

DOLMEN WEEKLY TRADER



Weekly Market Commentary June 28th 2010

We see the potential for a further pull back in equity markets this week as the recent dip in economic data and further tightening in credit markets weighs on sentiment towards equities. We are recommending a more defensive approach to sectors with our preferences including; food retail, pharma and telecoms given the current uncertainty that exists. We still however maintain our longer-term positive outlook for equities as we are confident in the outlook for global growth albeit at a more moderate level. **For clients looking to hedge long portfolios against the continued volatility we recommend shorting the FTSE either through a futures contract or ETF (Bloomberg Ticker XUKS LN).** Last week's positive earnings release from Oracle and guidance for the next quarter provide a clear indication that companies are beginning to spend again on technology products, a point that was also noted by the FOMC statement last week. In addition Oracle also indicated that it was hiring again. Credit markets remain an issue however with continued concerns around sovereign debt also referred to in last weeks FOMC statement. On the currency front we are cautions on the Euro and see it remaining under pressure against sterling and the \$. Gold remains our preferred commodity due to the current uncertainty and technically its chart remains constructive.

Trading Recommendations

C&C - Buy Previous Close (€3.31) Target (€3.90) **Analyst:** Edward Keeling

We continue to expect C&C to outperform. Recent market data has pointed towards strong volume and market share growth for its Magners business in the UK. This is key for C&C's future earnings momentum and is likely to have been boosted by the world cup and the recent good weather during its all important summer selling season (c.60% of total sales). C&C derives c.78% of its revenue from the UK and sterling's renewed strength will provide a boost to its bottom line. Over the medium term we expect Magners' sales volumes to improve significantly. It is now supported by the Gaymer portfolio of brands, meaning it will be allowed to focus on its own higher margin market segment. It has a much improved route to market, reflecting a broader product offering and geographic exposure.

BP - Buy Previous Close (305p) Target (500p) **Analyst:** Brian Gallagher

Last week BP continued its attempt to stanch the flow of oil from its ruptured well in the Gulf of Mexico. Drilling on the two relief wells is progressing ahead of schedule and the addition of the Q4000 with a free standing riser has increased collection rates by approximately 10,000 barrels a day. Despite this much uncertainty remains over the eventual cost of the disaster. As a consequence short term price action will continue to be driven by media commentary rather than stock fundamentals. Our view is that BP can absorb the fallout from the disaster as its balance sheet and cashflows provide the company with sufficient financial flexibility. Over the short term BP remains a speculative Buy.

Tesco - Buy Previous Close (399p) Target (465p) **Analyst:** Stephen Taylor

Last week Warren Buffet's Berkshire Hathaway increased its stake in Tesco to just over 3%. Tesco is our preferred UK retailer due to its low cost product offering and international exposure. Tesco has continued its focus on expanding abroad to higher growth areas from Poland to China. Despite increasing competition and pricing pressure Tesco has been able to maintain its operating margins at c. 6%. Trading at 12x earnings and providing a dividend yield of 3.3% we view shares in Tesco as offering excellent long-term value. **Next Catalyst** : AGM July 2nd

Vodafone - Buy Previous Close (144p) Target (155p) **Analyst:** Stephen Taylor

Vodafone remains one of our top long ideas. Strong free cash flow generation, improvement in European markets and increased data growth should help support shares in the company. Speculation may also continue of a potential deal in relation to its stake in Verizon Wireless. Vodafone's valuation is attractive trading at 9x earnings and providing a yield of 5.7%, with guided increases of 7% per year over the next three years. Vodafone received a number of broker upgrades last week. **Next Catalyst** : Trading Statement July 23rd.

Pfizer - Buy Previous Close (\$14.55) Target (\$20.00) **Analyst:** Stephen Taylor

Pfizer is one of the world's largest pharmaceutical companies developing & marketing medicines for humans & animals. Products range from cardiovascular to nervous system disorders. While Pfizer's pipeline is viewed as being weak, synergies from its acquisition of Wyeth should protect earnings. The group last week increased its quarterly dividend by 12.5% yoy. Pfizer trades at 6.7x 2011 earnings and now pays a dividend yield of 4.96%.

Financials

Analyst: Oliver Gilvarry

Weaker expectations on growth and the lack of liquidity returning to inter-bank markets has resulted in difficult trading in financials. The G20 proposals at the weekend had no surprises on bank capital rules with 2012 an aim instead of a target for the implementation of new capital rules. In the US, the new financial regulatory bill was announced with the impact on derivative trading less than feared. The regulatory environment is moving forward, but growth fears and restricted wholesale markets will continue to weigh on financials. We continue to like **JPM** in the US and in Europe **Barclays** and **Lloyds** are two of our preferred names. We would be cautious on other European names until details of European stress tests are released early next month. Until these are released, financials will remain volatile and we expect the sector to underperform this week.

This Week's Market Events

MONDAY

Corporate

Standard Chartered PLC TRADE, Taylor Wimpey Plc TRADE, Barnes & Noble Q4, Cove Energy AGM

Economics

Hometrack Housing Survey UK, Euro-Zone M3 EC, Chicago Fed Activity Index US, Personal Income US, PCE Core US, CPI GE, Dallas Fed Manf. Activity US

TUESDAY

Corporate

Arriva PLC TRADE, BNP Paribas S/HOLDERS

Economics

Net Consumer Credit UK, Mortgage Approvals UK, M4 Money Supply UK, Industrial Product Price CA, S&P/CaseShiller Home Price Ind US Consumer Confidence US, ABC Consumer Confidence US

WEDNESDAY

Corporate

Monsanto Co. Q3, Worldspreads Group PRE-LIM, HMV Group PRELIM, Blackrock International Land Plc AGM, IFG Group AGM, Home Retail S/HOLDERS, Tullow Oil Analyst Event

Economics

GfK Consumer Confidence UK, Unemployment GE, GDP UK, Current Acc UK, Total Business Investment UK, €Zone CPI EC, MBA Mortgage Apps US, ADP Employment Change US, GDP CA, Chicago PMIUS, NAPM-Milwaukee US

THURSDAY

Corporate

Debenhams Plc TRADE

Economics

PMI Manufacturing GE, PMI Manufacturing EC, PMI Manufacturing UK, Initial Jobless Claims US, Continuing Claims US, ISM Manufacturing US, ISM Prices Paid US, Construction Spending US, Pending Home Sales US

FRIDAY

Corporate

Tesco PLC AGM

Economics

PMI Construction UK, Unemployment Rate IT, Euro-Zone PPI EC, Euro-Zone Unemployment Rate EC, Change in Private Payrolls US, Change in Nonfarm Payrolls US, Avg Hourly Earning MOM All Emp US, US Unemployment Rate, US Factory Orders

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