

# DOLMEN WEEKLY TRADER



Weekly Market Commentary May 17th 2010

We maintain our cautious stance towards equity markets this week and see the potential for a further pull back on concerns surrounding the uncertainty in Europe. With markets unable to break through key resistance levels towards the end of last week we believe that the selling on strength trend is likely to continue. We see the FTSE underperforming as mining and bank shares are likely to weigh on the index. With the global economic environment continuing to improve we remain longer-term positive on equities in particular to those companies with exposure to the US and Asian markets. On the commodity front, we believe that a continued flight to safety will be observed and Gold is our preferred play. We expect crude oil and copper to continue to move lower in line with our call on equities. Our ideal entry level on Gold is sub \$1,227 a troy ounce, targeting \$1,290 on the upside. On the currency front, our year end target on the €/£ of 1.25 has already been hit. Given the developments in the last number of weeks we do not see much support for the €uro and we are moving our €/£ target to 1.15 for year end. On €/£ we expect the currency pair to trade in a range of 0.84 – 0.88 towards year end with a bias towards the 0.84 level. As for the week ahead the main focus will be in Europe with Finance Ministers due to meet on Monday and Tuesday to discuss the financial situation in the euro-zone and austerity measures recently announced. On the data front German business confidence data will be in focus, while in the US CPI figures and manufacturing data will also be key. Minutes from both the BoE and Fed's recent interest rate meetings will also get market attention.

## Trading Recommendations

### Market Volatility

In light of the expected weakness in equity markets, we are recommending that traders hedge long positions using **index futures or the cash ETF (Bloomberg Ticker: XUKS LN)**. This trade will limit capital losses in the event of further downside to equity markets. We also are recommending reducing exposure to high beta sectors which will underperform in the current market environment. It is important to note that we maintain our long term bullish view on equities & we believe that there is value in stocks with strong balance sheets & globally diversified earnings.

**CRH - Buy** Previous close (€17.84) Target (€21.50) **Analyst:** Stephen Taylor

**Improved US market** : The recent improvement in activity in the US in particular at CRH's materials division which generates highest EBITDA margins for CRH bodes well for profitability.

**Balance sheet** : One of strongest balance sheets in sector that will allow the group make future acquisitions, although company has been relatively slow on announced deals.

**Valuation** : Valuation attractive and 8x EBITDA and company will benefit from stronger US dollar

**Risks** : Economic situation in Europe remains uncertain and major cut back in government and commercial projects could effect earnings.

**Next catalyst** : CRH will issue a trading statement and development update on 7<sup>th</sup> July.

**Intel (Target \$25.00) & Microsoft (Target \$35.00) - Buy** **Analyst:** Stephen Taylor

Last week Intel provided an upbeat assessment of the PC market pointing out that it remains a growth industry. It also noted that it expects double digit growth in EPS and revenue over the next few years. The group indicated that it was highly confident in its second quarter guidance. Microsoft commented last week that it expects customers to adopt the new version of Office 2010 at the fastest pace in the group's history of office operating systems. It said that Office 2010 was now available for corporates and the retail version is expected to be released in June. M&A activity remains a key theme in the technology sector. Last week SAP announced it was due to acquire Enterprise Software firm Sybase for \$5.6bn, while Hewlett-Packard recently announced that it was to purchase Palm for \$1.2bn. Given the strength of corporate balance sheets among technology companies we expect M&A to continue and should help support sector valuations. Microsoft and Intel remain two of our preferred technology plays and we recommend using recent weakness to continue to build positions in both names. **Next Catalyst** : Hewlett-Packard will report quarterly earnings on Tuesday May 18<sup>th</sup>.

**Vodafone - Buy** Previous close (135p) Target (155p) **Analyst:** Stephen Taylor

**Results due** : Vodafone is due to report full year results tomorrow May 18<sup>th</sup>. We expect the group to report EPS of 15p on revenue of £44.1bn.

**Data growth** : We expect data to be a key driver of growth in more mature markets.

**Emerging markets** : Vodafone's focus on emerging markets has helped to insulate it from downturn. While pricing and margin pressures remain in India, subscriber numbers continue to grow strongly

**Valuation** : Vodafone's valuation is attractive at 9x earnings and providing a dividend yield 5.7%.

**Risks** : Euro segment reverses recent positive trend and resumes negative growth. Large capital spend due to increased data traffic.

**C&C - Buy** Previous close (€3.45) Target (€3.90) **Analyst:** Edward Keeling

**Spirits Business Disposal**: C&C recently announced the disposal of its Sprints & Liqueurs division for a cash consideration of €300m at an attractive EBITDA multiple of 19.6x.

**Balance Sheet & Further Acquisitions**: The sale de risks C&C's balance sheet, reducing net debt/EBITDA to just 0.6x. It will also allow the group to pursue further earnings enhancing acquisitions.

**Business Model**: In the last year C&C has transformed itself from a one product company, to a portfolio of brands. It has acquired ABI's Tennant's brand and Gaymer's UK cider portfolio.

**Catalysts**: 25th May Full Year Results, soccer world cup & key summer trading season.

## This Week's Market Events

### MONDAY

**Corporate**  
Sanofi-Aventis AGM

### Economics

Rightmove House Prices UK, Empire Manufacturing US, Net Long-term TIC Flows US

### TUESDAY

### Corporate

Paddy Power TRADE/AGM, DCC PRELIM, British Land Q4, RDS S/HOLDERS, Next AGM, Home Depot Q1, Wal-Mart Q1, HP Q2, Abercrombie & Fitch. Q1, Vodafone PRELIM

### Economics

CPI UK, RPI UK, Euro-Zone CPI EC, ZEW Survey EC, €Zone Trade Balance, Producer Price Index US, Housing Starts US, Building Permits US, ABC Consumer Confidence US

### WEDNESDAY

### Corporate

Scottish & Southern PRELIM, Land Securities PRELIM, ICAP PRELIM, Credit Agricole AGM, COMMERZBANK AGM, Bol EGM, Statoil AGM, Prudential AGM, Target Q1, AIR France KLM Q4

### Economics

Bank of England Minutes UK, Construction Output EC, MBA Mortgage Applications US, CPI US, Minutes of FOMC Meeting US

### THURSDAY

### Corporate

Air Berlin Q1, WestLB Q1, Mothercare PRELIM, Investec PRELIM, Audi AGM, Kenmare PLC AGM, Total Produce AGM, Trinity Biotech AGM

### Economics

Producer Prices GE, Retail Sales Ex Auto Fuel UK, Initial Jobless Claims US, Continuing Claims US, Philadelphia Fed. US, Leading Indicators US

### FRIDAY

### Corporate

United Utilities Plc PRELIM Total SA AGM, National Bank of Greece SA AGM, Alliance Trust PLC AGM, British Airways PLC Q4

### Economics

BOJ Target Rate JN, GDP GE, IFO - Business Climate GE, Total Business Investment UK, M4 Money Supply UK, PMI Services EC

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