

DOLMEN WEEKLY TRADER



Weekly Market Commentary June 21st 2010

We see the potential for equity markets to move higher over the short-term as an absence of negative news flow, further stabilisation in peripheral European sovereign debt and some M&A activity supports investor sentiment. In addition the People's Bank of China's decision to allow its currency appreciate against the dollar is a strong signal for global economic growth. Some risk appetite is returning to debt markets as seen by Lloyds Banking Group's recent 8 year €750m covered bond issuance. In addition, Spain successfully sold €3.5bn of bonds, albeit at elevated yields. Investors' fears of another Greek style debt crisis was eased by the news that European leaders have agreed to publish details of stress tests showing the financial strength of individual banks next month. After some disappointing US economic data last week, we will be paying close attention to US durable goods sales on Thursday. At the latest FOMC decision, we expect Fed Chairman Ben Bernanke to reiterate the US Central Bank's policy for "exceptionally low interest rates for an extended period of time". Gold remains our preferred commodity play as technically the precious metal continues to look constructive. Long term we remain positive on equity markets and are overweight US stocks with Energy, Technology and Telecoms our preferred sectors. We also favour blue chip European industrial exporters (e.g. Siemens & automakers) who will benefit strongly from the weakened euro.

Trading Recommendations

Tullow Oil - Buy Previous Close (1150p) Target (1470p) **Analyst:** Brian Gallagher

Very few market participants dispute the quality of Tullow Oil's assets but up until recently they appeared to be fully priced. The recent drop off in the market has afforded traders an opportunity to buy the UK based explorer and this week we are expecting an important drilling update on the high impact Owo well. This exploration well is located to the west of the Jubilee field in the Deepwater Tano licence and the results from the drill will provide a better indication as to the size of the Tweneboea field.

BP - Buy Previous Close (358p) Target (Under Review) **Analyst:** Brian Gallagher

Focus will now revert back to BP's effort to contain the spill in the Gulf of Mexico following what was an eventful week in Washington. BP is currently implementing an enhancement of the existing facilities in the Gulf so that it can maintain collection during hurricanes while also increasing capacity. Work continues to progress ahead of schedule on the two relief wells which offer the best chance of a solution to the leak. These wells could now reach target depth by mid-late July which is an improvement on the originally forecasted date of early August. Our view remains that BP is a strong and viable company that will be able to absorb the fallout from the spill however, last week's developments highlight the power that the White House has over the eventual outcome of the disaster for BP.

C&C - Buy Previous Close (€3.27) Target (€3.90) **Analyst:** Edward Keeling

C&C is an underappreciated restructuring play. The market underestimates the potential of C&C's reformed business model. It has transformed itself from a one product company, to a portfolio of brands. The performance of Magners should now improve considerably as it can focus on its own higher margin market segment, instead of catering for both premium and value market. The new incentivized management has spent the last year repositioning the group in terms of market segments and pricing exposure. It has now indicated it is completely focused on the operational performance and delivering shareholder returns. A key risk for C&C investors remains an aggressive tax increase which is heightened over the short term with the UK budget announcement tomorrow at 12.30.

Barclays & Lloyds **Analyst:** Oliver Gilvarry

Last week was positive for European financials as sentiment improved towards the sector. We expect this to continue this week as the announcement that Europe will release the results of the Stress Tests on European banks along with the issuance of wholesale funding by European names. Lloyds issued a €750m 8-year covered bond, Barclays issued €400m 2014 FRN and HSBC issued the largest perpetual deal since 2008. For the week ahead, we are buyers of names such as **Barclays** and **Lloyds**. Both stocks currently trade at a discount to tangible NAV and news that deals are beginning to be completed in the debt markets is a positive for the sector. For those who want USD exposure, **JPM** is our preferred play.

IN&M - Buy Previous Close (€0.85) Target (€1.12) **Analyst:** Stephen Taylor

We continue to like INM as a long term recovery play. Comments from CEO, Gavin O'Reilly recently indicate that advertising trends are beginning to improve which will be positive for profitability. Stronger growth in Australia and Asia compared to Europe will also be helpful for the group as will the depreciation of the euro against the AUD and NZD. Our price target is €1.12 based on 11x 2010 EPS.

Intel - Buy Previous Close (\$21.40) Target (\$25.00) **Analyst:** Stephen Taylor

Recent comments from Intel CEO indicate that the recovery in the PC market is continuing. In addition, the Semiconductor Industry Association recently raised its outlook for chip sales highlighting that demand in the sector remains strong. With the corporate PC market beginning to show signs of life following the release of Microsoft's Windows 7 and Office 2010, we see Intel as a major beneficiary of this. Intel currently trades at 10.7x 2011 earnings and an EV/EBITDA at just over 5x. Intel also benefits from a strong balance sheet with c. \$14bn of net cash. Intel pays dividend yield of c. 3%. We maintain Intel as one of our conviction long trading ideas.

This Week's Market Events

MONDAY

Corporate

Readymix PLC AGM

Economics

Rightmove House Prices UK

TUESDAY

Corporate

Whitbread PLC TRADE & AGM, Adobe Systems Q2, Walgreen Q3

Economics

IFO - Business Climate GE, €Zone Current Acc EC, U.K. Budget, Richmond Fed US, House Price Index US, Existing Home Sales US, ABC Consumer Confidence US

WEDNESDAY

Corporate

No announcements

Economics

GfK Consumer Confidence GE, BoE Minutes UK, MBA Mortgage Apps US, New Home Sales US, FOMC Rate Decision US, PMI Services EC, PMI Manufacturing EC, PMI Services GE, PMI Manufacturing GE

THURSDAY

Corporate

FY Oracle Q4, Accenture Plc Q3

Economics

Industrial New Orders EC, Durable Goods Orders US, Initial Jobless Claims US, Continuing Claims US

FRIDAY

Corporate

No announcements

Economics

Import Price Index GE, GDP QoQ US, Personal Consumption US, Core PCE QoQ US, U. of Michigan Confidence US

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