Dolmen Daily

DOLMEN STOCKBROKERS

Thursday 25th June 2009

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(The Irish Times)

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(The Irish Times)

'Bad bank' legislation is likely to be referred to the Supreme Court
(Irish Independent)

INTERNATIONAL PAPERS TODAY

Kings hits at Treasury policy
(Financial Times)

China's oil hunt proceeds
(The Wall Street Journal)

DOLMEN DOZEN

Company	1-day %	YTD %
Aryzta	0.6%	-1.1%
BP	0.4%	-9.9%
CRH	-0.8%	1.1%
DCC	0.6%	38.3%
E.ON	3.2%	-8.7%
HPQ	-0.4%	2.6%
IL&P	8.7%	97.5%
INM	3.0%	-40.6%
J&J	0.8%	-7.3%
JPMorgan	-0.3%	6.1%
Microsoft	0.6%	20.7%
Vodafone	0.7%	-15.2%

Market View — Analyst : Stephen Taylor

European equity markets are slightly lower this morning after the S&P 500 gave up half of its gains in the US last night after the Federal Open Market Committee (FOMC) left interest rates on hold at 0.0% - 0.25%. The FOMC reiterated that the pace of economic contraction had slowed and that there were further signs of stabilisation in household spending. Despite rising commodity prices, the FOMC indicated that substantial resource slack is likely to dampen costs pressures leaving inflation subdued for some time. In light of this and despite the slowdown in contraction, the FOMC expects interest rates to remain at historically low levels for an extended period of time. The rapid increase in treasury yields since the FOMC's last meeting had raised speculation that the FOMC could have increased either the size or speed of its $1.75trn program to purchase long-term assets, principally Treasury securities and GSE mortgage-backed securities. The FOMC however decided not to alter their program and as a result treasury yields on 10-year government bonds increased by 8bps to currently stand at 3.7%. Overall there were no major surprises in the FOMC's announcement last night. On the positive side, yesterday's Durable Goods Orders were strong gaining 1.8% matching the previous increase in April. The data ties in to the recent strong increase in the new orders component of the ISM manufacturing index. As for today, the main focus will be on the weekly jobless claims figures out of the US at 13.30pm. A reading below the 600,000, which we have not seen since January, could provide a positive catalyst for the market.

Irish Economy : IMF reports on Irish Economy — Analyst : Stephen Taylor

The IMF has issued a detailed consultation report on the Irish economy and also provided comments in relation to NAMA. The IMF expects the Irish economy to contract by 8.5% this year and by 3% in 2010 with unemployment rising to 15.5% next year form its current level of 11.8%. The IMF predicts that the government's budget deficit will reach 12%, higher than the government's current estimate of 10.75%. In relation to the countries fiscal position, the IMF has recommended that the government must do more to cut spending rather than to continue to raise taxes, its main approach so far in trimming the budget deficit. The report specified that the government must look to cut the public sector wage bill and also said that social welfare programs should be targeted. The fund would also welcome proposals for a property tax. The IMF's senior official for Ireland, Ashoka Mody, said that he remained confident that Ireland would not default on its debt obligations, but faced a 'long hard' road to defend its banks and bring spending back in line with a drastically reduced tax intake.

In relation to the banking sector, the IMF expects Irish banks to lose €35bn or equivalent to about 20% of GDP in defaulting loans, which is at the high end of currents estimates. The report points out that the bulk of that would be absorbed by bank reserves. The IMF made positive soundings towards the government's solution to the banking crisis in its establishment of NAMA. The IMF commented that NAMA is 'potentially the right mechanism' for the government to implement, however nationalisation should not be ruled out. The IMF also said that NAMA should not be restricted to just property and development loans, an indication that stressed residential and business loans could also potentially be included in the agency. The IMF did point out however, that NAMA would find it difficult to determine fair prices for the defaulting property portfolios of the banks, the key issue surrounding the establishment of the agency.

IN&M : Speculative Buy — Price target (€0.45) — Analyst : Stephen Taylor

According to press reports this morning, Independent News & Media has agreed an extension to its deadline with its bondholders. Although the reports indicate that bondholders have rejected the latest refinancing offer, it indicates that they have agreed an extension to the refinancing deadline which was due to expire tomorrow. This will allow more time for discussions on how to restructure the €200m bond repayment due last May. The press report indicates that shareholders and creditors will meet again tomorrow to continue discussions. In a separate article, Denis O'Brien who owns 26% of the group, is reported as not being willing to invest additional funds in IN&M under the current refinancing terms. He has maintained that he is willing to assist in any medium term plan to delever the company, but that the current proposal, thought to be a deeply discounted rights issue, is just a temporary band aid and the group will require additional capital down the road. As a result we reiterate our speculative Buy rating on the group with a recommended entry level of €0.20.

Nike : Buy — Current Price ($53.02) — Analyst : Edward Keeling

Nike reported fourth quarter earnings last night and the group posted a 30% decline in fourth quarter profit to $195m as revenue and margins declined across all regions. The lower demand is partly explained by tough comparisons considering the effect of the Beijing Summer Olympics last year. Nike's future orders, an indicator of growth based on estimates of product orders, decreased 12% to $7.8bn for the period from June to November. However excluding currency effects, orders dropped just 5%. This was still considerably worse than market expectations of c.2% and Nike finished down nearly 5% in after hours trading in the US overnight. The retailer is now aiming to reduce advertising and manufacturing costs to save about $200m a year.

British American Tobacco

BUY

Current Price : £16.90

Price Target : £19.50

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Analyst: **Edward Keeling**

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- British American Tobacco is a holding company which owns, directly or indirectly, investments in the numerous companies constituting the British American Tobacco Group of companies. All subsidiary undertakings are involved in activities directly or indirectly related to the manufacture, distribution or sale of tobacco products. BATS is the world's 2nd largest tobacco company with over 300 brands and operations in over 180 markets. It is listed on the FSTE 100 with a weighting of 3%.

- **Lower Volumes :** Not surprisingly as a result of the global downturn BATS cigarette sale volumes have declined. However as a result of strong pricing power, BATS can compensate for this drop in demand by increasing the price of its products. This is the result of several factors. 1) Inelasticity of demand; due to the addictive nature of the cigarettes, its demand is relatively insensitive to changes in price. 2) Consolidated Industry; With the global tobacco industry highly consolidated (Top 5 players have c.50% of total market share, almost oligopolistic in nature), there is minimal emphasis on price competition. 3) Low relative prices; Although in developed countries cigarettes are priced far above many products, this is not the case in developing countries leaving more room for pricing hikes. 4) Brand ; Brand Loyalty is a strong feature of the market.

- **Tax Risk :** During these times of large government fiscal deficits, tobacco duties are perceived as an easy source of government revenue. While there is no doubt there a of potential tax shocks in some of BATS markets, we believe this is more than priced to BATS valuation and furthermore, there is risk to the upside on these forecasts. Firstly, in the majority of developed markets, taxation levels are already as high as 80% of the retail price. In our opinion this makes the likelihood of tax hikes above inflation as low. Secondly, there are very high rates of illicit trade globally (6% of world consumption per annum). This makes the alternative of tackling this market more profitable for governments.

- **Costs :** The defensive nature of BATS earnings stream is further supported by its limited cost pressures. Although some input costs within the industry have continued to rise (eg.leaf costs), with gross margins of c.55%, BATS can raise its retail price by only a marginal amount in order to protect profit margins. There is also the potential for supply chain efficiencies. As the tobacco industry itself is traditionally a high inventory business, BATS can implement significant cost savings by supplying part of their production requirements using tobacco leaf stocks of finished goods already in their warehouses. Finally, since 2000 BATS has placed a large emphasis on changing from a multinational business operating in over 180 into one global enterprise. This has mainly be implemented through the consolidation of factories. Since 2000 BATS has reduced the amount the amount cigarette factories from 83 to 40. Thus eliminating large amounts of spare capacity. Overall BATS remains on track to deliver £800m of cost savings by 2012.

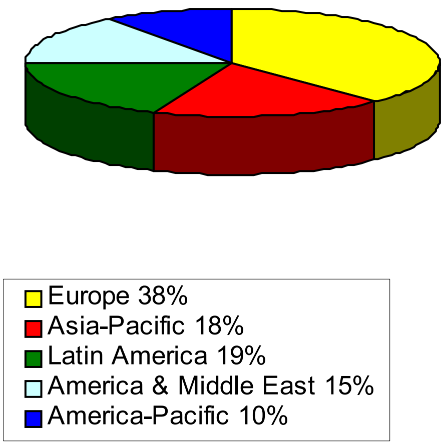
- **Attractive valuation; BUY :** We believe with c.60% of its sales volume derived from emerging markets, BATS represents the most attractive long term growth story from within its sector. It offers investors defensive earnings growth with an attractive dividend yield of 5.5%. Its balance sheet is sound, with a very manageable debt profile and while there are risks of tax shocks, we believe these fears have been overdone. Moreover, Its strong pricing power and cost savings potential will help support its bottom line. With the stock trading at just 10.5x 2010 earnings, we initiate coverage with a BUY rating and a price target of £19.00. This based on the stock trading on a multiple of 12x, its previous ten year average.

Descriptive Stats		Shareholders	
52 Week High	1941p	South African Depos	11.42%
52 Week Low	1,350	Legal & General	5.09%
Reuters	BATS.L	Reinet Investments	4.29%
Bloomberg	BATS LN	Invesco	3.08%
		Franklin Resources	2.59%

	FY08	FY09e	FY10e
Revenue €m	12,122	13,825	14,279
Pre Tax profit	3,803	3,710	4,186
EPS €	128	148	160
DPS	83	94	102
P/E	13.32	11.49	10.69
Div Yield	4.87%	5.51%	5.98%

Peer Analysis	P/E 09	P/E 10	Div Yield
Imperial Tobacco	10.1	8.2	4.60%
Ladbrokes	13.5	11.8	5.20%

Segmental Revenue Breakdown



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Market Movers

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International Equity Markets

Index	Value	1-Day	YTD
ISEQ	2,755	2.9%	16.9%
FTSE	4,280	1.2%	-3.8%
Dow Jones	8,300	-0.3%	-5.4%
S&P	901	0.7%	-0.3%
Nikkei	9,796	2.1%	10.6%
Stoxx 50	2,418	2.8%	-1.8%

Sector Performances

Sector	Index	1-Day	YTD
Construction	210	2.9%	3.2%
Technology	170	3.4%	10.6%
Oil & Gas	283	2.2%	5.5%
Financials	179	3.9%	17.5%
Retail	210	1.3%	14.8%
Food & Drink	239	0.8%	3.0%

Commodity Prices

Commodity	Index	1-Day	YTD
Crude Oil	68.7	-0.8%	24.3%
Copper	228.1	3.1%	58.2%
Gold	931.4	0.6%	6.0%
Silver	13.9	0.5%	23.6%
Wheat	539.8	-1.3%	-14.7%
Cattle	82.5	-1.0%	-3.7%

Currency Exchange Rates

Commodity	Index	1-Day	YTD
€/$	1.393	-1.0%	-0.2%
€/£	0.849	-0.8%	-11.8%
£/$	1.641	-0.3%	10.4%
$/JPY	95.64	0.4%	5.9%
€/JPY	133.22	-0.6%	5.8%
€/SFR	1.529	1.8%	2.3%

5Yr Credit Spreads

Commodity	Index	1-Day	YTD
Invest Grade	140.4	-6.3%	-23.2%
High Yield	846.4	-2.4%	-19.5%
Financials	122.2	-1.7%	-1.2%
BoI	371.4	0.0%	53.5%
AIB	382.1	2.4%	80.2%
RBS	176.8	-1.8%	28.8%

Money Market Rates

Rate	EUR	UK	US
Overnight	0.8%	0.4%	0.3%
3-Month	1.2%	1.2%	0.6%
1-Year	1.4%	1.4%	0.9%
2-Year	1.8%	2.2%	1.6%
5-Year	2.9%	3.6%	3.1%
10-Year	3.7%	4.2%	3.9%

Date	Company	Region	Event
25/06/2009	DSG International Plc	GB	PRELIM
25/06/2009	Bauer AG	DE	AGM
25/06/2009	ConAgra Foods	US	Q4
25/06/2009	Paychex	US	Q4
26/06/2009	Berkeley Group Holding	GB	PRELIM
29/06/2009	Asos PLC	GB	PRELIM
29/06/2009	Apollo Group	US	Q3
29/06/2009	Premier Foods Plc	GB	TRADE
30/06/2009	Telecom Italia Media Sp	IT	Q2
30/06/2009	Arriva PLC	GB	TRADE
30/06/2009	Drax Group Plc	GB	TRADE
30/06/2009	Safestore Holdings Plc	GB	INTERIM
30/06/2009	HMV Group PLC	GB	PRELIM
30/06/2009	Endesa SA	ES	S/HOLDERS
30/06/2009	Sterling Energy PLC	GB	AGM
01/07/2009	John Wood Group PLC	GB	TRADE
01/07/2009	Marks and Spencer Gro	GB	Q1 TRADE
01/07/2009	IFG Group PLC	IE	S/HOLDERS
01/07/2009	Home Retail Group plc	GB	AGM
01/07/2009	Constellation Brands, In	US	Q1
01/07/2009	General Mills, Inc.	US	Q4

Date	Event	Region	Estimate
25/06/2009	Trade Balance: First Estimat	IE	--
25/06/2009	PPI (MoM)	IE	--
25/06/2009	Industrial New Orders SA (M	EC	0.00%
25/06/2009	GDP QoQ (Annualized)	US	-5.70%
25/06/2009	Personal Consumption	US	1.50%
25/06/2009	Core PCE QoQ	US	- -
25/06/2009	Initial Jobless Claims	US	- -
26/06/2009	Personal Income	US	0.30%
26/06/2009	Consumer Price Index (MoM	GE	0.20%
26/06/2009	U. of Michigan Confidence	US	69
29/06/2009	Hometrack Housing Survey (	UK	- -
29/06/2009	Net Consumer Credit	UK	- -
29/06/2009	Mortgage Approvals	UK	- -
29/06/2009	M4 Money Supply (MoM)	UK	- -
29/06/2009	Business Climate Indicator	EC	- -
29/06/2009	Euro-Zone Consumer Confid	EC	- -
29/06/2009	Chicago Fed Nat Activity Ind	US	- -
29/06/2009	Dallas Fed Manf. Activity	US	- -
30/06/2009	GfK Consumer Confidence S	UK	- -
30/06/2009	Retail Sales (MoM)	GE	- -
30/06/2009	Unemployment Rate (s.a)	GE	- -

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