

DOLMEN WEEKLY TRADER



Weekly Market Commentary April 19th 2010

We maintain our positive outlook towards equity markets despite regulatory concerns surrounding financials after the SEC charged Goldman Sachs with fraud on Friday. Our positive outlook is reinforced following upbeat earnings results last week from many of the large US multinationals. The most encouraging part of the earnings were that they were widespread across a variety of sectors including; technology, financial, transportation and food retail. The earnings highlight that consumer spend is surprising to the upside, while comments from Intel provide us with confidence that corporate spend is beginning to return. In addition economic data in Asia is continuing to surprise to the upside with better than expected GDP figures out of China and Singapore last week. On the currency front we continue to maintain our negative stance towards the €/£ and recommend shorting any strength. Our thesis is predicated on two fronts; 1). A stronger recovery in the US than Europe as seen with positive retail sales and housing data last week and 2). The concerns surrounding sovereign debt in peripheral Europe in particular Greece are likely to continue to weigh on the Euro for the medium term. We view last week's small correction in crude and copper prices as a buying opportunity as we expect further improvements in global economic growth to keep commodity prices strong. As for this week, earnings will again be the main focus with IBM, Goldman Sachs, Microsoft and Apple among the major bluechip companies that are due to report.

Trading Recommendations

C&C - Buy Previous close (€3.36) Target (€3.90) **Analyst:** Edward Keeling

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

Product Mix & Off Trade: It has reduced its overreliance on Magners in the UK and Bulmers in Ireland. It now offers a diversified product mix, catering for both the premium and value market segments. In addition it has increased its exposure to the off trade channel.

Synergy Targets: The group will benefit from an improved route to market pushing its acquired Gaymer cider to a broader distribution network, in addition to leveraging its diverse product portfolio.

Upgrading to Buy: We are upgrading C&C to Buy with a €3.90 price target, based on the stock trading at 14x 2011 eps of 27c. We are attracted by its broad portfolio & incentivised management.

Catalyst: 18th May Full Year Results & Heineken Q1 21st April.

Microsoft - Buy Previous close (\$30.67) Target (\$35.00) **Analyst:** Stephen Taylor

Upcoming results: Microsoft is due to report fiscal third quarter results on Thursday. We expect the company to report EPS of \$0.42 on revenue of \$14.4bn.

Intel Results: Last week Intel reported a better than expected earnings and guidance and indicated corporate spending is beginning to pick up, a key positive for Microsoft.

Balance sheet: One of the strongest corporate balance sheets in the world with net cash of c. \$30bn.

Catalyst: Microsoft is due to release Office 2010 in June

BOI - Buy Previous close (€1.71) Target (€1.95) **Analyst:** Oliver Gilvarry

Up-Date on EC: BOI released details of the discussions it has had with the EC. A number of asset disposals are to occur with actions to allow competitors access to the Irish market.

UK Businesses: The outline of the EC decisions is positive for the group with its UK Business Banking and Post JV remaining part of the group.

Valuation: With the uncertainty over the key UK businesses removed and the Government stake to be limited at 40%, our price target based on 0.8x 2010TNAV is undemanding.

Catalyst: The rights issue by BOI is imminent and will be launched over the next number of weeks.

Lloyds - Buy Previous close (65p) Target (75p) **Analyst:** Oliver Gilvarry

Mortgage Re-pricing: The group has almost 20% of the mortgage market in the UK with circa 50% of its mortgage back book moving to Standard Variable this year. With mortgage spreads in the UK market at almost 300bps, this will bring the group back to profitability.

Term Funding: Lloyds has the worst loan to deposit ratio of the UK banks, but it is continuing to term out its funding which is progressing well.

Valuation: The group is trading at 0.85x our estimate 2011(e) TNAV which we see as undemanding and with the IMS due next week is another catalyst.

Catalyst: IMS on the 27th of April, which will provide a positive up-date on the group.

Goldman Sachs & Ryanair **Analysts:** Oliver Gilvarry & Edward Keeling

On Friday evening it was announced that the SEC is taking a civil lawsuit against GS over a CDO transaction based on subprime mortgages. In simple terms, investors in the CDO sold protection against the bonds and GS's client, Paulson & Co, bought protection. The issue for GS is the reputational impact & the risk to investment banks from more regulatorion. We see this issue as specific to GS at this stage & we remain positive on our preferred financials, LBG, BARC & BNP.

When assessing the impact of the current disruption to air travel as a result of the volcanic ash it important to consider three factors; the effect of gross revenue losses will be reduced by the benefit of significant lower operating costs. In addition, during the big freeze in January and February, Ryanair's exceptional charges were considerably lower than its peers. Finally, unlike 9/11, this will not negatively impact demand once the safety issues are resolved.

This Week's Market Events

MONDAY

Corporate

Alliance Trust PLC, Citi Group, Eli Lilly, Halliburton Co. Hasbro, Intl. Business Machines, Zions Bancorp, M&T Bank

Economics

Rightmove House Prices (UK), Construction Output (EC), Leading Indicators (US)

TUESDAY

Corporate

Novartis AG, Burberry Group PLC, Associated British Foods PLC, Tesco PLC, Bank of New York Mellon Corp, Goldman Sachs, Illinois Tool Works, Johnson & Johnson, Northern Trust, The Coca-Cola Co., U.S. Bancorp, Yahoo, Apple

Economics

PPI (GE), CPI (UK), RPI (UK), ZEW Survey (GE), ZEW Survey (EC), Bank of Canada Rate (CA), ABC Consumer Confidence (US)

WEDNESDAY

Corporate

Peugeot, Fiat, Heineken, Drax Group, , Abbott, AT&T, eBay, EMC Corp., Freeport-McMoRan, KeyCorp, United Tech., Wells Fargo, QUALCOMM, Elan, Morgan Stanley, McDonalds

Economics

BoE Minutes (UK), Jobless Claims Change (UK), Public Sector Net Borrowing (UK), ILO Unemployment Rate (UK), MBA Mortgage Applications (US)

THURSDAY

Corporate

Nokia, L'Oreal, Credit Suisse, Nestle, Anglo American, Persimmon, Punch Taverns, AmEx, Baxter, Philip Morris, Union Pacific, Verizon, Microsoft, Saint Gobain

Economics

Euro-Zone Govt Debt/GDP Ratio (EC), M4 Money Supply (UK), PPI (US), Initial Jobless Claims (US), House Price Index (US), Existing Home Sales (US), €Zone Consumer Confidence

FRIDAY

Corporate

ENI, Saab, Volvo, CMS Energy Corp, Honeywell, The Travelers Co, Xerox Corp, Johnson Controls, Rockwell Collins

Economics

IFO - Business Climate(GE), GDP (UK), Industrial New Orders SA (EC), Durable Goods Orders (US), New Home Sales (US)

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