Dolmen Daily

DOLMEN STOCKBROKERS

Thursday July 1st 2010

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IRISH PAPERS TODAY

Recession is over but dole queues will continue to get longer
(The Irish Times)

Number on Live Register hits highest level in 20 years
(The Irish Times)

Recession at end but jobless figures soar to record level (*Irish Independent)*

INTERNATIONAL PAPERS TODAY

EU bank bonus rules sow confusion (*Financial Times)*

BP seeks to raise more funds (*Financial Times)*

Low ECB loan demand eases fears of bank crisis *(Wall Street Journal)*

Market View — Analyst: Stephen Taylor

European equity markets have opened lower this morning following declines in the US and Asia overnight. Yesterday's late day pull back in US equities can be attributed to comments from Moody's that it was placing Spain's debt ratings on review for a possible downgrade. The move should not be taken as a surprise however it has added to the negative sentiment that currently resides in the market. In addition disappointing manufacturing data out of China is also pressuring the market today. On the positive front and there are some, General Electric's CEO Jeffery Immelt pointed out that the group's European business was exceeding expectations. In addition, after the US close last night, Yahoo said that it was going to buy back up to $3bn worth of its own stock. In our weekly note on Monday we said that we expected equity markets to pull back as risks in the short-term clearly lie to the downside. However our long-term outlook on equities remains positive and like the comments that we saw from Jeffery Immelt and Cisco's John Chambers recently we expect corporates to be reasonably upbeat when the reporting season begins in mid-July. As for today, there is a raft of economic data out of the US with Jobless claims, pending home sales, construction spending and ISM manufacturing all due for release. The main event of the week however will be tomorrow's nonfarm payrolls figure. Yesterday's disappointing ADP report places downside risk to tomorrow's number.

Eurozone Economy — **Analyst** Oliver Gilvarry

Spain is tapping its 5-year benchmark bond this morning. This issue is currently yielding 3.83% or 236bps over equivalent German debt. The Spanish Government are looking to raise circa €2.5bn from the bond issue, with another €13.5bn to refinance over the course of this month. The auction will be closely watched following the decision by Moody's yesterday to put Spain on negative watch. The decision was due to deteriorating growth prospects and challenges in meeting fiscal targets. The previous bid to cover on this bond at the beginning of May was 2.36x with a yield of 3.58%. The market will look for the bid cover ratio to be above 2.0x this morning. A good Spanish auction this morning will follow a lower than expected take up of the 3-month ECB Repo yesterday morning, which was positive for European banks.

Barclays: Buy — **Previous Close** 271p — **Target** 415p — **Analyst** Oliver Gilvarry

Barclays released an up-date yesterday evening following an investor conference. The group saw the imiliar underlying trends in Q2 to what was experienced sees trends in Q1. Investment banking conditions were softer in May and June. Barclays Corporate is experiencing worsening conditions in Spain, but the group guided impairments will be 15-20% better than in 2009. The statement yesterday was mixed with the comment on Spain and Investment Banking negative, but the impairment guidance offsets this. While we expect earnings in BarCap will be lower due to the lack of transactions in Q2, we believe the shares currently offer value for a bank that received no state capital, has a good funding profile and remains profitable.

Irish Economy — **Analyst** Oliver Gilvarry

Ireland moved out of recession yesterday, with Q1 GDP increasing by 2.7% QoQ. This is the first positive GDP figure since Q4 2007 and it reverses the Q4 2009 drop of a similar size. The positive move in GDP is due to Ireland's large export sector with exports up 6.9% QoQ offsetting declines in Household consumption and Investment, both of which declined -0.2% and -13.8% QoQ respectively. The positive move in GDP comes after positive PMI data over recent weeks. The GNP declined by 0.5% QoQ, impacted by repatriation of foreign owned enterprises profits. The GDP data was offset by the Live Register figures which showed an increase of 5,800 on May. The figures indicate that while the economy is close to bottom, as our large export sector benefits from a weaker euro, the recovery will be a jobless one.

C&C: Buy — **Previous Close** €3.23 — **Target** €3.90 — **Analyst** Edward Keeling

Greene King, the UK pub group released full year results this morning and revenue for the period was ahead of market expectations. Sales were 3.1% higher year on year at £984m, while operating profits were 2.3% lower reflecting some cost pressures. Overall in the statement there are some positives for the industry and C&C. In the second half of the year, average EBITDA per pub was 0.2% higher due in part to better volume trends. Furthermore, in the first eight weeks of the new financial year to 27th June the management have described its performance as encouraging and ahead of its expectations.

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Irish Life & Permanent

BUY

Current Price : €1.60

Price Target : €4.15 1st July 2010

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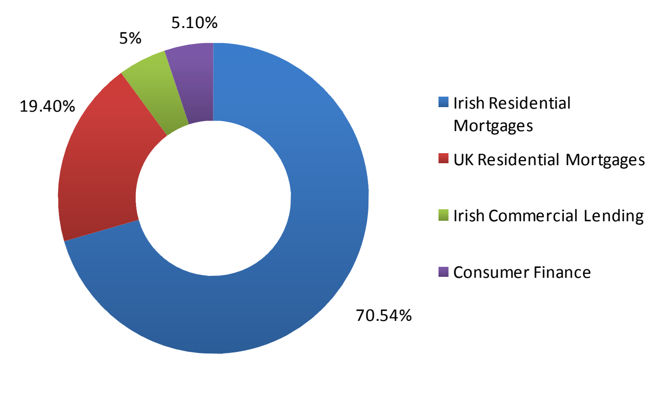
Analyst: **Oliver Gilvarry**

- The recent Interim Management Statement (IMS) from Irish Life & Permanent (IPM) provided guidance on business conditions and more importantly the strategic direction of the group.
- Sales of Life & Pension products continue in line with expectations and Irish Life Investment Managers continues to see institutional inflows. Margins also remain in line with guidance. At the full year new business margins were better than previous guidance coming in at 11.4% and we expect these to move to 12.40% this year.
- The embedded value of the Life book increased in the quarter to €1.73bn from €1.64bn due to the gain in equity markets and the positive cashflow from the Life business. Shareholder exposure to property decreased by €50m, but the exposure to the Luxembourg property remains.
- Funding remains key within the bank and the loan to deposit ratio at year end was 264%. The group has funded 75% of its needs for this year with €1.5bn required in the second half of the year.
- The cost of new issuance along with the new guarantee scheme will impact on Net Interest Margins (NIM). Our estimate for the cost of the guarantee for the full year is €100-200m. Guidance for NIM going forward is between 80-85bps and we estimate for it in 2010 to decline further to 80bps due to the higher cost of wholesale funding and continuing competition for deposits in the Irish market.
- Arrears greater than 90-days in the Irish mortgage book continue to rise from the impact of higher unemployment. Arrears under 90-days within the Irish mortgage book have begun to level off, and management believe this could be an indicator that arrears are levelling off. Arrears in the UK mortgage book continue to fall.
- Management haven't changed impairment guidance of between €800-900m and we maintain our higher estimate of €970m throughout the cycle. Cover to impaired loans for the group has dropped to 58% from 71.5% at the half year with ROI mortgages the lowest at 43.6%. We will be looking for this trend to reverse during 2010 due to the uncertain outlook for Irish Housing.
- The group remains open to becoming involved in the restructure of the Irish banking system. Recent comments from management reiterate the group is the natural consolidator within the Irish market as it has not been in receipt of direct state support. It has confirmed it is in talks with advisors and rating agencies to position itself for the restructure of the Irish banking market.
- Capital raising needs for the group amounts to the circa €900m mark, with this to be raised by a number of means. The group is still confident it will raise €100m from debt buyback with another €100m from a capital release from the Life book. Already this year €50m will be released from changes in the reserving approach on Life expenses.
- This leaves a capital raise in the region of €650-700m from equity issuance. Following a capital raise, the group has a number of alternatives. It is well positioned to be a consolidator within the market or to make the banking arm attractive to an outside party.
- In our scenario analysis, we value the Life book at 0.8x EV, the banking book at 0.7x Tangible Net Asset Value (TNAV), non-Life insurance at 1x BV and an equity capital raise of €660m. We are assuming the capital raise is completed at a 35% discount to current prices.
- In our first scenario, we assume IPM re-capitalised the banking arm and remains stand alone. The sum of the parts (SOTP) for the group is €3.35, assuming a modest recovery in Ireland and funding conditions begin to normalise from next year.
- In our second scenario, the group uses the capital raise to take part in consolidation of the banking system. We are assuming the group holds a stake in any consolidation vehicle at attractive terms with EBS and Irish Nationwide included. Under this scenario the group holds 45% in any new entity, the SOTP is €4.85.
- We continue to see consolidation occurring within the Irish banking system as it is needed to move the system to normality. The timeline on this occurrence is the key unknown.
- As the timing and shape of any consolidation is unknown, our valuation of the group is based on our estimate of the probabilities of each scenario occurring.
- The highest probability is scenario two at 55% followed by our first scenario at 45%. Lac k of Government focus on the consolidation of the banking system has impacted on the valuation of the stock. This lack of focus in our opinion will continue into the end of this year, until the recapitalisation of AIB is completed. On balance though we see consolidation occurring with IPM playing a role.
- Based on this break-down our price target is €4.15. The group is best placed domestically to take on smaller banks in the Irish system. Its reliance on wholesale funding will also weigh on the price, but any movement in this market will be a positive catalyst for the stock.

Key Company Data & Forecasts

Descriptive Stats		Shareholders	
52 Week High	€6.35	Allianz Global	5.18%
52 Week Low	€1.48	Fundamental Investor	3.12%
Reuters	IPM.I	Cominvest Asset Mgt.	2.96%
Bloomberg	IPM ID	DIT Deutscher	2.50%
		Blackrock Inc	2.45%
	FY09	FY10e	FY11e
Operating PBT	-192	-165	23
Profit Before Tax	-315	-136	23
EPS €	-1.14	-0.49	0.08
DPS	0	0	0

Loans By Type



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Market Movers

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International Equity Markets

Index	Value	1-Day	YTD
ISEQ	2,879	0.0%	-4.6%
FTSE	4,917	0.1%	-10.6%
Dow Jones	9,774	-2.6%	-6.3%
S&P	1,031	-3.1%	-7.6%
Nikkei	9,383	-2.0%	-12.8%
Stoxx 50	2,573	0.7%	-14.9%

Sector Performances

Sector	Index	1-Day	YTD
Construction	247	-0.2%	-12.9%
Technology	194	0.4%	3.3%
Oil & Gas	273	0.2%	-18.8%
Financials	194	0.5%	-15.0%
Retail	251	-1.2%	0.6%
Food & Drink	333	-0.3%	8.4%

Commodity Prices

Commodity	Index	1-Day	YTD
Crude Oil	75.63	-0.4%	-10.0%
Copper	295.05	0.7%	-14.5%
Gold	1,242.25	0.1%	13.2%
Silver	18.71	0.4%	9.6%
Wheat	480.25	5.1%	-17.9%
Cattle	90.03	1.4%	2.2%

Currency Exchange Rates

Currency	Index	1-Day	YTD
€/$	1.224	0.4%	-14.6%
€/£	0.819	1.2%	-7.4%
£/$	1.495	-0.8%	-7.9%
$/JPY	88.430	-0.2%	5.2%
€/JPY	108.220	0.2%	-18.9%
€/SFR	1.318	0.0%	13.0%

5Yr Credit Spreads

Product	Index	1-Day	YTD
Invest Grade	119.7	-2.7%	90.3%
High Yield	513.3	-1.4%	38.1%
Financials	143.6	-4.6%	125.2%
BoI	325.2	2.4%	58.6%
AIB	438.8	5.8%	85.4%
RBS	201.6	-1.3%	60.1%

Money Market Rates

Rate	EUR	UK	US
Overnight	0.3%	0.5%	0.3%
3-Month	0.8%	0.7%	0.5%
1-Year	1.2%	1.1%	0.7%
2-Year	1.4%	1.4%	1.0%
5-Year	2.1%	2.5%	2.0%
10-Year	0.029	3.4%	3.0%

Date	Company	Region	Event
29/06/2010	Monsanto Co.	US	Q3
29/06/2010	Worldspreads Group Plc	IE	PRELIM
29/06/2010	HMV Group PLC	GB	PRELIM
29/06/2010	Blackrock International Land	IE	AGM
29/06/2010	IFG Group PLC	IE	AGM
29/06/2010	Home Retail Group plc	GB	S/HOLD
29/06/2010	Tullow Oil Plc	IRE	Analyst
30/06/2010	Debenhams Plc	GB	TRADE
01/07/2010	Tesco PLC	GB	AGM
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Date	Event	Region	Estimate
01/07/2010	PMI Manufacturing	GE	- -
01/07/2010	PMI Manufacturing	EC	- -
01/07/2010	PMI Manufacturing	UK	- -
01/07/2010	Initial Jobless Claims	US	- -
01/07/2010	Continuing Claims	US	- -
01/07/2010	ISM Manufacturing	US	- -
01/07/2010	ISM Prices Paid	US	- -
01/07/2010	Construction Spending MoM	US	- -
01/07/2010	Pending Home Sales MoM	US	- -
02/07/2010	PMI Construction	UK	- -
02/07/2010	Unemployment Rate (SA)	IT	- -
02/07/2010	Euro-Zone PPI (MoM)	EC	- -
02/07/2010	€Zone Unemployment Rate	EC	- -
02/07/2010	Change in Private Payrolls	US	- -
02/07/2010	Change in Nonfarm Payrolls	US	- -
02/07/2010	Avg Hourly Earning All Emp	US	- -
02/07/2010	Unemployment Rate	US	- -
02/07/2010	Factory Orders	US	- -
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