Dolmen Daily

DOLMEN STOCKBROKERS

Thursday, 5th February 2008

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(The Irish Times)

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(Irish Independent)

INTERNATIONAL PAPERS TODAY

Plan to insure assets at Lloyds hits snags

(*The Wall Street Journal)*

Stocks and commodities surge amid hopes for new China boost
(Financial Times*)*

DOLMEN DOZEN

Company	1-day %	YTD %
Aryzta	-1.0%	-28.6%
BP	4.1%	-20.2%
CRH	14.7%	-7.4%
E.ON	5.8%	-28.7%
HPQ	1.7%	-21.1%
IL&P	20.5%	-47.3%
INM *	0.0%	-68.5%
J&J	3.1%	-17.9%
JPMorgan	-8.1%	-38.8%
Microsoft	1.5%	-17.1%
Paddy Power	4.0%	-7.5%
Vodafone	3.5%	-13.9%

* We are currently Neutral on IN&M

Market View — Analyst : Stephen Taylor

European equity markets are weaker this morning driven lower by the mining sector and reversing some of yesterday's strong gains after China's Premier Wen Jiabao failed to announce an expansion of the government's stimulus package. Wen pointed out that China's 8% GDP target for 2009 is within reach an indication that the government does not see the need to increase its $585bn economic stimulus package. It is clear that the Chinese government will now take a wait and see approach to the current downturn. We would expect further stimuli if the global economy continues to decline. In the US the latest Federal Reserve Beige Book painted a much bleaker outlook with the consensus among the 12 central bank districts indicating the US economy is unlikely to improve this year. The report indicated that economic conditions continued to deteriorate during February with 10 of the 12 districts reporting declines in activity. Yesterday's ADP employment report also painted a worrying picture with 697,000 jobs in the private sector lost during February and should be taken as a negative read across for tomorrow's nonfarm payrolls report. Focus today will be on interest rate decisions out of the Bank of England (BoE) at 12pm and European Central Bank (ECB) at 12.45pm. We expect both central banks to lower interest rates by a further 0.50% to 0.50% and 1.50%, respectively. Focus however will be on statements following the interest rate decisions with the BoE expected to announce details on quantitative easing, while the ECB is likely to signal further interest rate cuts. Anything less and equity markets will be disappointed.

Irish Economy: — **Analyst :** Oliver Gilvarry

Irish unemployment increased to 10.4% for February in details released yesterday by the CSO. The number on the live register is now 352,800, a 20% increase from the December figure. The government has indicated unemployment could hit 450,000 this year, putting further pressure on government finances due to falls in employee tax receipts and payments of unemployment benefits. As further job cuts were announced yesterday in KPMG and other employers across the country, 2009 will be a difficult year for workers.

Following on from the unemployment statistics, the government has announced a mini-budget in the first week of April. Reports indicate the budget will attempt to raise €4.5bn in a mixture of spending cuts and increased taxes. Lower income workers will be hit as more workers are brought back into the tax net. It seems certain the lower and top tax rates will be increase with the possibility of a new tax band for higher earners. We see the introduction of a mini-budget as a positive, but painful measure for the Irish economy as the government is taking action to tackle the growing current account deficit.

Aviva: — **Current Price** (257p) — **Analyst :** Oliver Gilvarry

Aviva released full year results this morning that beat expectations and highlight the strength of the company. Operating profit was £2.3bn for the year compared to consensus of £2.28bn. Total dividend per share was maintained at 33p and net asset per share was higher than expected at 486p. Full year sales for life and pension products increased by 11% to £36.3bn and the company's target of doubling sales in the US was achieved earlier than planned. On capital, Aviva's excess capital over the IGD minimum was £2bn with the company stating another 40% fall in equity markets from December 31st levels would reduce surplus capital to £1.2bn. On the bond portfolio and commercial mortgages, the company has provided for £1.13bn to create a strong buffer against future losses. General insurance results improved with a combined ratio of 98% helped by more normal weather conditions in 2008 following the UK floods in 2007. A comment on general insurance in Ireland indicates an increase in claims during the year and the same point was highlighted by FBD yesterday in their results.

E.ON: Buy — **Current Price** (€20.25) — **Price target** (€40.00) — **Analyst :** Stephen Taylor

French peer of E.ON, GDF Suez (GS), reported a 13% rise in full year 2008 net profit to €6.5bn beating analyst expectations of €5.9bn. EBITDA increased by 11% to €13.9bn. GS is targeting higher EBITDA for 2009 and is delaying providing guidance on its 2010 target of €17bn. The 2009 forecast takes into account an impact of €1.5bn due to an 'expected drop in the average price in oil in 2009 and fewer arbitrage opportunities. GS is targeting 2011 EBITDA of €17bn - €18bn which is based on an average oil price of $62 a barrel. The group is bringing forward its plan to save €1.8bn by 2011 and has suspended its share buyback program announced last September that was 43% complete. The group has also confirmed its 2008 – 2010 investment program worth €30bn. This should be taken as a positive read across for the utility sector as it indicates that Capex is continuing to remain high despite strains in liquidity markets. Earnings from utility companies have held up well despite the economic slowdown. The sector has been heavily sold off over the last number of months despite companies continuing to generate strong free cash flow and providing well covered dividends with the sector currently yielding c. 7%. E.ON remains our top pick and is due to report full year results on 10/03/09.

C&C: Buy **Current Price** (€1.10) **Price target** (€1.60) **Analyst :** David Dunk

Brewer Anheuser-Busch Inbev, maker of Budweiser, has released full year profit figures this morning. Full year profit was down 41% on the back of costs relating to the recent merger of Inbev and Anheuser-Busch that created the group. Net income was €1.29bn, compared to €2.2bn in the previous year. The merger completed in 2008 cost $52bn, and has left the company with a large debt burden, in a difficult operating environment. Net finance costs were €982m up from €598m. The company will cut capital spending by at least $1bn this year, and will look to cut $2.25bn in costs by 2011. Inbev will also seek to make up to $7bn in disposals. Our estimates and rating of C&C is unchanged by today's results.

Ryanair: Buy **Current Price** (€3.04) **Price target** (€3.65) **Analyst :** David Dunk

easyJet has released traffic figures for February. Passenger numbers were down 6.8% to just over 3 million. Load factor's increased 2.4% to 87%. The decline in passenger numbers is a reflection of the company's decision to withdraw lower yielding flights. Also this morning, British Airways has released comments on its business outlook. The company expects a decline in revenue of 5% for 2009/10. Total guidance is broadly unchanged. Fuel costs are expected to be 10% lower. British Airways has fuel hedges in place at significantly higher levels than current fuel prices, and will likely lag behind Ryanair, our preferred pick in the sector, this year.

AIB Plc.

Date: 5th March 2009

Hold

Current Price : €0.35

Price Target : €0.95

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Analyst: **Oliver Gilvarry**

- AIB released full year results on Monday, which were in line with expectations as they pre-released a large amount of information in a recent interim management statement (IMS). Then bank was profitable for the full year, but earnings fell 68% compared to 2007. The deterioration in credit quality was the main reason for the fall in profitability and the outlook for the next two years is for further losses. Costs were well managed during the year falling by 5% and with income increasing 6% resulting in a positive jaws of 11%. The cost income ratio for the group is now at a historic low of 46.5%.

- The performance of the individual divisions was mixed with AIB ROI making a loss before tax of €52m, but pre-provisions operating profit was maintained. Loans increased by 5% during the year and customer deposits increased by 1%. An interesting figure relates to current account balances as they declined by 16% indicating the pressure the Irish consumer is under due to increased unemployment levels and lower salaries. Capital markets recorded profit before tax, excluding provisions of €585m after a very difficult 2007. AIB UK had operating profit before provisions in line with 2007 and generated significant growth in deposits. Poland performed well during the year and this is the only area with significant loan growth, experiencing 42% growth matched by an increase in deposits by 41%. Finally M&T remains profitable despite the strains in the US market. It is one of the last US banks to continue paying a dividend and has benefited from a flight to quality in relation to growth in deposits.

- Credit quality was the main focus of the results and the falls in profitability in all divisions was due to higher impairments. Impairment provisions for 2008 were 137bps or €1.82bn. Of the provisions €848m was specific and €974m was an INBR provision relating to loans in 2009. ROI represented 71% of the group provisions and AIB UK constituted 14% of the provisions. In both cases the property portfolios have been the largest single driver of these impairments. Management gave guidance on credit quality and the surprise was the large increase in "criticised loans". These are loans that need to be managed to prevent problems in the future. At the half year criticised loans were 7.6% of total loans, but this has increased to 11.7% of the loan book or €12.5bn at year end. In the company presentation criticised loans were further broken down into watch credit (shows weakness, but can still repay from own resources) and vulnerable (loans is still paying, but relying on other sources). Of the criticised loans €8.2bn are on watch and €4.3bn are vulnerable.

- The majority of loans on the watch list relate to property with €2.7bn (25.4%) of ROI residential development loans on watch and €853m (14%) of ROI commercial development loans in the same category. No specific guidance has been given on impairment in 2009 and 2010, but management did present their base case and stressed case. The assumptions behind these scenarios were also disclosed. Under the base case, 2009 impairments are estimated in a range between 190-220bps or €2.5-2.9bn, a doubling of the most recent guidance from October. For 2010, the base case indicates an impairment charge of 127bps or €1.7bn. The assumptions behind this are GDP falls in Ireland of 5.5% and unemployment hitting 11% in 2009. The stressed scenario would see AIB writing off €6.66bn or 5.2% of its loan book.

- The capital ratios of AIB were stronger than expected with core tier 1 at 5.8% at year end compared to an expected 5.7%. If the government capital injection is taken into account on a pro-forma basis, core tier 1 increases to 8.4%. No exact date was given on when the capital injection would be completed as the government are undertaking a due diligence analysis of the bank. Management believe they have sufficient capital to manage the current cycle.

- The market has been concerned over the funding position of AIB in last number of weeks. During the year customer deposits grew by 22% driven by capital markets, UK and Poland. The loan to deposit ratio at year end was 1.4x and the aim is to reduce that figure to 1.3x by 2011. Institutional deposits have decreased since the year end, but management stated it was not a major concern. Reliance on ECB funding has increased since the start of the year, but the group has €40bn in a liquidity fund that can be accessed through the ECB and other counterparties. The level of term debt maturing this year is €4.9bn, but €2.5bn of this is mortgage backed and can be refunded through the ECB again leaving a net amount of €2.4bn to be refinanced over the course of the year.

- Valuing Irish banks is difficult due to the large level of uncertainty surrounding the sector. Based on our estimates, we believe impairments for AIB will peak in 2009 at 3.2%, but fall back to 1.90% in 2010. The injection of preference shares will allow the bank to maintain core tier 1 capital above 6% in 2009 and 2010, but our opinion is that tangible common equity is what investors are focused on. Based on an equity core Tier 1, AIB falls below 4% in 2009 and will need an injection of capital to bring it above this level. The amount required would be circa €820m to bring equity core capital to 4.5% providing headroom for further losses in 2010. Issuing shares at a 20% discount to the current share price would require 2.5bn new shares being issued and this would reduce 2009 Tangible Net Asset Value (TNAV) from €6.85 to €2.45. With European banks trading at 0.6x TNAV, Irish banks will trade at a discount to their peers.

- Therefore, we are basing our 12-month price target off 0.4x TNAV for 2009 assuming a dilutive equity raise will be undertaken to increase core equity capital to 4.5%. Our 12-month target using these assumptions is €0.95. We retain our hold rating on the stock despite the significant upside indicated by our price target, this is due to the uncertainty over the outlook for the bank in terms of government intervention and potential dilution.

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Market Movers

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International Equity Markets

Index	Value	1-Day	YTD
ISEQ	2,048	4.3%	-13.6%
FTSE	3,646	3.8%	-18.6%
Dow Jones	6,876	2.2%	-21.7%
S&P	713	2.4%	-21.1%
Nikkei	7,433	2.0%	-16.1%
Stoxx 50	1,943	4.2%	-21.7%

Sector Performances

Sector	Index	1-Day	YTD
Construction	169	8.3%	-18.9%
Technology	136	3.2%	-12.1%
Oil & Gas	247	6.3%	-8.6%
Financials	103	3.4%	-32.7%
Retail	177	0.5%	-4.3%
Food & Drink	207	2.4%	-11.2%

Commodity Prices

Commodity	Index	1-Day	YTD
Crude Oil	45.4	9.0%	-11.3%
Copper	169.4	5.6%	18.3%
Gold	906.5	-1.1%	3.5%
Silver	12.9	1.6%	15.1%
Wheat	523.0	4.2%	-16.2%
Cattle	84.7	0.5%	-4.9%

Currency Exchange Rates

Commodity	Index	1-Day	YTD
€/$	1.266	0.8%	10.9%
€/£	0.892	-0.2%	7.7%
£/$	1.420	1.0%	3.0%
$/JPY	99.16	1.0%	-8.8%
€/JPY	125.52	1.8%	1.1%
€/SFR	1.478	0.1%	1.0%

5Yr Credit Spreads

Commodity	Index	1-Day	YTD
Invest Grade	192.7	-6.3%	9.6%
High Yield	1,113.2	-2.1%	8.3%
Financials	162.5	-3.4%	40.0%
BoI	629.1	0.3%	152.3%
AIB	598.2	-3.6%	190.1%
RBS	190.0	-2.0%	26.7%

Money Market Rates

Rate	EUR	UK	US
Overnight	1.3%	0.9%	0.3%
3-Month	1.8%	2.6%	1.3%
1-Year	1.8%	1.9%	1.4%
2-Year	2.0%	2.2%	1.7%
5-Year	2.8%	3.1%	2.6%
10-Year	3.5%	3.8%	3.3%

Date	Company	Region	Event
05/03/2009	Anheuser-Busch InBev N	BE	FINAL
05/03/2009	Air Berlin PLC	GE	TRAFFIC
05/03/2009	Arriva PLC	GB	PRELIM
05/03/2009	Aviva Plc	GB	PRELIM
05/03/2009	Michael Page Internation	GB	PRELIM
05/03/2009	Ciena Corporation	US	Q1
06/03/2009	Veolia Environnement S/	FR	Q4
06/03/2009	WPP Group	GB	FINAL
06/03/2009	Marshalls PLC	GB	PRELIM
09/03/2009	Aryzta AG	IE	H1
09/03/2009	Continental AG	DE	Q4
09/03/2009	Bovis Homes Group PLC	GB	PRELIM
09/03/2009	BRIT Insurance Holdings	GB	PRELIM
09/03/2009	Cookson Group Plc	GB	PRELIM
09/03/2009	Finnair Oyj	FI	TRAFFIC
09/03/2009	Land Securities Group Pl	GB	SHOLDERS
09/03/2009	Origin Enterprises	IE	INTERIM
10/03/2009	ESI Group SA	FR	Q4 SALES
10/03/2009	E.ON AG	DE	FINAL
10/03/2009	Audi AG	DE	Q4
10/03/2009	Close Brothers Group PL	GB	INTERIM

Date	Event	Region	Estimate
05/03/2009	Euro-Zone GDP s.a. (QoQ)	EC	- -
05/03/2009	BOE ANNOUNCES RATES	UK	0.50%
05/03/2009	ECB Announces Interest Rat	EC	1.50%
05/03/2009	Nonfarm Productivity	US	- -
05/03/2009	Initial Jobless Claims	US	- -
05/03/2009	Factory Orders	US	- -
06/03/2009	Producer Prices (MoM)	GE	- -
06/03/2009	PPI Input NSA (MoM)	UK	- -
06/03/2009	PPI Output n.s.a. (MoM)	UK	- -
06/03/2009	PPI Output n.s.a. (YoY)	UK	- -
06/03/2009	Change in Nonfarm Payrolls	US	- -
06/03/2009	Unemployment Rate	US	- -
06/03/2009	Consumer Credit	US	- -
10/03/2009	RICS House Price Balance	UK	--
10/03/2009	Consumer Price Index (MoM)	GE	--
10/03/2009	Trade Balance	GE	--
10/03/2009	Current Account (EURO)	GE	--
10/03/2009	Imports SA (MoM)	GE	--
10/03/2009	Exports SA (MoM)	GE	--
10/03/2009	Industrial Production (MoM)	UK	--
10/03/2009	Wholesale Inventories	US	--

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DOLMEN SECURITIES LTD

75 St. Stephen's Green, Dublin 2, Ireland.	Tel : +353 1 633 3800/1890 400 300	E-mail: info@dsl.ie
45 South Mall, Cork, Ireland	Tel : +353 21 422 2122	E-mail: cork@dsl.ie
Theatre Court, Mallow St, Limerick, Ireland.	Tel : +353 61 436 500	E-mail: Limerick@dsl.ie