Dolmen Daily
DOLMEN STOCKBROKERS
Wednesday, 4th February 2009

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IRISH PAPERS TODAY

Exchequer returns show 19% fall in tax take
(The Irish Times)

Anglo's own auditor aware of Fitzpatrick
(The Irish Times)

Weakness of sterling hits DCC hard to leave group's earnings 'unchanged'
(Irish Independent)

INTERNATIONAL PAPERS TODAY

Darling revives option of 'bad bank'
(*Financial Times*)

US car sales fall to lowest in decades
(The Wall Street Journal)

DOLMEN DOZEN

Company	1-day %	YTD %
Aryzta	1.1%	-16.3%
BP	0.5%	-6.2%
CRH	-0.2%	-1.7%
E.ON	3.9%	-10.3%
HPQ	4.2%	-0.5%
IL&P	-8.0%	-6.3%
INM	-3.8%	-37.6%
J&J	1.5%	-2.1%
JPMorgan	-4.6%	-23.7%
Microsoft	3.8%	-4.8%
Paddy Power	1.0%	-18.8%
Vodafone	7.0%	-1.3%

Market View — Analyst : Stephen Taylor

Equity markets rallied yesterday for the first time in three days following strong earnings guidance from Vodafone and better than expected December home sales figures out of the US that unexpectedly rose by 6% its first increase since August. As we have said previously the key for a recovery in markets is to see some form of bottoming in housing markets and while yesterday's number is certainly a positive we will need to see many more months of data like this to be confident that a recovery is in place which we believe is unlikely in the short-term. More importantly however for a global economic recovery to take place is to see some form of slowdown in the rising unemployment rates across the globe and with Panasonic last night announcing it is cutting 15,000 jobs worldwide this is also unlikely to take place in the short-term. Unemployment data will be a key focus for today's trading. In Ireland live register figures are due out at 11am and are expected to show a further 17,000 people lost their jobs in January bringing the total jobless figure to 310,000. In the US ADP employment figures which are due out at 1.15pm (and a key read across for the nonfarm payrolls figure due on Friday) is expected to show a further 535,000 people lost their jobs in January on top of the 693,000 in December. Also in focus today will be US ISM Non-manufacturing data (represents c. 80% of GDP) which is due out at 3pm and further weakness in the number is expected.

Government announces €2bn cost savings: — **Analyst :** Oliver Gilvarry

After the breakdown of the talks with the social partners on Tuesday morning, the government followed through with its threat to impose spending cuts without the agreement of social partners. The government aims to reduce spending by €2bn in 2009 followed by €4bn in 2010 and 2011 followed by €3.5bn in 2012 and €3bn in 2013. In the Dáil yesterday evening the measures required to achieve the first €2bn of savings were announced. The majority of savings will be achieved from the introduction of a public sector pension levy achieving savings of €1.4bn per annum. Other cuts included, €95m reduction in overseas aid, reduction in the early childcare supplement from €1,100 to €1,000 saving €75m and €140m saving through general administrative efficiencies including the non-payment of the public sector pay increase due under the Towards 2016 pay agreement. Other policies included moves to support the unemployed through the provision of additional training places and greater help for the unemployed in finding jobs. Despite concerns over planned infrastructural projects been cancelled, this did not materialise. Some reprioritisation will occur on infrastructural projects to more employment intensive areas such as school building and energy efficiency improvements. The decision by the government yesterday to reduce spending is a welcome development, but long awaited. As we have commented before, despite Irish Government debt on negative watch by Moodys and S&P, the actions required to maintain our strong credit rating is within our control for the moment. The announcement yesterday evening is the first step in the process or repairing the country's finances. The next step is to recapitalise the banking sector in a way that will improve confidence and enable credit to flow through to viable businesses. Laying the foundation for economic recovery and for more stable economic growth in the future.
Elsewhere, Exchequer figures yesterday showed that Irish tax revenue fell 19% year on year in January. Stamp duty saw the largest decline falling by 72%, capital taxes were down 65%, VAT fell by 16% and income tax declined by 3.6%. Excise duty fell by 34% pressured by new car sales that slumped by 67%. The report showed an exchequer deficit of €747m compared with a surplus of €630m for the same period last year

BHP Billiton: **Neutral Current Price** (1219p) **Price target** (1200p) **Analyst :** David Dunk

BHP Billiton released half year results last night. Operationally, performance was strong with profit of $6.1bn and eps of $1.10, excluding exceptional items. This was largely in-line with market forecasts. BHP is optimistic on company prospects throughout the current cycle, but expects commodity price weakness in the short term. BHP is also negative on global economic growth in the short and medium term. BHP is our preferred pick in the mining sector due to the strength of its balance sheet. BHP lowered its net debt by 51% to $4.2bn over the period, reducing gearing to 10% and is now operating with an EBITDA/Interest Cover ratio of 86.6 times. This leaves BHP very well positioned in the current climate. Highly leveraged peers are likely to be forced to dispose of assets at distressed prices, and BHP is one of the few miners with the financial strength to take advantage of this situation. BHP is our preferred pick in the mining sector, but we retain our neutral rating due to the outlook on commodity prices.

Aviva: **Current Price** (372p) **Analyst :** Oliver Gilvarry

Aviva released Q4 Life new business figures this morning, with UK life and pension sales up slightly. The increase in sales was supported by strong annuity sales and a relatively strong performance in protection sales, which only fell by 9% compared to a 61% decline in mortgage approvals. In Europe, life and pension sales fell 7% on a local currency basis as sales in France, Italy and Ireland fell significantly. The fall was due to weak equity markets and the slowdown in economic activity. Sales in North America increased by 45% on a local currency basis and the target to double sales within 3-years was achieved a year ahead of schedule. On the proposed inherited estate distribution, Aviva has decided to suspend any payment to policy holders at this time. The reason for the suspension is due to the fall in value of the estate as a result of market volatility. Management stated it was not in the interests of policyholders or shareholders to proceed with the plan and further details will be released in the next number of months. On capital levels, the IGD surplus at the end of December is expected to be £2bn compared to £1.9bn at the end of September. Further equity hedges have been put in place by Aviva to protect the capital surplus. On dividend policy, management have stated group policy remain unchanged and no cut is expected. The guidance on the capital position and confirmation of the dividend policy are all positive and were received well by the market with Aviva's share price rising in early trades

Vodafone

Buy

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Price : 137p **Target : 155p**
(Previous : 140p)

Analyst: **Stephen Taylor**

- **Raised guidance:** Vodafone issued a robust third quarter trading statement yesterday and raised its fiscal full-year 2009 earnings guidance as it benefited from weaker sterling and a strong performance at its emerging markets division. The group reported a 14.3% rise in revenue to £10.47bn beating analyst expectations of £10.29bn. On an organic basis stripping out acquisitions, disposals and currency movements revenue fell by 1%. Vodafone generates c. 85% of its revenue outside of the UK and is a major beneficiary of the weakness in sterling. As a result Vodafone has raised its revenue forecast range by £1.8bn to £40.6n - £41.5bn, its operating profit forecast range by £0.5bn to £11.5bn - £12.0bn and its free cash flow range by £0.3bn to £5.5bn - £5.8bn. While the majority of the raised guidance is due to a positive translation effect, Vodafone would still have been able to reiterate its original guidance which we take as a positive as indicates that in majority of areas (ex-Spain & Turkey) there has not been a further deterioration in business activity.

- **Europe :** In Europe service revenue increased by 15% while on an organic basis declined by 1.4% with trends broadly similar to the second quarter of its financial year. Germany and Italy posted solid results with a stabilised performance in the UK helping to offset a continued deterioration in the Spanish market where organic revenue declined by 5.8%. Spain continues to provide a difficult trading environment for Vodafone as activity has declined across the board and promotions from competitors have led to customer defections.

- **Emerging markets :** Vodafone's emerging market division continues to perform strongly with organic revenue growth of 3.5% in Asia-Pacific and 9.2% in Central Europe / Africa. One area of weakness was seen in Turkey where revenue declined by 14.5% due to lower termination rates and higher churn. Vodafone is however proactively addressing this and has recently appointed a new CEO and management team and is confident of a turnaround in this market.

- **Cost cutting :** In November, Vodafone's new CEO Vittorio Colao outlined a £1bn cost savings plan through 2011. The group said it is on track to achieve £500m of cost savings in 2010 with the remaining £500m to be achieved in 2011. We take this as a significant positive as it enhances the new CEO's credibility in his ability to remain on track to cut costs to take account of the weakening economic environment.

- **Balance sheet :** In the current environment a key focus for investors is on balance sheet strength. One reason for Vodafone being our top pick in the sector is because it has one of the lowest leveraged balance sheets in the sector with a debt to equity ratio of 44% and net debt / EBITDA of c. 2x a solid position in the current environment. Vodafone has also been able to issue £2.9bn in debt since November with its most recent fixed issuance at 6.25% a reasonable level in the current environment. We expect Vodafone's total debt which currently stands at c. £33bn to remain stable (ex-currency effects) and to be reduced over time as Capex decreases and free cash flow generation remains strong.

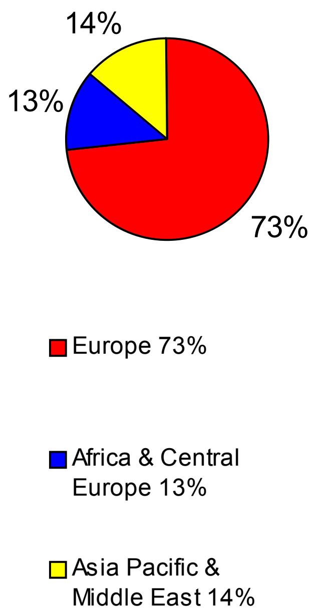
- **Raised price target :** Vodafone's robust statement provides us with confidence that it is managing to cope with the current downturn well. Vodafone's valuation looks attractive with the group trading at 8.8x 2010 earnings and an EV/EBITDA of 6x. Our new price target of 155p (140p previously) is based on the company trading at 10x its fiscal full-year 2010 EPS of 15.5p. The group also provides an attractive dividend yield of 6% which is covered c. 3x on a cash flow per share basis.

Descriptive Stats		Shareholders	
Price (p)	137	Axa	4.95%
52 Week High	183	Legal & General	4.59%
52 Week Low	96	M&G Investment	2.62%
Bloomberg	VOD LN	AllianceBernstein	2.53%
Reuters	VOD.L	Fidelity	2.16%

	FY08	FY09	FY10
Revenue (£m)	35,478	41,009	43,001
Operating Profit (£m)	10,075	11,750	12,500
EPS (p)	12.5	14.40	15.50
DPS (p)	7.5	7.98	8.3
P/E	11.0	9.5	8.8
Div Yield	4.10%	5.82%	6.06%

Peer Analysis	P/E 08	P/E 09	Div Yield 09
Vodafone	**11.0**	**9.5**	**5.82%**
Deutsche Telekom	12.8	11.4	7.80%
Telefonica	10.7	8.9	7.00%
France Telecom	7.6	9.1	9.50%

Geographical Revenue Breakdown 3Q



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Market Movers

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International Equity Markets

Index	Value	1-Day	YTD
ISEQ	2,321	-0.1%	-0.7%
FTSE	4,164	2.1%	-5.7%
Dow Jones	8,078	1.8%	-8.0%
S&P	839	1.6%	-7.2%
Nikkei	8,039	2.7%	-9.3%
Stoxx 50	2,245	2.1%	-7.8%

Sector Performances

Sector	Index	1-Day	YTD
Construction	184	1.3%	-8.2%
Technology	152	1.7%	-0.4%
Oil & Gas	271	1.4%	2.0%
Financials	130	0.6%	-13.1%
Retail	190	1.8%	5.0%
Food & Drink	230	2.1%	-0.2%

Commodity Prices

Commodity	Index	1-Day	YTD
Crude Oil	40.8	1.7%	-16.3%
Copper	152.2	6.4%	7.9%
Gold	900.4	-0.6%	1.9%
Silver	12.3	-0.9%	9.1%
Wheat	552.5	-2.0%	-9.2%
Cattle	86.1	-0.8%	-3.2%

Currency Exchange Rates

Commodity	Index	1-Day	YTD
€/$	1.304	1.5%	7.1%
€/£	0.902	0.2%	5.6%
£/$	1.446	1.4%	1.6%
$/JPY	89.44	0.0%	1.7%
€/JPY	116.63	1.5%	8.7%
€/SFR	1.490	-0.1%	0.2%

5Yr Credit Spreads

Commodity	Index	1-Day	YTD
Invest Grade	160.7	-6.3%	-11.5%
High Yield	1,067.8	-3.6%	2.8%
Financials	124.0	-2.0%	2.4%
BoI	334.9	-2.4%	41.6%
AIB	250.6	-3.3%	25.8%
RBS	134.4	-3.5%	-2.0%

Money Market Rates

Rate	EUR	UK	US
Overnight	1.2%	1.3%	0.3%
3-Month	2.1%	2.6%	1.2%
1-Year	2.1%	1.7%	1.4%
2-Year	2.2%	2.1%	1.7%
5-Year	3.1%	3.0%	2.5%
10-Year	3.8%	3.8%	3.1%

Date	Company	Region	Event
04/02/2009	Prudential Financial	US	Q4
04/02/2009	Danske Bank	DK	Q4
04/02/2009	Finnair Oyj	FI	Q4
04/02/2009	Zurich Financial	CH	FINAL
04/02/2009	National Grid Plc	GB	TRADING
05/02/2009	Prudential Financial	US	Q4
05/02/2009	Danske Bank A/S	DK	Q4
05/02/2009	Finnair Oyj	FI	Q4
05/02/2009	Kellogg Co.	US	Q4
05/02/2009	National Grid Plc	GB	TRADING
05/02/2009	Yell Group PLC	GB	Q3
05/02/2009	Unilever PLC	GB	Q4
05/02/2009	BG Group plc	GB	Q4
05/02/2009	GlaxoSmithKline PLC	GB	Q4
05/02/2009	TUI Travel Plc	GB	AGM
05/02/2009	The Estée Lauder Co. Inc	US	Q2
05/02/2009	Duke Energy Corporation	US	Q4
05/02/2009	Kellogg Co.	US	Q4
05/02/2009	MasterCard Incorporated	US	Q4
05/02/2009	Moody's Corporation	US	Q4
06/02/2009	British Airways PLC	GB	Q3
06/02/2009	Biogen Idec Inc.	US	Q4

Date	Event	Region	Estimate
04/02/2009	Unemployment Rate	IE	n/a
04/02/2009	Live Register	IE	n/a
04/02/2009	Consumer Confidence	UK	n/a
04/02/2009	PMI Services	GE	45.4
04/02/2009	PMI Services	EC	42.5
04/02/2009	PMI Services	UK	40.3
04/02/2009	Euro-Zone Retail Sales	EC	-0.20%
04/02/2009	MBA Mortgage Applications	US	-38.80%
04/02/2009	ADP Employment Change	US	n/a
04/02/2009	ISM Non-Manf. Composite	US	39.1
05/02/2009	Factory Orders MoM (sa)	GE	-2.50%
05/02/2009	BOE announces rates	UK	1.00%
05/02/2009	ECB announces rates	EC	2.00%
05/02/2009	Initial Jobless Claims	US	592
05/02/2009	Factory Orders	US	-3.00%
06/02/2009	Industrial Production (MoM)	UK	-1.20%
06/02/2009	Manufacturing Production	UK	-1.40%
06/02/2009	Industrial Production MoM	GE	-2.50%
06/02/2009	Change in Nonfarm Payrolls	US	-500
06/02/2009	Unemployment Rate	US	7.50%
06/02/2009	Consumer Credit	US	n/a
07/02/2009	NIESR GDP Estimate	UK	n/a

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