

# DOLMEN WEEKLY TRADER



Weekly Market Commentary March 22nd 2010

We expect further range bound trading in equity markets next week with the possibility of some weakness due to short-term profit taking. We do however maintain our positive long-term outlook and view the current consolidating period as a basing in anticipation of further moves higher. While risks do remain in relation to sovereign debt as was evidenced by the widening in CDS spreads in Europe towards the end of last week, we believe that longer term the positive arguments for a move higher clearly outweigh the negatives. Historically low interest rates, an uptick in M&A activity and the ongoing improvement in economic environment have all culminated in continued improvement in the outlook for corporate profits. This was evident when global bell-whether Fedex stated on Thursday that it was raising full year earnings guidance. On the commodities side, crude oil remains our preferred play and we see it potentially hitting \$84 a barrel over the next couple of weeks. On the currency front, we continue to expect the EUR to remain under pressure against the US dollar and weaken further next week as the outlook for the US economy supersedes that of Europe. As for key events next week, the focus will return to sovereign debt issues and Greece with it giving the EU a one week deadline to come up with a financial bail out plan or it will turn to the IMF. In the UK the main focus will be on Wednesday with the budget, while in the US, housing data on Tuesday and Wednesday will be closely watched following a slew of disappointing readings.

## Trading Recommendations

**Smurfit Kappa - Buy** Previous close (€5.65) Target (€7.15) **Analyst:** Edward Keeling

**Costs:** Input costs have risen more sharply than expected since the New Year reflecting adverse weather conditions and stronger than expected Chinese demand.

**Margins:** This will lead to unavoidable margin pressure for Smurfit Kappa as there is an industry lag of c.6 months before full integrated box producers such as Smurfit can pass cost increases through.

**Valuation:** Trading on a forward EV/EBITDA multiple of 5.4x (compared with historical sector multiples of 7x). Such a multiple more than incorporates the current risks to consensus estimates.

**Balance Sheet:** Net debt/EBITDA 4x at its full year results and set to move towards to 3x by year end. Debt maturity profile is favourable with no significant debt maturing until 2013.

**Risks:** Fails to pass through higher corrugated box prices.

**Next Catalyst:** Peer Stora Enso interim review: 22<sup>nd</sup> April.

**P/E:** 11x **Dividend Yield:** 0.3% **EV/EBITDA:** 5.4x .

**Antofagasta - Buy** Previous close (997p) Target (1150p) **Analyst:** Brian Gallagher

**Copper Market Fundamentals:** Due to underinvestment in copper assets by the industry, demand is expected to outweigh supply in the copper market between 2011-2014

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

**Operations:** The recent earthquakes in Chile have had no material impact on the Antofagasta's production. This was confirmed at the recent investor presentation

**Net Cash Position:** \$1.7bn in cash provided strategic flexibility to absorb unexpected events

**Risks:** Production interruptions, adverse currency swings & higher than expected cash costs

**P/E:** 13x **Dividend Yield:** 2.1% **EV/EBITDA:** 5.3x

## Healthcare

**Analyst:** Stephen Taylor

Healthcare remains one of our preferred sectors given the strong cash-flow generation, strong balance sheet and stable dividends associated with companies within the sector. **GlaxoSmithKline (GSK)** remains one of our preferred stocks in the UK and performed strongly last week gaining 3%. The decision by Swiss company Novartis to withdraw from a generic J/V project for an asthma drug believed to be a generic version of GSK's Advair has removed a competitive threat from the group. In addition GSK has been expanding its emerging market exposure that will be a key growth area for the company. We recommend staying long GSK. For clients looking for exposure to US pharmaceuticals we recommend both **Abbot Labs** and **Pfizer**. Abbot Labs benefits from being a diversified healthcare company operating in four segments (turnover): Pharmaceutical (54%), Diagnostic Products (15%), Nutritional Products (20%) and Vascular Products (11%). The group also recently completed its acquisition of Belgian pharma company Solvay increasing its exposure to cholesterol treatments and emerging markets. Pfizer is seen as more of a pure pharmaceutical play and we like the stock on valuation grounds. Trading at just 8x earnings, an EV/EBITDA of 5x and providing a dividend yield of c. 4%, we believe the company looks attractive.

## Trading Call Up-Dates

**Paddy Power:** The Cheltenham festival has proven to be a key catalyst for Paddy Power over the past week with results going largely the way of the bookmakers.

**CRH:** We are recommending taking profits in CRH follow its recent rally and including its dividend payment of 44c. We continue to like the stock longer-term but may be some weakness due to profit taking in short-term.

**General Electric:** We recommending taking profits in General Electric following the recent rally in its share price (+12% over the last two weeks) to our price target of \$18.00.

## Key Market Moving Events

### MONDAY

#### Corporate

Dyckerhoff AG, A.G. Barr, Zenergy Power Plc, Wolseley plc, Tiffany & Co.

#### Economics

Chicago Fed Nat Activity Index US, Euro-Zone Consumer Confidence EC

### TUESDAY

#### Corporate

Metro, WestLB, Irish Continantal Group, Imperial Tobacco Group, Cairn Energy, CBG Group, Legal and General Group, RAB Capital, UTV Media, Adobe Systems, Walgreen

#### Economics

GPI (MoM) UK, RPI (MoM) UK, House Price Index MoM US, Richmond Fed Manufact. Index US, Existing Home Sales US, ABC Consumer Confidence US

### WEDNESDAY

#### Corporate

Independent News & Media, Smiths Group, Bellway, J Sainsbury, Man Group, Alliance Pharma, Eurasian Natural Resources, Hochschild Mining, Soco, General Mills,

#### Economics

PMI Manufacturing GE,, IFO - Business Climate GE, PMI Services EC, PMI Manufacturing EC, Industrial New Orders EC, MBA Mortgage Applications US, U.K. Budget Report UK, Durable Goods Orders US, New Home Sales US

### THURSDAY

#### Corporate

Air Berlin, Loewe, Accenture, Signet Group, Kingfisher, Next, Petropavlovsk, Premier Oil, Scisys, Ted Baker, United Utilities, ConAgra Foods, Oracle, Best Buy Co.

#### Economics

GfK Consumer Confidence Survey GE, Euro-Zone M3. 3 mth ave EC, Retail Sales Ex Auto Fuel UK, Initial Jobless Claims US

### FRIDAY

#### Corporate

Hypo Real Estate Holding, Koenig & Bauer AG

#### Economics

Total Business Investment UK, GDP QoQ (Annualized) US, Personal Consumption US, GDP Price Index US, Core PCE QoQ US, U. of Michigan Confidence US

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