



Friday 28th November 2008

DAILY COMPANY NOTE — Johnson & Johnson See page 2 & 3 for full details

Daily Market Comment

Yesterday's Summary : Speculation over interest in the Irish banks continued to push the ISEQ higher yesterday as the Irish Association of Investment Managers emerged as the latest potential investor. The index closed up 52 points at 2,525. Irish Life and Permanent outperformed its sector, climbing another 20.2% to close at €1.64. Anglo Irish Bank fared the worst, despite closing up 5.7% to close at €0.93. Aer Lingus also posted decent gains as it closed up 9.5% at €1.13

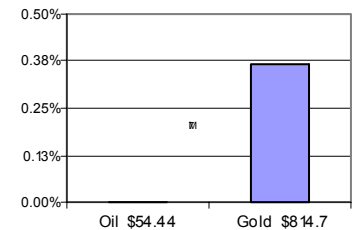
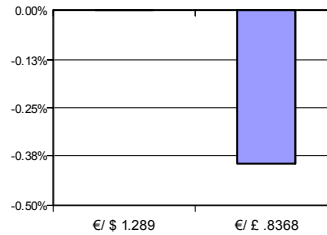
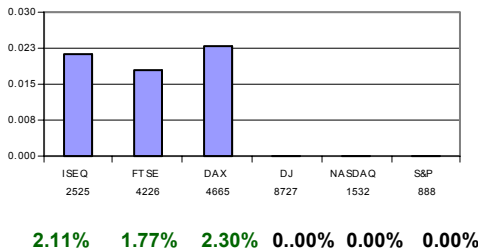
Overnight News : With US indices closed yesterday, investors focused on the overnight Asian markets. With the Nikkei 225 and Hang Seng closing up 1.7% and 2.5% at 8,512 and 13,888 respectively, Asian markets posted their fifth positive session in a row. Elsewhere, the Sensex (India's stock market) was closed due to the series of terrorist attacks in Mumbai; while the Australian S&P/ASX 200 also posted further gains overnight closing up 4.1%.

Breaking News : ArcelorMittal intends to slash up to 9,000 more jobs, saving \$1bn a year in response to a deepening global economic downturn, according to media reports this morning. The company said it would launch a voluntary redundancy scheme for largely white collar staff to make the cuts, which could affect about 3% of its workforce. Santander is expected to announce Friday that it has bolstered its capital ratios with a well-subscribed €7.2bn rights issue after a tense period last week when the share price fell perilously close to the discounted rights price. Elsewhere, it has been reported that the UK government has now bought a 58% stake in Royal Bank of Scotland, as the state picked up £15bn of shares in the lender after investors shunned the rescue plan. RBS said its investors took just 0.2% of the shares on offer.

Equity Indices change on day

Currency daily % change

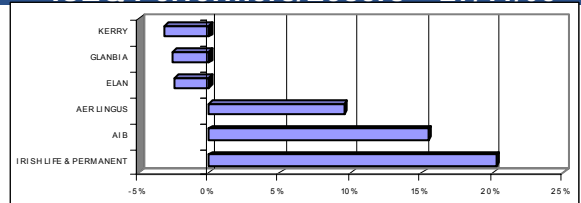
Oil/Gold daily % change



News

- “Fund managers look abroad for bank support”-(The Irish Times)
- “CRH spending €250m in Polish unit”-(The Irish Times)
- “Bol’s exposure to Woolworths may be £63.5m”-(Irish Independent)
- “ECB rate cut on cards as bank lending slows down”-(Irish Independent)
- “BHP board ‘unanimous’ on Rio”-(Financial Times)

ISEQ Performers/Losers 27/11/08



Market Themes & Movers

Euro zone inflation declines : The European Union Statistics office has released its latest inflation data for November, and it shows euro zone inflation plunged to 2.1% during month, down 1.1% from 3.2%. This was a larger than expected decline in prices, as economists had forecasted that consumer inflation in the 15 euro country area would decline by 0.9%. This represents the largest fall in Europe's inflation rate in almost two decades and puts inflation at the lowest rate in more than a year. The ECB has already cut interest rates by 1% in two reductions since early October, but economists are now anticipating a further 50 basis point cut at its next meeting on December 4th. While there are calls for a 75 basis points cut, some ECB council members have indicated that they should keep some firepower in reserve to tackle the financial crisis. The euro remained lower against the dollar after today's report, and was down 0.3% at \$1.2840 in early trading.



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Johnson & Johnson

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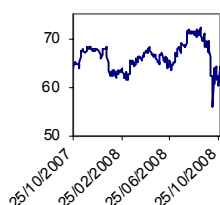
Healthcare

Company Profile

Johnson & Johnson manufactures healthcare products and provides related services for the consumer, pharmaceutical, and medical devices and diagnostic markets. The company sells products such as skin and hair products, pharmaceuticals, diagnostic equipment, and surgical equipment in countries around the world.

Statistics

Price Performance



Revenue by Geography



- US 50%
- Europe 26%
- Western Hem. (ex US) 9%
- Asia 15%

Fundamental view:

- Last Monday we added Johnson & Johnson (J&J) to our Dolmen Dozen fund due to its defensive characteristics and ability to outperform during the current weak economic environment. This was emphasised by the company's recent third quarter results in October when it reported earnings that beat analyst expectations and also raised guidance for its 2008 financial year. J&J reported third quarter EPS that rose to \$1.17 from \$0.88 last year beating analyst expectations of \$1.11, while revenue increased by 6.4% to \$15.92bn also beating consensus estimates of \$15.7bn. J&J commented that the recent economic weakness had a limited impact on the company. As a result, the group raised its outlook for the full year 2008 and now expects EPS to be in the range of \$4.50-\$4.53 from \$4.45-\$4.50 representing year on year earnings growth of c. 10%.
- J&J benefits from being diversified both operationally and geographically with c. 50% of its revenue generated from outside of the US. The group operates in three main segments (revenue) : Consumer (26%), Pharmaceutical (38%), Medical Devices & Diagnostics (MDD) (36%). Sales at its Consumer division continue to perform strongly rising by 13% boosted by its new allergy treatment Zyrtec in addition to its baby and skincare products. The group's MDD division saw revenue increase by 8.8% helped by its diabetes blood glucose monitoring and insulin delivering products. J&J's pharmaceutical division as expected put in a relatively subdued performance with revenue increasing by 0.2% as sales of its Risperdal drug were negatively impacted by generic competition. The company does have a strong drug pipeline however and it recently received FDA approval for its Tapentadol drug for relief of moderate to severe acute pain.
- J&J also benefits from strength of balance sheet with c. \$250m of net cash at the end of the quarter comprised of cash of \$14.8bn and \$14.55bn of debt. The group also reiterated at its third quarter results that it is in good financial shape and that it has access to debt markets such as commercial paper. Given the continuing dislocation in credit markets this is a strong position to be in.

Valuation:

- Shares in J&J currently trade at close to the bottom of its historical p/e range at 12.5x 2009 forecasted earnings. We believe that given the group's defensive qualities along with its growth prospects and diversified operations the company deserves to trade at 15x 2009 earnings which is the basis for our 12-month price target of \$70. We believe that J&J's current valuation is compelling and combined with its attractive dividend yield of 3.6% for 2009 which is covered 2.5x we recommend buying shares in the company.

Next catalyst

- J&J is due to release its fourth quarter earnings on 20/01/09 and it will also provide guidance for its 2009 financial year.

Major Shareholders	%	Peer Group Multiples			
State Street	4.85%	Company name	P/E 07	P/E 08	EPS Growth 07-08
Barclays Global Investment	3.98%	Johnson & Johnson	12.6	12.0	9.16%
Vanguard Group	3.20%	Pfizer	6.7	6.5	3.08%
Berkshire Hathaway	2.23%	Colgate	16.5	14.9	10.74%
		Procter & Gamble	14.7	14.9	-1.34%

Shares Outstanding

Share Data	Financial Data	2007	2008	2009
Current Price (\$)	Revenue (\$m)	61,095	64,542	65,601
Mkt Cap (\$m)	Operating Profit (\$m)	15,212	16,257	16,912
Reuters	EPS (\$)	4.15	4.53	4.75
Bloomberg	P/E(x)	13.74	12.59	12.01
Sector	DPS (\$)	1.63	1.82	2.03
CEO	Dividend Yield	2.86%	3.19%	3.56%
CFO				
Website				





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