

DOLMEN WEEKLY TRADER



Weekly Market Commentary February 22nd 2010

We see the potential for a modest pull back in equity markets this week following the strong performance last week that saw the FTSE rising for five straight days. We maintain our longer-term positive outlook and recommend using any weakness as a buying opportunity to our preferred sectors including Basic Resources and Technology. We expect the modest pull back as some risk is taken off the table as a result of profit taking and the potential for some concerns around peripheral Europe to arise again that may lead to credit spreads moving wider. However, given the improved corporate outlook as seen with Barclays and Hewlett-Packard results last week, we continue to believe equity markets will trade higher over the coming months. For clients looking to hedge any potential weakness in the short-term we recommend using an index hedge depending on geographical exposure of the individual portfolio. We are unconcerned in relation to the Federal Reserve's increase in the discount rate last Thursday. While the timing of the move was a surprise the policy direction was not and the Fed Funds rate is likely to remain at exceptionally low levels for an extended period as the momentum behind the economic recovery in the US is allowed to continue. On the currency front we expect further Euro weakness against the US dollar not just because of issues surrounding peripheral Europe but also on the improved economic outlook in the US. We recommend using any of our expected weakness to buy our two preferred commodities in copper and oil. The main data points next week will come out of the US with retailers Home Depot, Gap and Macy's all due to report, while in the UK earnings reports from RBS and Lloyds will also be closely watched. Ben Bernanke's semi annual testimony to congress on Tuesday and Wednesday should also provide further details in relation to the outlook for monetary policy in the US.

Bank of Ireland - Government Shareholding

Analyst: Oliver Gilvarry

Bank of Ireland (BOI) has announced the coupon due on the Government preference shares will be paid this morning in ordinary equity and not cash. The reason for the payment in equity was due to the European Commission forcing a suspension of payments on Tier 1 and Upper Tier 2 debt in BOI and AIB. The Government also has circa 337m shares under the warrants attached to the Government preference shares. When added to the new shares, the Government has 521m shares in BOI Group, a 34.2% stake as the warrants are diluted also. Our previous estimate of Tangible Net Asset Value (TNAV) in 2012 was €1.70; we are now dropping it to €1.60. We are reducing our price target to €1.40 due to dilution. This move is positive for LT 2 and Senior debt holdings as it keeps more cash within the group increasing the capital below this debt in the capital structure. Any future rights issue by BOI means the Government will have to decide if it wants to follow its money. We still maintain the Buy rating on the stock. With the NAMA haircut estimate of 27% a large determinant of value and we state it is a high risk investment with variables both domestically and externally that will impact the stock.

Paddy Power - Buy

Previous close (€23.80)

Target (€27.50)

Analyst: Edward Keeling

Valuation Premium: Valuation premium justified when compared with its land based peers reflecting its greater exposure to the online growth channel, stronger balance sheet and growth potential.

Geographical diversification: Recent acquisitions & strategic partnerships mean it has diversified its exposure to include the Australian and French markets.

Market share: Continues to gain market share in the online market, where it benefits from the advertising of its land based presence and the broadest product offering.

Balance Sheet: Strong in relation to the sector with c.€75m net cash leaves room for acquisitions

Risks: Increased competition and online gaming tax.

Next Catalyst: William Hill Results 26th February & Paddy Power Full year results 2nd March

P/E: 16x **Dividend Yield:** 2.5% **EV/EBITDA:** 9x

Microsoft - Buy

Previous close (\$28.77)

Target (\$35.00)

Analyst: Stephen Taylor

Peer results: Hewlett-Packard results clearly indicate recovery in PC market is real. CEO Mark Hurd also reaffirmed expectations for corporate refresh cycle in second half of 2010.

Balance Sheet: One of strongest corporate balance sheets in the world with c. \$30bn net cash.

Search Venture: Received US and EU approval for search joint venture with Yahoo.

Key Metrics: Valuation attractive at 13x 2011 earnings with div yield of 1.8%.

Risks: Corporate upgrade is pushed out for another 12-months, downturn in economic data.

Next Catalyst: Release of Microsoft Office 2010 in June will lead to corporate upgrade of Windows 7.

P/E: 13x **Dividend Yield:** 1.8% **EV/EBITDA:** 8.5x

Aviva - Buy

Previous close (379p)

Target (520p)

Analyst: Oliver Gilvarry

Good peer results: Legal & General capital position stronger than expected. Axa also reported higher EV than expected and raise dividend above consensus estimates.

Capital Position: Capital position within range management are comfortable with at £4.5bn.

Key Metrics: Div Yield 6.7%, P/E 2010 6.0x.

Next Catalyst: Full year results March 4th, Allianz Results on Thursday.

Risks: Momentum in sales in Q4 not continuing in 2010.

Ryanair - Buy

Previous close (€3.46)

Target (€4.30)

Analyst: Edward Keeling

Results: Strong Q3 results & increased full year net profit guidance support our investment thesis.

Average Fare: Fare trends improving reflecting route maturity & positive industry capacity dynamics.

Balance Sheet: €2.4bn of cash reserves and just c.€200m net debt.

Risks: European economic deterioration, oil price spikes and weak sterling.

Cash Distribution: Special dividend of €0.68 a share potentially to be distributed by FY2013

Next Catalyst: Traffic figures 3rd March

P/E: 14.8 **Dividend Yield:** 0% **EV/EBITDA:** 7x

Key Market Moving Events

MONDAY

Corporate

TNT, Associated British Foods, Bunzl, Hammerson PLC, Cabot Oil & Gas, Constellation Energy, Nordstrom

Economics

Chicago Fed Nat Activity Index, Dallas Fed Manf. Activity

TUESDAY

Corporate

Carlsberg, Vallourec, Continental, Merck, Kerry Group, Heineken Brammer, Drax Group Plc, Macy's, Office Depot, Sears, Target Corp. Home Depot Inc

Economics

IFO - Business Climate, IFO - Expectations (GE), S&P/CaseShiller Consumer Confidence, Richmond Fed Manufact. Index, ABC Consumer Confidence

WEDNESDAY

Corporate

Accor, Fresenius, COMMERZBANK, Iberdrola Barratt Developments PLC, Rathbone Brothers, Travis Perkins

Economics

GDP s.a. (GE), Imports, Exports (GE), Industrial New Orders EC, MBA Mortgage Applications, New Home Sales (US) Ben Bernanke Humphrey Hawkins Speech

THURSDAY

Corporate

Dexia, Credit Agricole, France Telecom, BASF Deutsche Telekom, Allianz, Deutsche Postbank, ICON, Telecom Italia, British American Tobacco, Centrica, RSA Insurance, SEGRO, RBS, H.J. Heinz Co, Dr Pepper Snapple

Economics

Unemployment Rate (GE), Euro-Zone M3, Euro-Zone Consumer Confidence, Durable Goods Orders, Initial Jobless Claims, House Price Index (US)

FRIDAY

Corporate

Bayer, Telefonica, Lloyds BG, William Hill, Serco Group, Novartis, Integrys Energy, Pepco Hldngs

Economics

GDP (UK), Euro-Zone CPI, GDP (US), Personal Consumption (US), Core PCE, CPI (GE), Chicago Purchasing Manager, U. of Michigan Confidence, Existing Home Sales

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Dolmen Stockbrokers, 75 St. Stephen's Green, Dublin 2, Ireland.



DOLMEN SECURITIES LTD

75 St. Stephen's Green, Dublin 2, Ireland.
45 South Mall, Cork, Ireland
Theatre Court, Mallow St, Limerick, Ireland.

Tel : +353 1 633 3800/1890 400 300
Tel : +353 21 422 2122
Tel : +353 61 436 500

E-mail: info@dsl.ie
E-mail: cork@dsl.ie
E-mail: Limerick@dsl.ie