

## Weekly Market Commentary June 1st 2010

We expect equity markets to edge higher for the remainder of the week as a return to company fundamentals increases demand for equities. While risks clearly remain we recommend not to chase the market rather adding slightly to existing positions as our positive longer-term outlook for equity markets remains. Last week's decision by China to maintain its long-term investments in Europe should be taken as a major boost to confidence in the single currency and was the main catalyst for the rally that was partially driven by short-covering. While the sovereign debt issue is clearly here to stay for the short to medium term, we do not anticipate any major downgrades to economic growth. Our continued belief that the Euro currency will weaken will in fact result in improved corporate profitability of European exporters. Copper is our preferred commodity play for the week given our expectation that the global growth outlook has not been materially dented by recent events in Europe. With the risk trade back, we see copper as the commodity with the largest amount of upside. On the currency front, we continue to advocate selling the €/€ currency pair. Aside from issues surrounding peripheral Europe, data out of the US remains strong with durable goods data and consumer confidence surprising expectations to the upside last week. As for this week, equity markets will continue to watch movements in bond markets. On the data front, the main event of the week will take place on Friday, with the non-farm payrolls figures expected to show an increase of 500,000 jobs in the US.

### Trading Recommendations

**Ryanair - Buy** Previous Close (€3.38) Target (€4.70) **Analyst:** Edward Keeling

**Full year results:** Ryanair has posted a strong set of full year results this morning. Despite a 13% decline in full year average fare, revenues rose by 2% year on year to €2,988m reflecting traffic growth of 14% to 67m. Full year net profit was €319m, ahead of expectations of €312m. Ancillary revenue grew 11% to €664m, slightly lower than traffic growth & amounted to 22% of total revenues.

**Fuel Hedging:** Ryanair has extended its hedging program to 90% for FY11 at c.\$75 a barrel.

**Dividend:** Its gross capex is set to fall substantially over the next three years and as a result Ryanair anticipates it will generate up to €1bn in surplus cash by the end of FY13. It is therefore proposing to return €500m to shareholders in the form of a once off dividend. This amounts to c.30c a share.

**Outlook:** Excluding exceptional costs from the recent volcanic ash disruptions (currently guiding at c.€50m), Ryanair is guiding for a 10% - 15% increase in FY11 net profit to €350m - €375m.

**Reiterate Buy:** We remain positive on Ryanair and reiterate our Buy rating.

**Antofagasta - Buy** Previous Close (887p) Target (1400p) **Analyst:** Brian Gallagher

**Recent results:** Last Thursday, Antofagasta reported a strong set of first quarter results with EBITDA increasing by 135%, while revenue increased by 80%.

**Operationally strong:** The group's expansion projects remain on track to meet production targets.

**Increased production:** Antofagasta continued to invest in its assets during the downturn leaving it in unique position of being able to increase production when supply will be at its tightest.

**Strong balance sheet:** Net cash position of \$1.7bn.

**Next catalyst:** AGM June 8<sup>th</sup>

**Lloyds - Buy** Previous Close (57p) Target (75p) **Analyst:** Oliver Gilvarry

**Recent Up-Date:** Lloyds' expects to deliver a combined profit at the half and full year. Management continues to guide that impairments peaked in 2009.

**Market Share:** Lloyds is the largest player in the UK retail banking with a dominant market position.

**Play on UK Recovery:** With such a large market position, the group will benefit from UK economic growth and recovery in employment.

**Risks:** The group is more heavily reliant on wholesale funding compared to other UK banks, and increased cost of term funding would impact on profitability.

**Next catalyst:** Half Year results in August.

**Bank of Ireland - Buy** Previous Close (€0.72) Target (€1.20) **Analyst:** Oliver Gilvarry

Bank of Ireland's (BOI) rights issue is in its final full week. Shareholders who haven't decided need to make a decision on what to do with their entitlement take it up, sell the rights or a mixture of both. We continue to recommend shareholders to take up their rights in BOI due to the strong position it will have in the Irish market and its first mover advantage in raising capital. Shareholders should limit the percentage of their portfolio in Irish banks as dividends are a number of years away and difficulties still remain for the sector. Another alternative to the equity and pays an income is our Bond of the Week, the BOI 10% 2020 Lower Tier 2. This bond offers value as the bank is now recapitalised to more internationally accepted levels.

### Oil Sector

**Analyst:** Brian Gallagher

Following the failure of "Top Kill" BP is facing two months of uncertainty and negative newsflow. Realistically, the oil giant must now await the completion of two relief wells before they can stop the flow of oil from the Macondo well in the gulf of Mexico. As a result we feel the stock will drift lower however, we maintain our buy rating on the stock based on the fact that the company can assimilate the fallout from this disaster. As a short term alternative we recommend purchasing **Tullow Oil**. The stock's recent retracement has provided an attractive entry level to one of the best Exploration plays in the market. Furthermore, the company has a catalyst driven second half with a number of drilling results and the resolution of the Ugandan farmout expected.

### This Week's Market Events

#### MONDAY

##### Corporate

##### Economics

EU M3

#### TUESDAY

##### Corporate

Ryanair (Full Year), Petroceltic (AGM)

##### Economics

German Unemployment, EU PMI, UK PMI, EU Unemployment Rate, China PMI

#### WEDNESDAY

##### Corporate

Independent News & Media (AGM), Telefonica (AGM)

##### Economics

UK Mortgage Approvals, PMI Construction, EU PPI, US Pending Home Sales

#### THURSDAY

##### Corporate

British Airways (Traffic), Kingfisher (Q1)

##### Economics

German, EU & UK PMI Services, EU Retail Sales, US ADP Employment, Jobless Claims, Factory Orders, ISM Services

#### FRIDAY

##### Corporate

easyJet (Traffic)

##### Economics

EU GDP, US Non-farm payroll, Unemployment Rate

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