Dolmen Daily

DOLMEN STOCKBROKERS

Wednesday 22nd April 2009

CONTENTS

IRISH PAPERS TODAY

IMF warns Ireland will pay highest price to secure banks
(The Irish Times)

State raises further €1bn from bond sale amid lower demand
(The Irish Times)

Independent under pressure to strike deal on €200m loan
(The Irish Times)

INTERNATIONAL PAPERS TODAY

Darling to concede UK is deep in the red

(*Financial Times*)

Banks need $875bn
(*The Wall Street Journal)*

DOLMEN DOZEN

Company	1-day %	YTD %
Aryzta	-1.0%	-11.3%
BP	0.7%	-15.2%
CRH	3.1%	2.8%
E.ON	2.4%	-22.2%
HPQ	2.2%	-2.4%
IL&P	-4.0%	21.9%
INM *	-11.8%	-50.3%
J&J	0.0%	-12.3%
JPMorgan	9.6%	3.2%
Microsoft	1.9%	-2.4%
Vodafone	-0.5%	-9.1%

* We are currently Neutral on IN&M

Market View — Analyst : Stephen Taylor

Equity markets had a big turnaround yesterday reversing the majority of losses following US Treasury Secretary Timothy Geithner's comments that most of the 19 largest US banks have enough capital and pointed out that those that require additional funds have a number of options in raising capital including a mixture of converted government preference shares and private money. US banks are likely to receive preliminary results from stress tests on April 24th, while final results are scheduled for release on May 4th. Geithner's comments can certainly be taken as a positive, however US investment banks continue to take substantial credit losses which are likely to continue for the next few quarters on the back of rising unemployment rates and increased defaults on mortgages, auto loans and credit cards. Over night, Yahoo posted results that were broadly in line with expectations adding to the positive news from technology companies over the last number of weeks. Shares were up 6% after hours. While we remain cautious on markets overall, we remain overweight the Technology sector given the strong cash balance sheets among tech companies and their ability to cut costs to stabilise earnings in addition to increase M&A activity in the sector. For today, all eyes will be on the UK Budget while the unemployment rate is expected to show an increase to 6.7% from 6.5%. Earnings will also be in focus with Morgan Stanley, McDonald's, AT&T and Boeing all due to report before the US market opens. Both Apple and eBay will report after the market closes and will provide a key read across for consumer spending.

AIB : Hold Current Price (€0.85) Price target (€0.95) Analyst : Oliver Gilvarry

M&T Bank, of which AIB owns 24.03%, reported Q1 earnings yesterday. The results were worse than expected with EPS coming in at $0.49. The miss was mainly due to lower revenues and was somewhat off-set by lower than expected provisions. On loan quality, non-accrual loans increased by 32% due to residential builders and developers, residential real estate loans and one commercial loan. The commercial loan is a large unsecured share national credit for $95m which starting going bad in Q1. On capital, Tangible Common Equity (TCE) is expected to hit 4.4% in Q2, still below the target level M&T has set for itself. With TCE below the target management are comfortable with, it was surprising they maintained the dividend. While management believe Net Interest Margins (NIM) will improve in Q2 as it trended higher in February and March, full year NIM is unlikely to be very different from 2008. With margins unlikely to increase and further credit provisions likely, we believe M&T will cease paying the current level of dividends for the remainder of the year.
M&T has weathered the current downturn well and continues to trade at a premium to its peers. Management gave no guidance on the status of AIB's investment in the bank, but if AIB wish to sell a stake grater than 2% it must be first offered to M&T.
In a separate development, it was reported in an Irish paper this morning that all staff at BZ WBK, the Polish bank owned by AIB, received a letter from AIB sating the bank is earmarked for sale. Indicating AIB is beginning the process to dispose of assets to increase its capital base as announced on Monday. The results yesterday from M&T would indicate a buyer could be found at a reasonable price for AIB's stake, but BZ WBK will be more difficult due to the problems facing Central and Eastern Europe economies.

Kerry Group : Buy Current Price (€15.40) Price target (€19.90) Analyst : Oliver Gilvarry

Nestle, the world's largest food group, has reported first quarter sales that were worse than market expectations. The Zurich based company suffered from a more price sensitive consumer trading down to cheaper alternatives and a stronger Swiss franc. Its total first quarter sales fell 2.1% to 25bn Swiss francs, down from 25.7bn a year earlier and behind analyst expectations for a 1.2% increase. Organic sales however, excluding currency effects and the impact of acquisitions, were 3.8% higher for the quarter. All business units recorded positive organic growth apart from the bottled water division, where sales fell 2.5%. Nestle said this was due to ongoing weakness in the industry itself, particularly in western Europe. The group has however reiterated its previous full year guidance, maintaining it still expects 2009 organic sales growth of at least approaching 5%. Kerry Group remains our preferred pick from within the sector as we expect its product's mix of both branded and private label to outperform in the current more price sensitive environment.

Elan: Sell Current Price ($5.60) Price target ($4.00) Analyst : David Dunk

Elan released Q1 figures this morning, with an adjusted EBITDA loss of $6.0m. Revenue over the period was $245.1m, compared to $214.7m for the same quarter, a year ago. The company reported an adjusted EBITDA loss of $6.0m for the quarter. We place greater weight on the net loss figure, which was $102.6m for the quarter, compared to $85.5m last year. The operating loss was $54.8m compared to $45.6m for the same quarter last year. Elan is maintaining guidance for double digit revenue growth for the full year, and expects to be profitable on an adjusted EBITDA basis. Critically, the company has given no update on its strategic review process. We retain our negative view on Elan, due to the weak balance sheet, and negative earnings

BHP Billiton : Neutral Current Price (1295p) **Price target** (1200p) **Analyst :** David Dunk

BHP has released production and exploration figures for Q3, ending 31st of March. The company experienced record output of both oil and iron, year to date. However, Q3 output was lower than output from the last quarter of the 2008 calendar year, reflecting the effect of capacity cuts on production. Iron ore production for the quarter was 28.19 million tons. On outlook, BHP state that medium term market conditions remain uncertain. All of BHP's operations remain under review, with the expected closure of cash-negative businesses. BHP has begun to sell some of its iron ore output in the spot markets in addition to long term contracts. 28% of BHP's iron ore output is now sold in the spot market, at prices which are about 35% lower than those of long term contracts. The lack of certainty in outlook is disappointing, though hardly surprising. We expect little movement in BHP's share price following the results. BHP remains our preferred pick in the sector, due to the strength of its balance sheet.

C&C : Buy **Current Price** (€1.51) **Price target** (€1.60) **Analyst :** David Dunk

Heineken has reported Q1 earnings for the first time, this morning. Overall, the results were disappointing, with falling beer sales, and costs relating to last years acquisition of Scottish & Newcastle (S&N), impacting profits. Earnings before interest and tax declined in the "high teens", after adjusting for acquisitions and charges. Beer volumes declined by 6.3% over the period, which was significantly worse than expected. Heineken are seeing price sensitive consumers seeking cheaper alternatives to its premium brands, in particular in the US, UK and Spain. Heineken reiterates its intention to maintain its premium pricing for its key brands. This is critically important for C&C, which is now selling Magners in the UK at a discount to S&N's Bulmers. A more aggressive pricing policy from Heineken, would materially impact C&C profitability, given the current weakness of the consumer. While the operational performance has a negative read through for C&C, this is somewhat offset, by Heinekens pricing policy.

Tesco

BUY

Current Price : 347p

Price Target : 400p

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Analyst: **Stephen Taylor**

Wednesday 22nd April 2009

- **Results released :** Yesterday, Tesco reported a strong set of full year results for the period ending 28/02/09. Total group profit increased by 8.8% to £3.13bn beating analyst expectations of £3.07bn. Revenue rose by 13% to £54.3bn also beating analyst expectations of £53bn. The group's operating margins remained strong at 5.9% a key indicator that Tesco is managing to keep its cost base under control. The group also raised its final year dividend to 8.39p from 7.70p, bringing its total dividend for the year to 11.96p, up 9.7% from a year ago. The strong increase in the group's dividend indicates the confidence that the company has in its business going forward. In relation to its outlook for the rest of the year, the group confirmed that trading conditions will remain difficult in light of the current downturn however Tesco indicated that UK may have seen the worst of the recession. Trading for the group has been relatively strong for the first 6 weeks of the financial year with UK same-store-sales ex. fuel increasing by 3.4% from a year earlier. Total group sales were up 9.2%, and up 12% ex. fuel.

- **International division :** Tesco's international division continues to be a key source of growth. Asia remains the main driver of growth with revenue increasing by 19.9% at constant currency rates boosted by the acquisition of 36 Homever stores in Korea during the second half of the year. The group's stores in Thailand and Malaysia also put in a strong performance. In Europe sales for the year were strong with a 6.9% increase, however the company did note that it had seen a slowdown over the course of the year, which we expect to follow through to next year. In relation to the US, Tesco conceded that it has been a more difficult market than anticipated and it has pushed back its breakeven target by 2-3 years. We do not view this as unsurprising

- **Financial services :** Another key area of growth for Tesco will be at its financial services division . Tesco completed the acquisition of the remaining 50% of Tesco Personal Finance that it did not already own from RBS for a total consideration of £950m. The group brought in £2bn in new deposits and opened 100,000 new accounts in the last number of months. With confidence lost in the banking system and household names over the last 2-years, we believe that Tesco's customers' loyalty and faith in its business franchise will see the company continue to more accounts and expand services.

- **Balance sheet :** Tesco's balance sheet remains strong due to its low gearing and property backed balance sheet. Net debt currently stands at £9.6bn and the company intends to focus on reducing this next year by lowering capital expenditure to £3.5bn this year from £4.7bn last year in addition to more property asset sales. Transactions to date have brought in £2.2bn and Tesco expects to complete further property sales over the next number of months.

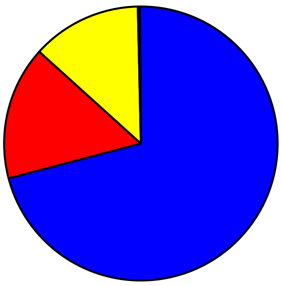
- **Valuation :** Tesco's results provide us with confidence that the company can continue to outperform amid the global economic slowdown. We believe that the group has positioned itself well when ecnomic activity rebounds as its continued expansion into emerging markets will payoff. We reiterate our buy rating on the stock and price target of £4.00 which is based on the stock trading at 13.5x 2010 earnings. The stock also provides a well covered dividend which currently yields 3.7%.

Descriptive Stats		Shareholders	
Price (p)	347	Legal & General	4.94%
52 Week High (p)	442	Barclays	4.26%
52 Week Low (p)	284	Invesco	3.60%
Bloomberg	TSCO LN	Capital Research	3.39%
Reuters	TSCO.L	Bershire Hathaway	2.90%

	FY09a	FY010e	FY11e
Revenue (£m)	54,327	58,190	62,459
EBITDA (£m)	4,395	4,594	4,854
EPS (p)	27.5	29.69	32.51
DPS (p)	11.96	12.75	13.66
P/E	12.6	11.7	10.7
Div Yield	3.45%	3.67%	3.94%

Peer Analysis	P/E 09	P/E 10	Div Yield 09
Tesco	**12.6**	**11.7**	**3.67%**
Sainsbury	15.4	14.1	4.10%
Morrisson	13.6	12.1	2.10%
Marks & Spencer	11.4	14.6	7.00%
Carrefour	11.9	11.3	3.80%

Geographic Revenue Breakdown



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Market Movers

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International Equity Markets

Index	Value	1-Day	YTD
ISEQ	2,387	0.4%	1.8%
FTSE	3,987	-0.1%	-10.3%
Dow Jones	7,970	1.6%	-9.2%
S&P	850	2.1%	-5.9%
Nikkei	8,727	0.2%	-1.5%
Stoxx 50	2,244	-0.3%	-8.6%

Sector Performances

Sector	Index	1-Day	YTD
Construction	200	0.1%	-1.1%
Technology	171	1.8%	11.7%
Oil & Gas	257	0.7%	-3.9%
Financials	151	-1.5%	1.5%
Retail	197	2.2%	7.6%
Food & Drink	214	0.6%	-8.5%

Commodity Prices

Commodity	Index	1-Day	YTD
Crude Oil	48.6	0.1%	-9.2%
Copper	208.0	-1.2%	42.3%
Gold	883.8	-0.1%	0.5%
Silver	12.1	-0.4%	6.8%
Wheat	520.8	0.9%	-17.9%
Cattle	83.3	0.8%	-3.2%

Currency Exchange Rates

Commodity	Index	1-Day	YTD
€/$	1.295	0.2%	-8.2%
€/£	0.882	-0.8%	-8.0%
£/$	1.467	0.9%	-0.2%
$/JPY	98.74	0.9%	7.6%
€/JPY	127.79	1.0%	0.0%
€/SFR	1.512	0.1%	1.1%

5Yr Credit Spreads

Commodity	Index	1-Day	YTD
Invest Grade	179.8	-6.3%	1.8%
High Yield	1,040.4	1.3%	3.0%
Financials	160.9	4.3%	38.9%
BoI	421.2	-0.5%	77.2%
AIB	405.7	-9.2%	107.0%
RBS	200.9	5.0%	46.3%

Money Market Rates

Rate	EUR	UK	US
Overnight	1.0%	0.4%	0.2%
3-Month	1.4%	1.5%	1.1%
1-Year	1.7%	1.6%	1.3%
2-Year	2.0%	2.2%	1.6%
5-Year	2.8%	3.2%	2.5%
10-Year	3.5%	3.8%	3.1%

Date	Company	Region	Event
22/04/2009	Elan	IE	Q1
22/04/2009	Elan	IE	Q1
22/04/2009	Iberdrola SA	ES	Q1
22/04/2009	Electrolux AB	SE	Q1
22/04/2009	Nestle SA	CH	Q1 SALES
22/04/2009	Peugeot	FR	Q1 SALES
22/04/2009	Heineken	DK	Q1
22/04/2009	Arriva PLC	GB	TRADE
22/04/2009	GlaxoSmithKline PLC	GB	Q1
22/04/2009	Carphone Warehouse G	GB	Q4 TRADE
22/04/2009	Morgan Stanley	US	Q1
22/04/2009	AT&T	US	Q1
22/04/2009	eBay	US	Q1
22/04/2009	Kimberly Clark	US	Q1
22/04/2009	McDonald's Corporation	US	Q1
22/04/2009	The Boeing Co.	US	Q1
22/04/2009	Capital One Financial	US	Q1
22/04/2009	Wells Fargo & Co.	US	Q1
22/04/2009	Apple Inc.	US	Q2
23/04/2009	Fiat SpA	IT	Q1
30/04/2009	Independent News & Me	IE	FY

Date	Event	Region	Estimate
22/04/2009	Bank of England Minutes	UK	--
22/04/2009	Jobless Claims Change	UK	100.0K
22/04/2009	ILO Unemployment Rate (3n	UK	6.70%
22/04/2009	Public Sector Net Borrowing	UK	15.2B
22/04/2009	M4 Money Supply (MoM)	UK	1.20%
22/04/2009	MBA Mortgage Applications	US	--
22/04/2009	UK Exchequer Budget Stater	UK	--
22/04/2009	House Price Index MoM	US	--
23/04/2009	ECB Euro-Zone Current Acc	EC	--
23/04/2009	Industrial New Orders SA Mc	EC	-2.50%
23/04/2009	Initial Jobless Claims	US	610K
23/04/2009	Existing Home Sales MoM	US	-1.00%
24/04/2009	IFO - Business Climate	GE	82.3
24/04/2009	GDP (QoQ)	UK	-1.50%
24/04/2009	Retail Sales (MoM)	UK	-0.50%
24/04/2009	Durable Goods Orders	US	-1.50%
24/04/2009	New Home Sales MoM	US	0.90%
27/04/2009	GfK Consumer Confidence S	GE	--
27/04/2009	Dallas Fed Manf. Activity	US	--
28/04/2009	U.K. CBI April Distributive Tr	UK	--
28/04/2009	S&P/CaseShiller Home Price	US	--

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DOLMEN SECURITIES LTD

75 St. Stephen’s Green, Dublin 2, Ireland.	Tel : +353 1 633 3800/1890 400 300	E-mail: info@dsl.ie
45 South Mall, Cork, Ireland	Tel : +353 21 422 2122	E-mail: cork@dsl.ie
Theatre Court, Mallow St, Limerick, Ireland.	Tel : +353 61 436 500	E-mail: Limerick@dsl.ie