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IRISH PAPERS TODAY

Lenihan insists €500,000 pay cap will not be breached at AIB (*The Irish Times*)

IL&P shares fall sharply as it raises forecast for loan losses (*The Irish Times*)

US output for October comes in under forecast (*Irish Independent*)

INTERNATIONAL PAPERS TODAY

US president's currency call breaks with script (*Financial Times*)

UBS aims for 20% return on equity (*Financial Times*)

Obama's visit to China ends in frustration (*The Wall Street Journal*)

Market View

Analyst : Stephen Taylor

European equity markets are slightly stronger this morning reversing some of yesterday's losses. US equity markets closed at the high of the day yesterday after a shaky start following on from some disappointing earnings and cautious comments from retailers Home-Depot and Target. The US dollar continues to remain in focus and is slightly weaker today reversing some of yesterday's gains. ECB president Jean-Claude Trichet echoed Ben Bernanke's comments the previous day that a strong dollar is of international interest. Trichet also signalled that current monetary policy remains appropriate a further indication that interest rates are likely to remain on hold at 1% for some time and therefore a positive read-through for equity markets. It is relatively quiet on the corporate front today with the main focus on economic data. Bank of England minutes are due for release at 9.30am and will provide a further insight into the potential for further quantitative easing. Last week Governor Mervyn King did not rule out the possibility for further quantitative easing measures that currently stand at £200bn. In the US CPI data is expected to show some signs of improvement, while housing permits and building starts data out of the US will be closely watched.

AIB : Neutral **Yesterday's Close** €1.75 **Target Price** €3.00 **Analyst** : Oliver Gilvarry

AIB released its Interim Management Statement (IMS) this morning reporting that all divisions for the year will have positive operating profit. The group overall will report pre-provision profits of €2bn. Capital markets will be the largest contributor to operating profit for the year. The higher cost of deposits impacted on profitability in Ireland and UK divisions. Demand for loans remains muted especially in Ireland, but the group aims to increase slightly loan growth in Poland due to higher return opportunities. For the full year, loan growth will be zero. Customer deposit flows have stabilised with the loan deposit ratio at 1.52x from 1.56x at the half year. The improvement in deposit flows has come at a cost, with Net Interest Margin (NIM) guided to fall by 25bps to 1.96%, slightly better than expected by the market. The pace of decline in asset quality is slowing, but that seems to be due to the large level of loans in the criticised category rather than any improvement in credit quality. In the second half of the year, guidance is for criticised loans to increase but at a lower level than the €18bn increase reported at the half year. Impairment guidance for the full year has been increased from €4.3bn to €5.3bn or 4.1% of the loan book. The majority of the increase relates to loans moving into NAMA. On the €24bn portfolio moving into NAMA, 27.9% was impaired at the half year and this has increased to 44% by year end. This highlights the deterioration in the quality of the property book and could impact on the price paid by NAMA for some of these loans. The increase in impaired loans on the portfolio to be transferred to NAMA could be the reason for the change in tone by AIB on the haircut it will face. In September it indicated the haircut would be below the industry average of 30%, today's statement indicates management now believe the haircut will not fall "significantly outside the Minister's guidance of 30%." This would increase the potential capital requirement for the group. Core tier 1 for the group remain constant at 8.5% for the end of September, adjusting for the Government preference shares the equity core tier 1 is circa 5.8%. This compares to equity tier 1 of 6.6% for BOI. Management did refer to the aim to raise capital over the next 12-18 month, but no firm plans or details were given. The statement also referred to the submission of the restructuring plan to the European Commission, but no indication of the potential outcome from the plan were given. In our view the key point in the statement was the percentage of loans moving into NAMA now impaired compared to the half year. The comments by the bank on the potential haircut to be applied on this portfolio were also negative. Due to these points plus the lower equity tier 1, we retain our Neutral rating on the stock.

Glanbia : IMS Update

Yesterday's Close €2.80

Analyst : Edward Keeling

Glanbia has reported an interim management update. It has warned against particularly weak consumer sentiment during an increasingly competitive retail market for consumer products. Incorporating such it expects its full year 2009 eps to be between 30c to 31c, the lower end of current market consensus estimates. The group has indicated this can primarily be attributed to weak dairy markets. It does however note that in recent months there has been a welcomed uplift in global dairy prices but warned it is still early days. It has reiterated that consumer sentiment remains weak and there is considerable uncertainty going forward. As a result the board remains cautious on the rate of growth in 2010 at this point. Our preference in this sector remains for Kerry Group. We remain very positive on Kerry's earnings prospects and view its current valuation as attractive. We anticipate the group will continue to grow margins into next year and as result, post at least 5% eps growth.



United Drug: Buy Yesterday's Close €2.22 Target Price €2.65 Analyst :Oliver Gilvarry

United Drug released its full year results this morning and the group's performance was broadly in line with expectations. Revenue came in at €1.71bn, 2 % ahead of last year and is compared with consensus estimates of €1.73bn. Adjusted profit before tax was €66.9m resulting in an eps of 23.4c. Revenues at its Contract Sales & Marketing division rose 13% year on year. This is the result of new business wins and the expansion of existing contracts. Reflecting strong cashflow the group is paying an final dividend of 5.7c resulting in a full year payout of 8c. The group's balance sheet remains solid with net debt €159m, resulting in a net debt/EBITDA of 1.65x. Going forward the group remains positive about its growth opportunities and it is confident that its good internal cashflows will support its growth objectives.

Microsoft Buy

Current Price : \$29.94

Price Target : \$35.00 (Previous \$28.00)



DOLMEN STOCKBROKERS

Analyst: **Stephen Taylor**

- Recent results** : On 23rd October, Microsoft reported a strong set of fiscal first quarter 2010 earnings that came in well ahead of expectations. Microsoft posted a 17% decline in EPS to \$0.40 while revenue declined by 14% to \$12.92bn. Both figures beat analyst expectations of \$0.32 and \$12.4bn respectively. Encouragingly these results included the deferral of \$1.47bn of revenue an impact of c. \$0.12 of diluted earnings per share, relating to the Windows 7 upgrade option program and sales of Windows 7 to OEMs and retailers before general availability. One of the key trends in Microsoft's results was the strength of the consumer with improved demand for PCs (a point echoed by Intel) and better than expected sales of the Xbox. Microsoft's results did highlight however that corporate spending does remain subdued.

- Cost-Savings** : Microsoft's operating cost containment has also been a key driver of its positive share price performance over the last number of quarters. In light of the economic downturn the company has been quick to cut costs and reduced its full year operating expense estimate by \$300m to \$26.2bn. Microsoft had already cut operating costs by c. 7%. The increased cost savings measures will lead to increased operating leverage when revenue growth returns this year. Microsoft recently said that it had cut 5,800 jobs, 800 more than expected.

- Windows 7** : One of the main catalysts for Microsoft has been the release of its new operating system Windows 7 (released October 22nd) to takeover from Vista. The product is seen as a major improvement on Vista and will be a key driver of earnings over the next number of years. On November 5th, Microsoft CEO Steve Ballmer indicated that sales of Windows 7 in the first 10 days had been 'fantastic'. In addition research firm NPD Group also said that at the retail level, Microsoft had sold triple the number of units of Windows 7 in the first number of days on the market.

- Balance sheet & share buyback** : Microsoft has one of the strongest corporate balance sheets in the world with c. \$30bn of net cash. The group has recently started issuing debt securities to improve its capital structure and was awarded a triple A debt rating by Standard & Poors. In light of Microsoft's strong balance sheet, the company has indicated that it will purchase around 15 companies this year. In addition the group's strong cash flow generation, Microsoft has also re-stepped up its share buyback program as the uncertainty around the economic environment has subsided. The group has c. \$33bn of its current \$40bn share buyback program remaining and we see this as continuing support for its share price as the buy back program returns to more normalised levels.

- Valuation** : Microsoft remains one of our long-term high conviction buys. We set our new price target at \$35 based on the company trading at 17x 2011 consensus EPS of \$2.08. We set the multiple at 17x based on the average price to earnings multiple that Microsoft has traded over the last 5 years. We view it as even slightly conservative as the company has traded above 20x in the past without having the same strong product pipeline that it does now. Recent results from Intel and Hewlett-Packard suggest that demand for PCs is beginning to pick up and we would expect Microsoft to be a significant beneficiary of this. In addition the main positive surrounding the improvement in demand for technology products has been around the consumer. We believe that as corporate spending begins to improve in 2010, this could potentially be another significant catalyst for Microsoft.

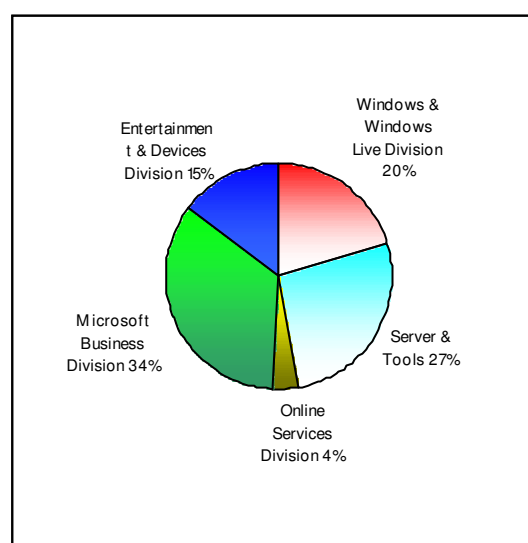
Descriptive Stats		Shareholders	
Price (€)	29.94	Bill Gates	7.80%
52 Week High	29.95	Steve Ballmer	4.60%
52 Week Low	14.87	Capital Research	4.01%
Bloomberg	MSFT US	Bardays Global	3.83%
Reuters	MSFT	Vanguard Group	3.09%

	FY10	FY11	FY12
Revenue (€m)	59,755	64,096	69,553
EBITDA (€m)	23,665	25,556	26,466
EPS (c)	1.83	2.08	2.42
DPS (c)	0.52	0.54	0.56
Div Yield	1.74%	1.80%	1.87%

Company	P/E 10	P/E 11	Div Yield
Microsoft	16.4	14.4	1.74%
Oracle	15.0	14.0	0.95%
SAP	16.5	14.7	1.60%

Other Large Cap Tech Peers			
Google	23.1	18.8	0.00%
Apple	26.8	21.9	0.00%

Turnover by Division Q1 2010





International Equity Markets

Index	Value	1-Day	YTD
ISEQ	2,900	-1.9%	23.9%
FTSE	5,346	-0.7%	20.7%
Dow Jones	10,407	1.3%	18.9%
S&P	1,109	1.4%	22.9%
Nikkei	9,730	-0.6%	9.2%
Stoxx 50	2,907	-0.7%	19.3%

Sector Performances

Sector	Index	1-Day	YTD
Construction	269	-1.3%	1.7%
Technology	186	-0.1%	3.6%
Oil & Gas	326	0.1%	2.6%
Financials	235	-1.3%	2.2%
Retail	245	0.2%	1.7%
Food & Drink	291	0.6%	3.9%

Commodity Prices

Commodity	Index	1-Day	YTD
Crude Oil	79.1	0.3%	35.7%
Copper	313.3	0.1%	119.7%
Gold	1,141.3	0.2%	29.9%
Silver	18.4	-0.1%	64.6%
Wheat	596.5	2.2%	-13.6%
Cattle	85.7	0.6%	-6.6%

Currency Exchange Rates

Commodity	Index	1-Day	YTD
€/\$	1.488	-0.6%	-6.4%
€/£	0.885	-0.6%	7.6%
£/\$	1.681	0.0%	-13.0%
\$/JPY	89.255	0.2%	1.7%
€/JPY	132.773	-0.4%	-4.8%
€/SFR	1.512	0.2%	-1.2%

5Yr Credit Spreads

Commodity	Index	1-Day	YTD
Invest Grade	85.6	1.4%	-51.8%
High Yield	508.9	1.7%	-50.8%
Financials	70.7	0.3%	-40.2%
BoI	182.7	4.6%	-26.4%
AIB	203.6	6.6%	2.2%
RBS	130.5	0.6%	-5.6%

Money Market Rates

Rate	EUR	UK	US
Overnight	0.3%	0.5%	0.2%
3-Month	0.7%	0.6%	0.3%
1-Year	1.2%	0.9%	0.5%
2-Year	1.7%	1.8%	1.1%
5-Year	2.7%	3.2%	2.5%
10-Year	3.5%	3.9%	3.4%

Date	Company	Region	Event
18/11/2009	AIR France-KLM	FR	Q2
18/11/2009	United Drug PLC	IE	PRELIM
18/11/2009	Volvo AB	SE	TRAFFIC
18/11/2009	Bovis Homes Group PL	GB	TRADE
18/11/2009	Close Brothers Group P	GB	Q1 TRADE
18/11/2009	Land Securities Group F	GB	INTERIM
18/11/2009	Mothercare PLC	GB	INTERIM
18/11/2009	Wolseley plc	GB	TRADE
18/11/2009	Kenmare Resources PL	IE	EGM
18/11/2009	Limited Brands	US	Q3
19/11/2009	Air Berlin PLC	DE	Q3
19/11/2009	Kerry Group PLC	IE	TRADE
19/11/2009	Halfords Group Plc	GB	INTERIM
19/11/2009	Pennon Group Plc	GB	INTERIM
19/11/2009	National Grid Plc	GB	INTERIM
19/11/2009	Investec Plc	GB	INTERIM
19/11/2009	SABMiller PLC	GB	INTERIM
19/11/2009	WM Morrison PLC	GB	TRADE
19/11/2009	Premier Oil PLC	GB	TRADE
19/11/2009	Deutsche Telekom AG	DE	EGM
19/11/2009	Gap	US	Q3

Date	Event	Region	Estimate
18/11/2009	Euro-Zone Current Account nsa	EC	--
18/11/2009	Bank of England Minutes	UK	--
18/11/2009	Construction Output SA MoM	EC	--
18/11/2009	MBA Mortgage Applications	US	--
18/11/2009	Consumer Price Index (MoM)	US	0.20%
18/11/2009	Housing Starts	US	--
18/11/2009	Building Permits	US	--
19/11/2009	Retail Sales (MoM)	UK	0.50%
19/11/2009	Public Sector Net Borrowing	UK	6.8B
19/11/2009	M4 Money Supply (MoM)	UK	1.00%
19/11/2009	Initial Jobless Claims	US	502K
19/11/2009	Leading Indicators	US	0.40%
19/11/2009	Philadelphia Fed.	US	12
20/11/2009	BOJ Target Rate	JN	0.10%
20/11/2009	Producer Prices (MoM)	GE	0.10%
23/11/2009	PMI Manufacturing	GE	--
23/11/2009	PMI Services	GE	--
23/11/2009	PMI Manufacturing	EC	--
23/11/2009	PMI Services	EC	--
23/11/2009	Chicago Fed Nat Activity Index	US	--
23/11/2009	Existing Home Sales MoM	US	--

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