

DOLMEN WEEKLY TRADER



Weekly Market Commentary May 4th 2010

We maintain our defensive bias towards equity markets this week despite the announcement over the weekend of the €110bn Eurozone/IMF bailout of Greece. Financials are our least preferred sector for the week as concerns around bond markets and the possibility of contagion spreading towards other European nations may continue to persist. Spain's 5-year bond auction this Thursday will be closely watched where the country is expected to raise between €2bn - €3bn. In addition, issues surrounding Goldman Sachs and a potential criminal investigation surrounding some of its dealings may also weigh on the sector as calls for further financial regulation increase. For investors looking to hedge against any further volatility in markets we recommend shorting the FTSE either through futures contract or an ETF (XUKS LN). As we indicated at the start of the year, indices in the US remain our preferred play and we expect them to continue their outperformance this week. GDP data last Friday confirmed that the economy is well on the road to recovery growing for the third straight quarter. We expect estimates for GDP growth in the US to increase, while in Europe we see the potential for downgrades to GDP. On the commodity front we remain positive on both Oil and Copper and would use any corresponding weakness as a buying opportunity. As for the week ahead the main focus will remain on sovereign bond markets. On the economic front US nonfarm payrolls data on Friday is expected to show an addition of 180,000 jobs. In Europe, Thursday's interest rate decision will be the main event where we expect no change in the rate of 1% and no change in relation to the outlook for interest rates.

Trading Recommendations

Vodafone - Buy Previous close (145p) Target (155p) **Analyst:** Stephen Taylor

Re-initiating Buy: Given the fall back in Vodafone's share price over the last month from 153p we are reinitiating our trading buy call

Recent results: Increased free cash flow forecast and signalled improvement in European markets

Verizon: Speculation may continue of a potential deal in relation to Vodafone's stake in Verizon Wireless

Valuation: Valuation is attractive trading at 9x earnings and providing a dividend yield of 5.4%

Peer results: Last week France telecom confirmed full year earnings forecasts

Next Catalyst: Swisscom and Telecom Italia due to report Wednesday and Thursday this week. Vodafone due to report full year results May 18th.

Smurfit-Kappa - Buy Previous close (€7.70) **Analyst:** Edward Keeling

Results due: Smurfit Kappa is due to report first quarter results this coming Friday. We expect the group to report a solid set of results and issue an improving outlook. Estimates are for operating profit of €78m on revenue of €1.58bn

Valuation: Smurfit Kappa is currently trading on a forward EV/EBITDA multiple of 6.2x (compared with historical sector multiple of 7x). Such a multiple more than incorporates the current risks to consensus estimates.

Balance Sheet: Net debt/EBITDA 4x at its full year results and set to move towards to 3x by year end. Debt maturity profile is favourable with no significant debt maturing until 2013.

Risks: Input costs may have risen more sharply than expected and had the potential to negatively impact on Smurfit Kappa's margins.

C&C - Buy Previous close (€3.59) Target (€3.90) **Analyst:** Edward Keeling

Sale of unit: Last week C&C announced the sale of its Spirits & Liqueurs business for €300m.

Attractive multiple: C&C received a rich multiple for the stock at just over 18x EBITDA and 3.5x revenue.

Strengthens balance sheet: C&C indicated that it will use the proceeds to pay down debt that will leave the company virtually debt free with a net debt / EBITDA ratio of 0.6x.

Business Focus: The deal makes C&C a far more focussed business focussing on the long drinks market in Ireland and the UK.

Potential Future Acquisitions: The improvement in the group's balance sheet may allow it to look at further purchases over the coming years that tie in with the long alcohol market.

Next Catalyst: C&C is due to report results on May 25th

BP - Buy Previous close (575p) Target (680p) **Analyst:** Brian Gallagher

Last week BP's situation in the Gulf of Mexico deteriorated further. It emerged on Thursday that a leaking well operated by BP was flowing at a rate five times greater than previously believed. This development resulted in the US President holding a press conference that prompted a sharp sell off in the company's equity. Currently it is difficult to assess the cost of this disaster but the market is discounting approximately \$20bn. This appears to be extremely punitive as the highest estimate on the clean up costs is \$8bn. There is also the possibility that BP will staunch the flow from the well earlier than commentators believe. For instance, the company announced yesterday it may be able to install a funnel structure that will limit the escape of oil. Furthermore it was announced this morning that there is a possibility of one of the leaks being closed over the next few days. Our view is that the market's reaction has been overdone however, it will be difficult for the company's equity to gain any traction with the current amount of negative newsflow. As a consequence we, are recommending that short term traders look to Chevron for capital appreciation and recommend buying BP on a more long term, strategic view.

This Week's Market Events

MONDAY

Corporate

Anadarko Petroleum (Q1)

Economics

German PMI, US Personal Income & Spending, ISM Manufacturing, Construction Spending

TUESDAY

Corporate

Adidas (Q1), Aer Lingus (Q1), UBS (Q1), Pfizer (Q1), Standard Chartered (Q1), BMW (Q1), Holcom (Q1)

Economics

UK Mortgage Approvals, PMI Manufacturing, US Factory Orders, Pending Home Sales

WEDNESDAY

Corporate

Lufthansa (Q1), Statoil (Q1), SocGen (Q1), Lafarge (Q1), Swisscom (Q1), Sage (Q1), Next (Q1), CRH (AG), Kerry Group (AGM), Xstrata (Q1), Antofagasta (Q1)

Economics

GE PMI Services, EU Retail Sales, US Mortgage Applications, ADP Employment Change, ISM Services

THURSDAY

Corporate

Telecom Italia (Q1), Kraft Foods (Q1), British Airways

Economics

UK PMI Services, German Factory Order, ECB Interest Rate Decision, US Nonfarm Productivity, Initial Jobless Claims,

FRIDAY

Corporate

Smurfit Kappa (Q1)

Economics

UK PPI, German Industrial Production, US Nonfarm Payrolls

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