

## CONTENTS

**Market View:** US existing home sales continues run of disappointing data

**Ryanair:** UK government to explore changes to aviation tax system

**C&C:** New government committed to fair excise duties

**Paddy Power:** UK VAT increase will only have a minimal impact on earnings

**CRH:** Press report name CRH as potential bidder for Murlu

**UK Financials:** Bank levy announced

**BP:** Judge overturns Gulf Moratorium

## Market Movers

## IRISH PAPERS TODAY

Department of Finance to get external review, says Lenihan (*The Irish Times*)

O'Brien increases stake in Independent to 20% (*The Irish Times*)

Households facing new property tax in Budget (*Irish Independent*)

## INTERNATIONAL PAPERS TODAY

Osborne's kill or cure Budget (*Financial Times*)

General's gaffes provoke the ire of Obama (*Financial Times*)

Judge blocks U.S oil drilling ban (*Wall Street Journal*)

## Market View

**Analyst: Stephen Taylor**

European equity markets have opened weaker this morning following a late day sell off in the US and disappointing finishes to Asian markets overnight. The main catalyst for yesterday's move was a disappointing US existing home sales figure. Data showed that purchases of existing homes fell by 2.2% during the month of May, while expectations were for a 6% increase. The decline follows weak housing starts and building permits data last week and adds to concerns that there is the possibility of a double dip in the housing market in the US. The disappointing figures coincide with the expiry of the tax credit for first time buyers and as a result we are likely to see some disappointing figures out of the US for housing over the coming months. Having said that we do not forecast a double dip in US housing and comments from many of the main US house builders have been more upbeat lately with many beginning to purchase land again. Yesterday's emergency budget out of the UK has been received positively by the market with 10-year UK gilts in strong demand sending yields lower by 6bps to 3.45% this morning, while sterling strengthened against both the Euro and the dollar. Ratings agency Fitch has also made positive comments in relation to the UK budget indicating that the 'ambitious' plans would ensure that Britain would keep its AAA credit rating. Yesterday's budget should be taken as a positive read through for Ireland as the increase in VAT to 20% from 17.5% that will take place in January 2011 together with a strengthening sterling should ensure that cross border shopping will become less attractive. As for today the main focus will again be in the US with new home sales data for the month of May due to be released. The market is expecting a weak figure with sales expected to decline by 18% month on month. Also key will be the FOMC interest rate decision and accompanying statement. We expect no change in interest rates and given the recent disappointing housing and jobs data, we anticipate the Fed will maintain its dovish stance in relation to the interest rate outlook.

**Ryanair: Buy**      **Previous Close** €3.67      **Target** €4.70      **Analyst** Edward Keeling

The UK Government announced yesterday that it will explore changes to the aviation tax system, including switching from a per-passenger to a per-plane duty. While this is a negative for Ryanair and the airline sector as a whole, it had been well flagged and was anticipated by the market. In addition it won't impact on Ryanair as badly as its peers, reflecting the fact its flights operate much closer to full capacity. It does however highlight the risks European austerity packages pose to airline's earnings.

**C&C: Buy**      **Previous Close** €3.28      **Target** €3.90      **Analyst** Edward Keeling

In the UK budget announcement yesterday, the new conservative Government confirmed that the increase in cider rates of 10% above inflation announced in the March budget will be reversed from June 30<sup>th</sup>. The Government indicated that it is only committed to fair excise duties that contribute to the deficit reduction while encourage personal responsibility. Instead secondary legislation will be introduced shortly to increase tax on cheap, strong ciders. Overall in this budget there was no increase in the rate of duty on cider, beer, wine or spirits. The government will continue with its inherited plans to increase the alcohol excise rates by 2 per cent above inflation each year to 2015. This is a favourable outcome for C&C. The market had been anticipating some form of alcohol tax or the possibility that the 10% above inflation cider duty would be maintained. However there are some negatives. C&C's recently acquired Gaymer portfolio does contain some high strength ciders which surely will be aggressively taxed once the secondary legislation is introduced. In addition the increase in the standard rate of VAT from 17.5% to 20% effective from January 4<sup>th</sup> will negatively influence sales. Nonetheless we remain positive on C&C and believe the market underestimates the potential of its recent restructuring. We expect the performance of its UK cider brand Magners to significantly improve over the coming year. It is now supported by a portfolio of brands which will allow Magners to focus in its own premium higher margin market segment. In addition post C&C's acquisition of Tennants, its route to market in Scotland and Northern Ireland has greatly improved. We remain positive on C&C and reiterate our Buy rating.

**Paddy Power: Buy**      **Previous Close** €26.20      **Target** €27.50      **Analyst** Edward Keeling

Paddy Power will also be effected by the increase in the standard rate of VAT from 17.5% to 20% when introduced next year. However the impact on its earnings is only marginal reflecting Paddy Power's minimal exposure to the UK land based retail sector. A much greater risk to Paddy Power's earnings is the introduction of an online gaming tax. While this is unlikely over the short term reflecting the difficulties of implementing such a regime, it is something that Paddy Power's management are acutely aware of.

**CRH: Buy**      **Previous Close** €19.08      **Target** €21.50      **Analyst** Stephen Taylor

Press reports in the Business Standard newspaper suggest that CRH, Lafarge and HeidelbergCement are among companies that have expressed an interest in buying India's Murlu Industries. We believe that any foray by CRH into emerging markets would be taken as a positive once the multiple paid for a company is reasonable. CRH has a disciplined track record in paying for companies and would not expect it to overpay for an asset. CRH will issue a trading statement and development update on July 7<sup>th</sup>.



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**UK Financials:** Bank levy announced

**Analyst** Oliver Gilvarry

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It was announced yesterday that a new bank levy in the UK will raise £2bn a year. Although this was of course a negative for the sector, it was not as bad as feared. The market had been anticipating a banking tax that would raise up to £5bn a year. The 0.07% UK levy on wholesale liabilities is less than half the 0.15% rate being considered by the US. The new regime is designed to curb banks' reliance on short term funding which many believed contributed to the financial crisis. FTSE banking shares rose sharply following the announcement.

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**BP: Buy**

**Previous Close** 334p

**Target** 500p

**Analyst** Brian Gallagher

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A US judge has overturned the White House's 6 month moratorium on drilling at depths of greater than 500ft in the Gulf of Mexico. The moratorium was invoked following the explosion at BP's Macondo well and its intention was to give regulators time to review deepwater drilling practices currently in use by operators in the region. The judge rationalised his decision by stating that one event does not make a whole industry dangerous. He wrote "Are all airplanes a danger because one was?, that sort of thinking seems heavy handed and rather overbearing". The decision is a blow for the Obama administration and it highlights how the courts in the US may view the penalties and fines imposed on BP in a different light. The government have said that they will appeal the decision.

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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