

Equity markets were buoyant last week with most exchanges posting significant gains. As expected, earnings results were the key driver behind markets last week, a trend we expect to continue over the coming weeks. Technology results were strong, with Intel, IBM and Google all beating analyst estimates. Wall Street's latest round of billion dollar writedowns did little to dampen the markets optimistic mood, with investors no longer shocked by large numbers. JP Morgan announced details of a \$6bn hybrid bond sale, while RBS is widely expected to announce detail of a capital raising initiative at their AGM on Wednesday. US economic bellwether, Caterpillar, surprised by beating first quarter earnings estimates, and by guiding for full year earnings increases of 5%-15%. Meanwhile economic data was broadly negative, unemployment continues to trend higher, and the reading for the Philadelphia Fed's business outlook survey was the worst since 2001. A ray of sunshine though from US inflation, which was in-line with expectations. Commodities grabbed their share of the headlines last week with rice, copper and oil all hitting new highs. Crude oil finished the week at \$116.69 a barrel. On the economic front this week, the main data releases will be from the US, with existing home sales on Tuesday, Durable goods and new home sales on Thursday and the University of Michigan confidence index on Friday while closer to home, the Bank of England will release the minutes of its latest meeting on Wednesday. Some of the more significant results out this week are; Bank of America (Mon), Texas Instruments (Mon), Yahoo (Tue), BHP Billiton (Wed), Amazon (Wed), American Express (Thur).

## TRADING IDEAS, EARNINGS & PREVIEWS

### RBS

Price: £3.84  
P/E: 5.3x  
Div: 8.4%  
Target: £5.75

**Fundamental view** : This week, in conjunction with its AGM, **Royal Bank of Scotland (RBS)** is expected to issue an Interim Management Statement covering trading performance and capital. Even though similar to Lehman Brothers last month, RBS does not currently need to raise capital, if it has received approaches from some key institutional investors offering capital of up to £12bn on reasonably attractive terms, it may decide that such a move would be well received by the market currently as it would eliminate the perceived capital concerns of recent months. Lehman's share price has now risen by c.25% since it announced its \$4bn capital raising on 31st March. Even assuming further total writedowns of £6bn, a £12bn capital raising would increase the bank's core equity Tier 1 ratio from 4.2% to 6%.

**Next catalyst** : In addition to the removal of the recent RBS capital uncertainty, another potential catalyst for the bank's share price this week could be any new initiative from the Bank of England to offer term funding facilities to the UK bank sector secured on some of its currently illiquid assets. There is also the potential that this week's capital raising could minimise the dilution of equity holders, if similar to the Lehman's offering, it is structured as 7.25% perpetual convertible preferred stock with a conversion price c.30% above the shares' current market price. With the shares currently trading at 5.3x 2009 eps of 72p, which would move to c.7x 2009 eps post a £12 bn rights issue, our view is that the shares are already pricing the dilution impact of such a capital raising, but are not pricing the benefits of such a capital raising, such as a more secure dividend yield in excess of 7%.

**Chart View**: Long-term trend remains negative and a break of trend resistance at 412 is needed to improve the outlook. Recent rally has been on solid volume but problems are not yet over. Well supported in 350 area.

### BUY

### Microsoft

Price: \$30.00  
P/E: 16x  
Div: 1.44%  
Target: \$41.00

**Fundamental view** : **Microsoft** is one of the most diversified technology companies both geographically and through its product offerings. The company continues to generate strong earnings growth across all of its divisions emphasised by its second quarter results last January where it increased its full-year earnings guidance. While shares in Microsoft have underperformed since it announced its \$44.6bn takeover approach for Yahoo its underlying business remains strong. We believe that a potential tie up between Microsoft and Yahoo will pose a real threat to Google in the online advertising market.

**Next catalyst** : Microsoft is due to report its third quarter results next Thursday. We expect the company to post a c. 2% rise in EPS to \$0.46 with revenue increasing by 4% to \$14.5bn. Given the growth that Microsoft continues to see strong growth we feel that the company may have room to raise its full-year 2008 earnings guidance for a second time.

**Chart View** : A break of \$29.60 has seen Microsoft move out of its near three month trading range. More upside expected with the first obstacle being the \$32 area.

### BUY

### BMW

Price: €34.83  
P/E: 8.2x  
Target: €33.00

**Fundamental View**: We recently reinitiated our short trading call on **BMW** when the stock was trading at €36.55. Since then its share price fell to €33 per share last Wednesday and then rebounded and closed on Friday at €34.83. **We would look to short BMW again if it reached the €36 level again.** We believe that BMW is one of the most exposed to the current downturn in global economic activity given that it operates primarily in the luxury end of the autos market. A clear indication of that slowdown was reflected in BMW's disappointing US auto sales for March (c. 25% of revenue generated in the US) which showed a further 5.4% decline. On an EV/EBITDA valuation, BMW trades at a premium to its peer group at 5.2x versus 4.6x for the sector, a rating that we feel is undeserved in the current economic environment.

**Next Catalyst** : The next catalyst for BMW is on 29/04/2008 when the group is due to report its first quarter results. We expect the company to report a 5% drop in EPS to €0.97 with revenue increasing by 5% to €12.6bn. We also expect BMW to provide a cautious outlook given the slowing global economy. **Always trade short positions with a stop loss in place.**

**Chart View**: Outlook remains negative with stock unable to sustain any upside move. Expect more weakness. Trend resistance is at €37.15.

### SHORT

### Thomson Reuters

Price: £15.54  
P/E: 16x  
Div: 3.48  
Target £13.00

**Fundamental View** : Shares in the newly merged company **Thomson Reuters** began trading last Thursday and while the shares have fallen by 10% we believe that there could be further downside to its share price given the group's heavy reliance on revenue from financial services companies (c. 60%). Last week both Merrill Lynch and Citigroup announced further job cuts (12,000 between them) and there is expected to be significantly more redundancies among financial services companies over the next year. We also feel that there could be merger execution risk within the group. Union members at Thomson Financial Newswire are contemplating a strike over the group's failure to offer voluntary redundancies and may pose a threat to the group's forecast of \$500m in annual cost savings over the next three years.

**Next Catalyst**: The next catalyst for Thomson Reuters will take place on May 1<sup>st</sup> when the group is due to report its first quarter results for 2008. We believe that there is potential for the group to issue a cautious outlook for the rest of 2008 given the uncertain outlook for the financial services industry. **Always trade short positions with a stop loss in place.**

**Chart View**: Recent losses have been on very heavy volumes and this cannot be viewed as anything but negative.

### SHORT

### Credit Crisis Comment

The **Bank of England** finally woke up this week and smelt the credit crisis. The Bank of England, which has been facing increasing criticism for failing to be as active as other central banks in dealing with the crisis, announced a new initiative which would help cash-strapped UK banks to use mortgages, which have been piling up on their books, as collateral for loans of government securities. The **Special Liquidity Scheme** will accept AAA securities originated up to the end of 2007; securities backed by UK residential mortgages and credit cards are eligible however the risk of losses on the loans remains with the bank. Until now the banks had been finding it difficult to convert these loans into cash and as a result new lending had been severely constricted. This scheme is likely to accept €50b in securities mortgages and will go a step further than its US equivalent by allowing banks to borrow for a year with the option to renew for up to 3 years.

## Earnings Week Ahead

## Economic Week Ahead

**Mon:** (Bank of America, Q1) (Texas Instruments, Q1) (Nestle, Q1 Sales)

**Tues:** US Existing Home Sales (15.00), Richmond Fed Index (15.00)

**Tues:** (AIB, AGM) (McDonalds, Q1) (Yahoo, Q1) (Citigroup, Shareholders meeting)

**Wed:** EMU PMI (9.00), BoE Minutes (9.30)

**Wed:** (Dragon Oil, TS) (BHP Billiton, TS) (Glaxosmithkline, Q1) (RBS, AGM) (AT&T, Q1) (Amazon, Q1) (Ambac, Q1) (Apple, Q2) (Boeing, Q1) (Moody's, Q1)

**Thurs:** German IFO (9.00), UK Retail Sales (9.30), US Durable Goods (13.30), Jobless Claims (13.30), New Home Sales (15.00)

**Thurs:** (Elan, Q1) (Fyffes, AGM) (Barclays, AGM) (Persimmon, AGM) (American Exp, Q1) (Microsoft, Q3) (Motorola, Q1) (Bayer, Q1) (Merrill Lynch, Shareholders)

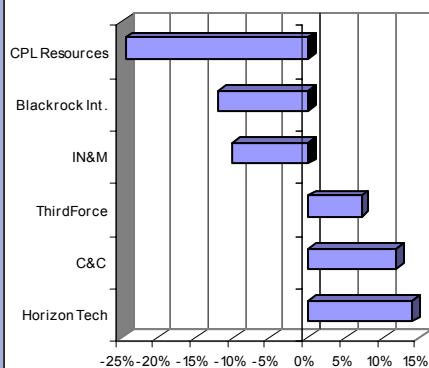
**Friday:** EMU M3 (9.00), UK GDP (9.30), Michigan Confidence (15.00)

**Fri:** (Aviva, TS) (Johnston Press, AGM) (WPP, Q1) (Shire, Q1)

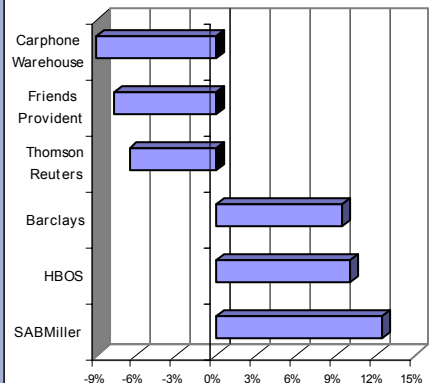
# DOLMEN STOCKBROKERS Traders Update

Last Weeks Best/  
Worst Performers  
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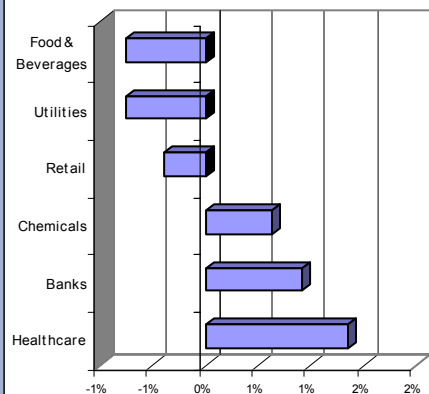
## ISEQ



## FTSE



## Sector changes WTD



# Dolmen Dozen

## WEEKLY UPDATE

Company	WTD	YTD	Relevant news
AIB	1.3%	-13.96%	M&T, a large US mid Atlantic bank, in which AIB has a 24% stake, reports a 15% rise in first quarter profit.
Aviva	3.5%	-3.49%	Aviva to buy 70% of Irish health group Vivas.
BP	3.8%	-6.99%	Chinese state run investment fund accumulates 1% in BP, valued at \$2 billion.
IN&M	9.6%	-20.63%	CEO Anthony O'Reilly raises his stake to 27.82% through the purchase of 1 million shares.
CRH	1.6%	0.17%	Sales of Dutch DIY and building materials rise over 6% year on year, where CRH is market leader.
Hewlett Packard	6.0%	-4.56%	Merrill Lynch adds HP to focus 1 list .
IAWS	4.1%	6.04%	Hiestand, in which IAWS has a 32% stake, recorded sales growth of 12.8% in Q1 .
IL&P	3.4%	2.85%	ECB's John Hurley says Irish banks are healthy and have good shock absorption capacity.
Microsoft	6.1%	-15.73%	Ahead of results next week.
Paddy Power	4.3%	1.89%	Paddy Power releases annual accounts report.
Ryanair	-0.4%	-40.42%	Ryanair to withhold Stansted price increase
Vodafone	2.6%	-17.78%	Vodafone & BT in new managed access agreement.

DD Unrealised gain YTD	-5.96%	ISEQ YTD	-9.24%
DD Realised gain YTD	-10.96%	FTSE YTD	-5.89%
DD Total YTD	<u>-8.55%</u>	Average performance	<u>-7.57%</u>
Relative Performance		<u>-0.98%</u>	

\* DD Return (Includes dividends & FX changes since stocks inclusion)

## What it says in the 'Sundays'

Company	Paper	Headline
RBS	S. Independent	Royal bank's cash call
Tesco	S. Independent	Tesco? What crisis ?
Tesco	S. Tribune	New convience stores amid slumping rents
DCC	S. Tribune	Flavin under pressure
IL&P	S. Times	frosty headwinds
CPL	S. Times	Long term buy

## Upcoming Corporate Visits

COMPANY	PRESENTATION DATE
Origin Enterprises	23rd April 2008
Independent News & Media	24th April 2008



## Last Weeks Moves

### Equities

	Level	Change WTD	Change YTD	Div Yield	P/E08
ISEQ	6260	2.6%	-9.7%	3.3%	9.1
FTSE 100	6057	-0.9%	2.7%	4.0%	12.2
DAX	6843	3.6%	-15.2%	3.4%	11.6
Dow Jones	12849	4.3%	-3.1%	2.5%	14.7
S&P 500	1390	4.3%	5.3%	2.2%	21.9
Nasdaq	2403	4.9%	9.4%	0.9%	35.5
EuroStoxx 50	3194	3.9%	-13.3%	4.3%	11.0
Nikkei 225	13476	1.1%	-12.0%	1.5%	15.7

### Sector

	Weekly move%	YTD move %
Food&Bev	-0.754	-8.226
Utilities	-0.753	-13.977
Retail	-0.394	-17.114
Autos	-0.355	-15.909
Financial Services	-0.25	-13.045
Construction & Materials	-0.242	-9.853
Industrials	-0.193	-13.464
Oil & Gas	-0.173	-8.724
Personal & Household Goods	-0.091	-14.54
Insurance	0.107	-7.181
Media	0.128	-17.127
Travel & Leisure	0.197	-14.967
Technology	0.206	-23.088
Basic Resources	0.451	4.82
Chemicals	0.636	-2.199
Banks	0.915	-12.151
Healthcare	1.366	-14.422

### Commodities

	Current	Change YTD
Crude Oil	\$116.69	+21.8%
Gold spot	\$917.09	+10.0%

### Exchange Rates

	Current	YTD Change	Year End (est)
EUR-USD	1.582	+8.4%	1.45-1.55
EUR-GBP	0.792	+7.7%	0.74-0.78
EUR-JPY	163.9	-0.6%	165.0

### GDP Growth

	Current	Year End (est)
Ireland	5.00%	3.00%
Euro Zone	2.50%	2.00%
UK	3.10%	2.00%

### Central Bank Interest Rates

	Current	3 month	Year End (est)
Euro Zone	4.00%	4.79%	3.50%
UK	5.00%	5.89%	4.25%
US	2.25%	2.91%	1.50%

### Credit Market Summary

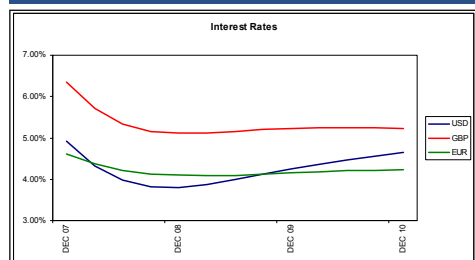
Last week company earnings were weaker but generally in line with analyst's expectations resulting in a continued spread rally. High yield spreads tightened 8% however the more pronounced move was in the investment grade and financial names where spreads tightened 21% and 23% respectively. However with \$285b of write downs to date and the final figure estimated to reach \$945b (IMF estimate) we can expect volatility to continue in the near term as Q1 earnings reports continue in the coming weeks.

## Credit Sector Movements

**Building materials:** CRH Finance announced a 7 year GBP bond issue, details have not been disclosed as yet; however the bond is expected to yield approximately 300bps above mid-swaps.

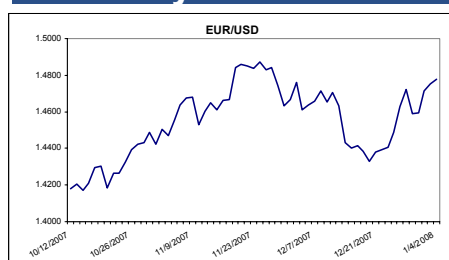
**Retail:** Strongest sector this week with food retailers outperforming led by Tesco – Tesco tightened 32.5%; followed by Sainsbury and Morrisons tightening 22 and 19% respectively. Non food retail also tightened this week however moves were significantly more subdued.

### Interest Rate Outlook

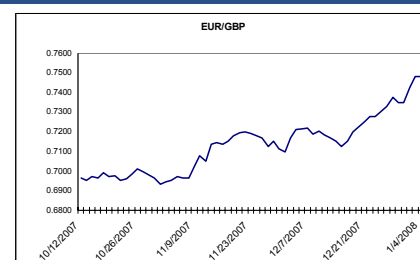


Treasury yields strengthened across the board last week as cash came out of safe haven assets in favour of equities following upbeat corporate earnings in the US. The yield on the US two-year treasury yield rose 40bps to 2.16% while yields on the European equivalent rose 28bps to 3.79%. Focus will continue to be on corporate earnings news flow this week along with US housing data due on Tuesday and Thursday.

### Currency Comment



The € hit a fresh record high against the \$ last week as a strong inflation reading of 3.6% reinforced the ECB's hawkish stance on inflation. Focus will be in both Europe and the US on the economic side this. Euro-Zone PMI data due on Wednesday and German IFO data will be key and any weakness in the numbers could see the € lose some of its recent strength.



Sterling strengthened against the € last week as the Bank of England announced plans to swap gilts for mortgage backed securities on UK banks in order to free up liquidity in interbank markets. Minutes from the Bank of England on Tuesday will be closely watched and could lead to increased expectations of further interest rate cuts that would put further pressure on sterling.



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