

DOLMEN WEEKLY TRADER



Weekly Market Commentary March 15th 2010

We expect range bound trading in equity markets this week with some potential outperformance in the US in particular the Nasdaq as profit taking in commodity stocks weighs on the FTSE. With strong data out of China last week and higher than expected inflation figures, concerns that the People's Bank of China may tighten monetary policy at some point this week could potentially lead to pressure on the mining sector. However we perceive a pull back as a buying opportunity as the outlook for the sector remains positive in light of the continuing global economic recovery. Credit markets continue to tighten and we expect this trend to continue this week as the short-term issues surrounding Greece and the rest of peripheral Europe abate. On the currency front we expect the US dollar to rebound following last weeks sell off and would use it has a chance to short the EURUSD currency pair from current levels. Oil remains our preferred commodity play with both OPEC and the IEA raising their demand forecasts based on the improved economic outlook and we would look to buy close to the \$80.00. As for key events this week, the main focus will be on economic data in particular out of the US. We expect no change in US interest rates (both target rate and discount rate) on Tuesday and anticipate the Federal Reserve to maintain its dovish tone in relation to the outlook for monetary policy. Housing data also due for release on Tuesday will be important and following a string of poor readings we will be closely watching for any further deterioration.

Trading Recommendations

Ryanair - Buy Previous close (€3.49) Target (€4.30) **Analyst:** Edward Keeling

US peers & IATA: US airlines Delta, United Airlines and Southwest citing improved sector demand. Meanwhile the International Air Transport Association has lowered its industry loss forecasts by 15%.

Average Fare: Fare trends improving reflecting route maturity & favourable capacity dynamics.

Cost Base: Lowest cost base continues provide competitive advantage versus peers.

Balance Sheet: €2.4bn of cash reserves and just c.€200m net debt.

Cash Distribution: c.€0.68c a share to be returned to shareholders by FY2013.

Key Risks: European economic deterioration, oil price spikes and weak sterling

Next Catalyst: Traffic figures 5th April

P/E: 15x **Dividend Yield:** 0%

BP - Buy Previous close (620p) Target (680p) **Analyst:** Brian Gallagher

Devon Energy Deal: \$7bn acquisition has given BP access to prolific Brazilian licences while also derisking the company's 1-2% production growth targets

Strategic Direction: CEO Tony Hayward's recent comments in relation to the potential for further cost cuts in the region of \$2-3bn illustrates that BP remains a restructuring play

Core Portfolio Stock: A secure dividend coupled with valuation metrics that remain below historic averages makes it a core portfolio stock.

Balance Sheet Strength: Gearing remains below 30% following the Devon Energy deal

Next Catalyst: Investor seminar from key peers like Shell, Conoco Phillips & Total

Risks: Further contraction in refining margins, drop in energy prices and production interruptions

P/E: 9.1x **Dividend Yield:** 6%

Paddy Power - Buy Previous close (€22.75) Target (€27.50) **Analyst:** Edward Keeling

Valuation Premium: Trades at valuation premium when compared with its land based peers reflecting its greater exposure to the online growth channel, stronger balance sheet and growth potential.

Market Share: Continues to gain market share in Irish & UK retail operations & in its online division.

Geographical diversification: Paddy Power's recent acquisitions and strategic partnerships mean it has diversified its exposure to include the Australian and French markets.

UK Retail: Cheap expansion providing long term competitive advantage versus peers.

Balance Sheet: c.€75m of net cash. Leaves room for more opportunistic acquisitions.

Next Catalyst: Cheltenham Festival

Key Risks: Increased competition and online gaming tax.

P/E: 16x **Dividend Yield:** 2.5%

Trading Call Up-Dates

Microsoft : Last week Microsoft said that it became the number one sale of game consoles in the US during February, making its way to the top of the game console list for the company in two years. In addition to an improving outlook for its Entertainment and Devices Division, Microsoft is in the midst of its strongest product refresh cycles ever. The next main catalyst for the company will be in June with the expected release of Office 2010 and should help lead to a pick up in enterprise spending by corporates and adoption of Windows 7. We remain buyers of the stock from current levels.

Irish Banking: Last week AIB raised €3bn from the bond markets under Government Guaranteed issuance. Process for NAMA is continuing with the agency meeting with developers and discussing business plans. Loans will begin to move towards the end of the month with recapitalisation to follow shortly after. Large amount of bad news already out & we don't expect the newsflow to get any worse.

JPM: A number of challenges face the banking sector and ROE will not return to pre-crisis levels in the near future. The strong market position JPM has gained will drive its profitability and we remain positive on the stock over the next number of months.

Key Market Moving Events

MONDAY

Corporate

ESI Group SA, Bulgari SpA, UBS AG, Aryzta AG, TT Electronics PLC

Economics

Rightmove House Prices UK, Eurozone Employment EC, Empire Manufacturing US, Industrial Production US, Capacity Utilization US

TUESDAY

Corporate

Aeroports de Paris SA, Deutsche Bank AG, Deutsche Post AG, UniCredit SpA, Debenhams Plc, Close Brothers Group PLC, G4S Plc

Economics

DCLG UK House Prices UK, ZEW Survey GE, Euro-Zone CPI EC, Import Price Index US, Housing Starts US, Building Permits US, FOMC Rate Decision US, ABC Consumer Confidence US

WEDNESDAY

Corporate

Ingenico SA, BMW Bayerische Motoren Werke AG, Linde AG, EFG International AG, French Connection Group PLC, Xaar PLC, Vestas Wind Systems, Chemring Group, Nike

Economics

Bank of England Minutes UK, Jobless Claims UK, ILO Unemployment Rate UK, Construction Output EC, Euro-Zone Labour Costs EC, Mortgage Applications US, Producer Price Index US

THURSDAY

Corporate

HeidelbergCement AG, National Bank of Greece SA, Titan Cement Company S.A., Benetton Group SpA, Collins Stewart Plc, Savills Plc, SIG PLC, Aegis Group PLC, Investec Plc, FedEx

Economics

Euro-Zone Current Account EC, UK, M4 Money Supply UK, Euro-Zone Trade Balance EC, Consumer Price Index US, Initial Jobless Claims US, Philadelphia Fed. US, Leading Indicators

FRIDAY

Corporate

Allianz SE, Headlam Group PLC, T Clarke PLC, Theolia SA

Economics

Producer Prices GE, Chicago Fed Nat Activity Index US, Euro-Zone Consumer Confidence EC

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