



Markets declined across the board last week. German economic sentiment, which had been robust, was lower than expected. US unemployment data was relatively benign, initial jobless claims were slightly lower than expected, although continuing claims came in slightly higher than expected. The main focus for the week was the minutes from the Bank of England and the Fed's April meeting. As predicted, the up-side risk of inflation was in focus, with both central banks showing greater concerns over inflation levels. The Fed noted that the April quarter percent cut was a close vote and guided that they were not expecting to cut again in the short term. The US existing home sales brought the property market back into focus, the median sales price for April was 8% lower than the previous year. Looking forward to the week ahead, today's new home sales will be closely watched. On Thursday, we have the first revision of the first quarter US GDP figure, the market is expecting an upward revision, from 0.6% to 0.9%. On Friday we have key inflation data from the US and Europe. On the corporate front, Dell releases its first quarter earnings this Thursday, markets will be looking for any signs of weakness in the technology sector. On the commodity front oil is stubbornly high, with no signs of a pullback yet, this may limit the markets ability to move higher.

### TRADING IDEAS, EARNINGS & PREVIEWS

#### Bank of Ireland:

Price: €8.15  
P/E: 5.9x  
Div: 7.8%  
Target: €11

#### BUY

**Fundamental View** : Last week, **Bank of Ireland** (BOI) CFO, John O'Donovan, presented to us as part of the group's post full year results' roadshow. On capital, a further strengthening of the 6% core equity ratio on a comparable basis with the UK sector was guided from both retained earnings and lower asset risk weightings under Basel II, implying that a flat full year dividend per share of 63.6c (7.9% yield) can be relied upon for the group's next 2 financial years. On funding, even though the price of short term funding remains elevated, its availability has improved since the start of Q2 2008, and both the availability and the price of term funding have improved since the start of Q2.

**Next Catalyst** : The group's final dividend per share of 39.4c will go ex tomorrow, 28th May. Upcoming sector general potential positive catalysts include AIB's H1 2008 results, due to be released on 30th July, as well as a further overall improvement in credit market conditions during Q2 2008, which would ease funding concerns. In relation to forward earnings guidance, strong reassurance was issued that the bad debts charge for the year ending 31/03/09 should not exceed 0.3% of average interest earning assets, implying only a slight increase toward more normal 10 year average levels, rather than any major credit quality deterioration as some forecasters continue to fear

**Chart View** : Problems do not appear to be over. The first upside obstacle is the key €8.80 area.

#### Vodafone

Price: 163p  
P/E: 12.5x  
Div: 4.7%  
Target: 200p

#### BUY

**Fundamental View** : This morning, **Vodafone** reported a strong set of fiscal full year 2008 results and issued strong guidance for 2009. Vodafone posted an 11% increase in EPS to 12.5p beating analyst expectations of 11.8p. Revenue increased by 14.1% to £35.5bn boosted by strong growth from its emerging market business. The company issued strong guidance for 2009 and expects to report revenue of £39.8bn-£40.7bn close to £1bn ahead of expectations. Vodafone also announced that its CEO Arun Sarin is to step down and will be replaced by Deputy CEO Vittorio Colao.

**Next Catalyst** : The next catalyst for Vodafone will be on the 22/07/08 when the group is due to issue an interim management statement, while the group's final year net dividend of 5p will trade ex on the 04/06/08.

**Chart View** : A move above 170 would suggest there is significant upside to follow. Any weakness should be limited by strong support in the 150-160 range. Outlook is positive.

#### Cable & Wireless

Price: 163p  
P/E: 18.1x  
Div: 5.2%  
Target: 200p

#### BUY

**Fundamental View** : Last week, **Cable & Wireless** (C&W) reported a strong set of full-year results and commented that given its impressive turnaround that it is considering increased shareholder value realisation through either a demerger or leveraging and returning capital to shareholders. Group EBITDA increased by 23% to £605m right at the top end of its forecasted range of £585m-£610m. The group proposed a final net dividend of 5p, a 20% increase, providing a full year net dividend of 7.5p. C&W also issued strong earnings guidance for 2009 and expects to report EBITDA in the range of £702-£725m, which would represent growth of 20%. The group has also been successful in its cost reduction strategy reducing its employee base by 10% to 5,000 employees helping to reduce its operating costs by 17%.

**Next Catalyst** : The next catalyst for C&W will be its AGM due on the 18/07/08 where we may get further positive news flow regarding the group's potential strategy going forward. C&W's net final dividend of 5p representing a yield of 3% will also go ex on 11/06/08.

**Chart View** : Chart outlook is somewhat uninspired with gains likely to be limited. 152 area is first major support.

#### Hewlett-Packard

Price: \$44.96  
P/E: 12.6x  
Div: 0.76%  
Target: \$60

#### BUY

**Fundamental View** : **Hewlett-Packard** (HP) recently announced a strong set of second quarter results and as a result raised its full-year 2008 earnings guidance for the second time this year. What was also reassuring about HP's results was that its operating margin improved by 90bps to 9.2%. For 2008, HP expects to report earnings growth in excess of 20%, a very impressive result given the current economic difficulties. HP's international exposure (c. 70% of revenue outside of the US) with an increasing focus on emerging markets is insulating it from the current economic slowdown in the US.

**Next Catalyst** : The next company specific catalyst for HP will be on the 19/08/08 when the group is due to report its third quarter earnings, while its closest peer Dell is due to report its first quarter results on 29/05/08. We believe that Dell's results will highlight the pressure that it has come under from HP, as HP continues to erode its market share.

**Chart View** : Momentum is fading but stock is well supported at both \$42.75 and \$40.00. Buy on weakness.

#### Diageo

Price: 984p  
P/E: 16.2x  
Div: 3.5%  
Target: 11.50p

#### BUY

**Fundamental View** : We are reiterating our buy recommendation for **Diageo** at current levels. Diageo is the leader in the premium brand alcohol sector. We feel this is a great long term buying opportunity to pick up a quality company with a defensive business model. Diageo is increasing its exposure to emerging markets and this will be a key source of growth for the company in the future. In developed markets consumer trends remain favourable, with increasing demand for premium brands in general, and spirits in particular. We see excellent value in Diageo under the £10 mark

**Next Catalyst** : Diageo will release their full year financial statement in August, we expect a solid set of results from the company. Additionally Sterling weakness, benefits Diageo due to its UK cost base and non-UK revenue streams, as a result any further decline in the British Pound should be positive for earnings.

**Chart View** : Stock is nearing key long-term support in the 975 area and caution is required.

## Earnings Week Ahead

## Economic Week Ahead

**Tues:** (Veris, AGM) (Newcut, AGM) (Vodafone, FY) (Northern Foods, FY) (HSBC, Shareholders) (Axa, Investors) (Societe General, AGM)

**Tues:** US Shiller House Price Index (14.00), Consumer Confidence (15.00), New Home Sales (15.00)

**Wed:** (Greencore, Interim) (Total Produce, AGM) (British Energy, FY) (Burberry, FY) (Tullow Oil, Shareholders) (Amaerican Eagle, Q1) (Peugot, AGM) (Ralph Lauren, FY)

**Wed:** US Durable Goods (13.30)

**Thurs:** (Scottish & Energy, FY) (Antofagasta, Financial Report) (AirBerlin, Interim) (Deutsche Bank, AGM) (Iberia, AGM) (Amazon, Shareholders) (Dell, Q1) FY)

**Thurs:** Euro-Zone M3 (09.00), US GDP (13.30), Jobless Claims (13.30)

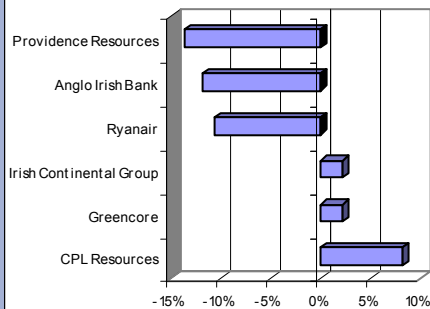
**Fri:** (Qualceram Shires, AGM) (Swatch, Q1) (HSBC, AGM) (Tiffany & Co, Q1)

**Friday:** Euro-Zone Economic & Business Sentiment (10.00), HCIP Inflation (10.00), US Personal Income & Consumption (13.30), Core PCE (13.30), Chicago PMI (14.45), Michigan Sentiment (14.55)

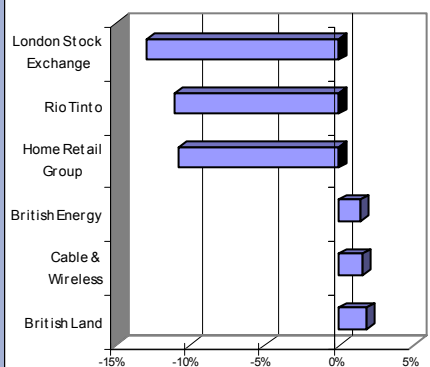
# DOLMEN STOCKBROKERS Traders Update

## Last Weeks Best/ Worst Performers 19/05/08-23/05/08

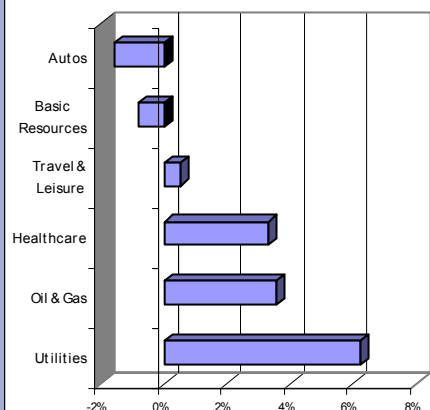
### ISEQ



### FTSE



### Sector changes WTD



## Dolmen Dozen

### WEEKLY UPDATE

Company	WTD	YTD	Relevant news
AIB	-5.2%	-15.90%	AIB re-iterate single digit eps growth guidance.
Aviva	-5.4%	-9.06%	Aviva's dutch joint venture wit ABN AMRO ends.
BP	-0.8%	2.44%	BP's CEO says TNK-BP output may suffer in Q4 as 148 specialists were forced to stay at home.
IN&M	1.0%	-12.20%	Daily Mail posts interim profit before tax of £144m, up 7% and in line with expectations.
CRH	-2.0%	0.55%	CRH says weaker dollar and slowing markets will make hitting targets tougher than expected.
Hewlett Packard	-4.9%	-10.94%	Hewlett-Packard reports second quarter net income rose 16%, with gross margins better than expected.
IAWS	-2.4%	6.7%	In-Store Bakery recorded the highest growth in the bread category in the UK for year ended February.
IL&P	-6.3%	-8.98%	CEO, Denis Casey says Irish Life & Permanent has no intention of rights issue.
Microsoft	-6.5%	-21.21%	Another major Yahoo shareholder, Bill Miller, wants Microsoft to buy the web portal.
Paddy Power	-7.8%	-1.55%	UK Peer SportTech says in its interim management statement that its trading in line with expectations.
Ryanair	-10.7%	-43.20%	Ryanair adds €5 priority boarding charge to internet customers.
Vodafone	-1.8%	-13.05%	Vodafone posts a £6.7bn net profit compared with a loss a year earlier.

DD Unrealised gain	-3.35%	ISEQ YTD	-11.93%
DD Realised gain YTD	-10.96%	FTSE YTD	-12.81%
DD Total YTD	<u>-9.49%</u>	Average performance	<u>-12.37%</u>
Relative Performance		<u>2.88%</u>	

\* DD Return (Includes dividends & FX changes since stocks inclusion)

### What it says in the 'Sundays'

Company	Paper	Headline
DCC	S. Independent	Dead man walking - top investors call time on DCC.
Bank of Ireland	S. Tribune	BIAM to be put out of misery.
Ryanair	S. Times	Decommission 20 planes this Xmas.
Elan	S. Times	Advancing plans to demerge its drug tech division.
W.Wedgwood	S. Business Post	Waterford's future far from crystal clear.

### Upcoming Corporate Visits

COMPANY	PRESENTATION DATE
IFG Group	5th June 2008
Paddy Power	13th June 2008



## Last Weeks Moves

### Equities

	Level	Change WTD	Change YTD	Div Yield	P/E08
ISEQ	6066	-5.6%	-12.5%	3.3%	9.0
FTSE 100	6087	-3.4%	-5.7%	4.2%	12.1
DAX	6944	-3.0%	-13.9%	3.1%	13.5
Dow Jones	12480	-3.9%	-5.9%	2.6%	15.7
S&P 500	1376	-3.4%	-6.3%	2.6%	23.0
Nasdaq	2445	-3.3%	-7.8%	0.9%	37.4
EuroStoxx 50	3169	-3.4%	-14.0%	4.3%	11.4
Nikkei 225	14012	-1.5%	-8.5%	1.6%	16.9

### Technical Short-Term Trading Idea:

**Strategy:** Sell the Dow Jones Industrial Average on a rally

#### Comments:

- The DJIA has broken through some key areas including the March-May rally trendline, the 12750 area, and the longer-term Fibonacci 12597 level.
- Daily MACD momentum is fading and this suggests that the DJIA will struggle to sustain any rally in the short-term.
- Multiple indicators of late are pointing to increased risk aversion.

#### Trade:

- Sell the DJIA on a move to 12700.
- Target is 12250.
- Place a stop at 13050.
- Key levels: 12239, 12597, 12750, 12996, 13136.

Indices can be traded through CFD accounts. Each standard contract sold at 12,700 with a \$10 per point exposure would return \$4,500 if covered at 12,250, versus a loss of \$3,500 if stopped out at 13,050. Mini contracts are also available and represent one fifth the exposure of a regular contract.

## Credit Sector Movements

**Telecoms:** Wider in the sector – Vodafone announced it would purchase the rest of Arcor for €474m, spreads widened 16%. Following on from the release of Vodafone's annual statements this morning, Vodafone spreads are trading 3-4% wider. Although results were better than expected, it appears that the 11% increase in dividends was greater than expected. Deutsche Telecom was the worst performer of the sector, 17% wider as Moodys cut their rating from A3 to Baa1.

**Airlines:** Wider in the sector – Lufthansa widened 21% and British Airways widened 25% this week as fears mount over Airlines profitability given the current level of oil prices. Moodys confirmed BAA's Baa2 rating, but maintain their downward review, BAA spreads were narrower by 9% for the week.

## Commodities

	Current	Change YTD
Crude Oil	\$132.19	+38.0%
Gold spot	\$925.10	+10.9%

## Exchange Rates

	Current	YTD Change	Year End (est)
EUR-USD	1.576	+8.0%	1.45-1.55
EUR-GBP	0.796	+8.3%	0.74-0.78
EUR-JPY	162.9	+0.0%	165.0

## GDP Growth

	Current	Year End (est)
Ireland	5.00%	3.00%
Euro Zone	2.50%	2.00%
UK	3.10%	2.00%

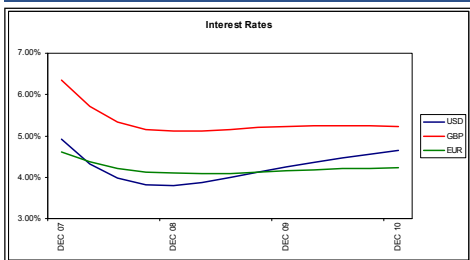
## Central Bank Interest Rates

	Current	3 month	Year End (est)
Euro Zone	4.00%	4.86%	3.75%
UK	5.00%	5.86%	4.75%
US	2.00%	2.65%	1.75%

## Credit Market Summary

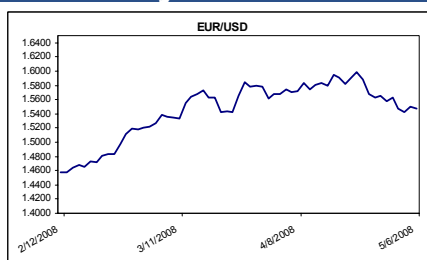
Despite a good start credit spreads widened significantly over the week. Investment grade and financial spreads widened 30% while high yield widened 15%. Credit markets were disappointed on Tuesday by AIG's larger than expected capital raising, \$20bn compared to \$12.5bn previously announced. Looking forward, credit markets are likely to be sentiment driven. The short term risk in spreads is to the upside (widening) as spreads are probably still too tight at current levels.

## Interest Rate Outlook

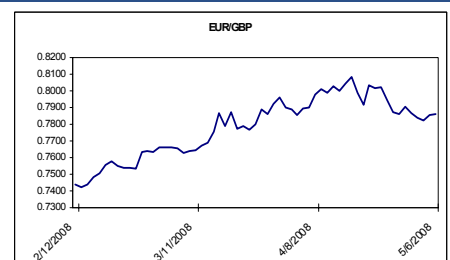


Continuing inflationary concerns sent bond yields higher last week. The yield on the US two-year increased by 5bps to 2.43%, while the European equivalent increased by 20bps to 4.20%. Yields are likely to remain at current levels as record commodity prices place upward pressure on inflation.

## Currency Comment



The € strengthened against the dollar last week as a better than expected German IFO reading helped to boost the currency. The main focus this week will be in the US with New Homes sales data due for release on Tuesday, while Durable Goods data on Wednesday will be also closely watched. Any weakness in the numbers could place further pressure on the dollar.



The € strengthened slightly against sterling last week edging closer to the 0.80 level again. Concerns that the slowing UK economy will not be propped up by lower interest rates due to inflation concerns. The € could break through the 0.80 level on Friday if the HCIP inflation data comes out ahead of expectations.



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