895	0.0%	6.4%
£/\$	1.674	-0.1%	-12.6%
\$/JPY	89.810	-0.1%	0.9%
€/JPY	134.650	-0.2%	-6.2%
€/SFR	1.511	-0.1%	-1.1%

### 5Yr Credit Spreads

Commodity	Index	1-Day	YTD
Invest Grade	86.5	-0.4%	-52.1%
High Yield	502.6	0.0%	-52.2%
Financials	72.6	-1.0%	-42.8%
BoI	172.4	0.1%	-29.1%
AIB	184.9	0.0%	-9.9%
RBS	126.8	0.2%	-7.2%

### Money Market Rates

Rate	EUR	UK	US
Overnight	0.3%	0.4%	0.2%
3-Month	0.7%	0.6%	0.3%
1-Year	1.2%	1.0%	0.5%
2-Year	1.8%	2.0%	1.2%
5-Year	2.8%	3.4%	2.6%
10-Year	3.6%	4.0%	3.6%

Date	Company	Region	Event
11/11/2009	E.ON AG	DE	Q3
11/11/2009	Henkel AG & Co. KGaA	DE	Q3
11/11/2009	Hypo Real Estate Holdir	DE	Q3
11/11/2009	Smurfit Kappa Group Pl	IE	Q3
11/11/2009	ING Groep NV	NL	Q3
11/11/2009	Holcim Ltd	CH	Q3
11/11/2009	Swiss Life Holding AG	CH	Q3 TRADE
11/11/2009	Scottish & Southern Ent	GB	INTERIM
11/11/2009	J Sainsbury PLC	GB	INTERIM
11/11/2009	Johnston Press plc	GB	TRADE
11/11/2009	Royal Bank of Scotland	GB	Q3 TRADE
11/11/2009	Applied Materials	US	Q4
11/11/2009	Macy's	US	Q3
11/11/2009	Nordstrom	US	Q3
11/11/2009	Agilent Tech.	US	Q4
11/11/2009	Walt Disney	US	Q4
12/11/2009	Anheuser-Busch InBev I	BE	Q3
12/11/2009	Electricite de France SA	FR	Q3 SALES
12/11/2009	Vallourec SA	FR	Q3
12/11/2009	Vivendi SA	FR	Q3 SALES
12/11/2009	RWE AG	DE	Q3
12/11/2009	Bulgari SpA	IT	Q3

Date	Event	Region	Estimate
11/11/2009	ILO Unemployment Rate (3mths)	UK	--
11/11/2009	Bank of England Qtrly Inflation R	UK	--
12/11/2009	ECB Publishes Nov. Monthly Rep	EC	--
12/11/2009	Euro-Zone Ind. Prod. sa (MoM)	EC	--
12/11/2009	MBA Mortgage Applications	US	--
12/11/2009	Initial Jobless Claims	US	--
12/11/2009	Continuing Claims	US	--
13/11/2009	GDP s.a. (QOQ)	GE	--
13/11/2009	Euro-Zone CPI (MoM)	EC	--
13/11/2009	Euro-Zone GDP s.a. (QoQ)	EC	--
13/11/2009	Trade Balance	US	--
13/11/2009	Import Price Index (MoM)	US	--
13/11/2009	U. of Michigan Confidence	US	--
16/11/2009	Advance Retail Sales	US	0.60%
16/11/2009	Empire Manufacturing	US	--
16/11/2009	Business Inventories	US	-0.50%
17/11/2009	CPI (MoM)	UK	--
17/11/2009	RPI (MoM)	UK	--
17/11/2009	Euro-Zone Trade Balance	EC	--
17/11/2009	Producer Price Index (MoM)	US	--
17/11/2009	Industrial Production	US	0.40%
17/11/2009	Capacity Utilization	US	70.90%

## Regulatory Information

Dolmen Securities Limited is regulated by the Financial Regulator. Dolmen Securities Limited is a member firm of the London Stock Exchange. Dolmen Stockbrokers is regulated by the Financial Regulator. Dolmen Stockbrokers Limited is a member firm of the Irish Stock Exchange and the London Stock Exchange.

This report has been prepared by Dolmen Stockbrokers ('Dolmen') for information purposes in order to assist investors to make their own investment decisions and is not intended to and does not constitute personal recommendations nor provide the sole basis for any evaluation of the securities discussed. Specifically the information contained in this report should not be taken as an offer or solicitation of investment advice or, encourage the purchase or sale of any particular security, option, future or other derivative investment. Not all recommendations are necessarily suitable for all investors and Dolmen recommend that specific advice should always be sought prior to investment, based on the particular circumstances of the investor.

Although the information in this report has been obtained from sources, which Dolmen believes to be reliable and all reasonable efforts are made to present accurate information Dolmen give no warranty or guarantee as to, and do not accept responsibility for, the correctness, completeness, timeliness or accuracy of the information provided or its transmission. Nor shall Dolmen, or any of its employees, directors or agents, be liable to for any losses, damages, costs, claims, demands or expenses of any kind whatsoever, whether direct or indirect, suffered or incurred in consequence of any use of, or reliance upon, the information. Any person acting on the information contained in this report does so entirely at his or her own risk.

All estimates, views and opinions included in this report constitute Dolmen's judgment as of the date of the report but may be subject to change without notice. Changes to assumptions may have a material impact on any recommendations made herein.

Unless specifically indicated to the contrary this report has not been disclosed to the covered issuer(s) in advance of publication.

Past performance is not a reliable guide to future performance. The value of your investment may go down as well as up. Investments denominated in foreign currencies are subject to fluctuations in exchange rates, which may have an adverse affect on the value of the investments, sale proceeds, and on dividend or interest income. The income you get from your investment may go down as well as up. Figures quoted are estimates only, they are not a reliable guide to the future performance of this investment. Investors should be aware that forward-looking statements and forecasts may not be realised.

This report is the property of Dolmen and may not be reproduced (in whole or in part) altered, transmitted or made available to any other person without the prior written permission of Dolmen.

## Conflicts of Interest & Share Ownership Policy

Dolmen, its employees, directors or related companies, may have a shareholding in the securities (or related investments / derivatives) of certain companies covered in this report, or may provide/ solicit investment banking or other services to/ from them.

It is noted that research analysts' compensation is impacted upon by overall firm profitability and accordingly may be affected to some extent by revenues arising other Dolmen business units including Corporate Finance, Fund Management and Stockbroking. Revenues in these business units may derive in part from the recommendations or views in this report. Notwithstanding, Dolmen is satisfied that the objectivity of views and recommendations contained in this report has not been compromised.

Dolmen permits research analysts to own shares and/ or derivative positions in the companies they publish research, views and recommendations on. Accordingly analysts involved in the production of this report may have positions in any securities herein. Dolmen ensures that all staff dealing is undertaken in strict compliance with Dolmen's internal staff dealing procedures. Therefore Dolmen is satisfied that the impartiality of research, views and recommendations remains assured.

## Analyst Certification

Each research analyst responsible for the content of this report, in whole or in part, certifies that: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report. Oliver Gilvarry, Stephen Taylor and Edward Keeling are responsible for the production of this report. Oliver Gilvarry is Head of Research and Stephen Taylor and Edward Keeling are equity analysts.

## For US Persons Only

This report is only provided in the US to major institutional investors as defined by s. 15 a-6 of the Securities Exchange Act, 1934 as amended. A US recipient of this report shall not distribute or provide this report or any part thereof to any other person.

Dolmen Stockbrokers, 75 St. Stephen's Green, Dublin 2, Ireland.



## DOLMEN SECURITIES LTD

75 St. Stephen's Green, Dublin 2, Ireland.  
45 South Mall, Cork, Ireland  
Theatre Court, Mallow St, Limerick, Ireland.

Tel : +353 1 633 3800/1890 400 300  
Tel : +353 21 422 2122  
Tel : +353 61 436 500

E-mail: [info@dsl.ie](mailto:info@dsl.ie)  
E-mail: [cork@dsl.ie](mailto:cork@dsl.ie)  
E-mail: [Limerick@dsl.ie](mailto:Limerick@dsl.ie)