

## CONTENTS

### Market View

### Irish Exchequer Figures

**Aviva** : Interim results

**Cisco** : 4Q results

**Ryanair** : EasyJet traffic stats

**GSK** : New research venture

**Vodafone** : DT 2Q results

**Bellway** : Trading Statement

**Paddy Power** : Ladbrokes

**Company note** : AIB

### Market Movers

## IRISH PAPERS TODAY

NAMA remains the great imponderable  
*(The Irish Times)*

Lloyds to set aside €1.2bn to cover Irish loan book losses  
*(The Irish Times)*

Profits at Adidas tumble  
*(Irish Independent)*

## INTERNATIONAL PAPERS TODAY

High Frequency Trading  
*(Financial Times)*

Flash of Regulation  
*(Financial Times)*

## Market View

Analyst : Oliver Gilvarry

European markets have shaken off the falls in the US markets overnight with the FTSE, CAC40 and DAX all opening higher. The increase in European markets this morning was helped by strong results overnight from Cisco, indicating stabilisation in its key markets. Better than expected results from Aviva and Unilever this morning also helped the market. In Germany the DAX has opened stronger despite the weak results from Commerzbank. The net loss for Q2 was higher than expected due to loan loss provisions of €993m. Comments from management were negative as they indicated the bank is "still navigating very choppy waters". The results show the problems facing the European banking sector still remain. For today, the focus will move to Central Bank meetings. The BOE is due to release its rate decision at 12.00 with no change expected, but we expect the MPC will announce it will use the remaining £25bn of Quantitative Easing (QE) the Chancellor approved a number of months ago. We don't expect any request for an increase in the level previously approved. In the Euro-Zone, the ECB are due to meet and will release their rate decision at 12.45pm. The market doesn't really know what to expect from the ECB press conference, except interest rates will not be changed. We expect Trichet to continue his dovish tone, but may make reference to improvements in markets over the last month. At 1.30pm, initial jobless claims will be released in the US.

## Irish Exchequer Figures

Yesterday figures from the Department of Finance showed that there was an Exchequer deficit of €16.4bn for the first seven months of the year, close to €10bn larger than the same period last year. The government took in c. €18.7bn in tax receipts which was €575m or 3% below the target set out in April's budget and c. 18% below the same period last year. VAT receipts showed a decline of €2bn and came in almost €500m below expectations. Stamp duty showed a decline of 64% year on year and was 17% below expectations of €496m. Corporation tax came in 4% ahead of expectations at €1.9bn, boosted primarily by the change in payment date for the tax. Excise duties revenue came in 4.4% ahead of target at €2.6bn. On the spending side total spending for the seven month period came in at €27.6bn broadly in line with government expectations in April. For the full year the government expects a total tax take for the year of €34.4bn down 15.6% on 2009. The government is expecting a total tax take for the year of €34.4 billion.

**Aviva** : Buy    Current Price (370p)    Price target (400p)    Analyst : Oliver Gilvarry

Aviva released strong results this morning with IFRS operating profit for the first half of the year coming in at £1.1bn compared to consensus of £936m. Life & Pension new business fell by 4% compared to the same period in 2008. Sales in the General Insurance & Health divisions also fell, with a decline of 14.7% to £4.947bn. Margins in the Life business have improved since last year, with new business margins increasing to 2.1% from 1.9%. This was below consensus, but only marginally. On the general insurance side, the combined ratio (Measure of the profitability of an insurance underwriting, the greater the ratio is below 100%, the more profitable the business.) was 97% compared to consensus of 98% and better than Aviva's own target of 98%. In March, when the group reported full year results, concern was raised over its capital position. The capital position has improved since then with the IGD surplus increasing to £3.2bn, at the higher end of estimates. The group has hedged its capital position and a 40% decline in equity markets will only reduce the IGD surplus by £300m, while a 40% rise in equity markets will increase the surplus by £700m. Management have re-iterated the commercial portfolio remains well diversified and there have been no new defaults in the first half of the year. As a further support to capital, the dividend has been cut by 31%, which was widely expected. The cut was due to the fall in operating profits due to weaker markets and to provide "additional financial flexibility" that can be used to exploit market opportunities. It was also announced that Aviva will look to undertake an IPO of a minority of its shareholding in Delta Lloyd, its Dutch business. This will allow it allocate capital to other profitable areas. The results this morning were better than expected and have significantly reduced concerns over capital and dividends.

**Cisco** : Buy    Current Price (\$21.40)    Price target (\$23.00)    Analyst : Stephen Taylor

After the US close last night Cisco reported fiscal fourth quarter results. The group reported net income that declined by 46% to \$1.08bn. Ex-items EPS came in at \$0.31 beating expectations of \$0.29. Revenue declined by 18% to \$8.54bn slightly ahead of consensus of \$8.51bn. Cisco indicated that it was ahead of expectations in relation to its cost savings goal of \$1.5bn. Over the quarter the company said that it had seen an increase in new orders and its book to bill ratio was comfortably above 1, however it was difficult to know whether the increase would be a continuing trend. The group pointed out that it had seen positive trends in the US and emerging markets. In relation to its outlook, Cisco said that it expects fiscal first quarter revenue to decline by 15% to 17% from the same period last year indicating a range of \$8.6bn to \$8.8bn. Overall while there was a cautious tone in the group's conference call following the results we continue to like Cisco as a long-term recovery play. Cisco also benefits from having close to \$5 per share in cash on its balance sheet.

---

**Ryanair : Neutral Current Price (€22) Price target (€30) Analyst : David Dunk**

---

EasyJet has released traffic and capacity data for the month of July. Passenger numbers for the month was 4,661,068, up 4.3% for the same month last year. Load factor increased, from 89.3% to 90.3% from last year. On a rolling 12 month basis, passenger numbers increased by 6.4% and load factor increased by 1.8%. Overall the results were relatively strong. EasyJet is a low cost short haul carrier, and as such is expected to perform relatively better than the long haul flag carriers.

---

**GSK : Current Price (1147p) Price target (under review) Analyst : David Dunk**

---

GlaxoSmithKline (GSK) has announced an exclusive collaboration, option and license agreement with Vernalis in relation to an Oncology research programme. Under the terms of the deal, Vernalis is responsible for drug discovery activities and GSK for pre-clinical development. GSK will have the option to license any drugs developed from the partnership, and would then be responsible for development and commercialisation. Under the terms of the deal, Vernalis will receive \$3m in cash, in addition to the issuance of 2,040,542 shares of Vernalis to GSK at a price of £0.87 per share. Vernalis is also eligible to earn in excess of \$200m in addition to double-digit royalties, dependent on future global sales of any product developed. The move today fits with GSK's strategy of augmenting its research pipeline with small acquisitions and joint ventures, as opposed to pursuing larger acquisitions.

---

**Vodafone: Buy Current Price (124p) Price target (150p) Analyst : Stephen Taylor**

---

German peer of Vodafone, Deutsche Telekom, reported a 32% increase in second quarter profit to €521m, however missed expectations of €743m. The rise in profit was due to the consolidated number from Greek operator Hellenic Telecommunications. Revenue came in at €16.24bn slightly below expectations of €16.35bn. While the earnings were below expectations, Deutsche Telekom reiterated its all important free-cash flow target of €7bn and adjusted EBITDA guidance for a fall of between 2% to 4%. Like Vodafone, Deutsche Telekom has been increasing its focus on cost savings as top line revenue remains under pressure. The group's total costs savings program has now reached €4.9bn by the end of the second quarter. We continue to like Vodafone as our preferred telecom operator. For clients looking for exposure to a Euro denominated operator, Telefonica (owner of O2) is our preferred pick.

---

**Bellway : Trading Statement & Share placing Analyst : Stephen Taylor**

---

UK house builder Bellway has issued a trading statement this morning and announced details of a share placing. During the course of the year to 31/07/09 the group completed the sale of 4,380 homes compared with 6,556 for the same period last year. The average sell price was £154,000 compared with £169,729 last year. The group indicated that market conditions have been extremely difficult since the Spring, however in its southern region, conditions have proved to be more robust especially in their North London, Essex and Thames Gateway divisions. Bellway also pointed out that that while the summer period has seen the traditional decline to visitor sites the current sales rate is ahead of management expectations. In addition, Bellway has announced details of share placing equal to as much as 5% of its existing capital base to raise funds for land purchase. The sale process begins today and is open to new and existing institutional investors. We take the share sale as a positive development for the UK housing market in general as it indicates that Bellway believes land values have troughed.

---

**Paddy Power: Buy Current Price (€16.40) Price target (€1.50) Analyst : Edward Keeling**

---

Ladbrokes has released interim results this morning. EBITDA was ahead of expectations, £184.2m compared with analyst expectations of £156.8m. While Ladbrokes beat on top-line performance, net income was adversely affected by weaker margins. Net income was £74.4m compared with an expected £86.5m. For the period, revenue was £565.1m, down from £604.8m. Ladbrokes has updated its full year cost guidance. The bookmaker now expects cost inflation for the year of 1%, compared to previous guidance of a 4% increase in costs. As a result, Ladbrokes is still aiming to meet full year expectations. Given uncertainty in its market place, Ladbrokes does note the difficulty in making forecasts. Ladbrokes believes it's prudent to cut debt levels. The company plans on selling its Italian retail business in the next 12 months.

---

# AIB

## Neutral

Current Price : €2.10

Price Target : €1.55



**DOLMEN STOCKBROKERS**

Analyst: Oliver Gilvarry

Thursday 6th August 2009

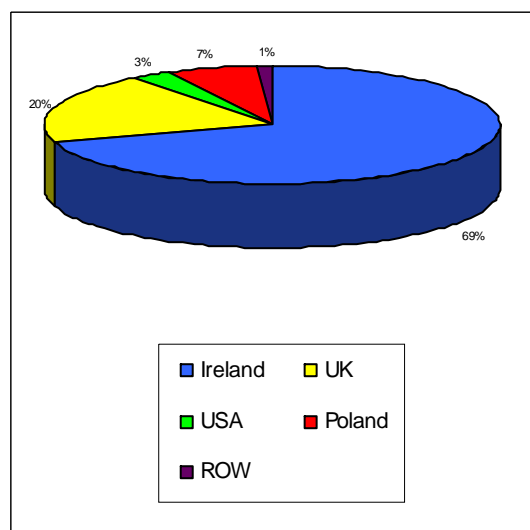
- AIB's interim results yesterday highlight the difficult environment Irish banks are facing. Operating profit before provisions was €1.7bn, a decline of 6% compared to the same period in 2008. The loss after tax was €786m compared to a profit of €1.085bn in the first half of 2008. Both of these figures include the benefit from the debt exchange AIB undertook in June when it swapped tier 1 debt for Lower Tier 2 bond paying a coupon of 12.5%. This provided the group with a once off gain of €1.2bn, helping to offset some of the losses caused by increased impairment provisions.
- Divisional results were mixed, with AIB Bank ROI recording a loss of €1.522bn due to impairment charges. Pre-provision profits in this division fell by 33% as Net Interest Income (NIM) fell by 19% due to the competition for deposits in the Irish market.
- AIB Bank UK was loss making as loan provisions exceeded operating profits. Pre-provision profits declined by 17%, again due to the increased funding costs. First Trust was the main driver of the loss in the division as the majority of the loan provisions were due to this area. AIB (GB) performed well in a difficult year and was profitable in the first half.
- Capital Markets and Central & Eastern Europe were both profitable. In Poland, the branch network development was finish with 9 new branches added to the network, bringing the total to 514. The outlook for the Polish operation was positive with management stating the franchise is well position to outperform in the next phase of Polish growth,
- Credit quality continues to deteriorate, with impaired loans at €10.8bn or 8.1% of the loan book. AIB provided figures on criticised loans with the percentage of such loans increasing from 11.7% at year end to 25% at the end of June. These loans include impaired loans, those where payment is dependent on other sources and those on watch, which are performing but are showing some signs of weakness. The majority of the increase is due to AIB Bank ROI with Property & Construction contributing 72% of the increase year to date. The impairment charge at the half year came in higher than our expectations at €2.4bn or 3.58% of the loan book annualised.
- The capital position of the group improved since the year end due to the debt exchange and the injection of €3.5bn through Government preference shares. Core tier 1 increased to 8.5% from 5.8% at the year end. When examining the group's capital position from an equity tier 1 basis, it is still below 6% and remains low compared to peers.
- Customer deposits have fallen 12% since the end of 2008 as deposits in the UK operations and Capital Markets fell. Not helped by the issues facing Irish banks in the first quarter of this year. The loan to deposit ratio now stands at 1.56x from 1.40x at the end of the year, but this level is similar to what it was at the half year in 2008. Management see continued competition for deposits and believe this will continue into the second half of this year. NIM did fall by 18bps to 2.03%, which is better than expected. Management continue to see pressure on margins in the second half of the year as competition for deposits continue.
- On NAMA, there was no details on the level of haircut that will be applied to the transferred loans, but the size of transferred loans will be between €15-25bn.
- The results yesterday highlight the problems facing the group with credit quality deteriorating significantly over the last 6-months. NIM was better than expected by the market, but guidance going forward was poor with management guiding it lower in the second half of the year. On impairments, guidance was re-iterated from the figures provided in May, but in the presentation it was stated downside risks to the number exist.
- NAMA is the key to the Irish banks and to their valuations. Broad details of the haircut will only be provided on the 16th of September. We remain negative on AIB at current prices and still believe some form of ordinary equity will be required once loans are transferred into NAMA. Our price target of €1.55 is based on what we see the trough Tangible Net Asset Value (TNAV) for AIB based on a haircut of 25% on loans transferred into NAMA.

Descriptive Stats		Shareholders	
Price (€)	2.10	Irish Life	3.30%
52 Week High	9.31	BIAM	2.96%
52 Week Low	0.27	Capital Research	0.93%
Bloomberg	ALBKID	Rowe Ass	0.66%
Reuters	ALBKLN	Robeco	0.61%

	FY08	FY09	FY10
NII (€m)	3,867	3,420	3,362
PBT (€m)	1,029	-3,250	-1,985
EPS (c)	67	-305	-240
DPS (c)	31	0	0
Div Yield	-	0.00%	0.00%

### Geographical Loan Breakdown





### International Equity Markets

Index	Value	1-Day	YTD
ISEQ	2,836	-1.6%	24.1%
FTSE	4,647	-0.5%	5.6%
Dow Jones	9,320	0.4%	5.7%
S&P	1,006	0.3%	11.0%
Nikkei	10,253	-1.2%	17.3%
Stoxx 50	2,643	-1.0%	8.8%

### Sector Performances

Sector	Index	1-Day	YTD
Construction	237	-0.6%	2.8%
Technology	175	-1.6%	4.6%
Oil & Gas	291	-1.6%	3.1%
Financials	212	0.5%	2.7%
Retail	229	0.1%	1.8%
Food & Drink	254	-0.6%	4.6%

### Commodity Prices

Commodity	Index	1-Day	YTD
Crude Oil	72.0	0.8%	27.1%
Copper	151.2	0.6%	94.7%
Gold	843.0	-0.4%	8.9%
Silver	11.1	0.4%	30.3%
Wheat	613.3	-2.4%	-17.7%
Cattle	85.8	0.1%	0.1%

### Currency Exchange Rates

Commodity	Index	1-Day	YTD
€/\$	1.440	0.0%	-3.0%
€/£	0.848	-0.3%	12.6%
£/\$	1.699	0.3%	-13.9%
\$/JPY	94.970	-0.3%	-4.9%
€/JPY	136.790	-0.3%	-7.7%
€/SFR	1.530	0.2%	-2.4%

### 5Yr Credit Spreads

Commodity	Index	1-Day	YTD
Invest Grade	104.6	0.7%	-42.1%
High Yield	151.2	0.3%	-37.8%
Financials	843.0	2.5%	-27.8%
Bol	11.1	0.6%	34.8%
AIB	613.3	-0.6%	61.5%
RBS	85.8	1.3%	-3.4%

### Money Market Rates

Rate	EUR	UK	US
Overnight	0.4%	0.4%	0.2%
3-Month	0.9%	0.9%	0.5%
1-Year	1.3%	1.3%	0.9%
2-Year	1.9%	2.3%	1.7%
5-Year	2.9%	3.7%	3.1%
10-Year	3.6%	4.2%	4.0%

#### Thursday August 6th

US	Ameren Corporation	Q2
US	CBS Corporation	Q2
US	Prudential Financial, Inc.	Q2
US	MBA Inc.	Q2
US	The NASDAQ OMX Group,	Q2
US	Williams Co. Inc.	Q2
BE	KBC Groep NV	Q2
FR	Veolia Environnement SA	Q2
DE	Air Berlin PLC	TRAFFIC
DE	COMMERZBANK AG	Q2
DE	Deutsche Telekom AG	Q2
CH	Zurich Financial Services A	INTERIM
GB	EasyJet PLC	TRAFFIC
GB	Aviva Plc	INTERIM
GB	Ladbroke Plc	INTERIM
GB	RSA Insurance Group PLC	INTERIM
GB	Schroders PLC	INTERIM
GB	WM Morrison Supermarket	TRADE
GB	Unilever PLC	H1
GB	Thomson Reuters PLC	Q2

#### Monday August 10th

GB	Morgan Sindall PLC	TRADE
GB	John Swan and Son PLC	Q2
US	Dynegy Inc.	Q2
US	Fluor Corporation	Q2

#### Tuesday August 11th

DK	Bang & Olufsen A/S	YRTRADE
DK	Danske Bank A/S	Q2
DE	Deutsche Lufthansa AG	TRAFFIC
ES	Iberia Lineas Aereas de Espana SA	TRAFFIC
CH	Adecco SA	Q2
GB	Assura Group Ltd	TRADE
GB	Intercontinental Hotels Group Plc	H1
GB	Collins Stewart Plc	INTERIM
GB	Friends Provident PLC	INTERIM

#### Wednesday August 12th

IE	Smurfit Kappa Group Plc	Q2
DE	E.ON AG	Q2
NL	ING Groep NV	Q2
SE	SAS AB	Q2
CH	Nestle SA	H1
GB	BPP Holdings PLC	INTERIM
GB	TUI Travel Plc	Q3
US	Macy's, Inc.	Q2

#### Thursday August 6th

Factory Orders MoM (sa)	GE	11:00	4.40%
BOE Announces Rates	UK	12:00	0.50%
ECB Announces Interest Rates	EC	12:45	1.00%
Initial Jobless Claims	US	13:30	584K

#### Friday August 7th

Trade Balance	GE	07:00	9.6B
Current Account (EURO)	GE	07:00	3.7B
Imports SA (MoM)	GE	07:00	-2.10%
Exports SA (MoM)	GE	07:00	0.30%
PPI Input NSA (MoM)	UK	09:30	1.50%
PPI Output n.s.a. (MoM)	UK	09:30	-0.20%
Industrial Production MoM (sa)	GE	11:00	3.70%
Change in Nonfarm Payrolls	US	13:30	-467K
Unemployment Rate	US	13:30	9.50%
Consumer Credit	US	20:00	-\$3.2B

#### Monday August 10th

Sentix Investor Confidence	EC	09:30	-31.3
----------------------------	----	-------	-------

#### Tuesday August 11th

RICS House Price Balance	UK	00:01	-18.10%
Consumer Price Index (MoM)	GE	07:00	--
CPI - EU Harmonised (MoM)	GE	07:00	--
Total Trade Balance (GBP/Mln)	UK	09:30	-\$2168
Unit Labor Costs	US	13:30	3.00%
Wholesale Inventories	US	15:00	-0.80%
ABC Consumer Confidence	US	22:00	--

#### Friday August 7th

US	Edison Intl.	Q2
FI	Finnair Oyj	Q2
DE	Allianz SE	Q2
DE	Hypo Real Estate Holding A	Q2
DE	PUMA AG Rudolf Dassler S	Q2
SE	SAS AB	TRAFFIC
GB	Royal Bank of Scotland Gro	INTERIM

## Disclosures

This report has been prepared by Dolmen Stockbrokers ('Dolmen') for information purposes only to assist investors to make their own investment decisions and is not intended to and does not constitute personal recommendations nor provide the sole basis for any evaluation of the securities discussed. Specifically the information contained in this report should not be taken as an offer or solicitation of investment advice or, encourage the purchase or sale of any particular security, option, future or other derivative investment. Not all recommendations are necessarily suitable for all investors and Dolmen recommend that specific advice should always be sought prior to investment, based on the particular circumstances of the investor.

Although the information in this report has been obtained from sources, which Dolmen believes to be reliable and all reasonable efforts are made to present accurate information Dolmen give no warranty or guarantee as to, and do not accept responsibility for, the correctness, completeness, timeliness or accuracy of the information provided or its transmission. Nor shall Dolmen, or any of its employees, directors or agents, be liable to for any losses, damages, costs, claims, demands or expenses of any kind whatsoever, whether direct or indirect, suffered or incurred in consequence of any use of, or reliance upon, the information. Any person acting on the information contained in this report does so entirely at his or her own risk.

All estimates, views and opinions included in this report constitute Dolmen's judgment as of the date of the report but may be subject to change without notice. Changes to assumptions may have a material impact on any recommendations made herein.

Unless specifically indicated to the contrary this report has not been disclosed to the covered issuers(s) in advance of publication.

Past performance is not necessarily a guide to future returns. The value of investments and the income from them can fall as well as rise. Investments denominated in foreign currencies are subject to fluctuations in exchange rates, which may have an adverse affect on the value of the investments, sale proceeds, and on dividend or interest income. Investors may not necessarily recoup the full value of their original investment. Investors should be aware that forwarding looking statements and forecasts may not be realised.

This report may not be reproduced (in whole or in part) altered, transmitted or made available to any other person without the prior written permission of Dolmen.

Dolmen Securities Limited is regulated by the Financial Regulator. Dolmen Securities Limited is a member firm of the London Stock Exchange.

Dolmen Stockbrokers is regulated by the Financial Regulator. Dolmen Stockbrokers Limited is a member firm of the Irish Stock Exchange and the London Stock Exchange.

## Conflicts of Interest & Share Ownership Policy

Dolmen, its employees, directors or related companies, may have a shareholding in the securities (or related investments/ derivatives) of certain companies covered in this report, or may provide/ solicit investment banking or other services to/ from them.

It is noted that research analysts' compensation is impacted upon by overall firm profitability and accordingly may be affected to some extent by revenues arising other Dolmen business units including Corporate Finance, Fund Management and Stockbroking. Revenues in these business units may derive in part from the recommendations or views in this report. Notwithstanding, Dolmen is satisfied that the objectivity of views and recommendations contained in this report has not been compromised.

Dolmen permits research analysts to own shares and/ or derivative positions in issuers they publish research, views and recommendations on and accordingly analysts involved in the production of this report may own stocks in a company covered in it. Any own account staff trading is undertaken in strict compliance with Dolmen's own account internal rules and therefore Dolmen is satisfied that the impartiality of research, views and recommendations remains assured.

## Analyst Certification

Each research analyst responsible for the content of this report, in whole or in part, certifies that: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report. Oliver Gilvarry, David Dunk, Stephen Taylor & Edward Keeling are responsible for the production of this report. Oliver Gilvarry is Head of Research and David Dunk, Stephen Taylor & Edward Keeling are equity analysts.

## For US Persons Only

This report is only provided in the US to major institutional investors as defined by s. 15 a-6 of the Securities Exchange Act, 1934 as amended. A US recipient of this report shall not distribute or provide this report or any part thereof to any other person.



## DOLMEN SECURITIES LTD

75 St. Stephen's Green, Dublin 2, Ireland.  
45 South Mall, Cork, Ireland  
Theatre Court, Mallow St, Limerick, Ireland.

Tel : +353 1 633 3800/1890 400 300  
Tel : +353 21 422 2122  
Tel : +353 61 436 500

E-mail: info@dsl.ie  
E-mail: cork@dsl.ie  
E-mail: Limerick@dsl.ie