DOLMEN WEEKLY TRADER

DOLMEN STOCKBROKERS

Weekly Market Commentary August 3rd 2010

The US Fed's Beige Book report highlighted the softer levels of growth across the economy as growth is held back by a depressed property market, high unemployment and therefore a subdued consumer. This was accompanied by US Fed board member Bullard calling for more US stimulus and QE. The bond markets of European peripheral countries had a good week with a lot of short covering given the perceived positive European stress test results and the watering down of Basel III requirements. Banking, sub-investment grade and peripheral European sovereign spreads all tightened on the week. Next week will see policy announcements from the ECB and BOE with no surprises expected. ECB rates have been tightening which looks premature. The primary focus will be the US Non-Farm Payroll release on Friday with the market expecting continued weak private sector employment growth. Forward looking indicators such as PMI from the UK and US ISM for manufacturing and services will be monitored as forward looking indicators as many commentators have pointed out the backward looking nature of earnings results and GDP releases. Recent comments have focused on stronger European growth and weaker US growth but we do not view this as a sustainable trend. This near term trend may cause the dollar to hit 1.35 and may result in oil price weakness. Copper remains the preferred commodity trade. There was significant narrowing of spreads and perceived reduction in risk for sub investment grade and financial services credits. This was not ignored by equity markets in particular banks. For July equity markets finished 7% higher. Earnings releases continued to be positive, but the quantum of increase was small, in many cases on flat revenues. This combined with the conservative outlook statements and weaker US economic data prevented indices making a meaningful break above key resistance levels. While at current levels the earnings yield suggests long term value there is currently a buyers strike with cash levels reaching high levels with asset managers and no meaningful M&A activity. This may reverse in September. We expect equity markets to remain in a tight range until there is greater clarity on economic outlook, but are happy to buy on weakness or on a sustained break of technical levels.

Trading Recommendations

C&C - Buy Previous Close (€3.26) Target (€3.90) **Analyst:** Edward Keeling

C&C will hold its AGM this Thursday and we anticipate a positive trading update. We expect management to highlight improving sales trends. Recent industry data has pointed towards a recovery in volumes and demand. The group has also received a boost from good weather, soccer world cup and its new restructured portfolio. C&C offers a broader product mix which is designed to improve the performance of its Magners brand in the UK. This diversified business provides a better route to market in both Scotland and the UK & allows Magners to focus on its own higher margin market segment.

European Telecoms **Analyst:** Stephen Taylor

We remain overweight the telecom sector which has outperformed year to date. Our preferred stock within the sector Vodafone, recently reported a positive trading update. It signalled a return to organic service revenue growth and issued an improved outlook in emerging markets. It also reiterated its expectation to increase its dividend by 7% a year over the next three years. In addition to Vodafone we are now highlighting France Telecom as an attractive investment opportunity. It reported a robust set of Q2 earnings on the 29th July and said it would maintain its dividend of €1.40 a share through 2012. This implies a dividend yield of 8.5% and on cash flow per share basis the dividend is covered over 3x while on an earnings basis is covered 1.25x.

Lloyds Banking Group - Buy Previous Close (69p) Target (75p) **Analyst:** Oliver Gilvarry

Lloyds Banking Group (LBG) reports first half results on Wednesday morning. The group has performed well over the last two weeks and in our view the European Stress tests were positive for the group as were the new Basel 3 proposals. The less stringent Basel 3 proposals allow the group to include circa £6bn of capital from its insurance operation and gives the group until 2018 to restructure the profile of its wholesale funding. The group has continued to access wholesale funding markets in recent months. Management have guided the group will be at least break-even this year and we expect it to make a slight profit. Net Interest Margins are guided to move to 2% this year and we expect the results on Wednesday. to show that trend, moving up from 183bps in the second half of last year. We expect impairments to fall back significantly from the elevated levels of last year, helped by lower CRE impairment charges. The group is trading at just under 1.0x tangible net asset value (TNAV). The results this week will be a positive catalyst for the stock and we recommend going long into results.

Pfizer - Buy Previous Close ($15.00) 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. Pfizer's valuation looks compelling trading at just under 7x 2010 earnings and an EV/EBITDA of 4.6x. The stock also pays an attractive dividend yield of c. 4%. Synergies from Wyeth acquisition should continue to feed though in 2010. The group is due to report earnings on the 3rd of August with consensus EPS of 52.1c in the quarter expected. We expect management to reiterate full year guidance in the range of $2.10-2.20 range with more detail on the synergies from the Wyeth acquisition.

Allied Irish Bank **Analyst:** Oliver Gilvarry

AIB will release interim results on Wednesday. Key focus for the market will be an update on the progress of the group's capital raising along with credit quality of the loan book. We expect the credit quality within the Irish loan book will continue to deteriorate, but at a slower pace. Net interest margins will also continue to decline, as the competition for deposits and higher wholesale funding costs continue. We are also looking for an update by management on the re-structuring plan submitted to Europe along with guidance on future trading conditions.

This Week's Market Events

MONDAY

Corporate

Air Liquide H1, BNP Paribas Q2, Hammerson H1, Fidessa Group INTERIM, HSBC Holdings INTERIM

Economics

PMI Manufacturing IT, PMI Manufacturing FR PMI Manufacturing GE, PMI Manufacturing EC, PMI Manufacturing UK, ISM Manufacturing US, ISM Prices Paid US, Construction Spending US

TUESDAY

Corporate

BMW Q2, Deutsche Post Q2, UniCredit Q2, Xstrata H1, Taylor Wimpey IMS, SABMiller TRADE, Anadarko Q2, Chesapeake Q2, Marathon Oil Q2, Pfizer Q2, Procter & Gamble Q4

Economics

Halifax House Prices UK, PMI Construction UK, €Zone PPI, Personal Income & Spending US, PCE US, US Factory Orders US, Pending Home Sales US, ABC Consumer Confidence US

WEDNESDAY

Corporate

Adidas H1, Soc Gen Q2, AIB IMS, British Airways Traffic, Legal & General IMS, Lloyds IMS, Standard Chartered IMS, Next Q2 TRADE, British Land Q1, Shire Q2, Time Warner Q2

Economics

PMI Services GE, PMI Services EC, PMI Composite EC, PMI Services UK, Euro-Zone Retail Sales EC, MBA Mortgage Applications US, ADP Employment US, ISM Non-Manf. Composite US

THURSDAY

Corporate

KBC Q2, Finnair Traffic, COMMERZBANK Q2, Deutsche Telekom Q2, Telecom Italia H1, Unilever Q2, EasyJet Traffic, Rio Tinto H1, Aviva IMS, Barclays IMS, C&C AGM

Economics

BOE Asset Purchase Target UK, BOE Announces Rates UK, ECB Interest Rates EC, Initial Jobless Claims US, Continuing Claims US, ICSC Chain Store Sales US

FRIDAY

Corporate

Finnair Q2, AIR France Traffic, Allianz Q2, SAS Traffic, Royal Bank of Scotland IMS, Tomkins PLC INTERIM, Inmarsat H1

Economics

Trade Balance FR, PPI UK, Industrial Prod UK, Manufacturing Prod UK, Industrial Production GE, Change in Nonfarm Payrolls US, Unemployment Rate US, Avg Hourly Earnings US

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