



Wednesday 20th August 2008

DAILY COMPANY NOTE — Hewlett-Packard See page 2 for full details

Daily Market Comment

Yesterday's Summary : With worse than expected US inflation data and rising concerns that the US government will have to step in to support Fannie Mae and Freddie Mac, the ISEQ finished deep in negative territory yesterday, closing down 4.65% at 4,333.53. The financials had a poor performance as growing worries over further writedowns at US financial giant Lehman brothers, dampened investor sentiment. AIB fell 5.25% to €8.13, Anglo lost 4.7% to €5.72 and Bank of Ireland shed 7.1% to €5.46. CRH tumbled 6.9% to €17.01 as peer Wienberger reported results that were lower than analysts' expectations.

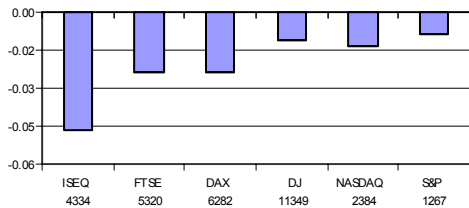
Overnight News : The Dow Jones ended 1.14% lower last night at 11,348.55. The technology heavy Nasdaq Composite was down 1.35% to 2,384.36, while the S&P 500 Index slipped by 0.93% to 1,266.69. Lehman Brothers declined by 13% after JPMorgan Securities predicted it would have to take another USD 4 billion in write-downs from the credit crunch.

Breaking News : Barclays' head of Investment banking, Bob Diamond, has said the bank would be very interested in taking over a wealth management company as it would kick start their growth plans. The Bank of England's minutes from the Monetary Policy's August Committee meeting were released this morning and they show that the committee voted 7-2 to keep the base rate at 5%, with one member voting for a rise and one for a cut. The minutes showed the MPC as a whole agreed that a case could be made for a rate cut, even if most were worried that such a move would send a signal that they cared more about growth than inflation. The UK Competition Commission has said that Ferrovial's BAA must sell two out of three of its London airports, as well as either Glasgow or Edinburgh airport in Scotland. Ryanair director Jim Callaghan has announced they fully endorse the recommendation and indicated it would allow for additional capacity, lower fares and a better service.

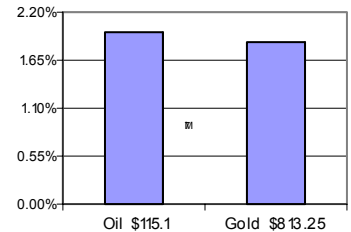
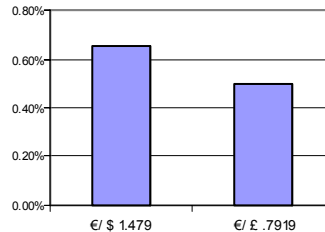
Equity Indices change on day

Currency daily % change

Oil/Gold daily % change



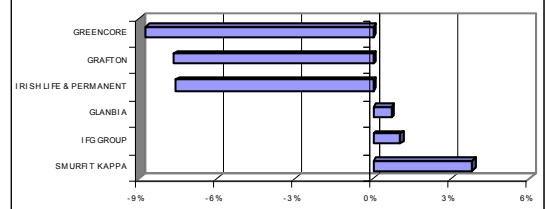
-4.65% -2.38% -2.34% -1.14% -1.35% -0.93%



News

- "Weightwatchers deal fails to lift **Greencore** shares"-(The Irish Times)
- "Plan for Hiestand merger with **IAWS** is approved"-(The Irish Times)
- "Bol cuts consultant costs by one-third" -**Bank of Ireland**-(The Irish Times)
- "Top economist warns that a US banking giant will crash"-(Irish Independent)
- "C&C to trial lower strength Magners in Tesco stores"-(Irish Independent)

ISEQ Performers/Losers 19/08/08



Market Themes and Movers

Fannie and Freddie under pressure : The saga of Fannie and Freddie continues with renewed concern that the Federal authorities will have to bail out the mortgage giants. Markets are now focused on \$223 billion of bonds due to be rolled over by the end of September. Speculation is mounting that difficulties in rolling this debt would force an intervention. Fannie and Freddie have always carried the implied backing of the US government, but it wasn't until recently that this guarantee was stated explicitly. In the last year the companies have reported just under \$15bn in losses. Recent reports suggested that with a current combined market capital of less than \$10bn, Fannie and Freddie lacked market confidence to raise necessary equity themselves and would require Federal bailout. A bailout would likely see equity holders wiped out as well as a deferral of interest payments to subordinated bondholders. The companies financing costs has increased significantly in recent weeks, and is now approaching all time high levels as foreign investors reduce their exposures to the troubled lenders.



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Hewlett-Packard

Dow Jones

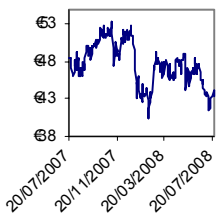
Technology

Company Profile

Hewlett-Packard is a technology company that operates in more than 170 countries around the world. The company provides imaging and printing systems, and technology services for businesses and home. The group's products include laser and inkjet printers, scanners, copiers, faxes, personal computers, work stations and storage solutions.

Statistics

Price Performance



Gross Rental Income



■ International 68%

■ US 22%

Fundamental View

- After the close last night, Hewlett-Packard (HP) posted a strong set of fiscal third quarter results for the period ending July 31st. EPS increased by 21% to \$0.86 beating analyst expectations of \$0.84, while revenue increased by 10.5% to \$28bn and 2% ahead of consensus. The group's operating margin also remained strong increasing 70bps to 9%. HP also issued strong guidance for the fourth quarter and pointed out that it is seeing no slowdown in demand for PCs. For its fourth quarter, HP expects to generate EPS in the range of \$1.01-\$1.03, which was ahead of analyst expectations of \$1.00, while it expects revenue to be in the range of \$30.2 to \$30.3bn broadly in line with consensus.
- Hewlett-Packard's strong quarter was driven primarily by its PC division with revenue growth of 15% to \$10.25bn boosted by a 26% increase in laptop sales. Desktop sales remained firm with volumes increasing by 6%. The group's services division continues to remain strong with revenue increasing by 14% to \$4.8bn, while software also put in an impressive performance with revenue growth of 29%.
- Hewlett-Packard remains one of the most diversified technology companies in the world with regards to its geographic foot print. During the third quarter, HP generated 68% of its revenue outside of the US with 19% from the fast growing Asia Pacific region. The group's EMEA region which accounts for 40% of group revenue, put it in the strongest performance of all of its geographies with revenue growth of 16% while Asia Pacific saw revenue growth of 14%. While there is no doubt of the economic slowdown in the US, HP seems to be weathering this well as revenue grew by 4% in the US.
- As with all of the large cap technology stocks, HP's balance sheet remains strong with c. \$4.6bn of net cash at the end of the quarter. Given the current dislocation in credit markets this is a very favourable position to be in. HP spent \$1.6bn during the quarter repurchasing 34 million of its own shares.

Valuation

- Following on from HP's strong results last night, we reiterate our buy rating on the stock and price target of \$60. Our price target is based on an earnings multiple of 15x 2009 forecast EPS of \$4.00, which is the mid-point of its historic price to earnings range of 12x-18x. We feel this multiple is justified given the group's earnings growth prospects from its diversified product offering and geographic footprint, along with its strong balance sheet.

Next catalyst

- The next catalyst of HP will be 28/08/08 when its closest peer Dell is due to release its second quarter results.

Chart View: Hewlett Packard

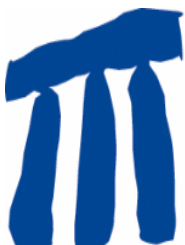
Support Primary: \$42.69
Support Secondary: \$40.83
Resistance Primary: \$47.78
Resistance Secondary: \$49.97

Chart outlook offers little directional bias and further choppy sideways trading is likely. The nearest upside obstacle for HP is medium-term trend resistance at \$47.78. A close above this level would have the stock targeting the \$52 area.

| Major Shareholders | % | Peer Group Multiples | | | |
|---------------------|-------|------------------------|--------|--------|------------------|
| State Street | 4.62% | Company name | P/E 08 | P/E 09 | EPS Growth 08-09 |
| Barclays | 4.59% | Hewlett-Packard | 12.2 | 10.9 | 12.04% |
| Fidelity Management | 4.08% | Dell | 15.5 | 13.3 | 16.54% |
| Capital Research | 1.89% | Intel | 18.8 | 15.9 | 18.24% |

Shares Outstanding 2466m

| Share Data | Financial Data** | 2007 | 2008e | 2009e |
|--------------------|--|---------------------|---------|---------|
| Current Price (\$) | | 43.69 | | |
| Mkt Cap (\$m) | | 107,747 | | |
| Reuters | HPQ.N | Revenue (\$m) | 104,286 | 114,403 |
| Bloomberg | HPQ US | Pretax Profit (\$m) | 10,020 | 11,734 |
| Sector | Technology | EPS (\$) | 2.93 | 3.57 |
| CEO | Mark Hurd | P/E(x) | 14.91 | 12.24 |
| CFO | Catherine Lesjak | DPS (\$) | 0.32 | 0.33 |
| Website | www.hp.com | Dividend Yield | 0.73% | 0.76% |
| | | | | 0.78% |





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