



Equity markets continue to display increased volatility as the banking sector continued to display signs of discomfort. The newsflow out of Lehman Bros and Washington Mutual early last threatened to pull equity markets sharply lower, while a severe weakness in the UK banking and house building sector took the form of a near capitulation trade as hedge funds targeted these two sectors. With oil trading in an increasingly volatile way, but still hovering around an uncomfortable level around \$135, the focus on inflation continued to increase. The silver lining for markets in the latter half of the week were the data we identified as being crucial for investors. The US Retail Sales figures surprisingly strong boosting the hope that maybe the US consumer still has his head above water, while the CPI data on Friday came in no worse than expected despite higher energy and food prices. With only a smattering of corporate releases this week (Best Buy and Goldman Sachs on Tuesday), the focus for equity investors will be firmly on the economic releases which include inflation and retail sales readings out of the UK, as well as housing data in the US. While the recovery at the end of last week was encouraging for investors, any negative news from these data releases and indeed out of the banking sector will increase the risk of a further period of equity market weakness

## TRADING IDEAS, EARNINGS & PREVIEWS

### BP

**Price:** 585p  
**P/E:** 8.3x  
**Div:** 3.8%  
**Target:** 700p

**Fundamental View :** The share price of **BP** has fallen by c.10% over the past month, despite the oil price rising by c.2% over the same period, largely as a result of concerns over the future ownership of its Russian business, TNK-BP. BP is trying to buyout the 50% of the business owned by AAR to improve TNK-BP's efficiency, but needs to achieve government approval for the deal, which would replace AAR with a Russian state company such as Rosneft or Gazprom, before proceeding. This uncertainty has helped generate an attractive entry level into a business which is a significant beneficiary of higher oil and gas prices.

**Next Catalyst :** Last month, we upgraded our current 12 month share price target for BP to £7, which is based on 10x 2008 eps of 70p. In addition to the impact of higher oil and gas prices, the upgrade was driven by lower than previously expected costs from operational improvements, combined with continuing production growth. Further evidence of continued production growth and cost savings in the Q2 2008 results' announcement next month, on 29th July, could be a catalyst for a further re-rating of the share price. BP also remains on course to pay a current year dividend yield of c.4.7%, paid quarterly, which pays investors for waiting for such a further upward re-rating this year

**Chart View:** Weakening momentum suggests any gains may be limited to the 600 area in the short-term.

### BUY

### IN&M

**Price:** €1.90  
**P/E:** 9.7x  
**Div:** 7.3%  
**Target:** €2.30

**Fundamental View :** The share price of **Independent News & Media** (INME) fell by 16% last week as the consensus current year eps forecast was reduced by c.5% after the group's AGM update indicated that Irish advertising revenues would decline by c.5% this year.

However, with its South African business still generating strong circulation growth and its Australian business still generating strong outdoor advertising growth, a flat current year group eps of 19c would still appear achievable.

**Next Catalyst :** The above average probability of further major shareholder stake-building provides a continued potential positive catalyst for the share price. INME's consistently stronger than sector average earnings growth justifies at least a sector average rating of 12x 2008 earnings, and so our current 12 month share price target of €2.30 (21% upside) is based on 12x 2008 eps of 19c. When combined with a current year dividend yield of c.7.8%, this provides a very attractive 12 month total return from current levels

**Chart View :** Stock is approaching oversold levels and is likely to be well supported in the €1.80 area.

### BUY

### British Airways

**Price:** 250p  
**P/E:** 17x  
**Div:** 2.4%  
**Target:** 201p

**Fundamental View :** **BA** recently reported a 0.7% year on year decline in passengers numbers for May 2008, as well as a 1.5% decrease in its load factor to 71.8%. This shows that higher average fares because of higher fuel costs are starting to reduce demand, particularly on long-haul routes. Unlike Ryanair, BA's non-fuel costs are also expected to rise this year, resulting in an operating profit and eps of only £60m and c.1p being generated. With consensus current year earnings forecasts still at c.£240m and 17p respectively, there is a high probability of further earnings downgrades over the coming weeks acting as a negative share price catalyst.

**Next Catalyst :** Further evidence of this weaker year on year demand is likely to be contained in the airline's June traffic figures, due to be released on Thursday fortnight, 3rd July, as well as in its H1 2008 results' announcement on 1st August. However, in the short term, further moves higher in the oil price could be the most imminent catalyst for further share price weakness. Our view is that clients can capitalise on this through a **SHORT** position in BA this week :

**Chart View :** BA is attempting to break out of its 3-month 200-250 trading range. Watch the 256 level

### Short

### Tesco

**Price:** 390p  
**P/E:** 15x  
**Div:** 2.6%  
**Target:** 465p

**Fundamental View :** Last week shares in **Tesco** fell by 3% following the group's quarterly trading update. We believe the drop in the group's share price has led to an excellent buying opportunity. The weakness in the group's share price was driven primarily by a slight miss in sales growth from its UK division. International revenue growth was again very strong at 26.6%. International revenue now represents 26% of group revenue and should help insulate the company from any further deterioration in the UK economy.

**Next Catalyst :** The next company specific catalyst for Tesco will be on 30/09/08 when the group is due to report its interim results, while one its closes peers Sainsbury will issue a trading statement on 18/06/08.

**Chart View :** Stock is approaching strong support in the 380 area. Further support at 364. Buy.

### BUY

### BMW

**Price:** €33.49  
**P/E:** 8.3x  
**Div:** 3.5%  
**Target:** €33

**Fundamental View :** Our short trading call on **BMW** has worked well once again with the stock falling by 10% since we reinitiated coverage of the trade two weeks ago. Last week the group reported a 4.4% decline in European sales for May on top of the continuing declines that its US division has been reporting. With revenue growth a challenge for BMW this year, increasing raw material costs are also pressuring the group's operating margins. Given the difficult economic environment along with rising commodity prices we see little positive news flow on BMW and the auto sector as a whole in the medium-term. While BMW's shares have declined sharply over the last two weeks we would recommend shorting the stock again up around the €36-€37 range.

**Next Catalyst :** BMW is due to report its second quarter results on 05/08/08. We believe that the company could potentially issue cautious guidance given difficulties that automakers are currently facing.

**Chart View :** Daily momentum remains weak and downside risks remain. Next support at €30.93.

### SHORT

### IAWS

**Price:** €15.80  
**P/E:** 15.8x  
**Div:** 1.07%  
**Target:** €18.50

**Fundamental View :** Since the announcement of the creation of a new company called Aryzta from the merger of **IAWS** and Hiestand Holding AG, the share price of IAWS has fallen back from the high of €17.15 it hit on the day of the announcement. The merger will increase the geographical profile of IAWS and will diversify the FX exposure of the firm, for example North America will contribute 21% of operating profit in the new company compared to 28.4% in IAWS.

**Next Catalyst :** The new company will start trading in August and the management of IAWS are currently meeting with investors over the next number of weeks to explain the deal. Full year results for Aryzta will be released on the 22nd of September. The strong track record of management, the availability of €1.9Bn of loan facilities to finance new acquisitions and the diversification of earnings will help drive growth in the new firm. We retain our Buy recommendation on IAWS with a target of €18.50.

**Chart View :** The €15.50 area is important and a close below this support would turn chart sentiment negative. €16.85 continues to be a major upside obstacle.

### BUY

## Earnings Week Ahead

**Mon:** (Austrian Airlines, Traffic) (Adobe Systems, Q2) (Lehman Bros, Q2)

**Tues:** (Whitbread, TS) (Best Buy, Q1) (Goldman Sachs, Q2)

**Wed:** (Sainsbury, Q1) (Woolworth, MS) (Fedex, Q4) (Morgan Stanley, Q2)

**Thurs:** (Irish Life & Permanent, TS) (Cadbury, T.S) (Centrica, TS)

**Fri:** (Banco Santander, AGM)

## Economic Week Ahead

**Mon:** Euro-Zone HCIP Inflation (10.00), US Empire State Index (13.30), NAHB Housing Index (18.00)

**Tues:** UK CPI (09.30), German ZEW (10.00), US Housing Starts (13.30), PPI (13.30), Industrial

**Wed:** BoE Minutes (09.30)

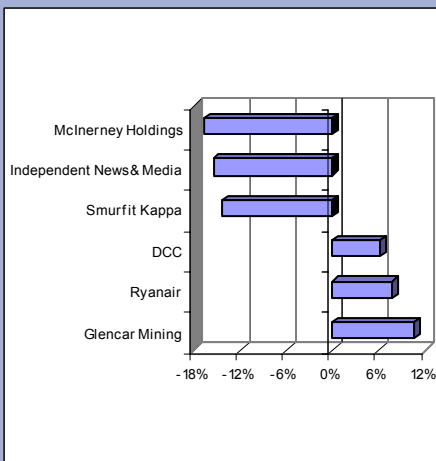
**Thurs:** UK Retail Sales (09.30), US Jobless Claims (13.30), Philly Fed (15.00)

**Friday:** German PPI (07.00)

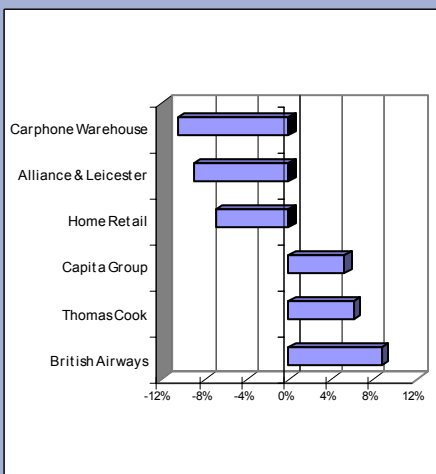
# DOLMEN STOCKBROKERS Traders Update

## Last Weeks Best/ Worst Performers 09/06/08-13/06/08

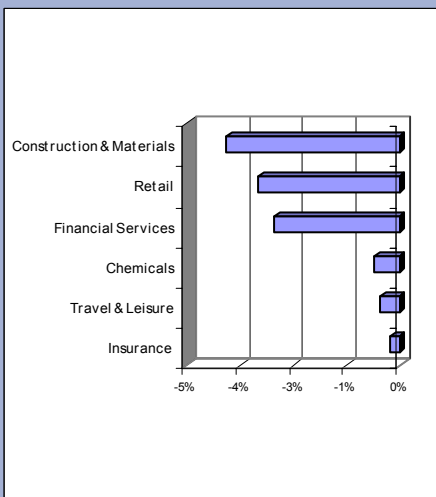
### ISEQ



### FTSE



### Sector changes WTD



## Dolmen Dozen

### WEEKLY UPDATE

Company	WTD	YTD	Relevant news
AIB	-6.9%	-28.81%	AIB increases its tracker mortgage rates by 40bps.
Aviva	-3.4%	-12.33%	Aviva said it would cut as many as 1,800 jobs as part of the transformation of its UK general business.
BP	0.9%	-4.63%	BP offered to buy out Russian partners in their OAO TNK-BP joint venture, but they refused.
IN&M	-16.3%	-17.26%	IN&M warns that second quarter advertising conditions remain volatile.
CRH	-11.4%	-15.68%	CRH peer Uponor issues profit warning, citing weakness in Spain, USA and Nordic regions.
Hewlett Packard	-0.4%	-6%	HP and Acer settle patent litigation.
IAWS	-3.0%	4.99%	IAWS and Swiss baked goods maker Hiestand Holdings announce plans to merge in Q3 2008.
IL&P	-4.9%	-18.62%	IL&P reports mortgage arrears at the end of April were unchanged from levels at December 2007.
Microsoft	5.7%	-18.34%	Microsoft walks away from Yahoo deal.
Paddy Power	0.4%	0.71%	Paddy Power has bought private Northern Ireland betting chain McGranaghan for £19m.
Ryanair	8.7%	-30.04%	EasyJet has opened a consultation for the restructuring of its Dortmund base.
Vodafone	-5.0%	-19.60%	Vodafone prices €1.25bn 2010 bond.

DD Unrealised gain YTD	-5.48%	ISEQ YTD	-18.52%
DD Realised gain YTD	-12.00%	FTSE YTD	-16.15%
DD Total YTD	<u>-14.27%</u>	Average performance	<u>-17.33%</u>
Relative Performance		<u>3.06%</u>	

\* DD Return (Includes dividends & FX changes since stocks inclusion)

### What it says in the 'Sundays'

Company	Paper	Headline
IAWS	S. Business Post	IAWS hold €400 million warchest after merger
AIB	S. Tribune	One-third of AIB mortgages in riskier borrower groups
IN&M	S. Times	Is O'Brien beached, or biding time until rising tide
Barclays	S. Times	Barclays taps sovereign funds for €5bn
Banks	S. Business Post	Irish bank rights issue is possible.

### Upcoming Corporate Visits

#### COMPANY PRESENTATION DATE

Paddy Power 20th June 2008



## Last Weeks Moves

Equities	Level	Change WTD	Change YTD	Div Yield	P/E08
ISEQ	5626	-3.1%	-18.9%	3.6%	8.5
FTSE 100	5907	-1.8%	-10.1%	4.5%	11.1
DAX	6804	-0.6%	-16.1%	3.6%	12.8
Dow Jones	12210	0.8%	-7.2%	2.6%	15.5
S&P 500	1361	-0.1%	-7.4%	2.2%	22.2
Nasdaq	2475	-0.8%	-7.4%	0.9%	37.4
EuroStoxx 50	3050	-0.9%	-18.0%	4.6%	10.7
Nikkei 225	14490	-3.6%	-8.7%	1.5%	17.5

### Technical Short-Term Trading Idea:

**Strategy: Sell Cable on strength (i.e. sell sterling vs. dollar, currently trading at 1.9529)**

#### Comments:

- Cable is trading near the lower end of its one-month congestion area and its daily momentum is weakening. A break of this key support will set up a move to the year low of 1.9338.
- Sterling, unlike the euro and dollar, is not receiving any support from the recent changes in interest rate expectations. This may be due to the growing belief that any tightening by the MPC over the coming months would necessitate a sharp easing at a later stage.
- Macro concerns regarding the outlook for the UK economy continue to increase. The ability of the Brown government and the MPC to react in a manner that would support sterling is somewhat limited. Furthermore, the US Fed and Treasury continue to use dollar supportive rhetoric.

#### Trade:

- Sell Cable in the 1.9570 area.
- The target is 1.9275.
- Place a stop in the 1.9750 area.
- Support: 1.9338, 1.9186, Resistance: 1.9656, 1.9802.

### Commodities

	Current	Change YTD
Crude Oil	\$134.86	+40.8%
Gold spot	\$868.99	+4.2%

### Exchange Rates

	Current	YTD Change	Year End (est)
EUR-USD	1.538	+5.4%	1.45-1.55
EUR-GBP	0.789	+7.4%	0.74-0.78
EUR-JPY	166.0	+1.9%	165.0

### GDP Growth

	Current	Year End (est)
Ireland	5.00%	2.50%
Euro Zone	2.50%	2.00%
UK	3.10%	2.00%

### Central Bank Interest Rates

	Current	3 month	Year End (est)
Euro Zone	4.00%	4.96%	4.25%
UK	5.00%	5.95%	5.00%
US	2.00%	2.81%	2.00%

### Credit Market Summary

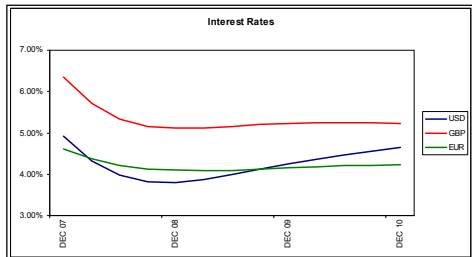
Apart from inflation and macroeconomic worries, bad news from the financial sector dominated sentiment in the credit markets again last week. Lehman and HBOS both suffered greatly in the equity markets while credit investors were more contained in their reaction which demonstrates equity is catching up to credit which had already discounted the bad news. Spreads widened mid-week, with high yield spreads bouncing off the 500bps level to end the week tighter overall. Credit investors will continue to watch the recapitalisation story as it unfolds however the unpleasant news from the banking sector is likely to continue into the Q2 earnings season and keep markets volatile.

## Credit Sector Movements

**Building materials:** Wider in the sector – Heidelberg widened 10.4% despite having its long term rating affirmed and the outlook revised from negative to stable by S & P during the week S & P expect HEI will reduce debt further from either cash flow or proceeds from asset disposals. Elsewhere Saint Gobain are fielding bid for the packaging unit, which is worth an estimated €4b (rumoured bid from Ardagh Glass)

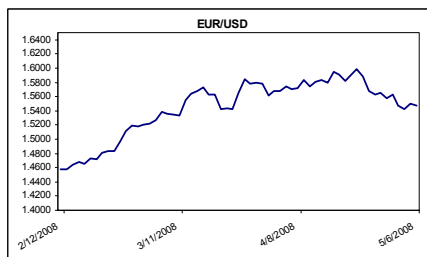
**Airlines:** Mixed in the sector – British Airways widened 11% while Lufthansa widened 6% despite reports in the New York Times this week these airlines had benefited most fuel hedging – LHA had hedged 83% of fuel to end 2008 while BA hedged 72% in H1 2008 and 60% in H2 2008.

### Interest Rate Outlook

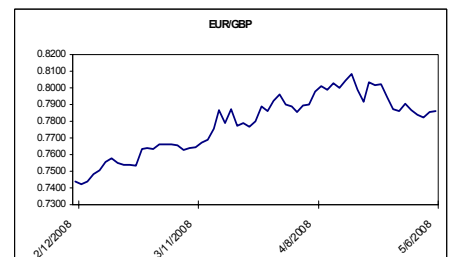


Global bond markets sold off heavily last week as central bankers continued to reiterate their hawkish inflation stance. The US two-year yield rose above 3% for the first time since the start of the year on expectations that the Federal Reserve will increase interest rates by the end of the year. The yield on the European equivalent was higher by 8bps over the week at 4.62%.

### Currency Comment



The \$ had its largest weekly gain in three years following a string of hawkish comments from Federal Reserve officials and on the back of the no vote on the Lisbon Treaty from Ireland. The \$ could strengthen further this week if US PPI numbers due for release on Tuesday come in stronger than expected.



£ remained firmer against the Euro last week on the back of record PPI figures for May out of the UK. Inflation will again be a key theme in the UK this week with CPI data due for release on Tuesday and expected to increase by 0.2% to 3.2%. A stronger than expected number could see the £ strengthen further.



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