

DOLMEN WEEKLY TRADER



Weekly Market Commentary August 16th 2010

The main direction this week will arise from policy actions and comments from monetary and financial authorities. Irish debt took centre stage last week post weak banking results, negative credit rating agency comments on Irish mortgage securitisations and perceived poor demand for Irish government issues Irish yields increased relative to global and indeed European peripheral counterparts. We see this as heavy indigestion into the issue of additional Irish debt rather than any wholesale capital market attack on Irish ratings and the ECB was rumoured to have bought Irish debt to stabilise the market. Matters were not helped by the AIB results and talk of nationalisation nor with the uncertainty over the capital requirement for Anglo Irish Bank. It should be noted that there was also a widening in the yield spreads for Portugal and Spain. Actions by the Fed along with dovish comments from the BoE concerned the need for lower interest rates and money supply being necessary to stimulate growth. Deflation concerns are now being voiced again. Due to these concerns we are reducing our growth forecasts. We believe €-zone growth for the full year will be in line with 1.00%, with US growth to come in sub 3.00%. Similarly we see slowdowns in UK, China and Japan growth for the full year. UK inflation following the BoE monthly report may also be lower than our current estimate. While good for bonds this is poor for equities. We noted last week the differential in earnings forecasts between economic top down forecasters and bottom up equity forecasters. Lower growth is beginning to flow into earnings guidance with analysts moving estimates lower with recent adjustments suggesting 12% may be more correct than the former 20% for 2011. We see markets remaining concerned this week and technicals argue for continued weakness. On this basis we would reinstate our hedge against positions. Commodities too suffered from perception of lower demand and the growth concerns over Europe caused the dollar to reverse recent weakness against the Euro.

Trading Recommendations

National Grid - Buy Previous Close (538p) Target (580p) **Analyst:** Oliver Gilvarry

We are recommending that clients add the international electricity and gas company, National Grid, to their portfolios. The company owns electricity transmission networks in the UK and Wales and operates the system across the UK. It offers an attractive stable yield combined with high earnings visibility. Furthermore, the company's recent IMS stated that it was positive on the outlook for the full year and reported a 1.3% increase on electricity transported in the first quarter. In the statement National Grid also announced that it was well positioned to deliver another year of good performance, which will underpin its targeted 8% dividend growth policy to 2012. The group has high leverage at 4.4x net debt to EBITDA, but its debt maturities are well spread out with few maturities until 2013 and 2014. The stock is currently yielding 7% which is covered 1.24 times.

Tullow Oil - Buy Previous Close (1262p) Target (1470p) **Analyst:** Brian Gallagher

Tullow Oil's positive momentum has continued with the recent announcement that the explorer encountered high quality oil at its Owo well and performed another successful appraisal in Uganda. The discovery at Owo is potentially transformational for Tullow Oil as it provides greater clarity on the size of the reserves in the area and opens up the possibility of developing another major field in Ghana. We continue to rate the stock as a buy and see further upside in the company's exploration portfolio, particularly as we head into the second half of 2010.

Ryanair - Buy Previous Close (€3.71) Target (€4.70) **Analyst:** Edward Keeling

The recent price weakness in Ryanair's share price provides investors with an attractive buying opportunity. This share price weakness follows profit warnings from UK tour operators TUI Travel and Thomas Cook who both suffered through a fall-off in last minute bookings and cautioned on their full-year outlooks. While Ryanair also depends on last minute bookings, the low-cost carriers business and pricing model leaves them well positioned as price sensitive consumers seek greater value and route choice. The company recently reiterated its March 2011 full-year guidance for profits to increase by between 10 and 15%, while the company has also declared a special dividend of €0.34 to be paid on 1st October (ex-div on 15th September) which provides a 9% dividend yield.

Pharmaceutical Sector Update **Analyst:** Stephen Taylor

Healthcare remains one of our preferred sectors. The sector has begun to outperform recently as the market has moved into a more defensive mode following downgrades to economic growth and concerns surrounding sovereign debt. The main reasons why we like the healthcare sector include; earnings predictability, higher earnings yield, well covered dividend yields, exposure to emerging markets and potential for increased M&A activity. Two of our preferred stocks include GlaxoSmithKline and Pfizer. Both companies have produced solid sets of earnings and provided stable outlooks. Both companies have also signalled increased shareholder returns and should also benefit from increased emerging market share.

Aviva - Buy Previous Close (387p) Target (500p) **Analyst:** Oliver Gilvarry

Aviva released a statement this morning following the disclosure that RSA offered £5bn for its general insurance businesses in the UK, Ireland and Canada. The proposal would have left the pension liabilities associated with these businesses with Aviva along with the European general insurance business. Management believe the general insurance market is at a cyclical low and the current performance does not reflect its full earnings potential. The board believe the highest value will be returned to shareholders by leaving these businesses within the group. We see the approach as positive for Aviva and the sector. It highlights the attractiveness of Aviva's general insurance business and does raise the possibility for the break-up of the group. We re-iterate our buy on the stock.

Tech Results **Analyst:** Stephen Taylor

The technology sector has underperformed of late on concerns surrounding global growth. Comments from Cisco last week and earnings downgrades by analysts for Intel have heightened concerns. It should be noted however that Cisco still plans to add 3,000 new employees and continue its aggressive expansion plans, while the outlook for the PC market despite recent weakness remains favourable. Tech companies also benefit from major net cash balances, attractive p/e multiples: Microsoft 10x, Intel 9x, Cisco 12x and revenue growth through innovative product offerings that will remain in demand despite the slowdown. We remain overweight the technology sector.

This Week's Market Events

MONDAY

Corporate

Lowe's Co. Q2, Urban Outfitters Q2, Sysco Q4

Economics

Euro-Zone CPI EC, Empire Manufacturing US, Net Long-term TIC Flows US, NAHB Housing Market Index US

TUESDAY

Corporate

Carlsberg Q2, Wal-Mart Stores Q2, Home Depot Q2, Analog Devices Q2

Economics

CPI UK, RPI UK, ZEW Survey GE, Producer Price Index US, PPI Ex Food & Energy US, Housing Starts US, Building Permits US, Industrial Production US, Capacity Utilization US

WEDNESDAY

Corporate

Vestas Wind Systems Q2, Schuler Q3, Target Q2, Applied Materials. Q3, Deere & Co. Q3

Economics

Bank of England Minutes UK, Construction Output SA EC, MBA Mortgage Applications US

THURSDAY

Corporate

Holcim Ltd Q2, Travis Perkins S/HOLDERS, Hewlett-Packard Q3, GAP Q2

Economics

Producer Prices GE, Major Banks Mortgage Approvals UK, Retail Sales UK, M4 Money Supply UK, Initial Jobless Claims US, Continuing Claims US, Philadelphia Fed. US, Leading Indicators US

FRIDAY

Corporate

No Announcements

Economics

No Announcements

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